



Republic of Hungary

EUR 1,000,000,000

3.50 per cent. Notes due 2016

Issue Price: 99.437 per cent.

The issue price of the EUR 1,000,000,000 3.50 per cent. Notes due 2016 (the “Notes”) of the Republic of Hungary (the “**Republic**” or “**Hungary**”) is 99.437 per cent. of their principal amount.

Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on the Interest Payment Date (as defined in the “Terms and Conditions of the Notes”) falling on 18 July 2016.

The Notes will bear interest from 18 January 2006 at the rate of 3.50 per cent. per annum payable annually in arrear on 18 July in each year commencing on the Interest Payment Date falling in July 2006. Payments on the Notes will be made in euro without deduction for or on account of taxes imposed or levied by the Republic of Hungary to the extent described under “Terms and Conditions of the Notes – Taxation”.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933 (the “**Securities Act**”) and are subject to United States tax law requirements. The Notes are being offered outside the United States by the Managers (as defined herein) in accordance with Regulation S under the Securities Act (“**Regulation S**”), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Notes will be in bearer form and in denominations of EUR 1,000, EUR 10,000 and EUR 100,000. The Notes will initially be in the form of a temporary global note (the “**Temporary Global Note**”), without interest coupons, which will be deposited on or around 18 January 2006 (the “**Closing Date**”) with a common depository for Euroclear Bank S.A./N.V., as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, société anonyme, Luxembourg (“**Clearstream, Luxembourg**”). The Temporary Global Note will be exchangeable, in whole or in part, for interest in a permanent global note (the “**Permanent Global Note**”), without interest coupons, not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive form (“**Definitive Notes**”) in the denominations of EUR 1,000, EUR 10,000 and EUR 100,000 and with interest coupons attached. See “Summary of Provisions Relating to the Notes in Global Form”.

This Offering Circular comprises neither a prospectus for the purposes of Part VI of the Financial Services and Markets Act 2000 (as amended) (the “**FSMA**”), a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the “**Prospectus Directive**”), nor listing particulars given in compliance with the listing rules made under Part VI of the FSMA by the Financial Services Authority in its capacity as competent authority under the FSMA (the “**UK Listing Authority**”).

Application has been made to the UK Listing Authority for the Notes to be admitted to the official list of the UK Listing Authority (the “**Official List**”) and to the London Stock Exchange plc (the “**London Stock Exchange**”) for the Notes to be admitted to trading on the London Stock Exchange’s Gilt Edged and Fixed Interest Market.

HSBC

SOCIÉTÉ GÉNÉRALE CORPORATE &
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UBS INVESTMENT BANK

BANCA IMI
DEXIA CAPITAL MARKETS
WESTLB AG

BNP PARIBAS
DZ BANK AG

This Offering Circular is dated 17 January 2006

The Republic has confirmed to the Managers named under “Subscription and Sale” that this Offering Circular contains all information regarding the Republic and the Notes which is (in the context of the issue of the Notes) material; such information is true and accurate in all material respects and is not misleading in any material respect; the Republic has confirmed that any opinions, predictions or intentions expressed in this Offering Circular on the part of the Republic are honestly held or made and are not misleading in any material respect; the Republic has confirmed that this Offering Circular does not omit to state any material fact necessary to make such respective information, opinions, predictions or intentions (in such context) not misleading in any material respect; and the Republic has confirmed that all reasonable and proper enquiries have been made by the Republic to ascertain and to verify the foregoing. The Republic accepts responsibility for the information contained in this Offering Circular.

The Republic has not authorised the making or provision of any representation or information regarding the Republic or the Notes other than as contained in this Offering Circular or as expressly approved for such purpose by the Republic. Any other representation or information should not be relied upon as having been authorised by the Republic or the Managers.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Republic since the date of this Offering Circular.

This Offering Circular does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes.

The distribution of this Offering Circular and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Republic and the Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of the Notes and on the distribution of this Offering Circular and other offering material relating to the Notes, see “Subscription and Sale”.

In particular, the Notes have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered in the United States or to U.S. persons.

Prospective purchasers of the Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Republic of Hungary of acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes.

In this Offering Circular, unless otherwise specified, references to “**Euro**”, “**EUR**” or “**€**” are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended, (and references to “**ECU**” are to the ECU as referred to in Article 109(g) of the Treaty establishing the European Community, as amended, and as defined in Council Regulation (EC) No. 3320/94 that was the unit of account of the European Community and exchangeable at the rate of one ECU for one Euro at the start of the third stage of European Economic and Monetary Union on 1 January 1999), references to “**\$**”, “**USD**” and “**US dollars**” are to United States Dollars and references to “**HUF**” and “**forints**” are to Hungarian Forints.

The National Bank of Hungary’s foreign exchange rate for US dollars on 16 January 2006 was HUF 206.08 = USD 1.00, and the National Bank of Hungary’s foreign exchange rate for Euro on the same day was HUF 250.37 = €1.00.

Certain figures included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

In connection with the issue of the Notes, UBS Limited or any person acting for them (the “Stabilising Manager”) may over-allot Notes (provided that the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount) or effect transactions with a view to supporting the market price of the Notes at a higher level than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer is made and, if begun, may be ended at any time, but if used no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes.

Such stabilising shall be in full compliance with applicable laws, regulations and rules.

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TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes which (subject to completion and amendment) will be endorsed on each Note in definitive form:

The EUR 1,000,000,000 3.50 per cent. Notes due 2016 (the “**Notes**”, which expression includes any further notes issued pursuant to Condition 13 (Further Issues) and forming a single series therewith) of the Republic of Hungary (the “**Republic**”) are the subject of a fiscal agency agreement dated 18 January 2006 (as amended or supplemented from time to time, the “**Fiscal Agency Agreement**”) between the Republic, Citibank, N.A. as fiscal agent (the “**Fiscal Agent**”, which expression includes any successor fiscal agent appointed from time to time in connection with the Notes) and the paying agents named therein (together with the Fiscal Agent, the “**Paying Agents**”, which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes). Certain provisions of these Conditions are summaries of the Fiscal Agency Agreement and are subject to its detailed provisions. The holders of the Notes (the “**Noteholders**”) and the holders of the related interest coupons (the “**Couponholders**” and the “**Coupons**”, respectively) are bound by, and are deemed to have notice of, all the provisions of the Fiscal Agency Agreement applicable to them. Copies of the Fiscal Agency Agreement are available for inspection by Noteholders during normal business hours at the Specified Offices (as defined in the Fiscal Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below.

1. Form, Denomination and Title

The Notes are serially numbered and in bearer form in denominations of EUR 1,000, EUR 10,000 and EUR 100,000 with Coupons attached at the time of issue. Notes of one denomination will not be exchangeable for Notes of another denomination. Title to the Notes and the Coupons will pass by delivery. The holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

2. Status

The Notes constitute direct, general and unconditional obligations of the Republic which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Republic, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

3. Negative Pledge and Covenants

(a) So long as any Note remains outstanding (for the purposes of these Conditions, “**outstanding**” shall have the meaning ascribed to such term in the Fiscal Agency Agreement), the Republic undertakes that, if it or the National Bank of Hungary creates or permits to subsist any Security Interest upon the whole or any part of its or their assets or revenues, present or future, to secure: (i) any Public External Indebtedness of the Republic having an original maturity of at least one year; or (ii) any Public External Indebtedness of the National Bank of Hungary having an original maturity of at least one year and incurred on or prior to 31 December 1998, the Republic shall, at the time or prior thereto, secure equally and rateably therewith the obligations of the Republic under the Notes.

(b) So long as any Note remains outstanding, the Republic shall: (i) continue to procure that either the Republic or the National Bank of Hungary exercises full ownership, power and control over the International Monetary Assets as they exist from time to time; and (ii) duly obtain and maintain in full force and effect all governmental consents, licences, approvals and authorisations, and/or make or cause to be made all (if any) registrations, recordings and filings, which may at any time be required to be obtained and/or made in the Republic of Hungary for the execution, delivery or performance of all obligations arising under the Notes and the validity or enforceability thereof.

In these Conditions:

“External Indebtedness” means any obligation in respect of existing or future Indebtedness denominated or payable, or at the option of the holder thereof payable, in a currency other than the lawful currency of the Republic of Hungary provided that, if at any time the lawful currency of the Republic of Hungary is the Euro, then any Indebtedness as described herein, expressed in or payable or optionally payable in Euro, more than 50 per cent. of the aggregate principal amount of which is initially placed outside the Republic of Hungary and issued after the date on which the Euro becomes the lawful currency of the Republic of Hungary, shall be included;

“IMF” means the International Monetary Fund;

“Indebtedness” means any indebtedness of any Person (whether incurred as principal or surety) for money borrowed;

“International Monetary Assets” means all of the Republic of Hungary’s official holdings of gold and all of the Republic of Hungary’s and the Republic of Hungary’s Monetary Authorities’ holdings of: (i) Special Drawing Rights; (ii) Reserve Positions in the IMF; and (iii) Foreign Exchange; the terms **“Special Drawing Rights”**, **“Reserve Positions in the Fund”** and **“Foreign Exchange”** have, as to the types of assets included, the meanings given to them in the IMF’s publication entitled “International Financial Statistics” or such other meaning as shall be formally adopted by the IMF from time to time;

“Monetary Authorities” means the National Bank of Hungary and, if and to the extent that it performs the functions of a monetary authority for or on behalf of the Republic of Hungary or the government thereof, any currency board, exchange stabilisation fund or treasury;

“National Bank of Hungary” means the National Bank of Hungary or any other entity which, from time to time, acts as a central bank of the Republic of Hungary, as the case may be;

“Person” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

“Public External Indebtedness” means External Indebtedness which: (i) is in the form of, or represented by, bonds, notes or other similar securities; and (ii) is, or may be, quoted, listed or ordinarily purchased and sold on any stock exchange, automated trading system or over-the-counter or other securities market; and

“Security Interest” means any lien, pledge, hypothecation, mortgage, security interest, charge or any other encumbrance, agreement or arrangement which has a similar legal and economic effect including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction.

4. Interest

(a) *Accrual of Interest:* The Notes bear interest from 18 January 2006 (the **“Issue Date”**) at the rate of 3.50 per cent. per annum, (the **“Rate of Interest”**) payable in arrear on 18 July in each year commencing 18 July 2006 (each, an **“Interest Payment Date”**), subject as provided in Condition 6 (Payments); provided, however, that, if any Interest Payment Date would otherwise fall on a date which is not a TARGET Settlement Day (as defined below), it will be postponed to the next TARGET Settlement Day unless it would thereby fall into the next calendar month, in which case it will be brought forward to the preceding TARGET Settlement Day. There will be a short first interest period coupon from, and including, the Issue Date, to, but excluding, 18 July 2006. Each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called an **“Interest Period”**.

Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation of the Note for redemption as provided for in these Conditions, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of: (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified

the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on the first Interest Payment Date shall be Euro 17.36 in respect of each Note of Euro 1,000 denomination, Euro 173.56 in respect of each Note of Euro 10,000 denomination and Euro 1,735.62 in respect of each Note of Euro 100,000 denomination. The amount of interest payable on any other Interest Payment Date shall be Euro 35 in respect of each Note of Euro 1,000 denomination, Euro 350 in respect of each Note of Euro 10,000 denomination and Euro 3,500 in respect of each Note of Euro 100,000 denomination. If interest is required to be paid in respect of a Note on any other date it shall be calculated by applying the Rate of Interest to the principal amount of such Note, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards), where:

“Day Count Fraction” means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period, divided by the number of days in the Regular Period in which the relevant period falls; and

“Regular Period” means each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next Interest Payment Date.

(b) *Interpretation:* In this Condition:

“TARGET Settlement Day” means a day on which the TARGET System is open; and

“TARGET System” means the Trans-European Automated Real-time Gross settlement Express Transfer (TARGET) system.

5. Redemption and Purchase

(a) *Scheduled redemption:* Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on the Interest Payment Date falling on 18 July 2016, subject as provided in Condition 6 (*Payments*).

(b) *No other redemption:* The Republic shall not be entitled to redeem the Notes other than as provided in paragraph (a) above.

(c) *Purchase:* The Republic may at any time purchase Notes in the open market or otherwise and at any price, provided that all unmatured Coupons are purchased therewith.

(d) *Cancellation:* All Notes so redeemed or purchased by the Republic and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

6. Payments

(a) *Principal:* Payments of principal shall be made only against presentation and (provided that payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States by cheque drawn in Euro, or by transfer to a Euro account (or other account where Euro may be credited or transferred) maintained by the payee with, a bank in a city in which banks have access to the TARGET system.

(b) *Interest:* Payments of interest shall, subject to paragraph (f) below, be made only against presentation and (provided that payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.

(c) *Payments subject to fiscal laws:* All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(d) *Deduction for unmatured Coupons:* If a Note is presented without all unmatured Coupons relating thereto, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due

for payment; provided, however, that, if the gross amount available for payment is less than the outstanding principal amount of such Note, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the outstanding principal amount of such Note. Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and (provided that payment is made in full) surrender of the relevant missing Coupons.

(e) *Payments on business days:* If the due date for payment of any amount in respect of any Note or Coupon is not a business day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding business day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, “**business day**” means, in respect of any place of presentation, any day on which banks are open for presentation and payment of bearer debt securities and for dealings in foreign currencies in such place of presentation and, in the case of payment by transfer to a Euro account referred to above, on which the TARGET system is open.

(f) *Payments other than in respect of matured Coupons:* Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States.

(g) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

7. Taxation

All payments of principal and interest in respect of the Notes and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by the Republic of Hungary or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Republic shall pay such additional amounts as will result in the receipt by the Noteholders and the Couponholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note or Coupon presented for payment:

(a) by a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the Republic of Hungary other than the mere holding of such Note or Coupon; or

(b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to the European Council Directive 2003/48/EC or any other directive implementing the conclusions of the EU Council of Finance Ministers (the “**ECOFIN Council**”) meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(c) by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the EU; or

(d) more than 30 days after the Relevant Date except to the extent that the relevant holder would have been entitled to such additional amounts if it had presented such Note or Coupon on the last day of such period of 30 days.

In these Conditions, “**Relevant Date**” means whichever is the later of: (i) the date on which the payment in question first becomes due and (ii) if the full amount payable has not been received in a city where banks have access to the TARGET system by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7.

8. Events of Default; Events of Acceleration

If any of the following events occurs and is continuing:

(a) Events of Default:

(i) *Non-payment*: the Republic fails to pay any amount of interest in respect of the Notes within 15 days of the due date for payment thereof; or

(ii) *Breach of other obligations*: the Republic defaults in the performance or observance of any of its other obligations under or in respect of the Notes or the Fiscal Agency Agreement and such default remains unremedied for 30 days after written notice thereof, addressed to the Republic by any Noteholder, has been delivered to the Republic or to the Specified Office of the Fiscal Agent; or

(b) Events of Acceleration:

(i) *Failure to take action etc*: any action, condition or thing at any time required to be taken, fulfilled or done in order: (A) to enable the Republic lawfully to enter into, exercise its rights and perform and comply with its obligations under and in respect of the Notes, (B) to ensure that those obligations are legal, valid, binding and enforceable and (C) subject to their official translation into the Hungarian language, to make the Notes and the Coupons admissible in evidence in the courts of the Republic of Hungary is not taken, fulfilled or done within 30 days of receipt by the Republic of written notice thereof; or

(ii) *Unlawfulness*: it is or will become unlawful for the Republic to perform or comply with any of its obligations under or in respect of the Notes and such unlawfulness is not remedied by the Republic within 30 days' written notice thereof;

then, in the case of any event mentioned in either (a) or (b) above, all of the Notes may by written notice addressed and delivered by the holders of at least 25 per cent. of the aggregate principal amount of the outstanding Notes to the Fiscal Agent, be declared immediately due and payable, whereupon, unless prior to such date the Republic shall have cured or otherwise rectified the relevant event, all of the Notes shall become immediately due and payable at their principal amount together with accrued interest. The Republic shall ensure that it will use all reasonable endeavours to give prompt notice of any such declaration to all Noteholders.

(c) *Rescission of the Declaration of Acceleration*: if the Fiscal Agent receives notice in writing from holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes and/or a resolution is passed at a meeting of Noteholders duly convened and held in accordance with the Fiscal Agency Agreement to the effect that the Event(s) of Default and/or Event(s) of Acceleration giving rise to a declaration of acceleration made pursuant to Condition 8 (a) or (b) above is or are cured or is or are waived by them following any such declaration and that such holders request the Fiscal Agent to rescind the relevant declaration, the Fiscal Agent shall, by notice in writing to the Republic and the Noteholders, rescind the relevant declaration whereupon it shall be rescinded and shall have no further effect. No such rescission shall affect any other or any subsequent Event of Default and/or Event of Acceleration or any right of any Noteholder in relation thereto.

9. Prescription

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

10. Replacement of Notes and Coupons

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent and the Paying Agent having its Specified Office in London, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Republic may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

11. Paying Agents

In acting under the Fiscal Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the Republic and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The Republic reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor fiscal agent and additional or successor paying agents; *provided, however*, that the Republic shall at all times maintain a paying agent in London and a fiscal agent. Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders in accordance with Condition 14 (*Notices*).

In addition, the Republic will, to the extent possible as a matter of law, ensure that it maintains a Paying Agent in an EU Member State that will not be obliged to withhold or deduct tax pursuant to the European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings.

To the extent possible as a matter of law, the Republic will maintain a Fiscal Agent which is a person being tax resident in the United Kingdom.

12. Meetings of Noteholders; Modification and Waiver

(a) *Meetings of Noteholders:* The Fiscal Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including, without limitation, the modification of any provision of these Conditions. Any such modification may be made if, having been approved in writing by the Republic, it is sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Republic and shall be convened by the Fiscal Agent upon the request in writing of Noteholders holding not less than 10 per cent. of the aggregate principal amount of the outstanding Notes. The quorum at any meeting of Noteholders convened to vote on an Extraordinary Resolution will be two or more persons holding or representing not less than 50 per cent. of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting of Noteholders, two or more persons being or representing Noteholders, whatever the aggregate principal amount of the outstanding Notes held or represented; *provided, however*, that any proposals relating to a Reserved Matter may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than 75 per cent. of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, 25 per cent. of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

If a resolution is brought in writing, such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Extraordinary Resolution:* In these Conditions “**Extraordinary Resolution**” means:

(i) in relation to any Reserved Matter:

- (a) a resolution passed at a meeting of Noteholders duly convened and held in accordance with the Fiscal Agency Agreement by a majority consisting of not less than 75 per cent. of the outstanding principal amount of the Notes for the time being outstanding; or
- (b) a resolution in writing signed by or on behalf of holders of not less than 75 per cent. of the outstanding principal amount of the Notes for the time being outstanding; and

(ii) in relation to any other matter:

- (a) a resolution passed at a meeting of Noteholders duly convened and held in accordance with the Fiscal Agency Agreement by a majority consisting of not less than 66.67 per cent. of the aggregate principal amount of the outstanding Notes which are represented at that Meeting; or

- (b) a resolution in writing signed by or on behalf of holders of not less than 66.67 per cent. of the outstanding principal amount of the Notes for the time being outstanding.
- (c) *Reserved Matter*: In these Conditions “**Reserved Matter**” means any proposal to:
 - (i) change any date, or the method of determining the date, fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes or to alter the method of calculating the amount of any payment in respect of the Notes on redemption or maturity or the date for any such payment;
 - (ii) effect the exchange or substitution of the Notes for, or the conversion of the Notes into, shares, bonds or other obligations or securities of the Republic or any other person or body corporate formed or to be formed;
 - (iii) reduce or cancel the principal amount of the Notes;
 - (iv) vary the currency or place of payment in which any payment in respect of the Notes is to be made;
 - (v) amend the status of Notes under Condition 2 (*Status*);
 - (vi) amend the obligation of the Republic to pay additional amounts under Condition 7 (*Taxation*);
 - (vii) amend the Events of Default or the Events of Acceleration set out in Condition 8 (*Events of Default; Events of Acceleration*);
 - (viii) amend the law governing the Notes, the courts to the jurisdiction to which the Republic has submitted in the Notes, the Republic’s obligation to maintain an agent for service of process in England or the Republic’s waiver of immunity, in respect of actions or proceedings brought by any Noteholder set out in Condition 16 (*Governing Law*) and Condition 17 (*Jurisdiction*);
 - (ix) modify the provisions contained in the Fiscal Agency Agreement concerning the quorum required at any meeting of the Noteholders or any adjournment thereof or concerning the majority required to pass an Extraordinary Resolution or the percentage of votes required for the taking of any action;
 - (x) change the definition of “Extraordinary Resolution” or “outstanding” in the Conditions and/or Fiscal Agency Agreement;
 - (xi) instruct any Noteholder or committee appointed on behalf of all Noteholders pursuant to Condition 12(e) to withdraw, settle or compromise any proceeding or claim being asserted pursuant to Condition 8 (*Events of Default; Events of Acceleration*);
 - (xii) confer upon any committee appointed pursuant to Condition 12(e) any powers or discretions which the Noteholders could themselves exercise by Extraordinary Resolution; or
 - (xiii) amend this definition.
- (d) *Manifest Error, etc*: The Notes and these Conditions may, subject to the prior written approval of the Republic, be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Fiscal Agency Agreement may agree to modify any provision thereof, but the Republic shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Noteholders.
- (e) *Noteholders’ Representative Committee*:
 - (i) *Appointment*: The Noteholders may, by a resolution passed at a meeting of Noteholders duly convened and held in accordance with the Fiscal Agency Agreement by a majority of at least 50 per cent. in aggregate principal amount of the Notes then outstanding, or by notice in writing to the Fiscal Agent signed by or on behalf of the holders of at least 50 per cent. in aggregate principal amount of the Notes then outstanding, appoint any

persons as a committee to represent the interests of the Noteholders if any of the following events shall have occurred:

- (a) an Event of Default or an Event of Acceleration;
 - (b) any event or circumstance which would, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition 8 (*Events of Default; Events of Acceleration*) become an Event of Default or an Event of Acceleration; or
 - (c) any public announcement by the Republic, to the effect that the Republic is seeking or intends to seek a restructuring of the Notes (whether by amendment, exchange offer or otherwise).
- (ii) *Powers:* Such committee in its discretion may, among other things, (i) engage legal advisers and financial advisers to assist it in representing the interests of the Noteholders, (ii) adopt such rules as it considers appropriate regarding its proceedings and (iii) enter into discussions with the Republic and/or other creditors of the Republic. The Republic shall pay any reasonably incurred fees and expenses of any such committee (including, without limitation, the fees and expenses of the committee's legal advisers and financial advisers, if any) within 30 days of the delivery to the Republic of a reasonably detailed invoice and supporting documentation.
- (f) *Outstanding Notes:* for the purposes of (i) ascertaining the right to attend and vote at any meeting of Noteholders and (ii) Condition 8 (*Events of Default; Events of Acceleration*), Condition 12 (*Meetings of Noteholders; Modification and Waiver*) and Schedule 5 (*Provisions for Meetings of Noteholders*) to the Fiscal Agency Agreement, those Notes (if any) which are for the time being held by any person (including but not limited to the Republic) for the benefit of the Republic or by any public body owned or controlled, directly or indirectly, by the Republic shall (unless and until ceasing to be so held) be deemed not to remain outstanding.

