MINUTES
OF THE MONETARY COUNCIL MEETING
23 JULY 2019

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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

The Magyar Nemzeti Bank's (MNB) single anchor was inflation, its primary objective was to achieve and maintain price stability. The factors determining inflation continued to show volatility. Therefore, in assessing the outlook, the Monetary Council paid more attention to the measures of underlying inflation capturing persistent trends. Consistent with the MNB's expectations, the pace of increase in domestic consumer prices had started to slow down in the summer months. In June 2019, inflation, core inflation and core inflation excluding indirect tax effects had fallen to 3.4 percent, 3.8 percent and 3.5 percent, respectively. Incoming data confirmed the baseline projection in the June Inflation Report.

A dichotomy remained between the factors determining likely developments in inflation. Buoyant domestic demand was boosting, and, from the second half of the year, weakening external activity was likely to restrain the pace of price increase. Due to a strengthening of external disinflationary effects, core inflation excluding indirect tax effects was likely to decline gradually to 3 percent from the end of 2019. The increase of excise duty on tobacco products on a six-monthly basis, which was outside the scope of monetary policy, was likely to raise the consumer price index over the entire forecast horizon. This measure did not cause any second-round effects, consequently, did not influence changes in core inflation excluding indirect tax effects.

The Hungarian economy had grown by 5.3 percent in the first quarter of 2019, mainly driven by market services, industry and construction. Based on monthly indicators, growth rate in retail sales and construction had slowed in the second quarter. In line with our expectations, incoming data suggested that the dynamics of GDP growth was likely to slow down gradually from the second quarter. Compared to the previous high levels, wage growth had continued at a slightly weaker rate in April. Labour demand had remained strong, and the unemployment rate had been close to its historically low level. The current account had remained in surplus in the first quarter of 2019. Due mainly to dynamic growth in imports, the trade surplus had declined in recent quarters, primarily reflecting strong investment activity in the corporate sector.

Economic growth was expected to slow gradually from the middle of the year, but to remain strong. Subdued economic activity in Europe from the second half of the year was also reflected in the slowdown of growth in Hungary. The Hungarian economy was expected to grow by 4.3 percent in 2019 and by 3.3 percent in 2020. As a result of further dynamic growth in credit markets, the investment rate was likely to continue to rise and stabilise at high levels in the coming years. Regarding long-term, sustainable economic growth, the improvement in competitiveness by structural measures would be given increasing emphasis.

In addition to monetary policy, the new retail government security strategy, the 2020 Budget Act and the provisions of the Economy Protection Action Plan to improve competitiveness, were aimed at further strengthening macroeconomic stability and sustainable convergence. The Hungarian Government Security Plus, introduced in June, was expected to raise households' savings rate, in addition to the structural change of their financial assets. Consequently, an increasing share of rapid wage growth was converted into savings instead of consumption, while the promotion of self-financing also helped to reduce Hungary's external vulnerability. Following its launch on 1 June, the outstanding amount of Hungarian Government Security Plus had risen by over HUF 1,200 billion. More than half of this amount had been registered as a new source of finance for the government sector. Based on the 2020 Budget Act, the budget deficit-to-GDP ratio was likely to decline to 1 percent, with the maintenance of a significant amount of reserves. After 2019, fiscal policy would remain counter-cyclical in 2020 as well. The announced Economy Protection Action Plan was expected to gradually improve the competitiveness of the domestic economy. The above measures jointly strengthened macroeconomic stability, reduced external vulnerability, and contributed to maintain a sustainable convergence path.

Due to uncertainties related to the outlook for global economic activity, monetary policies across the world's leading central banks continued to be increasingly cautious. Consistent with the downside risks related to economic activity in Europe and the euro area and communications from the European Central Bank (ECB), market participants were pricing in the loosening of monetary conditions over the short term. According to market expectations, the Federal Reserve might reduce the policy rate in more than one step in 2019, while the Bank of Japan was likely to maintain its loose monetary policy for a longer period of time than earlier expected.

Sentiment in international financial markets had improved slightly since the Council's previous interest rate decision. Risk appetite had been influenced by developments in international trade policies, incoming macroeconomic data and measures taken by the world's leading central banks. Oil prices had decreased in the last month.

