MINUTES
OF THE MONETARY COUNCIL MEETING
26 MAY 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 economic growth had become the MNB's key priorities. In recent months, the MNB had 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.

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. There remained an exceptionally large degree of uncertainty in judging the time profile of the health emergency and its macroeconomic consequences. In the first quarter, the economic performance of the US, China and the euro area had declined substantially. Despite a significant slowdown, several economies in the Central and Eastern European region had continued to grow on a year-on-year basis. A number of indicators had showed an improvement in sentiment in global financial markets, while volatility had decreased in recent weeks. Risk appetite had continued to be influenced by developments related to the pandemic and the growing tension between the US and China. Global oil prices had risen in May.

Due to the negative economic effects of the coronavirus pandemic, a number of central banks around the world had maintained loose monetary conditions and announced further easing measures. The ECB had left its key interest rates unchanged; however, it had eased further the conditions of its targeted, longer-term refinancing operations (TLTRO III), and launched a new refinancing facility (PELTRO) as well. Decision-makers at the Czech central bank had cut policy rates once again, while the Polish and Romanian central banks had continued to purchase government securities.

The effects of the coronavirus pandemic had also been reflected in macroeconomic data for Hungary. According to preliminary data, the Hungarian economy had still grown by 2.2 percent year-on-year in the first quarter of 2020. It remained a goal to maintain 2-3 percentage point growth surpluses compared to the euro area. The surplus had significantly exceeded this in the first quarter. Despite the adverse effects of the coronavirus, market services had made the largest contribution to sustained economic growth. This year's macroeconomic data would continue to 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, investment, the labour market, lending and foreign trade were expected to pick up again as the negative effects wane and economic activity lost temporarily was regained.

In line with expectations, the consumer price index had fallen below the central bank target in April, primarily reflecting a significant decline in fuel prices. Subsequently, inflation was expected to stabilise gradually at the 3 percent target. Inflation expectations remained anchored. 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.

Domestic financial market conditions had also been influenced by the effects of international measures to manage the pandemic in May, in addition to the steps taken by the MNB. Accompanied by falling volatility, the forint exchange rate had been mainly in line with other exchange rates in the region. Long-term government securities yields had declined significantly, the government securities yield curve had flattened, and market liquidity had improved.

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 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. 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 and positive. 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.

The Magyar Nemzeti Bank had decided to implement a series of coordinated and targeted measures in recent months. The measures ensured that the required amount of liquidity was available for all economic agents at a wide range of maturities and with favourable conditions. The interest rate corridor had become symmetric, the MNB had activated its one-week deposit facility and introduced a fixed-rate collateralised lending facility with up to five-year maturity. At the beginning of May, disbursements of new loans for micro, small and medium-sized enterprises had started under the Funding for Growth Scheme Go! (FGS Go!). The number of contracts signed showed a swift utilisation of the programme. The FGS Go! and the amendment of certain parameters of the Bond Funding for Growth Scheme allowed the domestic corporate sector to obtain sustainable, stable and long-term financing. The long-term supply of funding to the banking sector was also supported by the relaunched mortgage bond purchase programme.

In order to improve monetary transmission, the Monetary Council had launched a government securities purchase programme on 4 May. Since the announcement of the programme, long-term government securities yields had decreased significantly. The Monetary Council considered the government securities purchase programme to be a crisis management instrument, which it intended to use for the period and to the extent necessary. In the Monetary Council's view, the current set of monetary policy instruments was appropriate to respond to the economic and financial challenges posed by the coronavirus pandemic. In the Council's assessment, the previously set goals had been achieved by the transformed set of instruments. The MNB's steps helped to protect the economy during the pandemic and also supported its subsequent restart.

Following the review of macroeconomic and money market developments, the Monetary Council discussed the details of its monetary policy decision. Members pointed out that external economic activity had slowed down substantially as a result of the coronavirus pandemic. However, the decision-makers believed that by the easing of restrictive measures, the economic outlook had improved along with money market sentiment. Several Council members underlined that there continued to be high uncertainty around the macroeconomic outlook. The members pointed out that Hungary's convergence with the euro area had accelerated in the first quarter despite the coronavirus pandemic. In the members' assessment, the effects of the pandemic were likely to become the strongest in the second quarter of 2020; however, economic growth was expected to pick-up already in the second half of the year. Some members mentioned that, in line with the expectations, inflation had fallen below the central bank target in April. However, looking forward, it was expected to stabilise around the 3 percent target.

The Monetary Council assessed the results of the set of monetary policy instruments expanded and transformed recently. Several members noted that the implemented measures had helped domestic money market developments to stabilise. In addition, they highlighted that liquidity with favourable conditions, accessible to all economic agents also supported the quick restart of the economy. Regarding government securities purchases, the members established that the Programme had improved the effectiveness of monetary policy transmission, reduced long-term yields and played a major role in stabilising the market in an uncertain economic environment. The decision-makers emphasized that the government securities purchase programme was considered as a crisis management instrument, which they intended to use for the period and to the extent necessary. Council members agreed that the current set of monetary policy instruments provided appropriate room for manoeuvre to handle emerging challenges in a targeted and flexible manner.

At its meeting today, 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. The MNB would continue to set the one-week deposit rate at the weekly tenders. In the Monetary Council's assessment, the 0.9 percent level of the one-week deposit rate was appropriate and in line with the MNB's monetary policy objectives.

By transforming and expanding its set of instruments, the MNB had increased its room for manoeuvre in monetary policy and ensured that it is 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 23 June 2020. The minutes of that meeting will be published at 2 p.m. on 8 July 2020.