GOVERNMENT SECURITIES MARKET

QUARTERLY REPORT

SECOND QUARTER 2004

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ÁLLAMI GARANCIÁVAL

GOVERNMENT SECURITIES MARKET

In the first half of 2004 the deficit of the central budget amounted to HUF 1011.2 billion, 86% of the projected yearly deficit. In June debt assumptions increased the deficit by a total HUF 28.9 billion, which were part of the deficit but not of the financing requirement.

The net borrowing requirement was met by a total net issuance of HUF 1048.1 billion (ca. EUR 4.1 billion) in the first half of the year (including loan assumptions), out of which net domestic issuance was HUF 610.3 billion (ca. EUR 2.4 billion) and net foreign exchange issuance HUF 437.8 billion (ca. EUR 1.73 billion). Within total net domestic issuance, government bonds accounted for HUF 299.1 billion, discount Treasury bills for HUF 253.6 billion and retail government securities for HUF 73.2 billion. There was a negative net issuance of domestic loans amounting to HUF -15.7 billion. Out of the total net foreign currency issuance, market transactions accounted for HUF 417.9 billion (ca. EUR 1.7 billion), the remaining HUF 19.9 billion was the balance of the transactions of project financing and other foreign exchange loans.

Secondary government securities market benchmark yields followed an increasing trend with small corrections in the second quarter of 2004. Even though the National Bank of Hungary (NBH) cut its base rate by 25 basis points (bps) at the beginning of April and by half a percentage point in early May, benchmark yields rose significantly in the second quarter with the exception of 3-month yields: 1-year yields increased by 68 basis points, 3-year yields by 130 basis points and 10-year yields by 87 basis points.

Quarterly OTC turnover of government securities was higher in the second quarter of 2004 than in the previous one, it reached HUF 5995 billion compared to the HUF 5497 billion volume before. Primary dealers, which account for the decisive part of all secondary government securities trading, made almost 40% of their secondary government securities deals with non-resident investors.

The volume of non-residents' holdings of Hungarian government securities decreased by HUF 118.7 billion to HUF 2289.4 billion in the second quarter, which volume represented 28.9% of the amount of domestic government bonds and discount Treasury bills at the end of June 2004. This decline was primarily due to two bond maturities in the second quarter, a smaller part of the decrease was the result of secondary market sell-offs.

In the second quarter of 2004 the Republic of Hungary tapped both the pound sterling and the Japanese yen markets by issuing benchmark size government bonds. It was the first time that the Republic entered these markets. Both issues were successful, the Issuer's intention of widening the investor base of its foreign currency bonds was fulfilled. On 26 April 2004 a GBP 500 million bond was launched with a 10-year tenor and a fixed 5.5.% coupon. The deal was lead managed by HSBC and Lehman Brothers and it was priced at 53 basis points above the September 2014 UK Treasury. The Republic issued a JPY 50 billion Samurai bond on 9 June 2004 with a 5-year tenor and a fixed coupon of 1.09%. The bond was priced at 16 basis points above yen LIBOR, the lead managers were Daiwa Securities and Nomura Securities.

The credit rating of the long-term foreign currency debt of the Republic of Hungary is as follows: A- / A1 / A-

MACROECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	Apr. 2004	May 2004	June 2004
GDP growth (YoY)	4.9	4.2	5.2	3.8	3.5	2.9			
Industrial production [1]	12.5	10.4	18.1	3.6	2.8	5.9	9.4	9.9	7.9
Unemployment rate (%)	7.8	7.0	6.4	5.7	5.9	5.9	6.0	5.8	5.8
Consumer price index (yearly change) [2]	10.3	11.2	10.1	6.8	4.8	5.7	6.9	7.6	7.5
Consumer price index (yearly average)	14.2	10.0	9.8	9.2	5.3	4.7			
Consumer price index (monthly change)							0.3	0.9	0.1
Producer price index (yearly change) [2]	8.0	7.1	12.4	-0.4	-1.3	6.2	4.4	5.4	3.3
Producer price index (yearly average)	12.2	5.0	11.6	5.2	-1.8	2.4			
Producer price index (monthly change)							0.6	0.3	0.4
Net lending position of households (HUF Bn)	943.3	776.2	791.7	756.7	453.5	42.0			
Current account of balance of payments (EUR M) [3]	-3,026.1	-3,531.4	-4,380.0	-3,612.5	-4,900.0	-6,488.4	-1,070.0		
Net direct investments (EUR M) [4]	2,742.9	2,871.7	2,334.0	3,992.2	2,733.5	774.6	537.3		
Balance of the central government budget (HUF Bn) [5]	-333.9	-337.2	-367.8	-402.9	-957,7 [6]	-727.9	-62.0	-81.9	-318.1
Central government gross debt (HUF Bn)	6,165.8	6,886.4	7,226.2	7,719.5	9,224.2	10,587.7	11,115.7	11,322.6	11,541.3
Central government gross debt (per cent of GDP)	61.1%	60.4%	54.9%	52.0%	55.1%	57.0%			
Net foreign debt (EUR M) [7]	7,401.5	7,344.4	9,686.8	8,398.1	11,871.0	16,606.0			
Net foreign debt (per cent of GDP)	17.7%	16.3%	19.1%	14.5%	17.2%	22.7%			
HUF/USD mid exchange rate at the end of period	219.03	252.52	284.73	279.03	225.16	221.12	210.88	204.79	208.76
HUF/EUR mid exchange rate at the end of period	255.70	254.92	264.94	246.33	235.90	265.03	252.19	251.28	253.23

