MINUTES
OF THE MONETARY COUNCIL MEETING
21 MAY 2024

Time of publication: 2 p.m. on 5 June 2024

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 mainly to the downside; however, confidence indicators had improved in 2024 Q1. Despite the slight slowdown in the first quarter, the US economy continued to grow steadily; however, employment growth had moderated in April. The Chinese economy had expanded at a rate above expectations in 2024 Q1, primarily reflecting the effects of economic policy measures aimed at stimulating demand.

Annual inflation in the euro area had remained unchanged in April relative to the previous month, while consumer price increases had slowed slightly in the US. In the global economy, services inflation had been generally higher compared to the levels seen before Covid-19, which restrained disinflation. In addition, geopolitical conflicts might increase volatility in the energy market and might cause disruptions in global value chains, leading to a renewed rise in freight costs. However, looking-ahead, subdued global economic demand pointed to moderate inflation rates. Oil prices had been falling and gas prices had been fluctuating in the range of around EUR 30 in the period since the Council's previous interest rate decision.

International risk appetite had increased since the April policy decision. Based on market pricing, the Federal Reserve might start cutting interest rates later than the European Central Bank. The expected divergence between monetary policies of two of the world's leading central banks might lead to increased volatility in emerging markets through the global interest rate environment. In the CEE region, the Czech central bank had lowered its policy rate by 50 basis points to 5.25 percent in May, while the Polish and the Romanian central banks had left monetary conditions unchanged.

In 2024 Q1, Hungarian economic growth had picked up. The domestic economy had grown by 1.1 percent in annual terms and by 0.8 percent on the previous quarter. Market services had been the largest contributors to economic growth; however, the decline in value added in industry had hampered economic performance. In March 2024, industrial production and construction output had fallen, while the volume of retail sales had risen. As regards the main determinants of household consumption, the significant rise in real wages seen since September 2023 was expected to continue this year. The gradual improvement in the consumer confidence indicator reflected an easing of the precautionary motive. Labour market tightness had eased over the past months. With a high level of employment, the unemployment rate had stood at 4.6 percent in 2024 Q1.

In 2024, the gradual expansion in Hungary's GDP would be mainly supported by domestic demand components. Economic growth was likely to accelerate further in the second half of the year. Persistently weak European economic activity was holding back export performance, while significant capacity-enhancing foreign direct investment projects were gradually stimulating it. In 2024, GDP might grow by 2.0-3.0 percent based on the MNB's projection. Balanced economic growth was expected from 2025, and Hungary's export market share was likely to increase.

In April, domestic consumer prices had risen by 3.7 percent in annual terms, and as a result, inflation had been within the Bank's tolerance band since the beginning of the year. Annual core inflation had declined further by 0.3 percentage points to 4.1 percent. Inflation had been in line with the projection in the March Inflation Report. Household inflation expectations had remained broadly unchanged in April relative to March.

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 core inflation would 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 March, the current account surplus had risen to another historically high level. 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. The current account surplus as a share of GDP was expected to rise further in 2024, and the balance was likely to continue to improve 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 May monetary policy decision. The Council was of the view that in Europe, short-term outlook for economic growth remained surrounded by downside risks; however, confidence indicators had improved in 2024 Q1. Regarding US macroeconomic data, members pointed out that the economy continued to grow steadily, besides slowing growth in employment in April. In the decision makers' assessment, global inflation had declined to low levels; however, the high services price dynamics restrained disinflation.

The Council concluded that global risk appetite had increased since the previous interest rate decision. In reviewing the international monetary policy environment, Council members highlighted that based on market pricing, the Federal Reserve might start cutting interest rates later than the European Central Bank. Should the US interest rate environment remain persistently higher, the resulting divergence might lead to increased volatility in emerging markets.

In assessing incoming data on domestic inflation, several Council members stressed that inflation had been within the Bank's tolerance band since the beginning of the year, while core inflation had continued to decline in April. The decision makers pointed out that due to the backward-looking pricing of market services and base effects, inflation was expected to rise temporarily in the coming months and to fluctuate above the tolerance band in the remainder of the year. The consumer price index might return to the central bank tolerance band in a sustained manner from next year, which required disciplined monetary policy. In the Council's assessment, after a period of high inflation, the decline in inflation expectations was a prolonged process and expectations had to be anchored to the inflation target again.

In reviewing incoming GDP data for Q1, several Council members highlighted that Hungarian economic growth had picked up in 2024 Q1 and might accelerate further in the second half of the year. In the Council's assessment, the precautionary motive had started to ease, while the significant rise in real wages seen since September 2023 was expected to continue this year. Reviewing external balance developments, members underlined that after February, the current account surplus had risen to another historically high level in March, which had mainly been driven by the high surpluses on the trade balance of goods and current transfers.

The Council was of the view that resuming Hungarian economic growth, historically high foreign exchange reserves, a persistent improvement in the current account balance and a credible, cautious approach to monetary policy had recently contributed to an improvement in the country's risk perception. However, the volatile financial market environment and the risks to the outlook for inflation continued to warrant a careful and patient approach. 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. Discussing the outlook for domestic inflation, the decision makers noted that the pace of price increases would rise temporarily in the middle of this year. In addition, the Council emphasised that it would monitor closely developments in services inflation. Council members agreed that restrictive 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 developments in the external balance were crucial this year. Another decisive aspect was the effect of the international monetary policy environment, particularly the persistently high interest rate environment in the US, on the room for interest rate policy manoeuvre in Hungary. Furthermore, members underlined that preserving financial market stability remained essential in order to achieve price stability in a sustainable manner, and it also remained key in terms of the strengthening of confidence in Hungarian financial instruments and anchoring inflation expectations.

In the decision makers' assessment, looking ahead, all these factors warranted a careful and patient approach to monetary policy. The Council emphasised that based on incoming macroeconomic data, the outlook for inflation and developments in the risk environment, it would take decisions on any further reductions in the base rate in a data-driven manner.

The starting economic growth in Hungary, historically high foreign exchange reserves, a persistent improvement in the current account balance and a cautious approach to monetary policy had contributed to an improvement in the country's risk perception. However, the volatile financial market environment and the risks to the outlook for inflation continued to warrant a careful and patient approach. In line with this, at its May meeting, the Monetary Council cut the base rate by 50 basis points to 7.25 percent. Accordingly, the lower bound of the interest rate corridor, i.e., the O/N deposit rate, was reduced to 6.25 percent, while the upper bound, i.e., the O/N lending rate, was lowered to 8.25 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 and volatility in international investor sentiment 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 and would take decisions on any further reductions in 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 7.25 percent, **reducing the overnight collateralised lending rate to 8.25 percent** **and** **lowering the interest rate on the overnight central bank deposit to 6.25 percent:**	8	Éva Búza, Péter Gottfried, Csaba Kandrács, Kolos Kardkovács, Zoltán Kovács, György Matolcsy, Mihály Patai, 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

Barnabás Virág

The Council will hold its next policy meeting on 18 June 2024. The minutes of that meeting will be published at 2 p.m. on 10 July 2024.