Á·K·K

GOVERNMENT DEBT MANAGEMENT AGENCY PTE LTD.

GOVERNMENT SECURITIES MARKET

MONTHLY REPORT

DECEMBER 2008

The deficit of the central government amounted to HUF 907.1 billion (about EUR 3.4 bn) in 2008. The capital transfer to the National Bank of Hungary worth HUF 2.8 billion and the net balance of transfers from the EAGGF fund of the European Union (EU) worth HUF 10.6 billion increased the net borrowing requirement. Privatisation revenues amounted to HUF 3.6 billion, which decreased the financing requirement. Thus, the total net borrowing requirement amounted to HUF 917.4 billion in the year 2008. Net issuance was HUF 468.9 billion; out of which net HUF-denominated issuance was HUF 147.6 billion and net foreign currency denominated issuance was HUF 321.3 billion. Furthermore, loans in a total amount of HUF 1,824.8 billion were drawn from the international loan program extended by the IMF, the EU Commission and the IBRD. Out of this amount HUF 1,483.6 billion was placed in the National Bank of Hungary in the form of foreign currency deposits at the end of the year. The remaining part amounted to HUF 262 billion and was used for refinancing maturing debt and for offsetting unrealized financing revenues due to the suspension of bond auctions in November and December. The total amount of other liabilities increased by HUF 69.4 billion in 2008.

The HUF denominated debt of the central government increased by HUF 146.8 billion in 2008 (the difference between the total net change and the net issuance was caused by the change in the volume of matured but unclaimed securities). The increase in domestic debt was the result of net government bond issuance of HUF 325,3 billion, while discount Treasury bills decreased by HUF 182.5 billion and retail government securities decreased by HUF 8.5 billion. The stock of domestic loans increased by HUF 74.2 billion.

The foreign currency debt of the central government increased by HUF 2302.2 billion in 2008. International bond issuance was HUF 426,4 billion. Total drawdown of foreign currency denominated loans was HUF 2102.4 billion, out of which loans worth HUF 147.7 billion (equalling EUR 574.5 million) were drawn down from international financing institutions and HUF 1,824.8 billion worth of loans were drawn down from the international loan package out of which amount HUF 1483.6 billion was placed as foreign currency deposits at the National Bank of Hungary at the end of December. The rest of the loan drawdowns were made up by foreign currency liquidity operations. Redemptions of foreign currency loans worth HUF 382.7 billion decreased and exchange rate losses totalling HUF 156.1 billion increased the Hungarian Forint value of the foreign currency debt in 2008.

Short-term secondary market yields decreased by 171-179 basis points, while the long term yields decreased by 43-151 basis points in December. The 1-year yield decreased by 171 bps to 8.95%, the 3-year yield decreased by 148 bps to 9.57%, the 10-year benchmark yield reached 8.28% at the end of December after decreasing by 58 basis points.

Monthly OTC turnover of government securities was 19 % lower in December than a month before and reached HUF 2,405 billion. Primary dealers, who account for the decisive part of all secondary government securities trading, made 23% of their secondary government securities deals with non-resident investors.

The volume of non-residents' holdings of Hungarian government securities decreased altogether by HUF 1.8 in December, and amounted to HUF 2,459 billion at the end of the month. This volume represented 23.5% of the total amount of domestic government bonds and discount Treasury bills.

The issuance of the 6-month discount T-bill auctions was suspended by the decision of ÁKK, the last auction was held on 11 June 2008. In reaction to market developments, the Government Debt Management Agency Pte. Ltd. (ÁKK) did not hold T-bond auction in December.

The EUR/HUF exchange rate according to the Hungarian National Bank was 264.78 at the last working day of December.

The credit rating of the long-term foreign currency debt of the Republic of Hungary is as follows at the last working day of December: BBB (Standard & Poor's); A3 (Moody's); BBB (Fitch).

