MINUTES
OF THE MONETARY COUNCIL MEETING
25 FEBRUARY 2020

Time of publication: 2 p.m. on 11 March 2020

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:
https://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 January 2020, inflation, core inflation and core inflation excluding indirect tax effects had stood at 4.7 percent, 4.0 percent and 3.7 percent, respectively. The temporary increase in inflation at the beginning of 2020 had mainly reflected developments in fuel and food prices. The consumer price index had exceeded the projection in the December Inflation Report.

A dichotomy remained between the factors determining likely developments in inflation. Buoyant domestic demand was boosting, while persistently muted external activity was restraining the pace of inflation. The consumer price index was expected to return to the tolerance band by the end of the first quarter of 2020, and to stabilise at the 3 percent inflation target in the second half of the forecast horizon. Inflation expectations remained anchored. In the first quarter of 2020, core inflation excluding indirect tax effects was expected to remain around its current level, and then to decrease gradually.

Based on the preliminary release, the Hungarian economy had grown by 4.5 percent in the fourth quarter of 2019. Growth had been driven by market-based services more strongly and industry and construction to a lesser degree. Hungarian GDP had risen by 4.9 percent in 2019 as a whole. Labour demand had remained strong and the unemployment rate had been close to its historically low level. At the end of 2019, the trade surplus had exceeded the value a year earlier.

Growth of the Hungarian economy had slowed; however, economic convergence with the euro area economy was expected to continue with the maintenance of the at least 2 percentage point growth surpluses. In the private sector, strong wage growth was expected to continue and might remain double-digit in 2020, as well. The rate of consumption growth was likely to slow somewhat. The household savings rate was expected to be persistently high. In line with the favourable financing environment, companies' investment activity was expected to remain buoyant. Strong investment activity was likely to increase imports over the short term, but the creation of new production capacities was expected to support Hungary's exports and potential output growth over the longer term. Net exports had made an almost neutral contribution to economic growth in 2019 and were expected to make a positive contribution again between 2020 and 2022. Hungary's GDP was likely to grow by 3.7 percent in 2020 and by 3.5 percent in 2021 and 2022, respectively.

In addition to monetary policy, both the Hungarian Government Security Plus (MÁP+) and counter-cyclical fiscal policy strengthened Hungary's macroeconomic stability and reduced external vulnerability. The MÁP+ contributed to the maintenance of high savings rate. Fiscal policy would make counter-cyclical reserves in the coming years, as well. The gradual improvement in economic competitiveness contributed to the maintenance of economic growth on a sustainable path. The credit rating agency S&P had upgraded its outlook on Hungary's sovereign rating from stable to positive. In its justification, the credit rating agency had highlighted that Hungarian economic growth had exceeded its projection, while macroeconomic imbalances had remained contained.

The majority of the world economy had continued to grow at a moderate pace. Growth in the euro-area's leading economies had slowed in the fourth quarter of 2019. The outlook for growth continued to be subdued and inflation remained below the target in the euro area. Looking ahead, uncertainty related to the real economy and the financial market might be increased further by the coronavirus. The spread of the virus could again lead to a deterioration in global growth prospects and an increase in risk aversion in emerging markets.

Overall, sentiment in international financial markets had rather deteriorated since the Council's previous interest rate decision. Changes in risk appetite had been mainly affected by uncertainty caused by the coronavirus. The dollar had appreciated persistently recently, which also affected developments in global capital flows. The forint exchange rate had been highly volatile since the Council's previous interest rate decision, while the interbank yield curve had shifted upwards.

According to the communication of the world's leading central banks, the loose monetary policy environment was expected to be maintained for a sustained period. The Federal Reserve's decision-makers had left policy rates unchanged at their rate-setting meeting in January and pointed out that the current monetary policy stance had been appropriate. Of the region's central banks, the Czech National Bank had raised its policy rate in February, while the National Banks of Poland and Romania had kept interest rates unchanged

Following the review of macroeconomic and money market developments, the Monetary Council discussed the details of its monetary policy decision. Members underlined that the consumer price index had been higher in January than projected in the December Inflation Report. Although inflation had temporarily left the tolerance band, it was expected to return to the band by the end of the first quarter of 2020 before stabilising at the 3 percent inflation target in the second half of the forecast horizon. However, Council Members assessed that the possible effects of fast-changing recent developments on the outlook for inflation and the surrounding risks call for special attention. Council Members emphasized that the Magyar Nemzeti Bank's single anchor was inflation; therefore, if a sustained change in the outlook for inflation warranted it, the Monetary Council would be ready to use every instrument at its disposal. Monetary Council Members attached great importance to the comprehensive macroeconomic analysis in the March Inflation Report. This would serve as a basis to identify the extent of measures necessary to achieve the inflation target.

Most members pointed out that growth in the euro-area's leading economies had started slowing down during last year, while inflation still remained below the target. Members agreed that tracking the possible effects of the coronavirus deserves special attention in the coming period. Several members mentioned that sentiment in the international financial markets had rather deteriorated since the Council's previous interest rate decision. Overall, decision-makers were unanimous in arguing that a data-driven, cautious approach was still warranted in domestic monetary policy decisions.

The Monetary Council 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 December the Council had left the average amount of liquidity to be crowded out for the first quarter of 2020 unchanged at a minimum of 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. The stock of swap instruments had declined since mid-January, causing short-term yields to rise by 40-60 basis points. Looking ahead, with the remaining level of swap instruments stock, banking system liquidity was likely to narrow further.

To improve the effectiveness of monetary policy, the Monetary Council had launched its Bond Funding for Growth Scheme on 1 July 2019. Under the Scheme, the MNB had started bond purchases in September 2019. Taking into account the high utilisation of the scheme, the Monetary Council had raised the original total amount of HUF 300 billion to HUF 450 billion from 1 January 2020 with all other conditions left unchanged. 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 over HUF 400 billion until the end of January 2020.

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 persistently muted external activity was restraining the pace of inflation.

Following a temporary rise, the consumer price index was expected to return to the tolerance band by the end of the first quarter of 2020, and then to stabilise at the 3 percent inflation target in the second half of the forecast horizon. The outlook for growth in the euro area was likely to be persistently muted and inflation was expected to remain below the target over the entire forecast horizon. Looking ahead, a persistently loose external monetary policy environment was expected.

The Monetary 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. On the next occasion, the Monetary Council would carry out a comprehensive assessment of macroeconomic developments in the March Inflation Report. Based on this, it would determine the extent of steps necessary to achieve the inflation target. If a sustained change in the outlook for inflation warranted it, the Monetary Council would be ready to use every instrument at its disposal.

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 24 March 2020. The minutes of that meeting will be published at 2 p.m. on 8 April 2020.