

**ACT LVIII OF 2001
ON THE MAGYAR NEMZETI BANK**

The Parliament hereby adopts the following Act on the Magyar Nemzeti Bank, its primary objectives, basic tasks, its institutional, organisational, personal and financial independence and its operations, with due respect to the requirements of an advanced market economy.

Chapter I

Legal Status, Primary Objective and Basic Tasks of the MNB

Article 1 (1) The Magyar Nemzeti Bank (hereinafter referred to as the ‘MNB’) is the central bank of the Republic of Hungary. The MNB is a member of the European System of Central Banks.

(2) The MNB and the members of its decision-making bodies shall be independent in carrying out the tasks and meeting their obligations conferred upon them by this Act, and shall neither seek nor take instructions from the Government, the institutions and bodies of the European Union, the governments of its Member States and any other bodies, except from the European Central Bank.

Article 2 The Governor of the MNB shall report to the Parliament.

Article 3 (1) The primary objective of the MNB shall be to achieve and maintain price stability.

(2) Without prejudice to its primary objective, the MNB shall support the economic policy of the Government, using the monetary policy instruments at its disposal.

Basic Tasks of the MNB

Article 4 (1) The MNB shall define and implement monetary policy.

(2) The MNB shall have the exclusive right to issue banknotes and coins. The banknotes and coins issued by the MNB – including collector banknotes and coins – shall be legal tender of the Republic of Hungary.

(3) The MNB shall hold and manage official reserves in foreign exchange and gold.

(4) The MNB shall conduct foreign exchange operations in relation to the management of foreign exchange reserves and the implementation of exchange rate policy.

(5) The MNB shall develop the payment and settlement systems, including securities settlement systems, and shall monitor (oversee) their activities in order to achieve sound and efficient operation and smooth money circulation.

(6) The MNB shall collect and publish the statistical information required for carrying out its tasks.

(7) The MNB shall promote the stability of the financial system and the development and smooth conduct of policies related to the prudential supervision of the financial system.

(8) Without prejudice to the achievement of its primary objective and performance of its basic tasks, the MNB may perform other activities, based on statutory authorisation.

Chapter II

Tasks of the MNB

Monetary Policy

Article 5 In the interests of achieving the primary objective described in Article 3, paragraph (1), the MNB shall influence the supply and demand of money and credit, using the instruments described in Article 7.

Article 6 Within the framework provided for by this Act, the MNB shall independently define its monetary policy and the instruments for implementing such policy.

Monetary Policy Instruments

Article 7 The MNB shall implement its monetary policy with the following instruments:

- a) accepting deposits and, subject to the restrictions described in Article 16, lending based on adequate collateral, within the scope of its account management;
- b) buying and selling securities as well as acting as an intermediary of securities in the spot and derivative markets within the framework of open market operations and repurchase agreements;
- c) issuing its own securities;
- d) influencing and setting exchange rates and interest rates;
- e) discounting (rediscounting) securities;
- f) regulating minimum reserves; and
- g) using other central bank instruments.

Article 8 The MNB may not accept securities issued by a debtor as collateral.

Minimum Reserves

Article 9 (1) In a decree the Governor of the MNB may require financial institutions and investment enterprises to place reserves with the MNB in proportion to their liabilities (reserve ratio).

(2) The MNB may prescribe different reserve ratios for the various types of liabilities of financial institutions and investment enterprises.

Article 10 (1) The Governor of the MNB shall regulate in a decree the rules governing the calculation of minimum reserves, the method of allocating and placing reserves and the measures to be applied in the event of non-performance

(2) The Monetary Council shall define the size of the reserve ratio. The Governor of the MNB shall declare the size of the reserve ratio in a decree.

Exchange Rates

Article 11 (1) The MNB shall quote and publish official exchange rates for the conversion of foreign currencies into forints and for the conversion of forints into foreign currencies.

(2) The Government, in agreement with the MNB, shall determine the exchange rate regime, and all parameters thereof, in particular the width of the fluctuation band, the central parity and the composition of the currency basket. Changes in the exchange rate system shall be made without prejudice to the primary objective of the MNB to achieve and maintain price stability.

(3) Within the framework of the exchange rate regime implemented in accordance with paragraph (2), the MNB shall protect and influence exchange rates on domestic and foreign exchange markets, when necessary and possible.

(4) The Government and the MNB shall treat the exchange rate policy as a matter of common interest for the Member States of the European Union.

Interest Rates

Article 12 The MNB shall establish the central bank base rate as the key interest rate. The MNB shall publish the central bank base rate in the Official Gazette.

Article 13 The MNB may pay interest on the minimum reserves deposited by the institutions described in Article 9, paragraph (1). Different interest rates may be applied according to the various types of liabilities.

Emergency Loans to Credit Institutions

Article 14 In the event that circumstances arise which jeopardise the stability of the financial system due to the operation of a credit institution, the MNB may extend an emergency loan to the credit institution, observing the prohibitions on monetary financing. The MNB may make the extension of such a loan subject to performance of actions by the Hungarian Financial Supervisory Authority (hereinafter referred to as the 'Supervisory Authority') or performance of actions by the credit institution, at the proposal of the Supervisory Authority.

Relations with the General Government and Maintenance of Accounts by the MNB

Article 15 (1) The MNB shall manage the single Treasury account as well as other government accounts as specified by the Minister responsible for the state budget (hereinafter referred to as the Minister).

(2)*

(3) The MNB shall manage the current account of the Government Debt Management Agency Ltd.

Article 16 (1) The MNB – with due consideration of the provisions of Council Regulation (EC) No 3603/93 of 13 December 1993 specifying definitions for the application of the prohibitions referred to in Articles 104 and 104b (1) of the Treaty – may not extend overdrafts or any other types of credit facilities to the State, to local governments, to other budgetary organs, to the institutions and bodies of the European Union, to the central governments and the regional, local or other administrative bodies of the Member States, to other public bodies, as well as to economic associations operating under the dominant influence of the above, and may not purchase the securities of the above institutions directly from the issuer.

