PRESS RELEASE

As the minister of national economy emphasized on the occasion of the nomination of the Government Debt Management Agency's new Chief Executive Officer, a central objective of the government's financial policy they pay special attention to is regaining credibility. At the staff meeting of the GDMA held to announce the appointment of Gyula Pleschinger, György Matolcsy added that next year's planned budget deficit of below 3% of the GDP the Hungarian government will achieve without further restrictions by the help of the financial sector tax, an expected economic growth rate of 2.5%, a cheaper state apparatus and structural reforms, as well as by the rationalization of state companies. Speaking of 2010, György Matolcsy also confirmed that the deficit target of 3.8% will be met, and next year it will be down below 3%.

THE FINANCING OF THE CENTRAL GOVERNMENT AND PUBLIC DEBT MANAGEMENT IN 2010-2011

1. The Financing of the Central Government in 2010

The total net financing needs in 2010 – taking into consideration the deficit of the central government, privatization revenues and the net transfer position with the European Union – amount to HUF 1,034 billion (EUR 3.7 billion). Net issuance is planned at HUF 472 billion (EUR 1.6 billion). Part of the Government’s foreign currency deposits placed with the National Bank of Hungary, (i.e. funds drawn from, the IMF/EC loan but not used), as well as excess cash reserves on the Treasury Single Account will be used for financing purposes.

Total foreign currency debt maturity in 2010 amounts to EUR 1.3 billion (consisting of 2 bonds of EUR 1 billion, and JPY 30 billion), which has already been refinanced by a USD 2 billion Global bond issued in January. No further issuance is planned for 2010 *(Figure 1.).*

Figure 1. Composition of gross redemptions 2004-2016. (Source: ÁKK)

Owing to the strong demand for government bonds in the domestic market ÁKK was able to meet the annual net bond issuance target already by the end of August (HUF 270 billion versus the target of HUF 262 billion). Also discount Treasury bills are well bid and play an important role in liquidity management.

The retail securities program supported by a new series of the CPI-linked Premium Hungarian Treasury Bond targeted for households is a big success.

Long term loans provided by the EIB and the CEB are an important contribution to the financing plan. Drawdowns that run according to schedule, will reach EUR 800 million this year *(Figure 2.)*.

