Republic of Hungary

EUR 1,500,000,000

5.75 per cent. Notes due 2018

The issue price of the EUR 1,500,000,000 5.75 per cent. Notes due 2018 (the "**Notes**") of the Republic of Hungary (the "**Republic**" or "**Hungary**") is 99.540 per cent. of their principal amount.

Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 11 June 2018.

The Notes will bear interest from 11 June 2008 at the rate of 5.75 per cent. per annum payable annually in arrear on 11 June in each year commencing on the Interest Payment Date falling in June 2009. 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 in new global note ("**NGN**") form, (the "**Temporary Global Note**"), without interest coupons, which will be deposited on or around 11 June 2008 (the "**Closing Date**") with a common safekeeper for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme,* Luxembourg ("**Clearstream, Luxembourg**", together with Euroclear "**ICSDs**"). The Temporary Global Note will be exchangeable, in whole or in part, for interests in a permanent global note in NGN form, (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".

The Notes are intended to be held in a manner which will allow Eurosystem eligibility. This simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

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 "**FSA**").

Application has been made to the FSA for the Notes to be admitted to the official list of the FSA (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 Regulated Market.

BNP PARIBAS **CITI** **ING WHOLESALE BANKING**

UniCredit (HVB) **DEXIA CM** **DZ BANK AG**

This Offering Circular is dated 10 June 2008

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 9 June 2008 was HUF 156.61 = USD 1.00, and the National Bank of Hungary's foreign exchange rate for Euro on the same day was HUF 247.60 = €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, BNP Paribas (the "Stabilising Manager") (or any person acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher 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 it must end 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. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager (or any person acting on behalf of the Stabilisation Manager) in accordance with all applicable laws and rules.

CONTENTS

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 1,500,000,000 5.75 per cent. Notes due 2018 (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 11 June 2008 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 11 June 2008 (the "**Issue Date**") at the rate of 5.75 per cent. per annum (the "Rate of Interest"), payable in arrear on 11 June in each year commencing on 11 June 2009 (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.

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 each Interest Payment Date shall be Euro 57.5 in respect of each Note of Euro 1,000 denomination, Euro 575 in respect of each Note of Euro 10,000 denomination and Euro 5,750 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 (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 these Conditions:

"**TARGET**" means the Trans-European Automated Real-time Gross Settlement Express Transfer payment system which utilises interlinked national real time gross settlement systems and the European Central Bank's payment mechanism and which began operations on 4 January 1999;

"**TARGET2**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

"**TARGET Settlement Day**" means a day on which the TARGET System is open; and

"**TARGET System**" means:

(i) until such time as TARGET is permanently closed down and ceases operations, TARGET and TARGET2; and

(ii) following such time as TARGET is permanently closed down and ceases operations, TARGET2.

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 11 June 2018, 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) *Unmatured Coupons void*: On the due date for redemption of any Note pursuant to Condition 5(a) (*Scheduled redemption*) or Condition 8 (*Events of Default*), all unmatured Coupons (if any) relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(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 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.

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 66.67 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 66.67 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 safekeeper for Euroclear and Clearstream, Luxembourg. The Temporary Global Note and the Permanent Global Note will each contain the following statement:

"Payments due in respect of Notes for the time being represented by this Temporary Global Note/Permanent Global Note shall be made to the bearer of this Temporary Global Note/Permanent Global Note and each payment so made will discharge the Republic's obligations in respect thereof."

The Temporary Global Note and the Permanent Global Note will be in NGN form. On 13 June 2006 the European Central Bank (the "**ECB**") announced that Notes in NGN form are in compliance with the "Standards for the use of EU securities settlement systems in ESCB credit operations" of the central banking system for the euro (the "**Eurosystem**"), provided that certain other criteria are fulfilled. At the same time the ECB also announced that arrangements for Notes in NGN form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2006 and that debt securities in global bearer form issued through Euroclear and Clearstream, Luxembourg after 31 December 2006 will only be eligible as collateral for Eurosystem operations if the NGN form is used. The Notes are intended to be held in a manner which would allow Eurosystem eligibility — that is, in a manner which would allow the Notes to be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria. Provided that the Eurosystem eligibility criteria are satisfied, the Republic expects that as of the Closing Date Citibank, N.A. will be the common service provider and one of the ICSDs will be the common safekeeper of the NGN.

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 to or to the order 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 11 June 2008 (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 to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Republic in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Temporary Global Note or the Permanent Global Note, the Issuer shall procure that the payment is entered pro rata in the records of Euroclear and Clearstream, Luxembourg.

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 safekeeper 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.

USE OF PROCEEDS

The net proceeds of the issue of the Notes, expected to amount to EUR 1,490,850,000 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 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 10.0 million as at 1 January 2008. 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, among others, 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;
- 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 (the "**NBH**"); and
- granting pardons.

Government

The government of Hungary consists of the Prime Minister and other ministers forming the Cabinet (currently 15 ministers). The Prime Minister and the government's programme are approved by a simple majority vote of Parliament. The Parliament reelected the former Prime Minister, Mr. Ferenc Gyurcsány, on 9 June 2006. Mr. Ferenc Gyurcsány has been the Prime Minister since 4 October 2004. On 5 May 2008 the current minority government led by Mr. Ferenc Gyurcsány was sworn in. 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 2006.

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.

In 2007 the Act on the Parliamentary Commissioner of 1993 was amended and the position of Parliamentary Commissioner for Future Generations was created. Sándor Fülöp was elected Parliamentary Commissioner for Future Generations by the Parliament as of 26 May 2008 and will be responsible for controlling the implementation of the regulation ensuring the sustainability and improvement of the environment and nature.

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. At the 2002 election no single party won a majority of Parliament seats, a coalition of the HSP and AFD came to power again. The HSP and AFD were able to form a coalition government with 198 of the 386 parliamentary seats.

The last parliamentary election was held in April 2006.

The following table shows the political affiliations of the members of the Parliament after the election in April 2006:

Parliament

Party	*Number of Seats*	*% of Seats*
AFD(1)	18	4.66%
Fidesz-HCP(2)	164	42.49%
HDF	11	2.85%
HSP(1)	186	48.19%
HSP/AFD Joint Candidate(1)	6	1.55%
Independent Representatives	1	0.26%
Total	386	100.0%

(1) Member of the previous ruling coalition

(2) In co-operation with Christian Democratic People's Party

No single party won a majority of Parliament seats in the April 2006 elections. After the 2006 election, the HSP and AFD were able to form a coalition government again with 210 of the 386 parliamentary seats. At the end of April 2008 the AFD left the coalition and the HSP formed a minority government as at the beginning of May 2008. The next parliamentary election will be held in 2010.

Local government elections

The following table shows the results of the latest local government elections, which were held in October 2006.

Party % Vote	*Budapest*	*Country government*	*Municipalities*
HSP-AFD	47.46	34.87	11.19
Fidesz-HCP	47.42	54.14	17.72
Other	5.12	10.99	71.09
Total	100.0	100.0	100.0

The next local government elections are scheduled to take place in 2010.

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

	Seats
FIDESZ-HCP	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) became the Chairman of the European Committee on Budgetary Control (BUDG), Pál Schmitt (European People's Party) became 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 the 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 (former member of 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 became fully integrated into the system by 2007, and the European Union plans to eliminate the checks at common borders after December 2007. In case of air transport the implementation took place in Spring 2008.

The European Constitution was ratified by the Hungarian Parliament on 20 December 2004, while the Treaty of Lisbon (amending the Treaty on European Union and the Treaty establishing the European Communities, signed at Lisbon on 13 December 2007) was ratified on 17 December 2007. The minorities protection clause, which was a Hungarian initiative, has been absorbed in the preamble to the European Constitution and to the Treaty of Lisbon.

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 up the convergence process to the EU. The key programme was the National Development Plan, which was approved on 19 December 2002 and which oversaw the allocation of EU funds from 2004 to 2006. The National Development Plan consisted of five operative programmes:

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

The government published the second National Development Plan, the "New Development Plan", which oversees the allocation of EU funds from 2007 to 2013. On September 7, 2007 the European Commission adopted the New Development Plan, which includes seven regional and eight sector programs. Overall, Hungary will receive benefits worth EUR 25 billion under the New Development Plan.

Following its accession to the EU, Hungary plans to become a member of EMU as soon as possible.

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, Bulgaria in July 1998 and Croatia in March 2003. In accordance with CEFTA, most of the trade barriers between member states on industrial products were removed on 1 January 2001. Effective from 1 January 2007 all Balkan states became members of the organisation and bilateral trade agreements between the new members are now settled within the new framework. Hungary's trade with non-EU member CEFTA-countries is now regulated by the EU.

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.

Agreement on European Economic Area

Currently trade arrangements are governed by the Agreement on European Economic Area rather than the EFTA. This agreement operates between 3 current EFTA member states, European Communities and the 25 EU member states.

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 debts 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 51 per cent. in 2001, but has increased reaching 61 per cent. in 2007;

- the GDP growth trends are in line with general European trends: the rate adjusted for calendar day effect was 4.2 per cent. in 2001, 4.4 per cent. in 2002, 4.1 per cent. in 2003, 4.6 per cent. in 2004, 4.3 per cent. in 2005, 4.0 per cent. in 2006. In 2007 the growth rate was 1.3 per cent., which was lower 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. In December 2005 the consumer prices were 3.3 per cent. higher than in December 2004; until April 2006 the inflation rate diminished to 2.3 per cent., partly as a result of the reduction of the VAT rate; until March 2007 the inflation rate increased to 9.0 per cent. mainly as a result of the increase of regulated energy prices and food prices, but has decelerated since then reaching 6.6 per cent. in April 2008;

- 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. Real wages dropped in 2004 compared to 2003 by 1 per cent. while in 2005 real wages grew by 6.3 per cent. compared to 2004. In 2006, real wages grew by 3.5 per cent. compared to 2005, in 2007 real wages dropped by 4.8 per cent. compared to 2006;

- unemployment has generally declined from its peak of 12.5 per cent. in the first quarter of 1993 to 5.5 per cent. in the last quarter of 2003, but the unemployment rate has grown since then. In the 3 month period from November 2007 to January 2008, the unemployment rate reached 8.1 per cent.; and

- high levels of foreign direct investment with the level of cumulative foreign direct investment in 2007 reaching Euro 66.4 billion, which amounted to approximately 65.7 per cent. of GDP for 2007.

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(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, for the years indicated:

	GDP											
	*1996**	*1997**	*1998**	*1999**	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*
	(HUF billion except as indicated)											
Consumption	5,104	6,184	7,322	8,431	9,901	11,356	13,129	14,904	15,931	17,083	18,175	18,957
Fixed investment	1,476	1,899	2,385	2,725	3,107	3,510	3,958	4,177	4,651	5,017	5,155	5,305
Goods services capital formation and foreign trade balance	314	458	381	238	521	404	94	(140)	135	(44)	427	1,112
GDP	6,894	8,541	10,087	11,393	13,529	15,270	17,181	18,941	20,717	22,055	23,757	25,374
Annual real GDP growth rate (%)**	1.3	4.6	4.9	4.2	n/a	4.1	4.4	4.2	4.8	4.1	3.9	1.3

* Non-revised data

** Data not adjusted for calendar-day effect

Source: Hungarian Central Statistical Office

(2) In Autumn 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, for the years 2000-2007. In autumn 2006, CSO modified the calculation methodology of the gross domestic product. From 2005, according to the applicable EU regulations certain activities formerly not included in GDP because they were classified as illegal activities (for example drug production and prostitution) have to be calculated and have to be included in gross domestic product. Therefore, the CSO revised upwards the GDP data for the years 2000, 2001, 2002, 2003, 2004, 2005 and 2006 due to this methodological change.

