GOVERNMENT SECURITIES MARKET

QUARTERLY REPORT

FOURTH QUARTER 2005

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ÁLLAMI GARANCIÁVAL

GOVERNMENT SECURITIES MARKET

The deficit of the central government amounted to HUF 984.5 billion in 2005. The pre-financing of cash transfers from the EU's EAGGF fund increased the net borrowing requirement by HUF 173.4 billion, as did the HUF 1.1 billion capital transfer to the National Bank of Hungary (NBH) by law in March. The total deficit included loan assumptions of HUF 180.3 billion, but these were automatically self-financing items and did not form part of the market financing requirement. The total net financing requirement of HUF 978.7 billion (ca. EUR 3.9 billion) in 2005 was met by a net issuance of HUF 1050.3 billion (ca. EUR 4.2 billion) - including debt assumptions and repo transactions -, out of which net domestic issuance was HUF 544.6 billion (ca. EUR 2.2 billion) and net foreign exchange issuance totalled HUF 505.7 billion (ca. EUR 2.0 billion).

The average term-to-maturity of the HUF debt portfolio was 3.57 years while that of the foreign currency debt portfolio was 6.86 years at the end of December. During 2005 the average term-to-maturity increased in the case of both the domestic and the foreign exchange debt portfolios, up from 3.46 years and 5.65 years respectively at the end of 2004.

Benchmark government securities yields increased in Q4 with the exception of the 3-month yield. 6 and 12-month Treasury bill yields were higher by 20-47 basis points by the end of December compared to the end of the previous quarter, while benchmark government bond yields increased by 69-79 basis points. At the end of 2005 the 1-year yield stood at 6.44%, the 3-year yield at 6.95%, while the 10-year yield was 6.97%.

In the fourth quarter of 2005 a new bond series gained benchmark status: the 10-year 2016/C bond took the place of the 2015/A in November. The volume of the previous 10-year benchmark series reached HUF 411 billion (EUR 1.6 billion), which was in line with the strategic target to build up large, liquid bond series.

The OTC turnover of government securities in the fourth quarter of 2005 was higher by 27% compared to the previous quarter; it amounted to HUF 8894 billion. Primary dealers, who account for the decisive part of all secondary government securities trading, made 46% of their secondary government securities deals with non-resident investors.

The volume of non-resident holdings of Hungarian government securities increased at the beginning of October, than stagnated until mid-December and by the end of the year it declined. Thus, non-resident holdings decreased by HUF 47.8 billion over the quarter to HUF 2538.4 billion, which represented 29.6% of the total volume of domestic government bonds and discount Treasury bills at the end of 2005.

The Republic of Hungary issued one foreign currency bond in Q4. A 7-year, floating rate Eurobond of EUR 500 million (HUF 126.2 billion) was launched in November. The lead managers of the deal were BNP Paribas and Dresdner Kleinwort Wasserstein.

The HUF/EUR mid exchange rate was 252.73 at the end of 2005.

The credit rating of the long-term foreign currency debt of the Republic of Hungary: A- / A1 / BBB+

MACROECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	October 2005	November 2005	December 2005
GDP growth (YoY)	4.9	4.2	5.2	3.8	3.5	3.5	4.0			
Industrial production[1]	12.5	10.4	18.1	3.6	2.8	5.9	8.3	9.8	7.7	
Unemployment rate (%)	7.8	7.0	6.4	5.7	5.9	5.9	6.1			
Consumer price index (yearly change)[2]	10.3	11.2	10.1	6.8	4.8	5.7	5.5	3.2	3.3	3.3
Consumer price index (yearly average)	14.2	10.0	9.8	9.2	5.3	4.7	6.8			
Consumer price index (monthly change)								0.0	0.2	0.0
Producer price index (yearly change)[2]	8.0	7.1	12.4	-0.4	-1.3	6.2	1.6	4.1	4.4	
Producer price index (yearly average)	12.2	5.0	11.6	5.2	-1.8	2.4	3.5			
Producer price index (monthly change)								0.8	0.5	
Net lending position of households (HUF Bn)[3]	943.3	776.2	791.7	756.7	457.5	41.1	371.1			
Current account of balance of payments (EUR M)[4]	-3,026.1	-3,531.4	-4,380.0	-3,612.5	-4,973.7	-6,575.5	-7,123.0			
Net direct investments (EUR M)[5]	2,742.9	2,871.7	2,334.0	3,992.2	2,889.0	562.0	2,940.0			
Balance of the central government budget (HUF Bn)[6]	-333.9	-337.2	-367.8	-402.9	-957,7[7]	-727.9	-857.4	-738.7	-747.2	364.2
Central government gross debt (HUF Bn)	6,165.8	6,886.4	7,226.2	7,719.5	9,224.2	10,587.7	11,592.4	12,887.3	13,113.5	12,744.2
Central government gross debt (per cent of GDP)	61.1%	60.4%	54.9%	52.0%	55.1%	56.8%	56.8%			
Net foreign debt (EUR M)[8]	7,401.5	7,344.4	9,686.8	8,398.1	11,871.0	16,606.0	20,122.1			
Net foreign debt (per cent of GDP)	17.7%	16.3%	19.1%	14.5%	17.2%	22.7%	25.1%			
HUF/USD mid exchange rate at the end of period	219.03	252.52	284.73	279.03	225.16	221.12	180.29	206.37	214.36	213.58
HUF/EUR mid exchange rate at the end of period	255.70	254.92	264.94	246.33	235.90	265.03	245.93	251.04	252.56	252.73

