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Confirmation of your representation: The attached document is delivered to you at your request and on the basis that you have confirmed to Bank of China Limited (the “**Lead Manager**”) and Hungary (the “**Issuer**”) that (i) you are located outside United States (as defined in Regulation S under the Securities Act); and (ii) if you are in the UK, you are a relevant person; (iii) if you are in any member state of the EEA other than the UK, you are a Qualified Investor; (iv) if you are acting as a financial intermediary (as that term is used in Article 3(2) of the Prospectus Directive), the securities acquired by you as a financial intermediary in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, any person in circumstances which may give rise to an offer of any securities to the public other than their offer or resale in any member state of the EEA which has implemented the Prospectus Directive to Qualified Investors (as defined in the Prospectus Directive); or (v) you are outside of the UK or EEA (and the electronic mail addresses that you gave us and to which this document has been delivered are not located in such jurisdictions) or (vi) you are a person into whose possession this document may lawfully be delivered in accordance with the laws of the jurisdiction in which you are located.

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OFFERING CIRCULAR

HUNGARY

CNY 1,000,000,000

6.25 per cent. Notes due 2019

The issue price of the CNY 1,000,000,000 6.25 per cent. Notes due 2019 (the "**Notes**") of Hungary ("**Hungary**") is 100 per cent. of their principal amount.

Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on the Interest Payment Date (as defined in the Terms and Conditions of the Notes) falling on or nearest to 25 April 2019.

The Notes will bear interest from 25 April 2016 at the rate of 6.25 per cent. per annum payable semi-annually in arrear on the Interest Payment Dates falling on or nearest to 25 April and 25 October in each year commencing on the Interest Payment Date falling in 25 October 2016. Payments on the Notes will be made in Renminbi without deduction for or on account of taxes imposed or levied by Hungary to the extent described under "*Terms and Conditions of the Notes — Taxation*".

The Notes have not been, and will not be, registered under the United States Securities Act of 1933 (the "**Securities Act**") and are subject to United States tax law requirements. The Notes are being offered outside the United States by the Manager (as defined herein) in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Notes will be in bearer form and in denominations of CNY 10,000 and CNY 1,000,000. The Notes will initially be in the form of a temporary global note (the "**Temporary Global Note**"), without interest coupons, which will be deposited on or around 25 April 2016 (the "**Closing Date**") with a common safekeeper for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A., Luxembourg ("**Clearstream, Luxembourg**"), together with Euroclear "**ICSDs**"). The Temporary Global Note will be exchangeable, in whole or in part, for interests in a permanent global note in NGN form, (the "**Permanent Global Note**"), without interest coupons, not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive form ("**Definitive Notes**") in the denominations of CNY 10,000 and CNY 1,000,000 and with interest coupons attached. See "*Summary of Provisions Relating to the Notes in Global Form*".

This Offering Circular comprises neither a prospectus for the purposes of Part VI of the Financial Services and Markets Act 2000 (as amended) (the "**FSMA**"), a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC, as amended (the "**Prospectus Directive**"), nor listing particulars given in compliance with the listing rules made under Part VI of the FSMA by the Financial Conduct Authority in its capacity as competent authority under the FSMA (the "**FCA**").

Application has been made to the FCA for the Notes to be admitted to the official list of the FCA (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for the Notes to be admitted to trading on the London Stock Exchange's Regulated Market (the "**Market**"). The Market is a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC, as amended.

Lead Manager

Bank of China

This Offering Circular is dated 14 April 2016

Hungary has confirmed to the Manager named under "*Subscription and Sale*" that this Offering Circular contains all information regarding Hungary and the Notes which is (in the context of the issue of the Notes) material; such information is true and accurate in all material respects and is not misleading in any material respect; Hungary has confirmed that any opinions, predictions or intentions expressed in this Offering Circular on the part of Hungary are honestly held or made and are not misleading in any material respect; Hungary has confirmed that this Offering Circular does not omit to state any material fact necessary to make such respective information, opinions, predictions or intentions (in such context) not misleading in any material respect; and Hungary has confirmed that all reasonable and proper enquiries have been made by Hungary to ascertain and to verify the foregoing. Hungary accepts responsibility for the information contained in this Offering Circular.

Hungary has not authorised the making or provision of any representation or information regarding Hungary or the Notes other than as contained in this Offering Circular or as expressly approved for such purpose by Hungary. Any other representation or information should not be relied upon as having been authorised by Hungary or the Manager.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of Hungary since the date of this Offering Circular.

This Offering Circular does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes.

The distribution of this Offering Circular and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by Hungary and the Manager to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of the Notes and on the distribution of this Offering Circular and other offering material relating to the Notes, see "*Subscription and Sale*".

In particular, the Notes have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered in the United States or to U.S. persons.

Prospective purchasers of the Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Hungary of Hungary of acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes.

In this Offering Circular, unless otherwise specified, references to "**Euro**", "**EUR**" or "**€**" are to the single currency introduced at the start of the third stage of European Economic and Monetary Union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the Euro, as amended, (and references to "**ECU**" are to the ECU as referred to in Article 109(g) of the Treaty establishing the European Community, as amended, and as defined in Council Regulation (EC) No. 3320/94 that was the unit of account of the European Community and exchangeable at the rate of one ECU for one Euro at the start of the third stage of European Economic and Monetary Union on 1 January 1999), references to "**$**", "**USD**" and "**US dollars**" are to United States Dollars, references to "**HUF**" and "**forints**" are to Hungarian Forints, references to "**Renminbi**", "**RMB**" or "**CNY**" are to the lawful currency of the PRC (all references to the "**PRC**" or "**China**" are to the People's Republic of China, excluding Taiwan, Hong Kong and Macau).

The National Bank of Hungary's foreign exchange rate for US dollars on 11 April 2016 was HUF 273.95 = USD 1.00, the National Bank of Hungary's foreign exchange rate for Euro on the same day was HUF 312.11 = €1.00, the National Bank of Hungary's foreign exchange rate for Renminbi on the same day was HUF 42.34 = CNY 1.00.

Certain figures included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

In connection with the issue of the Notes, Bank of China Limited (the "Stabilising Manager") (or any person acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions with

a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager (or any person acting on behalf of the Stabilisation Manager) in accordance with all applicable laws and rules.

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TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes which (subject to completion and amendment) will be endorsed on each Note in definitive form:

The CNY 1,000,000,000 6.25 per cent. Notes due 25 April 2019 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 13 (*Further Issues*) and forming a single series therewith) of Hungary (the "**Issuer**") are the subject of a fiscal agency agreement dated 25 April 2016 as amended or supplemented from time to time, the "**Fiscal Agency Agreement**") between Hungary, Citibank, N.A. as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes) and the paying agents named therein, if any, (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes). Certain provisions of these Conditions are summaries of the Fiscal Agency Agreement and are subject to its detailed provisions. The holders of the Notes (the "**Noteholders**") and the holders of the related interest coupons (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Fiscal Agency Agreement applicable to them. Copies of the Fiscal Agency Agreement are available for inspection by Noteholders during normal business hours at the Specified Offices (as defined in the Fiscal Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below.

1. Form, Denomination and Title

The Notes are serially numbered and in bearer form in denominations of CNY 10,000 and CNY 1,000,000 with Coupons attached at the time of issue. Notes of one denomination will not be exchangeable for Notes of another denomination. Title to the Notes and the Coupons will pass by delivery. The holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

2. Status

The Notes constitute direct, general and unconditional obligations of Hungary which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of Hungary, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

3. Negative Pledge and Covenants

(a) So long as any Note remains outstanding (for the purposes of these Conditions, "outstanding" shall have the meaning ascribed to such term in the Fiscal Agency Agreement), Hungary undertakes that, if it or the National Bank of Hungary creates or permits to subsist any Security Interest upon the whole or any part of its or their assets or revenues, present or future, to secure: (i) any Public External Indebtedness of Hungary having an original maturity of at least one year; or (ii) any Public External Indebtedness of the National Bank of Hungary having an original maturity of at least one year and incurred on or prior to 31 December 1998, Hungary shall, at the time or prior thereto, secure equally and rateably therewith the obligations of Hungary under the Notes.

(b) So long as any Note remains outstanding, Hungary shall: (i) continue to procure that either Hungary or the National Bank of Hungary exercises full ownership, power and control over the International Monetary Assets as they exist from time to time; and (ii) duly obtain and maintain in full force and effect all governmental consents, licences, approvals and authorisations, and/or make or cause to be made all (if any) registrations, recordings and filings, which may at any time be required to be obtained and/or made in Hungary for the execution, delivery or performance of all obligations arising under the Notes and the validity or enforceability thereof.

In these Conditions:

"**External Indebtedness**" means any obligation in respect of existing or future Indebtedness denominated or payable, or at the option of the holder thereof payable, in a currency other than the lawful currency of Hungary provided that, if at any time the lawful currency of Hungary is the Euro, then any Indebtedness as described herein, expressed in or payable or optionally payable in Euro, more than 50 per cent. of the aggregate principal amount of which is initially placed outside Hungary and issued after the date on which the Euro becomes the lawful currency of Hungary, shall be included;

"**IMF**" means the International Monetary Fund;

"**Indebtedness**" means any indebtedness of any Person (whether incurred as principal or surety) for money borrowed;

"**International Monetary Assets**" means all of Hungary's official holdings of gold and all of Hungary's and Hungary's Monetary Authorities' holdings of: (i) Special Drawing Rights; (ii) Reserve Positions in the IMF; and (iii) Foreign Exchange; the terms "**Special Drawing Rights**", "**Reserve Positions in the Fund**" and "**Foreign Exchange**" have, as to the types of assets included, the meanings given to them in the IMF's publication entitled "*International Financial Statistics*" or such other meaning as shall be formally adopted by the IMF from time to time;

"**Monetary Authorities**" means the National Bank of Hungary and, if and to the extent that it performs the functions of a monetary authority for or on behalf of Hungary or the government thereof, any currency board, exchange stabilisation fund or treasury;

"**National Bank of Hungary**" means Magyar Nemzeti Bank, the central bank of Hungary or any other entity which, from time to time, acts as a central bank of Hungary, as the case may be;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**Public External Indebtedness**" means External Indebtedness which: (i) is in the form of, or represented by, bonds, notes or other similar securities; and (ii) is, or may be, quoted, listed or ordinarily purchased and sold on any stock exchange, automated trading system or over-the-counter or other securities market; and

"**Security Interest**" means any lien, pledge, hypothecation, mortgage, security interest, charge or any other encumbrance, agreement or arrangement which has a similar legal and economic effect including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction.

4. **Interest**

The Notes bear interest from 25 April 2016 (the "**Issue Date**") at the rate of 6.25 per cent. per annum (the "**Rate of Interest**"), payable in arrear on 25 April and 25 October in each year (each, an "**Interest Payment Date**"), commencing on 25 October 2016, in respect of the period from and including 25 April 2016 subject as provided in Condition 6 (*Payments*); provided, however, that, if any Interest Payment Date would otherwise fall on a date which is not a business day (as defined below), it will be postponed to the next day which is a business day unless it would thereby fall into the next calendar month, in which event it shall be brought forward to the immediately preceding business day.

Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation of the Note for redemption as provided for in these Conditions, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of: (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder; and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

In these Conditions, the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "**Interest Period**".

Interest in respect of any Note shall be calculated in respect of each denomination of the Notes. The amount of interest payable for any period shall be equal to the product of the rate of interest specified above, the principal amount of such Notes and the actual number of days in the Interest Period (or such other period) divided by 365, rounding the resulting figure to the nearest CNY 0.01 (CNY 0.005 being rounded upwards).

In this Condition, the expression "**business day**" means a day (other than a Saturday, Sunday or public holiday) upon which commercial banks are generally open for business and settlement of Renminbi payments in Hong Kong.

5. **Redemption and Purchase**

(a) *Scheduled redemption:*

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on the Interest Payment Date falling on 25 April 2019, or nearest to such date, subject as provided in Condition 6 (*Payments*).

(b) *No other redemption:*

Hungary shall not be entitled to redeem the Notes other than as provided in paragraph (a) above.

(c) *Purchase:*

Hungary may at any time purchase Notes in the open market or otherwise and at any price, provided that all unmatured Coupons are purchased therewith.

(d) *Cancellation:*

All Notes so redeemed or purchased by Hungary and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

6. **Payments**

(a) *Principal:*

Payments of principal shall be made only against presentation and (provided that payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States by transfer to a Renminbi account maintained by the payee with a bank in Hong Kong.

(b) *Interest:*

Payments of interest shall, subject to paragraph (f) below, be made only against presentation and (provided that payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.

(c) *Payments subject to fiscal laws:*

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(d) *Unmatured Coupons void:*

On the due date for redemption of any Note pursuant to Condition 5(a) (*Scheduled redemption*) or Condition 8 (*Events of Default; Events of Acceleration*), all unmatured Coupons (if any) relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(e) *Payments on business days:*

If the due date for payment of any amount in respect of any Note or Coupon is not a business day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding business day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, "**business day**" means, in respect of any place of presentation, any day on which banks are open for presentation and payment of bearer debt securities and for dealings in foreign currencies in such place of presentation and in Hong Kong and in London.

(f) *Payments other than in respect of matured Coupons:*

Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States.

(g) *Partial payments:*

If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

7. Taxation

All payments of principal and interest in respect of the Notes and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by Hungary or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, Hungary shall pay such additional amounts as will result in the receipt by the Noteholders and the Couponholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note or Coupon presented for payment:

(a) by a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with Hungary other than the mere holding of such Note or Coupon; or

(b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to the European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive or the European Council Directive 2014/48/EC amending 2003/48/EC; or

(c) by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the EU; or

(d) more than 30 days after the Relevant Date except to the extent that the relevant holder would have been entitled to such additional amounts if it had presented such Note or Coupon on the last day of such period of 30 days.

In these Conditions, "**Relevant Date**" means whichever is the later of: (i) the date on which the payment in question first becomes due; and (ii) if the full amount payable has not been received in Hong Kong by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7.

8. Events of Default; Events of Acceleration

If any of the following events occurs and is continuing:

(a) *Events of Default:*

(i) *Non-payment*: Hungary fails to pay any amount of interest in respect of the Notes within 15 days of the due date for payment thereof; or

(ii) *Breach of other obligations*: Hungary defaults in the performance or observance of any of its other obligations under or in respect of the Notes or the Fiscal Agency Agreement and such default remains unremedied for 30 days after written notice thereof, addressed to Hungary by any Noteholder, has been delivered to Hungary or to the Specified Office of the Fiscal Agent; or

(b) *Events of Acceleration:*

(i) *Failure to take action etc*: any action, condition or thing at any time required to be taken, fulfilled or done in order: (A) to enable Hungary lawfully to enter into, exercise its rights and perform and comply with its obligations under and in respect of the Notes, (B) to ensure that those obligations are legal, valid, binding and enforceable, and (C) subject to their official translation into the Hungarian language, to make the Notes and the Coupons admissible in evidence in the courts of Hungary is not taken, fulfilled or done within 30 days of receipt by Hungary of written notice thereof; or

(ii) *Unlawfulness*: it is or will become unlawful for Hungary to perform or comply with any of its obligations under or in respect of the Notes and such unlawfulness is not remedied by Hungary within 30 days' written notice thereof;

then, in the case of any event mentioned in either (a) or (b) above, all of the Notes may by written notice addressed and delivered by the holders of at least 25 per cent. of the aggregate principal amount of the outstanding Notes to Hungary with a copy to the Fiscal Agent, be declared immediately due and payable, whereupon, unless prior to such date Hungary shall have cured or otherwise rectified the relevant event, all of the Notes shall become immediately due and payable at their principal amount together with accrued interest. Hungary shall ensure that it will use all reasonable endeavours to give prompt notice of any such declaration to all Noteholders.

(c) *Rescission of the Declaration of Acceleration:*

If the Fiscal Agent receives notice in writing from holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes and/or a resolution is passed at a meeting of Noteholders duly convened and held in accordance with the Fiscal Agency Agreement to the effect that the Event(s) of Default and/or Event(s) of Acceleration giving rise to a declaration of acceleration made pursuant to Condition 8 (a) or (b) above is or are cured or is or are waived by them following any such declaration and that such holders request the Fiscal Agent to rescind the relevant declaration, the Fiscal Agent shall, by notice in writing to Hungary and the Noteholders, rescind the relevant declaration whereupon it shall be rescinded and shall have no further effect. No such rescission shall affect any other or any subsequent Event of Default and/or Event of Acceleration or any right of any Noteholder in relation thereto.

9. Prescription

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

10. Replacement of Notes and Coupons

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent and the Paying Agent having its Specified Office in London, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as Hungary may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

11. **Paying Agents**

In acting under the Fiscal Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of Hungary and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. Hungary reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor fiscal agent and additional or successor paying agents; *provided, however,* that Hungary shall at all times maintain a paying agent in London and a fiscal agent. Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders in accordance with Condition 14 (*Notices*).

In addition, Hungary will, to the extent possible as a matter of law, ensure that it maintains a Paying Agent in an EU Member State that will not be obliged to withhold or deduct tax pursuant to the European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive or the European Council Directive 2014/48/EC amending 2003/48/EC.

To the extent possible as a matter of law, Hungary will maintain a Fiscal Agent which is a person being tax resident in the United Kingdom.

12. **Meetings of Noteholders; Written Resolutions; Modification and Waiver**

(a) *Meetings of Noteholders:*

The Fiscal Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including, without limitation, the modification of any provision of these Conditions. Any such modification may be made if, having been approved in writing by Hungary, it is sanctioned by an Extraordinary Resolution. Such a meeting may be convened by Hungary and shall be convened by the Fiscal Agent upon the request in writing of Noteholders holding not less than 10 per cent. of the aggregate principal amount of the outstanding Notes. The quorum at any meeting of Noteholders convened to vote on an Extraordinary Resolution will be two or more persons holding or representing not less than 50 per cent. of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting of Noteholders, two or more persons being or representing Noteholders, whatever the aggregate principal amount of the outstanding Notes held or represented; *provided*, *however*, that any proposals relating to a Reserved Matter may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than 75 per cent. of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, 25 per cent. of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

If a resolution is brought in writing, such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Extraordinary Resolution:*

In these Conditions "**Extraordinary Resolution**" means:

(i) in relation to any Reserved Matter:

(a) a resolution passed at a meeting of Noteholders duly convened and held in accordance with the Fiscal Agency Agreement by a majority consisting of not less than 75 per cent. of the outstanding principal amount of the Notes for the time being outstanding; or

(b) a resolution in writing signed by or on behalf of holders of not less than 75 per cent. of the outstanding principal amount of the Notes for the time being outstanding; and

(ii) in relation to any other matter:

(a) a resolution passed at a meeting of Noteholders duly convened and held in accordance with the Fiscal Agency Agreement by a majority consisting of not less than 66.67 per cent. of the aggregate principal amount of the outstanding Notes which are represented at that Meeting; or

(b) a resolution in writing signed by or on behalf of holders of not less than 66.67 per cent. of the outstanding principal amount of the Notes for the time being outstanding.

(c) *Reserved Matter:*

In these Conditions "**Reserved Matter**" means any proposal to:

(i) change any date, or the method of determining the date, fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes or to alter the method of calculating the amount of any payment in respect of the Notes on redemption or maturity or the date for any such payment;

(ii) effect the exchange or substitution of the Notes for, or the conversion of the Notes into, shares, bonds or other obligations or securities of Hungary or any other person or body corporate formed or to be formed;

(iii) reduce or cancel the principal amount of the Notes;

(iv) vary the currency or place of payment in which any payment in respect of the Notes is to be made;

(v) amend the status of Notes under Condition 2 (*Status*);

(vi) amend the obligation of Hungary to pay additional amounts under Condition 7 (*Taxation*);

(vii) amend the Events of Default or the Events of Acceleration set out in Condition 8 (*Events of Default; Events of Acceleration*);

(viii) amend the law governing the Notes, the courts to the jurisdiction to which Hungary has submitted in the Notes, Hungary's obligation to maintain an agent for service of process in England or Hungary's waiver of immunity, in respect of actions or proceedings brought by any Noteholder set out in Condition 16 (*Governing Law*) and Condition 17 (*Jurisdiction*);

(ix) modify the provisions contained in the Fiscal Agency Agreement concerning the quorum required at any meeting of the Noteholders or any adjournment thereof or concerning the majority required to pass an Extraordinary Resolution or the percentage of votes required for the taking of any action;

(x) change the definition of "**Extraordinary Resolution**" or "**outstanding**" in the Conditions and/or Fiscal Agency Agreement;

(xi) instruct any Noteholder or committee appointed on behalf of all Noteholders pursuant to Condition 12(e) (*Noteholder's Representative* Committee) to withdraw, settle or compromise any proceeding or claim being asserted pursuant to Condition 8 (*Events of Default; Events of Acceleration*);

(xii) confer upon any committee appointed pursuant to Condition 12(e) (*Noteholder's Representative Committee*) any powers or discretions which the Noteholders could themselves exercise by Extraordinary Resolution; or

(xiii) amend this definition.

(d) *Manifest Error, etc:*

The Notes and these Conditions may, subject to the prior written approval of Hungary, be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Fiscal Agency Agreement may agree to modify any provision thereof, but Hungary shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Noteholders.

(e) *Noteholders' Representative Committee:*

(i) *Appointment*: The Noteholders may, by a resolution passed at a meeting of Noteholders duly convened and held in accordance with the Fiscal Agency Agreement by a majority of at least 66.67 per cent. in aggregate principal amount of the Notes then outstanding, or by notice in writing to the Fiscal Agent signed by or on behalf of the holders of at least 66.67 per cent. in aggregate principal amount of the Notes then outstanding, appoint any persons as a committee to represent the interests of the Noteholders if any of the following events shall have occurred:

(a) an Event of Default or an Event of Acceleration;

(b) any event or circumstance which would, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition 8 (*Events of Default; Events of Acceleration*) become an Event of Default or an Event of Acceleration; or

(c) any public announcement by Hungary, to the effect that Hungary is seeking or intends to seek a restructuring of the Notes (whether by amendment, exchange offer or otherwise).

(ii) *Powers*: Such committee in its discretion may, among other things, (i) engage legal advisers and financial advisers to assist it in representing the interests of the Noteholders, (ii) adopt such rules as it considers appropriate regarding its proceedings and (iii) enter into discussions with Hungary and/or other creditors of Hungary. Hungary shall pay any reasonably incurred fees and expenses of any such committee (including, without limitation, the fees and expenses of the committee's legal advisers and financial advisers, if any) within 30 days of the delivery to Hungary of a reasonably detailed invoice and supporting documentation.

(f) *Outstanding Notes:*

for the purposes of (i) ascertaining the right to attend and vote at any meeting of Noteholders and (ii) Condition 8 (*Events of Default; Events of Acceleration*), Condition 12 (*Meetings of Noteholders; Written Resolutions; Modification and Waiver*) and Schedule 6 (*Provisions for Meetings of Noteholders*) to the Fiscal Agency Agreement, those Notes (if any) which are for the time being held by any person (including but not limited to Hungary) for the benefit of Hungary or by any public body owned or controlled, directly or indirectly, by Hungary shall (unless and until ceasing to be so held) be deemed not to remain outstanding.

13. **Further Issues**

Hungary may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

14. **Notices**

Notices to the Noteholders shall be valid if published in a leading newspaper having general circulation in the United Kingdom (which is expected to be the Financial Times) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

15. **Currency Indemnity**

If any sum due from Hungary in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of: (a) making or filing a claim or proof against Hungary, (b) obtaining an order or judgment in any court or other tribunal, or (c) enforcing any order or judgment given or made in relation to the Notes, Hungary shall indemnify each Noteholder, on the written demand of such Noteholder addressed to Hungary and delivered to Hungary or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between: (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency; and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency; upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of Hungary and shall give rise to a separate and independent cause of action.

16. **Governing Law**

The Notes, and any non-contractual obligations arising out of or in connection with them, are governed by, and shall be construed in accordance with, English law.

17. **Jurisdiction**

(a) *Jurisdiction:*

Hungary agrees for the benefit of the Noteholders that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings ("**Proceedings**"), and to settle any dispute or difference arising out of or in connection with the Notes, or any non-contractual obligations arising out of or in connection with them, including any question as to the existence, validity or termination of the Notes (a "**Dispute**"), which may arise out of or in connection with the Notes, or any non-contractual obligations arising out of or in connection with them, and, for such purposes, irrevocably submits to the jurisdiction of such courts.

(b) *Appropriate forum:*

Hungary irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agrees not to claim that any such court is not a convenient or appropriate forum.

(c) *Process agent:*

Hungary agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to the Hungarian Secretary Investment & Trade Attaché sitting currently at 46 Eaton Place, London SW1X 8AL. If such person is not or ceases to be effectively appointed to accept service of process on Hungary's behalf, Hungary shall, on the written demand of any Noteholder addressed to Hungary and delivered to Hungary or to the Specified Office of the Fiscal Agent, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a person by written notice addressed to Hungary and delivered to Hungary or to the Specified Office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law.

(d) *Non-exclusivity:*

The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of any Noteholder to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if, and to the extent, permitted by law.

(e) *Consent to enforcement etc:*

Subject to paragraph (f) below, Hungary consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which may be made or given in such Proceedings.

(f) *Waiver of immunity:*

To the extent that Hungary may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), Hungary agrees not to claim and irrevocably waives such immunity to the fullest extent permitted by the laws of such jurisdiction, provided that Hungary does not waive any immunity with respect to: (i) present or future "premises of the mission" as defined in the Vienna Convention on Diplomatic Relations signed in 1961, (ii) "consular premises" as defined in the Vienna Convention on Consular Relations signed in 1963, (iii) any other property or assets used solely for official state purposes in Hungary or elsewhere, (iv) military property or military assets of Hungary related thereto, or (v) any non-transferable national assets and national assets with priority importance as defined in or in accordance with applicable Hungarian laws.

18. Arbitration

(a) *Disputes may be settled by arbitration:*

Without prejudice to the provisions of Condition 17 (*Jurisdiction*) above, any Noteholder may, at its discretion, refer any Dispute to be settled by arbitration in accordance with the UNCITRAL Arbitration Rules as at present in force (the "**UNCITRAL Rules**"), which are deemed to be incorporated by reference into this Condition 18 (and copies of which may be obtained free of charge from the Specified Office of the Paying Agent in London).

(b) *Appointment of the arbitral tribunal:*

The arbitral tribunal shall be composed of three (3) arbitrators, one of whom shall be the presiding arbitrator. The appointing authority shall be the London Court of International Arbitration (the "**LCIA**"). The LCIA shall appoint all three (3) members of the arbitral tribunal and shall nominate which of them shall act as the presiding arbitrator. In all matters relating to the appointment of arbitrators, Hungary and each relevant Noteholder agrees that the LCIA shall be free to appoint whomsoever the LCIA considers appropriate in the LCIA's sole discretion, save that the LCIA shall take account of the views of the parties and shall give effect to any agreement of the parties in relation to the appointment of the arbitrators unless the LCIA determines in the LCIA's absolute discretion that it is not appropriate to do so.

(c) *Initiation of arbitration proceedings:*

Any Noteholder that wishes to initiate an arbitration shall simultaneously:

(i) give a notice of arbitration to Hungary in accordance with Article 3 of the UNCITRAL Rules; and

(ii) request in writing the LCIA to appoint the three (3) arbitrators and to nominate the presiding arbitrator and give a copy of such request to all the other relevant parties. Each party may make its own representations to the LCIA concerning the appointment of arbitrators within 21 days of receipt of such notice of arbitration. For the avoidance of doubt, the parties agree that the LCIA may take note of any such representations, but shall otherwise be free in the LCIA's discretion to appoint whomsoever the LCIA considers appropriate as the three (3) arbitrators.

