„KNOW YOUR INVESTORS" – ANALYSIS ON THE INVESTOR BREAKDOWN OF INSTITUTIONAL HUF GOVERNMENT SECURITIES

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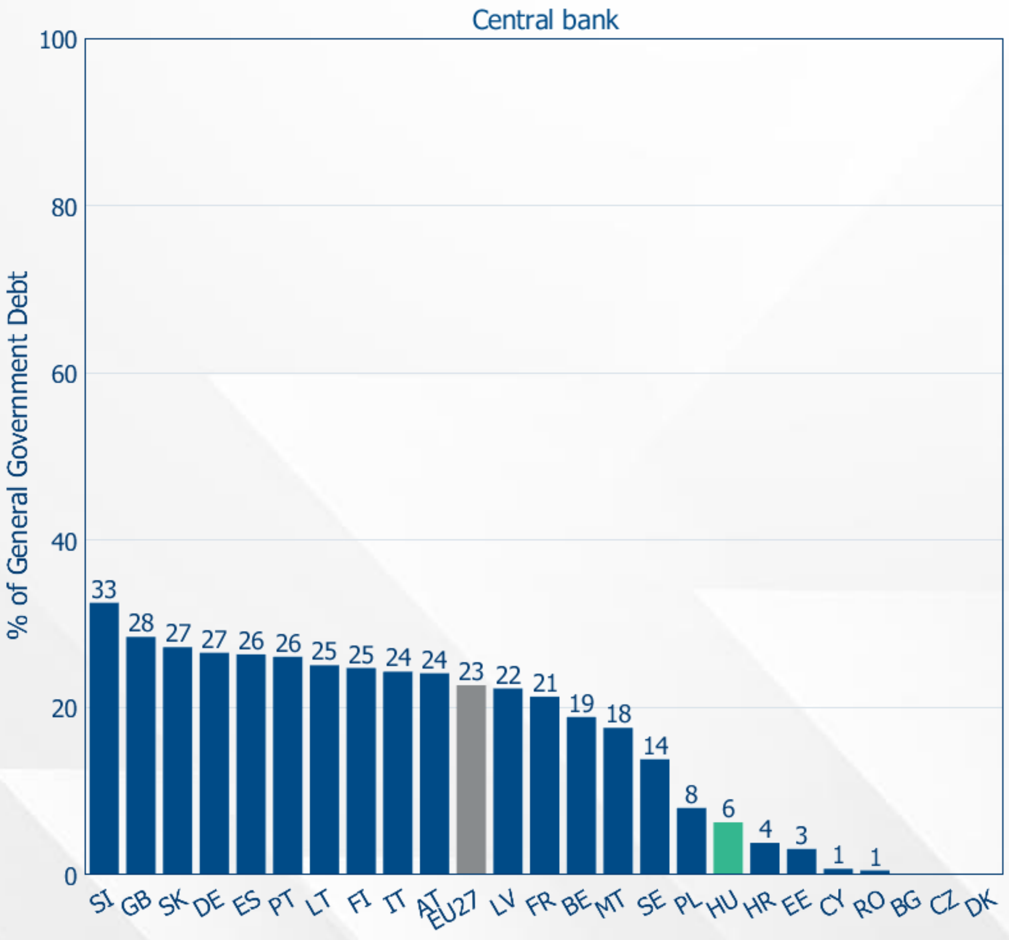
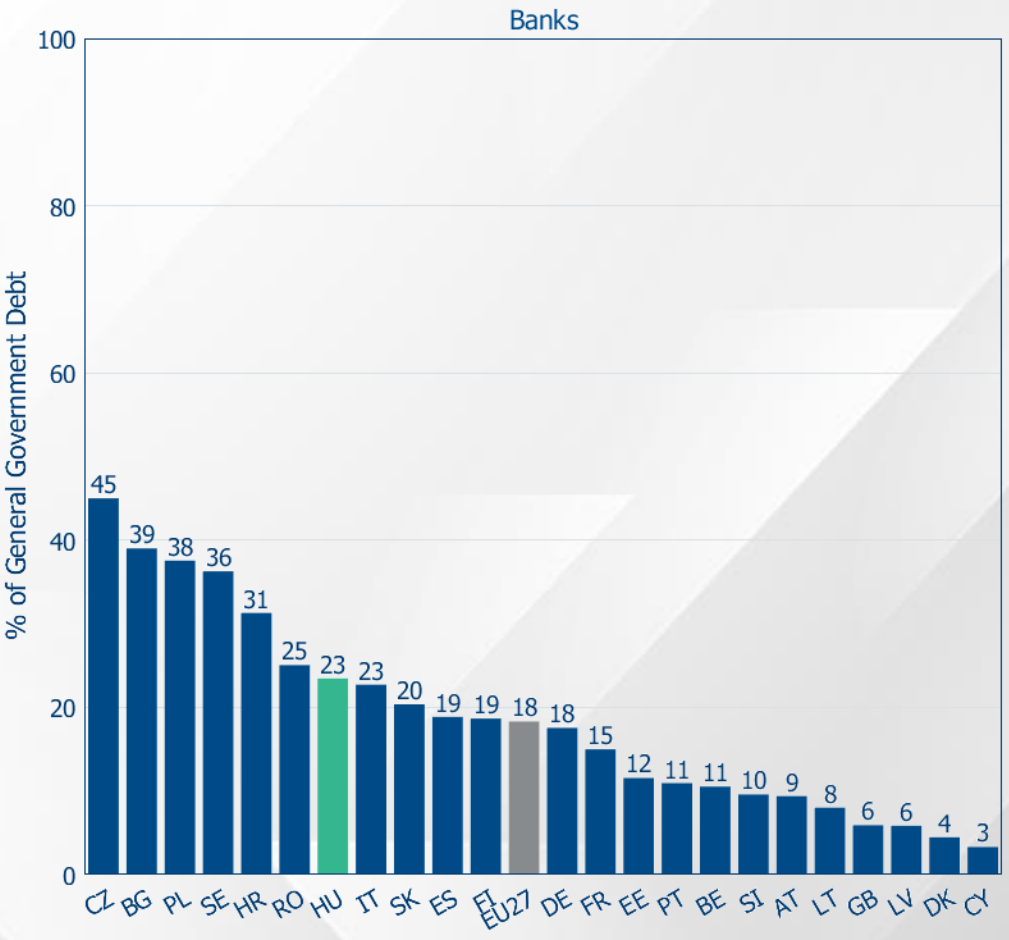
European SSA forum, September 19, 2024

