MONETARY POLICY INSTRUMENTS OF THE CENTRAL BANK OF HUNGARY (MNB) DURING THE COVID-19 CRISIS
As a response to the covid crisis, the MNB expanded its monetary policy instruments to provide liquidity and insure favourable financing conditions.

As a result of the programmes, balance sheet of the MNB and liquidity surplus in the banking system expanded substantially from initially low levels.

Most of the programmes are still continuing, while some of them is ceased but going to be relaunched with different aims.
IN SPRING 2020, AS A RESPONSE TO THE COVID CRISIS, THE MNB EXPANDED ITS SET OF MONETARY POLICY INSTRUMENTS

Main monetary policy goals

**Stable short-term rates with the required room for manoeuvre**
1) Activating 1-week deposit facility
2) Wider and symmetric interest rate corridor

**Liquidity provision for all sectors**
1) Expansion of eligible collaterals (loans to large corporates)
2) Expansion of counterparties (investment funds)

**Lower long-term rates to ensure favourable financial conditions**
1) Funding for Growth Scheme Go! (SME)
2) Long-term loans
3) Corporate bond purchase program
4) Government securities purchase program
5) Mortgage bond purchase program
EFFECTS OF MNB PROGRAMMES ON REAL ECONOMY
AGENTS CAN BE REINFORCING

Stylised central bank balance sheet

- Corporate bonds
- Funding for Growth Scheme
- Mortgage bonds
- Government bonds
- Long-term loans

Deposits of the banking system
Deposits of the government

Corporates, households
Financing cost
Stable corporates, households

Government
Efficient government

Indirect effect of the MNB

Competitive economy
Stable banking system
Financing cost
THE MNB USED ITS PROGRAMMES WITH CHANGING INTENSITY

Note | Weekly liquidity provided by some programmes of the MNB.
ANNOUNCEMENTS RELATED TO THE GOVERNMENT BOND PURCHASE PROGRAMME STABILISED ASSET PRICES

1, 2, and 3-day Effect on the 10-year Bond Yield and on the Nominal Exchange Rate following APP Announcement Dates

<table>
<thead>
<tr>
<th>Country</th>
<th>Announce Date</th>
<th>1-day</th>
<th>2-day</th>
<th>3-day</th>
<th>FX (LCU/USD)</th>
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<tbody>
<tr>
<td>Hungary</td>
<td>7-Apr-20</td>
<td>0.02</td>
<td>-0.1</td>
<td>-0.14</td>
<td>-7.96***</td>
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<td>28-Apr-20</td>
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<td>-0.44***</td>
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<td>-14.01***</td>
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</tbody>
</table>

First announcement on launching government bond purchase programme

2 Announcing some details of the programme

3 Announcement about relaunching the programme after temporary break

ASSET PURCHASES AND LONG-TERM LOANS INCREASED LIQUIDITY SURPLUS SUBSTANTIALLY

Note | Main interest rate bearing, HUF denominated asset and liabilities of the MNB.
CHANGING ROLE OF MONETARY POLICY INSTRUMENTS

- **Government bond purchase**: Remains a key element of monetary policy instruments.
- **Corporate bond purchase**: Continuing, main aim is building capital markets.
- **Long-term loan**: Gradual reduction in weekly new loans, reallocation to gov. bonds.
- **Funding for Growth Scheme**: Ceasing after reaching current limits, transformation into green retail real estate lending.
- **Mortgage bond purchase**: Suspension in Autumn 2020, transformation into green mortgage bond purchase.
<table>
<thead>
<tr>
<th>Date</th>
<th>Communication about government bond purchase programme</th>
</tr>
</thead>
</table>
| April 2020  | • MNB ensures the proper functioning of the monetary transmission  
              • To restore the stable liquidity position of the government securities market |
| July 2020   | • The effect of the base rate reduction should have its effect on the longer segment of the yield curve  
              • Government securities purchases in the segment of over 15-year, to improve the maturity structure of government debt |
| January 2021| • Extend purchases to include government papers with maturities of less than 10 years, ensuring continuous liquidity over the middle segment of the yield curve |
| June 2021   | • Maintaining a lasting presence in the market  
              • Flexible approach to changing the quantity and structure of purchases, to the extent and for the time necessary |
THANK YOU FOR YOUR ATTENTION!