

FINANCING OF THE CENTRAL GOVERNMENT AND THE PUBLIC DEBT IN 2005

MAIN TOPICS:

- 1. Objectives of public debt management**
- 2. Changes in the debt management strategy**
- 3. Main characteristics of the financing plan for the year 2005**

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OBJECTIVES OF PUBLIC DEBT MANAGEMENT

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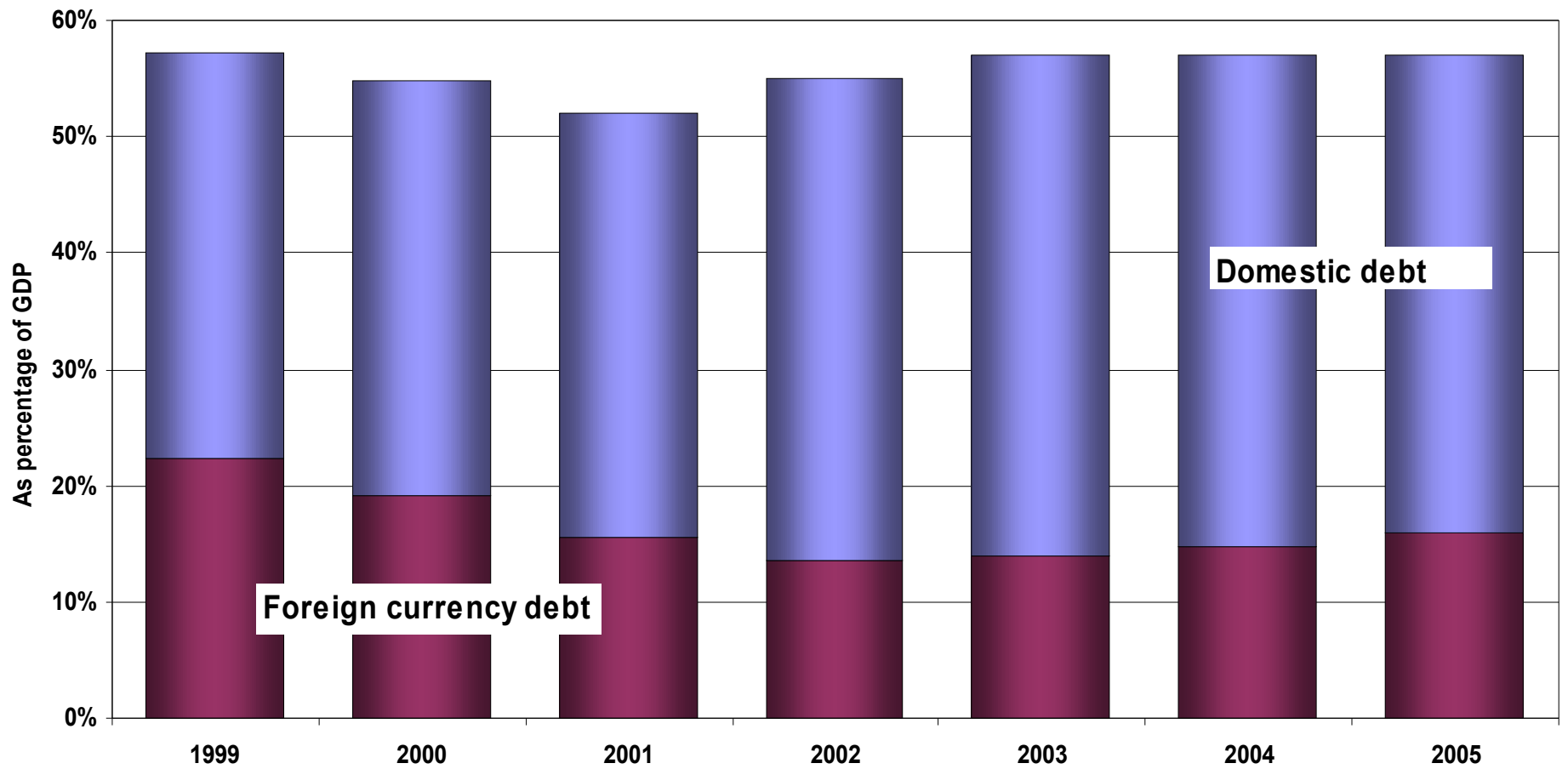
▪ *should not „make” debt*

- *should not take higher than necessary exchange rate risks,*
- *should not increase the gross debt at the end of the year by more than necessary,*

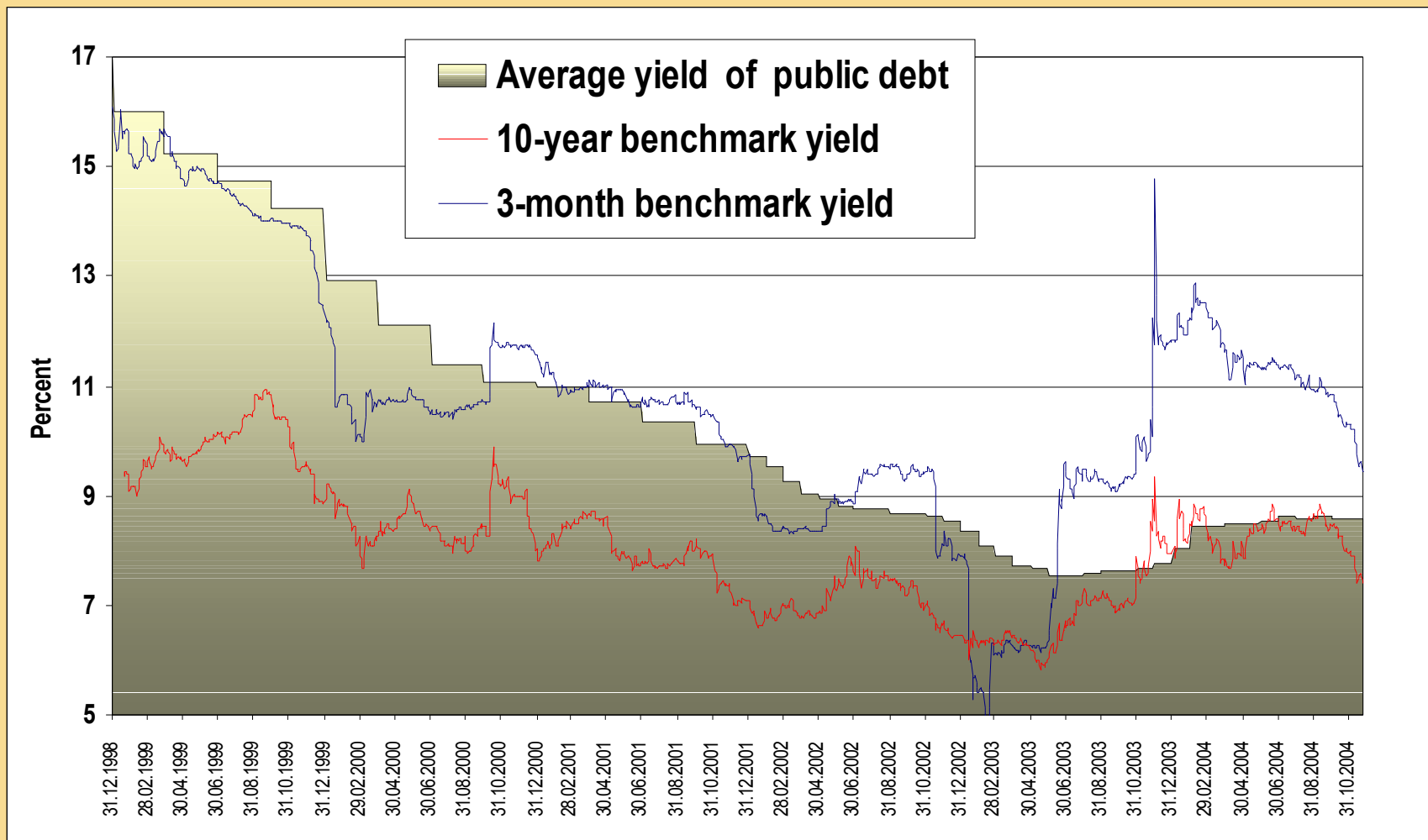
▪ *should finance economically*

- *the average interest rate of the debt should follow the decrease in market yields,*
- *the average interest rate of the debt should not follow the increase in market yields.*

THE DEBT RATIO



YIELD HISTORY OF PUBLIC DEBT



CHANGES IN THE DEBT MANAGEMENT STRATEGY

THE AIM OF PUBLIC DEBT MANAGEMENT

To finance the borrowing requirement of the central government
in an integrated manner
with minimal costs in the long term, taking into consideration the
risks involved and the macroeconomic environment

- low **costs** in the long term:
following long-term objectives,
- taking **risks** into consideration:
trade-off between risks and costs,
- **integrated** view:
Domestic (HUF) – foreign currency
(redemption, interest rate).

