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GOVERNMENT DEBT MANAGEMENT AGENCY PTE LTD.

DEBT MANAGEMENT OUTLOOK

▪ 2008 ▪

CONTENTS

INTRODUCTION

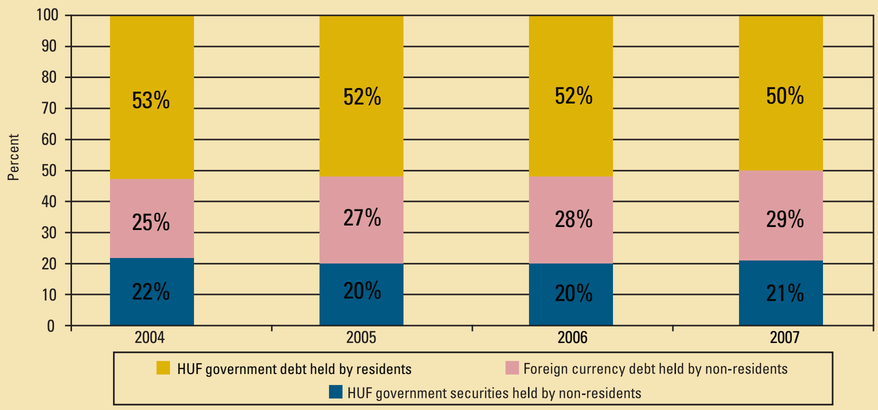
The Government Debt Management Agency Private Company Limited By Shares (ÁKK) is responsible for financing the central budget of the Republic of Hungary. The financing plan for the given year is based on the debt management strategy approved by the Minister of Finance. The aim of this publication is to inform investors, market participants and the general public about the strategy and the planned financing in the year 2008.

I. THE DEBT OF THE CENTRAL GOVERNMENT AT THE END OF 2007

The gross debt[1] of the central government grew by HUF 880 billion in 2007 and amounted to HUF 15,586 billion (61 per cent of GDP) at the end of the year. The growth was a result of net issuance of HUF 851 billion, the net effect of foreign exchange and repo transactions amounting to HUF 15 billion and exchange rate losses of HUF 14 billion.

At the end of 2007 72 per cent of total debt was denominated in Hungarian Forint and 28 per cent in euro. Non-resident investors owned 50% of total debt (29% in foreign currency and 21% in HUF), a share somewhat higher than in the previous year.

BREAKDOWN OF THE GOVERNMENT DEBT BY INVESTORS



Source: ÁKK

The domestic debt consisted predominantly of government securities (94% or HUF 14,584 billion), while loans made up 6% (or HUF 992 billion) and other liabilities[2] 0.1% (or HUF 9 billion) at the end of 2007. At the end of the year 75% of the domestic debt portfolio consisted of fixed rate elements, floating rate debt accounted for 25%. In the foreign currency denominated debt portfolio, the share of fixed rate debt was 67% and floating rate debt stood at 33%. The proportion of the fixed/floating elements in both the HUF and the foreign currency denominated debt were in line with the relevant benchmarks.

Average term-to-maturity of the HUF debt portfolio was 4.0 years at the end of 2007, while that of the foreign currency debt portfolio reached 6.1 years; the durations were 2.8 years and 3.8 years, respectively. Average interest rate of the debt was 6.26%, slightly lower than that of the previous year.

[1] This term refers to public debt managed by ÁKK, i.e. the debt of the central government, as defined in the Act on Public Finances and based on accounting data. It is different from the Maastricht debt, as it does not include the debt of the municipal sector.
[2] This category includes the marked-to-market deposits placed at ÁKK.

II. DEBT MANAGEMENT STRATEGY IN 2008

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 2008 as for 2007, 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 end-of-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.

The annual financing plan, which includes the financing of the deficit of the central government and the renewal of expiring debt, has been 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.

III. THE BORROWING REQUIREMENTS IN 2008

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.

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.
The planned deficit of the central government budget on a cash-flow basis - excluding privatisation revenues – is HUF 1,131 billion according to the 2008 Budget Act. The projected surplus of the Social Security funds is HUF 15 billion, while the annual surplus of the extrabudgetary funds is planned at HUF 5 billion. Total deficit of the central government calculated on a cash-flow basis is expected at HUF 1,111 billion, or 4.0% of the GDP.

