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GOVERNMENT DEBT MANAGEMENT AGENCY PTE LTD.

# GOVERNMENT SECURITIES MARKET

## MONTHLY REPORT

MAY 2014

The deficit of the central government amounted to HUF 681.7 billion in May. The net prefinancing of cash transfers from the European Union decreased the net borrowing requirement by HUF 206.9 billion. Thus, the total net financing requirement amounted to HUF 474.8 billion in 2014. Net issuance was HUF 2,146.6 billion, including the sum of debt assumptions HUF 401.7 billion; out of which net HUF-denominated issuance was HUF 1,398.5 billion and net foreign currency denominated issuance was HUF 748.1 billion. Without debt assumptions net issuance was HUF 1,826.8 billion, out of which net HUF-denominated issuance was HUF 1,356.2 billion and net foreign currency denominated issuance was HUF 470.6 billion.

| | 2013 | | 2014 | | Change | |
|---|---|---|---|---|---|---|
| HUF billion | December | % | May | % | HUF billion | % |
| Foreign exchange denominated debt | 8,904.9 | 40.2 | 9,842.6 | 40.5 | 937.6 | 10.5 |
| Government securities | 6,169.3 | 24.2 | 6,750.7 | 27.8 | 581.3 | 9.4 |
| Loans | 2,735.6 | 16.0 | 3,091.9 | 12.7 | 356.3 | 13.0 |
| HUF denominated debt | 12,976.4 | 58.1 | 14,375.0 | 59.1 | 1 398.5 | 10.6 |
| Government securities | 12,372.8 | 55.4 | 13,683.4 | 56.3 | 1 310.6 | 14.6 |
| Loans | 603.6 | 2.7 | 691.5 | 2.8 | 87.9 | 10.7 |
| Total | 21,881.4 | 98.3 | 24,217.6 | 99.6 | 2,336.2 | -14.7 |
| *Other obligations* | 117.3 | 1.7 | 100.1 | 0.4 | -17.2 | -14.7 |
| Total central government debt | 21,998.6 | 100.0 | 24,317.6 | 100.0 | 2,319.0 | 10.5 |

The HUF denominated debt of the central government increased by HUF 1,398.5 billion in 2014. The increase in domestic debt was the result of net government bond issuance of HUF 373.5 billion, the amount of discount Treasury bills increased by HUF 688.2 billion and the total amount of retail government securities increased by HUF 279.4 billion. The stock of non-marketable government bonds decreased by HUF 30.4 billion because of redemption. The volume of HUF loans increased by HUF 87.9 billion in 2014.

The foreign currency debt of the central government increased by HUF 937.6 billion in 2014. The foreign currency bond issue increased the debt by HUF 678.8 billion, the P€MAK and residence bond issuance was HUF 327.2 billion, the drawdown of foreign currency denominated loans was HUF 47.9 billion. The debt assumptions worth HUF 294.1 billion increased, while the redemptions of foreign currency debt worth HUF 599.8 billion decreased the debt. The exchange rate revaluations totalling HUF 189.6 billion increased the Hungarian Forint value of the foreign currency debt in 2014.

Benchmark yields

| Maturity | 31.12.2013. | 30.04.2014. | 30.05.2014. | Change, basis points |
|---|---|---|---|---|
| 3-month | 2.87 | 2.35 | 2.37 | 2 |
| 6-month | 2.95 | 2.45 | 2.36 | -9 |
| 1-year | 3.05 | 2.59 | 2.35 | -24 |
| 3-year | 4.04 | 4.08 | 3.36 | -72 |
| 5-year | 4.70 | 4.38 | 3.66 | -72 |
| 10-year | 5.70 | 5.35 | 4.71 | -64 |
| 15-year | 6.30 | 5.74 | 5.13 | -61 |

Monthly OTC turnover of government securities was 16 % higher in May than a month before and reached HUF 5,571.7 billion. Primary dealers, who account for the decisive part of all secondary government securities trading, made 74% of their secondary government securities deals with non-resident investors.

The volume of non-residents' holdings of Hungarian government securities increased altogether by HUF 56.3 billion in May, and amounted to HUF 4,836.9 billion at the end of the month. This volume represented 35.3% of the total amount of domestic government securities.

The EUR/HUF exchange rate according to the National Bank of Hungary was 302.71 on the last working day of May.

The credit rating of the long-term foreign currency debt of Hungary is as follows on the last working day of May: BB (Standard & Poor's); Ba1 (Moody's); BB+ (Fitch).

