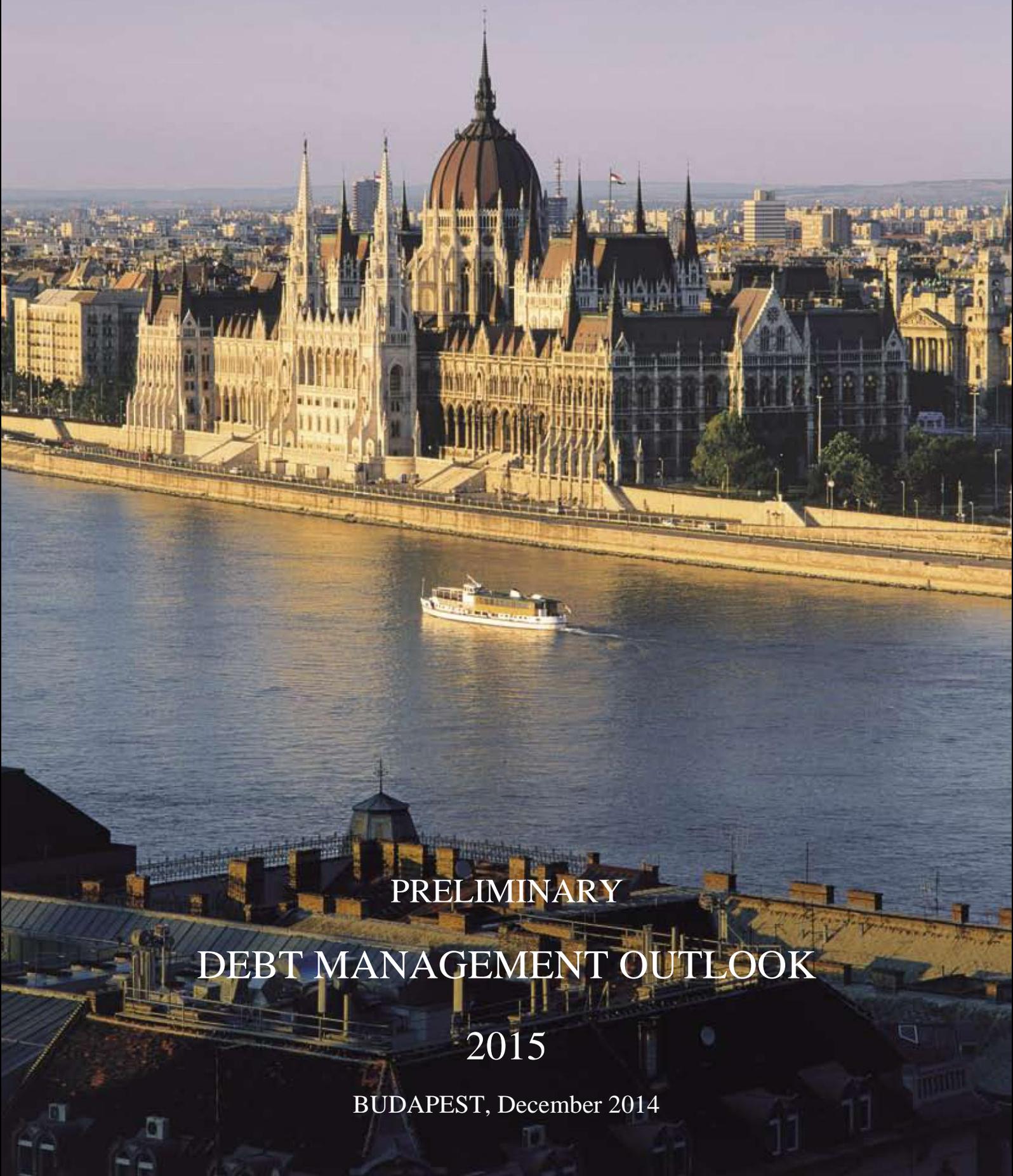




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GOVERNMENT DEBT MANAGEMENT AGENCY PTE LTD.



