



CHINESE-HUNGARIAN PARTNERSHIP FOR DEVELOPING RMB BOND MARKETS

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HUNGARY IS INTERESTED IN THE DEVELOPMENT OF THE CHINESE BOND MARKETS



Hungary's economic policy has a focus on 'opening to the East'.

Budapest-Belgrade railway is part of the new silk route project.

Hungary is the second sovereign after UK (2014) and first CEE sovereign to issue a Dim Sum bond in April 2016 (Bank of China as the sole bookrunner).

Diversification of Hungary's foreign currency public debt is a priority.

CHINESE BOND MARKET – RMB INTERNATIONALISATION

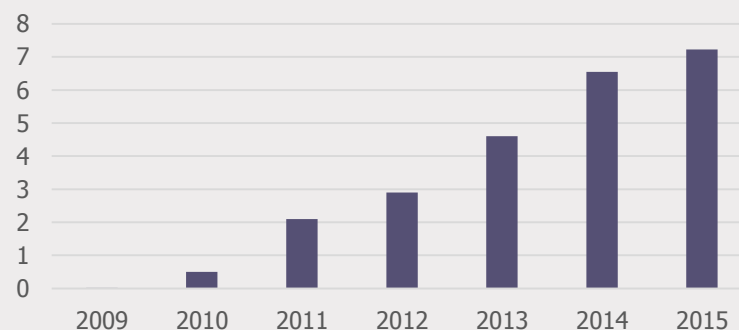
In the past few years, RMB is becoming one of the most commonly used currencies in cross-border transactions. By the end of June 2015, cross-border RMB settlement volume took up 28.5% of the total volume of cross-border settlement of all currencies of mainland China. The total volume of cross-border RMB payments had amounted to 12.1tn yuan (cross-border trade 7.23tn; capital account 4.87tn).

In addition, the acceptance of RMB denominated assets has increased significantly. By the end of 2015, the total volume of offshore RMB asset was around 1.53tn yuan. Hong Kong accounted for the largest proportion for over 60%.

RMB bond is an important choice to form RMB asset portfolio, and the room for future growth is significant. By the end of 2015, total volume of RMB bonds held by foreign institutions were CNY 0.7tn, equalling less than 2% of total RMB bonds outstanding at that time.

The acceptance of RMB as a reserve currency has improved significantly in the past years. RMB will formally join the IMF SDR basket in October 2016

Cross-Border Trade Settlement in RMB
(in RMB trillion)



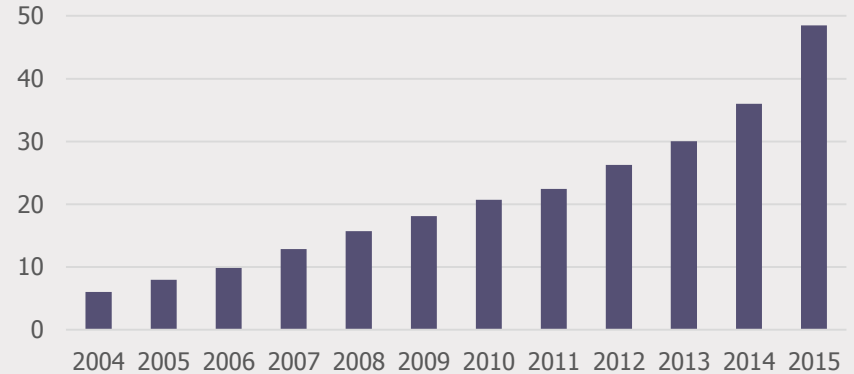
CHINESE BOND MARKET – MAIN FIGURES

China's bond market is now the third largest in the world with RMB48.5 trillion bond outstanding by the end of 2015.

