MINISTRY
FOR NATIONAL ECONOMY

# Hungary is less fragile

**Recently, several economic indicators have signalled that Hungary is becoming more and more robust and confidence in the country is increasing. Favourable trends can be observed, for example, on the market of Hungarian government securities which enhance the stability of debt financing: average yields at auctions are at historic lows, in the past six months the yield curve has moved significantly lower and the stock of retail government securities has continued to increase. Concurrently, the domestic currency has also strengthened markedly in the past couple of weeks. Lower CDS pricing indicates the improvement of risk perceptions as well.**

## Yields of Hungarian government securities at historic lows

Diminishing consumer price inflation -- a trend since September 2012 – continued in March 2013. In the third month of the year, the annual inflation rate decreased to 2.2 percent, the lowest level in decades, which has been the consequence -- to a large extent -- of the public utility tariff cut at the beginning of the year. **Under lower inflation, risk perceptions regarding Hungary have improved, and as a result yields of government securities have been speedily decreasing.**

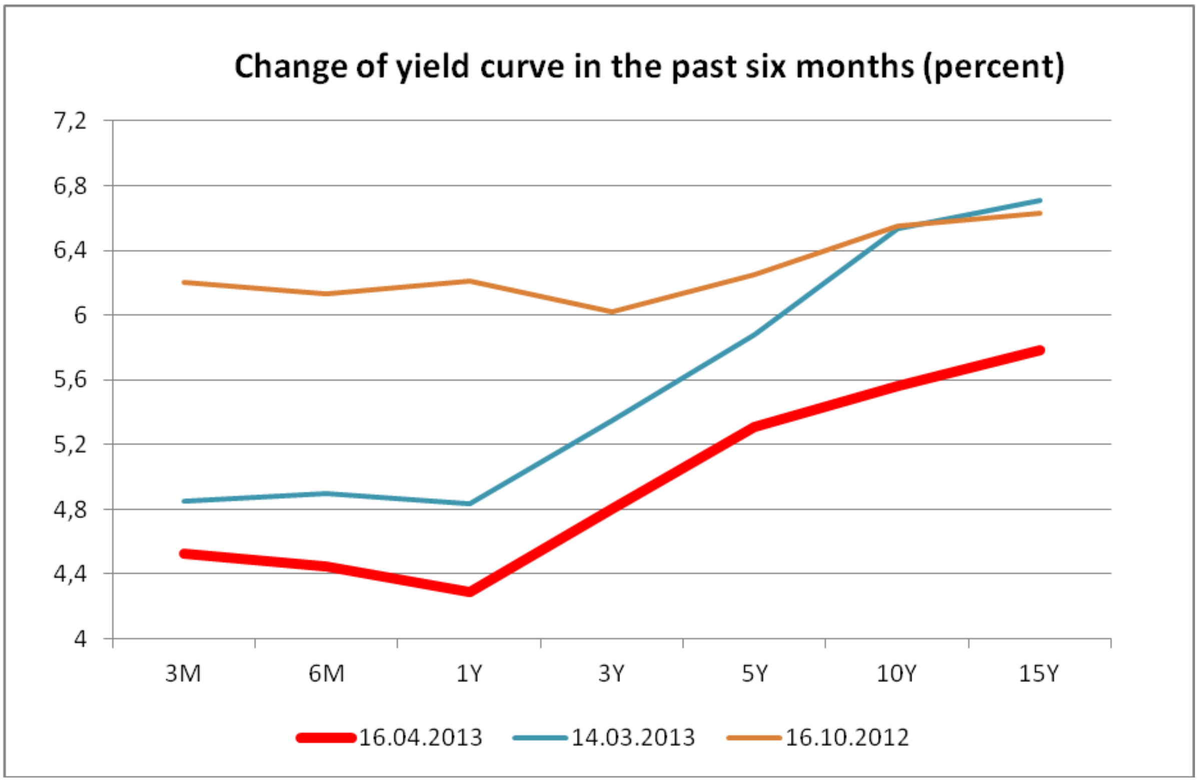
**In the past couple of weeks average yields at auctions fell to historic lows**. At this week's auction of 3-month Discount Treasury Bills yielded on average 45 basis points less compared to the auction one month ago (4.37 percent).

