MINUTES
OF THE MONETARY COUNCIL MEETING
25 MARCH 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.

Due to prolonged geopolitical conflicts and intensifying trade policy tensions, the global economic environment continued to be uncertain. In the US, the risk of a slowdown in economic activity had emerged. In the EU, the easing of fiscal rules and the programmes for expenditure hikes announced in recent weeks might boost economic growth which had been subdued for years.

The decline in global inflation had come to a halt in the autumn of 2024. The consumer price index had risen again in several economies. Inflation had been above the central bank target in both the US and the euro area. Looking ahead, the effect of increases in trade tariffs, further rise in global food prices and continued high price dynamics in market services posed upside risks to inflation. Oil and gas prices had fallen slightly over the past month.

Global investor sentiment was volatile. Announcements related to trade policies significantly had increased uncertainty in international financial markets, while in case of the Russia-Ukraine war, the start of negotiations on a ceasefire had had a favourable effect on risk appetite. Plans for fiscal stimulus had increased the European long-term yields, while the depreciation of the US dollar had improved the assessment of emerging market assets. The Federal Reserve had left the target range for the federal funds rate unchanged, while the European Central Bank had reduced interest rates by another 25 basis points in March. In the region, the Polish and the Romanian central banks had kept interest rate conditions unchanged in 2025. The decision makers of the Czech central bank had reduced the policy rate by 25 basis points at the February meeting.

The recovery in Hungarian economy which had begun at the end of 2024 had continued. The volume of retail sales had risen in January, while industrial production and construction activity had declined in annual terms. Real wage growth had remained strong; however, the consumer confidence index had continued to be at a low level. The number of employees was high by historical standards, while the unemployment rate had risen slightly to 4.4 percent in January.

The further expansion in consumption in 2025 was expected to be the driver of growth looking ahead. This would reflect rising real wages and tax cuts by the Government. The large capacity-enhancing industrial investment projects, implemented in recent years, might start production at the end of 2025 and during 2026. External demand was likely to remain subdued over the short-term; however, the strengthening of the European economic activity was expected to stimulate domestic exports in the medium term. The Hungarian economy was expected to grow by 1.9–2.9 percent in 2025, expanding further by 3.7–4.7 percent in 2026, and by 2.8–3.8 percent in 2027.

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

In February 2025, inflation had risen to 5.6 percent and core inflation to 6.2 percent. The extent of repricings at the beginning of the year had been above the historical average in case of tradables, market services and food. Market services had accounted for nearly half of the total annual price increase. The Council continued to closely follow pricing decisions in the services sector. Both household and corporate price expectations had increased.

The consumer price index would decline after its peak in February. Inflation was expected to be above the central bank tolerance band for the rest of the year. In case of food, product group affected by profit margin caps by the authorities was expected to moderate consumer prices in the coming months. The strong price dynamics in market services pointed to higher inflation throughout the year. The rate of price increases was likely to return to the central bank tolerance band at the beginning of 2026, approaching the 3 percent inflation target at the end of the year. In the MNB’s projection, annual inflation was expected to be 4.5–5.1 percent in 2025, while the consumer price index was expected to be 2.9–3.9 percent in 2026 and 2.5–3.5 percent in 2027.

The current account balance had continued to improve. The monthly balance had showed a surplus of EUR 345 million in January 2025. With an upswing in domestic demand, the current account surplus was expected to temporarily decline slightly in 2025. However, normalising external demand and the rising output of new investments were expected to result in a persistently significant surplus in the external position from 2026 onwards. The current account surplus was projected to range between 1.2– 2.6 percent of GDP in 2025, 1.8–3.4 percent in 2026 and 2.0–3.8 percent in 2027.

In the MNB’s projection, the fiscal deficit might decrease further in 2025, supported mainly by declining interest expenditures and rising tax revenues as economic growth picked up. The primary balance excluding interest expenditures was likely to be at near-equilibrium levels over the entire forecast horizon. The debt ratio was expected to fall steadily in the coming years, even with the revised deficit target for 2026.

In the Monetary Council's risk assessment, there were overall upside risks to inflation in the baseline scenario in the March projection. The alternative scenarios highlighted by the Council assumed rising trade tensions, deterioration in emerging market sentiment, easing of geopolitical tensions and fiscal stimulus in Europe.

Following the review of macroeconomic and financial market developments as well as the March Inflation Report projection, the Monetary Council discussed the details of the monetary policy decision. In the Council members' assessment, the global economic environment continued to be uncertain, primarily due to prolonged geopolitical conflicts and intensifying trade policy tensions. Regarding external economic activity, several members pointed out that the announced programmes for expenditure hikes might boost economic growth in the EU which had been subdued for years.

