FINANCING OF THE CENTRAL GOVERNMENT IN MARCH

1. Government debt data

The debt of the central government increased by HUF 773.3 billion in the January-March period due to the following reasons:

- **The first factor** is the net forint issuance of HUF 1,078.1 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 later this year. The end-March central government debt still includes the last tranche of the loan drawn down from the European Commission totaling EUR 1.5 billion, though the ÁKK had placed that amount at the deposit account of the EC according to the contract, which decreased the level of the Treasury Single Account in March. The date of redemption is 6 April.
  In line with the increasing debt the balance of the Treasury Single Account increased by HUF 237.4 billion in 2016 as well.
- **The second factor** is that the forint depreciated slightly, which increased the HUF value of the foreign currency debt by HUF 25.7 billion.
- **The third factor** – which had contrary effect than the above mentioned factors – is the net foreign currency redemption of HUF 207.0 billion
- **The fourth one –** which is also a decreasing factor **–** is the change of the foreign currency exchange rates that decreased the mark-to-market deposits placed at GDMA by HUF 123.6 billion.

According to the preliminary data **the domestic and foreign currency debt of central government** is the following in 2016:

Central government gross debt and debt transactions in 2016

	31.12.2015		Issuance (increase in debt)	Redemptions (decrease in debt)	Other changes	Net change	31.03.2016		change
	Debt stock (preliminary data)	Breakdown	I-III. month				Debt stock (preliminary data)	Breakdown	percent
1. HUF denominated debt	*16,207.936*	*65.62%*	*2,863.155*	*1,785.026*	*0.000*	*1,078.129*	*17,286.065*	*67.86%*	*2.2%*
1.1. Loans	**694.107**	*2.81%*	**150.428**	**0.000**	**0.000**	**150.428**	**844.534**	*3.32%*	*0.5%*
1.1.1. Foreign	694.107	*2.81%*	150.428	0.000	0.000	150.428	844.534	*3.32%*	*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	**15,513.830**	*62.81%*	**2,712.727**	**1,785.026**	**0.000**	**927.701**	**16,441.531**	*64.54%*	*1.7%*
1.2.1. Public issues	15,462.312	*62.60%*	2,712.727	1,775.191	0.000	937.536	16,399.848	*64.38%*	*1.8%*
1.2.1.1. Bonds	*11,043.375*	*44.71%*	*648.128*	*701.453*	*0.000*	*-53.325*	*10,990.050*	*43.14%*	*-1.6%*
1.2.1.2. Discount T-bills	*901.552*	*3.65%*	*970.252*	*528.809*	*0.000*	*441.443*	*1,342.995*	*5.27%*	*1.6%*
1.2.1.3. Retail securities	*3,517.385*	*14.24%*	*1,094.347*	*544.929*	*0.000*	*549.417*	*4,066.803*	*15.97%*	*1.7%*
1.2.2. Private placements (bonds)	51.518	*0.21%*	0.000	9.835	0.000	-9.835	41.683	*0.16%*	*0.0%*
2. Foreign currency denominated debt	**7,735.799**	*31.32%*	**20.623**	**227.578**	**25.661**	**-181.295**	**7,554.504**	*29.66%*	*-1.7%*
2.1. Loans	**1,696.806**	*6.87%*	**0.000**	**3.442**	**5.561**	**2.119**	**1,698.925**	*6.67%*	*-0.2%*
2.1.1. Foreign	1,614.229	*6.54%*	0.000	1.679	*5.352*	*3.673*	1,617.903	*6.35%*	*-0.2%*
2.1.1.1. Loan from EU	*469.680*	*1.90%*	*0.000*	*0.000*	*1.560*	*1.560*	*471.240*	*1.85%*	*-0.1%*
2.1.1.2. Other	*1,144.549*	*4.63%*	*0.000*	*1.679*	*3.792*	*2.113*	*1,146.663*	*4.50%*	*-0.1%*
2.1.2. Domestic	*82.576*	*0.33%*	*0.000*	*1.763*	*0.209*	*-1.554*	*81.022*	*0.32%*	*0.0%*
2.2. Government securities	**6,038.993**	*24.45%*	**20.623**	**224.137**	**20.100**	**-183.414**	**5,855.579**	*22.99%*	*-1.5%*
2.2.1. Issued abroad	5,198.881	*21.05%*	0.000	223.994	17.217	-206.776	4,992.105	*19.60%*	*-1.5%*
2.2.1.1. Foreign currency bonds	5,198.881	*21.05%*	0.000	223.994	17.217	-206.776	4,992.105	*19.60%*	*-1.5%*
2.2.2. Issued in Hungary	840.112	*3.40%*	20.623	0.143	2.882	23.362	863.474	*3.39%*	*0.0%*
2.2.2.1. Foreign currency bonds	840.112	*3.40%*	20.623	0.143	2.882	23.362	863.474	*3.39%*	*0.0%*
Total	**23,943.735**	*96.94%*	**2,883.778**	**2,012.605**	**25.661**	**896.834**	*24,840.569*	*97.52%*	*0.6%*
Other debt	755.983	*3.06%*	453.262	577.805	0.985	-123.558	632.424	*2.48%*	*-0.6%*
Total central government debt	**24,699.718**	*100.00%*	**3,337.039**	**2,590.410**	**26.646**	**773.276**	*25,472.993*	*100.00%*	*0.0%*

