



GOVERNMENT DEBT MANAGEMENT AGENCY PTE LTD.

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# REVISED DEBT MANAGEMENT OUTLOOK 2020

BUDAPEST, April 2020



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## 1. Net financing requirements in 2020

The Government of Hungary adjusted the accrual deficit target of the 2020 budget from 1% to 2.7% of GDP, because of the negative economic outlook caused by the COVID-19 pandemic as well as fiscal policy actions intended to mitigate its economic impact. Due to the increased funding requirement and the partly changed market situation, the Government Debt Management Agency (AKK) updated its funding plan.

The deficit of the central government calculated on a ***cash basis*** is increased by HUF 1,234 billion, from HUF 367 billion **to HUF 1,601 billion**.

The total cash basis net financing requirement for the year 2020 is equal to the deficit of the central government and other items, such as the balance of EU transfers. These other financing needs are considered items that are to be handled by liquidity management (e.g. with discount T-bills).

## 2. Government debt redemptions

The total amount of government debt redemptions and pre-financing in 2020 is planned at **HUF 7,876 billion**, 16.1% of GDP, 23% less than in 2019.<sup>1</sup>

|                                           | 2019<br>plan<br>(HUF bn) | 2019<br>actual<br>(HUF bn) | 2020<br>original<br>plan<br>(HUF bn) | 2020<br>modified<br>plan<br>(HUF bn) | 2020<br>modified<br>plan<br>(EUR bn) |
|-------------------------------------------|--------------------------|----------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| HUF debt maturities                       | 6,823                    | 7,685                      | 5,524                                | 6,147                                | 17.6                                 |
| Government bonds                          | 1,204                    | 1,309                      | 1,058                                | 1,085                                | 3.1                                  |
| Retail securities                         | 4,355                    | 5,124                      | 3,768                                | 4,358                                | 12.5                                 |
| Discount T-bills                          | 1,250                    | 1,237                      | 651                                  | 657                                  | 1.9                                  |
| HUF loans                                 | 14                       | 14                         | 47                                   | 47                                   | 0.1                                  |
| FX debt redemptions                       | 666                      | 674                        | 741                                  | 768                                  | 2.2                                  |
| International bonds                       | 423                      | 415                        | 534                                  | 545                                  | 1.6                                  |
| Domestic bonds                            | 207                      | 214                        | 131                                  | 140                                  | 0.4                                  |
| IFI and other loans                       | 36                       | 45                         | 76                                   | 83                                   | 0.2                                  |
| Total maturities                          | 7,489                    | 8,385                      | 6,265                                | 6,915                                | 19.8                                 |
|                                           |                          |                            |                                      |                                      |                                      |
| Government bond buy-backs                 | 250                      | 744                        | 250                                  | 260                                  | 0.7                                  |
| Switch auctions                           | 250                      | 841                        | 423                                  | 457                                  | 1.3                                  |
| FX bond buy-backs                         |                          | 222                        |                                      | 244                                  | 0.7                                  |
| Total pre-financing                       | 500                      | 1,807                      | 673                                  | 961                                  | 2.8                                  |
| Total redemptions including pre-financing | 7,989                    | 10,165                     | 6,938                                | 7,876                                | 22.6                                 |

<sup>1</sup> ÁKK provides gross issuance and redemption data according to the methodology recommended by OECD, which takes redemptions of short-term securities - typically Treasury bills - only once into account to avoid multiple counting.

The redemptions of domestic currency debt will amount to **HUF 6,147 billion**, 20% less than in 2019. FX currency debt maturities will amount to HUF 768 billion (EUR 2.2 billion), 14% more than in 2019. ÁKK will remain active in active debt management, HUF 717 billion domestic bond buy-backs and exchanges are planned and ÁKK have already executed an USD bond buy-back with a value of HUF 244 billion in January to reduce short term debt outstanding.