(2) In respect of the application of paragraph (1), an economic association shall be considered to operate under the dominant influence of the State, a local government or the institutions listed in paragraph (1), if the State, the local government, any other budgetary organ, an institution or body of the European Union, the central government of the Member States, a regional, local or other administrative organ of the Member States, jointly, directly or indirectly:

- a) has a majority interest in the registered capital of the association,
- b) controls the majority of voting rights attached to ownership rights, or
- c) has the right to appoint more than half of the members of the executive body and supervisory board of the economic association.

(3) Paragraph (1) shall not be applied in respect of credit institutions which are directly or indirectly owned by the State, a local government, any other budgetary organ, an institution or body of the European Union, the central governments of the Member States, or a regional, local or other administrative organ of the Member States. In respect of central bank money supply, such credit institutions shall receive equal treatment as privately owned credit institutions.

(4) In the application of this Article, indirect ownership shall mean when the ownership or voting rights of an enterprise are controlled through the ownership or voting rights held by another enterprise in that enterprise ('intermediary enterprise').

Article 17 (1) The MNB shall allocate to the forint exchange rate equalisation reserve the exchange rate gain or loss incurred on its receivables and liabilities denominated in foreign currency, such gain or loss being calculated according to the revaluation based on the official exchange rate as at the last day of the year under review.

(2) The MNB shall allocate to the foreign currency securities equalisation reserve the difference determined on the basis of the market valuation of receivables in foreign currency securities, following re-entry of the opening balance.

* No longer in force as of 01. 01. 2008. Repealed by Act CVI of 2007, Art. 58. (2) e)

(3) The forint exchange rate equalisation reserve and the foreign currency securities equalisation reserve described in paragraphs (1) and (2) above shall form a part of the MNB's equity. The balances of the equalisation reserves may not be offset against one another.

(4) In the event that, based on the available data, the balance of either of the equalisation reserves described in paragraphs (1) or (2) above is negative, the central budget shall make a direct cash reimbursement to the appropriate equalisation reserve in the amount of the negative balance by 31 March of the year following the year under review. Such reimbursement shall be recorded in the balance sheet in the reporting year.

(5) In the event that, based on the final data and with due consideration of the reimbursement described in paragraph (4), the balance of either of the equalisation reserves described in paragraphs (1) or (2) above is negative, the central budget shall make a direct cash reimbursement to the appropriate equalisation reserve within eight days of the Shareholder Resolution made pursuant to Article 46/A (b) hereof. In the event that the reimbursement described in paragraph (4) exceeds the balance determined on basis of the final data, the MNB shall reimburse the amount of overpayment to the central budget within eight days of the Shareholder Resolution made pursuant to Article 46/A (b) hereof, to the debit of the equalisation reserve. Such items shall be recorded in the balance sheet for the year in which the payments are effected.

Article 18 Seigniorage on currency withdrawal, i.e. the difference between the amount of currency issued and the amount of currency which has been exchanged into currency in circulation during the period specified by Article 31, paragraph (3) commencing on the date of withdrawal, shall be applied for the reduction of state debt vis-à-vis the MNB. The Minister and the Governor of the MNB shall conclude a separate agreement on the method of implementation of this provision.

Article 19 The MNB may act as an agent for the Government on the securities market, based on a commission by the Government or in respect of government-owned securities with the exception of equities.

Article 20 (1) Based on a commission by the State, the MNB may participate in the Government's foreign currency borrowing transactions and securities issues abroad, as well as in tasks related to the management of the Government's foreign receivables.

(2) The MNB may, under market conditions, enter into forward and hedging transactions with the Government or as an agent of such.

Article 21 (1) The MNB shall manage the current accounts of credit institutions, unless it authorises another credit institution to do so.

(2) The MNB shall manage the current accounts of clearing houses.

(3) The MNB shall manage the current accounts of the National Deposit Insurance Fund and the Investor Protection Fund.

(4) MNB shall manage the current account of the organisation pursuing central depository activities.

Article 22 Bodies for which the MNB maintains current accounts may place deposits with the MNB.

Article 23

Article 24

Article 25.

Tasks related to the Circulation of Payments

Article 26 (1) The MNB shall develop the national payment and settlement system.

(2) The payment and securities settlement systems covered by the act on settlement finality in payment and securities settlement systems shall be designated by the MNB.

(3) The Governor of the MNB regulates the payment transactions within the scope described in paragraph (1) h) of Article 60.

(4) Obligatory use of a certain payment method shall only be stipulated by law or government decree.

Article 27 (1) The approval of the MNB shall be required for the entry into force of the General Terms and Business Conditions of the clearing house for credit institutions which operates the transfer system for clearing transactions, as well as for any amendments thereof. The clearing house for credit institutions shall publish its General Terms and Business Conditions and any amendments thereof in the Financial Gazette.

(2)

Central Banking Information System

Article 28 (1) In order to fulfil its tasks described in paragraphs (1)-(7) of Article 4 – and in accordance of the provisions of Act LXIII of 1992 on the protection of personal data and access to data of common interest – the MNB operates a central banking information system, for which the organisations and natural persons determined by law shall provide the information required by the MNB. The contents and methodology of the statistical information system operated as part of the central banking information system shall be specified by the MNB in conjunction with the Central Statistical Office, with due consideration of the opinion of the Minister and the Supervisory Authority.

(2) The MNB shall publish all important information related to the operation of the banking system and to the financial situation of the country, and shall regularly provide detailed data on such information to the Parliament, the Government and the ministries (bodies of central state administration).

(3) Such data may only be disclosed in a manner which precludes the possibility of identifying information pertaining to the individual parties providing the data.

