MINUTES
OF THE MONETARY COUNCIL MEETING
26 March 2019

Time of publication: 2 p.m. on 10 April 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 February 2019, inflation had stood at 3.1 percent and core inflation at 3.5 percent. The increase in core inflation had mainly reflected higher inflation of processed food and market services, to which rises in volatile unprocessed food and fuel prices had also contributed in the case of the overall consumer price index. Core inflation excluding indirect tax effects had stood at 3.2 percent in February following a value of 3.0 percent in January. Volatile items continued to influence inflation. Therefore, in assessing the outlook, the Monetary Council paid more attention to developments in the measures of underlying inflation capturing persistent trends. Since mid-2018, the consumer price index had been continuously fluctuating around 3 percent, and core inflation excluding indirect tax effects had risen to 3 percent at the beginning of 2019; therefore, the MNB had met its inflation target.

A dichotomy was observed between the factors determining 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 would 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.

In 2018, the Hungarian economy had grown by 4.9 per cent, which had largely supported by the strong expansion in corporate and household lending. Household consumption and investment had continued to increase. Labour demand had remained strong, and the unemployment rate had been close to its historically low level. Developments in the current account balance had been influenced by two opposite effects. The balance of goods had fallen, while the services balance had risen.

Economic growth was expected to slow gradually from 2019, but to remain strong. As a result of the 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. However, regarding long-term, sustainable economic growth, the improvement in competitiveness by structural measures would be given increasing emphasis.

There had been a significant deterioration in the outlook for global growth. Recent data from the United States, the euro area and China had mostly pointed to a slowdown in economic activity. In addition, risk appetite had been influenced by developments in international trade policies and by uncertainties related to the Brexit agreement. As a result, the world's leading central banks had become more cautious. The Federal Reserve had announced the gradual conclusion of its balance sheet reduction. Based on market expectations, monetary conditions were likely to remain loose for a longer period than earlier expected. This had been reflected in the declining long-term yields in developed countries since the beginning of 2019. Oil prices had increased somewhat recently.

Due to the deteriorating economic outlook in Europe and downside risks to inflation related to the euro area, the European Central Bank (ECB) had modified its forward guidance. Consequently, the first interest rate hike had been shifted to a later date. Furthermore, the ECB would launch a new series of quarterly targeted longer-term refinancing operations (TLTRO-III) to improve the effectiveness of monetary policy transmission and to maintain favourable bank lending conditions. As a result, the central bank balance sheet was expected to remain essentially unchanged for a prolonged period. Due to the shift in the first interest rate hike to a later date and balance sheet policy, monetary conditions in the euro area would remain loose for a longer period of time.

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. Several members pointed out that the annual consumer price index had continuously fluctuated around 3 percent since mid-2018, and core inflation excluding indirect tax effects had risen to 3 percent at the beginning of 2019. By that, the MNB had met its inflation target and from this point forward the Bank was set to focus on the maintenance of price stability. To this end, a change to monetary conditions had become necessary in March. Several members pointed out that there had been significant changes in the macroeconomic environment determining the outlook for inflation in recent months and, as a result, the inflation outlook was characterised by strong upside and downside risks. Persistently buoyant domestic demand was boosting, and weakening external activity was restraining, the pace of price increase. The disinflationary effect of the latter was likely to become more dominant from mid-2019. Decision-makers emphasised that developments in monetary policy were influenced by the stronger impact of the two in the future. For this reason, Council members agreed that in the current uncertain environment clear forward guidance could not be provided. Future measures would be influenced by developments in the outlook for inflation over a 5-8 quarter horizon, which was assessed by the Monetary Council with special attention quarter to quarter. Members stressed that, looking ahead, monetary policy would be shaped as a result of a series of individual decisions. In summary, all decision-makers argued unanimously that a cautious approach was necessary; therefore, they would rely mainly on the comprehensive projections in the Inflation Report, published quarterly, in monetary policy decisions.

The MNB had met its inflation target. To maintain price stability, the Monetary Council deemed it necessary to modify monetary conditions. Accordingly, the Council raised the overnight deposit rate by 10 basis points to -0.05 percent, and left the base rate, the overnight collateralised lending rate and the one-week collateralised lending rate unchanged at 0.9 percent. Furthermore, the Council reduced the average amount of liquidity to be crowded out for the second quarter of 2019 by HUF 100 billion to at least 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 a new monetary policy instrument, the Bond Funding for Growth Scheme (BGS), the

Council's specific objective was to promote the diversification of the funding to the domestic corporate sector. Under the programme, the Bank would purchase bonds having a good rating issued by non-financial corporations. 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 Bank was publishing the considerations underlying the introduction and the most important features of the programme in the form of a background material and it would publish the document containing details of the conditions until the end of April 2019. The new programme complemented the Funding for Growth Scheme Fix launched at the beginning of 2019.

By taking these measures, the Monetary Council ensured the maintenance of price stability. The monetary policy stance would continue to be accommodative, and 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** **increasing the interest rate on the overnight central bank deposit by 10 basis points to -0.05 percent:**	8	Gusztáv Báger, Ferenc Gerhardt, Kolos Kardkovács, György Kocziszky, György Matolcsy, Márton Nagy, Bianka Parragh, László Windisch
Vote against:	0	

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

Gusztáv Báger

Ferenc Gerhardt

Kolos Kardkovács

György Kocziszky

György Matolcsy

Márton Nagy

Bianka Parragh

László Windisch

The Council will hold its next policy meeting on 30 April 2019. The minutes of that meeting will be published at 2 pm on 15 May 2019.