



GOVERNMENT SECURITIES MARKET

QUARTERLY REPORT

■ SECOND QUARTER 2007 ■

■ GOVERNMENT SECURITIES MARKET ■

The deficit of the central government without debt-assumption amounted to HUF 945.5 billion in the first six months of 2007. The cash inflows worth HUF 124.2 billion from the EAGGF fund of the European Union decreased, the capital transfers to the National Bank of Hungary worth HUF 20.6 billion increased the net borrowing requirement. Thus the total net borrowing requirement was HUF 841.9 billion in Q2 2007. Net issuance was HUF 883.7 billion, out of which net HUF-denominated issuance was HUF 536.5 billion, net foreign currency denominated issuance was HUF 347.2 billion.

ÁKK set up benchmarks to maintain optimal cost-risk characteristics of public debt. The 90-day moving average values of those benchmarks at the end of Q2 were as follows:

- The proportion of HUF and foreign currency denominated debt was 72.1% and 27.9% respectively.
- Almost 100% of the foreign currency debt was denominated in euro.
- The fixed-floating mix of the foreign currency portfolio was 65.4%-34.6% respectively.
- The fixed-floating mix of HUF-denominated debt was 69.8% and 30.2% respectively.
- The duration of HUF-denominated debt was 2.68 years.

These values were in line with ÁKK's benchmark targets.

The base rate of the NBH had been cut once by 25 basis points in the second quarter of 2007 and it stood at 7.75% at the end of June. Short-term market yields decreased by 13-45 basis points, while bond yields decreased by 5-42 basis points in Q2, with the exception the 15-year yield, which stagnated. At the end of June the 1-year benchmark yield stood at 7.18%, the 3-year yield at 6.88% and the 10-year yield at 6.63%.

OTC turnover of government securities was 5% higher than in the previous quarter and reached HUF 13,351.6 billion. Primary dealers, who account for the decisive part of all secondary government securities trading, made 49% of their secondary government securities deals with non-resident investors. Non-resident holdings of Hungarian government securities increased altogether by HUF 32.7 billion in Q2 and amounted to HUF 3,117.4 billion at the end of June 2007. This represented 30.6% of domestic government bonds and discount Treasury bills.

In the second quarter no foreign currency issuance took place, however, loans of HUF 28.3 billion in Euro and HUF 78.5 billion in Hungarian Forint were borrowed from international financial institutions for project financing purposes.

The credit rating of the long-term foreign currency denominated debt of the Republic of Hungary was BBB+ (Standard & Poor's); A2 (Moody's); BBB+ (Fitch) on 30 June 2007.

The EUR/HUF exchange rate according to the Hungarian National Bank was 245.90 on the last working day of June.

■ GOVERNMENT SECURITIES MARKET ■

MACROECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2005	2006	April 2007	May 2007	June 2007
GDP growth (yearly average) ¹	4.2	5.1	4.6	3.8	3.3	4.9	4.3	4.0			
Industrial production ¹	10.4	18.1	3.6	2.8	5.9	8.3	7.3	10.1	8.0	5.7	
Unemployment rate (%; 3-month average)	7.0	6.4	5.7	5.9	5.9	6.1	7.2	7.5			
Consumer price index (yearly change) ²	11.2	10.1	6.8	4.8	5.7	5.5	3.3	6.5	8.8	8.5	8.6
Consumer price index (yearly average)	10.0	9.8	9.2	5.3	4.7	6.8	3.6	3.9			
Consumer price index (monthly change)									0.5	0.8	0.4
Producer price index (yearly change) ²	7.1	12.4	-0.4	-1.3	6.2	1.6	4.5	4.5	0.1	0.4	
Producer price index (yearly average)	5.0	11.6	5.2	-1.8	2.4	3.5	4.3	6.5			
Producer price index (monthly change)									-0.8	0.4	
Net lending position of households (HUF Bn) ³	796.1	776.3	799.6	454.4	38.1	491.2	920.1	679.9			
Current account of balance of payments (EUR M) ⁴	-3,531.4	-4,352.5	-3,576.5	-4,929.2	-5,933.0	-6,915.5	-6,002.3	-5,196.9			
Net direct investments (EUR M) ⁵	2,871.7	2,334.0	3,992.2	2,889.4	424.1	2,741.3	4,137.0	2,431.8			
Balance of the central government budget (HUF Bn) ⁶	-337.2	-367.8	-402.9	-957.7	-733.6	-890.0	-545.0	-1,959.2	-782.1	-823.4	-1,091.1
Central government gross debt (HUF Bn)	6,886.4	7,226.2	7,719.5	9,224.2	10,587.7	11,592.4	12,765.6	14,705.7	15,139.5	15,353.7	15,464.1
Central government gross debt (per cent of GDP)	60.4%	53.4%	50.6%	53.7%	55.9%	56.0%	57.9%	61.9%			
Net foreign debt (EUR M) ⁸	7,344.4	9,686.8	8,398.1	11,519.8	16,556.7	21,221.5	24,917.9	30,063.1			
Net foreign debt (per cent of GDP)	16.3%	19.1%	14.5%	16.5%	22.5%	26.1%	28.3%	33.7%			
HUF/USD mid exchange rate at the end of period	252.52	284.73	279.03	225.16	207.92	180.29	213.58	191.62	181.03	186.23	182.68
HUF/EUR mid exchange rate at the end of period	254.92	264.94	246.33	235.90	262.23	245.93	252.73	252.30	246.42	250.35	245.90

