GOVERNMENT SECURITIES MARKET

MONTHLY REPORT
DECEMBER 2017

The net issuance was HUF 1,800.2 billion; out of which net HUF-denominated issuance was HUF 2,258.5 billion and net foreign currency denominated redemption was HUF 458.4 billion in 2017.

CENTRAL GOVERNMENT DEBT

	2016		2017		Change	
(HUF billion)	December	%	December	%	HUF billion	%
HUF denominated debt	18,430.9	72.5	20,689.4	77.4	2,258.5	12.3
Loans	865.0	3.4	1,041.1	3.9	176.1	20.4
Government bonds	11,601.6	45.6	11,806.3	44.1	204.8	1.8
Retail securities	5,067.9	19.9	6,802.9	25.4	1,734.9	34.2
Discount treasury bills	896.4	3.5	1,039.2	3.9	142.8	15.9
Foreign exchange denominated debt	6,256.5	24.6	5,782.5	21.6	-474.0	-7.6
Total	24,687.4	97.1	26,472.0	99.0	1,784.6	7.2
Other obligations	742.7	2.9	274.2	1.0	-468.4	-63.1
Total central government debt	25,430.0	100.0	26,746.2	100.0	1,316.2	5.2

The HUF denominated debt of the central government increased by HUF 2,258.5 billion in 2017. The increase in domestic debt was the result of the total amount of retail government securities increased by HUF 1,734.9 billion, the amount of discount Treasury bills increased by HUF 142.8 billion and the net government bond issuance was HUF 204.8 billion. The stock of non-marketable government bonds hasn't changed. The volume of HUF loans increased by HUF 176.1 billion in 2017.

The foreign currency debt of the central government decreased by HUF 474.0 billion in 2017. The Panda bond issue increased the debt by HUF 38.8 billion, the euro bond issued as a part of the International Bond Exchange transaction increased by HUF 312.4 billion. The domestic P€MAK and residence bond issuance was HUF 213.0 billion, while the redemptions of foreign currency debt worth HUF 1,154.8 billion decreased the debt. The drawdown of foreign currency denominated revolving loans worth HUF 107.8 billion and the foreign currency loans were HUF 24.4 billion during the year. The exchange rate revaluations totalling HUF 15.6 billion decreased the Hungarian Forint value of the foreign currency debt in 2017. The total amount of other liabilities decreased by HUF 468.4 billion in 2017.

In October 2017 Hungary executed its first ever International Bond Exchange transaction, where USD 1.16 billion USD bonds were bought back and issued an EUR 1 billion 10 year euro bond.

BENCHMARK YIELDS

Maturity	30.12.2016	30.11.2017	29.12.2017	Change in December basis point
3-month	0.06	-0.01	-0.01	0
6-month	0.08	0.00	0.01	1
1-year	0.15	-0.01	0.02	3
3-year	0.82	0.57	0.51	-6
5-year	1.67	1.09	1.09	0
10-year	3.16	2.13	2.02	-11
15-year	3.66	2.82	2.72	-10

Monthly OTC turnover of government securities decreased by 26% to HUF 3,355.1 billion in December. Primary dealers, who account for the decisive part of all secondary government securities trading, made 71% of their secondary government securities deals with non-resident investors.

The volume of non-residents' holdings of Hungarian government securities decreased altogether by HUF 13.1 billion in December and amounted to HUF 3,385.4 billion at the end of the month. This volume represented 17.2% of the total amount of domestic government securities.

The EUR/HUF exchange rate according to the National Bank of Hungary was 310.14 on the last working day of December.

The credit rating of the long-term foreign currency debt of Hungary is as follows on the last working day of December: BBB- (Standard & Poor's); Baa3 (Moody's); BBB- (Fitch). Fitch Ratings revised Hungary's sovereign credit outlook to "positive" from "stable" in November.

