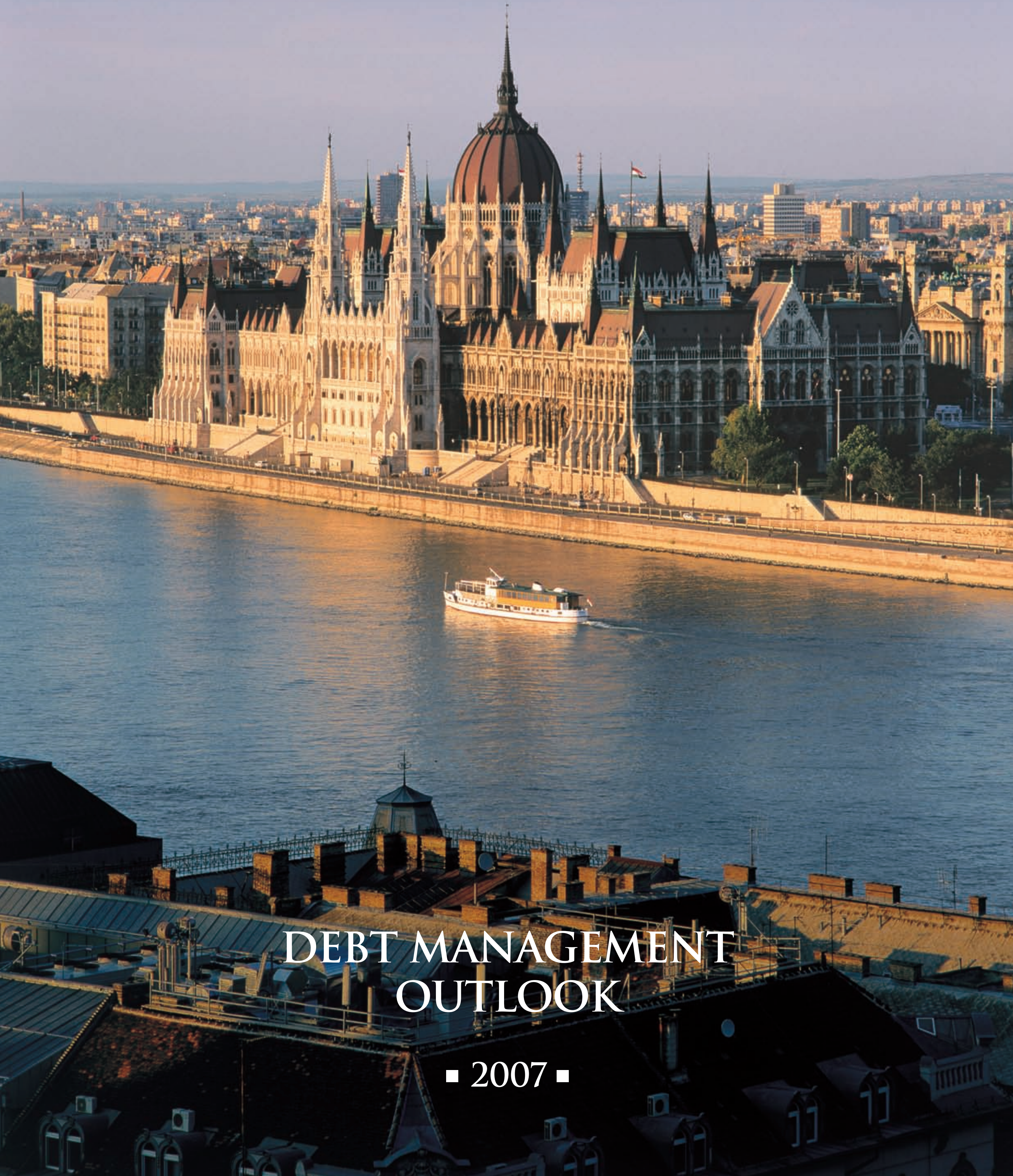
Á·K·K

GOVERNMENT DEBT MANAGEMENT AGENCY PTE LTD.

DEBT MANAGEMENT OUTLOOK

▪ 2007 ▪



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INTRODUCTION

The Government Debt Management Agency Private Company Limited By Shares (ÁKK) is responsible for financing the central government budget of the Republic of Hungary. The financing plan for the given year is based on the debt management strategy of the government. The aim of this publication is to inform investors, market participants and the general public about the strategy and the planned financing in the year 2007.

