MINISTRY
FOR NATIONAL ECONOMY

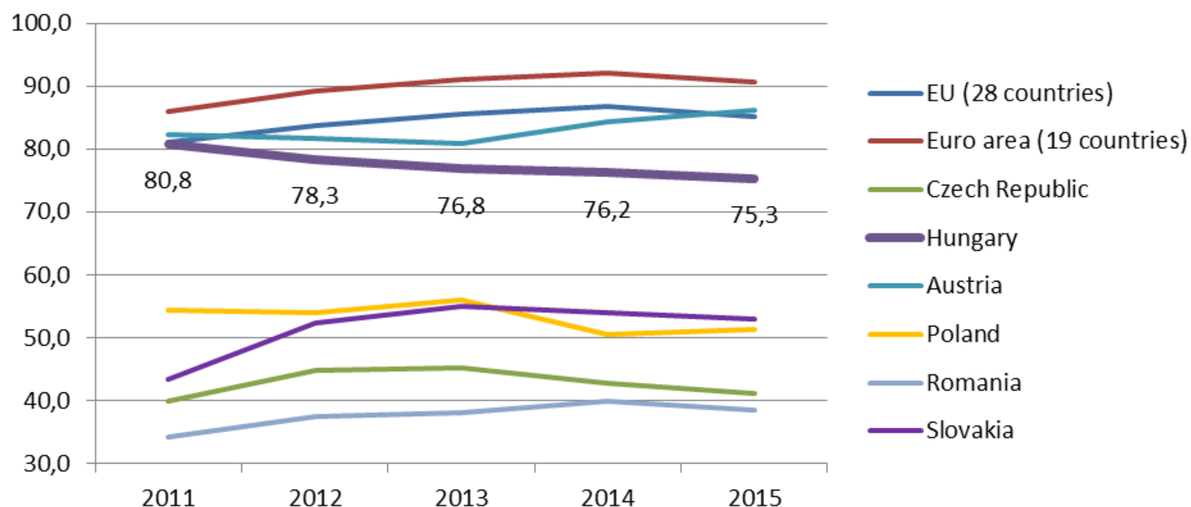
Changes in the composition of Hungary's general government debt in the period August 2011-Augsut 2016

The Hungarian Government Debt Management Agency (ÁKK) has recently published favourable data on the situation of the **Hungarian government securities market**. **Hungary's government debt-to-GDP ratio has been on a descending path since 2011**. The share of forex debt has declined to 30 percent of total by 2016 – a massive decrease compared to the near-50 percent figure registered in 2011. Analysts are expecting this indicator to fall to 26 percent by year-end, and that would not be a high proportion even from an international perspective.

Compared to the countries of the Euro-zone, Hungary has been more efficient in implementing a restrictive fiscal policy, and this has successfully reduced state budget deficit in recent years. In addition, the composition of general government debt has changed substantially, while the government debt-to-GDP ratio and the share of forex debt within the total volume of government debt have declined and the market of retail government securities has seen impressive development.

