



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

Consumer prices had continued to show low dynamics in June, rising slightly compared with both the previous month and the same period a year earlier. The inflation data received had been consistent with both the projection in the June *Inflation Report* and market expectations. Core inflation had been unchanged relative to May. The Bank's measures of underlying inflation capturing the short-term outlook still indicated moderate inflationary pressures in the economy, reflecting persistently low inflation in external markets, the low level of imported inflation and the degree of unused capacity in the economy. Core inflation was likely to rise gradually as the effects of the low-cost environment faded, domestic demand picked up and wages increased. Domestic real economic and labour market factors continued to have a disinflationary impact and the low inflation environment was likely to persist. Consequently, inflation was expected to approach levels around the 3 per cent target only towards the end of the forecast horizon, reflecting moderate underlying inflation.

In the Council's assessment, Hungarian economic growth was likely to continue at a rapid pace. Robust growth had been supported by both domestic and external demand. On the expenditure side, domestic demand growth may have continued. In May, the trade surplus had been significantly higher than its level a year previously. The dynamics of retail sales had been stable in recent months, with the volume of sales increasing across a wide range of products. Based on data for May, industrial production had expanded somewhat less dynamically relative to the same period a year earlier than in previous months. Rising household real income underpinned by low inflation, the reduced need for deleveraging and growing employment were expected to contribute to the increase in household consumption. Investment was expected to pick up gradually, owing to the recovery in activity as well as the Funding for Growth Scheme and its extension. Unemployment had fallen in May as the activity rate had remained unchanged.

Overall, international investor sentiment had been unfavourable in the period since the Council's latest policy decision. The various indicators of risk had risen and the major equity indices had fallen. Tensions surrounding the financing of Greek government debt and the country's potential exit from the euro area as well as concerns about the disturbances in Chinese capital markets had had a negative impact on global investor sentiment in the first part of the period. However, in the latter half of the period, global appetite for risk had improved. Accompanied by noticeable fluctuations, the forint had depreciated against the euro, driven by international factors, before appreciating

considerably, as investor sentiment had improved. The domestic CDS spread had remained broadly unchanged and long-term government bond yields had fallen since the previous policy decision. Persistently high external financing capacity of the Hungarian economy and the resulting decline in external debt had contributed to the reduction in its vulnerability. In the Council’s assessment, a cautious approach to monetary policy was 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 inflationary pressures were likely to remain moderate. The real economy was likely to have a disinflationary impact at the policy horizon and the negative output gap was expected to close only gradually.

In the Council’s assessment, considering the assumptions of the June *Inflation Report* projections that still held, the outlook for inflation and the cyclical position of the real economy pointed in the direction of a reduction in the policy rate, the end of the rate cut cycle and persistently loose monetary conditions. Members discussed the developments in inflation and the real economy. The Monetary Council decided to lower the policy rate by 15 basis points, with eight votes in favour of reducing it and one vote in favour of maintaining it. The overwhelming majority of members noted that several channels of the transmission mechanism of monetary policy had strengthened recently, and, as a result, monetary transmission had become more balanced and the policy rate more effective. Moreover, several members noted that the cautious reductions in interest rates had been made possible by increased central bank credibility. Based on available data, members also discussed the risk of second-round effects materialising due to excessively low level of inflation expectations. They agreed that the risk of second-round effects had diminished significantly, as reflected in available wage data, indicators of underlying inflation and developments in the consumer price index. Members agreed that it was appropriate to end the rate cut cycle in view of domestic underlying inflation developments and the reduction in the risk of second-round effects. In the Council’s assessment, persistently loose monetary conditions were consistent with the medium-term achievement of the inflation target.

After the discussion, the Chairman invited members to vote on the propositions put to the Council. Eight members voted in favour of reducing the policy rate by 15 basis points and one member voted in favour of maintaining it. In the Council’s assessment the decision was consistent with the Bank’s earlier behaviour and communications as well as with market expectations on the whole, and therefore it strengthened the Bank’s credibility and predictability. The overwhelming majority of decision-makers agreed that the policy rate had reached the level which ensured the medium-term achievement of the inflation target and a corresponding degree of support to the economy.

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

<p><b>In favour of reducing the base rate to 1.35%</b></p>	<p><b>8</b></p>	<p>Ádám Balog, Gusztáv Báger, Andrea Bártfai-Mager, Ferenc Gerhardt, György Kociszky, György Matolcsy, Gyula Pleschinger, László Windisch</p>
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<b>In favour maintaining the base rate at 1.50%</b>	<b>1</b>	János Cinkotai
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**The following members of the Council were present at the meeting:**

Ádám Balog

Gusztáv Báger

Andrea Bártfai-Mager

János Cinkotai

Ferenc Gerhardt

György Kocziszky

György Matolcsy

Gyula Pleschinger

László Windisch

**The Council will hold its next policy meeting on 25 August 2015. The minutes of that meeting will be published at 2 p.m. on 9 September 2015.**