MINUTES
OF THE MONETARY COUNCIL MEETING
22 NOVEMBER 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:
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 risk of recession in the global economy had increased further due to the prolonged Russia-Ukraine war, the European energy crisis and the generally rising interest rate environment. The effects of the exceptional drought in Europe were expected to push inflation rates up further over the short term; however, signs of an impending turnaround had clearly appeared in commodity markets. Growing recession risks, alongside falling global energy and commodity prices and international freight costs, pointed to a moderation in global inflation from 2023.

There had been significant volatility in risk appetite over the past month. At the beginning of the period, risk aversion had increased in response to monetary policy decisions by the world's leading central banks and incoming macroeconomic data from Europe and the US, followed by an improvement in risk appetite; however, developments in the war continued to be a source of significant uncertainty in the CEE region. Global prices of most commodities had fallen in recent months but remained at high levels. Oil prices had fallen slightly, while gas prices in European markets had not changed significantly since the previous interest rate decision.

The Federal Reserve and the European Central Bank had raised interest rates in line with expectations. In the CEE region, the Czech and the Polish central banks had left interest rate conditions unchanged. The Romanian central bank had continued its cycle of interest rate hikes.

Hungarian economic growth had slowed in 2022 Q3. The country's GDP had grown by 4 percent relative to a year earlier, with industry and market services being the main contributing sectors. By contrast, the significant decline in agricultural output had acted as a brake on growth. In September, both industrial production and construction output had increased on a year-on-year basis. Retail sales had been expanding at a declining pace since March, while sales excluding fuels had been weakening since July. The labour market had continued to be tight, and the unemployment rate was low. The economic slowdown and the effects of high energy prices were increasingly reflected in a general deterioration in sentiment indicators.

The components of domestic demand were expected to be the main contributors to growth throughout this year. In 2023, growing precaution and a higher level of energy and food prices than before would cause household consumption to decrease. Rising costs and more uncertain demand prospects might induce companies to postpone investments, while the rescheduling of public development projects would also restrain investment activity. Net exports were expected to make a positive contribution to GDP growth again from the end of 2023 as external markets and supply chains recovered. Hungary's GDP was expected to grow by 3.0–4.0 percent in 2022, by 0.5–1.5 percent in 2023, and by 3.5–4.5 percent in 2024.

In October 2022, annual inflation had been 21.1 percent and core inflation had stood at 22.3 percent. The increase in inflation had mainly been explained by a pick-up in food price inflation. The rate of core inflation excluding processed food prices had risen relative to September but continued to be below the excessively high levels of the summer months. Inflation expectations continued to be elevated; however, companies' expectations for retail and services prices had remained below their peak levels seen in the summer.

In recent months, inflation in Hungary had been mainly driven by items outside the scope of monetary policy. As a result of the exceptional drought and the pass-through of high energy prices, inflation would rise further at a declining pace in the coming months. The easing in external inflationary pressures and in the cost shocks from freight costs and commodity prices, the slowdown in global economic growth and the downward pressure on prices, resulting from shrinking domestic demand, were expected to become more pronounced in the development of domestic prices from early 2023, leading to a gradual turnaround in inflation. Tight monetary conditions contributed to avoiding second-round inflationary effects and anchoring inflation expectations. There were symmetric risks to the outlook for inflation. The consumer price index might average between 13.5–14.5 percent in 2022. Domestic inflation would decrease slowly in the first half of 2023, and then more significantly from the middle of the year. The consumer price index would return to the central bank tolerance band in the first half of 2024.

The measures announced by the Government and their implementation were expected to ensure the achievement of this year's budget deficit target indicated by the Ministry of Finance. Thus, the government debt-to-GDP ratio would decrease to close to 76 percent of GDP by the end of 2022. The current account deficit had started to decline in the autumn months, in parallel with the decline in gas prices and the adjustment in domestic demand; however, it was expected to continue rising temporarily in 2022, due to the import-increasing effect of high energy prices. Subsequently, the increasing surplus in items of the current account excluding the energy balance and growing adjustment in the energy market might lead to a rapid improvement supported by the decrease in energy prices. By 2024, with the normalisation of the global economic environment and the pick-up of the production of significant new export capacities built in recent years, the external balance position was expected to improve significantly.

