GOVERNMENT SECURITIES MARKET

MONTHLY REPORT

AUGUST 2004

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GOVERNMENT SECURITIES MARKET

In the first eight months of 2004 the deficit of the central budget amounted to HUF 1192.4 billion, including the sum of debt assumptions. This net borrowing requirement was met by a total net issuance of HUF 1245.3 billion (ca. EUR 5.0 billion, including loan assumptions) in the first eight months of the year, out of which net domestic issuance was HUF 762.2 billion (ca. EUR 3.0 billion) and net foreign exchange issuance totalled HUF 483.1 billion (ca. EUR 1.9 billion).

Until the end of August the Forint denominated debt of the central government increased by HUF 761.3 billion in 2004. This total net change was the result of the net domestic issuance and the decline in the volume of matured but unclaimed securities of HUF 0.9 billion. Out of the increase in domestic debt government bonds accounted for HUF 469.5 billion, discount Treasury bills for HUF 219.3 billion and retail government securities for HUF 89.1 billion. The volume of domestic loans decreased by HUF 16.7 billion.

The foreign currency debt of the central government showed an increase of HUF 344.1 billion in the first eight months of the year. Foreign exchange bond issuance contributed by HUF 546.6 billion, loan drawdowns and assumptions by HUF 80.6 billion to this growth of debt. On the other hand, bond redemptions worth HUF 127.0 billion, loan redemptions amounting to HUF 17.1 billion and exchange rate gains of HUF 138.9 billion decreased the Forint value of the foreign currency debt. Out of the HUF 483.1 billion (ca. EUR 1.9 billion) total net foreign currency issuance, market transactions accounted for HUF 417.9 billion (ca. EUR 1.7 billion), the remaining HUF 65.2 billion was the balance of loan transactions.

At the end of August 2004 63.5% of the domestic government securities were fixed rate, 36.5% floating rate securities, compared to 62.6% and 37.4% at the end of 2003.

The National Bank of Hungary cut its base rate by 50 basis points from 11.5% to 11% by the middle of August, which resulted in a decline of yields in the primary market of government securities (except in the case of the 12-month T-bill). In the secondary market the 3 and 6-month yields showed a decrease, however, in the case of long-term yields, a rise of 10-38 basis points was seen primarily due to the budget deficit figure and the uncertainties in domestic politics, which had an opposite effect contrary to the rate-cut. The 3-year yield showed the largest increase, rising to 10.42% by 38 basis points, the 1-year yield increased to 10.78% by 6 basis points, while the 10-year benchmark yield reached 8.65% at the end of August after rising by 29 basis points. In August 2004 a new 10-year bond series gained benchmark status: the bond marked 2015/A took the place of the 2014/C.

Monthly OTC turnover of government securities was significantly higher in August than in the previous month, it increased from HUF 1570 billion to HUF 1988 billion. Primary dealers, who account for the decisive part of all secondary government securities trading, made 45% 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 August, then dropped at the end of the month. Overall, in August it grew by HUF 65.5 billion compared to the end of July to HUF 2424.3 billion, which volume represented 30.1% of the total amount of domestic government bonds and discount Treasury bills at the end of the month.

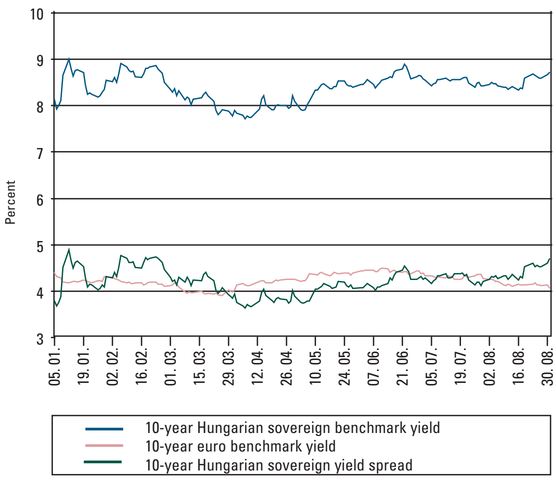
The HUF/EUR mid exchange rate at the end of August was 249.28.

