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Hungary: preparing a eurobond?

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Hungary's plan to return to the international bond market without a long-awaited International Monetary Fund deal in place was predictable, even coming on the back of a further downgrade by Standard & Poor's last week, **writes Kester Eddy**.

But the plan is seemingly contrary to the policy of Hungary's debt management agency, fraught with risk and might very well not happen, market analysts say.

Reuters yesterday asked the economy ministry if it planned to tap foreign debt markets regardless of the fact no date for the next round of discussions with the IMF and the EU on a financial safety net has been set.

The ministry replied: "The government intends to issue [a] foreign currency bond on international markets, as the financing needs posed by expiring state debt also requires foreign currency debt issuance to avoid over straining the forint [debt] market . . . Foreign currency issuance in the remainder of the year depends on developments in the EU-IMF talks."

The ministry, Reuters noted, did not specify what developments, if any, were still possible. Hungary last tapped international bond markets in 2011. A year ago, as bond yields soared, the country did a sharp about turn and said it was asking for an IMF-EU loan. However, since the crisis began to ease in January, government rhetoric – at least for the domestic audience – has become increasingly belligerent against the IMF, EU and "big capital", severely damping hopes of any deal.

"The government has clearly been buoyed by the rally in local markets since the summer," said Neil Shearing at Capital Economics. "Yields on US dollar bonds maturing in 2015 have fallen from 7.5 per cent in the summer to under 3.5 per cent, and it seems the government is sensing an opportunity. We've reached the point that the government is now publicly distancing itself from an IMF deal and talking about going back to the market for finance instead."

Hungary faces a total debt service bill of €10bn next year

Esther Law of Société Générale wrote in a note that while there should be demand for a regular Eurobond issue, it would only come at a premium, especially in view of the recent downgrade.

But Mr Shearing emphasises that the go-it-alone policy is also risky: "My concern remains that the rally in Hungarian markets has been driven entirely by an improvement in global investor risk appetite more generally, rather than an improvement in local fundamentals."

Speaking from Hungary, Istvan Karagich, chief executive of Blochamps Capital Financial Consulting, said returning to the international markets was "good news". But the government would likely have "a big weight on its shoulders," since it faces a total debt service bill of some €10bn next year when any roadshow is likely to take place.

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"I think it is a good news if we are financed from the international fx-bond markets, but we are not allowed to forget, this financing will be at market prices and with market conditions, so the big question will be the financing level itself at the beginning of 2013. I think the strong forint-rate and the wide spread of liquidity worldwide is enough reason to go abroad with this goverment bond issue. But this road-show will happen at 2013 jan-feb or early spring, when the coming months' fx+huf debt service bill will be around 10 bn EUR, and will be a big weight on the governments shoulder. The government have to also take care very responsible with the duration, because the average duration on the international hands based bonds is now already below 4 years, the lowest duration within 7 years. Hopefully the international funds will be partners in underwriting these bonds at jan-feb 2013 when they re-allocate they portfolios."