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GOVERNMENT DEBT MANAGEMENT AGENCY
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The Institutional Framework of Debt Management in Hungary

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Organisation of Debt Management in Hungary

- ÁKK Pte Ltd manages the debt of the central government
- All functions are performed by ÁKK
- Long-term process: gradual take-over of debt (back office, foreign currency debt)
- The financing and debt of other sub-sectors of the State is being taken over (Social Security Funds, Extrabudgetary funds)
- Guarantees
- Principle of single sovereign issuer.

Institutional Framework of Debt Management

- Ministry of Finance: owner of ÁKK Pte Ltd – strategic decisions
- Hungarian State Treasury: executing the budget, cash-flow projection, role in actual payments, direct retail sales through branch network
- National Bank of Hungary: important role until 1999, but not any more.

National Bank of Hungary – an overview

- An independent organisation responsible only for monetary policy
- Foreign reserve management is the responsibility of the National Bank of Hungary, coordination in foreign currency debt issuance is important
- Development of domestic debt market is a priority – also improves the effectiveness of monetary policy

National Bank of Hungary – previous roles

- Until 1997-9: exclusive responsibility for foreign currency debt management on behalf of the Republic of Hungary – heritage of centrally planned economy, bank of the country
- Back office for local debt management (auctions, interest payments and redemptions)
- Retail debt management (network)
- Advisor to and Bank of the government and the Ministry of Finance

Natural division of labour, NBH has all the necessary expertise and resources and a cost efficient solution

National Bank of Hungary – why not?

- In the early 1990s new central bank law: responsible for low inflation and limitation of government funding
- That limits its availability as the banker of the government
- Conflict of interests between monetary policy and debt management – responsibilities defined in the law are usually stronger than auxiliary functions

National Bank of Hungary – foreign currency debt management

- NBH used to manage FX debt on behalf of the Republic of Hungary
- Question: What is the role of FX debt: current account deficit financing or part of government debt management?
- Current account deficit financing by the central bank is usually a short term question (depends on private sector flows)
- Government debt management usually uses medium term targets (guidelines for debt structures) and FX debt has important advantages in it (long term financing)

National Bank of Hungary – domestic debt management

- Role of domestic debt: government debt management or can help of monetary policy?
- Issuance is the function of the budget deficit. Higher demand (e.g. due to increased foreign interest) is good for lower yields but the amount should not be increased (avoid extra costs according to strategy)
- Central Banks may consider government debt as a cost effective substitute for monetary sterilisation instruments in case of surplus domestic liquidity and falling yields

Conflict of Interest – possible solutions

- Those conflicts can be solved by macroeconomic decisions by the government – however these decisions may not be thought deeply enough (different abilities to argue) and are not long lasting
- One long term solution can be the complete separation of functions (e.g. independent CB and autonomous debt office), like in Hungary
- Doing both functions in the Central Bank separately (good for cost effectiveness) is difficult in real life, very few working examples

Conclusion

- The best working solution to these problems is the autonomous debt office responsible for all debt management (local and foreign currency)
- Solve both conflict of interest with monetary policy and economic policy
- Common issues (like FX reserves and conversions should be arranged properly
- High level of regulation is needed
- Long process – already 10 years from beginning in Hungary and not over yet!



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Thanks for your attention !

More info on Hungarian public debt management at:
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