

GOVERNMENT SECURITIES MARKET

MONTHLY REPORT



DECEMBER 2003



ÁLLAMI GARANCIÁVAL

■ GOVERNMENT SECURITIES MARKET ■

The raising of the Central Bank's base rate at the end of November had a significant influence on the government securities market in December. In the first days of the month investors' uncertainty resulted in weak demand and yields jumping to levels seen only years before. All this led to two unsuccessful discount T-bill auctions. Later on in the course of the month benchmark yields gradually decreased from their extremely high levels, and were 41-130 basis points lower by the end of the year compared to the end of November.

Demand was low at the discount T-bill auctions, the monthly average bid-cover ratio decreased from 1.9 to 1.7. At the auctions of government bonds, however, the amount of bids submitted was on average almost three times higher than the amount accepted.

On the OTC market the monthly turnover of government bonds decreased, while that of the discount Treasury bills was higher than the turnover in the previous month. The monthly volume of government securities trading on the Budapest Stock Exchange in 2003 was the highest in December.

By the end of December an annual yield of 1.17 per cent could have been earned on the portfolio of the MAX Composite index which covers the overwhelming part of the government securities market (publicly offered fixed rate bonds and discount T-bills with at least 3-month residual maturity). The annual yield of the RMAX index (which shows the price movements of government securities with a residual maturity of less than one year) was 5.99 per cent, while the MAX index yielded -0.31 per cent. By the end of December the value of all three indices increased compared to November.

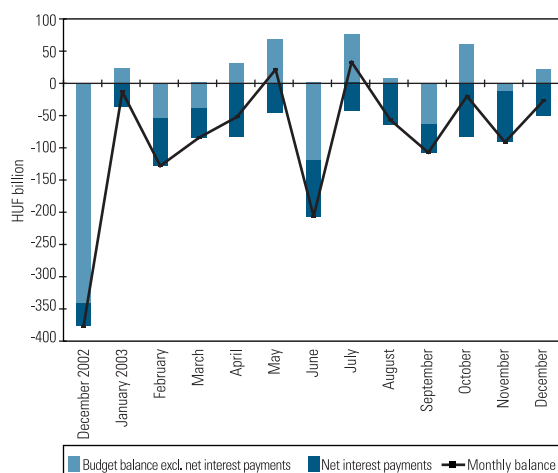
The monthly budget deficit - excluding privatisation proceeds - was HUF 26.6 bn. The aggregate balance of the central government including the Social Security Funds and the extrabudgetary funds, however, showed a surplus of HUF 75.7 bn. The net issuance of government securities amounted to HUF 37.8 bn during the month, so there was an overfunding of HUF 113.5 billion in December.

At the end of 2003 the long-term foreign currency rating of the Republic of Hungary was the following: Standard and Poor's - 'A-', Moody's Investor Service - 'A1', Fitch Ratings Ltd. - 'A-'. Hungary's Forint denominated debt stood at 'A1' with Moody's, 'A+' with Fitch Ratings Ltd. and 'A' with Standard and Poor's.

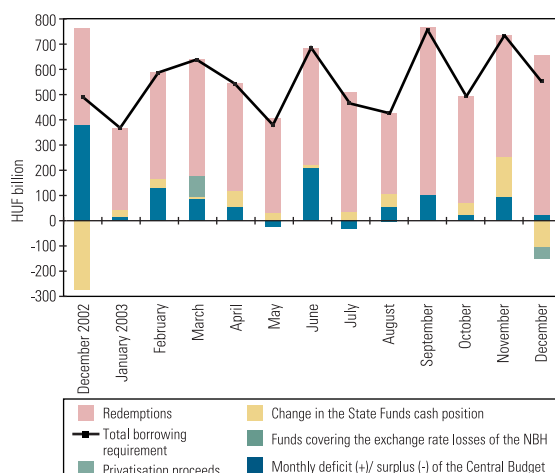
Foreign holdings of Hungarian government securities increased by HUF 33.9 bn (EUR 130 million) during December and amounted to HUF 2223.3 bn (EUR 8.5 billion) at the end of the month. This amount constituted 31.2% of the outstanding stock of publicly issued government securities at the end of December (the same figure for November was 30.9%). Non-residents took an almost one-third share in government bond turnover but only 4% in the trading of discount T-bills.