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: Dec. /previous Dec.; otherwise: month/same month of the previous year

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

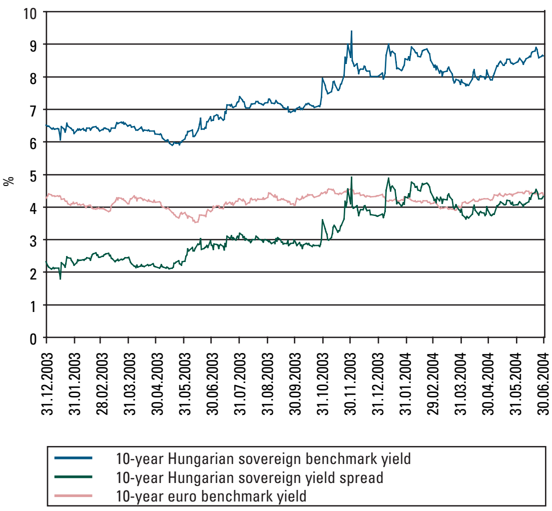
[4] Including intercompany loans

[5] Excluding privatisation proceeds

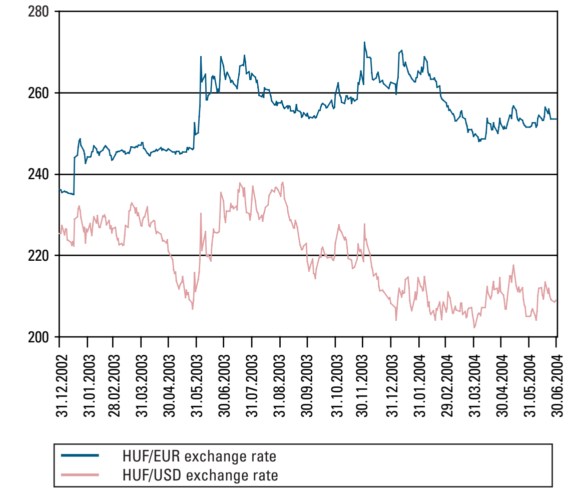
[6] Excluding debt assumptions and bond-transfers amounting to HUF 512.05 billion at the end of 2002

[7] Excluding intercompany loans

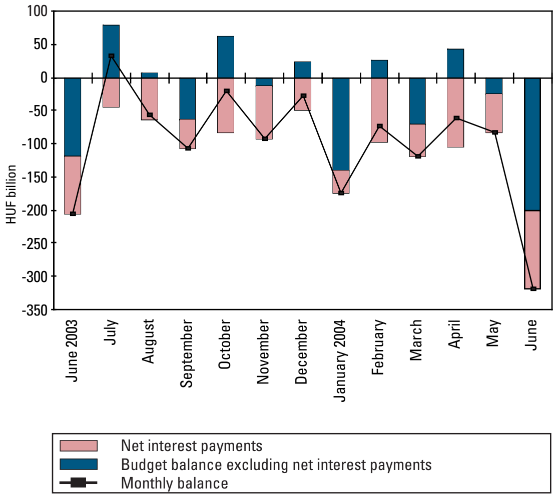
10-year Hungarian and eurozone benchmark yields



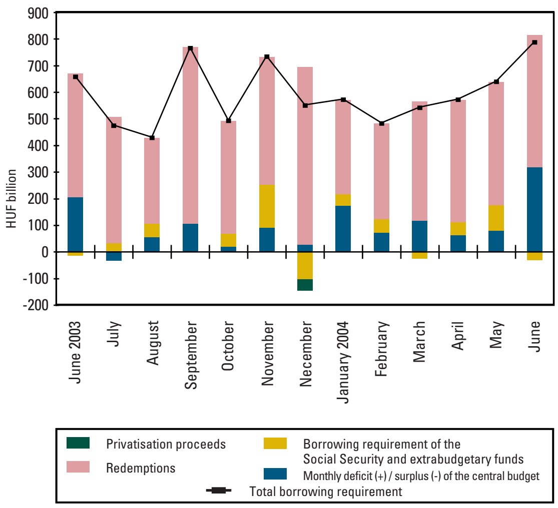
The exchange rate of the Hungarian Forint



