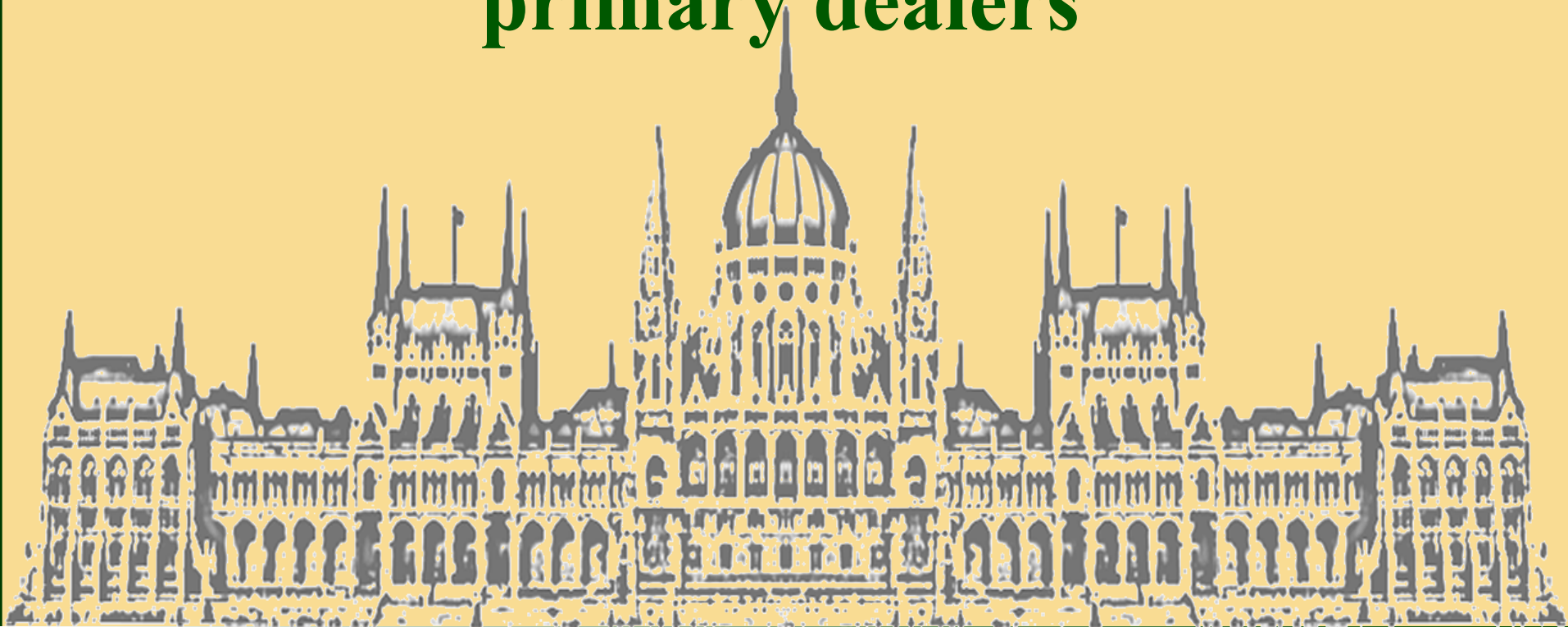


# The financing of the central government in 2004 and the role of primary dealers



# Main topics

- ☞ **Patron: Dr. Tibor Draskovics**  
**Minister of Finance**
- ☞ **Host: Ferenc Szarvas**  
**CEO of ÁKK Rt.**
- ☞ **Financing in 2004 and the government securities market**  
**Presented by Dr. András Réz**  
**General Manager**
- ☞ **Awards for the most active primary dealers**  
**Presented by Zsolt Bangó**  
**Head of Treasury Department**

# Financing in 2004 and the government securities market

- ☞ **The borrowing requirements and net financing**
- ☞ **Main characteristics of public debt**
- ☞ **The secondary market and the role of non-residents in 2004**
- ☞ **First year of active liquidity management**

