



BACKGROUND DISCUSSION AFTER THE SEPTEMBER 2020 INTEREST RATE DECISION OF THE MONETARY COUNCIL





QUESTIONS
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MAIN MESSAGES

Inflation is key! Pandemic brings inflationary and disinflationary effects simultaneously.

Due to the second wave of the pandemic we expect a slower recovery. The GDP may reach its 2019-level by the turn of 2022.

In case of a persistent change in the outlook for inflation, the Monetary Council will be ready to use the appropriate instruments.

FX swap tender providing foreign currency liquidity has strengthened the transmission. Decision on the level of 1-week deposit rate is made on every week.

The amount available under the Bond Funding for Growth Scheme will be raised to HUF 750 billion. The MNB will continue to sterilise the surplus liquidity in full.

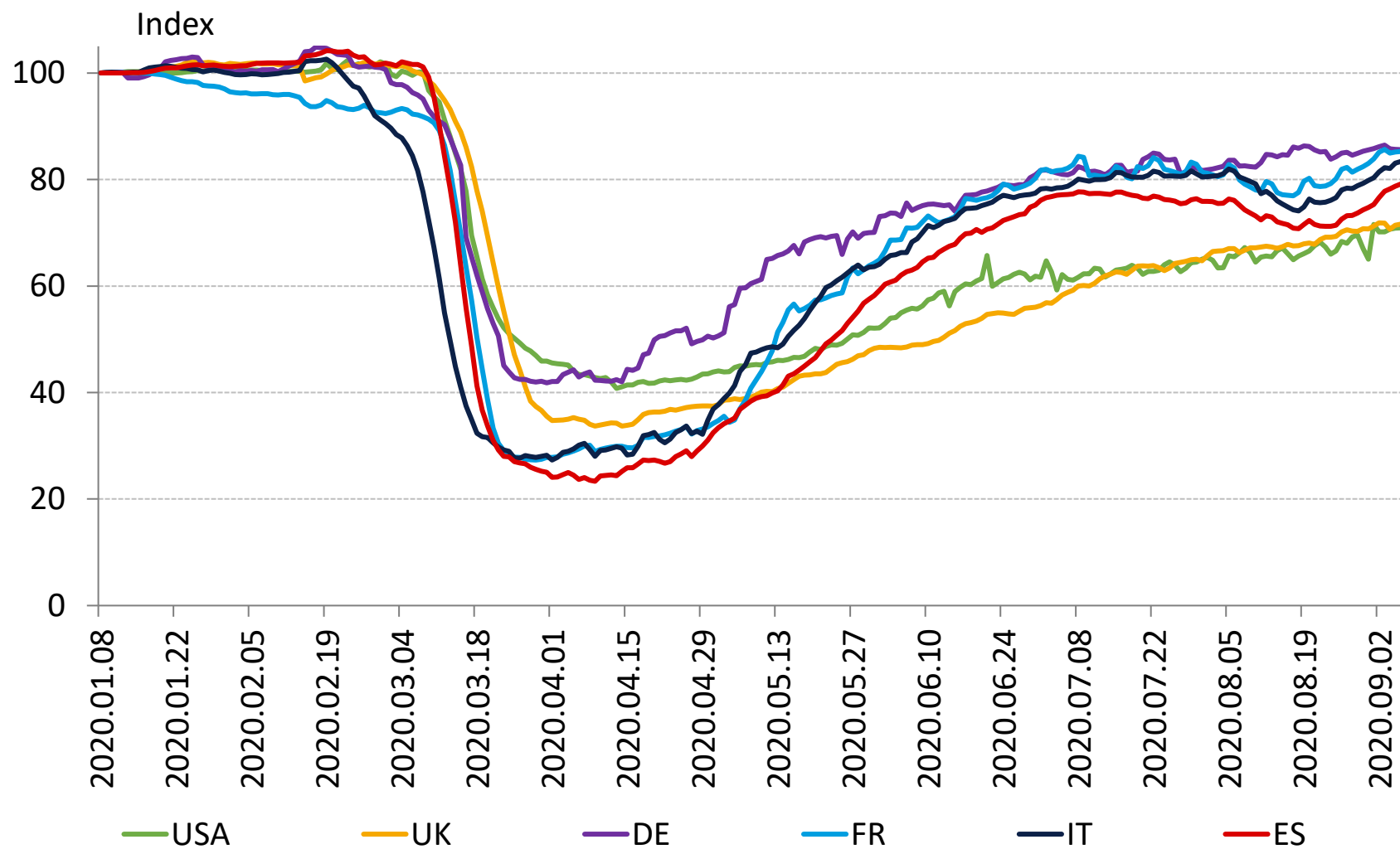


INTERNATIONAL DEVELOPMENTS



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RECOVERY IS SET TO BE LOWER THAN PREVIOUSLY EXPECTED IN THE MAJOR DEVELOPED ECONOMIES



DEVELOPMENTS IN THE REAL TIME ECONOMIC ACTIVITY INDEX BY BLOOMBERG

Source | Bloomberg Economics



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EXTERNAL MONETARY POLICY ENVIRONMENT MAY REMAIN PERSISTENTLY LOOSE



ECB

- **Asset purchase and liquidity-providing programmes will continue**
- **Maintains loose monetary policy stance**
 - Stands ready to adjust all of its instruments, if necessary



Federal Reserve

- **New monetary strategy**
 - Average inflation targeting
 - Asymmetric approach to the labour market
- **Persistently low interest rates**
 - Until inflation exceeds 2 percent for some time
 - Until they reach maximum employment
- **The FOMC didn't expect to raise interest rates even in 2023**

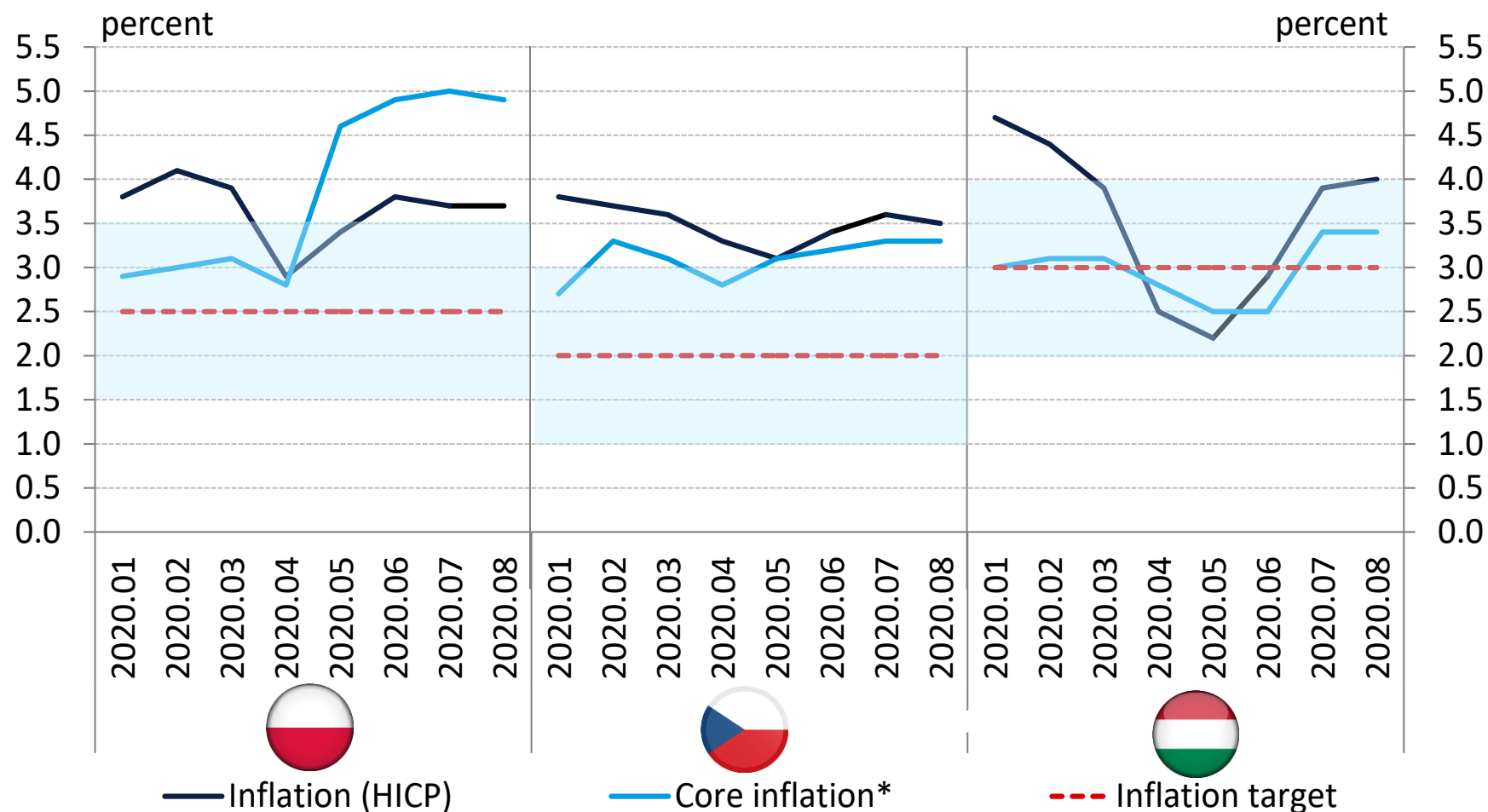


MACROECONOMIC OUTLOOK DURING THE SECOND WAVE OF PANDEMIC



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THE RESTART OF ECONOMIES HAS LED TO A RISE IN INFLATION



INFLATION AND CORE INFLATION IN THE REGION

Note | Annual change, percent. *In the case of core inflation, we use the Eurostat definition (inflation excluding energy, food, alcohol and tobacco). The blue area indicates the tolerance band around the inflation targets.

