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ÁLLAMADÓSSÁG KEZELŐ KÖZPONT RT.

# GOVERNMENT SECURITIES MARKET

## MONTHLY REPORT

■ FEBRUARY 2006 ■

The deficit of the central government amounted to HUF 435.4 billion in the first two months of 2006. The net prefinancing of cash transfers from the EU's EAGGF fund decreased the net borrowing requirement by HUF 40.6 billion. The total net financing requirement was met by a net issuance of HUF 416.0 billion (ca. EUR 1.6 billion), out of which net domestic currency issuance was HUF 169.2 billion (ca. EUR 0.6 billion) and net foreign exchange issuance totalled HUF 246.8 billion (ca. EUR 1.0 billion).

The HUF denominated debt of the central government increased by HUF 168.9 billion until the end of February (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 141.5 billion, discount Treasury bills for HUF 11.3 billion and retail government securities for HUF 16.1 billion. The stock of domestic loans remained unchanged.

The foreign currency debt of the central government increased by HUF 247.9 billion in the first two months of the year. The foreign currency bond issue increased the debt by HUF 250.4 billion, while the redemptions of foreign currency loans decreased it by HUF 3.6 billion. Exchange rate losses of HUF 1.1 billion increased the HUF value of the foreign currency debt compared to the end of last year.

At the end of February 2006, 70.5% of the domestic government securities were fixed rate, 29.5% floating rate securities, compared to 69.0% and 31.0% at the end of 2005, which means that the proportion of fixed rate securities increased this year.

Secondary market yields decreased on all maturities in February. Yields declined due to the favourable international investment sentiments, which was partly offset by the change of rating outlook by Moody's. Overall, in the course of the month the 1-year yield decreased by 5 basis points to 6.25%, the 3-year yield declined by 6 bps and amounted to 6.79%, while the 10-year benchmark yield reached 6.80% at the end of February after decreasing by 15 basis points.

Monthly OTC turnover of government securities was 15% lower in February than a month before and reached HUF 2737.3 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 increased altogether by HUF 108.0 in February, and amounted to HUF 2695.9 billion at the end of the month. This volume represented 30.9% of the total amount of domestic government bonds and discount Treasury bills.

