

DEVELOPING CASH MANAGEMENT IN HUNGARY

ANDRÁS RÉZ ADVISOR, HUNGARIAN STATE TREASURY

TCOP THEMATIC EVENT, TBILISI GEORGIA, 28.05.2025

CASH MANAGEMENT INSTITUTIONAL FRAMEWORK IN HUNGARY

SHARED RESPONSIBILITY OF THE HUNGARIAN STATE TREASURY AND THE DEBT MANAGEMENT AGENCY

Liquidity management of the state is done by co-operation between Hungarian State Treasury and ÁKK

Hungarian State Treasury (HST) has good information about budget execution and other net financing need

According to Act on Public Finances No 195 in 2011 HST prepares cash forecast for the Debt Agency

The Debt Agency makes cash management operations and ensures the liquidity of TSA based on that forecast

Only the debt agency acts on the money and government securities markets, therefore, actual cash management operations are done only by the debt agency

A frequent information flow is needed for effective liquidity management between the 2 organisations

CASH MANAGEMENT INSTITUTIONAL FRAMEWORK IN HUNGARY

CASH MANAGEMENT OPERATIONS ARE THE RESPONSIBILITY OF THE DEBT MANAGEMENT AGENCY

Maintains the required liquidity buffer level for adverse outcomes in financing (e.g. higher budget deficit, market shocks) to reduce financing risks

Liquidity buffer is provided by the annual financing plan and/or if needed by daily cash management operations

The TSA minimum and optimal balance targets (2 KPIs) are included in the list of debt management benchmarks

Reducing the fluctuations of the TSA balance (TSA balance moves opposite to the interbank market liquidity, managing the TSA aims to reduce this, stabilize short term market rates and help monetary policy as well)

Observing cost aspects of cash placements

Support the domestic repo market activity by daily repo tenders

CASH MANAGEMENT TRANSACTIONS BY THE DEBT AGENCY

MAIN TOOLS OF LIQUIDITY MANAGEMENT

1. 3-6—12 MONTHS DISCOUNT TREASURY BILLS
2. UNTIL 2019 SHORT TERM (ABOUT 6 WEEKS) LIQUIDITY T-BILLS WERE ALSO ISSUED ON AN AD HOC BASIS
3. BOND-BUY BACKS
4. STAND-BY CREDIT LINES IN EUR, (ECP PROGRAM ALSO IN FX FROM 2022)
5. REPOS AND REVERSE REPOS
6. FX SWAPS USING FX DEPOSITS

CASH MANAGEMENT TRANSACTIONS BY THE DEBT AGENCY

REPOS AND REVERSE REPOS

- THE MOST EFFECTIVE CASH MANAGEMENT INSTRUMENTS, CAN BE USED FOR BORROWING AND/OR INVESTING
- DAILY TRANSACTIONS USING TENDERS FOR LIQUIDITY PARTNERS
- ” ▪ 1 DAY T/N, S/N AND 1 WEEK TRANSACTIONS S/W IN THE MORNING
- IF NEEDED O/N REPO CAN BE CONCLUDED AT THE END OF THE DAY BASED ON THE ACTUAL CASH BALANCE FROM THE STATE TREASURY
- LIQUIDITY PARTNERS ARE MOSTLY PRIMARY DEALERS BUT SOME OTHER BANKS INVITED TO GENERATE MORE DEMAND FOR REPOS
- MOSTLY LOCAL BANKS ARE INTERESTED, SOME FOREIGN BANKS HAVE LEGAL PROBLEMS
- DEMAND FROM BANKS WAS ALWAYS AN ISSUE
- REPO VOLUMES OF UP TO EUR 1.5 BILLION CAN BE BUILT UP (VS MINIMUM TSA BALANCE OF ABOUT EUR 2 BILLION)
- REPOS ARE USED FROM 2003, WHEN THE NECESSARY LEGAL REGULATIONS WERE APPROVED (ALSO NATIONAL BANK APPROVED REPO OPERATIONS).

CASH MANAGEMENT TRANSACTIONS BY THE DEBT AGENCY

FX SWAPS

- FX SWAPS WERE USED FOR PROVIDING SHORT TERM HUF LIQUIDITY IN EXCHANGE FOR FX DEPOSITS
- IT IS DONE ONLY WITH THE NATIONAL BANK OF HUNGARY, NOT WITH THE MARKET
- ”
▪ FX DEPOSITS CAN BE FROM INTERNATIONAL BOND ISSUANCES, EUR TSA BALANCE, STAND BY CREDIT LINES OR MTM DEPOSITS CAN ALSO BE USED
- UNTIL 2024 FX SWAPS WERE USED FOR A TERM OF SOME MONTHS IN THE FINANCING PLAN
- FROM 2025 IT IS USED AS REPOS AND IF LIQUIDITY PARTNERS ARE NOT WILLING TO OFFER BIDS FOR REPOS OR AT A TOO HIGH INTEREST RATE FX SWAPS ARE USED FOR DAILY OPERATIONS (1 DAY OR 1 WEEK TERM)
- ACCORDING TO RECENT EXPERIENCES REPOS ARE MORE USED IN DAILY OPERATIONS