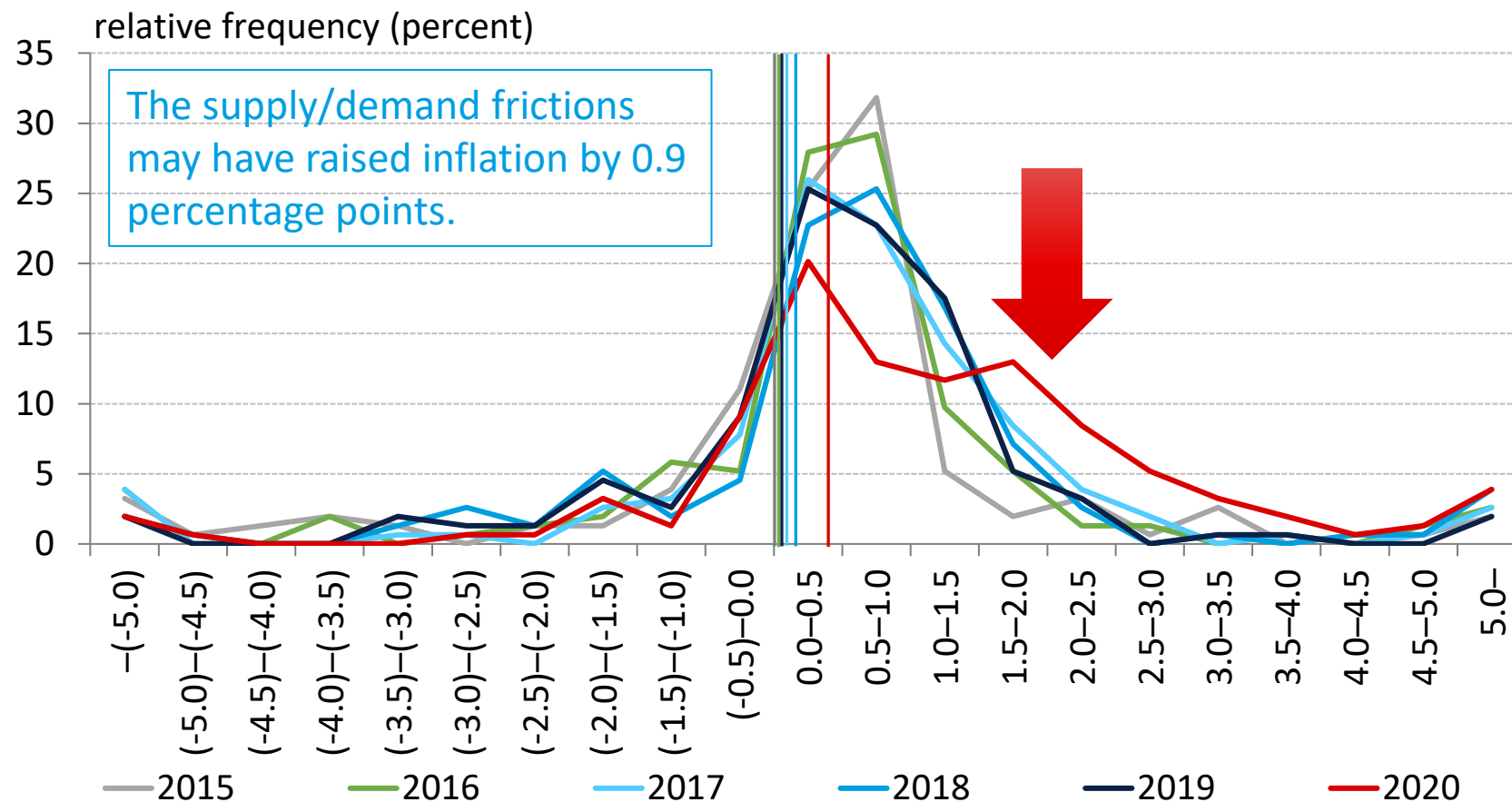
Source | Eurostat



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PREVIOUSLY, PRICE CHANGES IN THE SUMMER MONTHS WERE LESS TYPICAL...

...however, the proportion of products and services with higher price increases has risen substantially this year.



DISTRIBUTION OF JULY–AUGUST PRICE DYNAMICS OF INFLATION ITEMS (2015–2020)

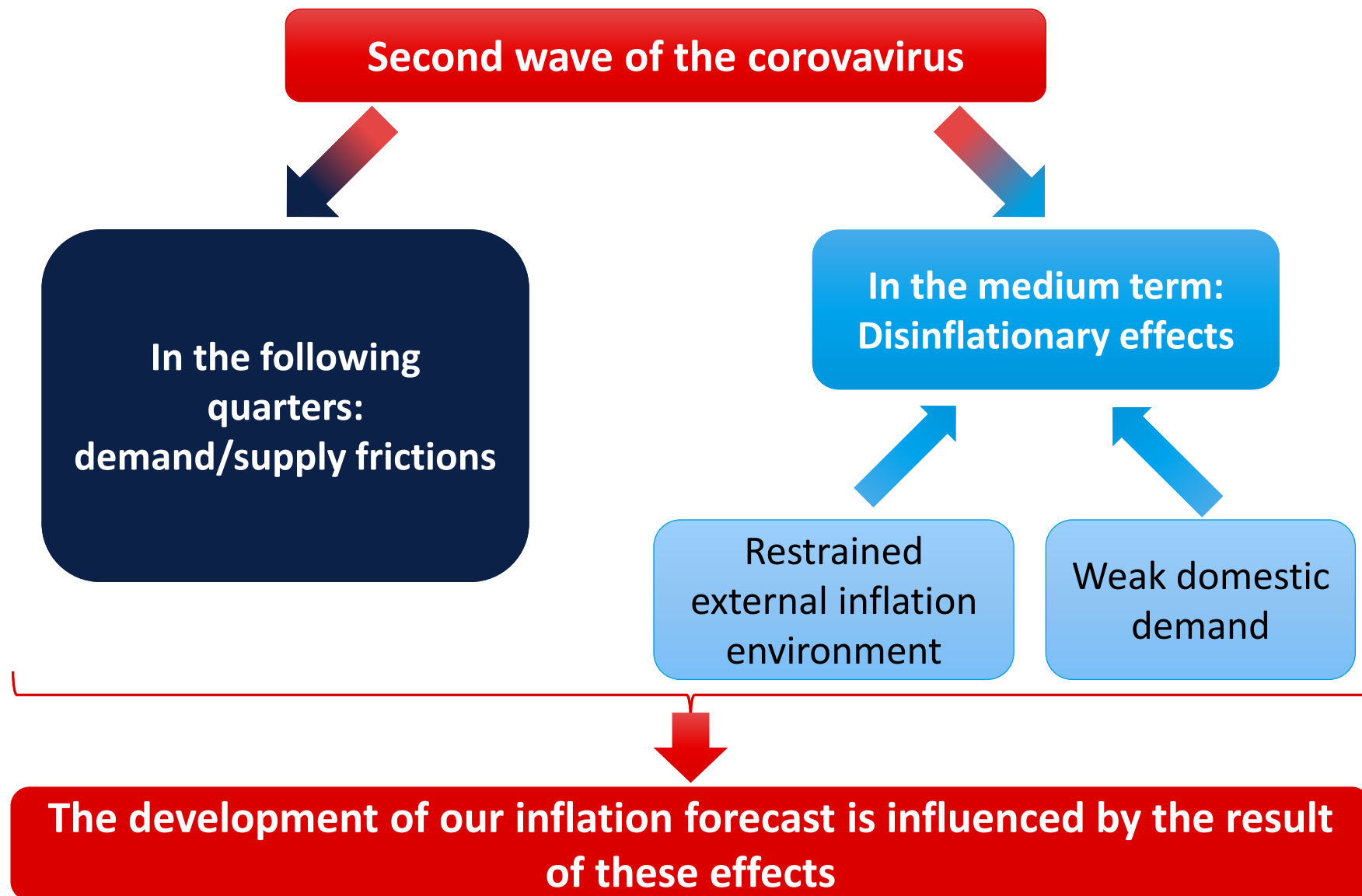
Note | Seasonally unadjusted monthly changes excluding indirect tax effects, July–August 2020.

Source | HCSO, MNB



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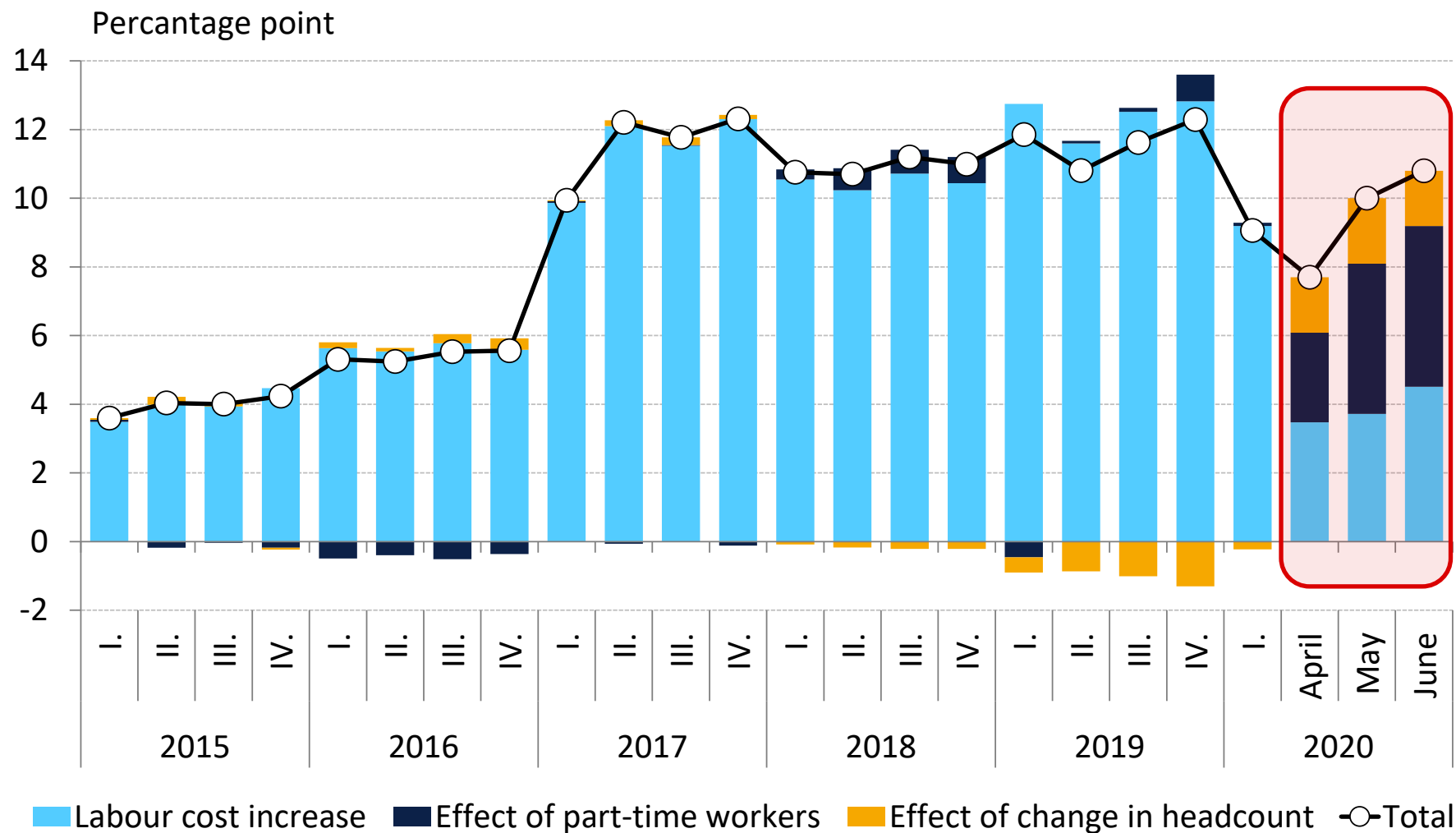
THE EPIDEMIC HAS BOTH INFLATIONARY AND DISINFLATIONARY EFFECTS