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

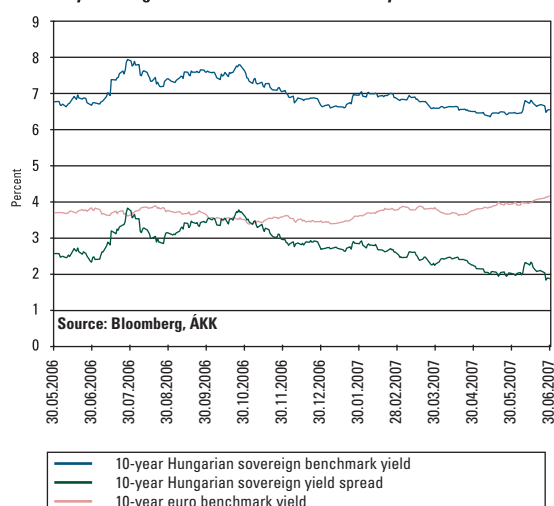
⁶ Excluding privatisation proceeds and transfers to the NBH

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

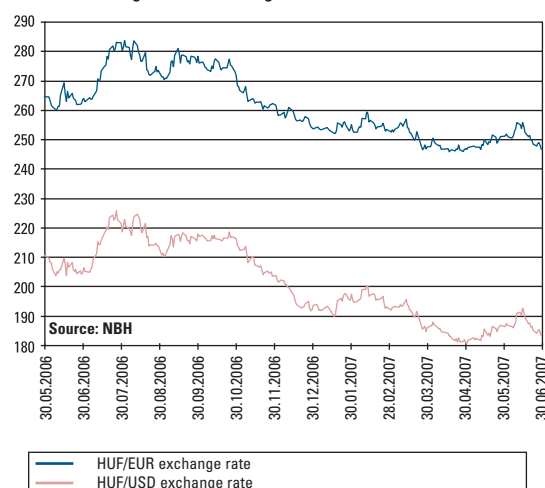
⁸ Excluding intercompany loans

⁹ FISIM with new methodology as from 2001

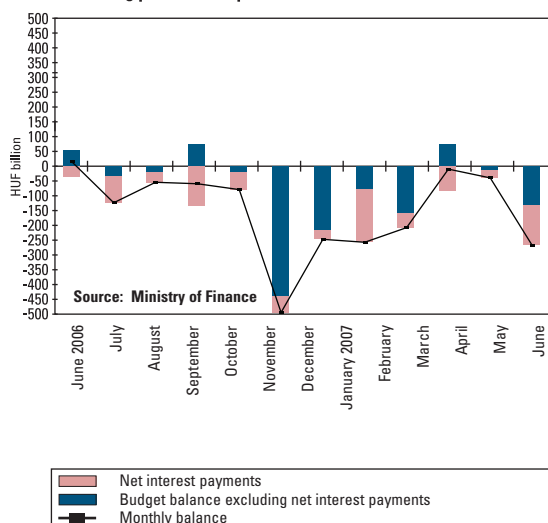
10-year Hungarian and eurozone benchmark yields



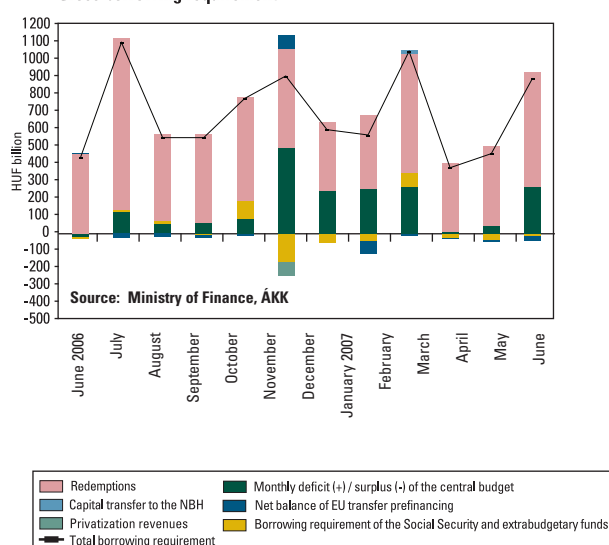
The exchange rate of the Hungarian Forint



