MINUTES
OF THE MONETARY COUNCIL MEETING
17 DECEMBER 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.

Economic performance in the EU had improved at a moderate pace in 2024 Q3, while the rate of economic growth had remained buoyant in the US and China. The weak outlook for European industrial production and the generally tense geopolitical situation posed risks in terms of external economic activity.

In November, inflation had risen above 2 percent in the euro area, and price growth had picked up slightly in the US. Looking ahead, moderate inflation rates were expected as global economic demand remained subdued; however, the stronger price dynamics of market services still represented an inflationary effect. Due to ongoing geopolitical tensions, the prices of energy commodities were characterized by increased volatility.

Global investor sentiment had been volatile since the November interest rate decision. This had been mainly driven by expectations for the future interest rate paths of the world's leading central banks, the intensification of global trade disputes, as well as risks linked to geopolitical conflicts and developments in the domestic politics of some countries in Europe. The European Central Bank had reduced interest rates again by 25 basis points in December, and interest rate expectations for the Federal Reserve's policy rate had remained broadly unchanged. In the CEE region, the Polish central bank had left its policy rate unchanged in December.

Hungary's GDP had fallen by 0.8 percent in 2024 Q3 year-on-year. The declining performance of industry, construction and agriculture had been the driving forces behind the slowdown in the economy, while services had made a positive contribution to economic growth. In October, the volume of retail sales had continued to grow rapidly, while industrial production and construction activity had declined. Real wage growth had remained strong, but consumer confidence had fallen again in November. The savings rate had remained at a high level. Following the decline in September, the number of employees had stabilised in October. The unemployment rate had remained low at 4.5 percent.

Household consumption, gradually expanding in 2024, was expected to be the driver of growth looking ahead, supported by the launch of the Subsidised Workers' Credit Programme and an

increase in family tax allowances, in addition to a rise in real wages. However, the investments were expected to fall significantly this year, restraining economic growth in 2024. Delayed investments in the corporate sector might start to be partially offset with a sustained improvement in demand from 2025 onwards. Subdued European economic activity would continue to hold back domestic 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 grow by 0.3–0.7 percent in 2024, by 2.6–3.6 percent in 2025, by 3.5–4.5 percent in 2026, and by 2.5–3.5 percent in 2027.

Trends in domestic lending continued to have a dual nature: the household credit market had continued to pick up, while corporate credit demand had remained low. After 2024, the annual growth rate of household loans might continue to increase further in 2025 with the launch of the Subsidised Workers' Credit Programme, while the rate of 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.

In November 2024, inflation had risen to 3.7 percent and core inflation had moderated to 4.4 percent. The rise in the consumer price index had mainly reflected the accelerating growth rate of fuel prices. The decline in core inflation had reflected the continued disinflation of services prices from a high level. The extent of repricings in November had been below the historical average in the case of tradables, while in the case of market services and food it had been above the historical average. The Council continued to closely monitor pricing decisions in the services sector. Household inflation expectations had risen in November.

Inflation was expected to increase further temporarily until January 2025 and might be above the central bank tolerance band. Disinflation would restart thereafter, in 2025 Q1. In 2025, inflation was expected to remain within the tolerance band for most of the year, before returning to the 3 percent central bank target in a sustained manner at the beginning of 2026. The slowdown in price dynamics was driven by more subdued underlying developments compared to the MNB's earlier expectations, and more moderate backward-looking repricings next year. The exchange rate depreciation seen in past months as well as changes to the system of excise duties were likely to slow disinflation next year. According to the MNB's projection, annual inflation was expected to be between 3.6–3.7 percent this year on average, between 3.3–4.1 percent in 2025, and between 2.5–3.5 percent in 2026 and 2027. 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 ten months of the year, the current account balance had shown a surplus of nearly 5.6 billion euros, and the monthly surplus had been significant in October as well. The increase in the current account surplus this year would largely reflect a more favourable trade balance. With the more intense use 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 foreign demand normalises. The current account surplus was expected to be between 1.5–2.7 percent of GDP in 2024, between 1.0–2.4 percent of GDP in 2025, between 1.5–3.1 percent of GDP in 2026, and between 1.8–3.6 percent of GDP in 2027.

The fiscal deficit was expected to fall steadily over the forecast horizon. The improvement in the balance in 2024 had been driven by falling energy expenditures resulting from the stabilisation of energy prices and restrained public investment. The draft budget submitted for 2025 had confirmed the 3.7 percent deficit target, the achievement of which would be mainly supported by a significant decline in government 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 MNB expected the government debt-to-GDP ratio to fall substantially by the end of the forecast horizon as the deficit declined gradually. For the debt ratio to continue declining and Hungary's risk perception to improve, it was necessary to achieve the set deficit targets in a disciplined manner.

In the past month, there had been two credit rating agency revisions. Moody's had changed the current outlook for Hungary's investment grade rating from stable to negative, while Fitch Ratings had upgraded the outlook from negative to stable. In addition to macroeconomic fundamentals, the perception of fiscal and monetary policy outlook had had a key role in the credit rating agencies' assessment.

The Monetary Council underlined three alternative risk scenarios around the baseline projection in the December Inflation Report. The highlighted alternative scenarios presumed persistently weak European economic activity, an increase in trade policy tensions, and capital outflows from emerging economies.

Following the review of macroeconomic and financial market developments as well as the December Inflation Report projection, the Monetary Council discussed the details of its monetary policy decision. Based on the Council's assessment, economic performance in Europe remained subdued, due to weak European industrial performance, while geopolitical tensions also continued to be a key risk factor. Several members pointed out that inflation had risen slightly in the euro area and the US. Some members noted that developments on the demand side pointed to low global inflation; however, higher market services inflation had an upward impact, while oil and gas prices remained significantly volatile due to the geopolitical situation.

