



GOVERNMENT DEBT MANAGEMENT AGENCY PTE LTD.

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GOVERNMENT SECURITIES MARKET

QUARTERLY REPORT
FOURTH QUARTER 2016



GOVERNMENT SECURITIES

The deficit of the central government amounted to HUF 848.3 billion (about EUR 2.7 billion) in 2016. The net financing need were decreased by HUF 272.1 billion of the net balance of transfers from the European Union and other sources, by HUF 50 billion of the dividend payment of the National Bank of Hungary. Thus, the total net financing need amounted to HUF 526.2 billion in 2016. Net issuance was HUF 782.0 billion, out of which net HUF denominated issuance was HUF 2,222.9 billion and net foreign currency denominated redemption was HUF 1,440.9 billion. The total amount of other liabilities decreased by HUF 13.3 billion in 2016.

ÁKK had set up benchmarks to maintain the optimal cost-risk characteristics of public debt. The 90-day moving average values of those benchmarks at the end of Q4 2016 were as follows:

- The share of foreign currency denominated debt within the total debt decreased to 25.3%.
- 100.0% of the foreign currency debt was denominated in euro.
- The fixed-floating mix of the foreign currency debt portfolio was 66.1%-33.9%.
- The fixed-floating mix of the HUF-denominated debt was 61.8% and 38.2% respectively.
- The duration of the HUF-denominated debt was 3.01 years.

All benchmark targets were met in Q4 2016.

The short-term and the 3-5 year long-term secondary market yields decreased, the 10-15 year long terms secondary market yealds increased in Q4 . The 3-6-12 month yields decreased by 45-52 basis points, the 3-5 year yields decreased by 13-42 basis points, but the 10-15 year yields increased by 29-50 basis points. At the end of December the 1-year benchmark yield stood at 0.15%, the 3-year yield at 0.82% and the 10-year yield at 3.16%.

The liquidity in the secondary market was higher than the previous quarter. OTC turnover of government securities in Q4 amounted to HUF 15,334.5 billion. Primary dealers, who account for the decisive part of all secondary government securities trading, made 77% of their secondary government securities deals with non-resident investors.

The volume of non-resident holdings of Hungarian government securities decreased by HUF 236.8 billion from end-September and amounted to HUF 3,442.4 billion at the end of December. This amount represented 19.6% of domestic government securities.

The credit rating of the long-term foreign currency denominated debt of Hungary was: BBB- (Standard & Poor's); Baa3 (Moody's); BBB- (Fitch) as at 31 December 2016.

Hungary's first foreign bond issuance was 14 April 2016. The 1 billion yuan denominated Dim Sum bond was the first this kind of public bond issuance on the offshore China market in 2016. The lead manager of the bond issuance was the Bank of China Limited.

The EUR/HUF exchange rate according to the National Bank of Hungary was 311.02 on the last working day of December.

GOVERNMENT SECURITIES

MACROECONOMIC INDICATORS

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016. October	2016. November	2016. December
GDP growth (yearly average) ¹	0.5	0.7	-6.5	0.6	1.7	-1.5	2.2	3.9	3.1			
Industrial production ¹	8.1	0.0	-17.8	10.6	5.6	-1.8	1.1	7.7	7.5	-2.1	0.6	1.9
Unemployment rate (%) (3-month average)	7.4	7.8	10.0	11.2	10.9	10.9	10.2	7.7	6.8	4.7	4.5	4.4
Consumer price index (yearly change) ²	7.4	3.5	5.6	4.7	4.1	5.0	0.4	-0.9	0.9	1.0	1.1	1.8
Consumer price index (yearly average)	8.0	6.1	4.2	4.9	3.9	5.7	1.7	-0.2	-0.1			
Consumer price index (monthly change)										0.6	0.1	0.4
Producer price index (yearly change) ²	1.6	5.8	1.3	8.1	7.5	-1.8	0.5	0.1	-1.3	-1.2	-0.5	0.5
Producer price index (yearly average)	0.2	5.3	4.9	4.5	4.2	4.3	0.7	-0.4	-0.9			
Producer price index (monthly change)										0.6	0.9	0.6
Net lending position of households (HUF Bn) ³	438.3	479.9	1,006.2	1,298.9	1,464.9	1,508.6	1,514.3	1,903.4	2,628.3			
Current account of balance of payments (EUR M)	-7,219.1	-7,571.9	-754.4	273.8	753.9	1,751.8	3,892.2	2,181.2	4,767.8			
Net direct investments (EUR M) ⁴	3,118.5	3,535.7	-1,810.1	-2,067.1	-971.7	-2,094.6	-1,137.8	-2,832.5	218.3			
Balance of the central government budget (HUF Bn) ⁵	-1,389.9	-861.7	-737.2	-835.7	-1,483.6	-620.1	-979.8	-837.1	-1,195.9	-32.5	-10.9	-771.6
Balance of the central government budget (GFS, per cent of GDP) ⁵	-5.4	-3.4	-3.9	-4.2	-5.7	-1.8	-2.7	-2.4	-3.6			
Balance of the central government budget (ESA, percent of GDP) ⁵	-5.1	-3.6	-4.6	-4.5	-5.5	-2.3	-2.6	-2.1	-1.6			
Central government gross debt (HUF Bn)	15,585.5	18,103.9	18,964.9	20,041.0	20,955.5	20,720.1	21,998.6	23,881.1	24,699.7	25,266.4	25,489.9	25,430.0
Central government gross debt (per cent of GDP)	62.4	66.9	72.1	74.0	74.4	72.3	73.0	73.7	72.6			
Net foreign debt (EUR M) ⁶	44,805.0	54,500.9	53,341.9	53,341.8	47,088.0	45,373.1	37,504.1	34,339.9	27,036.2			
Net foreign debt (per cent of GDP)	44.1	50.6	57.0	54.3	46.7	45.9	37.0	32.9	24.9			
HUF/USD mid exchange rate at the end of period	172.61	187.91	188.07	208.65	240.68	220.93	215.67	259.13	286.63	283.51	292.37	293.69
HUF/EUR mid exchange rate at the end of period	253.35	264.78	270.84	278.75	311.13	291.29	296.91	314.89	313.12	309.20	310.99	311.02

