GOVERNMENT DEBT MANAGEMENT REPORT

2010

FOREWORD

The objective of this annual Government Debt Management Report of the Government Debt Management Agency Pte. Ltd. (ÁKK) is to inform investors and other stakeholders in the government securities market about the financing of the central government, to analyse the characteristics of the government debt and to describe the developments in the Hungarian government securities market in 2010.

2010 was a particularly important year for public debt management. The international financial crisis hit hard the Hungarian securities market in 2008 in the form of substantial capital outflow and domestic bond sell-off by non-resident investors. After the stabilization of the domestic government bond market in 2009, the basic objective of Hungarian public debt management in 2010 was to return to market financing. This goal was fully met: the annual foreign currency issuance target was achieved with a single bond transaction already in January, which financed all foreign currency debt maturities in the year. Investors’ demand was also favourable during the year in the domestic bond market and the actual net domestic bond issuance reached an amount twice the annual plan, which helped to lengthen the maturity of domestic debt and to reduce risks in the debt portfolio.

It is clear that the most important objectives for last year were achieved, however, the task of managing the public debt for a small and very open economy like Hungary in the era of international financial turbulences is still challenging.

Gyula Pleschinger
Chief Executive Officer

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GENERAL INFORMATION

Both deficit and debt data are preliminary until the Act on Final Accounts for the relevant year is approved by Parliament, which is usually during the fourth quarter of the following year. Fiscal data used in this report was still preliminary when this report was compiled.

Some of the data in this report are cash-flow based and some are accrual-based. When using the *cash-flow approach*, expenditures and revenues are accounted for the very period in which they are actually paid or received, regardless of the periods to which their economic content relates. Under the *accrual approach* on the other hand, the amount of an expenditure or revenue item related to several periods is divided up on a pro rata basis and allocated to the relevant periods.

ÁKK publishes data about government debt in accordance with Hungarian accounting standards, the principles of which are summarised as follows:

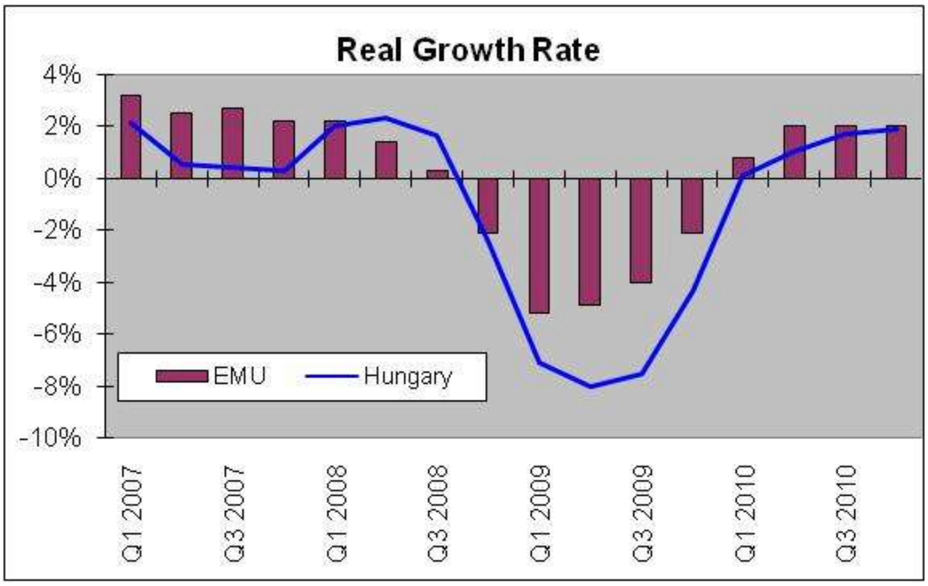
- Government bonds and retail government securities are recorded at nominal value.
- Discount treasury bills are recorded at the *average sale price* (at discount value), which is recalculated after every transaction involving the security concerned.
- Repo and reverse repo transactions actually increase or reduce outstanding government debt.
- Foreign currency debt is taken into account after swaps and is converted into HUF at the official exchange rate published by the National Bank of Hungary (NBH) at the end of the month or year in question.
- The debt calculated by ÁKK is the central government gross debt (i.e. it does not include either local government debt or the debt of state-owned enterprises) and it is not a consolidated indicator (i.e. debt between various public sector subsystems is not netted).

The debt data published by ÁKK in accordance with Hungarian and international accounting standards differ from the debt data used by EUROSTAT (the European Union’s institute of statistics), which is calculated according to different principles and is essentially the result of statistical calculations. Public debt data calculated in accordance with ESA ‘95 principles is jointly produced and published by the Hungarian Central Statistical Office (HCSO), the National Bank of Hungary (NBH) and the Ministry for National Economy, and is based only partly on information provided by ÁKK.

I. MACROECENOMIC DEVELOPMENTS IN 2010

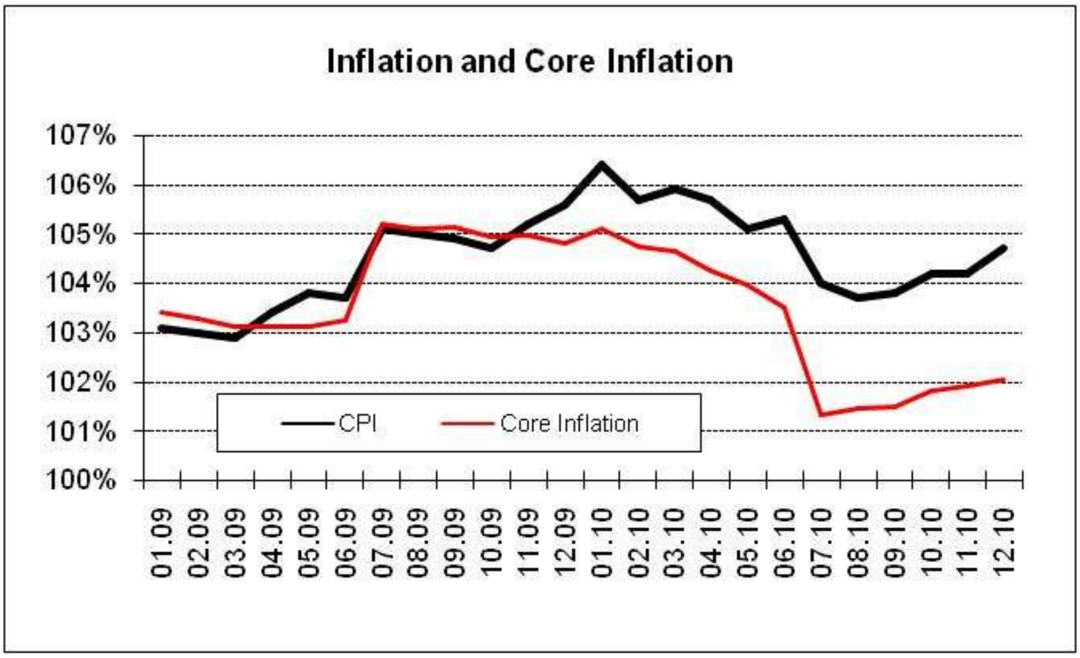
During 2010 the global economic crisis softened, growth prospects generally improved. The global investor sentiment strengthened, but the worsening fiscal and government debt position of the Eurozone periphery weighed heavily on the development of the Eurozone. This affected our region and the local government securities market as well.

In the spring of 2010 liquidity in the government securities markets across the world decreased, significantly influencing the developments of the Hungarian local market. Perceived risks grew mainly as a result of the extraordinary increase of deficits and steeply growing debt ratios in the Eurozone periphery states and the build-up of large redemptions in the short term. In the end Greece was forced to turn to the EU and IMF for financial aid in May 2010 after market financing became impossible. Although global investor sentiment improved after the spring of 2010 backed by a strengthening global economic outlook, the assessment of the Eurozone periphery worsened further. Investors' attention shifted from Greece to countries like Ireland amassing a huge deficit and debt resulting from its banking system bailout, Portugal and Spain both showing weak growth prospects, and highly indebted Italy and Belgium. In November 2010 Ireland also turned to the EU and the IMF for financial aid as a consequence of financing difficulties. By the end of 2010 many market participants expected that Portugal would need similar financial aid soon.



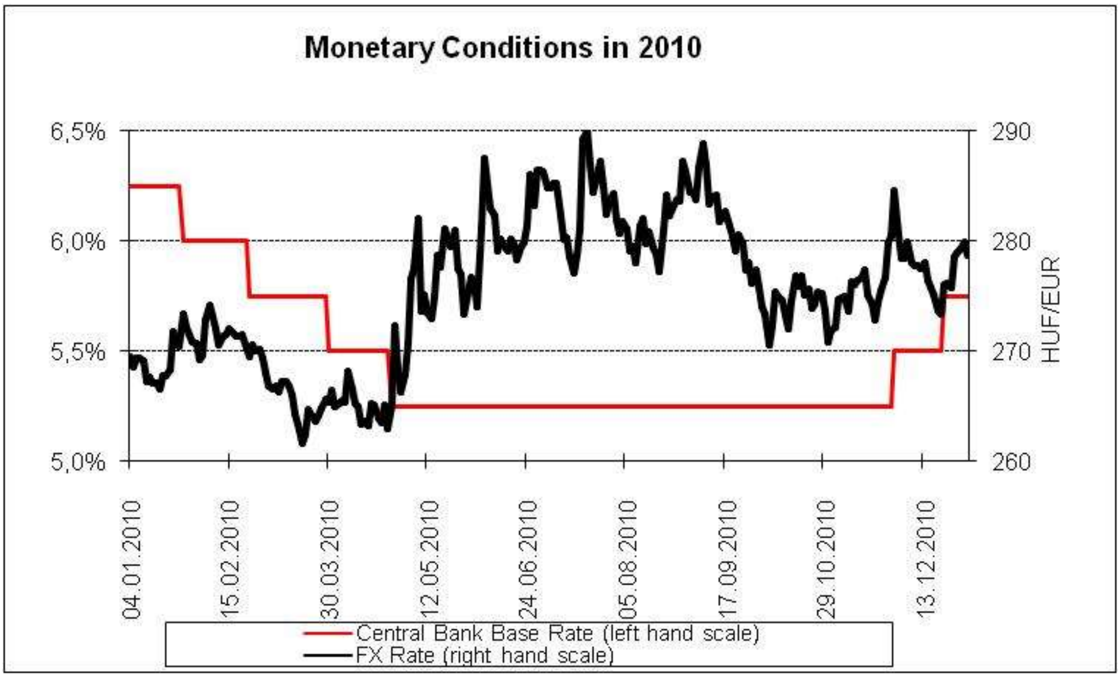
Source: HCSO, Eurostat

The Hungarian economy shrunk by 6.5% in 2009 as a result of the global economic crisis. However, the year 2010 showed – partly as a result of the low base of the previous year – signs of economic recovery, and GDP grew by 1.2% compared to the previous year. Brisk external trade fostered economic growth. Exports grew at a high pace fuelled by strengthening economic performance in Western Europe and the take-off of global economic growth. Domestic demand on the other hand was still faltering. Consumption fell mainly as a result of high unemployment caused by the economic crisis and falling lending activity towards households, although real wages grew largely as a consequence of changes in the tax system. The investing activity of enterprises was still subdued because of constrained financing possibilities and weak domestic demand.



Source: HCSO

Inflation was high in the first half of 2010 mainly as a result of the VAT and excise duties hike back in the middle of 2009. Globally increasing energy and food prices pushed inflation upwards, whilst ailing domestic demand decreased the inflationary pressure. Inflation dropped from 6.4% in January 2010 to 3.7% in August 2010 as the effect of the tax changes implemented in mid-2009 phased out. The inflation rate increased afterwards reaching 4.7% in December pushed upwards by the depreciation of the HUF and growing food and energy prices. In 2010 the yearly average inflation was 4.9%. Core inflation – excluding food and energy prices – dropped significantly in the middle of 2010 and fluctuated in the range of 1-2% during the second half of the year.