(4)

Central Bank Inspection

Article 29 (1) Central bank inspection shall cover compliance with this Act, the stipulations of Act CXII of 1996 on credit institutions and financial enterprises on the conditions of providing auxiliary financial services under the licensing authority of the MNB, as well as the decrees of the Governor of the MNB. Within this framework the MNB shall be entitled to request the submission of data, reports, balance sheets, certificates and inspection materials.

(2) The MNB shall be entitled to conduct on-site inspections in the course of its central bank inspection activities.

(3) Employees of the MNB conducting inspections may enter the premises (areas), view documents, inspect objects, monitor work procedures (activities), request clarification and gather evidence in other ways as may be required to successfully complete the inspection.

(4) Should it become necessary to establish the authenticity or completeness of the examined documents or to supplement the conclusions of the inspections, the employee of the MNB conducting the inspection shall be entitled to examine the facts in connection with the topics described in paragraph (1) at the institutions and natural persons under the scope of central bank inspection.

(5) Should a violation of law or central bank regulations be established, the MNB shall take the necessary measures, in particular:

- a)* exercise its rights in accordance with the provisions of this Act;
- b)* call the attention of the legal entity or natural person under the scope of central bank inspection to the violation of law experienced during the inspection;
- c)* request action of other bodies;
- d)* initiate disciplinary, misdemeanour, civil, criminal or other proceedings.

(6) Bodies which have been requested to act by the MNB shall investigate the MNB's request and inform the MNB within 30 days of any measures they have ordered.

Article 30 (1) In the event that a credit institution uses a credit extended by the MNB for purposes other than those specified in the contract, the MNB may impose penalty interest in addition to the interest specified in the contract on the amount of the credit which was used in violation of the contract.

(2) The maximum rate of the penalty interest set forth in paragraph (1) shall be equal to the central bank base rate.

Issuing Operations

Article 31 (1) The Governor of the MNB shall declare the issue of banknotes and coins, their denominations and distinguishing features, as well as their withdrawal in a decree. The withdrawn banknotes and coins shall cease to function as legal tender as of the date specified in the decree of the Governor of the MNB.

(2) Prior to withdrawal, banknotes and coins issued by the MNB shall be accepted at their face value by all persons in transactions which are conducted in the legal tender of Hungary.

(3) The MNB shall exchange into Hungarian legal tender banknotes at their face value which are no longer valid as legal tender and have been withdrawn from circulation for 20 years from the date of withdrawal, and coins at their face value for 5 years from the date of withdrawal.

(4) In respect of cash payment transactions, up to fifty coins of each denomination issued by the MNB must be accepted. This restriction shall not apply to credit institutions, the state tax authority and post office cash desks, which are required to accept any amount of coins as payment.

(5) Counterfeit, forged, punctured or otherwise defaced coins shall not be accepted as payment, and coins which are difficult to recognise need not be accepted as payment. Coins which have become difficult to recognise as a result of normal use shall be accepted as payment or exchanged at credit institutions, the state tax authority and post office cash desks, which shall exchange such at the MNB. Compensation for the value of coins which are defaced or became difficult to recognise as a result of improper use shall not be paid by the MNB

(6) Counterfeit or forged banknotes shall not be accepted and incomplete (mutilated) or damaged banknotes need not be accepted as payment. The MNB shall only pay compensation for the value of incomplete (mutilated) banknotes if more than half of the banknote is submitted. Credit institutions and post office cash desks shall accept incomplete (mutilated) and damaged banknotes for replacement by the MNB. Incomplete (mutilated) and damaged banknotes shall be exchanged by the MNB free of charge – except for the cases listed in paragraph (8). If there is a suspicion that a criminal offence has been committed in relation to the incomplete (mutilated) or damaged banknote, the MNB may withhold the compensation to be paid for the banknote or coin until the investigation by the criminal investigation authorities is completed.

(7) The MNB shall not pay compensation for the value of banknotes or coins which have been destroyed. Processes for the destruction of banknotes or coins may not be initiated.

(8) The MNB shall charge a fee for exchanging banknotes damaged by using anti-theft devices, unless a document issued by an authority proves that the damage results from an attempted or actual robbery or theft.

(9) For the purposes of this Article:

a) a damaged banknote is a banknote with an altered condition due to physical (mechanical) or chemical impact, or which has been damaged in any other way;

b) an incomplete (mutilated) banknote is a banknote the surface area of which is not complete.

Article 31/A (1) The MNB shall perform the technical and other tasks related to the protection of Hungarian and foreign legal tender against counterfeiting, with special regard to the tasks related to currency-expert services, training, data provision and dissemination of information. In the course of performing currency-expert services, for the purposes of usage in criminal procedures relating to the currency identified on the basis of an examination by

MNB to be counterfeit or forged, the MNB is entitled to manage until the completion of the criminal procedure personal data concerning the natural person depositor (holder) of the counterfeit or forged currency (surname, first name, address, type and number of identification document). Within this framework the MNB is entitled to forward the aforementioned data to the organs carrying out the criminal procedure or performing criminal investigation tasks in the counterfeiting case.

(2) Hungarian and foreign currencies that are presumed to be counterfeit or forged shall be submitted to the MNB for expert examination.

(3) Counterfeit Hungarian or foreign currencies shall be submitted to the MNB without compensation.

(4) Credit institutions, the treasury, foreign exchange companies and cash in transit companies, as well as organisations providing intermediation services for postal money transactions, postal financial activities and money transmission services shall examine the authenticity of the Hungarian and foreign legal tender traded or processed by them, and shall send or submit any items that are presumed to be counterfeit or forged to the MNB without delay. They shall also provide data on the circumstances of finding the items, including the personal data defined in paragraph (1), in the manner and with the contents required by the MNB.

Article 32 The MNB shall account for the costs associated with the production of banknotes and coins as an expense.

Article 33 The MNB, credit institutions and post offices shall exchange up to 100 coins of a single denomination for other coins or banknotes, or up to 100 banknotes of a single denomination for other banknotes or coins without charging fees, commissions or other costs.

