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DEBT MANAGEMENT OUTLOOK

■ 2006 ■

CONTENTS

INTRODUCTION

The Government Debt Management Agency Ltd. (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 government debt management strategy. 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 2006.

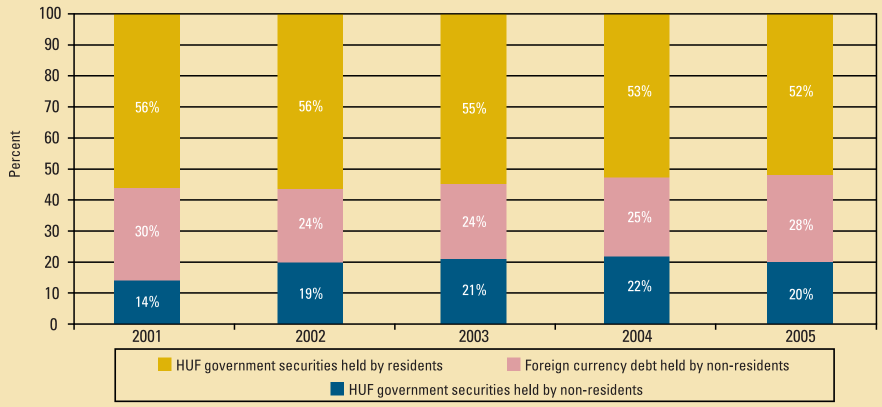
I. THE CENTRAL GOVERNMENT DEBT AT THE END OF 2005

Gross debt[1] of the central government amounted to HUF 12,744 billion (58.4% of the GDP[2]) up by HUF 1.152 billion (or by 9.9%) in 2005. In the increase net issuance accounted for HUF 970 billion, changes in the volume of repos for HUF 81 billion and exchange rate movements for HUF 101 billion.

In 2005 the total gross issuance of HUF 7,199 billion – including debt assumptions – exceeded the expected (HUF 7,176 billion), however, as a result of the larger than expected budget surplus in December net issuance was lower than the projected HUF 995 billion.

Within net issuance net domestic and net foreign issuance accounted for 48% and 52% respectively, resulting in an increase of the share of foreign currency debt to 28% of the government debt by the end of the year. Altogether, foreign investors owned 48% of total debt at the end of 2005.

BREAKDOWN OF THE GOVERNMENT DEBT BY INVESTORS



[1] This term refers to public debt managed by ÁKK, i.e. the debt of the central government, as set down in the Act on Public Finances. It is non-consolidated debt, does not include the debt of the local municipalities and SOEs.
[2] This debt-to-GDP ratio is based on accounting data and is not the same as the Maastricht debt (EDP) statistics due to different methods of measuring the debt stock and the financing requirements. Preliminary data.

I. THE CENTRAL GOVERNMENT DEBT AT THE END OF 2005

Average term-to-maturity of the HUF debt portfolio was 3.6 years at the end of 2005, while that of the foreign currency debt portfolio reached 6.9 years; the durations were 2.5 years and 4.3 years, respectively. Debt pre-payments at the end of the year had a smoothening effect on the maturity profile of the debt: debt redemptions in the years 2006-2008 were decreased, reducing the refinancing risk. The average coupon of the debt was 6.08% with the average coupon of the domestic debt (6.96%) being in line with the benchmark bond yields at the end of the year.

Strategic objectives regarding the debt structure were achieved by the end of 2005, creating pre-conditions for a smooth and balanced financing in 2006 as well.

II. DEBT MANAGEMENT STRATEGY IN 2006

In accordance with international practice, the main objective of government debt management is to finance the borrowing requirements of the central budget in an integrated manner, with minimal costs in the long term and by running acceptable risks. ÁKK intends to achieve this objective by setting performance indicators (benchmarks) based on a risk management model that takes both long-term costs and risks into account and manages the HUF and foreign currency portfolios in an integrated manner.

The model set similar targets and benchmark values for 2006 as for 2005, namely:

- The proportion of HUF/foreign currency denominated debt should be 68-75% and 25-32% respectively.
- All foreign currency denominated debt should be 100% in euro after swap transactions (with a maximum deviation of 5%) in order to limit the exchange rate risk to the fluctuations of the HUF/EUR exchange rate.
- The fixed - floating mix of the HUF denominated debt should be 61-83% and 17-39% respectively. The fixed - floating mix of the foreign currency portfolio is 66% and 34% respectively.
- The duration target for the HUF denominated debt is 2.5 years +/- 0.5 year.
- An optimal end-of-the-day 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.

