MINUTES
OF THE MONETARY COUNCIL MEETING
25 MAY 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 supported the Government's economic policy.

Global macroeconomic and financial market developments continued to be driven primarily by the events related to the coronavirus pandemic; however, risks associated with global reflation had been increasing recently as well. A growing number of economies had been started to reopen. The pace of the reopening had been significantly influenced by developments in the pandemic and the population's vaccination coverage.

World trade and global industrial production were already above the levels seen before the pandemic. In the first quarter of 2021, the US economy had grown compared to the previous quarter, while the Chinese economy had continued to expand. The euro area's economic performance had declined in the first quarter. Nevertheless, incoming data had exceeded earlier expectations for several Member States.

In the past month, risk appetite had been primarily driven by developments related to the coronavirus pandemic, price increases in commodity markets and global reflation concerns. After a significant increase at the beginning of the year, there had been a slight reversal in developed market yields. However, a bigger-than-expected spike in US inflation in April had led to a rise in global long-term yields again. Since the beginning of 2021, commodity prices had risen significantly, and global oil prices had remained above USD 65.

The Federal Reserve's decision-makers had left loose monetary conditions unchanged at their policy meeting in April and had reiterated that the asset purchase programmes would be continued. The European Central Bank had increased the amount of purchases made under the Pandemic Emergency Purchase Programme (PEPP) in the second quarter. In the CEE region, the Czech, Polish and Romanian central banks had also left policy rates unchanged since the Council's previous interest rate decision. However, due to the rise in the outlook for inflation, an increasing number of central banks had indicated that they would stand ready to tighten monetary conditions when necessary.

Hungarian economic growth had continued in the third wave of the coronavirus pandemic. According to the HCSO's preliminary release of adjusted data, Hungary's GDP had grown by 1.9 percent in the first quarter of 2021 relative to the previous quarter, but it had been 1.8 per cent below the level of a year earlier. Incoming data had substantially exceeded market expectations and the projection in the MNB's March Inflation Report. Economic growth during the quarter had been driven mainly by industry, financial and insurance activities as well as the information and communication sectors.

The vaccination coverage rate of Hungary's population was at the top in the European Union; therefore, restrictive measures had started to be lifted gradually. As a result of the earlier opening than the European average, the restart of the economy was expected to pick up significantly in the second quarter, which would support a rapid recovery of Hungarian GDP. Real-time data pointed to double-digit economic growth in the second quarter.

The Hungarian economy exhibited the potential for a strong recovery. In 2020, the business investment rate had stood at a high level of 27.3 percent. In March 2021, the unemployment rate had continued to decline relative to the previous month and it had remained low by international standards. Wage growth had remained dynamic despite the pandemic. Credit markets had continued to expand strongly even in international comparison. In terms of demand, the recovery had been driven by an increase in household income, a pick-up in government and private investment and the accelerating withdrawal of EU funds.

According to the MNB's projection in the March Inflation Report, GDP was expected to rise by between 4 and 6 percent in 2021. Based on incoming data, in the Bank' assessment, GDP growth in 2021 was expected to be in the upper range of the March projection band, close to 6 percent. Following the reopening, Hungary's economic performance was expected to reach pre-pandemic levels no later than in the fourth quarter of 2021.

In April 2021, annual inflation had 5.1 percent, and both core inflation and core inflation excluding indirect tax effects had stood at 3.1 percent. Inflation and core inflation excluding indirect tax effects had risen by 1.4 percentage points and 0.3 percentage points, respectively, relative to the previous month. The rise in inflation primarily had reflected an increase in excise taxes on tobacco and rises in fuel prices. The increase in fuel prices and excise duty effects had accounted for a total of 3.0 percentage points of inflation in April.

Inflation was likely to be volatile in the coming months. Spikes in inflation occurred due rising fuel prices, effects arising from increase in excise duties in April and demand-supply frictions as the economy restarted.

According to the April EDP notification, the accrual-based government deficit had been 8.1 percent of GDP in 2020 due to the coronavirus pandemic. As a result, gross government debt had increased temporarily to over 80 percent of GDP in 2020 after falling steadily since 2011; however, it was likely to shift to a downward path from this year as economic growth was restored and the deficit declined. Debt financing had been stable, strongly supported by domestic savings which had continued to rise recently.