GOVERNMENT SECURITIES MARKET

Monthly Balance of the Central Government Budget (excl. privatisation proceeds) and its main components



Gross Borrowing Requirement and its main components

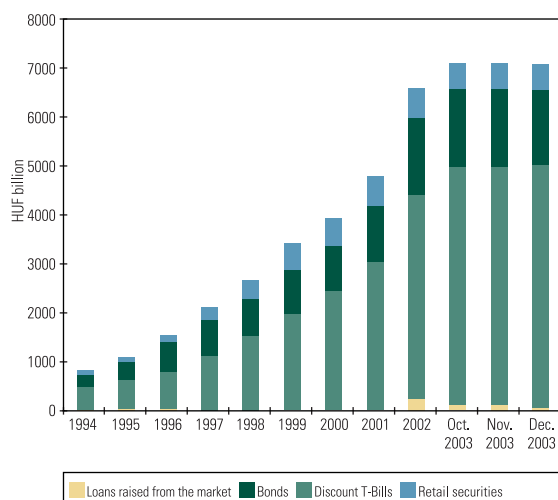


THE CENTRAL GOVERNMENT GROSS DEBT

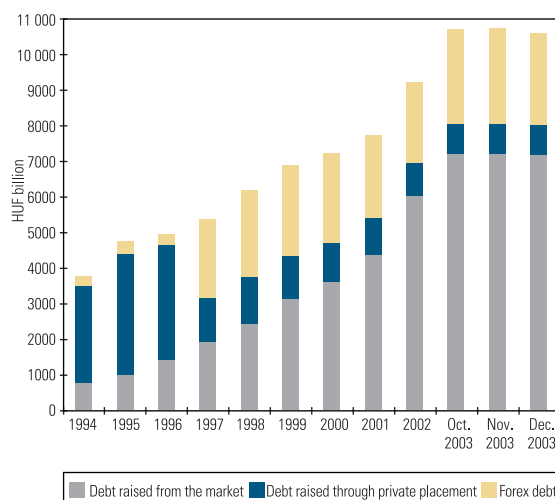
Debt Stock	1994	1995	1996	1997	at current prices, in HUF billion							
	1998	1999	2000	2001	2002	Oct 2003	Nov 2003	Dec 2003				
1. Forint denominated	3499.09	4377.40	4630.40	3151.67	3733.92	4350.19	4717.46	5397.40	6956.90	8048.43	8058.57	8009.11
1.1. Loans	2181.95	2766.55	2193.32	502.67	434.96	380.21	303.84	228.29	353.18	204.14	201.89	117.91
1.1.1. Foreign									1.66	1.66	1.66	1.41
1.1.2. Domestic	2181.95	2766.55	2193.32	502.67	434.96	380.21	303.84	228.29	351.52	202.48	200.23	116.50
1.1.2.1. Raised from NBH	733.40	714.76	611.01	502.48	434.90	362.43	289.50	217.36	144.03	89.43	89.43	71.22
1.1.2.2. Other	8.49	28.49	19.00	0.19	0.06	17.79	14.34	10.93	207.49	113.06	110.80	45.28
1.1.2.3. Non-interest bearing loans	1440.06	2023.30	1563.31									
1.2. Government securities	1317.14	1610.85	2437.08	2649.00	3298.97	3969.98	4413.61	5169.11	6603.72	7844.28	7856.68	7891.20
1.2.1. Public issues	739.75	963.59	1392.90	1900.85	2432.82	3116.83	3582.37	4360.04	5826.30	7080.07	7092.47	7131.89
1.2.1.1. Bonds	424.61	546.61	708.49	998.73	1386.46	1790.84	2221.22	2782.01	3829.23	4936.06	4,941.62	5,056.59
1.2.1.2. Discount T-Bills	236.02	339.74	560.66	661.26	689.89	826.74	837.90	1033.30	1436.75	1620.98	1625.60	1542.48
1.2.1.3. Retail securities	79.11	77.24	123.75	240.86	356.47	499.25	523.25	544.73	560.32	523.03	525.25	532.83
1.2.2. Private placements	577.39	647.26	1044.18	748.16	866.15	853.16	831.25	809.07	777.43	764.21	764.21	759.31
2. Forex denominated	252.52	356.10	301.98	2219.05	2431.87	2536.21	2508.75	2322.10	2267.29	2654.96	2680.87	2578.99
2.1. Loans	236.50	345.46	258.35	2161.31	2367.83	1929.55	1772.75	1410.40	1394.26	1177.74	1170.03	1084.11
2.1.1. Foreign	236.50	319.89	256.94	274.60	249.65	361.19	368.80	317.81	461.92	530.89	561.82	598.84
2.1.2. Domestic		25.57	1.40	1886.71	2118.18	1568.37	1403.95	1092.59	932.34	646.85	608.21	485.28
2.1.2.1. Taken over in 1997				1886.71	2118.18	1568.37	1403.95	1092.59	849.58	628.31	589.24	466.51
2.1.2.2. Others		25.57	1.40						82.76	18.54	18.97	18.77
2.2. Government securities	16.02	10.65	43.63	57.74	64.04	606.66	735.99	911.70	873.03	1477.21	1,510.84	1494.88
2.2.1. Issued abroad			32.99	40.70	44.44	587.11	715.67	911.70	873.03	1477.21	1,510.84	1494.88
2.2.1.1. Foreign currency bonds			32.99	40.70	43.81	586.78	715.37	911.45	872.86	1477.07	1510.70	1494.74
2.2.1.2. Kingdom of Hungary 1924 issues					0.64	0.33	0.30	0.25	0.17	0.14	0.14	0.13
2.2.2. Issued in the domestic market	16.02	10.65	10.65	17.04	19.60	19.55	20.32					
Total	3751.60	4733.50	4932.38	5370.72	6165.79	6886.40	7226.20	7719.50	9224.20	10703.38	10739.43	10588.10
Memo item: marketable HUF debt												
(1.2.1.1.+1.2.1.2.+1.2.2.)	1238.03	1533.61	2313.33	2408.15	2942.49	3470.73	3890.37	4624.38	6043.41	7321.25	7331.43	7358.38

Forex denominated debt is calculated upon the mid exchange rate quoted by the National Bank of Hungary on the last workday of the month.