Capital transfers to the NBH are planned at HUF 3 billion, prefinancing of European Union transfers at HUF 103 billion, and privatisation revenues at HUF 34 billion. Altogether the total net borrowing requirement equals to HUF 1,183 billion.
The central government deficit is planned to declines compared to the previous year, however the total net borrowing needs may be higher due to the higher pre-financing of EU subsidies.

III. The borrowing requirements in 2008

HUF billion

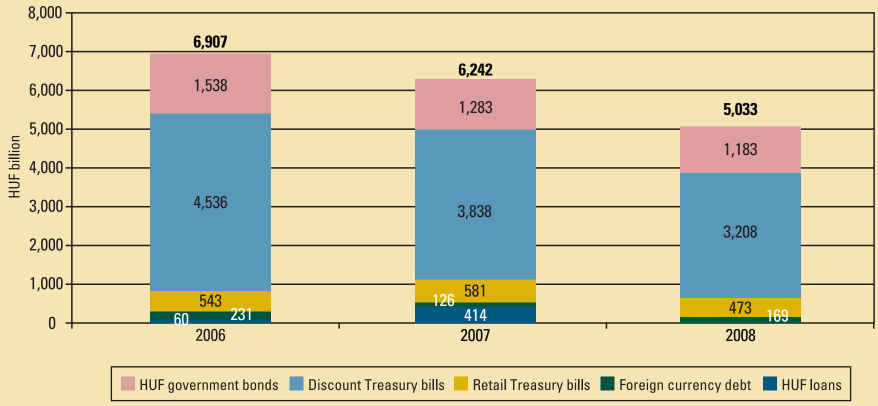
	2007[1]	2008[2]
Deficit of the central government (excluding privatisation revenues, including debt assumptions)	1389.9	1131.0
Of which: debt assumptions	58.2	0.0
Financing requirement of the Social Security funds	-35.6	-15.0
Financing requirement of the extrabudgetary funds	-62.9	-4.9
Net borrowing requirement	1,291.4	1,111.2
Capital transfers to the NBH	20.6	2.8
Privatisation revenues	-67.3	-33.9
Net pre-financing of direct European Union subsidies	-152.9	102.8
Total net borrowing requirement	1091.8	1182.9

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

III. 2. REDEMPTIONS

Gross debt redemptions are projected to total HUF 5,033 billion in 2008, some 19% lower than in 2007. Domestic and foreign currency debt redemptions will reach HUF 4,864 billion and HUF 169 billion respectively.

BREAKDOWN OF TOTAL REDEMPTION BY DEBT INSTRUMENTS



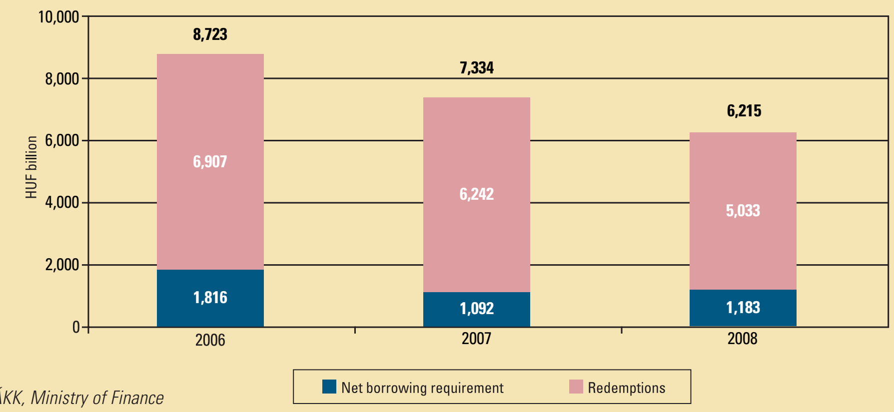
Source: ÁKK

Discount T-bills – due to their frequent renewal – have a high share in total debt redemptions. However, in 2008 there is a significant drop (HUF 630 billion) in T-bill issuance due to their changing role in financing. With a declining budget deficit, the importance of short-term debt can be substantially reduced. Domestic government bond redemptions will also decrease by HUF 100 billion (8%), while foreign currency debt maturities will be small, though somewhat higher than in the previous year.

III. 3. THE GROSS BORROWING REQUIREMENT

Due to the significant decline of debt redemptions by HUF 1,210 and the small increase of the net financing requirement by HUF 91 billion, the gross borrowing requirement will drop by more than HUF 1,100 billion compared to 2007.

