



GOVERNMENT DEBT MANAGEMENT AGENCY PTE LTD.

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# DEBT MANAGEMENT OUTLOOK 2017

BUDAPEST, December 2016



# **Contents**

1. Net financing requirement
2. Government debt redemptions
3. Gross issuance
4. Net issuance
5. Debt management strategy
6. Further information
7. Issuance calendar

## 1. Net financing requirements in 2017

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 1,166 billion**, equaling to 3.1% of the GDP.

The total cash-flow based net financing requirement for the year 2017 is equal of the deficit of the central government and it will amount to HUF 1,166 billion. The balance of EU transfers is considered to be part of liquidity management.

### **Cash-flow based financing requirements in 2017 (plan)**

	<b>HUF billion</b>
Balance of the central government budget	-1310
Balance of the social security funds	150
Balance of the extra-budgetary funds	-6
<b>Net financing requirement of the central government</b>	<b>-1,166</b>
<b>Total net financing requirement</b>	<b>-1,166</b>

## 2. Government debt redemptions

The total amount of government debt redemptions in 2017 is planned at **HUF 6,678 billion**.<sup>1</sup>

	HUF billion	In EUR billion
<b>Domestic redemptions</b>	5,943	19.3
T-bonds	835	2.7
Planned bond buy-backs	100	0.3
Planned switch redemption	429	1.4
Retail securities	3,695	12.0
Discount T-bills	883	2.9
<b>FX redemptions</b>	735	2.4
International T-bonds	508	1.65
Domestic T-bonds (PÉMAK)	39	0.1
IFI and other loans	188	0.6
<b>Total</b>	<b>6,678</b>	<b>21.7</b>

<sup>1</sup> 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 5,943 billion**. Domestic bond redemptions will be HUF 835 billion, discount T-bills HUF 883 billion, the sum of HUF 1,718 billion marketable domestic debt redemptions amount to 4.5% of GDP. In order to reduce future refinancing risk, ÁKK plans to buy back (HUF 100 billion) and switch (HUF 429 billion) bonds maturing in 2018 or later. Large part of the domestic debt redemptions is the redemption of retail securities, but the retail sector usually reinvest the maturing retail debt, moreover increase the outstanding stock of retail securities.

Foreign currency debt redemptions are expected to be **HUF 735 billion (EUR 2.4 billion)** – much lower than maturities in 2016 (when the last tranche of the European Commission loan was due) –, out of which international bond redemptions will amount to EUR 1.65 billion, domestic bond redemptions will amount to EUR 0.1 while the redemption of IFI and other loans will amount to EUR 0.6 billion.

### 3. Gross issuance

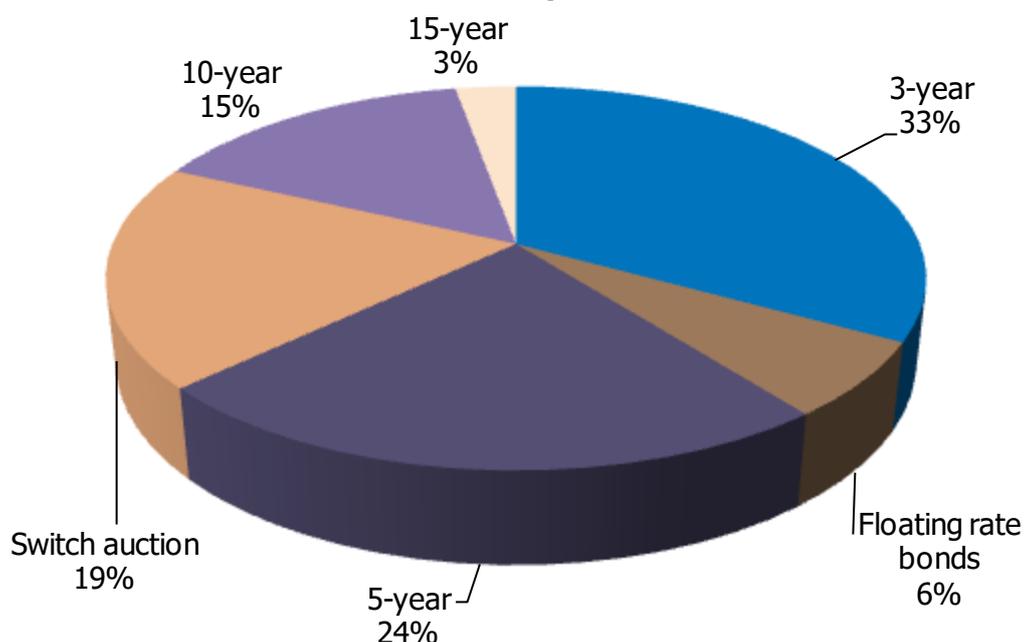
Total gross issuance is planned at **HUF 8,083 billion** in 2017, of which 95 per cent (or **HUF 7,713 billion**) will be in domestic currency and only 5 per cent (**HUF 370 billion** or EUR 1.2 billion) will be in foreign currencies.

