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I hereby certify, that LILI KOMÁROMI student on COMMERCE AND MARKETING course, in 4 student year, consulted 4 times. Furthermore I hereby certify that the last version – the one to be handed in with smaller possible changes – fulfils all the requirements concerning both layout and contents.

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I declare that the dissertation submitted hereby in partial fulfilment of the requirement for the degree of Bachelor of Arts in Commerce & Marketing at the Budapest Business School has not previously been submitted by me for a degree at this or any other institutions. This thesis and the work presented in it are my own and have been elaborated by me as the result of my own original research; it is my work in design and in execution. and that all material contained therein, has been truly acknowledged. I understand that my thesis may be made available to the public.

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Introduction

In my thesis my aim is to introduce and examine the marketing of the Hungarian Government securities. The initial thought is why the government deals with the marketing of these bonds at all. Is it really the marketing activity which determines the sales growth of the government securities or are there other influencing factors? How do the government and the related background institutions conduct the marketing activity? How do the citizens respond to this marketing activity and what is their attitude towards investments, especially towards purchasing government securities?

In 2012 there was a big change in the marketing concept of the Hungarian Government bonds. The government announced a new strategy to improve the domestic sales, intending to significantly boost the government securities portfolio in the hands of the public. This strategy includes four main elements: (1) competitive pricing - they offered a more appealing rate of return on the government securities; (2) introduction of new products; (3) network development - they improved the domestic sales network so now the possible avenues of buying government bonds are expanded and simplified; and they launched a (4) strong marketing campaign.

At the end of the 1990s as much as 15 percent of the Hungarian government debt was financed by the Hungarian households, however by the end of the year 2011 this ratio dropped below four (3.5 to be exact) percent. The new marketing campaign's aim was to reverse this trend. According to the recent Eurostat (statistical office of the European Union) data - which was released this summer, in 2015 -, in Hungary the resident non-financial investors – so primarily the population – had an almost 12 percent shareholding ratio of the Hungarian government debt, which indicates a significant development, given that in the early 2012 the share of the households was only 3 percent. Due to the Government Debt Management Agency projections in the next 4 to 5 years potentially 20 percent of the Hungarian government debt could be in the hands of the Hungarian population.

Why is the government redirecting its borrowing to the domestic market, and what is behind the self-financing plan? The high foreign debt ratio increases the nation's economic exposure and vulnerability. More than 60 percent share of foreign investors in the general government debt is considered to be a major risk factor by investors, analysist and credit rating agencies. In case of the Hungarian government debt, the largest debt holders are still non-residents, who hold 54.5% of the government debt (according to the data of Eurostat 2015 June). Based on international examples economic analysists have found that the domestic, residential financing provides real stability of the state funding. In the 21st century those economic policies and countries will be strong and competitive, where they can set and direct the most internal factors in the service of internal development. If the interest income from the Hungarian government securities is directed in the pocket of the Hungarian population, then this money stays in Hungary. The residential investors can re-invest this income in government securities or they can spend this on domestic consumption, which also strengthens the Hungarian economy.

The increase of residential investments in the public debt is good for the purchasers of the Hungarian government securities as well, and not only because of the competitive interest rates on their investments, but because they minimize the financial exposure of the investments as well. The widely publicized broker scandals erupted that earlier this year drew the attention of the Hungarian households that it does matter where they put their investments and savings. In this regard, putting retail deposits in government bonds is becoming one of the most popular solutions because of security. The distributors of the Hungarian government securities, like the Hungarian State Treasury and the Hungarian Post are considered to be absolute secure financial service providers, as in their case the guarantee behind the deposits is the state property.

So these are the main questions and points that I would like to cover in my thesis while examining the new marketing concept of the Hungarian Government Securities.

In my secondary research I predominantly used the information available on official websites of the Government Debt Management Agency, Hungarian State Treasury, Hungarian Government, Eurostat and Moody's. During my research I studied and assessed several economic analytics, furthermore I read articles and interviews regarding my topic from both domestic and foreign authors. During my primary research I was given access to a so called Action plan of the Government

Debt Management Agency from 2011, which they prepared to reform, and renew the overall marketing strategy of the Hungarian government securities in order to increase the sales amongst retail investors.

I chose to base my primary research on an in-depth interview instead of conducting an online survey. Due to the nature of this topic a questionnaire would not give the same detailed insight and understanding like the in-depth interview with a person who is familiar with not only the topic but has an extensive background knowledge as well. I had the pleasure to conduct this in-depth interview Éva Szalkai, Public Relations Manager for the Marketing Communications Department of the Government Debt Management Agency. She was able to give a very good insight into the topic of the marketing of the government securities. The Marketing Communications Department of the Government Debt Management Agency is responsible for many different project elements, for example the strategic planning of the marketing, the management of creative campaigns, image-management, as well as tasks regarding public relations, management of online surfaces and production of printed marketing material.

In the first chapter I will present a brief summary of what securities and the Hungarian government securities are in general. There are currently ten different types of government securities available in Hungary, and in this chapter I will also demonstrate their main features and the characteristics of them. As these are indispensable tools in financing the state budget, I will also cover the perspective of the state, and show why it is in the government's best interest to achieve the highest possible level of the government securities' domestic, non-commercial profit driven sales and to find out how the high foreign exchange exposure can make the country vulnerable. In the end of the first chapter I will summarize and assess the advantages of this kind of investment opportunity for the retail and non-retail investors, including why this type of investment is considered to be the safest investment opportunity in Hungary. In connection to this topic I will give a summary of the Hungarian brokerage scandals erupted this year, which seriously hit confidence in financial institutions.

In the second Chapter I will present the institutions behind the government securities, the issuer and the distributors. I will introduce the Government Debt

Management Agency, which is responsible for the issuance and the promotion of the Hungarian government securities; and also the distributors of the government securities, namely the Hungarian State Treasury, the Hungarian Post and the Primary Dealers. I will also present the electric innovations of the State Treasury, which made the arrangement of investment matters convenient, quick, and easily accessible for the investors and the network development through establishing new Points of Sales.

The most emphasized part of my thesis will be Chapter 3, in which my aim is to demonstrate the marketing evaluation of the government securities. This part will contain both my primary and secondary research findings. Here I will present how undervalued the importance of the marketing was previously, when and how the attitude towards the marketing changed over time. My aim is to get from the starting point - from the analysis of the situation in 2011 - to the current situation while including the problems of the previous marketing concept, the suggestions given to them, the target groups, the competition, the new media campaigns and the continuous improvement in the sales returns.

In Chapter 4 through some international examples my aim is to demonstrate my view on, why the Hungarian Government decided to put more emphasis on residential investments to support the financing of the state budget, rather than relying on foreign loans, and also how the structure of the public debt determines the perception of the country's financial stability by the credit rating agencies and global investors.

Chapter 1 - The Hungarian Government Securities

In order to investigate and demonstrate the marketing strategies of the Hungarian Government Securities sales, first I would like to give a comprehensive overview of the government securities in general, who the issuers and distributors are, what types of government bonds and treasury bills are currently available on the market and show their main characteristics. After this, I will examine the Hungarian government securities from both the state and from residential perspective.

First of all, what are bonds? - A bond is a debt security, similar to loans. When you purchase a bond, you are lending money to a government, municipality, corporation, federal agency or other entity known as an issuer. In return for that money, the issuer provides you with a bond in which it promises to pay a specified rate of interest during the life of the bond and to repay the face value of the bond (the principal) when it matures, or comes due. (1)

What are government securities? The government securities are debt securities issued by the government. By purchasing government bonds the buyer effectively gives a loan to the State, with a predetermined interest rate and interest period.

Within government securities we distinguish treasury bills and government bonds on the basis of the length of their maturity. Treasury bills have shorter maturity, one year or less than one year, while government bonds have a maturity exceeding one year. The available treasury bills in Hungary are the Discount Treasury Bill, the 1-year Interest-bearing Treasury Bill, the Half-year Interest-bearing Treasury Bill, the Treasury Saving Bill and the Treasury Saving Bill Plus. The government bonds in Hungary are the Hungarian Government Bond, the Premium Hungarian Government Bond, the Premium Euro Hungarian Government Bond, and the Baby Bond.

We can distinguish government securities based on their different interest payments as well. There are government securities with fixed or floating-rate of interest, and there are securities where no interest is paid on them, instead they are issued at a discount price. In case of fix interest rate, the issuer undertakes to pay a percentage of the face value of the bond at predetermined dates, and during the tenor of the bond the interest rate remains the same, and at the maturity of the bond the issuer pay back the face value of the bond as well. In case of floating-rate of interest, the issuer pays the varying interest rates – usually linked to a bank interest rate such as the central bank base rate - at predetermined times during the tenor, and at maturity it pays back the face value as well.

The Government Debt Management Agency is responsible for the issuance of the government securities according to the Law on Public Finances. During the issuance of government securities, the priority task of the Government Debt Management Agency is to increase the stock of the government securities in the hands of the public. Government securities can be sold via auctions, portioned issuance, subscriptions and continuous sales activity. Various organizations, like the Hungarian State Treasury, the Hungarian Postal Service, and some financial organizations are authorized and obliged to distribute the government securities. So the government securities can be bought and sold in the Hungarian State Treasury's branch network, at the Hungarian Postal Service's postal service offices, and at the Primary dealers of the government securities.

