



FINANCING THE BUDGET AND THE CENTRAL GOVERNMENT DEBT IN 2018

19.12.2017

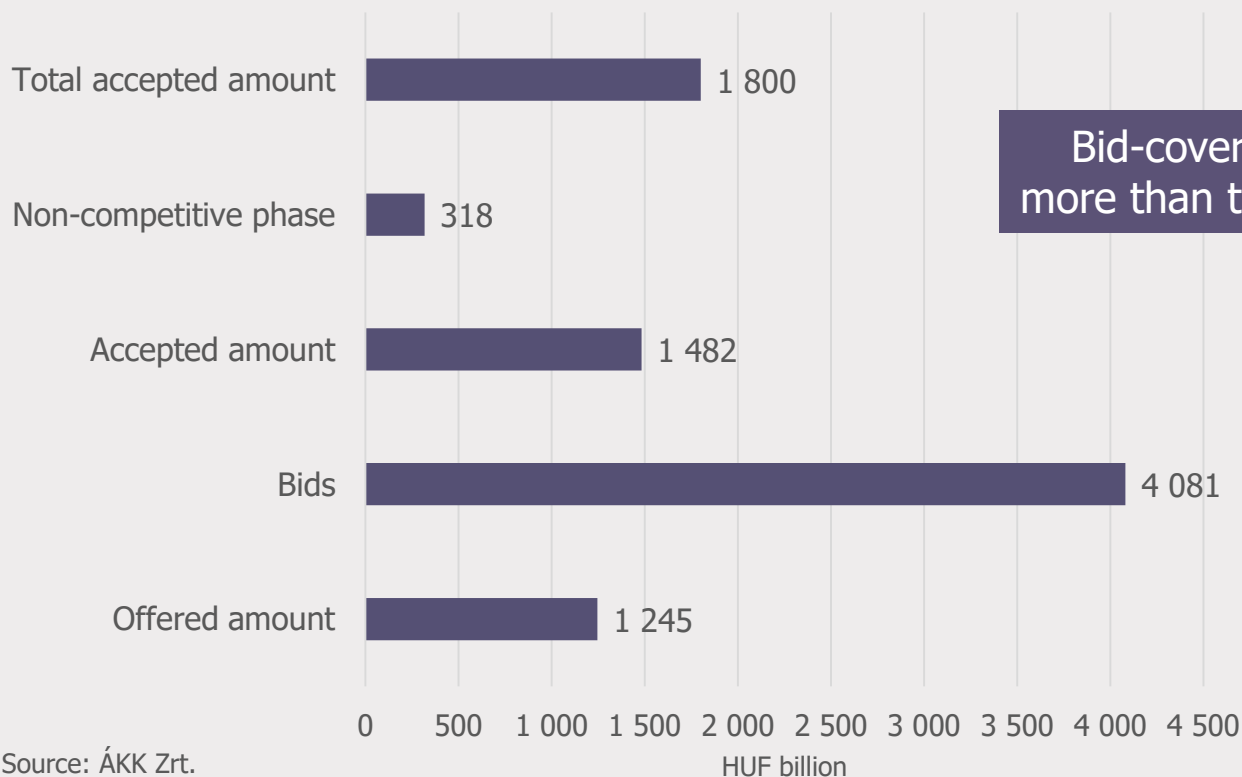


MAIN TOPICS

1. FINANCING OF THE CENTRAL GOVERNMENT IN 2017
2. MAIN CHARACTERISTICS OF THE FINANCING PLAN FOR 2018

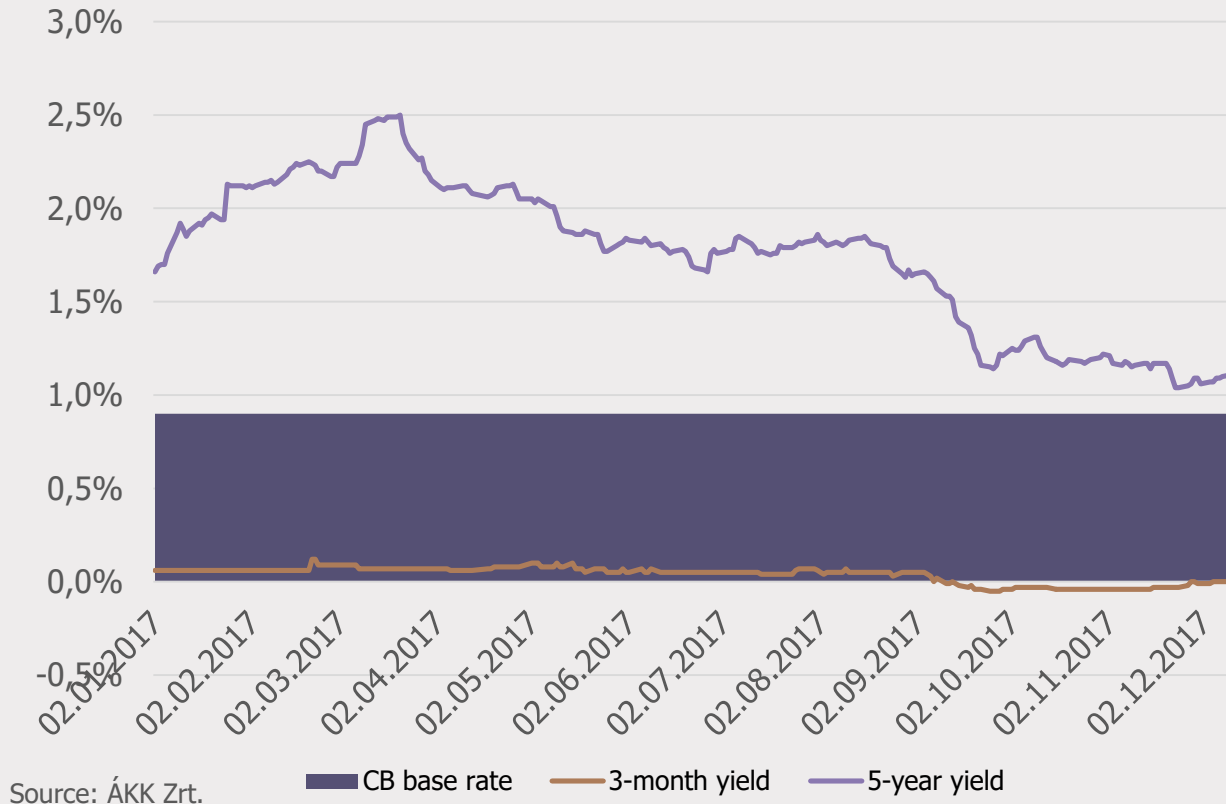
1. The main objectives of debt management have been met (lower debt level, development of the retail debt program)
2. Ample demand for domestic government bonds, financing target met at lower yields (even negative yields of T-bills)
3. Higher sale of retail securities covered extra net financing need due to EU prefinancing, total net financing need from the domestic market
4. The share of FX debt decreases from 25 percent to 22 percent in 2017
5. Credit Rating Agencies: S&P and Fitch changed Hungary's outlook to positive, better ratings are indicated by market yields (spreads)
6. Debt portfolio improved in the last years, optimal yield-cost structure reached

SOMEWHAT HIGHER GOVERNMENT BOND ISSUANCE THAN PLANNED...



Largest demand for the 5-year bonds, which increased the average time to maturity of the debt portfolio