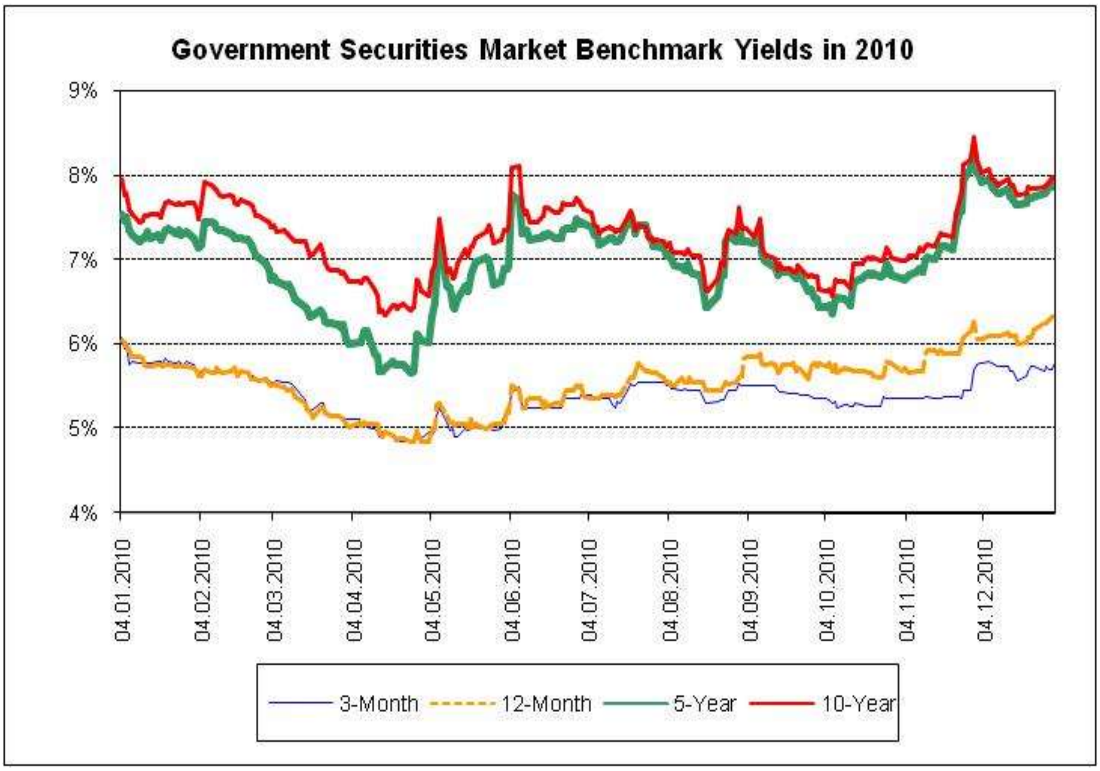
Source: NBH

The Hungarian currency appreciated slightly from 270 HUF/EUR to the vicinity of 260 HUF/EUR during the first quarter of 2010. The improvement of the global investor sentiment played the most important role in the appreciation. In the spring of 2010 the central bank lowered the central bank base rate by a total of 100 basis points from 6.25% to 5.25%. During the second quarter of 2010 the exchange rate of the forint depreciated to 285 HUF/EUR mainly as a result of the escalation of the Greek debt crisis and fear of contagion in the capital markets. The expectations of capital market participants were also influenced by local political uncertainties regarding fiscal policy. During this period the central bank kept the central bank base rate unchanged.
In the last quarter of the year the forint appreciated, which was backed by the Government's commitment to the 3% deficit target for 2011. During this period the forint fluctuated in the vicinity of 275Ft/EUR level. In the last two months of 2010 the central bank increased the central bank base rate in two steps by 50 basis points to 5.75% referring to upside risks in inflation.

The cash-flow based deficit of the central government (excluding local governments) reached HUF 872 billion in 2010, amounting to 3.2% of GDP according to data compiled by the Hungarian State Treasury. The introduction of crisis taxes levied on certain sectors and the rechanneling of private pension funds flows to the state pension system were also aimed at reducing the government deficit. The accrual-based deficit of the general government (including local governments) according to ESA'95 methodology reached HUF 1153 billion in 2010, amounting to 4.3% of GDP. The financing need of the state for the year 2010 declined slightly compared to the previous year.[1]

The savings of residents increased substantially in 2010. The net savings to GDP ratio of households grew from 3.4% in 2009 to 4.6% in 2010. At the same time the net financing capacity of the corporate sector reached 1.7% of GDP as a result of falling investment activity, slightly below the 2.0% financing capacity to GDP ratio in 2009. The Hungarian economy as a whole showed a net financing capacity in the amount of 1.9% of GDP versus the rest of the world. The current account balance reached a surplus of EUR 2.0 billion in 2010 equalling 2.1% of GDP.

[1] The components of the net financing need are described in detail in Section III.

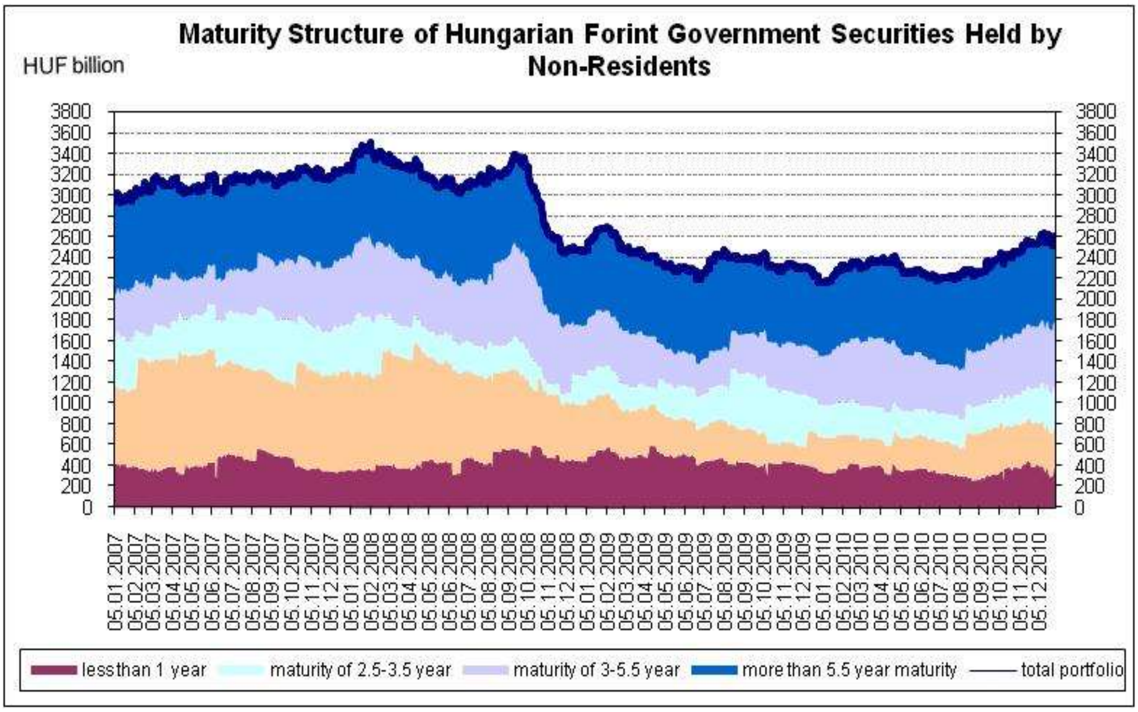


Source: ÁKK

Government securities yields in the secondary market fell significantly in the first months of 2010. Short-term yields decreased below 5% and yields on the longest – 10-year and 15-year – tenors also diminished to the level of 6.5%. After May 2010 yields increased again. The most important factors behind this were identical to the driving force behind the depreciation of the forint: the escalation of the Greek debt crisis and the fear of financial contagion. Investors' uncertainties regarding local fiscal policy also pushed yields upwards. During the course of the year the beginning of the monetary tightening cycle and the pricing-in of further monetary tightening elevated the short-term yields. Long-term yields grew to the vicinity of 7.0% and 7.5% by the middle of the year as a consequence of increasing uncertainties regarding mid-term fiscal policy and growing short-term yields. In autumn 2010 long-term yields decreased after the Government committed itself to the 3.0% deficit-to-GDP ratio for 2011. By the end of the year long-term yields elevated to around 8.0% mainly as a result of worsening global investor sentiment to a large extent caused by the increasing perceived risks regarding the sustainability of EU periphery states' public debt dynamics.

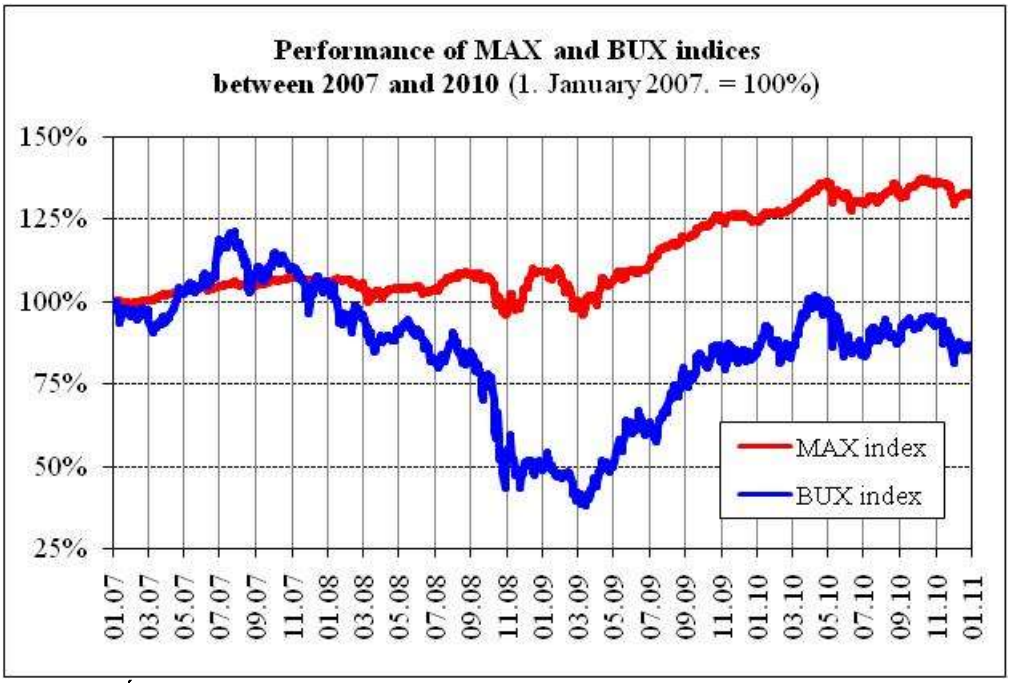
Source: Bloomberg

5-year CDS spread diminished from 238 bps to 167 bps in the spring of 2010, backed by most market participants' expectations that the new government will conduct a strict fiscal policy after the general elections. However, the spread grew to the range around 350 bps after the Parliamentary elections as a result of worsening external economic environment and investors' heightened uncertainties regarding local fiscal policy. After the Government's commitment to the 3.0% deficit target the spread fell sharply to 258 bps. 5-year CDS spread increased to 378 bps by the end of the year amidst worsening international investor environment.



Source: KELER

The stock of government securities held by non-residents was relatively stable in H1 2010 and grew dynamically in the second half of the year onwards reaching HUF 2,533 billion by the end of the year, which meant an increase of HUF 377 billion during the course of the year. The share of forint-denominated government securities held by non-residents increased from 21% to 24%.



Source: ÁKK, Bloomberg

BUX, the main index of the Budapest Stock Exchange (BSE) increased rapidly above 25,000 points in the first quarter of 2010. By the middle of the year the index returned to the 21,000 points level seen at the beginning of the year and in the second half fluctuated around that level. Over the whole year the BUX index increased slightly by 0.5%.

II. DEBT MANAGEMENT STRATEGY IN 2010

ÁKK plans and performs its financing transactions in accordance with the Debt Management Strategy approved each year by the Minister responsible for Public Finances, the Minister for National Economy.

ÁKK's main objective is to finance the central government at the lowest costs in the long run, taking account of risks. Taking the economic policy as a framework, the strategy must focus on the best possible achievement of this objective.

In the trade-off between costs and risks, the aim is to develop a debt structure with the most favourable long-term cost-risk characteristics. The emphasis is on the long term: no transaction may be done to achieve lower costs in the short term at the expense of higher costs or greater risks in the future.

The most important risk factors are as follows:

- *Refinancing risk* consists of the risk of renewing maturing debt and the risk associated with meeting net financing requirements. In extreme cases, refinancing risk may become liquidity risk, but in general it is only interest rate risk.
- *Interest rate risk* relates to fluctuations in the yields and interest rates of government debt.
- *Liquidity risk* is the result of fluctuations in the cash-flows of the central government and the capital market operations of debt management.
- *Foreign exchange rate risk* arises out of fluctuations of the exchange rates of the forint versus the euro, as well as other foreign currencies.
- *Credit risk (counterparty risk)* is an important risk factor in the case of hedging transactions concluded directly with partners in the international capital markets and of repo operations in the domestic money market.

ÁKK has developed various benchmarks reflecting its strategic objectives based on an optimal portfolio model which consider risks and costs simultaneously. In order to filter out short-term effects, these benchmarks are monitored as 90-day moving averages. The benchmarks approved by the Minister for National Economy are also used to quantify strategic objectives and to set intermediate targets. During the course of 2010 the composition of the central government debt conformed to the benchmarks.

Public debt management benchmarks

Benchmarks	Tolerance band	End 2009	End 2010
1. Foreign currency debt ratio*	25-38% FX	33%	32.2%
2. Foreign currency debt composition	95-105% EUR	99.1%	99.8%
3. Fixed coupon part of foreign currency debt	62.7-67.7%	65.4%	65.7%
4. Fixed coupon part of domestic debt	61-83%	68%	70.2%
5. Duration of domestic debt	2-3 years	2.5	2.65

* Net foreign currency debt excluding IMF/European Commission loan

The 6th strategic benchmark is to maintain a secure level of funds on the Single Treasury Account (STA). For a detailed description of the characteristics of liquidity management in 2010, see Chapter VI.

STRATEGIC PRINCIPLES

ÁKK executes its financing policy governed by the three main principles of simplicity, transparency and liquidity. In the interest of simplicity and transparency, ÁKK only issues a limited number of plain vanilla instruments in a transparent manner that conforms to market practice, i.e. it sells fixed coupon forint bonds and zero-coupon discount treasury bills according to a fixed annual issuance calendar announced in advance.