Purchasing government securities is one of the safest investment opportunities in Hungary, because behind the investments is the largest and most stable player of the domestic financial market, the Hungarian government. The distributors of the Hungarian government securities, like the Hungarian State Treasury and the Hungarian Postal Service are considered to be absolute secure financial service providers, as in their case the guarantee behind the deposits is state property. At maturity the full amount of the capital and the interest due are guaranteed by the state, regardless of the value range, which claim against the state is not time-barred. In case of long-term investment contracts, the interest rate and the return on government securities can be paid to investors with significant discounts or even free of taxes. [(2)]

1.1 Types, features

There are 10 types of residential government securities in Hungary. [(3)(4)]

- **Hungarian Government Bond** (*MÁK – Magyar Államkötvény)*

The Hungarian Government Bond is an interest-bearing government security with a maturity longer than one year. Currently, it is issued with tenors of 3, 5, 10 and 15 years. There are two types in existence, fixed rate Hungarian Government Bonds and floating rate Hungarian Government Bonds. Government bonds pay interest semi-annually or annually. The coupon of a fixed rate government bond is fixed and announced in the respective public offering for all the subsequent interest periods. For a floating rate bond, however, only the method and date of coupon re-set are determined in advance and the coupon rate is announced only for the given interest period. Hungarian Government Bonds have been sold through auctions since 1996. Only Primary dealers may participate directly at the Hungarian Government Bonds auctions, investors have to submit their orders through the Primary Dealers. The auctions are held every Thursday, one week for the fixed rate bonds, and on the alternative week for the floating rate bonds. Since 1999 Hungarian Government Bonds have been issued in dematerialized form. The minimum denomination of Hungarian Government Bonds is HUF 10,000. Hungarian Government Bonds are available to residents and non-resident individuals, legal entities and non-incorporated economic associations. These investors may trade government securities without limitations during the whole maturity period.

1. Picture: Types of the Hungarian Government securities

- **Premium Hungarian Government Bond** (*PMÁK*)

The Premium Hungarian Government Bond is a registered floating rate government security with tenors of 3 and 5 years. The denomination is HUF 1,000. The variable interest base for the given interest period equals to the previous year's Hungarian "Harmonized Consumer Price Index" published by KSH (the Hungarian

Central Statistical Office) with the provision that if this value is negative, the base rate shall be zero percent. The fixed interest rate premium, which is different for each series, currently is 3% for the 3 year and 3.5% for the 5 year tenor. The interest period is one year and interest amount is paid on the last day of each one year period. The date of interest rate fixings and the interest rate premium are set in the public offering. The repayment of the principal is due in one lump sum at maturity.

During the personal in-depth interview with Éva Szalkai, Public Relations Manager for the Marketing Communications Department of the Government Debt Management Agency we discussed the main target groups of some of the government securities types. The target group holders of the Premium Hungarian Government Bonds are mainly between the age of 35 and 40+, who live in big cities.

- **Bonus Hungarian Government Bond** (*BMÁK*)

The Bonus Hungarian Government Bond is a registered floating rate government security with tenors of 4, 6 and 10 years. The denomination is HUF 1. The annual interest rate is equal to the sum of the variable interest base and the fixed interest rate premium. The interest period is one year and interest amount is paid on the last day of each one year period. The interest rate premium is different for each series, currently it is 1.25%, 2.00% and 2.25% for the 4, 6 and 10 year tenors respectively. The interest base for the given interest period equals to the weighted average of the yields of the previous four successful auctions of the 12 month Discount Treasury Bills. The date of interest rate fixings and the interest rate premium are set in the public offering. The repayment of the principal is due in one lump sum at maturity.

The target group, holders of the Bonus Hungarian Government Bonds are mainly between the age of 35 and 40+, who live in big cities. *Source: Personal Interview*

- **Premium Euro Hungarian Government Bond** (*PEMÁK*)

The Premium Euro Hungarian Government Bond is a registered floating rate government security with a tenor of 3 years. The denomination of this bond is 1 Euro. The interest rate is calculated as a sum of a variable interest base and a fixed interest rate premium. The interest base is equal to the change of the final “Harmonized Index of Consumer Prices” at the given date of interest rate fixing, with the provision that if this value is negative, the interest base shall be zero percent. The fixed interest rate premium, which is different for each series, currently is 2%. The interest rate is determined twice every year and the interest amount is paid on the last day of the six month interest periods. The date of interest rate fixings and the interest rate premium are set in the public offering.

- **Baby Bond** (5)

The new Baby bonds are available since December 2013 at the offices of the Hungarian State Treasury. This is a kind of investment which can be held only in a so called Start account, opened at the Treasury. The government offers tax-free returns, extra interest and government support to stimulate the openings of the Start account and purchasing of Baby bonds. The state transfers HUF 42 500 to the Start account as a life-start support. After that, the Baby bond yields a premium of 3 percent above the annual inflation rate, which is based on the consumer price index of the Hungarian Central Statistical Office for the previous year, and has a tenor of 19 years. The amount accumulated on the Start account is paid after the child's 18th birthday. The denomination is HUF 1.

The main target group – according to information given by the PR Manager for the Marketing Communications Department of the Government Debt Management Agency - of Baby Bonds is the younger age group, the ones between the age 25-35+, but the secondary target group of this type of government security are the grandparents.

- **Discount Treasury Bill** (*DKJ – Diszkont Kincstárjegy*)

Discount Treasury Bills are government securities with a maturity less than one year. No interest is paid on these securities; instead they are issued at a discount, at a price lower than the face value of the security, and the face value is repaid on the redemption date. The difference between the face value and the purchase price is the discount. Currently Discount Treasury Bills are issued for two tenors, namely 3 and 12 months. Since the end of 1988 Discount Treasury Bills have been issued at auctions. Auctions of 3-month Discount Treasury Bills are held on Tuesdays every week and 12-month bills on Thursdays of every second week. The payment date and transfer of ownership is always on Wednesday on the week following the week of the respective auction. The redemption dates of Treasury Bills also fall on

Wednesdays. The offered amount of Discount Treasury Bills at each auction is determined in line with the financing plan. The minimum denomination of Discount Treasury Bills is HUF 10,000. Discount Treasury Bills are also issued in dematerialized form.

- **1-year Interest-Bearing Treasury Bills** (*KKJ - Kamatozó Kincstárjegyek*)

1-year Interest Bearing Treasury Bills are fixed rate government securities in a dematerialized form with a tenor of one year. The minimum denomination of this instrument is HUF 10,000. Interest is paid at maturity, when investors receive the amount of interest together with the principal. These securities are offered for sale continuously during a successive one-week subscription period, so the capital and the interest can be easily reinvested at redemption. Currently Interest Bearing Treasury Bills are available at a price below par, so below the face value at the beginning of the subscription period and at par at the end of the period.

- **Half-year Interest-Bearing Treasury Bills** (*FKJ – Féléves Kincstárjegy*)

Half-year Interest Bearing Treasury Bills are fixed rate government securities in a dematerialized form with a tenor of 6 months. The minimum denomination of this instrument is HUF 10,000. Interest is paid at maturity, when investors receive the amount of interest together with the principal. The Half-year Interest Bearing Treasury Bills were issued for the first time in 2012. These securities are offered for sale continuously during a successive one-week subscription period, so the capital and the interest can be easily reinvested at redemption. Currently Half-year Interest Bearing Treasury Bills are available at a price below par at the beginning of the subscription period and at par at the end of the period.

- **Treasury Savings Bills** (*KTJ – Kincstári Takarékjegy*)

Treasury Savings Bills are fixed, step-up rate securities available with tenors of one year and two years. The Treasury Savings Bill I. is a T-bill, while the Treasury Savings Bill II. is a government bond. They exist in physical (printed) form only, with denominations of HUF 10,000; 50,000; 100,000; 500,000 and 1 million. Treasury Savings Bills may be redeemed at any time up to the maturity date. Upon early redemption, the proportional part of the interest for whole months is paid together with the principal. The fixed rate specified for the different holding periods is shown in advance in an announcement effective on the date of purchase. Upon redemption, the holder of the securities receives a fixed amount of interest based on the time elapsed since the day of purchase. No interest is paid if the security is redeemed within 3 months, but after 3 months the annual interest rate steps up monthly up to and including the 12th month (but for the Treasury Savings Bill II. only on two occasions in the 13th and 19th months in the second year), reaching its maximum level at the end of the maturity period. Treasury Savings Bills are registered securities, which can be bought and transferred only by resident individuals.

The printed type of government securities, the Treasury Savings Bills' main customer base – according to information given during my primary research - are the age group of 55-60+, typically women who live in major county cities, in county seats. Considering their qualifications they have at least high school graduates, some of them have university degrees.

- **Treasury Savings Bills Plus** (*KTJP*)

Treasury Savings Bills Plus is fixed, step-up rate securities in a dematerialized form with a tenor of one year. The minimum denomination of this instrument is HUF 1. Treasury Savings Bills Plus was issued for the first time in 2013. Interest is paid at maturity, when investors receive the amount of interest together with the principal. The sales period is one week. During the sales period the issue price is the nominal value on the issue date, after that the sum of the nominal value and the accrued interest. Treasury Savings Bills Plus may be redeemed at any time up to the maturity date. Upon early redemption the holder of the securities receives a fixed amount of interest based on the time elapsed since the issue date. No interest is paid if the security is redeemed within 3 months, but after 3 months the annual interest rate steps up daily reaching its maximum level at the end of the maturity period. Treasury Savings Bills Plus can be purchased and transferred only by resident individuals.

The customer base of the Treasury Savings Bills Plus is mainly small investors over 40 years, who live in the countryside and use banking-type services, according to given information during my primary research.

