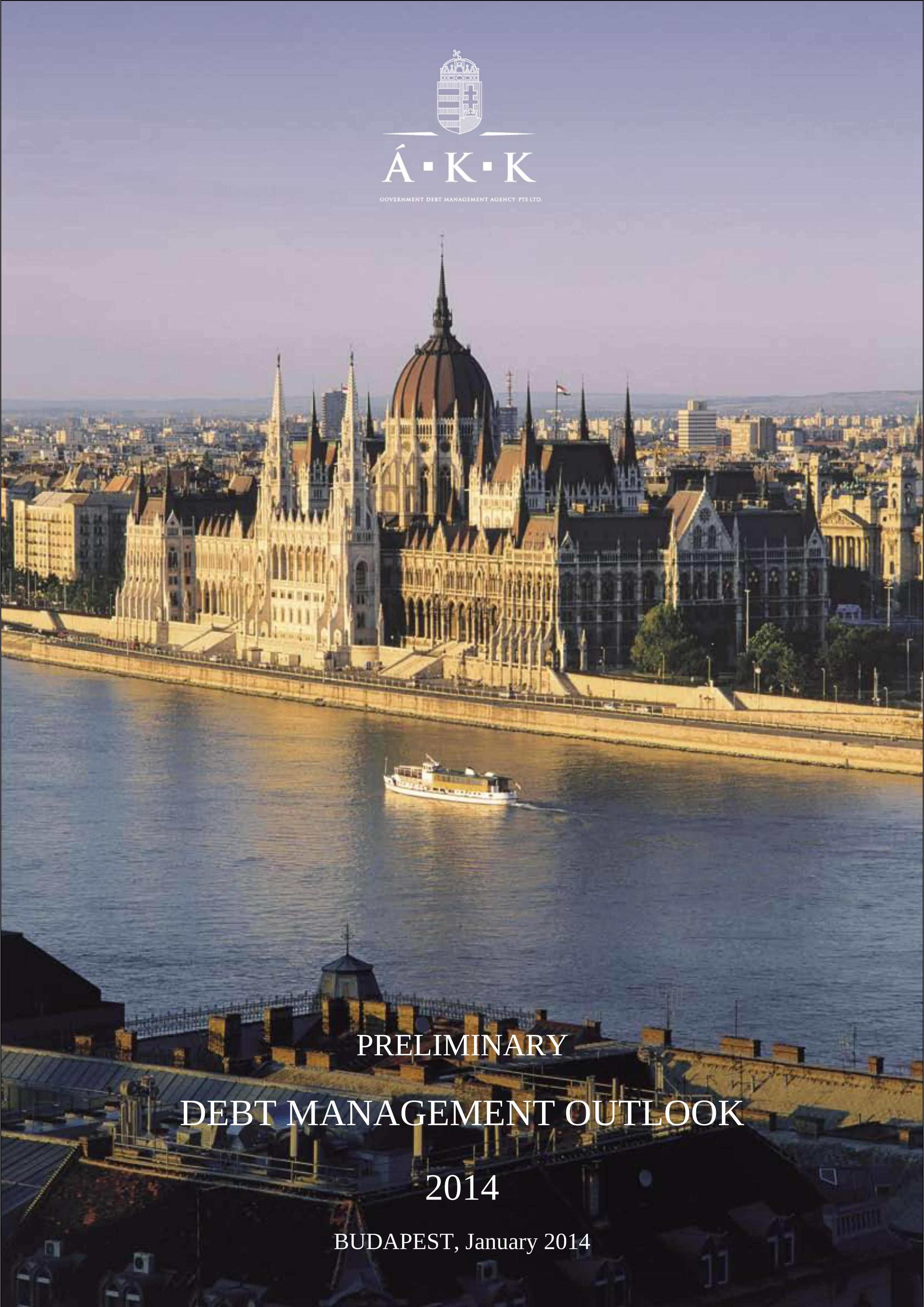

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GOVERNMENT DEBT MANAGEMENT AGENCY PTE LTD.

PRELIMINARY

DEBT MANAGEMENT OUTLOOK

2014

BUDAPEST, January 2014

Contents

1. Net financing requirements in 2014

The deficit of the central government is the sum of the balances of the central government budget, the social security funds and the extra-budgetary funds. The deficit of the central government calculated on a ***cash-flow basis*** is planned at **HUF 985 billion**, equaling to 3.2% of the GDP.

