MINUTES
OF THE MONETARY COUNCIL MEETING
23 JUNE 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 environment, the Magyar Nemzeti Bank's (MNB) mandate was still to achieve and maintain price stability, to preserve financial stability, as well as to support the Government's economic policy. Based on incoming data, Hungarian economic performance in 2020 was likely to be more subdued than earlier expected, while the outlook for inflation had shifted downwards persistently. To maintain price stability and support the recovery of economic growth, fine-tuning of monetary conditions had become necessary.

The coronavirus pandemic had hit the global economy in a weakened state. As a result of the measures taken to prevent the spread of the pandemic, in the second quarter real economic activity had declined, while unemployment rates had risen worldwide. From the beginning of May economic activity had restarted gradually as the restrictive measures had been eased. There remained an exceptionally large degree of uncertainty in judging the time profile of the health emergency and the speed of the global economic recovery.

Due to the coronavirus pandemic, the outlook for growth in the global economy had deteriorated significantly. Disinflationary effects had strengthened generally. In parallel, the global leading central banks had announced further easing measures. The Federal Reserve had continued its liquidity-providing and asset purchase programmes. The European Central Bank had raised the total amount of its asset purchase programme (PEPP), had launched to counteract the effects of the pandemic, to EUR 1,350 billion and had extended its horizon. In our region, the decision-makers at the Czech and the Polish central banks had cut the policy rates to close to zero as well. In parallel with the restart of economic activity and the easing measures taken by the global leading central banks, financial market sentiment had started to improve.

The coronavirus pandemic had hit the Hungarian economy when its fundamentals had been stable, and growth had been strong. The economic policy pursued over the past decade had maintained the country's macroeconomic balance and had reduced its external and internal vulnerability. In the first quarter of 2020, Hungary's economic growth had slowed to 2.2 percent year on year. However, the Hungarian economy's growth surplus compared to the euro area had far exceeded the value of around 3 percentage points achieved in recent years. Hungary's defence against the first wave of the coronavirus had been successful, which provided appropriate foundation for the economic recovery.

This year's macroeconomic data were expected to show significant volatility and dichotomy. The effects of the pandemic were likely to be the strongest in the second quarter. Following a significant decline in GDP in the spring, a recovery of economic growth was expected from the third quarter. A pick-up in public investment and an expansion in corporate lending were required to a quick 'V' shape economic recovery in the second half of the year. The moratorium on instalment payments of loans contributed HUF 2,000 billion to maintaining purchasing power and preserving jobs by the end of the year overall. In line with the expected slower recovery in the external environment, production in export-oriented industrial sectors might pick up towards the end of the year. Overall, Hungarian GDP might grow at a restrained pace in 2020. Economic growth was expected to be 0.3–2.0 percent in 2020, 3.8–5.1 percent in 2021 and 3.5–3.7 percent in 2022.

As a result of the cost of protective economic measures and slower nominal GDP growth, the budget deficit in 2020 was likely to rise compared to previous years but remain low in international comparison. The government debt ratio rose temporarily; however, with the quick recovery of the economy, it was expected to return to a downward path from 2021. The current account balance showed a moderate deficit this year as well, but net lending remained positive persistently. Hungary's external debt-to-GDP ratios were expected to decline further.

Due to the coronavirus epidemic, strong disinflationary effects had appeared in the Hungarian economy as well. Following a temporary rise at the beginning of 2020, the consumer price index had quickly returned into the central bank tolerance band, in line with expectations, before declining to its lower bound. Looking ahead, high volatility in inflation was expected to persist. Nevertheless, inflation was likely to stabilise again around the 3 percent central bank target as the effects of cost-sensitive items faded. Weakening economic activity caused by the coronavirus pandemic reduced core inflation excluding indirect tax effects through several channels. In addition to a weaker external inflation environment, more muted domestic demand compared to previous years was also increasingly restraining underlying inflation. Due to strong disinflationary effects, core inflation excluding indirect tax effects would fall below 3 percent: it was expected to stand at 3.3–3.5 percent in 2020 and at 2.6–2.7 percent in 2021.

Domestic financial market conditions had improved with the restart of the economy, meanwhile volatility in financial markets had declined further since the Council's previous interest rate decision. For most of the period, the forint had appreciated against the euro, in line with other currencies in the region. Liquidity conditions in the government securities market remained stable and auction demand was strong.