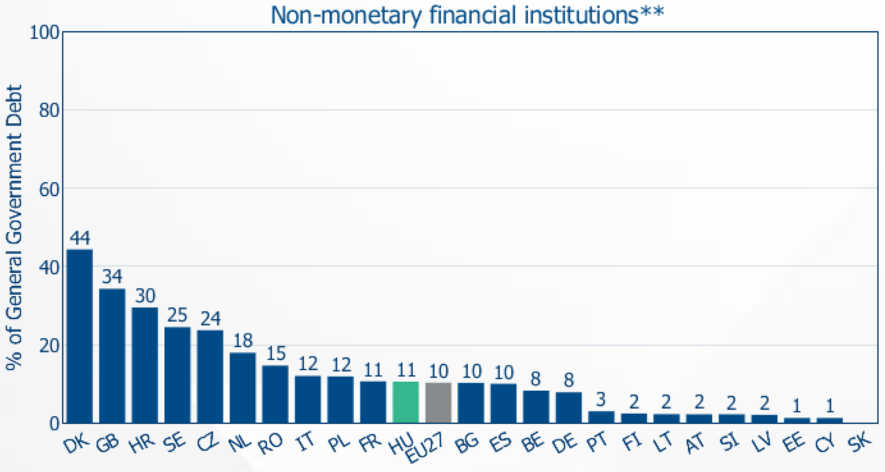
GENERAL GOVERNMENT DEBT* HELD BY INVESTOR SECTORS

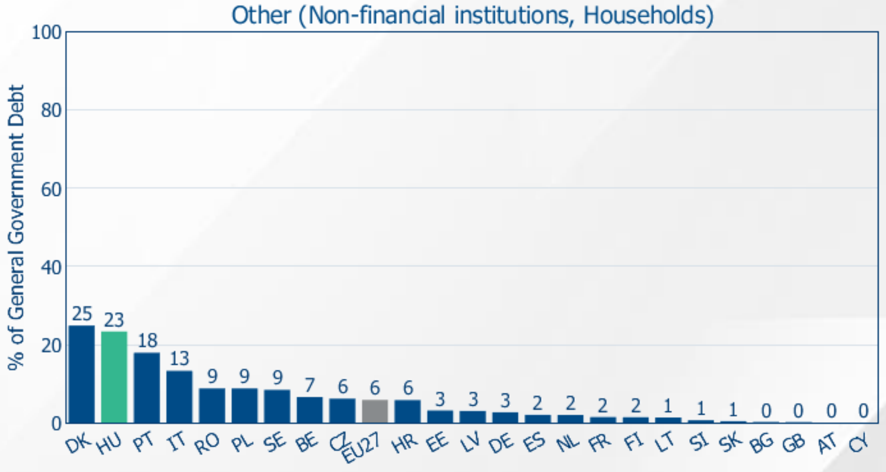


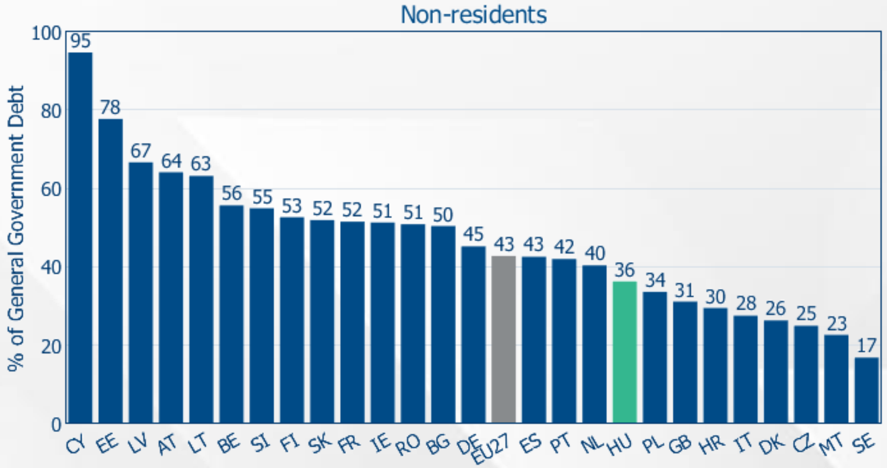


*Source: ECB, UK DMO; *Note: For UK data Central Government Debt was used*

GENERAL GOVERNMENT DEBT* HELD BY INVESTOR SECTORS



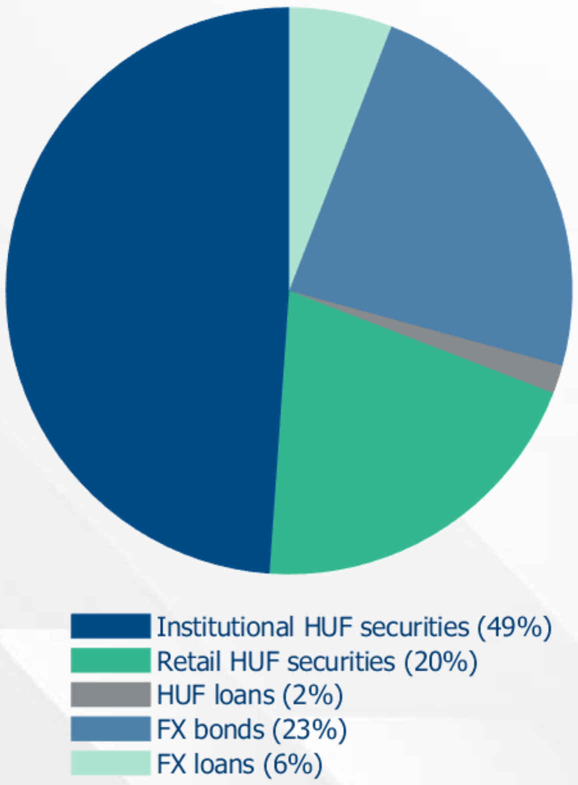




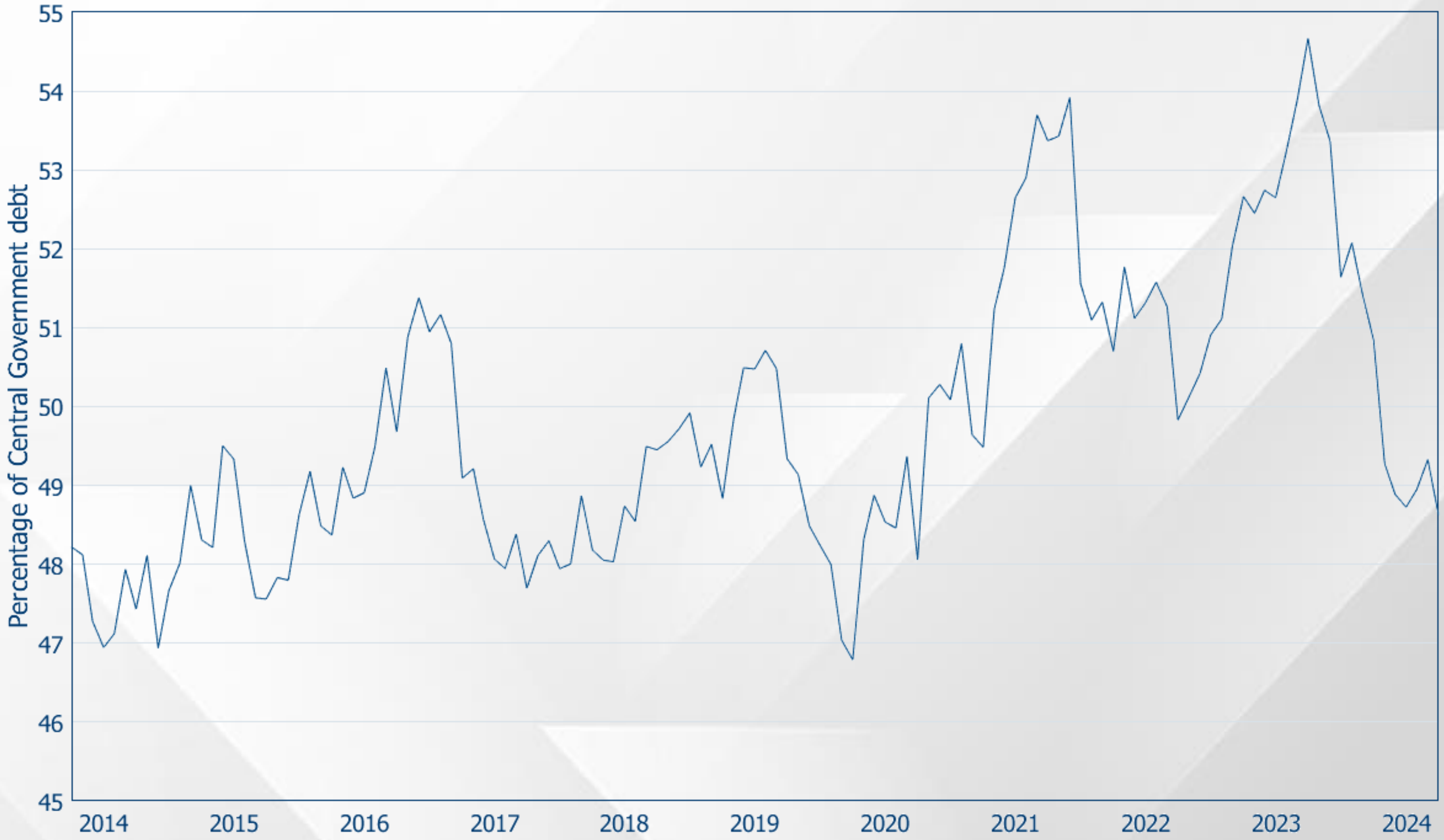
***Note: Investment funds, pension funds, insurance companies*
*Source: ECB, UK DMO; *Note: For UK data Central Government Debt was used*

THE INSTITUTIONAL HUF GOVERNMENT SECURITIES MARKET

Institutional HUF securities have the highest share in Central Government debt with HUF 54,871 billion at the end of 2024H1



Source: ÁKK



Source: ÁKK

INVESTOR STRUCTURE OF INSTITUTIONAL HUF GOVERNMENT SECURITIES

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Investors	Sector	Sub-sector	Share	Characteristics
Investors	**Monetary financial institutions (49%)**	Banks	**37%**	▪ Majority of holdings in ALM books (long-term player) ▪ Driven by investment, liquidity, market risk considerations
		Central bank	**12%**	▪ Purchased bonds with long maturities during QE ▪ Holds until maturity
	Non-residents (21%)		**21%**	▪ Scarce information on the investors (and motives) ▪ Preference for longer tenors (5-10 yrs.)
	Non-monetary financial institutions (20%)	Investment funds	**10%**	▪ Immediate reaction to market- and regulatory changes ▪ Active asset management, flexible investment policy
		Insurance companies	**6%**	▪ Decreasing share due to loss of market share and increasing UL ▪ Hold to maturity (unless there are significant claims to be paid)
		Pension funds	**4%**	▪ High share of HGBs in their asset portfolio ▪ Small pension market → low government securities market share
	Other (10%)	Other local institutions	**6%**	▪ Local Governments, Non-profit institutions serving households, Central Government, Non-financial institutions, Financial auxiliaries
		Households	**4%**	▪ Preference for shorter maturities, mainly T-Bills ▪ Financially conscious, only buy if it is an attractive alternative

