Public finances continued to be stable this year

In the first two months of the year, the composition of general government debt has improved markedly: the share of HUF-denominated debt continued to increase and that of foreign currency debt has accordingly declined. In addition, the share of securities held by residents has also increased significantly. Short-dated government securities were sold with yields still close to zero percent this year. Negative interest rates have also occurred at government auctions. Low yields, the rising share of HUF-denominated debt and the rising weight of resident bondholders in the financing of state debt are all contributing to more stable public finances.

In the first two months of 2018, the debt of the general government budget rose by HUF 580bn to HUF 27 326bn.

The HUF-denominated debt of the general government budget increased by HUF 732bn to HUF 21 422bn in the same period. Of that

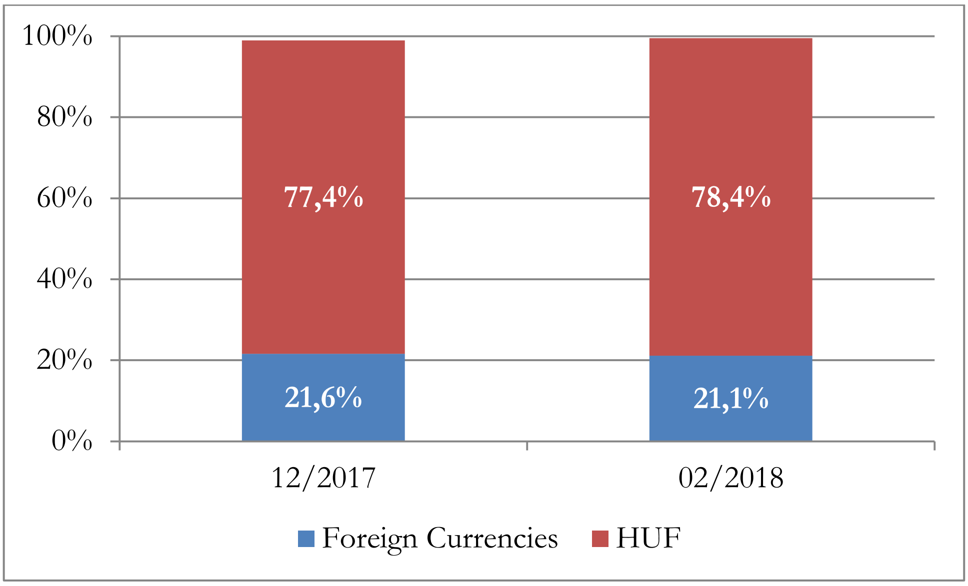
- HUF 40bn was borrowed abroad;
- new government securities of HUF 2451bn were issued, of which more than half – HUF 1266bn – was issued in the form of retail securities;
- the amount of maturing debt totalled HUF 1759bn.

Accordingly, net issuance totalled HUF 693bn. Of that, the value of retail securities was HUF 308bn (45 percent). The share of forint-denominated securities within total debt rose from some 77.4 percent to 78.4 percent.
In the period January-February 2018, the amount of foreign currency-denominated debt declined by HUF 11bn, to HUF 5 771bn. This has been the result of two opposing trends. Net forex debt redemption was HUF 88bn.

- The value of new government securities issued in Hungary was HUF 3bn;
- the value of forex securities held by residents and non-residents which were repurchased in the observed period was HUF 9bn and HUF 82bn, respectively.

However, the slight depreciation of the forint has caused the value of total debt to increase by HUF 76bn. These changes have reduced the share of foreign currency-denominated debt within the total debt volume from 21.6 percent to 21.1 percent in the observed period. Thus, the trend of recent years has continued: namely, the share of forint-denominated debt within the total volume has been increasing.

Fig. 1: Debt of general government budget, by currency (%)

