



**MINUTES
OF THE MONETARY COUNCIL MEETING
24 SEPTEMBER 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.

European economic activity had continued to be subdued in 2024 Q2. The economy of Germany, Hungary's most important trading partner, had been stagnant. In the US, economic growth had picked up in the second quarter as growth had declined in China. There was uncertainty around future developments in external economic activity due to the weak outlook for European industrial production, while the ongoing Russia-Ukraine war and the generally tense geopolitical situation remained key risks.

Annual inflation had fallen both in the euro area and the US in August. Looking ahead, with slowing global economic demand, consumer price indices might continue to decline moderately around the world. The stronger price dynamics of market services was still restraining disinflation. Global oil and gas prices had fallen since the latest interest rate decision.

Investor sentiment had first deteriorated and then improved since the August interest rate decision. The global risk environment had primarily been shaped by information on the US economy and the Federal Reserve's (Fed) policy meeting. In September, the Fed and the European Central Bank (ECB) had lowered their policy rates by 50 basis points and 25 basis points, respectively. Based on market pricing, expectations for the year-end level of the Fed's interest rates had shifted down again and expectations for the ECB had remained broadly unchanged. In the CEE region, the Polish central bank had left its policy rate unchanged in September.

In 2024 Q2, the economic recovery had stalled in Hungary. Compared to 2024 Q1, domestic economic performance had fallen by 0.2 percent, while GDP had risen by 1.5 percent in annual terms. Household consumption had picked up by 4.2 percent in the second quarter on a yearly basis, and net exports had also made a positive contribution to economic growth. By contrast, investment had declined significantly. Investment had fallen in the sectors producing for the domestic and export markets and in others indirectly linked to the state, which had been only partly offset by the increase seen in the sectors directly linked to the government and household sectors. Real wage growth continued to be strong, but consumer confidence was rising slowly from

a low level. The unemployment rate had stood at 4.2 percent in July; 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. The consumption-boosting impact of strong real wage growth and stable employment would become more pronounced over the rest of the year. By contrast, the volume of investment was expected to fall in 2024, causing a significant slowdown in economic growth. 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.

The household credit market had picked up in 2024 H1; however, the corporate sector was still characterised by a wait-and-see approach regarding credit demand. Looking ahead, banks expected demand to grow further in the consumer credit market, based on the responses to the Lending Survey. The annual growth rate of household loans was expected to reach nearly 9 percent at the end of 2024 and to fluctuate around 10 percent from the beginning of 2025. However, due to the continued uncertain outlook for economic growth, the annual growth rate of corporate credit was expected to be 4 percent at the end of 2024 before stabilising at around 8–9 percent from 2025 H2.

In August 2024, inflation had eased back to the tolerance band again, with consumer prices rising by 3.4 percent in annual terms. Core inflation had declined slightly relative to the previous month to stand at 4.6 percent. The fall in inflation in August had primarily been due to a decline in fuel price inflation which was largely driven by base effects. Higher food repricing in July had been followed by a correction in prices in August. Disinflation of market services continued to be slow; therefore, the Council paid special attention to pricing decisions in the sector. Household inflation expectations were on a downward trend, but displayed more volatility than usual.

Although the volatility of inflation would persist until the end of the year, the disinflationary trend was expected to continue from 2025 Q1. The consumer price index was expected to fall further in September and to rise slightly above 4 percent by the end of 2024. Continued disinflation in 2025 Q1 would be underpinned by a lower external cost environment and more moderate retrospective

repricing next year. Core inflation capturing underlying developments was likely to rise in the coming months, fluctuating around 5 percent during the rest of the year. According to the MNB's projection, annual inflation was expected to be between 3.5 and 3.9 percent this year on 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. The MNB's projection for 2025 had been revised upward compared to the June inflation projection, primarily reflecting the pass-through of a rise in financial transaction fees into consumer prices. 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 in 2024. The increase in the current account surplus this year would be largely due to a more favourable goods balance, driven by a further rise in the terms of trade and falling imports, coupled with a decline in investment. From 2025 onwards, a rising export market share resulting from the more intense use of existing capacities and new investments would be reflected in a further improvement in the external position. The surplus on services would stabilise above 5 percent of GDP in the coming years. As a result, the current account surplus was expected to reach 2 percent of GDP in 2024 and was likely to be around 2.0–3.4 percent of GDP in 2025 and around 2.3–3.9 percent of GDP in 2026.

The announced deficit reduction measures would support the attainability of fiscal deficit targets for 2024 and 2025, which also required keeping fiscal expenditure under control. The budget deficit-to-GDP ratio was likely to be between 4.3 and 4.7 percent in 2024, 3.2 and 4.2 percent in 2025 and between 2.8 and 3.8 percent in 2026. 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 in 2024 and Hungary's risk perception to improve, it was necessary to achieve the set deficit targets in a credible manner. With the improvement in economic activity over the forecast horizon and the decline in government deficit, the government debt-to-GDP ratio was expected to decrease from the projected level of 73.2 percent in 2024 to 72.3 percent in 2025 and to 70.8 percent in 2026.

The Monetary Council had highlighted four alternative risk scenarios around the baseline projection in the September Inflation Report. These scenarios assumed faster-than-expected interest rate cuts by major central banks, a prolonged weakness in European economic activity, a

faster recovery in consumption driven by a more rapid unwinding of precautionary motives and slower growth in investment, respectively.

