# MINUTES
# OF THE MONETARY COUNCIL MEETING
# 24 July 2018

Time of publication: 2 p.m. on 8 August 2018

*Article 3 (1) of the MNB Act (Act CXXXIX of 2013 on the Magyar Nemzeti Bank) defines achieving and maintaining price stability as the primary objective of the Magyar Nemzeti Bank. The MNB's supreme decision-making body is the Monetary Council. The Council convenes as required by circumstances, but at least twice a month, according to a pre-announced schedule. At the second scheduled meeting each month, members consider issues relevant to decisions on interest rates. Abridged minutes of the Council's rate-setting meetings are released regularly, before the next policy meeting takes place. The minutes present the decision-makers' assessment of current economic conditions and the factors they consider when deciding on the base rate. Until December 2013, the Monetary Council presented the information underlying its assessments as part of the abridged minutes. In order to provide more detailed information, background materials will henceforth appear as a separate publication with enhanced content under the title 'Macroeconomic and financial market developments', at the same time as the abridged minutes.*

The minutes are available on the MNB's website at:
http://www.mnb.hu/en/monetary-policy/the-monetary-council/minutes

## THE COUNCIL’S ASSESSMENT AND INTEREST RATE DECISION

In the Council’s assessment, in parallel with the pick-up in domestic demand Hungarian economic output was close to its potential level. Growth of the Hungarian economy would pick up further in 2018, then, if the assumptions of the current projection held, it would slow down gradually from 2019. The inflation target was still expected to be achieved in a sustainable manner from mid-2019, as the temporary, inflation-boosting effects of oil price changes faded.

The Magyar Nemzeti Bank’s single anchor was inflation. Under the flexible inflation targeting regime, the Monetary Council took account of all factors influencing inflation developments on the five to eight-quarter horizon of monetary policy. These might include developments in commodity prices, changes in the external inflation environment, labour market conditions, the position of the real economy, developments in the exchange rate and credit market conditions. By taking into account all these factors, the Bank was able to assess the likely magnitude and persistence of future price changes, which in turn determined the monetary policy response.

In June 2018, inflation had stood at 3.1 percent and core inflation at 2.4 percent. Rising fuel prices had been the main factor contributing to the increase in inflation. Developments in measures of underlying inflation had been in line with the Bank’s expectations. Inflation had risen slightly above 3 percent, while core inflation had been unchanged relative to the previous month in June. The general, dynamic rise in whole economy wages had continued in recent months; however, inflationary pressures from wages had remained moderate, consistent with the Bank’s expectations. Oil prices had fallen in the past month. According to the ECB’s projections, underlying inflation would continue to be moderate in the euro area in the coming years as well.

If the assumptions in the June projection held, the consumer price index would remain temporarily slightly above 3 percent in the coming months, reflecting the increase in oil prices. With inflation expectations anchored at low levels, higher oil prices were unlikely to generate second-round effects. Over the medium term, rising consumption would lead to a gradual increase in underlying inflation. However, moderate external underlying inflation and inflation expectations stabilising at historically low levels, as well as multistage reductions in employers’ social contributions and the VAT rate cuts this year, were slowing the rise in prices. The inflation rate was expected to ease back again as the direct effects of oil price increases faded, and the rise in underlying inflation would ensure that inflation met the 3 percent target in a sustainable structure from the middle of 2019.

The Hungarian economy had grown strongly, by 4.4 percent, in the first quarter of 2018 relative to a year earlier. Data on economic activity released since the previous interest rate decision suggested that robust economic growth was likely to continue. Labour demand had remained strong. The unemployment rate had fallen to a historically low level. Lending to the corporate and household sectors had continued to expand in May.

Economic growth continued in a balanced structure. Looking ahead, the general strengthening of domestic demand would continue to play a central role in economic output developments. The country's current account balance relative to GDP was expected to remain in positive territory over the longer term as well. In the Council's assessment, GDP growth would be 4.4 percent in 2018, higher than last year, then, if the assumptions of the current projection hold, it would slow down gradually from 2019.

Sentiment in international financial markets had been mixed in the period since the Council's previous interest rate decision. Expectations related to the policy stance of the world's leading central banks, and developments related to global trade policy and the supply of oil had influenced investors' appetite for risk. The Fed had continued its gradual tightening of monetary conditions in June. The ECB expected to end its asset purchase programme in December; therefore, the exerted direct effects on the long end of the yield curve would be smaller. However, policy interest rates would remain unchanged at least through the summer of 2019, and therefore the monetary policy environment in the euro area might remain loose. The ECB's monetary policy decisions might have a significant influence on the Magyar Nemzeti Bank's monetary policy.

