GOVERNMENT SECURITIES MARKET

MONTHLY REPORT

DECEMBER 2004

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In the year 2004 the deficit of the central government amounted to HUF 1284.0 billion, including the sum of debt assumptions. The prefinancing of cash transfers from the EU's EAGGF fund increased the total net borrowing requirement by HUF 12.8 billion, however, it was decreased by HUF 166.5 billion privatisation proceeds. The total net financing requirement was met by a total yearly net issuance of HUF 1182.9 billion (ca. EUR 4.8 billion, including loan assumptions), out of which net domestic issuance was HUF 599.9 billion (ca. EUR 2.4 billion) and net foreign exchange issuance totalled HUF 583.0 billion (ca. EUR 2.4 billion).

The Forint denominated debt of the central government increased by HUF 600.1 billion in 2004 (the difference between the total net change and the net issuance was caused by the change in the volume of matured but unclaimed securities). Out of the increase in domestic debt, government bonds accounted for HUF 696.6 billion while retail government securities for HUF 94.9 billion. The volume of discount Treasury bills decreased by HUF 78.1 billion. The stock of domestic loans declined by HUF 113.2 billion in 2004, HUF 73.8 billion of which was due to prepayments in December. HUF 27.9 billion of these year-end prepayments affected the loans from the NBH, which were thus paid off entirely.

The foreign currency debt of the central government increased by HUF 404.5 billion in the year. Foreign exchange bond issuance contributed by HUF 813.5 billion, loan drawdowns and assumptions by HUF 101.6 billion to this growth of debt. On the other hand, bond redemptions worth HUF 127.0 billion, loan redemptions amounting to HUF 205.1 billion and exchange rate gains of HUF 178.5 billion decreased the HUF value of the foreign currency debt. Within the amount of FX loan redemptions HUF 65 billion was due to prepayments in December of parts of the loan from the NBH with original maturity in 2005. A USD 100 million bond was also issued in December. Out of the HUF 583.0 billion (ca. EUR 2.4 billion) total net foreign currency issuance, capital market transactions accounted for HUF 504.9 billion (ca. EUR 2 billion), the remaining HUF 78.1 billion was the balance of loan transactions.

At the end of 2004, 67.3% of the domestic government securities were fixed rate, 32.7% floating rate securities, compared to 62.6% and 37.4% at the end of 2003.

In December both primary and secondary market yields continued their decline seen in the months before. The fall in yields was triggered by the central bank's 50 bps rate cut and by investors' expectations that on the grounds of the favourable inflation figure the NBH would decrease its base rate further. In the secondary market short-term yields fell by 47-66 basis points over the month, while long-term yields decreased by 47-56 basis points. The 1-year yield dropped to 8.62% by 47 basis points, the 3-year one decreased by 51 basis points to 8.26%, while the 10-year benchmark yield reached 7.05% at the end of December after decreasing by 49 basis points.

Monthly OTC turnover of government securities was 12% lower in December than in the previous month and reached HUF 1924 billion. Primary dealers, who account for the decisive part of all secondary government securities trading, made 35% of their secondary government securities deals with non-resident investors.

The volume of non-residents' holdings of Hungarian government securities increased altogether by HUF 91.2 in December, 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. The HUF/EUR mid exchange rate at the end of 2004 was 245.93

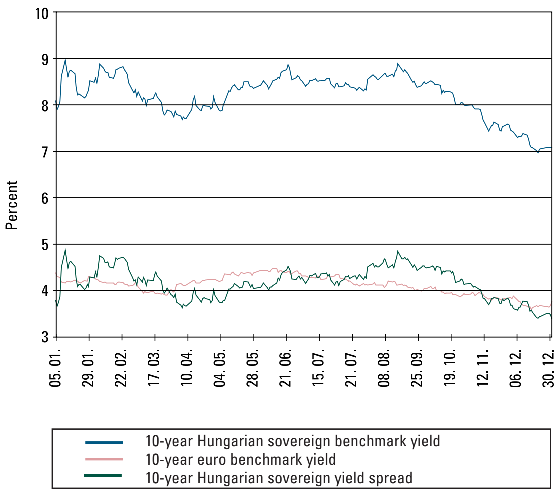
The credit rating of the long-term foreign currency debt of the Republic of Hungary is as follows: A- / A1 / A-