The HUF/EUR mid exchange rate at the end of February 2006 was 252.65

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

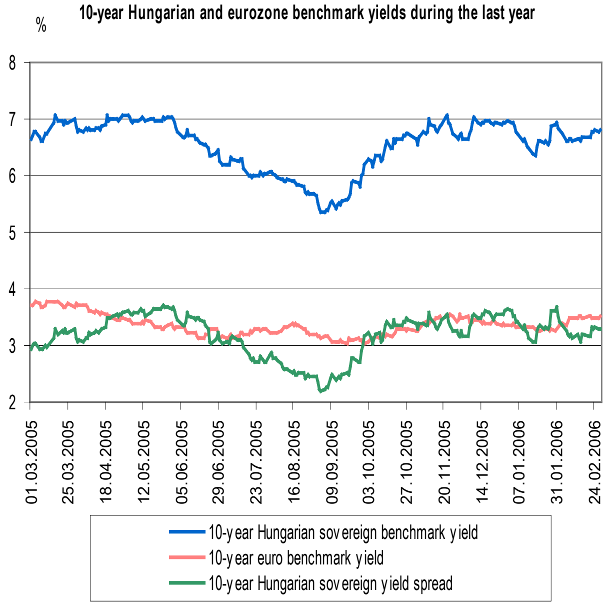
## CENTRAL GOVERNMENT GROSS DEBT

HUF BILLION

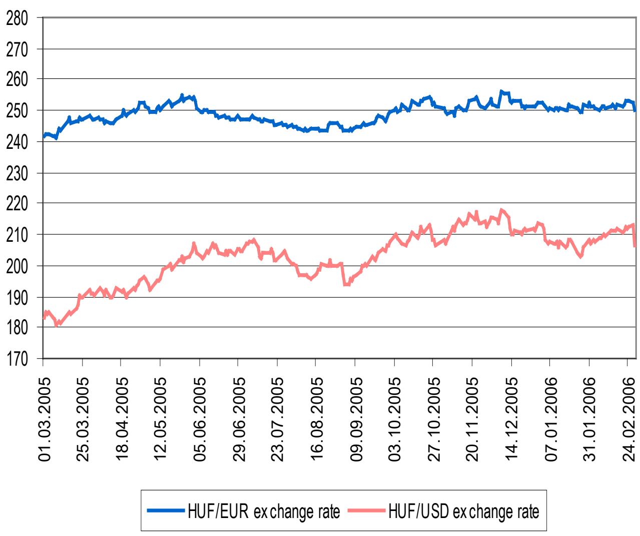
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | Dec 2005 | Jan 2006 | Feb 2006 |
|---|---|---|---|---|---|---|---|---|---|
| 1. Forint denominated debt | 4,350.2 | 4,717.5 | 5,397.4 | 6,956.9 | 8,008.7 | 8,608.8 | 9,153.5 | 9,286.7 | 9,322.4 |
| 1.1. Loans | 380.2 | 303.8 | 228.3 | 353.2 | 117.9 | 4.7 | 0.8 | 0.8 | 0.8 |
| 1.2. Government securities | 3,970.0 | 4,413.6 | 5,169.1 | 6,603.7 | 7,890.8 | 8,604.2 | 9,152.7 | 9,285.8 | 9,321.6 |
| 1.2.1. Public issues | 3,116.8 | 3,582.4 | 4,360.0 | 5,826.3 | 7,131.5 | 7,860.6 | 8,418.8 | 8,629.9 | 8,705.2 |
| 1.2.1.1. Bonds | 1,790.8 | 2,221.2 | 2,782.0 | 3,829.2 | 5,056.5 | 5,768.9 | 6,299.1 | 6,443.7 | 6,558.2 |
| 1.2.1.2. Discount T-bills | 826.7 | 837.9 | 1,033.3 | 1,436.8 | 1,541.4 | 1,463.3 | 1,530.9 | 1,582.8 | 1,542.2 |
| 1.2.1.3. Retail securities | 499.3 | 523.3 | 544.7 | 560.3 | 533.5 | 628.4 | 588.7 | 603.4 | 604.8 |
| 1.2.2. Private placements | 853.2 | 831.3 | 809.1 | 777.4 | 759.3 | 743.6 | 733.9 | 655.9 | 616.4 |
| 2. Foreign currency denominated debt* | 2,536.2 | 2,508.8 | 2,322.1 | 2,267.3 | 2,579.0 | 2,983.5 | 3,590.7 | 3,835.3 | 3,838.6 |
| 2.1. Loans | 1,929.6 | 1,772.8 | 1,410.4 | 1,394.3 | 1,084.1 | 916.8 | 720.6 | 716.2 | 716.8 |
| 2.1.1. Foreign loans | 361.2 | 368.8 | 317.8 | 461.9 | 598.8 | 528.9 | 616.9 | 612.6 | 613.1 |
| 2.1.2. Domestic loans | 1,568.4 | 1,404.0 | 1,092.6 | 932.3 | 485.3 | 387.8 | 103.8 | 103.6 | 103.7 |
| 2.1.2.1. Raised from National Bank of Hungary (NBH) | 1,568.4 | 1,404.0 | 1,092.6 | 849.6 | 466.5 | 355.7 | 96.1 | 96.0 | 96.0 |
| 2.1.2.2. Other loans | 0.0 | 0.0 | 0.0 | 82.8 | 18.8 | 32.2 | 7.7 | 7.7 | 7.7 |
| 2.2. Government securities | 606.7 | 736.0 | 911.7 | 873.0 | 1,494.9 | 2,066.8 | 2,870.1 | 3,119.1 | 3,121.8 |
| 2.2.1. Issued abroad | 587.1 | 715.7 | 911.7 | 873.0 | 1,494.9 | 2,066.8 | 2,870.1 | 3,119.1 | 3,121.8 |
| 2.2.1.1. Foreign currency bonds | 586.8 | 715.4 | 911.5 | 872.9 | 1,494.7 | 2,066.7 | 2,870.0 | 3,119.0 | 3,121.7 |
| 2.2.1.2. Kingdom of Hungary 1924 issues | 0.3 | 0.3 | 0.3 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| 2.2.2. Issued domestically | 19.6 | 20.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 6,886.4 | 7,226.2 | 7,719.5 | 9,224.2 | 10,587.7 | 11,592.4 | 12,744.2 | 13,121.9 | 13,161.0 |
| *Marketable HUF debt* (1.2.1.1+1.2.1.2.+1.2..2.) | *3,470.7* | *3,890.4* | *4,624.4* | *6,043.4* | *7,357.3* | *7,975.8* | *8,563.9* | *8,682.4* | *8,716.7* |
| *Gross debt/GDP* | *60.4%* | *54.4%* | *51.5%* | *54.5%* | *56.8%* | *56.8%* | *58.5%* | | |

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

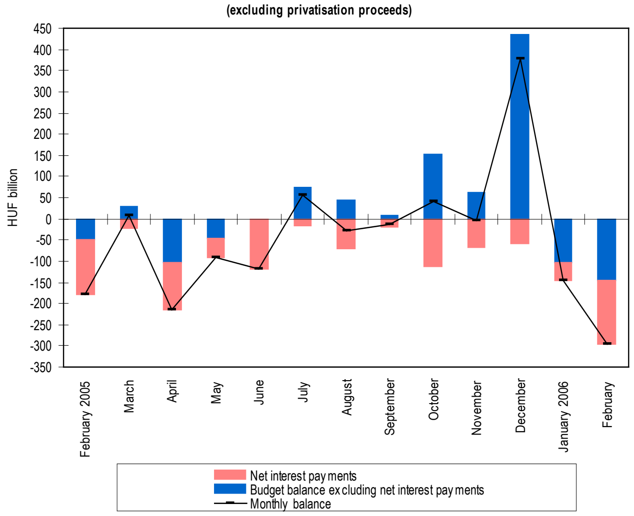
10-year Hungarian and eurozone benchmark yields during the last year



