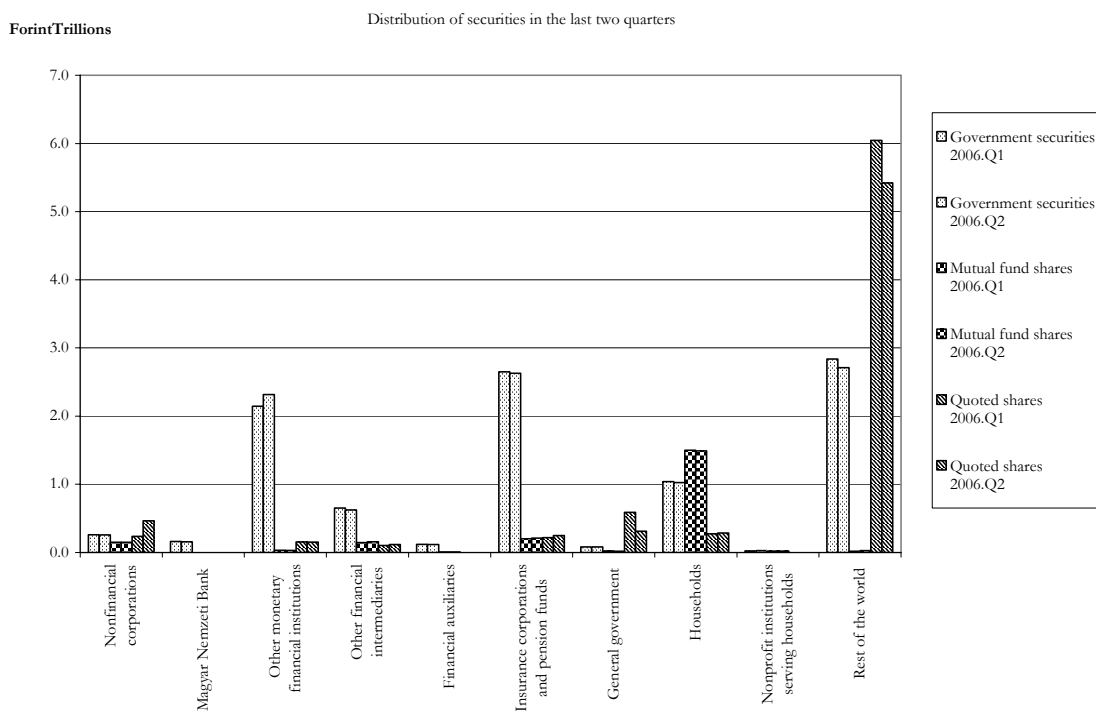


22 August 2006

## PRESS RELEASE

### Securities holdings by sector: 2006 Q2<sup>1</sup>

*In 2006 Q2, the most notable development in the Hungarian government securities market was the increase in the market shares of other monetary financial institutions including credit institutions. This was in contrast with the decline in non-residents' share of the market. The steady rise of several years in insurance corporations' and pension funds' securities holdings did not continue in this quarter either, thus the sector's market share has been declining for half a year, following an increase of three years. Every major sector registered price losses on their holdings of government securities in the last three month. It can be observed that non-resident investors rearranged their portfolios significantly, preferring shorter-term papers to government bonds. In the market of quoted shares, the decline in share prices of leading stocks led to a fall in market capitalisation. In this period, households, financial and non-financial corporations were net buyers, and the holdings of all three sectors reached the highest value of the last 5 years. The holding of the general government declined significantly due to the privatisation of MOL. The non-resident sector was also a net seller in the period under review. In 2006 Q2, other financial intermediaries, insurance corporations and pension funds purchased the largest amounts in the market of mutual fund shares. Following a slight decline, households' holdings as a proportion of mutual fund shares in the market fell back to their 18-month earlier level.*



<sup>1</sup> Stock data always refer to the end of the quarter.