... WHILE YIELDS HAVE BEEN DECREASING FURTHER

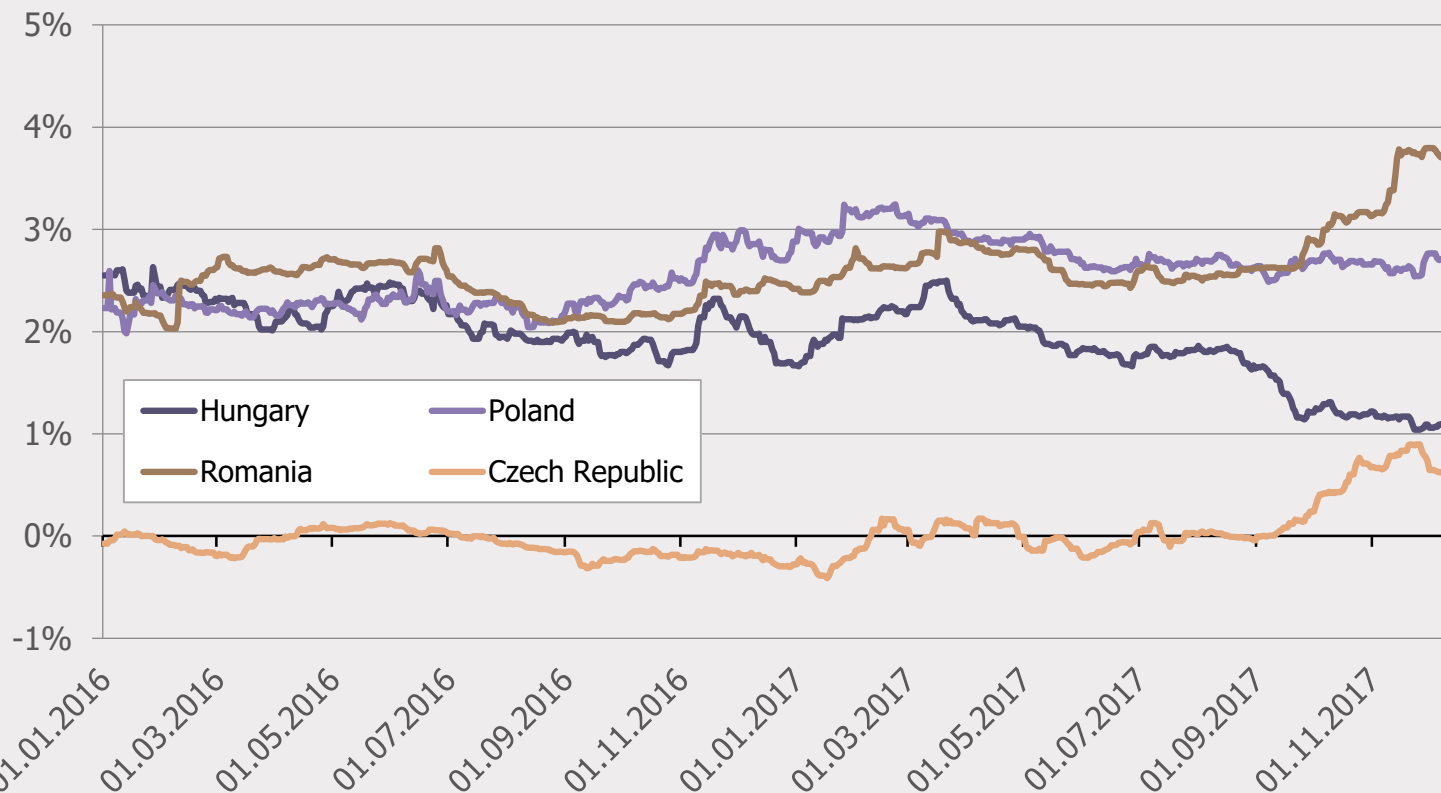


Largely decreasing long term yields, short term yields well below the CB base rate (turned to negative)