Article 34 (1) Imitations of legal tender in circulation may only be produced for any purpose in accordance with the stipulations set down in the decree of the Governor of the MNB. The production, registration, safekeeping and destruction of imitations shall be governed by stipulations of the decree of the Governor of the MNB.

(2) The rules relating to imitations of euro, including medals and tokens similar to euro coins – with the exception of the rules on sanctions – shall be defined by the decree of the Governor of the MNB, with due consideration of the provisions of Council Regulation (EC) No 2182/2004 of 6 December 2004 concerning medals and tokens similar to euro coins.

Chapter III

Relations of the MNB with Other Bodies

Relations with the Parliament

Article 35 The Governor of the MNB shall report to the Parliament in respect of the activities and monetary policy of the MNB on an annual basis. The Parliament may also request information on an ad hoc basis.

Relations with the Government, Ministries and the Public

Article 36 The MNB shall be consulted regarding the drafts of decisions and legislative provisions related to the tasks of the MNB and the operation of the financial system.

Article 37 The Minister shall provide the MNB with preliminary information regarding the budget proposal. The MNB may express its opinion on the budget proposal to the Government and to the competent parliamentary committee following submission of the budget draft to the Parliament.

Article 38 The Government may not instruct the MNB in relation to its scope of tasks as set forth in this Act.

Article 39 (1) The agenda of the meetings of the Monetary Council (Article 49) shall be submitted to the Government.

(2) The Government shall be represented without voting rights by the Minister or a person duly authorised by the Minister at the meetings of the Monetary Council.

Article 40 The Government shall invite the Governor of the MNB to attend its meetings for items of the agenda pertaining to the MNB's scope of tasks.

Article 41 (1) The MNB shall prepare and publish a report on monetary developments and other important issues related to its basic tasks, at least on a quarterly basis. The MNB shall publish an announcement regarding the method and frequency of providing such information.

(2) Upon request, the MNB shall provide information to the Government and the ministries on an ad hoc basis in respect of monetary developments and other important issues related to its basic tasks.

(3) The Governor of the MNB shall notify the Minister of his decisions of high priority in respect of the operations of the MNB, taken under his powers pursuant to Article 50 (1) after such decisions have been taken. The MNB shall report to the Minister on foreign exchange transactions performed as well as on gold and foreign exchange reserves on a weekly basis. Each year, the Minister and the Governor of the MNB shall agree in writing on the scope of additional information to be made available by the MNB.

(4) Upon authorisation by the Government, the MNB may undertake tasks arising in international financial organisations, unless otherwise provided for by a legislative act.

Article 42 The Government and the Ministries (bodies of central state administration) shall, at the request of the MNB, provide the MNB with information related to their activities.

Relations with the Hungarian Financial Supervisory Authority

Article 43 (1) In the course of performing its tasks, the MNB shall cooperate with the Supervisory Authority.

(2)

Article 44 (1) The MNB and the Supervisory Authority shall exchange such data and information which are necessary for the partner organisation to perform its tasks.

(2) The MNB and the Supervisory Authority shall conclude an agreement governing the method and system of exchanging data and information which are necessary to perform their tasks.

Relations with the State Audit Office

Article 45 (1)

(2) The authority of the State Audit Office to audit the MNB is regulated by the act on the State Audit Office.

(3) The Chairman of the State Audit Office shall be consulted before the MNB's Auditor is elected or his dismissal is proposed.

(4)

Chapter IV

Organisation of the MNB

Legal Form of the MNB

Article 46 (1) The MNB shall be a legal person functioning in the form of a company limited by shares.

(2) The company name of the MNB need not be registered in the company register. The designation 'company limited by shares' need not be indicated in the company name of the MNB.

(3) The Statutes of the MNB shall be established by the Shareholder and shall be presented to the Parliament.

(4) The shares of the MNB shall be owned by the State. The Minister shall represent the State as a shareholder.

(5) MNB's registered capital is HUF 10,000,000,000, that is, ten billion forints.

Article 46/A The Shareholder shall, in a Shareholder Resolution:

- (a) establish and amend the Statutes;
- (b) establish the balance sheet and the profit and loss statement;
- (c) appoint and dismiss the Auditor; and
- (d) establish the remuneration of the Auditor.

Organs of the MNB

Article 47 (1) The organs of the MNB shall be the Monetary Council and the Supervisory Board.

(2) The MNB shall operate without a General Meeting and a Board of Directors.

Article 48.

The Monetary Council

Article 49 (1) In respect of the tasks described in Article 4, in Article 11, paragraph (2) and in Article 14, the supreme decision making organ of the MNB shall be the Monetary Council.

(2) Meetings of the Monetary Council may be convened at any time as deemed necessary, but shall be held at least once every month.

(3) The Monetary Council shall consist of at least five members and at most seven members. For the duration of their mandates the members of the Monetary Council shall be employees of the MNB.

(4) The members of the Monetary Council shall be:

- a) the Governor of the MNB, as the Chairman of the Monetary Council;
- b) the Deputy Governors of the MNB; and
- c) up to four other members, who shall be appointed by the President of the Republic for a term of six years.

(5) Hungarian citizens with outstanding theoretical or practical professional knowledge of issues related to monetary, financial and banking activities may be appointed as members of the Monetary Council.

(6) Candidates for the Monetary Council shall be heard by the competent parliamentary committee.

(7) Members of the Monetary Council shall swear an oath to the President of the Republic upon entering into office.

(8) The mandate of a member of the Monetary Council shall terminate upon:

- a) expiration of the term of office;
- b) resignation;
- c) dismissal; or
- d) death.

(9) Resignations shall be submitted in writing to the President of the Republic and the Prime Minister.

(10) The President of the Republic may only terminate the mandate of a member of the Monetary Council by dismissal, if the member of the Monetary Council no longer fulfils the conditions required for the performance of his duties or has been guilty of serious misconduct.

