GOVERNMENT DEBT MANAGEMENT AGENCY PTE LTD.

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FUNDING THE CENTRAL GOVERNMENT BUDGET AND DEBT IN 2022

December 17, 2021





ACHIEVEMENTS OF GOVERNMENT DEBT MANAGEMENT IN 2021

OBJECTIVES AND ACHIEVEMENTS OF GOVERNMENT DEBT MANAGEMENT FOR 2021

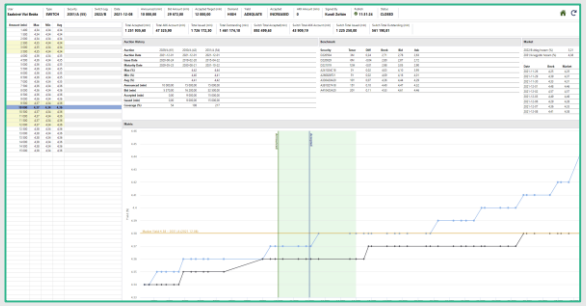
	Objectives	Achievements
HUF Institutional Market	▪ If possible, further increase the average term-to-maturity of forint debt.	▪ The average term-to-maturity of HUF debt increased from 4.7 years to 5.2 years.
	▪ The switch auction program is significantly higher than in previous years (HUF 1,500 billion).	▪ Switch auctions volume of HUF 1,626 billion is expected to materialize by year-end, lengthening the maturity of debt.
	▪ Extension of the Green Bond Framework Programme to the HUF institutional market, issuing a 30-year green forint bond.	▪ More than HUF 90 billion of 30-year HUF green bonds were sold at 4 auctions.
Retail Market	▪ The outstanding amount of retail securities owned by households is expected to grow by HUF 1,000 billion.	▪ HUF 1,000 billion increase of retail government bond household ownership is expected to be achieved by year-end.
	▪ Reaching the goal of HUF 11 trillion in retail government securities owned by households until 2023.	▪ The goal of HUF 11 trillion in retail government securities owned by households until 2023 remains realistic.
	▪ Improving digital access to retail government securities.	▪ In 2021, several banks made digital access to retail government securities available.
FX	▪ No need to issue international FX bonds in 2021.	▪ Favourable market conditions and the better-than-expected performance of the Hungarian economy, combined with the cost advantage of FX bonds and higher-than-expected financing needs made the successful September FX bond issue possible and necessary at the same time, partly serving as pre-financing for 2022.
	▪ Reduction of FX debt share by actively managing the maturity structure of FX debt.	▪ The larger-than-expected weakening of the forint exchange rate will push the year-end foreign currency debt ratio above the 20% ceiling.

FURTHER IMPLEMENTED TASKS BY AKK IN 2021

HUF Institutional Market	▪ Developing new principles and conditions of the new Primary Dealer Framework, being discussed with Primary Dealers to support the planned introduction of the new system in H2 2022.
Retail Market	▪ Re-designing the visual appearance of the printed MÁP Plus. ▪ The development of a retail demand model to forecast retail government securities issuances.
FX	▪ The world's first sovereign Green Panda Bond issuance of CNY 1 billion in China. ▪ Signing of a long-term, low-interest rate Norwegian export credit facility to finance a defence procurement.
ESG	▪ Publication of the Allocation and Impact Reports on Green Bonds for 2020 on the AKK website.
AKK	▪ Introduction of the new AKK image. ▪ Digitalisation of the auction decision-making process. ▪ Development of a unified AKK database.



