MINISTRY
FOR NATIONAL ECONOMY

Favourable trends on the Hungarian government securities market

Favourable trends have continued recently on the Hungarian government securities market. In the past six months yields have come down, forint-denominated government securities holdings of non-residents have reached a historic high and the stock of government securities held by households has doubled this year. Along with favourable international trends the improvement of risk perception regarding Hungary, also reflected by falling CDS premia, has also largely contributed to the aforementioned positive tendencies.

Primary market

Yields

Average yields at auctions have recently declined. **At the latest auction of 3-month Discount Treasury Bills** (12.11.2012) **the average yield was 29 basis points lower** (5.77.percent) compared to the level of one month ago, the bid-to-cover ratio was 2.6.

At the latest auction of **12-month Treasury Bills** (06.12.) the final average yield was 5.81 percent which is **16 basis points below** the average yield recorded at the auction one month ago.

At the latest auction of **3-year Government Bonds** the average yield **moderated by 19 basis point**s to 5.97 percent in comparison to the average yield prevalent at the last October event.

The average yield of 6.82 percent registered at the auction of **10-year Government Bonds**, however, was only **3 basis points lower** compared to the average yield at the auction of 31 October.

Bid-to-cover ratio

The average bid-to-cover ratio of **Discount Treasury Bills (DTB**) with a maturity of **3 months** was around 1.5 in the past one-and-a-half months.

The relevant indicator for **12-month DTBs** can be regarded as high, having oscillated around **3.5-4.9.**

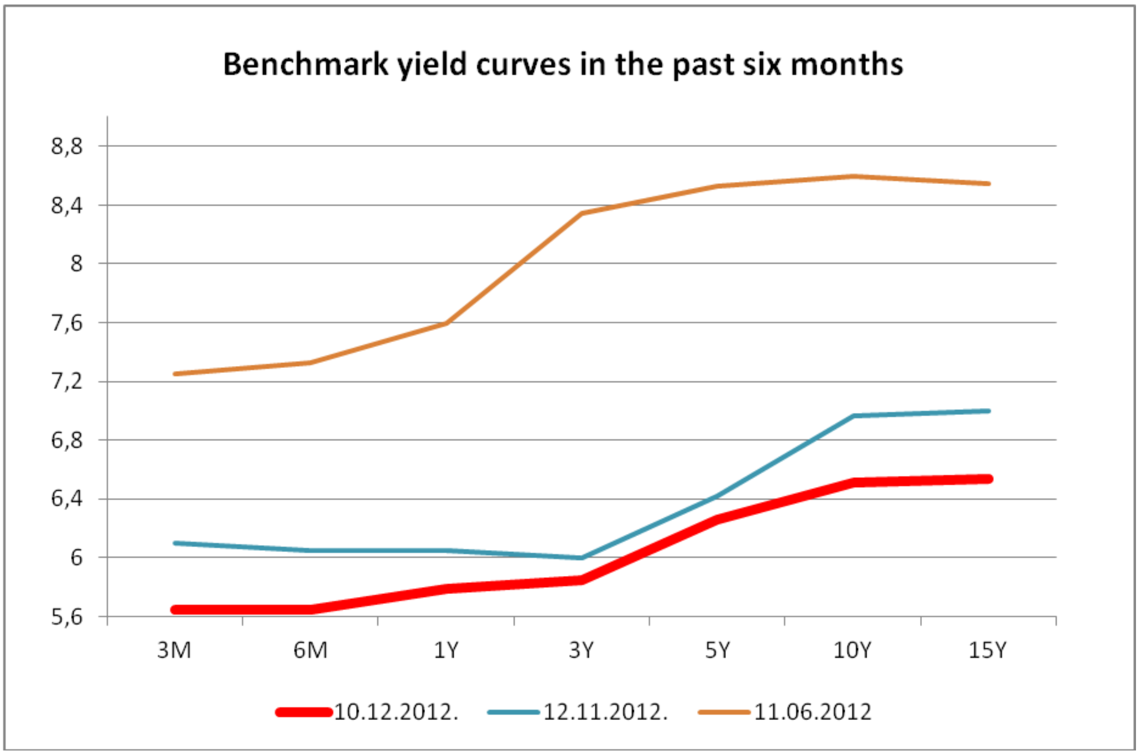
The bid-to-cover ratio regarding **10-year Government Bonds** can also be considered to be outstanding, as it was **above the 3.5 figure** at the last two offerings.

