MINUTES

OF THE MONETARY COUNCIL MEETING

25 OCTOBER 2016

Time of publication: 2 p.m. on 9 November 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 middle of the year following the temporary slowdown at the beginning of 2016. 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.

As the Monetary Council had expected, inflation had risen again into positive territory in September 2016. 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.

Hungarian economic growth had accelerated in the second quarter of 2016, and, based on monthly indicators, it had picked up further in the third quarter, in line with the Bank's expectations. The robust expansion in retail sales had continued in August. Further growth was expected in household consumption in the coming quarters. Industrial production had increased strongly in August. This growth following the decline in previous months was primarily due to the rise 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 increased in August. New household loans had exceeded repayments for the first time since the crisis. The time profile of this year's economic growth was characterised by duality. Following temporary slow growth at the beginning of the year, the pick-up in domestic demand, the extension of the Funding for Growth Scheme, the Growth Supporting Programme, the easing measures of monetary policy as well as the Government's measures would help achieve economic growth of around 3 per cent.

Sentiment in global financial markets had been volatile since the Council's latest interest rate-setting decision, mainly driven by news related to the oil market and the stability of some European banks as well as by expectations about monetary policy actions by the world's leading central banks. The forint had appreciated against the euro, and short-term money market rates and government securities yields had fallen overall. Hungary's strong external financing capacity and the resulting decline in external debt were contributing to the sustained reduction in the vulnerability of the economy. Forward-looking domestic money market real interest rates were in negative territory and were declining even further as inflation rose. However, 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 the baseline projection in the September Inflation Report was consistent with recent macroeconomic developments. Several members noted 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. Furthermore, the low global interest rate and inflation environment also underlined maintaining the base rate. Several members emphasized that leaving the base rate unchanged was consistent with the previous communication of the Monetary Council and market expectations. A number of Council members noted that due to the change in the monetary policy instruments an opportunity would present itself for the targeted adjustment of monetary conditions through the limitation of the three-month deposit facility. Members agreed that the narrowing of the interest rate corridor also contributed to a further easing in monetary conditions. In addition, they also noted that the decision increased the efficiency of the limit introduced for three-month deposits, while it facilitates a decrease in volatility of the interbank yields. It was also raised at the meeting that there remained room for lowering the upper bound of the interest rate corridor further. Council members concluded that the reduction in the minimum reserve ratio would contribute to increasing the efficiency of the new regime. 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 lending rate. In addition, members pointed out that, if warranted by the sustainable achievement of the inflation target, monetary conditions might be loosened further using unconventional tools.

If the assumptions underlying the Bank's projections held, maintaining the base rate at its current level for an extended period and the loosening of monetary conditions by the change in 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 closely 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 with unconventional tools.

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 to 1.05% 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 22 November 2016. The minutes of that meeting will be published at 2 p.m. on 7 December 2016.