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

	The production of GDP, 1996-2007** Corresponding period of previous year = 100											
	*1996**	*1997**	*1998**	*1999**	*2000**	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*
GDP, total (at purchaser's price)	101.3	104.6	104.9	104.2	105.2	104.1	104.4	104.2	104.8	104.1	103.9	101.3
Agriculture, forestry, fishing	104.2	99.8	98.6	100.9	92.6	116.4	90.2	100.0	153.4	98.6	93.0	86.7
Mining and quarrying, manufacturing and electricity	103.0	111.3	107.7	107.1	106.4	100.9	101.8	105.8	103.8	103.6	105.9	106.2
Of which												
Manufacturing	104.1	114.5	110.7	108.3	107.5	102.6	103.8	107.2	104.1	105.4	106.7	106.8
Construction	92.9	108.4	105.9	104.3	119.2	106.3	112.9	96.4	103.3	103.3	99.9	88.4
Services, total	102.4	102.4	103.9	103.2	104.0	103.8	105.3	104.1	102.6	104.8	104.3	101.3
Of which												
trade, repair, hotels and restaurants	99.7	107.0	105.6	100.6	100.0	106.9	105.9	105.3	103.1	105.1	107.1	101.5
transport, storage and communications	103.2	109.7	103.4	105.5	102.1	103.2	102.8	103.0	105.5	102.9	105.3	104.0
financial intermediation and real estate activities	106.2	96.7	103.8	103.9	108.3	104.4	107.8	104.3	103.1	107.1	106.4	102.9
public administration, education, health and social work	102.0	103.7	104.0	102.6	103.3	100.9	103.4	104.6	101.0	103.1	100.4	97.9
other community, social and personal service activities	92.6	97.1	97.4	106.4	102.9	105.5	103.1	99.1	100.6	103.3	101.1	102.0

* Non-Revised data

** Data not adjusted for calendar-day effect

Source: Hungarian Central Statistical Office

Between 2000 and 2006, the rate of real GDP growth in Hungary was higher than the average growth recorded in the EU as a whole, however in 2007 there was a significant drop in the growth rate. The economic growth in Hungary since 2000 has mainly been attributable to an increase in exports and, in particular for 2002 and 2003, an increase in domestic consumption. The increase in domestic consumption was mainly a result of budget expenditures and government measures (such as the increase of the minimum wage, increased mortgage subsidies and public sector wage increases). In 2004, 2005 and 2006, the growth in domestic consumption decreased, although the decrease has been offset by an increase in exports and, in 2004 and 2005, an increase in investment in Hungary generally, resulting in an increase in GDP of 4.6%, 4.3% and 4.0% for 2004, 2005 and 2006, respectively. In 2006, the dynamics of consumption were low (year-on-year growth rate reached 1.4%), and the level of investment dropped by 1.8% for 2006 compared to 2005, while export growth rates remained high (year-on-year growth rate reached 18.9% during 2006). In 2007 growth rate reached only 1.3 per cent. This low growth rate was mainly due to a 2.2 per cent. decrease in consumption. Gross fixed capital formation increased by only 1.0 per cent. while exports grew by 14.2 per cent. compared to 2006.

The following table presents the final use of GDP:

*The final use of GDP***
Corresponding period of previous year = 100

Volume indices of GDP	*1996**	*1997**	*1998**	*1999**	*2000**	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*
Household final consumption expenditure	96.2	101.8	104.5	105.6	105.4	106.3	110.6	108.3	102.5	103.4	101.9	99.7
Social transfer in kind	100	101	105.3	101.5	102.8							
Social transfer in kind from government						103.2	106.3	105.5	103.6	104.5	103.2	91.1
Social transfer in kind from non-profit institutions						102.9	108.6	107.4	109.4	104.8	98.8	94.3
Actual final consumption of households	97	101.7	104.6	104.8	105	105.7	109.9	107.8	102.8	103.6	102.1	97.9
Actual final consumption of government	95.8	105.7	99.7	101.8	101.2	101.0	105.3	105.1	99.9	99.9	106.6	96.8
Actual consumption, total	96.8	102.2	103.9	104.4	104.4	105.0	109.2	107.5	102.4	103.1	102.6	97.8
Gross fixed capital formation	106.7	109.2	113.3	105.9	107.7	105.2	110.2	102.2	107.6	105.3	97.2	101.0
GDP, total	101.3	104.6	104.9	104.2	105.2	104.1	104.4	104.2	104.8	104.1	103.9	101.3

The final use of GDP
At current prices in HUF billion

	*1996**	*1997**	*1998**	*1999**	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*
Household final consumption expenditure	3,510	4,219	5,009	5,829	6,875	7,902	9,079	10,232	10,966	11,764	12,364	13,123
Social transfer in kind	891	1,064	1,289	1,446								
Social transfer in kind from government					1,468	1,683	2,021	2,404	2,569	2,786	2,998	2,978
Social transfer in kind from non-profit institutions					192	217	249	283	329	361	381	402
Actual final consumption of households	4,400	5,283	6,297	7,274	8,535	9,802	11,348	12,920	13,863	14,911	15,743	16,503
Actual final consumption of government	706	901	1,025	1,157	1,366	1,554	1,780	1,984	2,068	2,172	2,432	2,454
Actual consumption, total	5,104	6,184	7,322	8,431	9,901	11,356	13,129	14,904	15,931	17,083	18,175	18,957
Gross fixed capital formation	1,476	1,899	2,385	2,725	3,107	3,510	3,958	4,177	4,651	5,017	5,155	5,305
GDP, total	6,894	8,541	10,087	11,393	13,529	15,270	17,181	18,941	20,717	22,055	23,757	25,374

* Non-Revised data

** Data not adjusted for calendar-day effect

Source: Hungarian Central Statistical Office

Time period		Gross domestic product, 1996-2007 volume indices (%) Not adjusted, raw data (the corresponding period of previous year = 100.0)	Adjusted for calendar effects (the corresponding period of previous year = 100.0)
*1996**	Q1	100.6	n/a
	Q2	100.7	n/a
	Q3	100.9	n/a
	Q4	103.0	n/a
	Year	**101.3**	n/a
*1997**	Q1	102.3	n/a
	Q2	104.8	n/a
	Q3	105.7	n/a
	Q4	105.3	n/a
	Year	**104.6**	n/a
*1998**	Q1	104.4	n/a
	Q2	104.9	n/a
	Q3	105.4	n/a
	Q4	104.7	n/a
	Year	**104.9**	n/a
*1999**	Q1	103.2	n/a
	Q2	103.3	n/a
	Q3	104.2	n/a
	Q4	105.9	n/a
	Year	**104.2**	n/a
*2000**	Q1	106.6	n/a
	Q2	105.7	n/a
	Q3	104.6	n/a
	Q4	104.2	n/a
	Year	**105.2**	n/a
2001	Q1	104.4	105.1
	Q2	104.5	104.5
	Q3	104.0	104.1
	Q4	103.5	103.4
	Year	**104.1**	**104.2**
2002	Q1	104.2	104.3
	Q2	104.3	104.3
	Q3	104.6	104.4
	Q4	104.4	104.4
	Year	**104.4**	**104.4**
2003	Q1	103.3	103.2
	Q2	104.3	104.3
	Q3	104.4	104.4
	Q4	104.6	104.5
	Year	**104.2**	**104.1**
2004	Q1	104.6	104.0
	Q2	105.1	105.0
	Q3	104.9	104.9
	Q4	104.6	104.4
	Year	**104.8**	**104.6**

Time period		Gross domestic product, 1996-2007 volume indices (%) Not adjusted, raw data (the corresponding period of previous year = 100.0)	Adjusted for calendar effects (the corresponding period of previous year = 100.0)
2005	Q1	103.0	103.7
	Q2	104.5	104.4
	Q3	104.2	104.1
	Q4	104.7	104.9
	Year	**104.1**	**104.3**
2006	Q1	104,5	104.3
	Q2	103.5	103.7
	Q3	103.9	104.0
	Q4	103.7	103.9
	Year	**103.9**	**104.0**
2007	Q1	102.7	102.8
	Q2	101.2	101.2
	Q3	100.9	101.0
	Q4	100.8	100.7
	Year	**101.3**	**101.3**

* Non-Revised data

Source: Hungarian Central Statistical Office

Energy

Approximately 37 per cent. of Hungary's total energy demand is supplied by domestic energy sources. Approximately 11.6 per cent. of total energy consumption is produced by coal (the majority of which is domestically produced) and about 68.5 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. According to EU directives, the Republic was obliged to fully liberalise its energy market by 1 July 2007. The government has already liberalized the energy market, but the government plans to revise the current legislation later in 2008 to further enhance competition.

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 and the high public sector deficit, but has decreased sharply mainly 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	103.4	100.2	100.4	96.0	105.1	105.0	105.5	103.3
2006	107.7	104.3	99.3	96.0	106.4	102.7	104.1	103.9
2007	111.5	106.7	101.0	98.7	124.6	104.0	107.4	108.0
2008 April(1)	112.7	105.5	100.7	99.7	108.7	105.7	105.4	106.6

Source: Hungarian Central Statistical Office

(1) April/April 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 in 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 increased slightly mainly due to the higher energy prices. In December 2005 the inflation rate was 3.3 per cent. In the first months of 2006 the inflation rate decreased significantly reaching 2.3 per cent. in April 2006, but then the inflation rate increased due to higher energy and food prices as well as depreciating HUF rate and increase in VAT rate, reaching 6.5 per cent. in December 2006. In the first half of 2007, the inflation rate increased significantly, reaching its peak at 9.0% in March 2007, mainly as a result of base effect and a significant increase in regulated prices. The inflation rate has declined slightly since then reaching 6.6% in April 2008. By the end of 2007, approximately 80 per cent. of all prices in Hungary were unregulated.

The following prices also remain regulated:

- Electricity (for households only)
- Gas
- Purchased Heat
- Various pharmaceutical products
- State lottery
- Meals at schools, kindergartens and nurseries
- Local and long distance passenger transport
- State owned housing rent
- Various household utilities (including water and sewage charges and refuse collection service)
- Certain 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 were postponed until 2003, thus creating inflationary pressure in 2003 and 2004. In 2004 and 2005 the regulated price index diminished reaching 7.3 per cent. in December 2004, 6.7

per cent. in December 2005 and 0.8 per cent. in August 2006. This was due to postponed increases in regulated prices before the elections. After the elections regulated prices increased again; in December 2006 the regulated price index reached 7.8 per cent., in July 2007 the index reached 18.3 per cent., but since then the twelve month regulated price index decelerated to 7.1 per cent. in April 2008.

In line with EU directives, the Republic intends to remove regulated pricing schemes from the increasingly market-based energy, postal and communication sectors. Deregulation of the energy sector began in July 2004. The entire energy sector has been deregulated including the household segment, however the retail electricity prices are capped by regulation. In February 2006, Parliament approved a bill on the temporary regulation of prices paid by Magyar Villamos Művek Zrt. ("**MVM**", a state-owned energy distributor in Hungary) for energy produced by power plants. In March 2008, the government announced the break up of MVM in order to accelerate the electricity market liberalisation process as well as weakening MVM's dominant position. The proposed deadline for deregulation in the postal service is 2012.

Wages and Employment

The following table illustrates recent wage trends:

	Annual Average												
	1996	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008 January-March*
Nominal wage index	117.4%	124.1%	118.4%	112.7%	111.4%	116.2%	119.5%	114.3%	105.7%	110.1%	107.5%	102.8%	106.2%
Real wage index	95.0%	104.9%	103.6%	102.4%	101.5%	106.4%	113.5%	109.2%	99.0%	106.3%	103.5%	95.2%	99.3%

Source: Hungarian Central Statistical Office

Real wages grew significantly in 2002 and also in 2003, though 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. The higher real wage index is partly attributable to lower tax burden and the change in public employees' premium system. (The payment of the "13th month salary" was delayed from December 2004 to January 2005, by which it became "0th month salary"). During 2005 and the first half of 2006, real wages grew significantly. In the second half of 2006 real wages decreased as increasing inflation was higher than the dynamics of net wages partly as a result of higher tax burden of labour incomes. In 2007 real wages dropped significantly as a result of higher inflation, higher tax burden on wages, and the wage restriction in the public sector.

As with GDP growth, changes in nominal and real wages 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:

	Annual Average												
	1996	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008 Feb.- 2008 Apr.*
Unemployment rate(1)	9.9%	8.7%	7.8%	7.0%	6.4%	5.7%	5.9%	5.9%	6.1%	7.2%	7.5%	7.4%	7.7%

Source: Hungarian Central Statistical Office

(1) Based on international sampling methodology

The yearly average unemployment rate in 2004 was 6.1 per cent., which is considerably lower than the EU average, but in 2005 reached 7.2 per cent. mainly due to the increase in the activity rate. In 2006 the unemployment rate — mainly as a result of an increase in the activity rate — increased to 7.5 per cent. In 2007 the unemployment rate decreased slightly to 7.4 per cent, but the unemployment rate increased to 7.7 per cent. in the three months ended in April 2008 partly as a result of lay-offs in the government sector. 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 by both direct sales and public offerings. The Hungarian Privatisation and State Holding Company (the "**ÁPV Zrt.**" or "**ÁPV**") managed such sales until 31 December 2007.

