MINUTES
OF THE MONETARY COUNCIL MEETING
30 JANUARY 2024

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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.

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

Inflation in the euro area had risen temporarily; however, underlying developments still pointed to a decline. In the US, the pace of price increases had been slightly stronger than expected in December. Weakening global economic demand and lower commodity prices compared to previous years suggested a continued decline in inflation rates. However, the increase in international freight costs due to the Red Sea conflict might cause disruptions in global value chains, leading to a renewed rise in freight costs. Despite geopolitical tensions, oil prices had remained unchanged at around USD 80 and European gas prices had continued to decrease.

International risk appetite had been volatile since the December 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. Based on market pricings, the Federal Reserve’s and the European Central Bank’s interest rates had peaked, and therefore market participants’ attention had been focused on the timing of the start and expected size of interest rate cuts over the period. 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 monetary conditions unchanged.

Following the rebound in 2023 Q3, domestic growth had been subdued in 2023 Q4. In November, industrial and construction output and the volume of retail sales had fallen in annual terms. Primarily due to high inflation, the economy had declined moderately throughout 2023. This decline had been dampened by the outstanding performance of agriculture. The household confidence indicator had continued to improve slowly in December. Accompanied by a high level of employment, the labour market remained tight and the unemployment rate was low even by EU standards.

As inflation moderated, real wages rose and confidence gradually recovered, leading to a recovery in domestic demand, a more balanced economic growth was expected in 2024. Persistently weak European economic activity was holding back domestic exports, but with the pick-up in the production of new export capacities built recently, Hungary's export market share was expected to increase over the entire forecast horizon. Hungary's economic performance might have been in the range of (-0.6) – (-0.4) percent in 2023. GDP was projected to increase by 2.5–3.5 percent in 2024, by 3.5–4.5 percent in 2025, and by 3.0–4.0 percent in 2026.

Disinflation had been widespread and persistent in the Hungarian economy. The general decline in domestic inflation had continued at a rapid pace in December. Consumer prices had risen by 5.5 percent in annual terms and core inflation had stood at 7.6 percent. The incoming inflation data had been well below analysts' expectations. The consumer price index had fallen significantly by 2.4 percentage points, while core inflation had declined by 1.5 percentage points from the previous month. Compared to other European countries, inflation had fallen to the greatest extent in Hungary last year. Consequently, domestic inflation had been one of the lowest in the region at the end of the year. The trend-like slowdown in underlying inflation was indicated by the fact that the annualised three-month change in core inflation had been around 3 percent since September.

Disinflation was expected to continue in 2024 Q1, and as a result, inflation was likely to approach the upper bound of the tolerance band in the spring months. Disciplined monetary policy, the Government's measures to strengthen market competition, subdued domestic demand, and a significantly lower external cost environment than in recent years jointly supported a further moderation in price growth. In Hungary, as in other countries, inflation might rise temporarily from the second quarter due to base effects. The consumer price index was expected to return to the central bank inflation target persistently in 2025. Annual inflation might be between 4.0 and 5.5 percent in 2024 and between 2.5 and 3.5 percent in 2025 and 2026.

The rapid and substantial improvement in the external balance had continued. In November 2023, the monthly current account balance had been in a significant surplus not seen for over seven years. The sustained improvement in the external position reflected shrinking imports caused by significantly lower energy prices and the adjustment of energy consumption on the one hand, and by the decline in domestic demand on the other. Developments in the current account balance had been primarily driven by changes in the balance of goods, while the services account had remained in surplus. The current account balance-to-GDP ratio had improved by more than 8

percentage points in 2023. As a result, the surplus had recovered at an unprecedented rate even in historical comparison.

In 2023, the annual current account balance had turned slightly positive, and it was expected to increase further in 2024 and in the coming years. Looking ahead, the utilisation of new export capacities built recently and the improving global economic environment were expected to give new impetus to exports in the coming years. The inflow of EU funds that had started in December would contribute to a strengthening in Hungary’s net lending and an increase in central bank foreign exchange reserves which were already at historically high levels.

Based on the 2023 end-of-year projection by the Ministry of Finance, the government deficit might have amounted to 5.9 percent of GDP in 2023. According to the projection in the MNB’s December Inflation Report, the government deficit-to-GDP ratio might be between 2.9 percent and 3.9 percent in 2024. The government debt ratio might have fallen to around 73 percent of GDP in 2023, and it was expected to decline further over the forecast horizon.

Following the review of macroeconomic and financial market developments, the Monetary Council discussed the details of its January monetary policy decision. In the Council’s assessment, the outlook for global economic growth continued to be exposed to downside risks, while the escalation of the conflicts in the Middle East generated additional tension. Members judged that disinflation was a general phenomenon globally, and several factors suggested a continued decline in inflation rates. However, some decision makers pointed out that due to the Red Sea conflict, disruptions might appear in global value chains which might lead to additional increases in freight costs.

