



A NEW ERA IN CORPORATE FINANCING IN HUNGARY



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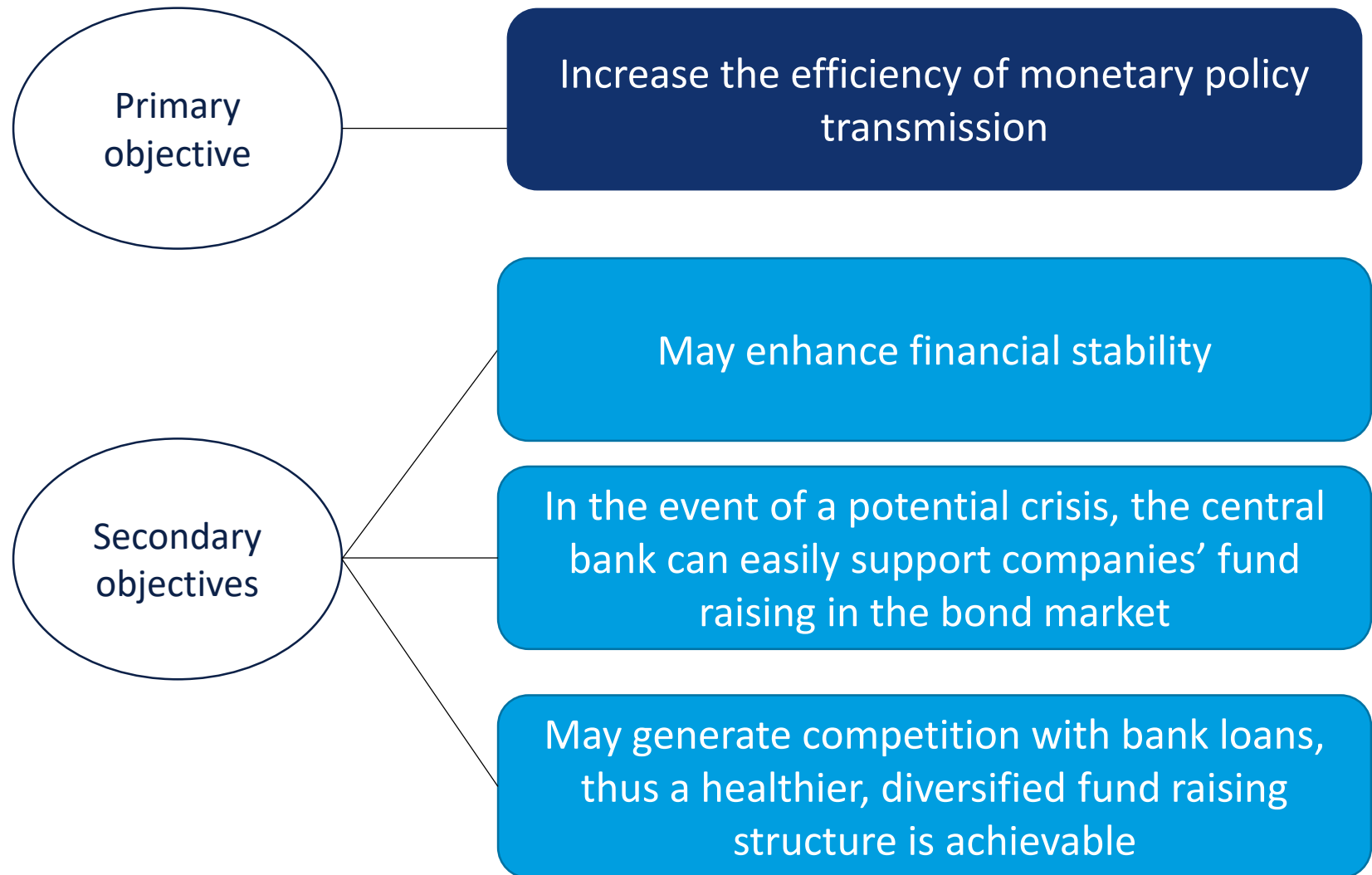


- I. The role of the corporate bond market
- II. The corporate bond market in an international comparison
- III. Central banks' corporate bond purchase programmes
- IV. The financial structure of the Hungarian NFC's
- V. Bond Funding for Growth Scheme (BGS)
- VI. Securitisation



THE ROLE OF THE CORPORATE BOND MARKET

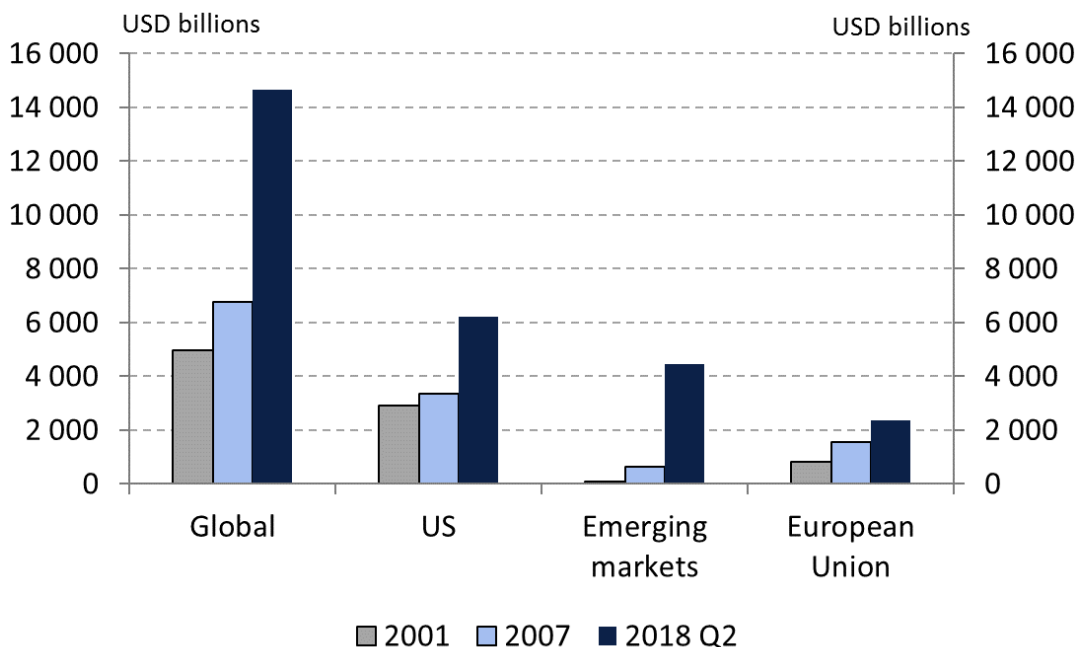
AN ADVANCED, LIQUID CORPORATE BOND MARKET HAS SEVERAL FAVOURABLE EFFECTS





THE CORPORATE BOND MARKET IN AN INTERNATIONAL COMPARISON

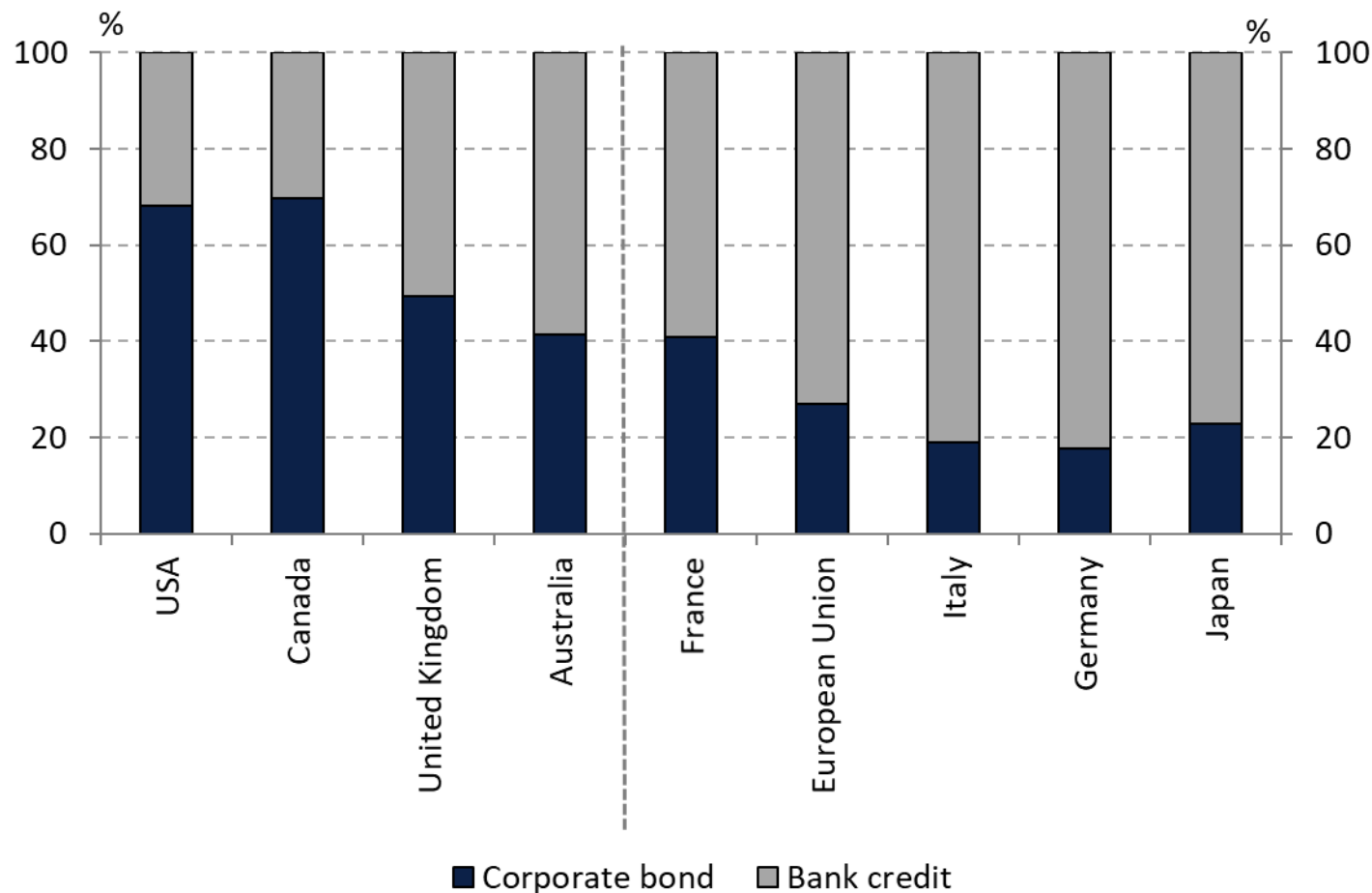
CORPORATE BOND MARKET APPRECIATED SIGNIFICANTLY AFTER THE GLOBAL FINANCIAL CRISIS



OUTSTANDING BONDS OF NON-FINANCIAL CORPORATIONS (2018 Q2)

- The global outstanding **bond portfolio has doubled** since the crisis. It has **reached** a historic high of **USD 14,000 billion**.
- Until the outbreak of the crisis **NFC's outstanding bonds rose by USD 260 billion** annually and by around **USD 800 billion** per year **after the outbreak of the crisis**.
- The growth of corporate bond market was remarkable in the US and also in emerging markets, mainly in China.

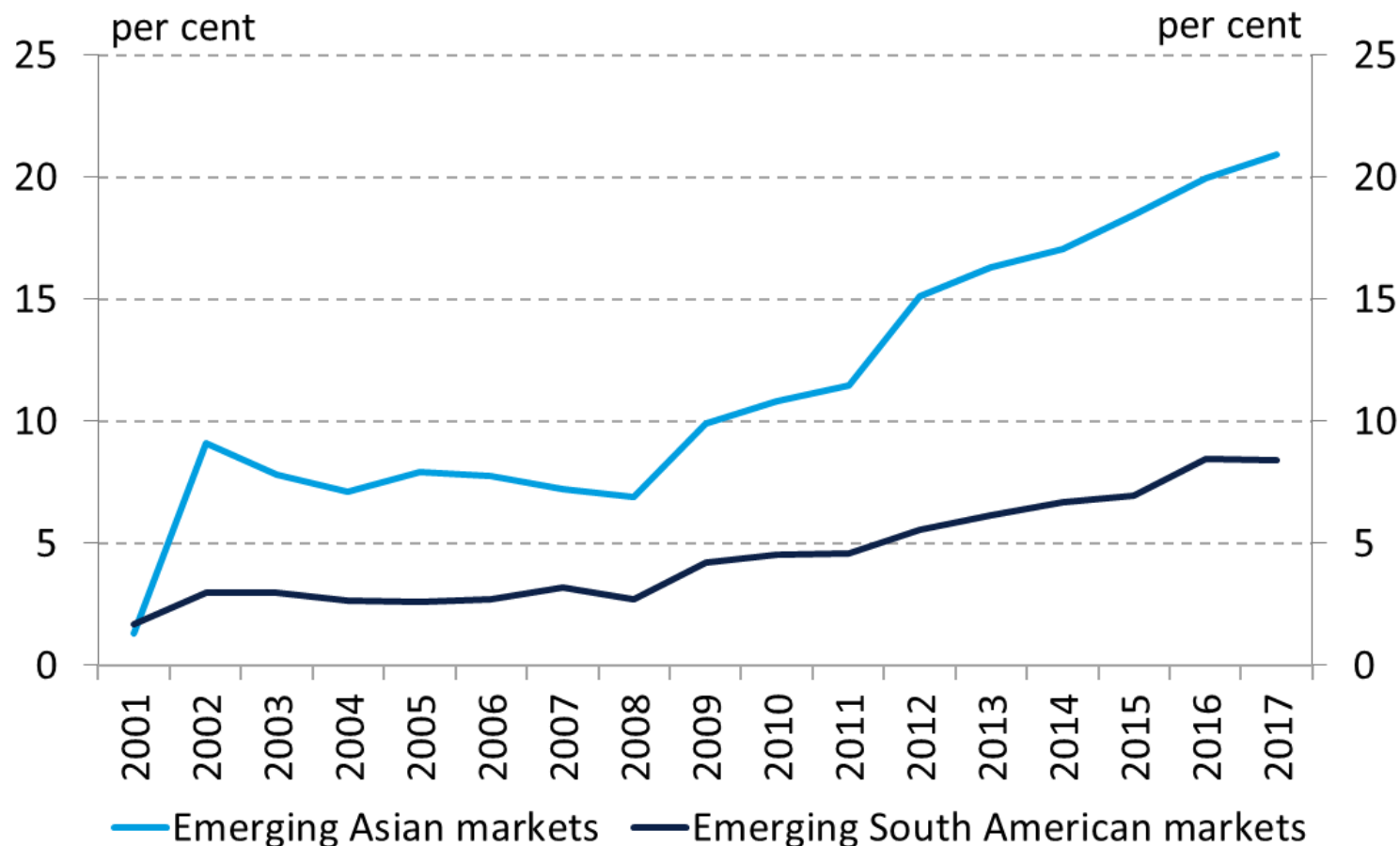
CONTINENTAL EUROPE'S CORPORATE BOND PROPORTION LEGS BEHIND THE ANGLO-SAXON MODEL



Breakdown of non-financial corporations' debt financing
(2018 Q2)

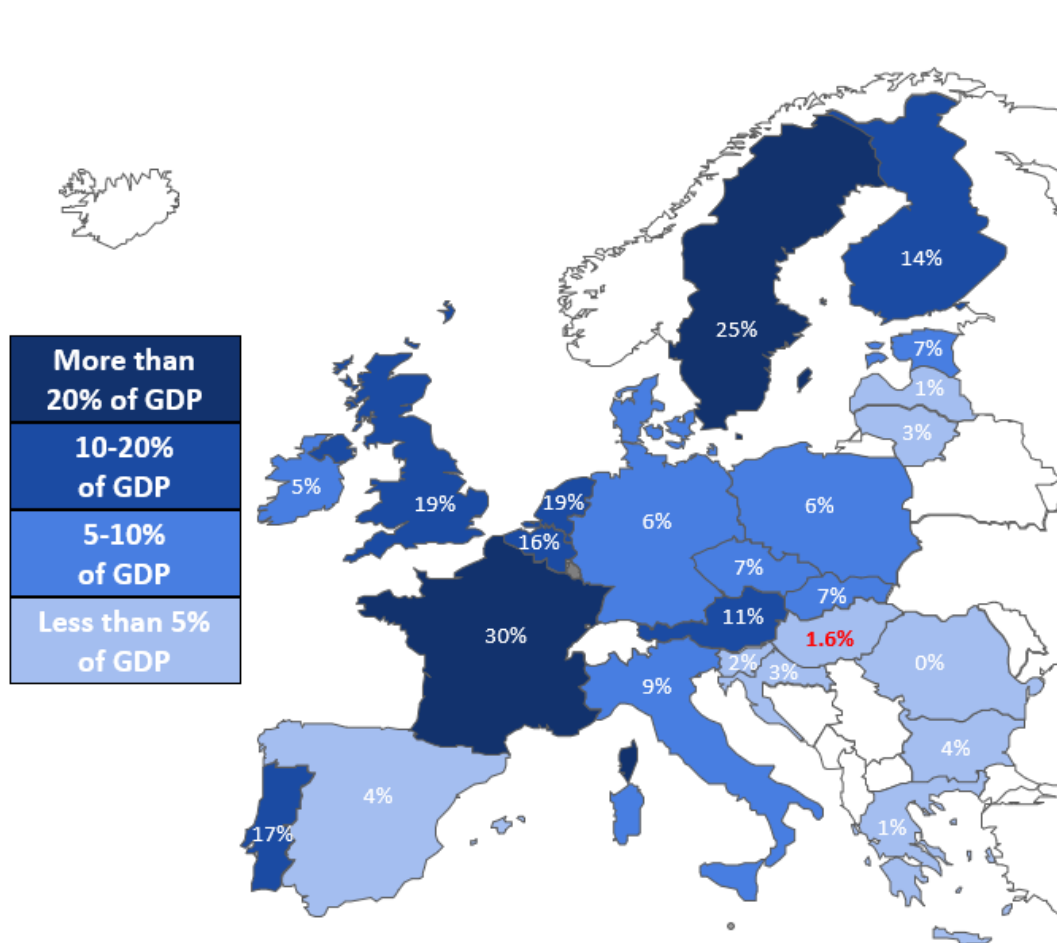
Source: BIS, Eurostat

IN THE POST-CRISIS PERIOD THE CORPORATE BOND PORTFOLIO ROSE SUBSTANTIALLY IN EMERGING MARKETS



Corporate bond portfolio in emerging countries in Asia and Latin America, as a percent of GDP (2018 Q2)