Brief overview of the types and features of the Hungarian government securities:

MAGYAR ÁLLAMPAPÍR - TÖBB MINT ÜZLET - www.allampapir.hu	**Tenors**	**Fixed or floating; Current Interest rate**	**Denomination, sales method**
MAGYAR ÁLLAMKÖTVÉNY - TÖBB MINT ÜZLET - Hungarian Government Bond	3, 5, 10, 15 years	fixed or floating; paid semi-annually or annually	10.000 HUF, Auctions
PRÉMIUM MAGYAR ÁLLAMKÖTVÉNY - TÖBB MINT ÜZLET - Premium Hun. Gov. Bond	3 and 5 years	floating, interest rate premiums currently: 3% and 3.5 % respectively	1000 HUF, Portioned issuance
BÓNUSZ MAGYAR ÁLLAMKÖTVÉNY - TÖBB MINT ÜZLET - Bonus Hungarian Government Bond	4, 6 and 10 years	floating; interest rate premiums are currently 1.25%, 2%, 2.5% respectively	1 HUF, Portioned issuance
PRÉMIUM EURÓ MAGYAR ÁLLAMKÖTVÉNY - TÖBB MINT ÜZLET - Premium Euro Hun. Gov. Bond	3 years	floating; interest rate premium currently is 2%	1 EUR, Portioned issuance
BABAKÖTVÉNY - TÖBB MINT ÜZLET - Baby Bond	19 years	floating, interest rate premium is 3% currently	1 HUF
DISZKONT KINCSTÁRJEGY - TÖBB MINT ÜZLET - Discount T- Bill	3 and 12 months	they are issued at a discount, the face value is paid at redemption	10.000 HUF, Auctions
KAMATOZÓ KINCSTÁRJEGY - TÖBB MINT ÜZLET - 1-year Interest-Bearing T-Bills	1 year	fixed rate; available at a price below par at the beginning of the subscription period and at par at the end	10.000 HUF, Marketed by subscription
FÉLÉVES KINCSTÁRJEGY - TÖBB MINT ÜZLET - Half-year Interest-Bearing T-Bills	6 months	fixed rate, available at a price below par at the beginning of the subscription period and at par at the end	10.000 HUF, Marketed by subscription
KINCSTÁRI TAKARÉKJEGY - TÖBB MINT ÜZLET - Treasury Savings Bills	1 or 2 years	fixed, step-up rate after the 3rd month	10.000, 50.000, 100.000, 500.000 and 1.000.000 HUF, Continuous sales
KINCSTÁRI TAKARÉKJEGY PLUSZ - TÖBB MINT ÜZLET - Treasury Savings Bills Plus	1 year	fixed, step-up rate after the 3rd month	1 HUF, One week sale period

1.2. State perspective

Domestic retail investors are the most reliable investor group, as they tend to re-invest domestically and spend the interest they earn within the country. These factors are crucial contributing factors to the stability of Hungary. 70-80 percent of retail government securities are re-invested. [(6)]

The debt financing is much safer, if the population has a significant role in it, as the population is the most-reliable re-investor group and international panic doesn't affect the population's investment decisions. The debt structure is becoming more secure with the growing share of retail investors in it.

The other very important state perspective regarding the residential investors of government securities is to keep the greater part of the interests after the government securities in the domestic market, because if that money, that income stays here in Hungary, they can spend this surplus on domestic consumption, which also strengthens the Hungarian economy.

So creating a secure debt financing is the most important, and besides this it is basically a good thing is the Hungarian population is getting the high yields after the Hungarian government securities rather than if this would enrich the foreign investors. So this balance is very important, that the Hungarian population shall possess high proportion of the Hungarian government securities, of the Hungarian government debt. This contributes to the financial stability, since this is a far more stable investor layer. They are not particularly interested in that, for example, how the US interest rate policy develops. In case of a foreign investor this may be an important factor, which is a risk for the government debt management, and which risk is very difficult to manage by the government debt management. Japan or Italy is good examples, where the public debt is relatively high, but thanks to the high proportion of household ownership in the debt financing, there is still a stable financial situation.

The high level of foreign debt ratio increases the nation's economic exposure and vulnerability. More than 60 percent share of foreign investors in the general government debt is considered to be a major risk factor by investors, analysts and credit rating agencies. [(7)]

What are the risks of high foreign exchange exposure? (Primary research)

In our case, the risk of being exposed to the foreign exchange factor is high and deemed dangerous basically because of the Forint and the Euro exchange rate fluctuations. The weaker forint is, the higher the debt level will be. This phenomenon occurred when the Swiss Franc based mortgages collapsed. The difference of exchange rate between the Hungarian Forint and the Swiss Franc has grown too large compared to the exchange rate at the time of taking the loan, that the solvency of the Hungarian population could not stand it, the families became insolvent and got into debt trap.

1.3. Advantages for the retail investors

One of the biggest advantages of investing in government securities is safety. Government securities are low-risk investment forms. Putting investments and savings into government securities is one of the safest investment opportunities, as the repayment is state-guaranteed. This warranty applies also to the nominal value and to the interest on the securities as well, regardless of the value range, and to claim the redemption against the state is not time-barred. In case of long-term investment contracts, the interest rate and the return on government securities can be paid to investors with substantially discounted or even free of taxes. Returns are even tax-exempt in case the securities are held on a Long-Term Savings Account for more than 5 years.

Another important benefit of the government securities is the high, predictable returns on investment. The Hungarian government securities generally provide higher return on investments than other forms of deposits, and the rate of return can be precisely calculated in advance in case of the investor keeps the securities until the end of the term.

Liquidity is another benefit of the government securities. Government securities can be sold before the maturity at market price in the secondary market.

There is a wide range of government securities, and within the types of the securities there is a diverse variety of maturities and denominations.

Low cost is another advantage of the government securities. Investors can open a saving account at the Hungarian State Treasury, for which no account opening or handling fee is charged. (8)

In addition to the Hungarian Government Securities offering high return yields (attractive pricing of the government securities), the biggest advantage in this kind of investment opportunity is safety. The brokerage scandals have made it clear for the population that it is not enough to select a well-chosen investment product, but also they have to choose a good - stable and secure - financial service provider. The Hungarian State guarantees the payment for both the capital and the interest of the government securities investments, regardless of the value range, and which claim against the state is not time-barred.

The biggest competitors of the Hungarian government securities are the bank deposits, investment funds and shares. But in this competition the government securities have an inalienable competitive advantage, which is the previously mentioned security, state guarantee.

1.3.1. Brokerage scandals (9)

The brokerage scandals hit confidence in financial institutions already battered by household losses on foreign-currency mortgages.

The broker scandals of 2015 started with Buda-Cash Brokerage House Ltd. on 23 February 2015, and continued with the Hungaria Securities Ltd. on 6 March, both of their operating licenses were partially suspended after the revealed irregularities. On 10 March the Quaestor Securities Trading and Investment Company’s operating license was partially suspended. The investors', amongst them the small investors' trust in terms of the perception of the Hungarian broker market is increasingly tainted due to the series of suspensions.

Buda-Cash is suspected to have committed fraud for years, leaving 100 billion forints in investor funds unaccounted for, according to initial central bank estimates. Buda-Cash, which the central bank started liquidating on March 4, was one of Hungary’s three largest independent brokerages, serving a clientele of more than 15,000 investors. It had a market share of about 4 percent in spot equities trading last year, according to stock exchange data. The fraud may also have implications for as many as 120,000 depositors in four regional bank which had shared ownership with Buda-Cash.

The last scandal was sparked by Quaestor Financial Hrurira Kft. filing for bankruptcy in March. The company declared it was unable to repay some of its bonds after investors panicked by the Buda-Cash scandal wanted to redeem them. A central bank probe revealed that the Quaestor unit illegally sold as much as 150 billion forint in bonds outside its approved 60 billion-forint bond program. The central bank suspended the operating license of Quaestor's brokerage and designated a regulatory commissioner after the probe revealed irregularities. The Central Bank suspects that fraud at Buda-Cash and Quaestor took place though a manipulation of its information system, whereas at Hungaria a separate set of records were kept.

Brokers have abused their financial power and the number of those who have suffered from this is quite high. Tens of thousands of depositors and investors have been affected by the loss of hundreds of billions of forints worth of assets. Retail investors need much stronger protection. Scandals which have recently engulfed Hungarian brokerage firms highlight the necessity of a more stringent and scrupulous regulatory system for the domestic financial sector and the restoration of shattered confidence. (10)

The regulator is proposing to tighten legislation to "nip in the bud" all further irregularities. The supervisory board of the Hungarian National Bank proposed that the regulator should be forced by law to carry out comprehensive investigations every two or three years instead of the current five, and much higher fines for financial executives implicated in fraud or malpractice.

Apart from the damage caused to depositors and investors, the scandal will have long term effects on the country in the form of thousands of companies indebted to one another, additional administrative burden, a collapse in investor confidence, a decrease in the willingness to invest, and the additional cost of increased levels of financial oversight all represented a serious burden on companies as well as the state. People's investment habits may also change. Hereafter, many will prefer to keep their money in savings accounts, others may choose to invest in works of art or real estate but people may also turn towards government securities. (11)

Chapter 2 - Institutes of issuance and distribution

In Hungary the Government Debt Management Agency carries out the tasks related to the issuance of the government securities, with the aim to get the government securities to the investors. This is called as primary market. The secondary market is the trading sites of government securities which are already on the market, which includes stock market trading and outside the stock exchange trading.

The retail customers can purchase and sell the government securities at the branch network of the Hungarian State Treasury, at the Hungarian Postal Service's postal service locations, and at the Primary Dealers, branches of major banks. Government securities can be sold via auctions, portioned issuance, subscriptions and continuous sales activity.

2.1. The Government Debt Management Agency (12)(13)

The sole owner of the Government Debt Management Agency is the Hungarian State. GDMA Pte. Ltd *(ÁKK)* is a government owned shareholding company and its sole shareholder is the Hungarian State. The shareholder's rights are exercised by the minister responsible for public finances (currently the Minister for National Economy) according to the Stability Act. The company is governed by the Board of Directors. The Minister carries out these tasks through the Government Debt Management Agency. György Barcza was appointed CEO of the Government Debt Management Agency in January 2015 by National Economy Minister Mihály Varga.

The mission and the debt management strategy of the Government Debt Management Agency is to finance the government debt and the central government deficit at the lowest costs in the long run taking account of risks, at a high professional level and by using sophisticated methods.

There are a number of main duties of this organization. These duties include ensuring the liquidity and funding capacity of the central budget on the basis of the annual Budget Act in consideration of the forecasts provided by the State Treasury;

ensuring that the central government deficit and debt redemptions are financed; ensuring that the government debt and the temporarily free cash-funds of the state are properly managed. These include the elaboration of the long-term financing strategy; the preparation of the annual financing plan of the central government in line with the strategy; the execution of the necessary funding operations in the domestic and the international financial markets, organization of the secondary market of government securities.