PRELIMINARY

DEBT MANAGEMENT OUTLOOK

2015

BUDAPEST, December 2014

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1. Net financing requirements in 2015

The deficit of the central government is the sum of the balances of the central government budget, the social security funds and the extra-budgetary funds. The deficit of the central government calculated on a *cash-flow basis* is planned at **HUF 877 billion**, equaling to 2.6% of the GDP.

The total cash-flow based net financing requirement for the year 2015 – that comprises of the deficit of the central government and the projected pre-financing of EU transfers – will amount to HUF 685 billion. The planned net issuance will finance the deficit of the central government, while the projected positive balance of EU transfers is considered to increase the liquidity reserve.

Cash-flow based financing requirements in 2015 (plan)

	HUF billion
Balance of the central government budget	-825
Balance of the social security funds	0
Balance of the extra-budgetary funds	-52
Net financing requirement of the central government	-877
Net pre-financing of EU transfers	192
Total net financing requirement	-685

2. Government debt redemptions

The total amount of government debt redemptions in 2015 is planned at **HUF 5,099 billion**.¹

	HUF billion	In EUR billion
Domestic redemptions	4,368	14.1
T-bonds	719	2.3
Planned bond buy-backs	280	0.9
Retail securities	1,652	5.3
Discount T-bills	1,640	5.3
Loans	77	0.25
FX redemptions	731	2.35
T-bonds	654	2.1
IFI and other loans	77	0.25
Total	5,099	16.4

(at 310 HUF/EUR exchange rate)

¹ ÁKK provides gross issuance and redemption data according to the methodology recommended by OECD which takes redemptions of short-term securities - typically Treasury bills - only once into account avoiding multiple counting.

The redemption of domestic currency debt will amount to **HUF 4,368 billion**, of which domestic bond redemptions account for HUF 719 billion, discount T-bills for HUF 1,640 billion, retail government securities for HUF 1,652 billion and HUF loans for HUF 77 billion. In order to decrease future refinancing risk, ÁKK plans to buy back bonds maturing in 2016 or later.

Foreign currency debt redemptions are expected to be **HUF 731 billion (EUR 2.35 billion)** – about EUR 3 billion lower than planned for 2014 – , out of which international bond redemptions will amount to EUR 2.1 billion, while the redemption of IFI and other loans will amount to EUR 0.25 billion.

3. Gross issuance

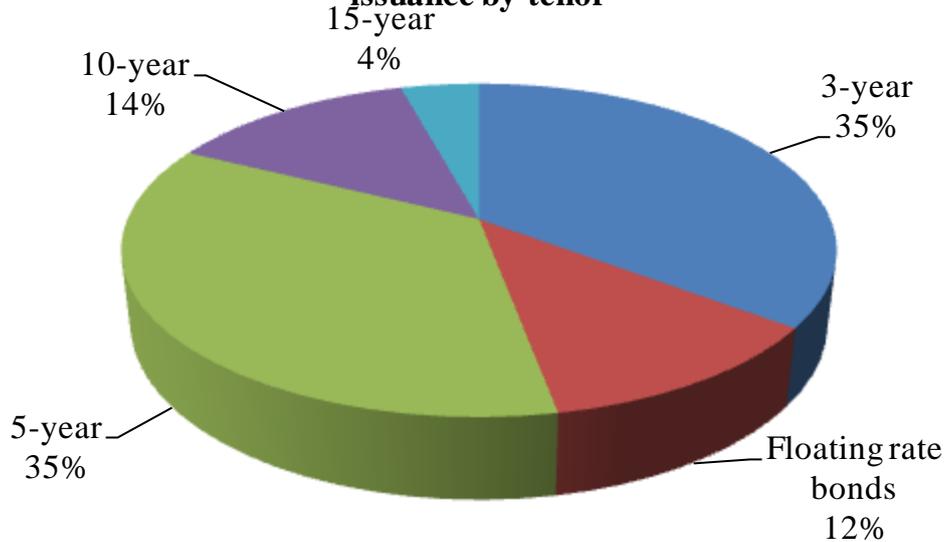
Total gross issuance is planned at **HUF 5,989 billion** in 2015, of which 97 per cent (or **HUF 5,829 billion**) will be in domestic currency and only 3 per cent (**HUF 160 billion** or EUR 0.5 billion) will be in foreign currencies.

