GOVERNMENT SECURITIES MARKET
MONTHLY REPORT

OCTOBER 2004

MAGYAR ÁLLAMPAPÍR
ÁLLAMI GARANCIÁVAL

GOVERNMENT SECURITIES MARKET

In the first ten months of 2004 the deficit of the central government amounted to HUF 1328.6 billion, including the sum of debt assumptions. The net borrowing requirement also included the HUF 4.6 billion prefinancing of cash transfers from the EU's EAGGF fund. The total net financing requirement was met by a total net issuance of HUF 1326.6 billion (ca. EUR 5.4 billion, including loan assumptions) in the first ten months of the year, out of which net domestic issuance was HUF 735.3 billion (ca. EUR 3.0 billion) and net foreign exchange issuance totalled HUF 591.2 billion (ca. EUR 2.4 billion).

Until the end of October the Forint denominated debt of the central government increased by HUF 737.4 billion in 2004 (the difference between the total net change and the net issuance was caused by the change in the volume of matured but unclaimed securities). Out of the increase in domestic debt, government bonds accounted for HUF 509.9 billion, discount Treasury bills for HUF 154.5 billion and retail government securities for HUF 99.7 billion. The volume of domestic loans decreased by HUF 26.7 billion.

The foreign currency debt of the central government showed an increase of HUF 415.3 billion in the first ten months of the year. Foreign exchange bond issuance contributed by HUF 794.9 billion, loan drawdowns and assumptions by HUF 41.4 billion to this growth of debt. On the other hand, bond redemptions worth HUF 127.0 billion, loan redemptions amounting to HUF 118.1 billion and exchange rate gains of HUF 176.0 billion decreased the Forint value of the foreign currency debt. Out of the HUF 591.2 billion (ca. EUR 2.4 billion) total net foreign currency issuance, market transactions accounted for HUF 566.6 billion (ca. EUR 2.3 billion), the remaining HUF 24.6 billion was the balance of loan transactions.

At the end of October, 64.3% of the domestic government securities were fixed rate, 35.7% floating rate securities, compared to 62.6% and 37.4% at the end of 2003.

In October both primary and secondary market yields decreased substantially. The decline in yields was triggered by the central bank's rate cut and investors' expectations that the NBH would decrease its base rate further. In the secondary market short-term yields decreased by 55-67 basis points over the month, while long-term yields dropped by 42-66 basis points. The 1-year yield fell to 9.92% by 66 basis points, the 3-year one decreased also by 66 basis points to 9.47%, while the 10-year benchmark yield reached 7.96% at the end of October after declining by 48 basis points.

Monthly OTC turnover of government securities was 13% higher in October than in the previous month and reached HUF 2503 billion. Primary dealers, who account for the decisive part of all secondary government securities trading, made 47% of their secondary government securities deals with non-resident investors.

The volume of non-residents' holdings of Hungarian government securities reached a new all-time high level in October, however, the redemption of the 2004/J bond caused a HUF 85.0 billion overall decrease compared to the end of September. The end of month amount of non-residents' holdings of Hungarian government securities was HUF 2421.4 billion, which volume represented 30.2% of the total amount of domestic government bonds and discount Treasury bills at the end of October.

The HUF/EUR mid exchange rate at the end of October was 246.12

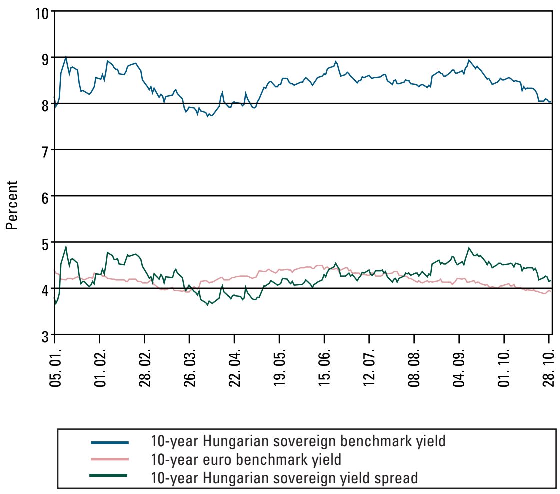
The credit rating of the long-term foreign currency debt of the Republic of Hungary is as follows: A- / A1 / A-

