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GOVERNMENT DEBT MANAGEMENT AGENCY
PRIVATE COMPANY LIMITED BY SHARES

**THE GOVERNMENT SECURITIES
MARKET AND FINANCING IN 2006**

**AWARDS FOR THE MOST ACTIVE
PRIMARY DEALERS IN 2006**

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Finance Minister



Host: Ferenc Szarvas
CEO of ÁKK Zrt.

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**The government securities market and
financing in 2006**

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**Head of Planning, Research and
Risk Management,**

**Awards for the most active primary dealers in
2006**

Presented by: Zsolt Bangó

Head of Treasury Department

THE GOVERNMENT SECURITIES MARKET AND FINANCING IN 2006

THE GOVERNMENT SECURITIES MARKET AND FINANCING IN 2006

- 1. Borrowing requirement and financing**
- 2. Main characteristics of government debt at the end of 2006**
- 3. The secondary market and the role of non-resident investors**

Borrowing requirement and financing

BORROWING REQUIREMENT

	2003	2004	2005	2006*
Deficit of the central government (excluding privatisation revenues)	733,6	890,0	544,7	1959,2
<i>Of which: debt assumptions</i>		31,6	180,3	415,9
Financing requirement of the Social Security Funds	345,1	422,9	469,8	124,7
Financing requirement of the extrabudgetary funds	-18,8	-27,9	-30,4	-50,1
Net borrowing requirement	1059,9	1316,7	984,1	2033,8
Capital transfers to the NBH	82,9	0,0	1,1	14,8
Privatisation revenues	-42,0	-166,5	0,0	-268,7
Net pre-financing of direct European Union subsides		12,8	169,0	35,8
Total net borrowing requirement	1100,8	1162,9	1154,2	1815,7
Redemptions	5492,4	5530,9	6150,7	6907,4
Gross borrowing requirement	6593,2	6693,8	7304,9	8723,2

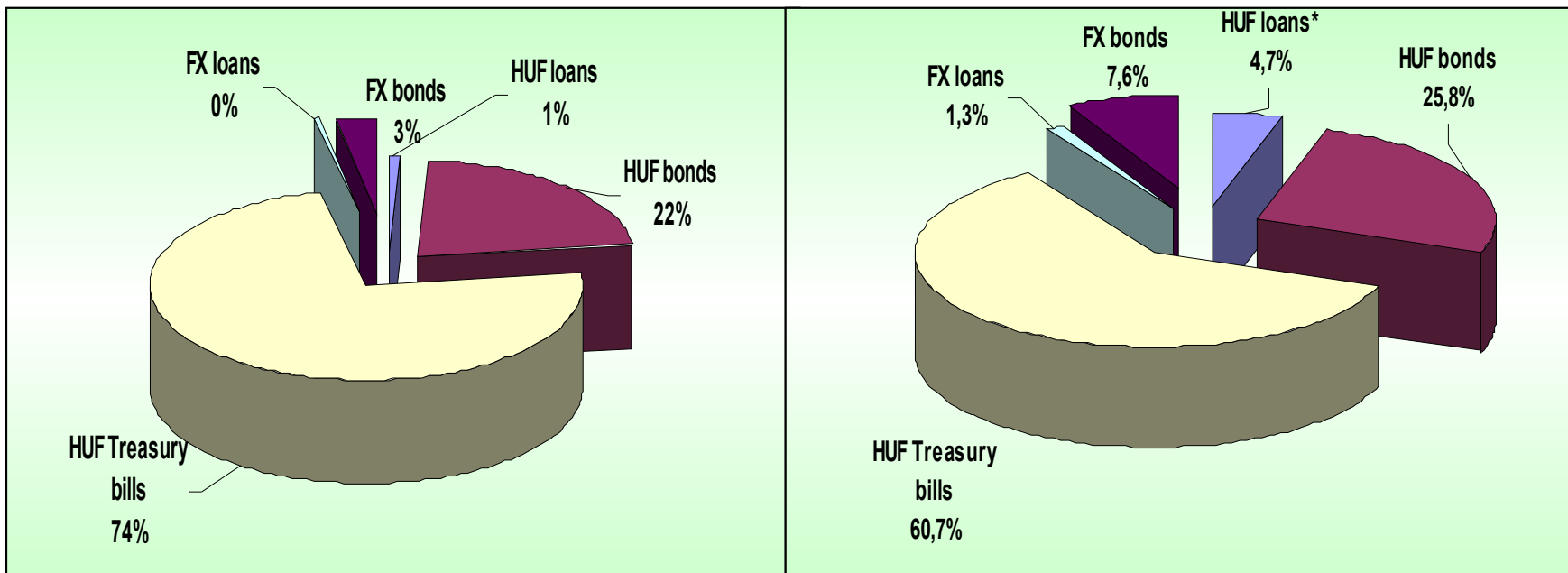
*Preliminary

**Significantly
higher net
borrowing
requirement in
2006, debt
assumptions
and
privatisation
revenues
decrease the
market
borrowing
requirement**