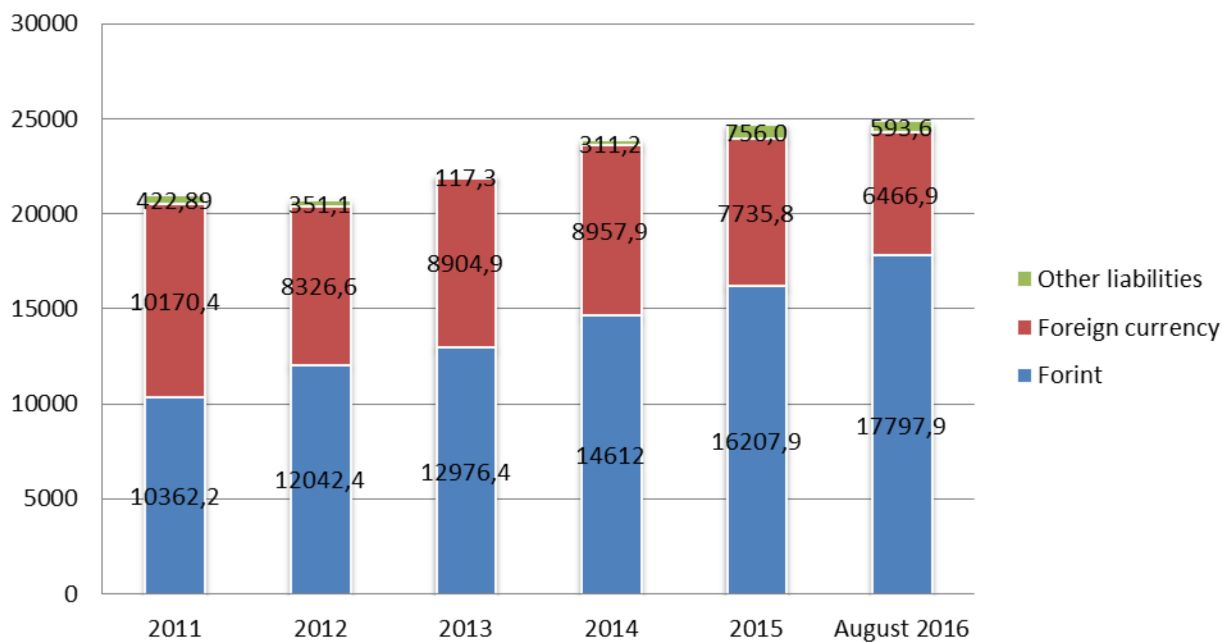
In 2011-2015 Hungary's gross general government debt-to-GDP ratio fell more than 5 percent (Figure 1.)**.** In the European Union and within the Euro-zone, however, an opposite trend has evolved and this indicator signals rising debt. In comparison to the Visegrad Four, only Hungary and Poland have managed to reduce the ratio. In Hungary, this achievement has been the result of sound economic growth and the Government's commitment to the Convergence Programme.

Fig.1: Gross general government debt-to-GDP ratio (million EUR)



Source: Eurostat

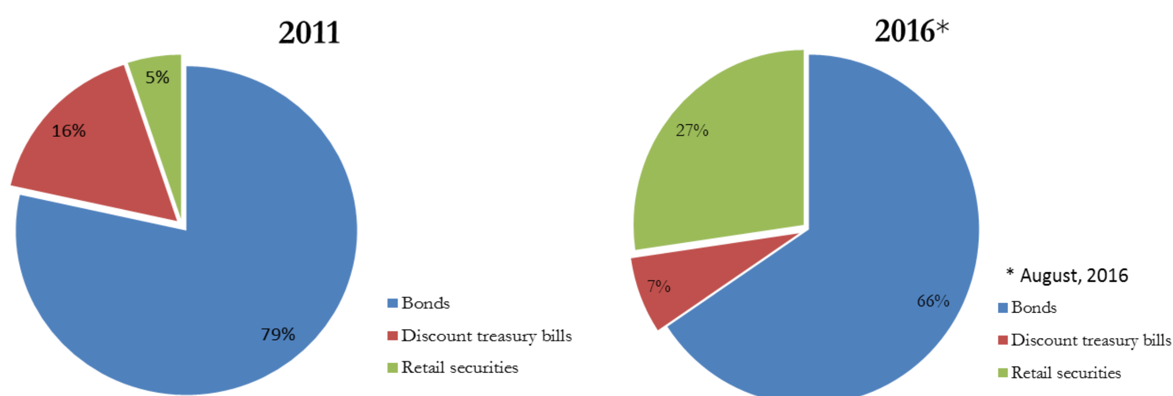
Fig. 2: Volume of forint and forex debt within total government debt (bn HUF)



Source: Hungarian Government Debt Management Agency (ÁKK)

General government debt denominated in the Hungarian currency rose until the end of August 2016 by HUF 7435.7bn since 2011 and by HUF 1589bn since 2015 (Figure 2.). These amounts correspond to increases of 71.8 percent and 9.8 percent, respectively. The volume forex debt, on the other hand, fell by HUF 3703.5bn (36.4 percent) and HUF 1268.9bn (16.4 percent) compared to August 2011 and August 2015, respectively. Accordingly, thanks to lower forex debt exposure, debt financing has become more stable and predictable.

