MINUTES
OF THE MONETARY COUNCIL MEETING
20 November 2018

Time of publication: 2 p.m. on 5 December 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.

The Magyar Nemzeti Bank's (MNB) 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 October 2018, inflation had risen to 3.8 percent and core inflation to 2.6 percent. Primarily the sharp rise in volatile items, particularly fuel and unprocessed food prices, moreover the faster-than-expected pass-through of the increase in excise taxes on tobacco products had been the main factors contributing to the pick-up in inflation during the autumn months. In October, the measures of underlying inflation had risen, mainly reflecting an increase in tradables prices. Difference between the consumer price index and the measures of underlying inflation had remained significant. Inflationary pressures from wages had continued to be moderate. Oil prices had fallen since the previous interest rate decision. According to the European Central Bank's (ECB) projection, underlying inflation would continue to be moderate in the euro area in the coming years as well.

Inflation was expected to decrease but remain slightly above 3 percent in the final two months of the year. Difference between the inflation rate and the measures of underlying inflation would narrow towards the end of the year. Inflation was expected to decrease in the coming months due to the fall in fuel prices, while the measures of underlying inflation were likely to rise. Inflation expectations remained anchored at low levels. Rising consumption according to the September projection led to a gradual increase in underlying inflation. This would ensure that inflation met the 3 percent target in a sustainable structure from mid-2019.

According to preliminary data, the Hungarian economy had grown strongly, by 4.8 percent in the third quarter of 2018 relative to a year earlier. Labour demand had remained strong. The unemployment rate had stayed close to its historically low level. Lending to the corporate and household sectors had continued to expand in September; however, the proportion of long-term, fixed-rate lending to the corporate sector had continued to be low.

Looking ahead, economic growth was expected to continue across a broad range of sectors. The general strengthening of domestic demand would continue to play a central role in economic output developments. In the Council's assessment, GDP growth would pick up and stand at 4.4 percent in

2018, then, if the assumptions of the current projection held, it would slow down gradually from 2019. Meanwhile, the country's current account balance was expected to remain in positive territory over the longer term as well.

Sentiment in international financial markets had been volatile in the period since the Council's previous interest rate decision. News about international trade policies, Italy's government budget and the slowdown in global economic growth had been the main factors influencing investors' appetite for risk. The current volatile international environment continued to suggest a more cautious approach. 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. According to market expectations monetary conditions in the euro area remained loose. The ECB's decisions might have a significant influence on the Magyar Nemzeti Bank's monetary policy.

Following the review of macroeconomic and financial market developments, the Council discussed the details of the current monetary policy decision. Members agreed that inflation in October had risen mainly due to volatile items. However, the measures of underlying inflation had also picked up, reflecting the increase in tradables inflation. Members stressed that the Council would closely monitor developments in core inflation and their effect on inflation outlook in the coming months. They emphasised that in performing a detailed assessment and analysis of inflation developments it was important to identify temporary and persistent factors and to understand the effect these had on inflation expectations. The December Inflation Report might provide a guideline for decision-makers to assess the outlook for inflation comprehensively. Several members noted that developments in the international monetary policy environment and the volatile sentiment in international financial markets continued to suggest a cautious approach. Following the review of incoming data, members concluded that maintaining the loose monetary policy stance continued to be necessary, however the Monetary Council was prepared for the gradual and cautious normalisation of monetary policy, which would start depending on the outlook for inflation.

The Bank's primary objective was to achieve the inflation target in a sustainable manner. For this reason, in the Council's assessment, maintaining the loose monetary conditions was necessary. Consistent with the practice of leading central banks, the MNB was also prepared for the gradual and cautious normalisation of monetary policy. As part of the instrument strategy presented in September, the Monetary Council would phase out the three-month deposit facility by the end of 2018. In the future, required reserves would be the main policy instrument. Looking forward, the Bank would adjust monetary conditions necessary to achieve the inflation target in a sustainable manner by creating an optimal combination of two of its instruments: the stock of swap instruments providing forint liquidity and the interest rate corridor. As part of the fine-tuning of the unconventional policy instruments affecting long-term yields, mortgage bond purchases in the secondary market had ended, consistent with the Council's September decision. In addition, the mortgage bond purchase programme in the primary market would be completed and the monetary policy IRS instrument would be phased out by the end of 2018. Furthermore, the Monetary Council would launch the Funding for Growth Scheme Fix at the beginning of 2019. The MNB would sterilise the liquidity provided under this programme using a preferential deposit facility bearing interest at the central bank base rate.

In order to maintain the loose monetary conditions, the Monetary Council had held 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. In addition, in September the Council had left the average amount of liquidity to be crowded-out for the fourth quarter of 2018 unchanged, at least at HUF 400-600 billion. On the next occasion, in December 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.

The Council was prepared for the gradual and cautious normalisation of monetary policy, which would start depending on the outlook for inflation. The inflation target was still expected to be achieved in a sustainable manner from mid-2019. To ensure this, in the Council's assessment, maintaining the current level of the base rate and the loose monetary conditions was necessary.

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 -0.15 percent:**	9	Gusztáv Báger, Ferenc Gerhardt, Kolos Kardkovács, György Kocziszky, György Matolcsy, Márton Nagy, Bianka Parragh, Gyula Pleschinger, László Windisch
Vote against:	0	

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

Gusztáv Báger

Ferenc Gerhardt

Kolos Kardkovács

György Kocziszky

György Matolcsy

Márton Nagy

Bianka Parragh

Gyula Pleschinger

László Windisch

The Council will hold its next policy meeting on 18 December 2018. The minutes of that meeting will be published at 2 pm on 9 January 2019.