CENTRAL GOVERNMENT GROSS DEBT

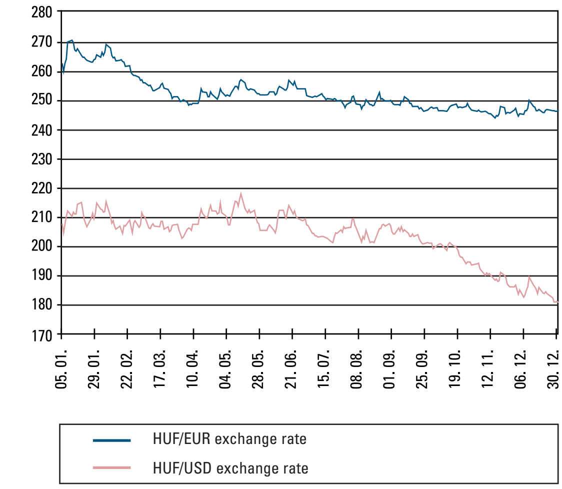
	1998	1999	2000	2001	2002	2003	Oct. 2004	Nov. 2004	Dec. 2004
1. Forint denominated debt	**3,733.9**	**4,350.2**	**4,717.5**	**5,397.4**	**6,956.9**	**8,008.7**	**8,746.0**	**8,773.9**	**8,608.8**
1.1. Loans	435.0	380.2	303.8	228.3	353.2	117.9	91.2	89.9	4.7
1.1.1. Foreign loans	0.0	0.0	0.0	0.0	1.7	1.4	1.4	1.4	1.1
1.1.2. Domestic loans	435.0	380.2	303.8	228.3	351.5	116.5	89.8	88.5	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	37.0	37.0	0.0
1.1.2.2. Other loans	0.1	17.8	14.3	10.9	207.5	45.3	52.8	51.5	3.5
1.2. Government securities	3,299.0	3,970.0	4,413.6	5,169.1	6,603.7	7,890.8	8,654.9	8,684.0	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	7,906.3	7,935.5	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	5,577.2	5,684.1	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	1,695.9	1,600.4	1,463.3
1.2.1.3. Retail securities	356.5	499.3	523.3	544.7	560.3	533.5	633.2	651.0	628.4
1.2.2. Private placements	866.1	853.2	831.3	809.1	777.4	759.3	748.5	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**	**2,994.3**	**3,022.8**	**2,983.5**
2.1. Loans	2,367.8	1,929.6	1,772.8	1,410.4	1,394.3	1,084.1	944.4	968.3	916.8
2.1.1. Foreign loans	249.6	361.2	368.8	317.8	461.9	598.8	475.2	498.1	528.9
2.1.2. Domestic loans	2,118.2	1,568.4	1,404.0	1,092.6	932.3	485.3	469.2	470.2	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	436.3	437.2	355.7
2.1.2.2. Other loans	0.0	0.0	0.0	0.0	82.8	18.8	32.9	33.0	32.2
2.2. Government securities	64.0	606.7	736.0	911.7	873.0	1,494.9	2,049.9	2,054.4	2,066.8
2.2.1. Issued abroad	44.4	587.1	715.7	911.7	873.0	1,494.9	2,049.9	2,054.4	2,066.8
2.2.1.1. Foreign currency bonds	43.8	586.8	715.4	911.5	872.9	1,494.7	2,049.8	2,054.3	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
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**	**11,740.3**	**11,796.7**	**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*	*8,021.6*	*8,033.0*	*7,975.8*
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

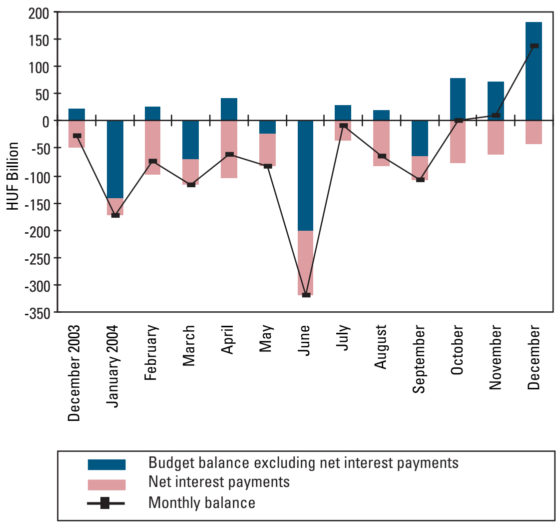
10-year Hungarian and eurozone benchmark yields in 2004



