There is a Hungarian government paper that households keep buying, even though they could do better

Károly Beke

By now, households have become the largest holders of Hungarian Discount Treasury Bills (T-Bills). Moreover, retail investors also have indirect access to short money market yields through the Bonus Hungarian Government Bond (BMÁP), granting even a premium. T-Bills market is expected to remain important for retail investors and products linked to money market yield can be an important element of a retail portfolio.

Households own the most T-Bills

In our previous article, we described the ownership structure of T-Bills. Currently, short-term government securities on the market function as an attractive short-term investment option for households as an alternative to bank deposits and money market funds.

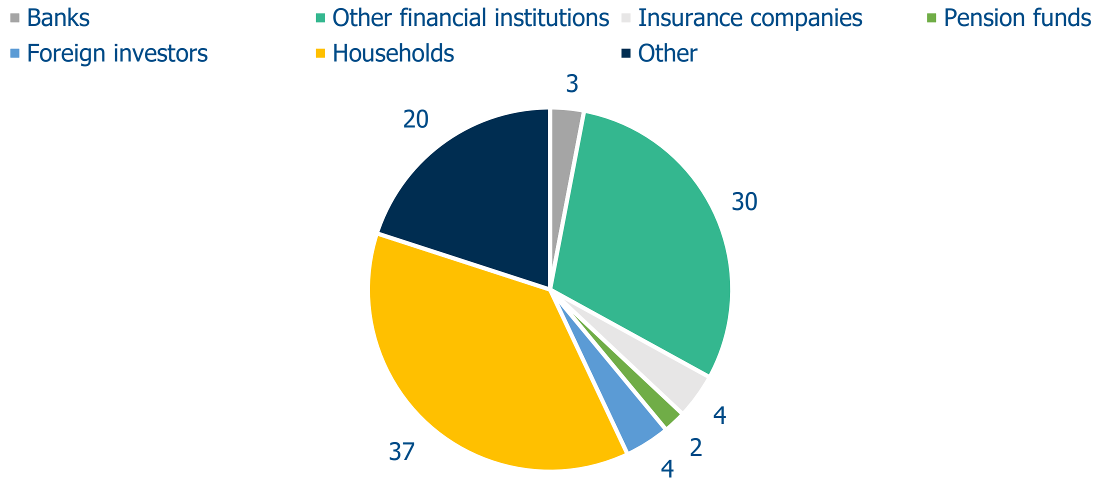

Figure 1: Ownership structure of T-Bills on 29 February 2024 (%) Source: MNB

Figure 1 shows that, according to the statistics of the National Bank of Hungary (MNB), households hold 37% of the T-Bills in circulation. In the past couple years this ratio has sometimes been even higher, exceeding 50%, even though households barely owned this type of instruments directly before 2022.

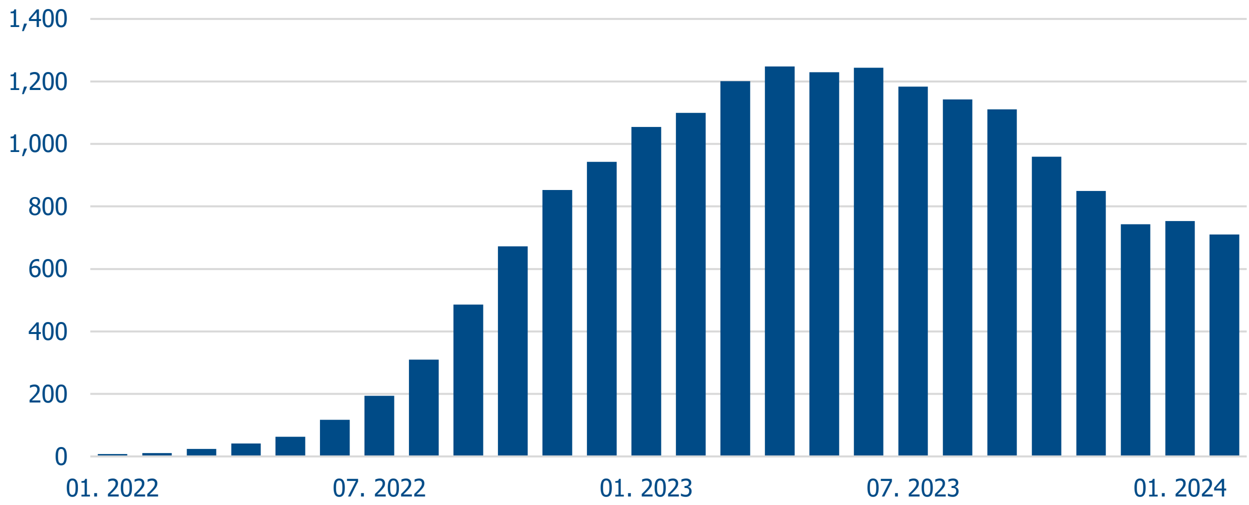

Figure 2: Holdings of T-Bills in the hands of households (HUF billion), source: MNB

High inflation environment apparently ramped up both the stock and the share of T-Bills in the retail sector, considered as a competitive investment, since banks paid negligible interest on similarly liquid bank deposits. The One Year Hungarian Government Bond (1MÁP) could have been an alternative for households, but T-Bills were more competitive due to their wider maturity range and occasionally higher yields. They were not competitive relative to retail products [notably the inflation-linked Premium Hungarian Government Bond (PMÁP)] in terms of yield during this period, but their significantly shorter maturity made them attractive for many investors. Absence of a purchase limit was also an important feature for some investors. Household holdings have fallen in recent months, but the pace of decline has been slower than expected. Consequently, households are expected to remain an important player in the market.