## **Government securities**

Measured at market value, Hungarian government debt securities holdings<sup>2</sup> declined by 0.3% to HUF 9,940.0 billion in 2006 Q2. This was solely accounted for by a decline of 4.4 percentage points in government bond holdings, while treasury bill holdings, calculated at market value, increased by 12.6 percentage points in the quarter. The fall in government securities prices reduced total holdings by HUF 197.9 billion. This was in contrast with the HUF 170.4 billion increase in the outstanding amount of government paper at nominal value. As a result of these contrasting developments, government securities holdings, calculated at market value, were HUF 27.5 billion less than in March.

The market value of households' government securities holdings declined by HUF 14.0 billion, which was mainly attributable to net sales of HUF 9.5 billion by household investors, while the sector registered a HUF 4.5 billion holding loss on its portfolio. Households' holdings of government bonds fell by HUF 42.1 billion, while the sector's short-term government paper holdings, calculated at market value, increased by HUF 28.1 billion by the end of the quarter. Following the decline in the previous quarter, the almost steady fall in the sector's share of the government securities market since early 2004 continued: its holdings were 10.3% of the total at end-June 2006.

Following net purchases in the previous quarter, non-residents were net sellers of government debt securities to the tune of HUF 58.0 billion. The sector registered a HUF 70.4 billion holding loss on its portfolio. As a result, its holdings fell by HUF 128.4 billion, with its percentage share of total government securities holdings declining by 1.2 percentage points to 27.3% by end-June. Non-resident investors increased their short-term treasury bill holdings more than threefold, the value of which thus growing to nearly HUF 180 billion by the end of H1. In parallel with this, non-residents' government bond holdings fell by HUF 258 billion, calculated at market value.

Financial corporations' holdings of government securities increased by HUF 115.6 billion at market value in Q2. Their holdings rose solely on account of net purchases worth HUF 236.0 billion in the period under review, as the holding loss on the portfolio in the amount of HUF 120.4 billion reduced the market value of government paper held by the sector. Financial corporations' share of the government securities market increased from 57.4% to 58.8%. As opposed to the trend of several years, government securities holdings of insurance corporations and pension funds fell by HUF 21.9 billion, reducing their market share by an additional 0.1 percentage point. Other monetary financial institutions' holdings increased by HUF 172.0 billion, as a result of which their market share edged up by 1.8 percentage points.

As opposed to the increase in the previous quarter, non-financial corporations' holdings of government securities declined this time, by HUF 2.6 billion. This decline is mainly the consequence of the price fall of government securities held by corporations belonging to the sector.

The general government sector's holdings of government securities, calculated at market value, fell slightly in the last three months. While the central government, mainly as a result of net purchases, increased its holdings by HUF 2.8 billion, the value of government securities held by local governments declined by HUF 3.6 billion.

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<sup>2</sup> In this press release, government securities include domestically issued forint-denominated government bonds, treasury bills and forint-denominated bills issued by the MNB.