(d) *Place and language of the arbitration proceedings:*

The place and seat of the arbitration shall be London, England and the language of the arbitral proceedings shall be English.

(e) *The award:*

All and any awards of the arbitral tribunal shall be made in writing in accordance with the UNCITRAL Rules and shall be final and binding on the relevant parties. All and any awards shall be made by majority decision. If there be no majority, the award shall be made by the presiding arbitrator alone. The final award shall be made within six (6) months from the appointment of the third arbitrator, but insofar as this is impractical it shall be made as soon as possible thereafter.

(f) *Notice of arbitration:*

In relation to any arbitration proceedings, the provisions of Condition 14 (*Notices*) shall apply in respect of this Condition 18 in addition to the notification provisions of the UNCITRAL Rules.

(g) *Expedition of arbitration*:

The arbitral tribunal shall conduct the arbitration in accordance with the UNCITRAL Rules and at all times in such a manner as to ensure a speedy resolution of the Dispute.

HUNGARY expressly agrees and consents to each of the provisions of Conditions 17 (*Jurisdiction*) and 18 (*Arbitration*).

There will appear at the foot of the Conditions endorsed on each Note in definitive form the names and Specified Offices of the Paying Agents as set out at the end of this Offering Circular.

SUMMARY

The Notes will initially be in the form of the Temporary Global notes which will be deposited on or around the closing Date with a common safekeeper for Euroclear and Clearstream, Luxembourg. The Temporary Global Note and Permanent Global Note will each contain the following statement:

"Payments due in respect of Notes for the time being represented by this Temporary Global Note/Permanent Global Note shall be made to the bearer of this Temporary Global Note/Permanent Global Note and each payment so made will discharge Hungary's obligations in respect thereof."

The Temporary Global Notes and the Permanent Global Note will be in NGN form. Hungary expects that as of the Closing Date Citibank Europe Plc will be both the common service provider and the common safekeeper of the NGN.

The Temporary Global Note will be exchangeable in whole or in part for interests in the Permanent Global Note not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

The Permanent Global Note will become exchangeable in whole, but not in part, for Notes in definitive form ("**Definitive Notes**") in denominations of CNY 10,000 and CNY 1,000,000 at the request of the bearer of the Permanent Global Note if: (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system is available or (b) any of the circumstances described in Condition 8 (*Events of Default; Events of Acceleration*) occurs.

The Permanent Global Note will also become exchangeable, in whole but not in part only and at the option of Hungary, for Definitive Notes at the Specified Office of the Paying Agent in London if, by reason of any change in the laws of Hungary, Hungary is or will be required to make any withholding or deduction from any payment in respect of the Notes which would not be required if the Notes were in definitive form.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, Hungary shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons attached, in an aggregate principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If: (a) Definitive Notes have not been delivered by 5:00 p.m. (London time) on the thirtieth day after the bearer has duly requested exchange of the Permanent Global Note for Definitive Notes or (b) the Permanent Global Note (or any part of it) has become due and payable in accordance with the Conditions or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment, then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5:00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5:00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under a deed of covenant dated 25 April 2016 (the "**Deed of Covenant**") executed by Hungary). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg as being entitled to an interest in the Permanent Global Note will acquire directly against Hungary all those rights to which they would have been entitled if, immediately before the Permanent Global Note became void, they had been the holder of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or (as the case may be) Clearstream, Luxembourg.

In addition, the Temporary Global Note and the Permanent Global Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Temporary Global Note and the Permanent Global Note. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Temporary Global Note and the Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Note or (as the case may be) the Permanent Global Note to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of Hungary in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Temporary Global Note or the Permanent Global Note, Hungary shall procure that the payment is entered pro rata in the records of Euroclear and Clearstream, Luxembourg.

Payments on business days: In the case of all payments made in respect of the Temporary Global Note and the Permanent Global Note "**business day**" means any day (other than a Saturday, Sunday or public holiday) upon which commercial banks are generally open for business and settlement of Renminbi payments in Hong Kong.

Notices: Notwithstanding Condition 14 (*Notices*), while all of the Notes are represented by the Permanent Global Note (or by the Permanent Global Note and/or the Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 14 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg.

USE OF PROCEEDS

The net proceeds of the issue of the Notes, expected to amount to CNY 997,750,000 after deduction of the combined management and underwriting fee, will be used by Hungary for general funding purposes.

DESCRIPTION OF HUNGARY

Overview

General

Hungary lies in Central Europe and covers an area of approximately 93,000 square kilometres. Hungary is bordered by seven countries: Slovakia and the Ukraine to the north, Romania to the east, Serbia and Croatia to the south and Slovenia and Austria to the west. The Danube River crosses Hungary, connecting the country with ports on the Black Sea. Hungary has historically been a nexus of social and cultural life and a trade link between Eastern and Western Europe. Hungary's capital is Budapest.

Population

The population of Hungary was approximately 9.8 million as at 1 January 2016. Approximately 70 per cent. of the people live in urban areas and approximately 1.8 million live in Budapest, which is the political, administrative, cultural and commercial centre of Hungary. While approximately 84 per cent. of the population is Magyar, there are minorities of Armenian, Bulgarian, Croat, German, Greek, Polish, Roma, Romanian, Ruthenian, Serb, Slovak, Slovenian and Ukrainian ethnicity.

Political System

Transformation and new Constitution

Immediately after World War II, Hungary was governed by a "grand coalition" of Hungarian political parties. By 1948, however, all non-communist parties had been abolished with the support of the Soviet Union. The Hungarian Socialist Workers Party dominated all facets of government until 1990.

During the late 1980s, the political system in Hungary changed dramatically. On 23 October 1989, Hungary was proclaimed a republic, and to signify the country's change in status to a free democratic state, Hungary's name was changed from the "Hungarian People's Republic" to the "Republic of Hungary". Also in 1989, the constitution was substantially amended to its current form. Under the constitution of 1989, Hungary instituted a multi-party democratic government, making it one of the first formerly communist countries in Central and Eastern Europe to undertake democratic reforms. Non-communist political parties were established in 1989 and in 1990 the first multi-party elections in the country since 1947 took place.

On April 18, 2011, Parliament adopted the Fundamental Law of Hungary as the new constitution of Hungary ("New Constitution" or, if referring to any constitution in effect at the time, the "Constitution"). The New Constitution was promulgated on April 25, 2011 and went into effect on January 1, 2012.

Aimed at the balanced, transparent and sustainable management of the budget, the New Constitution sets certain general rules for public finances.

Under the New Constitution, Parliament will not be entitled to adopt an Act on the central budget that would result in the level of government debt exceeding 50% of the gross domestic product. Furthermore, in the course of implementation of the central budget, it will not be allowed to draw a loan or undertake a financial obligation on behalf of Hungary that results in a level of government debt exceeding 50% of the gross domestic product.

The New Constitution includes certain exemptions and transitional rules in effect until the level of government debt is reduced to the above-mentioned limit.

Upon the occurrence of a "special legal order," Parliament and the Government are entitled to deviate from the limitations described above to the extent necessary to mitigate the effects of the events and circumstances triggering the special legal order, or, in the event of a significant and enduring national economic recession, to the extent necessary to restore the balance of the national economy. "Special legal order" means a state of national crisis, state of emergency, state of preventive defense, event of unexpected attack or state of danger.

Until the level of government debt falls below 50% of gross domestic product, Parliament is obligated to adopt an Act on the central budget that provides for a decrease of the ratio of government debt to gross domestic product. Until the level of government debt falls below 50% of gross domestic product, in the course of implementation of the central budget, Parliament is not allowed to draw a loan or undertake a financial obligation on behalf of Hungary that would result in an increase of the ratio of government debt to gross domestic product from the previous calendar year.

As long as the government debt exceeds 50% of the gross domestic product, the Constitutional Court may, within its competence pursuant to the respective provisions of the New Constitution, review Acts on (i) the central budget; (ii) implementation of the central budget; (iii) central taxes; (iv) stamp duties and contributions; (v) customs duties; and (vi) the central requirements related to local taxes for the conformity, of each of the foregoing, with those aspects of the New Constitution relating to rights to life and human dignity, to the protection of personal data, to the freedom of thought, conscience and religion, or in connection with the rights related to Hungarian citizenship, and the Constitutional Court may only annul these Acts for violation of these rights. Acts governing the above matters may be annulled by the Constitutional Court without restriction if the procedural requirements laid down in the New Constitution for the creation and publication of such rules of law have not been complied with.

The method for calculating government debt and gross domestic product and the rules for implementation of the government debt limitations mentioned above are determined in an Act of Parliament.

The New Constitution prescribes that Cardinal Acts of Parliament will regulate the burden of public finances; the fundamental rules of the pension system; the establishment of autonomous regulatory organs; the detailed rules of the responsibilities, organization and operation of the Constitutional Court; the detailed rules of the operation of the Budgetary Council; and the method for calculating the level of government debt and gross domestic product.

The New Constitution provides for a constitutional basis for the operation of the Budgetary Council and enhances the current statutory provisions applicable to the Council.

On June 19, 2015, an amendment to the Cardinal Act on Economic Stability entered into force. According to the amendment, the Parliament may only approve a budget resulting in a decrease of the debt-to-GDP ratio of at least 0.1% if one of the two following conditions is satisfied: either the projected inflation rate does not exceed 3% or the projected real growth rate does not exceed 3%. In case the projected inflation rate and the projected real growth rate exceed 3%, the Parliament may not approve a budget resulting in an increase of the nominal debt (compared to the preceding year) at a rate exceeding the difference between the projected inflation rate and half of the projected real growth rate.

President

The President of Hungary is the head of state, elected by Parliament for a term of five years. The President may, but need not, be elected from the members of Parliament (but cannot be both President and member of Parliament at the same time). The President may only be re-elected once. The current President is Mr. János Áder, who was elected in May 2012. The next presidential election is expected to be held in 2017. The President's authority is limited. Most of the actions taken by the President require the countersignature of the Prime Minister or the appropriate minister. The powers of the President include:

- representing the nation as head of state;
- acknowledging the binding force of international treaties and agreements with prior authorization given by Parliament;
- attending and addressing any session of Parliament;
- acting as commander-in-chief of the armed forces;
- setting the date for Parliamentary and local elections;
- initiating certain measures in Parliament;
- initiating referenda;
- appointing and removing, among others, the President and Vice-Presidents of the NBH; and

● granting pardons.

A regular presidential election was held in August 2010, when Mr. Pál Schmitt was elected as President. Mr. Pál Schmitt resigned on April 2, 2012. Pursuant to certain constitutional rules, Mr. László Kövér, as the Chairman of Parliament, acted as provisional acting president from April 2, 2012 until May 10, 2012. On May 2, 2012, Parliament elected Mr. János Áder as President and he took office on May 10, 2012. The next presidential election is expected to be held in 2017.

Government

The government of Hungary (the "**Government**") consists of the Prime Minister and other ministers forming the Cabinet (currently 11 ministers of which 1 is without portfolio). The Government is charged with the executive function of Hungary and with proposing legislation to Parliament. The Prime Minister and the Government's program are approved by a simple majority vote of Parliament. The Prime Minister is nominated by the President of Hungary and elected by Parliament to serve for four years. If the Prime Minister loses his/her office for any reason, such as resignation, death or removal through a no-confidence vote, and, therefore, the Government loses its mandate, a new Prime Minister will be elected by the Parliament with a mandate that expires after the next general election. The other ministers are nominated by the Prime Minister and appointed and removed by the President. There is one substitute prime ministers nominated by the Prime Minister, who shall replace the Prime Minister if he/she loses his/her office by reason of death, loss of his/her voting right or conflict of interest.

On June 6, 2014, the current Government was formally inaugurated In the current governmental structure, the Minister for National Economy is responsible for public finances; previously such responsibility belonged to the Minister of Finance.

Parliament

The single chamber Hungarian Parliament is the country's supreme legislative body. The Parliament elects the President, the Prime Minister, the members of the Constitutional Court, the President and Vice-Presidents of the State Audit Office, the President of the Supreme Court and the Attorney General.

Parliament is elected by popular vote for four year terms. Elections are held using a combination of individual constituency voting (the candidate receiving the most votes in a particular district being elected from that district) and proportional voting (parties receiving at least five per cent. of the popular vote proportionally dividing a set number of seats). Parliamentary elections were held most recently in April 2014. The next Parliamentary elections will occur in April 2019.

Judiciary

The Hungarian judiciary consists of the Curia, the county tribunals, the Metropolitan Tribunal of Budapest, the district courts and the labour courts. Legislation may provide for special courts to be convened for certain types of cases. Five Courts of Appeal located in Budapest, Pécs, Szeged, Debrecen and Győr have regional jurisdiction. As of January 1, 2012, new special courts were established for public administration cases. The Curia sets guidelines for the judicial process of every court. Resolutions concerning uniformity are binding on all courts. Judges are independent and are subordinate only to the law. District courts have original jurisdiction. The Courts of Appeal, the county tribunals and the Metropolitan Tribunal of Budapest have both original and appellate jurisdiction. The President of Hungary nominates, and Parliament elects, the President of the Curia. The President of the Curia nominates, and the President of Hungary appoints, the Vice-Presidents of the Curia. The President of Hungary also appoints and removes professional (non-arbitration) judges. The President of Hungary may only remove professional judges by following the causes and procedures prescribed by law.

The Constitutional Court is separate from the regular Hungarian judiciary. It decides the constitutionality of legislation and other actions as set forth in the Hungarian Constitution. The Constitutional Court may annul any law or legal measure that it determines to be unconstitutional. Any person may initiate proceedings in the Constitutional Court to address issues within its jurisdiction. The New Constitution includes changes to the main responsibilities of the Constitutional Court. The New Constitution entitles the Constitutional Court to annul a legal rule or a single judgment or to apply other specific legal consequences set forth by Cardinal Act only if such legal rule or judgment is contrary to the Constitution or an international agreement of Hungary. The New Constitution also increased the number of members on the Constitutional Court from 11 to 15 and the term of their mandates from 9 years to 12 years. Members and the President of the Constitutional Court are elected by a two-thirds majority of the Members of Parliament, and Members of the Constitutional Court may not be re-elected. In June 2011, Parliament elected four new members of the Constitutional Court, who filled their positions on September 1, 2011.

Legislation facilitating and regulating the market economy is relatively new. Consequently, Hungarian courts are generally less experienced than their Western European counterparts in areas such as securities, banking and commercial law. Parties often refer disputes relating to such matters to the court of arbitration attached to the Hungarian Chamber of Commerce and Industry or to the Permanent Court of Arbitration of Financial and Capital Markets.

Parliamentary Commissioners

On July 11, 2011, Parliament adopted the Act on the Commissioner for Fundamental Rights in compliance with the New Constitution. The Commissioner for Fundamental Rights and his two deputies replaced the former system, in which four Parliamentary Commissioners were primarily tasked with defending the public's rights vis-à-vis the public administration. The Commissioner and his deputies are not Members of Parliament and are elected by a two-thirds majority of the Members of Parliament for a term of six years. One of the deputies is responsible for safeguarding the constitutional rights and interests of future generations, while the other deputy is responsible for safeguarding the rights of minorities living in Hungary. The Commissioner for Fundamental Rights will have broader responsibility than the former Parliamentary Commissioners and may conduct special proceedings against organizations that are not public bodies (e.g., companies, banks, and social organizations) upon a complaint that such organization seriously violates a fundamental right of a large number of natural persons.

On July 11, 2011, Parliament also adopted the Act on Informational Self-Determination and Freedom of Information. Pursuant to this Act, a new independent authority was established on January 1, 2012: the National Agency for Data Protection and Freedom of Information, which replaced the Data Protection Commissioner's Office. This Agency is responsible for supervision and facilitation of the enforcement of data protection rights and freedom of information in Hungary, including maintenance of the Data Protection Register and provision of opinions on related legislative proposals and categories of official secrets.

Local Government

Hungary is divided into administrative units, which include the capital (Budapest), counties, cities, towns and villages. Local governments are autonomous, democratically manage local affairs and set the rates of certain limited local taxes. The Hungarian Constitution grants all local authorities the same fundamental rights; however, the duties and responsibilities of local governments may differ according to national and local legislation. Local governments consist of representative bodies, whose members are elected for five year terms. Decisions of local authorities may only be revised if they conflict with the Constitution or national legislation.

On December 19, 2011, the Act on Local Governments of Hungary was adopted by Parliament. Under this Act, which took effect on January 1, 2012, the Government is entitled to supervise local governments through the metropolitan and county government agencies in order to control their lawful operation. The Act introduced certain restrictions relating to debt management of local governments – such as the conclusion of credit or loan agreements and issuance of local government bonds – and required that each funding transaction be approved by the Government. The annual incurrence of debt by local governments is limited to 50% of the revenues of the local government. Such rules of local government debt management have been applicable since the planning and implementation of local government budgets for calendar year 2013. Local government elections were last held on October 12, 2014.

Overview of Political Situation

Following the first multi-party elections of the post-communist era held in 1990, several parties formed coalition governments. Following the 2014 election, Fidesz and KDNP (Hungarian Christian Democratic Party) formed a coalition government.

The last parliamentary election was held in April 2014.

The following table shows the parliamentary groups of parties and independent members of Parliament (headcount in the constituent sitting and in the end of cycle):

Parliament

	1990-1994		1994-1998		1998-2002		2002-2006		2006-2010		2010-2014		2014-	
Fidesz	22	26	20	32	148*	143*	164	168	141	139	227*	223*	117*	
FKGP(1)	44*		26	22	48*	33*								
EKgP(1)		36*												
Jobbik											47	43	23	
KDNP	21*	23*	22						23	23	36*	34*	16*	
LMP											16	7	5	
MDF(2)	165*	135*	38	20	17*	16*	24	9	11					
MIÉP(3)		12			14	12								
MSZP	33	33	209*	204*	134	136	178*	177*	190*	188*	59	47	29	
Néppárt-MDNP(3)				15										
SZDSZ	94	83	70*	65*	24	24	20*	20*	20*	18				
Independent	7	37	1	23	1	20		11	1	14	1	27	9	

Source: National Election Office ("NEO")

Notes:

* Member of the governing coalition.

(1) The FKgP faction was divided into two parts in 1992. One part of the former Fkgp faction was the governmental 36 members and the other one went to opposition with 12 members. The latter's headcount decreased under 10 members and that was the reason why it was ended.

(2) The MDF faction was extinct on 20 March 2009, after the members' number decreased to 9.

(3) These two factions came into existence during the cycle.

Fidesz-CDPP obtained a majority of the Parliamentary seats in the 2014 elections. Fidesz-KDNP formed a government with a total of 133 of the 199 Parliamentary seats. Mr. Viktor Orbán was proposed by the then current President of Hungary and was elected by Parliament to serve as the new Prime Minister. The next parliamentary election will be held in 2018.

Local government elections

In localities with more than 10,000 inhabitants and in each district of Budapest, local representatives obtain seats in a mixed election system: in an individual constituency and from a compensatory list. Each voter may vote for only one individual constituency candidate. Each compensatory list is allocated a seat in proportion to the fragmentary votes received.

The Budapest Assembly, formed in October 2014, included the Lord Mayor, 23 district mayors and nine members elected from the Budapest compensatory list. The most recent local government election was held in October 2014. Mr. István Tarlós, who was supported by Fidesz-KDNP, became Lord Mayor of Budapest upon receiving a plurality of the votes (49.1% of all votes). Of the 23 seats for district mayors of Budapest, Fidesz-KDNP candidates won 17 positions; candidates of MSzP and other MSzP-supported organizations won three positions; and candidates of other organizations won three positions. Of the nine seats from the compensatory list, Fidesz-KDNP gained two mandates, MSzP gained three mandates, Jobbik and LMP each gained one compensatory mandate and two independents were elected.

The following table sets forth the composition of the Budapest Assembly following the October 2014 local government elections:

Composition of Budapest Assembly (October 2014 results)

	District Mayors and Lord Mayor	Compensatory List	Total
Fidesz-KDNP	18	2	20

MSZP	3	3	6
Jobbik	0	1	1
LMP	0	1	1
Other	3	2	5
Total	24	9	33

Source: NEO

There are 23 mayors of local capital cities in Hungary: 19 mayors were supported by Fidesz-KDNP, one mayor was supported by Fidesz, one mayor was an independent representative and two mayors were backed by other organizations (one mayor was backed by MSzP, Demokratikus Koalíció, Együtt, PM and Szegedért, and the other mayor by MSzP, Demokratikus Koalíció, Együtt, TVE and ST).

There are 19 counties in Hungary. Fidesz-KDNP obtained at least a simple majority in every county assembly. The total number of representatives in the 19 county assemblies amounts to 385. The total number of representatives supported by Fidesz-KDNP is 225. The total number of representatives supported by MSzP, Jobbik and LMP amounts to 50, 81 and 5, respectively. Demokratikus Koalíció supported a total of 19 representatives, and the remaining five representatives were supported by other organizations.

The next local government elections are scheduled to take place in autumn 2019.

European Parliament Elections

The first elections of Hungarian members to the European Parliament were held on June 13, 2004; the second elections of Hungarian members to the European Parliament were held on June 7, 2009; and the third elections of Hungarian members to the European Parliament were held on May 25, 2014. The following table shows the political affiliations of the Hungarian members of the European Parliament after the third elections:

Seats in European Parliament of Hungarian Political Parties

	Seats
Fidesz-KDNP	12
Jobbik	3
MSZP	2
Demokratikus Koalíció	2
Együtt - PM	1
LMP	1

Source: European Parliament

Recent political developments

The following table shows the parliamentary groups of parties and independent members of Parliament as of December 31, 2015:

	Number of seats	Share of seats (%)
Jobbik	24	12.1
LMP	5	2.5
Fidesz	114	57.3
HSP	29	14.6
CDPP	17	8.5
Independent Representatives	10	5.0
Total	199	100.00

Source: Parliament of Hungary

International Relations

Hungary has undertaken an active foreign policy designed to further its integration into the world community and to foster regional peace and economic development. Hungary joined the United Nations organization (the “UN”) in 1955 and is a member of many of its specialized agencies, such as UNESCO, FAO, UNIDO, WHO and WTO (as described below). In 1996, Hungary became a member of the Organization for Economic Co-operation and Development (the “OECD”), which was a decisive step towards integrating with developed nations and obtaining full EU membership. In 1999, Hungary became a full member of the North Atlantic Treaty Organization (“NATO”). Hungary maintains diplomatic relations with approximately 165 countries and is a member of a number of international organizations in addition to the UN, OECD, NATO and the EU, including the Global Environment Protection Fund, World Trade Organization (“WTO”), the International Bank for Reconstruction and Development (the “IBRD” or the “World Bank”), the Organization for Security and Co-operation in Europe, the IMF, the Council of Europe, the International Finance Corporation (“IFC”), the Central European Free Trade Agreement (“CEFTA”), the International Development Agency (“IDA”), the Food and Agriculture Organization (“FAO”), the World Health Organization (“WHO”), the European Bank for Reconstruction and Development (“EBRD”), the United Nations Educational Scientific and Cultural Organization (“UNESCO”), the United Nations Industrial Development Organization (“UNIDO”), the European Investment Bank (“EIB”) and the Council of Europe Development Bank (“CEB”). Hungary is also a member of the Central European Initiative, whose membership also consists of Austria, Croatia, the Czech Republic, Italy, Poland, Slovakia and Slovenia, . The Central European Initiative addresses mainly issues of regional infrastructure development. Hungary has been a member of the Organization for Security and Co-operation in Europe (formerly referred to as the Conference on Security and Co-operation in Europe) since its formation in 1975 and was admitted to the Council of Europe in 1990.

European Union

Hungary joined the EU on May 1, 2004. After the EU parliamentary elections in October 2014, the Hungarian representatives of the European Parliament assumed the following positions: Lászó Tőkés (Fidesz-KDNP) became vice-chairman for the Committee on Human Rights; Benedek Jávor (Együtt 2014 – Dialogue for Hungary) became vice-chairman for the Committee on Environment, Public Health and Food Safety; István Ujhelyi (MSZP) became vice-chairman for the Committee on Transport and Tourism; Andrea Bocskor (Fidesz-KDNP) became vice-chairwoman for the Committee on Culture and Education; and Kinga Gál (Fidesz-KDNP) became vice-chairwoman for the Committee on Civil Liberties, Justice and Home Affairs. Hungary is entitled to designate one member to the European Commission (“EC”). The current Hungarian designee to the EC is Mr. Tibor Navracsics, who assumed the position of Commissioner for Education, Culture, Youth and Sports on November 1, 2014.

Alongside the development of key areas of the economy, Hungary has implemented and intends to continue implementing development programs and structural reforms to accelerate the convergence process with the EU. The key program is the National Development Plan. The first version of the second National Development Plan, the "New Development Plan," addressed the allocation of EU funds from 2007 to 2013. On September 7, 2007, the EC adopted the New Development Plan, which included seven regional and eight sectoral programs.

On July 28, 2010, the Government unveiled a consultative paper on the new Széchenyi Plan, which aimed to revive the Hungarian economy, implement the objectives of the Program of National Cooperation and replace the New Development Plan. The Government focused on two major areas: reducing unemployment and increasing the competitiveness of Hungarian businesses. The scheme, based on European Union funding, guarantees significantly more support for Hungarian small and medium enterprises ("SMEs") than previously has been available. With this support scheme tailored to private businesses, the core objective of the new Széchenyi Plan is to create one million new jobs in 10 years.

The new Széchenyi Plan launched on January 15, 2011. At the heart of the program are the seven priority areas identified in the consultative paper, which collectively form the foundation of a long-term strategic plan in parallel with the Government's short-term crisis management program.

The seven main areas of the new Széchenyi Plan are the following:

(1) the health industry (e.g., remedial and preventive healthcare, rehabilitation, R&D, biotechnology, medical equipment manufacturing and spas);

(2) the green economy (e.g., renewables, geothermal energy, and biotech R&D);

(3) a home-building program;

(4) development of the business environment (stable economic, business and tax environment);

(5) science and innovation (R&D spending is aimed to reach 1.5% of gross domestic product ("GDP") by 2015);

(6) employment (job creation and increased employment and productivity); and

(7) the economy of transport and logistics.

On January 1, 2011, Hungary took over the Presidency of the Council of the European Union for the first half of 2011. The Hungarian Presidency of the Council of the European Union built its political agenda around the human factor, focusing on four main topics: (i) growth and employment for preserving the European social model; (ii) a stronger Europe; (iii) a citizen-friendly European Union; and (iv) enlargement of the European Union and European neighborhood policy. By entering the EU, Hungary also became a member of the European Investment Bank.

Hungary plans to become a member of the European Monetary Union in accordance with the Maastricht Treaty.

On November 17, 2015, the Parliament adopted an Act that authorizes the Government to bring an action before the Court of Justice of the European Union aiming the annulment of the resolution of European Union Council (EC) No 2015/1601 on the mandatory quota based allocation of applicants for international protection.

OECD

Hungary officially became a member of the OECD in May 1996. Inclusion in the OECD was considered to be a decisive step towards integration with the developed nations and to obtaining full EU membership.

NATO

Hungary became a full member of NATO in March 1999.

Agreement on European Economic Area

This agreement operates between 3 current EFTA member states, European Communities and the 27 EU member states.

Bilateral Trade Agreements

In addition to the multilateral trade agreements discussed above, Hungary has also entered into bilateral trade agreements with several countries, including Slovenia, Romania, Turkey, Israel, Bulgaria, Lithuania, Latvia and Estonia. Hungary has entered into trade and co-operation agreements with certain Central European countries designed to lower or eliminate trade barriers.

Central European Initiative

Hungary is also a member of the Central European Initiative, the other members of which are Austria, Italy, Slovenia, Croatia, Slovakia, Poland and the Czech Republic. This initiative mainly addresses issues of regional infrastructure development.

