MINUTES
OF THE MONETARY COUNCIL MEETING
17 DECEMBER 2019

Time of publication: 2 p.m. on 8 January 2020

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 November 2019, inflation, core inflation and core inflation excluding indirect tax effects had stood at 3.4 percent, 4.0 percent and 3.6 percent, respectively. The increase in inflation had mainly reflected the base effect in fuel prices and a rise in food prices.

A dichotomy still remained between the factors determining likely developments in inflation. Buoyant domestic demand was boosting, while persistently muted external activity was restraining the pace of inflation. In the past quarter, fears of recession had subsided in the euro area. As a result, risks to the outlook for domestic inflation had become balanced again.

The consumer price index was expected to rise further temporarily until January 2020, mainly reflecting the base effect of fuel prices and the increase in food prices. Following a gradual decline, inflation was likely to stabilise at the 3 percent inflation target in the second half of the forecast horizon. Inflation expectations remained anchored. In the coming months, core inflation excluding indirect tax effects was expected to remain around its current level and was likely to decrease from the first quarter of 2020.

In the third quarter of 2019, broad-based economic growth had continued. Hungary's GDP had grown by 5.0 percent. Labour demand had remained strong and the unemployment rate had been close to its historically low level. With dynamic export growth, the trade surplus in the third quarter had significantly exceeded its value a year earlier.

In the coming years, the Hungarian GDP was expected to grow at a slightly higher rate than earlier projected. In the private sector, strong wage growth was expected to continue and might remain double-digit in 2020 as well. The rate of consumption growth was likely to slow somewhat. The household savings rate was expected to be persistently high. In line with the favourable financing environment, companies' investment activity was expected to remain buoyant. Strong investment activity was likely to increase imports over the short term, but the creation of new production capacities was expected to support Hungary's exports and potential output growth over the longer term. Net exports had made an almost neutral contribution to economic growth in 2019 and were expected to make a positive contribution again between 2020 and 2022. Hungary's GDP was likely to grow by 3.7 percent in 2020 and by 3.5 percent in 2021 and 2022, respectively. Economic convergence with the euro area economy was likely to continue with the maintenance of the at least 2 percentage point growth surpluses.

In addition to monetary policy, both the Hungarian Government Security Plus (MÁP+) and counter-cyclical fiscal policy strengthened Hungary's macroeconomic stability and reduced external vulnerability. The MÁP+ contributed to the maintenance of high savings rate. Fiscal policy would make counter-cyclical reserves in the coming years as well. The gradual improvement in economic competitiveness contributed to the maintenance of economic growth on a sustainable path.

World economy had grown at a more restrained pace in the third quarter of 2019, while global inflation had continued to decrease. The euro-area's leading economies had avoided a recession; however, the outlook for growth had remained persistently muted. The deterioration in business survey indicators had stopped, which might indicate further moderation of recession risks, looking ahead.

Sentiment in international financial markets had remained broadly unchanged since the Council's previous policy decision. Risk appetite had been influenced by developments in international trade policies, decisions of the world's leading central banks and the events related to Brexit. Oil prices had risen over the past month.

The external monetary policy environment had become looser in the last quarter. As a result of the three interest rate cuts in 2019, in the assessment of the Federal Reserve's decision-makers, monetary policy stance was appropriate to achieve the central bank targets. The European Central Bank (ECB) had left its base rate unchanged in December. In November, ECB had restarted asset purchases in line with its September decision. The communication of the world's leading central banks did not indicate further loosening measures, while loose monetary policy environment was expected to be maintained persistently.

Following the review of macroeconomic and money market developments as well as the Inflation Report projection, the Monetary Council discussed the details of the current monetary policy decision. Council members noted that the increase in inflation in November had reflected the base effect in fuel prices and a rise in food prices. These temporary influences were likely to contribute to an increase in the consumer price index over the period to January 2020. Subsequently, inflation was expected to decline gradually and the consumer price index was likely to stabilise at the 3 percent target in the second half of the forecast horizon. Members were in agreement that, due to the variability of inflation, core inflation excluding indirect tax effects capturing longer-term trends, still had to be closely monitored. The latter was likely to remain around its current level in the coming months. Members emphasised that inflation expectations continued to be anchored.

