GOVERNMENT SECURITIES MARKET

MONTHLY REPORT

SEPTEMBER 2004

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GOVERNMENT SECURITIES MARKET

In the first nine months of 2004 the deficit of the central budget amounted to HUF 1284.2 billion, including the sum of debt assumptions. This net borrowing requirement was met by a total net issuance of HUF 1168.6 billion (ca. EUR 4.7 billion, including loan assumptions) in the first nine months of the year, out of which net domestic issuance was HUF 835.5 billion (ca. EUR 3.4 billion) and net foreign exchange issuance totalled HUF 333 billion (ca. EUR 1.35 billion).

Until the end of September the Forint denominated debt of the central government increased by HUF 835.7 billion in 2004 (the difference between the total net change and the net issuance was caused by the increase in the volume of matured but unclaimed securities). Out of the increase in domestic debt, government bonds accounted for HUF 589.8 billion, discount Treasury bills for HUF 177.2 billion and retail government securities for HUF 95.0 billion. The volume of domestic loans decreased by HUF 26.3 billion.

The foreign currency debt of the central government showed an increase of HUF 169 billion in the first nine months of the year. Foreign exchange bond issuance contributed by HUF 546.6 billion, loan drawdowns and assumptions by HUF 30.2 billion to this growth of debt. On the other hand, bond redemptions worth HUF 127.0 billion, loan redemptions amounting to HUF 116.7 billion and exchange rate gains of HUF 164 billion decreased the Forint value of the foreign currency debt. Out of the HUF 333 billion (ca. EUR 1.35 billion) total net foreign currency issuance, market transactions accounted for HUF 318 billion (ca. EUR 1.3 billion), the remaining HUF 15 billion was the balance of loan transactions.

At the end of September 64.4% of the domestic government securities were fixed rate, 35.6% floating rate securities, compared to 62.6% and 37.4% at the end of 2003.

The uncertainties about the budget deficit figure and the domestic politics events, which characterised the month before, lessened in September and this resulted in a decline of secondary market yields too. In the secondary market all yields showed a decrease, short-term ones by 10-20 basis points, long-term yields by 6-34 basis points. The 5-year yield showed the largest decrease, dropping to 9.36% by 34 basis points, the 1-year yield fell to 10.58% by 20 basis points, while the 10-year benchmark yield reached 8.44% at the end of September after declining by 21 basis points.

Monthly OTC turnover of government securities was higher in September than in the previous month, it increased by 11% HUF 2211 billion. Primary dealers, who account for the decisive part of all secondary government securities trading, made 43% of their secondary government securities deals with non-resident investors.

The volume of non-residents' holdings of Hungarian government securities reached a new all-time high level in September, then decreased a little at the end of the month. Overall, in September it grew by HUF 82.1 billion compared to the end of August to HUF 2506.4 billion, which volume represented 30.9% of the total amount of domestic government bonds and discount Treasury bills at the end of the month.

The HUF/EUR mid exchange rate at the end of September was 247.02

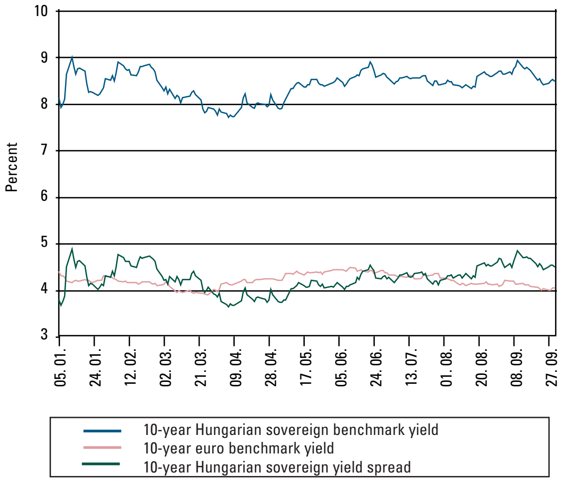
The credit rating of the long-term foreign currency debt of the Republic of Hungary is as follows: A- / A1 / A-