Both primary issuance volume and secondary trading volume soared significantly in the recent years

Borrowers are increasingly accessing domestic capital market, to diversify away from heavy reliance on bank loans

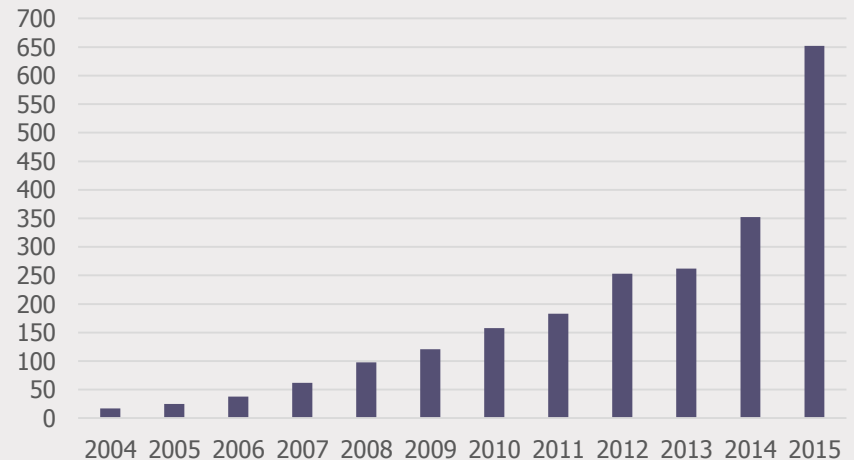
Total Bond Outstanding (RMB trillion)



Bond Issuance (RMB trillion)



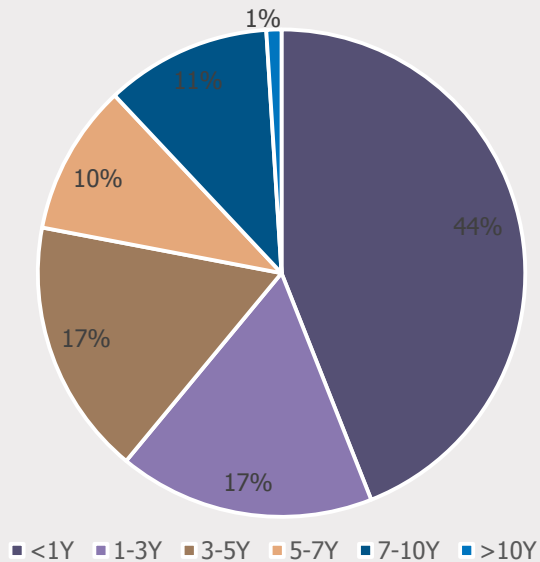
Turnover (RMB trillion)



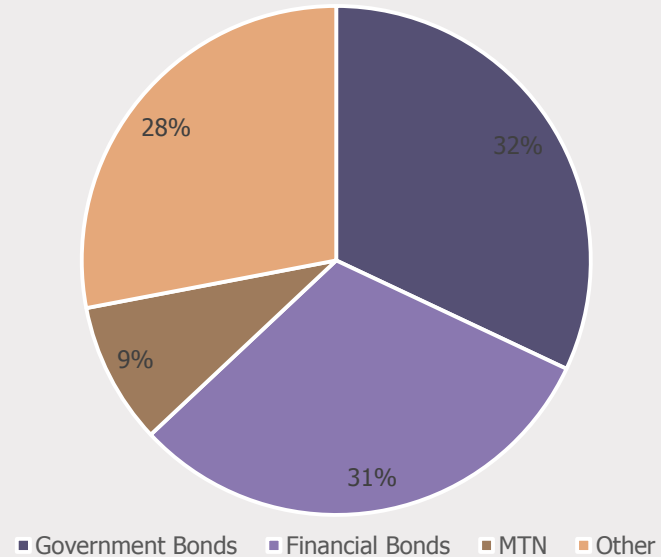
CHINESE BOND MARKET – STRUCTURE

Maturities are relatively low; government and financial bonds are dominant.

2015 Bond Market Issuance



2015 Bond Market Issuance



CHINESE BOND MARKET – DUAL MARKET

China has two sub-bondmarkets.

