



**MINUTES
OF THE MONETARY COUNCIL MEETING
29 APRIL 2014**

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 OF CURRENT ECONOMIC CONDITIONS AND THE INTEREST RATE DECISION

In the Council's judgement, Hungarian economic growth was likely to continue. However, while the pace of economic activity was strengthening, output remained below potential and was only likely to return close to that level in the second half of 2015. With employment rising, the unemployment rate was falling, but still exceeded its long-term level determined by structural factors. Inflationary pressures in the economy were likely to remain moderate over the medium term, and inflation was likely to move into line with the medium-term inflation target from 2015.

Inflation remained unchanged in March relative to February, at 0.1 per cent. The Bank's measures of underlying inflation capturing the medium-term outlook had remained broadly unchanged and continued to indicate moderate inflationary pressures in the economy, reflecting the effects of weak domestic demand and low inflation in external markets. The persistently low inflation environment might provide a firmer anchor for inflation expectations. The rate of private sector wage growth had accelerated somewhat recently, but still remained moderate. Domestic real economic and labour market factors continued to have a disinflationary impact, but demand-side disinflationary pressures were weakening as activity gathered pace. Several Council members noted that they perceived continued downside risks to external inflation, particularly in the euro area, which could provide room for further cautious easing of policy. In addition, several members agreed that Hungary's position was fundamentally strong compared with other emerging market economies and judged that, with inflation remaining low, recent developments in the underlying measures of inflation and well-anchored inflation expectations allowed the Council to maintain an accommodative policy stance, in order to promote more balanced economic growth.

Data available since the Council's last interest rate decision showed that economic growth had continued, as reflected in monthly data on industrial output, retail sales and the performance of construction. The Council expected growth to pick up gradually in the quarters ahead and to return to a more balanced structure, with domestic demand likely to make an increasing contribution. Along with the increase in the Government's infrastructure projects using EU funding and rising corporate investment due to the Funding for Growth Scheme, a gradual recovery in household consumption was also likely. One Council member stressed that, despite the favourable growth figures, lending and growth had still not accelerated to an adequate degree in certain sectors. The expansion in real incomes was expected to be partly offset by the ongoing reduction in debts accumulated in the years prior to the crisis and the slow easing of tight credit conditions. According to labour market data for March, demand for labour had increased and unemployment had fallen, pointing to a tighter labour market going forward.

Global investor sentiment had been volatile in the past month, and market tensions had intensified as a result of the escalation of the conflict between Ukraine and Russia. By contrast, domestic risk premia had fallen slightly, and the forint exchange rate had strengthened, showing relatively low volatility relative to levels seen in the previous month. Council members agreed that the country's persistently high external financing capacity and the resulting decline in external debt were reducing its vulnerability. One member noted that the impact of further interest rate reductions was diminishing and the continuation of policy easing would probably only increase risks. Another member thought that the excessively low central bank base rate could trigger even a massive outflow of capital, due to the low return on forint-denominated assets, which posed a risk to financial stability. Council members agreed that a cautious approach to policy was warranted due to uncertainty in the global financial environment. One member noted the stable government securities market and reduced volatility in the exchange rate.

In the Council's judgement, there remained a degree of unused capacity in the economy and inflationary pressures were likely to remain moderate over the medium term. The negative output gap was expected to close gradually at the policy horizon. Therefore, the disinflationary impact of the real economy was likely to decline going forward and inflation was likely to move in line with the target in the medium term. For the majority of members, the slight improvement in perceptions of the risks associated with the economy provided room for another cautious reduction in interest rates.

After the discussion, the Chairman invited members to vote on the propositions. Seven members voted in favour of a 10 basis point reduction and two members voted for maintaining the base rate. The majority of members noted that the Council should not send a clear signal whether they were about to end the easing cycle in the press release. One decision-maker proposed that, while leaving interest rates unchanged at the current meeting, the Council should send a signal that with the decision to leave the interest rate unchanged the easing cycle had ended. Another member, while voting to maintain the base rate, did not support the forward-looking message formulated in the press release. Thus, two members were of the view that the easing cycle had already come to an end and the current level of the base rate ensured the medium-term achievement of the target and the necessary support for the economy. They felt that a further reduction in the policy rate would pose risks, while its positive impact would be limited.

In its March press release, the Monetary Council had indicated that the central bank base rate had significantly approached a level which ensured the medium-term achievement of price stability and a corresponding degree of support for the real economy. However, over the coming period, changes in the domestic and international environment might influence this picture. The Council always carefully considered the macroeconomic outlook and developments in perceptions of the risks associated with the economy before deciding on the direction and magnitude of the next change in the policy rate.

Votes cast by individual members of the Council

In favour of reducing the base rate to 2.50%	7	Ádám Balog, Andrea Bártfai-Mager, Ferenc Gerhardt, Csaba Kandrács, György Kocziszky, György Matolcsy, László Windisch
In favour of maintaining the base rate at 2.60%	2	János Cinkotai, Gyula Pleschinger

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 27 May 2014. The minutes of that meeting will be published at 2 p.m. on 11 June 2014.