MINUTES
OF THE MONETARY COUNCIL MEETING
22 SEPTEMBER 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 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.

Macroeconomic and financial developments continued to be driven mainly by the effects of the coronavirus pandemic. Global GDP had fallen sharply in the second quarter of 2020. With the gradual withdrawal of restrictive measures, world economic activity had picked up from June; however, infection curves had started to rise again in most countries from the end of the summer. In September, the number of daily infections had risen to record levels globally, which had made it necessary to reintroduce restrictions. 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.

In the past month, sentiment in global financial markets had been mixed: the US dollar had depreciated overall, while long-term yields had fallen across developed countries. Both the Federal Reserve and the European Central Bank had continued their liquidity-providing and asset purchase programmes. In August, the Fed had announced that it would seek to achieve inflation that averaged 2 percent over time and would adopt an asymmetric response to swings in the labour market. Accordingly, in September decision makers expected the policy rate to remain at its current low level over the next three years. 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 coronavirus pandemic had hit the Hungarian economy when its fundamentals had been stable and growth had been strong. Hungary's health defence against the first wave of coronavirus had been successful. The severe epidemiological restrictions had had their economic effects predominantly in the second quarter. After growing by 2.2 percent in the first quarter, Hungarian economic performance had declined by 13.6 percent in the second quarter on a year earlier. Overall, in the first half of 2020 the Hungarian economy had exhibited a similar decline to that seen in other countries of the region. The decline in economic performance and the postponement of investments had appeared in a wide range of sectors. Companies had adjusted to the changing circumstances mainly by reducing working hours and increasing the number of part-time workers, while preserving a large proportion of jobs.

As in most other countries in Europe, the number of infections had started to increase again in Hungary towards the end of the summer. 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 and 6.8 percent in 2020, which might be followed by growth between 4.4 and 6.8 percent in 2021. Economic performance might recover to its pre-crisis level by the turn of 2022.

Demand in specific sub-markets had soared, while disrupted supply in others had only recovered slowly due to the pandemic situation, which had caused an increase in inflation during the summer months. Inflation and core inflation excluding the effects of indirect taxes had risen to 3.9 and 4.2 percent, respectively, in August 2020.

Inflation was expected to stay close to current levels in September, before decreasing gradually towards the end of the year due to the fall in fuel prices and base effect. In the coming quarters, developments in underlying inflation were likely to be driven by the overall balance of supply-demand frictions related to the restart of the economy and the growing disinflationary impact of weak demand. The persistence of inflationary effects arising as a result of the economic recovery would also have an effect on 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 decreases. The current account 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.

Following the review of macroeconomic and financial market developments, the Monetary Council discussed the details of its monetary policy decision. In assessing global developments, members stated that the second wave of coronavirus was expected to increase uncertainty surrounding the time profile of the pandemic and its additional effects on the macroeconomy. Several decision-makers pointed to the unfavourable external economic environment, and noted that loose monetary conditions applied by the world's leading central banks might be maintained over a prolonged period.

In assessing inflation developments, Council members agreed that the coronavirus pandemic was expected to cause inflationary and disinflationary effects at the same time. Demand in specific sub-markets had soared, while disrupted supply in others due to the pandemic situation had only recovered slowly, which had caused an increase in inflation during the summer months. Some decision-makers pointed out that price adjustments had previously been less typical in summer months; however, prices of several products and services had risen significantly this year. Some members underlined that the disinflationary impact of subdued demand on services was expected to be seen with a delay. Council members pointed out that, looking ahead, developments in underlying inflation would be driven by the overall balance of the inflationary impacts caused by supply-demand frictions and the expected disinflationary impact of weak domestic demand. The Council emphasised that, in line with the Bank's primary price stability objective, it closely monitored changes in underlying inflation resulting from these two effects.

Council members agreed that the economic effects of the severe epidemiological restrictions were mostly reflected in GDP data for the second quarter. The extent of the downturn was increased by the fact that the coronavirus had its adverse effect on the strengths of Hungarian GDP growth seen earlier. Considering the first half of 2020 as a whole, the Hungarian economy had exhibited a similar decline to that seen in other countries in the region. As regards the rising number of infections at the end of the summer, the decision-makers noted that the economic recovery might take longer than earlier expected due to the second wave of coronavirus.

In the Council's assessment, incoming data and the Bank's latest projection taking into account the priority of the price stability objective also warranted maintaining the base rate at 0.60 percent. Council members agreed that, in line with the alternative scenario highlighted in the Inflation Report, an increase in risk aversion vis-à-vis emerging markets might pose the greatest risk in terms of the inflation outlook. It was emphasised that the MNB's clear intention was to avoid that the increasingly uncertain global market environment caused inflationary risks to rise through any channel. In this regard, members also stressed that, in view of the Bank's primary mandate, the Council would be ready to use the appropriate instruments if changes in the inflation outlook made it necessary. Looking ahead, it remained a key priority for the MNB that short-term yields should develop consistently with the level of interest rates deemed optimal by the Monetary Council. Accordingly, decision-makers pointed out again that it was appropriate to set the one-week deposit rate at the tenders on a weekly basis.

Council members pointed out that it was a key priority for the Bank 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 this regard, they also stressed that the FX swap tenders providing foreign currency liquidity, relaunched in September, efficiently promoted the correct functioning of monetary transmission and greatly contributed to the fact that swap quotes extending beyond the end of the quarter did not show tensions as opposed to previous quarters.

Council members agreed that to achieve the monetary policy objectives, a lasting market presence was warranted in terms of the government securities purchase programme. Members thought that it was still appropriate that purchases should be made in the long segment and to the extent necessary. In terms of trends in lending, decision-makers noted that the Funding for Growth Scheme had contributed significantly to maintaining strong growth in new credit issuance. As for the Bond Funding for Growth Scheme, Council members pointed out that there continued to be a strong demand for the programme; therefore, they were unanimously in favour of rising the total amount. Members stressed that the Bank continued to sterilise excess liquidity provided under the various programmes in full, using its short-term facilities.

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 the weekly tenders.

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. The MNB might use its international master repurchase agreements providing euro liquidity to finance the swap instrument. At the first tender held on 18 September 2020, the MNB had accepted the full amount of EUR 575 million offered by banks. The tender had ensured that developments in short-term swap market yields had been in line with the MNB's base rate.

In August, the MNB had increased the amount of weekly government securities purchases to HUF 40 billion to maintain the effectiveness of monetary transmission and the stable liquidity position of the government securities market. The Monetary Council would use the government securities purchase programme through a lasting market presence to the extent required. The Bank would continue to purchase government securities in the long segment.

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. The increased amount might help the Hungarian corporate bond market continue to converge to European and regional averages. 10,000 loan or leasing contracts had already been concluded with 8,000 domestic companies under the FGS Go! scheme for a total amount of nearly HUF 600 billion. The MNB would continue to sterilise the resulting surplus liquidity issued under the programmes in full, using the preferential deposit instrument.

In the Monetary Council's assessment, the 0.60 percent base rate 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 Council remained committed to maintaining price stability during the coronavirus pandemic and paid particular attention to the persistence of inflationary effects arising as a result of the economic recovery. If warranted by a persistent change in the outlook for inflation, the Council 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 20 October 2020. The minutes of that meeting will be published at 2 p.m. on 4 November 2020.