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 which aimed at selling 18 to 20 companies. Of these, the privatisations of Postabank, Konzumbank and partial privatisation of Land Credit and Mortgage Bank ("**FHB**")(3) were completed in 2003. In 2004, the privatisation of MOL (Hungarian Oil Company) and Dunaferr (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. In 2005, approximately HUF 124.4 billion was raised through privatizations, none of which were directly paid to the central budget. According to preliminary data available as of the date of this Offering Circular, the total revenues of ÁPV amounted to HUF 154.9 billion in 2005, of which dividends amounted to HUF 28.4 billion and other revenues amounted to HUF 2.1 billion. Dividends paid by the ÁPV in 2005 to the central budget amounted to HUF 28.4 billion.

On 31 March 2005 the ÁPV 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 submitted offers to the ÁPV for 99.95 per cent. share of Malév Hungarian Airlines, but the negotiated privatisation procedure was closed by ÁPV without result in August 2005.

In April 2005, ÁPV began the tender process for the sale of a 75% plus one share of Antenna Hungária, one of the principal radio and television broadcasting companies operating in Hungary, in a two-stage privatization tender. Swisscom Broadcast AG won the tender process, offering HUF 46.75 billion (EUR 191 million) for all shares owned by ÁPV and Forrás Rt. in Antenna Hungária. The sale was completed on October 25, 2005.

In June 2005, ÁPV began the tender process for the privatization of Budapest Airport Rt. ("Budapest Airport"), the operator of Ferihegy Airport, Hungary's only international airport. The British BAA International Holdings ("BAA") achieved the highest score in the tender process and submitted the highest financial bid. BAA offered HUF 464.5 billion (EUR 1.83 billion) as the immediate transaction price, and pursuant to the contract entered into between ÁPV Zrt. and BAA for the privatization of Budapest Airport on December 18, 2005, BAA acquired the government's 75% minus one share stake in Budapest Airport and the right to operate it for 75 years. The transaction was settled on December 23, 2005.

On May 8, 2006, MOL exercised a call option to buy 10,898,525 of its own previously issued shares from ÁPV Zrt. worth HUF 237.2 billion and constituting approximately 10% of all the outstanding MOL shares. The purchase was settled on May 29, 2006. On December 11, 2006, ÁPV announced that the remaining shares of the company (approximately 1.7 % of the shares of MOL) were sold with the exception of 52 shares and a golden share. 159,858 shares were sold to retail investors. Afterwards, 1,733,566 shares were sold via the Budapest Stock Exchange. As of the end of 2006, the Republic owned one ordinary share and one share with priority voting rights of MOL.

On April 25, 2007, the privatization of Malev Hungarian Airlines was successfully completed. On February 23, 2007, ÁPV and AirBridge Zrt. entered into an agreement for the sale of the state's 99.95% stake in Malev Hungarian Airlines. The buyer paid HUF 200 million in exchange for the shares and agreed to invest approximately HUF 26 billion in Malev Hungarian Airlines.

On August 29, 2007, ÁPV sold 50 per cent. plus one share of FHB raising privatization revenues of HUF 66.8 billion.

On 1 January 2008 the Republic closed up its asset management and privatization activities into one entity, Magyar Nemzeti Vagyonkezelo Zrt. ("MNVK") combining APV, the Nemzeti Foldalap (National Land Fund) and KVI (National Treasury Directorate).

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.

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/€. 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 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. Until June 2003, the forint fluctuated around HUF 245/€.

In June 2003, the government and the NBH decided to shift 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 basis points, to a level 100 basis points 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 traded around HUF 250/€ level in 2004 and 2005. In view of these favourable signs the NBH cut interest rates cautiously from March 2004 until 2006. The central bank rate stood at 6.0 per cent. at the end of 2005. Since June 2006, the NBH started raising the base rate gradually, due to higher inflation risks and higher interest rates globally. As at the date of this Offering

Circular, the forint had recently traded around the HUF 240/€ level. The central bank base rate stood at 8.50 per cent. as of 3 June 2008.

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 was 4 per cent.(+/−1 per cent.). This target was met after reaching 3.3 per cent. inflation rate in December 2005. The inflation target rate for 2006 was 3.5 per cent. +/−1 per cent. 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 the central bank will permanently monitor the inflation for the coming 5 to 9 quarters and continuously adjust the monetary policy appropriately. Inflation reached 3.3 per cent. in December 2005 and 3.0 per cent. in July 2006. According to the Report on Inflation published in November 2006, NBH has reported that there is a high probability of not achieving the 2006, 2007 and 2008 inflation targets mainly as a result of the announced new fiscal policy. The NBH estimated that the direct inflationary effects of the fiscal measures will be an increase in inflation of 3 per cent. for the year 2007 and 1 per cent. for the year 2008.

On 20 December 2004, Mr. Ferenc Mádl, the former 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 Deputy Governors in the Monetary Council, the number of members dropped to eleven by July 2007. Currently the Monetary Council consists of 12 members, including the governor Andras Simor.

On 21 December 2006, the NBH decided to issue two-week bonds instead of accepting two-week deposits. According to the evaluation of the NBH the measure has no effect on the conduct of monetary policy. The reason for the change was to enhance the development of the financial sector and the liquidity management of the banks.

On 25 February 2008, in agreement with the Government the Monetary Council decided to abandon the flexible peg of the forint to the euro within a fluctuation band and adopt a floating exchange rate regime, with effect from 26 February 2008. According to the Monetary Council the floating exchange rate regime provides the central bank with better conditions to achieve its inflation target and, through this, to meet the nominal convergence criteria and finally to enter into European Exchange Rate Mechanism II ("**ERM II**").

Fiscal policy

On 1 December 2004, the Minister of Finance announced the revision of the Convergence Programme in 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. Since 2007 the budget deficit figures have been calculated without private pension revenues.

The budget approved for the year 2005 according to ESA methodology provides for total expenditures of the central government of HUF 6,582.9 billion, total revenues of HUF 5,883.2 billion, and a central government deficit of HUF 699.7 billion. For 2005, the approved total consolidated ESA expenditures of the general government are HUF 10,783.2 billion and the approved total consolidated revenues are HUF 9,729.7 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 correction item).

On 12 January 2005, Fitch Ratings Ltd. downgraded the Republic's Long-term local currency rating from "**A+**" to "**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 that the ESA 95 deficit figures should be adjusted in some countries, including Hungary. Due to the introduction of the private pension systems, a given ratio of revenue shortfall should be deducted from the ESA 95 deficit figure when measuring the Maastricht criterion related to the 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. and 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 in the first half of 2005 to only 35 per cent. of the expenditures (with a few exceptions amounting to HUF 730.5 billion) planned for the year 2005.

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 taking 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 had 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 payment to EU budget. However, non-compliance with the recommendations could result in the freezing 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 from "A" and "A-1" to "A−" and "A-2", 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 and "A-1" short-term foreign currency ratings on the sovereign were affirmed and the outlook was stable.

On 27 June 2005, Prime Minister Mr. Ferenc Gyurcsány announced a five 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. In the case of fuel the VAT rate reduction from 25 per cent. to 20 per cent. was implemented from 1 October 2005. The plan also included some tax raising measures. In 2006, the government introduced the "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 reason 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 to 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 Gripen fighters.

In Autumn 2005 Prime Minister Mr. Ferenc Gyurcsány announced that the Convergence Programme should be revised by the end of the year 2005. On 30 November 2005, 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 from what was 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 58.5 per cent. 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 2005, Fitch Ratings credit rating agency lowered its long-term local and foreign currency sovereign credit ratings of the Republic of Hungary from "A" and "A−" to "A−" and "BBB+", respectively, due to the country's weakened fiscal outlook and possible delays in introducing the euro in 2010.

On 19 December 2005, 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 excluded, pension reform correction effect not included) equaling 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) equaling 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 equaling 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.

On 25 January 2006, the Standard & Poor's rating agency announced the revision of Hungary's outlook from "stable" to "negative". The grade was not changed.

On 22 February 2006, the Moody's rating agency announced the revision of Hungary's outlook from "stable" to "negative". The grade was not changed.

On 14 March 2006 the Minister of Finance, Mr. János Veres, announced that, according to ESA methodology, the general government deficit is expected to increase by 0.3 per cent. of GDP in 2006 and by 0.2 per cent. in 2007 compared to previous projections. He cited the Eurostat's decision, dated 9 March 2006, concerning the accounting methodology of certain military expenditures. According to such methodology, the lease of the Gripen fighters is reclassified as a purchase and should be accounted for at the time of disposal.

On June 9 2006, after the inauguration of the new government, a new framework entitled "New Equilibrium" was announced, which included a wide range of fiscal adjustment measures ("fiscal austerity package") affecting both the expenditures and revenues of the budget for the period 2006 to 2008.

The legislative proposals underlying the changes in specific taxes and social security contributions were submitted to Parliament; their adoption took place on 10 July 2006. In the meantime, the government has already approved a number of measures concerning the re-organisation of public administration, including a cut in the number of ministries and the number of staff performing administrative tasks. The government is also developing proposals for thorough reform of the public sector, including health, education and local governments.

The estimated impact of the announced measures was roughly HUF 350 billion (1.5 per cent. of GDP) in 2006, which were implemented during the last four months of the year, thus the annualised impact is expected to be approximately three times this figure.

The main specific measures listed in the framework referred above and the timing of their implementation are summarised in the following table.

Description of measures	*Date of implementation*
11 ministries instead of the current 14, 50% reduction in the executive staff of ministries and 20% reduction in civil servants, new governmental districts	2006 onwards
Restructuring of institutions of the central government: regional reshuffling of 192 county institutions (Police, Transport Supervisory Authority, State Tax Authority (APEH), etc.), mergers of 119 institutions, abolishment of 32 institutions	2006 onwards
More effective local government system: setting up of regional municipalities instead of the current county-based system	2006 onwards
Obligatory partnership of towns forming a joint service provision in specific public services (e.g. education)	2006 onwards
Joint administrative services for towns with less than 1000 inhabitants	2006 onwards
5% cut in the operational costs of local governments	2006 onwards
Reduction in headcount and compensation of members of local governments	2006 onwards
Immediate measures: freezing of appropriations for central budgetary institutions and chapter-managed appropriations, including the excessive drug expenditures	June 2006
Cut in gas price subsidies	Aug 2006
VAT: 15% rate increases to 20%	Sep 1 2006
Excises on tobacco: 5.7% increase from September 1, 2006; 2.7% increase from April 1, 2007; 2.7% increase from September 1, 2007 Excises on alcoholic products: 7% increase	Sep 1 2006
Introduction of tax on interest income and capital gain (20%)	Sep 1 2006
Increase in tax on benefits in kind (44%-54%)	Sep 1 2006
Introduction of a solidarity tax on personal incomes exceeding HUF 6 million (4%), a solidarity tax on pre-tax profits (4%) and special tax on financial sector	Sep 1 2006
Increase in the minimum contributions paid by self-employed (base will be twice of the minimum wage)	Sep 2006
Pensioners performing entrepreneurial activity will pay health contribution (15% in 2006 and 16% from 2007)	Sep 2006
Increase in the health contribution paid by employees, 2% from September 1, 2006, additional 1% from January 1, 2007; 0.5% increase in contributions to the Employment Fund; employed pensioners also subject to health contribution payments on benefits in kind	Sep 1 2006

Description of measures	*Date of implementation*
Increase in simplified entrepreneurial tax-rate (abbrev. in Hungarian: EVA) (15%-25%)	Oct 1 2006
Withdrawal of the envisaged reduction of contributions paid by employers and maintaining the lump-sum health contribution (EHO) paid by employers	Nov 2006
New regulation on tax base and rates for tax on vehicles, increase in fees on the sale/purchase of vehicles	2007
Properties owned abroad for tax avoidance purposes can be transferred home by paying a single duty of 10%	2007
More effective actions against tax evasions: merger of Police and Hungarian Customs and Finance Guard	2007
Nominal freeze of public sector wages for two years	2007-2008
Introduction of a tax on unjustifiable high cash balance of companies (20%)	Jan 1 2007
Introduction of a minimum compulsory corporate income tax (10% up to HUF 5 billion, 16% above)	Jan 1 2007
Reduction in tax allowances	Jan 1 2007
Inclusion of pensions in the tax base (pensions will not be taxed, but additional income earned by pensioners will be taxed at a higher effective tax rate)	Jan 1 2007
Introduction of a value-based property (real-estate) tax	2008

Certain measures of the above mentioned package have been referred to the Constitutional Court, which may annul them when a measure is found to be unconstitutional. In some cases the Constitutional Court has already ruled a certain measure as constitutional (e. g. tax on interest income and capital gain), while in other cases the Constitutional Court ruled a measure as unconstitutional (e. g. introduction of a tax on unjustifiable high cash balance of companies).