INSTRUMENTS ON THE INSTITUTIONAL HUF MARKET

Fixed rate bonds

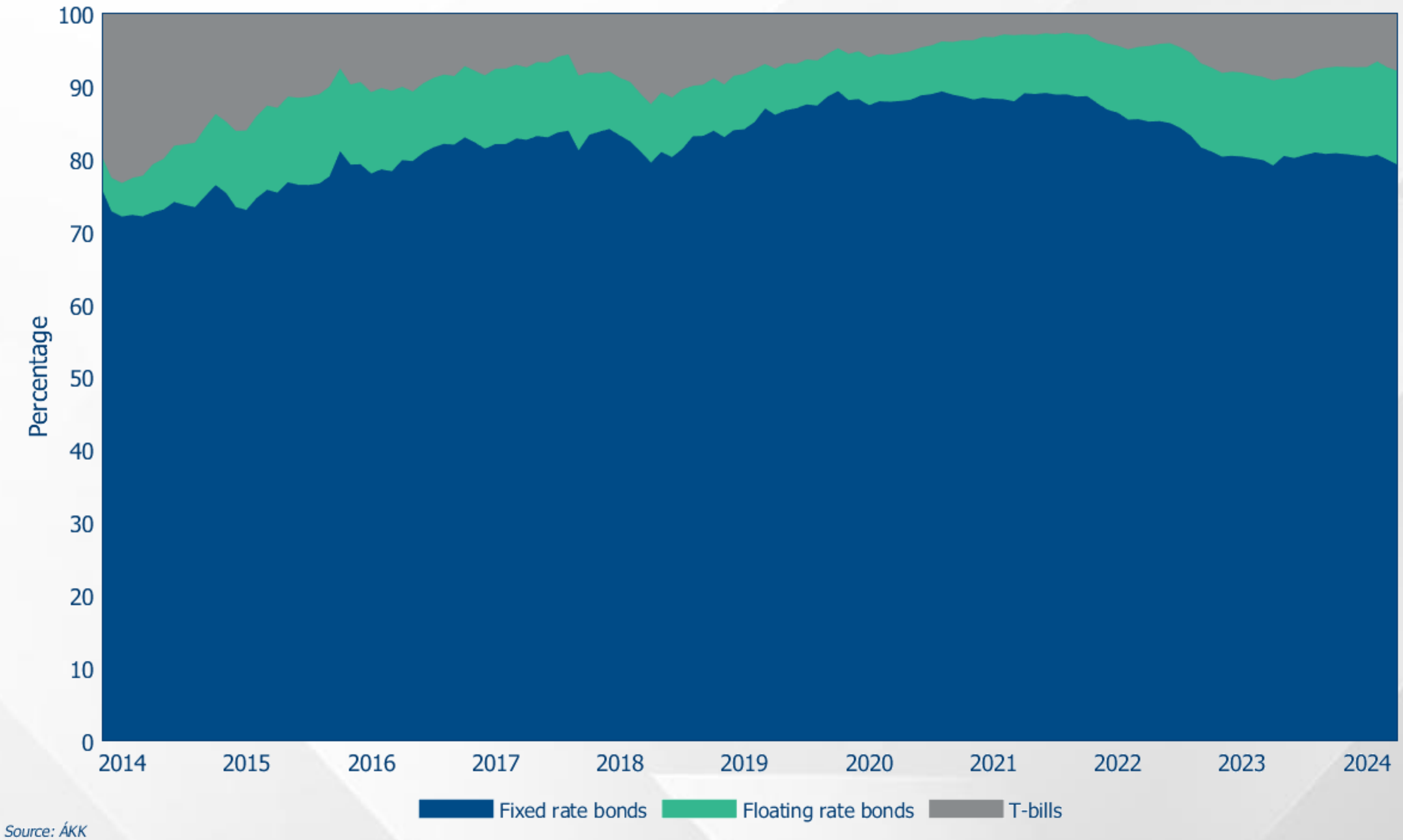
- Tenors: 3-30 years (main instruments), frequent auctions
- Green HGB: a new range of investors