renewed graphic appearance for the printed MÁP Plus



new auction decision module

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new AKK image

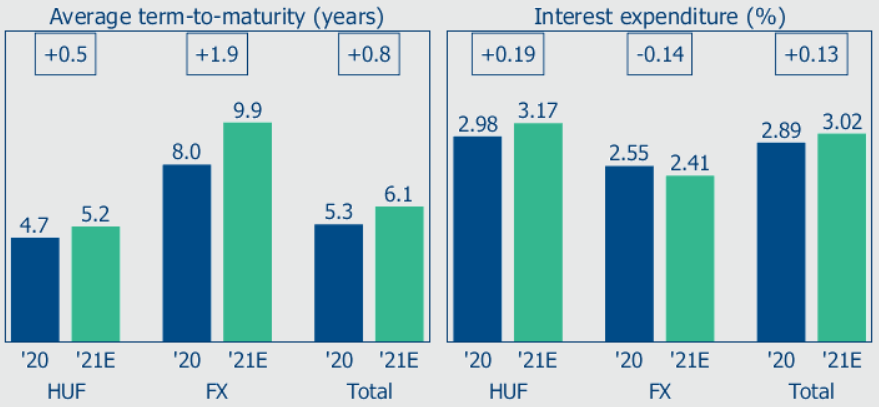
MAIN INDICATORS OF GOVERNMENT DEBT MANAGEMENT IN 2021

Government debt management benchmarks[1]

	2021 benchmark targets		Dec 31, 2021 figures[2]
Share of FX debt	Between 10% and 20%	-	20.4%
Currency mix of the FX debt (after swaps)	100% in EUR (with a 5% deviation allowed)	✓	100% in EUR
Share of domestic and FX debt with a fixed coupon	Domestic: 70%-90% FX: 70%-90%	✓	Domestic: 80.2% FX: 86.8%
Average time to re-fixing of domestic debt	Minimum 4.0 years	✓	4.5 years
Average time to maturity of domestic debt	Minimum 4.5 years	✓	5.1 years

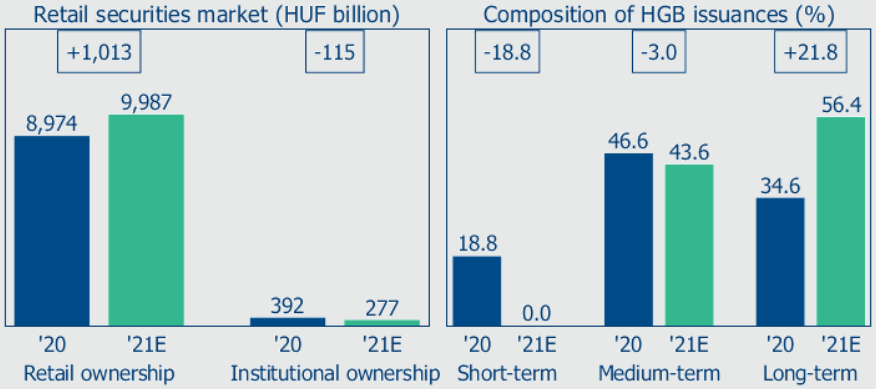
Source: AKK; Note: 1. Central government debt 2. 90-day moving average

Rising term-to-maturity with slightly higher interest expenditure



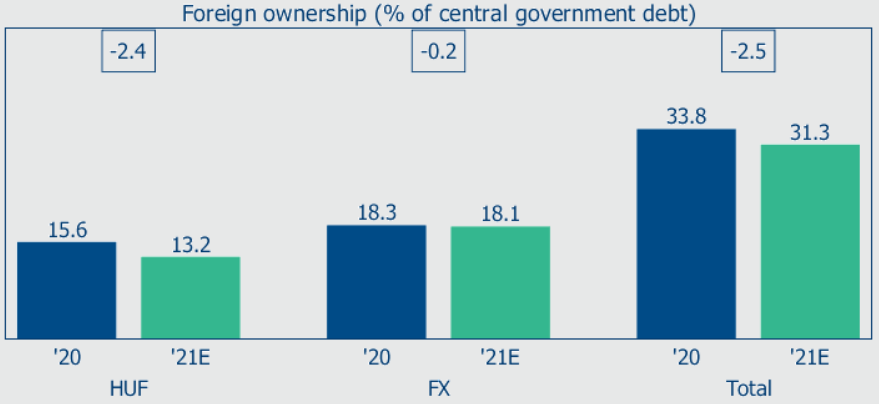
Source: AKK; Note: Factual end-2020 and expected end-2021 values

Growing household ownership, longer wholesale maturities



Source: AKK; Note: Retail: factual end-2020 and expected end-2021 values; HGB: factual end-2020 and expected end-2021 values; Fixed rate bonds excluding switches; Short-term: 3-5 years; Medium-term: 5-10 years; Long-term: 10+ years

Decreasing share of foreign ownership within central government debt



Source: AKK, MNB; Note: Estimated end-2020 and end-2021 values

AWARDS AND PUBLICATIONS IN 2021

Awards in 2021



In 2021, Hungary received several awards that were given to Hungary by market participants mainly in the area of sustainability.