Secondary market yields

Yields on the secondary market decreased significantly in the past six months. **The yield curve** composed of closing data from last Monday (10.12.2012.) **edged lower concerning each tenor compared to levels of both one month and six months ago.**

In comparison to figures recorded four weeks ago yields on shorter maturities declined by 20-25 basis points. The yield of 10-year and15-year securities decreased to the largest extent, as they declined by 27 basis points and 36 basis points, respectively. **Since mid-June 2012 yields have come down substantially across the board.** The yield on 3-year Government Bonds declined, by more than 250 basis points, to below 6 percent. Bonds with a tenor of 5 years also posted a decline of more than 200 basis points, and thus the yield has been approaching the reference rate of the note bank. On maturities of 12 months and longer (10-year and 15-year) bond yields decreased by about 174-190 basis points.

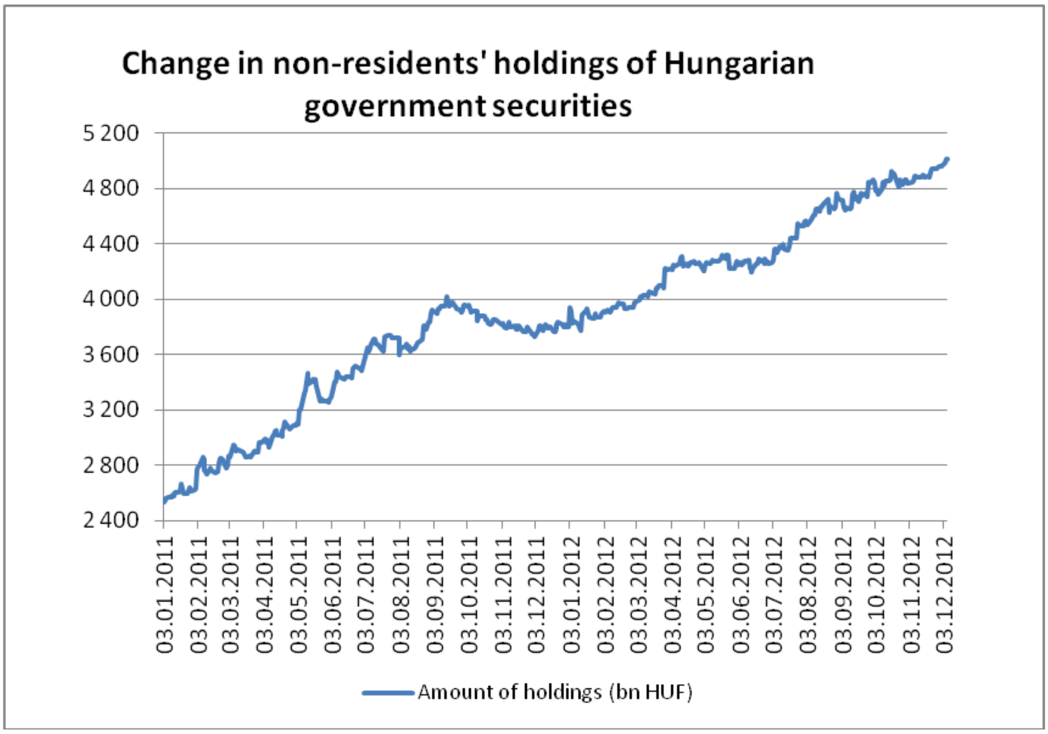
As a positive consequence of falling yields general government debt financing becomes cheaper, interest on loans declines and investment environment improves.