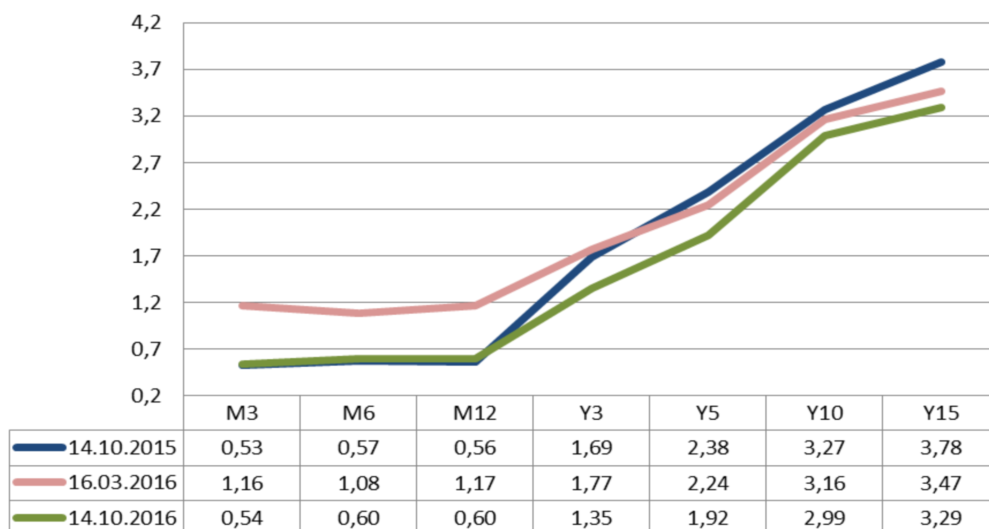
Fig. 3: Change in the volume of retail government securities within total general government debt (bn HUF)



Source: Hungarian Government Debt Management Agency (ÁKK)

Between the end of 2011 and August 2016, within the total stock of securities sold on markets, **the share of retail securities has seen the largest growth: it has increased almost ten-fold** (from HUF 473.8bn to HUF 4615bn). As a consequence, the retail securities market has gained substantial significance, and it is a favourable development for both retail investors and the state of Hungary. In the observed period, the share of government bonds rose by 51 percent, while that of discount treasury bills decreased by 22.2 percent within the total volume of HUF-denominated debt.

Fig. 4: Yield curve of Hungarian benchmark government securities (percent)



	M3	M6	M12	Y3	Y5	Y10	Y15
14.10.2015	0,53	0,57	0,56	1,69	2,38	3,27	3,78
16.03.2016	1,16	1,08	1,17	1,77	2,24	3,16	3,47
14.10.2016	0,54	0,60	0,60	1,35	1,92	2,99	3,29

Source: Reuters

Figure 4 shows the yield curve of Hungarian government securities on the basis of half-yearly data. The chart reveals that **yields on both short-dated discount treasury bills and long-dated government bonds have fallen between March and October 2016**. Although the curve has slightly steepened since March – a negative trend – but compared to October 2015 the yield curve has flattened, signalling a favourable tendency. Yields on the 10-year bond, which is an internationally observed benchmark, declined from 3.27 percent in October 2015 to 2.99 percent in October 2016, a decrease of 28 basis points over one year. In comparison to March 2016, the yield was down by 17 basis points.

Thanks to positive macro-economic data and economic outlook, two out of the big three credit rating agencies have restored Hungary's investment grade status (Fitch Ratings in May 2016 and Standard&Poor's in September 2016.) International analysts normally observe the two better out of the available three ratings assessing a country's borrower status. Moody's is scheduled to possibly review their stance on 4 November 2016, but they are not obliged to give prior notice of a decision. Credit rating upgrades and lower yields make debt financing significantly cheaper and more calculable.

In coming years, **fiscal policy will continue to focus on reducing budget deficits and the current low share of forex debt facilitates the potential issuance of forex securities.** Since the latest credit rating upgrade was announced, demand has noticeably increased for foreign currency-denominated Hungarian government securities, but the Hungarian Government's fiscal policy is committed to maintaining the current downward forex debt-ratio trend. Euro-denominated bond issuance is in the foreground of the Hungarian Government Debt Management Agency's strategy, but the principle of diversification also requires issuance in yen, yuan and US dollars.