FINANCING OF THE CENTRAL GOVERNMENT IN DECEMBER 2017

1. Government debt data

The debt of the central government increased by HUF 1,316.2 billion in the January-December period due to the following reasons:

- **The first factor** is the net forint issuance of HUF 2,258.5 billion – including retail government securities issuance – executed in the domestic market, which finances the annual deficit of the central government budget and partly the foreign currency debt maturing this year.
- **The second factor – which had contrary effect than the above mentioned factor –** is the net foreign currency redemption of HUF 458.4 billion.
- **The third decreasing factor** is the change of the foreign currency exchange rates that decreased the mark-to-market deposits placed at GDMA by HUF 468.4 billion.
- **The fourth factor – which is also a decreasing factor –** is that the forint appreciated, that decreased the HUF value of the foreign currency debt by HUF 15.6 billion.

According to the preliminary data **the domestic and foreign currency debt of central government** was the following in 2017.

Central government gross debt and debt transactions in 2017

	31.12.2016		Issuance (increase in debt)	Redemptions (decrease in debt)	Other changes	Net change	**31.12.2017**		**change**
	Debt stock (preliminary data)	**Breakdown**	**I-XII. month**				**Debt stock (preliminary data)**	**Breakdown**	**percent**
1. HUF denominated debt	***18,430.869***	***72.48%***	***10,808.749***	***8,550.204***	***0.000***	***2,258.545***	***20,689.414***	***77.4%***	***4.9%***
1.1. Loans	**865.025**	***3.40%***	**176.051**	**0.000**	**0.000**	**176.051**	**1,041.076**	***3.89%***	***0.5%***
1.1.1. Foreign	865.025	*3.40%*	176.051	0.000	0.000	176.051	1,041.076	***3.89%***	***0.5%***
1.1.2. Domestic	0.000	*0.00%*	0.000	0.000	0.000	0.000	0.000	***0.00%***	***0.0%***
1.2. Government securities	**17,565.844**	***69.08%***	**10,632.698**	**8,550.204**	**0.000**	**2,082.494**	**19,648.338**	***73.46%***	***4.4%***
1.2.1. Public issues	17,526.667	*68.92%*	10,632.698	8,550.204	0.000	2,082.494	19,609.161	***73.32%***	***4.4%***
1.2.1.1. Bonds	*11,562.378*	*45.47%*	*2,491.861*	*2,287.100*	*0.000*	*204.761*	*11,767.139*	***44.00%***	***-1.5%***
1.2.1.2. Discount T-bills	*896.376*	*3.52%*	*2,190.984*	*2,048.195*	*0.000*	*142.789*	*1,039.165*	***3.89%***	***0.4%***
1.2.1.3. Retail securities	*5,067.913*	*19.93%*	*5,949.854*	*4,214.909*	*0.000*	*1,734.945*	*6,802.857*	***25.43%***	***5.5%***
1.2.2. Private placements (bonds)	39.178	*0.15%*	0.000	0.000	0.000	0.000	39.178	***0.15%***	***0.0%***
2. Foreign currency denominated debt	**6,256.507**	***24.60%***	**696.410**	**1,154.780**	**-15.591**	**-473.961**	**5,782.546**	***21.62%***	***-3.0%***
2.1. Loans	**1,101.596**	***4.33%***	**132.230**	**301.366**	**-3.394**	**-172.530**	**929.066**	***3.47%***	***-0.9%***
2.1.1. Foreign	1,097.589	*4.32%*	132.230	297.365	*-3.389*	*-168.523*	929.066	***3.47%***	***-0.8%***
2.1.2. Domestic	*4.007*	*0.02%*	*0.000*	*4.002*	*-0.005*	*-4.007*	*0.000*	***0.00%***	***0.0%***
2.2. Government securities	**5,154.911**	***20.27%***	**564.180**	**853.414**	**-12.197**	**-301.431**	**4,853.480**	***18.15%***	***-2.1%***
2.2.1. Issued abroad	4,618.946	*18.16%*	351.210	812.626	-11.618	-473.034	4,145.912	***15.50%***	***-2.7%***
2.2.2. Issued in Hungary	535.965	*2.11%*	212.970	40.788	-0.579	171.603	707.568	***2.65%***	***0.5%***
Total	**24,687.376**	***97.08%***	**11,505.159**	**9,704.984**	**-15.591**	**1,784.584**	***26,471.960***	***98.97%***	***1.9%***
Other debt	742.670	*2.92%*	983.016	1,446.574	-4.866	-468.425	274.246	***1.03%***	***-1.9%***
Total central government debt	**25,430.047**	***100.00%***	**12,488.175**	**11,151.558**	**-20.458**	**1,316.160**	***26,746.206***	***100.00%***	***0.0%***

