



# THE IMPACT OF CHANGES IN MONETARY POLICY INSTRUMENTS ON THE LIQUIDITY OF THE HUNGARIAN FINANCIAL PAYMENT SYSTEM





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# SCOPE OF THE RESEARCH



- An analysis of responses to economic difficulties over the years of 2020 – 2022 such as COVID-19, energy crisis, inflation.
- The Monetary Policy Instruments changed significantly over the period under review such as the scope of eligible collateral, reserve requirement, deposit facilities.
- Liquidity was assessed on an aggregate basis, as changes in Monetary Policy Instruments also had a holistic impact on participants in financial payment systems..



# FINANCIAL PAYMENT SYSTEMS – BACKGROUND INFORMATION



## VIBER

- Real-time gross settlement system.
- Operated by the MNB.
- Primary purpose is the settlement of large-value, time-critical money and capital market transactions between participants and on behalf of their customers and the settlement of transactions cleared by related financial market infrastructures (ICS, KELER Group, CLS).

## The Interbank Clearing System (ICS)

- Gross retail payment system.
- Operated by GIRO Ltd.
- Mainly for the clearing of households' and companies' low-amount payments.
- Three clearing methods: instant, intraday and overnight clearing.

# LIQUIDITY OF THE PAYMENT SYSTEMS

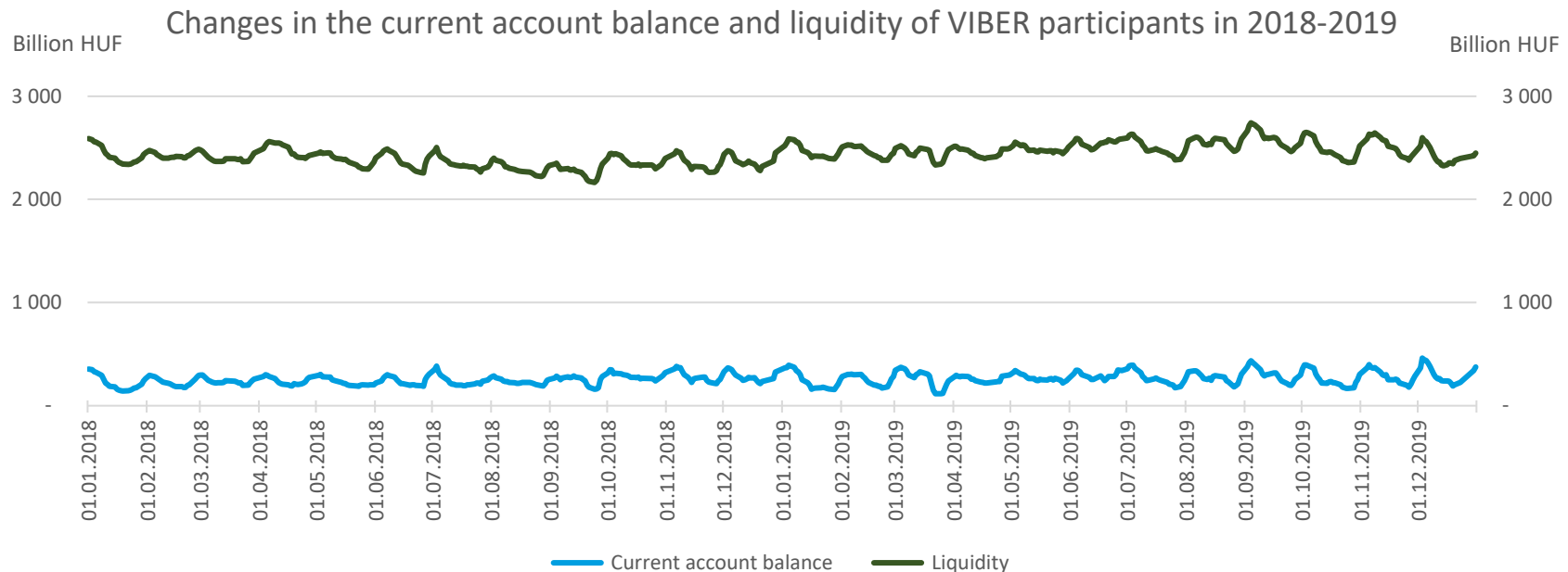


## VIBER

- Current account balance – reserve ratio.
- Intraday credit line – pledged collateral.

## ICS – Instant Clearing

- Instant clearing account balance – instant internal transfer from VIBER.
- Instant credit line – pledged collateral (Outside of VIBER operating hours).





# ASPECTS OF THE INVESTIGATION





## Aspects

- The focus is on the changes in VIBER participants' end-of-day account balance, instant clearing account balance (ICS's) and intraday/instant credit lines of the participants and the correlation of these indicators.
- Examining the maximum credit line utilization (MCLU), we can see in which periods VIBER participants have a higher outgoing turnover than their current account balance.
- Monitoring the evolution of the number of queues, we can observe how many of the transactions of VIBER participants cannot be completed in real time.