SUBSTANTIAL DECREASE IN YIELDS IN COMPARISON WITH PEERS



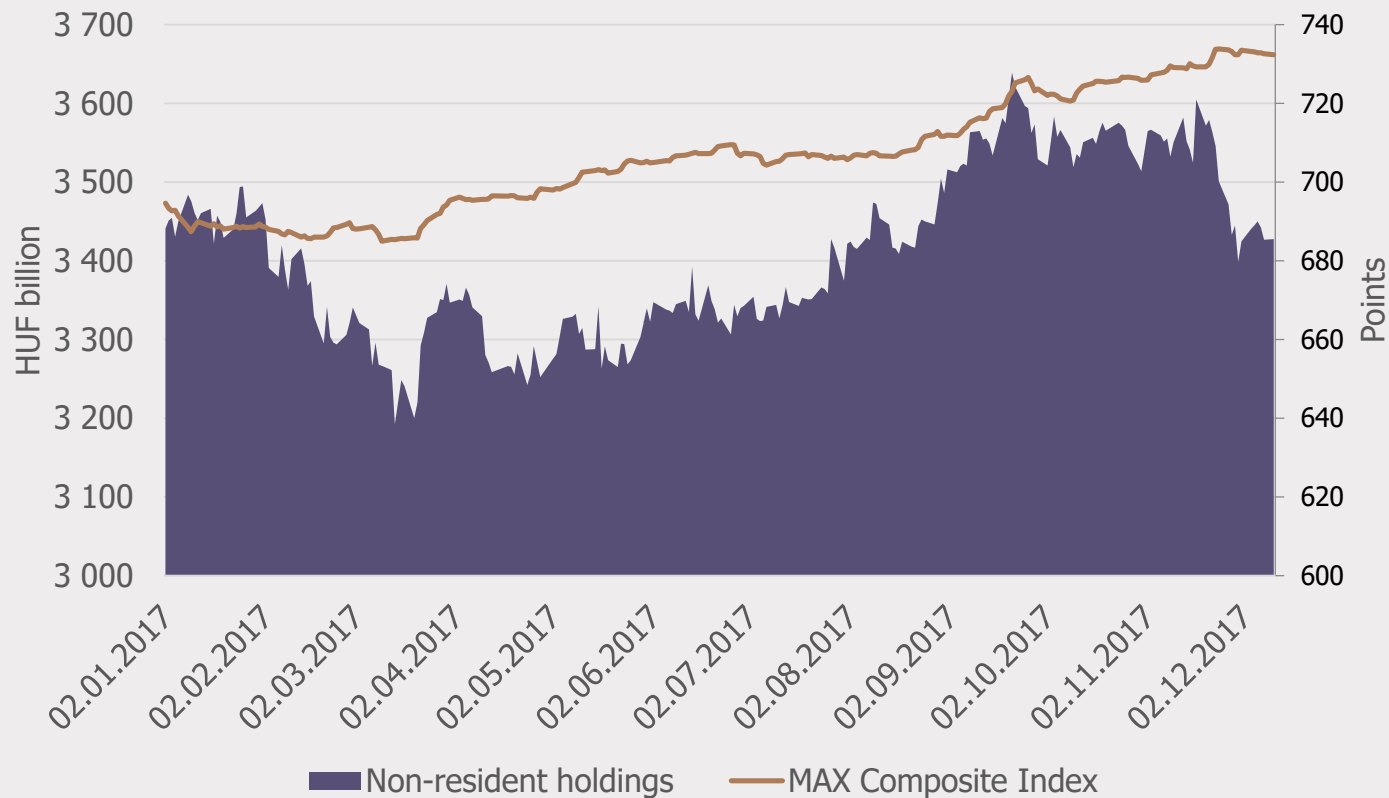
5-years benchmark yields



Source: ÁKK Zrt.

Due to the decrease in yields the Hungarian yield curve has been below the Polish and Romanian yield curve throughout the year – and almost equal to Czech yields at end-November 2017

ALTOGETHER UNCHANGED NON-RESIDENT HOLDINGS

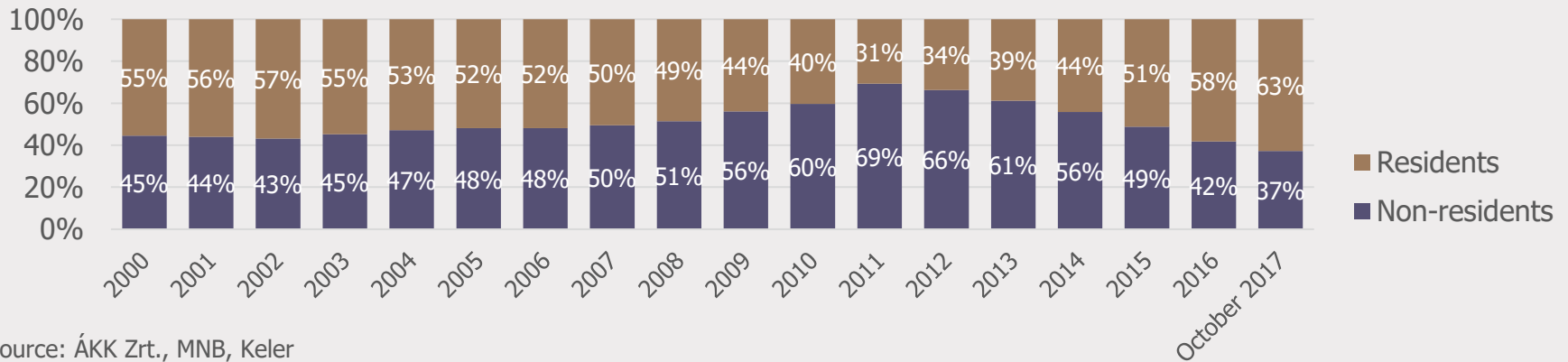


Source: ÁKK Zrt.