IMF Special Data Dissemination Standards

Hungary is a subscriber to the IMF Special Data Dissemination Standards. Data on Hungary can be accessed on the internet through the website: http://www.dsbb.imf.org/Pages/SDDS/CtyCtgList.aspx?ctycode=HUN although information on such website does not form part of the Offering Circular and may not be relied upon in connection with any decision to invest in the Notes.

The Economy

Background

The Hungarian economy has undergone a radical transformation since the fall of communism in 1989. As with other post-communist countries in the region, the economy in Hungary during the last two decades can be characterized by economic dislocation at the beginning of the decade with gradual improvement as reforms were implemented. The highlights of these economic reforms and trends include:

- an ambitious privatisation programme — the vast majority of Hungary's large state-owned enterprises have already been privatised;

- a shift in exports from COMECON countries to those of Western Europe and other industrialised countries; now three-quarters of Hungarian exports are to EU markets, and Hungary's market share in the EU has more than doubled since the mid-1990s;

- the ratios of gross and net external debt to GDP declined in the second half of the 1990s, but had been rising between 2002 and 2009, but declining again since 2009, gross and net external debt to GDP ratio reaching 83.5 per cent. and 32.7 per cent. respectively in 2014. Meanwhile, the ratio of public sector debt (according to GFS methodology[1]) to GDP dropped from 72 per cent. in 1996 to 52 per cent. in 2001, but has increased since then, reaching 73 per cent. in 2015 according to preliminary data;

- the GDP growth trends are in line with general European trends: according to data adjusted for calendar-day effect, GDP grew by 1.8 per cent. in 2011, fell by 1.7 per cent. in 2012, increased by 2.0 per cent., 3.6 per cent. and 2.9 per cent. in 2013, 2014 and 2015, respectively;

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[1] Unless otherwise indicated, all data in this document is presented for comparison purposes in accordance with the methodology of the International Monetary Fund (as set forth in the Manual on Governance Finance Statistics, IMF 1986) ("**GFS**"). In order to comply with its EU-accession obligations, the Republic has started to produce certain data on the basis of the European System of Accounts 2010 ("**ESA**"). ESA methodology monitors revenues and expenditures on an accrual basis, whereas GFS methodology monitors revenues and expenditures on a cash basis. Under ESA, certain issued state guarantees are reclassified as government debt and therefore increase the deficit, and the definition of the general government sector is extended to include certain quasi-governmental institutions.

- inflation, caused initially by price deregulation, declined from 28.3 per cent. in 1995 to 2.3 per cent. in April 2006, but increased to 5.0% in December 2012, mainly as a result of tax increases; since then the inflation rate dropped to 0.4% in December 2013 and the price level decreased by 0.9% in December 2014 and increased by 0.9% in December 2015 mainly as a result of lower energy and growing food prices;

- generally there were declining or stagnant real net wages until 1997 as inflation outpaced nominal net wage increases; real net wages increased moderately since then except for the year 2002 when the minimum wage increase and additional expenditure on public sector workers increased real net wage growth rate to 13.6 per cent.; real net wages increased by 4.3 per cent. in 2015;

- unemployment has generally declined from its peak of 12.5 per cent. in the first quarter of 1993 to 5.7 per cent. in 2001 but increased to 11.2 per cent. in 2010 mainly as a result of the ongoing global financial crisis but decreased since then reaching 6.2 per cent. in the 3 month period from November 2015 to January 2016; and

- high levels of foreign direct investment with the level of cumulative foreign direct investment in 2014 reaching Euro 101.3 billion, which amounted to approximately 97 per cent. of GDP for 2014.

Gross Domestic Product

The following table presents the components of nominal GDP and related figures by expenditures at current market prices, as well as real GDP growth rates, for the years indicated:

	2011	**2012**	**2013**	**2014**	**2015**
			(HUF billion)		
Consumption .	20,631.7	21,118.6	21,667.1	22,693.1	23,406.7
Fixed investment	5,568.7	5,547.7	6,160.0	6,971.3	7,192.3
Other.............	1,933.4	1,961.7	2,238.0	2,515.3	3,112.9
GDP..............	28,133.8	28,627.9	30,065.0	32,179.7	33,711.8
			(*per cent.*)		
Annual real GDP growth rate*	1.8	(1.7)	1.9	3.7	2.9

Source: CSO

* Data not adjusted for calendar-day effect.

The following table presents the volume indices of Hungary's GDP by industry sector:

	2011	**2012**	**2013**	**2014**	**2015**
			(*volume indices, the previous year = 100*)		
Agriculture, forestry and fishing	115.4	79.0	115.3	113.9	87.1
Mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply; sewerage, waste management and remediation activities	100.3	97.8	97.4	106.7	106.3
Of which: manufacturing	100.9	98.5	97.9	107.0	107.1
Construction	102.6	93.7	105.8	112.3	102.9
Services, total	101.8	100.0	103.5	101.4	102.8
wholesale and retail trade; repair of motor vehicles and motorcycles;	103.1	99.4	106.3	104.3	104.3

	2011	2012	2013	2014	2015
	(*volume indices, the previous year = 100*)				
accommodation and food service activities					
transportation and storage	100.2	101.1	101.0	102.4	105.7
information and communication	103.2	101.0	103.9	101.4	102.9
financial and insurance activities	96.3	97.2	95.2	97.1	99.8
real estate activities	102.0	98.2	100.3	99.6	101.1
professional, scientific and technical activities; administrative and support service activities	102.9	100.7	103.6	105.8	105.6
public administration and defence; compulsory social security; education; human health and social work activities	101.7	101.5	106.6	97.9	100.6
arts, entertainment and recreation, repair of household goods and other services	102.6	97.4	99.9	104.3	106.0
Taxes less subsidies on products[1]	x	x	x	x	x
Gross domestic product (at purchasers' prices)	**101.8**	**98.3**	**101.9**	**103.7**	**102.9**

Source: CSO
Note:
[1] Data not applicable

The rate of real GDP growth rate in Hungary was relatively high, exceeding the growth registered in the European Union as a whole until 2006. In 2007 and 2008 GDP growth rate declined significantly partly as a result of tight fiscal policy. In 2009 GDP dropped significantly mainly as a result of the ongoing global financial crisis. In 2010, 2011 and 2013 GDP grew moderately and fell slightly in 2012, but in 2014 and 2015 GDP growth rate reached 3.7 per cent., and 2.9 per cent., respectively. Prior to 2014 the growth was attributable mainly to exports. The structure of economic growth has improved in 2014 and 2015 as consumption and gross fixed capital formation contributed significantly to GDP growth.

The following table presents the final use of GDP:

	2011	2012	2013	2014	2015
	(*volume indices, the previous year = 100*)				
Household final consumption expenditure	100.8	97.7	100.2	101.8	103.1
Social transfers in kind from government	100.4	97.5	101.9	100.1	100.5
Social transfers in kind from NPISHs	100.8	100.8	102.2	103.2	100.5
Actual final consumption of households	100.7	97.7	100.6	101.5	102.6
Actual final consumption of	100.0	99.7	103.0	105.8	100.6

government					
Actual final consumption, total	100.6	98.0	100.9	102.1	102.3
Gross fixed capital formation	98.7	95.6	107.3	111.2	101.9
Changes in inventories[(1)]	x	x	x	x	x
Gross capital formation, total	96.7	92.8	103.8	111.3	100.5
Domestic use, total	99.8	96.9	101.5	104.2	101.9
Exports of goods and services	106.6	98.2	106.4	107.6	108.4
Of which: exports of goods	106.6	98.0	105.8	106.8	108.6
exports of services	106.5	98.9	109.1	110.8	107.7
Imports of goods and services	104.5	96.5	106.3	108.5	107.8
Of which: imports of goods	104.7	96.6	105.7	109.2	107.4
imports of services	103.3	96.0	109.5	104.7	109.5
Gross domestic product, total	**101.8**	**98.3**	**101.9**	**103.7**	**102.9**

Source: CSO

Note:

(1) Data not applicable

The volume indices of the gross domestic product from 2011 to 2015.

		Not adjusted, raw data	Adjusted for calendar effects	Seasonally and calendar effects adjusted and reconciled data
		(the corresponding period of previous year=100.0)		
2011	Q1	102.7	102.6	102.2
2011	Q2	101.5	101.5	101.6
2011	Q3	101.5	101.4	101.4
2011	Q4	101.5	101.7	101.8
2011	**Total**	**101.8**	**101.8**	**101.8**
2012	Q1	99.4	98.8	98.6
2012	Q2	98.4	98.5	98.5
2012	Q3	98.3	98.5	98.4
2012	Q4	97.3	97.4	97.6
2012	**Total**	**98.3**	**98.3**	**98.3**
2013	Q1	99.6	100.4	100.7
2013	Q2	101.5	101.5	101.5
2013	Q3	102.5	102.4	102.4
2013	Q4	103.6	103.6	103.6
2013	**Total**	**101.9**	**102.0**	**102.0**
2014	Q1	103.8	103.7	103.6
2014	Q2	104.1	104.1	104.0
2014	Q3	103.4	103.4	103.6
2014	Q4	103.3	103.2	103.2
2014	**Total**	**103.7**	**103.6**	**103.6**
2015	Q1	103.5	103.5	103.3
2015	Q2	102.7	102.7	102.7
2015	Q3	102.4	102.4	102.6
2015	Q4	103.2	103.1	103.0
2015	**Total**	**102.9**	**102.9**	**102.9**

Source: CSO

Energy

Hungary has consistently worked to diversify its sources of energy and to build up reserves to dampen the potential negative effects of energy supply disruptions. Hungary currently maintains at least a 12-week supply of oil in compliance with OECD requirements.

By the end of 1998, all of Hungary's natural gas distribution companies, six electricity distribution companies and all but two power generation companies had been privatised. The Ministry of Transport, Telecommunication and Energy aims to form a competitive electricity market and full liberalisation of the sector , in accordance with the EU Directives.

On January 14, 2014 Prime Minister Viktor Orbán announced that Hungary will construct two new nuclear plant blocks at Paks. According to the announcement, Russia would cooperate in the construction and financing. The Russian partner would provide a loan to Hungary in the amount of EUR 10 billion covering 80% of construction costs. Hungary would begin repaying the loan over a period of 21 years after the project had been completed and the plant had been put in operation. The international treaty between the Government of Hungary and the Government of the Russian Federation was approved by the Hungarian Parliament on February 6, 2014.

On March 26, 2015 the Government announced that the fuel supply contract of the two new blocks of the nuclear plant in Paks will be finalized based on the Finnish model. According to the announcement there is no obligation to acquire fuel from suppliers other than Roszatom. The EU, however, (in line with the Finnish model) does set the requirement of a provision which - after a period of ten years - allows for inviting other suppliers who can offer fuel compatible with the reactor. According to the announcement the Government has succeeded in settling all issues with the representatives of Euratom Supply Agency and has initialled the agreement. According to the Euratom agreement, the fuel supply contract will have three, instead of two signatories: apart from the buyer and the seller, Euratom will also have to sign it.

On November 19, 2015 the EC announced that the EC decided to launch an infringement procedure against Hungary concerning the implementation of the Paks II nuclear power plant project. Following exchanges of information with the Hungarian authorities and a thorough assessment of the terms of the award, the EC still has concerns regarding the compatibility of the project with EU public procurement rules. The Hungarian government has directly awarded the construction of two new reactors and the refurbishment of two additional reactors of the Paks II nuclear power plant without a transparent procedure. The EC considers that the direct award of the Paks II nuclear power plant project does not comply with EU legislation on public procurement. The EC has decided to send a letter of formal notice to Hungary, which constitutes an official request for information and is the first step in an infringement procedure. The Hungarian authorities have two months to respond to the arguments put forward by the EC.

On November 23, 2015 the EC announced that the EC has opened an in-depth state aid investigation into Hungary's plans to provide financing for the construction of two new nuclear reactors in Paks. The EC will in particular assess whether a private investor would have financed the project on similar terms or whether Hungary's investment constitutes state aid. If the project is found to involve state aid, the EC will investigate whether as planned it would lead to distortions of competition in particular on the Hungarian energy market.

On November 24, 2015 the Government announced that the Government of Hungary’s firm position is that the Paks II project does not involve state aid, and a rational investor would also implement the investment, as its expected return is higher than the costs of the capital invested.

On March 10, 2016 the Government introduced an amendment to Act on investment in order to maintain capacity of Paks Nuclear Plant, which aims to adjust information classification rules to the current Act on the Right of Informational Self-Determination and on Freedom of Information in line with the requirement of European Commission. The amendment has been adopted on March 30, 2016.

Prices, Wages and Employment

Prices

Deregulation in 1990 led to a high rate of inflation in Hungary. This rate has remained relatively high compared to rates in Western Europe due to the general phasing out of price supports and the high public sector deficit, but has decreased sharply mainly as a consequence of the monetary regime introduced in May 2001.

The following table illustrates the annual index changes (Dec/Dec) in consumer prices since 2011:

	Food	Alcoholic beverages, tobacco	Clothing, footwear	Consumer durable goods	Fuel and power	Other goods incl. motor fuels	Services	Total
2011	104.6	104.1	102.5	98.8	105.9	106.8	102.7	104.1
2012	107.0	113.5	101.4	98.2	104.7	102.9	104.5	105.0
2013	100.1	112.0	98.9	98.4	82.3	100.9	103.7	100.4
2014	99.4	101.2	99.8	99.9	94.6	95.9	101.5	99.1
2015	102.2	103.8	99.9	101.7	99.8	97.2	101.5	100.9
2016 March(1)	100.7	102.4	100.4	101.7	100.0	94.3	101.4	99.8

Source: CSO
Note:
(1) February/February data.

In 2007 inflation increased to 8.0 per cent. mainly as a result of a significant increase in regulated prices, but declined to 1.7 per cent. in 2013 partly as a result of a significant decrease in regulated prices. In 2014 price level declined by 0.2 per cent. due to lower global food and energy price inflation and a decrease in publically administered prices for items such as electricity and gas. In 2015 price level declined by 0.1 per cent. due to falling energy prices and increasing food prices.

As of the end of 2015, 83.4 per cent. of all prices in Hungary were unregulated. The main categories of products and services that continue to have regulated prices are: electricity, gas, purchased heating, various pharmaceutical products, meals at schools, kindergartens and nurseries, the state lottery, local and long-distance passenger transport, state-owned housing rent, various household utilities (including water and sewage charges and refuse collection services) and postal services.

In line with relevant EU Directives, Hungary intends to abolish regulated pricing schemes from the increasingly market-based energy and postal sectors.

Wages and Employment

The following table illustrates recent wage trends:

	Annual Average				
	2011	2012	2013	2014	2015
Nominal net wage index	106.4%	102.1%	104.9%	103.0%	104.2%
Real net wage index	102.4%	96.6%	103.1%	103.2%	104.3%

Source: CSO

Since 2003 real net wages grew moderately; in the years 2004, 2007, 2009 and 2012 real net wages dropped slightly compared to the previous year. The slow real net growth rate was partly caused by the ongoing global financial crisis. In 2012 real net wages declined partly as a result of accelerating inflation. In 2013, 2014 and 2015 real net wages increased significantly mainly as a result of improving economic performance in Hungary and in the EU and a decelerating inflation.

The following table illustrates the unemployment rate for each of the years indicated:

	2011	2012	2013	2014	2015
	Annual average, per cent.				
Unemployment rate	11.0	11.0	10.2	7.7	6.8

Source: CSO

The yearly average unemployment rate in 2015 was 6.8 per cent., which is considerably lower than the EU average. Labour unions have yet to gain any significant influence in Hungary and to date have not caused any substantial work stoppages. Labour unions are generally stronger in the public sectors of the economy.

The increase of activity rate has been an important policy of the Government. The Government has taken a number of steps to reduce the unemployment rate. As of January 1, 2010, the fixed monthly health care contribution of HUF 1,950 per employee paid by employers was abolished. Furthermore, the Government introduced several initiatives aimed at helping currently unemployed workers find employment, including job-search assistance programs and adult vocational training programs. Lastly, the Government initiated the "START" program, which is aimed at helping first-time employees find employment. The START program provides, among other things, employer contribution discounts to employers hiring graduates under a certain age and certain other potential first-time employees.

Privatisation

Status of Privatisation Efforts

Since 1990, Hungary has privatised nearly 1,300 enterprises of the 1,860 enterprises previously owned by the state by both direct sales and public offerings. The Hungarian Privatisation and State Holding Company (the "**ÁPV Zrt**" or "**ÁPV**") managed such sales until 31 December 2007.

Most of the larger companies involved in the privatization program have already been partially or fully privatized. Permanent government control is anticipated for 36 companies. The scope of property that is required to remain state-owned in the long-term is defined by law as follows:

(1) national public utility service providers;

(2) property or companies of strategic importance for the national economy; and

(3) property or companies that accomplish tasks or fulfill objectives for national defense or other special purposes.

After two earlier attempts to privatize Malev Hungarian Airlines (“Malev”) in 1997 and 2007, on February 26, 2010, Hungary reacquired a 95% interest in Malev in order to provide financial stability to the Hungarian national airline following the bankruptcy of an indirect shareholder during the global economic crisis. Hungary was involved in the equity increase of Malev in part by purchasing new shares and in part by a non-capital contribution through the conversion of earlier debts into equity. As a result, Hungary acquired a stake in the company with a total value of HUF25.2 billion. On February 3, 2012, based on a resolution of its Board of Directors, Malev ceased operations in order to minimize its losses. Malev struggled financially for several years and is reported to owe HUF60 billion (USD270 million) to lenders. On February 14, 2012, the Metropolitan Court of Budapest declared Malev insolvent and ordered the liquidation of the company.

On May 24, 2011, Prime Minister Viktor Orbán announced that the Hungarian state would buy a 21.2% stake of the Hungarian Oil and Gas Public Limited Company (“MOL”) from Surgutneftegas (a Russian energy company). Under a sale and purchase agreement, the Hungarian state paid EUR1.88 billion to the seller, which corresponds to the average share price recorded during the last three months prior to the price agreement. The deal had no direct impact on Hungary’s public debt or the level of the budget deficit. The transaction became effective on June 25, 2011, when the relevant amendment of the Budget Act for the year 2011 went into effect and an affirmative resolution was adopted by Parliament. The affirmative resolution was necessary because of the large value of the transaction. The purchase was settled on July 6, 2011.

In addition to the stake directly owned by the Hungarian state, the Pension Reform and Debt Reduction Fund currently owns a 3.39% stake of MOL, which is deemed as indirectly owned by Hungary. Hungary’s direct and indirect ownership of MOL totals 24.7%.

On June 9, 2011, the Government decided to sell Hungary’s 25% share of Budapest Airport to Hochtief AG for HUF36.6 billion. The sale was completed on June 17, 2011.

Methods of Privatization Used

Hungary is unique in Central Europe in that a large majority of its privatizations utilize public tenders, with sales on a cash basis. Such outright sales, often to strategic long-term investors, have been successful in bringing new management and know-how to many Hungarian enterprises.

Until 2003, compensation vouchers were also used as a tool of privatization. In recent years the importance of compensation vouchers has decreased significantly. Compensation vouchers were rights distributed to individual Hungarian citizens pursuant to the Compensation Act which was designed to provide compensation for losses suffered, including the loss of property and personal freedom. These compensation vouchers entitled the holders to bid for shares in certain privatised entities. In 2003, in order to end the compensation voucher system, the government decided to offer the shares of FORRÁS Trust and Investment Company (a state owned asset management company) in exchange for the compensation vouchers. In June and July 2003, the offering was completed and the shares of FORRÁS Trust and Investment Company were listed on the Budapest Stock Exchange.

On January 1, 2012, the Act on National Assets went into effect, which provides for the protection of certain assets such as rivers, streams, channels, natural lakes, airspace above Hungary, emission reduction units, archeological finds, financial assets owned by the government or a local municipality (including corporate shares, e.g., shares of public transportation companies, forestry companies, and companies established by laws for public interest), national data assets owned by the state or local governments or their public or private organizations. The Act determines the scope and rules of management of national assets and limitations related to selling, lending and utilization of national assets, in order to ensure such assets serve the public interest.

Recent Developments

Monetary policy

On January 12, 2016 the NBH announced that the Monetary Council decided to terminate the two-week central bank deposit for liquidity management purposes. The current HUF 1,000 billion maximum allotment amount will be maintained until the end of March 2016; then the stock of two-week deposits allotted at auctions will fall gradually to reach zero. Thereafter, i.e. from May 2016, the three-month standing deposit facility will be the MNB's single long-term sterilisation instrument.

On February 10, 2016 the NBH announced that according to the decision by the European Union, MARK Zrt. can start purchasing distressed commercial real estate assets from banks. The operation of the asset management company established by the central bank, pursuant to supporting its macroprudential legal mandate, is expected to give a significant boost to the clean-up of non-performing bank portfolios, which may contribute to a revival in bank lending and a recovery of the real estate market from recession. Since MARK Zrt. will purchase assets at market price, based on the validation of the European Commission, the planned asset acquisition programme does not contain state aid.

On March 22, 2016 the NBH announced that effective from March 23, 2016 the central bank base rate was reduced to 1.20% from 1.35%. The interest rate remunerated on required reserves and the penalty interest rate applied in case of reserve deficit was set to 1.20%; the interest rate on overnight bank deposit was set at the interest rate on the three-month MNB deposit minus 1.25 percentage points that is -0.05% currently; the interest rate on overnight collateralised loan was set at the interest rate on the three-month MNB deposit plus 0.25 percentage points that is 1.45% currently.

Fiscal policy

On January 6, 2016, the MNE published the preliminary general government deficit (excluding local governments) for the year 2015, in accordance with GFS methodology. The deficit reached HUF1,218.6 billion.

On January 15, 2016 Secretary of State for Economic Development and Regulation István Lepsényi announced that the Family Housing Allowance (CSOK) is a major endeavour expected to boost economic growth and achieve long-term social policy goals such as the reversal of a negative demographic trend and keeping skilled labour force in Hungary. The new housing scheme is a versatile tool for supporting families in building new flats and houses but it is also a tool for generating new investment valued at HUF 200-240bn through the construction of some 10,000 new residential properties. This may add 0.4-

0.5 percentage points to the country’s GDP and create 14,000-16,000 new jobs. Fiscal revenues originating from construction is expected to offset expenditures.

On March 2, 2016 Minister for National Economy Mihály Varga unveiled Irinyi Plan, a major re-industrialization blueprint. In order to have a more modern industrial production structure capable of creating more added value, Hungary must shift towards an innovation-focused economy and the industrial sector must be supported by up-to-date knowledge, research and development as well as tertiary and vocational education. Seven priority areas were identified: motor vehicle manufacturing, manufacturing of specialized machinery and equipment, health industry- and tourism, food industry, green economy, info-communication industry and defence industry. One of the main objectives of the strategy is to increase the industrial output-to-GDP ratio from the current 23.5 per cent. to 30 per cent. until 2020.

On March 7, 2016 the MNE announced that Hungary will receive a loan facility of EUR 500 million from the EIB which the Government can use to finance the development of public road network in Hungary over the next five years.

On March 8, 2016 the MNE published the preliminary general government balance (excluding local governments) for first two months of the year 2016, in accordance with GFS methodology. The surplus reached HUF14.8 billion.

On the same day the MNE announced that the accrual-based general government debt (including local governments) amounted to 75.3 per cent. of the GDP for the year 2015 according to preliminary data.

On March 21, 2016, the MNE announced that the budget bill is being drafted at the MNE; it is expected to be finalized and submitted to the Government at the end of April and scheduled to be presented to the Parliament already in May. Minister for National Economy Mihály Varga announced that the Government aims to operate the state without a deficit, and thus without having to take out market loans to finance public spending on, for example, defence, healthcare and environmental protection. The zero-deficit budget must be achieved while – potentially – GDP growth is kept around 3 per cent. and investment projects, such as the development of Paks II or the Budapest-Belgrade railroad, do not come to a standstill.On March 17, 2016 the Parliament approved a bill to establish National Home Building Societies (“NHBS”). The minimum number of membership is 120. Society members who deposits funds into NHBS for the purchase of new home receive a 30% state subsidy, with a maximum of HUF 25,000 per month; these savings must be used to purchase a new home worth between HUF 10 million and HUF 40 million. Loans are allocated by either a tender or a random selection or a combination of the two methods. The NHBS can only be operated by a company with at least HUF 100 million capital. The NHBS is not subject to the National Deposit Insurance Fund.

Subsequently on March 30, 2016 the Parliament amended the bill establishing NBS, upon the reconsideration request of the President of Hungary. According to the amendment the organizer has to maintain sufficient reserves fixed in the bill and societies will operate until all the members are able to buy a new home but for at least 10 years.

On March 30, 2016 the Parliament amended the Act on Public Finance. According to the amendment the Government will be entitled to allocate funds on prioritised public tasks without the amendment of the annual budget by the Parliament and without providing funds simultaneously.

On April 13, 2016 Minister for National Economy Mihály Varga announced that the Budget Bill for the year 2017 was forwarded to the Fiscal Council, which has 10 days to comment on the document.VAT on milk, eggs and poultry is also set to be cut next year to 5 per cent. Parallel to reducing the VAT on some basic food, the Government is about to cut VAT on restaurant services from the current 27 per cent. to 18 per cent., and to 5 per cent. in 2018, he stated. The VAT of Internet and restaurant services is also planned to be reduced. After this year’s expected GDP growth of 2.5 per cent., the economy is predicted to expand by 3.1 per cent. next year, the Minister said. This year, along with a general government budget deficit of 2.4 per cent., the state debt-to-GDP ratio is also seen lower.

Medium-Term Fiscal Program and the Convergence Program

Hungary’s economic policy targets are set out in a Convergence Report submitted annually to the EC. The report discusses Hungary’s policy goals for achieving the criteria set by the EC to attain membership in the Eurozone. The EC regularly evaluates the Convergence Reports, including the economic targets and the achievement of such targets.

Under the EU legislation, prior to adopting the Euro, Hungary is required to have fulfilled the following convergence criteria (the "Maastricht Criteria"):

● price stability — maintain a sustainable price performance and achieve an average rate of inflation (measured over a period of one year before the examination) that does not exceed by more than 1.5% the average rate of inflation of the three member states which perform the best in terms of price stability;

● long-term interest rates — achieve an average nominal long-term interest rate (measured over a period of one year before the examination) that does not exceed by more than 2% that of the three best-performing EU Member States in terms of price stability;

● the Government budgetary position — achieve a ratio of planned or actual government deficit to GDP that does not exceed 3%, unless either (i) the ratio has declined substantially and continuously and reached a level that comes close to the reference value or (ii) the excess of the reference value is only exceptional and temporary and the ratio remains close to the reference value;

● government debt — achieve a ratio of government debt to GDP that does not exceed 60%, unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace; and

● exchange rate — participate for at least two years in the Exchange Rate Mechanism ("ERM II") and observe the normal fluctuation margins close to central parity provided for by the mechanism for at least two years.

The convergence required for entering the Eurozone is formally assessed annually and the final decision is subsequently made by a summit of EU Member States acting on the recommendation of the ECOFIN Council.

On April 30, 2015, the MNE published an updated version of Hungary's Convergence Program. According to the Convergence Program published on April 30, 2015, the Government expected the budget deficit to GDP ratio (according to Excessive Deficit Procedure (EDP) methodology) to reach 2.4% in 2015, 2.0% in 2016, 1.7% in 2017 and 1.6% in 2018. The public debt to GDP ratio (according to ESA methodology) was projected to reach 74.9% in 2015, 73.9% in 2016, 71.3% in 2017, and 68.9% in 2018. The Government planned to reduce the total revenue-to-GDP ratio from 47.6% in 2014 to 46.7% in 2015, 44.3% in 2016, 43.3% in 2017 and 42.5% in 2018. The Government planned to reduce the total expenditures-to-GDP ratio from 50.1% in 2014 to 49.1% in 2015, 46.3% in 2016, 44.9% in 2017 and 44.1% in 2018.

