MINUTES
OF THE MONETARY COUNCIL MEETING
31 MAY 2022

Time of publication: 2 p.m. on 15 June 2022

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) 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 had fundamentally changed the geopolitical situation and the global economic outlook. Due to the geographical proximity and a large share of trade with the two parties involved, the events had a strong effect in Europe, especially in the Central and Eastern European region. Reaching decade highs, inflation had continued to rise in a number of countries and fluctuated in double-digit territory. The war had raised inflation through higher commodity and energy prices, which had been aggravated by ongoing supply disruptions.

Global investor sentiment had been volatile since the Council's previous interest rate decision. 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. Major commodity prices remained high. Global oil prices had risen over the past month.

In response to high inflation becoming increasingly persistent, the world's leading central banks had tightened their monetary policy stance even amidst deteriorating prospects for economic growth in recent months. In line with expectations, the Fed had continued to raise its policy rate in May and had decided to start reducing its balance sheet in June. In April, the European Central Bank 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.

According to preliminary data, Hungarian GDP had risen by 8.2 percent in the first quarter of 2022 on a year earlier and by 2.1 percent on the fourth quarter of 2021. Despite the war situation, Hungarian economic growth had continued to be strong, to which nearly all sectors of the national economy contributed. In March, industrial production and construction output had continued to grow on an annual basis. The value of retail sales had risen at a double-digit rate in March relative to a year earlier. The labour market remained tight and the unemployment rate continued to be low.

The Hungarian economy had a strong ability to grow. The short-term economic outlook had been driven by the consequences of the war and the policy of sanctions implemented as well as by the

Government's 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. Based on real time data, strong growth at the beginning of 2022 was expected to persist in the second quarter; however, looking ahead, a slowdown was expected due to subdued growth in external markets, the increasingly uncertain economic outlook, and high energy prices.

In April 2022, annual inflation had been 9.5 percent and core inflation had stood at 10.3 percent. Food prices had continued to exhibit a double-digit increase relative to the period a year earlier. There had been significantly greater-than-usual repricings in April as well, with food prices accounting for nearly a half. External, cost-side effects continued to quickly feed through to consumer prices, and as a result they were a major factor driving short-term inflation developments. The Government's measures affecting fuel, certain essential food products and residential energy prices significantly cushioned the spillover of the increase in global commodity prices into domestic inflation. Inflation expectations remained elevated.

Strong negative supply effects were expected to raise inflation and core inflation further in the coming months. Rises in food prices were likely to play a central role in the increase. The inflation rate was expected to decline gradually from the autumn months.

At the end of the first quarter of 2022, data on general government in the MNB's preliminary financial accounts suggested that the Hungarian debt-to-GDP ratio had risen to 77.3 percent, exceeding a level of 76.6 percent at the end of 2021. The measures announced by the Government would contribute to the achievement of fiscal objectives this year and next. The current account deficit had also risen in the first quarter. 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 uncertainty surrounding the international environment had been elevated by developments in the Russia-Ukraine war and expectations about the world's leading central banks' monetary policies, which had posed a much higher risk than usual to the outlook for inflation. In the current environment, the Monetary Council deemed it necessary to continue the tightening of monetary conditions and to gradually continue the base rate tightening cycle in order to anchor inflation expectations and mitigate second-round inflation risks. In the coming quarters, a key task for monetary policy was to set an optimal interest rate level that ensured the sustainable achievement of the inflation target.

Following the review of macroeconomic and financial market developments, the Monetary Council discussed the details of its monetary policy decision. Decision makers pointed out that inflation had risen into double-digit territory in several countries. Additionally, they emphasised that significantly greater-than-usual repricings had been seen in domestic inflation developments, with food prices accounting for nearly a half. Decision makers agreed that due to strong negative supply effects, inflation was expected to rise in the coming months. It was also noted that rising food prices were likely to remain a significant factor driving inflation developments in the coming period. Council members also indicated that the tightness of the labour market might lead to wage resettings within the year. Several decision makers stressed that although inflation was mainly rising due to external supply effects, the Bank should take action to insure against a further rise in inflation expectations and second-round effects.

Council members mentioned that the international environment was strongly affected by fears of recession, changes in the world's leading central banks' monetary policies and disruptions in supply. In addition, several members pointed out that the international economic outlook was surrounded by increasing uncertainty, with financial market participants responding to events in a sensitive manner.

Decision makers also assessed the risks to the Hungarian economy that would be decisive in the coming months. Members agreed that the duration of the Russia-Ukraine war continued to pose a significant risk. Furthermore, it was indicated that the evolution of the debate around EU funds strongly affected financial conditions in Hungary. 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.

Several members underlined that the MNB had been one of the first central banks to launch its tightening cycle and since then its effective rate had been raised to the greatest extent by increasing interest rate levels every month. The 100 basis point increases in recent months had been crucial in the strongly changing market environment to counter inflation. There was a broad consensus among members that in the coming quarters a key task for monetary policy was to set an optimal interest rate level that ensured the sustainable achievement of the inflation target. This interest rate level should be approached by raising the base rate in smaller increments. Accordingly, at its meeting the Council unanimously decided to raise the central bank base rate by 50 basis points.

Decision makers stressed that although the pace of interest rate increases would slow, the rate level that ensured the sustainable achievement of the inflation target was not adjusted downwards. It was also indicated that it was worthwhile to continue raising the one-week deposit rate at the previous pace, taking decisions on a monthly basis. The Council continued to consider it a priority that the base rate should gradually catch up to the level of the one-week deposit rate evolving in the coming months. Members also noted that they would continuously assess developments in financial market risks as well and the MNB would stand ready to intervene in a flexible manner using every instrument in the central bank toolkit, if necessary. In the Monetary 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 in a sustainable manner and inflation risks once again became evenly balanced on the horizon of monetary policy.

According to the decision of the Monetary Council on 31 May, the central bank base rate was raised by 50 basis points to 5.90 percent. The overnight deposit rate was increased by 50 basis points to 5.90 percent, and the overnight and the one-week collateralised lending rates were increased by 50 basis points to 8.90 percent. 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 short-term risks in financial and commodity markets. The MNB would continue to set the one-week deposit rate at weekly tenders; however, the central bank normally determined the one-week deposit rate on a monthly basis. The base rate would gradually catch up to the level of the one-week deposit rate evolving in the coming months.

The Bank continued to place great emphasis on ensuring that short-term rates in every sub-market, particularly in the swap market, and at all times 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 again from the beginning of June. By maintaining an active presence in the market and managing tensions potentially emerging in swap markets at the end of the quarter, the Bank strengthened the effectiveness of monetary policy transmission and thereby supported the return to price stability and its maintenance.

The increase in global uncertainty, fundamental inflation risks and the setting of an optimal interest rate level in terms of the sustainable achievement of the inflation target warranted the gradual continuation of the base rate 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 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 5.90 percent, the overnight collateralised lending rate and the one-week collateralised lending rate to 8.90 percent **and** **increasing the interest rate on the overnight central bank deposit to 5.90 percent:**	8	Péter Gottfried, 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

Kolos Kardkovács

György Kocziszky

György Matolcsy

Bianka Parragh

Mihály Patai

Gyula Pleschinger

Barnabás Virág

The Council will hold its next policy meeting on 28 June 2022. The abridged minutes of that meeting will be published at 2 p.m. on 13 July 2022.