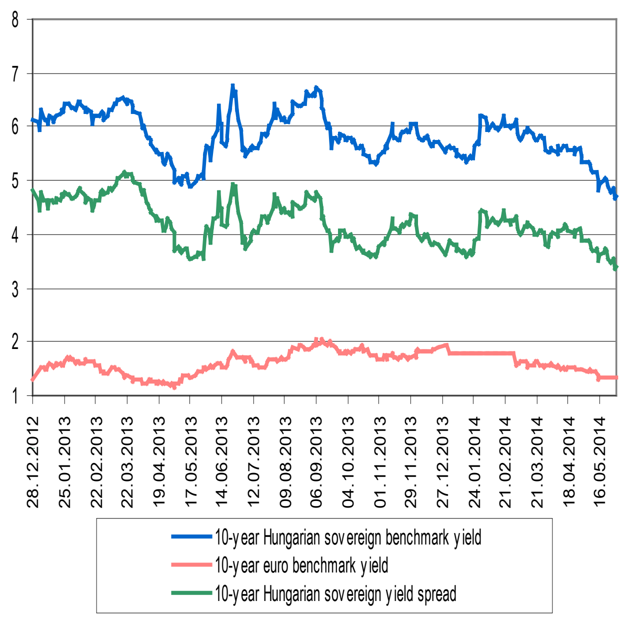
## CENTRAL GOVERNMENT GROSS DEBT

HUF BILLION

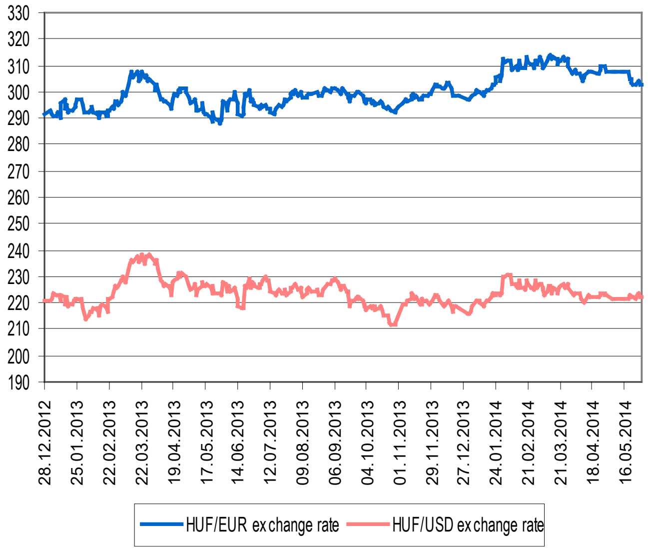
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | March 2014 | April 2014 | May 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Forint denominated debt | 11,103.8 | 11,250.6 | 10,476.2 | 10,978.2 | 10,362.2 | 12,042.4 | 12,976.4 | 13,955.1 | 14,259.3 | 14,375.0 |
| 1.1. Loans | 145.7 | 219.9 | 438.7 | 540.8 | 590.8 | 566.8 | 603.6 | 614.2 | 698.7 | 691.5 |
| 1.2. Government securities | 10,958.1 | 11,030.7 | 10,037.5 | 10,437.4 | 9,771.4 | 11,475.6 | 12,372.8 | 13,341.0 | 13,560.6 | 13,683.4 |
| 1.2.1. Public issues | 10,465.4 | 10,599.7 | 9,613.2 | 10,019.6 | 9,378.1 | 11,077.1 | 12,182.3 | 13,151.3 | 13,370.9 | 13,523.3 |
| 1.2.1.1. Bonds | 8,245.3 | 8,570.6 | 7,519.2 | 7,965.8 | 7,353.4 | 8,184.1 | 8,588.8 | 8,615.7 | 8,857.8 | 8,962.3 |
| 1.2.1.2. Discount T-bills | 1,664.9 | 1,482.4 | 1,647.3 | 1,618.2 | 1,540.9 | 1,906.5 | 1,904.9 | 2,647.1 | 2,612.6 | 2,593.1 |
| 1.2.1.3. Retail securities | 555.2 | 546.4 | 446.6 | 435.7 | 473.8 | 986.6 | 1,688.5 | 1,888.4 | 1,900.5 | 1,967.9 |
| 1.2.2. Private placements | 492.7 | 431.0 | 424.3 | 417.8 | 403.2 | 398.5 | 190.5 | 189.7 | 189.7 | 160.1 |
| 2. Foreign currency denominated debt* | 4,472.6 | 6,774.8 | 8,466.7 | 8,842.8 | 10,170.4 | 8,326.6 | 8,904.9 | 10,202.3 | 10,232.6 | 9,842.6 |
| 2.1. Loans | 846.5 | 2,529.4 | 4,112.7 | 4,292.8 | 4,458.1 | 3,312.5 | 2,735.6 | 3,140.8 | 3,146.7 | 3,091.9 |
| 2.1.1. Foreign loans | 838.8 | 2,529.4 | 4,112.7 | 4,292.8 | 4,361.9 | 3,229.0 | 2,400.2 | 2,640.2 | 2,645.9 | 2,601.3 |
| 2.1.2. Domestic loans | 104.0 | 0.0 | 0.0 | 0.0 | 96.2 | 83.5 | 335.4 | 500.7 | 500.7 | 490.7 |
| 2.2. Government securities | 3,626.1 | 4,245.5 | 4,354.0 | 4,550.0 | 5,712.3 | 5,014.1 | 6,169.3 | 7,061.5 | 7,085.9 | 6,750.7 |
| 2.2.1. Issued abroad | 3,626.1 | 4,245.5 | 4,354.0 | 4,550.0 | 5,712.3 | 4,924.2 | 5,736.9 | 6,297.2 | 6,312.0 | 5,980.0 |
| 2.2.2. Issued domestically | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 89.9 | 432.5 | 764.2 | 773.9 | 770.6 |
| Total | 15,576.4 | 18,025.4 | 18,942.9 | 19,821.0 | 20,532.6 | 20,369.0 | 21,881.4 | 24,157.4 | 24,491.8 | 24,217.6 |
| Other liabilities | 9.1 | 78.5 | 20.1 | 220.01 | 422.9 | 351.1 | 117.3 | 98.5 | 94.8 | 100.1 |
| Total central government debt | 15,585.5 | 18,103.9 | 18,963.1 | 20,041.0 | 20,955.5 | 20,720.1 | 21,998.6 | 24,255.9 | 24,586.6 | 24,317.6 |
| *Marketable HUF debt* (1.2.1.1+1.2.1.2.+1.2..2.) | *10,402.9* | *10,484.0* | *9,623.3* | *10,001.8* | *9,297.6* | *10,489.1* | *10,684.2* | *11,452.5* | *11,660.1* | *11,715.5* |
| *Gross debt/GDP* | *61.3%* | *68.2%* | *74.0%* | *75.6%* | *75.8%* | *73.9%* | *75.7%* | | | |

