GOVERNMENT SECURITIES MARKET

QUARTERLY REPORT

FOURTH QUARTER 2004

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In the year 2004 the deficit of the central government amounted to HUF 1252 billion (1284 billion including the sum of dept assumptions). The prefinancing of cash transfers from the EU's EAGGF fund increased the total net borrowing requirement by HUF 13 billion, however, it was decreased by HUF 167 billion privatisation proceeds. The total net financing requirement was met by a total yearly net issuance of HUF 1183 billion (ca. EUR 4.8 billion, including repo transactions and loan assumptions), out of which net domestic issuance was HUF 600 billion (ca. EUR 2.4 billion) and net foreign exchange issuance totalled HUF 583 billion (ca. EUR 2.4 billion). (Without loan assumptions and repo activity total net issuance was HUF 1229 billion). Retail securities accounted for HUF 95 billion out of the net domestic issuance.

The budget deficit turned out to be better than expected, which made it possible to prepay certain debt elements in December and thus lower the volume of public debt at the end of the year. Domestic loans were prepaid in an amount of HUF 74 billion in December, HUF 28 billion of which affected the loans from the National Bank of Hungary (NBH), which were thus paid off entirely. Within the amount of foreign currency loan redemptions HUF 65 billion was due to prepayments at the end of 2004 of parts of the loan from the NBH with original maturity in 2005.

The average term-to-maturity of the Forint debt was 3.46 years, that of the foreign currency debt portfolio was 5.55 years at the end of 2004.

The fourth quarter of the year was characterised by continuously declining secondary market yields. The central bank cut its base rate three times by 50 bps each in the last quarter. These measures and the market's expectations regarding the rate-cuts were tracked closely by both short-term and long-term yields. By the end of the year, yields of up to 1-year maturity fell by 196-203 basis points, while long-term yields decreased by 132-187 bps compared to the end of the 3rd quarter. The 1-year yield reached 8.62%, the 3-year yield 8.26%, while the 10-year benchmark yield was 7.05% at the end of 2004.

Quarterly OTC turnover of government securities increased in the 4th quarter compared to the previous one, it grew by 15% to HUF 6614 billion. Primary dealers, who account for the decisive part of all secondary government securities trading, made 41% 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 of HUF 2543 billion at the beginning of the 4th quarter, which was followed by a declining and stagnating tendency. In December the holdings of non-residents started to increase again and amounted to HUF 2509,9 billion at the end of the year. This volume represented 31.5% of the total amount of domestic government bonds and discount Treasury bills at the end of 2004.

The Republic of Hungary issued foreign currency bonds twice in the last quarter of 2004. A EUR 1 billion, fixed rate, 7-year eurobond was launched in October, the deal was lead managed by Dresdner Kleinwort Wasserstein and JP Morgan. The Republic also renewed its USD issuance programme and issued a relatively small, USD 100 million bond in December.

The Government Debt Management Agency Ltd. (ÁKK Rt.) held a press conference on 1 December 2004 on its 2005 financing projections and the new debt management benchmarks. The presentation can be found on the website of ÁKK Rt. (www.akk.hu).

The HUF/EUR mid exchange rate at the end of 2004 was 245.93

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

MACROECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	Sept. 2004 / Q3 (*)	Oct. 2004	Nov. 2004	Dec. 2004
GDP growth (YoY)	4,9	4.2	5.2	3.8	3.5	3.5	3,7 *			
Industrial production 1	12.5	10.4	18.1	3.6	2.8	5.9	6.7	8.4	7.9	
Unemployment rate (%)	7.8	7.0	6.4	5.7	5.9	5.9	6,1 *			6,3 *
Consumer price index (yearly change) 2	10.3	11.2	10.1	6.8	4.8	5.7	6.6	6.3	5.8	5.5
Consumer price index (yearly average)	14.2	10.0	9.8	9.2	5.3	4.7				
Consumer price index (monthly change)							0.1	0.1	0.1	0.0
Producer price index (yearly change) 2	8.0	7.1	12.4	-0.4	-1.3	6.2	3.3	3.5	2.1	1.6
Producer price index (yearly average)	12.2	5.0	11.6	5.2	-1.8	2.4				
Producer price index (monthly change)							0.3	0.3	0.2	-0.5
Net lending position of households (HUF Bn) 3	943.3	776.2	791.7	756.7	457.5	41.1	3,0 *			
Current account of balance of payments (EUR M) 4	-3,026.1	-3,531.4	-4,380.0	-3,612.5	-4,973.7	-6,575.5	-1728,9 *			
Net direct investments (EUR M) 5	2,742.9	2,871.7	2,334.0	3,992.2	2,889.0	562.0	1218,9 *			
Balance of the central government budget (HUF Bn) 6	-333.9	-337.2	-367.8	-402.9	-957,7 7	-727.9	-109.0	1.2	11.6	136.8
Central government gross debt (HUF Bn)	6,165.8	6,886.4	7,226.2	7,719.5	9,224.2	10,587.7	11,592.4	11,740.3	11,796.7	11,592.4
Central government gross debt (per cent of GDP)	61.1%	60.4%	54.9%	52.0%	55.1%	57.0%				
Net foreign debt (EUR M) 8	7,401.5	7,344.4	9,686.8	8,398.1	11,871.0	16,606.0				
Net foreign debt (per cent of GDP)	17.7%	16.3%	19.1%	14.5%	17.2%	22.7%				
HUF/USD mid exchange rate at the end of period	219.03	252.52	284.73	279.03	225.16	221.12	200.52	192.99	185.98	180.29
HUF/EUR mid exchange rate at the end of period	255.70	254.92	264.94	246.33	235.90	265.03	247.02	246.12	246.67	245.93