GOVERNMENT SECURITIES MARKET

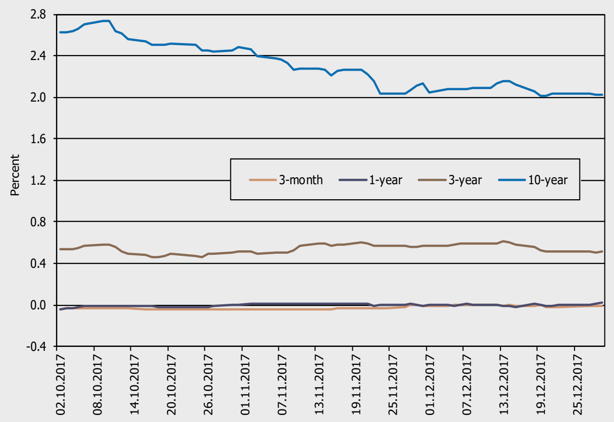
CENTRAL GOVERNMENT GROSS DEBT

HUF BILLION

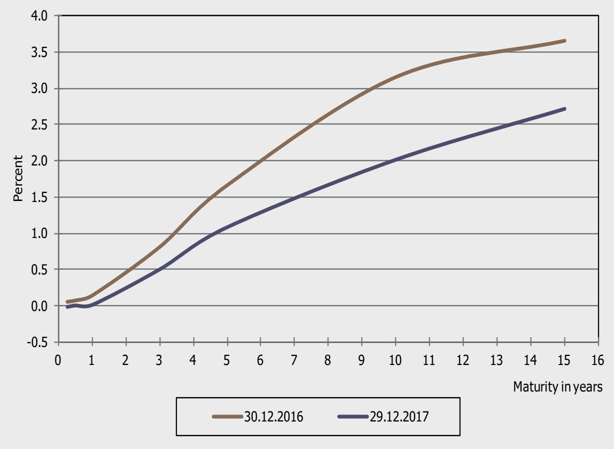
	2012	2013	2014	2015	2016	2017 October	2017 November	2017 December
1. Forint denominated debt	12,042.4	12,976.4	14,612.0	16,207.9	18,430.9	20,386.5	20,721.1	20,689.4
1.1. Loans	566.8	603.6	623.3	694.1	865.0	901.1	1,012.9	1,041.1
1.2. Government securities	11,475.6	12,372.8	13,988.7	15,513.8	17,565.8	19,485.4	19,708.2	19,648.3
1.2.1. Public issues	11,077.1	12,182.3	13,847.7	15,462.3	17,526.7	19,446.3	19,669.0	19,609.2
1.2.1.1. Bonds	8,184.1	8,588.8	9,848.0	11,043.4	11,562.4	12,069.8	11,906.8	11,767.1
1.2.1.2. Discount T-bills	1,906.5	1,904.9	1,588.6	901.6	896.4	711.5	1,094.6	1,039.2
1.2.1.3. Retail securities	986.6	1,688.5	2,411.1	3,517.4	5,067.9	6,665.0	6,667.6	6,802.9
1.2.2. Private placements	398.5	190.5	141.0	51.5	39.2	39.2	39.2	39.2
2. Foreign currency denominated debt*	8,326.6	8,904.9	8,957.9	7,735.8	6,256.5	5,899.7	5,931.5	5,782.5
2.1. Loans	3,312.5	2,735.6	2,164.3	1,696.8	1,101.6	992.2	1,003.1	929.1
2.1.1. Foreign loans	3,229.0	2,400.2	1,889.9	1,614.2	1,097.6	992.2	1,003.1	929.1
2.1.2. Domestic loans	83.5	335.4	274.4	82.6	4.0	0.0	0.0	0.0
2.2. Government securities	5,014.1	6,169.3	6,793.6	6,039.0	5,154.9	4,907.5	4,928.4	4,853.5
2.2.1. Issued abroad	4,924.2	5,736.9	5,844.6	5,198.9	4,618.9	4,200.5	4,217.5	4,145.9
2.2.2. Issued domestically	89.9	432.5	948.9	840.1	536.0	707.0	710.9	707.6
Total	20,369.0	21,881.4	23,569.9	23,943.7	24,687.4	26,286.2	26,652.6	26,472.0
Other liabilities	351.10	117.30	311.20	756.00	742.70	314.9	281.8	274.2
Total central government debt	20,720.1	21,998.6	23,881.1	24,699.7	25,430.0	26,601.1	26,934.5	26,746.2
Marketable HUF debt (1.2.1.1+1.2.1.2+1.2.2)	10,489.1	10,684.2	11,577.6	11,996.5	12,498.0	12,820.5	13,040.6	12,845.5
Gross debt/GDP	72.0%	72.7%	73.3%	72.0%	71.8%			

