



GOVERNMENT SECURITIES MARKET

QUARTERLY REPORT

■ SECOND QUARTER 2006 ■

■ GOVERNMENT SECURITIES MARKET ■

The deficit of the central government amounted to HUF 1,285 billion in the first half of 2006. The net financing need was increased by the prefinancing related to the EU's EAGGF fund by HUF 26 billion, and the capital transfer by law to the National Bank of Hungary (NBH) by HUF 15 billion. Total net funding need was however decreased by privatisation revenues of HUF 190 billion. The total net financing requirement of HUF 1136 billion (ca. EUR 4 billion) in H1 2006 was met by a net issuance of HUF 1224 billion (ca. EUR 4.3 billion), out of which net domestic currency issuance was HUF 780 billion (ca. EUR 2.75 billion) and net foreign exchange issuance totalled HUF 444 billion (ca. EUR 1.6 billion).

The average term-to-maturity of the HUF debt portfolio was 3.57 years while that of the foreign currency debt portfolio was 7.08 years at the end of June 2006. During the first half of the year the average term-to-maturity did not change in the case of the domestic debt portfolio and increased from 6.92 years in the case of the foreign exchange debt.

Benchmark government securities yields hardly changed in the second quarter until early June, followed by a rapid increase in the rest of the month. The National Bank of Hungary increased its base rate by 25 bp to 6.25 pc on 19th June, due to increasing inflationary expectations and higher international yields. Treasury bill yields were higher by 55-133 basis points by the end of June compared to March, while benchmark government bond yields increased by 57-128 basis points. At the end of H1 2006 the 1-year yield was 8.13%, the 3-year yield stood at 8.55%, while the 10-year yield was 7.94%.

In the second quarter of 2006 ÁKK issued one new bond serie: the 3-year 2009/F took the place of the 2009/E. The new bond has a tenure of 3 years with 6.5 pc fixed coupon.

The OTC turnover of government securities in the second quarter of 2006 was higher by 19% compared to the previous quarter; it amounted to HUF 11764 billion. Primary dealers, who account for the decisive part of all secondary government securities trading, made 44% of their secondary government securities deals with non-resident investors.

The volume of non-resident holdings of Hungarian government securities reached a new historically high level of HUF 2844 billion (EUR 10 billion) in early April, which was followed by a sharp decrease. Overall, non-resident holdings decreased by HUF 40 billion in the second quarter to HUF 2725 billion, which represented 29.3% of the total volume of domestic government bonds and discount Treasury bills at the end of June 2006.

The Republic of Hungary did not issue foreign currency bonds in Q2 2006. Project financing loans from International Financing Institutions were drawn down in an amount of HUF 58 billion (EUR 200 million).

The HUF/EUR mid exchange rate at the end of June 2006 was 281,93

The credit rating of the long-term foreign currency debt of the Republic of Hungary: BBB+ / A1 / BBB+

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MACROECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006. April	2006. May	2006.June/ Q2(*)
GDP growth (yearly average) ¹	4.9	4.2	5.1	4.6	3.8	3.3	4.9	4.3			7.2*
Industrial production ¹	12.5	10.4	18.1	3.6	2.8	5.9	8.3	7.3	7.1	7.4	
Unemployment rate (%; 3-month average)	7.8	7.0	6.4	5.7	5.9	5.9	6.1	7.2			
Consumer price index (yearly change) ²	10.3	11.2	10.1	6.8	4.8	5.7	5.5	3.3	2.3	2.8	2.8
Consumer price index (yearly average)	14.2	10.0	9.8	9.2	5.3	4.7	6.8	3.6			
Consumer price index (monthly change)									0.7	1.0	0.3
Producer price index (yearly change) ²	8.0	7.1	12.4	-0.4	-1.3	6.2	1.6	4.5	5.8	5.3	7.9
Producer price index (yearly average)	12.2	5.0	11.6	5.2	-1.8	2.4	3.5	4.3			
Producer price index (monthly change)									1.1	0.1	2.4
Net lending position of households (HUF Bn) ³	943.3	776.2	771.3	805.4	464.0	37.3	499.5	938.9			
Current account of balance of payments (EUR M) ⁴	-3,026.1	-3,531.4	-4,352.5	-3,576.5	-4,929.2	-6,381.7	-6,975.7	-6,524.9			
Net direct investments (EUR M) ⁵	2,742.9	2,871.7	2,334.0	3,992.2	2,889.4	424.1	2,859.6	4,183.7			
Balance of the central government budget (HUF Bn) ⁶	-333.9	-337.2	-367.8	-402.9	-957.7 ⁷	-733.6	-890.0	-545.0	-794.2	-859.7	-1,158.4
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	12,765.6	13,931.9	14,056.3	14,432.6
Central government gross debt (per cent of GDP)	61.1%	60.4%	54.4%	51.5%	54.5%	56.8%	56.7%	58.6%			
Net foreign debt (EUR M) ⁸	7,401.5	7,344.4	9,686.8	8,398.1	11,519.8	16,556.7	21,221.5	24,917.9			
Net foreign debt (per cent of GDP)	17.7%	16.3%	19.1%	14.5%	16.5%	22.5%	26.1%	28.3%			
HUF/USD mid exchange rate at the end of period	219.03	252.52	284.73	279.03	225.16	207.92	180.29	213.58	209.86	204.16	221.78
HUF/EUR mid exchange rate at the end of period	255.70	254.92	264.94	246.33	235.90	262.23	245.93	252.73	263.61	262.71	281.93