(11) The Governor of the MNB shall make proposals for the appointment or dismissal of two members from among the members pursuant to paragraph (4) point c), which the Prime Minister – in case he agrees to such a proposal – shall submit to the President of the Republic. The Prime Minister shall submit a proposal to the President of the Republic on the appointment and dismissal of further two members in consultation with the Governor of the MNB. The members referred to in paragraph (4) (c) shall be nominated alternately by the Prime Minister and the Governor of the MNB.

(12) A proposal for dismissal pursuant to paragraph (11) shall be sent to the affected member of the Monetary Council, who may apply to the labour court, in accordance with the regulations set forth in the Labour Code.

(13) The proposal for the dismissal of a member of the Monetary Council pursuant to paragraph (11) may be submitted to the President of the Republic following expiration of the period for application to the labour court, or, in the event that the labour court is applied to, following the rendering of a final decision by the court.

a) (14)

(15) The Monetary Council shall have a quorum if the majority of its members are present. The Monetary Council shall adopt its resolutions by a simple majority of the votes of the members present. In the event of a tie, the Chairman, or in case the Chairman is prevented, his deputy shall have the casting vote.

(16) The Chairman of the Monetary Council, or in case he is prevented, his deputy shall be entitled to make public the position of the Monetary Council.

(17) Every year, at its first meeting, the Monetary Council shall elect, by a simple majority of the votes of those attending, the Deputy Chairman of the Monetary Council. In the event that the mandate of the Deputy Chairman is terminated, the Monetary Council shall elect a new Deputy Chairman at its next meeting.

(18) Members of the Monetary Council, including the Governor and the Deputy Governors of the MNB, and of the Supervisory Board shall not be nominated for membership of the Monetary Council within three years of the termination of their office.

(19) On the day of the taking effect of the termination, by a Council Decision, of the derogation pursuant to Article 122 of the Treaty establishing the European Community, the Monetary Council shall cease to exist and the office held by its members in the Monetary Council shall expire as from the said day.

The Governor of the MNB

Article 50 (1) The head of the MNB shall be the Governor. The Governor shall be liable for the implementation of the decisions of the Monetary Council and for the governance of the operation of the MNB. The Governor shall:

(a) supervise the performance of the tasks specified under Article 4;

- (b) supervise the internal audit organisation of the MNB with regard to the responsibilities outside the competence of the Supervisory Board;
- (c) exercise the employer's rights over the employees of the MNB (excluding the members of the Monetary Council pursuant to Article 49(4)(c), with the exception of the powers concerning the appointment and dismissal of Deputy Governors;
- (d) take any decisions related to the governance of the operation of the MNB and outside the competence of the Monetary Council.

(2) Pursuant to Article 247 of Act IV of 2006 on Business Associations (hereinafter: the 'Companies Act'), the Governor of the MNB shall qualify as a senior officer.

(3) The Governor of the MNB shall be appointed by the President of the Republic for a term of six years, at the proposal of the Prime Minister.

(4) The President of the Republic shall dismiss the Governor of the MNB in accordance with the provisions set forth in Article 49, paragraph (10), at the proposal of the Prime Minister.

(5) A proposal for dismissal pursuant to paragraph (4) shall be sent to the Governor of the MNB, who may apply to the labour court, in accordance with the regulations set forth in the Labour Code.

(6) The proposal for dismissal may be submitted to the President of the Republic following expiration of the period for application to the labour court, or, in the event that the labour court is applied to, following the rendering of a final decision by the court.

(7) The Governor of the MNB shall appoint a Deputy Governor with general authorisation to represent him in the event that he is obstructed.

(8) The Governor may delegate his powers under Article (1) to the Deputy Governors.

(9) The provisions of Article 49, paragraphs (5)-(10) shall apply in respect of the Governor of the MNB.

Deputy Governors of the MNB

Article 51 (1) The MNB shall have two Deputy Governors. The Governor of the MNB shall make proposals for the appointment or dismissal of such Deputy Governors, which the Prime Minister – in case he agrees to such a proposal – shall submit to the President of the Republic. The proposal shall contain the scope of responsibilities of the candidate. The Governor of the MNB shall inform the President of the Republic, the Prime Minister and the competent parliamentary committee regarding any changes in the scope of responsibilities of a Deputy Governor.

(2) The term of office of Deputy Governors of the MNB shall be six years.

(3) The provisions of Article 49, paragraphs (5)-(10) and (12)-(13) shall apply in respect of the Deputy Governors of the MNB.

Article 52

Supervisory Board

Article 52/A (1) The Supervisory Board is the body responsible for the continuous supervision of the MNB on behalf of the owner.

(2) The internal audit body of the MNB shall be under the control of the Supervisory Board, with the restrictions defined in paragraph (3) of this Article, and it shall be under control of the Governor in matters falling outside the competence of the Supervisory Board. In the event that the Governor, while practicing his managing authority, learns of a statement in relation to auditing which falls under the competence of the Supervisory Board, he shall communicate such to the Supervisory Board.

(3) The competence of the Supervisory Board shall not extend to the tasks described in Article 4, paragraphs (1)-(7), and the impact of such on the profit and loss of the MNB. The Supervisory Board shall prepare the report, specified in paragraph (3) of Article 35 of the Companies Act, in accordance with such restrictions.

(4) The members of the Supervisory Board shall be:

- a) the Chairman, elected by Parliament,
- b) other members, elected by Parliament,
- c) a representative of the Minister,
- d) a consultant commissioned by the Minister.

(5) In order to determine the collective number of members under paragraph (4) (a) and (b), the number of the parliamentary panels of the government parties and the opposition parties as at the day of the commencement of the procedure of the election of the members of the Supervisory Board shall first be established. The collective number of members shall equal twice the greater of the two numbers so established. The members shall be nominated on a half-and-half basis by the parliamentary panels of the government parties and the opposition parties in such manner that each parliamentary panel shall nominate at least one member. In the event a parliamentary panel opts not to nominate a member, the other parliamentary panel(s) of that side shall nominate on its behalf. The members of the Supervisory Board shall be elected regardless of the fact that fewer than the maximum number of potential candidates have been put up.

