Hungarian investors expressed their opinion about retail government securities, revealing their favourites and what they miss

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Interest rates and security are the most important factors for retail investors when choosing government securities. According to a survey ordered by the Hungarian Government Debt Management Agency (ÁKK), nearly three quarter of the retail clients are satisfied with the current product range. Of the more than 5,000 retail customers at the State Treasury, every third reported attempts to dissuade them from buying government securities.

Clients were asked about their opinion on retail government securities

Between November 2023 and January 2024, a survey on retail government securities was conducted on behalf of ÁKK, with more than 5,000 customers of the State Treasury responding to the questions, 4,489 online and 739 in person, on paper. The survey **can not be considered representative.** The survey was voluntary, therefore it is not representative neither socially nor geographically, but analysing the results still makes sense because of the large sample size.

In the survey ÁKK inquired mainly about, how well informed the respondents are, on what basis they choose retail government securities, what products and attributes they miss, and how they evaluate the current product range and the services provided by the State Treasury.

We believe, we know most everything about retail government securities

31% of retail customers surveyed consider themselves to be fully informed regarding retail government securities. That means they believe to be aware of other features besides the current interest rate and maturity. A further 63% of customers responded that they know the main features of government securities, such as maturity and interest rates. Consequently, **almost all respondents considered themselves to be fundamentally informed.**

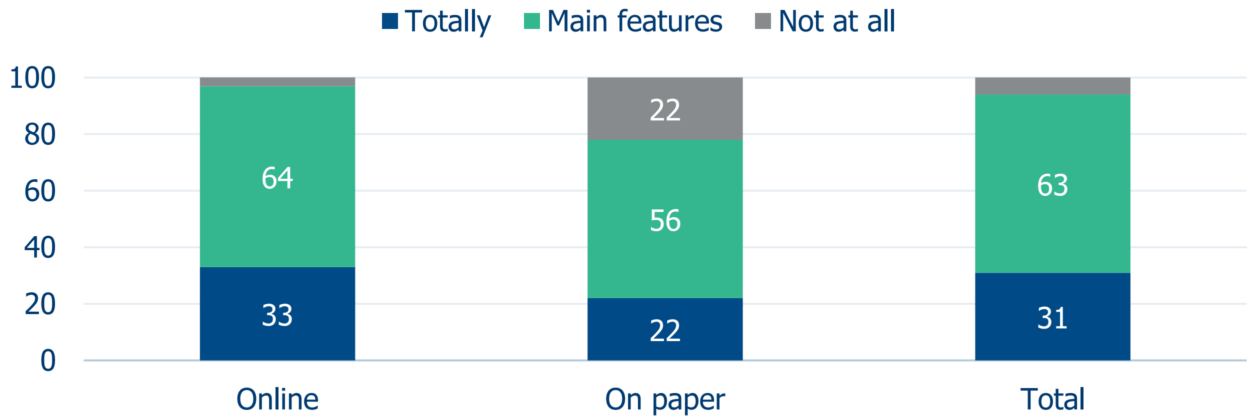

Figure 1. How informed do you consider yourself with regards to the features of available retail securities (types, maturity, interest etc.)? (percent)

According to the responses, customers most often seek information on the website of the Hungarian State Treasury or on its trading platforms. A significant part of clients filling the paper-based questionnaire in person obtains information from the administrators and considers them to be the most reliable source.

Into which government security does Hungarian retail invest their savings?

By their own admission, **almost half of the customers** (46%) **are aware of the rules on tradability of government securities and the redemption rate influences their investment decisions**. 24% of the respondents are aware of the daily redemption price of government securities and the fact that it may change, but this does not influence their investment decisions. 15% of respondents said that they are aware of the redemption rules and at least once gave up on buying a government security because of the redemption rate. 4% are aware of them and at least once gave up on redeeming before maturity because of the redemption rate. 9% are not aware of them and do not understand how the redemption rate works and how it is set.

