MINUTES
OF THE MONETARY COUNCIL MEETING
26 MARCH 2024

Time of publication: 2 p.m. on 10 April 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.

The US and Chinese economies had grown strongly, while European economic growth had stagnated in 2023 Q4. The short-term outlook for economic growth in Europe was still exposed to downside risks, which was further exacerbated by the generally tense geopolitical situation.

Inflation in the euro area had fallen further in February; however, the rapid disinflation seen earlier had slowed. In February, inflation in the US had been slightly above the figure seen in the previous month and expectations. Looking ahead, weakening global economic demand and lower commodity prices compared to previous years continuously suggested moderate inflation rates. However, the Red Sea conflict might cause disruptions in global value chains, leading to a renewed rise in freight costs. Oil prices had hovered around USD 85, while European gas prices had risen slightly from low levels over the past month.

International risk appetite had been volatile since the February interest rate decision. Sentiment in global financial markets had been influenced by expectations for the interest rate policies of the world's leading central banks, incoming macroeconomic data and developments related to the conflicts in the Middle East. In the case of the Federal Reserve and the European Central Bank, expected interest rate paths, based on market pricings, had shifted upwards relative to the beginning of the year, which had been accompanied by rises in long-term yields in developed markets in the first months of 2024. In the CEE region, the Czech central bank had lowered its policy rate by 50 basis points, while the Polish central bank had left monetary conditions unchanged in March.

Following the downturn in 2023, a slow recovery had begun at the beginning of 2024. Economic growth in Hungary might accelerate in the second half of the year. In the first month of 2024, construction output had shown double-digit growth in annual terms, while industrial production had declined. The volume of retail sales had increased slightly in January, breaking the decline in the previous thirteen months. As regards the main determinants of household consumption, real wages had risen in 2023 Q4, while slow improvement in consumer confidence indicator suggested

gradual easing of the precautionary motive. Labour market tightness had eased over the past months. With a high level of employment, the unemployment rate had risen slightly to 4.5 percent in January.

In 2024, with persistently moderating inflation, continuously rising real wages and strengthening confidence, the gradual expansion in Hungary's GDP would be mainly supported by domestic demand components. Export performance was affected by opposing trends. Persistently weak European economic activity was holding back domestic exports, but ongoing and newly announced, significant capacity-enhancing foreign direct investment projects were stimulating them over time. Reflecting weak demand in external markets, the Bank's expectation for this year was lower overall compared to the December projection and was consistent with a growth path of 2.0–3.0 percent. With the pick-up in the production of new export capacities built recently, a balanced economic growth was expected from 2025, and Hungary's export market share was likely to increase. Hungary's GDP was expected to rise by 3.5–4.5 percent in 2025 and by 3.0–4.0 percent in 2026.

Disinflation was strong and general in the Hungarian economy. In February, consumer prices had risen by 3.7 percent in annual terms, and as a result, inflation had been within the Bank's tolerance band again. The consumer price index had fallen by 0.1 percentage points compared to the previous month. Within this, the contribution of tradables and food prices to disinflation had been offset by the upward effects on inflation by fuel prices. Fuel prices had increased by 6.7 percent on a monthly basis, mainly due to the delayed appearance of price increasing effect of the rise in excise duties, effective from 1 January. Core inflation had eased by 1.0 percentage point to 5.1 percent in annual comparison. Inflation and core inflation had been lower compared to the middle value in the December Inflation Report projection. The annualised three-month change in core inflation had been below 3 percent since October 2023. Household inflation expectations had fallen in recent months.

The pace of price increases would rise temporarily in Hungary in the middle of this year due to the backward-looking pricing of market services and base effects. In addition, underlying developments would be shaped by two opposing effects. The weakening of the forint exchange rate in recent weeks pointed to a rise in imported inflation. On the other hand, the weaker cyclical position of the domestic real economy in the short term had a disinflationary impact. As a result of these two effects, the decline in core inflation, capturing underlying developments, would stop in

the second quarter and it was expected to fluctuate between 4.5 and 5.0 percent in the remainder of the year. Annual inflation was expected to be between 3.5 and 5.0 percent this year, indicating lower inflation path compared to the December projection. According to the projection of the MNB, inflation might be between 2.5 and 3.5 percent in 2025 and 2026. Anchoring inflation expectations, preserving financial market stability and the disciplined monetary policy were crucial for the consumer price index to return into the central bank tolerance band on a sustained manner from next year.

In 2023, the annual current account balance had turned to slight surplus, improving by over 8 percentage points due to lower energy prices, the adjustment of energy consumption and a decline in domestic demand. In January, the current account deficit had fallen significantly compared to the levels seen in the previous month and a year earlier. Taking into account data showing sharp fluctuations in November and December 2023, the figure in January was consistent with the fact that the current account had been close to equilibrium in recent months.

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. Overall, the current account balance as a share of GDP was expected to improve slightly in 2024 and to a greater extent in the coming years in parallel with an increase in Hungary's export market share. As a result, the current account surplus would continue to rise over the forecast horizon.

Based on preliminary financial accounts data, the accrual-based deficit of general government had been 6.7 percent of GDP in 2023. According to the MNB's projection, the government deficit might decline in 2024 compared to 2023. Based on preliminary data, gross government debt had fallen to 73.4 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.

The Monetary Council had highlighted three alternative scenarios around the baseline projection in the March Inflation Report. In the scenarios which assumed deceleration in global economic activity and a slower recovery in consumption, both economic growth and inflation might be lower compared to the baseline. In the third alternative scenario, as a result of the slowdown in global disinflation, the monetary policies of the world's leading central banks might remain tight for longer than in the baseline scenario.