As regards liquidity, ÁKK aims to ensure that government securities have a sufficiently liquid secondary market. A liquid secondary market can be supported by the debt manager by two ways. First measure is the continuous two-way price quotation by Primary dealers that reflects real market prices; the second is the building-up sufficiently large volumes of government securities series (benchmarks). In order to achieve this latter goal, ÁKK reopens individual series – i.e. it issues additional bonds that are fully fungible with previously issued series. The targeted volume of bond series was around HUF 500-800 billion (approximately EUR 2-3 billion) in 2010, with greater volumes targeted for securities with a longer tenor (5 or 10 years). Secondary market operations were also enhanced by the more active bond buy-back and bond exchange transactions of ÁKK in 2010.

III. THE FINANCING REQUIREMENTS IN 2010

THE COMPONENTS OF THE FINANCING REQUIREMENT

The most important part of the net financing requirement is the deficit of the central government. The balance of the central government consists of the balances of three subsystems of government administration: the central budget, social security funds and extra-budgetary funds[2]. ÁKK is responsible for financing the central government and maintaining its continuous liquidity, while local authorities – the fourth major subsystem of the public sector – manage their own budgets, financing and debt management.

The total annual net financing requirement financed by ÁKK is the sum of the central government deficit and other, extra-budgetary transfers (privatisation revenues, transfers from the EU, special transfers to the NBH etc.). The gross financing requirement, in addition, also includes debt redemptions, the majority of which is contributed by short-term debt, which may be renewed several times a year. During recent years, cash-flow based financing requirements were as follows:

Borrowing requirements

	2007	2008	2009	2010
Balance of the Central government budget	-1394,4	-864,7	-739,9	-837,8
Balance of the Social Security funds	35,6	-73,4	-151,0	-95,6
Balance of the extrabudgetary funds	63,0	28,0	-30,4	61,6
Central government total balance	**-1295,8**	**-910,0**	**-921,3**	**-871,9**
Capital transfers to NBH	-20,6	-2,8	0,0	0,0
Privatisation revenues and other capital transfers	67,3	3,1	1,1	30,1
Net EU transfers	217,8	29,2	35,7	-125,1
Total net financing requirements	**-1031,3**	**-880,5**	**-884,5**	**-966,9**
Short term debt redemptions	-4424,9	-4669,5	-4406,6	-4402,9
Long term debt redemptions	-1817,5	-1280,4	-2349,4	-1752,7
Gross financing requirements	**-7273,7**	**-6830,4**	**-7640,5**	**-7122,6**

Source: Hungarian State Treasury, ÁKK

THE NET FINANCING REQUIREMENT

In 2010 the total cash-flow based deficit of the central government was HUF 872 billion (or 3.2 per cent of GDP according to preliminary data), while the total net financing requirement amounted to HUF 967 billion (or 3.6 per cent of GDP). Both central government deficit and total net financing requirements were basically equal to the originally indicated amount.

[2] The definitions of the government sub-systems and the tasks of ÁKK are stipulated in Act no. XXXVIII of 1992 on Public finances, as amended several times. Certain relevant provisions are quoted in Part 4 of the Appendix of this publication.

Borrowing requirements in 2010			
	Plan December 2009 (HUF billion)	Fact (HUF billion)	Change Fact/Plan (per cent)
Balance of the Central government budget	-836	-837,8	100,2%
Balance of the Social Security funds	-69	-95,6	138,6%
Balance of the extrabudgetary funds	35	61,6	175,9%
Central government total balance	**-870**	**-871,9**	**100,2%**
Capital transfers to NBH	0	0,0	
Privatisation revenues and other capital transfers	0	30,1	0,0%
Net EU transfers	-111	-125,1	112,7%
Total net financing requirements	**-982**	**-966,9**	**98,5%**
Short term debt redemptions	-4142	-4402,9	106,3%
Long term debt redemptions	-1552	-1752,7	112,9%
Gross financing requirements	**-6676**	**-7122,6**	**106,7%**

Source: Hungarian State Treasury, ÁKK

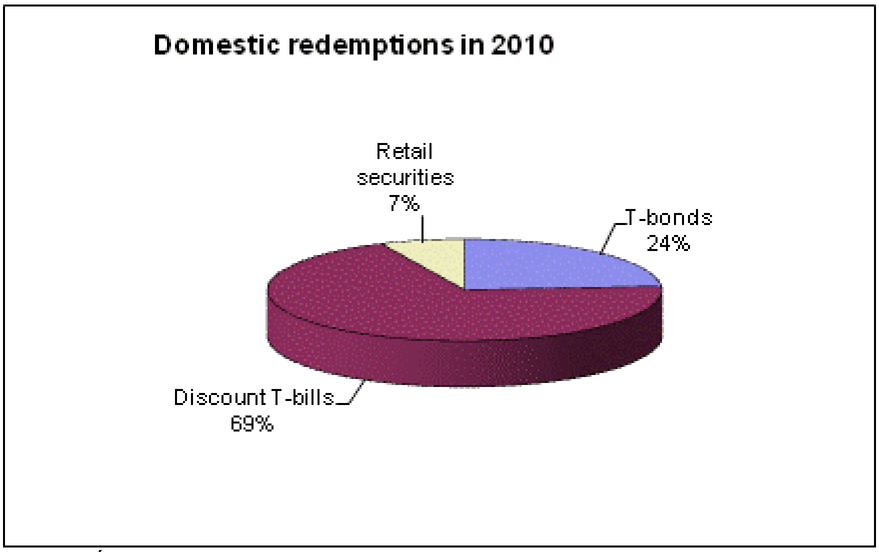
REDEMPTIONS

Redemptions in any given year are largely the function of debt financing operations in previous periods, and by the sale of short-term instruments renewed within the year. Prepayments, buy-backs of bonds and the early repurchasing/redemption of retail securities and other securities in the Treasury network may also influence the final sum.

Government debt redemptions			
			HUF billion
	2009	*2010 Plan*	*2010 Fact*
Domestic debt	**6 444,6**	**5 328,0**	**5 786,7**
T-bonds	2 041,0	1 186,0	1 383,3
Discount T-bills	3 900,4	3 683,0	4 001,7
Retail securities	503,3	459,0	401,7
Loans	0,0	0,0	0,0
Foreign currency debt	**311,4**	**366,0**	**369,0**
T-bonds	276,5	329,0	331,6
Loans	34,9	37,0	37,3
Total redemptions	**6 756,0**	**5 694,0**	**6 155,6**

Source: ÁKK

Within the HUF debt portfolio, discount treasury bills contributed to 69 per cent of the total forint redemptions of HUF 6,156 billion, due to their renewals within the year. The higher-than-planned redemption of discount treasury bills was the result of their increased use in liquidity management. The redemption of bonds increased as a result of the more active bond buy-back and bond exchange programmes to reduce refinancing risk. Foreign currency redemptions only changed due to the movement of exchange rates.



Source: ÁKK

BOND BUY-BACKS

A large series of bonds maturing at a given time creates refinancing risk. This risk can be reduced by repurchasing a proportion of the bonds before maturity. ÁKK's normal financing plan therefore includes a regular bi-weekly bond buy-back program, the actual outcome of which depends on the quantity and quality of bids from Primary dealers. In 2010 ÁKK bought back a total of HUF 257 billion bonds before their maturity on 17 occasions, a lower amount compared to the operations in 2009 when ÁKK bought back bonds of HUF 647 billion on 26 occasions, but that included a special market stabilisation buy-back program. 40 per cent of the repurchased bonds had an original maturity after 2010, i.e. these buy-backs also helped to smooth maturities from one year to another and to reduce the volume of outstanding bonds maturing in 2011. A new instrument to improve refinancing has been the bond exchange auction. After the first such operation in 2009 ÁKK exchanged HUF 131 billion short-term bonds to long-term ones during 8 occasions in 2010.

IV FINANCING

The issuance of government securities and the drawdowns of loans were planned and implemented in accordance with the approved debt management strategy and benchmarks. However, debt management activities were significantly influenced by the current macroeconomic environment and the situation in the government securities market – in particular the effects of the international financial market crisis. In 2010 the HUF denominated gross issuance (excluding repo transactions) amounted to HUF 6,263 billion, while foreign currency gross issuance was HUF 406 billion. The domestic issuance exceeded the original plan mainly because of higher bond issuance reflecting strong demand from investors, while foreign currency issuance was as planned.

Gross issuance			
			HUF billion
	2009	*2010 Plan*	*2010 Fact*
Domestic debt	**5 675,0**	**5 859,0**	**6 262,9**
T-bonds	1 020,1	1 356,0	1 798,6
Discount T-bills	4 065,8	3 836,0	3 971,6
Retail securities	370,3	452,0	390,6
Loans	218,8	215,0	102,1
Foreign currency debt	**1 997,5**	**403,0**	**406,0**
T-bonds	267,93	403,0	387,3
Loans	3,57	0,0	18,7
IMF/EC Loans	1 725,97	0,0	0,0
Total	**7 672,4**	**6 262,0**	**6 668,9**

Source: ÁKK

Net HUF denominated financing totalled HUF 476 billion, while net foreign currency financing amounted to HUF 37 billion, i.e. the total net issuance in 2010 was HUF 513 billion (excluding repo transactions).

Net issuance			
	2009	**2010 Plan**	**2010 Fact**
Domestic debt	**-769,7**	**531,0**	**476,2**
T-bonds	-1 020,9	170,0	415,3
Discount T-bills	165,4	153,0	-30,1
Retail securities	-133,0	-7,0	-11,0
Loans (including assumptions)	218,8	215,0	102,1
Foreign currency debt	**1 686,1**	**37,0**	**37,1**
T-bonds	-8,5	74,0	55,7
Loans	-31,3	-37,0	-18,6
IMF/EC Loans	1 726,0	0,0	0,0
Total	**916,4**	**568,0**	**513,3**

Source: ÁKK

Within the HUF issuance, the role of long-term debt (bonds) increased in line with favourable investors' demand. The volume of discount Treasury bills decreased by HUF 30 billion as a reaction to the good liquidity position, and net issuance of retail securities also declined by 11 billion in 2010. HUF loans from the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB) provided a smaller than planned net financing of HUF 102 billion. All in all the structure of financing improved (lengthened) in comparison with the original plan.

In 2010 the net foreign currency financing was close to zero, the capital market issuance and project loan financing basically financed maturing foreign currency debt.

DOMESTIC FINANCING

GOVERNMENT BONDS

A flexible bond issuance calendar had been introduced in 2009 and this was used in 2010 as well. Bond auctions were held every two weeks, but the tenors were not set in advance, but announced a week before, after consultations with PDs. Three bond series were sold at each auction. This method provided more frequent primary buying opportunities for investors, in a way substituting the less liquid secondary market. Usually the 3, 5 and 10-year tenors were offered, but the 10-year bond was replaced quarterly with the 15-year fixed rate bond and the new 5-year floating rate bond. ÁKK also used more actively its right to modify the accepted amount as a reaction to bids (+/- 34 per cent or +/- 50 per cent if the announced amount was not more than HUF 10 billion). Another way to react to volatile market demand was the use of non-competitive tenders in the afternoon of the auctions when successful bidders at the auction could buy additionally up to 40 per cent of their winning bids at the average price of the auction.

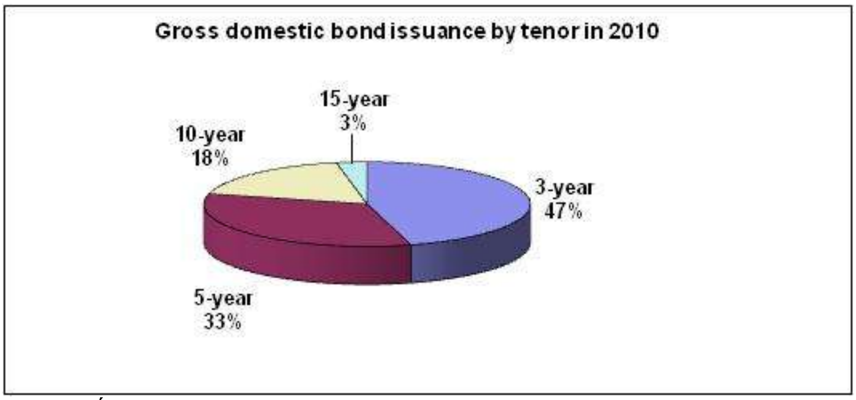
A total of HUF 1,657 billion of bonds were sold via auctions (including HUF 258 billion at non-competitive tenders). Total bond issuance – together with bond exchange auctions and the retail sales of the Hungarian State Treasury – was HUF 1,799 billion, which together with the total bond maturities of HUF 1,383 billion meant HUF 415 billion net issuance, a sum that substantially exceeded the planned HUF 170 billion.

