



MINUTES
OF THE MONETARY COUNCIL MEETING
25 AUGUST 2015

Time of publication: 2 pm on 9 September 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

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.

Consumer prices had continued to show low dynamics in July, rising slightly compared with the same period a year earlier. The inflation data received had been consistent with the projection in the June *Inflation Report*. Annual core inflation had been unchanged relative to previous months. The Bank's measures of underlying inflation continued to indicate moderate inflationary pressures in the economy, reflecting subdued imported inflation, falling commodity prices and the degree of unused capacity in the economy. Core inflation was likely to rise gradually as domestic demand picked up; however, the continuing decline in commodity prices might moderate the increase in the consumer price index. Domestic real economic and labour market factors continued to have a disinflationary impact. 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.

According to the preliminary estimate, domestic economic growth had continued in the second quarter. Growth had been slightly slower than projected in the June *Inflation Report*, presumably as a result of the weaker agricultural output. The Council assessed that, based on the monthly macroeconomic indicators, underlying growth had not changed significantly and economic growth was likely to continue at a rapid pace. In June, industrial production had risen relative to the previous month and the same period a year earlier. The dynamics of retail sales had been stable in recent months, with the volume of sales increasing across a wide range of products. 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. Employment had continued to grow, with the unemployment rate falling below 7 per cent in the second quarter.

Sentiment in global financial markets had been volatile in the period since the Council's latest policy decision, but this had had little impact on domestic financial market indicators. Developments at the negotiations on the settlement of Greek government debt had led to an improvement in sentiment. By contrast, global risk appetite had deteriorated, reflecting concerns about Chinese capital market developments and the country's growth outlook as well as uncertainty about the impending interest rate increase by the US Fed. Domestic financial markets had been calm, with the forint fluctuating against the euro within a narrow range. The domestic CDS spread and long-

term government bond yields had been broadly unchanged 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 negative output gap was expected to close only gradually over the policy horizon.

In the Council's assessment, the assumptions underlying the Bank's projections continued to hold, and, accordingly, the outlook for inflation and the cyclical position of the real economy pointed in the direction of leaving the base rate unchanged and maintaining loose monetary conditions for an extended period. The Council decided to maintain the base rate with a unanimous vote. In the Council's assessment, the decision was consistent with the Bank's past behaviour and previous communications as well as with market expectations, and therefore it strengthened the Bank's credibility and predictability. Several members noted that the inflation and macroeconomic data received since the Council's previous interest rate decision were consistent with their expectations, which called for maintaining the base rate. Several members pointed out that uncertainty in international financial markets might call for caution in the future; however, the Council's assessment had not changed significantly in the period since the latest policy decision, which warranted maintaining the base rate at the meeting.

After the discussion, the Chairman invited members to vote on the propositions put to the Council. Members voted unanimously in favour of maintaining the base rate and agreed that 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.

Votes cast by individual members of the Council:

In favour of maintaining the base rate at 1.35%	8	Gusztáv Báger, Andrea Bártfai-Mager, János Cinkotai, Ferenc Gerhardt, György Kocziszky, György Matolcsy, 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

Gyula Pleschinger

László Windisch

The Council will hold its next policy meeting on 22 September 2015. The minutes of that meeting will be published at 2 p.m. on 7 October 2015.