1) The Inter-bank bond market, which is regulated by the

People's Bank of China (PBOC) and National

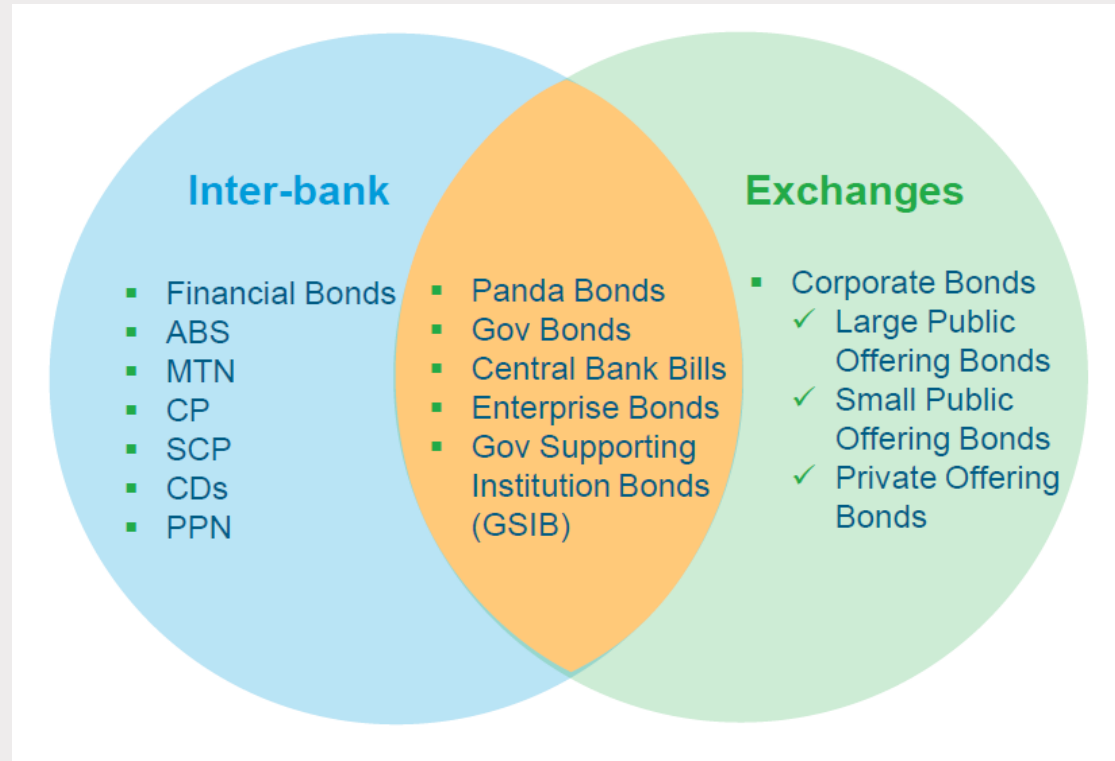
Association of Financial Market Institutional Investors

(NAFMII)

2) The Exchange bond market, which is regulated by

China Securities Regulatory Commission (CSRC)

The inter-bank market accounted for 77% of bond issuance and 80% of trading volume in China's bond market in 2015



CHINESE BOND MARKET - MILESTONES

1. OCTOBER 2005

First Panda bonds were issued by IFC and ADB, which priced CNY1.13 billion and CNY1 billion Panda bonds respectively

2. AUGUST 2010

The regulators allowed foreign central banks, the clearing banks for RMB business and foreign participating banks of cross-border RMB settlement to access into the RMB-denominated bond market.

3. MARCH 2013

The regulators allowed Qualified Foreign Institutional Investor (QFII) to invest in the inter-bank bond market.

4. AUGUST 2014

The regulators allowed foreign institution to remit the proceeds raised by the RMB-denominated debt financing instruments in the onshore financial market to the offshore markets.