One of the important tasks of the Government Debt Management Agency is the continuous improvement of the domestic government securities market, partly because of the intensifying competition for the investors, partly because of the need for the development of the market infrastructure. The promotion of government securities is also the task of the Government Debt Management Agency.

2.2. The Hungarian State Treasury (14)

The Hungarian State Treasury is a central budget agency with an individual operation and financial management, with an executive power, forming an independent legal entity with a national scope of competence, standing under the direction of the Minister for National Economy concerning both the functional and the regulatory aspects. The Hungarian State Treasury was founded on 1st January 1996. The central office and 19 county directorates are carrying their tasks since the 1st of January 2012.

During the implementation of the budget the Hungarian State Treasury is responsible for the financing, money circulation, clearing off accounts, cash-, deficit- and state debt management, determined data supply as well as management and detailed registration of guarantees and loans extended by the state. Since the 1st of February 2014 the President of the Hungarian State Treasury has been Dr. József Dancsó.

Distribution of Government securities (15)

The distributors of the Hungarian government securities, like the Hungarian State Treasury and the Hungarian Postal Service are considered to be absolute secure financial service providers, as in their case the guarantee behind the deposits is the state property. This means a 100% state guarantee on the principal and interest as well. The Hungarian State Treasury is the main distributor of the government securities.

At the Hungarian State Treasury the investors can buy so called dematerialized securities on their securities registration account opened and kept by the Treasury. The dematerialized securities are registered securities with no serial number, the name of the owner and other identification information are contained on the securities account. Dematerialized securities are securities that are not on paper, but they are a set of data, created and registered electronically. At the Treasury the account management is free.

2.2.1. Innovations, electronic services

Clients can personally initiate the account opening in any of the Treasury offices or in its customer service branches operated in district offices. The securities registration account is opened, in the case of a citizen of an EU member country, based on a personal identity card or a passport that certifies identity, and any official document which certifies the address. In the case of a citizen of a third country, a passport and personal identification document, a document proving or granting right of residence or, if they are not available, any other document suitable for concluding the habitual residence.

Clients obtaining the Treasury's electric services - WebKincstár, MobilKincstár and TeleKincstár services - can arrange their investment matters, payments via internet and mobile phone at purchasing funds, conveniently and quickly from home. To have an access to these services the clients only have to make a statement of their claim regarding these at the time of the opening of the securities registration account or at any time after that.

The clients of the Treasury can also be informed about fulfilment of credit transactions on your securities account by our prompt free SMS service. The clients can personally require SMS sending service in the Treasury Offices and district offices our or internet interface in case they claim to use WebKincstár service.

WebKincstár Service of the Hungarian State Treasury [16]

The Hungarian State Treasury launched its Internet based security service under the name of WebKincstár. The Treasury offers a WebKincstár solution for natural persons, legal persons and unincorporated entities to carry out transactions with treasury bill and government bond. The service is available for our current and new customers who have dispose of a securities registration account and require the WebKincstar service. With this service the users have the opportunity to subscribe for government securities, to purchase and sale, and reinvestment them, using the WebKincstár. This service was introduced at the end of the year 2008.

MobilKincstár service of the Hungarian State Treasury (17)

MobilKincstár, the information and securities distribution service operated via mobile phone application, as an additional service of WebKincstár, is available from 11th April 2014 with complete service. By using the MobilKincstár application with Android or iOS mobile phone systems the users can manage their matters of their own and also on commissioned securities registration account from anywhere at any time.

TeleKincstár service of the Hungarian State Treasury (18)

TeleKincstár is an information provider and trading system of the State Treasury available through the telephone lines. TeleKincstár service is available for all those current or future clients of the Treasury, who required this kind of service personally at any of the Treasury Offices or district offices to their securities registration account. The clients of the Treasury can initiate operations in connection with investments and government securities, the can check their current investment portfolio, the current balance of their securities registration account. With the TeleKincstár service the clients will have the opportunity to buy and sell government securities, or reinvest government securities via telephone as well. This service was introduced in the end of the year 2008.

New website for the residents (19)

The website www.akk.hu (the website of the Government Debt Management Agency) was basically developed based on professional criteria. That’s why the Government Debt Management Agency decided to create a new, modern information website which is suitable for informing the public both in its structure and in its language. The new website – www.allampapir.hu -, which is adjusted to the new creative concept and which contains understandable and focused information to the public about the government securities, is working since the middle of July, 2012.

2.2.2. Network development – new POSs [20]

New government securities sales points were opened by the Hungarian State Treasury. The new opened sales points are available to customers all over the country for opening and managing securities registration account, Start-securities account, Long-term Investment Account and with convenience services – like TeleKincstár, WebKincstár, and MobilKincstár.

Altogether with the Treasury Offices located on the county directorates of the Hungarian State Treasury there are already 53 places of the Hungarian State Treasury across the country where it is possible to purchase government securities.

In addition to the sales points the Hungarian State Treasury is present also at nationwide events in order to raise the awareness and promote the distribution of government securities by the Hungarian State Treasury.

If they are planning to further develop the sales network, how would they do that? (Primary research)

It came up that it would be worth to widen the options by creating the possibility of a sale also at the Document Offices and at the Government Windows as well, but these are only future plans at this time, there is no intention to it from the government so far.

2.3 The Hungarian Postal Service [21]

Among the Hungarian government securities the Treasury Savings Bills and the Treasury Savings Bills Plus are available at designated post offices of the Hungarian Postal Service.

The Treasury Savings Bills are issued through continuous sales through approximately 2700 designated post offices of the Hungarian Postal Service.

Treasury Savings Bills Plus were issued for the first time in 2013. Treasury Savings Bills Plus can be bought and sold at approximately 350 designated post offices of the Hungarian Postal Service.

The Hungarian Post is one of the biggest company groups and employers in Hungary. It has more than 30 thousand employees, 2,700 post offices, 350 mobile posts, a vehicle fleet of 3,000, a unique logistics network and an extensive services portfolio. The Hungarian Post Investment Ltd. plays an important role in public securities trading. It is a strategic goal of the Hungarian Post to strengthen its cash mediation business, making use of the fact that it has one of the largest sales networks in Hungary. As a financial intermediary, the Hungarian Post serves as many as 200,000 clients on a day-to-day basis even now. Counter staff transacts 173 million customer contacts per annum, including traditional postal services. This system has enormous sales potential. [22]

The Hungarian Post's largest income from its banking and investment services in 2014 was derived from the sale of the paper-based Treasury Savings Bills although overall it can be stated that market effects were not optimal for retail deposit products. As regards investment products, a significant increase in the portfolio was typical of the whole Hungarian market in 2014 for both government securities and investment funds. Linked to the securities account, marketing the investment fund (Money Market Fund) and the Treasury Savings Bill Plus (dematerialized security) on behalf of the Hungarian Post Investment Ltd. began in 2013, which continued in 2014 with a significant expansion of the portfolio on sale and the network used to this end. The sale of active investment products at 346 selected post offices, which began in 2014, can be regarded as a success. In order to achieve the expected business growth, the range on offer was expanded in 2014 by two new investment funds (Short-Term Bond and Property Funds), two new government securities (Bonus and Premium Government Bonds), and two new FHB bonds (No. 15 and Optimum). The introduction of the e-Investment Service (netbroker) also deserves mention.

2.4 Primary Dealers of the Hungarian government securities

Primary Dealers of the Hungarian government securities are investment firms and credit institutions who made a contract with the Government Debt Management Agency about the distribution and public offering of government securities issued in forint. The most important task of the Primary Dealers is to deliver the securities issued by the Hungarian State to the investors. Their secondary task is to ensure the liquidity and transparency of the secondary market of the government securities. According to these the Primary Dealers’ main obligations and rights are: exclusive direct offering on the auctions of the Hungarian government securities; binding price quotations in the secondary market; fulfillment of investors' orders. [(23)]

The primary dealer system of government securities was set up in January 1996. The main objectives of the system were and are to provide a solid basis for deficit financing, reduce the costs of financing through the improvement of market mechanisms, and facilitate the expansion and transparency of the secondary market. Investment companies and credit institutions that are registered in Hungary may become primary dealers after they have signed a dealer’s agreement with the Government Debt Management Agency. Pursuant to this agreement, dealers have an exclusive right to participate at the auctions of government bonds and discount Treasury bills.

Furthermore, apart from the Hungarian Treasury’s branch network and the Hungarian Postal Service, dealers are the only parties that are allowed to sell retail government securities.

The primary dealer system was capable of meeting almost the total financing requirement of the central government, the social security funds and the extra-budgetary funds in the first half of the year, with the dealers’ purchases accounting for 95% of the total domestic net sales of HUF 299 billion (the Treasury’s branch network and the Postal service had a share of 5%). This share shows that primary dealers play a major role in deficit financing, and that dealers have been doing their job properly for over 4 and a half years now. [(24)]

Chapter 3 – Marketing

The marketing and advertising materials are provided by the Government Debt Management Agency to all of the distributors. The promotion of government securities was the task of the Hungarian National Bank before 1995, when the Ministry of Finance took over, and later this task was reassigned to the Government Debt Management Agency.

In order to encourage the population to purchase government securities, the Government Debt Management Agency revised its previous strategy and developed a new action plan to boost the distribution of the retail securities. This action plan made recommendations in four areas: introduction of new products, competitive pricing, extending and simplifying the possibilities of purchasing government securities through network development, and intensive marketing activity to drive awareness to this high- return yield and safe investment opportunity.

3.1. Action Plan for the renewal of the marketing of the Hungarian Government Securities

In the this chapter my main source was the Action plan of the Government Debt Management Agency from the year 2011, to which I was given access by Éva Szalkai, Public Relations Manager for the Marketing Communications Department of the Government Debt Management Agency during my primary research. I had an interview with Éva on the marketing activity of the Debt Management Agency, with a special focus on the communication, and media campaigns. During the interview I asked her about other topics as well, those are discussed in other chapters.