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

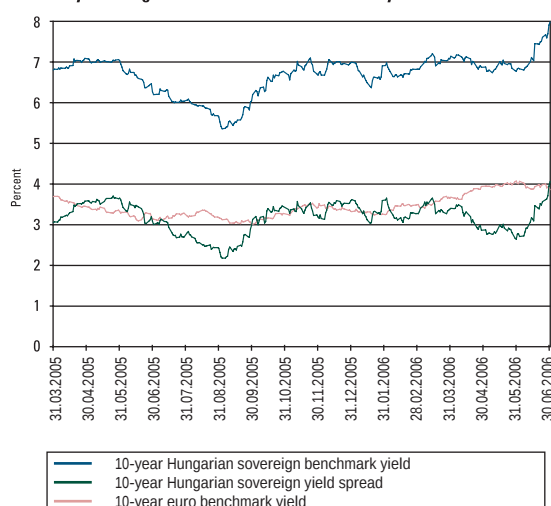
⁵ Including intercompany loans

⁶ Excluding privatisation proceeds and transfers to the NBH

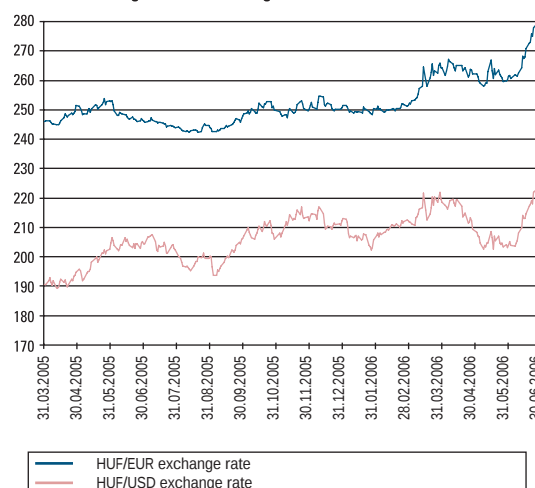
⁷ Excluding debt assumptions and bond-transfers amounting to HUF 512.05 billion at the end of 2002

⁸ Excluding intercompany loans

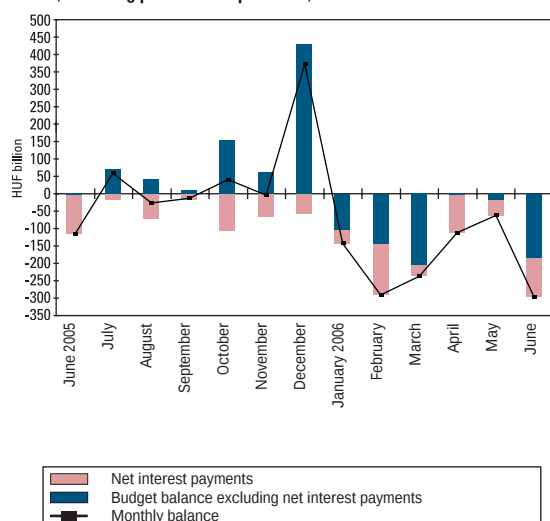
10-year Hungarian and eurozone benchmark yields



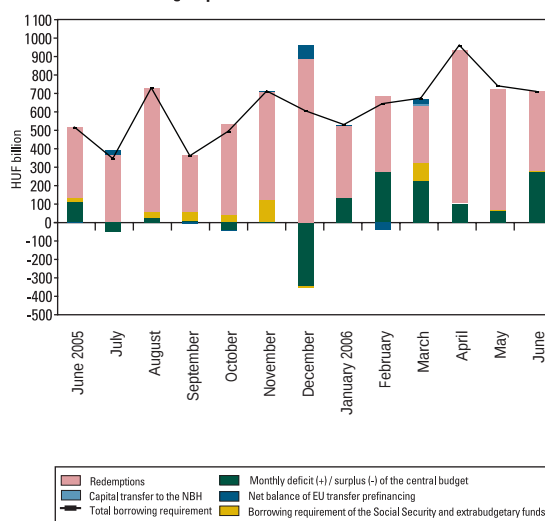
The exchange rate of the Hungarian Forint