BREAKDOWN OF THE GROSS BORROWING REQUIREMENT



Source: ÁKK, Ministry of Finance

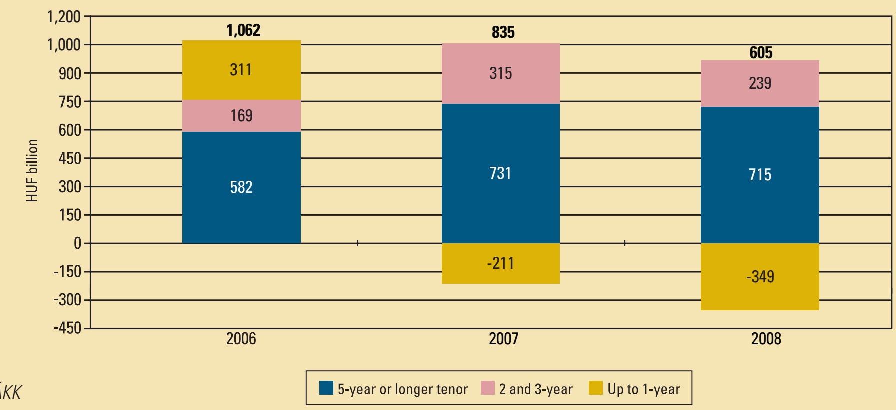
IV. FINANCING IN 2008

IV. 1. PLANNED NET ISSUANCE IN 2008

The total net issuance in 2008 is planned at HUF 1,120 billion. Net domestic issuance is expected at HUF 730 billion (65 per cent) and net foreign currency denominated issuance at HUF 389 billion (35 per cent).

The total net HUF denominated government securities issuance is HUF 605 billion. Out of this amount bonds with a tenor of 5 years or longer will play a dominant role (HUF 715 billion), the volume of 2- and 3-year securities is expected to increase less (HUF 239 billion), while the volume of short-term securities will decline by HUF 349 billion, decreasing the relatively high share of short-term debt in the portfolio.

NET DOMESTIC GOVERNMENT SECURITIES ISSUANCE - BREAKDOWN BY TENOR



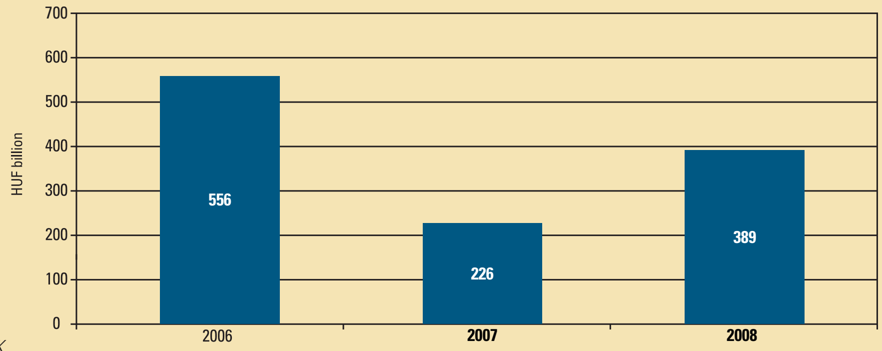
Source: ÁKK

The total stock of short-term government securities will decrease in 2008. The outstanding volume of retail government securities is planned to remain unchanged.[3]

The net issuance of foreign currency debt in 2008 is projected at HUF 389 billion or EUR 2.2 billion, being the sum of government securities issuance and project financing loans from International Financial Institutions. The exact composition will be decided upon considering the market conditions (IFI loans can be drawn either in EUR or in HUF).

[3] Considering the adverse market sentiment in the first months of 2008 the issuance of T-bonds will temporarily decline while T-bills issuance will increase. The size of this temporary adjustment is planned about HUF 170 billion and will last till the middle of the year. Upon the consolidation of the market the issuer plan to return to the original financing structure.