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

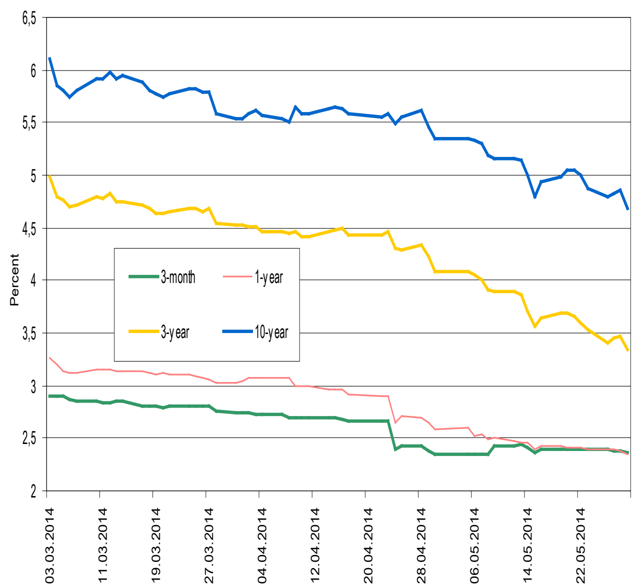
% 10-year Hungarian and eurozone benchmark yields during the last year