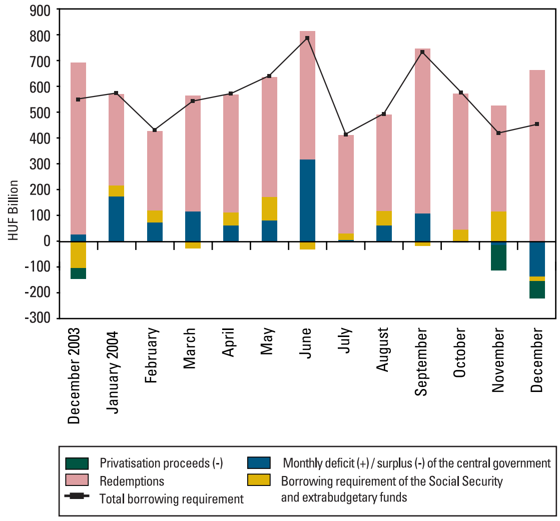
The exchange rate of the Hungarian Forint in 2004



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



Gross borrowing requirement

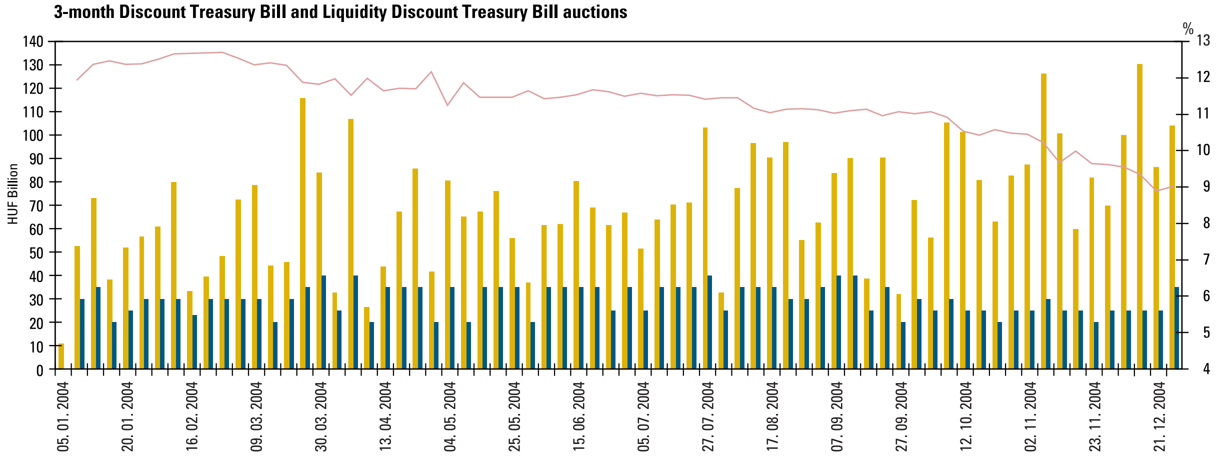


DISCOUNT TREASURY BILL AUCTION RESULTS

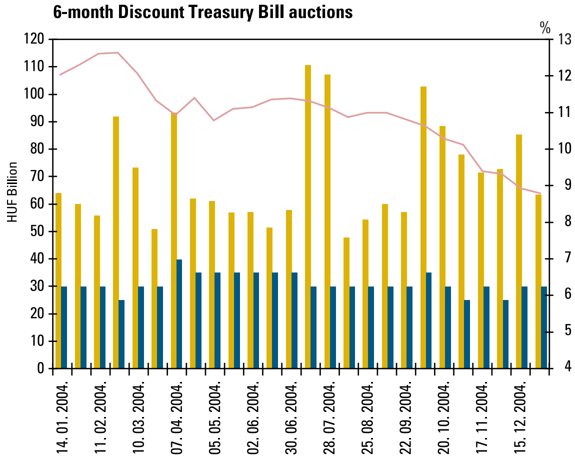
	3-month Discount T-bills				6-month Discount T-bills			12-month Discount T-bills		
Code of T-bill	D050316	D050323	D050330	D050406	D050511	D050706	D050706	D051123	D051123	D051123
Maturity in days	91	91	91	91	154	196	182	350	336	322
Date of auction	07.12.2004	14.12.2004	21.12.2004	28.12.2004	01.12.2004	15.12.2004	29.12.2004	02.12.2004	16.12.2004	30.12.2004
Date of financial settlement	15.12.2004	22.12.2004	29.12.2004	05.01.2005	08.12.2004	22.12.2004	05.01.2005	08.12.2004	22.12.2004	05.01.2005
Redemption date	16.03.2005	23.03.2005	30.03.2005	06.04.2005	11.05.2005	06.07.2005	06.07.2005	23.11.2005	23.11.2005	23.11.2005
Maximum yield (%) - ISMA	9.49	9.28	8.87	8.98	9.31	8.93	8.78	8.89	8.58	8.68
Average yield (%) - ISMA	9.40	9.25	8.75	8.70	9.25	8.85	8.50	8.83	8.48	8.44
Minimum yield (%) - ISMA	9.48	9.27	8.82	8.95	9.29	8.89	8.75	8.87	8.52	8.60
Maximum yield (%) - EHM	9.62	9.41	8.99	9.10	9.44	9.05	8.90	9.01	8.70	8.80
Average yield (%) - EHM	9.53	9.38	8.87	8.82	9.38	8.97	8.62	8.95	8.60	8.56