Outstripping expectations, the current account had been in surplus in 2020. In the coming years, the country's current account balance was expected to improve further, driven by the recovery in external demand and the gradual increase in the output of new capacities. With the capital account strongly in surplus, Hungary's net lending was expected to improve significantly and net external debt to continue to fall further.

In the Monetary Council's assessment, the MNB's government securities purchase programme had been successful even during the third wave of the pandemic and in a volatile international financial market environment. Purchases by the Bank had contributed to maintaining a stable liquidity position in the government securities market and had improved the effectiveness of monetary policy transmission. In the Monetary Council's assessment, the government securities purchase programme remained crucial. An increase in global reflation concerns could lead to heightened uncertainty in the government securities market again; therefore, the MNB would continue to use the programme by maintaining a lasting presence in the market, taking a flexible approach to changing the quantity and structure of weekly securities purchases, to the extent and for the time necessary.

In the process of economic recovery the FGS Go! and the Bond Funding for Growth Scheme had been of key importance. The optimal size and structure of the programmes were continuously assessed by the Monetary Council. 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 respect of domestic macroeconomic developments, decision-makers confirmed that, in line with their expectations, the real economic effects due to the third wave of the coronavirus pandemic had been less severe than those seen during the first wave. Based on the incoming data, Hungarian GDP growth in the first quarter of 2021 had significantly exceeded the MNB's March projection and market expectations as well. Regarding the economic outlook, Council members agreed that the gradual lifting of the restrictive measures significantly fostered the fast recovery of domestic economic activity. Several members indicated that, based on real-time data for April, further sectors had begun to recover, hence considering base effects a double-digit economic growth was expected in the second quarter. Taking all this into account, council members concluded that the economic outlook for 2021 had improved further. As a result, GDP growth was likely to be in the upper end of the forecast range projected in March, close to 6 percent.

Turning to inflation developments, members of the Monetary Council reiterated that inflation was expected to remain volatile in the coming months. Discussing short-term inflation developments, several members pointed out that the effects of spikes in inflation were likely to be felt in the May inflation data as well. Members emphasised that upside risks to inflation had generally increased driven by both external and internal factors. External inflationary environment was rising due to sharp increases in global commodity prices and international freight costs. In addition, potential demand-supply frictions due to the rapid restart of the domestic economy, the renewed tightening of labour market capacities in certain sectors, combined with continued dynamic wage growth, indicated a higher-than-expected inflation path. Council members concluded that the increase in risks might result in an increase in the outlook for inflation over the 5-8 quarter horizon of monetary policy.

Strengthening reflation concerns might lead to heightened uncertainty in the government securities market again. Members therefore confirmed that, to ensure market stability, the MNB would continue to use the government securities purchase programme by maintaining a lasting presence in the market, taking a flexible approach to changing the quantity and structure of weekly securities purchases. Some members drew attention to the fact that the FGS Go! and the Bond

Funding for Growth Scheme had played a key role in the process of economic recovery. Council members pointed out that they would continuously assess the optimal size and structure of these programmes.

Members were unanimous in expressing their commitment that they would stand ready to tighten monetary conditions in a proactive manner in order to ensure price stability and to mitigate inflation risks. Decision-makers stressed that the gradual phasing-out of the crisis management instruments and the normalisation of monetary policy conditions must be implemented in several steps, applying a data-driven approach, while continually assessing the outlook. Members also agreed that the projection of the June Inflation Report would be of key importance in taking the appropriate decisions.

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 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 June. 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 upside risks related to the outlook for inflation had generally increased. A sustained rise in commodity prices and international freight costs resulted in a higher external inflation environment. Temporary demand-supply frictions due to the rapid restart of the domestic economy, renewed tightening of labour market capacities expected in certain sectors combined with dynamic wage growth had increased inflation risks.

The Monetary Council continued to be committed to maintaining price stability. It was the Bank’s clear intention to prevent the current uncertain environment from causing a sustained rise in inflation. In the Monetary Council’s assessment, risks to the outlook for inflation had recently continued to strengthen even further. The projection in the June Inflation Report would be key in assessing the outlook for inflation and developments related to the economic recovery. The Monetary Council reiterated that they were ready to tighten monetary conditions in a proactive manner to the extent necessary in order to ensure price stability and to mitigate inflation risks.

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 22 June 2021. The minutes of that meeting will be published at 2 p.m. on 7 July 2021.