CENTRAL GOVERNMENT GROSS DEBT

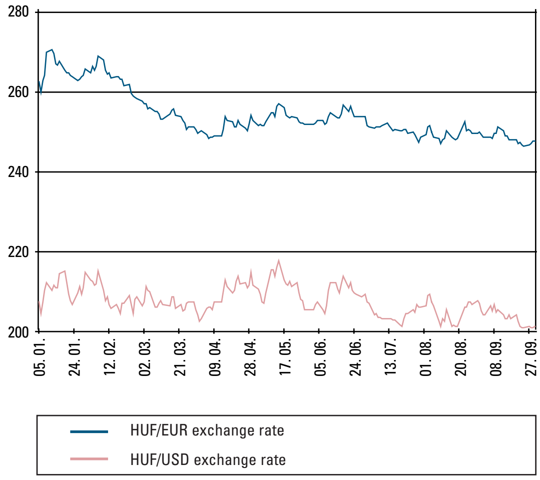
	1998	1999	2000	2001	2002	2003	July 2004	Aug. 2004	Sept. 2004
1. Forint denominated debt	**3,733.9**	**4,350.2**	**4,717.5**	**5,397.4**	**6,956.9**	**8,008.7**	**8,685.1**	**8,770.0**	**8,844.4**
1.1. Loans	435.0	380.2	303.8	228.3	353.2	117.9	101.5	101.2	91.6
1.1.1. Foreign loans	0.0	0.0	0.0	0.0	1.7	1.4	1.4	1.4	1.4
1.1.2. Domestic loans	435.0	380.2	303.8	228.3	351.5	116.5	100.1	99.8	90.2
1.1.2.1. Raised from National Bank of Hungary (NBH)	434.9	362.4	289.5	217.4	144.0	71.2	46.1	46.1	37.0
1.1.2.2. Other loans	0.1	17.8	14.3	10.9	207.5	45.3	54.0	53.7	53.2
1.2. Government securities	3,299.0	3,970.0	4,413.6	5,169.1	6,603.7	7,890.8	8,583.6	8,668.8	8,752.7
1.2.1. Public issues	2,432.8	3,116.8	3,582.4	4,360.0	5,826.3	7,131.5	7,831.3	7,919.4	8,004.2
1.2.1.1. Bonds	1,386.5	1,790.8	2,221.2	2,782.0	3,829.2	5,056.5	5,444.7	5,536.0	5,657.2
1.2.1.2. Discount T-bills	689.9	826.7	837.9	1,033.3	1,436.8	1,541.4	1,775.3	1,760.7	1,718.6
1.2.1.3. Retail securities	356.5	499.3	523.3	544.7	560.3	533.5	611.3	622.7	628.5
1.2.2. Private placements	866.1	853.2	831.3	809.1	777.4	759.3	752.3	749.4	748.5
2. Foreign currency denominated debt*	**2,431.9**	**2,536.2**	**2,508.8**	**2,322.1**	**2,267.3**	**2,579.0**	**2,945.9**	**2,923.1**	**2,748.0**
2.1. Loans	2,367.8	1,929.6	1,772.8	1,410.4	1,394.3	1,084.1	1,128.9	1,096.2	937.7
2.1.1. Foreign loans	249.6	361.2	368.8	317.8	461.9	598.8	656.3	621.0	466.8
2.1.2. Domestic loans	2,118.2	1,568.4	1,404.0	1,092.6	932.3	485.3	472.6	475.2	470.9
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	439.5	441.9	437.9
2.1.2.2. Other loans	0.0	0.0	0.0	0.0	82.8	18.8	33.2	33.3	33.0
2.2. Government securities	64.0	606.7	736.0	911.7	873.0	1,494.9	1,817.0	1,826.9	1,810.3
2.2.1. Issued abroad	44.4	587.1	715.7	911.7	873.0	1,494.9	1,817.0	1,826.9	1,810.3
2.2.1.1. Foreign currency bonds	43.8	586.8	715.4	911.5	872.9	1,494.7	1,816.9	1,826.8	1,810.2
2.2.1.2. Kingdom of Hungary 1924 issues	0.6	0.3	0.3	0.3	0.2	0.1	0.1	0.1	0.1
2.2.2 Issued domestically	19.6	19.6	20.3	0.0	0.0	0.0	0.0	0.0	0.0
Total	**6,165.8**	**6,886.4**	**7,226.2**	**7,719.5**	**9,224.2**	**10,587.7**	**11,631.0**	**11,693.1**	**11,592.4**
Marketable HUF debt (1.2.1.1.+1.2.1.2.+1.2.2.)	*2,942.5*	*3,470.7*	*3,890.4*	*4,624.4*	*6,043.4*	*7,357.3*	*7,972.3*	*8,046.1*	*8,124.3*
Gross debt/GDP	*61.1%*	*60.4%*	*54.9%*	*52.0%*	*55.1%*	*57.0%*			