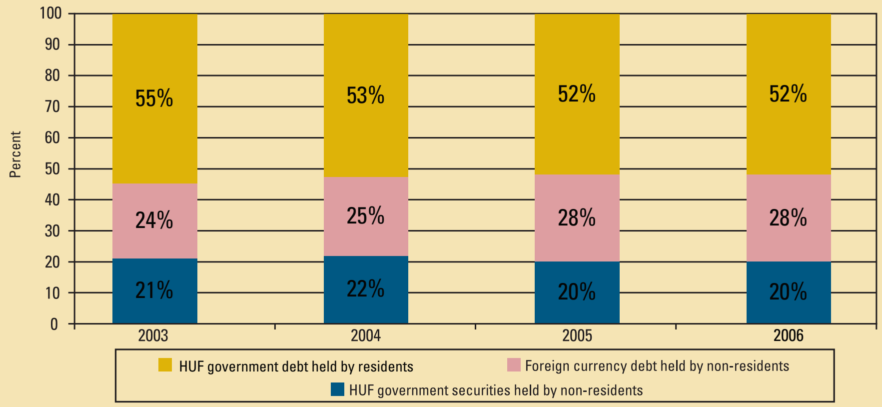
The financing plan and the present publication are based on information available in January 2007. Therefore the data on the year 2006 are still considered as preliminary and the projections for 2007 are subject to changes according to the outturn of the borrowing requirement and actual financing. The possible modifications in the structure of financing, however, do not affect the issuance calendar (see next chapter), the instruments used, ÁKK's objectives and its strategic approach to the markets.

I. THE CENTRAL GOVERNMENT DEBT AT THE END OF 2006

The gross debt[1] of the central government amounted to HUF 14,706 billion (62.4% of the GDP) at the end of 2006. Within the HUF 1.940 billion total annual increase net issuance accounted for HUF 1,983 billion, while changes in the volume of repos and exchange rate movements accounted for HUF -21 billion and HUF -22 billion respectively.
In 2006 a significant part of the overall net issuance was the result of debt assumptions. Loans in an amount of HUF 416 billion were assumed in the last quarter of 2006, out of which HUF 60 billion were immediately repaid, increasing total net issuance by HUF 356 billion.

At the end of 2006 – similar to 2005 – 72% of total debt was denominated in Hungarian Forint and 28% in euro at the end of 2006. Non-resident investors owned 48% of total debt at the end of 2006 (28% in foreign currency and 20% (2938 billion) in HUF).

BREAKDOWN OF THE GOVERNMENT DEBT BY INVESTORS



Source: ÁKK

[1] This debt data does not include debt of the local authorities and not a consolidated figure. This debt data is not according to ESA or EDP methodology. Debt to GDP figures are calculated using GDP projection by the Ministry of Finance.

I. The central government debt at the end of 2006

In accordance with international practice, the HUF-denominated debt consisted predominantly of government securities (92% or HUF 13,517 billion), while loans made up 8% (or HUF 1,160 billion) and other liabilities[2] 0.2% (or HUF 29 billion) at the end of 2006. Within the HUF denominated debt portfolio fixed rate elements accounted for 69% and floating rate debt for 31% at the end of the year. In the case of the foreign currency denominated debt portfolio, the share of fixed rate debt was 66% and floating rate debt was 34%. The benchmark targets regarding the fixed rate ratio of both HUF and foreign currency denominated debt were met at the end of the year.

Average term-to-maturity of the HUF debt portfolio was 3.6 years at the end of 2006, while that of the foreign currency debt portfolio reached 6.9 years; the durations were 2.6 years and 4.3 years, respectively. Average coupon of the debt was 6.38%. The composition and duration of the debt portfolio helped to meet the objective that the average coupon of the debt should follow the decrease of interest rates (in the first half of 2006), and smooth the impact of rising interest rates in the second half of the year. The average coupon of the HUF denominated debt was 7.08% at the end of 2006, 90 bps (basis points) lower than the 1-year benchmark yield and 50 bps below the 3-year benchmark yield.

II. DEBT MANAGEMENT STRATEGY IN 2007

The main objective of government debt management is to finance the central budget at the lowest cost in the long run, taking account of risk. ÁKK intends to achieve this objective by setting benchmarks based on a risk management model – which uses VaR (Value at Risk) and CFaR (Cash Flow at Risk) - that takes both long-term costs and risks into account and manages the HUF and foreign currency portfolios in an integrated manner.

