



GOVERNMENT DEBT MANAGEMENT AGENCY PTE LTD.

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DEBT MANAGEMENT OUTLOOK 2016

BUDAPEST, December 2015



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 2016

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 762 billion**, equaling to 2.2% of the GDP.

The total cash-flow based net financing requirement for the year 2016 is equal of the deficit of the central government and it will amount to HUF 762 billion. The balance of EU transfers is considered to be part of liquidity management.

Cash-flow based financing requirements in 2016 (plan)

	HUF billion
Balance of the central government budget	-756
Balance of the social security funds	0
Balance of the extra-budgetary funds	-6
Net financing requirement of the central government	-762
Total net financing requirement	-762

2. Government debt redemptions

The total amount of government debt redemptions in 2016 is planned at **HUF 5,380 billion**.¹

	HUF billion	In EUR billion
Domestic redemptions	3,864	12.4
T-bonds	453	1.4
Planned bond buy-backs	270	0.9
Retail securities	2,252	7.2
Discount T-bills	889	2.9
FX redemptions	1,517	4.8
International T-bonds	541	1.7
Domestic T-bonds (P€MAK)	473	1.5
IFI and other loans	503	1.6
Total	5,380	17.2

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 3,864 billion**. Domestic financing in 2016 will be favourably affected by the substantially declining volume of T-bond and bill redemptions in comparison with previous years. Domestic bond redemptions will be HUF 453 billion, discount T-bills HUF 889 billion and retail government securities HUF 2,252 billion. In order to reduce future refinancing risk, ÁKK plans to buy back bonds maturing in 2017 or later.

Foreign currency debt redemptions are expected to be **HUF 1,517 billion (EUR 4.8 billion)** – higher than maturities in 2015 basically because of the redemption of the last tranche of the European Commission loan –, out of which international bond redemptions will amount to EUR 1.7 billion, domestic bond redemptions will amount to EUR 1.5 while the redemption of IFI and other loans will amount to EUR 1.6 billion, including the redemption of the last tranche the European Commission’s loan totaling EUR 1.5 billion.

3. Gross issuance

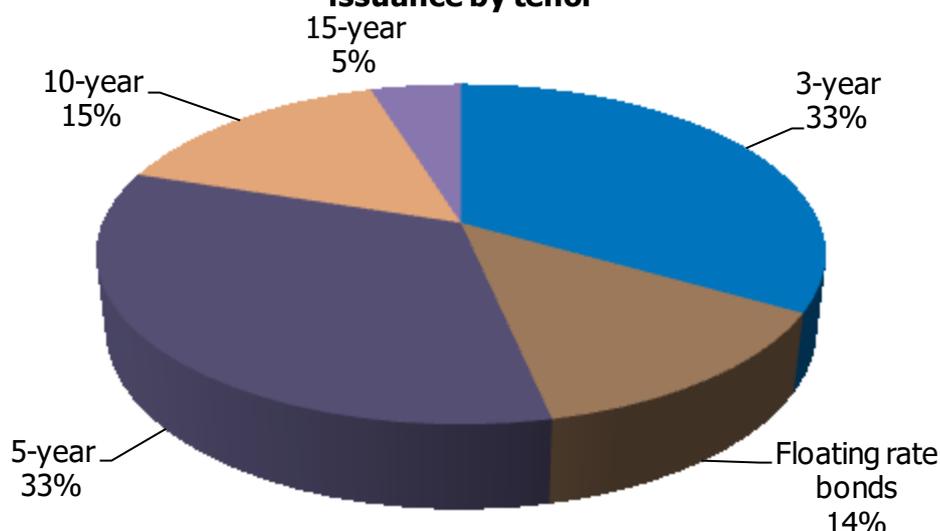
Total gross issuance is planned at **HUF 6,389 billion** in 2016, of which 91 per cent (or **HUF 5,843 billion**) will be in domestic currency and only 9 per cent (**HUF 546 billion** or EUR 1.75 billion) will be in foreign currencies.