13. Further Issues

The Republic may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

14. Notices

Notices to the Noteholders shall be valid if published in a leading newspaper having general circulation in the United Kingdom (which is expected to be the Financial Times) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

15. Currency Indemnity

If any sum due from the Republic in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the “**first currency**”) in which the same is payable under these Conditions or such order or judgment into another currency (the “**second currency**”) for the purpose of: (a) making or filing a claim or proof against the Republic, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Republic shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Republic and delivered to the Republic or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between: (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Republic and shall give rise to a separate and independent cause of action.

16. Governing Law

The Notes are governed by, and shall be construed in accordance with, English law.

17. Jurisdiction

(a) *Jurisdiction*: The Republic agrees for the benefit of the Noteholders that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings (“**Proceedings**”), and to settle any dispute or difference arising out of or in connection with the Notes including any question as to the existence, validity or termination of the Notes (a “**Dispute**”), which may arise out of or in connection with the Notes and, for such purposes, irrevocably submits to the jurisdiction of such courts.

(b) *Appropriate forum*: The Republic irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agrees not to claim that any such court is not a convenient or appropriate forum.

(c) *Process agent*: The Republic agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to the Hungarian Trade Commissioner sitting currently at 46 Eaton Place, London SW1X 8AL. If such person is not or ceases to be effectively appointed to accept service of process on the Republic’s behalf, the Republic shall, on the written demand of any Noteholder addressed to the Republic and delivered to the Republic or to the Specified Office of the Fiscal Agent, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a person by written notice addressed to the Republic and delivered to the Republic or to the Specified Office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law.

(d) *Non-exclusivity*: The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of any Noteholder to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if, and to the extent, permitted by law.

(e) *Consent to enforcement etc*: Subject to paragraph (f) below, the Republic consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which may be made or given in such Proceedings.

(f) *Waiver of immunity*: To the extent that the Republic may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), the Republic agrees not to claim and irrevocably waives such immunity to the fullest extent permitted by the laws of such jurisdiction, provided that the Republic does not waive any immunity with respect to: (i) present or future “premises of the mission” as defined in the Vienna Convention on Diplomatic Relations signed in 1961, (ii) “consular premises” as defined in the Vienna Convention on Consular Relations signed in 1963, (iii) any other property or assets used solely for official state purposes in the Republic of Hungary or elsewhere, or (iv) military property or military assets of the Republic of Hungary related thereto.

18. Arbitration

(a) *Disputes may be settled by arbitration*: Without prejudice to the provisions of Condition 17 (*Jurisdiction*) above, any Noteholder may, at its discretion, refer any Dispute to be settled by arbitration in accordance with the UNCITRAL Arbitration Rules as at present in force (the “**UNCITRAL Rules**”), which are deemed to be incorporated by reference into this Condition 18 (and copies of which may be obtained free of charge from the Specified Office of the Paying Agent in London).

(b) *Appointment of the arbitral tribunal*: The arbitral tribunal shall be composed of three (3) arbitrators, one of whom shall be the presiding arbitrator. The appointing authority shall be the London Court of International

Arbitration (the “**LCIA**”). The LCIA shall appoint all three (3) members of the arbitral tribunal and shall nominate which of them shall act as the presiding arbitrator. In all matters relating to the appointment of arbitrators, the Republic and each relevant Noteholder agrees that the LCIA shall be free to appoint whomsoever the LCIA considers appropriate in the LCIA’s sole discretion, save that the LCIA shall take account of the views of the parties and shall give effect to any agreement of the parties in relation to the appointment of the arbitrators unless the LCIA determines in the LCIA’s absolute discretion that it is not appropriate to do so.

(c) *Initiation of arbitration proceedings:* Any Noteholder that wishes to initiate an arbitration shall simultaneously:

- (i) give a notice of arbitration to the Republic in accordance with Article 3 of the UNCITRAL Rules; and
- (ii) request in writing the LCIA to appoint the three (3) arbitrators and to nominate the presiding arbitrator and give a copy of such request to all the other relevant parties. Each party may make its own representations to the LCIA concerning the appointment of arbitrators within 21 days of receipt of such notice of arbitration. For the avoidance of doubt, the parties agree that the LCIA may take note of any such representations, but shall otherwise be free in the LCIA’s discretion to appoint whomsoever the LCIA considers appropriate as the three (3) arbitrators.

(d) *Place and language of the arbitration proceedings:* The place and seat of the arbitration shall be London, England and the language of the arbitral proceedings shall be English.

(e) *The award:* All and any awards of the arbitral tribunal shall be made in writing in accordance with the UNCITRAL Rules and shall be final and binding on the relevant parties. All and any awards shall be made by majority decision. If there be no majority, the award shall be made by the presiding arbitrator alone. The final award shall be made within six (6) months from the appointment of the third arbitrator, but insofar as this is impractical it shall be made as soon as possible thereafter.

(f) *Notice of arbitration:* In relation to any arbitration proceedings, the provisions of Condition 14 (*Notices*) shall apply in respect of this Condition 18 in addition to the notification provisions of the UNCITRAL Rules.

(g) *Expedition of arbitration:* The arbitral tribunal shall conduct the arbitration in accordance with the UNCITRAL Rules and at all times in such a manner as to ensure a speedy resolution of the Dispute.

THE REPUBLIC expressly agrees and consents to each of the provisions of Conditions 17 (*Jurisdiction*) and 18 (*Arbitration*).

There will appear at the foot of the Conditions endorsed on each Note in definitive form the names and Specified Offices of the Paying Agents as set out at the end of this Offering Circular.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Notes will initially be in the form of the Temporary Global Note which will be deposited on or around the Closing Date with a common depositary for Euroclear and Clearstream, Luxembourg. The Temporary Global Note and the Permanent Global Note each contain the following statement:

“The bearer hereof acknowledges that full and complete payment of any amount becoming due hereunder shall discharge the obligations of the Republic in relation to such amount.”

The Republic expects that as of the Closing Date, Citibank, N.A. will be the common depositary for Euroclear and Clearstream, Luxembourg and, therefore, the bearer of the Temporary Global Note. The Temporary Global Note will be exchangeable in whole or in part for interests in the Permanent Global Note not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

The Permanent Global Note will become exchangeable in whole, but not in part, for Notes in definitive form (“**Definitive Notes**”) in denominations of EUR 1,000, EUR 10,000 and EUR 100,000 at the request of the bearer of the Permanent Global Note if: (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system is available or (b) any of the circumstances described in Condition 8 (*Events of Default; Events of Acceleration*) occurs.

The Permanent Global Note will also become exchangeable, in whole but not in part only and at the option of the Republic, for Definitive Notes at the Specified Office of the Paying Agent in London if, by reason of any change in the laws of the Republic of Hungary, the Republic is or will be required to make any withholding or deduction from any payment in respect of the Notes which would not be required if the Notes were in definitive form.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Republic shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons attached, in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the Specified Office of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If: (a) Definitive Notes have not been delivered by 5:00 p.m. (London time) on the thirtieth day after the bearer has duly requested exchange of the Permanent Global Note for Definitive Notes or (b) the Permanent Global Note (or any part of it) has become due and payable in accordance with the Conditions or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment, then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5:00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5:00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under a deed of covenant dated [18] January 2006 (the “**Deed of Covenant**”) executed by the Republic). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg as being entitled to an interest in the Permanent Global Note will acquire directly against the Republic all those rights to which they would have been entitled if, immediately before the Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or (as the case may be) Clearstream, Luxembourg.

In addition, the Temporary Global Note and the Permanent Global Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Temporary Global Note and the Permanent Global Note. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Temporary Global Note and the Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Note or (as the case may be) the Permanent Global Note at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Republic in respect of the Notes.

Notices: Notwithstanding Condition 14 (*Notices*), while all of the Notes are represented by the Permanent Global Note (or by the Permanent Global Note and/or the Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a common depositary for Euroclear and Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 14 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg; provided, however, that, so long as the Notes are admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market and its rules so require, notices will also be published in a leading newspaper having general circulation in the United Kingdom (which is expected to be the Financial Times).

USE OF PROCEEDS

The net proceeds of the issue of the Notes, expected to amount to EUR 993,370,000 after deduction of the combined management and underwriting fee, will be used by the Republic for general funding purposes.

DESCRIPTION OF THE REPUBLIC OF HUNGARY

OVERVIEW

General

The Republic of Hungary (the “**Republic**” or “**Hungary**”) lies in Central Europe and covers an area of approximately 93,000 square kilometres. Hungary is bordered by seven countries: Slovakia and the Ukraine to the north, Romania to the east, Serbia and Montenegro and Croatia to the south and Slovenia and Austria to the west. The Danube River crosses Hungary, connecting the country with ports on the Black Sea. Hungary has historically been a nexus of social and cultural life and a trade link between Eastern and Western Europe. Hungary’s capital is Budapest.

Population

The population of Hungary was approximately 10.1 million as at 1 January 2005. Approximately 66 per cent. of the people live in urban areas and approximately 1.7 million live in Budapest, which is the political, administrative, cultural and commercial centre of Hungary. While over 97 per cent. of the population is Magyar, there are minorities of Croat, German, Roma, Romanian, Serb and Slovak ethnicity.

Political System

Transformation and New Constitution

Immediately after World War II, Hungary was governed by a “grand coalition” of Hungarian political parties. By 1948, however, all non-communist parties had been abolished with the support of the Soviet Union. The Hungarian Socialist Workers Party dominated all facets of government until 1990.

During the late 1980s, the political system in Hungary changed dramatically. On 23 October 1989, Hungary was proclaimed a republic, and to signify the country’s change in status to a free democratic state, Hungary’s name was changed from the “Hungarian People’s Republic” to the “Republic of Hungary”. Also in 1989, the constitution was substantially amended to its current form. Under this new constitution, Hungary instituted a multi-party democratic government, making it one of the first formerly communist countries in Central and Eastern Europe to undertake democratic reforms. Non-communist political parties were established in 1989 and in 1990 the first multi-party elections in the country since 1947 took place.

President

The President of the Republic is the head of state, elected by Parliament for a term of five years. The President may, but need not, be elected from the members of Parliament (but cannot be both President and member of Parliament at the same time). The President may only be re-elected once. The current President is Mr. László Sólyom, who was elected in June 2005. The next presidential election is expected to be held in 2010. The President’s authority is limited. Most of the actions taken by the President require the countersignature of the Prime Minister or the appropriate minister. The powers of the President include:

- representing the nation as head of state;
- concluding international treaties and agreements on behalf of the Republic. Agreements that are legislative in character, require the prior consent of Parliament to be obtained;
- safeguarding the democratic operation of the political process;
- acting as commander-in-chief of the armed forces;
- setting the date for Parliamentary and local elections;
- initiating certain measures in Parliament;
- initiating referenda;

- appointing and removing, among others, the President and Vice-Presidents of the National Bank of Hungary; and
- granting pardons.

Government

The government of Hungary consists of the Prime Minister and other ministers forming the Cabinet (currently 17 ministers, of which 2 are either without portfolio or the structure and tasks of the ministries are under amendment). The Prime Minister and the government's programme are approved by a simple majority vote of Parliament. The previous Prime Minister, Mr. Péter Medgyessy, who was elected in May 2002 handed in his resignation on 25 August 2004. Parliament elected the current Prime Minister, Mr. Ferenc Gyurcsány, on 29 September 2004. The members of the new government took their oaths on 4 October 2004. The ministers are proposed by the Prime Minister and appointed and removed by the President. The government is charged with the executive function of the Republic and proposing legislation to Parliament.

Parliament

The single chamber Hungarian Parliament is the country's supreme legislative body. The Parliament elects the President, the Prime Minister, the members of the Constitutional Court, the President and Vice-Presidents of the State Audit Office, the President of the Supreme Court and the Attorney General.

Parliament is elected by popular vote for four year terms. Elections are held using a combination of individual constituency voting (the candidate receiving the most votes in a particular district being elected from that district) and proportional voting (parties receiving at least five per cent. of the popular vote proportionally dividing a set number of seats). Parliamentary elections were held most recently in April 2002.

Judiciary

The Hungarian judiciary consists of the Supreme Court, the county courts, the Metropolitan Court of Budapest and the local and labour courts. Legislation may provide for special courts to be convened for certain types of cases. Three Courts of Appeal located in Budapest, Pécs and Szeged were established with regional jurisdiction from 1 July 2003 and began operating at that time. Two further Courts of Appeal were established in July 2004 and began operation on 1 January 2005. The Supreme Court sets guidelines for the judicial process of every court. Resolutions concerning uniformity are binding on all courts. Judges are independent and are subordinate only to the law. Local courts have original jurisdiction. The Courts of Appeal, the county courts and the Metropolitan Court of Budapest have both appellate and original jurisdiction. The President of the Republic nominates and Parliament elects the President of the Supreme Court. The President of the Supreme Court nominates and the President of the Republic appoints the Vice-Presidents of the Supreme Court. The President of the Republic also appoints and removes professional (non-arbitration) judges. The President of the Republic may only remove professional judges by following the causes and procedures prescribed by law.

The Constitutional Court is separate from the regular Hungarian judiciary. It decides on the constitutionality of legislation and other actions as set forth in the Hungarian Constitution. The Constitutional Court may annul any law or legal measure that it determines is unconstitutional. Any person may initiate proceedings at the Constitutional Court to address issues within its jurisdiction. Parliament elects the eleven members of the Constitutional Court. Justices of the Constitutional Court serve for nine year terms.

Legislation facilitating and regulating the market economy is relatively new. Consequently, Hungarian courts are less experienced than their Western counterparts in areas such as securities, banking and commercial law. Parties often refer these matters to the arbitration court attached to the Hungarian Chamber of Commerce and Industry or the Permanent Court of Arbitration of Financial and Capital Markets.

Parliamentary Commissioners

In 1995, pursuant to the Data Protection and Freedom of Information Act of 1992 and the Act on the Parliamentary Commissioner of 1993, Parliament elected three commissioners (also known as Ombudsmen); the Parliamentary Commissioner for Civil Rights, the Parliamentary Commissioner for Data Protection and Freedom of Information, and the Parliamentary Commissioner for the National and Ethnic Minorities Rights. Their

principal role is to help people defend their rights vis-à-vis public administration. The Commissioners are elected for a period of six years and are exclusively responsible to Parliament.

Anybody who alleges that a proceeding, decision or action (including any omission to act) of, or taken by, any administrative or governmental authority and certain other entities, caused the violation of his rights or that such violation is imminent, may apply to these Parliamentary Commissioners to help protect his rights. The integration of tasks and functions of the Data Protection Commissioner constitutes a unique solution. In addition to monitoring and supervising data protection and freedom of information in general and exercising the competence of an ombudsman in the relevant area, this Parliamentary Commissioner's tasks also include, the maintenance of the Data Protection Register and providing opinions on related legislative proposals and categories of official secrets. Pursuant to the Act on State and Official Secrets of 1995, the Parliamentary Commissioner for Data Protection is also entitled to change the classification of state and official secrets.

Local Government

Hungary is divided into administrative units, which include the capital (Budapest), counties, cities, towns and villages. Local governments are autonomous, democratically manage local affairs and set the rates of certain limited local taxes. The Hungarian Constitution grants all local authorities the same fundamental rights; however, the duties and responsibilities of local governments may differ according to national and local legislation. Local governments consist of representative bodies, whose members are elected for four year terms. Decisions of local authorities may only be revised if they conflict with the Constitution or national legislation.

Overview of Political Situation

Following the first multi-party elections of the post-communist era held in 1990, the Hungarian Democratic Forum (“**HDF**”) obtained the largest number of parliamentary seats and formed a coalition government with the Independent Smallholders’ Party and the Hungarian Christian Democratic Party. At the 1994 election, a coalition of the Hungarian Socialist Party (“**HSP**”) and the Alliance of Free Democrats (“**AFD**”) came to power. It was replaced by a coalition led by the Fidesz-Hungarian Civic Party (“**Fidesz-HCP**”) following the election in 1998.

The following table shows the political affiliations of the members of the Parliament after the election in April 2002:

Parliament											
										<i>Number of Seats</i>	<i>% of Seats</i>
<i>Party</i>											
Alliance of Free Democrats ⁽¹⁾	19	4.92%
Fidesz-Hungarian Civic Party	..	..	..	..	..	..	..	..	..	164	42.49%
Hungarian Democratic Forum	..	..	..	..	..	..	..	..	..	24	6.22%
Hungarian Socialist Party ⁽¹⁾	178	46.11%
HSP/AFD Joint Candidate ⁽¹⁾	1	0.26%
Independent Representatives	..	..	..	..	..	..	..	..	..	0	0.00%
Total	..	..	..	..	..	..	..	..	..	386	100.0%

(1) Member of the new coalition government

No single party won a majority of Parliament seats in the April 2002 elections. The HSP and AFD were able to form a coalition government with 198 of the 386 parliamentary seats.

The next parliamentary election will be held in 2006.

Local government elections

The following table shows the results of the latest local government elections, which were held in October 2002

<i>Party % Vote</i>							<i>Budapest</i>	<i>Country government</i>	<i>Municipalities</i>
HSP-AFD	..	..	..	..	..	..	58.75	45.61	51.65
Fidesz-HCP	..	..	..	..	..	..	31.25	33.36	33.78
Other	..	..	..	..	..	..	10.00	21.03	14.57
Total	..	..	..	..	..	..	100.0	100.0	100.0

European Parliament Elections

The first elections to the European Parliament were held on 13 June 2004.

This table shows the political affiliations of the members of the European Parliament after the election:

Seats in European Parliament

												<i>Seats</i>
FIDESZ-HC	..	..	..	..	..	..	..	..	..	..	..	12
HDF	..	..	..	..	..	..	..	..	..	..	..	1
HSP	..	..	..	..	..	..	..	..	..	..	..	9
AFD	..	..	..	..	..	..	..	..	..	..	..	2

Source: European Parliament

International Relations

Hungary has undertaken a very active foreign policy designed to further its integration into the world community and to foster regional peace and economic development. Hungary maintains diplomatic relations with approximately 165 countries and is a member of a number of international organisations, including:

- European Union (“EU”)
- United Nations Organisation
- World Trade Organisation (“WTO”)
- International Bank for Reconstruction and Development (“IBRD”, “World Bank”)
- International Monetary Fund (“IMF”)
- International Finance Corporation
- International Development Agency
- North Atlantic Treaty Organisation (“NATO”)
- European Bank for Reconstruction and Development (“EBRD”)
- United Nations Industrial Development Organisation (“UNIDO”)
- Global Environment Protection Fund
- Organisation for Economic Co-operation and Development (“OECD”)
- Conference on Security and Co-operation in Europe
- Council of Europe
- Central European Free Trade Agreement (“CEFTA”)
- Food and Agriculture Organisation (“FAO”)
- World Health Organisation (“WHO”)
- United Nations Educational Scientific and Cultural Organisation (“UNESCO”)

European Union

Hungary joined the EU on 1 May 2004. The Hungarian representatives of the European Parliament assumed the following positions: Szabolcs Fazakas (Hungarian Socialist Party) is the Chairman of the European Committee on Budgetary Control (BUDG), Pál Schmitt (European People’s Party) is the Vice-chairman of the Committee on Culture and Sport (CULT), Zita Gurmai (Hungarian Socialist Party) assumed the position of the Vice-chairperson of the Committee on Woman’s Rights and Equal Opportunities (FEEM), and Katalin Lévai (Hungarian Socialist Party) became the Vice-chairperson of the Committee on Civil Liberties, Justice and Home

Affairs. Furthermore, József Szájer and Magda Kósáné Kovács respectively became Vice-floor leaders of European People's Party and the Party of European Socialists.