# Borrowing requirements

HUF billion

|   | 2002            | 2003            | 2004 <sup>1</sup> |
|---|-----------------|-----------------|-------------------|
| Balance of the central government (excluding privatisation revenues and debt assumptions) | -957,7          | -733,6          | -857,4            |
| Financing requirement of the Social Security funds  | -100,9          | -345,1          | -422,9            |
| Financing requirement of the extrabudgetary funds   | 1,5             | 18,8            | 27,9              |
| <b>Net financing balance</b>  | <b>-1 057,1</b> | <b>-1 059,9</b> | <b>-1 252,4</b>   |
| Capital transfers to the NBH  | -250,2          | -82,9           | 0,0               |
| Privatisation revenues  | 0,0             | 42,0            | 166,5             |
| Prefinancing of EU transfers  | 0,0             | 0,0             | -12,8             |
| <b>Total net financing balance</b>  | <b>-1 307,3</b> | <b>-1100,8</b>  | <b>-1098,7</b>    |
| Redemptions   | -3952,2         | -5492,4         | -5530,9           |
| <b>Total gross financing balance</b>  | <b>-5 259,5</b> | <b>-6 593,2</b> | <b>-6629,6</b>    |

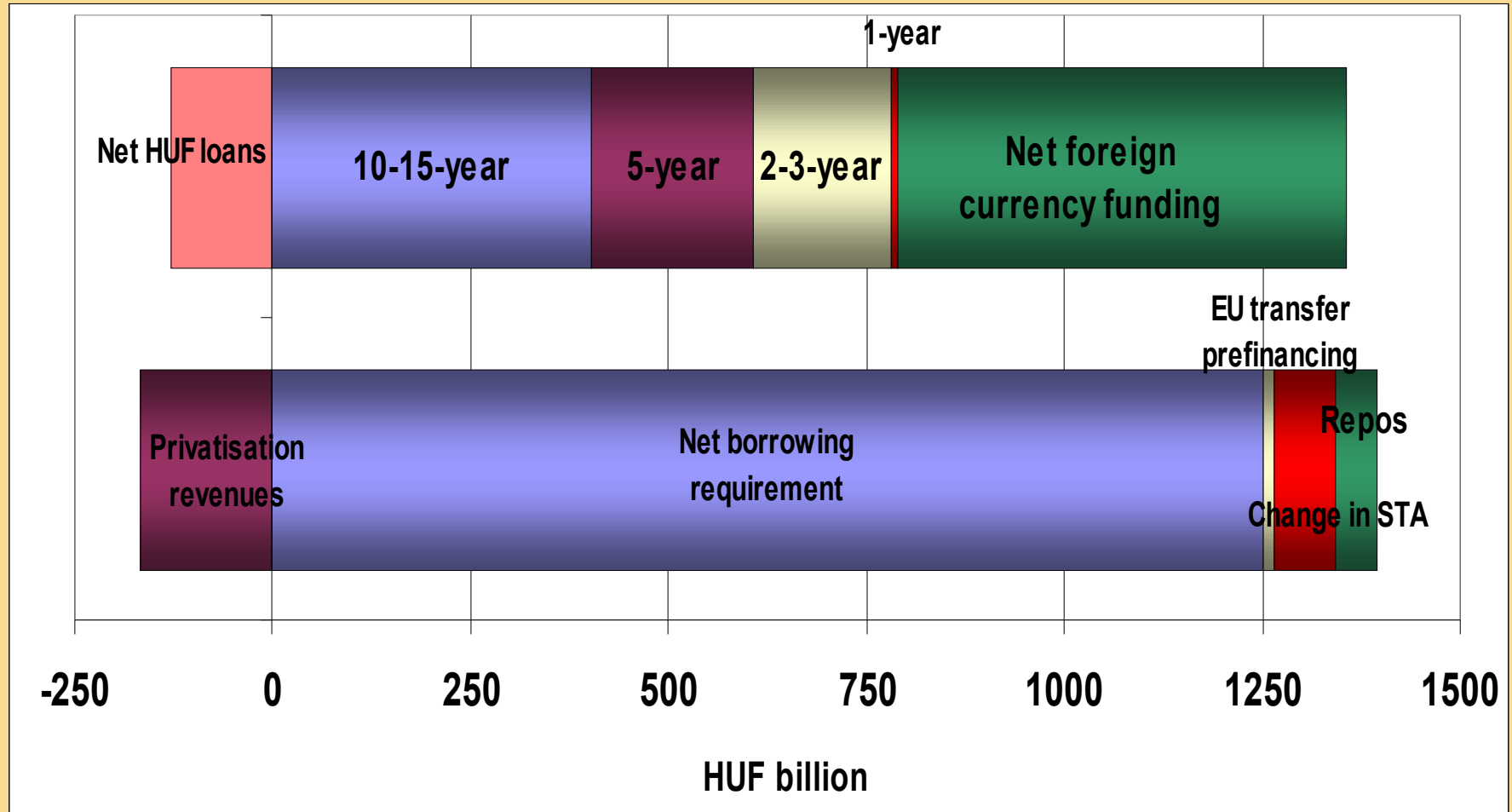
<sup>1</sup> Preliminary data

**Net borrowing requirement  
similar to 2003, lower than 2002**

# Characteristics of financing

- **Net issuance in 2004: HUF 1229 billion**
- **High ratio of net foreign currency issuance, stabilization of the domestic market**
- **Due to the special structure of the financing needs within the year, at the end of 2004 surplus liquidity made cash placements via repos and loan prepayments possible**
- **Debt management objectives fulfilled:**
  - **lengthening of the average term-to-maturity of debt**

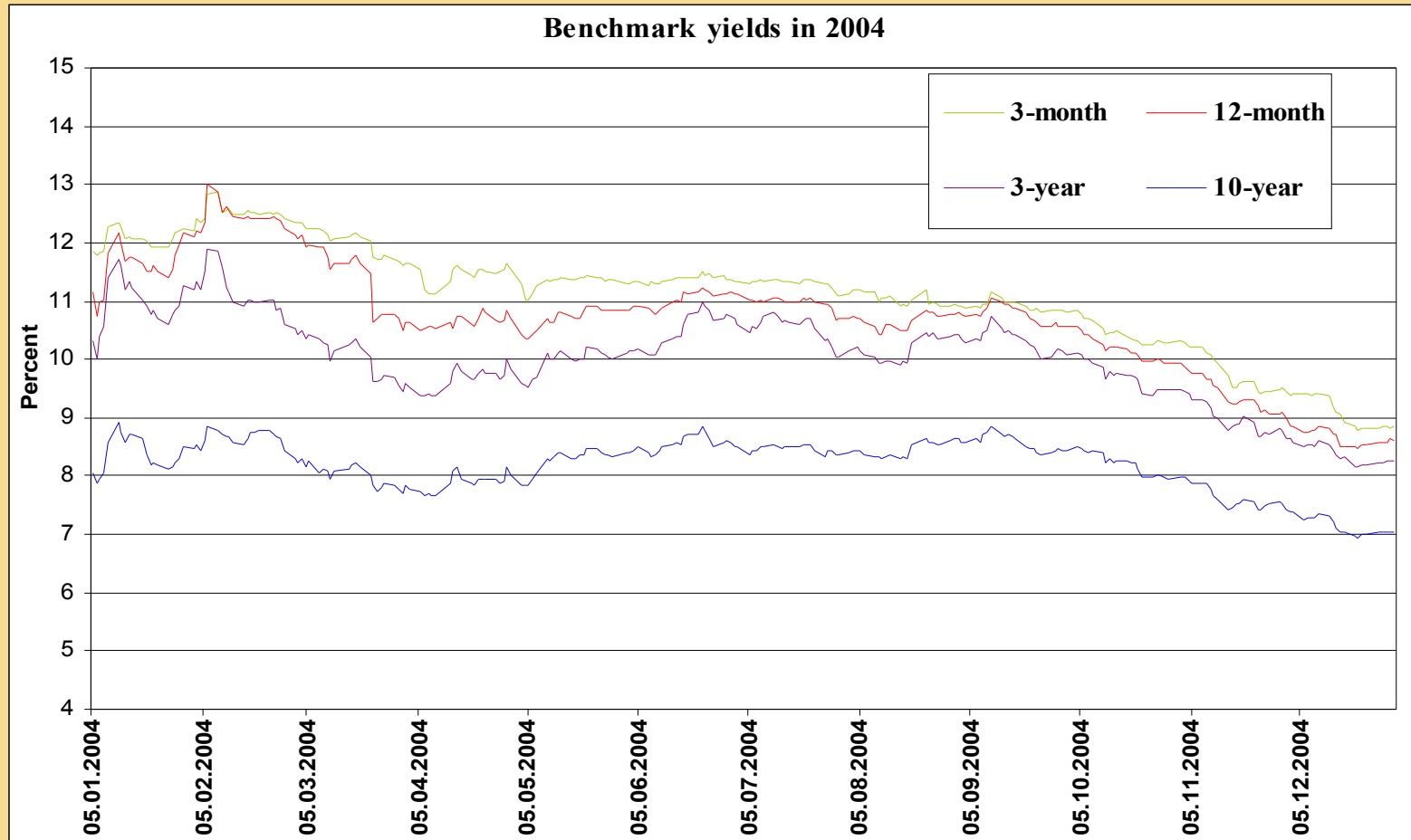
# The borrowing requirements and financing