	HUF billion	In EUR (billion)
Gross issuance		
Domestic debt	5,843	18.7
T-bonds	1,875	6.0
Retail securities	2,752	8.8
Discount T-bills	1,061	3.4
HUF loans	155	0.5
FX currency debt	546	1.75
International bonds	312	1.0
Domestic FX bonds*	234	0.75
IFIs loans	0	0.0
Total	6,389	20.45

* Residency Bonds and Premium Euro Hungarian Government Bonds

HUF 1,875 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



In 2016 the planned issuance of HUF-denominated government bonds are as follows:

Tenor	Issuance (HUF billion)
3-year	625
Floating rate bonds	250
5-year	625
10-year	285
15-year	90
Total	1,875

ÁKK will launch a new 3-year, 5-year and 10-year bond series, while for the 15-year tenor the current benchmark bonds will be offered. ÁKK will issue a new series of the 3-year floating rate bond and will continue to issue the current series of the longer, 5-year floating rate bond, which 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 to be continued in 2016 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 mainly from the domestic market. The issuance of the Residency Bond and the domestic Premium Euro

Hungarian Government Bond is expected to provide funding of EUR 0.75 billion. Besides that ÁKK intends to issue international bonds of EUR 1 billion. Drawdown of project financing loans will be in the domestic currency.

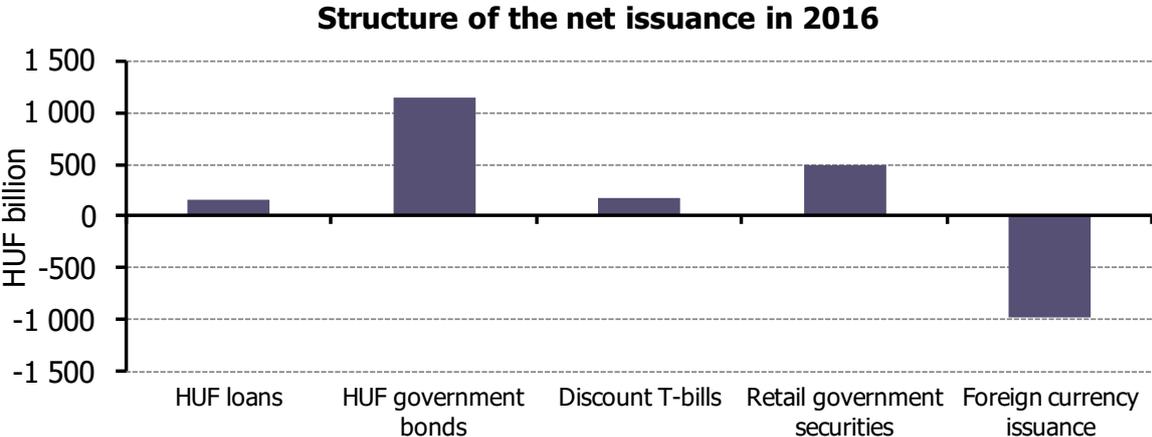
4. Net issuance

Net government debt issuance is planned in an amount of **HUF 1,008 billion**, out of which domestic debt issuance will reach **HUF 1,979 billion**, and net foreign currency borrowing will amount to **HUF -971 billion** (EUR -3.1 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 and increases the safety reserve of the government.

Out of the net domestic government securities issuance (HUF 1824 billion) net bond issuance will be HUF 1,152 billion and net discount T-bill issuance will amount to HUF 172 billion, while the stock of retail government securities will increase by HUF 500 billion. Net issuance of HUF loans will be HUF 155 billion.

The total foreign currency redemption will amount to EUR 4.8 billion. The gross foreign currency issuance is planned at EUR 1.75 billion, thus **the net foreign currency issuance is expected to amount EUR -3.1 billion in 2016.**



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.

