



RESHAPING MONETARY POLICY TOOLKIT IN THE TIME OF PANDEMIC: THE CASE OF HUNGARY



MACROECONOMIC AND FINANCIAL MARKET CHALLENGES THE MNB FACED FROM MARCH



Main monetary policy goals

**Liquidity provision for
all sectors**

I.

- 1) Expansion of the counterparties scope with investment funds
- 2) Expansion of the eligible collateral scope
- 3) Long-term loans
- 4) Exemption of credit institutions from reserve requirements

**Stable short-term rates
with the required
room for
manoeuvre**

II.

- 1) Activating 1-week deposit facility
- 2) Modification of the interest rate corridor to be wider and symmetric

**Lower long-term rates
to ensure favourable
financial conditions
permanently**

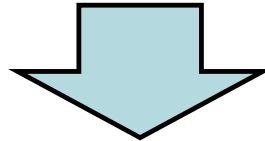
III.

- 1) FGS Go! – Loans to SMEs
- 2) Easing conditions of the corporate bond purchase program
- 3) Long term loans
- 4) Government securities PP
- 5) Relaunching mortgage bond PP



I.

- The global crisis caused by the coronavirus pandemic has impacted the domestic money markets, **liquidity tensions** arose **on the market of Hungarian long-term government securities**.

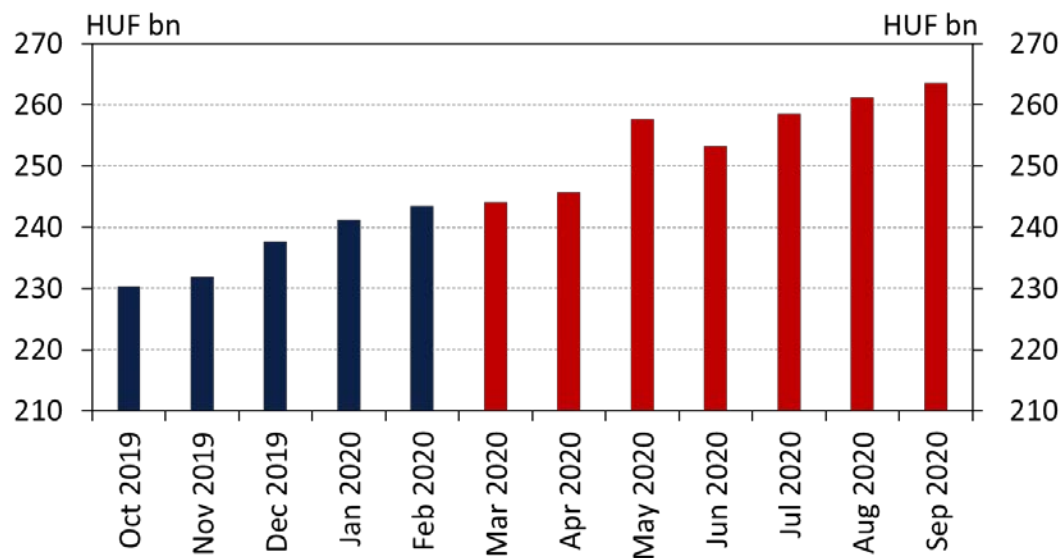


- The Monetary Council decided to introduce the **long-term collateralised lending facility with maximum 5-year maturity** supporting the banks' liquidity management **on longer-term maturities** and strengthen the functioning of the government securities market.
 - **Stable funding source** for banks
 - Banks can receive liquidity **without scaling back of lending or sale of eligible securities**
 - It can support **the stabilisation of government securities market**

EXEMPTION FROM RESERVE REQUIREMENTS



I.



