



GOVERNMENT DEBT MANAGEMENT AGENCY PTE LTD.



GOVERNMENT SECURITIES MARKET

QUARTERLY REPORT

■ FOURTH QUARTER 2006 ■

■ GOVERNMENT SECURITIES MARKET ■

The deficit of the central government amounted to HUF 2,033.8 billion in 2006. The net prefinancing of cash transfers from the EAGGF fund of the EU increased the above net borrowing requirement by HUF 35.8 billion, the capital transfer to the National Bank of Hungary (NBH) by law lifted the financing needs by HUF 14.8 billion. Total net funding need was decreased by privatisation revenues of HUF 268.7 billion. Summing the results of the above the total net financing requirement was HUF 1,815.7 billion with the HUF 415.9 billion debt-assumption. During the year of 2006 HUF 1,952.6 billion (ca. EUR 7.7 billion ¹) of net issuance took place out of which net domestic currency issuance was HUF 1,396.5 billion (ca. EUR 5.5 billion) and net foreign exchange issuance totalled HUF 556.1 billion (ca. EUR 2.2 billion).

The average term-to-maturity of the HUF debt portfolio was 3.64 years while that of the foreign currency debt portfolio was 6.90 years at the end of 2006. The same data were 3.57 and 6.92 years in 2005. This means that average term to maturity hardly changed in 2006.

Yields of benchmark government securities decreased amid slight volatility in the fourth quarter. The National Bank of Hungary increased its base rate once by 25 basis points to 8 % due to increasing inflationary expectations and higher international yields. Yields of treasury bills were lower by 7-37 basis points by the end of December compared to September, while yields of benchmark government bonds with term-to-maturity of three years or more decreased by 85-96 basis points. At the end of December the 1-year yield was 7.98 %, the 3-year yield stood at 7.59 % while the 10-year yield was 6.71 %.

The OTC turnover of government securities in the fourth quarter of 2006 was lower by 1 % compared to the previous quarter; it amounted to HUF 10,633 billion. Primary dealers, who account for the decisive part of all secondary government securities trading, made 36 % of their secondary government securities deals with non-resident investors.

The volume of non-resident holdings of Hungarian government securities increased throughout the quarter. Overall, non-resident holdings increased by HUF 240.3 billion in the fourth quarter to HUF 2,937.7 billion, which represented 30.8 % of the total volume of domestic government bonds and discount treasury bills at the end of December 2006.

The Republic of Hungary issued no foreign currency bond in Q4 of 2006, but took up an amount of approximately HUF 9.6 billion in foreign exchange to project-financing.

The credit rating of the long-term foreign currency debt of the Republic of Hungary at 31 December 2006 was: BBB+ (Standard & Poor's); A2 (Moody's); BBB+ (Fitch).

¹ The EUR/HUF exchange rate according to the Hungarian National Bank was 252.3 at the last working day of December.

GOVERNMENT SECURITIES MARKET

MACROECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006 October	2006 November	2006 December
GDP growth (yearly average) ¹	4.9	4.2	5.1	4.6	3.8	3.3	4.9	4.3			
Industrial production ¹	12.5	10.4	18.1	3.6	2.8	5.9	8.3	7.3	10.6	10.8	
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	6.3	6.4	6.5
Consumer price index (yearly average)	14.2	10.0	9.8	9.2	5.3	4.7	6.8	3.6			3.9
Consumer price index (monthly change)									0.5	0.2	0.1
Producer price index (yearly change) ²	8.0	7.1	12.4	-0.4	-1.3	6.2	1.6	4.5	7.0	5.5	
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)									-1.0	-1.1	
Net lending position of households (HUF Bn) ³	956.7	796.1	776.3	799.6	454.4	38.1	491.2	920.1			
Current account of balance of payments (EUR M) ⁴	-3,026.1	-3,531.4	-4,352.5	-3,576.5	-4,929.2	-5,933.0	-6,915.5	-6,002.3			
Net direct investments (EUR M) ⁵	2,742.9	2,871.7	2,334.0	3,992.2	2,889.4	424.1	2,741.3	4,137.0			
Balance of the central government budget (HUF Bn) ⁶	-333.9	-337.2	-367.8	-402.9	-957.7	-733.6	-890.0	-545.0	-1,384.6	-1,465.9	-1,959.2
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	14,334.0	14,423.3	14,705.7
Central government gross debt (per cent of GDP)	61.1%	60.4%	53.4%	50.5%	53.6%	55.9%	56.0%	58.0%			62.4%
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	206.42	193.89	191.62
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	261.97	255.98	252.30