5. FEBRUARY 2016

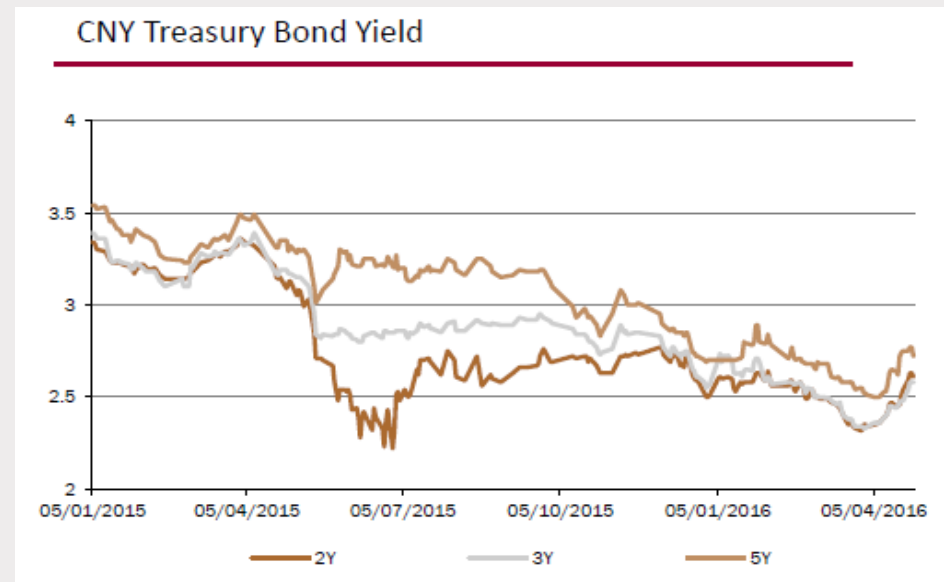
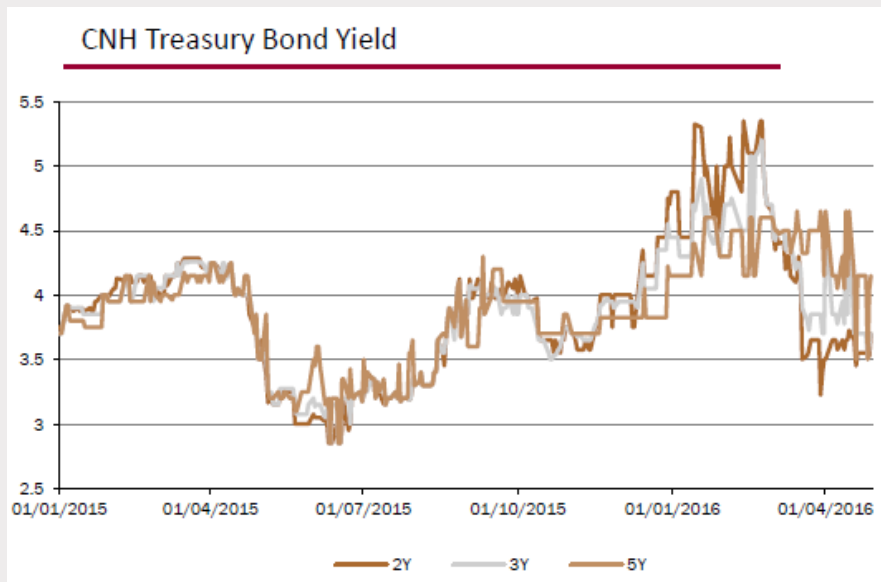
PBOC announced that the inter-bank bond market will further open up to almost all foreign investors.

6. 2016-2017

Series of sovereign dim sum and Panda bond issuances.

CHINESE BOND MARKET – DIM SUM VS PANDA

Prior to currently ongoing regulatory changes the off-shore market was accessible to foreign issuers. Documentation, investor protection, due diligence and authorization process is stricter on the on-shore market. English law is viable in case of off-shore market; in case of on-shore market Chinese law is mandatory. Compared to the CNY on-shore market, the CNH market is relatively small. 2015 saw CNH286bn of Dim Sum issuance versus CNY8tn issued domestically. Regulatory changes will help the increased use of on-shore market by foreign issuers.