Minimum yield (%) - EHM	9.61	9.40	8.94	9.07	9.42	9.01	8.87	8.99	8.64	8.72
Average selling price (%)	97.6597	97.7104	97.8191	97.7877	96.1778	95.3833	95.7638	92.0610	92.6338	92.8572
Amount offered for sale (HUF million)	25000.00	25000.00	25000.00	35000.00	25000.00	25000.00	30000.00	25000.00	25000.00	35000.00
Amount of bids submitted (HUF million)	100166.27	130614.54	86643.69	104233.25	73159.45	85718.87	63741.55	114717.62	82417.08	36305.17
Amount of bids accepted (HUF million)	24999.92	24999.99	24999.98	34999.97	24999.95	30000.00	29999.94	29999.90	25000.00	29999.98
Bid-to-cover ratio	4.01	5.22	3.47	2.98	2.93	2.86	2.12	3.82	3.30	1.21
Bids submitted (pcs)	129	165	141	133	144	148	122	165	135	92
Bids accepted (pcs)	37	30	30	53	82	47	55	54	22	82
Market sales* (HUF million)	24999.92	24999.99	24999.98	34999.97	24999.95	30000.00	29999.94	29999.90	25000.00	29999.98
Retained on ÁKK's own account (HUF million)	2500.08	2500.01	2500.02	3500.03	2500.05	9000.00	3000.06	3000.10	2500.00	3000.02
Total amount issued (HUF million)	27500.00	27500.00	27500.00	38500.00	27500.00	39000.00	33000.00	33000.00	27500.00	33000.00

* Without issuance onto ÁKK's own account

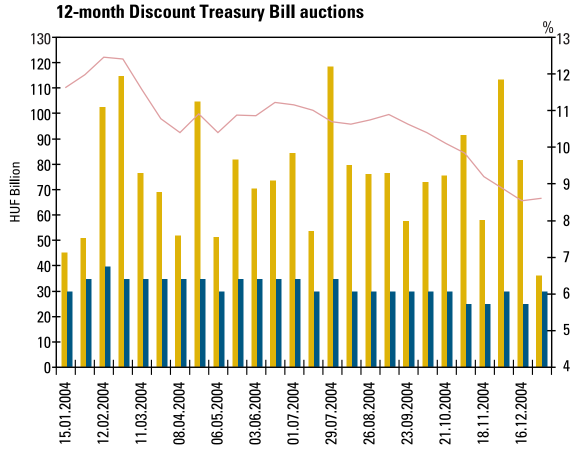
3-month Discount Treasury Bill and Liquidity Discount Treasury Bill auctions