Domestic currency bond redemptions will amount to HUF 1,085 billion (HUF 224 billion less than the actual in 2019), discount T-bill redemptions will amount to HUF 657 billion (almost half of the 2019 plan). In order to reduce future refinancing risk, ÁKK plans to buy back (HUF 260 billion) and switch (HUF 457 billion) bonds maturing in 2021 or later (pre-financing). Large part of the domestic debt redemptions is the redemption of retail securities, which decreases significantly compared to 2019, even after including HUF 590 billion buy-backs before maturity from households.

Foreign currency debt redemptions will total **EUR 2.2 billion** (HUF 768 billion) – a bit higher than the original maturities in 2019 –, out of which international bond redemptions will amount to EUR 1.6 billion, domestic bond redemptions will amount to EUR 0.4 billion, while the redemption of IFI and other loans will amount to EUR 0.2 billion. It is important to note that ÁKK has already paid back most international bond redemptions in Q1 2020.

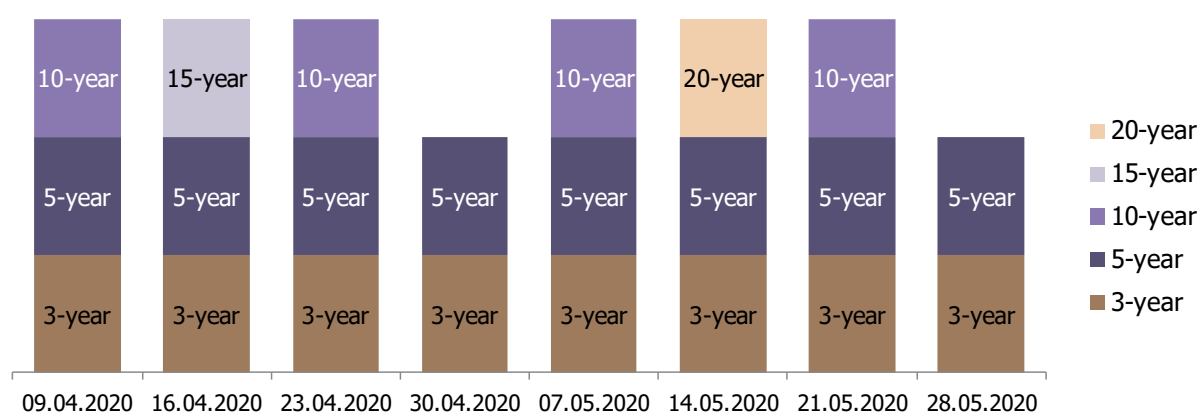
### 3. Gross issuance

Total gross issuance is planned at **HUF 9,476 billion** in 2020, 14% less than the actual in 2019. 85% of the total gross issuance (**HUF 8,044 billion**) will be in domestic currency and only 15% (**HUF 1,432 billion** or EUR 4.1 billion) will be in foreign currencies.

|                                        | 2019 plan<br>(HUF bn) | 2019 actual<br>(HUF bn) | 2020 original plan<br>(HUF bn) | 2020 modified plan<br>(HUF bn) | 2020 modified plan<br>(EUR bn) |
|----------------------------------------|-----------------------|-------------------------|--------------------------------|--------------------------------|--------------------------------|
| Domestic issuance                      | 9,217                 | 10,834                  | 7,003                          | 8,044                          | 23.1                           |
| Government bonds                       | 2,650                 | 3,440                   | 2,017                          | 3,669                          | 10.5                           |
| <i>out of which via switch auction</i> | <i>250</i>            | <i>771</i>              | <i>400</i>                     | <i>432</i>                     | <i>1.2</i>                     |
| Retail securities                      | 5,155                 | 6,683                   | 4,168                          | 3,255                          | 9.3                            |
| Discount T-bills                       | 1,250                 | 657                     | 651                            | 946                            | 2.7                            |
| HUF loans                              | 162                   | 55                      | 166                            | 174                            | 0.5                            |
| FX issuance                            | 32                    | 146                     | 332                            | 1,432                          | 4.1                            |
| International Bonds                    | 0                     | 0                       | 266                            | 1,219                          | 3.5                            |
| Domestic Bonds                         | 32                    | 92                      | 66                             | 35                             | 0.1                            |
| IFIs loans                             | 0                     | 54                      | 0                              | 177                            | 0.5                            |
| Grand total                            | 9,249                 | 10,980                  | 7,335                          | 9,476                          | 27.2                           |