Bond series issued in 2010 (HUF billion)

	Tenor	No of auctions	Auction sales	Non-competitive sales	Size (end of 2010)
2013/E	3-year	15	380	74	737
2014/C	3-year	11	255	48	783
2015/A	5-year	8	130	26	861
2015/B	5-year	5	34	8	41
2016/C	5-year	18	301	53	780
2019/A	10-year	9	95	10	628
2020/A	10-year	11	160	34	509
2023/A	15-year	4	45	5	283

Source: ÁKK

The target volumes of the bond series were between HUF 500 and 800 billion (EUR 2 to 3 billion) in line with the strategy, except for the 15-year bond, which was targeted to reach HUF 250 billion (EUR 1 billion). ÁKK adjusted accepted amounts according to auction demand, and the results show that the demand was higher for the 3 and 5-year bonds.



Source: ÁKK

HUF LOANS

The EIB and the CEB extended loans totalling HUF 102 billion for the financing of infrastructure developments in 2010, a sum well below original plans. Lower loan amounts were drawn-down in HUF partly because ÁKK later switched to taking these loans in EUR and also due to technical, legal difficulties, which were solved in 2011.

DISCOUNT TREASURY BILLS

The 3 and 12-month discount treasury bills are essentially short-term instruments for liquidity management that ÁKK uses for smoothening out the fluctuations in liquidity caused by the varying financing requirements over the year. In addition to liquidity management, the long-term outstanding stock of discount treasury bills contributes to long-term financing, and may also serve as an alternative source of financing. ÁKK also uses so-called liquidity discount treasury bills of even shorter tenor (usually 6 weeks).

In 2010 ÁKK sold discount treasury bills in a total of HUF 3,972 billion; slightly less than in 2009. ÁKK originally planned a net discount T-bill issuance of HUF 148 billion, however, as a reaction to higher bond sales and the better than expected liquidity position the T-bill stock actually decreased by HUF 30 billion over the year. Treasury bills played an important and increasing role of liquidity management, and higher T-bond sales allowed a less significant role for T-bills in financing, which helped to improve the duration characteristics of the domestic debt.

RETAIL SECURITIES

One of the strategic objectives of ÁKK is to maintain a retail government securities programme, constituting a third financing channel beside the local and the international wholesale markets. In 2010, due to the fierce competition of banks for retail savings, the stock of retail government securities declined, but its pace slowed down significantly in comparison with the previous year. ÁKK sold HUF 86 billion in Interest Bearing Treasury Bills, HUF 202 billion in Treasury Savings Bills and HUF 103 billion in the new inflation-linked "Premium Government Bond". Due to the high net maturities of the bills and the almost offsetting net sales of bonds, the total retail debt stock declined by HUF 11 billion over the year, but its average term to maturity increased.

FOREIGN CURRENCY FINANCING

ÁKK issued one single foreign currency bond in January 2010 in the international capital markets on behalf of the Republic of Hungary, which provided the whole planned issuance of foreign currency debt for the year.

Foreign currency bond of the Republic of Hungary issued in 2010

Currency	*Amounts*	*Date of issuance*	*Date of maturity*	*Tenor (years)*	*Coupon*
USD	2 000 000 000	2010.01.29	2020.01.29	10	6,25%

Source: ÁKK

In 2010 the government drew HUF 18.7 billion (EUR 70 million) in project financing foreign currency loans from international financial organisations. The loans drawn from the EIB and the CEB were used to finance projects in infrastructure development and integration assistance.

There was no new drawdown from the IMF/EC credit facility and the programme ended in 2010. Since a large part of the draw-downs from the IMF/EC credit facility was not needed in 2009, ÁKK could use HUF 328 billion of these funds to complement market financing in 2010 to cover all net financing requirement. ÁKK also placed HUF 974 billion (EUR 3.6 billion) from previously drawn but unused funds as free deposits at the NBH or on-lent them to Hungarian banks. The unused part of the IMF/EC loan placed at the NBH provides an extra safety cushion for financing in the coming years.

V. THE GOVERNMENT DEBT IN 2010

In 2010 the central government debt, including repo operations, increased by HUF 1,076 billion (or by 5.7 per cent) to HUF 20,041 billion from end-2009. The rise of the debt stock besides deficit financing was due to the depreciation of the HUF in case of the foreign currency debt and the increase of marked-to-market deposits.

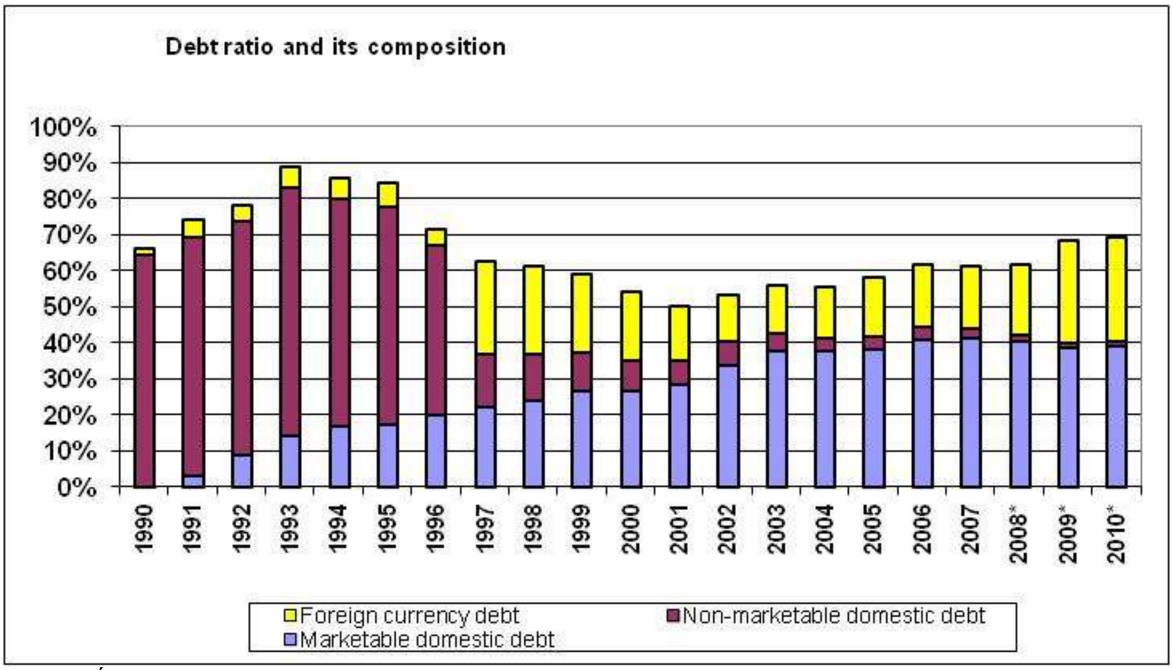
Debt of the central government

HUF billion

	2009		2010		Change
Domestic debt	**10 476,2**	**55,2%**	**10 978,2**	**54,8%**	**502,0**
Loans	438,7	2,3%	540,8	2,7%	102,1
T-bonds	7 943,6	41,9%	8 383,6	41,8%	440,0
Discount T-bills	1 647,3	8,7%	1 618,2	8,1%	-29,1
Retail securities	446,6	2,4%	435,7	2,2%	-11,0
Foreign currency debt	**8 468,5**	**44,7%**	**8 842,8**	**44,1%**	**374,3**
Loans	4 114,5	21,7%	4 292,8	21,4%	178,2
T-bonds	4 354,0	23,0%	4 550,0	22,7%	196,0
Total debt	**18 944,8**	**99,9%**	**19 821,0**	**98,9%**	**876,3**
Other obligations	**20,1**	**0,1%**	**220,0**	**1,1%**	**199,9**
Grand total	**18 964,9**	**100,0%**	**20 041,0**	**100,0%**	**1 076,2**
Deposits at NBH and loans to banks from the IMF/EC loan	1 124,8		974,1		-150,7
Net central government debt	**17 840,1**		**19 066,9**		**1 226,9**

Source: ÁKK

The actual economic burden of government debt is expressed by the debt/GDP ratio (debt ratio), an indicator that peaked at 88.7 per cent in 1993, after the economic decline following the end of the centrally planned economy. From the mid 1990s the debt ratio decreased rapidly – thanks to the stabilisation of economic policy – until 2001, when it began to grow again. According to preliminary data, the debt/GDP ratio grew from 72.7 per cent at the end of 2009 to 73.9 per cent at the end of 2010. However, the net debt to GDP ratio (excluding the HUF 974 billion foreign currency deposits and on-lent loans) was 70.3 per cent, 3.6% less (see chart).



Source: ÁKK

* The figures for 2008-10 do not include the amounts drawn from the international loan package that were not used for financing but were deposited or placed in foreign currency with the NBH and commercial banks.

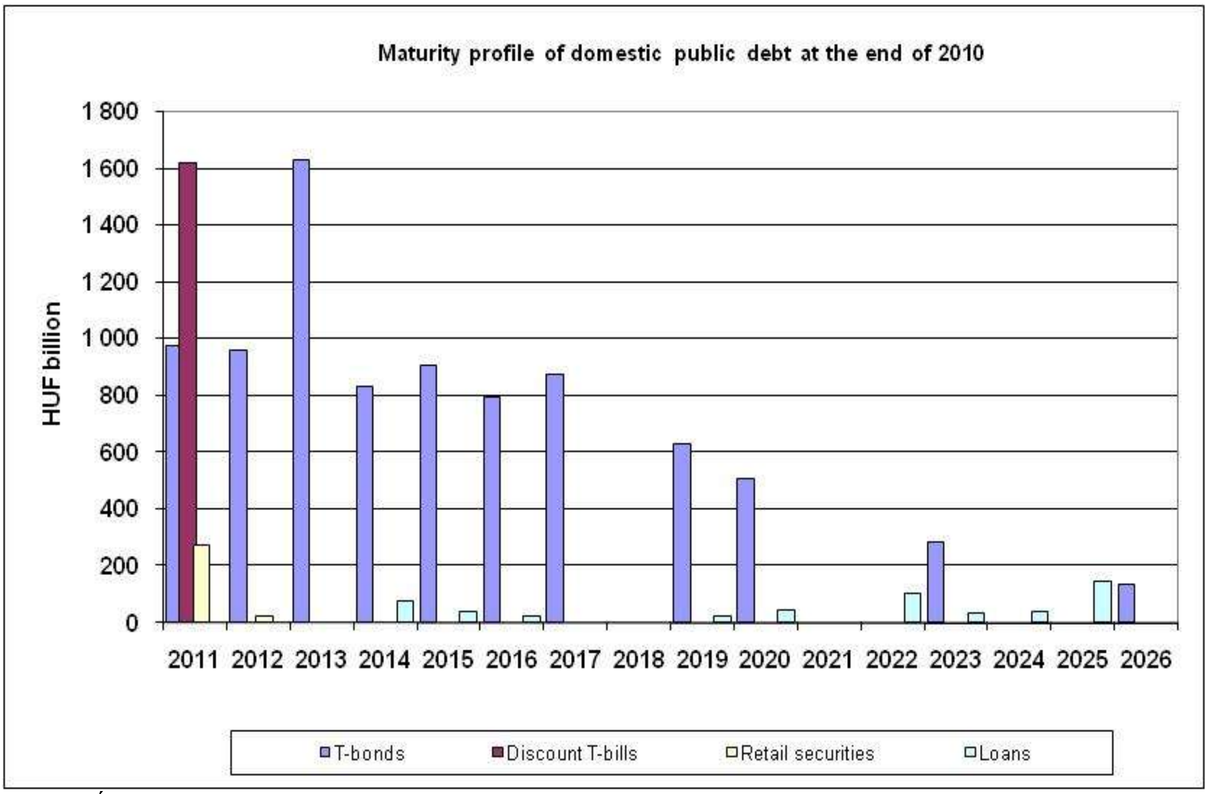
CHARACTERISTICS OF THE HUF DEBT PORTFOLIO

During 2010 the HUF-denominated debt – 55 per cent of all debt – increased by HUF 502 billion (4.8 per cent) to HUF 10,978 billion. At the end of 2010 42 per cent of the entire debt was in long-term HUF government bonds. The total domestic bond portfolio of HUF 8,384 billion consisted of 26 bond series, so the average size of a series was HUF 322 billion (EUR 1.2 billion) – while in 2009 the same figure was only HUF 266 billion. Eight series had volumes in excess of HUF 500 billion (ca. EUR 2 billion). ÁKK increased the average size of bond series by re-opening off-the-run bonds in the auction programme.

There were eighteen series of discount treasury bills in the market at the end of 2010, with an average volume of HUF 90 billion. Out of these six series had a volume in excess of HUF 100 billion, their average volume being HUF 186 billion. The total portfolio of retail government securities was worth HUF 436 billion at the end of the year, which corresponded to 4 per cent of the total debt.

