MINUTES
OF THE MONETARY COUNCIL MEETING
28 JUNE 2022

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Article 3 (1) of the Central Bank Act (Act CXXXIX of 2013 on the Magyar Nemzeti Bank) defines the achievement and maintenance of price stability as the Magyar Nemzeti Bank's primary objective. 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) 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 protracted Russia-Ukraine war had led to a general deterioration in the global economic outlook. Higher commodity and energy prices had caused significant increases in global inflation, which had been aggravated by ongoing supply disruptions.

There had been a general deterioration in investor sentiment since the end of May. Risk appetite had been driven by news on the war, expectations for interest rate increases by the world's leading central banks, concerns caused by persistently high inflation, fears of recession and developments related to the coronavirus pandemic. Global prices of major commodities remained at high levels.

In response to persistently high inflation, monetary conditions had been tightened further by the world's leading central banks as well as the region's central banks. In June, the Fed had continued to raise its policy rate taking a larger step and started to reduce its balance sheet. The European Central Bank had signalled that it would cease its asset purchase programme (APP) in July and would start raising its policy rate. In the CEE region, the Polish and Czech central banks had raised their key policy rates by 75 basis points and 125 basis points, respectively.

Hungarian economic growth had been slowing in response to the deterioration in external economic activity; however, annual dynamics remained buoyant. In April, industrial production and construction output had continued to expand on an annual basis. The turnover of retail stores had risen at a double-digit rate in April relative to a year earlier. The labour market continued to be tight and the unemployment rate remained low.

The time profile and structure of domestic GDP growth had strongly shown a dual nature in 2022. The rate of economic growth was expected to slow in the second half of the year. Components of domestic demand, particularly household consumption, were expected to contribute to growth this year. By contrast, net exports were likely to hold down the expansion. Looking forward, however, consumption and investment dynamics were also expected to slow considerably, while net exports were expected to make a positive contribution to GDP growth again as external markets and supply chains recovered. Despite the temporary slowdown, the investment rate was expected to stabilise at a high level of above 27 percent on the forecast horizon. Hungary's GDP was expected to grow by 4.5–5.5 percent in 2022, by 2.0–3.0 percent in 2023, and by 3.0–4.0 percent in 2024.

In May 2022, annual inflation had been 10.7 percent and core inflation had stood at 12.2 percent. Food prices had risen at a rate above 20 percent relative to the same period a year earlier. Repricings had continued to be much greater than usual in May, with rises in food prices accounting for nearly a half of the increase. External effects continued to quickly feed through to consumer prices. The Government's measures affecting fuel and household energy prices were providing a significant cushion against the spillover of the increase in global commodity prices into domestic inflation. However, inflation expectations remained elevated.

Rises in energy, commodity and food prices raised domestic inflation further on the cost side. Price dynamics were expected to peak during the autumn months and then to decline at a modest pace. The future course of price cap measures was expected to have a significant effect on the timing of the peak and the subsequent inflation path. Preventing second-round effects and anchoring inflation expectations were crucial in terms of achieving the inflation target. Inflation was expected to return to the central bank tolerance band at the end of 2023, as the first-round effects of war tensions abated, external inflationary effects moderated, the inflationary effects of the tax measures announced in June faded and as a result of the proactive central bank measures, and then to meet the 3 percent central bank target in the first half of 2024. The consumer price index was expected to be between 11.0 percent and 12.6 percent this year, between 6.8 percent and 9.2 percent in 2023, and to be in line with the inflation target from 2024.

The measures announced by the Government and their implementation were expected to ensure that the fiscal objectives would be met this year and next. As a result of economic growth and declining deficit, the government debt-to-GDP ratio might fall from 76.6 percent at the end of the previous year to below 75 percent in 2022, followed by further declines of around 2.5 percentage points each year. The current account deficit was expected to temporarily rise further in 2022. The deterioration in the trade balance this year was likely to reflect the deterioration in the terms of trade due to high energy prices, the slowdown in external markets, and imports in connection with buoyant domestic demand. However, significant new export capacities had been built in recent years, and as a result, the external balance was expected to improve quickly as the global economic environment normalised. The economy's net lending position might return to positive territory at the end of the forecast horizon.

Inflation risks had further intensified over the past quarter. Accordingly, compared to the March forecast, inflation path expected currently by the MNB had shifted upwards. Global inflation had risen to its highest level in a decade, which, coupled with money market volatility, posed a larger risk to the domestic inflation outlook.

Following the review of macroeconomic and financial market developments as well as the Inflation Report projection, the Monetary Council discussed the details of its monetary policy decision. Several members stressed that global investor sentiment had deteriorated recently, while uncertainty in financial markets remained significant. It was noted that the MNB should continue to stand ready to stabilise domestic market developments in the event of financial markets turbulences.