As a part of its strategic approach to the market ÁKK publishes an annual auction calendar; offers pre-set amounts at the auctions and issues large, liquid series of government securities. Cash management is also carried out in a strategic manner: ÁKK concludes money market repo transactions on a daily basis in order to decrease the volatility of the end-of-the-day STA balance.

The annual financing plan has been compiled in accordance with the above-mentioned benchmarks and strategic principles.

III. BORROWING REQUIREMENTS 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. The ESA'95 accrual-based deficit of the public sector is expected to be 4.7% of GDP.[3]

The deficit of the central government budget on cash-flow basis – including debt assumptions, but excluding privatisation revenues – is projected to be HUF 1531.0 billion according to the Budget Act. The deficit of the Social Security funds is projected at HUF 31.8 billion, while the planned annual surplus of the extrabudgetary funds is HUF 17.0 billion. So the deficit of the central government calculated on cash basis is expected at HUF 1545.8 billion, or 7.1% of the GDP in 2006. Adding to this balance privatisation revenues and the net balance of the pre-financing of European Union transfers results in a total net borrowing requirement of HUF 1378.4 billion.

HUF billion

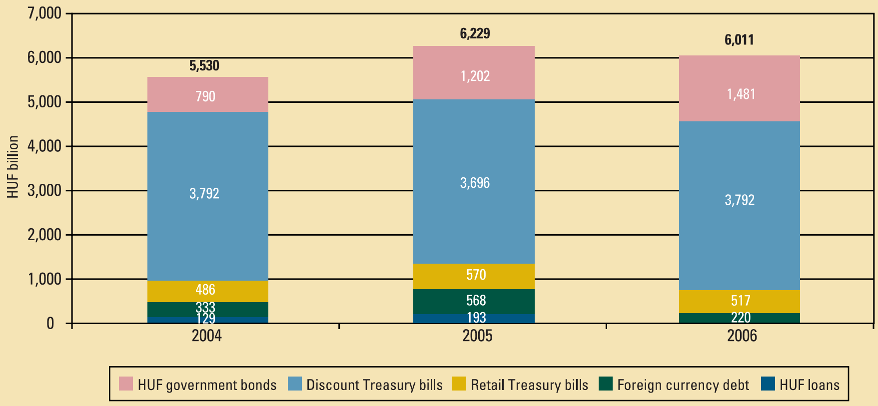
	2005[1]	2006[2]
Deficit of the central government (excluding privatisation revenues, including debt assumptions)	545.0	1,531.0
Of which: debt assumptions	*180.3*	*238.0*
Financing requirement of the Social Security funds	469.9	31.8
Financing requirement of the extrabudgetary funds	-30.4	-17.0
Net borrowing requirement	984.5	1,545.8
Capital transfers to the NBH	1.1	0.0
Privatisation revenues	0.0	-150.0
Net pre-financing of direct European Union subsidies	173.4	-17.4
Total net borrowing requirement	1,159.0	1,378.4

[1] *Preliminary*
[2] *Appropriation*

III. 2. REDEMPTIONS

Gross debt redemptions are projected to total HUF 6.011 billion in 2006, some 4% lower than in 2005. HUF and foreign currency debt redemptions will reach HUF 5,791 billion and HUF 220 billion respectively.

BREAKDOWN OF TOTAL REDEMPTION BY DEBT INSTRUMENTS



[3] Taking into account private pension fund contributions.