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THE INCREASING PROPORTION OF PART-TIME WORKERS AND THE COMPOSITION EFFECT SIGNIFICANTLY AFFECT THE WAGE DYNAMICS



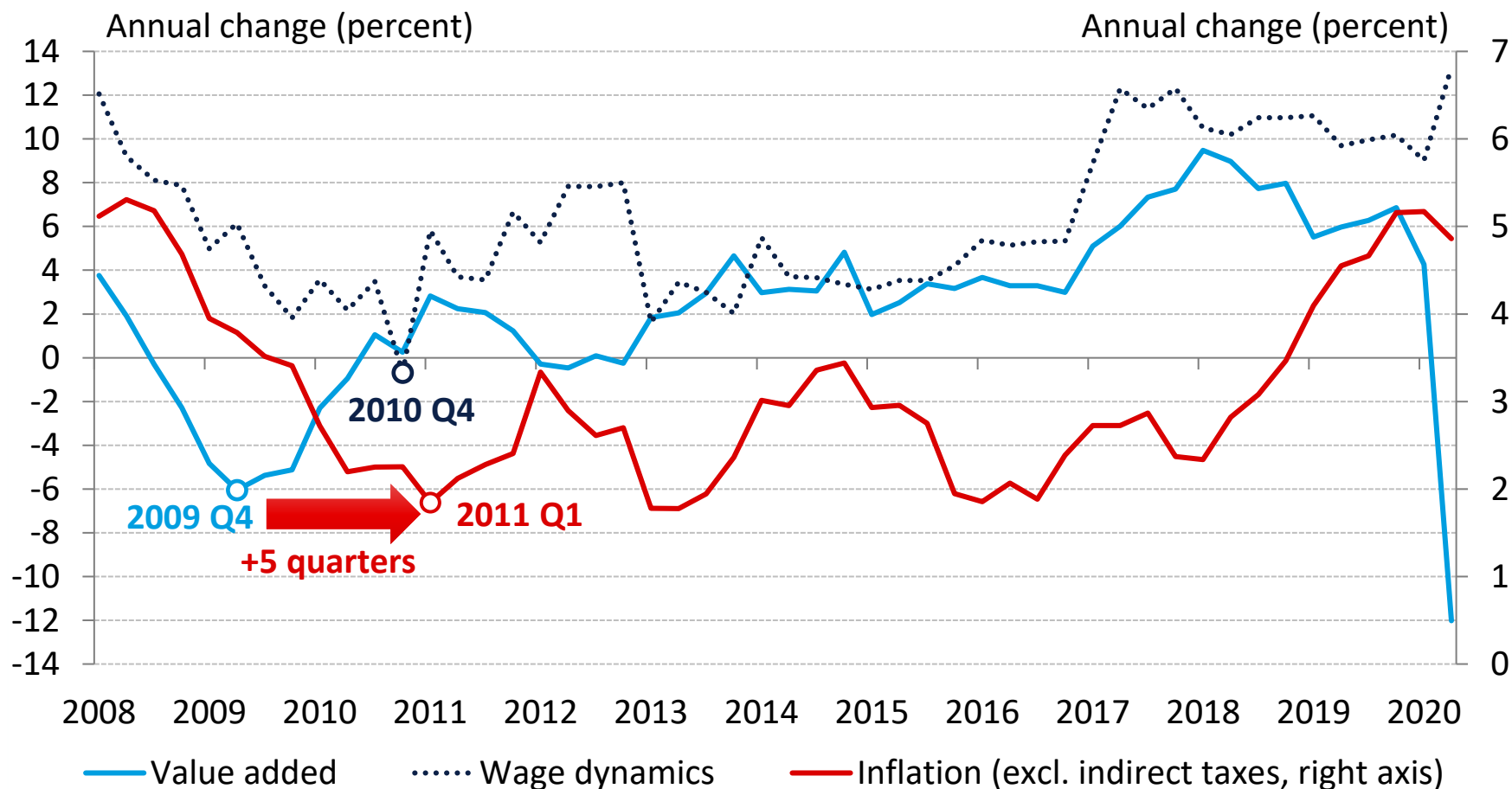
COMPOSITION OF THE WAGE DYNAMICS IN THE PRIVATE SECTOR

Source | MNB based on HCSO data



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IN THE CASE OF SERVICES, REAL ECONOMIC DEVELOPMENTS HAVE A DELAYED EFFECT. LABOUR MARKET IS THE KEY!



RELATIONSHIP BETWEEN VALUE ADDED, WAGE DYNAMICS AND INFLATION OF MARKET SERVICES

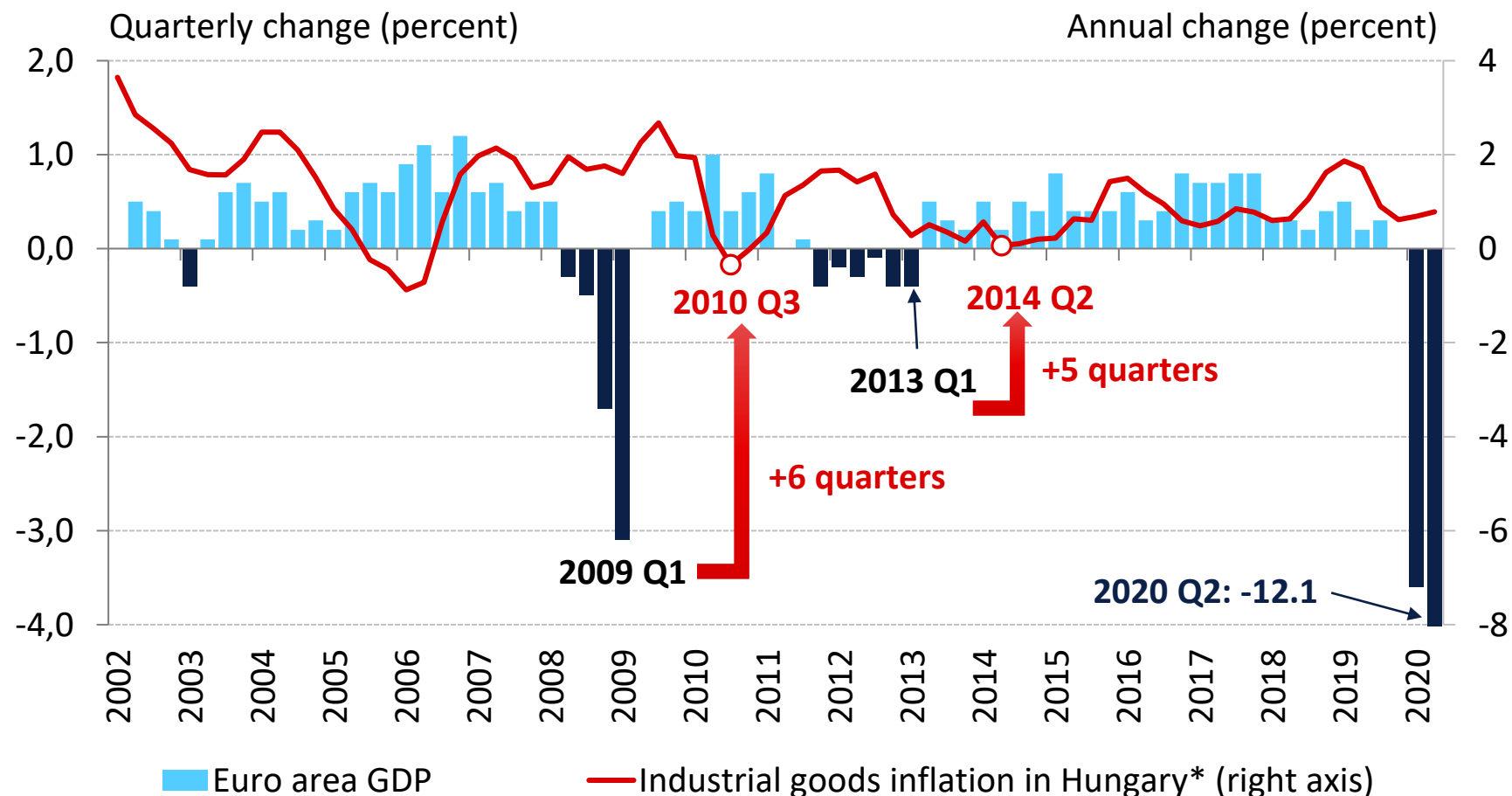
Note | Value added at constant (2015) prices, excluding product taxes and subsidies.

