# MINUTES
# OF THE MONETARY COUNCIL MEETING
# 21 NOVEMBER 2023

Time of publication: 2 p.m. on 6 December 2023

*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.

Heightened geopolitical tensions were posing increased risks to the outlook for the global economy in general. In 2023 Q3, economic growth had slowed in the EU and China, while it had accelerated in the US. However, the short-term economic outlook was exposed to downside risks. The persistently high inflationary environment and the ongoing Russia-Ukraine war was a source of significant uncertainty to the outlook for economic activity globally, and particularly in Europe. In the meantime, the escalation of the situation in Gaza contributed to the increase in geopolitical tensions.

Global trends pointed to continued disinflation. Weakening global economic demand, lower commodity prices compared to the previous year and the correction in international freight costs suggested a continued decline in inflation rates. However, volatility in commodity prices had persisted, continuing to pose a risk to inflation. Core inflation indicators, falling at a slower pace, suggested that achieving price stability again was expected to be a protracted process in general.

International risk appetite had been volatile since the September policy decision. Sentiment in global financial markets had been significantly influenced by expectations for the monetary policies of the world's leading central banks and incoming macroeconomic data. In addition, continuing geopolitical tensions had raised uncertainty. Based on market expectations, the Federal Reserve's and the European Central Bank's interest rates might have peaked; however, monetary conditions would remain tight for a prolonged period, according to communication from both central banks. Central banks in the CEE region had left their policy rates unchanged in the month.

In 2023 Q3, Hungary's GDP had declined by 0.4 percent in annual terms, but had risen by 0.9 percent compared to the previous quarter, indicating that the recession had ended. Based on preliminary data, the main contributor to the downturn in domestic economic performance had been the decline in industrial output and market services, while agricultural performance had moderated the decline. The household confidence indicator had improved slightly in October. In September, industrial production, construction output and retail sales had fallen in annual terms.

By contrast, vehicle production, accounting for the largest share of industrial production, had increased. The labour market remained tight, and the unemployment rate was low.

In 2023, subdued economic performance had mainly reflected high inflation and declining government investment. Cautious consumer and investment decisions had led to a decline in domestic demand. However, this year's economic performance was expected to be improved significantly by the correction in agricultural production after last year's drought. The real wage index, increasing since September, was also expected to contribute to a slow pick-up in performance towards the end of the year. Net exports were expected to make a positive contribution to economic growth in 2023. Declining inflation and the recovery in domestic demand components were likely to support GDP growth in 2024 and 2025. With the pick-up in the production of new export capacities built recently, Hungary's export market share was expected to increase further. In our projection, in 2023, Hungary's economic performance was expected to be in the lower half of the range provided in the September Inflation Report. In 2024 and 2025, Hungary's GDP was expected to expand by 3.0–4.0 percent.

The widespread and general decline in domestic inflation had continued in October. Consumer prices had risen by 9.9 percent in annual terms, and, as a result, the rate of price increases had fallen back into single-digit territory again, nine months after the peak in inflation at the beginning of the year. Core inflation had stood at 10.9 percent. The consumer price index had been significantly lower, by 2.3 percentage points, than the September value, primarily reflecting the slowdown in the price dynamics of food and fuel. Core inflation had slowed across a wide range of products and services, so the indicator had declined by 2.2 percentage points from the previous month. The three-month annualised change in core inflation, an indicator better capturing underlying inflation in the current situation, had fallen below 3 percent. Recent monthly repricings reflected in inflation and core inflation had been below the historical average for October. The October data on both inflation and core inflation had been in the more favourable lower half of the forecast range provided in the September Inflation Report.

In the coming months, domestic CPI inflation and core inflation would continue to decrease. Tight monetary policy, the downward pressure on prices from the Government's measures to strengthen market competition, lower commodity prices compared to the previous year and subdued domestic demand were expected to have an increasingly broad-based strong disinflationary effect. Annual inflation was expected to be around 7 percent at the end of the year.

The consumer price index was expected to return to the central bank tolerance band in 2025. Annual inflation might fluctuate between 17.6–18.1 percent in 2023, between 4.0–6.0 percent in 2024 and between 2.5–3.5 percent in 2025.

Due to the less favourable macroeconomic developments than expected and the increase in expenditures, the Government had raised the ESA deficit target for the 2023 budget to 5.2 percent in October. The government debt ratio was expected to fall from 73.9 percent at the end of 2022 to nearly 71 percent by the end of 2023.