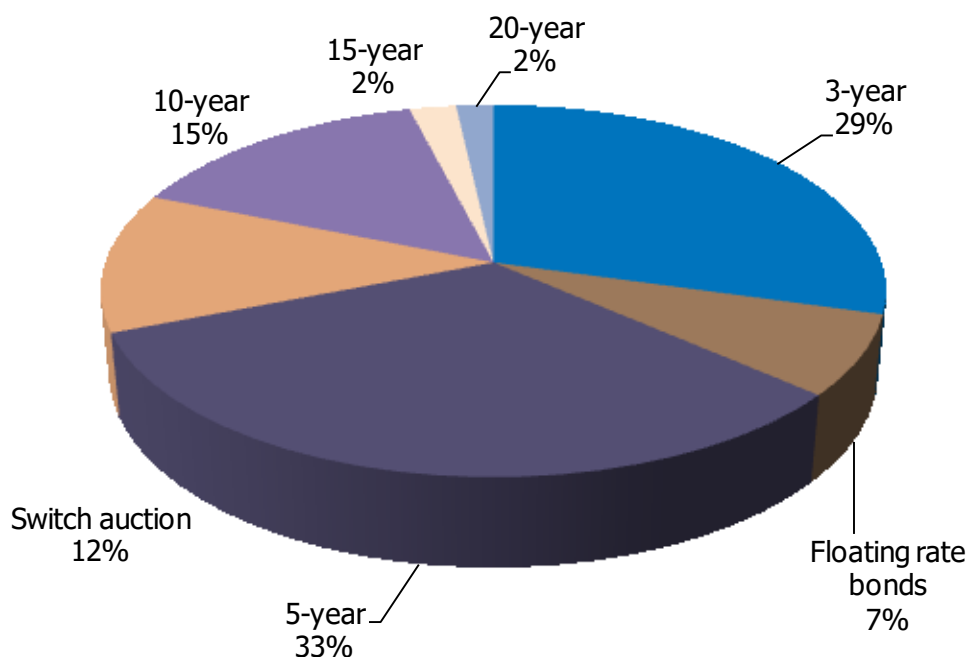
Domestic currency government bond issuance is planned at **HUF 3,669 billion**, which is 7% higher than in 2019. Including in this target, HUF 3,110 billion of government bonds will be offered at auctions, HUF 400 billion of bonds is expected to be sold at switch auctions, while other issuances (e.g. government bond for local authorities) are also included. The breakdown by tenor is expected to move towards longer terms in the original plan, for example a new 20-year bond was introduced. As a reaction to the COVID-19 pandemic, ÁKK changed the auction calendar in April 2020 and increased the flexibility of bond issuance. Fixed rate bond auctions will be held every week, 3- and 5-year bonds will be offered at all auctions. 10-year bond auctions will be every second week, while 15- and 20-year auctions every 8<sup>th</sup> week. The actual volume of issuance will depend on market demand.

### Auction order of fixed rate bonds from April



In 2020, the planned issuance of HUF-denominated government bonds are as follows:

### Breakdown of gross domestic government bond issuance by maturity



ÁKK have launched a new 3-year and 20-year fixed bond series in 2020, while for other tenors the currently on-the-run bonds will be offered. A new, longer term floating rate bond was issued in 2020, auctioned once a month. 12 months auctions are held every second Wednesday. The issuance calendar contains only the dates of bond and bill auctions. ÁKK may decide on the amounts offered after consultations with Primary Dealers.