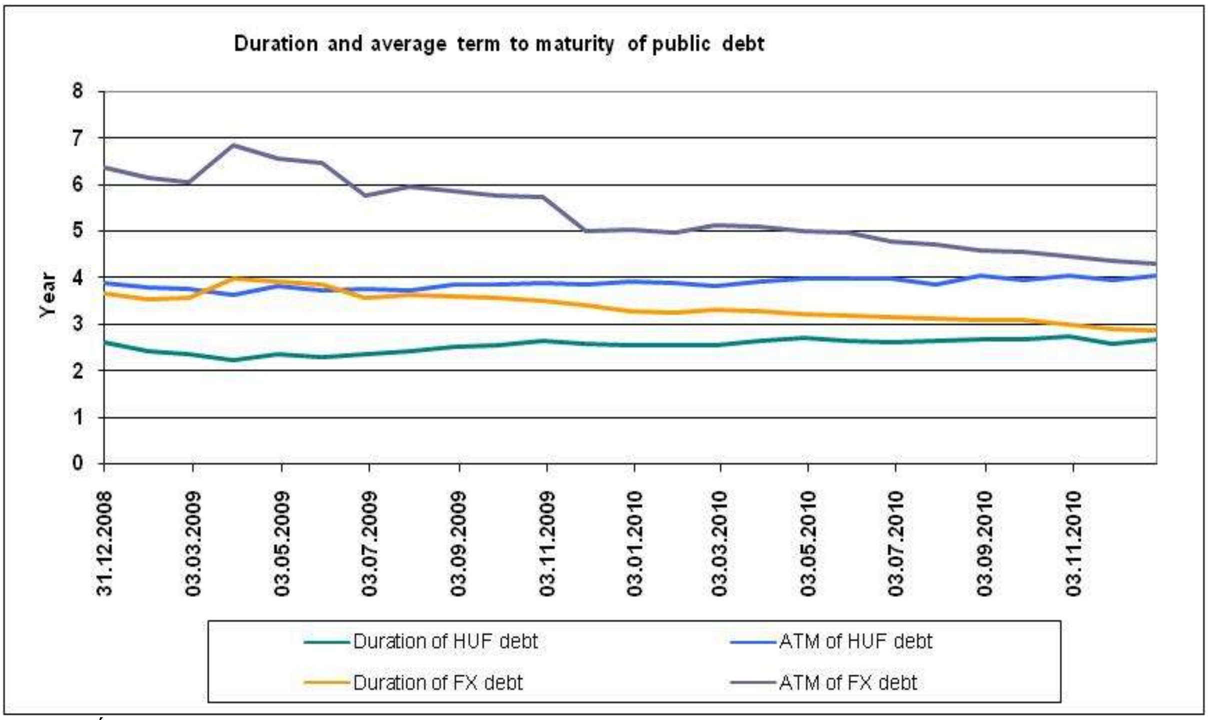
The non-marketable component of the HUF bond portfolio continued to decrease in amount and proportion in 2010 as well, as there are no new issuances of such government bonds and the existing portfolio matures continuously. The end-of-year volume of non-marketable government bonds was HUF 418 billion, which was only 4 per cent of the total HUF denominated debt. The volume of loans denominated in Hungarian forint increased substantially in 2010 after having doubled in volume in 2009; the HUF 541 billion was 5 per cent of total HUF debt.

As a result of the increased bond issuance and bond buy-back and exchange auction programmes, the maturity profile of the bond portfolio became more balanced. Medium term maturities until 2017 are relatively even (except 2013 which ÁKK wants to manage in several ways).



Source: ÁKK

The duration of the HUF denominated debt portfolio increased from 2.5 years to 2.65 years in 2010, which exceeded the benchmark value, but was inside the target range. The average term-to-maturity also increased from 3.9 to 4 years.

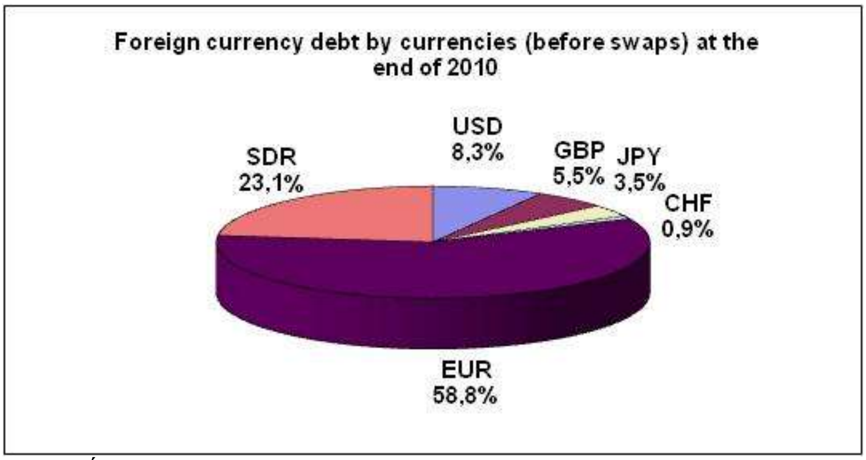


Source: ÁKK

CHARACTERISTICS OF THE FOREIGN CURRENCY DEBT PORTFOLIO

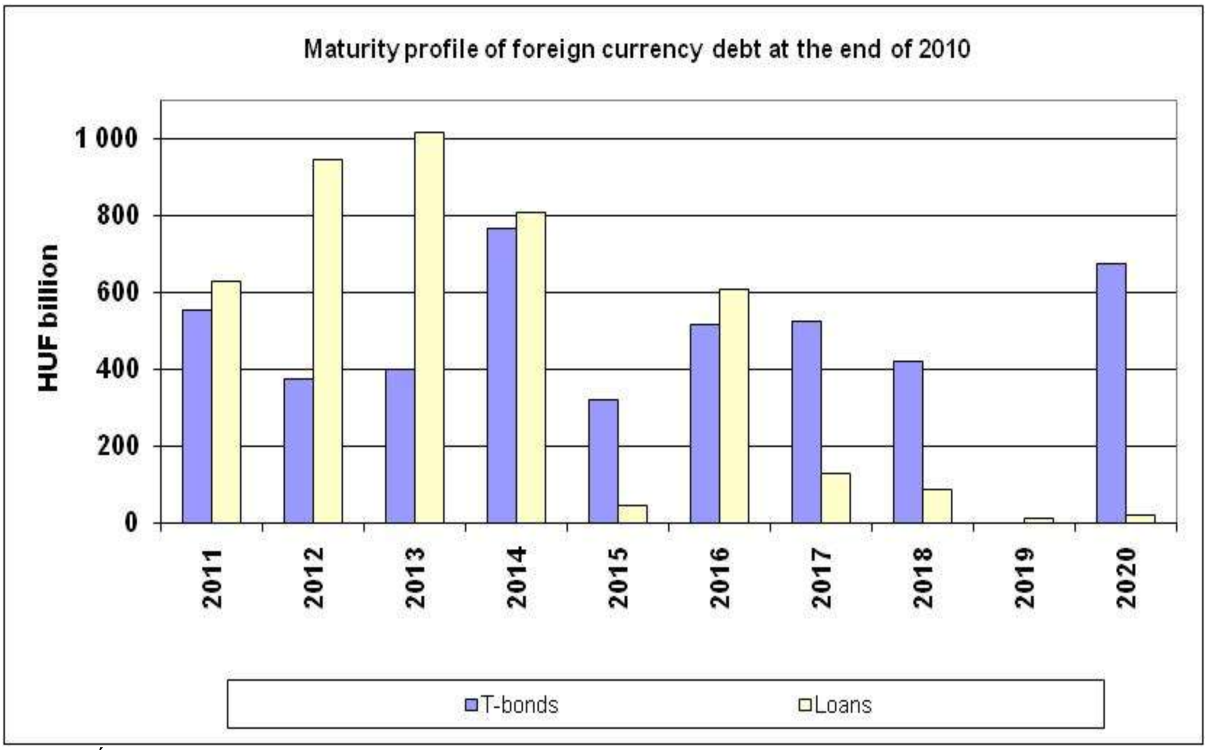
The gross foreign currency government debt increased by HUF 374 billion in 2010, reaching HUF 8,843 billion (EUR 32 billion) by the end of the year. Accordingly, within the gross government debt, the share of foreign currency debt (excluding marked-to-market deposits) was 45 per cent (41 per cent in net terms, taking into account the IMF/EC deposits) at the end of 2010. The increase in the foreign currency debt was largely due the depreciation of the HUF, which increased the HUF value of the foreign currency debt by HUF 337 billion. Net issuance had only a minor effect on the value of the foreign currency debt.

The volume of outstanding foreign currency bonds (taking swaps into account) reached HUF 4,550 billion by the end of the year, a slight increase over the previous year's figure of HUF 4,354 billion. On 31 December 2010 there were twenty-one series outstanding of the Republic's foreign currency bonds, 11 of which were issued in euro, two in US dollar, two in Swiss franc, three in Pound sterling and three in Japanese yen. In accordance with the strategy and benchmarks, all non-euro bonds have been converted into euro liabilities through swap transactions.



Source ÁKK

The foreign currency loan portfolio of HUF 4,293 billion (EUR 15 billion) consisted of long-term project financing loans from international financing institutions (e.g. EIB and CEB loans), and the IMF/EC loans and made up 48.5 per cent of the total foreign currency debt.



Source: ÁKK

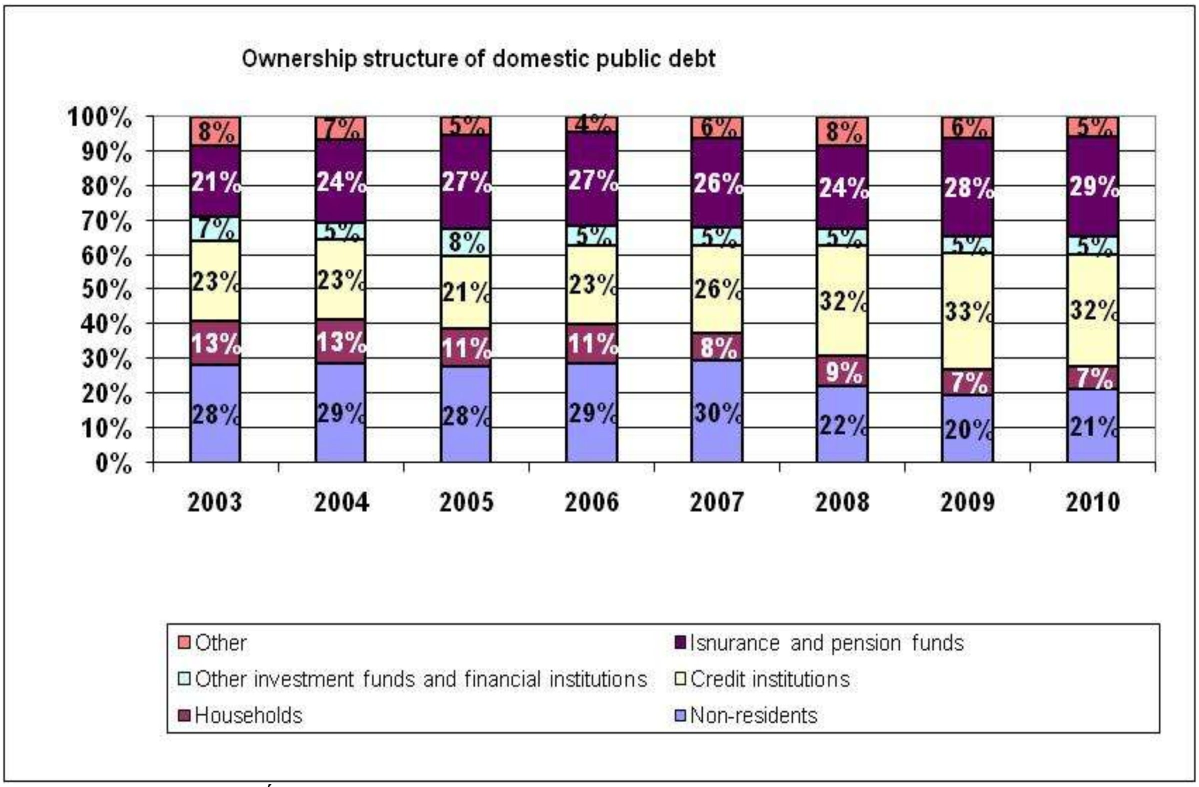
ÁKK uses swap operations not only to set the foreign currency mix, but also to optimise the interest rate composition of the foreign currency debt. As a result, at the end of 2010 65.7 per cent of foreign currency liabilities had fixed interest rate and 34.3 per cent had floating interest rate; this complied with the benchmark. By the end of the year the average remaining term-to-maturity of the foreign currency portfolio decreased by 0.7 years to 4.3 years, while its duration declined by 0.4 years to 2.9 years. The decline is the result of the further shortening tenor of the IMF/EC loan facility.

OTHER OBLIGATIONS

In order to reduce counterparty risk associated with the swap transactions concluded by ÁKK, the swap counterparties place collateral covering the net value of their swap positions (these are the so-called marked-to-market deposits). The Republic of Hungary has bilateral mark-to-market agreements supplementing the ISDA Master Agreement. Such deposits placed with ÁKK are non-financing funds and they are shown as part of the government debt along with other obligations. As of 31 December 2010 marked-to-market deposits placed with ÁKK totalled HUF 220 billion (EUR 800 million), which was HUF 200 billion higher than in 2009. Volatile cross exchange rate movements resulted in such an increase of deposits placed at ÁKK by foreign counterparties.

THE OWNERSHIP STRUCTURE OF GOVERNMENT DEBT

According to statistics published by the National Bank of Hungary, the ownership structure of domestic government securities changed little in 2010. The two most important investor groups – credit institutions /money market funds and pension funds / insurance companies – hardly changed their portfolios, and remained the most important investors of Hungarian government securities. The reduction of non-resident investors' share stopped and foreigners started to buy domestic bonds in Q4 2010. After a decline in the previous year, retail investors maintained their share from the domestic public debt.