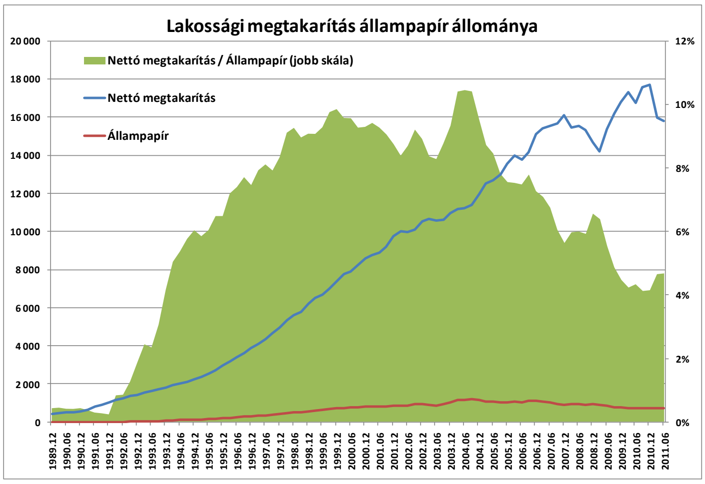
In the autumn of 2011 the Government Debt Management Agency has developed a new action plan with the aim to boost the distribution of the retail securities.

They began the process with situation analysis.

3.1.1. Situation analysis (2011)

The strategy of the Government Debt Management Agency at that time intended to maintain the level of the population's share of government securities. It assumed that with the nominal increase of the government debt the public investment in government securities would also continue to grow. But this assumption did not appear to be correct.

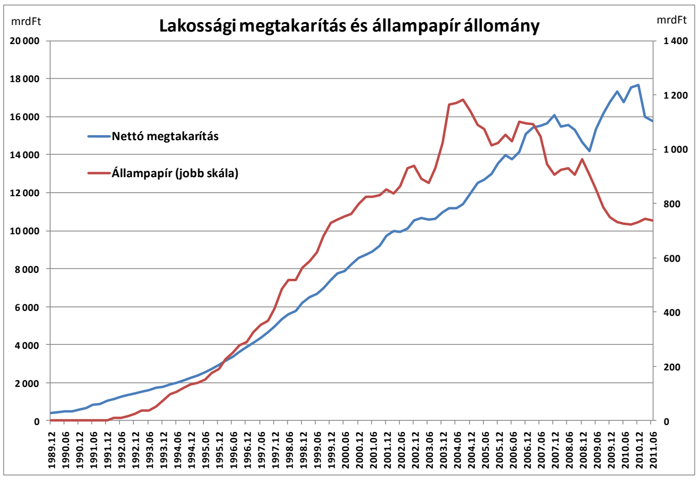
The proportion of the government securities within the residential savings was increasing from 1992 till 2004 - when it reached its highest ratio of 10.4 percent – when this trend, this increasing process broke and from this point the proportion significantly decreased. In nominal terms, the retail securities portfolio from its peak 1,185 billion HU shrunk to 740 billion HUF by 2011, which is only 4.6 percent of the net savings.



*1. Figure - **The stock of government securities among household savings**;*
Source: MNB (National Bank), Action Plan of ÁKK
*Comment: **Green area**: Ratio of Government securities within the net savings (right scale); **Blue line**: Net savings of households (left scale); **Red line**: Retail Savings in government securities (left scale)*

This decline took place despite the fact that in the meantime the net financing capacity of the population increased by fourty percent. While cautious behavior of the population favors the residential savings, the saving activity of the population declined from 2004, when the foreign currency lending came up and became popular.

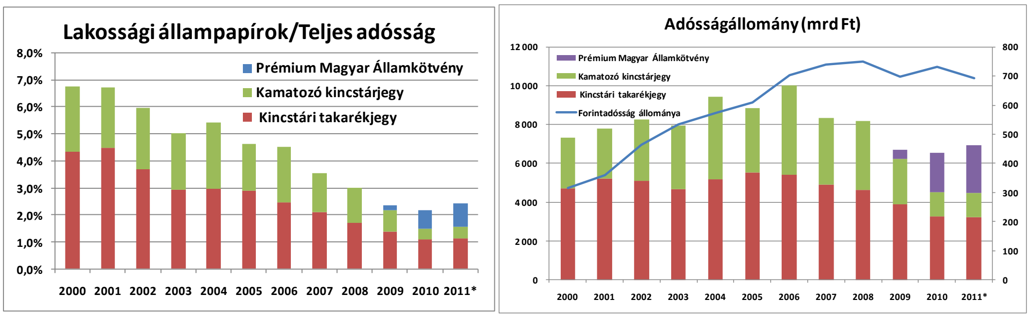
The drastic decline of the retail saving in government securities may be associated with several factors. For example because the range of investments in other options increased, like insurance, pension funds, health funds, investment funds. Another factor to show, that the conditions of the government securities were not as favorable as they were before, the previous incentives, tax advantages disappeared. Another reason of that decline is that the marketing activity of the government securities was not strong enough, while banks conducted active marketing activities.



*2. Figure - **Household savings**; Source: MNB (National Bank), Action plan of ÁKK*
*Comment: **Blue line:** Net savings of households (left scale) (billion HUF)*
***Red line**: Savings of households in government securities (right scale) (billion HUF)*

The retail securities significantly lost from their role not only among the household savings, but also lost from its role within financing the public debt. While in the 1990s, the retail securities financed around 10 percent of the public debt, since the beginning of the 2000s this ratio gradually decreased to 2 percent.

From Figure 3 we can see that the inflation–indexed Premium Government bond – which was introduced in 2009 – was the first government paper which could break the declining trend which lasted for several years and improve the government's position on the market of retail investment both in nominal and proportional terms. Therefore 2011 was the first year that the ratio of retail investments increased within financing the public debt.



*3. Figure A/B - **Retail government securities/ Net public debt**; Source: ÁKK, Action plan of ÁKK; Comment: Red: Treasury Savings Bills; Green: Interest-bearing Treasury Bills; Blue/Purple: Premium Government Bond*

Within the retail government securities savings the Interest-bearing Treasury Bills, the Treasury Savings Bills and the Premium Government Bonds have the most important role. Besides these the population holds other types of government bonds and treasury bills in smaller volume.

As we can see from the figures, the Premier Government Bond is slowly taking the lead on the market of retail securities. Another positive development that at the same time the stock decline of the other two main government securities slowed down, stopped, and there was even a slight increase in the case of the treasury bills sold by the Hungarian Postal Service.

After the situation analysis it was concluded, that the positive trend on the retail securities market of the 1990s broke in 2004, and since then the population gets interested in government bonds primarily by significant return yield rising. At the same time the inflation-indexed government bonds alone achieved success among the population, and based on that they concluded that the population is interested in new types of government bonds which offer competitive rate of return.

Examining the reasons there are three areas where default could be observed which affected negatively on the retail government securities investments.

3.1.2 Default areas

The first of these areas is the **product range and pricing**. The different banking products are very serious competitors to the investments in government securities, which promise higher returns and also higher risk level. However the issuers failed to position the government securities to the public as these papers represent the lowest risk investment, that's why it could happen, that the population considered that the banking products and deposits are less risky investments then the government securities.

The second problematic area is the **sales network development**. Two of the three distributors of the government securities weren't concerned in the sales of the government securities. The banks (the primary dealers of the government securities) in order to increase deposit coverage ratio carried out an aggressive deposit collection and not even commission was a good enough incentive for them to promote government securities. Banking products also appeared markedly in the Hungarian Postal service's network till that time, which products were typically priced over the return of government securities traded there. We could witness positive changes only in case of the Hungarian State Treasury, where from the idea of shutting down of the distribution of government securities they happened to introduce significant innovations, like the electronic services of the Treasury to enhance the sales of the government securities.

The third big problem was with the **weak marketing** around the government securities. That time the Government Debt Management Agency's annual financial framework for marketing and communication (800-1300 million HUF) was only a small fraction of competitors' such spending, so the government securities' advertising was unable to break through the general marketing noise.

3.1.3. Suggestions of the Government Debt Management Agency

In the light of these weaknesses the Government Debt Management Agency made its suggestions towards the Minister for National Economy in the end of year 2011.

1. Product Range and Pricing

It's a key task to select and develop a government paper, which with adequate short-term commitment can be competitive with the similar banking products both considering maturity and pricing. The conditions of the concerned government security have to be determined in such a way that it will have the ability to attract the customers to the state's preferred sellers, distributors. In order to achieve the proper impact it is advisable regarding the pricing to ensure equal or even higher yields than the yields available through auctions temporarily.

The specified task here is to develop the proper new product or products and to develop the pricing formula.

2. Sales Network Development

The State has two securities sales network, in which as owner it can ensure primacy of the government securities sales over other financial and capital market product.

Among them the Hungarian State Treasury performs with very good result despite of it carries out selling only in 19 branches. According to the data from the summer of 2011, 41 percent of the total government securities portfolio in the hands of the population was on securities accounts of the Treasury. In this success it is likely that the key point is the fact that in the Treasury government securities are distributed exclusively and no other investment opportunities are available there. The further advantage of the Treasury that today the customers can also purchase government securities through the internet and telephone as well. The further increase of the customer base and the turnover requires increasing the number of branches. The first stage is to examine the possibilities and the conditions of the accession of the enabled institutions in the governmental network, and on the basis of that to propose the quickest feasibility opportunity for network expansion.

The specified task is to implement the network expansion.

The Hungarian Post distributes printed government securities in almost 2,600 branches. The one and two year maturity Treasury Savings Bills make up 29 percent of the total retail government securities portfolio. The advantage of the Hungarian post is that it has several branches. The disadvantage of the Post on the one hand is that in the branches of the Post the government securities have strong competitors with the different investment products and competitive marketing methods. Another disadvantage of the Post that due to technical reasons here only the distribution of printed government securities can be realized, which have really high costs.

