



GOVERNMENT DEBT MANAGEMENT AGENCY PTE LTD.

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DEBT MANAGEMENT OUTLOOK 2019

BUDAPEST, December 2018



Contents

1. Net financing requirements
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 2019

According to the Act on the budget for the year 2019, the deficit of the central government calculated on a **cash-flow basis** is planned at **HUF 998 billion**, equaling to 2.2% of the GDP.

The total cash-flow based net financing requirement for the year 2019 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 2019 is planned at **HUF 7,989 billion**.¹

	In HUF billion	In EUR billion
HUF debt redemptions	7,323	22.6
T-bonds	1,204	3.7
Planned bond buy-backs	250	0.8
Planned switch redemptions	250	0.8
Retail securities	4,355	13.4
Discount T-bills	1,250	3.9
HUF loans	14	0.04
FX debt redemptions	666	2.1
International bonds	423	1.3
Domestic bonds	207	0.7
IFI and other loans	36	0.1
Total	7,989	24.7

The redemption of domestic currency debt will amount to **HUF 7,323 billion**. Domestic currency bond redemptions will amount to HUF 1,204 billion, discount T-bills to HUF 1,250 billion; the sum of these marketable domestic debt redemptions of HUF 2,454 billion corresponds to 5.5% of GDP. In order to reduce future refinancing risk, ÁKK plans to buy back (HUF 250 billion) and switch (HUF 250 billion) bonds maturing in 2020 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 666 billion (EUR 2.1 billion)** – a bit lower than such maturities in 2018 –, out of which international bond redemptions will amount to EUR 1.3 billion, domestic bond redemptions will amount to EUR 0.65, while the redemption of IFI and other loans will amount to EUR 0.1 billion.

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.

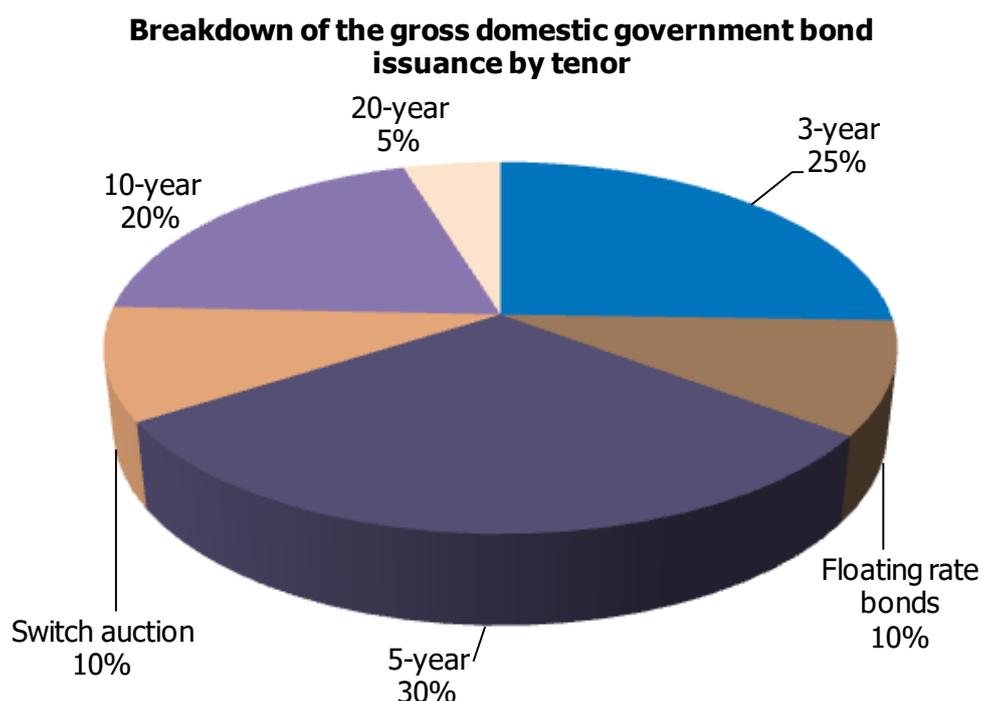
3. Gross issuance

Total gross issuance is planned at **HUF 9,249 billion** in 2019, 99.7 per cent of which (or **HUF 9,217 billion**) will be in domestic currency and only 0.3 per cent (**HUF 32 billion** or EUR 0.1 billion) will be in foreign currencies.