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

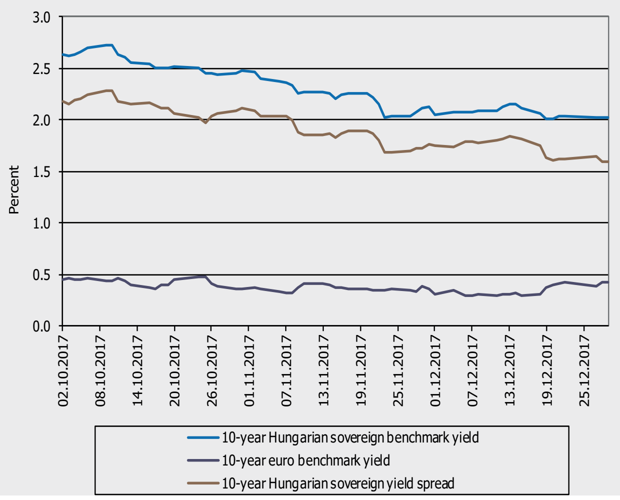
Benchmark yields



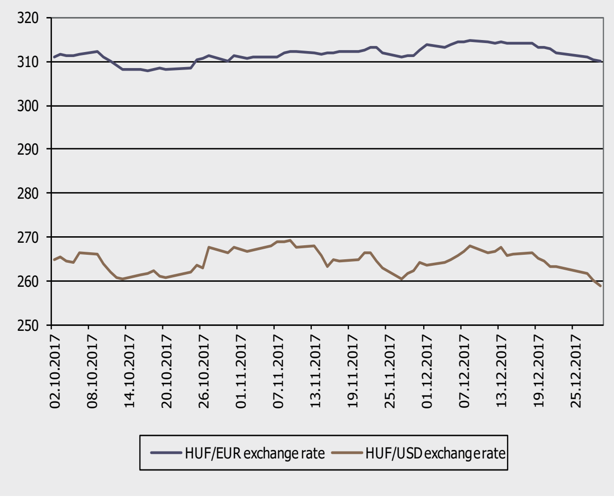
Benchmark yield curves



10-year Hungarian and eurozone benchmark yields



The exchange rate of the Hungarian Forint



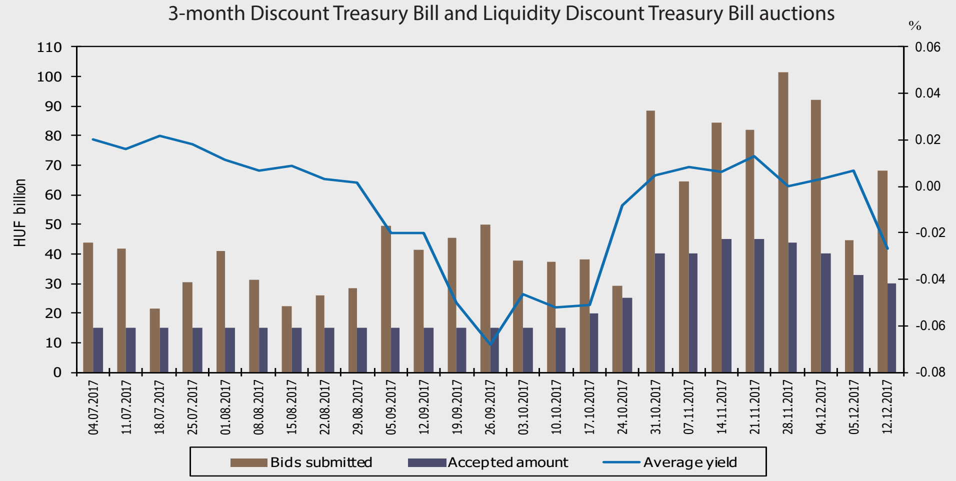
GOVERNMENT SECURITIES MARKET

DISCOUNT TREASURY BILL AUCTION RESULTS

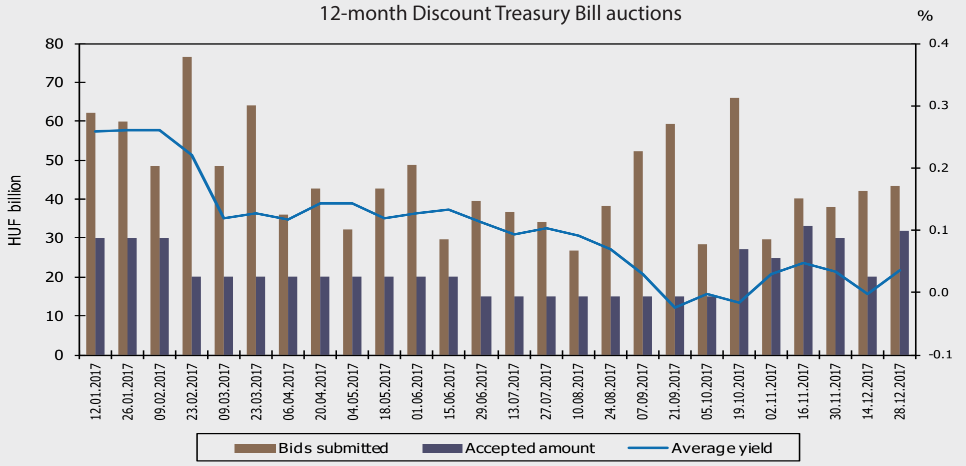
	Liuquidity Disc T-bills		3-month Discount T-bills			12-month Discount T-bills	
Code of T-bills	D180124	D180131	D180314	D180321	D180328	D181121	D181227
ISIN code	HU0000521786	HU0000521794	HU0000521851	HU0000521869	HU0000521877	HU0000521844	HU0000521893
Maturity in days	49	49	91	91	91	336	358
Date of auction	04.12.2017	11.12.2017	05.12.2017	12.12.2017	19.12.2017	14.12.2017	28.12.2017
Date of financial settlement	06.12.2017	13.12.2017	13.12.2017	20.12.2017	27.12.2017	20.12.2017	03.01.2018
Redemption date	24.01.2018	31.01.2018	14.03.2018	21.03.2018	28.03.2018	21.11.2018	27.12.2018
Maximum yield (%) - ISMA	0.01	0.00	0.01	0.00	0.00	0.01	0.05