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

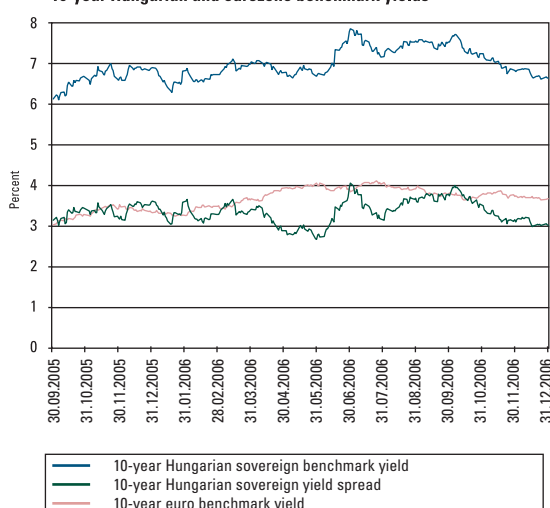
⁶ Excluding privatisation proceeds and transfers to the NBH

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

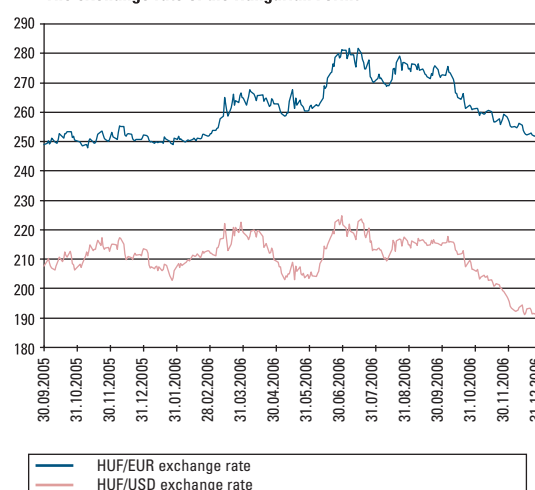
⁸ Excluding intercompany loans

⁹ FISIM with new methodology as from 2001

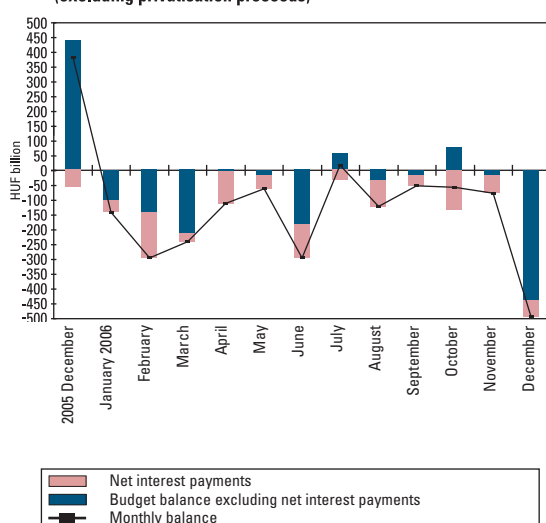
10-year Hungarian and eurozone benchmark yields



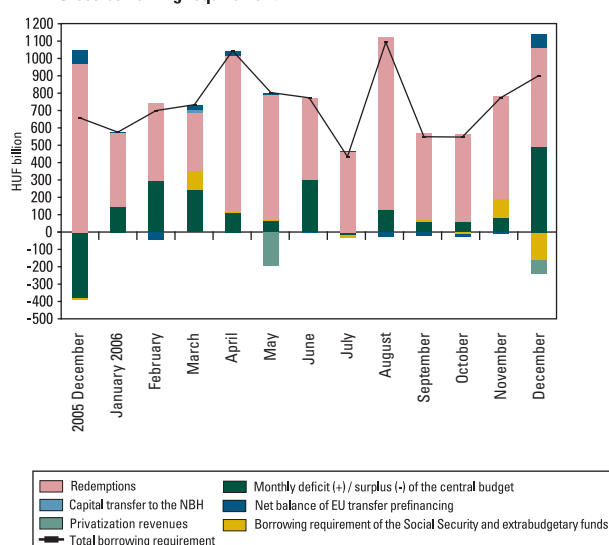
The exchange rate of the Hungarian Forint