MAIN CHARACTERISTICS OF GROSS FINANCING

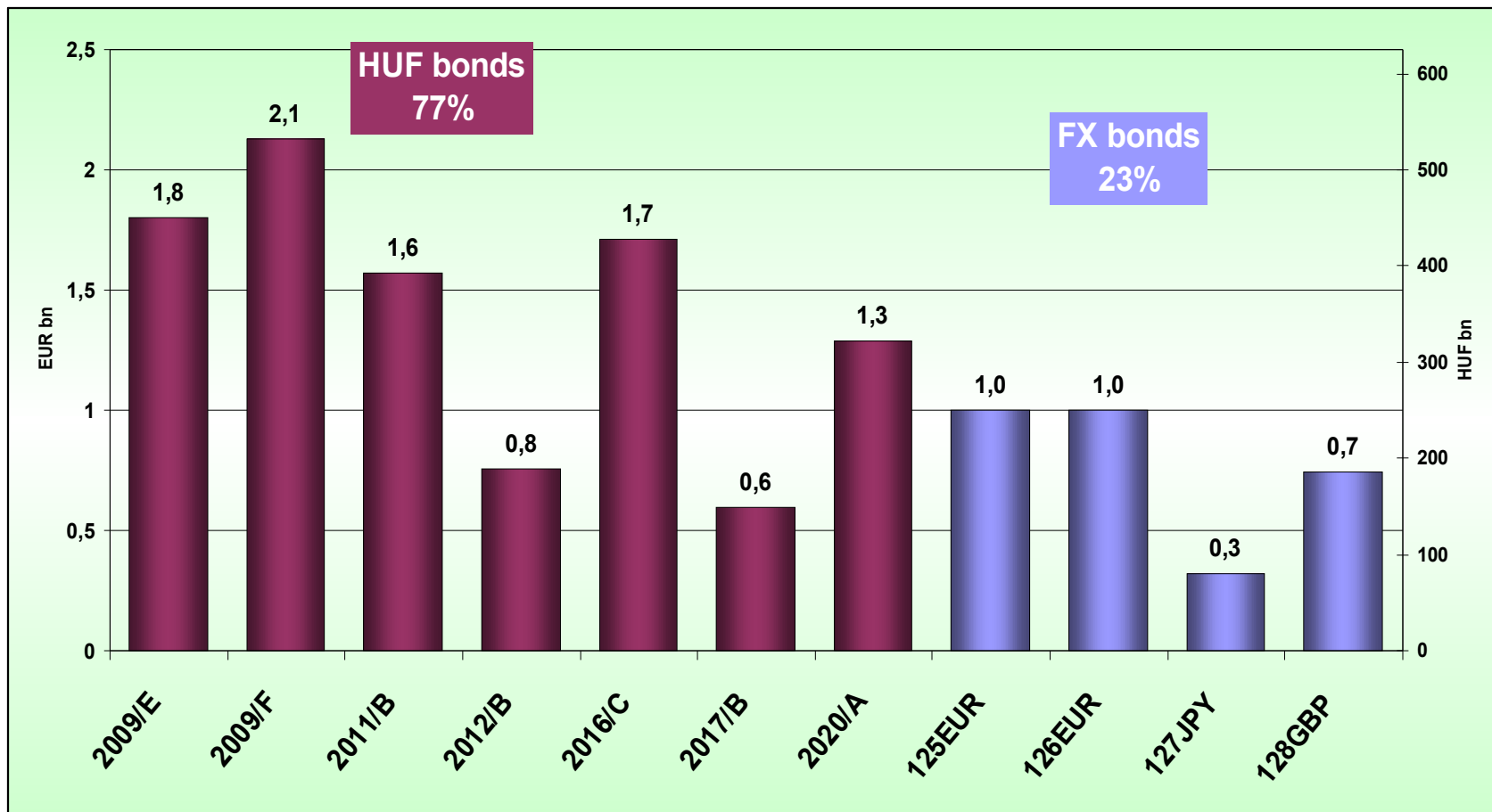
- **HUF 8,881 billion worth of gross issuance.**
- **Breakdown: 91% in Hungarian forint, 9% in foreign currency.**
- **Composition of gross issuance: 61% with term-to-maturity of one year or less, 39% with term-to-maturity of more than a year.**
- **Financing in conformity with benchmarks.**

GROSS ISSUANCE AND REDEMPTION IN 2006



- The role of discount treasury bills is significant.
- Because of HUF-debt assumptions the role of HUF loans is more significant than usually.