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



Gross borrowing requirement

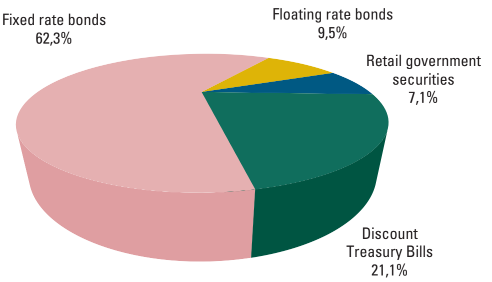


CENTRAL GOVERNMENT GROSS DEBT

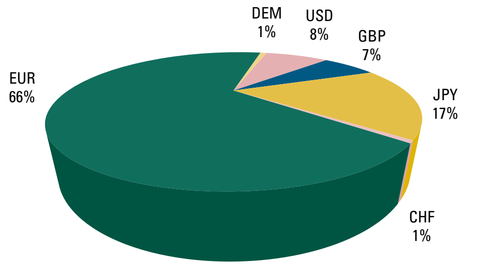
	1998	1999	2000	2001	2002	2003	March 2004	April 2004	May 2004	June 2004
1. Forint denominated debt	3,733.9	4,350.2	4,717.5	5,397.4	6,956.9	8,008.7	8,294.5	8,386.7	8,402.9	8,619.0
1.1. Loans	435.0	380.2	303.8	228.3	353.2	117.9	100.4	99.9	99.9	102.3
1.1.1. Foreign loans	0.0	0.0	0.0	0.0	1.7	1.4	1.4	1.4	1.4	1.4
1.1.2. Domestic loans	435.0	380.2	303.8	228.3	351.5	116.5	99.0	98.5	98.5	100.8
1.1.2.1. Raised from National Bank of Hungary	434.9	362.4	289.5	217.4	144.0	71.2	55.2	55.2	55.2	46.1
1.1.2.2. Other loans	0.1	17.8	14.3	10.9	207.5	45.3	43.8	43.2	43.2	54.7
1.2. Government securities	3,299.0	3,970.0	4,413.6	5,169.1	6,603.7	7,890.8	8,194.1	8,286.9	8,303.0	8,516.7
1.2.1. Public issues	2,432.8	3,116.8	3,582.4	4,360.0	5,826.3	7,131.5	7,439.0	7,531.8	7,547.9	7,762.5
1.2.1.1. Bonds	1,386.5	1,790.8	2,221.2	2,782.0	3,829.2	5,056.5	5,225.6	5,229.8	5,222.0	5,360.7
1.2.1.2. Discount T-bills	689.9	826.7	837.9	1,033.3	1,436.8	1,541.4	1,617.3	1,699.9	1,717.0	1,795.0
1.2.1.3. Retail securities	356.5	499.3	523.3	544.7	560.3	533.5	596.0	602.1	609.0	606.7
1.2.2. Private placements	866.1	853.2	831.3	809.1	777.4	759.3	755.1	755.1	755.1	754.2
2. Foreign currency denominated debt*	2,431.9	2,536.2	2,508.8	2,322.1	2,267.3	2,579.0	2,691.4	2,729.0	2,919.7	2,922.3
2.1. Loans	2,367.8	1,929.6	1,772.8	1,410.4	1,394.3	1,084.1	1,023.5	1,039.2	1,046.3	1,066.5
2.1.1. Foreign loans	249.6	361.2	368.8	317.8	461.9	598.8	564.5	574.1	582.9	583.8
2.1.2. Domestic loans	2,118.2	1,568.4	1,404.0	1,092.6	932.3	485.3	459.0	465.1	463.4	482.7
2.1.2.1. Raised from National Bank of Hungary	2,118.2	1,568.4	1,404.0	1,092.6	849.6	466.5	441.2	447.0	445.4	448.9
2.1.2.2. Other loans	0.0	0.0	0.0	0.0	82.8	18.8	17.8	18.1	18.0	33.9
2.2. Government securities	64.0	606.7	736.0	911.7	873.0	1,494.9	1,667.9	1,689.8	1,873.4	1,855.9
2.2.1. Issued abroad	44.4	587.1	715.7	911.7	873.0	1,494.9	1,667.9	1,689.8	1,873.4	1,855.9
2.2.1.1. Foreign currency bonds	43.8	586.8	715.4	911.5	872.9	1,494.7	1,667.8	1,689.7	1,873.3	1,855.8
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	10,985.9	11,115.7	11,322.6	11,541.3
Marketable HUF debt (1.2.1.1.+1.2.1.2.+1.2.2.)	2,942.5	3,470.7	3,890.4	4,624.4	6,043.4	7,357.3	7,598.0	7,684.8	7,694.1	7,910.0
Gross debt/GDP	61.1%	60.4%	54.9%	52.0%	55.1%	57.0%				

* 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 end of June 2004

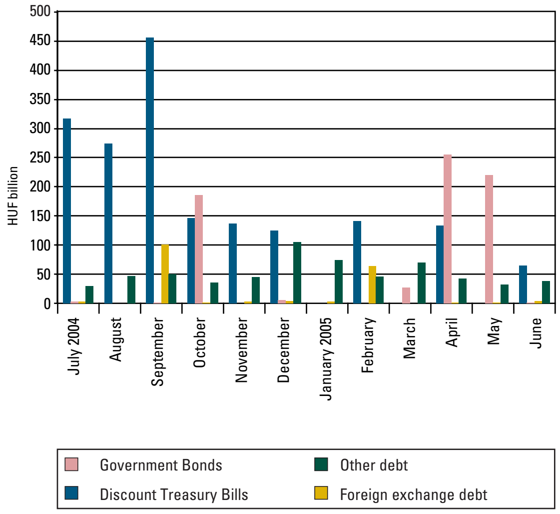


Currency composition of the foreign exchange debt portfolio as at end of June 2004 *

