



DEBT MANAGEMENT OUTLOOK 2018

BUDAPEST, December 2017



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1. Net financing requirements in 2018

According to the Act on the budget for the year 2018, the deficit of the central government calculated on a **cash-flow basis** is planned at **HUF 1,361 billion**, equaling to 3.4% of the GDP.

The total cash-flow based net financing requirement for the year 2018 is equal to the deficit of the central government, other items, such as the balance of EU transfers and other financing needs are considered to be part of liquidity management.

2. Government debt redemptions

The total amount of government debt redemptions in 2018 is planned at **HUF 7,397 billion**.¹

	In HUF billion	In EUR billion
HUF debt redemptions	6,698	21.6
T-bonds	1,121	3.6
Planned bond buy-backs	200	0.6
Planned switch redemptions	208	0.7
Retail securities	4,117	13.3
Discount T-bills	1,052	3.4
FX debt redemptions	699	2.3
International bonds	483	1.6
Domestic bonds*	84	0.3
IFI and other loans	132	0.4
Total	7,397	23.9

* Premium Euro Hungarian Government Bonds and Residency Bonds

The redemption of domestic currency debt will amount to **HUF 6,698 billion**. Domestic currency bond redemptions will amount to HUF 1,121 billion, discount T-bills to HUF 1,052 billion; the sum of these marketable domestic debt redemptions of HUF 2,173 billion corresponds to 5.4% of GDP. In order to reduce future refinancing risk, ÁKK plans to buy back (HUF 200 billion) and switch (HUF 208 billion) bonds maturing in 2019 or later. Large part of the domestic debt redemptions is the redemption of retail securities, but the retail sector usually reinvests its maturing holdings and even increases the outstanding stock of retail securities.

Foreign currency debt redemptions are expected to be **HUF 699 billion (EUR 2.3 billion)** – a bit lower than such maturities in 2017 –, out of which international bond redemptions will amount to EUR 1.6 billion, domestic bond

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 to avoid multiple counting.

(P€MAP and Residency Bond) redemptions will amount to EUR 0.3, while the redemption of IFI and other loans will amount to EUR 0.4 billion.

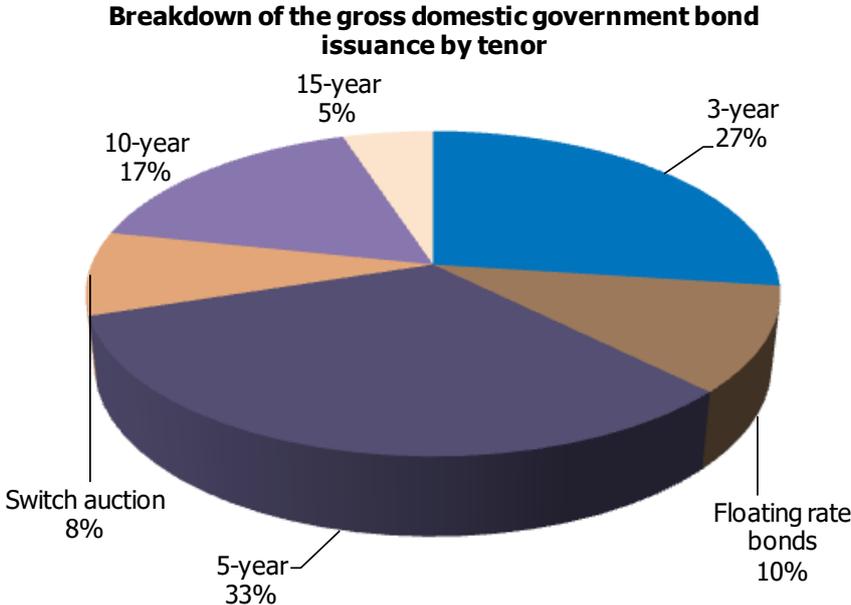
3. Gross issuance

Total gross issuance is planned at **HUF 8,840 billion** in 2018, 95 per cent of which (or **HUF 8,410 billion**) will be in domestic currency and only 5 per cent (**HUF 430 billion** or EUR 1.4 billion) will be in foreign currencies.

	In HUF billion	In EUR billion
Domestic debt	8,410	27.2
T-bonds at auctions	2,200	7.2
T-bonds at switch auctions	200	0.6
Retail securities	4,700	15.2
Discount T-bills	1,156	3.7
HUF loans	155	0.5
FX currency debt	430	1.4
International bonds	309	1.0
Domestic FX bonds*	62	0.2
FX loans	59	0.2
Total	8,840	28.6

* Premium Euro Hungarian Government Bonds

HUF 2,200 billion worth of Hungarian Forint government bonds will be offered at auctions, while another HUF 200 billion of bonds is expected to be sold at switch auctions. The breakdown by tenor is expected to be similar to that of the previous year – subject to actual auction demand –, meaning that the share of the shortest, 3-year T-bond will decrease.



