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Co-ordination or co-operation between DMOs and Central Banks the Case of Hungary

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Hungary and the Global Financial Crisis

- Public debt management and government securities market were badly effected by the sub-prime crisis,
- A capital outflow destabilised bond and stock markets,
- Limited liquidity in the interbank market and stop of interbank deals,
- Halt in lending by banks,
- Primary government bond market stopped in Oct 2008.

The joint action of the government and the central bank was required for management

Hungary in the European Union

- Co-operation is limited by the Maastricht treaty:
- No direct government bond purchase is allowed and even secondary market operations by the CB is limited,
- The treaty also limit common operations and agreements between government (DMO) and CB,
- Joint action in stabilising money and bond markets and improving the banking system was needed.

Central Bank independence should be respected

Government Securities Market in Hungary

- The proper operation of the government securities market and public debt management is an issue of financial stability – important for DMO and CB as well,
- Phase 1 (2008): No bond issuance and CB made measures to improve the secondary market (liquidity and buy-backs),
- Phase 2 (2009): DMO made the necessary steps, no involvement of CB.

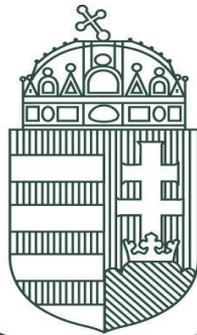
Co-operation in the Banking Scheme

- The government provides capital/guarantees/loans to eligible commercial banks to preserve financial soundness and increase business activity,
- DMO gets role in providing funds and operational functions in the program,
- Decision making and approval by the Ministry of Finance and on the advice of the Central Bank,
- CB introduced several measures to improve liquidity of banks (repos, swaps, reserve requirements).

No common measures, but measures enforced their effects

Co-operation in Hungary - Summary

- Formal co-operation is difficult – due to the independent status of MoF and CB – but own measures are discussed,
- The financial crisis may have asked for more direct co-operations between MoF and CB – rigidity of the present system is a drawback now,
- But: International Organisations are also involved (European Commission and IMF) – the government overall macroeconomic policy are determined after consultations with those institutions.



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Thanks for your attention !

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