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

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

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

[3] Non-consolidated data

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

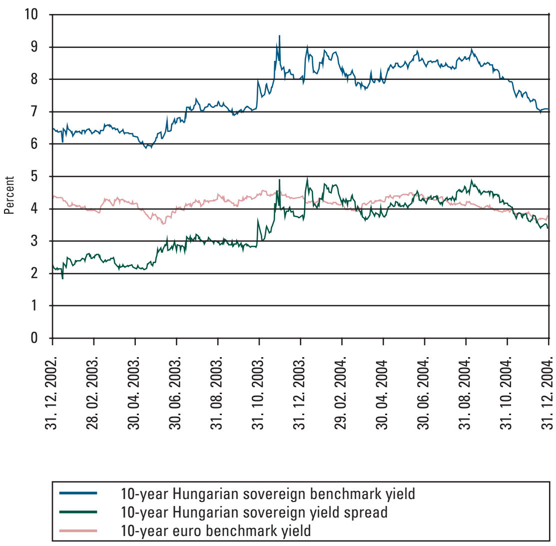
[5] Including intercompany loans

[6] Excluding privatisation proceeds

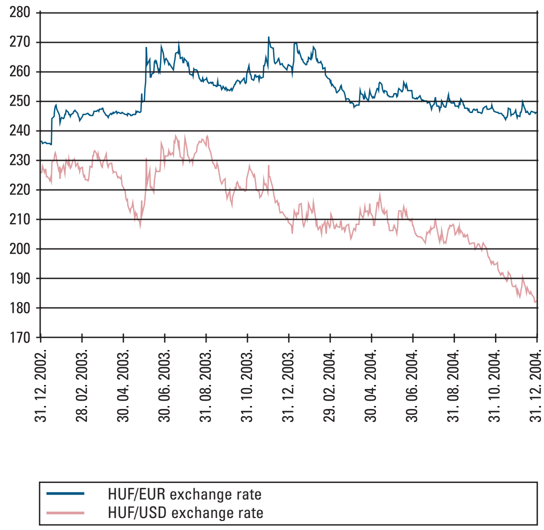
[7] Excluding debt assumptions and bond-transfers amounting to HUF 512.05 billion at the end of 2002

[8] Excluding intercompany loans

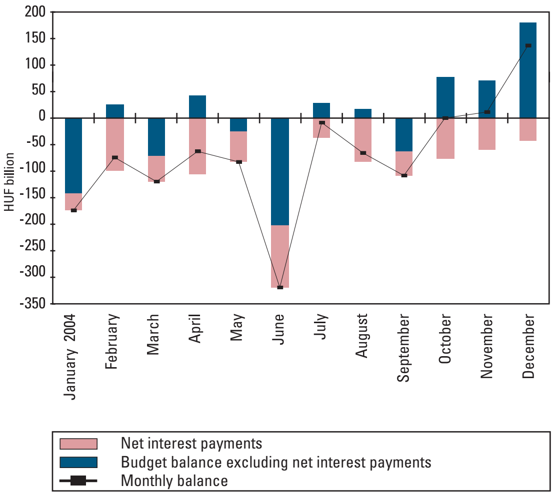
10-year Hungarian and eurozone benchmark yields



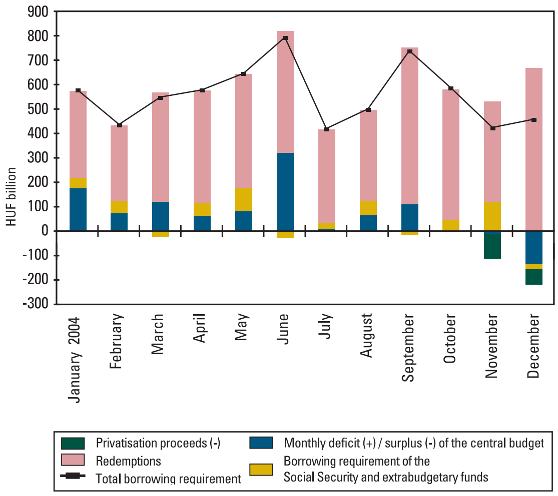
The exchange rate of the Hungarian Forint



