MINUTES
OF THE MONETARY COUNCIL MEETING
24 MARCH 2020

Time of publication: 2 p.m. on 8 April 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 global coronavirus pandemic posed extraordinary challenges to economies around the world. In a much more uncertain than usual and volatile environment, it was the task of economic policy to mitigate the effects on real economy, to lay the foundations for economic recovery and to foster social cohesion. In this extraordinary macroeconomic environment, 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. In accordance with these tasks, the MNB had decided to undertake a series of coordinated measures, the objective of these was to provide the required level of liquidity for all economic agents. Consistent with its statutory mandate, the Magyar Nemzeti Bank used every instrument at its disposal to protect the Hungarian economy, financial system and society.

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. There was currently an exceptionally large degree of uncertainty in judging the potential macroeconomic consequences and their time profile. There had been an enormous deterioration in sentiment in global financial markets: markets had been characterised by a general increase in risk aversion and selling pressure. Widespread shortage of dollar liquidity had been a key factor contributing to financial market volatility, which had led to significant capital outflows from emerging markets. Global oil prices had fallen by more than 50 percent from December 2019 levels.

Due to the negative economic effects of the coronavirus pandemic, a number of central banks around the world had announced easing measures. At two unscheduled meetings, the Federal Reserve (Fed) had reduced its policy rate to near zero once again. The Fed had taken measures to provide large-scale liquidity and restarted its asset purchase programme to mitigate financial market turbulences. In order to ensure dollar liquidity, the Fed had loosened the conditions of FX swap lines among the world's leading central banks, and then broadened the range of central banks participating in the programme as well. The European Central Bank (ECB) had left key interest rates unchanged and announced significant loosening and liquidity providing measures. The Czech, the Polish and the Romanian central banks had all decided to reduce interest rates as well. With their decision in March, the Polish and the Romanian central bank had also started its government security purchase programme.

Hungary's GDP had grown by 4.9 percent in 2019 as a whole. The unemployment rate had been close to its historical low. Economic growth had been supported mainly by investment and consumption on the expenditure side, and by market services, as well as industry and construction on the production side. The effects of the coronavirus pandemic had not been reflected in domestic production and sales data from the beginning of the year yet; however, the general deterioration in confidence indicators and some sector-specific information already showed a decline in economic activity. This year's macroeconomic data were expected 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, the labour market, lending and foreign trade were expected to pick up again as the negative effects waned and lost economic activity was regained.

As seen in other countries of the region, the Hungarian consumer price index had risen temporarily above the central bank tolerance band in the first months of the year, due to a few volatile items heavily exposed to world market developments. Inflation would continue to show high volatility in the coming months. As a result of the sharp decline in fuel prices from mid-February, the domestic consumer price index was expected to return to the tolerance band as early as in March and then to fall rapidly, in the short term, below the 3 percent central bank target. Inflation expectations had 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.

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. The household saving 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 around 8 percent of GDP, a historical low; and, looking ahead, its external financing capacity was expected to remain stable. Budget deficit was low, remaining around 2 percent of GDP over the past several years; and the government debt-to-GDP ratio was falling continuously as well.

The Magyar Nemzeti Bank's single anchor was inflation, its primary objective was to achieve and maintain price stability. At the beginning of 2020, higher inflation than in the December 2019 projection had suggested the intensification of upside risks; however, the coronavirus pandemic had called for a comprehensive reassessment of the economic outlook. The spread of the pandemic resulted in a rapid decline in expected inflation. Inflation was expected to return to the tolerance band as early as March, then to fall below the central bank target of 3 percent in a few months. The baseline projection was surrounded by even significantly higher uncertainty than usual. The Monetary Council's risk assessment had also changed substantially. The global coronavirus pandemic was more likely to bring about alternative risk scenarios resulting in inflation below the baseline projection and more subdued growth. There were swift changes in the macroeconomic environment; therefore, the Monetary Council continuously reassessed the outlook.

Following the review of developments in the macroeconomy and financial markets as well as the evaluation of the Inflation Report projection, 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. Council Members pointed out that, as a result of the coronavirus pandemic, the economic situation had changed profoundly, and the outlook was deteriorating day by day. The pandemic had hit the global economy in a weakened state. Its negative effects on the economy had appeared quickly in a wide range of countries, which had unfavourable effects on the demand and supply side of the economy as well. All Council Members agreed that the macroeconomic consequences of the coronavirus pandemic and their time profile were exceptionally uncertain. Therefore, decision-makers thought that a full and comprehensive reassessment of monetary policy outlook had become warranted and it should be monitored continuously.