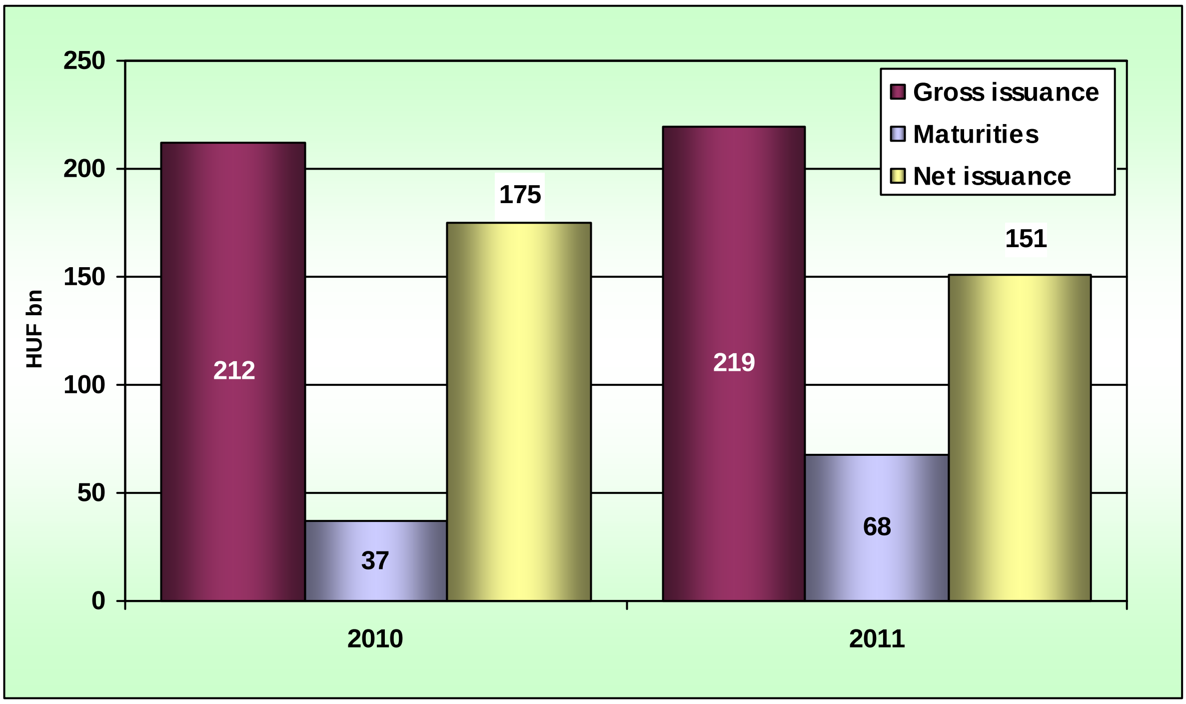

Figure 2. Net loans from International Financial Institutions (EIB, CEB) 2010-2011. (Source: ÁKK)

The well diversified public financing policy that is based on solid demand, and is supported by a flexible approach enables ÁKK to meet its objectives laid down in the public debt management strategy.

Apart from market financing, the Government has ample reserves amounting to EUR 2.5 billion in the form of foreign currency deposits at the National Bank of Hungary that may be used for financing in adverse market conditions. These reserves are expected to grow to EUR 3.0 billion by the end of 2011 owing to the repayment of loans lent by the government to the Hungarian banking sector.

2. Public Debt Management in 2011

The 2011 financing plan will reflect to the Government's commitment to keep public sector deficit at 3 per cent of the GDP.
According to this the net financing requirements will decline to around HUF 850 billion (or EUR 3 billion) that will be financed predominantly from the government securities markets. This is made possible due to the improving liquidity in the domestic government securities market and the increasing savings of households.

The total net issuance of HUF 828 billion is a sum of HUF 677 billion (EUR 2.5 billion) of net government securities issuance and HUF 151 billion of net loans *(Figure 3.).* The net issuance in the international capital markets will be close to zero. This financing mix, by gradually lowering the share of foreign currency debt, enables the Republic of Hungary to pursue a risk decreasing path in the public debt policy. During execution however, ÁKK will show flexibility and respond to changes in market sentiment in a timely manner.

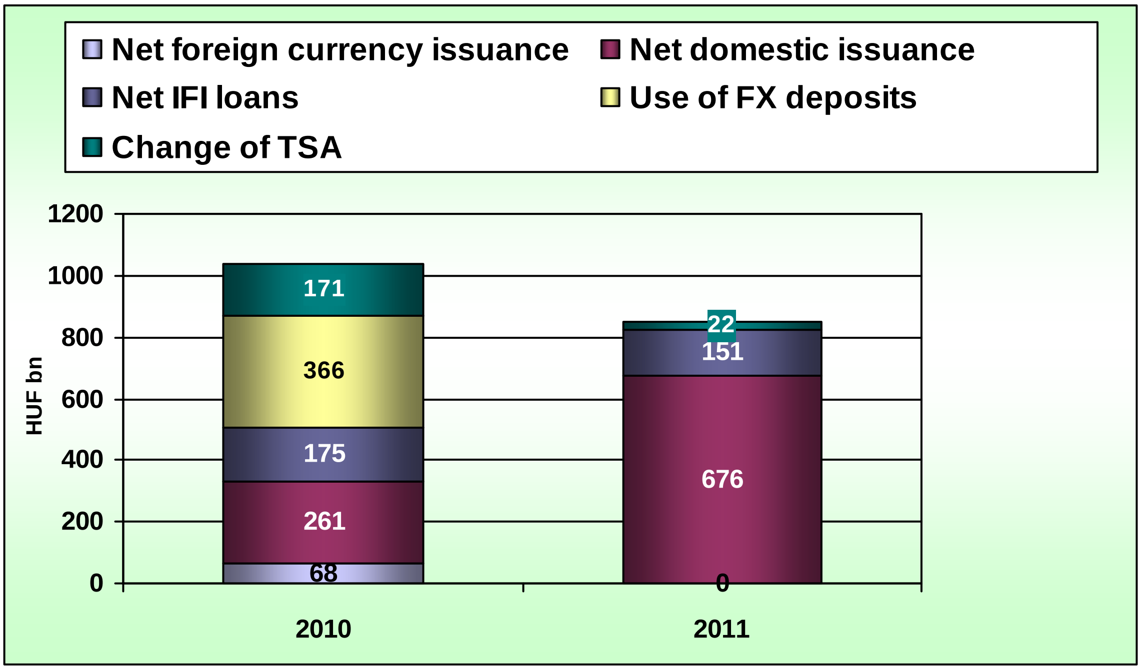

Figure 3. Financing of the central government 2010-2011. (Source: ÁKK)