Awards

- Climate Bonds Initiative: Sovereign Green Market Pioneer Award *(Climate Bonds Initiative, 2021)*
- Capital Eye Special Award *(2021)*
- RIEF Sustainable Finance Award *(Research Institute for Environmental Finance, 2021)*
- Nikkei Veritas Award *(Japanese Nikkei Group's financial weekly, 2021)*
- Most Impressive CEE Issuer *(GlobalCapital, 2021)*

Publications in 2021



The expertise of AKK is also underlined by multiple publications throughout 2021 on topics regarding the aspects of debt management with special attention to the retail market.

Publications

- Kadocsa Balázs: Mi látszik a számokból - 700 ezer számlán tartanak lakossági állampapírt a magyarok *(portfolio.hu, akk.hu, 2021)*
- Stark András: A CDS felár, mint országkockázati felár ideje leáldozott? *(portfolio.hu, akk.hu, 2021)*
- Tran Dávid: Túlárazottak-e a csereaukciós papírok? *(portfolio.hu, akk.hu, 2021)*
- Biró Bianka, Farkas Richárd, Kadocsa Balázs: A lakossági állampapírok útja a szuperállampapírig *(portfolio.hu, akk.hu, 2021)*
- Biró Bianka, Tran Dávid: Hogyan alakította át a MÁP Plusz a lakossági tulajdonú állampapír portfoliót? *(portfolio.hu, akk.hu, 2021)*
- Biró Bianka: Mennyibe kerültek a lakossági állampapírok az államnak? Itt vannak a számok *(portfolio.hu, akk.hu, 2021)*



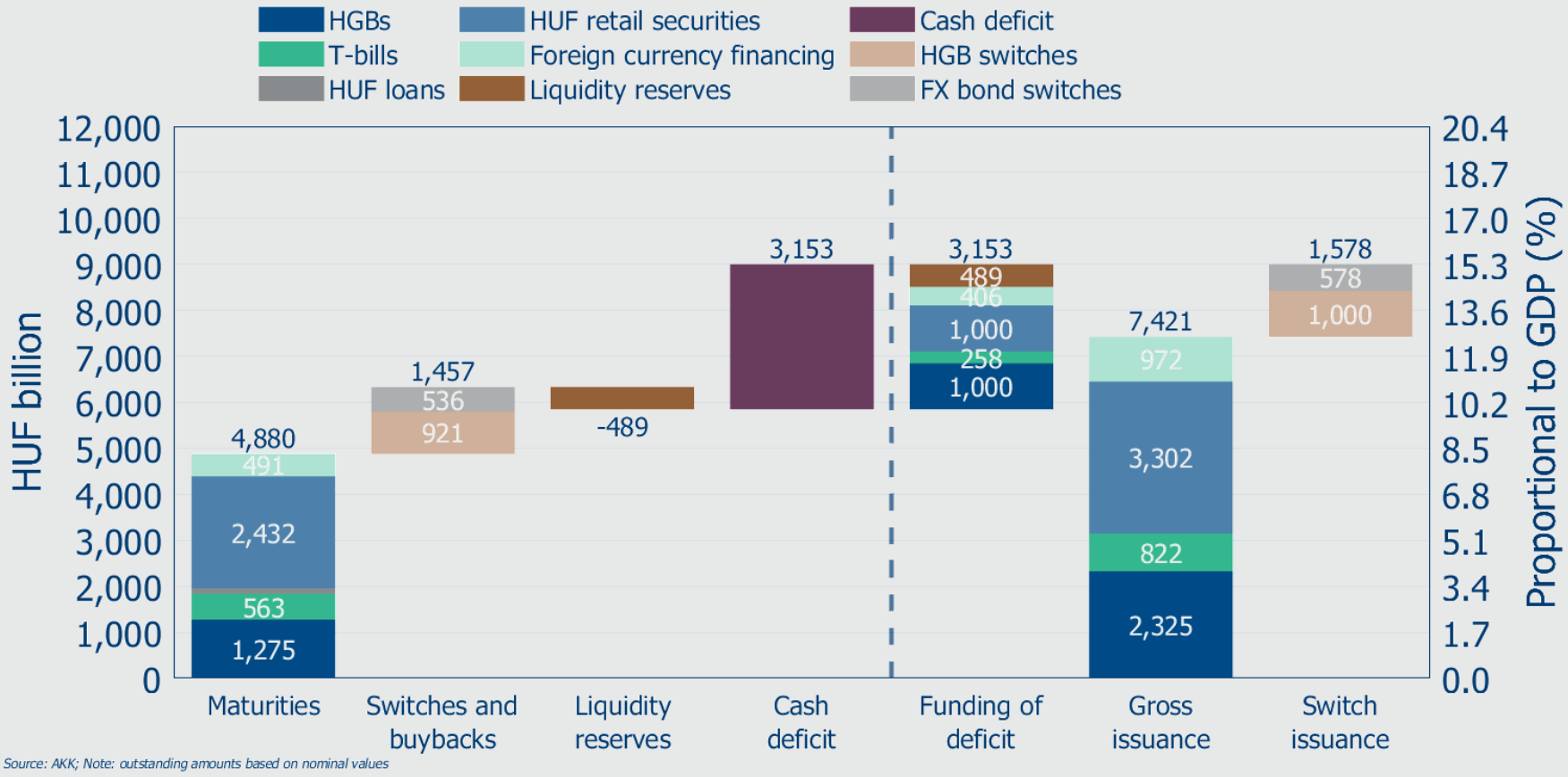
STRATEGIC GOALS OF GOVERNMENT DEBT MANAGEMENT FOR 2022 AND THE 2022 FINANCING PLAN