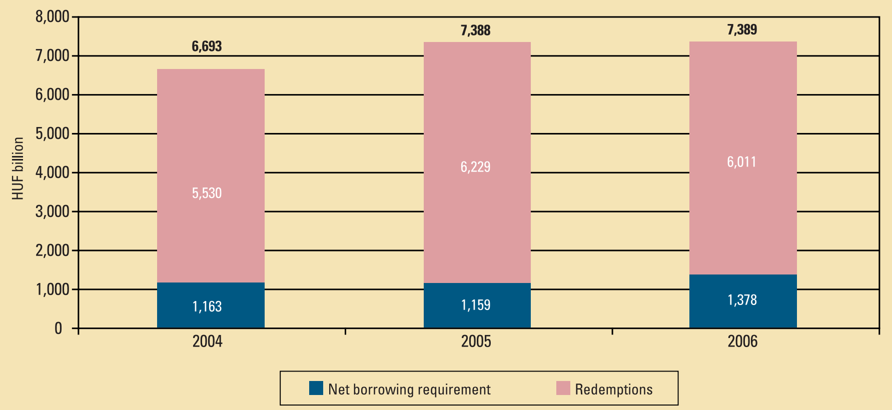
III. BORROWING REQUIREMENTS IN 2006

Discount T-bills – due to their renewal within the year – have a high share in the total debt redemption. Domestic government bond redemptions account for approximately 88% of bond redemptions, while foreign currency bonds will be redeemed in an amount substantially lower than in the previous year.

III. 3. THE GROSS BORROWING REQUIREMENT

As a result of higher total net financing requirements and lower redemptions compared to the year before, the gross borrowing requirements are expected to remain unchanged from 2005 at HUF 7,389 billion.

BREAKDOWN OF THE GROSS BORROWING REQUIREMENT



IV. FINANCING IN 2006

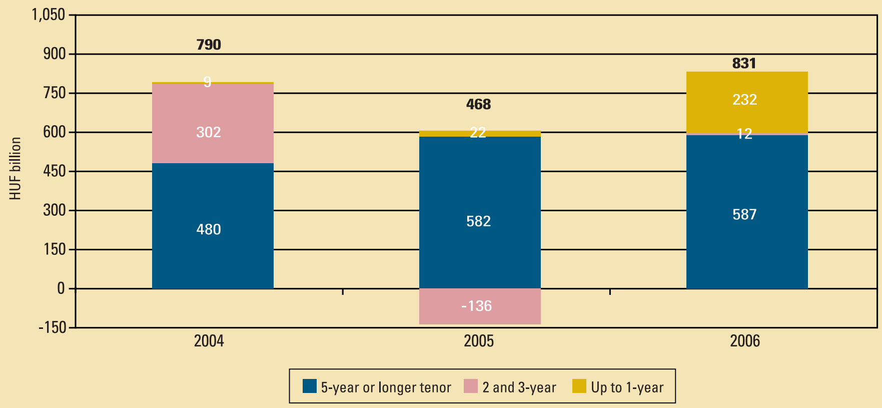
IV. 1. NET ISSUANCE

The total net issuance is planned at HUF 1,459 billion. Net HUF denominated issuance[4] is expected at HUF 1,070 billion and net foreign exchange denominated issuance at HUF 389 billion.

There will be a significant change in the structure of net issuance in comparison with 2005. According to the plans, the share of HUF financing will increase from 48% in 2005 to 73% in 2006. The rationale behind this decision is that (1) the domestic capital market is able to absorb a higher amount of new government issues and that (2) ÁKK does not wish to increase the share of the foreign currency debt.

Net domestic bond issuance is planned at HUF 599 billion, a significant increase compared to the HUF 446 billion in 2005. Bonds with a tenor of 5 years or longer with a net issuance of HUF 587 billion will play an important role in the net financing, while the outstanding volume of 2 and 3-year bonds is expected to remain almost unchanged.

NET DOMESTIC GOVERNMENT SECURITIES ISSUANCE - BREAKDOWN BY TENOR



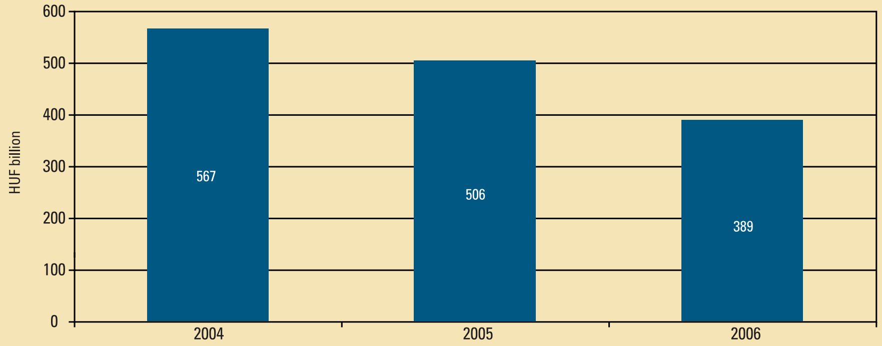
The volume of short-term government securities will increase in 2006, meaning that besides liquidity management they will take part in financing as well. The substantial net positive issuance of discount T-bills (HUF 232 billion) helps to achieve the targeted fix - floating mix, because a large amount of floating rate bonds will mature in 2006 and at present discount T-bills form the largest floating rate component within the public debt. The outstanding volume of retail government securities is projected to be unchanged.

