Liquidity and Debt Management Co-ordination in Hungary

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Institutional Setup of Liquidity Management

Government Debt Management Agency (AKK)
- As an institution responsible for the liquidity management of the central government since 2003 AKK carries out active and passive operations with market participants in order to keep the end-of-day balance of the TSA at the optimal level

Hungarian State Treasury
- Co-ordination of primary budget revenues and expenditures
- Forecasting of daily balances

National Bank of Hungary (central bank)
- Keeping of the Treasury Single Account (pays remuneration on the end-of-the-day balance)
- Banking services for the government
- Forecasting of daily balances
Optimal Level of the TSA (Cash Buffer)

- One of the 6 benchmarks AKK has to observe continuously. AKK has to maintain the end-of-the-day balance of the TSA in a band of +/- HUF 50 billion around the optimal level of the TSA.

- Introduced after the Russian crisis (1998) as a 4-week cash buffer, increased to 6 weeks before the current financial crisis.

- Calculated on the basis of a limited market access (no bond sales, only partial T-bill sales).

- Also takes account of the average error of budgetary planning (i.e. the difference between the projected monthly budget balance and the factual outcome).

- Current size is confidential but it’s in excess of EUR 1 billion.

- It’s only in HUF, foreign currency denominated assets of the government are accounted separately.
Liquidity Management Instruments

- Active adjustment of the volume of 3-month Discount Treasury Bills at auctions
- Short-term (so-called liquidity) T-Bills
- Active and passive repo operations
- Regular buyback auctions
- Exchange (switch) auctions
- Temporary use of stand-by and other loan facilities
- Foreign currency denominated assets are taken into account if they are converted (e.g. by using swaps) into HUF
- Timing of FX bond issues could also be used for strengthening the liquidity position
Challenges: Intra-Year Seasonality

- Expenditures in the first half of the year (e.g. agricultural subsidies, tax refunds etc.)
- Large tax payments are scheduled for Q4
- Bond issuance takes place at a steady pace according to an issuance calendar

- Increased T-bill issuance in H1, that mature at the end of the year
- Timing of FX-denominated bonds (also depending on market demand)
Challenges: Intra-Month Seasonality

- Public sector salaries and pensions are paid in the first half of the month
- Tax is paid after the 20th of the month
- Tax refund is paid in 45 days (usually at the beginning of the second month following the month of payment)

Typical Intra-Month Seasonality of the Budget
(Cumulative figures)

- Passive and active repo operations (O/N, T/N, S/N, S/W)
- Liquidity T-Bill issuance
Challenges: Managing of Roll-over Risks

- There are 2-3 large bond series maturing annually that cause significant changes in liquidity

### BONDS
(Issuance at Auctions, Redemption, Buybacks and Exchanges)
2010

- Regular bond auctions
- Liquidity T-Bill issuance
- Buy back and exchange auctions
- Passive repo operations
- FX assets swapped temporarily into HUF (if needed)
Conclusions

- Public debt managers need substantial cash buffers (the optimal size may vary from country to country). These may be kept at the central bank (TSA), or at least partially placed with market participants, influencing the general liquidity position of the local interbank market (but this is not the objective!)

- Cash buffers should be supplemented by regular liquidity management instruments (I would not call them emergency funding) like stand-by facilities and issuance of liquidity T-Bills

- We find it useful to have debt and liquidity management integrated into one entity, though efficiency of the liquidity management relies heavily on the exactness of third party forecasts

- Given the market requirement to maintain large benchmark bond series by the public debt manager, prudent refinancing risk management may be promoted by a number of active tools (e.g. buybacks, exchange auctions)

The wider the choice of instruments the easier this task may be