IMPACT OF THE COVID19-CRISIS ON RETAIL DEBT PROGRAMS – HUNGARY’S CASE

András Réz
Deputy Chief Executive Officer

IRDMC – October 20th, 2020
Hungary has a very successful Retail Government Securities program.

Retail debt is one of the three main instrument groups used for funding in ÁKK’s strategy.

Emphasis is placed on funding via retail debt due to its low risk profile: stable, local investor base; high renewal rate; demand can even increase in times of financial crisis (because of increasing interest rates).

There was a fast development of the program between 2011-2019.

New flagship product (MAP Plus) introduced in June 2019.

At the end of January 2020, the share of HUF retail government securities owned by households reached 27% of total debt.
THE RETAIL DEBT PROGRAM DURING THE PANDEMIC

The pandemic presented a new type of risk: demand for retail government securities decreased due to lockdowns and more difficult access to buying the products.

Lots of households had lower demand due to economic difficulties as well (pay decreases, unemployment).

But at first the problem seemed bigger, because a large share of this year financing was projected to come from retail sales; ÁKK revised its financing plan, turned to higher FX and local wholesale bond issuance.

This was the first crisis when retail investors’ purchases fell back.

ÁKK and the central bank started a daily exchange of information about retail investors’ behavior to closely monitor developments.

ÁKK normally buys back the retail government securities from the banks to whom investors sell their bonds before maturity – this monthly buy-backs also increased during spring.

The situation proved to be only temporary, April and May were the most affected months.
In 2020 there are large redemptions of retail government securities held by legal persons (mainly non-profit organizations), however, they are not allowed to buy new retail debt since 2018. This results in decreasing retail debt stock, while natural persons’ holdings are actually growing close to plans.
OPERATIONAL CHALLENGES

The operation of ÁKK was ensured quite smoothly by introducing home office to half of the employees.

The negative effects of lockdowns and other restrictions on sales came from banks who closed several branch offices and had limited on-line services.

The offices of the State Treasury and the Post were continuously open, however, a large share of the investors are in the higher risk age group, and stayed at home.

The solution is to increase the share of remote access to investments.

The banks had a rather low share of providing internet/mobile phone access to managing retail government securities investments to their customers; the State Treasury’s services are better in this regard.

Already in 2019 40% of the new MAP Plus purchases were done electronically in the State Treasury, and in August 2020 47% of all retail debt sales were done so.

Banks are still far behind: in August less than 8% of retail debt sales were concluded electronically.
EXPERIENCES AND FURTHER PLANS

The retail debt program does not need large scale revision, the fall back in demand was only temporary.

Liquidation before maturity by investors was lower than expected, even with MAP Plus’s favorable liquidation conditions (only 0.25% or at times of coupon payments zero liquidation cost).

Retail sales came back on track after a few months, and the medium-term target for the retail debt stock is maintained.

However, previously planned changes to the product line had to be postponed (e.g. pension pre-saving bond, modified conditions for the MAP Plus etc.).

ÁKK started supporting banks to develop on-line facilities and is looking into possible ways of incentivising/persuading banks to increase the share of their electronic sales in case of retail government securities.
THANK YOU FOR YOUR ATTENTION!