Balance of Payments and Foreign Trade

Balance of Payments[(1)]

The following table sets out the balance of payments of Hungary for the past five years:

Selected Balance of Payments and International Investment Position items – 2011-2015 . Hungary
(excluding SPE's)

	2011	2012	2013	2014	2015
	(EUR million)				
1. Current account, net	**753.9**	**1,751.8**	**4,026.8**	**2,125.3**	**4,767.8**
1.A. Goods and Services, net	**6,212.8**	**6,729.7**	**7,384.0**	**7,448.9**	**9,348.2**
Exports	**87,832.6**	**86,020.7**	**89,038.6**	**93,266.7**	**100,197.5**
Imports	**81,619.8**	**79,290.9**	**81,654.6**	**85,817.8**	**90,849.3**
1.A.a. Goods, net	**2,925.2**	**2,932.7**	**3,396.5**	**2,533.9**	**4,259.5**
Exports	**71,793.2**	**69,960.6**	**71,999.8**	**74,677.7**	**80,643.9**
Imports	**68,868.0**	**67,027.9**	**68,603.4**	**72,143.8**	**76,384.4**
1.A.b. Services, net	**3,287.6**	**3,797.1**	**3,987.6**	**4,915.0**	**5,088.7**
Exports	**16,039.4**	**16,060.1**	**17,038.8**	**18,589.0**	**19,553.6**
Imports	**12,751.8**	**12,263.0**	**13,051.2**	**13,674.1**	**14,464.9**
1.B. Primary income, net	**-4,892.1**	**-4,225.7**	**-2,904.6**	**-4,667.0**	**-4,000.3**
1.B.1. Compensation of employees, net	**980.9**	**1,605.5**	**2,218.5**	**2,279.9**	**2,362.6**
1.B.2. Investment income, net	**-7,169.9**	**-7,119.1**	**-6,532.7**	**-8,265.6**	**-7,786.0**
1.B.2.1. Direct investment income, net	**-4,714.0**	**-4,416.2**	**-3,962.6**	**-5,828.7**	**-5,645.0**
1.B.2.2. Portfolio investment income, net	**-1,961.6**	**-2,274.4**	**-2,387.1**	**-2,300.3**	**-2,044.8**
1.B.2.3. Other investment income, net	**-1,366.4**	**-1,221.5**	**-831.1**	**-670.1**	**-497.4**

1.B.2.4. Reserve assets, net	872.1	793.1	648.1	533.5	401.2
1.B.3. Other primary income, net	1,296.9	1,287.8	1,409.6	1,318.8	1,423.1
-of which: EU transfers	1,296.9	1,287.8	1,409.6	1,318.8	1,423.1
1.C. Secondary income, net	-566.9	-752.2	-452.6	-656.6	-580.0
-of which: EU transfers	-26.3	105.0	466.1	262.8	390.4
2. Capital account, net	2,353.2	2,523.1	3,612.8	3,876.9	4,764.7
-of which: EU transfers	2,388.2	2,497.2	3,607.2	3,927.2	4,890.6
3. Financial account (net assets)	724.2	4,665.8	6,379.1	4,935.1	8,309.1
3.1. Direct investment (net assets)	-971.7	-2,094.6	-1,152.0	-2,969.3	218.3
3.1.k. Abroad (net assets)	3,165.3	9,089.7	1,378.9	2,650.4	1,381.2
3.1.1.k Equity (net assets)	297.8	12,758.5	1,317.2	2,838.2	150.9
3.1.1.1.ki Equity other than reinvestment of earnings (net assets)	359.3	11,762.9	755.3	2,032.8	-556.8
3.1.1.2.ki Reinvestment of earnings (net assets)	-61.4	995.6	561.9	805.5	707.7
3.1.2.ki Debt instruments (net assets)	2,867.5	-3,668.7	61.7	-187.8	1,230.3
3.1.2.1.ki Assets	2,775.6	-3,338.8	505.9	233.3	556.9
3.1.2.2.ki Liabilities	-91.8	330.0	444.3	421.1	-673.4
3.1.t In Hungary (net liabilities)	4,137.0	11,184.3	2,530.9	5,619.7	1,162.9
3.1.1.t Equity (net liabilities)	4,388.2	5,853.5	4,253.7	4,683.6	2,234.8
3.1.1.1.be Equity other than reinvestment of earnings (net liabilities)	3,162.4	4,391.6	2,718.9	954.7	-957.1
3.1.1.2.be Reinvestment of earnings (net liabilities)	1,225.9	1,462.0	1,534.8	3,729.0	3,191.9
3.1.2.be Debt instruments (net liabilities)	-251.3	5,330.8	-1,722.8	936.1	-1,071.9
3.1.2.1.be Assets	384.3	-7,109.8	2,006.3	781.2	5,122.5
3.1.2.2.be Liabilities	133.0	-1,779.1	283.5	1,717.3	4,050.6
3.2. Portfolio investment (net assets)	-6,415.7	-1,507.9	-3,074.5	3,182.7	5,671.9
3.2.k Assets	-1,553.9	-750.6	-351.5	1,773.5	371.5
3.2.t Liabilities	4,861.9	757.3	2,723.0	-1,409.1	-5,300.4
3.3. Financial derivatives (other than reserves), net assets	787.1	-305.5	-617.6	264.6	-686.0
3.3.k Assets	-5,015.2	-4,679.3	-3,936.0	-3,941.0	-6,218.4
3.3.t Liabilities	-5,802.3	-4,373.7	-3,318.4	-4,205.6	-5,532.5
3.4. Other investment (net assets)	3,450.9	11,925.0	10,013.4	3,714.8	8,009.2
3.4.k Assets	-1,780.1	-1,839.2	-180.7	-677.3	5,432.0
3.4.t Liabilities	-5,230.9	-13,764.2	-10,194.2	-4,392.1	-2,577.2
3.5. Reserve assets	3,873.6	-3,351.3	1,209.8	742.3	-4,904.3
Memorandum:					
Net external financing capacity					
Net external financing capacity (CA and Capital account)	3,107.1	4,274.8	7,639.6	6,002.2	9,532.5
Financial account balance	724.2	4,665.8	6,379.1	4,935.1	8,309.1
Difference (Net errors and omissions)	-2,382.9	391.0	-1,260.5	-1,067.1	-1,223.4
Reserve assets (stock)	37,774.5	33,881.3	33,782.5	34,578.3	30,322.1
Gross external debt denominated in foreign currencies (excl. direct investment debt instruments)	83,968.5	73,114.0	64,606.6	62,670.2	59,868.1
-o/w: General government and Central bank	39,367.6	34,769.3	31,262.9	31,986.8	31,161.4
Net external debt denominated in foreign currencies (excl. direct investment debt instruments)	29,721.3	23,827.6	15,780.6	12,173.3	10,117.3
-o/w: General government and Central bank	1,432.6	680.9	-3,125.1	-2,697.8	625.7

Source: NBH
Note:
(1) External debt as defined in External Debt Statistics: Guide for Compilers and Users: equity and financial derivative instruments are excluded.

Hungary has experienced a growing current account surplus since 2010. Prior to 2009 the current account deficit was high reaching EUR 7.6 billion in 2008. The current account deficit dropped to EUR 0.8 million in 2009 and turned into a surplus in 2010. The current account surplus increased from EUR 0.3 billion in 2010 to EUR 4.0 billion in 2013, dropped to EUR 2.1 billion in 2014 and increased to EUR 4.8 billion in 2015. The improving trade balance of goods and services contributed significantly to the improvement of current account balance.

Net FDI inflow was significant prior to 2009 but dropped to EUR 0.2 billion in 2009 mainly as a result of unfavourable global investment sentiment caused by the ongoing global financial crisis. Parallel to the improvement of the global investor sentiment, net FDI in Hungary increased significantly reaching EUR 3.0 billion in 2014 but turned into an outflow of EUR 0.2 billion in 2015.

Foreign Trade

The following tables present the distribution of Hungary's trade in goods for the periods indicated:

External trade

	2011	2012	2013	2014	2015
			(*HUF billion*)		
Exports..........	22,342.5	23,143.1	24,117.8	26,064.0	28,037.8
Imports..........	20,363.9	21,221.0	22,162.8	24,126.5	25,520.1

Source: CSO

Exports

External trade by country groups

Year	EU	Extra–EU countries	Total	Of which EU–15	Of which new member states	Of which Asia	Of which America
				(*HUF billion*)			
2011..............	17,022.8	5,319.7+	22,342.5	12,069.4	4,953.4*	1,678.0	659.6
2012..............	17,567.1	5,576.0+	23,143.1	12,416.8	5,150.3*	1,487.1	857.8
2012..............	17,934.5	5,208.6*	23,143.1	12,416.8	5,517.7+	1,487.1	857.8
2013..............	18,601.7	5,516.1*	24,117.8	13,090.5	5,511.2+	1,449.0	1,065.0
2014..............	20,411.0	5,653.1*	26,064.0	14,632.4	5,778.6+	1,372.9	1,265.6
2015..............	22,194.6	5,843.2*	28,037.8	15,953.2	6,241.4+	1,598.7	1,415.0

Source: CSO
* Excluding Croatia
+ Including Croatia

Year	Food, beverages, tobacco	Crude materials	Fuels, electric energy	Manufactured goods	Machinery and transport equipment	Total
			(*HUF billion*)			
2011..............	1,683.2	681.4	810.3	6,537.5	12,630.2	22,342.5
2012..............	1,887.2	790.9	935.6	7,192.9	12,336.5	23,143.1
2013..............	1,938.3	737.9	869.8	7,659.3	12,912.6	24,117.8
2014..............	1,975.4	689.2	872.4	8,248.1	14,278.8	26,064.0
2015..............	2,048.1	634.2	651.7	8,703.3	16,000.4	28,037.8

Source: CSO

Imports

External trade by country groups

Year	EU	Extra–EU countries	Total	Of which EU–15	Of which new member states	Of which Asia	Of which America
				(*HUF billion)*			
2011.............	14,143.6	6,220.2+	20,363.9	10,409.3	3,734.4*	2,950.4	668.7
2012.............	14,928.7	6,292.3+	21,221.0	11,053.7	3,875.0*	2,773.0	748.5
2012.............	15,027.9	6,193.2*	21,221.0	11,053.7	3,974.2+	2,773.0	748.5
2013.............	15,902.2	6,260.6*	22,162.8	11,505.8	4,396.4+	2,638.7	820.4
2014.............	18,179.1	5,947.4*	24,126.5	13,143.1	5,036.0+	2,736.6	586.1
2015.............	19,543.5	5,985.6*	25,520.1	14,089.3	5,445.2+	3,272.9	685.7

Source: CSO

Notes:
* Excluding Croatia
\+ Including Croatia

Year	Food, beverages, tobacco	Crude materials	Fuels, electric energy	Manufactured goods	Machinery and transport equipment	Total
			(*HUF billion*)			
2011	1,088.3	521.5	2,511.4	6,800.1	9,442.5	20,363.9
2012	1,122.3	537.1	2,759.6	7,096.1	9,706.0	21,221.0
2013	1,123.8	522.7	2,776.6	7,531.7	10,208.0	22,162.8
2014	1,242.4	519.6	2,877.1	8,326.6	11,160.8	24,126.5
2015	1,322.8	538.9	2,073.5	9,042.8	12,542.1	25,520.1

Source: CSO

In recent years, Hungary's foreign trade in goods with industrialised countries (in particular EU countries) has increased. EU countries accounted for 79 per cent. of exports and 77 per cent. of imports in 2015.

Hungary has entered into trade and co-operation agreements with the EU, EFTA and with certain Central European countries designed to lower or eliminate trade barriers. During 1996, Hungary became a full member of the OECD. Hungary became a Member State of the EU on May 1, 2004.

Foreign Direct Investment

The information below sets out foreign direct investment(1) in Hungary for the periods indicated:

	2011	2012	2013	2014	2015
			(*EUR million*)		
Foreign direct investment...........	972	2,095	1,152	2,969	(218)

Source: NBH

The level of cumulative FDI reached EUR 110.6 billion in December 2015. In 2015 net foreign direct investment in Hungary was negative and amounted to EUR 218 million. Net capital inflow to Hungary amounted to EUR 1,163 million and net capital outflow abroad amounted to EUR 1,381 million.

Foreign Exchange Reserves

The following table presents the level of Hungary's gold and foreign exchange reserves on 31 December of the years indicated:

	2011	2012	2013	2014	2015
			(*EUR million*)		
Gold(1)	119	125	86	97	96
Other(2)	37,655	33,757	33,696	34,481	30,226
Total	37,774	33,881	33,782	34,578	30,322

Source: NBH

Notes:
(1) Gold valued at London fixings on the relevant date.
(2) Consists of SDRs, IMF reserve position, currency reserves and other reserve assets.

Monetary and Financial System

National Bank of Hungary

The National Bank of Hungary ("NBH") is the central bank of Hungary. The independence of the NBH and the members of its decision-making bodies in carrying out the tasks and meeting their obligations is provided for by Act LVIII of 2001 on the National Bank of Hungary (the "National Bank Act"). The NBH's primary objective is to use monetary instruments to achieve and maintain price stability and, without prejudice to this objective, to support the economic policy of the Government. These instruments include:

(1) setting the central bank base rate (the rate for the NBH's main policy instrument, the two-week deposit facility) and the setting of rates for overnight deposit and lending facilities;

(2) establishing the minimum reserve requirements for commercial banks;

(3) conducting open market operations, which include sales and purchases of government securities from commercial banks and engaging in other similar transactions to regulate liquidity within the economy; and

(4) determining and implementing the exchange rate policy in agreement with the Government.

The NBH is a company limited by shares, with a registered capital of HUF10 billion. The NBH is wholly owned by Hungary and is regulated by the National Bank Act. The supreme body of the NBH is the General Assembly, and the Minister for National Economy (previously the Finance Minister) represents Hungary as the sole shareholder. The Monetary Council is the highest monetary policy decision-making body of the NBH. The Monetary Council holds meetings at least once every two weeks and makes the most important decisions concerning the general activities of the NBH, including the setting of the official interest rate.

On January 1, 2012, the new Act on the National Bank of Hungary went into effect, which raised the number of Monetary Council members to a minimum of five and a maximum of nine and set the number of Deputy Governors of the NBH to a minimum of two and a maximum of three. Following a proposal by the Prime Minister, Deputy Governors are appointed by the President. The Governor, the Deputy Governors and five other members elected by Parliament constitute the Monetary Council.

According to the amendment adopted on July 6, 2012, the number of internal members (the governor and his deputies) must at all times be less than the number of external members, while the number of external members must at all times be less than twice the number of internal members.

Following its election on July 6, 2015, the Supervisory Board of the NBH held its inaugural meeting and began its activities. The Supervisory Board is responsible for the continuous supervision of the NBH on behalf of the owner and controls the internal audit organization within certain restrictions prescribed by Act CXXXIX of 2013 on the National Bank of Hungary (the "NBH Act").

Monetary Policy

As set forth in Hungarian law, the NBH is responsible for achieving and maintaining price stability. In June 2001, the Monetary Council decided to conduct its monetary policy within the framework of inflation targeting, which is supplemented by an exchange rate regime using a wide fluctuation margin. The inflation target has been 3% for each year following 2006. On March 24, 2015, after a scheduled review of the NBH's inflation target, the Monetary Council decided to improve the flexibility of the inflation targeting regime by designating a ±1 percentage point tolerance band while maintaining the inflation target defined as a 3% increase in the domestic Consumer Price Index published by the Central Statistical Office. In line with past practice, the NBH will publish an assessment of performance in meeting the inflation target each year, in the Annual Report.

On July 23, 2013, the governor of the NBH, Mr. György Matolcsy, announced that the Monetary Policy Council of the NBH will provide forward guidance regarding interest rate policy. The Monetary Policy Council of the NBH will consider (i) mid-term inflation prospects, (ii) financial stability and (iii) growth prospects in conducting interest rate policy.

According to the Quarterly Report on Inflation published on March 24, 2016, there is a high probability of undershooting the 2016 inflation target and achieving the 2017 inflation target. In the Report on Inflation, the NBH estimated that the average annual inflation for 2016 and 2017 would be1.7% and 2.4%, respectively, below the 3% long-term inflation target rate.

Interest Rate Policy

The main monetary policy instrument used by the NBH to keep the rate of inflation within the target band is its two-week deposit facility. The NBH periodically accepts unlimited two-week deposits at the central bank base rate (i.e., the main official interest rate). Furthermore, the NBH reduces the volatility of overnight interest rates by maintaining an interest rate band around the central bank base rate. Prior to September 24, 2015 the width of the band was plus or minus 1.0% (the active overnight repo rate was 1.0% above and the passive overnight deposit rate was 1.0% below the official rate). The interest rate paid on O/N deposits was set to 0.1% and the interest rate to be paid on O/N credit was set to 2.1% with effect from 25 September 2015. The parameters of the liquidity providing central bank credit instruments were also modified: the two-week loan was replaced by the one-week collateralised loan and the six-month loan by the three-month collateralised loan facility.

Prior to April 24, 2014 the NBH issued two-week bonds. On April 24, 2014 the Monetary Council announced that the NBH will accept two-weeks deposits instead of issuing two-week bonds beginning August 1, 2014. Subsequently, on June 2, 2015 the Monetary Council decided to reform the NBH's monetary policy instruments. The two-week deposit facility was replaced by a three-month, fixed interest central bank deposit as the NBH's key policy instrument from September 23, 2015. The two-week deposit will remain part of the central bank instruments, but in the future the NBH will announce it with a quantity restriction, using the auction method.

The following table sets forth indicative interest rates of the NBH as of the dates shown:

Selected Interest Rates

	For the year ended December 31,				
	2011	**2012**	**2013**	**2014**	**2015**
NBH base rate[(1)]	7.00	5.75	3.00	2.10	1.35
Real rate[(2)]	2.8	0.7	2.6	3.0	0.4

Source: NBH

Notes:

(1) Two-week rate.

(2) The real rate is calculated as follows: (1 + central bank base rate)/(1 + year-on-year inflation rate as of year-end) – 1, where interest rates are expressed as decimal numbers.

Minimum Reserves System

The NBH introduced a minimum reserves system in 1987. Since May 1, 2004 (the date of Hungary's accession to the EU), the reserves have carried an interest rate equal to the central bank base rate. As a result, the profitability of the banks increased and the indirect taxation of banks was eliminated in accordance with the guidelines of the ECB. On November 24, 2008, the Monetary Council decided to reduce the required reserve ratio from 5% to 2% in order to support domestic credit institutions' forint liquidity. The 2% reserve ratio applied by the NBH is equal to the reserve ratio applied by the ECB. Since September 6, 2010, all credit institutions subject to reserve requirements have been free to decide whether they want to satisfy their reserve requirements at the current 2% or a higher reserve ratio. Beginning with the November 2010 maintenance period, credit institutions subject to reserve requirements may choose a 2%, 3%, 4% or 5% reserve ratio, and they may alter their choice of the reserve ratio twice a year, in April and October. The method of calculating reserves will remain unchanged. Therefore, required reserves will be equal to the product of the reserve base and the chosen reserve ratio.

On October 6, 2015, the NBH announced that the Monetary Council decided to reform the minimum reserve framework. From 1 December 2015, the NBH's reserve framework with optional reserve ratios will be replaced by a uniform reserve ratio set at 2 per cent. for all domestic banks. The introduction of the fixed reserve ratio represents a move towards harmonisation with the practice of the European Central Bank.

Exchange Rate Policy

On February 25, 2008, in agreement with the Government, the Monetary Council decided to abandon the flexible peg of the forint to the euro within a fluctuation band and adopt a floating exchange rate regime, effective February 26, 2008. According to the Monetary Council, the floating exchange rate regime provides NBH with better conditions to achieve its inflation target and, therefore, to meet the nominal convergence criteria to enter into the European Exchange Rate Mechanism II ("ERM II").

Money Supply

The NBH does not use money supply targets as an instrument of monetary policy. The money supply flexibly adjusts to the money demand, which is indirectly influenced by monetary policy. Increases in monetary aggregates are slowing due to the decrease in the rate of inflation.

The following table provides information about the composition of the money supply as of the dates indicated:

Money Supply

	For the year ended December 31,					As of February 29,
	2011	2012	2013	2014	2015	2016
	(HUF billions)					
M1[(1)]	7,343	7,297	8,896	10,738	13,220	12,775
Deposits with agreed maturity up to two years	8,026	7,882	6,949	6,601	5,404	5,182
M2[(2)]	15,369	15,179	15,845	17,340	18,624	17,957
Repos, money market units and debt securities up to two years	2,049	1,659	1,928	1,421	1,305	1,203
M3[(3)]	17,418	16,838	17,772	18,761	19,929	19,160

Source: NBH

Notes:

(1) Consists of currency in circulation outside monetary financial institutions plus overnight deposits.

(2) Consists of M1 plus deposits with fixed terms of up to two years.

(3) Consists of M2 plus repos, money market funds and debt securities with maturities of up to two years.

Since the decline of the global economy in 2008, the NBH has promoted a monetary policy to bolster its domestic banking sector. It has introduced new instruments to provide forint and foreign currency liquidity. The NBH has also broadened the range of eligible collateral for bank operations, extended the maturity of tenders for forint loans and foreign exchange ("FX") swaps and reduced the mandatory reserve ratio. Other contributory factors to the continuing financial stability of the domestic banking sector include access to liquidity resulting from the financial support package provided by the IMF and the EU, as well as the financial commitment provided by foreign banks to their Hungarian bank subsidiaries.

Funding for Growth Scheme

Following the Monetary Council's decision at its meeting on April 4, 2013, the Governor of the NBH announced the launch of the Funding for Growth Scheme. Following the announcement, the NBH conducted consultations with financial and business sector representatives and worked out the details of the scheme by taking into account the issues that arose through the consultations. These details were approved by the Monetary Council on April 30, 2013. The Funding for Growth Scheme consists of three pillars and was completed as of August 30, 2013.

Under the first pillar, the NBH stood ready to provide collateralized refinancing loans to its monetary policy counterparties up to a total amount of HUF250 billion over a period of three months (from June 1, 2013 to August 30, 2013). The refinancing loans could be collateralized — with a haircut — by the loans that the credit institutions lend to SMEs under the Funding for Growth Scheme. The interest rate is 0% over the term of the loan. The counterparties of the NBH had equal conditions of access to the refinancing loan facility. Participation in the scheme was voluntary. Credit institutions wishing to participate in the first pillar were allowed to lend further preferential financing from the NBH to SMEs by charging an interest rate margin of a maximum of 2.5%. The interest rate margin must include all fees and commissions as well as the costs of a potential credit guarantee. The initial maturity of refinancing loans provided to credit institutions was a maximum of 10 years and was equal to the term of the loans to be provided to SMEs, which credit institutions will be free to tailor to the needs of borrowers. SMEs were allowed to use preferential rate loans exclusively to finance investment, to invest in working capital, contribute to and prepay EU financial support and to redeem such loans. In the case of redemption, the preferential loans could have been claimed not only at the bank that lent the existing loan but at all of the credit institutions taking part in the Funding for Growth Scheme.

Under the second pillar of the Funding for Growth Scheme, the NBH provided refinancing loans to convert foreign currency loans of SMEs into forint loans. The parameters of the refinancing facility and the conditions to access were identical to those described above for the first pillar. If a loan for early repayment was taken out at the same bank where the enterprise has its foreign currency loan, the NBH provided foreign currency to the bank at market rates from its foreign exchange reserves, in order to prevent the purchase of foreign currency from resulting in volatility of the forint exchange rate. The credit institutions had to undertake that the foreign currency purchased from the NBH was used to repay their short-term external liabilities. As a result of the foreign currency conversion by the NBH, the short-term foreign currency debt and foreign exchange reserves of the country declined to the same extent and Hungary's reserve adequacy remained unchanged.

The aim of the third pillar of the Funding for Growth Scheme was to reduce Hungary's gross external debt and the outstanding stock of two-week NBH bonds. The two main instruments to achieve this goal is the NBH entering FX swaps using its foreign exchange reserves, and increased forint financing in the public sector.

On September 2, 2014, the Monetary Council announced an extension of the second phase of the Funding for Growth Scheme from HUF 500 billion to HUF 1,000 billion.

On February 18, 2015 the NBH announced the extension of the Funding for Growth Scheme ("FGS+"). As a part of its monetary policy instruments, the NBH will provide liquidity to credit institutions against eligible collateral under the FGS+. Counterparties shall use this refinancing to expand their lending to SMEs, while the NBH will assume SME credit risk from credit institutions for a limited time and to a limited extent and amount. Under the FGS+, the NBH will assume 50% of credit losses from credit institutions, but only up to a five-year period and an annual maximum of 2.5% of the loans outstanding of the individual credit institutions under the scheme.

On April 22, 2015, the Monetary Council extended the deadline to draw down the loans allocated in the Funding for Growth Scheme and the FGS+ to December 31, 2016. In addition, the fee for credit-enhancing guarantees would not be included in the loan yield maximum of 2.5%.

Up to December 31, 2015, credit institutions participating in the second phase of the Funding for Growth Scheme concluded contracts for a total amount of HUF 1,425 billion..

Growth Supporting Programme

On November 3, 2015, the NBH announced that in January 2016, the NBH will launch its Growth Supporting Programme ("GSP") designed to help domestic banks return to market-based financing by gradually phasing out the Funding for Growth Scheme and by announcing a new Market-Based Lending Scheme ("MLS") providing a positive incentive for banks to boost their lending. As a result of the above programmes, the stocks of corporate and targeted SME loans are expected to increase by HUF 250–400 billion in 2016. By having access to the NBH's new instruments, the banks participating in the MLS will automatically undertake an explicit quantity of lending, thereby making it possible to draw a distinction between those banks that are active participants and those that are passive participants of the credit market.

As part of the GSP, the NBH is launching the third, phasing-out stage of the FGS consisting of two pillars. Within this framework, domestic SMEs will have the opportunity to borrow from banks in the period from early January 2016 to the end of December. Both pillars will be announced with an overall amount of HUF 300 billion.

Under Pillar 1, the NBH will provide refinancing for credit institutions at a 0 per cent. interest rate, similar to the previous two phases, which they can on-lend to enterprises at a maximum 2.5 per cent. interest rate. Compared with the second phase, the range of credit objectives will be reduced and the maximum amount of loans will be lowered to HUF 1 billion, in order to ensure that the new funding limit allows for an as wide as possible range of smaller participants to implement their investment projects.

By announcing Pillar 2, the NBH will aim to manage market distortions in long-term foreign currency lending, as enterprises with mainly foreign currency revenues have so far had only limited access to the scheme, while they have had access to financing on more unfavourable terms relative to their foreign competitors. The NBH will also provide funding to credit institutions at a 0 per cent. interest rate, which it will convert into Euros against its foreign exchange reserves in the form of a market-priced currency interest rate swap. Credit institutions will be able to on-lend the funds they received under the scheme to SMEs with natural foreign currency hedging at a maximum 2.5 per cent interest rate.

Simultaneously with the gradual phasing-out of the FGS, the NBH will announce a new package of measures containing positive incentives, supporting banks in switching to market-based lending, in order to reduce risks of low lending activity. The MLS will consist of the following three elements:

- supplementing the central bank instruments with an interest rate swap conditional on lending activity ("LIRS") and a preferential deposit facility;
- creating incentives through capital adequacy requirements for banks;
- opportunity for the banking sector to have access to the corporate credit reporting system.

