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<td>I.</td>
<td>The role of the corporate bond market</td>
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<td>The financial structure of the Hungarian NFC’s</td>
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<td>V.</td>
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<td>VI.</td>
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</table>
THE ROLE OF THE CORPORATE BOND MARKET
AN ADVANCED, LIQUID CORPORATE BOND MARKET HAS SEVERAL FAVOURABLE EFFECTS

Primary objective

- Increase the efficiency of monetary policy transmission

Secondary objectives

- May enhance financial stability
- In the event of a potential crisis, the central bank can easily support companies’ fund raising in the bond market
- May generate competition with bank loans, thus a healthier, diversified fund raising structure is achievable
THE CORPORATE BOND MARKET IN AN INTERNATIONAL COMPARISON
CORPORATE BOND MARKET APPRECIATED SIGNIFICANTLY AFTER THE GLOBAL FINANCIAL CRISIS

- 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.

OUTSTANDING BONDS OF NON-FINANCIAL CORPORATIONS (2018 Q2)

Source: BIS
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)

Source: BIS, IMF
SIZE OF THE CORPORATE BOND MARKET VARIES SIGNIFICANTLY AMONG THE EU COUNTRIES

- 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.

Source: Eurostat

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

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

Source: Eurostat
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

Source: Eurostat, ECB
Bonds are typically a long-term form of financing...

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

- More than 1 year, max 3 years: 35%
- More than 3 years, max 5 years: 14%
- More than 5 years, max 7 years: 14%
- More than 7 years, max 10 years: 3%
- More than 10 years: 3%

Source: Bloomberg
... AND A WIDE RANGE OF INDUSTRIES APPEAR ON THE MARKET

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

Source: Bloomberg
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)

Source: Eurostat
After the crisis the bond market grew in Poland and Czech Republic.

![Graph showing the outstanding bond portfolio of non-financial corporations of the countries of the region, as a percent of GDP.](image)

Source: Eurostat
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.
The programme’s share of the total APP was relatively low, however, it had a significant impact on the euro corporate bond market.
ECB ADOPTED A FLEXIBLE IMPLEMENTATION IN RESPONSE TO VARYING MARKET CONDITIONS

(PERSONAL ASSESSMENT)
ECB HAD CLOSELY MIRRORED THE ELIGIBLE UNIVERSE DURING THE IMPLEMENTATION OF THE PROGRAMME

- **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

COUNTRY OF RISK
ECB'S INTERNAL CLASSIFICATION OF COUNTRY OF RISK.
UTILITIES AND INFRASTRUCTURE RELATED COMPANIES HAVE MORE THAN 25 PER CENT SHARE IN CSPP

ECONOMIC SECTOR OF THE BOND ISSUERS PURCHASED UNDER CSPP

Source | ECB
CORPORATE BOND SPREADS HAVE STEADILY TIGHTENED FOLLOWING THE ANNOUNCEMENT OF THE CSPP

CORPORATE BOND SPREADS – ELIGIBLE VERSUS INELIGIBLE

Source | ECB
Following the announcement of the CSPP, issuance rose substantially.

- 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
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

Source | BoE
LOWER FUNDING COSTS LED TO A SHARP INCREASE IN BOND ISSUANCES

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

Source | BoE
### CORPORATE BOND PURCHASE PROGRAMMES OF THE ECB AND THE BOE

<table>
<thead>
<tr>
<th></th>
<th>CSPP</th>
<th>CBPS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Aims</strong></td>
<td>Strengthen the pass-through of the Eurosystem’s asset purchases to the financing conditions of the real economy.</td>
<td>Impart monetary stimulus, reducing the cost of borrowing for companies, stimulating new issuances</td>
</tr>
<tr>
<td><strong>Time frame</strong></td>
<td>June 2016 - December 2018</td>
<td>September 2016 - April 2017</td>
</tr>
<tr>
<td><strong>Debt securities eligible for purchase</strong></td>
<td>EUR 920 bn</td>
<td>GBP 133 bn</td>
</tr>
<tr>
<td><strong>Debt securities purchased (as a percentage of the GDP)</strong></td>
<td>EUR 178 bn (1.6%)</td>
<td>GBP 10 bn (0.5%)</td>
</tr>
<tr>
<td><strong>Share of purchases</strong></td>
<td>19%</td>
<td>8%</td>
</tr>
<tr>
<td><strong>Number of issuers</strong></td>
<td>274</td>
<td>144</td>
</tr>
<tr>
<td><strong>Denomination</strong></td>
<td>Euro</td>
<td>Sterling</td>
</tr>
<tr>
<td><strong>Credit rating of debt securities</strong></td>
<td>Minimum BBB-</td>
<td>Minimum BBB-</td>
</tr>
<tr>
<td><strong>Maturity of debt securities purchased</strong></td>
<td>Minimum remaining maturity of six months and a maximum remaining maturity of 30 years</td>
<td>At least 12 months</td>
</tr>
<tr>
<td><strong>Purchases conducted in</strong></td>
<td>In the primary and secondary markets</td>
<td>Secondary market</td>
</tr>
</tbody>
</table>
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.