Source: Central Statistical Office, National Bank of Hungary (NBH), Ministry of Finance

[1] Same period of previous year = 100%, working-days adjusted

[2] In case of yearly data: December / previous December; otherwise: month/same month of the previous year

[3] Non-consolidated data

[4] Data compiled in accordance with the new methodology used by the NBH from 2004

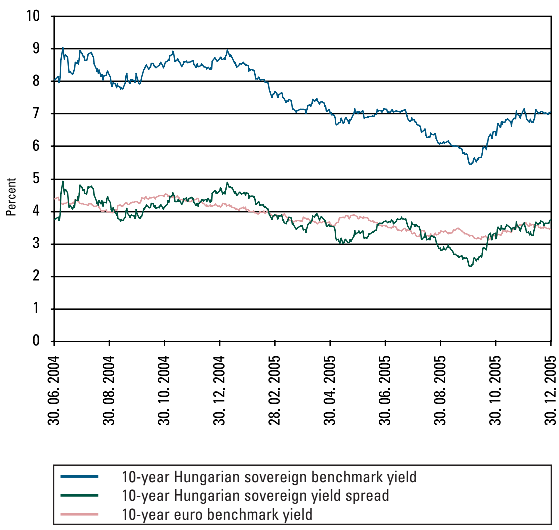
[5] Including intercompany loans

[6] Excluding privatisation proceeds

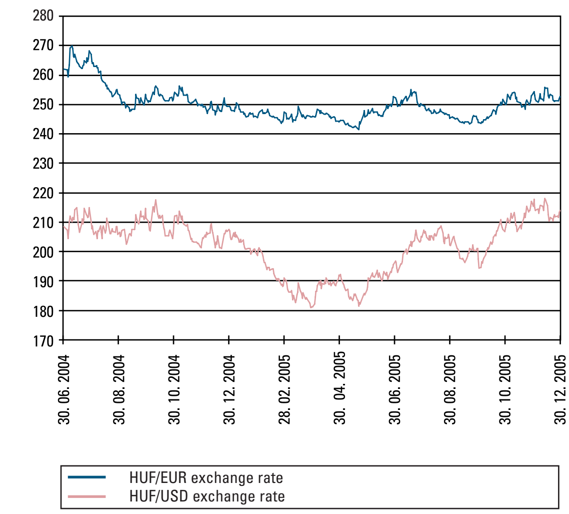
[7] Excluding debt assumptions and bond-transfers amounting to HUF 512.05 billion at the end of 2002

[8] Excluding intercompany loans

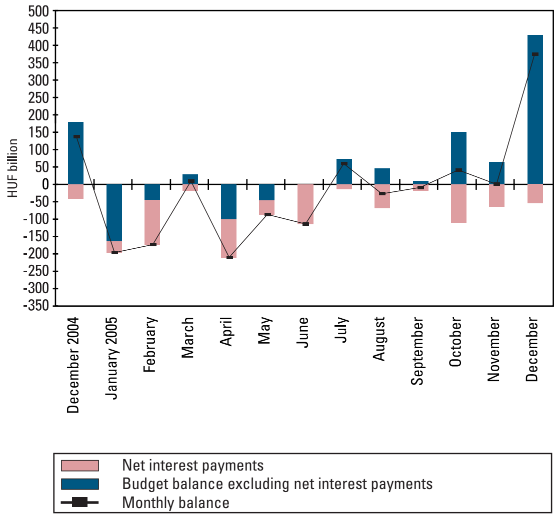
10-year Hungarian and eurozone benchmark yields



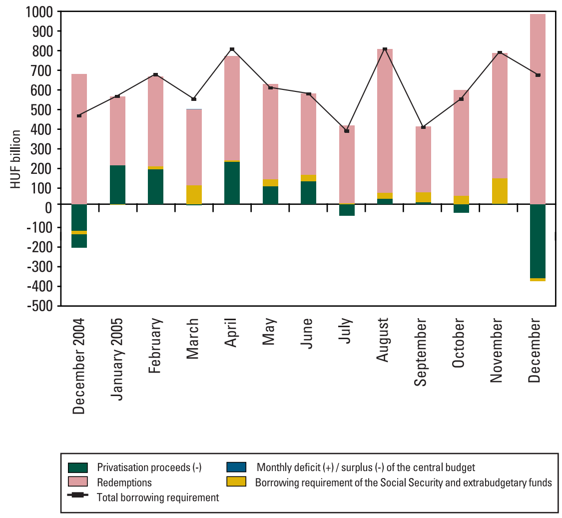
The exchange rate of the Hungarian Forint



Monthly balance of the central government budget (excluding privatisation proceeds)



