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

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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.

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