(6) The Chairman of the Supervisory Board shall be nominated by the parliamentary panel(s) of the government parties.

(7) Parliament shall vote on the election to member of the candidates of the parliamentary panels pursuant to paragraph (4) (b) simultaneously, in a single group.

(8) Nomination for membership of the Supervisory Board shall be open to Hungarian citizens who possess excellent professional knowledge on matters relating to credit institutions, financial and accounting disciplines, who are eligible voters at the Hungarian Parliamentary elections.

Article 52/B The mandate of the membership of the Supervisory Board shall be for the duration of the mandate of Parliament and shall last until the expiry of the mandate of Parliament. The functions of the Supervisory Board shall cease when the new Parliament has elected the new membership of the Supervisory Board within three months of the inaugural

session of Parliament. In the event that the new Parliament fails to elect the members of the new Supervisory Board by the aforementioned deadline, the operation of the Supervisory Board shall continue until the new Parliament elects the membership of the Board.

Article 52/C Members of the Supervisory Board may be recalled by the Parliament responsible for their election, or by the Minister responsible for their appointment.

Article 52/D Members of the Supervisory Board shall be obliged to report to the Parliament responsible for their election, or to the Minister responsible for their appointment.

Remuneration of the Governor, the Deputy Governors, Members of the Monetary Council and Members of the Supervisory Board

Article 53 (1) The total earnings of the Governor from the MNB in a given year shall be the total earnings established for the Governor for the preceding year, increased by the increment calculated on the basis of the consumer price index expected for the current year, as contained in the convergence programme submitted to the Commission of the European Union in the preceding year.

(2) The earnings, from the MNB, of the Deputy Governor referred to in Article 50(7) shall amount to 80% of the earnings of the Governor of the MNB.

(3) The earnings, from the MNB, of the other Deputy Governor of the MNB shall amount to 70% of the earnings of the Governor of the MNB.

(4) The earnings of the members of the Monetary Council described in Article 49, paragraph (4), point c) from the MNB shall amount to 35% of the earnings of the Governor of the MNB.

(5) The remuneration of the Chairman of the Supervisory Board shall amount to 15% of the earnings of the Governor of the MNB received from the MNB.

(6) The remuneration of other members of the Supervisory Board shall be 10% of the earnings of the Governor of the MNB received from the MNB.

(7) No additional remuneration shall be paid to the Governor and the Deputy Governors of the MNB for their membership in the Monetary Council.

(8) In the event that the mandate of the Governor or a Deputy Governor of the MNB is terminated pursuant to Article 49, paragraph (8), point a), they shall be entitled to severance pay amounting to six months earnings.

Professional Secrecy and the Legal Status of Employees of the MNB

Article 54 (1) Employees of the MNB and members of the Supervisory Board shall be required not to disclose any state secrets, bank secrets, securities secrets and business secrets of which they gain knowledge in the course of discharging their duties at the MNB. Such an obligation to maintain secrecy shall remain even after their duties have ceased.

(2) The provisions of the relevant laws shall be authoritative for the concepts of bank secrets, securities secrets and business secrets and for the obligation of maintaining such.

Article 55 In the course of discharging their central banking duties, employees of the MNB and members of the Supervisory Board shall be considered public officials in respect of the application of criminal law.

Article 56 The provisions of the Labour Code shall apply to the employees of the MNB, with due consideration of the derogations set forth in this Act.

Conflict of Interest

Article 57 (1) Unless otherwise provided for by law, employees of the MNB may not establish and may not maintain a membership relationship, employment relationship, other legal relationship for the performance of work, or a legal relationship as an executive officer or member of the supervisory board at a financial institution, investment enterprise, the National Deposit Insurance Fund or the Investor Protection Fund. This restriction shall not apply to financial institutions in which the MNB has an ownership interest.

(2) Employees of the MNB to whom Article 49 does not apply may only establish or maintain an employment relationship or other legal relationship for the performance of work with the permission of the Governor of the MNB, with the exception of scientific, educational, artistic, proof-reading and editorial activities, and intellectual activities protected by copyright. Such activities must be reported.

(3) With the exception of inheritance, employees of the MNB may not acquire ownership in a financial institution or investment enterprise.

(4) Employees of the MNB may not hold ownership interests in a financial institution or investment enterprise. Upon appointment (election, assignment, employment) employees shall submit a statement detailing their existing ownership interests in any financial institutions or investment enterprises.

(5) Employees of the MNB shall alienate any ownership interests as described in paragraph (4) acquired prior to appointment or by way of inheritance, within three months of their appointment or acquisition.

(6) Subsequent to their appointment, employees of the MNB shall immediately report the acquisition of any ownership interests as described in paragraph (4) by close relatives living in their household.

(7) Until discharge of the obligation set forth in paragraph (5), or termination of any conflict of interest arising in respect of close relatives living in their household, the employee of the MNB may not take part in the preparation and adoption of any decisions related to the organisation which is involved in the conflict of interest.

(8) Upon appointment, employees of the MNB shall be required to make a statement regarding their membership in cooperative credit institutions. Employees of the MNB need not terminate such membership existing at the time of their appointment, as long as they owe a debt to the credit institution. However, during this period the employees may not participate in the preparation and adoption of any decisions on matters which pertain to the organisation in which they have membership.

(9) Upon appointment, employees of the MNB shall be required to make a written statement as to whether any of their close relatives living in their household are in a legal relationship as an executive officer or are in an employment relationship or other legal relationship for the performance of work with a financial institution or investment enterprise. Following their appointment, they shall immediately report the establishment of any such relationship. Until termination of the cause of the conflict of interest, the employee of the MNB may not participate in the preparation and adoption of any decisions which pertain to the financial institution or investment enterprise in which their close relative maintains a legal relationship which constitutes a basis for a conflict of interest.

