MINUTES

OF THE MONETARY COUNCIL MEETING

17 NOVEMBER 2015

Time of publication: 2 pm on 2 December 2015

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, usually twice a month, according to a pre-announced schedule. At the second scheduled meeting each month, members consider issues relevant to immediate policy decisions. 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

In the Council's assessment, Hungarian economic growth continued. A degree of unused capacity remained in the economy, and therefore the domestic real economic environment continued to have a disinflationary impact. Inflation remained substantially below the Bank's target.

The annual consumer price index and core inflation both had risen in October. As a result, inflation had returned into positive territory. The Bank's measures of underlying inflation indicated moderate inflationary pressures in the economy. Core inflation was likely to rise gradually as a result of an expansion in domestic demand and rises in wages, but the persistently low cost environment contained the increase in the consumer price index. The stabilisation of inflation expectations around the target was likely to contribute to price and wage-setting being consistent with the inflation target over the medium term as the output gap closed. Inflation was expected to remain substantially below the 3 per cent target over the coming months, and was only likely to rise to levels around 3 per cent at the end of the forecast horizon.

Based on preliminary GDP data, Hungarian economic growth had continued at a lower-than-expected rate in the third quarter of 2015. Due to a slowdown in external demand, industrial production had weakened slightly in the third quarter relative to the previous quarter, which may have contributed to the slowdown in economic growth. The dynamics of retail sales had been stable in recent months, with their volume increasing across a wide range of products. Employment had risen further while the unemployment rate had declined. Domestic demand was making an increasing contribution to economic growth. Government investment was likely to fall as funding from the EU declined considerably, the impact of which was expected to be offset by the gradual pick-up in private sector investment and the Bank's Growth Supporting Programme. The latter also helped to restore market-based financing and achieve a lasting turnaround in lending over the longer term.

Overall, sentiment in global financial markets had been mixed over the period since the Council's latest policy decision. During the period, the main factors affecting global appetite for risk had been the ECB's communication suggesting that it would adopt a looser monetary policy stance looking forward, continued uncertainty about the interest rate increase by the Fed, and concerns over growth prospects in emerging economies.

Conditions in Hungarian financial markets had been characterised by increased volatility, with the forint depreciating slightly against the euro. The domestic CDS spread and long-term government bond yields had been broadly unchanged since the previous policy decision. Market yield expectations had moved in line with the Bank's guidance that the central bank base rate would be held constant over an extended period. The targeted monetary policy instruments introduced by the Bank also facilitated a decline in long-term yields and, consequently, a loosening of monetary conditions. Forward-looking money market real interest rates were in negative territory and were likely to decline even further as inflation rose. Hungary's persistently strong external financing capacity and the resulting decline in external debt were contributing to the sustained reduction in the vulnerability of the economy. In the Council's assessment, a cautious approach to monetary policy was still warranted due to uncertainty in the global financial environment.

In the Council's assessment, the inflation outlook and the cyclical position of the economy pointed in the direction of keeping the policy rate unchanged and maintaining loose monetary conditions for an extended period. Some members noted that no economic argument had arisen since the previous policy decision which would justify changing the Bank's forward guidance that the policy rate would be held constant for an extended period. In addition, central bank credibility and predictability considerations were clearly in favour of keeping interest rates unchanged.

Members agreed that yields should fall further at the longer end of the yield curve. Several members noted that the targeted monetary policy instruments introduced by the Bank also facilitated a decline in long-term yields and, consequently, a loosening of monetary conditions. Some members added that these programmes had the advantage of being targeted and, consequently, with the monetary policy transmission mechanism remaining impaired, the Bank was able to influence economic processes more directly than by reducing the base rate further.

Members voted unanimously in favour of maintaining the base rate at 1.35 per cent and agreed that, if the assumptions underlying the Bank's projections held, the current level of the base rate and maintaining loose monetary conditions over the entire forecast horizon were consistent with the medium-term achievement of the inflation target and a corresponding degree of support to the economy. In the Council's view, the current interest rate decision was consistent with the Bank's past behaviour and previous communication as well as with market expectations, and therefore it strengthened the Bank's credibility and predictability.

Votes cast by individual members of the Council:

In favour of maintaining the base rate at 1.35%	**8**	Gusztáv Báger, Andrea Bártfai-Mager, János Cinkotai, Ferenc Gerhardt, György Kocziszky, Márton Nagy, Gyula Pleschinger, László Windisch

The following members of the Council were present at the meeting:

Gusztáv Báger

Andrea Bártfai-Mager

János Cinkotai

Ferenc Gerhardt

György Kocziszky

Márton Nagy

Gyula Pleschinger

László Windisch

The Council will hold its next policy meeting on 15 December 2015. The minutes of that meeting will be published at 2 pm on 23 December 2015.