	HUF billion	In EUR (billion)
<b>Domestic debt</b>	7,713	25.0
T-bonds	1,718	5.6
Switch auction	400	1.3
Retail securities	4,395	14.3
Discount T-bills	1,046	3.4
HUF loans	154	0.5
<b>FX currency debt</b>	370	1.2
International bonds	308	1.0
Domestic FX bonds*	62	0.2
IFIs loans	0	0.0
<b>Total</b>	8,083	26.2

\* Premium Euro Hungarian Government Bonds and Residency Bonds

**HUF 1,718 billion** worth of Hungarian Forint government bonds will be offered at auctions, while HUF 400 billion expected to be sold at switch auctions, with a breakdown by tenor similar to that of the previous year.

### Breakdown of the gross domestic government bond issuance by tenor



In 2017 the planned issuance of HUF-denominated government bonds are as follows:

Tenor	Issuance (HUF billion)
3-year	700
Floating rate bonds	135
5-year	500
Switch auction (7-11y)	400
10-year	323
15-year	60
Total	2,118

ÁKK will launch a new 3-year, 5-year and 15-year bond series, while for the 7-year and 10-year tenor the current bonds will be offered. The demand for floating rate bonds has decreased in 2016, ÁKK will issue floating rate bonds considering the market demand. The issuance calendar contains the potential dates of floating rate bond auctions (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 to be continued in 2017 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 finance half of the foreign currency maturities from the domestic market. The planned EUR 1 billion international FX issuance may change (may be higher or lower) depending on the international and domestic market demand, and FX buyback operations. The main advantage of FX issuance is the diversification of investors' base, thus issuances in several currencies are possible. ÁKK will set the concrete parameters of FX issuances before the actual transactions. The issuance of the domestic Premium Euro Hungarian Government Bond and the Residency Bond is expected to provide additional funding of EUR 200 million. Drawdown of project financing loans will be in the domestic currency.