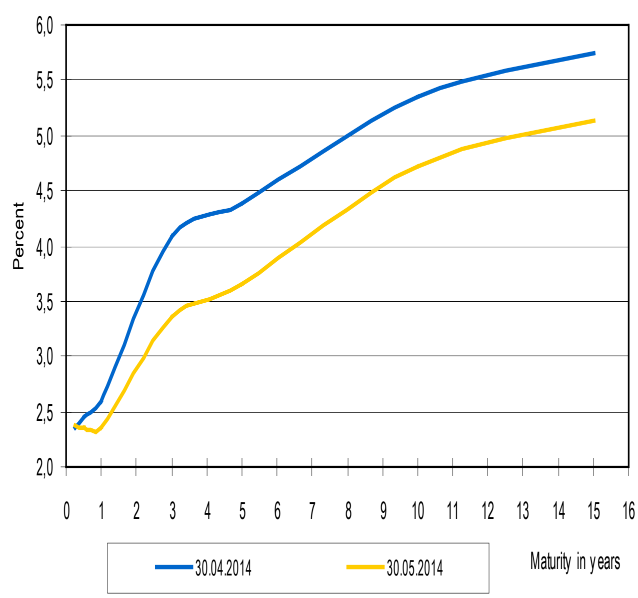

The exchange rate of the Hungarian Forint during the last year




Benchmark yields in the past three months



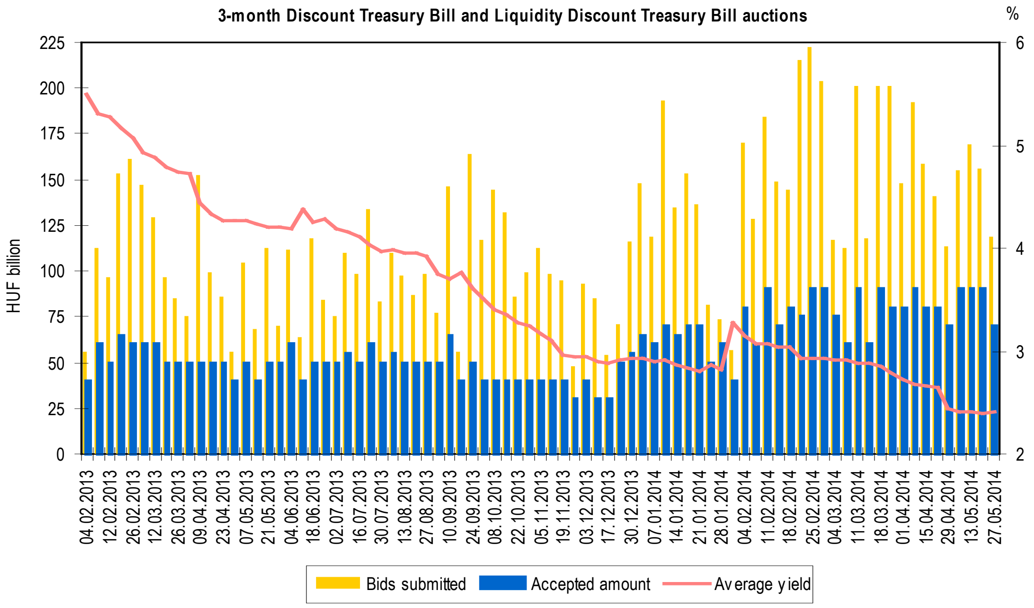

Benchmark yield curves

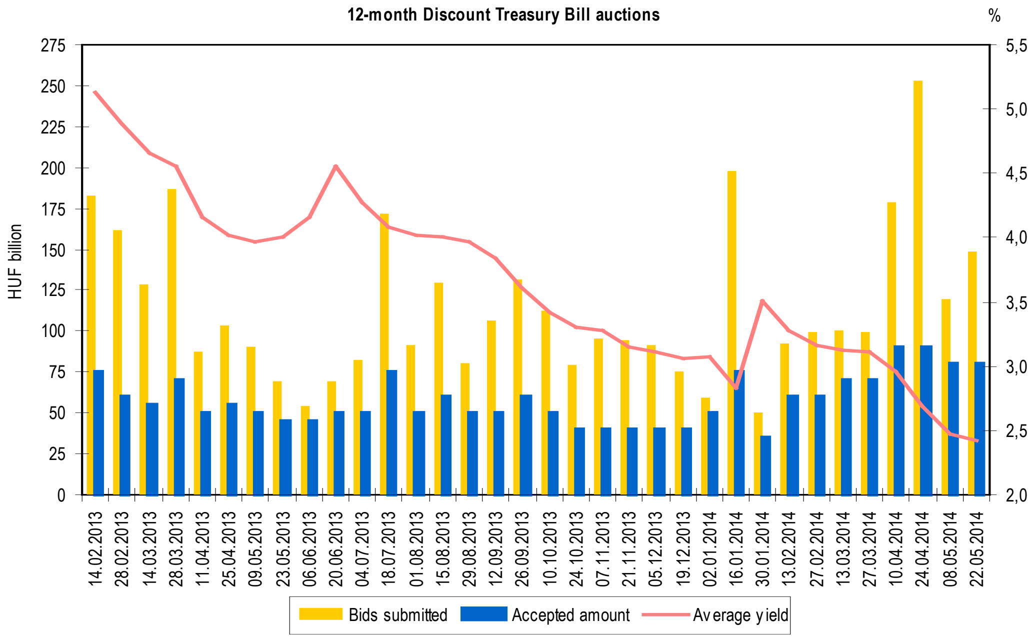


# DISCOUNT TREASURY BILL AUCTION RESULTS

| | 3-month Discount T-bills | | | | 12-month Discount T-bills | |
|---|---|---|---|---|---|---|
| Code of T-bills | D140813 | D140821 | D140827 | D140903 | D150401 | D150527 |
| ISIN code | HU0000519970 | HU0000519988 | HU0000519996 | HU0000520010 | HU0000519921 | HU0000520002 |
| Maturity in days | 91 | 92 | 91 | 91 | 322 | 364 |
| Date of auction | 06.05.2014 | 13.05.2014 | 20.05.2014 | 27.05.2014 | 08.05.2014 | 22.05.2014 |
| Date of financial settlement | 14.05.2014 | 21.05.2014 | 28.05.2014 | 04.06.2014 | 14.05.2014 | 28.05.2014 |
| Redemption date | 13.08.2014 | 21.08.2014 | 27.08.2014 | 03.09.2014 | 01.04.2015 | 27.05.2015 |
| Maximum yield (%) - ISMA | 2.44 | 2.42 | 2.40 | 2.42 | 2.50 | 2.45 |
| Minimum yield (%) - ISMA | 2.35 | 2.38 | 2.38 | 2.36 | 2.43 | 2.36 |
| Average yield (%) - ISMA | 2.40 | 2.41 | 2.40 | 2.41 | 2.47 | 2.42 |
| Maximum yield (%) - EHM | 2.47 | 2.45 | 2.43 | 2.45 | 2.53 | 2.48 |
| Minimum yield (%) - EHM | 2.38 | 2.41 | 2.41 | 2.39 | 2.46 | 2.39 |
| Average yield (%) - EHM | 2.43 | 2.44 | 2.43 | 2.44 | 2.50 | 2.45 |
| Average selling price (%) | 99.3970 | 99.3879 | 99.3970 | 99.3945 | 97.8385 | 97.6116 |
| Amount offered for sale (HUF million) | 60,000.00 | 60,000.00 | 60,000.00 | 60,000.00 | 60,000.00 | 60,000.00 |
| Amount of bids submitted (HUF million) | 154,715.90 | 169,607.26 | 155,520.00 | 118,380.51 | 119,740.00 | 148,080.00 |
| Amount of bids accepted (HUF million) | 89,999.91 | 89,999.94 | 89,999.89 | 69,999.90 | 79,999.92 | 79,999.96 |
| Bid-to-cover ratio | 1.72 | 1.88 | 1.73 | 1.69 | 1.50 | 1.85 |
| Bids submitted (pcs) | 100 | 97 | 89 | 93 | 112 | 127 |
| Bids accepted (pcs) | 65 | 60 | 36 | 69 | 82 | 43 |
| Market sales* (HUF million) | 89,999.91 | 89,999.94 | 89,999.89 | 69,999.90 | 79,999.92 | 79,999.96 |
| Retained on ÁKK's own account | 27,000.09 | 27,000.06 | 27,000.11 | 21,000.10 | 24,000.08 | 80,000.04 |
| Total amount issued (HUF million) | 117,000.00 | 117,000.00 | 117,000.00 | 91,000.00 | 104,000.00 | 160,000.00 |