Floating rate bonds

- Tenor: 7 years, monthly auctions
- Based on 3-month BUBOR

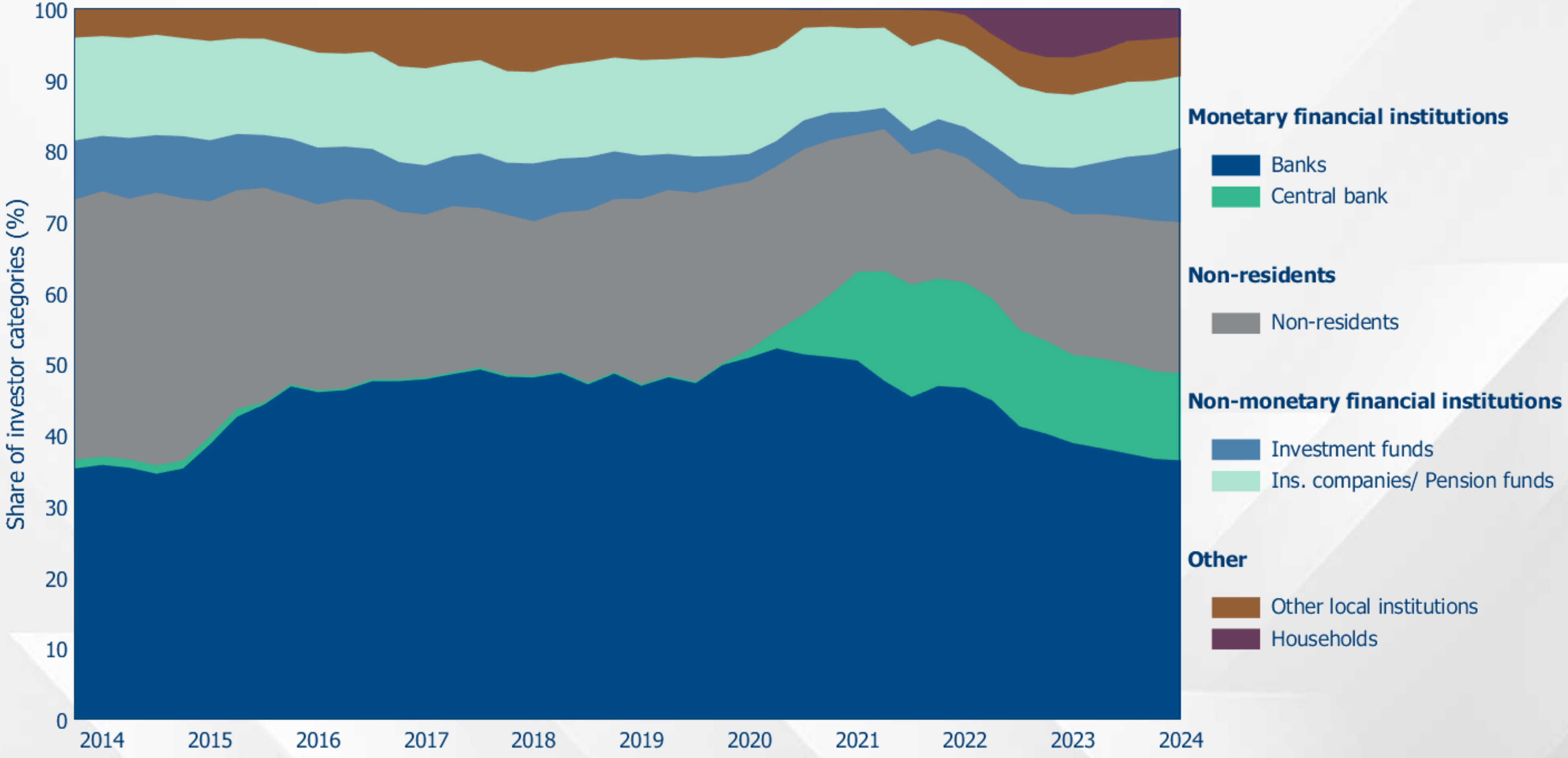
T-bills

- Tenors: 3, 6, 12 months, frequent (weekly) auctions
- Used for short-term adjustment and liquidity management