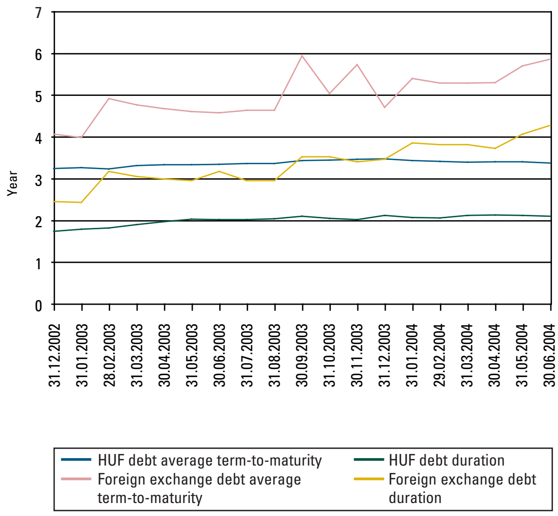


* Composition before swaps. By using cross-currency swaps, 99.99% of the actual foreign exchange debt of the central government was due in euros.

Maturity profile of the central government gross debt over the next 12 months, as at end of June 2004



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

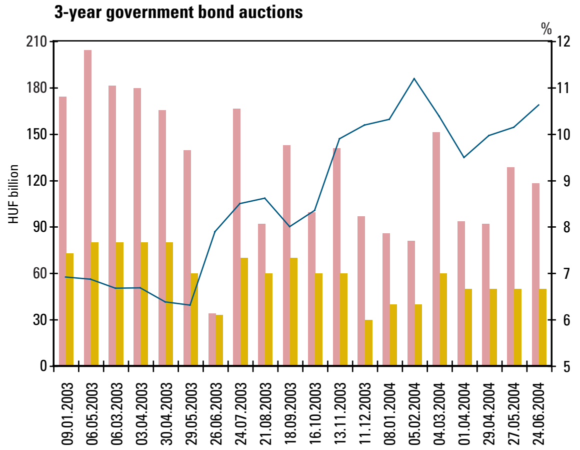


GOVERNMENT BOND AUCTION RESULTS

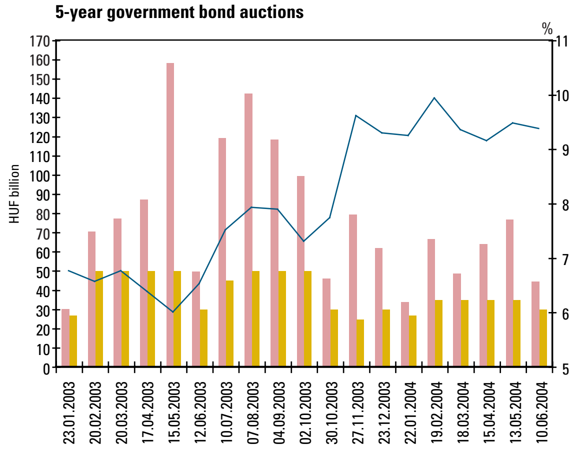
Government Bond	2007/F	2020/A	2009/C	2014/C	2007/F	2009/C	2014/C	2007/F	2020/A	2009/D	2014/C	2007/G
ISIN code	HU0000402227	HU0000402235	HU0000402219	HU0000402193	HU0000402227	HU0000402219	HU0000402193	HU0000402227	HU0000402235	HU0000402243	HU0000402193	HU0000402250
Maturity (in years)	3	15	5	10	3	5	10	3	15	5	10	3
Coupon (%)	9.00%	7.50%	7.00%	5.50%	9.00%	7.00%	5.50%	9.00%	7.50%	8.25%	5.50%	9.25%
Auction	4th auction	2nd auction	8th auction	12th auction	5th auction	9th auction	13th auction	6th auction	3rd auction	1st auction	14th auction	1st auction
Date of auction	01.04.2004	01.04.2004	15.04.2004	15.04.2004	29.04.2004	13.05.2004	13.05.2004	27.05.2004	27.05.2004	10.06.2004	10.06.2004	24.06.2004
Date of financial settlement	07.04.2004	07.04.2004	21.04.2004	21.04.2004	05.05.2004	19.05.2004	19.05.2004	02.06.2004	02.06.2004	16.06.2004	16.06.2004	30.06.2004
Redemption date	12.04.2007	12.11.2020	24.06.2009	12.02.2014	12.04.2007	24.06.2009	12.02.2014	12.04.2007	12.11.2020	12.10.2009	12.02.2014	12.10.2007
Maximum annual yield (%) - ISMA	9.50	7.46	9.15	8.20	9.97	9.47	8.46	10.14	8.05	9.41	8.49	10.63
Minimum annual yield (%) - ISMA	9.40	7.35	8.80	8.13	9.60	9.42	8.38	9.94	8.00	9.25	8.40	10.55
Average annual yield (%) - ISMA	9.47	7.44	9.14	8.19	9.94	9.46	8.44	10.12	8.04	9.36	8.46	10.60
Maximum annual yield (%) - EHM	9.50	7.45	9.14	8.19	9.97	9.46	8.45	10.14	8.04	9.40	8.48	10.63
Minimum annual yield (%) - EHM	9.40	7.34	8.79	8.12	9.60	9.41	8.37	9.94	7.99	9.24	8.39	10.55
Average annual yield (%) - EHM	9.47	7.44	9.13	8.18	9.94	9.46	8.43	10.12	8.03	9.35	8.45	10.60
Maximum price (%)	98.9949	101.4303	92.7492	82.6423	98.5008	90.5306	81.2903	97.7041	95.5089	96.0173	81.2678	96.6344
Minimum price (%)	98.7449	100.3922	91.4222	82.2363	97.6055	90.3478	80.8384	97.2347	95.0761	95.3839	80.7627	96.4277
Average price (%)	98.8225	100.5555	91.4783	82.3137	97.6802	90.3803	80.9505	97.2927	95.1949	95.5949	80.9523	96.4962
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	50,000.00
Amount of bids submitted (HUF million)	93,684.68	33,680.51	64,039.13	77,470.20	92,093.44	76,950.67	60,162.03	128,505.54	28,486.90	44,473.60	56,785.00	118,186.75
Amount of bids accepted (HUF million)	49,999.92	14,999.93	34,999.95	29,999.91	49,999.94	34,999.92	24,999.97	49,999.86	14,999.92	29,999.98	24,999.95	49,999.97
Bid-to-cover ratio	1.87	2.25	1.83	2.58	1.84	2.20	2.41	2.57	1.90	1.48	2.27	2.36
Bids submitted (pcs)	157	115	121	165	184	145	132	161	93	105	112	181
Bids accepted (pcs)	111	58	62	47	102	56	52	71	38	85	60	49
Tail (average price - minimum price)	0.08	0.16	0.06	0.08	0.07	0.03	0.11	0.06	0.12	0.21	0.19	0.07
Market sales* (HUF million)	49,999.92	14,999.93	34,999.95	29,999.91	49,999.94	34,999.92	24,999.97	49,999.86	14,999.92	29,999.98	24,999.95	49,999.97
Retained on ÁKK's account (HUF million)	0.08	3,000.07	0.05	3,000.09	0.06	0.08	0.03	0.14	3,000.08	9,000.02	0.05	15,000.03
Total amount issued (HUF million)	50,000.00	18,000.00	35,000.00	33,000.00	50,000.00	35,000.00	25,000.00	50,000.00	18,000.00	39,000.00	25,000.00	65,000.00

