

## Methodological notes to the Press Release

The main aim of the MNB's statistical balance sheet containing average stocks (Table 1 of the Press Release) is to show credit institutions' (forint) liquidity position in a given month (see, for example, Chart 8 of the chart-pack). For this purpose, the balance sheet records foreign exchange swaps as a combination of deposit and loan transactions (i.e. as assets and liabilities arising from swaps), instead of recording them as derivatives at market prices, consistent with statistical concepts and standards, as is the case with the statistical balance sheet compiled from end-of-month stocks (see Table 2 of the Press Release). The average balance sheet records the nominal values of liabilities and claims arising from swaps. Consequently, the amounts shown on the assets and liabilities sides are identical. The reason for this is that the average balance sheet is compiled from daily data, and data on swaps are only available at nominal value at such frequency.

The table below shows the differences between the contents of other assets and other liabilities in the balance sheet containing average stocks, as well as in the balance sheet compiled from end-of-month stocks (Tables 1 and 2).

Balance sheet containing monthly average data	Balance sheet containing end-of-month data
<p><i>Other assets</i></p> <ul style="list-style-type: none"> <li>• Loans to domestic credit institutions, except two-week and six-month loans</li> <li>• Loans to other residents</li> <li>• Debt securities issued by residents</li> <li>• Shares and other equity issued by residents</li> <li>• Fixed assets</li> <li>• Other</li> </ul>	<p><i>Other assets</i></p> <ul style="list-style-type: none"> <li>• Loans to domestic credit institutions</li>   <li>• Loans to other residents</li> <li>• Debt securities issued by residents</li> <li>• Shares and other equity issued by residents</li> <li>• Fixed assets</li> <li>• Other</li> </ul>
<p><i>Other liabilities</i></p> <ul style="list-style-type: none"> <li>• Other domestic deposits</li> <li>• Capital and reserves</li> <li>• Other</li> </ul>	<p><i>Other liabilities</i></p> <ul style="list-style-type: none"> <li>• Other domestic deposits</li> <li>• Foreign currency debt securities held by residents</li> <li>• Capital and reserves</li> <li>• Other</li> </ul>

In addition to the above, there are other relationships and differences between Tables 1 and 2:

- On the liabilities side of Table 2, the contents of the item 'Loans to credit institutions' are equal to the combined amount of the items 'Current account balances of other MFIs', 'Overnight deposits of other MFIs' and 'Other deposits of other MFIs'.
- For the period up to December 2010, total holdings of two-week MNB bills are not split by holding sector on the liabilities side of Table 1. On the liabilities side of Table 2, however, only bills held by residents are shown. Non-resident holdings of MNB bills are included in foreign liabilities.
- From 1 January 2011, total holdings of two-week MNB bills on the liabilities side of the average balance sheet in Table 1 are split into two - 'Two-week MNB bills held by residents' and 'Two-week MNB bills held by non-residents'. Consistent with this, MNB bill holdings on the liabilities side of Table 2 are shown in a similar breakdown from January 2011. However, only the total stock of foreign liabilities - including non-resident holdings of two-week MNB bills - is shown in the chart-pack and time series on the Bank's website.
- On the liabilities side of Table 1, the total of outstanding two-week MNB bills is shown, in contrast with the liabilities side of Table 2, where only the amounts held by residents are shown.

- In the average balance sheet (Table 1), liabilities/claims arising from swaps with credit institutions at nominal value are shown in a separate row, while in the balance sheet containing end-of-month stocks (Table 2) such liabilities/claims at market prices are displayed in the 'Other' row.

From February 2011, the following time series breakdowns are shown backdated to the start of the series on the Bank's website, consistent with the Press Release:

- in addition to total holdings of two-week MNB bills, breakdowns into 'two-week MNB bills held by residents' and 'two-week MNB bills held by non-residents' are also included in the balance sheet time series of average stocks,
- in addition to the total stock of foreign liabilities, two-week MNB bills held by non-residents are shown separately in the time series of end-of-month stocks.

Chart 8 of the chart-pack shows recourse to the various central bank instruments, among others, holdings of deposits and two-week forint-denominated MNB bills. The MNB has been issuing two-week forint-denominated bills since 9 January 2007, replacing the two-week central bank deposit as a key policy instrument, in order to facilitate credit institutions' efficient liquidity management and the development of financial markets.