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

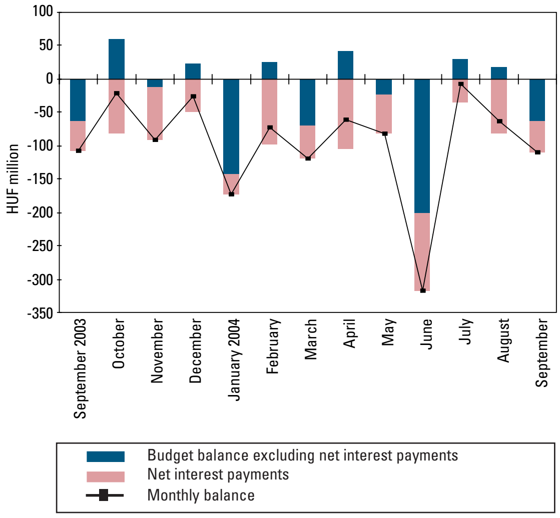
10-year Hungarian and eurozone benchmark yields in 2004



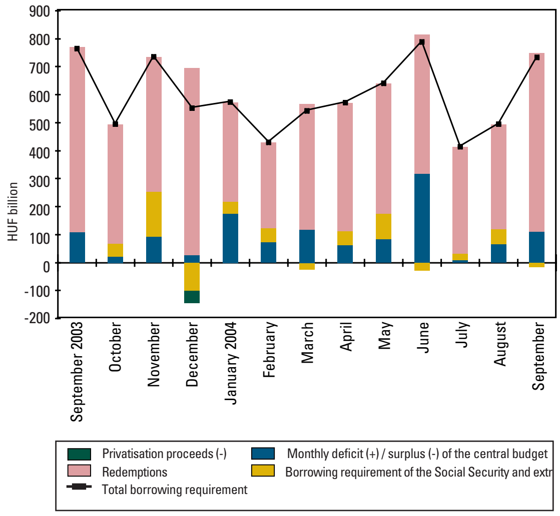
The exchange rate of the Hungarian Forint in 2004