Minimum yield (%) - ISMA	0.00	0.00	0.00	-0.03	0.00	-0.03	0.00
Average yield (%) - ISMA	0.00	0.00	0.01	-0.03	0.00	0.00	0.04
Maximum yield (%) - EHM	0.01	0.00	0.01	0.00	0.00	0.01	0.05
Minimum yield (%) - EHM	0.00	0.00	0.00	-0.03	0.00	-0.03	0.00
Average yield (%) - EHM	0.00	0.00	0.01	-0.03	0.00	0.00	0.04
Average selling price (%)	99.9996	0.00	99.9982	100.0068	0.00	100.0024	99.9641
Amount offered for sale (HUF million)	30,000.00	30,000.00	40,000.00	40,000.00	30,000.00	20,000.00	40,000.00
Amount of bids submitted (HUF million)	92,009.00	-	44,600.00	68,304.80	49,900.00	41,943.62	43,300.00
Amount of bids accepted (HUF million)	40,000.00	-	33,000.00	30,000.00	-	19,999.98	31,999.95
Bid-to-cover ratio	2.30	-	1.35	2.28	-	2.10	1.35
Bids submitted (pcs)	33	30	24	33	21	38	48
Bids accepted (pcs)	12	-	17	7	-	24	33
Market sales* (HUF million)	40,000.00	-	33,000.00	30,000.00	-	19,999.98	31,999.95
Retained on ÁKK's own account (HUF million)	-	-	9,900.00	9,000.00	-	20,000.02	32,000.05
Total amount issued (HUF million)	40,000.00	-	42,900.00	39,000.00	-	40,000.00	64,000.00