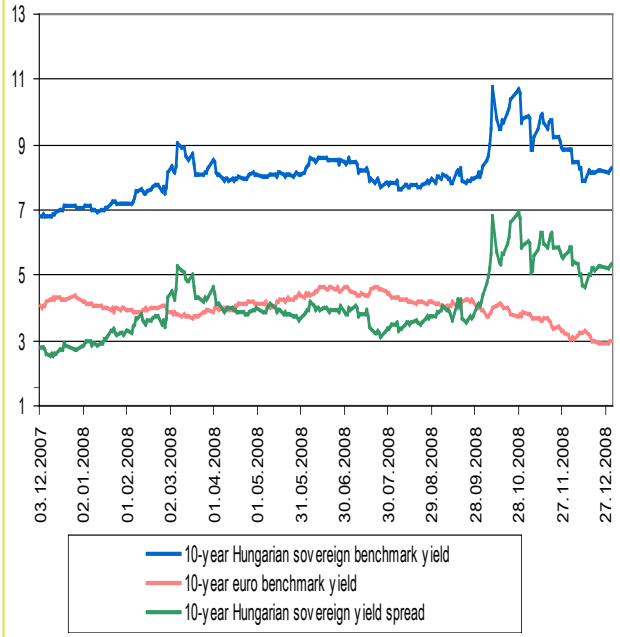
CENTRAL GOVERNMENT GROSS DEBT

HUF BILLION

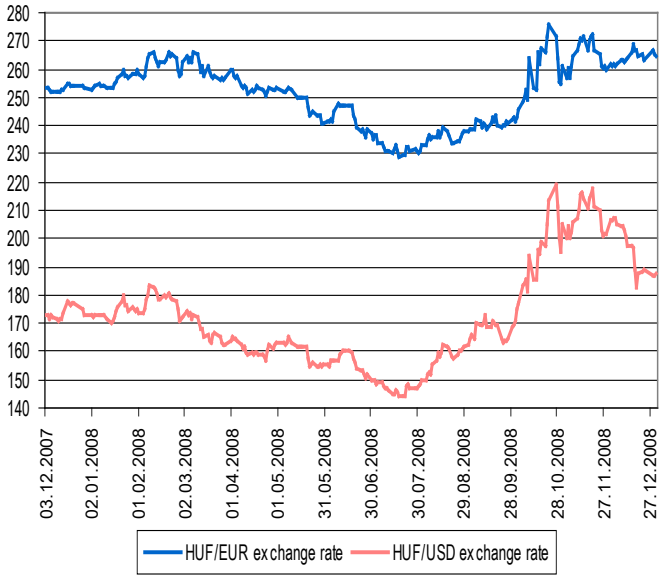
	2002	2003	2004	2005	2006	2007	October 2008	November 2008	December 2008
1. Forint denominated debt	6,956.9	8,008.7	8,608.8	9,153.5	10,552.3	11,103.8	11,281.0	11,415.5	11,250.6
1.1. Loans	353.2	117.9	4.7	0.8	356.4	145.7	183.5	183.5	219.9
1.2. Government securities	6,603.7	7,890.8	8,604.2	9,152.7	10,195.9	10,958.1	11,097.5	11,232.0	11,030.7
1.2.1. Public issues	5,826.3	7,131.5	7,860.6	8,418.8	9,667.5	10,465.4	10,664.3	10,798.8	10,599.7
1.2.1.1. Bonds	3,829.2	5,056.5	5,768.9	6,299.1	7,244.2	8,245.3	8,538.1	8,721.8	8,570.6
1.2.1.2. Discount T-bills	1,436.8	1,541.4	1,463.3	1,530.9	1,755.9	1,664.9	1,588.2	1,541.0	1,482.4
1.2.1.3. Retail securities	560.3	533.5	628.4	588.7	667.4	555.2	538.0	536.0	546.4
1.2.2. Private placements	777.4	759.3	743.6	733.9	528.4	492.7	433.2	433.2	431.0
2. Foreign currency denominated debt*	2,267.3	2,579.0	2,983.5	3,590.7	4,124.4	4,472.6	5,000.0	6,272.2	6,774.8
2.1. Loans	1,394.3	1,084.1	916.8	720.6	803.7	846.5	813.6	2,110.0	2,529.4
2.1.1. Foreign loans	461.9	598.8	528.9	616.9	700.1	838.8	813.6	2,110.0	2,529.4
2.1.2. Domestic loans	932.3	485.3	387.8	103.8	103.6	104.0	0.0	0.0	0.0
2.1.2.1. Raised from National Bank of Hungary (NBH)	849.6	466.5	355.7	96.1	95.9	0.0	0.0	0.0	0.0
2.1.2.2. Other loans	82.8	18.8	32.2	7.7	7.7	7.7	0.0	0.0	0.0
2.2. Government securities	873.0	1,494.9	2,066.8	2,870.1	3,320.7	3,626.1	4,186.5	4,162.2	4,245.5
2.2.1. Issued abroad	873.0	1,494.9	2,066.8	2,870.1	3,320.7	3,626.1	4,186.5	4,162.2	4,245.5
2.2.1.1. Foreign currency bonds	872.9	1,494.7	2,066.7	2,870.0	3,320.6	3,626.1	4,186.4	4,162.2	4,245.4
2.2.1.2. Kingdom of Hungary 1924 issues	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
2.2.2. Issued domestically	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	9,224.2	10,587.7	11,592.4	12,744.2	14,676.7	15,576.4	16,281.0	17,687.7	18,025.4
Other liabilities				21.4	29.0	9.1	7.6	56.5	78.5
Total central government debt				12,765.6	14,705.7	15,585.5	16,288.6	17,744.2	18,103.9
Marketable HUF debt (1.2.1.1+1.2.1.2.+1.2..2.)	*6,043.4*	*7,357.3*	*7,975.8*	*8,563.9*	*9,528.4*	*10,402.9*	*10,559.5*	*10,696.0*	*10,484.0*
Gross debt/GDP	*53.6%*	*55.9%*	*56.0%*	*57.9%*	*61.8%*	*61.3%*			