Regarding the assessment of developments in the past quarter, Council Members noted that similarly to the countries in the region, Hungary's consumer price index had also left the central bank tolerance band at the beginning of 2020. However, decision-makers pointed out that this mainly reflected changes in global fuel and food prices. Nonetheless, as a result of the global spread of the coronavirus pandemic, inflation outlook had changed entirely and downside risks to inflation had strengthened significantly. Even in the short-run, due to the changes in oil prices, the consumer price index was expected to decline sharply, while worsening economic outlook and decreasing external demand might restrain the pace of domestic consumer price index through more persistent inflationary trends. As a result of all these factors, inflation was expected to return to the tolerance band as early as in March and then to fall rapidly, in the short term, below the 3 percent central bank target.

The MNB's primary objective was still to achieve and maintain price stability. However, decision-makers underlined that in the current situation it was highly important to provide the required amount of liquidity in order to maintain effective monetary policy transmission. To prevent money market turbulences, the Magyar Nemzeti Bank had taken coordinated measures. These measures aimed to provide the required amount of liquidity for all economic agents, including households, non-financial corporations, the banking system and the government budget. To that end, the MNB's implemented measures included the expansion of the scope of collateral coverage with loans to large corporations and announcement of one-week FX swap tenders providing forint liquidity on a daily basis. The moratorium on repayments for corporations and households helped to address the temporary difficulties faced by debtors. Council Members also noted that a new fixed-rate collateralised loan instrument might provide the required amount of liquidity over the longer-term up to a 5-year maturity.

In a much more uncertain environment than usual, Members thought that the importance of the data-driven approach had increased. As a result, Council Members were unanimous in arguing that it was essential to monitor closely and assess continuously the effects of the pandemic on the economy, and of incoming data on the real economy and financial markets. Decision-makers underlined that the Council would act quickly, in a targeted way to protect the Hungarian economy, the financial system and the society if necessary. In view of this, Council Members highlighted that they were ready to take further targeted, liquidity providing measures, as required.

At its March policy meeting, 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 March the Council left the average amount of liquidity to be crowded out for the second 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 changes in line with the decisions by the Monetary Council.

To mitigate the pandemic's negative economic effects and to ensure the required level of liquidity, the Magyar Nemzeti Bank had decided to implement coordinated measures. By expanding the scope of collateral coverage with loans to large corporations, the MNB had increased liquidity potentially available for the banking sector by around HUF 2,600 billion. Loans to large companies could be placed as collateral already from 23 March 2020. In addition to the 1, 3, 6 and 12-month tenders announced every Monday in the same way, the MNB would also announce one-week FX swap tenders providing forint liquidity on a daily basis from 17 March 2020 until further notice to maintain the appropriate level of liquidity for the banking sector and to smooth liquidity developments. In March, the total stock of central bank FX swap instruments had risen by over HUF 250 billion to close to HUF 2,200 billion.

The measures taken by the MNB's Financial Stability Council aimed to mitigate the effects of the coronavirus pandemic on the financial intermediary sector. This package of measures reduced banks' administrative burden related to bank supervision and ensures flexible adjustment to prudential requirements, e.g. capital requirements, on a temporary basis. Furthermore, the central bank strengthened banks' capital position and ensured a stable funding structure of banks by modifying macro- and microprudential regulations.

In accordance with the MNB's proposal, the Hungarian Government had announced a moratorium on corporate and household loan repayments. This payment extension was a precautionary restructuring measure, which helped to address the temporary difficulties faced by debtors. It was also important for banks to resolve the liquidity difficulties of the real economy, thereby preserving clients' payment ability. Postponing repayments until a later date affected the operation of the banking system; nevertheless, the MNB considered it highly important to provide the liquidity required for the sector's operations at all times, thereby supporting the maintenance of financial stability. Acting on its own authority, the MNB would also take the necessary steps. Accordingly, a moratorium had also been introduced in the Funding for Growth Scheme (FGS); the Monetary Council was assessing the possibility of relaunching the MNB's mortgage bond purchase programme to increase bank liquidity, while the Financial Stability Council had temporarily loosened its regulation on mortgage bond funding.

Today the Monetary Council had also taken further liquidity providing measures to enhance the effectiveness of monetary policy. The Monetary Council decided to introduce a new fixed-rate collateralised loan instrument with maturities of three, six and twelve months as well as three and five years. Lending would be provided at a fixed interest rate by the MNB with unlimited liquidity. In addition, the MNB had released domestic counterparty credit institutions, subject to reserve requirements, from the reserve requirement until a further decision was made. The decision was with immediate effect. The regulation on reserve requirements was no longer needed to be met starting from the reserve maintenance period beginning in March 2020.

The Magyar Nemzeti Bank's primary objective was to achieve and maintain price stability. Inflation was expected to fall below the central bank target in the coming months, before stabilising gradually at 3 percent. The Monetary Council monitored closely and assessed continuously the incoming data, as well as the effects of the coronavirus pandemic on the macroeconomy and the financial market. To address the challenges posed by the pandemic, it was key to ensure the required level of liquidity. In order to preserve effective monetary policy transmission, the Monetary Council was ready to take further measures to provide additional liquidity.

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 28 April 2020. The minutes of that meeting will be published at 2 p.m. on 13 May 2020.