



## *Financing conditions of public finances continued to improve in January 2018*

The financing policy pursued in recent years has continued in the month of January 2018. Regarding financing, the State of Hungary has been increasingly relying on domestic resources and the Hungarian national currency. This policy has helped gradually improve the financing structure of public finances and reduce external exposure.

In the month of January, the stock of securities issued by the central government rose by HUF 78bn, up by 0.3 percent month-on-month. This growth was mainly attributable to an increase in the issuance of government securities with a tenor of more than one year, which development has been counterbalanced by the change in bond prices and the slight decrease in the stock foreign currency-denominated securities.

### *Debt securities issued by the central government<sup>1</sup> (at market value, bn HUF)*

	Opening positions	Transactions	Volume change	Other change	Final
HUF, original maturity over 1 year	16 673	389	-116	0	16 945
HUF, original maturity 0-1 year	4 878	1	1	0	4 880
Foreign currency-denominated	6 207	-6	-190	0	6 010
Total	27 758	383	-305	0	27 836

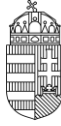
*Source: MNB*

In comparison to the corresponding period of the previous year, the stock of debt securities issued by the central government increased as a whole, at market prices, by net 4.6 percent. Within that, the stock of forint-denominated securities with a tenor of one year or less rose by 3.8 percent, and that of bonds with a tenor of more than one year was up by 13.7 percent. On the other hand, the stock of foreign currency-denominated government securities was down by 14.3 percent compared to January 2017.

Within the amount of debt securities issued by residents those issued by the central government continued to account for 90 percent of total. As it is rather unusual for enterprises of the real

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<sup>1</sup> The value of government securities totalled HUF 27 377bn; the stock of securities issued by other budgetary institutions which do not qualify as government securities totalled HUF 459bn at the end of the month.

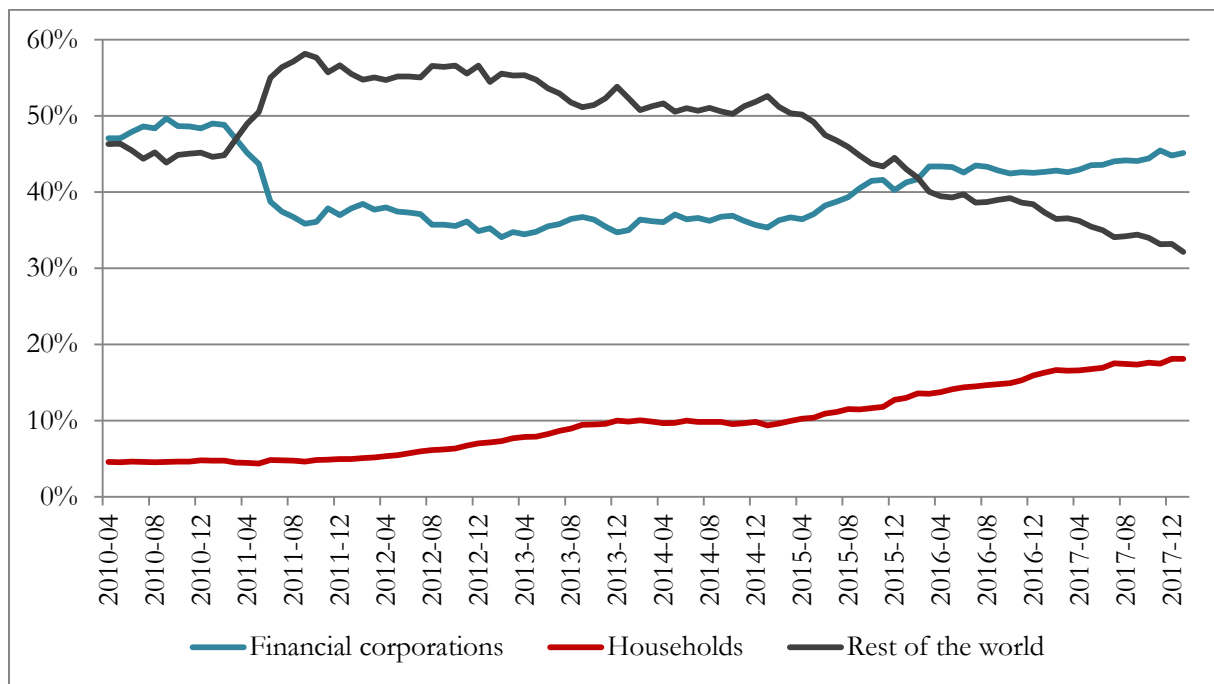


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economy in Hungary to issue credit securities, the share of corporate bonds is a mere 1.8 percent of total.