*Without issuance onto ÁKK's own account

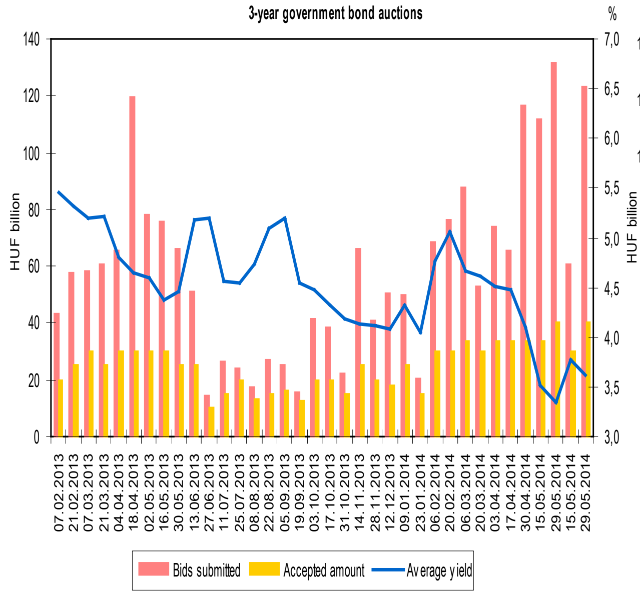


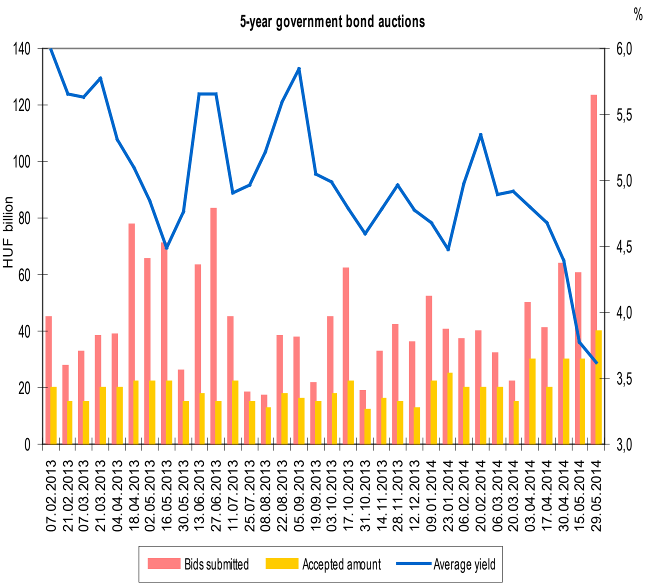



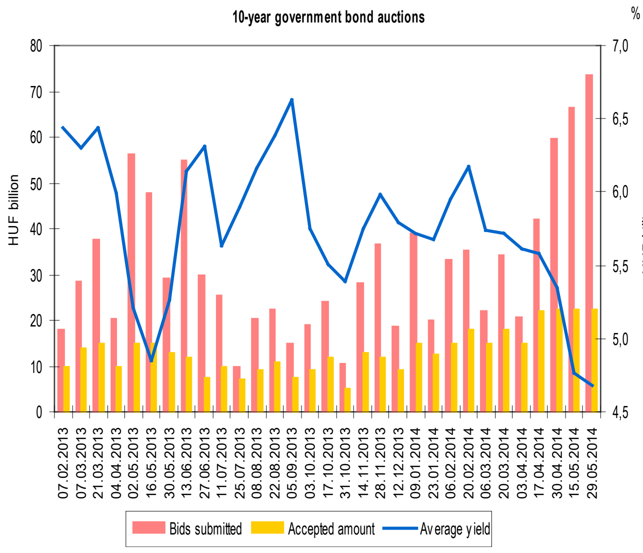
## GOVERNMENT BOND AUCTION RESULTS

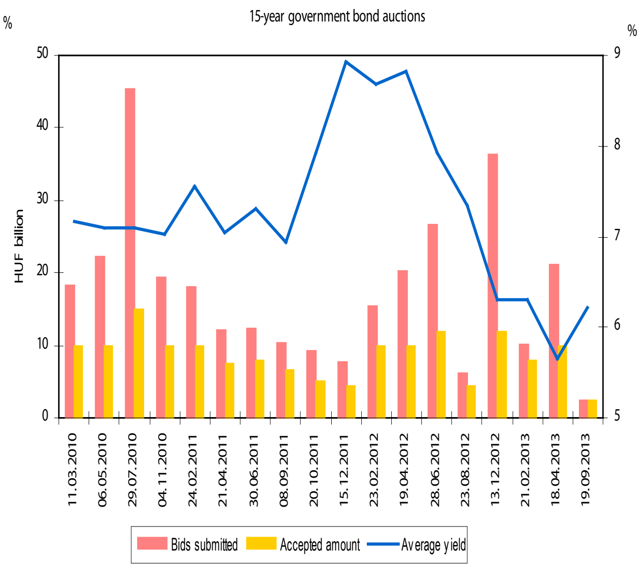
| Government Bond | 2017/C | 2018/B | 2019/A | 2025/B | 2017/C | 2018/B | 2019/A | 2025/B |
|---|---|---|---|---|---|---|---|---|
| ISIN code | HU0000402821 | HU0000402730 | HU0000402433 | HU0000402748 | HU0000402821 | HU0000402730 | HU0000402433 | HU0000402748 |
| Maturity (in years) | 3 | 3 | 5 | 10 | 3 | 3 | 5 | 10 |
| Coupon (%) | 2.65% | 4.00% | 6.50% | 5.50% | 2.65% | 4.00% | 6.50% | 5.50% |
| Auction | 2nd auction | 10th auction | 70th auction | 10th auction | 3rd auction | 11th auction | 71st auction | 11th auction |
| Date of auction | 08.05.2014 | 15.05.2014 | 15.05.2014 | 15.05.2014 | 22.05.2014 | 29.05.2014 | 29.05.2014 | 29.05.2014 |
| Date of financial settlement | 14.05.2014 | 21.05.2014 | 21.05.2014 | 21.05.2014 | 28.05.2014 | 04.06.2014 | 04.06.2014 | 04.06.2014 |
| Redemption date | 20.12.2017 | 25.04.2018 | 24.06.2019 | 24.06.2025 | 20.12.2017 | 25.04.2018 | 24.06.2019 | 24.06.2025 |
| Maximum annual yield (%) - ISMA | | 3.54 | 3.80 | 4.79 | | 3.34 | 3.62 | 4.68 |
| Minimum annual yield (%) - ISMA | | 3.49 | 3.75 | 4.75 | | 3.34 | 3.62 | 4.68 |
| Average annual yield (%) - ISMA | | 3.52 | 3.77 | 4.76 | | 3.34 | 3.62 | 4.68 |
| Maximum annual yield (%) - EHM | | 3.54 | 3.80 | 4.79 | | 3.34 | 3.62 | 4.68 |
| Minimum annual yield (%) - EHM | | 3.49 | 3.75 | 4.75 | | 3.34 | 3.62 | 4.68 |