Following the review of macroeconomic and financial market developments as well as the latest Inflation Report projection, the Monetary Council discussed the details of its March monetary policy decision. In the Council's assessment, the outlook for economic growth in Europe was still exposed to downside risks in the short term, while the escalation of the conflicts in the Middle East continued to be a source of tension. Members concluded that the rapid disinflation in Europe, continuing since the peak in October 2022, had stalled at the end of last year, while inflation in the US had been slightly above the figure seen in the previous month and expectations. Looking ahead, several factors pointed to a continued decline in inflation rates at a more moderate pace. However, decision makers stressed that the Red Sea conflict threatened to disrupt global value chains, which might lead to increases in freight costs. Discussing the international monetary policy environment, members highlighted that expected interest rate paths of the world's leading central banks, based on market pricings, had shifted upwards relative to the beginning of the year.

Decision makers concluded that both domestic and external demand pressures in the Hungarian economy were low and had a disinflationary impact. In addition, they noted that domestic inflation was expected to remain within the central bank's tolerance band in the coming months, however, the consumer price index would rise temporarily in the middle of this year due to the backward-looking pricing of market services and base effects. Among the factors shaping underlying inflation, the weakening of the forint exchange rate experienced during March pointed to an increase in inflation, while the weaker cyclical position of the real economy over the short term would have a disinflationary impact. Looking at longer-term developments, decision makers highlighted that the structure of inflation had changed, the signs of which were indicated mainly by the recent higher price increase of services compared to the previous period. Against this background, members stressed that subdued imported inflation was crucial to achieving the inflation target, for which maintaining stability in financial markets is essential.

Decision makers pointed out that following the downturn in 2023, a slow recovery had begun at the beginning of 2024. Economic growth in Hungary might accelerate in the second half of the year. In the member's assessment, the expansion in Hungary's GDP in 2024 were mainly supported by domestic demand components, i.e. gradually strengthening confidence and rising real wages parallel to the persistently moderating inflation. Several decision makers noted that expectations for growth and forward-looking indicators of Hungary's most important export partners signalled sustained weakness in external demand, which in turn was holding back Hungarian exports. At the

same time, ongoing and newly announced, significant capacity-enhancing foreign direct investment projects were stimulating exports over time. With the pick-up in the production of new export capacities built recently, a balanced economic growth was expected from 2025.

At the March policy meeting, decision makers discussed the alternatives of reducing the base rate by 50, 75 and 100 basis points. Monetary Council members were of the view that the continued strong and general disinflation allowed a further reduction in the base rate, while the increasing financial market risk aversion justified a slower pace than in February. In line with this, members unanimously voted for a reduction of 75 basis points in the base rate.

In addition, the Council reviewed factors of particular importance for interest rate policy over the coming months. In future inflation developments, anchoring inflation expectations was a key element. Among the more important factors influencing the country's risk perception, discussing developments in the external balance, members noted that the current account balance as a share of GDP was expected to improve slightly in 2024 and then further to a greater extent in the coming years. As regards government debt, the Council stressed that for the debt ratio to decline continuously in 2024, it was necessary to achieve the set deficit targets in a credible manner. The effect of the international monetary policy environment on the room for manoeuvre in domestic interest rate policy was another key aspect. In addition, the Council stressed that, as the pass-through of exchange rate change into consumer prices had become stronger, it was in the interests of the Hungarian economy to maintain a stable, predictable financial market environment. Financial market stability was also crucial for financing the state and anchoring inflation expectations through increasing confidence in Hungarian financial assets. In the Council's assessment, all these warranted careful and cautious monetary policy looking ahead.

In the coming months, the Monetary Council would continue to make decisions on any further reductions in the base rate and their optimal pace based on incoming data, the outlook for inflation and developments in the risk environment, in a data-driven manner. In the Council's assessment, monetary policy would enter a new phase from April, with the pace of interest rate reduction slowing in the second quarter.

Over the past few months, disinflation in the Hungarian economy had been stronger than expected, while external and domestic demand pressures had remained persistently low. However, in the volatile international sentiment, the risk premium on Hungarian assets had also risen recently. According to the assessment of the Monetary Council, the continued strong and

general disinflation allowed a further reduction in the base rate, while the increasing financial market risk aversion justified a slower pace than in February. In line with this, at its March meeting, the Monetary Council cut the base rate by 75 basis points to 8.25 percent. Accordingly, the lower bound of the interest rate corridor, i.e. the O/N deposit rate, was reduced to 7.25 percent, while the upper bound, i.e. the O/N lending rate, was lowered to 9.25 percent. Monetary policy continued to contribute to the maintenance of financial market stability, the continuation of disinflation and the achievement of the inflation target by ensuring positive real interest rates.

From the perspective of monetary transmission, the Bank considered it crucial that short-term interest rates developed consistently with levels of short-term rates deemed optimal by the Monetary Council in every sub-market and in every period, paying special attention to developments in FX swap market at the end of the quarter. The MNB ensured the maintenance of financial market stability using two instruments with maturity extending beyond the end of the quarter: T/N FX swap tenders announced on a daily basis, and weekly discount bill auctions.

Risks surrounding global disinflation, volatility in international investor sentiment and the temporary rise in domestic inflation, expected in the middle of the year, warranted a careful approach to monetary policy in the coming months. The Council was constantly assessing incoming macroeconomic data, the outlook for inflation and developments in the risk environment. In the coming months, decisions on any further reductions in the base rate and their optimal pace would be made on the basis of this information, in a data-driven manner.

Votes cast by individual members of the Council:

In favour of reducing the base rate to 8.25 percent, reducing the overnight collateralised lending rate to 9.25 percent and reducing the interest rate on the overnight central bank deposit to 7.25 percent:	9	Éva Búza, 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:

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 23 April 2024. The minutes of that meeting will be published at 2 p.m. on 8 May 2024.