(10) Employees of the MNB shall report acquisition of the following within three business days of such acquisition:

- a) securities except for government securities, certificates of deposit, investment units and privately placed securities; and
- b) other investment instruments.

(11) Employees of the MNB to whom Article 49 does not apply shall submit the reports and statements described in this Article to the party exercising employer's rights. The MNB shall register such reports and statements.

(12) A legal relationship shall not be established in the MNB, which would result in a managing (supervisory), controlling or accounting relationship between an employee of the MNB and a close relative of such person.

(13) In the application of this Article, the persons specified in Article 685, point b) of the Hungarian Civil Code and common-law spouses shall be considered to be close relatives.

Article 58 (1) Members of the Monetary Council of the MNB may only carry out other activities which are compatible with their central bank decision making duties. Such members may not hold office in political parties, may not carry out public activities on behalf of or in the interest of political parties, may not be representatives in Parliament or in local governments and may not be senior officers or public officials in the national or local government.

(2) Members of the Monetary Council of the MNB may not be executive officers or supervisory board members of a business organisation.

(3) The Governor and Deputy Governors of the MNB shall not establish any other employment relationships or other legal relationships for the performance of work.

(4) Members of the Monetary Council pursuant to Article 49, paragraph (4), point c) may establish other employment relationships or legal relationships for the performance of work, which do not give rise to a conflict of interest with their membership in the Monetary Council. Such relationships shall be reported.

(5) Members of the Monetary Council may establish other legal relationships for the performance of work related to scientific, educational, artistic, proof-reading and editorial activities, as well as intellectual activities protected by copyright. Such relationships shall be reported prior to being established.

(6) Members of the Monetary Council of the MNB shall submit their reports and statements pursuant to Article 57, paragraphs (4), (6) and (8)-(10) and Article 58, paragraphs (4) and (5) to the President of the Republic.

(7) In respect of members of the Monetary Council of the MNB the conflict of interest provisions set forth in Article 57, paragraph (1) shall also apply for a period of six months following termination of the employment relationship.

Declaration of Wealth

Article 58/A (1) The Governor and Deputy Governors of the MNB, as well as the members of the Monetary Council defined in Article 49, paragraph (4), point c) and the members of the Supervisory Board shall declare their wealth in the same way, with the same data contents and frequency as members of parliament. The annual declaration of wealth shall reflect the status on December 31 preceding the year when the obligation falls due. The declaration of wealth due upon appointment or dismissal shall reflect the status on the day of the appointment or dismissal. The person obliged to make this declaration shall enclose the declaration of his/her spouse or common-law spouse living in the same household, as well that of his/her children (dependents), with the same contents as the declaration of wealth of members of parliament. The declaration of wealth – except that of the dependents – is public, and an exact copy of it shall be made public by the Speaker of Parliament on the website of the Parliament.

(2)

(3) These declarations of wealth shall be registered by the Parliamentary Committee on Immunity, Conflicts and Mandate Inspection. The rules related to the declaration of wealth of members of parliament and to the proceeding related to their declaration of wealth shall apply – with the discrepancies listed in this Article – to the declaration of wealth of the Governor, Deputy Governors of the MNB, as well as the members of the Monetary Council defined in Article 49, paragraph (4), point c) and the members of the Supervisory Board, and to the proceeding related to their declarations of wealth. Anybody may initiate the proceeding related to the declaration of wealth with the Speaker of Parliament.

(4) Employees of the MNB shall declare their wealth at the time of taking up their positions at the MNB, and subsequently, every two years, in accordance with the rules relating to civil servants. These declarations are registered and inspected by the Governor of the MNB. These declarations of wealth shall not be brought to public.

Article 58/B The provisions of Article 57, paragraphs (1), (3)-(6), (9)-(10) and (13) and Article 58, paragraph (7) shall be applied to the members of the Supervisory Board.

Auditor

Article 59 The auditor of the MNB may be appointed for a maximum term of five years. Following expiration of said term the same auditor may not be reappointed within five years.

Chapter V

Miscellaneous Provisions

Authorisations

Article 60 (1) With due application of the Act on legislative procedures, the Governor of the Magyar Nemzeti Bank shall regulate in a decree

- a)* the base rate,
- b)* the minimum reserve ratio,
- c)* the calculation, the method of allocation and placement of the minimum central bank reserves, and the measures to be taken in case non-performance,
- d)* the issue, denomination, distinguishing features and withdrawal of bank notes and coins (including the collector banknotes and coins),
- e)* the technical and other tasks relating to the protection against counterfeiting of the Hungarian and foreign legal tender, determined in Article 31/A, paragraph (1),
- f)* the conditions for giving permission to prepare imitations of legal tender in circulation and the requirements for the production, registration, safekeeping and destruction of such imitations,
- g)* the regulations relating to imitations of euro, including medals and tokens similar to euro coins – with the exception of the rules on sanctions - with due consideration of Council Regulation (EC) No 2182/2004 of 6 December 2004 concerning medals and tokens similar to euro coins,
- h)* the tasks of the MNB set down in Article 4, paragraph (5), Article 26, paragraph (3) and Article 27, paragraph (2),
- ha)* the requirements for the execution of payment orders – not including the opening of accounts, disposal over accounts and limitations on disposal over accounts – giving prior or ex post information to clients, as well as payment methods and rules of their application,
- hb)* the conditions for cash handling,
- hc)* the money processing activity,
- hd)* carrying out the clearing transactions,
- he)* the requirements for the general terms and business conditions and internal regulations of institutions carrying out clearing activities in accordance with the Acts on Credit Institutions and Financial Enterprises, and the Capital Market,
- hf)*
- i)* the scope of information to be provided for the central banking information system, the method and deadline for data submission.

(2) The Minister responsible for justice affairs need not be consulted in the case of a decree of the Governor of the MNB.

(3)

(4)

(5) The MNB shall publish the central bank base rate effective from a given date on the rented electronic news agency site and its home page.

