MINUTES

OF THE MONETARY COUNCIL MEETING

20 DECEMBER 2016

Time of publication: 2 p.m. on 11 January 2017

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 this year. Some degree of unused capacity had remained in the economy, but looking ahead, the disinflationary impact of the domestic real economic environment was gradually dissipating. Inflation rose over the forecast period and reached the inflation target in the first half of 2018.

Inflation had risen in November 2016, in line with the Bank's expectations. The Bank's measures of underlying inflation had remained broadly unchanged. Looking ahead, whole-economy wage growth was likely to rise further, as a result of continued strong demand for labour and the latest wage agreement. This in turn was likely to raise core inflation through an increase in household consumption. However, with persistently low global inflation and historically low inflation expectations, the consumer price index was expected to rise only gradually. According to the MNB's projection, inflation reached the 3 per cent level consistent with price stability in the first half of 2018.

The Hungarian economy had grown by 2.2 per cent in the third quarter of 2016 relative to the same period a year earlier. The strong expansion in household consumption had been the main driving force behind growth. Retail sales had risen further while industrial production had fallen in October relative to the same period of the previous year. Outstanding lending to small and medium-sized companies had increased by around 7 per cent in the third quarter and the stock of corporate loans had also started to show signs of a turnaround. Outstanding loans in the household sector had grown further. Private sector investment had picked up and government investment, strongly linked to the use of EU funding, had fallen sharply. Labour demand had remained strong, and therefore the number of employees had increased and the unemployment rate had fallen further. Private sector wage growth had accelerated. Household consumption was expected to grow further as wage growth strengthened, which would be supported by the realisation of consumption deferred from previous years. Looking ahead, Hungary's current account surplus was likely to decrease, driven by rising domestic demand. The Council expected economic growth of over 3 per cent in the coming years, to which the Bank's and the Government's measures to stimulate economic growth contributed substantially.

Sentiment in global financial markets had been mostly favourable since the Council's latest interest rate-setting decision. News from the oil market and expectations about the stability of the euro-area banking sector had been the focus of attention. In December, the US Fed and the ECB had made decisions in diverging policy directions. As expected, the Fed had decided to raise interest rates and, looking ahead, had moved towards a tighter policy path. By contrast, the ECB had decided to extend its quantitative easing programme. As a result, euro-area monetary conditions, most relevant for Hungarian monetary policy, were expected to remain accommodative for a longer period. The majority of developed market equity indices had risen while bond prices had declined. The forint had weakened against the euro. Yields on government securities had fallen along the entire yield curve.

Hungary's strong external financing capacity and the 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. 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, some degree of unused capacity remained in the economy while inflation was rising gradually to the target. The disinflationary impact of the real economy was gradually dissipating 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 or the interest rate corridor. Members noted that leaving the base rate unchanged was consistent with the projection in the December Inflation report, the Monetary Council's previous communications and market expectations. In addition, some members noted that the global monetary policy environment made it possible to ease financial market conditions slightly further using unconventional tools. Members agreed that setting a HUF 750 billion upper limit on the stock of three-month central bank deposits as at the end of the first quarter of 2017 was consistent with a slight easing of monetary conditions. Taking these factors into account, all members voted unanimously in favour of maintaining the base rate, the overnight deposit rate, the overnight lending rate and the one-week lending rate, and setting the quantity limit on the three-month deposit stock.

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, the overnight central bank lending rate and the one-week collateralised central bank lending rate at 0.90% **and** **maintaininging 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 24 January 2017. The minutes of that meeting will be published at 2 p.m. on 8 February 2017.