BOND SERIES SOLD IN 2006

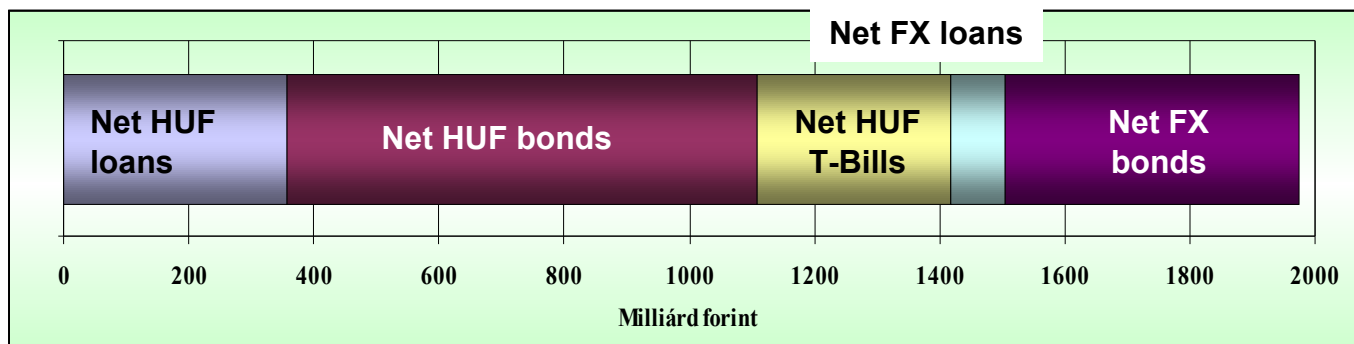
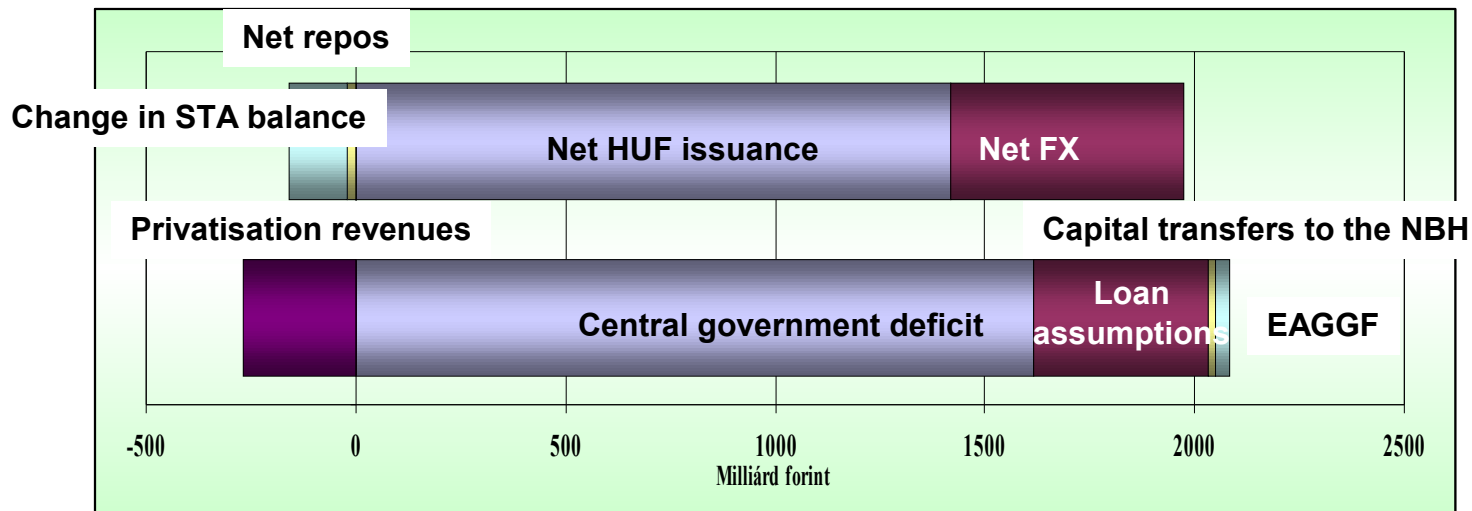


7 HUF bond series and 4 foreign currency bond series.

MAIN CHARACTERISTICS OF NET FINANCING

- **HUF 1974 billion of net issuance.**
- **Breakdown: 72% HUF, 28% foreign currency.**
- **Composition of the net issued securities: 84% with a term-to-maturity of more than a year, 16% with less than a year term-to-maturity.**
- **Net issuance outpaced the HUF 1816 billion net borrowing requirement resulting the increase of the balance of the Single Treasury Account (STA).**

NET BORROWING REQUIREMENT AND FINANCING IN 2006



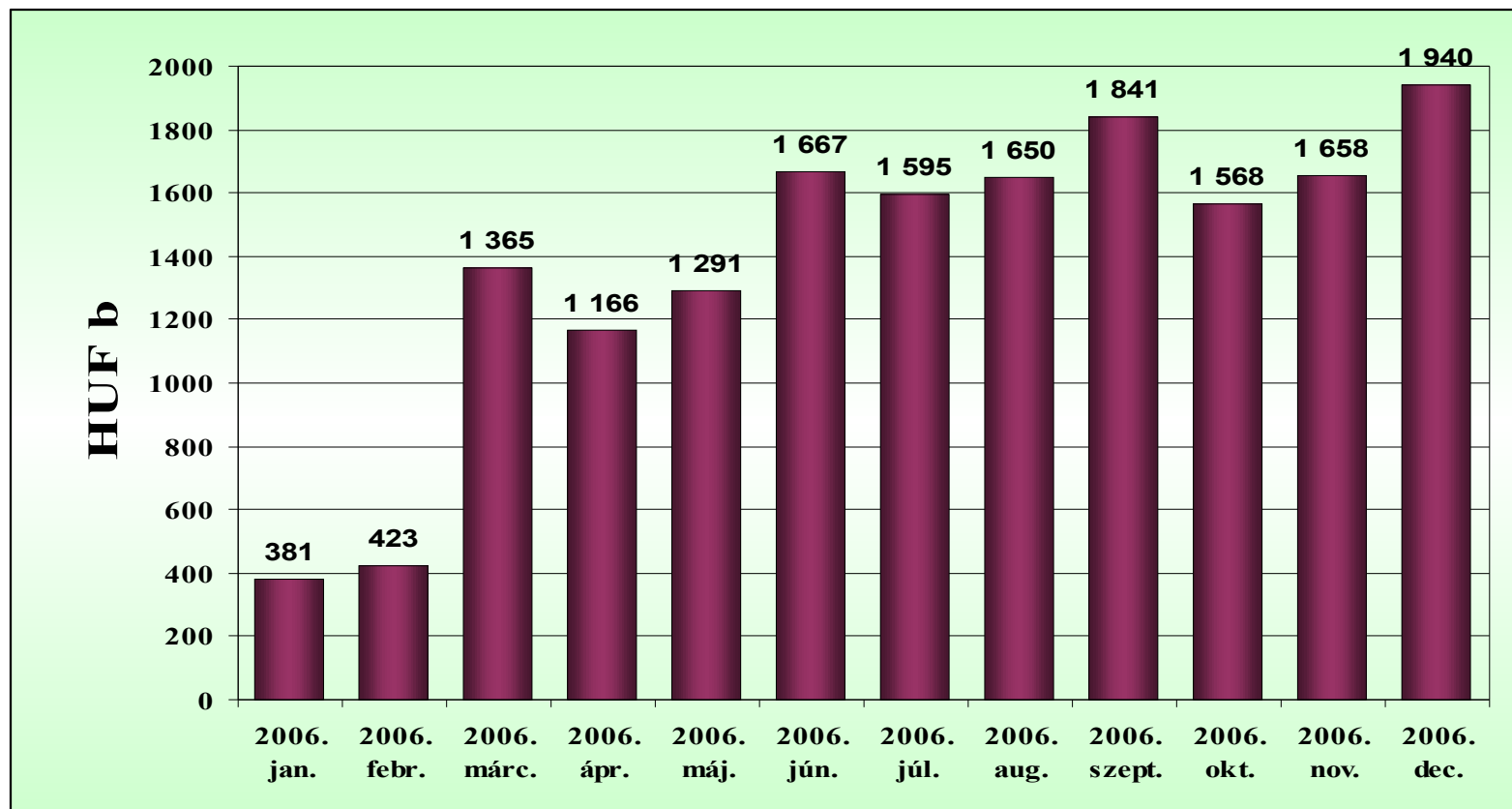
HUF loans: HUF 356 billion, HUF bonds: HUF 751 billion, HUF T-Bills: HUF 311 billion, FX loans: HUF 86 billion, FX bonds: HUF 470 billion.