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



Gross borrowing requirement



GOVERNMENT, SECURITIES MARKET

CENTRAL GOVERNMENT GROSS DEBT

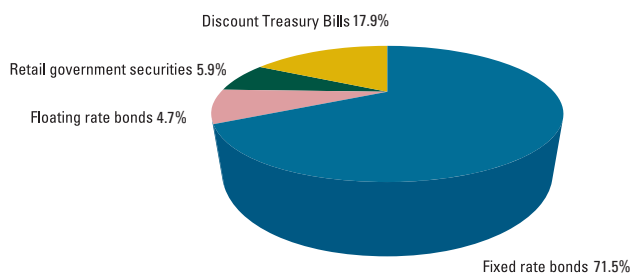
HUF billion

	1998	1999	2000	2001	2002	2003	2004	2005	2006	April 2007	May 2007	June 2007
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	10,552.3	10,848.9	10,997.3	11,087.1
1.1. Loans	435.0	380.2	303.8	228.3	353.2	117.9	4.7	0.8	356.4	250.3	313.3	252.1
1.1.1. Foreign loans	0.0	0.0	0.0	0.0	1.7	1.4	1.1	0.8	0.5	0.5	63.5	79.0
1.1.2. Domestic loans	435.0	380.2	303.8	228.3	351.5	116.5	3.5	0.0	355.9	249.8	249.8	173.1
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	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	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	10,195.9	10,598.6	10,684.0	10,835.0
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	9,667.5	10,071.3	10,156.7	10,307.7
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	7,244.2	7,622.6	7,683.8	7,761.5
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	1,755.9	1,787.0	1,825.0	1,902.3
1.2.1.3. Retail securities	356.5	499.3	523.3	544.7	560.3	533.5	628.4	588.7	667.4	661.7	648.0	644.0
1.2.2. Private placements	866.1	853.2	831.3	809.1	777.4	759.3	743.6	733.9	528.4	527.3	527.3	527.3
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	4,124.4	4,265.2	4,331.0	4,352.1
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	803.7	775.5	785.6	869.7
2.1.1. Foreign loans	249.6	361.2	368.8	317.8	461.9	598.8	528.9	616.9	700.1	674.4	682.8	768.8
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	103.6	101.2	102.8	101.0
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	95.9	93.7	95.2	93.5
2.1.2.2. Other loans	0.0	0.0	0.0	0.0	82.8	18.8	32.2	7.7	7.7	7.5	7.6	7.5
2.2. Government securities	64.0	606.7	736.0	911.7	873.0	1,494.9	2,066.8	2,870.1	3,320.7	3,489.7	3,545.4	3,482.4
2.2.1. Issued abroad	44.4	587.1	715.7	911.7	873.0	1,494.9	2,066.8	2,870.1	3,320.7	3,489.7	3,545.4	3,482.4
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	3,320.6	3,489.7	3,545.3	3,482.3
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	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	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	14,676.7	15,114.2	15,328.3	15,439.2
Other liabilities								21.4	29.0	25.3	25.5	25.0
Total central government debt								12,765.6	14,705.7	15,139.5	15,353.7	15,464.1
Gross debt/GDP	61.1%	60.4%	53.4%	50.6%	53.7%	55.9%	56.0%	57.9%	61.9%			

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

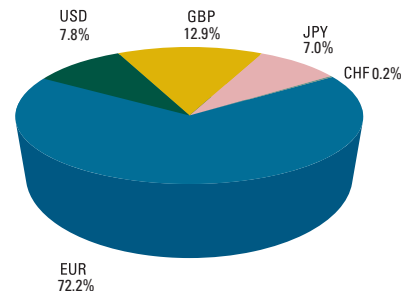
Source: ÁKK

Composition of HUF government securities as at 30. 06. 2007.



Source: ÁKK

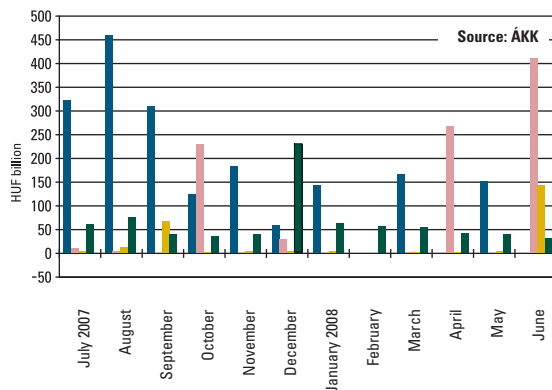
Currency composition of the foreign exchange debt portfolio as at 30. 06. 2007*



Source: ÁKK

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

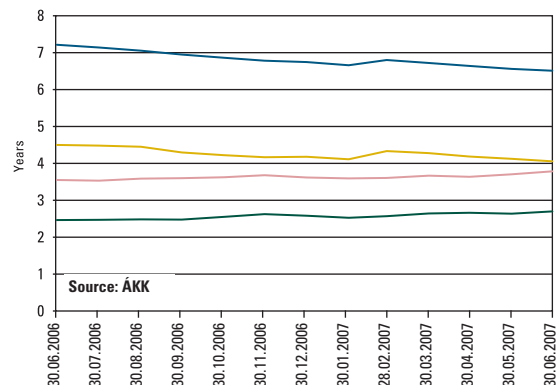
Maturity profile of the central government gross debt over the next 12 months, as at 30.06.2007 *



*Negative maturity is caused by reverse repos.