Source | HCSO, MNB



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THE IMPACT OF DECELERATING EXTERNAL ECONOMIC ACTIVITY BECOMES REFLECTED IN THE PRICES OF DOMESTIC INDUSTRIAL GOODS 5–6 QUARTERS LATER, ON AVERAGE



EURO AREA GDP GROWTH AND INDUSTRIAL GOODS INFLATION IN HUNGARY

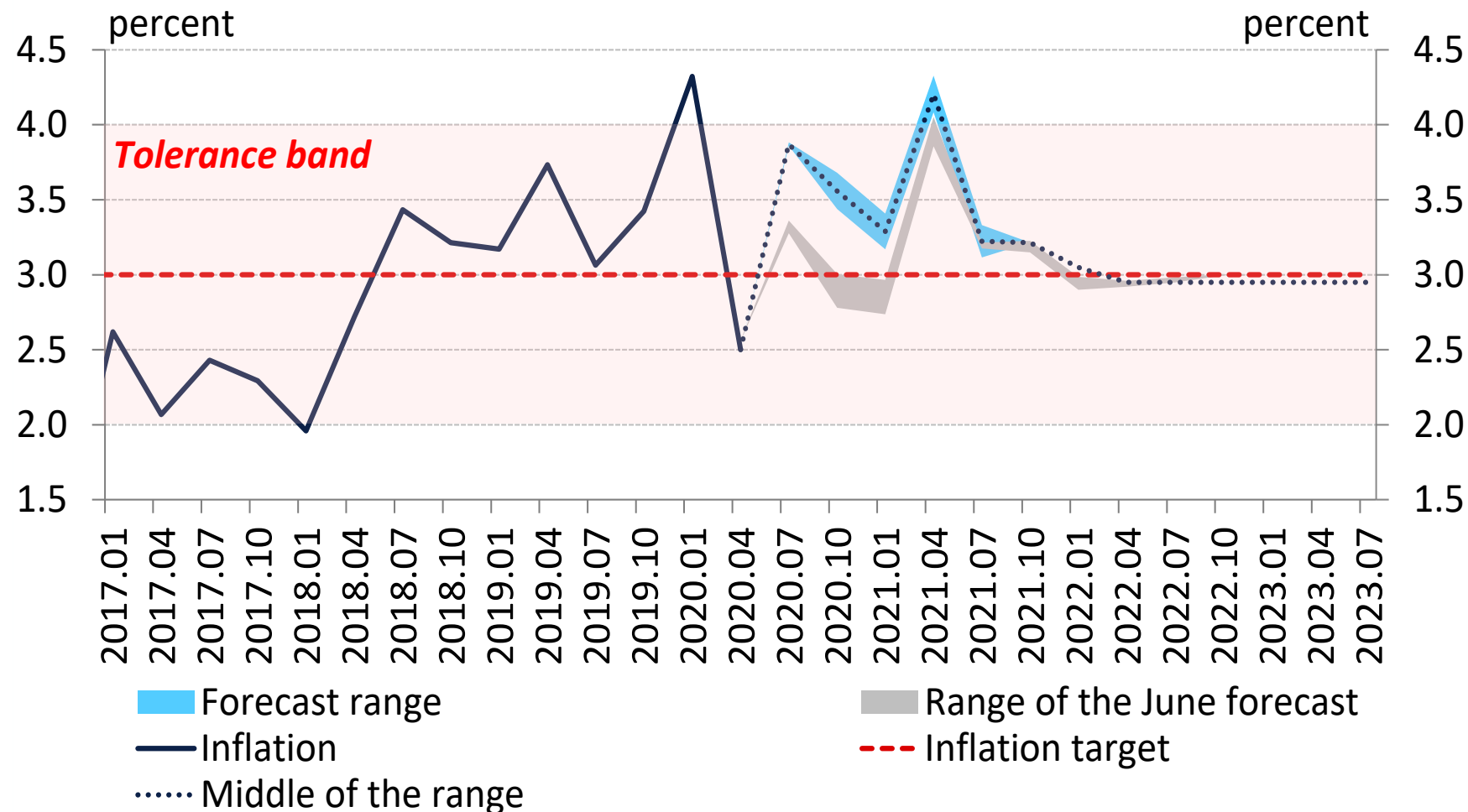
Note | *Based on data excluding indirect taxes.

Source | Eurostat, HCSO, MNB



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FROM 2022, INFLATION WILL STABILIZE AT 3 PERCENT AS THE ECONOMY RETURNS TO ITS NORMAL STATE



EVOLUTION OF OUR INFLATION FORECAST

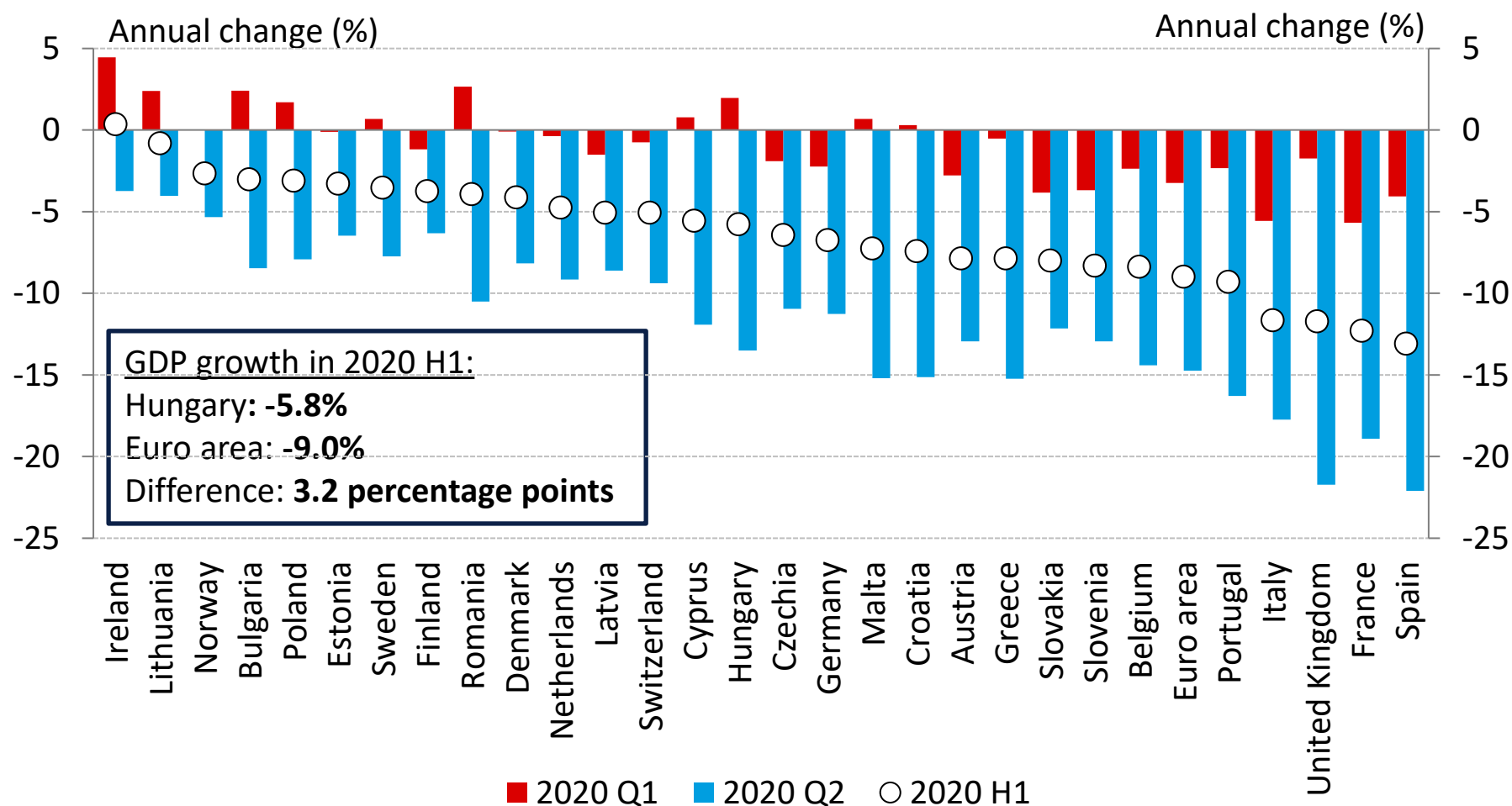
Note | The edges of the range are determined by the projections for the two scenarios.

Source | MNB-forecast



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IN 2020H1, THE HUNGARIAN ECONOMY SHRANK BY A SIMILAR MAGNITUDE AS THE REGIONAL PEER COUNTRIES



DEVELOPMENTS OF GDP IN THE EUROPEAN COUNTRIES

Note | Seasonally and calendar adjusted data. Slovakia only seasonally adjusted data.
Source | Eurostat