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

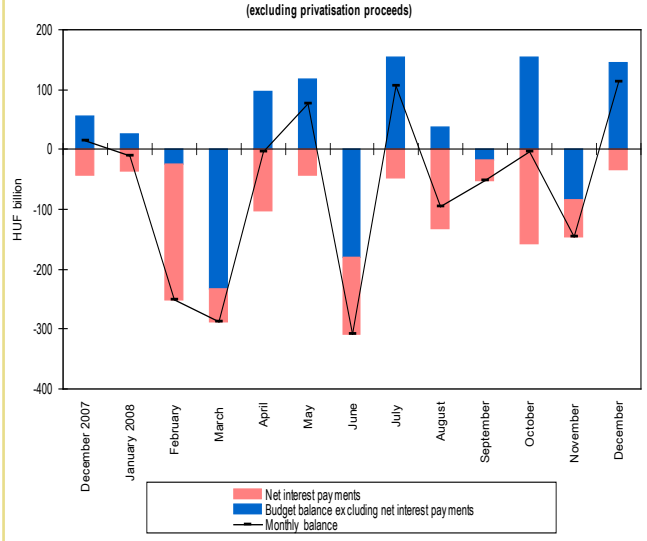
10-year Hungarian and eurozone benchmark yields during the last year



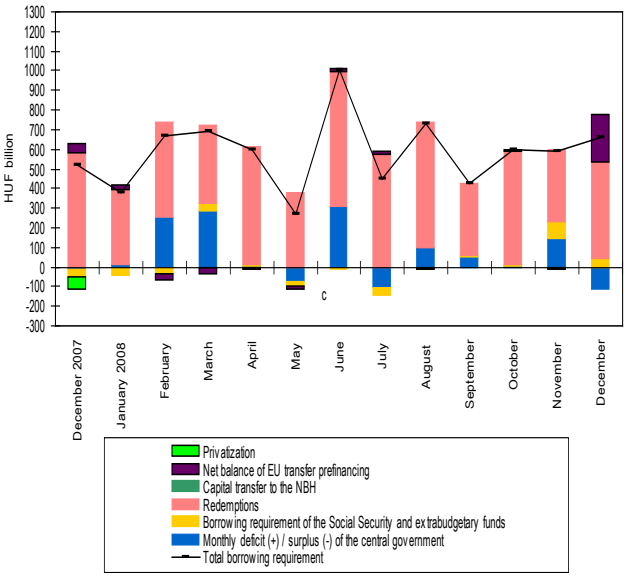
The exchange rate of the Hungarian Forint during the last year



