MINUTES
OF THE MONETARY COUNCIL MEETING
18 JUNE 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:
https://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.

In Europe, risks to the short-term outlook for economic growth were skewed to the downside; however, confidence indicators had improved slightly in May 2024. The US economy continued to grow steadily. The Chinese economy had expanded at a rate above expectations in 2024 Q1. The ongoing Russia-Ukraine war, the generally tense geopolitical situation and expected developments in European industrial production posed risks in terms of external economic activity.

In May, the rise in euro-area annual inflation relative to the previous month had exceeded expectations, while consumer price increases had slowed slightly in the US. Services inflation had been generally higher compared to the levels seen before Covid-19, which restrained disinflation. Geopolitical conflicts had led to increased volatility in the energy market and might still cause disruptions in global value chains. However, looking-ahead, subdued global economic demand pointed to moderate inflation rates. Oil prices had been unchanged, and gas prices had risen since the latest interest rate decision.

Global risk appetite had fallen since May, in which the interest rate decisions of the world's leading central banks and the European Parliament elections had played an important role. At its rate-setting meeting in June, the European Central Bank had reduced its policy rates by 25 basis points, in line with expectations. According to the ECB's communication, the pace and timing of interest rate cuts would continue to be determined by incoming data. The Fed had left interest rates unchanged at its previous policy meeting. The upward shift in the interest rate path indicated by market pricing data, and the expected higher level of US interest rates for a prolonged period would influence central banks' room for monetary policy manoeuvre in emerging economies. In the CEE region, the Czech central bank had lowered its policy rate by 50 basis points to 5.25 percent at its latest rate-setting meeting, while the Polish and the Romanian central banks had left monetary conditions unchanged.

Hungarian economic growth had started in 2024 Q1. The significant increase in real wages, the gradual easing of the precautionary motive, as well as the improvement in consumer confidence had all been reflected in growing household consumption in the first quarter. However, the general decline in investment had decelerated the pace of economic growth. Net exports had made a positive contribution to growth with generally subdued import demand. In April, industrial production had risen significantly on a year earlier due to a favourable calendar effect; however, underlying output growth remained subdued. Construction output had risen compared to the same period of 2023, and the volume of retail trade had continued to grow in annual terms. The unemployment rate had remained unchanged from March and stood at 4.4 percent in April. With a high level of employment, labour market tightness had eased over the past quarters.

In 2024, the gradual expansion in Hungary's GDP would be mainly supported by the strengthening of domestic demand. In addition to the easing of the precautionary motive, the expansionary effect of strong real wage growth on consumption would become increasingly pronounced in the rest of the year. Investment might still slow down economic growth in 2024. Public investment might decrease this year, while residential investment might increase. The corporate sector had taken a wait-and-see approach to investment; however, with the persistent improvement in demand, deferred investment would be gradually brought back on stream in 2025. Exports would be affected by opposing trends. Subdued European economic activity was holding back domestic exports, but ongoing and newly announced, significant capacity-enhancing foreign direct investment projects would continue to stimulate exports in the coming years. With the pick-up in the production of new export capacities built recently, balanced economic growth was expected from 2025, and Hungary's export market share was likely to increase. Hungary's GDP was expected to grow by 2.0–3.0 percent in 2024, by 3.5–4.5 percent in 2025 and by 3.0–4.0 percent in 2026.

In May, consumer prices had risen by 4.0 percent in annual terms. The increase in inflation had been caused by rises in fuel prices and base effects. Core inflation and core inflation excluding indirect tax effects had continued to decline, both falling to 4.0 percent. The monthly price increase in core inflation had been above the historical average, due to the backward-looking repricing of certain market services. Household inflation expectations had risen slightly in May relative to April.

The short-term outlook for inflation had improved. More favourable than expected spring data and decreasing world oil prices together would result in a lower inflation path in 2024 compared to the March forecast. The inflation rate was expected to fluctuate within the tolerance band, close to its upper bound, in the coming months, too. However, the decline in core inflation capturing underlying developments would stop in the second quarter and core inflation would rise close to 5.0 percent by the end of the year. According to the MNB's projection, annual inflation was expected to be between 3.0 and 4.5 percent this year on average. Inflation might be between 2.5

and 3.5 percent in 2025 and 2026. Anchoring inflation expectations, preserving financial market stability and disciplined monetary policy were crucial for the consumer price index to return to the central bank target in a sustained manner from next year.