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

- 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.

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

Source: I MNB
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)

- ≥ HUF 1 Bn: 1,011
- ≥ HUF 5 Bn: 212
- ≥ HUF 10 Bn: 85
- ≥ HUF 15 Bn: 45
- ≥ HUF 20 Bn: 28
- ≥ HUF 25 Bn: 22
- ≥ HUF 30 Bn: 19

Source: KHR
LARGER COMPANIES ARE FINANCED BY SEVERAL FINANCIAL INSTITUTIONS

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

Source: KHR,

Note: on the sample of 100 large companies selected by the MNB.
THE BOND FUNDING FOR GROWTH SCHEME (BGS)
THE WHOLE BGS PROCESS TOOK ABOUT 6 MONTHS TO ESTABLISH

- **January 2019**: Corporate bond market analysis
- **February 2019**: Study visit at the ECB
- **March 2019**: The legal background of the bond purchasing
- **April 2019**: MPC’s decision and announcing the BGS
- **May 2019**: Announcing the Notice and the a Guideline for the companies
- **June 2019**: Starting the register and identifying the potential issuers
- **From July 2019**: Starting the credit rating process

**Bond issuances**

**Timeline:**
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**Bond issuances**
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)

<table>
<thead>
<tr>
<th>Month</th>
<th>Total amount</th>
<th>Start of the purchases</th>
<th>Issuers of the bonds to be purchased</th>
<th>Denomination of the bonds to be purchased</th>
<th>Original maturity of the bonds to be purchased</th>
<th>Credit rating of the bonds to be purchased</th>
<th>Proportion of MNB’s purchase per bond series</th>
<th>Maximum exposure of MNB per corporate group</th>
<th>Minimum volume per issuance</th>
<th>Sterilisation of the excess liquidity arising from the purchases</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 2019</td>
<td>HUF 300 billions (0.7 percent of GDP)</td>
<td>1 July 2019</td>
<td>domestic non-financial corporations</td>
<td>HUF</td>
<td>minimum 3 years, maximum 10 years</td>
<td>at least B+</td>
<td>max. 70 per cent</td>
<td>HUF 20 bn</td>
<td>HUF 1 bn</td>
<td>by the preferential deposit facility</td>
</tr>
<tr>
<td>February 2019</td>
<td></td>
<td></td>
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<td>March 2019</td>
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<td>April 2019</td>
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<td>May 2019</td>
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<td>June 2019</td>
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</table>

**Source**: MNB
THE TECHNICAL DETAILS OF THE BGS WAS PUBLISHED IN THE END OF APRIL


The Notice on the details of BGS

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

A corporate bond issuance guideline

- 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 detailed conditions can be found in the official Notice on the details of the Bond Funding for Growth Scheme
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 detailed conditions can be found in the official Notice on the details of the Bond Funding for Growth Scheme
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%

*The detailed conditions can be found in the official Notice on the details of the Bond Funding for Growth Scheme
MILESTONES OF PARTICIPATION IN THE BOND FUNDING FOR GROWTH SCHEME

Preliminary phase

1. Publication of the BGS notice and issuance guidelines
2. Registration on the MNB’s website and consultation
3. Contacting an investment service provider
4. Start of credit rating
5. Contacting additional external consultants

Preparatory phase

6. Administrative preparations
7. Decision on private or public issuance
8. Roadshow and finalisation of the necessary documentation
9. Finalisation of the auction features
10. Inviting at least 5 investors to the auction (private)
11. Auction, appearing at the BSE in person

Issuance phase

12. Listing maintenance
13. Communication with investors and the BSE
14. Disclosure obligations
15. The issued securities need to be listed on one of the trading venues of the BSE within 180 days

End of April
Early May
Early June

3-4 months

CRAs
Purchases

Investment service provider
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

There are 3 options

- The company receives at least B+ rating
  - The company’s unsecured bond will **practically** receive the same rating, thus **the MNB can purchase**

- The company only just fails to meet the necessary rating
  - The bond’s rating could be improved by **acquiring collateral or a bank guarantee to meet the threshold (B+)**