On 15 June 2006, Standard and Poor's rating agency lowered its long-term sovereign credit ratings of the Republic from "A —" to "BBB+" due to the country's continued fiscal deterioration. The short-term rating and the outlook remained "A-2" and negative respectively.

On 20 June 2006, the Ministry of Finance announced that, according to GFS methodology, the general government deficit (local governments excluded) is expected to increase by HUF 222.8 billion in 2006 and is expected to reach HUF 1,768.6 billion (equaling 7.6 per cent. of projected GDP for the year 2006). The local government deficit is expected to increase by HUF 120 billion in 2006.

On 10 July 2006, the Parliament approved three bills incorporating the new taxation measures of the government. The measures approved included increasing certain tax rates (e.g. excise duties, EVA, VAT, contribution to social securities systems), and the introduction of new taxes (e.g. solidarity tax, tax on interest and capital gains). On 17 July 2006 Mr. László Sólyom, the president of the Republic of Hungary, signed the bills approved by the Parliament.

On 25 July 2006, the Ministry of Finance revised upwards the expected ESA general government deficit for the years 2006, 2007 and 2008 due to a methodological change in the accounting rules for expenditures in relation to motorways built in certain PPP (public-private partnership) projects. The ESA general government deficit to GDP ratio was expected to exceed previous projections by 0.6 per cent. for the year 2006, by 0.9 per cent. for the year 2007 and by 0.1 per cent. for the year 2008.

The EU's Commissioner for Economy and Monetary Affairs Joaquin Almunia has welcomed the new fiscal package being introduced by the government.

On 1 September 2006, the government compiled the revised update of the Convergence Programme and published and sent it to the European Commission and the ECOFIN Council for approval. The Convergence Programme contemplates a two stage process in achieving the middle-term fiscal aims of the government. In the first period from 2006 to 2009, the main task is to achieve long-term stability with the lowest possible losses in terms of economic performance. During this period, the government plans to reduce the general government deficit significantly with deficit contracting measures and reforms; to reduce the growth of the debt to GDP ratio, and then to reduce the debt rate; to reduce the external imbalances of the Republic and to reduce the current account deficit. According to the government's estimate, the GDP growth rate will temporarily shrink to 2 to 3 per cent. for the years 2007 and 2008, whilst the GDP growth rate for 2009 will rebound to approximately 4 per cent. as experienced in previous years. The government projects declining households' real income for the year 2007, decreasing by 1 per cent. for the year 2008, and increasing by 1 per cent. for the year 2009. In the second period from 2009 to 2011, the main task is to start a long-term development in the economic performance and the living conditions of the Republic. During this second period, the government plans to strengthen the macroeconomic stability and to reduce the general government deficit and indebtedness further by reform. During both periods, reforms in public administration, health care, education system, pension and the price subsidy system are to be implemented; these factors are aimed at securing the lasting macroeconomic stability needed for the real convergence of the Republic.

The following table sets forth the projections of the revised update of the Convergence Programme concerning the main macroeconomic indicators of Hungary.

Per cent.	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*
			Growth Rate			
GDP	4.1	2.2	2.6	4.1	4.2-4.5	app. 4.5
Domestic Use	2.0	(0.2)	0.5	3.1	app. 3.5	3.5-4.0
of which						
Households' consumption	2.4	(0.9)	0.0	1.5	2.5-3.0	app. 3.0
Investment	6.6	2.1	3.7	7.0	5.0-6.0	5.0-6.0
Export	12.0	10.9	9.9	9.4	8-10	8-10
Import	9.5	8.5	8.0	8.8	7-9	7-9
Real income	1.9	(1.7)	0.1	2.5	3.0-3.5	app. 3.5
Employment	0.3	0.0	0.3	0.7	0.7-1.0	app. 1.0
Consumer price index	3.5	6.2	3.3	3.0	2.5-3.0	2.5-3.0
			In per cent. of GDP			
Current account deficit	7.9	5.9	4.4	3.6	app. 3.0	app. 2.0
Net external financing need	7.1	4.2	2.2	1.4	0.5-1.0	app. 0.0
Tax incomes	36.9	38.8	39.0	38.6	38-38.5	37.5-38
General government budget revenues	42.4	44.2	44.8	45.4	44-45	43.5-44.5
General government budget expenditures	52.5	51.0	49.1	48.6	47-48	46-47
EU transfers	1.5	1.6	2.1	3.2	3.0-3.5	3.0-3.5
General government deficit according to ESA methodology*	10.1	6.8	4.3	3.2	2.7	2.2
Gross government debt according to ESA methodology*	68.5	71.3	72.3	70.4	68-69	65-67

Source: Ministry of Finance

* Excluding second pillar pension funds correction item.

The revised update of the Convergence Programme contains detailed and concrete structural measures to underline the general government deficit path depicted in the Convergence Programme. The measures include reforms in the fields of public administration, the health care system, the pension system, the education system, price subsidies and the tax system.

On 20 September 2006, following political demonstrations in Hungary, Fitch Ratings credit rating agency changed its foreign currency and local currency sovereign credit ratings outlook of the Republic of Hungary from "stable" to "negative". The current ratings were affirmed.

On 22 September 2006, Moody's Investors Service placed the Republic of Hungary's local and foreign currency government bond ratings and foreign currency bank deposit ceiling rating, each currently A1, on review for possible downgrade.

In autumn 2006, CSO modified the calculation methodology of the gross domestic product. From 2005, according to the applicable EU regulations certain activities formerly not included in GDP because they are classified as illegal activities (for example drug production and prostitution) has to be calculated and has to be included in gross domestic product. Therefore, the CSO revised upwards the GDP data for the years 2000, 2001, 2002, 2003, 2004, 2005 and 2006 due to this methodological change.

On 4 October 2006, the JCR credit rating agency changed the foreign currency government bond rating from "A" to "A–".

On 10 October 2006, the ECOFIN approved the revised update of the Convergence Programme of Hungary. The ECOFIN obligated the Government to report on the development of the measures described in the revised update of the Convergence Programme, and indicated that the European Union may freeze EU funds if the Government did not fulfill its obligations.

On 31 October 2006, the Ministry of Finance announced the General government deficit according to GFS methodology excluding local governments is expected to reach HUF 2,055.5 billion (equaling 9 per cent. of GDP), higher then the previously projected HUF 1,548.5 billion (equaling 7.5 per cent. of GDP). The main reason for the difference is that the Ministry of Finance decided to take over the debt of NA Zrt. amounting to HUF 352 billion in the year 2006, instead of 2007 as planned originally. This measure does not affect the general government deficit according to ESA methodology.

On 1 December 2006, the Government approved an updated version of the Convergence Programme. The main difference between the latest update and the previous one is the revised economic forecast and the more detailed description of the fiscal measures. According to the 2006 December updated version of the Convergence Programme, the general government deficit according to ESA methodology to GDP ratio is expected to reach 6.8 per cent. in 2007, 4.3 per cent. in 2008, 3.2 per cent. in 2009, 2.7 per cent. in 2010 and 2.2 per cent in 2011; the general government debt according to ESA methodology to GDP ratio is expected to reach 70.1 per cent. in 2007, 71.3 per cent. in 2008, 69.3 per cent. in 2009, 67.5 per cent. in 2010 and 65-66 per cent in 2011.

On 5 December 2006, the Parliament approved the general government budget deficit for the year 2007. The general government deficit excluding local governments according to GFS methodology is planned to reach HUF 1,684.0 billion equaling 6.9 per cent. of projected GDP for the year 2007. The general government deficit excluding local governments according to ESA methodology is planned to reach 6.8 per cent. of projected GDP for the year 2007. Subsequently on 21 December the Parliament approved the budget for the year 2007.

On 21 December 2006, the Standard & Poor's rating agency changed the long term foreign currency debt outlook from "Negative" to "Stable", the rating remained "BBB+".

On 22 December 2006, the Moody's rating agency changed the long term foreign and local currency debt rating from "A1" to "A2", the outlook is "Stable".

On 9 January 2007, the Ministry of Finance published the preliminary general government deficit (local governments not included, pension reform correction effect not included) for the year 2006 according to GFS methodology. The deficit reached HUF 2,033.8 billion equaling 8.7 per cent. of GDP for the year 2006.

On April 23, 2007, the CSO and Eurostat revised the general government deficit data according to ESA methodology. According to the revised data, the general government deficit for the year 2005 according to ESA methodology (local governments included and private pension funds correction excluded) reached HUF 1,715.7 billion equaling 7.8% of the GDP for the year 2005. The general government deficit for the year 2006 according to ESA methodology (local governments included) reached HUF 2,163.8 billion equaling 9.2% of the GDP for the year 2006.

On November 5, 2007, Fitch Ratings changed its foreign currency and local currency sovereign credit ratings outlook of the Republic of Hungary from "negative" to "stable." The then current ratings were affirmed.

On November 30, 2007, the Ministry of Finance published the latest version of the Convergence Report. The Government revised downwards the expected general government deficit (including local governments) for the year 2007 according to ESA methodology from 6.4 per cent. of the expected GDP to 6.2 per cent. and the expected general government deficit (including local governments) for the year 2008 according to ESA methodology from 4.1 per cent. of the expected GDP to 4.0 per cent.

On 8 January 2008, the Ministry of Finance published the preliminary general government deficit (excluding local governments) for the year 2007 according to GFS methodology. The deficit reached HUF 1,291.4 billion equaling 5.0 per cent. of the projected GDP for the year 2007.

On 17 January 2008, the Ministry of Finance published the preliminary general government deficit (including local governments) for the year 2007 according to ESA methodology. According to the first estimate of the Ministry of Finance the deficit reached 5.7 per cent. of the projected GDP for the year 2007.

On 9 March 2008, a referendum was held on daily hospital and doctor visit fees and higher education tuition fees. The majority of votes demanded the abolition of these measures.

On 14 March 2008, the Standard & Poor's rating agency changed the long term foreign currency and local currency debt outlook from "Stable" to "Negative", the rating remained "BBB+".

On 1 April 2008, the Central Statistical Office published the preliminary general government deficit (including local governments) for the year 2007 according to ESA methodology. The deficit reached HUF 1,395.1 billion equaling 5.5 per cent. of GDP for the year 2007.

On 5 May 2008, Mr. Ferenc Gyurcsány formed a new minority government after the former minor coalition partner AFD decided to leave the previous coalition government.

