



Successful issuance of Hungarian USD-denominated government securities

As about 40-45 percent of Hungary's general government debt has been denominated in foreign currencies. The duration became shorter with the IMF loan, which was unavoidable in 2008, so that the refinancing is due relatively soon, the country required further foreign currency resources. Thanks to the improving confidence in the fundamentals of Hungary and positive international investment climate and sentiment, the Government Debt Management Agency (AKK) mandated large investments banks last week to manage USD-denominated benchmark government bond issuance, after a highly successful investor roadshow. As a result altogether 3.25bn USD bonds were sold with yields slightly below the indicative levels.

Under the second Orbán Government, since 2010, there was already a significant foreign currency-denominated bond issuance after the Széll Kálmán Plan had been announced. At that time, 10-year bonds (along with a paper of 30-year tenor) could be sold yielding 1 percentage point more than the current ones. The volume of the two former issuances was 1 billion USD more than that of February 2013.

As the financing schedule of AKK for 2013 signals, the net financing requirement of the state is expected to amount about 619bn HUF (GFS deficit of the central sub system and net EU transfers). In addition, the Hungarian state will reimburse significant amounts, as shown below:

HUF redemption	3662
<i>T-bonds</i>	1056
<i>Retail securities</i>	745
<i>Discount T-bills</i>	1847
<i>HUF loan</i>	14
FX redemption	1455
<i>Gov. sec. and IMF loan</i>	1425
<i>IFI and other loans</i>	30
Total redemptions	5117

Source: AKK



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This year's foreign currency redemptions will be slightly above those in 2012. Forex redemptions will amount to 1.4bn EUR, the upcoming instalment for International Monetary Fund loans - taken out in 2008 and 2009- will total 3.6bn EUR, while the redemption of loans from international financial institutions and those due to debt assumption in 2011 will come to 0.1bn EUR.

The issuance plan of AKK is as follows (billion HUF):

HUF issuance	4394
<i>T-bonds</i>	1530
<i>Retail securities</i>	995
<i>Discount T-bills</i>	1869
FX issuance	1502
<i>International securities</i>	1275
<i>Premium Euro Hungarian gov.bond</i>	113
<i>IFI loans</i>	113
Total issuance	5896

Source: ÁKK

Therefore, the planned foreign exchange issuance consists basically of international securities in addition to the retail bond programme and the loans from international financial institutions. In line with the plan, Hungary announced its intention for issuing USD-denominated securities at the USA's Security and Exchange Commission (SEC) last week (11 February). Issuance actually took place within days after that and the credit rating announcement by Moody's preceding this event had proven to be no technical obstacle to the commencement of issuance.

Investors were already awaiting the event, as Prime Minister Viktor Orbán had already declared that instead of requesting an IMF loan Hungary would enter the international markets with a forex bond at the end of January or beginning of February. After that the Hungarian state commenced an international investor roadshow signalling the upcoming forex bond issuance.

Therefore, almost two years after the Széll Kálmán Plan had been announced Hungary returned to international capital markets with USD-denominated 5-year and 10-year government securities. Their yield premia (spread) versus those of American benchmark bonds were 335 basis points (5-year) and 345 basis points (10-year), which had been priced lower than indicative spreads



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(i.e. yields were lower) due to very keen buyer interest (demand amounted to 12bn USD in the order book).

Key issuance data:

Amount: 1.25bn USD
Maturity date: 19 February 2018
Coupon: 4,125% p.a.
Price at issuance: 99.58%
Yield premium: United States Treasury security dated 31 January 2018 + 335 basis points (320 basis points above midswap)

Amount: 2bn USD
Maturity date: 21 February 2023
Coupon: 5.375% p.a.
Price at issuance: 99.564%
Yield premium: United States Treasury security dated 15 November 2022 + 345 basis points (336 basis points above midswap)

Along with the above data the below information was made public. As the event lies under the sphere of competence of United States securities regulation, other data are classified:

- “High profile” investors from the USA and London signalled their buying interest at the roadshow, and that was reinforced by the bids accepted.
- The initial plan did not reckon with an issuance of this huge size and for the time being the amount of 3.25bn USD sufficed.
- Yields may even be lower in case another issuance takes place.
- Yields at the Hungarian issuance were somewhat lower than those of Italian securities with the same tenors on the secondary market and better than those of Spain or Portugal, although the credit rating of these countries is more favourable. This also implies that the opinion of credit rating agencies is not the first and foremost aspect for investment decisions: the own experts of investors are given a greater say.



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To sum it up, the vast interest shown regarding Hungarian USD-denominated government securities reflects the huge trust of foreign investors in Hungarian economic policy. And therefore the issue whether or not the country needs an IMF loan or aid from other institutions or the budget is financeable from markets looks decided. Evidently, market processes need further monitoring, but the successful bond issuance is proof that trust in Hungary is greater than in the euro-zone peripheral countries. Hungary's credit rating should be adjusted, as it differs from market perception in light of the success of current issuance.