

FINANCING OF THE CENTRAL GOVERNMENT

1. Government debt data

The debt of the central government increased by HUF 251.4 billion in February due to the following reasons:

- **The first factor** is the net forint issuance of HUF 346.4 billion – including retail government securities issuance – executed in the favorable market situation, which finances the annual deficit of the central government budget and partly the foreign currency debt maturing later this year. In line with the increasing debt the balance of the Treasury Single Account increased by HUF 469.9 billion in 2016 as well.
- **The second factor** is the net foreign currency issuance of HUF 12.3 billion.
- **The third factor** – which had contrary effect than the above mentioned factors – is the change of the foreign currency exchange rates that decreased the mark-to-market deposits placed at GDMA by HUF 48.9 billion.
- **The fourth one** – which is also decreasing factor – is that the forint appreciated slightly, which decreased the HUF value of the foreign currency debt by HUF 58.5 billion.

According to the preliminary data **the domestic and foreign currency debt of central government** is the following in 2016:

Central government gross debt and debt transactions in 2016

	31.12.2015		Issuance (increase in debt)	Redemptions (decrease in debt)	Other changes	Net change	29.02.2016		change percent
	Debt stock (preliminary data)	Breakdown					I-II month		
1. HUF denominated debt	16 207.936	65.62%	1 811.891	1 465.539	0.000	346.352	16 554.288	66.35%	0.7%
1.1. Loans	694.107	2.81%	42.500	0.000	0.000	42.500	736.607	2.95%	0.1%
1.1.1. Foreign	694.107	2.81%	42.500	0.000	0.000	42.500	736.607	2.95%	0.1%
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	15 513.830	62.81%	1 769.391	1 465.539	0.000	303.852	15 817.682	63.39%	0.6%
1.2.1. Public issues	15 462.312	62.60%	1 769.391	1 456.539	0.000	312.852	15 775.164	63.22%	0.6%
1.2.1.1. Bonds	11 043.375	44.71%	363.224	739.306	0.000	-376.082	10 667.293	42.75%	-2.0%
1.2.1.2. Discount T-bills	901.552	3.65%	660.572	421.370	0.000	239.202	1 140.753	4.57%	0.9%
1.2.1.3. Retail securities	3 517.385	14.24%	745.595	295.863	0.000	449.732	3 967.118	15.90%	1.7%
1.2.2. Private placements (bonds)	51.518	0.21%	0.000	9.000	0.000	-9.000	42.518	0.17%	0.0%
2. Foreign currency denominated debt	7 735.799	31.32%	13.533	1.191	-58.460	-46.118	7 689.681	30.82%	-0.5%
2.1. Loans	1 696.806	6.87%	0.000	1.083	-12.871	-13.954	1 682.851	6.74%	-0.1%
2.1.1. Foreign	1 614.229	6.54%	0.000	0.671	-12.207	-12.878	1 601.352	6.42%	-0.1%
2.1.1.1. Loan from EU	469.680	1.90%	0.000	0.000	-3.555	-3.555	466.125	1.87%	0.0%
2.1.1.2. Other	1 144.549	4.63%	0.000	0.671	-8.652	-9.323	1 135.227	4.55%	-0.1%
2.1.2. Domestic	82.576	0.33%	0.000	0.412	-0.664	-1.076	81.500	0.33%	0.0%
2.2. Government securities	6 038.993	24.45%	13.533	0.107	-45.589	-32.163	6 006.830	24.07%	-0.4%
2.2.1. Issued abroad	5 198.881	21.05%	0.000	0.000	-39.106	-39.106	5 159.776	20.68%	-0.4%
2.2.1.1. Foreign currency bonds	5 198.881	21.05%	0.000	0.000	-39.106	-39.106	5 159.776	20.68%	-0.4%
2.2.2. Issued in Hungary	840.112	3.40%	13.533	0.107	-6.483	6.942	847.054	3.39%	0.0%
2.2.2.1. Foreign currency bonds	840.112	3.40%	13.533	0.107	-6.483	6.942	847.054	3.39%	0.0%
Total	23 943.735	96.94%	1 825.424	1 466.730	-58.460	300.234	24 243.970	97.17%	0.2%
Other debt	755.983	3.06%	342.095	384.963	-6.011	-48.879	707.104	2.83%	-0.2%
Total central government debt	24 699.718	100.00%	2 167.520	1 851.693	-64.471	251.355	24 951.073	100.00%	0.0%

The foreign currency debt of the central government decreased by HUF 46.1 billion from the end of December and amounted to HUF 7,689.7 billion at the end of February 2016. The share of foreign currency denominated debt within the total debt decreased to 30.8%, while at the end of the last year it was 31.3%.

The forint denominated debt increased by HUF 346.4 billion and amounted to HUF 16,554.3 billion. The share of HUF-denominated debt reached 66.3% of the total debt, while one month before this proportion was 65.6%.

The stock of retail securities increased by HUF 449.7 billion from the end of December 2015 and amounted to HUF 3,967.1 billion at the end of February. The combined outstanding amount of the Premium Hungarian Government Bonds and the Bonus Hungarian Government Bonds increased by HUF 66.4 billion at the end of February and reached HUF 1,264.7 billion. This shows that retail investors are buying longer term government securities as well. The stock of the Interest Bearing T-bills increased by HUF 370.5 billion and reached HUF 2,267.5 billion at the end of February.

The volume of non-resident holdings of Hungarian government securities decreased by HUF 154.3 billion in February. 99.9% of non-resident holdings was T-bonds, which amounted to HUF 3,676.0 billion. The stock of non-resident Discount T-Bills amounted to HUF 4.0 billion, that represents 0.1% of total non-resident holdings. The duration of the non-resident stock was 5.3 years at the end of February 2016. It shows that last year's trend continued in 2016. Foreign investors reduced their holdings of forint bonds, while the duration of their holdings slightly increased. Domestic investors demand easily absorbed the stocks sold by foreign investors.

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 two months marked-to-market deposits decreased by HUF 48.9 billion and reached HUF 707.1 billion (EUR 2.3 billion) at the end of the month.

2. Forint yields

The average bid-to-cover ratio of Discount T-bill auctions decreased from 2.2 in January to 1.5 in February. The bid-to-cover ratio of T-bond auctions decreased from 2.2 to 2.1.

The average yield of the last 3-month Discount Treasury Bill auction in February was 1.06%, higher by 8 basis points compared to the previous month. The average yield of the last 12-month Discount Treasury Bill auction in February was 1.03%, higher by 3 basis points compared to January.

The average yield of the last 3-year government bond auction in February was 1.92%, lower by 38 basis points compared to the previous month. The average yield of the last 5-year government bond auction was 2.43%, lower by 31 basis points compared to January. Finally, the average yield of the last auction of 10-year government bond was 3.33%, lower by 27 basis points compared to the previous month's average yield.