The old favourite is back: 13 questions and answers about the new "super retail security"

The renewed Hungarian Government Security Plus (MÁP Plusz) is available from June 2024. The previously popular retail government security gets a higher interest rate and new issuance method on its 5th anniversary. MÁP Plusz is once again an excellent choice for those looking for savings with a flexible access and competitive return. With the launch of the new MÁP Plusz, the One Year Hungarian Government Security (1MÁP) will be phased out. We collected and answered the most important questions about the renewed product.

1. Why was it necessary to renew MÁP Plusz?

ÁKK updated its retail government securities strategy in 2022, which is focusing on portfolio approach, aims to offer options for all life situations, saving periods and needs, thus increasing the number of investors, which is one of the key points of the strategy. MÁP Plusz was launched almost exactly 5 years ago, and it immediately became a successful product. However, due to high inflation, the Premium Hungarian Government Security (PMÁP) became the clear frontrunner until early 2024. Since then, there has been a transformation, with the popularity of PMÁP declining as inflation fell, as one might have been expected. In the light of inflationary developments, the time had come for ÁKK to offer the previously favourite retail product with better conditions.

2. What will change in MÁP Plusz?

The renewed MÁP Plusz will pay interest annually and will no longer pay interest after the first six months. There will also be a change in the way the paper is issued: instead of the previous subscription, it will be a tap issuance, i.e. in the same way as the PMÁP, the Bonus Hungarian Government Security (BMÁP) and the Fix Hungarian Government Security (FixMÁP). This means that on any business day, investors will be able to buy MÁP Plusz at a gross price, calculated from the 100% net price and the accrued interest. ÁKK will launch a new series every month with a sales cap of HUF 10 million per investor per series at any distributor from the renewed retail product.

3. What will remain unchanged?

Most importantly, MÁP Plusz will retain its feature of being redeemable at par value, i.e. 100% once a year for five business days after its interest payment period. Aside from these periods, distributors will continue to quote a price for MÁP Plusz (the Hungarian Treasury will continue to quote an unchanged rate of 99.50% for this purpose). MÁP Plusz will continue to be a five-year paper, and the step-up coupon feature will also remain, so it will be worth holding longer. Another feature, which will not change: the interest will be automatically reinvested to the series originally purchased by the investor, which will continue to accrue interest at a higher rate, meaning that holders can sit back and comfortably benefit from the compound interests.

4. What will be the interest rate on the renewed retail security?

Perhaps the most important question for retail investors is the annual percentage rate (APR) at which they can buy the retail security. The first series of the renewed MÁP Plusz will be available to purchase from 3 June with an APR of 6.73%. The primary aim with MÁP Plusz is also to ensure that the majority of investors hold until maturity, therefore the longer one holds it the higher its interest rate will be. Naturally, MÁP Plusz's coupons reflect the fact that it can be sold once a year after its interest payment for 5 days without any loss on capital. In practice, the interest rate for the first series is:

In the first year: 6.25%
In the second year: 6.50%
In the third year: 6.75%
In the fourth year: 7.00%
In the fifth year: 7.25%

5. With the renewal of MÁP Plusz, will the One-Year Hungarian Government Security (1MÁP) phased out?

Yes, 1MÁP can only subscribes to until 31 May 2024. With the renewed MÁP Plusz, investors will be able to obtain a higher return in the first year than with the 1MÁP, which pays 6.00% p.a. The renewed MÁP Plusz can practically do everything that the 1MÁP was able to do. Therefore, 1MÁP will be phased out parallel to the renewal of MÁP Plusz, the capital paid out from the maturing 1MÁP series will be worth investing in the renewed product. As we got used to it already MÁP Plusz holders have the option to sell at par value for 5 days after interest payments. If they do not redeem however, they can comfortably continue to earn interest at a higher rate, contrary to 1MÁP holders whom needed to always buy a new series after maturity. With its higher first year coupon and step-up coupon feature, as well as its built-in put option MÁP Plusz can be considered superior to 1MÁP in every single way. Another advantage of MÁP Plusz is its issuance method, as in case of a tap issuance the retail security starts to pay interest from the first day, unlike 1MÁP, where it took at 3-10 days to start paying interest.