RESERVE REQUIREMENTS OF THE BANKING SYSTEM

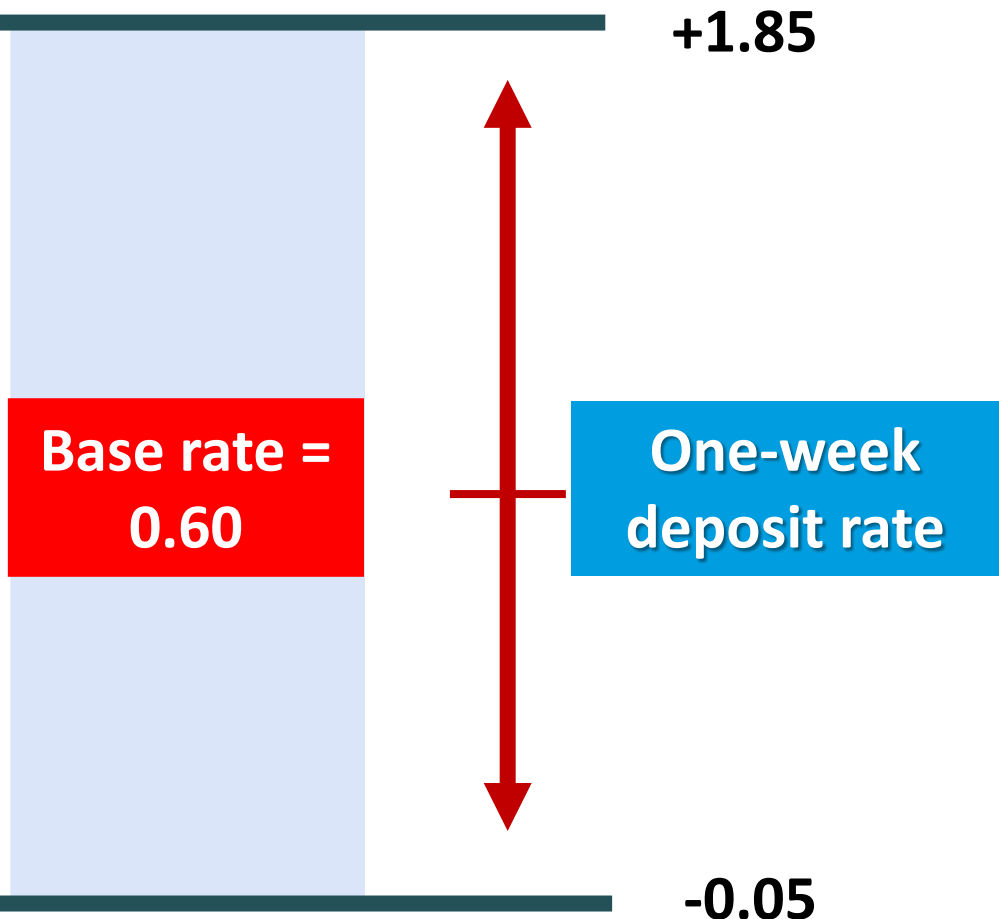
- The **sanctions on reserve deficiency are suspended.**
 - Providing additional **250 billion forint liquidity**
- The exemption from the reserve requirements is **effective since March 2020.**
- **Required reserves will continue to be remunerated at base rate.**



THE MNB ACTIVATED ITS ONE-WEEK DEPOSIT INSTRUMENT



II.