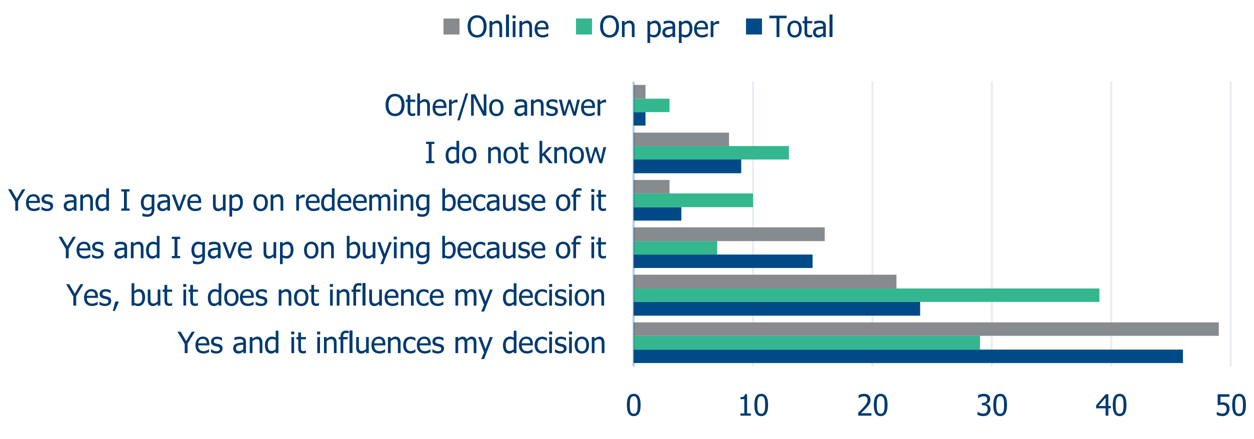

Figure 2. Are you aware of the redemption features (sale before maturity) of the retail securities and how does it affect your investment decisions? (percent)

Based on the results, primarily the online respondents are familiar with the redemption rate, while in-person respondents are much less familiar with it. However, the development of the redemption rate plays a lesser role in the investment decisions of the latter clients.

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Unsurprisingly, the actual interest rate was the most important factor for respondents when making investment decisions, followed by safety. Almost three quarters of respondents' primary reason for buying government securities is to achieve a return exceeding inflation, followed by the desire to keep their money safe and not parking on their bank account. In many cases, avoiding interest rate tax is also a priority.

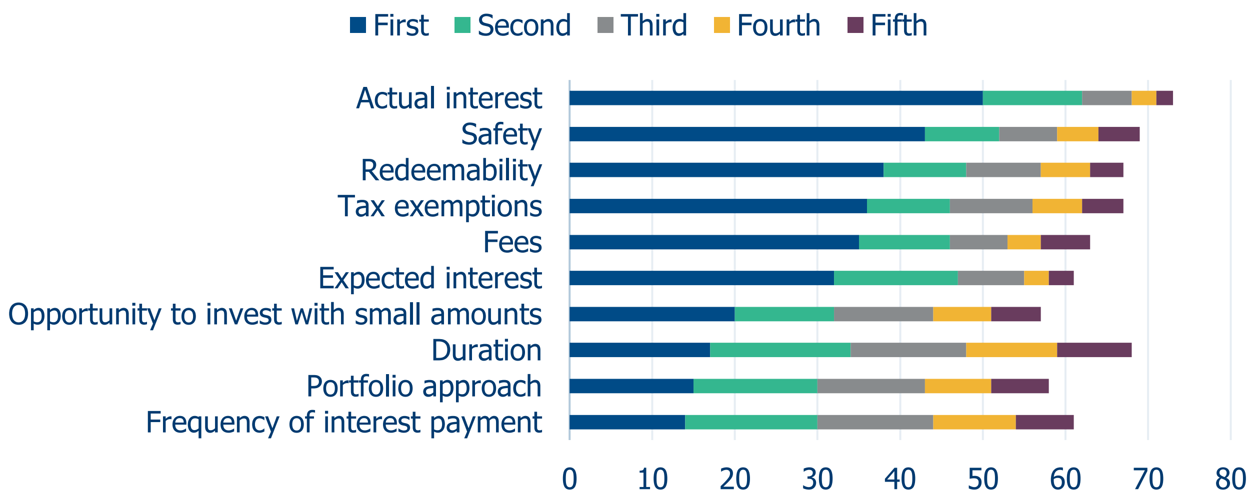

Figure 3. Main features of retail securities (percent)

Three quarters of customers allocated the largest part of their government securities holdings in Premium Hungarian Government Security (PMÁP). Discount Treasury Bill (T-Bills, 10% share) and the Bonus Hungarian Government Security (BMÁP) and the One-Year Hungarian Government Security (1MÁP, 5% share both) follows well behind. Age plays a significant role, with more than half of those aged 60 and over and more than 80% of those aged 70 and over prefer the 1MÁP, the retail product with the shortest maturity. The renewed Hungarian Government Security Plus (MÁP Plusz) offers them an even more favourable investment opportunity, because the five-year product can be sold at par after one year.

