

Unofficial translation, for the official version please consider the Hungarian one

## **MNB Decree 10/2005. (VI. 11.) of the Governor of the Magyar Nemzeti Bank**

### **on the Calculation, the Method of Allocation and Placement of the Minimum Reserves**

Pursuant to the authorisation defined under Article 60 (1) c) of Act LVIII of 2001 on the Magyar Nemzeti Bank, I hereby decree the following:

#### ***Scope***

**Article 1** This decree shall apply to

- a) credit institutions having operating licence, including Hungarian branches of credit institutions registered in those countries that are not parties to the European Economic Area Agreement,
- b) Hungarian branches of credit institutions having operating licence and registered in those (other) countries that are parties to the European Economic Area Agreement (for the purposes of this decree, the entities defined in points a) and b) of this Article are hereinafter referred to as “credit institutions required to hold reserves”).

#### ***Minimum reserve requirement***

**Article 2** (1) The credit institution required to hold reserves is required to hold minimum reserves with the central bank (hereinafter: “required reserves”) in respect of its liabilities as defined in paragraph (2) of this Article, - excluding liabilities mentioned in paragraph (3) of this Article - (hereinafter: “reserve base”).

(2) Required reserves shall be kept in respect of the following liability categories:

- a) deposits and loans received,
- b) debt securities,
- c) repos, including hold-in-custody and delivery repos, sell/buy-back agreements on securities/ gold and securities/gold lending in exchange of cash (hereinafter: repos).

(3) No required reserves shall be kept in respect of the following liability categories:

- a) liabilities owed to other credit institutions required to hold reserves falling under the scope of this decree,
- b) the outstanding total of loans from the Magyar Nemzeti Bank (hereinafter: the “MNB”),
- c) liabilities arising from repurchase (placement) transactions entered into with the MNB.

**Article 3** (1) The reserve ratio shall be defined by the MNB decree on the required reserve ratio, in accordance with the following categories of the liabilities included in the reserve base:

- a) deposits received with remaining maturity over two years at the time of entering into the balance sheet of the credit institution required to hold reserves, as specified in the MNB decree on the data supply obligation relating to individual financial instruments, general financial information and capital adequacy to be supplied for the Central Bank’s information system (hereinafter: data supply decree),
- b) loans received with remaining maturity over two years at the time of entering into the balance sheet of the credit institution required to hold reserves, as specified in the data supply decree,
- c) debt securities issued with agreed maturity over two years,
- d) repos,

e) all other liabilities included in the reserve base, which are not specified in points a)-d) of this paragraph.

(2) The amount of required reserves shall be equal to the product of the stock, as defined in paragraph (3) of this Article, of liabilities included in the reserve base of the credit institution required to hold reserves and the appropriate reserve ratio, as defined in the MNB decree on the required reserve ratio.

(3) MNB shall calculate the reserve base of the credit institution required to hold reserves, pursuant to the stock data on the last calendar day of the reporting period, given in the data supply entitled Statistical balance sheet and profit and loss account of credit institutions (MNB identification number: M01) (hereinafter: Statistical balance sheet data) excluding data for branches abroad, as specified in the data supply decree. If the credit institution required to hold reserves fails to provide the Statistical balance sheet data, MNB shall estimate its reserve base, taking into consideration Statistical balance sheet data provided earlier by the credit institution required to hold reserves as well as other available information.

(4) The reporting period shall mean the period between the first and the last calendar days of the month.

(5) MNB shall calculate the preliminary reserve requirement amount, as specified in paragraph (2), of a credit institution required to hold reserves, and shall notify the credit institution required to hold reserves in writing at least five MNB business days before the beginning of the maintenance period as specified in Article 4 (1). If the credit institution required to hold reserves modifies the Statistical balance sheet data in a way that the reserve requirement amount calculated from such data differs from the preliminary reserve requirement amount, it may request in writing on one occasion, up to the second MNB business day before the beginning of the maintenance period as specified in Article 4 (1), that MNB modify the preliminary reserve requirement amount (request for modification). MNB shall determine the final reserve requirement amount of the credit institution required to hold reserves on the basis of Statistical balance sheet data available up to the end of the second MNB business day preceding the beginning of the maintenance period as specified in Article 4 (1), and to the extent that such amount differs from the preliminary reserve requirement amount, it shall notify in writing the credit institution required to hold reserves of the final reserve requirement amount, on the MNB business day before the beginning of the maintenance period as specified in Article 4 (1) at the latest. The final reserve requirement amount of the credit institution required to hold reserves shall not be affected by the fact that the credit institution required to hold reserves modifies the Statistical balance sheet data of the reporting period after the determination of the final reserve requirement.