The instruments supplementing the central bank instruments provide an incentive for lending through the conditions of access, as the credit institutions participating in the programme will undertake to increase the stock of lending to SMEs. The interest rate swaps conditional on lending activity (LIRS) will promote lending through managing interest rate risks, through the partial assumption of such risks by NBH. The overall amount to be allocated under LIRS is HUF 1,000 billion. LIRS will be available for banks in 2016 over a limited period and at a maximum maturity of three years. A condition of access to the facility is that banks increase their stock of (performing) loans to SMEs by one-quarter of the allocated amount annually, i.e. by HUF 250 billion if the facility is fully allocated. The preferential deposit facility is a supplementary instrument, under which banks will be able to place part of their liquidity in excess of the amount of required reserves on their current accounts at the NBH's central bank base rate. The expected decline in banking sector liquidity will give a higher value to the liquidity-enhancing instruments, including the preferential deposit facility. The overall amount of preferential deposit facility introduced as a supplementary instrument is HUF 500 billion.

Incentives through capital adequacy requirements for banks are also expected to contribute to an expansion in lending. A business model preferring sustainable lending to SMEs may pose smaller risks to a bank's operations. In such cases, using a lower supervisory capital requirement may be considered. The related precise rules may be finalised after consultations with the banking sector.

The development of a corporate credit reporting system is underway at the NBH, which may be an efficient tool for banks in mapping out credit risks as precisely as possible.

In the preparatory phase of the Growth Supporting Programme, several rounds of constructive consultations were held between the Hungarian Banking Association and the NBH. The NBH has taken into account banks' suggestions falling within the central bank objectives and has incorporated a large part of them into its programme. By accessing the instruments, the banks participating in the GSP will be required to undertake an explicit quantity of lending to SMEs. In this manner, the programme will make it possible to draw a distinction between those banks that are active participants and those that are passive participants of the credit market.

The gradual phasing-out of the FGS and the introduction of the lending interest rate swaps and the preferential deposit facility are expected to raise the stock of lending to SMEs by some HUF 250–400 billion in 2016. The NBH and the banking sector may achieve the desired turnaround in lending jointly, by working in close cooperation.

Swaps

Since 2008 the NBH introduced several additional monetary policy tools including swap facilities. These included FX swap tenders providing foreign exchange liquidity to the Hungarian banking sector.

On 11 December 2015, the NBH announced that in addition to its regularly announced overnight and three-month FX swap instruments, in line with the practice of previous years, in order to maintain the adequate liquidity of the market, provides the banking system with foreign currency on a unique FX swap tender. The NBH held a variable rate 1-week euro/forint FX swap tender on 29 December 2015. The date of settlement was 30 December 2015 and the maturity date was 6 January 2016.

Regulations to Enhance Financial Stability

In December 2009, the Government introduced regulatory changes in an effort to enhance financial stability through more stringent regulation of the financial sector and lending practices. The Government implemented the following regulatory reforms:

- Legislation on strengthening the institutional framework for financial supervision was approved by Parliament in December 2009. In line with this legislation, the HFSA was upgraded to an autonomous institution that is accountable to Parliament and controls its own budget and human resources. Also, the Financial Stability Council (“FSC”) was established for the purpose of providing continuous valuation of the markets supervised by the HFSA.

- A set of amendments to the Law on Credit Institutions and Financial Enterprises was also enacted by Parliament in December 2009. These amendments, among other things, establish a stricter regime for the removal of bank executives that no longer meet “fit and proper” criteria, stipulate an additional lower mandatory threshold for the appointment of a supervisory commissioner by the HFSA (i.e., the capital adequacy ratio falling below 4%), and clarify that only the HFSA has the power to initiate liquidation proceedings with respect to financial institutions.

- The Government developed separate regulations to reduce risks related to lending to households in foreign currency. These regulations prescribe lower loan-to-value ratios for foreign currency loans than for forint loans, and prescribe changes to banks’ scoring systems for the approval of household loans, which imply lower monthly instalments for foreign currency loans than for forint loans. The main restrictions introduced by these regulations are the following:

Regulations Applicable to Foreign Currency Lending to Households

	Currency	**Ratio**
For all types of household loans		
Maximum monthly payment-to-credit capacity[(1)] ratio	Euro	80%
	Other currency	60%
For household mortgages		
Maximum loan-to-value ratio	Forint	75%

	Euro	60%
	Other currency	45%
For car purchase financing		
Maximum loan-to-value ratio	Forint	75%
	Euro	60%
	Other currency	45%
Maximum maturity of car financing: 7 years		

Source: NBH

Notes:

(1) Credit capacity is the maximum monthly repayment capacity of a given borrower in HUF and is to be determined in line with the in-house regulation of each bank.

On May 30, 2011, Prime Minister Mr. Viktor Orbán announced that households would be entitled to pay foreign currency-denominated mortgage debt service at a fixed exchange rate. In the case of euro, the exchange rate would be HUF250/EUR; in the case of Swiss franc, the exchange rate would be HUF180/CHF; and in the case of Japanese yen, the exchange rate would be HUF2/JPY. The difference between the actual and the fixed exchange rate would be financed by the bank in HUF. The debtor would start repaying this debt in 2015. The Government would set up a company that would build residential buildings and would buy and re-lend part of the homes of the households in serious indebtedness. The moratorium for foreclosures would be abolished gradually and a quota would be set. In the case of buildings worth more than HUF30 million, the moratorium ended on July 1, 2011. In the case of buildings worth less than HUF30 million, a quota would be set up for each quarter. In the fourth quarter of 2011, 2% of such buildings could be sold; in the first quarter of 2012, 3%; in the second quarter of 2012, 4%; in the third quarter of 2012, 5% of such buildings could be sold. Afterwards, 5% of such buildings could be sold quarterly. Financial intermediaries would be able to issue loans denominated in foreign currency, but only to clients with income exceeding 15 times the average wage. Interest payments would be subsidized by Hungary in case the debtor sold the residential building in order to move to a smaller residential building.

The following table sets forth the quotas and the exploitation rates for the periods indicated.

Quotas and Exploitation Rates

	Basis of the quota	Number of retail properties that can be designated according to the quota	Number of retail properties designated for forced liquidation	Utilization of the quota (%)
2011 Q4	100,268	2,664	1,928	72.4
2012 Q1	99,771	3,564	2,943	82.6
2012 Q2	107,180	3,802	3,177	83.6
2012 Q3	113,840	4,053	2,866	70.7

Source: NBH

On April 29, 2014, the NBH has adopted a decree on liquidity requirements for banks, in order to enhance the stability of the domestic financial intermediary system. In Hungary, the foreign funding adequacy ratio (“FFAR”) was introduced on July 1, 2012, in order to mitigate liquidity risks. The NBH has revised the content of the FFAR, its required level and the range of financial institutions subjected to the regulation. The revision has resulted in a change in the required minimum level of the FFAR and provided for its gradual increase. The adequacy ratio will be raised from the current 65% to 75% on July 1, 2014 and by 5 percentage points semi-annually to 100% by January 1, 2017. In addition to the revision of the required minimum level, the effect of the regulation has been extended to Hungarian branches of foreign credit institutions.

On July 4, 2014, the Parliament adopted a new Act on development of the institutional framework for certain participants of the financial intermediary system regulating the reorganization procedures of financial institutions (such as credit institutions and investments firms, financial holding companies and financial enterprises seated in Hungary and being under the consolidated supervision), the role of the NBH acting as the supervisory authority of reorganization, and the establishment of the Reorganization Fund. Every financial institution under the scope of the Act is obliged to participate in the Reorganization Fund and pay fees (0.05% of its registered share capital as joining fee and an annual fee), which will be applied toward financing the costs and measures related to reorganization. Most of the provisions of the Act entered into force on September 16, 2014.

On August 27, 2014, the NBH adopted a new macroprudential regulation in order to prevent excessive household indebtedness and a renewed build-up of foreign currency loans. The debt cap regulation, introduced on January 1, 2015, will consist of two pillars. The payment-to-income ratio ("PTI") will limit the maximum initial debt-servicing burden as a percentage of customers' regular legal income, thereby moderating the accumulation of household debt. The loan-to-value ratio ("LTV") will cap the maximum amount of secured household lending (e.g., mortgage loans) as a percentage of the value of collateral (the value of the property).

Banks would need to calculate the PTI ratio for all new borrowing (consumption loans, mortgage loans, car loans, etc.) in excess of HUF 200,000. The ratio must take into account repayment amounts in respect of all existing loans of the borrower; and only proven net income (wage, pension, family allowance, etc.) can be included in disposable income. The PTI ratio for all new forint loans taken out after 1 January 2015 may not exceed 50% and, for high-income borrowers (i.e., for those with a HUF 400,000 net salary or above), it may not be higher than 60%. If there is more than one debtor, incomes and debt burdens must be treated on an aggregate basis. Due to the more lax limits applied to forint loans, the regulation presumably would not lead to a cut-back on lending; however, if an excessive increase in household borrowing is perceived by the NBH as a macroprudential authority, the limits can be tightened at any time. PTI limits on euro and other foreign currency loans will be much stricter, in order to offset the negative effects of potential exchange rate depreciation: 25% and 10% and, for higher-income customers, 30% and 15%, respectively.

In respect of the LTV ratios, the rules currently in force have been transposed into the NBH Decree, in order to ensure the continuity of the regulation. The NBH consulted with the ECB, which, in its opinion issued on June 23, 2014, gave a positive assessment of the contents of the draft Decree and its expected contribution to strengthening the stability of the domestic financial system. The NBH also consulted with market participants, and several remarks were incorporated into the draft regulation, thereby facilitating the smooth application of the Decree in the future.

The following table sets forth the required ratios:

Required Loan-to-Value Ratios

		HUF	**EUR**	**Other currency**
	Under HUF 400,000 monthly income	50%	25%	10%
PTI	At HUF 400,000 monthly income or above	60%	30%	15%
	Mortgage lending	80%	50%	35%
LTV	Car loans(1)	75%	45%	30%

Source: NBH

Notes:
(1) LTV caps 5 percentage point higher can be applied to financial leasing.

On June 2, 2015, the NBH announced that a proposal is being prepared for the NBH's Financial Stability Board on the increase in the liquidity coverage ratio ahead of schedule, in order to raise it to 100% as early as possible in 2016, i.e. earlier than the international standard, by exercising Hungary's existing national discretion.

In addition, on June 9, 2015, the NBH announced the introduction of the MFAR, a prospective requirement for banks to issue long-term securities, which may appear in the market mainly in the form of mortgage bonds. The conversion of foreign currency-denominated mortgage loans into forints has led to a significant improvement in the stability of the Hungarian financial system. Exchange rate risk no longer places a burden on households and, indirectly, on the banking sector. However, significant liquidity risks have arisen in the banking sector as a side-effect of the conversion. The reason for this is that the overwhelming majority of mortgage loans converted into forint have maturities of more than ten years, while the banking sector's forint liabilities, typically in the form of deposits, have maturities of less than one year.

In order to reduce the maturity mismatch, from October 1, 2016 the NBH will apply the MFAR. The new ratio is defined on a consolidated level as forint liabilities backed by household mortgage loans (e.g. mortgage bonds, other securities backed by household mortgage loans and refinancing mortgage loans extended by a mortgage bank) divided by the net stock of residential forint mortgage loans with residual maturity of more than one year. The required minimum level for the MFAR is 15%, i.e. at least 15% of mortgage loans must be financed by long-term liabilities.

The NBH will allow enough time for the banking sector to ensure compliance with the new requirement. During this period, institutions without a mortgage bank will be able to establish a mortgage bank. Based on preliminary estimates, the new regulation is likely to encourage the establishment of a number of new mortgage banks and the issuance of mortgage bonds of HUF 300 billion. It is expected that these mortgage bonds will be purchased mainly by institutional investors and financial institutions.

On July 7, 2015, the NBH introduced new regulations intended to reduce external vulnerability. The NBH's Financial Stability Board adopted decrees on changes to the foreign exchange funding adequacy ratio ("FFAR") and on the introduction of the foreign exchange coverage ratio ("FECR"). After the tightening of the FFAR, outstanding swaps can no longer be included in the ratio and the required level of the FFAR will be raised to 100%. The new FECR regulation will limit the on-balance sheet currency mismatch to 15 percent of the balance sheet total, thereby reducing excessive reliance by banks on the swap market. The new NBH decrees will take effect on January 1, 2016.

The new regulations are designed not only to prevent a renewed rise in the banking sector's short-term external funding, but also to contribute to a reduction in its amount. It is estimated that, as an effect of the new regulations, the banking sector's short-term external debt may fall by as much as EUR 2–3 billion to EUR 6–7 billion by the end of the 2016, which is equal to 6% of the balance sheet total.

On August 25, 2015, the NBH announced that it would accelerate implementation of the Liquidity Coverage Requirement to help enhance the domestic banking sector's shock-resilience. Credit institutions will need to comply with the requirement from April 1, 2016. As the requirement becomes effective, the balance sheet coverage ratio and the deposit coverage ratio currently in force will cease to function and will be phased out from January 1, 2016.

On 18 November, 2015 the NBH announced that the NBH has decided to introduce the Systemic Risk Buffer ("SRB") in order to manage the risk arising from the persistently high amount and institutional concentration of problem project loans posing a key financial stability risk.The rate of the SRB will be set in proportion to the individual insitutions' contribution to systemic risk. This rate is derived from the ratio of problem project loans to the domestic Pillar 1 capital requirement. The SRB will be applied individually, between 0 and 2 per cent. of total domestic risk-weighted assets, and credit institutions will be required to build it up at consolidated level, from Common Equity Tier 1 capital ("CET1"), in addition to other capital buffers. A 'de minimis' threshold has also been introduced in order to take into account systematically relevant assets: institutions with problem project exposures below HUF 5 billion are exempted from the SRB requirement.

The NBH will set SRBs for institutions in the form of individual decisions in the final quarter of 2016. Institutions will be required to comply with the new capital buffer requirements from 1 January, 2017. This schedule will allow adequate time for banks to accommodate, i.e. to effectively clean up their non-performing project loans. Even if the clean-up of portfolios does not take place, the additional capital requirement may strengthen the stability of the domestic financial intermediary system by improving the banks' resilience to shocks. Should credit institutions sweep out their problem portfolio by January 1, 2017 the new capital requirement will not be binding for them. The NBH has held consultations with the European authorities and market participants on the new capital requirements.

On 15 December 2015 the NBH introduced the countercyclical capital buffer. According to the NBH no excessive credit growth may be observed in the Hungarian banking system at present, thus the central bank has set the countercyclical capital buffer rate to 0% from 1 January 2016.

On 30 December 2015, the NBH announced that the NBH will introduce additional capital requirement to improve bank stability at systemic level.

In the Member States of the European Union, the range of so-called other systemically important institutions (credit institutions and investment firms) will have to be identified by 1 January 2016 at the latest. In order to harmonise the identification procedure at EU level, the European Banking Authority has issued Guidelines, on which the MNB has also relied during the identification process.

The NBH's Financial Stability Board ("FSB") identified nine Hungarian banks as other systematically important institutions. In order to improve their resilience to shocks and strengthen investors' and consumers' confidence in financial markets in autumn 2015 the FSB decided to introduce an additional capital buffer requirement. At consolidated level, other systemically important institutions will be required to hold an additional capital buffer of maximum 2 per cent of their total risk-weighted assets. This buffer will have to be in the form of Common Equity Tier 1 (CET1) capital and sits on top of other buffers. The credit institutions concerned will have to meet the new capital buffer requirement from 1 January 2017. Capital buffer requirements for other systemically important institutions will be set individually, in the form of MNB Decrees, in the third quarter of 2016, based on audited data for the end of 2015. Afterwards, the MNB will review annually the range of systemically important institutions and individual capital buffer rates.

The following table sets forth a list of entities identified as other systemically important institutions and the capital buffer rates expected to apply to them from 1 January 2017:

Institution	Expected capital buffer rates
OTP Bank Nyrt.	2.0%
Kereskedelmi és Hitelbank Zrt.	1.0%
UniCredit Bank Hungary Zrt.	1.0%
Erste Bank Hungary Zrt.	0.5%
Raiffeisen Bank Zrt.	0.5%
Magyar Takarékszövetkezeti Bank Zrt.	0.5%
MKB Bank Zrt.	0.5%
CIB Bank Zrt.	0.5%
FHB Jelzálogbank Nyrt.	0.5%

Source: NBH *Fiscal policy*

Mortgage Bond Market Development

In 2010, the NBH implemented a new monetary policy tool to support the development of the domestic forint mortgage lending and mortgage bond markets (the "Mortgage Bond Purchase Program"). Under the program, the NBH purchased forint mortgage bonds and undertook regulatory initiatives to develop the domestic forint mortgage lending market.

On March 31, 2010, the NBH announced that, as of April 1, 2010, it would make available the mortgage bonds it purchased under the Mortgage Bond Purchase Program for on-lending to domestic credit institutions with direct Real Time Gross Settlement System or Interbank Clearing System memberships that have entered into a written market-maker agreement. The scheme was terminated on December 31, 2010.

On February 15, 2012, the NBH announced that it was prepared to offset the recent weakening in banks' capacity to lend by introducing a two-year collateralized credit facility and a new universal mortgage bond purchase scheme and by expanding the range of eligible collateral. According to the announcement, the NBH intended to provide two-year variable-rate refinancing to credit institutions at its prevailing policy rate against securities delivered as collateral. In addition, by expanding the range of eligible collateral, the NBH can alleviate liquidity constraints potentially impeding lending to the corporate and household sectors through an increase in banks' liquidity buffers.

Self-financing programme

On April 24, 2014 the NBH announced that following the Monetary Council's decision, the Bank will encourage the shift towards domestic sources of finance and the resulting reduction in the country's external vulnerability using its own instruments. Reducing external vulnerability is closely related to the stability of the domestic financial system. Therefore, the NBH, without prejudice to its primary objectives, may play a role in encouraging a shift towards domestic sources of finance. To this end, the Monetary Council has decided to make changes in the monetary policy instruments of the NBH, which has resulted in several actions since June 2014.

As of June 16, 2014, the NBH introduced a forint interest rate swap facility, which will enable the counterparties of the NBH to mitigate the interest rate risk of long-term forint-denominated assets newly purchased or held.

As of June 16, 2014, the potential instruments of the NBH included a floating-rate long-term collateralized forint loan facility, which will improve access to forint liquidity.

As of June 16, 2014, the potential instruments of the NBH included an asset swap facility. Under the new facility, the counterparties of the NBH will be able to obtain foreign currency-denominated securities in exchange for long-term forint-denominated securities, which will improve access to foreign exchange liquidity.

On June 2, 2015, the Monetary Council announced that The NBH will continue to announce interest rate swap tenders which help banks manage their interest rate risks, thereby encouraging their demand for longer-term government securities.

On July 7, 2015 the NBH announced the introduction of an interest rate swap facility with ten-year maturity, in addition to the three and five-year maturities already applied. The NBH decided to extend the maturity of interest rate swaps after consultations with banks. The longer-maturity interest rate swap will fit easily into the self-financing scheme and is expected to contribute to the stabilization of government debt financing. As of July 7, 2015, the outstanding amount of swaps used by the majority of banks was nearly HUF 550 billion. Demand for interest rate swaps increased again following the announcement of changes to the NBH's monetary policy instruments. Banks have not only increased their holdings of government securities in return for the use of the NBH interest rate swap, but have also undertaken to maintain their existing government securities holdings for a sustained period.

Phasing out of foreign exchange loans to households

On September 12, 2011, Prime Minister Mr. Viktor Orbán announced that households would be entitled to prepay their foreign currency-denominated mortgage debt at a fixed exchange rate. In the case of Euro-denominated mortgages, the exchange rate would be HUF250/EUR; in the case of Swiss franc-denominated mortgages, the exchange rate would be HUF180/CHF; and in the case of Japanese yen-denominated mortgages, the exchange rate would be HUF2/JPY. The creditors would not be forced to provide loans denominated in local currency to the debtor. In the case of foreign currency-denominated debt, the interest rate should be based on a reference interest rate, and the yield would be maximized at 30%. The banking sector was mandated to use a positive debtor list (a database listing persons who have timely paid their debts) by the Act on the Central Credit Information System in the case of natural persons and enterprises. Subsequently, on September 15, 2011, the Government announced that debtors should apply for prepayment by the end of 2011 (although the repayment could take place after the end of 2011).

On September 20, 2011, Mr. András Simor, governor of the NBH, announced that according to the estimate of the NBH, approximately one-fifth of foreign exchange mortgage loans of households would be repaid at the fixed rate and that the NBH was ready to use foreign exchange reserves via FX swap agreements concluded with Hungarian banks. Subsequently, on September 30, 2011, the NBH announced that it would hold tenders to sell euros on a weekly basis, and more frequently if needed. Under this program, the banks eligible to enter the tender will receive the allotted amount in euros via an FX swap agreement. The FX swap is rolled over on a daily basis. The rollover amount is reduced by the amount of fixed-rate repayment of the given bank. The bank is obliged to provide certain data to NBH and to repay the short-term liabilities (with maturity below one year) first in case the bank reduces its liabilities as a consequence of fixed-rate repayment. The program was terminated when the fixed rate repayment scheme was completed. The total amount of euros allotted on the auction that took place on October 3, 2011 amounted to EUR2.679 billion. The total amount of euros sold via outright sale transaction amounted to EUR2.489 billion according to data compiled by HFSA on March 12, 2012.

On December 15, 2011, the Government and the commercial banks of Hungary agreed on a bail-out of mortgage debtors indebted in foreign currency. In case of debtors with delinquency of 90 days or more, 25% of the debt would be remitted in case the mortgage was backed by real estate worth a maximum of HUF20 million. In case of debtors with delinquency of less than 90 days, a fixed-rate repayment schedule would be created. Debtors would be required to repay their mortgages according to this repayment schedule. According to the calculations of the Government, the losses on these mortgages stemming from the depreciation of the forint would be borne equally in thirds by the state, the lender and the debtor unless certain foreign exchange rates exceeded the following thresholds: 270HUF/CHF, 340HUF/EUR or 3.3HUF/JPY. If those exchange rates exceed these thresholds, the losses stemming from the further depreciation (the loss caused by the difference of the actual foreign exchange rate less the thresholds 270HUF/CHF, 340HUF/EUR or 3.3HUF/JPY) of the forint would be borne by the state exclusively. Commercial banks would be entitled to reduce the surtax they must pay by one-third of their losses stemming from the fixed-rate repayment schedule.

On April 2, 2012 the fixed exchange rate loan system for FX debtors commenced. According to the announcement of the Ministry for National Economy, the objective of the fixed exchange rate loan system was to cushion the impact of the substantial volatility of the exchange rates of certain foreign currencies and enable FX debtors to predict their situation with respect to debt service payments irrespective of foreign exchange movements. People involved could request participation in the scheme beginning April 2, 2012 from the financial institution that provided the loan. According to the conditions of the fixed exchange rate loan system, the difference between installments calculated at a fixed exchange rate and the installments payable according to the actual exchange rate would be booked at two separate accounts. The difference between the principal repayments at the actual exchange rate and the fixed exchange rate would be booked on the first account. The difference between the interest repayments at the actual exchange rate and the fixed exchange rate would be booked on the second account. Debtors would not be required to pay back the sum on the second account. The first account, the joint capital account (containing the liabilities of the customer), would charge interest on the basis of interbank rates and, consequently, at a discounted rate. A debtor who, albeit at a greater cost, could still pay the installments in spite of the higher Swiss franc exchange rate, should continue to repay according to the original contract conditions. Therefore, the fixed exchange rate loan system was viewed as the optimal solution for debtors who would be unable to repay their debt in the near-term, according to the statement.

On December 19, 2012, Parliament approved an amendment extending the deadline for borrowers to take advantage of the bail-out with respect to foreign currency-denominated mortgages of mortgage debtors indebted in foreign currency. The amendment provides that debtors with less than 90 days' delinquency would be entitled to apply to enter the fixed-rate repayment schedule until March 29, 2013 instead of the original deadline of December 31, 2012. The contract setting out the terms of the mortgage loan granted by the mortgage bank to finance the difference between the actual and the fixed exchange rate would be subject to re-negotiation, subject to parameters under the law; the re-negotiation would not affect the state guarantee of the original loan.

On July 16, 2013, Tibor Navracsics, Minister of Public Administration and Justice, announced that the Government intended to settle the position of debtors indebted in foreign currencies. Subsequently, Mihály Varga, Minister for National Economy, announced that the Government intended to settle the position of mortgage loans taken for the purpose of home purchases. Subsequently, on July 24, 2013, the Government declared that foreign currency-denominated mortgage loans for the purpose of home purchases should be phased out of the Hungarian loan market and that the Government would start related negotiations with the Hungarian Banking Association.

On November 5, 2013, Parliament adopted amendments to support borrowers with mortgage loans denominated in foreign currency. Prior to the amendment, borrowers who were delinquent on payments by more than 90 days, or whose debt exceeded HUF20 million, were not eligible to participate in the support scheme. Pursuant to the Amendment Act, the fixed-rate repayment schedule available under the scheme would be available for mortgage debtors indebted in foreign currency who were delinquent on payments by 90 days or more but less than 180 days. Furthermore, the Amendment Act eliminated the requirement that the amount of foreign currency denominated mortgage debt be less than HUF20 million to be eligible for the support scheme. The Amendment Act extended the eviction moratorium until April 30, 2014.

On July 4, 2014, the Parliament adopted an Act regulating customer claims against financial institutions based on unfair exchange rates used for credit, loan or financial lease agreements denominated in foreign currency. Under the Act, the financial institutions are obliged to recalculate the amount of disbursements and any payments on the basis of the official exchange rate of the NBH within 90 days after the Act entering into force. Prior to the recalculation, the institutions must prepare and file the recalculation method to with NBH within 60 days after the Act entering into force. The Act sets forth a rebuttable presumption, viz., that it should be presumed that the unilateral option of loan agreement with a customer client enabling the financial institution to raise interest, costs or fees is against the respective legal rules and therefore that such a contractual stipulation is null and void. The financial institutions are obliged to examine their general terms and conditions containing a stipulation falling under the Act and incorporated into loan agreements with customer clients and report them to the NBH. If a financial institution wishes to declare and report a stipulation falling under the statutory presumption as a fair condition, the financial institutions should file an action against the Hungarian State before the Metropolitan Court of Budapest in order to rebut the presumption. If the financial institution does not challenge the statutory presumption or it cannot prove the fairness of the stipulation before court, it will have to settle payments vis-à-vis the customer client according to a separate Act to be approved by the Parliament. On September 24, 2014, Parliament adopted a separate Act on technical rules of settlement between financial institutions and consumer clients. The separate Act regulates calculation rules of unfair sums charged by financial institutions, deadlines for settlement with the clients, regulation of information letters for clients on the settlements and revision of settlement. The main deadline was April 30, 2014 for the settlement of foreign-exchange based loans (with payment obligation in HUF) of customers. Customer loans which are paid in foreign currency or denominated in HUF were to be settled by September 30, 2015, while customer loans repaid under the fixed-rate repayment schedule will be settled until November 30, 2015.

On September 24, 2014 the Monetary Council decided that the NBH would provide to the Hungarian banking system the foreign currency needed to phase out household foreign currency loans, including their settlement and conversion into Hungarian forint. The bill on the conversion states that overpayment due to unfair applications of foreign exchange spreads and unilateral interest rate or interest rate spread increases in consumer credit contracts should be accounted for as a prepayment of principal. This means a nearly HUF 1,000 billion refund to customers mainly relating to debt reduction.

The program consisted of two facilities: a spot euro sale transaction (facility) conditioned on reducing short-term external debt (the conditional instrument), and a longer-term foreign currency swap transaction combined with a spot euro sale (the unconditional instrument).

In the case of the conditional instrument, the NBH required that banks reduce their short-term external debt by as much as 50% of the foreign currency received. The foreign currency liquidity was rolled over by banks in swap transactions with the NBH until repayment of the short-term liability, so the amount received will remain with the NBH until its effective use. In the case of the conditional instrument, foreign exchange reserves will decrease in the short-run, whereas through the repayment of short-term external debt the NBH's need for foreign exchange reserves will also decrease and thus the existing room for manoeuvre of the NBH will increase.