NEW OPTIMAL PORTFOLIO MODEL

Objective:

to find the efficient debt portfolios.

Aspect of efficiency:

optimum of Value-at-Risk and Cost-at-Risk.

Basic assumption:

future EMU membership means interest rates will converge with euro yields.

Building blocks: HUF debt – foreign currency debt
Fixed rate HUF – Floating rate HUF,
Fixed rate FX – Floating rate FX debt.

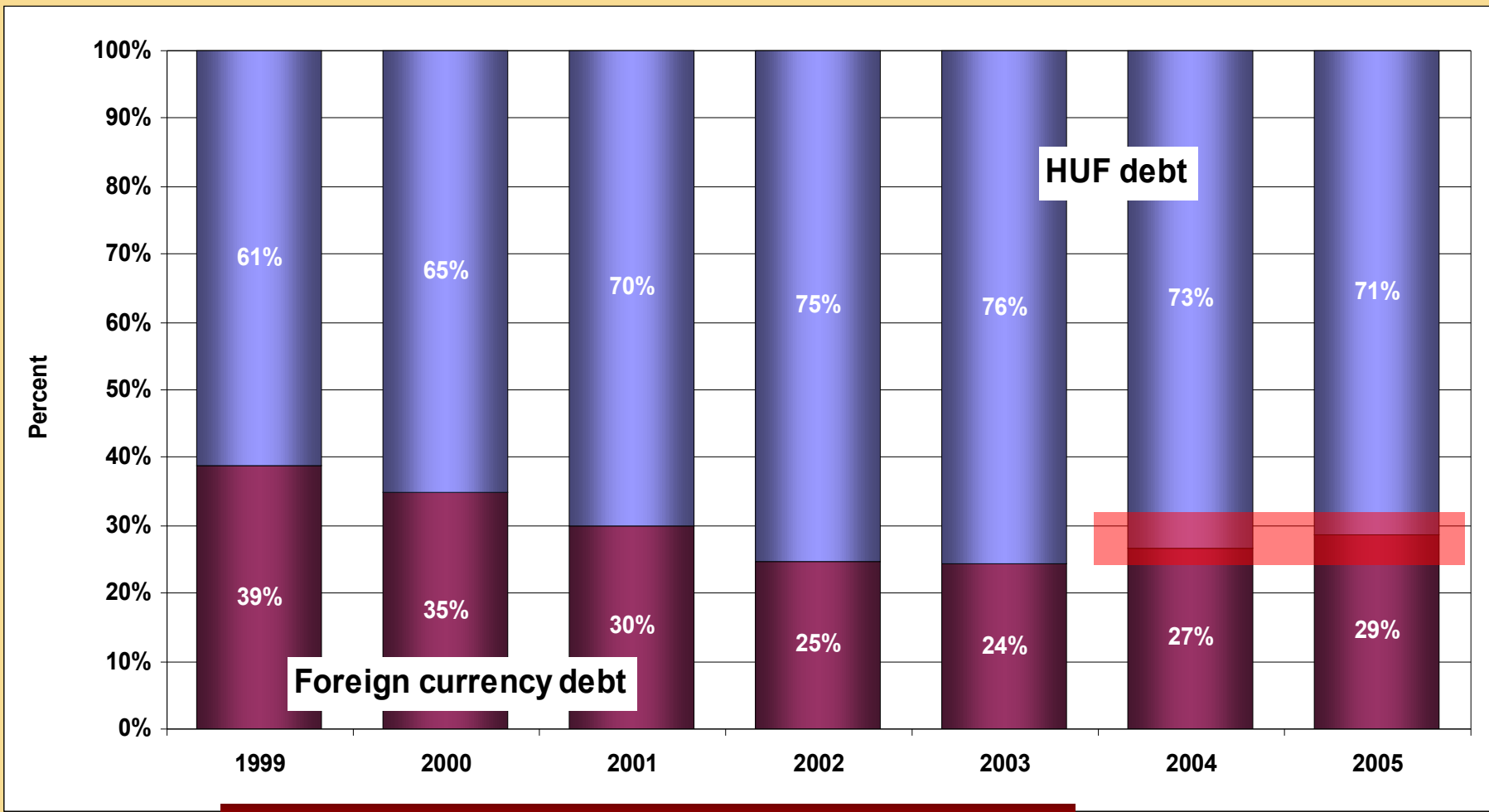
Result:

A set of efficient debt portfolios

MODIFIED BENCHMARKS IN THE STRATEGY

1. HUF – foreign currency debt ratio,
2. Fixed – floating rate HUF debt ratio,
3. HUF duration (interest rate elasticity),
4. Currency breakdown of FX debt,
5. Fixed – floating rate FX debt ratio ,
6. Optimal level of cash funds on the TSA.

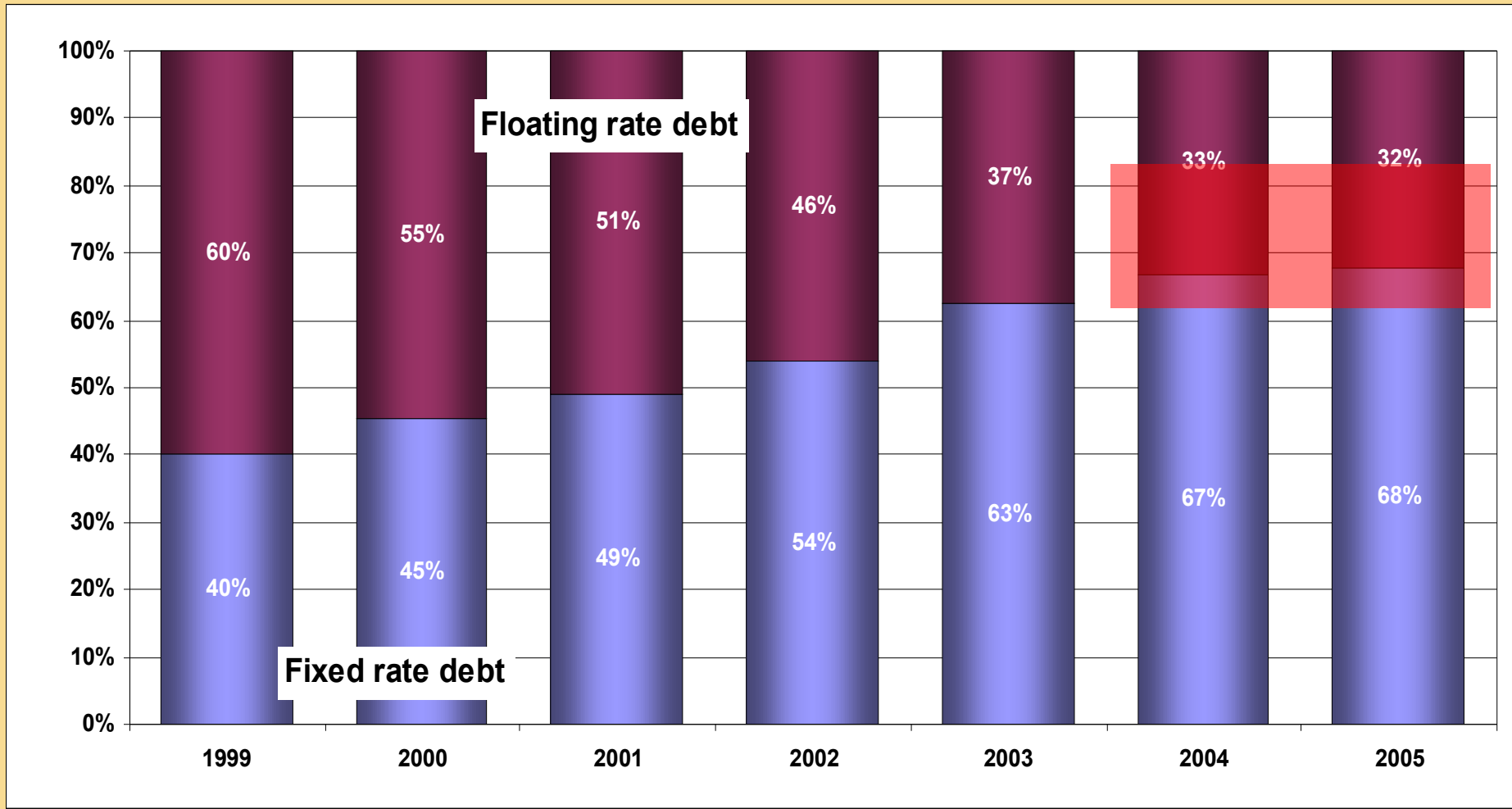
1. HUF – FX DEBT RATIO



68-75% HUF and 25-32% FX debt within the total debt.