# RESULTS





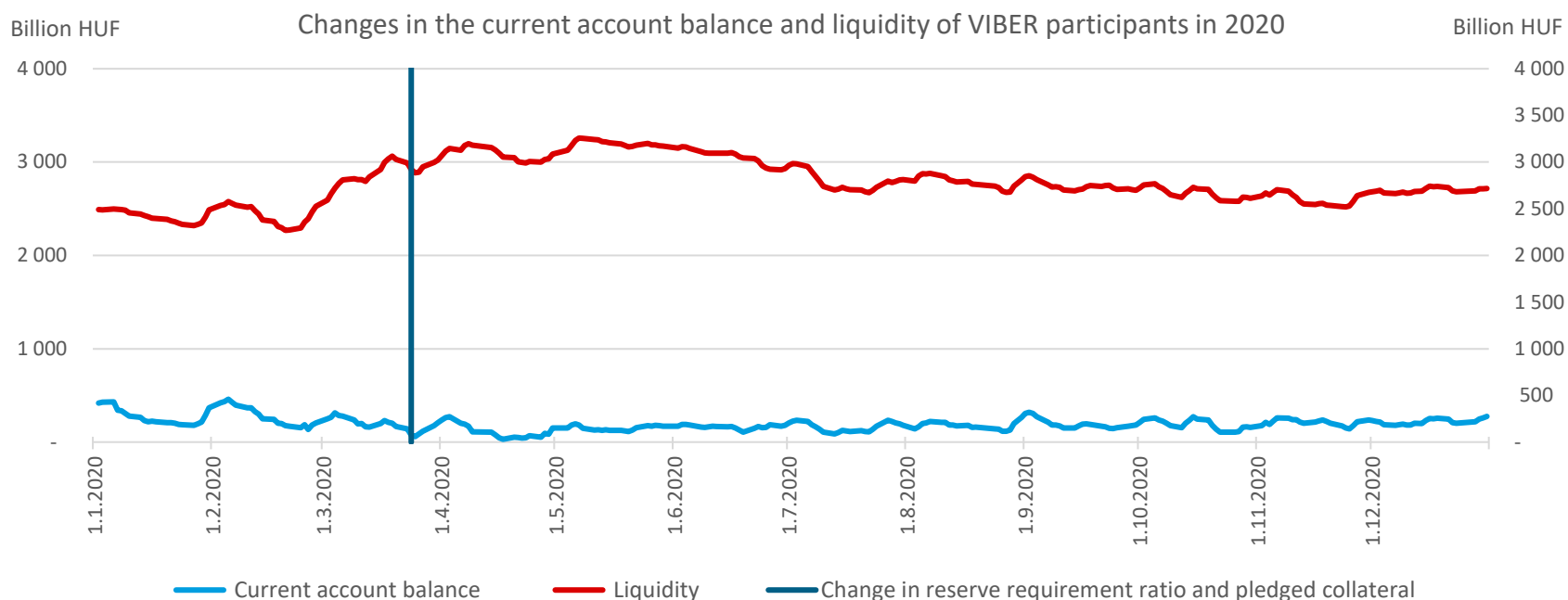
## Main changes in 2020

- **17.03.2020:** Expanding the scope of eligible collateral with corporate loans.
- **24.03.2020:** Abolition of legal consequences of failing to meet the reserve requirement.
- **01.04.2020:** Activation of the one-week deposit facility bearing interest at the central bank policy rate.
- **07.04.2020:** Launching a government securities purchase program on the secondary market.
- **07.04.2020:** Launching the Funding for Growth Scheme Go!, raising the already allocated amount by HUF 1,000 billion.
- **30.04.2020:** Expanding the scope of eligible collateral with the investment fund shares of forint-denominated securities and real estate funds.

