1. Very low risk product

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Product brochure

Fixed-rate short-term government bonds

Product description

Fixed-rate short-term government bonds are 1, 2 or 3-year interest-bearing government securities issued by sovereign states or their dedicated institutions. The interest (or coupon) payable in each interest payment period is announced and fixed at the time of issuance. Interest is usually paid once a year (except for a few securities), while the principal is repaid at maturity. The bonds are registered at both net and gross price. Gross price is obtained by discounting known future payments with market yield to maturity. Net price equals gross price less accrued interest.
The bond series issued by the Hungarian State are listed on the Budapest Stock Exchange after they are issued. Primary dealers have mandatory market-making responsibilities every day, which ensures continuous liquidity in this market.

When is it recommended?

- If you are looking for a short or medium-term investment vehicle with a predictable interest rate where repayment of the capital invested is guaranteed by the issuing state.

Product risk

1. VERY LOW	2. LOW	3. MODERATE	4. MEDIUM	5. INCREASED	6. HIGH	7. EXTREMELY

1. Very low-risk product: This category includes financial instruments (e.g. Discounted Treasury Bills, Interest-bearing Treasury Bills, Liquidity funds, etc.) that typically provide a predetermined return at maturity in addition to the capital invested. Their risk lies mainly in the potential counterparty default risk and – if they are sold before maturity – the volatility of market interest rates. Based on historical data, the possible loss calculated for a one-year period is highly unlikely to exceed 5% of the capital invested. (To assess possible losses, the Bank determines the risk classification of a product using VaR calculation based on historical data, at a 99% confidence level, for a one-year investment horizon.)

Key risk factors

Interest rate risk	Interest rate risk arises from the fact that a change in market yields influences the value of fixed-rate securities. Market yields can increase as a result of accelerating inflation, budget overspending, a central bank rate hike or government over-indebtedness, among others. A decrease in market yields can result from a slowdown in inflation, deflation, shrinking debts or monetary policy easing (a rate cut). The longer the term of a bond is, the more sensitive its price is to changes in yields. If you hold the securities to maturity, there is no interest rate risk to consider.
Country risk	The risk of investing in the instruments of a country, which depends on the given country's financial, economic and political stability. A more stable country means a smaller country risk premium, thus smaller risks and, in accordance with that, lower yields on government securities. This type of risk shows little change in the short term.
Price risk	In the event of an adverse, upward shift in yields, a sale before maturity may result in a price loss.
Exchange rate risk	Securities may be denominated in different currencies, so the value of a security expressed in a foreign currency may, when converted into the settlement currency, change depending on the exchange rate fluctuations between the given currencies. If an investor buys securities denominated in a foreign currency (not forints), a change in the exchange rate will also affect the forint value of the coupon payments and principal repayments of the securities.

Scenarios*

Example 1	Let's assume that today you buy a government bond with a par value of HUF 1,000,000 and a term of almost 1 year. The government bond's term to maturity is 0.65 years, its nominal interest rate is 5.50%, its standardised rate of return (EHM) is 1.06%, and the corresponding gross price (net price + accrued interest) is 104.77%, that is, the bond costs HUF 1,047,700. If there is a yield increase and 20 days later the bond can be sold at 104.52%, which corresponds to a 1.56% EHM – that is, at a price of HUF 1,045,200 only – you will realise a loss of HUF 2,500.
Example 2	Let's assume that today you buy a government bond with a par value of HUF 1,000,000 and an original term of 3 years. The government bond's term to maturity is 1.52 years, its nominal interest rate is 5.50%, its EHM is 1.04%, and the corresponding gross price (net price + accrued interest) is 109.33%, that is, the bond costs

HUF 1,093,300. If there is a yield increase and 20 days later the bond can be sold at 108.63%, which corresponds to a 1.54% EHM – that is, at a price of HUF 1,086,300 – you will realise a loss of HUF 7,000.
If we compare government bonds by term, we can say that the longer the bond's term, the bigger the potential gain/loss on the same investment horizon (20 days in the two examples above), under the same market conditions (with a yield increase of 0.5 percentage points in the two examples above).

Example 3

Let's assume that today you buy a government bond with a par value of HUF 1,000,000 and an original term of 3 years, and hold it to maturity. The government bond's term to maturity is 1.52 years, its nominal interest rate is 5.50%, its EHM is 1.04%, and the corresponding gross price (net price + accrued interest) is 109.33%, that is, the bond costs HUF 1,093,300. If you hold the security to maturity, your risks will be negligible, your realised EHM will be 1.04% and you will receive 5.50% annual interest per year and the par value at maturity.

PLEASE NOTE: The examples presented in this document do not show every possible outcome. For easier understanding the examples are simple and do not include any fees, commissions or taxes. They are insufficient to form the basis for an investment decision.

Practical information

- Information for customers: https://www.raiffeisen.hu/maganszemely/megtakaritas-befektetes/befektetesi-tajekoztato
- Product-related descriptions and interpretations: https://www.raiffeisen.hu/treasury-utikalauz
- Information on investment products: https://www.raiffeisen.hu/maganszemely/megtakaritas-befektetes/befektetesi-tajekoztato
- Product-related fees and charges: https://www.raiffeisen.hu/hasznos/kondiciok
- Taxation of investments: http://www.nav.gov.hu/
- Institutional protection: http://www.oba.hu/ and http://www.bva.hu/
- Changes in the prices of financial instruments issued by Raiffeisen Bank Zrt.: https://www.raiffeisen.hu/hasznos/arfolyamok
- Changes in the prices of key products: http://bet.hu/ (Hungarian stock exchange), http://akk.hu/ (Hungarian government securities), http://www.mnb.hu/ (exchange rates)
- Standardised rate of return on securities (referred to by its Hungarian acronym as "EHM"): http://www.mnb.hu/fogyasztovedelem/kerdesem-van/szotar/koltsegmutatok-1

Other information

- Depending on the nature of the given product, investments are exposed to various risks, including the possible loss of the capital invested. No reliable conclusions can be drawn from historical data or information regarding future returns, changes or performance.
- The risk of a financial instrument made up of more than one component may exceed the sum of the risks of the individual components.
- Conversion between different currencies may affect the result achievable.
- Any tax consequence related to an investment product may only be assessed on the basis of the Customer's individual conditions, and may change in the future as a function of changes in legislation.
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