



**MINUTES**  
**OF THE MONETARY COUNCIL MEETING**  
**25 NOVEMBER 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](http://english.mnb.hu/Monetaris_politika/decision-making/mnben_mt_jegyzokonyv)

## THE COUNCIL'S ASSESSMENT AND 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 the domestic real economy was expected to continue to have a disinflationary impact, albeit to a diminishing extent. Despite the pick-up in 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 continued to exceed 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 October, 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 persistently low inflation in external markets, favourable developments in commodity prices and imported inflation, the degree of unused capacity in the economy, subdued wage dynamics, the fall in inflation expectations and the reductions in administered energy prices implemented in several 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 in the second half of the forecast period.

In the Council's judgement, the current level of interest rates was appropriate to achieve the inflation target in the medium term and ensured a corresponding degree of stimulus to the real economy, and therefore no change was required. Some members were of the view that, although downside risks had increased somewhat, a decision to change the policy stance was not warranted; maintaining interest rates improved the Bank's credibility and predictability and fitted well with the Council's earlier communication. Several members noted that there was no reason to change the loose monetary policy stance for an extended period or to change the base rate from its current level, as there had been no significant macroeconomic developments which would have caused a change in the inflation environment. Some members added that maintaining the Council's forward guidance in an unchanged form might help strengthen the Bank's credibility.

In the Council's judgement, economic growth was likely to continue even though external demand had weakened slightly. The decline in industrial production in August had been partly reversed in September, and the trade surplus had risen again, following the decline in the previous month. According to preliminary data, the dynamics of retail sales had been stable in September. In the Council's judgement, economic growth might continue in a more balanced pattern than previously, with the recovery in domestic demand likely to make a greater contribution to growth. 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 promote 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, over the short term the propensity to save was expected to remain above levels seen prior to the crisis. Employment had increased in the third quarter, with a significant contribution from the rise in the number of those employed under public employment programmes.

International investor sentiment had been mostly positive in the past month, mainly reflecting the release of strong macroeconomic data in the US, monetary easing by the Bank of Japan and the continued decline in the world market price of crude oil. Domestic risk measures had improved slightly. Hungary's persistently high external financing capacity and the resulting decline in external debt contributed to the reduction in its vulnerability. In the Council's judgement, a cautious approach to policy was warranted due to uncertainty about future developments in the global financial environment.

Overall, the Council judged that 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. Looking ahead, therefore, the disinflationary impact of the real economy was likely to diminish.

After the discussion, the Chairman invited members to vote on the proposition put to the Council. Members voted unanimously in favour of the proposition. Several decision-makers noted that the decision to maintain interest rates contributed to the achievement of the inflation target over the medium term. The Council judged that, 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**

<b>In favour of maintaining the base rate at 2.10%</b>	<b>9</b>	Ádám Balog, Andrea Bártfai-Mager, János Cinkotai, Ferenc Gerhardt, Csaba Kandrács, György Kocziszy, György Matolcsy, Gyula Pleschinger, László Windisch
--	----------	---

#### **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 16 December 2014. The minutes of that meeting will be published at 2 p.m. on 23 December 2014.**