

# INDEPENDENCE and RESPONSIBILITY



## THE STATUTE OF THE MAGYAR NEMZETI BANK

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## FOREWORD

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As early as 1848, upon the announcement of the 12 points, the Hungarian nation declared the necessity of establishing a national bank in order to regulate and supervise the finances of the nation and at the same time, to serve as a guarantee for national independence. These ambitions, however, were not to be achieved until 24 May 1924, with the adoption of Act V on the establishment and scope of operations of the National Bank of Hungary. The autonomous and independent Hungarian central bank founded thereby established a stable national currency, the pengő, undertook the maintenance of public accounts and the management of government debt, controlled the credit operations of the country and governed the functioning of the banking system.

Pursuant to the Fundamental Law of Hungary, Parliament adopted a cardinal Act on the Magyar Nemzeti Bank in September 2013, which reinforced the principle of central bank independence and provided the legal framework to ensure the efficient and effective operation of the central bank. This opened up a new era in the history of the central bank



by establishing a stable institution with an extremely broad range of competencies, capable of meeting the challenges of our time.

Following the adoption of the Fundamental Law and the Act on the Magyar Nemzeti Bank and commemorating the 90th anniversary of its foundation, the MNB wishes to redefine its mission, vision and fundamental values, as well as its key strategic and institutional goals by publishing the Statute of the Magyar Nemzeti Bank.

In accordance with statutory requirements, the management of the Magyar Nemzeti Bank strives to contribute to social welfare by pursuing a responsible monetary policy and promoting the predictable operation of the financial system that ensures the sustainable growth of the Hungarian economy.

Without prejudice to the achievement of its primary objective and the performance of its core tasks, the Magyar Nemzeti Bank shall utilise central bank instruments and resources by enforcing the principle of balanced, transparent and sustainable financial management, seeking to prevent the central budget from incurring a reimbursement obligation toward the central bank. At the same time, by exercising the

independence conferred upon it in financial management as well, in the context of its social responsibility programme the central bank is committed to serving public welfare and providing assistance from its own earnings.

Thus, the two main pillars of the activities of the Magyar Nemzeti Bank are INDEPENDENCE and RESPONSIBILITY, which shall serve as fundamental values in all of its decisions.



ÁDÁM BALOG  
Deputy Governor



FERENC GERHARDT  
Deputy Governor



LÁSZLÓ WINDISCH  
Deputy Governor



GYÖRGY MATOLCSY  
Governor

## MISSION

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By achieving and maintaining price stability, enhancing public confidence in the central bank and, without prejudice to its primary objective, maintaining the stability of the financial intermediary system, the mission of the Magyar Nemzeti Bank is to contribute to social welfare and to promote permanent and sustainable economic growth by ensuring a predictable environment. As the MNB is convinced that the economy should serve the well-being of Hungarian society as a whole, and serving the public good is considered to be the mission of the Magyar Nemzeti Bank.

## VISION

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Desiring Hungary to become the economic and intellectual centre of Central and Eastern Europe with an increasing population, strong communities, an improving quality of life and a competitive economy that ensures secure livelihood, the Magyar Nemzeti Bank, as the central bank of Hungary and a prominent institution with a history of 90 years, also wishes to contribute to the implementation of national strategic objectives.

Therefore, the Magyar Nemzeti Bank shall

- strive to achieve and maintain price stability as its primary objective;
- become a leading institution of national strategic thought based on its professional recognition, social acceptance and credibility;
- endeavour to establish a more predictable economic environment in which price stability encourages productive investments, thereby contributing to permanent and balanced economic growth;
- promote the smooth execution of payments, facilitate the reliable, efficient functioning of the supporting payment and settlement systems and continuously encourage their enhancement;
- ensure the availability of foreign exchange reserves in the optimal volume and composition in order to reduce the external vulnerability of the economy;

- closely monitor developments in foreign exchange markets, but refrain from influencing them with direct, active intervention as exchange rate trends are fundamentally determined by the relationship between market demand and supply;
- support interest rate policy through targeted lending incentives;
- perform the duties and obligations incumbent upon the Magyar Nemzeti Bank as a member of the European System of Central Banks and the European System of Financial Supervision;
- ensure the maintenance of the stability of the financial intermediary system through stricter, more efficient supervision and control and the reinforcement of financial consumer protection, and promote the sustainable contribution of the financial intermediary system to economic growth;
- support, without prejudice to the achievement of its primary objective, economic growth within the framework of the strategic cooperation between the Government and the central bank;
- consider its mission and strategic task to improve financial literacy and financial awareness and to enhance the underlying economic and social knowledge, as well as the related institutional system and infrastructure;
- through its expert staff, strategic cooperating partners and foundations established for implementing the objectives aligned to its tasks, seek to play a leading role in the renewal of economic and financial training and the implementation of a public awareness programme focused on supporting and developing education, research and science;

- become a prominent forum of European and global economic thought and topical issues affecting the monetary and financial system, strive to engage in networking with world-leading universities, think-tanks, institutions and experts, and develop a domestic and international cooperation network;
- implement, as an objective, its social responsibility strategy by means of value-based decisions, and contribute to the public good and the implementation of certain goals serving broad social interests through value-preserving, value-mediating and value-generating involvement, the provision of professional support, donations for charitable purposes and the purchase of cultural goods;
- aim to become an exemplary central bank by pursuing innovative and credible professional activities.

## FUNDAMENTAL VALUES

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The Magyar Nemzeti Bank shall

- be subordinated to legislation only; in performing the duties specified in the Act on the Magyar Nemzeti Bank, in making professional decisions and in the course of its financial management it shall act independently; however, it shall perform the duties and obligations incumbent upon it as a member of the European System of Central Banks and the European System of Financial Supervision;
- be committed, as a national institution, to serving the public good and supporting objectives serving broad social interests;
- perform its tasks and operations adhering to the standards of purposefulness, lawfulness, transparency, credibility, regularity, cost-efficiency, efficiency, effectiveness and sustainability;
- be committed to achieving value-based, quality-focused operations;
- have a strong professional background, knowledge base and forecasting capability;
- set an example in improving the efficiency of public finances with responsible cost management, seek to prevent the central budget from incurring a monetary reimbursement obligation toward retained earnings;

- subject to and to the extent of sustainable positive results, it wishes to exercise its independence in financial management as well, and accordingly, in compliance with regulations, it shall decide freely on the use of its profits which shall go toward replenishing its retained earnings on the one hand, and implementing the objectives defined in this Statute on the other hand;
- ensure, without jeopardising the equilibrium role of the retained earnings, the independence of the central bank in its financial management as well, so that the central bank does not need to take recourse to budgetary resources and taxpayer funds;
- carry out the supervision and control of the financial intermediary system impartially, in full compliance with legislative requirements, professional and ethical rules, on a sound professional basis, enforcing the principle of consistency and by formulating proposals for the adoption of measures for improvement;
- strive to create an optimal organisational structure aligned to the tasks to be performed;
- provide stable employment, ethical and professional recognition, competitive remuneration, as well as advancement, education and professional training options to employees who are willing to renew their professional skills continuously and have a long-term commitment to the objectives of the central bank;
- support creative cooperation, the exchange of professional experience within the organisation, the adaptation of best practices and innovative ideas and the operation of professional workshops and forums;



- be prepared for continuous organisational renewal and enhance the internal and external responsiveness of the organisation;
- ensure that its communications in respect of its supervisory and control activities, achievements and the decisions pertaining to its core tasks are prudent and comprehensible;
- endeavour to publish essential and informative communications, articles, publications and other documents according to high professional standards;
- cooperate with other participants of the financial institutional system and the economy.

## SUMMARY

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Pursuant to Articles 41 and 42 of the Fundamental Law of Hungary, Parliament adopted a cardinal Act on the Magyar Nemzeti Bank in September 2013.

Without prejudice to the independence of the Magyar Nemzeti Bank, by virtue of the Act which entered into effect on 1 October 2013, Parliament on the one hand reinforced the powers of the central bank and provided a legal framework ensuring its efficient and effective operation. On the other hand, in a forward-looking manner, it integrated the administrative duties relating to the supervision and control of the financial intermediary system into the tasks, competencies and organisational structure of the Magyar Nemzeti Bank, and conferred upon the central bank the responsibilities of a financial resolution authority. This opened up a new era in the history of the central bank, establishing an institution with an extremely broad range of competencies. At the same time, this created an opportunity to reconsider the supervisory framework, including the harmonisation of the framework and instruments of an integrated macro and microprudential supervision, the reinforcement of financial consumer protection and more efficient protection of consumers' interests. Therefore, the new MNB Act represents a significant breakthrough not only by Hungarian, but also by international standards.

The adoption of the Fundamental Law and the Act on the Magyar Nemzeti Bank necessitated that the MNB redefine its mission, vision and fundamental values, as well as its key strategic and institutional goals by publishing the Statute of the Magyar Nemzeti Bank. Consequently, this

document is the Magyar Nemzeti Bank's vision and creed in respect of its place and role in society, the institutional system and the lives and operations of citizens and domestic enterprises. At the same time, however, the Statute is both an institutional strategy – a “strategy of good governance” – and a “constitutional framework” for the operation of the central bank.

The fact that the central bank celebrates the 90th anniversary of its foundation in 2014 provided a special occasion for the publication of the Statute of the Magyar Nemzeti Bank; in addition, designed by Ignác Alpár and built in 1905, the building of the MNB itself will mark its 110th anniversary in 2015. We trust that, similar to the central building of the MNB, the Statute reflects, expresses and symbolises the significance and professional and social recognition of the Magyar Nemzeti Bank and at the same time, exemplifies both permanence and continuity.

The Magyar Nemzeti Bank interprets the provisions of the Fundamental Law in accordance with the National Avowal enshrined therein and the achievements of the historical constitution of Hungary. Thus, in accordance with the Fundamental Law, the MNB holds that

- the common goal of citizens and the State is to achieve the highest possible measure of well-being, safety, order, justice and liberty;
- democracy is only possible where the State serves its citizens and administers their affairs in an equitable manner, without prejudice or abuse;
- we have an abiding need for spiritual and intellectual renewal.