6-month Discount Treasury Bill auctions



12-month Discount Treasury Bill auctions

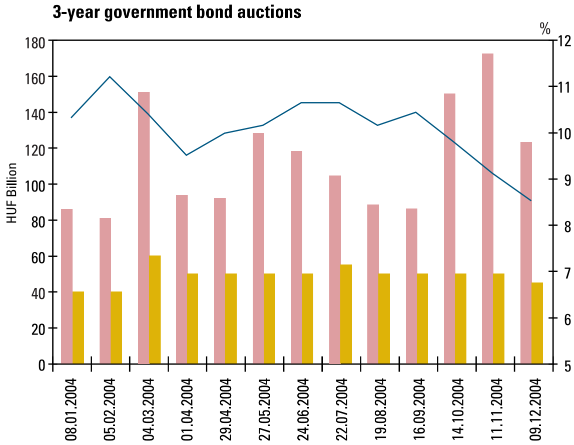


GOVERNMENT BOND AUCTION RESULTS

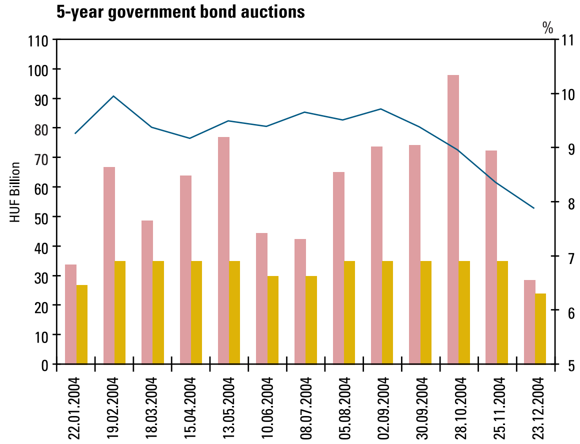
Government Bond	2007/G	2009/D	2015/A
ISIN code	HU0000402250	HU0000402243	HU0000402268
Maturity (in years)	3	5	10
Coupon (%)	9.25%	8.25%	8.00%
Auction	7th auction	8th auction	7th auction
Date of auction	09.12.2004	23.12.2004	23.12.2004
Date of financial settlement	15.12.2004	29.12.2004	29.12.2004
Redemption date	12.10.2007	12.10.2009	12.02.2015
Maximum annual yield (%) - ISMA	8.51	7.90	7.09
Minimum annual yield (%) - ISMA	8.47	7.80	7.03
Average annual yield (%) - ISMA	8.49	7.86	7.06
Maximum annual yield (%) - EHM	8.51	7.90	7.09
Minimum annual yield (%) - EHM	8.47	7.80	7.03
Average annual yield (%) - EHM	8.49	7.85	7.06
Maximum price (%)	101.8357	101.6904	106.8641
Minimum price (%)	101.7374	101.2992	106.4217
Average price (%)	101.7793	101.4691	106.6272
Amount offered for sale (HUF million)	40,000.00	35,000.00	25,000.00
Amount of bids submitted (HUF million)	123,493.93	28,647.00	52,965.50
Amount of bids accepted (HUF million)	44,999.95	23,999.98	24,999.98
Bid-to-cover ratio	2.74	1.19	2.12
Bids submitted (pcs)	128	76	99
Bids accepted (pcs)	36	65	58
Tail (average price - minimum price)	0.04	0.17	0.21
Market sales* (HUF million)	44,999.95	23,999.98	24,999.98
Retained on ÁKK's own account (HUF million)	0.05	0.02	0.02
Total amount issued (HUF million)	45,000.00	24,000.00	25,000.00

