MINUTES

OF THE MONETARY COUNCIL MEETING

23 AUGUST 2016

Time of publication: 2 pm on 7 September 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

Hungarian economic growth had picked up again in the second quarter of 2016 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 gradually decreasing.

In July 2016, consumer prices had been slightly lower than a year earlier and core inflation had risen somewhat relative to the previous month. The Bank's measures of underlying inflation continued to indicate a moderate inflationary environment in the economy. Persistently low global inflation was restraining the increase in domestic consumer prices. 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 remained below the 3 per cent target over the forecast period, and approached it only in the first half of 2018.

Hungarian economic growth had picked up again in the second quarter of 2016, in line with the Bank's expectations. Retail sales had continued to expand at a dynamic rate in June. Household consumption was expected to continue growing in the coming quarters. Industrial production had fallen in June relative to the same period a year earlier. Labour demand had remained strong, and therefore the unemployment rate had fallen further in the second quarter, accompanied by an increase in the number of employees. The time profile of this year's economic growth was characterised by duality. The economy was picking up again 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 further. Economic growth of around 3 per cent could be maintained by the extension of the Funding for Growth Scheme, the Growth Supporting Programme and the Government's measures to promote housing construction as well as by the faster drawdown and efficient use of EU funding.

Moderate growth early this year had resulted 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 pick-up in lending underpinned the expansion in consumption, which in turn provided considerable support to economic growth in the coming years.

Sentiment in global financial markets had been positive since the Council's latest interest rate-setting decision. Domestic asset prices had changed little over recent weeks. The forint exchange rate remained stable and yields had fallen slightly at the entire length of the curve. 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 to monetary policy instruments announced in July supported a 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 closely monitor movements in interbank rates and developments in the money market and government securities market. The Monetary Council would make a decision on the required year-end level of the three-month deposit stock 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 declining 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 gradually decreasing over the policy horizon.

In discussing the current decision, after reviewing the macroeconomic developments, Council members agreed that, in terms of Hungarian economic fundamentals and the sustainable achievement of the inflation target, no event had occurred since the previous policy decision which would warrant a change in the current interest rate level. Several members noted that the change to monetary policy instruments announced in July had had remarkable results. Money market yields had fallen in every important segment after the announcement. One member noted that the historically low global neutral real interest rate level narrowed the room for manoeuvre in traditional monetary policy and made it necessary to cooperate with fiscal policy. Against this backdrop, all members present voted in favour of leaving the base rate and the interest rate corridor unchanged.

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, Márton Nagy, Gyula Pleschinger
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, Márton Nagy, Gyula Pleschinger
Vote against:	0	

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

Gusztáv Báger

János Cinkotai

Ferenc Gerhardt

György Kocziszky

György Matolcsy

Márton Nagy

Gyula Pleschinger

The Council will hold its next policy meeting on 20 September 2016. The minutes of that meeting will be published at 2 pm on 12 October 2016.