¹ Same period of previous year = 100%, working day adjusted

² In case of yearly data: December/previous December,
otherwise month/same month of the previous year

³ Non-consolidated data

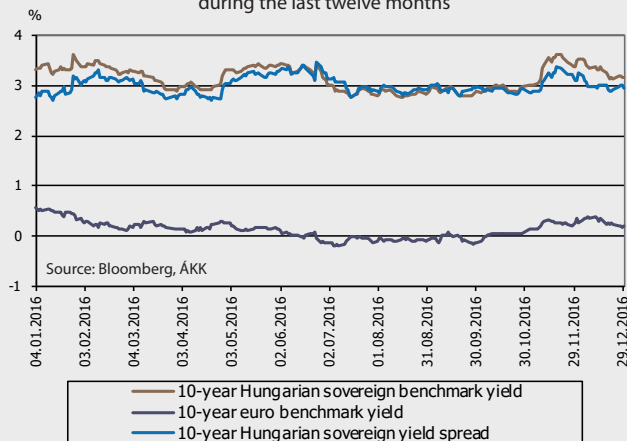
⁴ Including intercompany loans

⁵ Excluding privatisation proceeds

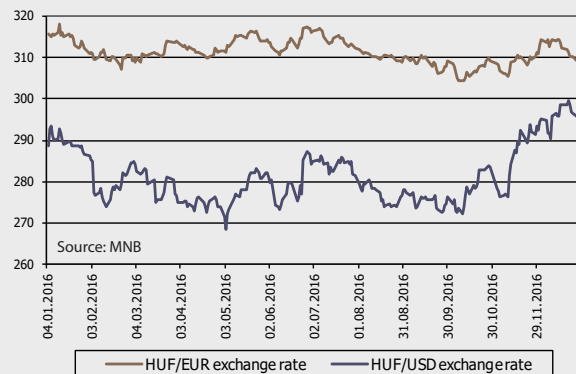
⁶ Excluding intercompany loans

Source: KSH, MNB, PM/NGM, ÁKK

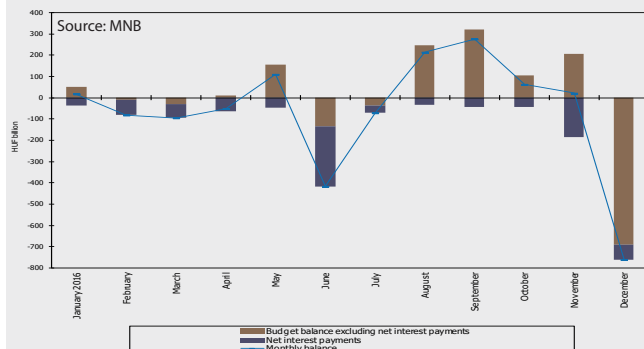
10-year Hungarian and eurozone benchmark yields
during the last twelve months



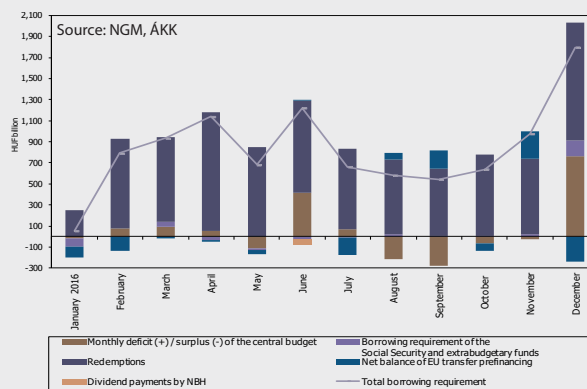
The exchange rate of the Hungarian Forint
during the last twelve months



Monthly balance of the central government budget
(excluding privatisation proceeds)