Government Bonds	Other debt
Discount Treasury Bills	Foreign exchange debt

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



Source: ÁKK

HUF debt average term-to-maturity	HUF debt duration
Foreign exchange debt average term-to-maturity	Foreign exchange debt duration

■ GOVERNMENT SECURITIES MARKET ■

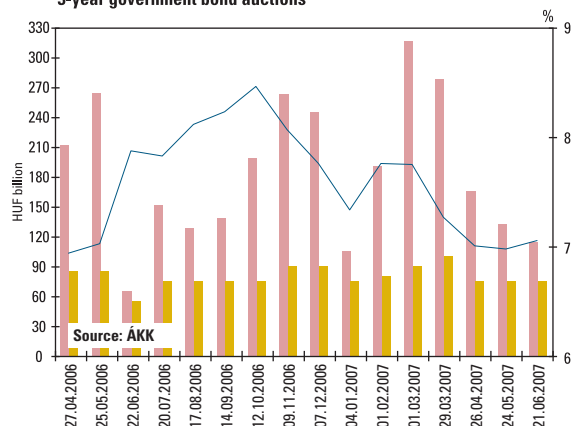
GOVERNMENT BOND AUCTION RESULTS

Government Bond	2012/B	2017/B	2010/C	2023/A	2012/B	2017/B	2010/C	2012/B	2017/B	2010/D	2023/A
ISIN code	HU0000402367	HU0000402375	HU0000402391	HU0000402383	HU0000402367	HU0000402375	HU0000402391	HU0000402367	HU0000402375	HU0000402409	HU0000402383
Maturity (in years)	5	10	3	15	5	10	3	5	10	3	15
Coupon (%)	7.25%	6.75%	6.75%	6.00%	7.25%	6.75%	6.75%	7.25%	6.75%	6.25%	6.00%
Auction	8. auction	8. auction	5. auction	3. auction	9. auction	9. auction	6. auction	10. auction	10. auction	1. auction	4. auction
Date of auction	12.04.2007	12.04.2007	26.04.2007	26.04.2007	10.05.2007	10.05.2007	24.05.2007	07.06.2007	07.06.2007	21.06.2007	21.06.2007
Date of financial settlement	18.04.2007	18.04.2007	02.05.2007	02.05.2007	16.05.2007	16.05.2007	30.05.2007	13.06.2007	13.06.2007	27.06.2007	27.06.2007
Date of redemption	12.06.2012	24.02.2017	12.04.2010	24.11.2023	12.06.2012	24.02.2017	12.04.2010	12.06.2012	24.02.2017	24.08.2010	24.11.2023
Maximum annual yield (%) - ISMA	6.87	6.64	7.05	6.41	6.73	6.50	7.03	6.98	6.79	7.12	6.60
Minimum annual yield (%) - ISMA	6.84	6.60	6.99	6.37	6.68	6.43	6.93	6.92	6.71	7.03	6.50
Average annual yield (%) - ISMA	6.86	6.62	7.03	6.39	6.71	6.48	7.00	6.96	6.76	7.08	6.56
Maximum annual yield (%) - EHM	6.86	6.63	7.04	6.41	6.72	6.49	7.02	6.97	6.78	7.11	6.60
Minimum annual yield (%) - EHM	6.83	6.59	6.98	6.37	6.67	6.42	6.92	6.91	6.70	7.02	6.50
Average annual yield (%) - EHM	6.86	6.62	7.02	6.38	6.70	6.47	7.00	6.95	6.76	7.07	6.55
Maximum price (%)	101.7268	101.0356	99.3687	96.2634	102.3857	102.2348	99.5203	101.3547	100.2329	97.8174	95.0209
Minimum price (%)	101.5988	100.7508	99.2146	95.8726	102.1734	101.7319	99.2688	101.1065	99.6761	97.5738	94.0700
Average price (%)	101.6250	100.8646	99.2637	96.0720	102.2504	101.9029	99.3361	101.2032	99.8676	97.6773	94.4525
Amount offered for sale (HUF million)	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	75,000.00	20,000.00
Amount of bids submitted (HUF million)	412,964.00	141,350.00	166,390.00	36,995.00	41,793.75	38,543.00	132,737.19	108,369.00	69,744.00	114,650.00	27,131.00
Amount of bids accepted (HUF million)	59,999.96	44,999.93	74,999.85	19,999.94	34,999.96	34,999.98	74,999.90	44,999.94	39,999.96	74,999.98	14,999.99
Bid-to-cover ratio	6.88	3.14	2.22	1.85	1.19	1.10	1.77	2.41	1.74	1.53	1.81
Bids submitted (pcs)	126	113	111	91	87	60	126	110	79	123	55
Bids accepted (pcs)	30	59	52	50	71	54	89	70	61	112	48
Tail (average price - minimum price)	0.03	0.11	0.05	0.20	0.08	0.17	0.07	0.10	0.19	0.10	0.38
Market sales* (HUF million)	59,999.96	44,999.93	74,999.85	19,999.94	34,999.96	34,999.98	74,999.90	44,999.94	39,999.96	74,999.98	14,999.99
Retained on ÁKK's own account (HUF million)	0.04	0.07	0.15	4,000.06	0.04	0.02	0.10	0.06	0.04	22,500.02	3,000.01
Total amount issued (HUF million)	60,000.00	45,000.00	75,000.00	24,000.00	35,000.00	35,000.00	75,000.00	45,000.00	40,000.00	97,500.00	18,000.00

