

Barnabás Virág

Deputy Governor | Magyar Nemzeti Bank

Analyst background discussion

24 October 2023



BACKGROUND DISCUSSION AFTER THE MONETARY COUNCIL'S 24 OCTOBER 2023 DECISION



MAIN MESSAGES: MONETARY POLICY DECISIONS



- **Monetary policy has entered a new phase! The Council is taking decisions step-by-step, carefully, in a data-driven manner, depending on the factors affecting the inflation path and developments in the risk environment.**
- **Strong disinflation and a reduction in the country's vulnerability allow the MNB to lower the base rate.**
- **A careful approach and a slower pace of interest rate cuts are warranted in view of the increasing external risks.** In line with this, at its meeting today the Monetary Council cut the base rate 75 basis points to 12.25 percent.
- **We can't sit back. Disinflation needs to be continued in 2024, which is supported by the positive real interest rate environment.**
- **Following the simplification of the monetary policy instruments,** the reserve account became the main sterilisation instrument of the central bank.
- **Developments in risk perceptions are key for monetary policy.**

MAIN MESSAGES: MACROECONOMIC ASSESSMENT AND OUTLOOK



- **Risk aversion in global financial markets has strengthened recently.** The rise in developed market yields and the escalation of geopolitical conflicts have deteriorated investor sentiment.
- **The widespread and general decline in domestic inflation continued in September.** Inflation was in line with the forecast of the September Inflation Report, while the core inflation figure was better than expected. Short-term core inflation fell below 4 percent.
- **Inflation is expected to reach the single-digit territory towards the end of the year. However, disinflation needs to be continued in 2024!**
- **With disinflation accelerating, the domestic real interest rate moved into positive territory in September** and, with inflation falling dynamically, it is expected to rise gradually until the end of the year.
- **We may have come out of recession.** Based on high-frequency data, **the gradual increase in domestic economic activity has begun** in the third quarter.
- **There has been a rapid and substantial improvement in the external balance.** The current account was in surplus again in August 2023.

