

COORDINATING CASH MANAGEMENT AND MONETARY POLICY IN HUNGARY

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CASH MANAGEMENT INSTITUTIONAL FRAMEWORK IN HUNGARY

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

Until 2000 the Debt Agency operated in the framework of the State Treasury. In 2001 during a reform of the treasury system, the Debt Agency became an independent company but also under the authority of the Ministry of Finance.

Liquidity management of the state is done by co-operation between Hungarian State Treasury and the Debt Agency from 2003

Hungarian State Treasury (HST) has the 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

CASH MANAGEMENT INSTITUTIONAL FRAMEWORK IN HUNGARY

CASH MANAGEMENT OPERATIONS ARE THE RESPONSIBILITY OF THE DEBT MANAGEMENT AGENCY

Maintains the required liquidity buffer level for smooth payments and 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 AND MONETARY POLICY

DEBT MANAGEMENT STRATEGY ON LIQUIDITY MANAGEMENT

- „ 1. During repo operations monetary policy should be considered: The debt agency does not want to have an effect contradicting monetary policy where that is relying on repo operations
- 2. The debt agency only executes FX conversions with the central bank

CASH MANAGEMENT TRANSACTIONS BY THE DEBT AGENCY

MAIN TOOLS OF SHORT TERM LIQUIDITY MANAGEMENT

1. Repos and reverse repos (1 day and 1 week)
2. FX swaps using fx deposits (1 day or longer)
3. Treasury-bill program used actively from the 1990s, 3, 6 and 12 month tenors (until 2019 very short term bills as well)

THESE INSTRUMENTS CAN HAVE A DIRECT EFFECT ON MONETARY POLICY

1. 1 day and 1 week repos on interest rate in the money market
2. FX swaps on the exchange rate of HUF vs EUR
3. No coordination in case of T-bills, however sometimes T-bill yield developments were discussed by the National Bank as the instrument having the strongest link with CB interest rates

CASH MANAGEMENT AND MONETARY POLICY

FX TRANSACTIONS AND MONETARY POLICY

1. Until 1996 the National Bank of Hungary played an important role in foreign public debt management in Hungary. It executed international bond issuances on behalf of the government and had a large international bond portfolio in its balance sheet
2. In 1997 as a part of separation of fiscal and monetary policies that role was taken over by the Debt Agency and by a debt swap FX portfolio was also transferred to the state.
3. The National Bank of Hungary maintained a limited agency role, and to minimise the impact on monetary policy it was agreed that all exchanges between HUF and FX currencies by the state were to be executed only with the central bank.
4. According to that rule no direct government intervention in the FX market. The debt agency is active in the international bond markets, issues bonds to partially finance budget deficit and any HUF currency for deficit financing is converted at the central bank, not on the FX market.

