



**MINUTES**  
**OF THE MONETARY COUNCIL MEETING**  
**21 JUNE 2016**

Time of publication: 2 pm on 6 July 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, the Hungarian economy was picking up again following the temporary deceleration at the beginning of the year. A degree of unused capacity remained 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.

In May 2016, the annual inflation rate and core inflation had both decreased relative to the previous month. The Bank's measures of underlying inflation continued to indicate a moderate inflationary environment in the economy. Persistently low global inflation was restraining the increase in domestic consumer price inflation. Inflation expectations were at historically low levels. Whole-economy wage growth had accelerated further, which was likely to raise core inflation gradually through rising household consumption. Inflation was expected to remain below the 3 per cent target over the forecast period, and only approach it in the first half of 2018.

Hungarian economic output had grown moderately in the first quarter of 2016 relative to a year earlier. GDP had decreased compared with the previous quarter, reflecting strong temporary, one-off effects. The slower drawdown of funding from the EU relative to recent years had caused a sharp slowdown in construction output, while temporary factory shutdowns had led to a fall in industrial production. However, the volume of industrial output had already recovered in April and production had risen again. Retail sales had continued to expand further in April. Household consumption was expected to rise further in the coming quarters. Labour demand had remained strong, and therefore the unemployment rate had continued to be low in April. The time profile of this year's economic growth was characterised by duality. The economy was expected to pick up markedly following temporary slow growth at the beginning of the year. The unwinding of one-off factors as well as the steps taken by both the Bank and the Government to support growth would result in the economy picking up again. In June, the Monetary Council had decided to increase the total amount available under the Funding for Growth Scheme by HUF 100 billion in order to provide further support to economic growth. On the whole, the Growth Supporting Programme, the expansion in home construction and the faster drawdown of EU transfers helped maintain a growth rate of around 3 per cent.

Moderate growth early this year would result in a more negative output gap temporarily; however, the acceleration in growth and the expansionary impact on demand of next year's budget were likely to speed up the closure of the gap. Rising incomes and the expected pick-up in lending would contribute to the expansion in consumption, which in turn would provide considerable support to economic growth in the coming years.

Sentiment in global financial markets had been volatile since the Council's latest interest rate-setting decision, mainly influenced by expectations related to an interest rate increase by the Fed, the release of mixed macroeconomic data in developed countries,

uncertainty around the United Kingdom's EU membership and news from the oil market. Yields on domestic long-term government securities had not changed notably since the previous policy decision. 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. In the Council's assessment, a watchful approach to monetary policy was still warranted due to uncertainty in the global financial environment. Forward-looking domestic money market real interest rates were in negative territory and were declining even further as inflation rises.

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

In discussing the current decision, most Council members explained that maintaining the base rate for an extended period was consistent with the June Inflation Report projection and that no event had occurred since the previous policy decision which would justify changing the current interest rate level. Council members agreed that the current interest rate level continued to be consistent with the sustainable achievement of the inflation target. In view of the June Inflation Report projection, the Council assessed that the Hungarian economy was likely to pick up again following the temporary slowdown at the beginning of the year, but inflation would remain persistently low and approach 3 per cent consistent with price stability only in the first half of 2018. Some members noted that international developments, for example, the low inflation and interest rate environment as well as uncertainty about the Fed's expected interest rate path and that caused by the United Kingdom's EU referendum, warranted a watchful approach to monetary policy. Members noted that, if necessary, they might also decide to use unconventional tools in the future. Members agreed that 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. Several members emphasized that forward guidance had adequately orientated market expectations.

Taking these factors into account, with the completion of the rate cutting cycle in May, all members present voted to leave the base rate and the interest rate corridor unchanged at the June meeting. According to Council members the decision was consistent with the Bank's past behaviour and previous communication as well as with market expectations, and therefore it strengthened the Bank's credibility and predictability.

If the assumptions underlying the Bank's projections held, the current level of the base rate and maintaining loose monetary conditions for an extended period were consistent with the medium-term achievement of the inflation target and a corresponding degree of support to the economy. If the Monetary Council assessed it necessary in the future, it might also decide to use unconventional tools.

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

<b>In favour of maintaining the base rate at 0.9%:</b>	<b>8</b>	Gusztáv Báger, János Cinkotai, Ferenc Gerhardt, György Kocziszky, György Matolcsy, Márton Nagy, Gyula Pleschinger, László Windisch
<b>In favour of maintaining the overnight collateralised loan rate at 1.15% and the overnight central bank deposit rate at -0.05%:</b>	<b>8</b>	Gusztáv Báger, János Cinkotai, Ferenc Gerhardt, György Kocziszky, György Matolcsy, Márton Nagy, Gyula Pleschinger, László Windisch
<b>Vote against:</b>	<b>0</b>	

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

Gusztáv Báger

János Cinkotai

Ferenc Gerhardt

György Kocziszky

György Matolcsy

Márton Nagy

Gyula Pleschinger

László Windisch

**The Council will hold its next policy meeting on 26 July 2016. The minutes of that meeting will be published at 2 pm on 10 August 2016.**