MINUTES
OF THE MONETARY COUNCIL MEETING
19 NOVEMBER 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 October 2019, inflation, core inflation and core inflation excluding indirect tax effects had stood at 2.9 percent, 4.0 percent and 3.7 percent, respectively. The increase in headline inflation and core inflation in October had reflected changes in the price index for processed food.

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 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 remain close to its current level, before decreasing gradually to 3 percent from the beginning of the next year, due to external disinflationary effects.

Based on the preliminary data release, the Hungarian economy had grown by 5.0 percent in the third quarter of 2019, mainly driven by market services, industry and construction. Labour demand had remained strong, and the unemployment rate had been close to its historically low level. With dynamic export growth, in the last quarter, the trade surplus had exceeded significantly its value one year earlier.

Economic growth was expected to slow in the coming quarters. Weakening economic activity in Europe was likely to have an increasingly strong effect on developments in 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 Hungary with the euro area economy was likely to continue in the coming years, with the maintenance of the at least 2 percentage-points growth rate surpluses.

In addition to monetary policy, several government measures jointly strengthened Hungary's macroeconomic stability and reduced external vulnerability. The Hungarian Government Security Plus (MÁP+) strengthened financial stability and supported sustainable economic growth through several channels. The amount of securities purchased had continued to be considerable, more than half of which had been registered as a new source of financing for the government sector. A significant part of sales had been located in the capital, while the level of purchases had been lower in the rest of the country. Based on the ratified 2020 Budget Act, the budget deficit-to-GDP ratio was likely to decline from 1.7-1.8 percent in the current year 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 in the global economic outlook and subdued inflation, the external monetary policy environment had become looser again in recent months. The Federal Reserve had reduced its policy rate three times in this year. In line with its September decision, the European Central Bank had begun asset purchases in November. In October, the possibility of a reduction in interest rates had appeared in the Bank of Japan’s forward guidance. According to global leading central banks’ indications and market pricing, a loose monetary policy environment would be persistently maintained, and additional moderate loosening measures could be expected.

Sentiment in international financial markets had improved 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. The oil prices had risen over the past month.

To improve the effectiveness of monetary policy transmission, the Monetary Council had launched its Bond Funding for Growth Scheme with a total amount of HUF 300 billion on 1 July 2019. Under the Scheme, the MNB had started corporate bond purchases in September. Due to great interest, three-quarters of the amount available under the Scheme was expected to be used until the end of 2019, with the remaining part likely to be used early next year. 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 310 billion until the end of October.

Following the review of macroeconomic and money market developments, the Monetary Council discussed the details of the current monetary policy decision. Members concluded that incoming macroeconomic data in the last month had been mostly consistent with the projection of the September Inflation Report. Most members pointed out that previous fears of recession related to European economic activity had eased in the last month; however, the outlook for our external markets continued to be surrounded by significant uncertainty. Geopolitical events in the coming period continued to play a crucial role in developments in the international economic environment. Council members agreed that the international monetary policy stance was expected to remain persistently accommodative. Of the world’s leading central banks, the European Central Bank’s monetary policy decision called for particular attention in December. The Monetary Council would assess the effects of new information on the inflation projection and the risks to the projection in detail in view of the December Inflation Report. Council members were unanimous in their opinion that maintaining a data-driven character and a cautious approach in domestic monetary policy decisions was still warranted.

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 September the Council had set the average amount of liquidity to be crowded out for the fourth quarter at least at 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, 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 17 December 2019. The minutes of that meeting will be published at 2 p.m. on 8 January 2020.