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



Gross borrowing requirement



■ GOVERNMENT SECURITIES MARKET ■

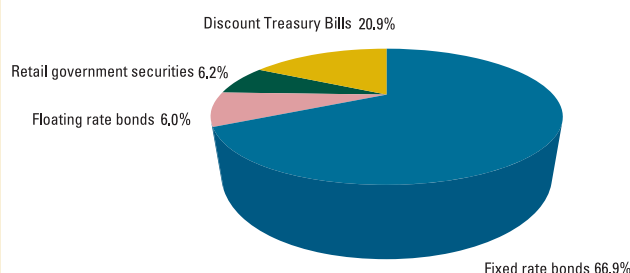
CENTRAL GOVERNMENT GROSS DEBT

HUF billion

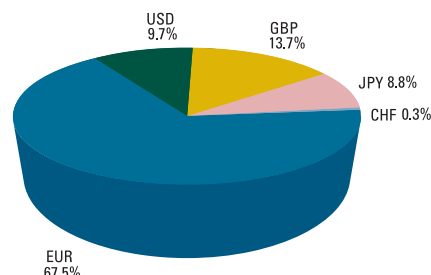
	1998	1999	2000	2001	2002	2003	2004	2005	2006 April	2006 May	2006 June
1. Forint denominated debt	3,733.9	4,350.2	4,717.5	5,397.4	6,956.9	8,008.7	8,608.8	9,153.5	9,767.6	9,848.4	9,933.4
1.1. Loans	435.0	380.2	303.8	228.3	353.2	117.9	4.7	0.8	0.8	0.8	0.8
1.1.1. Foreign loans	0.0	0.0	0.0	0.0	1.7	1.4	1.1	0.8	0.8	0.8	0.8
1.1.2. Domestic loans	435.0	380.2	303.8	228.3	351.5	116.5	3.5	0.0	0.0	0.0	0.0
1.1.2.1. Raised from National Bank of Hungary (NBH)	434.9	362.4	289.5	217.4	144.0	71.2	0.0	0.0	0.0	0.0	0.0
1.1.2.2. Other loans	0.1	17.8	14.3	10.9	207.5	45.3	3.5	0.0	0.0	0.0	0.0
1.2. Government securities	3,299.0	3,970.0	4,413.6	5,169.1	6,603.7	7,890.8	8,604.2	9,152.7	9,766.8	9,847.7	9,932.6
1.2.1. Public issues	2,432.8	3,116.8	3,582.4	4,360.0	5,826.3	7,131.5	7,860.6	8,418.8	9,151.3	9,232.1	9,317.9
1.2.1.1. Bonds	1,386.5	1,790.8	2,221.2	2,782.0	3,829.2	5,056.5	5,768.9	6,299.1	6,448.2	6,483.4	6,619.3
1.2.1.2. Discount T-bills	689.9	826.7	837.9	1,033.3	1,436.8	1,541.4	1,463.3	1,530.9	2,047.8	2,131.0	2,078.6
1.2.1.3. Retail securities	356.5	499.3	523.3	544.7	560.3	533.5	628.4	588.7	615.3	617.8	620.1
1.2.2. Private placements	866.1	853.2	831.3	809.1	777.4	759.3	743.6	733.9	615.5	615.5	614.7
2. Foreign currency denominated debt*	2,431.9	2,536.2	2,508.8	2,322.1	2,267.3	2,579.0	2,983.5	3,590.7	4,149.83	4,193.3	4,496.04
2.1. Loans	2,367.8	1,929.6	1,772.8	1,410.4	1,394.3	1,084.1	916.8	720.6	792.3	847.2	905.1
2.1.1. Foreign loans	249.6	361.2	368.8	317.8	461.9	598.8	528.9	616.9	684.0	739.3	789.4
2.1.2. Domestic loans	2,118.2	1,568.4	1,404.0	1,092.6	932.3	485.3	387.8	103.8	108.2	107.9	115.7
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	355.7	96.1	100.2	99.9	107.2
2.1.2.2. Other loans	0.0	0.0	0.0	0.0	82.8	18.8	32.2	7.7	8.0	8.0	8.6
2.2. Government securities	64.0	606.7	736.0	911.7	873.0	1,494.9	2,066.8	2,870.1	3,357.6	3,346.1	3,590.9
2.2.1. Issued abroad	44.4	587.1	715.7	911.7	873.0	1,494.9	2,066.8	2,870.1	3,357.6	3,346.1	3,590.9
2.2.1.1. Foreign currency bonds	43.8	586.8	715.4	911.5	872.9	1,494.7	2,066.7	2,870.0	3,357.5	3,346.1	3,590.9
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	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	0.0
Total	6,165.8	6,886.4	7,226.2	7,719.5	9,224.2	10,587.7	11,592.4	12,744.2	13,917.4	14,041.8	14,429.5
Mark-to-market deposits placed at ÁKK Rt								21.4	14.5	14.5	3.1
Total central government debt								12,765.6	13,931.9	14,056.3	14,432.6
Gross debt/GDP	61.1%	60.4%	54.4%	51.5%	54.5%	56.8%	56.7%	58.6%			

* 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 30.06.2006.