The model sets similar targets and benchmark values for 2007 as for 2006, namely:

- The proportion of HUF- and foreign currency denominated debt should be between 68-75% and 25-32% respectively.
- The foreign currency denominated debt should be 100% in euro (with a maximum deviation of 5%).
- The fixed-floating mix of the HUF-denominated debt should be between 61-83% and 17-39% respectively. The fixed-floating mix of the foreign currency portfolio is 66% and 34% respectively (with a maximum deviation of 5%).
- The duration target for the HUF-denominated debt is 2.5 years +/- 0.5 years.
- An optimal balance of the Single Treasury Account (STA) has been defined and the objective of the daily liquidity management is to keep the actual balance within a +/- HUF 50 billion (EUR 200 million) range around this optimal level.

The financing of the deficit of the central government and the renewal of expiring debt is determined in the annual financing plan compiled in accordance with the strategic principles and benchmarks. The pre-announced annual auction calendar and standard instruments serve the purpose of conducting prudent and transparent operations. Liquidity requirements are supported by the issuance of large, liquid series of government securities both in the domestic and international markets. (In the local market the goal is to reach EUR 1.5-2.5 billion worth of bond series in 2007.)

III. THE BORROWING REQUIREMENTS IN 2007

The gross (cash-based) borrowing requirements are the sum of the cash-based deficit of the central government, plus other net financing items and debt redemptions.

[2] This category includes the marked-to-market deposits placed at ÁKK and the accounted interest of the HUF loans assumed in 2006.

III. 1. NET FINANCING REQUIREMENT OF THE CENTRAL GOVERNMENT

The deficit of the central government consists of the balances of the central government budget, the Social Security funds and the extrabudgetary funds. From the point of view of financing, the cash-based deficit figures are relevant, however, due to Hungary's European Union membership, accrual-based ESA'95 deficit projections are also calculated and disclosed by the Ministry of Finance.

The deficit of the central government budget on a cash-flow basis – including debt assumptions, but excluding privatisation revenues – is HUF 1,568.3 billion according to the 2007 Budget Act. The deficit of the Social Security funds is HUF 27.5 billion, while the annual surplus of the extrabudgetary funds is planned at HUF 16 billion. Total deficit of the central government calculated on a cash-flow basis is expected at HUF 1,579.8 billion, or 6.3% of the GDP in 2007. As a result of capital transfers to the NBH (an increase of HUF 20.6 billion), and prefinancing of European Union transfers (a decrease of HUF 20.7 billion) as well as privatisation revenues (a decrease of HUF 34.2 billion) the total net borrowing requirements equal to HUF 1,545.4 billion. The total net borrowing requirement significantly decreases from 2006 to 2007 due to the substantial decline of the central government budget deficit.

HUF billion

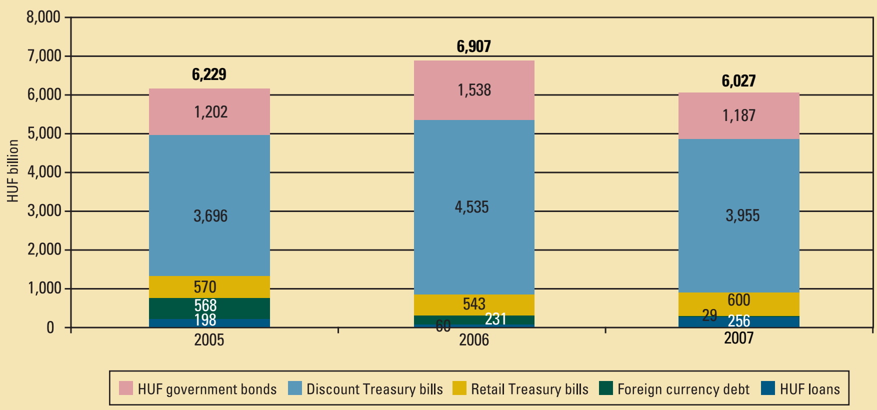
	2006[1]	2007[2]
Deficit of the central government (excluding privatisation revenues, including debt assumptions)	1,959.2	1,568.3
Of which: debt assumptions	415.9	60.1
Financing requirement of the Social Security funds	124.7	27.5
Financing requirement of the extrabudgetary funds	-50.1	-16.0
Net borrowing requirement	2,033.8	1,579.8
Capital transfers to the NBH	14.8	20.6
Privatisation revenues	-268.7	-34.2
Net pre-financing of direct European Union subsidies	35.8	-20.7
Total net borrowing requirement	1,815.7	1,545.4

[1] *Preliminary*
[2] *Appropriation*
Source: Ministry of Finance

III. 2. REDEMPTIONS

Gross debt redemptions are projected to total HUF 6,027 billion in 2007, some 13% lower than in 2006. HUF and foreign currency debt redemptions will reach HUF 5,998 billion and HUF 29 billion respectively.