* Without issuance onto ÁKK's own account

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



12-month Discount Treasury Bill auctions

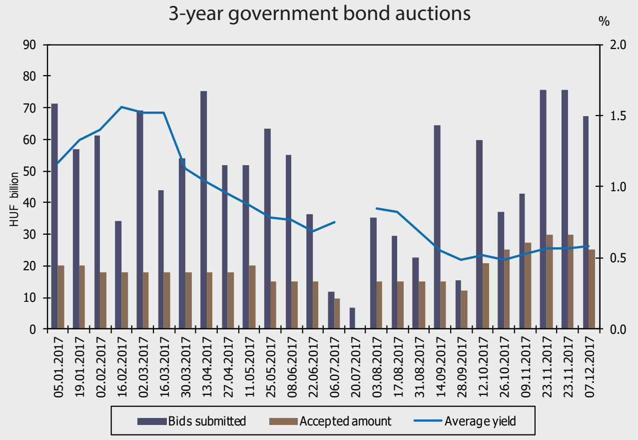


GOVERNMENT SECURITIES MARKET

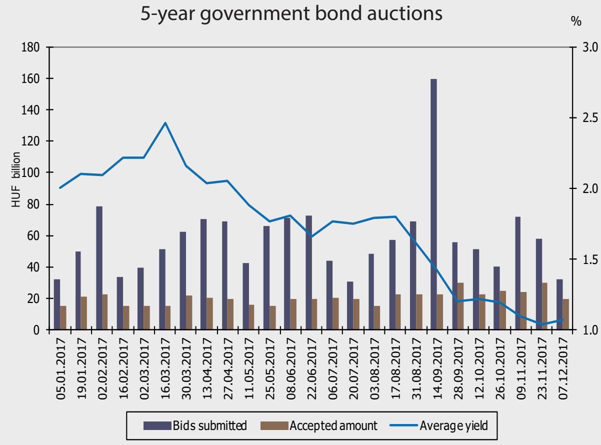
GOVERNMENT BOND AUCTION RESULTS

Government Bond	2020/C	2022/B	2031/A
ISIN code	HU0000403258	HU0000403266	HU0000403001
Maturity (in years)	3	5	15
Coupon	1.00%	1.75%	3.25%
Auction	25th auction	25th auction	15th auction
Date of auction	07.12.2017	07.12.2017	07.12.2017
Date of financial settlement	13.12.2017	13.12.2017	13.12.2017
Redemption date	23.09.2020	26.10.2022	22.10.2031
Maximum annual yield (%) - ISMA	0.60	1.09	2.82
Minimum annual yield (%) - ISMA	0.57	1.06	2.78
Average annual yield (%) - ISMA	0.58	1.07	2.80
Maximum annual yield (%) - EHM	0.60	1.09	2.82
Minimum annual yield (%) - EHM	0.57	1.06	2.78
Average annual yield (%) - EHM	0.58	1.07	2.80
Maximum price (%)	101.1821	103.2571	105.3407
Minimum price (%)	101.0983	103.1119	104.8710
Average price (%)	101.1531	103.2134	105.0803
Amount offered for sale (HUF million)	20,000.00	20,000.00	10,000.00
Amount of bids submitted (HUF million)	67,354.00	32,440.00	14,830.80
Amount of bids accepted (HUF million)	25,000.00	19,999.98	8,999.97
Bid-to-cover ratio	2.69	1.62	1.65
Bids submitted (pcs)	32	33	34
Bids accepted (pcs)	12	23	28
Tail (%) (average price - minimum price)	0.05	0.10	0.21
Market sales (HUF million)	25,000.00	19,999.98	8,999.97
Non-competitive offer (HUF million)	5,920.00	4,080.00	0.00
Total amount sales (HUF million)	30,920.00	24,079.98	8,999.97