Source: NBH, KELER, ÁKK

Banks, insurance companies and pension funds had been the most stable investor sectors for years, and they still owned more than 60 per cent of government securities at the end of 2010. Non-residents investors also play an important role in the domestic market, and they increased their portfolio by HUF 377 billion to HUF 2,533 billion in 2010. Their portfolio maturity remained over the average; duration of their holdings increased to 3.7 years, while the average remaining term-to-maturity thereof increased to 4.7 years in 2010.

VI. LIQUIDITY MANAGEMENT

Under the Public Finances Act, liquidity management of the central government is also the task of ÁKK.[3] The goal of ÁKK's is to maintain sufficient balance (financing reserve, optimal level) on the Single Treasury Account (STA) and also to smoothen the actual balance around the optimal level with liquidity management operations. ÁKK set the target range of the Single Treasury Account at +/- HUF 50 billion around the optimal balance. However, ÁKK only invests temporary excess liquid funds on the STA if the banking system has sufficient demand for that, and in lack of sufficient demand ÁKK leaves the extra cash on its account. In 2010 ÁKK used the following instruments to manage the STA's end-of-day balance:

- repo and reverse repo transactions with government securities;
- the issuance of liquidity discount treasury bills, usually with a 6-week tenor;
- regular bond buy-backs;
- active adjustment of the volume of discount treasury bills at auctions;
- temporary use of loan facilities and FX deposits.

Sales of liquidity discount treasury bills took place relatively evenly throughout the year: ÁKK sold HUF 430 billion on 8 occasions in 2010 (down from HUF 565 billion in 2009). In addition to providing extra liquidity, liquidity discount treasury bills also reduced fluctuations in the STA balance.

Liquidity repo transactions are ÁKK's main tool for fine-tuning the end-of-day balance of the Single Treasury Account. In 2010 the use of repo transactions increased significantly to a total of HUF 11,351 billion concluded on 227 business days up from HUF 9,523 billion a year before. Liquidity management was effective, since the 60% original relative variance of the daily STA balance was reduced to 23% by liquidity T-bill and repo operations.

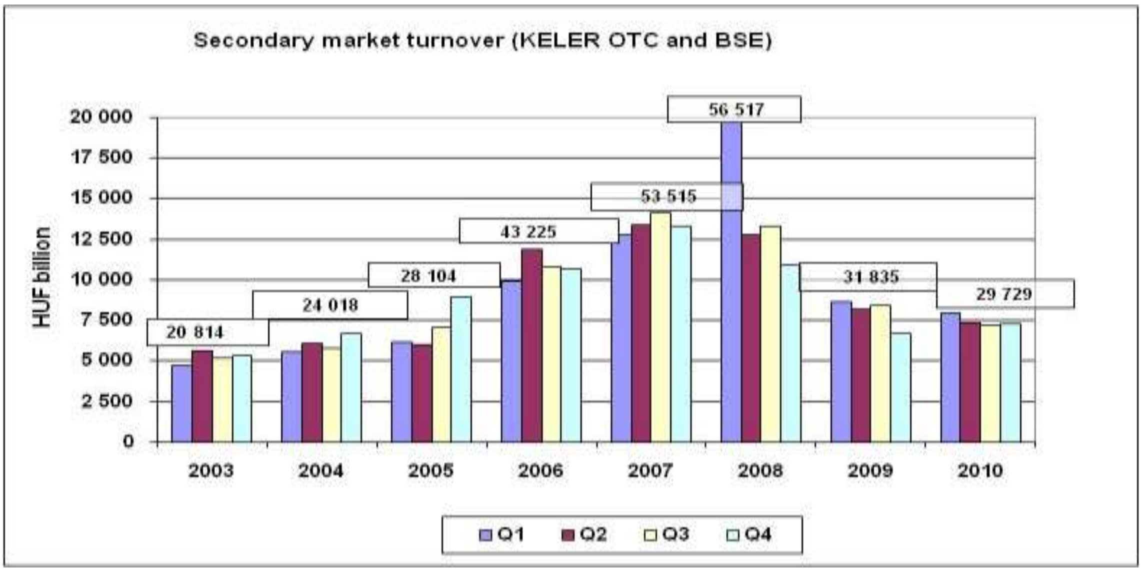
ÁKK concludes repo transactions not only for liquidity management purposes. The objective of the so-called stand-by repo transactions is to support the price quotation of primary dealers and to promote trading in government securities. If a primary dealer needs temporary access to a quoted government security, but it is unable to obtain it in the market, that dealer may turn to ÁKK to provide the required security in a one-week repo transaction. In 2010 ÁKK increased the limits of this facility to support the secondary market.

[3] Article 113/A, paragraph (1), section b)

VII. THE SECONDARY MARKET OF HUNGARIAN GOVERNMENT SECURITIES

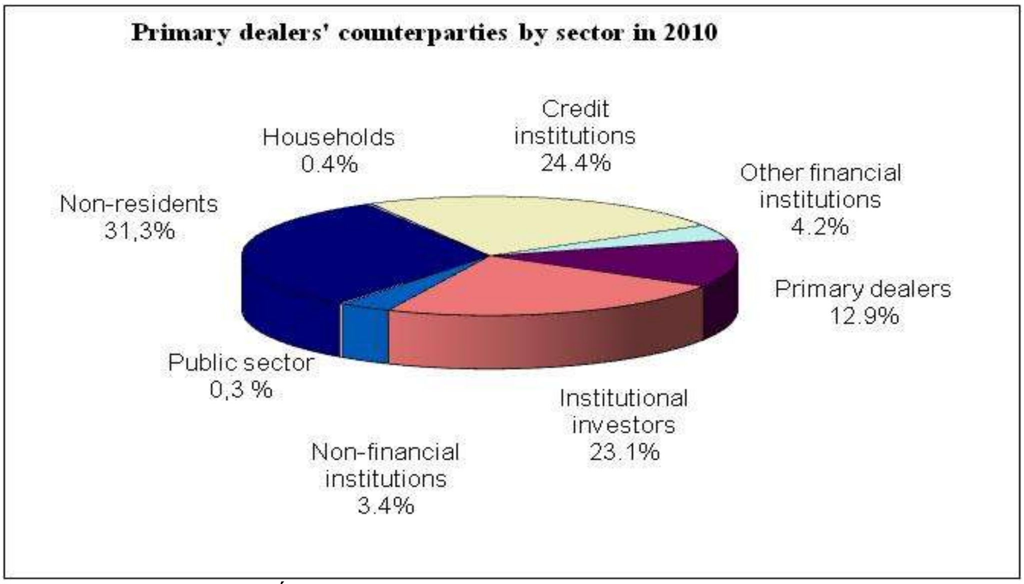
TRADING DATA

Primary dealers trade in the Budapest Stock Exchange's electronic trading system (MMTS) and also directly in the over-the-counter (OTC) market. As in previous years, the vast majority of secondary trading in government securities took place in the OTC market in 2010 as well. According to data from the Central Clearing House and Depository (Budapest) Ltd. (KELER), the total volume of OTC trading in government securities was HUF 29,729 billion in 2010 (about 3 times the size of the total marketable debt outstanding), out of which 85 per cent was in government bonds and 15 per cent in discount treasury bills. After the rapid decline in 2008-9, 2010 saw a stabilisation of secondary market trade. In 2010 government securities trading on the Budapest Stock Exchange (BSE) amounted to HUF 221 billion.



Source: KELER, BSE

The average size of deals with primary dealers (excluding retail transactions) was HUF 582 million, similar to the HUF 557 million a year before. Over the year, the 5-year 2015/A government bond had the largest turnover (HUF 3,980 billion), followed by the 3-year 2013/E and 10-year 2019/A bonds. The most active Primary Dealer and the winner of the title 'Primary Dealer of the Year' for 2010 was ING Bank N.V.



Source: Primary dealers, ÁKK

VIII. THE INSTITUTIONAL FRAMEWORK FOR THE ISSUANCE OF GOVERNMENT SECURITIES

ÁKK sells government securities through intermediaries. In the domestic market, 89 per cent of HUF-denominated government securities were sold through the primary dealers in 2010, the rest through retail channels.

THE PRIMARY DEALER SYSTEM

The primary dealer system for government securities was set up in 1996 in order to establish a more secure institutional base for the financing of government debt, to reduce the costs of debt management and to improve the transparency and liquidity of the secondary market in government securities.
Since May 2004, any investment firm or bank registered in any European Union or an OECD Member State may become a primary dealer in Hungarian government securities if it meets the contractual requirements and signs a primary dealer contract with ÁKK. Along with a number of obligations in the primary and secondary market, the primary dealer status also guarantees exclusive rights.

PRIMARY DEALERS AT THE END OF 2010:

BNP Paribas SA
CIB Bank Zrt.
Citibank Europe Plc.
Deutsche Bank Zrt.
Erste Bank Befektetési Magyarország Zrt.
ING Bank N.V.
Kereskedelmi és Hitelbank Zrt.
MKB Bank Zrt.
Magyar Takarékszövetkezeti Bank Zrt.
Nomura International Plc
OTP Nyrt.
Raiffeisen Bank Zrt.
The Royal Bank of Scotland Plc
UniCredit Bank Hungary Zrt.

Only primary dealers may:

1. directly submit bids at government bond and discount treasury bill auctions and submit offers at bond buy-back auctions and exchange auctions;[4]
2. directly submit non-competitive bids at auctions and submit bids at the non-competitive phase after bond auctions;
3. use the stand-by repo facility provided to primary dealers by ÁKK to support their secondary market trading and price quotation;
4. participate at the consultations organised by ÁKK;

[4] Other investors may submit bids at an auction indirectly, through a primary dealer.

5. use the title ‘primary dealer’.

In addition to their exclusive rights, primary dealers are also ÁKK’s main partners for international capital market transactions and liquidity management (repo) and other transactions. Primary dealers with broad distribution networks may also conclude a separate agreement with ÁKK for the trading of one of its retail government securities, the Interest Bearing Treasury Bills.

RETAIL DEBT PROGRAMMES

The State Treasury’s branch network provides direct access to government securities for retail investors. Managed by ÁKK, the 19 Treasury branch offices in Budapest and the county seats quote two way prices (with certain limitations) for retail investors for publicly issued bonds, Premium Government Bonds, discount treasury bills and Interest Bearing Treasury Bills. Since December 2008 government securities may also be purchased and sold through the Hungarian State Treasury’s internet-based securities service.

The Hungarian Post Office participates in the sale of two retail government securities. The 1 and 2-year tenor securities called Treasury Savings Bills are the only printed government securities, designed specifically for retail investors.

THE DEALERS OF INTERNATIONAL BOND ISSUES

Lead managers of international bond issuance are selected from primary dealers individually for each transaction.

IN 2010 THE LEAD MANAGERS OF USD GLOBAL BOND WERE AS FOLLOWS*:

Citigroup
Deutsche Bank

IX. THE INSTITUTIONAL FRAMEWORK AND THE OBJECTIVES OF GOVERNMENT DEBT MANAGEMENT

The government debt management is regulated by Act no. XXXVIII of 1992 on Public Finances (the Public Finances Act). Among other provisions, this law authorises the minister responsible for the public finances (the Minister for National Economy) to provide for the implementation of the budget, financing of the deficit, continuous solvency of the budget, the recording of the government's debt and repayment obligations, the repayment of debt and the management of any temporarily free state funds. Annual budget acts make this authorisation more specific by stipulating the annual financing requirement. According to the provisions of the Public Finances Act, the Minister of Finance performs these tasks through the Government Debt Management Agency Pte. Ltd. (ÁKK).[5]

Pursuant to an amendment of the Public Finances Act, the Government Debt Management Agency Pte. Ltd. was established on 1 March 2001 as the legal successor of a government agency that had performed the same tasks. The organisation, which operates as an independent corporate entity, is a single-member corporation limited by shares registered at the Court of Registration. Its shares may not be traded, the Hungarian State is their sole and permanent owner, and these ownership rights are exercised by the minister responsible for the public finances (the Minister for National Economy). The rules governing ÁKK's operations are stipulated partly by the Public Finances Act – which prescribed its establishment – and partly by general legislation on the operation of companies. Accordingly, the management's activities are controlled by the Board of Directors, while ÁKK's operation is under the supervision of a Supervisory Board and an auditor pursuant to the corporate status. In addition to these internal management and audit mechanisms, the debt management activity is regularly audited by the State Audit Office. The operation of ÁKK is linked to the Ministry for National Economy and the Hungarian State Treasury. The co-ordinated professional control of these organisations is implemented by the Minister for National Economy.

According to the decision-making mechanism in place, the government debt management strategy, the annual financing plan and the benchmarks are approved by the Board of Directors, followed by approval from the Minister for National Economy.