# Main characteristics of government debt

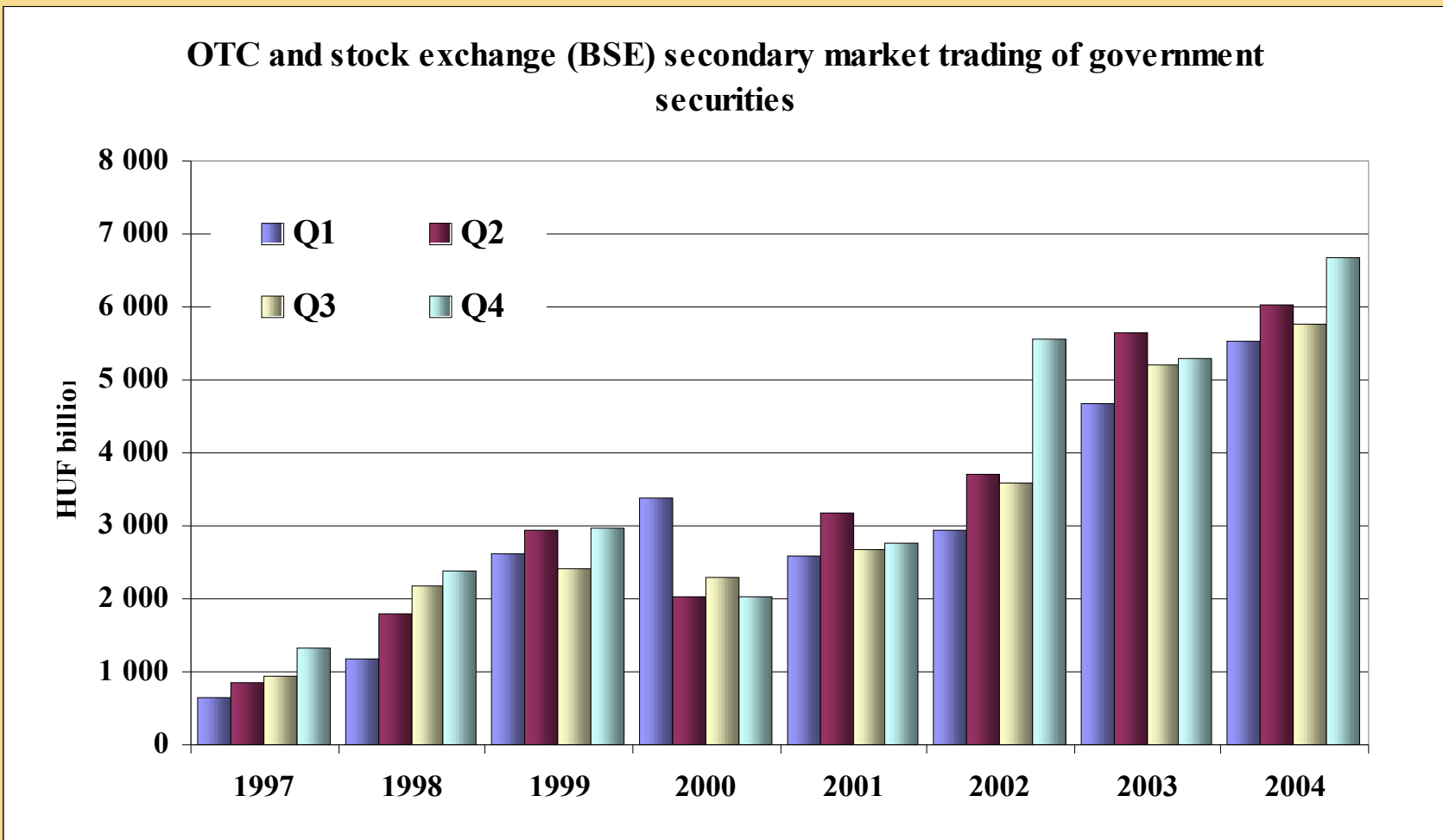
- **Central government gross debt: HUF 11 592 billion, 56.7% of GDP (the debt-to-GDP ratio is lower by 0.3% compared to 2003)**
- **Average term-to-maturity: 3.5 years (HUF debt), 5.5 years (FX debt)**
- **Duration: 2.3 years (HUF debt), 3.8 years (FX debt).**
- **0.1-0.2 year increase in the case of HUF, 0.4-0.7 year increase in the case of FX debt**
- **Foreign currency-HUF ratio: 26% FX at the end of 2004, up by 2% from end-2003**