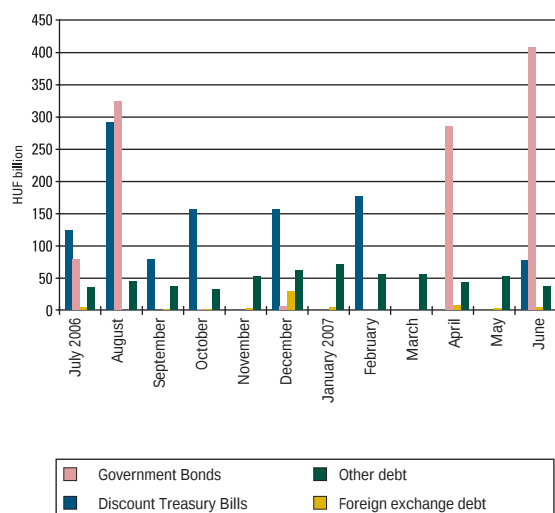


Currency composition of the foreign exchange debt portfolio as at 30.06.2006*

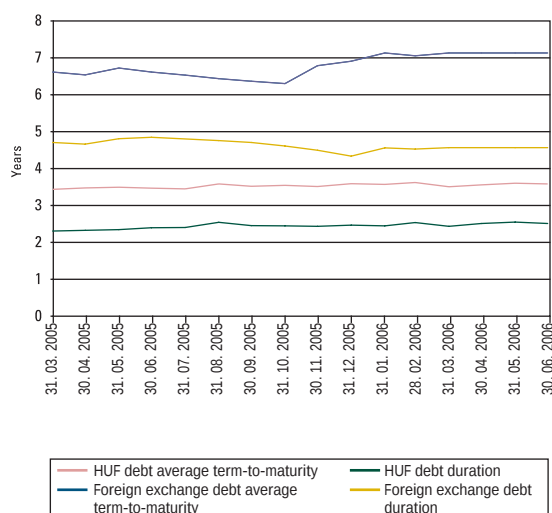


* Composition before swaps. By using cross-currency swaps, 99.99% of the actual foreign exchange debt of the central government was due in euros.

Maturity profile of the central government gross debt over the next 12 months, as at 30.06.2006.



