MINUTES
OF THE MONETARY COUNCIL MEETING
22 OCTOBER 2024

Time of publication: 2 p.m. on 6 November 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:
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 was likely to have continued at a moderate pace in Europe. In the US, the labour market had remained strong and the economy had grown steadily. GDP growth had slowed in China in the third quarter on an annual basis. There was uncertainty around future developments in European economic activity due to the prolonged weak outlook for 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.

Inflation had declined both in the euro area and in the US in September. Looking ahead, moderate inflation rates were expected as global economic demand remained subdued; however, the stronger price dynamics of market services was still restraining disinflation. Oil and gas prices had increased sharply following the intensification of geopolitical conflicts, with a correction in global oil prices at the end of the period.

Risk aversion towards emerging markets had increased since the September interest rate decision as global investor sentiment had deteriorated. This had been mainly driven by the escalation of the conflict in the Middle East and the upward shift in expectations regarding the Federal Reserve's interest rate path. The European Central Bank (ECB) had lowered its policy rate by 25 basis points in October, and based on market pricing, expectations for the year-end level of the ECB's interest rates 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.

In 2024 Q2, the economic recovery had stalled in Hungary. Household consumption had picked up relative to a year earlier, and net exports had also made a positive contribution to economic growth while investment had declined significantly in the second quarter. In August, both industrial production and construction output had fallen compared to the same period last year, while the annual increase in the volume of retail sales had continued. Real wage growth continued to be strong, but consumer confidence was rising slowly from a low level. Despite the increase in household consumption, weak external demand as well as the subdued performance of agriculture and investment were likely to have restrained economic growth in 2024 Q3. The unemployment rate had stood at 4.2 percent in August; however, labour market tightness had eased over the past quarters.

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 would start to be partially offset with a permanent 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 continue to stimulate exports in the coming years as demand returned; therefore, Hungary's export market share was likely to increase. Hungary's GDP was expected to grow by 1.0–1.8 percent in 2024, by 2.7–3.7 percent in 2025 and by 3.5–4.5 percent in 2026.

In the first eight 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. The annual growth rate of household loans was expected to reach 9 percent in 2024 and to fluctuate around 10 percent from 2025. At the same time, due to the high stock of liquid assets of domestic companies in a regional comparison, the narrower supply of subsidised programmes, and the continued uncertain outlook for economic growth, the annual growth rate of corporate credit was expected to be 3 percent at the end of 2024 before stabilising at around 8–9 percent from 2025 H2.

Declining to 3.0 percent in September, inflation had stood at a level consistent with the central bank target and the forecast of the September Inflation Report. Core inflation had risen to 4.8 percent. The fall in inflation had been driven by slowing fuel price dynamics, which had partly resulted from base effects and partly from a decline in fuel prices. The increase in core inflation had reflected the stronger price dynamics of processed food. Disinflation of market services continued to be slow; therefore, the Council paid special attention to pricing decisions in the sector. Household inflation expectations had risen slightly in recent months.

The volatility of inflation seen in recent months would persist until the end of the year. The consumer price index was expected to rise slightly above 4 percent by the end of 2024, and core inflation was likely to be around 5 percent in the rest of the year. The disinflationary trend was expected to continue from 2025 Q1. According to the MNB's projection, annual inflation was expected to be between 3.5 and 3.9 percent this year on average. Average inflation was expected to be between 2.7 and 3.6 percent in 2025 and between 2.5 and 3.5 percent in 2026. 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 improvement in the external position was likely to continue further in 2024. The current account had registered a surplus of nearly EUR 4.4 billion in the first eight months of the year, with the monthly balance turning positive again in August. 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 investment 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 announced in the summer would support the attainability of fiscal deficit targets for 2024 and 2025, which also required keeping fiscal expenditure under control. 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 assessment of the members, economic activity in Europe was likely to remain subdued looking ahead, given the prolonged weak outlook for industrial production. Members concluded that although inflation in both the US and the euro area had fallen in September, price dynamics in the services sector remained high. In terms of global inflation risks, several members highlighted that energy prices had risen sharply following the escalation of geopolitical conflicts, and although world oil prices had corrected slowly by the end of the period, gas prices had remained at persistently higher levels.