In 2018 the planned issuance of HUF-denominated government bonds are as follows:

Tenor/type	Issuance (HUF billion)
3-year	650
Floating rate bonds	250
5-year	780
Bonds at switch auctions (6-10y)	200
10-year	400
15-year	120
Total	2,400

ÁKK will launch a new 3-year, 5-year and 15-year bond series during 2018, while for the 6-year and 10-year tenor the currently on-the-run bonds will be offered. 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 2018 and the 15 year bond may be offered bi-monthly or quarterly replacing the 10 year bond. The issuance calendar contains the potential bi-weekly dates of floating rate bond auctions, but ÁKK will issue these instruments considering the market demand.

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 around half of the foreign currency maturities from the domestic market. The planned EUR 1 billion amount of 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 the investor 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 FX bonds (Premium Euro Hungarian Government Bond) is expected to provide additional funding of EUR 200 million. ÁKK intends to draw down EUR 190 million in FX loans, while other drawdowns of project financing loans (EUR 500 million) will be denominated in the domestic currency.

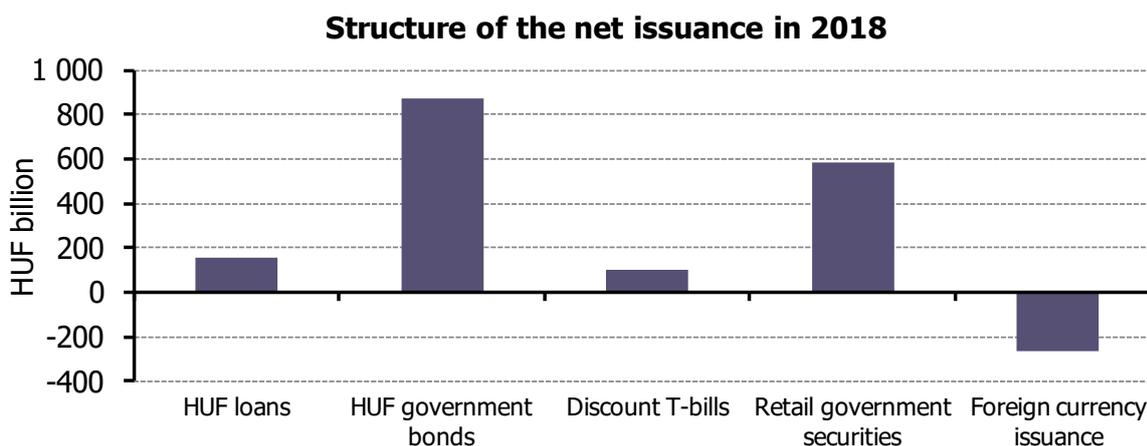
4. Net issuance

Net government debt issuance is planned in an amount of **HUF 1,443 billion**, out of which domestic debt issuance will reach **HUF 1,712 billion**, and net foreign currency borrowing will amount to **HUF -269 billion** (EUR -0.9 billion).

ÁKK will closely monitor 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 liquidity reserves of the government.

Out of the net domestic government securities issuance (HUF 1,557 billion) net bond issuance will be HUF 871 billion and net discount T-bill issuance will amount to HUF 103 billion, while the stock of retail government securities will increase by HUF 583 billion. Net issuance of HUF loans will be HUF 155 billion. The outstanding volume of discount T-bills can be increased rapidly if needed, providing extra financing reserves.

As the total foreign currency redemption will amount to EUR 2.3 billion and the gross foreign currency issuance is planned at EUR 1.4 billion, thus **the net foreign currency issuance is expected to amount to EUR -0.9 billion in 2018.**



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 has set three main objectives:

1. According to the fundamental law of Hungary if the debt to GDP ratio is higher than 50 percent, only such a 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 the near past is that the higher part of the government debt had been financed from abroad. Domestic savings and the domestic financing of the debt support macroeconomic stability in the long term. Thus the second objective of ÁKK is to broaden the domestic investor base by funding large part of the deficit via **retail financing**.
3. Decreasing debt ratio and increasing domestic financing enable to **maintain the low 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 the pursued debt management strategy. The share of FX debt is already favorable in regional comparison, acknowledged also by the major credit rating agencies, which upgraded Hungary to the investment-grade category in 2016. As a consequence of these developments, financing can become more flexible, the share of foreign currency debt will be decreased further at a slower pace in the coming years, but the main principles remain the same. The share of foreign currency debt will decline further in 2018, but foreign currency debt issuance can have a more important role in financing compared to previous years.