ÁKK will hold both bond-buyback and exchange (switch) auctions – similar to the practice followed recently – in order to support a balanced government bond issuance pattern, manage the maturity profile, and reduce the refinancing risk of the bond portfolio by extending its average term-to-maturity. ÁKK's exchange auctions will also support the increasing demand for longer term and lower demand for shorter term government bonds of investors who will follow the new HMAX government bond benchmark index introduced in January 2020.

The financing plan contains EUR 4.1 billion equivalent of foreign currency debt issuance in 2020. International bond issuance is EUR 3.5 billion, including Green bond issuance in Euro, Japanese Yen and/or Chinese Renminbi subject to market conditions and appropriate approvals. The issuance of the domestic FX bond (Premium Euro Hungarian Government Bond) is expected to provide a funding of EUR 100 million. ÁKK also plans to draw down IFI project financing loans (EUR 500 million). Depending on the budget's liquidity position and market conditions ÁKK may continue to follow past years' strategies to actively manage the FX debt stock.

#### 4. Net issuance

Net government debt issuance is planned in an amount of **HUF 1,600 billion**, almost twice of the net issuance of HUF 814 billion in 2019. Out of this, net domestic debt issuance will reach **HUF 1,180 billion** (25% less than the HUF 1,564 in 2019), and net foreign currency borrowing will amount to **HUF 420 billion** (EUR 1.2 billion, as opposed to HUF -750 billion in 2019).

*ÁKK will closely monitor the market and will decide on the amounts accepted at auctions according to bids. Net issuance covers the deficit of the central government and increases the liquidity reserves of the government. If there will be favorable liquidity conditions in the second half of 2020, ÁKK will increase the pro-active market operations to reduce the refinancing risk of coming years.*

The stock of retail government securities is expected to decrease by HUF 1,100 billion (vs the original plan of HUF 400 billion net sales) as a result of two processes: the gross sales are expected to be lower by HUF 913 billion

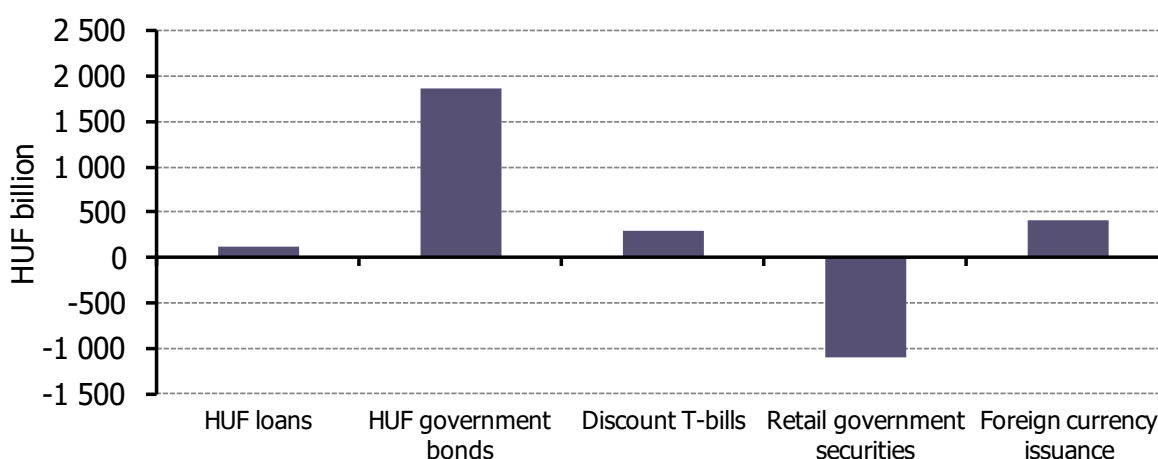
compared to the original plan, while households are now expected to sell HUF 590 billion before maturity, which was previously not planned.

The lower net sale of retail securities will be replaced by increased wholesale issuances. Net issuances of wholesale bonds are planned at HUF 1,867 billion. According to the plan the outstanding amount of discount T-bills will increase by 289 billion in 2020, however, their outstanding volume can be increased more if needed for liquidity management purposes.