CENTRAL GOVERNMENT GROSS DEBT

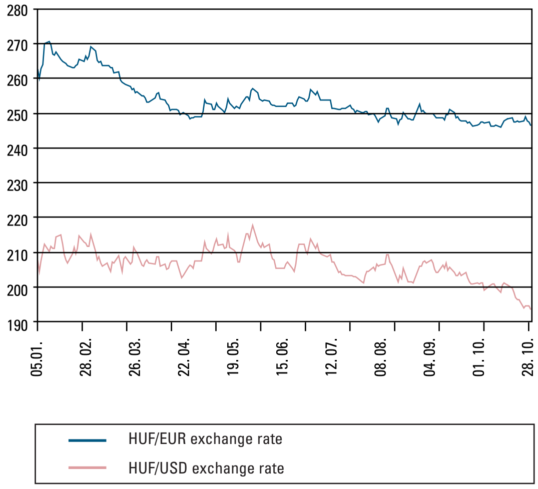
	1998	1999	2000	2001	2002	2003	Aug. 2004	Sept. 2004	Oct. 2004
1. Forint denominated debt	**3,733.9**	**4,350.2**	**4,717.5**	**5,397.4**	**6,956.9**	**8,008.7**	**8,770.0**	**8,844.4**	**8,746.0**
1.1. Loans	435.0	380.2	303.8	228.3	353.2	117.9	101.2	91.6	91.2
1.1.1. Foreign loans	0.0	0.0	0.0	0.0	1.7	1.4	1.4	1.4	1.4
1.1.2. Domestic loans	435.0	380.2	303.8	228.3	351.5	116.5	99.8	90.2	89.8
1.1.2.1. Raised from National Bank of Hungary (NBH)	434.9	362.4	289.5	217.4	144.0	71.2	46.1	37.0	37.0
1.1.2.2. Other loans	0.1	17.8	14.3	10.9	207.5	45.3	53.7	53.2	52.8
1.2. Government securities	**3,299.0**	**3,970.0**	**4,413.6**	**5,169.1**	**6,603.7**	**7,890.8**	**8,668.8**	**8,752.7**	**8,654.9**
1.2.1. Public issues	2,432.8	3,116.8	3,582.4	4,360.0	5,826.3	7,131.5	7,919.4	8,004.2	7,906.3
1.2.1.1. Bonds	1,386.5	1,790.8	2,221.2	2,782.0	3,829.2	5,056.5	5,536.0	5,657.2	5,577.2
1.2.1.2. Discount T-bills	689.9	826.7	837.9	1,033.3	1,436.8	1,541.4	1,760.7	1,718.6	1,695.9
1.2.1.3. Retail securities	356.5	499.3	523.3	544.7	560.3	533.5	622.7	628.5	633.2
1.2.2. Private placements	866.1	853.2	831.3	809.1	777.4	759.3	749.4	748.5	748.5
2. Foreign currency denominated debt*	**2,431.9**	**2,536.2**	**2,508.8**	**2,322.1**	**2,267.3**	**2,579.0**	**2,923.1**	**2,748.0**	**2,994.3**
2.1. Loans	2,367.8	1,929.6	1,772.8	1,410.4	1,394.3	1,084.1	1,096.2	937.7	944.4
2.1.1. Foreign loans	249.6	361.2	368.8	317.8	461.9	598.8	621.0	466.8	475.2
2.1.2. Domestic loans	2,118.2	1,568.4	1,404.0	1,092.6	932.3	485.3	475.2	470.9	469.2
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	441.9	437.9	436.3
2.1.2.2. Other loans	0.0	0.0	0.0	0.0	82.8	18.8	33.3	33.0	32.9
2.2. Government securities	64.0	606.7	736.0	911.7	873.0	1,494.9	1,826.9	1,810.3	2,049.9
2.2.1. Issued abroad	44.4	587.1	715.7	911.7	873.0	1,494.9	1,826.9	1,810.3	2,049.9
2.2.1.1. Foreign currency bonds	43.8	586.8	715.4	911.5	872.9	1,494.7	1,826.8	1,810.2	2,049.8
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
2.2.2 Issued domestically	19.6	19.6	20.3	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**	**11,693.1**	**11,592.4**	**11,740.3**
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*	*8,046.1*	*8,124.3*	*8,021.6*
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

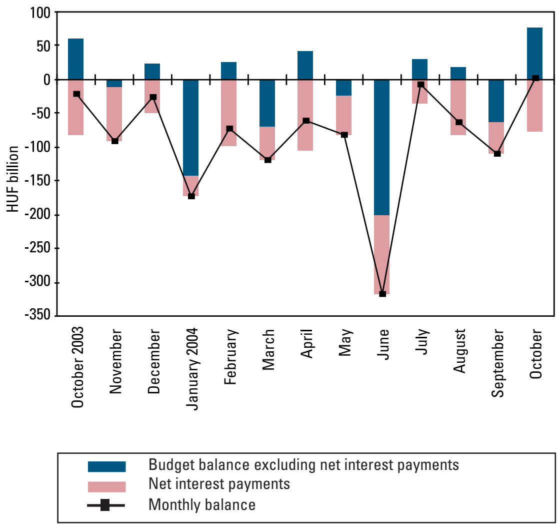
10-year Hungarian and eurozone benchmark yields in 2004