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THE VIRUS ATTACKED THE PREVIOUS STRENGTHS OF THE HUNGARIAN ECONOMY

Demand from the automotive industry has declined significantly globally

Weight in GDP with related industries: 4.5-6 percent



The decline in global tourism has reduced foreign trade in services

Weight in GDP with related industries: 6-7 percent



Factors contributing to the second quarter GDP decline

The downtime due to the coronavirus was concentrated in the second quarter

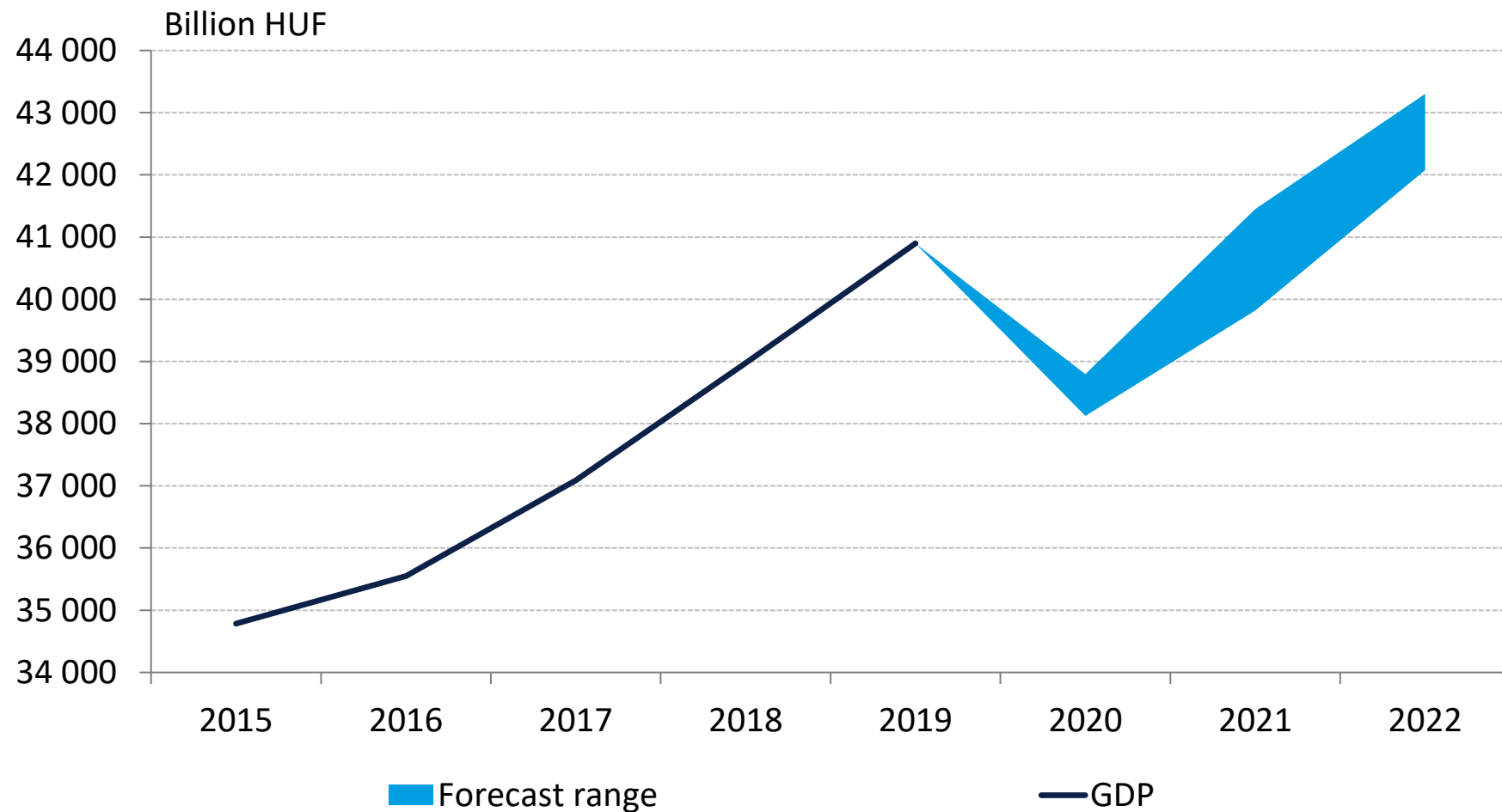


Investments have fallen



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ECONOMIC OUTPUT IS PROJECTED TO REACH ITS 2019 LEVEL BY THE TURN OF 2021-2022



LEVEL OF GDP ON THE FORECAST HORIZON

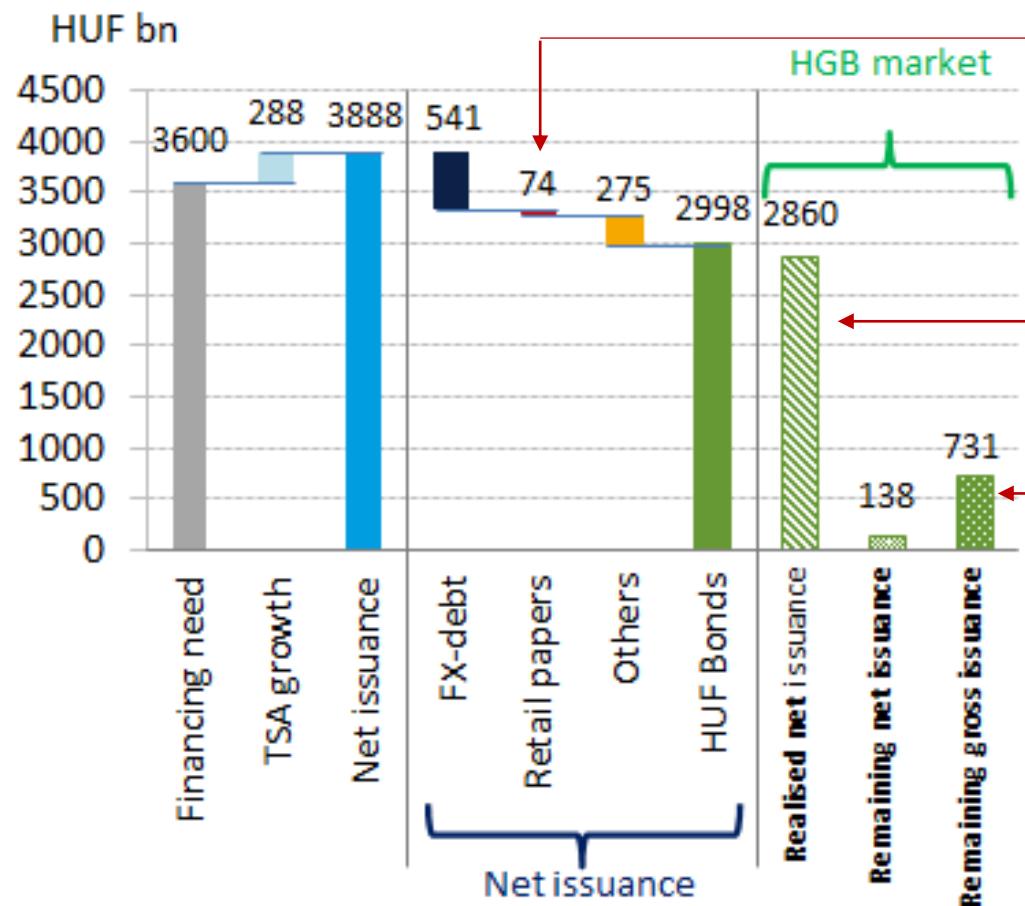
Note | At constant 2015 prices

Source | HCSO, MNB forecast



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MARKET BASED FINANCING OF THE GOVERNMENT DEBT IS STABLE, PREDOMINANTLY FROM INTERNAL SOURCES



Households are expected to increase their government security holdings by **HUF 1000bn**, Net retail issuance is close to zero due to the redemption of large institutional holdings.

Almost the entire HUF 3000bn net HGB issuance need has been realised.

The remaining **gross HGB issuance need is above HUF 700bn** due to two maturing bonds in the coming weeks.

Central bank purchases cover most of the issuance need (both in net and gross terms) and thus facilitate the stability of the HGB market and also help to increase the average time to maturity.

FINANCING OF THE GOVERNMENT DEBT IN 2020

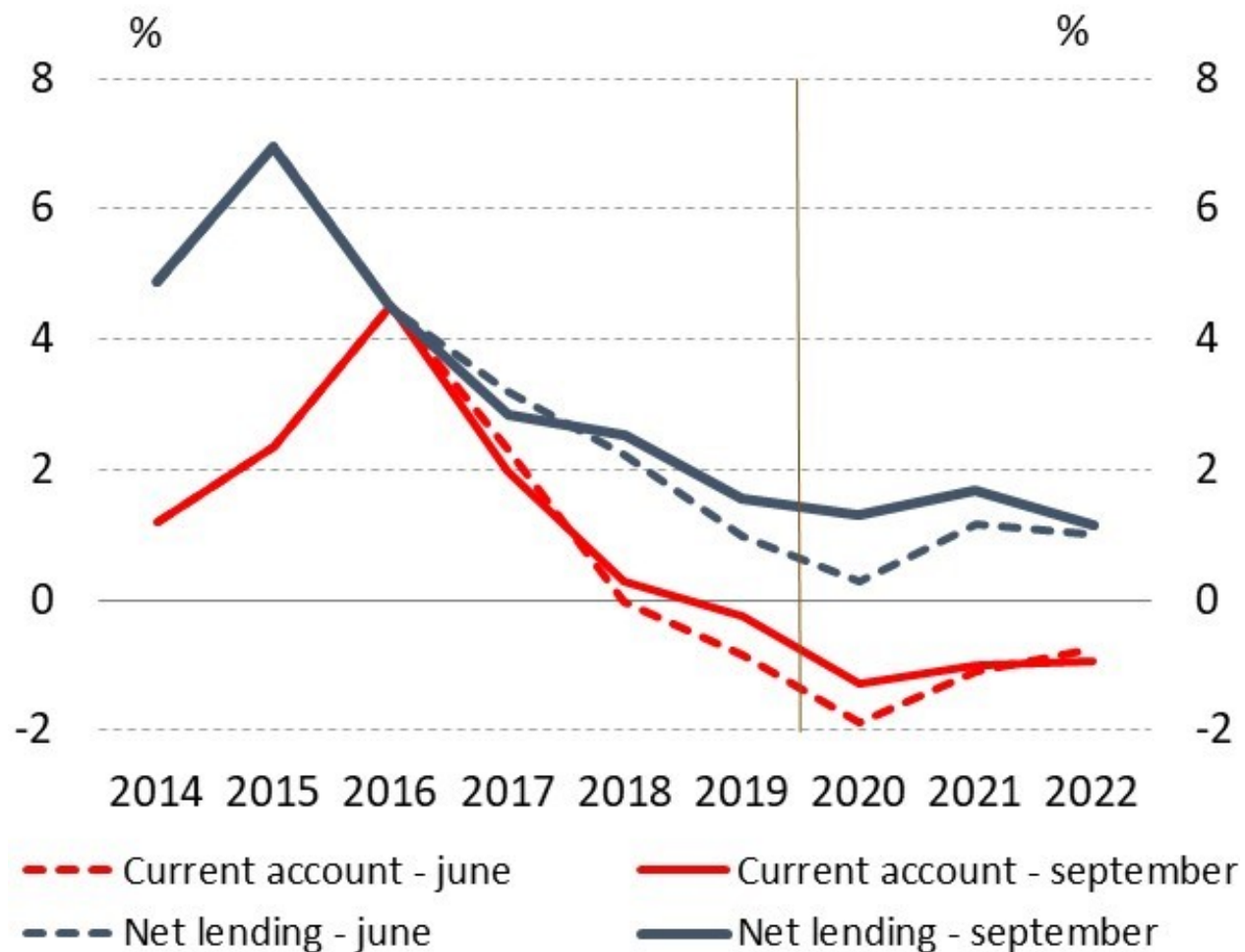
Source | GDMA, MNB

Note: Based on the GDMA financing plan, and on the MNB's forecast for retail papers