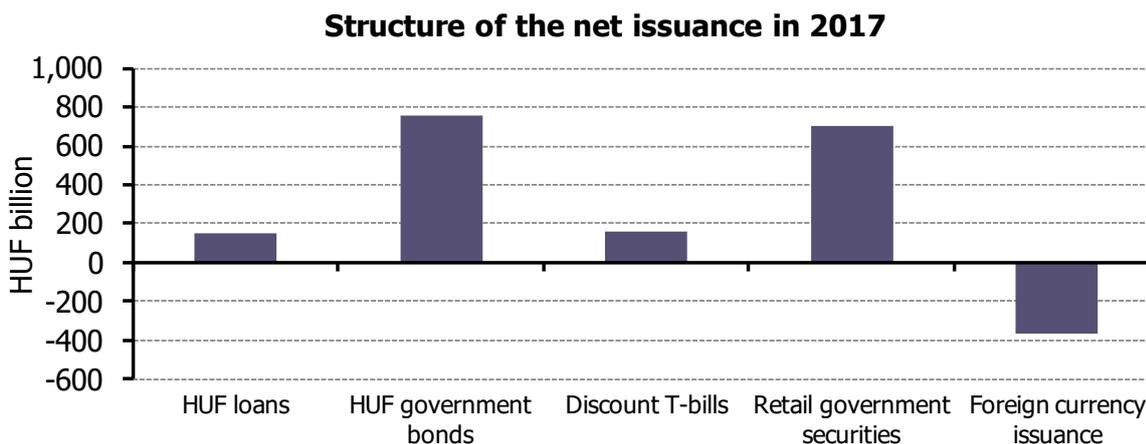
#### 4. Net issuance

Net government debt issuance is planned in an amount of **HUF 1,405 billion**, out of which domestic debt issuance will reach **HUF 1,771 billion**, and net foreign currency borrowing will amount to **HUF -365 billion** (EUR -1,2 billion).

*ÁKK will monitor closely the market and will decide on the amounts accepted at auctions according to bids. Since gross issuance of FX debt can be higher or lower than included in this plan net issuance can also change. Net issuance covers the deficit of the central government and increases the safety reserve of the government.*

Out of the net domestic government securities issuance (HUF 1,616 billion) net bond issuance will be HUF 754 billion and net discount T-bill issuance will amount to HUF 162 billion, while the stock of retail government securities will increase by HUF 700 billion. Net issuance of HUF loans will be HUF 154 billion.

The total foreign currency redemption will amount to EUR 2.4 billion. The gross foreign currency issuance is planned at EUR 1.2 billion, thus **the net foreign currency issuance is expected to amount EUR -1.2 billion in 2017.**



## 5. Debt management strategy

ÁKK's mission is to finance the central government at the lowest costs in the long run taking account of risks. In accordance with the economic policy of the government ÁKK set three main objectives:

1. According to the fundamental law of Hungary if the debt to GDP ratio is higher than 50 percent, only that budget can be approved, which leads to the reduction of the debt ratio year by year. **The primary objective of debt management is to support the debt reduction** accordingly.
2. One of the main factors that led to the vulnerability of Hungary in recent years is that the higher part of the government debt had been financed from abroad. Increasing domestic savings and the domestic financing of the debt support macroeconomic stability in the long term. Thus the second objective of ÁKK is to develop the domestic investor base, and especially to **increase the retail financing** of the debt.
3. Decreasing debt ratio and increasing domestic financing enable to **significantly reduce the share of foreign currency debt** within the total debt, which is the third objective of ÁKK.

In recent years the debt to GDP ratio and the share of FX debt decreased significantly due to the prudent fiscal policy and debt management strategy. The share of FX debt is already favorable in regional comparison, the major credit rating agencies upgraded Hungary to the investment-grade category in 2016. As a consequence of these more flexible financing and a more gradual decreasing of the share of foreign currency debt are possible in coming years, but the main principles remain the same. The share of foreign currency debt will decline further in 2017, but foreign currency debt issuance can have a more important role in financing at the same time.

The mission is quantified by setting benchmarks, which are in part based on a general optimal portfolio model taking into account both costs and risks. ÁKK has determined the following benchmark values for government debt management in 2017:

- **Share of foreign currency debt:** The share of the foreign currency denominated debt within the total central government debt should decrease below 25 per cent, and remain within 15-25%. The decreasing share of foreign currency debt is a consequence of covering the net financing need and a part of the maturing FX debt in domestic currency.
- **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 56-66%, that of floating rate debt, which includes all short-term debt, between 34% and 44%. 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.
- **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. To maintain safe level of liquidity reserves and several financing channels remain the emphasized goal of financing in 2017.