The specified task regarding this point, in cooperation with the Hungarian Post, was to create a new basis of the postal sales of government securities regarding product development, marketing method, marketing support, etc. (They noted that the Post was planning a significant IT development, with what it will be able to distribute dematerialized securities. This development will significantly expand the marketing opportunities for government securities.)

3. Development of the electronical distribution of the Treasury

By improving the Treasury's electronical and telephone services, the WebKincstár and the TeleKincstár systems, they have to make possible the communications with the so called smartphones and the access with the most commonly used web browsers.

The specified task here is the improvement of the WebKincstár and the TeleKincstár services.

4. Targeted, effective marketing

Increasing the retail securities sales can be implemented though continuous involvement of new customers, and regularly accessing the existing ones, reinforcing them in their earlier decision. This can only be achieved by focused and strong marketing activity and within it by emphasizing the product campaigns.

Intensive advertising campaign should be conducted primarily to increase the awareness of the population of the already existing, well-proven products (like the Premium Government Bonds and Treasury Bills), the newly introduced products, and furthermore above-mentioned points of sales (Hungarian State Treasury and the Hungarian Post). All this in the increased competition supposes and requires the constant presence of the Hungarian government securities in the media.

The specified tasks regarding the marketing are selection of a marketing agency, creating new and creative marketing materials, launching the new marketing campaign.

3.1.4. Target groups (2012)

The government securities investors before (according to a survey in 2007) mainly came from the elder population. As a result of the economic crisis the degree of risk and impairment loss became higher in case of other investments, therefore among younger age groups the importance of the government securities - which are safer in many ways and also offer predictable yields – is increasing. Therefore it might be worth to target new, younger age groups during the sales of the government securities.

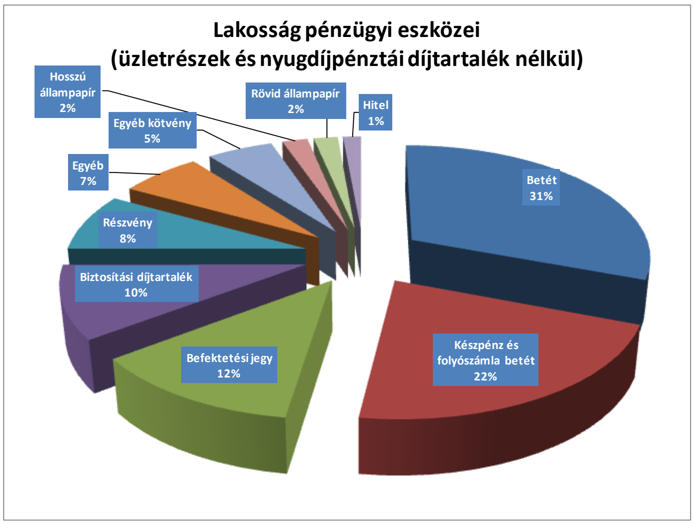
Based on the income situation and motivational characteristics there are two new age groups that worth concentrating on:

1. The group over 30 years, who are raising or planning to have a child or children, and for which group the main motivation for saving in government securities is partially providing for the child(ren)'s future.

2. The ones over 40 years, for whom the main motivation can be taking care of their retirement that can be optionally supplemented with the motivation for taking care of their children's future.

3.1.5. Determination of sales target in 2012

Examining the financial assets of the population points out that there are reserves in the retail securities-financing. The financial assets held by the population were primarily deposits, current accounts and cash at that time. (Here they did not take into consideration the business shares and pension funds.) These two covered the 53 percent of the total financial assets. The population invested other significant assets in fund shares (12 percent), insurance (10 percent) and shares (8 percent). However the proportion of government securities was only 3.9 percent. This proportion is even less than the ratio of other bonds.



*4. Figure - **Financial assets of the population**; Source: MNB (National Bank), Action plan of ÁKK*

Since the proportion of deposits and cash holdings is significant, and the proportion of the government securities is low in the hands of the public, it seems that there is also a potential to get the population involved or introduced to the market of government bonds also by the redistribution of existing financial instrument. This in return presupposes intense competition between bank deposits and government securities.

The minimum sales target is therefore the direct involvement of at least one quarter of the households' net financing capacity - which is HUF 200 billion – in financing the net output. This can be increased further by the transmission of a part of the already existing bank deposits and cash assets into government securities.

3.1.6. Developments in the retail securities sales in the year of 2012:

In 2012, the stock of retail Forint government securities (Half-year Interest-Bearing Treasury Bills, 1-year Interest-Bearing Treasury Bills, Premium Hungarian Government Bond, Treasury Savings Bills) more than doubled, from HUF 472.6 billion to HUF 985.3 billion, which equals to a 208.5 percent growth.

The Half-year Interest-Bearing Treasury Bills - which type of government security was introduced in May 2012 and which are available in the branches of the Hungarian State Treasury - couldn't become outstandingly popular by the end of the year despite of its flexibility offered by its short-term maturity. At the end of 2012 its nominal portfolio was 10.2 billion HUF on the market.

At the same time the one and two year maturity Treasury Savings Bills, which are only available in the branches of the Hungarian Post, could manage to achieve significant growth on the market in 2012. The one-year maturity Treasury Savings Bill reached a nominal growth of 43.6 billion HUF, which equals to 25 percent growth, while the two-year maturity Treasury Savings Bill reached a nominal growth of 14.3 billion HUF, which is 29 percent growth in one year.

The success of the Treasury Savings Bills was significantly exceeded by the success of the Premium Hungarian Government Bond. At the beginning of the year 2012 the stock of the Premium Hungarian Government Bond was 166 billion HUF, and by the end of the year with a 54.25 percent growth it reached 256.3 billion HUF in its nominal stock. This bond has the longest maturity and it is exclusively intended for the population, therefore it was supported by powerful advertising campaigns by the issuer. There were three advertising campaigns in the year of 2012, the first in January-February, then in June-July, and the last one in October-November.

Among the retail securities, the Interest-bearing Treasury Bills achieved an outstanding result. By the end of the year of 2012 the stock of this Treasury Bill more than quadrupled, from its nominal stock of 80.1 billion HUF it reached 434.5 billion HUF in one year. Besides the wide circle of investors another factor contributed also to the great success of this Treasury Bill. Besides the branches of the Hungarian State Treasury some banks also participated in the distribution of this T-bill, for example the CIB, K&H, Takarékbank, UniCredit and OTP. In addition to this the favorable combination of high interest rate and a reasonably time frame (one year) was also attractive to the retail investors.

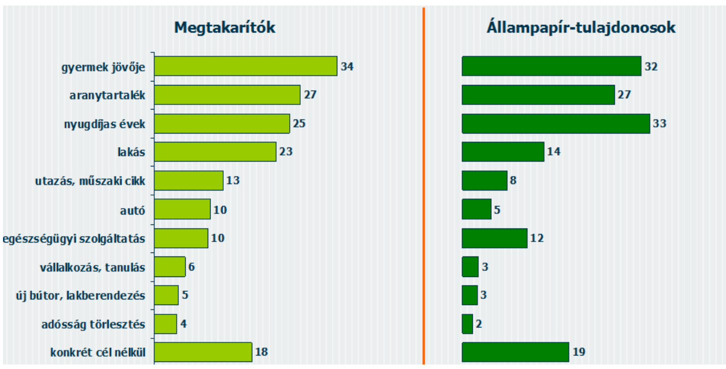
From the first series of the Premium Euro Government Bond – which was introduced in November 2012 –, besides multiple reissuances, 308.7 million EUR were sold in only two months.

3.1.7. Target groups in 2013

According to a market survey from November 2012, they drew the following conclusions of the overall potential target groups of the retail government securities: a large part of the adult population in Hungary doesn’t have any savings; only 16 percent of them has any reserves. Those who have the biggest savings are typically people over 60 years. The higher the education of a Hungarian adult, the more likely they have some savings.

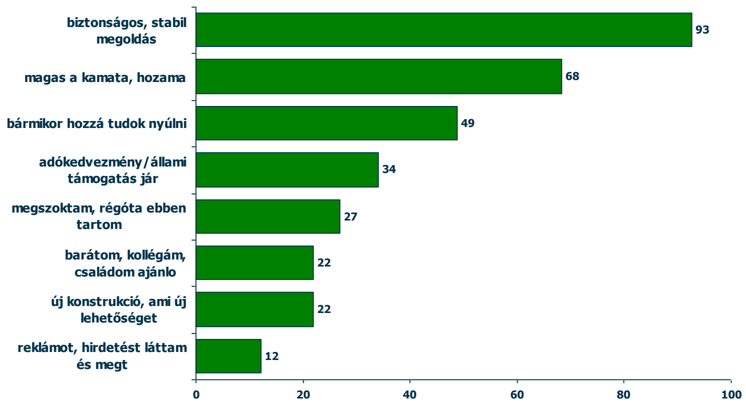
During the process of choosing the target groups it is important to take into consideration the objectives of such savings, which also affects the length and volume of the savings the population would choose. From the research it turned out the main objective is to make savings that would cover unexpected expenses. Based on this they concluded that the majority (70 percent) of the respondents prefer the short-term investments with flexible access to them. One third of the respondents think about the future, they are saving money for starting a family or to facilitate their retirement years.

What are the objectives of people with their savings?



*5. Figure - **Objectives** of the ones who make savings (left), objectives of the owners of government securities; Source: Action plan of ÁKK*

It is important to know the preferences, based on which the owners have decided to buy government securities. 93 percent of the respondents chose government securities because of the high security, and at the same time right on the second place there is high return on investments for the 68 percent of the respondents. It clearly shows that the majority of the owners of retail government securities buy these papers because of its high security, but especially when the yields are high as well.



*6. Figure - **Reasons why people choose government securities** from the several investment opportunities; Source: Action plan of ÁKK*

From Figure 6 we can see the 8 main reasons of the owners of retail government securities for choosing this investment opportunity: Secure, stable solution (93%), it has high interest rates, yields (68%), it is accessible at any time (49%), tax benefits, state aid is granted (34%), used to it (27%), recommended by family, friends, colleagues (22%), new construction, new opportunities (22%), only because of ads, advertisement (12%).