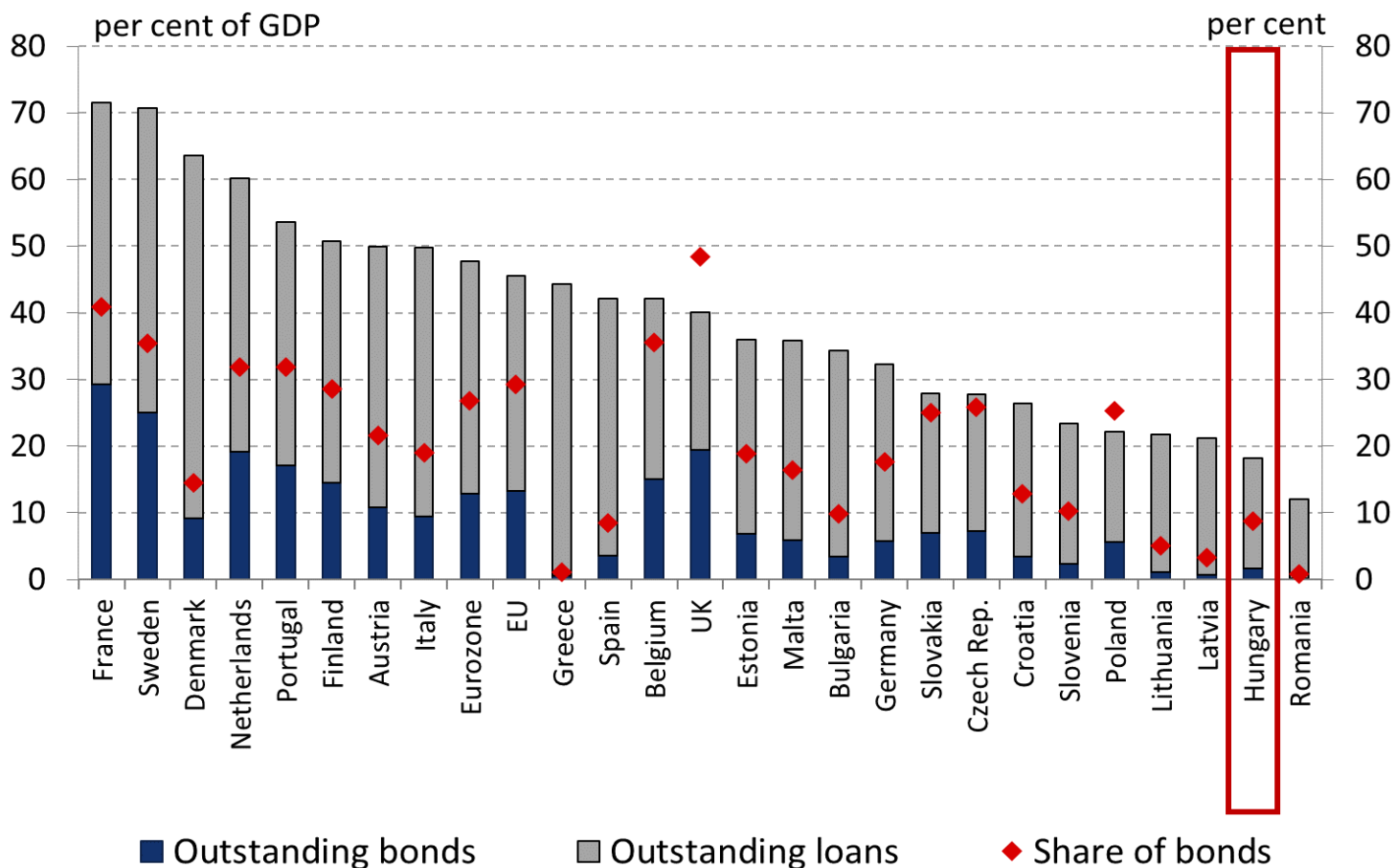
SIZE OF THE CORPORATE BOND MARKET VARIES SIGNIFICANTLY AMONG THE EU COUNTRIES



OUTSTANDING BOND PORTFOLIO OF NON-FINANCIAL CORPORATIONS IN THE EU, AS PERCENT OF GDP (2018 Q3)

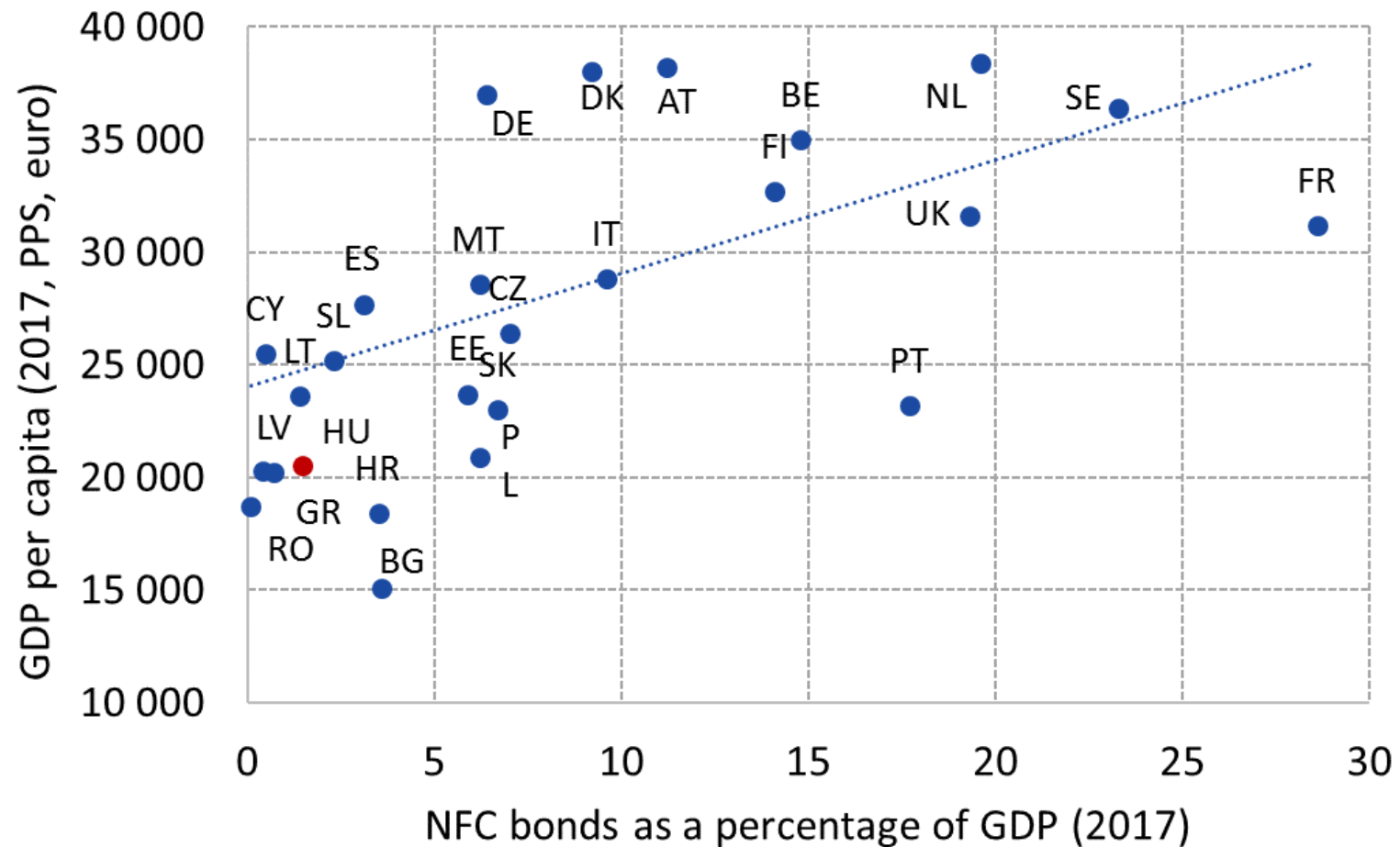
- While the outstanding bond portfolio exceeds 20 percent of GDP in several developed European countries, **in the CEE countries it does not reach 10 percent of GDP.**
- Deepening of the corporate bond market is necessary for the realisation of financial convergence.

WITHIN THE EU IN LESS DEVELOPED COUNTRIES THE TOTAL INDEBTEDNESS OF THE COMPANIES IS LOWER

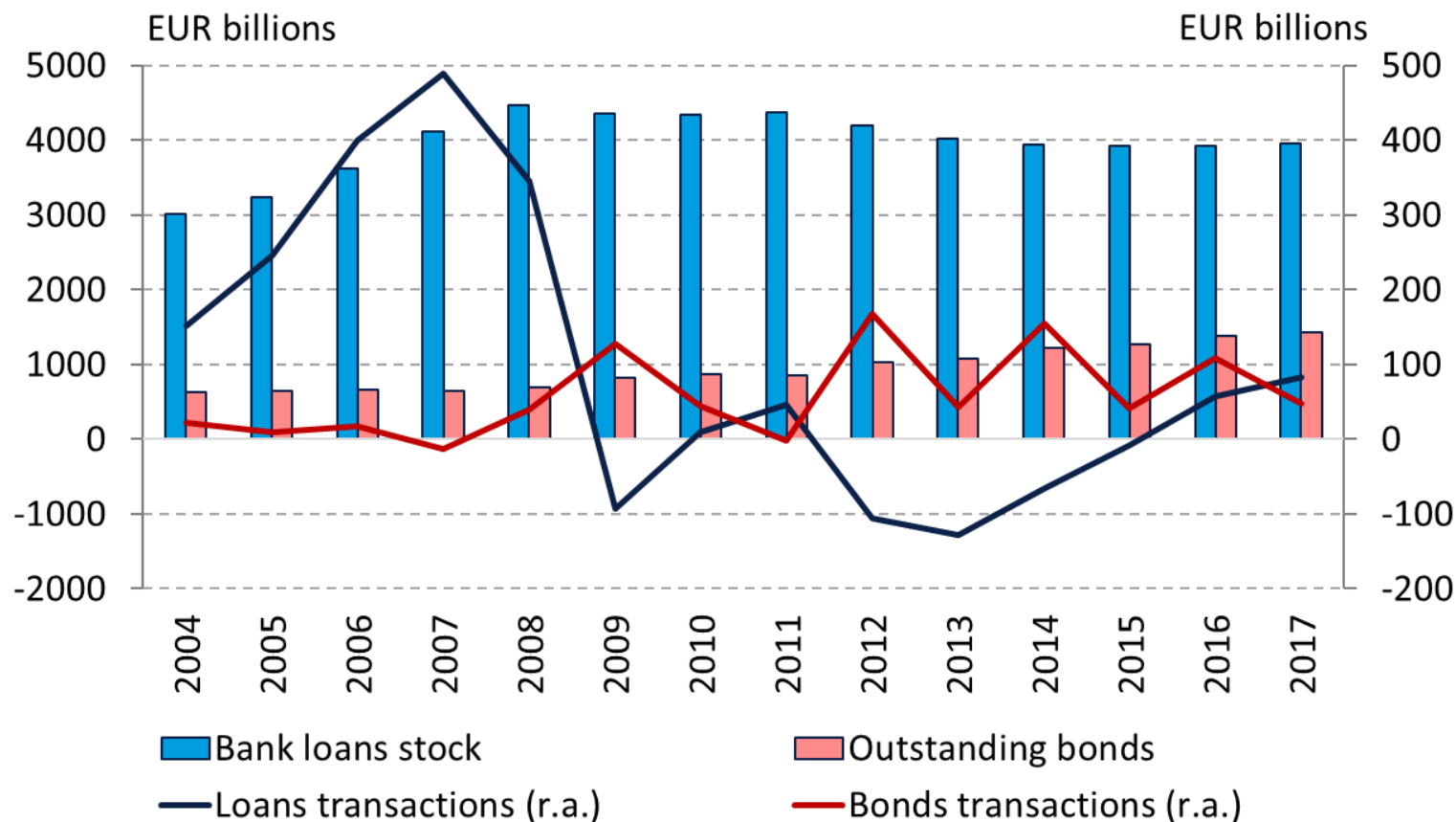


Outstanding bonds and bank loans portfolio of non-financial corporations as a percent of GDP (2018 Q2)

IN THE EU THERE IS A POSITIVE CORRELATION BETWEEN ECONOMIC DEVELOPMENT AND THE OUTSTANDING BONDS

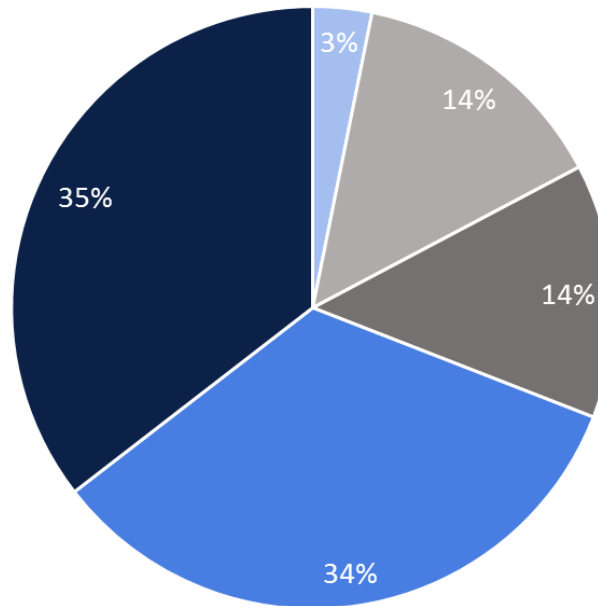


IN THE EU AFTER THE CRISIS THE VOLUME OF LOANS DECLINED, WHILE THE BOND PORTFOLIO GRADUALLY ROSE



Fund raising by non-financial corporations in the euro area

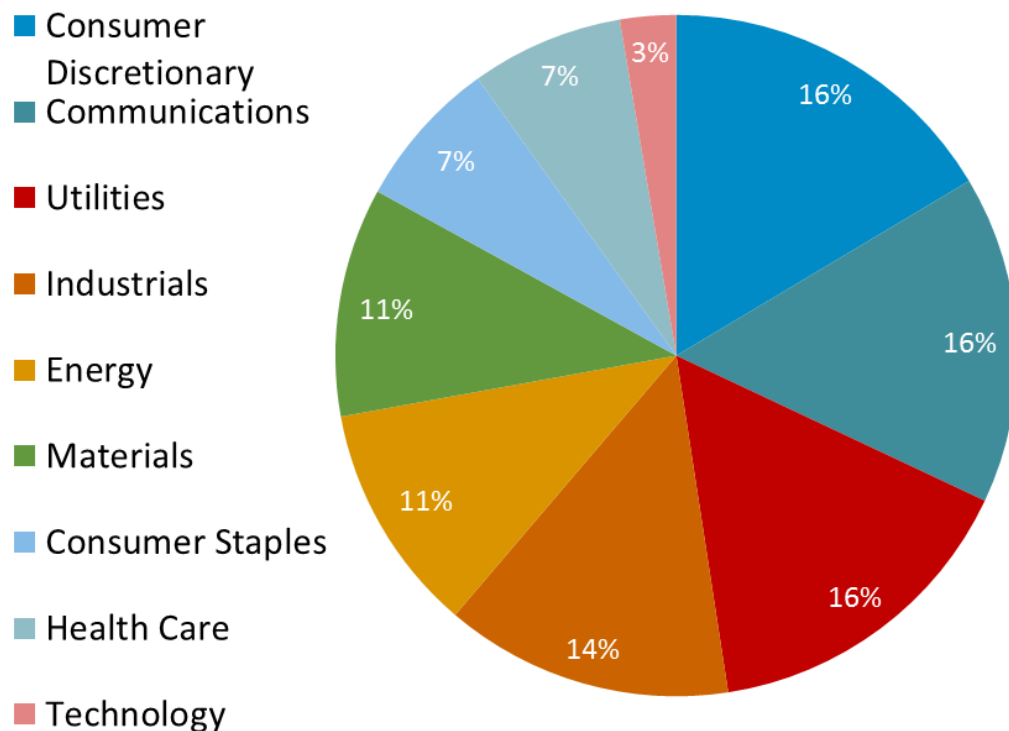
BONDS ARE TYPICALLY A LONG-TERM FORM OF FINANCING...