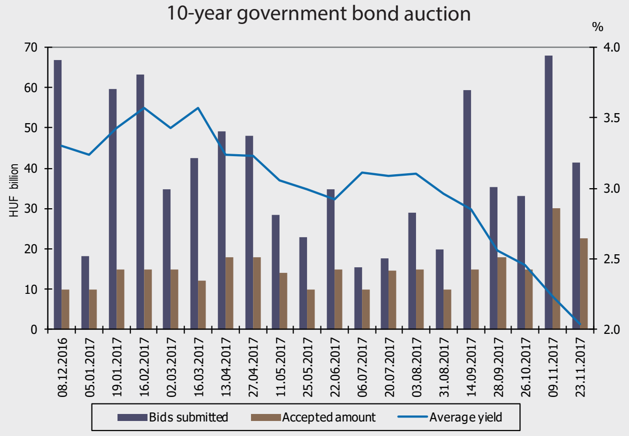
3-year government bond auctions



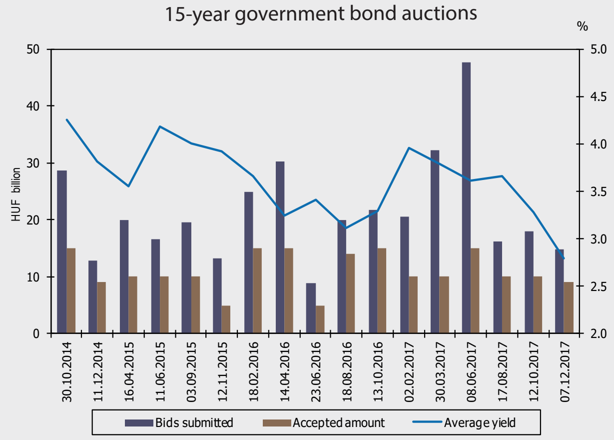
5-year government bond auctions



10-year government bond auction



15-year government bond auctions



GOVERNMENT SECURITIES MARKET

GOVERNMENT SECURITIES BUY-BACK AUCTION RESULTS

Government bond	2018/A	2019/A	2019/D
ISIN code	HU0000402631	HU0000402433	HU0000403126
Coupon (%)	5.50%	6.50%	0.03%
Date of reverse auction	20.12.2017	20.12.2017	20.12.2017
Date of financial settlement	27.12.2017	27.12.2017	27.12.2017
Redemption date	20.12.2018	24.06.2019	28.08.2019
Minimum annual yield (%)	0.00	0.00	100.05
Average annual yield- ISMA (%)	0.01	0.01	99.96
Average annual yield - EHM (%)	0.01	0.01	0.00
Amount of bids submitted (HUF million)	7104.85	8,471.91	38,151.57
Amount of bids accepted (HUF million)	7104.85	8471.91	38,151.57

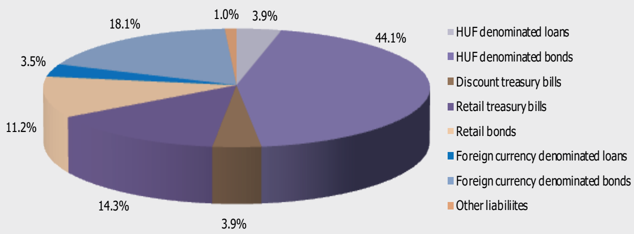
INTEREST RATE RESETS OF FLOATING RATE GOVERNMENT BONDS IN DECEMBER 2017

Government bond	Date of interest rate reset	Interest period		Date of interest payment	Reset interest rate	Interest payable
2021/A	20.12.2017	23.12.2017	23.03.2018	23.03.2018	0.03%	0.01%