We trust in a jointly-shaped future and the commitment of younger generations. We believe that our children and grandchildren will make Hungary great again with their talent, persistence and moral strength.

With that in mind, the objective of the Magyar Nemzeti Bank is to become an institution that is not only capable of meeting the challenges of our time and adapting to changes, but also of serving society as a whole and contributing to the public good in its actions as a national institution. An indispensable condition for this is a stable value system and the consistent enforcement and implementation of two core values: independence and responsibility.

In the course of performing the duties specified in the Act on the Magyar Nemzeti Bank and in making professional decisions, the Magyar Nemzeti Bank is subordinated to legislation only.

The primary objective of the Magyar Nemzeti Bank is to achieve and maintain price stability. In respect of an effective monetary policy, the MNB attaches key importance to the independence and professional expertise of the central bank, the operational transparency of its decision-making bodies and the clear and comprehensible communication of its monetary policy, in accordance with the objectives pursued. The main goals of central bank instruments are to support the effect of monetary policy on the economy, to maintain the stability of the financial intermediary system and to address the systemic disruptions of financial markets. In addition, the Magyar Nemzeti Bank carries out the supervision and control of the financial intermediary system impartially and in full compliance with legislative requirements, and professional and ethical rules.

The Magyar Nemzeti Bank must be independent and exemplary in its internal operations as well; therefore, the central bank endeavours to perform its tasks and operations adhering to the standards of purposefulness, lawfulness, transparency, credibility, regularity, cost-efficiency, efficiency, effectiveness and sustainability.

Without prejudice to the achievement of its primary objective and the performance of its core tasks, the Magyar Nemzeti Bank utilises central bank instruments and resources by enforcing the principle of balanced, transparent and sustainable financial management. It strives to prevent the central budget from incurring a reimbursement obligation toward the central bank. By exercising the independence conferred upon it in financial management as well, the central bank is committed to serving public welfare and providing support, to the extent possible, from its own earnings.

As the Magyar Nemzeti Bank considers the expertise of its employees a key professional value, it provides stable employment, moral and professional recognition, competitive remuneration, as well as advancement, education and professional training options to employees who are willing to renew their professional skills continuously and have a long-term commitment to the objectives of the central bank.

The Magyar Nemzeti Bank considers the development and support of Hungarian economic expertise priority tasks. Therefore, the central bank seeks to play a leading role in the renewal of economic and financial training and the implementation of a public awareness programme focused on supporting and developing education, research and science.

In the opinion of the Magyar Nemzeti Bank, it is necessary to reorganise and renew the foundations it has established and to set up new foundations in order to

implement its priority goals. With regard to foundations, the Magyar Nemzeti Bank intends to create a financing model which aligns the size of the founding assets to the long-term implementation of the objectives; however, only the proceeds on a specific portion of the founding assets – as defined in the charter document – will be used on the foundation's goals.

The support policy of the Magyar Nemzeti Bank is focused on the provision of support which, in alignment with the core tasks of the central bank, is intended to facilitate the implementation of professional objectives and certain goals serving broad social interests, subject to their compliance with the MNB's principles of support. The principles of support include the protection of credibility and professionalism, the creation of value, the promotion of professional life and scientific thought, the development of financial literacy, education and talent management, the strengthening of social cohesion and lastly, solidarity. In addition, the support policy covers patronage, sponsorship and charitable donations as well.

In keeping with its economic and social role, the Magyar Nemzeti Bank is committed to the protection of national values and the creation of value, with the express goal of supporting issues of broad social significance; therefore, in the context of its social responsibility strategy, the central bank considers the support of national culture and implementation of the "Depository Programme" to be priority tasks.

In addition to its general institutional responsibility for the natural and built environment aimed at sustainability, the Magyar Nemzeti Bank strives to develop exemplary and leading practices in the area of environmental protection.

## 1

## LEGAL FRAMEWORK OF THE OPERATION OF THE MAGYAR NEMZETI BANK

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### 1.1. Fundamental Law

The Fundamental Law “shall be the basis of our legal order: it shall be a covenant among Hungarians past, present and future; a living framework which expresses the nation’s will and the form in which we want to live”. Accordingly, the Magyar Nemzeti Bank interprets the provisions of the Fundamental Law in accordance with the National Avowal enshrined therein and the achievements of the historical constitution of Hungary.

Pursuant to the Fundamental Law, the Magyar Nemzeti Bank shall be the central bank of Hungary. It shall be responsible for monetary policy as set out by a cardinal Act, and it was vested with the task of the supervision of the financial intermediary system by Parliament, at the level of the Fundamental Law.

The Magyar Nemzeti Bank shall be a legal person functioning in the form of a company limited by shares. The seat of the MNB shall be in Budapest. The shares of the Magyar Nemzeti Bank shall be owned by the State.

The Governor and Deputy Governors of the Magyar Nemzeti Bank shall be appointed for six years by the President of the Republic.

The Governor of the Magyar Nemzeti Bank shall present to Parliament an annual report on the activities of the National Bank of Hungary. The reporting obligation of the Governor of the Magyar Nemzeti Bank toward Parliament also covers the activities related to the supervision of the financial intermediary system.

Acting within his or her competence defined by a cardinal Act, the Governor of the Magyar Nemzeti Bank shall issue orders by statutory authorisation, which may not conflict with any law. The Governor of the Magyar Nemzeti Bank may be substituted for by a Deputy Governor designated in a decree for the purpose of issuing decrees.

The Governor of the Magyar Nemzeti Bank shall be a member of the Fiscal Council which, irrespective of the executive powers, shall formulate an opinion for Parliament on the accuracy of the underlying assumptions and calculations of the budget bill and hence, the well-foundedness of the state budget.

### 1.2. Act on the Magyar Nemzeti Bank

The detailed rules of the organisation and operations of the Magyar Nemzeti Bank are laid down in the cardinal Act on the Magyar Nemzeti Bank.

Core tasks of the Magyar Nemzeti Bank:

- it has the exclusive right to define and implement monetary policy;
- it has the exclusive right to issue banknotes and coins, including commemorative banknotes and coins, in the official currency of Hungary;

- it has the exclusive right to hold and manage official reserves in foreign exchange and gold, in order to preserve the external stability of the Hungarian economy;
- it has the exclusive right to conduct foreign exchange operations in relation to the management of foreign exchange reserves and the implementation of the exchange rate policy;
- it has the exclusive right to oversee the domestic payment and settlement systems as well as the securities settlement systems and, as part of this oversight duty, it monitors the operation of the system and the operation of the organisation performing central counterparty activities in order to ensure the sound and efficient operation of these systems and the smooth circulation of money. Within the scope of its powers set forth in the Act, it takes part in the development of payment and securities settlement systems;
- it collects and publishes the statistical information required for carrying out its tasks;
- it establishes the macroprudential policy for the stability of the entire system of financial intermediation, with the objective of enhancing the resilience of the system of financial intermediation and ensuring its sustainable contribution to economic growth. To that end and within the limits specified in the Act, the MNB explores the business and economic risks threatening the system of financial intermediation as a whole, promotes the prevention of the development of systemic risks and the reduction or elimination of systemic risks which have evolved; furthermore, in the event of disturbances to the credit market it contributes to the balanced implementation

of the functioning of the system of intermediation in financing the economy by stimulating lending and by restraining lending in the event of excessive credit outflow.

Miscellaneous tasks of the Magyar Nemzeti Bank outside of its core tasks:

- it acts as a resolution authority;
- via the Financial Arbitration Board, it helps to settle out of court disputes arising from the establishment and performance of legal relationships established between consumers and organisations of the financial intermediary system in respect of the use of services;
- it acts as a sole supervisor of the financial intermediary system with a view to
  - ensuring the smooth, transparent and efficient functioning of the financial intermediary system;
  - facilitating the prudent operation of the persons and organisations constituting a part of the financial intermediary system and supervising the prudent exercise of owners' rights;
  - exploring undesirable business and economic risks to individual financial organisations or individual sectors thereof, reducing or eliminating specific or sectoral risks which have evolved, and taking preventive measures with a view to ensuring the prudent operation of individual financial organisations;
  - protecting the interests of users of the services provided by financial institutions and strengthening public confidence in the system of financial intermediation.



The Act on the Magyar Nemzeti Bank explicitly names the tasks and activities traditionally performed by the Magyar Nemzeti Bank. For example:

- the MNB shall participate in supporting the preparation and publication of studies related to the provision of information to customers of the persons and entities covered by certain acts, to the reinforcement and promotion of financial literacy and to supervisory and supervised activities, as well as the activities of non-governmental consumer protection organisations;
- the revenues from fines imposed by the Magyar Nemzeti Bank may be used for:
  - promoting and supporting the training of specialists in economics and finance;
  - promoting and supporting economic, financial and interdisciplinary research;
  - strengthening and spreading financial culture, raising financial awareness and supporting such purposes, in particular, developing related educational and research infrastructures;
  - donations to foundations; and
  - charitable purposes.

Educational, training, research, support and charitable goals provide an opportunity for the endorsement of a broad range of social objectives in the context of social responsibility through the activities of the Magyar Nemzeti Bank.

The independence of the Magyar Nemzeti Bank in financial management also means that the central bank is to provide financing not only from the revenues from fines imposed, but also from any other funds at its disposal for the purposes of implementing its social responsibility strategy.

The Act stipulates specific purposes regarding the utilisation of the fines collected, but it states no other restrictions or provisions in respect of the additional revenues of the Magyar Nemzeti Bank. Accordingly, without prejudice to its primary objective and core tasks, and in consideration of other general principles applicable to the central bank, the decision-making body responsible for managing the operations of the Magyar Nemzeti Bank shall decide on the manner in which the central bank implements its social responsibility strategy.

The Magyar Nemzeti Bank is a national institution which, by virtue of the independence conferred upon it in financial management as well, has a legal option to serve public welfare and provide support, to the extent possible, from its own earnings. This implies a change in direction compared to previous years and decades in that the Magyar Nemzeti Bank wishes to exercise this option more extensively, based on a purposeful value selection. In accordance with the Fundamental Law, the Magyar Nemzeti Bank holds that “Property shall entail social responsibility”. Therefore, without prejudice to the achievement of its primary objective and the performance of its core tasks, the Magyar Nemzeti Bank utilises central bank instruments and resources by enforcing the principle of balanced, transparent and sustainable financial management.

