MINUTES
OF THE MONETARY COUNCIL MEETING
19 NOVEMBER 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.

In 2024 Q3, economic growth had continued at a moderate pace in Europe. In the US, the labour market had remained strong and the economy had grown steadily. Chinese economic growth had slowed slightly. European economic activity might be subdued mostly due to the prolonged weak industrial production, while the ongoing Russia-Ukraine war, the intensification of the conflict in the Middle East and the generally tense geopolitical situation remained key risks. The outlook for economic growth next year had deteriorated in the euro area, and it had improved moderately in the US, while there had been no changes in China.

Slightly rising in October, inflation had stood at 2 percent in the euro area and price dynamics had moderately accelerated 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. As a result of geopolitical conflicts, the developments in oil and gas prices were surrounded by increased volatility, and looking ahead by uncertainty.

Since the October interest rate decision global investor sentiment had been volatile. This had primarily been driven by geopolitical developments, expectations for the macroeconomic outlook of developed economies and for the future interest rate paths of the world's leading central banks. Risk aversion towards emerging markets had increased in parallel with strengthening of the US dollar in the period. The Federal Reserve had reduced interest rates by 25 basis points in November. Over the past month, medium-term interest rate expectations for the policy rate had shifted upwards in the US, while the expected interest rate path of the European Central Bank had remained broadly unchanged. In the CEE region, the Czech central bank had reduced its policy rate by 25 basis points, and the Polish and the Romanian central banks had left interest rates unchanged at their latest rate-setting meetings.

Based on preliminary data, Hungary's GDP had declined by 0.8 percent year-on-year in 2024 Q3. The weak performance of industry, construction and agriculture had been the driving forces behind the slowdown of the economy, while the decline had been held back by an increase in value added in services. Real wage growth had continued to be strong. With gradual improvement in consumer confidence seen this year, savings rate had remained at a high level. The unemployment rate had risen to 4.5 percent in September; however, the labour market had remained close to full employment.

Gradually rising household consumption would be the main driver of domestic GDP growth in 2024. By contrast, the volume of investment was expected to fall in 2024. Underinvestment 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 in the coming years after external demand had strengthened; therefore, Hungary's export market share was likely to increase.

In the first nine months of the year, the household credit market had picked up from its end-2023 low and had grown at an accelerating pace; however, the corporate sector was still characterised by a wait-and-see approach regarding credit demand. After 2024, the annual growth rate of household loans might continue to increase in 2025, while the rate of corporate lending was expected to stabilise at a higher level from 2025 H2 in parallel with the pick-up in the economic performance and the ease in uncertainty.

In October 2024, inflation had risen to 3.2 percent and core inflation had been 4.5 percent. The rise in inflation had reflected the accelerating dynamics in food and fuel prices, which had been partly offset by moderating rises in annual services prices. The extent of repricing in the case of market services and tradables prices in October had remained below the historic average and it had been above the historic average in the case of food prices. The significant decline in market services prices on a monthly basis had been due to a significant fall in mobile phone and internet fees. The Council continued to closely monitor pricing decisions in the services sector. Household inflation expectations were declining; however, they remained at a significantly higher level than that of past periods of price stability.

Inflation was expected to rise temporarily in the rest of the year. Lower-than-expected inflation in October indicated lower inflation in the short term; however, exchange rate depreciation seen in past months, as well as changes to the system of excise duties were likely to have inflationary effects in the next year. 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 2025.

The current account had registered a surplus of more than EUR 5 billion in the first nine months of the year, with the surplus of monthly balance increasing further in September. The increase in the current account surplus this year would be largely explained by a more favourable goods balance. From 2025 onwards, a rising export market share resulting from the more intense use of existing capacities and new investments was likely to be reflected in a further improvement in the external position. According to the MNB's forecast, the current account surplus was to reach 2 percent of GDP in 2024, and the balance was likely to continue to improve in the coming years.

The deficit reduction measures of 2024 contributed to the achievement of the 4.5 percent deficit target set for this year. The submitted draft budget for 2025 had confirmed the 3.7 percent deficit-to-GDP target, to which deficit reduction measures were also allocated. Achieving the fiscal deficit target required keeping expenditure under control, similarly to 2024. According to the MNB's projection, the primary balance excluding interest expenditures was likely to reach near-equilibrium levels over the entire forecast horizon. In parallel with a gradual decline in government interest expenditures, the fiscal balance was expected to improve in the coming years. For the debt ratio to continue declining and Hungary's risk perception to improve, it was necessary to achieve the set deficit targets.

Following the review of macroeconomic and financial market developments, the Monetary Council discussed the details of its monetary policy decision. In the Council members' assessment, subdued economic activity in Europe was driven by weak industrial production, while geopolitical tensions remained key risks. Several members highlighted that a lower economic growth path was expected for the euro area next year, amid an improving economic outlook in the US and unchanged economic prospects in China relative to earlier international projections. It was pointed out that looking ahead, moderate inflation rates could be expected globally as a result of subdued global economic demand, while services disinflation was slow. Future developments in oil and gas prices, which are also decisive in terms of price dynamics, were surrounded by significant uncertainty.