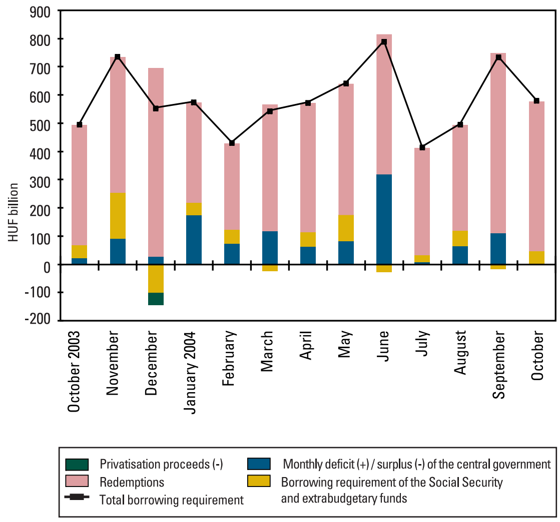
The exchange rate of the Hungarian Forint in 2004



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



Gross borrowing requirement

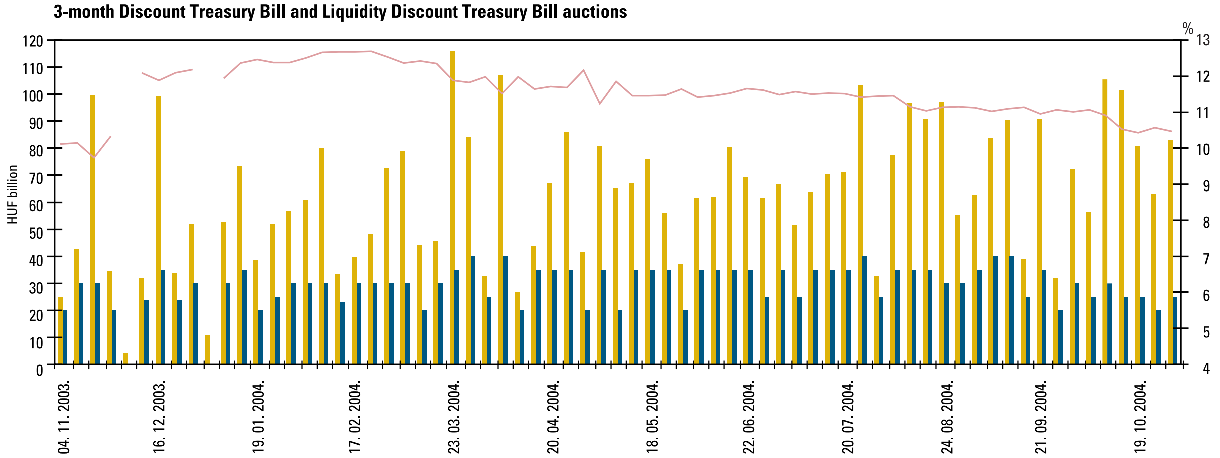


DISCOUNT TREASURY BILL AUCTION RESULTS

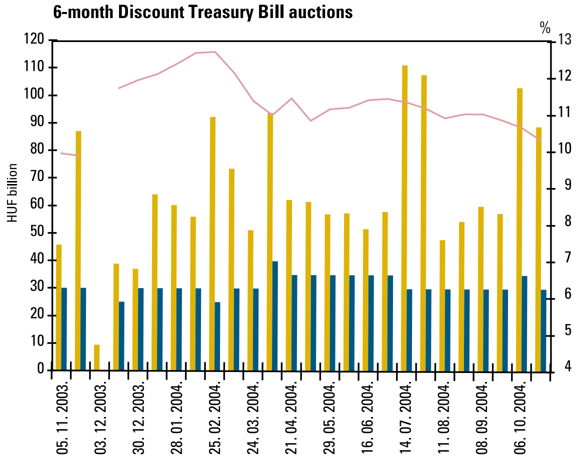
	Liquidity Discount T-bills		3-month Discount T-bills				6-month Discount T-bills		12-month Discount T-bills	
Code of T-bill	D041208	D041208	D050112	D050119	D050126	D050202	D050316	D050511	D050928	D050928
Maturity in days	63	42	91	91	91	91	154	196	350	336
Date of auction	04.10.2004	25.10.2004	05.10.2004	12.10.2004	19.10.2004	26.10.2004	06.10.2004	20.10.2004	07.10.2004	21.10.2004
Date of financial settlement	06.10.2004	27.10.2004	13.10.2004	20.10.2004	27.10.2004	03.11.2004	13.10.2004	27.10.2004	13.10.2004	27.10.2004
Redemption date	08.12.2004	08.12.2004	12.01.2005	19.01.2005	26.01.2005	02.02.2005	16.03.2005	11.05.2005	28.09.2005	28.09.2005
Maximum yield (%) - ISMA	11.03	10.55	10.87	10.50	10.39	10.44	10.63	10.29	10.44	10.13
Average yield (%) - ISMA	10.80	10.40	10.80	10.35	10.20	10.20	10.60	10.10	10.33	9.90
Minimum yield (%) - ISMA	11.01	10.52	10.86	10.47	10.37	10.41	10.61	10.27	10.41	10.11
Maximum yield (%) - EHM	11.18	10.70	11.02	10.65	10.53	10.59	10.78	10.43	10.59	10.27