At the latest auction of **Treasury Bills with a tenor of 12 months** (11.04.), average yield was 4.16 percent which is **50 basis points below** that of one month ago. At the latest auction of **3-year Government Bonds, average yield was down by 41 basis points**, to 4.81 percent in comparison to the figure at the previous auction. The average yield of 6.01 percent reached at the latest auction of **10-year Government Bonds was 45 basis points below** the average yield recorded at the auction of 21 March. The substantial decrease of average yields at auctions is attributable to the National Bank of Hungary's diminishing base rates and expectations of further rate cuts.

**As a result of growing trust in Hungary, the gradual decreasing of the central bank's base rate and anticipations of future rate cuts – in addition to growing global risk appetite caused by the Japanese central bank's loose monetary policy – yields on the secondary markets have also tumbled to levels unseen for decades**. Every point of the yield curve formed by closing data on Monday has edged significantly lower compared to levels of both one month and half a year ago.

In comparison to levels registered four weeks ago, the yield decrease on securities with shorter maturities was 36-52 basis points. The largest decline could be observed concerning securities with tenors of 10 years and 15 years: the decrease totalled 94 basis points in both cases. **Since mid-October 2012, yields have declined substantially.**

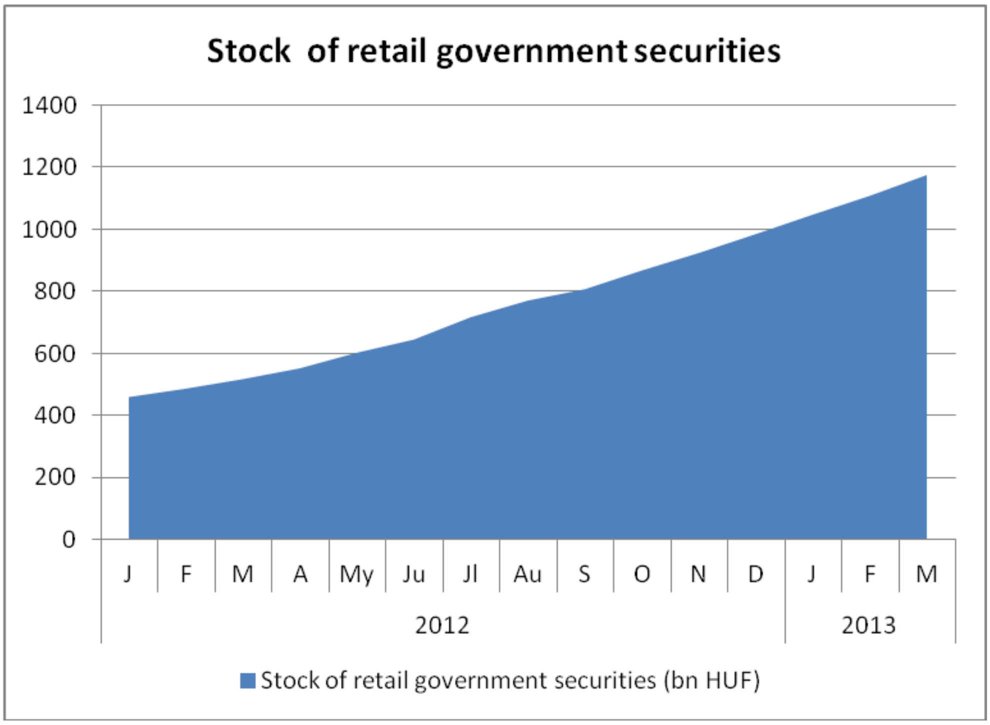
Yield decrease totalled 170-197 basis points on shorter-dated securities, while it was 113-140 basis points on maturities of 12-months or longer. **Yields on securities with tenors of 3 years and 5 years also declined at all-time lows. As a positive result of lower yields, government debt financing is now less costly, interest rates on loans are declining and investment environment is improving.**