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



Gross borrowing requirement

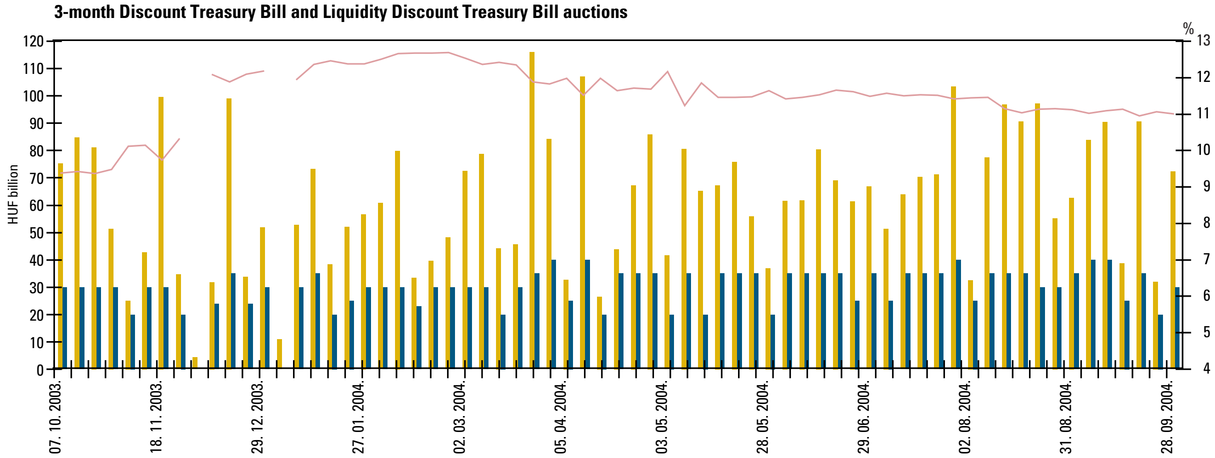


DISCOUNT TREASURY BILL AUCTION RESULTS

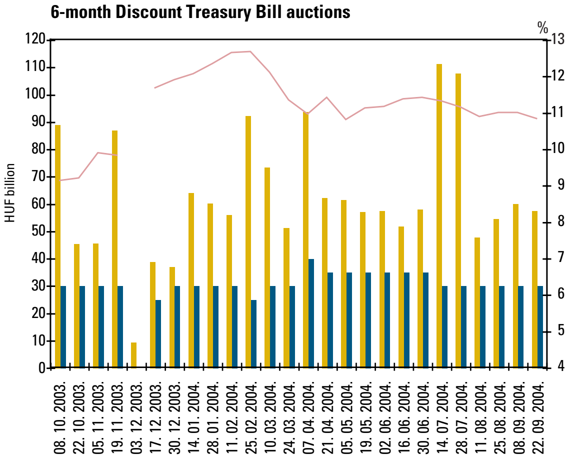
	Liquidity Discount T-bills		3-month Discount T-bills				6-month Discount T-bills		12-month Discount T-bills	
Code of T-bill	D041110	D041110	D041215	D041222	D041229	D050105	D050316	D050316	D050803	D050928
Maturity in days	49	42	91	91	91	91	182	168	322	364
Date of auction	20.09.2004	27.09.2004	07.09.2004	14.09.2004	21.09.2004	28.09.2004	08.09.2004	22.09.2004	09.09.2004	23.09.2004
Date of financial settlement	22.09.2004	29.09.2004	15.09.2004	22.09.2004	29.09.2004	06.10.2004	15.09.2004	29.09.2004	15.09.2004	29.09.2004
Redemption date	10.11.2004	10.11.2004	15.12.2004	22.12.2004	29.12.2004	05.01.2005	16.03.2005	16.03.2005	03.08.2005	28.09.2005
Maximum yield (%) - ISMA	11.10	11.04	10.98	11.06	10.92	10.98	11.00	10.83	10.92	10.68
Average yield (%) - ISMA	11.04	10.70	10.80	10.80	10.80	10.75	10.70	10.70	10.55	10.50
Minimum yield (%) - ISMA	11.08	11.01	10.96	11.03	10.90	10.96	10.97	10.80	10.91	10.65
Maximum yield (%) - EHM	11.25	11.19	11.13	11.21	11.07	11.13	11.15	10.98	11.07	10.83
Average yield (%) - EHM	11.19	10.85	10.95	10.95	10.95	10.90	10.85	10.85	10.70	10.65
Minimum yield (%) - EHM	11.23	11.16	11.11	11.18	11.05	11.11	11.12	10.95	11.06	10.80
Average selling price (%):	98.5143	98.7318	97.3042	97.2875	97.3186	97.3042	94.7455	95.2018	91.1092	90.2785
Amount offered for sale (HUF million)	25000.00	25000.00	35000.00	35000.00	35000.00	30000.00	30000.00	30000.00	30000.00	30000.00
Amount of bids submitted (HUF million)	38763.00	31972.17	83900.84	90476.08	90579.06	72326.25	60138.32	57445.49	77362.25	58087.88
Amount of bids accepted (HUF million)	24999.94	19999.99	39999.83	39999.94	34999.85	29999.87	29999.95	29999.92	29999.92	29999.94
Bid-to-cover ratio:	1.55	1.60	2.10	2.26	2.59	2.41	2.00	1.91	2.58	1.94
Bids submitted (pcs)	66	62	153	161	158	144	131	145	144	134
Bids accepted (pcs)	50	46	105	99	83	80	83	86	69	80
Market sales* (HUF million)	24999.94	19999.99	39999.83	39999.94	34999.85	29999.87	29999.95	29999.92	29999.92	29999.94
Retained on ÁKK's own account (HUF million)	0.06	0.01	4000.17	4000.06	3500.15	3000.13	3000.05	3000.08	3000.08	9000.06
Total amount issued (HUF million)	25000.00	20000.00	44000.00	44000.00	38500.00	33000.00	33000.00	33000.00	33000.00	39000.00

* Without issuance onto ÁKK's own account

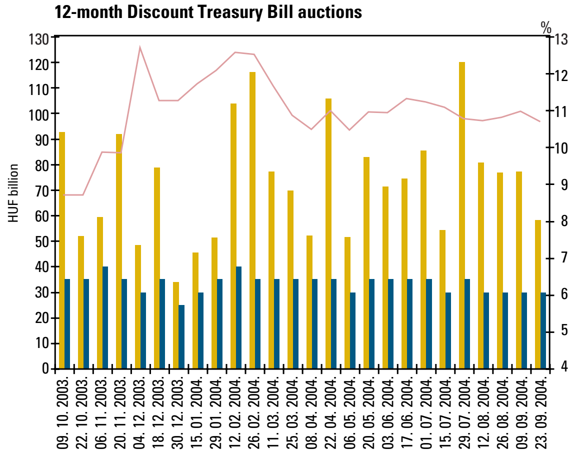
3-month Discount Treasury Bill and Liquidity Discount Treasury Bill auctions



6-month Discount Treasury Bill auctions



12-month Discount Treasury Bill auctions



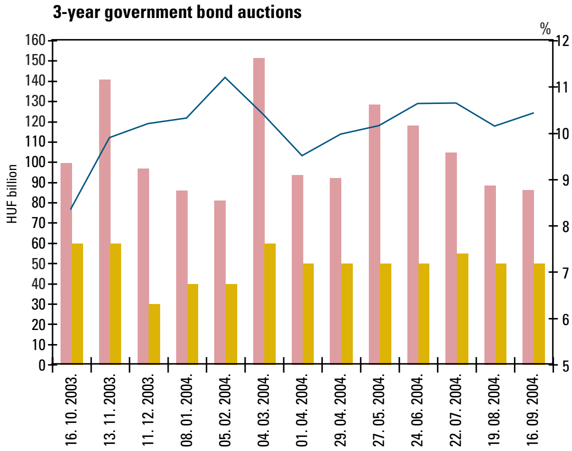
Bids submitted | Accepted amount | Average yield