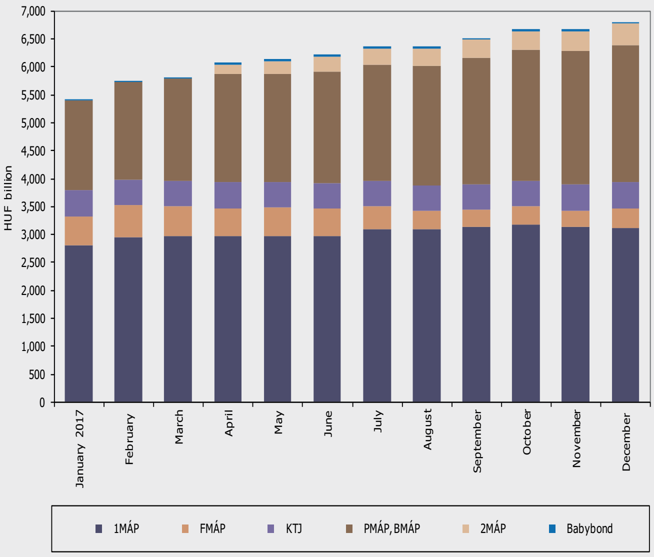
OUTSTANDING AMOUNT OF RETAIL SECURITIES

Retail securities	HUF billion		Change
	31.12.2016	31.12.2017	HUF billion
1-year Hungarian Government Security / 1MÁP	2,636.7	3,109.7	473.1
Half-year Hungarian Government Security / FMÁP	428.9	351.8	-77.1
Treasury Saving Bills / KTJ	453.7	468.7	15.0
Premium and Bonus Hungarian Government Securities / PMÁP, BMÁP	1,521.2	2,457.5	936.3
2-year Hunagrian Government Security / 2MÁP	0.0	376.8	376.8
Babybond	27.4	38.2	10.8
Total	5,067.9	6,802.8	1,734.9

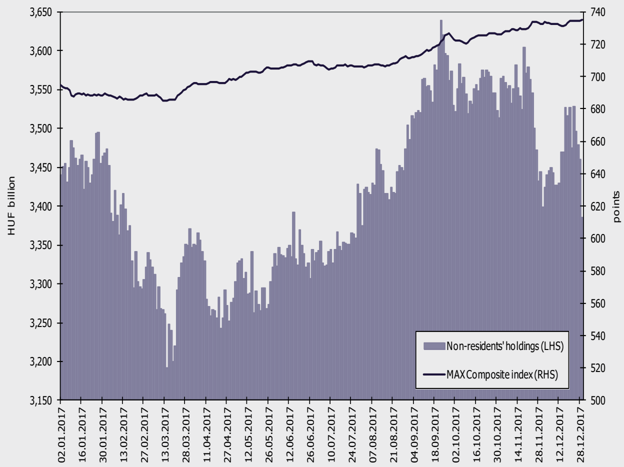
Debt structure at 31.12.2017



Outstanding amount of retail securities during the last year



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



GOVERNMENT SECURITIES MARKET

HUNGARIAN GOVERNMENT SECURITIES INDICES

	MAX index	RMAX index	MAX Composite index	ZMAX index
Value as at 29.12.2017	773.6886	551.7792	735.0165	535.5208
Changes compared to the end of the month before	3.0305	0.1349	2.6585	0.0339
Annual yield earned on the index portfolio (%)	6.50	0.20	5.96	0.10

BENCHMARK INDICES

	3 years	5 years	10 years	15 years
BMX-index value as at 29.12.2017	741.7606	812.6736	610.4935	398.7006
Changes compared to the end of the month before	1.5368	0.7241	6.7149	5.2778
Reference yield (%)	0.51	1.09	2.02	2.72
Annuel yield earned on the index portfolio (%)	3.72	5.88	13.45	14.58