Hungary is entitled to delegate one member of the European Commission; Mr. László Kovács (Hungarian Socialist Party) is the Commissioner for Taxation and Customs Union.

The implementation of the Schengen System was a crucial issue of the accession negotiations. The main element of the system is the removal of checks at common (member – member) borders and replacing them with external (member – non-member) border checks in order to enhance the free movement of people. Hungary plans to become fully integrated into the system by 2007. The European Commission plans to complete the setting up of the Schengen Information System (SIS II, an integrated information network) in autumn 2007.

Former Prime Minister Péter Medgyessy reviewed and gave his support to the agreement on the European Constitution. The minorities protection clause, which was a Hungarian initiative, has been absorbed in the preamble to the European Constitution. The European Constitution was ratified by the Hungarian Parliament on 20 December 2004.

Alongside the development of key areas of the economy, the Republic has implemented and intends to continue implementing development programmes and structural reforms to speed the convergence process to the EU. The key programme is the National Development Plan, which was approved on 19 December 2002 and which oversees the allocation of EU funds from 2004 to 2006. The National Development Plan consists of five operative programmes:

- human resources development;
- economic competitiveness;
- agricultural and rural development;
- environment and infrastructure; and
- regional development.

Following its accession to the EU, Hungary plans to become a member of EMU as early as possible. The target date for EMU entry is 1 January 2010.

By entering the EU, Hungary became a member of the European Investment Bank as well.

OECD

Hungary officially became a member of the OECD in May 1996. Inclusion in the OECD was considered to be a decisive step towards integration with the developed nations and to obtaining full EU membership.

NATO

Hungary became a full member of NATO in March 1999.

CEFTA

CEFTA was designed to increase trade among Central European countries after the demise of COMECON and to integrate the region with the economies of Western Europe. Hungary, Poland, the Czech Republic, Slovakia and Slovenia were the initial signatories of CEFTA, which came into effect on 1 March 1993. Romania became a member in July 1997 and Bulgaria in July 1998. In accordance with CEFTA, most of the trade barriers between member states on industrial products were removed on 1 January 2001. Trade barriers on agricultural products, though relaxed, will not be removed entirely.

European Free Trade Association ("EFTA")

Hungary further increased its access to Western European markets by signing a free trade agreement, effective from 1 October 1993, with EFTA, which stipulated that full and reciprocal free trade had to be achieved

within 10 years. The final result is still pending and the agreement lowers restrictive trade barriers on industrial products more quickly in the EFTA member countries than in Hungary.

In addition, each of EFTA's seven members has signed bilateral agricultural trade agreements with Hungary. The bilateral trade agreements with Austria, Finland and Sweden, which were EFTA member countries until 31 December 1994, expired at the date of their joining the EU. Hungary's trade with those countries is now regulated by the EU.

Bilateral Trade Agreements

In addition to the multilateral trade agreements discussed above, Hungary has also entered into bilateral trade agreements with several countries, including Slovenia, Romania, Turkey, Israel, Bulgaria, Lithuania, Latvia and Estonia.

Central European Initiative

Hungary is also a member of the Central European Initiative, the other members of which are Austria, Italy, Slovenia, Croatia, Slovakia, Poland and the Czech Republic. This initiative mainly addresses issues of regional infrastructure development.

IMF Special Data Dissemination Standards

Hungary is a subscriber to the IMF Special Data Dissemination Standards. Data on Hungary can be accessed on the internet through the website: <http://dsbb.imf.org/country/hun>, although information on such website does not form part of the Offering Circular and may not be relied upon in connection with any decision to invest in the Notes.

THE ECONOMY

Background

The Hungarian economy has undergone a radical transformation since the fall of communism in 1989. As with other post-communist countries in the region, the economy in Hungary during the 1990s can be characterised by economic dislocation at the beginning of the decade with gradual improvement as reforms were implemented. The highlights of these economic reforms and trends include:

- an ambitious privatisation programme – the vast majority of Hungary’s large state-owned enterprises have already been privatised;
- a shift in exports from COMECON countries to those of Western Europe and other industrialised countries; now three-quarters of Hungarian exports are to EU markets, and Hungary’s market share in the EU has more than doubled since the mid-1990s;
- gross and net external debt have declined sharply since the mid-1990s, and the structure of external debt has changed as the central government share of the gross debt (according to GFS methodology⁽¹⁾), dropped from 72 per cent. in 1996 to 52 per cent. in 2001, but has increased slightly reaching 57 per cent. in 2004;
- the GDP growth trends are in line with general European trends: the rate adjusted for calendar day effect was 4.5 per cent. in 2001, 3.8 per cent. in 2002, 3.4 per cent. in 2003, 4.5 per cent. in 2004 and 4.4 per cent. in the first three quarters of 2005, which was significantly higher than the EU average;
- inflation, caused initially by price deregulation, declined from 28.3 per cent. in 1995 to 5.7 per cent. in 2003, increased to 7.6 per cent. in May 2004, due to tax increases and higher oil prices. Since then, inflation has been diminishing rapidly; in November 2005 the consumer prices were 3.3 per cent. higher than in November 2004;
- generally there were declining or stagnant real wages until 1997 as inflation outpaced nominal wage increases; real wage increases were moderate between 1998 and 2000 as the economy expanded and inflation decreased; additional expenditure on public sector workers after the 2002 election increased real wage inflation to 13.1 per cent. in 2002, but there was a decrease in real wage dynamism in 2003, and real wages dropped in 2004 compared to 2003 by 1 per cent. while in the first ten months of 2005 real wages grew by 6.7 per cent. compared to the first ten months of 2004;
- unemployment has generally declined from its peak of 12.5 per cent. in the first quarter of 1993 to the 5.5 per cent. in the last quarter of 2003, but the unemployment rate has grown since then and in the 3 month period from August to October 2005 the unemployment rate reached 7.3 per cent.; and
- high levels of foreign direct investment with the level of cumulative foreign direct investment in 2004 reaching Euro 45.3 billion, about 55.8 per cent. of GDP for 2004.

(1) Unless otherwise indicated, all data in this document is presented for comparison purposes in accordance with the methodology of the International Monetary Fund (as set forth in the Manual on Governance Finance Statistics, IMF 1986) (“GFS”). In order to comply with its EU-accession obligations, the Republic has started to produce certain data on the basis of the European System of Accounts 95 (“ESA 95”). ESA 95 methodology monitors revenues and expenditures on an accrual basis, whereas GFS methodology monitors revenues and expenditures on a cash basis. Under ESA 95, certain issued state guarantees are reclassified as government debt and therefore increase the deficit, and the definition of the general government sector is extended to include certain quasi-governmental institutions.

Gross Domestic Product⁽²⁾

The following table presents the components of nominal GDP and related figures by expenditures at current market prices, as well as real GDP growth rates, per capita GDP and US dollar equivalents, for the years indicated:

<i>Gross Domestic Product</i>												
	1996	1997	1998	1999	2000*	2001*	2002*	2003*	2004*	2005	2005	2005
										<i>Q1</i>	<i>Q2</i>	<i>Q3</i>
	<i>(HUF billion except as indicated)</i>											
Consumption	5,104	6,184	7,322	8,431	9,842	11,265	13,078	14,905	16,009	4,027	4,283	4,350
Fixed investment	1,476	1,899	2,385	2,725	3,099	3,493	3,917	4,141	4,616	811	1,180	1,305
Goods services capital formation and foreign trade balance	314	458	381	238	331	232	(80)	(396)	(211)	126	(128)	(37)
GDP	6,894	8,541	10,087	11,393	13,272	14,990	16,915	18,651	20,413	4,965	5,335	5,619
Annual real GDP growth rate (%)	1.3	4.6	4.9	4.2	n/a	4.5	3.8	3.4	4.5	4.0	4.5	4.5
Per capita GDP (in forints) ..	668,585	829,958	982,552	1,112,915	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
US Dollar Equivalents:												
Per capita GDP (USD) ..	4,382	4,444	4,582	4,690	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

* Revised data

Source: Hungarian Central Statistical Office

The following table presents the production of Hungary's GDP by industry sector:

<i>The production of gross domestic product, 1996-2005</i>												
	1996*	1997*	1998*	1999*	2000*	2001	2002	2003	2004	2005	2005	2005
										<i>Q1</i>	<i>Q2</i>	<i>Q3</i>
Gross domestic product, total (at purchaser's price) ..	101.3	104.6	104.9	104.2	105.2	104.3	103.8	103.4	104.6	103.2	104.5	104.5
Agriculture, forestry, fishing	104.2	99.8	98.6	100.9	92.6	124.6	87.1	95.8	137.9	90.8	89.9	89.1
Mining and quarrying, manufacturing and electricity	103	111.3	107.7	107.1	106.4	100.5	101.4	105.3	104.9	101.4	106.4	106.3
Of which												
Manufacturing	104.1	114.5	110.7	108.3	107.5	102.5	103.2	106.7	105.4	101.2	106.8	106.7
Construction	92.9	108.4	105.9	104.3	119.2	105.1	112.5	96.4	104.2	109.9	114.2	117.6
Services, total	102.4	102.4	103.9	103.2	104	105.1	104.9	102.7	102.9	104.0	104.5	104.2
Of which												
trade, repair, hotels and restaurants	99.7	107	105.6	100.6	100	106.0	106.5	103.1	103.0	103.2	103.5	104.2
transport, storage and communications	103.2	109.7	103.4	105.5	102.1	103.8	101.6	102.8	105.2	108.9	110.3	107.2
financial intermediation and real estate activities ..	106.2	96.7	103.8	103.9	108.3	106.8	107.9	102.1	104.1	105.0	105.5	105.4
public administration, education, health and social work	102	103.7	104	102.6	103.3	103.0	102.0	104.2	101.0	101.3	101.4	101.4
other community, social and personal service activities	92.6	97.1	97.4	106.4	102.9	105.0	103.3	96.3	97.8	102.2	103.8	103.0

* Non-revised data.

Source: Hungarian Central Statistical Office

- (2) By November 2005 the Hungarian Central Statistical Office ("CSO") implemented a methodological change in the measurement of GDP, and revised the GDP data for the years 2000-2004. See Recent Developments – Fiscal Policy. The tables in this section set forth the components of nominal GDP and related figures by expenditures at current market prices, as well as real GDP growth rates, per capita GDP and US dollar equivalents, for the years 2002-2004.

Although economic growth has been decreasing since 2000, the rate of real GDP growth in Hungary has been significantly higher since then, compared to the growth registered in the European Union as a whole. The growth was attributable mainly to exports and, especially in 2002 and 2003, to domestic consumption. The increase in domestic consumption was supported by budget expenditures and government measures (e.g. increasing the minimum salary, increased mortgage subsidies and public sector wage increase). The structure of economic growth has improved in 2004 as export and investment dynamism have accelerated and consumption growth has decelerated.

The following table presents the final use of GDP:

<i>The final use of GDP</i>												
<i>Corresponding period of previous year = 100</i>												
<i>Volume indices of GDP</i>	<i>1996*</i>	<i>1997*</i>	<i>1998*</i>	<i>1999*</i>	<i>2000*</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2005</i>	<i>2005</i>
										<i>Q1</i>	<i>Q2</i>	<i>Q3</i>
Household final consumption expenditure	96.2	101.8	104.5	105.6	105.4	106.1	110.8	108.5	103.2	101.6	102.9	102.8
Social transfer in kind . .	100	101	105.3	101.5	102.8	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Actual final consumption of households	97	101.7	104.6	104.8	104.9	105.8	109.7	107.8	103.1	101.8	102.6	102.4
Actual final consumption of government	95.8	105.7	99.7	101.8	101.2	101.2	106.6	107.9	100.9	98.7	98.6	98.3
Actual consumption, total . .	96.8	102.2	103.9	104.3	104.4	105.2	109.3	107.8	102.8	101.4	102.0	101.9
Gross fixed capital formation	106.7	109.2	113.2	105.9	107.7	105.9	109.3	102.5	108.4	106.8	109.4	108.7
Gross domestic product, total	101.3	104.6	104.9	104.2	105.2	104.3	103.8	103.4	104.6	103.2	104.5	104.5

<i>The final use of GDP</i>												
<i>At current prices in HUF billion</i>												
	<i>1996*</i>	<i>1997*</i>	<i>1998*</i>	<i>1999*</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2005</i>	<i>2005</i>
										<i>Q1</i>	<i>Q2</i>	<i>Q3</i>
Household final consumption expenditure	3,510	4,219	5,009	5,829	6,830	7,817	8,904	10,066	10,845	2,710	2,881	2,998
Social transfer in kind . .	891	1,064	1,289	1,446	1,659	1,907	2,324	2,750	2,964	790	826	786
Actual final consumption of households	4,400	5,283	6,297	7,274	8,489	9,724	11,228	12,816	13,809	3,500	3,707	3,784
Actual final consumption of government	706	901	1,025	1,157	1,353	1,541	1,850	2,089	2,200	527	576	566
Actual consumption, total . .	5,104	6,184	7,322	8,431	9,842	11,265	13,078	14,905	16,009	4,027	4,283	4,350
Gross fixed capital formation	1,476	1,899	2,385	2,725	3,968	3,962	4,234	4,583	5,044	997	1,129	1,347
Gross domestic product, total	6,894	8,541	10,087	11,393	13,272	14,990	16,915	18,651	20,413	4,965	5,335	5,619

* Non-revised data.

Source: Hungarian Central Statistical Office

(1) Since the beginning of the year until the end of the quarter concerned; the same period of the previous year = 100.

Period							Gross Domestic Product							
							Same quarter of the previous year = 100		Since the beginning of the year ⁽¹⁾		Same quarter of the previous year = 100		Since the beginning of the year ⁽¹⁾	
							Data not adjusted for calendar-day effect		Data adjusted for calendar-day effect		Data not adjusted for calendar-day effect		Data adjusted for calendar-day effect	
1996*														
Q1	..	..	..	..	..	..	100.6	100.6	n/a	n/a
Q2	..	..	..	..	..	..	100.7	100.6	n/a	n/a
Q3	..	..	..	..	..	..	100.9	100.7	n/a	n/a
Q4	..	..	..	..	..	..	103.0	101.3	n/a	n/a
1997*														
Q1	..	..	..	..	..	..	102.3	102.3	n/a	n/a
Q2	..	..	..	..	..	..	104.8	103.6	n/a	n/a
Q3	..	..	..	..	..	..	105.7	104.3	n/a	n/a
Q4	..	..	..	..	..	..	105.3	104.6	n/a	n/a
1998*														
Q1	..	..	..	..	..	..	104.4	104.4	n/a	n/a
Q2	..	..	..	..	..	..	104.9	104.7	n/a	n/a
Q3	..	..	..	..	..	..	105.4	104.9	n/a	n/a
Q4	..	..	..	..	..	..	104.7	104.9	n/a	n/a
1999*														
Q1	..	..	..	..	..	..	103.2	103.2	n/a	n/a
Q2	..	..	..	..	..	..	103.3	103.2	n/a	n/a
Q3	..	..	..	..	..	..	104.2	103.6	n/a	n/a
Q4	..	..	..	..	..	..	105.9	104.2	n/a	n/a
2000*														
Q1	..	..	..	..	..	..	106.6	106.6	n/a	n/a
Q2	..	..	..	..	..	..	105.7	106.1	n/a	n/a
Q3	..	..	..	..	..	..	104.6	105.6	n/a	n/a
Q4	..	..	..	..	..	..	104.2	105.2	n/a	n/a
2001														
Q1	..	..	..	..	..	..	104.6	104.6	105.5	105.5
Q2	..	..	..	..	..	..	104.6	n/a	104.6	n/a
Q3	..	..	..	..	..	..	104.4	n/a	104.4	n/a
Q4	..	..	..	..	..	..	103.8	104.3	103.8	104.5
2002														
Q1	..	..	..	..	..	..	103.5	103.5	103.5	103.5
Q2	..	..	..	..	..	..	103.5	n/a	103.5	n/a
Q3	..	..	..	..	..	..	104.0	n/a	104.0	n/a
Q4	..	..	..	..	..	..	104.2	103.8	104.2	103.8
2003														
Q1	..	..	..	..	..	..	103.2	103.2	103.2	103.2
Q2	..	..	..	..	..	..	103.0	103.1	103.0	103.1
Q3	..	..	..	..	..	..	103.3	103.2	103.3	103.2
Q4	..	..	..	..	..	..	104.1	103.4	104.1	103.4
2004														
Q1	..	..	..	..	..	..	104.9	104.9	104.1	104.1
Q2	..	..	..	..	..	..	104.9	104.9	104.9	104.5
Q3	..	..	..	..	..	..	104.3	104.7	104.3	104.4
Q4	..	..	..	..	..	..	104.5	104.6	104.5	104.5
2005														
Q1	..	..	..	..	..	..	103.2	103.2	104.0	104.0
Q2	..	..	..	..	..	..	104.5	103.9	104.5	104.3
Q3	..	..	..	..	..	..	104.5	104.1	104.5	104.4

* Non revised data

Source: Hungarian Central Statistical Office

(1) Since the beginning of the year until the end of the quarter concerned; the same period of the previous year = 100.

Energy

Approximately 39 per cent. of Hungary's total energy demand is supplied by domestic energy sources. Approximately 12.3 per cent of total energy consumption is produced by coal (the majority of which is domestically produced) and about 68.9 per cent of energy consumption consists of hydrocarbon, which is imported primarily from Russia.

Hungary has consistently worked to diversify its sources of energy and to build up reserves to dampen the potential negative effects of energy supply disruptions. Hungary currently maintains at least a 12-week supply of oil in compliance with OECD requirements.

By the end of 1998, all of Hungary's natural gas distribution companies, six electricity distribution companies and all but two power generation companies had been privatised. The Ministry of Economy and Transport aims to form a competitive electricity market and full liberalisation of the sector by 2007, in accordance with the EU Directives.

Prices, Wages and Employment

Prices

Deregulation in 1990 led to a high rate of inflation in Hungary. This rate has remained relatively high compared to rates in Western Europe due to the general phasing out of price supports, the high public sector deficit, but has decreased sharply as a consequence of the new monetary regime introduced in May 2001 (see "The Economy – Recent Developments").

The following table illustrates the annual index changes (Dec/Dec) in consumer prices since 1995:

				Annual change, %							
				Food	Alcoholic beverages, tobacco	Clothing, footwear	Consumer durable goods	Electricity, gas and other fuels	Other goods incl. motor fuels and lubricants	Services	Total
1995	..	..	..	123.1	115.8	123.5	128.7	163.6	130.7	128.9	128.3
1996	..	..	..	115.5	124.2	124.1	112.5	124.7	120.3	122.2	119.8
1997	..	..	..	120.0	117.7	115.8	108.0	133.7	112.8	119.1	118.4
1998	..	..	..	106.0	113.6	113.0	107.9	109.4	109.2	114.8	110.3
1999	..	..	..	105.7	110.6	107.9	104.0	108.2	121.4	113.7	111.2
2000	..	..	..	112.4	111.3	105.6	101.3	112.7	109.1	110.6	110.1
2001	..	..	..	109.5	110.3	104.8	99.3	107.5	102.1	108.4	106.8
2002	..	..	..	103.6	111.8	103.3	98.8	103.0	105.7	105.5	104.8
2003	..	..	..	104.8	109.8	104.3	98.8	111.5	103.1	106.7	105.7
2004	..	..	..	104.4	110.7	100.9	99.14	111.2	103.1	107.0	105.5
2005	November ⁽¹⁾	102.8	101.0	100.0	96.6	105.6	105.0	105.4	103.3

Source: Hungarian Central Statistical Office

(1) November/November data.

Although the rate of inflation has declined sharply since 1995, the process of disinflation was interrupted in 2000, but continued to decline from mid 2001 after the changes in monetary policy. Consumer prices increased by an average annual inflation rate of 5.3 per cent. in 2002, compared to 9.2 per cent. in 2001. This reduction in inflation was mainly caused by the significant appreciation of the Hungarian forint during 2001 and 2002 and supplemented by factors such as favourable food prices and delays to increases in regulated prices. In May 2003, the Consumer Price Index (the "CPI"), at 3.6 per cent., was at its lowest level for 22 years, but disinflation came to a halt due to the depreciation of the forint, the increases in regulated prices, higher oil prices and changes in relation to VAT. These factors explain the rise in the rate of VAT and the application of higher rates of VAT to many products and services. With these temporary effects being gradually eliminated, the inflation rate (which reached 7.6 per cent. in May 2004) fell to 3.2 per cent. in February 2005. Since March 2005 the CPI has been slightly increasing mainly due to the higher energy prices. In November 2005 the inflation rate was 3.3 per cent.

