MINUTES

OF THE MONETARY COUNCIL MEETING

22 NOVEMBER 2016

Time of publication: 2 p.m. on 7 December 2016

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 to pick up from the end of the year following the temporary slowdown. There continued to be a degree of unused capacity in the economy and inflation remained persistently below the Bank's target. Looking ahead, the disinflationary impact of the domestic real economic environment was gradually decreasing.

Inflation had risen further in October 2016, in line with the Bank's expectations. The Bank's measures of underlying inflation continued to indicate a moderate inflationary environment in the economy. Persistently low global inflation was restraining the pace of increase in domestic consumer prices. Inflation expectations were at historically low levels. Whole-economy wage growth remained strong, which was likely to raise core inflation gradually through rising household consumption. Inflation remained below the 3 per cent target over the forecast period, and only got close to it by the middle of 2018.

The Hungarian economy had grown by 2 per cent in the third quarter of 2016 relative to the same period a year earlier. The robust expansion in retail sales had continued in September. In the coming quarters household consumption was expected to grow further, with consumption expenditures remain determining factors of economic growth. Industrial production had fallen in September compared to a year earlier. The growth rate of the sector's output had moderated significantly in the third quarter, reflecting among other things the temporary fall in vehicle industry output. Labour demand had remained strong, and therefore the number of employees had increased again, while the unemployment rate had fallen further. Both corporate and household lending had risen in September.

Sentiment in global financial markets had been volatile since the Council's latest interest rate-setting decision, mainly driven by expectations about the US presidential elections and about an interest rate increase by the Fed as well as by news related to the European banking sector. Developed market equity indices had had a mixed performance, while bond prices had fallen. The forint had remained broadly unchanged against the euro. Due to international developments, the yield curve of government securities had shifted upwards at both the middle and the long end, thus the curve had steepened. Hungary's strong external financing capacity and the decline in external debt were contributing to the sustained reduction in the vulnerability of the economy. All of these developments had contributed significantly to the upgrade of the country's sovereign rating by Moody's. This meant that Hungary's sovereign rating had been raised to investment grade by all three leading international rating agencies. Forward-looking domestic money market real interest rates were in negative territory and were declining even further as inflation rose. In the Council's assessment, a watchful approach to monetary policy was still warranted due to uncertainty in the global financial environment.

In the Council's assessment, there continued to be a degree of unused capacity in the economy and inflation remained moderate for an extended period. The disinflationary impact of the real economy was gradually decreasing over the policy horizon.

In discussing the current decision, Council members agreed that no event had occurred since the previous rate decision in terms of Hungarian economic fundamentals and the sustainable achievement of the inflation target which would warrant a change to the current level of the base rate. Several members noted that leaving the base rate unchanged was consistent with the previous communication of the Monetary Council and market expectations. Members agreed that the reduction in the overnight collateralised loan rate and the one-week collateralised loan rate to the level of the base rate pointed in the direction of a further easing in monetary conditions. They also noted that the action facilitated a decrease in the volatility of interbank yields and increased the asymmetry of the interest rate corridor, with the latter having a positive influence on banks' liquidity management. Several members noted that in the minutes of its previous policy meeting the Council had signalled that there had remained room for lowering the upper bound of the interest rate corridor further, and taking full advantage of that room for manoeuvre was optimal at the November meeting. Taking all these factors into account, members voted unanimously in favour of maintaining the base rate and the overnight deposit rate at their current level and reducing the overnight collateralised loan rate and the one-week collateralised loan rate.

If the assumptions underlying the Bank's projections held, maintaining the current level of the base rate for an extended period and the loosening of monetary conditions by the change in the monetary policy instruments were consistent with the medium-term achievement of the inflation target and a corresponding degree of support to the economy. The Magyar Nemzeti Bank monitored developments in monetary conditions and markets. If subsequently warranted by the achievement of the inflation target, the Council would stand ready to ease monetary conditions further using unconventional, targeted instruments.

Votes cast by individual members of the Council:

In favour of maintaining the base rate at 0.90%:	**9**	Gusztáv Báger, János Cinkotai, Ferenc Gerhardt, Kolos Kardkovács, György Kocziszky, György Matolcsy, Márton Nagy, Gyula Pleschinger, László Windisch
In favour of reducing the overnight collateralised loan rate and the one-week collateralised loan rate to 0.90% and maintaining the overnight central bank deposit rate at -0.05%:	**9**	Gusztáv Báger, János Cinkotai, Ferenc Gerhardt, Kolos Kardkovács, György Kocziszky, György Matolcsy, Márton Nagy, Gyula Pleschinger, László Windisch
Vote against:	**0**	

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

Gusztáv Báger

János Cinkotai

Ferenc Gerhardt

Kolos Kardkovács

György Kocziszky

György Matolcsy

Márton Nagy

Gyula Pleschinger

László Windisch

The Council will hold its next policy meeting on 20 December 2016. The minutes of that meeting will be published at 2 p.m. on 11 January 2017.