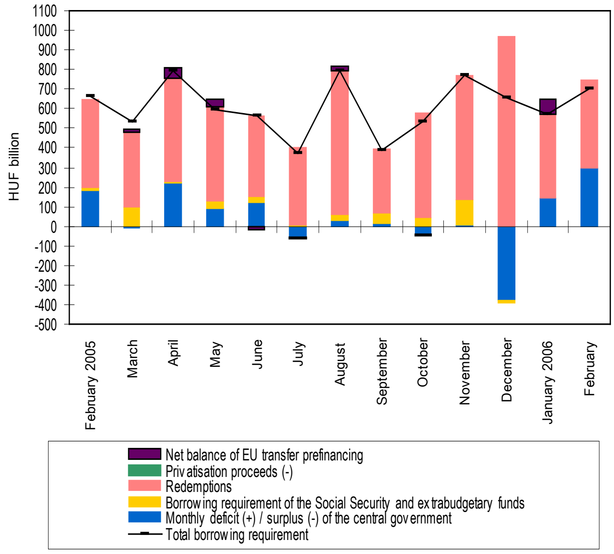

The exchange rate of the Hungarian Forint during the last year




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




Gross borrowing requirement

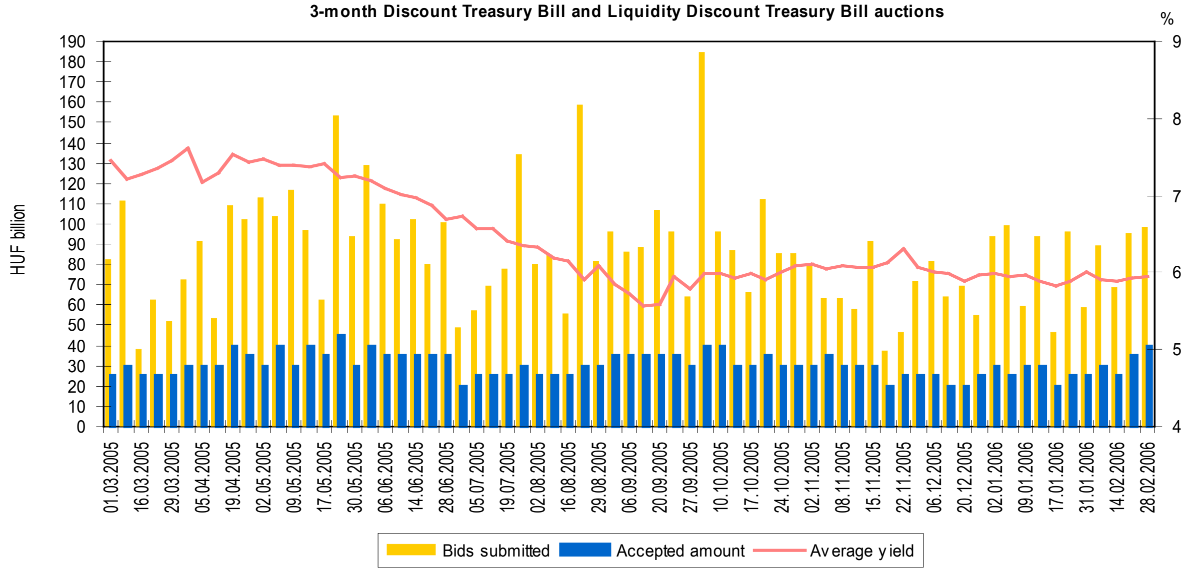


## DISCOUNT TREASURY BILL AUCTION RESULTS

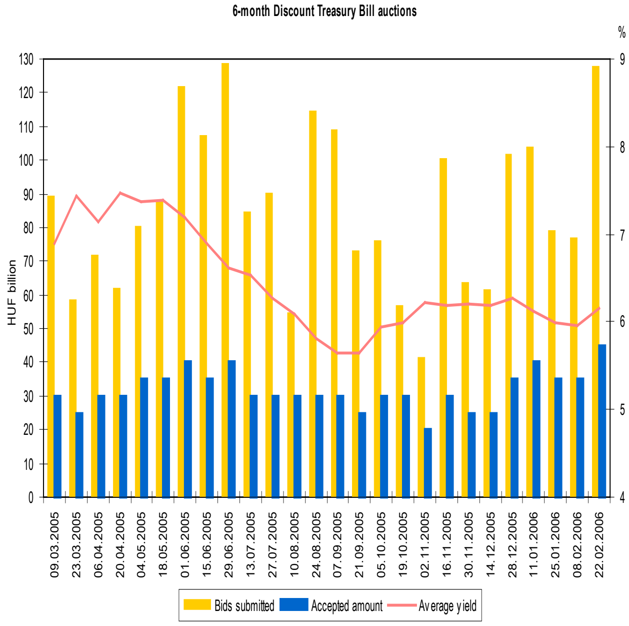
| | 3-month Discount T-bills | | | | 6-month Discount T-bills | | 12-month Discount T-bills | |
|---|---|---|---|---|---|---|---|---|
| Code of T-bills | D060517 | D060524 | D060531 | D060607 | D060802 | D060802 | D070214 | D070214 |
| ISIN code | HU0000515655 | HU0000515671 | HU0000515689 | HU0000515549 | HU0000515622 | HU0000515622 | HU0000515663 | HU0000515663 |
| Maturity in days | 91 | 91 | 91 | 91 | 168 | 154 | 364 | 350 |
| Date of auction | 07.02.2006 | 14.02.2006 | 21.02.2006 | 28.02.2006 | 08.02.2006 | 22.02.2006 | 09.02.2006 | 23.02.2006 |
| Date of financial settlement | 15.02.2006 | 22.02.2006 | 01.03.2006 | 08.03.2006 | 15.02.2006 | 01.03.2006 | 15.02.2006 | 01.03.2006 |
| Redemption date | 17.05.2006 | 24.05.2006 | 31.05.2006 | 07.06.2006 | 02.08.2006 | 02.08.2006 | 14.02.2007 | 14.02.2007 |
| Maximum yield (%) - ISMA | 5.91 | 5.91 | 5.95 | 5.96 | 5.97 | 6.17 | 6.22 | 6.34 |
| Minimum yield (%) - ISMA | 5.85 | 5.70 | 5.70 | 5.80 | 5.80 | 5.75 | 5.95 | 6.29 |
| Average yield (%) - ISMA | 5.90 | 5.89 | 5.93 | 5.95 | 5.95 | 6.16 | 6.19 | 6.32 |
| Maximum yield (%) - EHM | 5.99 | 5.99 | 6.03 | 6.04 | 6.05 | 6.26 | 6.31 | 6.43 |
| Minimum yield (%) - EHM | 5.93 | 5.78 | 5.78 | 5.88 | 5.88 | 5.83 | 6.03 | 6.38 |
| Average yield (%) - EHM | 5.98 | 5.97 | 6.01 | 6.03 | 6.03 | 6.25 | 6.28 | 6.41 |
| Average selling price (%) | 98.5305 | 98.5330 | 98.5232 | 98.5183 | 97.2983 | 97.4325 | 94.1099 | 94.2112 |
| Amount offered for sale (HUF million) | 25,000.00 | 25,000.00 | 30,000.00 | 35,000.00 | 35,000.00 | 35,000.00 | 40,000.00 | 40,000.00 |
| Amount of bids submitted (HUF million) | 89,126.30 | 68,592.51 | 95,654.76 | 98,462.85 | 77,028.41 | 127,661.27 | 95,991.80 | 91,900.00 |
| Amount of bids accepted (HUF million) | 29,999.92 | 24,999.92 | 34,999.95 | 40,000.00 | 34,999.88 | 44,999.83 | 39,999.91 | 39,999.94 |
| Bid-to-cover ratio | 2.97 | 2.74 | 2.73 | 2.46 | 2.20 | 2.84 | 2.40 | 2.30 |
| Bids submitted (pcs) | 129 | 104 | 93 | 86 | 112 | 127 | 152 | 108 |
| Bids accepted (pcs) | 51 | 41 | 85 | 35 | 51 | 59 | 96 | 59 |
| Market sales* (HUF million) | 29,999.92 | 24,999.92 | 34,999.95 | 40,000.00 | 34,999.88 | 44,999.83 | 39,999.91 | 39,999.94 |
| Retained on ÁKK's own account (HUF million) | 3,000.08 | 2,500.08 | 3,500.05 | 8,000.00 | 7,000.12 | 9,000.17 | 12,000.09 | 8,000.06 |
| Total amount issued (HUF million) | 33,000.00 | 27,500.00 | 38,500.00 | 48,000.00 | 42,000.00 | 54,000.00 | 52,000.00 | 48,000.00 |

