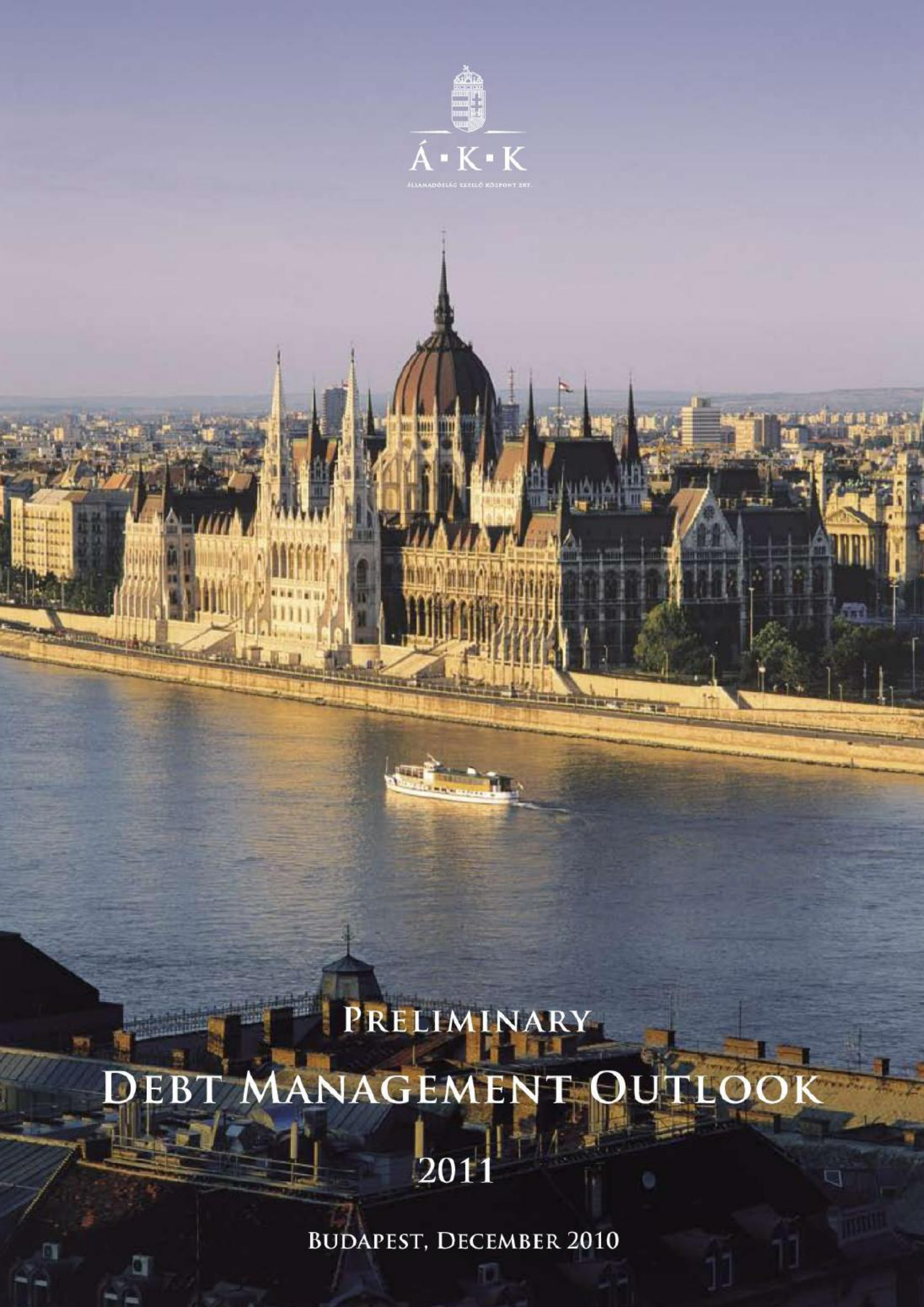

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Preliminary
Debt Management Outlook

2011

Budapest, December 2010

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1. Net financing requirements in 2011

The deficit of the central government is the sum of the balances of the central government budget, the social security funds and the extra-budgetary funds. The deficit of the central government calculated on a cash-flow basis is planned at HUF **689** billion, equalling to **2.4%** of the GDP.

The total cash-flow based net financing requirement for the year 2011 that comprises of the deficit of the central government and the projected pre-financing of EU transfers – will amount to HUF **860 billion**.

Projected cash-flow based financing requirements in 2011

	HUF billion
Balance of the central government budget	-606
Balance of the social security funds	-98
Balance of the extra-budgetary funds	+15
Net financing requirement of the central government	**-689**
Net pre-financing of EU transfers	-171
Total net financing requirement	**-860**

2. Government debt redemptions

The total amount of government debt redemptions in 2011 is planned at HUF **4,017** billion.[1] The redemption of domestic currency debt will amount to HUF **2,829** billion, of which domestic bonds account for HUF **978** billion, discount T-bills for HUF **1,579** billion, and retail government securities for HUF **272** billion.