The Magyar Nemzeti Bank had decided to implement a series of coordinated and targeted measures in recent months. The measures had helped to stabilise domestic money market developments while liquidity with favourable conditions, available to all economic agents, supported the recovery of economic growth. The Bond Funding for Growth Scheme (BGS) and the Funding for Growth Scheme Go! (FGS Go!) ensured for the domestic corporate sector to access sustainable, stable and long-term funding, and for credit market and investment growth to pick up.

Following the review of macroeconomic and money market developments and the June Inflation Report projection, the Monetary Council discussed the details of its monetary policy decision. Members pointed out that disinflationary effects had generally been strengthened as a result of the coronavirus pandemic. In addition to persistently muted external inflation, weaker demand for market services also indicated lower domestic underlying inflation. Decision makers emphasised that, based on the Inflation Report projection, economic growth might be more restrained this year than earlier expected. Members noted that maintaining the current strong level of investment activity was highly important for the economic recovery. The key to this was a pick-up in public investment in the second half of the year and an expansion in corporate lending. In addition to assessing domestic macroeconomic developments, several decision makers pointed out that central banks in the region had taken significant easing measures in May.

Council members agreed that Hungary's defence had been successful against the first wave of the pandemic. In the first phase, the MNB had appropriately stabilised domestic financial markets using targeted instruments and provided the required amount of liquidity. Economic defence had entered a new phase. Monetary Council members were unanimous in arguing that recovering economic growth and maintaining price stability would become key priorities. Fine-tuning of monetary conditions had been necessary to meet this objective. Decision makers agreed that reducing the base rate was the most appropriate way to generally fine-tune interest rate conditions. The effect of the interest rate cut appeared predictably and in a wide range of market rates. Several members highlighted that the reduction in the base rate had an important message for economic agents, due to the fact that the instrument had a coordinating role and that it had remained unchanged for several years. Several members also pointed out that preserving stability continued to be a priority, and therefore an appropriate safety distance should be kept from a range close to zero.

The Monetary Council expected that fine-tuning interest rate conditions would have its effect along the entire yield curve. Council members pointed out that a similar shift in the one-week deposit rate as in the base rate was warranted. Decision makers assessed that it was still necessary to maintain a data-driven and cautious approach in taking domestic monetary policy decisions. Members of the Monetary Council agreed that if downside risks to economic growth arose the emphasis should be put on the continuous evaluation of the FGS Go! and the Bond Funding for Growth Scheme as these programmes affect investments more directly.

In the Monetary Council's assessment, due to strong disinflationary effects the outlook for inflation had shifted downwards persistently, while Hungarian economic performance this year was likely to be more subdued than earlier expected. To maintain price stability and support the recovery of economic growth, the Monetary Council deemed general fine-tuning of interest rate conditions necessary. Accordingly, the Council reduced the central bank base rate by 15 basis points to 0.75 percent. The Monetary Council left the overnight deposit rate at -0.05 percent, and the overnight and the one-week collateralised lending rates at 1.85 percent unchanged.

In the Council's view, the current set of instruments provided appropriate room for manoeuvre to respond to emerging challenges in a targeted and flexible manner. The Council continued to consider the government securities purchase programme as a safety net, which it intended to use in case of necessary and to the extent necessary. The MNB would still set the one-week deposit rate at the weekly tenders. In the Council's assessment, in the current macroeconomic environment a similar shift in the one-week deposit rate as in the base rate was warranted.

This fine-tuning measure by the Monetary Council jointly supported the maintenance of price stability and the recovery of economic growth. The Council continuously assessed incoming data and changes in the outlook for inflation. 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 reducing the base rate to 0.75 percent, **maintaining 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, Bianka Parragh, Mihály Patai, Gyula Pleschinger, Barnabás Virág
Vote against:	0	

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

Gusztáv Báger

Csaba Kandrács

Kolos Kardkovács

György Kocziszky

György Matolcsy

Bianka Parragh

Mihály Patai

Gyula Pleschinger

Barnabás Virág

The Council will hold its next policy meeting on 21 July 2020. The minutes of that meeting will be published at 2 p.m. on 5 August 2020.