# 2004: year of consolidation, declining yields





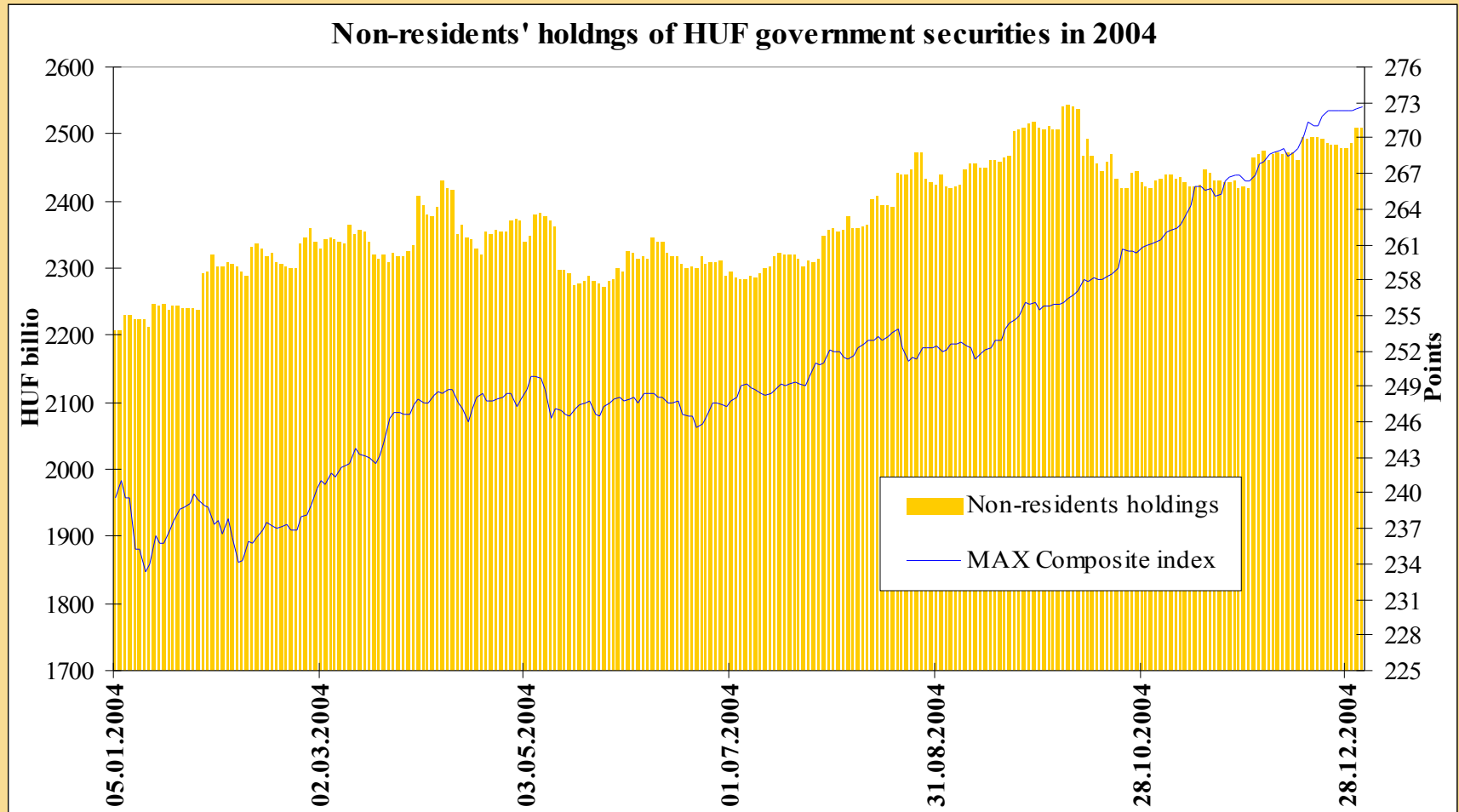
# Secondary market trading (OTC and stock exchange)