## 6. Further information

This Debt Management Outlook was compiled based on information available in the middle of December, 2016. Thus the projected figures for 2017 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](http://www.akk.hu), [www.gdma.hu](http://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 2017

Type	Date of auction	Date of settlement
<b>Fixed rate HGB</b>	05.01.2017	11.01.2017
	19.01.2017	25.01.2017
	02.02.2017	08.02.2017
	16.02.2017	22.02.2017
	02.03.2017	08.03.2017
	16.03.2017	22.03.2017
	30.03.2017	05.04.2017
	13.04.2017	19.04.2017
	27.04.2017	03.05.2017
	11.05.2017	17.05.2017
	25.05.2017	31.05.2017
	08.06.2017	14.06.2017
	22.06.2017	28.06.2017
	06.07.2017	12.07.2017
	20.07.2017	26.07.2017
	03.08.2017	09.08.2017
	17.08.2017	23.08.2017
	31.08.2017	06.09.2017
	14.09.2017	20.09.2017
	28.09.2017	04.10.2017
12.10.2017	18.10.2017	
26.10.2017	02.11.2017	
09.11.2017	15.11.2017	
23.11.2017	29.11.2017	
07.12.2017	13.12.2017	

Type	Date of auction	Date of settlement
<b>Floating rate HGB</b>	12.01.2017	18.01.2017
	26.01.2017	01.02.2017
	09.02.2017	15.02.2017
	23.02.2017	01.03.2017
	09.03.2017	15.03.2017
	23.03.2017	29.03.2017
	06.04.2017	12.04.2017
	20.04.2017	26.04.2017
	04.05.2017	10.05.2017
	18.05.2017	24.05.2017
	01.06.2017	07.06.2017
	15.06.2017	21.06.2017
	29.06.2017	05.07.2017
	13.07.2017	19.07.2017
	27.07.2017	02.08.2017
	10.08.2017	16.08.2017
	24.08.2017	30.08.2017
	07.09.2017	13.09.2017
	21.09.2017	27.09.2017
	05.10.2017	11.10.2017
19.10.2017	25.10.2017	
02.11.2017	08.11.2017	
16.11.2017	22.11.2017	
30.11.2017	06.12.2017	
14.12.2017	20.12.2017	

## Issuance calendar of discount treasury bills in 2017

### 12-mont discount T-bills3

Code	Date of auction	Date of settlement	Date of maturity
D171220	29.12.2016	04.01.2017	20.12.2017
D171220	12.01.2017	18.01.2017	20.12.2017
D171220	26.01.2017	01.02.2017	20.12.2017
D171220	09.02.2017	15.02.2017	20.12.2017
D180228	23.02.2017	01.03.2017	28.02.2018
D180228	09.03.2017	16.03.2017	28.02.2018
D180228	23.03.2017	29.03.2017	28.02.2018
D180228	06.04.2017	12.04.2017	28.02.2018
D180411	20.04.2017	26.04.2017	11.04.2018
D180411	04.05.2017	10.05.2017	11.04.2018
D180411	18.05.2017	24.05.2017	11.04.2018
D180523	01.06.2017	07.06.2017	23.05.2018
D180523	15.06.2017	21.06.2017	23.05.2018
D180523	29.06.2017	05.07.2017	23.05.2018
D180523	13.07.2017	19.07.2017	23.05.2018
D180718	27.07.2017	02.08.2017	18.07.2018
D180718	10.08.2017	16.08.2017	18.07.2018
D180718	24.08.2017	30.08.2017	18.07.2018
D180718	07.09.2017	13.09.2017	18.07.2018
D180926	21.09.2017	27.09.2017	26.09.2018
D180926	05.10.2017	11.10.2017	26.09.2018
D180926	19.10.2017	25.10.2017	26.09.2018
D180926	02.11.2017	08.11.2017	26.09.2018
D181121	16.11.2017	22.11.2017	21.11.2018
D181121	30.11.2017	06.12.2017	21.11.2018
D181121	14.12.2017	20.12.2017	21.11.2018

**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 the following Wednesday.**