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



Gross borrowing requirement



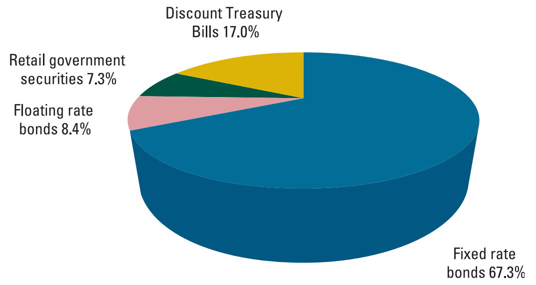
CENTRAL GOVERNMENT GROSS DEBT

HUF billion

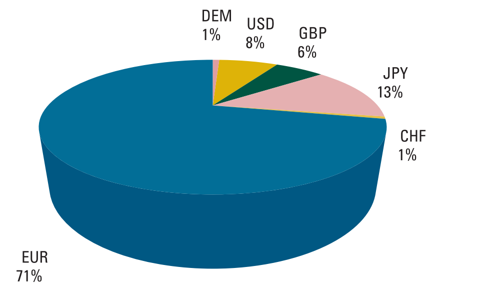
	1998	1999	2000	2001	2002	2003	March 2004	June 2004	Sept. 2004	Dec. 2004
1. Forint denominated debt	3,733.9	4,350.2	4,717.5	5,397.4	6,956.9	8,008.7	8,294.5	8,619.0	8,844.4	8,608.8
1.1. Loans	435.0	380.2	303.8	228.3	353.2	117.9	100.4	102.3	91.6	4.7
1.1.1. Foreign loans	0.0	0.0	0.0	0.0	1.7	1.4	1.4	1.4	1.4	1.1
1.1.2. Domestic loans	435.0	380.2	303.8	228.3	351.5	116.5	99.0	100.8	90.2	3.5
1.1.2.1. Raised from National Bank of Hungary (NBH)	434.9	362.4	289.5	217.4	144.0	71.2	55.2	46.1	37.0	0.0
1.1.2.2. Other loans	0.1	17.8	14.3	10.9	207.5	45.3	43.8	54.7	53.2	3.5
1.2. Government securities	3,299.0	3,970.0	4,413.6	5,169.1	6,603.7	7,890.8	8,194.1	8,516.7	8,752.7	8,604.2
1.2.1. Public issues	2,432.8	3,116.8	3,582.4	4,360.0	5,826.3	7,131.5	7,439.0	7,762.5	8,004.2	7,860.6
1.2.1.1. Bonds	1,386.5	1,790.8	2,221.2	2,782.0	3,829.2	5,056.5	5,225.6	5,360.7	5,657.2	5,768.9
1.2.1.2. Discount T-bills	689.9	826.7	837.9	1,033.3	1,436.8	1,541.4	1,617.3	1,795.0	1,718.6	1,463.3
1.2.1.3. Retail securities	356.5	499.3	523.3	544.7	560.3	533.5	596.0	606.7	628.5	628.4
1.2.2. Private placements	866.1	853.2	831.3	809.1	777.4	759.3	755.1	754.2	748.5	743.6
2. Foreign currency denominated debt*	2,431.9	2,536.2	2,508.8	2,322.1	2,267.3	2,579.0	2,691.4	2,922.3	2,748.0	2,983.5
2.1. Loans	2,367.8	1,929.6	1,772.8	1,410.4	1,394.3	1,084.1	1,023.5	1,066.5	937.7	916.8
2.1.1. Foreign loans	249.6	361.2	368.8	317.8	461.9	598.8	564.5	583.8	466.8	528.9
2.1.2. Domestic loans	2,118.2	1,568.4	1,404.0	1,092.6	932.3	485.3	459.0	482.7	470.9	387.8
2.1.2.1. Raised from National Bank of Hungary (NBH)	2,118.2	1,568.4	1,404.0	1,092.6	849.6	466.5	441.2	448.9	437.9	355.7
2.1.2.2. Other loans	0.0	0.0	0.0	0.0	82.8	18.8	17.8	33.9	33.0	32.2
2.2. Government securities	64.0	606.7	736.0	911.7	873.0	1,494.9	1,667.9	1,855.9	1,810.3	2,066.8
2.2.1. Issued abroad	44.4	587.1	715.7	911.7	873.0	1,494.9	1,667.9	1,855.9	1,810.3	2,066.8
2.2.1.1. Foreign currency bonds	43.8	586.8	715.4	911.5	872.9	1,494.7	1,667.8	1,855.8	1,810.2	2,066.7
2.2.1.2. Kingdom of Hungary 1924 issues	0.6	0.3	0.3	0.3	0.2	0.1	0.1	0.1	0.1	0.1
2.2.2 Issued domestically	19.6	19.6	20.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	6,165.8	6,886.4	7,226.2	7,719.5	9,224.2	10,587.7	10,985.9	11,541.3	11,592.4	11,592.4
Gross debt/GDP	61.1%	60.4%	54.9%	52.0%	55.1%	57.0%				