The longer-term unconditional instrument, introduced together with the conditional instrument, involved a combination of a spot euro sale transaction and a long foreign currency swap. This instrument was designed to provide a risk covering opportunity for those banks that could not reduce their short-term external debt due to their financing structure built on long swap transactions or long-term liabilities. Under the unconditional euro sale facility, banks could only have access to foreign currency liquidity at maturities longer than one year. Thus, the unconditional instrument did not reduce the level of foreign exchange reserves in the short run: the utilization of the reserves – adjusted to banks' needs – will be spread over time.

The NBH's program became available to banks as of October 13, 2014 and lasted until March 31, 2015.

On November 4, 2014 the Monetary Council decided that the NBH would provide to the Hungarian banking system the foreign currency needed to convert household foreign currency loans into forint and to extend, in the amount of EUR 9 billion, the NBH's foreign currency sale program announced on September 24, 2014 in order to satisfy the banking system's foreign currency demand arising from the conversion. On November 10, 2014 an auction took place to allocate the funds. Total demand for the unconditional instrument amounted to EUR 6.2 billion; total demand for the conditional instrument amounted to EUR 1.6 billion.

On November 11, 2014 the Government submitted a bill on the fair banking system to the Parliament. According to the bill, loans with a maturity exceeding three years must be either fixed-rate loans or the interest rate should be based on a reference rate.

On November 17, 2014 the Government submitted a bill on converting FX loans into local currency denominated loans to the Parliament. According to the bill, EUR-denominated loans would be converted to HUF loans at the exchange rate of 309.0 HUF/EUR and CHF-denominated loans would be converted to HUF loans at the exchange rate of 256.5 HUF/CHF. The bill was approved on November 25, 2014.

The converted forint loans became three-month Budapest Inter-Bank Offered Rate-linked ("BUBOR-linked") floating rate instruments. According to the decision of the Parliament, the interest rate premium must be changed to the one used at the time of taking out the loan, but it cannot be less than 1% and more than 4.5% in case of a home mortgage or 6.5% for a home equity loan.

Borrowers are entitled to request an exemption from the conversion scheme provided they fulfill one of four criteria: for example, if they have a contract that expires by the end of 2020 or if they would be obliged to pay a higher interest on the new instrument compared to the old one. Bank clients with regular income in the same currency in which their loan is denominated are also exempt, as are those who are permitted to take out a foreign exchange denominated loan based on the PTI.

Parliament also adopted the law on fair banks in 2014. The law defines stricter conditions for unilateral changes in interest rates, charges and fees; it also regulates the terms of providing information prior to the conclusion of a contract and the terms of modifying contract conditions, in line with the Curia's resolution on uniformity of the law.

According to the law, only conditions such as loan interest, interest premia, charges and fees may be modified in a way that adversely affects consumers. If a contract does not fulfill criteria on unilateral lender modifications, it can be declared void.

On February 1, 2015, the law on the conversion of foreign exchange loans into forint-denominated instruments entered into force. The law fixed conversion rates at CHF/HUF 256.47, EUR/HUF 308.97 and JPY/HUF 2.163 for purposes of the conversion scheme. The law on fair banks defines stricter conditions for unilateral changes in interest rates, charges and fees.

On June 9, 2015, the Monetary Council of the NBH announced that the NBH stands ready to provide to banks and other financial service providers affected an amount of EUR 1.1 billion needed to convert remaining household car, personal and other foreign currency loans into forints. Following the decision by the Monetary Council, the NBH will stand ready to participate in the conversion of remaining household foreign currency and foreign-currency-denominated loans into forints by making available the necessary amount of foreign currency. As with the conversion of household foreign currency mortgage loans, the program adopted by the Monetary Council is expected to ensure that the conversion process will take place in a smooth fashion, without exercising a significant influence on the forint exchange rate and the stability of the financial system. The Monetary Council set a maximum amount of EUR 1.1 billion for the conversion into forints of the loans affected. The reason is that, based on data for the first half of 2015, household foreign currency loans of this amount remained with banks and other financial service providers following the conversion of foreign currency mortgage loans into forints. The NBH will make available the related euro sale facility not only to its counterparties, but also indirectly through its counterparties to the whole range of financial service providers having extended such loans. The NBH will stand ready to provide the foreign currency necessary for forint conversion unconditionally and immediately to banks and other financial service providers, but it will allow credit institutions to hold the foreign currency purchased at the NBH for a period of maximum one year. Due to the current abundance of foreign exchange reserves, reserve adequacy will be ensured over the long-term even with the NBH's euro sale program.

On August 19, 2015, the Government and the Hungarian Banking Association concluded an agreement on converting foreign exchange denominated retail car and consumption loans into forint denominated loans. On September 18, 2015, the Government presented a bill to the Parliament to convert the loans on December 1, 2015 based on the foreign exchange rates applicable on August 19, 2015 of HUF309.20/EUR1.00 and HUF287.20/CHF1.00. The burden caused by the difference between the foreign exchange rate referred to in the bill on converting FX loans into local currency denominated loans adopted by the Parliament on November 25, 2014 and the foreign exchange rates of August 19, 2015 will be shared equally by the state and the banking sector. In the case of Swiss franc denominated loans, the difference is close to HUF31 per CHF1.

Also on August 19, 2015, the NBH and the Hungarian Banking Association concluded an agreement which regulates the terms and conditions of the transactions related to forint conversion. As part of this agreement, the NBH will provide all financial institutions access to its Swiss franc sale tenders. The NBH's counterparty credit institutions will access the Bank's facility directly, while other financial institutions will have access to it indirectly, through umbrella banks.

The first Swiss franc sale tender was held on August 24, 2015. Credit institutions were able to make foreign currency conversions with the NBH of up to CHF 0.9 billion in spot transactions unconditionally, in full accordance with their agreed needs, at the latest official NBH exchange rate effective at the time of the tender. During the tender, CHF591.9 million was allocated.

Foreign Exchange and Convertibility of the Forint

Since 1996, Hungarian foreign exchange regulations have been consistent with the convertibility standards of Article VIII of the IMF and with the regulations of the OECD.

Since January 1998, Hungarian residents have been able to purchase shares and debt instruments with a maturity of at least one year issued by all OECD based issuers, and non-residents have been able to issue such instruments denominated in foreign currency in the Hungarian securities market. Since January 1998, Hungarian companies and individuals have also been able to receive foreign exchange denominated loans with a maturity of more than one year (with certain reporting obligations) and have been able to take out foreign exchange denominated loans with a maturity of less than one year with approval from the NBH.

In accordance with the continuous liberalisation of restrictions on capital movements in recent years, effective from mid-June 2001, pursuant to Government Decree 88/2001 (VI. 15.) (replaced by Act XCIII of 2001), the forint is fully convertible, not only in terms of current transactions, but also in terms of capital transactions. The main remaining restrictions relating to foreign investment have been removed: non-residents have unrestricted access to Hungarian short-term securities, HUF-denominated accounts and the on-shore derivatives market, and residents have unrestricted access to off-shore financial services and short-term foreign securities. Minor restrictions remain which have the objective of preventing money laundering. The full convertibility of the forint meets all EU requirements.

The Hungarian Banking System

In April 2000, the supervisory agencies for commercial banks, investment activities, pension funds and insurance activities were integrated under one single agency: the Hungarian Financial Supervisory Authority ("HFSA"). However, there are separate legislative regimes for banking, insurance, pension funds and investment services. Currently, the laws for insurance, banking and pension funds are well established and generally comply with all applicable EU directives and regulations.

Since 1991, Hungary's banking system has been subject to a regulatory and supervisory framework based on principles and guidelines of the BIS. Act CXII of 1996 on Credit Institutions and Financial Enterprises, was in effect between January 1, 1997 and January 1, 2014, and endeavoured to facilitate harmonization of the Hungarian banking system with EU uniform banking standards. As of January 1, 2014, the new Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (the "Credit Institutions Act") went into effect, which serves to implement the relevant EU legislation of "Basel III."

Supervision of the Hungarian Banking System

Supervision of banking activities in Hungary has improved as the banking system has developed. Prior to October 1, 2013, the NBH supervisory responsibilities had largely been transferred to the HFSA, with the NBH retaining a more limited supervisory role. After October 1, 2013 HFSA and NBH merged and, as a result, the NBH is responsible for the supervision of the banking system.

Role of the NBH

On July 4, 2014, the Parliament adopted legislation to implement the European Bank Recovery and Resolution Directive in Hungary. The Act addresses the development of the institutional framework for recovery and resolution procedures for financial institutions (such as credit institutions and investments firms, financial holding companies and financial enterprises seated in Hungary and subject to consolidated supervision), the role of the NBH acting as the supervisory authority for recovery and resolution and the establishment of the Resolution Fund. Every financial institution subject to the Act is obliged to participate in the Resolution Fund and pay fees (0.05% of its registered share capital as a joining fee and an annual fee), which will be applied toward financing the costs and measures related to recovery and resolution. Most of the provisions of the Act entered into force on September 16, 2014.

Other than credit institutions having their seat in an EU member state (which are regulated by their respective home supervisory authority), all financial institutions operating in Hungary are required to procure a license from the NBH before they may establish themselves, commence operations, establish a representative office or a subsidiary abroad, elect its management, acquire shares representing a qualifying holding (10%) or terminate its operations.

The NBH is responsible for verifying compliance by credit institutions operating in Hungary with the Credit Institutions Act and applicable banking regulations. The NBH is entitled to impose various sanctions on credit institutions, including issuing warnings of non-compliance, withdrawing licenses, instituting liquidation proceedings and imposing fines on credit institutions and the managers of such credit institutions.

Banking Regulations

The president of the NBH has the power to issue regulatory decrees in the scope set forth in the NBH Act, in Act CXX of 2001 on the Capital Markets (the "Capital Markets Act") and the Credit Institutions Act. The Capital Markets Act and the Credit Institutions Act and Act CXXXVIII of 2007 on Investment and Commodity Exchange Service Providers and their Activities also set forth matters upon which the Government or Minister for National Economy may issue regulatory decrees.

The Credit Institutions Act requires Hungarian credit institutions to maintain a solvency ratio of 8%. Pursuant to its authority under the Credit Institutions Act, the Finance Minister has issued a decree on the calculation of the solvency ratio. The decree adopts BIS standards prescribing how the ratio of a bank's regulatory capital and risk-weighted assets (on- and off-balance sheet items) must be calculated. In addition, the Finance Minister has issued decrees requiring credit institutions to create provisions based both on the quality of their assets (which include loans, investments and off-balance sheet items) and on certain foreign country risks present in their assets.

Portfolio risk provisions are calculated by categorizing the assets of a credit institution into the following categories: standard, watch, sub-standard, doubtful and bad. Assets are placed in the categories based on the performance of the asset and the financial condition of the debtor. Provisions are made based on the asset category: for standard assets, 0%; for watch assets, 0% to less than or equal to 10%; for sub-standard assets, greater than 10% to less than or equal to 30%; for doubtful assets, greater than 30% to less than or equal to 70%; and for bad assets, greater than 70% to 100%.

Hungary has harmonized its guidelines on capital adequacy requirements for investment firms and commercial banks with EU Council Directive 93/6/EEC on the capital adequacy of investment firms and credit institutions. The adaptation of EU Directive 2006/48 and EU Directive 2006/49 (Basel II) was finalized in early 2008 and, as mentioned above, the adaptation of EU Directive 2013/36 and EU Directive 575/2013 (Basel III) was finalized in January 2014. Individual banks are required to create their own guidelines, which are to be reviewed annually.

As from September 1, 2015, a new Act on debt settlement procedure for private individuals will become effective that provides an opportunity for debt settlement both outside and within the scope of a court procedure. The main goal of these procedures is to reorganize debts of private individuals by use of their assets and proceeds within a regulated framework and to restore their solvency. Both types of procedure are based on the mutual cooperation of the debtors and their creditors involving the Family Insolvency Service and an appointed Family Administrator.

Structure of the Hungarian Banking System

The Credit Institutions Act provides for three types of credit institutions:

- banks;
- specialized credit institutions; and
- cooperative credit institutions.

Only credit institutions are entitled to collect deposits from the public and provide money transmission services. In addition, banks are entitled to provide the full range of financial services listed in the Credit Institutions Act, including making loans, issuing guarantees, trading foreign currencies, issuing bank cards and providing depository services. Banks may also engage, for their own account or for the accounts of customers, in trading in government and corporate securities and derivatives, and may also provide investment services. The total assets of Hungarian credit institutions amounted to HUF32,885.5 billion as of December 31, 2015 according to non-audited data.

According to data compiled by NBH the number of credit institutions amounted to 135 as of December 31, 2015. In addition to credit institutions operating as joint-stock companies and cooperative credit institutions, there are 10 banks operating as branches of foreign companies.

Banking survey (% change, year on year)

Banking System — Selected Indicators

Banking survey (% change, year on year)

	2011	2012	2013	2014	2015	As of February 29, 2016
Domestic credit[(1)]	0.6	(13.6)	(4.8)	(2.0)	(10.7)	(12.0)
Credits to enterprises[(2)]	1.9	(10.5)	(3.4)	1.2	(12.2)	(12.1)
Credits to households[(3)]	(0.9)	(14.9)	(5.4)	(1.7)	(12.3)	(15.5)

Broad money (M3)	5.9	(3.3)	5.5	5.6	6.2	4.0

Source: NBH

Notes:

(1) Including loans to non-financial enterprises, loans to other financial enterprises, loans to general government, loans to households and loans to non-profit institutions serving households.

(2) Including loans to non-financial enterprises and loans to other financial enterprises.

(3) Including loans to households and loans to non-profit institutions serving households.

Specialised credit institutions are limited with respect to the scope of services they may provide and with respect to the types of clients to which they may provide such services. Specialised credit institutions include the two housing savings associations and two private mortgage banks. There are three special state-owned institutions: the Land Credit and Mortgage Bank[2], the Hungarian Development Bank Ltd. and the Hungarian Eximbank[3].Cooperative credit institutions may only provide limited types of financial services, primarily the taking of deposits and the making of small loans.

On July 5, 2013, Parliament approved a bill on the integration of co-operative credit institutions. On the basis of the Act a new organization, the Integration Institution of Cooperative Credit Institutions, was established. Co-operative credit institutions, the MFB and Magyar Takarékbank Zrt. will be members of this institution; membership for co-operative credit institutions is obligatory. Magyar Takarékbank Zrt. is a financial institution established by certain co-operative credit institutions. Co-operative credit institutions and other banks have a majority stake and the MFB and other investors have a minority stake in Magyar Takarékbank Zrt. According to the new Act, MFB will contribute HUF1 billion as capital for the establishment of the institution and the capital of Magyar Takarékbank Zrt. will also be increased to at least HUF3.39 billion by a contribution from Magyar Posta Zrt. (Hungarian Post). As a result of the planned capital increase, the Hungarian State will obtain an indirect majority stake in Magyar Takarékbank Zrt., through the MFB and Magyar Posta Zrt. The core activity of the new institution will be the adoption, publication and enforcement of regulations binding its members. In the case of non-compliance, a member can be stripped of its membership. The Act enables Magyar Takarékbank Zrt. to act as a central credit institution for the members and set rules on core activities including risk management, strategic decisions, IT management and marketing.

On February 26, 2014, the Government declared that the merger of Magyar Takarékbank Zrt and the Hungarian Co-operative Credit Investment and Asset Management Pte. Ltd. (in Hungarian: Magyar Takarék Befektetési és Vagyongazdálkodási Zrt, "Magyar Takarék") has national strategic importance. On March 10, 2014, MFB and Hungarian Post announced they sold their 54.8% share in Magyar Takarékbank Zrt. to Magyar Takarék. Co-operative credit institutions own the majority of the shares of Magyar Takarék, while FHB Jelzálogbank Nyrt. owns 25% of the shares of Magyar Takarék.

In addition to the credit institutions discussed above, several other financial entities play an important role in strengthening the Hungarian banking and financial sectors. These entities include:

- the National Deposit Insurance Fund, which credit institutions are required to join, and insures deposits up to HUF13 million per depositor, but does not cover the deposits of the Government or certain other entities;
- the Credit Guarantee Corporation, which guarantees loans to SMEs;
- the National Savings Cooperatives Institutions Protection Fund, which is a voluntary consortium of cooperative institutions designed to further such institutions' mutual interests; and

[2] The state owns only a minority stake in the Land Credit and Mortgage Bank.

[3] The state owns directly a minority stake (25 per cent. plus one share) and the rest indirectly through the Hungarian Development Bank.

- the Hungarian Export Credit Insurance Corporation, which provides insurance for export credits and exchange rate risks.

Ownership Structure of the Banking Sector

After the dynamic growth of foreign share ownership in the sector in previous years, the proportion of registered capital held by foreign investors stabilised in 2002. In 2014, approximately 64 per cent. of the total equity capital of Hungarian banks operating as joint stock companies (excluding the MFB and Eximbank which are owned by the State) was held by non residents.

On July 24, 2014, the Government announced that Hungary reached an accord on purchasing MKB Bank Zrt. from Bayerisiche Landesbank. The purchase price would be EUR 55 million. Bayerische Landesbank agreed to sell 99% of MKB shares to the state of Hungary and to increase capital by EUR 270 million prior to the transfer.

On December 4, 2014, the Government announced that Hungary reached a preliminary contract to purchase Budapest Bank Zrt. from General Electric.

On December 18, 2014 the NBH announced that it took control over MKB, a state-owned bank and would reorganize the credit institution, including its subsidiaries in order to restore the profitability of MKB.

On February 9, 2015 the Government of Hungary and the EBRD each purchased a 15% stake in Erste Bank Hungary Zrt., a Hungarian bank owned by Erste, an Austrian bank. The deal was settled on June 29, 2015.

On October 2, 2015 the NBH announced that it will soon start the process to change the ownership structure of the credit institution under reorganisation procedure launched in December 2014. The NBH aims to complete the process by the end of 2015, in line with the schedule defined in MKB Bank's resolution action plan.

On March 31, 2016 the NBH announced that the NBH selected the winning bidder in the competitive procedure related to the sale of MKB Bank Zrt. According to the decision, the new owner of MKB Bank Zrt will be a syndicate comprised of Blue Robin Investments S.C.A., METIS Private Capital Fund and Pannónia Pension Fund, the member of the CIG Partnership – in a proportion of 45-45-10 per cent, respectively – which offered the highest purchase price, HUF 37 billion, for the 100 per cent share in MKB, of the three bids received during the binding bid submission phase of the competitive sales tender. The sales process, closely monitored by the European Commission, is expected to be closed by June 30, 2016, following the fulfilment of the closing conditions (including permission for the acquisition of holding by the members of the winning syndicate) and the payment of the purchase price.

The only banks (other than the NBH) in which Hungary currently holds controlling interests are the Budapest Bank Zrt., the MKB Bank Zrt., the MFB and the Hungarian Eximbank.

Capital Markets

During the course of its transition to a market economy, Hungary attached great importance to the development of a sound capital market in order to promote economic development and to finance Hungarian enterprises. The Capital Markets Act regulates the offering and trading of securities (including government securities) and the institutional framework of the Hungarian capital market (including stock exchanges, investment funds and clearing houses). State control and supervision of the capital markets was delegated to the NBH. In line with the trend in other international markets generally, Hungary has moved towards a universal financial system when regulating the relationship between investment and banking services. Banks with proper authorization may carry on investment and financial services activities within the same organizational frameworks, thereby offering universal banking services. By the end of 2007, regulation of the capital markets in Hungary was substantially in compliance with applicable EU regulations and guidelines.

On June 27, 2015, the People's Bank of China ("PBC") and the NBH signed the Memorandum of Understanding on the establishment of renminbi ("RMB") clearing arrangements in Hungary, and the

Agency Agreement for PBC to Manage NBH's Investment on China's Interbank Bond Market. The PBC also decided to extend the pilot scheme of RMB Qualified Foreign Institutional Investors to Hungary with a total investment quota of 50 billion yuan. The PBC eventually will designate a RMB clearing bank in Hungary.

In February and March 2015, the NBH suspended the operating licenses of three brokerage companies (Buda-Cash Brókerház Zrt., Hungária Értékpapír Zrt. and QUAESTOR Értékpapír-kereskedelmi és Befektetési Zrt.) and four banks comprising the DRB Bank Group, appointed oversight commissioners and ordered their liquidation subsequently. In the case of two brokerage companies (Buda-Cash Brókerház Zrt. and Hungária Értékpapír Zrt.) and the banks, the normal compensation process will take place. Depositors of the bank will receive compensation from the National Deposit Insurance Fund, and customers of the brokerage firm will receive compensation from the Investor Protection Fund. The compensation process is still ongoing.

Stock Exchange

The Budapest Stock Exchange Limited ("**BSE**"), which opened in 1990, is a self-governing and self-regulating organisation, which elects its own bodies and officials, adopts its own regulations, defines its operating rules and fixes the fees charged for its services.

In January 2010, the BSE, in addition to the Vienna, Ljubljana and Prague Stock Exchanges, became a member of the Central East European Stock Exchange Group through the acquisition of a simple majority stake in the BSE by CEESEG AG. As a result of such acquisition, the following entities are the major shareholders of the BSE: CEESEG AG (50.45 per cent.), Österreichischen Kontrollbank AG (18.34 per cent.), National Bank of Hungary (6.94 per cent.) and the Hungarian Branch Office of KBC Securities (5.19 per cent.).

On 20 November, 2015 the NBH concluded a sales contract with the Austrian CEESEG AG and Österreichische Kontrollbank AG, the entities that to date held a 68.8 per cent ownership in the BSE. With this transaction the NBH obtains controlling ownership in the national stock exchange. The purchase price is HUF 3,550 per share, that is the central bank paid HUF 13.2 billion for the full package. As a result of the transaction the MNB's share in the BSE increases to 75.8 per cent.

On December 9, 2015 the transaction was concluded and as a result the NBH controls 75.75% of the shares of BSE.

Public Finance

The public finance sector in Hungary consists of the central government budget, social security funds (pension and health funds), extra-budgetary funds and local government budgets, which together are referred to as the general government budget.[(6)]

(6) The source of data on Hungarian public finance is the Ministry for National Economy. In this Offering Circular preliminary data compiled by the Ministry for National Economy is presented in the light of data available in March 2016.

Budget Information

The following tables set forth information concerning government revenues and expenditures:

	2011 Final	2012 Final	2013 Final	2014 Final	2015 Preliminary fact	2016 Planned
GFS method						
Revenues	12,939.6	13,481.2	14,905.4	15,998.9	15,227.4	15,208.9
Privatization receipts	2.6	1.6	1.6	43.0	1.2	1.3
Revenues (excluding privatisation	12,937.0	13,479.6	14,903.8	15,956.0	15,226.2	15,207.6

receipts)						
Expenditures	14,537.7	13,989.5	15,725.3	16,712.4	16,446.0	15,995.6
Balance (excluding privatization receipts)	(1,600.7)	(509.9)	(821.5)	(756.5)	(1,219.8)	(787.9)
Balance in % of GDP	(5.7)	(1.8)	(2.7)	(2.4)	(3.6)	(2.2)
General government balance – consolidated						
ESA method						
Revenues	12,458.1	13,254.0	14,142.8	15,298.5	16,471.7	15,573.6
Expenditures	13,996.2	13,916.3	14,925.5	16,037.9	17,097.2	16,278.2
Balance	(1,538.1)	(662.3)	(782.7)	(739.4)	(625.5)	(704.5)
Balance in % of GDP	(5.5)	(2.3)	(2.6)	(2.3)	(1.9)	(2.0)

Source: CSO and Ministry for National Economy

Recent Budgets

According to preliminary data available in March 2016, the general government deficit (including local governments) amounted to HUF 1,219.8 billion (3.6 per cent. of GDP) for the year 2015, according to the GFS methodology.

The 2016 planned general government deficit (local governments included) is HUF 787.9 billion (2.2 per cent. of GDP) according to the GFS methodology. The 2016 planned general government deficit (local governments included) amounts to 2.0 per cent. of GDP according to the ESA methodology.

