MINUTES
OF THE MONETARY COUNCIL MEETING
29 January 2019

Time of publication: 2 p.m. on 13 February 2019

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 ensure that the consumer price index met the 3 percent target in a sustainable manner. The volatility of inflation had increased significantly in recent quarters. Therefore, in assessing the outlook, the Monetary Council paid even more attention than usual to developments in the measures of underlying inflation capturing persistent trends. The recent increase in core inflation excluding indirect tax effects signalled a strengthening of persistent inflationary trends. The Hungarian economy had grown dynamically in 2018; however, if the assumptions of the current projection held, economic growth was likely to slow gradually from 2019. Regarding long-term, sustainable economic growth, the improvement in competitiveness by structural measures would be given increasing emphasis.

Volatile items, sensitive to movements in global commodity prices, had led to a greater-than-usual volatility of inflation. As a result, the consumer price index had fallen to 2.7 percent in December. Core inflation excluding indirect tax effects, capturing persistent trends, had continued to increase, reaching 2.9 percent in December.

Over the short term, the volatility of inflation would remain elevated. After a temporary rise in the first quarter of 2019, the consumer price index was expected to fall below 3 percent. In assessing the sustainable achievement of the inflation target over the monetary policy horizon, the Monetary Council paid even more attention than usual to developments in the measures of underlying inflation capturing persistent inflationary trends. In parallel with strong domestic demand, core inflation excluding indirect tax effects was likely to rise above 3 percent in early 2019, and then stay close to 3 percent over the monetary policy horizon. Over the period ahead, incoming data would be key in the assessment of persistent inflationary trends.

According to the detailed data release, the Hungarian economy had grown dynamically, by 4.9 percent, in the third quarter of 2018 relative to a year earlier. Household consumption and investment had continued to increase. Labour demand had remained strong, and the unemployment rate was close to its historically low level. The country’s balance of goods had decreased, mainly reflecting robust domestic investment growth and a couple of one-off items. The surplus of the services balance had grown significantly. The annual current account had remained in a remarkable surplus. Lending to the corporate and household sectors had continued to expand in November; however, the proportion of long-term, fixed-rate lending to the corporate sector had continued to be low.

Economic growth was expected to continue across a broad range of sectors. Strong domestic demand would continue to play a central role in economic output developments in the coming years. The Hungarian economy had grown dynamically in 2018; however, if the assumptions of the current projection held, economic growth would slow gradually from 2019. The country’s current account balance was expected to remain in positive territory over the longer term as temporary factors faded and as the surplus of the services balance grew dynamically. The fundamentals of the Hungarian economy were strong, and convergence to developed economies continued. Regarding long-term, sustainable economic growth, the improvement in competitiveness by structural measures would be given increasing emphasis.

Sentiment in international financial markets had been volatile in the period since the Council's previous interest rate decision. The main factors influencing investors' appetite for risk had been uncertainties related to international trade policies, the debate over Italy's government budget and the Brexit agreement. In addition to the above factors, the government shutdowns in the US and weaker-than-expected Chinese macroeconomic data had led to a recent deterioration in the outlook for world economic growth. Due to the weakening outlook for global, and particularly euro areaactivity, leading central banks had taken a more cautious approach. Market expectations about the timing of interest rate increases by the world's leading central banks had shifted to an ever later date; therefore, loose monetary conditions might remain for a longer period of time than earlier expected. Amid increased volatility, oil prices had risen overall since the Council's previous interest rate decision. The current international environment continued to suggest a more cautious approach, as the sustained deterioration in the global activity might pose a downside risk to the external inflationary environment. The Monetary Council assessed these developments in light of their relevance to persistent domestic inflationary trends.

In terms of the outlook for domestic inflation, the probability of core inflation excluding indirect tax effects capturing persistent trends rising above 3 percent had increased, while loose monetary conditions in the euro area might remain for a longer period of time. The main factor among these, determining the MNB's monetary policy decisions, was developments in persistent domestic inflationary trends.

The Monetary Council was prepared for the gradual and cautious normalisation of monetary policy, which would begin with the modification of unconventional instruments. Consistent with the instrument strategy adopted by the Council, looking ahead, the Bank would adjust monetary conditions by creating an optimal combination of two of its instruments: the stock of swap instruments providing forint liquidity and the interest rate corridor. In addition, the Funding for Growth Scheme Fix had been launched with a total amount of HUF 1,000 billion in January 2019 to raise the proportion of long-term, fixed-rate lending. The MNB would sterilise the liquidity provided under this programme by a preferential deposit facility bearing interest at the central bank base rate.

Following the review of macroeconomic and financial market developments, the Monetary Council discussed the details of the current monetary policy decision. Members concluded that incoming inflation data for the end of last year had been in line with the short-term projection in the December Inflation Report. Members were unanimous in their opinion that the increased volatility of inflation was likely to continue in the coming quarter, and therefore the Council would pay more attention than usual to developments in measures of underlying inflation capturing persistent inflationary trends. Several members stressed that downside risks to the external inflation environment had increased in recent months, mainly as a result of a deterioration in the outlook for activity in Europe. However, Members were in agreement that changes in the external environment should be evaluated mainly in terms of domestic inflation developments. In assessing this, Members thought that data becoming available over the period ahead would be particularly important.

The Monetary Council left monetary conditions unchanged. Accordingly, the Council 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 December the Council had left the average amount of liquidity to be crowded-out for the first quarter of 2019 unchanged, at least at HUF 400-600 billion. On the next occasion, in March 2019, 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 Monetary Council was prepared for the gradual and cautious normalisation of monetary policy, which would begin depending on persistent inflationary developments. Core inflation excluding indirect tax effects was likely to continue to rise in the coming quarters, which the Council would assess in terms of the sustainable achievement of the inflation target. In the period ahead, therefore, incoming data would be of key relevance. The Monetary Council closely monitored incoming macroeconomic data and would decide to adjust monetary conditions depending on their outcome.

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 26 February 2019. The minutes of that meeting will be published at 2 p.m. on 13 March 2019.