Main characteristics of government debt at the end of 2006

GOVERNMENT DEBT AT THE END OF 2006

- **Gross debt of central government: HUF 14,706 billion.**
- **Debt/GDP ratio: 62.4% (is not equal to Maastricht debt!)**
- **Increase in 2006: HUF 1,940 billion (15%).**
 - **Out of which:**
 - **Net issuance HUF 1974 billion.**
 - **Net repo balance HUF –21 billion.**
 - **Results of exchange rate movements and other effects HUF -13 billion.**

MONTHLY DEVELOPMENT OF THE PUBLIC DEBT IN 2006



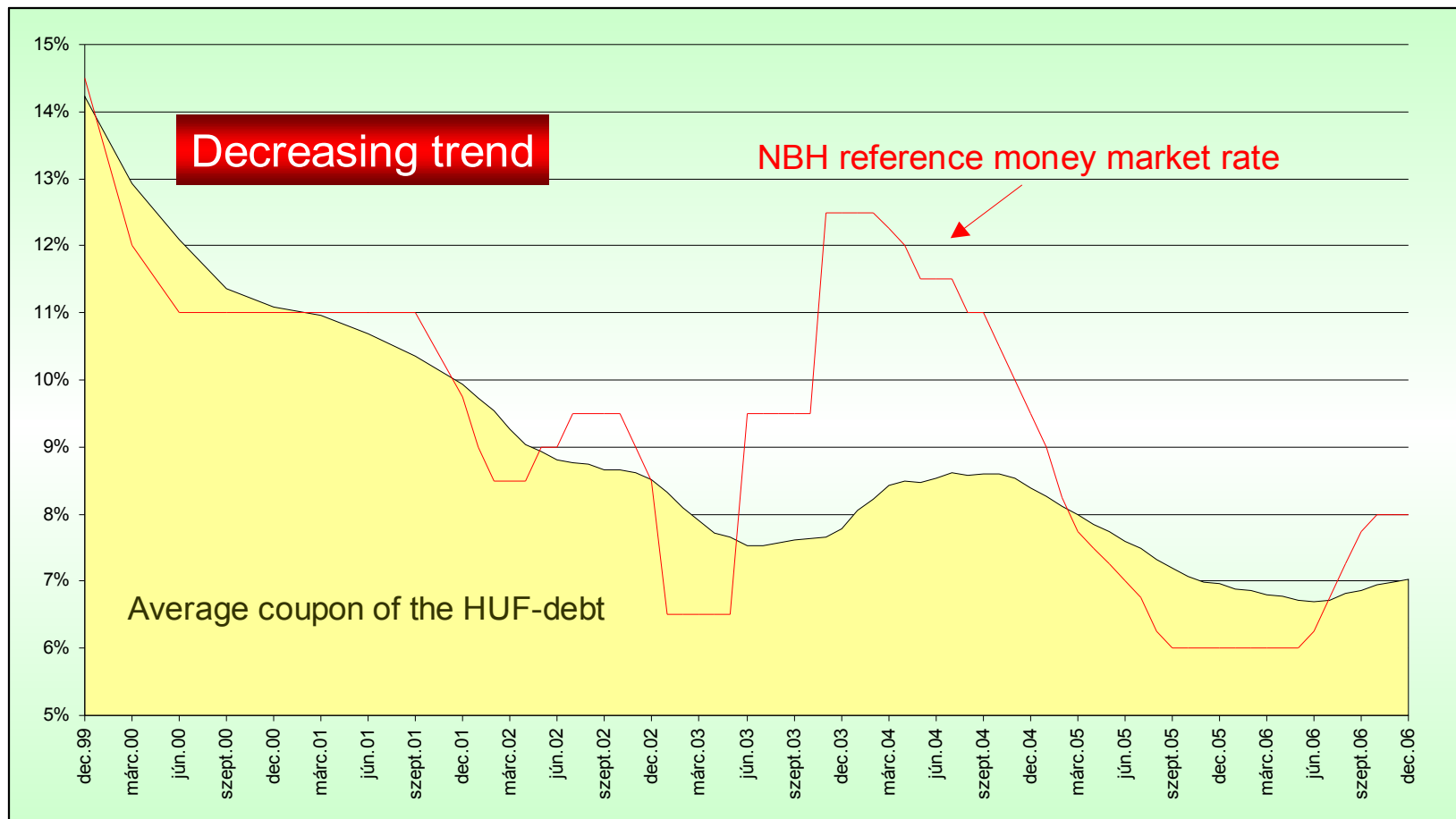
In the first half of the year debt dynamically increased – after that a relatively stable stock each month