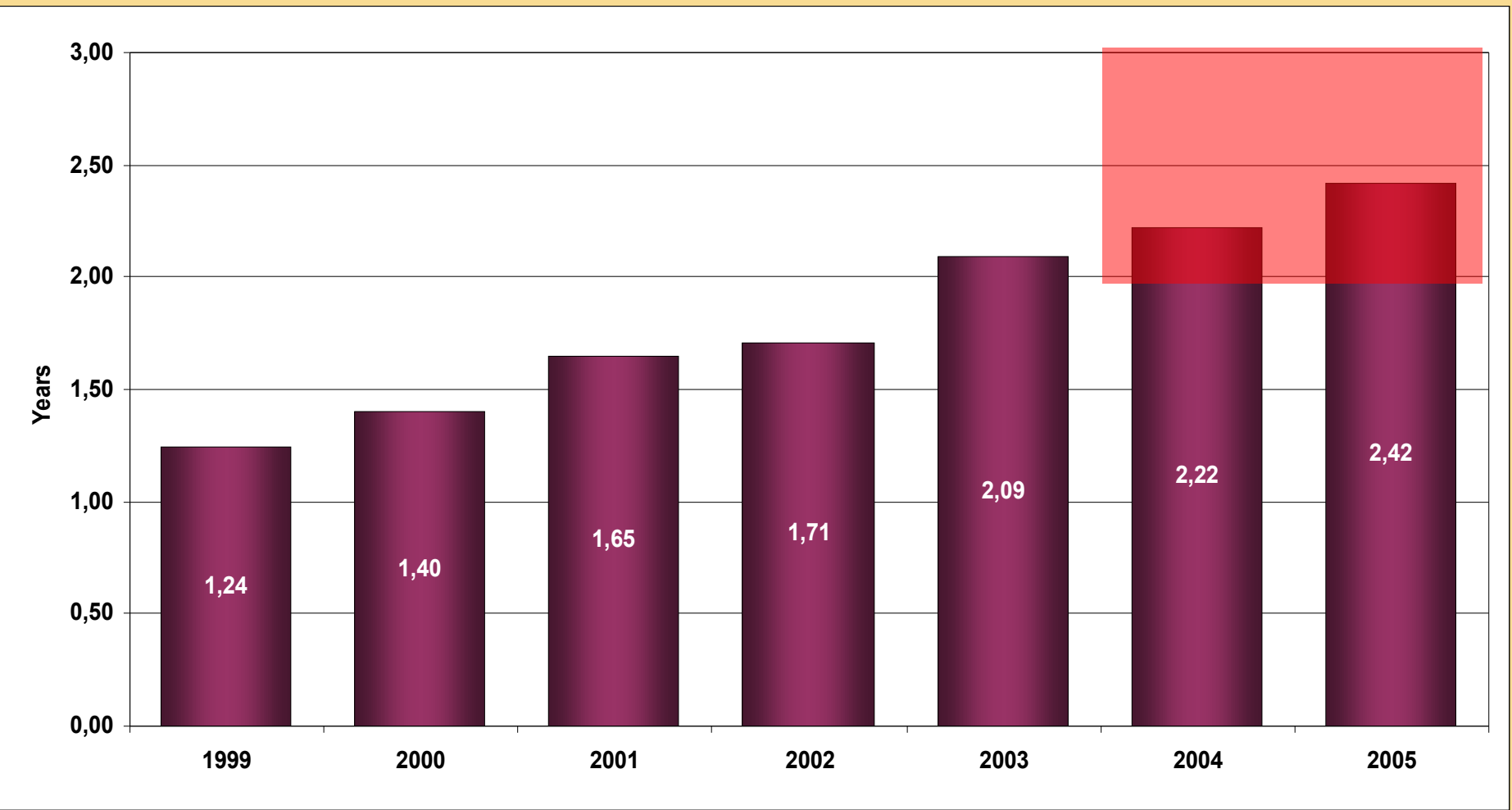


2. FIXED – FLOATING RATE HUF DEBT RATIO



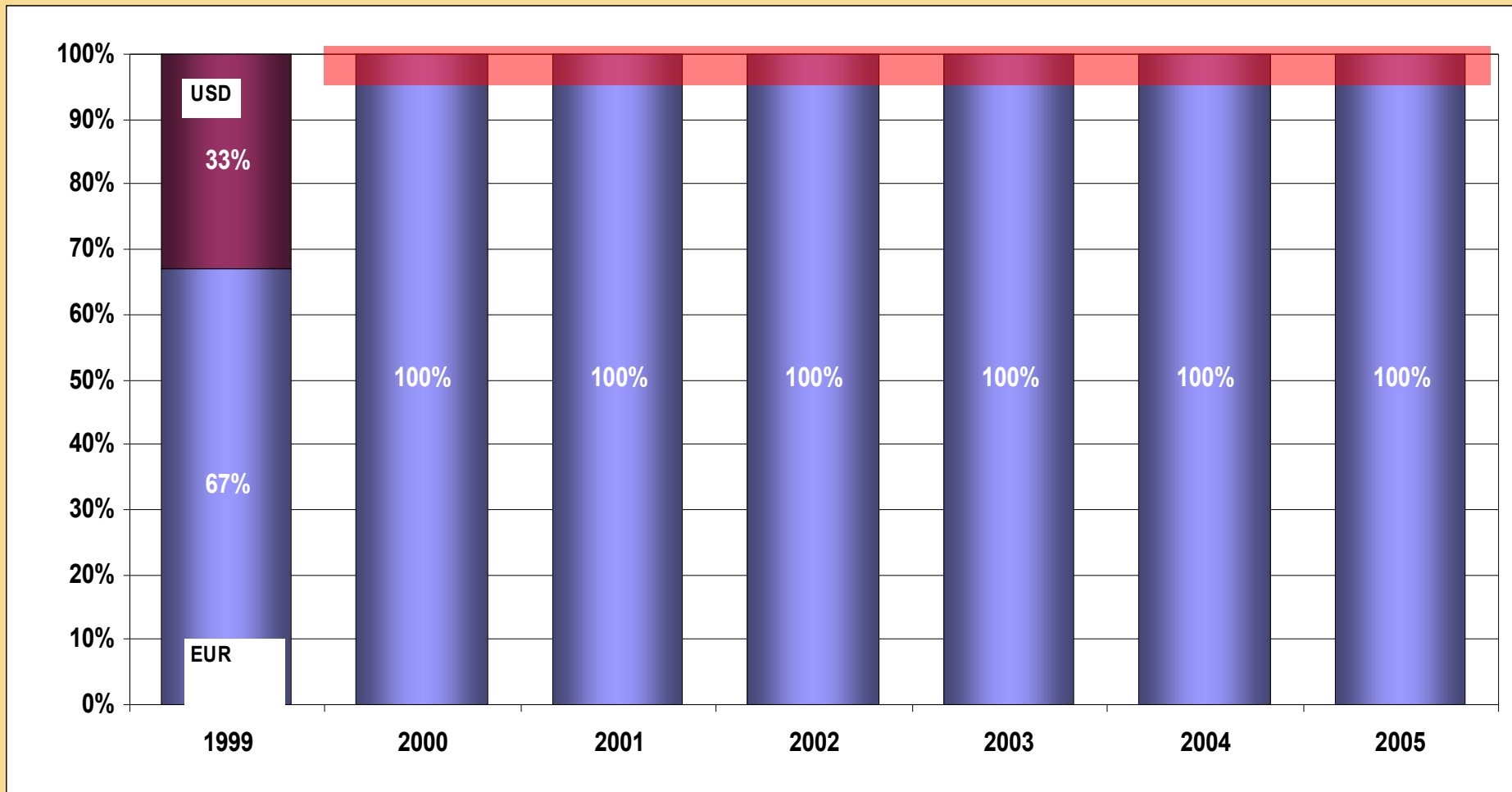
61-83% fixed rate and 17-39% floating rate debt within the total HUF debt