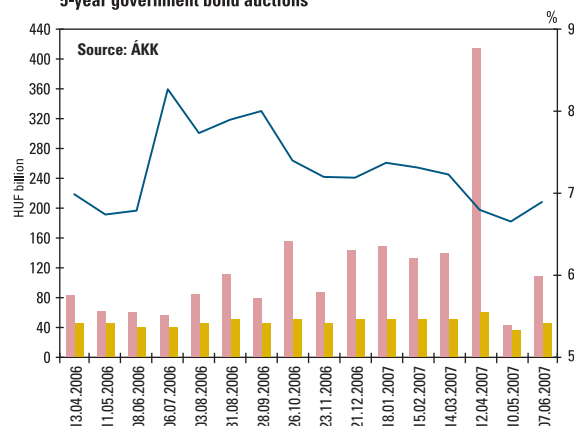
Without issuance onto ÁKK's own account.

Source: ÁKK

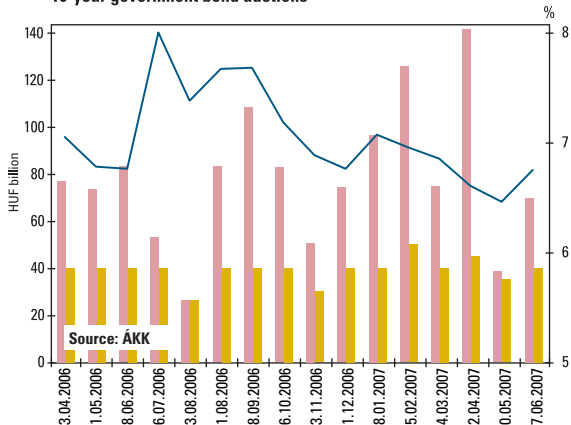
3-year government bond auctions



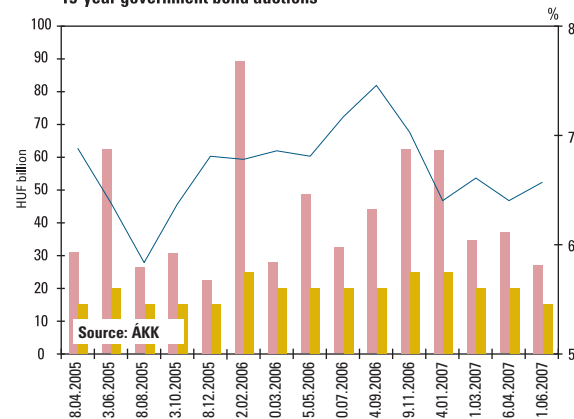
5-year government bond auctions



10-year government bond auctions



15-year government bond auctions



■ Bids submitted ■ Accepted amount — Average yield

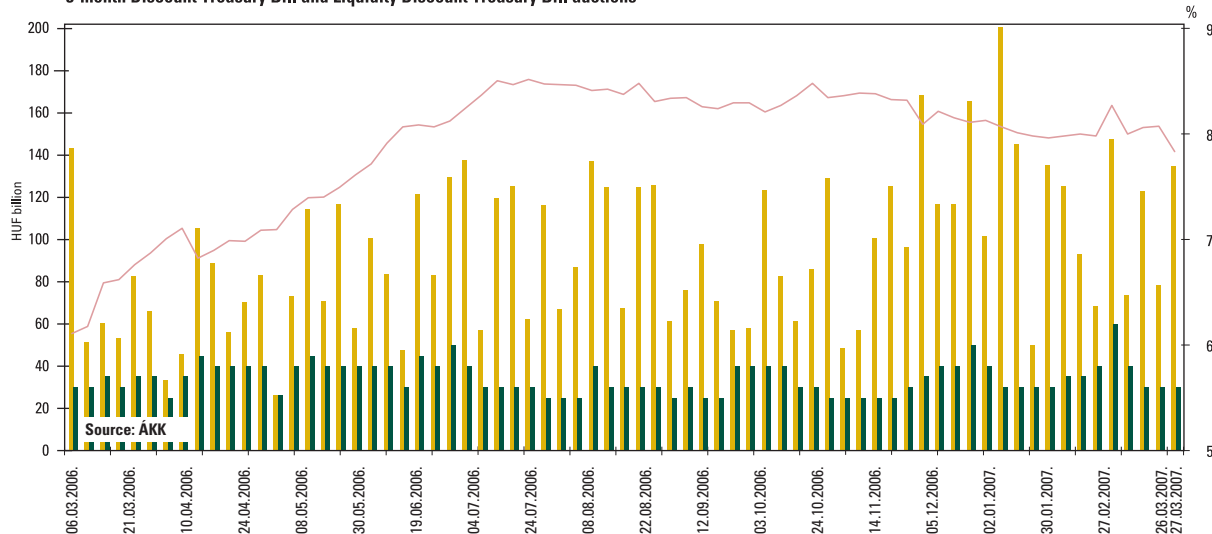
■ GOVERNMENT SECURITIES MARKET ■

GOVERNMENT BOND BUY-BACK AUCTION RESULTS

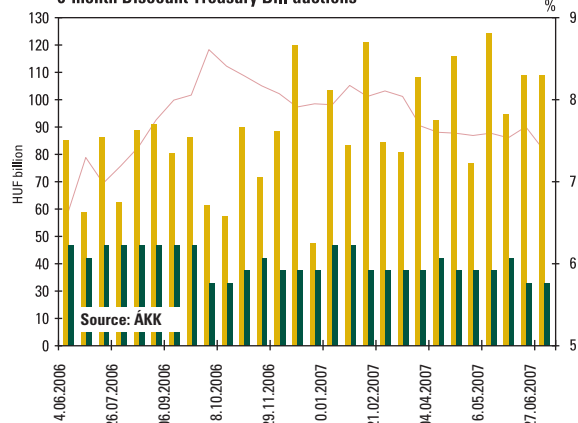
Government bond	2007/G	2008/D	2007/G	2008/D	2007/G	2008/D
ISIN code	HU0000402250	HU0000402276	HU0000402250	HU0000402276	HU0000402250	HU0000402276
Coupon (%)	9.25%	7.25%	9.25%	7.25%	9.25%	7.25%
Date of buy-back auction	25.04.2007	25.04.2007	09.05.2007	09.05.2007	23.05.2007	23.05.2007
Date of financial settlement	02.05.2007	02.05.2007	16.05.2007	16.05.2007	30.05.2007	30.05.2007