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

Composition of HUF government securities as at 31. 12. 2004

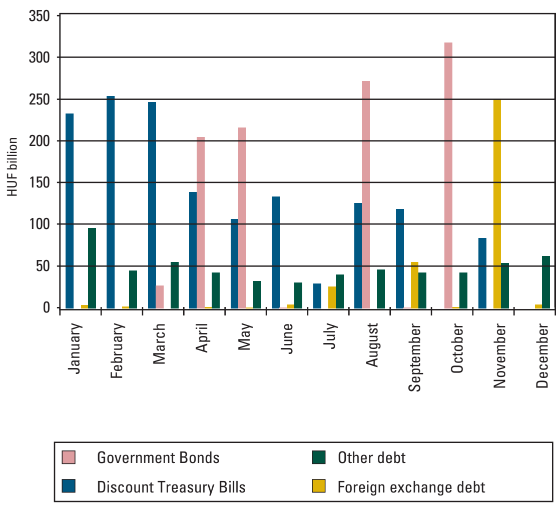


Currency composition of the foreign exchange debt portfolio as at 31. 12. 2004*

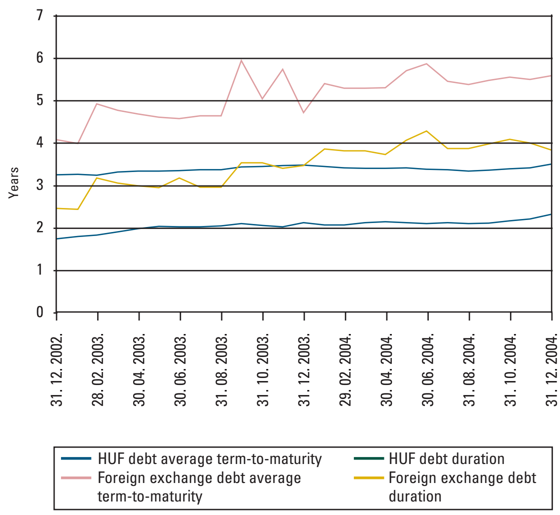


*** Composition before swaps. By using cross-currency swaps, 99.99% of the actual foreign exchange debt of the central government was due in euros.**

Maturity profile of the central government gross debt over the next 12 months, as at 31. 12. 2004



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

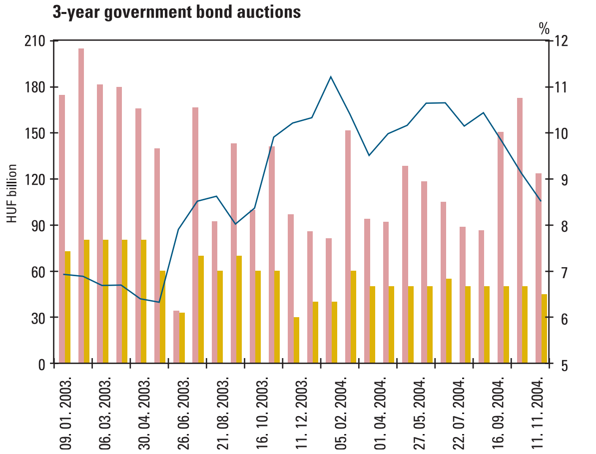


GOVERNMENT BOND AUCTION RESULTS

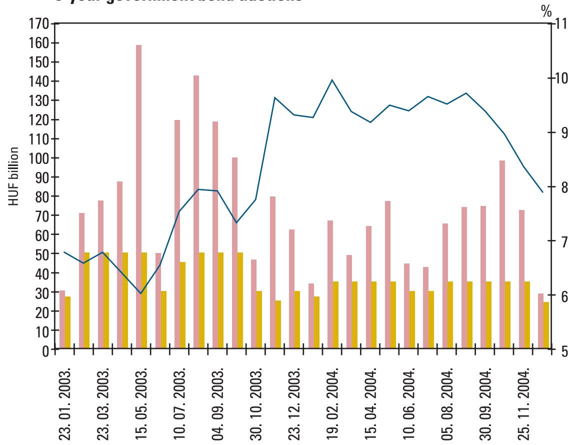
Government Bond	2007/G	2009/D	2015/A	2007/G	2020/A	2009/D	2015/A	2007/G	2009/D	2015/A
ISIN code	HU0000402250	HU0000402243	HU0000402268	HU0000402250	HU0000402235	HU0000402243	HU0000402268	HU0000402250	HU0000402243	HU0000402268
Maturity (in years)	3	5	10	3	15	5	10	3	5	10
Coupon (%)	9.25%	8.25%	8.00%	9.25%	7.50%	8.25%	8.00%	9.25%	8.25%	8.00%
Auction	5th auction	6th auction	5th auction	6th auction	6th auction	7th auction	6th auction	7th auction	8th auction	7th auction
Date of auction	14.10.2004	28.10.2004	28.10.2004	11.11.2004	11.11.2004	25.11.2004	25.11.2004	09.12.2004	23.12.2004	23.12.2004
Date of financial settlement	20.10.2004	03.11.2004	03.11.2004	17.11.2004	17.11.2004	01.12.2004	01.12.2004	15.12.2004	29.12.2004	29.12.2004
Date of redemption	12.10.2007	12.10.2009	12.02.2015	12.10.2007	12.11.2020	12.10.2009	12.02.2015	12.10.2007	12.10.2009	12.02.2015
Maximum annual yield (%) - ISMA	9.76	8.95	7.97	9.08	7.49	8.36	7.49	8.51	7.90	7.09
Minimum annual yield (%) - ISMA	9.70	8.89	7.91	9.05	7.41	8.30	7.44	8.47	7.80	7.03
Average annual yield (%) - ISMA	9.75	8.93	7.95	9.08	7.46	8.33	7.47	8.49	7.86	7.06
Maximum annual yield (%) - EHM	9.76	8.95	7.96	9.08	7.49	8.36	7.49	8.51	7.90	7.09
Minimum annual yield (%) - EHM	9.70	8.89	7.91	9.05	7.41	8.30	7.44	8.47	7.80	7.03
Average annual yield (%) - EHM	9.75	8.93	7.95	9.08	7.46	8.33	7.46	8.49	7.85	7.06
Maximum price (%)	98.8731	97.5080	100.6299	100.4560	100.8237	99.7679	103.9122	101.8357	101.6904	106.8641
Minimum price (%)	98.7253	97.2803	100.2178	100.3820	100.0879	99.5359	103.5552	101.7374	101.2992	106.4217
Average price (%)	98.7566	97.3374	100.3231	100.3930	100.3623	99.6423	103.7022	101.7793	101.4691	106.6272
Amount offered for sale (HUF million)	50,000.00	35,000.00	25,000.00	40,000.00	15,000.00	35,000.00	25,000.00	40,000.00	35,000.00	25,000.00
Amount of bids submitted (HUF million)	150,449.75	97,925.00	63,863.37	172,608.01	68,428.15	72,284.59	49,112.16	123,493.93	28,647.00	52,965.50
Amount of bids accepted (HUF million)	49,999.97	34,999.92	24,999.93	49,999.79	19,999.89	34,999.92	24,999.92	44,999.95	23,999.98	24,999.98
Bid-to-cover ratio	3.01	2.80	2.55	3.45	3.42	2.07	1.96	2.74	1.19	2.12
Bids submitted (pcs)	220	175	115	171	125	116	120	128	76	99
Bids accepted (pcs)	72	91	54	54	65	73	84	36	65	58
Tail (average price - minimum price)	0.03	0.06	0.11	0.01	0.27	0.11	0.15	0.04	0.17	0.21
Market sales* (HUF million)	49,999.97	34,999.92	24,999.93	49,999.79	19,999.89	34,999.92	24,999.92	44,999.95	23,999.98	24,999.98
Retained on ÁKK's own account (HUF million)	0.03	0.08	5,000.07	0.21	4,000.11	0.08	1,500.08	0.05	0.02	0.02
Total amount issued (HUF million)	50,000.00	35,000.00	30,000.00	50,000.00	24,000.00	35,000.00	26,500.00	45,000.00	24,000.00	25,000.00