T-Bills yields could be an important element for retail portfolios

Retail investors can also indirectly access T-Bills yields topped up with an interest rate premium, as the interest rate of BMÁP - re-launched and renewed in autumn 2022 - is linked to this instrument. Three and five-year series of this retail paper are currently available.

The annual interest rate on the BMÁP consists of two parts. The interest rate base is determined by the results of the last four 3-month T-Bills auctions held prior to the setting of interest rate. As a result, market yields are reflected in the terms and conditions of BMÁP, consequently, one can take advantage of money market yield movement with a retail government security. The other part of the interest rate on BMÁP is the interest rate premium, which is 1.5% per annum for the first three years of both the 3-year (2027/N) and 5-year (2029/N) series, and 2.5% per annum for the last two years of the 5-year series.

Consequently, a higher yield is achievable through the interest rate of BMÁP topped up with premium compared to buying T-Bills, for example.

The yield on the currently available series 2027/N is 8.37% p.a., while the yield on the longer series 2029/N will be 8.13% p.a. from 26 April. Interest payment and setting both take place on a quarterly basis tracking market yields faster. The sales limit is HUF 250 million for series 2027/N and HUF 100 million for series 2029/N, i.e. an investor can buy up to this amount of these series on the primary market from a single dealer. Relative to T-Bills, BMÁP has additional advantages: it is not necessary to constantly monitor market yields, and to buy new T-Bills after maturity, yet still grant interest exceeding the T-Bills yield for up to 5 years.

H-1013 Budapest, Krisztina tér 2. | Postal address: H-1253 Budapest, PO BOX. 85.
E-mail: strategia@akk.hu | Registered at the Budapest Capital City Court (Hungary), Registration No.: 01-10-044549

Figure 3 shows that in the past one and a half year following the renewal of BMÁP, save for a short period, the retail product has consistently outperformed direct T-Bills purchase. In addition, several retail investors has only access to T-Bills via distributors offering them at a yield lower than the benchmark yield further increasing the advantage of BMÁP. The advantage of BMÁP stems from the high correlation of auction and secondary market yields of T-Bills, and BMÁP paying an interest premium over the auction yield.

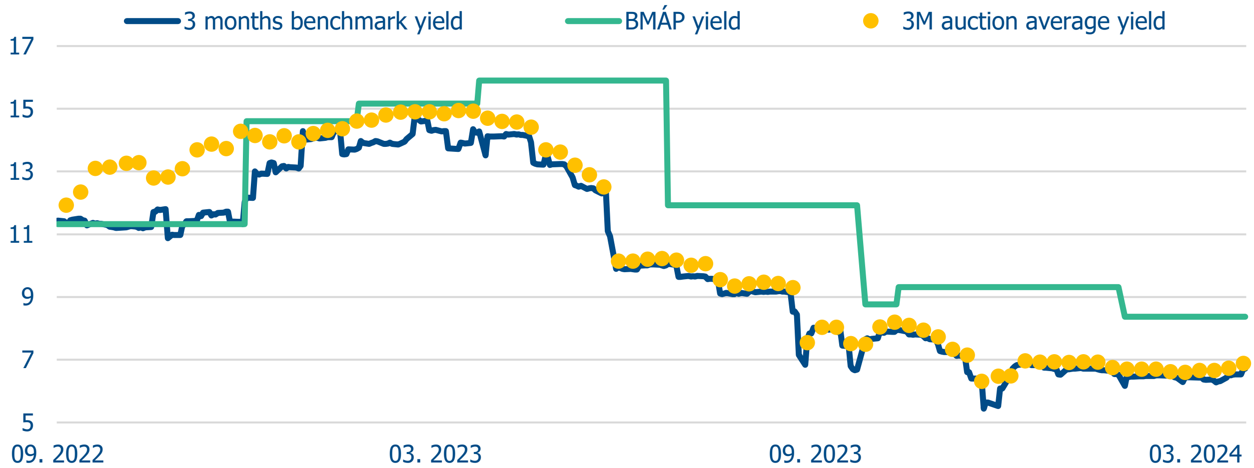

Figure 3: 3-month T-Bills yields and the interest rate of the BMÁP (%). Source: ÁKK

Currently, the three-month benchmark yield is approximately 6.7%, the shorter BMÁP yield is 8.37%, representing a yield premium of 1.7% for investors.

In the coming period, two factors can determine the attractiveness of the BMÁP: the development of T-Bills yields in addition to the level of the interest rate premium. In the first part of this article series, we mentioned that the expected yield may converge to the interbank rate. Currently, the 3-month BUBOR is 7.51%, compared to the T-Bills yield of 6.7%. Consequently, based on the above context, T-Bills yields are not expected to fall significantly, implying that including BMÁP in retail portfolios would pay off. Furthermore, the 3-monthly interest payment could come in handy to cover sudden or frequent expenses.

Currently, close to HUF 1,000 billion of retail savings are invested in BMÁPs, implying the instrument is a good fit to ÁKK's strategy of offering retail securities with different interest rates, thus granting the possibility of building a diversified portfolio. An inflation-linked product (PMÁP), a fixed-rate instrument (FixMÁP), a liquid product with favourable buy-back conditions (MÁP Plus), a euro-denominated retail paper (€MÁP) are all available, complemented by a BMÁP tracking money market yields. As a consequence, investors can find the instrument most fitting based on their inflation and money market expectations, and

everyone can put together a diversified portfolio to cover all eventualities.

H-1013 Budapest, Krisztina tér 2. | Postal address: H-1253 Budapest, PO BOX. 85.
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