BREAKDOWN OF TOTAL REDEMPTION BY DEBT INSTRUMENTS



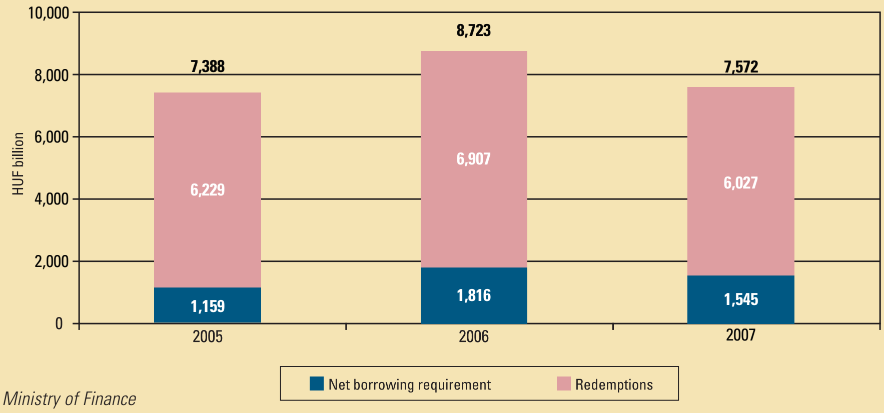
Source: ÁKK

Discount T-bills – due to their frequent renewal – have a high share in total debt redemptions. However, in 2007 there is a significant drop (HUF 580 billion) in their issuance due to their changing role in financing. Domestic government bond redemption will decrease by HUF 351 billion (23%) from 2006, while foreign currency debt maturities will be only a fraction of previous years' amounts.

III. 3. THE GROSS BORROWING REQUIREMENT

Due to the decline of the net financing requirement by HUF 270 billion and that of redemptions by HUF 880 billion, the gross borrowing requirement drops by HUF 1,150 billion to HUF 7,572 billion compared to the year before.

BREAKDOWN OF THE GROSS BORROWING REQUIREMENT



Source: ÁKK, Ministry of Finance

IV. FINANCING IN 2007

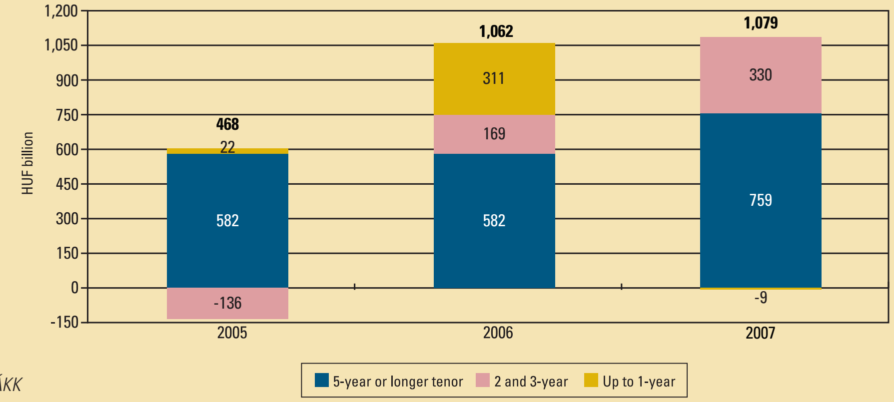
IV. 1. EXPECTED NET ISSUANCE

The total net issuance with debt assumption is planned at HUF 1,489 billion in 2007. Net domestic issuance is expected at HUF 884 billion and net foreign currency denominated issuance at HUF 606 billion.

According to the plans, the share of the foreign funding increases in net financing, since the amount of maturing foreign currency debt falls significantly, and the gross foreign currency issuance cannot be reduced substantially in order to maintain the strategic presence of the Republic of Hungary in the international capital markets. As the domestic bond market also has strategic importance, most of the decline in the net borrowing can be expected in the Treasury bill market. However, in case of significantly lower than expected net financing needs, besides of lower discount Treasury bill net issuance (the effect already taken partly into account in this publication) foreign currency debt issuance may also be decreased.