Central Government

Revenues and expenditures of the central budget

	2011 Final	2012 Final	2013 Final	2014 Final	2015 Preliminary fact	2016 Planned
Revenues						
Payments of Economic Units						
Corporate taxes (including financial institutions)	326.8	357.7	394.0	450.4	600.6	448.1
Mining tax (DPTT)	111.5	103.6	63.2	63.0	35.0	31.5
Company car tax	25.3	32.3	33.1	31.7	31.5	27.7
Gambling tax	51.6	52.4	30.9	34.6	32.8	41.2
Eco tax	23.5	24.1	22.5	20.1	23.6	22.0
Simplified business tax	172.3	146.5	110.0	96.8	89.4	75.2
Tax of small enterprises			10.1	12.7	11.0	13.8
Itemized tax of small taxpayers			28.3	42.2	54.4	70.1
Tax on utility systems			54.9	55.0	55.9	52.2
Advertising tax				3.3	6.1	10.9
Other central payments	108.6	172.0	233.2	327.0	391.5	369.4
Other payments	32.0	18.0	22.9	24.2	21.5	26.0
Tax of financial institutions	186.5	84.9	139.1	148.6	149.6	79.2
Extra tax of certain sectors	171.9	165.6	9.8	-1.0	0.3	0.0
Total	**1,209.9**	**1,157.2**	**1,152.1**	**1,308.4**	**1,503.1**	**1,267.3**
Taxes on Consumption						
Value added tax	2,219.5	2,747.4	2,809.6	3,035.6	3,285.7	3,351.9
Excises	909.6	943.1	912.9	937.7	1,019.8	972.9
Financial transaction tax			259.6	277.9	207.7	200.9
Public health production tax(1)	3.3					
Insurance tax			26.2	28.7	30.0	30.0
Telecom levy		12.2	47.0	56.0	54.8	56.0
Total	**3,132.3**	**3,702.7**	**4,055.3**	**4,335.9**	**4,598.0**	**4,611.7**
Payments of Households						

Gross PIT revenues	1,382.8	1,498.4	1,504.6	1,589.1	1,688.6	1,658.4
PIT revenues of central budget	1,256.4	1,385.3	1,504.6	1,589.1	1,688.6	1,658.4
Private persons' special tax	0.3	0.0	0.0	0.0	0.0	0.0
98% extraordinary tax of private persons	3.7	1.2	0.9	1.5	-0.5	0.9
Registration fee paid after domestic servants	0.0	0.0	0.0	0.0	0.0	0.0
Tax payments	0.2	0.2	0.2	0.4	8.1	2.0
Fees	75.3	109.6	107.4	120.3	136.4	121.7
Vehicle tax			41.2	42.4	43.9	45.5
Other Revenues						
Total	**1,462.3**	**1,609.4**	**1,654.4**	**1,753.8**	**1,876.5**	**1,828.5**
Central Budgetary Institutions and Chapter Administered Appropriations						
Own revenues of the institutions	925.7	1,397.5	1,776.9	1,833.3	1,937.2	1,191.5
Own revenues of chapter administered professional appropriations	353.8	129.3	116.1	100.5	150.4	17.3
EU support of chapter administered professional appropriations and central investments	890.1	1,076.8	1,583.8	1,695.7	1,160.1	889.7
Total	**2,169.6**	**2,603.6**	**3,476.8**	**3,629.5**	**3,247.7**	**2,098.5**
Payments of Central Budgetary Institutions	45.5	41.0	47.9	30.6	29.8	25.6
Contribution to National Social Fund	0.0	17.7	158.5	184.7	74.8	0.0
Payments of Local Governments	7.2	9.3	19.2	23.1	15.8	8.0
Payments of Extrabudgetary and Social Security Funds	0.0	0.0	15.1	10.0	10.0	17.0
Revenues of International Transactions	4.2	0.4	5.9	10.9	0.0	0.2
Payments Related to State Property	40.0	69.8	205.7	275.0	165.8	231.2
Other Revenues	39.5	25.8	40.7	29.3	32.7	7.8
Revenues Related to Debt Service	95.6	0.0	0.0	0.0	0.0	0.0
Revenues from EU	22.9	11.6	27.9	17.5	25.7	5.1
Customs and import duties	9.6	9.2	9.2	11.2	13.6	10.8
Pension Reform and Debt Reduction Fund	0.0	0.0	0.0	0.0	0.0	0.0
Total Revenues(2)	*8,238.7*	*9,257.7*	*10,868.6*	*11,619.9*	*11,593.6*	*10,111.6*
Interest Revenues	103.5	145.9	132.6	334.5	232.5	73.9
Total Revenues(3)	**8,342.2**	**9,403.6**	**11,001.2**	**11,954.3**	**11,826.1**	**10,185.5**
Expenditures						
Subsidies to Economic Units	212.0	259.5	279.9	283.6	305.4	304.4
Support to the Media	53.7	61.8	66.6	69.9	69.9	69.9
Consumer Price Subsidy	108.3	96.9	94.8	103.2	97.8	104.0
Housing Grants	129.1	124.0	131.9	128.0	109.3	104.0
Family Benefits Social Subsidiaries						
Family benefits	454.9	445.9	434.7	422.9	416.6	415.0
Income supplement benefits	136.6	62.6	62.2	63.8	130.9	133.1
Benefits under retirement age	0.0	280.0	223.5	173.4	136.4	112.9
Other specific subsidies	27.5	28.5	25.9	24.7	24.2	23.0
Total	**618.9**	**817.0**	**746.3**	**684.8**	**708.1**	**684.0**
Central Budgetary Institutions and Chapter Administered Appropriations						
Expenditures of central budgetary institutions	2,521.0	2,920.3	3,858.2	4,169.1	4,443.3	3,472.3
Chapter administered professional appropriations	2,209.7	2,146.9	2,849.0	3,311.3	4,027.0	2,801.7
Central investment	0.0	0.0	0.0	0.0	0.0	0.0
Chapter balance reserve	0.0	0.0	0.0	0.0	0.0	0.0
Total	**4,730.7**	**5,067.2**	**6,707.2**	**7,480.4**	**8,470.3**	**6,274.0**
Support to Political Parties and Other Civil Organizations	3.8	3.8	3.8	10.3	3.8	3.8
Transfer to Social Security Funds	637.8	690.9	986.6	892.1	560.0	409.6
Transfer to Local Governments						
Direct transfer from the budget	1,069.2	1,027.3	711.1	792.4	667.4	662.0
Yielded PIT revenues	126.4	113.1	0.0	0.0	0.0	0.0
Total	**1,195.6**	**1,140.4**	**711.1**	**792.4**	**667.4**	**662.0**
Transfer to Extrabudgetary Funds	89.1	94.6	272.1	119.7	138.7	225.0
Expenditures of International Transactions	0.9	2.4	14.2	8.8	14.6	12.6
Debt Service Related Expenditures	11.8	15.8	71.9	101.1	41.1	31.5
Other Expenditures	14.7	16.2	58.1	25.0	22.4	27.5
Reserves	0.0	0.0	0.0	0.0	0.0	331.4
Extraordinary Expenditures	266.0	9.0	4.4	4.5	4.0	3.7
Government Guarantees Redeemed	29.4	40.8	27.0	18.9	12.6	27.6
Contribution to EU Budget	233.0	234.9	272.3	290.9	306.0	314.8
Expenditures Related to State Property	633.3	137.4	260.3	411.4	284.7	303.0
Interest Payments	1,101.1	1,202.4	1,277.9	1,345.9	1,205.8	1,048.1
Total Expenditures	**10,069.3**	**10,014.8**	**11,986.5**	**12,770.9**	**13,022.0**	**10,941.1**

Source: Ministry for National Economy

Central Government Budget Process

The MNE is responsible for preparing the central government budget on a calendar year basis for the Government. The Government submits the central government budget to Parliament for consideration and ultimate approval. The annual central government budget for each coming year should be approved prior to the beginning of the relevant year. If Parliament does not approve the budget by such time, the Government is obligated to propose an interim central government budget without delay. If the central government budget is not approved by Parliament either, the Government is entitled to collect revenues due to the central government budget in accordance with the laws then in force and to make expenditures in line with the central government budget for the preceding calendar year, which includes uncapped appropriation for debt service, subject to generally applicable budgetary rules.

Within eight months of the end of each calendar year, the final accounts for the preceding year are compiled by the Government and are submitted to Parliament for final approval.

The major components of revenue under the central government budget comprise taxes imposed on consumption (including VAT), enterprise taxes and taxes on households (primarily personal income taxes). The major expenditure items of the central government budget comprise debt service and transfers to the social security funds, budgetary institutions, local governments and extra-budgetary funds.

Roles of the Ministry for National Economy, the Hungarian State Treasury and the Government Debt Management Agency

As of May 29, 2010, the function of the Ministry for National Economy replaced the Ministry of Finance in the Government for supplying information to support the Government's decision-making and for coordinating issues falling within the Government's scope of authority in relation to public finances. Specific responsibilities include the preparation of the bill on the final accounts of the central government and the central government budget, which is presented to the Parliament each calendar year.

The Ministry for National Economy must ensure central budget execution, solvency of the central government, central government financing and registration of government debt guarantees, including loans granted and claims of the central government. These tasks are executed through the Treasury and debt and liquidity management tasks are carried out by the Government Debt Management Agency Private Company Limited by Shares (the "**ÁKK**").

The Treasury was established on 1 January 1996 as a central budgetary organisation. The legal and professional supervision of the Treasury is performed by the Ministry for National Economy. Within its budget execution responsibilities, the Treasury's main task is the management of budget appropriations and government cash flows and the determination of the daily financing needs of the central government. The management of budget appropriations includes the registration of annual appropriations, the monitoring of their changes and the right to authorise payments from appropriated amounts.

The cash management duties of the Treasury include account management for the budgetary institutions, who, in accordance with the Act on Public Finances, are authorised to keep their account with the Treasury. The Treasury administers the Single Treasury Account, which is the cash account of the Treasury held at the NBH.

In addition, the Treasury's responsibilities include the provision of funds for government investments and other investments based on government decisions, the transfer of contributions and subsidies to municipalities, and the management and collection of loans and other claims of the central government.

The government's borrowing needs are financed by the ÁKK. The Minister of Finance established the ÁKK in order to concentrate debt management functions into one organisation. Accordingly, the ÁKK manages, renews and records the forint and foreign exchange debt of the central government and, pursuant to the amendment of the Public Financing Act from 1 July 2003, manages the liquidity of the Single Treasury Account. In the context of liquidity management, from 2004, the ÁKK has introduced new secondary market operations (e.g. repurchase transactions on the domestic securities market).

In the domestic market, responsibilities of the ÁKK include the administration of auctions and subscriptions, the development of the institutional frameworks and the structure of government securities markets. Another important ÁKK function is to provide easily accessible, up-to-date information on the government's securities markets and on the financing of Hungary's borrowing needs in the spirit of transparency and openness. In foreign debt management, the ÁKK acts in the name of Hungary in raising funds, manages the foreign exchange debt of the central government, ensures promptness and accuracy in respect of debt service payments and effects hedging transactions to reduce risks.

Taxation

The current Hungarian taxation system was introduced in 1988. The most important elements of the Hungarian tax system are corporate profit tax, personal income tax, value added tax, excise duty and local taxes. The Hungarian tax system has undergone moderate changes in recent years in an effort to improve competitiveness and to harmonize the Hungarian tax system with EU standards.

Hungarian tax law distinguishes between domestic and foreign taxpayers. The tax liability of a domestic taxpayer extends to income originating from both Hungary and abroad, while the tax liability of a non-Hungarian taxpayer is restricted to its Hungarian source income as defined by the relevant Hungarian tax law and also as may be affected by an applicable double taxation treaty. Hungary has entered into a double taxation treaty with more than 60 countries, including almost all of the OECD countries. Of the OECD countries, Hungary does not have a double taxation treaty with New Zealand.

Hungary, like many developing countries, has a substantial "shadow" economy that avoids paying taxes. However, such "shadow" economy has diminished in recent years, as evidenced by an increase in tax receipts that have outpaced GDP growth. Further improvement is expected as larger companies and multinational enterprises assume a greater role in the Hungarian economy.

On December 1, 2015, the Parliament adopted an Act regulating the reorganization of the National Tax and Customs Administration ("NAV"). The NAV quasi independent governmental office status will be changed, it will act as a central office under the authority of the minister being in charge of tax policy (currently the Minister for National Economy). In order to reduce bureaucracy and to speed up process implementation the number of organizational levels will be reduced and regional levels are to be eliminated.

Corporate Profit Tax and Corporate Dividend Tax

On January 1, 2010, the general corporate tax rate on profits increased from 16% to 19%, but taxpayers took advantage of certain tax preferences. On July 1, 2010, the availability of the 10% corporate tax rate for companies generating revenues of up to HUF50 million was expanded to apply to companies generating revenues of up to HUF500 million. Domestic entities receiving dividends are exempt from Hungarian dividend tax. Foreign entities receiving dividend, interest and royalties from local sources are not subject to withholding tax. Pursuant to legislation enacted by Parliament on November 16, 2010, since January 1, 2013, the corporate tax rate has been reduced to a flat rate of 10%.

Personal Income Tax

Until 2005, Hungary had a three-tier graduated personal income tax rate structure with rates of 18%, 26% and 38%. On January 1, 2005, the second tier personal income tax rate (26%) was abolished. In January 1, 2006, the upper tier rate was reduced from 38% to 36%. In January 2009, the personal income tax base broadened, while the first-tier rate decreased from 18% to 17% and the upper tier rate decreased from 36% to 32%. On January 1, 2010, the tax bracket was increased from HUF1.9 million to HUF5 million and the basis of tax payment was simultaneously broadened.

On January 1, 2011, Hungary's personal income tax rate structure was simplified with the introduction of a one-tier tax rate system, with a flat tax rate of 16% on personal income. However, a tax base supplement (super-grossing) had applied to annual income of above HUF2,424,000. As of January 1, 2013, such tax base supplement has been abolished and, as a result, the proportionate, 16% flat-rate personal income taxation has been fully introduced. In line with abolishing the personal income tax base supplement, the cap on the amount of pension contribution payable by private individuals has also been removed. In addition, a family allowance was introduced. Based on the number of children in the household, the personal income tax paid by the employee could be reduced with the respective amount set forth in the following table:

Family Personal Income Tax Allowance

Number of Children	HUF[1]
One child	10,000
Two children[2]	10,000
Three or more children	33,333

Source: MNE
Note:
(1) Per month per child.

(2) As of January 1, 2016, the tax allowance for two children is HUF12,500.

As of January 1, 2014, the family personal income tax allowance may be applied as a deduction not only for purposes of personal income tax, but also for purposes of the healthcare contribution and pension contribution paid by the employee.

As of January 1, 2016, the flat tax rate of on personal income was reduced to 15%.

Value Added Tax

On September 1, 2006, the 15% VAT rate (a VAT rate lower than the standard rate imposed on certain items) was increased to 20%, while the standard VAT rate decreased from 25% to 20%, and the 5% rate on special needs items (e.g., medicine and books) remained unchanged. On July 1, 2009, the standard VAT rate was increased to 25%. A reduced 18% VAT rate was introduced with respect to certain basic food items. Currently, there is no tax imposed on some services (e.g., postal and financial services). The current Hungarian VAT system is fully harmonized with all relevant applicable EU Directives. The standard VAT rate was increased to 27% as of January 1, 2012. VAT rate on live pigs and half-carcasses was cut to 5% from January 1, 2014. Subsequently, VAT rate on live and slaughtered cattle, sheep and goats was cut to 5% from January 1, 2015. Subsequently, VAT rate on unprocessed pork was cut to 5% from January 1, 2016.

Registration Tax

Registration tax has been levied on the registration of cars since February 2004; however, in line with a recent decision of the European Parliament, this tax will be abolished gradually by 2016.

Excise Duty

An excise duty is levied on the manufacturing, importing, warehousing, storage and distribution of mineral oils, alcoholic products, beer, wine, champagne, intermediary alcohol products and tobacco products.

On April 10, 2014, the European Court of Justice declared that Hungary has failed to fulfill its obligations under EU legislation relating to excise duties on alcoholic beverages. As a result, an excise duty was introduced on these items effective from January 1, 2015. The amount of excise duty is HUF1,000 per annum in case of personal manufacturing up to 50 liters; the amount of excise duty is 50% of the normal rate in case of lease manufacturing up to 50 liters.

On November 26, 2014, the Parliament approved an amendment to the act regulating excise duties. According to the amendment, the required collateral for excise license amounts to HUF600 million in case of mineral oil, HUF22 million in case of tobacco products and HUF150 million in case of other products. Subsequently, on March 3, 2015, the Parliament amended the act to require collateral for excise license amounts to HUF20 million in case of other products. The amendment entered into force on March 11, 2015.

On December 15, 2014, the Parliament approved an Act on excise duty levied on tobacco products. According to the act, the excise duty was increased in April 2015. The excise duty will amount to HUF15,700 per 1,000 pieces and 25% of the retail price with a minimum of HUF28,000 per 1,000 pieces in case of cigarettes. In the case of cigars, the excise duty amounts to 28.5% of retail price; in the case of shag, the excise duty amounts to HUF14,000 per kilogram; and in the case of other tobacco products, the excise duty amounts to HUF14,000 per kilogram. According to the act, the excise duty would be increased in July 2015. In the case of cigars, the excise duty will amount to 14% of retail price with a minimum of HUF4,000 per 1,000 pieces.

Luxury Tax

In January 2006, the Government introduced a tax on the purchase of expensive residential buildings with a value in excess of HUF100 million. On December 17, 2008, the Constitutional Court of Hungary held the Act on Luxury Tax to be unconstitutional and set aside the regulation retroactively. On January 1, 2010, a new tax was levied on certain assets of high value (e.g., residential real property, watercraft, aircraft and high-performance cars). On January 28, 2010, the Constitutional Court of Hungary, in its final and non-appealable decision, ruled that such law imposing taxes on high-value residential real property is unconstitutional under the laws of Hungary due to uncertainties in assessing the market value of residential real property. The Constitutional Court did not overturn the tax on other high-value assets (e.g., watercraft, aircraft and high-performance cars). As of August 16, 2010, the tax on high-value assets (e.g., watercraft, aircraft and high-performance cars) was abolished by the Government.

Solidarity Surtax

As of January 1, 2010, the Government abolished the 4% solidarity surtax, which had been in effect since September 1, 2006 and was payable by entities subject to corporate tax and natural persons with incomes above a certain level.

Surtax on Financial Institutions

On July 22, 2010, Parliament adopted an Act imposing a special tax on financial institutions on their 2010 income or adjusted balance sheet as of December 31, 2009 or the sum of the net value of managed funds and other managed portfolio assets. Such surtax was levied for the year 2011 and was applicable to all financial institutions (both domestic and foreign) with at least one set of annual financial statements prepared by July 1, 2010, including banks, insurance companies and other financial sector enterprises (e.g., investment companies, stock exchanges, commodity exchange service providers, venture capital fund managers, and investment fund managers), including their branches. The Government instituted the financial institution surtax as a permanent tax.

The tax base and rate vary according to the type of institution as follows:

Tax Base and Rate

Type of Institution	**Tax Base and Rate**
Banks	0.15% of the adjusted balance sheet total up to HUF50 billion and 0.53%(1) of amounts in excess of such threshold
Insurance companies	__(2)(3)
Financial enterprises	6.5% of interest and 6.5% of fees and commission income
Investment companies	5.6% of the adjusted net income
Stock exchanges	5.6% of the adjusted net income
Commodity exchange service providers	5.6% of the adjusted net income
Venture capital fund managers	5.6% of the adjusted net income

Investment fund managers	0.028% of the sum of the net value of managed funds and other managed portfolio assets(4)

Notes:

(1) Until January 1, 2011, such tax rate was 0.5%.

(2) In 2010, the surtax rate on insurance companies was 6.2%. In 2011 and 2012, such tax rate was replaced by a three-tier progressive tax rate structure with rates of 1.5%, 3.0% and 6.4%. The lowest tier extended up to HUF1 billion, the middle tier from HUF1 billion to HUF8 billion, and the highest rate on income exceeding HUF8 billion.

(3) As of January 1, 2013, surtax on insurance companies has been abolished, and uniform insurance tax has been introduced.

(4) As of January 1, 2015, investment fund managers are exempt from the surtax on financial institutions; simultaneously, a new special tax was introduced.

According to an agreement concluded on December 15, 2011, the surtax imposed on credit institutions can be reduced by certain loss items arising from the fixed-rate repayment schedule.

On June 2, 2015, Mr. Mihály Varga, Minister for National Economy announced that the Government is to grant tax relief of up to 30% of the bank tax for lenders that have increased their volume of corporate lending since 2009, the onset of the financial crisis. The Minister added that the total reclaimable amount will be capped at HUF10 billion and the tax relief will be applicable as of 2016. The tax relief will equal the increased amount of corporate loan stock, but it cannot exceed 30 percent of bank tax payable by the lender. In case requested refunds breach the HUF10 billion ceiling, the amount of refunds will be proportionately distributed among lenders that, instead of deleveraging, opted to increase lending after 2009. The amendment was submitted as part of the tax package for the 2016 Budget Bill. Subsequently, on June 16, 2015, the tax package accompanying the 2016 Budget Bill was adopted by the Parliament.

On December 15, 2015 the Parliament adopted an amendment to the Act on surtaxes imposed on credit institutions according to which a surtax rate of 0.15% should be applied up to 50 billion HUF adjusted balance sheet, above this threshold 0. 24% in 2016.

Uniform Insurance Tax

On July 9, 2012, Parliament adopted the Act on Uniform Insurance Tax to decrease the number of taxes imposed on insurance companies. The tax base is the insurance fee. The rate of the tax is 15% in case of all-risk vehicle insurance fees and 10% in case of property and accident insurance fees. The amount of the tax shall be calculated, declared and paid by the insurance companies monthly. This Act went into effect on January 1, 2013, and with the introduction of this new type of tax, the surtax imposed on insurance companies and the fire protection contribution were abolished.

Surtax on Retail, Telecommunications and Energy Sectors

On October 20, 2010, Parliament adopted an Act approving a surtax on retail businesses, telecommunications companies and energy supply companies. Retail businesses are subject to a progressive tax at 0.1% on net sales revenues between HUF500 million and HUF30 billion, 0.4% between HUF30 billion and HUF100 billion, and 2.5% above that level. Telecommunication companies are subject to a 4.5% tax on annual net sales revenues between HUF500 million and HUF5 billion and 6.5% on the excess above HUF5 billion. Energy supply companies, which are already subject to a special surtax of 8% on adjusted net profits in addition to the standard corporate income tax rate, are now subject to an additional 0.3% tax on annual net sales revenues up to HUF5 billion and 1.05% on revenues exceeding HUF5 billion.

Surtax on Certain Products Endangering Public Health

As of September 1, 2011, a new Act went into effect that introduced a surtax on certain products containing high levels of sugar or salt. Such surtax is imposed on the person or legal entity selling the product for the first time in Hungary (e.g., the Hungarian manufacturer or the importer). The following table sets forth the tax rates applicable as of January 1, 2014:

Surtax Rates on High Sugar or Salt Products

Type of product	**Tax Rate**
Soft drinks	HUF 7 or 200 per liter
Energy drinks	HUF 40 or 250 per liter
Pre-packaged product with high level of sugar	HUF 70 or 130 per kilogram
Salted snacks (e.g. chips)	HUF 250 per kilogram
Food flavoring mixes	HUF 250 per kilogram
Flavored beer or alcoholic beverages	HUF 20 or 100 or 300 or 500 or 700 or 900 per liter*
Marmalade	HUF 500 per kilogram

**According to the alcohol content of the beverages*
Source: Act No. CIII of 2011 on Public Health Product Tax

Financial Transaction Duty

After several amendments adopted by Parliament, the Act on Financial Transaction Duty went into effect as of January 1, 2013. The rate of duty is 0.2% of the transferred amount and 0.3% in case of cash withdrawals. The duty is payable by the entity providing the relevant payment service. The amount of the duty is capped at HUF6,000 per transaction. This cap is not applicable when the taxpayer is the Settlement Center of the Hungarian Post or the Hungarian Treasury, except that the duty payable with respect to each transaction at the Treasury involving the sale of government securities is also capped at HUF6,000. In accordance with the recommendation of the EC, the transactions of the NBH are not subject to this duty.

Certain Treasury transactions are not subject to the duty (such as payments related to social security contribution funds, payments and transfers related to EU subsidies and initiated from accounts held at the Treasury, transactions involving accounts of the National Tax and Customs Administration held at the Treasury). Certain intra-group financing-related and investment service provision-related payment transactions are also exempt.

As of August 1, 2013, the financial transaction duty was increased. In case of cash withdrawals, the duty was increased from 0.3% to 0.6% and the cap was eliminated; in case of other transactions, the duty was increased from 0.2% to 0.3% and the cap remained at HUF6,000.

As of February 1, 2014, cash withdrawals from ATMs may be free of charge up to twice a month, up to a total of HUF150,000.

As of January 1, 2015, the Financial Transaction Duty became a lump-sum duty in case of electronic payment instruments. In case of contactless payment instruments, the duty is HUF500 per year and in case of other electronic payment instruments the duty is HUF800 per year. The duty is payable by the payment service provider upon every payment instrument used by an account holder.

Public Utility Tax

As of January 1, 2013, public utilities, such as cables (electricity, phone, television, internet) and pipelines (gas, water, conduit) laid above or underneath municipal areas were subject to an additional tax. The entity owning the cable or pipeline pays this tax, except if the owner is the state or a local government, in which case the tax shall be paid by the service provider. The tax base of this tax is the total length of cables and pipelines, and the payable tax is HUF125 per meter of cable or pipeline.

As of January 1, 2014, the public utility tax rate applies to telecommunication cables according to the following three-tier system:

Telecommunication Public Utility Tax Rates

Length of Telecommunication Cables	**Public Utility Tax Rate**
up to 200,000 meters	0% of the standard tax is payable
between 200,000 and 350,000 meters	30% of the standard tax is payable
between 350,000 and 500,000 meters	75% of the standard tax is payable
500,000 meters and above	100% of the standard tax is payable

Source: Act No. CLXVIII of 2012

Low Tax-Bracket Enterprises and Small Enterprises Tax

As of January 1, 2013, new types of tax were introduced as part of the Job Protection Action Plan as options for low tax-bracket enterprises and small enterprises. One of these new options for small enterprises is a tax of 16% of a tax base, including a cash-flow based profit plus wages and salaries. Businesses opting for such tax shall be exempt from certain taxes applicable to wages and salaries. Low tax-bracket enterprises choosing the monthly payable flat rate tax shall be exempt from the payment of the main central taxes, such as corporate and dividend tax, personal income tax and social contributions.

Other Central Government Revenues

Customs duties are imposed on goods imported from outside the European Union in accordance with the EU customs code. The central government levies duties on the acquisition of real estate, cars and certain other products and also on certain administrative procedures.

On June 26, 2013, Parliament adopted an Act on the amendment of certain acts related to organizing "remote" gambling. The Act provides for remote gambling (including online gambling and sports bets) services within the framework of a state regulated and supervised scheme. The national gambling organizer is entitled, by virtue of law, to organize remote gambling, while other organizers are entitled upon a concession agreement concluded as a result of a concession tender, and upon paying the concession fee stipulated by the annual budget act for the relevant year, to organize remote gambling. For 2013, the concession fee is HUF100 million per each type of remote gambling. The Act went into effect on July 19, 2013.

As of November 15, 2013, rules related to the compulsory tendering of gambling concessions were modified. As a result of the modification, in case of an offer from a reliable gambling organizer, the responsible minister may execute a concession agreement without a concession tender, provided that the reliable gambling organizer undertakes to pay the double amount of the statutory concession fee.

Simplified Business Tax

Certain SMEs are entitled to pay a tax levied on the total revenues of the enterprise instead of paying corporate income tax. Enterprises with a total revenue of up to HUF30 million are entitled to choose to pay this tax. These enterprises are not subject to VAT.

Local Taxes

Local taxes vary between municipalities. Local governments are permitted to assess local business tax and various property taxes. On November 18, 2014, the Parliament adopted an amendment to the Act on Local Taxes that entitles the municipalities from January 1, 2015 to introduce any type of community taxes beside local taxes, with the exception of tax types prohibited by law or which are already subject to an act.

Social Security and Extra-Budgetary Funds

Social Security System

Before the fall of communism in 1989, social security in Hungary was based on the principle of solidarity and risk sharing. The provision of social, health and pension benefits through collection and reallocation was carried out by the Government. Since the change of the political and economic system, self-provision (individual private savings) has been playing an increasingly important role in Hungary's social security system. Currently, Hungarian citizens may affect the amount of the social security benefits they receive in the future by making voluntary payments into a private investment account or joining a voluntary pension fund. The Government provides social security benefits for those incapable of self-provision.

Health Care System

The Hungarian health care system is accessible to persons who have a Hungarian social security card and make mandatory contributions to the social security system. Three levels of health care are available and are expected to be utilized in the order of basic care to more extensive care. However, treatments may begin at a higher level of care if it would be more efficient. The first level of care is the basic health care provided by the family doctor, the second level consists of specialized consulting services in out-patient care and the third level consists of in-patient care at a health care facility (e.g., hospital, clinic or sanatorium). However, disabled individuals are entitled to use ambulant services, receive sickness benefits and/or qualify for disability pensions. In addition to such disability benefits, disabled persons are entitled to additional financial and in-kind benefits, including, for instance, the right to use designated parking lots and receive financial assistance for travel.

Several changes to the health insurance system were implemented in recent years. The number of days of sick payment paid by employers has generally decreased in recent years, but the contribution of the employer to the amount paid to the patient has increased. Prior to January 1, 2010, employers paid 5% of an employee's income as a health care contribution and the employee contributed 6% of the employee's income as a health care contribution. In addition, there was a fixed monthly health care contribution by employers of HUF1,950 per employee. On January 1, 2010, the contribution system was simplified. Until December 31, 2011, a 27% social security contribution consisted of a 24% pension insurance contribution and a 3% health insurance and employment market contribution. The requirement for contributions by employers, employees and entrepreneurs has been abolished. As of January 1, 2012, the 27% social security contribution has been abolished, and a 27% social contribution tax has been introduced, which shall be paid by the employer. As of January 1, 2012, an 8.5% health care contribution and employment market contribution is payable by the employee. Health fund contributions are similar to those for the pension fund; an employee contributes 7% of his or her income.

As of August 1, 2013, a health care contribution is levied on interest income as well. The contribution is 6% of the interest income paid on bank deposits and securities, excluding government debt securities denominated in forint and issued by a member state of the European Economic Area.

Pension System

In the course of the reform of the social security system, the pension system has undergone the most fundamental transformation over the last decade. The single-tier pension system was replaced by a three-tier system in 1998, pursuant to which, in addition to the pension contribution deducted from wages on a mandatory basis, private pension funds offer the possibility of self-provision. Furthermore, an employee had the possibility of joining a voluntary pension fund as well. The three pillars of this system were: compulsory state pensions; compulsory private pension funds; and voluntary private pension funds.

In November 2010, Parliament approved pension reform legislation, with the ultimate goal of transforming the "three-pillar" system into a "two-pillar" system, which is closer to European practices. The "two-pillar" system would consist of the state-run compulsory pension and the voluntary private pension. Until January 31, 2011, individuals who were participants in the compulsory private pension system could opt to transfer their private pension to the state-run pension system or opt to remain in the private pension system, although the former option is encouraged through significant incentives. With regard to the latter option, the remaining participants will not receive further entitlement in the state-run pension system and, therefore, with the exception of employees who have already had the minimum service time of at least 20 years of employment in the state-run pension system, will receive their pensions solely from their private pension funds.