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



Gross borrowing requirement



■ GOVERNMENT SECURITIES MARKET ■

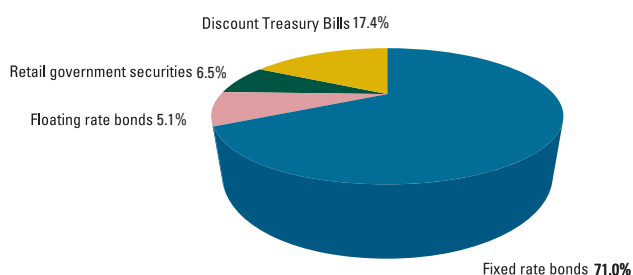
CENTRAL GOVERNMENT GROSS DEBT

HUF billion

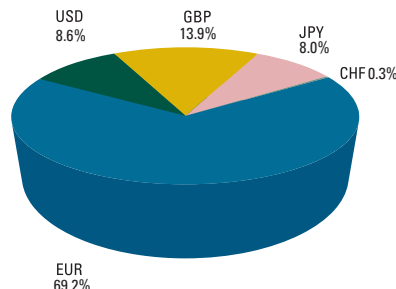
	1998	1999	2000	2001	2002	2003	2004	2005	2006 October	2006 November	2006 December
1. Forint denominated debt	3,733.9	4,350.2	4,717.5	5,397.4	6,956.9	8,008.7	8,608.8	9,153.5	10,014.9	10,205.5	10,552.3
1.1. Loans	435.0	380.2	303.8	228.3	353.2	117.9	4.7	0.8	0.8	0.8	356.4
1.1.1. Foreign loans	0.0	0.0	0.0	0.0	1.7	1.4	1.1	0.8	0.8	0.8	0.5
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	355.9
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	10,014.0	10,204.7	10,195.9
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	9,480.9	9,671.5	9,667.5
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	6,817.0	7,076.3	7,244.2
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	1,987.8	1,924.8	1,755.9
1.2.1.3. Retail securities	356.5	499.3	523.3	544.7	560.3	533.5	628.4	588.7	676.0	670.4	667.4
1.2.2. Private placements	866.1	853.2	831.3	809.1	777.4	759.3	743.6	733.9	533.2	533.2	528.4
2. Foreign currency denominated debt*	2,431.9	2,536.2	2,508.8	2,322.1	2,267.3	2,579.0	2,983.5	3,590.7	4,312.9	4,211.6	4,124.4
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	845.2	823.2	803.7
2.1.1. Foreign loans	249.6	361.2	368.8	317.8	461.9	598.8	528.9	616.9	737.6	718.2	700.1
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	107.6	105.1	103.6
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	99.6	97.3	95.9
2.1.2.2. Other loans	0.0	0.0	0.0	0.0	82.8	18.8	32.2	7.7	8.0	7.8	7.7
2.2. Government securities	64.0	606.7	736.0	911.7	873.0	1,494.9	2,066.8	2,870.1	3,467.7	3,388.4	3,320.7
2.2.1. Issued abroad	44.4	587.1	715.7	911.7	873.0	1,494.9	2,066.8	2,870.1	3,467.7	3,388.4	3,320.7
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	3,467.6	3,388.3	3,320.6
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	14,327.7	14,417.1	14,676.7
Other liabilities								21.4	6.3	6.1	29.0
Total central government debt								12,765.6	14,334.0	14,423.3	14,705.7
Gross debt/GDP	61.1%	60.4%	53.4%	50.5%	53.6%	55.9%	56.0%	58.0%			62.4%

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 29. 12. 2006.

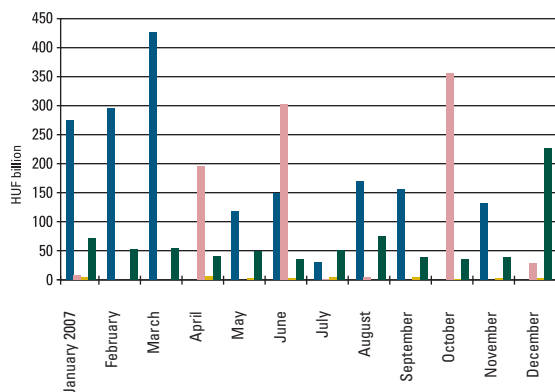


Currency composition of the foreign exchange debt portfolio as at 29. 12. 2006*



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

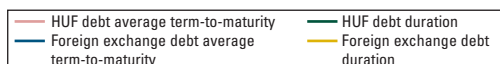
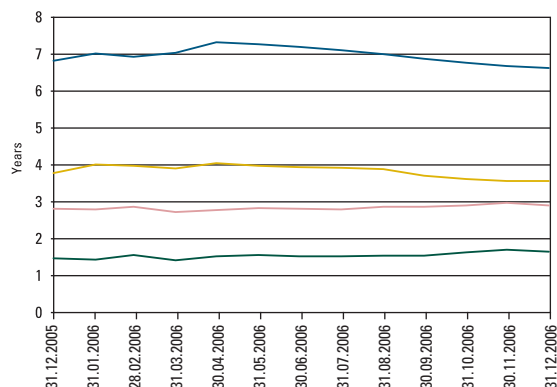
Maturity profile of the central government gross debt over the next 12 months, as at 29. 12. 2006*



*Negative maturity is caused by reverse repos.