6. For whom will be the new MÁP Plusz a good investment?

The renewed product will be attractive primarily to those not yet decided on how long they intend to invest and are looking for a liquid investment, i.e. one that is easy to access and sell on good terms. In this product the step-up coupons are known in advance, so investors do not have to worry about external factors (inflation, money market yields). Furthermore, MÁP Plusz may also be attractive for those who expect interest rates to continue to fall or stagnate, they may benefit from buying the paper at current conditions.

7. What is the aim of the ÁKK with the new product?

ÁKK's objective is to strengthen the retail investors portfolio approach with the new MÁP Plusz, which is why it was decided to renew the well-known product. This will once again provide retail investors with a paper priced in line with current market conditions, offering a liquid investment with known interest payments in advance. For the overall retail segment, the target remains a net growth of 2% of GDP set in the 2024 financing plan.

8. From a risk perspective, will the new MÁP Plusz be a 1 or 5-year paper?

The benchmarks of ÁKK will remain unchanged and the MÁP Plusz will continue to be a 5-year government retail security in terms of the average term to maturity (ATM). However, ÁKK will publish a modified ATM benchmark in which MÁP Plusz will be taken into account based on the remaining

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time until the next coupon payment. This modified ATM will be slightly lower than the ATM benchmark value, thus the difference will indicate the impact of MÁP Plusz.

9. Will the printed MÁP Plusz also change?

The printed MÁP Plusz available at post offices will continue to pay interest for the first six months at 6.00% per annum, but from the second six months onwards the coupons will be the same as the renewed MÁP Plusz, just as the 6.73% APR. However, the redemption rate will be 99.50% for the printed MÁP Plusz, similar to the Hungarian State Treasury's quote of the dematerialised MÁP Plusz, outside of the five-day period following the interest payment.

10. What happens if MÁP Plusz grows too big?

It can be considered risky to have a product with a built-in put option feature if its outstanding gets too big or if its held by a handful of investors. Therefore ÁKK introduced a HUF 10 million sales cap per investor and per series to limit exposure, and issuing on a monthly basis allows ÁKK to adjust new series to market. MÁP Plusz will continue to be only available for retail investors without an opportunity to leverage.

11. How is the product priced by ÁKK?

A portfolio approach is also key in pricing. On the one hand, the ÁKK takes into account yields on the institutional market, but on the other hand, easy accessibility and the built-in put option must be reflected in the yield. Taking all these factors into account, ÁKK does not want to pay an interest rate premium for MÁP Plusz compared to institutional government bonds with a similar maturity, the favourable liquidity feature is what it offers as an extra compared to institutional government bonds.

12. Where can I buy the new MÁP Plusz?

The renewed product will be available through the usual channels, at the Hungarian State Treasury, at certain branches of the Hungarian Post Office, at certain banks and investment companies, as well as through the online platforms of distributors. Printed MÁP Plusz will continue to be available only at post offices.

13. What is the current objective of the ÁKK in the retail government securities market?

The renewed retail government securities strategy in 2022 was mentioned several times, where the primary objective is no longer necessarily to increase stock. ÁKK wants to increase the pool of investors and to encourage them to think in portfolio terms rather than a specific retail security and to find the most suitable product for their different life situations. In addition to digital enhancements and easier account opening, a means to increase the number of clients is to strengthen this portfolio approach and to develop the right product range. Currently, in addition to the renewed, liquid MÁP Plusz, the inflation-linked PMÁP, the BMÁP, which pays a premium over money market yields, the FixMÁP, which can be purchased with a fixed coupon throughout its life, and the €MÁP, which is denominated in euro, are still available. As a third objective, in addition to increasing the number of customers and the portfolio approach, the ÁKK wants to shift retail sales more towards digital platforms.

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