- More than 1 year, max 3 years
- More than 3 years, max 5 years
- More than 5 years, max 7 years
- More than 7 years, max 10 years
- More than 10 years

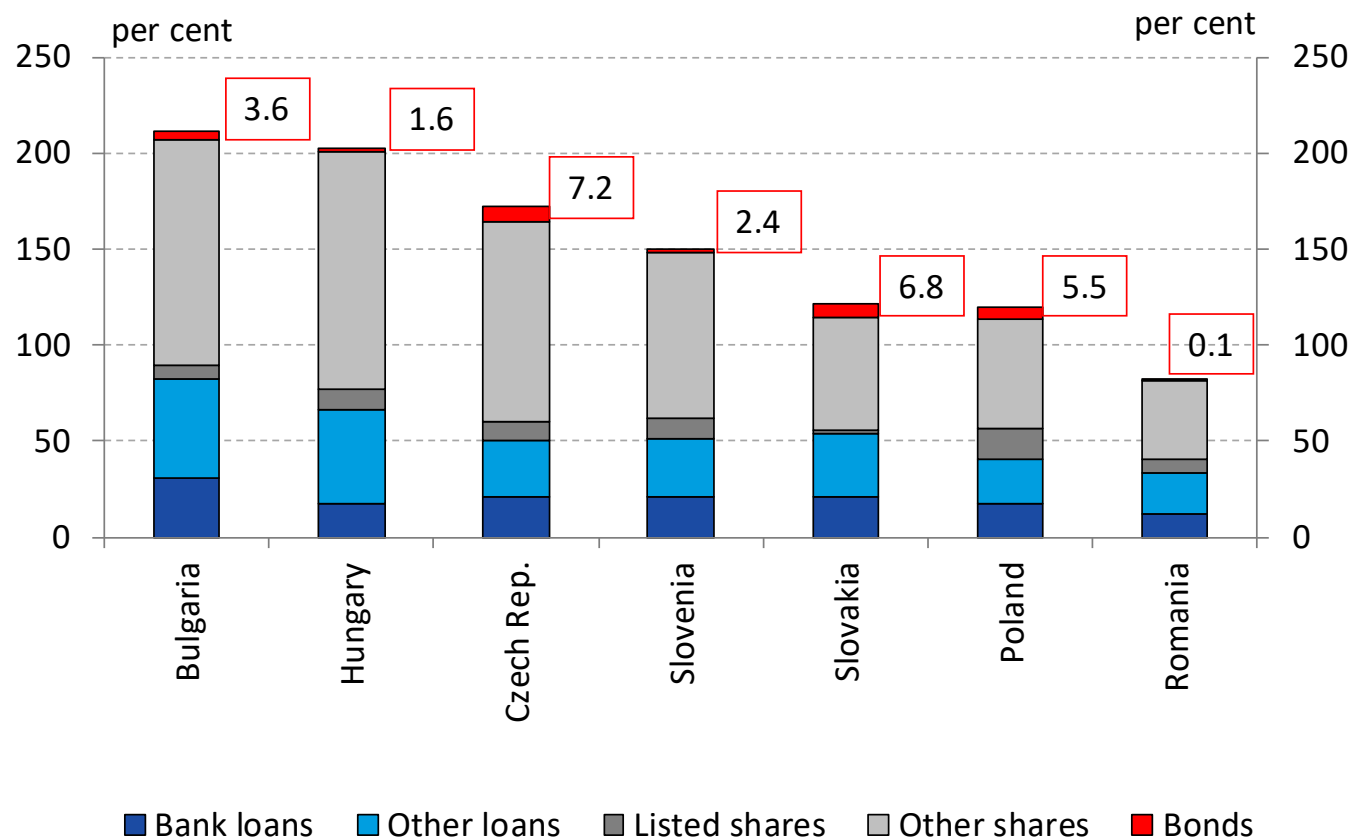
Breakdown of bonds of non-financial corporations by original maturity
in the eurozone (2018 Q2)

... AND A WIDE RANGE OF INDUSTRIES APPEAR ON THE MARKET



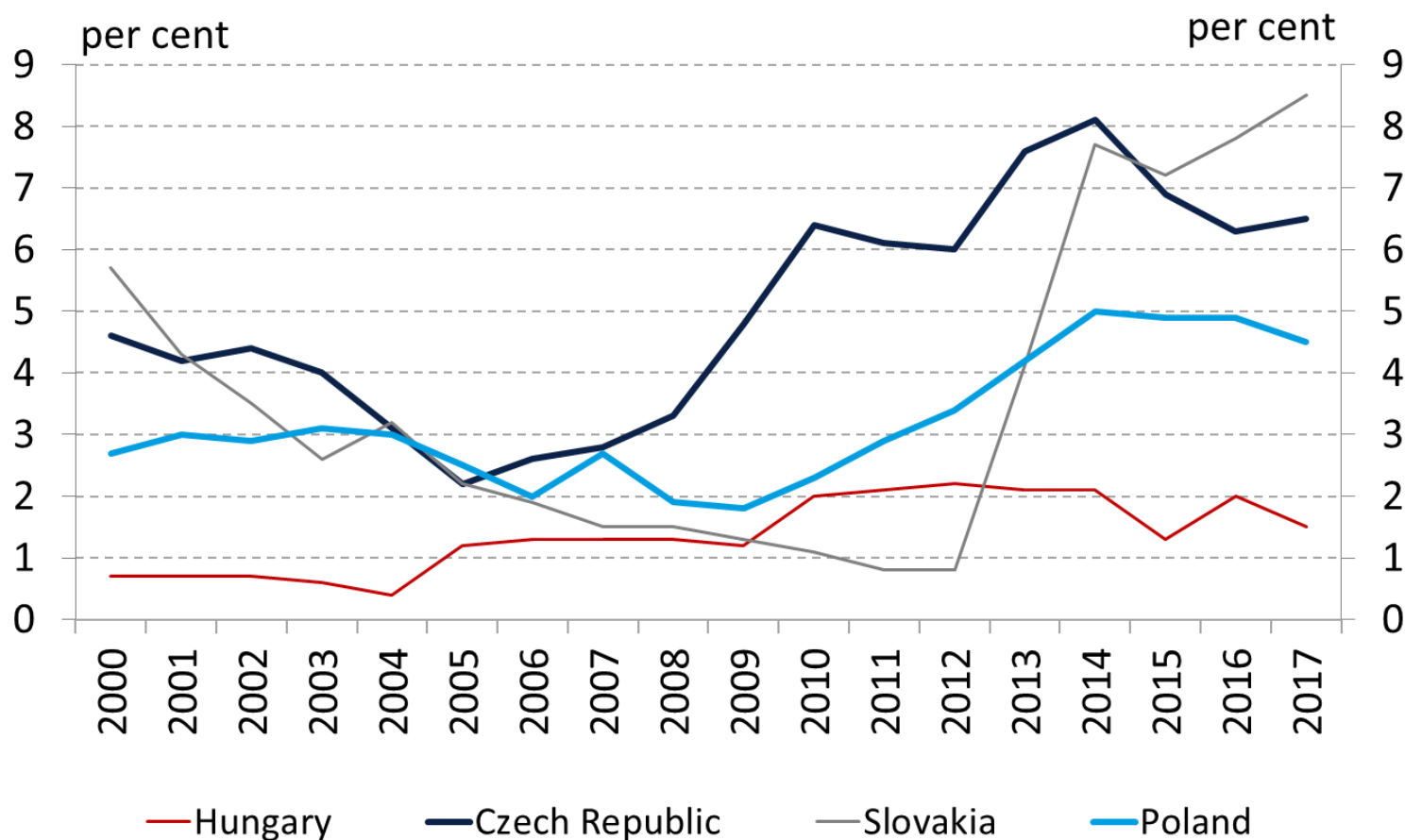
Breakdown of non-financial corporations' bonds by sectors in the euro area (2018 Q2)

IN THE CEE REGION, THE BOND PORTFOLIO STILL FALLS SHORT OF THE LEVEL OBSERVED IN WESTERN EUROPE



Non-financial corporations' liabilities as a percent of GDP in the countries of the region (2018 Q2)

AFTER THE CRISIS THE BOND MARKET GREW IN POLAND AND CZECH REPUBLIC



Oustanding bond portfolio of non-financial corporations
of the countries of the region, as a percent of GDP



CENTRAL BANKS' CORPORATE BOND PURCHASE PROGRAMMES



EUROPEAN CENTRAL BANK
CORPORATE SECTOR
PURCHASE PROGRAMME



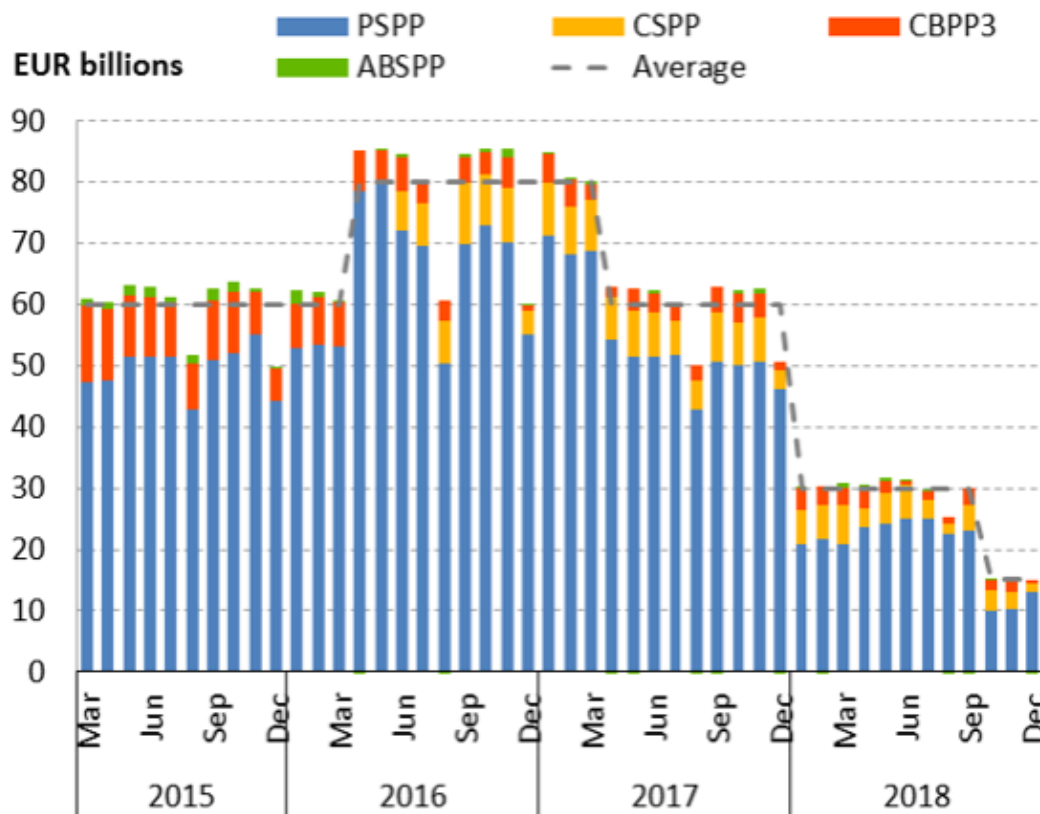


- In March 2016, the ECB announced the **extension of the asset purchase programme** to the purchase of bonds issued by non-bank corporations.
- Within the scope of the Corporate Sector Purchase Programme (CSPP), six national central banks made purchases on behalf of ECB from June 2016, purchasing securities of **companies with at least investment grade credit rating registered in the euro area**.
- The purposes of corporate bonds purchasing programme was to further **ease monetary policy** and **reduce companies' financing costs**.
- During the programme total of EUR 174 billion bonds had been purchased from 274 issuers. As a result of the CSPP, **spreads fell significantly** while the volume of **corporate bond issues rose**.
- Since the end of the programme, ECB **maintains the size of the existing portfolio**.

CSPP WAS LAUNCHED AT A LATER STAGE OF ECB QUANTITATIVE EASING POLICY

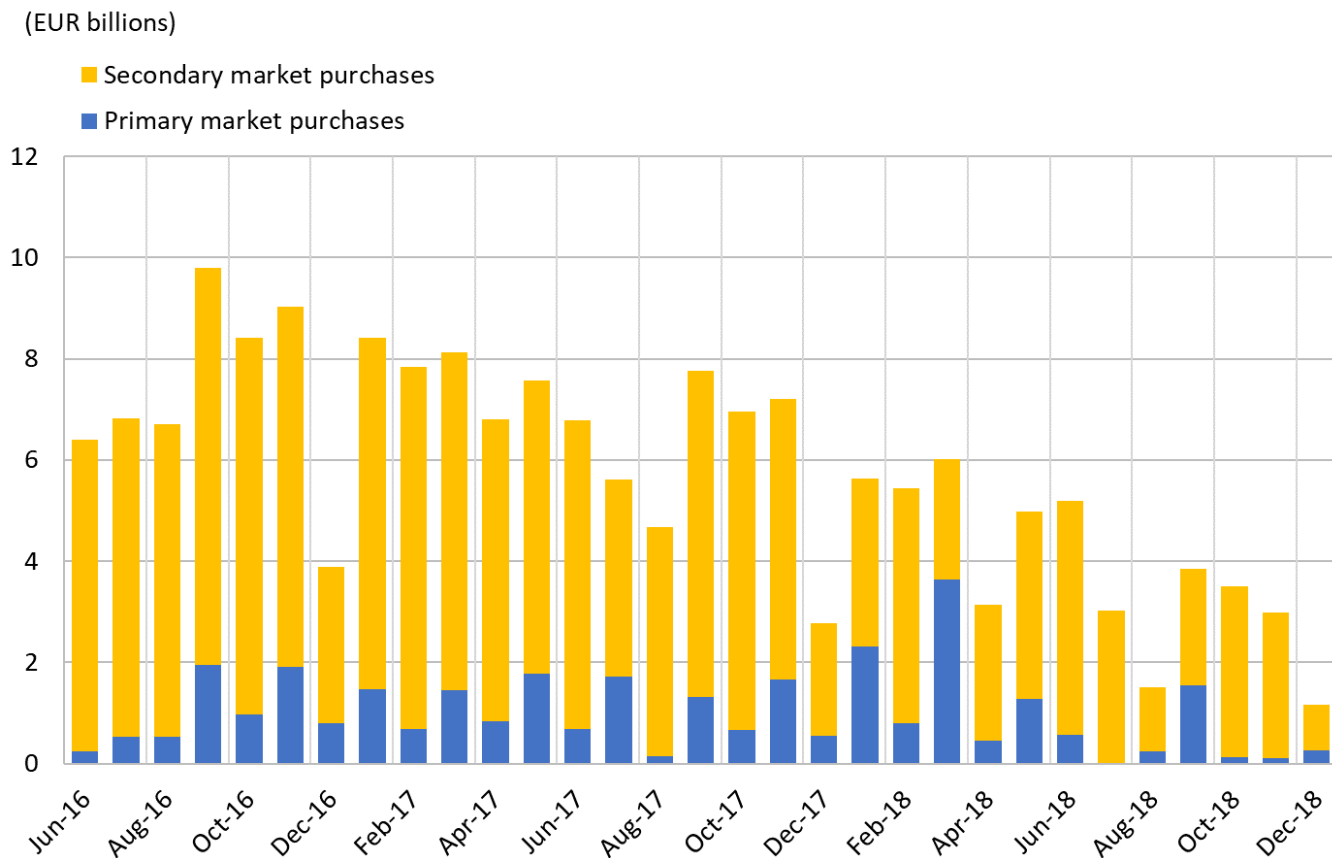


- The programme's share of the total APP was relatively low, however, it had a significant impact on the euro corporate bond market.