BALANCE OF PAYMENTS AND FOREIGN TRADE

Balance of Payments[1]

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

	Euro million										
	1997	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*
1. Goods, net	(1,165)	(1,685)	(2,044)	(3,180)	(2,496)	(2,203)	(2,898)	(2,453)	(1,490)	(921)	1,431
1.1 Exports	17,083	21,057	24,059	31,278	34,697	36,821	37,907	44,779	50,120	59,079	68,675
1.2 Imports	18,248	22,742	26,102	34,457	37,193	39,024	40,804	47,232	51,610	60,001	67,243
2. Services total, credit	5,146	4,811	4,910	6,429	7,865	7,820	8,123	8,770	10,287	10,549	12,192
Debit	3,583	3,736	4,094	5,195	6,203	7,233	8,075	8,533	9,233	9,281	11,068
Net	1,562	1,075	816	1,234	1,661	587	48	237	1,054	1,268	1,123
3. Income, credit	1,363	1,114	843	1,262	1,452	1,316	1,214	1,509	1,554	2,478	3,133
Debit	3,752	3,745	3,555	4,054	4,644	5,154	4,892	6,444	7,309	8,647	11,062
Net	(2,389)	(2,631)	(2,713)	(2,792)	(3,192)	(3,838)	(3,678)	(4,935)	(5,755)	(6,169)	(7,930)
4. Current transfers, net	179	215	408	385	450	525	595	236	178	377	315
4.1. General government net	(4)	(40)	28	28	35	75	118	(225)	(758)	(568)	(685)
4.2. Other sectors net	183	255	380	357	415	451	477	460	935	945	999
I. Current account	(1,812)	(3,026)	(3,531)	(4,352)	(3,577)	(4,929)	(5,933)	(6,916)	(6,013)	(5,446)	(5,060)
II. Capital account	104	170	31	300	358	202	(32)	260	713	675	1,035
III. Financial account[2]	1,868	3,890	6,096	5,401	3,133	2,605	6,297	9,596	11,671	8,821	6,163
8. Direct investment, net	3,278	2,743	2,872	2,334	3,992	2,889	424	2,741	4,395	2,505	1,045
9. Portfolio investment, net	(941)	1,786	1,851	(380)	1,723	1,976	2,932	5,838	3,520	5,330	(620)
10. Other investment, net	(469)	(639)	1,374	3,447	(2,582)	(2,260)	2,941	1,018	3,756	986	6,187
IV. Net errors and omissions	(286)	(274)	(355)	(190)	26	156	200	(1,413)	(2,462)	(3,083)	(2,453)
V. Overall balance (I+II+III+IV)	(127)	760	2,241	1,158	(60)	(1,965)	532	1,528	3,908	968	134
VI. International reserves	127	(760)	(2,241)	(1,158)	60	1,965	(532)	(1,528)	(3,908)	(968)	(134)

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.

(2) Excluding international reserves.

Hungary has experienced a growing current account deficit since 2001, as the deficit (as a percentage of GDP) increased from 6.0 per cent. to 8.4 per cent. in 2004, since then the current account deficit to GDP ratio decreased slightly reaching 6.8 per cent. in 2005.

In 2005, the current account deficit diminished to EUR 6,002 million largely due to strong external demand caused mainly by accelerating economic growth in Western Europe. The net foreign direct investment ("**FDI**") has increased significantly partly as a result of privatization (Budapest Airport and others) in 2005. In 2006, the current account deficit reached EUR 5,446 million, in 2007 the current account deficit amounted to EUR 5,060 million.

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*	*2006*	*2007*
						(HUF billion)					
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	12,425.5	15,591.1	17,207.8
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	13,145.5	16,224.7	17,285.3

Source: Hungarian Central Statistical Office and National Bank of Hungary

Exports

External trade by country groups

Year	*OECD countries*	*EU15 countries*	*Central and Eastern European countries*	*CEFTA countries*	*Developing countries*	*Total*
			(HUF billion)			
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	10,184.8	8,135.7	1,726.5(1)	1,361.0(2)	1,202.3(3)	12,425.5
2006		9,545.5		2,780.3(4)		15,591.1
2007		10,164.8		3,394.6(4)		17,207.8

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.

(4) Countries joined the EU in 2004 and 2007.

External trade by commodity groups

Year	Food beverages tobacco	Crude Materials	Fuels electric energy	Manufactured goods	Machinery and transport equipment	Total
			(HUF billion)			
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	718.0	246.4	339.2	3,429.3	7,692.7	12,425.5
2006	857.8	296.3	387.3	4,296.2	9,753.5	15,591.1
2007	1,072.5	330.1	492.0	4,585.4	10,727.9	17,207.8

Source: Hungarian Central Statistical Office and National Bank of Hungary

Imports

External trade by country groups

Year	OECD countries	EU15 countries	Central and Eastern European countries	CEFTA countries	Developing countries	Total
			(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	9,989.0	7,637.9	1,659.5(1)	1,323.6(2)	2,524.6(3)	13,145.5
2006		9,225.3		2,189.3(4)		16,224.7
2007		9,610.3		2,420.6(4)		17,285.3

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.

(4) Countries joining the EU in 2004 and 2007.

External trade by commodity groups

Year	*Food beverages tobacco*	*Crude Materials*	*Fuels electric energy*	*Manufactured goods*	*Machinery and transport equipment*	*Total*
			(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	2215	2,566.7	5,511.5
1999	200.8	149	406.8	2,554.5	3,334.4	6,645.6
2000	248.3	198.6	760	3,190.3	4,666.9	9,064.0
2001	281.4	195.1	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	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	536.9	234.7	1,339.3	4,320.4	6,714.3	13,145.5
2006	643	274.1	1,788.8	5,235.5	8,283.4	16,224.7
2007	730.5	291.8	1,665.1	5,575.6	9,022.3	17,285.3

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. EU countries accounted for 78.8 per cent. of exports and 69.6 per cent. of imports in the year 2007.

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)] in Hungary for the periods indicated:

	Year ended 31 December												
	1995	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*
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	2.74	4.40	2.77	1.05

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 63.7 billion in December 2006, which equates to approximately two-thirds of GDP for 2006. 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, 2005 and 2006 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. In 2007 the FDI inflow dropped significantly compared to the FDI inflow of the previous years caused by unfavorable global investment environment and one-off effects including the share buy-back transactions of MOL.

Foreign Exchange Reserves

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

	Year ended 31 December											
	1996	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*
	(ECU/Euro million)											
International net gold reserves(1)	30	26	25	29	30	32	33	33	32	43	48	56
Foreign exchange(2)	7,819	7,614	7,977	10,845	12,038	12,163	9,887	10,108	11,671	15,678	16,349	16,330
Total	7,849	7,640	8,002	10,874	12,068	12,195	9,920	10,142	11,703	15,721	16,397	16,386

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 an 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 used to be its two-week deposit facility. The NBH periodically accepted unlimited two-week deposits at the policy rate. Since 9 January 2007, the NBH issues bonds with maturity of two weeks instead of accepting two-weeks deposits in order to enhance liquidity management of banks and the development of the Hungarian financial sector. 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. in September 2002 and currently it is 5 per cent. 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

	As at the end of									
	December 1998	*December 1999*	*December 2000*	*December 2001*	*December 2002*	*December 2003*	*December 2004*	*December 2005*	*December 2006*	*December 2007*
	(HUF billion)									
M1	1,991	2,362	2,654	3,113	3,648	4,028	4,169	5,189	5,833	6,355
Quasi-money[1]	2,387	2,706	3,027	3,521	3,895	4,548	5,258	5,464	6,080	6,598
M2[2]	4,378	5,068	5,681	6,634	7,543	8,575	9,427	10,653	11,913	12,953
Securities of financial institutions	212,135	124,514	448,933	543,563	303,706	213,658	380,641	577,910	872	1,249
M3	4,590	5,192	6,130	7,178	7,847	8,789	9,808	11,231	12,785	14,202

Source: National Bank of Hungary

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

(2) M2 = M1 + quasi-money.

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*	*December 2005*	*December 2006*	*December 2007*	*February 2008*
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]	8.00[2]	7.50[2]	7.50[2]
Real rate	2.0	1.1	5.8	2.7	1.5	2.8	3.5	6.4	3.8	2.6	1.4	0.1	0.5[3]

Source: National Bank of Hungary

(1) 1 month.

(2) 2 weeks.

(3) Calculated according to the latest available (February 2008) 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 months of 2005, the NBH reduced the central bank base rate by a further 350 basis points. From 20 September 2005 until 20 June 2006, the central bank base rate stood at 6.00 per cent. On 20 June 2006, the NBH raised the central bank base rate by 25 basis points, on 25 July 2006, by 50 basis points, on 29 August 2006, by 50 basis points and on 25 September 2006, by an additional 50 basis points, on 24 October, by an additional 25 basis points. At the beginning of the year 2007, the base rate stood at 8.00 per cent. As inflation prospects improved in the summer of 2007, the NBH started to reduce the central bank base rate. On 26 June 2007 the NBH reduced the central bank base rate by 25 basis points, on 25 September 2007 by an additional 25 basis points. On 1 April 2008 the central bank raised the base rate by 50 basis points. On 29 April 2008 the central bank raised the base rate by 25 basis points, on 27 May 2008 the central bank raised the base rate by an additional 25 basis points. On June 3, 2008 the base rate stood at 8.50%.

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 of the National Bank of Hungary and the Government in February 2008, the forint is floating freely.

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.) (replaced by Act XCIII of 2001), the forint is fully convertible, not only in terms of current transactions, but also in terms of capital transactions. 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 are still, 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 be established, 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.

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 Minister 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 Minister of Finance has issued a decree on the calculation of the solvency ratio. The decree adopts Bank of International Settlements ("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 Minister 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/EC. The adaptation of EU Directive 2006/48/EC and EU Directive 2006/49/EC (Basel II) is still ongoing.

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.

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. 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 three private mortgage banks. There are two special state-owned institutions: the MFB and the Hungarian Eximbank (5). According to data compiled by the Hungarian Financial Supervisory Authority the total assets of the credit institutions (including specialised credit institutions) were HUF 24,355.7 billion in December 2007.

Banking survey (% change, year on year)

	1999	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*
Domestic credit	2.2	14.7	4.8	15.7	21.0	14.1	16.3	18.5	12.8
Credits to enterprises	n/a	n/a	9.5	5.8	19.8	13.3	14.2	13.7	12.2
Credits to households	n/a	n/a	47.5	65.8	60.6	27.2	26.4	25.5	24.4
Broad money (M3)	13.1	18.0	17.1	9.3	12.0	11.6	14.5	13.8	11.1

(5) The state owns directly a minority stake (25 per cent. plus one share) and the rest indirectly through the MFB.

Source: National Bank of Hungary

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

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 31 December 2007, an aggregate of HUF 1,519.1 billion in total assets according to data compiled by the Hungarian Financial Supervisory Authority.

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 previous years, the proportion of registered capital held by foreign investors stabilised in 2002. In 2005, approximately 80 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 and the Hungarian Eximbank. The Republic retained a golden share in OTP Bank, which granted the holder certain special shareholder rights. For example, there could 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, could 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, this form of the State's special ownership rights has been abolished and the golden share has been 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.

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

	As at and for the period ending										
	1997	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*[(1)]	*2006*[(2)]	*2007*[(1)]
Total Spot turnover values	18,020	32,122	33,561	15,300	5,678	7,195	10,313	14,545	25,614	32,734	26,005
					(in USD millions)						
Equities	7,685	16,104	14,848	12,248	4,834	5,894	8,595	12,880	24,128	30,880	25,290
Government Bonds	5,242	11,080	13,270	2,310	554	754	695	525	401	617	163
Corporate Bonds	105	83	144	173	125	256	316	509	613	681	284
Bonds of International Institutions	—	—	13	4	20	3	1	—	—	—	—
Mortgage Bonds	—	—	—	—	10	84	474	430	376	369	170
T-Bills	4,863	4,808	5,274	553	132	190	208	193	86	158	42
Investment Funds	6	4	2	2	3	2	4	4	7	23	55
Compensation Notes	121	44	10	11	1	14	20	4	1	6	0
Total number of transactions	504,879	1,026,646	1,474,083	1,627,033	911,697	741,703	718,377	790,916	1,119,909	1,483,551	1,654,992
Equities	478,236	1,011,514	1,461,482	1,612,482	902,381	730,822	702,701	775,144	1,104,246	1,464,913	1,629,373
Government Bonds	2,210	3,946	3,158	2,385	632	816	1,131	638	281	391	233
Corporate Bonds	192	200	650	765	1,166	1,793	2,690	8,486	11,129	11,501	14,942
Bonds of International Institutions	—	—	28	17	42	11	13	—	—	—	—
Mortgage Bonds	—	—	—	—	80	365	1,036	1,929	2,034	2,680	2,089
T-Bills	3,031	2,522	1,873	547	89	216	435	185	96	103	52
Investment Funds	1,597	790	1,106	2,855	4,694	1,134	1,348	1,165	1,253	2,186	7,177
Compensation Notes	19,613	7,674	5,786	7,982	2,613	6,546	9,023	3,369	870	1,777	1,126
Average number of daily transactions	2,044	4,140	5,896	6,482	3,721	2,967	2,851	3,164	4,427	5,887	6,755
Average daily turnover (in USD millions)	73	130	135	61	23	29	41	58	101	130	106
Average value per transaction (in USD thousands)	36	32	23	10	6	10	14	18	23	22	16
Number of trading days	247	248	250	251	245	250	252	250	253	252	245
Total Futures Turnover (in USD millions)	7,576	13,683	5,620	4,865	2,624	3,347	6,530	10,894	23,695	30,659	19,367
Budapest Stock Exchange Index "BUX"	5,372	8,338	4,842	3,217	981	960	1,480	2,167	5,218	7,253	3,060
Currencies	1,802	4,508	92	104	64	301	1,870	3,932	10,643	14,416	9,499
Shares	—	234	635	1,537	1,579	2,086	3,180	4,791	7,831	8,977	6,804
Interest Rates	401	602	51	7	0	0	0	4	3	12	3
Number of transactions	87,011	148,013	168,009	191,712	126,568	132,873	157,868	176,073	283,301	426,896	435,519
Total Options Turnover (in USD millions)	—	—	—	9,747	1,014	1,040	812	64	257	1,330	379
Equity options	—	—	—	1,231	229	1,040	812	4	6	5	0
Index options	—	—	—	8,516	785	0	0	0	0	13	1
Currency options	—	—	—	—	—	—	—	60	251	1,312	378
Number of trades (thousand)	—	—	—	578	37	19	12	49	270	1,079	1,109
Average exchange rate HUF/USD[(3)]	186.91	215.55	238.46	278.22	286.58	231.41	215.17	202.63	199.66	210.51	183.83