Regarding the international monetary policy environment, some members pointed out that the Federal Reserve and the European Central Bank might start to reduce their policy rates, although the expected timing had been shifted to a later date compared to expectations at the end of 2023. In addition, Council members noted that market expectations were conditioned on significantly lower interest rate levels compared to the interest rate paths apparent in communications by decision makers. In the Council’s assessment, risks related to global disinflation and volatility in international investor sentiment warranted a disciplined and stability-oriented approach to monetary policy.

In the members' judgement, disinflation was broad-based and persistent in the Hungarian economy. Several members pointed out that domestic inflation had fallen to one of the lowest levels in the region by the end of 2023. Others emphasised that underlying inflation showed a trend-like slowdown and as a result, inflation was likely to approach the upper bound of the tolerance band in the spring months.

Decision makers pointed out that domestic growth had been subdued in 2023 Q4. In the members' view, the economy had declined throughout 2023 primarily due to high inflation, so it was critical to achieve price stability again for economic growth as well. Several decision makers noted that the rapid and substantial improvement in the external balance had continued. Council members unanimously agreed that the inflow of EU funds that had started in December would strengthen Hungary's net lending and increase central bank foreign exchange reserves which were already at historically high levels.

Several Council members indicated that the debate around reference rates and increased uncertainty around relations with the European Union had an adverse effect on the risk environment in the period preceding the decision, and tension had risen significantly in domestic financial markets amid uncertainty. Council members agreed that it was crucial to ensure financial market stability in order to achieve price stability.

At the January policy meeting, the decision makers discussed the alternatives of reducing the base rate by 75 and 100 basis points again. Monetary Council members were unanimously of the view that disinflation in the Hungarian economy had been stronger than expected for months, while external and domestic demand pressures remained low and Hungary's risk perception had improved further. In the Council's assessment, macroeconomic fundamentals, in particular developments in inflation, would have allowed a greater reduction in the base rate of 100 basis points.

Council members made a generally positive assessment of the reduction in Hungary's vulnerability in several areas (external balance, terms of trade, inflation). However, several members high-lighted that it was important to ensure that these positive developments persisted. The domestic risk environment had been unfavourable in the one and a half weeks leading up to the interest rate decision; therefore, the Monetary Council assessed that a careful and stability-oriented ap-proach to monetary policy was warranted. Accordingly, the majority of the decision makers agreed that the easing cycle should be continued in 75 basis point increments as in previous months. Two

members expected a quick easing in the factors that had contributed to financial market tensions in the week before the interest rate decision, which, in addition to strong disinflation, low demand pressures and developments in analysts' expectations warranted a reduction of 100 basis points in their view.

There was a consensus in the Council that positive real interest rates would help disinflation to continue and to achieve the inflation target. However, several members pointed out that as inflation approached the central bank tolerance band, real interest rates were going to fall.

Decision makers agreed that the phasing-out of the long-term deposit facility at the end of January was warranted in order to simplify the central bank monetary policy toolkit. In addition, Council members concluded that the use of the swap facility providing foreign currency liquidity had again contributed to the maintenance of stability in the swap market in December 2023, and therefore the MNB would continue to use the instrument.

Due to risks surrounding global disinflation and volatility in international investor sentiment, decision makers reiterated their commitment to a careful and stability-oriented approach to monetary policy. 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.

Over the past few months, disinflation in the Hungarian economy had been stronger than expected, while external and domestic demand pressures remained persistently low. As a result of the trend-like improvement in Hungary's current account balance, the country's risk perception had improved further despite a volatile global sentiment. According to the Monetary Council, this allowed the base rate to continue to be lowered. In line with this, at its meeting in January, the Monetary Council cut the base rate by 75 basis points to 10 percent. Accordingly, the lower bound of the interest rate corridor, i.e. the O/N deposit rate, would be reduced to 9 percent, while the upper bound, i.e. the O/N lending rate, would be lowered to 11 percent. Positive real interest rates would help to continue disinflation and achieve the inflation target. As inflation approached the central bank tolerance band, real interest rates were expected to decline.

The MNB continued to simplify the central bank monetary policy toolkit started in autumn 2023. In the Monetary Council's assessment, the long-term deposit facility had been successful in fulfilling its stabilising function, and therefore the Bank would discontinue its use with effect from 31 January. In addition, in the Council's judgement, the use of the swap facility providing foreign

currency liquidity in December 2023 had contributed to the maintenance of stability in the swap market again, and therefore the MNB would continue to use the instrument.

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. 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 10.00 percent, reducing the overnight collateralised lending rate to 11.00 percent and reducing the interest rate on the overnight central bank deposit to 9.00 percent:	7	Éva Búza, Péter Gottfried, Csaba Kandrács, Kolos Kardkovács, György Matolcsy, Gyula Pleschinger, Barnabás Virág
In favour of reducing the base rate to 9.75 percent, reducing the overnight collateralised lending rate to 10.75 percent and reducing the interest rate on the overnight central bank deposit to 8.75 percent:	2	Zoltán Kovács, Mihály Patai

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 27 February 2024. The minutes of that meeting will be published at 2 p.m. on 13 March 2024.