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

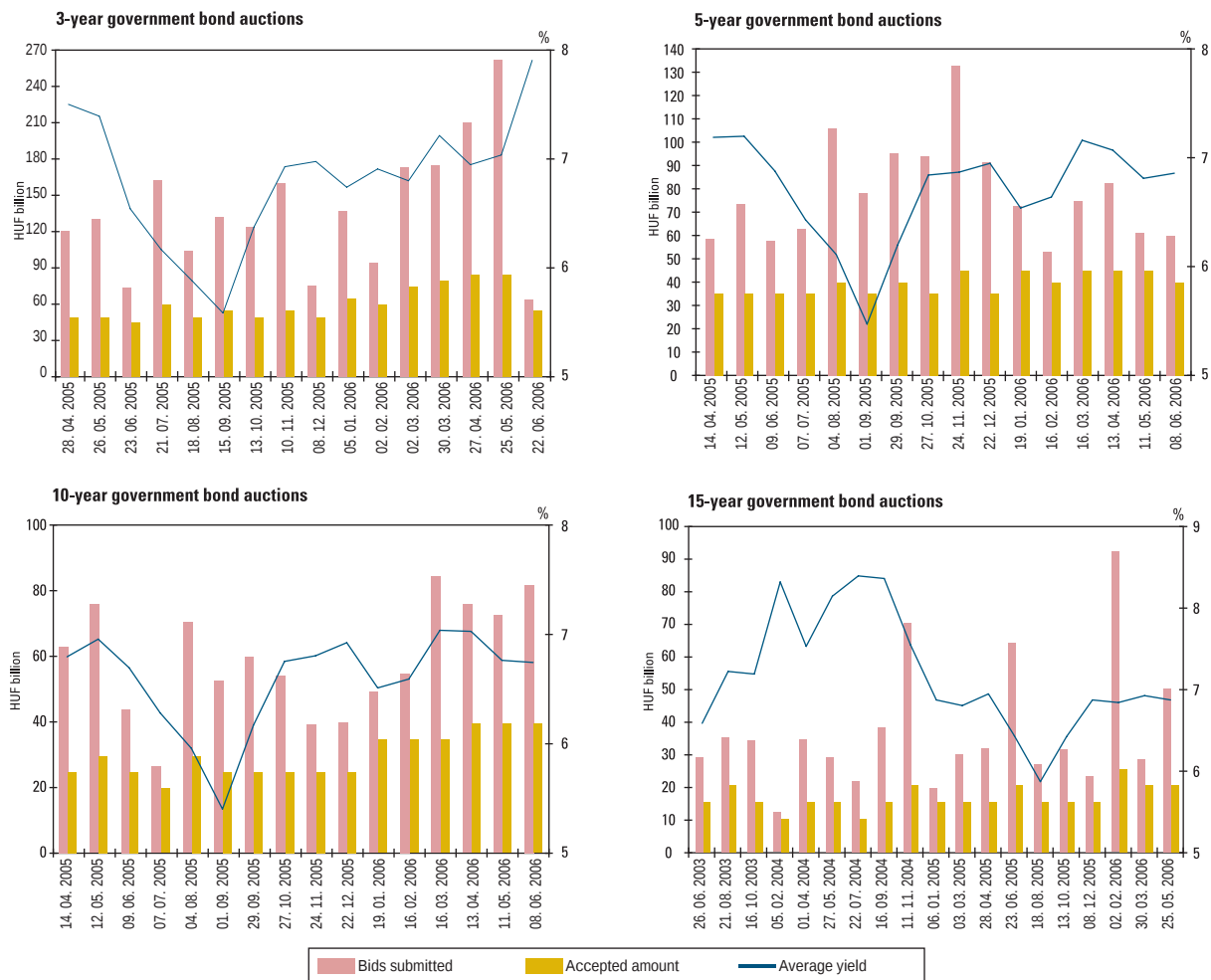


■ GOVERNMENT SECURITIES MARKET ■

GOVERNMENT BOND AUCTION RESULTS

Government Bond	2011/B	2016/C	2009/E	2011/B	2016/C	2009/E	2020/A	2011/B	2016/C	2009/F
ISIN code	HU0000402334	HU0000402318	HU0000402326	HU0000402334	HU0000402318	HU0000402326	HU0000402235	HU0000402334	HU0000402318	HU0000402359
Maturity (in years)	5	10	3	5	10	3	15	5	10	3
Coupon (%)	6.00%	5.50%	6.25%	6.00%	5.50%	6.25%	7.50%	6.00%	5.50%	6.50%
Auction	4. auction	8. auction	5. auction	5. auction	9. auction	6. auction	16. auction	6. auction	10. auction	1. auction
Date of auction	13. 04. 2006	13. 04. 2006	27. 04. 2006	11. 05. 2006	11. 05. 2006	25. 05. 2006	25. 05. 2006	08. 06. 2006	08. 06. 2006	22. 06. 2006
Date of financial settlement	19. 04. 2006	19. 04. 2006	03. 05. 2006	17. 05. 2006	17. 05. 2006	31. 05. 2006	31. 05. 2006	14. 06. 2006	14. 06. 2006	28. 06. 2006
Date of redemption	12. 10. 2011	12. 02. 2016	24. 04. 2009	12. 10. 2011	12. 02. 2016	24. 04. 2009	12. 11. 2020	12. 10. 2011	12. 02. 2016	12. 08. 2009
Maximum annual yield (%) - ISMA	7.08	7.07	6.97	6.82	6.80	7.08	6.81	6.87	6.78	8.00
Minimum annual yield (%) - ISMA	7.02	7.02	6.80	6.76	6.74	7.00	6.78	6.77	6.72	7.80
Average annual yield (%) - ISMA	7.06	7.05	6.96	6.80	6.79	7.05	6.80	6.85	6.77	7.93
Maximum annual yield (%) - EHM	7.08	7.07	6.96	6.82	6.80	7.07	6.80	6.87	6.78	7.99
Minimum annual yield (%) - EHM	7.02	7.02	6.79	6.76	6.74	6.99	6.77	6.77	6.72	7.79
Average annual yield (%) - EHM	7.05	7.05	6.95	6.80	6.78	7.04	6.80	6.85	6.76	7.93
Maximum price (%)	95.4878	89.4422	98.5572	96.6454	91.3134	98.0728	106.4435	96.6380	91.4877	96.4822
Minimum price (%)	95.2306	89.1204	98.1185	96.3873	90.9192	97.8721	106.1607	96.2133	91.0948	95.9603
Average price (%)	95.3308	89.2341	98.1495	96.4663	91.0071	97.9433	106.2470	96.2993	91.1917	96.1310
Amount offered for sale (HUF million)	45,000.00	40,000.00	70,000.00	45,000.00	40,000.00	70,000.00	20,000.00	45,000.00	40,000.00	70,000.00
Amount of bids submitted (HUF million)	82,683.00	76,905.50	213,038.29	61,050.00	73,560.00	265,080.99	48,776.58	60,000.00	83,020.33	64,823.56
Amount of bids accepted (HUF million)	44,999.94	39,999.81	84,999.85	44,999.88	39,999.94	85,000.00	19,999.95	39,999.96	39,999.91	54,999.98
Bid-to-cover ratio	1.84	1.92	2.51	1.36	1.84	3.12	2.44	1.50	2.08	1.18
Bids submitted (pcs)	89	115	190	106	90	148	87	79	113	92
Bids accepted (pcs)	51	70	87	80	72	82	30	50	56	88
Tail (average price - minimum price)	0.10	0.11	0.03	0.08	0.09	0.07	0.09	0.09	0.10	0.17
Market sales* (HUF million)	44,999.94	39,999.81	84,999.85	44,999.88	39,999.94	85,000.00	19,999.95	39,999.96	39,999.91	54,999.98
Retained on ÁKK's own account (HUF million)	9,000.06	0.19	0.15	500.12	0.06	0.00	1,000.05	0.04	0.09	16,500.02
Total amount issued (HUF million)	54,000.00	40,000.00	85,000.00	45,500.00	40,000.00	85,000.00	21,000.00	40,000.00	40,000.00	71,500.00