# RESULTS OF 2020



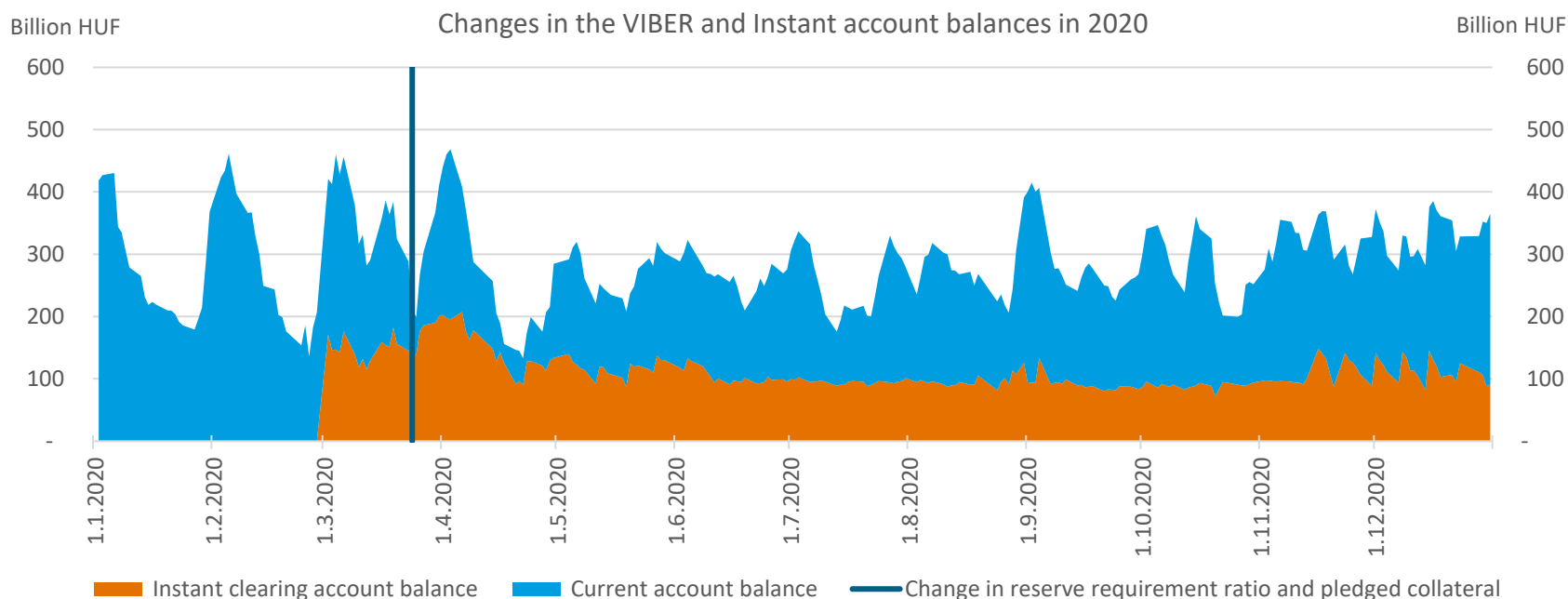
- Significant fluctuations in VIBER liquidity.
- An average 32,4% decrease in the Current account balance caused by the policy changes.
- Liquidity increase partially caused by the expanded scope of eligible collateral with corporate loans.



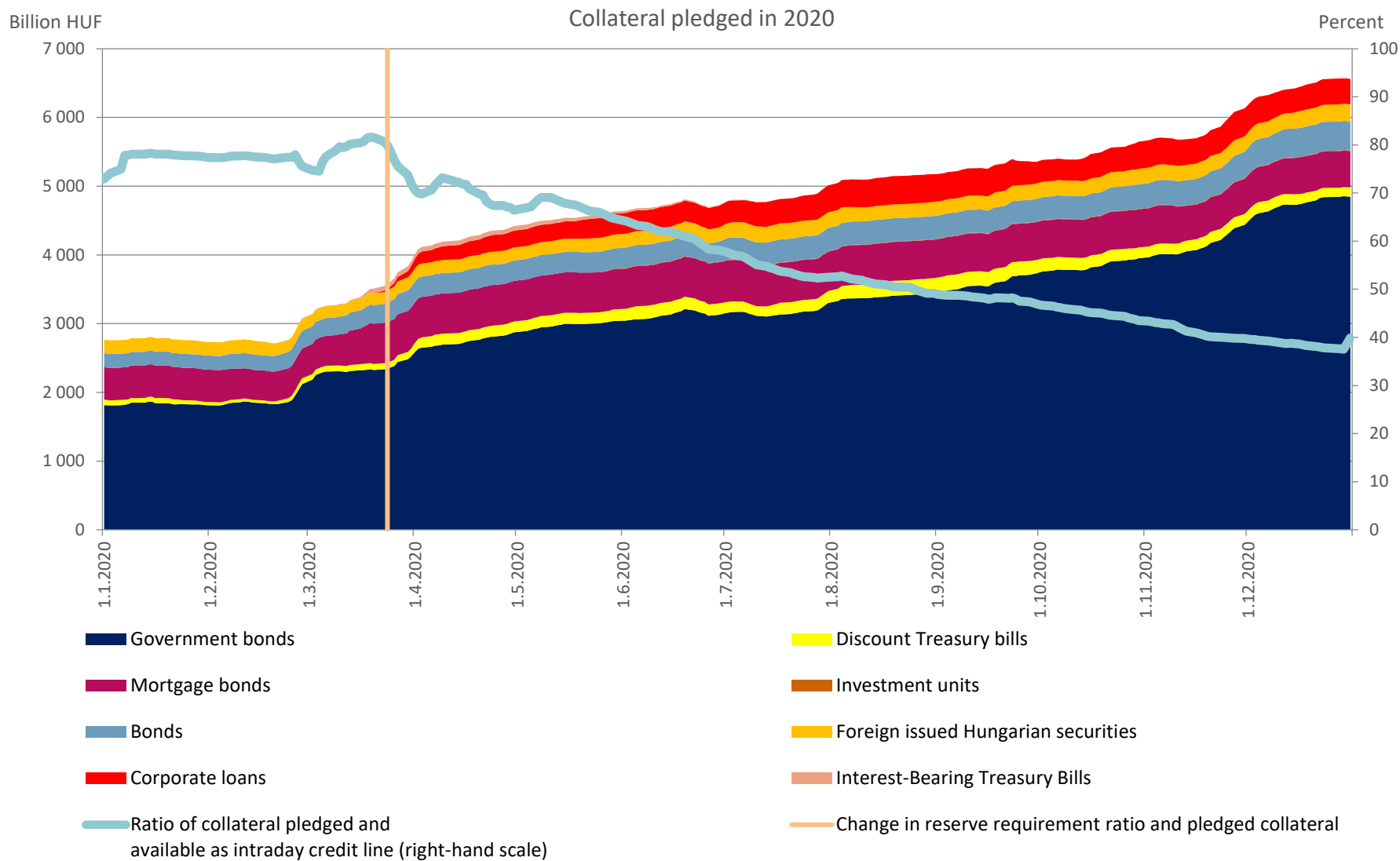
# RESULTS OF 2020



- Launch of instant clearing method.
- A multi-year low for the Current account balance.
- A significant decrease in the correlation between account balances and liquidity from 0.73 to 0.16.
- An average 43% reduction in queues after the policy changes.