In the Monetary Council's assessment, international investor sentiment had deteriorated since the September interest rate decision. Several members highlighted that the escalation of the conflict in the Middle East and the upward shift in expectations regarding the Federal Reserve's interest rate path had led to rises in emerging market spreads, thereby causing an increase in risk aversion. This had been reflected in rises in indicators of equity and bond market volatility and depreciation of emerging market currencies against the US dollar. Regarding the international monetary policy environment, some Council members pointed out that there was a divergence in the expected interest rate paths of the world's leading central banks.

Turning to the domestic economy, members stressed that economic growth was likely to have remained subdued in the third quarter. Several members highlighted that rises in household consumption and household lending may have supported economic growth, while weak external demand, declining agricultural output and subdued investment may have acted as a drag on growth. 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.

Discussing domestic inflation developments, the Council noted that the consumer price index in September had been in line with the Bank's 3.0 percent target and the projection in the September Inflation Report, while core inflation had risen to 4.8 percent. Some members pointed out that household inflation expectations had risen slightly in recent months. In addition, several members stressed that disinflation in market services remained slow, and therefore pricing decisions in this sector continued to warrant close monitoring. Members highlighted that the volatility in the consumer price index seen in recent months might remain until the end of this year, with the disinflationary trend continuing from 2025 Q1.

In the volatile environment, external balance and fiscal developments were key factors for the country's risk perception. Several Council members welcomed the fact that, with the monthly balance turning positive again in August, the current account had closed with a large surplus in the first eight months of the year. In addition, several members pointed out that the government measures announced in the summer had supported the attainability of the fiscal deficit targets for this year and next, but it remained essential to keep fiscal expenditure under firm control.

Members unanimously reaffirmed the Council's commitment to achieving the inflation target in a sustainable manner and to preserving financial market stability. Council members agreed that in the current macroeconomic environment, achieving price stability in a sustained manner and maintaining stability in financial markets were necessary for the increased precaution of households and companies to ease and economic growth to restart.

Members highlighted that the scope for decisions had changed since the September interest rate decision. The conditions that set the scene for the October meeting had mainly shifted in a negative direction. In line with its careful, patient and stability-oriented approach, the Monetary Council discussed the possibility of leaving interest rates unchanged as the only decision option. Regarding the inflation outlook, members highlighted that deteriorating international investor sentiment and volatile commodity prices together posed upside risks to domestic inflation. In addition, in the assessment of the Council members, the moderation in the external interest rate environment was likely to continue at a slower pace than previously expected, which also affected emerging markets. Based on this assessment, the Monetary Council unanimously decided to leave the base rate unchanged.

Several Council members stressed that maintaining stability in financial markets was essential to achieving price stability. In order to maintain financial market stability and to ensure the effectiveness of monetary policy transmission, members considered it warranted for the Bank to pay special attention to the expected state of the FX swap market at the end of the year, in line with its earlier practice. The MNB was ready to continue to smooth movements in financial markets at the end of the year using FX swap tenders, discount bill auctions and longer maturity instruments.

There was a consensus among decision makers that, given the increase in upside risks to inflation, careful and patient monetary policy was still warranted looking ahead. Members in general reaffirmed their commitment to the importance of cautious, data-driven and stability-oriented decision-making.

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.

In the Monetary Council's assessment, the domestic inflation outlook was consistent with the projection in the September Inflation Report. However, deteriorating international investor sentiment and volatile commodity prices posed upside risks to domestic inflation. The external interest rate environment might ease more slowly than previously expected, while the expected interest rate paths of the world's leading central banks were still surrounded by uncertainty.

Based on this assessment, the Council left the base rate unchanged at 6.50 percent at its October meeting. Accordingly, the O/N deposit rate and the O/N collateralised borrowing rate were 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 intensification of geopolitical conflicts had led to rises in energy prices and emerging market risk premia. As a result of these two effects, upside risks to inflation had increased. 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, re-intensifying geopolitical tensions, volatile financial market developments and the risks to the outlook for inflation warranted a 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, Mihály Patai, Gyula Pleschinger
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

The Council will hold its next policy meeting on 19 November 2024. The minutes of that meeting will be published at 2 p.m. on 4 December 2024.