By the end of 2004, approximately 80 per cent. of all prices in Hungary were unregulated. The television licence fee was abolished in July 2002 and international telephony prices were deregulated, although for fixed (non mobile) telephone services some regulation still exists.

The following prices also remain regulated:

- Electricity
- Gas
- Purchased Heat
- Various pharmaceutical products
- State lottery
- Meals at schools, kindergartens, nurseries
- Local and long distance passenger transport
- State owned housing rent
- Various household utilities (including water and sewage charges, refuse collection service)
- Postal services

In 2003, regulated prices increased by an average of 5.4 per cent., although the index of regulated prices continuously increased over 2003 and reached 12.7 per cent. in March 2004. This was due to the fact that many previously scheduled increases in regulated prices had been postponed until 2003, thus creating inflationary pressures in 2003 and 2004. In 2004 and 2005 the regulated price index has been diminishing reaching 7.3 per cent. in December 2004 and 6.6 per cent. in September 2005.

In line with EU directives, the Republic intends to remove regulated pricing schemes from the increasingly market-based energy, postal and communication sectors. Within the energy sector the current proposed schedule for deregulation is 2007 for household consumption. The deregulation was implemented in July 2004 for the rest of the energy sector. The proposed deadline for deregulation in the postal service is 2007 for mail and 2009 for the whole sector.

Wages and Employment

The following table illustrates recent wage trends:

	<i>Annual Average</i>									
	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005 Jan–Sep</i>
Nominal wage index . .	117.4%	124.1%	118.4%	112.7%	111.4%	116.2%	119.5%	114.3%	105.7%	109.4%
Real wage index . .	95.0%	104.9%	103.6%	102.4%	101.5%	106.4%	113.5%	109.2%	99.0%	106.7%

Source: Hungarian Central Statistical Office

Real wages grew significantly in 2002 and also in 2003, although at a lower rate. The minimum monthly salary level increased from HUF 25,000 to HUF 50,000 in the two years to 2002. Salaries in public education and the health care sectors were raised by 50 per cent. in September 2002. The real wage index fell to 99.0 per cent. in 2004 compared to 2003. During 2005 real wages grew significantly. The higher real wage index is partly attributable to lower tax burden and the change in public employees' premium system. (The payment of the so called "13th month salary" was delayed from December 2004 to January 2005, by which it became "0th month salary".)

As with GDP growth, nominal and real wage changes have not been consistent across Hungary. Relatively stronger overall economic growth in western Hungary, and a labour force that is generally reluctant to move from one part of the country to another, have led to a substantial decrease in unemployment in western Hungary and disproportionately higher wage increases. Hungary's incentive policies are in part designed to increase employment levels in the eastern parts of the country. The following table illustrates the unemployment rate for each of the years indicated:

	<i>Annual Average</i>									
	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
Unemployment rate ⁽¹⁾	9.9%	8.7%	7.8%	7.0%	6.4%	5.7%	5.9%	5.9%	6.1%	<i>Q1-Q3</i> 7.2%

Source: Hungarian Central Statistical Office

(1) Based on international sampling methodology

The unemployment rate in 2004 was 6.1 per cent., which is considerably lower than the EU average, but in 2005 reached 7.2% mainly due to the increase in the activity rate. Labour unions have yet to gain any significant influence in Hungary and to date have not caused any substantial work stoppages. Labour unions are generally stronger in the public sectors of the economy.

Privatisation

Status of Privatisation Efforts

Since 1990, the Republic of Hungary has privatised nearly 1,300 enterprises of the 1,860 enterprises previously owned by the state both by direct sales and public offerings. The Hungarian Privatisation and State Holding Company (the “ÁPV Rt.”) manages such sales.

Most of the larger companies involved in the privatisation programme have already been partially privatised with only 139 companies being left with some degree of state ownership at year end 2004. Permanent government control is anticipated for 37 companies.

In 2003, the government announced an ambitious privatisation programme aimed at selling 18 to 20 companies. Of these, the privatisations of Postabank, Konzumbank and FHB (Land Credit and Mortgage Bank⁽³⁾) were completed in 2003. In 2004 the privatisation of MOL (Hungarian Oil Company) and Dunaferri (a steel company) were completed. In March 2004, the targeted sale of 25 per cent. plus one vote of Hungaropharma (pharmaceutical company) was accomplished. The issuance of an exchangeable bond on Richter (pharmaceutical company) shares has also been completed. In 2004 revenues of about HUF 413 billion were raised and HUF 209 billion were paid to the central budget.

On 31 March 2005 the ÁPV Rt. declared the one-stage privatisation procedure of Malév Hungarian Airlines unsuccessful, and decided to start a negotiated privatisation procedure. On 6 April 2005 14 parties had expressed interest and offers have been submitted to the ÁPV Rt. for the 99.95 per cent. share of Malév Hungarian Airlines, but the negotiated privatisation procedure was closed by ÁPV Rt. without result in August 2005. ÁPV Rt. still considers that retention of state ownership is not justified even on a medium term basis.

On 7 April 2005 the ÁPV Rt. decided to offer the 75 per cent. plus 1 share of Antenna Hungaria on a two stage privatisation procedure and signed the agreement in July 2005.

ÁPV Rt. closed the tender for Budapest Airport's privatisation on 14 November 2005. The British BAA International Holdings achieved the highest score and placed the highest financial bid. BAA offered approximately HUF 464.5 billion as the immediate transaction price. The contract between ÁPV Rt. and BAA has been signed and the transaction was settled on 23 December 2005. The privatisation of an 11.8 per cent. share with the exemption of 1 share of MOL Rt. is still ongoing.

Methods of Privatisation Used

Hungary is unique in Central Europe in that a large majority of its privatisations utilise public tenders, with sales on a cash basis. Such outright sales, often to strategic long-term investors, have been successful in bringing new management and know-how to many Hungarian enterprises.

(3) Following privatisation the state only owns a majority stake in the Land Credit and Mortgage Bank.

Until 2003 compensation vouchers were also used as a tool of privatization. In recent years the importance of compensation vouchers has decreased significantly. Compensation vouchers were rights distributed to individual Hungarian citizens pursuant to the Compensation Act which was designed to provide compensation for losses suffered, including the loss of property and personal freedom. These compensation vouchers entitled the holders to bid for shares in certain privatised entities. In 2003, in order to end the compensation voucher system, the government decided to offer the shares of FORRÁS Trust and Investment Company (a state owned asset management company) in exchange for the compensation vouchers. In June and July 2003, the offering was completed and the shares of FORRÁS Trust and Investment Company were listed on the Budapest Stock Exchange.

Recent Developments

Monetary and exchange rate policy

In May 2001, the NBH widened the exchange rate band within which the forint could trade to 15 per cent. either side of HUF 276 / €. Then, in June 2001, it adopted an inflation targeting framework, consistent with its primary objective of achieving and maintaining price stability. These changes allowed the NBH greater flexibility to resume a disinflationary policy.

During 2001 and 2002, the NBH kept its base interest rate high in order to reduce inflation to the target level. This led to a gradual appreciation in the forint against the Euro during the year from to HUF 245 / € at the start of the year to HUF 236 / € by 31 December 2002.

In early 2003, strong portfolio inflows pushed the forint to the upper band limit of HUF 235 / €. To defend the forint, the NBH intervened in the foreign exchange market by selling forints and cut interest rates by 100 basis points on both 15 and 16 January 2003. The second rate cut was accompanied by the widening of the overnight interest rate corridor to 3 per cent. in order to stem the flow of short-term speculative money into Hungary. Afterwards, until June 2003, the forint fluctuated to around HUF 245 / €.

In June 2003, the government and the NBH decided on shifting the central parity by 2.26 per cent. to HUF 282.39 / €. This unexpected measure and the growing uncertainty about Hungarian monetary conditions caused depreciation in the forint of roughly 10 per cent. to HUF 265 / € prompting the NBH to raise interest rates in defence of the Hungarian currency by a total of 300 bps, to a level higher than in the beginning of the year.

This increase stabilised the forint below the HUF 260 / € level until the end of November 2003, when it again weakened sharply. In order to support the forint and defend its medium term inflation target, the NBH increased the base rate by another 300 basis points, up to 12.5 per cent. at the end of November 2003. As a result of this action and the gradual improvement in fiscal prospects, the forint strengthened significantly and has recently traded around the HUF 250 / € level. On the effect of these favourable signs the NBH has cut interest rates cautiously since March 2004. The central bank rate stood at 6.0 per cent. as of 15 December 2005.

Owing primarily to the former depreciation of the forint, the increase in VAT, higher oil prices and the high fiscal deficit, the NBH abandoned the inflation target for 2004 (3.5 per cent. +/- 1 per cent.). The NBH therefore started to focus its inflation rate targeting primarily on 2005, for which the target rate is 4 per cent. (+/- 1 per cent.). The inflation target rate for 2006 is 3.5 per cent. +/- 1 per cent. The inflation in November 2005 reached 3.3 per cent. According to the latest Report on Inflation published in November, NBH has reported that there is a high probability of achieving the 2005 and 2006 inflation targets. The government and the central bank set an inflation target of 3 per cent. +/- 1 per cent. for 2007 and the following years. In the future central bank will permanently monitor the inflation for the coming 5-9 quarters and continuously adjust the monetary policy appropriately.

On 20 December 2004, Mr. Ferenc Mádl, the President of the Republic of Hungary, signed a bill on the amendment of the Act No. LVIII of 2001 on the National Bank of Hungary (the “**National Bank of Hungary Act**”). Most importantly, the amendment increases the number of Monetary Council members from a minimum of seven and maximum of nine members up to a minimum of nine and maximum of eleven members (see “Monetary and Financial System – National Bank of Hungary”). According to the amendment, only the Governor and one of the Deputy Governors of the National Bank of Hungary can become a member of the Monetary Council (currently, there are three Deputy Governors in the Monetary Council, but according to the

amendment all three Deputy Governors shall remain in the Monetary Council until the end of their respective mandates). For the remaining positions in the Monetary Council, the Prime Minister can nominate up to five members, and the Governor with the consent of the Prime Minister nominates the remaining members. Pursuant to the amendment the Prime Minister nominated four new members, therefore, the number of members of the Monetary Council have, upon approval of the President, temporarily increased to thirteen, however, after the termination of the mandates of two current Monetary Council member Deputy Governors, the number of members will drop to eleven.

Fiscal policy

On 1 December 2004, the Minister of Finance announced the revision of the Convergence Programme in the light of the European Union's Statistical Office's ("**Eurostat**") announcement that revenues of private pension funds (see "Public Finance – Social Security and Extra-Budgetary Funds – Pension System") may be treated as government revenues until 2007.

The budget approved for the year 2005 according to ESA methodology provides for total expenditures of the central government of HUF 6,493.5 billion, total revenues of HUF 5,824.2 billion, and a central government deficit of HUF 699.3 billion. For 2005, the approved total non-consolidated ESA expenditures of the general government are HUF 13,109.9 billion and the approved total non consolidated revenues are HUF 12,056.4 billion, which would result in the general government deficit being HUF 1,053.5 billion, or 4.7 per cent. of GDP according to ESA 95 methodology (excluding private pension funds).

On 12 January 2005, Fitch Ratings Ltd. downgraded the Republic's Long-term local currency rating to "A" from "A+". The Republic's Long-term foreign currency rating did not change and remained at "A-". The rating agency noted that the Republic's sovereign ratings remained under some downward pressure owing to large and persistent twin budget and current account deficits, which involved sizeable financing needs and upward pressure on public and external debt ratios.

On 7 March 2005, the Minister of Finance announced that the central government general reserves should be increased from current HUF 78.2 billion to approximately HUF 100 billion in light of high January and February central government deficit.

On 22 March 2005, the European Union decided the ESA95 deficit figures should be adjusted in some countries, including Hungary. Due to introduction of the private pension system a given ratio of revenue shortfall should be deducted from the ESA95 deficit figure when measuring the Maastricht criterion related to government deficit per GDP ratio. In the year 2004 and 2005 100 per cent. of the revenue shortfall should be deducted, in 2006 80 per cent., in 2007 60 per cent., in 2008 40 per cent., in 2009 20 per cent. of the revenue shortfall should be deducted from ESA 95 deficit figures.

On 23 March 2005, the government decided to restrict the central government institutions spending to only 35 per cent. of the expenditures planned for the year 2005 in the first half of 2005 with a few exceptions amounting to HUF 730.5 billion.

The EU Commission has criticised Hungary's high budget deficits several times in recent years, following the country's failure to reach targets that it set itself in reducing its budgetary deficit. In December 2004, the European Commission stated that Hungary was the only country among the 10 new member states not to take effective action to curb its large budget deficit. Subsequently the European Commission initiated a so-called "excessive deficit procedure" against Hungary for failing to achieve these targets. Hungary now has until early July to submit its new measures which will be assessed by the Commission to decide if any additional measures are needed. Since Hungary is not yet member of the euro area, the last two steps of the excessive deficit procedure do not apply, which potentially would oblige Hungary to make a penalty payments to EU budget. However, the non-compliance with the recommendations could end in the freeze of some EU subventions.

On 18 April 2005, Prime Minister Mr. Ferenc Gyurcsány replaced Minister of Finance Mr Tibor Draskovics with former deputy secretary of the Ministry of Finance Mr. János Veres.

On 27 May 2005, Standard & Poor's Ratings Services lowered its long- and short-term local currency sovereign credit ratings on the Republic of Hungary to "A-" and "A-2" from "A" and "A-1", respectively, due to the country's weakened fiscal outlook and poor prospects for medium-term fiscal consolidation. At the same time, the "A-" long-term "A-1" short-term foreign currency ratings on the sovereign were affirmed and the outlook is stable.

On 27 June 2005, Prime Minister Mr. Ferenc Gyurcsány announced a 5-year plan for tax reform as part of the "100 Steps Programme". In line with this plan, from the year 2006 the highest (25 per cent.) VAT rate has been cut by 5 percentage points, the highest (38 per cent.) Personal Income Tax ("PIT") rate by 2 percentage points and the government introduced various measures to reduce the taxation of corporations. The government plans to implement additional tax reducing measures in the next few years. The plan also includes, some tax raising measures. From 2006 on, the government introduced the so-called "Luxury Tax", a tax imposed on expensive (worth above HUF 100 million) residential buildings.

On 26 September 2005, the Eurostat published the revised budget data for the years 2001-2004 according to ESA methodology. In 2004, the general government deficit (local governments and pension reform correction effect included) amounted to HUF 1,098 billion. The deficit was approximately HUF 197 billion higher than the previous estimate. The main source of the difference is the change in the accounting methodology of the 0th month (previously 13th month) salary of public employees.

On 28 September 2005, the government revised the 2005 expected budget. According to ESA'95 methodology the 2005 budget deficit (local governments and pension reform correction effect included) will amount to 6.1 per cent. of GDP. The deficit according to GFS methodology is unchanged. The reason for the correction of expected ESA'95 deficit is the Eurostat's decision on accounting rule for expenditures in relation with motorways built in certain PPP (public-private partnership) projects.

On 30 September 2005, the government submitted the budget proposal for the year 2006 to the Parliament. In 2006, according to the proposal, the general government deficit according to GFS methodology would reach 1,594.0 billion (local governments included and pension reform correction effect not included). The budget can be modified under parliamentary procedure due to amendments.

On 3 October 2005, the CSO modified the calculation methodology of the gross domestic product. From 2005, according to the applicable EU regulations Financial Intermediation Services Indirectly Measured (FISIM) has to be calculated on a new methodology and has to be allocated to user sectors/industries. Therefore, the CSO revised upwards the GDP data for the years 2002, 2003 and 2004 due to this methodological change. Subsequently, in November 2005 the CSO published revised GDP data for the years 2000 and 2001. The data expressed as the percentage of GDP above in this paragraph are adjusted to this revision.

On 20 October 2005, the Ministry of Finance revised upwards the expected general government deficit for the year 2006 according to ESA'95 methodology from 4.7 per cent. of GDP to 5.2 per cent. of GDP (local governments and pension reform correction effect included) due to a change in the accounting methodology concerning the payments for Grippen fighters.

In Autumn 2005 Prime Minister Mr. Ferenc Gyurcsány announced the Convergence Programme shall be revised by the end of the year 2005. On 30 November the Government approved the revised Convergence Programme, and the new, revised Convergence Programme was published and sent to the European Commission, the ECOFIN Council and the Parliament of Hungary. Subsequently, on 11 January 2006 the European Commission released its statement, according to which the structural measures lack the necessary quantifications to judge their short and medium-term budgetary effects. Based on past track record the budgetary outcomes could be different than projected in the programme. The budgetary strategy in the programme therefore needs to be substantiated to ensure its consistency with the correction of the excessive deficit by 2008. At 58½% of GDP in 2006, the debt ratio is close to the reference value. The sustainability of Hungarian public finances appears to be at high risk given the projected budgetary costs of an ageing population. A large consolidation of public finances over the medium term and a strengthening of the budgetary position thereafter are necessary to reduce risks to public finance sustainability. As a conclusion the Commission invited the Council to ask Hungary to present, by 1 September 2006, a revised update of its convergence programme, which should identify concrete and structural

measures that are fully consistent with Hungary's medium-term deficit reduction path. In the meantime, Hungary should pursue its efforts to achieve its budgetary objectives for 2006 and beyond.

On 6 December Fitch Ratings credit rating agency lowered its long-term local and foreign currency sovereign credit ratings on the Republic of Hungary to "A–" and "BBB+" from "A" and "A–", respectively, due to the country's weakened fiscal outlook and possible delays in introducing the euro in 2010. The outlook is stable.

On 19 December the Parliament approved the budget for the year 2006. The general government deficit for the year 2006 is planned to reach HUF 1,580.6 billion according to GFS methodology (local governments included, pension reform correction effect not included) equalling 6.8 per cent. of GDP, according to ESA methodology the general government deficit for the year 2006 is planned to reach HUF 1,419.9 billion (local governments included, pension reform correction effect not included) equalling 6.1 per cent. of GDP.

On 5 January 2006 the Ministry of Finance published the preliminary general government deficit (local governments not included, pension reform correction effect not included) for the year 2005 according to GFS methodology. The deficit reached HUF 984.4 billion equalling 4.4 per cent. of GDP for the year 2005. The general government deficit (local governments included, pension reform correction effect included) for the year 2005 according to ESA methodology reached 6.1 per cent. of GDP for the year 2005.

BALANCE OF PAYMENTS AND FOREIGN TRADE

Balance of Payments

The following table sets out the balance of payments of Hungary for the past seven years:

				<i>Balance of Payments⁽¹⁾</i>								
				<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
				<i>Euro million</i>								
				<i>Q1-Q3</i>								
1.	Goods, net	..	..	(1,165)	(1,685)	(2,044)	(3,180)	(2,496)	(2,203)	(2,898)	(2,446)	1,121
1.1	Exports	..	..	17,083	21,057	24,059	31,278	34,697	36,821	38,377	45,074	36,186
1.2	Imports	..	..	18,248	22,742	26,102	34,457	37,193	39,024	41,275	47,520	37,307
2.	Services total, credit,	..	..	5,146	4,811	4,910	6,429	7,865	7,820	7,674	8,294	7,155
	Debit,	..	..	3,583	3,736	4,094	5,195	6,203	7,233	8,075	8,343	6,998
	Net	..	..	1,562	1,075	816	1,234	1,661	587	(401)	(49)	158
3.	Income, credit,	..	..	1,363	1,114	843	1,262	1,452	1,316	1,214	1,475	1,002
	Debit	..	..	3,752	3,745	3,555	4,054	4,644	5,154	4,892	6,370	5,166
	Net	..	..	(2,389)	(2,631)	(2,713)	(2,792)	(3,192)	(3,838)	(3,678)	(4,895)	(4,165)
4.	Current transfers, net	..	..	179	215	408	385	450	525	595	254	75
4.1	General, government, (S.13)											
	net	..	..	(4)	(40)	28	28	35	75	118	(207)	(163)
4.2	Other sectors, (S.1-S.13) net	..	..	183	255	380	357	415	451	477	460	238
I.	Current account (1+2+3+4)	..	..	(1,812)	(3,026)	(3,531)	(4,352)	(3,577)	(4,929)	(6,382)	(7,136)	(5,053)
II.	Capital account (5+6+7)	..	..	104	170	31	300	358	202	(32)	260	429
III.	Financial account (8+9+10)	..	..	1,868	3,890	6,096	5,401	3,133	2,605	6,746	9,570	8,488
8.	Direct investment, net	..	..	3,278	2,743	2,872	2,334	3,992	2,889	424	2,852	1,768
9.	Portfolio investment, net	..	..	(941)	1,786	1,851	(380)	1,723	1,976	2,932	5,839	3,639
10.	Other investment, net	..	..	(469)	(639)	1,374	3,447	(2,582)	(2,260)	3,390	879	3,081
IV.	Net errors and omissions	..	..	(286)	(274)	(355)	(190)	26	156	200	(1,166)	1,143
V.	Overall balance (I+II+III+IV)	..	..	(127)	760	2,241	1,158	(60)	(1,965)	532	1,528	2,721
VI.	International reserves	..	..	127	(760)	(2,241)	(1,158)	60	1,965	(532)	(1,528)	2,721

Source: National Bank of Hungary.