	HUF billion	In EUR (billion)
Gross issuance		
Domestic debt	5,829	18.8
T-bonds	2,125	6.9
Retail securities	1,954	6.3
Discount T-bills	1,527	4.9
HUF loans	223	0.7
FX currency debt	160	0.5
International bonds	0	0.0
Domestic FX bonds*	160	0.5
IFIs loans	0	0.0
Total	5,989	19.3

* Residence Bond and Premium Euro Hungarian Government Bond

HUF 2,125 billion worth of Hungarian Forint government bonds will be offered at auctions, with a breakdown by tenor similar to that of the previous year.

Breakdown of the gross domestic government bond issuance by tenor



The planned issuance of HUF-denominated government bonds are as follows:

Tenor	Issuance (HUF billion)
3-year	750
Floating rate bonds	250
5-year	750
10-year	285
15-year	90
Total	2,125

ÁKK will launch a new 3-year and a 15-year bond series, while for the 5-year and 10-year tenor the current benchmark bonds will be offered. ÁKK will issue two new series of floating rate bonds that will be offered bi-weekly together with the 1-year discount Treasury-bill. The issuance calendar contains only the dates of bond auctions. ÁKK will decide on the actual bond series and the amounts offered after consultations with Primary Dealers in the week of the auction. However, the current practice, i.e. regular simultaneous sales of the 3, 5 and 10-year bonds is likely to be continued in 2015 and the 15 year bond may be offered bi-monthly or quarterly replacing the 10 year bond. ÁKK will hold both bond-buyback and exchange auctions – similar to the practice followed recently – in order to support a balanced government bond issuance pattern as well as to manage the maturity profile and to reduce the refinancing risk of the bond portfolio.

ÁKK intends to cover the foreign currency maturities to a large extent from the domestic market. If ample domestic demand remains in 2015, ÁKK will not issue foreign currency bond in the international capital market. The issuance of the Residence Bond and the domestic Premium Euro Hungarian Government Bond is expected to be EUR 0.5 billion. ÁKK intends to drawdown project financing loans in domestic currency.

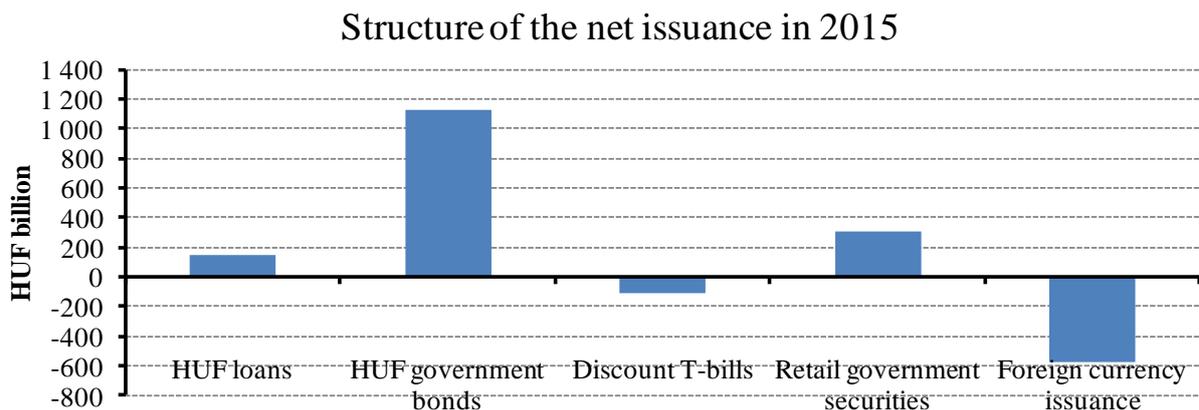
4. Net issuance

Net government debt issuance is planned in an amount of **HUF 890 billion**, out of which domestic debt issuance will reach **HUF 1,461 billion**, and net foreign currency borrowing will amount to **HUF -571 billion** (EUR -1.85 billion).