Non-resident holdings decreased at the beginning and at the end of 2017

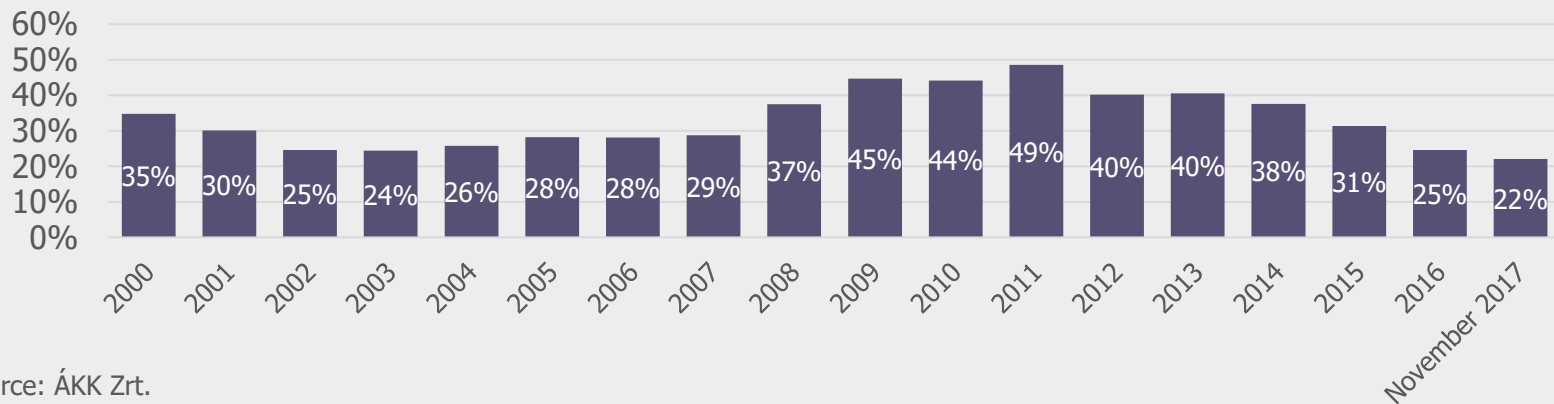
DECREASING SHARE OF FX DEBT, INCREASING DOMESTIC FINANCING

Breakdown of government debt by investors



Source: ÁKK Zrt., MNB, Keler

Share of FX debt



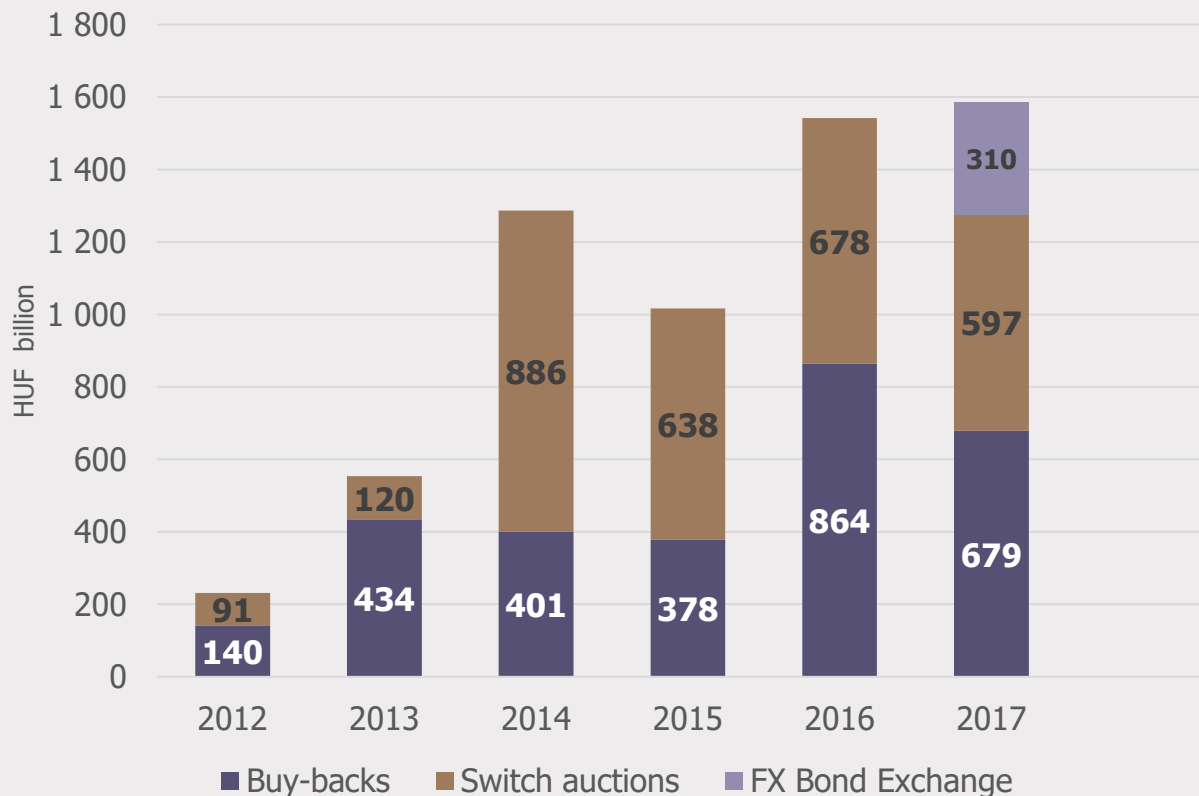
Source: ÁKK Zrt.