NET FOREIGN CURRENCY DENOMINATED ISSUANCE



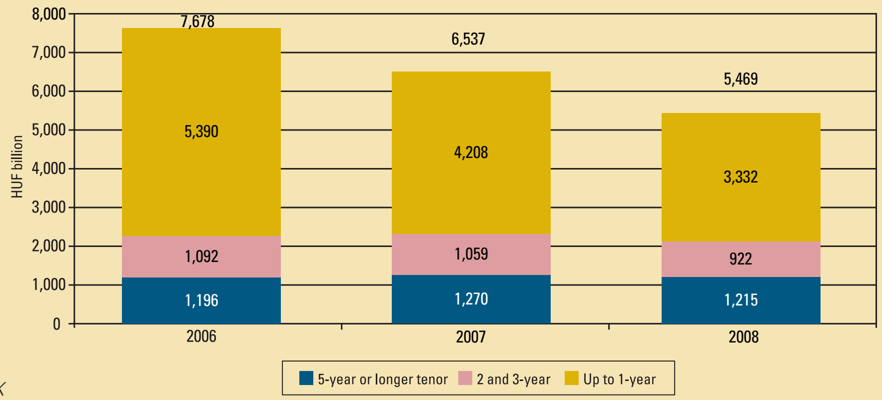
Source: ÁKK

IV. 2. GROSS ISSUANCE IN 2008

The total gross issuance planned for 2008 is HUF 6,152 billion. Domestic issuance is planned at HUF 5,594 billion (91 per cent), while foreign currency denominated borrowing will reach HUF 558 billion (9 per cent). The difference between the gross issuance and the gross borrowing requirement will decrease the high 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 2008. HUF loan transactions are planned only from International Financial Institutions.

GROSS DOMESTIC MARKET GOVERNMENT SECURITIES ISSUANCE

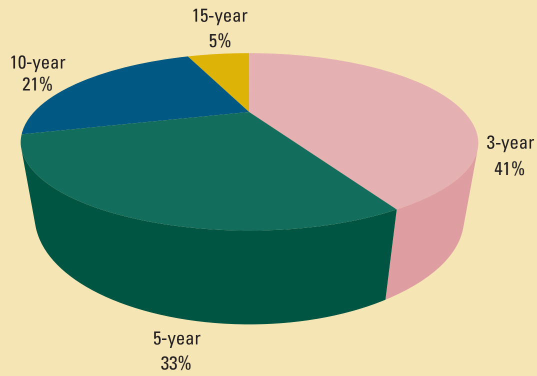


Source: ÁKK

HUF DENOMINATED GOVERNMENT SECURITIES AUCTIONS

Government bonds will be issued via auctions in an amount of HUF 2,055 billion (ca. EUR 8 billion). The share of the 5-year tenor will rise, however the role of the 3-year segment will decrease slightly, as a reaction to the expected evolution of market demand:

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 2008

Tenor	Number of series auctioned	Total amount sold (HUF bn)
3-year	2	840
5-year	2	675
10-year	1	440
15-year	1	100
Total	6	2,055

Source: ÁKK

In order to ensure a liquid secondary market, the size of the 3-year bond series will reach EUR 2 billion (HUF 500 billion), that of the 5 and 10-year bond series will reach EUR 3 billion (HUF 750 billion); and the size of the 15-year bond will reach more than EUR 1 billion (HUF 260 billion). The issuance of a bond series is not limited to a specific calendar year and the higher target size will mean usually a longer sales period for each series. In order to help develop the secondary market the number of government bond auctions will be reduced in the auction calendar. Instead of selling 2 maturities at a bond auction, in 2008 only one bond will be offered (except for of the 15 year bond). Bond auctions will be held every second Thursday as in 2007, however, each maturity will be offered only every 6 week with the exception of the 15-year maturity sold every 12 week together with the 3-year bond. The new auction calendar includes only 30 bond auctions a year instead of 46. (See chapter VIII. for details.)

The discount Treasury bill auction calendar will also change. The smaller stock of short-term securities will provide the opportunity to streamline the product line. Starting from July 2008 the 6-month will be phased out and discount Treasury bills only with 3 and 12 months maturity will be offered regularly. The issuance of discount T-bills with less than 3-month (generally 6-week) tenor will serve liquidity management purposes; auctions will be announced on an ad hoc basis as required by the short-term liquidity needs. Less maturity offered will mean lower total sum of T-bill auctions. In 2008 the number of auctions will decline from 104 to 78. (See Chapter VIII. for details.)

RETAIL SECURITIES

The outstanding stock of retail government securities – an alternative source of financing for the government – is planned to 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 555 billion (ca. EUR 2.2 billion).