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



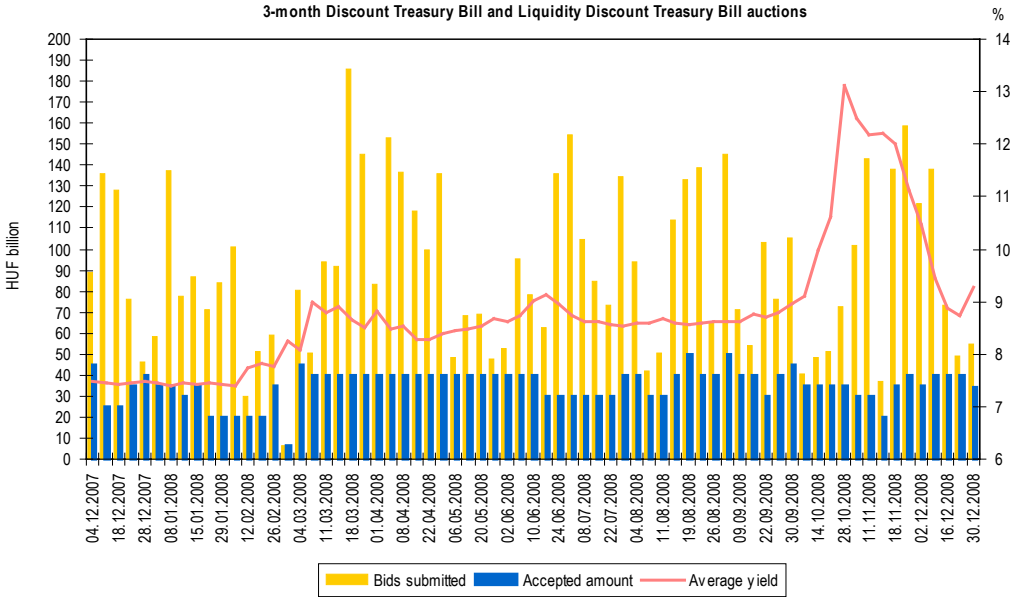
Gross borrowing requirement

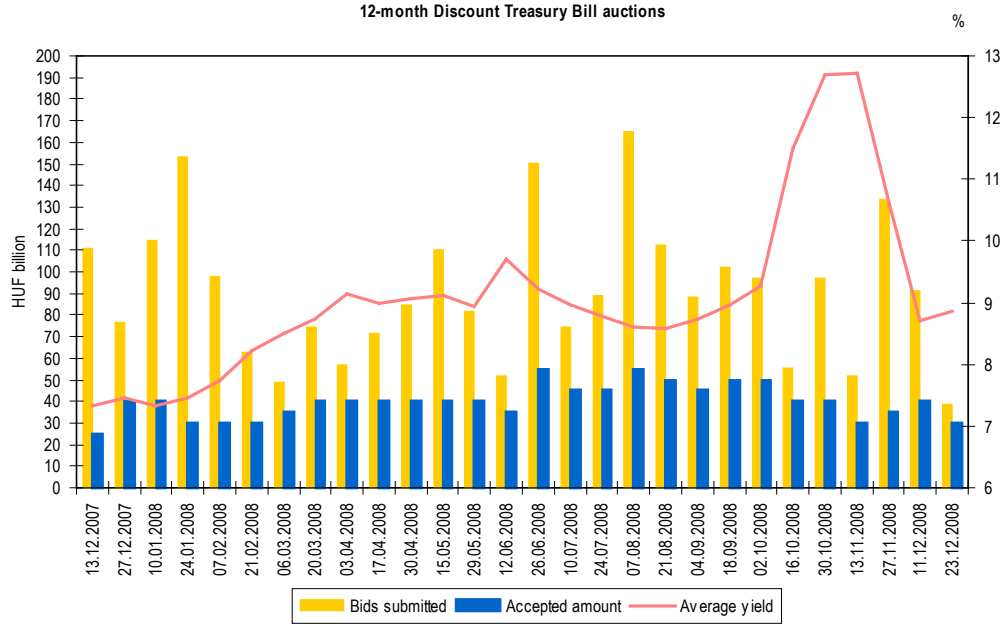


DISCOUNT TREASURY BILL AUCTION RESULTS

	3-month Discount T-bills				12-month Discount T-bills	
Code of T-bills	D090311	D090318	D090325	D090401	D091118	D091118
ISIN code	HU0000517123	HU0000517131	HU0000517149	HU0000517156	HU0000517164	HU0000517164
Maturity in days	91	91	92	91	336	322
Date of auction	02.12.2008	09.12.2008	16.12.2008	23.12.2008	11.12.2008	23.12.2008
Date of financial settlement	10.12.2008	17.12.2008	23.12.2008	31.12.2008	17.12.2008	31.12.2008
Redemption date	11.03.2009	18.03.2009	25.03.2009	01.04.2009	18.11.2009	18.11.2009
Maximum yield, (%) - ISMA	10.55	9.50	9.10	9.08	8.94	9.15
Minimum yield (%) - ISMA	10.00	9.20	8.75	8.50	8.50	8.50
Average yield (%) - ISMA	10.46	9.44	8.87	8.75	8.71	8.87
Maximum yield, (%) - EHM	10.70	9.63	9.23	9.21	9.06	9.28
Minimum yield (%) - EHM	10.14	9.33	8.87	8.62	8.62	8.62
Average yield (%) - EHM	10.61	9.57	8.99	8.87	8.83	8.99
Average selling price (%)	97.4241	97.6694	97.7835	97.8361	92.4818	92.6494
Amount offered for sale (HUF million)	30,000.00	35,000.00	40,000.00	40,000.00	35,000.00	40,000.00
Amount of bids submitted (HUF million)	121,638.03	138,379.58	73,423.19	48,864.73	90,878.00	38,460.00
Amount of bids accepted (HUF million)	34,999.97	39,999.94	39,999.98	40,000.00	40,000.00	30,000.00
Bid-to-cover ratio	3.48	3.46	1.84	1.22	2.27	1.28
Bids submitted (pcs)	146	153	117	66	105	62
Bids accepted (pcs)	43	46	55	55	39	56
Market sales* (HUF million)	34,999.97	39,999.94	39,999.98	40,000.00	40,000.00	30,000.00
Retained on ÁKK's own account	10,500.03	12,000.06	12,000.02	12,000.00	12,000.00	9,000.00
Total amount issued (HUF million)	45,500.00	52,000.00	52,000.00	52,000.00	52,000.00	39,000.00