Gross borrowing requirement



GOVERNMENT SECURITIES

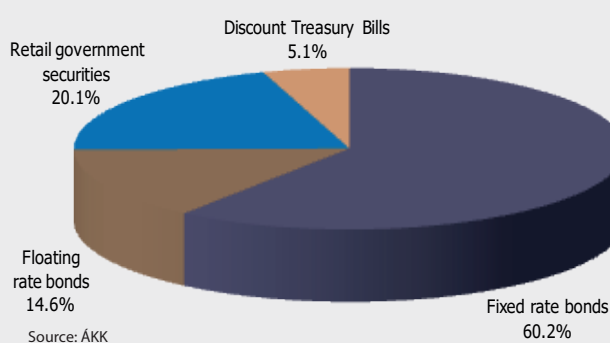
CENTRAL GOVERNMENT GROSS DEBT

HUF BILLION

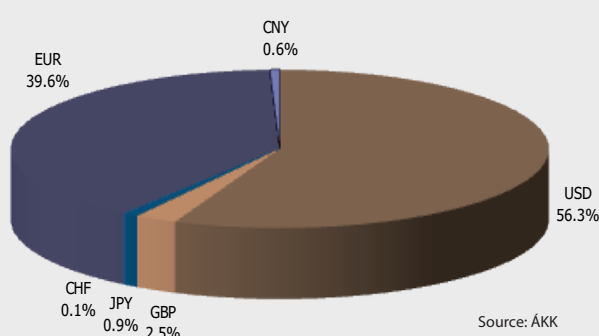
	2008	2009	2010	2011	2012	2013	2014	2015	2016. October	2016. November	2016. December
1. Forint denominated debt	11,250.6	10,476.2	10,978.2	10,362.2	12,042.4	12,976.4	14,612.0	16,207.9	18,284.8	18,421.2	18,430.9
1.1. Loans	219.9	438.7	540.8	590.8	566.8	603.6	623.3	694.1	865.0	865.0	865.0
1.2. Government securities	11,030.7	10,037.5	10,437.4	9,771.4	11,475.6	12,372.8	13,988.7	15,513.8	17,419.7	17,556.2	17,565.8
1.2.1. Public issues	10,599.7	9,613.2	10,019.6	9,368.1	11,077.1	12,182.3	13,847.7	15,462.3	17,379.7	17,516.1	17,526.7
1.2.1.1. Bonds	8,570.6	7,519.2	7,965.8	7,353.4	8,184.1	8,588.8	9,848.0	11,043.4	11,493.6	11,536.0	11,562.4
1.2.1.1.1. Discount T-bills	1,482.4	1,647.3	1,618.2	1,540.9	1,906.5	1,904.9	1,588.6	901.6	1,078.4	1,078.8	896.4
1.2.1.1.2. Retail securities	546.6	446.6	435.7	473.8	986.6	1,688.5	2,411.1	3,517.4	4,807.7	4,901.3	5,067.9
1.2.1.1.3. Retail securities	546.6	446.6	435.7	473.8	986.6	1,688.5	2,411.1	3,517.4	4,807.7	4,901.3	5,067.9
1.2.2. Private placements	431.0	424.3	417.8	403.2	398.5	190.5	141.0	51.5	40.0	40.0	39.2
2. Foreign currency denominated debt*	6,774.8	8,468.5	8,842.8	10,170.4	8,326.6	8,904.9	8,957.9	7,735.8	6,286.9	6,331.4	6,256.5
2.1. Loans	2,529.4	4,114.5	4,292.8	4,458.1	3,312.5	2,735.6	2,164.3	1,696.8	1,184.3	1,172.5	1,101.6
2.1.1. Foreign loans	2,529.4	4,114.5	4,292.8	4,337.9	3,229.0	2,400.2	1,889.9	1,614.2	1,107.7	1,114.1	1,097.6
2.1.2. Domestic loans	0.0	0.0	0.0	0.0	83.5	335.4	274.4	82.6	76.6	58.4	4.0
2.2. Government securities	4,245.5	4,354.0	4,550.0	5,712.3	5,014.1	6,169.3	6,793.6	6,039.0	5,102.6	5,158.9	5,154.9
2.2.1. Issued abroad	4,245.5	4,354.0	4,550.0	5,712.3	4,924.2	5,736.9	5,844.6	5,198.9	4,642.2	4,669.0	4,618.9
2.2.2. Issued domestically	0.0	0.0	0.0	0.0	89.9	432.5	948.9	840.1	460.5	489.9	536.0
Total	18,025.4	18,944.8	19,821.0	20,532.6	20,369.0	21,881.4	23,569.9	23,943.7	24,571.7	24,752.6	24,687.4
Other liabilities	78.5	20.1	220.0	422.9	351.1	117.3	311.2	756.0	694.7	737.3	742.7
Total central government debt	18,103.9	18,964.9	20,041.0	20,955.5	20,720.1	21,998.6	23,881.1	24,699.7	25,266.4	25,489.9	25,430.0
Marketable HUF debt (1.2.1.1+1.2.1.2+1.2.2)	10,484.0	9,590.9	10,001.8	9,297.6	10,489.1	10,684.2	11,577.6	11,996.5	12,612.0	12,654.8	12,498.0
Gross debt/GDP	66.9%	72.1%	74.0%	74.4%	72.3%	73.0%	73.7%	72.6%			

*Foreign exchange debt is recorded at the mid exchange rate of the NBH at the end of the year/month.

Composition of HUF government securities as at 31.12.2016

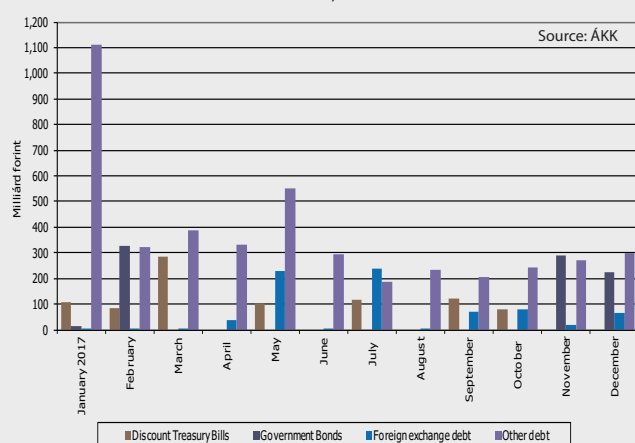


Currency composition of the foreign exchange debt portfolio before swaps as at 31.12.2016*

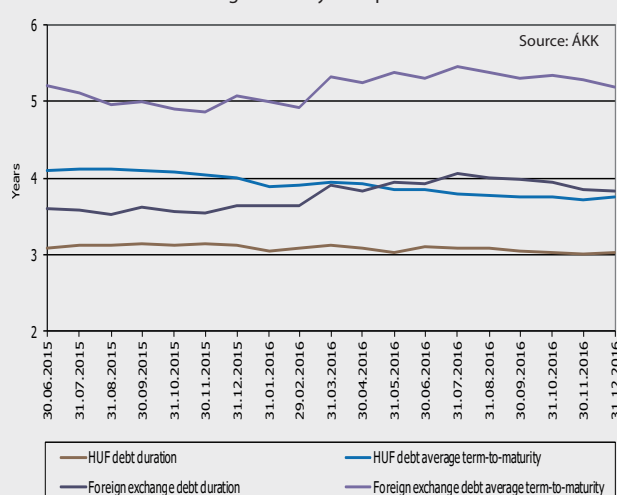


* Composition before swaps. By using cross-currency swaps, 100.0% of the actual foreign exchange debt of the central government was due in euros.

