MINUTES
OF THE MONETARY COUNCIL MEETING
29 APRIL 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:
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.

Intensifying trade policy tensions, in addition to prolonged geopolitical conflicts, were creating a generally uncertain global economic environment. The impacts of constantly changing tariff policy plans on the real economy varied by region. In the US, the risk of a recession had increased, while in the EU, the announced programmes for expenditure hikes might dampen the restraining effects of slowing international trade on economic growth looking ahead.

In the US, trade policy tensions were increasing inflation expectations, while in Europe the impact on prices was expected to be more muted for the time being. Against the backdrop of a deteriorating economic outlook, energy and commodity prices had fallen significantly, which pointed to lower inflation globally. Looking ahead, the upward effect of tariff announcements on inflation expectations, further rises in global food prices, and continued high price dynamics in market services posed upside risks to inflation.

There had been a significant increase in uncertainty in financial markets as well. Following the tariff hike announcements, equity indices had fallen sharply, while safe haven asset prices had risen. US long-term yields had been characterised by heightened volatility and European long-term yields had declined substantially. The euro had appreciated significantly against the US dollar. The European Central Bank had lowered interest rates by another 25 basis points in April, and expectations of further interest rate cuts had intensified. The Federal Reserve's expected interest rate path had also shifted downward. In the CEE region, the Czech, Polish and Romanian central banks had left their policy rates unchanged over the past month.

The volume of domestic retail sales had risen in February, while industrial production and construction activity had fallen compared to a year earlier. Real wage growth had continued to be strong, but consumer confidence had remained subdued. The number of employees was high by historical standards. Labour market tightness had eased in recent quarters.

Consumption was expected to grow further in 2025, alongside rising real wages and tax cuts by the Government. Economic growth was expected to pick up in an increasingly balanced structure over the forecast horizon as the large capacity-enhancing industrial investment projects started production. However, global rises in tariffs could lead to subdued export performance, and rising uncertainty could result in the postponement of certain investment projects, both of which could act as a drag on domestic economic activity.

Trends in domestic lending continued to have a dual nature: the household credit market had picked up further in February, while corporate credit demand had remained low. The annual growth rate of household loans might continue to increase in 2025. The growth rate of corporate lending was expected to rise from 2025 H2.

In March 2025, inflation had fallen to 4.7 percent and core inflation to 5.7 percent. Most product groups had contributed to the decline in the annualised consumer price index. The extent of repricings in March had been above the historical average in the case of tradables and market services and below in the case of food. Price expectations of both households and firms were at high levels; and moderating these was key to achieving the inflation target.

The inflation rate was expected to fall further in April and then to remain near the upper bound of the central bank tolerance band in the coming months. The fall in world oil prices had quickly fed through to fuel prices. In the case of food, profit margin caps introduced by the authorities in the affected product groups and, in the case of services, voluntary pricing commitments by telecom service providers and banks, were expected to moderate inflation.

Risks to the path of the inflation projection had increased due to the different timing and opposite direction of the effects of tariff announcements. Falling global commodity prices pointed to lower inflation in the short term. However, upside risks to inflation could intensify in the medium term in the event of increases in tariff rates. Rising uncertainty in international financial markets also increased risk aversion towards Hungarian assets, which also posed a risk of higher inflation.

The current account balance had showed a significant surplus of EUR 750 million in February. With an upswing in domestic demand, the current account surplus was expected to temporarily decline slightly in 2025; however, the external position was expected to remain in a persistently large surplus in the coming years.

In the MNB's projection, the fiscal deficit might decrease further in 2025, while the primary balance excluding interest expenditures was likely to be at near-equilibrium levels over the entire forecast horizon. The debt ratio was expected to fall in the coming years, even with the revised 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, the global economic environment was uncertain due to prolonged geopolitical conflicts as well as intensifying trade policy tensions. Regarding external economic activity, several members pointed out that looking ahead, the announced programmes for expenditure hikes might dampen the restraining effects of slowing international trade on economic growth in the EU.

In their assessment, several members emphasised that against the backdrop of a deteriorating economic outlook, energy and commodity prices had fallen significantly, which points to lower inflation globally. Some members indicated that looking ahead, in addition to rises in global food prices, and continued high price dynamics in market services, the upward effect of tariff announcements on inflation could also pose upside risks.