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

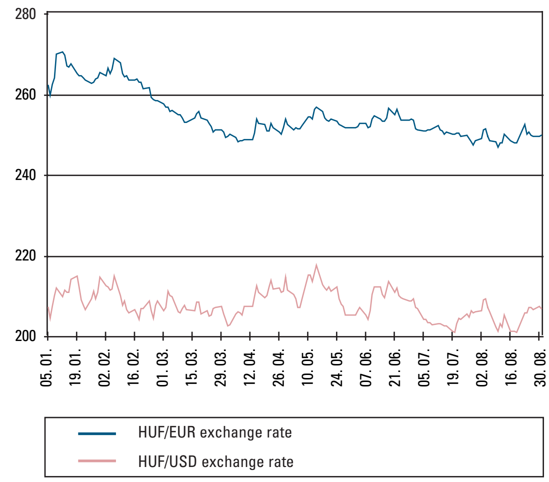
CENTRAL GOVERNMENT GROSS DEBT

	1998	1999	2000	2001	2002	2003	June 2004	July 2004	Aug. 2004
1. Forint denominated debt	**3,733.9**	**4,350.2**	**4,717.5**	**5,397.4**	**6,956.9**	**8,008.7**	**8,619.0**	**8,685.1**	**8,770.0**
1.1. Loans	435.0	380.2	303.8	228.3	353.2	117.9	102.3	101.5	101.2
1.1.1. Foreign loans	0.0	0.0	0.0	0.0	1.7	1.4	1.4	1.4	1.4
1.1.2. Domestic loans	435.0	380.2	303.8	228.3	351.5	116.5	100.8	100.1	99.8
1.1.2.1. Raised from National Bank of Hungary (NBH)	434.9	362.4	289.5	217.4	144.0	71.2	46.1	46.1	46.1
1.1.2.2. Other loans	0.1	17.8	14.3	10.9	207.5	45.3	54.7	54.0	53.7
1.2. Government securities	**3,299.0**	**3,970.0**	**4,413.6**	**5,169.1**	**6,603.7**	**7,890.8**	**8,516.7**	**8,583.6**	**8,668.8**
1.2.1. Public issues	2,432.8	3,116.8	3,582.4	4,360.0	5,826.3	7,131.5	7,762.5	7,831.3	7,919.4
1.2.1.1. Bonds	1,386.5	1,790.8	2,221.2	2,782.0	3,829.2	5,056.5	5,360.7	5,444.7	5,536.0
1.2.1.2. Discount T-bills	689.9	826.7	837.9	1,033.3	1,436.8	1,541.4	1,795.0	1,775.3	1,760.7
1.2.1.3. Retail securities	356.5	499.3	523.3	544.7	560.3	533.5	606.7	611.3	622.7
1.2.2. Private placements	866.1	853.2	831.3	809.1	777.4	759.3	754.2	752.3	749.4
2. Foreign currency denominated debt*	**2,431.9**	**2,536.2**	**2,508.8**	**2,322.1**	**2,267.3**	**2,579.0**	**2,922.3**	**2,945.9**	**2,923.1**
2.1. Loans	2,367.8	1,929.6	1,772.8	1,410.4	1,394.3	1,084.1	1,066.5	1,128.9	1,096.2
2.1.1. Foreign loans	249.6	361.2	368.8	317.8	461.9	598.8	583.8	656.3	621.0
2.1.2. Domestic loans	2,118.2	1,568.4	1,404.0	1,092.6	932.3	485.3	482.7	472.6	475.2
2.1.2.1. Raised from National Bank of Hungary (NBH)	2,118.2	1,568.4	1,404.0	1,092.6	849.6	466.5	448.9	439.5	441.9
2.1.2.2. Other loans	0.0	0.0	0.0	0.0	82.8	18.8	33.9	33.2	33.3
2.2. Government securities	64.0	606.7	736.0	911.7	873.0	1,494.9	1,855.9	1,817.0	1,826.9
2.2.1. Issued abroad	44.4	587.1	715.7	911.7	873.0	1,494.9	1,855.9	1,817.0	1,826.9
2.2.1.1. Foreign currency bonds	43.8	586.8	715.4	911.5	872.9	1,494.7	1,855.8	1,816.9	1,826.8
2.2.1.2. Kingdom of Hungary 1924 issues	0.6	0.3	0.3	0.3	0.2	0.1	0.1	0.1	0.1
2.2.2 Issued domestically	19.6	19.6	20.3	0.0	0.0	0.0	0.0	0.0	0.0
Total	**6,165.8**	**6,886.4**	**7,226.2**	**7,719.5**	**9,224.2**	**10,587.7**	**11,541.3**	**11,631.0**	**11,693.1**
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*	*7,910.0*	*7,972.3*	*8,046.1*
Gross debt/GDP	*61.1%*	*60.4%*	*54.9%*	*52.0%*	*55.1%*	*57.0%*			