*Without issuance onto ÁKK's own account

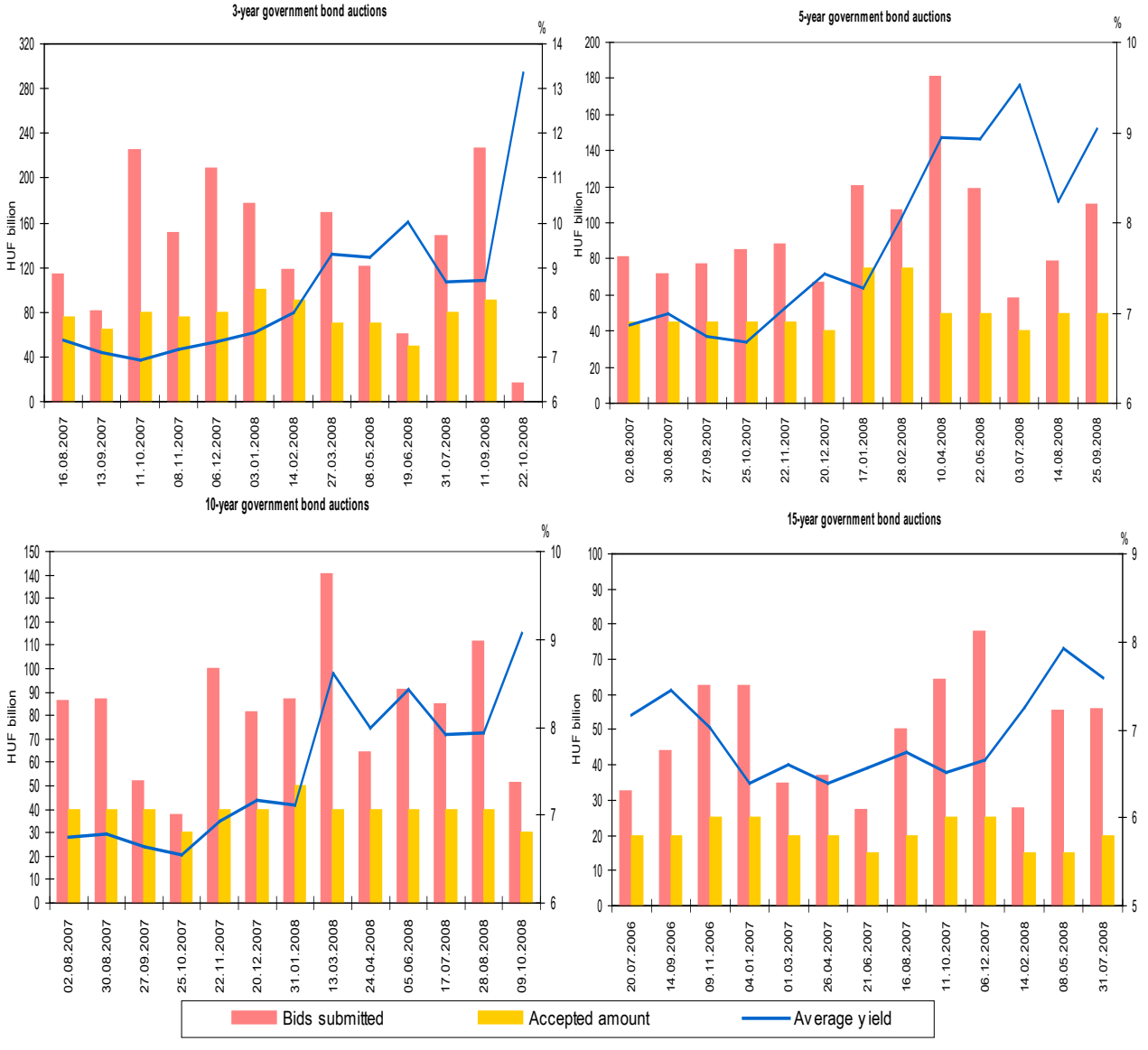




GOVERNMENT BOND AUCTION RESULTS

Government Bond	
ISIN code	
Maturity (in years)	In reaction to market developments,
Coupon (%)	the Government Debt Management Agency Pte. Ltd. (ÁKK)
Auction	did not hold T-bond auction
Date of auction	in December.
Date of financial settlement	
Redemption date	
Maximum annual yield (%) - ISMA	
Minimum annual yield (%) - ISMA	
Average annual yield (%) - ISMA	
Maximum annual yield (%) - EHM	
Minimum annual yield (%) - EHM	
Average annual yield (%) - EHM	
Maximum price (%)	
Minimum price (%)	
Average price (%)	
Amount offered for sale (HUF million)	
Amount of bids submitted (HUF million)	
Amount of bids accepted (HUF million)	
Bid-to-cover ratio	
Bids submitted (pcs)	
Bids accepted (pcs)	
Tail (average price - minimum price)	
Market sales* (HUF million)	
Retained on ÁKK's own account (HUF million)	
Total amount issued (HUF million)	

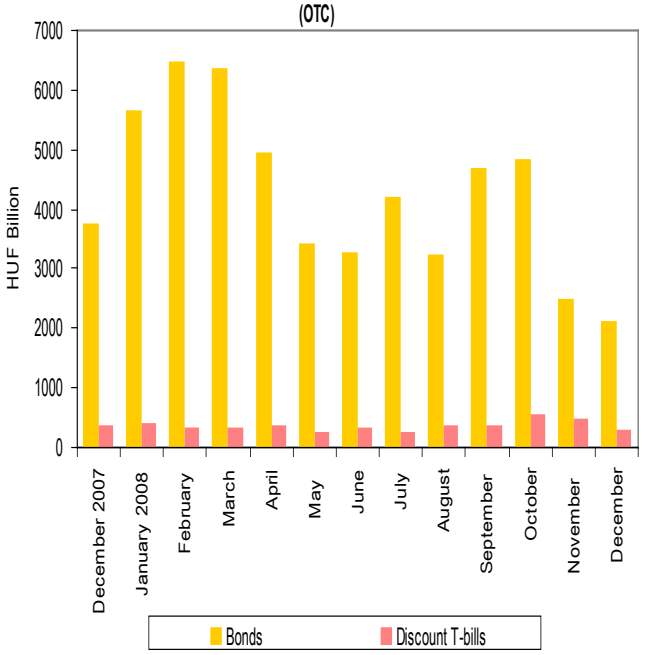
*Without issuance onto ÁKK's own account