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



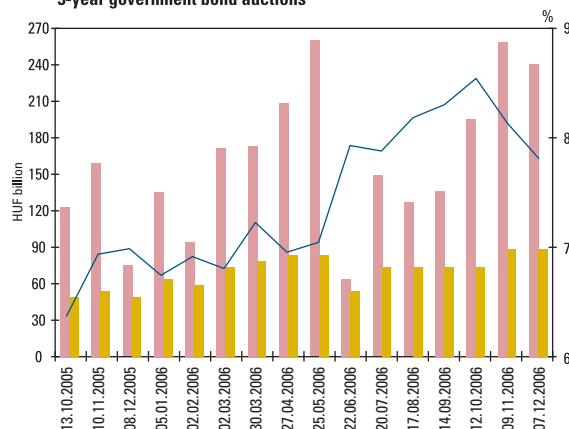
GOVERNMENT SECURITIES MARKET

GOVERNMENT BOND AUCTION RESULTS

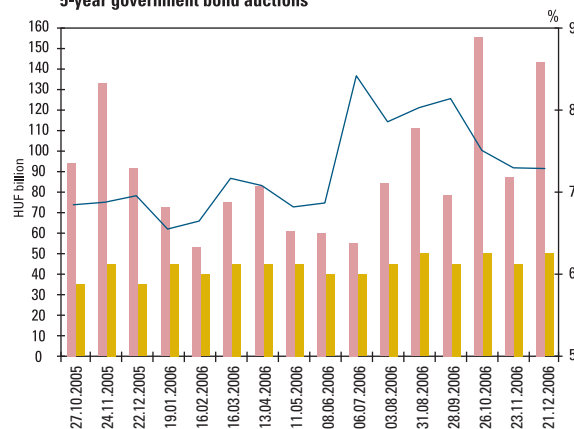
Government bond	2009/F	2012/B	2017/B	2009/F	2020/A	2012/B	2017/B	2009/F	2012/B	2017/B
ISIN code	HU0000402359	HU0000402367	HU0000402375	HU0000402359	HU0000402235	HU0000402367	HU0000402375	HU0000402359	HU0000402367	HU0000402375
Maturity (in years)	3	5	10	3	15	5	10	3	5	10
Coupon (%)	6.50%	7.25%	6.75%	6.50%	7.50%	7.25%	6.75%	6.50%	7.25%	6.75%
Auction	5. auction	2. auction	2. auction	6. auction	21. auction	3. auction	3. auction	7. auction	4. auction	4. auction
Date of auction	12.10.2006	26.10.2006	26.10.2006	09.11.2006	09.11.2006	23.11.2006	23.11.2006	07.12.2006	21.12.2006	21.12.2006
Date of financial settlement	18.10.2006	02.11.2006	02.11.2006	15.11.2006	15.11.2006	29.11.2006	29.11.2006	13.12.2006	27.12.2006	27.12.2006
Date of redemption	12.08.2009	12.06.2012	24.02.2017	12.08.2009	12.11.2020	12.06.2012	24.02.2017	12.08.2009	12.06.2012	24.02.2017
Maximum annual yield (%) - ISMA	8.55	7.50	7.22	8.15	7.03	7.32	6.94	7.83	7.29	6.79
Minimum annual yield (%) - ISMA	8.52	7.49	7.17	8.10	7.00	7.24	6.85	7.76	7.25	6.74
Average annual yield (%) - ISMA	8.54	7.49	7.18	8.13	7.02	7.28	6.89	7.81	7.27	6.77
Maximum annual yield (%) - EHM	8.54	7.49	7.21	8.14	7.02	7.31	6.83	7.82	7.28	6.78
Minimum annual yield (%) - EHM	8.51	7.48	7.16	8.09	6.99	7.23	6.84	7.75	7.24	6.73
Average annual yield (%) - EHM	8.53	7.48	7.17	8.12	7.01	7.28	6.88	7.80	7.26	6.76
Maximum price (%)	95.0308	98.9721	97.0434	96.1097	104.3692	100.0686	99.3000	96.9756	100.0126	100.0805
Minimum price (%)	94.9606	98.9280	96.6957	95.9938	104.0995	99.7150	98.6590	96.8156	99.8376	99.7217
Average price (%)	94.9804	98.9649	96.9692	96.0383	104.1893	99.8747	99.0147	96.8538	99.9397	99.8800
Amount offered for sale (HUF million)	75,000.00	45,000.00	40,000.00	75,000.00	20,000.00	45,000.00	40,000.00	75,000.00	45,000.00	40,000.00
Amount of bids submitted (HUF million)	199,550.00	155,450.00	82,600.00	263,950.00	62,552.00	87,150.00	50,650.00	245,673.00	143,350.00	74,050.00
Amount of bids accepted (HUF million)	74,999.94	49,999.98	39,999.96	89,999.89	24,999.99	44,999.95	29,999.99	89,999.86	49,999.95	39,999.92
Bid-to-cover ratio	2.66	3.11	2.07	2.93	2.50	1.94	1.69	2.73	2.87	1.85
Bids submitted (pcs)	144	105	97	135	75	125	93	184	109	104
Bids accepted (pcs)	39	17	26	63	16	106	81	74	58	80
Tail (average price - minimum price)	0.02	0.04	0.27	0.04	0.09	0.16	0.36	0.04	0.10	0.16
Market sales* (HUF million)	74,999.94	49,999.98	39,999.96	89,999.89	24,999.99	44,999.95	29,999.99	89,999.86	49,999.95	39,999.92
Retained on ÁKK's own account (HUF million)	0.06	10,000.02	8,000.04	0.11	0.01	9,000.05	6,000.01	0.14	7,500.05	8,000.08
Total amount issued (HUF million)	75,000.00	60,000.00	48,000.00	90,000.00	25,000.00	54,000.00	36,000.00	90,000.00	57,500.00	48,000.00

* Without issuance onto ÁKK's own account.