Members concluded that international risk appetite had been volatile since the latest interest rate decision. Some members noted that risk aversion towards emerging markets increased in the past months in parallel with the appreciation of the dollar. Turning to international monetary policy, members highlighted that in the euro area the expected interest rate path had shifted downwards, while the expected interest rate path from the Federal Reserve had remained broadly unchanged throughout the month. In assessing developments in international financial markets, the Council was in agreement that financial market stability was a key factor in terms of price stability.

Regarding Hungary's detailed GDP data for 2024 Q3, members stressed that the decline had been driven by the weak performance of industry, construction and agriculture; however, this had been partly offset by the service sector. Some members underlined that the labour market was still tight and the real wage growth remained robust, and that consumer confidence had continued to decrease amidst strong propensity to save. In terms of trends in lending, members concluded that the dual nature identified earlier still persisted, corporate sector credit demand remained weak, which was accompanied by increasing household lending.

In reviewing the projections for the macroeconomy, the Council agreed that investment projects had held back growth in 2024, and members also underlined the role of weak external demand. However, it was also emphasised that from 2025 onwards, economic growth would have an increasingly broad base; the Hungarian economy was expected to enter a phase of dynamic growth again from the middle of 2025. Looking ahead, the driver of economic growth might be consumption; its expansion will also be supported by government programmes from 2025. Some members emphasised that the maintenance of a stable, predictable economic environment and a strengthening in confidence would essentially determine the entire macroeconomic trajectory.

Discussing domestic inflation developments, the Council concluded that the rise in inflation in November had mainly reflected the accelerating growth rate of fuel prices. Core inflation had fallen

slightly. Disinflation of market services had continued; however, some members pointed out that after August, the extent of repricings in services had been above the historical average in November, again. Council members were unanimous in their view that pricing decisions of the services sector should continue to be monitored closely. Several members pointed out that inflation expectations had increased in November.

Regarding the outlook for inflation, members underlined that the inflation projection for 2025 had shifted upwards compared to the September forecast. It was noted that inflation might temporarily be above the tolerance band until January 2025, with disinflation restarting in the first quarter. Some members pointed out that more subdued underlying developments and the expected more moderate level of backward-looking repricings supported disinflation, while exchange rate depreciation and changes to the system of excise duties were likely to slow it. In the Council's assessment, inflation was mainly expected to be within the tolerance band in 2025 and it might return to the central bank target in a sustained manner at the beginning of 2026. Council members were in consensus that anchoring inflation expectations, preserving financial market stability and a disciplined monetary policy remained key to achieve this.

In discussing developments determining external vulnerability, Council members pointed out that the current account balance had shown a significant surplus in October, as well. In members' assessment, a sustained surplus was expected in the country's external position. Regarding fiscal developments, the Council concluded that the fiscal deficit was expected to fall steadily and the primary balance was likely to reach near-equilibrium levels over the forecast horizon. Several 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. Members discussed that with Hungary's debt rating of investment grade remaining unchanged, Moody's had downgraded the outlook to negative from stable, while Fitch Ratings had upgraded the outlook from negative to stable. Some members noted that credit rating agencies monitored closely the fiscal and monetary policy developments and outlook in Hungary.

Based on the Monetary Council's risk assessment, the baseline scenario was accompanied by upside risks to inflation and downside risks to growth. The Council confirmed its 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 by that, to the restart of economic growth by maintaining price stability and financial market stability. In line with this,

the vast majority of members was in favour of leaving the base rate unchanged at the December meeting. Based on a different assessment of macroeconomic and financial market developments, one member voted in favour of lowering the base rate by 25 basis points. Generally, members were of the view that monetary policy stance remained restrictive, contributing to achieving central bank targets by ensuring positive real interest rates.

Members unanimously emphasised the importance of maintaining financial market stability and ensuring efficient monetary transmission. In order to this, the MNB would continue to smooth movements in financial markets at the end of the year by using FX swap tenders, discount bill auctions and longer maturity instruments.

Members agreed that looking ahead, a careful and patient approach to monetary policy was warranted by the uncertainty surrounding monetary and fiscal policies of major economies and by risk aversion towards emerging markets. In conclusion, the vast majority of the Council argued that geopolitical tensions, volatile financial market developments and the risks to the outlook for inflation warranted the current level of interest rates to be further kept unchanged.

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 maintaining price stability and financial market stability.

Based on this assessment, the Council had left the base rate unchanged at 6.50 percent at its December meeting. Accordingly, the O/N deposit rate and the O/N collateralised lending rate had also been 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 developed consistently with the level of interest rates determined by the Monetary Council in every sub-market and in every period. In line with its earlier practice, the Bank paid special attention to the expected state of the FX swap market at the end of the year. To ensure the effectiveness of monetary policy transmission, the MNB smoothed movements in financial markets by using instruments with longer maturities in December, in addition to one-day FX swap tenders announced on a daily basis and weekly discount bill auctions.

The expected interest rate paths and future fiscal policies of major economies were still surrounded by uncertainty. Ongoing geopolitical tensions were raising upside risks to inflation through risk aversion towards emerging markets. Looking ahead, a careful and patient approach to monetary policy was warranted. In the Council’s assessment, geopolitical tensions, volatile financial market developments and the risks to the outlook for inflation warranted further pause in cutting interest rates.

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
In favour of lowering the base rate to 6.25 percent, reducing the overnight collateralised lending rate to 7.25 percent and decreasing the interest rate on the overnight central bank deposit to 5.25 percent:	1	Mihály Patai

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 28 January 2025. The minutes of that meeting will be published at 2 p.m. on 12 February 2025.