Source: Reuters

Change in the stock of government securities held by non-residents

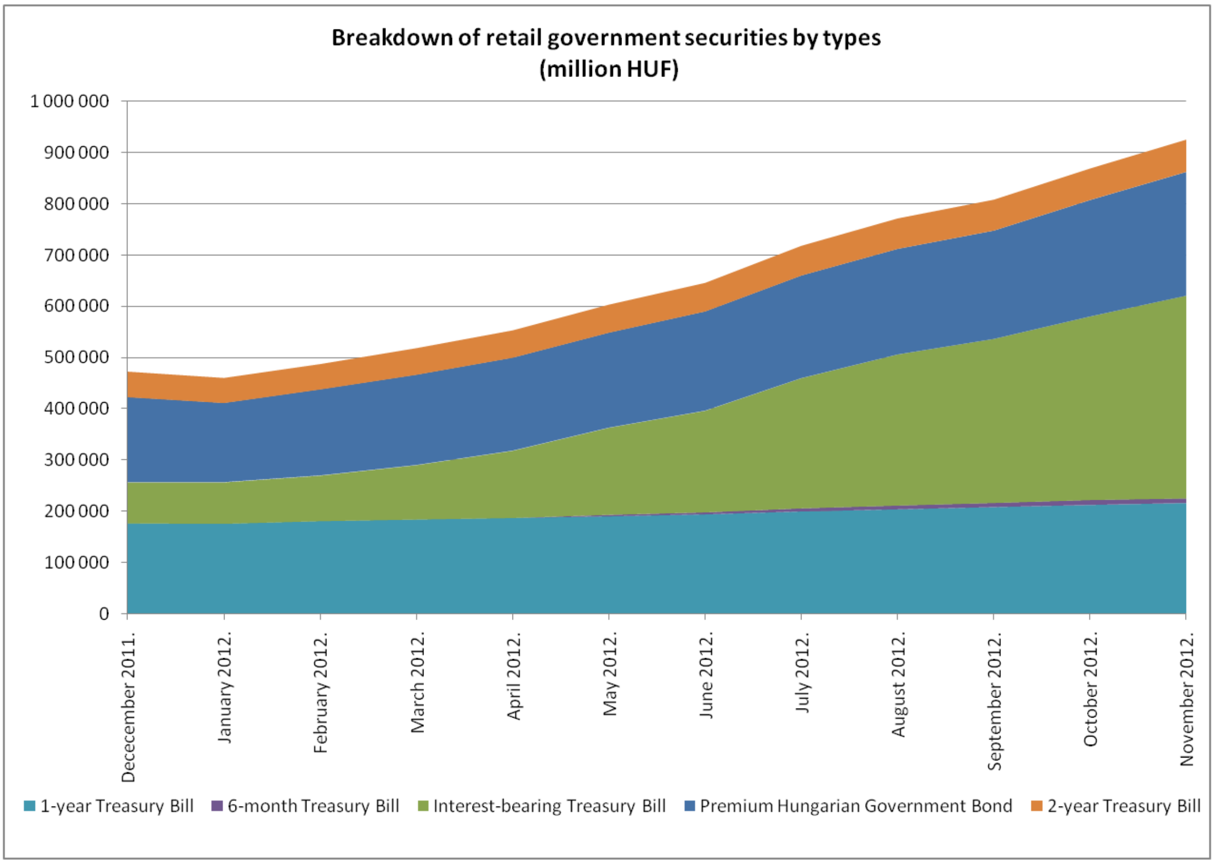
Since the beginning of 2011 non-residents' holdings of forint-denominated government securities have almost doubled. According to the latest data, **the stock of Hungarian government securities held by non-residents exceeds 5000bn HUF** (it was 5014bn HUF on 06.12.2012). High global liquidity, increasing risk appetite and relatively high bond yields offered on emerging markets (such as the positive real interest rates available in Hungary) as a whole resulted in increasing capital flow to emerging economies. In addition to relatively high bond yields, **improving risk perceptions (i.e. declining CDS premia) have also been attracting investors to the Hungarian market**, and as a consequence **they added 160bn HUF to their existing Hungarian exposure to government securities in the past one month alone.**



Source: ÁKK (Government Debt Management Agency)

Change in retail holdings of government securities

According to data of the Government Debt Management Agency (ÁKK), **total stock held by households increased by 56.3bn HUF in November.** The stock of Interest-bearing Treasury Bills increased, by 37.5bn HUF, to almost 400bn HUF. The stock of Premium Hungarian Government Bonds and that of Treasury Savings Bills with tenors of 1 year and 2 years increased by 14.3bn HUF and 5.3bn HUF, respectively.