- (1) In 2003 there was a methodological change in the calculation of the balance of payment statistics related to reinvested earnings in order to bring the methodology in line with international standards. Reinvested earnings increase the current account deficit, but this increase is automatically financed, since reinvested earnings are also reported in the capital account. Thus, the current account deficit appears to increase although in reality this is just a phenomenon of the change in the calculation methodology utilised. The data used in the tables and in the text is based on this new methodology.

Hungary has experienced a growing current account deficit since 2001, as the deficit (as a percentage of GDP) increased from 6.2 per cent. to 8.8 per cent. in 2004.

In 2004, the external deficit grew to EUR 7,136 million mainly due to the strong internal demand caused partly by increasing investments and high fiscal deficit. The net foreign direct investment has decreased significantly as Hungarian companies (MOL, OTP and others) have increased their presence in the region in 2003. The net FDI inflow in 2004 reached the high levels experienced in previous years.

In spite of the notable current deficit, the worsening trend reversed in the second half of 2003 and there has been a significant improvement, most notably in the first half of 2004 in the figures for net exports of goods, since then.

Foreign Trade

The following tables present the distribution of Hungary's trade in goods for the periods indicated:

External trade

Year	1997	1998	1999	2000	2001	2002	2003	2004	2005
									<i>Q1-Q3</i>
					<i>(HUF billion)</i>				
Exports ..	3,566.8	4,934.5	5,938.5	7,942.8	8,748.2	8,874.0	9,643.7	11,232.4	8,894.6
Imports ..	3,961.2	5,511.5	6,645.6	9,064.0	9,665.1	9,704.1	10,695.4	12,218.9	9,414.8

Source: Hungarian Central Statistical Office and National Bank of Hungary

Exports

External trade by country groups

Year			<i>OECD</i> <i>countries</i>	<i>EU15</i> <i>countries</i>	<i>Central and</i> <i>Eastern</i> <i>European</i> <i>countries</i>	<i>CEFTA</i> <i>countries</i>	<i>Developing</i> <i>countries</i>	<i>Total</i>
					<i>(HUF billion)</i>			
1997			2,910.7	2,539.0	684.3	258.9	119.8	3,566.8
1998			4,156.6	3,600.2	782.8	437.6	188.8	4,934.5
1999			5,199.2	4,526.5	736.5	465.1	223.5	5,938.5
2000			6,942.8	5,965.2	1,026.8	647.7	284.9	7,942.8
2001			7,536.2	6,497.9	1,228.6	790.4	314.5	8,748.2
2002			7,649.9	6,667.5	1,235.5	795.8	359.1	8,874.0
2003			8,152.8	7,100.3	1,512.6	972.6	388.9	9,643.7
2004			9,285.1	7,952.5	1,329.5 ⁽¹⁾	949.7 ⁽²⁾	975.3 ⁽³⁾	11,232.4
2005 Q1-Q3 ..			7,089.4	5,875.8	1,213.0 ⁽¹⁾	943.7 ⁽²⁾	862.1 ⁽³⁾	8,894.6

Source: Hungarian Central Statistical Office and National Bank of Hungary

(1) Non-EU-member European countries.

(2) Countries joined the EU in 2004.

(3) Non European countries.

External trade by commodity groups

Year			<i>Food</i> <i>beverages</i> <i>tobacco</i>	<i>Crude</i> <i>Materials</i>	<i>Fuels</i> <i>electric</i> <i>energy</i>	<i>Manufactured</i> <i>goods</i>	<i>Machinery</i> <i>and</i> <i>transport</i> <i>equipment</i>	<i>Total</i>
					<i>(HUF billion)</i>			
1997			462.7	135.8	94.1	1,262.8	1,611.4	3,566.8
1998			520.1	144.9	93.1	1,612.2	2,564.3	4,934.5
1999			474.1	146.9	96.3	1,819.9	3,401.4	5,938.5
2000			550.5	187.7	140.4	2,299.3	4,765.0	7,942.8
2001			656.2	173.7	169.4	2,712.8	5,036.0	8,748.2
2002			601.3	177.5	145.2	2,740.1	5,209.8	8,874.0
2003			630.3	198.8	157.1	2,762.0	5,895.5	9,643.7
2004			671.8	244.6	213.0	3,088.7	7,014.3	11,232.4
2005 Q1-Q3 ..			516.9	184.0	235.9	2,520.0	5,437.8	8,894.6

Source: Hungarian Central Statistical Office and National Bank of Hungary

Imports

External trade by country groups

			OECD countries	EU15 countries	Central and Eastern European countries	CEFTA countries	Developing countries	Total
Year								
(HUF billion)								
1997	..	..	3,079.9	2,486.5	735.0	257.7	346.2	3,961.2
1998	..	..	4,411.0	3,533.7	831.7	379.0	563.4	5,511.5
1999	..	..	5,328.5	4,279.7	953.4	480.8	735.0	6,645.6
2000	..	..	6,872.5	5,292.8	1,546.0	683.6	1,178.8	9,064.0
2001	..	..	7,249.7	5,585.7	1,606.6	765.2	1,351.6	9,665.1
2002	..	..	7,108.1	5,458.8	1,611.6	820.2	1,607.1	9,704.1
2003	..	..	7,773.3	5,883.1	1,865.9	975.3	1,822.5	10,695.4
2004	..	..	9,446.3	7,635.4	1,406.4 ⁽¹⁾	1,126.6 ⁽²⁾	2,050.5 ⁽³⁾	12,218.9
2005 Q1-Q3	..	..	6,947.6	5,491.5	1,179.5 ⁽¹⁾	940.8 ⁽²⁾	1,802.9 ⁽³⁾	12,218.9

Source: Hungarian Central Statistical Office and National Bank of Hungary

(1) Non-EU-member European countries.

(2) Countries joining the EU in 2004.

(3) Non European countries.

External trade by commodity groups

			Food beverages tobacco	Crude Materials	Fuels electric energy	Manufactured goods	Machinery and transport equipment	Total
Year								
(HUF billion)								
1997	..	..	167.1	129.6	378.7	1,621.7	1,664.0	3,961.2
1998	..	..	205.3	163.2	361.3	2,215.0	2,566.7	5,511.5
1999	..	..	200.8	149.0	406.8	2,554.5	3,334.4	6,645.6
2000	..	..	248.3	198.6	760.0	3,190.3	4,666.9	9,064.0
2001	..	..	281.4	165.1	792.2	3,413.7	4,982.6	9,665.1
2002	..	..	292.4	194.2	725.7	3,445.9	5,045.8	9,704.1
2003	..	..	327.1	211.3	825.0	3,811.1	5,520.9	10,695.4
2004	..	..	448.7	226.7	886.1	4,194.0	6,463.5	12,218.9
2005 Q1-Q3	..	..	361.8	174.6	924.8	3,188.1	4,765.4	9,414.8

Source: Hungarian Central Statistical Office and National Bank of Hungary

In recent years, Hungary's foreign trade in goods with industrialised countries (in particular EU countries) has increased. OECD countries accounted for 82.0 per cent. of Hungary's exports and 77.3 per cent. of imports in 2004. Within that, EU countries accounted for 78.8 per cent. of exports and 71.7 per cent. of imports.

Hungary has entered into trade and co-operation agreements with the EU, EFTA and with certain Central European countries designed to lower or eliminate trade barriers. During 1996, Hungary became a full member of the OECD. Hungary became a Member State of the EU on 1 May 2004. See "The Republic of Hungary – Overview – International Relations – European Union".

Foreign Direct Investment

The information below sets out foreign direct investment⁽¹⁾ (“**FDI**”) in Hungary for the periods indicated:

<i>Year ended 31 December</i>											2005
	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>Q1-Q3</i>
Foreign direct investment in Hungary (ECU/Euro billion)	3.65	2.63	3.28	2.74	2.87	2.33	3.99	2.89	0.42	2.85	1.77

Source: National Bank of Hungary

(1) The FDI data is calculated based on the new methodology concerning reinvested earnings described above.

The level of cumulative FDI reached Euro 45.3 billion in December 2004, which equates to approximately half of GDP for 2004. In 2003, due to the expansion abroad of major Hungarian companies such as OTP and MOL, the FDI outflow was significantly higher compared to previous years, which explains about 60 per cent. of the net FDI decrease. The remainder can be attributed to the unfavourable global investment environment, which has led to moderate investment in Hungary. In 2004 and the first half of 2005, due to the favourable global and regional investment environment, the net FDI inflow was significantly higher than in 2003, and the volume of FDI is expected to reach the high volumes experienced in previous years.

Foreign Exchange Reserves

The following table presents the level of Hungary’s gold and foreign exchange reserves at the dates indicated:

<i>Year ended 31 December</i>											2005
	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>November</i>	
<i>(ECU/Euro million)</i>											
International net gold reserves ⁽¹⁾	30	26	25	29	30	32	33	33	32	41	
Foreign exchange ⁽²⁾	7,819	7,614	7,977	10,845	12,038	12,163	9,887	10,108	11,671	14,734	
Total	7,849	7,640	8,002	10,874	12,068	12,195	9,920	10,142	11,703	14,175	

Source: National Bank of Hungary

(1) Gold valued at London fixings on the relevant date.

(2) Consists of foreign currencies, including the counterparts of swapped gold, converted at exchange rates at the dates shown.

MONETARY AND FINANCIAL SYSTEM

National Bank of Hungary

The National Bank of Hungary (the “NBH”) is the central bank of Hungary. Its primary responsibility is to use monetary instruments to achieve and maintain price stability and, without prejudice to this objective, to support the economic policy of the government. These instruments include:

- establishing reserve ratios for commercial banks;
- setting the rates for the NBH’s open market operations, which include sales and purchases of government securities from commercial banks and engaging in other similar transactions to regulate liquidity within the economy; and
- determining exchange rate policy in agreement with the government.

Monetary policy objectives and main methods to achieve them

In accordance with its primary goal as set forth by law, the NBH is expected to gradually take steps to achieve and maintain price stability. At its meeting held on 12 June 2001, the Central Bank Council of the NBH decided to conduct its monetary policy within the framework of inflation targeting supplemented by the recently implemented exchange rate regime which uses a wide fluctuation band. The monetary policy uses its available instruments to keep the rate of inflation within the target band.

The main monetary policy instrument of the central bank is its two-week deposit facility. The NBH periodically accepts unlimited two-week deposits at the policy rate. The NBH, furthermore, reduces the volatility of overnight interest rates by maintaining an interest rate band around the policy rate. The width of the band is ± 1 per cent. Reform of the required reserve system has continued since 2001. The required reserve ratio has declined from 17 per cent. in 1995 to 5 per cent. since September 2002. The cut in the effective reserve ratio is intended to contribute to the narrowing of the spread between deposit and lending rates.

Composition of the Money Supply

				<i>As at the end of</i>							
				<i>December</i>	<i>December</i>	<i>December</i>	<i>December</i>	<i>December</i>	<i>December</i>	<i>December</i>	<i>October</i>
				<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
				<i>(HUF billion)</i>							
M1				1,991	2,362	2,654	3,113	3,648	4,028	4,169	4,692
Quasi-money ⁽¹⁾				2,387	2,706	3,027	3,521	3,895	4,548	5,258	5,398
M2 ⁽²⁾				4,378	5,068	5,681	6,634	7,543	8,575	9,427	10,090
Securities of financial institutions				212	125	449	544	304	214	377	584
M3				4,590	5,192	6,130	7,178	7,847	8,789	9,804	10,674
Government paper and NBH bonds outside the banking system				1,771	2,390	2,561	2,881	3,540	4,295	4,700	5,201
M4 ⁽³⁾				6,362	7,583	8,690	10,059	11,387	13,084	14,505	15,875
				30	42	54	66	78	90	102	112

Source: National Bank of Hungary

(1) Quasi-money = fixed term forint deposits + all foreign currency deposits.

(2) M2 = M1 + quasi-money.

(3) M4 = M3 + government securities and NBH bonds outside the banking system.

National Bank of Hungary Interest Rates

The following table sets forth indicative interest rates of the NBH as at the dates shown:

	(%, end of period)									
	December 1996	December 1997	December 1998	December 1999	December 2000	December 2001	December 2002	December 2003	December 2004	November 2005
Main official interest rate	22.25 ⁽¹⁾	19.75 ⁽¹⁾	16.75 ⁽¹⁾	14.25 ⁽²⁾	11.75 ⁽²⁾	9.75 ⁽²⁾	8.50 ⁽²⁾	12.50 ⁽²⁾	9.5 ⁽²⁾	6.00 ⁽²⁾
Real rate	2.0	1.1	5.8	2.7	1.5	2.8	3.5	6.4	3.8	2.6 ⁽³⁾

Source: National Bank of Hungary

(1) 1 month.

(2) 2 weeks.

(3) Calculated according to the latest available (September 2005) CPI data.

The NBH does not use money supply targets as an instrument of monetary policy. The money supply flexibility adjusts to the money demand, which is indirectly influenced by the monetary policy. Increases in monetary aggregates are slowing due to the decrease in the rate of inflation.

At the beginning of 2003, the NBH reduced its benchmark 2 week interest rate twice by 100 basis points each. Later on in 2003 the central bank base rate was increased three times by 600 basis points altogether – see “The Economy – Recent Developments” above. On 23 March 2004 the NBH reduced the central bank base rate by 25 basis points, two weeks later by an additional 25 basis points and then on 3 May 2004 by a further 50 basis points. On 16 August 2004 the NBH reduced the central bank base rate by 50 basis points. Since October 2004 the NBH reduced the central bank base rate in each month by 25-75 basis points. In 2004 the central bank base rate was decreased by 300 basis points, while in the first nine month of 2005 the NBH reduced the central bank base rate by a further 350 basis points. On 19 December 2005 the base rate stood at 6.00 per cent.

Exchange Rate Policy and Operations

According to Act LVIII of 2001, the National Bank of Hungary and the government jointly determines the framework of the exchange rate regime. As a result of a joint decision in May 2001, the forint is currently measured against a currency basket, which contains only Euro. The exchange rate may shift against the Euro up to the margin of +/- 15 per cent. within the fluctuation band.

Foreign Exchange and Convertibility of the Forint

Since 1996, Hungarian foreign exchange regulations have been consistent with the convertibility standards of Article VIII of the IMF and with the regulations of the OECD.

Since January 1998, Hungarian residents have been able to purchase shares and debt instruments with a maturity of at least one year issued by all OECD based issuers, and non-residents have been able to issue such instruments denominated in foreign currency in the Hungarian securities market. Since January 1998, Hungarian companies and individuals have also been able to receive foreign exchange denominated loans with a maturity of more than one year (with certain reporting obligations) and have been able to take out foreign exchange denominated loans with a maturity of less than one year with approval from the NBH.

In accordance with the continuous liberalisation of restrictions on capital movements in recent years, effective from mid-June 2001, pursuant to Government Decree 88/2001 (VI.15.), (which was replaced by Act XCIII of 2001) the forint is fully convertible, not only in terms of current transactions but in terms of capital transactions as well. The main remaining restrictions relating to foreign investment have been removed: non-residents have unrestricted access to Hungarian short-term securities, HUF-denominated accounts and the on-shore derivatives market, and residents have unrestricted access to off-shore financial services and short-term foreign securities. Minor restrictions remain which have the objective of preventing money laundering. The full convertibility of the forint meets all EU requirements.

The Hungarian Banking System

Since 1 April 2000, the supervisory agencies for commercial banks, investment activities, pension funds and insurance activities have been brought together under one umbrella agency – the Hungarian Financial Supervisory Authority (in Hungarian: *Pénzügyi Szervezetek Állami Felügyelete*). There still are, however, separate legislative regimes for banking, insurance, pension funds and investment services. Currently, the laws for insurance, banking and pension funds are stable and almost totally EU compliant.

Since 1991, Hungary's banking system has been subject to a regulatory and supervisory framework based on principles and guidelines of the Bank for International Settlements. Act CXII of 1996 on Credit Institutions and Financial Enterprises (the "**Credit Institutions Act**"), in effect since 1 January 1997, endeavours to facilitate harmonisation of the Hungarian banking system with the European Union uniform banking standards.

Supervision of the Hungarian Banking System

Supervision of banking activities in Hungary has strengthened as the banking system has developed. Bank supervisory responsibilities have largely been transferred to the Hungarian Financial Supervisory Authority, with the National Bank of Hungary retaining a more limited supervisory role.

Role of the NBH

While the NBH has no legal obligation to support Hungary's credit institutions, the NBH may serve as a lender of last resort to the credit institutions if such credit institutions encounter temporary liquidity difficulties. Any loans made by the NBH to Hungary's credit institutions in its capacity as lender of last resort constitute general unsecured obligations of such commercial banks.

Role of the Hungarian Financial Supervisory Authority

The Hungarian Financial Supervisory Authority must license a credit institution before it may establish itself, commence operations, establish a representative office or a subsidiary abroad, elect its management, acquire shares of a non-resident entity representing a qualifying holding (10 per cent.) or terminate its operations. Since Hungary became an EU Member State on 1 May 2004, this will not apply to credit institutions having their seat in an EU Member State.

The Hungarian Financial Supervisory Authority is responsible for verifying compliance by the credit institutions with the Credit Institutions Act and applicable banking regulations. The Hungarian Financial Supervisory Authority is entitled to impose various sanctions on credit institutions, including issuing warnings of non-compliance, withdrawing licenses, instituting liquidation proceedings and imposing fines on credit institutions and the managers thereof.

Banking Regulations

The Hungarian Financial Supervisory Authority does not have the power to issue regulatory decrees. Act CXX of 2001 on the Capital Markets (the "**Capital Markets Act**") and the Credit Institutions Act set forth matters upon which the government or Ministry of Finance may issue regulatory decrees.

The Credit Institutions Act requires Hungarian credit institutions to maintain a solvency ratio of 8 per cent. Pursuant to its authority under the Credit Institutions Act, the Ministry of Finance has issued a decree on the calculation of the solvency ratio. The decree adopts BIS standards prescribing how the ratio of a bank's regulatory capital and such bank's risk weighted assets (on and off balance sheet items) must be calculated. In addition, the Ministry of Finance has issued decrees requiring credit institutions to create provisions based both on the quality of their assets (which include loans, investments and off balance sheet items) and on certain foreign country risks present in their assets.

Portfolio risk provisions are calculated by categorising the assets of a credit institution into the following categories: standard, watch, substandard, doubtful and bad. Assets are placed in the categories based on the performance of the asset and the financial condition of the debtor. Provisions are made based on the asset category 0 per cent. for standard assets, 0 per cent. to less than or equal to 10 per cent. for watch assets, greater

than 10 per cent. to less than or equal to 30 per cent. for substandard assets, greater than 30 per cent. to less than or equal to 70 per cent. for doubtful assets and greater than 70 per cent. to 100 per cent. for bad assets.

The value of any collateral, including real estate, held against an asset may be used to offset the need to make provisions. The decree requiring provisions does not provide guidelines on the extent to which collateral may be used for this purpose. Individual banks are required to create their own guidelines, which are to be approved annually by their auditors.

Country risk provisions are determined using a table, which sets forth the amount of provisions required based on the nationalities of the debtors in a credit institution's portfolio. The country risk decree also requires credit institutions to set absolute limits on the proportion of the relevant credit institution's total assets which may be from a particular country.

In 2001, Hungary harmonised its guidelines on capital adequacy requirements for investment institutions and commercial banks with EU Directive 93/6.

Structure of the Hungarian Banking System

The Credit Institutions Act provides for three types of credit institutions:

- banks;
- specialised credit institutions; and
- cooperative credit institutions.

As of 30 June 2005, there were 35 fully-authorised commercial banks and specialised credit institutions excluding the Hungarian Development Bank (“**MFB**”) and the Hungarian Export-Import Bank Ltd. (“**Hungarian Eximbank**”), which carry out special public functions and policies. The number of cooperative institutions amounted to 175, of which 5 were credit cooperatives and 170 were savings cooperatives. In addition, as of 30 June 2005 there were 29 insurance companies and 19 brokerage houses.

Only credit institutions are entitled to receive deposits from the public and provide money transmission services. In addition, banks are entitled to provide the full range of financial services listed in the Credit Institutions Act, including making loans, issuing guarantees, trading foreign currencies, issuing bank cards and providing depository services. Banks may also engage in, for their own account or for the accounts of customers, the trading of government and corporate securities, trading in derivatives and may provide investment services. The total assets of the credit institutions were HUF 15,936.3 billion in June 2005.