# RESULTS OF 2020



# RESULTS OF 2020



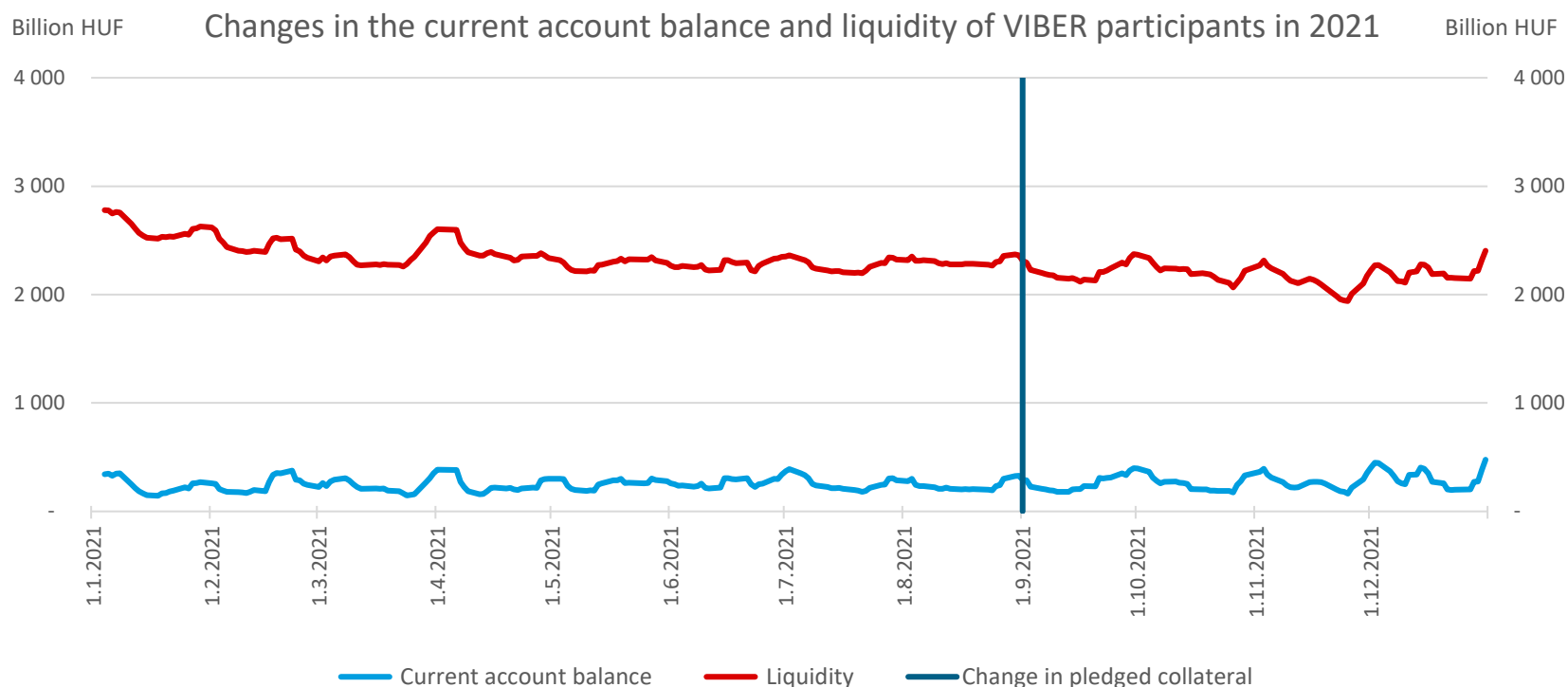
Type	Period	Value	Period	Value
MCLU	Avg. April	12,3%	Avg. August	7%
Turnover	Avg. April	HUF 6 549 billion	Avg. August	HUF 6 066 billion
Queues	Avg. 1.-2. Months	66 pcs	Avg. 3.-12. Months	37,4 pcs
Turnover	Avg. 1.-2. Months	HUF 6 877 billion	Avg. 3.-12. Months	HUF 6 476 billion

Correlation	Period	Value	Period	Value
Account balances & Liquidity	1.-2. Months	0,73	3.-12. Months	0,16

# RESULTS OF 2021



- 01.09.2021: Reducing the scope of eligible collateral with the investment fund shares of forint-denominated securities and real estate funds.
- Slight dip in liquidity due to a reduction in intraday credit line.
- No material impact on the Current account balance or liquidity due to changes in the monetary policy.