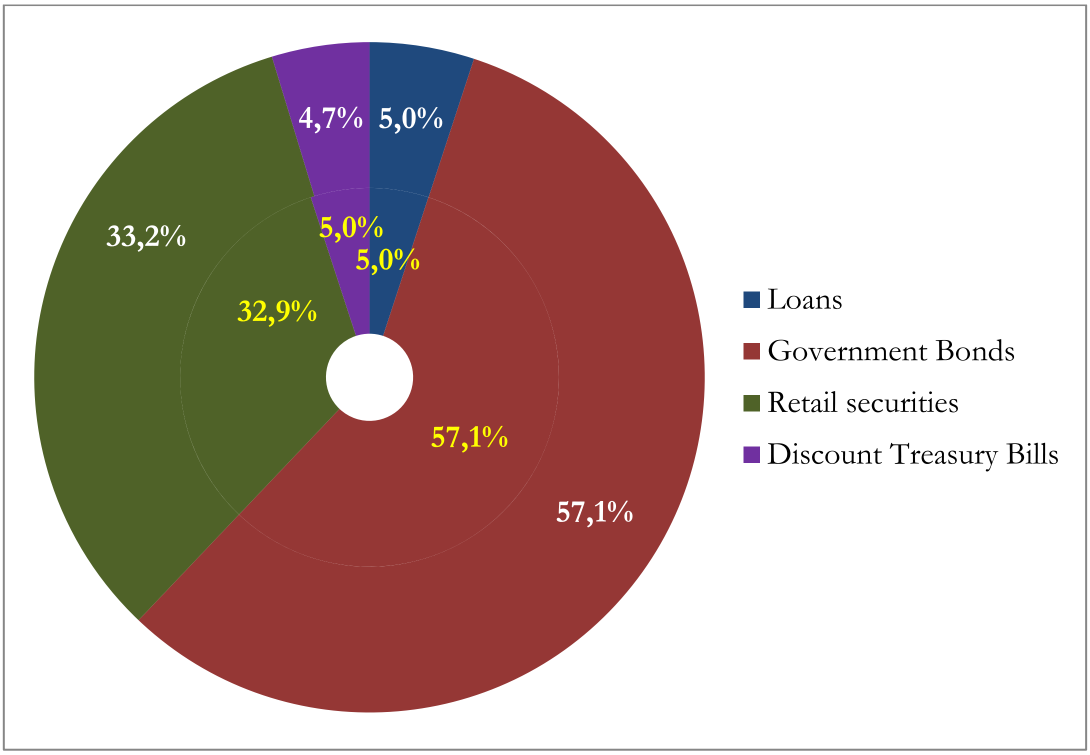


Source: Government Debt Management Agency Pte LTD

In order to reduce risks stemming from foreign currency-denominated debt, the Government Debt Management Agency Pte LTD (ÁKK) has carried out **a number of swap transactions**. The resulting mark-to-market accounts held at ÁKK become a part of the stock of debt. These swap deals had been designed to offset the negative impact of the fact that the value of US dollar had in recent years increased markedly vis-á-vis to the common currency. As a result forex changes, the value of mark-to-market accounts declined by HUF 141bn to HUF 133bn in the observed period.

At the end of the aforementioned period, the stock of **retail securities** totalled HUF 7 111bn, which shows an increase of more than 4.5 percent over the course of the past two months. The volume of Premium Hungarian Government Bonds and Bonus Hungarian Government Bonds, both issued as retail instruments, soared by some 10 percent. The former instrument was issued in the form of 3-year and 5-year securities, while the latter had versions with 4-year, 6-year and 10-year tenors. The volume of two-year bonds with fixed rates rose by 16 percent. On the other hand, the sales volume of One-year T-Bills and Half-year T-Bills increased by less than 0.1 percent. This shows the growing popularity of longer-dated bonds.

Fig. 2: HUF-denominated general government debt, by instruments
(inner circle: 12/2017; outer circle: 02/2018)



Source: Government Debt Management Agency Pte LTD

The share of HUF-denominated government **securities held by non-residents** accounted for 16.7 percent of total, constituted by Government Bonds of HUF 3 332bn and Discount T-Bills of HUF 62bn as of the end of February 2018. As a development highly favourable for public finances, yields for Hungarian government securities remained low at auctions; however, those on bonds with maturities of 3 years, 5 years and 10 years rose occasionally by as much as 50 basis points, in line with the current international trend.

Average yields at auctions in February 2018

3-month T-Bill:	0.00%
12-month Discount T-Bill:	0.01%
3-year Bond:	0.90%
5-year Bond:	1.42%
10-year Bond:	2.50%

Source: Government Debt Management Agency Pte LTD

Last year, debt rating agencies have repeatedly upwardly revised Hungary's ratings. At the end of February, the country's long-term government debt had the following ratings: Standard & Poor's: BBB-; Moody's: Baa3; Fitch: BBB-. Hungary's 5-year CDS premium has declined from 93 basis points in December to 84 basis points at the end of February 2018.

As a whole, improvement in the structure of the general government budget, the rising weight of forint debt against forex-denominated debt, the rising volume of retail instruments held by resident investors as well as lower average yields have substantially contributed to more stable public finances and helped reduce the country's exposure to external risks.