MINUTES
OF THE MONETARY COUNCIL MEETING
26 APRIL 2022

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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:
https://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) is to achieve and maintain price stability. Without prejudice to its primary objective, the Magyar Nemzeti Bank preserves financial stability and supports the Government's economic policy, as well as its policy on environmental sustainability.

The Russia-Ukraine war that had broken out at the end of February had fundamentally changed the global economic outlook. Due to the geographical proximity and a larger share of trade with the two parties involved, the events were expected to have a greater effect on the European economy, especially in the Central and Eastern European region. Reaching decade highs, inflation had continued to rise in a number of countries. The war raised inflation through higher commodity and energy prices, which was aggravated by ongoing supply disruptions.

Global investor sentiment had been mixed since the Council's previous interest rate decision. Risk appetite had been driven by news on the war and expectations for the Federal Reserve's (Fed's) rate hike, as well as developments related to the coronavirus pandemic. As a result of the war and the sanctions imposed on Russia, commodity prices had initially soared amid high volatility which had been followed by a correction in April: global oil prices had fallen to around USD 105. However, the price of natural gas remained at high levels.

In response to high inflation becoming increasingly persistent, the world's leading central banks had adopted a tighter monetary policy stance even amidst deteriorating prospects for economic growth in recent months. The Fed had started raising the policy rate in March. The European Central Bank had discontinued its Pandemic Emergency Purchase Programme (PEPP) at the end of March. In addition, in April, the Governing Council had decided to cease its asset purchase programme (APP) in the third quarter of 2022. In the CEE region, the Czech, Polish and Romanian central banks had continued to raise their key policy rates.

Hungarian GDP had risen by 7.1 percent in 2021. In addition to a significant carry-over effect, Hungarian economic growth had continued to be strong at the beginning of 2022 despite the war situation. Based on high-frequency data, the annual growth rate was at the forefront of Europe, still well above the EU average. Industrial production and construction output had continued to grow in February. In addition, the turnover of retail stores had increased significantly. The unemployment rate remained low in international comparison.

The Hungarian economy continued to have a strong ability to grow. The short-term economic outlook was determined by the consequences of the war and the policy of sanctions implemented, and the governments' responses to this extraordinary situation. The dual nature of economic growth was expected to persist in the coming period. Strong domestic demand might partly offset the adverse effects of the Russia-Ukraine war on growth. Exports were expected to make a smaller-than-expected contribution to GDP growth in 2022; however, exports might grow again from the end of 2022 as external markets and supply chains recovered. Household consumption would be bolstered by rises in wages and by the government measures aimed at boosting household income. Due to an increasingly uncertain economic outlook and a rising interest rate environment, credit growth might generally slow down. Depending on the duration of the war and the policy of sanctions, GDP was likely to expand at a slower rate than expected, by 2.5-4.5 percent in 2022, then by 4.0–5.0 percent in 2023, and by 3.0–4.0 percent in 2024.

In March 2022, annual inflation had been 8.5 percent and core inflation had stood at 9.1 percent. Headline inflation had risen by 0.2 percentage points and core inflation by 1.0 percentage point from the previous month. After the first few months of the year, there had also been greater-than-usual repricings in March, which was due to the fact that rising global commodity and energy prices were quickly and widely reflected in consumer prices. External, cost-side effects were decisive in the short-term evolution of inflation. Government measures affecting fuel, certain essential food product and residential energy prices cushioned the spillover of the increase in global commodity prices into domestic inflation. However, inflation expectations remained elevated.

Strong negative supply effects were likely to raise inflation further in the second quarter of 2022. The course of inflation in 2022 would depend mainly on the effects of the war and the sanctions on commodity markets, as well as on the governments' responses to the extraordinary situation. Core inflation would also rise further in the coming months. With the fading of the first-round effects of the war and the sanctions, the decrease in external inflationary effects and as a result of the central bank's measures, inflation was expected to return to the central bank tolerance band in the second half of 2023 before reaching the central bank target of 3 percent in the first half of 2024. The consumer price index was expected to be 3.3–5.0 percent in 2023, before falling in line with the inflation target from 2024.

The government deficit and the government debt-to-GDP ratio had shifted to a declining path in 2021. The government debt-to-GDP ratio had decreased to 76.8 percent at the end of 2021. The Russia-Ukraine war had increased budgetary risks through several channels, but a further decline in the debt ratio, in addition to strong nominal growth, could be ensured by maintaining budget deficit targets. Weak external demand due to the war on the export side and high energy prices on the import side both pointed to a deterioration in the trade balance in 2022. The external balance might start to improve rapidly from 2023, as a result of which the current account balance was expected to turn positive again by the end of the forecast period.

The Russia-Ukraine war had posed a much higher risk than usual to the outlook for inflation. The Monetary Council deemed it necessary to continue the tightening of monetary conditions and to continue the base rate tightening cycle by taking a decisive step in order to anchor inflation expectations and mitigate second-round inflation risks.

Following the review of macroeconomic and financial market developments, the Monetary Council discussed the details of its monetary policy decision. Decision makers agreed that the Hungarian economy continues to have a strong ability to grow, while the Russia-Ukraine war posed extraordinary risks to the macroeconomic outlook. In the context of the March inflation data, decision makers stressed that, after January and February, repricings had been significantly greater than usual again, with price increases being three times higher in a number of product groups compared to the average of previous years. The increase in food and fuel prices accounted for nearly 50 percent of the annual inflation rate. Some members noted that the government measures, taken in response to the extraordinary situation, provided a considerable cushion against the pass-through of global increases in commodity prices into domestic inflation.

