

Agreement between the Government of the Republic of Hungary and the Monetary Council of the Magyar Nemzeti Bank (MNB) on the inflation target and the conditions for economic policy of low inflation

1) Fundamental principles

- (1) The objective of the Government's economic policy is to achieve long-term and balanced growth of the economy, in order to attain full employment as well as to provide high real income and fair distribution of income.
- (2) It is the common conviction of the MNB and the Government that the attainment and maintenance of price stability constitute a condition for the realisation of permanent and balanced economic growth.
- (3) According to Article 3 of Act LVIII of 2001 on the MNB, the primary objective of the MNB shall be to achieve and maintain price stability. Without prejudice to its primary objective, the MNB shall support the economic policy of the Government, using the monetary policy instruments at its disposal.
- (4) According to Article 1 (2) of Act LVIII of 2001 on the MNB, the MNB and the members of its decision-making bodies shall be independent in carrying out the tasks and meeting their obligations conferred upon them by this Act, and shall neither seek nor take instructions from the Government, the institutions and bodies of the European Union, the governments of its Member States and any other bodies, except from the European Central Bank.

2) The inflation target

- (1) The MNB and the Government together shall determine a quantified inflation target in conformity with price stability. The monetary policy of the MNB shall serve the achievement of the inflation target.
- (2) Monetary policy actions influence developments in inflation with a lag. Therefore, the Monetary Council of the MNB shall take its interest rate decisions in a forward-looking manner, typically taking expected inflation developments for the coming 5–8 quarters into account.
- (3) The magnitude of the inflation target shall be determined in conformity with price stability. The inflation target shall be sufficiently low for economic losses caused by inflation to remain reasonable, taking into account at the same time the possible statistical biases stemming from the method of calculating the consumer price index, while adequately reducing the risk of the emergence of deflation.

- (4) Accordingly, the Parties shall set the inflation target at an annual increase of 3 % the consumer price index published by the Central Statistical Office (CSO).

3) Deviations from the inflation target

- (1) Unexpected shocks to the economy may divert inflation from the 3 % target over the short run. The MNB shall conduct its policy in a way to bring inflation back to the target value in the medium term.
- (2) In the subsequent assessment of attaining the inflation target, fluctuations stemming from unexpected effects also have to be taken into consideration. Therefore, the Government and the MNB shall consider a consumer price index deviating by no more than ± 1 percentage point (tolerance band) from the 3 % target as subsequently acceptable in terms of price stability in retrospect. In February each year, the Monetary Council shall publish a press release, assessing the achievement of meeting the inflation target in the previous year.

4) Accountability of the MNB

- (1) According to Article 2 of Act LVIII of 2001 on the MNB, the Governor of the MNB shall report on the activity and monetary policy of the Central Bank to the Parliament every year.
- (2) Following the publication of its inflation forecasts, the management of the MNB shall semi-annually inform the relevant committees of the Parliament about the developments in inflation, and answer the questions of the Members of Parliament concerning monetary policy.

5) Cooperation

- (1) The Parties agree that can achieve their social objectives specified in this agreement with lower social costs if they harmonise the various constituents of economic policy, and cooperate in its implementation.
- (2) The economic policy of the Government can contribute to achieving and maintaining price stability through numerous channels. Reducing the fiscal deficit and government debt, as well as formulating tax policy and setting the wages determined in the Government's powers and administered prices in accordance with the inflation target contribute to mitigating the costs to the real economy of attaining and maintaining price stability. Over the longer term, the Government can facilitate the achievement and maintenance of a low inflation environment by implementing structural economic policy measures, primarily by reforms which improve the efficiency of goods, services and labour market. When preparing its economic policy decisions which influence developments in inflation, the Government shall continuously consult the MNB.

- (3) The MNB can most efficiently contribute to the stability of economic growth and of the financial system by conducting a monetary policy that anchors longer-term inflation expectations and that is subordinated to meeting the medium-term objective. With a predictable monetary policy conducted and communicated in a transparent manner, the MNB shall strive to achieve the medium-term inflation target, while avoiding unnecessarily high fluctuations in the real economy.

6) The effect of the Agreement

- (1) This Agreement shall enter into force on the day of its signing by the Parties, and shall be revised not later than in three years or upon entering the common European exchange rate mechanism (ERM II).

Budapest, 25 August 2008

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