| Average annual yield (%) - EHM | | 3.51 | 3.77 | 4.76 | | 3.34 | 3.62 | 4.68 |
| Maximum price (%) | 99.0500 | 101.8381 | 112.5277 | 106.3549 | 99.0500 | 102.3645 | 113.0829 | 106.9539 |
| Minimum price (%) | 98.7600 | 101.6554 | 112.2820 | 106.0032 | 98.6700 | 102.3645 | 113.0829 | 106.9539 |
| Average price (%) | 98.9600 | 101.7456 | 112.4381 | 106.2359 | 98.7700 | 102.3645 | 113.0829 | 106.9539 |
| Amount offered for sale (HUF million) | 30,000.00 | 25,000.00 | 20,000.00 | 15,000.00 | 40,000.00 | 30,000.00 | 30,000.00 | 15,000.00 |
| Amount of bids submitted (HUF million) | 116,890,00 | 111,922,98 | 60,427,77 | 66,275,00 | 57,601,00 | 131,776.24 | 123,475.00 | 73,550,00 |
| Amount of bids accepted (HUF million) | 40,000.00 | 33,499.98 | 29,999.98 | 22,499.99 | 39,999.99 | 40,000.00 | 39,999.98 | 22,500.00 |
| Bid-to-cover ratio | 2.92 | 3.34 | 2.01 | 2.95 | 1.44 | 3.29 | 3.09 | 3.27 |
| Bids submitted (pcs) | 102 | 89 | 66 | 59 | 66 | 75 | 72 | 60 |
| Bids accepted (pcs) | 21 | 29 | 24 | 20 | 50 | 13 | 14 | 13 |
| Tail (average price - minimum price) | 0.20 | 0.09 | 0.16 | 0.23 | 0.10 | 0.00 | 0.00 | 0.00 |
| Market sales* (HUF million) | 40,000.00 | 33,499.98 | 29,999.98 | 22,499.99 | 39,999.99 | 40,000.00 | 39,999.98 | 22,500.00 |
| Non-competitive offer (HUF million) | 11,720.00 | 3,320.00 | 1,688.00 | 0.00 | 1,360.00 | 15,120.00 | 15,119.98 | 8,120.00 |
| Total amount issued (HUF million) | 80,000.00 | 46,900.00 | 42,000.00 | 31,500.00 | 56,000.00 | 56,000.00 | 56,000.00 | 31,500.00 |