Gross borrowing requirement



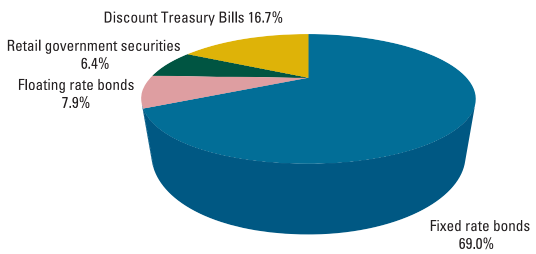
CENTRAL GOVERNMENT GROSS DEBT

HUF billion

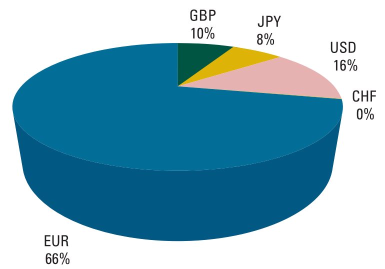
	1998	1999	2000	2001	2002	2003	2004	October 2005	November 2005	December 2005
1. Forint denominated debt	3,733.9	4,350.2	4,717.5	5,397.4	6,956.9	8,008.7	8,608.8	9,061.1	9,314.6	9,153.5
1.1. Loans	435.0	380.2	303.8	228.3	353.2	117.9	4.7	1.1	1.1	0.8
1.1.1. Foreign loans	0.0	0.0	0.0	0.0	1.7	1.4	1.1	1.1	1.1	0.8
1.1.2. Domestic loans	435.0	380.2	303.8	228.3	351.5	116.5	3.5	0.0	0.0	0.0
1.1.2.1. Raised from National Bank of Hungary (NBH)	434.9	362.4	289.5	217.4	144.0	71.2	0.0	0.0	0.0	0.0
1.1.2.2. Other loans	0.1	17.8	14.3	10.9	207.5	45.3	3.5	0.0	0.0	0.0
1.2. Government securities	3,299.0	3,970.0	4,413.6	5,169.1	6,603.7	7,890.8	8,604.2	9,060.0	9,313.5	9,152.7
1.2.1. Public issues	2,432.8	3,116.8	3,582.4	4,360.0	5,826.3	7,131.5	7,860.6	8,321.3	8,574.8	8,418.8
1.2.1.1. Bonds	1,386.5	1,790.8	2,221.2	2,782.0	3,829.2	5,056.5	5,768.9	6,037.4	6,206.8	6,299.1
1.2.1.2. Discount T-bills	689.9	826.7	837.9	1,033.3	1,436.8	1,541.4	1,463.3	1,689.9	1,784.5	1,530.9
1.2.1.3. Retail securities	356.5	499.3	523.3	544.7	560.3	533.5	628.4	594.1	583.5	588.7
1.2.2. Private placements	866.1	853.2	831.3	809.1	777.4	759.3	743.6	738.7	738.7	733.9
2. Foreign currency denominated debt*	2,431.9	2,536.2	2,508.8	2,322.1	2,267.3	2,579.0	2,983.5	3,826.2	3,798.9	3,590.7
2.1. Loans	2,367.8	1,929.6	1,772.8	1,410.4	1,394.3	1,084.1	916.8	849.8	930.8	720.6
2.1.1. Foreign loans	249.6	361.2	368.8	317.8	461.9	598.8	528.9	530.4	619.9	616.9
2.1.2. Domestic loans	2,118.2	1,568.4	1,404.0	1,092.6	932.3	485.3	387.8	319.4	310.9	103.8
2.1.2.1. Raised from National Bank of Hungary (NBH)	2,118.2	1,568.4	1,404.0	1,092.6	849.6	466.5	355.7	287.3	289.0	96.1
2.1.2.2. Other loans	0.0	0.0	0.0	0.0	82.8	18.8	32.2	32.1	21.9	7.7
2.2. Government securities	64.0	606.7	736.0	911.7	873.0	1,494.9	2,066.8	2,976.4	2,868.1	2,870.1
2.2.1. Issued abroad	44.4	587.1	715.7	911.7	873.0	1,494.9	2,066.8	2,976.4	2,868.1	2,870.1
2.2.1.1. Foreign currency bonds	43.8	586.8	715.4	911.5	872.9	1,494.7	2,066.7	2,976.3	2,868.1	2,870.0
2.2.1.2. Kingdom of Hungary 1924 issues	0.6	0.3	0.3	0.3	0.2	0.1	0.1	0.1	0.1	0.1
2.2.2 Issued domestically	19.6	19.6	20.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	6,165.8	6,886.4	7,226.2	7,719.5	9,224.2	10,587.7	11,592.4	12,887.3	13,113.5	12,744.2
Gross debt/GDP	61.1%	60.4%	54.9%	52.0%	55.1%	56.8%	56.8%			58.4%

* Foreign exchange debt is recorded at the mid exchange rate of the NBH at the end of the year/month