### Distribution of Government Securities Holdings by Sector

|  | Government Securities Total |       |       |       |       |       | percent |
|--|-----------------------------|-------|-------|-------|-------|-------|---------|
|  | 2005                        |       |       |       | 2006  |       |         |
|  | Q1                          | Q2    | Q3    | Q4    | Q1    | Q2    |         |
| <b>Nonfinancial corporations (S. 11)</b>                 | 3.0                         | 2.8   | 2.7   | 2.5   | 2.6   | 2.6   |         |
| Magyar Nemzeti Bank (S. 121)                             | 2.2                         | 2.1   | 2.0   | 1.7   | 1.6   | 1.6   |         |
| Other monetary financial institutions (S. 122)           | 22.6                        | 22.5  | 20.5  | 21.4  | 21.5  | 23.3  |         |
| Other financial intermediaries (S. 123)                  | 4.6                         | 5.4   | 6.6   | 6.6   | 6.5   | 6.3   |         |
| Financial auxiliaries (S. 124)                           | 1.2                         | 1.2   | 1.2   | 1.2   | 1.2   | 1.2   |         |
| Insurance corporations and pension funds (S. 125)        | 24.3                        | 25.2  | 26.7  | 27.1  | 26.6  | 26.4  |         |
| <b>Financial corporations (S. 12)</b>                    | 55.0                        | 56.5  | 56.9  | 58.0  | 57.4  | 58.8  |         |
| Central government (S. 1311)                             | 0.4                         | 0.4   | 0.3   | 0.4   | 0.3   | 0.4   |         |
| Local government (S. 1313)                               | 0.8                         | 0.8   | 0.7   | 0.5   | 0.5   | 0.5   |         |
| Social security funds (S. 1314)                          | 0.0                         | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |         |
| <b>General government (S. 13)</b>                        | 1.2                         | 1.2   | 1.0   | 0.9   | 0.8   | 0.8   |         |
| <b>Households (S. 14)</b>                                | 11.7                        | 11.2  | 10.5  | 10.7  | 10.4  | 10.3  |         |
| <b>Nonprofit institutions serving households (S. 15)</b> | 0.3                         | 0.3   | 0.2   | 0.2   | 0.2   | 0.3   |         |
| <b>Rest of the world (S. 2)</b>                          | 28.9                        | 28.0  | 28.7  | 27.7  | 28.5  | 27.3  |         |
| <b>Total</b>   | 100.0                       | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |         |

### Quoted shares

The market value of quoted share holdings declined by HUF 619.3 billion (by some 7.2%) in 2006 Q2, to a total HUF 6,999.1 billion at end-June.<sup>3</sup> This followed a rise of HUF 646.4 billion in 2006 Q1. The decline in market capitalisation of shares was mainly accounted for price falls, the effect of which amounted to HUF 615.8 billion. In the quarter under review, the shares of one company (Domus) were delisted from the Budapest Stock Exchange, in the value of HUF 3.3 billion, and one company's capital was reduced by HUF 0.2 billion.

In this period, households were net buyers to the tune of HUF 39.4 billion. Simultaneously with this, the sector registered a HUF 28.5 billion holding loss. As a result, households' holdings rose by approximately HUF 10.9 billion, while their share increased by 0.5 percentage points to 4.1%.

In this quarter, non-resident investors were net sellers in the amount of HUF 127.2 billion. In addition, they registered a HUF 496.6 billion holding loss, while the decline due to the delisted stock amounted to a further HUF 0.9 billion. As a result of all the above, non-residents holdings of quoted shares fell by HUF 624.7 billion, and the sector's percentage share of total holdings declined by 1.9 percentage points to 77.4% in Q2.

Financial corporations – as in previous quarters – were net buyers again, to the tune of HUF 95.1 billion, registering a HUF 51.9 billion holding loss at the same time. As a result, the amount of quoted shares held by the sector rose by HUF 43.2 billion. Its percentage share of the market increased by 1.2 percentage points to 7.4%.

Non-financial corporations were net buyers in this period, to the tune of HUF 243.2 billion, HUF 237.2 billion of which is the result of MOL's own share transaction. The sector registered a HUF 12.6 billion holding loss, and the delisting resulted in an additional decline of HUF 2.3 billion. As a combined result, the sector's total holdings grew by HUF 228.3 billion, and its share of the market increased by 3.5 percentage points to 6.6%.

The general government sold quoted shares in the net amount of HUF 250.7 billion, the largest part of which was the aforementioned MOL transaction. The holding loss on the shares held by the sector resulted in an additional decline of HUF 26.2 billion. As a consequence, the general

<sup>3</sup> In this press release, the value of market capitalisation differs from the data provided by the Budapest Stock Exchange, due to the delays in the listing of shares of one firm because of and increase in its capital.

government's holdings declined by HUF 276.9 billion, thus its percentage share of the market was 4.5% at end-June.