The social responsibility commitment of the Magyar Nemzeti Bank is also corroborated by the international practice of central banks, based on which it can be stated that several European central banks have supported community and charitable goals for decades, and have had collections of coins, banknotes, books, art or other cultural goods in their possession.

### 1.3. Oversight of the operation of the Magyar Nemzeti Bank

#### 1.3.1. Parliament

In addition to the regular reporting obligation of the Governor of the Magyar Nemzeti Bank pursuant to the Fundamental Law, the Governor of the central bank shall report to the Parliament's standing committee for economic affairs in writing semi-annually on the Magyar Nemzeti Bank's semi-annual activity, with the content corresponding to that of the annual report. At the request of the Parliament's standing committee for economic affairs, in relation to the report, the Governor of the Magyar Nemzeti Bank shall be obliged to attend in person and supplement the report orally. Parliament may request to be informed, orally or in writing, by the Governor of the Magyar Nemzeti Bank on an ad hoc basis.

The reporting obligations of the Governor of the Magyar Nemzeti Bank shall not result in interference with the independence of the members of the central bank's decision-making bodies, shall not affect the status of the Governor of the Magyar Nemzeti Bank as member of the European Central Bank's General Council, and shall not affect the obligation of confidentiality arising out of the Statutes of the European System of Central Banks and the European Central Bank.

#### 1.3.2. State Audit Office

The State Audit Office supervises the financial management of the Magyar Nemzeti Bank and its activities under the MNB Act that are not included in its core tasks. In this context, the State Audit Office examines the compliance of

the operations of the Magyar Nemzeti Bank with regulatory requirements, the Statute of the central bank and the resolutions of its General Meeting.

The Governor of the Magyar Nemzeti Bank shall consult with the President of the State Audit Office prior to the appointment or proposal for dismissal of the Magyar Nemzeti Bank's auditor.

#### 1.3.3. Supervisory Board

The Supervisory Board is the body responsible for the continuous supervision of the Magyar Nemzeti Bank on behalf of the owner, with the proviso that its scope of competence shall not include the core tasks and certain other tasks defined in the Act on the Magyar Nemzeti Bank or their impact on the central bank's profit and loss. The Supervisory Board shall compile the report on the annual accounts as specified in the Act on Accounting within the above limitations.

The Supervisory Board shall support the work of the Executive Board with its audits and proposals, and facilitate the lawfulness, transparency and efficiency of financial management. It is the conviction of the Magyar Nemzeti Bank that the audits of the Supervisory Board and their results contribute to the cost-efficient, efficient and effective performance of public duties. The joint annual reports of the Chairperson and members of the Supervisory Board on their own activities facilitate the "good governance" of the Magyar Nemzeti Bank by the overall assessment of audit results.

The Magyar Nemzeti Bank endeavours to optimise the decision-making processes and bodies affecting financial management; thus, in particular, the cooperation between and efficiency of the Executive Board and the Supervisory

Board. Members of the Executive Board and senior officers of the central bank are committed to supporting the work of the Supervisory Board.

#### 1.3.4. Internal audit organisation

The internal audit department is an organisation of the Magyar Nemzeti Bank which, based on a systematic approach, consistently assesses the risk management, control and governance processes of the organisation with a view to achieving the organisational goals. The internal audit department of the Magyar Nemzeti Bank is subject to the control of the Supervisory Board, and with respect to duties falling outside the scope of competence of the Supervisory Board, it supports the responsible decision-making of the Executive Board by means of audits, and proactive communications and warnings. Internal audit is tasked with the assessment of regularity and compliance with the rules; moreover, in line with the expectations of “good governance”, in addition to regulatory audits, it conducts performance audits, carries out inspections in respect of suspected fraud, and executes consulting tasks.





## 2

CENTRAL BANK STRATEGIC  
OBJECTIVES AND TASKS

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## 2.1. Monetary policy objectives and instruments

2.1.1. Tasks of the Magyar Nemzeti Bank, monetary policy  
framework and objectives

- The primary statutory obligation of the Magyar Nemzeti Bank is to achieve and maintain price stability, which means a combination of permanently low inflation and firmly anchored inflation expectations. The central bank seeks to create an economic environment which ensures that the uncertainty arising from price fluctuations does not impair the efficient allocation of resources and encourages productive investments, thereby contributing to long-term, balanced economic growth. Low inflation allows the economy to function more effectively, contributes to better economic growth over time and helps moderate the cyclical fluctuations of the economy which are damaging to households and corporations alike.
- Pursuant to the Act on the Magyar Nemzeti Bank, the objectives of monetary policy are defined by the Monetary Council. The Magyar Nemzeti Bank implements its primary

objective within the framework of inflation targeting, in the context of which it pursues an interest rate policy that facilitates the achievement of the medium-term inflation target. In the inflation targeting system, the central bank seeks to attain price stability by ensuring an inflation rate near the 3 per cent medium-term target. In evaluating the achievement of the inflation target, an inflation level deviating by no more than  $\pm 1$  percentage point from the 3 per cent target is acceptable in terms of price stability. In the inflation targeting system, the objective of price stability takes preference over all other objectives of monetary policy. Pursuant to the Act on the Magyar Nemzeti Bank, the Monetary Council may modify the inflation targeting system.

- In the interest of increasing the efficiency of monetary policy, the Magyar Nemzeti Bank is committed to implementing the best practices of inflation targeting and, in line with the practice of central banks operating within an inflation targeting framework, it not only responds to current inflation but also considers, in a forward-looking manner, inflation forecasts. Thus, in making its decisions, the central bank considers different objectives in order to make assessments about expected economic trends or financial and capital market developments, and aims to maintain financial stability and the stability of the real economy.
- In respect of an effective monetary policy, the Magyar Nemzeti Bank attaches key importance to the independence and professional expertise of the central bank, the operational transparency of its decision-making bodies and the clear and comprehensible communication of its monetary policy in accordance with the objectives pursued.

### 2.1.2. Operating principles and tools of monetary policy instruments

The set of monetary policy instruments means all transactions performed by the central bank in the forint and foreign exchange markets. The main goal of the instruments is to support the effect of monetary policy (transmission) on the economy. In addition, the instruments are aimed at maintaining the stability of the financial intermediary system and addressing the systemic disruptions of financial markets.

Basic operating principles of monetary policy instruments

- use of market-conform instruments; in other words, those that are outside of the regulatory framework and require the efficient functioning of financial markets;
- a transparent, safe and cost-efficient structure;
- equal treatment of market participants;
- support of market-building;
- the central bank may only grant loans against adequate collateral.

The main policy instrument of the Magyar Nemzeti Bank is the two-week MNB deposit, the interest rate of which is the central bank base rate. The main objectives of the instrument are to shape monetary policy and influence short-term interbank yields. In addition, this is the main sterilisation instrument of the central bank, designed to absorb the bulk of surplus forint liquidity of the banking system.

The purpose of the central bank's regulation of reserve requirements is to support the liquidity management of credit institutions, thereby contributing to mitigating fluctuations in short-term interbank yields. Moreover, quick tenders may be announced on an ad hoc basis in order to mitigate the volatility of interest rates.

Foreign exchange swaps are intended to alleviate the foreign currency liquidity problems of the banking system and to bring swap market forint yields – which are an important factor in interest rate transmission – into line with the interest rates prevailing in the forint market. Swap markets play a key role in the balance sheet management of the banking sector.

### 2.1.3. Exchange rate policy

In accordance with the joint decision of the Government and the Magyar Nemzeti Bank, Hungary has introduced a free-floating exchange rate regime in which the forint exchange rate is allowed to fluctuate flexibly, determined basically by the relationship between market demand and supply.

The Magyar Nemzeti Bank does not have an exchange rate target. Developments in the exchange rate influence the Monetary Council's evaluation of the current situation indirectly, primarily through their impact on inflation and real economy expectations. In respect of the inflation and real economy outlook, longer-term exchange rate trends are decisive factors.

### 2.1.4. Foreign exchange reserve strategy

Foreign exchange reserves are the existing foreign currency denominated reserves of the Magyar Nemzeti Bank held in the form of receivables from non-residents. The foreign exchange reserves of the central bank are composed of foreign currency denominated securities issued by non-residents and financial receivables from the rest of the world. The main objectives of holding foreign exchange reserves are to secure the financial stability of the country and to support monetary policy. The foreign exchange reserve strategy of the Magyar Nemzeti Bank

is intended to ensure that, in accordance with strategic principles, the central bank holds an optimal level of foreign exchange reserves.

According to the baseline of the reserve strategy, the holding of reserves is determined by the following motives:

- ensuring the level of reserves expected by market participants, which is a priority objective in order to reduce the external vulnerability of the economy;
- with a view to supporting monetary policy, ensuring the availability of foreign exchange reserves for foreign exchange market operations designed to alleviate exchange rate fluctuations and for the replenishment of foreign currency liquidity in case of a liquidity shortage;
- ensuring the foreign currency required for the foreign currency denominated operations of the Hungarian Government.

Another element of the reserve strategy is the definition of the optimal level of foreign exchange reserves in consideration of a number of indicators designed to measure the reserve requirement, selected on the basis of the best international practices. A common feature of these indicators is that they best reflect investors' foreign exchange reserve expectations; accordingly, in determining the optimal level of foreign exchange reserves, the external debt of the national economy, including, in particular, gross short-term external debt, is a key factor.

In addition to determining the optimal level of foreign exchange reserves, the Magyar Nemzeti Bank also focuses on ensuring the optimal composition of foreign exchange reserves. The investment strategy of foreign exchange reserves is aimed at optimisation within the triple-target

system of security–liquidity–return; thus the central bank attempts to achieve the highest possible level of return with low risk levels and high liquidity.

### 2.1.5. Lending incentives strategy

Lending is indispensable for the smooth operation of a modern economy. In the wake of financial and economic crises, lending by the banking sector typically declines, which impedes the recovery from the crisis. With that in mind, without prejudice to its primary objective, the Magyar Nemzeti Bank designs and operates programmes and instruments that are aimed at facilitating the credit access of corporations and households and hence, promoting production, investment, exports, job preservation and ultimately, economic growth.