* Without issuance onto ÁKK's own account

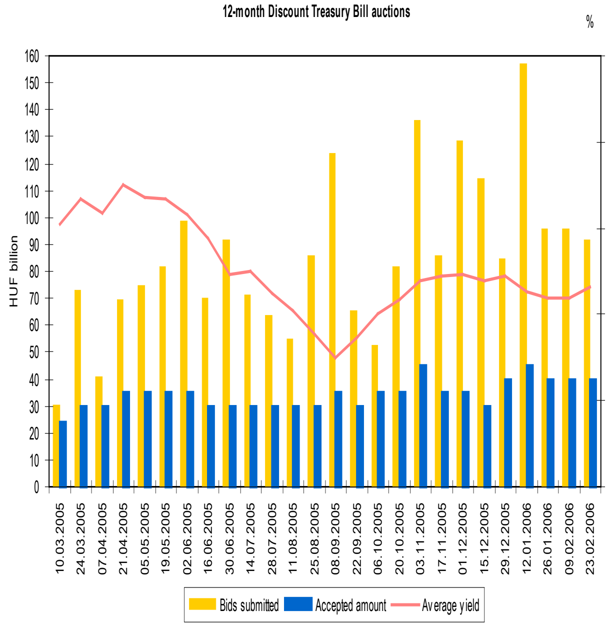
3-month Discount Treasury Bill and Liquidity Discount Treasury Bill auctions