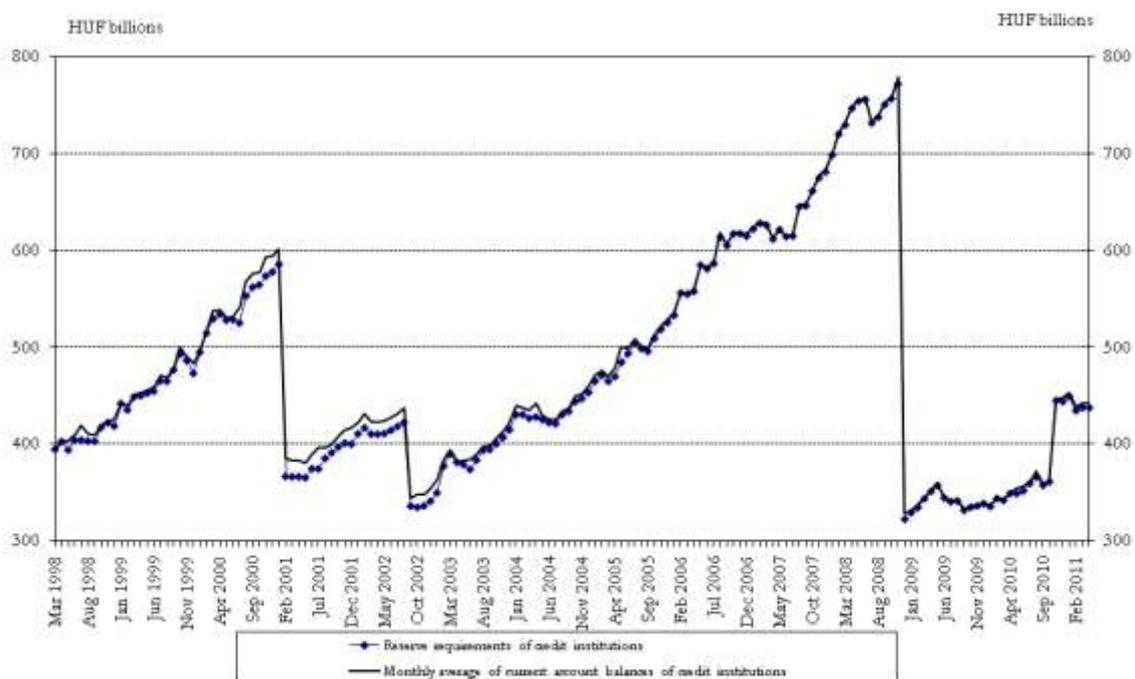
The new two-week MNB bill is a negotiable instrument, i.e. credit institutions may sell the security they hold both to other residents and non-residents prior to maturity.

Monthly changes in stock data are calculated from data before rounding. Consequently, the values derived using this method may be different from those calculated from rounded data.

In order to ensure comparability between data, the time series published by the Bank and the Charts of the chart-pack also show the time series for the monetary base and its components after adjusting for seasonal effects. Trend data are obtained from the seasonally adjusted series by eliminating outliers relating to deterministic effects identified in the seasonal adjustment process and irregular components not explained by the model. In addition to changes in conditions in the money market and other economic effects, the prevailing level of the reserve ratio also significantly influences developments in the monetary base and current account balances. The reserve ratio is set by the Bank. It currently stands at 2%, down from 12% in 1999 and from 5% over the period from 1 August 2002 to 23 November 2008.

Decree No 13/2010. (IX.6.) of the Magyar Nemzeti Bank has been in effect since 1 October 2010. This allows credit institutions subject to reserve requirements to choose one of the following reserve ratios with a frequency of up to twice a year: 2%, 3%, 4% or 5%. In the absence of such a choice, the lowest ratio of 2% applies to required reserves, as specified in the Decree.

Chart 1 Reserve requirements of credit institutions



In order to better capture the effects of the financial crisis, the trend of the monetary base plotted in Chart 4 of the chart-pack displays the sharp rise in the monetary base in October 2008, triggered by an increase in the average stock of currency in circulation and the significant increase in credit institutions' overnight deposits in response to the financial crisis. The trend also presents the liquidity-enhancing effect of the reduction in the reserve ratio in December 2008, i.e. the significant fall in the monetary base in January 2009. In December 2008, the fall in current account balances was offset by an increase in overnight deposits (see Charts 3, 4 and 6 of the chart-pack).

End-of-month data on the MNB's derivative transactions for 2008 Q4 and 2009 in the Press Release on credit institutions' aggregated balance sheet published on 30 September 2010 have been recalculated, consistent with the methodology applied since January 2010.

In calculating the forint values of derivative transactions, actual exchange rates were used in contrast with average exchange rates used previously. This approach was made necessary by the fact that the volatility of the exchange rate caused a significant deviation of the actual exchange rate from the average in the wake of the financial crisis. All this has caused a change in the Other assets and Other liabilities columns in the transaction tables (Tables 1.a.4 and 1.a.5) in the statistical balance sheet of the MNB (S.121).