To improve the effectiveness of monetary policy transmission, the Monetary Council had launched its corporate bond purchasing programme with a total amount of HUF 300 billion on 1 July 2019. By introducing the Bond Funding for Growth Scheme (BGS), the Council's specific objective was to promote the diversification of funding to the domestic corporate sector. Corporate bond issuances were expected to take place in the fourth quarter. The MNB would neutralise excess liquidity arising from bond purchases by using the preferential deposit facility bearing interest at the central bank base rate. The programme complemented the Funding for Growth Scheme Fix launched at the beginning of 2019 to build a healthier lending structure. Under the scheme, participating credit institutions had concluded loan contracts with domestic SMEs totalling nearly HUF 175 billion in the first half of 2019.

Following the review of macroeconomic and money market developments, the Monetary Council discussed the details of the current monetary policy decision. Council members agreed that data released since the previous interest rate decision were consistent with the baseline projection in the June Inflation Report. Council members thought that the factors determining inflation continued to show volatility; therefore, in assessing the outlook, special attention still had to be paid to the measures capturing persistent trends. Several decision-makers pointed out that inflation indicators had started declining in June, which was consistent with the baseline projection in the June Inflation Report. Monthly macroeconomic data also had met the Bank's expectations, which suggested that GDP growth was likely to slow gradually after the first quarter. Decision-makers agreed that a dichotomy was expected to characterise inflation in the coming quarters as well. Buoyant domestic demand was boosting, and, from the second half of the year, disinflationary effects of weakening external activity was likely to restrain further the pace of price increase.

Council members were unanimous in pointing out that several factors were likely to exert their effects in the second half of 2019, which would fundamentally influence the macroeconomic environment of Hungarian monetary policy. Regarding developments in Hungary, the outstanding amount of the new retail government security (Hungarian Government Security Plus) had risen by over HUF 1200 billion since it had been launched in June. Over half of the strongly growing amount was a new source of finance for the government sector; however, persistent effects on savings could only be assessed using data from the coming quarters. Counter-cyclical fiscal policy was likely to influence the cyclical position of the economy and the outlook for inflation. With regard to external effects, Council members emphasised that they would pay special attention in the coming months to the slowdown in economic activity in Europe, its possible disinflationary effects and changes in monetary policies of the world's leading central banks.

Taking account of the incoming data and risks related to the outlook for inflation and the macroeconomy, Council members agreed that developments in the domestic and international markets since the interest rate decision in June did not warrant the modification of monetary conditions. Decision-makers unanimously argued that the uncertain and fast-changing macroeconomic environment would justify a data-driven and cautious approach in the coming period as well.

The Monetary Council left 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 -0.05 percent unchanged. In addition, in June, the Council had set the average amount of liquidity, to be crowded out for the third quarter, at least at HUF 200-400 billion and would take this into account in setting the stock of central bank swap instruments. The MNB was ready to change the stock of the FX swap instrument in a flexible manner to ensure that the interest rate transmission changed in line with the decisions by the Monetary Council, and the volatility of interbank rates remained at low levels.

In its decisions, the Monetary Council focused on the maintenance of price stability. The monetary policy stance would continue to be accommodative, economic agents' financing costs would remain favourable. A dichotomy remained between the factors determining likely developments in inflation. Buoyant domestic demand was boosting, and, from the second half of the year, weakening external activity was likely to restrain the pace of price increase. Regarding the outlook for inflation, data to be received in the second half of the year would be decisive. Of these, the following were of key importance: the spillover of disinflationary effects of slowing European economic activity, changes in monetary policies of the world's leading central banks, the effect of the new retail government security on savings, and the economic consequences of counter-cyclical fiscal policy. The Monetary Council would assess their effects on the maintenance of price stability over the 5-8 quarter horizon of monetary policy. In its monetary policy decisions, the Council applied a cautious approach, relying mainly on the comprehensive projections for the macroeconomy and inflation of the quarterly published Inflation Report. The future developments in the outlook for inflation would be a decisive factor in the necessity of further measures.

Votes cast by individual members of the Council:

In favour of maintaining the base rate, the overnight collateralised lending rate, the one-week collateralised lending rate at 0.9 percent **and** **maintaining the interest rate on the overnight central bank deposit at -0.05 percent:**	9	Gusztáv Báger, Kolos Kardkovács, György Kocziszky, György Matolcsy, Márton Nagy, Bianka Parragh, Mihály Patai, Gyula Pleschinger, László Windisch
Vote against:	0	

The following members of the Council were present at the meeting:

Gusztáv Báger

Kolos Kardkovács

György Kocziszky

György Matolcsy

Márton Nagy

Bianka Parragh

Mihály Patai

Gyula Pleschinger

László Windisch

The Council will hold its next policy meeting on 27 August 2019. The minutes of that meeting will be published at 2 p.m. on 11 September 2019.