The World Bank
Sovereign Debt Management Forum
Broadening the investor base
– the case for Hungary

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1. The Role of Foreign Investors

Non-resident investors play an important role in the domestic market:
1. Most active traders, domestic investors will follow
2. Large positions which may move yields
3. Small market – can absorb or sell a large part of new debt

Huge and rapid sell-off in Oct 2008 at any price. Steady capital inflow since Q3 2010
1. The Role of Foreign Investors II

• *In Hungary there is no special program to attract non-resident investors to the domestic market (active FX debt program exists),*

• *However the domestic government securities market is developed and liquid with a long-serving Primary Dealer system (securities with tenor between 3 months and 15 years),*

• *Open government bond market with no capital controls and well diversified investor base,*

• *Non-resident investors are welcome as part of the efforts to increase the investor base, which is helped by foreign PDs as well,*

• *Non-resident ownership is about 50pc in the local market – no intention to increase, but the inflow can continue.*
2. Retail Investors

Retail investors are special investors:

1. Prefer short-term investment, but usually reinvest
2. Different investor behaviour reduces refinancing risk
3. In 2008 it was a stable source of funding, no sell-off, modest increase

Retail debt program used to finance about 7pc of domestic debt, which declined to 4pc by 2010. A recovery started in 2012.
2. Retail Investors II

- Retail debt program exists in Hungary since early 1990s with the development of the government securities market during transition (before transition no bonds existed),
- At present 3 networks (Hungarian State Treasury, Post Office, Retail PDs), 3 product families (IL retail bonds, interest bearing T-bill, printed T-bill and bond),
- Before the crisis increasing competition from banks reduced sales significantly,
- Several measures were introduced to support sales: internet and phone based selling by HST, IL bond – limited results,
- From 2011 the Government started an ambitious program to rapidly increase the size of the retail program (marketing, more attractive pricing, new products),
- Large success (net sales of more than HUF 300 bn or USD 1.5bn or 50pc of net financing need).
Thanks for your attention!

More info on Hungarian public debt management at: www.akk.hu