#### Quoted shares held by institutional sectors

|  | Quoted shares |       |       |       |       |       | percent |
|--|---------------|-------|-------|-------|-------|-------|---------|
|  | 2005          |       |       |       | 2006  |       |         |
|  | Q1            | Q2    | Q3    | Q4    | Q1    | Q2    |         |
| <b>Nonfinancial corporations (S. 11)</b>                 | 4.1           | 4.9   | 4.4   | 4.7   | 3.1   | 6.6   |         |
| Magyar Nemzeti Bank (S. 121)                             | 0.0           | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |         |
| Other monetary financial institutions (S. 122)           | 1.8           | 1.6   | 1.5   | 1.9   | 2.0   | 2.2   |         |
| Other financial intermediaries (S. 123)                  | 1.5           | 1.4   | 1.2   | 1.4   | 1.4   | 1.7   |         |
| Financial auxiliaries (S. 124)                           | 0.0           | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |         |
| Insurance corporations and pension funds (S. 125)        | 3.0           | 3.0   | 2.8   | 2.8   | 2.9   | 3.5   |         |
| <b>Financial corporations (S. 12)</b>                    | 6.3           | 6.0   | 5.5   | 6.2   | 6.2   | 7.4   |         |
| Central government (S. 1311)                             | 6.8           | 7.2   | 7.4   | 6.9   | 7.1   | 3.9   |         |
| Local government (S. 1313)                               | 0.6           | 0.6   | 0.6   | 0.7   | 0.6   | 0.6   |         |
| Social security funds (S. 1314)                          | 0.0           | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |         |
| <b>General government (S. 13)</b>                        | 7.4           | 7.8   | 7.9   | 7.5   | 7.7   | 4.5   |         |
| <b>Households (S. 14)</b>                                | 3.9           | 3.7   | 3.3   | 3.9   | 3.6   | 4.1   |         |
| <b>Nonprofit institutions serving households (S. 15)</b> | 0.0           | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |         |
| <b>Rest of the world (S. 2)</b>                          | 78.3          | 77.6  | 78.8  | 77.7  | 79.3  | 77.4  |         |
| <b>Total</b>   | 100.0         | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |         |

#### Mutual fund shares

The outstanding total of mutual fund shares, measured at net asset value, rose by 0.6%, from HUF 2,087.2 billion to HUF 2,098.9 billion in 2006 Q2, while individual holding sectors' shares did not change significantly. Underlying the changes in the holding were transactions in the value of HUF 30.2 billion, accompanied by negative revaluation to the tune of HUF 18.5 billion. As a combined effect of these two factors, the outstanding amount of mutual fund shares, measured at the net asset value, rose by HUF 11.7 billion.

Measured at market value, households's holdings of mutual fund shares declined by HUF 6.8 billion in Q2, which – in addition to the last quarter of 2005 – was the second biggest negative change in holdings in the last two years. However, underlying the decline are the positive transaction of HUF 5.6 billion of the mutual fund shares held by the sector and its HUF 12.4 billion holding loss. Therefore, households' percentage share of the market declined by 0.7 percentage points.

Non-residents' existing holdings rose by HUF 6.4 billion in the period under review, resulting in an 0.3 percentage point increase in the sector's share of total market holdings.

The financial corporate sector increased its holdings of mutual fund shares by a total HUF 16.7 billion. As in the previous quarter, the sector increased its share of total market holdings in Q2, although the increase was lower, 0.7 percentage points, thus reaching a share of 18.9%. In 2006 Q2, each sub-sector stepped up its mutual fund share holdings, with the exception of other monetary financial institutions. Similarly to the previous quarter, within the sector it was other financial intermediaries which stepped up their purchases the most, by HUF 12.7 billion, with their share of the total continuing to rise by 0.5 percentage points. However, in Q2, with transactions amounting to HUF 23.3 billion, the sector suffered a HUF 6.7 billion negative revaluation. Insurance corporations and pension funds increased their holdings by HUF 7.1 billion, as a result of a HUF 4.9 billion holding loss and transactions reaching HUF 12.1 billion. As a result, their share of the market increased by 0.3 percentage points.