GOVERNMENT BOND AUCTION RESULTS

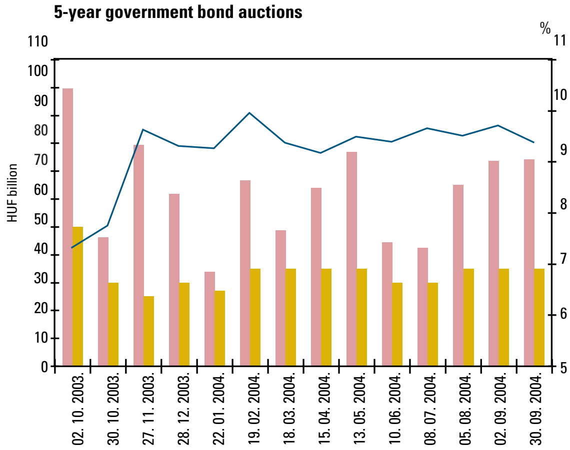
Government Bond	2009/D	2015/A	2007/G	2020/A	2009/D	2015/A
ISIN code	HU0000402243	HU0000402268	HU0000402250	HU0000402235	HU0000402243	HU0000402268
Maturity (in years)	5	10	3	15	5	10
Coupon (%)	8.25%	8.00%	9.25%	7.50%	8.25%	8.00%
Auction	4th auction	3rd auction	4th auction	5th auction	5th auction	4th auction
Date of auction	02.09.2004	02.09.2004	16.09.2004	16.09.2004	30.09.2004	30.09.2004
Date of financial settlement	08.09.2004	08.09.2004	22.09.2004	22.09.2004	06.10.2004	06.10.2004
Redemption date	12.10.2009	12.02.2015	12.10.2007	12.11.2020	12.10.2009	12.02.2015
Maximum annual yield (%) - ISMA	9.70	8.70	10.42	8.28	9.37	8.48
Minimum annual yield (%) - ISMA	9.64	8.61	10.35	8.20	9.28	8.42
Average annual yield (%) - ISMA	9.68	8.68	10.40	8.25	9.35	8.45
Maximum annual yield (%) - EHM	9.69	8.69	10.42	8.27	9.37	8.47
Minimum annual yield (%) - EHM	9.63	8.60	10.35	8.19	9.28	8.41
Average annual yield (%) - EHM	9.68	8.68	10.40	8.24	9.34	8.45
Maximum price (%)	94.6199	95.9486	97.2520	93.8453	96.0145	97.1959
Minimum price (%)	94.3959	95.3647	97.0800	93.1778	95.6762	96.8009
Average price (%)	94.4523	95.4874	97.1255	93.4321	95.7561	96.9689
Amount offered for sale (HUF million)	35,000.00	25,000.00	50,000.00	15,000.00	35,000.00	25,000.00
Amount of bids submitted (HUF million)	73,762.37	74,025.57	86,190.88	37,374.50	74,244.97	45,514.55
Amount of bids accepted (HUF million)	34,999.89	29,999.91	49,999.93	14,999.95	34,999.96	24,999.93
Bid-to-cover ratio	2.11	2.47	1.72	2.49	2.12	1.82
Bids submitted (pcs)	162	163	141	106	111	109
Bids accepted (pcs)	70	84	100	51	62	84
Tail (average price - minimum price)	0.06	0.12	0.05	0.25	0.08	0.17
Market sales* (HUF million)	34,999.89	29,999.91	49,999.93	14,999.95	34,999.96	24,999.93
Retained on ÁKK's own account (HUF million)	7,000.11	6,000.09	0.07	3,000.05	1,000.04	5,000.07
Total amount issued (HUF million)	42,000.00	36,000.00	50,000.00	18,000.00	36,000.00	30,000.00