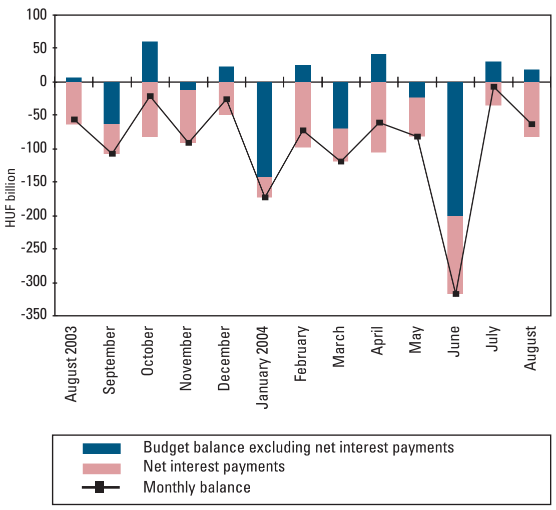
* Foreign exchange debt is recorded at the mid exchange rate of the NBH at the end of the year/month



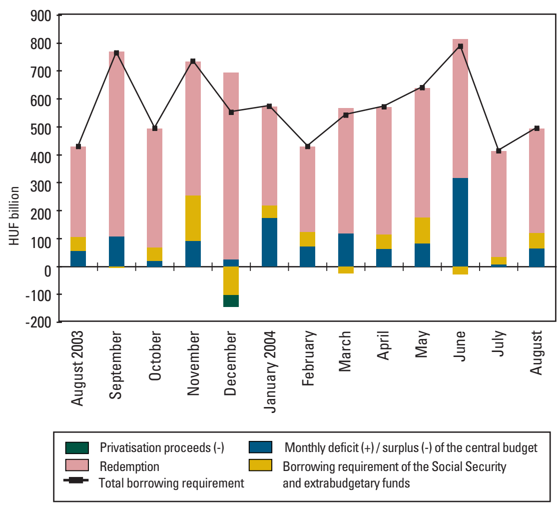
10-year Hungarian and eurozone benchmark yields in 2004