In April, the current account surplus had risen to another historically high level. In the coming years, the current account surplus might be even larger than the Bank's previous expectation. The expected increase in the surplus in 2024 as a whole primarily reflected a further improvement in the terms of trade, declining investment activity characterised by a high import share and inventory accumulation. Over the longer term, with earlier manufacturing investment projects turning productive, the country's increasing export market share would support the improvement in the external balance. The current account surplus would continue to rise over the forecast horizon, which was expected to reach 1.5–2.7 percent of GDP in 2024, before rising to 3–4 percent in 2025 and 2026.

The government deficit-to-GDP ratio might be between 4.5 and 5.0 percent in 2024, between 3.5 and 4.5 percent in 2025 and between 2.8 and 3.8 percent in 2026, depending on macroeconomic developments and the extent of fiscal control. The primary balance was expected to improve to reach near equilibrium levels this year. The government debt-to-GDP ratio was expected to decline steadily, which would require the set deficit targets to be achieved in a disciplined manner.

The Monetary Council had highlighted three alternative risk scenarios around the baseline projection in the June Inflation Report. In the scenario which assumed a deceleration in global economic activity, both economic growth and inflation might be lower compared to the baseline. The alternative scenario presuming a divergence between the Fed's and the ECB's monetary policy was consistent with a higher inflation path and lower growth path. The scenario assuming faster wage growth and a quick recovery in consumption was in line with a higher growth path and inflation path compared to the baseline scenario.

From the perspective of monetary transmission, the Bank considered it crucial that short-term interest rates developed consistently with the level of the base rate determined by the Monetary Council in every sub-market and in every period. The Bank paid special attention to developments in the FX swap market at the end of the quarter. The MNB ensured the maintenance of financial market stability using two instruments with maturity extending beyond the end of the quarter: T/N FX swap tender announced on a daily basis, and the weekly discount bill auction.

Following the review of macroeconomic and financial market developments as well as the June Inflation Report projection, the Monetary Council discussed the details of its monetary policy decision. The Council was of the view that real economic activity remained subdued in Europe; however, confidence indicators had improved in May 2024. Several members pointed out that the ongoing Russia-Ukraine war, the generally tense geopolitical situation and expected developments in European industrial production posed risks in terms of external economic activity. In the view of members, services inflation was generally higher compared to the levels seen before Covid-19, which restrained global disinflation.

In the Council' assessment, global risk appetite had fallen since May. Expectations for the decisions by the world's leading central banks continued to indicate a persistently high interest rate path, while uncertainty had increased in certain sub-markets following the European Parliament elections. In reviewing the international monetary policy environment, Council members highlighted that after reducing policy rates by 25 basis points in June, the ECB had emphasised the importance of a data-driven approach in its communication. In the view of members, it should be stressed that the expected higher level of US interest rates for a prolonged period would reduce central banks' room for monetary policy manoeuvre in emerging economies.

In terms of the outlook for domestic economic growth, members pointed out that in 2024, the gradual expansion in Hungary's GDP would be mainly supported by the strengthening of domestic demand. Several Council members highlighted that in addition to the easing of the precautionary motive, the expansionary effect of strong real wage growth on consumption would become increasingly pronounced in the rest of the year. Several members emphasised that moderate investment dynamics might still slow down economic growth in 2024. Exports would be affected by opposing trends: subdued European economic activity was holding back domestic exports, but ongoing and newly announced, significant capacity-enhancing foreign direct investment projects would continue to stimulate exports in the coming years. Reviewing external balance developments, members stressed that in April the current account surplus had risen to a new historical high, and looking ahead, the surplus might be even larger than the Bank's previous expectation in the coming years.

