OPINION OF THE EUROPEAN CENTRAL BANK
of 28 October 2015
on reserve ratios
(CON/2015/39)

Introduction and legal basis

On 6 October 2015 the European Central Bank (ECB) received a request from the Magyar Nemzeti Bank (MNB) for an opinion on the MNB's 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 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 2010 the Governor of the MNB adopted Decree 13/2010[2] on the reserve ratio, in relation to which the ECB adopted Opinion CON/2010/68[3]. In respect of certain liability categories, MNB Decree 13/2010 introduced a variable reserve ratio requirement, allowing credit institutions subject to reserve requirements to choose from multiple reserve ratios, in order to enable them to cope with larger fluctuations in their liquidity needs. The draft decree ends this practice by defining that a reserve ratio of 0% will 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. A generic reserve ratio of 2% will apply to all other liabilities included in the reserve base of a credit institution subject to reserve requirements.

1.2 According to the MNB's calculations, up to October 2015 the effective weighted average reserve ratio amounts to 2.98% for the affected credit institutions. Based on the background information provided by the MNB, the measure introduced by the draft decree is expected to release HUF 160 billion (0.5% of Hungary's GDP; EUR 520 million) of additional liquidity that would become available to the banking sector.

1.3 In the explanatory memorandum attached to the draft decree, the MNB notes that the suggested legislative change has been brought forward due to a contradiction between the currently

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 13/2010 (IX.6.) on the reserve ratio, published in *Magyar Közlöny* 2010/141.

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

applicable reserve requirements and the MNB's so-called 'self-financing programme'. According to the explanatory memorandum, '*with the development of the programme, the MNB aims to further stimulate credit institutions' purchases of government securities by channelling their surplus liquidity to the government securities market'*, thereby strengthening financial stability by reducing the external vulnerability of the Hungarian economy. The MNB considers the currently applicable reserve ratios to be in contradiction with these objectives. The explanatory memorandum notes that the provisions of the draft decree aim to introduce reserve ratio requirements similar to those applied by the ECB. The MNB also mentioned that the draft decree reflects the fact that by 2015, Hungarian credit institutions' liquidity environment had improved significantly in comparison to 2010, when the variable reserve ratios were introduced as a means of crisis management.

2. General observations

2.1 In Opinion CON/2010/68, the ECB noted 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 that opinion, 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 that credit institutions should therefore be familiar with the requirements that will apply to them once the single monetary policy is implemented in Hungary. Against the above backdrop, the ECB takes note of that the draft decree repeals the previously applicable variable reserve requirements by defining reserve ratio requirements comparable to those set out in Regulation (ECB) No 1745/2003 of the European Central Bank[4] and its amendments introduced by Article 1(3) of Regulation (EC) No 1052/2008 of the European Central Bank (ECB/2008/10)[5] and Article 1 of Regulation (EU) No 1358/2011 of the European Central Bank (ECB/2011/26)[6].

2.2 Credit institutions that previously chose a reserve ratio above 2% will, as a result of the draft decree, be required to reduce their minimum reserves, which will create a liquidity surplus. The ECB takes note that the draft decree does not define any requirements regarding investment of the surplus liquidity in particular assets, nor does it contain any legally binding provisions requiring credit institutions to invest in government securities.

The declared aim of the draft decree referred to under point 1.3, read in conjunction with the recent changes in the MNB's monetary policy framework, could raise questions regarding its compatibility with the principles underlying the prohibition of privileged access, as enshrined in Article 124 of the Treaty, in terms of the MNB's communication and in terms of its possible effects. Although the prohibition on privileged access is addressed to the Member States, it also concerns national central banks since they are also bound by Union law and cannot take measures granting privileged access by the public sector to financial institutions if such measures are not based on

4 Regulation (EC) No 1745/2003 of the European Central Bank of 12 September 2003 on the application of minimum reserves (ECB/2003/9) (OJ L 250, 2.10.2003, p. 10).

5 Regulation (EC) No 1052/2008 of the European Central Bank of 22 October 2008 (ECB/2008/10) (OJ L 282, 25.10.2008, p. 14).

6 Regulation (EU) No 1358/2011 of the European Central Bank of 14 December 2011 (ECB/2011/26) (OJ L 338, 21.12.2011, p. 51).

prudential considerations[7]. Recital 4 of Council Regulation (EC) No 3604/93 clearly indicates that Article 124 of the Treaty forms an essential element of the submission of the public sector in its financing operations to the discipline of the market mechanism and so makes a contribution to the strengthening of budgetary discipline.

In the light of the above, the MNB is invited to give due consideration to the principles underlying the prohibition of privileged access when communicating the reasons for adopting the draft decree.

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

Done at Frankfurt am Main, 28 October 2015.

[signed]

The President of the ECB

Mario DRAGHI

7 See also recital 10 and Article 3(2) of Council Regulation (EC) No 3604/93 No 3604/93 of 13 December 1993 specifying definitions for the application of the prohibition of privileged access referred to in Article 104a of the Treaty (OJ L 332, 31.12.1993, p. 4).