* Without issuance onto ÁKK's own account

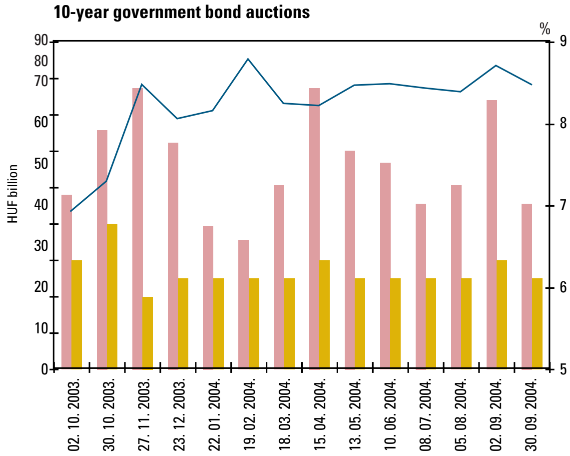
3-year government bond auctions



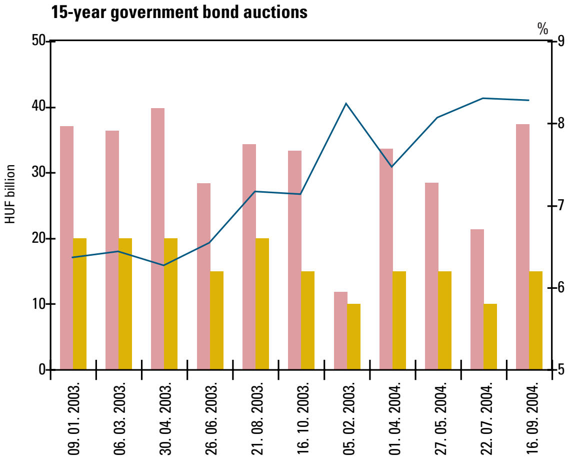
5-year government bond auctions



10-year government bond auctions



15-year government bond auctions

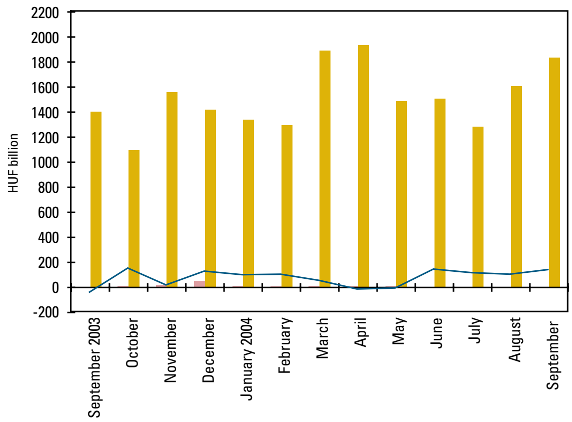


Bids submitted · Accepted amount · Average yield

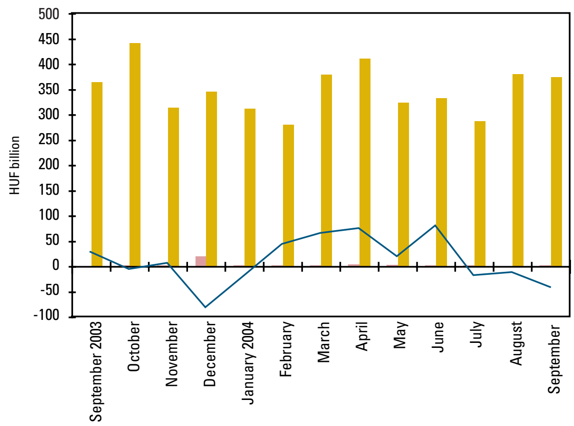
GOVERNMENT BOND REVERSE AUCTION RESULTS

Government bond	2005/G	2005/H	2005/G	2005/H
ISIN code	HU0000402060	HU0000402078	HU0000402060	HU0000402078
Coupon (%)	7.75%	7.00%	7.75%	7.00%
Date of reverse auction	01.09.2004	01.09.2004	15.09.2004	15.09.2004
Redemption date	12.04.2005	12.08.2005	12.04.2005	12.08.2005
Date of financial settlement	08.09.2004	08.09.2004	22.09.2004	22.09.2004
Minimum annual yield (%)	11.15	-	11.26	-
Average annual yield (%) - ISMA	11.16	-	11.30	-
Amount of bids submitted (HUF million)	20586.14	31155.27	17333.95	44307.43
Amount of bids accepted (HUF million)	2517.10	0.00	1100.00	0.00
Bids submitted (pcs)	22	10	10	29
Bids accepted (pcs)	3	0	4	0

