MINUTES
OF THE MONETARY COUNCIL MEETING
23 FEBRUARY 2021

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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 supports the Government's economic policy.

Global macroeconomic and financial developments continued to be driven mainly by the events related to the coronavirus pandemic. While industrial production had been less negatively affected so far by the second wave of the pandemic, services continued to be significantly exposed to the effects of pandemic measures. In the fourth quarter of 2020, US GDP had risen again and economic performance in the euro area and the region had significantly exceeded earlier expectations. However, due to the third wave of the pandemic, the maintenance of restrictions had led to a delay in the economic recovery. The vaccination process had been slower than expected, and as a result there remained an exceptionally high degree of uncertainty surrounding the pace of global economic recovery.

Risk appetite had recently continued to be driven by the growing use of the coronavirus vaccine, expectations related to the economic policy of the US, concerns related to reflation and news about oil markets. Developed market stock indices and long-term yields in developed countries had also risen in general. Oil prices had risen significantly to around USD 65.

At its policy meeting in January, the Federal Reserve had maintained loose monetary conditions and the European Central Bank had also continued its asset purchase programme. In our region, the Czech and the Polish central banks had decided to hold interest rate conditions unchanged at their policy meetings in February. Due to the protracted economic recovery, the world's leading central banks and those in the region were likely to continue to maintain loose monetary conditions over a prolonged period.

The Hungarian economy had proved to be crisis-resilient to the second wave of the pandemic. Hungarian GDP had grown once again compared to the previous quarter. With the restrictive measures still in effect, Hungary's economic activity had declined by 3.7 percent in annual terms in the fourth quarter of 2020, and it had contracted by 5.1 percent overall in 2020. Incoming data on GDP had been more favourable than in the December projection, which confirmed the rapid recovery potential of the Hungarian economy.

At the end of 2020, industrial activity had continued to increase in annual terms; however, construction output had declined slightly. Owing to the government subsidies and measures supporting the credit market, the corporate sector had responded to the challenges posed by the coronavirus pandemic mainly by increasing the proportion of part-time workers. Although the unemployment rate had risen slightly in December 2020 relative to the previous month, it had continued to stand at 4.3 percent, a low level even in international comparison. Economic activity might begin to normalise from the second quarter of 2021 as the coronavirus vaccine became widely available. GDP growth in 2021 was expected to be in the upper range of the Bank's 3.5-6.0

percent forecast range announced in the December Inflation Report, implying a faster economic recovery.

In January 2021, annual inflation was 2.7 percent, core inflation was 4.2 percent and core inflation excluding indirect tax effects stood at 3.5 percent. Headline inflation was unchanged from the previous month and core inflation rose by 0.2 percentage point. This was mainly driven by a rise in excise taxes on alcohol and tobacco products in January. Overall, in January 2021 repricing was below that seen in 2020.

Pricing decisions were expected to continue to exhibit high volatility in the coming quarters. As a result of an increase in excise taxes on tobacco products at the beginning of 2021 and base effects, the consumer price index was expected to stand at around 4 percent temporarily in the spring months. Overall, changes in indirect taxes were expected to raise inflation by 0.8 percentage point in 2021 and by 0.1 percentage point in 2022. By contrast, in addition to the moderate external inflation environment, weak domestic demand also pointed to a slowdown in price growth. Overall, inflation was likely to be 3.5-3.6 percent in 2021 before returning to around the central bank target in 2022. The time profile of the pandemic and the expected economic recovery might continue to result in volatile pricing patterns; therefore, an exceptionally cautious approach was warranted in assessing more persistent inflationary effects.

According to the latest credit ratings by S&P and Fitch, Hungary had relatively strong economic performance and recovery potential, as well as a solid debt repayment ability. Although according to preliminary financial accounts data the accrual-based government deficit may have been around 8.1 percent of GDP in 2020 due to the coronavirus pandemic, it might decline again from this year. After falling steadily since 2011, the government debt-to-GDP ratio had increased temporarily to 81 percent of GDP in 2020; however, looking ahead, it was likely to shift to a downward path as the economy recovered and the deficit declined. Debt financing was stable, strongly supported by domestic savings. The capital account surplus was contributing to maintaining Hungary's persistent, positive net lending position. As a result, net external debt was expected to decline further in the coming years.

In the Monetary Council's assessment, 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.

