MINUTES
OF THE MONETARY COUNCIL MEETING
25 FEBRUARY 2025

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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.

The EU economy had grown slightly in 2024 Q4. By contrast, growth had been buoyant in the US and the rate of China's economic growth had picked up. Intensifying trade policy tensions, the weak outlook for EU industrial production and the generally tense geopolitical situation continued to pose risks to external economic activity.

Global disinflation had come to a halt since last September, and consumer price indices had risen in a number of economies. In January, inflation had risen to 2.5 percent in the euro area and to 3.0 percent in the US. Looking ahead, increases in trade tariffs and continued high price dynamics in market services continued to pose upside risks to inflation. Crude oil and natural gas prices had remained broadly unchanged over the past month overall, but the latter remained at a higher level than the previous year's average.

Amid high volatility, global investor sentiment had improved overall since the January interest rate decision. This had been mainly driven by developments related to the US tariff hikes and geopolitical conflicts, as well as by expectations for the future interest rate paths of the world's leading central banks. The Federal Reserve (Fed) had left the target range for the federal funds rate unchanged, while the European Central Bank (ECB) had reduced interest rates by another 25 basis points in January. Market pricings suggested a continued divergence between the monetary policies of the Fed and the ECB in 2025 H1, which could lead to increased risk aversion towards emerging markets. In the CEE region, the Czech central bank had lowered its policy rate by 25 basis points, while the Polish and the Romanian central banks had left their policy rates unchanged.

The Hungarian economy had grown by 0.4 percent year-on-year in 2024 Q4. Compared to the previous quarter, GDP had grown by 0.5 percent, bringing the technical recession to an end. Retail sales had stagnated in December, while industrial production and construction activity had declined. Real wage growth continued to be strong. The number of employees had declined slightly but remained high by historical standards, while the unemployment rate had fallen to 4.3 percent.

Consumption, gradually expanding with the rise in real wages, was expected to be the driver of growth looking ahead. With a sustained improvement in demand, delayed investments in the corporate sector might start to be offset this year. Subdued European economic activity was holding back Hungarian exports; however, exports were expected to pick up from the middle of 2025, with a parallel rise in the country's export market share. The Hungarian economy was expected to gradually return to a balanced growth path.

Trends in domestic lending continued to have a dual nature: the household credit market had picked up further in December, while corporate credit demand had been low. The annual growth rate of household loans might continue to increase in 2025, while the growth rate of corporate lending was expected to stabilise at a higher level from 2025 H2, in parallel with a pick-up in economic performance and the easing of uncertainty.

Consumer prices had risen by 5.5 percent year-on-year in January, exceeding expectations. Core inflation had stood at 5.8 percent in January. The rise in the CPI had been mainly driven by accelerating price dynamics of market services, fuel and processed food. Repricings in market services at the beginning of the year, well exceeding the historical average, had largely reflected price hikes in the telecommunications and financial sectors. The Council continued to closely monitor pricing decisions in the services sector. Household inflation expectations remained at a high level.

The disinflationary trend was expected to restart in the first quarter. Disinflation was likely to be supported by more moderate repricings in market services in the spring compared to last year, while being slowed down by changes to the system of excise duties and by the exchange rate depreciation at the end of last year. Incoming data provided evidence that the risk of a higher inflation path this year had increased further. As a result, the consumer price index was expected to return to the tolerance band later than projected in the December Inflation Report. 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 2024, the current account balance had showed a surplus of EUR 6.1 billion, with the monthly balance in December rising by more than EUR 1 billion on a year earlier. The increase in the current account surplus in 2024 largely reflected a more favourable trade balance. With a higher utilisation of existing capacities and the ongoing investment projects turning productive, Hungary's rising export market share was expected to result in a persistently significant surplus in the country's external position over the forecast horizon as external demand normalises in 2025 H2. The country's favourable external financing position and the previously announced foreign investments, coupled with the expected continued significant FDI inflow pointed to a reduction in external debt indicators in the coming years.

The fiscal deficit had decreased in 2024 as the primary balance had been near equilibrium. Based on preliminary financial accounts data, the accrual-based budget deficit had amounted to 4.8 percent of GDP in 2024, and the government debt-to-GDP ratio had risen from 73.4 in 2023 to 73.6 percent at the end of the year. Achieving the 3.7 percent target adopted by Parliament would be supported by declining interest expenditures and tax measures aimed at increasing revenues. According to the MNB's projection, the primary balance excluding interest expenditures was likely to reach near-equilibrium levels over the entire forecast horizon. The government debt-to-GDP ratio was also expected to fall substantially by the end of the horizon as the fiscal deficit declined gradually. For the debt ratio to decline and Hungary's risk perception to improve, it was necessary to achieve the set deficit targets in a disciplined manner.