Average yield (%) - EHM	10.95	10.54	10.95	10.49	10.34	10.34	10.75	10.24	10.47	10.04
Minimum yield (%) - EHM	11.16	10.67	11.01	10.62	10.51	10.55	10.76	10.41	10.55	10.25
Average selling price (%)	98.1097	98.7875	97.3282	97.4217	97.4457	97.4361	95.6583	94.7046	90.8093	91.3776
Amount offered for sale (HUF million)	25000.00	20000.00	25000.00	25000.00	25000.00	25000.00	30000.00	30000.00	30000.00	30000.00
Amount of bids submitted (HUF million)	56279.08	62994.47	105551.94	101549.39	80724.12	82966.47	103316.34	89012.36	73782.41	76351.19
Amount of bids accepted (HUF million)	24999.95	19999.94	29999.90	24999.89	24999.92	24999.92	34999.94	29999.85	29999.94	29999.99
Bid-to-cover ratio	2.25	3.15	3.52	4.06	3.23	3.32	2.95	2.97	2.46	2.55
Bids submitted (pcs)	96	93	159	156	169	153	163	197	134	197
Bids accepted (pcs)	61	40	73	70	75	68	50	115	98	102
Market sales* (HUF million)	24999.95	19999.94	29999.90	24999.89	24999.92	24999.92	34999.94	29999.85	29999.94	29999.99
Retained on ÁKK's own account (HUF million)	0.05	0.06	3000.10	2500.11	2500.08	2500.08	3500.06	9000.15	3000.06	3000.01
Total amount issued (HUF million)	25000.00	20000.00	33000.00	27500.00	27500.00	27500.00	38500.00	39000.00	33000.00	33000.00

* Without issuance onto ÁKK's own account

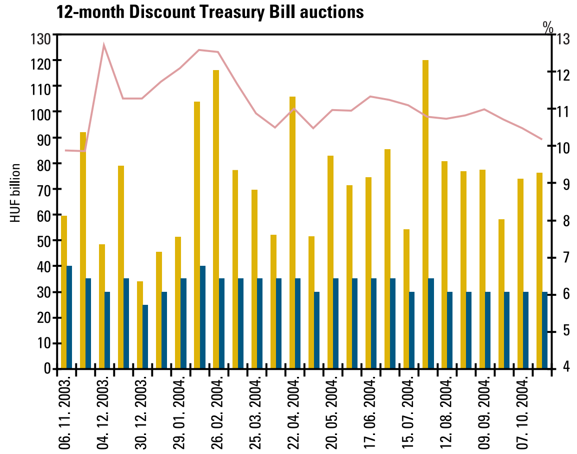
3-month Discount Treasury Bill and Liquidity Discount Treasury Bill auctions