Monetary policy relies on the policy instrument of interest rate policy to smooth out fluctuations in economic and financial cycles. In addition, disturbances of the financial intermediary system may be managed by targeted instruments. Thus, the Magyar Nemzeti Bank supports interest rate policy with targeted lending incentives.

The selection of the lending incentive depends on the nature of the disturbances in financial intermediation. In its intervention, the Magyar Nemzeti Bank considers which lending activity should be encouraged in order to best contribute to sustainable economic growth at the lowest possible cost.

As interventions aimed at facilitating lending are temporary in nature, their planning includes the definition of the time horizon over which such lending incentive(s) are provided by the central bank. While this does not imply that their conditions may not be modified as required by

the circumstances, the objective of the interventions is not the final replacement of market mechanisms, but rather their stimulation during times of financial disturbances.

The Magyar Nemzeti Bank is engaged in a continuous dialogue with the credit institution system and participants of the real economy in order to ensure that its programme is adjusted to real needs and real problems; indeed, it is the conviction of the Magyar Nemzeti Bank that the feedback of stakeholders provides valuable information about the possible ways in which lending trends may be supported most efficiently. Moreover, in operating its lending incentive instruments the central bank strives to ensure that the social gain of lending incentives exceeds their social cost.

The Magyar Nemzeti Bank informs the public about its lending incentive programmes in a transparent manner. In its regular publications and, as required, through ad hoc communication channels, the central bank provides information about the outcome of specific programmes as well as the costs incurred.

## 2.2. Objectives and instruments of macroprudential policy

### 2.2.1. Macroprudential objectives

Pursuant to the Act on the Magyar Nemzeti Bank, the primary objective of the central bank is to maintain the stability of the financial intermediary system, which – through shaping macroprudential policy – can be achieved by crisis prevention and, within the limits of the instruments at the central bank's disposal, by crisis management.

An adequate macroprudential policy ensures the safe operation of the financial intermediary system and the protection of deposit holders. In contrast to microprudential policy which is intended to safeguard the stability of individual institutions, during this process the central bank examines the stability of the financial intermediary system as a whole, taking into consideration the effects of the links between individual financial participants.

The macroprudential policy of the Magyar Nemzeti Bank is aimed at

- increasing the shock-resilience of the financial intermediary system,
- ensuring the sustainable contribution of the financial intermediary system to economic growth and reducing the procyclicality of the banking system.

The Magyar Nemzeti Bank monitors the operation of key financial markets and the financial institutional system, and explores the risks threatening the savings of deposit holders, the customers of institutions and the smooth operation of the basic functions of the system. It identifies the sources of risks and the potential damages they may entail in the case of their persistence or further growth.

While the activity of the financial system may contribute to economic growth, in the absence of adequate control it can also jeopardise economic stability. The timely exploration of risks, therefore, is of key importance, and the central bank has a primary responsibility in this regard.

Therefore, the Magyar Nemzeti Bank

- monitors and analyses, on a regular basis, the evolution of the financial intermediary system, including its frictions, crisis phenomena and risk factors. The exploration of risks supports the central bank's macroprudential policy;

- analyses in detail the role of the banking system in the financing of the economy, assesses the cyclical position of the financial institutional system's credit supply and the degree of lending capacity and willingness to lend. These analyses represent an important point of reference for macroprudential policy and lending incentives;
- designs, enhances and, in the course of its analyses, utilises the models capturing the behaviour of financial institutions and the institutions' interaction with the macroeconomic environment. With the assistance of these models, the central bank performs macro stress tests in order to obtain information about the shock-absorbing capacity of the financial system;
- conducts applied research in order to gain insight into the operation of the financial system. The findings of such research also support macroprudential decision-making by offering in-depth analyses and impact studies;
- informs stakeholders and the general public about systemic risks in its regular publications. The purpose of the communication of this information is to ensure that stakeholders are aware of the reasons and objectives of macroprudential decisions, thereby facilitating informed decisions on their part. This provision of information, however, is not automatic; in certain situations revealing the risks before the planned intervention would in fact exacerbate the risks concerned. In such cases, the central bank publishes the background analyses only after the elimination of the risks;
- maintains contact with market participants on a continuous basis because, in addition to statistical data supply, its analyses strongly rely on market participants' expectations and evaluation of the current situation.

In these dialogues, it obtains information on the market situation and shares its own assessment of the situation with the participants concerned.

As the Hungarian financial system is organically embedded in the European financial system, all macroprudential analyses should be broad-based including, on the one hand, the monitoring of global trends and, on the other hand, networking and information-sharing with other national banks.

### 2.2.2. Operating principles and tools of macroprudential policy

Within the context of macroprudential policy, the Magyar Nemzeti Bank analyses the need for the introduction of any special regulatory tools based on the level of risk within the financial system, in the interests of mitigating such risk. In the context of this effort, the central bank places great emphasis on the prevention of the emergence of risks and the mitigation of risks which have already materialised. The central bank has a range of regulatory tools available to mitigate risk, as regulated under the Act on the Magyar Nemzeti Bank.

The Magyar Nemzeti Bank

- places special emphasis on establishing harmony between microprudential and monetary policy in elaborating its microprudential policy and applying the toolkit;
- conducts microprudential policy to achieve one of its priority objectives: enhancing the resilience of the financial intermediary system. If deemed warranted for the sake of financial stability, the central bank can apply the regulatory toolkit within its powers to bolster resilience;



- regularly analyses the systemic and individual liquidity position of financial institutions. If warranted in order to prevent the emergence of systemic risk or to enhance the resilience of the financial intermediary system, the central bank may issue a decree on systemic liquidity requirements for financial institutions and prescribe short and long-term liquidity requirements for such institutions;
- shall apply countercyclical regulatory tools to foster or curb borrowing. The central bank may define limits to mitigate the risks of excessive flow of credit and may promote financial institutions' willingness to lend when lending activity is low;
- all macroprudential decisions are preceded by an impact assessment. The central bank shall carry out consultations when preparing regulation with all market stakeholders, any relevant authorities of affected European Union member states and the European Central Bank. The central bank shall issue decrees on the application of regulatory tools and take steps to enforce any measures taken and follow-up action;
- shall consult with the financial institution sector and real economy actors when applying regulatory tools with a view to effectively conducting macroprudential policy. In the context of conciliation, the central bank presents the risks to be addressed, the regulatory tools to be applied, its expected course of action and estimated macroeconomic impact and consults on calibration. Gaining an understanding of the stance of market participants can ensure that macroprudential risks are managed in the most effective way possible with the smallest real economic sacrifices, in proportion to the scale of the risk;

- due to the integration of the Hungarian financial intermediary system within Europe, macroprudential policy can only be successful if the Magyar Nemzeti Bank cooperates with other member states and European organisations, in particular the European Systemic Risk Board and the European Central Bank when managing risks. Cooperation also covers the mutual recognition and enforcement of the applied tools in terms of cross-border exposures, along with the assessment of their impact on the domestic market;
- prepares analyses within the framework of macroprudential policy on the key topics of financial sector regulation most relevant in terms of systemic risk, and actively contributes to forging the regulation policy concept for the financial intermediary system, that is institutions, infrastructure and markets.

### 2.3. Prudential supervision strategy for the financial intermediary system

The mission of the Magyar Nemzeti Bank is to maintain and support the stability of the financial intermediary system and to reinforce the confidence of participants both in the system and in one another with the assistance of the integrated supervisory toolkit. It fosters the establishment of a stable, competition-driven financial sector trusted by the public through adequate supervisory and consumer protection control.

A strong central bank capable of systematically and effectively shaping the financial intermediary system, recognised and renowned in the supervisory community defines the following objectives:

### 2.3.1. Bolstering resilience

A priority task of the Magyar Nemzeti Bank in its capacity as the macro and microprudential supervisory body of the Hungarian financial sector is to ensure that only service providers with prudent operation are present on the Hungarian market. The financial crisis taught a valuable lesson both internationally and within the European Union that financial institution resilience must be reinforced. This objective can be achieved in terms of capital position and liquidity by implementing and applying new requirements, ensuring adequate profitability among institutions and expanding the safeguard mechanisms already set up in certain areas of the financial sector.

### 2.3.2. Ensuring sound, sustainable competition

Ensuring transparency is one of the cornerstones of fair competition in all sectors of the financial system. Products and services in certain sectors have become extremely complex and difficult to keep up with. Transparent pricing allows consumers to comprehensively compare products and services across various service providers and make informed decisions based on costs and discounts. Another aspect of sound market competition is fostering opportunities for actual cross-sector competition. Capital market participants, in particular insurance undertakings and funds may offer a true alternative to credit institutions for corporate and general government financing.

### 2.3.3. Enhancing the financial system's lending and financing capacity

A smoothly functioning banking system plays a pivotal role in fostering and maintaining economic growth, but adequate financing capacity and willingness hinges upon

a balanced balance sheet structure. In the wake of the financial crisis, credit institutions were forced to carry out significant provisioning for impairment losses to address the high volume of non-performing loans and bad debt. Some of these funds may become available after portfolio cleaning, allowing renewed lending.

### 2.3.4. Integrated operation

Following the integration of its supervisory operations, the Magyar Nemzeti Bank regards the redesign of the supervisory framework, in particular the harmonisation of the framework and toolkit of integrated macro- and microprudential supervision, the ongoing development of the supervisory model and the timely identification of systemic financial risks, as a priority in order to ensure the timely mitigation or elimination of the identified phenomena entailing systemic risks, which are often interrelated and involve multiple sectors.

The Magyar Nemzeti Bank strives to ensure equal and comprehensive regulation of similar or substitute financial sector activities to ensure predictability and transparency and true market competition, reinforcing trust among financial sector players and boosting the overall effectiveness of financial market supervision.

### 2.3.5. Continuous risk-based supervision featuring new solutions

The Magyar Nemzeti Bank considers the reinforcement of its forward-looking risk-based supervisory operations based on the presentation and assessment of institutions' business models a priority, alongside the assessment of the risk carried by the institutions under its supervision, of their risk management and resilience to stress above and beyond

legislative compliance, and the expedient management of the risks identified using international best practices. Along with comprehensive inspections mandated by law, the central bank also conducts targeted and thematic inspections aimed at sensitive and substantive focal points affecting various sectors as part of its priority efforts.