The total cash-flow based net financing requirement for the year 2014 is equal to the deficit of the central government and it will amount to **HUF 985 billion.**

Cash-flow based financing requirements in 2014 (plan)

	HUF billion
Balance of the central government budget	-962
Balance of the social security funds	0
Balance of the extra-budgetary funds	-23
Net financing requirement of the central government	**-985**
Total net financing requirement	**-985**

2. Government debt redemptions

The total amount of government debt redemptions in 2014 is planned at **HUF 5,961 billion**.[1] The redemption of domestic currency debt will amount to **HUF 4,365 billion**, of which domestic bonds account for HUF 999 billion, discount T-bills for HUF 1,900 billion, retail government securities for HUF 1,361 billion and HUF loans for HUF 105 billion.

	HUF billion	In EUR billion
Domestic redemptions	4,365	14.7
T-bonds	999	3.4
Retail securities	1,361	4.6
Discount T-bills	1,900	6.4
Loans	105	0.4
FX redemptions	1,596	5.4
T-bonds	802	2.7
EC loans	594	2.0
IFI and other loans	200	0.7
Total	5,961	20.1

(at 296,9 HUF/EUR exchange rate)

[1] ÁKK provides gross issuance and redemption data according to the methodology recommended by OECD which takes redemptions of short-term securities - typically Treasury bills - only once into account avoiding multiple counting.

Foreign currency debt redemptions are expected to be **HUF 1,596 billion** (**EUR 5.4 billion**), out of which international bond redemptions will amount to EUR 2.7 billion, European Commission's loan redemptions will be EUR 2.0 billion, while the redemption of IFI and other loans will amount to EUR 0.7 billion. EUR 1.5 billion foreign currency debt redemptions were already pre-financed in 2013.

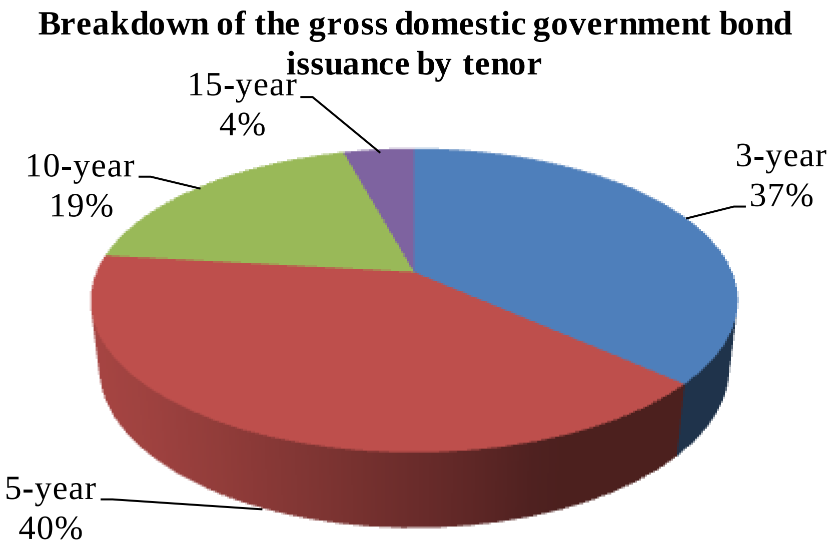
3. Gross issuance

Total gross issuance is planned at **HUF 6,902 billion** in 2014, of which 80 per cent (or **HUF 5,550 billion**) will be in domestic currency and 20 per cent (**HUF 1,352 billion** or EUR 4.6 billion) will be in foreign currencies.

	HUF billion	In EUR (billion)
Gross issuance		
Domestic debt	5,550	18.7
T-bonds	1,705	5.7
Retail securities	1,781	6.0
Discount T-bills	2,064	7.0
FX currency debt	1,352	4.6
International bonds	980	3.3
Domestic FX bonds*	120	0.4
IFIs loans	252	0.9
Total	6,902	23.2

* Residence Bond and Premium Euro Hungarian Government Bond

HUF 1,705 billion worth of Hungarian Forint government bonds will be offered at auctions, with a breakdown by tenor similar to that of the previous year.



The planned issuance of HUF-denominated government bonds are as follows:

Tenor	Issuance (HUF billion)
3-year (fixed)	625
5-year (floater)	60
5-year	625
10-year	323
15-year	72
Total	1,705

ÁKK will launch a new 3-year and a 10-year bond series, while for the 5-year tenor an off-the-run bond will be reopened and for the 15-year tenor the current benchmark bond will be offered. The floating rate bond will be offered once a month together with the 1-year discount Treasury–bill. The issuance calendar includes only the dates of bond auctions. ÁKK will decide on the actual bond series and the amounts offered after consultations with Primary Dealers in the week of the auction. However, the current practice, i.e. regular simultaneous sales of the 3, 5 and 10-year bonds is likely to be continued in 2014 and the 15 year bond may be offered bi-monthly or quarterly replacing the 10 year bond. ÁKK will hold both bond-buyback and exchange auctions – similar to the practice followed from 2010 – in order to support a balanced government bond issuance pattern as well as to manage the maturity profile and to reduce the refinancing risk of the bond portfolio.