3.1.8. Competition (2014)

In the current conditions achieving domestic savings is still a great challenge. There was a significant competition with the banks in the last few years. To improve their loan/deposit-index the banks intensively tried to introduce new resources and increase their level of deposits. By now, the structure of the bank balance sheets has significantly improved and the banks' deposit requirement decreased, consequently so did the competition with them. In the meantime due to the decreasing market interest rates the people's interest in bank deposit type savings decreased also. Previously it meant a significant competitive disadvantage to the government securities that in the interest competition the banks – usually with short term maturity investment opportunities – determined the interest of their own deposit structure above the standard government securities on the market, meaning they regularly "bid" even on the reference yields. The Government Debt Management Agency tried to compensate this competitive disadvantage by applying "attractive" pricing strategy for some products that was supported by an emphasized marketing campaign (with strong communication). This way the Government Debt Management Agency – as the effect of their products' appropriate pricing and successful marketing activity - was able to increase its domestic sales on an even bigger scale.

There are two reasons why the renewal of the domestic government securities is a significant task in 2015-16. On the one hand, the stock of the short term domestic government securities is really high, on the other hand by the decrease of the interest rates the people's interest could also decrease. This way in the future the traditional bank deposit products might not be the competitors but those constructions that can promise a higher interest (rightfully or only as a promise) than the government securities in a low interest rate environment.

The bank sector occupies a prominent place in advertising market spending. Prior to the marketing strategy renewal in 2012 the government securities' media support was dwarfed by the other competitors' spending; however this has changed since the year of 2012. The government securities' advertising market spending in the first half of 2014 was 5.4% of the financial sectors' spending.

3.2 Interview – New marketing concept, media campaigns

Personal interview with Éva Szalkai, PR manager of the Marketing Communications Department of the Government Debt Management Agency:

- *When and how did the new media campaign start?*

It started in May 2012 with an image campaign introducing the new creative concept called **"Our Story"** *("A mi történetünk")*. The new image film in the marketing strategy had a so called umbrella communication role. Its main aim was to increase awareness and to strengthen emotional attachment to the government securities in the population. The general communication of the government securities was

supported by the Government Debt Management using the image campaign, which took place at the same time with the campaigns of certain products during the year. In 2012, another important element of strategic communication activities was the support of the very popular Premium Government Bonds with intensive marketing activity, which was completed with a more competitive pricing.

There were marketing campaign in 2013 and 2014 also, but in 2014 we created a new creative concept built on the previous "Our story", the new concept is called "**Earned Trust**" *("Kiérdemelt bizalom")*.

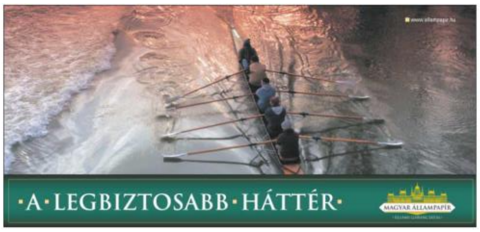
- *What does that mean that you strengthened emotional attachment to the government securities?*

The former quiet, almost meaningless creative communication had to be changed fundamentally in order to direct the attention of the population to the government securities. In the new marketing strategy such campaign were made, where thought and feelings were associated with products, and linked the individual interest – that you put your money to the right place – with the interest of the society – that you can help the community and Hungary – when you buy government securities.

- *What are the main differences between the current and the former marketing concept? How did this evolve?*

Between 2000 and 2011 there was only ATL communication: television advertisements, press, internet, radio and public places. At this time, between 2001 and 2010 the Government Debt Management Agency had only a couple of hundred million annual budgets for the marketing of the government securities. Between 2011 and 2014 there was a big step forward in this area, the Parliament voted an amount more than one billion forint in the Budget Law for this activity. The higher budget gave much more opportunity for the Department for Marketing of the Government Debt Management Agency, which department was established in

February 2012 – in addition to ATL communication we tried to take advantage of the opportunities given by the social media and BTL as well.



From 2002 till the middle of 2005 the “Rowing” creative concept was used. In 2005 the Government Debt Management planned an intensified international communication and created a new creative concept. Between 2005 and August 2008 the “sunrise” represented the government securities and the used slogan was: “The security of the future” *(A jövő biztonsága).* The next renewal the creative concept and advertising materials was in 2008 with the new concept called the Chess Master *(“Észjátékos”)* with the image of chess pieces. After this in May 2012 we launched the “Our Story” campaign, then we continued this emotional line in the next campaign also, in the “Earned trust”.

- *Which are the main target groups of government securities? How did you choose them?*

We tried to introduce the government securities, as umbrella brand to those who are likely to have the largest savings, so to the married or divorced men who finished college or university. In addition to this there are two age groups which worth to focus on based on their income conditions and motivational features during the product communication.

One of the target groups is the ones over 35 years, who are having or raising a child, and for which group the main motivation for saving in government securities is caring or the child’s future, secondary motivation can be security reserves, taking care of their retirement. The other age group worth to concentrate on is the ones over 60, whose willingness is greater toward savings and who can be motivated by the future care of the grandchildren.

During the process of choosing the target groups it is important to take into consideration the objectives of such savings, and to know the preferences, based on which the owners have decided to buy government securities. From time to time we conduct researches in connection with these.

- *What kinds of marketing products were produced in the marketing campaign and which marketing channels did you use?*

During the campaign we mainly advertised in different types of media, like TV, press, radio and in public places and also at the branches of the Hungarian State Treasury and the Hungarian Post.

In the beginning of 2012 we created a new creative concept, which was called "Our story" *("A mi történetünk")* with a new image movie and product moves and every other marketing product were related to this concept, like flyers, newspaper advertisements, the decoration of the new branches of the Hungarian State Treasury, POS devices, posters, roll-ups, banners, etc. The same happened in 2014, when the new creative concept, the "Earned trust" *("Kiérdemelt bizalom")* was introduced. The branches of the Hungarian State Treasury were provided by flyers, posters, roll-ups, Image client dossiers, client cards and calendar cards while the post offices got Treasury Savings Bills flyers and client dossiers.

- *How much money was spent on marketing campaigns?*

In 2012 this amount was 1.5 billion HUF, and there were similar amounts for each additional year, which was always defined by the Budget Law. We always plan marketing campaigns for calendar years, as the financial framework is provided from the state budget.

- *Did the investments in the new marketing strategy paid off?*

Oh yes! We can say that our work has been very effective. This can be seen in the sales figures and also we reached that the government securities as a brand got so embedded into the public consciousness that we were able to bring good sales numbers in 2015 without advertisements.

Chapter 4 – International Outlook

Economic analysts have found that the domestic, residential financing provides the real stability of the state funding. Japan is a very good example, where the public debt is very high, but thanks to the high proportion of household ownership in the debt financing, there is still a stable financial situation. If the major debt holders of the public debt are domestic investors, than the foreign exchange fluctuations doesn't affect the stability of the debt financing, it will become less vulnerable, for example to international panic situations.

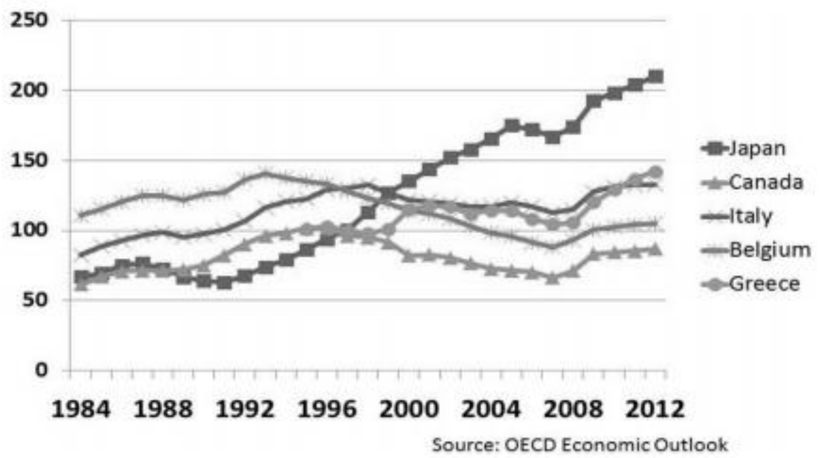
4.1. International examples: Japanese and Greek debt structure

There are huge differences between the countries' debt levels and in the debt structures as well. Some of the governments have serious sustainability and debt financing problems with a relatively low debt level; some of them don't have these kinds of problem even with a very high debt level. What is the explanation of this?

The key to stability is in the structure of financing. Relying on domestic debtors and their investments instead of foreign loans and investors gives the stability of financing government debt and decreases the country's vulnerability to external financial and economic trends, panic situations and foreign exchange rate fluctuations.

4.1.1. Government Debt: A Comparison between Japan and Greece [25]

Figure 7 compares the debt to GDP ratio of selected OECD countries. Japan's debt/GDP ratio is the highest among OECD countries, yet the budget deficits are still sustained. On the other hand, the Greek government debt/GDP ratio is lower than that in Japan. However, Greece went into bankruptcy. Many Europeans ask why Japan is still sustained and Greece and other European countries are in serious trouble.



*7. Figure - **The GDP/Debt Ratio of Selected OECD Countries;** Source: Policy Research Institute, Ministry of Finance, Japan, Public Policy Review, Vol.9, No1, January 2013 (Page 60)*

The differences between Japan and Greece can be seen in the demand for government debt, rather than supply of government debt. More than 90% of Japanese government debt is held by domestic investors. On the other hand, about 70% of Greece government debt is held by overseas' investors.