Net issuance of HUF loans will be HUF 127 billion from International Financing Institutions.

The total foreign currency redemption will amount to EUR 2.2 billion which is increased by the US dollar bond buy-backs in January. Gross foreign currency issuance is planned at EUR 4.1 billion, thus **the net foreign currency issuance is expected to amount to EUR 1.2 billion in 2020**. This amount may change in case of pre-financing by buying back bonds that have a short remaining term-to-maturity in the last months of the year.

### Structure of the net issuance in 2020



## 5. Debt management strategy and benchmarks

ÁKK's mission is to finance the central government at the lowest costs in the long run, taking account of risks. In accordance with the economic policy of the government, ÁKK has set four main objectives:

1. According to the fundamental law of Hungary, if the debt to GDP ratio is higher than 50 percent, only such a budget can be approved, which leads to the reduction of the debt ratio year by year. During the present state of danger due to COVID-19, however, the basic law allows a temporarily increase of public debt. **The primary objective of debt management is still to support the reduction of the debt ratio.**
2. One of the main factors that led to the vulnerability of Hungary in the past was that a higher part of the government debt had been financed

from abroad. Domestic savings and the domestic financing of the debt can support macroeconomic stability in the long term. Thus, the second objective of ÁKK is to enhance the domestic investor base by funding large part of the deficit via **retail financing**. During the COVID-19 pandemic, however, the retail program slowed down, but the medium term objective of retail debt reaching HUF 11,000 billion by 2023 is maintained.

3. The decreasing debt ratio and the increasing domestic financing enable to **maintain at a low level the share of foreign currency debt** within the total debt, which is the third objective of ÁKK.
4. From 2020 ÁKK introduced the objective to **increase the average life of the public debt**. In international comparison, the average term-to-maturity of the Hungarian debt is low, the share of maturing debt within one year is relatively high. ÁKK makes efforts to improve the maturity structure of the debt, and reduce the refinancing risk by increasing the ATM of the public debt.

In recent years, the debt to GDP ratio and the share of FX debt decreased significantly due to the prudent fiscal policy and the pursued debt management strategy. The share of FX debt is already favorable in regional comparison, acknowledged also by the major credit rating agencies, which upgraded Hungary to the investment-grade category in 2016 and upgraded Hungary's sovereign debt rating to BBB in 2019 (S&P and Fitch).

The mission of Hungary's government debt management is quantified by setting portfolio benchmarks, which are mainly based on a general optimal portfolio model taking into account both costs and risks. ÁKK has determined the following benchmark targets for government debt management in 2020, which were not modified:

- **Share of foreign currency debt:** The share of the foreign currency denominated debt within the total central government debt should be in the 10-20% range.
- **Currency mix of the foreign currency denominated debt:** In order to mitigate cross-currency exchange rate risk, foreign currency obligations after swaps should be 100% in EUR, allowing for a 5% deviation from this target.
- **Fixed / floater composition:** Within the **HUF debt**, the share of the fixed rate elements should be in the range of 60-80%, and that of the floating rate debt, which includes all short-term debt, between 20% and 40%. Within the **foreign currency denominated debt**, the share of the fixed rate elements should be in the same range of 60-80%, and that of floating rate debt between 20% and 40%.

- **Average Time to Re-fixing (ATR):** ÁKK measures the re-pricing (interest rate) risk with the common ATR indicator. In order to keep an acceptable level of refinancing risk, the ATR of the HUF debt portfolio is targeted to be above 3.5 years. In case of adequate demand, ÁKK can increase the ATR, without an upper limit.
- **Average Term to Maturity (ATM):** ÁKK introduced a new benchmark in 2020 to measure the refinancing risk of the debt as well. To reduce the refinancing risk the average term to maturity of the domestic debt should be above 4 years. In case of adequate demand, ÁKK intend to increase the ATM of the domestic currency debt portfolio.
- **Liquidity:** In order to maintain the continuously safe financing of the budget, a minimum target balance of the Treasury Single Account has been determined and ÁKK's objective is to keep the end-of-day actual balance over this level.