The mission of Hungary's government debt management 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 targets for government debt management in 2018:

- **Share of foreign currency debt:** The share of the foreign currency denominated debt within the total central government debt should remain within 15-25%. The decreasing share of foreign currency debt is achieved by covering the net financing need and a part of the maturing FX debt with financing 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%, and that of floating rate debt, which includes all short-term debt, between 34% and 44%. Within the **foreign currency denominated debt**, the share of the fixed rate elements should be in the range of 60-70%, and that of floating rate debt between 30% and 40%.
- **Duration:** In order to keep an acceptable level of refinancing risk, the Macaulay duration of the HUF debt portfolio is targeted in the range of 2.5-3.5 years.
- **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 a safe level of liquidity reserves and access to several financing channels also remain the emphasized goals of financing in 2018.

6. Further information

This Debt Management Outlook publication was compiled based on information available in the middle of December 2017. Thus the projected figures for 2018 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 regularly 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 2018

Type	Date of auction	Date of settlement
Fixed rate HGB	04.01.2018	10.01.2018
	18.01.2018	24.01.2018
	01.02.2018	07.02.2018
	15.02.2018	21.02.2018
	01.03.2018	07.03.2018
	14.03.2018	21.03.2018
	29.03.2018	04.04.2018
	12.04.2018	18.04.2018
	26.04.2018	02.05.2018
	10.05.2018	16.05.2018
	24.05.2018	30.05.2018
	07.06.2018	13.06.2018
	21.06.2018	27.06.2018
	05.07.2018	11.07.2018
	19.07.2018	25.07.2018
	02.08.2018	08.08.2018
	16.08.2018	22.08.2018
	30.08.2018	05.09.2018
	13.09.2018	19.09.2018
	27.09.2018	03.10.2018
11.10.2018	17.10.2018	
25.10.2018	31.10.2018	
08.11.2018	14.11.2018	
22.11.2018	28.11.2018	
06.12.2018	12.12.2018	
20.12.2018	27.12.2018	

Type	Date of auction	Date of settlement
Floating rate HGB	11.01.2018	17.01.2018
	25.01.2018	31.01.2018
	08.02.2018	14.02.2018
	22.02.2018	28.02.2018
	08.03.2018	14.03.2018
	22.03.2018	28.03.2018
	05.04.2018	11.04.2018
	19.04.2018	25.04.2018
	03.05.2018	09.05.2018
	17.05.2018	23.05.2018
	31.05.2018	06.06.2018
	14.06.2018	20.06.2018
	28.06.2018	04.07.2018
	12.07.2018	18.07.2018
	26.07.2018	01.08.2018
	09.08.2018	15.08.2018
	23.08.2018	29.08.2018
	06.09.2018	12.09.2018
	20.09.2018	26.09.2018
04.10.2018	10.10.2018	
18.10.2018	24.10.2018	
31.10.2018	06.11.2018	
15.11.2018	21.11.2018	
29.11.2018	05.12.2018	
13.12.2018	19.12.2018	

Issuance calendar of discount treasury bills in 2018

12-month discount T-bills

Code	Date of auction	Date of settlement	Date of maturity
D181227	28.12.2017	03.01.2018	27.12.2018
D181227	11.01.2018	17.01.2018	27.12.2018
D181227	25.01.2018	31.01.2018	27.12.2018
D181227	08.02.2018	14.02.2018	27.12.2018
D190227	22.02.2018	28.02.2018	27.02.2019
D190227	08.03.2018	14.03.2018	27.02.2019
D190227	22.03.2018	28.03.2018	27.02.2019
D190227	05.04.2018	11.04.2018	27.02.2019
D190424	19.04.2018	25.04.2018	24.04.2019
D190424	03.05.2018	09.05.2018	24.04.2019
D190424	17.05.2018	23.05.2018	24.04.2019
D190522	31.05.2018	06.06.2018	22.05.2019
D190522	14.06.2018	20.06.2018	22.05.2019
D190522	28.06.2018	04.07.2018	22.05.2019
D190522	12.07.2018	18.07.2018	22.05.2019
D190731	26.07.2018	01.08.2018	31.07.2019
D190731	09.08.2018	15.08.2018	31.07.2019
D190731	23.08.2018	29.08.2018	31.07.2019
D190731	06.09.2018	12.09.2018	31.07.2019
D190925	20.09.2018	26.09.2018	25.09.2019
D190925	04.10.2018	10.10.2018	25.09.2019
D190925	18.10.2018	24.10.2018	25.09.2019
D190925	31.10.2018	07.11.2018	25.09.2019
D191120	15.11.2018	21.11.2018	20.11.2019
D191120	29.11.2018	05.12.2018	20.11.2019
D191120	13.12.2018	19.12.2018	20.11.2019

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.