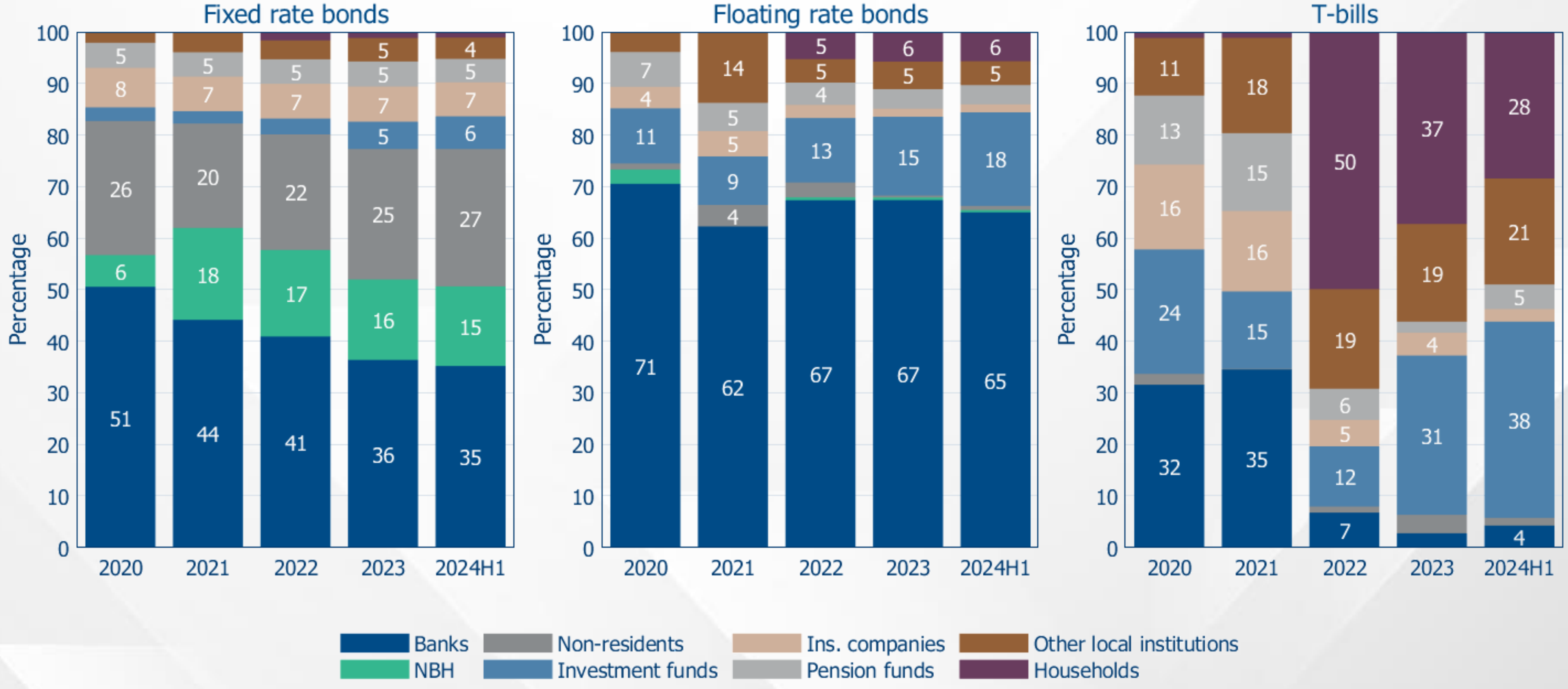
Source: ÁKK

INVESTOR BREAKDOWN ON THE INSTITUTIONAL HUF MARKET



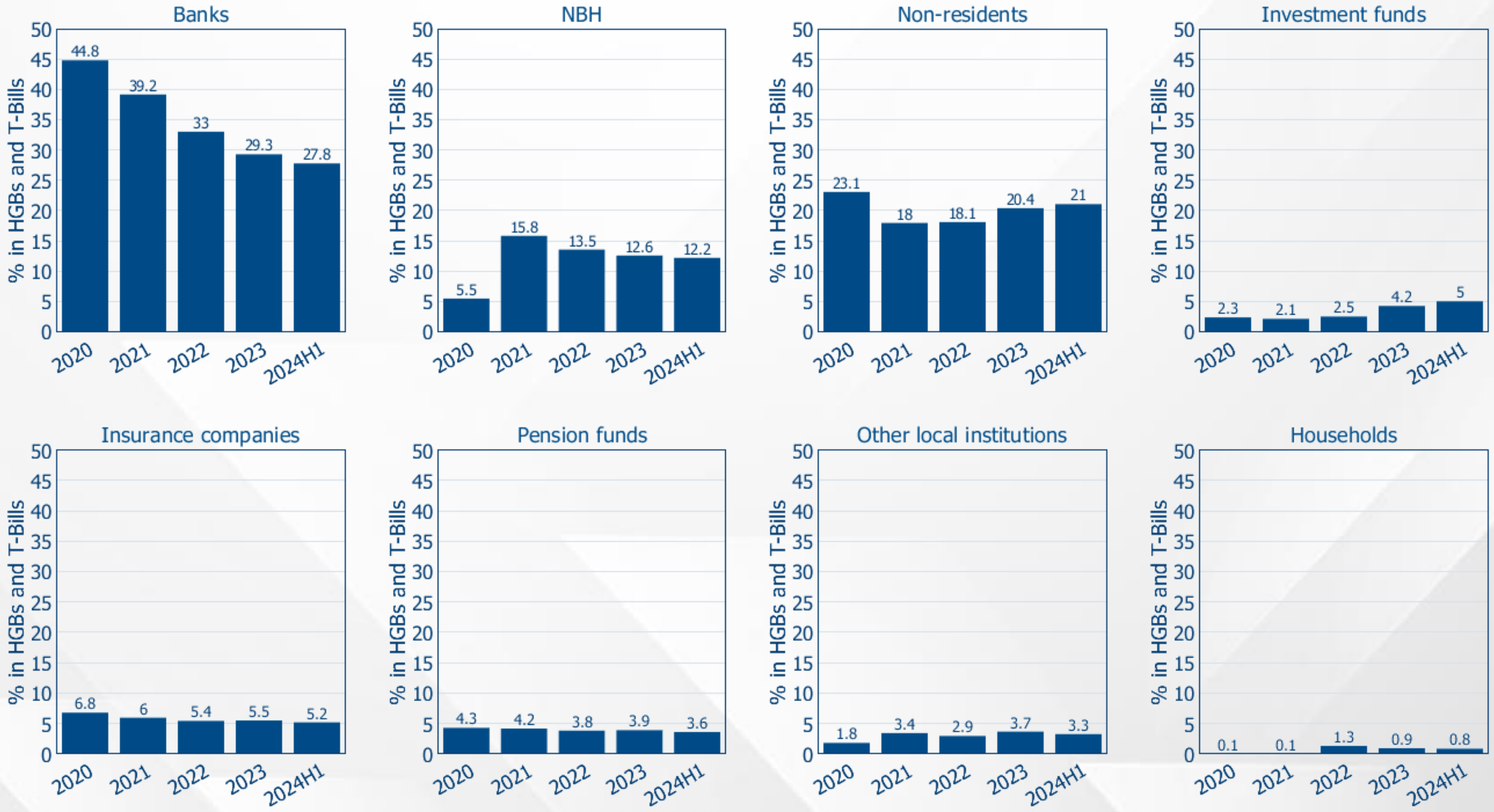
Source: NBH

INVESTOR BREAKDOWN OF INSTITUTIONAL HUF SECURITY TYPES



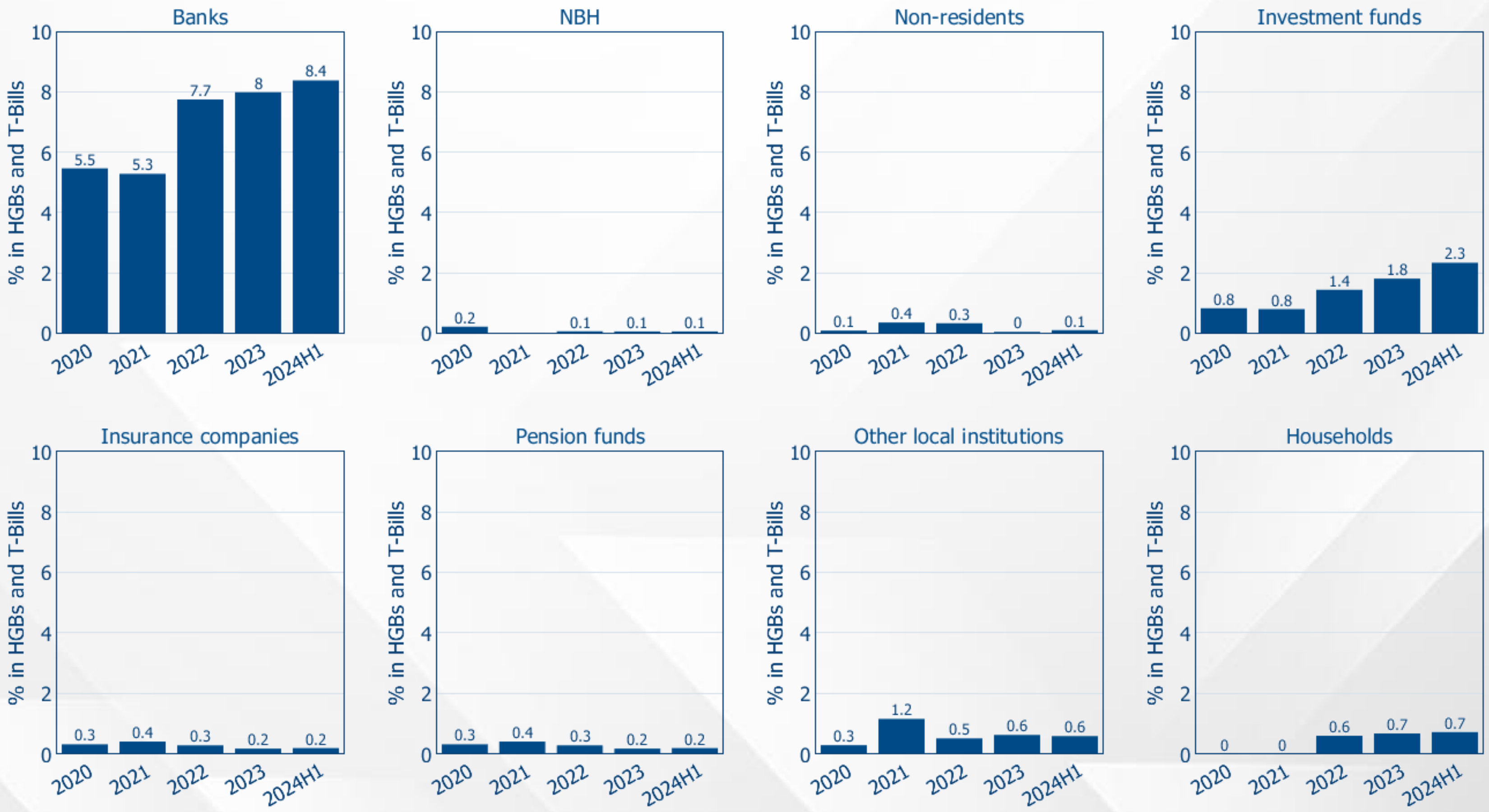
Source: NBH

EVOLUTION OF FIXED RATE BONDS BY INVESTOR SECTORS



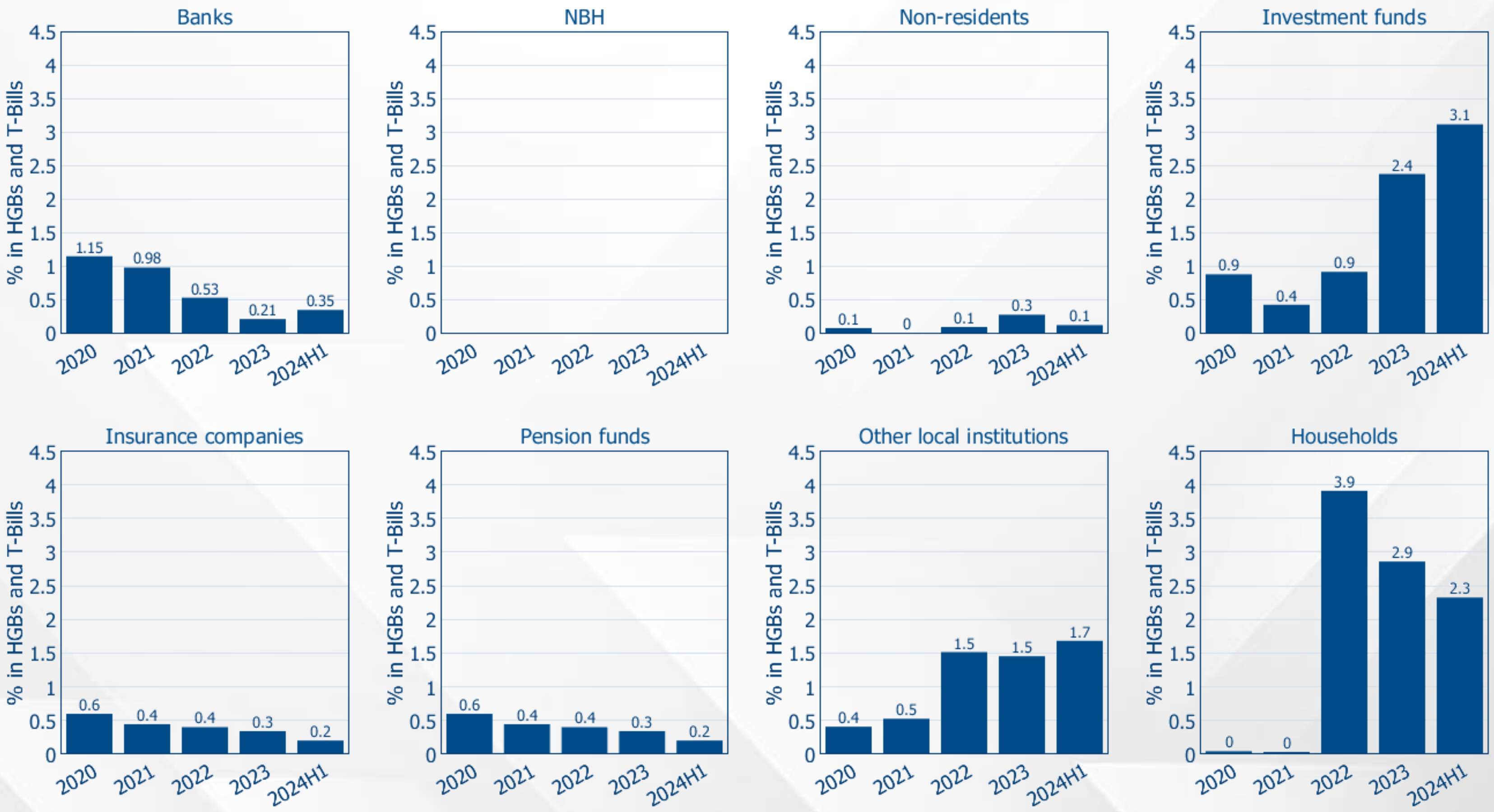
Source: NBH

EVOLUTION OF FLOATING RATE BONDS BY INVESTOR SECTORS



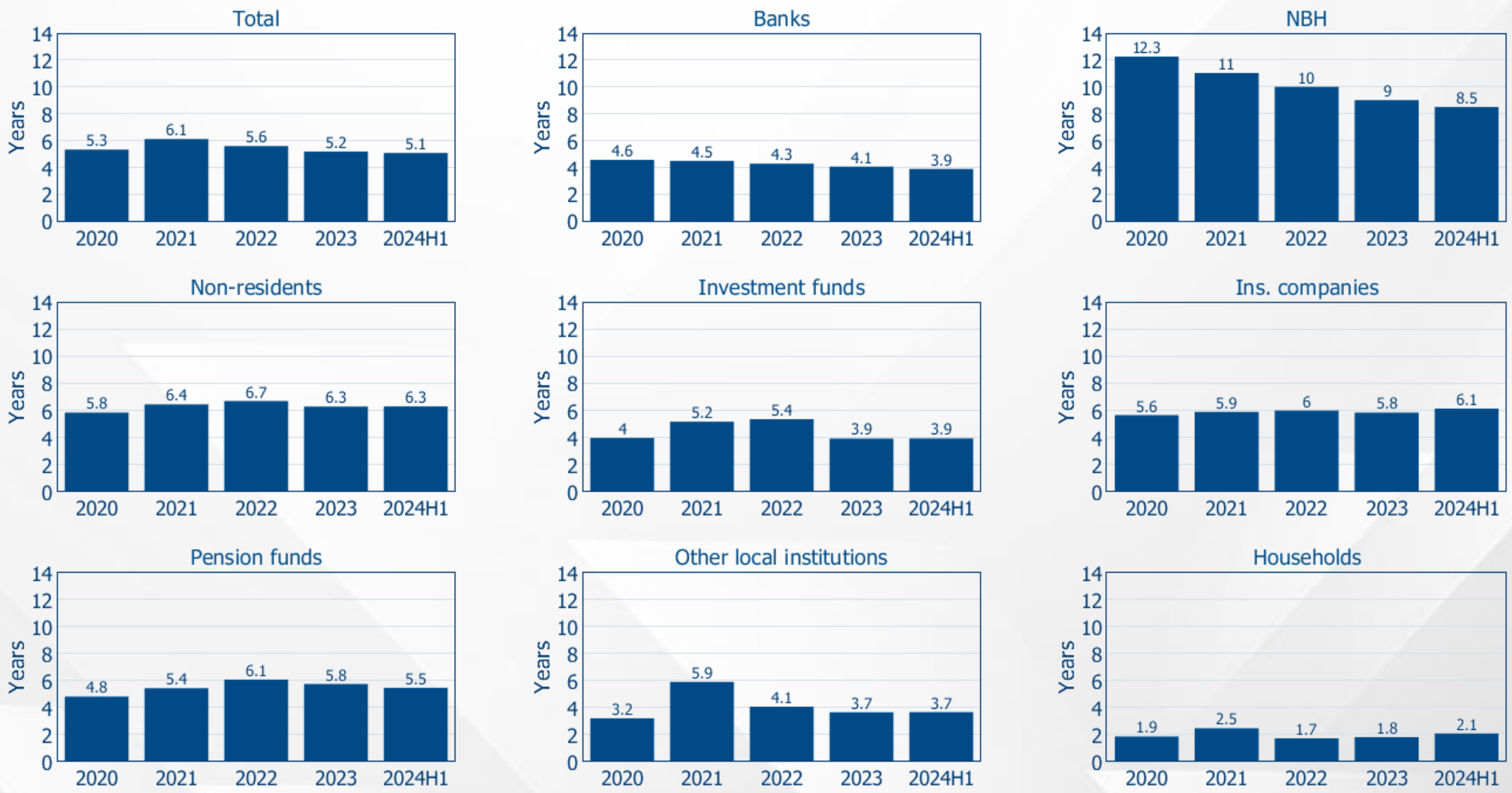
Source: NBH

EVOLUTION OF T-BILLS BY INVESTOR SECTORS



Source: NBH

EVOLUTION OF AVERAGE TIME TO MATURITY BY INVESTOR SECTORS



Source: NBH

IMPORTANCE OF KNOWING INVESTOR BEHAVIOUR

Diversification	▪ **Reducing** reinvestment **risk**, stable debt financing ▪ Identifying **potential additional demand** ▪ Relevant sectors can be motivated by their drivers
Liquidity	▪ **Diversified investor base** improves liquidity ▪ **Liquid markets** are more efficient and attractive to investors because they allow for quick and low-cost transactions
Modelling	▪ **Modelling natural demand** and **liquidity premium** (optimal issuance level, the cost of additional issuance) ▪ **Identified drivers** can be implemented which can **improve efficiency in planning**
Challenges	▪ **More granular data** needed to go beyond each sector (e.g. different mutual fund types holdings, structure of non-residents) ▪ **Life-insurance companies and pension funds** are missing from the HGB market

THANK YOU FOR YOUR ATTENTION!

GOVERNMENT DEBT MANAGEMENT AGENCY PTE LTD.
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