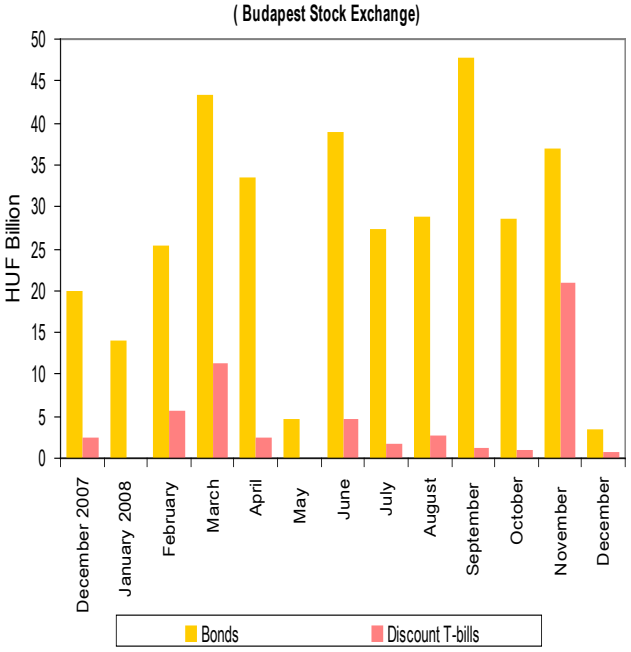
GOVERNMENT SECURITIES BUY-BACK AUCTION

Government bond	2009/D	2009/F	2009/D	2009/F	2009/D	2009/F	2010/C	2009/D	2009/F	2010/C
ISIN code	HU0000402243	HU0000402359	HU0000402243	HU0000402359	HU0000402243	HU0000402359	HU0000402391	HU0000402243	HU0000402359	HU0000402391
Coupon (%)	8.25	6.50	8.25	6.50	8.25	6.50	6.75	8.25	6.50	6.75
Date of reverse auction	03.12.2008	03.12.2008	10.12.2008	10.12.2008	17.12.2008	17.12.2008	17.12.2008	31.12.2008	31.12.2008	31.12.2008
Date of financial settlement	10.12.2008	10.12.2008	17.12.2008	17.12.2008	29.12.2008	29.12.2008	29.12.2008	07.01.2009	07.01.2009	07.01.2009
Redemption date	12.10.2009	12.08.2009	12.10.2009	12.08.2009	12.10.2009	12.08.2009	12.04.2009	12.10.2009	12.08.2009	12.04.2010
Minimum annual yield (%)	0.00	0.00	9.60	9.60	0.00	9.20	9.45	0.00	9.15	9.40
Average annual yield - ISMA (%)	0.00	0.00	9.60	9.60	0.00	9.20	9.51	0.00	9.15	9.41
Average annual yield - EHM (%)	0.00	0.00	9.52	9.45	0.00	9.05	9.51	0.00	8.99	9.41
Amount of bids submitted (HUF m)	27,526.79	10,342.28	20,326.79	11,097.28	2,450.00	8,535.00	16,530.00	500.00	2,265.55	14,500.00
Amount of bids accepted (HUF m)	0.00	0.00	10,326.79	5,051.38	0.00	3,900.00	12,330.00	0.00	1,000.00	10,900.00

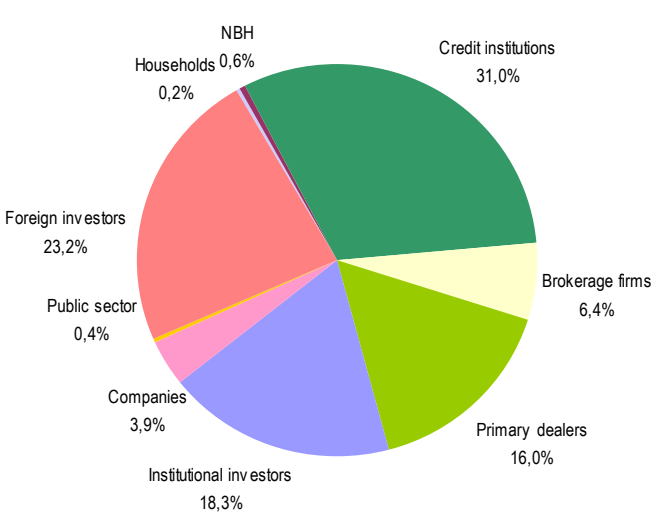
Secondary market trading of Hungarian government securities (OTC)



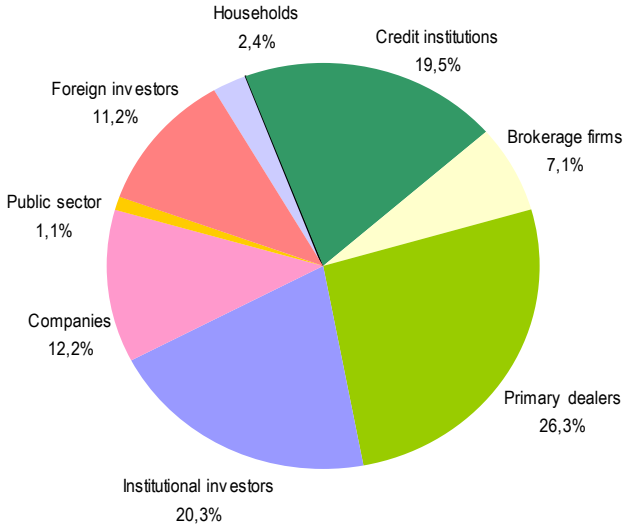
Secondary market trading of Hungarian government securities (Budapest Stock Exchange)



