

Hungary: An updated financing plan yet again

Third time's a charm. The Debt Management Agency adjusted the 2020 financing plan according to the latest deficit expectation. The extra funding comes from the retail sector and from Hungarian government bonds



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The updated financing plan

We have come a long way from the original 1% 2020 deficit target set in the last year. In April, the government changed the target to 2.7% of GDP and just a month after it was moved to 3.8%. And here we go again with a third review.

The evolution of the deficit in a crisis: 1.0%-2.7%-3.8%-8.0%-?

After we saw the cumulative budget deficit in the first seven months overshooting the latest deficit target by 15%, we expected an update sooner rather than later. The Ministry of Finance moved the

official deficit-to-GDP forecast from the 7-9% range at the end of August, matching the harsh reality. It was just a matter of time before we saw an updated financing plan from the Government Debt Management Agency (ÁKK) too.

Today's move also complements the National Bank of Hungary's monetary policy decision from this week's rate setting meeting. The central bank announced that it is increasing the weekly purchases of the Hungarian government bonds (HGBs) from last week's HUF15 billion to HUF40 billion in the foreseeable future. This provides a significant helping hand to stabilise the bond market when the ÁKK needs to finance an increased gap in the budget.

The previous financing plan was calculated with a HUF1.89 trillion (3.8% of GDP) cash-flow based deficit. The August update inflated this financing need by HUF1.71 trillion to HUF 3.6 trillion (roughly 8% of GDP). This is in line with our forecast regarding the budgetary situation in 2020.

Sources of the extra funding

As we expected, the ÁKK does not plan to issue extra foreign currency denominated bonds compared to the previous plan. This means, that the debt agent will issue EUR4bn worth of Eurobonds in 2020 as a whole, of which EUR3.5bn was realised in April and June. Most of the remaining EUR 500m FX debt issuance is planned in Japanese yen (Samurai bond) part of which is a green bond issuance.

Households and institutional investors, the ÁKK is counting on you!

This also means that the extra financing needs will be covered primarily by the local retail and wholesale forint markets. The retail bond market – after muddling through the first shock in spring caused by Covid-19 – is showing signs of life again. Against this backdrop, the previous plan of a net HUF1001bn decrease in the outstanding amount of retail bonds became overly pessimistic. The ÁKK now sees only a HUF119bn drop.

So out of the HUF 1.71tr extra financing needs, roughly 50% (HUF882bn) will be covered by the retail market. It seems a bit ambitious but taking into consideration the latest retail bond demand and the fact that household savings used to be increased in turbulent times, this goal might be in reach. Moreover, according to the ÁKK, it has already issued 72% of the increased retail bond plan until mid-August.

The second source for the extra bond supply is coming from HGBs, so institutional investors will remain in the limelight. The updated plan contains HUF948bn extra issuance in HGBs, roughly 28% higher than the previous plan. The year-to-date sales has already covered roughly two-thirds of the updated HGB issuance plan, so again the financing plans seem realistic. As the extra supply of retail bonds and HGBs amounts to HUF1.830tr, we see increased buybacks (possibly via switch auctions) by HU120bn, to support further the ÁKK's strategy of debt maturity extension.

The latest version of the 2020 financing plan looks realistic and with the support of the

NBH's quantitative easing programme, we don't see the updated plan destabilising the bond market and the yield curve.

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