CHARACTERISTICS OF THE DEBT AT THE END OF 2006

- **Average term-to-maturity: 3.6 years (HUF-debt), 6.7 years (FX-debt).**
- **Duration: 2.6 years (HUF-debt), 4.2 years (FX-debt).**
- **Small increase (~0.1 years) in the duration of HUF-debt, small decrease by FX-debt.**
- **Currency structure: foreign currency debt 28%, HUF-debt 72%, no changes from last year (the EUR/HUF exchange rate at the end of 2006 is just slightly lower than at the end of 2005).**
- **Composition of FX portfolio: 100% euro.**
- **Interest rate composition:**
 - **HUF: 69% fixed, 31% floating-rate,**
 - **FX: 66% fixed, 34% floating-rate.**

**In conformity with
the benchmarks set
by the debt
management
strategy**

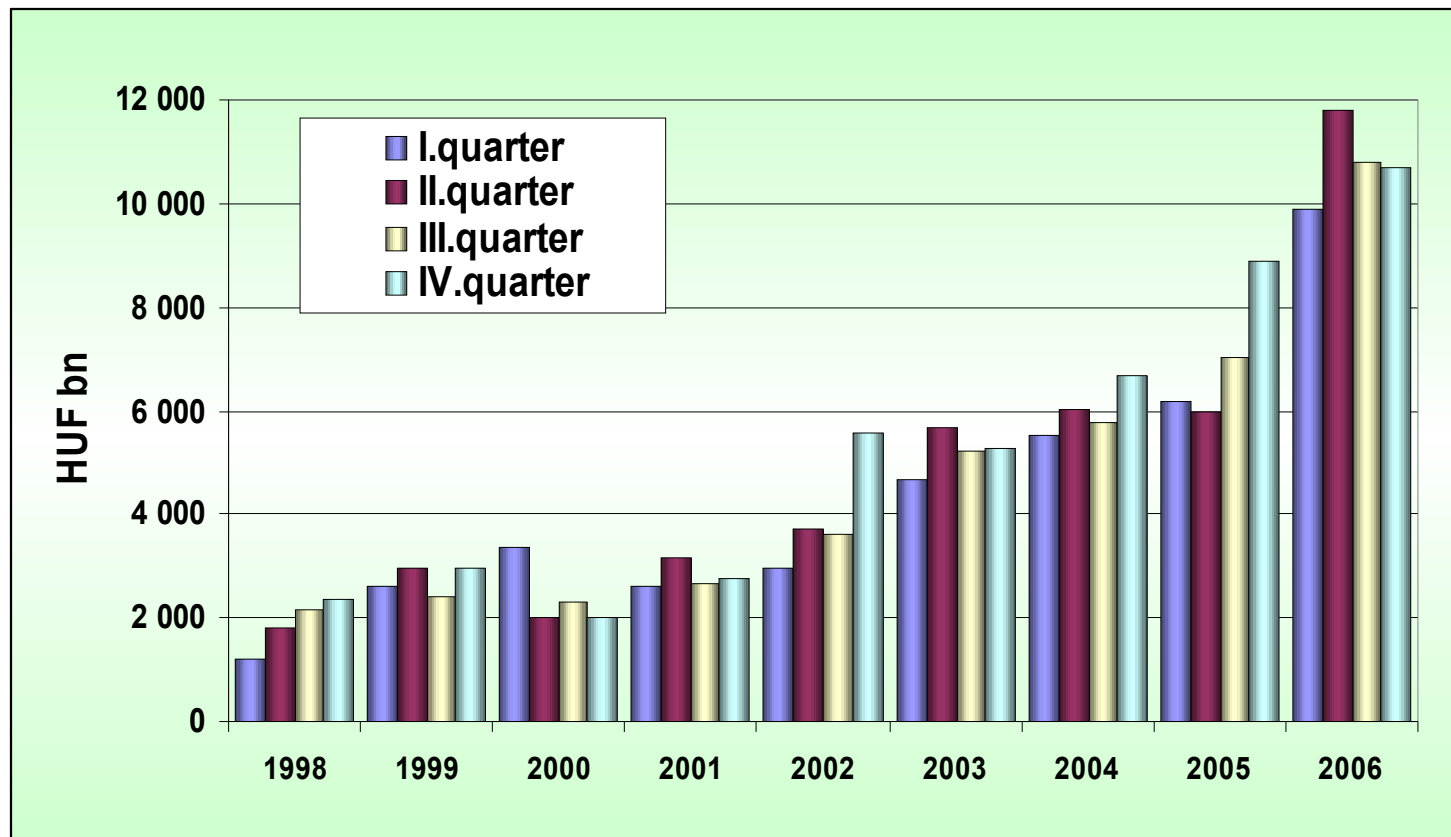
AVERAGE COUPON OF THE HUF-DEBT



Balanced maturity composition – average coupon of debt slowly follows the increase of yields