Maturity profile of the central government gross debt over the next 12 months, as at 31.12.2016



Duration and average term-to-maturity of the HUF and foreign currency debt portfolios



GOVERNMENT SECURITIES

GOVERNMENT BOND AUCTION RESULTS

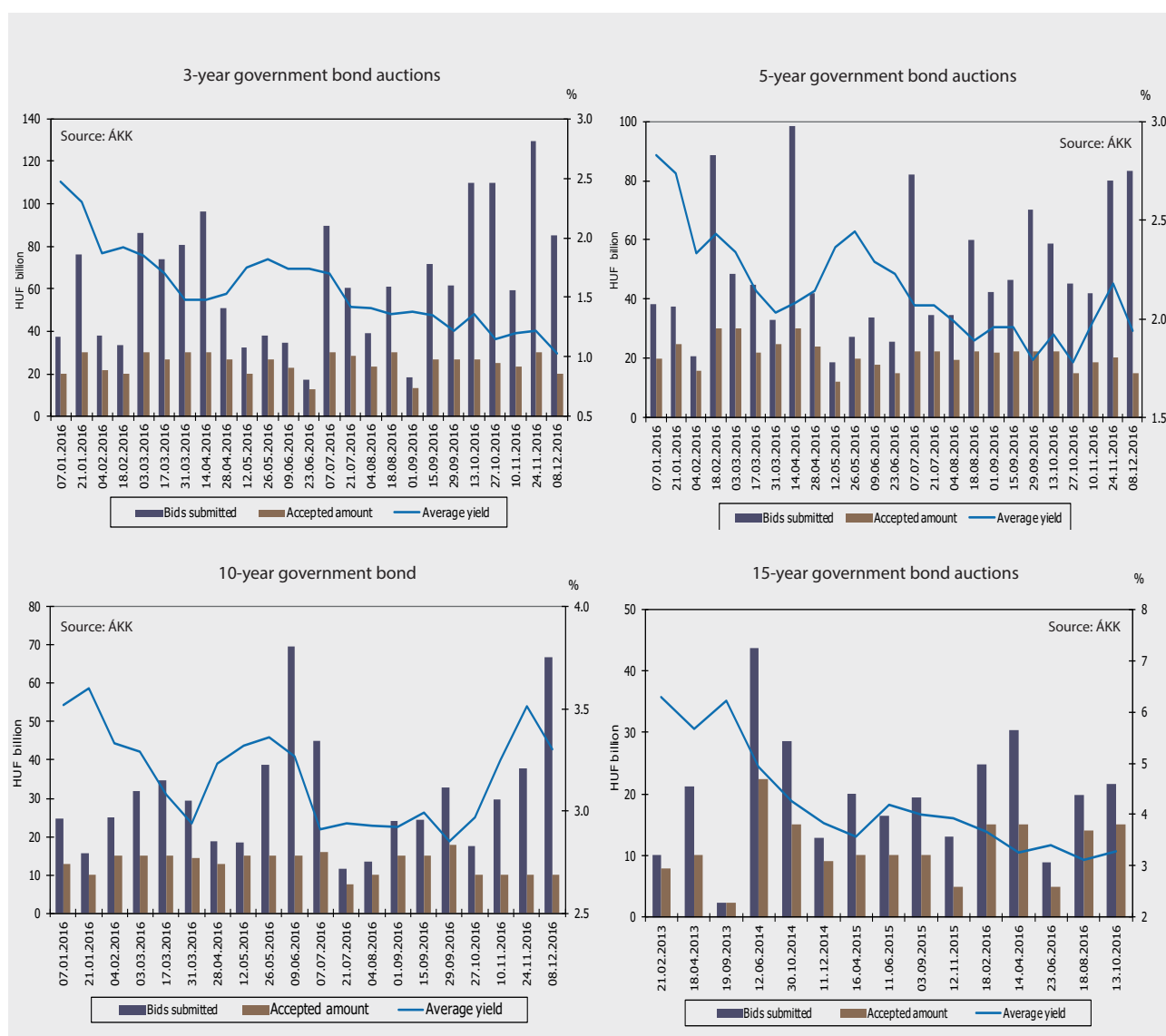
Government Bond	2019/C	2021/B	2031/A	2019/D	2019/C	2021/B	2027/A	2019/C	2021/B
ISIN code	HU0000403092	HU0000403100	HU0000403001	HU0000403126	HU0000403092	HU0000403100	HU0000403118	HU0000403092	HU0000403100
Maturity (in years)	3	5	15	3	3	5	10	3	5
Coupon (%)	2.00%	2.50%	3.25%	0.88%	2.00%	2.50%	3.00%	2.00%	2.50%
Auction	21st auction	21st auction	9th auction	12th auction	22nd auction	22nd auction	17th auction	23rd auction	23rd auction
Date of auction	13.10.2016	13.10.2016	13.10.2016	20.10.2016	27.10.2016	27.10.2016	27.10.2016	10.11.2016	10.11.2016
Date of financial settlement	19.10.2016	19.10.2016	19.10.2016	26.10.2016	02.11.2016	02.11.2016	02.11.2016	16.11.2016	16.11.2016
Redemption date	30.10.2019	27.10.2021	22.10.2031	28.08.2019	30.10.2019	27.10.2021	27.10.2027	30.10.2019	27.10.2021
Maximum annual yield (%) - ISMA	1.36	1.94	3.31	-	1.16	1.79	2.97	1.21	2.00
Minimum annual yield (%) - ISMA	1.34	1.89	3.27	-	1.14	1.75	2.94	1.18	1.96
Average annual yield (%) - ISMA	1.36	1.92	3.29	-	1.15	1.78	2.97	1.20	1.98
Maximum annual yield (%) - EHM	1.36	1.94	3.31	-	1.16	1.79	2.97	1.21	2.00
Minimum annual yield (%) - EHM	1.34	1.89	3.27	-	1.14	1.75	2.94	1.18	1.96
Average annual yield (%) - EHM	1.36	1.92	3.29	-	1.15	1.78	2.96	1.20	1.98
Maximum price (%)	101.9466	102.8989	99.7653	98.8000	102.5154	103.5493	100.5556	102.3658	102.5204
Minimum price (%)	101.8868	102.6576	99.2988	98.6400	102.4560	103.3561	100.2770	102.2779	102.3309
Average price (%)	101.9014	102.7389	99.4833	98.7100	102.4831	103.4140	100.3224	102.3018	102.4036
Amount offered for sale (HUF million)	18,000.00	15,000.00	10,000.00	10,000.00	18,000.00	15,000.00	10,000.00	20,000.00	15,000.00
Amount of bids submitted (HUF million)	110,100.00	58,600.00	21,695.00	39,500.00	110,020.00	45,379.32	17,610.00	59,150.00	41,820.00
Amount of bids accepted (HUF million)	26,999.95	22,499.94	14,999.98	12,000.00	24,999.99	14,999.97	10,000.00	23,499.97	18,499.94
Bid-to-cover ratio	4.08	2.60	1.45	3.29	4.40	3.03	1.76	2.52	2.26
Bids submitted (pcs)	66	61	41	45	62	54	36	60	61
Bids accepted (pcs)	18	32	30	15	18	26	22	27	27
Tail (average price - minimum price)	0.01	0.08	0.18	0.07	0.03	0.06	0.05	0.02	0.07
Market sales (HUF million)	26,999.95	22,499.94	14,999.98	12,000.00	24,999.99	14,999.97	10,000.00	23,499.97	18,499.94
Non-competitive offer (HUF million)	10,146.25	6,162.70	5,076.78	4,240.00	0.00	0.00	0.00	400.00	0.00
Total amount sales (HUF million)	37,146.20	28,662.64	20,076.76	16,240.00	24,999.99	14,999.97	10,000.00	23,899.97	18,499.94