Following the review of macroeconomic and financial market developments, the Monetary Council discussed the details of its monetary policy decision. Council members agreed that recession risks remained in the global economy and signs of a slowdown in global price increases were already visible. Some members pointed out that inflation had already slowed or stopped in October in nearly half of the countries in the world. In terms of investor sentiment, decision makers considered that risk appetite had overall been volatile since the October interest rate decision; however, developments related to the war continued to create considerable uncertainty in the region.

Decision makers concluded that Hungary's GDP growth started to slow down in the third quarter of 2022. Council members agreed that high-frequency data indicated an additional slowdown in domestic demand while industrial production had still grown in September, and these pointed to an improvement in the current account balance. Some members highlighted that the current account deficit may have already been past its lowest point.

Several members underlined that the rise in domestic inflation in recent months had mainly been driven by a pick-up in food price increases. Council members agreed that the easing in external cost shocks, the slowdown in global economic growth and the downward pressure on prices, resulting from shrinking domestic demand, were expected to become more pronounced in the development of domestic prices from early 2023, leading to a gradual turnaround in inflation.

Decision makers concluded that the 13 percent base rate had adequately managed fundamental inflation risks. They pointed out that the targeted measures taken by the Bank in mid-October had led to an improvement in financial market stability, which remained key in achieving price stability. Several Council members stressed that the two-month deposit tender at the end of November, FX swap tenders providing euro liquidity and discount bill auctions in early December with maturities extending beyond the end of the year would play a crucial role in reducing interbank forint liquidity and, as a result, in continuing monetary policy tightening.

Council members agreed that maintaining the current level of the base rate for a prolonged period was warranted, while continuing to drain interbank liquidity was further improving monetary policy transmission. Several decision makers underlined that the MNB should focus on sustained shifts in financial market conditions, and use its targeted instruments introduced in mid-October until a trend improvement in risk perceptions occurred. They also stressed that all transmission channels, including the exchange rate channel, were crucial for the proper functioning of monetary policy transmission.

In line with its previous communication, the Monetary Council kept the base rate at 13.00 percent at its meeting on 22 November. In addition, the O/N deposit rate and the O/N collateralised borrowing rate were left unchanged at 12.50 percent and 25.00 percent, respectively.

The targeted measures taken by the Bank in mid-October had led to an improvement in financial market stability in a rapidly changing risk environment. The one-day deposit quick tenders and FX swap transactions resulted in tighter interest rate conditions at the short end of the yield curve. The MNB met directly major foreign currency liquidity needs arising from covering net energy imports over the period to the end of the year, while the Bank continuously took into account considerations regarding the adequacy of foreign currency reserves, looking ahead as well. In recent months, domestic economic agents had begun to adjust to the energy market through a decline in energy consumption. This, along with a fall in energy prices, allowed to maintain balance in the foreign exchange market by providing less foreign currency liquidity than earlier expected.

In the Monetary Council’s assessment, maintaining the current level of the base rate for a prolonged period was consistent with the achievement of the price stability objective over the monetary policy horizon. The instruments absorbing forint liquidity, announced for the end of the year, improved further the effectiveness of monetary policy transmission. Maintaining market stability in a rapidly changing risk environment continued to be crucial to achieving price stability. The MNB focused on sustained shifts in financial market conditions, and it would use its instruments introduced in mid-October until a trend improvement in risk perceptions occurs. Tight monetary conditions would be maintained over a prolonged period, which would ensure that inflation expectations were anchored, and the inflation target was achieved in a sustainable manner.

Votes cast by individual members of the Council:

In favour of maintaining the base rate at 13.00 percent, **the overnight collateralised lending rate at 25.00 percent** **and** **maintaining the interest rate on the overnight central bank deposit at 12.50 percent:**	8	Péter Gottfried, Csaba Kandrács, Kolos Kardkovács, György Kocziszky, 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

Bianka Parragh

Mihály Patai

Gyula Pleschinger

Barnabás Virág

The Council will hold its next policy meeting on 20 December 2022. The minutes of that meeting will be published at 2 p.m. on 4 January 2023.