6-month Discount Treasury Bill auctions



12-month Discount Treasury Bill auctions

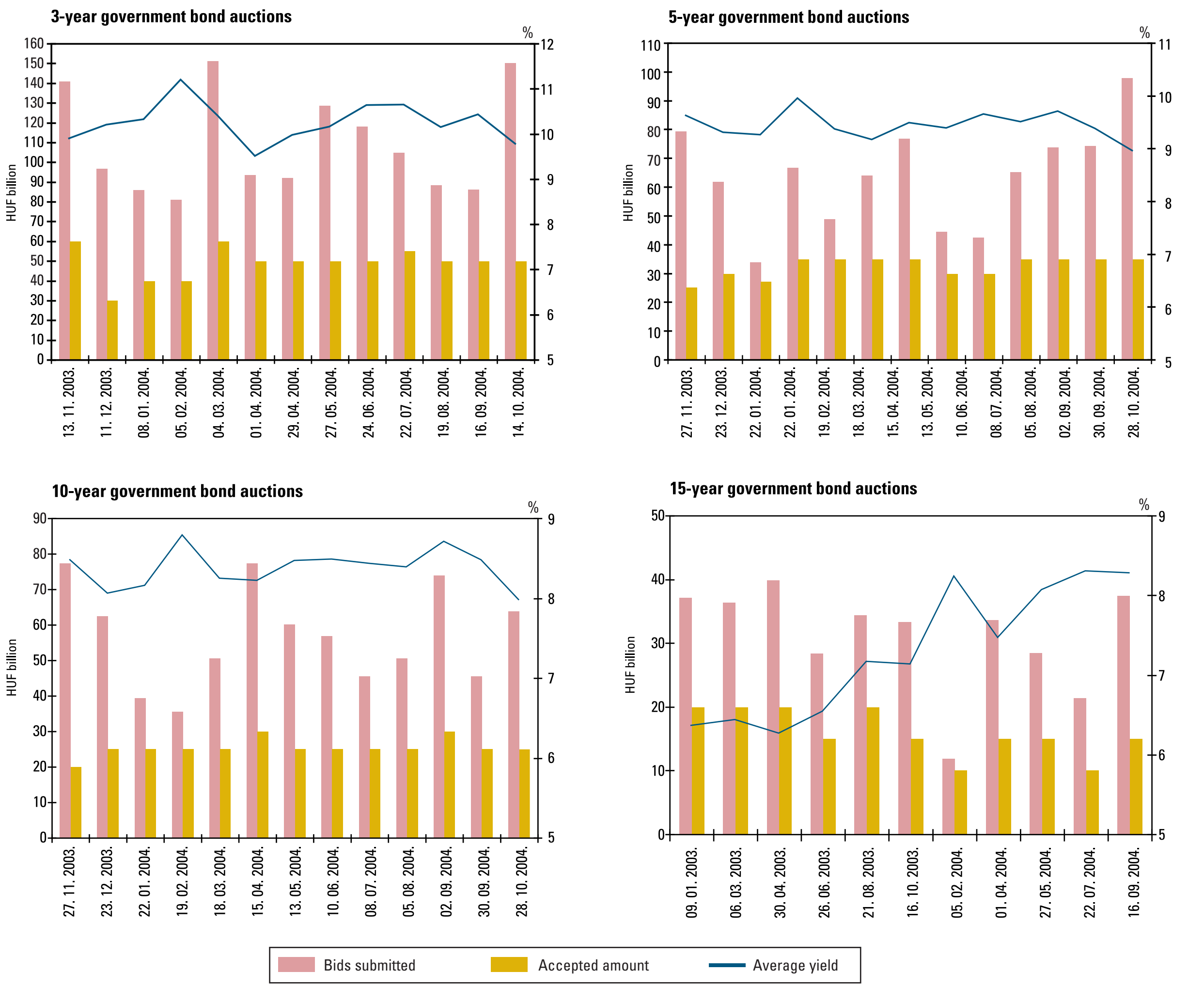


Bids submitted | Accepted amount | Average yield

GOVERNMENT BOND AUCTION RESULTS

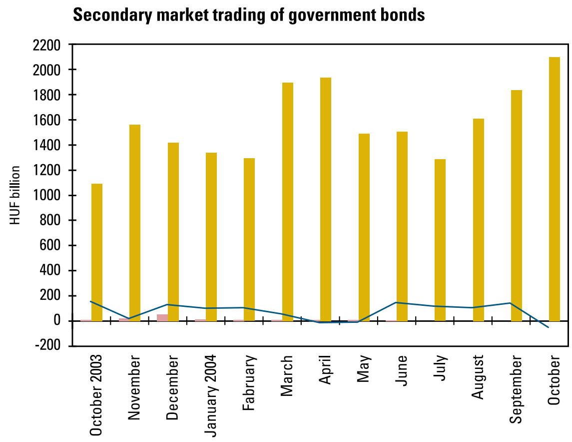
Government Bond	2007/G	2009/D	2015/A
ISIN code	HU0000402250	HU0000402243	HU0000402268
Maturity (in years)	3	5	10
Coupon (%)	9.25%	8.25%	8.00%
Auction	5th auction	5th auction	4th auction
Date of auction	14.10.2004	28.10.2004	28.10.2004
Date of financial settlement	20.10.2004	03.11.2004	03.11.2004
Redemption date	12.10.2007	12.10.2009	12.02.2015
Maximum annual yield (%) - ISMA	9.76	8.95	7.97
Minimum annual yield (%) - ISMA	9.70	8.89	7.91
Average annual yield (%) - ISMA	9.75	8.93	7.95
Maximum annual yield (%) - EHM	9.76	8.95	7.96
Minimum annual yield (%) - EHM	9.70	8.89	7.91
Average annual yield (%) - EHM	9.75	8.93	7.95
Maximum price (%)	98.8731	97.5080	100.6299
Minimum price (%)	98.7253	97.2803	100.2178
Average price (%)	98.7566	97.3374	100.3231
Amount offered for sale (HUF million)	50,000.00	35,000.00	25,000.00
Amount of bids submitted (HUF million)	150,449.75	97,925.00	63,863.37
Amount of bids accepted (HUF million)	49,999.97	34,999.92	24,999.93
Bid-to-cover ratio	3.01	2.80	2.55
Bids submitted (pcs)	220	175	115
Bids accepted (pcs)	72	91	54
Tail (average price - minimum price)	0.03	0.06	0.11
Market sales* (HUF million)	49,999.97	34,999.92	24,999.93
Retained on ÁKK's own account (HUF million)	0.03	0.08	5,000.07
Total amount issued (HUF million)	50,000.00	35,000.00	30,000.00

