



## **MINUTES OF THE MONETARY COUNCIL MEETING 20 OCTOBER 2015**

Time of publication: 2 pm on 4 November 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://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 was likely to continue. While the pace of economic activity was strengthening, there continued to be a degree of unused capacity in the economy, and therefore the domestic real economic environment continued to have a disinflationary impact. Inflation remained substantially below the Bank's target.

Consumer prices had fallen in September 2015. Core inflation had been broadly unchanged. The Bank's measures of underlying inflation indicated moderate inflationary pressures in the economy. Core inflation was likely to rise gradually as a result of an expansion in domestic demand and rises in wages, but the persistently low cost environment contained increases in consumer prices. The stabilisation of inflation expectations around the target was likely to contribute to price and wage-setting being consistent with the inflation target over the medium term as the output gap closed. Inflation was expected to move to positive territory in the coming months, but to remain substantially below the 3 per cent target, and was only likely to rise to levels around 3 per cent at the end of the forecast horizon.

Domestic economic growth had continued in the second quarter of 2015. Based on the monthly macroeconomic indicators, underlying growth had not changed significantly. Industrial production had risen in August 2015 relative to a year earlier. The dynamics of retail sales had been stable in recent months, with their volume increasing across a wide range of products. Employment had risen further while the unemployment rate had been unchanged as activity had increased. Domestic demand was making an increasing contribution to economic growth. Government investment was likely to fall as funding from the EU declined considerably, the impact of which was expected to be mitigated by the gradual pick-up in private sector investment. Domestic economic growth was likely to continue, in line with the latest Inflation Report projection.

Sentiment in global financial markets had been volatile over the period since the Council's latest policy decision, but this had had little impact on domestic indicators. During the first half of the period, uncertainty about the interest rate increase by the Fed and concerns over growth prospects in emerging economies had had a negative impact on global appetite for risk. Global financial market environment had improved in the second half of the period as market expectations of the Fed's interest rate increase had been postponed.

Hungarian financial markets had been relatively calm in the period, with the forint appreciating slightly against the euro. The domestic CDS spread and long-term government bond yields had decreased since the previous policy decision. Market expectations had moved in line with the Bank's forward guidance announced in September and were consistent with maintaining the base rate unchanged over the entire forecast horizon. Hungary's persistently strong external financing capacity and the resulting decline in external debt were contributing to the reduction in its vulnerability.

In the Council's assessment, a cautious approach to monetary policy was still warranted due to uncertainty in the global financial environment.

In the Council's assessment, the assumptions underlying the September Inflation Report had continued to hold. Accordingly, the inflation outlook and the cyclical position of the economy had pointed in the direction of keeping the policy rate unchanged and maintaining loose monetary conditions for an extended period. Some members noted that data on inflation, the macroeconomy and financial markets received since the latest policy meeting were consistent with Bank's expectations, and therefore price stability and financial stability considerations did not warrant a change to the interest rate.

In discussing the Bank's communication related to the interest rate decision, some members emphasized that, following the forward guidance of the September statement, market expectations on the first rate hike had shifted out and yields had fallen at longer maturities. Members agreed that yields should fall further at the longer end of the yield curve. Based on this, a consensus was reached that the Monetary Council should signal that it might keep the policy rate unchanged over the entire forecast horizon by further specifying its forward guidance.

Members voted unanimously in favour of maintaining the base rate at 1.35 per cent and agreed that, if the assumptions underlying the projection in the September Inflation Report held, the current level of the base rate and maintaining loose monetary conditions over the entire forecast horizon were consistent with the medium-term achievement of the inflation target and a corresponding degree of support to the economy. In the Council's view, the current interest rate 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.

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

<b>In favour of maintaining the base rate at 1.35%</b>	<b>9</b>	Gusztáv Báger, Andrea Bártfai-Mager, János Cinkotai, Ferenc Gerhardt, György Kocziszky, György Matolcsy, Márton Nagy, Gyula Pleschinger, László Windisch
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**The following members of the Council were present at the meeting:**

Gusztáv Báger

Andrea Bártfai-Mager

János Cinkotai

Ferenc Gerhardt

György Kocziszky

György Matolcsy

Márton Nagy

Gyula Pleschinger

László Windisch

**The Council will hold its next policy meeting on 17 November 2015. The minutes of that meeting will be published at 2 pm on 2 December 2015.**