In assessing the outlook for inflation, Council members highlighted that the short-term outlook for inflation had improved. The inflation rate was expected to continue to fluctuate within the tolerance band, close to its upper bound in the coming months. However, members also noted that the decline in core inflation would stop in the second quarter and was projected to rise, reaching nearly 5.0 percent by the end of the year. The Council was unanimous in its view that anchoring inflation expectations, preserving financial market stability and disciplined monetary policy remained crucial for the consumer price index to return to the central bank target in a sustainable manner from next year.

The Council highlighted that it would closely monitor developments in the FX swap market at the end of the quarter. The Bank ensured the maintenance of financial market stability using two instruments with maturity extending beyond the end of the quarter: the T/N FX swap tender announced on a daily basis, and the weekly discount bill auction.

At the June policy meeting, members discussed the reduction of the base rate by 25 basis points. In the Monetary Council's assessment, although the short-term outlook for inflation had improved in the past quarter and inflation would fluctuate close to the upper bound of the central bank tolerance band in the coming months, the longer-term inflation projection had remained unchanged. Accordingly, the inflation target was expected to be achieved in a sustainable manner in 2025. Members concluded that the incipient recovery in Hungarian economic growth, historically high foreign exchange reserves, the persistent improvement in the current account balance with the balance rising to historic highs, accompanied by a cautious approach to monetary policy, pointed to an improvement in the country's risk perception. Additionally, several Council members underlined that with a high level of employment, labour market tightness had eased. Nevertheless, the Council drew attention to global risks, including particularly the effect of an expected persistently high external interest rate environment that reduced the room for monetary policy manoeuvre, the volatile sentiment in financial markets and heightened geopolitical tensions. Turning to domestic factors, members highlighted that core inflation was likely to rise and inflation expectations were expected to fall only at a slow pace. It was also noted that potential risks to inflation, created by strong wage dynamics, had to be monitored. Several Council members stressed that in terms of the assessment of risks, the achievement of the set deficit targets in a disciplined manner was of key importance. The Council's unanimous view was that all these factors continued to warrant a careful and patient approach. In line with this, members voted unanimously in favour of reducing the base rate by 25 basis points.

In the view of all members, a careful and patient approach to monetary policy was still required. In addition to the priority of achieving the inflation target in a sustainable manner, maintaining financial market stability remained a decisive factor. Members agreed that the Monetary Council's forward guidance should be modified in June. They noted that a new phase would begin in June, where the Monetary Council would assess incoming macroeconomic data, the outlook for inflation and developments in the risk environment from month to month, on the basis of which it would take decisions on the level of the base rate in a cautious and data-driven manner.

Based on the Monetary Council's assessment, the outlook for inflation had improved in the past quarter. In addition, the incipient recovery in Hungarian economic growth, historically high foreign exchange reserves, the persistent improvement in the current account balance and a cautious approach to monetary policy acted in the direction of an improvement in the country's risk perception. However, the volatile financial market environment, significant geopolitical tensions and the risks to the outlook for inflation continued to warrant a careful and patient approach. In line with this, at its June meeting, the Monetary Council lowered the base rate by 25 basis points to 7.0 percent. Accordingly, the lower bound of the interest rate corridor, i.e. the O/N deposit rate, was reduced to 6.0 percent, while the upper bound, i.e. the O/N lending rate, was lowered to 8.0 percent. Monetary policy continued to contribute to the maintenance of financial market stability and the achievement of the inflation target in a sustainable manner by ensuring positive real interest rates.

Looking ahead, risks surrounding global and domestic disinflation, volatility in international investor sentiment and expected interest rate policies of the world's leading central banks warranted a careful and patient approach to monetary policy. The Council was constantly assessing incoming macroeconomic data, the outlook for inflation and developments in the risk environment, based on which it would take decisions on the level of the base rate in a cautious and data-driven manner.

Votes cast by individual members of the Council:

In favour of reducing the base rate to 7.00 percent, reducing the overnight collateralised lending rate to 8.00 percent and and lowering the interest rate on the overnight central bank deposit to 6.00 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 23 July 2024. The abridged minutes of that meeting will be published at 2 p.m. on 7 August 2024.