(6) In extraordinary circumstances the MNB shall publish the rate of minimum reserves in electronic messages sent to the institutions subject to minimum reserve requirements.

(7) The decree issued on the basis of paragraph (1), point c) shall be announced 15 days prior to coming into effect.

(8) After the special ways of announcement described in paragraphs (5) and (6), the decrees shall also be published in accordance with the general rules on the announcement of legal acts.

Article 60/A

Article 61 (1) In respect of bodies for which the MNB maintains or may maintain a current account, the MNB may conduct any forint transaction included in the scope of financial service and auxiliary financial service activities.

(2) In respect of natural persons and bodies to which paragraph (1) does not apply, the MNB may conduct the transaction of accepting, on the basis of a law or international agreement, bank deposits (safe deposit transactions) included in the scope of financial service activities.

(3)

(4) The MNB may maintain the bank account of the Hungarian Post Office associated with the performance of national cash payment settlement.

(5) The MNB may conduct any transaction in foreign exchange and precious metals included in the range of financial service and auxiliary financial service activities as well as such transactions in forints with non-residents.

Article 62 (1) Based on claims arising in connection with its central banking tasks, the MNB shall be entitled to a statutory lien on the assets of a domestic debtor, regardless of the legal grounds upon which title to such assets was acquired. Based on the statutory lien the MNB shall satisfy its claims in the most suitable manner from the assets subject to lien, without the need for court proceedings. This provision shall be appropriately applied to satisfaction from collateral security provided to the MNB.

(2) In respect of liens or collateral security for the benefit of the MNB – accrued in relation to the performance of its central banking tasks – the provisions of Act XLIX of 1991 on Bankruptcy Proceedings, Liquidation Proceedings and Voluntary Dissolution on the restriction of direct enforcement of such collateral claims shall not be applied.

(3) The provisions of paragraphs (1) and (2) shall be applied in relation to the collaterals provided to a central bank of another Member State of the European Union or to the European Central Bank, in connection with carrying out their central banking tasks.

(4) The MNB shall satisfy its receivables from activities described in Article 7 against credit institutions to the debit of the accounts kept for credit institutions – in the order following the correction of misstatements.

Article 63 In respect of legal proceedings, domestic legal action against the MNB may only be initiated at the registered office of the MNB. This provision shall not apply in respect of legal actions arising from employment relationships.

Article 64 The books of the MNB and the excerpts from such books, signed on behalf of the MNB, shall have power of evidence as official public documents.

Income Regulation of the MNB

Article 65 (1) Based on a Shareholder Resolution, the MNB shall pay dividends either from its annual net profit in the reference year or from its accumulated profit reserve. This dividend payment obligation shall be discharged within 8 days of the Shareholder Resolution on the relevant annual financial statements pursuant to Article 46/A (b).

(2) The MNB shall not pay interim dividend.

(3) To the extent that the losses incurred in the year under review exceed the balance of the accumulated profit reserve, the difference shall be paid directly by the central budget to the credit of accumulated profit reserve within 8 days of the Shareholder Resolution on the relevant annual financial statements pursuant to Article 46/A (b).

Chapter VI

Approximation with the Laws of the European Communities

Article 66

Chapter VII

Closing Provisions

Article 67 (1) The following laws may establish tasks for the MNB

- a)* tasks relating to money circulation, financial transaction-related services and the licensing of auxiliary financial services within its authority may be established by law;
- b)* tasks apart from the ones listed in point a) may be established by this Act.

(2) The tasks set forth in paragraph (1) shall be harmonised with the central banking tasks and responsibilities of the MNB as set forth in this Act.

Article 67/A

Article 68

Article 69 (1) The MNB may not hold ownership interests in any foreign or domestic business entity.

(2) Paragraph (1) shall not apply in respect of ownership interests in business entities related to the activities of the MNB.

(3) By way of derogation to paragraphs (1)-(2), the MNB may hold ownership interests in business organisations established for the following purposes:

- a) settlement of national clearing transactions between credit institutions; and
- b) settlement of securities and stock exchange transactions, safekeeping, management and registration of securities and stock exchange activities.

Article 70 Provisions of the Act on Business Associations shall apply to the MNB, with due consideration of the derogations set forth in that Act.

Article 71 (1) The terms and conditions of loans extended by the MNB to the central budget prior to the entry into force of this Act shall reflect market conditions.

(2) A portion of privatisation revenues at least equal to the amount of credit the MNB has extended for the sale of state property shall be utilised for the reduction of government debt vis-à-vis the MNB.

(3) On an exceptional basis, in emergencies jeopardising the stability of the financial system as a whole and the free circulation of money and subject to the prohibition of monetary financing, the MNB may grant a loan to the National Deposit Insurance Fund at the request of the latter; the maturity of such loans shall not exceed three months.

Article 71/A Central bank inspection shall extend to the compliance with the stipulations of the laws on money circulation, certain conditions of carrying out financial and auxiliary financial services falling under the licensing authority of the MNB, as well as to the stipulations of the central bank decrees issued before 1 May 2004 and still effective at the time of carrying out the inspected transaction or when the inspected event took place or the inspected status existed.

Article 72 (1) This Act shall enter into force on the eighth day following its promulgation, with due consideration of the exceptions set forth in paragraph (2).

(2) Article 17 and Article 65, paragraph (4) shall enter into force on 1 January 2002 and 1 January 2003, respectively.

(3) In respect of determining the profit or loss of the MNB for 2001, the provisions of Article 20, paragraphs (1) and (2) of the MNB Act in force on 1 January 2001 shall be applied, while in respect of the determination of advance dividend payment obligations for 2002, Article 78, paragraph (4) of the MNB Act in force on 1 January 2001 shall be applied. The provisions of Article 17, paragraphs (4)-(5) of this Act shall be applied in respect of discharging payment obligations related to equalisation reserves.

(4)

Article 73

Article 74

Article 75