MINUTES
OF THE MONETARY COUNCIL MEETING
28 JANUARY 2025

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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.

EU industrial and retail sales indicators had pointed to subdued economic growth in 2024 Q4. By contrast, US growth had been strong based on incoming data and the rate of economic growth had picked up in China as well in the fourth quarter. The weak outlook for European industrial production and the generally tense geopolitical situation continued to pose risks in terms of external economic activity.

In December, inflation had picked up to 2.4 percent in the euro area and to 2.9 percent in the US. Looking ahead, with a subdued outlook for global economic growth, inflation rates were expected to remain moderate. However, higher price dynamics in market services continued to pose upside risks to inflation. The prices of crude oil and natural gas had risen over the past month in response to geopolitical tensions.

Global investor sentiment had been characterised by a high degree of uncertainty since the December interest rate decision. This had been mainly driven by geopolitical developments, news on US tariff hikes and expectations for the future interest rate paths of the world's leading central banks. The Federal Reserve and the European Central Bank had reduced interest rates again by 25 basis points in December. Market pricings suggested a divergence between the monetary policies of the two major central banks in 2025, which could have led to increased risk aversion in emerging markets. In the CEE region, the Czech, Polish and Romanian central banks had left their policy rates unchanged.

Based on indicators of economic activity, the performance of the Hungarian economy had been subdued and had a strongly dual nature in 2024 Q4. In November, the volume of retail sales had continued to grow, while industrial production and construction activity had declined. With real wage growth remaining strong, consumer confidence had improved somewhat after November. The number of employees had declined slightly but remained high by historical standards, while the unemployment rate was low.

Consumption, gradually expanding with the rise in real wages, was expected to be the driver of growth looking ahead. Following the sharp decline in the volume of investment in 2024, delayed investments in the corporate sector might start to be partially offset this year with a sustained improvement in demand. Subdued European economic activity was holding back Hungarian exports in the short term. However, ongoing and newly announced, significant capacity-enhancing foreign direct investment projects would stimulate exports from the middle of 2025 and Hungary's export market share was likely to increase in parallel. The Hungarian economy was expected to gradually return to a balanced growth path.

Trends in domestic lending continued to have a dual nature: the household credit market had picked up further in December, while corporate credit demand had remained low. The annual growth rate of household loans might continue to increase in 2025, while corporate lending was expected to stabilise at a higher level from 2025 H2, in parallel with a pick-up in economic performance and the easing of uncertainty.

Consumer prices had risen by 4.6 percent year on year in December, exceeding analysts' expectations. Average annual inflation had stood at 3.7 percent in 2024. Core inflation had risen to 4.7 percent in December. The rise in the CPI had been mainly driven by increases in processed food and fuel prices, while the rise in core inflation had reflected increases in the prices of durables, in addition to processed food. The combined effect of the rise in global commodity prices and movements in the forint market had been reflected in the prices of imported goods. The Council continued to closely monitor pricing decisions in the services sector. Household inflation expectations had been on an upward trend since July.

The temporary rise in inflation was expected to continue in January 2025, but the disinflationary trend would restart thereafter. Disinflation was supported by more moderate repricing in market services, while being slowed down by changes to the system of excise duties and the exchange rate depreciation of recent months. Incoming data suggested an increased risk of a higher inflation path this year, with the rate of consumer price increases returning to the tolerance band later than projected in the December Inflation Report. Anchoring inflation expectations, preserving financial market stability, and a disciplined monetary policy were crucial for the consumer price index to return to the central bank target in a sustained manner.

In the first eleven months of 2024, the current account balance had showed a surplus of nearly EUR 6.1 billion, with a significant monthly surplus in November. The increase in the current account surplus in 2024 largely reflected a more favourable trade balance. With a higher utilisation of existing capacities and the ongoing investment projects turning productive, Hungary's rising export market share was expected to result in a sustained surplus in the country's external position over the forecast horizon as external demand normalised in 2025 H2.