One of the key lessons of the financial crisis was that supervisory authorities must not only identify and manage risks, but also be capable of intervening in a timely and effective manner in market or institutional processes that may give rise to crises. This calls for the operation of adequate monitoring systems and the availability of the relevant toolkit and legal framework. A thoroughly elaborated system of early intervention allows the Magyar Nemzeti Bank to take timely, effective action if it perceives any negative trends or significant risk in financial markets or within institutions, averting subsequent crises or the need for resolution or liquidation. Early intervention may be an effective tool to avert the deterioration of confidence in financial markets and prevent a disbursement obligation for the National Deposit Insurance Fund or the Hungarian state.

In its capacity as a consumer protection authority and with a view to maintaining prudent market behaviour, the Magyar Nemzeti Bank also focuses on the operation of institutions engaging in cross-border operations directed at Hungary and in relation to which the central bank's supervisory toolkit is somewhat limited.

Both European Union and Hungarian legislation treat systemically important financial institutions as a priority. The Magyar Nemzeti Bank therefore allocates greater resources to the selection and supervision of institutions playing a key role within the financial system and aims to apply more sophisticated and detailed supervisory methodology to them.

### 2.3.6. Effective market supervision

With a view to protecting consumers and reinforcing market integrity, measures must be taken to ensure that financial services are provided by entities duly licenced by the Magyar Nemzeti Bank. By identifying and shutting down unlicensed or unreported financial market participants, the central bank aims to foster an intermediary system offering transparent investment opportunities and a level playing field for economic agents, creating an effective and trusted capital market environment in Hungary. The early identification and elimination of unlicensed operations shields market participants from subsequent losses and bolsters confidence in the financial intermediary system; timely intervention is therefore essential in the Magyar Nemzeti Bank's market surveillance efforts.

The response to financial innovation must be powerful legal enforcement in tune with market trends. This relies on a consistent, strong central bank policy of action and sanctions, also acting as a continuous communication channel towards the public over and above efficiently applying the range of available fines.

Transparency is pivotal to smoothly functioning money and capital markets. The Magyar Nemzeti Bank contributes to this end with its continuing monitoring efforts, the elimination and sanctioning of deviant market players and market-disrupting conduct and the targeted inspection of public issuers and supervised capital market participants. By conducting stricter audits of the consolidated accounts drawn up based on international financial reporting standards (IFRS) by the issuers of securities introduced on the regulated market, the Magyar Nemzeti Bank fosters international comparability.



### 2.3.7. Enhancing financial consumer protection

Within the context of financial consumer protection, the Magyar Nemzeti Bank systematically protects the rights and interests of consumers using the services offered by financial organisations and steers service providers towards responsible and fair practices. As part of this effort, phenomena detrimental to consumers must be identified as soon as possible, and therefore the central bank focuses on pinpointing and resolving their underlying causes, over and above addressing their symptoms to prevent their reoccurrence. The Magyar Nemzeti Bank also intends to systematically take action against advertising products in a unilaterally positive light or with incomplete information.

The Magyar Nemzeti Bank is developing its inspection methods to enable the more effective protection of consumer interests and to prevent losses stemming from unlawful conduct, and is ready to initiate the review or amendment of legislation or the drafting of new legislation in an effort to expediently indemnify consumers.

The Magyar Nemzeti Bank believes that the rapid development of certain markets (in particular the capital and insurance market) calls for effective prudential supervisory focus on institutions and comprehensive, strict product supervision.

The Magyar Nemzeti Bank intends to focus on systemic consumer protection anomalies affecting a broad range of consumers, as opposed to addressing individual complaints. The central bank considers the inspection of institutions affected by the largest volume of consumer complaints and risk products to be a priority, along with monitoring the practical enforcement of new legislation. The advantage of these ex officio inspections is that they offer the possibility of post-inspection of the findings and action taken and enable the systematic enforcement of law-abiding conduct.

Protecting vulnerable social groups constitutes one of the cornerstones of the Magyar Nemzeti Bank's consumer protection efforts, and therefore it places special emphasis on the products offered to these groups and the conduct of supervised organisations vis-à-vis these groups.

The Magyar Nemzeti Bank operates a Financial Consumer Protection Centre focusing on consumer protection topics. By fully redesigning its customer service, the central bank aims to create an effective consumer protection organisation capable of providing clear, understandable solutions to consumer issues, acting in their best interest. In addition, the Magyar Nemzeti Bank endeavours to resolve issues before they reach the administrative stage, assuming that financial service providers are also interested in smooth resolution.

### 2.3.8. Development of financial literacy

Improving consumer awareness is essential and encompasses the organisation of transmitting broad financial knowledge and developing financial literacy. Enhancing the transmission of knowledge and showcasing safe products in order to raise consumer awareness of the risks inherent in certain product groups is a priority task for the Magyar Nemzeti Bank. In this area, it cooperates with other state institutions, in particular the State Audit Office.

It is in the best interest of all market participants to raise consumer protection awareness among financial service providers, in addition to consumer awareness. Consumer protection aspects must serve as guide from the product design stage to market introduction, in particular in the transaction conclusion phase and the period directly preceding it.

With a view to preventing legal infringements, active communication is crucial and provides a framework for establishing partnership and dialogue in order to exert preventive influence on the conduct of supervised entities. As part of this effort, the central bank hosts a Consumer Protection Forum as a platform for cooperation and dialogue with the consumer protection representatives of supervised entities, while the Financial Consumer Protection Centre provides a link to NGOs. The Magyar Nemzeti Bank also aims to produce publications and hold presentations to enhance financial consumer protection and the recognition of the central bank's efforts in this domain.

### 2.3.9. Firm and timely legal enforcement

One of the key functions of legal enforcement is to quickly and effectively apply legal consequences to the parties responsible for the infringements which are found. In this regard, the Magyar Nemzeti Bank takes consistent action to reveal and identify all responsible parties and the persons and organisations aiding them, and is also ready to initiate other procedures and involve other authorities as part of this effort.

### 2.3.10. Active regulatory role

The Magyar Nemzeti Bank aims to transform the regulatory environment in a manner allowing it to orientate the operation of supervised sectors and financial markets in cooperation with European and Hungarian regulatory authorities, effectively representing its position and in line with institutional objectives. A further objective is to expand and consciously apply the role of oversight and regulation of the financial intermediary system in order to create a transparent, agile and prudent prudential regulatory system taking into consideration all aspects and expected impacts.

### 2.3.11. International role

The Magyar Nemzeti Bank aims to see Hungary play a dynamic, proactive role in the preparation and oversight of European-level regulations and in the thorough, effective and timely national implementation of new, risk-based international requirements systems.

The Magyar Nemzeti Bank aims to meet the objective of creating smoothly functioning financial markets in the application of the CRD IV/CRR and the elaboration and market introduction of the emerging Solvency II regulatory framework, and – based on the available opportunities – seeks regulatory solutions which are capable of supporting the prudent and effective functioning of Hungarian institutions and expanding market opportunities rather than limiting them. The central bank also regards assuming an active role with regard to the international financial groups present in Hungary as a priority, as this can safeguard the interests of Hungarian consumers and the national economy.

## 2.4. Resolution authority functions

The 2008 financial crisis could have been averted if a crisis management tool based on a common framework of core principles and offering more than traditional insolvency procedures had been available, allowing designated public authorities to intervene quickly and efficiently at an early stage. This would have spared countries from the state-funded bank bail-outs using taxpayers' money, which has undermined the fiscal stability of many governments.

The bank resolution framework currently being elaborated addresses crisis situations at these very systemically important financial institutions and investment enterprises. Its objectives are to

- maintain financial stability;
- ensure the continuous availability of the essential financial service functions of the affected institutions;
- protect consumer and taxpayer money; and
- minimise financial stability risk and avoid unnecessary impairment.

In the future, the Magyar Nemzeti Bank will act as the resolution authority in Hungary. The addition of new money and capital market supervisory functions to its former central bank and monetary functions creates a unified organisation capable of effective intervention to protect depositors should the need arise.

The Magyar Nemzeti Bank will conduct these activities integrated into the European system consisting of other European Union central banks and authorities tasked with similar functions, and will cooperate closely with other national and banking union resolution and supervisory authorities, in particular the European Banking Authority, the European Central Bank and the Single Resolution Committee.

The Magyar Nemzeti Bank's resolution authority functions will not only apply to addressing specific crisis situations, but also preparing for their potential future occurrence during periods of relative calm. In this context, it will draw up bank resolution plans for every major credit institution and investment firm and identify any potential legal, organisational or other obstacles that may hinder smooth resolution.

In the context of its resolution functions, the Magyar Nemzeti Bank intends to actively contribute to the management of the future resolution fund. The Magyar Nemzeti Bank will create a resolution strategy setting out the core principles and unique set of the objectives and the associated toolkit that will guide it in its resolution efforts defined in law.

The Magyar Nemzeti Bank will showcase its new resolution function to the public, market participants and investors, as transparency in this domain is also crucial to bolster central bank credibility and public trust in financial system stability.

## 2.5. Development and review strategy for the payment, clearing and securities settlement systems

The sound and smooth functioning of payments and payment and settlement systems are essential for real economic and financial transactions. It is the Magyar Nemzeti Bank's fundamental task to promote the smooth execution of payments and to facilitate the reliable, efficient functioning of the supporting payment and settlement systems. In the Magyar Nemzeti Bank's interpretation, this fundamental task calls for continuously promoting development in its capacity as regulator, catalyser of development, control and oversight authority as a means to most effectively contribute to social welfare.

Experience of recent years clearly confirms that the Magyar Nemzeti Bank should assume a role of active initiator and catalyser in payments development in light of its prominent role in the domestic payments system.