ÁKK will monitor closely the market and will decide on the amounts accepted at auctions according to bids. Net issuance covers the deficit of the central government, while projected surplus of EU transfers is considered as safety reserve.

Out of the net domestic government securities issuance net bond issuance will be HUF 1,126 billion and net discount T-bill issuance will amount to HUF -113 billion, while the stock of retail government securities will increase by HUF 302 billion. Net issuance of HUF loans will be HUF 146 billion.

The total foreign currency redemption will amount to EUR 2.35 billion. The gross foreign currency issuance is planned at EUR 0.5 billion, thus **the net foreign currency issuance is expected to amount EUR -1.85 billion in 2015.**



5. Debt management strategy

ÁKK's main objective is to finance the central government at the lowest costs in the long run taking account of risks. This objective is quantified by setting benchmarks, which are in part based on an optimal portfolio model using Value-at-Risk (VaR) and Cost-at-Risk (CaR) for taking into account both costs and risks. ÁKK has determined the following benchmark values for government debt management in 2015:

- ***Share of foreign currency debt:*** The share of the foreign currency denominated debt within the total central government debt should be below 40 per cent and declining. **This benchmark has changed from 45% to 40% comparing to 2014.**

- **Currency mix of the foreign currency denominated debt:** In order to mitigate cross-currency exchange rate risk, foreign currency obligations after swaps should be 100% in EUR, allowing for a 5% deviation from this target.
- **Fixed / floater composition:** Within the **HUF debt**, the share of the fixed rate elements should be in the range of 61-83%, that of floating rate debt, which includes all short-term debt, between 17% and 39%. Within the **foreign currency denominated debt**, the optimal share of fixed rate debt is 66%, with a 5% tolerance band.
- **Duration:** In order to keep an acceptable level of refinancing risk, the Macaulay duration of the HUF debt portfolio is targeted at 3 years +/- 0.5 year, 0.5 year longer than in previous years. The increase in duration of Hungarian domestic public debt was made possible by the increased demand for longer term securities. Not only bond auctions were more successful but bond exchange auctions as well. ÁKK reacted to this increased demand according to its general policy of flexibility of auction acceptance but also to decrease refinancing risk of the domestic portfolio. At the same time increasing the duration was also necessary in order to avoid the decrease in the duration of the overall portfolio, as the FX part – now being partly refinanced by HUF - had a duration longer than the average.
- **Liquidity:** In order to maintain the continuously safe financing of the budget, a minimum target balance of the Single Treasury Account has been determined and ÁKK's objective is to keep the end-of-day actual balance over this level.

In the case of the first five benchmark values ÁKK takes into account their 3-month moving average values, to avoid unnecessary reaction to one-off or temporary market movements that actually would not need a response in the medium or longer term.

6. Further information

This Debt Management Outlook was compiled based on information available in the middle of December, 2014. Thus the projected figures for 2015 may change according to the outturn of the financing needs and debt issuances. Even though the structure of financing may change compared to the plans, the issuance calendar is fixed (see next chapter), and ÁKK will not change the set of instruments used, its strategic objectives and its strategic behavior in the markets either.

ÁKK's website (www.akk.hu, www.gdma.hu) and its regular publications and reports (monthly and quarterly publications; monthly report on debt transactions) provide updated information on the financing needs, the debt transactions and the government debt. ÁKK also discloses until the 15th of each month the detailed domestic market issuance plan for the next 3 months, which shows the amounts to be issued for each tenor.