**Article 4 (1)** The credit institution required to hold reserves shall comply with reserve requirements subsequently, on average in the second period (maintenance period) following the period on which the calculation of required reserves was based (calculation period). When applying the averaging facility, the calendar days of the maintenance period shall be taken into account.

(2) Applying the averaging facility as defined in (1), the credit institution shall comply with reserve requirements once a month, on the last calendar day of the maintenance period.

**Article 5 (1)** The credit institution required to hold reserves shall comply with the minimum reserve requirement by holding the amount of required reserves in the following instruments, as calculated in accordance with Article 3 (2):

a) on the current account kept with the MNB.

b) credit institution required to hold a reserves that does not have a forint current account with the MNB (hereinafter: indirectly connected credit institution) on its forint current account held by a credit institution required to hold reserves that has a forint current account held by the MNB (hereinafter correspondent credit institution required to hold reserves).

c) up to the share of the credit institution required to hold reserves of the balance on the account serving as collateral for the performance of the instant transfer kept by MNB (hereinafter: sub-account balance).

(2) The balance of the forint current account of the correspondent credit institution required to hold reserves held by the MNB must contain the required reserves of the indirectly connected credit institution required to hold reserves. The MNB primarily considers as complying with reserve requirements the required reserve placed on the forint current

account of the indirectly connected credit institution held by the correspondent credit institution out of the balance of the forint current account of the correspondent credit institution held by the MNB.

(3) If the credit institution required to hold reserves wishes to comply with reserve requirements as specified in point c) of paragraph (1), it shall declare to MNB the amount it intends to take into consideration of the sub-account balance calculated for the 24<sup>th</sup> hour 00.00 minute of the given calendar day (hereinafter: midnight balance) for compliance relating to the given calendar day, as the latest on the next MNB business day. Such declaration shall be made in the form and by the time set out in the business terms and conditions relating to the account kept by MNB, on the next MNB business day at the latest. If the required reserve amount indicated in the declaration is higher than the midnight balance, then MNB will consider the amount of the midnight balance as compliance with reserve requirements. If the declaration for any calendar day does not arrive to MNB or arrives after deadline, the sub-account balance for the given day may not be taken into account as compliance with reserve requirements.

**Article 5/A** (1) Irrespective of whether it has required reserves the credit institution required to hold reserves shall continually have a forint current account held by the MNB or a forint current account held by the correspondent credit institution required to hold reserves from the time of the receipt of its operating licence - or in the case of branch offices as defined in Article 1. b) - from the time of their foundation. In the latter case the credit institution required to hold reserves shall have a trilateral agreement with the correspondent credit institution and the MNB allowing the observation of the requirements in this regulation in line with the account management characteristics of the indirectly connected credit institution required to hold reserves (hereinafter: agreement).

(2) The indirectly connected credit institution required to hold reserves shall ensure the agreement is made in a way that it shall have a continuous effective agreement until it has a forint current account held by the MNB. If the forint current account held by the MNB is cancelled, the credit institution required to hold reserves shall ensure that the agreement enters into force at the time its forint current account is cancelled at the latest.

(3) If the indirectly connected credit institution required to hold reserves has more forint current accounts but it is not held by the MNB, the institution may only fulfil the requirement to hold reserves on one forint current account indicated in the agreement.

(4) The information that needs to be included in the agreement is that the indirectly connected credit institution required to hold reserves gives authorisation to the MNB to enforce the recovery of the claims against the indirectly connected credit institution required to hold reserves arising from this regulation by debiting all the current accounts of the indirectly connected credit institution required to hold reserves held by the correspondent credit institution required to hold reserves. The authorisation shall not be revocable without the approval of the MNB.

(5) The start and the end date of the agreement shall be determined in a way that the obligations in this regulation shall be continuously fulfilled. The effect of the agreement may not start and end within the maintenance period.