Source: Budapest Stock Exchange

(1) USD values calculated based on EUR values of the Budapest Stock Exchange and the yearly average EUR/HUF and USD/HUF foreign exchange rates calculated by the NBH.

(2) USD values calculated based on HUF values of the Budapest Stock Exchange and the yearly average USD/HUF foreign exchange rates calculated by the NBH.

(3) 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.[6]

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*	*2006*	*2007 Planned*	*2007 Preliminary*	*2008[2] Planned*	*2008[2] Expected*
								(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	9,518.3	10,484.4	11,202.1	11,637.5
Privatisation receipts			253.8	32.4	31.8	38.0	11.2	11.6	9.0	10.9	16.1	17.3	12.0	24.0
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	9,502.2	10,467.1	11,190.1	11,613.5	12,428.9
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	10,569.8	12,666.1	12,942.1	12,974.3	13,650.7
Balance (excluding privatisation receipts	(406.5)	(664.4)	(424.1)	(480.2)	(444.0)	(1,685.6)	(1,103.5)	(1,327.9)	(1,067.6)	(2,199.0)	(1,752.0)	(1,363.0)	(1,221.8)	(1,220.6)
Balance in % of GDP	(4.8)	(6.6)	(3.7)	(3.6)	(3.0)	(10.0	(5.9)	(6.5)	(4.9)	(9.3)	(6.9)	(5.4)	(4.5)	(4.5)
General government balance-consolidated														
ESA method														
Revenues			4,504.6	5,061.1	5,895.1	6,618.0	7,271.3	7,941.6	8,795.9	9,300.5	10,128.8	10,894.5	11,322.0	12,120.5
Expenditures		5,312.4	5,687.1	6,291.8	7,246.0	8,811.9	9,306.5	10,133.7	11,019.8	12,316.9	12,612.3	12,717.0	13,221.3	
Balance		(807.8)	(626.0)	(396.8)	(628.0	(1,540.6	(1,365.0)	(1,337.8)	(1,719.2)	(2,188.2)	(1,717.8)	(1,395.0)	(1,100.8)	(1,101.8)
Balance in % of GDP		(8.0)	(5.5)	(2.9)	(4.1)	(9.0)	(7.2)	(6.5)	(7.8)	(9.2)	(6.8)	(5.5)	(4.0)	(4.0)

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.

Revenues and expenditures of the central budget

	2001 Final	*2002 Final*	*2003 Final*	*2004 Final*	*2005 Final*	*2006 Final*	*2007 Planned*	*2007 Preliminary*	*2008 Planned*
					(HUF billions)				
Revenues									
Payments of Economic Units									
Corporate taxes (including financial institutions)	351.9	396.6	413.7	448.7	465.6	555.0	679.0	700.3	716.3
DPTT	13.7	14.7	17.8	19.7	23.8	33.6	30.0	31.5	29.0
Customs and import duties	122.9	125.7	131.3	39.3	9.4	9.1	9.2	9.2	8.9
Gambling tax	34.3	38.8	49.2	60.4	66.4	71.5	73.4	71.5	73.5
Eco tax	0.0	0.0	0.0	17.4	15.9	18.1	17.0	19.9	20.5
Simplified business tax	0.0	0.0	31.0	67.0	91.4	143.1	168.2	152.8	168.7
Other central payments	62.6	68.7	78.2	126.4	165.1	140.4	135.2	124.1	130.7
Other payments	17.7	22.2	22.1	23.6	21.2	35.2	29.0	19.3	31.0
Total	603.1	666.6	743.2	802.6	846.2	1005.9	1141.0	1119.2	1169.6
Taxes on Consumption									
Value Added Tax	1243.9	1304.9	1699.6	1727.7	1785.3	1832.0	1971.2	1979.4	2130.6
Excises	539.7	590.5	656.3	716.2	739.0	849.2	821.4	912.0	937.6
Total	1783.6	1895.4	2355.9	2443.9	2524.3	2681.2	2792.6	2891.4	3068.2
Payments of Households									
Gross PIT revenues	1116.7	1274.5	1314.4	1360.4	1437.7	1579.8	1751.6	n/a	1938.3
PIT revenues of central budget	830.3	940.6	909.0	904.6	997.8	1119.1	1238.3	1305.7	1367.2
Tax payments	5,2	7,1	7.0	5.8	3.4	7.3	22.3	26.5	32.2
Fees	60.9	68.5	90.2	100.1	111.8	111.1	126.8	118.8	131.4
Total	896.4	1016.2	1006.2	1010.5	1113.0	1237.4	1387.4	1451.0	2101.8

(6) The source of data on Hungarian public finance is the Ministry of Finance. In this Offering Circular preliminary data compiled by the Ministry of Finance is presented in the light of data available in March 2008.

	Revenues and expenditures of the central budget								
	2001 Final	*2002 Final*	*2003 Final*	*2004 Final*	*2005 Final*	*2006 Final*	*2007 Planned*	*2007 Preliminary*	*2008 Planned*
					(HUF billions)				
Central Budgetary Institutions and Chapter Administered Appropriations									
Revenue of the central budgetary institutions	0.0	0.0	545.2	612.4	688.7	832.5	562.5	830.3	536.8
Own revenues of chapter administered professional appropriations	0.0	0.0	56.7	86.4	124.8	133.1	57.6	156.8	69.7
EU support of chapter administered professional appropriations	0.0	0.0	0.0	49.1	195.3	302.2	464.5	281.8	601.1
EU support of central investments	0.0	0.0	3.6	0.5	8.0	0.0	0.0	0.0	0.0
Total	578.8	583.9	605.5	748.5	1009.5	1267.8	1084.6	1268.9	1207.5
Payments of Central Budgetary Institutions	22.7	15.4	34.9	35.7	57.9	110.5	22.7	49.5	21.5
Payments of Local Governments	4.7	5.5	7.1	10.4	15.3	15.6	6.5	11.3	6.5
Payments of Extrabudgetary and Social Security Funds	47.0	56.4	49.4	67.9	81.3	82.0	113.3	135.9	119.3
Revenues of International Transactions	9.0	4.6	28.5	16.0	6.4	8.6	0.0	0.0	
Payments Related to State Property	6.7	7.0	23.9	68.2	632.0	33.0	48.2	48.8	96.4
Road Tolls	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Motorways	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Revenues	9.3	8.7	7.8	10.9	39.9	20.7	4.7	20.3	6.2
Revenues Related to Debt Service	7.1	6.5	1.8	1.8	116.4	1.0	0.2	96.4	61.5
Lump Sum Cash Flow Facility from EU	0.0	0.0	0.0	42.8	17.8	7.8	11.4	n/a	32.0
Payments of NBH	27.7	23.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest Revenues	71.7	67.8	73.9	74.0	108.6	77.6	66.4	n/a	n/a
Total Revenues	4068.0	4357.3	4938.2	5333.1	6456.7	6549.2	6679.0	7102.0	7899.5

Revenues and expenditures of the central budget

	2001 Final	2002 Final	2003 Final	2004 Final	2005 Final	2006 Final	2007 Planned	2007 Preliminary	2008 Planned
					(HUF billions)				
Expenditures									
Subsidies to Economic Units	81.8	99.0	110.2	122.7	113.1	124.0	128.4	197.4	141.8
Support to the Media	14.0	17.6	48.4	43.2	45.9	46.6	52.2	52.2	53.4
from which									
Support to the Broadcasting Fund	0.0	0.0	20.4	0.0	0.0	0.0	0.0	0.0	0.0
Consumer Price Subsidy	90.9	99.0	104.9	103.8	117.7	117.9	120.0	111.9	117.0
Housing Grants	60.4	72.3	137.2	204.0	232.6	223.5	225.4	228.5	190.7
Family Benefits Social Subsidies									
Family benefits	221.3	254.9	314.8	307.8	326.3	471.0	506.3	508.1	507.2
Income supplement benefits	91.3	113.8	123.0	133.7	141.1	147.6	152.5	151.7	159.7
Other specific subsidies	16.5	20.5	24.0	23.3	25.7	27.4	27.5	26.5	27.6
Total	329.0	389.2	461.8	464.8	493.1	646.0	686.3	686.3	694.5
Central Budgetary Institutions and Chapter Administered Appropriations									
Expenditures of central budgetary institutions	0.0	0.0	1,847.3	1,927.5	2,038.5	2,280.1	1,817.6	2,379.4	1,861.2
Chapter administered professional appropriations	0.0	0.0	956.9	1,099.5	1,248.6	1,565.4	1,853.5	1,811.4	1,926.6
Central investment	134.7	146.4	87.9	63.9	49.0	51.1	22.7	37.3	
Chapter balance reserve				80.4		88.8			
Total	2,312.4	2,731.7	2,892.1	3,090.9	3,336.1	3,896.5	3,774.1	4,228.1	3,876.5
Support to Political Parties and Other Civil Organizations	3.0	3.1	2.7	3.7	3.7	5.1	5.2	5.2	5.2
Transfer to Social Security Funds	220.5	383.9	301.9	335.9	422.4	890.6	778.0	777.8	841.3
Transfer To Local Governments									
Direct transfer from the budget	508.9	620.5	749.4	769.0	881.4	867.1	835.7	860.3	777.6
Transfer from EU	0.0	0.0	0.0	0.0	17.4	24.2	140.7	n/a	190.0
Yielded PIT revenues	0.0	0.0	405.4	455.8	439.9	460.7	513.2	n/a	571.1
Total	508.9	620.5	1,154.9	1,224.7	1,321.3	1,352.1	1,349.0	1,354.6	1,348.6
Transfer to Extrabudgetary Funds	0.0	0.0	2.6	15.9	20.4	19.2	27.9	27.9	32.4
Expenditures of International Transactions	2.5	1.6	1.5	7.7	7.6	8.0	16.0	14.6	14.2
Debt Service Related Expenditures	8.9	9.2	9.8	10.8	11.1	13.2	12.6	0.0	0.0
Other Expenditures	23.3	17.9	19.3	20.2	34.3	53.2	41.7	58.2	46.3
General Reserves	0.0	0.0	0.0	0.0	0.0	0.0	42.2	0.0	46.7
Special Reserves	0.0	0.0	0.0	0.0	0.0	0.0	52.7	0.0	163.6
Safety Reserve	0.0	0.0	0.0	0.0	0.0	0.0	50.0	0.0	20.0
Extraordinary Expenditures	92.9	649.6	14.3	47.1	181.2	433.4	146.1	37.5	89.4
Transfer to NBH	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Government Guarantees Redeemed	7.3	3.4	12.4	2.7	13.9	10.8	16.4	10.3	19.3
Contribution To EU Budget	0.0	0.0	0.0	119.7	186.6	185.6	214.9	189.5	205.3
Expenditures Related to the NBH	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest Payments	715.1	728.8	802.3	875.5	903.3	970.0	1,100.0	1,006.1	1,110.8
Total Expenditures	4,470.9	5,826.9	5,670.6	6,237.6	7,004.5	8,510.8	8,351.3	8,491.9	9,017.1

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 Private Company Limited by Shares (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 2008 planned general government deficit (local governments excluded) is HUF 1,110.7 billion (4.0 per cent. of GDP) according to GFS methodology.