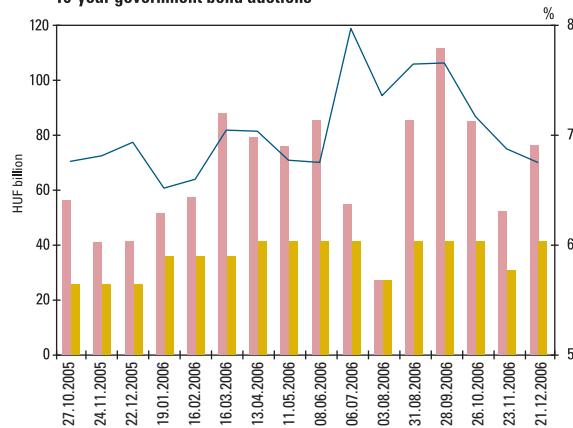
3-year government bond auctions



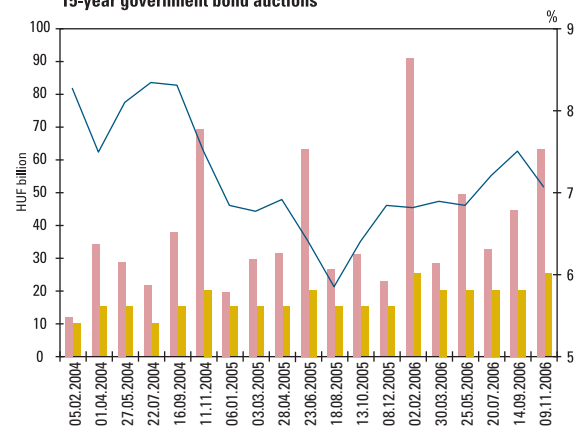
5-year government bond auctions



10-year government bond auctions



15-year government bond auctions



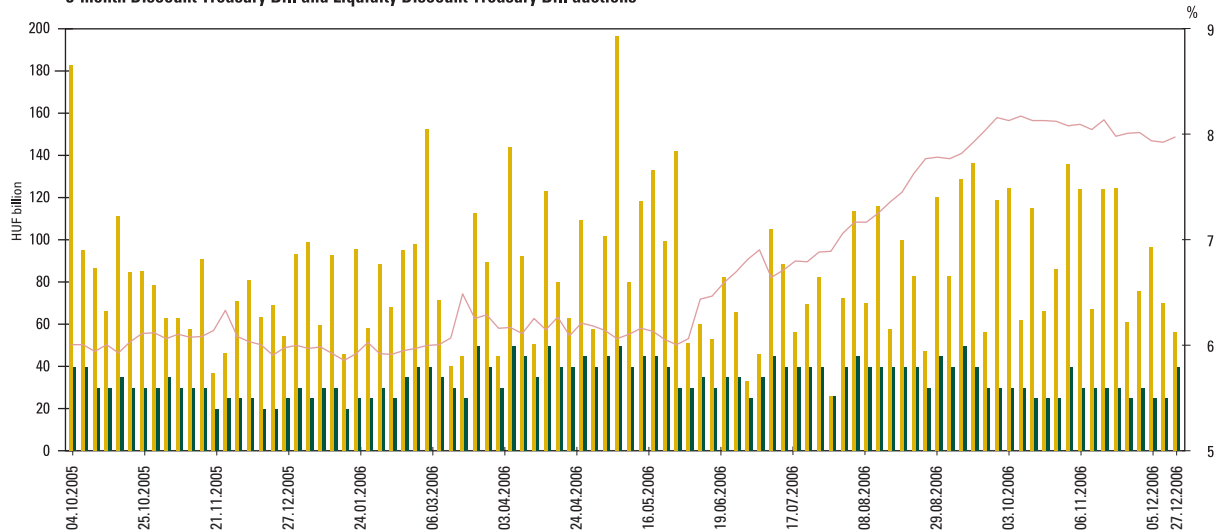
■ Bids submitted
 ■ Accepted amount
 — Average yield

GOVERNMENT SECURITIES MARKET

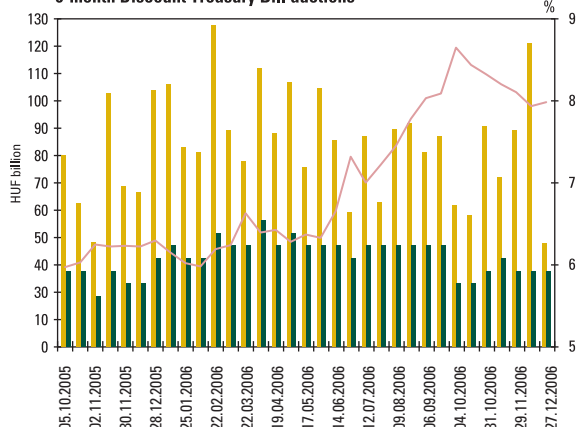
GOVERNMENT BOND BUY-BACK AUCTION RESULTS