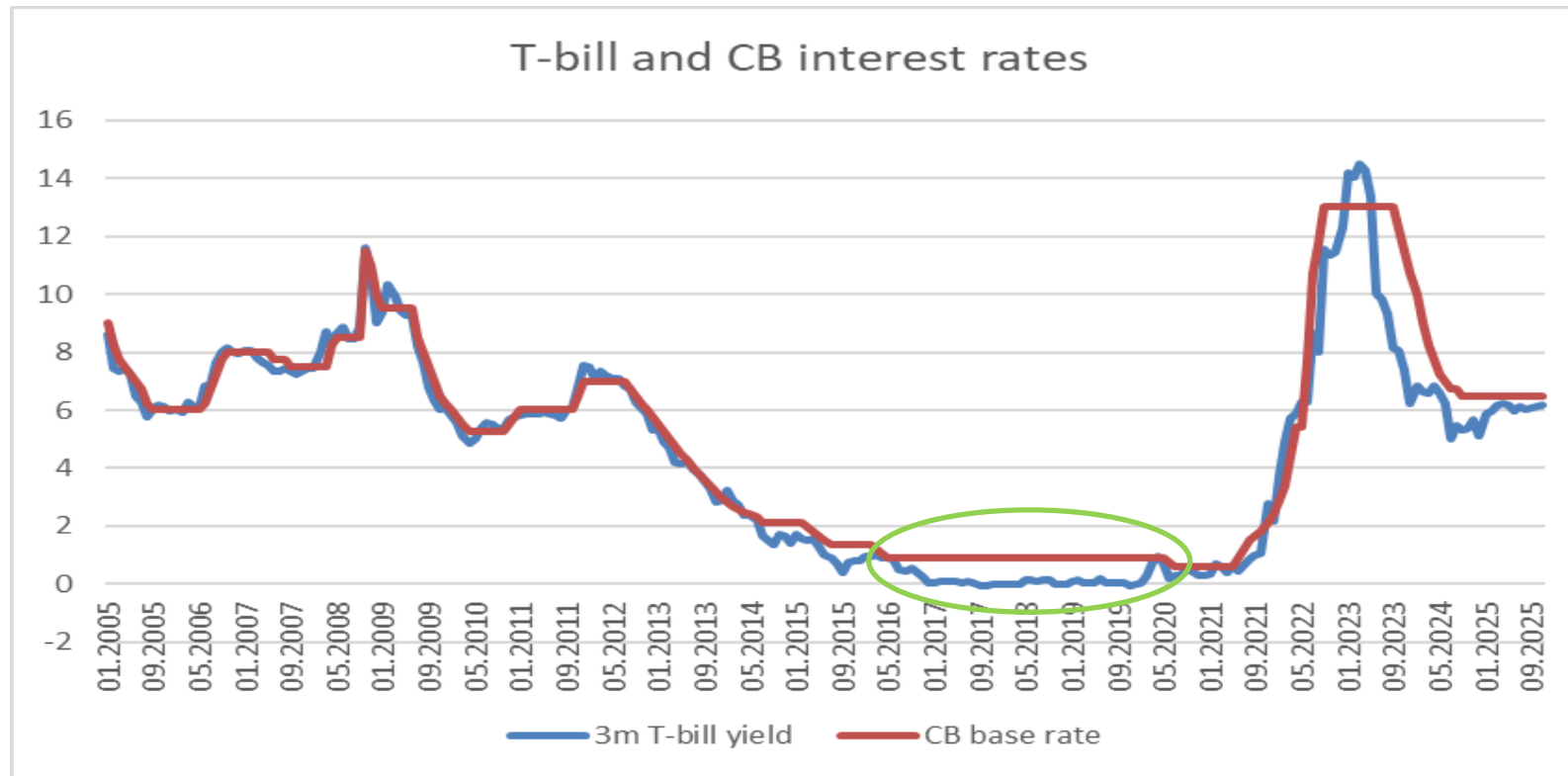
CASH MANAGEMENT AND MONETARY POLICY

REPOS ON THE MONEY MARKET AND MONETARY POLICY

1. Until 2002 the National Bank of Hungary did not let the Debt Agency do any short term operations (e.g. repos) on the money market to avoid interference with monetary policy
- ” 2. In preparation for a planned new monetary regime which could have resulted in less liquidity in the money market the central bank wanted less volatility in the TSA. The idea was that, at times of idle cash on the TSA the debt agency would put that extra cash into the money market and at times of low liquidity on the TSA, it would borrow.
3. From 2003 the debt agency started to have a liquidity manager role by concluding repos with banks.
4. Since then many changes have happened in monetary policy and liquidity management, but the debt agency has kept its new role, maintaining its repo business line, while also considering monetary policy objectives if needed.