Components of the Central Government HUF Debt



Components of the Central Government Gross Debt



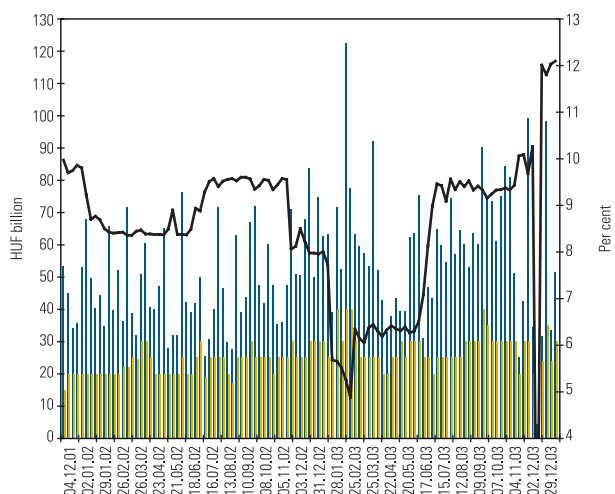
■ GOVERNMENT SECURITIES MARKET ■

DISCOUNT TREASURY BILL AUCTIONS

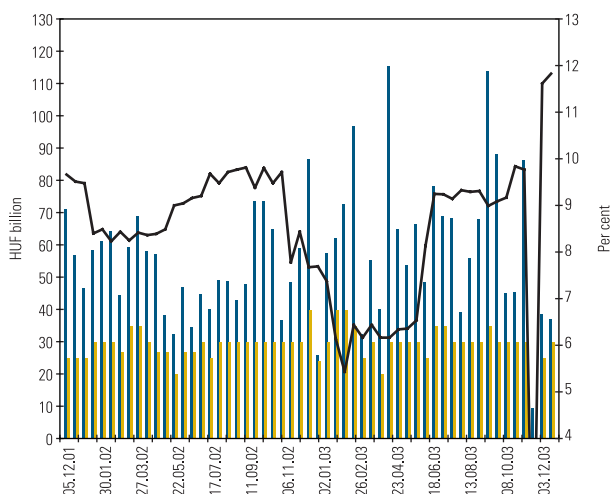
	3-month Discount Treasury Bills					6-month Discount Treasury Bills			12-month Discount Treasury Bills		
Code of T-bill	D040310	D040317	D040324	D040331	D040407	D040609	D040609	D040609	D041027	D041222	D041222
Maturity in days	91	91	92	92	91	182	169	154	322	365	350
Date of auction	02.12.2003	09.12.2003	16.12.2003	22.12.2003	29.12.2003	03.12.2003	17.12.2003	30.12.2003	04.12.2003	18.12.2003	30.12.2003
Date of financial settlement	10.12.2003	17.12.2003	23.12.2003	30.12.2003	07.01.2004	10.12.2003	23.12.2003	07.01.2004	10.12.2003	23.12.2003	07.01.2004
Redemption date	10.03.2004	17.03.2004	24.03.2004	31.03.2004	07.04.2004	09.06.2004	09.06.2004	09.06.2004	27.10.2004	22.12.2004	22.12.2004
Maximum annual bond yield equivalent (%) – ISMA	0.00	12.15	11.90	12.17	12.21	0.00	11.75	12.02	12.85	11.25	11.35
Average annual bond yield equivalent (%) – ISMA	0.00	12.02	11.82	12.04	12.12	0.00	11.65	11.87	12.64	11.20	11.20
Minimum annual bond yield equivalent (%) – ISMA	0.00	11.50	11.50	11.50	11.92	0.00	11.00	11.30	12.00	10.50	10.50
Maximum annual bond yield equivalent (%) – EHM	0.00	12.32	12.07	12.34	12.38	0.00	11.91	12.19	13.03	11.41	11.51
Average annual bond yield equivalent (%) – EHM	0.00	12.19	11.98	12.21	12.29	0.00	11.81	12.03	12.82	11.36	11.36
Minimum annual bond yield equivalent (%) – EHM	0.00	11.66	11.66	11.66	12.09	0.00	11.15	11.46	12.17	10.65	10.65
Average selling price (%)	0.0000	97.0512	97.0679	97.0150	97.0274	0.0000	94.8146	95.1677	89.8426	89.8024	90.1804
Offered for sale (HUF million)	30000.00	30000.00	30000.00	30000.00	30000.00	30000.00	30000.00	30000.00	30000.00	30000.00	30000.00
Amount of bids submitted (HUF million)	4343.65	31880.07	99027.47	33647.89	51750.83	9461.72	38833.11	37105.24	48577.91	78831.96	34066.36
Amount of bids accepted (HUF million)	0.00	23999.97	34999.96	24000.00	29999.99	0.00	24999.96	29999.98	29999.99	34999.96	24999.98
Cover (amount of bids submitted/amount of bids accepted)	1.33	2.83	1.40	1.73	-	1.55	1.24	1.62	2.25	1.36	-
Bids submitted (pcs)	32	152	178	104	112	49	119	78	116	145	79
Bids accepted (pcs)	0	127	56	82	84	0	98	66	78	100	68
Market sales* (HUF million)	0.00	23999.97	34999.96	24000.00	29999.99	0.00	24999.96	29999.98	29999.99	34999.96	24999.98
Retained on ÁKK's own account (HUF million)	0.00	0.03	3500.04	2000.00	3000.01	0.00	2500.04	3000.02	3000.01	10500.04	2500.02
Total amount issued (HUF million)	0.00	24000.00	38500.00	26000.00	33000.00	0.00	27500.00	33000.00	33000.00	45500.00	27500.00