*Source: Reuters*

**Change in the stock of retail government securities**

**The holdings of retail government securities held by households doubled in 2012** and the dynamic increase continued in 2013. **According to the latest data, the total amount is currently close to HUF 1177bn.** Out of this stock, the amount of Interest Bearing Treasury Bills, the compound amount of one- and two-year Treasury Savings Bills, the Premium Hungarian Government Bonds and six-month Treasury Bills was HUF 569.6bn, HUF 293.7bn, HUF 300.2 (a record high) and HUF 13.4bn, respectively.



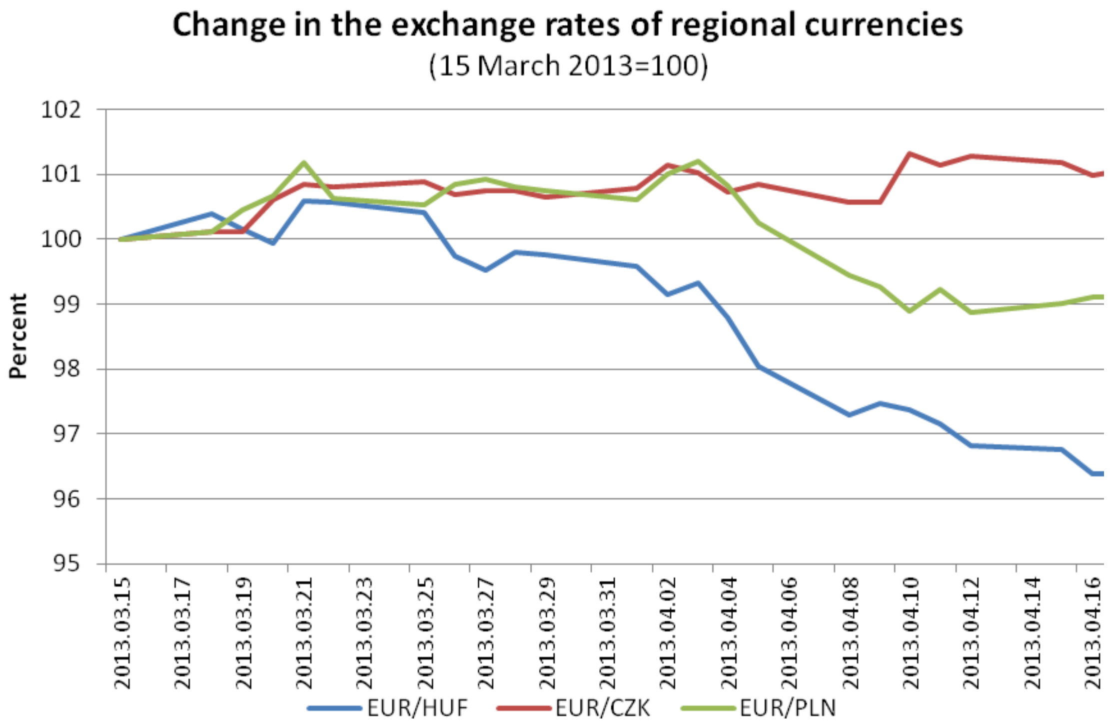

*Source: Government Debt Management Agency (ÁKK), Ministry for National Economy (NGM)*

In the first three months of the year, the stock of retail government securities increased by HUF 191.6bn, which amount is composed as follows: HUF 135.2bn in Interest Bearing Treasury Bills, HUF 3.2bn in six-month Treasury Bills, HUF 43.8bn in Premium Hungarian Government Bonds and altogether HUF 9.4bn in one- and two-year Treasury Savings Bills. **The increase of the stock of retail government securities has been a favourable development from the aspect of debt financing, as this is a sign of growing confidence in Government policy.**