*Without issuance onto ÁKK's own account



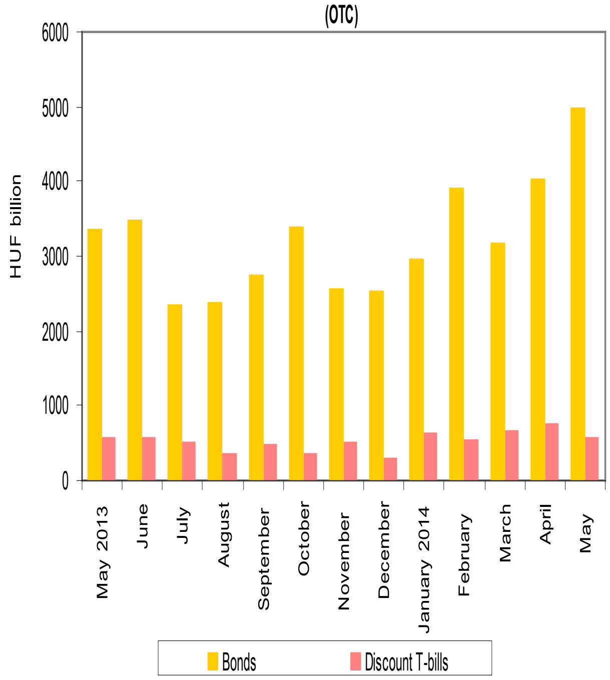



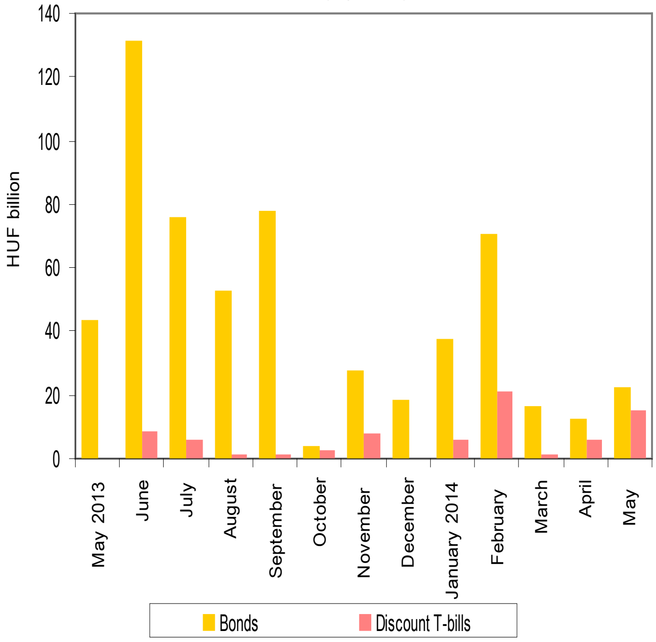
## INTEREST RATE RESETS OF FLOATING RATE GOVERNMENT BONDS IN MAY 2014

| Government Bond | Date of interest rate reset | Interest period | | Date of interest payment | Reset interest rate (%) | Interest payable (%) |
|---|---|---|---|---|---|---|
| 2019/B | 14.05.2014 | 20.05.2014 | 20.11.2014 | 20.11.2014 | 2.41 | 1.23 |
| 2017/J | 08.05.2014 | 10.05.2014 | 10.05.2015 | 11.05.2015 | 4.70 | 4.70 |

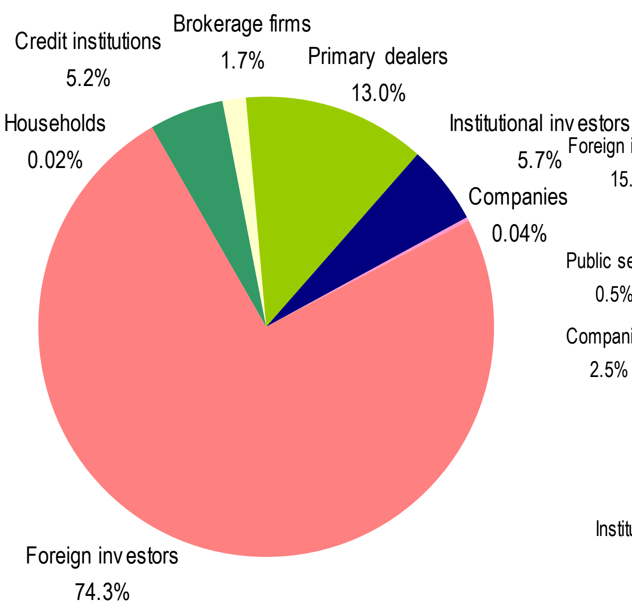
Secondary market trading of Hungarian government securities (OTC)