* Without ÁKK purchase

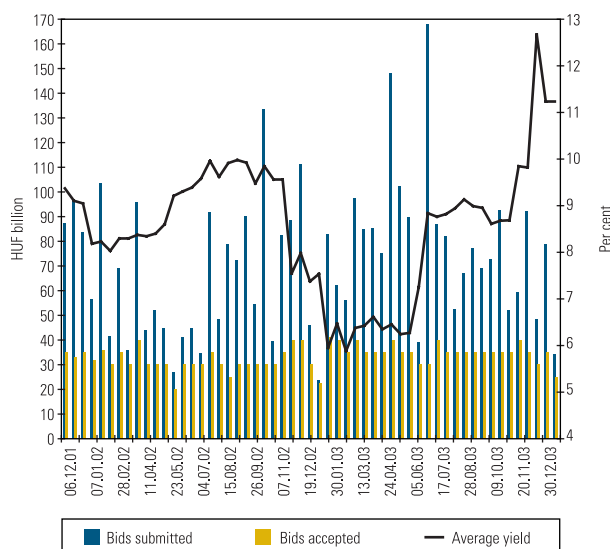
3-month Discount Treasury Bill auctions



6-month Discount Treasury Bill auctions



12-month Discount Treasury Bill auctions



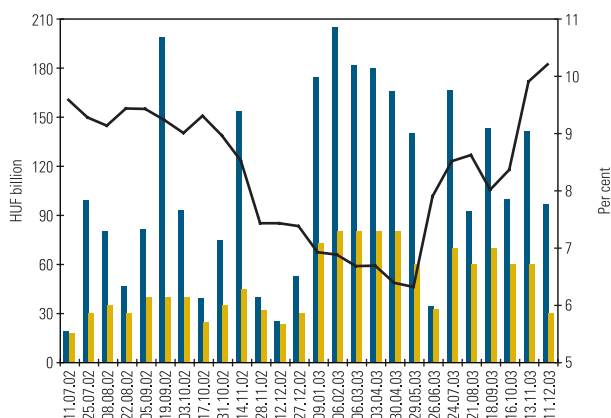
■ GOVERNMENT SECURITIES MARKET ■

GOVERNMENT BOND AUCTIONS

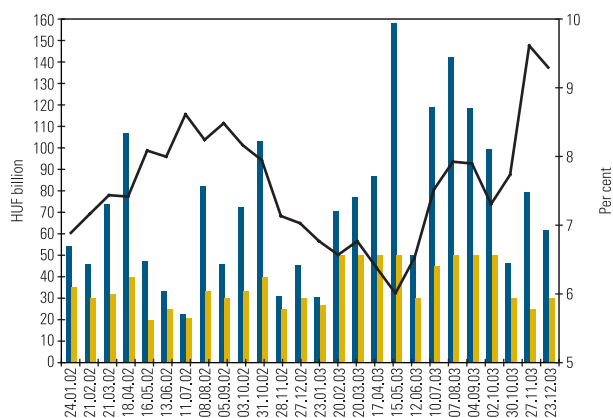
Name of Government Bond	2006/G	2009/C	2014/C
ISIN code	HU0000402201	HU0000402219	HU0000402193
Maturity (in years)	3	5	10
Coupon (%)	6.5	6.25	5.5
Auction	7th auction	4th auction	8th auction
Date of auction	11.12.2003	23.12.2003	23.12.2003
Date of financial settlement	18.12.2003	30.12.2003	30.12.2003
Redemption date	24.08.2006	24.06.2009	12.02.2014
Minimum annual yield(%) - ISMA	10.07	9.18	8.02
Maximum annual yield(%) - ISMA	10.21	9.35	8.06
Average annual yield(%) - ISMA	10.17	9.28	8.03
Minimum annual yield(%) - EHM	10.06	9.17	8.01
Maximum annual yield(%) - EHM	10.20	9.34	8.05
Average annual yield(%) - EHM	10.16	9.27	8.02
Maximum selling price(%)	91.8316	90.9284	82.9700
Minimum selling price(%)	91.5335	90.2667	82.7311
Average selling price(%)	91.6205	90.5226	82.8987
Amount offered for sale (HUF million)	30,000.00	30,000.00	20,000.00
Amount of bids submitted (HUF million)	96,883.58	61,937.47	62,396.42
Amount of bids accepted (HUF million)	29,999.99	29,999.98	25,000.00
Cover (amount of bids submitted/amount of bids accepted)	3.23	2.06	2.50
Bids submitted (pcs)	177	101	100
Bids accepted (pcs)	41	58	24
Tail (average selling price - minimum selling price)	0.09	0.26	0.17
Market sales* (HUF million)	29,999.99	29,999.98	25,000.00
Retained on ÁKK's own account (HUF million)	0.01	0.02	0.00
Total amount issued (HUF million)	30,000.00	30,000.00	25,000.00