The positive net issuance of marketable foreign currency debt in 2006 (HUF 309 billion, EUR 1.2 billion) will be the result of new issuance in a total amount of EUR 2 billion and the redemption of two USD bonds in a total amount of USD 850 million. Together with other foreign currency debt transactions (mainly in connection with loans from international financial institutions) the net foreign currency issuance will total HUF 389 billion (EUR 1.5 billion), significantly lower than in the previous two years.

[4] Net HUF issuance includes loan assumptions by the state of HUF 238 billion, which is, however, a self-financing item.

IV. FINANCING IN 2006

NET FOREIGN CURRENCY DENOMINATED ISSUANCE

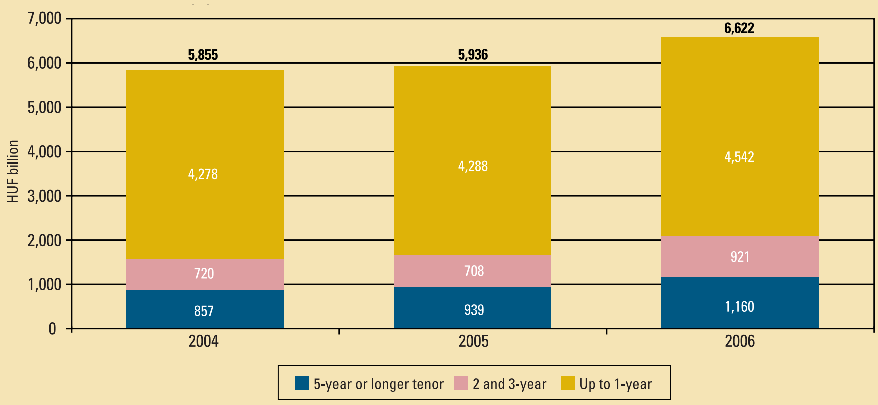


IV. 2. BREAKDOWN OF THE GROSS SECURITIES ISSUANCE

The total gross issuance planned for 2006 is HUF 7,470 billion (including debt assumptions), up by 4% from the HUF 7,199 billion in 2005. The volume of domestic issuance will be HUF 6,860 billion (92%), while foreign currency denominated borrowing will reach HUF 609 billion (8%). The difference between the gross issuance and the gross borrowing requirement will increase the reserves on the Single Treasury Account.

The domestic government securities market will remain the most important market of financing for the Republic of Hungary.

GROSS DOMESTIC MARKET GOVERNMENT SECURITIES ISSUANCE

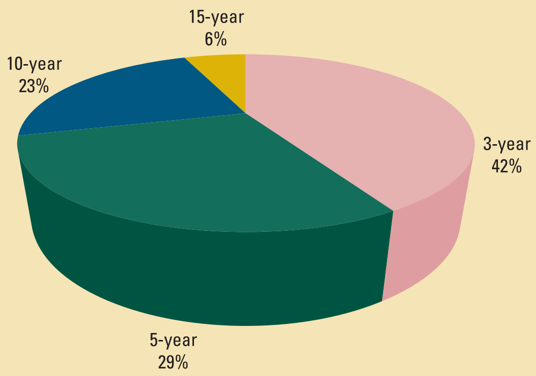


IV. FINANCING IN 2006

MARKETABLE INSTRUMENTS

Government bonds are projected to be issued via auctions in an amount of HUF 2,005 billion (ca. EUR 8 billion). The breakdown by tenor will be same as in 2005:

BREAKDOWN OF GROSS BOND ISSUANCE BY TENOR



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

PLANNED HUF BOND SERIES AUCTIONED IN 2006

Tenor	Number of series auctioned	Total amount sold (HUF bn)
3-year	2	845
5-year	2	585
10-year	2	455
15-year	1	120

In order to ensure sufficient secondary market liquidity, the projected volume of the 3, 5 and 10-year bond series will reach HUF 400 billion (EUR 1.6 billion); while in the case of the longest, 15-year bond, the targeted volume is HUF 250 billion (EUR 1 billion).