The financing plan aims at a net bond issuance of HUF 531 billion, being an aggregate of HUF 954 billion maturities and a gross bond issuance of HUF 1,485 billion (EUR 5.3 billion), which is less than the amount the Republic of Hungary is about to issue in 2010 *(Figure 4.).*The dominance of bond issues in the 2011 financing plan also means an increasing term to maturity that is an important issue today. The total net issuance of discount Treasury bills and retail securities is set at a modest HUF 146 billion (or EUR 0.5 billion).

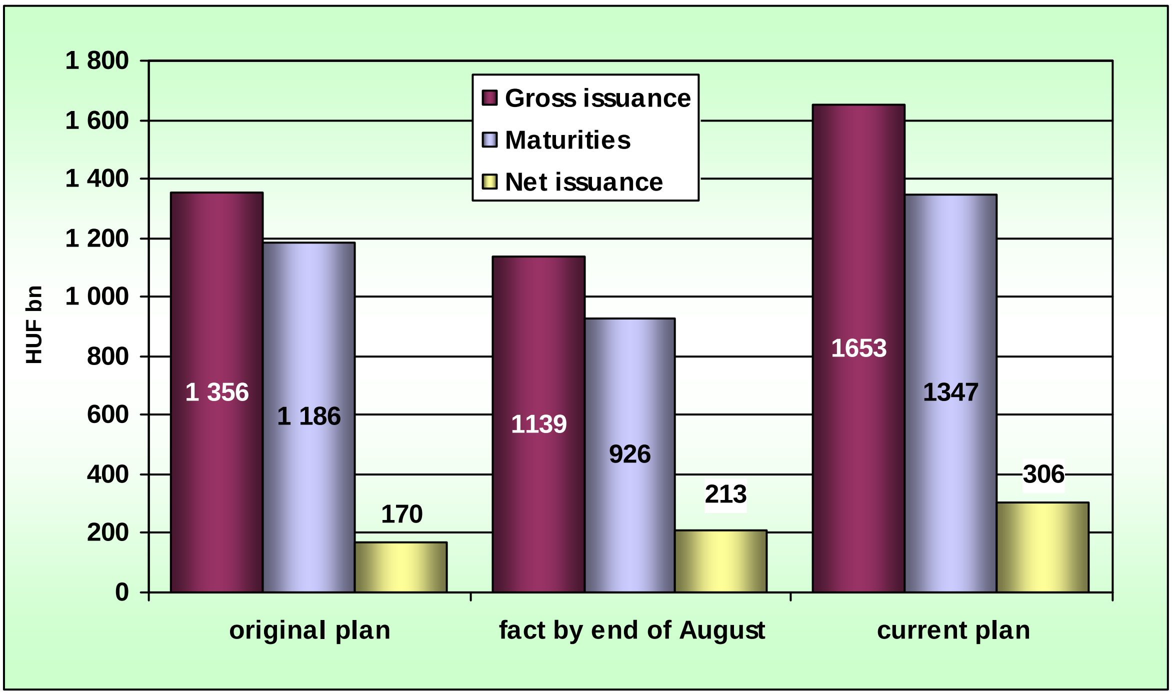

Figure 4. Bond issuance in 2010. (Source: ÁKK)

Foreign currency debt redemptions – including a EUR 2 billion loan of the European Commission – will amount to EUR 4 billion, the refinancing of which is planned fully in the international capital markets.

The 2011 financing plan is an important step toward the financial development of the Republic of Hungary. On the basis of the further improvement in the fiscal position and the development of its financial markets the Republic will start repaying the IMF/EC loan facility, and can also start to decrease its public debt ratio at the same time.

Budapest, 10 September 2010

Ministry of National Economy