

Hungary issues FX debt again

The Debt Management Agency adjusted the 2021 financing plan to be able to issue EUR and USD denominated debt. The better-than-expected economic activity gives more than enough room for this move



Source: Shutterstock

We have come a long way from the original 2.9% 2021 deficit target set in the middle of last year. First, the government modified the accrual-based target to 7.5% of GDP in December 2020. Second, the Government Debt Management Agency (GDMA) updated the cash-flow based target to HUF 3.990tr in May 2021. This time, the GDMA is again changing the plan and moving the cash-flow based deficit target.

According to the statement made by the debt agency, Hungary will be able to issue EUR 4.5bn (HUF 1.575tr) worth of FX debt this year. Compared to the previous HUF 644bn plan this is a significant change. The GMDA has already announced that it is planning a 10- and 30-year USD bond and 7- and 20-year EUR bond issuance.

Along with the increased FX debt issuance, the financing plan also contains a modification to the retail and wholesale debt. It is decreasing the planned retail bond issuance by HUF 15bn, while increasing the HGB issuance by HUF 230bn compared to the previous plan. In all, this means that

the new financing plan (the updated cash-flow based deficit target) is set at roughly HUF 5.140tr instead of the previous 3.990tr if the GDMA uses the full EUR 4.5bn framework for FX debt issuance this year.

This move itself doesn't change the accrual-based deficit target as this FX debt issuance will provide a bridging of funds required due to possible delays in the payment of the Recovery and Resilience Facility. Moreover, this extra issuance will partially pre-finance some government expenditures in late 2021 and in 2022. This also suggests that the government will ramp up spending in the last months of this year.

Although this move in the financing plan doesn't impact the Maastricht-based deficit, it does impact the debt level. However, the government planned the amended 2021 budget with 4.3% real GDP growth and with 8.1% nominal GDP growth. In contrast, according to our latest forecast, the economy will rise by 7.7% in real terms and with a significantly higher GDP deflator, the nominal growth could be around 12.5%. This means nominal GDP growth will be almost 1.5-times higher, which gives plenty of room in the debt-to-GDP target. According to our calculations, this means roughly HUF 2.0tr extra room for debt issuance.

So, what happened here is that the GDMA adjusted the financing plan in light of much better nominal growth, using part of the available room for manoeuvre without jeopardising the 79.9% debt-to-GDP target already in place.

Author

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@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 www.ing.com.