According to preliminary data available in January 2008, the general government deficit (excluding local governments) amounted to HUF 1,291.4 billion (5.0 per cent. of GDP) according to GFS methodology for the year 2007. According to the first estimate of the Ministry of Finance based on information available in January 2008 the general government deficit (including local governments) amounted to 5.7 per cent. of GDP according to ESA methodology for the year 2007.

Taxation

The current Hungarian taxation system was introduced in 1988. The Republic, in line with its EU membership, is continuously considering the implementation of administrative amendments to harmonise its taxation machinery with that of the 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, personal income tax, value added tax, registration tax, excise duty, solidarity surtax 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 most of the OECD countries except Mexico and New Zealand. Hungary is in contact with Mexico and New Zealand and is ready to sign the relevant double taxation treaties with them.

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. Domestic entities receiving dividends are exempted from the tax. A foreign entity receiving dividend, 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

As from 1 September 2006, one of the two reduced VAT rates (15 per cent) was increased to 20 per cent.; the standard VAT rate is 20 per cent., with a 5 per cent. reduced rate on special sensitive items (*e.g.* medicine, books). Currently, there is no tax imposed on some services (e.g. postal and financial services).

Registration Tax

Registration tax has been payable on the registration of cars since February 2004, however, in line with a recent decision of the European Parliament, this tax will be abolished gradually within 10 years.

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.

Solidarity Surtax

This surtax being 4 per cent. has been payable by natural persons on income in excess of a certain level, and entities which are the subject of corporate tax as from 1 September 2006 on accounting profit with certain adjustments.

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 33.5 per cent. of the employee's monthly salary, out of which 9.5 per cent. is paid by the employee and 24 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 9.5 per cent. contribution is transferred to the private pension fund and 1.5 per cent. goes to the state fund. For employees remaining solely in the state system, the entire 9.5 per cent. contribution goes to the state pension fund.

Health fund contributions are similar to those for the pension fund. Employers pay 5 per cent. of an employee's income and the employee contributes 6 per cent. In addition, there is a fixed monthly health care contribution by employers of HUF 1,950 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[(1)]

	As at year ended December 31								
	2001	*2002*	*2003*	*2004*	*2005*	*Final 2006*	*Planned 2007*	*Preliminary 2007*	*Planned 2008*
	(HUF billions)								
Social Securities Fund:									
Revenues	2,061.3	2,416.3	2,526.5	2,726.9	3,027.1	3,661.0	4,202.4	4,326.7	4,310.2
Expenditures	2,090.1	2,517.1	2,875.5	3,150.8	3,495.9	3,791.8	4,229.9	4,291.2	4,308.2
Surplus (deficit)	(28.8)	(100.9)	(349.0)	(423.9)	(468.8)	(130.8)	(27.5)	35.6	2.0
Extra Budgetary Funds[(2)]									
Revenues	198.1	233.8	244.6	304.7	341.6	391.9	428.6	459.9	481.7
Expenditures	200.4	232.4	226.0	276.8	311.2	342.0	412.7	396.9	476.8
Surplus (deficit)	(2.3)	1.4	18.5	27.9	30.4	49.9	16.0	63.0	4.9

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, HUF 422.4 billion in 2005 HUF 890.6 billion in 2006 and amounted to HUF 777.8 billion in 2007 according to preliminary data.

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:

	Year ended or ending 31 December													
	1997	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005 Final*	*2006 Final*	*2007 Planned*	*2007 Preliminary*	*2008 Planned*	*2008 Expected*
	(HUF billion)													
Revenues:														
Own revenues	449.3	563.9	648.1	744.6	862.9	977.4	1,096.8	1,250.0	1,284.2	1,366.5	1,432.2	1,430.4	1,614.7	1,614.7
Subsidiaries	348.7	405.7	449.0	428.8	508.9	620.5	749.4	769.0	881.4	867.1	835.7	884.8	777.6	826.4
Other revenues	311.8	350.7	379.5	445.6	520.7	571.5	646.5	643.6	709.3	804.3	816.2	708.3	884.5	884.5
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	2,874.9	3,037.9	3,084.1	3,023.5	3,276.8	3,325.6
Privatisation revenues	90.5	19.4	21.9	37.1	11.2	11.6	9.0	10.9	16.1	15.5	12.0	23.0	10.0	10.0
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	2,891.0	3,053.4	3,096.1	3,046.5	3,286.8	3,335.6
Expenditures:														
Wages	483.3	564.2	631.5	695.2	807.8	1,003.1	1,270.8	1,310.1	1,412.8	1,464.9	1,465.1	1,472.7	1,480.7	1,480.7
Investments	219.4	279.7	261.5	320.6	385.6	481.1	427.1	448.7	562.4	682.1	604.6	575.5	752.4	801.2
Other expenditures	432.4	504.6	582.5	635.3	709.0	801.7	835.5	931.2	997.2	1,062.9	1,110.4	1,058.1	1,164.7	1,164.7
Total[(1)] **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	2,972.4	3,209.9	3,180.1	3,106.3	3,397.8	3,446.6
Surplus (deficit)-GFS[(1)]	(25.3)	(28.2)	1.1	(32.1)	(9.9)	(116.5)	(40.7)	(27.4)	(97.5)	(172.0)	(96.0)	(82.8)	(121.0)	(121.0)
Total surplus (deficit)	65.2	(8.8)	23.0	5.0	1.3	(104.9)	(31.7)	(16.5)	(81.4)	(156.5)	(84.0)	(59.8)	(111.0)	(111.0)

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. From 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 the 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". The NBH may still act as an agent of the Republic for the purposes of securing foreign loans and securities issued abroad. Since January 1997, the NBH has acted in this agency role on the basis of an agency agreement, which was entered into by the 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 the NBH and the Republic relating to external borrowings originally made by the NBH were not added for the purposes of calculating public debt figures to avoid double counting.

Public Debt[(1)]

	Year ended 31 December									
	*1998***	*1999***	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007**
	(HUF billion except for percentages)									
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	10,552.3	11,103.8
% of Nominal GDP	37.02%	38.18%	34.87%	35.35%	40.49%	42.28%	41.55%	41.50%	44.42%	43.76%
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	4,124.4	4,472.6
% of Nominal GDP	24.11%	22.26%	18.54%	15.21%	13.20%	13.62%	14.40%	16.28%	17.36%	17.63%
Other Liabilities***	0.0	0.0	0.0	0.0	0.0	0.0	0.0	21.4	29.0	9.1
Total Public Debt	6,165.8	6,886.4	7,226.2	7,719.5	9,224.2	10,587.7	11,592.4	12,765.6	14,676.7	15,585.5
% of Nominal GDP	61.12%	60.44%	53.41%	50.6%	53.69%	55.90%	55.96%	57.88%	61.78%	61.42%
Nominal GDP	10,087	11,393	13,529	15,270	17,181	18,941	20,717	22,055	23,757	25,374

* Preliminary data.

** Calculated according to the non-revised GDP data.

*** Including mark-to-market deposits since 2005 and a special item in connection with a debt assumption in 2006.

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 51.6 per cent. by the end of 2001. 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 high fiscal deficit. 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. The total central government debt totalled HUF 15,585.5 billion at the end of 2007, showing an increase of 6.2 per cent. in nominal terms compared to the end of the previous year. The government gross debt to GDP ratio in 2007 was approximately 61.4 per cent., which is lower than 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 and a GBP 500 million bond maturing in 2017, completing in July 2005 a two-tranche Samurai transaction totalling JPY 75 billion maturing in 2010 and in 2012 and issuing in October 2005 a EUR 500 million FRN maturing in 2012. In January 2006, the Republic issued a EUR 1,000 million bond maturing in 2016, in March a JPY 50 billion bond maturing in 2013 and a GBP 500 million bond maturing in 2016 and in September reopened the FRN maturing in 2012 with additional amount of EUR 500 million. In January 2007, the Republic issued EUR 1 billion bond due in 2017. In October 2007, the Republic issued JPY 25 billion Samurai bond due in 2017.

External Public Debt

The following table sets forth the external public debt(1) as at 31 December 2007 by category and by currency:

	Amount
	(EUR million)
By Category:	
Bank loans (including bank to bank and syndicated loans)	966
Bonds + FRN	13,803
Loans from multilateral financial institutions (e.g. IMF and World Bank)	2,382
Total	17,151
By Currency:	*Per cent.*
Euro	100
US Dollar	0
British Pound	0
Other currencies	0
Total	100
By Currency:	*before swaps* *Per cent.*
Euro	74
JPY	7
US Dollar	6
Swiss franc	0
British Pound	13
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[7] in EUR millions at the end of December 2007;

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

Date of maturity	*Total*	*Central bank and General government*	*Central bank*	*General government*	*Forint denominated bonds*	*Other monetary institutions and other sectors*	*Other monetary institutions*	*Other sectors (guaranteed loans)*
First quarter 2008	818.0	334.7	99.4	235.3	112.0	483.4	476.0	7.3
Second quarter 2008	2,492.2	1,315.7	2.3	1,313.4	776.5	1,176.5	1,169.2	7.3
Third quarter 2008	837.3	485.6	2.3	483.3	352.0	351.7	344.4	7.3
Fourth quarter 2008	1,004.3	230.3	2.3	228.0	112.0	774.0	752.4	21.6
2008	5,151.9	2,366.3	106.2	2,260.1	1,352.5	2,785.6	2,742.0	43.6
First quarter 2009	2,333.5	631.4	0.0	631.4	134.1	1,702.0	1,693.7	8.3
Second quarter 2009	2,657.9	1,515.3	0.0	1,515.3	1,185.9	1,142.6	1,120.2	22.4
Third quarter 2009	2,026.4	1,473.8	0.0	1,473.8	796.7	552.6	545.3	7.3
Fourth quarter 2009	1,685.2	684.7	0.0	684.7	663.7	1,000.5	978.6	21.9
2009	8,703.1	4,305.3	0.0	4,305.3	2,780.3	4,397.8	4,337.9	59.9
2010	7,414.4	3,906.7	48.2	3,858.5	2,594.8	3,507.7	3,446.3	61.5
2011	5,921.5	2,971.0	144.9	2,826.1	682.9	2,950.5	2,879.2	71.3
2012	4,940.2	2,870.9	0.0	2,870.9	1,496.2	2,069.3	1,960.7	108.6
2013	3,119.3	2,097.5	61.7	2,035.8	656.0	1,021.8	961.0	60.8
2014	4,447.8	2,819.6	0.0	2,819.6	529.4	1,628.2	1,562.4	65.7
2015	2,437.6	1,697.1	33.2	1,663.8	485.6	740.6	677.3	63.3
2016	4,494.7	2,738.8	0.0	2,738.8	559.4	1,755.9	1,695.6	60.3
2017	3,779.2	3,526.4	0.0	3,526.4	1,019.5	252.9	195.8	57.1
2018	111.3	2.7	0.0	2.7	0.0	108.6	53.3	55.3
After	3,828.7	3,025.5	0.0	3,025.5	770.5	803.2	364.4	438.8
Total	54,349.7	32,327.6	394.2	31,933.4	12,927.2	22,022.0	20,876.0	1,146.1

1 Only guaranteed loans of other sectors

Source: NBH

* 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 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, 3.46 by the end of 2004, 3.57 years by the end of 2005, 3.64 years by the end of 2006 and 4.01 years by the end of 2007.