- CNY 1 billion Panda bond issuance in July (EUR 130 million)
- 3-year tenor, 4.85% coupon (0.68% after CCYS)

First Hungarian issuance in this market. Only Hungary has issued Government Bonds in both the Dim Sum and the Panda markets.

- EUR 1 billion international FX bond issuance in October via bond exchange (the government debt did not increase, accrual-based [ESA] interest expenditures decreased significantly, increased duration, 6 times oversubscription)
- USD Bond buy backs at market yields with no premium

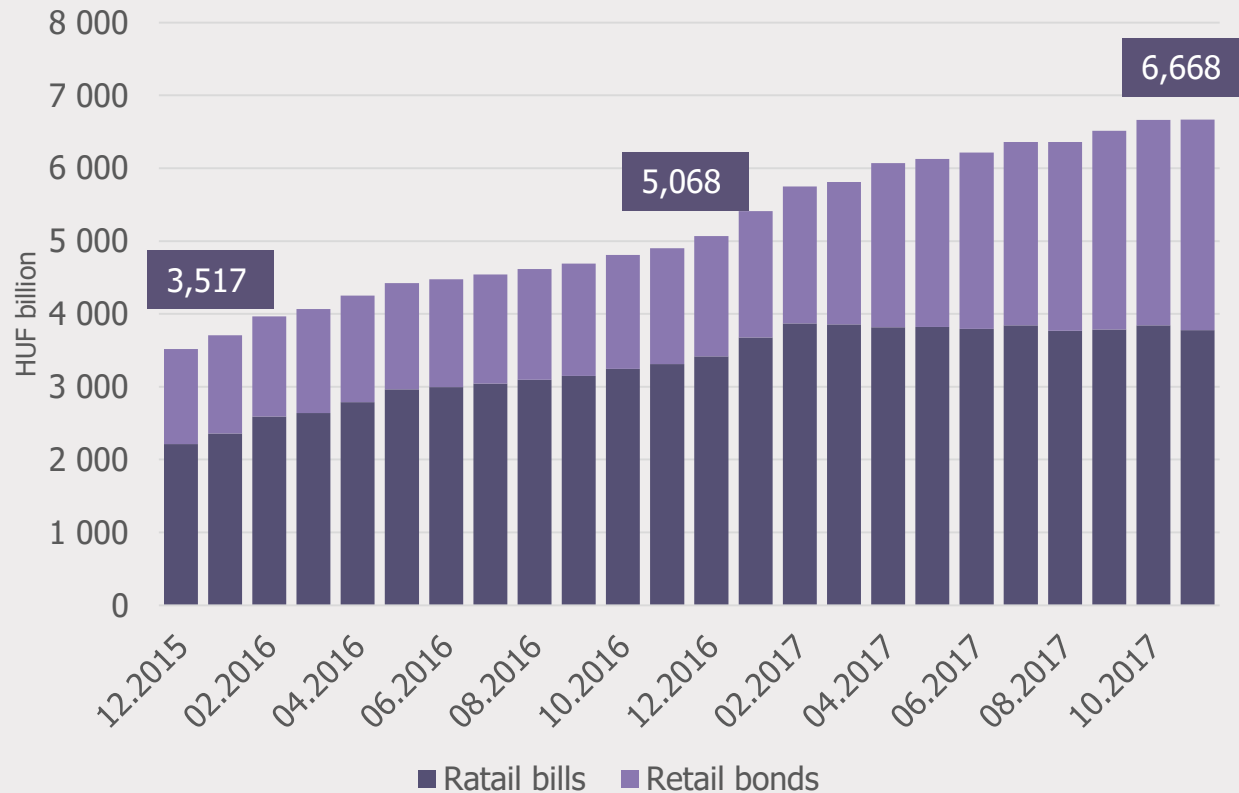
CONTINUED REDUCTION OF REFINANCING RISK FOR THE COMING YEARS, FURTHER IMPROVING DEBT STRUCTURE



Source: ÁKK Zrt.

Successful FX bond exchange (amounted to EUR 1 billion) in 2017

THE OUTSTANDING AMOUNT OF RETAIL HUF SECURITIES INCREASED SIGNIFICANTLY



Source: ÁKK Zrt.

HUF 1,600 billion net sale by the end of November. The highest annual net sale ever! Net retail bond issuance amounted to 75% percent of net retail sales, which increased the average time to maturity of the retail portfolio.