The exchange rate of the Hungarian Forint in 2004



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



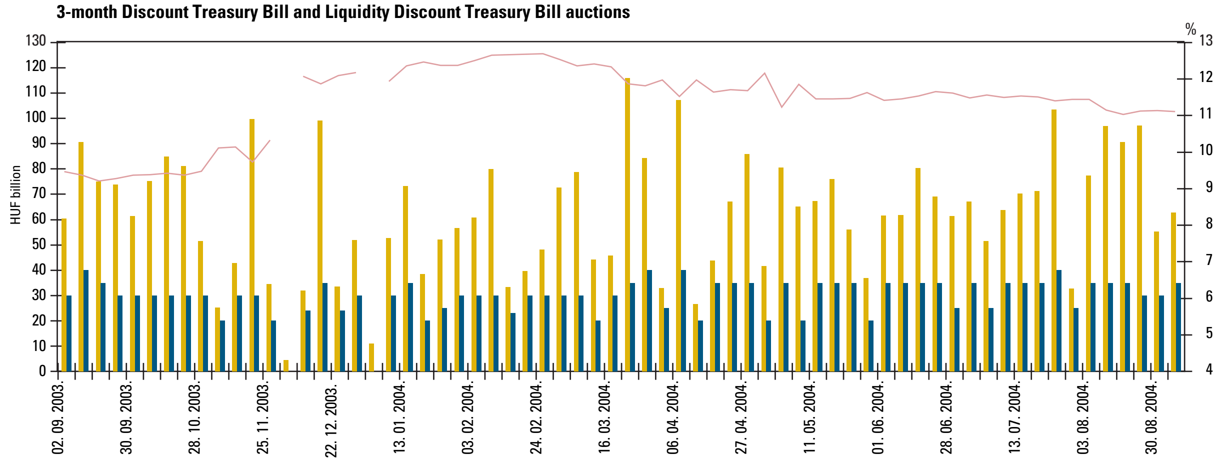
Gross borrowing requirement

DISCOUNT TREASURY BILL AUCTION RESULTS

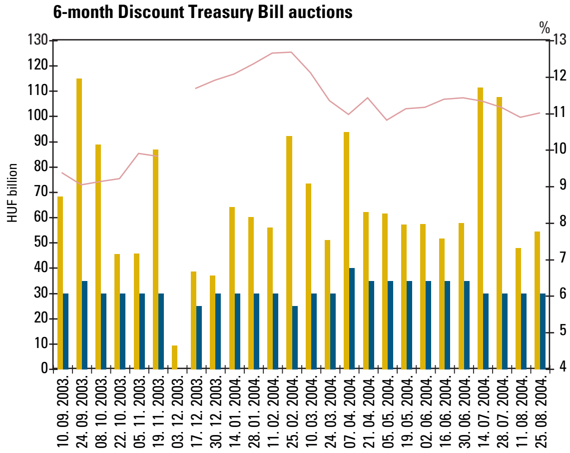
	Liquidity Discount T-bills		3-month Discount T-bills					6-month Discount T-bills		12-month Discount T-bills	
Code of T-bill	D040915	D041013	D041110	D041117	D041124	D041201	D041208	D050119	D050316	D050803	D050803
Maturity in days	42	42	91	91	91	91	91	154	196	350	336
Date of auction	02.08.2004	30.08.2004	03.08.2004	10.08.2004	17.08.2004	24.08.2004	31.08.2004	11.08.2004	25.08.2004	12.08.2004	26.08.2004
Date of financial settlement	04.08.2004	01.09.2004	11.08.2004	18.08.2004	25.08.2004	01.09.2004	08.09.2004	18.08.2004	01.09.2004	18.08.2004	01.09.2004
Redemption date	15.09.2004	13.10.2004	10.11.2004	17.11.2004	24.11.2004	01.12.2004	08.12.2004	19.01.2005	16.03.2005	03.08.2005	03.08.2005
Maximum yield (%) - ISMA	11.45	11.12	11.42	11.10	11.01	11.09	11.09	10.95	11.00	10.67	10.79
Average yield (%) - ISMA	11.10	10.85	11.00	11.00	10.75	10.80	10.75	10.70	10.40	10.50	10.40
Minimum yield (%) - ISMA	11.39	11.09	11.40	11.10	10.98	11.07	11.06	10.85	10.97	10.65	10.76
Maximum yield (%) - EHM	11.61	11.27	11.58	11.25	11.16	11.24	11.24	11.10	11.15	10.82	10.94
Average yield (%) - EHM	11.25	11.00	11.15	11.15	10.90	10.95	10.90	10.85	10.54	10.65	10.54
Minimum yield (%) - EHM	11.55	11.24	11.56	11.25	11.13	11.22	11.21	11.00	11.12	10.80	10.91
Average selling price (%):	98.6886	98.7227	97.1990	97.2707	97.2995	97.2779	97.2803	95.5645	94.3641	90.6173	90.8738
Amount offered for sale (HUF million)	30000.00	30000.00	35000.00	35000.00	35000.00	30000.00	30000.00	30000.00	30000.00	30000.00	30000.00
Amount of bids submitted (HUF million)	32601.01	55218.55	77411.95	96897.32	90558.85	97238.82	62714.71	47885.00	54519.53	80609.14	76878.80
Amount of bids accepted (HUF million)	25000.00	29999.96	34999.90	34999.94	34999.91	29999.93	34999.90	29999.99	29999.92	29999.96	29999.85
Bid-to-cover ratio:	1.30	1.84	2.21	2.77	2.59	3.24	1.79	1.60	1.82	2.69	2.56
Bids submitted (pcs)	73	105	159	112	184	161	157	109	163	136	168
Bids accepted (pcs)	59	64	96	23	90	62	110	99	114	61	102
Market sales* (HUF million)	25000.00	29999.96	34999.90	34999.94	34999.91	29999.93	34999.90	29999.99	29999.92	29999.96	29999.85
Retained on ÁKK's own account (HUF million)	0.00	0.04	3500.10	3500.06	3500.09	3000.07	3500.10	3000.01	9000.08	3000.04	3000.15
Total amount issued (HUF million)	25000.00	30000.00	38500.00	38500.00	38500.00	33000.00	38500.00	33000.00	39000.00	33000.00	33000.00