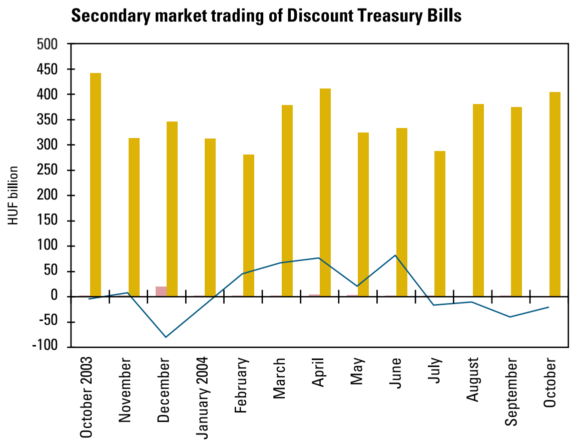
* Without issuance onto ÁKK's own account

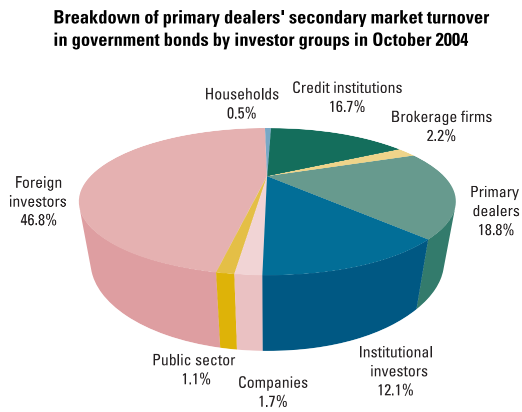


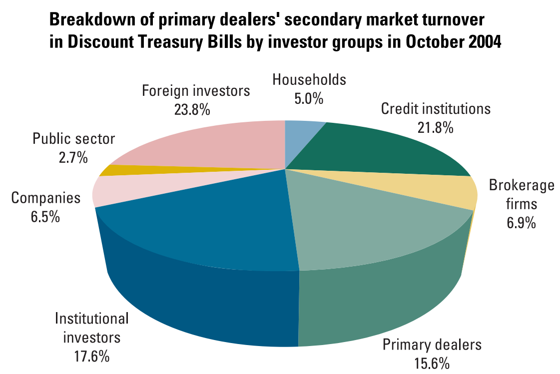
GOVERNMENT BOND REVERSE AUCTION RESULTS

Government bond	2005/G	2005/H
ISIN code	HU0000402060	HU0000402078
Coupon (%)	7.75%	7.00%
Date of reverse auction	27.10.2004	27.10.2004
Redemption date	12.04.2005	12.08.2005
Date of financial settlement	03.11.2004	03.11.2004
Minimum annual yield (%)	10.15	10.20
Average annual yield (%) - ISMA	10.46	10.23
Amount of bids submitted (HUF million)	20605.75	36720.03
Amount of bids accepted (HUF million)	19565.95	7433.20
Bids submitted (pcs)	16	25
Bids accepted (pcs)	11	7