An analysis of data from a period of the past slightly less than eight years reveals that holders of debt securities issued by the central government belong to three main categories: domestic financial corporations, Hungarian households and non-resident foreign entities. The weight of other sectors is much lower: the share of domestic non-financial corporations has varied between 0.7 percent and 2.6 percent, that of the state budget has been 0.2-2.1 percent and that of non-profit organizations serving households has been 0.1-1.2 percent.

***Outstanding amount of debt securities issued by central government by the three main holder categories (April 2010 – January 2018)***



Source: MNB

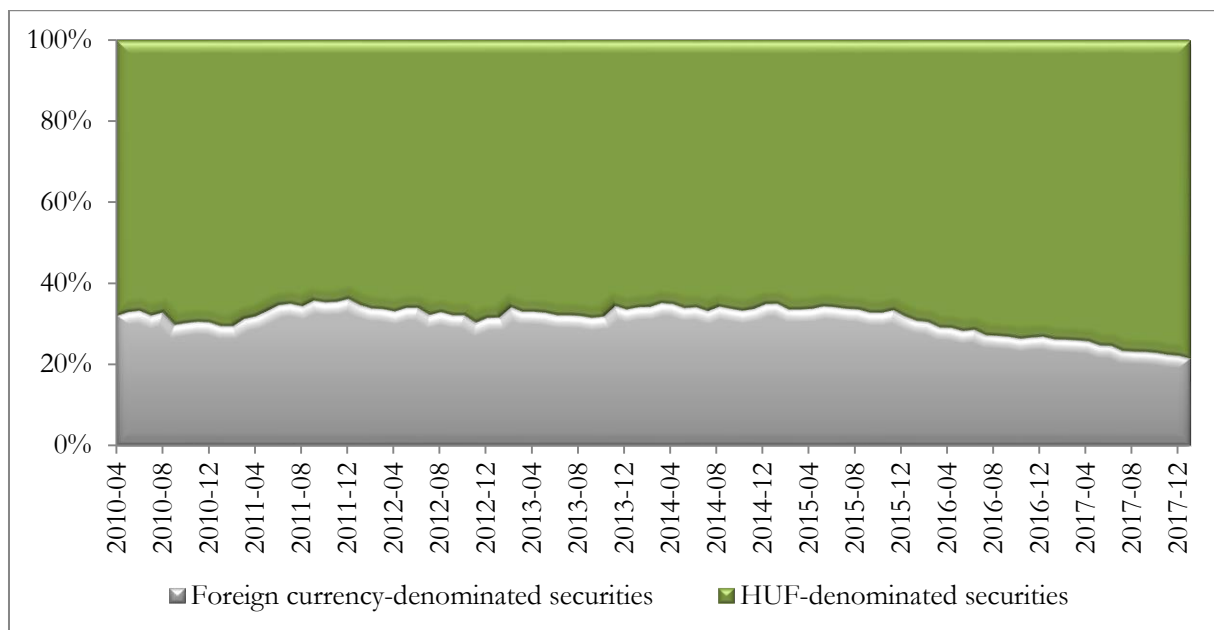
In September 2011, non-resident foreign entities possessed 58.1 percent of government debt securities, the highest figure in the past almost eight years. Since that peak, the share of securities owned by this group has declined markedly, to 32.1 percent by now. Prior to the beginning of 2011, domestic financial corporations had held about half of the stock of government securities; after that the size of their portfolio declined spectacularly in Q1-Q3 2011 and their stock was taken up by foreign entities. In the subsequent period until January 2015, domestic financial



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corporations held 34-36 percent of total; since then, they have gradually increased exposure to reach a share of 45 percent by now. The share of households has grown slowly but steadily from 4.5 percent in April 2010 to 18 percent recently. As a result, domestic residents have come to possess some two-thirds of government and other bonds. Within that category, households have been playing an increasingly meaningful role in the funding of public finances.

*Foreign-currency- and HUF-denominated securities*



Source: MNB

In the observed time frame, the share of foreign-currency denominated securities first increased from 32 percent in April 2011 to 36 percent by the end of 2011. Currently, the share of foreign-currency denominated debt securities is only 22 percent within the stock of debt securities issued by the central government, the lowest figure of the past eight years.

These data clearly show the two priorities pursued by the Government's prudent economic policy with regard to budget financing. One of them has been to engage more and more domestic investors in the funding of securities and the other one has been to increase the share of bonds and T-bills issued in forints.

These efforts have in the past eight years caused the financing structure of public finances to improve and vulnerability to external shocks to radically decline.