GOVERNMENT BOND AUCTION RESULTS

Government Bond	2027/A	2019/C	2021/B	2027/A	2019/C	2021/B	2027/A	2019/D
ISIN code	HU0000403118	HU0000403092	HU0000403100	HU0000403118	HU0000403092	HU0000403100	HU0000403118	HU0000403126
Maturity (in years)	10	3	5	10	3	5	10	3
Coupon (%)	3.00%	2.00%	2.50%	3.00%	2.00%	2.50%	3.00%	0.64%
Auction	18th auction	24th auction	24th auction	19th auction	25th auction	25th auction	20th auction	14th auction
Date of auction	10.11.2016	24.11.2016	24.11.2016	24.11.2016	08.12.2016	08.12.2016	08.12.2016	29.12.2016
Date of financial settlement	16.11.2016	30.11.2016	30.11.2016	30.11.2016	14.12.2016	14.12.2016	14.12.2016	04.01.2017
Redemption date	27.10.2027	30.10.2019	27.10.2021	27.10.2027	30.10.2019	27.10.2021	27.10.2027	28.08.2019
Maximum annual yield (%) - ISMA	3.26	1.23	2.19	3.52	1.04	1.95	3.32	-
Minimum annual yield (%) - ISMA	3.23	1.20	2.17	3.50	1.03	1.94	3.28	-
Average annual yield (%) - ISMA	3.25	1.22	2.18	3.51	1.03	1.94	3.30	-
Maximum annual yield (%) - EHM	3.26	1.23	2.19	3.52	1.04	1.95	3.32	-
Minimum annual yield (%) - EHM	3.23	1.20	2.17	3.50	1.03	1.94	3.28	-
Average annual yield (%) - EHM	3.25	1.22	2.18	3.51	1.03	1.94	3.30	-
Maximum price (%)	97.9050	102.2774	101.5182	95.5262	102.7345	102.5750	97.4690	99.5600
Minimum price (%)	97.6361	102.1906	101.4252	95.3525	102.7058	102.5283	97.1144	99.3900
Average price (%)	97.7236	102.2190	101.4517	95.4200	102.7219	102.5653	97.3004	99.4600
Amount offered for sale (HUF million)	10,000.00	20,000.00	15,000.00	10,000.00	20,000.00	15,000.00	10,000.00	10,000.00
Amount of bids submitted (HUF million)	29,650.00	129,480.00	80,095.00	37,900.00	85,000.00	83,300.00	66,700.00	48,650.00
Amount of bids accepted (HUF million)	10,000.00	29,999.96	20,499.98	9,999.99	19,999.99	15,000.00	9,999.99	12,500.00
Bid-to-cover ratio	2.97	4.32	3.91	3.79	4.25	5.55	6.67	3.89
Bids submitted (pcs)	44	75	65	40	66	52	57	55
Bids accepted (pcs)	15	22	15	9	16	13	17	27
Tail (average price - minimum price)	0.09	0.03	0.03	0.07	0.02	0.04	0.19	0.07
Market sales (HUF million)	10,000.00	29,999.96	20,499.98	9,999.99	19,999.99	15,000.00	9,999.99	12,500.00
Non-competitive offer (HUF million)	0.00	11,207.95	7,711.97	2,076.18	0.00	0.00	0.00	4,460.00
Total amount sales (HUF million)	10,000.00	41,207.91	28,211.95	12,076.17	19,999.99	15,000.00	9,999.99	16,960.00