Asset price volatility had also increased in domestic financial markets in response to turbulence in international markets; however, there had been a reversal in recent weeks. The Bank assessed these developments in light of their relevance to its primary objective, i.e. the sustainable achievement of the inflation target, focusing on their persistence. Due to the different inflation paths expected in the countries of the region and the different characteristics of inflation targeting regimes, market prices suggested that monetary policy stances by regional central banks would continue to differ.

Following the review of macroeconomic and financial market developments, the Council discussed the details of the current monetary policy decision. Members were in agreement that, in view of the fact that that no event had occurred since the previous policy decision which would have warranted a change, maintaining the current loose monetary policy stance continued to be consistent with the June Inflation Report projection. Council members stressed that the Bank's single anchor was inflation, and its primary objective was to meet the inflation target in a sustainable manner. In the Council's assessment, developments in underlying inflation were in line with the Bank's expectations. The Monetary Council would closely monitor the likelihood of alternative scenarios materialising.

It was essential for members that, amid the international financial market volatility experienced in the recent period, the Magyar Nemzeti Bank maintained its cautious and predictable approach to monetary policy. Members agreed that the key question was the persistance of financial market volatility . Sentiment in financial markets had been calmer recently. As a result, the volatility of domestic asset prices had also decreased. Members stressed that the Bank paid particular attention to international and domestic financial market developments in order to meet the inflation target and maintain financial stability. Members were of the view that the fundamentals of the Hungarian economy were strong and the country's fiscal and net lending position was stable. Several members stressed that the effects of the European Central Bank's decisions on Hungarian monetary conditions should be closely monitored.

In the Council's assessment, maintaining the loose monetary conditions was necessary to achieve the inflation target in a sustainable manner. To this end, the Monetary Council maintained the base rate, the overnight collateralised lending rate and the one-week collateralised lending rate at 0.9 percent and the overnight deposit rate at -0.15 percent.

The Council would maintain the HUF 75 billion upper limit on the stock of three-month deposits. In addition, the Council had set the average amount of liquidity to be crowded-out for the third quarter of 2018 at least at HUF 400-600 billion. Furthermore, the Council stated that the actual amount of liquidity to be crowded out must reach a level sufficient to ensure the maintenance of loose monetary conditions. On the next occasion, in September 2018, the Council would decide on the amount of liquidity to be crowded out and would take this into account in setting the stock of central bank swap instruments.

In June, the Monetary Council had set the maximum stock of monetary policy interest rate swaps in the first three quarters of 2018 at HUF 900 billion. The Bank would continue mortgage bond purchases and the monetary policy interest rate swap facility as programmes, and therefore these constituted an integral part of the set of monetary policy instruments. Financing costs had fallen as a result of the mortgage bond purchases, which had encouraged issuance in the primary market, thereby facilitating the increase in fixed-rate lending.

The fundamentals of the Hungarian economy continued to be stable. Accompanied by dynamic growth, the country's external debt had declined significantly, and its net lending continued to be persistently strong. Its fiscal position was sustainable, the budget deficit was low and the public debt-to-GDP ratio was contracting. The foreign currency debt ratio had fallen sharply. The debt cap rules, to be introduced in the autumn, would facilitate healthy, sustainable growth of housing loans.

The Magyar Nemzeti Bank's single anchor was inflation. The inflation target was still expected to be achieved in a sustainable manner from mid-2019, as the temporary, inflation boosting effects of oil price changes faded. In the Council's assessment, maintaining the base rate and the loose monetary conditions was still necessary to achieve the inflation target in a sustainable manner. The current volatile international environment suggested a more cautious approach. The Council would ensure the maintenance of loose monetary conditions, necessary to achieve the inflation target in a sustainable manner, by using the current set of monetary policy instruments.

**Votes cast by individual members of the Council:**

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|---|---|---|
| **In favour of maintaining the base rate, the overnight collateralised lending rate, the one-week collateralised lending rate at 0.9 percent**<br>**and**<br>**maintaining the interest rate on the overnight central bank deposit at -0.15 percent:** | 7 | Ferenc Gerhardt, Kolos Kardkovács, György Kocziszky, György Matolcsy, Márton Nagy, Bianka Parragh, Gyula Pleschinger |
| **Vote against:** | 0 | |

**<u>The following members of the Council were present at the meeting:</u>**

Ferenc Gerhardt

Kolos Kardkovács

György Kocziszky

György Matolcsy

Márton Nagy

Bianka Parragh

Gyula Pleschinger

**The Council will hold its next policy meeting on 21 August 2018. The minutes of that meeting will be published at 2 p.m. on 5 September 2018.**