Smooth payment transactions rely not only on the safe and effective functioning of payments service providers, but also of the central infrastructure serving them. Oversight refers to the systemic risk analysis of clearing systems, their participating institutions, the infrastructure linking these institutions and systems and of the operation of the procedures and payment methods used, and the Magyar Nemzeti Bank is vested with these powers. The central bank strives to ensure that systemically important systems (VIBER, BKR, KELER, KELER KSZF) operate in line with the strictest international standards, that the legal, financial, liquidity and operational risks inherent to them are duly managed and that the systems remain continuously available to customers at the highest standard of service.

The Hungarian central securities depository (KELER ZRt.) will join the T2Securities platform set to be introduced in 2015 by the European Central Bank, which will radically change the European securities settlement landscape. This will result in substantial changes in the performance of cross-border securities transactions. The Hungarian forint could be introduced to the Continuous Linked Settlement (CLS) mechanism with a view to mitigating foreign exchange settlement risk, which could eradicate settlement risk on forint FX transactions. The Magyar Nemzeti Bank plays a pivotal role in these functions in its capacity as owner, catalyser of development and overseer.

The integration of supervisory functions allows the unified and high-level oversight of payments legislation. This significantly improves the effectiveness of payments inspections. The Magyar Nemzeti Bank intends to use its payments oversight powers to eliminate information asymmetry for consumers within the complex legislative environment and effectively protect consumer interests from payment service providers in a dominant position. As part

of this effort, the central bank aims to focus with special emphasis on enforcing service provider compliance with requirements governing payments transactions and to take firm and strict action in the event of any violations using the available sanctioning tools.

The Magyar Nemzeti Bank regards the sound and effective functioning of companies operating financial infrastructures and payment and settlement systems as crucial. With a view to enforcing public and consumer interests, it intends to acquire ownership in these companies to ensure the smoother operation of these systems, supplementing its current authority powers.

The Magyar Nemzeti Bank deems the assumption of a role as the owner of infrastructure as being warranted based on three factors: Firstly, it endeavours to ensure that consumers have access to the most cost-effective payment services, a goal that cannot be achieved in profit-oriented operating models which keep fees above a threshold. Secondly, the central bank is responsible for the operation and development of financial infrastructure in Hungary; therefore as the owner of infrastructure, it has the capacity to foster system development better serving consumer interests. Thirdly, the Magyar Nemzeti Bank considers it important to have companies forming the background infrastructure of payment services in state ownership, similarly to other public utility companies in monopolistic positions.



## 2.6. Supporting the Government's economic policy

Pursuant to the Act on the Magyar Nemzeti Bank, without prejudice to its primary objective, the central bank shall support the economic policy of the Government using the instruments at its disposal, geared towards full employment and growth. The wording of the Act clearly indicates that supporting the Government's economic policy is not a choice, but rather a statutory obligation for the Magyar Nemzeti Bank.

The Magyar Nemzeti Bank firmly believes that it can effectively support the Government's economic policy in a low domestic and international inflation environment, therefore strategic cooperation between the Government and the central bank could be a key driver for launching economic growth. Accordingly, one of the central bank's strategic goals is to play a more active role in stimulating the economy, without prejudice to its primary objective. This means conducting monetary policy conducive to the Government's economic policy.

The Magyar Nemzeti Bank endeavours to provide the foundations for economic policy decision-making with its novel and forward-looking analyses, contributing as a professional workshop at the Government's request to the monitoring and forecasting of economic trends and social trends shaping the economy and the identification of economic policy strategies and models.

The Magyar Nemzeti Bank realises a profit or loss on its operations based on the economic processes at play. The balance of these items goes toward retained earnings. In accordance with the Statute, the central bank shall endeavour to prevent the incurrence of a monetary reimbursement obligation towards retained earnings, without prejudice to its primary objective and basic tasks.

By applying the equilibrium role of retained earnings, it ensures the independence of the central bank in its financial management as well, so that the central bank does not need to take recourse to budgetary resources and taxpayer funds. In the long run, the Magyar Nemzeti Bank may suffer financial losses in the context of protecting and serving Hungary's economic interests. Such losses are recognised in a deferred manner, in line with the operating principles and practice of the profit equalisation reserve as part of the central bank's accounting and do not affect taxpayer funds or the current general government balance.

## 2.7. Decision-making bodies and expert forums

### 2.7.1. Monetary Council

- The Monetary Council is the supreme decision-making body of the Magyar Nemzeti Bank.
- The Magyar Nemzeti Bank is able to achieve its inflation target primarily by adequately setting the base rate and scheduling changes thereto. Hungary's central bank base rate is set by the supreme decision-making body of the Magyar Nemzeti Bank, the Monetary Council. The Monetary Council shall comprise at least five and at most nine members and shall consist, besides the governor and deputy governor of the MNB, of external members elected by the Parliament for a term of six years. A Government representative takes part in the Council's meetings, but has no voting rights. Meetings of the Monetary Council are held at least once every month and decisions are passed by simple majority of the votes of the members present.

- The Monetary Council discloses its decisions to the public in the press releases published on the day of the interest rate decision and in the MNB decrees announced in the Official Gazette. In addition, the central bank also uses a variety of communication tools to share information with economic agents and the general public, with a view to ensuring the accountability of monetary policy and enhancing the effectiveness of the transmission mechanism. If economic agents have a clear understanding and acceptance of the central bank's objectives and the necessary measures, the credibility of the inflation target can be improved and inflation expectations can be anchored close to the target. Financial analysts can also produce more accurate forecasts of central bank decisions in possession of the right information, fostering the smooth operation of the financial markets.
- In an effort to achieve inflation targets and boost monetary policy effectiveness, the Magyar Nemzeti Bank is continuously developing the quality and effectiveness of the processes supporting Monetary Council decisions. This is mainly achieved by gaining a better understanding of the impact mechanisms of monetary policy and correlations between inflationary, real economic and financial developments, in addition to improving the operation of the system.
- Decision preparation work relies on outstanding analyst expertise and a deep understanding of macroeconomic and financial market processes. Information is presented to decision-makers summarised in line with the best international practices, in the form of forecasts and simulation exercises. Methods of analysis must be transparent, well-documented and robust in order to contribute to clear and simple monetary decisions and predictable monetary policy.

## 2.7.2. The Financial Stability Council

- Financial stability covers four main intervention areas: macroprudential and microprudential supervision, financial consumer protection and resolution. Macroprudential supervision aims to ensure the safety of the entire financial system and to foster economic growth. By contrast, microprudential supervision oversees the safe operation of individual entities within the financial system, primarily with a view to ensuring that clients' deposits remain safe. Financial consumer protection aims to compel financial institutions, wielding much greater power to enforce their interests and an informational advantage, to fully respect consumer rights. Resolution is geared towards adequately resolving near-crisis situations of institutions of systemic importance while protecting taxpayer funds.
- The Financial Stability Council was set up to interactively carry out these functions. The governor and deputy governors of the Magyar Nemzeti Bank, along with the executives appointed by the governor, have voting rights within the Council. The Financial Stability Council shall convene as necessary, generally on a biweekly basis and make its decisions by a simple majority of the votes of the members with voting rights present.
- The Magyar Nemzeti Bank is the designated macroprudential authority in Hungary, and shapes macroprudential policy using the tools at its disposal. The broader regulatory environment, however, also affects systemic risks. Accordingly, the Financial Stability Council is assisted by a high-level Government representative when discussing macroprudential matters for coordination purposes; the representative does not have voting rights.

- The Monetary Council is the central bank's supreme decision-making body, on account of the primacy of the objective of price stability; the Monetary Council ensures strong harmony between the two areas by defining the strategic framework for macroprudential policy. The Financial Stability Council makes macro- and microprudential decisions to maintain and reinforce financial stability within the strategic framework defined by the Monetary Council.

### 2.7.3. Executive Board

- In line with the Act on the Magyar Nemzeti Bank, the Executive Board is responsible for implementing the Monetary Council's decisions and managing the operations of the Magyar Nemzeti Bank. The Executive Board therefore deems it important and endeavours to establish and follow rules of procedure that yield high-standard, clear, substantive and informative proposals and reports that reflect the central bank's fundamental values, systematic financial management, saving and cost-effectiveness. The Executive Board's decision-making processes are based on the professional experience, both domestic and international, of the Magyar Nemzeti Bank's staff, professional workshops and bodies. The Magyar Nemzeti Bank strives to incorporate best practices and novel thinking into its decision preparation materials, thereby enhancing the legitimacy and solid professional foundation of the Executive Board's decisions and trust in its efforts.
- With a view to enhancing excellence in decision-making, the Executive Board fosters and promotes project-based work and creative cooperation between the various

disciplines under the guidance and supervision of the Board. The exchange of information within the organisation is one of the Executive Board's priorities, along with ensuring the timely, continuous flow of information.

- The Executive Board operates an internal audit organisation to promote the most effective utilisation of experience and values garnered in the field of auditing in respect of tasks falling outside the competence of the Supervisory Board and aims to enhance its relationship with the State Audit Office and the Supervisory Board.

### 2.7.4. Expert forums

The Monetary Club, the Monetary Planning Workshop and the Monetary Workshop are expert forums tasked with regularly debating and examining the consistence of internal and external professional analyses pertaining to the Magyar Nemzeti Bank and presenting professional information to the Monetary Council. The role of expert forums is to discuss matters of economic policy, monetary policy and economic theory and practice in detail.

The Magyar Nemzeti Bank has set up country-specific working groups for conducting a broader analysis of the countries deemed relevant and interesting based on the continuous monitoring of their economic, financial and geopolitical developments, for quickly assessing their central bank and government measures, keeping track of new solutions and processing the outcomes thereof, and elaborating proposals for any potentially similar decisions applicable in Hungary.

The Magyar Nemzeti Bank operates executive forums providing a platform for the fast, effective and up-to-date sharing and exchange of information.

The Magyar Nemzeti Bank enhances the effectiveness of the monetary decision support system using the following tools:

- credible economic situation analyses and forecasts capable of shaping opinion,
- a transparent forecasting system effectively combining expert information and model-based forecasts,
- draft materials supporting forward-looking monetary decision-making, systematically available for economic agents,
- using alternative monetary scenarios to present the challenges and risks to monetary policy in a structured manner,
- preliminary background analysis and applied research addressing the challenges of monetary policy,
- relationships with decision-makers focusing on effectively transmitting information suited to the needs of the Monetary Council, and
- the creation of forums serving the above objectives.