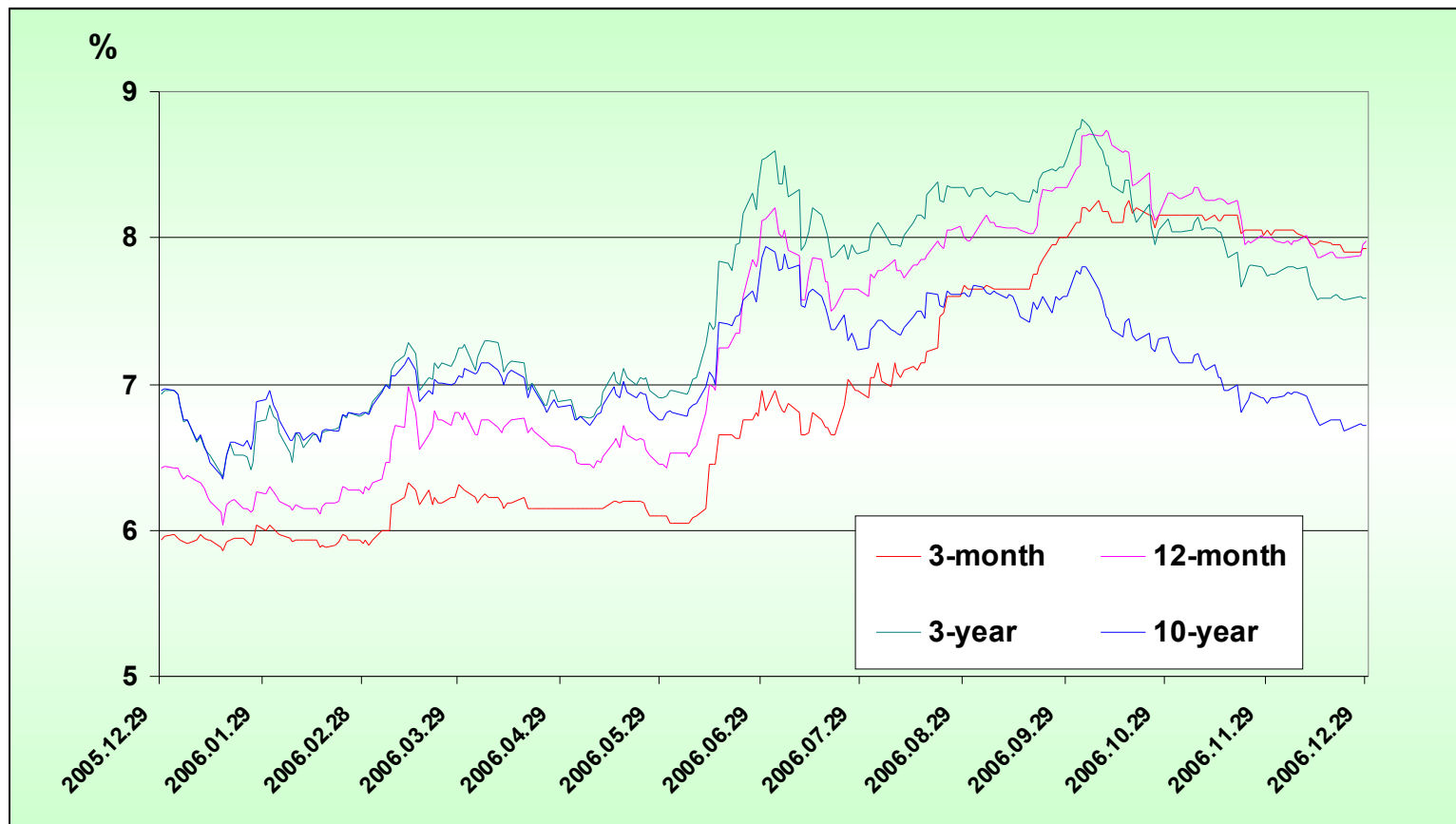
The secondary market and the role of non-resident investors

SECONDARY MARKET TURNOVER - OTC AND STOCK EXCHANGE (NOT DUPLICATED DATA)