	Debt redemptions (HUF bn)	Debt redemptions (EUR bn)
Domestic redemptions	2,829	10.1
T-bonds	978	3.5
Retail securities	272	1.0
Discount T-bills	1,579	5.6
FX redemptions	1,188	4.2
T-bonds and EC loan	1,120	4.0
IFIs loans	68	0.2
Grand total	4,017	14.3

[1] *ÁKK provides gross issuance and redemption data according to the methodology recommended by OECD which takes redemptions of short-term securities - typically Treasury bills - only once into account avoiding multiple counting.*

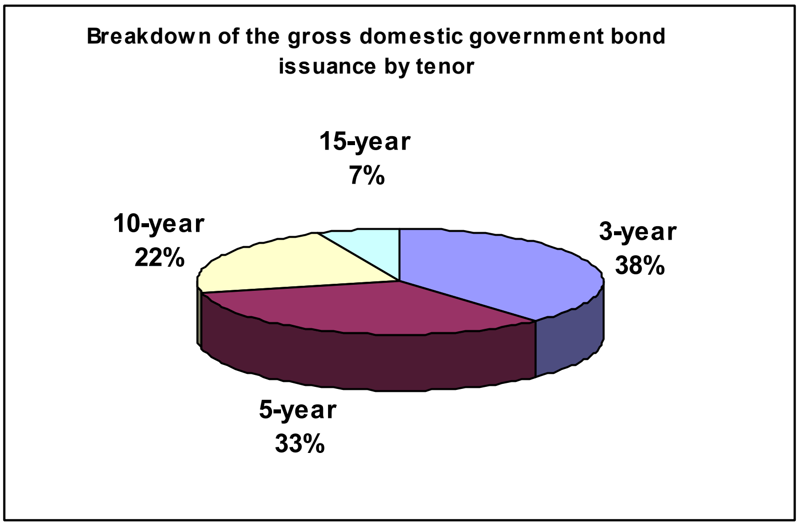
Foreign currency debt redemptions are expected to be HUF **1,188** billion (EUR **4.2** billion), out of which bond and loan redemptions will amount to EUR 2 billion and 2.2 billion respectively, the latter figure including repayment of a part of the international loan package (EUR 2 billion).

3. Gross issuance

Total gross issuance is planned at HUF **4,759 billion** in 2011, of which 72 per cent (or HUF **3,415** billion) will be domestic currency and 28 per cent (HUF **1344** billion or EUR 4.8 billion) will be foreign currency issuance.

	Gross issuance (HUF bn)	Gross issuance (EUR bn)
Domestic issuance	3,415	12.2
T-bonds	1,360	4.9
Retail securities	276	1.0
Discount T-bills	1,778	6.4
FX issuance	1,344	4.8
T-bonds and EC loan	1,120	4.0
IFIs loans	224	0.8
Grand total	4,759	17.0

Hungarian Forint government bonds will be sold at auctions in an amount of HUF **1,360** billion, with a breakdown by tenor similar that of the previous year.



The planned issuance of government bonds are as follows:

The planned amounts of domestic government bond issuance by tenor

Tenor	Issuance in HUF billion
3-year	520
5-year (fixed)	390
5-year (floater)	60
10-year	300
15-year	90
Total	1 360

In case of the 3, 10 and 15-year tenor ÁKK intends to launch new bond series, while in case of the 5-year an off-the-run bond will be reopened. The floating rate bond will be offered once a month together with the 1-year discount Treasury–bill. The issuance calendar includes only the dates of bond auctions. ÁKK will decide on the actual bond series and the amounts offered after consultations with market participants in the week preceding the auction. However, the current practice, i.e. regular simultaneous sales of the 3, 5 and 10-year bonds is likely to be continued in 2011 and the 15 year bond may be offered bi-monthly or quarterly replacing the 10 year bond. ÁKK will hold both bond-buyback and exchange auctions – similar to the practice followed in 2010 – in order to support a balanced government bond issuance pattern as well as to manage the maturity profile and the refinancing risk of the bond portfolio.

Foreign currency issuance in the international capital markets is planned in a total amount of EUR **4** billion to finance the maturing foreign currency denominated debt of EUR 4 billion. The currency, tenor and timing of the issues will be determined in accordance with the prevailing market conditions.