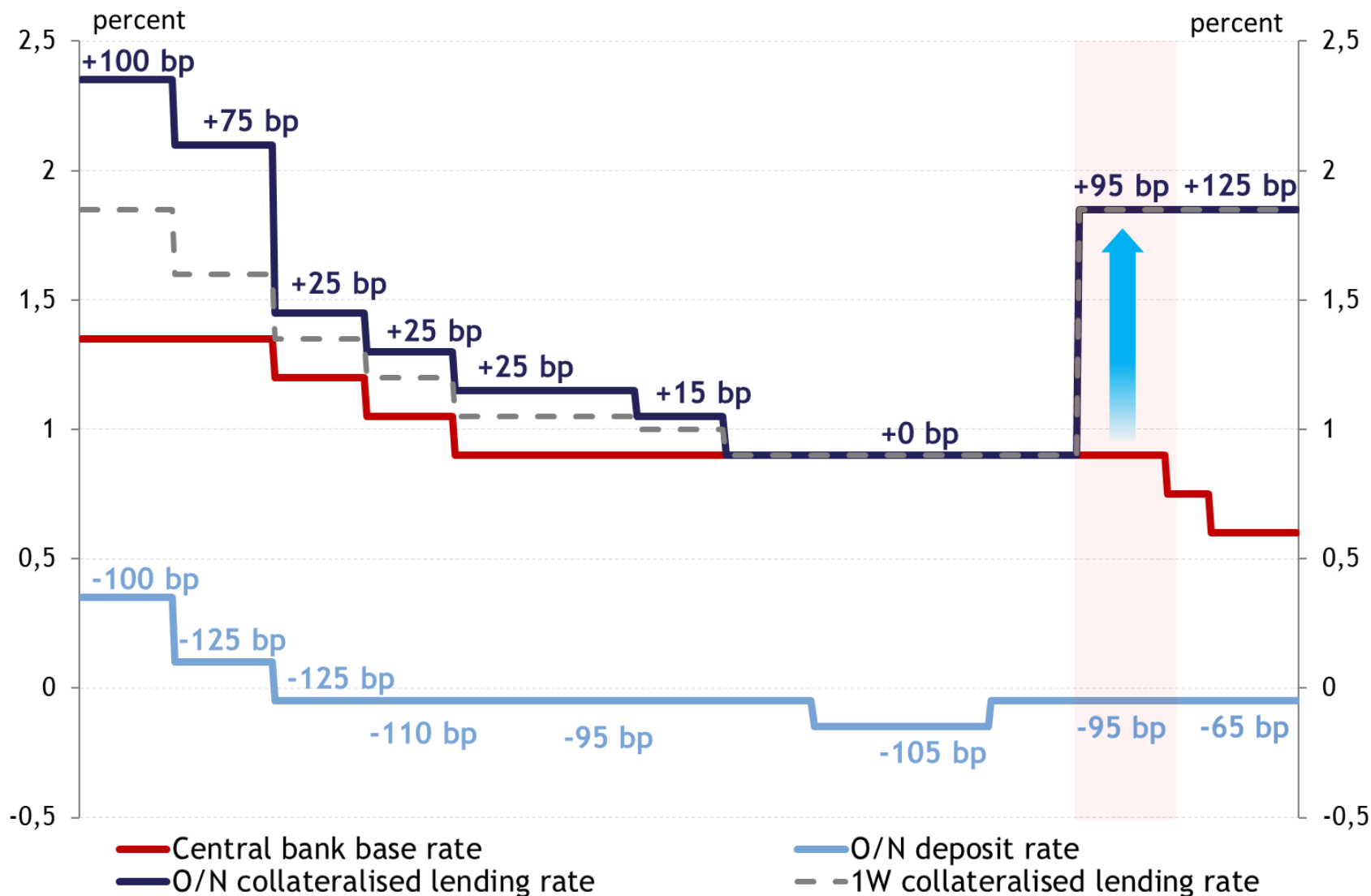


The MNB will set the interest rate on the instrument each week, at the time of the actual tender's announcement.

WIDER INTEREST RATE CORRIDOR EXPANDS THE MNB'S ROOM FOR MANOEUVRE (2015-2020)