* Without ÁKK purchase

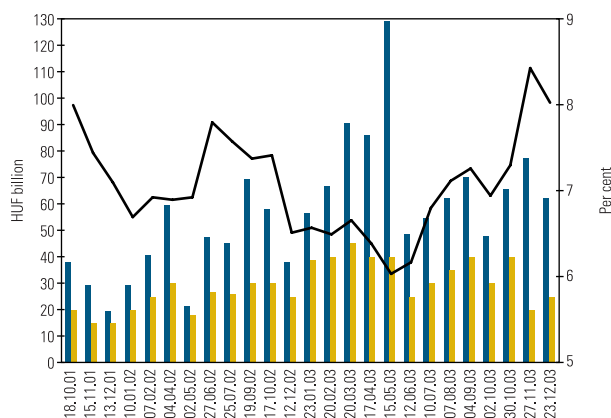
3-year Government Bond auctions



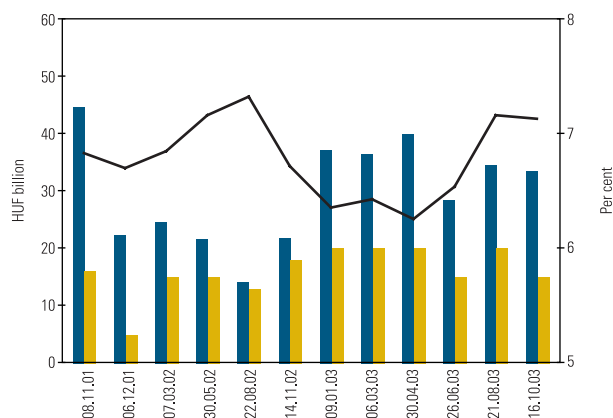
5-year Government Bond auctions



10-year Government Bond auctions



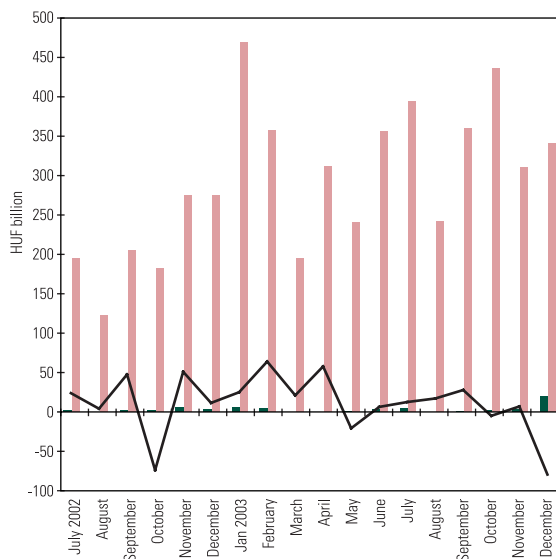
15-year Government Bond auctions



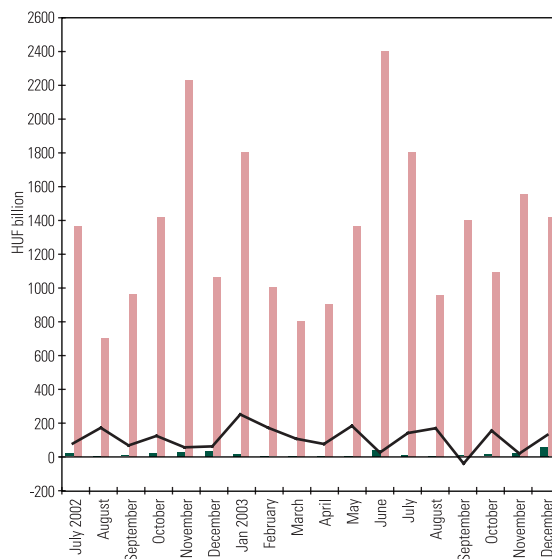
■ Bids submitted ■ Bids accepted — Average yield