* Without issuance onto ÁKK's own account

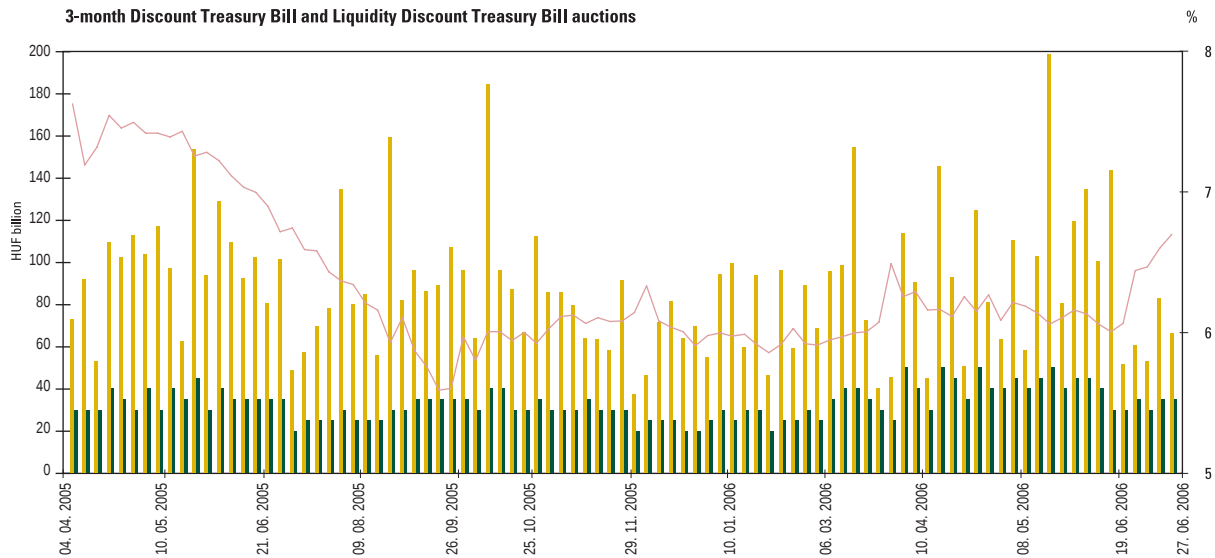


■ GOVERNMENT SECURITIES MARKET ■

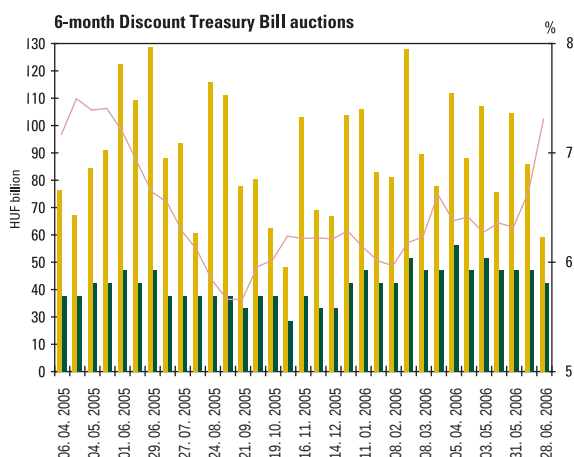
GOVERNMENT BOND BUY-BACK AUCTION RESULTS

Government bond	2006/G	2007/F	2006/G	2007/F
ISIN code	HU0000402201	HU0000402227	HU0000402201	HU0000402227
Coupon (%)	6.50%	9.00%	6.50%	9.00%
Date of buy-back auction	07.06.2006	07.06.2006	21.06.2006	21.06.2006
Date of financial settlement	14.06.2006	14.06.2006	28.06.2006	28.06.2006
Date of redemption	24.08.2006	12.04.2007	24.08.2006	12.04.2007
Minimum annual yield (%)	6.20	6.57	6.60	7.45
Average annual yield (%) - ISMA	6.20	6.57	6.61	7.45
Amount of bids submitted (HUF million)	13,040.41	50,437.66	12,961.20	37,545.39
Amount of bids accepted (HUF million)	472.01	9,470.65	11,939.39	7,348.09
Bids submitted (pcs)	14	34	5	18
Bids accepted (pcs)	4	2	2	3

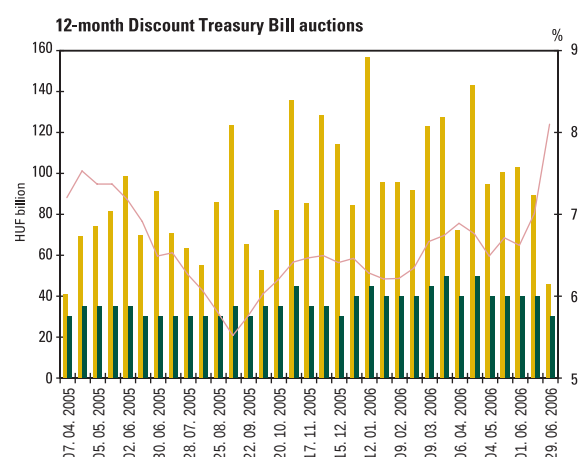
3-month Discount Treasury Bill and Liquidity Discount Treasury Bill auctions



6-month Discount Treasury Bill auctions



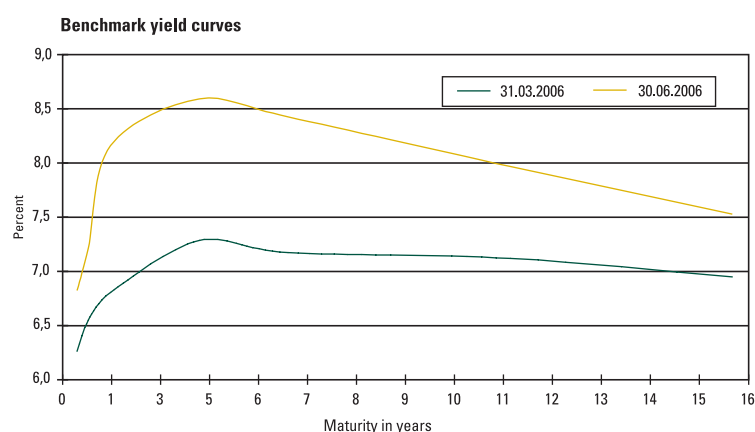
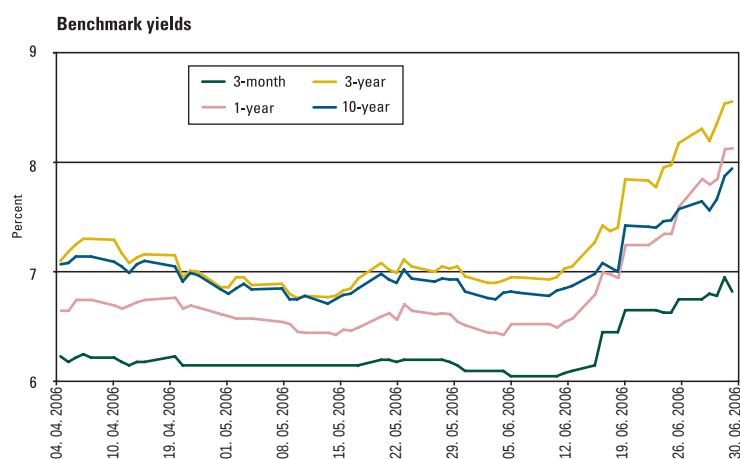
12-month Discount Treasury Bill auctions



