OPINION OF THE EUROPEAN CENTRAL BANK

of 18 November 2016

on reserve ratios

(CON/2016/56)

Introduction and legal basis

On 25 October 2016 the European Central Bank (ECB) received a request from the Magyar Nemzeti Bank (MNB) for an opinion on a MNB draft decree 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/EC[1], as the draft decree relates to the instruments of monetary policy of a Member State whose currency is not 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 2015 the Governor of the MNB adopted Decree 46/2015[2] on the reserve ratio, in relation to which the ECB adopted Opinion CON/2015/39[3]. Decree 46/2015 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 balance sheet of the credit institution; (b) debt securities issued with an agreed maturity over two years; and (c) repos. Further, a reserve ratio of 2% would apply to all other liabilities included in the reserve base of a credit institution subject to reserve requirements. The draft decree now proposes to reduce the reserve ratio referred to above from 2% to 1%, while keeping all other elements of the minimum reserve system unchanged.

1.2 In the explanatory memorandum attached to the draft decree, the MNB notes that the suggested legislative change has been brought forward to support the effectiveness of the operational framework of Hungarian monetary policy, and especially the quantitative limitation of the three-month deposit facility. More specifically, the amendment aims to increase the amount of freely available liquidity in the banking sector, to foster activity in the money market and enhance the reliability of the interbank market, as well as to allow for further convergence with the ECB's practice in the field of reserve ratios. The change is also consistent with the MNB's new operational

1 Council Decision 98/415/EC 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 MNB Decree 46/2015 (XI.11.) on the reserve ratio, published in *Magyar Közlöny* 2015/170.

3 All ECB opinions are available on the ECB's website at www.ecb.europa.eu.

framework for monetary policy and the monetary easing measures established by the MNB to address the still subdued inflationary environment. As regards the latter, the reduced frequency of the three-month deposit instrument's tenders and the capping of the same instrument allow for the reduction of money and capital market interest rates, by rechannelling banks' excess liquidity to deposit facilities of the MNB and to the interbank market. The proposed amendment of the reserve ratio may lead to a liquidity surplus in the banking sector that could enhance the effectiveness of the monetary measures.

2. General observations

The ECB noted in earlier opinions[4] that Member States whose currency is not the euro retain their powers in the field of monetary policy, which gives them greater flexibility to address liquidity shocks and market inefficiencies that hinder the implementation of national monetary policy. In those opinions, the ECB noted that once the euro is introduced, Hungary's monetary policy will need to be consistent with the Eurosystem's operational framework, and credit institutions should therefore be familiar with the requirements that will apply to them once the single monetary policy is implemented in Hungary.

This opinion will be published on the ECB's website.

Done at Frankfurt am Main, 18 November 2016.

[signed]

The President of the ECB

Mario DRAGHI

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4 Opinion CON/2010/68 and Opinion CON/2015/39. All ECB opinions are available on the ECB's website at www.ecb.europa.eu.