■ GOVERNMENT SECURITIES MARKET ■

Secondary Market Turnover of Discount Treasury Bills

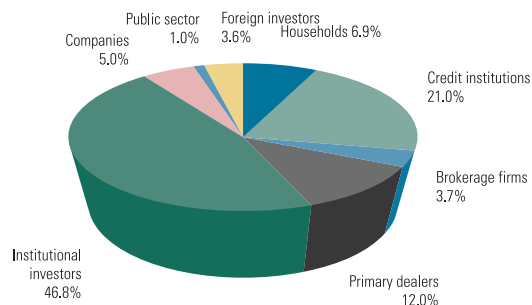


Secondary Market Turnover of Government Bonds

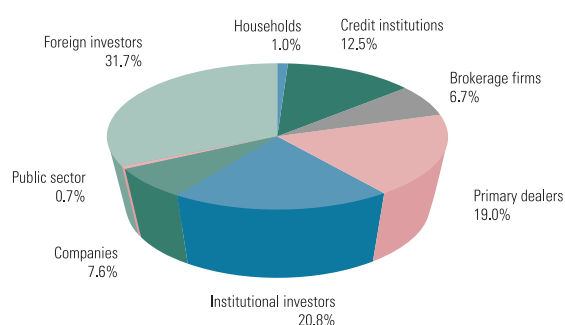


■ Stock Exchange (BSE) ■ OTC — Net issuance

Breakdown of Discount T-Bill Secondary Market Turnover by Main Investor Groups in December 2003



Breakdown of Government Bond Secondary Market Turnover by Main Investor Groups in December 2003



HUNGARIAN GOVERNMENT SECURITIES TOTAL RETURN INDEX

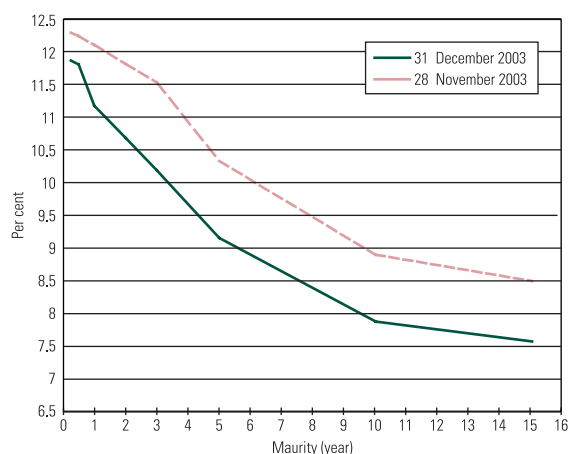
	MAX index	RMAX index	MAX Composite index
Value on 31 December 2003	242.3398	243.3818	240.3126
Monthly change (compared to end of November)	10.3197	3.1306	8.5028
Annual yield (December, 2002-2003)	-0.31%	5.99%	1.17%

PRIMARY DEALERS – AS AT 1 JANUARY 2004

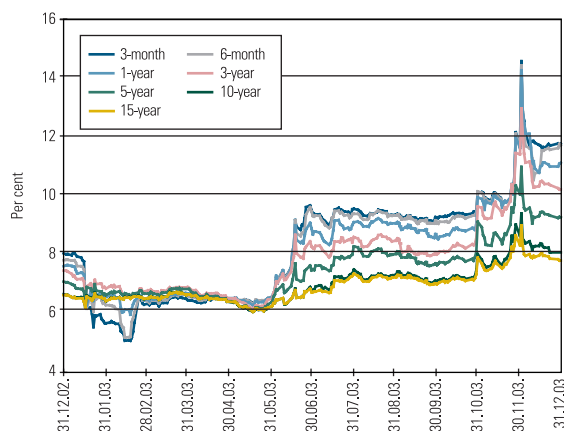
Primary dealers	Primary dealers for retail securities
CIB Bank Rt. CITIBANK Rt. Deutsche Bank Rt. Dresdner Bank (Hungary) Rt. ERSTE Bank Befektetési Magyarország Rt. HVB Bank Hungary Rt. ING Bank Rt.	Kereskedelmi és Hitelbank Rt. Magyar Külkereskedelmi Bank Rt. Magyar Takarékszövetkezeti Bank Rt. Országos Takarékpénztár és Kereskedelmi Bank Rt. CIB Bank Rt. Kereskedelmi és Hitelbank Rt. Magyar Takarékszövetkezeti Bank Rt. Országos Takarékpénztár és Kereskedelmi Bank Rt. Hungarian State Treasury Branch Network