THE FOUNDATION AND THE ORGANISATIONAL STRUCTURE OF ÁKK

The Government Debt Management Agency was established in May 1995 as a budgetary institution under the supervision of the Ministry of Finance. In 1996 supervision of the agency was taken over by the Chairman of the Hungarian State Treasury. The amendment of the Public Finances Act that prescribed the foundation of ÁKK Ltd. allowed government debt management to be implemented through a more flexible organisation that was able to react better to market developments. The purpose of creating this separate institution was to implement the chosen strategy through a faster decision-making mechanism with clearly defined responsibilities and enhanced accountability. Within this system the Minister of Finance, from 2010 the Minister for National Economy makes annual decisions about any

[5] The most important provisions concerning the financing of the deficit and government debt management, effective as of December 2010, are provided in Section 4 of the Appendix.

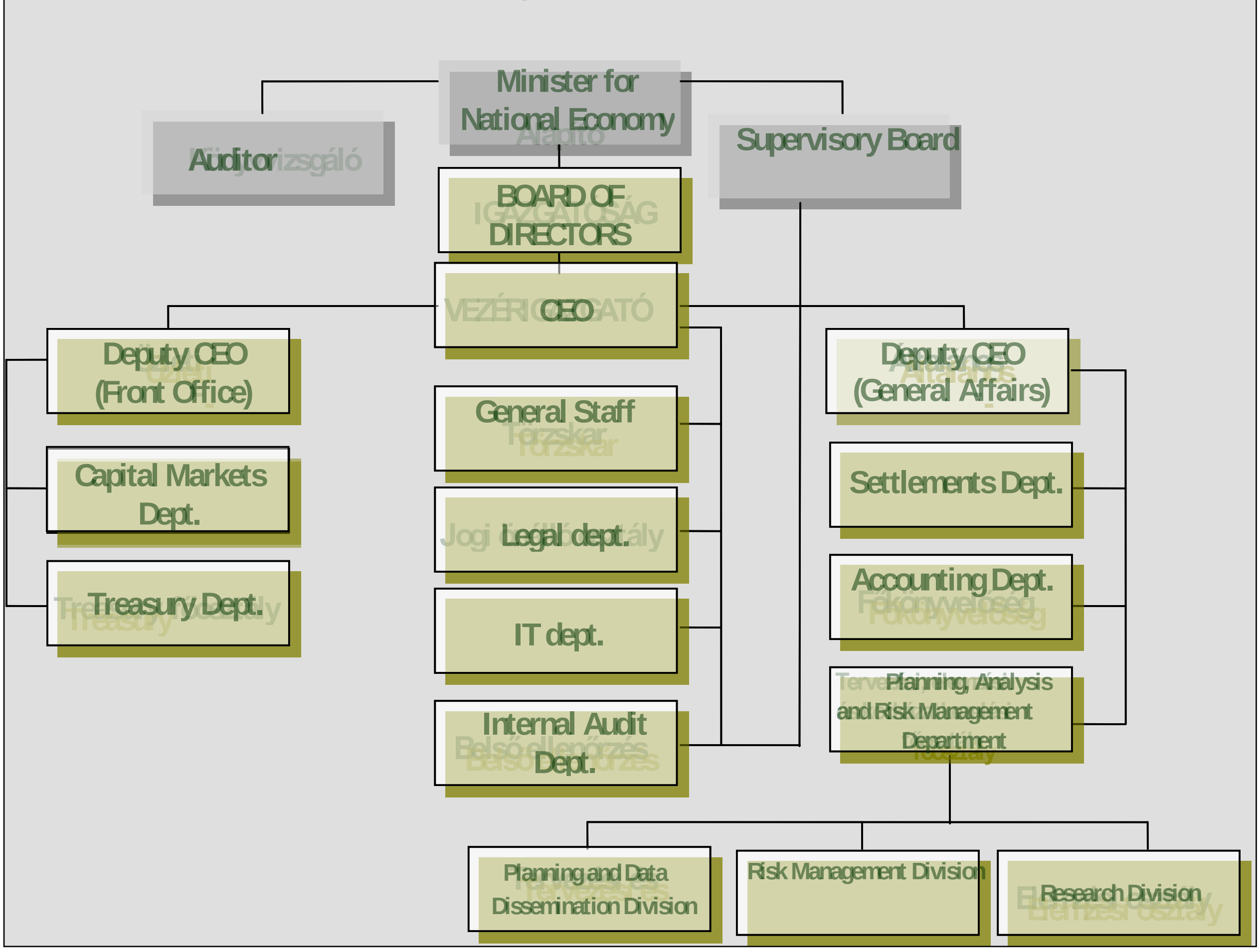
revisions to the strategy, the performance indicators for the following year, and the annual financing plan of the central budget. Within the framework defined by these provisions, up to predetermined limits, the Board of Directors and the management of ÁKK make all other decisions.

The organisational structure of ÁKK is similar to that of banks and investment companies. Market operations are conducted by the front office; deals are booked and settled by the back office; planning, risk management and the analysis of market and macroeconomic trends are tasks for the middle office, which is separated from the previous two.

THE RESPONSIBILITIES OF ÁKK

According to the provisions of Article 113/A of the Public Finances Act, the responsibilities of ÁKK include the following major tasks:

- developing a long-term financing strategy in line with economic policy, which determines the objectives of debt management and the means of their implementation;
- preparing the annual and medium-term financing plans and planning the annual interest expenditure based on the annual Budget Act and in line with the strategy;
- performing the required financing operations, i.e. organising and implementing both domestic and international government securities issuance and raising of loans;
- managing the temporarily free cash funds of the state (liquidity management);
- effecting debt redemptions and interest payments;
- organising and continuously developing the government securities market (the primary dealer system, sales channels, secondary market etc.);
- expressing its opinion on the financial terms and conditions of borrowings with a state guarantee; on request, organising transactions with individual guarantees (with a lesser role for guarantees prescribed by legislation).



The organisational structure of ÁKK

X. THE INFORMATION SERVICES OF ÁKK

ÁKK provides information to the general public about the central government debt and the developments in the government securities market. It fulfils these tasks using several media: its website, other electronic communications systems and its publications.

The website at www.akk.hu[6] provides a wide range of information for anyone interested in the government securities market or the government debt. Already the homepage shows the most important data, such as the latest news, the current volume of government debt, the latest auction results and daily market yields (benchmark fixings).

Other pages of the website provide information on ÁKK as a company, on the characteristics of government securities, a separate section covers retail securities and another offers a wide range of information on the trading of government securities.

The *'Government Securities'* menu provides access to the cash-flow tables of all government securities in the market, along with the latest public offerings. The *'Retail Securities'* menu provides information to small investors about retail government securities and the Treasury's security trading operation for retail investors. The *'Market Information'* menu contains the issuance calendar for the current year, the results of auctions and the most important secondary market information. The website provides databases as well, so historical data and time series of data can also be searched.

The *'Analyses, Statistics'* menu provides access to the publications of ÁKK in electronic (.pdf) format, along with an ample range of statistical data about, among others, government debt, the volumes of various types of instruments and securities trading statistics. The menu also contains the public analyses prepared by ÁKK.

A newsletter service is offered to registered users of the website free of charge. Subscribers receive newly uploaded data by e-mail or an e-mail notification about newly added contents.

In addition to its website, ÁKK publishes auction and secondary market price quotation data on the information pages of Bloomberg and Reuters.

ÁKK holds regular press conferences on annual financing, the ranking of primary dealers and on other special topics. The press conference materials can be found on ÁKK's website.

ÁKK also regularly informs interested readers in free publications. The following publications are available in hard copy or can be downloaded from the website:

- annual reports (released in the third quarter of the year following the actual year);
- Debt Management Outlook publications (from the beginning of the actual year);
- quarterly reports (from the second month after the actual quarter);
- desktop issuance calendar (from December of the year preceding the actual year).

Monthly reports are available in electronic format on the ÁKK website from the end of the month following the month in question.

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[6] The site is also available at www.gdma.hu

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APPENDIX

1. The central government gross debt as at 31.12.2010 (HUF million)

HUF denominated debt

Hungarian Government Bonds	Maturity	Coupon	Outstanding amount
2011/A	12.02.2011	7,50%	203 263,07
2011/B	12.10.2011	6,00%	316 561,23
2011/C	22.04.2011	6,75%	417 650,21
2012/A	31.12.2012	8,40%	2 852,86
2012/B	12.06.2012	7,25%	475 197,54
2012/C	24.10.2012	6,00%	436 829,64
2012/I	25.01.2012	Floating rate	39 796,30
2013/A	20.03.2013	Floating rate	76 666,97
2013/C	20.12.2013	Floating rate	127 928,00
2013/D	12.02.2013	6,75%	589 748,27
2013/E	24.10.2013	7,50%	737 135,90
2013/I	25.01.2013	Floating rate	73 385,81
2013/J	26.08.2013	Floating rate	19 219,19
2014/A	02.05.2014	Floating rate	29 576,06
2014/B	20.12.2014	Floating rate	16 612,00
2014/C	12.02.2014	5,50%	782 965,55
2015/A	12.02.2015	8,00%	861 122,16
2015/B	22.12.2015	Floating rate	41 297,90
2015/I	08.12.2015	Floating rate	2 697,49
2016/A	31.12.2016	Floating rate	20 040,00
2016/B	02.01.2016	Floating rate	9 000,00
2016/C	12.02.2016	5,50%	780 073,71
2017/A	24.11.2017	6,75%	203 975,23
2017/B	24.02.2017	6,75%	669 298,94
2019/A	24.06.2019	6,50%	628 449,62
2020/A	12.11.2020	7,50%	508 819,62
2023/A	24.11.2023	6,00%	282 668,18
2026/A	28.02.2026	Floating rate	51 165,00
2026/B	24.04.2026	Floating rate	80 000,00
2026/C	24.10.2026	Floating rate	3 975,04
Matured, but unclaimed government bonds			**289,04**
Total			**8 488 260,52**
Repos with government bonds (repos actually increase or decrease the total amount)			**30 401,00**
Discount Treasury Bills			**1 616 796,47**
Out of which matured, but unclaimed discount Treasury bills			**437,68**
Repos with discount Treasury bills (repos actually increase or decrease the total amount)			**1 392,09**
Interest Bearing Treasury Bills			**83 777,98**
Out of which matured, but unclaimed			**1 255,88**
Treasury Savings Bills (1-year)			**164 846,58**
Treasury Savings Bills (2-year)			**51 869,74**
HUF loans			**540 825,47**
Matured, but unclaimed other retail government securities			**55,57**
Total HUF debt			**10 978 225,41**

Foreign currency debt					Outstanding amount (HUF million)	Outstanding amount (EUR million)
Loans granted by International Financial Institutions*					4 000 860,02	15 060,04
of which: IMF and EC loans					3 364 726,07	12 376,30
Loans assumed from the market*					48 400,00	171,00

Government bonds

Code	Currency	Maturity date	Maturity (years)	Coupon	Outstanding amount (HUF million)	Outstanding amount (EUR million)
112	EUR	27.06.2011	10	5,625%	276 750,00	1000,00
113	EUR	06.02.2013	10	4,500%	273 453,75	981,00
115	EUR	29.01.2014	10	4,50%	277 244,75	994,60
116	GBP	06.05.2014	10	5,50%	169 865,00	580,04
118	EUR	26.10.2011	7	3,63%	230 629,27	992,39
120	USD	03.02.2015	10	4,75%	312 575,00	1122,78
121	EUR	24.02.2020	15	3,88%	276 750,00	1000,00
122	GBP	05.05.2017	12	5,000%	169 865,00	553,68
124	JPY	12.07.2012	7	0,90%	115 434,00	414,11
125	EUR	02.11.2012	7	3-month EURIBOR+0,05%	276 750,00	1000,00
126	EUR	18.07.2016	11	3,50%	276 750,00	1000,00
127	JPY	18.03.2013	7	1,07%	136 200,00	480,13
128	GBP	30.03.2016	10	5,00%	169 865,00	580,04
129	EUR	04.07.2017	10	4,38%	276 750,00	1000,00
130	JPY	28.10.2017	10,0	2,11%	64 130,00	230,00
131	CHF	21.05.2013	5	3,50%	33 402,00	119,83
132	CHF	20.05.2016	8	4,00%	41 530,00	150,77
133	EUR	11.02.2018	10	5,750%	416 125,00	1500,00
134	EUR	28.07.2014	5	6,75%	276 750,00	1000,00
135	USD	29.01.2020	10	6,25%	417 300,00	1487,04
Total					4 630 004,77	16 801,47
Out of which: cross-currency swaps					30 067,10	
Kingdom of Hungary 1924 bond issue					21,05	
Total foreign currency debt					8 682 270,78	
Total central government debt					18 021 004,10	
Other obligations of ÁKK (marked-to-market deposits placed at ÁKK)					220 014,31	
Grand total					[illegible]	

*With swaps

2. THE CREDIT RATING HISTORY OF THE LONG-TERM DEBT OF THE REPUBLIC OF HUNGARY

Foreign currency denominated debt			
Date of change	**Moody's**	**Standard and Poor's**	**Fitch Ratings**
20.04.1992	-	BB+	-
27.12.1993	Ba1	BB+	-
25.04.1996	Ba1	BB+	BBB-
28.10.1996	Ba1	BBB-	BBB-
19.12.1996	Baa3	BBB-	BBB-
24.06.1997	Baa3	BBB-	BBB
08.05.1998	Baa2	BBB-	BBB
11.12.1998	Baa2	BBB	BBB
25.06.1999	Baa1	BBB	BBB
29.10.1999	Baa1	BBB	BBB+
02.02.2000	Baa1	BBB+	BBB+
14.11.2000	A3	BBB+	BBB+
29.11.2000	A3	BBB+	A-
19.12.2000	A3	A-	A-
12.11.2002	A1	A-	A-
06.12.2005	A1	A-	BBB+
22.01.2006	A1	A-	BBB+
26.01.2006	A1	A-	BBB+
15.06.2006	A1	BBB+	BBB+
22.12.2006	A2	BBB+	BBB+
05.11.2007	A2	BBB+	BBB+
17.03.2008	A2	BBB+	BBB+
17.10.2008	A2	BBB+	BBB+
07.11.2008	A3	BBB+	BBB+
10.11.2008	A3	BBB+	BBB
17.11.2008	A3	BBB	BBB
02.03.2009	A3	BBB	BBB
30.03.2009	A3	BBB-	BBB
31.03.2009	Baa1	BBB-	BBB
02.10.2009	Baa1	BBB-	BBB
23.07.2010	Baa1	BBB-	BBB
06.12.2010	Baa3	BBB-	BBB
23.12.2010	Baa3	BBB-	BBB-

Moody's, Fitch Ratings and Standard and Poor's assigned a 'negative rating outlook to the long-term foreign currency debt of the Republic of Hungary at the end of 2010.