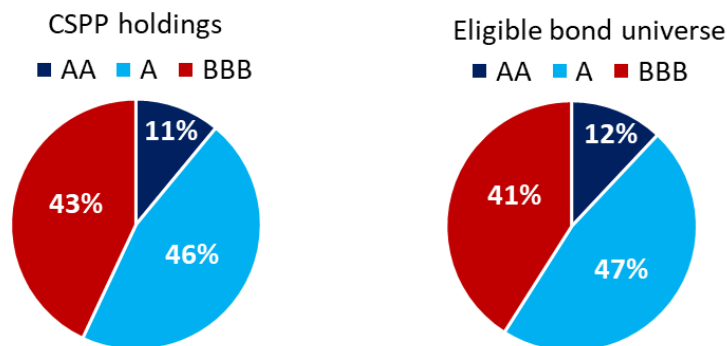
MONTHLY PURCHASES UNDER THE ASSET PURCHASE PROGRAMME

ECB ADOPTED A FLEXIBLE IMPLEMENTATION IN RESPONSE TO VARYING MARKET CONDITIONS

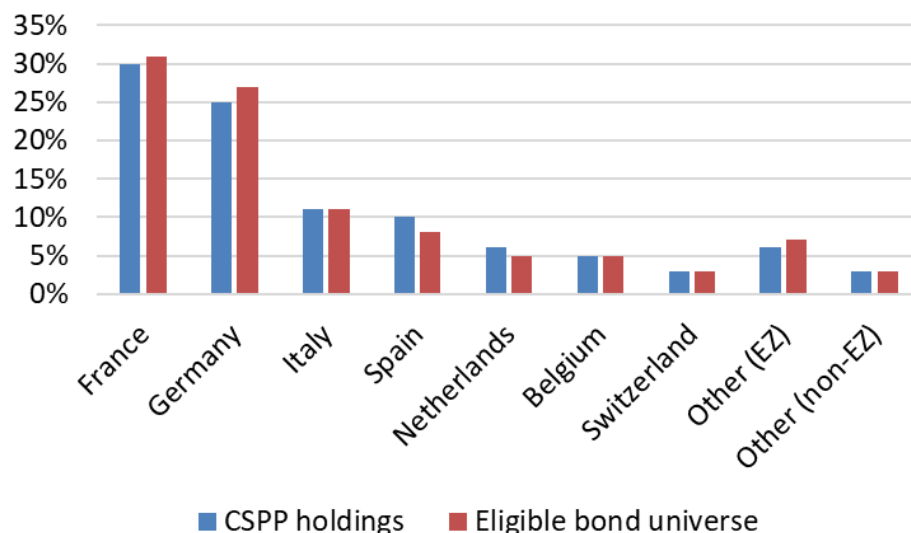


PRIMARY AND SECONDARY MARKET NET PURCHASES
UNDER THE CSPP

ECB HAD CLOSELY MIRRORED THE ELIGIBLE UNIVERSE DURING THE IMPLEMENTATION OF THE PROGRAMME



CREDIT RATING BUCKETS

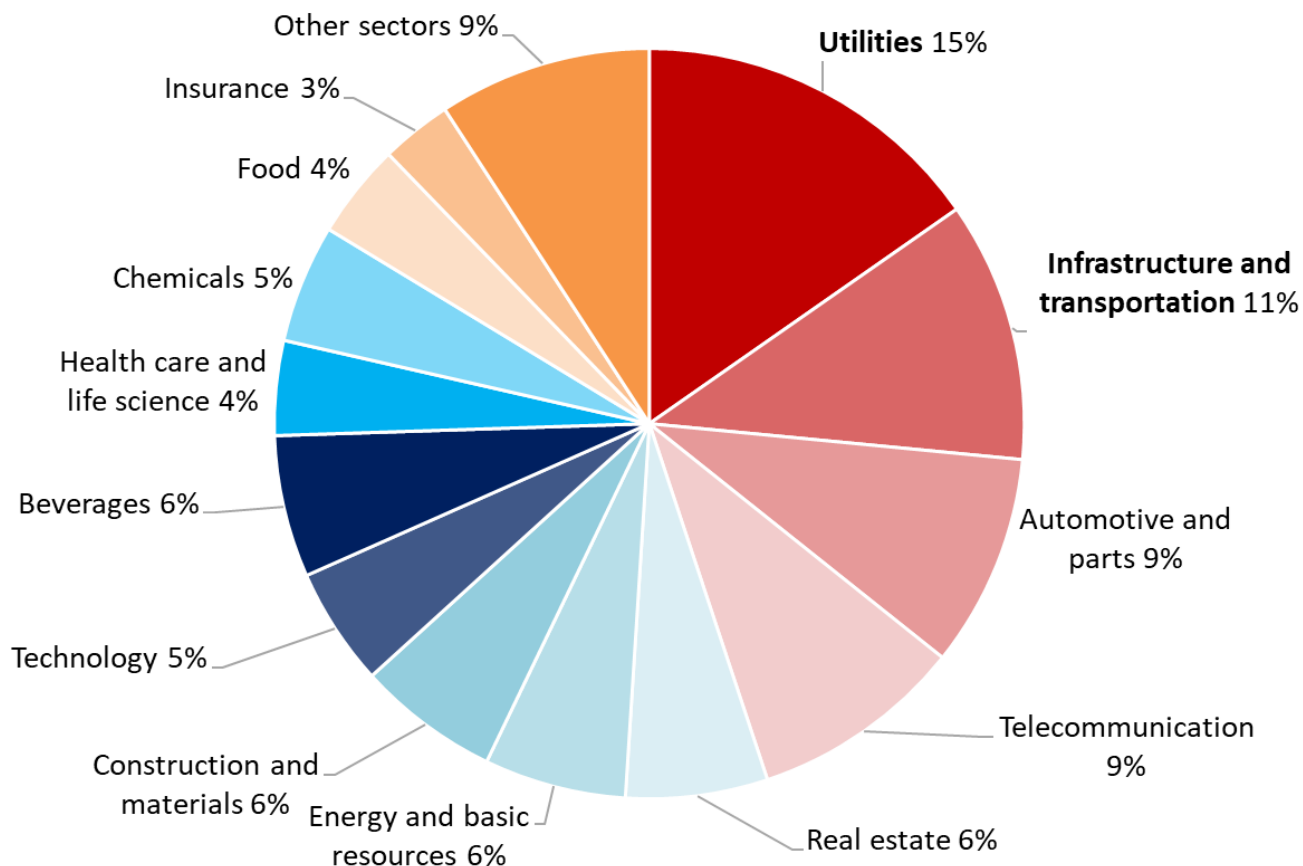


COUNTRY OF RISK

ECB'S INTERNAL CLASSIFICATION OF COUNTRY OF RISK.

- **Rule based execution**; only minor differences between the CSPP holdings and the eligible bond universe
- **BBB rated bonds** account for the **43 percent** of the total portfolio
- **More than a half** of the purchased bonds issued by **French and German** companies

UTILITIES AND INFRASTRUCTURE RELATED COMPANIES HAVE MORE THAN 25 PER CENT SHARE IN CSPP

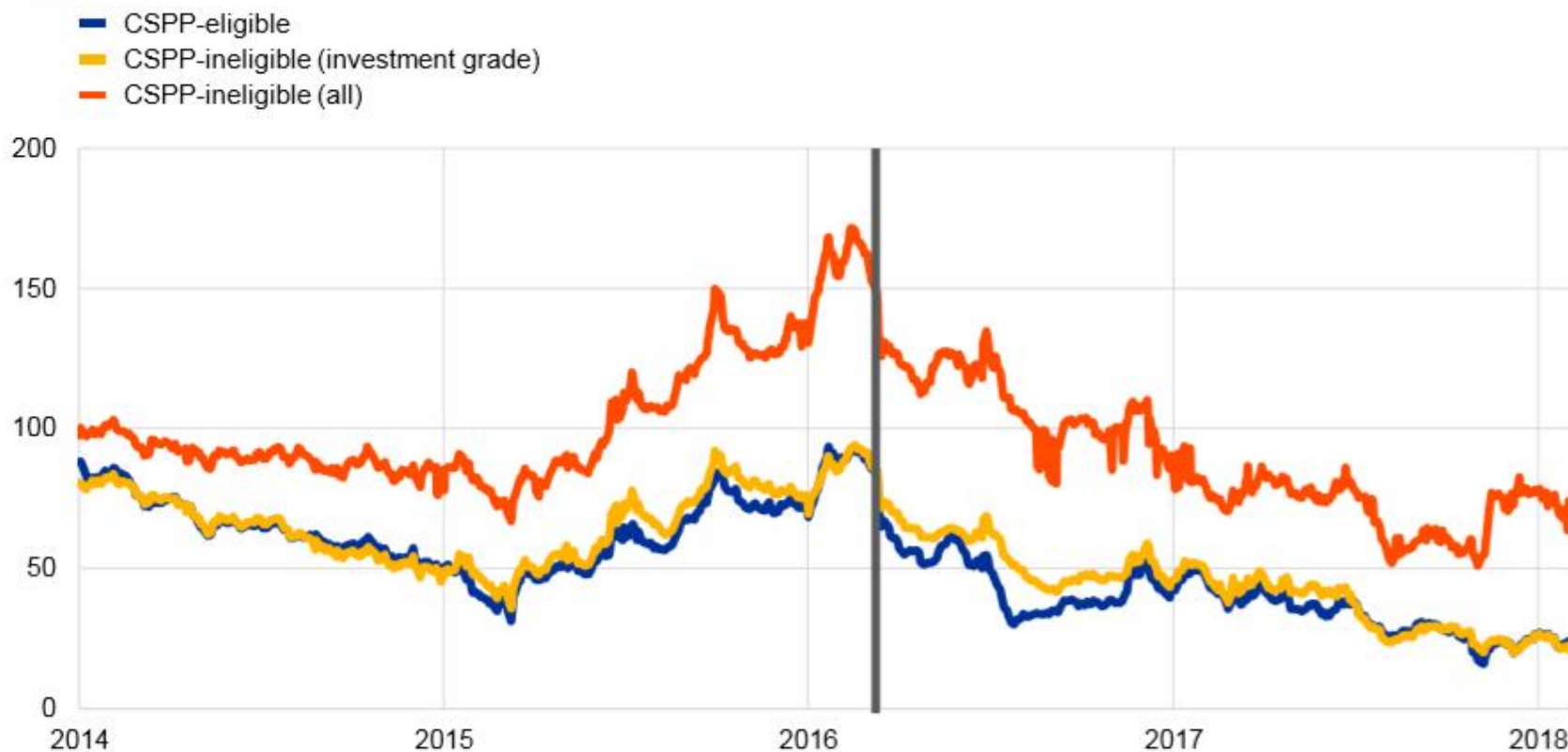


**ECONOMIC SECTOR OF THE BOND ISSUERS
PURCHASED UNDER CSPP**

CORPORATE BOND SPREADS HAVE STEADILY TIGHTENED FOLLOWING THE ANNOUNCEMENT OF THE CSPP

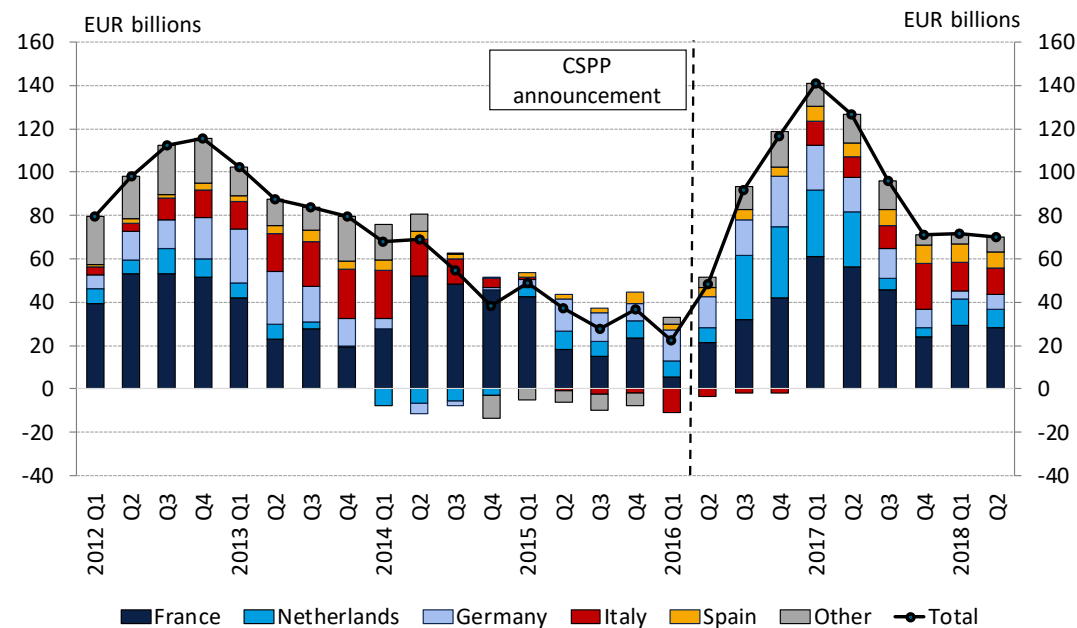


(basis points)



CORPORATE BOND SPREADS – ELIGIBLE VERSUS INELIGIBLE

FOLLOWING THE ANNOUNCEMENT OF THE CSPP, ISSUANCE ROSE SUBSTANTIALLY



NET BOND ISSUANCES BY NON-FINANCIAL CORPORATIONS IN THE EURO AREA (ANNUAL)

- Corporate bond issuances gradually declined before the CSPP.
- As a result of the CSPP, **the volume of corporate bond issues rose and spreads fell significantly.**
- Mainly French and Dutch companies issued bonds after the CSPP announcement.



BANK OF ENGLAND CORPORATE BOND PURCHASE SCHEME

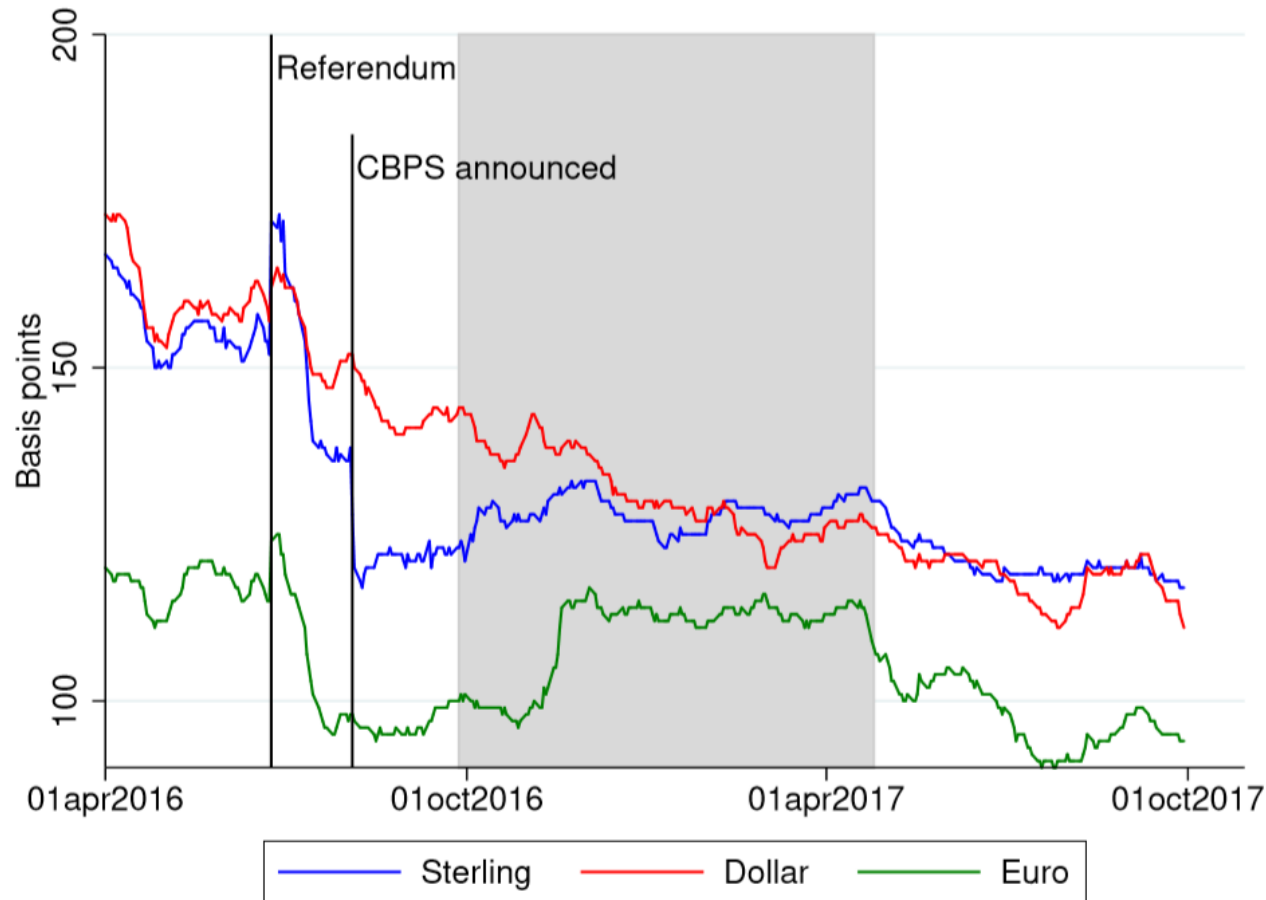


OVERVIEW OF BOE'S CORPORATE BOND PURCHASE SCHEME (CBPS)



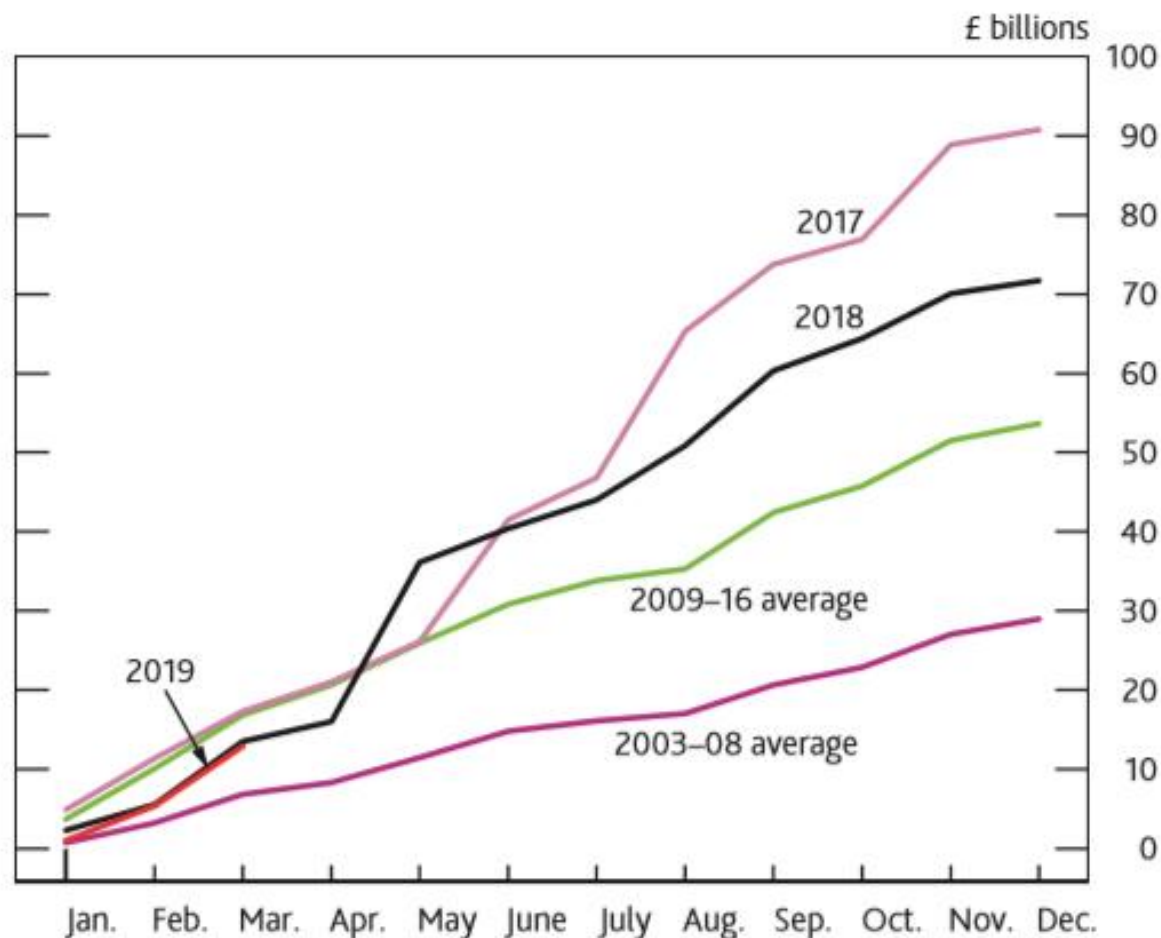
- In August 2016 – shortly after the Brexit referendum - the Bank of England announced **Corporate Bond Purchase Scheme (CBPS)** as a **part of a package** to support growth and return inflation to target.
- CBPS included purchases of up to **GBP 10 billion of sterling-denominated corporate bonds over an 18-month period**.
- The purpose of the Scheme was to lower yields on corporate bonds, thereby **reducing the cost of borrowing for companies directly**, induce the sellers of corporate bonds to replace those assets with other risky assets (*portfolio rebalancing*) and **stimulate new issuances**.
- BoE purchased bonds issued by **firms that make a material contribution** to economic activity **in the United Kingdom**.
- The programme ended on April 2017, however, incomes from maturing bonds are being reinvested to **maintain the original portfolio size**.

