MINUTES
OF THE MONETARY COUNCIL MEETING
28 APRIL 2020

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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

In the current extraordinary economic circumstances, the Magyar Nemzeti Bank's (MNB's) mandate was still to achieve and maintain price stability, to preserve financial stability, as well as to support the Government's economic policy. Consistent with this, mitigating the negative effects of the coronavirus pandemic on the real economy and financial markets and creating the conditions for restarting the economy had become the MNB's key priorities. The MNB had recently responded to the emerging challenges by taking a series of coordinated measures, transforming and expanding its set of monetary policy instruments. These changes would allow the MNB to provide the required amount of liquidity to the major sub-markets and to set the appropriate monetary conditions in a targeted and flexible manner.

In 2019, world economic growth had fallen to a ten-year low. The coronavirus pandemic had hit the global economy in a weakened state. Its negative economic effects had appeared quickly in a wide range of countries. Currently, there was an exceptionally large degree of uncertainty in judging the time profile of the health emergency and its macroeconomic consequences. Although sentiment in global financial markets had improved slightly in recent weeks, volatility remained extremely elevated. Risk appetite had continued to be influenced by the adverse effects on the real economy and money markets resulting from the spread of the pandemic and the related measures. Capital outflows had continued in emerging markets, but their extent had fallen. The deteriorating outlook for global demand had led to a decline in commodity market prices, including global oil prices, which had decreased sharply again in April following the fall in March.

Due to the negative economic effects of the coronavirus pandemic, a number of central banks around the world had announced further easing measures. The Federal Reserve had decided to implement several new lending incentive and liquidity providing instruments. The European Central Bank had temporarily loosened its collateral eligibility requirements and eased the conditions of its new bond purchase programme (PEPP). The Czech and the Polish central banks had cut policy rates further. The Polish and the Romanian central banks had continued to purchase government securities.

The effects of the coronavirus pandemic had not yet been reflected in the production and sales data of the Hungarian economy in the first two months of 2020. However, the general deterioration in confidence indicators and sector-specific information on past weeks' developments had already shown a decline in economic activity. Based on the data release by the National Employment Service, with the coronavirus disease becoming a pandemic, the number of registered jobseekers had risen in Hungary in March. This year's macroeconomic data would show significant volatility and dichotomy. In the first half of 2020, growth was likely to slow significantly, reflecting the negative economic effects of the pandemic; then domestic growth, the labour market, lending and foreign trade were expected to pick up again as the negative effects waned and lost economic activity was regained.

In March 2020, inflation had returned to the tolerance band. Inflation expectations had remained anchored. Mainly as a result of the sharp decline in fuel prices, inflation was expected to fall below the central bank target in the coming months, before stabilising gradually at 3 percent. Core inflation excluding indirect tax effects was likely to be around 3.2-3.5 percent on average in 2020, before decreasing gradually to 3 percent.

In the past month, the pandemic and the effects of the related measures taken in Hungary and abroad had been reflected apparently in conditions of the Hungarian financial market. Showing high volatility, the forint exchange rate had moved in line with other exchange rates in the region since the outbreak of the coronavirus pandemic. In the past month, the government securities yield curve had flattened.

The fundamentals of the Hungarian economy were strong: the economic policy pursued over the past decade had contributed to maintaining the country's macroeconomic balance and had significantly reduced its external and internal vulnerability. Consistent with this, the latest projections by large international organisations (IMF, EBRD) included Hungary among the most resilient economies. In recent years, the domestic household savings rate and the business investment rate had stabilised at high levels, while the country's external financing capacity had remained persistently positive. By the end of 2019, Hungary's net external debt had decreased to below 8 percent of GDP, a historical low; and, looking ahead, its external financing capacity was expected to remain stable. The budget deficit was low, remaining around 2 percent of GDP over the past several years; and the government debt-to-GDP ratio had been falling continuously as well.

In line with its mandate, the Magyar Nemzeti Bank had decided to implement a series of coordinated measures in the past month. As part of this, the interest rate corridor had been widened and became symmetric. The MNB had activated its one-week deposit instrument, whose interest rate might be increased even to the upper bound of the interest rate corridor at its tenders. In addition, the MNB had introduced a fixed-rate collateralised lending facility with up to five-year maturity, and it had also expanded the scope of eligible collateral and granted exemption from reserve requirements to the banking system. Consistent with the changes to the MNB's monetary policy instruments, from the second quarter of 2020 the Council would not set a target amount of liquidity to be crowded out of the instruments bearing interest at the base rate.