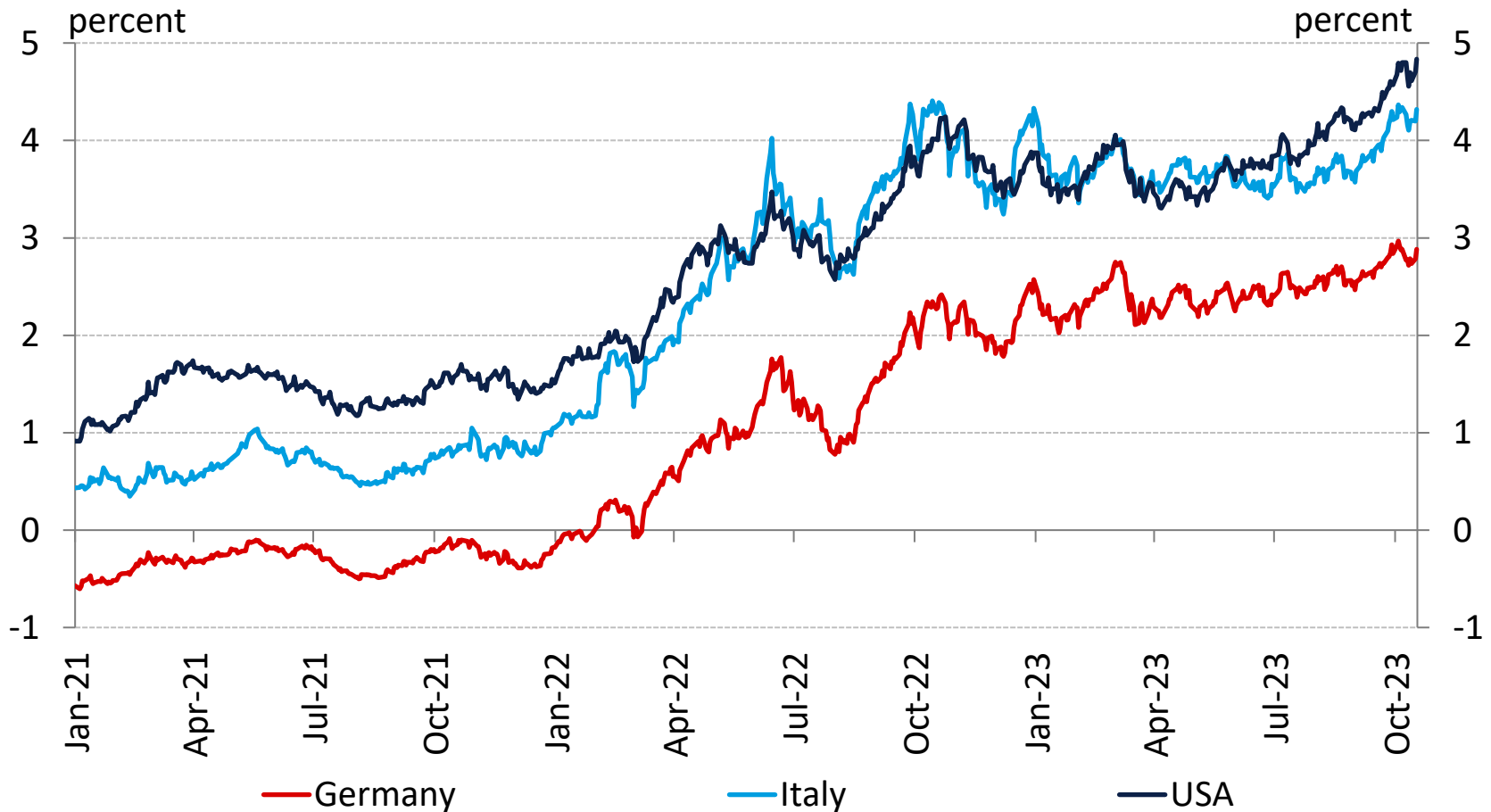


MACROECONOMIC ASSESSMENT AND OUTLOOK

A SIGNIFICANT INCREASE IN YIELDS HAS TAKEN PLACE IN DEVELOPED FINANCIAL MARKETS



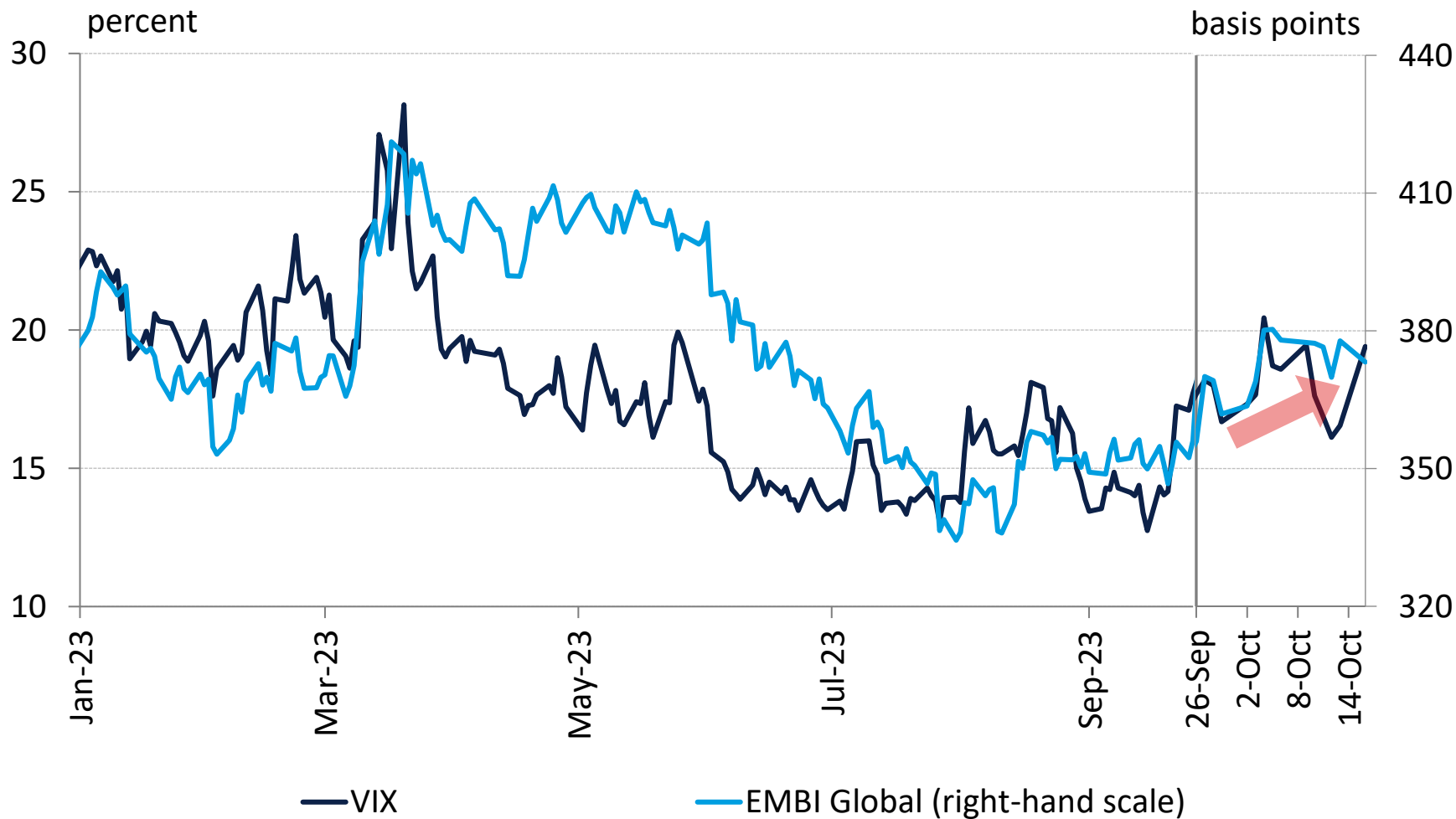
The international outlook is surrounded by substantial risks.