HUF denominated debt			
Date of change	Moody's	Standard and Poor's	Fitch Ratings
25.04.1996	-	-	BBB+
28.10.1996	-	A-	BBB+
24.06.1997	-	A-	A-
22.06.1998	A1	A-	A-
02.07.1998	A1	A-	A
11.12.1998	A1	A	A
29.11.2000	A1	A	A+
19.12.2000	A1	A+	A+
19.11.2002	A1	A	A+
12.01.2005	A1	A	A
27.05.2005	A1	A-	A
06.12.2005	A1	A-	A-
22.01.2006	A1	A-	A-
26.01.2006	A1	A-	A-
15.06.2006	A1	BBB+	A-
22.12.2006	A2	BBB+	A-
05.11.2007	A2	BBB+	A-
17.03.2008	A2	BBB+	A-
17.10.2008	A2	BBB+	A-
07.11.2008	A3	BBB+	A-
10.11.2008	A3	BBB+	BBB+
17.11.2008	A3	BBB	BBB+
02.03.2009	A3	BBB	BBB+
30.03.2009	A3	BBB-	BBB+
31.03.2009	Baa1	BBB-	BBB+
02.10.2009	Baa1	BBB-	BBB+
23.07.2010	Baa1	BBB-	BBB+
06.12.2010	Baa3	BBB-	BBB+
23.12.2010	Baa3	BBB-	BBB

Moody's, Fitch Ratings and Standard and Poor's assigned a 'negative rating outlook to the long-term foreign currency debt of the Republic of Hungary at the end of 2010.

3. THE ADDRESSES OF PRIMARY DEALERS

Primary dealer	**Address**
BNP Paribas SA	Budapest, H-1051 Roosevelt tér 7-8.
CIB Bank Zrt.	Budapest, H-1027 Medve utca 4-14.
Citibank Europe Plc., Hungarian Branch Office	Budapest, H-1054 Szabadság tér 7.
Deutsche Bank Zrt.	Budapest, H-1054 Hold u. 27.
ERSTE Befektetési Zrt.	Budapest, H-1138 Népfürdő u. 24-26.
ING Bank N.V.	Budapest, H-1068 Dózsa György út 84/b
Kereskedelmi és Hitelbank Zrt.	Budapest, H-1052 Vigadó tér 1.
MKB Bank Zrt.	Budapest, H-1056 Váci u. 38.
Magyar Takarékszövetkezeti Bank Zrt.	Budapest, H-1122 Pethényi köz 10.
Nomura International Plc	One Angel Lane, London EC4R 3AB
OTP Bank Nyrt.	Budapest, H-1876 Nádor u. 16.
Raiffeisen Bank Zrt.	Budapest, H-1054 Akadémia u. 6.
The Royal Bank of Scotland Plc	135 Bishopsgate, London EC2M 3UR
UniCredit Bank Hungary Zrt.	Budapest, H-1054 Szabadság tér 5-6

4. SELECTED PARTS OF LEGISLATION GOVERNING THE LEGAL STATUS OF ÁKK AND GOVERNMENT DEBT MANAGEMENT*

ACT NO. XXXVIII OF 1992 ON PUBLIC FINANCES

(...)

18/F.§ (1) The Government Debt Management Agency Ltd. (hereinafter: 'ÁKK') is a single shareholder company (limited by shares). The company's shares are registered and non-negotiable securities.

(2) The founder of ÁKK is the minister responsible for public finances.

(3) The establishment and operation of ÁKK – unless otherwise provided by the present Act – are governed by the Act No. CXLIV of 1997 on Business Associations.

(4) The shareholder's rights are exercised by the Minister responsible for public finances, with the difference that the shareholder is not entitled to absorb the rights of the Board of Directors.

(5) State officials as specified in the Act on the Status and Responsibilities of the Members of the Government and State Secretaries may hold positions on the Board of Directors and on the Supervisory Board of ÁKK.

(6) The scope of authority of the Supervisory Board of ÁKK does not include the report on the government debt management strategy, the associated performance indicators and financing plans.

18/G.§ (1) ÁKK manages its assets autonomously within the framework of the applicable laws and regulations, the decisions of the shareholder and the decisions of the Board of Directors.

(2) the revenues of ÁKK are:

a) The appropriation assigned for this purpose in relation to government debt management in the Annual Budget Act, which is to be placed at the disposal of the company in equal monthly instalments;

b) other revenues.

(3) *[Provision has been repealed]*

(4) The interests, costs, fees and other payments associated with government debt management are booked and paid by ÁKK to the charge of the current government debt chapter of the Annual Budget.

(5) ÁKK is the general legal successor of the Hungarian State Treasury Government Debt Management Agency as regards all rights and liabilities.

(6) ÁKK holds a bank account at the National Bank of Hungary (hereinafter: NBH) for its operations specified in paragraphs (1)-(3).

(7) ÁKK holds a securities custody account and a securities account at the Central Clearing House and Depository (Budapest) Ltd. (hereinafter: KELER) for its operations specified in Article 113/A of the Act on Public Finances.

(8) ÁKK may open a foreign currency account at the NBH or at credit institutions for its operations specified in Article 113/A of the Act on Public Finances.

(…)

* This translation of the selected legal provisions serves only information purposes and is not an official translation.

THE GOVERNMENT DEBT

110.§ (1) For the purposes of the application of the present Act, all liabilities based on credit relationships shall constitute debt.

(2) The central government debt is the sum of the debt of the central government budget, extra-budgetary funds and Social Security funds.

(3) The debt of local authorities is the total debt owed by local governments and local minority governments, which shall be consolidated so as to net the debts between various local authorities.

(4) The debt of the general government is the sum of the central government debt and the debt of local authorities.

(5) When calculating the debt of the general government and the central government debt, debt between the subsystems shall be netted through consolidation.

(6) The Maastricht debt indicator is the debt indicator to be reported in accordance with Council Regulation (EC) No 3605/93 of 22 November 1993 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community.

111.§ (1) The minister responsible for public finances is responsible for managing, executing and recording the liabilities arising from the central government debt.

(2) Extra-budgetary funds, Social Security funds and local governments are responsible for independently managing, executing and recording the liabilities arising from their debt.

112.§ The minister responsible for public finances shall publish the central government debt and the general government debt, including both individual data of the subsystems and consolidated figures, on a regular basis, but at least quarterly, as stipulated in government decree. Local authorities shall provide data to enable the minister responsible for public finances to perform this task in the manner, with the frequency and with the content stipulated in government decree.

113.§

113/A.§ (1) In the sphere of government debt management, the minister responsible for public finances, through ÁKK:

a) ensures the solvency of the central government budget on the basis of the annual Budget Act and by taking into account the forecast rendered in subsection p) of paragraph (1) of Article 18/B;

b) ensures that the central government debt and the temporarily free cash-funds of the state are properly managed;

c) records the central government debt.

(2) In executing the above duties, ÁKK:

a) prepares the annual and middle-term financial plan of the central government budget, works out the strategy of government debt financing;

b) organizes, within the limits of the annual Budget Act, the issuance of government securities, borrowing of loans and debt assumptions which constitute the central government debt;

c) provides for the payment of the liabilities of the central government debt;

d) organizes the secondary market of government securities;

e) executes dealing on own account on the secondary government securities market, concludes securities lending, repo and reverse repo transactions, concludes prompt, forward, hedge- and swap, and derivative transactions, and executes custodial and deposit management tasks;

f) analyses the developments of the debt services borne by the central government and of the government securities market;

g) participates in the calculation of the general government debt, informs about the developments regarding the central government debt and the general government debt and the developments of the government securities market in accordance with the Government Decree referred to in Section 112;

h) upon authorisation by a separate law may organize issuance of debt securities secured by government suretyship or government guarantee, or may fulfil advisory tasks related thereto;

i) opines the terms and conditions of loans and bonds secured by individual government suretyship or guarantee;

j) executes credit and deposit transactions;

k) participates in performing duties related to borrowing loans and credits, and issuance of debt securities secured by government suretyship or guarantee. ÁKK is remunerated by the central government budget for such participation. The rate of such remuneration is at most 0.025 per cent of the principal amount of the underlying transaction. The Government shall determine the detailed regulation of such duties and remuneration of ÁKK in a decree;

l) may participate in performing duties – advice related to business strategy also implied – related to borrowing loans and credits, or issuance of debt securities of business organization owned by the state through majority ownership, and is entitled for a remuneration to such extent as determined in paragraph k) from such business organization.

(3) ÁKK may create debt securities on the separated sub-accounts of the accounts specified in paragraph (6) of Article 18/G without outright issuance and underlying financial claims, which may become objects of transactions specified in subsection e) of paragraph (2).

(…)

5. THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT OF ÁKK

I. BALANCE SHEET

data in HUF thousand

	Assets	2009	2010
	A) Fixed assets	**62,305**	**59,017**
I	**Intangible assets**	**14,781**	**18,369**
II	**Tangible assets**	**39,113**	**26,409**
III	**Invested financial assets**	**8,411**	**14,239**
	B) Current assets	**438,219**	**439,426**
I	**Inventories**	**0**	**0**
II	**Receivables**	**1,573**	**3,496**
III	**Securities**	**0**	**0**
IV	**Cash and cash equivalents**	**436,646**	**435,930**
	C) Accrued and deferred assets	**12,743**	**13,344**
Assets in total		**513,267**	**511,787**

data in HUF thousand

	Liabilities	2009	2010
	D) Capital and reserves	**354,914**	**354,914**
I	**Subscribed capital**	**300,000**	**300,000**
IV	**Profit reserve**	**54,914**	**54,914**
VII	**Balance-sheet profit or loss**	**0**	**0**
	E) Provisions	**0**	**0**
	F) Liabilities	**114,627**	**113,897**
I	**Subordinated liabilities**	**0**	**0**
II	**Long-term liabilities**	**0**	**0**
III	**Short-term liabilities**	**114,627**	**113,897**
	G) Accrued and deferred liabilities	**43,726**	**42,976**
	Liabilities in total	**513,267**	**511,787**

Budapest, 31 March 2011

Gyula Pleschinger
CEO

II. PROFIT AND LOSS ACCOUNT

data in HUF thousand

	Liabilities	2009	2010
I	**Net sales revenue**	**947,735**	**927,674**
III	**Other revenue**	**1,236**	**2,150**
IV	**Material expenses**	**201,036**	**221,370**
V	**Personnel expenses**	**686,555**	**645,701**
VI	**Depreciation and amortisation**	**39,736**	**21,806**
VII	**Other expenses**	**3,466**	**5,342**
A	**OPERATING PROFIT OR LOSS**	**18,178**	**35,605**
B	**PROFIT OR LOSS FROM FINANCIAL TRANSACTIONS**	**34,085**	**24,162**
C	**PROFIT OR LOSS ON ORDINARY ACTIVITIES**	**52,263**	**59,767**
D	**EXTRAORDINARY PROFIT OR LOSS**	**-528**	**-65**
E	**PROFIT OR LOSS BEFORE TAXATION**	**51,735**	**59,702**
XII	**Tax payable**	**10,495**	**9,116**
F	**PROFIT OR LOSS AFTER TAXATION**	**41,240**	**50,586**
23	Approved dividends	41,240	50,586
G	**BALANCE-SHEET PROFIT OR LOSS**	**0**	**0**

Budapest, 31 March 2011

Gyula Pleschinger
CEO

6. SENIOR OFFICIALS OF ÁKK ON 31 DECEMBER OF 2010

Members of the Board of Directors:

Dr. András Miklós Kármán, chairman
Dr. György Naszvadi, member
Dr. Róza Nagy, member

Members of the Supervisory Board:

Helga Wiedermann, chairman
Norbert Csizmadia, member
Péter Benő Banai, member

The Company's auditor:

KPMG Hungária Kft.
Budapest, 1139 Váci út 99.

Responsible auditor:

Gábor Agócs Audit Director

NOTES