7. Issuance calendar

Issuance calendar of government bonds in 2015

Type	Date of auction	Date of settlement
Fixed rate	2015.01.08	2015.01.14
HGB	2015.01.22	2015.01.28
	2015.02.05	2015.02.11
	2015.02.19	2015.02.25
	2015.03.05	2015.03.11
	2015.03.19	2015.03.25
	2015.04.02	2015.04.08
	2015.04.16	2015.04.22
	2015.04.30	2015.05.06
	2015.05.14	2015.05.20
	2015.05.28	2015.06.03
	2015.06.11	2015.06.17
	2015.06.25	2015.07.01
	2015.07.09	2015.07.15
	2015.07.23	2015.07.29
	2015.08.06	2015.08.12
	2015.08.19	2015.08.26
	2015.09.03	2015.09.09
	2015.09.17	2015.09.23
	2015.10.01	2015.10.07
	2015.10.15	2015.10.21
	2015.10.29	2015.11.04
	2015.11.12	2015.11.18
	2015.11.26	2015.12.02
	2015.12.10	2015.12.16

Type	Date of auction	Date of settlement
Floating rate	2015.01.15	2015.01.21
HGB	2015.01.29	2015.02.04
	2015.02.12	2015.02.18
	2015.02.26	2015.03.04
	2015.03.12	2015.03.18
	2015.03.26	2015.04.01
	2015.04.09	2015.04.15
	2015.04.23	2015.04.29
	2015.05.07	2015.05.13
	2015.05.21	2015.05.27
	2015.06.04	2015.06.10
	2015.06.18	2015.06.24
	2015.07.02	2015.07.08
	2015.07.16	2015.07.22
	2015.07.30	2015.08.05
	2015.08.13	2015.08.19
	2015.08.27	2015.09.02
	2015.09.10	2015.09.16
	2015.09.24	2015.09.30
	2015.10.08	2015.10.14
	2015.10.22	2015.10.28
	2015.11.05	2015.11.11
	2015.11.19	2015.11.25
	2015.12.03	2015.12.09
	2015.12.17	2015.12.23

Issuance calendar of discount treasury bills in 2015

12-month discount T-bills

Code	Date of auction	Date of settlement	Date of maturity
D151223	30.12.2014	07.01.2015	23.12.2015
D151223	15.01.2015	21.01.2015	23.12.2015
D151223	29.01.2015	04.02.2015	23.12.2015
D160217	12.02.2015	18.02.2015	17.02.2016
D160217	26.02.2015	04.03.2015	17.02.2016
D160217	12.03.2015	18.03.2015	17.02.2016
D160217	26.03.2015	01.04.2015	17.02.2016
D160413	09.04.2015	15.04.2015	13.04.2016
D160413	23.04.2015	29.04.2015	13.04.2016
D160413	07.05.2015	13.05.2015	13.04.2016
D160413	21.05.2015	27.05.2015	13.04.2016
D160608	04.06.2015	10.06.2015	08.06.2016
D160608	18.06.2015	24.06.2015	08.06.2016
D160608	02.07.2015	08.07.2015	08.06.2016
D160608	16.07.2015	22.07.2015	08.06.2016
D160803	30.07.2015	05.08.2015	03.08.2016
D160803	13.08.2015	19.08.2015	03.08.2016
D160803	27.08.2015	02.09.2015	03.08.2016
D160803	10.09.2015	16.09.2015	03.08.2016
D160928	24.09.2015	30.09.2015	28.09.2016
D160928	08.10.2015	14.10.2015	28.09.2016
D160928	22.10.2015	28.10.2015	28.09.2016
D160928	05.11.2015	11.11.2015	28.09.2016
D161123	19.11.2015	25.11.2015	23.11.2016
D161123	03.12.2015	09.12.2015	23.11.2016
D161123	17.12.2015	23.12.2015	23.11.2016

3-month discount T-bills are auctioned every Tuesday, settlement is on the Wednesday of the following week.

Liquidity discount T-bills are auctioned upon decision of the Issuer, generally on Monday with settlement on Wednesday.