Composition of HUF government securities as at 31. 12. 2005

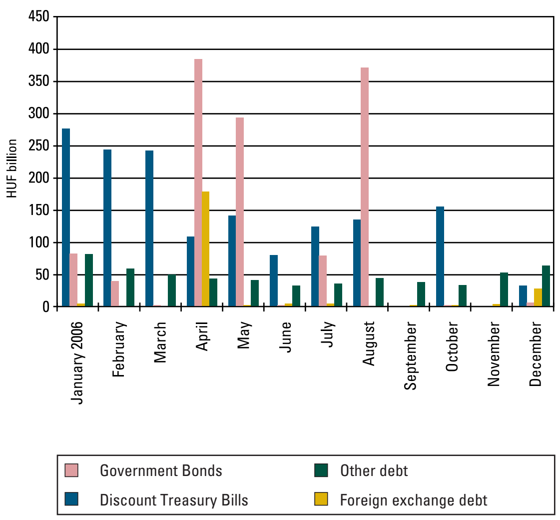


Currency composition of the foreign exchange debt portfolio as at 31. 12. 2005*

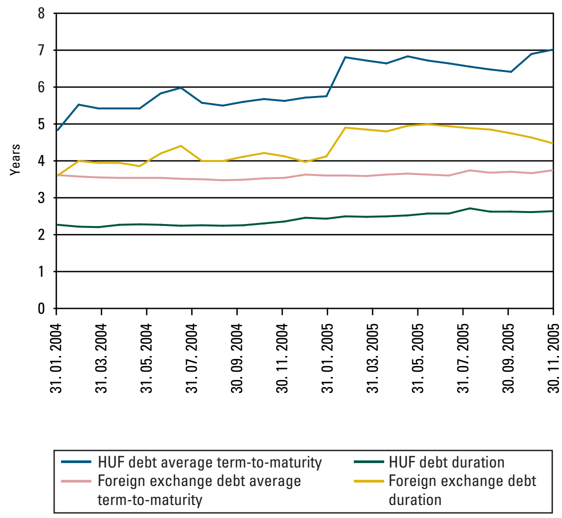


*** Composition before swaps. By using cross-currency swaps, 99.99% of the actual foreign exchange debt of the central government was due in euros.**

Maturity profile of the central government gross debt over the next 12 months, as at 31. 12. 2005



Duration and average term-to-maturity of the HUF and foreign currency debt portfolios



GOVERNMENT BOND AUCTION RESULTS

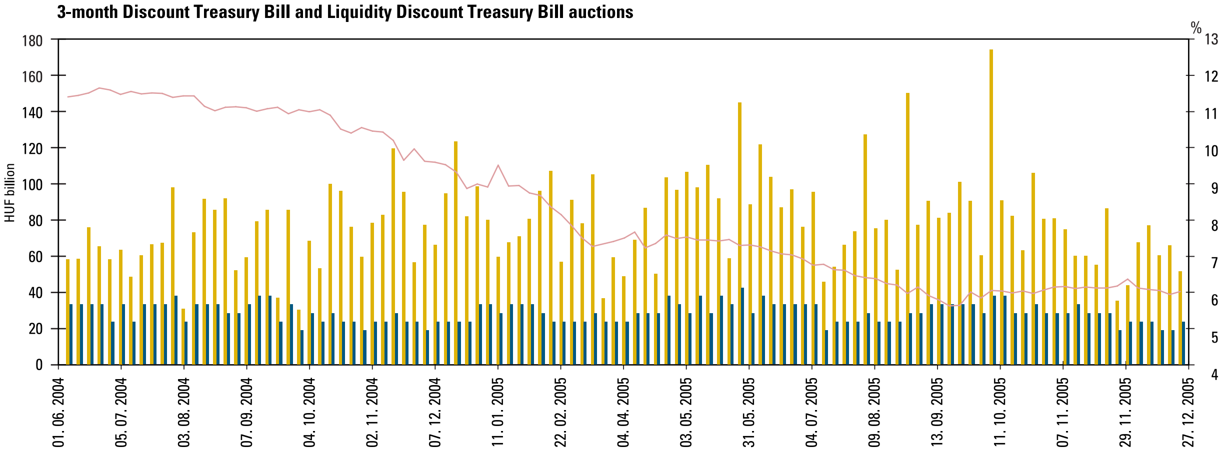
Government Bond	2008/E	2020/A	2010/B	2016/C	2008/E	2010/B	2016/C	2008/E	2020/A	2010/B	2016/C
ISIN code	HU0000402300	HU0000402235	HU0000402292	HU0000402318	HU0000402300	HU0000402292	HU0000402318	HU0000402300	HU0000402235	HU0000402292	HU0000402318
Maturity (in years)	3	15	5	10	3	5	10	3	15	5	10
Coupon (%)	6.50%	7.50%	6.75%	5.50%	6.50%	6.75%	5.50%	6.50%	7.50%	6.75%	5.50%
Auction	5. auction	12. auction	8. auction	2. auction	6. auction	9. auction	3. auction	7. auction	13. auction	10. auction	4. auction
Date of auction	13. 10. 2005	13. 10. 2005	27. 10. 2005	27. 10. 2005	10. 11. 2005	24. 11. 2005	24. 11. 2005	08. 12. 2005	08. 12. 2005	22. 12. 2005	22. 12. 2005
Date of financial settlement	19. 10. 2005	19. 10. 2005	02. 11. 2005	02. 11. 2005	16. 11. 2005	30. 11. 2005	30. 11. 2005	14. 12. 2005	14. 12. 2005	28. 12. 2005	28. 12. 2005
Date of redemption	12. 08. 2008	12. 11. 2020	12. 10. 2010	12. 02. 2016	12. 08. 2008	12. 10. 2010	12. 02. 2016	12. 08. 2008	12. 11. 2020	12. 10. 2010	12. 02. 2016
Maximum annual yield (%) - ISMA	6.40	6.37	6.84	6.80	6.96	6.88	6.88	7.03	6.83	6.95	6.97
Minimum annual yield (%) - ISMA	6.36	6.33	6.80	6.74	6.25	6.84	6.78	6.94	6.70	6.88	6.90
Average annual yield (%) - ISMA	6.38	6.36	6.83	6.78	6.94	6.86	6.83	6.99	6.80	6.94	6.95
Maximum annual yield (%) - EHM	6.39	6.37	6.84	6.80	6.95	6.88	6.88	7.02	6.83	6.95	6.97
Minimum annual yield (%) - EHM	6.35	6.33	6.80	6.74	6.24	6.84	6.78	6.93	6.70	6.88	6.90
Average annual yield (%) - EHM	6.38	6.35	6.82	6.78	6.94	6.86	6.82	6.99	6.79	6.93	6.94
Maximum price (%)	100.2787	111.1377	99.7839	91.0408	100.5359	99.6121	90.8068	98.8774	107.3814	99.4472	90.0445
Minimum price (%)	100.1780	110.7285	99.6210	90.6329	98.8049	99.4515	90.1341	98.6663	106.1276	99.1707	89.5805
Average price (%)	100.2198	110.8735	99.6665	90.7741	98.8471	99.5179	90.4855	98.7493	106.4558	99.2222	89.7400
Amount offered for sale (HUF million)	50,000.00	15,000.00	35,000.00	25,000.00	50,000.00	35,000.00	25,000.00	50,000.00	15,000.00	35,000.00	25,000.00
Amount of bids submitted (HUF million)	125,117.44	30,882.50	94,100.00	54,728.50	162,356.65	132,875.00	39,732.34	76,217.18	22,635.00	91,393.32	40,190.00
Amount of bids accepted (HUF million)	49,999.89	14,999.86	34,999.95	24,999.94	54,999.92	44,999.94	25,000.00	50,000.00	14,999.99	34,999.93	24,999.97
Bid-to-cover ratio	2.50	2.06	2.69	2.19	2.95	2.95	1.59	1.52	1.51	2.61	1.61
Bids submitted (pcs)	128	102	115	94	143	101	52	93	55	111	82
Bids accepted (pcs)	49	67	35	46	61	41	33	41	32	49	51
Tail (average price - minimum price)	0.04	0.15	0.05	0.14	0.04	0.07	0.35	0.08	0.33	0.05	0.16
Market sales* (HUF million)	49,999.89	14,999.86	34,999.95	24,999.94	54,999.92	44,999.94	25,000.00	50,000.00	14,999.99	34,999.93	24,999.97
Retained on ÁKK's own account (HUF million)	0.11	0.14	0.05	5,000.06	0.08	0.06	5,000.00	0.00	0.01	0.07	5,000.03
Total amount issued (HUF million)	50,000.00	15,000.00	35,000.00	30,000.00	55,000.00	45,000.00	30,000.00	50,000.00	15,000.00	35,000.00	30,000.00