DISCOUNT TREASURY BILL YIELDS AND MONETARY POLICY

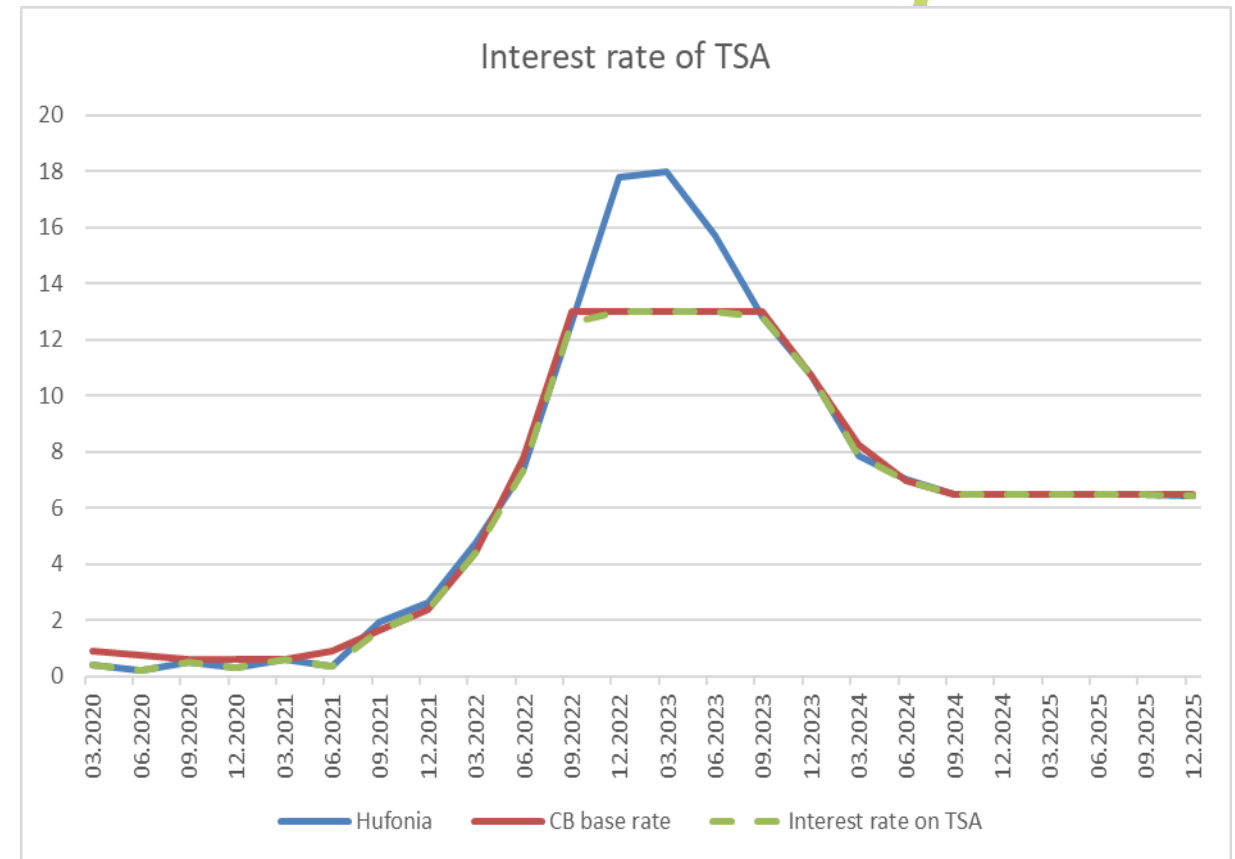
YIELD DIFFERENTIALS SHOW INTEREST RATE EXPECTATIONS AND THE EFFECTIVENESS OF CB INTEREST RATE POLICY