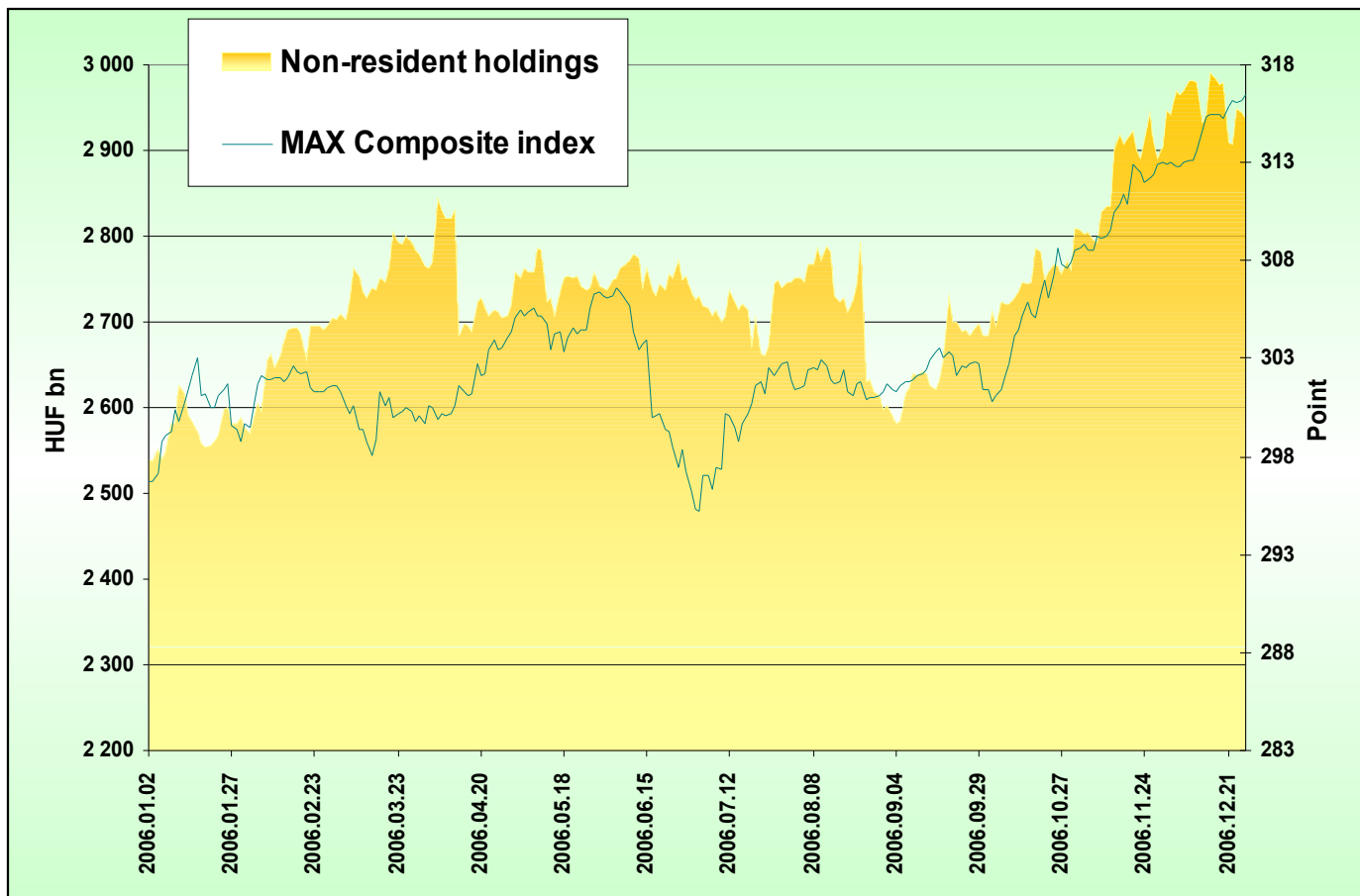
Dynamic increase in turnover at secondary market in 2006, high outstanding stock by some bond series.

YIELDS OF GOVERNMENT SECURITIES IN 2006

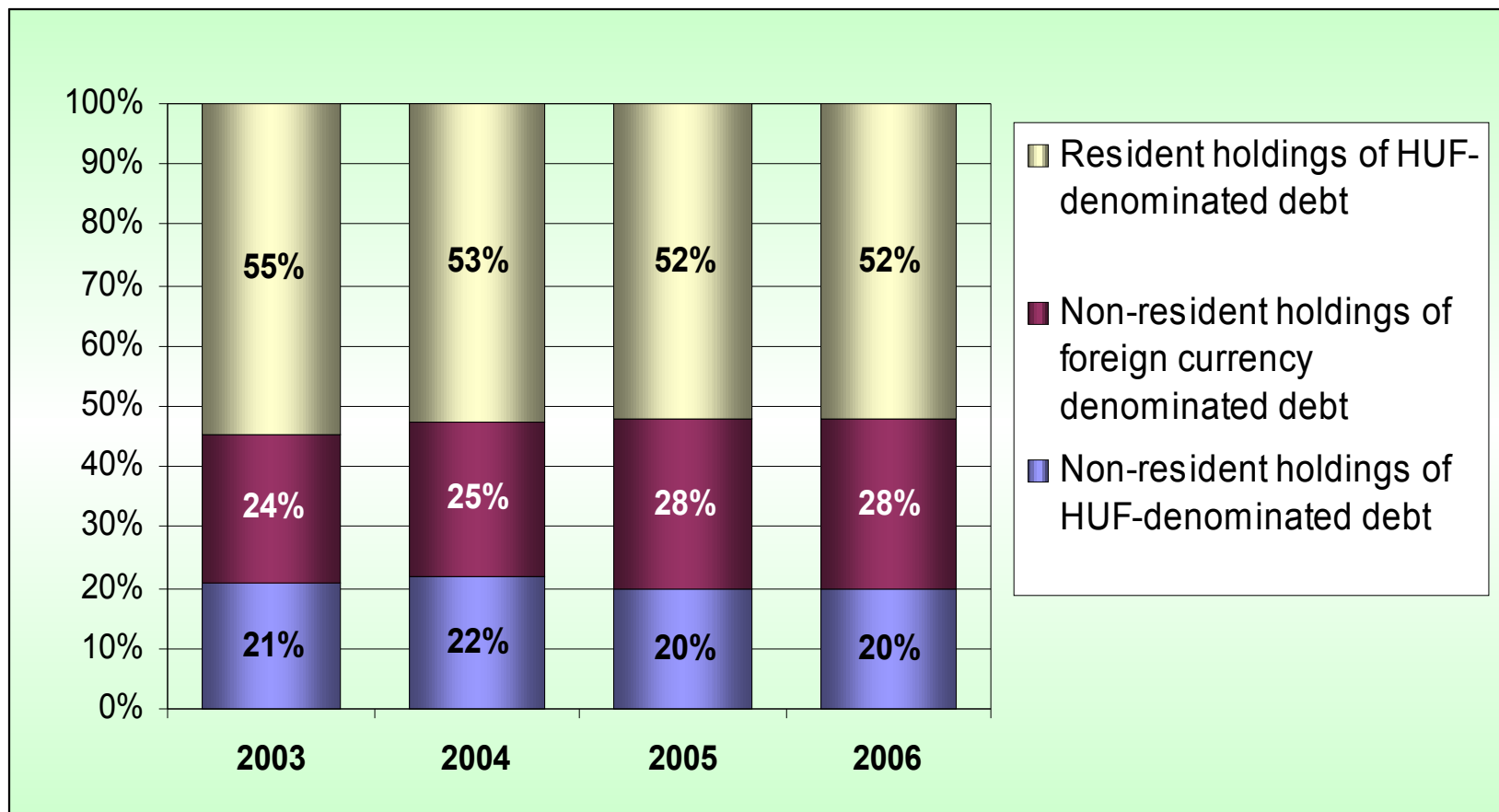


Stagnating yields in the first half of the year then significant yield-increase in the second half