Government bond	2007/F	2007/D	2007/F	2007/D	2007/F	2007/D	2007/F	2007/D	2007/F	2007/D	2007/F	2007/D
ISIN code	HU0000402227	HU0000402052	HU0000402227	HU0000402052	HU0000402227	HU0000402052	HU0000402227	HU0000402052	HU0000402227	HU0000402052	HU0000402227	HU0000402052
Coupon (%)	9.00%	6.25%	9.00%	6.25%	9.00%	6.25%	9.00%	6.25%	9.00%	6.25%	9.00%	6.25%
Date of buy-back auction	11.10.2006	11.10.2006	25.10.2006	25.10.2006	08.11.2006	08.11.2006	22.11.2006	22.11.2006	06.12.2006	06.12.2006	20.12.2006	20.12.2006
Date of financial settlement	18.10.2006	18.10.2006	02.11.2006	02.11.2006	15.11.2006	15.11.2006	29.11.2006	29.11.2006	13.12.2006	13.12.2006	27.12.2006	27.12.2006
Date of redemption	12.04.2007	12.06.2007	12.04.2007	12.06.2007	12.04.2007	12.06.2007	12.04.2007	12.06.2007	12.04.2007	12.06.2007	12.04.2007	12.06.2007
Minimum annual yield (%)	8.60	8.60	8.42	8.35	8.40	8.40	8.15	8.15	8.15	8.15	8.05	8.03
Average annual yield (%) - ISMA	8.61	8.61	8.42	8.35	8.44	8.44	8.15	8.15	8.15	8.17	8.10	8.04
Amount of bids submitted (HUF million)	29,986.36	52,374.53	6,845.00	9,606.00	24,019.46	71,300.13	15,841.62	53,233.12	13,270.42	30,276.08	1,252.37	30,392.44
Amount of bids accepted (HUF million)	5,279.45	10,445.06	2,000.00	2,000.00	8,694.46	18,881.87	9,999.96	19,999.97	13,270.42	1,072.69	1,252.37	30,392.44
Bids submitted (pcs)	15	15	7	5	8	15	10	6	18	6	9	9
Bids accepted (pcs)	6	11	1	1	4	10	9	5	18	5	9	9

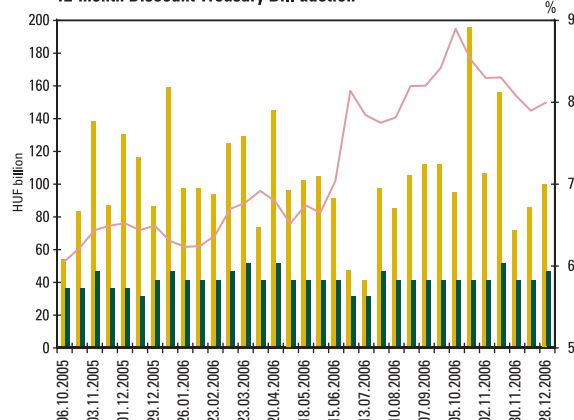
3-month Discount Treasury Bill and Liquidity Discount Treasury Bill auctions



6-month Discount Treasury Bill auctions



12-month Discount Treasury Bill auction

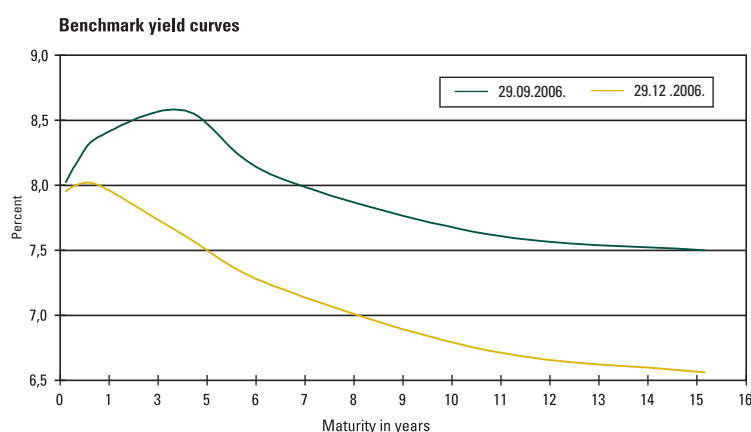
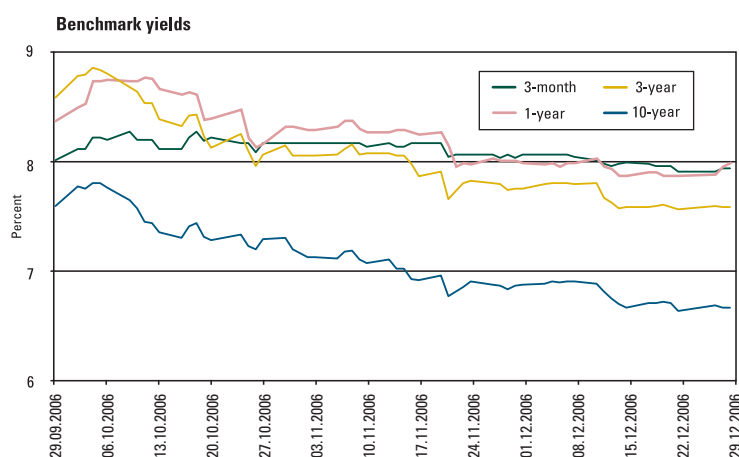