	In HUF billion	In EUR billion
Domestic debt	9,217	28.5
T-bonds at auctions	2,300	7.1
T-bonds at switch auctions	250	0.8
T-bonds for local authorities	100	0.3
Retail securities	5,155	15.9
Discount T-bills	1,250	3.9
HUF loans	162	0.5
FX currency debt	32	0.1
International bonds	0	0.0
Domestic FX bonds*	32	0.1
FX loans	0	0.0
Total	9,249	28.6

* Premium Euro Hungarian Government Bonds

HUF 2,300 billion worth of Hungarian Forint government bonds will be offered at auctions, while another HUF 250 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 2019 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)	250
10-year	500
20-year	120
Total	2,550

ÁKK will launch a new 3-year and 10-year bond series during 2019, while for other tenor and for the floating rate bond 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 2019 and the 20 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 almost the total of the foreign currency maturities from the domestic market. If ample domestic demand remains in 2019, **ÁKK is not planning to issue foreign currency bond in the international capital markets**. The issuance of the domestic FX bonds (Premium Euro Hungarian Government Bond) is expected to provide funding of EUR 100 million. ÁKK plans to draw down project financing loans (EUR 500 million) in the domestic currency.

4. Net issuance

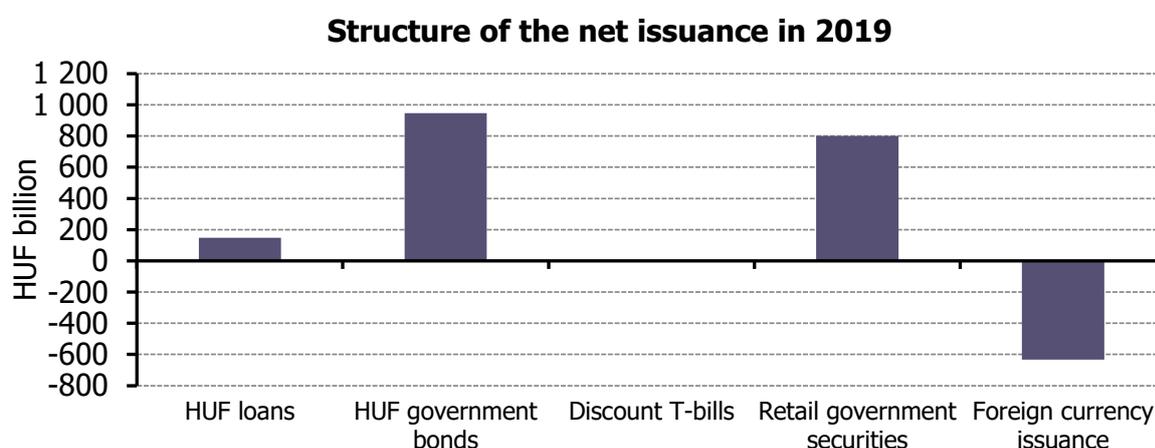
Net government debt issuance is planned in an amount of **HUF 1,260 billion**, out of which domestic debt issuance will reach **HUF 1,894 billion**, and net foreign currency borrowing will amount to **HUF -634 billion** (EUR -2.0 billion).

ÁKK will closely monitor 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 liquidity reserves of the government.

Out of the net domestic government securities issuance (HUF 1,747 billion) net bond issuance will be HUF 947 billion. The stock of retail government securities is expected to increase by HUF 800 billion supported by competitive pricing and introducing a new retail instrument (related to retirement savings). According to the plan the stock of discounted T-bills will not change in 2019, however the outstanding volume of discount T-bills can be increased rapidly if needed for liquidity management purposes. Net issuance of HUF loans will be HUF 148 billion.

As the total foreign currency redemption will amount to EUR 2.1 billion and the gross foreign currency issuance is planned at only EUR 0.1 billion, thus **the net foreign currency issuance is expected to amount to EUR -2.0 billion in 2019.**



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 **decrease further 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.