* Without issuance onto ÁKK's own account

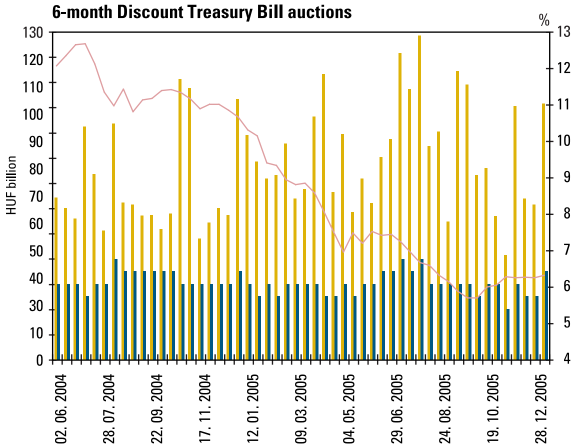
GOVERNMENT BOND BUY-BACK AUCTION RESULTS

Government bond	2006/F	2006/E	2006/F	2006/E	2006/F	2006/E	2006/E	2006/G	2006/F	2006/E	2006/G
ISIN code	HU0000402094	HU0000401963	HU0000402094	HU0000401963	HU0000402094	HU0000401963	HU0000401963	HU0000402201	HU0000402094	HU0000401963	HU0000402201
Coupon (%)	7.00%	8.50%	7.00%	8.50%	7.00%	8.50%	8.50%	6.50%	7.00%	8.50%	6.50%
Date of buy-back auction	26. 10. 2005	26. 10. 2005	09. 11. 2005	09. 11. 2005	23. 11. 2005	23. 11. 2005	07. 12. 2005	07. 12. 2005	21. 12. 2005	21. 12. 2005	21. 12. 2005
Date of financial settlement	02. 11. 2005	02. 11. 2005	16. 11. 2005	16. 11. 2005	30. 11. 2005	30. 11. 2005	14. 12. 2005	14. 12. 2005	28. 12. 2005	28. 12. 2005	28. 12. 2005
Date of redemption	12. 04. 2006	12. 05. 2006	12. 04. 2006	12. 05. 2006	12. 04. 2006	12. 05. 2006	12. 05. 2006	24. 08. 2006	12. 04. 2006	12. 05. 2006	24. 08. 2006
Minimum annual yield (%)	6.30	6.37	6.30	-	6.48	-	-	-	6.30	6.25	6.40
Average annual yield (%) - ISMA	6.32	6.37	6.30	-	6.49	-	-	-	6.31	6.30	6.41
Amount of bids submitted (HUF million)	20,103.19	16,591.88	12,845.80	8,179.22	13,867.06	15,099.86	6,725.68	33,163.87	9,293.84	7,561.97	18,544.30
Amount of bids accepted (HUF million)	9,103.19	1,857.29	6,045.80	0.00	3,870.67	0.00	0.00	0.00	7,719.84	7,560.07	17,073.32
Bids submitted (pcs)	12	14	5	10	12	12	4	16	6	8	11
Bids accepted (pcs)	8	2	3	0	6	0	0	0	4	7	8