6-month Discount Treasury Bill auctions




12-month Discount Treasury Bill auctions

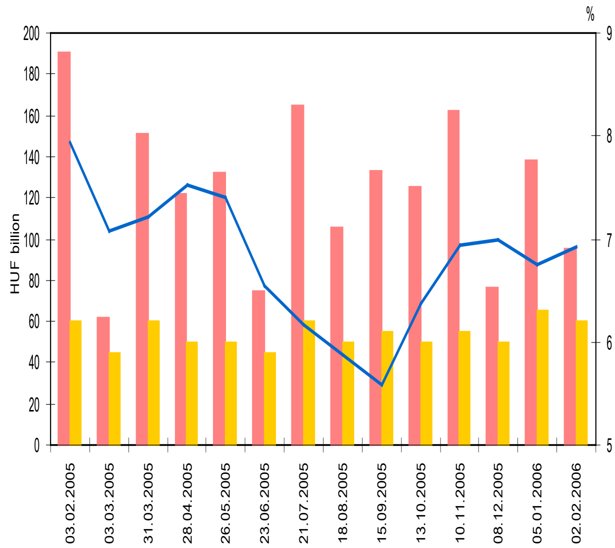


## GOVERNMENT BOND AUCTION RESULTS

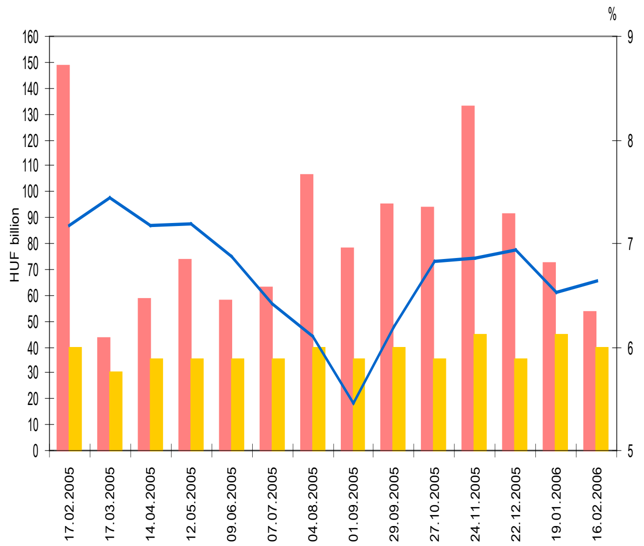
| Government Bond | 2009/E | 2011/B | 2016/C | 2020/A |
|---|---|---|---|---|
| ISIN code | HU0000402326 | HU0000402334 | HU0000402318 | HU0000402235 |
| Maturity (in years) | 3 | 5 | 10 | 15 |
| Coupon (%) | 6.25% | 6.00% | 5.50% | 7.50% |
| Auction | 2nd auction | 2nd auction | 6th auction | 14th auction |
| Date of auction | 02.02.2006 | 16.02.2006 | 16.02.2006 | 02.02.2006 |
| Date of financial settlement | 08.02.2006 | 22.02.2006 | 22.02.2006 | 08.02.2006 |
| Redemption date | 24.04.2009 | 12.10.2011 | 12.02.2016 | 12.11.2020 |
| Maximum annual yield (%) - ISMA | 6.94 | 6.65 | 6.65 | 6.78 |
| Minimum annual yield (%) - ISMA | 6.86 | 6.59 | 6.59 | 6.76 |
| Average annual yield (%) - ISMA | 6.92 | 6.63 | 6.62 | 6.77 |
| Maximum annual yield (%) - EHM | 6.93 | 6.65 | 6.65 | 6.78 |
| Minimum annual yield (%) - EHM | 6.85 | 6.59 | 6.59 | 6.76 |
| Average annual yield (%) - EHM | 6.91 | 6.62 | 6.61 | 6.76 |
| Maximum price (%) | 98.3194 | 97.3160 | 92.2077 | 106.7334 |
| Minimum price (%) | 98.0992 | 97.0464 | 91.8019 | 106.5418 |
| Average price (%) | 98.1662 | 97.1540 | 92.0312 | 106.6626 |
| Amount offered for sale (HUF million) | 65,000.00 | 45,000.00 | 35,000.00 | 20,000.00 |
| Amount of bids submitted (HUF million) | 95,601.14 | 53,300.00 | 55,550.00 | 89,780.00 |
| Amount of bids accepted (HUF million) | 59,999.87 | 39,999.97 | 34,999.89 | 25,000.00 |
| Bid-to-cover ratio | 1.59 | 1.33 | 1.59 | 3.59 |
| Bids submitted (pcs) | 142 | 97 | 102 | 117 |
| Bids accepted (pcs) | 88 | 68 | 69 | 15 |
| Tail (average price - minimum price) | 0.07 | 0.11 | 0.23 | 0.12 |
| Market sales* (HUF million) | 59,999.87 | 39,999.97 | 34,999.89 | 25,000.00 |
| Retained on ÁKK's own account (HUF million) | 12,000.13 | 8,000.03 | 7,000.11 | 5,000.00 |
| Total amount issued (HUF million) | 72,000.00 | 48,000.00 | 42,000.00 | 30,000.00 |

