



THE ROLE OF REQUIRED RESERVES IN THE RENEWED MONETARY POLICY TOOLKIT

On 26 September 2023, the Monetary Council decided to simplify the MNB's monetary policy toolkit. The aim of the simplification is to strengthen the role of the base rate and to improve the effectiveness of the monetary policy transmission mechanism. In the renewed framework, the MNB will remunerate both required reserves (their not non-interest bearing part), including the optional reserve ratio which will cease to apply at the end of 2023, and excess reserves uniformly at the base rate from 1 October 2023. With the MNB remunerating excess reserves at the central bank base rate, the reserve requirement system will act as the Bank's main policy instrument. In line with the standardisation of the remuneration of reserve account balances and the simplification of the monetary policy toolkit, the optional reserve ratio will be abolished from the beginning of 2024.

As per the MNB's May 2023 decision, the reserve base of credit institutions subject to reserve requirements will be determined on the basis of monthly averages instead of the previous methodology based on liability items outstanding at the end of the month. During the transitional period required for the changeover, the MNB will determine the reserve base in a fixed manner, based on statistical balance sheet data as at 31 March 2023. Following consultation with credit institutions, required reserves will be determined on the basis of monthly average bank balance sheet data for the first time for the March 2024 maintenance period.

1. How will interest payable on required reserves change from the October 2023 maintenance period?

The interest rate on required reserves will be unified, with the MNB remunerating the entire (not non-interest bearing) stock of required reserves, including the optional reserve ratio, at the central bank base rate, and balances on reserve accounts in excess of the amount of required reserves (excess reserves) will also be remunerated at the base rate.

The non-interest bearing part of reserve requirements will continue to be made up as follows:

- The MNB will not pay interest beyond the applicable deposit rate on the amount of required reserves maintained for a minimum period of 14 days.
- The MNB will not pay interest on 25 per cent of the minimum amount of required reserves, reduced by the amount of deposit required to be held for a minimum period of 14 days.

From 1 November 2023, interest payments will be calculated on the basis of interest rates prevailing on the relevant dates of the maintenance period, instead of monthly average interest rates.



2. What happens to the optional reserve ratio? What will be the compulsory reserve ratio from the beginning of 2024?

The optional reserve ratio will cease at the start of 2024, in line with the simplification of the toolkit. In 2023 Q4, credit institutions will be required to hold reserves at the ratios they have chosen in September, in accordance with the current system. However, for the subsequent period, i.e. 2024 Q1, it will no longer be necessary to declare the chosen reserve ratio, with the required reserve ratio set uniformly at 10 per cent.

3. How does the MNB determine the amount of required reserves of credit institutions subject to reserve requirements during the changeover period, i.e. until the introduction of the methodology based on monthly average liabilities?

During the transitional period, the MNB will determine the amount of required reserves on the basis of the fixed stock of reservable liabilities in statistical balance sheets as at 31 March 2023. If a credit institution commences its activities after this date, the MNB will determine the reserve base of the credit institution required to hold reserves in accordance with previous practice, i.e. on the basis of Statistical Balance Sheet data for the second month preceding the maintenance period.

4. When does the MNB plan to switch to defining required reserves on the basis of monthly average stocks of reservable liabilities?

As agreed with credit institutions, required reserves will be calculated on the basis of monthly average bank balance sheet data for the first time for the March 2024 maintenance period, and banks will have to submit the new M06 data report required for the first time for January 2024.

5. How can reserve requirements be met via deposits held with the MNB with a maturity of at least 14 days?

From 1 July 2023, the amount held with an original maturity of at least 14 days in a forint deposit account of a credit institution required to hold reserves with the MNB will be included in required reserves to a limited extent. The MNB will take into account this type of compliance with reserve requirements up to a maximum of 15 per cent of the amount of required reserve to be held (currently equivalent to a 10 per cent reserve ratio) on the basis of daily closing stocks. At present, the variable rate deposit facility with a maturity of up to six months is one of the MNB's active monetary policy instruments that can be used to comply with minimum reserves in this way.

6. How does the MNB pay interest on long deposits included in required reserves?

The MNB will not pay interest in addition to the applicable deposit rate on the part of required reserves that is met with deposits with a maturity of at least 14 days.

7. Will there be any changes to the list of liabilities on which reserve holdings are based?



No change will be made to the list of reservable liabilities.

8. Will the penalty interest rate for reserve deficits change?

There will be no change to the penalty interest for reserve deficits, which will remain twice the base rate, both in the case of failure to comply with the 10 per cent daily minimum and in the case of failure to comply with the chosen ratio on average per month.

9. Should the required reserve ratio be complied with on a daily and monthly average bases?

Yes, the minimum 10 per cent ratio must be met on a daily basis; however, the ratio chosen is the benchmark for monthly average compliance with reserve requirements. For this reason, it is possible that a bank may not hold sufficient liquidity in its VIBER account at the end of the day, resulting in a daily penalty, and later a penalty in respect of the monthly average. The penalty rate for both penalties for holding a reserve deficit is twice the central bank base rate.

10. Can an exemption from the penalties for non-compliance with required reserves be requested if duly justified?

Yes, in the case of a reserve deficit, the MNB may waive the sanction for non-compliance with reserve requirements on the basis of a letter to the Bank's Directorate Monetary Policy Instruments, Foreign Exchange Reserves and Risk Management, stating the reasons. This waiver will not be made public by the MNB. In the event of a liquidity stress situation, the MNB may also decide to waive the sanction of a reserve deficit.

11. Will automatic central bank credit be granted up to the minimum amount of required reserves?

No, banks must ensure themselves that they comply with daily minimum reserve requirements.

12. Should stable funding be calculated after the required reserve?

The full amount of required reserves may be withdrawn in a stress situation. The MNB has decided that it will not generate a stable funding requirement. Supervisory information on this issue can be found [here](#).

13. What part of the required reserve ratio can be withdrawn in a stress situation and what part is considered liquid for LCR purposes?

The full amount of required reserves may be withdrawn in a stress situation. The MNB has decided that the LCR indicator will be considered a fully liquid asset for the purposes of the calculation. Supervisory guidance on this issue can be found [here](#).

14. Will the IPS reserve declaration practice change under the new regime? How will the amount of the IPS balance included in reserves bear interest?

**REQUIRED RESERVES
IN THE SIMPLIFIED
MONETARY POLICY TOOLKIT**



**FREQUENTLY ASKED QUESTIONS
(UPDATED 20 OCTOBER 2023)**

It will not change; the same declaration of the IPS balance is to be included in reserves at the start of the day. For the amount of the midnight IPS balance to be included in the amount of required reserves, the MNB will pay the central bank base rate on required reserves and excess reserves.