



MINUTES
OF THE MONETARY COUNCIL MEETING
26 AUGUST 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. While the pace of economic activity was strengthening, output remained below potential and was only likely to approach that level in the course of next year. 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, the unemployment rate had been broadly flat since the start of the year, but still exceeded its long-term level determined by structural factors. Inflationary pressures in the economy were likely to remain moderate for an extended period.

Based on the inflation data for July, consumer prices continued to show historically low dynamics. The Bank's measures of underlying inflation capturing the medium-term outlook still indicated moderate inflationary pressures in the economy, reflecting low inflation in external markets, the degree of unused capacity in the economy, subdued wage dynamics, the fall in inflation expectations and the reductions in administered prices implemented in a series of steps. Domestic real economic and labour market factors continued to have a disinflationary impact, and low inflation was likely to persist for a sustained period. However, domestic demand-side disinflationary pressures were weakening gradually as activity gathered pace, and inflation was likely to reach levels around 3 per cent consistent with price stability by the end of the forecast horizon.

Several members judged that the current level of interest rates was appropriate to achieve the inflation target in the medium term and ensured a corresponding degree of support to the economy. A number of them emphasised that, following the Bank's forward guidance accompanying the July policy decision, maintaining interest rates was consistent with market expectations in terms of credibility and fitted well with the Council's earlier communication. Other members noted that they currently judged the risks to inflation to be symmetrical, and therefore they felt that a change to the policy stance was not warranted. One member concluded that there was no reason to change the stance of the loose monetary conditions for an extended period and to change the base rate from its current level, as there had been no significant macroeconomic development which would have caused a change in the inflation environment.

Based on data available since the previous interest rate decision, economic growth had continued, as reflected in data for industrial production and retail trade. In the Council's judgement, the Hungarian economy had returned to a growth path in 2013. Looking ahead, economic growth might continue in a more balanced pattern than previously, with the recovery in domestic demand likely to make a greater contribution. The increasing use of EU funding and the easing in credit constraints also due to the Bank's Funding for Growth Scheme were expected to sustain the recovery in investment. Household consumption was also likely to grow gradually, mainly as a result of the expected increase in the real value of disposable income and the reduced need for deleveraging; however, propensity to save was expected to remain above levels seen prior to the crisis. Based on labour market data for June, the number of employees had

continued to rise and the unemployment rate had been unchanged.

International investor sentiment had deteriorated somewhat in the past month, mainly reflecting the escalation of geopolitical conflicts and revised expectations of an interest rate increase by the US Federal Reserve. Hungarian risk premia had remained broadly unchanged in the period, and the forint exchange rate had depreciated, mostly in line with other currencies of the region. Hungary's persistently high external financing capacity and the resulting decline in external debt had contributed to the reduction in its vulnerability. The Bank's self-financing programme might contribute to an improvement in perceptions of the risks associated with the economy. In the Council's judgement, a cautious approach to policy was still warranted due to uncertainty about future developments in the global financial environment.

In the Council's judgement, there remained a degree of unused capacity in the economy and inflationary pressures were likely to remain moderate in the medium term. The negative output gap was expected to close gradually at the monetary policy horizon. It was the unanimous view of members that, with current monetary conditions maintained, inflation was likely to move into line with the target over the medium term.

After the discussion, the Chairman invited members to vote on the proposition put to the Council. All members voted in favour of the proposition. Several decision-makers noted that the decision to maintain interest rates was consistent with market expectations in terms of credibility and that, based on the macroeconomic outlook, monetary conditions might remain accommodative for an extended period.

The Council judged that, based on available information, the current level of the central bank base rate was consistent with the medium-term achievement of price stability and a corresponding degree of support to the economy. If the assumptions underlying the Bank's projection held, achieving the medium-term inflation target pointed in the direction of maintaining current loose monetary conditions for an extended period.

Votes cast by individual members of the Council

In favour of maintaining the base rate at 2.10%	8	Ádám Balog, Andrea Bártfai-Mager, Ferenc Gerhardt, Csaba Kandrács, György Kocziszky, György Matolcsy, Gyula Pleschinger, László Windisch
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The following members of the Council were present at the meeting:

Ádám Balog

Andrea Bártfai-Mager

Ferenc Gerhardt

Csaba Kandrács

György Kocziszky

György Matolcsy

Gyula Pleschinger

László Windisch

The Council will hold its next policy meeting on 23 September 2014. The minutes of that meeting will be published at 2 p.m. on 8 October 2014.