INTEREST RATE PAID ON THE TSA BALANCE BY THE CENTRAL BANK

THE NATIONAL BANK ALWAYS PAID NEAR MARKET RATES WHICH HELPED LIQUIDITY MANAGEMENT BY THE DEBT AGENCY

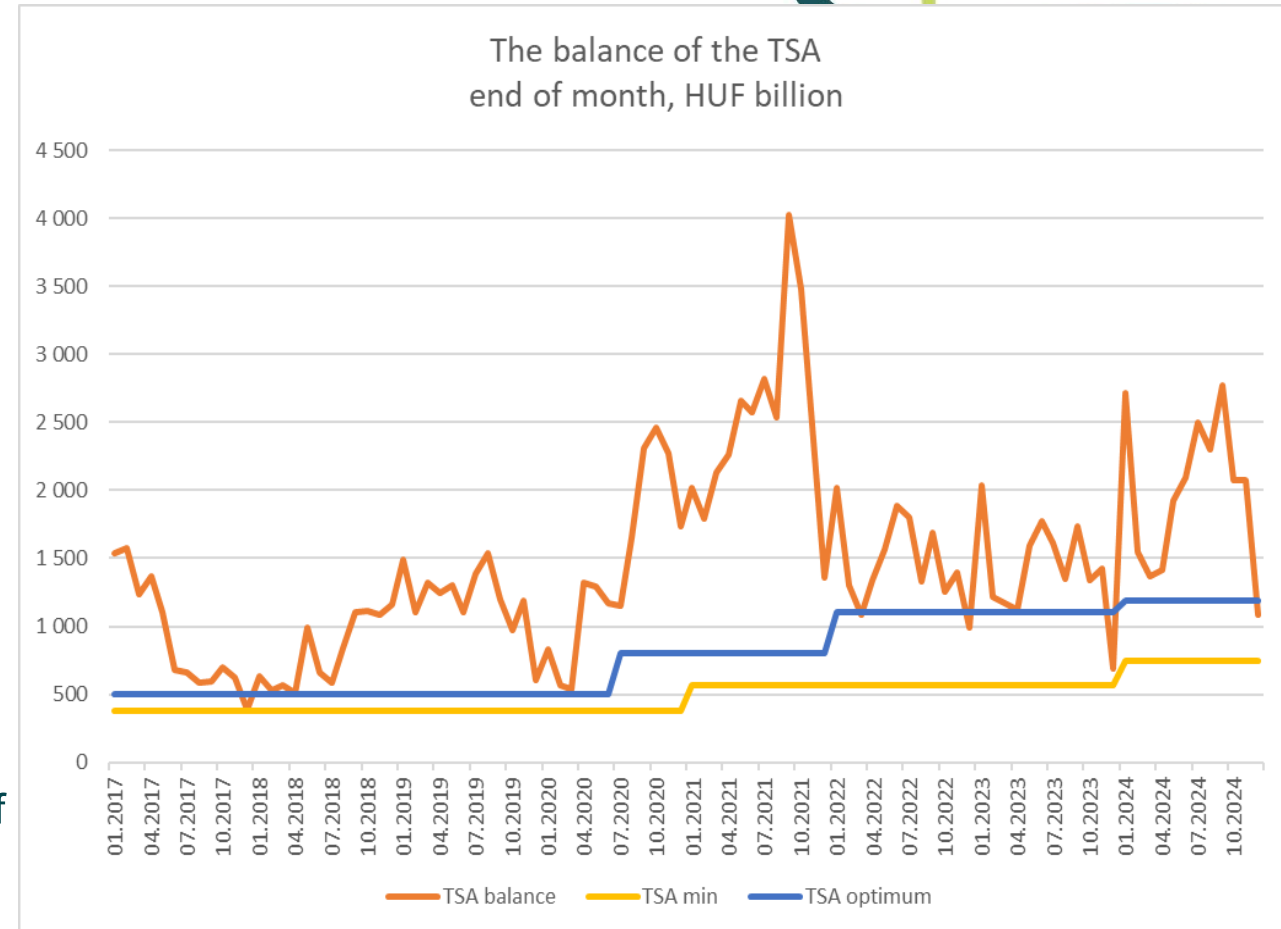
1. Usually when there is some extra liquidity on the money market, CB issues sterilisation assets and welcomes more cash on the TSA
2. CB pays normally the lower of the short term money market rate and the CB base rate
3. At times of low interest rates the Debt Agency would put extra cash into the money market. Because the CB is offering near market rates the Debt Agency is not forced to place money
4. With changing monetary stance interest rate on TSA balance may change, which may change liquidity management.