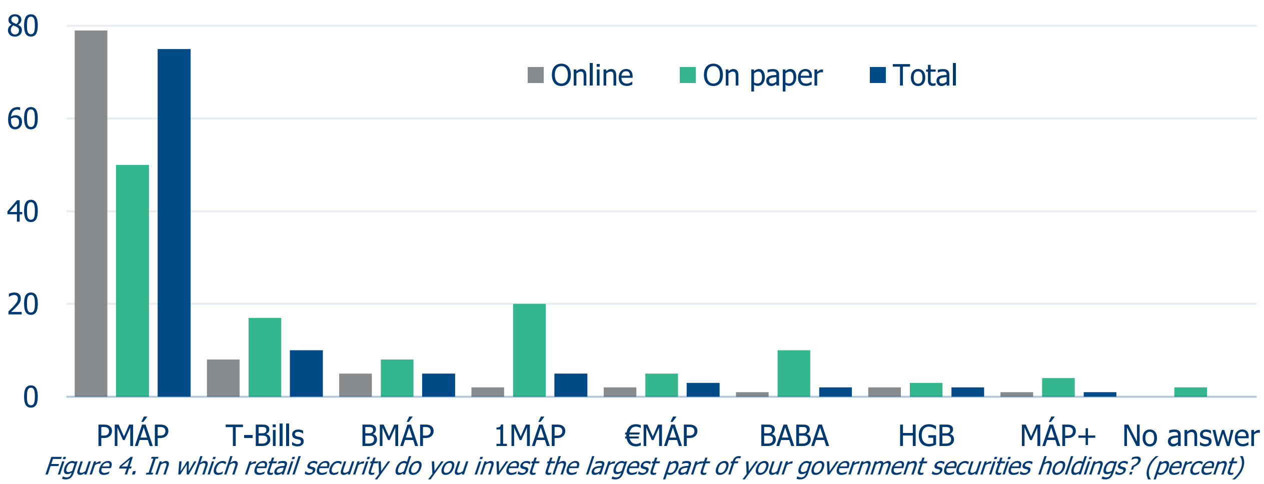

Figure 4. In which retail security do you invest the largest part of your government securities holdings? (percent)

In the survey, ÁKK also asked what customers plan to do with coupon payments. Its importance has become more prominent in 2024, as the government has already paid a significant sum to retail investors at the beginning of the year. 78% of the respondents will reinvest the coupon payments in government securities demonstrating households' trust towards the programme. In addition, 46%

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of retail investors declared to hold their government securities until maturity assuming no change in the conditions.

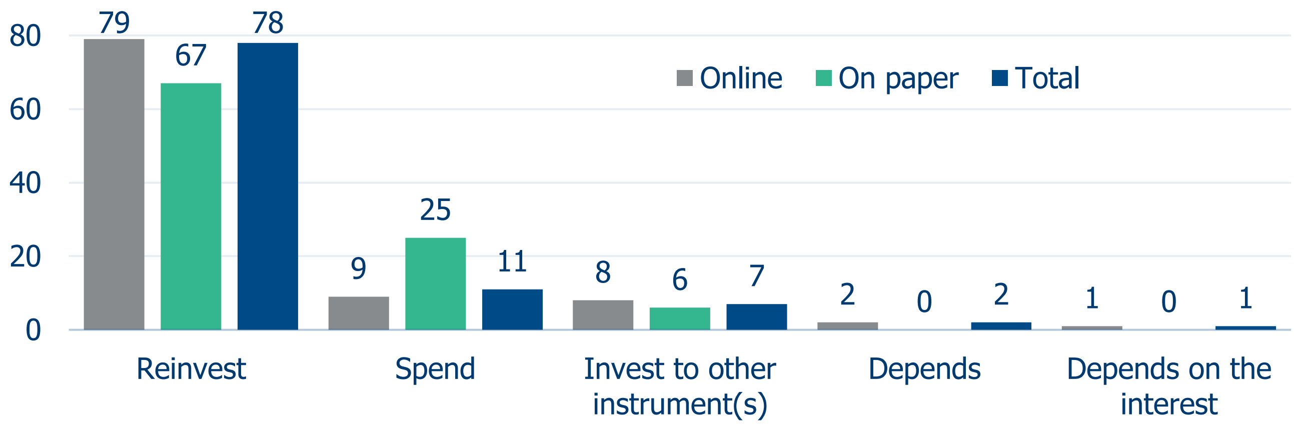

Figure 5. What is your most common decision regarding the coupon payment? (percent)

One of the astonishing findings of the survey is that 32% of customers have been at least once talked out of buying government securities by distributors other than the State Treasury. This ratio is 77% among in-person respondents (presumably customers managing their dealings more often in person), i.e. three out of four respondents have experienced this.