THE SPREADS OF STERLING-DENOMINATED INVESTMENT GRADE CORPORATE BONDS FELL SHARPLY WHEN THE CBPS WAS ANNOUNCED



CORPORATE BOND SPREADS

LOWER FUNDING COSTS LED TO A SHARP INCREASE IN BOND ISSUANCES



CUMULATIVE GROSS ISSUANCE OF BONDS BY PRIVATE NON-FINANCIAL COMPANIES IN THE UK

CORPORATE BOND PURCHASE PROGRAMMES OF THE ECB AND THE BOE

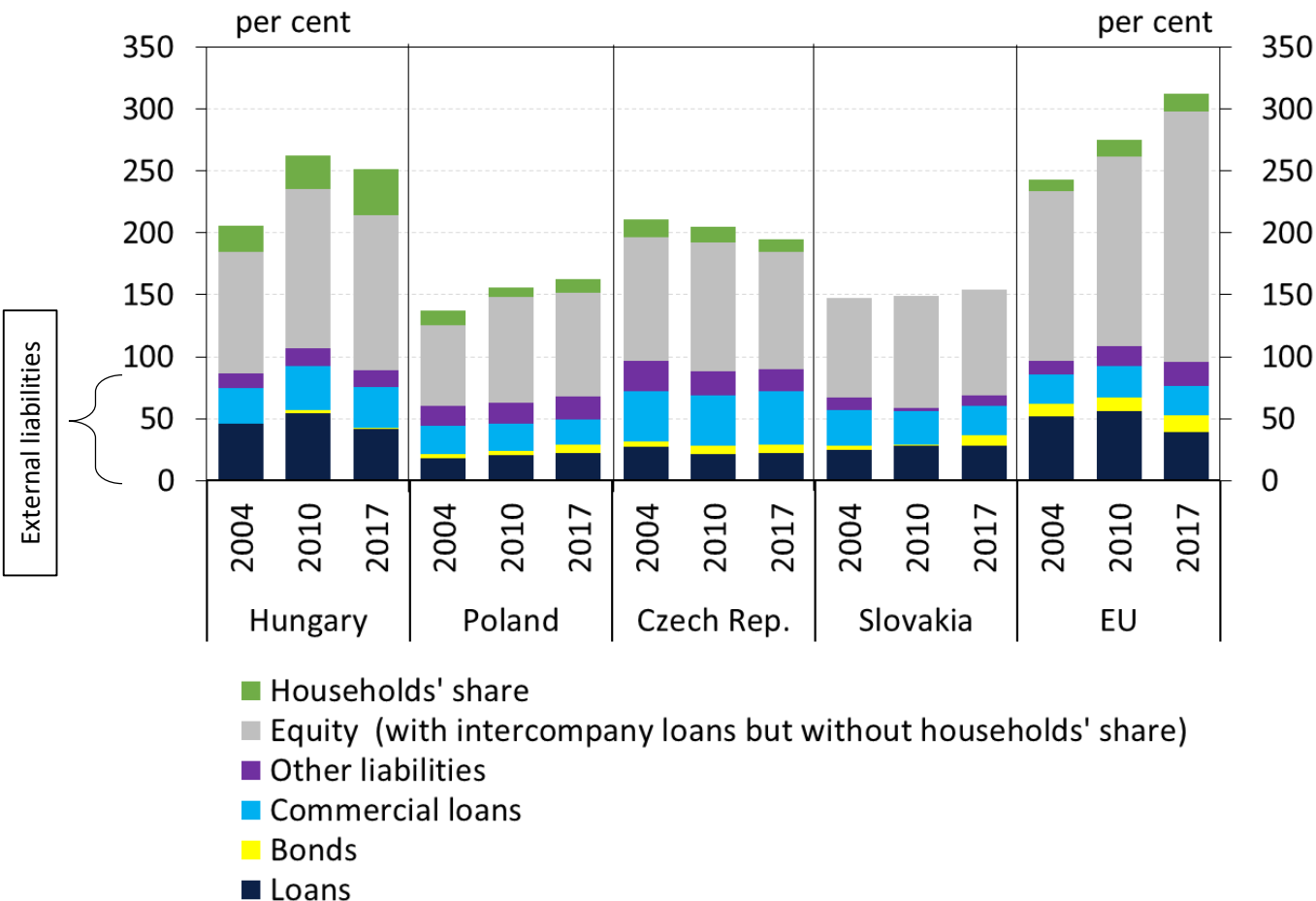


	CSPP	CBPS
Aims	Strengthen the pass-through of the Eurosystem's asset purchases to the financing conditions of the real economy.	Impart monetary stimulus, reducing the cost of borrowing for companies, stimulating new issuances
Time frame	June 2016 - December 2018	September 2016 - April 2017
Debt securities eligible for purchase	EUR 920 bn	GBP 133 bn
Debt securities purchased (as a percentage of the GDP)	EUR 178 bn (1,6%)	GBP 10 bn (0.5%)
Share of purchases	19%	8%
Number of issuers	274	144
Denomination	Euro	Sterling
Credit rating of debt securities	Minimum BBB-	Minimum BBB-
Maturity of debt securities purchased	Minimum remaining maturity of six months and a maximum remaining maturity of 30 years	At least 12 months
Purchases conducted in	In the primary and secondary markets	Secondary market



FINANCIAL STRUCTURE OF THE HUNGARIAN NON FINANCIAL CORPORATIONS

THE HUNGARIAN NFCS' EQUITY VALUE AS A PERCENT OF GDP IS HIGH IN AN INTERNATIONAL COMPARISON

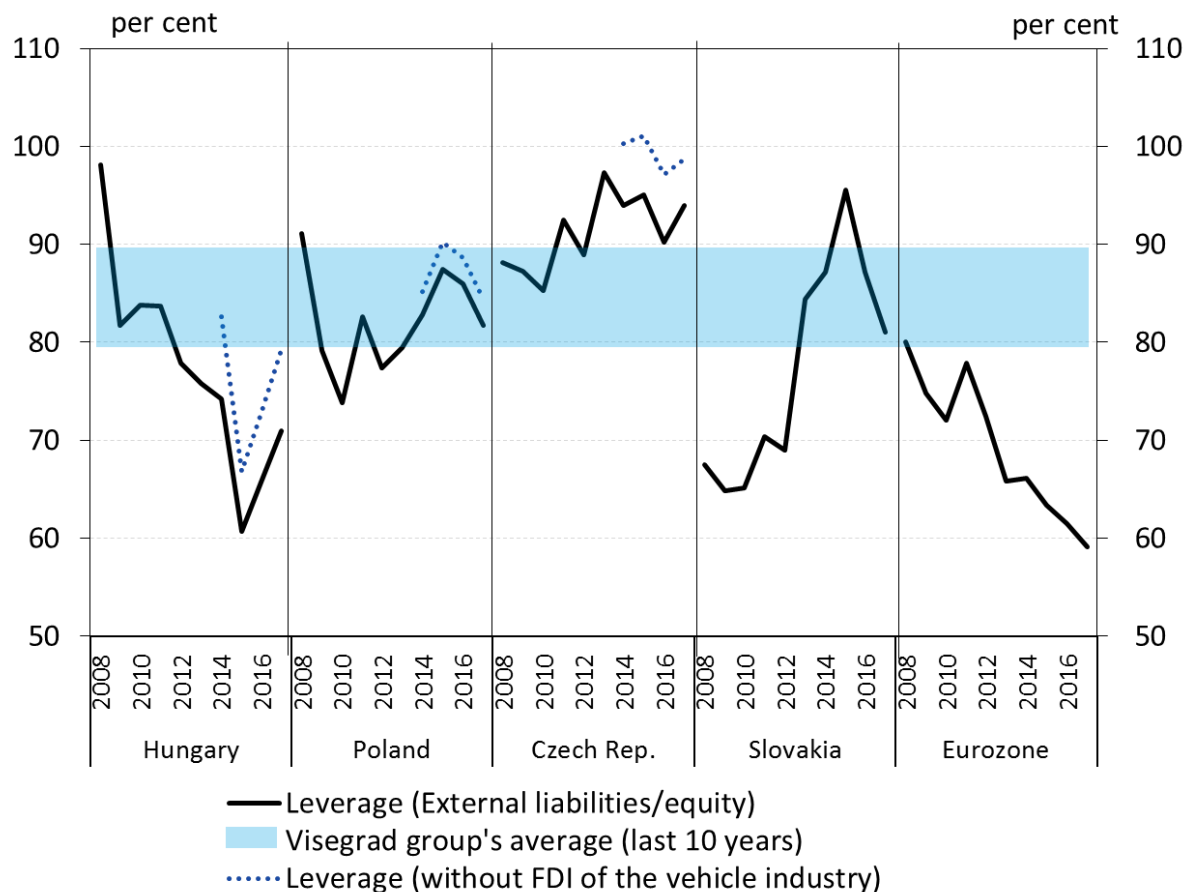


The debt type liabilities' value is around the average of the countries of the region

Non-financial corporation sector's liabilities in an international comparison (as a percent of GDP)

Note: Loans contain the domestic and foreign loans
Source: Eurostat, MNB

THE HUNGARIAN CORPORATIONS' LEVERAGE IS THE LOWEST IN THE REGION

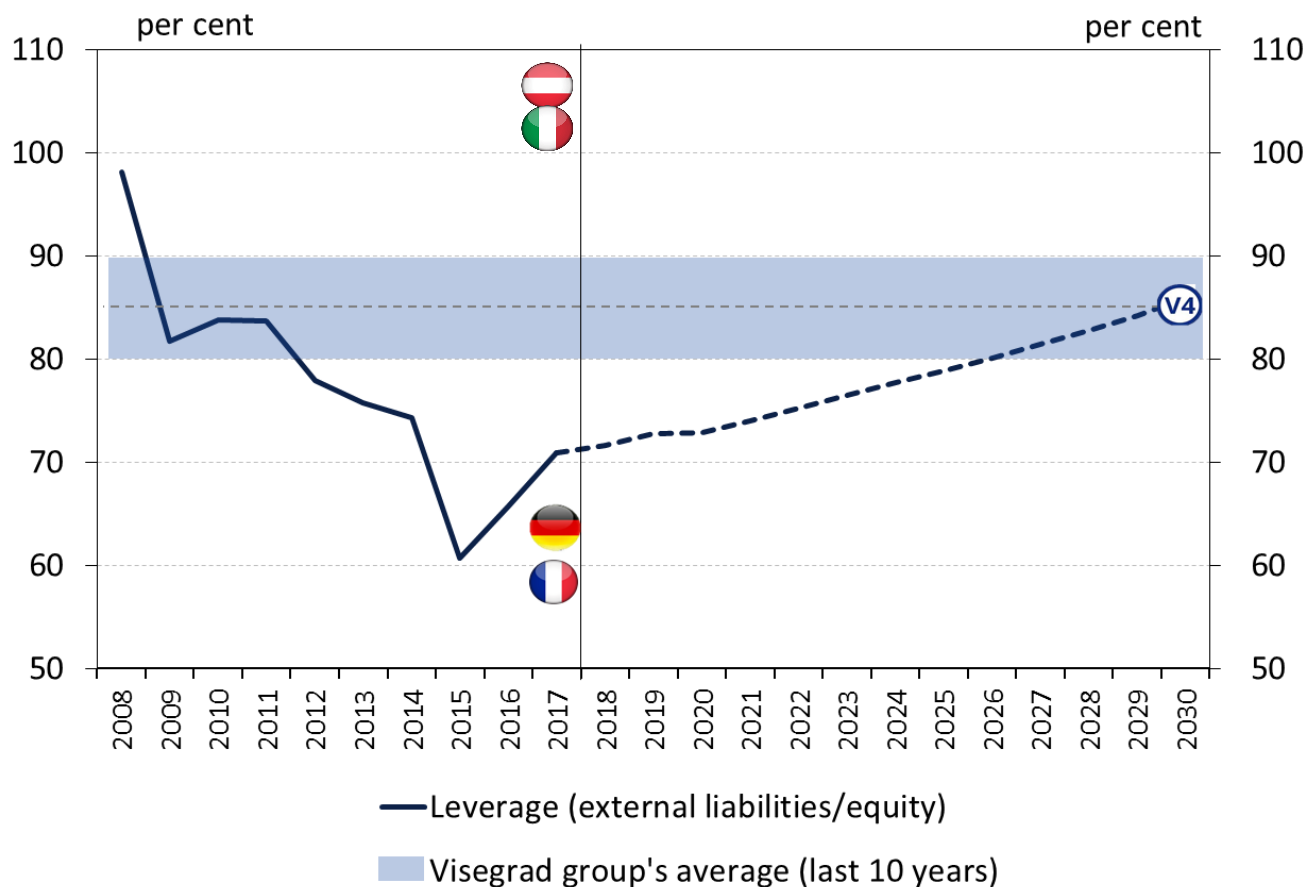


Corporate sector's leverage in an international comparison

Note: The corrigated leverage indicator is calculated: external liabilities without intercompany loans / Equity – households share + intercompany loans

Source: Eurostat, MNB

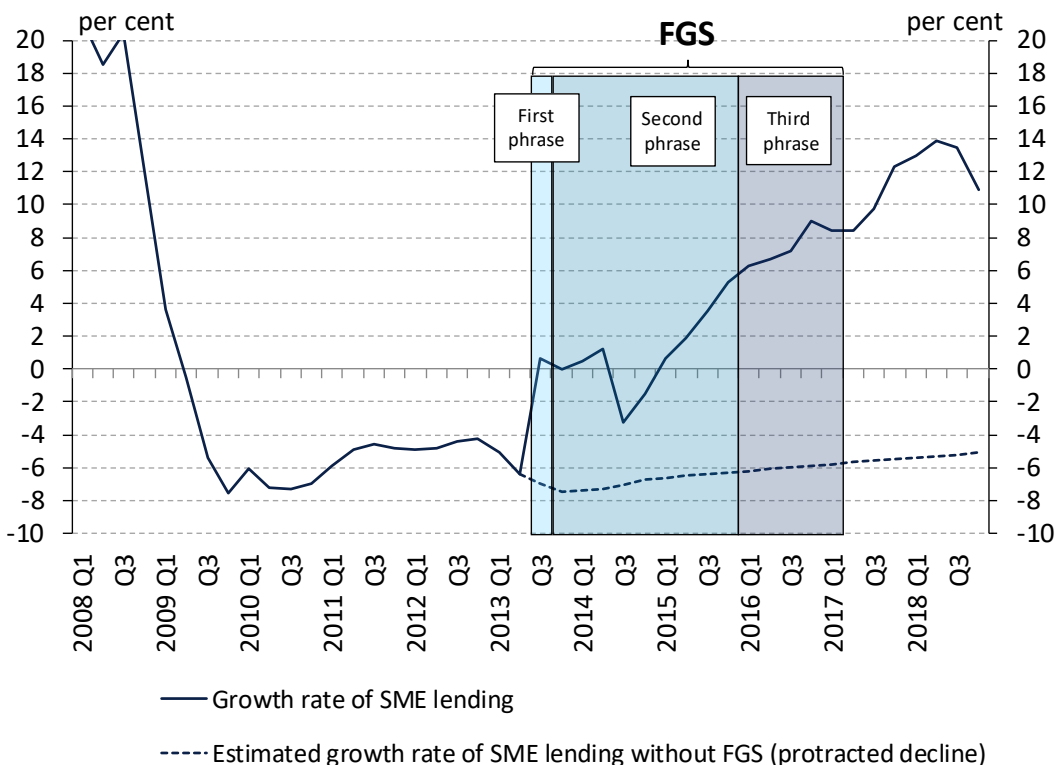
THERE IS ROOM FOR COMPANIES' LEVERAGE DURING THE FINANCIAL CONVERGENCE



Projection of the non-financial corporate sector's leverage

Note: Dynamic growth in the internal and external liabilities could result the convergence in leverage in the reform GDP path.