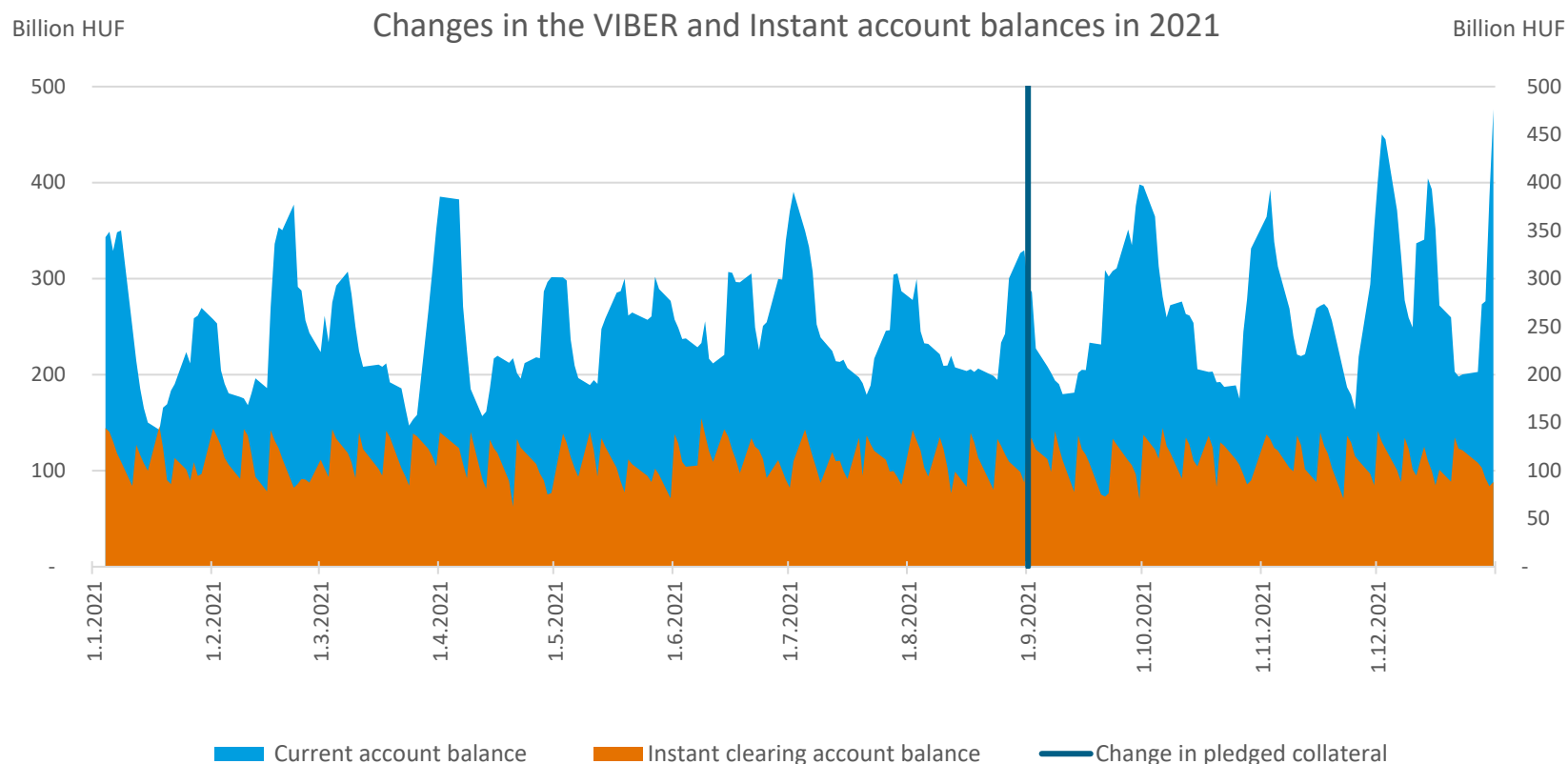




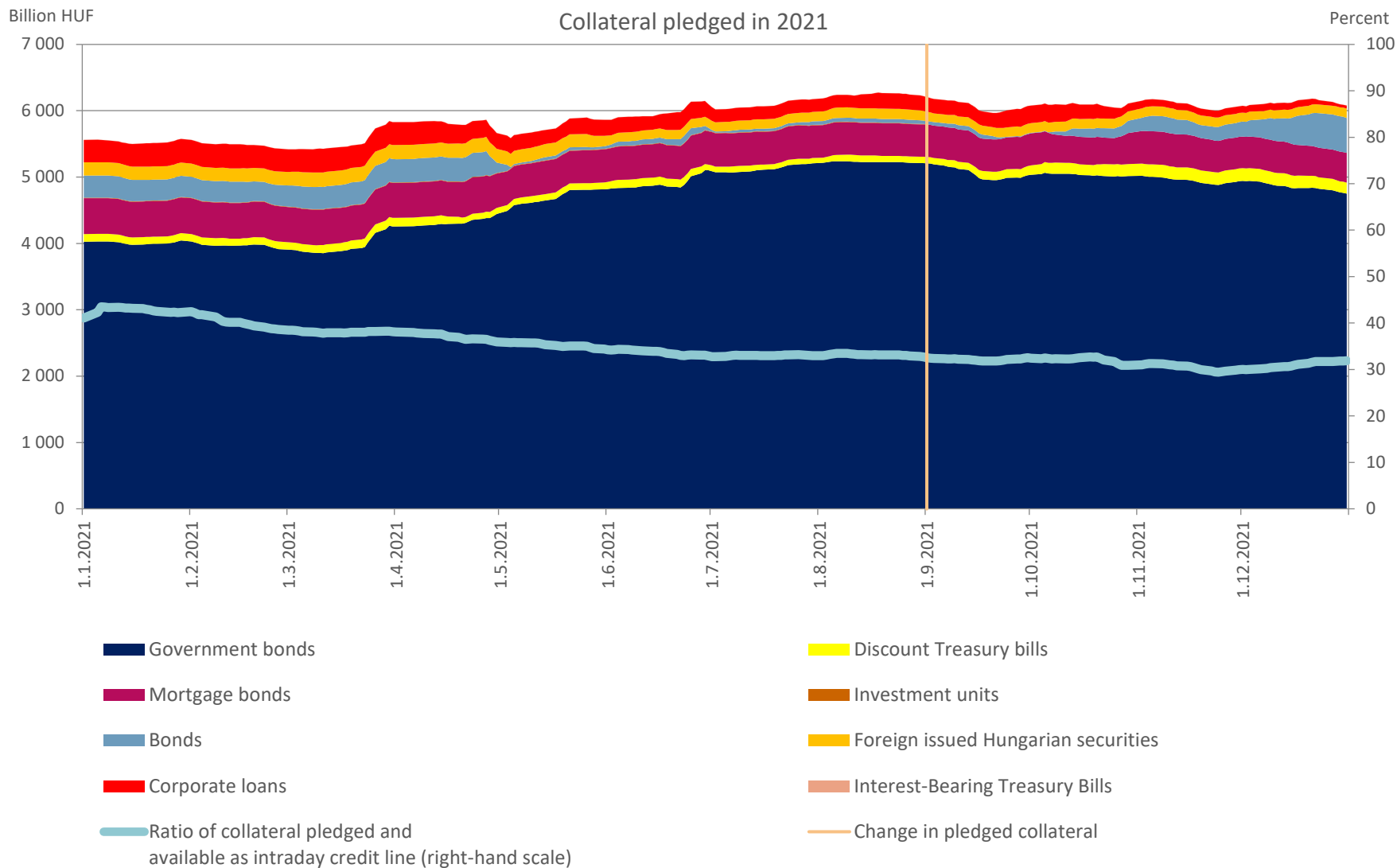
# RESULTS OF 2021



- Continuous growth of the Current account balance.
- As no policy changes were taken with an affect on the balances, there were no significant changes during the year.



# RESULTS OF 2021



# RESULTS OF 2021



Type	Period	Value	Period	Value
MCLU	Avg. August	5,3%	Avg. October	7,7%
Turnover	Avg. August	HUF 9 414 billion	Avg. October	HUF 10 381 billion
Queues	Avg. 1.-9. Months	83,4 pcs	Avg. 10.-12. Months	83,5 pcs

Correlation	Period	Value	Period	Value
Account balances & Liquidity	1.-8. Months	0,58	9.-12. Months	0,85