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REVISION IN BALANCE OF PAYMENT IMPROVED THE EXTERNAL BALANCE ASSESSMENT



Current account balance in 2019 increased close to zero due to revision resulted from lower profit of foreign companies

The improvement is also reflected in the 2020 data and in the forecast as well

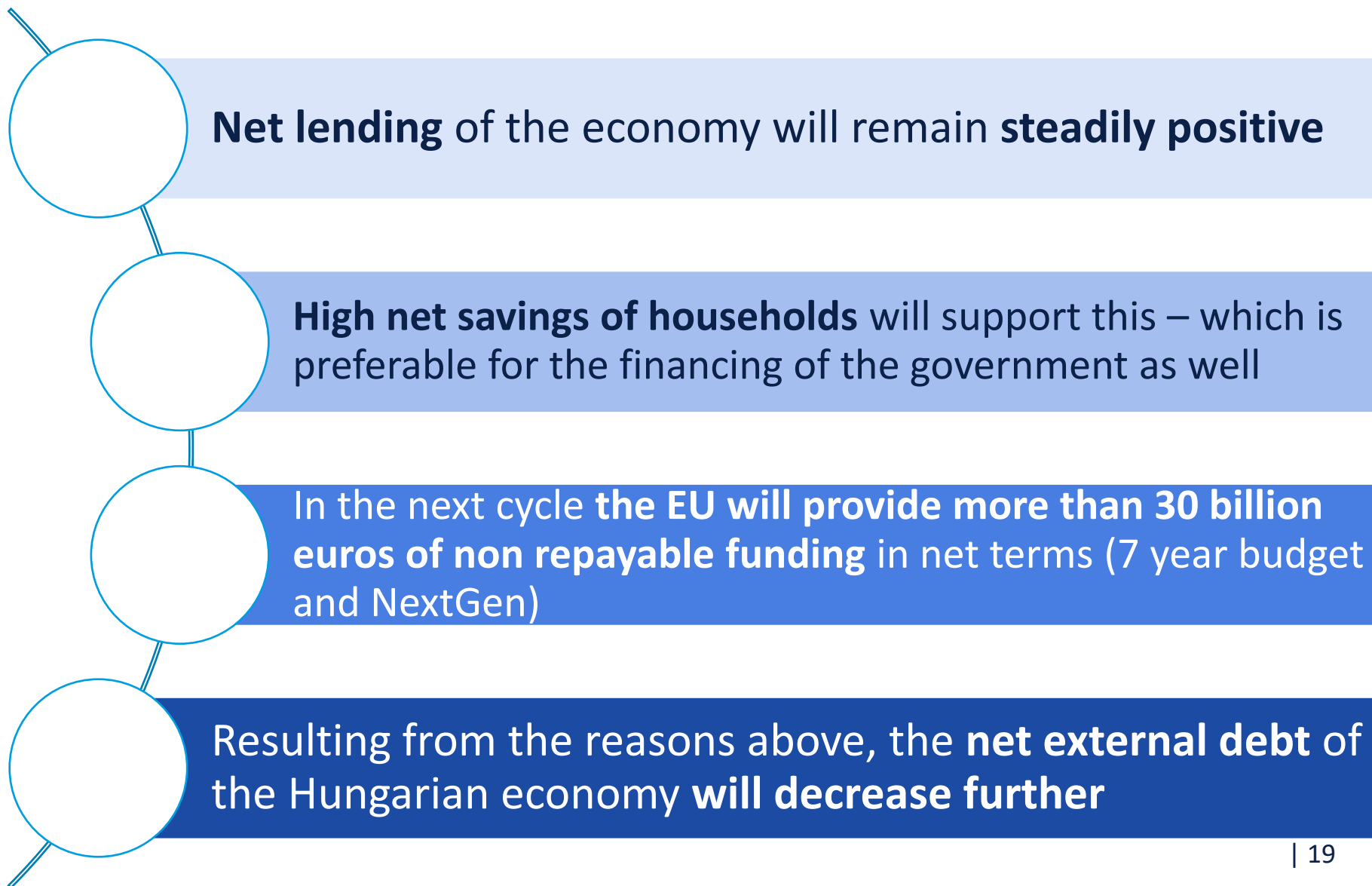
DEVELOPMENT OF EXTERNAL POSITION (AS PROPORTION OF GDP)

Source | MNB



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FAVOURABLE PROCESSES CAN BE EXPECTED LOOKING AHEAD





MONETARY COUNCIL'S DECISIONS



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MONETARY COUNCIL LEFT THE CENTRAL BANK RATES UNCHANGED IN SEPTEMBER

„The 0.60 percent base rate supports price stability, the preservation of financial stability and the recovery of economic growth in a sustainable manner.”

„In the current rapidly changing environment, it is key to maintain short-term yields at a safe distance from a range close to zero.”



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IT IS A PRIORITY FOR THE MNB THAT SHORT-TERM RATES IN EVERY SUB-MARKET BE CONSISTENT WITH THE LEVEL DEEMED OPTIMAL BY THE MONETARY COUNCIL

Objectives of the occasional euro liquidity providing FX-swap

- **Reducing volatility** of FX-swap market rates at quarter-ends
- Short term rates to be consistent with the level deemed optimal by the Council **in every sub-market**

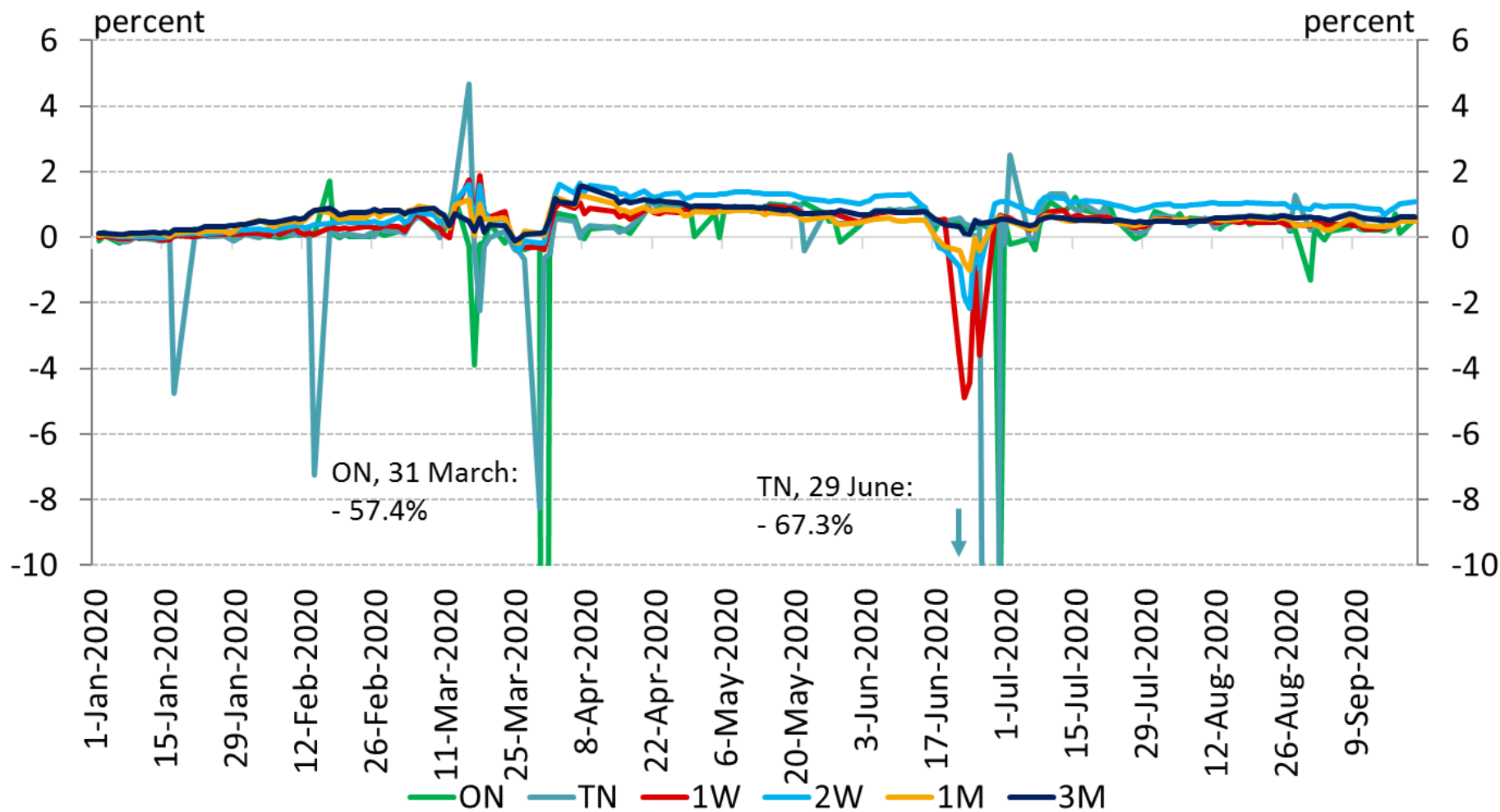
Details of the FX-swap facility

- The MNB held a tender on 18 September with a maturity of 1 October, and **allotted EUR 575 million, accepting all bids**
- The tender was successful, market tensions eased, **volatility in rates is significantly lower than previous quarters**
- Implied rates with maturities after quarter end are mostly above 50bps, close to the base rate
- The **next tender** will be held on **25 September**
- In line with the objectives of the euro liquidity providing FX-swap facility, the MNB **will not hold forint liquidity providing FX-swap tender until 5 October**



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WITH THE TENDER ON FRIDAY – UNLIKE IN PREVIOUS QUARTERS
– THERE WERE NOT ANY TURBULENCES IN SWAP MARKET