* Without issuance onto ÁKK's own account

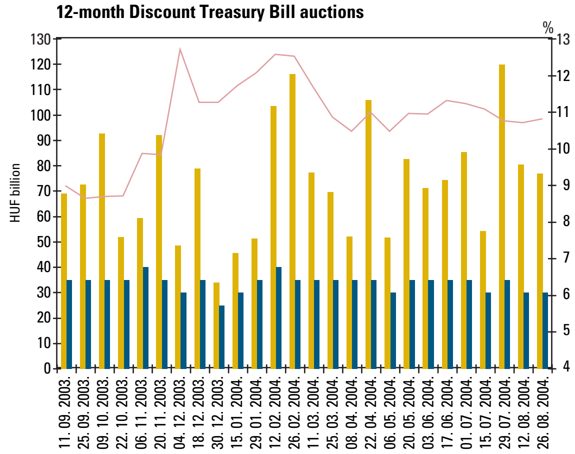
3-month Discount Treasury Bill and Liquidity Discount Treasury Bill auctions



6-month Discount Treasury Bill auctions



12-month Discount Treasury Bill auctions



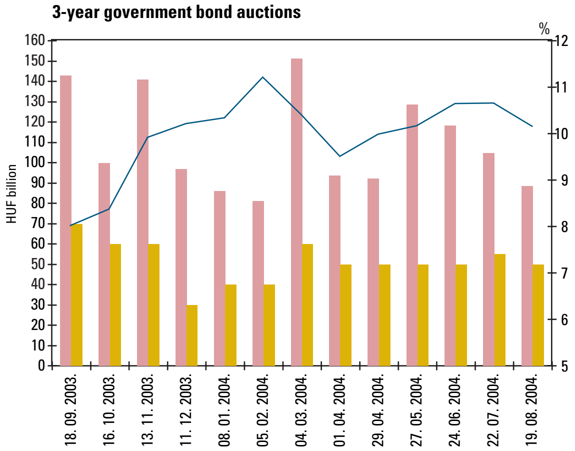
Bids submitted — Accepted amount — Average yield

GOVERNMENT BOND AUCTION RESULTS

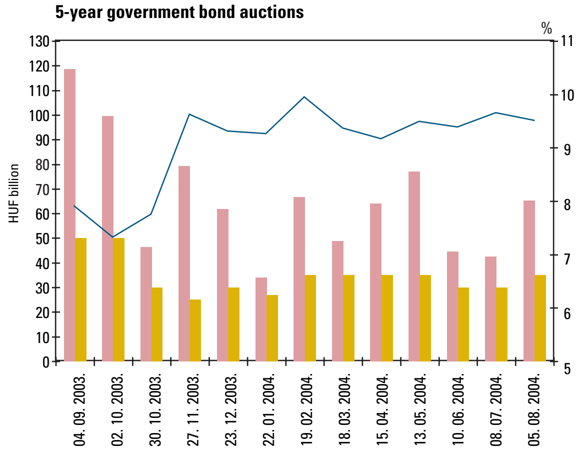
Government Bond	2009/D	2015/A	2007/G
ISIN code	HU0000402243	HU0000402268	HU0000402250
Maturity (in years)	5	10	3
Coupon (%)	8.25%	8.00%	9.25%
Auction	3rd auction	2nd auction	3rd auction
Date of auction	05.08.2004	05.08.2004	19.08.2004
Date of financial settlement	11.08.2004	11.08.2004	25.08.2004
Redemption date	12.10.2009	12.02.2015	12.10.2007
Maximum annual yield (%) - ISMA	9.50	8.37	10.13
Minimum annual yield (%) - ISMA	9.42	8.34	10.00
Average annual yield (%) - ISMA	9.48	8.36	10.11
Maximum annual yield (%) - EHM	9.49	8.36	10.13
Minimum annual yield (%) - EHM	9.41	8.33	10.00
Average annual yield (%) - EHM	9.47	8.35	10.11
Maximum price (%)	95.4104	97.7373	98.0979
Minimum price (%)	95.1051	97.5363	97.7682
Average price (%)	95.1869	97.6268	97.8159
Amount offered for sale (HUF million)	35,000.00	25,000.00	50,000.00
Amount of bids submitted (HUF million)	65,117.94	50,670.39	88,483.95
Amount of bids accepted (HUF million)	34,999.94	25,000.00	49,999.92
Bid-to-cover ratio	1.86	2.03	1.77
Bids submitted (pcs)	119	85	144
Bids accepted (pcs)	55	18	57
Tail (average price - minimum price)	0.08	0.09	0.05
Market sales* (HUF million)	34,999.94	25,000.00	49,999.92
Retained on ÁKK's own account (HUF million)	7,000.06	5,000.00	4,000.08
Total amount issued (HUF million)	42,000.00	30,000.00	54,000.00