* Without issuance onto ÁKK's own account

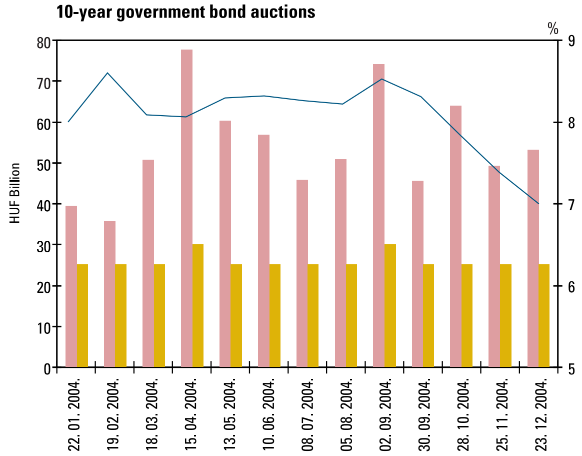
3-year government bond auctions



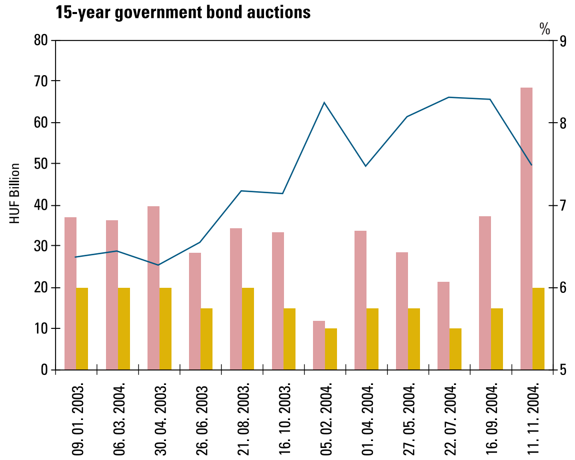
5-year government bond auctions



10-year government bond auctions



15-year government bond auctions

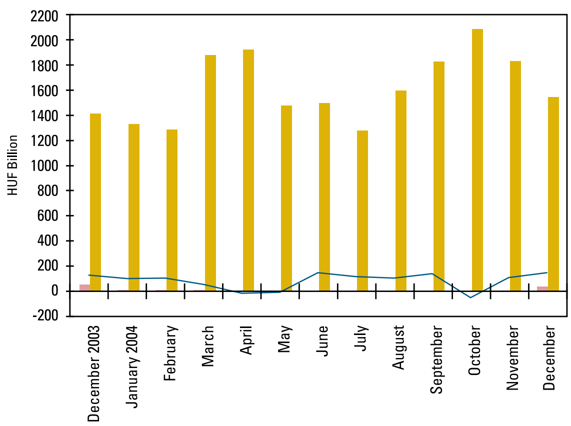


Bids submitted — Accepted amount — Average yield

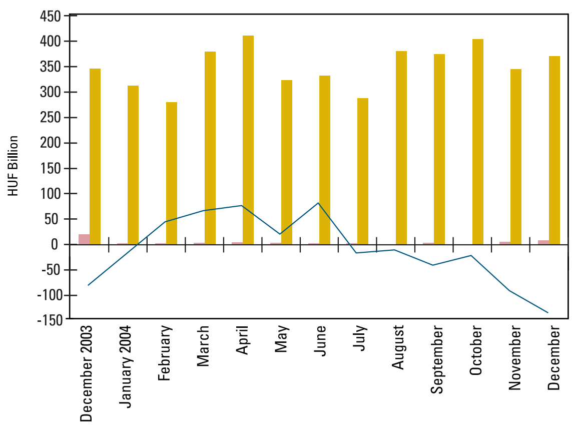
GOVERNMENT BOND REVERSE AUCTION RESULTS

Government bond	2005/E	2005/H
ISIN code	HU0000401682	HU0000402078
Coupon (%)	9.25%	7.00%
Date of reverse auction	08.12.2004	08.12.2004
Redemption date	12.05.2005	12.08.2005
Date of financial settlement	15.12.2004	15.12.2004
Minimum annual yield (%)	-	9.11
Average annual yield (%) - ISMA	-	9.16
Amount of bids submitted (HUF million)	8244.47	10657.21
Amount of bids accepted (HUF million)	0.00	10621.62
Bids submitted (pcs)	9	10
Bids accepted (pcs)	0	9

