



MINUTES
OF THE MONETARY COUNCIL MEETING
24 JANUARY 2017

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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, Hungarian economic growth continued to pick up. Some degree of unused capacity remained in the economy, but looking ahead, the disinflationary impact of the domestic real economic environment was gradually dissipating. Inflation rose over the forecast period and reached the inflation target in the first half of 2018.

Due in part to base effects, inflation had risen further in December 2016 and had been in line with the Bank's expectations. The Bank's measures of underlying inflation had remained broadly unchanged. Whole-economy wage growth was likely to remain strong, as a result of continued strong demand for labour and the wage agreement at the end of last year. To a smaller extent, this was expected to lead to higher core inflation and, to a greater extent, to a reduction in the trade surplus through an expansion in household consumption. With historically low inflation expectations, the consumer price index approached the inflation target only slowly, and was projected to reach the 3 per cent level consistent with price stability in the first half of 2018.

According to monthly indicators, Hungarian economic growth had continued in the fourth quarter of 2016. In November, the volume of retail sales had increased further and industrial production had risen slightly relative to the same period a year earlier. Outstanding lending to small and medium-sized companies had increased by around 7 per cent in the third quarter and the stock of corporate loans had already started to rise on the year-on-year comparison. The turnaround in household lending experienced last year had proved lasting. Labour demand had remained strong, and therefore the number of employees had increased and the unemployment rate had fallen further. In parallel with continued strong wage growth at the end of last year, household consumption was expected to grow further, which would be supported by the realisation of consumption deferred from previous years as well. Hungary's current account surplus was expected to fall to nearly a half of its 2016 level over the forecast horizon, driven by rising domestic demand. The Monetary Council expected annual economic growth of over 3 per cent both this year and next, to which the Bank's and the Government's measures to stimulate economic growth contributed substantially.

Global financial markets had been calm overall since the Council's latest interest rate-setting decision and risk indicators had fallen slightly, although there had been significant tensions in some emerging economies. The US Fed and the ECB had made decisions in diverging policy directions in December. As expected, the Fed had decided to raise interest rates and, looking ahead, had moved towards a tighter policy path. By contrast, the ECB had decided to extend its quantitative easing programme. According to data published since then, inflation had risen in developed regions over the past month. This trend, if it persisted, might pose a new challenge to the central banks of those economies.

The majority of developed market equity indices had risen slightly and movements in yields on long-term government securities had been mixed. The forint had appreciated against the euro. In the domestic government securities market, yields at maturities of up to one year had fallen and those at longer maturities had risen. The amount of liquidity crowded out following the

introduction of an upper limit on the stock of three-month deposits had had a marked influence on money market rates. As a consequence, the three-month BUBOR had dropped to a historical low level of 30 basis points and forint yields in the FX swap market had also fallen sharply.

Hungary's strong external financing capacity and the decline in external debt were contributing to the sustained reduction in the vulnerability of the economy. Forward-looking domestic money market real interest rates had fallen substantially over recent years and were expected to remain in negative territory for a prolonged period. In the Council's assessment, a watchful approach to monetary policy was still warranted due to uncertainty in the global financial environment.

At its meeting in December 2016, the Monetary Council had set a HUF 750 billion upper limit on the stock of three-month central bank deposits as at the end of the first quarter of 2017. The Monetary Council expected that this decision would mean the crowding out of at least HUF 100-200 billion additional liquidity from the deposit facility. The Council considered the limit on the three-month deposit stock and its potential future change an integral part of monetary policy instruments. The Bank aimed to ease monetary conditions and provide a corresponding degree of support to the economy through a decline in money market rates. The Monetary Council intended to ensure that the limit imposed on the stock of three-month deposits exerted its expected easing effect efficiently. The limit was set quarterly. On the next occasion, a decision on its level as at end of the second quarter of 2017 would be made in March 2017.

In the Council's assessment, some degree of unused capacity remained in the economy while inflation was rising gradually to the target. The disinflationary impact of the real economy was gradually dissipating over the policy horizon.

In discussing the current decision, Council members agreed that no event had occurred since the previous rate decision in terms of Hungarian economic fundamentals and the sustainable achievement of the inflation target which would warrant a change to the current level of the base rate or the interest rate corridor. Members noted that leaving the base rate unchanged was consistent with the baseline projection in the December Inflation report, economic data released in recent months, the Monetary Council's previous communications and market expectations. In addition, some members noted that, if necessary, the Council could use unconventional tools to carry out an easing of monetary conditions. Some members concluded that the international economic environment, and in particular the monetary policy divergence between the leading central banks and an analysis of inflation developments in the euro area, should be given special attention. Taking these factors into account, all members voted unanimously in favour of leaving the base rate, the overnight deposit rate, the overnight lending rate and the one-week lending rate unchanged.

If the assumptions underlying the Bank's projections held, maintaining the current level of the base rate for an extended period and the loosening of monetary conditions by the change in the monetary policy instruments were consistent with the medium-term achievement of the inflation target and a corresponding degree of support to the economy. The Magyar Nemzeti Bank monitored developments in monetary conditions and markets. If subsequently warranted by the

achievement of the inflation target, the Council would stand ready to ease monetary conditions further using unconventional, targeted instruments.

Votes cast by individual members of the Council:

In favour of maintaining the base rate, the overnight central bank lending rate and the one-week collateralised central bank lending rate at 0.90% and maintaining the overnight central bank deposit rate at -0.05%:	9	Gusztáv Báger, János Cinkotai, Ferenc Gerhardt, Kolos Kardkovács, György Kocziszky, György Matolcsy, Márton Nagy, Gyula Pleschinger, László Windisch
Vote against:	0	

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

Gusztáv Báger

János Cinkotai

Ferenc Gerhardt

Kolos Kardkovács

György Kocziszky

György Matolcsy

Márton Nagy

Gyula Pleschinger

László Windisch

The Council will hold its next policy meeting on 28 February 2017. The minutes of that meeting will be published at 2 p.m. on 15 March 2017.