



**MINUTES**  
**OF THE MONETARY COUNCIL MEETING**  
**28 OCTOBER 2014**

*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, but at least 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://english.mnb.hu/Monetaris\\_politika/decision-making/mnben\\_mt Jegyzokonyv](http://english.mnb.hu/Monetaris_politika/decision-making/mnben_mt Jegyzokonyv)

## THE COUNCIL'S ASSESSMENT AND INTEREST RATE DECISION

In the Council's judgement, Hungarian economic growth was likely to continue. While the pace of economic activity was strengthening, output remained below potential and the domestic real economy was expected to continue to have a disinflationary impact, albeit to a diminishing extent. Despite the pick-up in the components of domestic demand, capacity utilisation was expected to improve only gradually due to the protracted recovery in Hungary's export markets. With employment rising, the unemployment rate continued to exceed its long-term level determined by structural factors. Inflationary pressures in the economy were likely to remain moderate for an extended period.

Based on the inflation data for September, consumer prices continued to show historically low dynamics. In addition to one-off inflation-reducing effects, the Bank's measures of underlying inflation capturing the medium-term outlook still indicated moderate inflationary pressures in the economy, reflecting low inflation in external markets, favourable developments in commodity prices and imported inflation, the degree of unused capacity in the economy, subdued wage dynamics, the fall in inflation expectations and the reductions in administered energy prices implemented in a series of steps. Domestic real economic and labour market factors continued to have a disinflationary impact and low inflation was likely to persist for a sustained period. However, domestic demand-side disinflationary pressures were weakening gradually as activity gathered pace, and inflation was likely to reach levels around 3 per cent consistent with price stability in the second half of the forecast period.

In the Council's judgement, the current level of interest rates was appropriate to achieve the inflation target in the medium term and ensured a corresponding degree of stimulus to the real economy. Several members noted that, following the Bank's forward guidance in previous months, maintaining interest rates was consistent with market expectations in terms of credibility and fitted well with the Council's earlier communication. Some members were of the view that, although downside risks had increased somewhat, a decision to change to the policy stance was not warranted and the current level of the base rate helped achieve the inflation target. Several members concluded that there was no reason to change the current loose monetary conditions for an extended period or to change the base rate from its current level, as there had been no significant macroeconomic developments which would have caused a change in the inflation environment. Some members added that maintaining the Council's forward guidance in an unchanged form might help reinforce central bank credibility.

In the Council's judgement, economic growth was likely to continue even as external demand had weakened slightly. The decline in industrial production and foreign trade in August may have partly reflected one-off effects. The growth rate of retail sales had picked up further in August. In the Council's judgement, economic growth might continue in a more balanced pattern than previously, with the recovery in domestic demand likely to make a greater contribution. The increasing use of EU funding and the easing in credit constraints also due to the Bank's Funding for Growth Scheme were expected to sustain the recovery in investment. Household consumption was also likely

to grow gradually, mainly as a result of the expected increase in the real value of disposable income and the reduced need for deleveraging. However, propensity to save was expected to remain above levels seen prior to the crisis. Based on labour market data for August, the number of employees, including those employed under public employment programmes, had been stagnant and the unemployment rate had fallen.

International investor sentiment had mostly deteriorated in the past month, mainly reflecting the escalation of geopolitical conflicts and the weak outlook for activity. The majority of domestic risk measures had been broadly unchanged. Hungary's persistently high external financing capacity and the resulting decline in external debt had contributed to the reduction in its vulnerability. In the Council's judgement, a cautious approach to policy was warranted due to uncertainty about future developments in the global financial environment.

In the Council's judgement, there remained a degree of unused capacity in the economy and inflationary pressures were likely to remain moderate in the medium term. The negative output gap was expected to close gradually at the monetary policy horizon. Looking ahead, therefore, the disinflationary impact of the real economy was likely to diminish. It was the unanimous view of the Council that, with current monetary conditions maintained, inflation was likely to move into line with the target over the medium term.

After the discussion, the Chairman invited members to vote on the proposition put to the Council. All members voted in favour of the proposition. Several decision-makers noted that the decision to maintain interest rates contributed to the achievement of the medium-term inflation target. The Council judged that, if the assumptions underlying the Bank's projection held, achieving the medium-term inflation target pointed in the direction of maintaining current loose monetary conditions for an extended period.

#### **Votes cast by individual members of the Council**

<b>In favour of maintaining the base rate at 2.10%</b>	<b>9</b>	Ádám Balog, Andrea Bártfai-Mager, János Cinkotai, Ferenc Gerhardt, Csaba Kandrács, György Kocziszký, György Matolcsy, Gyula Pleschinger, László Windisch
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#### **The following members of the Council were present at the meeting:**

Ádám Balog

Andrea Bártfai-Mager

János Cinkotai

Ferenc Gerhardt

Csaba Kandrács

György Kocziszký

György Matolcsy

Gyula Pleschinger

László Windisch

**The Council will hold its next policy meeting on 25 November 2014. The minutes of that meeting will be published at 2 p.m. on 10 December 2014.**