* Without issuance onto ÁKK's own account

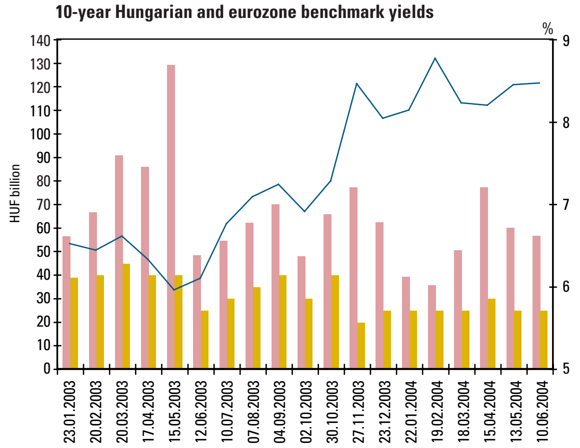
3-year government bond auctions



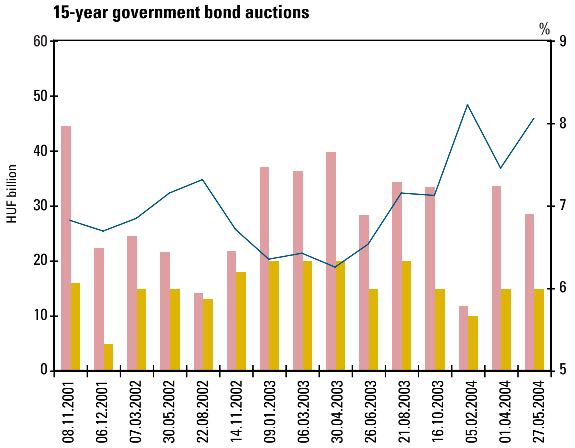
5-year government bond auctions



10-year Hungarian and eurozone benchmark yields



15-year government bond auctions



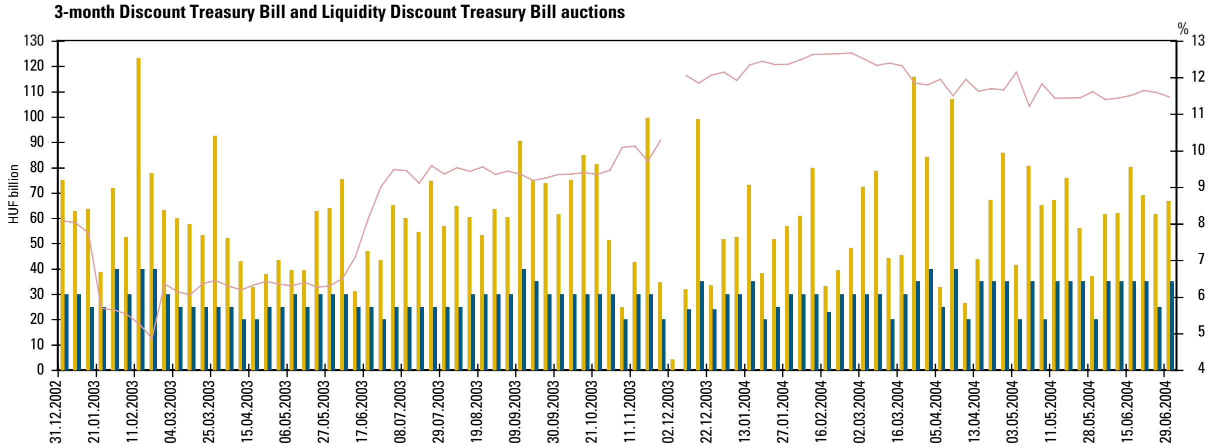
Bids submitted | Accepted amount | Average yield