The total net HUF denominated issuance is HUF 884 billion, which is the result of HUF 1,079 billion net government securities issuance and the net effect of loan transactions (HUF -195 billion). The assumption of loans of "Nemzeti Autópálya Zrt." (National Motorway Co. Ltd.) is projected at HUF 60 billion, while HUF loan redemptions will be HUF 255 billion. Out of the net domestic government securities issuance bonds with a tenor of 5 years or longer will play an important role (HUF 759 billion), while the volume of 2- and 3-year securities is expected to increase less (HUF 330 billion).
The stock of short-term government securities will slightly decrease in 2007. The outstanding volume of retail government securities is projected to remain unchanged but that depends on retail investors' demand.

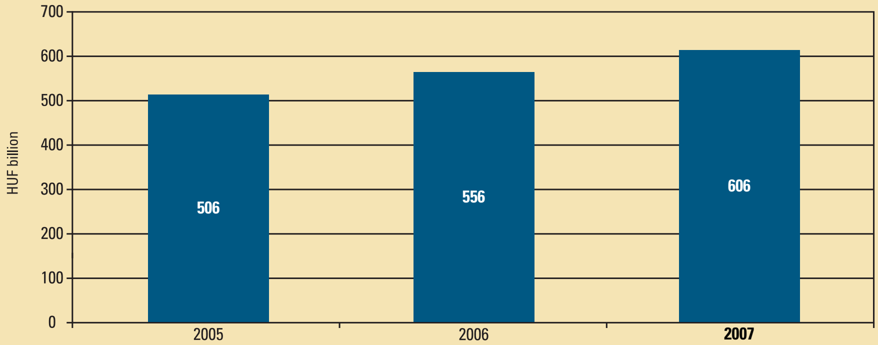
NET DOMESTIC GOVERNMENT SECURITIES ISSUANCE - BREAKDOWN BY TENOR



Source: ÁKK

The net issuance of foreign currency debt in 2007 is projected at HUF 606 billion, being the sum of government securities of EUR 2 billion and loans of EUR 400 million from International Financial Institutions.

NET FOREIGN CURRENCY DENOMINATED ISSUANCE



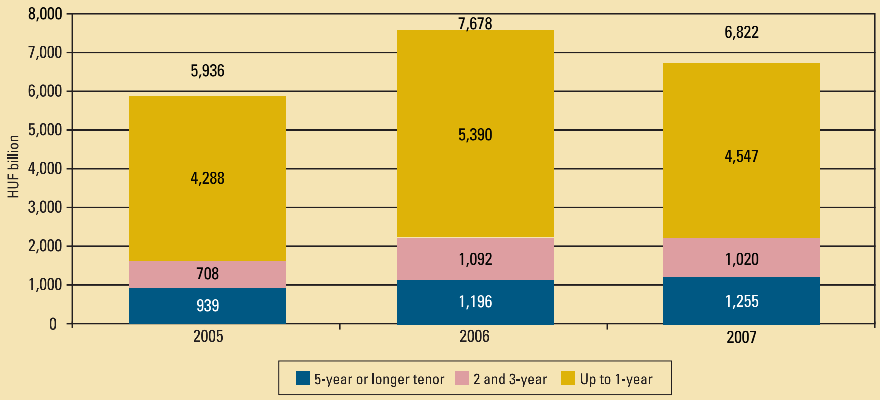
Source: ÁKK

IV. 2. GROSS ISSUANCE

The total gross issuance planned for 2007 is HUF 7,457 billion (including debt assumptions). HUF denominated issuance is expected at HUF 6,822 billion (91.5%), while foreign currency denominated borrowing will reach HUF 635 billion (8.5%). The difference between the gross issuance and the gross borrowing requirement will decrease the balance of the Single Treasury Account.

The domestic government securities market will remain the most important market of financing for the Republic of Hungary in 2007. There will be no HUF loan transactions, however, debt assumptions will take place in line with the Budget Act.