*Without issuance onto ÁKK's own account

3-year government bond auctions

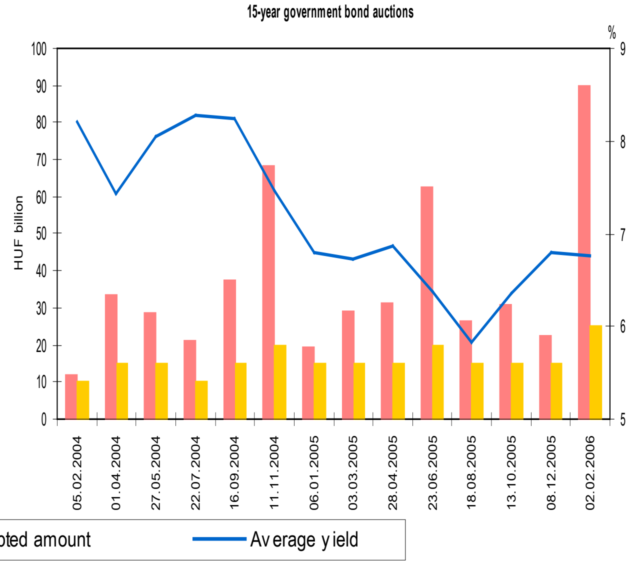



5-year government bond auctions




10-year government bond auctions

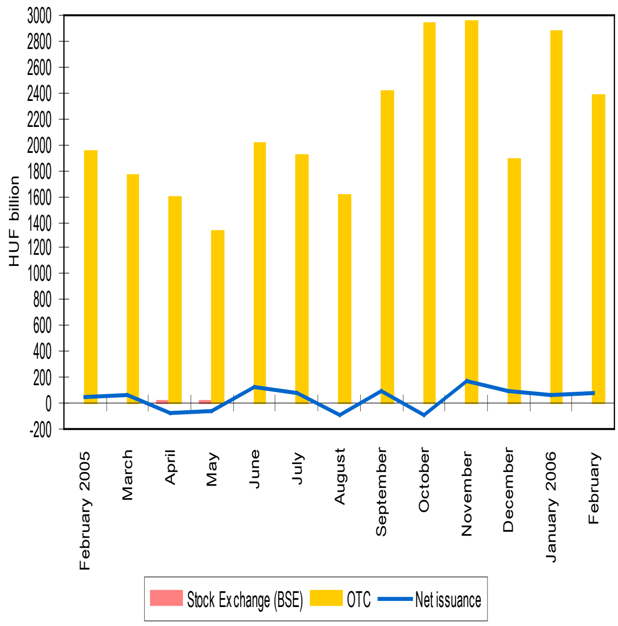

15-year government bond auctions



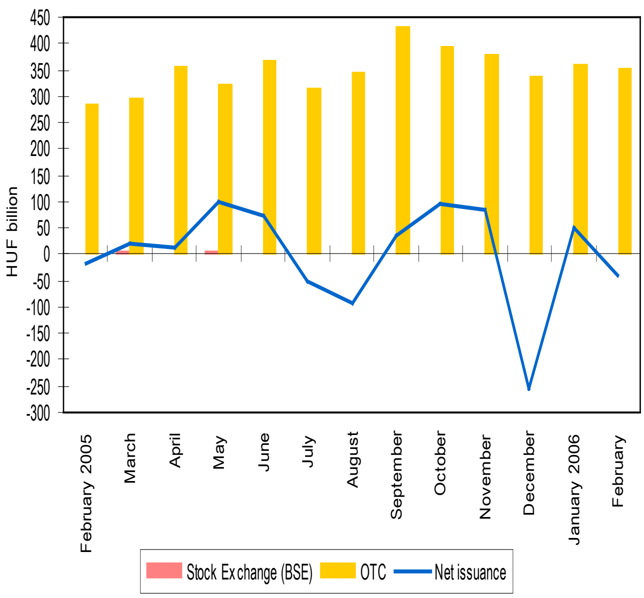
## GOVERNMENT BOND BUY-BACK AUCTION RESULTS

| Government bond | 2006/E | 2006/G | 2006/E | 2006/G |
|---|---|---|---|---|
| ISIN code | HU0000401963 | HU0000402201 | HU0000401963 | HU0000402201 |
| Coupon (%) | 8.50% | 6.50% | 8.50% | 6.50% |
| Date of reverse auction | 01.02.2006 | 01.02.2006 | 15.02.2006 | 15.02.2006 |
| Date of financial settlement | 08.02.2006 | 08.02.2006 | 22.02.2006 | 22.02.2006 |
| Redemption date | 12.05.2006 | 24.08.2006 | 12.05.2006 | 24.08.2008 |
| Minimum annual yield (%) | 6.10 | 6.15 | 6.00 | 6.10 |
| Average annual yield (%) | 6.13 | 6.20 | 6.01 | 6.11 |
| Amount of bids submitted (HUF million) | 30,738.80 | 27,515.13 | 22,747.20 | 25,445.01 |
| Amount of bids accepted (HUF million) | 4,627.20 | 20,166.61 | 19,747.20 | 1,325.53 |

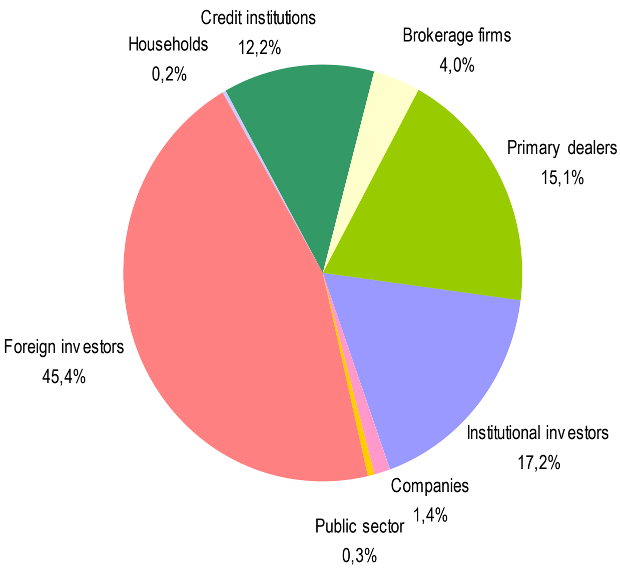
**Secondary market trading of government bonds**