Government bonds with the highest secondary market turnover in December 2017

Government bond	Date of redemption	Turnover (HUF billion)
2027/A	27.10.2027	423.1
2018/B	25.04.2018	285.1
2022/B	26.10.2022	197.1
2018/C	22.06.2018	177.9
2026/D	22.12.2026	153.9
2021/B	27.10.2021	139.4
2025/B	24.06.2025	129.6
2020/C	23.09.2020	70.9
2021/A	23.06.2021	67.8
D180117	17.01.2018	63.7

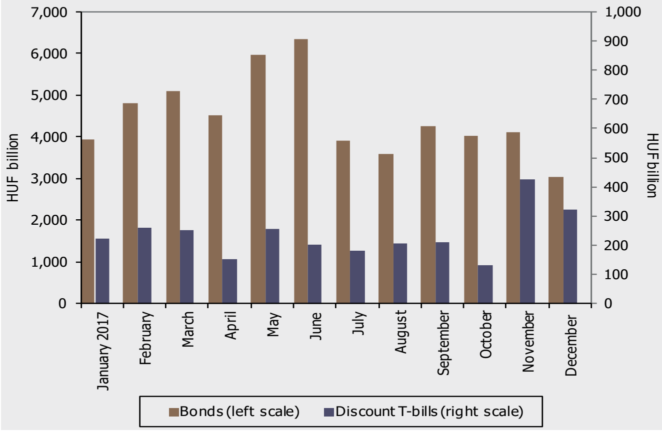
The outstanding volume of government bonds with benchmark status at the end of December 2017

Government bond	HUF billion	
	30.11.2017	31.12.2017
2020/C	502.00	533.26
2022/B	597.01	621.55
2027/A	647.40	647.69
2031/A	192.29	201.29

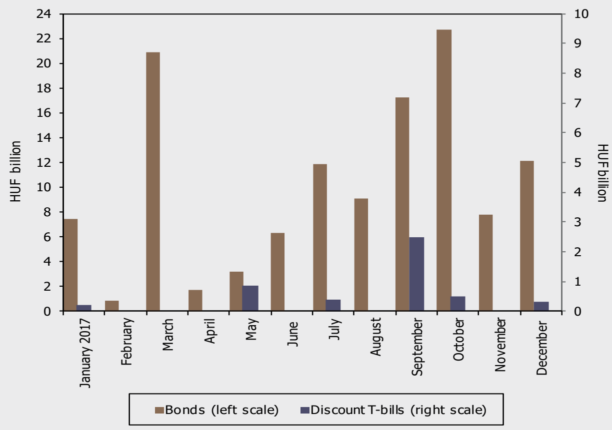
The outstanding volume of the three largest government bonds at the end of December 2017

Government bond	HUF billion
2025/B	1,137.45
2023/A	998.27
2022/A	971.89

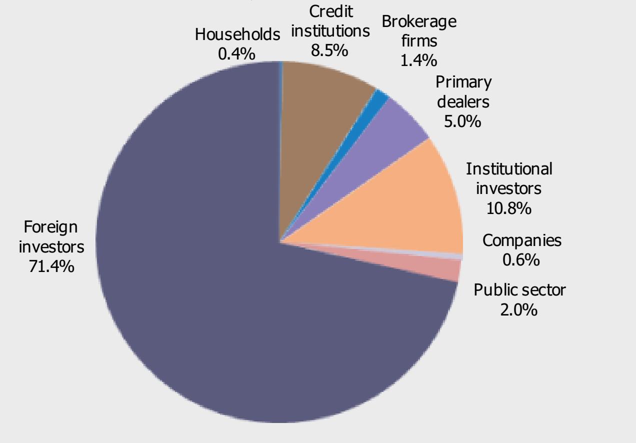
Secondary market trading of Hungarian government securities (OTC)



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



Breakdown of primary dealers' secondary market turnover in Government Bonds by investor groups in December 2017



Breakdown of primary dealers' secondary market turnover in Discount Treasury Bills by investor groups in December 2017