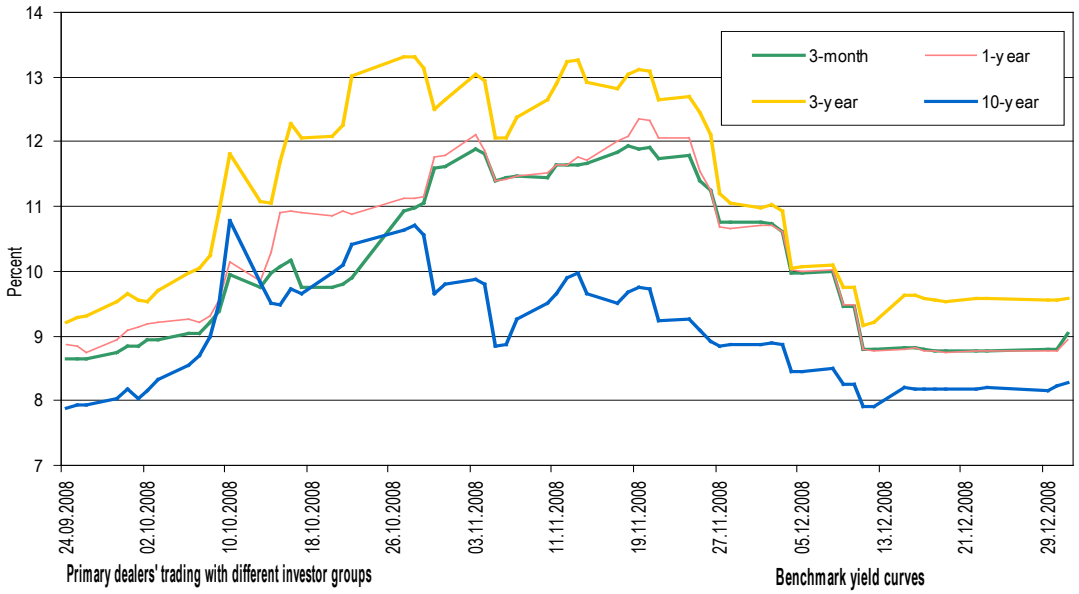
Breakdown of primary dealers' secondary market turnover in government bonds by investor groups in December 2008



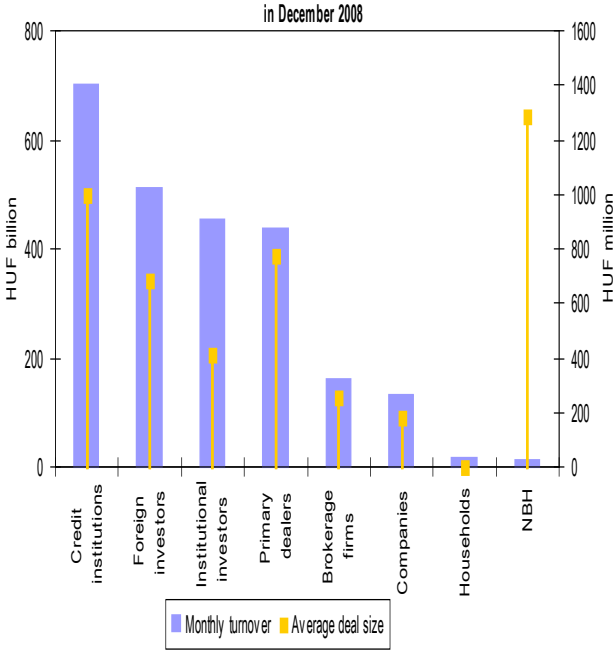
Breakdown of primary dealers' secondary market turnover in Discount Treasury Bills by investor groups in December 2008



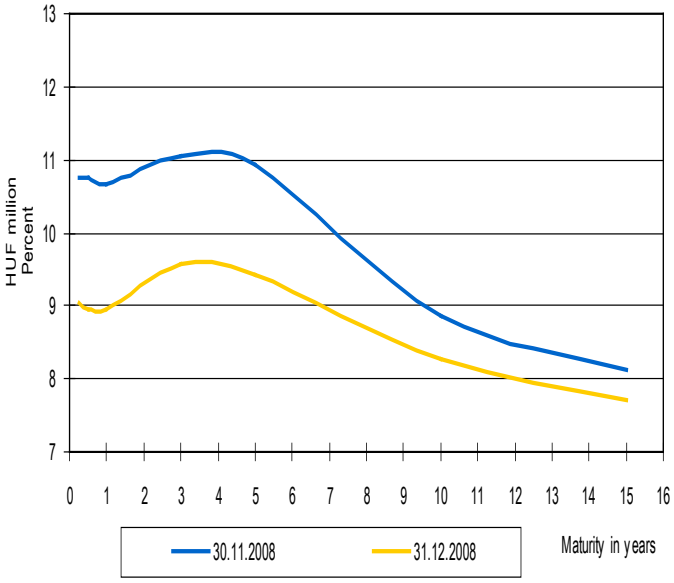
Benchmark yields in the past three months