3. DURATION OF THE HUF DEBT



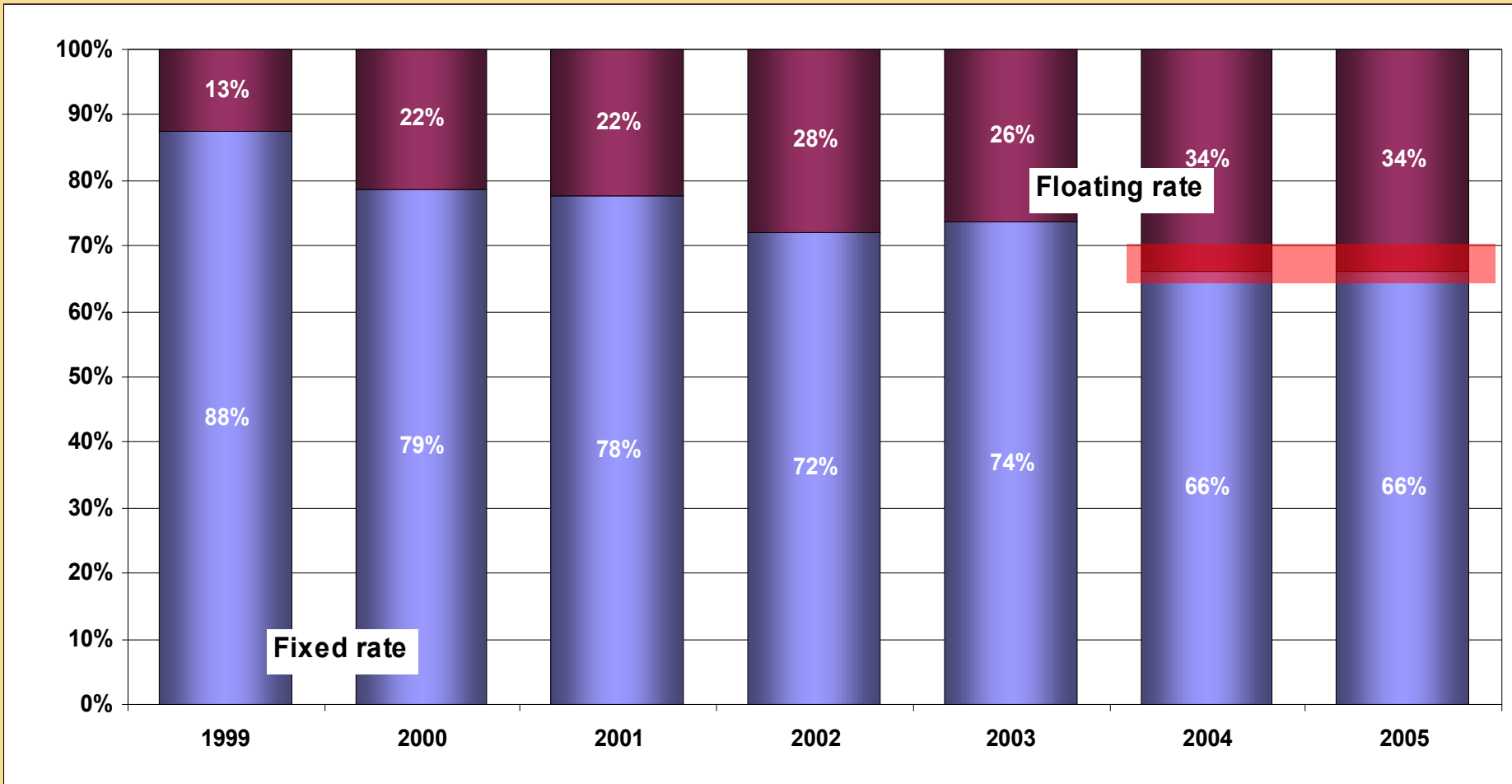
2.5 years +/- 0.5 years as regards HUF debt

4. CURRENCY BREAKDOWN OF FX DEBT



100% EUR, tolerance band: 5%

5. FIXED – FLOATING RATE FX DEBT RATIO



66% fixed rate and 34% floating rate debt within the total FX debt, tolerance band: 5%.

6. OPTIMAL CASH BALANCE ON THE TSA

- **Setting the optimal cash balance on the Treasury Single Account (TSA) by taking financing risks into account.**
- **Keeping the actual TSA balance in a range of HUF +/- 50 billion around the optimal level.**
- **Active liquidity management in order to reduce fluctuation.**

