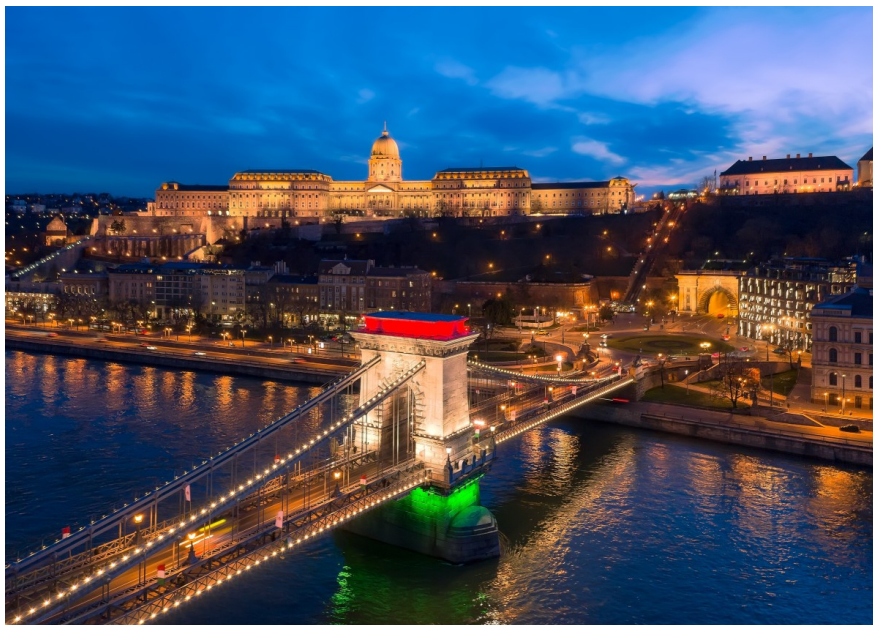


Hungary: Reorientation back to HGBs issuance

Hungary's government plans to further tighten the fiscal deficit; however, fiscal risk remains to the upside due to the political cycle. The debt agency focus is shifting to Hungary government bonds (HGBs), and we will see less retail and FX issuance this year. Average debt maturity should increase with concentration at the long end of the curve

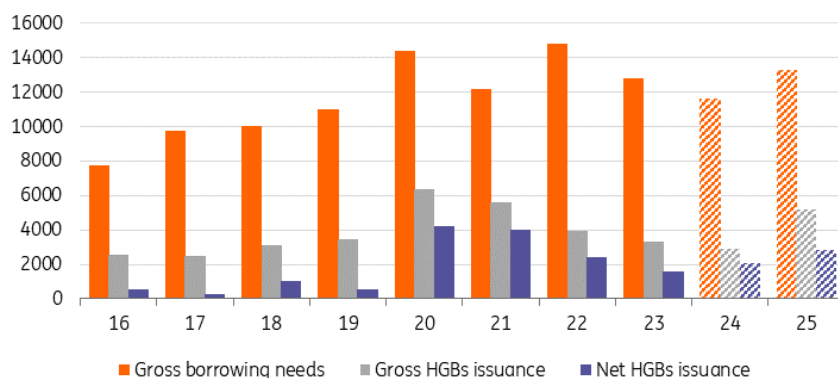


The Budapest skyline

Fiscal policy: Efforts to consolidate while the election campaign began

According to preliminary finance ministry numbers, public finances ended last year in deficit at 4.8% of GDP against a plan of 4.5% and down sharply from 2023's 6.7% of GDP. For next year, the planned government accrual deficit target remains at 3.7% and the cash flow deficit at 4.8% of GDP. The expected slippage is 0.3-0.5% of GDP, mainly due to our different macroeconomic outlook, but we see this as a manageable risk. The main issue, however, is the start of the election campaign this year, which brings the traditional fiscal upside risk.

Gross financing needs and HGBs issuance (HUFbn)



Source: AKK, ING estimates

Local issuance: More HGBs, less retail bonds

AKK, the government debt agency, unveiled a funding plan for this year in December, indicating a change in strategy with a greater focus on HGBs as the main source of funding and less reliance on FX and retail issuance compared to last year. Given the higher fiscal deficit in our forecast compared to the MinFin plan, we also expect HUF450bn higher gross borrowing needs compared to the AKK plan, fully covered by HGBs issuance.

Overall, we see gross borrowing needs rising from HUF11,847bn to HUF13,288bn (+14% YoY, 15.1% of GDP), mainly due to higher redemptions this year. We expect gross HGBs issuance (incl. switches) to rise from HUF3,531bn to HUF5,192bn (+47%). Net issuance is also expected to increase after three years of decline from HUF2,104bn last year to HUF2,871bn (+37%).