NON-RESIDENT HOLDINGS OF HUF-DENOMINATED GOVERNMENT SECURITIES IN 2006



BREAKDOWN OF THE DEBT BY INVESTORS



In the last two years importance of non-resident investors has not changed – stable and strong resident investor basis.

MARKET OF GOVERNMENT SECURITIES AND FINANCING IN 2006 - SUMMARY

- **Total net borrowing requirement was HUF 1,816 billion which was covered with HUF 1,974 billion of net issuance – increasing liquid reserves.**
- **Gross debt of central government: HUF 14,706 billion.**
- **Objectives in debt management strategy accomplished.**
- **Continuous development of secondary market of government securities.**
- **The first HUF-denominated treasury bond with nominal value of more than HUF 500 billion (EUR 2 billion).**

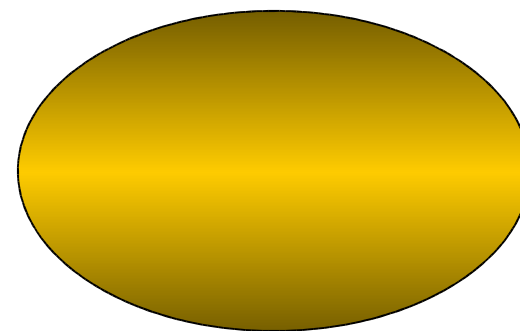
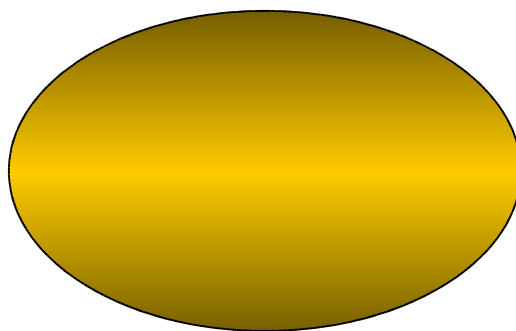
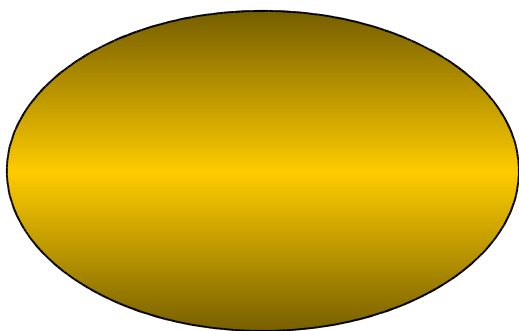
AWARDS FOR THE MOST ACTIVE PRIMARY DEALERS IN 2006

METHODOLOGY OF RANKING

- Instead of voting, the awards are given on the basis of market share.
- Appreciation of the most successful primary dealers, further incentive.
- Only primary dealers are awarded, except in the case of the prize for repo activity.
- Judged by activity in the whole calendar year.

AWARD CATEGORIES

Primary dealers taking one of the first three places in each category



In alphabetic order.

Ist CATEGORY

The primary dealer having the highest market share in Treasury Bond auctions:

ING Bank

MKB Bank

OTP Bank

Ist CATEGORY

*The primary dealer having the highest market share in
Treasury Bond auctions:*



OTP Bank

2nd CATEGORY

*The primary dealer having the highest market share in
Discount Treasury Bill auctions:*

ING Bank

OTP Bank

***UniCredit
Bank***

2nd CATEGORY

*The primary dealer having the highest market share in
Discount Treasury Bill auctions:*



ING Bank

3rd CATEGORY

The primary dealer having the highest secondary market share:

CIB Bank

ING Bank

MKB Bank

3rd CATEGORY

The primary dealer having the highest secondary market share:



ING Bank

4th CATEGORY

The repo partner of ÁKK with the highest repo turnover:

BNP Paribas

ERSTE Bank

ING Bank

4th CATEGORY

The repo partner of ÁKK with the highest repo turnover:

ING Bank

5th CATEGORY

The primary dealer increasing its market share most dynamically at the primary market:

Citibank

***ERSTE
Befektetési***

***Unicredit
Bank***

5th CATEGORY

The primary dealer increasing its market share most dynamically at the primary market:



***UniCredit
Bank***

THE MAIN PRIZE

The determination of **THE PRIMARY DEALER OF THE YEAR** prize

- **Market share in Treasury Bond auctions**
⇒ **25%**
- **Market share in Discount T-Bill auctions**
⇒ **25%**
- **Market share at secondary market** ⇒ **25%**
- **Market share in bond buy-backs** ⇒ **12,5%**
- **Repo turnover** ⇒ **12,5%**

6th CATEGORY – THE MAIN PRIZE

The Primary Dealer of the Year:

ING Bank

OTP Bank

***UniCredit
Bank***

6th CATEGORY – THE MAIN PRIZE

THE PRIMARY DEALER OF THE YEAR:

ING Bank



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**CONGRATULATIONS TO THE
AWARDEES!**

**THANK YOU FOR YOUR
ATTENTION!**