* Without issuance onto ÁKK's own account

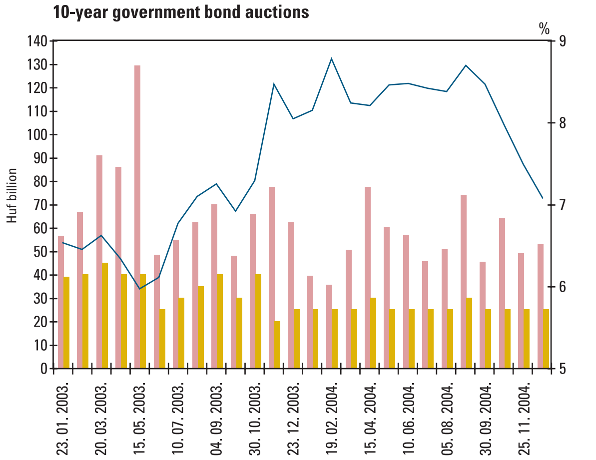
3-year government bond auctions



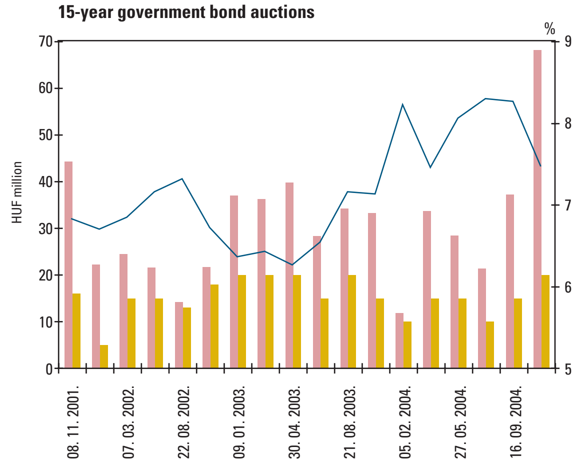
5-year government bond auctions



10-year government bond auctions



15-year government bond auctions

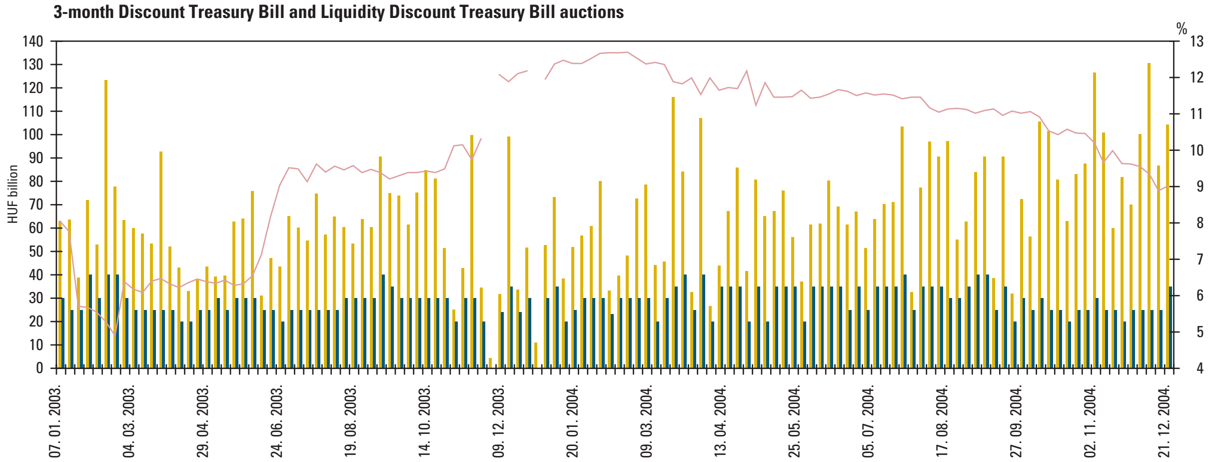


Bids submitted | Accepted amount | Average yield

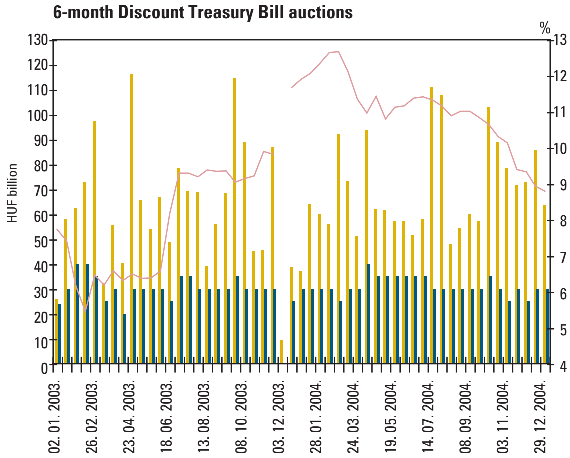
GOVERNMENT BOND BUY-BACK AUCTION RESULTS

Government bond	2005/G	2005/H	2005/E	2005/H	2005/E	2005/H	2005/E	2005/H
ISIN code	HU0000402060	HU0000402078	HU0000401682	HU0000402078	HU0000401682	HU0000402078	HU0000401682	HU0000402078
Coupon (%)	7.75%	7.00%	9.25%	7.00%	9.25%	7.00%	9.25%	7.00%
Date of buy-back auction	27.10.2004	27.10.2004	10.11.2004	10.11.2004	24.11.2004	24.11.2004	08.12.2004	08.12.2004
Date of redemption	12.04.2005	12.08.2005	12.05.2005	12.08.2005	12.05.2005	12.08.2005	12.05.2005	12.08.2005
Date of financial settlement	03.11.2004	03.11.2004	17.11.2004	17.11.2004	01.12.2004	01.12.2004	15.12.2004	15.12.2004
Minimum annual yield (%)	10.15	10.20	-	9.85	9.68	9.45	-	9.11
Average annual yield (%) - ISMA	10.46	10.23	-	9.87	9.68	9.47	-	9.16