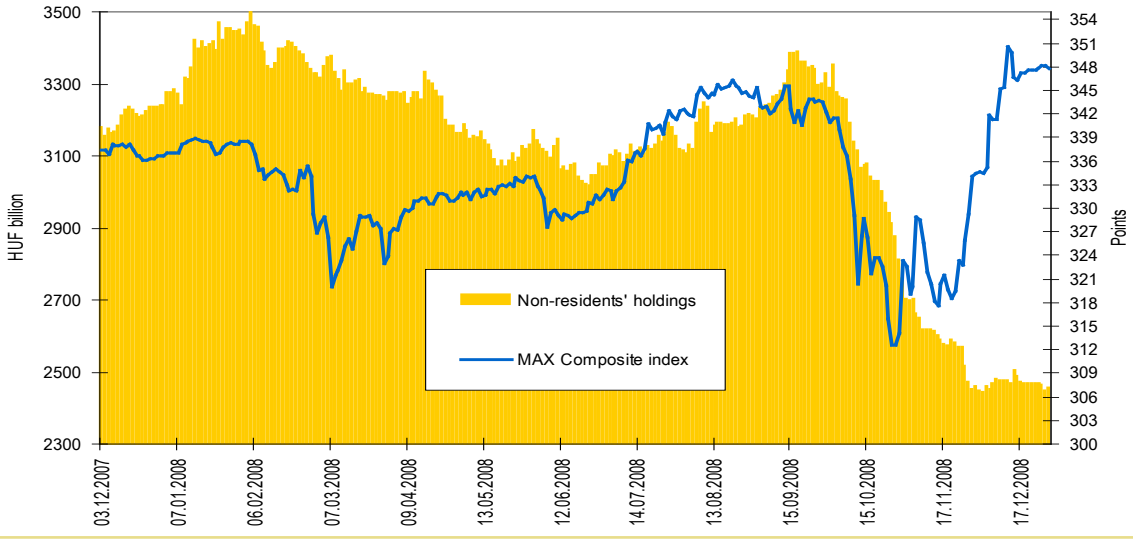
Primary dealers' trading with different investor groups in December 2008



Benchmark yield curves



Non-residents' holdings of Hungarian government securities during the last year and the MAX index



INTEREST RATE RESETS OF FLOATING RATE GOVERNMENT BONDS IN DECEMBER 2008

Government Bond	Date of interest rate reset	Interest period		Date of interest payment	Reset interest rate (%)	Interest payable (%)
2013/C	19.12.2008	20.12.2008	20.06.2009	22.06.2009	9.50	4.80
2014/B	19.12.2008	20.12.2008	20.06.2009	22.06.2009	9.50	4.80
2016/A	29.09.2008	31.12.2008	31.03.2009	31.03.2009	8.50	2.10

HUNGARIAN GOVERNMENT SECURITIES INDICES

	MAX index	RMAX index	MAX Composite index	ZMAX index
Value as at 31 December 2008	349.8700	367.8897	347.8543	373.0173
Changes compared to the end of the month before	15.6538	6.8234	13.3953	4.3874
Annual yield earned on the index portfolio	2.56%	8.36%	3.26%	8.86%

Government securities with the highest secondary market turnover in December 2008

Government security	Date of redemption	Turnover (HUF billion)
2012/C	24.10.2012	243.4
2011/C	22.04.2011	236.7
2017/B	24.02.2017	181.6
2010/D	24.08.2010	162.4
2011/B	12.10.2011	142.4
2019/A	24.06.2019	117.9
2010/B	12.10.2010	107.1
2009/D	12.10.2009	91.9
2012/B	12.06.2012	90.6
2010/C	12.04.2010	78.5

The outstanding volume of government bonds with benchmark status at the end of December 2008

	HUF billion	
Government bond	30.11.2008	31.12.2008
2011/C	555.61	555.72
2012/C	656.03	656.06
2019/A	280.17	280.17
2023/A	200.09	200.09

PRIMARY DEALERS - AS AT 31 DECEMBER 2008

Primary dealers:		Primary dealers for retail securities:
CIB Bank Zrt.	Magyar Külkereskedelmi Bank Zrt.	CIB Bank Zrt.
CITIBANK Zrt.	Magyar Takarékszövetkezeti Bank Zrt.	HVB Bank Hungary Zrt.
Deutsche Bank Zrt.	Országos Takarékpénztár és Kereskedelmi Bank Nyrt	Kereskedelmi és Hitelbank Zrt.
ERSTE Bank Befektetési Magyarország Zrt.	Raiffeisen Bank Zrt.	Magyar Takarékszövetkezeti Bank Zrt.
ING Bank N.V.	UniCredit Bank Hungary Zrt.	Országos Takarékpénztár és Kereskedelmi Bank Nyrt.
Kereskedelmi és Hitelbank Zrt.		the branch network of the Hungarian State Treasury