Following the review of macroeconomic and financial market developments as well as the September Inflation Report projection, the Monetary Council discussed the details of its monetary policy decision. Members agreed that external demand might remain subdued for a more prolonged period due to the unfavourable economic outlook in Europe, the ongoing Russia-Ukraine war and the generally tense geopolitical situation. Regarding global inflation developments, members concluded that although inflation in the US and the euro area had declined, price dynamics in the services sector remained high.

In the Monetary Council's assessment, the volatility in the risk environment continued to call for caution. Council members considered the changes in investor sentiment favourable overall; however, it was highlighted that the risk exposure of emerging markets remained significant. The Council was in unanimous agreement that the interest rate cuts by the Federal Reserve and the European Central Bank in September might provide a wider room for monetary policy manoeuvre in emerging markets. However, several members pointed out that the change in the external monetary policy environment also had a lasting impact on emerging markets, and therefore those shifts had to be assessed with appropriate carefulness.

In terms of the outlook for domestic economic growth, decision makers highlighted that household consumption would be the main driver of domestic GDP growth in 2024. They underlined that this was fuelled by strong real wage growth and the stable, high level of employment. Nevertheless, several members noted that investment activity by the corporate sector might remain weak until the uncertainty surrounding the outlook for demand eased; therefore, investment activity was expected to slow economic growth in 2024. Decision makers pointed out that the slower recovery in European export markets, and the German market in particular, was holding back domestic exports in general. Council members agreed that the easing of precaution would be key in terms of domestic growth, which required the achievement of price stability in a sustainable manner.

In terms of vulnerability, several Council members saw the continuing increase in the current account surplus as a positive development in the coming years. In addition, several members pointed out that as a result of the Government's announced measures, the attainability of the fiscal deficit target set for 2024 had improved, and the government deficit might decrease further from 2025 onwards; however, keeping fiscal expenditure under firm control remained key to achieve this.

Regarding inflation developments, the Council concluded that the consumer price index had returned to the central bank tolerance band in August and was in line with the Bank's June projection. Some Council members pointed out that higher food repricing in July had been followed by a correction in August. Several members emphasised that the easing of inflation expectations was a protracted process; therefore, the improvement in consumer and investor sentiment was also slow.

In terms of the inflation projection, members noted that the inflation rate would remain volatile over the short term, which was an important contributor to the continued high level of inflation expectations. However, the Council was in agreement that, overall, the outlook for inflation had not changed over the longer term compared to the June projection. In this context, several members indicated that disinflation would continue in 2025 Q1 due to a lower external cost environment and more moderate retrospective repricing next year. However, Council members highlighted that disciplined monetary policy and preserving financial market stability were crucial for the consumer price index to return to the central bank target in a sustained manner in 2025.

Decision makers agreed that in the current macroeconomic environment, achieving price stability and maintaining financial market stability were necessary for increased precaution to ease and economic growth to restart. Several members underlined that financial markets were volatile, geopolitical tensions had increased over the past months and the outlook for domestic inflation was still surrounded by risks. Members stressed that a cautious and patient approach to monetary policy continued to be warranted.

At its September policy meeting, the Monetary Council discussed two options: reducing interest rates by 25 basis points and leaving interest rate conditions unchanged. The Council considered these options primarily based on the outlook for inflation, economic agents' precaution and changes in the external monetary policy and risk environment. The consensus among decision makers was that disinflation was expected to continue over the monetary policy horizon; therefore, the MNB would meet its inflation target in a sustainable manner in 2025. The external monetary policy environment had become somewhat looser recently, the country's risk perception had improved slightly and confidence among economic agents continued to recover gradually. In the Council's assessment, all these factors allowed a careful reduction in interest rates. However, members in general argued for maintaining a restrictive monetary policy stance and preserving financial market stability.

The Monetary Council was unanimous in its decision to reduce the central bank base rate by 25 basis points. There was a consensus that, looking ahead, a data-driven approach to monetary policy continued to be warranted. The most important cornerstones of monetary policy had remained unchanged, as well, and as a result, Council members would continue to monitor closely developments in the outlook for domestic inflation, and they would constantly assess Hungary's risk perception and the international risk and monetary policy environment. Members emphasised that taking account of these factors, decisions on the level of the base rate would be taken month by month.

The Monetary Council was committed to continuing disinflation and 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 achieving price stability and maintaining financial market stability. Volatile financial market developments, the renewed increase in geopolitical tensions and the risks to the outlook for inflation continued to warrant a careful and patient approach.

The external monetary policy environment had become looser recently and the outlook for external economic activity remained subdued. Disinflation was expected to continue over the monetary policy horizon. Household consumption was expected to pick up gradually as confidence recovered slowly. Financial market developments were stable, and the country's risk perception had improved slightly overall. In the Monetary Council's assessment, all these factors had allowed a careful reduction in interest rates.

At its September meeting, the Monetary Council lowered the base rate by 25 basis points to 6.50 percent. Accordingly, the lower bound of the interest rate corridor, i.e. the O/N deposit rate, was reduced to 5.50 percent, while the upper bound, i.e. the O/N lending rate, was decreased to 7.50 percent. 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.

Looking ahead, risks surrounding international and domestic disinflation, as well as the volatility in 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, 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 6.50 percent, reducing the overnight collateralised lending rate to 7.50 percent and lowering the interest rate on the overnight central bank deposit to 5.50 percent:	8	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:

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 22 October 2024. The minutes of that meeting will be published at 2 p.m. on 6 November 2024.