Amount of bids submitted (HUF million)	20,605.75	36,720.03	17,047.27	10,167.76	31,372.98	24,753.53	8,244.47	10,657.21
Amount of bids accepted (HUF million)	19,565.95	7,433.20	0.00	8,614.73	4,654.66	5,290.03	0.00	10,621.62
Bids submitted (pcs)	16	25	10	10	10	17	9	10
Bids accepted (pcs)	11	7	0	6	1	10	0	9

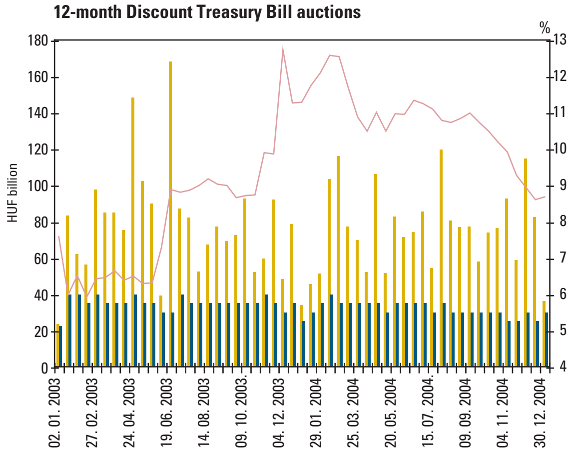
3-month Discount Treasury Bill and Liquidity Discount Treasury Bill auctions



6-month Discount Treasury Bill auctions



12-month Discount Treasury Bill auctions

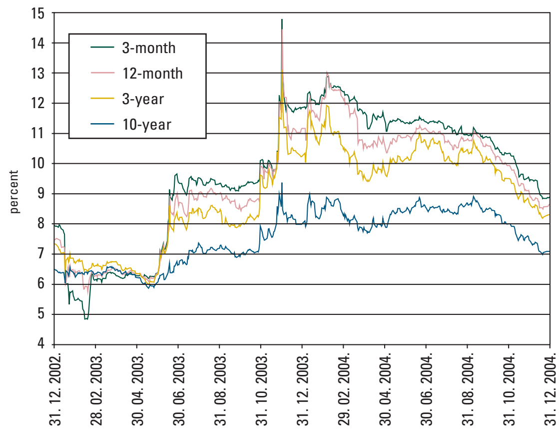


Bids submitted · Accepted amount · Average yield

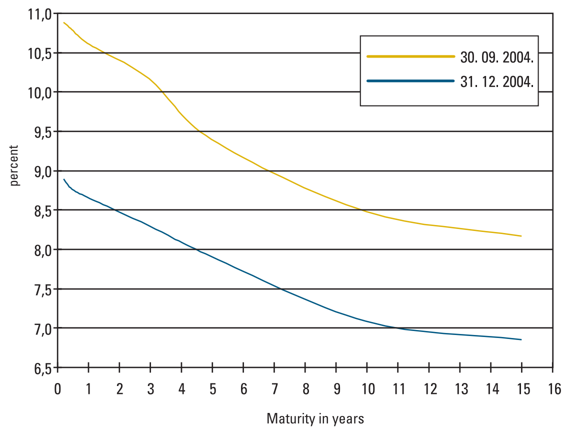
INTEREST RATE RESETS OF FLOATING RATE GOVERNMENT BONDS IN Q4 2004

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		
2014/A	02.11.2004	02.11.2004	-	02.05.2005	02.05.2005	11.20	5.63
2007/B	12.12.2004	12.12.2004	-	12.06.2005	13.06.2005	9.57	4.84
2013/C	20.12.2004	20.12.2004	-	20.06.2005	20.06.2005	10.80	5.46
2014/B	20.12.2004	20.12.2004	-	20.06.2005	20.06.2005	10.80	5.46
2016/A	31.12.2004	31.12.2004	-	31.03.2005	31.03.2005	8.25	2.03
2016/B	31.12.2004	02.01.2005	-	02.07.2005	04.07.2005	9.88	4.97
2004/A	31.12.2004	01.01.2004	-	01.07.2004	15.02.2005	10.15	5.03