(7) 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 2007. Since 1997, these obligations are provided on a pro forma basis giving effect to the January 1997 agreements referenced above:

	As of 31 December											
	1996	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*
						(HUF billion)						
Short-term	7.30	464.80	376.90	404.80	367.50	172.10	167.10	198.10	194.07	154.71	150.71	146.71
Long-term	2,174.30	2,389.20	2,553.10	2,083.40	1,834.90	1,384.30	995.20	608.61	331.47	91.93	81.89	0.00
Total	2,908.60	2,854.00	2,930.00	2,488.20	2,202.40	1,556.40	1,162.30	806.67	525.54	246.64	232.60	146.71

Source: National Bank of Hungary

The following table set forth certain indicators related to Hungarian gross external debt (selected annual Balance of Payments ("BOP") and International Investment Position ("IPP") figures and debts services indicators of Hungary (BOP basis):

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

Selected annual BOP and IIP figures and debt service indicators of Hungary (BOP basis)[1]

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*	*2005*	*2006*	*2007*
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	22,434.8	23,666.8	29,393.3	32,867.8	37,933.9	39,155.2	47,627.2	57,060.1	68,004.0	83,254.0	99,626.6
Gross foreign debt (excl. intercomp. loans) [2]	—	—	—	21,643.9	22,765.8	23,987.6	23,827.0	21,167.9	20,400.2	21,202.5	26,009.0	29,182.3	32,102.5	32,305.0	38,801.6	47,504.0	57,453.6	68,440.0	81,347.9
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	19,414.4	19,818.2	23,733.2	25,657.6	26,377.5	22,824.8	26,920.2	31,540.4	40,934.3	48,378.9	58,611.3
Net foreign debt (incl. intercomp. loans)	11,805.3	10,873.8	10,810.6	13,368.1	15,438.4	13,117.8	11,782.8	10,555.8	9,341.4	9,765.3	10,542.5	13,167.5	13,812.7	16,176.8	20,971.1	26,335.6	30,420.5	37,836.5	47,006.4
Net foreign debt (excl. intercomp. loans) [2]	—	—	—	13,016.1	14,950.0	12,413.5	10,975.3	9,053.1	7,470.8	7,401.5	7,344.4	9,686.8	8,398.1	11,519.8	16,122.6	21,184.8	24,889.2	30,995.3	40,716.1
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	8,116.1	7,602.9	7,380.3	7,384.6	4,493.4	5,464.7	8,006.1	11,253.9	14,578.3	20,040.4	27,587.1
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	7,639.6	8,001.6	10,874.4	12,068.0	12,195.4	9,920.4	10,141.7	11,702.6	15,721.3	16,396.8	16,385.5
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	7,569.2	7,835.1	10,336.9	10,805.9	11,120.0	9,408.5	9,158.8	11,445.7	15,473.2	16,099.2	16,151.7
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	16,284.6	17,759.5	23,041.2	24,578.2	31,045.1	34,574.7	38,328.7	45,881.1	52,370.4	61,963.9	66,357.4
-o/w.: Equity capital and reinvested earnings	421.4	1,574.4	2,835.9	4,993.7	5,778.1	9,297.3	8,009.7	9,188.7	14,261.6	15,306.3	19,737.7	21,048.4	25,543.3	29,757.8	33,238.9	40,425.9	46,670.2	54,730.1	59,109.2
Other capital (Intercompany loans)	—	—	—	—	—	704.4	807.5	1,502.7	2,022.9	2,453.2	3,303.6	3,529.7	5,501.9	4,816.8	5,089.8	5,455.2	5,700.2	7,233.7	7,248.1
Direct investment abroad	—	—	185.2	201.1	237.6	381.8	216.9	213.7	586.5	671.8	915.5	1,375.5	1,762.7	2,067.8	2,782.3	4,412.1	6,622.2	9,248.0	12,456.0
-o/w.: Equity capital and reinvested earnings	—	—	185.2	201.1	237.6	381.8	216.9	213.6	434.2	582.4	810.1	1,326.4	1,675.4	1,908.1	2,541.0	4,107.8	6,453.2	8,855.5	11,498.1
Other capital (Intercompany loans)	—	—	—	—	—	0.0	0.0	0.1	152.4	89.4	105.4	49.1	87.3	159.8	241.3	304.3	169.0	392.5	957.8
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	17,083.0	21,056.7	24,058.8	31,277.5	34,697.1	36,820.7	37,906.9	44,779.1	50,119.7	59,079.1	68,674.5
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	18,248.3	22,742.2	26,102.4	34,457.1	37,192.8	39,024.1	40,804.5	47,232.3	51,609.6	60,000.6	67,243.0
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	22,228.6	25,867.7	28,969.0	37,706.7	42,561.8	44,640.6	46,029.4	53,548.7	60,406.6	69,628.3	80,866.3
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	21,831.6	26,477.7	30,196.2	39,652.0	43,396.2	46,257.1	48,879.0	55,764.9	60,842.5	69,281.6	78,311.4
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	2,002.0	1,762.5	1,379.3	1,763.5	1,929.6	1,779.7	1,690.1	2,144.1	2,610.2	2,876.5	3,701.7
Net interest expenditures	1,118.2	1,076.5	939.2	968.5	1,083.9	1,234.8	1,221.5	935.9	843.6	837.8	703.8	826.6	781.0	779.0	823.4	1,382.1	1,771.2	1,689.6	2,153.0
Direct investment, income on equity capital, net	(18.7)	(26.0)	(34.4)	(47.7)	(98.1)	(148.7)	(96.0)	(682.7)	(1,611.1)	(1,858.6)	(2,035.2)	(2,069.4)	(2,538.8)	(3,159.1)	(2,965.3)	(3,537.2)	(3,830.7)	(4,319.0)	(5,404.8)
Current account balance	109.1	223.0	235.4	(2,958.7)	(3,300.4)	(1,926.9)	(1,266.1)	(1,408.3)	(1,812.3)	(3,026.1)	(3,531.4)	(4,352.5)	(3,576.5)	(4,929.2)	(5,933.0)	(6,915.5)	(6,013.3)	(5,445.6)	(5,060.0)
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	3,681.0	2,988.1	3,106.3	2,998.4	4,390.7	3,185.1	1,887.5	3,633.3	6,172.1	5,427.5	4,049.3
-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	3,165.1	2,381.0	2,489.0	2,644.6	2,575.0	3,068.2	1,123.5	3,309.0	5,884.1	2,799.6	4,170.3
Other capital (Intercompany loans), net	—	—	—	—	—	—	296.5	481.8	515.9	607.1	617.3	353.8	1,815.7	116.9	764.0	324.3	288.0	2,627.9	(121.0)
Direct investment abroad, net	—	—	—	(9.0)	(42.7)	(33.2)	(45.7)	2.4	(402.9)	(245.2)	(234.7)	(664.4)	(398.5)	(295.7)	(1,463.3)	(892.1)	(1,776.9)	(2,922.7)	(3,004.0)
-o/w.: Equity capital and reinvested earnings, net	—	—	—	(9.0)	(42.7)	(33.2)	(45.4)	2.9	(271.5)	(228.4)	(232.3)	(728.3)	(360.2)	(218.9)	(1,357.6)	(822.9)	(1,932.8)	(2,613.9)	(2,670.4)
Other capital (Intercompany loans), net	—	—	—	—	—	—	(0.4)	(0.5)	(131.3)	(16.8)	(2.4)	63.9	(38.3)	(76.8)	(105.8)	(69.1)	155.9	(308.7)	(333.7)
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	8,406.0	6,914.9	5,171.5	5,765.2	6,154.5	6,131.4	6,549.3	8,217.0	9,666.1	9,047.6	10,465.5
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	7,455.0	8,827.1	7,860.7	8,916.8
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	1.4	20.2	49.1	116.6
										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	52,040.4	59,508.9	70,806.3	74,693.1	82,297.4	88,915.5	89,940.4	100,965.2

in millions of EUR

	(in convertible currencies) 1990	1991	1992	1993	1994	*(in convertible and nonconvertible currencies)* 1995	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
										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	63.2	63.7	55.3	63.8	69.3	76.5	92.6	98.7
Gross foreign debt (excl. intercomp. loans) [2]/GDP	—	—	—	65.6	65.1	69.5	69.0	58.7	50.4	50.7	57.7	56.1	53.9	45.6	51.9	57.7	64.6	76.1	80.6
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	49.3	44.3	32.2	36.0	38.3	46.0	53.8	58.1
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	25.3	23.2	22.8	28.1	32.0	34.2	42.1	46.6
Net foreign debt (excl. intercomp. loans) [2]/GDP	—	—	—	39.4	42.7	36.0	31.8	25.1	18.5	17.7	16.3	18.6	14.1	16.3	21.6	25.7	28.0	34.5	40.3
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	14.2	7.6	7.7	10.7	13.7	16.4	22.3	27.3
Total Debt Service denominated in foreign currencies (TDS) (since 1995. excl. intercomp. loans) [4]/ GDP	12.7	11.2	11.2	11.0	12.6	16.2	15.7	17.4	17.2	12.8	10.8	10.3	9.4	8.2	8.4	10.0	10.8	10.0	10.2
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	8.5	7.4	6.7	7.3	9.1	9.9	8.7	8.7
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)	(8.4)	(6.0)	(7.0)	(7.9)	(8.4)	(6.8)	(6.1)	(5.0)
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	58.9	67.8	69.5	72.5
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	21.0	24.1	28.8	34.1
Total Debt Service denominated in foreign currencies (TDS) (since 1995. excl. intercomp. loans) [4]/ 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	15.3	16.0	12.9	12.8
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	14.6	11.2	10.9
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	4.3	4.1	4.6
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	2.9	2.4	2.7
										Month									
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	3.0	3.0	3.7	3.3	2.9
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	3.6	3.2	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. In April 2007 Hungary graduated and terminated its borrowing status officially.

Council of Europe Development Bank (CEB)

Hungary joined the CEB in 1998. Since then, CEB activities have concentrated mainly on state initiated projects (flood control systems, social housing, social integration, financing SME-s and protection of national heritage). Since the Republic's accession to CEB an amount of Euro 1,067 million has been approved by the bank for state related projects.

In 2007 CEB prepared its country strategy related to Hungary for the period of 2007-2009. According to this strategy the bank plans to lend in excess of EUR 680 million.

Under the new strategy the latest framework agreement with the Republic was signed in May 2008, whereby CEB undertook to co-finance investments and activities in the North and South Great Plain region of Hungary under the New Hungary Development Plan (2007-2013) in the amount of EUR 126 million.

European Bank for Reconstruction and Development (EBRD)

Since 1991, EBRD has been involved in a number of state and non-state projects, both in the form of equity participation and loans. The total participation of the EBRD between 1991 and the end of 2006 was approximately EUR 1.8 billion. In January 2008 EBRD and Hungary reached consensus that between 2008 and 2010 the bank will concentrate on infrastructure and energy related projects.

European Investment Bank (EIB)

Since 1990, EIB has been financing different government and non-government projects in Hungary. Between 2000 and 2006 EIB financed state and non-state projects granting loans worth Euro 5,499 million in total. In 2007 EIB arranged further loans amounting to Euro 1,215 million.

Using a Framework Agreement with the Republic of Hungary, EIB finances primarily infrastructure, environment protection, health care and education projects. Within this Framework Agreement, in 2007, four new facility agreements were signed in the amount of Euro 565 million. In 2008 YTD the government has signed further frame agreements amounting to EUR 451 million.

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

BNP Paribas, Citigroup Global Markets Limited, ING Bank N.V., Bayerische Hypo-und Vereinsbank AG, Dexia Kommunalkredit Bank AG and DZ Bank AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main (together the "**Managers**") have, in a subscription agreement dated 10 June 2008 (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 99.540 per cent. of their principal amount less a combined management and underwriting fee of 0.15 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

Each Manager has acknowledged that the Notes may not be offered, sold or delivered and neither this Offering Circular nor any other document relating to the Notes may be distributed or made available in the Republic of Italy except by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of 1 September 1993, as amended, Legislative Decree No. 58 of 24 February 1998, as amended, CONSOB Regulation No. 16190 of 29 October 2007 as amended and any other applicable laws and regulations.

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. CLXIX of 2007 on the Budget of the Republic of Hungary for the year 2008.

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 4 June 2008 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

Under EC Council Directive 2003/48/EC, 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 or certain limited types of entity established in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system 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 XS0369470397 and the common code is 036947039.

THE REPUBLIC

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