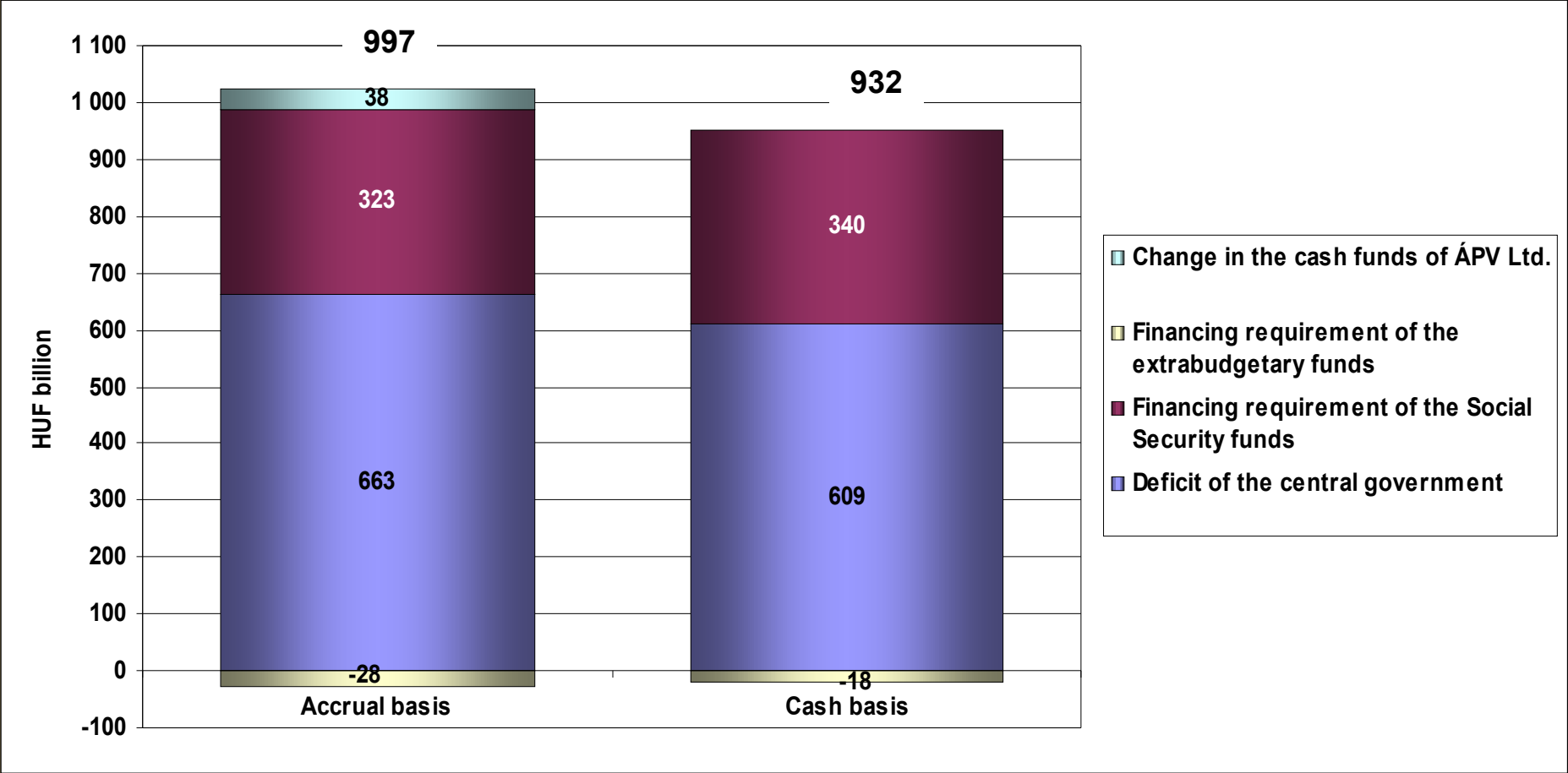
MAIN STRATEGIC PRINCIPLES

- ***strategic behaviour in the domestic market (simplicity, transparency, liquidity),***
- ***stable ratio of HUF – FX debt (kept in a tight range),***
- ***active management of the temporarily liquid cash funds of the State,***
- ***compliance with the benchmarks.***

MAIN CHARACTERISTICS OF THE FINANCING PLAN FOR THE YEAR 2005

BORROWING REQUIREMENTS IN 2005

BALANCE OF THE CENTRAL GOVERNMENT IN 2005



Deficit on a cash basis is lower by HUF 65 billion

BORROWING REQUIREMENTS

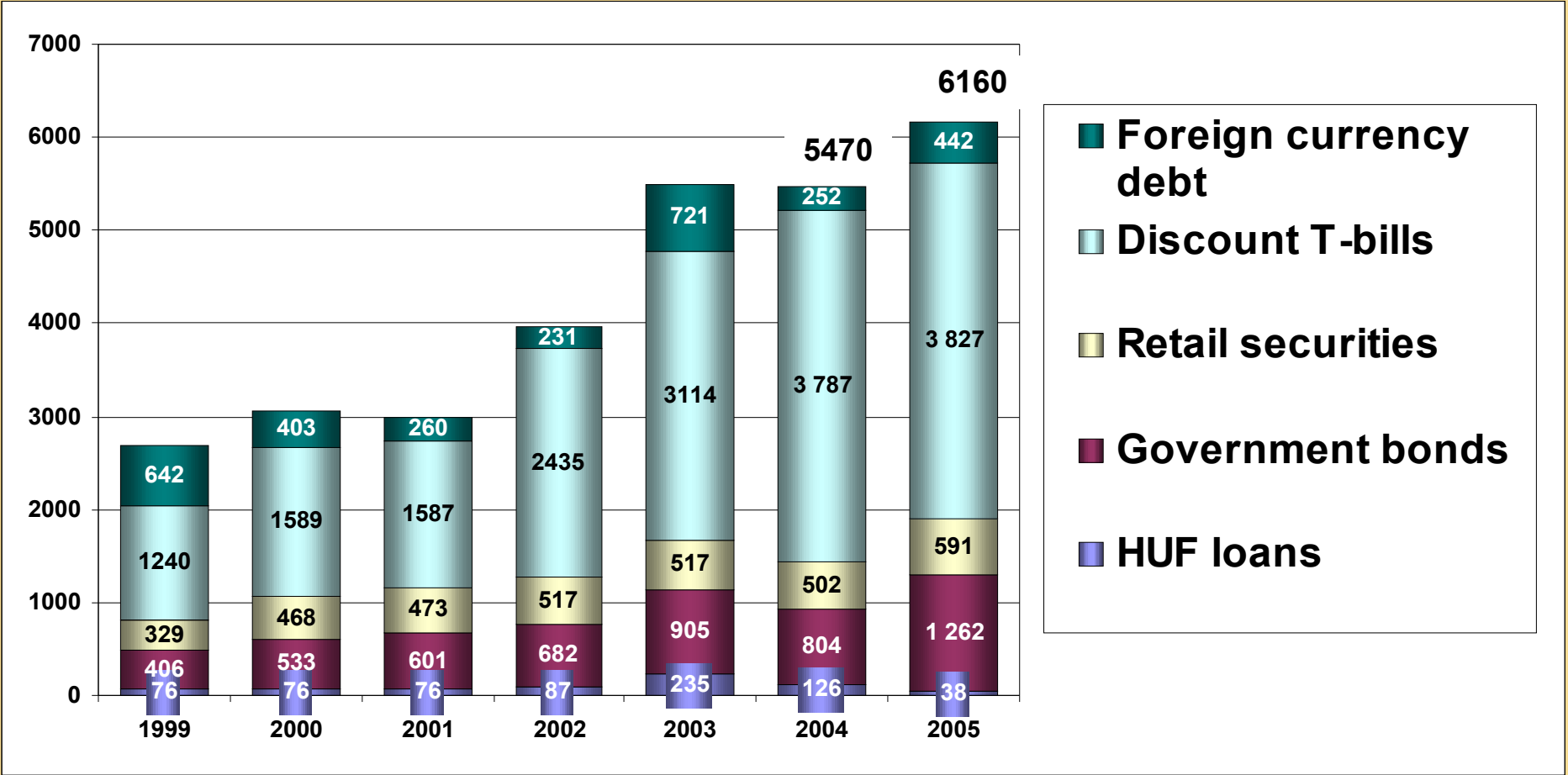
	HUF billion						
	1999	2000	2001	2002	2003*	2004**	2005**
Deficit of the central government	338,1	330,0	413,2	957,7	733,6	921,6	609,4
Financing requirement of the Social Security funds	46,6	70,0	32,3	100,9	345,1	406,0	340,4
Financing requirement of the extrabudgetary funds	40,4	0,0	2,3	-1,5	-18,8	-24,6	-18,4
Net borrowing requirement	425,1	400,0	447,8	1057,1	1059,9	1303,0	931,4
Capital transfers to/from the NBH				250,2	82,9	0,0	15,0
Privatisation revenues	-8,0	-0,9	0,0	0,0	-42,0	-177,6	-101,3
Net prefinancing of EU transfers						68,7	-48,3
Total net borrowing requirement				1307,3	1100,8	1194,1	796,8
Redemption	2659,8	3088,7	2995,4	3952,2	5492,4	5470,2	6160,5
Gross borrowing requirement	3076,9	3487,8	3443,2	5259,5	6593,2	6664,3	6957,3

* Does not include one-off measures and certain capital transfers to the NBH.

** Projection / appropriation

Gross financing requirement HUF 580 bn per month, net financing needs HUF 66 bn per month (prev. year 555 and 100 respectively).