Secondary market trading of government bonds

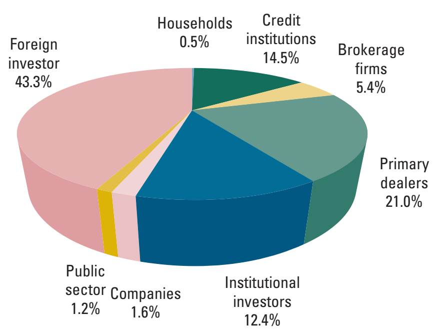


Secondary market trading of Discount Treasury Bills

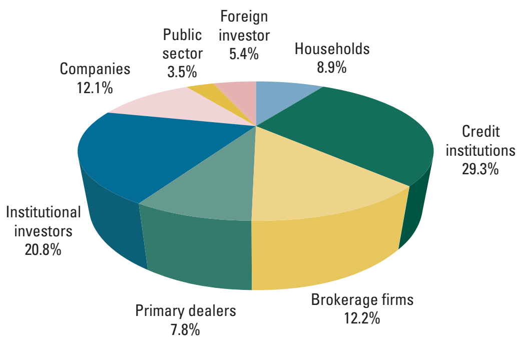


Stock exchange (BSE) | OTC | Net issuance

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



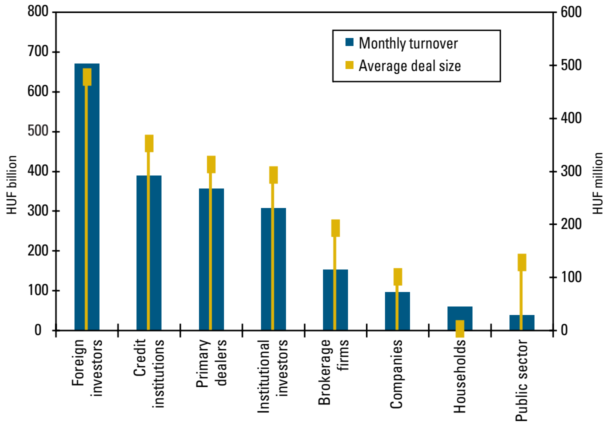
Breakdown of primary dealers' secondary market turnover in Discount Treasury Bills by investor groups in September 2004



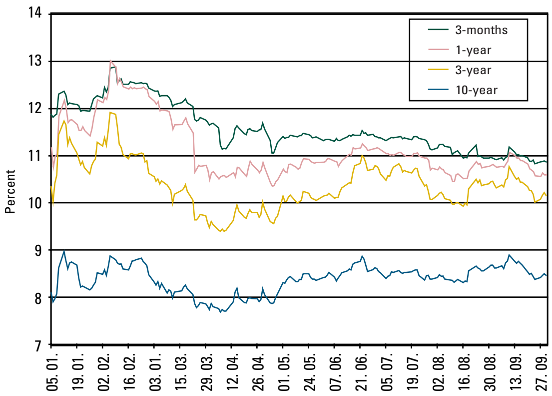
GOVERNMENT SECURITIES WITH THE HIGHEST SECONDARY MARKET TURNOVER IN SEPTEMBER 2004

Government security	Date of redemption	Turnover (HUF billion)
2007/G	12.10.2007	266.7
2009/C	24.06.2009	129.7
2009/D	12.10.2009	121.5
2014/C	12.02.2014	103.6
2015/A	12.02.2015	95.4
D050316	16.03.2005	86.5
2006/G	24.08.2006	78.8
2007/D	12.06.2007	72.8
D050803	03.08.2005	71.2
2013/D	12.02.2013	54.7

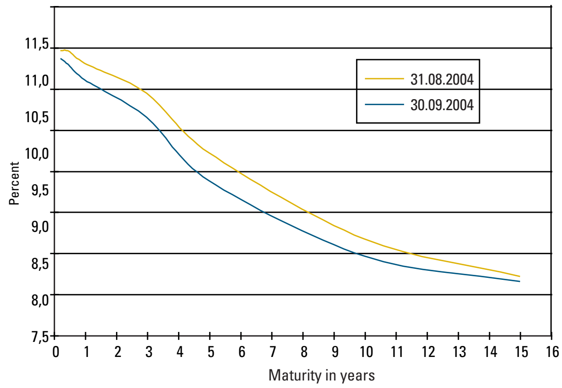
Primary dealers' trading with different investor groups in September 2004



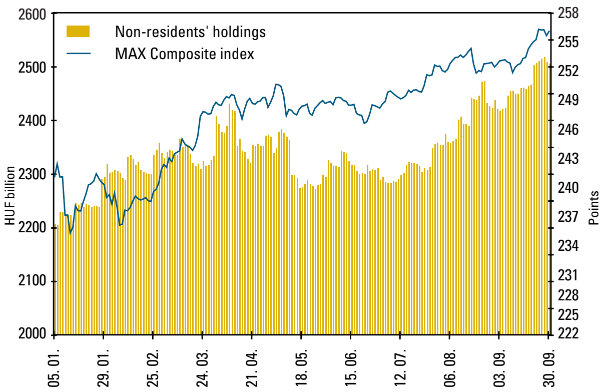
Benchmark yields in 2004



Benchmark yield curves



Non-residents' holdings of Hungarian government securities in 2004



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

	HUF billion	
Government bond	31.08.2004	30.09.2004
2007/G	155.99	207.02
2009/D	94.14	130.92
2015/A	50.41	80.53
2020/A	50.17	65.21