Source: AKK

GOVERNMENT SECURITIES



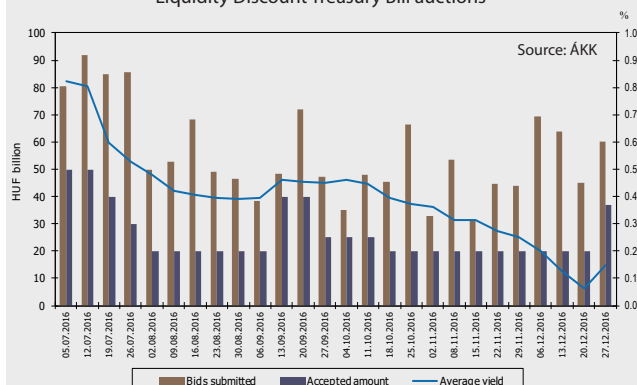
INTEREST RATE RESETS OF FLOATING RATE GOVERNMENT BONDS IN Q4 2016

Government bond	Date of interest rate reset	Interest period		Date of interest payment	Reset interest rate (%)	Interest payable (%)
2018/D	21.10.2016	24.10.2016	24.01.2017	24.01.2017	0.81%	0.21%
2019/L	19.10.2016	21.10.2016	21.10.2017	23.10.2017	2.75%	2.75%
2021/I	18.10.2016	20.10.2016	20.10.2017	20.10.2017	3.25%	3.25%
2026/B	24.10.2016	24.10.2016	24.04.2017	24.04.2017	0.44%	0.22%
2018/K	18.11.2016	21.11.2016	21.11.2017	21.11.2017	3.00%	3.00%
2019/B	17.11.2016	20.11.2016	20.05.2017	22.05.2017	0.33%	0.17%
2019/D	25.11.2016	28.11.2016	28.02.2017	28.02.2017	0.64%	0.16%
2032/S	30.11.2016	02.12.2016	02.12.2017	04.12.2017	3.00%	3.00%
2017/C	18.12.2016	20.12.2016	20.03.2017	20.03.2017	0.39%	0.10%
2021/A	20.12.2016	23.12.2016	23.03.2017	23.03.2017	0.39%	0.10%

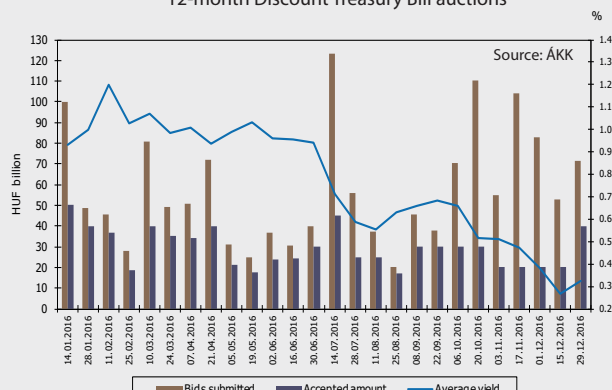
Source: ÁKK

GOVERNMENT SECURITIES

3-month Discount Treasury Bill and Liquidity Discount Treasury Bill auctions



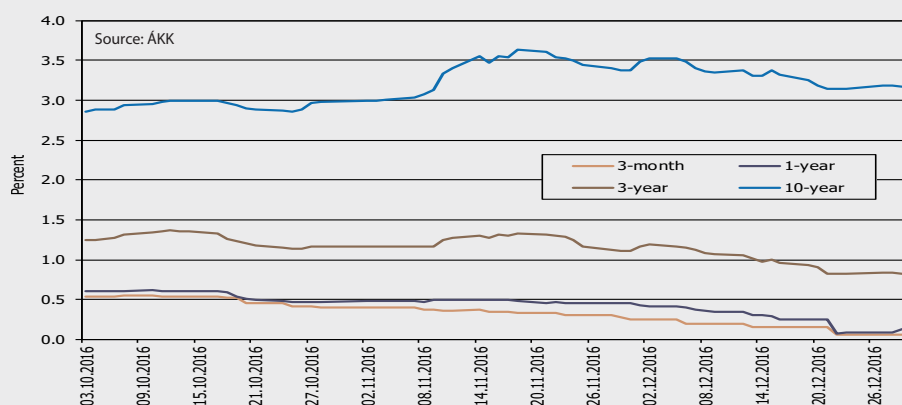
12-month Discount Treasury Bill auctions



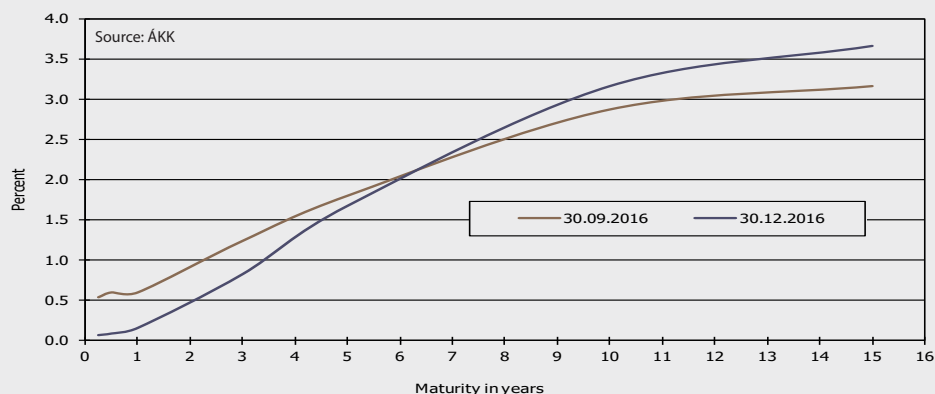
PRIMARY DEALERS - AS AT 31 DECEMBER 2016