■ GOVERNMENT SECURITIES MARKET ■

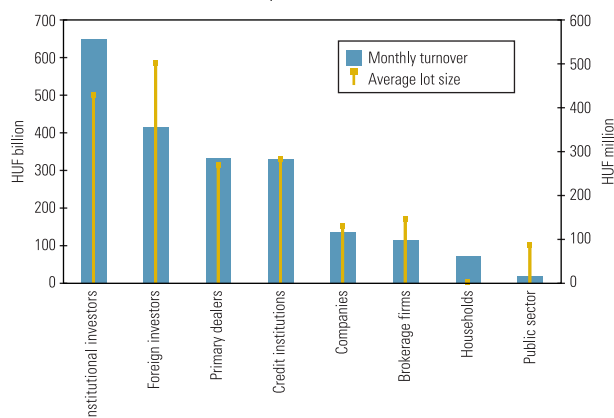
Benchmark Yield Curve



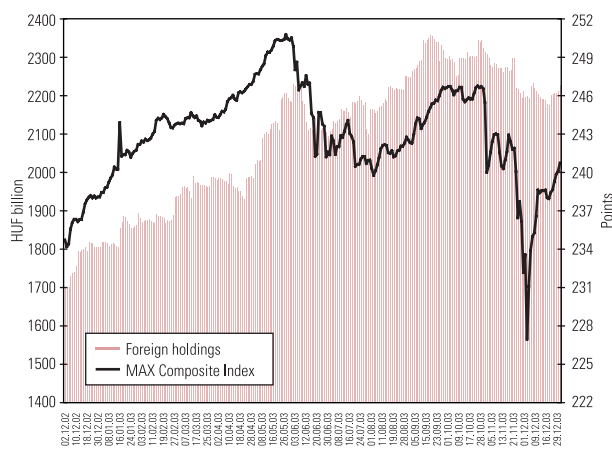
Benchmark Yields



Monthly Turnover of Primary Dealers with Different Investor Groups in December



Hungarian Government Securities Possessed by Foreign Investors



REUTERS PAGES (CODES)

Main Page: HUTREASURY

Data on auctions are accessible 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
HUBONDINDEX	Hungarian Government Total Return Index (MAX), updated at 16.00 CET
HUBONDINDEX2	Benchmark Indices for Government Bonds BMX3Y-10Y (updated at 16.00 CET)
.HUMAXBOND	Hungarian Government Total Return Index (MAX) statistics

Other

HUFLOATER	Interest rate reset of floating rate bonds
HUINDEXED	Accrued interest and capital uplift (inflation adjusted capital) of the index-linked government bond on a daily basis (at the most 2 months in advance)
HUBONDINFO	List of authorised dealers (contacts)

Bloomberg pages (code): GDMA

Telerate pages (codes): 47184-47190

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

THE MOST LIQUID GOVERNMENT SECURITIES ON THE SECONDARY MARKET IN DECEMBER

Government Security	Redemption date	Turnover (HUF billion)
D040707	07.07.2004	273.356
2006/G	24.08.2006	146.320
2014/C	12.02.2014	144.726
D041027	27.10.2004	123.470
2009/C	24.06.2009	111.356
2013/D	12.02.2013	103.461
D040317	17.03.2004	103.396
2008/C	12.06.2008	91.948
2006/F	12.04.2006	81.853
2005/I	12.10.2005	69.139

AMOUNT OUTSTANDING OF GOVERNMENT BONDS WHICH WERE OFFERED FOR SALE DURING DECEMBER

Government Bond	HUF billion	
	30 November 2003	31 December 2003
2006/G	353.90	384.25
2009/C	79.87	134.93
2014/C	200.09	245.11

■ GOVERNMENT SECURITIES MARKET ■

February							
	2 Monday	3 Tuesday	4 Wednesday	5 Thursday	6 Friday	7 Sa	8 Su
Discount T-bill auction announcement			3, 6 and 12-month Discount T-bills				
Discount T-bill auction		D040512					
Discount T-bill settlement			D040505/D040804/D041222				
Discount T-bill redemption			D040204				
Liquidity DTB auction announcement	Upon decision of the issuer						
Liquidity DTB auction	Upon decision of the issuer						
Liquidity DTB settlement			Upon decision of the issuer				
Interest Bearing T-bill public offer			2005/04				
Interest Bearing T-bill subscription			2005/03				
Government Bond auction				3 and 15-year bonds			
	9 Monday	10 Tuesday	11 Wednesday	12 Thursday	13 Friday	14 Sa	15 Su
Discount T-bill auction announcement			3-month Discount T-bill				
Discount T-bill auction		D040519	D040804	D050216			
Discount T-bill settlement			D040512				
Discount T-bill redemption			D040211				
Liquidity DTB auction announcement	Upon decision of the issuer						
Liquidity DTB auction	Upon decision of the issuer						
Liquidity DTB settlement			Upon decision of the issuer				
Interest Bearing T-bill subscription			2005/04				
Interest Bearing T-bill redemption			2004/03				
Government Bond public offer				5 and 10-year bonds			
Government Bond interest payment				8 bond series semi-annual, 2013/D, 2014/C annual			
	16 Monday	17 Tuesday	18 Wednesday	19 Thursday	20 Friday	21 Sa	22 Su
Discount T-bill auction announcement			3, 6 és 12-month Discount T-bills				
Discount T-bill auction		D040526					
Discount T-bill settlement			D040519/D040804/D050216				
Discount T-bill redemption			D040128				
Liquidity DTB auction announcement	Upon decision of the issuer						
Liquidity DTB auction	Upon decision of the issuer						
Liquidity DTB settlement			Upon decision of the issuer				
Interest Bearing T-bill public offer			2005/05				
Interest Bearing T-bill subscription			2005/04				
Government Bond auction				5 and 10-year bonds			
Government Bond interest payment	2004/A annual	2004/D semi-annual					
	23 Monday	24 Tuesday	25 Wednesday	26 Thursday	27 Friday	28 Sa	29 Su
Discount T-bill auction announcement			3-month Discount T-bill				
Discount T-bill auction		D040602	D040804	D050216			
Discount T-bill settlement			D040526				
Discount T-bill redemption			D040225				
Liquidity DTB auction announcement	Upon decision of the issuer						
Liquidity DTB auction	Upon decision of the issuer						
Liquidity DTB settlement			Upon decision of the issuer				
Interest Bearing T-bill subscription			2005/05				
Interest Bearing T-bill redemption			2004/04				
Government Bond public offer				3 and 15-year bonds			
Government Bond interest payment		2005/F semi-annual					
Key to serial numbers: Discount T-bill D + the last two digits of the year of redemption and month, day of redemption Interest Bearing T-bill The serial number denotes the year of redemption Government Bond The serial number denotes the year of redemption							
RESET OF GOVERNMENT BOND FLOATING RATES IN DECEMBER							
Code	Reset Date	Int. Period/ Date of Int. Payment	Reset Rate of Int. (per cent)	Int. Rate Payable (per cent)			
2016/A	01.12.2003	31.12.2003 - 31.03.2004	10.50				
		25.02.2004		2.62			
2013/C	20.12.2003	20.12.2003 - 20.06.2004	9.60				
		20.06.2004		4.88			
2014/B	20.12.2003	20.12.2003 - 20.06.2004	9.60				
		20.06.2004		4.88			
2016/B	23.12.2003	02.01.2004 - 02.07.2004	9.99				
		02.07.2004		5.05			