The objective of the pension reform is to address concerns with the three-pillar system. Under such system, pension liabilities have been increasingly affecting the budget and low net real returns on the compulsory private pensions pose a threat to future pension payments.

Under the "two-pillar" pension system, payments are made into the state pension fund or to a private pension fund selected by the employee. The total pension contribution equals 34% of an employee's monthly salary (which is a slight increase from the 33.5% under the old system), out of which 10% (previously 9.5%) is paid by the employee and 24% by the employer. The employer's contribution is paid into the state pension fund. If the employee opts to remain solely in a private pension fund, as of January 1, 2012, the employee's 10% contribution will be transferred to the private pension fund selected by the employee. For employees solely participating in the state pension system, the entire 10% contribution would be applied to the state pension fund. Due to the transitional provisions of the pension reform legislation, employees' contributions were transferred to the state pension fund during the period from November 1, 2010 to December 31, 2011, irrespective of employees' selection between the state pension system and the private pension system. Such transitional suspension of contribution payments to private pension funds aimed to facilitate the correction of the annual budget and to keep the annual deficit target of 2010 and 2011.

The pension reform is expected to generate public revenue from two sources. First, the accumulated funds of individuals opting into the state pension system are expected to contribute to a significant decrease in the explicit public debt. Second, revenues received from future pension contributions is expected to help balance the state pension system in the long term.

Effective January 1, 2010, the retirement age for both women and men was raised to 62.5 years. Within the next six years, the retirement age will be gradually increased to 65 years. However, the positive effects of the pension reform on the general budget will not be apparent for at least 30 years because of delayed effectiveness.

On December 23, 2011, Parliament adopted the Act on Economic Stability of Hungary. According to the Act, the participants of private pension funds and their employers shall pay the 34% pension contribution to the state pension fund, and they will be entitled to receive 75% of their pension from the state pension fund. Based on such Act, the participants of private pension funds could opt to transfer their private pension to the state-run pension system until March 31, 2012, in order to receive their pensions solely from the state pension fund.

The following table sets forth the revenues and expenditures for social security and certain extra-budgetary funds:

Social Security and Extra-Budgetary Funds[(1)]

For the year ended December 31,					
2011	**2012**	**2013**	**2014**	**2015**	**2016**

	Final	Final	Final	Final	Preliminary fact	Planned
			(HUF billions)			
Social Securities Fund						
Revenues	4,451.7	4,510.6	4,864.2	5,032.8	5,009.4	5,023.0
Expenditures	4,535.3	4,628.1	4,863.4	5,024.8	5,034.2	5,023.0
Surplus (deficit)	(83.7)	(117.6)	.8	8.0	(24.9)	0.0
Extra Budgetary Funds						
Revenues	428.8	508.4	612.1	471.3	511.0	591.9
Expenditures	359.6	378.2	560.4	465.7	508.9	597.9
Surplus (deficit)	69.2	130.1	51.7	5.6	2.2	(6.0)

Source: Ministry for National Economy
Notes:—
(1) Currently, these funds consist of the Central Nuclear Fund, the Labor Market Fund, the Research and Technology Innovation Fund, the National Cultural Fund, the Homeland Fund and the Wesselényi Miklós' Flood and Inland Waters Compensation Fund.

The contribution of the central government to the social security funds was HUF 637.8 billion in 2011, HUF 690.9 billion in 2012, HUF 986.6 billion in 2013, HUF 892.1 billion in 2014 and, according to preliminary data, HUF 560.0 billion in 2015. The contribution of the central government to the social security funds will be HUF 409.6 billion in 2016 according to the planned budget.

Local Government Finance

The following table sets forth the revenues and expenditures at the local government level for the years indicated for all the local governments:

	As of year ended December 31,					
	2011 Final	**2012 Final**	**2013 Final**	**2014 Final**	**2015 Preliminary fact**	**2016 Planned**
(HUF billions)			*(HUF billions)*			
Revenues						
Own revenues	1,233.9	1,183.0	1,015.1	1,060.6	1,064.2	1,081.7
Subsidies	1,203.9	1,035.7	711.1	792.4	665.4	662.0
Other revenues	891.57	577.65	720.49	814.77	891.76	746.00
Total revenues, GFS (excluding privatization)	**3,329.4**	**2,796.4**	**2,446.7**	**2,667.8**	**2,621.4**	**2,489.7**
Privatization revenues	2.6	1.6	1.6	17.3	1.2	1.3
Total revenues (including privatization)	**3,332.0**	**2,798.0**	**2,448.3**	**2,685.1**	**2,622.6**	**2,491.0**
Expenditures						
Wages	1,286.6	1,025.9	638.8	767.2	794.4	843.4
Investments	605.2	525.4	641.5	763.0	803.4	632.5
Other expenditures	1,296.7	1,156.3	1,055.1	1,065.4	1,024.8	1,040.1
Total expenditures	**3,188.5**	**2,707.6**	**2,335.4**	**2,595.6**	**2,622.6**	**2,516.0**
Surplus (deficit), GFS (excluding privatization)	**140.9**	**88.7**	**111.3**	**72.2**	**(1.2)**	**(26.3)**
Surplus (deficit) (including privatization)	**143.5**	**90.3**	**112.9**	**89.5**	**0.0**	**(25.0)**

Source: Ministry for National Economy
(1) GFS excludes privatisation revenues.

Debt of Hungary

Traditionally, the NBH was the primary entity through which Hungary borrowed money in foreign currencies. Pursuant to the 1997 amendment to the National Bank Act, the NBH may now only incur foreign currency debt for its own purposes, and all foreign currency borrowings and debt security issuances for the central budget must be made directly by Hungary. In such respect, as of May 29, 2010, the MNE acts on behalf of Hungary (prior thereto, the Ministry of Finance had such responsibility). In turn, the MNE has delegated these debt management functions to the GDMA Pte Ltd., which was part of the Treasury until 2001, but thereafter became a separate legal entity. Since January 1, 1999, foreign currency debt issuances have been arranged by the GDMA Pte Ltd.

The NBH has remained the legal or named obligor on the outstanding foreign currency debt incurred prior to January 1, 1999. The majority of the interest rate and exchange rate risks associated with these debts and any related swaps, however, have been effectively transferred to Hungary pursuant to a series of transfer agreements, whereby Hungary has essentially agreed to pay the NBH sufficient funds to cover these obligations. Following this transfer of risk, Hungary entered into a number of swap agreements to match the currency profile of this debt portfolio to that of the currency basket (100% euro since January 2000) upon which the forint was pegged. Since January 1997, the NBH has acted in an agent role on the basis of an agency agreement, which was entered into by the NBH and Hungary, as permitted by the amended National Bank Act. The NBH was an agent of Hungary for the purposes of obtaining foreign loans and issuing securities abroad until the end of 2005.

Because of this history, all references to public debt include the debt of Hungary and the NBH. Public debt also includes the debt of the social security and other extra-budgetary funds, but does not include local government debt. External public debt refers to public debt that is denominated in a foreign currency and almost always owed to a non-Hungarian party. Internal public debt refers to public debt denominated in forint and typically owed to parties within the country. Gross external debt refers to all of the foreign currency denominated debt owed by Hungarian persons and both public and private entities to non-resident creditors. Loans between the NBH and Hungary relating to external borrowings originally made by the NBH were not added for the purposes of calculating public debt figures, to avoid double counting.

Public Debt[(1)]

	December 31,[(1)]				
	2011	2012	2013	2014	2015[(2)]
	(*HUF billions, except for percentages*)				
Internal Public Debt.....	10.362.2	12.042.4	12.976.4	14.612.0	16.207.9
% of Nominal GDP.......	36.8%	42.1%	43.2%	45.4%	48.1%
External Public Debt.....	10.170.4	8.326.6	8.904.9	8.957.9	7.735.8
% of Nominal GDP.......	36.2%	29.1%	29.6%	27.8%	22.9%
Other Liabilities............	422.9	351.1	117.3	311.2	756.0
Total Public Debt..........	20.955.5	20.720.1	21.998.6	23.881.1	24.699.7
% of Nominal GDP.......	74.5%	72.4%	73.2%	74.2%	73.3%
Nominal GDP	28.134	28.628	30.065	32.180	33.712

Source: GDMA Pte Ltd.

Notes:

(1) This table shows the public debt of Hungary, from the perspective of the economic obligations of the central government. (Financial derivatives are included, whereas mark-to-market deposits are excluded).

(2) Preliminary data as at the end of September 2015.

(3) Including a special item in connection with a debt assumption in 2006.

The government debt to GDP ratio amounted to 74.5% in 2010. The ratio declined to 72.4% in 2012. In 2013 and 2014 the ratio increased to 73.2% and 74.2%, respectively. In 2015 the ratio decreased to 73.3%.

The central government debt totalled HUF24,699.7 billion at the end of December 2015, showing an increase of 3.4% in nominal terms compared to HUF23,881.1 billion at the end of 2014.

On January 1, 2012, the Act on Economic Stability of Hungary went into effect. The Act contains regulations related to government debt reduction rules and detailed regulation of central government debt limits, rules of governing the central government debt, the legal status of the Government Debt Management Agency, and the organizational and procedural order of the Budgetary Council. Moreover, on the same day, the Act on Public Finance went into effect, which divides the Hungarian public finance system into two subsystems: the subsystem of central government and the subsystem of municipalities. The social security funds and the separated state funds became part of the central government budget.

Rating History

On November 7, 2014 Moody's revised the outlook on Hungary's ratings to "stable" from "negative." The agency affirmed Hungary's Ba1 government bond rating.

On November 28, 2014, Fitch affirmed Hungary's Long-term foreign and local currency Issuer Default Ratings at "BB+" and "BBB-", respectively. The outlook for each was "Stable."

On March 20, 2015, Standard & Poor's revised the rating assigned to the government debt of Hungary from "BB" to "BB+". The outlook is "Stable".

On May 22, 2015, Fitch revised the outlook on the "BB+" rating assigned to the government debt of Hungary from "Stable" to "Positive". The ratings were unchanged.

On September 18, 2015, Standard & Poor's affirmed the "BB+" rating assigned to the government debt of Hungary, the outlook is "Stable".

On November 6, 2015 Moody's revised the outlook on Hungary's ratings to "positive" from "stable". The agency affirmed Hungary's Ba1 government bond rating.

On November 20, 2015 Fitch affirmed Hungary's Long-term foreign and local currency Issuer Default Ratings at "BB+" and "BBB-", respectively. The outlook for each remained "positive."

On February 19, 2016, Japan Credit Rating Agency revised the outlook on the "BBB" rating assigned to the long-term foreign government debt of Hungary from "Stable" to "Positive". The ratings were unchanged.

External Public Debt

The following table sets forth the external public debt[(1)] as at 31 December 2015 by category and by currency:

	Amount[(1)]
	(EUR million)
By Category (financial derivatives are excluded):	
Bank loans (including bank to bank and syndicated loans)	2,718
Bonds + FRN	21,832
Loans from multilateral financial institutions (e.g. IMF and World Bank)	5,116
Total	**29,666**
By Currency (financial derivatives are included):	**(per cent.)**
Euro	100
Other currencies (Swiss Franc)	0
Total	**100**
By Currency (financial derivatives are excluded):	**before swaps (per cent.)**
Euro	52
JPY	1
US Dollar	42
Swiss franc	1
British Pound	4
Total	**100**

Source: ÁKK

(1) Non-HUF-denominated debt liabilities of the government sector (financial derivatives are excluded, whereas mark-to-market deposits are included)

External Public Debt Service and Schedule of Payments

Neither Hungary nor the NBH has ever defaulted on the payment of principal of, or premium or interest on, any debt obligation issued by it.

The maturity breakdown of Hungary's medium and long-term external debt by sectors as of December 31, 2015.

Date of maturity	Total											
		Central bank and general government				Other MFIs and other sectors						
				General government			Other MFIs			Other sectors		
			Central bank		of which HUF denominated bonds			Deposit taking corporations except the central bank	Money market funds		Financial corporations other than MFIs	Non-financial corporations, households, and non-profit institutions serving households
2016. Q1	1,423	805	0	805	87	619	125	125	0	494	155	339
2016. Q2	2,429	1,771	0	1,771	8	658	327	327	0	330	125	205
2016. Q3	1,419	874	0	874	8	545	347	347	0	197	59	138
2016. Q4	1,908	127	0	127	80	1,781	962	962	0	819	78	740
2016	7,178	3,576	0	3,576	183	3,602	1,762	1,762	0	1,840	418	1,422
2017. Q1	2,030	478	0	478	446	1,553	1,310	1,310	0	243	91	151
2017. Q2	1,652	684	0	684	1	968	140	140	0	828	54	774
2017. Q3	1,197	882	0	882	0	314	171	171	0	143	61	82
2017. Q4	2,687	1,640	0	1,640	1,241	1,047	601	601	0	446	97	349
2017	7,566	3,684	0	3,684	1,688	3,882	2,222	2,222	0	1,660	304	1,356
2018	7,753	4,601	0	4,601	2,330	3,153	2,471	2,471	0	682	138	544
2019	6,689	4,287	0	4,287	1,393	2,403	1,015	1,015	0	1,388	86	1,302
2020	9,334	6,363	0	6,363	3,090	2,970	1,336	1,336	0	1,634	57	1,577
2021	5,090	3,527	0	3,527	23	1,563	790	790	0	774	36	738
2022	2,452	1,814	0	1,814	1,670	638	138	138	0	499	37	462
2023	6,784	6,055	0	6,055	1,749	730	212	212	0	518	147	372
2024	3,090	2,670	0	2,670	476	420	88	88	0	332	21	312
2025	3,867	2,811	0	2,811	2,748	1,057	215	215	0	842	17	825
2026	781	72	0	72	10	709	360	360	0	349	11	338
2027	723	656	0	656	101	67	32	32	0	35	8	28
After	6,079	4,603	1,258	3,345	927	1,476	97	97	0	1,378	59	1,320
Total	67,388	44,719	1,258	43,461	16,387	22,669	10,737	10,737	0	11,932	1,337	10,595

Source: NBH

* Excluding direct investment debt instruments

Internal Public Debt

Hungary's policy is to finance budget deficits partly with internal debt and partly by accessing the international markets. The type of financing is determined based on a benchmark for the debt portfolio composition. The weight of external debt (foreign currency) should be below 45% and declining. The average maturity of internal debt was 3.64 years by the end of 2011, 3.32 years by the end of 2012, 3.17 years by the end of 2013, 3.79 years by the end of 2014, and 4.01 years by the end of 2015.

Government Obligations to the National Bank of Hungary

The following table shows the Government's obligations to the NBH, including those due to net foreign currency losses, as of December 31 for the years indicated:

	As of 31 December				
	2011	**2012**	**2013**	**2014**	**2015**
			(HUF billion)		
Securities	168.5	142.2	138.4	139.5	39.2
Loans	0.0	0.0	0.0	0.0	0.0
Total	168.5	142.2	138.4	139.5	39.2

Source: National Bank of Hungary

Debt Service Indicators of Hungary (on the basis of the balance of payments)

The following table set forth certain indicators related to Hungarian gross external debt (selected annual Balance of Payments ("**BOP**") and International Investment Position ("**IPP**") figures and debts services indicators of Hungary (BOP basis):

	2010	2011	2012	2013	2014
1. Debt indicators[1)]					
Gross debt indicators					
Gross external debt (excl. direct investment debt instruments)/GDP	111.4	104.2	98.7	88.3	83.5
-o/w: General government and Central bank	54.1	55.0	55.8	50.6	49.2
Gross external debt denominated in foreign currencies (excl. direct investment debt instruments)/GDP	94.1	83.3	73.9	63.8	60.1
-o/w: General government and Central bank	41.3	39.1	35.2	30.9	30.7
Gross external debt (incl. direct investment debt instruments)/GDP	143.1	134.3	129.1	118.2	114.5
Net debt indicators					
Net external debt (excl. direct investment debt instruments)/GDP	54.3	46.7	45.9	37.1	32.7
-o/w: General government and Central bank	18.4	16.6	20.6	15.8	15.1
Net external debt denominated in foreign currencies (excl. direct investment debt instruments)/GDP	40.0	29.5	24.1	15.6	11.7
-o/w: General government and Central bank	6.7	1.4	0.7	-3.1	-2.6
Net external debt (incl. direct investment debt instruments)/GDP	60.9	49.6	58.9	47.7	44.0
2. Debt service indicators					
Total Debt Service denominated in foreign currencies (TDS) (excl. direct investment debt instruments[2)]/GDP	18.2	21.2	19.4	20.7	17.4
Total Debt Service denominated in foreign currencies (TDS) (excl. direct investment debt instruments[2)]/XGS	22.1	24.3	22.3	23.6	19.4
Gross interest expenditures (excl. direct investment debt instruments)[3)]/GDP	2.4	2.6	2.3	2.0	1.8
Net interest expenditures (excl. direct investment debt instruments)[3)]/GDP	1.2	1.3	1.2	1.1	1.1
Memorandum:					
GDP[4)] (Euro millions)	98,223	100,762	98,916	101,257	104,256
Exports of goods and services (XGS) (Euro millions)	80,780	87,833.	86,021	89,039	93,391
Net external financing capacity (CA and Capital account)/GDP	2.1	3.1	4.3	7.6	6.0
International reserves (RES) (Euro millions)	33,674	37,774	33,881	33,782	34,578

Source: NBH

Notes:

(1) External debt as defined in External Debt Statistics: Guide for Compilers and Users: equity and financial derivative instruments are excluded.

(2) (TDS) Medium-term credit amortization and gross interest expenditures.

(3) Forint denominated debt interests are excluded from 2008.

(4) Data of CSO.

Relationships with Multilateral Financial Institutions

European Bank for Reconstruction and Development ("EBRD")

Since 1991, the EBRD has been involved in a number of state and non-state projects, both in the form of equity participation and loans. The total participation (net business volume) of the EBRD between 1991 and the end of 2015 was close to EUR 2.8 billion in 172 projects, 91% of which was in the private sector. According to the latest country strategy for Hungary, the EBRD prefers to finance infrastructure- and energy-related projects. In the meantime, due to the effects of the financial crisis, the EBRD confirmed its commitment to continue to support Hungary's financial sector. The EBRD's engagement and activities in Hungary must also be seen in light of the Memorandum of Understanding ('MoU') concluded between the Government of Hungary and the EBRD in February 2015. The MoU also confirms the Government's intention to strengthen its relationship with the banking sector in order to promote a stable and predictable framework to support macroeconomic stability.

Council of Europe Development Bank ("CEB")

Hungary joined the CEB in 1998. According to the CEB's social mandate, the focus of the CEB's projected activity in Hungary is mainly the co-financing of EU-supported investments in 2007 to 2013 and projects in the field of environmental protection, strengthening social integration and developing human capital. In 2014, the CEB disbursed an amount of HUF 5.8 billion, which was allocated to the public sector.

European Investment Bank ("EIB")

Since 1990, the EIB has been financing different government and non-government projects in Hungary. In the past five years (2010-2014), the EIB financed projects by granting loans approximately totaling EUR 6.18 billion.

The EIB finances primarily infrastructure, environmental protection, health care and education projects. In 2014, two new loan facility agreements were signed between the Hungarian State and EIB for an aggregate principal amount of up to HUF 67 billion. In February 2014, Hungary assumed from municipalities certain loans lent by the EIB in the amount of EUR 339.8 million. The Hungarian State drew down an amount of EUR 147.3 million and HUF 122.6 billion in 2014.

In 2015 three new loan facility agreements were signed with the Hungarian State in an amount of up to HUF 36 billion and EUR 1 billion, while HUF 230.6 billion was drawn.

International Finance Corporation ("IFC")

In 2001, the IFC established the Hungary Energy Efficiency Co-financing Program ("HEECP"), whereby the IFC grants guarantees and provides technical assistance to projects aimed at increasing the efficiency of energy consumption in Hungary.

The IMF, the EU and the World Bank

In 2008, Hungary received a financial assistance package of up to USD25.1 billion in the aggregate from the IMF, the EU and the World Bank. The IMF agreed to provide a 17-month standby facility of USD15.7 billion (EUR12.5 billion), while the EU agreed to lend USD8.1 billion (EUR6.5 billion), and there was a possibility to draw down USD1.3 billion (EUR1 billion) from the World Bank to assist Hungary in addressing the consequences of the global financial crisis.

In July 2010, the Government suspended the negotiations with the IMF concerning the possible extension of the standby facility. The IMF continues to engage in regular consultations with Hungary to monitor and review economic developments. The last consultation was held in October 2010, with the IMF mission concluding that Hungary's determination to adhere to fiscal targets is encouraging, but expressing some concern regarding temporary measures introduced and implemented by Hungary to reach its fiscal targets.

Finally, the following amounts have been drawn down under the facilities:

- IMF: SDR6.373 billion by Hungary and SDR 1.265 billion by the NBH; and

- EU: EUR5.5 billion by Hungary.

On July 25, 2013, the Government requested to prepay all outstanding debt borrowed from the IMF by August 2013. As of August 3, 2013, the NBH has repaid all its outstanding debt borrowed from the IMF and as of August 12, 2013, Hungary has repaid all outstanding debt borrowed from the IMF.

On April 3, 2015, the IMF Executive Board concluded its Article IV Consultation with Hungary, commenting that it welcomed Hungary's strong economic rebound, while noting that medium-term prospects appear to be subdued.

International Investment Bank ('IIB')

Hungary renewed its membership in the IIB in November 2014. Hungary was a founding member of IIB but left the Bank in 2000 due to IIB's inactivity at that time.

The renewal of the membership of Hungary is based on the renewed and modernized statutory documents and strategic directions of IIB. The bank's mission is to promote member states' social and economic development and prosperity and strengthening economic cooperation between them.

SUBSCRIPTION AND SALE

Bank of China Limited (the "**Manager**") has, in a subscription agreement dated 14 April 2016 (the "**Subscription Agreement**") and made between Hungary and the Manager upon the terms and subject to the conditions contained therein, agreed to subscribe and pay for the Notes at their issue price of 100 per cent. of their principal amount less a combined management and underwriting fee of 0.225 per cent. of their principal amount. The Manager is entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

United States

The Notes have not been and will not be registered under the Securities Act and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons. The Manager has agreed that, except as permitted by the Subscription Agreement, they will not offer, sell or deliver the Notes within the United States or to, or for the account or benefit of, U.S. persons. In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

The Manager has represented and agreed that it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Hungary

This Offering Circular has not been and will not be submitted to the National Bank of Hungary as the Hungarian financial supervisory authority and the Notes will not be offered in Hungary in a public offer or a private placement as defined in the Act No. CXX of 2001 on the Capital Markets. The Manager has confirmed its awareness of the above and has represented that it has not offered or sold and has undertaken that it will not offer or sell the Notes in Hungary in a public offer or private placement and will not offer the Notes for sale to the general public in Hungary.

Hong Kong

The Manager has represented, warranted and agreed that it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) and any rules made under that Ordinance.

The People’s Republic of China

The Manager has represented, warranted and agreed that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the PRC.

General

No action has been or will be taken in any jurisdiction by Hungary or the Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by Hungary and the Manager to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

1. **Authorisation**

The creation and issue of the Notes has been authorised by the Minister for National Economy of Hungary in accordance with paragraph (2) of Section 5 of Act No. CXCV. of 2011 on Public Finances.

2. **Litigation**

Save as disclosed in this Offering Circular, there are no litigation or arbitration proceedings against or affecting Hungary or any of its assets, nor is Hungary aware of any pending or threatened proceedings, which are or might be material in the context of the issue of the Notes.

3. **Material Change**

Save as disclosed in this Offering Circular, there has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) or general affairs of Hungary since 13 April 2016 that is material in the context of the issue of the Notes.

4. **Documents available for inspection**

For so long as any of the Notes are outstanding, copies of the following documents may be inspected (and in the case of (a), obtainable) during normal business hours at the Specified Office of each Paying Agent:

(a) this Offering Circular;

(b) the Subscription Agreement;

(c) the Fiscal Agency Agreement; and

(d) the Deed of Covenant.

5. **Notes**

The Notes and any Coupons appertaining thereto will bear a legend to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code." The sections referred to in such legend provide that a United States person who holds a Note or Coupon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Note or Coupon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

6. **Enforceability of Judgments**

Under Law-Decree No. 13 of 1979 on International Private Law, the parties may freely agree on a choice of a non-Hungarian jurisdiction and of foreign law in commercial matters provided that there is a substantial foreign element in their legal relationship. The agreed courts have exclusive jurisdiction, unless otherwise provided by the parties.

Under Hungarian law, a judgment of a court established in a country other than Hungary may be enforced in the Hungarian courts, if: (i) the jurisdiction of the foreign court is legitimate under the rules of jurisdiction of Hungarian law; (ii) the decision is final under the foreign law under which it was made; (iii) there is reciprocity between Hungary and the state of the foreign court; and that (a) such judgment does not contravene the basic principles of public policy in Hungary; (b) the losing party or its representative had proper or timely notice of the proceedings; (c) the proceedings in which the judgment was made did not seriously breach general principles of Hungarian procedural rules; (d) litigation between the same parties involving the same dispute was not commenced in Hungary prior to the initiation of the foreign litigation; and (e) Hungarian courts have not already determined the matter (*res judicata*). However, Hungarian courts must recognise and enforce judgments of a foreign court chosen by the parties in a commercial matter (in Hungarian: *vagyonjogi határozat*) even if there is no reciprocity between Hungary and the state of the foreign court, provided that the choice of forum by the parties is valid under the decree.

It should be noted that European Council Regulation (EC) No 1215/2012 of 10 January 2015 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters is directly applicable in Hungary. According to this Regulation a judgment given in a member state of the European Union shall not be recognised in the other member states if, *inter alia*, (i) such recognition is manifestly contrary to public policy (*ordre public*) in the member state addressed; (ii) it was given in default of appearance, if the defendant was not served with the document which instituted the proceedings or with an equivalent document in sufficient time and in such a way as to enable him to arrange for his defence, unless the defendant failed to commence proceedings to challenge the judgment when it was possible for him to do so; (iii) it is irreconcilable with a judgment given in a dispute between the same parties in the member state addressed; (iv) it is irreconcilable with an earlier judgment given in another member state or in a third state involving the same cause of action and between the same parties, provided that the earlier judgment fulfils the conditions necessary for its recognition in the member state addressed.

It should also be noted that Hungary is a party to the New York Treaty on the Recognition and the Enforcement of Arbitration Awards, dated 10 June 1958, and therefore the recognition and enforcement of the arbitration awards obtained by a Noteholder or Couponholder in a country being a party to such treaty is possible in Hungary. No award will be recognised and enforced however, if the provisions therein are contrary to Hungarian public policy.

7. Hungarian Taxation

There are no Hungarian withholding taxes levied on payments of principal or interest in respect of the Notes paid to foreign tax residents, other than in respect of payments of principal or interest in respect of the Notes paid to private individuals.

8. EU Withholding Tax

Under EC Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the "**Savings Directive**"), each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State. For a transitional period, Austria may instead apply a withholding system in relation to such payments. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries and certain territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or, certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories. The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries.

On 10 November 2015, the Council of the European Union adopted a Council Directive repealing the Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other EU Member States (subject to ongoing requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The new regime under Council Directive 2011/16/EU (as amended) is in accordance with the Global Standard released by the Organisation for Economic Co-operation and Development in July 2014. Council Directive 2011/16/EU (as amended) is generally broader in scope than the Savings Directive, although it does not impose withholding taxes.

9. **Delivery of Notes**

The Notes have been accepted for clearance through Euroclear and Clearstream Luxembourg. The ISIN is XS1398547130 and the common code is 139854713.

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