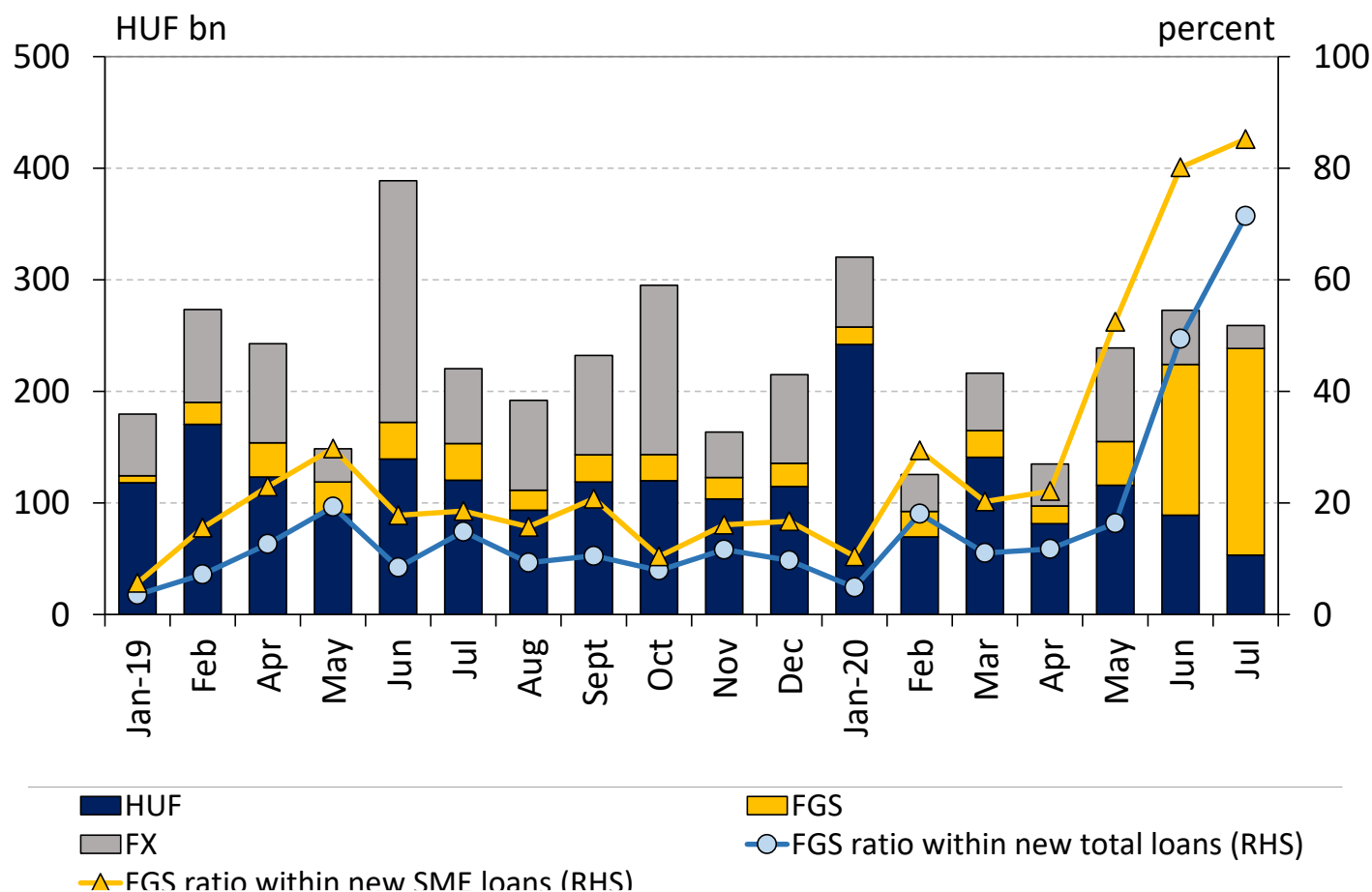
SWAP MARKET YIELDS

Source | Bloomberg



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THE FGS HAS MADE A SIGNIFICANT CONTRIBUTION TO MAINTAIN THE DYNAMICS OF NEW DISBURSEMENTS



Prior to the coronavirus, the FGS accounted for an average of 10% of total corporate disbursements and roughly 20% of SME lending.

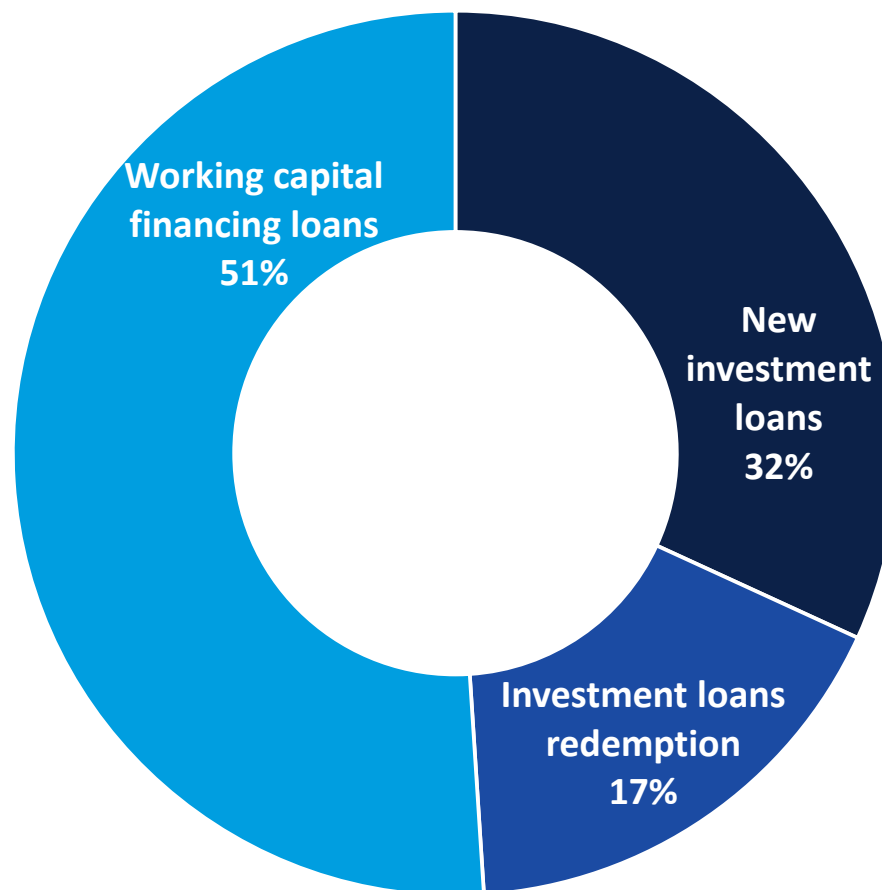
In the first two months of the summer, 80% of new SME loans and roughly 50% of total corporate disbursements were already related to the program.

THE STRUCTURE OF NEW ISSUANCE AND THE SHARE OF FGS LOANS IN TOTAL CORPORATE AND IN SME DISBURSEMENTS



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HALF OF THE HUF 600 BILLION DISBURSED AMOUNT WITHIN FGS GO! RELATED TO WORKING CAPITAL LOANS



HUF 600 billion

8,000 SMEs

10,000 deals

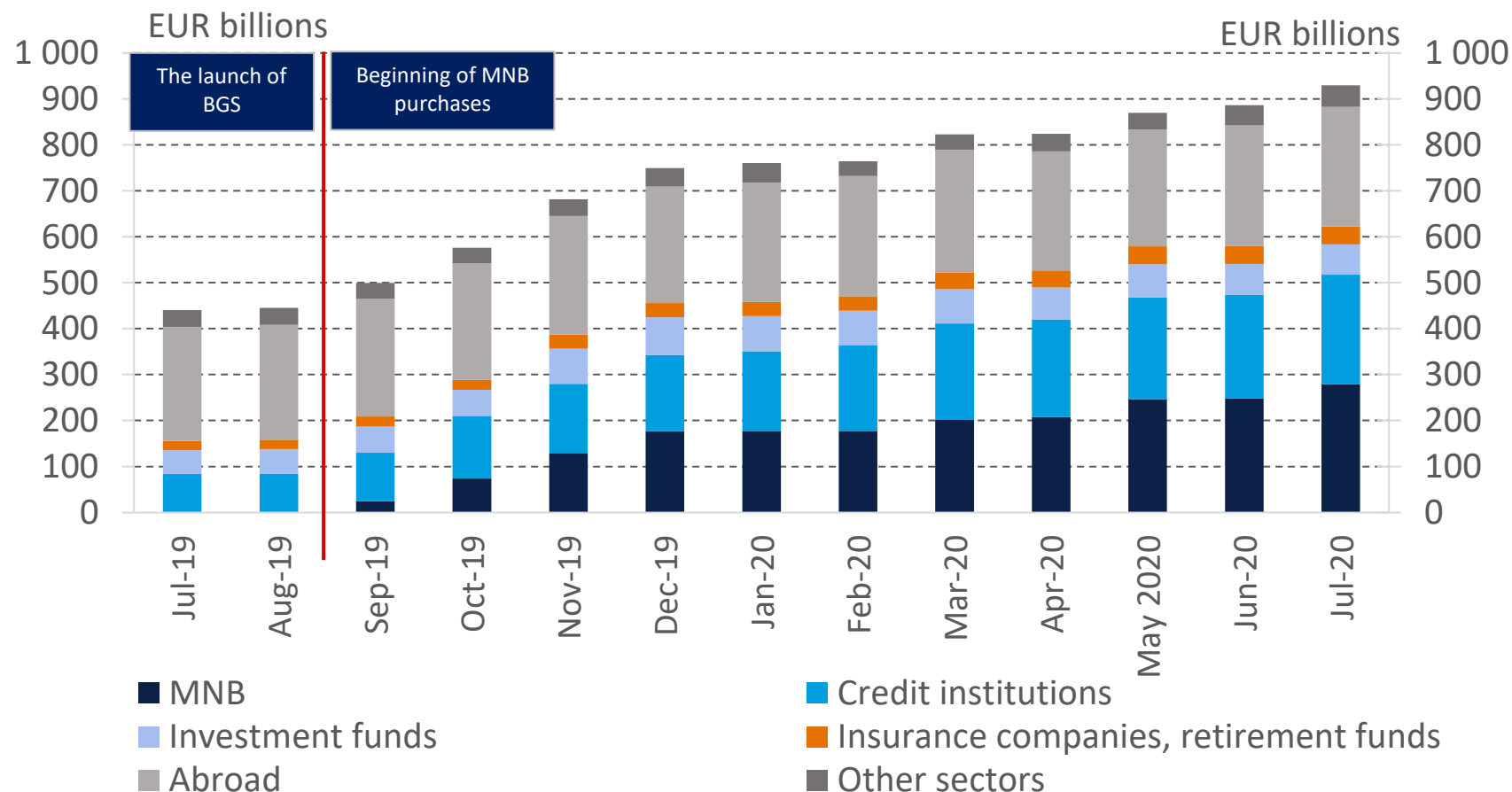
DISTRIBUTION OF LOAN PURPOSES IN FGS GO!