The central bank balance sheet as a proportion of GDP had contracted in the years prior to 2020, creating sufficient potential to address economic challenges in a sustainable manner. In response to the adverse economic effects arising from the coronavirus pandemic, the MNB had expanded significantly the central bank balance sheet in 2020, thereby supporting the recovery of economic growth as well. The MNB's balance sheet was of average size in regional comparison, despite the significant expansion. The MNB would be ready to increase its balance sheet further to manage risks arising from the coronavirus pandemic and to foster the quick and sustainable recovery of economic growth in a targeted way.

In line with the January decision of the Monetary Council, the MNB had recently reduced the weekly new liquidity provided through the collateralised lending facility from HUF 30 billion to HUF 10 billion, while raising the weekly purchases of the government securities purchase programme to HUF 60 billion. The stock of government securities in the Bank's balance sheet had increased by over HUF 1,300 billion since May 2020.

In the past month, the MNB had extended its government securities purchases to include government securities with maturities of less than ten years, thereby ensuring continuous liquidity in the government securities market over the middle segment of the yield curve. The Bank would continue to apply a flexible approach to the amount of its weekly government securities purchases, increasing its direct purchases in the secondary market relative to the past. The MNB would use its government securities purchase programme to the extent and for the time necessary by maintaining a lasting presence in the market, and it continued to consider it as a priority to increase the share of longer maturities within the maturity profile of government debt.

In the Monetary Council's assessment, the FGS Go! played a key role in mitigating the adverse economic effects of the coronavirus. Under the scheme, over 26,000 domestic micro, small and medium-sized enterprises had accessed the favourable funding opportunity until mid-February 2021, in the amount of over HUF 1,700 billion. In addition, since the start of the Bond Funding for Growth Scheme, funds worth HUF 900 billion had been raised by large companies until mid-February. 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. Members agreed that financial market developments had recently been driven mainly by information related to the growing use of the coronavirus vaccine as well as by parallel changes in economic prospects. Decision makers noted that reflation concerns had strengthened in developed countries related to the restart of economies, which had had a significant influence on inflation expectations and developments in developed country long-term yields. Some members pointed out that the price of crude oil had risen back to levels prior to the coronavirus pandemic and that rises in developed country long-term yields had also had a significant effect on emerging regions. Monetary Council members stressed that in a rapidly changing market environment the increase in risk aversion vis-à-vis emerging markets continued to pose the greatest risk. Decision makers were in agreement that the Magyar Nemzeti Bank stood ready to respond flexibly to changes in the environment using its instruments should global risk aversion continue to intensify, thereby ensuring stability of financial markets.

Following a review of financial markets, decision makers turned to the assessment of real economic developments. Some members noted that economic performance of the region and the euro area in the fourth quarter of 2020 had significantly exceeded earlier expectations. In relation to incoming data for the fourth quarter, decision makers pointed out that the Hungarian economy had grown again compared to the previous quarter, while Hungary's economic convergence to the euro area had continued. In the Monetary Council's assessment, the Hungarian economy had proved to be crisis-resilient to the second wave of the pandemic.

Discussing recent inflation developments, several members pointed out that, in connection with the restart of the economy, there had been higher repricing during the summer months of 2020. From September, however, disinflationary effects had strengthened. Consistent with this, price growth had declined in the final part of the year. In connection with the January data, the Council stressed that core inflation had risen by 0.2 percentage point on the previous month, while repricing had been lower overall compared to last January. Council members again drew attention to the fact that inflation was expected to be temporarily around 4 percent in the spring months due to base effects and the increase in excise taxes on tobacco products at the beginning of the year. In addition, decision makers also pointed out that the restart of the economy and recent rises in crude oil prices represented a further temporary upside risk in terms of short-term inflation developments. Intensifying global risk aversion in response to the emergence of the third wave of the pandemic had a material impact on the short-term outlook for inflation as well.

Taking all these into account, Monetary Council members were unanimous in arguing that in the current uncertain environment it was crucially important to maintain the cautious monetary policy approach. Consistent with this, decision makers pointed out that maintaining short-term yields at a safe distance from a range close to zero continued to be warranted in order to preserve money market stability.

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.

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. Therefore, similarly to previous quarters, the MNB would hold foreign exchange swap tenders providing euro liquidity at the end of March. Through an active market presence, the MNB cushioned the spillover of tensions in international swap markets to the domestic market, thereby contributing to preserving the stability of monetary conditions and through this to maintaining price stability.

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	Péter Gottfried, 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:

Péter Gottfried

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 23 March 2021. The minutes of that meeting will be published at 2 p.m. on 7 April 2021.