

## PRESS RELEASE

Press release on the agreement between the Magyar Nemzeti Bank and the primary government security dealers

The Magyar Nemzeti Bank and primary government securities dealers have reached an agreement about their respective roles in the market for forint-denominated government securities. Ensuring the smooth functioning and adequate liquidity of the forint-denominated government securities market is considered by the parties to the agreement as a priority issue. By undertaking to make continuous bid and ask prices, primary dealers intend to reduce yield volatility and improve market transparency. The parties will promote the balance of supply and demand in the government securities market by strengthening the demand side of the market and – the MNB – by introducing new lending facilities.

Under the agreement

- 1) From 17 October 2008, primary dealers will provide continuous bid and offer prices at the Budapest Stock Exchange for all publicly issued forint-denominated government securities with residual maturities of more than 90 days, for a face value of at least HUF 100 million:
  - a. For securities with maturities of up to one year, with a bid-ask spread of maximum 50 basis points,
  - b. For securities with maturities of over one year, with a bid-ask spread of maximum 30 basis points.
- 2) Primary dealers will increase their holdings of Hungarian government securities.
- 3) The MNB will announce auctions to buy government securities from primary dealers. The first auction will take place this week.
- 4) The MNB will introduce two new lending facilities:
  - a. A weekly tender for two-week, fixed-rate secured loans, for an unlimited amount,
  - b. A regular tender for six-month, variable-rate secured loans, for a pre-specified amount.

Those primary dealers will be allowed to participate in the government securities auctions and submit bids to the variable-rate tenders who undertake and meet the terms of the agreement. The range of counterparties to the fixed-rate tender facility will be identical to the counterparties to the current overnight secured loan facility.

The agreement will be in force until 31 December 2008, when it will be reviewed in light of current market conditions.

MAGYAR NEMZETI BANK