Foreign currency issuance in the international capital markets is planned in a total amount **of HUF 980 Billion (EUR 3.3 billion)**. The currency, tenor and timing of the issues will be determined in accordance with the prevailing market conditions. ÁKK intends to drawdown project financing loans totaling EUR 0.85 billion in foreign currency. The issuance of the Residence Bond and the domestic Premium Euro Hungarian Government Bond will expectedly amount to EUR 0.4 billion. Foreign currency redemptions are covered mainly by foreign currency issuance (including the pre-financing in 2013) and to a smaller extent by domestic currency denominated issuance.

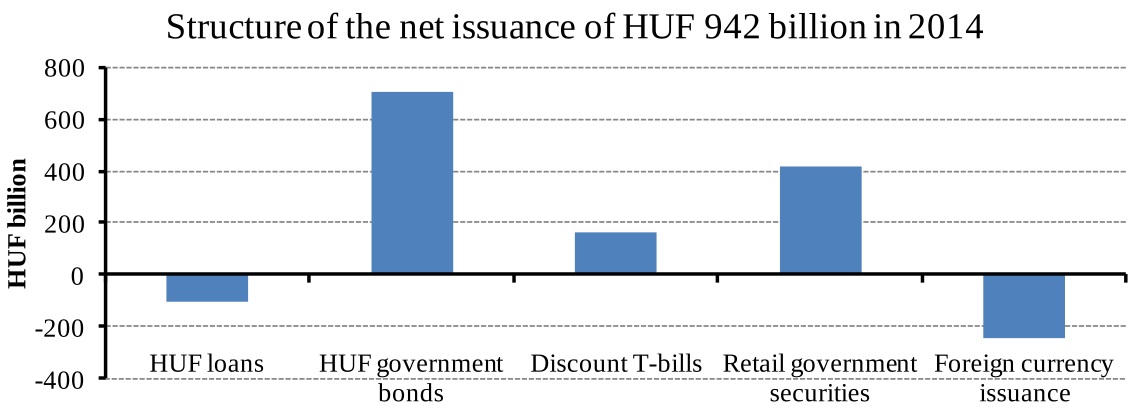
4. Net issuance

Net government debt issuance is planned in an amount of **HUF 942 billion**, out of which domestic debt issuance will reach **HUF 1185 billion** (or 126 per cent of total), and net foreign currency borrowing will amount to **HUF -243 billion** (EUR -0.8 billion).

ÁKK will monitor closely the market and will decide on the amounts accepted at auctions according to the demand. Net financing requirements exceeding the net issuance will be financed from liquidity reserves.

Out of the net domestic government securities issuance net bond issuance will be HUF 706 billion and net discount T-bill issuance will amount to HUF 164 billion, while the stock of retail government securities will increase by HUF 420 billion. Net redemptions of HUF loans will be HUF 105 billion.

The total foreign currency redemption will amount to EUR 5.4 billion. The gross foreign currency issuance is planned at EUR 4.6 billion, thus **the net foreign currency issuance is expected to amount EUR -0.8 billion in 2014**.



5. Debt management strategy

ÁKK's main objective is to finance the central government at the lowest costs in the long run taking account of risks. This objective is quantified by setting benchmarks, which are in part based on an optimal portfolio model using Value-at-Risk (VaR) and Cost-at-Risk (CaR) for taking into account both costs and risks. ÁKK has determined the following benchmark values for government debt management in 2014:

- ***Share of foreign currency debt:*** The share of the foreign currency denominated debt within the total central government debt should be below 45 per cent and declining. The actual ratio of foreign currency debt was 40 per cent at the end of 2013.

- ***Currency mix of the foreign currency denominated debt:*** In order to mitigate cross-currency exchange rate risk, foreign currency obligations after swaps should be 100% in EUR, allowing for a 5% deviation from this target.

- ***Fixed / floater composition:*** Within the **HUF debt**, the share of the fixed rate elements should be in the range of 61-83%, that of floating rate debt, which includes all short-term debt, between 17% and 39%. Within the **foreign currency denominated debt**, the optimal share of fixed rate debt is 66%, with a 5% tolerance band.

- ***Duration:*** In order to keep an acceptable level of refinancing risk, the Macaulay duration of the HUF debt portfolio is targeted at 2.5 years +/- 0.5 year.