The fiscal deficit had decreased in 2024 as the primary balance had been near equilibrium. The accrual-based budget deficit and the government debt-to-GDP ratio at the end of the year might have exceeded the planned values. Achieving the 3.7 percent target adopted by Parliament would be supported mainly by declining interest expenditures and tax measures aimed at increasing revenues. According to the MNB's projection, the primary balance excluding interest expenditures was likely to reach near-equilibrium levels over the entire forecast horizon. The government debt-to-GDP ratio was also expected to fall substantially by the end of the horizon as the fiscal deficit declined gradually. For the debt ratio to decline and Hungary's risk perception to improve, it was necessary to achieve the set deficit targets in a disciplined manner.

Following the review of macroeconomic and financial market developments, the Monetary Council discussed the details of its monetary policy decision. Based on the Council's assessment, economic performance in Europe had remained subdued in 2024 Q4. Looking ahead, the weak outlook for industrial production and the tense geopolitical situation had continued to be key risk factors. Several members pointed out that inflation had risen in the euro area and the US. Some members noted that oil and gas prices had risen in response to geopolitical tensions.

Members concluded that international investor sentiment showed a high level of uncertainty. Turning to international monetary policy, members highlighted that an additional divergence between the interest rate paths of the Federal Reserve and the European Central Bank could be expected in 2025, which might have a negative impact on risk appetite in emerging markets.

Members underlined that based on indicators of economic activity, the performance of the Hungarian economy had had a strongly dual nature in 2024 Q4. In the Council's assessment, with real wage growth remaining strong, consumer confidence had improved somewhat and the volume of retail sales had continued to grow. However, declining industrial production and construction activity were holding back economic growth. Members pointed out that the number of employees remained high by historical standards, and the labour market was still tight. In terms of trends in lending, members also emphasised the previously identified dual nature and concluded that corporate sector credit demand had remained weak, accompanied by increasing household lending.

Regarding the macroeconomic outlook, there was a consensus within the Council that economic growth in Hungary would be increasingly broad-based in 2025. Members reaffirmed that consumption would remain the driver of economic growth in the coming years. Council members highlighted that Europe's weak economic activity was restraining domestic exports; however, it was underlined that with the gradual rise in the country's export market share and the partial resumption of delayed corporate investment, Hungary's economy might return to a balanced growth path. Some members emphasised that maintaining a stable, predictable economic environment and strengthening confidence would fundamentally determine the entire macroeconomic trajectory.

Discussing domestic inflation developments, the Council concluded that consumer prices had risen at a rate exceeding expectations in December. Members noted that the combined effect of the increase in global commodity prices and movements in the forint market had rapidly fed through to the prices of imported goods. Council members were unanimous in their view that pricing decisions of the services sector should continue to be monitored closely. Some members pointed out that repricings at the start of the year would have a key role in terms of the annual trend in inflation for the entire year. Several members saw the general rise in inflation expectations as a warning sign.

In terms of the outlook for inflation, members underlined that the temporary rise in inflation would continue in January 2025; however, the disinflationary trend would restart thereafter. The Council concluded that as a result of incoming data, increasing global commodity prices and a pick-up in inflation expectations, risks surrounding the inflation path had shifted upwards. Some members drew attention to geopolitical tensions which remained key to the inflation outlook, and risk aversion towards emerging markets. There was a general consensus among members that anchoring inflation expectations, preserving financial market stability, and a disciplined monetary policy were crucial for inflation to return to the central bank target in a sustained manner.

In discussing developments determining the country's external vulnerability, Council members pointed out that the current account balance had shown a significant surplus in November, as well. In members' assessment, a sustained surplus was expected in the country's external position. Regarding fiscal developments, the Council concluded that the budget deficit had decreased and the primary balance had been near equilibrium in 2024. Members underlined that it was necessary to achieve the set deficit targets in a disciplined manner in order to reduce the government debt-to-GDP ratio and for Hungary's risk perception to improve.