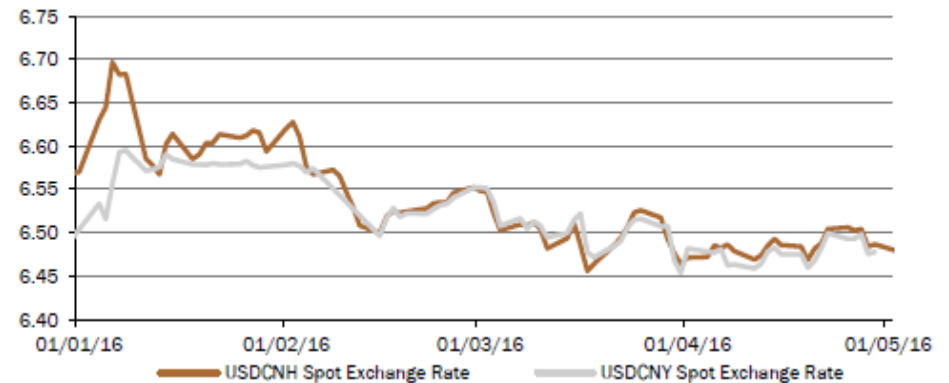
PANDA BONDS – CONSIDERATIONS

The yield differential between the Panda and Dim Sum markets is significant (currently is c.100bps for 3yr maturity) and widened during the first months of 2016. Yield movements are also more intense on the off-shore markets.

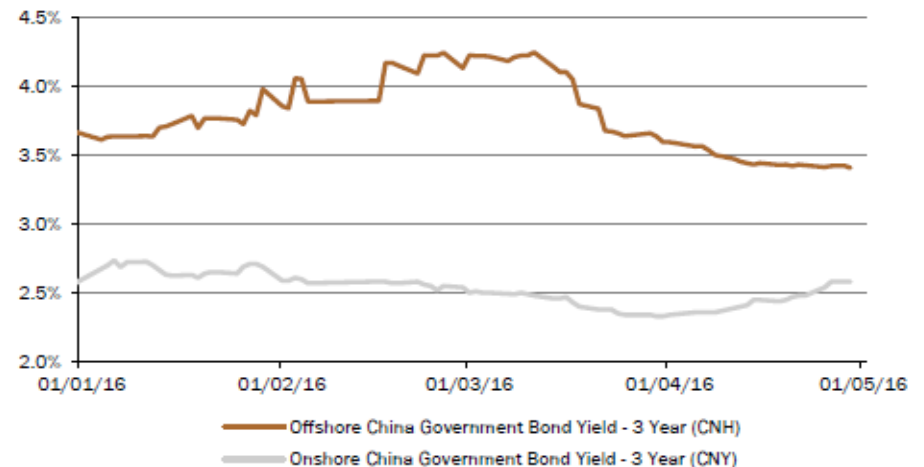
Issuers can choose to issue Panda bond either in the inter-bank market or the exchange market. The inter-bank market has more diversified investors, with the commercial banks being the largest group of investors. Most of the existing Panda bonds have been issued in the inter-bank market.

On the inter-bank market price is market driven due to strong liquidity in the inter-bank market. On the exchange market bond yields are higher to compensate the weaker market liquidity.

CNY / CNH Spot Exchange Rate



Onshore / Offshore China Government Bond Yields (%)



PANDA BONDS – INVESTOR BASE

1. Commercial banks

The largest state-owned commercial banks in China dominate the Chinese bond market (including Panda Bonds), and will continue to hold significant impact on the overall demand and pricing for a bond offering

2. Fund managers and securities firms

More sensitive to yields and liquidity.

