MINUTES
OF THE MONETARY COUNCIL MEETING
28 JANUARY 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

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 December 2019, inflation, core inflation and core inflation excluding indirect tax effects had stood at 4.0 percent, 3.9 percent and 3.5 percent, respectively. Annual inflation had been 3.4 percent in 2019. The end-of-year increase in inflation had mainly reflected the base effect of fuel prices. Core inflation excluding indirect tax effects had decreased slightly relative to the previous months. In December 2019, inflation had been in line with the MNB's expectations.

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. In the past quarter, fears of recession had subsided in the euro area. As a result, risks to the outlook for domestic inflation had become balanced again.

The consumer price index was expected to rise further temporarily, mainly reflecting the increase in fuel and food prices, and then to return to the tolerance 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. 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.

In the third quarter of 2019, broad-based economic growth had continued. Hungary's GDP had grown by 5.0 percent. Industrial production, construction and the volume of retail sales had expanded dynamically during the autumn months. Labour demand had remained strong and the unemployment rate had been close to its historically low level. With dynamic export growth, the trade surplus in the fourth quarter had exceeded significantly its value a year earlier.

In the coming years, the Hungarian GDP was expected to grow at a slightly higher rate than earlier projected. 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. Economic convergence with the euro area economy was likely to continue with the maintenance of the at least 2 percentage point growth surpluses.

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 world economy had grown at a more restrained pace in the third quarter of 2019, while global inflation had continued to decrease. The euro-area's leading economies had avoided a recession; however, the outlook for growth had remained persistently muted. The deterioration in business survey indicators had stopped, which might indicate moderation of recession risks, looking ahead. However, the emergence of the coronavirus had increased uncertainty. The spread of the virus could again lead to a deterioration in global growth prospects and an increase in risk aversion in emerging markets.

Sentiment in international financial markets had remained broadly unchanged since the Council's previous policy decision. Risk appetite had been influenced by developments in international trade policies and geopolitical tensions. Following a temporary rise in the beginning of the year, oil prices had declined recently.

The external monetary policy environment had become looser in the last quarter. As a result of the three interest rate cuts in 2019, in the assessment of the Federal Reserve's decision-makers the monetary policy stance was appropriate to achieve the central bank targets. The European Central Bank had left its key interest rates unchanged in January. Looking ahead, communication of the world's leading central banks did not indicate further loosening measures, while the loose monetary policy environment was expected to be maintained persistently.

Following the review of macroeconomic and money market developments, the Monetary Council discussed the details of the monetary policy decision. Members thought that incoming macroeconomic data for the past month were in line with the projection in the December Inflation Report. Members underlined that, as a result of the rise in fuel and food prices at the end of 2019, the consumer price index was expected to rise further temporarily in the first months of 2020 before returning into the tolerance band at the end of the first quarter of 2020. Consistent with this, Council Members were in full agreement that the necessity of further measures would be determined by the persistent change in the outlook for inflation, which would be monitored closely by the Monetary Council.

Most Members pointed out that earlier fears of recession related to European activity had been eased recently; however, new risks had emerged with regards to the outlook for the global economy. Council Members agreed that recent geopolitical events had played a dominant role in developments in the international economic and money market environment. The emergence of the coronavirus was likely to increase uncertainty in the coming months, which could lead to a deterioration in global growth prospects again and an increase in risk aversion in emerging markets. Against this backdrop, decision-makers were unanimous in arguing that a data-driven, cautious approach should be maintained in 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.

To improve the effectiveness of monetary policy, the Monetary Council had launched its Bond Funding for Growth Scheme on 1 July 2019, under which, the MNB had started bond purchases in September 2019. Taking into account the high utilization 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 nearly HUF 380 billion until the end of December 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 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. In the Monetary Council's assessment, risks to inflation were symmetric. In the coming years, Hungary's GDP growth was likely to be slightly higher than earlier projected, while the outlook for growth in the euro area was likely to be persistently muted. Consistent with this, the external monetary policy environment was expected to remain persistently loose; however, forward guidance of the world's leading central banks did not indicate further loosening measures.

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. The necessity of further measures would be determined by the persistent change in the outlook for inflation, which would be monitored closely by the Monetary Council.

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:**	8	Gusztáv Báger, Csaba Kandrács, 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

György Kocziszky

György Matolcsy

Márton Nagy

Bianka Parragh

Mihály Patai

Gyula Pleschinger

The Council will hold its next policy meeting on 25 February 2020. The minutes of that meeting will be published at 2 p.m. on 11 March 2020.