DEVELOPMENTS IN YIELDS ON 10-YEAR ZERO COUPON BONDS

Source | Bloomberg

INVESTOR SENTIMENT HAS DETERIORATED RECENTLY

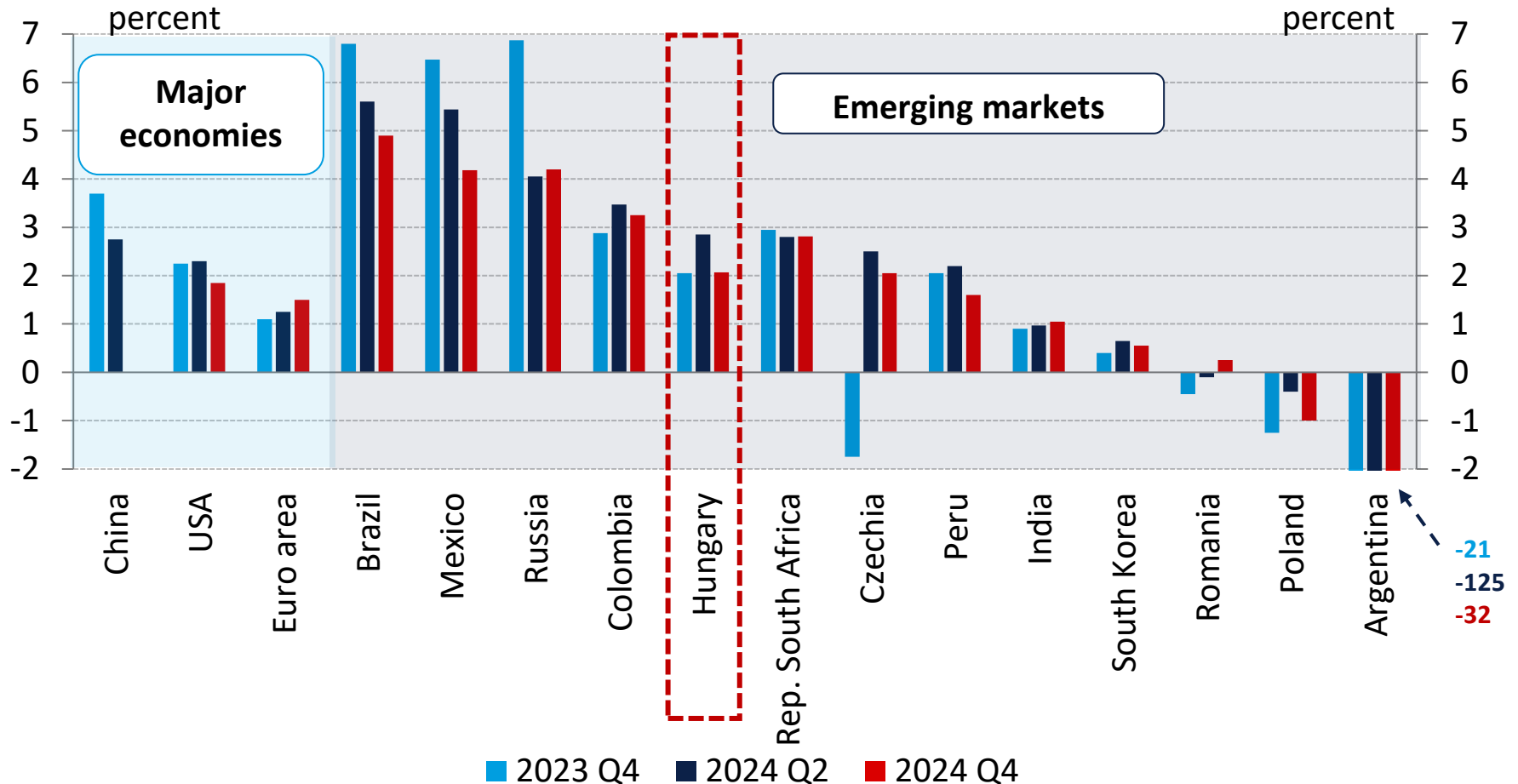


DEVELOPMENTS IN THE VIX INDEX AND THE EMBI GLOBAL INDEX

Note | A rise in the VIX index and the EMBI Global index signals a deterioration in investor sentiment.