GOALS OF GOVERNMENT DEBT MANAGEMENT IN 2022

In 2022, the gross government security issuance and borrowing will be HUF 9,000 billion (15% of expected GDP) (including switch auctions) compared to the HUF 11,593 billion figure in 2021 and the HUF 11,311 billion average gross government borrowing volume in the last 5 years.

HUF Institutional Market	▪ Achieving 36% of institutional HUF bond issuance in the first quarter of 2022, mainly through the pro rata issuance of new (long) 5- and 10-year (2028 and 2032) benchmark bonds in the first quarter. ▪ Continuation of the switch auction programme with a volume of HUF 1,000 billion compared to the 2021 plan of HUF 1,500 billion. ▪ Monthly issuance of a new 10-year HUF green bond (similarly to the new 10-year benchmark also maturing in 2032), while continuing to issue 30-year green bonds on a quarterly basis. ▪ The development of the Hungarian government securities market with the introduction of the new Primary Dealer Framework from H2 2022.
Retail Market	▪ Reaching the goal of HUF 11 trillion in retail government securities owned by households until 2023. ▪ To develop and adapt a new retail government securities strategy in 2022.
FX	▪ Widening the tolerance band for the FX debt ratio from 10-20% to 10-25% to increase the optionality and room for manoeuvre of financing strategy, by taking into account the relative cost advantage of FX financing due to rising forint yields, while still aiming at a below 20% FX debt ratio in the medium term. ▪ FX bond switch of at least USD 2 billion in the second half of 2022 to pre-fund the 2023-24 FX bond maturities and further increase the average term-to-maturity of debt. ▪ AKK aims to strengthen Hungary's market presence in Asia further through new green bond issue(s), for example in Japanese Yen in Q1 2022. ▪ Up to EUR 2 billion equivalent FX project (e.g. EIB, CEB, AIIB, etc.) and syndicated loan financing.
ESG	▪ Incorporating sustainability considerations and ESG principles into the medium-term public debt management strategy, taking current market trends into account.