Decision makers emphasised that the inflation path in the June Inflation Report had shifted upwards relative to the March forecast. Based on the June outlook, inflation might peak in the autumn months; however, several decision makers pointed out that the future course of price cap measures was likely to have a major influence on the exact time of the peak and subsequent developments in inflation. Members noted that upside risks had increased further in the past quarter, while inflation expectations remained high.

Monetary Council members agreed that in the current environment, the MNB's key task was to continue the fight against inflation. They emphasised that the Bank should prevent the intensive materialisation of second-round inflationary effects, thereby ensuring the effective anchoring of inflation expectations at the central bank target. Some decision makers pointed out that the turnaround in price dynamics would be key in order to achieve this, as economic agents' expectations would fall in response to a decline in inflation. Decision makers agreed that committed and persistent monetary policy tightening was essential. In this regard, several decision makers pointed out that the MNB had started the cycle of interest rate hikes exactly one year ago, first among the EU member states.

The Council reviewed and assessed the interest rate policy of the past year and the risks to the outlook. Council members agreed that the tightening of monetary conditions should be continued by taking a decisive step in June. They noted that the upward shift in the inflation path, a further pick-up in inflation risks and increased volatility in financial markets all made it necessary to close the gap between the base rate and the one-week deposit rate at the end of June. Council members agreed that raising the two interest rates to the same level clearly indicated the Bank's strong commitment in the fight against inflation. It was highlighted that the MNB might raise the one-week deposit rate further at the weekly tenders if warranted; however, the base rate would follow changes in the deposit rate at the next Council meeting, and as a result the two interest rates would increase in tandem. Decision makers agreed that the MNB should continue to stand ready to respond quickly and flexibly with the one-week deposit rate in the event of an increase in short-term risks.

Several members pointed out that, as in previous quarters, the MNB had successfully handled the tensions in the swap market that typically arise at the end of each quarter by maintaining an active presence in the market. Council members agreed that due to the effects of an increase in financial market risks, the use of the Bank's swap facility providing foreign exchange liquidity should be extended as the MNB should be ready to apply the facility within quarters. Decision makers were of the view that this measure helped to ensure that short-term rates in every sub-market and at all times developed consistently with the level of short-term rates deemed optimal by the Monetary Council.

Council members highlighted that in order to succeed in the fight against inflation, coordination was necessary between different branches of economic policy. Improving the position of the budget and the current account would also enhance the effectiveness of monetary policy, which would help to reduce inflation. Decision makers agreed that the MNB's June decision indicated a determined step towards achieving price stability. Finally, the Monetary Council formulated its forward guidance with no changes, stating that it would continue the cycle of interest rate hikes 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.

Due to the increased challenges, the Monetary Council considered it necessary to close the gap between the base rate and the one-week deposit rate. The Council continued the interest rate tightening cycle by taking a decisive step in order to anchor inflation expectations and mitigate second-round inflation risks. In addition, it assessed that it was warranted to increase the one-week deposit rate to the level of the base rate at the weekly tender following the June interest rate decision. The MNB continued to stand ready to respond quickly and flexibly by setting the interest rate on the one-week deposit instrument if warranted by the rise in short-term risks in financial and commodity markets.

According to the decision taken by the Monetary Council on 28 June, the central bank base rate was raised by 185 basis points to 7.75 percent. The overnight deposit rate was increased by 135 basis points to 7.25 percent, and the overnight and the one-week collateralised lending rates were increased by 135 basis points to 10.25 percent.

The central bank would extend the use of the foreign exchange liquidity providing swap facility from July 2022 and would stand ready to use it within quarter as well. The step was aimed at 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. By maintaining an active presence in the market, the MNB enhanced the effectiveness of monetary policy transmission, thereby supporting the achievement and maintenance of price stability.

In the Monetary Council's assessment, the upside risks to inflation had strengthened further. The risk of persistently high commodity and energy prices pointed to a prolonged period of high external inflation. Furthermore, high inflation might persist if strong price and wage dynamics built into economic agents' expectations, resulting in second-round inflationary effects.

The Magyar Nemzeti Bank had started the cycle of interest rate hikes one year ago, first among the central banks in the European Union. The further rise in inflation and persistent inflation risks warranted the decisive continuation of the tightening cycle. The MNB continuously monitored developments in financial market risks as well and stood ready to intervene in a flexible manner using every instrument in its monetary policy toolkit, if necessary. Maintaining tighter monetary conditions for a longer period was warranted to manage increasing second-round inflation risks resulting from persistently negative supply effects. The Monetary Council would continue the cycle of interest rate hikes 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.

Votes cast by individual members of the Council:

In favour of raising the base rate to 7.75 percent, the overnight collateralised lending rate and the one-week collateralised lending rate to 10.25 percent and **and** **increasing the interest rate on the overnight central bank deposit to 7.25 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 26 July 2022. The abridged minutes of that meeting will be published at 2 p.m. on 10 August 2022.