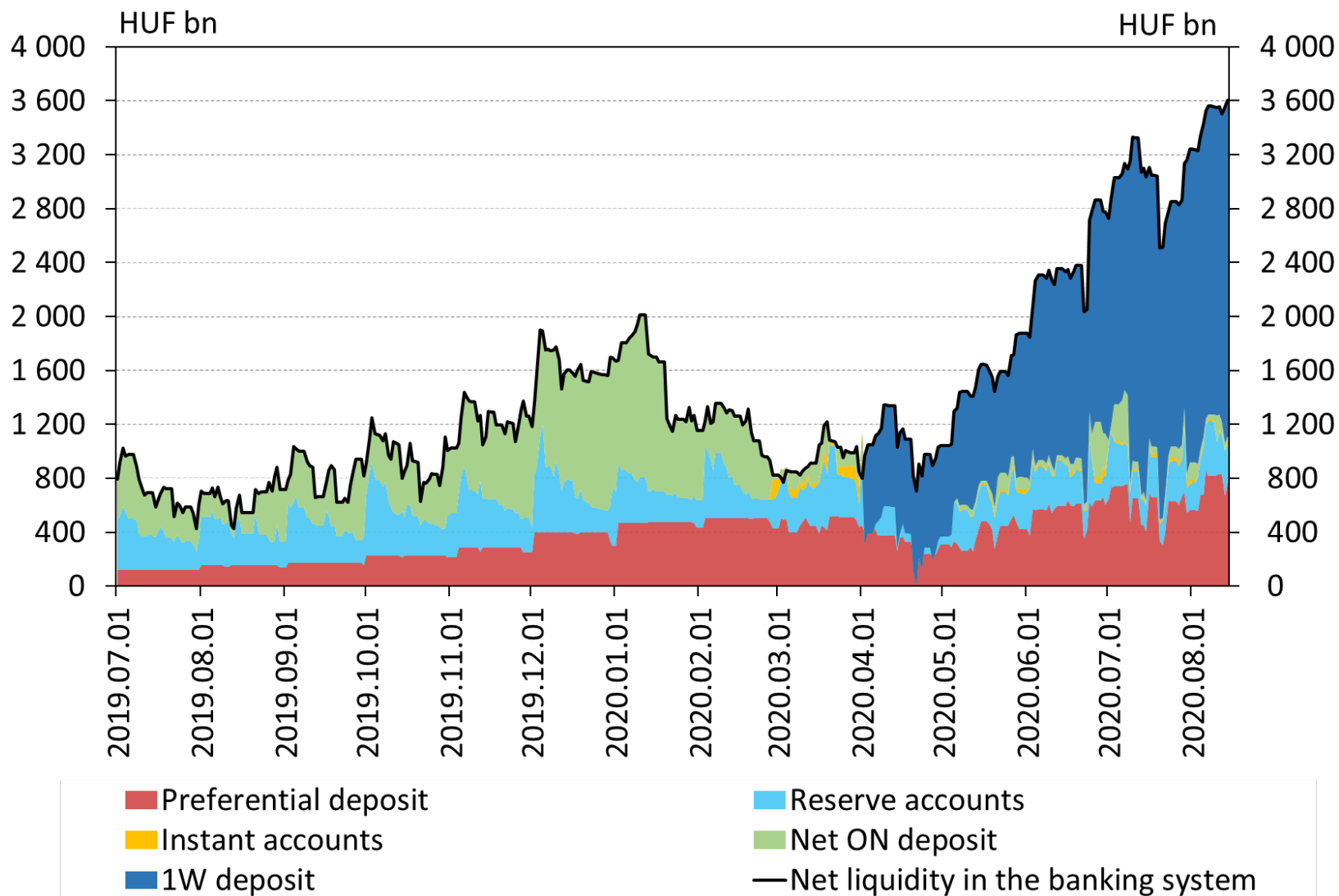
II.



UTILISATION OF THE DEPOSIT TOOLS OF MNB



II.





III.