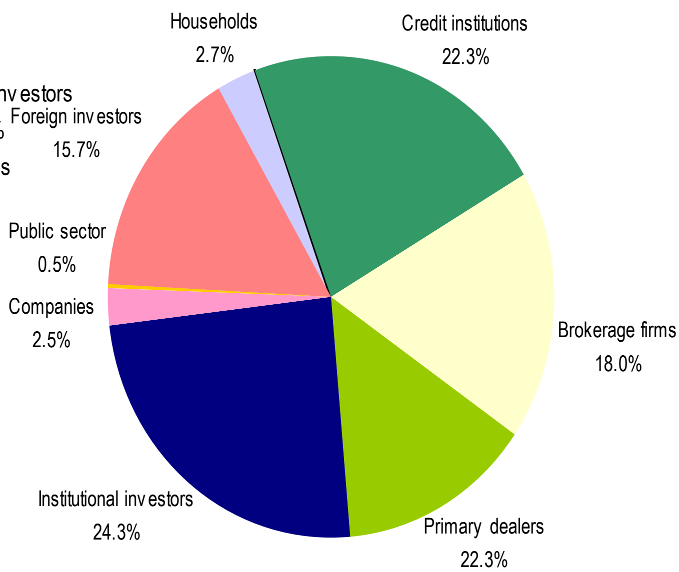

Secondary market trading of Hungarian government securities (MTS Hungary trading)




Breakdown of primary dealers' secondary market turnover in government bonds by investor groups in May 2014




Breakdown of primary dealers' secondary market turnover in Discount Treasury Bills by investor groups in May 2014



## HUNGARIAN GOVERNMENT SECURITIES INDICES

| | MAX index | RMAX index | MAX Composite index | ZMAX index |
|---|---|---|---|---|
| Value as at 30 May 2014 | 615.9218 | 527.4713 | 594.5108 | 517.9476 |
| Changes compared to the end of the month before | 15.7330 | 1.3132 | 12.8648 | 0.9050 |
| Annual yield earned on the index portfolio | 10.53% | 4.51% | 9.13% | 3.66% |

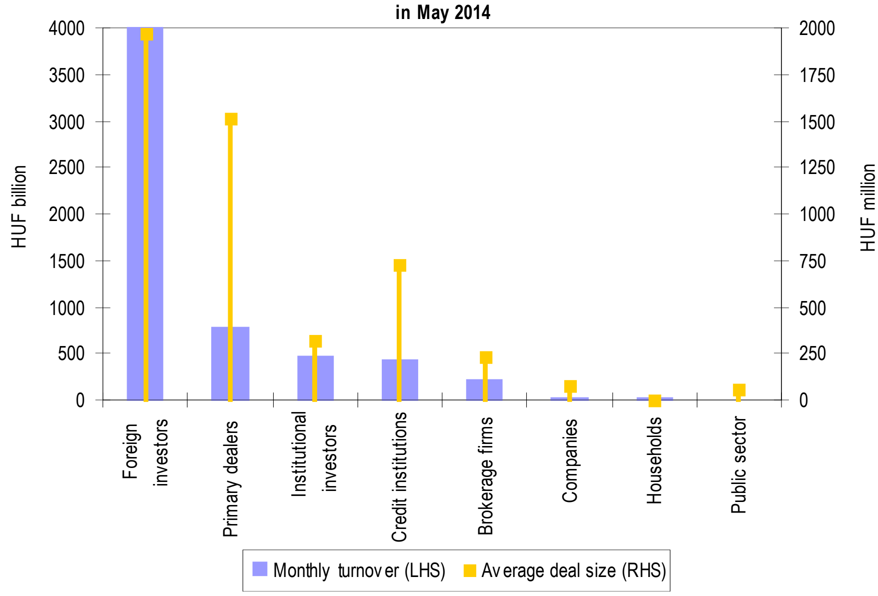
**Government securities with the highest secondary market turnover in May 2014**

| Government security | Date of redemption | Turnover (HUF billion) |
|---|---|---|
| 2023/A | 24.11.2023 | 1,179.4 |
| 2019/A | 24.06.2019 | 796.0 |
| 2015/C | 24.08.2015 | 450.0 |
| 2017/A | 24.11.2017 | 442.0 |
| 2018/B | 25.04.2018 | 381.5 |
| 2022/A | 24.06.2022 | 377.4 |
| 2025/B | 24.06.2025 | 236.5 |
| 2020/A | 12.11.2020 | 230.1 |
| 2015/A | 12.02.2015 | 223.6 |
| 2016/D | 22.12.2016 | 210.8 |

**The outstanding volume of government bonds with benchmark status at the end of May 2014**

| | HUF billion | |
|---|---|---|
| Government bond | 30.04.2014 | 30.05.2014 |
| 2018/B | 280.16 | 363.00 |
| 2019/A | 852.39 | 926.08 |
| 2025/B | 149.84 | 201.06 |
| 2028/A | 120.84 | 120.86 |

**Primary dealers' trading with different investor groups in May 2014**




**Non-residents' holdings of Hungarian government securities during the last year and the MAX index**