



OPINION OF THE EUROPEAN CENTRAL BANK
of 2 March 2023
on the reserve ratio
(CON/2023/6)

Introduction and legal basis

On 2 February 2023 the European Central Bank (ECB) received a request from the Magyar Nemzeti Bank (MNB) for an opinion on a draft decree of the Governor of the Magyar Nemzeti Bank on the reserve ratio (hereinafter the 'draft decree').

The ECB's competence to deliver an opinion is based on Articles 127(4) and 282(5) of the Treaty on the Functioning of the European Union and Article 2(2) of Council Decision 98/415/EC¹, as the draft decree relates to the instruments of monetary policy of a Member State that has not adopted the euro. In accordance with the first sentence of Article 17.5 of the Rules of Procedure of the European Central Bank, the Governing Council has adopted this opinion.

1. Background and purpose of the draft decree

- 1.1 In 2016 the Governor of the MNB adopted MNB Decree 45/2016 (XI.23.) on the reserve ratio², in relation to which the ECB adopted Opinion CON/2016/56³. Decree 45/2016 provided that a reserve ratio of 0 % would apply to: (a) deposits and loans received with a remaining maturity of over two years at the time they are entered into the credit institution's balance sheet; (b) debt securities issued with an agreed maturity over two years; and (c) repos. Further, a reserve ratio of 1 % would apply to all other liabilities included in a credit institution's reserve base, subject to reserve requirements.
- 1.2 In 2022 the Governor of the MNB adopted MNB Decree 35/2022 (IX. 15.) on the reserve ratio⁴, in relation to which the ECB adopted Opinion CON/2022/33. As noted in the explanatory memorandum accompanying the draft version of Decree 35/2022, the level of structural liquidity in the Hungarian banking system increased substantially over previous years. Between 2020 and 2021, in response to the COVID-19 crisis, the MNB injected HUF 11,000 billion liquidity into the market, by way of central bank refinancing operations, liquidity providing measures and asset purchase programmes. Given the maturity scheme of these instruments, the level of structural liquidity is expected to persistently remain at elevated levels. Decree 35/2022 retained the 0 % reserve ratio regarding the liabilities listed in paragraph 1.1. In order to improve the effectiveness of the monetary policy transmission mechanism and to bring market rates in line with the MNB's guidance, Decree 35/2022

¹ Council Decision of 29 June 1998 on the consultation of the European Central Bank by national authorities regarding draft legislative provisions (OJ L 189, 3.7.1998, p. 42).

² 45/2016 (XI.23.) MNB rendelet a kötelező tartalékráta mértékéről, közzétéve a *Magyar Közlöny* 2016/180. számában.

³ All ECB Opinions are available on EUR-Lex.

⁴ 35/2022 (IX. 15.) MNB rendelet a kötelező tartalékráta mértékéről, published in *Magyar Közlöny* 2022/150.

increased the reserve ratio for all other liabilities included in a credit institution's reserve base from 1 % to 5 %, 6 %, 7 %, 8 %, 9 % or 10 %, depending on the declaration of the credit institution subject to reserve requirements. In the absence of a declaration, the reserve ratio is 5 %.

- 1.3 As noted in the explanatory memorandum accompanying the draft decree, since the entry into force of Decree 35/2022, an additional HUF 1,700 billion liquidity will be injected into the market, primarily due to foreign exchange bond issuances by the *Államadósság Kezelő Központ* (Debt Management Agency of Hungary) and MNB interest payments. This equals 4 to 5 % of banking system liabilities subject to reserve requirements. In order to improve the effectiveness of the monetary policy transmission mechanism, the draft decree proposes to further increase the reserve ratio to 10 %, 11 %, 12 %, 13 %, 14 % or 15 %, depending on the declaration of the credit institution subject to reserve requirements. In the absence of a declaration, the reserve ratio will be 10 %.

2. Observations

The ECB takes note of the draft decree. As noted in earlier opinions⁵, Member States whose currency is not the euro retain their powers in the field of monetary policy. Once the euro is introduced, Hungary's monetary policy will be the single monetary policy and will need to be consistent with the Eurosystem's operational framework⁶.

This opinion will be published on EUR-Lex.

Done at Frankfurt am Main, 2 March 2023.

[signed]

The President of the ECB

Christine LAGARDE

⁵ See paragraph 2.2 of Opinion CON/2010/68, paragraph 2.1 of Opinion CON/2015/39, paragraph 2 of Opinion CON/2016/56, paragraph 2.2 of Opinion CON/2018/48 and paragraph 2.1 of Opinion CON/2022/33.

⁶ Credit institutions should therefore be familiar with the requirements that will apply to them once the single monetary policy is implemented in Hungary.