## 2.8. International relations

### 2.8.1. The purpose and principles of building international relations

The international network of relations of the Magyar Nemzeti Bank is based on its ESCB membership, and its objectives are outlined by the basic functions of the ECB.

However, the recent global financial and economic crisis has undermined the very foundations of international finance, and central banks all over the world have had to develop new and effective solutions to this new situation. In this period of paradigm shift, it is of key importance that the top-level decision makers of national and international monetary, financial and economic policies exchange ideas about the challenges of the currently evolving new economic world order.

The Magyar Nemzeti Bank pays special attention to cultivating its professional relations with peer and strategic counterparty central banks, international economic organisations and financial institutions (ECB, ESRB, EBA, EIOPA, ESMA, BIS, IMF and OECD). The MNB places top priority on close professional cooperation in increasingly broader areas with partner institutions.

### 2.8.2. Components of building international relations

A wide array of options is available to implement an open strategy announced by the Magyar Nemzeti Bank designed to reinforce its existing partner links. The prospects for building international relations present a broad spectrum and cover all MNB activities. Two possible forms for strengthening existing relations:

#### **International meetings hosted in Budapest**

In order to reinforce its existing relationships with the central banks of other EU member states, with the European Central Bank (ECB), the European System of Central Banks (ESCB) and other international organisations (ESRB, BIS, IMF, international supervisory organisations), the Magyar Nemzeti Bank endeavours to host as many international meetings in Budapest as possible.



### Scientific cooperation

The Magyar Nemzeti Bank aims to reconnect the Hungarian central bank and its scientific workshop activities into the international community and thereby adopt and spread the various schools, concepts and research findings in monetary policy, finance and economics in Hungarian economic thought.

The Magyar Nemzeti Bank wishes to be actively involved in international scientific publications with its English language volume of studies by offering the opportunity to international theorists to support or complement their own theories or even start international debates about certain Hungarian ideas. Among other things, the Magyar Nemzeti Bank wishes to encourage its colleagues to conduct research and publish their findings in cooperation with colleagues from other central banks.

### Professional cooperation

The objective of the Magyar Nemzeti Bank is to increase professional cooperation with peer and partner institutions also in practice and receive visiting researchers, junior analysts and scholarship recipients from the professional staff of peer central banks within the context of exchange programmes and, based on the principle of reciprocity, delegate its employees to partner central banks so that they can directly study the monetary policies and the actions designed to maintain financial stability in the specific country, to gather relevant international experience and build relationships and to reinforce the professional relationship between the central banks of the two countries.

### Lámfalussy Conference

In 2014, the Magyar Nemzeti Bank organised the first professional conference entitled the “Lámfalussy Lectures”. The annual event is designed to invite lecturers to Hungary to share and present to the audience of professionals their

views on the current issues of global economic policy, specifically on monetary policy and the financial system. Lámfalussy, the eponym of the conference, symbolises Hungary’s significance in global economic developments.

The recent global financial and economic crisis shook the very foundations of economics and shed new light on some issues believed to have been fully explained. In this period of paradigm shift, it is of key importance that top-level decision makers of national and international economic policies exchange ideas about the challenges of the currently evolving new economic world order. The existing high level of economic and financial integration demands that European decision-makers and opinion leaders challenge each other’s notions, coordinate their actions and intensify their networking activities. The purpose of the Magyar Nemzeti Bank is to develop the “Lámfalussy Lectures” into a defining forum for European and global theories on economic policy in the years to come.

### The Lámfalussy Award

The Magyar Nemzeti Bank established the Sándor Lámfalussy Award in 2013 to recognise outstanding professional performance and lifetime achievements on the international scene that influence the central bank’s operations, international monetary policy in general and the environment for financial stability. In addition, the award presentation ceremony creates an opportunity for the Magyar Nemzeti Bank to focus the attention of the international community of economists and economic policy makers on Hungary’s role in the transformation of economic theory and economic policy.

## 3

## FUNCTIONAL STRATEGIES

## 3.1. Strategy for organisational development

In terms of organisational development, the primary objective of the Magyar Nemzeti Bank is to establish an optimal organisational structure in harmony with its functions, to consolidate the organisational structure resulting from the integration of its supervisory function and to fulfil its functions as a central bank expanded by recent changes in the law.

The MNB believes in organisational tasks and operations driven by planning, law, transparency, credibility, saving, efficiency, effectiveness and sustainability.

The Magyar Nemzeti Bank considers its employees' expertise of primary professional value and offers stable employment, moral and professional recognition, competitive wages and opportunities for promotion, education and advanced training to employees willing to make a long-term commitment to the central bank's objectives and continuously renew their professional knowledge. The MNB compiles its training schedule with due attention to implementing the objectives for organisational and working culture.

## 3.2. Human resources strategy

The core concept of the MNB's human resources strategy is that employees, as the number one factor in any corporate success, are not simply resources but also represent value. Therefore, the Magyar Nemzeti Bank considers human resources management as a strategic value in terms of facilitating efficient and effective operations.

In its human resources management activities, the Magyar Nemzeti Bank strives to

- ensure that properly qualified and motivated employees are available in sufficient numbers;
- efficiently utilise the expertise and skills of the available labour force;
- ensure employees' satisfaction, their positive employment outlook and their professional fulfilment;
- convey human resources principles to employees;
- help maintain ethical behaviour;
- manage change for the mutual benefit of employees and the employer; and
- maintain high quality work and facilitate its improvement.

The Magyar Nemzeti Bank appears on the job market as an exceptionally attractive employer characterised by its special legal status, unique and extensive functions, and financial and moral recognition for its employees. In today's dynamically changing labour market, the central bank endeavours to integrate and retain top quality employees with a special emphasis on supporting individual ambitions concurring with organisational objectives, thereby recognising individual efforts.

### 3.2.1. Organisational culture, work atmosphere

The Magyar Nemzeti Bank pays special attention to having its organisational units meet and manage the needs for improvements in internal operations and corporate culture based on the external environment, the challenges of the future and the central bank's internal objectives. Another goal is to increase the effectiveness and the efficiency of the operations and processes of the organisational units as well as communication and cooperation between colleagues.

The Magyar Nemzeti Bank endeavours to create conditions supporting efficient operation including the definition of group objectives accepted and supported by the group members, the operating framework of the group, the internal division of labour, the scope of responsibilities and the foundation of a shared system of norms and values.

The MNB's goal is to establish and maintain an organisational culture that encourages employee cooperation and a sense of ownership with regards to organisational objectives. One of the key components of that organisational culture is straightforward, clear communication. Other components include continuous reinforcement for commitment, prioritising the good working environment and general employee satisfaction by managing interpersonal relations and the sense of community at work.

### 3.2.2. Principals and aspects of the payroll system

The Magyar Nemzeti Bank operates a simple, transparent and an equitable remuneration system that differentiates according to individual contribution to the fulfilment of organisational objectives, job groups and performance, applies the principal of 'equal pay for equal work' and offers competitive wages to employees.

### 3.2.3. Welfare benefits and subsidies

The Magyar Nemzeti Bank endeavours to support its employees using fringe benefits, a system of support and aid and other welfare services. Within that context, the MNB specifically supports having and raising children and provides assistance to alleviate the burdens of family emergencies.

With a focus on the increased independence of the central bank, the Magyar Nemzeti Bank offers low interest rate loans to its employees to support their plans to start their families, buy their homes or take out loans for other purposes.

### 3.2.4. Internship system

In order to apply the principle of corporate social responsibility in practice, the Magyar Nemzeti Bank maintains an internship programme and supports knowledge transfer. The internship programme is designed to help students in higher education to gain experience, graduates to find jobs and to ensure a steady supply of qualified professionals. Within the context of its internship programme, the Magyar Nemzeti Bank undertakes to

- employ students of higher education or graduates fresh out of college,
- cooperate with contracted partner institutions of higher education as part of the dual training system to offer students the opportunity to gain work experience at the Magyar Nemzeti Bank,
- receive contracted students during their practical training period and, if applicable, support their training and work experience with scholarships.

### 3.3. Internal audit strategy

The internal audit department of the Magyar Nemzeti Bank is subject to the control of the Supervisory Board, and with respect to duties falling outside the scope of competence of the Supervisory Board, to the control of the Executive Board.

In terms of the central bank's organisational structure and control, the internal audit department of the Magyar Nemzeti Bank is an independent unit, but functionally it is an integral part of the central bank's control system.

In compliance with international criteria, the Magyar Nemzeti Bank provides the following guarantees to ensure the independence of the internal audit department:

- the internal auditors are independent of the activities they audit and all internal processes;
- the conclusions and evaluations made during the audits are independently compiled and transmitted to the organisational units involved;
- the internal auditors perform their work within the organisation, including all units and functions, based on their own initiatives and with approval by the Executive Board and the Board of Directors. The work performed in internal audits is based on a work plan covering a period of several years and broken down to each year. This plan is compiled by the Magyar Nemzeti Bank based on the expected financial, operating, compliance and other risks.

### 3.4. Bank security strategy

The Magyar Nemzeti Bank manages personnel and facility protection, data protection, human and physical security, business security, business continuity, disaster recovery, security administration and economic security as interrelated and inseparable safety factors. This approach is clearly applied in establishing and maintaining the security of all bank operations and in the implementation of the structure of the organisational units responsible for the operation of the various lines of defence.

### 3.5. IT strategy

The medium-term strategy of the Magyar Nemzeti Bank has been formulated by placing priority on the strategic objectives related to the central bank's operation and development. In addition, the bank's IT strategy places increased emphasis on the consolidation of the information technology situation resulting from the integration of the supervisory activity as well as on the maintenance of continuous operations. Achieving these strategic goals requires carefully prepared and coordinated operational and developmental IT activities.

### 3.6. Communication strategy

The communication strategy of the Magyar Nemzeti Bank is designed to effectively support the objectives of the central bank. Proactive and planned communication can effectively help exert positive influence on the image of the central bank's operation.