Council members agreed that announcements related to trade policies had significantly increased uncertainty in international financial markets, while risk aversion towards emerging markets had risen. Some members noted that expected interest rate paths of the world's leading central banks had shifted downwards since the Council's previous interest rate decision.

In their assessment, several members highlighted that consumption was expected to grow further in 2025. Several members stressed that overall, trade policy developments had acted in the direction of a slowdown in the domestic economy, as increases in trade tariffs might lead to subdued export performance, and rising uncertainty could result in the postponement of certain investment projects.

Several members pointed out that in March, both domestic inflation and core inflation had moderated; however, the consumer price index had remained above the central bank tolerance band. Some members underscored that the annual price index of market services had decreased, which was mainly driven by the fading of the upward effect on inflation of last year's significant backward looking repricing. Additionally, some members highlighted that price expectations of both households and firms had moderated somewhat in March; however, they had remained at high levels. In the coming period, the Council would pay particular attention to the persistence of the shifts in market services price dynamics and in inflation expectations.

Regarding the inflation outlook for the coming months, several members noted that profit margin caps introduced by the authorities, and voluntary pricing commitments by telecom service providers and banks would have an impact on moderating inflation. In the Council's assessment, risks to the path of inflation had increased due to the different timing and opposite direction of the effects of tariff announcements. Some members noted that the fall in world oil prices quickly fed through to domestic fuel prices pointing to lower inflation over the short term. However, upside risks could intensify in the medium term in the event of increases in tariff rates. Moreover, rising uncertainty in international financial markets also increased risk aversion towards Hungarian assets, which also poses a risk of higher inflation.

In the Council members' assessment, Hungary's money and capital market perception was stable, which was also supported by improving fundamentals. Looking ahead, several members highlighted the importance of changes in external balance and fiscal developments as the determining factor in the risk appetite towards domestic financial instruments. Council members welcomed the significant current account surplus seen in February and the fact that the external position was expected to remain in a persistently large surplus in the coming years. In addition, several members noted that the debt ratio was expected to fall, even with the revised deficit targets, while the primary balance was likely to be at near-equilibrium levels over the entire forecast horizon.

Members agreed that the Bank could still make the greatest contribution to the easing of the precaution and to sustainable economic growth by maintaining price stability and financial market stability. The general view among members was that maintaining a restrictive monetary policy stance was still necessary, and the maintenance of positive real interest rates ensured the achievement of price stability.

In the context of the April decision, the Monetary Council discussed one option for decision, i.e. leaving the base rate unchanged. In line with the stability-oriented approach, the Council decided unanimously to leave the base rate unchanged at its April meeting. Council members agreed that a careful and patient approach to monetary policy remained necessary due to risks surrounding the inflation environment as well as trade policy and geopolitical tensions. Council members reaffirmed their stance that maintaining tight monetary conditions was warranted.

In the current macroeconomic environment, the Bank could make the most effective contribution to the easing of economic agents' increased precaution and to sustainable economic growth by achieving price stability and maintaining financial market stability. Restrictive monetary policy contributed to the maintenance of financial market stability, the anchoring of inflation expectations consistently with the central bank target and, as a result, to the achievement of the inflation target in a sustainable manner by ensuring positive real interest rates.

In line with the stability-oriented approach, the Monetary Council had left the base rate unchanged at 6.50 percent at its April meeting. The O/N deposit rate and the O/N lending rate had also remained unchanged, at 5.50 percent and 7.50 percent, respectively.

The Monetary Council was committed to the achievement of the inflation target in a sustainable manner. A careful and patient approach to monetary policy remained necessary due to risks to the inflation environment as well as trade policy and geopolitical tensions. In the Council's assessment, maintaining tight monetary conditions was warranted.

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, Zoltán Kurali, Andrea Mager, Mihály Varga, Barnabás Virág

The following members of the Council were present at the meeting:

Éva Búza

Péter Gottfried

Csaba Kandrács

Kolos Kardkovács

Zoltán Kovács

Zoltán Kurali

Andrea Mager

Mihály Varga

Barnabás Virág

The Council will hold its next policy meeting on 27 May 2025. The minutes of that meeting will be published at 2 p.m. on 11 June 2025.