There had been a rapid and substantial improvement in the external balance. The current account had been in significant surplus in September 2023. The trend-like improvement in the external balance position had been driven by significantly lower energy prices compared to the previous year, the adjustment of energy consumption, shrinking import intensity due to subdued domestic demand, and growing vehicle and battery industry exports. From 2024, the favourable external balance position was expected to persist, reflecting the utilisation of new export capacities built recently and a normalising global economic environment. Overall, the current account deficit was expected to fall below 1 percent of GDP in 2023, with the balance expected to improve further over the forecast horizon.

Following the review of macroeconomic and financial market developments, the Monetary Council discussed the details of its November monetary policy decision. In the Council's assessment, the persistently high inflationary environment and the Russia-Ukraine war were a source of significant uncertainty to the outlook for economic growth internationally, and particularly in Europe, while the ongoing conflict in Gaza contributed to the increase in geopolitical tensions. Decision makers were of the view that global disinflation had continued; however, rapidly changing commodity prices continued to pose risks. Several members concluded that a slow decline in core inflation indicators suggested that achieving price stability again was expected to be a protracted process.

Decision makers agreed that the recent volatility in international investor sentiment had been strongly influenced by expectations for the monetary policies of the world's leading central banks and incoming macroeconomic data. In addition, geopolitical tensions had raised uncertainty further. Council members highlighted that the Federal Reserve's and the European Central Bank's interest rates may have peaked; however, monetary conditions would remain tight for a prolonged period, according to communication from both central banks.

The general view among members was that Hungary’s macroeconomic fundamentals had continued to improve in several areas. There was a significant and widespread decline in domestic inflation. Several decision makers pointed out that in October inflation had reached the one-digit territory again sooner than expected: only nine months had passed since the peak of over 25 percent seen in January. In addition, it was also noted that the October inflation and core inflation data had been in the more favourable lower half of the forecast range provided in the September Inflation Report. Members concluded that the October inflation data confirmed that tight and disciplined monetary policy played a key role in the disinflationary process, which was also driven by the Government’s measures to strengthen competition, lower commodity prices compared to the previous year and subdued domestic demand. The decision makers were in agreement that inflation and core inflation continued to decline. Inflation might be already around 7 percent in December. In the Council’s unanimous view, disinflation had to be continued in 2024, as well.

The decision makers noted that the technical recession had ended in the real economy. Hungary’s GDP had declined by 0.4 percent in 2023 Q3 year on year; however, economic performance had already risen by 0.9 percent compared to the previous quarter. It was also noted that there was a rapid and substantial improvement in the external balance, and looking ahead, the current account balance might improve more rapidly than earlier expected.

Monetary Council members were unanimous in their view that strong disinflation and the stability of financial markets allowed a further reduction in the base rate; however, a cautious approach should be maintained due to existing external financial market and geopolitical risks. Decision makers discussed alternatives of lowering the base rate by 50, 75 or 100 basis points, and then of the three options, they unanimously supported a reduction in the base rate and the interest rate corridor by 75 basis points. They concluded that with disinflation accelerating, the base rate remained above the level of inflation in October. In this context, it was noted that the positive real interest rate supported a further decline in inflation. Finally, members pointed out that disciplined monetary policy was still required in order to achieve price stability in a sustainable manner.

The Monetary Council took its decisions step-by-step, carefully and in a data-driven manner, paying particular attention to incoming data, factors influencing the inflation path and developments in the risk environment.

Strong disinflation and the stability of financial markets allowed the MNB to continue shaping monetary conditions by lowering the base rate. At the same time, external risks continued to warrant a cautious approach. In line with this, at its meeting on 21 November the Monetary Council cut the base rate by 75 basis points to 11.50 percent. Accordingly, the lower bound of the interest rate corridor, the O/N deposit rate, was reduced to 10.50 percent, while the upper bound, the O/N lending rate, was reduced to 12.50 percent. With disinflation accelerating, the domestic real interest rate had risen further. The positive real interest rate supported the further decline in inflation.

Risks surrounding global disinflation and volatility in international investor sentiment warranted a careful approach to monetary policy. The Council was constantly assessing incoming macroeconomic data, the outlook for inflation and developments in the risk environment, and it would take decisions on additional changes in monetary conditions based on these factors in the coming months.

**Votes cast by individual members of the Council:**

| | | |
|---|---|---|
| **In favour of reducing the base rate to 11.50 percent, reducing the overnight collateralised lending rate to 12.50 percent and reducing the interest rate on the overnight central bank deposit to 10.50 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 19 December 2023. The minutes of that meeting will be published at 2 p.m. on 10 January 2024.**