### 3.7. Fundamental values and principals of the property strategy of the Magyar Nemzeti Bank

Over past decades, the Magyar Nemzeti Bank has owned various properties suited to its tasks and roles. The focus of the strategies so far was to reduce quantities, but now we need a paradigm shift. This shift is also supported by the Act on the Magyar Nemzeti Bank, according to which the central bank supervises the financial intermediary system and also has some tasks as a financial resolution authority. In addition, the MNB plans to play a primary role in renewing training programmes for economic and financial professionals and to assume a more active role in the development of financial literacy and financial awareness and the related institutional system and infrastructure.

Another objective of the Magyar Nemzeti Bank is to contribute to the strengthening of employee community cohesion, commitment, motivation and the ability to regenerate.

To achieve these goals, the Magyar Nemzeti Bank must own an appropriate number of properties suitable for the status of the central bank and for the purposes of education, training and welfare services.



## 4

CORPORATE SOCIAL  
RESPONSIBILITY

## 4.1. Education and science

The Magyar Nemzeti Bank considers the development of and support for Hungarian know-how and research in economics as one of its priorities. To that end, the MNB establishes long-term relationships with institutions of higher education, partners with Hungarian and foreign researchers to conduct high-quality analysis and research in topics on theories and economics important to the central bank, and issues its own publications, research articles, studies in economics and other documents of popular science to improve the quality level of Hungarian research and analysis in the field of economics. In order to enhance the reputation of Hungary and the institution and make available the latest tools in economics, the MNB operates a training centre named Budapest School for Central Banking Studies, offering advanced know-how to analysts and researchers working for international central banks and other state administrative bodies as well as PhD students.

The Magyar Nemzeti Bank also organises internship programmes for undergraduate and graduate students of Hungarian institutions of higher education, in the context of which students can become familiar with the professional activities in progress at the central bank and apply their theoretical knowledge.

In addition to the above, the Magyar Nemzeti Bank provides direct or indirect support to the following:

- a scholarship system for PhD students to provide talented students with specialised training and advisor support;
- in the quality of training and research opportunities in finances and economics for participants in higher education;
- involvement of leading researchers in economics living and working abroad into Hungarian professional life;
- summer guest researcher programmes for PhD students studying abroad and in Hungary and working on their doctoral dissertations with the purpose to offer professional help and information on the research activities of the central bank;
- the professional and research activities of undergraduate and graduate students beyond their required university studies; and
- the operation of scientific journals.



## 4.2. Foundations

In accordance with the Act on the Magyar Nemzeti Bank, the MNB

- participates in supporting the preparation and publication of studies related to providing information to customers of the persons and entities covered by certain acts, to the reinforcement and promotion of financial literacy and to supervisory and supervised activities, as well as the activities of non-governmental consumer protection organisations;
- may establish foundations; and
- may use the revenues from fines imposed by the Magyar Nemzeti Bank or the central bank's periodic revenues to support foundations and charity programmes.

Over past decades, using the powers granted by law, the Magyar Nemzeti Bank has established a number of foundations for various purposes, and provided founding assets to realise the objectives of such foundations as well as grants, support and infrastructure for operating activities.

Using the options available under the effective laws as a national institution, the Magyar Nemzeti Bank wishes to continue to contribute to the service for the public good. For the purpose of achieving its social objectives with greater success, the Bank

- establishes foundations to implement its public awareness programme and supports their activities;
- seeks to play a leading role in the renewal of economic and financial training and the implementation of a public awareness programme focused on supporting and developing education, research and science;

- considers the promotion and support of education and research programmes in economics, finance, social studies and interdisciplinary studies as one of its priorities;
- supports improvements in financial literacy, financial awareness and the authoring and publication of studies in that regard;
- participates in and supports improving the quality of culture, education, science and innovation;
- operates a scholarship scheme for researchers, instructors and students;
- encourages and supports networking with world-leading universities, think-tanks, institutions, professors and experts, and developing a domestic and international cooperation network;
- provides accommodation for the foundations to carry out the activities required to complete their objectives; and
- offers charity funding.

In the opinion of the Magyar Nemzeti Bank, it is necessary to reorganise and renew the foundations it has established and set up new foundations to implement its priority goals. In addition, the MNB believes that a paradigm shift is required in the financing of foundations because the central bank believes that foundations can efficiently and effectively operate and achieve the objectives funded only if the financing is adjusted to the multi-year time frame of the education, research, training, science and innovation programmes and the decade-long financing required for the operation of such programmes.

### 4.3. The support policy of the Magyar Nemzeti Bank

The broadly interpreted support policy of the Magyar Nemzeti Bank is focused on the provision of support that, in alignment with the tasks of the central bank, is intended to facilitate the implementation of professional objectives and certain goals serving broad social interests, subject to their compliance with the MNB's principles of support. The principles of support include the protection of credibility and professionalism, the creation of value, the promotion of professional life and scientific thinking, the development of financial literacy, education and talent management, the strengthening of social cohesion and lastly, solidarity.

The Magyar Nemzeti Bank carries out its support functions adjusted to its task within the context of its public awareness programme and support for the activities of the foundations established by the MNB. In addition, the support policy covers patronage, sponsorship and charitable donations as well.

#### 4.3.1. Support for national culture

Within the context of supporting issues of social interest, support for the national culture is provided based on strategic agreements with prominent institutions and organisations of Hungarian cultural life. The Magyar Nemzeti Bank contributes to preserving national cultural values by supporting the activities of its partners.

#### 4.3.2. Grants for the purpose of preserving and creating social values

The Magyar Nemzeti Bank supports disadvantaged groups, improves equal opportunities and offers assistance in emergencies through charity-type subsidies.

Charity-based funding to large families, children under state care, professional programmes and organisations encouraging having children is a priority in addition to improving the quality of life for groups with multiple disadvantages. The objective of the Magyar Nemzeti Bank is to ensure that its charity activities include voluntary action in addition to grants.

#### 4.3.3. Social support – aid programme

The Magyar Nemzeti Bank has implemented an aid programme to assist employees who unexpectedly find themselves in emergency life situations and help them process and resolve situations involving justifiable situations involving financial burdens.

#### 4.3.4. Welfare benefits

In addition to its widely available benefit scheme, the Magyar Nemzeti Bank offers low interest rate loans to its employees to support their plans to start their families, buy their homes or take out loans for other purposes.

#### 4.3.5. Health care and sports

The Magyar Nemzeti Bank provides financial support to its sports club to offer the chance of daily sports activities to all its employees. By doing so, the central bank wishes to represent a human system of values that may set an example to follow for other institutional employers as well.

The Magyar Nemzeti Bank offers health care programmes and opportunities beyond the limits of employment-related health care services and continuously expands the group of freely available and regular health screening tests.



#### 4.3.6. Support for recipients of pensions

The Magyar Nemzeti Bank offers grants and provides for the background of various events to support its retired employees. In addition, the central bank places great importance on the continued employment of retired personnel to help the knowledge transfer from the older, experienced generations to young colleagues.

#### 4.4. Depository programme

In keeping with its economic and social role, the Magyar Nemzeti Bank is committed to the protection of national values and the creation of value, with the express goal of supporting issues of broad social significance; therefore, in the context of its social responsibility strategy, the central bank considers the support of national culture as a priority task.

Within the context of the Depository Programme, the Magyar Nemzeti Bank follows the trends of other European central banks to locate and preserve national and other distinguished art treasures, cultural assets, artistic and inherited values and from these create a collection that receives widespread cultural, artistic and social recognition.

Priority objectives of the Depository Programme:

- value-based accountability in the protection of cultural heritage;
- increasing the national stock of art treasures as a social and community investment, creating a central bank collection worthy of artistic and social recognition;

- value creation by presenting the collection and issuing publications and information about the art treasures;
- preserving and enriching artistic values by supporting activities to locate, restore, preserve and display art treasures.

To coordinate the Depository Programme and to determine the authenticity, artistic significance and values of the art treasures, the Magyar Nemzeti Bank has established a Consultative Body consisting of the directors of Hungarian national public collections, other renowned experts and the Deputy Governor of the central bank. The Consultative Body operates based on the operating and acquisition rules established by the central bank's Executive Board to ensure the required expertise, legal grounds, transparency and the completion of the objectives laid out in the programme.

#### 4.5. Voluntary activity

In addition to its grants and charity support, the Magyar Nemzeti Bank encourages its employees' volunteer work in an organised form. To support this effort, a volunteer strategy based on volunteers' motivation has been developed. Within the context of individual volunteer activities, employees can, based on their individual motivations, participate in the volunteer programmes of appropriate and credible organisations recommended by the Magyar Nemzeti Bank. Group volunteer activities are carried out as part of specific programmes 2 or 3 times a year. The purpose of the regular volunteer work by employees is to share the burdens and to reinforce social solidarity.

#### 4.6. Environmental policy and objectives

The Magyar Nemzeti Bank is the central bank of Hungary and consequently a key and primary institution of the state administration. Its activity influences economic agents and households as a whole. Therefore, the central bank's commitment to the principle of corporate social responsibility is one of the cornerstones of the public good and for the implementation of certain social objectives.

Accordingly, in addition to its general institutional responsibility for the natural and built environment aimed at sustainability, the Magyar Nemzeti Bank strives to develop exemplary and leading practices in the area of environmental protection. Within that context, the central bank

- pursues modern and internationally acknowledged environmental practices;
- operates an environment-focused environmental management system based on Regulation (EC) No 1221/2009 of the European Parliament and of the Council (EMAS Regulation – Eco-Management and Audit Scheme);
- fully complies with its environmental legal obligations and, as permitted by the available capacities, sets objectives that go beyond that;
- strives to minimise the environmental pollution related to its operation;
- considers the continuous development of environment-conscious operation and the exploration and application of new opportunities of key importance;

- operates a programme which sets an institutional example and enhances the central bank's prestige; and
- encourages employees' environmental consciousness and environmental responsibility and draws attention to environment-friendly alternatives to commuting to work.

The framework for identifying and evaluating environmental goals and objectives is provided by the Eco-Management and Audit Scheme established on the basis of the EMAS Regulation. This framework is used to identify and evaluate the environmental factors of the central bank's operation.

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This Statute as the internal 'constitution' of the Magyar Nemzeti Bank identifies the Hungarian central bank's operating framework for the future.