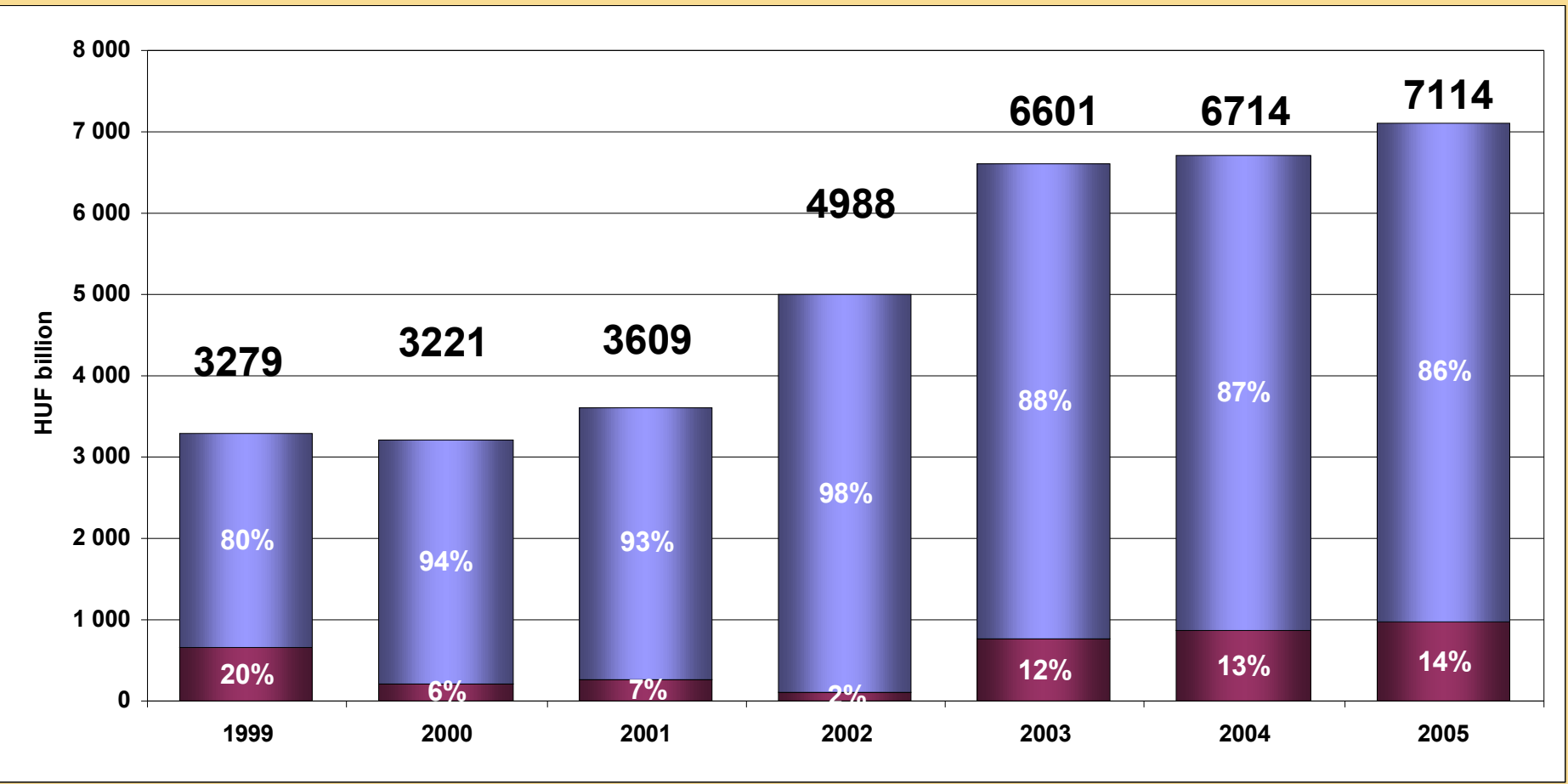
BREAKDOWN OF REDEMPTIONS



77 % of HUF redemptions are T-bills

PRINCIPLES, VOLUME AND BREAKDOWN OF GROSS ISSUANCE

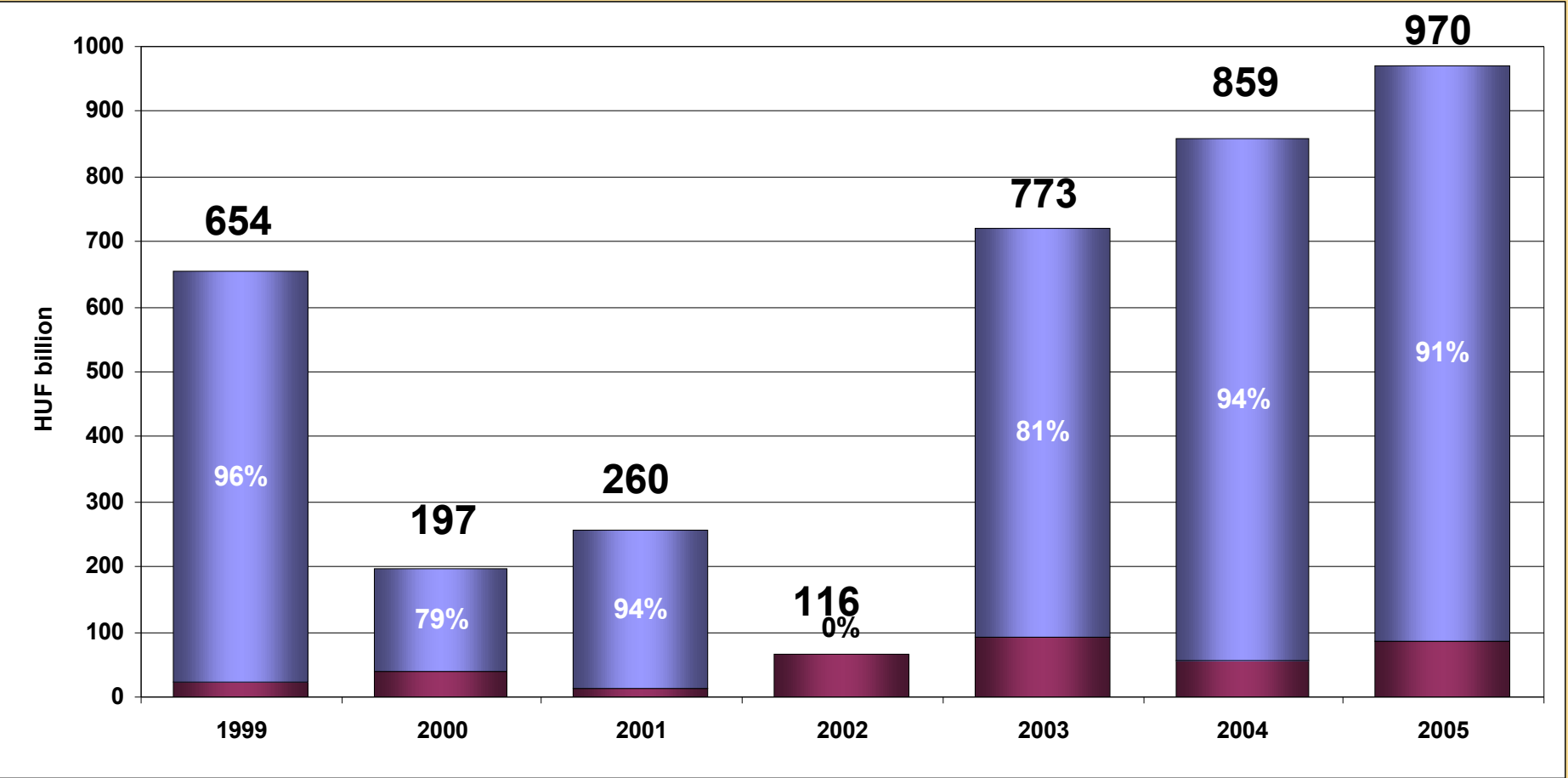
GROSS ISSUANCE



Gross issuance of HUF 7,114 billion, up by 6%



GROSS FOREIGN CURRENCY DEBT ISSUANCE



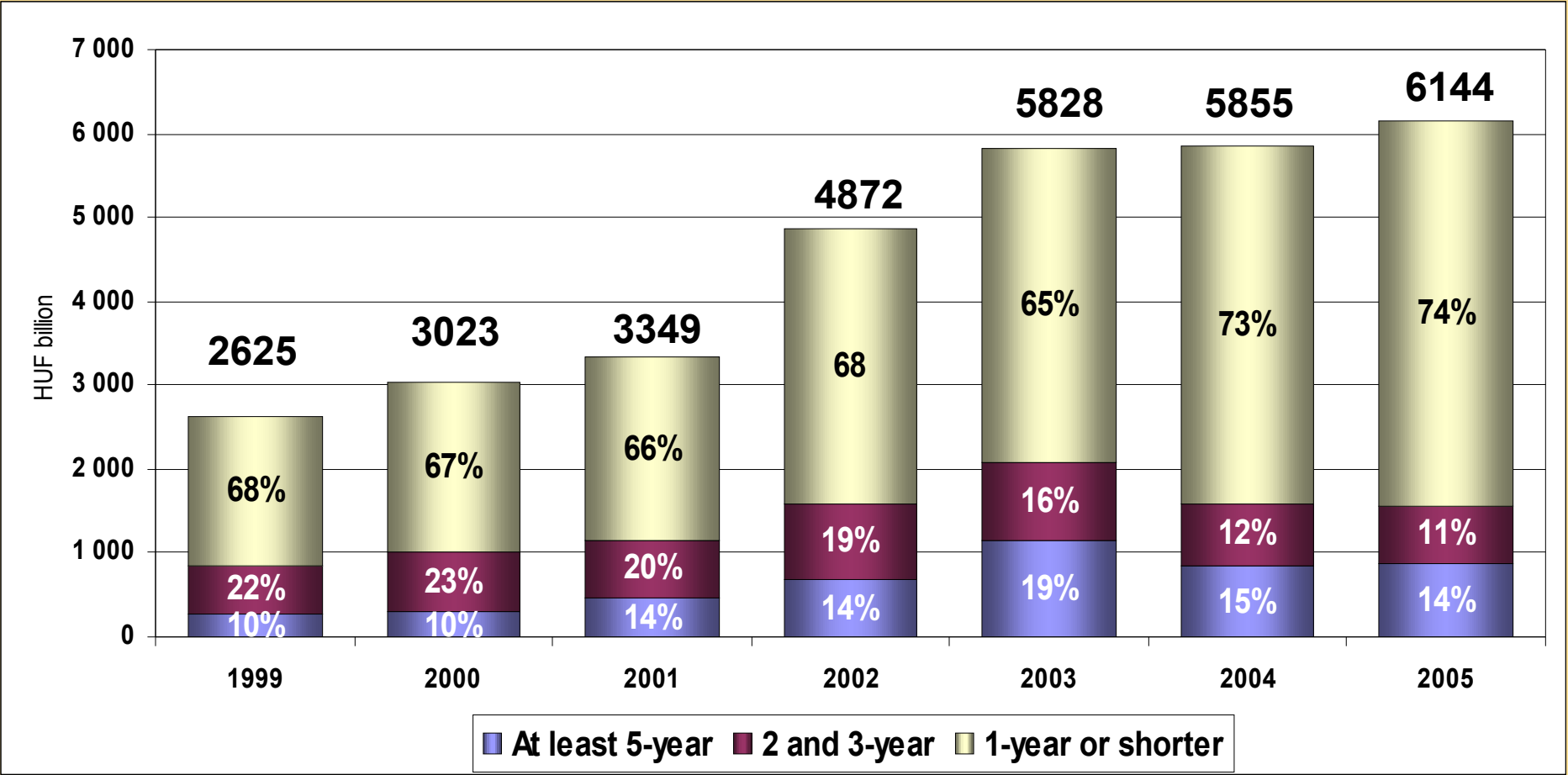
EUR 3.5 billion gross issuance in the international capital markets in 2005

CHARACTERISTICS OF INTERNATIONAL ISSUANCE

- ***EUR 3.5 billion gross capital market issuance,***
- ***Total net FX issuance worth EUR 2.1 (1.8) billion,***
- ***The bulk of foreign issuance to be realized in the first half of the year,***
- ***Widening the investor base,***
- ***Benchmark issues according to market standards.***