In the case of the first six benchmark values, ÁKK takes into account their 3-month moving average values to avoid unnecessary reactions to one-off or temporary market movements that actually would not need a response in the medium or longer term.

To maintain a safe level of liquidity reserves and access to several financing channels also remain the emphasized goals of financing in 2020. Besides keeping a liquidity buffer equaling to at least 6-weeks' financing requirements, repos and FX deposits are also available for liquidity management. Liquidity buffers could be increased with the early execution of international bond issuances during 2020. These ensure that financing is secured even in the case of a few uncovered auctions. Successful bond buy-backs and switch auctions also increase financing safety by substantially decreasing the volume of domestic currency debt maturities.

## 6. Further information

This Debt Management Outlook publication was compiled based on information available in the middle of April 2020. Thus, the projected figures for 2020 may change according to the outturn of the financing needs and debt issuances. Even though the structure of financing may change compared to the plans, ÁKK will not change the set of instruments used, its strategic objectives or its strategic behavior in the markets either.

ÁKK's website ([www.akk.hu](http://www.akk.hu), [www.gdma.hu](http://www.gdma.hu)) and its regular publications and reports (monthly and quarterly publications; monthly report on debt transactions) provide regularly updated information on the financing needs, the debt transactions and the government debt. ÁKK also discloses until the 15<sup>th</sup> of each month the detailed domestic market issuance plan for the next 3 months, which shows the amounts to be issued for each tenor.

## 7. Issuance calendar

### **Issuance calendar of government bonds in 2020**

#### Fixed rate government bonds

| Date of auction | Date of settlement |
|-----------------|--------------------|
| 02.01.2020      | 08.01.2020         |
| 16.01.2020      | 22.01.2020         |
| 30.01.2020      | 05.02.2020         |
| 13.02.2020      | 19.02.2020         |
| 27.02.2020      | 04.03.2020         |
| 12.03.2020      | 18.03.2020         |
| 26.03.2020      | 01.04.2020         |
| 09.04.2020      | 15.04.2020         |
| 16.04.2020      | 22.04.2020         |
| 23.04.2020      | 29.04.2020         |
| 30.04.2020      | 06.05.2020         |
| 07.05.2020      | 13.05.2020         |
| 14.05.2020      | 20.05.2020         |
| 21.05.2020      | 27.05.2020         |
| 28.05.2020      | 03.06.2020         |
| 04.06.2020      | 10.06.2020         |
| 11.06.2020      | 17.06.2020         |
| 18.06.2020      | 24.06.2020         |
| 25.06.2020      | 01.07.2020         |
| 02.07.2020      | 08.07.2020         |
| 09.07.2020      | 15.07.2020         |
| 16.07.2020      | 22.07.2020         |
| 23.07.2020      | 29.07.2020         |
| 30.07.2020      | 05.08.2020         |
| 06.08.2020      | 12.08.2020         |
| 13.08.2020      | 19.08.2020         |
| 20.08.2020      | 26.08.2020         |
| 27.08.2020      | 02.09.2020         |
| 03.09.2020      | 09.09.2020         |
| 10.09.2020      | 16.09.2020         |
| 17.09.2020      | 23.09.2020         |
| 24.09.2020      | 30.09.2020         |
| 01.10.2020      | 07.10.2020         |
| 08.10.2020      | 14.10.2020         |
| 15.10.2020      | 21.10.2020         |
| 22.10.2020      | 28.10.2020         |
| 29.10.2020      | 04.11.2020         |
| 05.11.2020      | 11.11.2020         |
| 12.11.2020      | 18.11.2020         |
| 19.11.2020      | 25.11.2020         |
| 26.11.2020      | 02.12.2020         |
| 03.12.2020      | 09.12.2020         |
| 10.12.2020      | 16.12.2020         |

