MINUTES
OF THE MONETARY COUNCIL MEETING
22 FEBRUARY 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 economic recovery had differed from country to country in the fourth quarter of 2021: economic growth had slowed in China and picked up in the US and the euro area. The coronavirus pandemic and varying recovery patterns continued to pose a risk to the global economic recovery. In recent months, inflation had risen to levels not seen for several decades in most of the countries, which had been aggravated by disruptions in supply across a growing range of markets, in addition to persistent rises in commodity, crop and energy prices.

Global investor sentiment had been volatile since the Council's previous policy decision. Risk appetite had been driven by rising inflation, central banks' monetary policy measures, movements in commodity and energy prices, increasing geopolitical tensions and developments related to Covid-19. Global oil prices had risen to a seven-year peak in February, exceeding USD 95 per barrel. In Europe, electricity prices had also risen, and gas prices had fallen. In both cases, prices substantially exceeded their levels recorded before the outbreak of the coronavirus pandemic.

The monetary policy stances of the world's leading central banks had become tighter. In January, the Federal Reserve had communicated that it could start raising the policy rate soon. The European Central Bank would discontinue its Pandemic Emergency Purchase Programme (PEPP) in March 2022. In the CEE region, the Czech, Polish and Romanian central banks had raised further their policy rates.

Strong economic growth had continued in Hungary in the fourth quarter of 2021, with GDP rising by 7.2 percent, exceeding expectations. Market services had made the largest contribution to economic growth. In December, industrial output had exceeded its pre-pandemic levels again, and domestic construction output had already been above the trend seen prior to the crisis. The unemployment rate remained low in international comparison. The Hungarian economy had showed a strong recovery throughout 2021. Hungarian GDP had risen by 7.1 percent in 2021, representing a significant expansion which was at the forefront in Europe.

The Hungarian economy had a strong ability to grow. GDP was expected to grow by around 5 percent in 2022. The structure of economic growth showed a dual nature, which was likely to persist in the coming period. The further strengthening in domestic demand was offsetting the negative growth effects resulting from disruptions in international production chains and rising commodity, crop and energy prices. Household consumption growth continued, supported by the increase in the minimum wage and the government measures aimed at boosting household income. In addition to the increase in the minimum wage, the tight labour market also helped to maintain rapid wage growth. Although higher commodity and energy prices, coupled with weaker external demand, were likely to hold back corporate investment activity in 2022, the investment rate was expected to stabilise at a high level even in EU comparison. As a result of the temporary slowdown in exports, reflecting the effects of external factors, and stronger domestic demand, net exports were likely to have a nearly neutral impact on GDP growth in 2022. In the second half of 2022, Hungarian exports were expected to rebound quickly as external markets and supply chains recovered, which would also be supported by new export capacities.

In January 2022, annual inflation had been 7.9 percent and core inflation had stood at 7.4 percent. Headline inflation and core inflation had risen by 0.5 percentage points and 1.0 percentage point, respectively, from the previous month. Incoming data had exceeded expectations. Significant increases in processed food prices and, to a lesser degree, in industrial goods and services prices, had contributed to the rise in inflation and core inflation. In January, a wide range of products and services had been repriced to a greater than usual extent. There had been a general increase in the pace of repricing, due to the fact that rises in global commodity and energy prices had fed through quickly to consumer prices. Government measures affecting fuel, certain essential food products and residential energy prices cushioned the spillover of the increase in global commodity prices into inflation in Hungary. Food prices had exhibited a double-digit increase in January relative to the period a year earlier. The contribution of fuel prices to annual inflation had remained significant. However, government measures slowed the pace of increase in fuel prices. At the beginning of 2022, inflationary pressures had increased; and inflation expectations had risen in recent months.

Inflation risks had increased since the Council’s previous policy decision. Inflation would begin to decline later than previously expected. Looking ahead, core inflation might pick up further in the coming months. Companies were repricing their goods and services at relatively short notice amid strong domestic demand in order to reflect rises in commodity prices and wage costs. The degree to which repricings took place in the coming months would determine the yearly dynamics of both inflation and core inflation.

The government deficit and the government debt-to-GDP ratio had shifted to a declining path in 2021. According to preliminary data, the government debt-to-GDP ratio had decreased to 78.2

percent at the end of 2021 from a level of 80.0 percent at the end of 2020. The Government had lowered its 2022 budget deficit target from 5.9 percent to 4.9 percent, which, along with stronger-than-expected GDP growth, enabled a faster decline in the government debt ratio. In 2021, the current account deficit had amounted to some 3 percent of GDP, due in part to rises in commodity and energy prices and the fragmentation of supply chains. The balance was likely to improve gradually from the second half of 2022 as external markets and supply chains recovered, which would be supported by new export capacities built up in recent years. At the same time, the economy's net lending was likely to increase following a temporary decline in 2021 and 2022 and was expected to be around 1 percent of GDP at the end of the forecast horizon.

