



**MINUTES
OF THE MONETARY COUNCIL MEETING
28 MAY 2019**

Time of publication: 2 p.m. on 12 June 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 achieve and maintain price stability. In April 2019, inflation had stood at 3.9 percent and core inflation at 3.8 percent. Core inflation excluding indirect tax effects had decreased from 3.5 percent in March to 3.4 percent in April. The increase in services prices had been balanced by the decline in highly volatile tradables prices. The rise in fuel prices had largely contributed to an increase in the consumer price index in April as well.

Volatile items continued to be a dominant component of inflation. Therefore, in assessing the outlook, the Monetary Council paid more attention to developments in the measures of underlying inflation capturing persistent trends. A dichotomy was observed between the factors determining likely developments in inflation and core inflation excluding indirect tax effects. Persistently buoyant domestic demand was boosting, and weakening external activity was restraining the pace of price increase. In the coming quarters, inflation was likely to fluctuate around the 3 percent central bank target. Core inflation excluding indirect tax effects was expected to continue to rise until the autumn months and then to decline from the end of 2019.

Based on the preliminary data release, the Hungarian economy had grown by 5.3 percent in the first quarter of 2019, mainly driven by industry, construction and market services. According to the indicators received at the beginning of the year, growth in household consumption and investment was likely to continue this year. Labour demand had remained strong, and the unemployment rate had been close to its historically low level. Based on monthly preliminary data, the current account surplus had been maintained in the first quarter of 2019.

Economic growth was expected to slow gradually from the next quarters, but to remain strong. As a result of further dynamic growth in credit markets, the investment rate was likely to stabilise at high levels. Higher real incomes were expected to contribute to a further expansion in household consumption and savings. Regarding long-term, sustainable economic growth, the improvement in competitiveness by structural measures would be given increasing emphasis.

The outlook for world economic activity and inflation continued to be moderate. Monetary policies across the world's leading central banks remained cautious. Consistent with the downside risks related to the economic activity in Europe and inflation in the euro area, market expectations related to the European Central Bank's (ECB) first interest rate hike had shifted to an even later date. As a result, monetary conditions in the euro area might remain loose for a longer period of time than earlier expected.

Sentiment in international financial markets had been volatile in the period 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 fallen slightly since April.

Following the review of macroeconomic and financial market developments, the Council discussed the details of the current monetary policy decision. Several members pointed out that a rise in oil prices was reflected in the increase in the consumer price index again in April, while core inflation excluding indirect tax effects, monitored closely in terms of persistent trends, had fallen in April. Regarding core inflation excluding indirect tax effects, the increase in market services prices had been offset by a few individual factors related to tradables. In assessing the outlook, special attention still must be paid to measures of underlying inflation capturing persistent trends. Policy-makers agreed that there was a dichotomy between the factors determining likely developments in inflation. Accordingly, still persistently buoyant domestic demand was boosting, and weakening external activity was restraining the pace of price increase. No change had occurred in domestic and international markets since the interest rate decision in March that would warrant the change in monetary conditions. However, data would be evaluated in detail taking into account the projection in the June Inflation Report. A cautious approach was still warranted over the coming period, when monetary policy measures would be determined by likely developments in the outlook for inflation over a 5-8 quarter horizon.

The Monetary Council left monetary conditions unchanged. Accordingly, the Council maintained 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. In March, the Council had set the average amount of liquidity to be crowded-out for the second quarter of 2019 at least at HUF 300-500 billion and would take this into account in setting the stock of central bank swap instruments.

To improve the effectiveness of monetary policy transmission, the Monetary Council would launch 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. The MNB would neutralise excess liquidity arising from the bond purchases by using the preferential deposit facility bearing interest at the central bank base rate. The new programme complemented the Funding for Growth Scheme Fix launched at the beginning of 2019.

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 was observed between the factors determining developments in inflation. Persistently buoyant domestic demand was boosting, and weakening external activity was restraining the pace of price increase. The Monetary Council would assess the effects of this 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 in the quarterly published Inflation Report.

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 25 June 2019. The minutes of that meeting will be published at 2 p.m. on 10 July 2019.