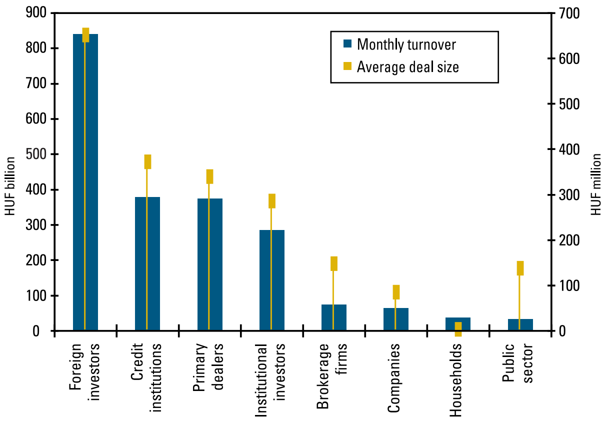




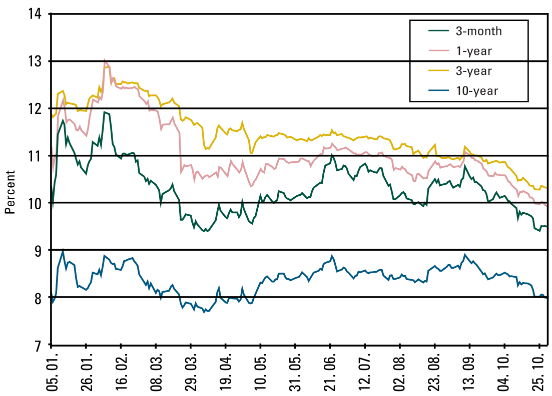
GOVERNMENT SECURITIES WITH THE HIGHEST SECONDARY MARKET TURNOVER IN OCTOBER 2004

Government security	Date of redemption	Turnover (HUF billion)
2007/G	12.10.2007	258.4
2009/D	12.10.2009	169.7
2006/G	24.08.2006	125.3
D050608	08.06.2005	103.4
D050928	28.09.2005	101.6
2007/D	12.06.2007	101.6
2013/C	20.12.2013	87.6
2015/A	12.02.2015	84.6
2014/C	12.02.2014	77.7
2007/F	12.04.2007	74.0

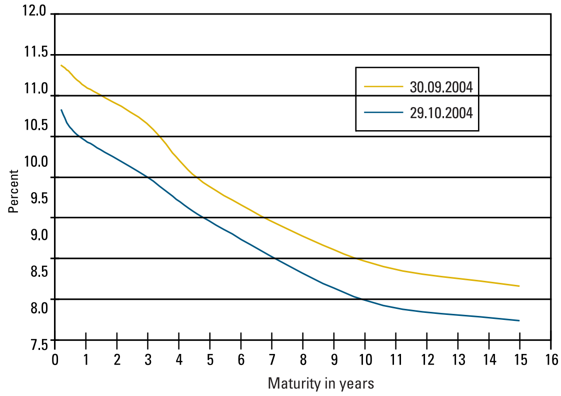
Primary dealers' trading with different investor groups in October 2004



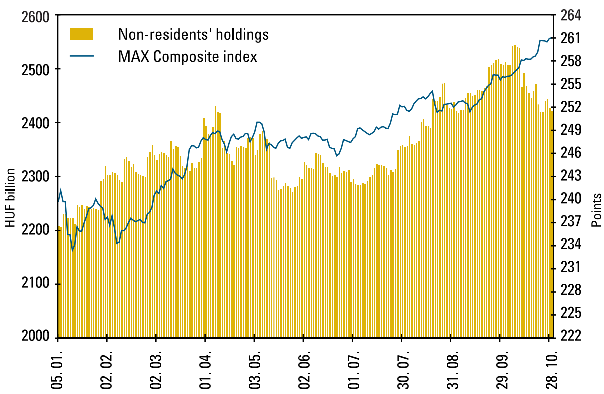
Benchmark yields in 2004



Benchmark yield curves



Non-residents' holdings of Hungarian government securities in 2004



THE OUTSTANDING VOLUME OF GOVERNMENT BONDS WITH BENCHMARK STATUS AT THE END OF OCTOBER 2004

	HUF billion	
Government bond	30.09.2004	31.10.2004
2007/G	207.02	257.28
2009/D	130.92	165.32
2015/A	80.53	105.46
2020/A	65.21	65.29

HUNGARIAN GOVERNMENT SECURITIES INDICES

	MAX index	RMAX index	MAX Composite index	ZMAX index
Value as at 29 October 2004	262.3745	266.8756	260.8964	270.7025
Changes compared to the end of the month before	5.7424	2.9728	5.0509	2.5452
Annual yield earned on the index portfolio	5.54%	10.39%	6.61%	11.38%

EVENTS CALENDAR - DECEMBER 2004

Week 49			1	2	3	4	5
			Wednesday	**Thursday**	**Friday**	**Sat.**	**Sun.**
Discount T-bill public offer			3-month DKJ				
Discount T-bill auction			D050511	D051123			
Discount T-bill auction settlement			D050302				
Discount T-bill redemption			D041201				
Liquidity Discount T-Bill auction settlement			Upon decision of the Issuer				
Interest Bearing T-bill subscription				K2005/25			
Interest Bearing T-bill redemption			K2004/24				
Government Bond public offer				3-year Bond			
Government Bond auction settlement			5 and 10-year Bonds				
Government Bond reverse auction settlement			2 Bond series				

