



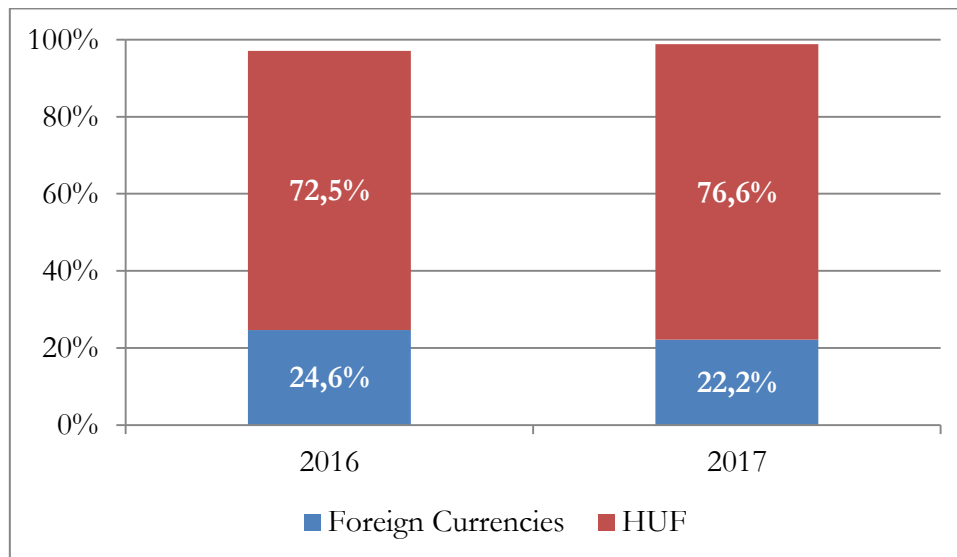
Public finances became even more stable this year

In the first ten 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. As a new phenomenon, at auctions some government securities were sold at negative yields this year. Low yields, the rising share of HUF-denominated debt and the rising weight of resident bondholders in the financing of state debt have all contributed to more stable public finances.

Between the beginning of the year and the end of October 2017, the debt of the general government budget rose by HUF 1 171bn to HUF 26 601bn.

The **HUF-denominated** debt of the general government budget increased by HUF 1 956bn to HUF 20 387bn in the same period. Of that amount, the net issuance of government securities accounted for HUF 1 920bn. Within that figure, HUF 1 597bn or 82 percent was issued in retail securities. The share of HUF-denominated debt within the total debt volume increased from 72.5 percent to 76.6 percent.

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



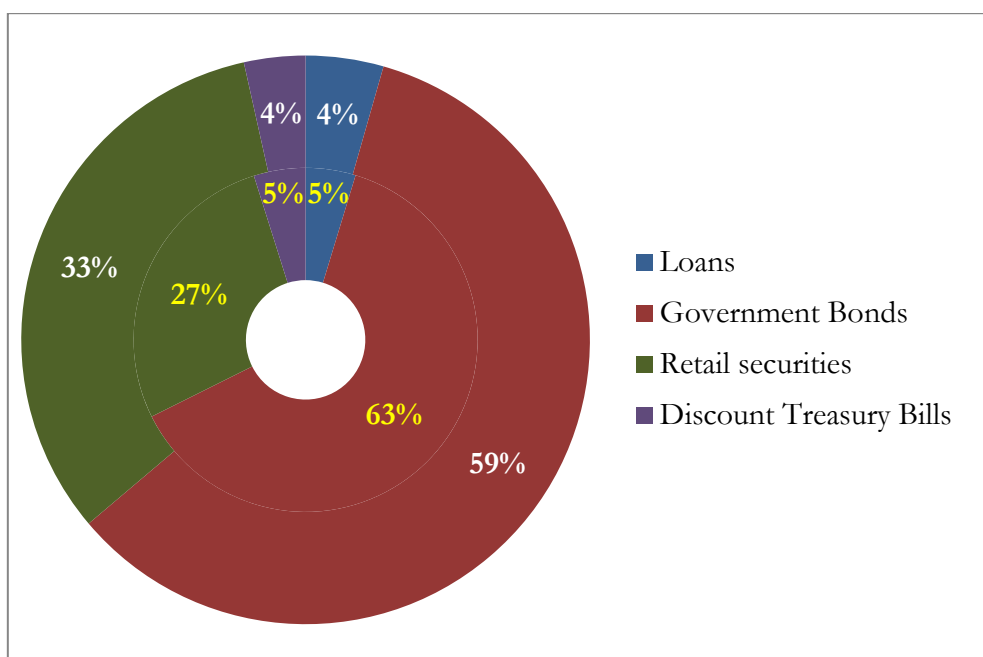
Source: Government Debt Management Agency Pte LTD

In the period January-October 2017, the amount of **foreign currency-denominated** debt declined by HUF 357bn, to HUF 5 900bn. This has been the result of two opposing trends. While forex debt redemption was HUF 364bn, the slight depreciation of the forint has caused the

value of total debt to increase by HUF 7.5bn. These changes have reduced the share of foreign currency-denominated debt within the total debt volume from 24.6 percent to 22.2 percent in the observed period.

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 foreign currencies other than the euro (e.g. the US dollar) had in recent years increased in comparison to the common currency. As a result forex changes, the value of mark-to-market accounts declined by HUF 428bn to HUF 315bn in the observed period.

Fig. 2: HUF-denominated general government debt, by instruments
(inner circle: 2016; outer circle: 2017)



Source: Government Debt Management Agency Pte LTD

At the end of the aforementioned period, the stock of **retail securities** totalled HUF 6 665bn, which shows an increase of more than 31 percent over the course of the past ten months. The volume of Premium Hungarian Government Bonds and Bonus Hungarian Government Bonds, both issued as retail instruments, soared by more than 53 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



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and 10-year tenors. On the other hand, the sales volume of One-year T-Bills and Half-year T-Bills increased by only 14 percent. This shows the growing popularity of long-dated bonds.

The share of HUF-denominated government **securities held by non-residents** accounted for 18 percent of total, constituted by Government Bonds of HUF 3 498bn and Discount T-Bills of HUF 16bn as of the end of October 2017. As a development highly favourable for public finances, some auctions have already brought negative yields for Hungarian government securities this year.

Table 1: Average yields at auctions in October 2017

| | |
|---------------------------|--------|
| 3-month T-Bill: | 0.00% |
| 12-month Discount T-Bill: | -0.02% |
| 3-year Bond: | 0.49% |
| 5-year Bond: | 1.19% |
| 10-year Bond: | 2.46% |

Source: Government Debt Management Agency Pte LTD

This year, one after the other debt rating agencies upwardly revised Hungary's ratings. By the end of October 2017 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 to 93 basis points by mid-December, hitting the lowest point since the middle of 2008.

As a whole, improvement in the structure of the general government budget, the rising weight of forint debt against forex-denominated debt, the rising amount 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.