**Article 6** (1) Holdings of required reserves are remunerated by the MNB according to the following formula:

$$K_t = \frac{A_t \cdot n_t \cdot r_t}{100 \cdot 360}$$

$$r_t = \sum_{j=1}^{n_t} \frac{i_j}{n_t}$$

Where:  $K_t$  – the amount of interest remunerated on compliance with reserve requirements for maintenance period  $t$ ,

$A_t$  = average daily holdings of required reserves for maintenance period  $t$ , weighted according to the number of calendar days (with regard to the balances recognised in daily account statements and the amount calculated as specified in Article 5 (3)), but maximum the final reserve requirement amount of maintenance period  $t$ ,

$n_t$  = number of calendar days in maintenance period  $t$ ,

$r_t$  = interest rate remunerated on compliance with reserve requirements in maintenance period  $t$ ,

$j$  =  $j$ th calendar day of maintenance period  $t$ ,

$i_j$  = interest rate remunerated on the  $j$ th calendar day of maintenance period  $t$  as defined by the MNB decree on the interest rate to be paid on compliance with reserve requirements.

(2) Interest remunerated shall be paid by the MNB to the credit institutions required to hold reserves on the second MNB business day of the month following the end of the maintenance period.

**Article 7 (1)** The MNB monitors the amount of compliance with reserve requirements held by the credit institution required to hold reserves.

(2)

(3) If, the MNB ascertains that the average daily data on compliance with reserve requirements of the credit institution required to hold reserves in the maintenance period falls short of the final reserve requirement amount, the MNB may debit the account of the credit institution required to hold reserves held by the MNB with the amount of reserve deficit, within 30 days of ascertaining the exact amount of reserve deficit according to the following formula. The MNB informs the credit institution required to hold reserves of the debit simultaneously.

$$B_t = \frac{E_t \cdot n_t \cdot p_t}{100 \cdot 360}$$

$$p_t = \sum_{j=1}^{n_t} \frac{k_j}{n_t}$$

Where:  $B_t$  = the amount of debit to be applied for the maintenance period  $t$ .

$E_t$  = deviation of the arithmetic average of reserve compliance data in maintenance period  $t$  weighted according to the number of calendar days (with regard to the balances recognised in daily account statements and the amount calculated as specified in Article 5 (3)) from the final amount of the final central bank reserve requirement,

$n_t$  = number of calendar days in maintenance period  $t$ ,

$p_t$  = interest rate used to define the amount of debit in maintenance period  $t$ ,

$j$  =  $j$ th calendar day of maintenance period  $t$ ,

$k_j$  = default interest rate corresponding to the prevailing base rate on the  $j$ th calendar day of maintenance period.

(4)-(5)

(6) If the debit specified in paragraph (3) of this Article cannot be effected due to insufficient funds on the current account kept with the MNB by the credit institution required to hold reserves, MNB will extend a loan for the necessary amount to the credit institution required to hold reserves, without its separate request, but simultaneously informing it of MNB's action. Amortisation of the loan falls due simultaneously to the allocation of the loan.

(7) The interest rate on the loan specified in paragraph (6) of this Article is equal to twice the prevailing central bank base rate. MNB shall not charge default interest on this loan.

(8) Provisions of this article shall be applied to the indirectly connected credit institutions in accordance with their special account management characteristics.

**Article 8** In case the liquidity situation of the credit institution required to hold reserves does not enable it to comply with reserve requirements, the credit institution required to hold reserves shall notify, in writing, the MNB thereof; in such a case, and at the request of the credit institution required to hold reserves, the MNB may exempt the credit institution required to hold reserves, partially or fully, from compliance with reserve requirements for a definite period.

**Article 9** (1) For the purposes of this decree, no transaction aimed at circumventing, either in part, or wholly, the rules governing reserve holdings specified in this decree shall qualify as a standard manner of exercising rights. In such cases, the MNB shall, in accordance with the rules governing reserve holdings as laid down in this decree, establish the amount of required reserves to be fulfilled, and apply the legal measures under Article 7 (3)-(7).

(2) For the purpose of applying the provisions of this Decree, "MNB business day" shall mean any day when MNB is open for business to perform operations related to its monetary policy.

#### ***Final provisions***

**Article 10** (1) This decree shall enter into force on 1 July 2005.