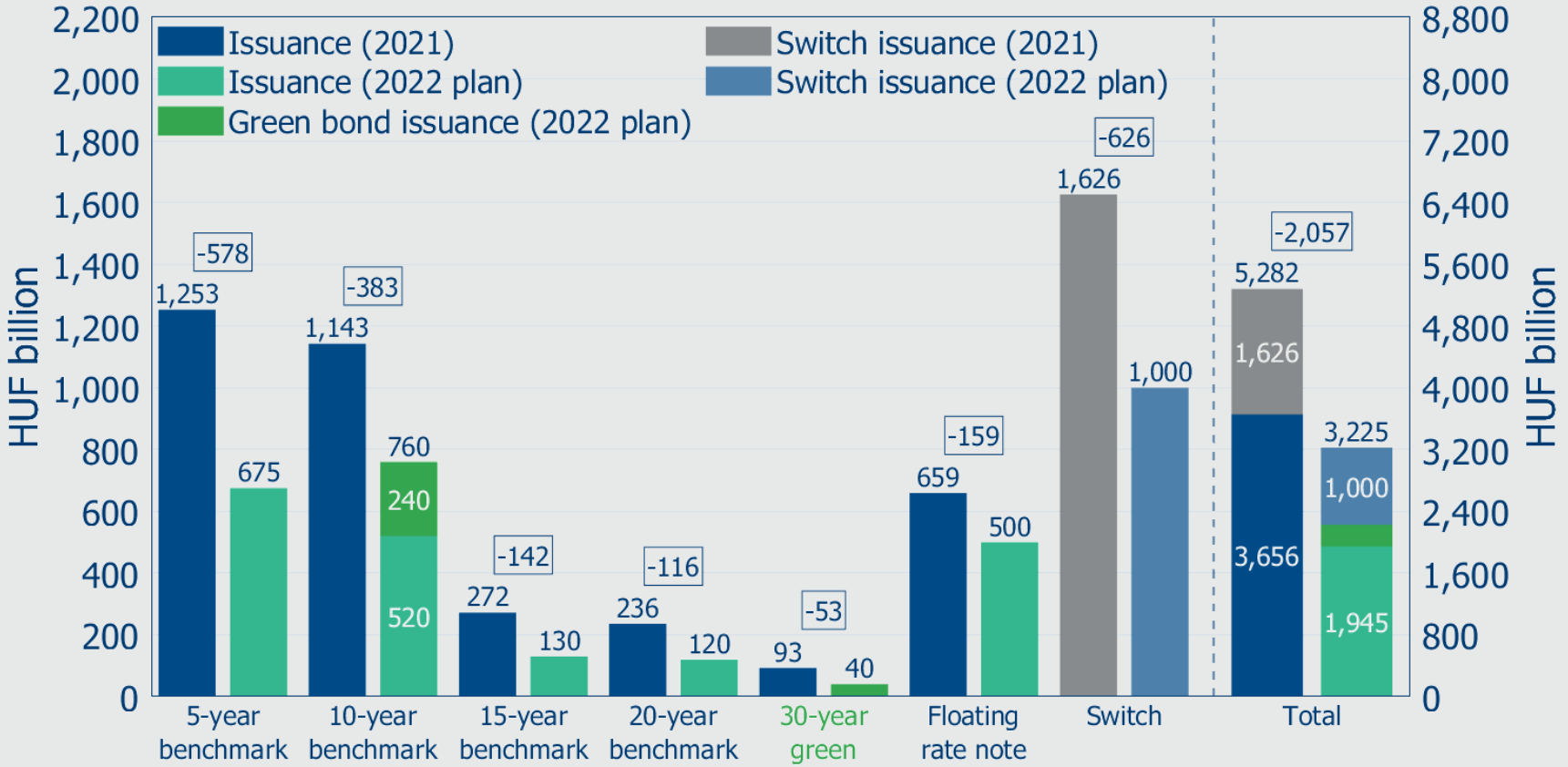
2022 FINANCING PLAN



Source: AKK; Note: outstanding amounts based on nominal values

The total net financing requirement for 2022 is HUF 3,153 billion, financed by net issuance of HUF 2,663 billion. Funding requirements exceeding the net issuance are financed by the use of liquidity reserves.

PLANNED VOLUME OF HUF WHOLESALE BOND ISSUANCES



Source: AKK; Note: Expected 2021 and planned 2022 values

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THANK YOU FOR YOUR ATTENTION!