HUNGARIAN GOVERNMENT SECURITIES INDICES

	MAX index	RMAX index	MAX Composite index	ZMAX index
Value as at 30 September 2004	256.6321	263.9028	255.8455	268.1573
Changes compared to the end of the month before	3.768	2.668	3.4558	2.5572
Annual yield earned on the index portfolio	2.44%	9.71%	4.02%	11.12%

EVENTS CALENDAR - NOVEMBER 2004

Week 45	1	2	3	4	5	6	7
	Monday	Tuesday	Wednesday	Thursday	Friday	Sat.	Sun.
Discount T-bill public offer			3-month DKJ				
Discount T-bill auction		D050209	D050511	D050928			
Discount T-bill auction settlement			D050202				
Discount T-bill redemption			D041103				
Liquidity Discount T-Bill auction settlement			Upon decision of the Issuer				
Interest Bearing T-bill subscription				K2005/23			
Interest Bearing T-bill redemption			K2004/22				
Government Bond public offer				3 and 15-year Bonds			
Government Bond auction settlement			5 and 10-year Bonds				
Government Bond reverse auction settlement			2 Bond series				
Government Bond interest payment		2014/A					

Week 46	8	9	10	11	12	13	14
	Monday	Tuesday	Wednesday	Thursday	Friday	Sat.	Sun.
Discount T-bill public offer			3, 6 and 12-month DKJs				
Discount T-bill auction		D050216					
Discount T-bill auction settlement			D050209/D050511/D050928				
Discount T-bill redemption			D041110				
Liquidity Discount T-Bill public offer	Upon decision of the Issuer						
Liquidity Discount T-Bill auction	Upon decision of the Issuer						
Liquidity Discount T-Bill auction settlement			Upon decision of the Issuer				
Interest Bearing T-bill public offer		K2005/24					
Interest Bearing T-bill subscription			K2005/23				
Government Bond auction				3 and 15-year Bonds			
Government Bond reverse auction			2 Bond series				
Government Bond interest payment					2005/E, 2006/E, 2020/A		

Week 47	15	16	17	18	19	20	21
	Monday	Tuesday	Wednesday	Thursday	Friday	Sat.	Sun.
Discount T-bill public offer			3-month DKJ				
Discount T-bill auction		D050223	D050511	D051123			
Discount T-bill auction settlement			D050216				
Discount T-bill redemption			D041117				
Liquidity Discount T-Bill public offer	Upon decision of the Issuer						
Liquidity Discount T-Bill auction	Upon decision of the Issuer						
Liquidity Discount T-Bill auction settlement			Upon decision of the Issuer				
Interest Bearing T-bill subscription			K2005/24				
Interest Bearing T-bill redemption			K2004/23				
Government Bond public offer				5 and 10-year Bonds			
Government Bond auction settlement			3 and 15-year Bonds				
Government Bond reverse auction settlement			2 Bond series				

Week 48	22	23	24	25	26	27	28
	Monday	Tuesday	Wednesday	Thursday	Friday	Sat.	Sun.
Discount T-bill public offer			3, 6 and 12-month DKJs				
Discount T-bill auction		D050302					
Discount T-bill auction settlement			D050223/D050511/D051123				
Discount T-bill redemption			D041124				
Liquidity Discount T-Bill public offer	Upon decision of the Issuer						
Liquidity Discount T-Bill auction	Upon decision of the Issuer						
Liquidity Discount T-Bill auction settlement			Upon decision of the Issuer				
Interest Bearing T-bill public offer		K2005/25					
Interest Bearing T-bill subscription			K2005/24				
Government Bond auction				5 and 10-year Bonds			
Government Bond reverse auction			2 Bond series				
Government Bond interest payment			2017/A				

Week 49	29	30					
	Monday	Tuesday					
Discount T-bill auction		D050309					
Liquidity Discount T-Bill public offer	Upon decision of the Issuer						
Liquidity Discount T-Bill auction	Upon decision of the Issuer						
Interest Bearing T-bill subscription	K2005/25						

Key to serial numbers:

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

INTEREST RATE RESETS OF FLOATING RATE GOVERNMENT BONDS IN SEPT. 2004

Government Bond	Date of interest rate reset	Interest period			Date of interest payment	Reset interest rate (%)	Interest payable (%)
2016/A	01.09.2004	30.09.2004	-	31.12.2004	31.12.2004	10.00	2.52
2013/A	20.09.2004	20.03.2004	-	20.09.2004		11.20	
		20.09.2004	-	20.03.2005	20.03.2005	11.40	11.45

PRIMARY DEALERS - AS AT 30 SEPTEMBER 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

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