* Without issuance onto ÁKK's own account

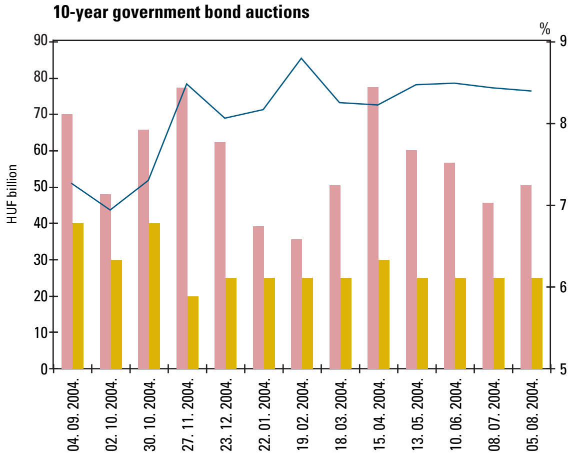
3-year government bond auctions



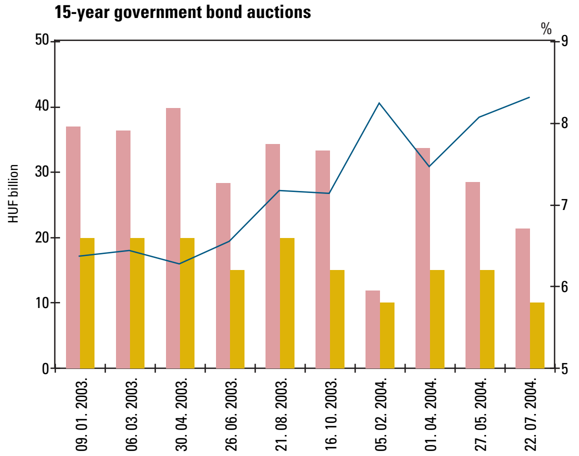
5-year government bond auctions



10-year government bond auctions



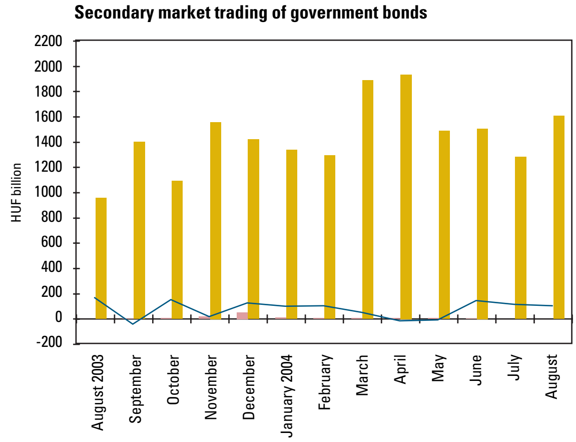
15-year government bond auctions

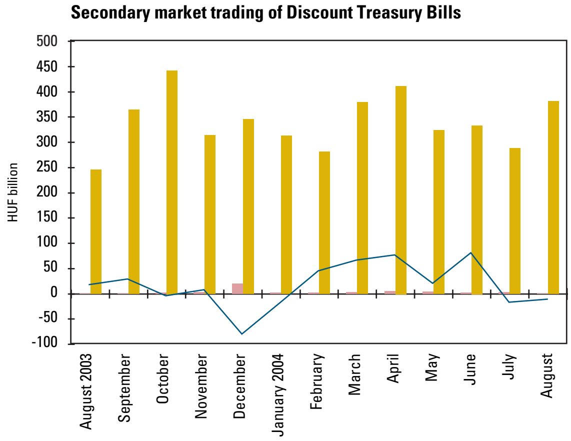


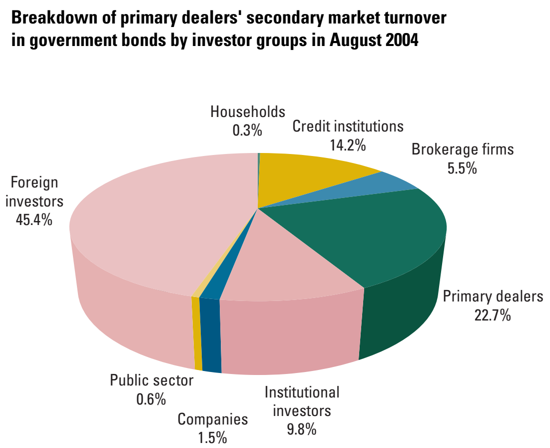
Bids submitted — Accepted amount — Average yield

