MINUTES
OF THE MONETARY COUNCIL MEETING
17 NOVEMBER 2020

Time of publication: 2 p.m. on 2 December 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:
http://www.mnb.hu/en/monetary-policy/the-monetary-council/minutes

THE COUNCIL'S ASSESSMENT AND INTEREST RATE DECISION

The primary objective of the Magyar Nemzeti Bank (MNB) was to achieve and maintain price stability. Without prejudice to its primary objective, the Magyar Nemzeti Bank preserved financial stability and supported the Government's economic policy.

Global macroeconomic and financial developments continued to be driven mainly by the events of the coronavirus pandemic and the news related to the development of the vaccine. Following a decline in the second quarter of 2020, the performance of large economies had showed significant reversal in the third quarter, although it had continued to fall short of the level seen a year earlier. Since mid-October, infection curves in several countries had risen sharply; therefore, governments had decided to take restrictive measures. Due to the increasingly stronger restrictions introduced, the economic recovery was expected to be delayed. As a result, there remained an exceptionally high uncertainty surrounding the rate of global economic recovery.

Sentiment in global financial markets had been volatile recently. This primarily had reflected developments in the current pandemic situation, the reintroduction of restrictive measures and their tightening and the events of the US presidential elections. The world's leading central banks had not changed their monetary conditions. According to market expectations, euro area inflation might remain in negative territory until the beginning of 2021, and the economic recovery seen in the summer months had been halted in the autumn and restoration was expected to be delayed. The ECB might decide to introduce additional easing measures or to modify its instruments in the light of the December projection. In the CEE region, central banks had held policy rates close to zero, and the Polish and Romanian central banks had continued their government securities purchase programmes. Due to the protracted economic recovery, the world's leading central banks and those in the region were expected to maintain loose monetary conditions over a prolonged period.

Based on data for the third quarter, economic activity had undergone a significant correction after reaching a low point in April and May. According to the preliminary release by the HCSO, Hungary's GDP had risen by 11.3 percent relative to the previous quarter and it had fallen short of the level, seen a year earlier, by 4.6 percent. The recovery in the volume of retail sales following its low point in April had been halted in September, while the rapid reversal of industrial production had continued. The unemployment rate had fallen in the third quarter of 2020 relative to the previous quarter, and it had remained at a low level of 4.4 percent in international comparison. So far, the corporate sector had responded to the challenges arising from COVID-19 primarily by raising the ratio of part-time workers, partly as a result of the Government's measures. At the onset of the second wave of coronavirus, the economic recovery had slowed and the additional significant restrictive measures, introduced to control the pandemic, might cause a delay in the restoration of economic growth.

As a result of the second wave of the pandemic, the economic recovery was expected to stall in the fourth quarter of 2020 before it continued from 2021. According to the MNB's September projection, Hungary's GDP was expected to decline by between 5.1 percent and 6.8 percent in

2020, which might be followed by growth between 4.4 percent and 6.8 percent in 2021. Economic performance might recover to its pre-crisis level by the turn of 2022.

In October 2020, annual inflation had been 3.0 percent and core inflation excluding indirect tax effects had stood at 3.2 percent. The value of both indicators had declined relative to the previous month. Following the higher repricing in the summer months, from September, disinflationary effects had strengthened. Consistent with this, the autumn months had been characterised by gradually declining price dynamics primarily due to market services, food and fuel.

Developments in underlying inflation were still expected to be driven by the overall balance of the upside effects of supply-demand frictions and the growing disinflationary impact of weak demand. As a result of the coronavirus pandemic, pricing decisions continued to exhibit increased volatility and an unusual seasonal pattern in the coming quarters. The persistence of inflationary effects arising as a result of the economic recovery would also be important for the time profile of the decline in underlying inflation, which the Monetary Council would closely monitor.

According to the October EDP report, the government deficit would amount to around 8 percent of GDP in 2020. The debt-to-GDP ratio was likely to rise temporarily in 2020 but was expected to move onto a downward path from 2021 once economic growth was restored and the deficit decreases. The current account balance was expected to show a slight deficit in 2020 and then to improve gradually. With Hungary’s net lending position remaining persistently stable, the country’s external debt ratios would continue to decrease in the coming years.

In the Monetary Council’s assessment, consistent with the risk scenario highlighted in the September Inflation Report, the increase in risk aversion vis-a-vis emerging markets continued to pose the greatest risk in terms of the outlook for inflation. It was the MNB’s clear intention to prevent the current uncertain global market environment from causing an increase in upside risks to inflation.

It was a key priority for the MNB that short-term rates in every sub-market and at all times should develop consistently with the level of short-term rates deemed optimal by the Monetary Council. In order to ensure this, the Bank had reintroduced its swap facility providing foreign currency liquidity in September. Due to the Bank’s active presence, there had been tension in the swap market at the end of the third quarter. Measures taken at the short end of the yield curve contributed to preserving the stability of monetary conditions and through this to maintaining price stability.

In response to the adverse economic effects arising from the coronavirus pandemic, the MNB had expanded significantly the central bank balance sheet and thereby supporting the recovery of economic growth as well. The central bank balance sheet had contracted in recent years creating sufficient potential to address economic challenges in a sustainable manner. The MNB’s balance sheet could still be considered of average size in regional comparison, despite a significant expansion this year. The MNB would be ready to expand its balance sheet further to manage risks arising from the coronavirus pandemic and to foster the quick recovery of sustainable economic growth.