Secondary market trading of government bonds

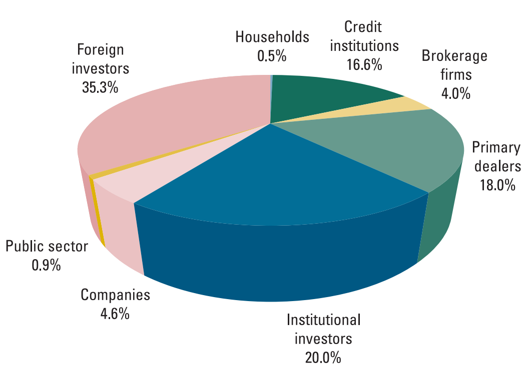


Secondary market trading of Discount Treasury Bills

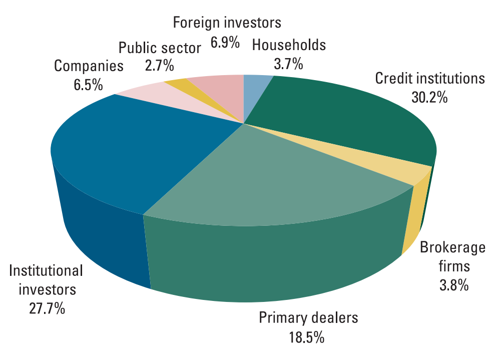


Stock exchange (BSE) OTC Net issuance

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



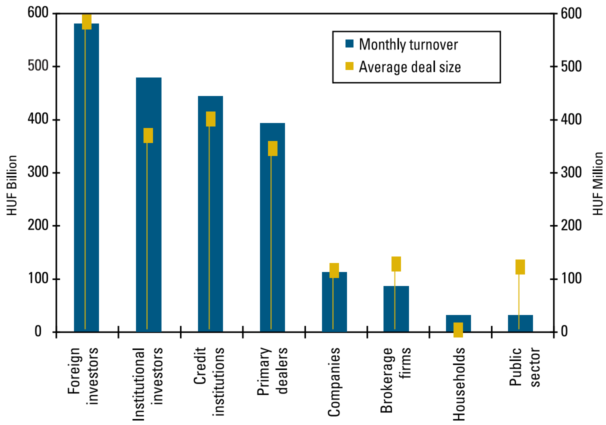
Breakdown of primary dealers' secondary market turnover in Discount Treasury Bills by investor groups in December 2004



GOVERNMENT SECURITIES WITH THE HIGHEST SECONDARY MARKET TURNOVER IN DECEMBER 2004

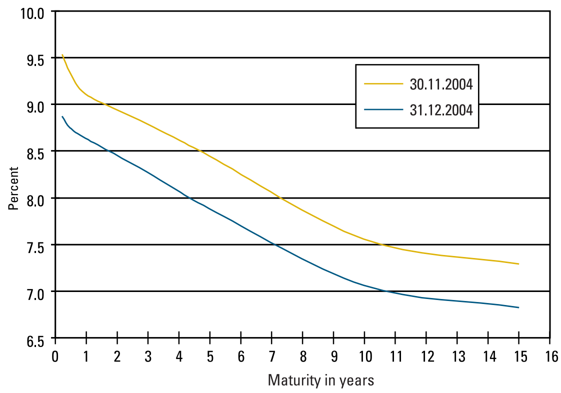
Government security	Date of redemption	Turnover (HUF billion)
2015/A	12.02.2015	191.2
2007/G	12.10.2007	169.8
2009/D	12.10.2009	154.4
D051123	23.11.2005	132.7
2014/C	12.02.2014	129.1
2013/D	12.02.2013	109.8
2008/C	12.06.2008	85.7
2006/F	12.04.2006	82.5
2006/G	24.08.2006	72.4
2009/C	24.06.2009	66.6

Primary dealers' trading with different investor groups in December 2004

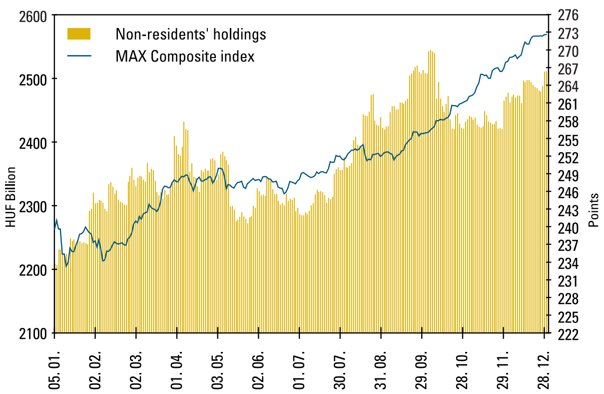


Benchmark yields in 2004

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 DECEMBER 2004

	HUF billion	
Government bond	30.11.2004	31.12.2004
2007/G	307.70	353.43
2009/D	201.11	260.17
2015/A	131.01	180.53
2020/A	85.79	85.48