GOVERNMENT BOND REVERSE AUCTION RESULTS

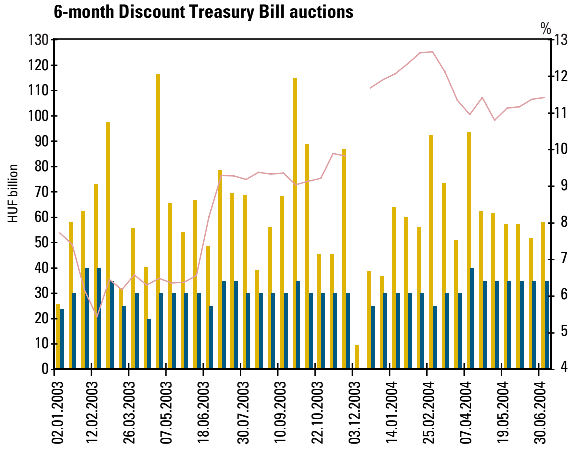
Államkötvény neve	2004/J	2005/D	2004/J	2005/G	2004/J	2005/G
ISIN code	HU0000402029	HU0000402169	HU0000402029	HU0000402060	HU0000402029	HU0000402060
Coupon (%)	8.50%	Index-linked	8.50%	7.75%	8.50%	7.75%
Date of reverse auction	26.05.2004	26.05.2004	09.06.2004	09.06.2004	23.06.2004	23.06.2004
Redemption date	12.10.2004	12.03.2005	12.10.2004	12.04.2005	12.10.2004	12.04.2005
Date of financial settlement	02.06.2004	02.06.2004	16.06.2004	16.06.2004	30.06.2004	30.06.2004
Minimum annual yield (%) / Maximum price*	11.60	99.15	11.63	10.95	11.87	11.40
Average annual yield (%) - ISMA / Average price*	11.61	99.02	11.65	10.99	11.89	11.46
Amount of bids submitted (HUF million)	5,643.09	8,345.31	3,920.47	37,692.46	3,495.00	31,801.20
Amount of bids accepted (HUF million)	2,500.74	905.00	1,781.47	20,942.46	3,295.00	7,425.00
Bids submitted (pcs)	13	27	10	30	7	16
Bids accepted (pcs)	8	14	7	18	6	10

* In the case of the index-linked bond

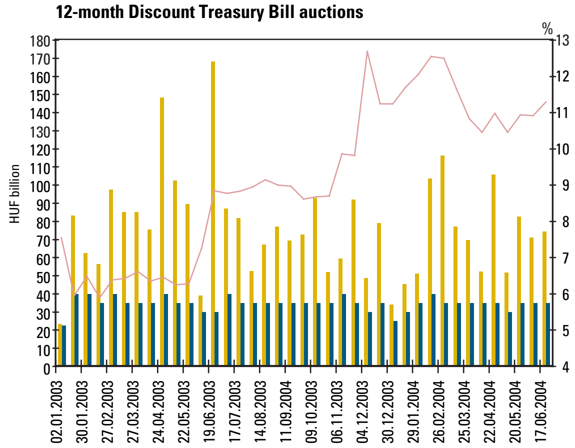
3-month Discount Treasury Bill and Liquidity Discount Treasury Bill auctions



6-month Discount Treasury Bill auctions



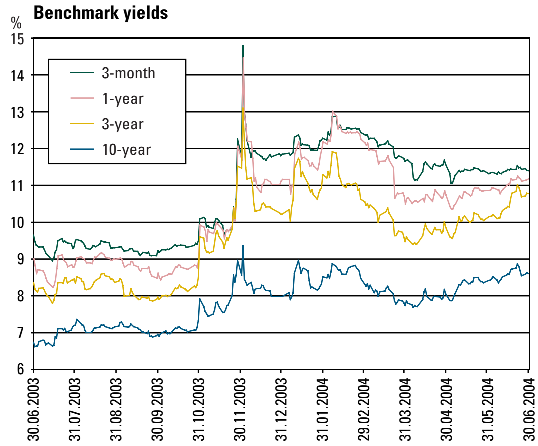
12-month Discount Treasury Bill auctions