Date of redemption	12.10.2007	24.04.2008	12.10.2007	24.04.2008	12.10.2007	24.04.2008
Minimum annual yield (%)	7.70	7.35	7.60	7.26	7.64	7.30
Average annual yield (%) - ISMA	7.72	7.37	7.67	7.27	7.66	7.33
Amount of bids submitted (HUF million)	27,696.33	84,329.63	15,927.68	38,282.53	20,747.02	28,644.68
Amount of bids accepted (HUF million)	16,984.45	30,829.63	15,927.68	6,563.42	14,454.02	16,991.50
Bids submitted (pcs)	20	42	10	31	18	25
Bids accepted (pcs)	14	9	10	7	14	17

Source: ÁKK

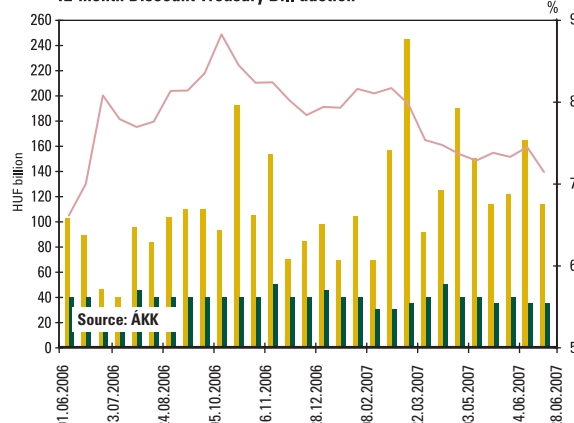
3-month Discount Treasury Bill and Liquidity Discount Treasury Bill auctions



6-month Discount Treasury Bill auctions



12-month Discount Treasury Bill auction



■ Bids submitted ■ Accepted amount ■ Average yield

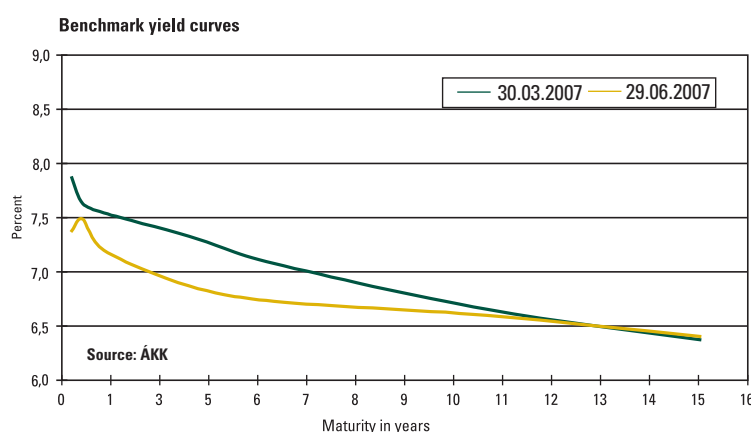
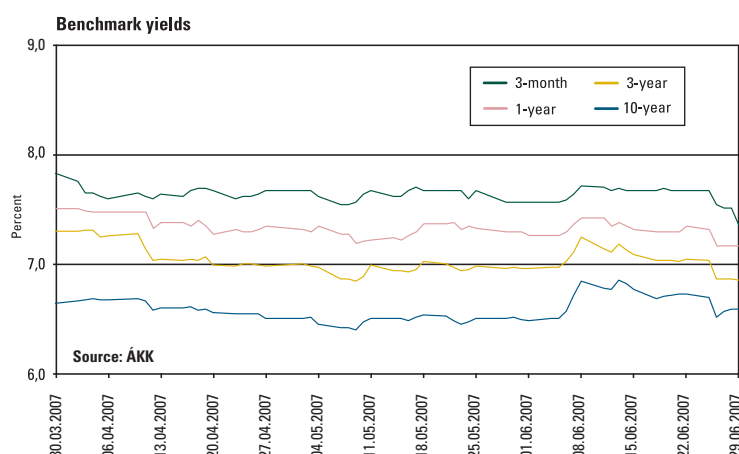
■ GOVERNMENT SECURITIES MARKET ■