Some members stressed that in addition to rising global food prices, the continued high level of services inflation also had contributed to stalling the decline in inflation globally. Several members were of the view that looking ahead, these factors combined with the effects of increases in trade tariffs posed upside risks to inflation.

Council members agreed that global investor sentiment remained volatile. Several members pointed out that as announcements related to trade policies had significantly increased uncertainty in international financial markets, the appreciation of the euro against the US dollar had improved risk appetite towards emerging market assets, particularly in Europe. Some members underlined that looking ahead, the actions taken by the world's leading central banks and those in the CEE region significantly continued to influence the room for manoeuvre of domestic monetary policy.

Several members underlined that the Hungarian economy had returned to a growth path in 2024 Q4. Based on incoming data, with the stability of labour market developments, the recovery in the Hungarian economy had continued at the beginning of 2025. In some members' assessment, further expanding consumption might remain the driver of growth looking ahead, given rising real wages, increasing household lending and tax cuts by the Government. With the start of production by new manufacturing capacities and the strengthening of European economic activity, domestic exports were expected to grow at an accelerating pace, therefore economic growth was recovering in an increasingly balanced structure over the forecast horizon as investments picked up.

Members highlighted that domestic inflation had risen further over the past months. Some members noted that the strong price dynamics in market services was not consistent with the achievement of price stability in a sustainable manner. In addition, several members emphasised that price expectations of both households and companies remained at a high level. Against this backdrop, it was key to follow the pricing decisions in the services sector and anchor inflation expectations consistently with the central bank target.

In their assessment, the decision makers emphasized that in the Bank's projection, the consumer price index would decline after peaking in February, but was expected to be above the central bank tolerance band in the rest of 2025. For 2025, this indicated a higher inflation path than earlier expected. However, some members noted that the announced profit margin caps within the affected product group was expected to reduce consumer prices in the coming months. The rate of price increases was likely to return to the central bank tolerance band at the beginning of 2026, approaching the 3 percent inflation target at the end of next year. Several members highlighted that as a result, the achievement of the central bank target would be delayed to a later date than earlier expected.

Some members underlined that in addition to stable financial market conditions, investors' analyses also justified the improvement in risk assessment of the Hungarian economy. Looking ahead, changes in the external position and fiscal developments were also key factors in terms of risk appetite towards domestic financial instruments. Several Council members assessed as a positive development that the current account surplus was outstanding in a regional comparison and was expected to remain persistently significant in the coming years. Additionally, several members pointed out that the fiscal deficit and the debt ratio were expected to decline, while the primary balance was likely to be at near-equilibrium levels over the entire forecast horizon.

In the Monetary Council's risk assessment, there were overall upside risks to inflation in the baseline scenario in the March projection. 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. The consensus view among members was that maintaining a restrictive monetary policy stance was still necessary, and positive real interest rates ensured the achievement of price stability.

In the context of the March decision, the Monetary Council discussed one option for decision, i.e. leaving the base rate unchanged. In line with its stability-oriented approach, the Council decided unanimously to leave the base rate unchanged at its March meeting. Council members agreed that a careful and patient approach to monetary policy remained necessary due to upside risks to inflation as well as trade policy and geopolitical tensions. Members reaffirmed their stance that the uncertain international environment and the outlook for inflation warranted the maintenance of tight monetary conditions.

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. Restrictive monetary policy contributed to the maintenance of financial market stability, the anchoring of inflation expectations consistently with the central bank target and, as a result, to the achievement of the inflation target in a sustainable manner by ensuring positive real interest rates. The MNB also strengthened market stability using two instruments with maturity extending beyond the end of the quarter: T/N FX swap tenders announced on a daily basis, and weekly discount bill auctions.

In line with the stability-oriented approach, the Council left the base rate unchanged at 6.50 percent at its March meeting. The O/N deposit rate and the O/N lending rate also remained unchanged, at 5.50 percent and 7.50 percent, respectively.

The Monetary Council was committed to the achievement of the inflation target in a sustainable manner. The inflation path this year was likely to be higher than earlier expected, and achieving the target had been delayed. A careful and patient approach to monetary policy remained necessary due to upside risks to inflation as well as trade policy and geopolitical tensions. In the Council's assessment, the uncertain international environment and 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:**	9	Éva Búza, Péter Gottfried, Csaba Kandrács, Kolos Kardkovács, Zoltán Kovács, Andrea Mager, Mihály Patai, Mihály Varga, Barnabás Virág

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

Éva Búza

Péter Gottfried

Csaba Kandrács

Kolos Kardkovács

Zoltán Kovács

Andrea Mager

Mihály Patai

Mihály Varga

Barnabás Virág

The Council will hold its next policy meeting on 29 April 2025. The minutes of that meeting will be published at 2 p.m. on 14 May 2025.