In addition, at its first April meeting, the Monetary Council had decided to launch a government securities purchase programme in the secondary market in order to improve monetary policy transmission and also decided to relaunch its mortgage bond purchase programme to improve the long-term supply of funding to the banking sector. To provide the required funding for domestic companies, the Monetary Council had launched the Funding for Growth Scheme Go! (FGS Go!) on 20 April. It had also decided to modify certain parameters of the Bond Funding for Growth Scheme (BGS), which might make sustainable and stable funding available for the Hungarian corporate sector over the long term. The MNB would sterilise the additional money created by the FGS Go! and the BGS by using the preferential deposit facility bearing tiered interest for a transitional period and providing higher interest rate for additional lending.

Following the review of developments in the macroeconomy and financial markets, the Monetary Council discussed the details of its monetary policy decision, in addition to a comprehensive assessment of the situation caused by the coronavirus pandemic. Some members pointed out that external economic activity had continued to deteriorate at a rapid pace in recent weeks due to the spread of the coronavirus. According to the decision-makers, despite an improvement in sentiment in global financial markets in April, exceptionally high level of volatility had continued to persist. Council members noted that the effects of the coronavirus pandemic had not yet been reflected in the production and sales data of the Hungarian economy in the first two months of 2020. However, the general deterioration in business cycle indicators and sector-specific information had already shown a decline in economic activity. The decision-makers underlined that inflation had returned to the tolerance band in March, and according to the central bank's projection, a further decline might be expected in the coming months. Council members stressed that the Hungarian economy had had strong fundamentals when the coronavirus pandemic hit it, which constituted a firm base to apply an appropriate defensive strategy in economic policy.

The Monetary Council pointed out that the wider room for monetary policy manoeuvre provided the required flexibility and an opportunity for targeted intervention to prevent damage to the monetary policy transmission, and to manage the resulting economic and financial challenges. The coordinated series of measures, taken in the past month, allowed the MNB to influence monetary conditions in a targeted manner and provide all economic agents with the required level of liquidity. Council members highlighted that it was crucial that launching the Funding for Growth Scheme Go! and modifying certain parameters in the Bond Funding for Growth Scheme facilitated access to sustainable, stable, and long-term source of funding for the domestic business sector.

The decision-makers assessed that the announced government securities and mortgage bonds purchase programmes supported and complemented the measures taken by the MNB so far. The government securities purchase programme was considered to be an appropriate central bank instrument to improve the effectiveness of monetary policy transmission, and in turn, relaunching the mortgage bonds purchase programme was expected to provide additional source of funding to the banking system over the long term. The Council members emphasised that, after launching them on 4 May, the MNB would continue the asset purchase programmes in terms of their timeframe and amount as long as warranted by economic and financial developments resulting from the coronavirus pandemic. Council members noted that should incoming information warrant it, the MNB stood ready to fine-tune the programmes.

At its meeting on 28 April 2020, the Monetary Council left the base rate and the overnight deposit rate unchanged at 0.9 percent and -0.05 percent, respectively, and kept the overnight and the one-week collateralised lending rates at 1.85 percent. In addition, the Council made a decision on the details of its asset purchase programme announced earlier. The purpose of the government securities and mortgage bonds purchase programmes was to prevent damage to the monetary policy transmission and manage economic and financial risks arising from the coronavirus pandemic.

The MNB's government securities purchases would take place in the secondary market, and might be conducted at auctions organised by the Bank and in individual secondary market transactions. The Bank would make these purchases at market prices. The MNB would not restrict the scope of maturities of government securities to be purchased; however, the purchases would be focused on securities with a minimum maturity of three years. The range of counterparty institutions, eligible to participate in the programme, included banks and non-banks playing a key role in the government securities market. Mortgage bond purchases would take place in the primary and the secondary markets. Assets to be purchased under this programme were fixed-rate forint mortgage bonds with a minimum original maturity of three years.

Both programmes would be launched by the MNB on 4 May. They would continue in terms of their timeframe and amount as long as warranted by economic and financial developments resulting from the coronavirus pandemic. Based on incoming information, the MNB was ready to fine-tune the programmes, when necessary.

By actively applying the expanded set of central bank instruments, the MNB sought to ensure that domestic financial market developments remain stable in the current uncertain economic environment. It also aimed to provide all economic agents with the required amount of liquidity with favourable conditions. By modifying the set of instruments, the MNB had increased its room for manoeuvre in monetary policy, and ensured that it was able to give quick responses on the required scale to extraordinary challenges in every sub-market in the future as well. The Monetary Council continuously assessed incoming data and changes in outlook. In line with its statutory mandate, the Magyar Nemzeti Bank would use every instrument at its disposal to achieve price stability and to support the Hungarian economic and financial system.

Votes cast by individual members of the Council:

In favour of maintaining the base rate at 0.9 percent, the overnight collateralised lending rate, the one-week collateralised lending rate at 1.85 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 26 May 2020. The minutes of that meeting will be published at 2 p.m. on 10 June 2020.