Note: based on data provided until 18 September 2020.



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THE MONETARY COUNCIL RAISED THE TOTAL AMOUNT OF THE BOND FUNDING FOR GROWTH SCHEME TO HUF 750 BILLION



THE OWNERSHIP COMPOSITION OF BONDS ISSUED BY DOMESTIC NON-FINANCIAL COMPANIES.

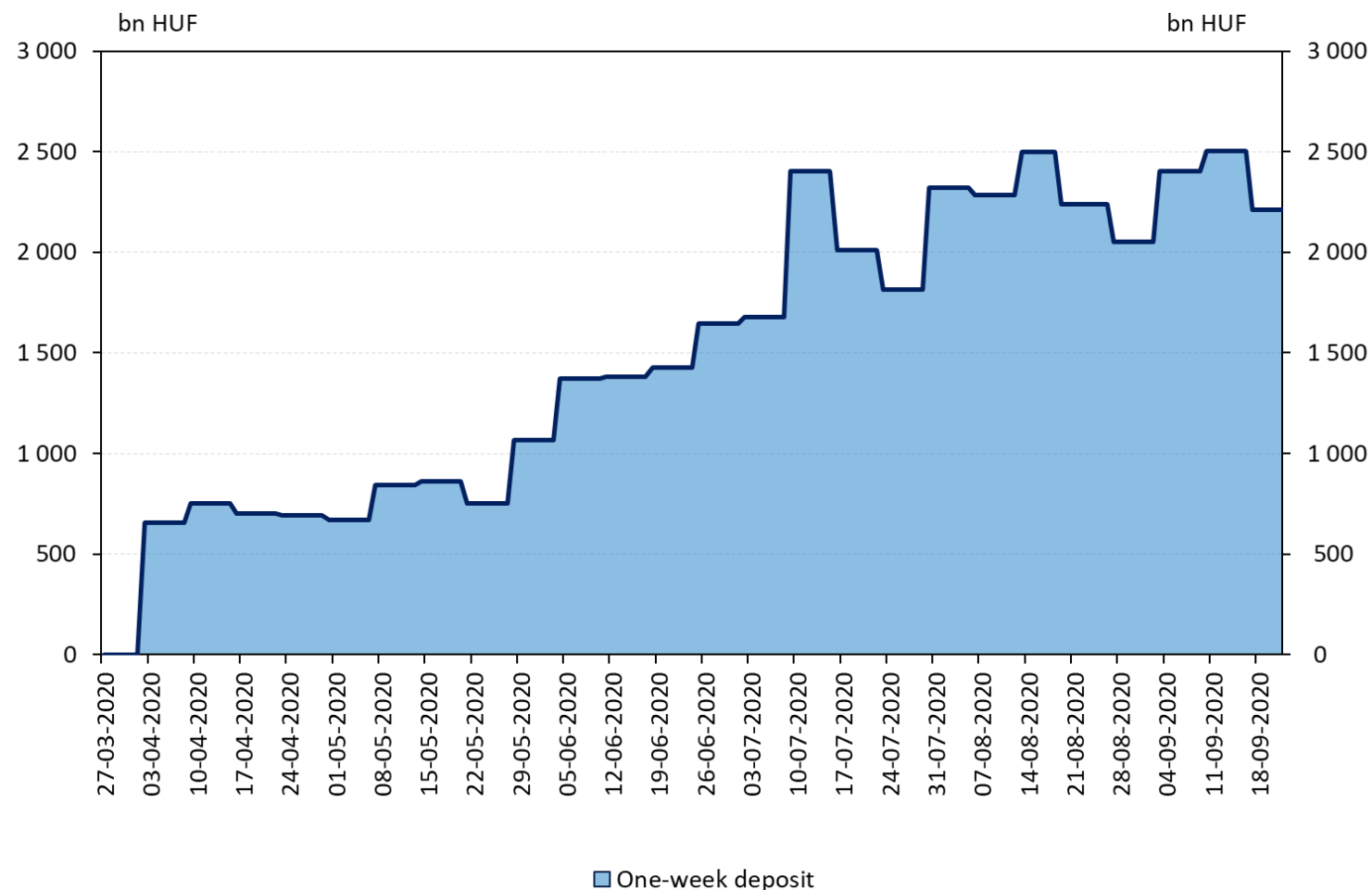
Source | MNB

The increased total amount furthers the domestic corporate bond market to continue its catching up with the European and regional peers.



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INTEREST RATE OF ONE-WEEK DEPOSIT IS SET BY THE MNB ON EACH TENDER



All bids were accepted on the tenders, hence surplus liquidity is being sterilized in the one-week deposit instrument



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THE MNB INCREASED THE AMOUNT OF WEEKLY GOVERNMENT SECURITIES PURCHASES IN AUGUST

„The Monetary Council will use the government securities purchase programme **through a lasting market presence to the extent required.**”

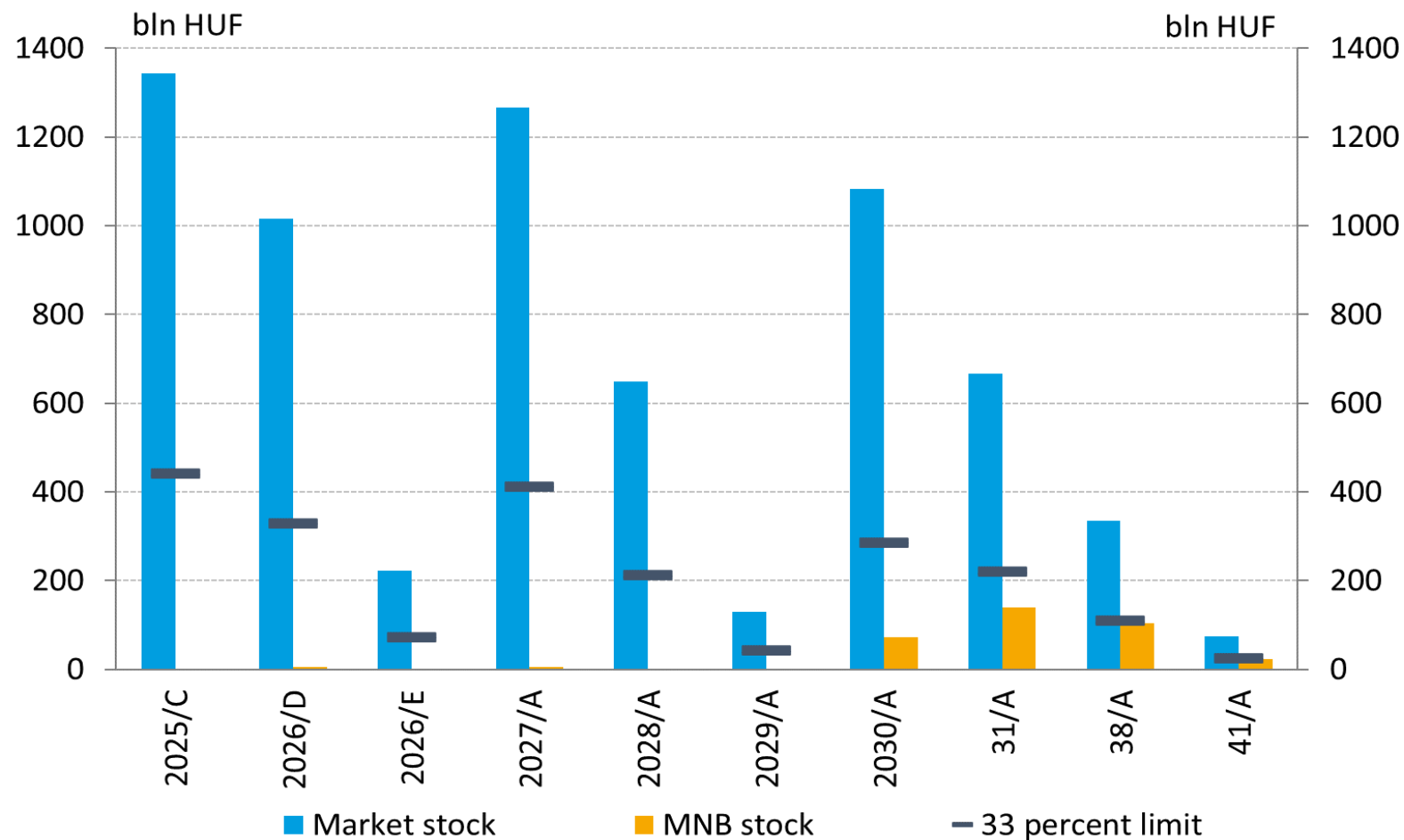
„The Bank will continue to purchase government securities **in the long segment.**”



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THE MNB PURCHASED HUF 354 BN OF GOVERNMENT BONDS AT FACE VALUE SO FAR

The amount of purchases is **5.5 per cent** of the issued stock in the relevant bond series



GOVERNMENT SECURITIES PURCHASES BY THE MNB

Source | MNB



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EMPHASIS ON INFLATION, MAINTAINING PRICE STABILITY IS OF KEY IMPORTANCE

„The Council remains committed to maintaining price **stability** during the coronavirus pandemic and pays particular attention to the **persistence of inflationary effects arising as a result of the economic recovery.**”

„If warranted by a **persistent change in the outlook for inflation**, the Council will be ready to use the **appropriate instruments.**”



THANK YOU FOR YOUR
KIND ATTENTION!