- The company fails to meet the B+ requirements by a wide margin
  - The MNB can **not purchase** them under the programme
### THE MNB PURCHASES SECURITIES EVEN IN PRIVATE PLACEMENT OR PUBLIC OFFERING

<table>
<thead>
<tr>
<th>Private placement</th>
<th>Public offering</th>
</tr>
</thead>
<tbody>
<tr>
<td>Faster issuance</td>
<td>More transparent</td>
</tr>
<tr>
<td>Known investor base</td>
<td>Wider investor base</td>
</tr>
<tr>
<td>Lower documentary requirements</td>
<td>Fast listing on stock exchange</td>
</tr>
<tr>
<td>Lower distributor and legal costs</td>
<td>Positive PR for the company, and enhancing business confidence</td>
</tr>
</tbody>
</table>

- Compulsory within 6 months
- Compulsory within 6 months
LISTING OF THE BONDS ON THE BUDAPEST STOCK EXCHANGE WILL BE REQUIRED

- IFRS accounting standards
- Prospectus needed
- Higher reporting requirements
- Access to a wider range of investors
- More openness to investors

Regulated market

- Flexible framework
- No need to implement IFRS
- No need for prospectus
- Lower reporting requirements
- Reduced administrative burden

Multilateral trading facility (MTF)
the XBOND market

Within 180 days

New initiative
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

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

Sterilization

The MNB intends to absorb the excess volume with the preferential deposit facility

The range of securities eligible as central bank collateral will extend

The market maker credit institutions have opportunity to securities lending facility

In terms of liquidity, the BGS is neutral

0.9%

The central bank provides regulatory support to increase investor demand for bonds
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
- The MNB will continue the purchases on the secondary market on average auction price

Competitive corporate bond market
SECURITISATION
FROM 2020 SECURITIES BACKED BY CORPORATE LOANS COULD BE PURCHASED

Larger companies → Corporate Bond
Issuance

SME focus
Structured security

Setting up a BSE subsidiary, advising the securitization process is in progress

July 2019: Start of bond purchases

In 2020: Start of purchasing securities backed by corporate loans
WITHIN SECURITISATION BANK LOANS COULD BE TRANSFORMED INTO MARKETABLE SECURITIES

The securitisation process

- **Borrowers**
  - Repayments
  - Loans

- **Bank (Originator)**
  - Transferring assets
  - Payment

- **Special purpose vehicle (SPV)**
  - Issuance of securities
  - Purchase of securities

- **Investors**
## THE MAIN SECURITISED PRODUCTS AND UNDERLYING COLLATERALS

<table>
<thead>
<tr>
<th>Type of structured security</th>
<th>Abbreviation</th>
<th>Underlying collateral</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential mortgage-backed securities</td>
<td>RMBS</td>
<td>Residential mortgage</td>
</tr>
<tr>
<td>Commercial Mortgage-Backed Securities</td>
<td>CMBS</td>
<td>Commercial Mortgage</td>
</tr>
<tr>
<td>Consumer ABS</td>
<td></td>
<td>Consumer loans, credit card loans</td>
</tr>
<tr>
<td>Commercial ABS</td>
<td></td>
<td>Claims arises from intangible assets</td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td>Claims arises from infrastructure projects</td>
</tr>
<tr>
<td>Collateralised Loan Obligation</td>
<td>CLO</td>
<td>Corporate loans</td>
</tr>
<tr>
<td>Collateralised Bond Obligation</td>
<td>CBO</td>
<td>Bonds</td>
</tr>
<tr>
<td>Collateralised Fund Obligation</td>
<td>CFO</td>
<td>Funds' assets</td>
</tr>
</tbody>
</table>
The most common type of securitisation in the EU is the RMBS, but SME securitisation also appears.

Source: AFME
<table>
<thead>
<tr>
<th>With an advanced, liquid corporate bond market has several favourable effects for the central bank and for the companies as well.</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Hungarian corporate bond market lags far behind the average of both the EU member states and of the CEE countries.</td>
</tr>
<tr>
<td>To increase the liquidity of the market, the MNB launched a new monetary policy instrument, the Bond Funding for Growth Scheme (BGS).</td>
</tr>
<tr>
<td>The scheme has no effect on the monetary policy conditions, it is neutral in terms of the present stance of the interest policy.</td>
</tr>
<tr>
<td>So far the Hungarian companies have shown massive interest for the BGS, the credit rating process is under way.</td>
</tr>
</tbody>
</table>
THANK YOU FOR YOUR ATTENTION!