DETERMINATION OF INTEREST RATE FOR FLOATING RATE GOVERNMENT BONDS IN Q2 2007

Government Bond	Date of determination rate reset	Interest period		Date of interest payment	Applicable interest rate (%)	Interest payable (%)
2026/B	23.04.2007	24.04.2007	24.10.2007	24.10.2007	7,88%	-
2026/C	23.04.2007	24.04.2007	24.10.2007	24.10.2007	7,88%	8,02%
2008/A	23.04.2007	24.04.2007	24.07.2007	24.07.2007	7,76%	-
2016/A	30.03.2007	31.03.2007	30.06.2007	02.07.2007	7,50%	1,87%
2014/A	27.04.2007	02.05.2007	02.11.2007	05.11.2007	7,90%	4,04%
2007/B	11.06.2007	12.06.2007	12.12.2007	12.12.2007	7,56%	3,84%
2013/C	19.06.2007	20.06.2007	20.12.2007	20.12.2007	7,90%	4,02%
2014/B	19.06.2007	20.06.2007	20.12.2007	20.12.2007	7,90%	4,02%

Source: ÁKK

* Determination of interest rate takes place quarterly, while payment of interest semiannually

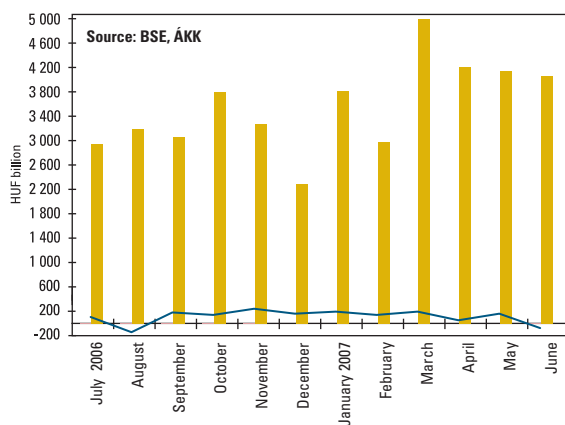


PRIMARY DEALERS - AS AT 30 JUNE 2007

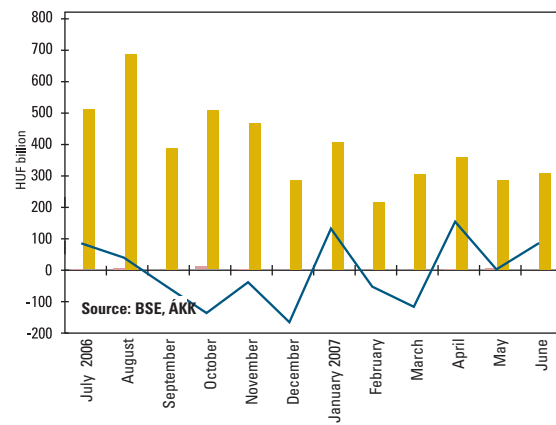
Primary dealers:		Primary dealers for retail securities:
CIB Bank Zrt.	ING Bank (Magyarország) Zrt.	CIB Bank Zrt.
CITIBANK Zrt.	Kereskedelmi és Hitelbank Nyrt.	UniCredit Bank Hungary Zrt.
Deutsche Bank Zrt.	MKB Bank Nyrt.	Kereskedelmi és Hitelbank Nyrt.
Dresdner Bank AG	Magyar Takarékszövetkezeti Bank Zrt.	Magyar Takarékszövetkezeti Bank Zrt.
ERSTE Bank Befektetési Magyarország Zrt.	Országos Takarékpénztár és Kereskedelmi Bank Nyrt.	Országos Takarékpénztár és Kereskedelmi Bank Nyrt.
UniCredit Bank Hungary Zrt.		The branch network of the Hungarian State Treasury

■ GOVERNMENT SECURITIES MARKET ■

Secondary market trading of government bonds

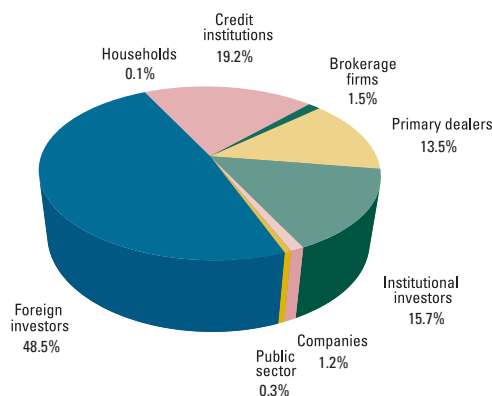


Secondary market trading of Discount Treasury Bills



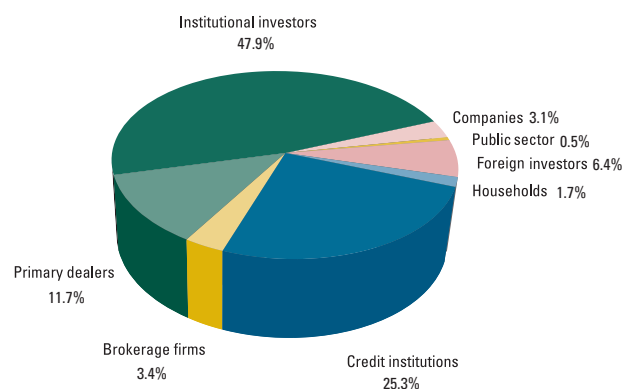
Stock Exchange (BSE) OTC Net issuance

Breakdown of primary dealers' secondary market turnover in government bonds by investor groups in Q2 2007