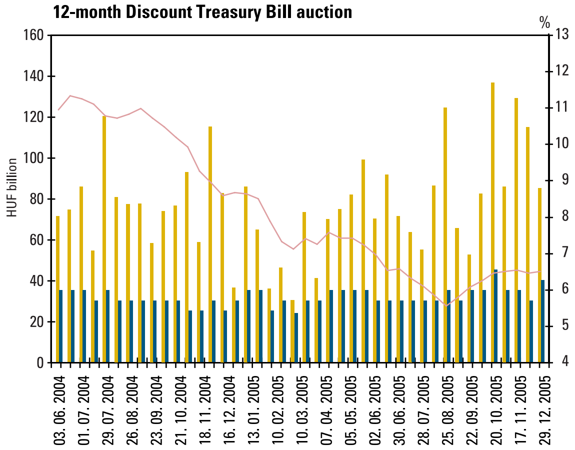
3-month Discount Treasury Bill and Liquidity Discount Treasury Bill auctions



6-month Discount Treasury Bill auctions



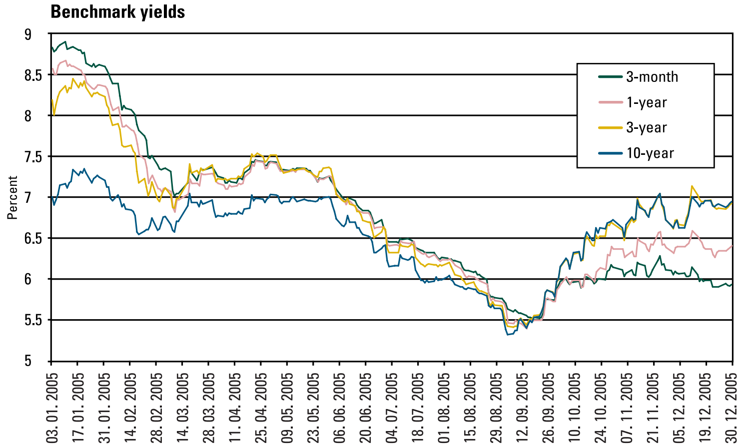
12-month Discount Treasury Bill auction

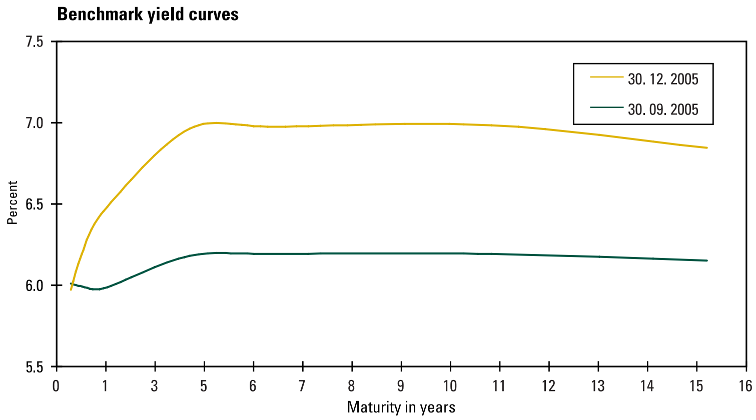


Bids submitted | Accepted amount | Average yield

INTEREST RATE RESETS OF FLOATING RATE GOVERNMENT BONDS IN Q4 2005

Government Bond	Date of interest rate reset	Interest period		Date of interest payment	Reset interest rate (%)	Interest payable (%)
2008/A	21. 10. 2005	24. 10. 2005	24. 04. 2006	24. 04. 2006	5.65%	6.54%
2026/B	21. 10. 2005	24. 10. 2005	24. 04. 2006	24. 10. 2006	5.65%	-
2026/C	21. 10. 2005	24. 10. 2005	24. 01. 2006	24. 04. 2006	5.75%	-
2014/A	28. 10. 2005	02. 11. 2005	02. 05. 2006	02. 05. 2006	6.50%	3.27%
2007/B	09. 12. 2005	12. 12. 2005	12. 06. 2006	12. 06. 2006	6.21%	3.14%
2013/C	19. 12. 2005	20. 12. 2005	20. 06. 2006	20. 06. 2006	6.10%	3.08%
2014/B	19. 12. 2005	20. 12. 2005	20. 06. 2006	20. 06. 2006	6.10%	3.08%
2016/B	30. 12. 2005	02. 01. 2006	02. 07. 2006	03. 07. 2006	6.12%	3.08%
2016/A	30. 12. 2005	31. 12. 2005	31. 03. 2006	31. 03. 2006	5.75%	1.42%