Benchmark yields



Benchmark yield curves

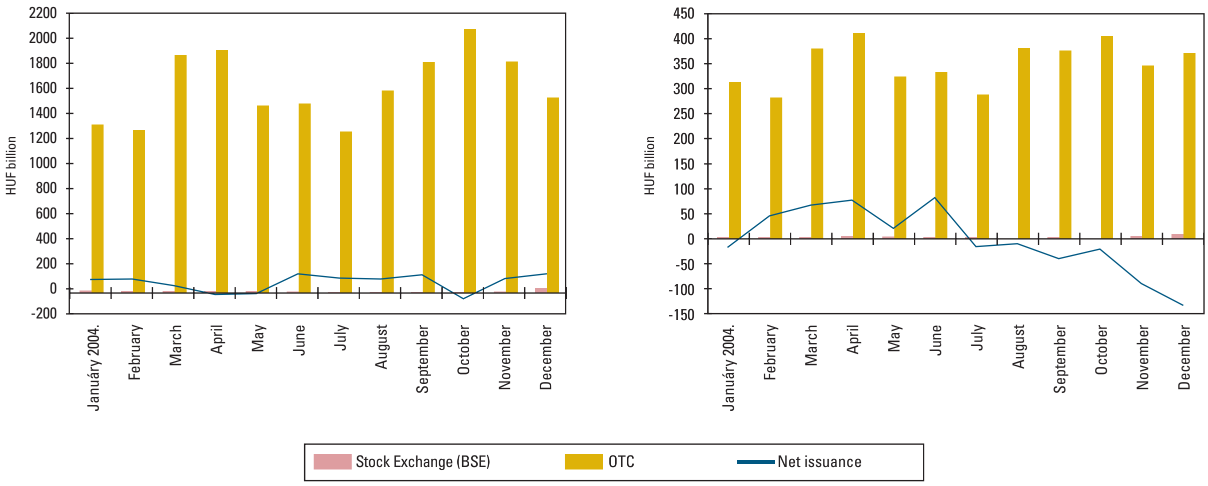


PRIMARY DEALERS – AS AT 31 DECEMBER 2004

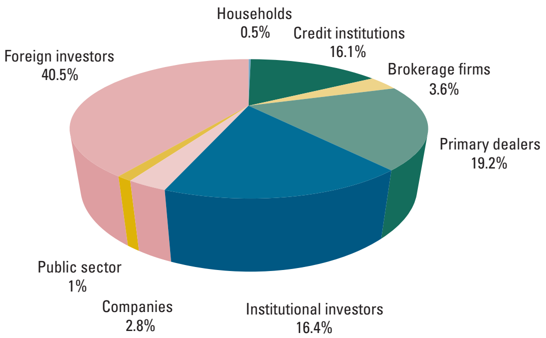
Primary dealers:		Primary dealers for retail securities:
CIB Bank Rt.	ING Bank Rt.	CIB Bank Rt.
CITIBANK Rt.	Kereskedelmi és Hitelbank Rt.	Kereskedelmi és Hitelbank Rt.
Deutsche Bank Rt.	Magyar Külkereskedelmi Bank Rt.	Magyar Takarékszövetkezeti Bank Rt.
Dresdner Bank (Hungaria) Rt.	Magyar Takarékszövetkezeti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

Secondary market trading of government bonds

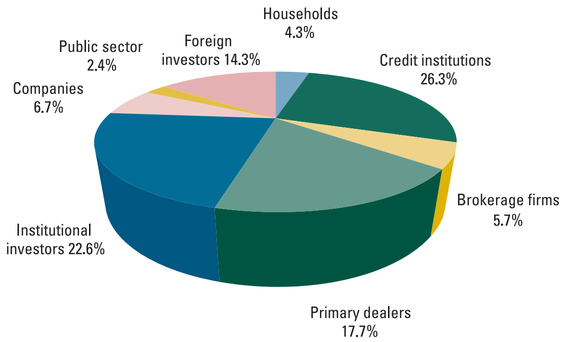
Secondary market trading of Discount Treasury Bills



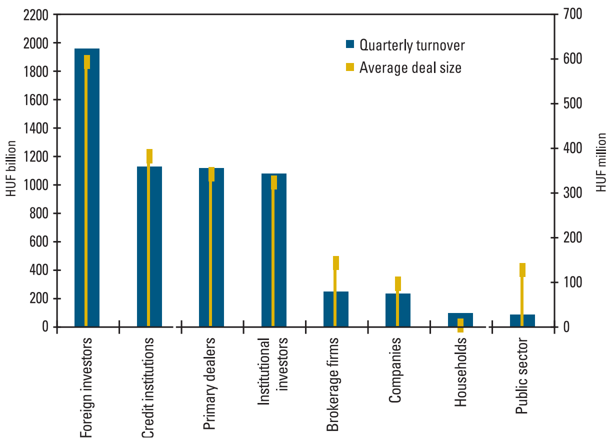
Breakdown of primary dealers' secondary market turnover in government bonds by investor groups in Q4 2004