The Council assessed in detail the macroeconomic outlook. Decision-makers found that developments in inflation had continued to be driven by dual effects. In the third quarter, global economic growth had slightly outperformed expectations. In parallel with this, fears of recession related to European economic activity had subsided; however, based on business climate indicators the prospects for growth had stabilised at a low level. Accordingly, external inflationary effects were expected to remain subdued for a sustained period. By contrast, the outlook for Hungarian economic growth continued to be favourable. Buoyant domestic demand increased companies' pricing power.

Members noted that the external monetary policy environment had become looser in the past quarter. However, in the decision-makers' assessment, the world's leading central banks had adopted a more cautious approach. Looking ahead, therefore, the likelihood of further monetary easing had diminished. In addition, members pointed out that the loose monetary policy environment was likely to be maintained persistently as external activity remained subdued.

Following the comprehensive overview of the external and internal factors shaping domestic economic developments, members agreed that the risks to inflation, which had been asymmetric and downside in September, had become symmetric again. They stressed, though, that there were a number of uncertainties in the world economy which could eventually cause a sudden change in the economic outlook. Therefore, Council members were unanimous that in making domestic monetary policy decisions a data-driven and cautious approach was still warranted.

In addition to the current monetary policy decision, Council members discussed the results of the bond purchase programme achieved to date. They mentioned that, since its inception, the Bond Funding for Growth Scheme, launched to improve the efficiency of monetary policy transmission, followed with great interest. Due to the high utilization of the programme and in order to promote the further development of the domestic corporate bond market, it was justified to extend the Scheme. Members considered it necessary to reiterate that the Scheme had a neutral effect from a monetary policy perspective, and therefore the MNB would continue to neutralise any excess liquidity arising from bond purchases by using the preferential deposit facility bearing interest at the central bank base rate.

The Monetary Council had 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 December the Council had left the average amount of liquidity to be crowded out for the first quarter of 2020 unchanged at a minimum of 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.

To improve the effectiveness of monetary policy, the Monetary Council had launched its Bond Funding for Growth Scheme on 1 July 2019. Under the Scheme, the MNB had started bond purchases in September. Due to the great interest, central bank purchases were likely to exceed two-thirds of the total amount available under the Scheme until the end of 2019, with the remaining part likely to be used early next year. Taking into account the high utilization of the Scheme, the Monetary Council would raise the original total amount of HUF 300 billion to HUF 450 billion from 1 January 2020 with all other conditions left unchanged. 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 more than HUF 340 billion until the end of November.

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 persistently muted external activity was restraining the pace of inflation.

Following a temporary rise, the consumer price index was likely to decline gradually and was expected to return to close to the 3 percent inflation target in the second half of the forecast horizon. In the Monetary Council's assessment, risks to inflation had become symmetric again. In the coming years, Hungary's GDP growth was likely to be slightly higher than earlier projected, while the outlook for growth in the euro area was likely to be persistently muted. Consistent with this, the external monetary policy environment was expected to remain persistently loose; however, forward guidance of the world's leading central banks did not indicate further loosening measures.

The Monetary 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, Csaba Kandrács, Kolos Kardkovács, György Kocziszky, György Matolcsy, Márton Nagy, Bianka Parragh, Mihály Patai, Gyula Pleschinger
Vote against:	0	

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

Gusztáv Báger

Csaba Kandrács

Kolos Kardkovács

György Kocziszky

György Matolcsy

Márton Nagy

Bianka Parragh

Mihály Patai

Gyula Pleschinger

The Council will hold its next policy meeting on 28 January 2020. The minutes of that meeting will be published at 2 p.m. on 12 February 2020.