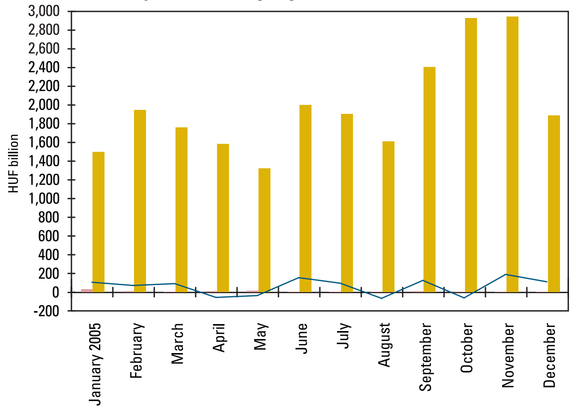




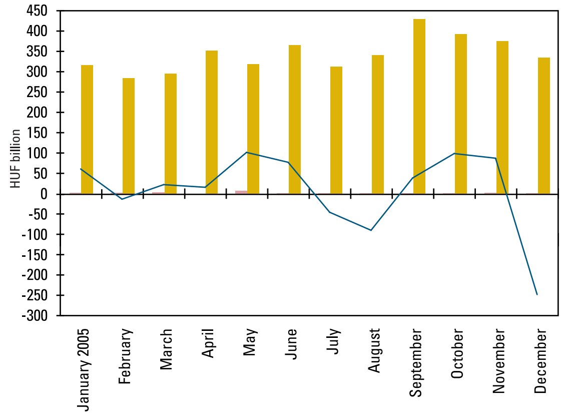
PRIMARY DEALERS - AS AT 31 DECEMBER 2005

Primary dealers:		Primary dealers for retail securities:
CIB Bank Rt.	Kereskedelmi és Hitelbank Rt.	CIB Bank Rt.
CITIBANK Rt.	Magyar Külkereskedelmi Bank Rt.	HVB Bank Hungary Rt.
Deutsche Bank Rt.	Magyar Takarékszövetkezeti Bank Rt.	Kereskedelmi és Hitelbank Rt.
Dresdner Bank AG (Frankfurt)	Országos Takarékpénztár és Kereskedelmi Bank Rt.	Magyar Takarékszövetkezeti Bank Rt.
ERSTE Bank Befektetési Magyarország Rt.		Országos Takarékpénztár és Kereskedelmi Bank Rt.
HVB Bank Hungary Rt.		The branch network of the Hungarian State Treasury
ING Bank Rt.		

Secondary market trading of government bonds

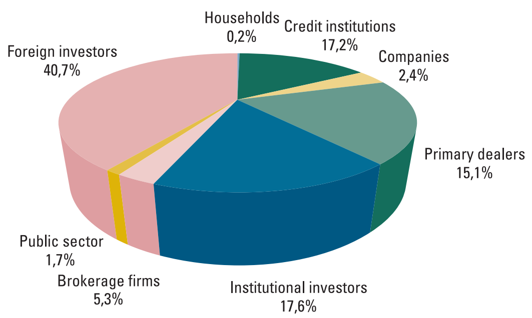


Secondary market trading of Discount Treasury Bills

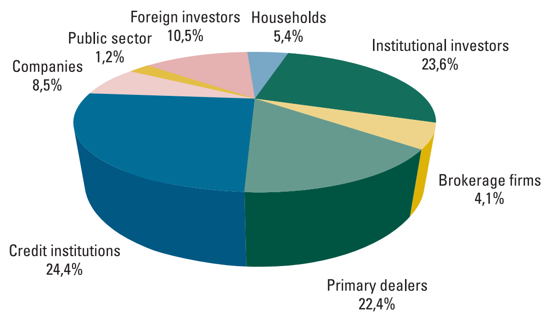


Stock Exchange (BSE) OTC Net issuance

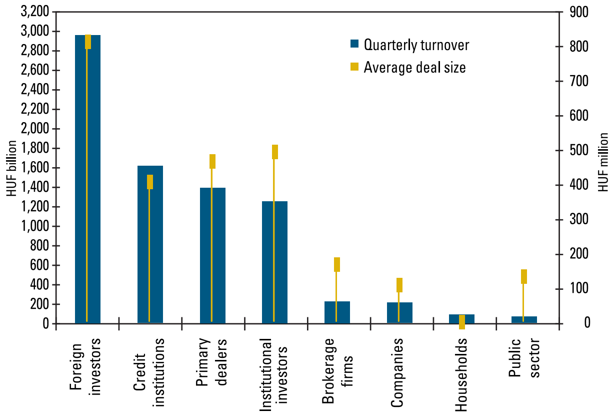
Breakdown of primary dealers' secondary market turnover in government bonds by investor groups in Q4 2005