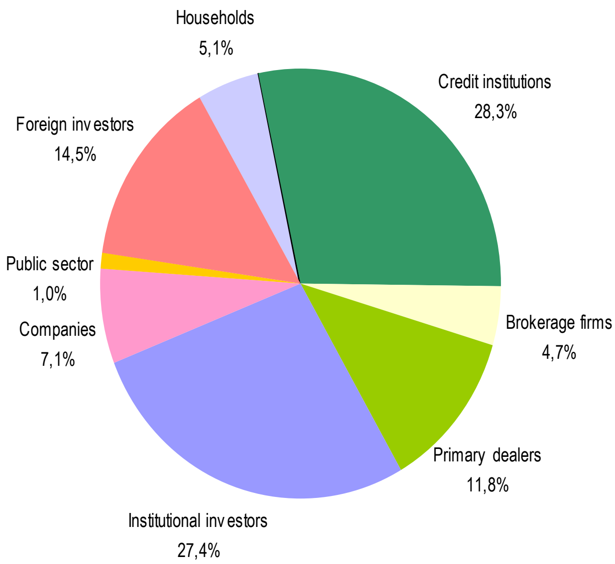

**Secondary market trading of Discount Treasury Bills**

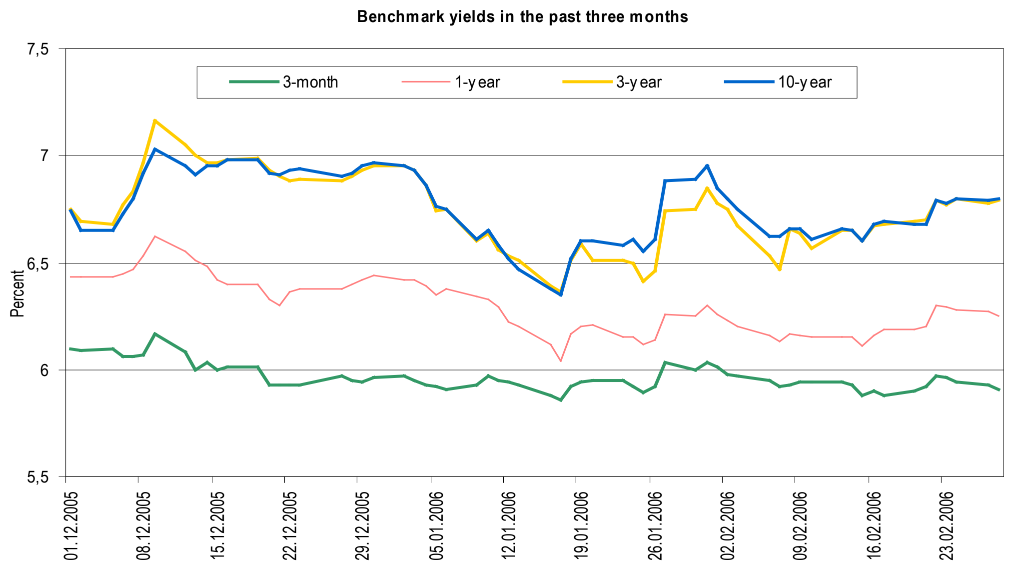


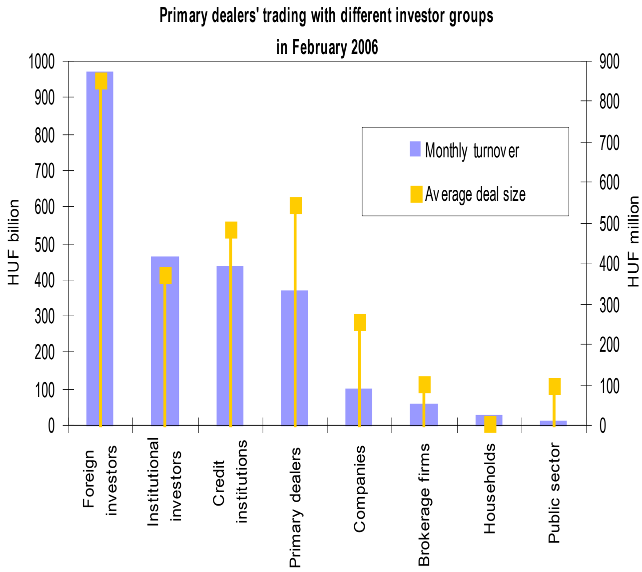

**Breakdown of primary dealers' secondary market turnover in government bonds by investor groups in February 2006**

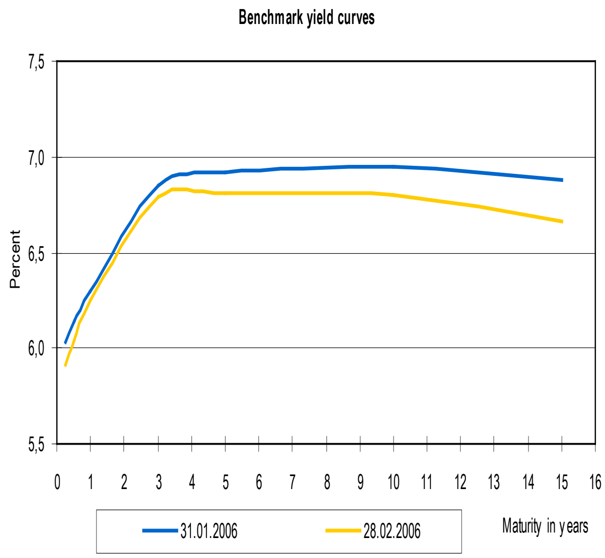


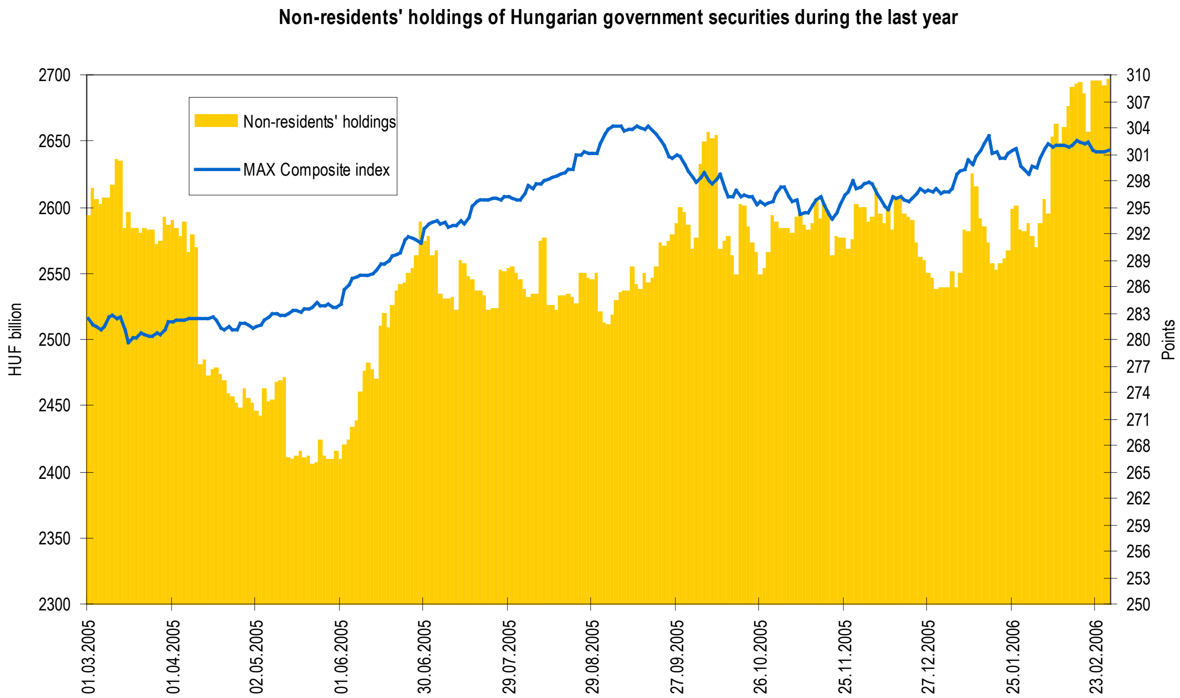

**Breakdown of primary dealers' secondary market turnover in Discount Treasury Bills by investor groups in February 2006**




Benchmark yields in the past three months
3-month
1-year
3-year
10-year
Percent
7,5
7
6,5
6
5,5
01.12.2005
08.12.2005
15.12.2005
22.12.2005
29.12.2005
05.01.2006
12.01.2006
19.01.2006
26.01.2006
02.02.2006
09.02.2006
16.02.2006
23.02.2006


Primary dealers' trading with different investor groups in February 2006
Monthly turnover
Average deal size
HUF billion
HUF million
Foreign investors
Institutional investors
Credit institutions
Primary dealers
Companies
Brokerage firms
Households
Public sector


Benchmark yield curves
Percent
31.01.2006
28.02.2006
Maturity in years


Non-residents' holdings of Hungarian government securities during the last year
Non-residents' holdings
MAX Composite index
HUF billion
Points
01.03.2005
01.04.2005
02.05.2005
01.06.2005
30.06.2005
29.07.2005
29.08.2005
27.09.2005
26.10.2005
25.11.2005
27.12.2005
25.01.2006
23.02.2006

## INTEREST RATE RESETS OF FLOATING RATE GOVERNMENT BONDS IN FEBRUARY 2006

| Government Bond | Date of interest rate reset | Interest period | | Date of interest payment | Reset interest rate (%) | Interest payable (%) |
|---|---|---|---|---|---|---|
| 2007/E | 10.02.2006 | 12.02.2006 | 12.08.2006 | 14.08.2006 | 6.13 | 3.08 |
