Practice of Communication and Information Sharing in the Hungarian Public Debt Management

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The Macroeconomic Situation in Hungary

- Hungary – a small open economy in CEE Europe
- 9.9 million inhabitants, per capita GDP of EUR 17,642 PPP
- The international crisis in 2008-9 hit Hungary hard and afterwards it underwent a large adjustment program which balanced the economy and the public sector
Public Debt of Hungary and Debt Management

Debt Management Objective: To finance the borrowing requirements of the central government with minimal costs in the long term, taking into consideration the risks involved.

Government’s objective is a gradual decline of the public debt ratio and to increase the share of domestic debt.

Strategic principles: simplicity, liquidity and transparency – transparency: the role of communication is vital.
ÁKK the Hungarian Government Debt Management Agency Pte. Ltd.

Established in 2001 as the legal successor of ÁKK, a budgetary institution
Responsible for all public debt and liquidity management operations
Staff: 60
Stakeholders

Hungary has a diversified public debt (domestic, retail debt program, foreign and foreign currency debt, official lenders)

Stakeholders:

• Authorities (Parliament, Government, Ministry for National Economy)
• Controlling Offices (State Audit Office, Fiscal Council, Government Control Office)
• Taxpayers
• Investors (Domestic, Non-residents, Retail)
• Market participants, Analysts, Credit rating agencies
• International Organizations as lenders
• International Organizations (e.g. EU, IMF, IIF)
• Media, Press
• NGOs

Very wide range of stakeholders – with quite different needs and requirements for information
Communication with Stakeholders

Communications strategy, Marketing, Press relations done by senior staff (CEO, deputy CEOs)

Direct contact with investors, CRAs, market participants done by the Front Office

Data dissemination (website, publications) is the responsibility of the Middle Office together with the Front Office

Relation with authorities (Parliament, Government, Ministry for National Economy, State Audit Office) and the taxpayers organized and done by the Middle Office
**Communication Strategy**

Communication Strategies are established for the investors: wholesale and retail

1. Hungary has a relatively high public debt (50-88pc of GDP) since 1990, the creation of the government securities market

2. After a crisis of 1995 a new debt management policy was established which provided legal framework, responsibilities and resources

3. Developing government securities market and investor base at the same time was a challenge (Primary Dealer system, information service)

4. Investors were facing a lack of adequate information (OTC market with information asymmetries)

5. ÁKK’s goal is to provide as much info as possible to all types of investors

6. Permanent process of learning for ÁKK and widening of the information service

7. Formal communication strategy is for retail debt management which defines marketing operations
Communication Strategy for Retail Debt

Hungary has a retail debt program since the early 1990s

1. In the 1990s it was an important part of developing the market and providing households with a competitive and safe investment opportunity

2. In the early 2000s the program declined due to banking competition, decreasing savings and also non-supportive government approach

3. After the 2008-2009 crisis and especially from 2011 new government objective is to increase domestic investor base by enhancing the retail debt program

4. New communications strategy was developed
   - Besides previous older investors new younger generation was targeted
   - New products, new sales channels (e.g. phone banking, internet banking)
   - Baby bond for young people and their families
   - Active marketing presence in most media channels (TV, radio, online, billboards, printed press)
   - Separate, comprehensive website for retail investors’ information needs (maintained by ÁKK)
Communication for Retail Debt - Efficacy

Beside communication, other factors are influencing the success of the retail debt program, but the results are clearly visible:

![Outstanding volume of retail government securities](chart.png)

- **Longer than 1Y**
- **Up to 1Y**
Communication with Wholesale Investors

Wide range of communications with investors

1. Website akk.hu – with relevant information in English as well
2. Regular publications (Debt Management Outlook, Annual Reports, monthly, quarterly reports) – available from the website
3. Deal-related and non-deal Road-shows (international issuance)
4. One-on-one meetings, reverse road-shows in Hungary (all issuance)
5. PR press articles in internationally distributed financial magazines
ÁKK’s website

Main source of providing information.

Flexible, easy to add new points of menu or items.

Separate, dedicated webpage for the retail program.
Coordination with Other Entities in Communication

- ÁKK is responsible for debt management
- ÁKK carries out these tasks in coordination with Ministry for National Economy (MforNE)
- ÁKK and MforNE officials participate in deal-related road shows
- ÁKK provides information only on debt management
- Most macroeconomic data are also published but those are data of other agencies (Statistical Office, Central Bank etc.)
- ÁKK has regular coordination with MforNE about communication
- In case of important or possibly sensitive new information ÁKK discusses its communication with MforNE before publication
- ÁKK also acts as data provider for the National Statistic Office, the State Treasury and the National Bank of Hungary
Communication with Hungarian Authorities

ÁKK accepts the requests of authorities

1. Main channel is towards the Ministry for National Economy (information will go through MforNE)

2. MforNE is also the owner of ÁKK, makes strategic decisions

3. Relevant chapters of the Annual Budget Law and Final Accounts Law are drafted by ÁKK

4. Regular meetings with different Departments of MforNE (Budget, Macroeconomic Policy)

5. Ad-hoc data requirements
State Audit Office is the Parliament’s Agency for Control

1. 2 annual audits: for planning the budget and the preparation of the final accounts

2. On-the-spot checks of planning and operations, any new data requirements can be raised by SAO

3. Fiscal Council monitors budgetary process and public debt evolution

4. General audit every 5 years with a very lengthy and detailed program
Summary

- Hungary – having a relatively high debt ratio – had to develop a good communication policy with investors
- If you choose market financing, information provision is vital
- Several stakeholders with sometimes very different information requirements
- Important role of a comprehensive website, with as much information as possible – enhances transparency
- Retail debt program requires marketing support – competition with professional players (banks)
- Debt management organization has lots of data provision obligations – requirement of supporting IT system(s)
Thanks for your attention!

More info on Hungarian public debt management at:

www.akk.hu