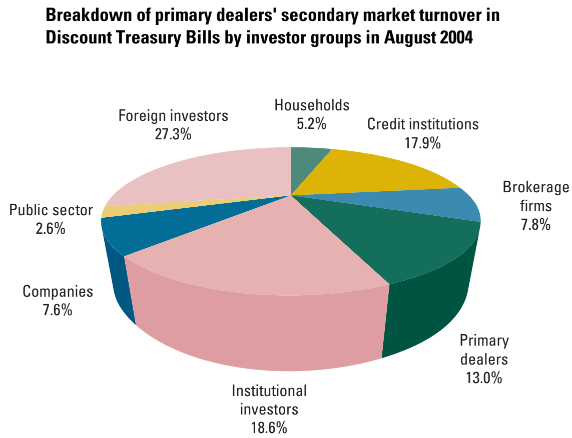
GOVERNMENT BOND REVERSE AUCTION RESULTS

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	04.08.2004	04.08.2004	18.08.2004	18.08.2004
Redemption date	12.04.2005	12.08.2005	12.04.2005	12.08.2005
Date of financial settlement	11.08.2004	11.08.2004	25.08.2004	25.08.2004
Minimum annual yield (%)	11.15	11.15	10.85	-
Average annual yield (%) - ISMA	11.17	11.15	10.88	-
Amount of bids submitted (HUF million)	25686.94	33982.80	15610.90	24722.03
Amount of bids accepted (HUF million)	15106.94	500.00	1244.08	0.00
Bids submitted (pcs)	18	18	18	24
Bids accepted (pcs)	11	1	5	0





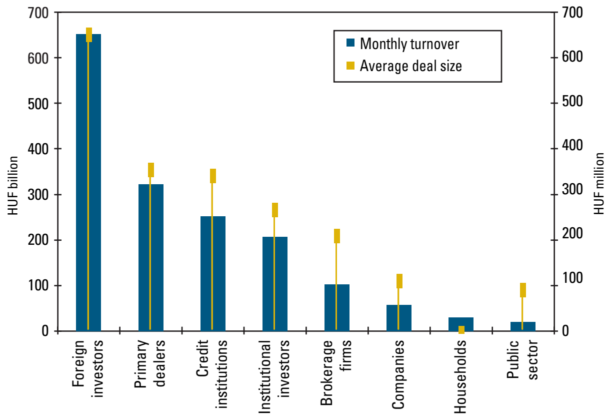




GOVERNMENT SECURITIES WITH THE HIGHEST SECONDARY MARKET TURNOVER IN AUGUST 2004

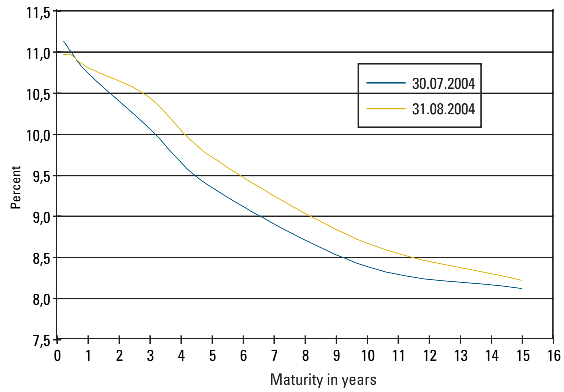
Government security	Date of redemption	Turnover (HUF billion)
2007/G	12.10.2007	183.7
2009/D	12.10.2009	115.1
2006/G	24.08.2006	91.3
2009/C	24.06.2009	88.7
D050803	03.08.2005	81.3
D050119	19.01.2005	80.7
2014/C	12.02.2014	75.3
2008/C	12.06.2008	75.0
2006/F	12.04.2006	72.2
2007/F	12.04.2007	63.3

