MINUTES
OF THE MONETARY COUNCIL MEETING
23 APRIL 2024

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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, but at least twice a month, according to a pre-announced schedule. At the second scheduled meeting each month, members consider issues relevant to decisions on interest rates. 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

The primary objective of the Magyar Nemzeti Bank (MNB) is to achieve and maintain price stability. Without prejudice to its primary objective, the Magyar Nemzeti Bank preserves financial stability and supports the Government's economic policy, as well as its policy on environmental sustainability.

The US economy had continued to grow steadily. The Chinese economy had picked up at a rate above expectations in 2024 Q1, primarily reflecting the effects of economic policy measures aimed at stimulating demand. The performance of the euro area economy continued to be subdued. Confidence indicators had improved in 2024 Q1; however, risks to the short-term outlook for economic growth in Europe were skewed mainly to the downside.

Inflation in the euro area had fallen further. In March, inflation in the US had been again slightly above the figure seen in the previous month and expectations. Looking ahead, weakening global economic demand and lower commodity prices compared to previous years continued to point to moderate inflation rates. The escalation of the conflict in the Middle East had led to increases in oil and gas prices, and might also cause disruptions in global value chains, leading to a renewed rise in freight costs. Persistently high inflation of services could be observed generally in the global economy, which restrained disinflation.

International risk appetite had decreased since the March policy decision. Sentiment in global financial markets had been primarily affected adversely by expectations for the interest rate policies of the world's leading central banks, incoming macroeconomic data and developments related to the conflicts in the Middle East. In the case of the Federal Reserve, the expected interest rate path, based on market pricings, had shifted further upwards relative to March, while market expectations for the path of the ECB's policy rate had remained broadly unchanged. In 2024 Q1, long-term yields in developed markets, particularly in the US and in emerging markets, had continued to rise. In the CEE region, the Polish and the Romanian central banks had left monetary conditions unchanged in April.

Following the downturn in 2023, a slow recovery had begun in the Hungarian economy at the beginning of 2024. Growth might pick up in the second half of the year. In February 2024, industrial production, construction output and the volume of retail sales had risen slightly. As regards the main determinants of household consumption, real wages had been rising again since September 2023. The slow improvement in the consumer confidence indicator reflected a gradual easing of the precautionary motive. Labour market tightness had eased over the past months. With a high level of employment, the unemployment rate had risen slightly to 4.6 percent in February.

In 2024, with persistently moderating inflation, continuously rising real wages and strengthening confidence, the gradual expansion in Hungary's GDP would be mainly supported by domestic demand components. Persistently weak European economic activity was holding back, while significant capacity-enhancing foreign direct investment projects were stimulating, export performance. In 2024, GDP might grow by 2.0-3.0 percent based on the MNB's projection. A balanced economic growth was expected from 2025, and Hungary's export market share was likely to increase.

Disinflation was strong and general in the Hungarian economy. In March, consumer prices had risen by 3.6 percent in annual terms, and as a result, inflation had been within the Bank's tolerance band since the beginning of the year. The consumer price index had fallen by 0.1 percentage point compared to the previous month, while core inflation had eased by 0.7 percentage points to 4.4 percent on a year earlier. Inflation and core inflation had been in line with the projection in the March Inflation Report. Household inflation expectations had fallen in recent months.

The pace of price increases would rise temporarily in the middle of this year due to the backward-looking pricing of market services and base effects. The decline in core inflation, capturing underlying developments, would stop in the second quarter and was expected to fluctuate between 4.5 and 5.0 percent in the remainder of the year. Anchoring inflation expectations, preserving financial market stability and disciplined monetary policy were crucial for the consumer price index to return into the central bank tolerance band in a sustained manner from next year.

In February, the current account surplus had risen to historically high levels. Exports and imports were expected to grow at nearly the same rate this year, and as a result, the improvement in the trade balance would be driven mainly by an improvement in the terms of trade due to lower energy prices. Overall, the current account balance as a share of GDP was expected to improve slightly in 2024 and to a greater extent in the coming years, in parallel with an increase in Hungary's export market share.

According to the MNB's projection, the government deficit might decline in 2024, with the primary balance improving to reach near equilibrium levels again after five years. Gross government debt had fallen to 73.5 percent of GDP by the end of 2023. For the debt ratio to decline continuously in

2024 and Hungary's risk perception to improve, it was also necessary to achieve the set deficit targets in a credible manner.

Following the review of macroeconomic and financial market developments, the Monetary Council discussed the details of its April monetary policy decision. In the Council's assessment, although European confidence indicators had improved in 2024 Q1, risks to the short-term outlook for economic growth in Europe were skewed mainly to the downside, while the US economy had grown steadily. Inflation in the euro area had fallen further, while it was above expectations again in the US. Council members judged that looking ahead, several factors suggested that global disinflation would continue at a restrained pace. Decision makers stressed that the escalation of the conflict in the Middle East posed a threat to the continuity of global value chains, which might lead to increases in freight costs. Members agreed that high inflation of services could be observed generally in the global economy, which restrained disinflation. Discussing the international monetary policy environment, members pointed out that of the world's leading central banks, the Federal Reserve's expected interest rate path, based on market pricings, had shifted further upwards, while expectations for the path of the ECB's policy rate had remained broadly unchanged. The expected divergence between the Fed's and the ECB's monetary policy affected emerging markets through the global interest rate environment.