Following the review of macroeconomic and financial market developments, the Monetary Council discussed the details of its monetary policy decision. Discussing domestic inflation developments, decision-makers concluded that inflation had risen at a rate exceeding expectations in January. Council members agreed that the faster-than-expected increase in the consumer price index had been mostly driven by a significant increase in processed food prices and, to a lesser extent, in industrial goods and market services prices. In the first month of the year, unusually large price increases had occurred across a wide range of products and services. Decision-makers highlighted that the government measures affecting fuel, certain essential food products and residential energy prices cushioned the pace of the spillover of the increase in global commodity prices into inflation in Hungary.

Council members agreed that inflation risks had increased since the Council's January policy decision. The consumer price index would begin to decline later than expected and core inflation might rise further in the coming period. Council members underlined that the degree to which repricings took place in the coming months would be a key determinant of the March inflation projection. Several members pointed out that the escalation of current geopolitical tensions might lead to increasing risks to commodity and financial markets, which might result in a higher path for inflation.

Mitigating second-round inflation risks and anchoring expectations had necessitated the continuation of the base rate tightening cycle on a monthly basis. Members unanimously argued that the tightening of monetary conditions had to be continued by raising the one-week deposit rate as well, while the base rate would catch up to the one-week deposit rate evolving in the coming months. Responding to the sustained increase in inflation risks, Monetary Council members unanimously favoured raising the base rate by 50 basis points and continuing the gradual catch-up process of the base rate to the level of the one-week deposit rate. Council members also stated that if commodity and financial market risks were to rise due to an increase in geopolitical tensions, the Bank stood ready to respond to the new situation by changing the one-week deposit rate within the framework in operation since November. The Monetary Council attached great importance to ensuring 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 Council. Consequently, members agreed that from the beginning of March, the MNB would start actively using its swap facility providing foreign currency liquidity again.

In the Council's assessment, the cycle of base rate hikes had to be continued until the outlook for inflation stabilised around the central bank target in a sustainable manner and inflation risks became evenly balanced on the horizon of monetary policy.

Inflation risks warranted a further tightening of monetary conditions. Consequently, the Monetary Council deemed it necessary to continue the base rate tightening cycle on a monthly basis while gradually raising it to the level of the one-week deposit rate. The MNB remained ready to respond quickly and flexibly by changing the one-week deposit rate, if warranted by an increase in short-term risks in financial and commodity markets.

In order to anchor inflation expectations and mitigate second-round inflation risks, Monetary Council decided to raise the central bank base rate by 50 basis points to 3.40 percent. The overnight deposit rate was increased by 50 basis points to 3.40 percent, and the overnight and the one-week collateralised lending rates were increased by 50 basis points to 5.40 percent. The MNB would continue to set the one-week deposit rate at weekly tenders and would stand ready to raise it further if necessary. In line with the tightening monetary policy stance, the MNB had decided to phase out the preferential deposit, related to its earlier tools supporting lending activity, from 1 April 2022.

It remained 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. To that end, the MNB would actively use its swap instrument providing foreign currency liquidity starting as early as the beginning of March.

The Monetary Council attached great importance to ensuring that all elements of the Bank's monetary policy toolkit support the return to price stability as soon as possible. The Bank had completed the withdrawal of its crisis management programmes in December 2021. Consistent with this, the MNB had not purchased government securities since December. 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.

In the Council's assessment, the risks to the outlook for inflation had increased and continued to be on the upside. Based on incoming data, the risk of the alternative scenario related to higher external inflation environment had increased. Persistently high commodity, crop, food and energy prices and elevated international freight costs continued to point to sustained external inflationary pressures. At the same time, the tight labour market, coupled with accelerating wage growth and a higher inflation environment, might lead to a further rise in inflation expectations and an increase in second-round inflation risks.

Mitigating second-round inflation risks and driving expectations appropriately had necessitated the continuation of the base rate tightening cycle on a monthly basis. As a result, the base rate would catch up gradually to the one-week deposit rate evolving in the coming months. However, by setting the one-week deposit rate, the MNB continued to stand ready to respond quickly and flexibly to short-term risks in financial and commodity markets if necessary. 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 3.40 percent the overnight collateralised lending rate, the one-week collateralised lending rate to 5.40 percent **and** **increasing the interest rate on the overnight central bank deposit to 3.40 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 March 2022. The minutes of that meeting will be published at 2 p.m. on 6 April 2022.