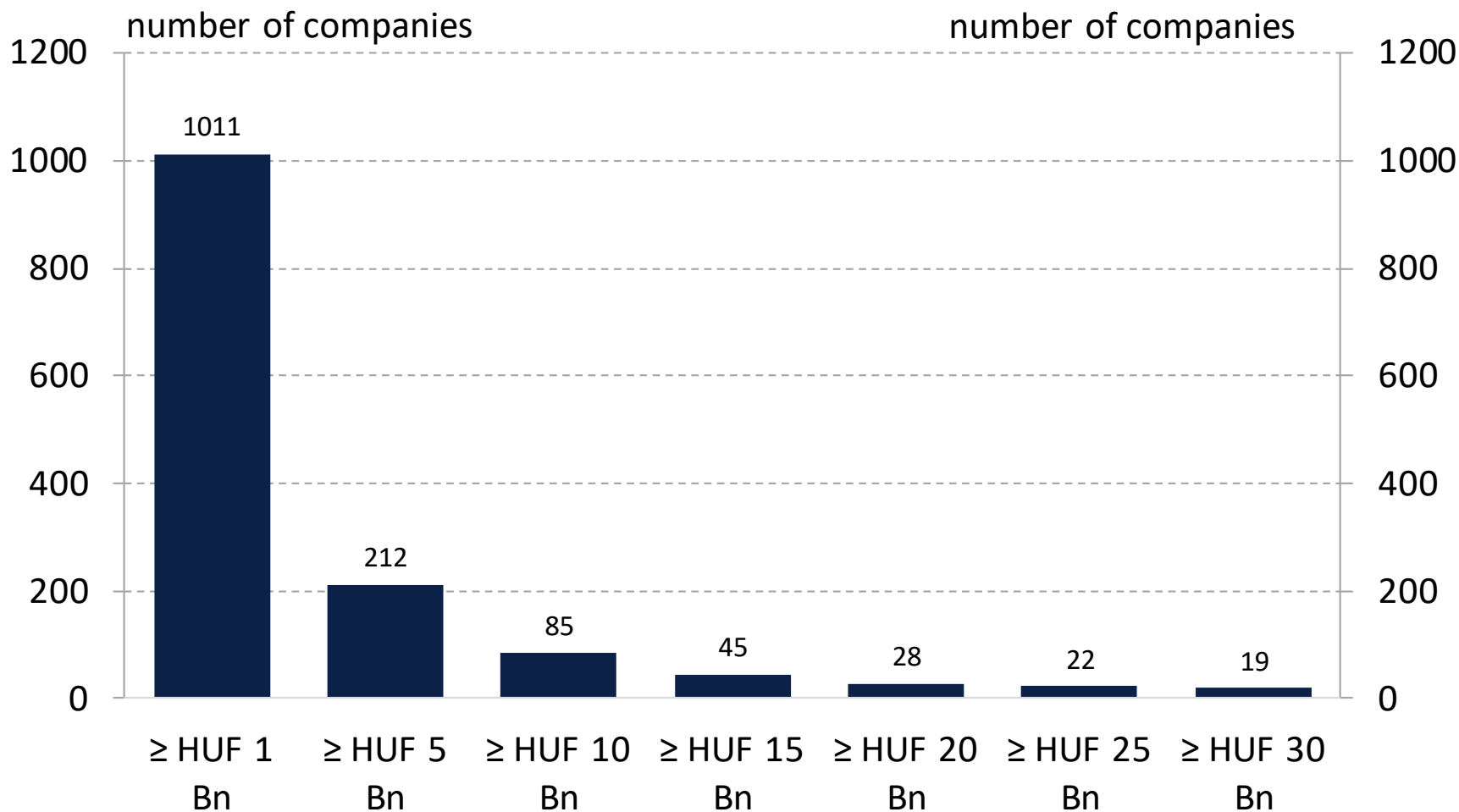
IN RECENT YEARS, ONE OF THE KEY OBJECTIVES OF THE MNB WAS TO MITIGATE THE SME CREDIT MARKET DISTURBANCES



GROWTH RATE OF LOANS OUTSTANDING OF THE SME SECTOR (TRANSACTION-BASED)

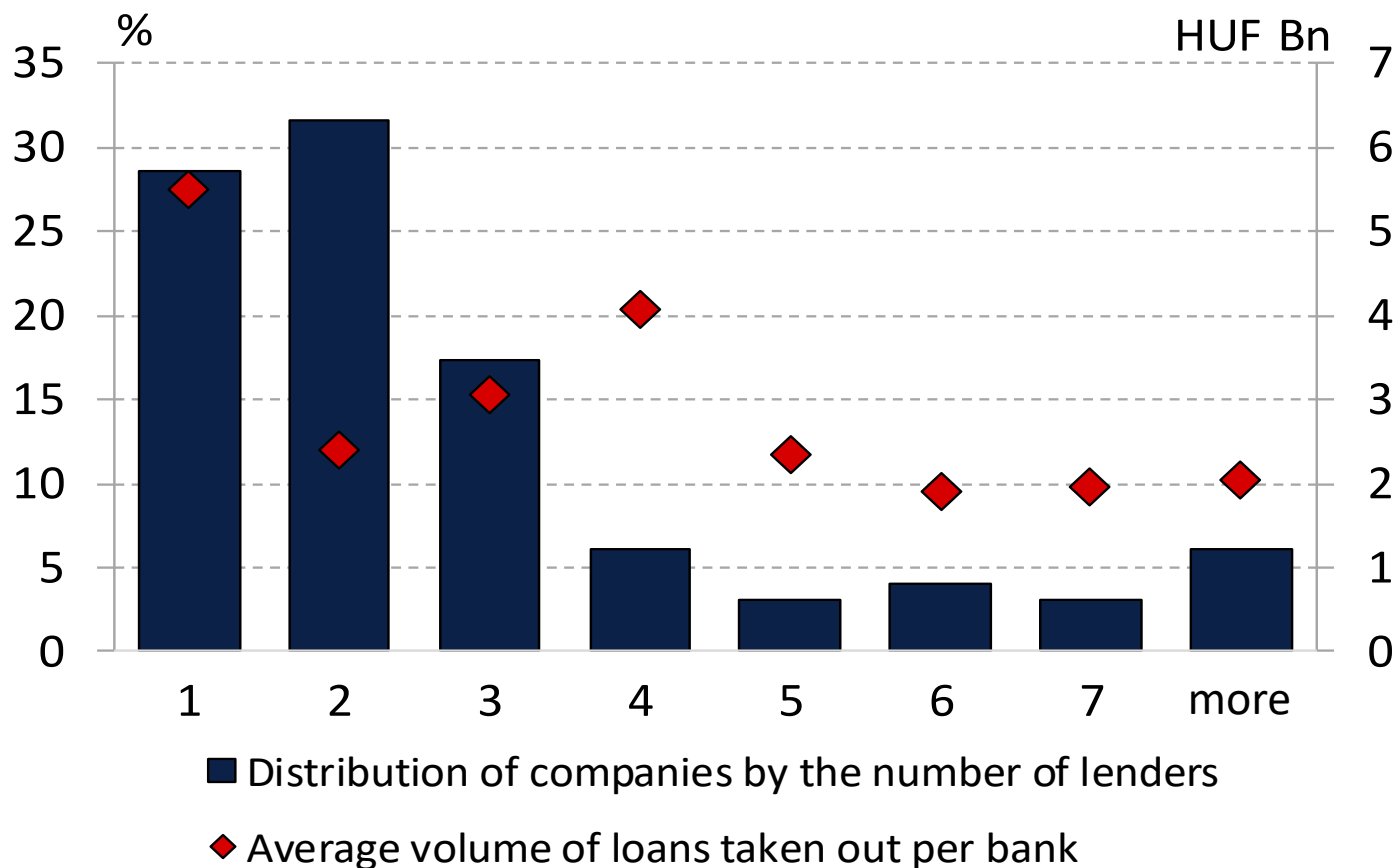
- The Funding for Growth Scheme successfully contributed to the **turnaround** in lending.
- The volume of **corporate lending** in Hungary is already **adequate**.
- In 2018 the growth rate of **SME lending reached almost 12 percent**.

MORE THAN 1,000 COMPANIES HAVE LOANS WITH AN AMOUNT OF ABOVE HUF 1 BILLION



NUMBER OF COMPANIES WITH LOANS ABOVE HUF 1 BILLION (2018)

LARGER COMPANIES ARE FINANCED BY SEVERAL FINANCIAL INSTITUTIONS

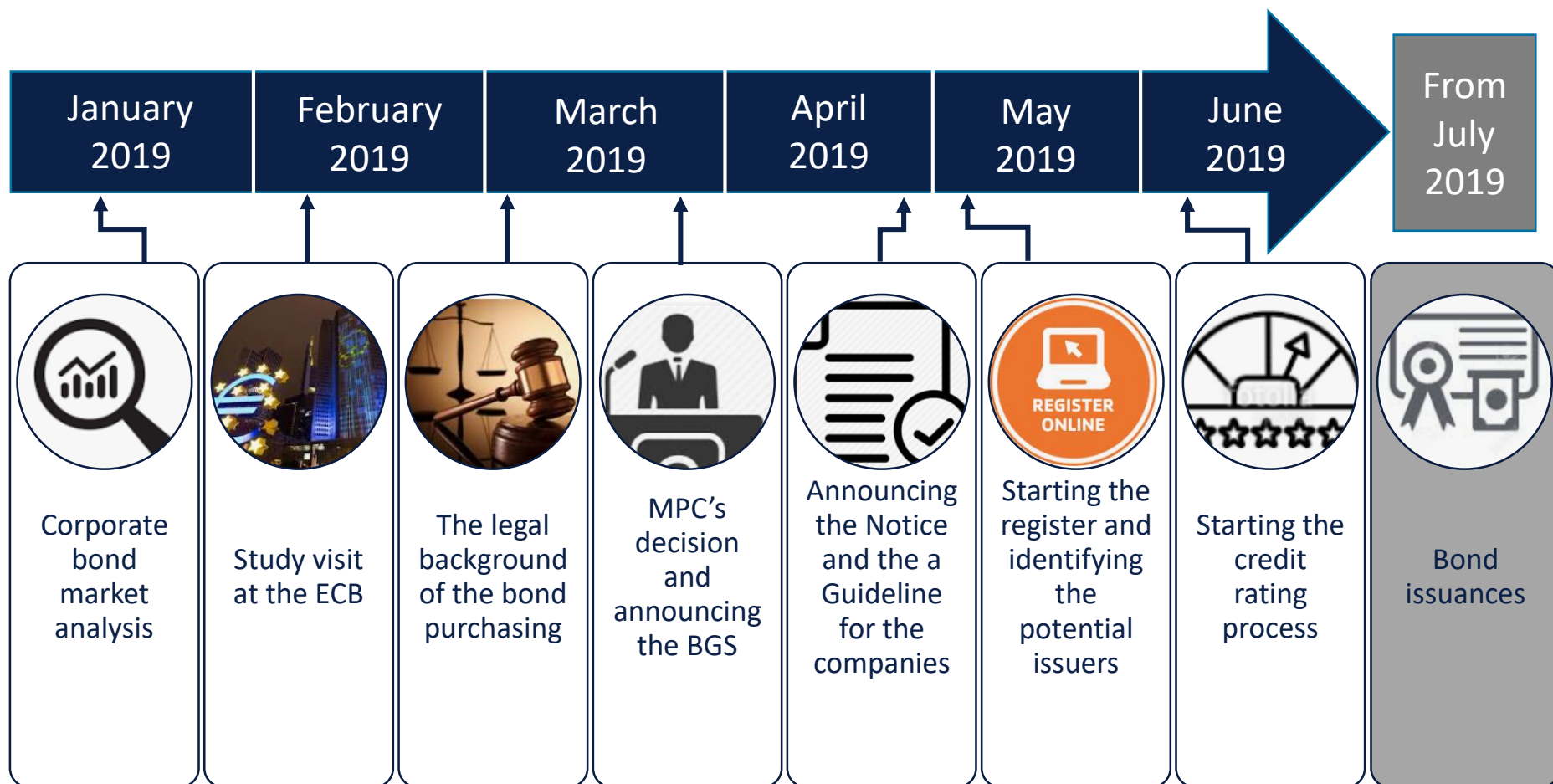


HUNGARIAN COMPANIES BANK CONNECTIONS AND AVERAGE VOLUME OF LOANS TAKEN OUT PER BANK (2018)



THE BOND FUNDING FOR GROWTH SCHEME (BGS)

THE WHOLE BGS PROCESS TOOK ABOUT 6 MONTHS TO ESTABLISH





- The purpose, conditions and operation of **MNB's Bond Funding for Growth Scheme heavily relies on the Corporate Sector Purchase Programme.**
 - Both central banks had to face with a less efficient monetary policy transmission, decreasing market liquidity and a heavily bank-loan dependent funding structures by the corporate sector.
- In the early stages, the delegation of **MNB made a study visit to the ECB** with the aim to have a deeper insight into the framework and practical implementation of CSPP.
- Most **takeaways have been considered and later implemented** during a preparation process.
 - Broad eligible universe, all domestic non-financial corporations are in scope of the programme
 - Market development goals, focus on new issuers and issuances
 - Suitable risk assessment framework is needed
 - Securities lending facility can improve market liquidity

KEY CONDITIONS OF THE MNB'S BOND FUNDING FOR GROWTH SCHEME (BGS)



January
2019

February
2019

March
2019

April
2019

May
2019

June
2019

Total amount	HUF 300 billions (0.7 percent of GDP)
Start of the purchases	1 July 2019
Issuers of the bonds to be purchased	domestic non-financial corporations
Denomination of the bonds to be purchased	HUF
Original maturity of the bonds to be purchased	minimum 3 years, maximum 10 years
Credit rating of the bonds to be purchased	at least B+
Proportion of MNB's purchase per bond series	max. 70 per cent
Maximum exposure of MNB per corporate group	HUF 20 bn
Minimum volume per issuance	HUF 1 bn
Sterilisation of the excess liquidity arising from the purchases	by the preferential deposit facility



THE TECHNICAL DETAILS OF THE BGS WAS PUBLISHED IN THE END OF APRIL



January
2019

February
2019

March
2019

April
2019

May
2019

June
2019

The Notice on the
details of BGS



A corporate bond
issuance guideline

- Conditions that the issuers must fulfil
- Conditions that the bonds must fulfil
- Details on the MNB purchases

- Help companies navigate the process of bond issuance and take part in the BGS
- Summarising the role of the main consultants and partners
- Contains the phases of the corporate bond issuance



Under the BGS, the MNB only purchases securities, where the **issuers** fulfil the following conditions*:

- Non-financial corporation;
- Has its seat in Hungary;
- Does not have a parent undertaking that is a credit institution or a financial enterprise or such an institution registered in a third country
- Is not a resolution asset management vehicle managing assets from a resolution measure
- Does not perform fiduciary asset management activities
- Is a company not registered in the equity segment of the BSE regulated market, and the states does not have a direct or indirect qualifying holding in it



The MNB only purchases marketable **corporate bonds** that fulfil the following conditions*:

- Place of issue: Hungary;
- Currency: HUF;
- Original maturity: at least 3 years, up to 10 years;
- Type of interest payment: fixed-rate, variable-rate or zero-coupon;
- Minimum issue size: HUF 1 billion;
- Minimum face value: HUF amount equivalent to EUR 100,000
- Has a credit rating at least B+ (from a CRA registered and supervised by ESMA)
- Listed on same trading venue operated by the BSE, or the Issuer has undertaken in writing to make the listing within 180 days following the issuance at the latest

THE NOTICE ON THE DETAILS OF THE BGS CONTAINS THE EXACT CONDITIONS OF THE PURCHASES III.