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

There is no change in the structure of the issuance calendar of government bonds and discount Treasury bills in 2006, auctions follow the same pattern as in the previous years (see Chapter VIII. for details).

RETAIL GOVERNMENT SECURITIES

According to the plans, the outstanding volume of retail government securities – an alternative way of financing for the government – will remain unchanged. However, ÁKK accepts all bids for retail securities, as a consequence of which the volume and structure of retail sales may change depending on the demand. Gross issuance of retail government securities is planned at HUF 576 billion (ca. EUR 2.3 billion).

IV. FINANCING IN 2006

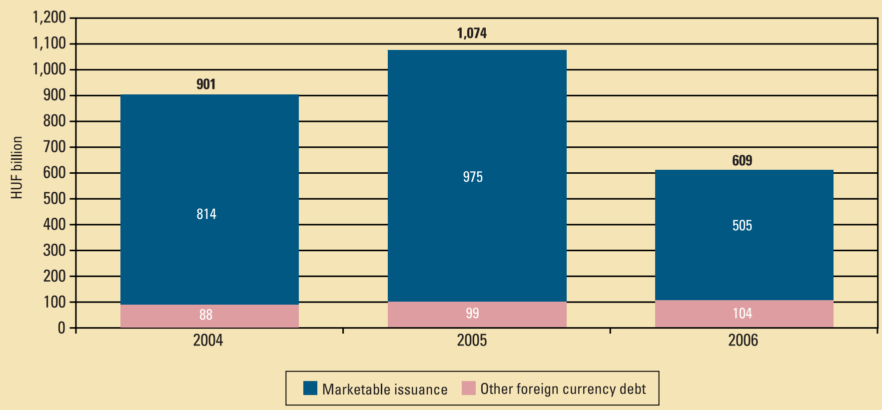
FOREIGN CURRENCY ISSUANCE

Foreign currency financing is executed mainly through borrowing in the international capital markets, based on the following principles:

- Preference is given to the euro bond market;
- Issues in other markets aim at widening the investors' base;
- Issues take into consideration the specifics 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 EUR 2 billion in 2006. In addition, it is expected that approximately EUR 414 million (HUF 104 billion) will be borrowed in the form of project financing loans from international financial institutions.

GROSS FOREIGN CURRENCY DENOMINATED ISSUANCE



According to the financing plan, foreign currency bond issuance will take place in the first half of 2006. While terms and conditions of the individual bonds will be decided upon issuance based on market demand, the currency and the fixed/floating mix in line with the benchmarks will be set using hedging (swap) transactions.

In January 2006 a EUR 1 billion, fixed rate bond was issued with a tenor of 10.5 years.

V. LIQUIDITY MANAGEMENT

The active, daily management of the liquid cash funds of the state continues to be one of ÁKK's activities in 2006. By determining an optimal end-of-the-day balance of the Single Treasury Account and keeping the STA balance within a +/- HUF 50 billion range around this optimal level, the amount of liquid cash reserves are kept at a secure and stable level. In order to smoothen the fluctuations, ÁKK will continue to use the following instruments:

- Daily active and passive repo transactions to tailor the end-of-the-day balance of the STA into the targeted band;
- Issuance of liquidity discount T-bills (instruments with a shorter than 3-month tenor – usually 6 weeks);
- Active use of bond buy-backs;
- Active adjustment of the amount of discount T-bills offered at auctions in order to manage the liquidity of the STA.

In addition, the instruments of liquidity management are complemented by a foreign currency stand-by loan facility.

VI. SUMMARY

In 2006 the role of domestic financing will increase within both the net and gross issuance. Whereas in preceding years foreign currency bond issuance had a significant role in the net financing, in 2006 more emphasis will be given to the domestic market. Within gross issuance, HUF financing has always had a decisive share, which will increase even further in 2006. HUF debt will account for 92% out of the gross issuance and 73% out of the net issuance. Government bonds will remain the main financing instruments, with issuance expected at HUF 2,529 billion, out of which 80% will be denominated in HUF.