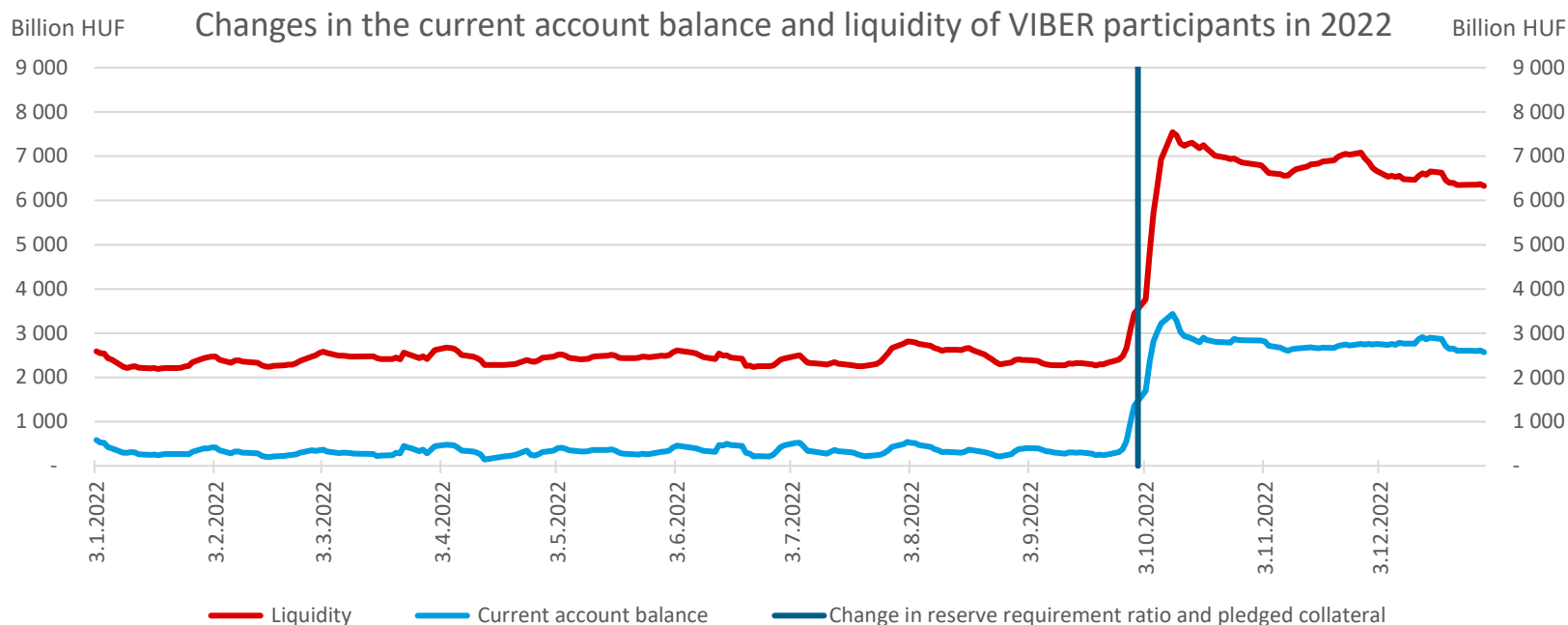
## Main changes in 2022

- 01.04.2022: Preferential deposit withdrawal – Addendum to the Funding for Growth Scheme Go! program.
- **01.10.2022: Activation of the long term deposit facility bearing a floating interest rate. Increase the compulsory reserve ratio to 5 % and the activation of legal consequences of failing to meet the reserve requirement.**
- 14.10.2022: Activation of the quick deposit facility (daily deposit) bearing an interest rate of 18%.

# RESULTS OF 2022



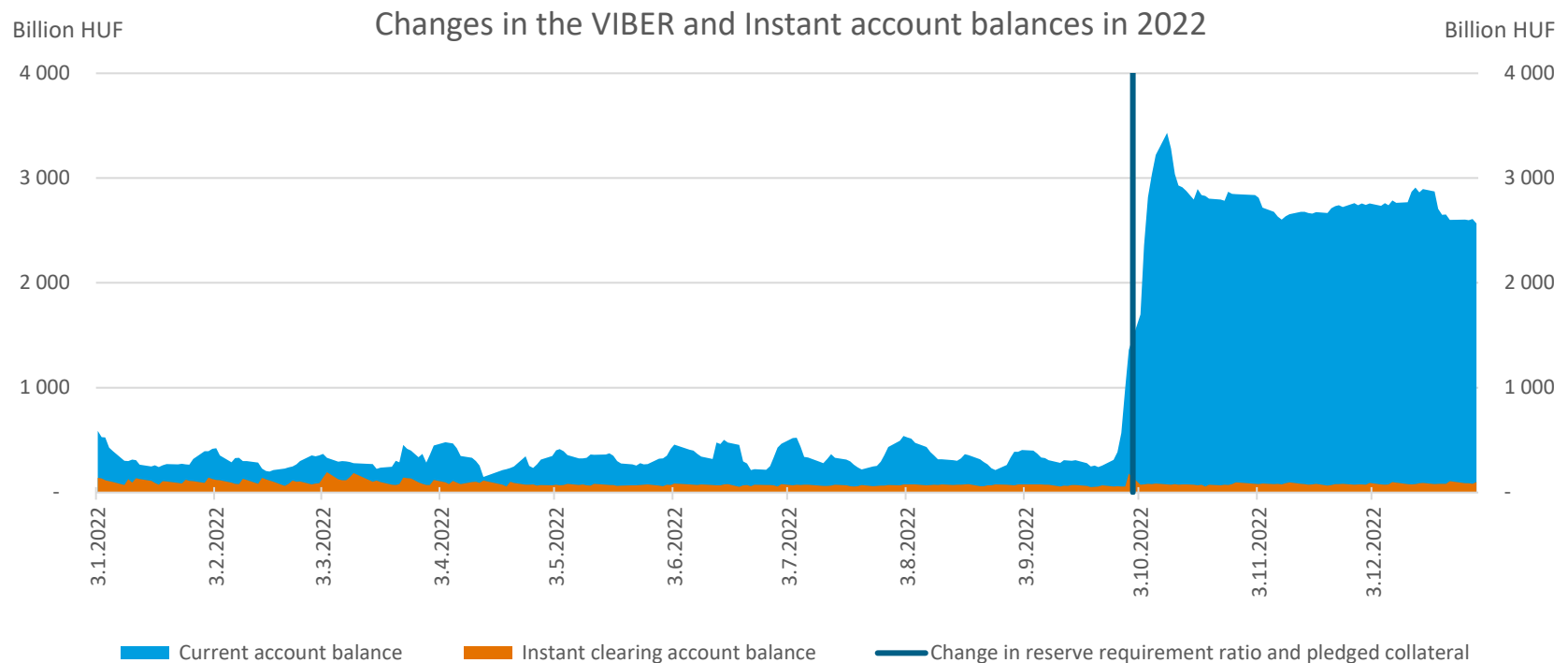
- Liquidity levels have tripled as a result of the October 2022 policy changes.
- A significant part of the increase was due to an expansion of the Current account balance as a result of changes in the reserve requirement ratio.
- Other aspect of the increase was the changes made to the scope of eligible collateral.



