FINANCING OF THE CENTRAL GOVERNMENT IN AUGUST 2018

1. Government debt data

The debt of the central government increased by HUF 1,845.9 billion in January-August period due to the following reasons:

- **The first factor** is the net forint issuance of HUF 2,034.5 billion executed in the domestic and the retail market, which finances the annual deficit of the central government budget and partly the foreign currency debt maturing this year.
- **The second factor** is the depreciation of the forint, that increased the HUF value of the foreign currency debt by HUF 294.5 billion.
- **The third – also increasing – factor** is the change of the foreign currency exchange rates that increased the mark-to-market deposits placed at GDMA by HUF 22.4 billion.
- **The fourth factor – which had contrary effect than the above mentioned factors –** is the net foreign currency redemption of HUF 505.5 billion.

According to the preliminary data **the domestic and foreign currency debt of central government** was the following in 2018.

Central government gross debt and debt transactions in 2018

	31.12.2017		Issuance (increase in debt)	Redemptions (decrease in debt)	Other changes	Net change	31.08.2018		change
	Debt stock (preliminary data)	**Breakdown**	**I-VIII. month**				**Debt stock (preliminary data)**	**Breakdown**	**percent**
1. HUF denominated debt	***20 689.414***	*77.4%*	***8 839.307***	***6 804.846***	***0.000***	***2 034.460***	***22 723.874***	***79.5%***	***2.1%***
1.1. Loans	**1 041.076**	***3.9%***	**93.988**	**17.043**	**0.000**	**76.945**	**1 118.021**	***3.9%***	***0.0%***
1.1.1. Foreign	1 041.076	*3.9%*	93.988	17.043	0.000	76.945	1 118.021	***3.9%***	***0.0%***
1.1.2. Domestic	0.000	*0.0%*	0.000	0.000	0.000	0.000	0.000	***0.0%***	***0.0%***
1.2. Government securities	**19 648.338**	*73.5%*	**8 745.318**	**6 787.803**	**0.000**	**1 957.515**	**21 605.853**	***75.6%***	***2.1%***
1.2.1. Public issues	19 609.161	*73.3%*	8 745.318	6 787.803	0.000	1 957.515	21 566.676	***75.4%***	***2.1%***
1.2.1.1. Bonds	*11 767.139*	*44.0%*	*2 040.229*	*1 218.955*	*0.000*	*821.275*	*12 588.413*	***44.0%***	***0.0%***
1.2.1.2. Discount T-bills	*1 039.165*	*3.9%*	*2 949.091*	*2 353.693*	*0.000*	*595.398*	*1 634.563*	***5.7%***	***1.8%***
1.2.1.3. Retail securities	*6 802.857*	*25.4%*	*3 755.998*	*3 215.155*	*0.000*	*540.842*	*7 343.700*	***25.7%***	***0.2%***
1.2.2. Private placements (bonds)	39.178	*0.1%*	0.000	0.000	0.000	0.000	39.178	***0.1%***	***0.0%***
2. Foreign currency denominated debt	**5 782.546**	***21.6%***	**301.780**	**807.248**	**294.485**	**-210.983**	**5 571.563**	***19.5%***	***-2.1%***
2.1. Loans	**929.066**	***3.5%***	**220.325**	**296.391**	**48.415**	**-27.651**	**901.415**	***3.2%***	***-0.3%***
2.1.1. Foreign	929.066	*3.5%*	220.325	296.391	*48.415*	*-27.651*	901.415	***3.2%***	***-0.3%***
2.1.2. Domestic	*0.000*	*0.0%*	*0.000*	*0.000*	*0.000*	*0.000*	*0.000*	***0.0%***	***0.0%***
2.2. Government securities	**4 853.480**	***18.1%***	**81.455**	**510.857**	**246.071**	**-183.332**	**4 670.148**	***16.3%***	***-1.8%***
2.2.1. Issued abroad	4 145.912	*15.5%*	71.286	493.886	209.081	-213.519	3 932.393	***13.8%***	***-1.7%***
2.2.2. Issued in Hungary	707.568	*2.6%*	10.169	16.971	36.989	30.187	737.755	***2.6%***	***-0.1%***
Total	**26 471.960**	***99.0%***	**9 141.087**	**7 612.094**	**294.485**	**1 823.477**	***28 295.438***	***99.0%***	***0.0%***
Other debt	274.246	*1.0%*	714.829	702.883	10.439	22.384	296.630	***1.0%***	***0.0%***
Total central government debt	**26 746.206**	***100.0%***	**9 855.915**	**8 314.978**	**304.924**	**1 845.862**	***28 592.068***	***100.0%***	***0.0%***

The foreign currency debt of the central government decreased by HUF 211.0 billion in 2018 and amounted to HUF 5,571.6 billion at the end of August 2018. The share of foreign currency denominated debt within the total debt decreased from 21.6% to 19.5% in 2018.

The forint denominated debt increased by HUF 2,034.5 billion and amounted to HUF 22,723.9 billion. The share of HUF-denominated debt reached 79.5% of the total debt, while in December 2017 this proportion was 77.4%.

The stock of retail securities increased by HUF 540.8 billion from the end of 2017 and amounted to HUF 7,343.7 billion at the end of August. The combined outstanding amount of the Premium Hungarian Government Securities and the Bonus Hungarian Government Securities increased by HUF 423.0 billion by the end of August and reached HUF 2,880.5 billion. The 2-year Hungarian Government Security's stock increased by HUF 149.2 billion and reached HUF 526.1 billion. The stock of the 1-year and Half-year Government Securities decreased by HUF 53.9 billion due to the repurchase of retail securities from banks and reached HUF 3,407.7 billion at the end of August.

The volume of non-resident holdings of Hungarian government securities increased by HUF 137.4 billion in August. 96.6% of non-resident holdings was T-bonds, which amounted to HUF 3,584.5 billion. The non-resident holdings of Discount T-Bills amounted to HUF 125.2 billion, that represented only 3.4% of total non-resident holdings. The duration of the non-resident stock was 5.1 years at the end of August 2018.

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 eight months marked-to-market deposits increased by HUF 22.4 billion due to the depreciation of EUR vs USD and reached HUF 296.6 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 2.9 to 1.9 in August. The bid-to-cover ratio of T-bond auctions increased from 1.6 to 2.1.

The average yield of the last 3-month Discount Treasury Bill auction in August was 0.09%, 1 basis points lower than in the previous month. The average yield of the last 12-month Discount Treasury Bill auction in August was 0.55%, 3 basis points higher compared to July.

The average yield of the last 3-year government bond auction in August was 1.63% 9 basis points lower compared to the previous month. The average yield of the last 5-year government bond auction was 2.80% 10 basis points higher compared to July. Finally, the average yield of the last auction of 10-year government bond was 3.41%, higher by 12 basis points compared to the last July's average yield.