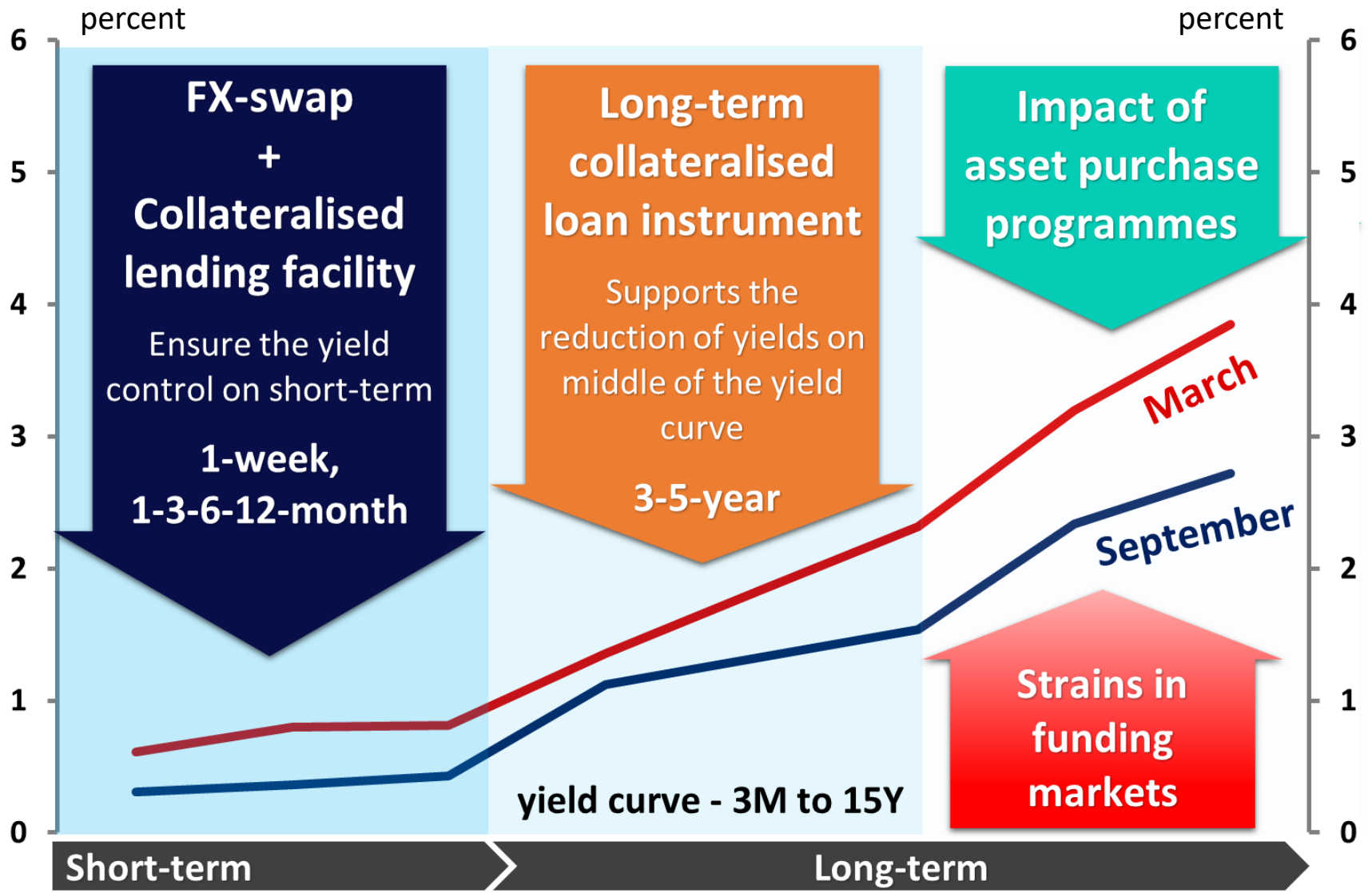
Government bond purchase programme

- **Fixed-rate forint** government securities
- Eligible securities with **at least 3 years maturity with a strong focus on the longest maturities (i.e. from 8 years)**
- Purchases take place in the **secondary market**
- In addition to banks, investment funds may also participate

Mortgage bond purchase programme

- Broadly **identical strategic parameters** to those of the **successful programme of 2018**
- **Long term-term fixed-rate** forint mortgage bonds
- Purchases include **primary and secondary markets**

THE IMPACT OF LIQUIDITY MEASURES ON YIELD CURVE





Monday – *FX swap tenders*

- *The MNB provides HUF liquidity on variable rate EUR/HUF FX swap tenders with maturities of 1, 3, 6 and 12 months*

Tuesday – *Government Securities Purchase Programme auctions*

- *The MNB purchases forint denominated fixed-rate government securities on the secondary market*

Wednesday – *Forint loan tenders*

- *The MNB holds collateralized loan tenders on the maturities of 1 week, 3, 6, 12 months and also on 3 and 5 years*

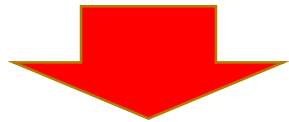
Thursday – *One-week deposit tender*

- *The MNB accepts deposits for a week on a fixed rate, setting the interest rate on the instrument each week*

SUMMARY: AS A RESULT THE MONETARY POLICY TOOLS BECAME MORE EFFECTIVE, FLEXIBLE AND SUPPORTING



„These changes will allow the MNB to provide the required amount of liquidity to the major sub-markets and to set the appropriate monetary conditions in a targeted and flexible manner.”



Broader room for manoeuvre in monetary policy



Ability to give quick responses on the required scale to challenges in every sub-market



Effective tools to maintain stability and support economic recovery



THANK YOU FOR YOUR
KIND ATTENTION!