Banking survey (% change, year on year)

					1999	2000	2001	2002	2003	2004
Domestic credit ..	..	..	..	..	2.2	14.7	4.8	15.8	20.9	14.1
Credits to enterprises ..	..	..	..	..	n/a	n/a	9.5	5.9	19.6	13.3
Credits to households ..	..	..	..	..	n/a	n/a	47.2	65.8	60.9	27.2
Broad money (M3) ..	..	..	..	..	13.1	18.0	17.1	9.3	12.0	11.6

Source: National Bank of Hungary

Note: Disaggregated data are not available for 1999 and 2000 due to a methodological change implemented in 2001.

Specialised credit institutions are limited with respect to the scope of services they may provide and with respect to the types of clients to which they may provide such services. Specialised credit institutions include the two housing savings associations and two private mortgage banks. There are three special state-owned institutions: the Land Credit and Mortgage Bank⁽⁵⁾, the Hungarian Development Bank Ltd. and the Hungarian Eximbank⁽⁶⁾. As of 30 June 2005, the aggregate total assets of specialised credit institutions were HUF 1,595.6 billion.

Cooperative institutions may only provide limited types of financial services, primarily the taking of deposits and the making of small loans. Hungarian cooperative institutions had, as of 30 June 2005, an aggregate of HUF 1,130.6 billion in total assets.

In addition to the credit institutions discussed above, several other financial entities play an important role in strengthening the Hungarian banking and financial sectors. These entities include:

- the National Deposit Insurance Fund, which credit institutions are required to join, insures the deposits up to HUF 6 million per depository, but does not cover the deposits of the government or certain other entities;
- the Credit Guarantee Corporation, which guarantees loans to small and medium size business;
- the National Savings Cooperatives Institutions Protection Fund, which is a voluntary consortium of about 200 Hungarian cooperative credit institutions designed to further such institutions' mutual interests; and
- the Hungarian Export Credit Insurance Corporation, which provides insurance for export credits and exchange rate risks, and the Hungarian Eximbank.

Ownership Structure of the Banking Sector

After the dynamic growth of foreign share ownership in the sector in recent years, the proportion of registered capital held by foreign investors stabilised in 2002. As of 30 June 2005, 82.1 per cent. of the total equity capital of the Hungarian banking sector (excluding the MFB and the Hungarian Eximbank which are owned by the State) was held by non residents.

The only banks in which the Republic now holds controlling interests are the MFB (Hungarian Development Bank), the Hungarian Eximbank and the FHB (Land Credit and Mortgage Bank). The Republic has also retained a golden share in OTP Bank, which grants the holder certain special shareholder rights. For example, there can be no shareholder quorum without the presence of the golden shareholder and decisions regarding changes in the registered capital of the bank, the merger, dissolution, transformation or liquidation of the bank, the transfer or encumbrance of rights necessary for the operation of the bank and the appointment or removal of directors and supervisory directors of the bank who represent the holder of the golden share, can only be made with the consent of the holder of the golden share. In compliance with the EU directive on the liberty of the capital markets, it is proposed that this present form of the State's special ownership rights is going to be abolished and golden shares are going to be transformed into common shares.

Capital Markets

In the course of the transition to a market economy, Hungary attached great importance to the development of a sound capital market in order to promote economic development and to finance Hungarian enterprises. The Capital Markets Act regulates the offering and trade of securities (including government securities) and the institutional framework of the Hungarian capital market (including stock exchanges, investment funds and clearing houses). State control and supervision of the capital markets was delegated to the Hungarian Financial Supervisory Authority. In line with international changes, Hungary has moved towards a universal financial system when regulating the relationship between investment and banking services. With effect from 1 January 1999, banks with proper authorisation may carry on investment and financial service activities within the same organisational frameworks, thereby offering universal banking services. Regulation of the capital markets in Hungary is substantially compliant with EU regulations and guidelines.

(5) The state owns only a majority stake in the Land Credit and Mortgage Bank.

(6) The state owns directly a minority stake (25 per cent. plus one share) and the rest indirectly through the Hungarian Development Bank.

Stock Exchange

The Budapest Stock Exchange Limited, which opened in 1990, is a self-governing and self-regulating organisation, which elects its own bodies and officials, adopts its own regulations, defines its operating rules and fixes the fees charged for its services.

The following table sets forth selected indicators relating to the Budapest Stock Exchange at the end of and for the years indicated:

Budapest Stock Exchange

		<i>As at and for the period ending</i>								
		<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
Total Spot turnover values										
(in USD millions)		3,751	18,020	32,122	33,561	15,300	5,678	7,195	10,313	14,545
Equities		1,607	7,685	16,104	14,848	12,248	4,834	5,894	8,595	12,880
Government Bonds		1,370	5,242	11,080	13,270	2,310	554	754	695	525
Corporate Bonds		2	105	83	144	173	125	256	316	509
Bonds of International Institutions ..		—	—	—	13	4	20	3	1	—
Mortgage Bonds		—	—	—	—	—	10	84	474	430
T-Bills		676	4,863	4,808	5,274	553	132	190	208	193
Investment Funds		29	6	4	2	2	3	2	4	4
Compensation Notes		69	121	44	10	11	1	14	20	4
Total number of transactions ..		170,956	504,879	1,026,646	1,474,083	1,627,033	911,697	741,703	718,377	790,916
Equities		153,937	478,236	1,011,514	1,461,482	1,642,482	902,381	730,822	702,701	775,144
Government Bonds		910	2	3,946	3,158	2,385	632	816	1,131	638
Corporate Bonds		3	192	200	650	765	1,166	1,793	2,690	8,486
Bonds of International Institutions		—	—	—	28	17	42	11	13	—
Mortgage Bonds		—	—	—	—	—	80	365	1,036	1,929
T-Bills		1,022	3,031	2,522	1,873	547	89	216	435	185
Investment Funds		2,128	1,597	790	1,106	2,855	4,694	1,134	1,348	1,165
Compensation Notes		12,956	19,613	7,674	5,786	7,982	2,613	6,546	9,023	3,369
Average number of daily transactions		689	2,044	4,140	5,896	6,482	3,721	2,967	2,851	3,164
Average daily turnover (in USD millions)		15	73	129.5	134.5	61	23.2	28.8	40.9	58.2
Average value per transaction (in USD thousands)		22	35.5	31.5	23	9.5	6.3	9.7	14.4	18.4
Number of trading days		248	247	248	250	251	245	250	252	250
Total Futures Turnover (in USD millions)		1,250	7,576	13,683	5,620	4,865	2,624	3,347	6,530	10,894
Budapest Stock Exchange Index "BUX"		322	5,372	8,338	4,842	3,217	981	960	1,480	2,167
Currencies		731	1,802	4,508	92	104	64	301	1,870	3,932
Shares		—	—	234	635	1,537	1,579	2,086	3,180	4,791
Interest Rates		198	401	602	51	7	0	0	0	4
Number of transactions ..		19,444	87,011	148,013	168,009	191,712	126,568	132,873	157,868	4,037,061
Total Options Turnover (in USD millions)		—	—	—	—	9,747	1,014	1,040	812	64
Equity options		—	—	—	—	1,231	229	1,040	812	4
Index options		—	—	—	—	8,516	785	0	0	0
Currency options		—	—	—	—	—	—	—	—	60
Number of trades (thousand) ..		—	—	—	—	578	37	19	12	49
Average exchange rate HUF/USD ⁽¹⁾		152.69	186.91	215.55	238.46	278.22	286.58	231.41	215.17	202.63

Source: Budapest Stock Exchange

(1) Exchange rate used by the Budapest Stock Exchange for calculating USD values expressed in this table

PUBLIC FINANCE

The public finance sector in Hungary consists of the central government budget, social security funds (pension and health funds), extra-budgetary funds and local government budgets, which together are referred to as the general government budget.⁽⁷⁾

Budget Information

The following tables set forth information concerning government revenues and expenditures:

General government balance-consolidated											
	1997 ⁽¹⁾	1998	1999	2000	2001	2002	2003	2004	2005 planned	2005 expected	2006 Planned
	HUF billion										
GFS method											
Revenues	4,090.7	4,398.7	4,958.6	5,606.1	6,339.3	6,835.3	7,620.0	8,208.0	9,121.2	9,358.5	9,420.8
privatisation receipts	253.8	32.4	31.8	38.0	11.2	11.6	9.0	10.9	10.5	10.5	12.0
Revenues (excluding privatisation receipts) ..	3,836.9	4,366.3	4,926.8	5,568.1	6,328.1	6,823.7	7,611.0	8,197.1	9,110.7	9,348.0	9,408.8
Expenditures	4,243.4	5,030.7	5,350.9	6,048.3	6,772.1	8,509.3	8,714.5	9,525.0	10,175.7	10,440.5	11,001.4
balance (excluding privatisation receipts)	(406.5)	(664.4)	(424.1)	(480.2)	(444.0)	(1,685.6)	(1,103.5)	(1,327.9)	(1,065.0)	(1,092.5)	1,592.6
Balance in % of GDP	(4.8)	(6.6)	(3.7)	(3.6)	(3.0)	(10.0)	(5.9)	(6.5)	(4.8) ⁽²⁾	(5.0) ⁽²⁾	(6.8) ⁽²⁾
General government balance- consolidated											
ESA method (excluding private pension funds)											
Revenues			5,180.1	6,028.9	6,814.8	7,494.5	8,177.9	8,874.6	9,729.7	9,547.4	9,850.3
Expenditures			5,818.9	6,423.6	7,442.3	9,040.0	9,541.7	10,206.4	10,783.2	11,157.6	11,267.9
Balance			(638.8)	(394.7)	(627.5)	(1,545.5)	(1,363.8)	(1,331.8)	(1,053.5)	(1,610.2)	1,417.6
Balance in % of GDP			(5.6)	(3.0)	(4.2)	(9.1)	(7.3)	(6.5)	(4.7) ⁽²⁾	(7.4) ⁽²⁾	
ESA method (including private pension funds)											
Revenues			5,237.3	6,092.1	6,896.1	7,583.2	8,308.4	9,082.9	9,940.9	9,801.7	10,130.8
Expenditures			5,818.9	6,423.6	7,418.4	9,004.0	9,503.6	10,180.9	10,747.5	11,121.9	11,223.4
Balance			(581.6)	(331.5)	(522.3)	(1,420.8)	(1,195.2)	(1,098.0)	(806.6)	(1,320.2)	(1,092.6)
Balance in % of GDP			(5.1)	(2.5)	(3.5)	(8.4)	(6.4)	(5.4)	(3.6) ⁽²⁾	(6.1) ⁽²⁾	

Source: Hungarian Central Statistics Office and Ministry of Finance

(1) Data according to ESA methodology is not available for the year 1997.

(2) With projected GDP.

(3) Local governments included, source: Eurostat.

(7) The source of data on Hungarian public finance is the Ministry of Finance ("MoF"). In this Offering Circular preliminary data compiled by the MoF is presented in the light of data available in December 2005.

		2001 <i>fact</i>	2002 <i>fact</i>	2003 <i>final</i>	2004 <i>fact</i>	2005 <i>approved</i>
Payments of Economic Units						
Corporate taxes (including financial institutions)	..	351.9	396.6	413.7	448.7	505.6
Mine Rents	.. .. .	13.7	14.7	17.8	19.7	20.1
Customs and import duties	.. .. .	122.9	125.7	131.3	39.3	10.4
Gambling tax	.. .. .	34.3	38.8	49.2	60.4	64.2
Eco tax	.. .. .	0.0	0.0	0.0	17.4	19.7
Simplified business tax	.. .. .	0.0	0.0	31.0	67.0	75.3
Other central payments	.. .. .	62.6	68.7	78.2	126.4	106.7
Other payments	.. .. .	17.7	22.2	22.1	23.6	21.5
Total	.. .. .	603.1	666.6	743.2	802.6	823.6
Taxes on Consumption						
Value Added Tax	.. .. .	1,243.9	1,304.9	1,699.6	1,727.7	2,048.0
Excises	.. .. .	539.7	590.5	656.3	716.2	734.6
Total	.. .. .	1,783.6	1,895.4	2,355.9	2,443.9	2,782.6
Payments of Households						
Gross PIT revenues	.. .. .	1,116.7	1,274.5	1,314.4	1,360.4	1,477.4
PIT revenues of central budget	.. .. .	830.3	940.6	909.0	904.6	1,011.8
Tax payments	.. .. .	5.2	7.1	7.0	5.8	3.5
Fees	.. .. .	60.9	68.5	90.2	100.1	97.6
Total	.. .. .	896.4	1,016.2	1,006.2	1,010.5	1,112.9
Central Budgetary Institutions and Chapter Administered Appropriations						
Revenue of the central budgetary institutions	..	0.0	0.0	545.2	612.4	513.9
Own revenues of chapter administered professional appropriations	.. .. .	0.0	0.0	56.7	86.4	20.6
EU support of chapter administered professional appropriations	.. .. .	0.0	0.0	0.0	49.1	177.1
EU support of central investments	.. .. .	0.0	0.0	3.6	0.5	0.0
Total	.. .. .	578.8	583.9	605.5	748.5	711.6
Payments of Central Budgetary Institutions	.. ..	22.7	15.4	34.9	35.7	13.5
Payments of Local Governments	.. ..	4.7	5.5	7.1	10.4	6.5
		0.0	0.0	0.0	0.0	0.0
Payments of Extrabudgetary Funds	.. ..	47.0	56.4	49.4	67.9	81.3
Revenues of International Transactions	.. ..	9.0	4.6	28.5	16.0	5.5
Payments Related to State Property	.. ..	6.7	7.0	23.9	68.2	74.3
Road Tolls	.. ..	0.0	0.0	0.0	0.0	20.0
Motorways	.. ..	0.0	0.0	0.0	0.0	148.6
Other Revenues	.. ..	9.3	8.7	7.8	10.9	4.5
Revenues Related to Debt Service	.. ..	7.1	6.5	1.8	1.8	1.3
Lump Sum Cash Flow Facility from Eu	.. ..	0.0	0.0	0.0	42.8	7.9
Payments of National Bank of Hungary	.. ..	27.7	23.3	0.0	0.0	0.0
Interest Revenues	.. ..	71.7	67.8	73.9	74.0	89.0
Total Revenues	.. ..	4,068.0	4,357.3	4,938.2	5,333.1	5,883.2

							2001 <i>fact</i>	2002 <i>fact</i>	2003 <i>final</i>	2004 <i>fact</i>	2005 <i>approved</i>
Expenditures											
Subsidies to Economic Units	..	..	..	..	..	..	81.8	99.0	110.2	122.7	113.2
Support to the Media	..	..	..	..	..	..	14.0	17.6	48.4	43.2	44.6
from which											
Support to the Broadcasting Fund	..	..	..	..	..	..			20.4	0.0	0.0
Consumer Price Subsidy	..	..	..	..	..	..	90.9	99.0	104.9	103.8	117.0
Housing Grants	..	..	..	..	..	..	60.4	72.3	137.2	204.0	215.1
Family benefits. Social subsidies											
Family benefits	..	..	..	..	..	..	221.3	254.9	314.8	307.8	330.3
Income supplement benefits	..	..	..	..	..	..	91.3	113.8	123.0	133.7	142.7
Other specific subsidies	..	..	..	..	..	..	16.5	20.5	24.0	23.3	25.0
Total	..	..	..	..	..	..	329.0	389.2	461.8	464.8	498.0
Central Budgetary Institutions and Chapter Administered Appropriations											
Expenditures of central budgetary institutions	..	..	..	..	..	..	0.0	0.0	1,847.3	1,927.5	1,806.8
Chapter administered professional appropriations	..	..	..	..	..	..	0.0	0.0	956.9	1,099.5	1,127.3
Central investment	..	..	..	..	..	..	134.7	146.4	87.9	63.9	44.2
Total	..	..	..	..	..	..	2,312.4	2,731.7	2,892.1	3,090.9	2,978.3
Support To Political Parties and Other Civil Organizations	..	..	..	..	..	..	3.0	3.1	2.7	3.7	3.7
Transfer to Social Security Funds	..	..	..	..	..	..	220.5	383.9	301.9	335.9	421.4
Transfer to Local Governments											
Direct transfer from the budget	..	..	..	..	..	..	508.9	620.5	749.4	769.0	884.1
Transfer from EU	..	..	..	..	..	..	0.0	0.0	0.0	0.0	54.4
Yielded PIT revenues	..	..	..	..	..	..	0.0	0.0	405.4	455.8	465.6
Total	..	..	..	..	..	..	508.9	620.5	1,154.9	1,224.7	1,404.2
Transfer to Extrabudgetary Funds	..	..	..	..	..	..	0.0	0.0	2.6	15.9	18.1
Expenditures of International Transactions	..	..	..	..	..	..	2.5	1.6	1.5	7.7	7.8
Debt Service Related Expenditures	..	..	..	..	..	..	8.9	9.2	9.8	10.8	11.9
Other Expenditures	..	..	..	..	..	..	23.3	17.9	19.3	20.2	16.8
General Reserves	..	..	..	..	..	..	0.0	0.0	0.0	0.0	52.0
Special Reserves	..	..	..	..	..	..	0.0	0.0	0.0	0.0	23.1
Safety Reserve											
Extraordinary Expenditures	..	..	..	..	..	..	92.9	649.6	14.3	47.1	81.1
Transfer to National Bank of Hungary	..	..	..	..	..	..	0.0	0.0	0.0	0.0	0.0
Government Guarantees Redeemed	..	..	..	..	..	..	7.3	3.4	12.4	2.7	18.2
Contribution to EU Budget	..	..	..	..	..	..	0.0	0.0	0.0	119.7	210.0
Expenditures Related to the NBH	..	..	..	..	..	..	0.0	0.0	0.0	0.0	0.0
Interest Payments	..	..	..	..	..	..	715.1	728.8	802.3	875.5	868.4
Total Expenditures	..	..	..	..	..	..	4,470.9	5,826.9	5,670.6	6,237.6	6,582.9

Source: Hungarian Central Statistical Office and Ministry of Finance

Central Government Budget Process

The Ministry of Finance prepares the central government budget on a calendar year basis for the government, which submits it to Parliament for consideration and ultimate approval.

The major components on the revenue side of the central government budget are consumption taxes (including VAT), enterprise taxes and taxes on households (primarily personal income taxes). On the expenditure side, the major items are debt service and transfers to the social security funds, budgetary institutions, local governments and extra-budgetary funds.

Roles of the Ministry of Finance, the Hungarian State Treasury and the Government Debt Management Agency

The Ministry of Finance is responsible for supplying information to support decision making and for co-ordinating issues falling within the government's scope of authority in relation to public finances. Specific responsibilities include the preparation of the bill on the final accounts of the central government and the central government budget, which is presented to Parliament each year.

The Ministry of Finance must ensure central budget execution, solvency of the central government, central government financing and registration of government debt guarantees, including loans granted and claims of the central government. These tasks are executed through the Treasury and debt and liquidity management tasks are carried out by the Government Debt Management Agency Ltd. (the "ÁKK").

The Treasury was established on 1 January 1996 as a central budgetary organisation. The legal and professional supervision of the Treasury is performed by the Ministry of Finance. Within its budget execution responsibilities, the Treasury's main task is the management of budget appropriations and government cash flows and the determination of the daily financing needs of the central government. The management of budget appropriations includes the registration of annual appropriations, the monitoring of their changes and the right to authorise payments from appropriated amounts.

The cash management duties of the Treasury include account management for the budgetary institutions, who, in accordance with the Act on Public Finances, are authorised to keep their account with the Treasury. The Treasury administers the Single Treasury Account, which is the cash account of the Treasury held at the NBH.

In addition, the Treasury's responsibilities include the provision of funds for government investments and other investments based on government decisions, the transfer of contributions and subsidies to municipalities, and the management and collection of loans and other claims of the central government.

The government's borrowing needs are financed by the ÁKK. The Minister of Finance established the ÁKK in order to concentrate debt management functions into one organisation. Accordingly, the ÁKK manages, renews and records the forint and foreign exchange debt of the central government and, pursuant to the amendment of the Public Financing Act from 1 July 2003, manages the liquidity of the Single Treasury Account. In the context of liquidity management, from 2004, the ÁKK has introduced new secondary market operations (e.g. repurchase transactions on the domestic securities market).

In the domestic market, responsibilities of the ÁKK include the administration of auctions and subscriptions, the development of the institutional frameworks and the structure of government securities markets. Another important ÁKK function is to provide easily accessible, up-to-date information on the government's securities markets and on the financing of the Republic's borrowing needs in the spirit of transparency and openness. In foreign debt management, the ÁKK acts in the name of the Republic of Hungary in raising funds, manages the foreign exchange debt of the central government, ensures promptness and accuracy in respect of debt service payments and effects hedging transactions to reduce risks.

Recent Budgets

According to the Budget Act adopted up to the year 2002, the priorities of budget policy were family policy, agricultural and rural development, development of the human resources of a knowledge-based society, development of the predominant fields of the economy, the tasks related to EU integration and enhancing the

standard of living. The priorities could be given even greater emphasis in order to accelerate the process of catching up with EU countries, and in connection with Hungary's accession to the EU.

According to the Pre-accession Economic Programme adopted in the summer of 2003 the main goal of the economic policies in Hungary are the modernisation of the country and to catch up with the economic level of the other EU countries. To achieve this will require an improvement in competitiveness and an attractive economic environment in the future to attract capital investment of the economy.