GROSS DOMESTIC MARKET GOVERNMENT SECURITIES ISSUANCE

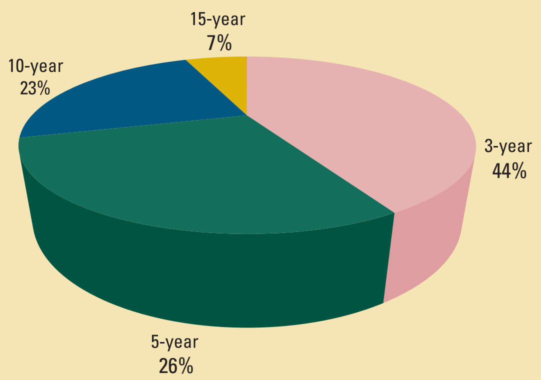


Source: ÁKK

IV. 2. 1. HUF DENOMINATED GOVERNMENT SECURITIES AUCTIONS

Government bonds will be issued via auctions in an amount of HUF 2,230 billion (ca. EUR 8.7 billion). The breakdown by tenor will be the same as in 2006:

BREAKDOWN OF GROSS BOND ISSUANCE BY TENOR



Source: ÁKK

Only fixed rate bonds will be issued, planned in the following amounts:

PLANNED HUF BOND SERIES AUCTIONED IN 2007

Tenor	Number of series auctioned	Total amount sold (HUF bn)
3-year	2	975
5-year	2	590
10-year	2	520
15-year	1	145
Total	7	2,230

Source: ÁKK

In order to ensure a liquid secondary market, the stock of the 3-, 5- and 10-year bond series will reach HUF 400-600 billion (EUR 1.5-2.5 billion); while in the case of the longest, 15-year bond, the targeted volume is HUF 260 billion (approximately EUR 1 billion). (The issuance of a bond series is not limited to a specific calendar year.)

Discount Treasury bills will be sold regularly with 3-, 6- and 12-month term-to-maturity. The issuance of discount T-bills with a less than 3-month (generally 6-week) tenor serves liquidity management purposes; it will be carried out on an ad hoc basis as required by the short-term liquidity needs.

There will be no change in the structure of the issuance calendar of government bonds and discount Treasury bills in 2007, auctions follow the same pattern as in the previous years (see Chapter VIII. for details).

IV. 2. 2. RETAIL SECURITIES

The outstanding stock of retail government securities – an alternative source of financing for the government – will remain unchanged. Since ÁKK accepts all bids for retail securities, the volume and structure of retail sales may change depending on actual demand. Gross issuance of retail government securities is planned at HUF 627 billion (ca. EUR 2.5 billion).

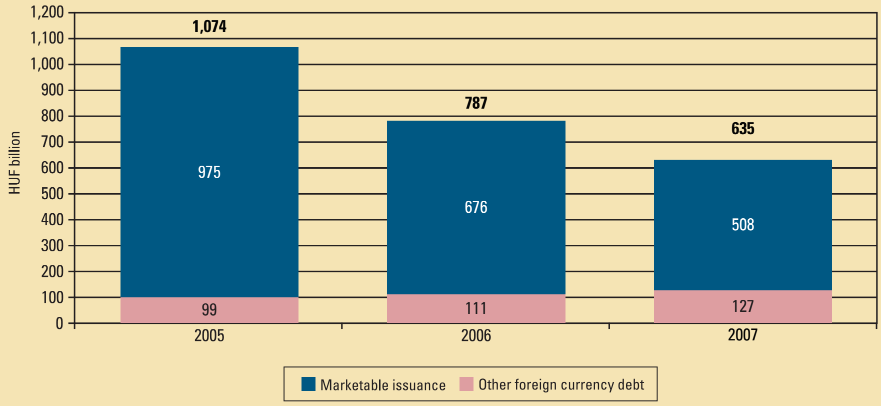
IV. 2. 3. FOREIGN CURRENCY ISSUANCE

Financing in foreign currency is executed mainly through borrowing from international capital markets, based on the following principles:

- Preference to the euro bond market;
- Non-euro issuances to widen the investor base;
- Issuances according to the terms of the given market (e.g. benchmark size, tenor etc.).

Based on these principles, the gross issuance of foreign currency denominated bonds is planned to total a maximum of EUR 2 billion in 2007. In addition, it is expected that approximately EUR 500 million (HUF 127 billion) will be borrowed in the form of loans (for project financing purposes) from International Financial Institutions.

GROSS FOREIGN CURRENCY DENOMINATED ISSUANCE



Source: ÁKK

According to the financing plan, much of the foreign currency bond issuance will take place in the first half of 2007. While terms and conditions of the individual bonds will be decided upon issuance based on market demand, the currency composition and the fixed-floating mix of the portfolio will be set in line with the benchmarks by using hedging (swap) transactions.