# Non-residents' holdings of government securities

- HUF 2510 billion volume at the end of 2004 (up by HUF 287 billion from 2003)
- Average term-to-maturity ~ 3.5 years – slightly higher than that of the total HUF government securities portfolio

# Non-residents' holdings of government securities



# 2004: First year of active liquidity management

- **Important step towards debt management in conformity with EMU practice: long-term objective is to keep only a stable, necessary minimum balance of the Single Treasury Account (STA) held with the central bank (EMU requirement, however, not every member state has fulfilled it yet)**
- **Introduction of a new set of instruments at the beginning of 2004: liquidity discount T-bills and repos.**

# Liquidity discount T-bills

- **Short tenor – usually 6-7 weeks, for securing very short-term financing needs (ever more popular in Europe)**
- **Plays an important role in reducing the fluctuation of the STA balance caused by debt transactions, 17 issues in 2004 in a total amount of HUF 388 billion (10% of total discount T-bill issuance),**

# Repos

- **Short-term (1-day and 1-week) borrowing or cash placement in order to keep the STA balance inside a predefined band**
- **74 days of cash placement, 38 days of borrowing via repos in 2004, average size of the daily transactions was HUF 20 billion**
- **Efficient means of smoothening the STA balance: relative standard deviation of the STA balance was 30% lower than would have been without liquidity management instruments**
- **Partners: primary dealers and reputable credit institutions**

# Summary

**The year 2004 was very successful from a debt management point of view – even so compared to 2003:**

- **The central government was financed in a secure and stable way, while the debt management objectives were fulfilled at the same time**
- **The debt-to-GDP ratio decreased for the first time since 2002**
- **The government securities yields declined**

# *AWARDS FOR THE MOST ACTIVE PRIMARY DEALERS IN 2004*



# Renewal of the awards

- **Instead of voting, the awards are given on the basis of actual market share**
- **Appretiation of the most successful primary dealers**
- **Only primary dealers, except in the case of the prize for repo activity**
- **Judged by activity in the whole calendar year**

# Award categories

## 5+1 new categories

- The primary dealer with the highest market share in the primary market of Hungarian Government Bonds
- The primary dealer with the highest market share in the primary market of Discount T-bills
- The primary dealer with the highest secondary market share
- The repo partner of ÁKK Rt. with the highest repo turnover
- The primary dealer whose market share in the primary markets increased the most dynamically
- **THE PRIMARY DEALER OF THE YEAR**

# The main prize

## THE PRIMARY DEALER OF THE YEAR

award is determined by:

➤ Market share in the primary market of Hungarian Government Bonds

⇒ 25%

➤ Market share in the primary market of Discount T-bills

⇒ 25%

➤ Secondary market share ⇒ 25%

➤ Market share in buy-back auctions ⇒ 12,5%

➤ Repo turnover ⇒ 12,5%

# 1st category

*The primary dealer with the highest market share in the primary market of Hungarian Government Bonds*

***1. ING Bank Rt.***

***3. OTP Bank Rt.***

***2. Dresdner Bank  
(Hungária) Rt.***

# 2nd category

*The primary dealer with the highest market share in the primary market of Discount T-bills*

**1. OTP Bank Rt.**

**2. ING Bank Rt.**

**3. CIB Bank Rt.**

# 3rd category

*The primary dealer with the highest secondary market share*

**1. ING Bank Rt.**

**3. OTP Bank Rt.**

**2. K&H Bank Rt.**

# 4th category

*The repo partner of ÁKK Rt. with the highest repo turnover*

**1. K&H Bank Rt.**

**3. HVB Bank  
(Hungary) Rt.**

**2. ERSTE Bank Rt.**

# 5th category

*The primary dealer whose market share in the primary markets increased the most dynamically*

***CIB Bank Rt.***



**6th category**

***THE PRIMARY DEALER OF THE YEAR***

***2004***

***ING Bank Rt.***

***CONGRATULATIONS TO THE AWARDEES!***

***THANK YOU FOR YOUR ATTENTION!***