A USD 500 million bond to be issued in January.

GROSS DOMESTIC GOVERNMENT SECURITIES ISSUANCE



Gross issuance of HUF 6,144 billion, up by 5%



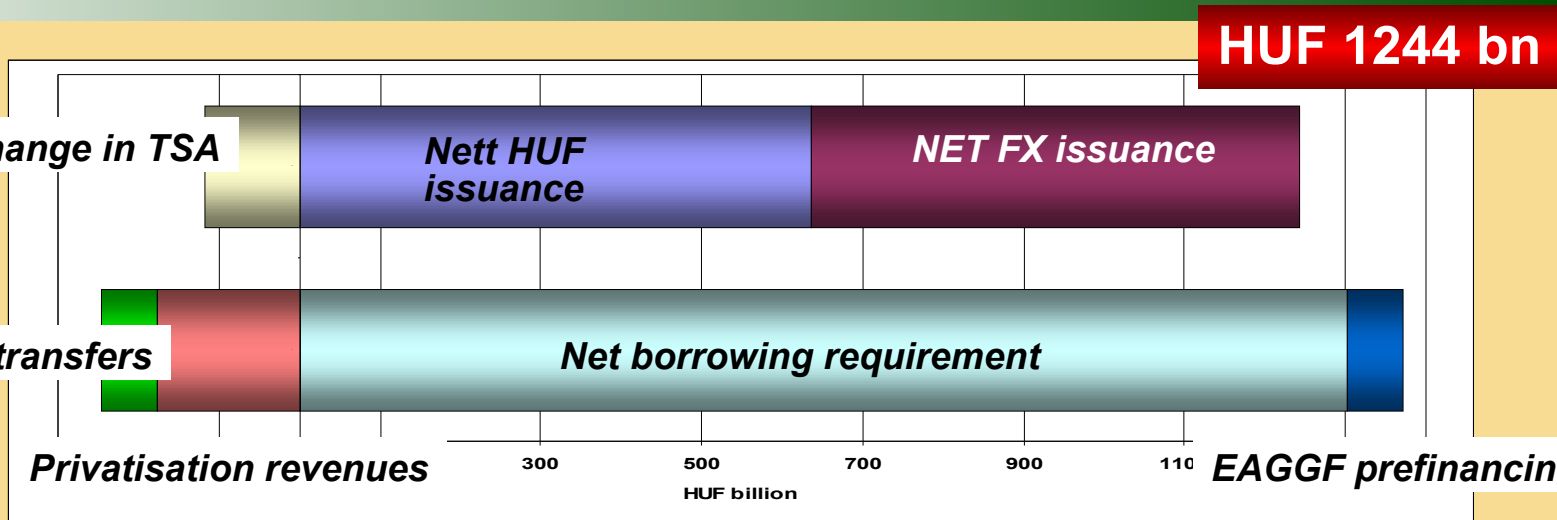
CHARACTERISTICS OF DOMESTIC ISSUANCE

- ***main market of financing:***
 - ***financing of almost half of the budget deficit,***
 - ***HUF redemptions,***
- ***strategic behaviour in the domestic market:***
 - ***pre-announced issuance calendar,***
 - ***relatively stable volumes offered at auctions,***
 - ***large, liquid series,***
- ***maintaining and, in case of strong demand, raising the retail sales can be an alternative source of financing,***
- ***primary role of discount T-bills is liquidity management.***