The foreign currency debt of the central government decreased by HUF 181.3 billion from the end of December and amounted to HUF 7,554.5 billion at the end of March 2016. The share of foreign currency denominated debt within the total debt decreased to 29.7%, while at the end of the last year it was 31.3%.

The forint denominated debt increased by HUF 1,078.1 billion and amounted to HUF 17,286.1 billion. The share of HUF-denominated debt reached 67.9% of the total debt, while in December 2015 this proportion was 65.6%.

The stock of retail securities increased by HUF 549.4 billion from the end of December 2015 and amounted to HUF 4,066.8 billion at the end of March. The combined outstanding amount of the Premium Hungarian Government Bonds and the Bonus Hungarian Government Bonds increased by HUF 113.6 billion at the end of March and reached HUF 1,311.9 billion. The stock of the Interest Bearing T-bills increased by HUF 421.9 billion and reached HUF 2,318.9 billion at the end of March.

The volume of non-resident holdings of Hungarian government securities decreased by HUF 70.2 billion in March. 99.8% of non-resident holdings was T-bonds, which amounted to HUF 3,603.8 billion. The stock of non-resident Discount T-Bills amounted to HUF 6.0 billion, that represents 0.2% of total non-resident holdings. The duration of the non-resident stock was 5.4 years at the end of March 2016. It shows that last year's trend continued in 2016: foreign investors reduced their holdings of forint bonds, while the duration of their holdings slightly increased. Domestic investors demand easily absorbed the stocks sold by foreign investors.

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 first three months marked-to-market deposits decreased by HUF 123.6 billion and reached HUF 632.4 billion (EUR 2.0 billion) at the end of the month.

2. Forint yields

The average bid-to-cover ratio of Discount T-bill auctions increased from 1.5 in February to 1.6 in March. The bid-to-cover ratio of T-bond auctions increased from 2.1 to 3.0.

The average yield of the last 3-month Discount Treasury Bill auction in March was 1.10%, higher by 4 basis points compared to the previous month. The average yield of the last 12-month Discount Treasury Bill auction in March was 0.99%, lower by 4 basis points compared to February.

The average yield of the last 3-year government bond auction in March was 1.48%, lower by 44 basis points compared to the previous month. The average yield of the last 5-year government bond auction was 2.03%, lower by 40 basis points compared to February. Finally, the average yield of the last auction of 10-year government bond was 2.94%, lower by 39 basis points compared to the previous month's average yield.