| 2010/A | 10.02.2006 | 12.02.2006 | 12.08.2006 | 14.08.2006 | 6.13 | 3.08 |
| 2009/A | 10.02.2006 | 12.02.2006 | 12.08.2006 | 14.08.2006 | 6.13 | 3.08 |
| 2007/C | 10.02.2006 | 12.02.2006 | 12.08.2006 | 14.08.2006 | 6.13 | 3.08 |
| 2006/D | 10.02.2006 | 12.02.2006 | 12.08.2006 | 14.08.2006 | 6.13 | 3.08 |
| 2008/B | 10.02.2006 | 12.02.2006 | 12.08.2006 | 14.08.2006 | 6.13 | 3.08 |
| 2026/A | 27.02.2006 | 28.02.2006 | 28.08.2006 | 28.02.2007 | 5.99 | - |

## HUNGARIAN GOVERNMENT SECURITIES INDICES

| | MAX index | RMAX index | MAX Composite index | ZMAX index |
|---|---|---|---|---|
| Value as at 28 February 2006 | 306.0213 | 298.6957 | 301.4817 | 299.8146 |
| Changes compared to the end of the month before | 3.0595 | 1.4228 | 2.7213 | 1.4216 |
| Annual yield earned on the index portfolio | 6.82% | 7.30% | 6.99% | 6.94% |

**Government securities with the highest secondary market turnover in February 2006**

| Government security | Date of redemption | Turnover (HUF billion) |
|---|---|---|
| 2008/E | 12.08.2008 | 258.7 |
| 2010/B | 12.10.2010 | 221.9 |
| 2015/A | 12.02.2015 | 204.9 |
| 2009/E | 24.04.2009 | 201.2 |
| 2016/C | 12.02.2016 | 132.5 |
| 2011/B | 12.10.2011 | 119.6 |
| 2020/A | 12.11.2020 | 99.9 |
| D061220 | 20.12.2006 | 98.1 |
| 2007/G | 12.10.2007 | 80.7 |
| D070214 | 14.02.2007 | 80.3 |

**The outstanding volume of government bonds with benchmark status at the end of February 2006**

| | HUF billion | |
|---|---|---|
| Government bond | 31.01.2006 | 28.02.2006 |
| 2009/E | 65.32 | 125.59 |
| 2011/B | 45.01 | 85.09 |
| 2016/C | 136.25 | 170.49 |
| 2020/A | 196.21 | 221.73 |

## PRIMARY DEALERS - AS AT 28 FEBRUARY 2006

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