Japanese Debt: 95% is held by Domestic Investors (2011) (Source: Japanese Ministry of Finance)		**Greek Debt: 70% is held by Overseas' Investors** (2011) (Source: Financial Times)	
Securities held by	**%**	**Securities held by**	**%**
Banks and Postal Savings	45%	Overseas' Investors	33%
Life and Non-life Insurances	20%	Greek Domestic Investors	21%
Public Pension Funds	10%	European Central Bank	18%
Private Pension Funds	4%	Bilateral Loans	14%
Central Bank of Japan	8%	Social Pension Funds	6%
Overseas' Investors	5%	IMF	5%
Households	5%	Greek Domestic Funds	3%
Others	3%		

8. Figure - Comparison of the Japanese and the Greek debt structure; Source: Policy Research Institute, Ministry of Finance, Japan, Public Policy Review, Vol.9, No1, January 2013 (Page 60, 61)

4.1.2. Relying on the domestic debtors is the key to government debt stability [26]

In Japan they found a successful recipe against government debt. If the government manages to direct public savings into long term government securities, the financing of the state debt can remain stable even with higher GDP/debt ratio.

In the past years those countries which had unsustainable debt got into serious trouble and some of them even close to bankruptcy. Greece declared partial bankruptcy with its 160 percent GDP/debt ratio, but Portugal with 140 percent, Ireland with 120 percent and Italy with 140 percent GDP/debt ratio also needed a life buoy. Spain with its 90 percent GDP/debt ratio was only able to stay alive with a significant Central bank support.

But how can Japan survive with a 220% GDP/debt ratio? However, there is no debt-crisis in Japan and despite some say that it would be wise to decrease the level of debt, the Japanese economic policy is heading towards further debt and spending in favor of awakening the economy. At the same time the bond market is stable, interest rates are low, and there is now sign of any panic or crash, as we got used to it in the Euro zone.

So what is the Japanese secret? Japanese economists have shown that the key to stability is in the structure of financing the debt.

Hence the funding of Japanese government debt is only covered by foreign investors in a very small portion, only 10 percent. The majority of financing the public debt is coming from residential investors, what is more, from domestic households and private persons. The savings rate is very high in Japan – it is legendary how thrifty the Japanese people are – most of their income they are putting into government bonds and mutual funds. The population stands still, they are relaxed and doing the stable inland financing. Key to the state stability is that the Japanese state tries to attract the savings of the population on long term.

However experts emphasize on their view that this cannot go too far in Japan, because as the Japanese society is aging as well, it does not matter how big the mutual savings are, the growth of the public debt must be stopped soon in Japan.

In the past years Hungary has also started to walk the same way. With the introduction of flat tax rate the retail savings have increased and simultaneously the state made the retail government-bond investments attractive for the retail investors, with a special focus on those government securities which are long-term investments. Therefore now the volume and ratio of retail-investments in the state debt financing is increasing continuously, which is be considered to be a positive effect - based on the Japanese example.

Obviously we cannot expect miracles, one or two years are not going to make a major change – in Hungary the proportion of foreign investments is still too high. But if the state goes on with its program on a long term, and successfully turns the increasing retail savings into government securities and lowers the state-debt/GDP ratio, then this process may give a real stability to the government debt.

According to the recent Eurostat (statistical office of the European Union) data - which was released this summer, in 2015 - , in Hungary the resident non-financial investors – so primarily the population – held almost 12 percent shareholding ratio of the Hungarian government debt, which indicates a significant development, given that in the early 2012 the share of the households was only 3 percent. Due to the Government Debt Management Agency projections in 4-5 years even 20 percent of the Hungarian government debt may be in the hands of the Hungarian population.

4.2. International reputation, credit rating agencies

Classification by credit rating agencies - Moody's changed outlook on Hungary (27)

Moody's changed outlook on Hungary's Ba1 rating to stable from negative in November 2014. There were three key drivers of the outlook change:

1. The improving medium-term economic outlook. After many years of economy-wide deleveraging, Hungary's growth is beginning to respond to government policy measures resulting in an improvement in investment and consumption trends, which Moody's believes will persist.

2. The government's commitment to maintaining the headline government deficit below 3% of GDP, which has helped stabilize the government debt ratio,

albeit at the high level of 77% of GDP. Moody's expects the debt-to-GDP ratio to fall, very gradually, over the medium term on the back of healthier growth and moderate deficits. Moody's expects overall debt-to-GDP to remain around 77% of GDP for 2014 and 2015, with debt-to-GDP ratio falling over the medium term. That being said the debt ratio remains vulnerable to exchange rate fluctuations, because approximately 40% of the total debt stock is denominated in foreign currencies. However, Moody's notes that the debt ratio's exposure to adverse foreign-currency movements is likely to diminish gradually as the government redirects borrowing to the domestic market as part of the self-financing plan, announced earlier in 2014.

3. Improved resilience to external shocks, as reflected in persistent current account surpluses, high external liquidity and the performance of the currency relative to other emerging markets during times of market turmoil. Hungary's external debt has fallen over the past four years, as has its vulnerability to external risks as reflected in the reduction in the external vulnerability indicator.

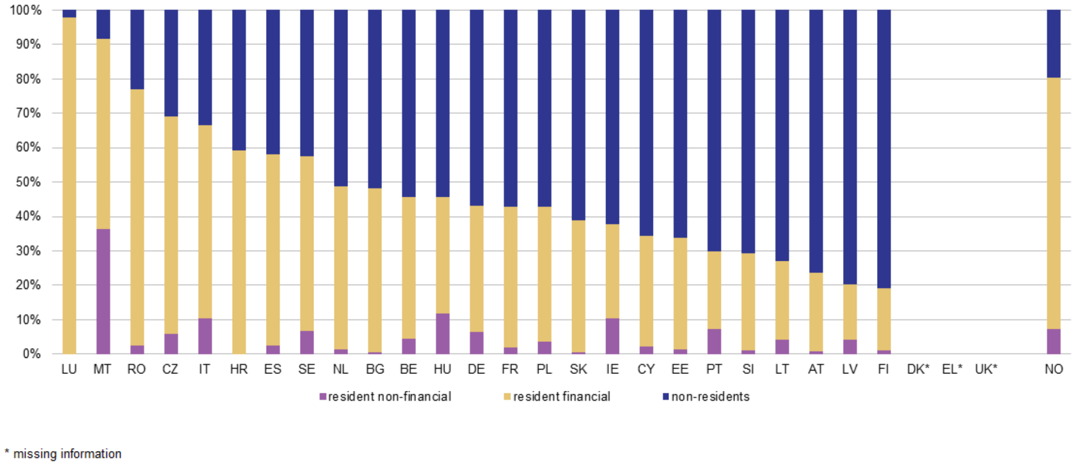
The Hungarian population is a relatively significant debtor to the public debt - Eurostat (June 2015) (28)

According to an analysis made by Eurostat, this summer after Malta, Hungary was in the second place among the European Union countries, where the government securities holdings in the hands of domestic non-financial service providers – so in the hands of the population – have the highest proportion.

The debt share of non-residents was significant for most of the countries but highly variable between the 26 EU and EFTA countries for which data is available: It ranged between 2.2 % of the general government debt in Luxembourg and 80.8 % in Finland. Non-residents were the largest debt holders for seventeen countries, with percentages higher than 50 %. Among these 17 countries there is Hungary with 54.5 percent.

The resident non-financial sectors played a major role as debt holder in Malta (36.2 %), followed by Hungary (11.8 %), Ireland and Italy (both 10.4 %).

Figure 7 presents general government gross debt by sector of the debt holder: non-financial residents (non-financial corporations, households and non-profit institutions serving households), financial residents (financial corporations) and non-residents (rest of the world).



9. Figure- General government gross debt by sector of debt holder; Source: Eurostat, data extracted in June 2015

Conclusion

In my opinion the biggest conclusion we can draw from the previous chapters is that no one can underestimate the importance of marketing without having to face its consequences. Previously they undervalued the importance of marketing and communication both in its financial frame and in its strategy development. With that weak performance they would not have been able to enter the competition that was already created by the other financial institutions on the market. In terms of the government securities, it seems to me they did not even seriously try to do so back then.

After all, in competitive environment none of the competitors can afford to invest only a small fraction of the other competitors' budget and efforts on marketing and communication and government organizations are no exceptions. They should not make this mistake again, because there is still a constant competition for attracting and winning retail investors ahead of other financial institutions.

From 2012 we can see that the Government Debt Management Agency is taking this matter seriously, and behind the renewal of the marketing strategy there was – and still there is – a carefully considered and developed strategy, purpose, plan, actions, and also a significantly increased financial framework. The combined result of these elements, and more importantly the positive change in the sales figures are already visible from the figures.

It is necessary for the Government Debt Management Agency to maintain the brand awareness and good reputation of the Hungarian government securities as long as the aim of Government remains to be redirecting its borrowings to the domestic market to provide the stability of the state funding. Strengthening the emotional attachment to government securities during the marketing and communications proved to be effective together with the attractive pricing. In my opinion safety will remain the key advantage of the government securities in the long run therefore every now and then the retail investors may be reminded, that it is not enough to select a well-chosen investment product, but also they have to choose a stable and secure financial service provider.

The selected marketing strategy and methods so far have shown they are well chosen to fit the purpose; the stock of government securities in the hands of retail investors is increasing as well as the ratio of domestic retail investors in the public debt; the debt share of non-residents – even if it is still quite high - is decreasing; besides the decreasing trend in public debt the structure of the debt is becoming more and more stable, the country becomes more and more independent of external factors, and the stabilization of the economy. This progress, the economic stabilization is already noticed and recognized internationally.

During my research I found this topic very interesting, complex, important and current at the same time. Despite the fact that sometimes I found my topic choice to be challenging and monotone, I learned a lot from it while I got familiar with the importance of the structure of debt financing, and how the Government Debt Management Agency renewed the marketing strategy through its Action Plan. I was amazed that how multidimensional and extensive this topic is, and how they deal with government securities can have an effect on the financing of the public debt, which subsequently has an effect on the financial stability of the country, which then has an effect on the image and reputation of the country's economy and stability, which has a further effect on the inflow of active capital and the investment climate.

I am certain that there are several related topics what could have been mentioned in connection with the government securities, but even a book would not be enough to investigate and analyze everything. I think this topic; the marketing of government securities will keep its importance in maintaining financial stability in the future as well.

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