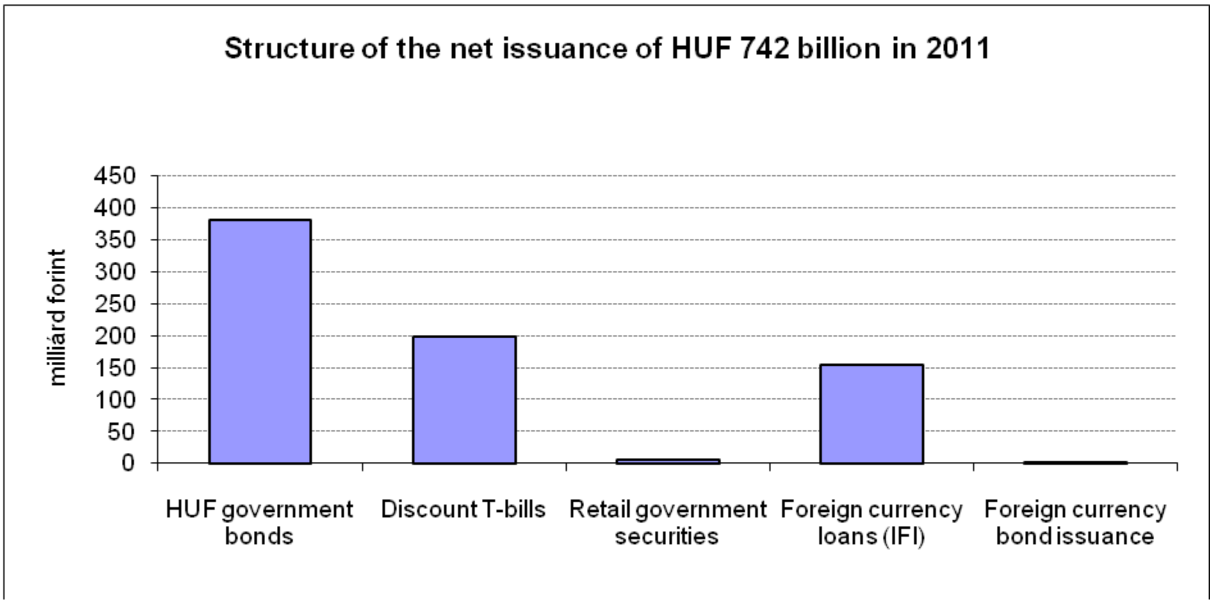
4. Net issuance

Net government debt issuance is planned in an amount of HUF **742** billion, out of which domestic debt will reach HUF **585** billion (or 79 per cent of total), and net foreign currency borrowing will account for HUF **156** billion (EUR 600 million).

ÁKK will monitor closely the market demand and decide on the amounts accepted at auctions flexibly, which means that in a favourable market environment the actual issuance may be increased. Beside the net market issuance, the remaining part of the net financing requirements will be covered by decreasing the balance of the Single Treasury Account. ÁKK does not intend to use the previously drawn but unused funds from the international loan package (IMF/EC), which will be kept as a financial reserve in case of unfavourable market conditions.

The net domestic government securities issuance is made up by HUF **382** billion in net bond issuance and HUF **199** billion in net discount T-bill issuance, while the stock of retail government securities will be maintained at the current level.

Project financing loans of HUF 156 billion (EUR 0.6 billion) from international financial institutions (EIB and CEB) account for 100 per cent of the net foreign currency denominated issuance, while foreign currency bond issuance in the international capital markets is planned in an amount equal to the maturing foreign currency debt in 2011 (EUR 4 billion), including the redemption of the first part of the loans drawn from the European Commission (EUR 2 billion).



5. Debt management strategy

ÁKK's main objective is to finance the central government at the lowest costs in the long run taking account of risks. This objective is quantified by setting benchmarks, which are in part based on an optimal portfolio model using Value-at-Risk (VaR) and Cost-at-Risk (CaR) for taking into account both costs and risks. ÁKK has determined the following benchmark values for government debt management in 2011:

- ***Share of foreign currency debt***: The share of the foreign currency denominated debt – excluding the funds from the international IMF/EC loan package – within the total central government debt should not exceed 38%.

- ***Currency mix of the foreign currency denominated debt***: In order to mitigate cross-currency exchange rate risk, foreign currency obligations after swaps should be 100% in EUR, allowing for a 5% deviation from this target.

- ***Fixed / floater composition***: Within the HUF debt, the share of the fixed rate elements should be in the 61-83% range, making the share of floating rate debt, which includes all short-term debt, between 17% and 39%. Within the foreign currency denominated debt, the optimal share of fixed rate debt is 66%, with a 5% tolerance band.

- ***Duration***: In order to keep an acceptable level of refinancing risk, the Macaulay duration of the HUF debt portfolio is targeted at 2.5 years +/- 0.5 year.

- ***Liquidity***: So as to maintain a continuously safe and stable level of cash funds in the Single Treasury Account (STA), an optimal target STA balance has been determined and ÁKK's objective is to keep the end-of-day STA balance in a range of the optimal level +/- HUF 50 billion (EUR 200 million).