Decision makers unanimously argued that inflation was expected to rise further in the second quarter of 2022 as a result of strong negative supply effects. Based on the projection in the March Inflation Report, inflation was expected to be between 7.5 percent and 9.8 percent in 2022. According to the actual assessment of members, annual inflation was likely to be in the upper third of the forecast range. Members were unanimous in the view that the annual inflation path for the next months will still be strongly influenced by the Governments' responses to the current geopolitical and commodity market situation.

Several members called attention to the importance of restoring macroeconomic balances. Decision makers unanimously argued that in large part, inflation was rising due to external, supply-side factors; however, the Bank should take action against second-round effects. Furthermore, they stressed that the decisive tightening actions taken by the Bank would increasingly exert their disinflationary effect from 2023.

Council members agreed that the timing of the improvement of fiscal balance had a significant effect on risk premia for Hungary and thus may affect the future course of monetary policy. In addition, several members pointed out that the evolution of the debate around EU funds also has a major importance on Hungary's investor perception. In the unanimous opinion of members, in addition to internal balance indicators, the gradual improvement of external balance should be kept in focus too. The Monetary Council assesses the evolution of these risk factors on an ongoing basis and takes them into account in its future decisions, in addition to changes in the inflation outlook.

The Monetary Council deemed it necessary to tighten monetary conditions further and to continue the base rate tightening cycle by taking a decisive step in order to anchor inflation expectations and mitigate second-round inflation risks. Accordingly, at its meeting the Council unanimously decided to raise the central bank base rate by 100 basis points. In addition to tightening conditions by raising the base rate, the Monetary Council deemed it necessary that the MNB should continue to stand ready by setting the one-week deposit rate quickly and flexibly if commodity and financial markets risks were to increase.

In the unanimous opinion of Members, it was particularly important that short-term rates in every sub-market, particularly in the swap market, and at all times developed consistently with the level of short-term rates deemed optimal by the Monetary Council. The Council continued to consider ensuring the stability of the government securities market to be of key importance, and therefore it stood ready to intervene with occasional and targeted government securities purchases if necessary. Members stressed that occasional purchases would not imply a change in the monetary policy stance.

In the Council's assessment, the continuation of the cycle of interest rate hikes was necessary until the outlook for inflation stabilised around the central bank target and inflation risks once again became evenly balanced on the horizon of monetary policy. Looking ahead, the base rate would gradually converge to the one-week deposit rate evolving in the coming months. Decision makers stressed that the Bank would continue to set the one-week deposit rate at weekly tenders. However, Council members argued that, unless warranted otherwise by developments in market risks, a decision should be made on the interest rate on the instrument at monthly intervals.

According to the Monetary Council's decision on 26 April 2022, the central bank base rate was raised by 100 basis points to 5.40 percent. The overnight deposit rate was increased by 100 basis points to 5.40 percent, and the overnight and the one-week collateralised lending rates were increased by 100 basis points to 8.40 percent. The MNB continues to stand ready to respond quickly and flexibly by setting the interest rate on the one-week deposit instrument if warranted by short-term risks in financial and commodity markets. The MNB will continue to set the one-week deposit rate at weekly tenders; however, the central bank normally determines the one-week deposit rate on a monthly basis.

In the Monetary Council's assessment, maintaining an active presence in the market, the MNB had managed to cushion the spillover of tensions in international swap markets to Hungary at the end of the quarter and had facilitated the efficient sterilisation of financial system liquidity, thereby contributing to the tightening of monetary conditions. The Bank placed even greater emphasis than previously on ensuring that short-term rates in every sub-market, particularly in the swap market, and at all times developed consistently with the level of short-term rates deemed optimal by the Monetary Council.

The Monetary Council attached great importance to ensuring that every element of the Bank's monetary policy toolkit supported the return to price stability. With the exhaustion of the maximum amount allocated under the programme and the realization of issuer negotiations, the Bond Funding for Growth Scheme (BGS) had been closed. In the Monetary Council's assessment, the BGS had reached the goals set at the start of the programme.

The Monetary Council still found it crucial to maintain stability in the government securities market. Accordingly, the Council was ready to intervene with occasional and targeted government securities purchases if necessary, which did not imply a change in the monetary policy stance.

Mitigating increased fundamental inflation risks and driving expectations appropriately made it necessary to continue the base rate tightening cycle in the coming period. The base rate would gradually catch up to the level of the one-week deposit rate evolving in the coming months. Maintaining tighter monetary conditions for a longer period was warranted to manage increasing second-round inflation risks resulting from persistently negative supply effects. In the current turbulent period in financial markets, a key task for the MNB was to ensure market stability, in addition to meeting its primary objective of price stability. If necessary, the MNB stood ready to intervene using every element in its monetary policy toolkit to ensure financial market stability. The Monetary Council would continue the cycle of interest rate hikes until the outlook for inflation stabilised around the central bank target and inflation risks became evenly balanced on the horizon of monetary policy.

Votes cast by individual members of the Council:

In favour of raising the base rate to 5.40 percent, **the overnight collateralised lending rate and the one-week collateralised lending rate to 8.40 percent** **and** **increasing the interest rate on the overnight central bank deposit to 5.40 percent:**	8	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:

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 31 May 2022. The minutes of that meeting will be published at 2 p.m. on 15 June 2022.