Week 50	6	7	8	9	10	11	12
	Monday	**Tuesday**	**Wednesday**	**Thursday**	**Friday**	**Sat.**	**Sun.**
Discount T-bill public offer			3, 6 and 12-month DKJs				
Discount T-bill auction		D050316					
Discount T-bill auction settlement			D050309/D050511/D051123				
Discount T-bill redemption			D041208				
Liquidity Discount T-Bill public offer	Upon decision of the Issuer						
Liquidity Discount T-Bill auction	Upon decision of the Issuer						
Liquidity Discount T-Bill auction settlement			Upon decision of the Issuer				
Interest Bearing T-bill public offer		K2005/26					
Interest Bearing T-bill subscription			K2005/25				
Government Bond auction				3-year Bond			
Government Bond reverse auction			2 Bond series				

Week 51	13	14	15	16	17	18	19
	Monday	**Tuesday**	**Wednesday**	**Thursday**	**Friday**	**Sat.**	**Sun.**
Discount T-bill public offer			3-month DKJ				
Discount T-bill auction		D050323	D050706	D051123			
Discount T-bill auction settlement			D050316				
Discount T-bill redemption			D041215				
Liquidity Discount T-Bill public offer	Upon decision of the Issuer						
Liquidity Discount T-Bill auction	Upon decision of the Issuer						
Liquidity Discount T-Bill auction settlement			Upon decision of the Issuer				
Interest Bearing T-bill subscription			K2005/26				
Interest Bearing T-bill redemption			K2004/25				
Government Bond public offer				5 and 10-year Bonds			
Government Bond auction settlement			3-year Bond				
Government Bond reverse auction settlement			2 Bond series				
Government Bond interest payment	2007/B						

Week 52	20	21	22	23	24	25	26
	Monday	**Tuesday**	**Wednesday**	**Thursday**	**Friday**	**Sat.**	**Sun.**
Discount T-bill public offer			3, 6 and 12-month DKJs				
Discount T-bill auction		D050330					
Discount T-bill auction settlement			D050323/D050706/D051123				
Discount T-bill redemption			D041222				
Liquidity Discount T-Bill public offer	Upon decision of the Issuer						
Liquidity Discount T-Bill auction	Upon decision of the Issuer						
Liquidity Discount T-Bill auction settlement			Upon decision of the Issuer				
Interest Bearing T-bill public offer		K2006/01					
Interest Bearing T-bill subscription			K2005/26				
Government Bond auction				5 and 10-year Bonds			
Government Bond interest payment	2005/A, 2013/C, 2014/B						
Government Bond redemption	2005/A quarterly						

Week 53	27	28	29	30	31		
	Monday	**Tuesday**	**Wednesday**	**Thursday**	**Friday**		
Discount T-bill public offer			3-month DKJ				
Discount T-bill auction		D050406	D050706	D051123			
Discount T-bill auction settlement			D050330				
Discount T-bill redemption			D041229				
Liquidity Discount T-Bill public offer	Upon decision of the Issuer						
Liquidity Discount T-Bill auction	Upon decision of the Issuer						
Liquidity Discount T-Bill auction settlement			Upon decision of the Issuer				
Interest Bearing T-bill subscription			K2006/01				
Interest Bearing T-bill redemption			K2004/26				
Government Bond auction settlement			5 and 10-year Bonds				
Government Bond interest payment					2007/A, 2012/A, 2016/A		
Government Bond redemption					2016/A quarterly		

Key to serial numbers:

Discount T-bills (DKJ) - D + the last two digits of the year of redemption and month, day of redemption
Interest Bearing T-bills - The serial number denotes the year of redemption
Government Bonds - The serial number denotes the year of redemption

INTEREST RATE RESETS OF FLOATING RATE GOVERNMENT BONDS IN OCTOBER 2004

Government Bond	Date of interest rate reset	Interest period			Date of interest payment	Reset interest rate (%)	Interest payable (%)
2008/A	17.10.2004	24.10.2004	-	24.01.2005		10.78	
		24.01.2005	-	24.04.2005	24.04.2005		
2026/B	24.10.2004	24.04.2004	-	24.10.2004		11.90	
		24.10.2004	-	24.04.2005	24.04.2005	10.92	11.57
2026/C	24.10.2004	24.10.2004	-	24.04.2005		10.92	
		24.04.2005	-	24.10.2005	24.10.2005		

PRIMARY DEALERS - AS AT 31 OCTOBER 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

Á · K · K

GOVERNMENT DEBT MANAGEMENT AGENCY LTD.

H-1027 Budapest, Csalogány utca 9–11. H-1255 Budapest, P.O.B. 248

Phone: (36-1) 488-9488 Fax: (36-1) 488-9405 E-mail: akk@allampapir.hu More information: www.allampapir.hu