FINANCING OF THE CENTRAL GOVERNMENT IN MAY 2016

1. Government debt data

The debt of the central government increased by HUF 320.6 billion in the January-May period due to the following reasons:

- **The first factor** is the net forint issuance of HUF 1,351.1 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 this year. In line with the increasing debt the balance of the Treasury Single Account increased by HUF 458.3 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 27.8 billion.
- **The third factor** – which had contrary effect than the above mentioned factors – is the net foreign currency redemption of HUF 960.0 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 98.3 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	31.05.2016		change
	Debt stock (preliminary data)	Breakdown	I-V. month				Debt stock (preliminary data)	Breakdown	percent
1. HUF denominated debt	16,207.936	65.62%	4,569.544	3,218.450	0.000	1,351.094	17,559.031	70.18%	4.6%
1.1. Loans	694.107	2.81%	150.428	0.000	0.000	150.428	844.534	3.38%	0.6%
1.1.1. Foreign	694.107	2.81%	150.428	0.000	0.000	150.428	844.534	3.38%	0.6%
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%	4,419.116	3,218.450	0.000	1,200.666	16,714.496	66.80%	4.0%
1.2.1. Public issues	15,462.312	62.60%	4,419.116	3,208.615	0.000	1,210.501	16,672.813	66.64%	4.0%
1.2.1.1. Bonds	11,043.375	44.71%	1,058.743	1,189.594	0.000	-130.850	10,912.525	43.61%	-1.1%
1.2.1.2. Discount T-bills	901.552	3.65%	1,499.831	1,065.660	0.000	434.170	1,335.722	5.34%	1.7%
1.2.1.3. Retail securities	3,517.385	14.24%	1,860.542	953.361	0.000	907.181	4,424.566	17.68%	3.4%
1.2.2. Private placements (bonds)	51.518	0.21%	0.000	9.835	0.000	-9.835	41.683	0.17%	0.0%
2. Foreign currency denominated debt	7,735.799	31.32%	89.111	1,049.154	27.789	-932.255	6,803.544	27.19%	-4.1%
2.1. Loans	1,696.806	6.87%	0.000	479.457	3.738	-475.719	1,221.087	4.88%	-2.0%
2.1.1. Foreign	1,614.229	6.54%	0.000	477.277	3.555	-473.722	1,140.508	4.56%	-2.0%
2.1.1.1. Loan from EU	469.680	1.90%	0.000	469.350	-0.330	-469.680	0.000	0.00%	-1.9%
2.1.1.2. Other	1,144.549	4.63%	0.000	7.927	3.885	-4.042	1,140.508	4.56%	-0.1%
2.1.2. Domestic	82.576	0.33%	0.000	2.180	0.183	-1.998	80.579	0.32%	0.0%
2.2. Government securities	6,038.993	24.45%	89.111	569.697	24.050	-456.536	5,582.457	22.31%	-2.1%
2.2.1. Issued abroad	5,198.881	21.05%	42.300	269.336	18.680	-208.356	4,990.525	19.95%	-1.1%
2.2.1.1. Foreign currency bonds	5,198.881	21.05%	42.300	269.336	18.680	-208.356	4,990.525	19.95%	-1.1%
2.2.2. Issued in Hungary	840.112	3.40%	46.811	300.361	5.371	-248.180	591.932	2.37%	-1.0%
2.2.2.1. Foreign currency bonds	840.112	3.40%	46.811	300.361	5.371	-248.180	591.932	2.37%	-1.0%
Total	23,943.735	96.94%	4,658.655	4,267.604	27.789	418.839	24,362.574	97.37%	0.4%
Other debt	755.983	3.06%	715.554	814.641	0.804	-98.282	657.701	2.63%	-0.4%
Total central government debt	24,699.718	100.00%	5,374.209	5,082.245	28.593	320.557	25,020.275	100.00%	0.0%

The foreign currency debt of the central government decreased by HUF 932.3 billion from the end of December and amounted to HUF 6,803.5 billion at the end of May 2016. The share of foreign currency denominated debt within the total debt decreased to 27.2%, while at the end of the last year it was 31.3%.

The forint denominated debt increased by HUF 1,351.1 billion and amounted to HUF 17,559.0 billion. The share of HUF-denominated debt reached 70.2% of the total debt, while in December 2015 this proportion was 65.6%.

The stock of retail securities increased by HUF 907.2 billion from the end of December 2015 and amounted to HUF 4,424.6 billion at the end of May. The combined outstanding amount of the Premium Hungarian Government Bonds and the Bonus Hungarian Government Bonds increased by HUF 141.1 billion by the end of May and reached HUF 1,339.4 billion. The stock of the Interest Bearing T-bills increased by HUF 743.0 billion and reached HUF 2,640.0 billion at the end of May.

The volume of non-resident holdings of Hungarian government securities decreased by HUF 132.7 billion in May. 99.8% of non-resident holdings was T-bonds, which amounted to HUF 3,465.3 billion. The stock of non-resident Discount T-Bills amounted to HUF 5.3 billion, that represents 0.2% of total non-resident holdings. The duration of the non-resident stock was 5.7 years at the end of May 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 five months marked-to-market deposits decreased by HUF 98.3 billion and reached HUF 657.7 billion (EUR 2.1 billion) at the end of the month.

2. Forint yields

The average bid-to-cover ratio of Discount T-bill auctions decreased from 2.2 in April to 1.7 in May. The bid-to-cover ratio of T-bond auctions decreased from 3.3 to 1.9.

The average yield of the last 3-month Discount Treasury Bill auction in May was 0.89%, 8 basis points lower than in the previous month. The average yield of the last 12-month Discount Treasury Bill auction in May was 1.03% 9 basis points higher compared to April.

The average yield of the last 3-year government bond auction in May was 1.82% 29 basis points higher compared to the previous month. The average yield of the last 5-year government bond auction was 2.44% 30 basis points higher compared to April. Finally, the average yield of the last auction of 10-year government bond was 3.36%, higher by 13 basis points compared to the previous month's average yield.