■ Bids submitted
 ■ Accepted amount
 — Average yield

■ GOVERNMENT SECURITIES MARKET ■

INTEREST RATE RESETS OF FLOATING RATE GOVERNMENT BONDS IN Q4 2006

Government Bond	Date of interest rate reset	Interest period		Date of interest payment	Reset interest rate (%)	Interest payable (%)
2007/B	11.12.2006	12.12.2006	12.06.2007	12.06.2007	8.18%	4.14%
2013/C	19.12.2006	20.12.2006	20.06.2007	20.06.2007	7.50%	3.79%
2014/B	19.12.2006	20.12.2006	20.06.2007	20.06.2007	7.50%	3.79%
2016/B	29.12.2006	02.01.2007	02.07.2007	02.07.2007	8.03%	4.04%
2016/A	29.12.2006	31.12.2006	31.03.2007	02.04.2007	7.50%	1.85%

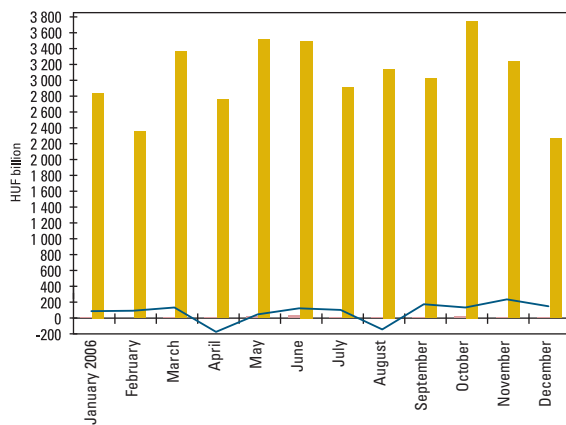


PRIMARY DEALERS - AS AT 31 DECEMBER 2006

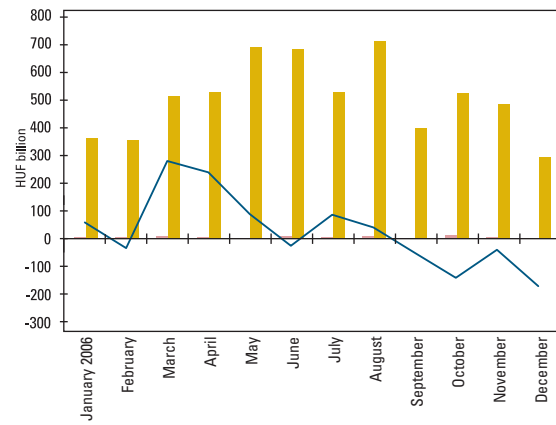
Primary dealers:		Primary dealers for retail securities:
CIB Bank Zrt.	ING Bank Zrt.	CIB Bank Zrt.
CITIBANK Zrt.	Kereskedelmi és Hitelbank Nyrt.	HVB Bank Hungary Zrt.
Deutsche Bank Zrt.	Magyar Külkereskedelmi Bank Nyrt.	Kereskedelmi és Hitelbank Nyrt.
Dresdner Bank AG (Frankfurt)	Magyar Takarékszövetkezeti Bank Zrt.	Magyar Takarékszövetkezeti Bank Zrt.
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

