MINUTES

OF THE MONETARY COUNCIL MEETING

21 APRIL 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 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, unemployment continued to exceed its long-term level determined by structural factors. Inflationary pressures were likely to remain moderate for an extended period.

Based on the inflation data for March, consumer prices showed historically low dynamics, but the rate of decline in prices had slowed. The March inflation data had been consistent with the projection in the March issue of the *Inflation Report*, but had been slightly higher than market expectations. 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, subdued imported inflation, the degree of unused capacity in the economy and the moderation in inflation expectations. The rise in fuel prices had been the main factor influencing inflation developments, while core inflation had been broadly unchanged relative to the previous month. With the pick-up in domestic demand and owing to the increase in wages, core inflation was likely to rise gradually; however, this process might slow due to the second-round effects of low commodity prices. Domestic real economic and labour market factors continued to have a disinflationary impact and low inflation was likely to persist for a sustained period. Overall, more moderate underlying inflation developments pointed in the direction of a low inflation environment, and therefore inflation was expected to approach levels around 3 per cent towards the end of the forecast period.

In the Council's judgement, Hungarian economic growth was likely to continue at a rapid pace. Robust growth was supported by both domestic and external demand. The volume of industrial production had grown further, but had fallen relative to the previous month. The trade surplus had been stable. The dynamics of retail sales had been stable and increased slightly in recent months, with the volume of sales increasing across a wide range of products. Rising household real income as a result of low inflation, the reduced need for deleveraging and increasing employment were expected to contribute to the increase in household consumption. Investment was expected to pick up gradually, owing to the recovery in activity, the Funding for Growth Scheme and its extension. Employment had been broadly unchanged in February.

On the whole, international investor sentiment had been favourable in the period since the Council's latest interest rate decision. Increased uncertainty surrounding Greece, mixed incoming macroeconomic data from the US, the conflict between Ukraine and Russia and geopolitical tensions in the Middle East had adversely affected international investor sentiment, while positive macroeconomic news from the euro area had contributed to an improvement in financial markets. With small fluctuations, the forint had appreciated against the euro, followed by a slight correction at the end of the period. Domestic risk measures and long-term government bond yields had risen slightly in the period since the latest policy decision. 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 monetary policy was warranted due to uncertainty in the global financial environment.

In the Council's judgement, there was a degree of unused capacity in the economy and inflationary pressures were likely to remain moderate for a sustained period. 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. Based on data becoming available earlier, the risk of second-round effects taking hold in the wake of the change in inflation expectations still remained after increasing in recent months.

In the Council's judgement, the assumptions underlying the Bank's projections continued to hold, under which outlook for inflation and the cyclical position of the real economy pointed in the direction of a reduction in the policy rate and loose monetary conditions for an extended period. Decision-makers agreed that a 15 basis point reduction in the base rate was appropriate, explaining that such a move was consistent with the Bank's earlier approach and market expectations, thereby strengthening the Bank's credibility and predictability and, looking forward, it provided adequate room to continue the easing cycle. In drafting the Council's forward guidance, there was a discussion on whether it should be fine-tuned. Taking into account that developments in the macroeconomy and financial markets had been generally in line with the projection since the latest policy decision, the overwhelming majority of decision-makers did not see a case for change of the forward guidance; however, they wanted to provide a more robust signal about the continuation of the easing cycle, in order to adequately guide market expectations. One member proposed to draft a more cautious forward guidance than previously, which that member explained mainly by the financial stability considerations arising in the wake of the impending interest rate increase by the US Fed.

After the discussion, the Chairman invited members to vote on the proposition put to the Council. Members voted unanimously in favour of reducing the base rate by 15 basis points. The overwhelming majority of decision-makers judged it necessary to strengthen the former forward guidance and agreed that cautious easing of the policy rate might continue as long as it supports the achievement of the medium-term inflation target.

Votes cast by individual members of the Council:

In favour of reducing the base rate to 1.80%	**9**	Ádám Balog, Andrea Bártfai-Mager, János Cinkotai, Ferenc Gerhardt, Csaba Kandrács, György Kocziszky, György Matolcsy, Gyula Pleschinger, László Windisch

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

Ádám Balog

Andrea Bártfai-Mager

János Cinkotai

Ferenc Gerhardt

Csaba Kandrács

György Kocziszky

György Matolcsy

Gyula Pleschinger

László Windisch

The Council will hold its next policy meeting on 26 May 2015. The minutes of that meeting will be published at 2 p.m. on 10 June 2015.