At its meeting today, the Monetary Council had performed the technical revision of its government securities purchase programme. In the Monetary Council assessment, the programme had been successful. The stock of government securities in the Bank's balance sheet had increased by over HUF 700 billion since May 2020. Government securities purchases by the Bank had contributed to maintaining a stable liquidity position in the government securities market and strengthened the effectiveness of monetary policy transmission. The MNB continued to use the government securities purchase programme and to settle for a lasting market presence in the government securities market. The MNB would use the programme to the extent and to the time necessary. The Bank applied a flexible approach to the amount of its weekly purchases, concentrating its purchases on longer maturities. The Council had proceeded without setting a total amount to the government securities programme. The Monetary Council would perform the next technical revision when the stock of purchases reaches HUF 2,000 billion while continuously monitoring the implementation of its asset purchase programme.

The utilisation of the Funding for Growth Scheme Go! had exceeded HUF 1,000 billion by mid-November; therefore, at its meeting today, the Monetary Council had decided to raise the total amount of programme by HUF 1,000 billion as well. The FGS Go! played a key role in mitigating the adverse economic effects of coronavirus as it offered cheap funding with reliable rates to the SME sector with the most favourable conditions ever and a wide range of applications. There had been significant interest by companies in the FGS Go! since it had been launched in April. Under the scheme, 15,000 companies had accessed favourable funding until mid-November. During the economic recovery, it was of key importance for the Monetary Council to provide the amount of funding required for the continuous operations of SMEs and the realisation of their investment projects, which also fostered the recovery of economic growth.

By the end of October 2020, over 260 companies had registered for the Bond Funding for Growth Scheme. By the end of the period, 35 companies had successfully issued 40 bond series, raising more than HUF 680 billion. The MNB would continue to sterilise the resulting surplus liquidity issued under the programmes in full, using the preferential deposit instrument.

Following the review of macroeconomic and financial market developments, the Monetary Council discussed the details of its monetary policy decision. In terms of global macroeconomic and financial market developments, Council members agreed that financial market developments continued to show high volatility, driven mainly by the events of the coronavirus pandemic and the news related to the development of the vaccine in the last month. In this regard, several decision-makers pointed out that a cautious monetary policy approach had to be maintained. In assessing Hungarian economic developments, Council members established that although economic activity underwent a significant correction in the third quarter after reaching a low point in April and May, the recovery was expected to come to a temporary halt in the fourth quarter of 2020 due to the second wave of the pandemic and the restrictive measures introduced. Several members noted that the recovery was likely to continue in 2021, and economic performance was expected to reach the level seen before the pandemic by the turn of 2022.

Turning to inflation developments, members agreed that after the higher repricing during the summer months, disinflationary effects had strengthened from September. In assessing inflation data for October, members emphasised that the slowdown in price increases was primarily related to food and fuel prices. Decision-makers agreed that, looking ahead, increased uncertainty surrounding price developments was expected to persist: underlying inflation was expected to be driven by the overall balance of the upside effects of supply-demand frictions and the growing disinflationary impact of weak demand. Monetary Council members confirmed that they would continue to closely monitor the time profile of underlying inflation, which was expected to be influenced by inflationary effects emerging from the restoration of growth and also by the introduction of restrictive measures.

Members stressed that to restore sustainable economic growth it was key to ensure the continuous operation of SMEs and avoid delays in investment. Consequently, the Funding for Growth Scheme Go! played a key role in mitigating the adverse economic effects of the coronavirus pandemic. The Programme provided funding with favourable conditions, available for a wide range of entities. Several decision-makers pointed out that this was also reflected in strong demand for the FGS; therefore, the total amount of the Programme should be raised by HUF 1,000 billion to maintain a longer-term economic growth potential.

At its policy meeting in November, the Monetary Council also performed the technical revision of the MNB's government securities purchase programme. Members were unanimous in arguing that, based on the review of its results so far, the programme was successful. Members assessed that central bank purchases contributed significantly to maintaining a stable liquidity position in the government securities market in the extraordinary situation caused by the coronavirus pandemic, and to improving the effectiveness of monetary policy transmission. In the decision-makers' assessment, the expansion of the central bank balance sheet so far helped to mitigate the adverse economic effects arising from the pandemic. As a result, the Monetary Council would be ready to support the recovery of growth by expanding further the central bank balance sheet. To conclude, Council members considered it important to maintain the Bank's presence in the government securities market on a persistent basis and to continue the programme with unchanged conditions. The Monetary Council would perform the next technical revision when the stock of purchases under the programme reached HUF 2,000 billion.

At its meeting today, the Monetary Council left the base rate and the overnight deposit rate unchanged at 0.60 percent and -0.05 percent, respectively, and 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 weekly tenders, in response to the increase in risk aversion vis-a-vis emerging markets. The Bank would maintain the difference between the base rate and the one-week deposit rate as long as warranted by inflationary risks.

In the Monetary Council's assessment, the monetary conditions established at the short end supported price stability, the preservation of financial stability and the recovery of economic growth in a sustainable manner. In the current rapidly changing environment, it was key to maintain short-term yields at a safe distance from a range close to zero. The MNB remained committed to maintaining price stability during the coronavirus pandemic. Consequently, the Council continuously assessed incoming data, closely monitored the persistence of inflationary effects resulting from the restoration of the economy and the possible inflationary effects of financial market developments. If warranted by a change in the outlook for inflation, the MNB would be ready to use the appropriate instruments.

Votes cast by individual members of the Council:

In favour of maintaining the base rate at 0.60 percent, **In favour of 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 15 December 2020. The minutes of that meeting will be published at 2 p.m. on 6 January 2021.