The foreign currency debt of the central government decreased by HUF 474.0 billion in 2017 and amounted to HUF 5,782.5 billion at the end of December 2017. The share of foreign currency denominated debt within the total debt decreased from 24.6% to 21.6% in 2017.

The first installment of the credit line for financing of the Paks2 nuclear power plant construction was paid out in the amount of HUF 24.4 billion in the last quarter of 2017.

Hungary issued yuan-denominated 'panda' bonds on 27 July 2017, targeted at the domestic Chinese market, for the value of RMB 1 billion (127.4 million euros).

Hungary's first ever International Bond Exchange transaction was executed in October, where USD 1.16 billion USD bonds were bought back and issued an EUR 1 billion 10 year euro bond.

The forint denominated debt increased by HUF 2,258.5 billion and amounted to HUF 20,689.4 billion. The share of HUF-denominated debt reached 77.4% of the total debt, while in December 2016 this proportion was 72.5%.

The stock of retail securities increased by HUF 1,734.9 billion from the end of 2016 and amounted to HUF 6,802.9 billion at the end of December. The combined outstanding amount of the Premium Hungarian Government Securities and the Bonus Hungarian Government Securities increased by HUF 936.3 billion by the end of December and reached HUF 2,457.5 billion. The 2-year Hungarian Government Security is issued from April and the stock reached HUF 376.8 billion. The stock of the 1-year and Half-year Government Securities increased by HUF 396.0 billion and reached HUF 3,461.5 billion at the end of December.

The volume of non-resident holdings of Hungarian government securities decreased by HUF 13.1 billion in December. 98.0% of non-resident holdings was T-bonds, which amounted to HUF 3,316.7 billion. The non-resident holdings of Discount T-Bills amounted to HUF 68.7 billion, that represented only 2.0% of total non-resident holdings. The duration of the non-resident stock was 5.4 years at the end of December 2017.

In order to reduce counterparty risk associated with the swap transactions concluded by ÁKK, so-called marked-to-market deposits are being placed as collateral covering the net value of the swap positions. Such deposits placed at ÁKK are counted as part of the government debt as 'other obligations'. During the twelve months marked-to-market deposits decreased by HUF 468.4 billion due to the appreciation of EUR vs USD and other transactions (bond exchange) and reached HUF 274.2 billion (EUR 0.9 billion) at the end of the month.

2. Forint yields

The average bid-to-cover ratio of Discount T-bill auctions decreased from 1.6 to 1.4 in December. The bid-to-cover ratio of T-bond auctions decreased from 2.9 to 2.3.

The average yield of the last 3-month Discount Treasury Bill auction in December was -0.03%, 3 basis points lower than in the previous month. The average yield of the last 12-month Discount Treasury Bill auction in December was 0.04%, 1 basis points higher than in the previous month.

The average yield of the last 3-year government bond auction in December was 0.58% 1 basis points higher compared to the previous month. The average yield of the last 5-year government bond auction was 1.07% 3 basis points higher compared to November. 10-year government bond auction was not announced in December. Finally, the average yield of the last auction of 15-year government bond was 2.80%, lower by 48 basis points compared to the last October's average yield.