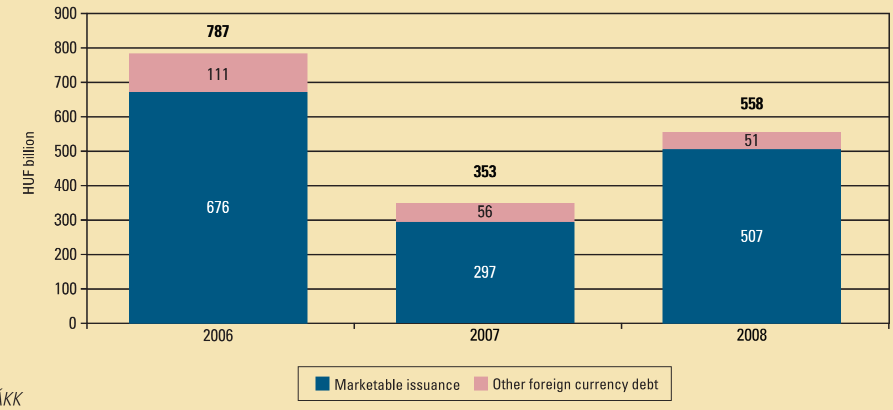
FOREIGN CURRENCY ISSUANCE

Financing in foreign currency is executed through borrowing from international capital markets and drawing down project financing loans from International Financial Institutions. The principles of international capital market financing are the following:

- 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, a gross issuance of EUR 2.2 billion is planned in foreign currencies in 2008. The size of the total international capital market issuance will not exceed EUR 2 billion depending on market conditions; the remainder will be covered by project financing loans. ÁKK plans to have access to a total EUR 700 million of project financing loans in 2008, which may be drawn down either in EUR or HUF. The actual composition will be decided according to the evolution of the annual financing plan.

GROSS FOREIGN CURRENCY DENOMINATED ISSUANCE



Source: ÁKK

Unlike previous years, the timing of foreign currency bond issuance will be much more flexible in 2008. As a guideline, about half of the annual amount may be realised in the first half of 2008. While terms and conditions of the individual bonds will be decided in line with prevailing market conditions, the currency composition and the fixed-floating mix of the portfolio will be set in accordance with the benchmarks by using hedging transactions (swaps).

V. LIQUIDITY MANAGEMENT

The secure financing of the central government is supported by an optimal level of cash reserves on the Single Treasury Account (STA) with the aim of limiting the liquidity risk. The objective of liquidity management is to keep the balance of the STA in a HUF +/- 50 billion range around this optimal 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 according to the actual liquidity needs (3 and 12-month).

VI. SUMMARY

Due to the smaller central government deficit and lower amount of redemptions the gross issuance will decline significantly in 2008 compared to the previous year. The smaller issuance will mostly affect short-term securities. Within the gross issuance the ratio of HUF and foreign currency denominated financing will slightly change in 2008, shifting towards foreign currency issuance, however, the 35 per cent weight of foreign currency-denominated financing is still in line with the announced benchmarks. Government bonds will remain the main financing instruments, with an expected issuance of HUF 2,644 billion, out of which 81 per cent will be denominated in HUF, 19 per cent in foreign currency.

PLANNED BREAKDOWN OF GROSS AND NET ISSUANCE IN 2008

HUF billion

	Government bonds (capital market)	T-bills	Loans	Total
Gross issuance	2,644	3,332	176	6,152
HUF	2,137	3,332	126	5,594
Foreign currency	507	0	51	558
Net issuance	1,461	-349	7	1,120
HUF	954	-349	125	730
Foreign currency	507	0	-118	389

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, shall be securely reached.

VII. FURTHER INFORMATION

The financing plan and the present publication are based on information available in January 2008. Therefore the data on the year 2007 are still considered as preliminary and the projections for 2008 are subject to changes according to the outturn of the borrowing requirement and market demand. 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 requirement 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 2008

Tenor	Date of auction	Date of settlement	Date of maturity*
3-year	03.01.2008	09.01.2008	22.04.2011
	14.02.2008	20.02.2008	22.04.2011
	27.03.2008	02.04.2008	22.04.2011
	08.05.2008	14.05.2008	22.04.2011
	19.06.2008	25.06.2008	22.04.2011
	31.07.2008	06.08.2008	24.08.2011
	11.09.2008	17.09.2008	24.08.2011
	22.10.2008	29.10.2008	24.08.2011
	04.12.2008	10.12.2008	24.08.2011