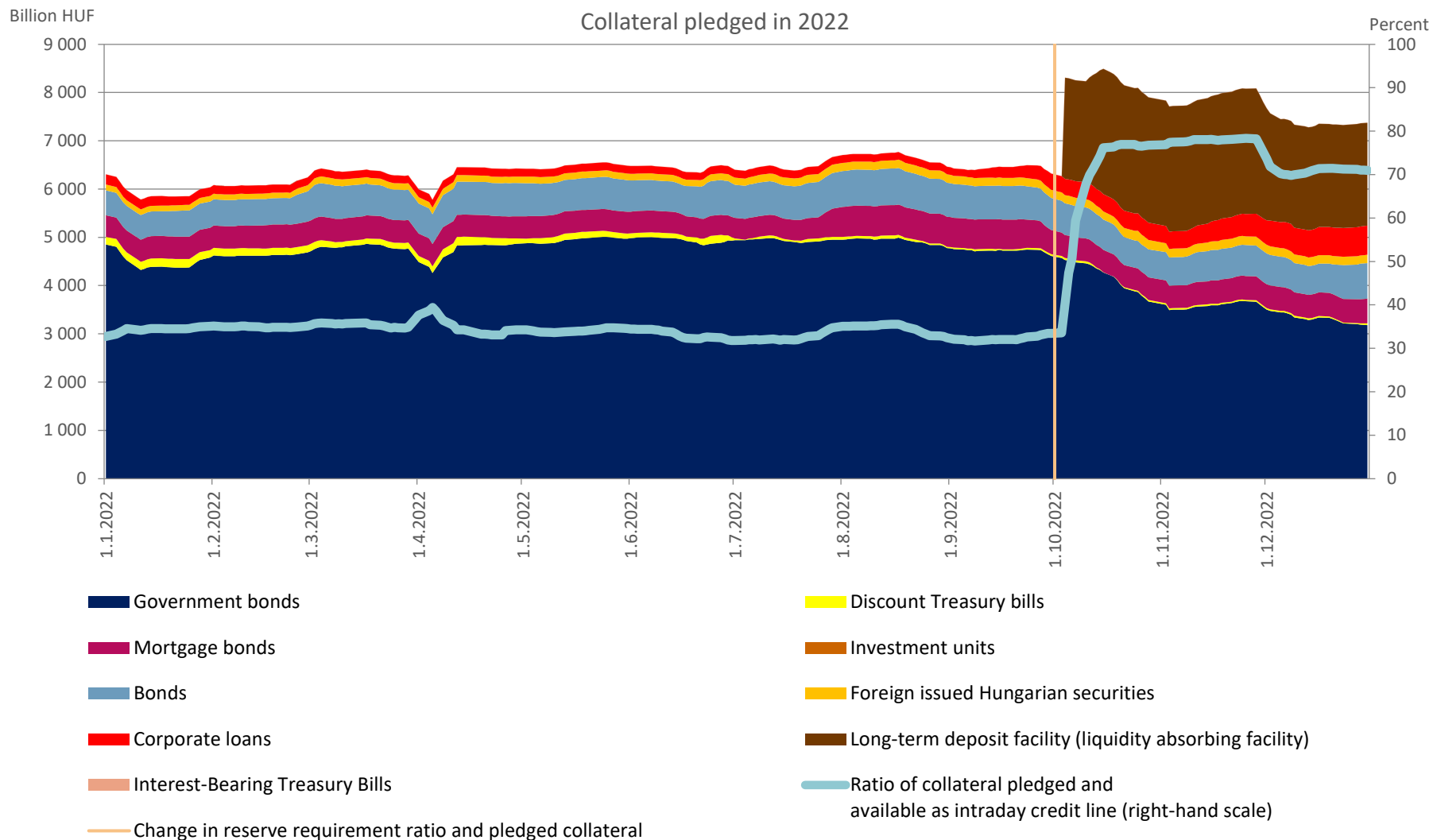
# RESULTS OF 2022



- Maximum credit line utilization rates fell significantly on average from 7.6% to 1.2% following the October policy decision, due to the increased balances.
- A much more significant average drop in queues of 94% since October.



# RESULTS OF 2022



# RESULTS OF 2022



Type	Period	Value	Period	Value
MCLU	Avg. 1.-9. Months	7,6%	Avg. 10.-12. Months	1,2%
Turnover	Avg. 1.-9. Months	HUF 9 469 billion	Avg. 10.-12. Months	HUF 12 480 billion
Queues	Avg. 1.-9. Months	93,3 pcs	Avg. 10.-12. Months	6 pcs

Correlation	Period	Value	Period	Value
Account balances & Liquidity	1.-9. Months	0,83	10.-12. Months	0,77





# CONCLUSION

- The liquidity of payment systems is mainly affected by changes in the reserve requirement ratio.
- Changes to the scope of eligible collateral also have a significant impact on the liquidity of payment systems.
- Other policy changes had less or no impact on the liquidity of the payment systems.
- The policy changes may in some cases have the opposite effect on interbank liquidity and payment systems liquidity.



**THANK YOU FOR YOUR  
ATTENTION!**