■ GOVERNMENT SECURITIES MARKET ■

MACROECONOMIC INDICATORS

	1998	1999	2000	2001	2002	Oct 2003	Nov 2003	Dec 2003
GDP growth (previous year=100 per cent)	4.9	4.2	5.2	3.8	3.5			
Industrial Production*	12.5	10.4	18.1	3.6	2.8	10.6	6.8	
Unemployment rate (per cent)#	7.8	7.0	6.4	5.7	5.9	5.6	5.5	
Consumer Price Index**	10.3	11.2	10.1	6.8	4.8	4.9	5.6	5.7
Consumer Price Index, yearly average	14.2	10.0	9.8	9.2	5.3			
Consumer Price Index (Previous month = 100 per cent)						0.8	0.6	0.2
Producer Price Index**	8.0	7.1	12.4	-0.4	-1.3	3.5	5.8	
Producer Price Index, yearly average	12.2	5.0	11.6	5.2	-1.8			
Producer Price Index (previous month = 100 per cent)						0.2	1.1	
Net Lending Position of Households (HUF Bn)	922.9	750.0	789.1	751.7	425.8			
Current Account of BoP (EUR Mn)	-1977.0	-2301.0	-3152.0	-1967.0	-2770.8	-469.0	-200.0	
Direct Investment Net (EUR Mn)###	1413.0	1658.0	1215.0	2518.0	632.8	-622.0	-53.0	
Balance of the Central Government Budget (HUF Bn)***	-333.9	-337.2	-369.3	-413.2	-962.7****	-20.6	-92.0	-26.6
Central Government Gross Debt (HUF Bn)	6165.79	6886.40	7226.20	7719.50	9224.20	10703.38	10739.43	10588.10
Central Government Gross Debt (per cent of GDP)	61.1%	60.4%	54.9%	51.9%	55.1%			
Central Government Gross Foreign Exchange Denominated Debt (HUF Bn)	2431.87	2536.21	2508.75	2322.10	2267.29	2654.96	2680.87	2578.99
Central Government Gross HUF Denominated Debt (HUF Bn)	3733.92	4350.19	4717.46	5397.40	6956.90	8048.43	8058.57	8009.11
Net Foreign Debt (EUR Mn)##	7,473.5	7,404.5	9,755.5	8,616.0	11,834.4			
Net Foreign Debt (per cent of GDP)	17.9%	16.4%	19.3%	14.9%	16.9%			
The official exchange rate of the National Bank of Hungary (end of period HUF/USD)	219.03	252.52	284.73	279.03	225.16	222.70	221.12	207.92
The official exchange rate of the National Bank of Hungary (end of period HUF/EUR)####	255.70	254.92	264.94	246.33	235.90	259.13	265.03	262.23

Source: NBH, Central Statistical Office, MoF

- * In the case of annual data yearly average, in case of monthly data month/same month of the previous year
- ** In the case of annual data December / previous December, in case of monthly data month/same month of the previous year
- *** Excluding privatisation proceeds
- **** Excluding debt assumptions and bond-transfers amounting to HUF 512.05 billion at the end of 2002
- # Central Statistical Office
- ## Without intercompany loans
- ### With intercompany loans
- #### ECU in 1998



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