EXPANDING THE SCOPE OF TSA – FOREIGN CURRENCY

RATIONALE:

1. IMPORTANCE OF EUR FUNDS AS HUNGARY IS AN EU MEMBER COUNTRY
2. SEVERAL BUDGETARY INSTITUTIONS HAVE MODEST AND STABLE FUNDS IN EUR MAINTAINED IN THE STATE TREASURY – MAY PROVIDE FUNDING
3. LARGE VOLATILITY OF HUF/EUR EXCHANGE RATE CAN BE MANAGED BY AN FX ACCOUNT

TSA IN EUR WAS ESTABLISHED IN 2024:

1. BY THE AMENDMENT OF ACT ON PUBLIC FINANCES NO 195 IN 2011 CHAPTER 77 TSA IS IN HUF AND FOREIGN CURRENCY (EUR) AT THE STATE TREASURY
2. BEFORE STATE TREASURY KEPT SEVERAL FX ACCOUNTS FOR ITS CLIENTS, NOW A UNIFIED ACCOUNT
3. STATE TREASURY MAKE A CASH FORECAST ON THE BALANCE OF FX TSA AS WELL AND THE DEBT AGENCY HAS A SPECIAL RIGHT TO BORROW FROM FX TSA
4. AFTER BORROWING FROM THE FX TSA THE DEBT AGENCY CAN USE FX SWAPS TO INCREASE HUF LIQUIDITY AND CASH MANAGEMENT (DID SO AT THE END OF 2024).

EXPANDING THE SCOPE OF TSA – HUF FUNDS OF LOCAL AUTHORITIES

RATIONALE:

1. LOCAL AUTHORITIES HAVE A RELATIVELY STABLE CASH POSITION MOSTLY IN COMMERCIAL BANKS
2. THEY INVEST IRREGULARLY, ACCORDING TO EU METHODOLOGY GOVERNMENT SECURITIES INVESTMENTS BY LOCAL AUTHORITIES ARE DEDUCTED FROM PUBLIC DEBT FIGURE
3. BY CHANNELING THE CASH OF LOCAL AUTHORITIES TO TSA CAN REDUCE PUBLIC DEBT (FOR THE SAME REASON A DEDICATED BOND FOR LOCAL AUTHORITIES WAS ISSUED FROM 2018, BUT WITH LIMITED SUCCESS)

INTRODUCTION IN 2025:

1. THE GOVERNMENT OFTEN CONSIDERED ITS IMPLEMENTATION PREVIOUSLY
2. EARLY IN 2025 THE GOVERNMENT MADE A DECISION TO INTRODUCE A MODEL BASED ON THE SYSTEM USED IN THE NETHERLANDS
3. CASH OF LOCAL AUTHORITIES AND THEIR BUDGETARY INSTITUTIONS OF OVER 5 PC OF ANNUAL BUDGET WILL BE TRANSFERRED TO AND MAINTAINED ON THE TSA BY DAILY TRANSFERS
4. THE BASIC ACT NEEDED APPROVAL BY THE PARLIAMENT IN APRIL 2025
5. FROM OCTOBER 2025 THE NEW SYSTEM WILL START WITH THE MOST IMPORTANT LOCAL AUTHORITIES OF 49, EXPECTED BALANCE IS ABOUT EUR 1-2 BILLION
6. OTHER LOCAL AUTHORITIES WILL BE INCLUDED FROM 2027

CASH COORDINATION COMMITTEES IN HUNGARY

CASH AND DEBT MANAGEMENT TRANSACTIONS ARE DONE BY THE DEBT AGENCY

Liquidity management of the state is done by co-operation between Hungarian State Treasury and ÁKK according to the Act on Public Finances from 2003

Hungarian State Treasury makes cash forecast - has good information about budget execution and other net financing need

Only ÁKK acts in the money and government securities markets, therefore actual cash management is best done by ÁKK

CCCs have a role on co-ordination between cash forecast and cash management

CASH COORDINATION COMMITTEES IN HUNGARY I

LIQUIDITY COMMITTEE

- High level committee chaired by the State Secretary (resp for Public Finance) of the Ministry for National Economy established by the Act on Public Finance
- Members are Deputy State Secretary, President of the State Treasury, Budget, Tax and Macroeconomic Departments of the Ministry and the representative of the Debt Agency
- Monthly meetings in the Ministry
- Discuss budget deficit and cash forecast, evaluates capital market trends, may initiate special cash management operations (borrowing from SOEs, cash rationing), may advise cash management operations.

CASH COORDINATION COMMITTEES IN HUNGARY II

COMMITTEE ON TSA AND DEFICIT DEVELOPMENT

- Informal expert level committee between the Debt Agency, the Ministry for National Economy and the State Treasury
- Members are representatives of the Debt Agency, the State Treasury responsible for cash forecast, and the Ministry responsible for the budget and EU related funds
- Monthly or biweekly meetings by VC
- Discuss budget deficit and cash forecast, can evaluate capital market demand, can discuss cash management operations.

THANK YOU FOR YOUR ATTENTION