PLANNED BREAKDOWN OF GROSS AND NET ISSUANCE* IN 2006

HUF billion

	Government bonds (capital market)	Other	Total
Gross issuance	2,529	4,941	7,470
HUF	2,024	4,836	6,860
Foreign currency	505	104	609
Net issuance	909	551	1,459
HUF	599	470	1,070
Foreign currency	309	80	389

** Including debt assumptions*

Setting the share of HUF and foreign currency financing and the mix of different financing instruments according to objectives results in a debt portfolio structure that is in conformity with the benchmarks. This way the main objective of debt management, i.e. financing at low costs in the long run by running acceptable risks, is securely reached.

VII. FURTHER INFORMATION

The financing plan and the present publication are based on information available in January 2006. Therefore, the data on the year 2005 are still considered as preliminary and the projections for 2006 are subject to changes according to the outturn of the borrowing requirements 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.

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

VIII. ISSUANCE CALENDAR

ISSUANCE CALENDAR OF GOVERNMENT BONDS IN 2006

Tenor	Date of auction	Date of settlement	Date of maturity*
3-year	05. 01. 2006	11. 01. 2006	24. 04. 2009
	02. 02. 2006	08. 02. 2006	24. 04. 2009
	02. 03. 2006	08. 03. 2006	24. 04. 2009
	30. 03. 2006	05. 04. 2006	24. 04. 2009
	27. 04. 2006	03. 05. 2006	24. 04. 2009
	25. 05. 2006	31. 05. 2006	24. 04. 2009
	22. 06. 2006	28. 06. 2006	12. 08. 2009
	20. 07. 2006	26. 07. 2006	12. 08. 2009
	17. 08. 2006	23. 08. 2006	12. 08. 2009
	14. 09. 2006	20. 09. 2006	12. 08. 2009
	12. 10. 2006	18. 10. 2006	12. 08. 2009
	09. 11. 2006	15. 11. 2006	12. 08. 2009
	07. 12. 2006	13. 12. 2006	12. 08. 2009

Tenor	Date of auction	Date of settlement	Date of maturity*
5-year	19. 01. 2006	25. 01. 2006	12. 10. 2011
	16. 02. 2006	22. 02. 2006	12. 10. 2011
	16. 03. 2006	22. 03. 2006	12. 10. 2011
	13. 04. 2006	19. 04. 2006	12. 10. 2011
	11. 05. 2006	17. 05. 2006	12. 10. 2011
	08. 06. 2006	14. 06. 2006	12. 10. 2011
	06. 07. 2006	12. 07. 2006	12. 10. 2011
	03. 08. 2006	09. 08. 2006	12. 10. 2011
	31. 08. 2006	06. 09. 2006	12. 10. 2011
	28. 09. 2006	04. 10. 2006	12. 06. 2012
	26. 10. 2006	01. 11. 2006	12. 06. 2012
	23. 11. 2006	29. 11. 2006	12. 06. 2012
	21. 12. 2006	27. 12. 2006	12. 06. 2012

Tenor	Date of auction	Date of settlement	Date of maturity*
10-year	19. 01. 2006	25. 01. 2006	12. 02. 2016
	16. 02. 2006	22. 02. 2006	12. 02. 2016
	16. 03. 2006	22. 03. 2006	12. 02. 2016
	13. 04. 2006	19. 04. 2006	12. 02. 2016
	11. 05. 2006	17. 05. 2006	12. 02. 2016
	08. 06. 2006	14. 06. 2006	12. 02. 2016
	06. 07. 2006	12. 07. 2006	12. 02. 2016
	03. 08. 2006	09. 08. 2006	12. 02. 2016
	31. 08. 2006	06. 09. 2006	12. 02. 2016
	28. 09. 2006	04. 10. 2006	24. 02. 2017
	26. 10. 2006	01. 11. 2006	24. 02. 2017
	23. 11. 2006	29. 11. 2006	24. 02. 2017
	21. 12. 2006	27. 12. 2006	24. 02. 2017

Tenor	Date of auction	Date of settlement	Date of maturity*
15-year	02. 02. 2006	08. 02. 2006	24. 11. 2020
	30. 03. 2006	05. 04. 2006	24. 11. 2020
	25. 05. 2006	31. 05. 2006	24. 11. 2020
	20. 07. 2006	26. 07. 2006	24. 11. 2020
	14. 09. 2006	20. 09. 2006	24. 11. 2020
	09. 11. 2006	15. 11. 2006	24. 11. 2020

