

FINANCING OF THE CENTRAL GOVERNMENT IN AUGUST 2017

1. Government debt data

The debt of the central government increased by HUF 650.3 billion in the January-August period due to the following reasons:

- **The first factor** is the net forint issuance of HUF 1,333.8 billion – including retail government securities issuance – executed in the domestic market, which finances the annual deficit of the central government budget and partly the foreign currency debt maturing this year.
- **The second factor – which had contrary effect than the above mentioned factor** – is the net foreign currency redemption of HUF 271.2 billion.
- **The third decreasing factor** is that the forint appreciated, that decreased the HUF value of the foreign currency debt by HUF 93,8 billion.
- **The fourth factor – which is also a decreasing factor** – is the change of the foreign currency exchange rates that decreased the mark-to-market deposits placed at GDMA by HUF 318.4 billion.

According to the preliminary data **the domestic and foreign currency debt of central government** was the following in 2017.

	31.12.2016		Issuance (increase in debt)	Redemptions (decrease in debt)	Other changes	Net change	31.08.2017		change percent
	Debt stock (preliminary data)	Breakdown					I-VIII month		
1. HUF denominated debt	18,430.869	72.48%	7,265.330	5,931.578	0.000	1,333.752	19,764.621	75.8%	3.3%
1.1. Loans	865.025	3.40%	12.039	0.000	0.000	12.039	877.064	3.36%	0.0%
1.1.1. Foreign	865.025	3.40%	12.039	0.000	0.000	12.039	877.064	3.36%	0.0%
1.1.2. Domestic	0.000	0.00%	0.000	0.000	0.000	0.000	0.000	0.00%	0.0%
1.2. Government securities	17,565.844	69.08%	7,253.290	5,931.578	0.000	1,321.713	18,887.557	72.42%	3.3%
1.2.1. Public issues	17,526.667	68.92%	7,253.290	5,931.578	0.000	1,321.713	18,848.379	72.27%	3.3%
1.2.1.1. Bonds	11,562.378	45.47%	1,786.790	1,671.486	0.000	115.304	11,677.682	44.78%	-0.7%
1.2.1.2. Discount T-bills	896.376	3.52%	1,238.131	1,322.710	0.000	-84.579	811.798	3.11%	-0.4%
1.2.1.3. Retail securities	5,067.913	19.93%	4,228.369	2,937.383	0.000	1,290.987	6,358.899	24.38%	4.5%
1.2.2. Private placements (bonds)	39.178	0.15%	0.000	0.000	0.000	0.000	39.178	0.15%	0.0%
2. Foreign currency denominated debt	6,256.507	24.60%	348.945	620.160	-93.782	-364.996	5,891.511	22.59%	-2.0%
2.1. Loans	1,101.596	4.33%	107.818	115.376	-17.786	-25.344	1,076.252	4.13%	-0.2%
2.1.1. Foreign	1,097.589	4.32%	107.818	111.374	-17.780	-21.337	1,076.252	4.13%	-0.2%
2.1.2. Domestic	4.007	0.02%	0.000	4.002	-0.005	-4.007	0.000	0.00%	0.0%
2.2. Government securities	5,154.911	20.27%	241.128	504.784	-75.996	-339.652	4,815.259	18.46%	-1.8%
2.2.1. Issued abroad	4,618.946	18.16%	38.830	464.283	-66.419	-491.872	4,127.073	15.82%	-2.3%
2.2.2. Issued in Hungary	535.965	2.11%	202.298	40.501	-9.577	152.220	688.185	2.64%	0.5%
Total	24,687.376	97.08%	7,614.275	6,551.738	-93.782	968.756	25,656.132	98.37%	1.3%
Other debt	742.670	2.92%	698.489	1,007.012	-9.910	-318.433	424.238	1.63%	-1.3%
Total central government debt	25,430.047	100.00%	8,312.764	7,558.749	-103.692	650.323	26,080.370	100.00%	0.0%

The foreign currency debt of the central government decreased by HUF 365.0 billion in 2017 and amounted to HUF 5,891.5 billion at the end of August 2017. The share of foreign currency denominated debt within the total debt decreased from 24.6% to 22.6% in 2017.

The forint denominated debt increased by HUF 1,333.8 billion and amounted to HUF 19,764.6 billion. The share of HUF-denominated debt reached 75.8% of the total debt, while in December 2016 this proportion was 72.5%.

The stock of retail securities increased by HUF 1,291.0 billion from the end of 2016 and amounted to HUF 6,358.9 billion at the end of August. The combined outstanding amount of the Premium Hungarian Government Bonds and the Bonus Hungarian Government Bonds increased by HUF 619.9 billion by the end of August and reached HUF 2,141.0 billion. The 2-year Government Bond is issued from April and the stock reached HUF 303.3 billion. The stock of the Interest Bearing T-bills increased by HUF 358.3 billion and reached HUF 3,423.8 billion at the end of August.

The volume of non-resident holdings of Hungarian government securities increased by HUF 111.7 billion in August. 99.4% of non-resident holdings was T-bonds, which amounted to HUF 3,465.4 billion. The non-resident holdings of Discount T-Bills amounted to HUF 20.9 billion, that represented only 0.6% of total non-resident holdings. The duration of the non-resident stock was 5.7 years at the end of August 2017.

In order to reduce counterparty risk associated with the swap transactions concluded by ÁKK, so-called marked-to-market deposits are being placed as collateral covering the net value of the swap positions. Such deposits placed at ÁKK are counted as part of the government debt as 'other obligations'. During the first eighth month marked-to-market deposits decreased by HUF 318.4 billion and reached HUF 424.2 billion (EUR 1.4 billion) at the end of the month.

2. Forint yields

The average bid-to-cover ratio of Discount T-bill auctions decreased from 2.3 to 2.0 in August. The bid-to-cover ratio of T-bond auctions increased from 1.8 to 2.9.

The average yield of the last 3-month Discount Treasury Bill auction in August was 0.00%, 2 basis points lower than in the previous month. The average yield of the last 12-month Discount Treasury Bill auction in August was 0.07% 3 basis points lower compared to July.

The average yield of the last 3-year government bond auction in August was 0.69% 6 basis points lower compared to the previous month. The average yield of the last 5-year government bond auction was 1.61% 14 basis points lower compared to July. Finally, the average yield of the last auction of 10-year government bond was 2.96%, lower by 13 basis points compared to the previous month's average yield.