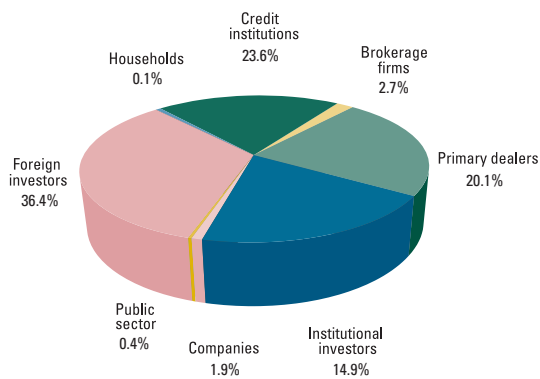


Secondary market trading of Discount Treasury Bills

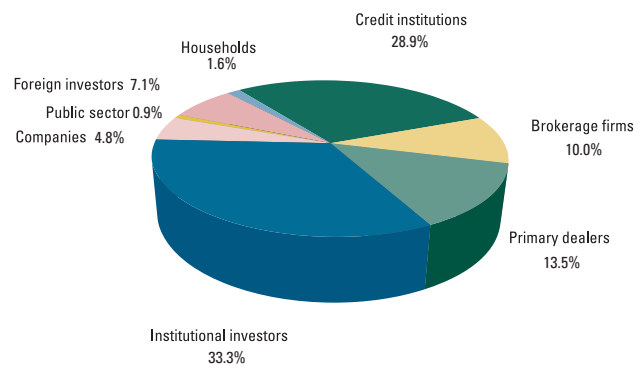


Stock Exchange (BSE) OTC Net issuance

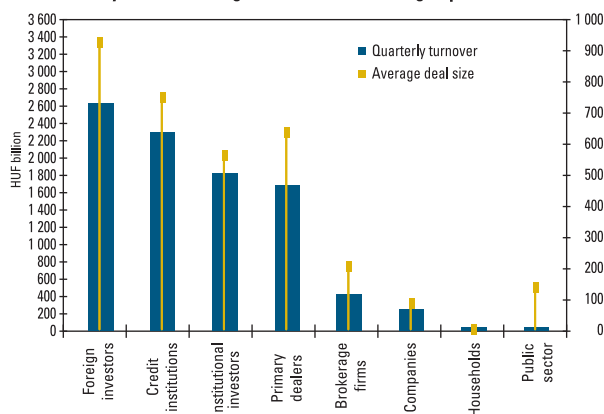
Breakdown of primary dealers' secondary market turnover in government bonds by investor groups in Q4 2006



Breakdown of primary dealers' secondary market turnover in Discount Treasury Bills by investor groups in Q4 2006



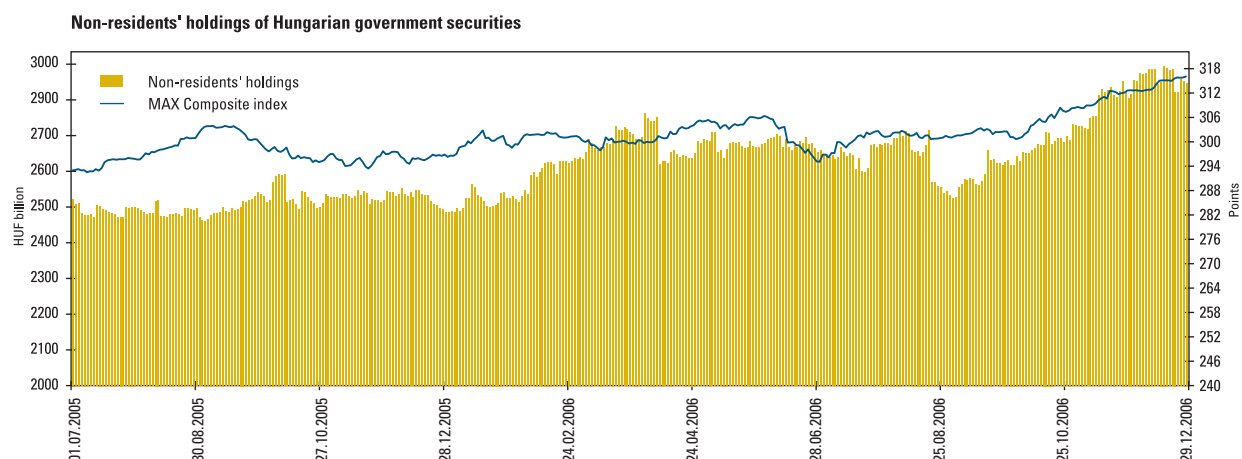
Primary dealers' trading with different investor groups in Q4 2006



Government securities with the highest turnover on the secondary market in Q4 2006

Government security	Date of redemption	Turnover (HUF billion)
2009/F	12.08.2009	1,216.6
2016/C	12.02.2016	843.1
D070926	26.09.2007	531.3
2011/B	12.10.2011	516.3
2015/A	12.02.2015	482.0
2012/B	12.06.2012	373.3
2009/E	24.04.2009	352.3
2017/B	24.02.2017	346.5
2008/D	24.04.2008	263.7
2020/A	12.11.2020	250.2

■ 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
29.09.2006	305.7712	308.2003	302.7563	310.8294	-0.26%	5.70%	0.96%	6.31%
31.10.2006	311.7961	310.3863	307.9756	312.9637	3.84%	6.14%	4.21%	6.52%
30.11.2006	317.6048	312.7885	312.9769	315.1877	5.17%	6.45%	5.33%	6.80%
29.12.2006	321.4181	315.0607	316.4250	317.3281	6.69%	6.60%	6.52%	6.92%

AMOUNT OUTSTANDING OF BENCHMARK GOVERNMENT BOND SERIES IN Q4 2006

Government Bond	HUF billion		
	31. 10. 2006	30. 11. 2006	31. 12. 2006
2009/F	357.63	447.64	283.90
2012/B	45.00	140.01	190.05
2017/B	40.00	110.01	150.01
2020/A	300.71	325.68	300.70

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 14.00 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
HUINDEXED	Accrued interest and capital uplift (inflation adjusted capital) of the index-linked government bond on a daily basis
HUBONDIINFO	List of authorised dealers (contacts)

FURTHER INFORMATION PAGES:

Bloomberg pages (code): GDMA

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