HUNGARIAN GOVERNMENT SECURITIES INDICES

	MAX index	RMAX index	MAX Composite index	ZMAX index
Value as at 31 December 2004	276.3192	272.8398	272.6112	275.7551
Changes compared to the end of the month before	7.5996	2.8683	6.301	2.5064
Annual yield earned on the index portfolio	13.98%	12.07%	13.40%	11.90%

EVENTS CALENDAR - FEBRUARY 2005

Week 6		1	2	3	4	5	6
		Tuesday	Wednesday	Thursday	Friday	Sat.	Sun.
Discount T-bill public offer			3, 6 and 12-month DKJs				
Discount T-bill auction		D050511					
Discount T-bill auction settlement			D050504/D050706/D060118				
Discount T-bill redemption			D050202				
Liquidity Discount T-Bill auction settlement			Upon decision of the Issuer				
Interest Bearing T-bill public offer		K2006/04					
Interest Bearing T-bill subscription			K2006/03				
Government Bond auction				3-year Bond			
Government Bond reverse auction		Gas utility Bonds	2 Bond series				

Week 7	7	8	9	10	11	12	13
	Monday	Tuesday	Wednesday	Thursday	Friday	Sat.	Sun.
Discount T-bill public offer			3-month DKJ				
Discount T-bill auction		D050518	D050831	D060118			
Discount T-bill auction settlement			D050511				
Discount T-bill redemption			D050209				
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			K2006/04				
Interest Bearing T-bill redemption			K2005/03				
Government Bond public offer				5 and 10-year Bonds			
Government Bond auction settlement			3-year Bond				
Government Bond reverse auction settlement	Gas utility Bonds		2 Bond series				

Week 8	14	15	16	17	18	19	20
	Monday	Tuesday	Wednesday	Thursday	Friday	Sat.	Sun.
Discount T-bill public offer			3, 6 and 12-month DKJs				
Discount T-bill auction		D050525					
Discount T-bill auction settlement			D050518/D050831/D060118				
Discount T-bill redemption			D050216				
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		K2006/05					
Interest Bearing T-bill subscription			K2006/04				
Government Bond auction				5 and 10-year Bonds			
Government Bond reverse auction			2 Bond series				
Government Bond interest payment	11 Bond series	2004/A					

Week 9	21	22	23	24	25	26	27
	Monday	Tuesday	Wednesday	Thursday	Friday	Sat.	Sun.
Discount T-bill public offer			3-month DKJ				
Discount T-bill auction		D050601	D050831	D060118			
Discount T-bill auction settlement			D050525				
Discount T-bill redemption			D050223				
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			K2006/05				
Interest Bearing T-bill redemption			K2005/04				
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				2005/F			

Week 10	28						
	Monday						
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	K2006/05						
Government Bond interest payment	2006/A, 2026/A						

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 DECEMBER 2004

Government Bond	Date of interest rate reset	Interest period			Date of interest payment	Reset interest rate (%)	Interest payable (%)
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	10.1526	5.0346

PRIMARY DEALERS - AS AT 31 DECEMBER 2004

Primary dealers:

CIB Bank Rt.
CITIBANK Rt.
Deutsche Bank Rt.
Dresdner Bank (Hungaria) Rt.
ERSTE Bank Befektetési Magyarország Rt.
HVB Bank Hungary Rt.
ING Bank Rt.
Kereskedelmi és Hitelbank Rt.
Magyar Külkereskedelmi Bank Rt.
Magyar Takarékszövetkezeti Bank Rt.
Országos Takarékpénztár és Kereskedelmi Bank Rt.

Primary dealers for retail securities:

CIB Bank Rt.
Kereskedelmi és Hitelbank Rt.
Magyar Takarékszövetkezeti Bank Rt.
Országos Takarékpénztár és Kereskedelmi Bank Rt.

The branch network of the Hungarian State Treasury

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