■ GOVERNMENT SECURITIES MARKET ■

INTEREST RATE RESETS OF FLOATING RATE GOVERNMENT BONDS IN Q2 2006

Government Bond	Date of interest rate reset	Interest period		Date of interest payment	Reset interest rate (%)	Interest payable (%)
2026/B	21.04.2006	24.04.2006	24.10.2006	24.04.2007	6.32%	-
2026/C	21.04.2006	24.04.2006	24.10.2006	24.10.2006	6.32%	6.07%
2008/A	21.04.2006	24.04.2006	24.07.2006	24.10.2006	6.39%	-
2014/A	28.04.2006	02.05.2006	02.11.2006	02.11.2006	6.10%	3.12%
2007/B	09.06.2006	12.06.2006	12.12.2006	12.12.2006	6.29%	3.20%
2013/C	19.06.2006	20.06.2006	20.12.2006	20.12.2006	6.10%	3.10%
2014/B	19.06.2006	20.06.2006	20.12.2006	20.12.2006	6.10%	3.10%
2016/A	29.06.2006	30.06.2006	30.09.2006	02.10.2006	6.00%	1.51%

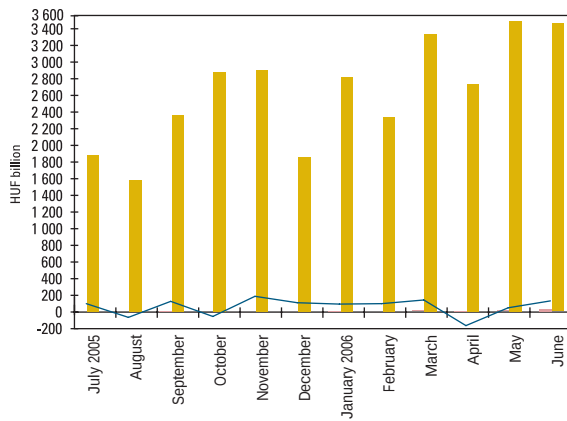


PRIMARY DEALERS - AS AT 30 JUNE 2006

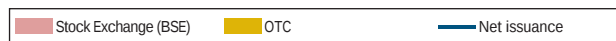
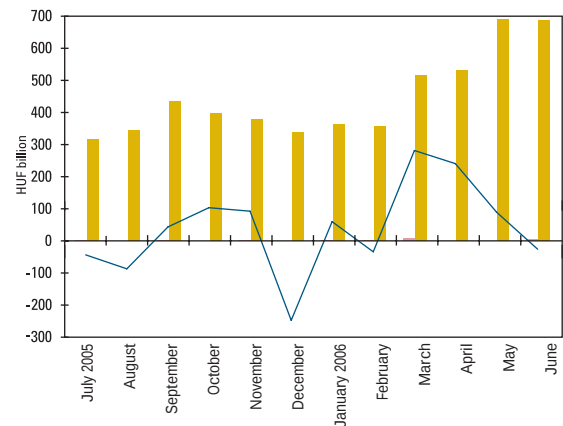
Primary dealers:		Primary dealers for retail securities:
CIB Bank ZRt.	ING Bank ZRt.	CIB Bank ZRt.
CITIBANK ZRt.	Kereskedelmi és Hitelbank NyRt.	HVB Bank Hungary ZRt.
Deutsche Bank ZRt.	Magyar Külkereskedelmi Bank NyRt.	Kereskedelmi és Hitelbank NyRt.
Dresdner Bank AG (Frankfurt)	Magyar Takarékszövetkezeti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

■ GOVERNMENT SECURITIES MARKET ■

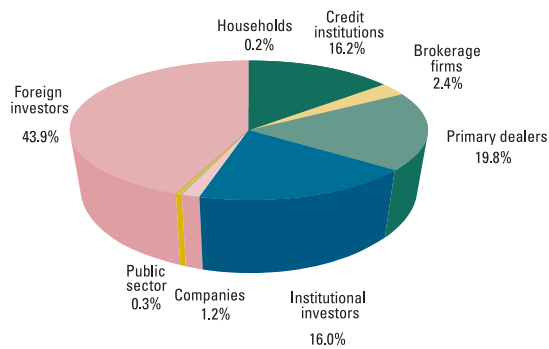
Secondary market trading of government bonds