The mission 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 2016:

- **Share of foreign currency debt:** The share of the foreign currency denominated debt within the total central government debt should be below 35 per cent and declining. **This benchmark has changed from 40% to 35% comparing to 2015.**
- **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.
- **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, 2015. Thus the projected figures for 2016 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 2016

Type	Date of auction	Date of settlement
Fixed rate HGB	07.01.2016	13.01.2016
	21.01.2016	27.01.2016
	04.02.2016	10.02.2016
	18.02.2016	24.02.2016
	03.03.2016	09.03.2016
	17.03.2016	23.03.2016
	31.03.2016	06.04.2016
	14.04.2016	20.04.2016
	28.04.2016	04.05.2016
	12.05.2016	18.05.2016
	26.05.2016	01.06.2016
	09.06.2016	15.06.2016
	23.06.2016	29.06.2016
	07.07.2016	13.07.2016
	21.07.2016	27.07.2016
	04.08.2016	10.08.2016
	18.08.2016	24.08.2016
	01.09.2016	07.09.2016
	15.09.2016	21.09.2016
	29.09.2016	05.10.2016
13.10.2016	19.10.2016	
27.10.2016	02.11.2016	
10.11.2016	16.11.2016	
24.11.2016	30.11.2016	
08.12.2016	14.12.2016	

Type	Date of auction	Date of settlement
Floating rate HGB	14.01.2016	20.01.2016
	28.01.2016	03.02.2016
	11.02.2016	17.02.2016
	25.02.2016	02.03.2016
	10.03.2016	16.03.2016
	24.03.2016	30.03.2016
	07.04.2016	13.04.2016
	21.04.2016	27.04.2016
	05.05.2016	11.05.2016
	19.05.2016	25.05.2016
	02.06.2016	08.06.2016
	16.06.2016	22.06.2016
	30.06.2016	06.07.2016
	14.07.2016	20.07.2016
	28.07.2016	03.08.2016
	11.08.2016	17.08.2016
	25.08.2016	31.08.2016
	08.09.2016	14.09.2016
	22.09.2016	28.09.2016
	06.10.2016	12.10.2016
20.10.2016	26.10.2016	
03.11.2016	09.11.2016	
17.11.2016	23.11.2016	
01.12.2016	07.12.2016	
15.12.2016	21.12.2016	

Issuance calendar of discount treasury bills in 2016

12-mont discount T-bills

Code	Date of auction	Date of settlement	Date of maturity
D161228	30.12.2015	06.01.2016	28.12.2016
D161228	14.01.2016	20.01.2016	28.12.2016
D161228	28.01.2016	03.02.2016	28.12.2016
D161228	11.02.2016	17.02.2016	28.12.2016
D161228	25.02.2016	02.03.2016	28.12.2016
D170316	10.03.2016	16.03.2016	16.03.2017
D170316	24.03.2016	30.03.2016	16.03.2017
D170316	07.04.2016	13.04.2016	16.03.2017
D170316	21.04.2016	27.04.2016	16.03.2017
D170316	05.05.2016	11.05.2016	16.03.2017
D170524	19.05.2016	25.05.2016	24.05.2017
D170524	02.06.2016	08.06.2016	24.05.2017
D170524	16.06.2016	22.06.2016	24.05.2017
D170524	30.06.2016	06.07.2016	24.05.2017
D170719	14.07.2016	20.07.2016	19.07.2017
D170719	28.07.2016	03.08.2016	19.07.2017
D170719	11.08.2016	17.08.2016	19.07.2017
D170719	25.08.2016	31.08.2016	19.07.2017
D170913	08.09.2016	14.09.2016	13.09.2017
D170913	22.09.2016	28.09.2016	13.09.2017
D170913	06.10.2016	12.10.2016	13.09.2017
D170913	20.10.2016	26.10.2016	13.09.2017
D171025	03.11.2016	09.11.2016	25.10.2017
D171025	17.11.2016	23.11.2016	25.10.2017
D171025	01.12.2016	07.12.2016	25.10.2017
D171025	15.12.2016	21.12.2016	25.10.2017

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.