



MINUTES OF THE MONETARY COUNCIL MEETING 26 JULY 2016

Published: 2 p.m. on 10 August 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 slowdown 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 expected to gradually decrease.

In June 2016 the annual inflation rate had remained unchanged and core inflation had fallen relative to the previous month. The Bank's measures of underlying inflation continued to indicate 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 remained strong, 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.

In the Council's assessment, domestic economic growth was picking up again as temporary effects wore off. Retail sales had continued to expand further at a dynamic rate during the spring months. In May, industrial production had risen substantially relative to the same period of the previous year. Household consumption was expected to continue growing in the coming quarters. Labour demand had remained strong, and therefore the unemployment rate had fallen further in May, accompanied by an increase in the number of employees. The time profile of this year's economic growth was characterised by divergent trends. The economy was expected to pick up following temporary slow growth at the beginning of the year, mainly supported by domestic demand. The unwinding of adverse one-off factors affecting growth early in the year as well as the steps taken by both the Bank and the Government to support growth would result in the economy picking up again. Economic growth of around 3 per cent could be maintained by the extension of the Funding for Growth Scheme, the Growth Supporting Programme as well as the Government's measures to promote housing construction and the faster drawdown of EU funding.

Moderate growth early this year was expected to result in a more negative output gap temporarily; however, the acceleration in growth and the expansionary impact on demand of next year's budget contributed to 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 the outcome of the referendum on EU membership in the United Kingdom and uncertainty around the country's exit from the EU. Domestic financial markets had proved stable in the turbulent atmosphere characterising global financial markets. A decline had been observed along the entire yield curve 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. Following the previous signal by the Council, the change in monetary policy instruments announced in July supported further reduction in vulnerability and encouraged lending using targeted unconventional tools. In view of the assessment of the effects related to the announced measures as well as the volatile global financial environment, the Magyar Nemzeti Bank continued to monitor movements in interbank rates and developments in the money and government securities markets. The Monetary Council would make a decision on the year-end required level of the three-month deposit and the operational details of the use of the facility in September. 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 expected to decline even further as inflation rose.

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

In discussing the current decision, after reviewing the macroeconomic developments, Council members agreed that there had been no events since the previous policy decision which would warrant a change in the current interest rate level. Council members agreed that the fundamentals of the Hungarian economy were strong and the current interest rate level continued to be consistent with the sustainable achievement of the inflation target. Several members noted that the reaction of the domestic financial sector to the change in monetary policy instruments announced in July was as expected, however, movements in interbank rates and developments in the money and government securities markets had to be monitored closely. Council members discussed in detail the global financial market effects resulting from the outcome of the referendum on the United Kingdom's EU membership and agreed that domestic financial markets appeared to be stable despite the global turbulence. Some members noted that the low global inflation and interest rate environment, as well as the direct and indirect effects of the referendum in the United Kingdom and, for example, the uncertainty related to the non-performing loans of the Italian banking sector, overall warranted a watchful approach to monetary policy.

Taking these factors into account, all members present voted to leave the base rate and the interest rate corridor unchanged. 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.

Votes cast by individual members of the Council:

In favour of maintaining the base rate at 0.90%:	7	Gusztáv Báger, János Cinkotai, Ferenc Gerhardt, György Kocziszky, György Matolcsy, Gyula Pleschinger, László Windisch
In favour of maintaining the overnight collateralised loan rate at 1.15% and the overnight central bank deposit rate at -0.05%:	7	Gusztáv Báger, János Cinkotai, Ferenc Gerhardt, György Kocziszky, György Matolcsy, Gyula Pleschinger, László Windisch
Vote against:	0	

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

Gusztáv Báger

János Cinkotai

Ferenc Gerhardt

György Kocziszky

György Matolcsy

Gyula Pleschinger

László Windisch

The Council will hold its next policy meeting on 23 August 2016. The minutes of that meeting will be published at 2 p.m. on 7 September 2016.