MAIN CHARACTERISTICS OF THE FINANCING PLAN FOR 2018



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To maintain low cost financing, taking account of risks in the long run

3 main objectives of debt management:

1. Decreasing debt ratio
2. High domestic financing (retail)
3. Lower share of FX debt

Principles applied to achieve the above objectives:

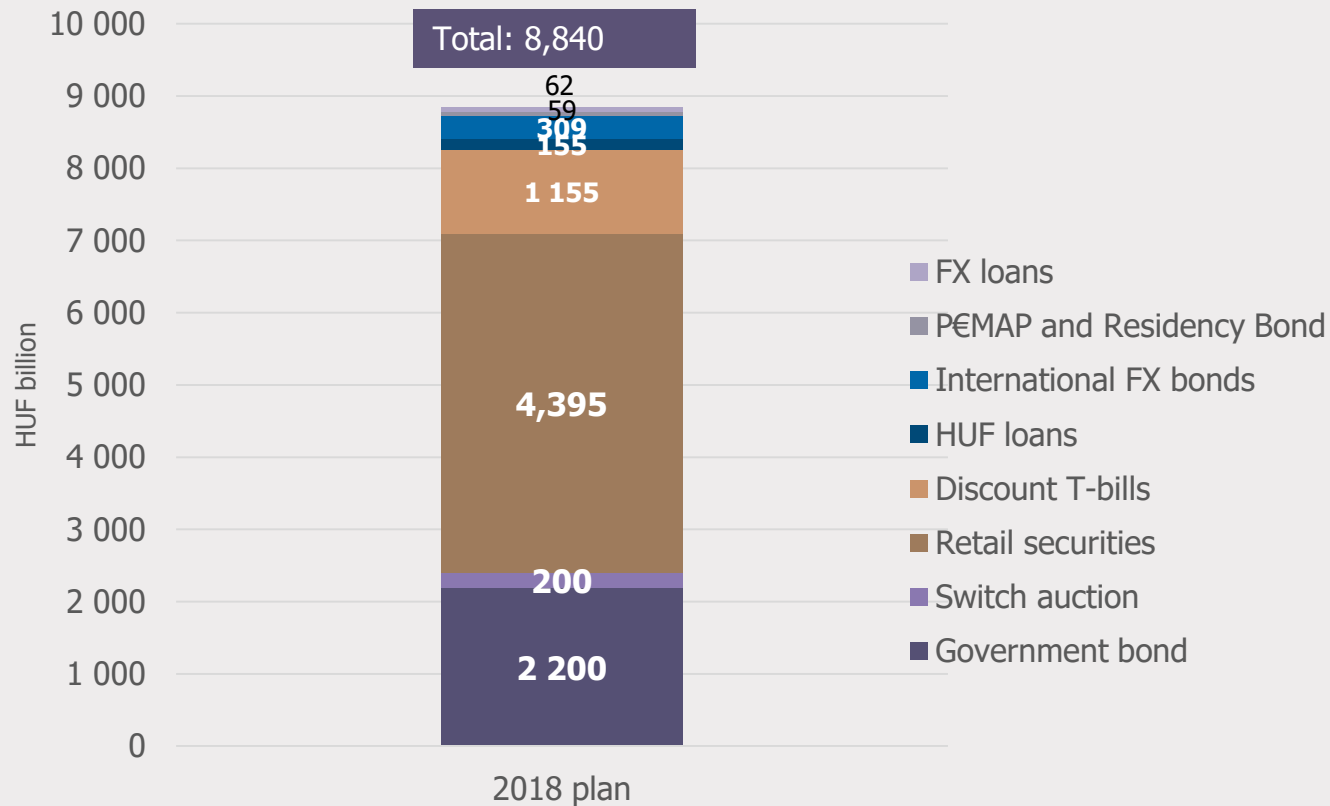
- Increase the role of domestic financing and the retail program
- Lower share of FX debt within the total debt ensured by refinancing EUR 2.3 billion FX redemptions partly from the domestic market and partly by FX bond issuance
- Increasing duration
- Bond transactions used in 2017 are available for 2018 (Panda bond, FX Bond exchange)

PLANNED VOLUME AND STRUCTURE OF GROSS FINANCING NEED

	HUF billion	EUR billion
Net financing requirement	1,361	
Redemption of HUF government bonds	1,121	
Planned bond buy-backs	200	
Planned buy-backs via switch auctions	208	
Redemption of retail securities	4,117	
Redemption of discount T-bills (OECD method)	1,052	
Redemption of international FX bonds	483	1.6
Redemption of government FX bond (P€MÁP)	84	0.3
Redemption of FX loans	132	0.4
Total redemptions	7,397	
Gross financing requirement	8,758	