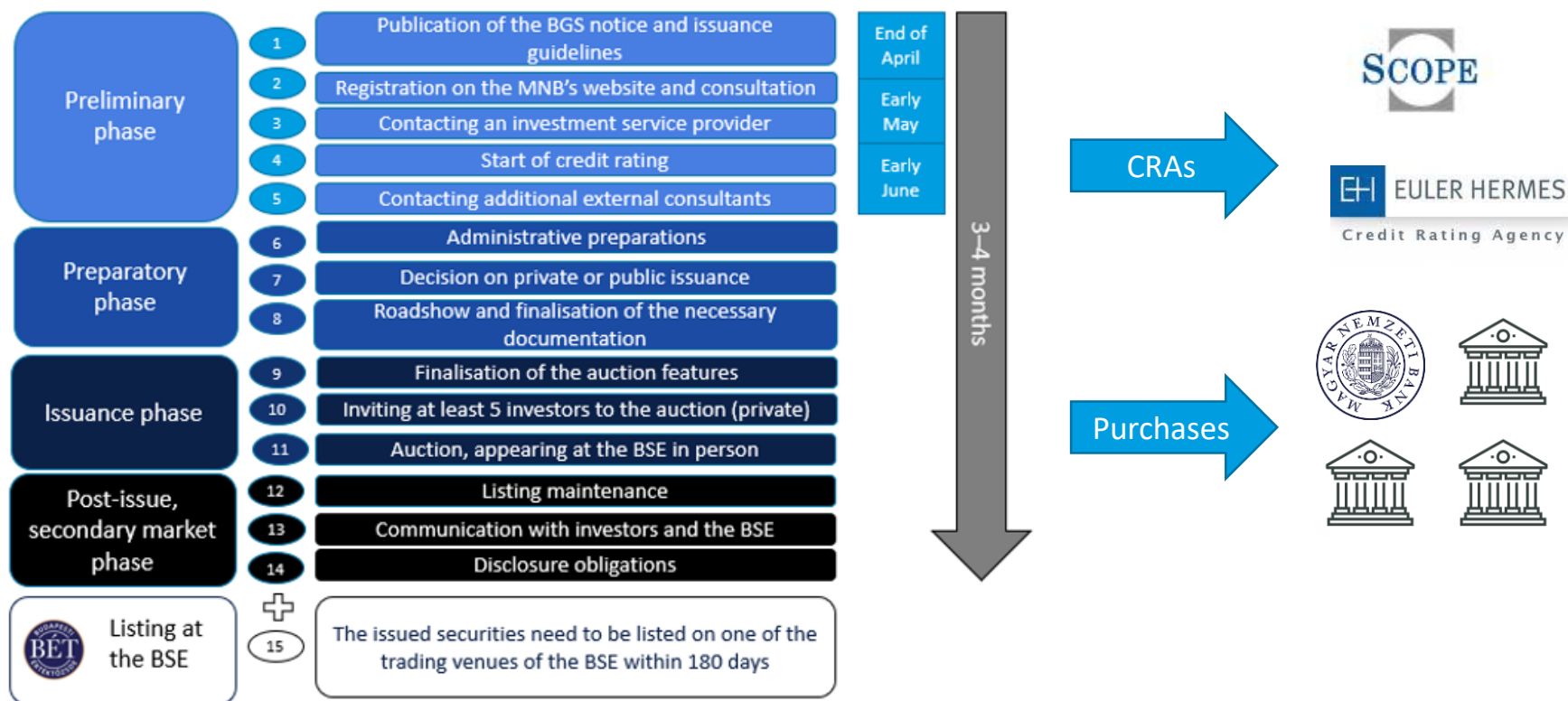
Conditions for **primary market purchases***:

- MNB purchases publicly and privately placed securities
- At least five qualified investors have to be invited to the auction in the case of private placement
- MNB only purchases securities issued at securities auctions conducted in the BSE's auction trading system
- Maximum 50 % of the bond series marketed after the auction may be owned by a single player
- Issuer determines: the upper limit of the submittable yield bids and/or lower limit of the submittable price bids, and the amount accepted can not be more than the announced volume more than 10 %

MILESTONES OF PARTICIPATION IN THE BOND FUNDING FOR GROWTH SCHEME



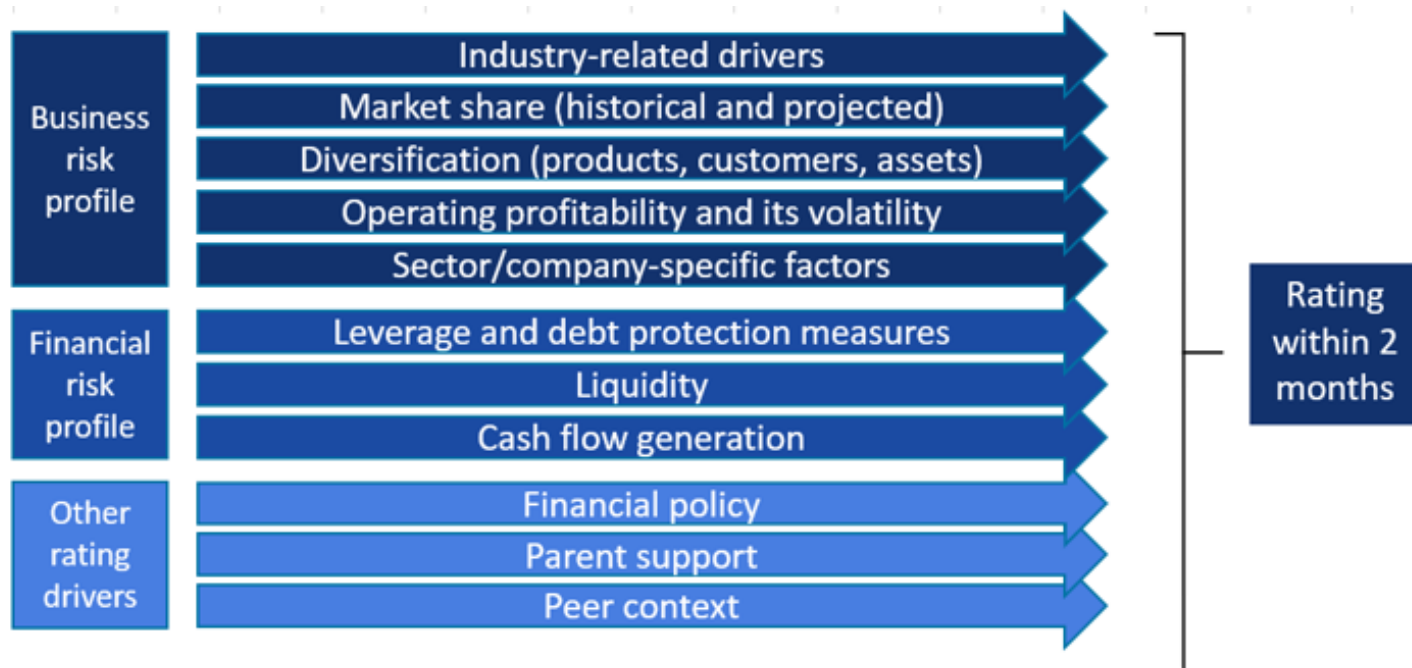
Investment service provider



THE MNB HAS CONTRACTED WITH TWO GERMAN CREDIT RATING AGENCIES

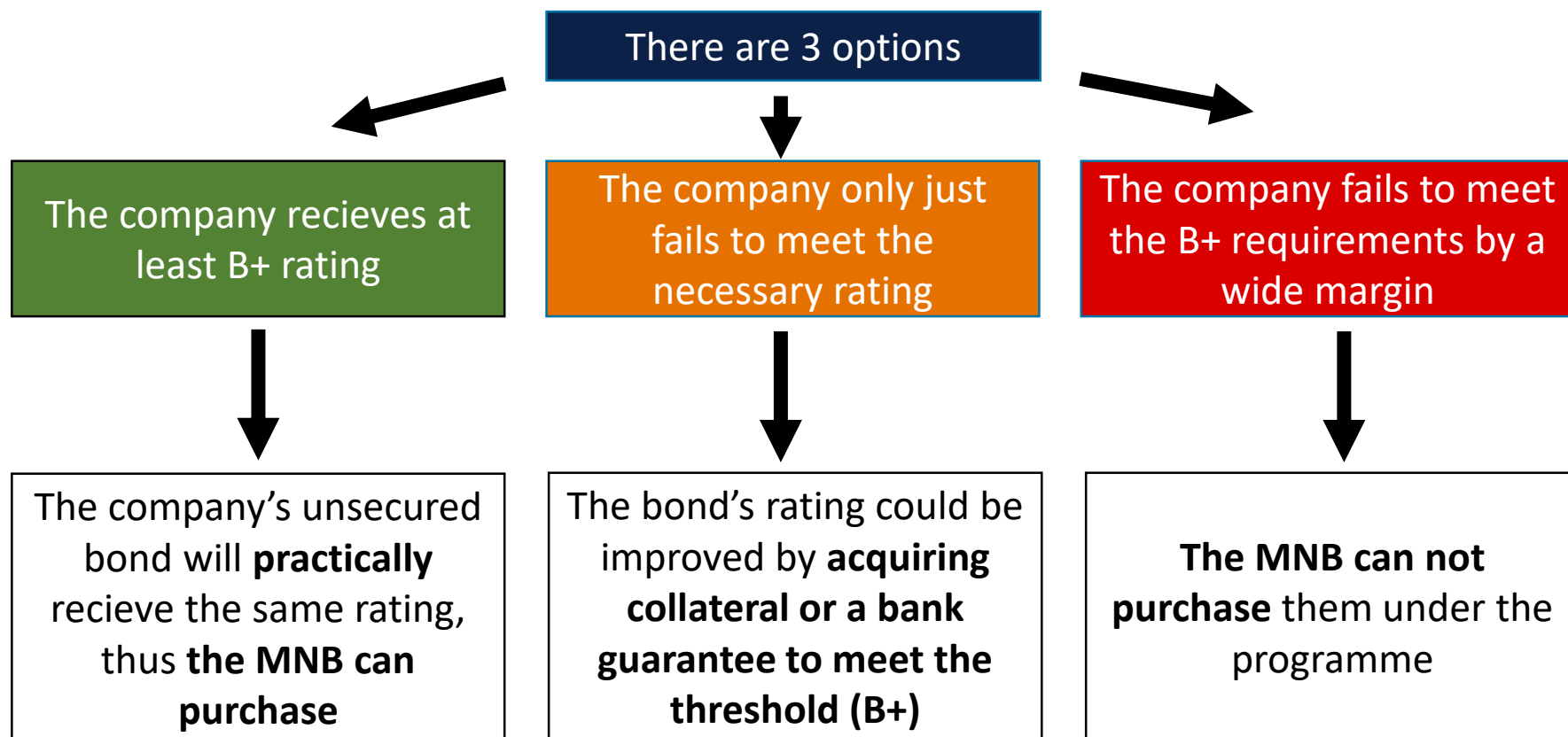


Credit rating process is similar to the process that a company without bank loan could face before its first bank credit



- To participate in the BGS, the bond issued by the company must have a credit rating of at least B+
- The company should indicate to MNB via his investment service provider that the company is ready for the rating process
- In the case of a B+ rating or higher, both the rating and the rating report are published
- The securities purchased by the MNB are reviewed annually until the maturity date
- The companies can also acquire their own credit rating from a CRA registered by the ESMA

THE POSSIBLE OUTCOMES OF THE RATING PROCESS



THE MNB PURCHASES SECURITIES EVEN IN PRIVATE PLACEMENT OR PUBLIC OFFERING



Private placement	Public offering
Faster issuance	More transparent
Known investor base	Wider investor base
Lower documentary requirements	Fast listing on stock exchange
Lower distributor and legal costs	Positive PR for the company, and enhancing business confidence

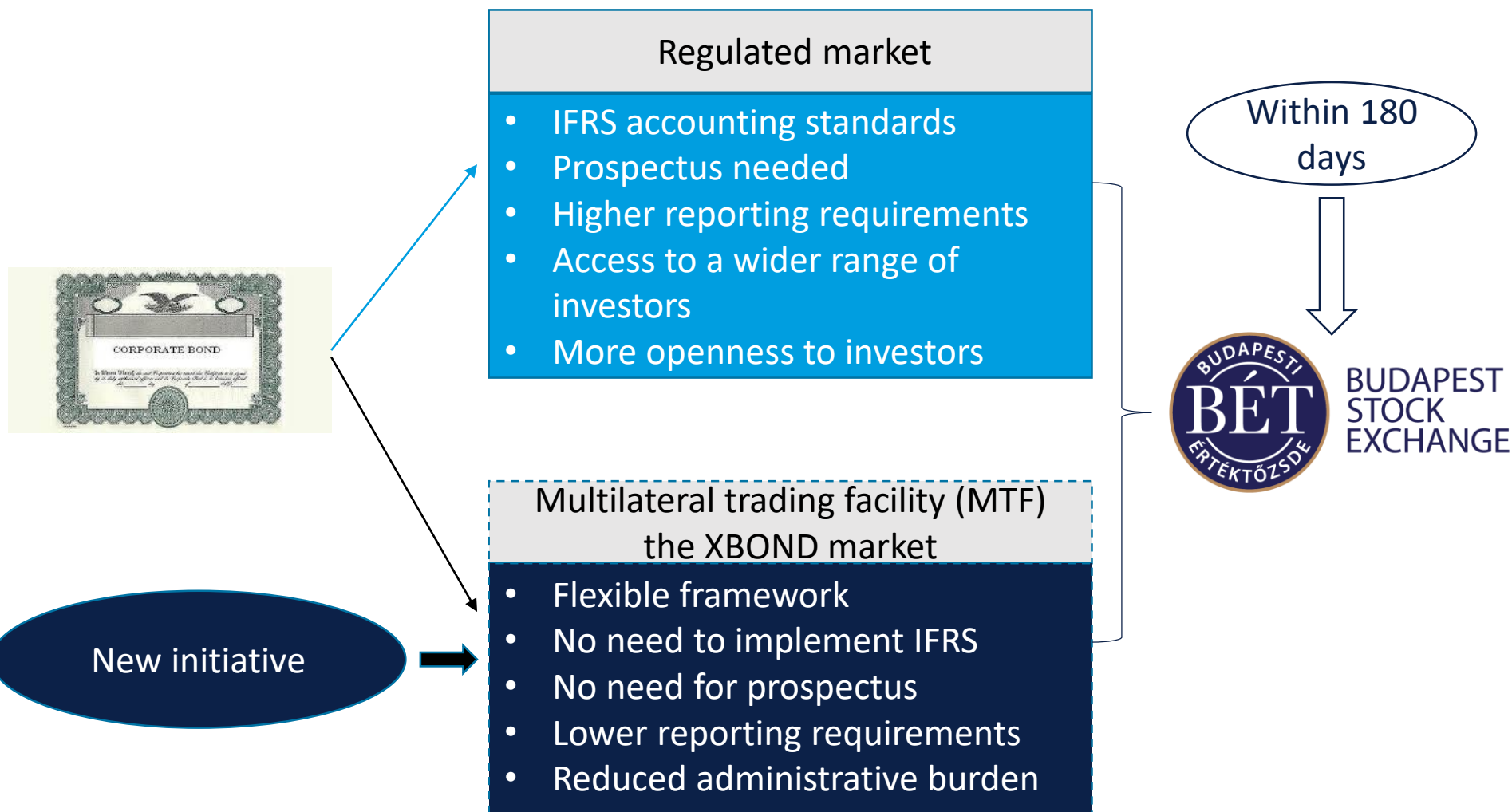
Compulsory
within 6 months

Compulsory
within 6 months

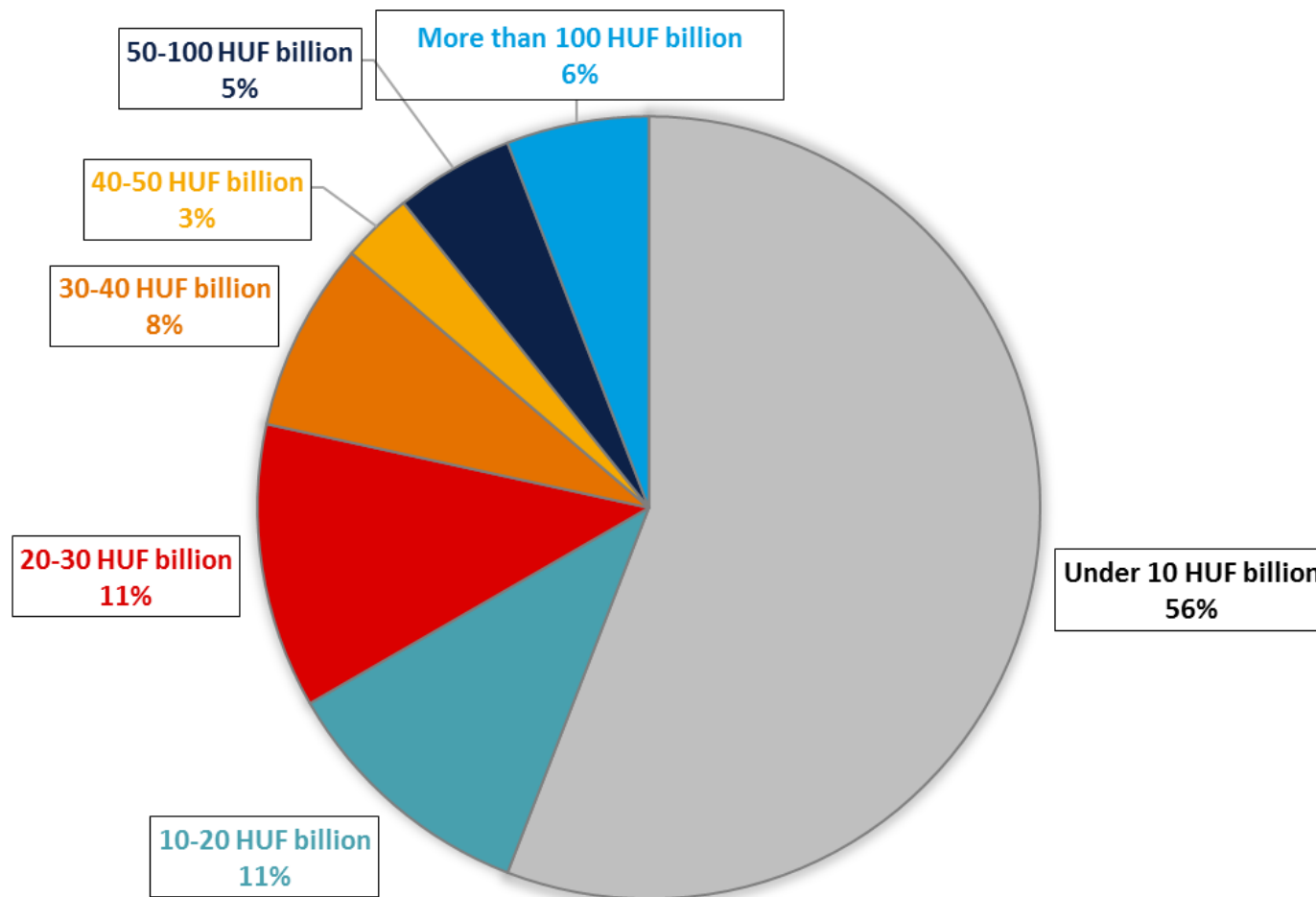


BUDAPEST
STOCK
EXCHANGE

LISTING OF THE BONDS ON THE BUDAPEST STOCK EXCHANGE WILL BE REQUIRED



SO FAR MORE THAN 100 COMPANIES HAVE ALREADY REGISTERED ON THE MNB WEBSITE



THE REGISTERED COMPANIES TOTAL ASSETS IN HUF
BILLION

THE RESULTS ACHIEVED SO FAR IN THE BGS

A vertical sequence of five white circles, each with a blue outline, connected by a thin blue line. Each circle is positioned to the left of a blue rectangular text box.