Members stressed that sentiment in international financial markets had been volatile since the latest interest rate-setting meeting, and risk aversion towards emerging markets had increased in parallel with the appreciation of the US dollar in the period. Several members took note that consequences of capital outflows affecting emerging markets' foreign exchange market raised upside risks to inflation. In assessing international monetary policy, members pointed out that there had been an upward shift in expectations for the Federal Reserve's interest rate path in the medium term, while the expected interest rate path from the European Central Bank had not changed significantly. In assessing developments in international financial markets, the Council was in agreement that financial market stability remained a key factor in terms of price stability.

Turning to the domestic economy, members stressed that the decline in economic performance in 2024 Q3 had been driven by subdued industrial, agricultural and construction output. It was also noted that although real wage growth continued to be strong, consumer confidence had showed a moderate improvement this year, and the savings rate had remained at a high level. Some members highlighted that while the unemployment rate had risen in September, the labour market remained close to full employment. Council members agreed that the easing of precaution and an improvement in consumer confidence would be key in terms of domestic growth, which required achieving price stability in a sustainable manner. Several members emphasised that following the recent wait-and-see approach, corporate lending was expected to stabilise at a higher level in 2025, in parallel with the pick-up in the economic performance and the easing of uncertainty. Regarding the household sector, some members underlined that household lending was picking up at an accelerating pace and this growth was expected to continue next year.

Discussing domestic inflation developments, the Council concluded that the consumer price index had risen slightly but remained below expectations in October. The lower-than-expected data reflected declining price growth in market services. The Monetary Council was of the view that continued close monitoring of pricing decisions by the services sector remained key in appropriately assessing inflation developments and the outlook for inflation. Some members emphasised that the decline in prices across several sectors might indicate a correction of the profit inflation seen in recent years. Several members pointed out that despite inflation staying within the tolerance band, household inflation expectations remained at significantly higher levels than in past periods of price stability. This also supported the necessity of disciplined, stability-oriented monetary policy. In the context of the inflation outlook, members highlighted several factors acting in opposing directions and agreed that an overview of the result of their effects would be presented in the December Inflation Report. It was underlined that in addition to disciplined monetary policy, anchoring inflation expectations and preserving financial market stability were crucial to achieve the inflation target in a sustainable manner.

Emphasising recent favourable developments in the current account balance, Council members pointed out that the monthly surplus had increased further in September. Regarding fiscal developments, several members stressed that for the debt ratio to continue declining and

Hungary's risk perception to improve, it was necessary to achieve the set deficit targets. In this context, it was noted that achieving the next year's fiscal deficit target required keeping expenditure under control, similarly to this year.

Based on real economic developments, the inflation outlook and the assessment of the risk environment, members concluded that subdued economic growth in Hungary was largely fuelled by such factors as weak agricultural performance or subdued external activity which fell outside the scope of monetary policy. The inflation outlook had been shaped by factors acting in opposing directions. Supporting financial market stability was key especially in a period when risk aversion towards emerging markets was increasing. The Monetary Council reiterated its commitment to the achievement of the inflation target in a sustainable manner. Members were of the view that, 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 preserving price stability and maintaining financial market stability. In accordance with this assessment, the vast majority of members was in favour of leaving the base rate unchanged at the November 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.

In members' assessment, in order to maintain financial market stability and to ensure the effectiveness of monetary policy transmission, the MNB was ready to 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.

Most members agreed that the economic policies of the major economies were surrounded by uncertainty, and increasing risk aversion towards emerging markets raised upside risks to inflation; as a result, a careful and patient approach to monetary policy was still warranted. Decision makers underlined that geopolitical tensions, volatile financial market developments and the risks to the outlook for inflation warranted a further pause in cutting interest rates.

In the Monetary Council's assessment, the increase in risk aversion towards emerging markets posed an upside risk to domestic inflation. The expected interest rate paths of the world's leading central banks were still surrounded by uncertainty, and the external interest rate environment might ease more slowly than previously expected.

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 preserving price stability and maintaining financial market stability.

Based on this assessment, the Council had left the base rate unchanged at 6.50 percent at its November meeting. Accordingly, the O/N deposit rate and the O/N collateralised lending rate had been 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 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 stood ready to smooth 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 increasing risk aversion towards emerging markets. Looking ahead, a careful and patient approach to monetary policy was still warranted. Based on the incoming macroeconomic and financial market data, the Monetary Council would take decisions on the level of the base rate in a cautious and data-driven manner. In the Council's assessment, geopolitical tensions, volatile financial market developments and the risks to the outlook for inflation warranted a 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, 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 17 December 2024. The minutes of that meeting will be published at 2 p.m. on 15 January 2025.