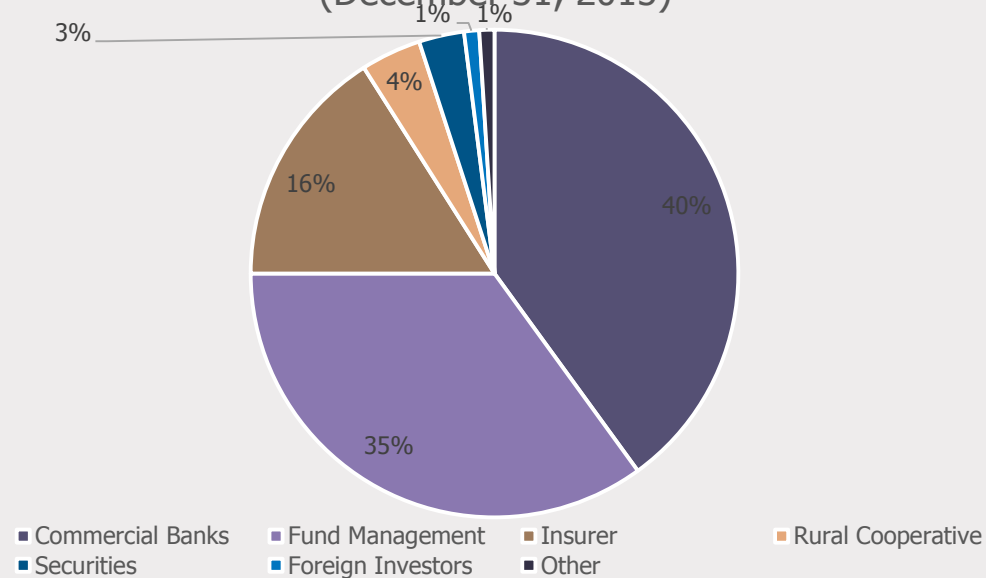
3. Insurers

Preference for mid- to long-term bonds (5yr and longer) and issuers with better credit rating and yields.

4. QFII investors

More market driven and more familiar with foreign issuers.

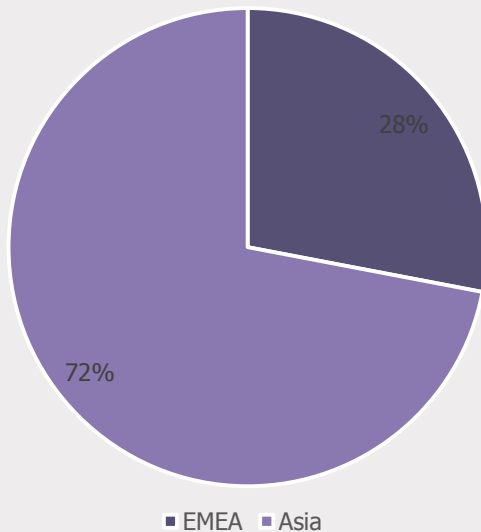
Investor Position in Credit Product Investment
(December 31, 2015)



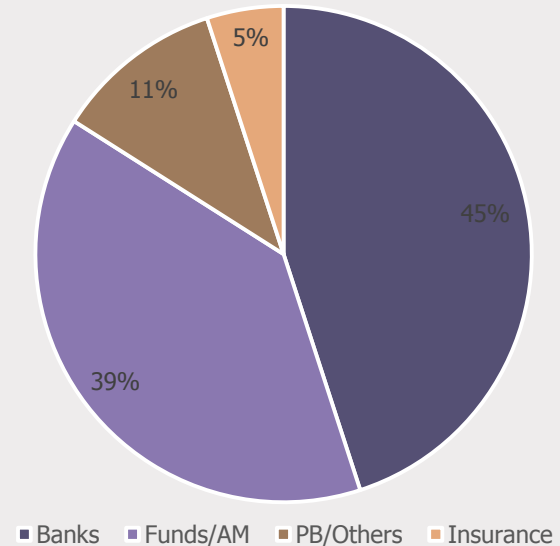
CHINESE BOND MARKET – HUNGARIAN EXPERIENCE

Hungary is the first CEE sovereign to issue a Dim Sum bond. Bank of China was the sole bookrunner. Total demand exceeded CNH2.6bn from 51 investors. Issued amount was CNH1bn. The 3 year maturity, 6.25% coupon (better than previous price guidance) bearing bond was priced on April 14, 2016. English governing law, Euroclear/Clearstream. Listed on London Stock Exchange. The bond was very successful to reach Asian investors.

Investor by Region



Investor by Type



SUMMARY – FUTURE OF GLOBAL PUBLIC DEBT MARKETS



Hungary's RMB bond issuance policy is to build a long-term relationship and not just use it as a source of cheap funding.

In our view, RMB bond markets could become comparable to USD or EUR bond markets over the next 5-10 years. From an issuer perspective, this offers diversification advantage.

Hungary's dim sum bond was first public issuance in 2016 after 5-months of no public issuance period.

Panda market seems to be in focus for many issuers mainly due to cheap funding.

For Hungary: Panda is a quickly developing market where doing a 'best practice' transaction is an attractive challenge.

THANK YOU FOR YOUR ATTENTION!