More than 100 companies have registered via the register platform on the MNB website

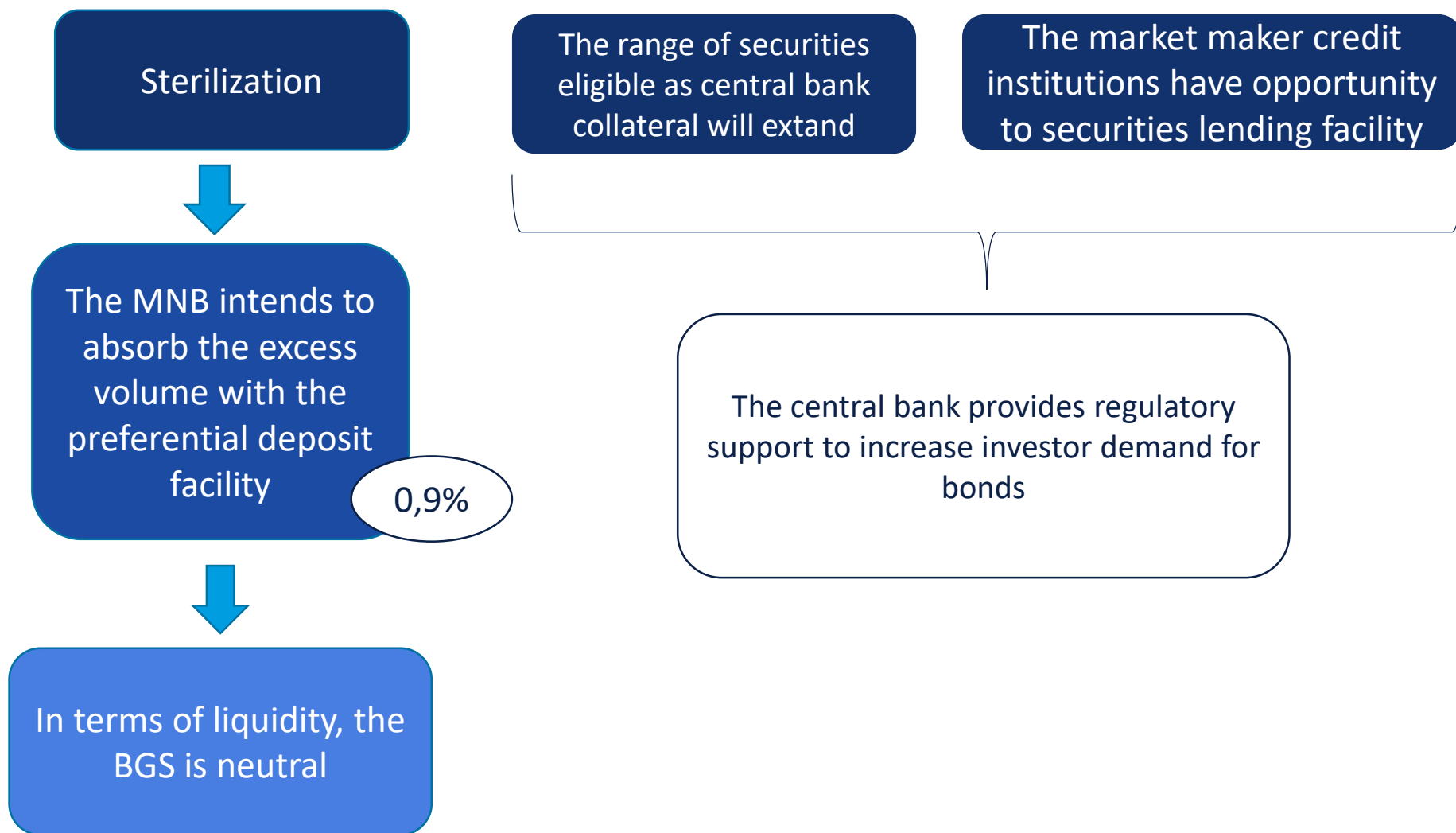
The companies registered have a total balance sheet size more than 10 percent of the GDP

In the case of 20 companies the credit rating process has already started, the results are expected in August

The potential issuers have started to negotiate with their potential investors

The new trading platform's (called XBOND) terms and conditions is under establishing

THE BGS HAS NO EFFECT ON THE MONETARY POLICY CONDITIONS



THE PRICING IS A KEY FACTOR IN CORPORATE BOND ISSUANCES



Primary market

The MNB analyse the companies' loans

The corporate bond yields should not be under the Hungarian government bond yields

The bonds' price should be competitive to their bank loans

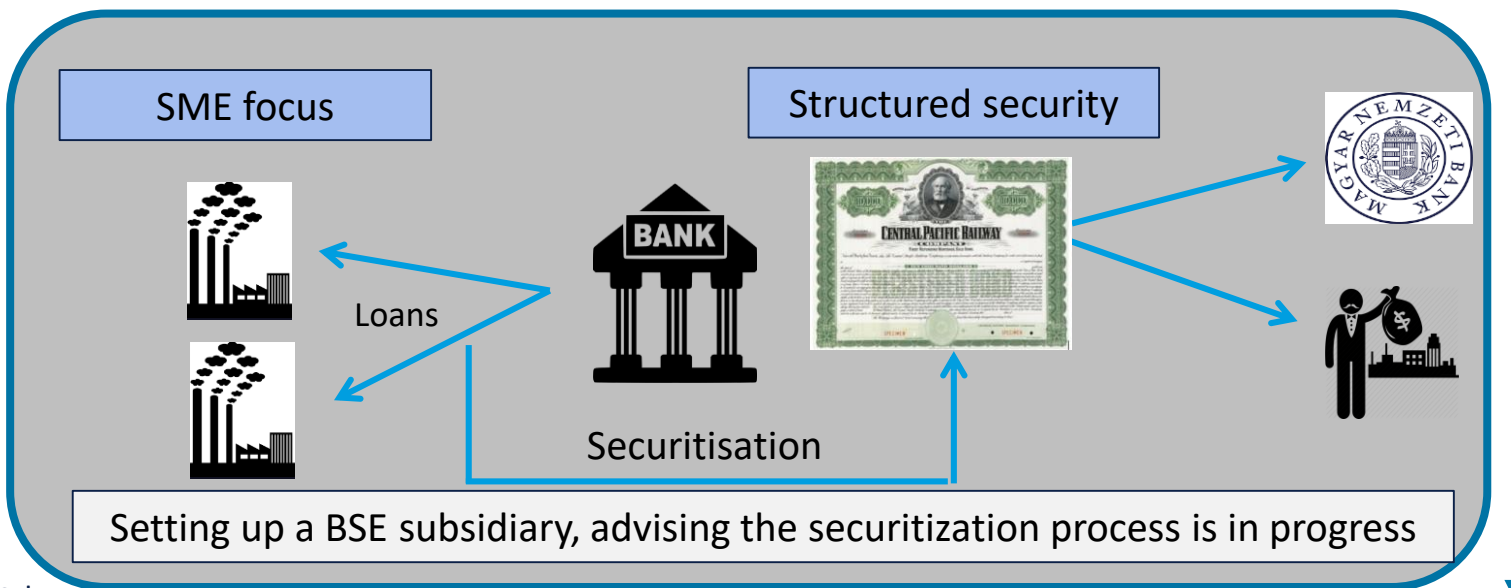
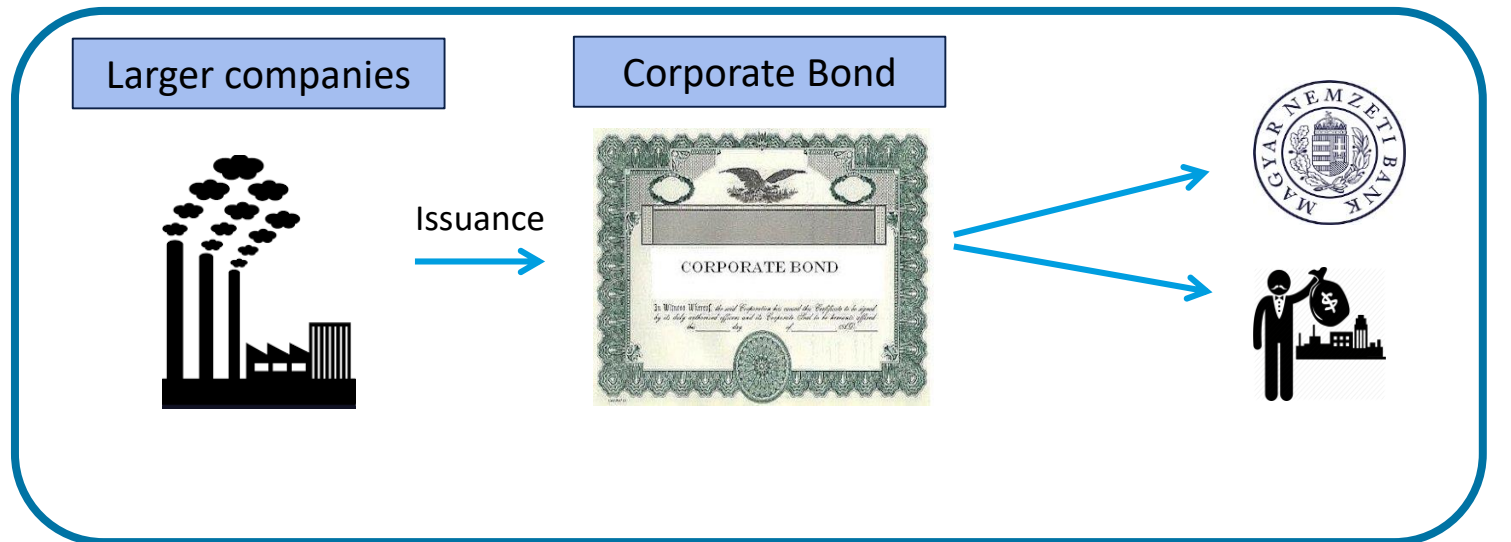
Competitive corporate bond market

The MNB will continue the purchases on the secondary market on average auction price



SECURITISATION

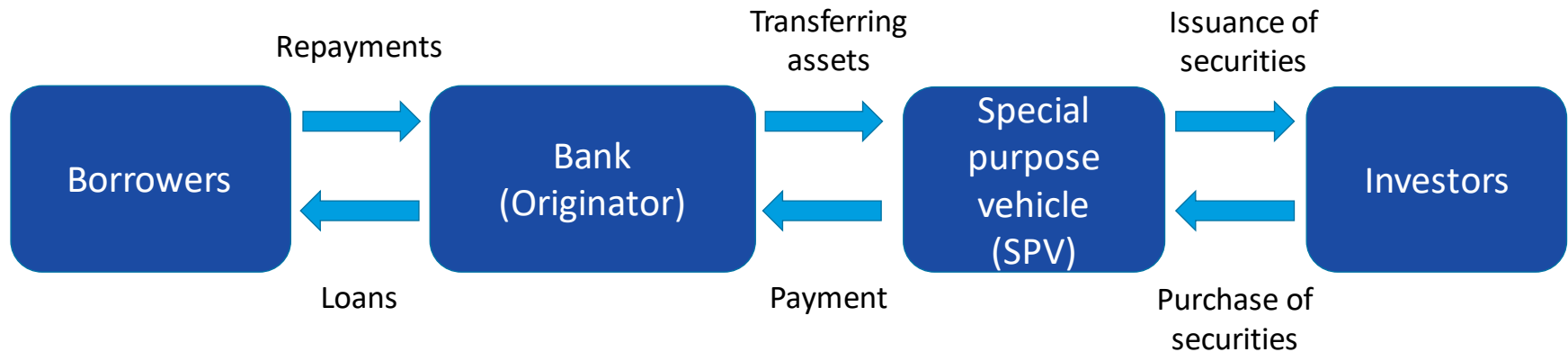
FROM 2020 SECURITIES BACKED BY CORPORATE LOANS COULD BE PURCHASED



WITHIN SECURITISATION BANK LOANS COULD BE TRANSFORMED INTO MARKETABLE SECURITIES



The securitisation process

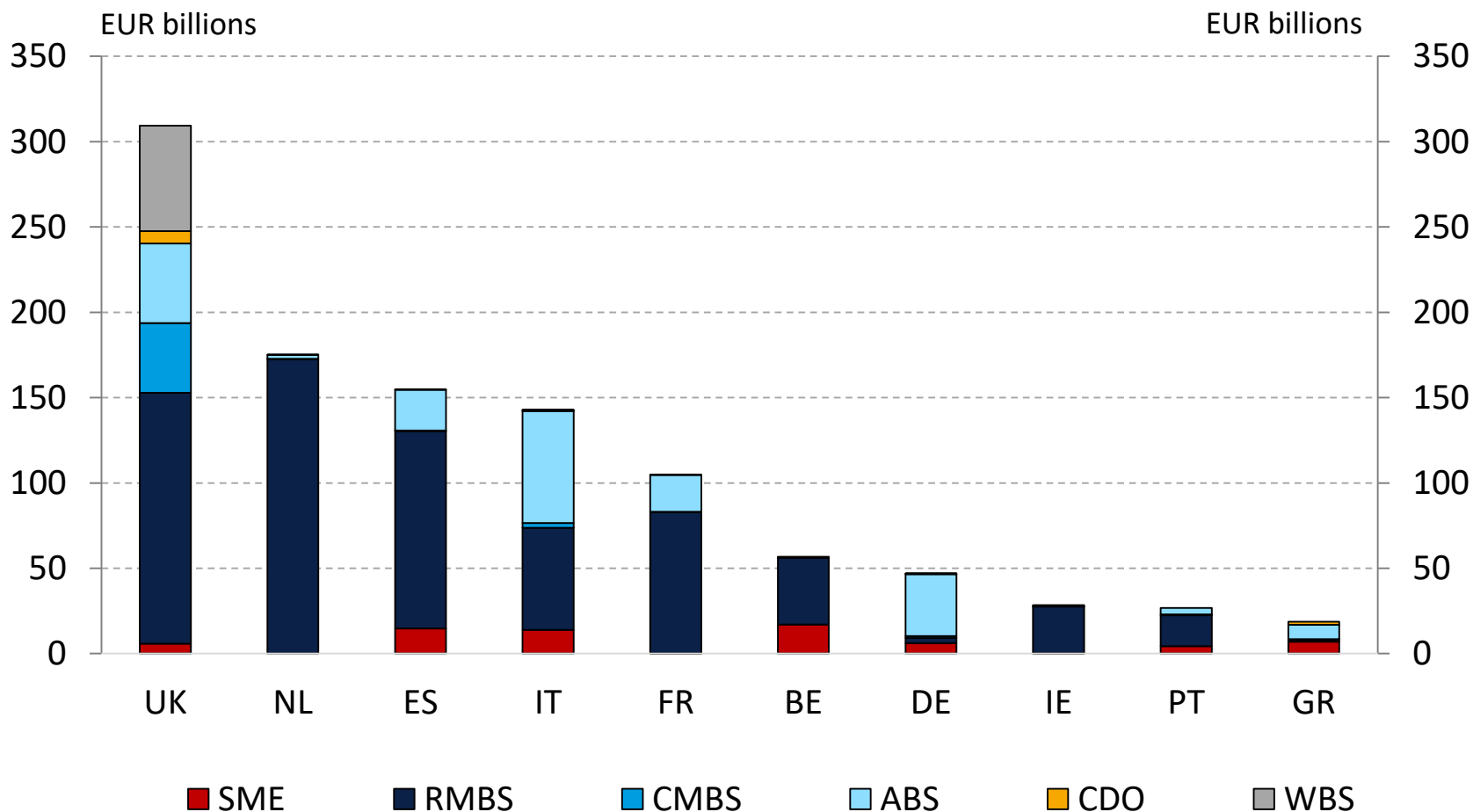


THE MAIN SECURITISED PRODUCTS AND UNDERLYING COLLATERALS



	Type of structured security	Abbreviation	Underlying collateral
MBS	Residential mortgage-backed securities	RMBS	Residential mortgage
	Commercial Mortgage-Backed Securities	CMBS	Commercial Mortgage
ABS	Consumer ABS		Consumer loans, credit card loans
	Commercial ABS		Claims arises from intangible assets
	Others		Claims arises from infrastructure projects
CDO	Collateralised Loan Obligation	CLO	Corporate loans
	Collateralised Bond Obligation	CBO	Bonds
	Collateralised Fund Obligation	CFO	Funds' assets

THE MOST COMMON TYPE OF SECURITISATION IN THE EU IS THE RMBS, BUT SME SECURITISATION ALSO APPEARS



- With an advanced, liquid corporate bond market has several favourable effects for the central bank and for the companies as well.
- The Hungarian corporate bond market lags far behind the average of both the EU member states and of the CEE countries.
- To increase the liquidity of the market, the MNB launched a new monetary policy instrument, the Bond Funding for Growth Scheme (BGS).
- The scheme has no effect on the monetary policy conditions, it is neutral in terms of the present stance of the interest policy.
- So far the Hungarian companies have shown massive interest for the BGS, the credit rating process is under way.



THANK YOU FOR YOUR
ATTENTION!