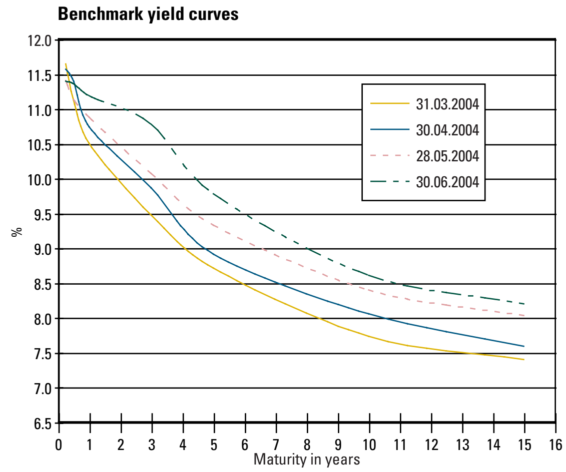


Bids submitted | Accepted amount | Average yield

INTEREST RATE RESETS OF FLOATING RATE GOVERNMENT BONDS IN THE 2ND QUARTER OF 2004

Government Bond	Date of interest rate reset	Interest period			Date of interest payment	Reset interest rate (%)	Interest payable (%)
2008/A	17.04.2004	24.04.2004	-	24.07.2004		11.39	
		24.07.2004	-	24.10.2004	24.10.2004		
2026/B	24.04.2004	24.04.2004	-	24.10.2004		11.90	
		24.10.2004	-	24.04.2005	24.04.2005		
2026/C	24.04.2004	24.10.2003	-	24.04.2004		9.22	
		24.04.2004	-	24.10.2004	24.10.2004	11.90	10.74
2014/A	02.05.2004	02.05.2004		02.11.2004	02.11.2004	11.80	6.03
2016/A	01.06.2004	30.06.2004	-	30.09.2004	30.09.2004	10.00	2.52
2013/C	20.06.2004	20.06.2004	-	20.12.2004	20.12.2004	11.90	6.05
2014/B	20.06.2004	20.06.2004	-	20.12.2004	20.12.2004	11.90	6.05
2016/B	25.06.2004	02.07.2004	-	02.01.2005	02.01.2005	11.35	5.80

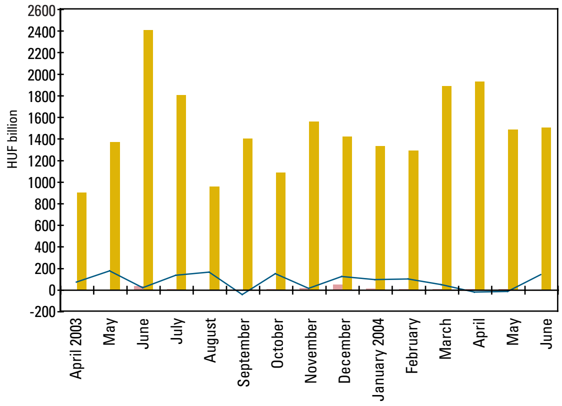




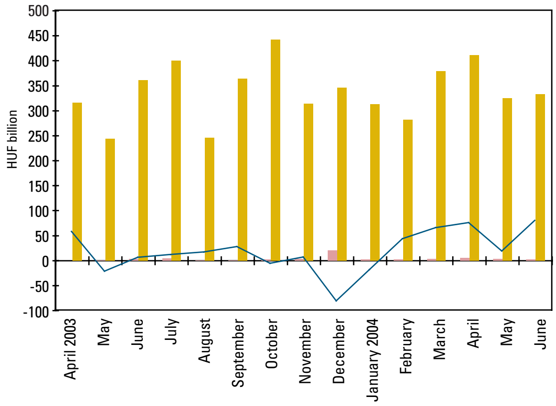
PRIMARY DEALERS - AS AT 30 JUNE 2004

Primary dealers:		Primary dealers for retail securities:
CIB Bank Rt.	ING Bank Rt.	CIB Bank Rt.
CITIBANK Rt.	Kereskedelmi és Hitelbank Rt.	Kereskedelmi és Hitelbank Rt.
Deutsche Bank Rt.	Magyar Külkereskedelmi Bank Rt.	Magyar Takarékszövetkezeti Bank Rt.
Dresdner Bank (Hungaria) Rt.	Magyar Takarékszövetkezeti Bank Rt.	Országos Takarékpénztár és Kereskedelmi 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

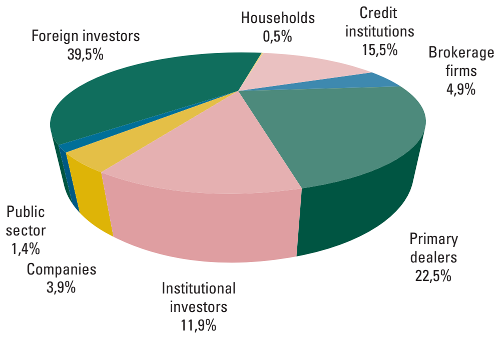
Secondary market trading of government bonds



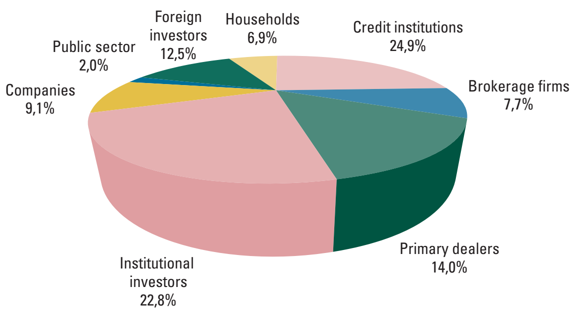
Secondary market trading of Discount Treasury Bills