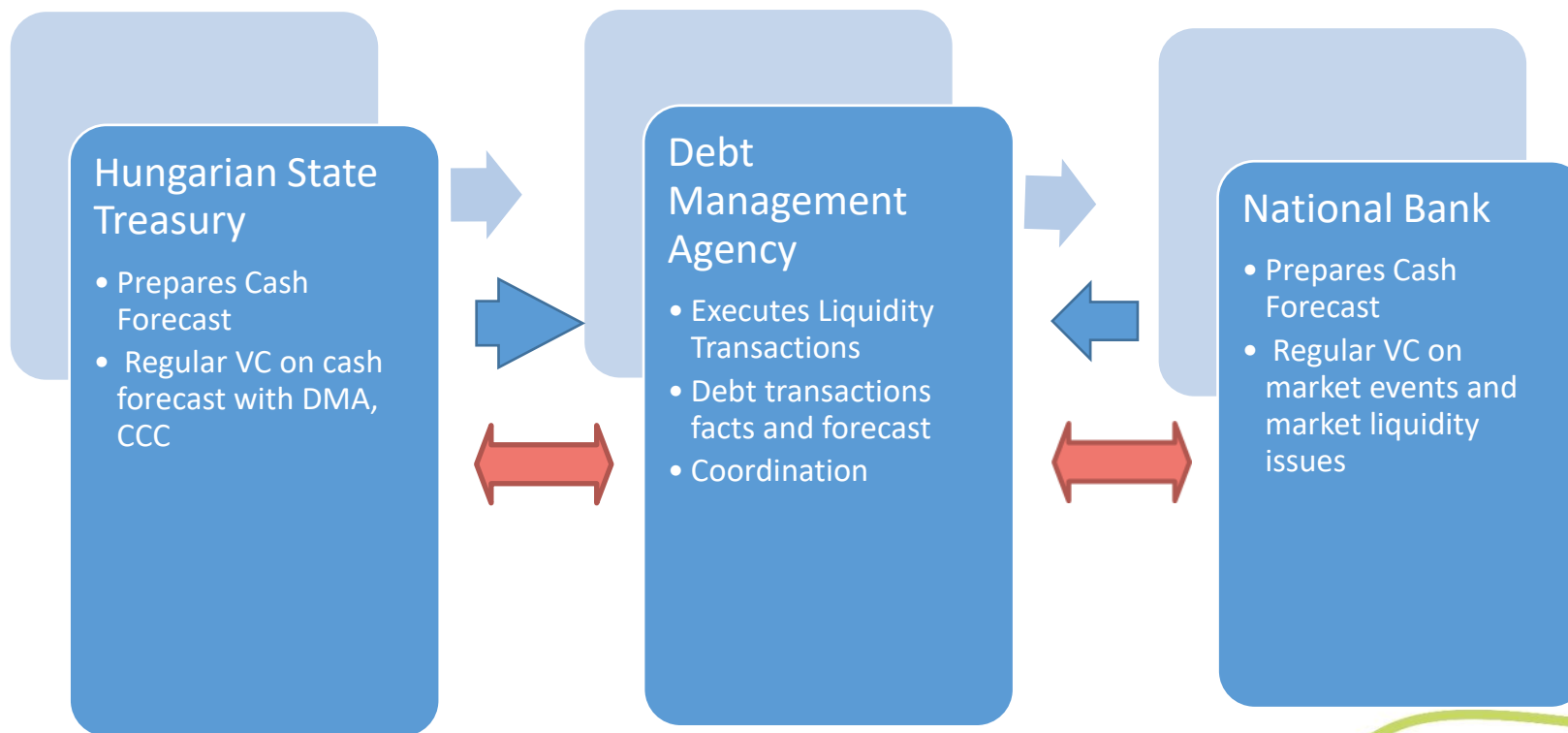
INTEREST RATE PAID ON THE TSA BALANCE BY THE CENTRAL BANK

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1. Since near market interest rate is paid on the TSA there are periods when TSA balance is well above the KPIs
2. One of the original objectives to minimise the volatility of the TSA *only partly* achieved. Volatility decreased by liquidity operations but less than expected.
3. That is partly because of the insufficient demand of banks - **YOU CAN LEAD A HORSE TO WATER, BUT YOU CAN'T MAKE HIM DRINK**



COORDINATION AMONG THE TREASURY SYSTEM INSTITUTIONS AND THE CENTRAL BANK



LIQUIDITY MANAGEMENT AND MONETARY POLICY

CONCLUSION

- HUNGARY AS AN EU MEMBER COUNTRY HAS A CLEAR SEPARATION OF FISCAL AND MONETARY POLICY
- ” ▪ THEREFORE IT WAS ALWAYS IMPORTANT NOT TO INTERFERE WITH MONETARY POLICY
- CASH MANAGEMENT BY THE DEBT AGENCY HAS BEEN DEVELOPING STEP BY STEP
- HOWEVER TO WORK MORE EFFICIENTLY INFORMATION SHARING WAS ALWAYS VERY IMPORTANT
- GOOD CASH FORECASTING IS IMPORTANT FOR BOTH INSTITUTIONS
- IT WAS OBVIOUSLY IMPORTANT FROM THE BEGINNING TO ESTABLISH REGULAR COOPERATION AMONG INTERESTED INSTITUTIONS
- RECENTLY THE STATE TREASURY STARTED TO DEVELOP ITS CASH FORECAST, IT TRIGGERED A NEW, MORE ACTIVE COOPERATION BETWEEN STATE TREASURY AND THE CENTRAL BANK

THANK YOU FOR YOUR ATTENTION