V. LIQUIDITY MANAGEMENT

The secure financing of the central government is supported by defining a benchmark for the Single Treasury Account, STA. The optimal level of cash reserves serves to limit liquidity risk. The objective of liquidity management is to keep the balance of the STA in a HUF +/- 50 billion range around this level by using the following instruments:

- Daily repo and reverse repo transactions;
- Issuance of liquidity discount T-bills (instruments with a shorter than 3-month tenor – usually 6 weeks);
- Active use of bond buy-backs;
- Proactive issuance of discount T-Bills (3-month, 6-month, 12-month).

VI. SUMMARY

Within gross issuance the ratio of HUF and foreign currency denominated financing will not change in 2007. However, the weight of foreign currency-denominated financing will increase in total net financing. The actual share may change according to the outturn of the net financing requirement and any significant decline may affect both the domestic Treasury bill and the foreign currency issuance. Government bonds will remain the main financing instruments, with an expected issuance of HUF 2,783 billion, out of which 82% will be denominated in HUF, 18% in foreign currency.

PLANNED BREAKDOWN OF GROSS AND NET ISSUANCE* IN 2007

HUF billion

	Government bonds (capital market)	Other	Total
Gross issuance	2,783	4,674	7,457
HUF	2,275	4,547	6,822
Foreign currency	508	127	635
Net issuance	1,596	-107	1,489
HUF	1,088	-204	884
Foreign currency	508	98	606

* *Including debt assumptions*

Source: ÁKK

Setting the share of HUF and foreign currency financing and the mix of different financing instruments according to ÁKK's objectives results in a debt portfolio structure that is in conformity with the benchmarks. This way the main objective of debt management, i.e. to finance the central budget at the lowest cost in the long run, taking account of risk is securely reached.

ÁKK provides information continuously on the developments of financing, the borrowing requirement and of the public debt via its website (www.akk.hu) and its regular publications (monthly and quarterly reports).

VII. ISSUANCE CALENDAR

ISSUANCE CALENDAR OF GOVERNMENT BONDS IN 2007

Tenor	Date of auction	Date of settlement	Date of maturity*
3-year	04.01.2007	10.01.2007	12.04.2010
	01.02.2007	07.02.2007	12.04.2010
	01.03.2007	07.03.2007	12.04.2010
	29.03.2007	04.04.2007	12.04.2010
	26.04.2007	02.05.2007	12.04.2010
	24.05.2007	30.05.2007	12.04.2010
	21.06.2007	27.06.2007	24.08.2010
	19.07.2007	25.07.2007	24.08.2010
	16.08.2007	22.08.2007	24.08.2010
	13.09.2007	19.09.2007	24.08.2010
	11.10.2007	17.10.2007	24.08.2010
	08.11.2007	14.11.2007	24.08.2010
	06.12.2007	12.12.2007	24.08.2010

Tenor	Date of auction	Date of settlement	Date of maturity*
5-year	18.01.2007	24.01.2007	12.06.2012
	15.02.2007	21.02.2007	12.06.2012
	14.03.2007	21.03.2007	12.06.2012
	12.04.2007	18.04.2007	12.06.2012
	10.05.2007	16.05.2007	12.06.2012
	07.06.2007	13.06.2007	24.10.2012
	05.07.2007	11.07.2007	24.10.2012
	02.08.2007	08.08.2007	24.10.2012
	30.08.2007	05.09.2007	24.10.2012
	27.09.2007	03.10.2007	24.10.2012
	25.10.2007	31.10.2007	24.10.2012
	22.11.2007	28.11.2007	24.10.2012
	20.12.2007	27.12.2007	24.10.2012

Tenor	Date of auction	Date of settlement	Date of maturity*
10-year	18.01.2007	24.01.2007	24.02.2017
	15.02.2007	21.02.2007	24.02.2017
	14.03.2007	21.03.2007	24.02.2017
	12.04.2007	18.04.2007	24.02.2017
	10.05.2007	16.05.2007	24.02.2017
	07.06.2007	13.06.2007	24.02.2017
	05.07.2007	11.07.2007	24.02.2017
	02.08.2007	08.08.2007	24.02.2017
	30.08.2007	05.09.2007	12.02.2018
	27.09.2007	03.10.2007	12.02.2018
	25.10.2007	31.10.2007	12.02.2018
	22.11.2007	28.11.2007	12.02.2018
	20.12.2007	27.12.2007	12.02.2018

