

## Hungary: Low bond supply thanks to diversification

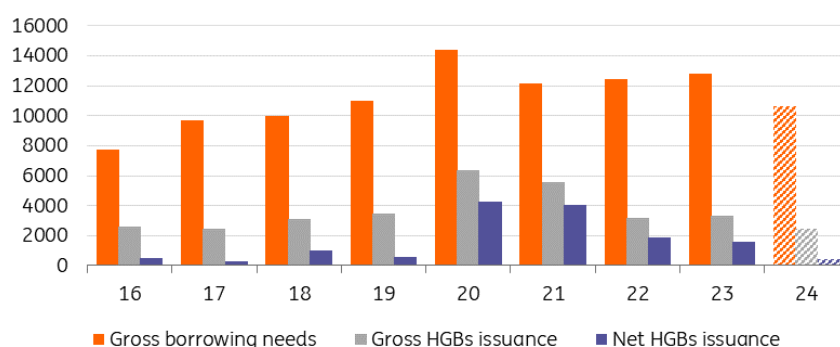
Despite the remaining fiscal risk, we expect a significant reduction in borrowing needs this year. In particular, the net issuance picture for Hungarian government bonds (HGBs) looks exceptionally good in a CEE context due to the debt agency's focus on retail and FX issuance



### Fiscal policy: Lower deficit than last year but upside risks remain

The government forecasts that the budget deficit last year was 5.9% of GDP, higher than the original target of 3.9%, which was later revised to 5.2%. For this year the government is projecting a deficit of 2.9% of GDP, which is the assumption for the debt agency's (AKK) funding plan for this year. However, the budget plan hinges heavily on a recovery in domestic consumption without which it will suffer further. We thus expect a deficit of 4.4% of GDP for this year.

## Gross financing needs and HGBs issuance (HUFbn)



Ministry of Finance, ING estimates

## Local issuance: Record low net HGBs issuance despite high gross needs

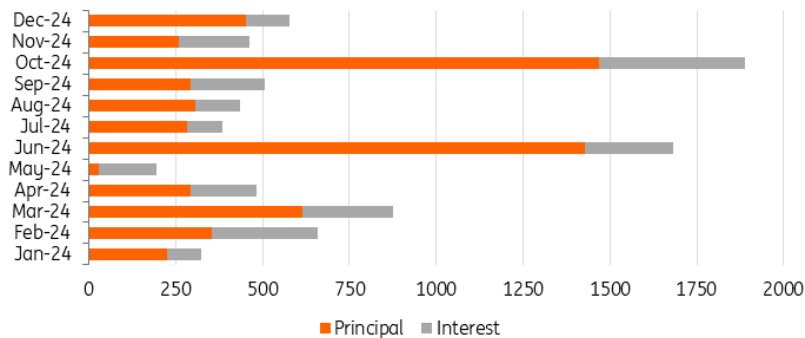
Despite a higher deficit than projected in the AKK plan, low redemptions and diversification of funding paints a favourable picture for HGBs this year. We expect gross borrowing needs to fall this year from HUF12,839bn to HUF10,639bn (-17% year-on-year). This is a result of both a lower government budget deficit and redemptions. As the focus remains on retail bond issuance, HGBs offer a nice picture despite the fiscal risk. Gross HGB issuance is expected to fall from HUF3,349bn to HUF2,472bn (-26%) this year. Moreover, despite total redemptions being lower this year than last, HGB redemptions are actually higher year-on-year, leading us to see a net HGB supply drop of 72%. As usual in the Hungarian case, supply should be roughly evenly spread among maturity baskets. It is clear from the breakdown that HGBs will offer a buffer this year in the case of a higher state budget deficit, however, we believe the AKK's focus will remain on retail and potentially FX issuance, which should leave HGBs protected from a potential increase in supply later.

## Financing needs for 2024 (HUFbn)

	AKK	ING
State budget	2,515	3,515
Domestic redemptions	6,097	6,097
Foreign redemptions	792	792
Pre-financing	742	742
<b>Total financing needs</b>	<b>10,146</b>	<b>11,146</b>
HGBs issuance	1,872	1,972
HGBs switch auctions	500	500
T-bonds for local authorities	100	100
Retail bonds	4,298	4,698
T-Bills issuance	924	1,124
HUF loans	0	0
FX issuance	1,489	1,789
IFI and other loans	961	961
Other FX borrowings	130	130
<b>Gross borrowing requirement</b>	<b>10,274</b>	<b>11,274</b>
<b>HGBs issuance (inc. switches)</b>	<b>2,372</b>	<b>2,472</b>
<b>Net HGBs issuance (inc. switches)</b>	<b>2,372</b>	<b>2,472</b>

Source: Ministry of Finance, ING estimates

## HGBs maturity calendar (HUFbn)



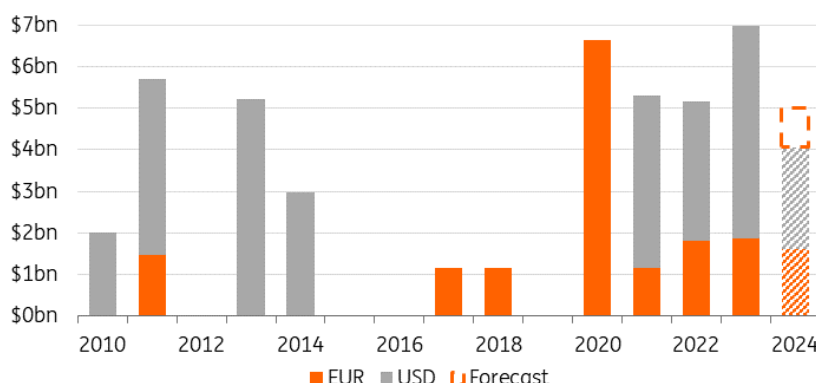
Refinitiv, ING

## FX issuance: Diversification and flexibility

On the FX issuance side, AKK has front-loaded the supply this year with two issues of USD2.5bn and EUR1.5bn (green bond) in January, which essentially covers AKK's target for this year (EUR3.8bn). However, the agency has indicated it may issue a Samurai (JPY) or Panda (CNY) bond in the second half of the year, depending on market conditions. This would effectively reduce issuance elsewhere in the plan if fiscal policy remains under control. We budget for EUR4.6bn in FX bond issuance over the year.

In the context of Hungary's typical Eurobond (FX) issuance, this year's plan (already covered) sees slightly lower gross issuance, compared to \$6bn annually on average in the post-Covid era. Given the successful front-loading, this would appear to offer plenty of flexibility for increasing supply later in the year, whether on the back of fiscal slippage, continued EU disbursement uncertainty, or simply pre-financing for 2025. While Hungary has been more active on the international market than pre-Covid – there was almost no gross issuance from 2014-2019 – from this year onwards it looks set to be quieter than CEE peers Romania and Poland. In terms of currency, the nation is likely to continue its preference for USD, while being one of the more active issuers in JPY and CNY, along with its focus on green bonds. This highlights the overall strategy of maximum diversification of funding sources.

## Hungary (REPHUN) international sovereign bond issuance (USD equivalent)



2024 shows YTD issuance as of 23 Jan, and ING forecast for additional issuance.

Source: BondRadar, ING

### Authors

#### Frantisek Taborsky

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

#### Peter Virovacz

Senior Economist, Hungary

[peter.virovacz@ing.com](mailto:peter.virovacz@ing.com)

#### James Wilson

EM Sovereign Strategist

[James.wilson@ing.com](mailto:James.wilson@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10

Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.