Following the review of macroeconomic and financial market developments, the Monetary Council discussed the details of its monetary policy decision. Members were of the view that, as a new factor, trade policy tensions also posed downside risks to the still unfavourable outlook for external economic activity. Several decision-makers pointed out that global disinflation had come to a halt since September 2024, and several economies were facing rising inflation rates. Several members also noted that increases in trade tariffs aggravated upside risks to inflation.

Decision-makers agreed that global investor sentiment had improved overall since the Council's previous interest rate decision but had remained volatile. Members noted that a continued divergence between the interest rate paths of the Federal Reserve and the European Central Bank was expected in 2025 H1, which might lead to a decline in risk appetite towards emerging markets.

Regarding fourth-quarter data on domestic economic growth, members noted that the technical recession had ended; however, monthly indicators of economic activity had been unfavourable in December. In decision-makers' assessment, real wage growth continued to be strong, while developments in the labour market were stable. Economic growth was increasingly broad-based in 2025. Members agreed that in the coming years, consumption was expected to remain the driver of growth, and offsetting delayed investments in the corporate sector also supported GDP growth. Some members highlighted that weak economic activity in Europe was likely to hold back Hungarian exports in 2025 H1, but the Hungarian economy was expected to return to a balanced growth path from the second half of the year.

Discussing domestic inflation developments, the Council concluded that inflation and core inflation had exceeded analysts' expectations in January. Some members underlined that repricings in market services at the beginning of the year had been of key importance; however, their level, well exceeding the historical average, had largely reflected price hikes in the telecommunications and financial sectors. Some members noted that strong repricings in the services sector and the elevated levels of inflation expectations were not consistent with the achievement of price stability in a sustainable manner; therefore, monitoring pricing decisions in the sector and managing longer-term inflation risks were key tasks.

Regarding the outlook for inflation, Council members noted that disinflation was expected to resume in the first quarter. Members pointed out that disinflation was likely to be supported by more moderate repricings in market services in the spring compared to last year, while being slowed down by changes to the system of excise duties and by the exchange rate depreciation at the end of last year. Members were in agreement that incoming data suggested an increased risk of a higher inflation path. Members emphasized that anchoring inflation expectations was crucial in order to achieve sustainable price stability, where the maintenance of financial market stability and disciplined monetary policy were also key elements.

Reviewing developments in the external position, members underlined that the monthly current account balance in December had risen by more than EUR 1 billion on a year earlier. In members' assessment, a sustained surplus was expected in the country's external position. Regarding fiscal developments, the Council assessed that in 2024, the government deficit had fallen and the primary balance had been close to equilibrium. Some members noted that the government debt-to-GDP ratio had risen somewhat relative to 2023. Decision-makers agreed that for the debt ratio to decline and Hungary's risk perception to improve, it was necessary to achieve the set deficit targets in a disciplined manner.

In the context of the February decision, the Monetary Council discussed one decision proposal, i.e. leaving the base rate unchanged. Council members reiterated their commitment to restarting disinflation as soon as possible and the achievement of the inflation target in a sustainable manner. Decision-makers agreed that the Bank could still make the greatest contribution to the easing of the precaution and to the restart of economic growth by maintaining price stability and financial stability. Generally, members were of the view that maintaining a restrictive monetary policy stance was still necessary, and positive real interest rates ensured the achievement of central bank targets. In line with this, at its February meeting, the Council unanimously decided to leave the base rate unchanged. Council members agreed that the uncertain international environment and the outlook for inflation warranted the maintenance of tight monetary conditions.

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 achieving price stability and maintaining financial market stability. In the Council's assessment, maintaining the effectiveness of monetary policy transmission was warranted in order to reach the inflation target again and to maintain financial market stability.

Based on this assessment, the Council left the base rate unchanged at 6.50 percent at its February meeting. Accordingly, the O/N deposit rate and the O/N collateralised lending rate had also been 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.

A careful and patient approach to monetary policy remained warranted due to trade policy and geopolitical tensions, upside risks to inflation as well as to uncertainty surrounding the future interest rate paths of the world's leading central banks. In the Council's assessment, the uncertain international environment and the outlook for inflation warranted the maintenance of tight monetary conditions.

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:	9	Éva Búza, Péter Gottfried, Csaba Kandrács, Kolos Kardkovács, Zoltán Kovács, György Matolcsy, Mihály Patai, Gyula Pleschinger, Barnabás Virág

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 25 March 2025. The minutes of that meeting will be published at 2 p.m. on 9 April 2025.