MINUTES
OF THE MONETARY COUNCIL MEETING OF
24 OCTOBER 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

Before taking its policy decision on 24 October, the Council had reviewed recent developments in inflation and the macroeconomy. In the Council's assessment, Hungarian economic growth picked up over the forecast horizon. Some degree of unused capacity had remained in the economy, but this was likely to be gradually absorbed as output grew dynamically. The inflation target was expected to be achieved in a sustainable manner by the middle of 2019.

In September 2017, inflation had stood at 2.5 percent and core inflation at 2.9 percent. Headline inflation had fallen slightly short of our expectation, with the decline in volatile unprocessed food prices accounting for the difference. Core inflation had been in line with the September Inflation Report projection. The Bank's measures of underlying inflation had risen slightly compared with the previous month, but continued to be significantly below the level of core inflation. The expansion in domestic employment, the tight labour market as well as increases in the minimum wage and the guaranteed minimum wage had led to a general, dynamic rise in whole-economy wages. The upward effect of this on costs was being offset by the reduction in employers' social contributions and in the corporate income tax rate early this year. In line with the Bank's expectations, there had not yet been any significant upward pressure on inflation from wages. The rise in global inflation which had started at the beginning of the year had stalled, and consumer price indices in some economies had fallen. External inflation, particularly in the euro area, was likely to remain low for a prolonged period.

In the coming months, the consumer price index was likely to decline again from its current level to the bottom of the tolerance band by the end of 2017. Core inflation was expected to decrease in the second half of next year as the temporary effects related to changes in tobacco and dairy product prices faded. Looking ahead, the Bank's measures of underlying inflation were expected to be around 2 percent. Moderate imported inflation and historically low inflation expectations as well as the VAT rate cuts, announced for next year, were slowing the rise in domestic prices. In the September projection, the inflation target could be achieved sustainably by the middle of 2019.

According to monthly data, Hungarian economic growth had continued in the third quarter of 2017. Industrial production had increased in August. Fluctuations in industrial output in the summer months had mainly reflected the different timing of factory shutdowns compared with last year. Robust growth in construction and the expansion in the performance of the service sector were likely to continue in the coming months. Retail sales growth had picked up in August. Labour demand was still strong: employment had been at historically high levels in the summer of 2017. The unemployment rate had remained at a low level. The general increase in domestic demand would continue to play a central role in economic growth. Hungary's current account surplus was expected to fall over the forecast horizon in response to rising domestic demand. Economic growth this year would also be supported by the fiscal budget and the stimulating effects on investment of EU funding. The Monetary Council expected annual economic growth of 3.6 percent in 2017 and stable growth of between 3-4 percent over the coming years. The Bank's and the Government's stimulating measures contributed substantially to economic growth.

Sentiment in international financial markets had, on the whole, been positive in the period since the Council's previous interest rate decision. Expectations about the monetary policy of the world's leading central banks had been the main factor influencing investors' appetite for risk. The Fed's interest rate path expected by the market had not changed significantly. The European Central Bank was still likely to maintain loose monetary conditions for an extended period. Market participants expected the first interest rate rise to occur later than previously thought. Investors' perceptions about the Central and Eastern European region had continued to be positive. Due to the different inflation paths expected in the countries of the region and the different characteristics of inflation targeting regimes, market pricing suggested that the timing of central bank actions would differ.

Following the review of macroeconomic developments, the Council discussed the details of the current policy decision. In the Council's assessment, the gradual limitation on the stock of three-month deposits had fulfilled its role and the HUF 75 billion year-end upper limit on the stock would not be reduced further. Therefore, the importance of the stock and maturity structure of central bank swap instruments providing forint liquidity would increase, the objective of which was to provide the loosening effect up to the longest possible section of the yield curve. In the future, the Council would decide on the amount of liquidity crowded out at a regular frequency and adjust the stock of central bank swap instruments accordingly.

In discussing the current decision, several members stressed that the external environment continued to pose a downside risk to inflation, and moderate imported inflation and historically low inflation expectations contained the increase in the domestic price index. Members noted that the two alternative scenarios in the September Inflation Report, assuming more moderate external inflation and a further improvement in investors' perceptions about the Central and Eastern European region, signalled a lower path for inflation. In addition, the probability of those scenarios materialising had increased in recent months. Several members added that monitoring the actions of the European Central Bank was of key importance, with special regard to the slowdown of the quantitative easing process and the expected start of interest rate increases by the ECB, as those events themselves had an effect on domestic relative monetary conditions. Decision-makers pointed out that long-term yields in the government securities market had fallen since the previous policy decision due to the measures of the September meeting. However, in order to ensure the persistence of the processes it was necessary to maintain the base rate, loose monetary conditions and the bias in communications towards easing. Decision-makers agreed that driving down long-term yields and thereby reducing the steepness of the yield curve were essential for the future, as the objective of providing further support to the real economy might be best achieved through a reduction in long-term yields by pushing down financing and borrowing costs. Members also agreed that the reduction in long-term yields was of key importance from a financial stability point of view as well. If economic agents had access to long-term loans with low, fixed interest rates, that would lead to lower interest rate risk on long-term loans. Members discussed the potential instruments that could be used to ease further monetary conditions. During the discussion, they concluded that a wide range of tools might be available. And, consistent with this, they considered which tools were worthwhile to use to achieve the intended effect.

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 deposit rate unchanged. In the Council's assessment, maintaining the base rate and loose monetary conditions for an extended period were necessary to achieve the inflation target in a sustainable manner. The Council would stand ready to ease monetary conditions further and was considering unconventional instruments to be used accordingly.

Votes cast by individual members of the Council:

In favour of maintaining the base rate, the overnight collateralised lending rate, the one-week collateralised lending rate at 0.9 percent **and** **maintaining the interest rate on the overnight central bank deposit at -0.15 percent:**	7	Gusztáv Báger, Ferenc Gerhardt, Kolos Kardkovács, György Kocziszky, Bianka Parragh, Gyula Pleschinger, László Windisch
Vote against:	0	

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

Gusztáv Báger

Ferenc Gerhardt

Kolos Kardkovács

György Kocziszky

Bianka Parragh

Gyula Pleschinger

László Windisch

The Council will hold its next policy meeting on 21 November 2017. The minutes of that meeting will be published at 2 pm on 6 December 2017.