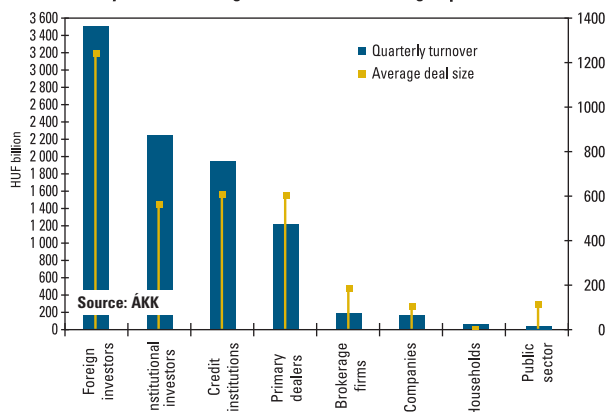
Source: ÁKK

Breakdown of primary dealers' secondary market turnover in Discount Treasury Bills by investor groups in Q2 2007



Source: ÁKK

Primary dealers' trading with different investor groups in Q2 2007

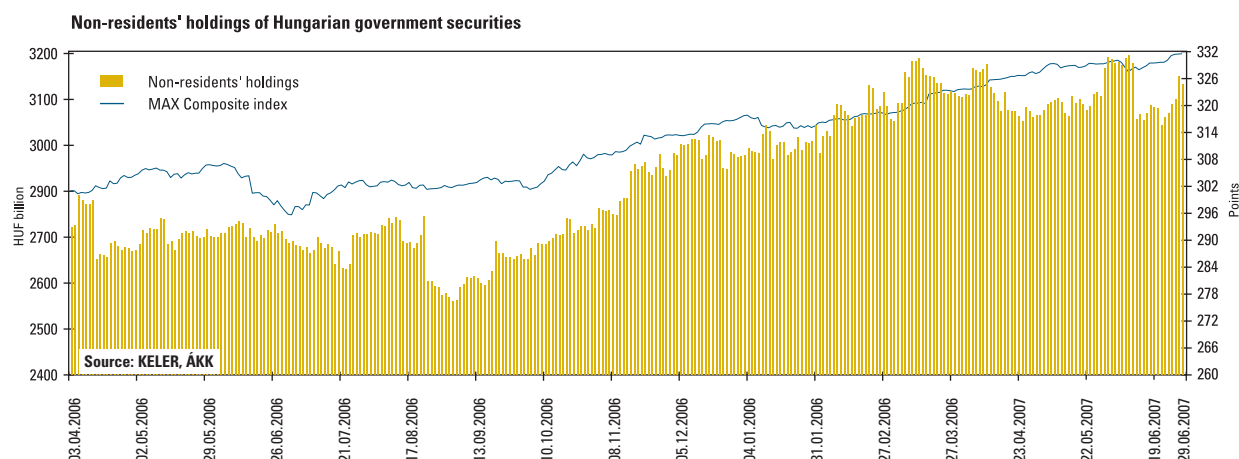


Government securities with the highest turnover on the secondary market in Q2 2007

Government security	Date of redemption	Turnover (HUF billion)
2012/B	12.06.2012	1 324,2
2010/C	12.04.2010	1 175,0
2009/F	12.08.2009	708,9
2017/B	24.02.2017	538,5
D080312	12.03.2008	459,5
2011/B	12.10.2011	408,5
2015/A	12.02.2015	384,9
2016/C	12.02.2016	379,1
D071121	21.11.2007	344,3
D080507	07.05.2008	290,4

Source: ÁKK

■ 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
30.03.2007	328.0946	321.5497	323.0965	323.7444	7.90%	7.26%	7.68%	7.48%
27.04.2007	332.3006	323.6789	326.9619	325.7959	7.89%	7.34%	7.71%	7.60%
31.05.2007	334.3761	325.6872	328.9946	327.9721	7.51%	7.40%	7.38%	7.73%
29.06.2007	336.3585	32.8594	330.9907	330.0169	12.59%	8.25%	11.72%	7.99%

Source: ÁKK

OUTSTANDING AMOUNT OF BENCHMARK GOVERNMENT BOND SERIES IN Q2 2007

Government Bond	HUF billion		
	30. 04. 2007	31. 05. 2007	30. 06. 2007
2010/C	346.59	496.68	497.03
2012/B	400.17	435.17	480.27
2017/B	325.06	360.07	400.10
2023/A	45.01	65.01	80.02

Source: ÁKK

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