EUR 2.3 billion FX debt redemption in 2018, smaller than in 2017 (without bond exchange)

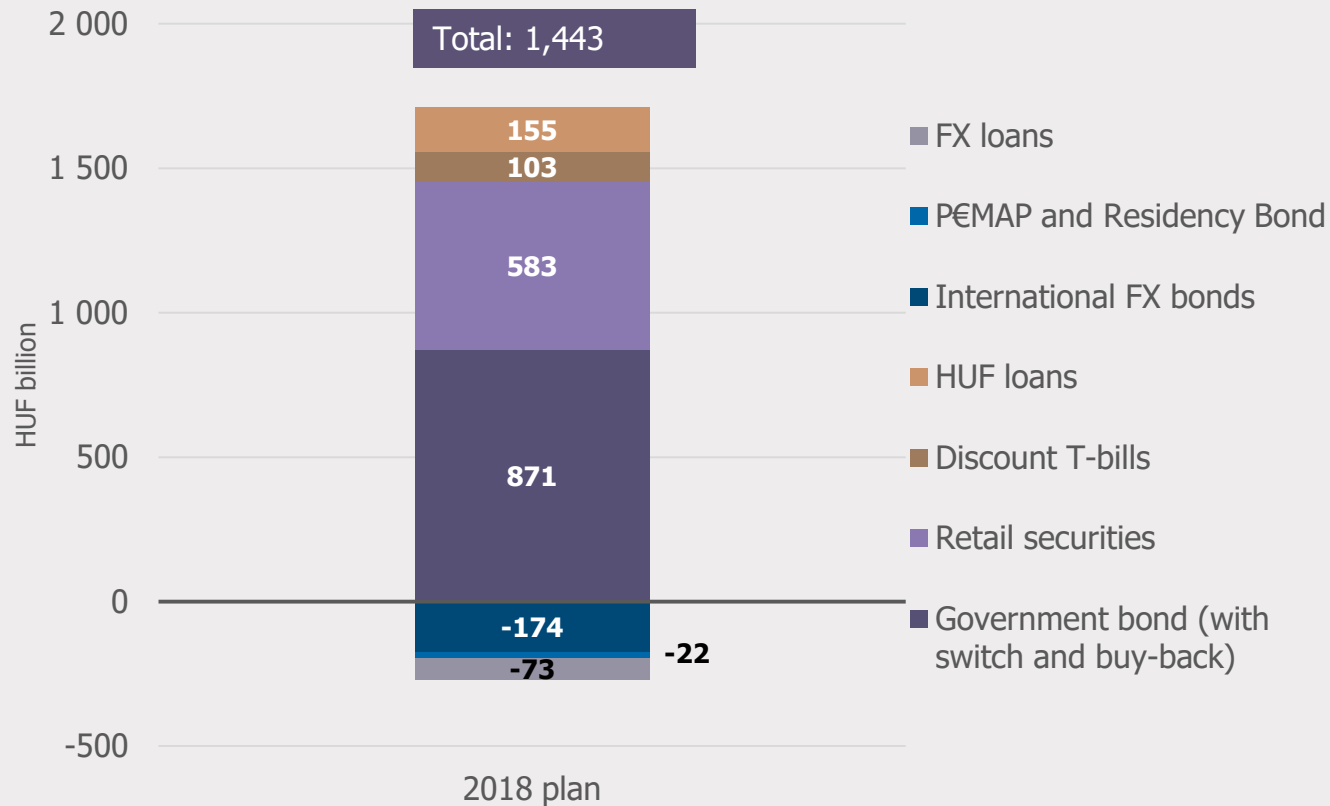
PLANNED VOLUME AND STRUCTURE OF GROSS ISSUANCE IN 2018



Source: ÁKK Zrt.

HUF bond and retail issuances are the main source of funds. International FX issuance is expected to a total amount EUR 1 billion.

PLANNED VOLUME AND STRUCTURE OF NET ISSUANCE IN 2018



Source: ÁKK Zrt.

Positive net HUF issuance, negative net FX issuance.
HUF bond and retail issuances are the main source of funds.

FINANCING PLAN FOR 2018 - SUMMARY

1. Low redemptions of HUF bonds due to the buy-backs and switches in previous years
2. Low (EUR 2.3 billion) FX debt redemption
3. The role of HUF bonds and retail securities is the most important
4. EUR 1 billion international bond issuance (may be RMB, EUR, JPY, USD)
5. Decreasing share of FX debt to 20%

THANK YOU FOR YOUR ATTENTION!

