MINUTES
OF THE MONETARY COUNCIL MEETING
27 MAY 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.

Rapidly changing trade policy plans had increased global economic uncertainty. As the first trade agreements were more favourable than expected by market analyses, the risk of recession in the United States had decreased. In the European Union, the announced programmes for expenditure hikes could stimulate growth in the upcoming years, dampening the restraining effects of slowing international trade.

Higher tariffs were increasing inflation expectations in the United States, while in Europe the impact on prices was expected to be more muted for the time being. Looking ahead, the upward effect of tariffs on inflation expectations, elevated global food prices, as well as continued high price dynamics in market services posed upside risks to inflation. Lower energy and commodity prices were decreasing global inflation in the short term.

Global investor sentiment had improved. Major stock market indices had increased and long-term yields in the United States and in Europe had risen due to the significant government borrowing. The Federal Reserve had left the target range for the federal funds rate unchanged in May, while the interest rate path expected from the central bank had shifted upward. Market expectations for the European Central Bank's key interest rate had also moved up. In the CEE region, the Czech central bank had lowered the policy rate by 25 basis points and the Polish central bank by 50 basis points, while the Romanian central bank had left the key interest rate unchanged.

In Q1, Hungarian economy had stagnated compared to a year earlier. Industry and construction had restrained economic performance, which was lower than expected, while services had had a positive effect. In March, domestic retail trade had increased slightly. Consumer confidence had remained subdued. The number of employees was high by historical standards, while labour market tightness had eased further. Wage dynamics had generally slowed down in the beginning of 2025.

Domestic consumption was expected to grow further in 2025, alongside rising real wages. Economic growth was expected to pick up in a more 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.

The domestic credit market continued to have a dual nature: household lending had picked up further in March, 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. The capitalisation of Hungarian banks was strong, and their liquidity level remained abundant despite expiring central bank programmes.

In April 2025, inflation had fallen to 4.2 percent and core inflation to 5.0 percent. A wide range of products had contributed to the decline in the annualised consumer price index. The extent of repricings in April had been above the historical average in the case of tradables and market services. In the case of food, repricing had fallen short of the historical average, partly due to the official restriction on profit margins introduced in mid-March. Price expectations of both households and firms had decreased, although they had remained at high levels. Moderating expectations was key to achieving the inflation target.

The inflation rate was expected to remain near the upper bound of the central bank tolerance band in the coming months. Lower world oil prices had fed through to domestic fuel prices. Profit margin caps introduced by the authorities in the case of food and extended to a number of household goods, as well as the voluntary pricing commitments by telecom service providers and banks, were also expected to moderate inflation. However, the strong price dynamics in market services pointed to higher inflation throughout the year.

Tariff announcements had led to risks to inflation with different timings and opposite directions in the domestic economy. Lower global commodity prices pointed to decreasing inflation in the short term. However, permanent increases in tariff rates and the effect of uncertainty in international markets on risk aversion towards Hungarian assets could intensify upside risks to inflation in the medium term.

The current account balance had showed an outstanding surplus of EUR 1050 million in March. 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 and 2026 from 4.9 percent in 2024. Following the 0.1 percent surplus in 2024, 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's assessment, the external environment remained uncertain due to tariffs and geopolitical conflicts; however, investor sentiment had improved. In this context, some members pointed out that international long-term yields had typically increased. In addition to the central banks of the CEE region reducing interest rates, the European Central Bank was also expected to reduce its policy rate, based on analyses and market pricing. In the decision makers' assessment, the changes to the external environment over the last month might be significant for domestic monetary policy, in the case they prove to be lasting.

When assessing Hungary's outlook for economic growth, Council members highlighted the decisive role of tariffs and uncertainty. Several decision makers pointed out that labour market tightness had eased. Some members noted that despite real wage growth remaining strong, the improvement in consumer confidence was delayed. Members emphasised that the effects on inflation of the developments that had taken place since March regarding the labour market and economic outlook would be able to be assessed more accurately based on the MNB's June forecast.

In the decision makers' assessment, Hungary's money and capital market perception was stable. Regarding the country's risk perception, Council members highlighted the current account surplus in March, which was close to historical levels. Some members pointed out that over the previous weeks, the exchange range of the forint had been in a narrow range.

Most decision makers emphasised that domestic inflation remained above the central bank tolerance band. Disinflation had been taking place since February; however, measures of underlying inflation remained significantly above the level consistent with price stability. Some members pointed out that household and corporate price expectations had decreased in the previous months; however, it was the unanimous opinion of the Council that they were still high. Regarding outlook, decision makers concluded that despite several factors pointing to the consumer price index decreasing, upside risks to inflation may increase in the medium term. The Council was in agreement that the timing and content of international tariff agreements would be key regarding the outlook on economic growth and inflation.

Decision makers 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 May 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 May meeting.

Council members agreed that changing the forward guidance was not warranted. In the Council's assessment, 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. Decision makers 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 May 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 24 June 2025. The minutes of that meeting will be published at 2 p.m. on 9 July 2025.