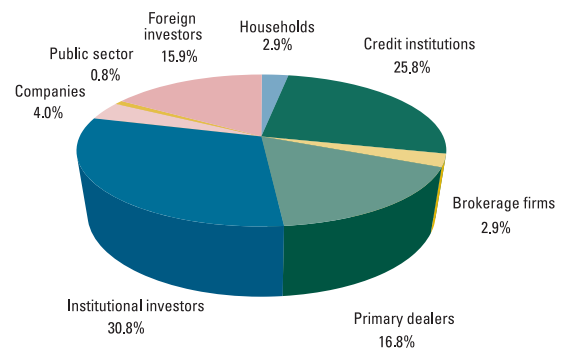
Secondary market trading of Discount Treasury Bills



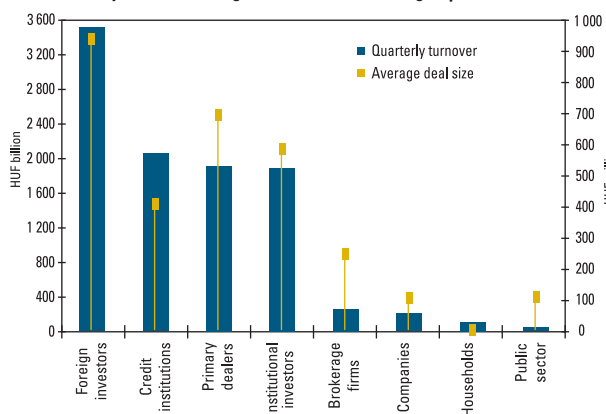
Breakdown of primary dealers' secondary market turnover in government bonds by investor groups in Q2 2006



Breakdown of primary dealers' secondary market turnover in Discount Treasury Bills by investor groups in Q2 2006



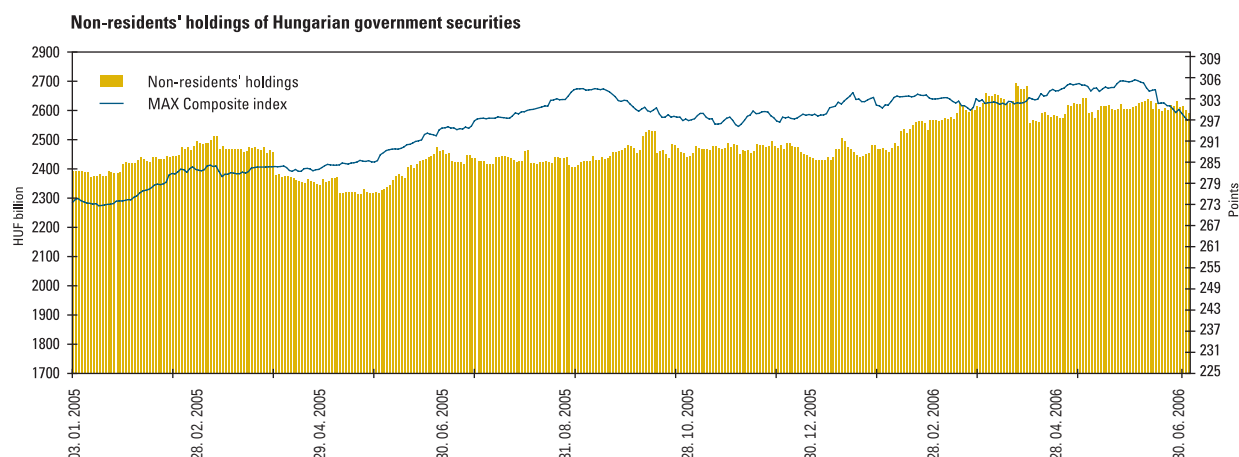
Primary dealers' trading with different investor groups in Q2 2006



Government securities with the highest turnover on the secondary market in Q2 2006

Government security	Date of redemption	Turnover (HUF billion)
2009/E	24. 04. 2009	1,622.0
2011/B	12. 10. 2011	789.3
2016/C	12. 02. 2016	699.1
D060927	27. 09. 2006	524.2
2008/E	12. 08. 2008	427.9
D070328	28. 03. 2007	425.7
2015/A	12. 02. 2015	416.9
2010/B	12. 10. 2010	389.0
D060621	21. 06. 2006	281.5
2013/C	20. 12. 2013	256.0

■ GOVERNMENT SECURITIES MARKET ■



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
31. 03. 2006	303.6440	299.8568	299.7094	301.2832	6.07%	7.03%	6.30%	6.76%
28. 04. 2006	308.5652	301.6228	304.0354	302.8384	7.99%	7.18%	7.92%	6.76%
31. 05. 2006	311.0065	303.2599	306.3719	304.4268	8.09%	7.04%	8.02%	6.62%
30. 06. 2006	297.6482	302.7175	295.3333	305.6547	-0.41%	5.68%	0.93%	6.25%

AMOUNT OUTSTANDING OF BENCHMARK GOVERNMENT BOND SERIES IN Q2 2006

Government Bond	HUF billion		
	30. 04. 2006	31. 05. 2006	30. 06. 2006
2009/E	283.65	454.06	455.01
2011/B	177.14	221.71	262.32
2016/C	246.78	289.17	330.52
2020/A	242.44	265.06	262.77

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
HUBONDIINDEX	Hungarian Government Total Return Index (MAX), updated at 16.00 CET
HUBONDIINDEX2	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
HUBONDIINFO	List of authorised dealers (contacts)

FURTHER INFORMATION PAGES:

Bloomberg pages (code): GDMA

Telerate pages (codes): 47184-47190

Homepage: www.akk.hu, www.allampapir.hu