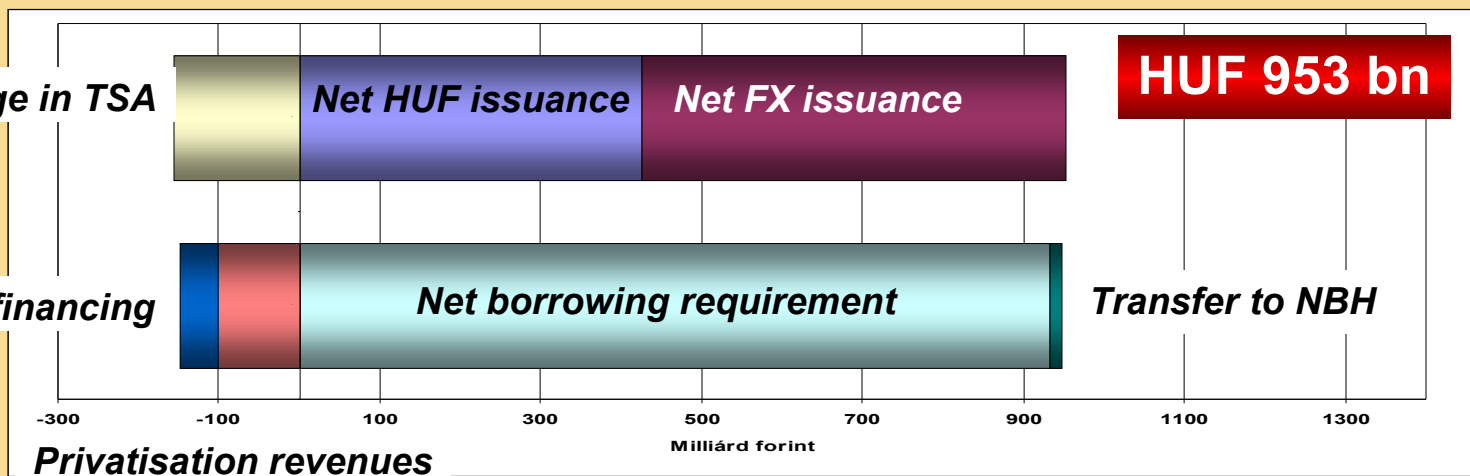
NET ISSUANCE

Financing in 2004 and 2005

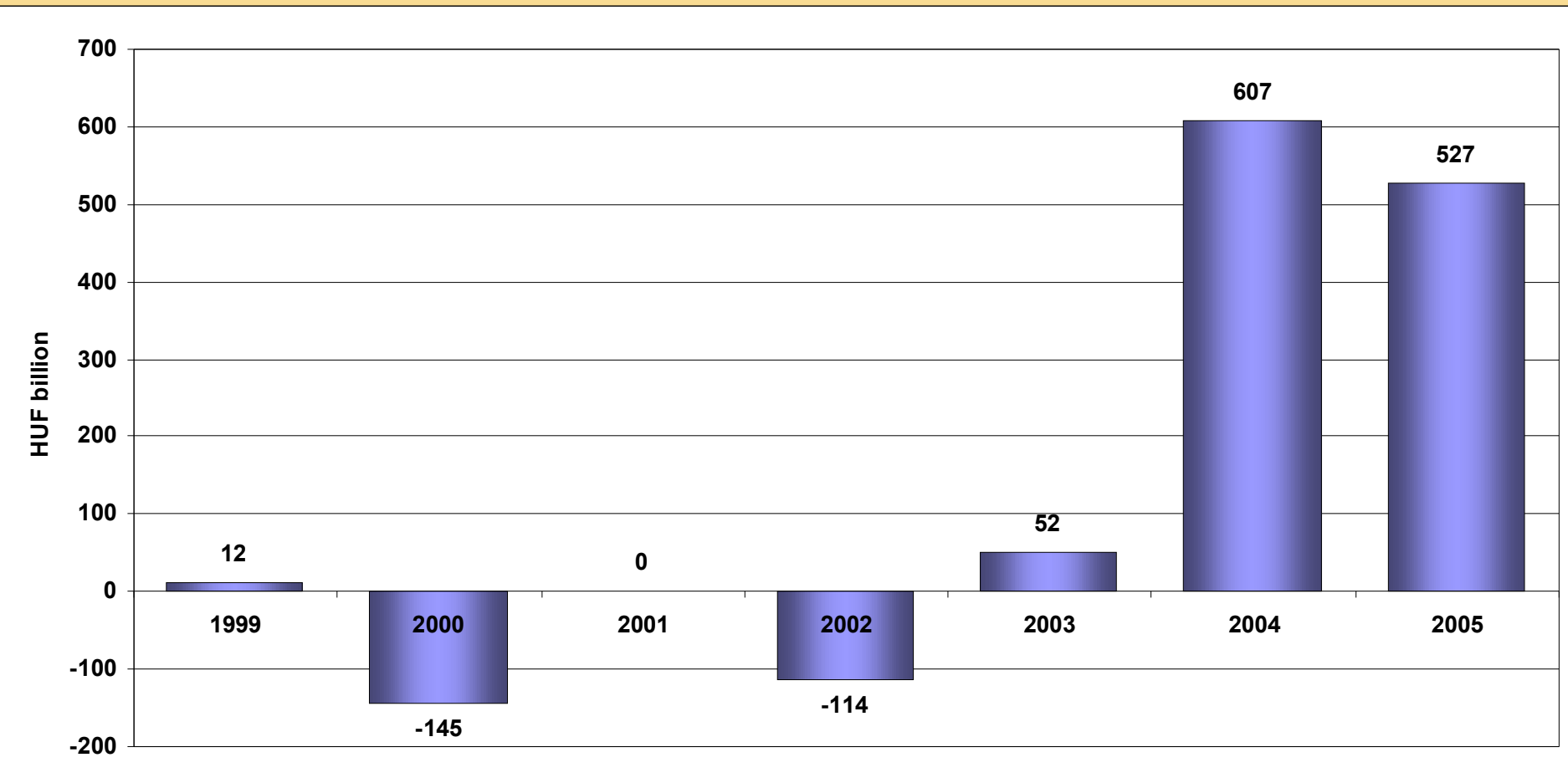
2004.



2005.



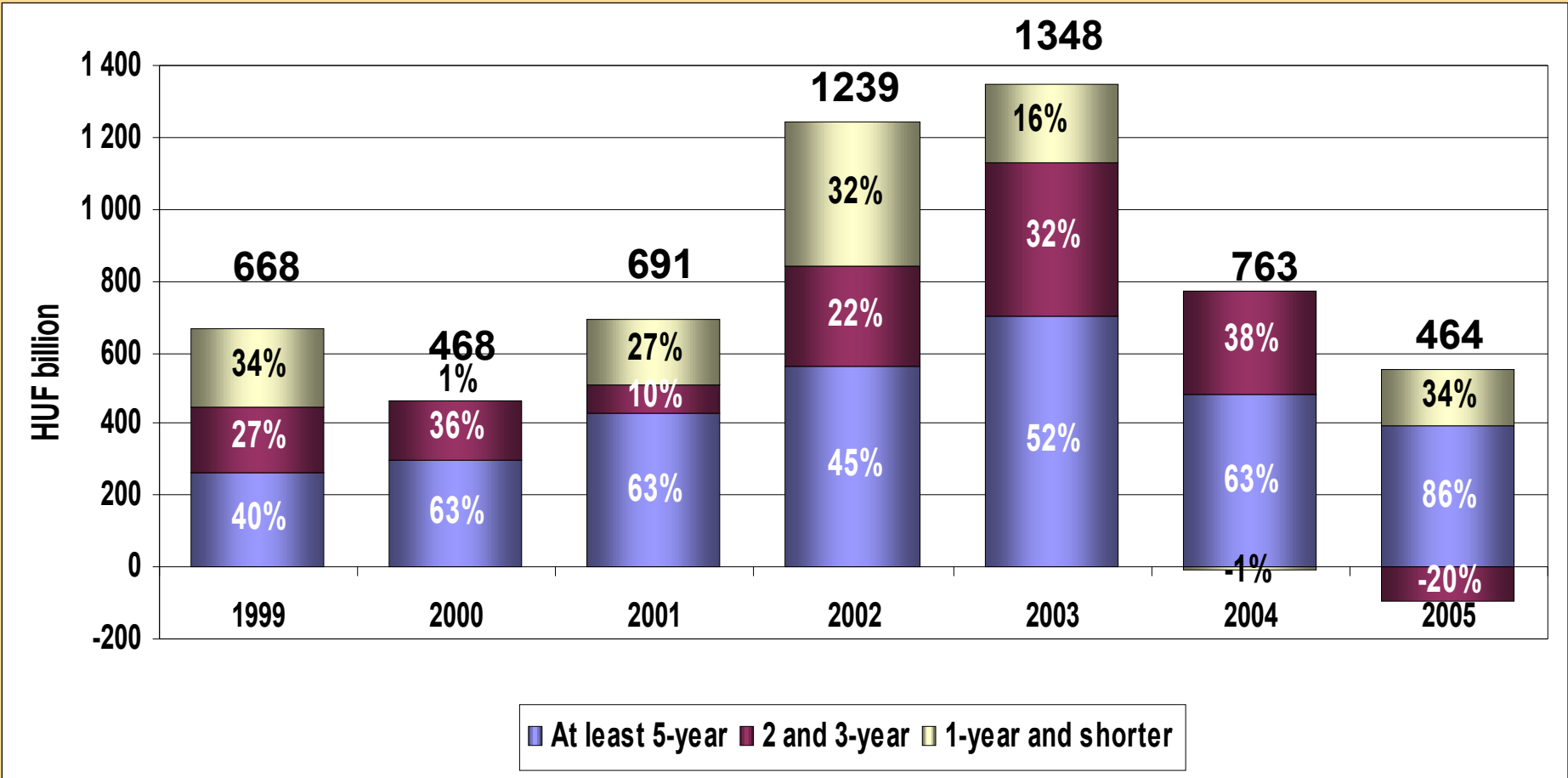
NET FOREIGN CURRENCY ISSUANCE



HUF 527 billion net issuance, lower than in 2004



NET DOMESTIC GOVERNMENT SECURITIES ISSUANCE



HUF 464 billion net issuance, almost 1/3 of that of 2003

THANK YOU FOR YOUR ATTENTION!