- ***Liquidity:*** So as to maintain a continuously safe level of cash funds in the Single Treasury Account (STA), a minimal target STA balance has been determined and ÁKK's objective is to keep the end-of-day STA balance over the minimal level. Besides this safety cushion in HUF ÁKK also maintains foreign currency deposits to increase liquidity reserves.

In the case of the first five benchmark values ÁKK takes into account their 3-month moving average values, to avoid unnecessary reaction to one-off or temporary market movements that actually would not need a response in the medium or longer term.

6. Further information

This Debt Management Outlook was compiled based on information available in the beginning of January 2014. Thus the projected figures for 2014 may change according to the outturn of the financing needs and debt issuances. Even though the structure of financing may change compared to the plans, the issuance calendar is fixed (see next chapter), and ÁKK will not change the set of instruments used, its strategic objectives and its strategic behavior in the markets either.

ÁKK's website (www.akk.hu, www.gdma.hu) and its regular publications and reports (monthly and quarterly publications; monthly report on debt transactions) provide updated information on the financing needs, the debt transactions and the government debt. ÁKK also discloses until the 15th of each month the detailed domestic market issuance plan for the next 3 months, which shows the amounts to be issued for each tenor.

7. Issuance calendar

Issuance calendar of fixed rate government bonds in 2014

Date of auction	Date of settlement
09.01.2014	15.01.2014
23.01.2014	29.01.2014
06.02.2014	12.02.2014
20.02.2014	26.02.2014
06.03.2014	12.03.2014
20.03.2014	26.03.2014
03.04.2014	09.04.2014
17.04.2014	23.04.2014
01.05.2014	07.05.2014
15.05.2014	21.05.2014
29.05.2014	04.06.2014
12.06.2014	18.06.2014
26.06.2014	02.07.2014
10.07.2014	16.07.2014
24.07.2014	30.07.2014
07.08.2014	13.08.2014
21.08.2014	27.08.2014
04.09.2014	10.09.2014
18.09.2014	24.09.2014
02.10.2014	08.10.2014
16.10.2014	22.10.2014
30.10.2014	05.11.2014
13.11.2014	19.11.2014
27.11.2014	03.12.2014
11.12.2014	17.12.2014
23.12.2014	31.12.2014

Issuance calendar of floating rate government bonds in 2014

Date of auction	Date of settlement
16.01.2014	22.01.2014
13.02.2014	19.02.2014
13.03.2014	19.03.2014
10.04.2014	16.04.2014
08.05.2014	14.05.2014
05.06.2014	11.06.2014
03.07.2014	09.07.2014
31.07.2014	06.08.2014
28.08.2014	03.09.2014
25.09.2014	01.10.2014
06.11.2014	12.11.2014
04.12.2014	10.12.2014

Issuance calendar of discount treasury bills in 2014

12-mont discount T-bills

Code	Date of auction	Date of settlement	Date of maturity
D141126	02.01.2014	08.01.2014	26.11.2014
D141126	16.01.2014	22.01.2014	26.11.2014
D150121	30.01.2014	05.02.2014	21.01.2015
D150121	13.02.2014	19.02.2014	21.01.2015
D150121	27.02.2014	05.03.2014	21.01.2015
D150121	13.03.2014	19.03.2014	21.01.2015
D150401	27.03.2014	02.04.2014	01.04.2015
D150401	10.04.2014	16.04.2014	01.04.2015
D150401	24.04.2014	30.04.2014	01.04.2015
D150401	08.05.2014	14.05.2014	01.04.2015
D150527	22.05.2014	28.05.2014	27.05.2015
D150527	05.06.2014	11.06.2014	27.05.2015
D150527	19.06.2014	25.06.2014	27.05.2015
D150527	03.07.2014	09.07.2014	27.05.2015
D150722	17.07.2014	23.07.2014	22.07.2015
D150722	31.07.2014	06.08.2014	22.07.2015
D150722	14.08.2014	21.08.2014	22.07.2015
D150722	28.08.2014	03.09.2014	22.07.2015
D150916	11.09.2014	17.09.2014	16.09.2015
D150916	25.09.2014	01.10.2014	16.09.2015
D150916	09.10.2014	15.10.2014	16.09.2015
D150916	22.10.2014	29.10.2014	16.09.2015
D151111	06.11.2014	12.11.2014	11.11.2015
D151111	20.11.2014	26.11.2014	11.11.2015
D151111	04.12.2014	10.12.2014	11.11.2015
D151223	18.12.2014	23.12.2014	23.12.2015

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 Monday with settlement on Wednesday.