BNP Paribas SA	K&H Bank Zrt.
CIB Bank Zrt.	Magyar Takarékszövetkezeti Bank Zrt.
CITIBANK Europe Plc.	Merrill Lynch International
Deutsche Bank AG	MKB Bank Zrt.
ERSTE Befektetési Zrt.	OTP Bank Nyrt.
Goldman Sachs International	Raiffeisen Bank Zrt.
ING Bank N.V.	UniCredit Bank Hungary Zrt.
J.P. Morgan Securities Plc.	

Benchmark yields in the past three months

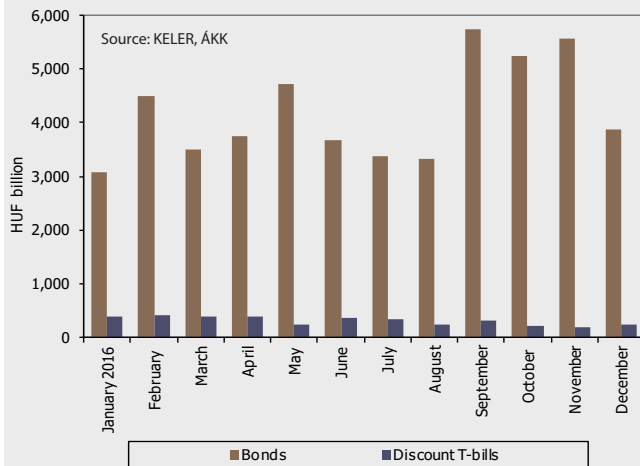


Benchmark yield curves

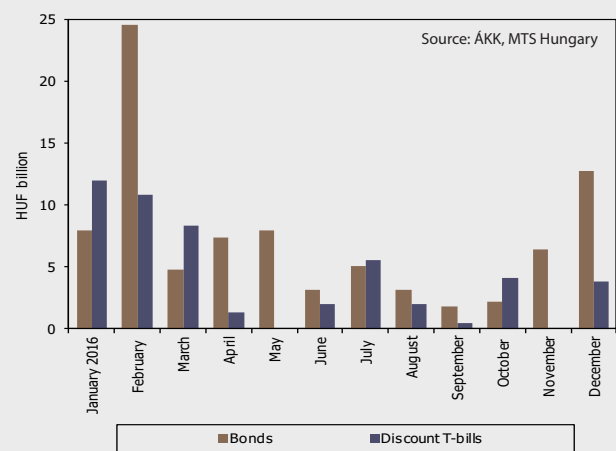


GOVERNMENT SECURITIES

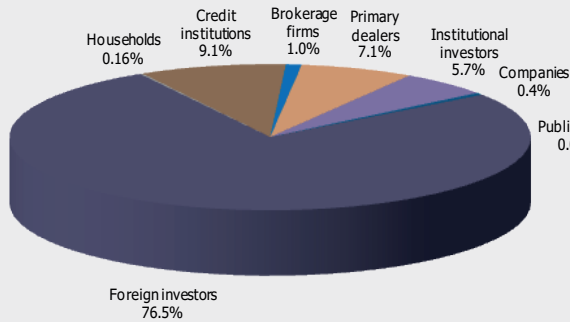
Secondary market trading of Hungarian government securities (OTC)



Secondary market trading of Hungarian government securities (MTS Hungary trading)

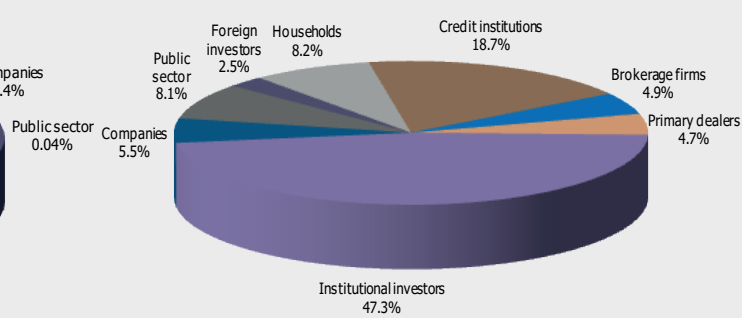


Breakdown of primary dealers' secondary market turnover in government bonds by investor groups in Q4 2016



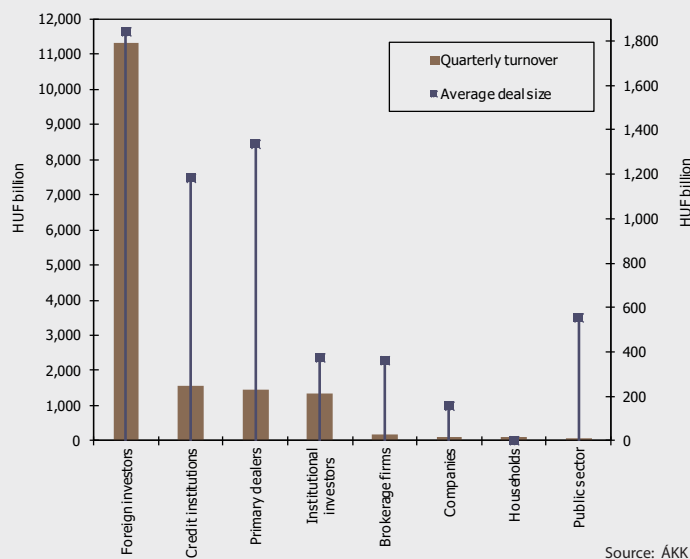
Source: ÁKK

Breakdown of primary dealers' secondary market turnover in Discount Treasury Bills by investor groups in Q4 2016