Primary dealers' trading with different investor groups in August 2004

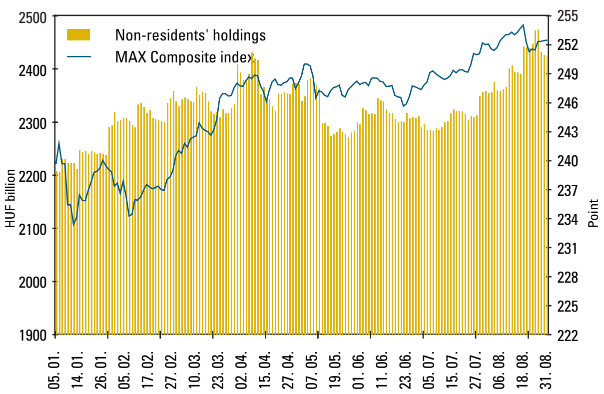


Benchmark yields in 2004

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 AUGUST 2004

	HUF billion	
Government bond	31.07.2004	31.08.2004
2007/G	105.78	155.99
2009/D	60.07	94.14
2015/A	25.60	50.41
2020/A	50.25	50.17

HUNGARIAN GOVERNMENT SECURITIES INDICES

	MAX index	RMAX index	MAX Composite index	ZMAX index
Value as at 31 August 2004	252.8641	261.2348	252.3897	265.6001
Changes compared to end of the month before	0.0605	2.1833	0.4635	2.3982
Annual yield earned on the index portfolio	2.87%	9.53%	4.34%	10.91%

EVENTS CALENDAR - OCTOBER 2004

Week 40					**1**	**2**	**3**
					Friday	**Sat.**	**Sun.**
Interest Bearing T-bill subscription					K2005/20		
Week 41	**4**	**5**	**6**	**7**	**8**	**9**	**10**
	Monday	**Tuesday**	**Wednesday**	**Thursday**	**Friday**	**Sat.**	**Sun.**
Discount T-bill public offer			3-month DKJ				
Discount T-bill auction		D050112	D050316	D050928			
Discount T-bill auction settlement			D050105				
Discount T-bill redemption			D041006				
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			K2005/21				
Interest Bearing T-bill redemption			K2004/20				
Government Bond public offer				3-year Bond			
Government Bond auction settlement			5 and 10-year Bonds				
Week 42	**11**	**12**	**13**	**14**	**15**	**16**	**17**
	Monday	**Tuesday**	**Wednesday**	**Thursday**	**Friday**	**Sat.**	**Sun.**
Discount T-bill public offer			3, 6 and 12-month DKJs				
Discount T-bill auction		D050119					
Discount T-bill auction settlement			D050112/D050316/D050928				
Discount T-bill redemption			D041013				
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		K2005/22					
Interest Bearing T-bill subscription			K2005/21				
Government Bond auction				3-year Bond			
Government Bond interest payment		4 Bond series					
Government Bond redemption		2004/J					
Week 43	**18**	**19**	**20**	**21**	**22**	**23**	**24**
	Monday	**Tuesday**	**Wednesday**	**Thursday**	**Friday**	**Sat.**	**Sun.**
Discount T-bill public offer			3-month DKJ				
Discount T-bill auction		D050126	D050511	D050928			
Discount T-bill auction settlement			D050119				
Discount T-bill redemption			D041020				
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			K2005/22				
Interest Bearing T-bill redemption			K2004/21				
Government Bond public offer				5 and 10-year Bonds			
Government Bond auction settlement			3-year Bond				
Week 44	**25**	**26**	**27**	**28**	**29**	**30**	**31**
	Monday	**Tuesday**	**Wednesday**	**Thursday**	**Friday**	**Sat.**	**Sun.**
Discount T-bill public offer			3, 6 and 12-month DKJs				
Discount T-bill auction		D050202					
Discount T-bill auction settlement			D050126/D050511/D050928				
Discount T-bill redemption			D041027				
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		K2005/23					
Interest Bearing T-bill subscription			K2005/22				
Government Bond auction				5 and 10-year Bonds			
Government Bond reverse auction			2 Bond series				
Government Bond interest payment	2008/A, 2026/C	2004/E					
Government Bond redemption		2004/E					

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 AUGUST 2004

Government Bond	Date of interest rate reset	Interest period			Date of interest payment	Reset interest rate (%)	Interest payable (%)
2005/C	06.08.2004	11.08.2004	-	11.08.2005	11.08.2005	12,29	12,46
2005/F	17.08.2004	24.08.2004	-	24.02.2005	24.02.2005	11,09	5,67
2006/A	28.08.2004	28.02.2004	-	28.08.2004		12,19	
		28.08.2004	-	28.02.2005	28.02.2005	11,32	11,95
2026/A	28.08.2004	28.02.2004	-	28.08.2004		12,19	
		28.08.2004	-	28.02.2005	28.02.2005	11,32	11,95

PRIMARY DEALERS - AS AT 31 AUGUST 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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