EUROPEAN CENTRAL BANK

EUROSYSTEM

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OPINION OF THE EUROPEAN CENTRAL BANK

of 8 November 2018

on the minimum reserve requirements of the Magyar Nemzeti Bank

(CON/2018/48)

Introduction and legal basis

On 3 September 2018 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 (hereinafter the 'draft decree') amending the MNB decree on the calculation, the method of allocation and placement of the minimum reserves (hereinafter the 'MNB decree'). On 16 October 2018, the ECB received a further request from the MNB on supplemental provisions contained in 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 draft legislative provisions on 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. Purpose of the draft decree

1.1 The MNB decided in 2016 to launch an instant payment system in Hungary on 1 July 2019 with the intention to make payments available between Hungarian payment accounts within 5 seconds, 24 hours a day, seven days a week and 365 days a year.[2] GIRO Zrt., a company wholly owned by the MNB, will develop the central infrastructure for the system and provide for the clearing and settlement of transactions between payment service providers. The system will ensure instant and final settlement of payments between payment service providers by pre-funding payment orders using deposits made by the payment service providers into a 'custody account' opened by the MNB and operated by GIRO Zrt.[3].

1.2 The draft decree amends the MNB decree to take into account this development in the context of the MNB's minimum reserves system. Under the draft decree, a credit institution may fully or partly include its share in the funds held in the custody account in its minimum reserve holdings. The draft decree provides that if a credit institution wishes to comply with its minimum reserve requirements in this manner, it is required to notify to the MNB the amount of its custody account balance that it intends to use for this purpose.

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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 35/2017 (XII. 14.).

3 See the website of the MNB at www.mnb.hu.

1.3 The draft decree also introduces provisions regulating the manner in which the MNB may modify the previously determined required reserves when a credit institution modifies its statistical balance sheet after the preliminary determination of the reserve requirement.

1.4 The draft decree also repeals certain provisions of the MNB Decree on the requirements of business regulations and other regulations in respect of payment system operators[4], which provide that the prices applied by GIRO Zrt. have to be set for each service provided by it in a way that enables participants to decide whether they wish to use the given service.

2. General observations

2.1 The ECB understands that, under the instant payment system proposed by the MNB, each participant can decide at the end of each day which portion of its custody account balance is to be considered as fulfilling its minimum reserve requirements. The amount communicated to the MNB by each participant for the purpose of fulfilling its minimum reserve requirements would be remunerated at the MNB interest rate applicable to holdings of reserve requirements, i.e. the base rate. Any remaining amount of the custody account balance pertaining to a participant in excess of those counted as reserve holdings would not be regarded as excess reserves, which are currently remunerated at the MNB's overnight deposit facility rate minus 15 basis points. As a necessary precondition for the above arrangements, the ECB understands that GIRO Zrt. would report to the MNB each participant's share in the total balance of the custody account. The ECB understands that this set-up is aimed at supporting the liquidity management of the banking sector following the introduction of the instant payment system.

2.2 The ECB has noted in earlier opinions[5] that Member States whose currency is not the euro retain their powers in the field of monetary policy according to national law[6]. 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 would apply to them once the single monetary policy is implemented in Hungary.

2.3 The treatment of funds held in a central bank account in relation to the operation of an instant payment system for the purpose of applying minimum reserve requirements is necessarily determined by the monetary policy framework of the relevant central bank, as well as by the features of the particular instant payment solution. In this respect, instant payments are a relatively new development[7]. Developments in the area of instant payments are dynamic due to continuous innovation in the payments industry. Central banks are involved in ongoing dialogue with stakeholders from the payments industry and facilitate instant payments solutions, *inter alia* by providing services supporting the settlement of instant payments. In the euro area, the Eurosystem has been involved in facilitating the emergence of instant payments, in order to foster innovation

4 MNB decree 34/2009 (XII. 28.).

5 See ECB Opinion CON/2010/68, ECB Opinion CON/2015/39 and ECB Opinion CON/2016/56. All ECB opinions are available on the ECB's website at www.ecb.europa.eu.

6 Article 282(4) of the Treaty and Article 42.2 of the Statute of the European System of Central Banks and of the European Central Bank.

7 See 'Instant Payments – a Winning Bet?' available on the European Payments Council's website at www.europeanpaymentscouncil.eu.

and integration in this field. In 2017, the Eurosystem introduced a service supporting the emergence of instant payments, a new settlement procedure for ancillary systems known as 'settlement procedure 6 real-time'[8]. Also, in 2017 the ECB decided to develop the new TARGET Instant Payment Settlement (TIPS) service, which will enable the settlement of individual instant payment orders in central bank money 24 hours a day, seven days a week and 365 days a year, with immediate or close to immediate processing. TIPS is scheduled to start operating in November 2018[9].

2.4 As regards the amendments to the rules for pricing of services provided by GIRO Zrt., the ECB understands that in the future GIRO Zrt. could set a 'package-based' fee for the use of the services it offers, and would thus no longer be required to apply prices for each of its services separately. The ECB notes that according to the Principles for financial market infrastructures (PFMI) issued by the Committee on Payment and Settlement Systems and the International Organization of Securities Commissions[10], financial market infrastructures should in principle publicly disclose their fees for the individual services that they offer, with the aim to enable participants to compare the costs to those of alternative arrangements. Against this background, the ECB understands that the MNB, as the overseer of payment systems in Hungary, assessed the application of a package-based fee against the PFMI as unproblematic, in the absence of alternative arrangements.

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

Done at Frankfurt am Main, 8 November 2018.

[signed]

The President of the ECB

Mario DRAGHI

8 Guideline (EU) 2017/2082 of the European Central Bank of 22 September 2017 amending Guideline ECB/2012/27 on a Trans-European Automated Real-time Gross settlement Express Transfer system (TARGET2) (ECB/2017/28) (OJ L 295, 14.11.2017, p. 97).

9 For further information, see the ECB website at https://www.ecb.europa.eu.

10 See the website of the Bank for International Settlements at https://www.bis.org/cpmi/publ/d101a.pdf.