In the context of the January decision, the Monetary Council discussed one decision proposal: to leave the base rate unchanged. Council members confirmed their commitment to the achievement of the inflation target in a sustainable manner. Members agreed that the Bank could still make the greatest contribution to the easing of the precaution and to the restart of economic growth by maintaining price stability and financial market stability. Generally, members were of the view that maintaining a restrictive monetary policy stance was still necessary, and positive real interest rates ensured the achievement of central bank targets. In line with this, at its January meeting, the Council unanimously decided to leave the base rate unchanged.

Council members reviewed the December 2024 financial market developments and concluded that the 50-basis point increase in the interest rate of the Bank's FX swap tenders had contributed to stable financial market developments at the end of last year. There was a consensus that strengthening the effectiveness of monetary policy transmission was necessary to reach the inflation target again and to maintain financial market stability. Based on this, the Council considered it warranted to maintain an interest rate of 6 percent in the case of the FX swap instrument providing foreign currency liquidity.

Members' unanimous assessment was that risk aversion towards emerging markets and ongoing geopolitical tensions had increased upside risks to inflation in recent months. In addition, some members emphasised that in terms of the outlook, the rise in inflation expectations was also a warning sign. Members concluded that based on these factors, a careful and patient, stability-oriented monetary policy was still warranted. It was also noted that the increase in upside risks to inflation required a change in the Council's forward guidance. Members agreed that geopolitical tensions, volatile financial market developments, and risks to the outlook for inflation warranted the maintenance of tight monetary conditions.

The Monetary Council was committed to the achievement of the inflation target in a sustainable manner. In the current macroeconomic environment, the Bank could make the most effective contribution to the easing of economic agents' increased precaution and to the restart of economic growth by achieving price stability and maintaining financial market stability. In the Council's assessment, further strengthening the effectiveness of monetary policy transmission was warranted in order to reach the inflation target again and to maintain financial market stability.

Based on this assessment, the Council left the base rate unchanged at 6.50 percent at its January meeting. Accordingly, the O/N deposit rate and the O/N collateralised lending rate were also left unchanged, at 5.50 percent and 7.50 percent, respectively. Restrictive monetary policy contributed to the maintenance of financial market stability and the achievement of the inflation target in a sustainable manner by ensuring positive real interest rates.

The Bank considered it crucial that short-term interest rates develop consistently with the level of interest rates determined by the Monetary Council in every sub-market and in every period. To this end, the MNB had been announcing daily FX swap tenders providing overnight foreign currency liquidity at an implied interest rate of 6 percent since 20 December. The 50-basis point increase in the Bank's swap tenders and strong demand at discount bill auctions had contributed to stable financial market developments at the end of last year in contrast to the turbulence in December in previous years. In the Council's assessment, it was warranted to maintain an interest rate of 6 percent in the case of the FX swap instrument providing foreign currency liquidity.

The expected interest rate paths of major economies were surrounded by significant uncertainty. Risk aversion towards emerging markets and ongoing geopolitical tensions had increased upside risks to inflation in recent months. A careful and patient approach to monetary policy remained warranted. In the Council's assessment, geopolitical tensions, a volatile financial market environment, and risks to the outlook for inflation warranted the maintenance of tight monetary conditions.

Votes cast by individual members of the Council:

In favour of maintaining the base rate at 6.50 percent, maintaining the overnight collateralised lending rate at 7.50 percent and maintaining the interest rate on the overnight central bank deposit at 5.50 percent:	8	Éva Búza, Péter Gottfried, Csaba Kandrács, Kolos Kardkovács, Zoltán Kovács, György Matolcsy, Gyula Pleschinger, Barnabás Virág

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

Éva Búza

Péter Gottfried

Csaba Kandrács

Kolos Kardkovács

Zoltán Kovács

György Matolcsy

Gyula Pleschinger

Barnabás Virág

The Council will hold its next policy meeting on 25 February 2025. The minutes of that meeting will be published at 2 p.m. on 12 March 2025.