MINUTES OF THE MONETARY COUNCIL MEETING
20 OCTOBER 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 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 effects of the coronavirus pandemic. In October, the number of daily infections had risen to record levels globally again. There continued to be an exceptionally large degree of uncertainty surrounding the time profile of the coronavirus pandemic and the speed of the global economic recovery.

Overall, sentiment in global financial markets had been volatile recently and risk indicators had remained elevated. Both the Federal Reserve and the European Central Bank had continued their liquidity-providing and asset purchase programmes. 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. The world's leading central banks and those in the region were expected to maintain loose monetary conditions over a prolonged period.

The Hungarian economy had exhibited a similar decline to that seen in other countries of the region in the first half of 2020. Based on data for the third quarter, economic activity had undergone a significant correction after reaching a low point in April and May. In August, the volume of retail sales and data on industrial production had risen back to close to their levels a year earlier. At 3.9 percent, the unemployment rate had been low in international comparison in August. 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 Government measures. The recovery had slowed as the second wave of coronavirus had begun to unfold; therefore, based on real time data, economic activity continued to fall short of the level seen last year.

Due to the second wave of coronavirus, the economic recovery took longer than earlier expected. Overall, 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.

As a result of coronavirus, pricing decisions in recent months had been more volatile and followed unusual seasonal patterns. With the restart of the economy during the summer months, inflation had risen to the upper bound of the tolerance band, which had possibly been due to the frontloading of price increases in a few cases, in addition to the implementation of price changes cancelled in previous months. Inflation and core inflation excluding the effects of indirect taxes had decreased to 3.4 percent and 3.5 percent, respectively, in September 2020. The effect of several factors had jointly caused the fall in inflation. Market services had restricted the pace of price rises to the greatest extent, by 0.3 percentage points. In addition, price changes in food prices had been also a key factor contributing to the decline.

Looking ahead, developments in underlying inflation were expected to be driven by the overall balance of the upside effects of supply-demand frictions and the growing disinflationary impact of weak demand. 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.

The government deficit might amount to 7-7.5 percent of GDP in 2020. The debt-to-GDP ratio was likely to rise in 2020, but was expected to move onto a downward path from 2021 once economic growth was restored and the deficit decreased. 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, currently the increase in risk aversion vis-à-vis emerging markets posed 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. Consistent with this, on 24 September 2020 the Bank had changed the one-week deposit rate from 0.60 percent to 0.75 percent.

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 no tension in the swap market at the end of the 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.

On 6 October, the Monetary Council had decided to change certain parameters of the programme of government securities purchases to promote the effectiveness the Bank's programmes affecting long-term yields. Under the measures, the amount available for purchase of certain series of government securities had been raised from 33 percent to 50 percent. Furthermore, the range of assets available for purchase had been extended to government-guaranteed debt securities issued, using the same strategic parameters as those of government securities purchases. The Bank applied a flexible approach to the amount of its weekly purchases, focusing its purchases on longer maturities. The Monetary Council would use the government securities purchase programme continuously through a lasting market presence to the extent required.

In view of the large-scale utilisation, the Monetary Council had raised the amount available under the Bond Funding for Growth Scheme to HUF 750 billion from 23 September. Under the FGS Go!, more than 12,000 companies had had access to funding over the period to mid-October, exceeding an amount of HUF 800 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. With regards to money market developments, several members noted that volatility was high and risk indicators remained elevated. In assessing the developments in the Hungarian economy, Council members agreed that economic activity had undergone a significant correction after reaching a low point in April and May. This was also supported by the volume in retail sales and data on industrial production in August. A few members pointed out that based on real time data, recovery had slowed as the second wave of coronavirus had begun to unfold. As a result, economic activity continued to fall short of the level seen last year.

In assessing inflation developments, Council members agreed that as a result of coronavirus, pricing decisions in recent months had been characterised by greater uncertainty. Assessing the September inflation data, they underlined that several factors had jointly caused the fall in inflation. Of these, market services and food prices had restricted the pace of price rises to the greatest extent. Looking ahead, several members stressed that increased uncertainty surrounding price developments was expected to remain persistent: underlying inflation were expected to be driven by the overall balance of the upside effects of supply-demand frictions and the growing disinflationary impact of weak demand.

In the Monetary Council's assessment, consistent with the alternative path highlighted in the Inflation Report, currently the increase in risk aversion vis-à-vis emerging markets posed the greatest risk in terms of inflation. Accordingly, decision-makers noted that the MNB aimed to prevent the current uncertain global market environment from causing an increase in upside risks to inflation. Consistent with this, on 24 September 2020 the Bank had changed the one-week deposit rate from 0.60 percent to 0.75 percent. Council members emphasised that by using the one-week deposit, the MNB had responded to the increase in risk aversion vis-à-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.

Council members pointed out that it remained a 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 line with this, they noted that through the Bank's active presence, the swap instrument providing foreign currency liquidity, introduced in September 2020, contributed to the fact that no tensions had emerged in the swap market at the end of the quarter. Decision-makers agreed that the Bank wished to actively use the swap instrument providing foreign currency liquidity at the end of the coming quarters to ensure that the quarter-end volatility in foreign currency swap market yields remained low as seen at the end of September.

Council members highlighted that to achieve the monetary policy objectives, a lasting market presence was warranted in terms of the government securities purchase programme. Council members agreed that the changes in certain parameters of the government securities purchase programme on 6 October and the extension of the range of assets available for purchase to government-guaranteed debt securities issued, promoted the effectiveness of the Bank's programmes affecting long-term yields. Council members were unanimous in arguing that a flexible approach should be applied to the amount of the weekly purchases, primarily focusing the purchases on longer maturities.

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-à-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:**	7	Gusztáv Báger, Csaba Kandrács, Kolos Kardkovács, György Matolcsy, 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 Matolcsy

Mihály Patai

Gyula Pleschinger

Barnabás Virág

The Council will hold its next policy meeting on 17 November 2020. The minutes of that meeting will be published at 2 p.m. on 2 December 2020.