In the case of the first five benchmark values ÁKK takes into account their 3-month moving average values, to avoid unnecessary reaction to one-off, temporary, or at times even shock-like market or portfolio movements that actually would not need a response in the medium or longer term.

6. Further information

This Debt Management Outlook was compiled based on information available at the beginning of December 2010. Thus the projected figures for 2011 may change according to the outturn of the financing needs and debt issuances. Even though the structure of financing may change compared to the plans, the issuance calendar is fixed (see next chapter), and ÁKK will not change the set of instruments used, its strategic objectives and its strategic behavior in the markets either.

This Debt Management Outlook does not yet consider the potential effect of the restructuring of the mandatory pension system. As a result of that, due to the cancellation of the government securities returned into the Pension Reform and Debt Reduction Fund both the government debt stock as well as the budget deficit will decrease, and the structure of the remaining portfolio (e.g. currency composition) may change significantly. The volume and the timing of the changes in the mandatory pension system have not been fixed until the time of preparing this outlook.

ÁKK's website (www.akk.hu, www.gdma.hu) and its regular publications and reports (monthly and quarterly publications; monthly report on debt transactions) provide updated information on the financing needs, the debt transactions and the government debt. ÁKK also discloses until the 15th of each month the detailed domestic market issuance plan for the next 3 months, which shows the amounts to be issued for each tenor.

7. Issuance calendar

Issuance calendar of fixed rate government bonds in 2011

Date of auction	Date of settlement
30.12.2010	05.01.2011
13.01.2011	19.01.2011
27.01.2011	02.02.2011
10.02.2011	16.02.2011
24.02.2011	02.03.2011
10.03.2011	16.03.2011
24.03.2011	30.03.2011
07.04.2011	13.04.2011
21.04.2011	27.04.2011
05.05.2011	11.05.2011
19.05.2011	25.05.2011
02.06.2011	08.06.2011
16.06.2011	22.06.2011
30.06.2011	06.07.2011
14.07.2011	20.07.2011
28.07.2011	03.08.2011
11.08.2011	17.08.2011
25.08.2011	31.08.2011
08.09.2011	14.09.2011
22.09.2011	28.09.2011
06.10.2011	12.10.2011
20.10.2011	26.10.2011
03.11.2011	09.11.2011
17.11.2011	23.11.2011
01.12.2011	07.12.2011
15.12.2011	21.12.2011

Issuance calendar of floating rate government bonds in 2011

Date of auction	Date of settlement
06.01.2011	12.01.2011
03.02.2011	09.02.2011
03.03.2011	09.03.2011
31.03.2011	06.04.2011
28.04.2011	04.05.2011
26.05.2011	01.06.2011
07.07.2011	13.07.2011
04.08.2011	10.08.2011
01.09.2011	07.09.2011
29.09.2011	05.10.2011
27.10.2011	02.11.2011
08.12.2011	14.12.2011

Issuance calendar of discount treasury bills

12-mont discount T-bills

Code	Date of auction	Date of settlement	Date of maturity
D120111	06.01.2011	12.01.2011	11.01.2012
D120111	20.01.2011	26.01.2011	11.01.2012
D120111	03.02.2011	09.02.2011	11.01.2012
D120111	17.02.2011	23.02.2011	11.01.2012
D120307	03.03.2011	09.03.2011	07.03.2012
D120307	17.03.2011	23.03.2011	07.03.2012
D120307	31.03.2011	06.04.2011	07.03.2012
D120307	14.04.2011	20.04.2011	07.03.2012
D120502	28.04.2011	04.05.2011	02.05.2012
D120502	12.05.2011	18.05.2011	02.05.2012
D120502	26.05.2011	01.06.2011	02.05.2012
D120502	09.06.2011	15.06.2011	02.05.2012
D120627	23.06.2011	29.06.2011	27.06.2012
D120627	07.07.2011	13.07.2011	27.06.2012
D120627	21.07.2011	27.07.2011	27.06.2012
D120627	04.08.2011	10.08.2011	27.06.2012
D120822	18.08.2011	24.08.2011	22.08.2012
D120822	01.09.2011	07.09.2011	22.08.2012
D120822	15.09.2011	21.09.2011	22.08.2012
D120822	29.09.2011	05.10.2011	22.08.2012
D121017	13.10.2011	19.10.2011	17.10.2012
D121017	27.10.2011	02.11.2011	17.10.2012
D121017	10.11.2011	16.11.2011	17.10.2012
D121017	24.11.2011	30.11.2011	17.10.2012
D121212	08.12.2011	14.12.2011	12.12.2012
D121212	22.12.2011	28.12.2011	12.12.2012

3-month discount T-bills are auctioned every Tuesday, settlement is on the Wednesday of the following week.
Liquidity discount T-bills are auctioned upon decision of the Issuer, generally on Monday with settlement on Wednesday.