Source: ÁKK

Primary dealers' trading with different investor groups in Q4 2016



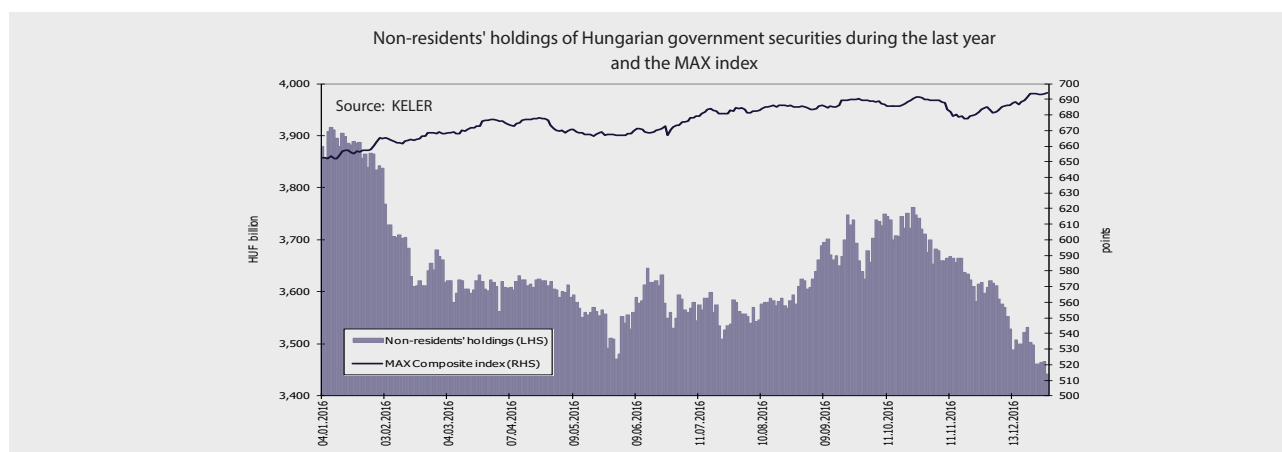
Source: ÁKK

Government securities with the highest secondary market turnover in Q4 2016

Government security	Date of redemption	Turnover (HUF billion)
2019/A	24.06.2019	1,790.9
2025/B	24.06.2025	1,664.0
2021/B	27.10.2021	1,419.2
2018/C	22.06.2018	1,301.8
2024/B	26.06.2024	1,300.5
2018/B	25.04.2018	1,229.6
2022/A	24.06.2022	1,130.6
2023/A	24.11.2023	1,069.9
2027/A	27.10.2027	844.4
2020/A	12.11.2020	819.6

Source: ÁKK

GOVERNMENT SECURITIES



HUNGARIAN GOVERNMENT SECURITIES INDICES

	Value of the index				Annual yield earned on the index portfolio			
	MAX index	RMAX index	MAX Composite index	ZMAX index	MAX index	RMAX index	MAX Composite index	ZMAX index
30.09.2016	721.8895	548.4493	689.2255	534.0342	5.57%	0.76%	5.27%	0.73%
28.10.2016	722.7029	549.0748	689.9966	534.4440	5.81%	0.96%	5.50%	0.83%
30.11.2016	717.0551	549.4028	685.1541	534.6221	5.12%	1.06%	4.87%	0.82%
30.12.2016	727.0946	550.6814	694.2234	534.9583	6.73%	1.22%	6.39%	0.81%

Source: ÁKK

OUTSTANDING AMOUNT OF BENCHMARK GOVERNMENT BOND SERIES IN Q4 2016

Government bond	HUF billion		
	31.10.2016	30.11.2016	31.12.2016
2019/C	637.11	728.24	748.47
2021/B	573.21	635.83	650.96
2027/A	252.69	285.14	295.20
2031/A	122.66	122.85	123.06

Source: ÁKK

REUTERS PAGES (CODES)

main page: HUTREASURY

Auction results are available from 11.30 (CET)	
HUISSUE	Publication of the following issues and reverse auctions
HUAUCTION01	Discount T-bill auction results
HUAUCTION02	Government Bond auction results
HUAUCTION03	Non-competitive fixed rate bonds offer
HUAUCTION04	Non-competitive floating rate bonds
HUBUYBACK	Government Bond buyback auction results
HUEXCHANGE	Government Bond exchange auction results
HURETAIL	6-month Interest Bearing Treasury Bill underwriting results
Secondary market data	
HUBONDFIX	Benchmark yield fixing (updated during 14.00 -14.30CET)
HUBONDAKK, HUBONDAKK4	Best morning secondary market quotations
HUBONDAKK2, HUBONDAKK3	Best afternoon secondary market quotations
HUBONDIINDEX1	Hungarian Government Total Return Index (MAX), updated during 14.00-14.30 CET
HUBONDIINDEX2	Benchmark Indices for Government Bonds BMX3Y-15Y (updated during 14.00-14.30 CET)
HUMAXCOMP1, HUMAXCOMP2	Hungarian Government Total Return Index (MAX) statistics
HUAKK01,HUAKK02,HUAKK03	MAX Composite Index
Other	
HUFLOATER	Interest rate reset of floating rate bonds
HUBONDINFO	Primary Dealers

FURTHER INFORMATION PAGES:

Bloomberg pages (code): GDMA

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www.allampapir.hu