MINUTES
OF THE MONETARY COUNCIL MEETING
24 SEPTEMBER 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. Inflation continued to be volatile. Therefore, in assessing the outlook, the Monetary Council paid more attention to the measures of underlying inflation capturing persistent trends.

In August 2019, inflation, core inflation and core inflation excluding indirect tax effects had stood at 3.1 percent, 3.7 percent and 3.2 percent, respectively. In the summer months, the consumer price index had been in line with the MNB's expectations. However, underlying inflation developments had been significantly lower than expected. This had been mainly attributable to the slowing price dynamics of industrial goods.

A dichotomy remained between the factors determining likely developments in inflation. Buoyant domestic demand was boosting, while weakening external activity was increasingly restraining the pace of inflation. The significantly lower-than-expected core inflation excluding indirect tax effects and the effects of the slowdown in European economic activity indicated a strengthening in downside risks to the longer-term outlook for inflation. Due to the base effects of the fall in fuel prices last year, the consumer price index was likely to rise again until the end of 2019, and then to stabilise at the level of the 3 percent inflation target following a gradual decline. In the coming months, core inflation excluding indirect tax effects was expected to rise slightly, before decreasing to 3 percent along a lower than previously expected path, due to external disinflationary effects.

The Hungarian economy had grown by 4.9 percent in the second quarter of 2019, primarily driven by investment and consumption on the expenditure side, as well as market services, industry and construction on the production side. Labour demand had remained strong, and the unemployment rate had been close to its historically low level. Due to dynamic import growth, the trade surplus had declined in recent quarters, primarily reflecting strong investment activity in the corporate sector.

Economic growth was expected to slow in the coming quarters. Weakening economic activity in Europe was likely to have an increasingly strong effect on development of Hungarian GDP as well. Consistent with the gradual deceleration in economic growth, the increase in wages was likely to slow. In parallel, the growth rate of consumption was also likely to slow down. Hungary's export growth might be more muted, reflecting the deterioration in the global and European demand outlook. Hungary's GDP was expected to grow by 4.5 percent in 2019 and by 3.3 percent in 2020 and 2021, respectively. Despite weakening external activity, the convergence of the Hungarian economy with the euro area was likely to continue in the coming years, with the maintenance of the at least 2 percentage points growth surpluses.

In addition to monetary policy, several government measures jointly strengthened Hungary's macroeconomic stability and reduced external vulnerability. Since its launch in June, nearly HUF 2,000 billion of Hungarian Government Security Plus had already been purchased. More than half of the purchases had been registered as a new source of financing for the government sector. Based on the ratified 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 and, in line with the Convergence Programme, in 2021 as well. The Economy Protection Action Plan announced in May was expected to gradually improve the competitiveness of the domestic economy.

As result of the deterioration of the global economic outlook and the muted inflationary processes, the external monetary policy environment had become looser again. After July, the Federal Reserve had reduced its policy rate in September as well. At its latest policy meeting, the European Central Bank (ECB) had decided to lower the deposit rate by 10 basis points and restart its asset purchase programme in an open-ended manner. According to the ECB's communication, policy rates were likely to remain at their present or lower levels until inflation rose close to the central bank target in a sustainable manner. According to global leading central banks' indications and analysts' expectations, a looser monetary policy environment would be persistently maintained, and additional loosening measures could be expected.

Sentiment in international financial markets had been volatile since the Council's previous interest rate decision. Risk appetite had been influenced by developments in international trade policies and the Brexit and measures taken by the global leading central banks. Oil prices had risen in the period since the Council's previous interest rate decision and geopolitical risks pointed to higher volatility in the oil market.

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. Under the programme, the MNB had purchased corporate bonds in September for the first time, possibly to be followed by further purchases in the near future. 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 250 billion until the end of August.

Following the review of macroeconomic and money market developments, the Monetary Council discussed the details of the current monetary policy decision. Council members pointed out that changes in the consumer price index in the summer months had been in line with the MNB's expectations while underlying inflation developments had been significantly lower than expected. Some members stressed that the effects of weakening external activity had already felt in domestic inflationary trends in the summer months. Council members confirmed that inflation continued to be volatile, and therefore in assessing the outlook, special attention still had to be paid to the measures capturing persistent trends.

In the members' assessment, several factors were likely to exert their effects in the coming quarters, which would fundamentally influence the macroeconomic environment of Hungarian monetary policy. Several members pointed out that as a result of the deterioration in the growth outlook of the world economy and moderate inflation developments, the external monetary policy environment had become looser again. Some members pointed out that according to the global leading central banks' indications and analysts' expectations additional loosening measures could be expected and a looser monetary policy environment would be persistently maintained. As a result, members concluded that the effects of external activity, inflation and monetary policy on domestic growth and inflation had to be closely monitored. Regarding the sustainable growth path of the domestic economy, members pointed out that in addition to monetary policy, the Hungarian Government Security Plus, the counter-cyclical fiscal policy and the Economy Protection Action Plan jointly strengthened Hungary's macroeconomic stability and reduced external vulnerability.

Taking account of incoming data and the risks to inflation and the macroeconomy, which had been symmetric earlier but had become asymmetric in the last quarter, members agreed that fine-tuning of monetary conditions was warranted. Council members underlined that due to the effects of the slowdown in European economic activity, the downside risks to persistent inflationary trends had strengthened further. Consequently, in the current uncertain environment, a cautious approach would be applied to Hungarian monetary policy and, in assessing the effects of incoming data on the outlook for inflation, the Monetary Council would adjust monetary conditions as a series of individual decisions from quarter to quarter.

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 September, the Council had raised the average amount of liquidity, to be crowded out for the fourth quarter, by HUF 100 billion from the previous HUF 200-400 billion band to at least HUF 300-500 billion and would take this into account in setting the stock of central bank swap instruments. The MNB changed 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 be favourable. A dichotomy remained between the factors determining likely developments in inflation. Buoyant domestic demand was boosting, while weakening external activity was increasingly restraining the pace of inflation.

In the Monetary Council's assessment, previously symmetric risks to inflation had become asymmetric in the last quarter. The downside inflation risks had strengthened further, reflecting the effects of the slowdown in European economic activity. Due to the measures taken by global leading central banks, the external monetary policy environment had become looser. The Council would assess the effects of these factors on the maintenance of price stability over the 5-8 quarter horizon of monetary policy. In its monetary policy decisions, the Monetary Council applied a cautious approach, relying mainly on the incoming data and the projections in the quarterly published Inflation Report. 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 22 October 2019. The minutes of that meeting will be published at 2 p.m. on 6 November 2019.