Mutual fund shares held by non-financial corporations rose to HUF 148.0 billion in 2006 Q2, slightly declining compared to the previous quarter. This change in holdings was explained by net

sales and positive revaluations worth HUF 2.0 billion and HUF 0.9 billion, respectively. Thus, non-financial corporations' market share continues to constitute 7.1% of total holdings.

The general government sector's holdings of mutual fund shares were HUF 4.1 billion down, which was almost completely accounted for sales of mutual fund shares by local governments (change resulting from transactions).

**Net asset value of mutual fund shares by holding sector**

|  | Mutual fund shares |       |       |       |       |       | percent |
|--|--------------------|-------|-------|-------|-------|-------|---------|
|  | 2005               |       |       |       | 2006  |       |         |
|  | Q1                 | Q2    | Q3    | Q4    | Q1    | Q2    |         |
| <b>Nonfinancial corporations (S. 11)</b>                 | 8.0                | 7.6   | 7.4   | 6.9   | 7.1   | 7.1   |         |
| Magyar Nemzeti Bank (S. 121)                             | 0.0                | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |         |
| Other monetary financial institutions (S. 122)           | 1.5                | 1.6   | 1.5   | 1.5   | 1.5   | 1.4   |         |
| Other financial intermediaries (S. 123)                  | 2.2                | 2.8   | 3.7   | 5.7   | 7.0   | 7.5   |         |
| Financial auxiliaries (S. 124)                           | 0.1                | 0.1   | 0.1   | 0.2   | 0.1   | 0.1   |         |
| Insurance corporations and pension funds (S. 125)        | 10.1               | 9.2   | 8.9   | 9.5   | 9.7   | 9.9   |         |
| <b>Financial corporations (S. 12)</b>                    | 14.0               | 13.6  | 14.2  | 16.8  | 18.2  | 18.9  |         |
| Central government (S. 1311)                             | 0.1                | 0.1   | 0.1   | 0.1   | 0.1   | 0.1   |         |
| Local government (S. 1313)                               | 1.7                | 1.2   | 1.3   | 0.8   | 1.0   | 0.8   |         |
| Social security funds (S. 1314)                          | 0.0                | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |         |
| <b>General government (S. 13)</b>                        | 1.8                | 1.3   | 1.4   | 0.9   | 1.1   | 0.8   |         |
| <b>Households (S. 14)</b>                                | 74.7               | 75.9  | 75.4  | 73.7  | 71.8  | 71.0  |         |
| <b>Nonprofit institutions serving households (S. 15)</b> | 1.0                | 0.9   | 0.9   | 0.9   | 0.9   | 1.0   |         |
| <b>Rest of the world (S. 2)</b>                          | 0.6                | 0.7   | 0.7   | 0.9   | 0.9   | 1.2   |         |
| <b>Total</b>   | 100.0              | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |         |

Methodological notes to the press release and tables:

1. In line with international accounting recommendations (ESA '95, SNA '93), changes in the number of outstanding mutual fund shares (i.e. their total amount held by institutional sectors) and capitalisation of property income (interest, dividends, rents, etc.) are treated as transactions.
2. The codes attached to the sectors and sub-sectors (for example, S.121) refer to the corresponding categories used in international sector classification. For a detailed description of the institutional sectors, see 'New sector classification from June 2001', on the MNB's website ([www.mnb.hu](http://www.mnb.hu)) at Financial data/Statistics.
3. The tables containing stock data are accessible on the Bank's website ([www.mnb.hu](http://www.mnb.hu)) at Statistics/Statistical data, time series/VIII. Securities.
4. The percentages and ratios have been calculated on the basis of data before rounding. The sums of sub-totals may not add to total due to rounding.
5. In line with the revisions policy of securities statistics, data on mutual fund shares for 2005 have been revised.

**MAGYAR NEMZETI BANK**  
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