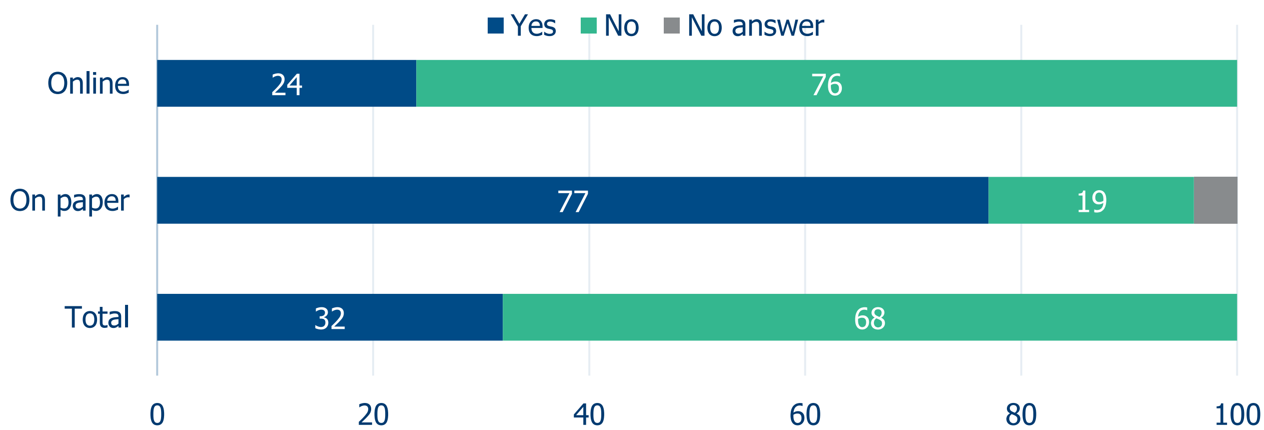

Figure 6. In case you have a securities account other than the State Treasury (Magyar Államkincstár), has ever any attempt occurred to talk you out of buying government securities? (percent)

Regarding the survey, the redeemability of retail government securuties received a lot of press coverage by end-2023. "We have never asked clients about this before, but we wanted to understand their considerations behind their investment decisions. These answers will help us better understand customer needs and we can utilise them during product development, however we do not intend to change the 99% redemption rate of PMÁP", declared Zoltán Kurali, CEO of ÁKK, in December 2023 in response to a question from Portfolio.hu regarding the survey.

Do Hungarian retail investors miss anything?

72% of clients do not miss anything in the current retail government securities portfolio, and the rate is even higher among in-person respondents at 82%. According to 6% of the respondents, a retail product with a higher interest rate and a yield above inflation is missing from the portfolio. (Based on the responses, it is not clear if they are not familiar with the Premium Hungarian Government Security product or dislike the fixed interest rate for the first year.) This reflects the

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impact of PMÁP, the popularity of inflation-tracking paper in recent years has highlighted the importance of real yield. In addition, the more favourable redeemability and compound interest were mentioned. These demands have been addressed by the renewal of MÁP Plusz in early June, which can be sold once a year at 100% for five days after its coupon payments. The coupon payments are reinvested automatically and continue to accrue interest. As a result, the instrument meets customer demand for favourable redeemability terms and compound interest.

98% of respondents are satisfied with the services provided by the State Treasury, 89% do not miss any service. Those who miss something most often mention currency exchange, simplified information, even greater security or online customer service. In response to this feedback, the State Treasury is continuously improving its electronic platforms. In this context, the WebTreasury and MobileTreasury interfaces will soon introduce inter alia regular investment orders facilitating regular monthly savings. In addition, securities' purchases will be further simplified, since QR codes make transferring money easy via banking applications.

The Treasury considers the protection of its customers and the savings they manage of utmost importance. Although they keep on emphasising that the Treasury's systems are secure, new security features are being added to both WebTreasury and MobileTreasury in response to increased phishing activity around the world.

A similar questionnaire survey on the Hungarian retail government securities market has never been conducted before, consequently drawing conclusions from the results is useful. Until the beginning of this year, PMÁP was the primary choice of customers in recent years, but with inflationary pressures easing in recent months, it is apparently losing in popularity. Which retail product will take its place is the big question for the next period. The aim of ÁKK is promoting portfolio approach amongst retail investors instead of concentrating on one single government security. Another key objective is to strengthen digitalisation in the coming period. It is certainly positive that the overwhelming majority of customers (more than three quarters) reinvests the coupon payments in government bonds, and almost one in two holds their government bonds till maturity (in case of unchanged conditions). Almost all customers are satisfied with the services provided by the Treasury and are not missing any basic functions.

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