The 2004 budget planned the reduction in the general government deficit measured as a percentage of GDP from 5.9 per cent. in the year 2003 to 3.8 per cent. by the end of 2004.

The general government deficit (local governments included) for 2004 amounted to HUF 1,317.0 billion (representing 6.5 per cent. of GDP according to GFS methodology). The 2004 general government deficit, according to ESA 95 methodology, amounted to 6.5 per cent. of GDP (excluding private pension funds this correction amounted to 1.1 per cent. of GDP).

The 2005 planned general government deficit (local governments included and excluding private pension funds) is HUF 1,054.5 billion (4.7 per cent. of GDP) according to GFS methodology. According to ESA95 methodology the general government deficit (local governments included, and private pension funds excluded) is planned to amount to HUF 1,053.5 billion (4.7 per cent. of GDP). The general government deficit according to ESA95 methodology including local governments and private pension funds is planned to reach HUF 806.6 billion equalling 3.6 per cent. of GDP.

The 2006 planned general government deficit (local governments included and excluding private pension funds) is HUF 1,580.6 billion (6.8 per cent. of GDP) according to GFS methodology. According to ESA95 methodology the general government deficit (local governments included, and private pension funds excluded) is planned to amount to HUF 1,417.6 billion (6.1 per cent. of GDP). The general government deficit according to ESA95 methodology including local governments and private pension funds is planned to reach HUF 1,092.6 billion equalling 4.7 per cent. of GDP.

According to preliminary data available in January 2006 the general government deficit (excluding local governments and excluding private pension funds) is expected to be HUF 984.4 billion (4.4 per cent. of GDP) according to GFS methodology for the year 2005. According to ESA95 methodology the general government deficit (local governments included, and payments towards the second pillar of pension system not included) is expected to amount to 7.4 per cent. of GDP. The general government deficit according to ESA95 methodology including local governments and private pension funds is planned to reach 6.1 per cent. of GDP.

Taxation

The current Hungarian taxation system was introduced in 1988. While there are no current plans to significantly change taxation, the Republic, in line with its EU membership, is considering the implementation of administrative amendments to harmonise its taxation machinery with that of other EU Member States in terms of collection, technological advances and tax avoidance laws.

The most important elements of the Hungarian tax system are corporate profit tax, corporate dividend tax, personal income tax, value added tax, registration tax, excise duty and local taxes.

Hungarian tax law distinguishes between domestic and foreign taxpayers. The tax liability of a domestic taxpayer extends to income originating from both Hungary and abroad, while the tax liability of a non-Hungarian taxpayer is restricted to its Hungarian source of income as defined by the respective Hungarian tax law and is also generally affected by the applicable double taxation treaty. Hungary has entered into a double taxation treaty with each OECD country except Mexico.

Hungary, like many transformation countries, has a substantial "shadow" economy, which is able to avoid paying taxes. Recent improvement in this situation is demonstrated by increases in tax receipts that have outpaced GDP growth. Further improvement is expected as larger companies and multinational enterprises take on a greater role in the Hungarian economy. In 1998, Hungary also consolidated its tax collecting powers into one authority and increased the enforcement funding for this entity in the 1999 budget.

Corporate Profit Tax and Corporate Dividend Tax

The corporate tax rate on profits is 16 per cent.; however, taxpayers may take advantage of certain tax preferences. A foreign entity receiving a dividend will pay a 20 per cent. dividend tax or the rate of tax provided for in any relevant double taxation agreement. Dividends received by an entity resident in an EU member state can be exempt from dividend tax. Domestic entities receiving dividends are exempt from the tax. A foreign entity receiving interest and royalty from a local source is not subject to withholding tax.

Personal Income Tax

Hungary had a three-tier graduated personal income tax rate structure with rates of 18 per cent, 26 per cent. and 38 per cent. On 1 January 2005, the second tier (26 per cent. personal income tax rate) was abolished. From 1 January 2006 the third tier (38 per cent. personal income tax rate) has been reduced to 36 per cent.

Value Added Tax

From 1 January 2006, the standard VAT rate is 20 per cent., with a 15 per cent. rate on selected products and services and a 5 per cent. rate on special sensitive items (e.g. medicine, books). Currently, there is no tax imposed on exports and some services (e.g. postal and financial services). In the case of fuel the tax rate reduction from 25 per cent. to 20 per cent. was implemented from 1 October 2005.

Registration Tax

Registration tax has been payable on the registration of cars since February 2004.

Excise Duty

An excise duty is levied on the manufacturing, importing, warehousing, storing and distributing of mineral oils, alcoholic products, beer, wine, champagne, intermediary alcohol products and tobacco products.

Other Central Government Revenues

Customs duties are imposed on imported goods in accordance with international agreements. The central government levies duties on the acquisition of real estate, cars and certain other products and also on certain administrative procedures.

Local Taxes

Local taxes vary with each municipality. Local governments are permitted to assess property taxes.

Social Security and Extra-Budgetary Funds

The social security funds consist of two funds: the pension fund and the health fund.

A “three-pillar” pension system was instituted in 1998. The three pillars of this system are: state pensions (the “pay as you go” system), voluntary pension funds and private pension funds.

Mandatory payments are made to the state pension fund and to a private pension fund selected by the employee. The mandatory pension contribution equals 26.5 per cent. of the employee’s monthly salary, out of which 8.5 per cent. is paid by the employee and 18 per cent. by the employer. The contribution paid by the employer goes to the state pension fund in each case. If the employee opts to join a private pension scheme, 8 per cent. out of the employee’s 8.5 per cent. contribution is transferred to the private pension fund and 0.5 per cent. goes to the state fund. For employees remaining solely in the state system, the entire 8.5 per cent. contribution goes to the state pension fund.

Health fund contributions are similar to those for the pension fund. Employers pay 11 per cent. of an employee’s income and the employee contributes 4 per cent. In addition, there is a fixed monthly health care contribution by employers of HUF 3,450 per employee per month.

The following table sets forth the revenues and expenditures for social security and certain extra-budgetary funds:

Social Security and Extra-Budgetary Funds

Year ended or ending 31 December

		1997	1998	1999	2000	2001	2002	2003	2004	2005 Planned
		(HUF billion)								
Health Fund:										
Revenues	..	49.8	561.5	653.6	734.1	884.7	1,024.6	1,025.4	1,100.1	1,180.365
Expenditures	..	554.0	632.2	701.2	797.9	915.0	1,111.2	1,335.4	1,443.8	1,521.685
Surplus (deficit) ⁽¹⁾		(55.7)	(70.7)	(47.7)	(63.7)	(30.3)	(86.7)	(310.0)	(343.7)	(341.320)
Pension Fund:										
Revenues	..	628.6	781.1	916.7	1,003.7	1,176.6	1,391.7	1,501.1	1,626.8	1,854.374
Expenditures	..	623.4	801.2	91.6	1,021.5	175.1	1,405.9	1,540.1	1,707.0	1,854.374
Surplus (deficit) ⁽¹⁾		5.2	(20.0)	1.1	(17.8)	1.5	(14.2)	(39.0)	(80.2)	0.0
Extra Budgetary Funds ⁽²⁾										
Revenues	..	—	274.6	146.7	166.2	198.1	233.8	244.6	304.7	345.1
Expenditures	..	—	266.9	156.2	164.1	200.4	232.4	226.0	276.8	326.7
Surplus (deficit)		—	7.7	9.5	2.1	(2.3)	1.4	18.5	27.9	18.4
Surplus (deficit) excluding privatisation revenues	..	—	6.7	(9.5)	2.1	(31.1)	(99.4)	(330.4)	(396.1)	—

Source: Ministry of Finance

(1) These funds had no privatisation revenues during these periods

(2) Prior to 1998, these funds consisted of labour, road, water, national culture, environment protection and central nuclear funds; currently these funds consist of the Central Nuclear Fund, the Labor Market Fund, the Research and Technology Innovation Fund and the 'Wesselényi Miklós' Flood and Inland Waters' Compensation Fund

The contribution of the central government to the social security funds was HUF 220.5 billion in 2001, HUF 383.9 billion in 2002, HUF 301.9 billion in 2003, HUF 335.9 billion in 2004, is expected to total HUF 421.4 billion in 2005 and is planned to total HUF 777.4 billion in 2006.

Local Government Finance

The following table sets forth the revenues and expenditures at the local government level for the years indicated for all the local governments:

			<i>Year ended or ending 31 December</i>									
			<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005 Planned</i>	<i>2005 Expected</i>
			<i>(HUF billion)</i>									
Revenues:												
Own revenues			449.3	563.9	648.1	744.6	862.9	977.4	1,096.8	1,250.0	1,242.1	1,256.6
Subsidiaries			348.7	405.7	449.0	428.8	508.9	620.5	749.4	769.0	884.1	884.2
Other revenues			311.8	350.7	379.5	445.6	520.7	571.5	646.5	643.6	655.0	644.0
Total GFS-revenues ⁽¹⁾			1,109.8	1,320.3	1,476.6	1,619.0	1,892.5	2,169.4	2,492.7	2,662.6	2,781.2	2,784.8
Privatisation revenues . .			90.5	19.4	21.9	37.1	11.2	11.6	9.0	10.9	10.5	15.6
Total revenues			1,200.3	1,339.7	1,498.5	1,656.1	1,903.7	2,181.0	2,501.7	2,673.5	2,791.7	2,880.4
Expenditures:												
Wages			483.3	564.2	631.5	695.2	807.8	1,003.1	1,270.8	1,310.1	1,398.9	1,397.8
Investments			219.4	279.7	261.5	320.6	385.6	481.1	427.1	448.7	421.1	492.5
Other expenditures ⁽¹⁾			432.4	504.6	582.5	635.3	709.0	801.7	835.5	931.2	1,003.5	941.5
Total GFS-expenditures			1,135.1	1,348.5	1,475.5	1,651.1	1,902.4	2,285.9	2,533.4	2,690.0	2,823.5	2,831.8
Surplus (deficit)-GFS ⁽¹⁾			(25.3)	(28.2)	1.1	(32.1)	(9.9)	(116.5)	(40.7)	(27.4)	(42.3)	(47.0)
Total surplus (deficit)			65.2	(8.8)	23.0	5.0	1.3	(104.9)	(31.7)	(16.5)	(31.8)	(31.4)

Source: Ministry of Finance

(1) GFS excludes privatisation revenues.

DEBT OF THE REPUBLIC OF HUNGARY

Traditionally, the NBH was the primary entity through which Hungary borrowed amounts in foreign currencies. Since 1997 the NBH may only incur foreign currency debt for its own purposes and all foreign currency borrowings and debt security issuances for the central budget must be made directly by the Republic, acting through its Ministry of Finance. The Minister of Finance, in turn, has delegated such debt management functions to the ÁKK, which was part of the Treasury until 2001 when it became a separate legal entity. Following 1 January 1999, foreign currency debt issuances are arranged by the ÁKK.

The NBH will remain the legal or named obligor on the outstanding foreign currency debt incurred before

1 January 1999. The majority of the interest rate and exchange rate risks associated with these debts and any related swaps, however, have been effectively transferred to the Republic pursuant to a series of transfer agreements, whereby the Republic has essentially agreed to pay NBH sufficient funds to cover these obligations. Following this transfer of risk, the Republic entered into a number of swap agreements to match the currency profile of this debt portfolio to that of the currency basket (since January 2000; 100 per cent. Euro) to which the forint is pegged. See "Monetary and Financial System – National Bank of Hungary – National Bank of Hungary Interest Rates – Exchange Rate Policy and Operations". NBH may still act as an agent of the Republic for the purposes of securing foreign loans and securities issued abroad. Since January 1997, NBH has acted in this agency role on the basis of an agency agreement, which was entered into by NBH and the Republic as permitted by applicable provisions of the amended National Bank of Hungary Act.

Because of this history, all references to public debt include debt of the Republic, debt of the social security and other extra-budgetary funds, but does not include local government debt. External public debt refers to public debt that is denominated in a foreign currency and almost always owed to a non-Hungarian party.

Internal public debt refers to public debt denominated in HUF. Gross external debt refers to all of the debt owed by Hungarian persons and both public and private entities to non-resident creditors. Loans between NBH and the Republic relating to external borrowings originally made by NBH were not added for the purposes of calculating public debt figures to avoid double counting.

Public Debt⁽¹⁾

		<i>Year ended 31 December</i>							
		<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002**</i>	<i>2003**</i>	<i>2004**</i>	<i>2005**</i>
		<i>(HUF billion except for percentages)</i>							
Internal Public 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*
% of Nominal GDP	..	37.02%	38.18%	35.81%	36.35%	41.13%	42.94%	42.17%*	41.95%*
External Public 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*
% of Nominal GDP	..	24.11%	22.26%	19.05%	15.64%	13.40%	13.83%	14.62%*	16.46%*
Total Public Debt	..	6,165.8	6,886.4	7,226.2	7,719.5	9,224.2	10,587.7	11,592.4*	12,744.2*
% of Nominal GDP	..	61.12%	60.44%	54.86%	51.98%	54.53%	56.77%	56.79%*	58.41%*
Nominal GDP	..	10,087	11,393	13,172	14,850	16,915	18,651	20,413*	21,820*

* Preliminary data.

** Calculated according to the revised GDP data.

Source: ÁKK

(1) This table shows the public debt of the Republic, from the perspective of the economic obligations of the central government. (Financial derivatives are included, whereas mark-to-market deposits are excluded).

In the past decade, the central government gross debt to GDP ratio decreased substantially, falling from 71.5 per cent. at the end of 1996 to about 56.8 per cent. by the end of 2004. This decrease was mainly due to the primary budget surplus and the debt redemption effected from privatisation proceeds and the significant real GDP growth. However, in 2002 the central government gross debt to GDP ratio grew remarkably due to the expansionary fiscal policy. In 2003 and 2004, the ratio was even higher. A significant part of the increase can be attributed to the fact, that the 2003 and 2004 budget deficit was higher than planned. The fiscal restrictions introduced by the Minister of Finance were set to diminish the budget deficit, and, thus, reduce the central

government gross debt to GDP ratio. The total central government debt totalled HUF 11,592.4 billion at the end of 2004, showing an increase of 9.5 per cent. in nominal terms compared to the end of the preceding year. The government gross debt to GDP ratio in 2004 was approximately 56.8 per cent., which equals the ratio as at the end of the previous year. In 2005, the Republic of Hungary raised money on the international capital markets by issuing in February 2005, a USD 1,500 million bond maturing in 2015, a EUR 1,000 million bond maturing in 2020, in May 2005, issuing a GBP 500 million bond maturing in 2017, in July 2005 completing a two-tranche Samurai transaction totalling JPY 75 billion maturing in 2010 and in 2012 and in October 2005 issuing a EUR 500 billion FRN maturing in 2012.

External Public Debt

The following table sets forth the external public debt⁽¹⁾ as at 31 December 2005 by category and by currency:

													<i>Amount</i>
													<i>(EUR million)</i>
By Category:													
Bank loans (including bank to bank and syndicated loans)	..	..	..	..	..	..	..	..	..	..	..	..	863
Bonds + FRN	..	..	..	..	..	..	..	..	..	..	..	..	11,344
Loans from multilateral financial institutions (<i>e.g.</i> IMF and World Bank)	..	..	..	..	..	..	..	..	..	..	..	..	2,039
Total	..	..	..	..	..	..	..	..	..	..	..	..	14,246
By Currency:													<i>Per cent.</i>
Euro	..	..	..	..	..	..	..	..	..	..	..	..	100
US Dollar	..	..	..	..	..	..	..	..	..	..	..	..	0
British Pound	..	..	..	..	..	..	..	..	..	..	..	..	0
Other currencies	..	..	..	..	..	..	..	..	..	..	..	..	0
Total	..	..	..	..	..	..	..	..	..	..	..	..	100
By Currency:													<i>before swaps</i>
													<i>Per cent.</i>
Euro	..	..	..	..	..	..	..	..	..	..	..	..	66
JPY	..	..	..	..	..	..	..	..	..	..	..	..	8
US Dollar	..	..	..	..	..	..	..	..	..	..	..	..	16
Swiss franc	..	..	..	..	..	..	..	..	..	..	..	..	0
British Pound	..	..	..	..	..	..	..	..	..	..	..	..	10
Total	..	..	..	..	..	..	..	..	..	..	..	..	100

Source: ÁKK

(1) Non-HUF-denominated debt liabilities of the government sector (financial derivatives are excluded, whereas mark-to-market deposits are included).

External Public Debt Service and Schedule of Payments

Neither the Republic nor the NBH has ever defaulted on the payment of principal of, or premium or interest on, any debt obligation issued by it.

The following table sets forth the schedule of repayments on external debt⁽⁸⁾ at the end of March 2005;

The maturity breakdown of Hungary's medium and long-term external debt by sectors*

(as of June 30, 2005)

Euro millions

Date of maturity	Total	Central bank and General government				Other monetary institutions and other sectors		
			Central bank	General government		Other monetary institutions	Other sectors (guaranteed loans)	
				Forint denominated bonds				
Third quarter 2005	1,017	677	288	389	315	340	335	5
Fourth quarter 2005	2,089	1,773	254	1,479	437	356	349	7
2005	3,105	2,410	542	1,868	753	695	684	12
First quarter 2006	242	133	8	126	67	109	103	5
Second quarter 2006	2,921	1,927	8	1,919	1,308	994	987	7
Third quarter 2006	1,148	790	0	790	774	358	353	5
Fourth quarter 2006	544	126	0	126	0	418	400	19
2006	4,855	2,976	15	2,961	2,149	1,879	1,843	36
2007	4,132	3,287	336	2,951	1,838	846	791	54
2008	3,139	1,754	129	1,624	1,103	1,386	1,325	60
2009	4,596	3,022	0	3,022	1,407	1,574	1,522	52
2010	1,587	370	67	303	173	1,217	1,164	53
2011	2,819	2,590	180	2,410	264	228	172	56
2012	691	104	0	104	0	587	506	81
2013	2,096	1,905	75	1,830	751	191	146	45
2014	3,094	2,844	0	2,844	523	249	205	44
2015	2,501	1,916	41	1,874	583	585	233	352
After	4,503	2,576	0	2,576	486	1,927	1,889	37
Total	37,119	25,755	1,386	24,369	10,028	11,365	10,481	883

* Only guaranteed loans of other sectors

Source: National Bank of Hungary

Internal Public Debt

Although it is currently the Republic's policy to finance budget deficits partly with internal debt, in 2004 the Ministry of Finance has decided to meet part of such financing needs by utilising the international markets. The issuance strategy is determined by a benchmark for the composition of debt portfolio. The weight of internal (domestic currency) debt ranges between 68 per cent. and 75 per cent. in the benchmark portfolio; the weight of external (foreign currency) debt is 32 per cent. to 25 per cent. The average maturity of internal debt was 3.21 years at the end of 2002, and increased to 3.44 years by the end of 2003, and 3.46 by the end of 2004.

(8) According to the National Bank of Hungary, external debt means debt owed to non-resident entities.

