



## *Investor confidence in Hungarian government securities remains unchanged*

The Government Debt Management Agency (ÁKK) auctioned 12-month Discount Treasury Bills with an average yield of 0.00 percent on 5 October 2017, while two weeks before new government securities had been sold with negative yields. During the course of this year, auctions have resulted more than once in negative yields in the case of securities with short maturities. This shows that the financing conditions of Hungarian government debt have improved steadily and remarkably in recent years.

The ÁKK offered 12-month Discount T-Bills for sale in the value of HUF 15bn on 2 October 2017, for which bids by primary dealers totalled HUF 28bn at the auction of 5 October 2017. Of that amount, the ÁKK eventually accepted the original HUF 15bn. The average yield was 0.00 percent at the auction, two basis points higher than the -0.02 percentage-point yield achieved at the previous auction. The yields' return from negative territory to zero has been a historic moment, unprecedented in Hungary's history of government debt management.

The average yield of 12-month Discount T-Bills was 0.26 percent at the beginning of the year, 0.93 percent at the beginning of 2016, 1.79 percent at the beginning of 2015 and as much as 3.07 percent at the beginning of 2014.

*Fig. 1.: Average yield of 12-month T-bills (%)*



Source: Government Debt Management Agency Pte LTD

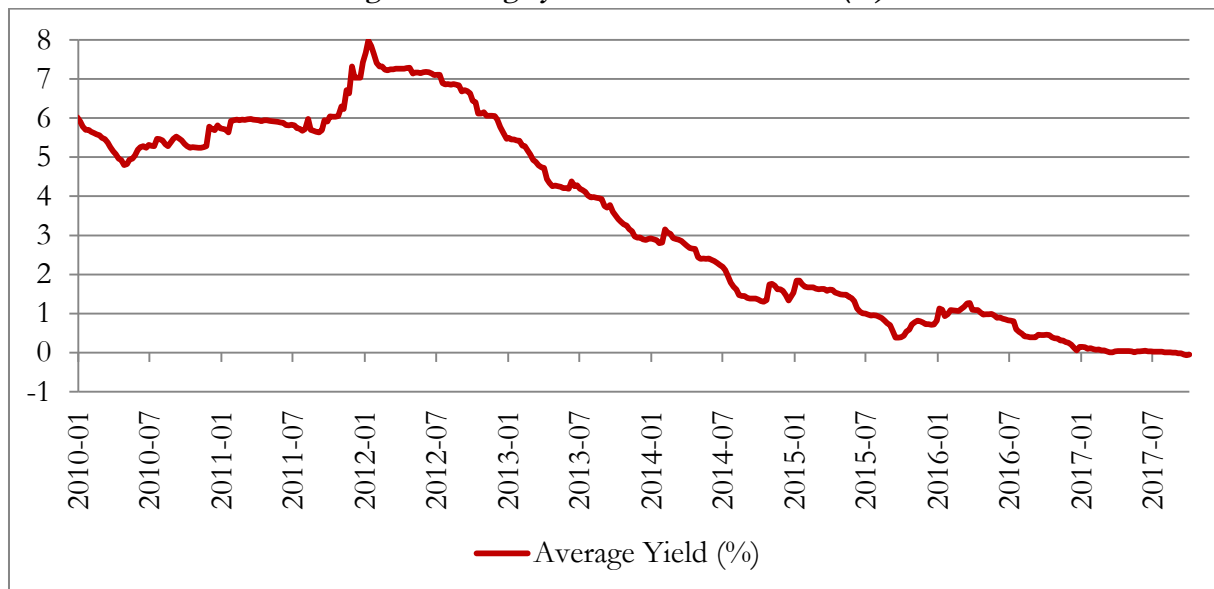


MINISTRY  
FOR NATIONAL ECONOMY

In the case of securities with a tenor of less than 12 months, negative yields had already occurred before. In March 2017, the yield of 3-month Discount T-Bills slipped into negative territory and yields on this instrument have remained in the red ever since. Average yields hit 0.00 percent for the first time on 22 August 2017, and slid below zero (-0.02 percent) on 5 September. Yields at the last three auctions, on 26 September, 3 and 10 October, averaged -0.07 percent, -0.05 percent and -0.05 percent, respectively.

The yield on 3-month Discount T-Bills was 0.15 percent at the beginning of 2017, 1.13 percent at the beginning of 2016, 1.84 percent at the beginning of 2015 and as much as 2.90 percent at the beginning of 2014.

*Fig. 2.: Average yield of 3-month T-bills (%)*



*Source: Government Debt Management Agency Pte LTD*

The negative yield trend has also been the result of the latest decision by the National Bank of Hungary (MNB) to cut the overnight deposit rate by 10 basis points, to -0.15 percent, in the middle of September. This interest rate level marks the threshold to negative yields for banks, as this is the lowest point at which excess liquidity is still worth to be deposited at the MNB. Further easing by the MNB, therefore, signals even lower yields at upcoming auctions in the next couple of weeks.