Breakdown of primary dealers' secondary market turnover in Discount Treasury Bills by investor groups in Q4 2005

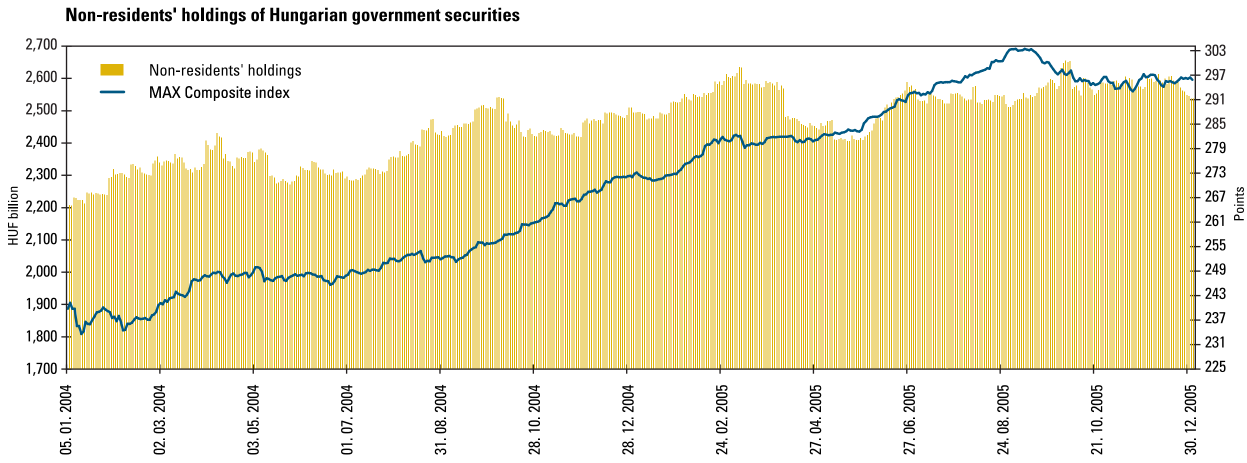


Primary dealers' trading with different investor groups in Q4 2005



GOVERNMENT SECURITIES WITH THE HIGHEST TURNOVER ON THE SECONDARY MARKET IN Q4 2005

Government security	Date of redemption	Turnover (HUF billion)
2010/B	12. 10. 2010	674.0
2015/A	12. 02. 2015	536.1
2020/A	12. 11. 2020	397.2
2008/E	12. 08. 2008	359.6
2009/D	12. 10. 2009	331.3
2007/F	12. 04. 2007	282.2
2014/C	12. 02. 2014	275.5
2013/C	20. 12. 2013	247.2
2013/D	12. 02. 2013	240.1
D051221	21. 12. 2005	221.4



HUNGARIAN GOVERNMENT SECURITIES INDICES

	Value of the index				Annual yield earned on the index portfolio			
	MAX index	RMAX index	MAX Composite index	ZMAX index	MAX index	RMAX index	MAX Composite index	ZMAX index
30. 09. 2005	305.5654	291.5091	299.1401	292.4134	19.07%	10.46%	16.92%	9.05%
28. 10. 2005	300.1602	292.3005	295.4216	293.6658	14.45%	9.56%	13.28%	8.51%
30. 11. 2005	302.0024	293.8233	297.1460	295.1305	12.39%	8.83%	11.58%	8.01%
30. 12. 2005	300.5121	295.4876	296.4662	296.7994	8.80%	8.29%	8.78%	7.62%

AMOUNT OUTSTANDING OF BENCHMARK GOVERNMENT BOND SERIES IN Q4 2005

	HUF billion		
Government Bond	28. 10. 2005	30. 11. 2005	31. 12. 2005
2008/E	261.41	317.24	367.47
2010/B	255.61	336.71	371.96
2016/C	25.35	75.37	100.30
2020/A	181.52	181.59	196.00

REUTERS PAGES (CODES)

Main page: HUTREASURY

Auction results are available from 12.00 (CET)	
HUISSUE	Publication of the following issues and reverse auctions
HUAUCTION01	Discount T-bill auction results
HUAUCTION02	Government Bond auction results

Secondary market data	
HUBONDFIX	Benchmark yield fixing (updated at 14.30 CET)
HUBEST 3,4,5	Best secondary market quotations
HUBONDAKK, HUBONDAKK4	Best morning secondary market quotations
HUBONDAKK2, HUBONDAKK3	Best afternoon secondary market quotations
HUBONDINDEX	Hungarian Government Total Return Index (MAX), updated at 16.00 CET
HUBONDINDEX2	Benchmark Indices for Government Bonds BMX3Y-15Y (updated at 16.00 CET)
.HUMAXBOND	Hungarian Government Total Return Index (MAX) statistics

Other	
HUFLOATER	Interest rate reset of floating rate bonds
HUINDEXED	Accrued interest and capital uplift (inflation adjusted capital) of the index-linked government bond on a daily basis
HUBONDINFO	List of authorised dealers (contacts)

FURTHER INFORMATION PAGES:

Bloomberg pages (code): GDMA
Telerate pages (codes): 47184-47190
Homepage: www.akk.hu, www.allampapir.hu

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