Tenor	Date of auction	Date of settlement	Date of maturity*
5-year	17.01.2008	23.01.2008	24.10.2012
	28.02.2008	05.03.2008	24.10.2012
	10.04.2008	16.04.2008	24.10.2012
	22.05.2008	28.05.2008	24.10.2012
	03.07.2008	09.07.2008	24.10.2012
	14.08.2008	21.08.2008	24.10.2012
	25.09.2008	01.10.2008	20.12.2013
	06.11.2008	12.11.2008	20.12.2013
	18.12.2008	23.12.2008	20.12.2013

Tenor	Date of auction	Date of settlement	Date of maturity*
10-year	31.01.2008	06.02.2008	24.06.2019
	13.03.2008	19.03.2008	24.06.2019
	24.04.2008	30.04.2008	24.06.2019
	05.06.2008	11.06.2008	24.06.2019
	17.07.2008	23.07.2008	24.06.2019
	28.08.2008	03.09.2008	24.06.2019
	09.10.2008	15.10.2008	24.06.2019
	20.11.2008	26.11.2008	24.06.2019

Tenor	Date of auction	Date of settlement	Date of maturity*
15-year	14.02.2008	20.02.2008	24.11.2023
	08.05.2008	14.05.2008	24.11.2023
	31.07.2008	06.08.2008	24.11.2023
	22.10.2008	29.10.2008	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 2008

Tenor	Code	Date of auction	Date of settlement	Date of maturity
6 month	D080604	27.12.2007	02.01.2008	04.06.2008
	D080730	09.01.2008	16.01.2008	30.07.2008
	D080730	23.01.2008	30.01.2008	30.07.2008
	D080730	06.02.2008	13.02.2008	30.07.2008
	D080730	20.02.2008	27.02.2008	30.07.2008
	D080924	05.03.2008	12.03.2008	24.09.2008
	D080924	19.03.2008	26.03.2008	24.09.2008
	D080924	02.04.2008	09.04.2008	24.09.2008
	D080924	16.04.2008	23.04.2008	24.09.2008
	D081119	30.04.2008	07.05.2008	19.11.2008
	D081119	14.05.2008	21.05.2008	19.11.2008
	D081119	28.05.2008	04.06.2008	19.11.2008
	D081119	11.06.2008	18.06.2008	19.11.2008

Tenor	Code	Date of auction	Date of settlement	Date of maturity
12 month	D081217	27.12.2007	02.01.2008	17.12.2008
	D081217	10.01.2008	16.01.2008	17.12.2008
	D081217	24.01.2008	30.01.2008	17.12.2008
	D090128	07.02.2008	13.02.2008	28.01.2009
	D090128	21.02.2008	27.02.2008	28.01.2009
	D090128	06.03.2008	12.03.2008	28.01.2009
	D090128	20.03.2008	26.03.2008	28.01.2009
	D090408	03.04.2008	09.04.2008	08.04.2009
	D090408	17.04.2008	23.04.2008	08.04.2009
	D090408	30.04.2008	07.05.2008	08.04.2009
	D090408	15.05.2008	21.05.2008	08.04.2009
	D090603	29.05.2008	04.06.2008	03.06.2009
	D090603	12.06.2008	18.06.2008	03.06.2009
	D090603	26.06.2008	02.07.2008	03.06.2009
	D090603	10.07.2008	16.07.2008	03.06.2009
	D090729	24.07.2008	30.07.2008	29.07.2009
	D090729	07.08.2008	13.08.2008	29.07.2009
	D090729	21.08.2008	27.08.2008	29.07.2009
	D090729	04.09.2008	10.09.2008	29.07.2009
	D090923	18.09.2008	24.09.2008	23.09.2009
	D090923	02.10.2008	08.10.2008	23.09.2009
	D090923	16.10.2008	22.10.2008	23.09.2009
	D090923	30.10.2008	05.11.2008	23.09.2009
	D091118	13.11.2008	19.11.2008	18.11.2009
	D091118	27.11.2008	03.12.2008	18.11.2009
	D091118	11.12.2008	17.12.2008	18.11.2009
	D091118	23.12.2008	31.12.2008	18.11.2009

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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