Government Obligations to the National Bank of Hungary

The following table shows the government's obligations to the NBH, including those due to net foreign currency losses, as of 31 December for the years 1996 through to the end of 2004. Since 1997, these obligations are provided on a pro forma basis giving effect to the January 1997 agreements referenced above:

		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005 as of 30 November
		(HUF billion)									
Short-term	..	7.3	464.8	376.9	404.8	367.5	172.1	167.1	198.1	194.1	158.7
Long-term	..	2,174.3	2,389.2	2,553.1	2,083.4	1,834.9	1,384.3	995.2	608.6	331.5	267.0
Total	..	2,908.6	2,854.0	2,930.0	2,488.2	2,202.4	1,556.4	1,162.3	806.7	525.5	425.7

Source: National Bank of Hungary

The following table set forth certain indicators related to Hungarian gross external debt.*

Debt Service Indicators of Hungary (on the basis of the balance of payments)

in millions of EUR

	(in convertible currencies)										(in convertible and nonconvertible currencies)									
	1990	1991	1992	1993	1994	1995	1995	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004			
Gross foreign debt (incl. intercomp. loans) ..	15,754.7	16,927.5	17,756.4	21,995.8	23,254.2	24,692.0	24,634.4	22,670.6	22,167.9	22,434.8	23,666.8	29,393.3	32,867.3	37,933.9	39,155.2	47,627.2	56,971.7			
Gross foreign debt (excl. intercomp. loans) ⁽²⁾ ..	—	—	—	21,643.9	22,765.8	23,987.6	23,827.0	21,679.9	21,167.9	20,400.2	21,202.5	26,009.0	29,182.3	32,102.5	32,305.0	38,801.6	47,294.5			
Gross foreign debt denominated in foreign currencies (excl. intercomp. loans) ⁽²⁾ ..	—	—	—	21,643.9	22,668.0	23,814.0	23,653.4	20,934.5	20,934.5	19,414.4	19,818.2	23,733.2	25,657.6	26,377.5	22,824.8	26,920.2	31,332.9			
Net foreign debt (incl. intercomp. loans) ..	11,805.3	10,873.8	10,810.6	13,568.1	15,438.4	13,117.8	11,782.8	10,555.8	10,555.8	9,341.4	9,765.3	10,342.5	13,167.5	13,812.7	16,176.8	21,405.2	26,758.9			
Net foreign debt (excl. intercomp. loans) ⁽²⁾ ..	—	—	—	13,016.1	14,950.0	12,413.5	10,975.3	9,053.1	9,053.1	7,470.8	7,401.5	7,344.4	9,686.8	8,398.1	11,519.8	16,556.7	21,499.7			
Net foreign debt denominated in foreign currencies (excl. intercomp. loans) ⁽²⁾ ..	—	—	—	13,016.1	14,852.2	12,239.9	10,801.7	8,819.8	8,819.8	8,116.1	7,602.9	7,380.3	7,384.6	4,493.4	5,464.7	8,006.1	11,088.0			
Reserves (RES) ..	863.7	3,001.0	3,628.7	6,032.7	5,519.0	9,368.2	9,368.5	7,849.2	7,849.2	7,639.6	8,001.6	10,874.4	12,068.0	12,195.4	9,920.4	10,141.7	11,702.6			
Net reserves (NRES) ⁽³⁾ ..	58.9	2,712.3	3,527.6	5,885.0	5,374.8	9,081.2	9,081.7	7,753.6	7,753.6	7,569.2	7,835.1	10,336.9	10,805.9	11,120.0	9,408.5	9,158.8	11,445.7			
Direct investment in Hungary ..	421.4	1,574.4	2,835.9	4,993.7	5,778.1	10,001.7	8,817.1	10,691.5	10,691.5	16,284.6	17,759.5	23,041.2	24,578.2	31,045.1	34,574.7	38,328.7	45,251.7			
-o/w.: Equity capital and reinvested earnings ..	421.4	1,574.4	2,835.9	4,993.7	5,778.1	10,001.7	8,817.1	10,691.5	10,691.5	16,284.6	17,759.5	23,041.2	24,578.2	31,045.1	34,574.7	38,328.7	45,251.7			
Other capital (Intercompany loans) ..	—	—	—	—	—	704.4	807.5	1,502.7	1,502.7	2,022.9	2,453.2	3,303.6	3,529.7	5,501.9	29,757.8	33,238.9	39,693.7			
Direct investment abroad ..	—	—	185.2	201.1	237.6	381.8	216.9	213.7	213.7	586.5	671.8	915.5	1,375.5	1,762.7	2,067.8	2,782.3	4,323.2			
-o/w.: Equity capital and reinvested earnings ..	—	—	185.2	201.1	237.6	381.8	216.9	213.7	213.7	586.5	671.8	915.5	1,375.5	1,762.7	2,067.8	2,782.3	4,323.2			
Other capital (Intercompany loans) ..	—	—	—	—	—	0.0	0.0	0.1	0.1	152.4	89.4	105.4	132.6	1,675.4	1,908.1	2,541.0	4,024.5			
Exports ..	5,016.7	7,463.9	7,761.4	6,931.5	6,410.0	9,894.1	11,280.6	12,743.3	12,743.3	17,083.0	21,056.7	24,058.8	31,277.5	34,697.1	36,820.7	38,376.9	45,074.0			
Imports ..	4,717.5	7,321.9	7,800.1	9,717.4	9,463.6	11,787.2	12,402.1	14,079.9	14,079.9	18,248.3	22,742.2	26,102.4	34,457.1	37,192.8	39,024.1	41,274.5	47,520.0			
Exports of goods and services (XGS) ..	6,722.0	9,383.9	10,303.9	9,334.0	8,977.4	13,865.9	15,250.4	17,426.7	17,426.7	22,228.6	25,867.7	28,969.0	37,706.7	42,561.8	44,640.6	46,050.7	53,368.5			
Imports of goods and services (MGS) ..	6,058.0	8,741.6	9,759.7	11,900.3	11,820.9	14,525.7	15,368.0	17,257.0	17,257.0	21,831.6	26,477.7	30,196.2	39,652.0	43,396.2	46,257.1	49,349.1	55,863.2			
Gross interest expenditures ..	1,300.1	1,317.5	1,262.6	1,358.4	1,641.4	1,822.3	1,850.7	1,848.3	1,848.3	2,002.0	1,762.5	1,379.3	1,763.5	1,929.6	1,779.7	1,690.1	2,143.8			
Net interest expenditures ..	1,118.2	1,076.5	939.2	968.5	1,083.9	1,234.8	1,221.5	935.9	935.9	843.6	837.8	703.8	826.6	781.0	779.0	823.4	1,378.6			
Direct investment, income on equity capital, net ..	(18.7)	(26.0)	(34.4)	(47.7)	(98.1)	(148.7)	(96.0)	(682.7)	(682.7)	(1,611.1)	(1,858.6)	(2,035.2)	(2,069.4)	(2,538.8)	(3,159.1)	(2,965.3)	(3,500.7)			
Current account balance ..	109.1	223.0	235.4	(2,958.7)	(3,300.4)	(1,926.9)	(1,266.1)	(1,408.3)	(1,408.3)	(1,812.3)	(3,026.1)	(3,531.4)	(4,352.5)	(4,929.2)	(4,929.2)	(6,381.7)	(7,136.1)			
Direct investment in Hungary, net ..	244.3	1,185.7	1,141.9	2,038.8	965.9	3,474.3	3,695.6	2,625.0	2,625.0	3,681.0	2,988.1	3,106.3	2,998.4	4,390.7	3,185.1	1,887.5	3,707.6			
-o/w.: Equity capital and reinvested earnings, net ..	244.3	1,185.7	1,141.9	2,038.8	965.9	3,474.3	3,399.1	2,143.2	2,143.2	3,165.1	2,381.0	2,489.0	2,644.6	2,575.0	3,068.2	1,123.5	3,235.7			
Other capital (Intercompany loans), net ..	—	—	—	—	—	(33.2)	296.5	481.8	481.8	515.9	607.1	617.3	353.8	1,815.7	116.9	764.0	471.9			
Direct investment abroad, net ..	—	—	—	(9.0)	(42.7)	(33.2)	(45.7)	2.4	2.4	(402.9)	(245.2)	(234.7)	(664.4)	(398.5)	(295.7)	(1,463.3)	(856.0)			
-o/w.: Equity capital and reinvested earnings, net ..	—	—	—	(9.0)	(42.7)	(33.2)	(45.4)	2.9	2.9	(271.5)	(228.4)	(232.3)	(728.3)	(360.2)	(218.9)	(1,357.6)	(790.3)			
Other capital (Intercompany loans), net ..	—	—	—	—	—	(33.2)	(0.4)	(0.5)	(0.5)	(131.3)	(16.8)	(2.4)	63.9	(38.3)	(76.8)	(105.8)	(65.7)			
Total Debt Service denominated in foreign currencies (TDS) (since 1995, excl. intercomp. loans) ⁽⁴⁾ ..	3,323.8	3,269.4	3,655.7	4,216.9	5,281.9	6,324.1	6,161.7	7,609.4	7,609.4	8,406.0	6,914.9	5,171.5	5,765.2	6,154.5	6,131.4	6,549.3	8,194.2			

* Selected annual Balance of Payments ("BOP") and International Investment Position ("IPP") figures and debts services indicators of Hungary (BOP basis)

in millions of EUR

	(in convertible currencies)					(in convertible and nonconvertible currencies)										
	1990	1991	1992	1993	1994	1995	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Total Debt Service denominated in foreign currencies (TDS) (since 1995, excl. intercomp. loans) ⁽⁵⁾ ...	3,142.0	3,028.4	3,332.3	3,827.0	4,724.4	5,736.6	5,532.5	6,697.1	7,247.5	5,990.2	4,495.9	4,828.4	5,005.9	5,130.7	5,682.6	7,429.0
Prepayments ...	33.3	238.4	439.0	598.4	857.1	744.9	744.9	1,347.0	1,424.5	1,550.7	294.3	395.5	587.6	354.3	248.3	0.6
Memorandum:																
GDP / p ...	25,962.1	26,950.1	28,819.9	33,007.2	34,979.1	34,516.1	34,516.1	36,065.6	40,490.5	41,860.0	45,069.5	50,654.1	57,853.0	69,619.0	73,569.4	81,110.1
								Percent								
Gross foreign debt (incl. intercomp. loans)/ GDP ...	60.7	62.8	61.6	66.6	66.5	71.5	71.4	62.9	55.4	56.5	65.2	64.9	65.6	56.2	64.7	70.2
Gross foreign debt (excl. intercomp. loans) ⁽²⁾ / GDP ...	—	—	—	65.6	65.1	69.5	69.0	58.7	50.4	50.7	57.7	57.6	55.5	46.4	52.7	58.3
Gross foreign debt denominated in foreign currencies (excl. intercomp. loans) ⁽²⁾ /GDP	—	—	—	65.6	64.8	69.0	68.5	58.0	47.9	47.3	52.7	50.7	45.6	32.8	36.6	38.6
Net foreign debt (incl. intercomp. loans)/GDP	45.5	40.3	37.5	40.5	44.1	38.0	34.1	29.3	23.1	23.3	23.4	26.0	23.9	23.2	29.1	33.0
Net foreign debt (excl. intercomp. loans) ⁽²⁾ / GDP ...	—	—	—	39.4	42.7	36.0	31.8	25.1	18.5	17.7	16.3	19.1	14.5	16.5	22.5	26.5
Net foreign debt denominated in foreign currencies (excl. intercomp. loans) ⁽²⁾ /GDP	—	—	—	39.4	42.5	35.5	31.3	24.5	20.0	18.2	16.4	14.6	7.8	7.8	10.9	13.7
Total Debt Service denominated in foreign currencies (TDS) (since 1995, excl. intercomp. loans) ⁽⁵⁾ /GDP ...	12.7	11.2	11.2	11.0	12.6	16.2	15.7	17.4	17.2	12.8	10.8	10.6	9.6	8.3	8.6	10.1
Total Debt Service denominated in foreign currencies (TDS) (since 1995, excl. intercomp. loans) ⁽⁵⁾ /GDP ...	12.0	10.4	10.0	9.8	11.1	14.5	13.9	14.8	14.4	10.6	9.3	8.8	7.6	6.9	7.4	9.2
Current account balance/GDP ...	0.4	0.8	0.8	(9.0)	(9.4)	(5.6)	(3.7)	(3.9)	(4.5)	(7.2)	(7.8)	(8.6)	(6.2)	(7.1)	(8.7)	(8.8)
Gross foreign debt denominated in foreign currencies (excl. intercomp. loans) ⁽²⁾ /XGS	—	—	—	231.9	252.5	171.7	155.1	120.1	87.3	76.6	81.9	68.0	62.0	51.1	58.5	58.7
Net foreign debt denominated in foreign currencies (excl. intercomp. loans) ⁽²⁾ /XGS	—	—	—	139.4	165.4	88.3	70.8	50.6	36.5	29.4	25.5	19.6	10.6	12.2	17.4	20.8
Total Debt Service denominated in foreign currencies (TDS) (since 1995, excl. intercomp. loans) ⁽⁵⁾ /XGS ...	49.0	32.3	31.2	38.8	49.3	40.2	35.5	35.9	31.4	20.7	16.8	14.2	13.1	12.9	13.7	15.4
Total Debt Service denominated in foreign currencies (TDS) (since 1995, excl. intercomp. loans) ⁽⁵⁾ /XGS ...	46.2	29.7	28.1	34.6	43.1	36.0	31.4	30.7	26.2	17.2	14.5	11.8	10.4	10.7	11.8	13.9
Gross interest payments/XGS ...	19.3	14.0	12.3	14.6	18.3	13.1	12.1	10.6	9.0	6.8	4.8	4.7	4.5	4.0	3.7	4.0
Net interest payments/XGS ...	16.6	11.5	9.1	10.4	12.1	8.9	8.0	5.4	3.8	3.2	2.4	2.2	1.8	1.7	1.8	2.6
Import coverage indicator (months) (RES) ...	2.2	4.9	5.6	7.4	7.0	9.5	9.1	6.7	5.0	4.2	5.0	4.2	3.9	3.1	2.9	3.0
Import coverage indicator (months) (NRES)	0.1	4.4	5.4	7.3	6.8	9.2	8.8	6.6	5.0	4.1	4.8	3.8	3.6	2.9	2.7	2.9

Source: National Bank of Hungary

- (1) The debt service indicators do not contain prepayments. The GDP figures for 2003 are preliminary data of the Hungarian Central Statistical Office.
- (2) Figures for 1993 and 1994 are estimated.
- (3) (NRES) Reserves less NBH short-term liabilities
- (4) (TDS) Medium-term credit amortisation and gross interest expenditures
- (5) (TDS) Medium-term credit amortisation and net interest expenditures

Relationships with Multilateral Financial Institutions

International Monetary Fund

Since Hungary joined the IMF, it has borrowed 2,193.7 million in Special Drawing Rights (the “**SDRs**”) (on 8 January 1999, 1 SDR=USD 1.407). By February 1998, all SDRs borrowed were repaid in full.

International Bank for Reconstruction and Development (World Bank)

Since its accession in 1982 until the end of 2002, Hungary entered into 43 loan agreements with the World Bank. These agreements have enabled Hungary to borrow over USD 3.8 billion. No new borrowings have taken place since 2000 and there is no plan to borrow from the bank in the future.

Council of Europe Development Bank (CEB)

Hungary joined the CEB in 1998. Since that time, CEB activities have been concentrating on state initiated projects (flood control systems, social housing, financing SME-s and protection of national heritage). The total amount of loans reached Euro 485.4 million.

The latest framework agreement was signed in September 2005, whereby CEB undertook to co-finance social integration and improvement of living conditions for Roma in the amount of EUR 5 million.

European Bank for Reconstruction and Development (EBRD)

There are 92 Hungarian projects financed by the EBRD, valued at Euro 1,357 million.

European Investment Bank (EIB)

Since 1990, EIB has been financing different government and non-government projects in Hungary. Using a Framework Agreement with the Republic of Hungary, EIB finances primarily infrastructure, environment protection and energy sector projects. Within this Framework Agreement, in 2005, 5 facility agreements were signed in the amount of Euro 879.5 million. In the last 5 years EIB financed state and non-state projects granting loans worth Euro 4,032.4 million in total.

International Finance Corporation (IFC)

Between 1987 and 2003, the IFC financed 28 Hungarian projects worth approximately USD 341 million. Since then IFC has been mainly active with its Hungary Energy Efficiency Co-financing Program (HEECP), in the framework of which IFC grants guarantees and provides technical assistance to projects aiming to increase the efficiency of their energy consumption.

SUBSCRIPTION AND SALE

HSBC Bank plc, Société Générale, UBS Limited, Banca IMI S.p.A., BNP Paribas, Dexia Banque Internationale a Luxembourg acting under the name of Dexia Capital Markets, DZ Bank AG Deutsche Zentral-Genossenschaftsbank Frankfurt am Main and WestLB AG (together the “**Managers**”) have, in a subscription agreement dated 17 January 2006 (the “**Subscription Agreement**”) and made *inter alia* between the Republic and the Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe and pay for the Notes at their issue price of 99.437 per cent. of their principal amount plus any accrued interest in respect thereof and less a combined management and underwriting fee of 0.10 per cent. of their principal amount. The Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

United States

The Notes have not been and will not be registered under the Securities Act and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons. The Managers have agreed that, except as permitted by the Subscription Agreement, they will not offer, sell or deliver the Notes within the United States or to, or for the account or benefit of, U.S. persons. In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has represented and agreed that it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Republic of Hungary

This Offering Circular has not been and will not be submitted to the Hungarian Financial Supervisory Authority and the Notes will not be offered in the Republic of Hungary in a public offer or a private placement as defined in the Act No. CXX of 2001 on the Capital Markets. Each Manager confirms its awareness of the above and represents that it has not offered or sold and undertakes that it will not offer or sell the Notes in the Republic of Hungary in a public offer or private placement and will not offer the Notes for sale to the general public in the Republic of Hungary.

Italy

The offering of the Notes in Italy has not been registered with the *Commissione Nazionale per le Società e la Borsa* (“**CONSOB**”) pursuant to Italian securities legislation and, accordingly, each Manager has agreed and represented that: (i) the Notes cannot be offered, sold or delivered in the Republic of Italy (“**Italy**”) in a solicitation to the public at large (*sollecitazione all’investimento*) within the meaning of Article 1, paragraph 1, letter (t) of Legislative Decree no. 58 of 24 February 1998 (the “**Financial Services Act**”), nor may copies of the Offering Circular or of any other document relating to the Notes be distributed in the Republic of Italy and (ii) sales of the Notes in the Republic of Italy will only be:

- (a) made with “Professional Investors” (*operatori qualificati*), as defined under Article 31, paragraph 2, of CONSOB Regulation no. 11522 of 1 July 1998, as amended;
- (b) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, the Banking Act, as amended; Regulation 11522 and any other applicable laws and regulations; and
- (c) effected in accordance with any other Italian securities, tax and exchange control and other applicable laws and regulations and any other applicable requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

General

No action has been or will be taken in any jurisdiction by the Republic or the Managers that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the Republic and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

1. Authorisation

The creation and issue of the Notes has been authorised by the Minister of Finance of the Republic of Hungary in accordance with Section 3 of Act No. CLIII of 2005 on the Budget of the Republic of Hungary for the year 2006.

2. Litigation

Save as disclosed in this Offering Circular, there are no litigation or arbitration proceedings against or affecting the Republic or any of its assets, nor is the Republic aware of any pending or threatened proceedings, which are or might be material in the context of the issue of the Notes.

3. Material Change

Save as disclosed in this Offering Circular, there has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) or general affairs of the Republic since 1 November 2005 that is material in the context of the issue of the Notes.

4. Documents available for inspection

For so long as any of the Notes are outstanding, copies of the following documents may be inspected (and in the case of (a), obtainable) during normal business hours at the Specified Office of each Paying Agent:

- (a) this Offering Circular;
- (b) the Subscription Agreement;
- (c) the Fiscal Agency Agreement; and
- (d) the Deed of Covenant.

5. Notes

The Notes and any Coupons appertaining thereto will bear a legend to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code." The sections referred to in such legend provide that a United States person who holds a Note or Coupon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Note or Coupon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

6. Enforceability of Judgments

Under Law-Decree No. 13 of 1979 on International Private Law, the parties may freely agree on a choice of a non-Hungarian jurisdiction and of foreign law in commercial matters provided that there is a substantial foreign element in their legal relationship. The agreed courts have exclusive jurisdiction, unless otherwise provided by the parties.

Under Hungarian law, a judgment of a court established in a country other than the Republic of Hungary may be enforced in the Hungarian courts, if: (i) the jurisdiction of the foreign court is legitimate under the rules of jurisdiction of Hungarian law; (ii) the decision is final under the foreign law under which it was made; (iii) there is reciprocity between Hungary and the state of the foreign court; and that (a) such judgment does not contravene the basic principles of public policy in the Republic of Hungary; (b) the losing party or its representative had proper or timely notice of the proceedings; (c) the proceedings in which the judgment was made did not seriously breach general principles of Hungarian procedural rules; (d) litigation between the same parties involving the same dispute was not commenced in Hungary prior to the initiation of the foreign litigation; and (e) Hungarian courts have not already determined the matter (*res judicata*). However, Hungarian courts must recognise and enforce judgments of a foreign court chosen by the parties in a commercial matter (in Hungarian: *vagyonjogi*

határozat) even if there is no reciprocity between Hungary and the state of the foreign court, provided that the choice of forum by the parties is valid under the decree.

It should be noted that European Council Regulation (EC) No 44/2001 of 22 December 2000 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters is directly applicable in Hungary. According to this Regulation a judgment given in a member state of the European Union shall not be recognized in the other member states if, *inter alia*, (i) such recognition is manifestly contrary to public policy in the member state in which recognition is sought; (ii) it was given in default of appearance, if the defendant was not served with the document which instituted the proceedings or with an equivalent document in sufficient time and in such a way as to enable him to arrange for his defense, unless the defendant failed to commence proceedings to challenge the judgment when it was possible for him to do so; (iii) it is irreconcilable with a judgment given in a dispute between the same parties in the member state in which recognition is sought; (iv) it is irreconcilable with an earlier judgment given in another member state or in a third State involving the same cause of action and between the same parties, provided that the earlier judgment fulfils the conditions necessary for its recognition in the member state addressed.

It should also be noted that Hungary is a party to the New York Treaty on the Recognition and the Enforcement of Arbitration Awards, dated 10 June 1958, and therefore the recognition and enforcement of the arbitration awards obtained by a Noteholder or Couponholder in a country being a party to such treaty is possible in Hungary. No award will be recognised and enforced however, if the provisions therein are contrary to Hungarian public policy.

7. Hungarian Taxation

There are no Hungarian withholding taxes levied on payments of principal or interest in respect of the Notes paid to foreign tax residents, other than in respect of payments of principal or interest in respect of the Notes paid to private individuals.

8. EU Withholding Tax

On 3 June 2003, the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income. Since 1 July 2005, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State; however, Austria, Belgium and Luxembourg may instead apply a withholding system for a transitional period in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

9. Delivery of Notes

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS0240732114 and the common code is 024073211.

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