Breakdown of primary dealers' secondary market turnover in Discount Treasury Bills by investor groups in Q4 2004

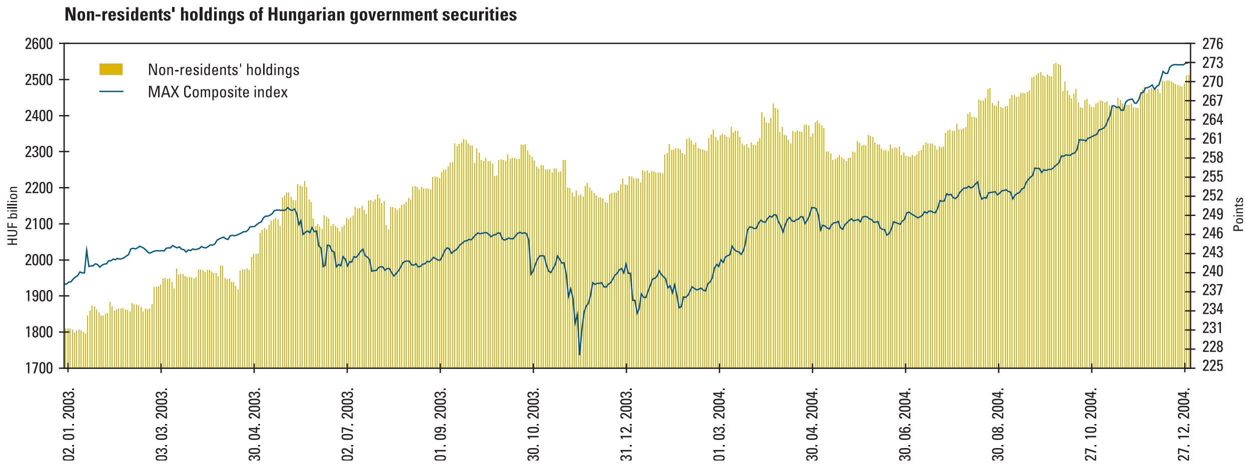


Primary dealers' trading with different investor groups in Q4 2004



GOVERNMENT SECURITIES WITH THE HIGHEST TURNOVER ON THE SECONDARY MARKET IN Q4 2004

Government security	Date of redemption	Turnover (HUF billion)
2007/G	12.10.2007	575.3
2009/D	12.10.2009	479.1
2015/A	12.02.2015	374.4
2014/C	12.02.2014	266.8
2006/G	24.08.2006	263.6
2008/C	12.06.2008	250.4
2013/D	12.02.2013	225.3
2006/F	12.04.2006	206.7
D050608	08.06.2005	203.6
2009/C	24.06.2009	191.6



HUNGARIAN GOVERNMENT SECURITIES INDICES

	Value of the index				Annual yield earned on the index portfolio			
	MAX index	RMAX index	MAX Composite index	ZMAX index	MAX index	RMAX index	MAX Composite index	ZMAX index
30.09.2004	256.6321	263.9028	255.8455	268.1573	2.44%	9.71%	4.02%	11.12%
29.10.2004	262.3745	266.8756	260.8964	270.7025	5.54%	10.39%	6.61%	11.38%
30.11.2004	268.7196	269.9715	266.3102	273.2487	14.98%	12.23%	14.23%	12.13%
31.12.2004	276.3192	272.8398	272.6112	275.7551	13.98%	12.07%	13.40%	11.90%

AMOUNT OUTSTANDING OF BENCHMARK GOVERNMENT BOND SERIES IN Q4 2004

	HUF billion		
Government Bond	31.10.2004	30.11.2004	31.12.2004
2007/G	257.28	307.70	353.43
2009/D	165.32	201.11	260.17
2015/A	105.46	131.01	180.53
2020/A	65.29	85.79	85.48

REUTERS PAGES (CODES)

Main page: HUTREASURY

Auction results are available from 12.00 (CET)	
HUISSUE	Publication of the following issues and reverse auctions
HUAUCTION01	Discount T-bill auction results
HUAUCTION02	Government Bond auction results
Secondary market data	
HUBONDFIX	Benchmark yield fixing (updated at 14.30 CET)
HUBEST 3,4,5	Best secondary market quotations
HUBONDAKK, HUBONDAKK4	Best morning secondary market quotations
HUBONDAKK2, HUBONDAKK3	Best afternoon secondary market quotations
HUBONDINDEX	Hungarian Government Total Return Index (MAX), updated at 16.00 CET
HUBONDINDEX2	Benchmark Indices for Government Bonds BMX3Y-15Y (updated at 16.00 CET)
.HUMAXBOND	Hungarian Government Total Return Index (MAX) statistics
Other	
HUFLOATER	Interest rate reset of floating rate bonds
HUINDEXED	Accrued interest and capital uplift (inflation adjusted capital) of the index-linked government bond on a daily basis
HUBONDINFO	List of authorised dealers (contacts)

FURTHER INFORMATION PAGES:

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

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