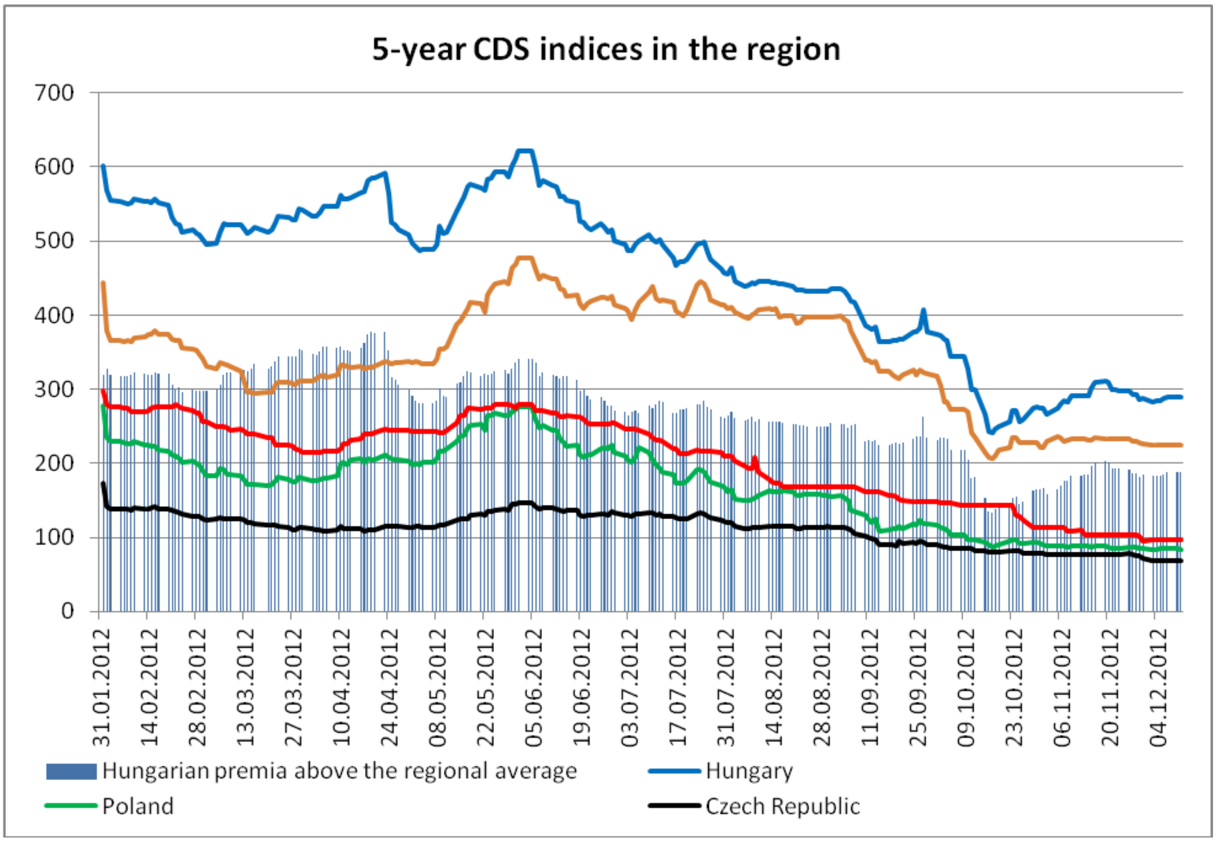


Source: ÁKK, NGM (Ministry for National Economy)

During the past 12 months the total stock of retail securities doubled, having increased from 461bn HUF at the end of January to 924.7bn HUF **by the end of November**. The most popular instruments were the Interest-bearing Treasury Bills. In the period January-November 2012 out of the 451.9bn HUF increase of retail government securities 315.2bn HUF worth was invested in Interest-bearing Treasury Bills and 75.3bn HUF in the inflation-indexed Premium Hungarian Government Bonds. The stock of 1-year and 2-year Treasury Bills and the new six-month Treasury Bills increased altogether by 52.4bn HUF and 9.1bn HUF, respectively.

Change in risk perception

In the past almost one year **risk perception of Hungary has improved significantly** on the basis of Credit Default Spreads hedging against the non-payment of the Hungarian State. The **Hungarian 5-year CDS decreased from 600 basis points at the beginning of the year (end of January) to below 300 basis points by the end of 2012**. Although the gap with the risk premia of regional peers such as the Czech Republic, Poland and Slovakia is still wide, **the risk perception of Hungary in comparison to the regional average weighted by gross general government debt improved by 131 basis points compared to the level at the end of January 2012.**



Source: Reuters