**Forint is getting stronger**

**In spite of unfavourable stock market activity in the past couple of days and the historically steep plunge of commodity prices** – as the price of oil and gold (a traditional safe haven asset) tumbled sharply – **the forint was regaining lost ground against the euro to the largest extent among its regional peers.**

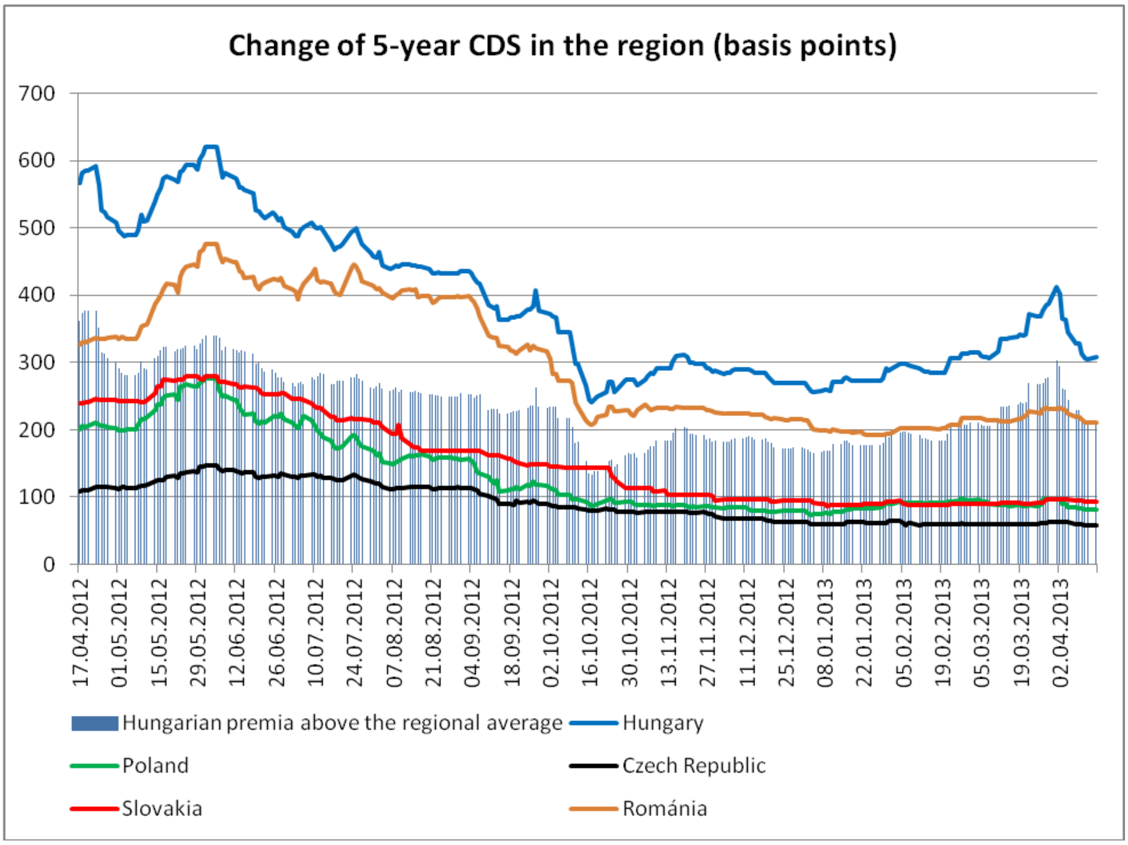
After regional currencies had weakened in the past six months, **since mid-March an accelerating forint appreciation can be observed. With regard to the Polish and Czech currencies, this trend has been much less pronounced.**




*Source: Reuters*

**Risk perceptions are improving**

Over the past year, risk perceptions concerning Hungary improved markedly. **The cost of hedging against Hungary's sovereign default (CDS premium) declined from 566 basis points last year to 308 basis points by the middle of April 2013.** Consequently, the gap between the CDS of Hungary and the region's countries has narrowed: the difference between the Hungarian indicator and that of the regional average weighted by gross government debt declined from 361 basis points to 212 basis points.




*Source: Reuters*