** 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.*

VIII. ISSUANCE CALENDAR

ISSUANCE CALENDAR OF DISCOUNT TREASURY BILLS IN 2006

Tenor	Code	Date of auction	Date of settlement	Date of maturity
6-month	D060802	11. 01. 2006	18. 01. 2006	02. 08. 2006
	D060802	25. 01. 2006	01. 02. 2006	02. 08. 2006
	D060802	08. 02. 2006	15. 02. 2006	02. 08. 2006
	D060802	22. 02. 2006	01. 03. 2006	02. 08. 2006
	D060927	08. 03. 2006	16. 03. 2006	27. 09. 2006
	D060927	22. 03. 2006	29. 03. 2006	27. 09. 2006
	D060927	05. 04. 2006	12. 04. 2006	27. 09. 2006
	D060927	19. 04. 2006	26. 04. 2006	27. 09. 2006
	D061122	03. 05. 2006	10. 05. 2006	22. 11. 2006
	D061122	17. 05. 2006	24. 05. 2006	22. 11. 2006
	D061122	31. 05. 2006	07. 06. 2006	22. 11. 2006
	D061122	14. 06. 2006	21. 06. 2006	22. 11. 2006
	D070117	28. 06. 2006	05. 07. 2006	17. 01. 2007
	D070117	12. 07. 2006	19. 07. 2006	17. 01. 2007
	D070117	26. 07. 2006	02. 08. 2006	17. 01. 2007
	D070117	09. 08. 2006	16. 08. 2006	17. 01. 2007
	D070314	23. 08. 2006	30. 08. 2006	14. 03. 2007
	D070314	06. 09. 2006	13. 09. 2006	14. 03. 2007
	D070314	20. 09. 2006	27. 09. 2006	14. 03. 2007
	D070314	04. 10. 2006	11. 10. 2006	14. 03. 2007
	D070509	18. 10. 2006	25. 10. 2006	09. 05. 2007
	D070509	31. 10. 2006	08. 11. 2006	09. 05. 2007
	D070509	15. 11. 2006	22. 11. 2006	09. 05. 2007
	D070509	29. 11. 2006	06. 12. 2006	09. 05. 2007
	D070704	13. 12. 2006	20. 12. 2006	04. 07. 2007
	D070704	27. 12. 2006	03. 01. 2007	04. 07. 2007

Tenor	Code	Date of auction	Date of settlement	Date of maturity
12-month	D061220	12. 01. 2006	18. 01. 2006	20. 12. 2006
	D061220	26. 01. 2006	01. 02. 2006	20. 12. 2006
	D070214	09. 02. 2006	15. 02. 2006	14. 02. 2007
	D070214	23. 02. 2006	01. 03. 2006	14. 02. 2007
	D070214	09. 03. 2006	16. 03. 2006	14. 02. 2007
	D070214	23. 03. 2006	29. 03. 2006	14. 02. 2007
	D070328	06. 04. 2006	12. 04. 2006	28. 03. 2007
	D070328	20. 04. 2006	26. 04. 2006	28. 03. 2007
	D070328	04. 05. 2006	10. 05. 2006	28. 03. 2007
	D070328	18. 05. 2006	24. 05. 2006	28. 03. 2007
	D070606	01. 06. 2006	07. 06. 2006	06. 06. 2007
	D070606	15. 06. 2006	21. 06. 2006	06. 06. 2007
	D070606	29. 06. 2006	05. 07. 2006	06. 06. 2007
	D070606	13. 07. 2006	19. 07. 2006	06. 06. 2007
	D070801	27. 07. 2006	02. 08. 2006	01. 08. 2007
	D070801	10. 08. 2006	16. 08. 2006	01. 08. 2007
	D070801	24. 08. 2006	30. 08. 2006	01. 08. 2007
	D070801	07. 09. 2006	13. 09. 2006	01. 08. 2007
	D070926	21. 09. 2006	27. 09. 2006	26. 09. 2007
	D070926	05. 10. 2006	11. 10. 2006	26. 09. 2007
	D070926	19. 10. 2006	25. 10. 2006	26. 09. 2007
	D070926	02. 11. 2006	08. 11. 2006	26. 09. 2007
	D071121	16. 11. 2006	22. 11. 2006	21. 11. 2007
	D071121	30. 11. 2006	06. 12. 2006	21. 11. 2007
	D071121	14. 12. 2006	20. 12. 2006	21. 11. 2007
	D071121	28. 12. 2006	03. 01. 2007	21. 11. 2007

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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