Decision makers were of the view that external and domestic demand pressures remained low and had a disinflationary impact in the Hungarian economy. In addition, it was underlined that inflation and core inflation in March were consistent with the projection in the Inflation Report. Council members drew attention to the expected increase in inflation in the middle of this year, caused by backward-looking pricing of market services and base effects. Services inflation was declining slowly from a high level. Decision makers would be monitoring this process closely in their assessments in the coming months. Preserving financial market stability remained key in order to achieve price stability in a sustainable manner.

Decision makers pointed out that a gradual economic recovery began at the beginning of 2024, which was also supported by high-frequency data. Growth might pick up in the second half of the year. Council members judged that nominal wage dynamics was expected to slow from a high level, but still indicated a significant rise in real wages in this year. Decision makers noted that growth expectations for Hungary's most significant export partners and forward-looking indicators pointed to a prolonged weakness of external demand, which was holding back domestic exports. Some decision makers pointed out that the monthly current account surplus had risen to historically high levels in February and was expected to improve slightly as a share of GDP in 2024 and in the coming years.

Monetary policy had entered a new phase in April. Council members were in agreement that disinflation remained general, and historically high foreign exchange reserves and the persistent improvement in the current account balance had contributed to the strengthening of the country's risk perception. However, in the deteriorating international sentiment, the risk premium on Hungarian assets had also risen recently. According to the assessment of the Monetary Council, the outlook for inflation warranted further reduction in the base rate at a slower pace than earlier. In line with this, decision makers were unanimously in favour of reducing the base rate by 50 basis points.

In addition, the Council reviewed the key aspects of interest rate policy for the coming months. Inflation was expected to rise temporarily in the middle of the year and to fluctuate above the upper bound of the tolerance band in the second half of the year. Decision makers agreed that tight monetary policy had to be maintained in order to reach the inflation target in 2025 in a sustainable manner. Decision makers were unanimous in their view that of the most significant factors affecting Hungary's risk perceptions, the achievement of the set deficit targets in a credible manner and the improvement in the primary balance to reach near equilibrium levels were crucial. The other key factor of risk perception was developments in the external balance in this year. Another decisive aspect was the effect of the international monetary policy environment on the room for interest rate policy manoeuvre in Hungary. Financial market stability was key in terms of the strengthening of confidence in Hungarian financial instruments and the anchoring of inflation expectations. In the Council's assessment, looking ahead, all these factors warranted a cautious and patient approach to monetary policy.

In the new phase which had started in April, the Monetary Council would take decisions on any further reductions in the base rate in a data-driven manner, based on incoming data, the outlook for inflation and developments in the risk environment, proceeding from month to month at a slower pace than in the phase which had ended in March.

Disinflation in the Hungarian economy had continued, while external and domestic demand pressures had remained persistently low. Historically high foreign exchange reserves and the persistent improvement in the current account balance had contributed to the strengthening of the country's risk perception; however, in the deteriorating international sentiment, the risk premium on Hungarian assets had also risen recently. According to the assessment of the Monetary Council, the outlook for inflation warranted a further reduction in the base rate at a slower pace than earlier. The volatile risk environment continued to warrant a careful and patient approach to monetary policy. In line with this, at its April meeting, the Monetary Council cut the base rate by 50 basis points to 7.75 percent. Accordingly, the lower bound of the interest rate corridor, i.e. the O/N deposit rate, was reduced to 6.75 percent, while the upper bound, i.e. the O/N lending rate, was lowered to 8.75 percent. Monetary policy continued to contribute to the maintenance of financial market stability, the continuation of disinflation and the achievement of the inflation target by ensuring positive real interest rates.

Risks surrounding global disinflation, volatility in international investor sentiment and the sustainable continuation of domestic disinflation warranted a careful and patient approach to monetary policy in the coming months. The Council was constantly assessing incoming macroeconomic data, the outlook for inflation and developments in the risk environment. In the new phase which had started in April, the Monetary Council had been proceeding at a slower pace than before, and would take decisions on any further reductions in the base rate in a data-driven manner.

Votes cast by individual members of the Council:

In favour of reducing the base rate to 7.75 percent, reducing the overnight collateralised lending rate to 8.75 percent and decreasing the interest rate on the overnight central bank deposit to 6.75 percent:	9	Éva Búza, Péter Gottfried, Csaba Kandrács, Kolos Kardkovács, Zoltán Kovács, György Matolcsy, Mihály Patai, Gyula Pleschinger, Barnabás Virág
Vote against:	0	

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

Éva Búza

Péter Gottfried

Csaba Kandrács

Kolos Kardkovács

Zoltán Kovács

György Matolcsy

Mihály Patai

Gyula Pleschinger

Barnabás Virág

The Council will hold its next policy meeting on 21 May 2024. The minutes of that meeting will be published at 2 p.m. on 5 June 2024.