#### Floating rate government bonds

| Date of auction | Date of settlement |
|-----------------|--------------------|
| 09.01.2020      | 15.01.2020         |
| 23.01.2020      | 29.01.2020         |
| 06.02.2020      | 12.02.2020         |
| 20.02.2020      | 26.02.2020         |
| 05.03.2020      | 11.03.2020         |
| 02.04.2020      | 08.04.2020         |
| 29.04.2020      | 06.05.2020         |
| 13.05.2020      | 20.05.2020         |
| 27.05.2020      | 03.06.2020         |
| 10.06.2020      | 17.06.2020         |
| 24.06.2020      | 01.07.2020         |
| 08.07.2020      | 15.07.2020         |
| 22.07.2020      | 29.07.2020         |
| 05.08.2020      | 12.08.2020         |
| 19.08.2020      | 26.08.2020         |
| 02.09.2020      | 09.09.2020         |
| 16.09.2020      | 23.09.2020         |
| 30.09.2020      | 07.10.2020         |
| 14.10.2020      | 21.10.2020         |
| 28.10.2020      | 04.11.2020         |
| 11.11.2020      | 18.11.2020         |
| 25.11.2020      | 02.12.2020         |
| 09.12.2020      | 16.12.2020         |

## Issuance calendar of discount treasury bills in 2020

### 12-month discount T-bills

| Code    | Date of auction | Date of settlement | Date of maturity |
|---------|-----------------|--------------------|------------------|
| D201223 | 09.01.2020      | 15.01.2020         | 23.12.2020       |
| D201223 | 23.01.2020      | 29.01.2020         | 23.12.2020       |
| D201223 | 06.02.2020      | 12.02.2020         | 23.12.2020       |
| D210224 | 20.02.2020      | 26.02.2020         | 24.02.2021       |
| D210224 | 05.03.2020      | 11.03.2020         | 24.02.2021       |
| D210224 | 19.03.2020      | 25.03.2020         | 24.02.2021       |
| D210224 | 02.04.2020      | 08.04.2020         | 24.02.2021       |
| D210421 | 15.04.2020      | 22.04.2020         | 21.04.2021       |
| D210421 | 29.04.2020      | 06.05.2020         | 21.04.2021       |
| D210421 | 13.05.2020      | 20.05.2020         | 21.04.2021       |
| D210421 | 27.05.2020      | 03.06.2020         | 21.04.2021       |
| D210421 | 10.06.2020      | 17.06.2020         | 21.04.2021       |
| D210630 | 24.06.2020      | 01.07.2020         | 30.06.2021       |
| D210630 | 08.07.2020      | 15.07.2020         | 30.06.2021       |
| D210630 | 22.07.2020      | 29.07.2020         | 30.06.2021       |
| D210630 | 05.08.2020      | 12.08.2020         | 30.06.2021       |
| D210825 | 19.08.2020      | 26.08.2020         | 25.08.2021       |
| D210825 | 02.09.2020      | 09.09.2020         | 25.08.2021       |
| D210825 | 16.09.2020      | 23.09.2020         | 25.08.2021       |
| D210825 | 30.09.2020      | 07.10.2020         | 25.08.2021       |
| D211020 | 14.10.2020      | 21.10.2020         | 20.10.2021       |
| D211020 | 28.10.2020      | 04.11.2020         | 20.10.2021       |
| D211020 | 11.11.2020      | 18.11.2020         | 20.10.2021       |
| D211020 | 25.11.2020      | 02.12.2020         | 20.10.2021       |
| D211020 | 09.12.2020      | 16.12.2020         | 20.10.2021       |
| D211229 | 23.12.2020      | 30.12.2020         | 29.12.2021       |

**3-month discount T-bills are auctioned every Tuesday, settlement is on the Wednesday of the following week.**

**Liquidity discount T-bills are auctioned upon decision of the Issuer, generally on Monday with settlement on the following Wednesday.**