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 2019:

- **Share of foreign currency debt:** The share of the foreign currency denominated debt within the total central government debt should remain within 10-20%. The decreasing share of foreign currency debt is achieved by covering the net financing need and the large 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 60-80%, and that of floating rate debt between 20% and 40%.
- **Average Time to Re-fixing (ATR):** ÁKK intends to measure the refinancing risk with a more common indicator than Duration. In order to keep an acceptable level of refinancing risk, the Average Time to Re-fixing of the HUF debt portfolio is targeted in the range of 2.75-3.75 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 2019.

6. Further information

This Debt Management Outlook publication was compiled based on information available in the middle of December 2018. Thus the projected figures for 2019 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 2019

Type	Date of auction	Date of settlement
Fixed rate HGB	03.01.2019	09.01.2019
	17.01.2019	23.01.2019
	31.01.2019	06.02.2019
	14.02.2019	20.02.2019
	28.02.2019	06.03.2019
	14.03.2019	20.03.2019
	28.03.2019	03.04.2019
	11.04.2019	17.04.2019
	25.04.2019	02.05.2019
	09.05.2019	15.05.2019
	23.05.2019	29.05.2019
	06.06.2019	12.06.2019
	20.06.2019	26.06.2019
	04.07.2019	10.07.2019
	18.07.2019	24.07.2019
	01.08.2019	07.08.2019
	15.08.2019	21.08.2019
	29.08.2019	04.09.2019
	12.09.2019	18.09.2019
	26.09.2019	02.10.2019
10.10.2019	16.10.2019	
24.10.2019	30.10.2019	
07.11.2019	13.11.2019	
21.11.2019	27.11.2019	
05.12.2019	11.12.2019	
19.12.2019	23.12.2019	

Type	Date of auction	Date of settlement
Floating rate HGB	10.01.2019	16.01.2019
	24.01.2019	30.01.2019
	07.02.2019	13.02.2019
	21.02.2019	27.02.2019
	07.03.2019	13.03.2019
	21.03.2019	27.03.2019
	04.04.2019	10.04.2019
	18.04.2019	24.04.2019
	02.05.2019	08.05.2019
	16.05.2019	22.05.2019
	30.05.2019	05.06.2019
	13.06.2019	19.06.2019
	27.06.2019	03.07.2019
	11.07.2019	17.07.2019
	25.07.2019	31.07.2019
	08.08.2019	14.08.2019
	22.08.2019	28.08.2019
	05.09.2019	11.09.2019
	19.09.2019	25.09.2019
	03.10.2019	09.10.2019
17.10.2019	23.10.2019	
31.10.2019	06.11.2019	
14.11.2019	20.11.2019	
28.11.2019	04.12.2019	
12.12.2019	18.12.2019	

Issuance calendar of discount treasury bills in 2019

12-month discount T-bills

Code	Date of auction	Date of settlement	Date of maturity
D191231	10.01.2019	16.01.2019	31.12.2019
D191231	24.01.2019	30.01.2019	31.12.2019
D191231	07.02.2019	13.02.2019	31.12.2019
D191231	21.02.2019	27.02.2019	31.12.2019
D200226	07.03.2019	13.03.2019	26.02.2020
D200226	21.03.2019	27.03.2019	26.02.2020
D200226	04.04.2019	10.04.2019	26.02.2020
D200226	18.04.2019	24.04.2019	26.02.2020
D200429	02.05.2019	08.05.2019	29.04.2020
D200429	16.05.2019	22.05.2019	29.04.2020
D200429	30.05.2019	05.06.2019	29.04.2020
D200429	13.06.2019	19.06.2019	29.04.2020
D200624	27.06.2019	03.07.2019	24.06.2020
D200624	11.07.2019	17.07.2019	24.06.2020
D200624	25.07.2019	31.07.2019	24.06.2020
D200624	08.08.2019	14.08.2019	24.06.2020
D200826	22.08.2019	28.08.2019	26.08.2020
D200826	05.09.2019	11.09.2019	26.08.2020
D200826	19.09.2019	25.09.2019	26.08.2020
D200826	03.10.2019	09.10.2019	26.08.2020
D201021	17.10.2019	24.10.2019	21.10.2020
D201021	31.10.2019	06.11.2019	21.10.2020
D201021	14.11.2019	20.11.2019	21.10.2020
D201021	28.11.2019	04.12.2019	21.10.2020
D201021	12.12.2019	18.12.2019	21.10.2020
D201223	23.12.2019	31.12.2019	23.12.2020

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.