Low yields are the outcome of a combination of various domestic and international factors. Last year, all three major credit rating agencies have restored Hungary's investment grade status, and this has generated extra demand for Hungarian government securities. In the non-junk category,

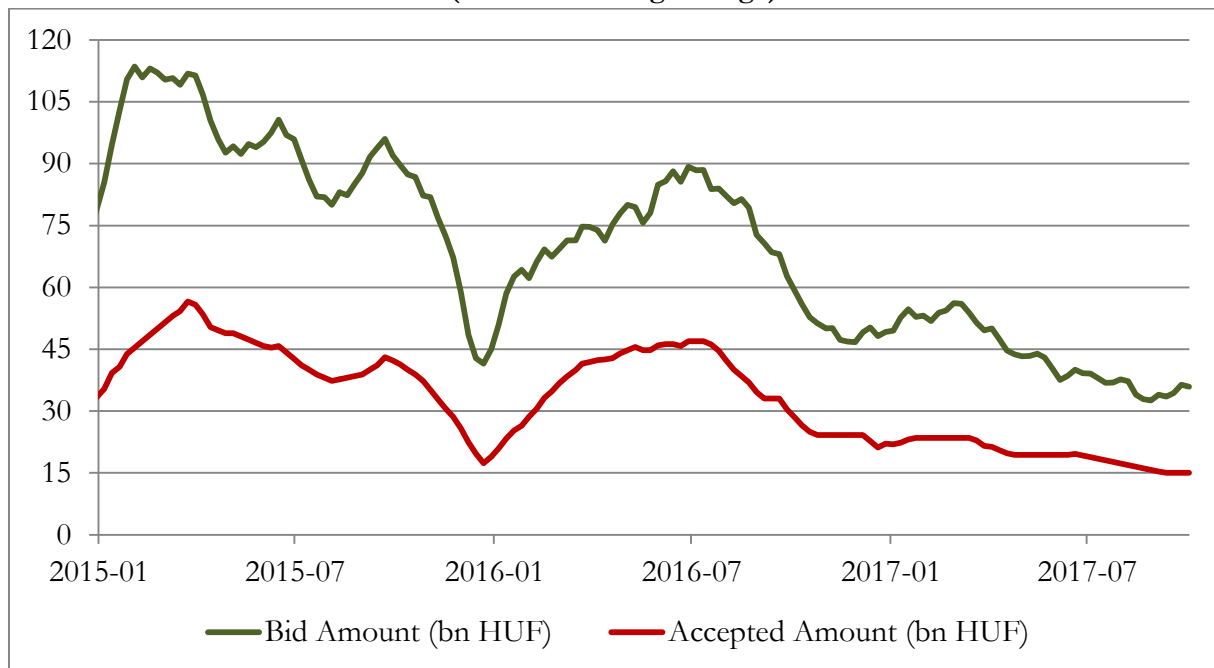


MINISTRY  
FOR NATIONAL ECONOMY

even the current yields on Hungarian papers may seem attractive, as the government bonds of developed countries have long been selling with negative yields. In recent years, the central bank has gradually and consistently reduced the funds of commercial banks to be deposited with the MNB as reserves, and this excess liquidity has concurrently been redirected into government bonds, mainly T-Bills.

While demand has risen, the amounts offered for sale has decreased. For example, in the case of 3-month Discount T-Bills, the amount auctioned by the ÁKK is usually HUF 15bn instead of the former amount of HUF 45bn, while demand has remained robust for HUF 35bn. The tightening of the supply side has significantly contributed to negative yields.

**Fig. 3.: Amounts bid/accepted at auctions of 3-month T-bills  
(3-month moving average)**



*Source: Government Debt Management Agency Pte LTD*

Parallel to the issuance of 12-month Discount T-Bills the ÁKK has also sold 5-year Floating-Rate Bonds, too. Although the amount planned for auction had originally been HUF 7bn, the value of bonds eventually sold was HUF 10bn as primary dealers had bid for HUF 28bn. One week before that, on 28 September, a similar scenario could be observed. Government securities with tenors of 3 years, 5 years and 10 years, totalling HUF 47bn, had been offered. As bids came in with a total value of HUF 107bn, the value of sale finally was HUF 60bn, up by HUF 13bn compared to the original issuance plan. The ÁKK visibly prefers the sale of papers with long



MINISTRY  
FOR NATIONAL ECONOMY

maturities. As bids in the case of 3-year government bonds had only slightly exceeded the amount offered at the latest auction, the value of issuance was in the end reduced to achieve a lower yield. Analysts predict another 10-point cut in the benchmark overnight rate in December this year, and that may lead to further negative yields at government securities auctions.