Tenor	Date of auction	Date of settlement	Date of maturity*
15-year	04.01.2007	10.01.2007	24.11.2023
	01.03.2007	07.03.2007	24.11.2023
	26.04.2007	02.05.2007	24.11.2023
	21.06.2007	27.06.2007	24.11.2023
	16.08.2007	22.08.2007	24.11.2023
	11.10.2007	17.10.2007	24.11.2023
	06.12.2007	12.12.2007	24.11.2023

** ÁKK may change the bond series offered for sale depending on the targeted volume. The date of maturity in the case of bonds not yet issued may be subject to change..*

ISSUANCE CALENDAR OF DISCOUNT TREASURY BILLS IN 2007

Tenor	Code	Date of auction	Date of settlement	Date of maturity
6 month	D070704	27.12.2006	03.01.2007	04.07.2007
	D070704	10.01.2007	17.01.2007	04.07.2007
	D070704	24.01.2007	31.01.2007	04.07.2007
	D070829	07.02.2007	14.02.2007	29.08.2007
	D070829	21.02.2007	28.02.2007	29.08.2007
	D070829	07.03.2007	14.03.2007	29.08.2007
	D070829	21.03.2007	28.03.2007	29.08.2007
	D071024	04.04.2007	11.04.2007	24.10.2007
	D071024	18.04.2007	25.04.2007	24.10.2007
	D071024	02.05.2007	09.05.2007	24.10.2007
	D071024	16.05.2007	23.05.2007	24.10.2007
	D071219	30.05.2007	06.06.2007	19.12.2007
	D071219	13.06.2007	20.06.2007	19.12.2007
	D071219	27.06.2007	04.07.2007	19.12.2007
	D071219	11.07.2007	18.07.2007	19.12.2007
	D080213	25.07.2007	01.08.2007	13.02.2008
	D080213	08.08.2007	15.08.2007	13.02.2008
	D080213	22.08.2007	29.08.2007	13.02.2008
	D080213	05.09.2007	12.09.2007	13.02.2008
	D080409	19.09.2007	26.09.2007	09.04.2008
	D080409	03.10.2007	10.10.2007	09.04.2008
	D080409	17.10.2007	24.10.2007	09.04.2008
	D080409	31.10.2007	07.11.2007	09.04.2008
	D080604	14.11.2007	21.11.2007	04.06.2008
	D080604	28.11.2007	05.12.2007	04.06.2008
	D080604	12.12.2007	19.12.2007	04.06.2008

Tenor	Code	Date of auction	Date of settlement	Date of maturity
12 month	D071121	28.12.2006	03.01.2007	21.11.2007
	D080116	11.01.2007	17.01.2007	16.01.2008
	D080116	25.01.2007	31.01.2007	16.01.2008
	D080116	08.02.2007	14.02.2007	16.01.2008
	D080116	22.02.2007	28.02.2007	16.01.2008
	D080312	08.03.2007	14.03.2007	12.03.2008
	D080312	22.03.2007	28.03.2007	12.03.2008
	D080312	05.04.2007	11.04.2007	12.03.2008
	D080312	19.04.2007	25.04.2007	12.03.2008
	D080507	03.05.2007	09.05.2007	07.05.2008
	D080507	17.05.2007	23.05.2007	07.05.2008
	D080507	31.05.2007	06.06.2007	07.05.2008
	D080507	14.06.2007	20.06.2007	07.05.2008
	D080702	28.06.2007	04.07.2007	02.07.2008
	D080702	12.07.2007	18.07.2007	02.07.2008
	D080702	26.07.2007	01.08.2007	02.07.2008
	D080702	09.08.2007	15.08.2007	02.07.2008
	D080827	23.08.2007	29.08.2007	27.08.2008
	D080827	06.09.2007	12.09.2007	27.08.2008
	D080827	20.09.2007	26.09.2007	27.08.2008
	D080827	04.10.2007	10.10.2007	27.08.2008
	D081022	18.10.2007	24.10.2007	22.10.2008
	D081022	31.10.2007	07.11.2007	22.10.2008
	D081022	15.11.2007	21.11.2007	22.10.2008
	D081022	29.11.2007	05.12.2007	22.10.2008
	D081217	13.12.2007	19.12.2007	17.12.2008

3-month Discount T-bills are auctioned every Tuesday, settlement is on the Wednesday of the following week.Liquidity Discount T-bills are auctioned upon decision of the Issuer, generally on a Monday with settlement on Wednesday.

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