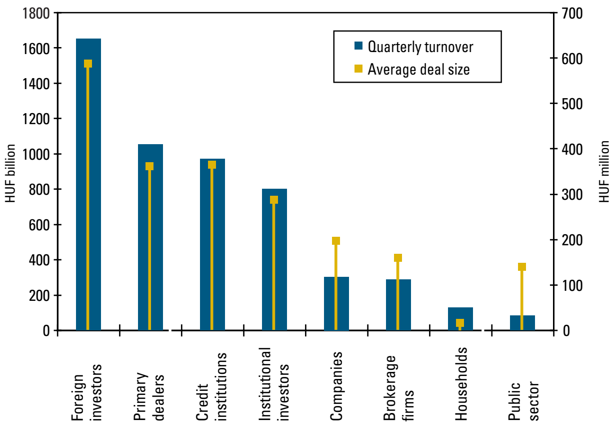
Breakdown of primary dealers' secondary market turnover in government bonds by investor groups in the 2nd quarter of 2004



Breakdown of primary dealers' secondary market turnover in Discount Treasury Bills by investor groups in the 2nd quarter of 2004

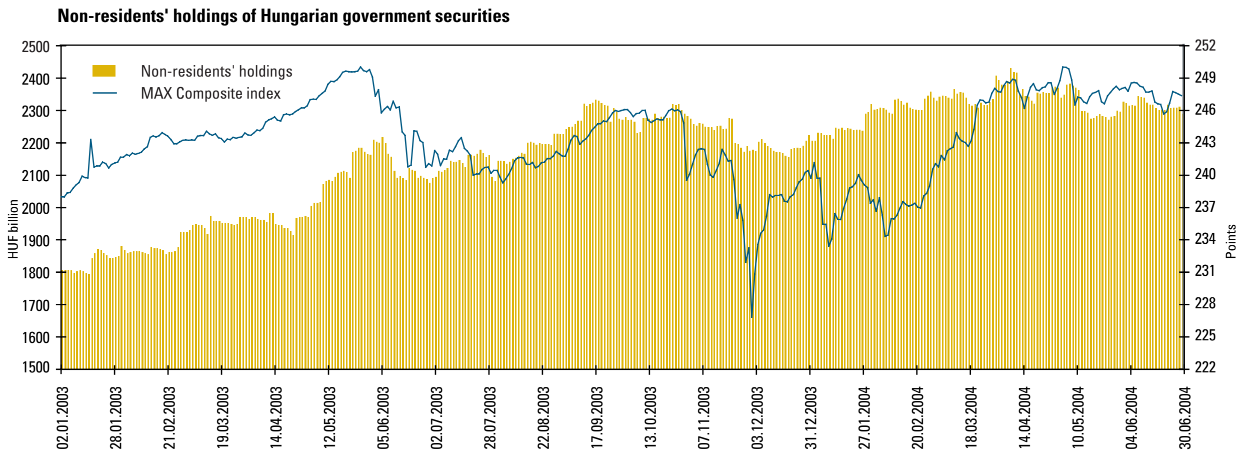


Primary dealers' trading with different investor groups in the 2nd quarter of 2004



GOVERNMENT SECURITIES WITH THE HIGHEST TURNOVER ON THE SECONDARY MARKET IN THE 2ND QUARTER OF 2004

Government security	Date of redemption	Turnover (HUF billion)
2007/F	12.04.2007	171.1
2006/F	12.04.2006	128.9
2009/C	24.06.2009	117.6
2008/C	12.06.2008	116.0
2014/C	12.02.2014	91.3
2006/G	24.08.2006	73.3
2007/D	12.06.2007	72.2
D050608	08.06.2005	71.2
D041124	24.11.2004	67.1
D040908	08.09.2004	49.3



HUNGARIAN GOVERNMENT SECURITIES INDICES

	Value of the index				Annual yield of the index portfolio			
	MAX index	RMAX index	MAX Composite index	ZMAX index	MAX index	RMAX index	MAX Composite index	ZMAX index
31.03.2004	250.0784	250.2879	247.9291	253.4026	0.18%	6.57%	1.77%	8.55%
30.04.2004	249.6985	252.3173	247.9373	255.9219	-1.49%	6.73%	0.43%	8.96%
28.05.2004	249.3536	254.4149	248.1427	258.1158	-2.84%	7.09%	-0.54%	9.40%
30.06.2004	247.5818	256.2670	247.2751	260.5947	0.82%	9.09%	2.71%	10.57%

AMOUNT OUTSTANDING OF BENCHMARK GOVERNMENT BOND SERIES

	HUF billion			
Government bond	31.03.2004	30.04.2004	31.05.2004	30.06.2004
2007/F	144.16	195.08	246.46	296.87
2009/C	232.14	267.18	302.03	302.05
2014/C	320.16	350.17	375.18	400.18
2020/A	10.11	25.12	25.13	40.14

REUTERS PAGES (CODES)

Main page: HUTREASURY

Data on auctions are accessible 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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