In our view, AKK is trying to match the high local demand supported by tax incentives and lower holdings relative to CEE peers and high redemptions of retail bonds this year, which likely can be directed to the HGB market. AKK issued fewer retail bonds last year and more HGBs than originally planned, confirming the intention for this year. At the same time, AKK will look to extend its average debt maturity (5.8y as of end-24), and the increase in HGBs issuance compared to last year should be mainly in the 10y segment. Given higher retail bond redemptions in 1Q25 and fiscal risk, we can expect AKK to look to frontload supply early in the year if demand remains strong.

Financing needs for 2025 (HUFbn)

	AKK	ING
State budget	4,123	4,573
Domestic redemptions	7,226	7,226
Foreign redemptions	817	817
Pre-financing	672	672
Total financing needs	12,838	13,288
HGBs issuance	3,992	4,442
HGBs switch auctions	750	750
T-bonds for local authorities	100	100
Retail bonds	3,612	3,612
T-Bills issuance	2,443	2,443
HUF loans	199	199
FX issuance	1,344	1,344
IFI and other loans	281	281
Other FX borrowings	116	116
Others	1	1
Gross borrowing requirement	12,838	13,288
HGBs Issuance (inc. switches)	4,742	5,192
Net HGBs Issuance (inc. switches)	2,421	2,871

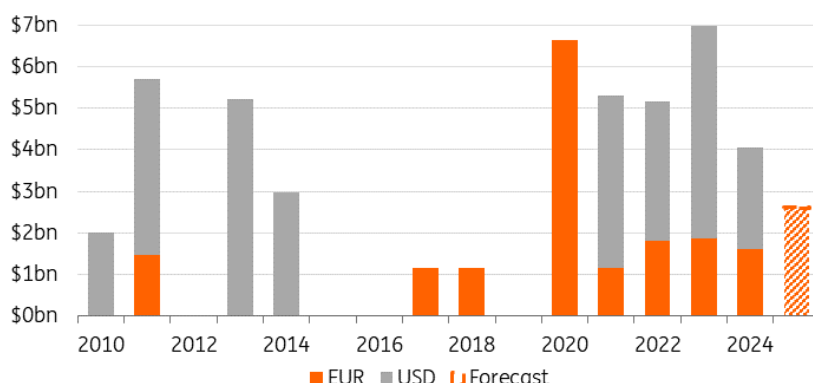
Source: AKK, ING estimates

FX issuance: Lower supply a clear positive

In line with the AKK issuance plan, Hungary came quickly out of the gate this year with a €2.5bn deal across conventional (€1.5bn in 10-year paper) and green bonds (€1bn in 15-year paper). This completes the country's planned USD and EUR international bond issuance for the year, with AKK CEO Kurali's comments recently confirming that no more major Eurobond sales are expected.

There are plans for a few smaller alternative funding sources to make up the remainder (FX issuance in the funding plan totals €3.4bn), with €200-300mn equivalent in (renminbi) Panda bonds seen in the second half of the year, while "foreign currency denominated project loans and other types of FX financing (e.g. Euro Commercial Paper) depending on circumstances are also options in 2025."

Hungary EUR & USD international sovereign bond issuance (USD equivalent)

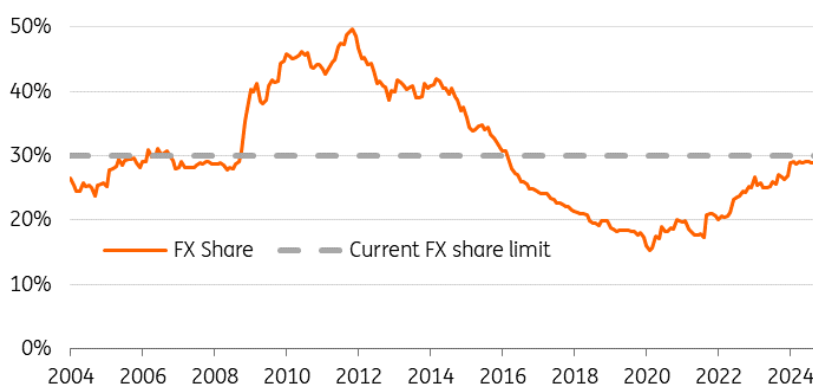


Source: Bond Radar, ING estimates

The frontloading of planned FX issuance needs is a clear positive for Hungary relative to peers such as Romania and Poland, which should act as a technical tailwind, in particular with net Eurobond issuance in USD and EUR even lower, set to be around the equivalent of €1.1bn. At the same time, the credibility of plans to continue lowering gross Eurobond issuance (relative to \$7bn in 2023 and \$4bn in 2024) is high given the current share of FX debt within government debt is nearing the government's 30% limit.

Any fiscal slippage is likely to be funded on the local market, and further Eurobond issuance is unlikely, at least until later in the year, when the window for 2026 pre-financing is nearer.

Hungary – FX share within government debt



Source: AKK, Macrobond, ING

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