Source | Bloomberg

AFTER MORE THAN A DECADE, POSITIVE REAL INTEREST RATES HAVE RETURNED



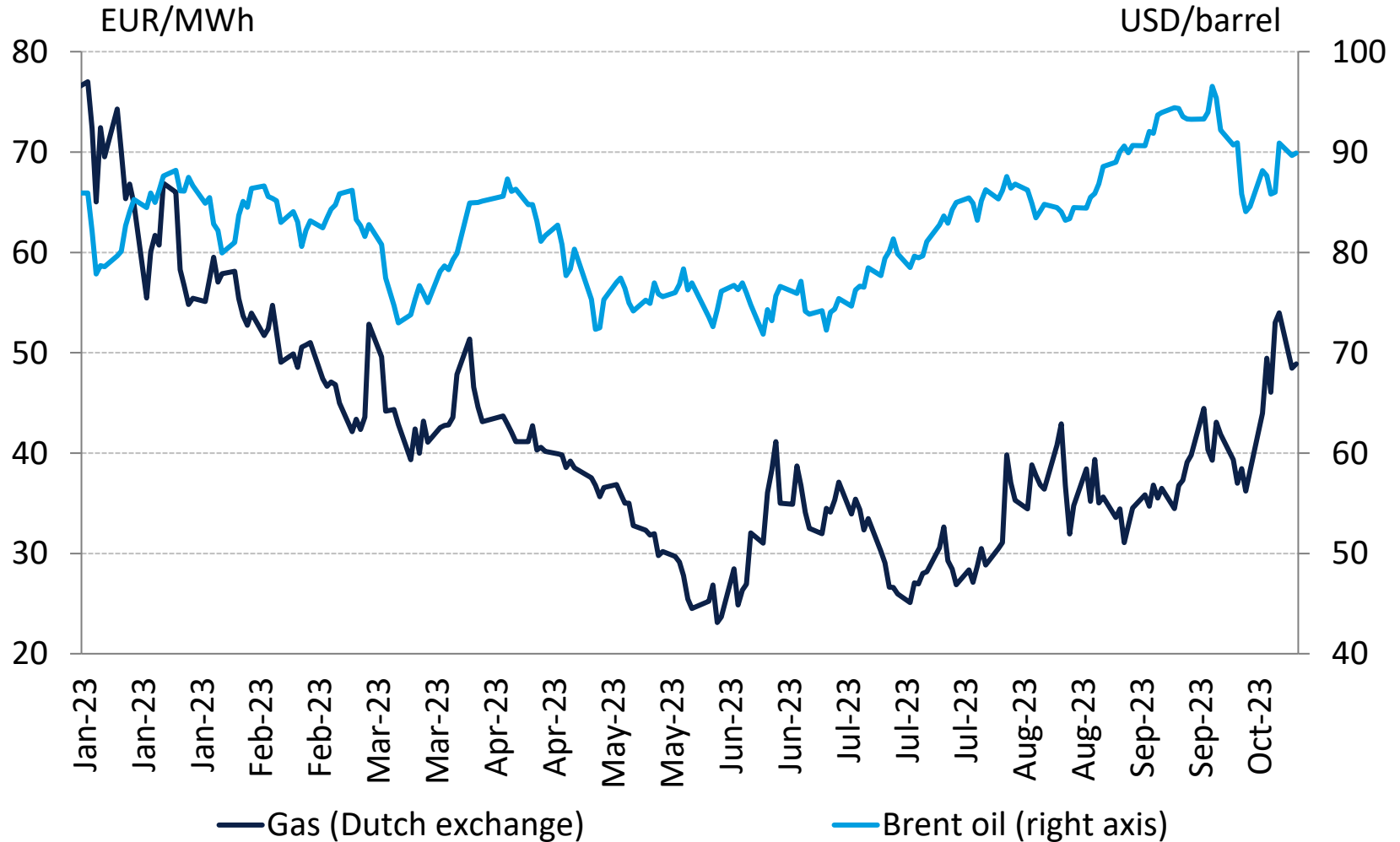
DEVELOPMENTS IN THE EXPECTED BACKWARD-LOOKING REAL INTEREST RATES ACROSS SELECT ECONOMIES

Note | Real interest rates were calculated as the difference between expected policy rates and expected inflation.

Order based on 2024 Q2 values.

Source | Bloomberg, MNB calculations

EUROPEAN GAS PRICES ROSE AS OIL PRICES REMAINED AT A HIGH LEVEL



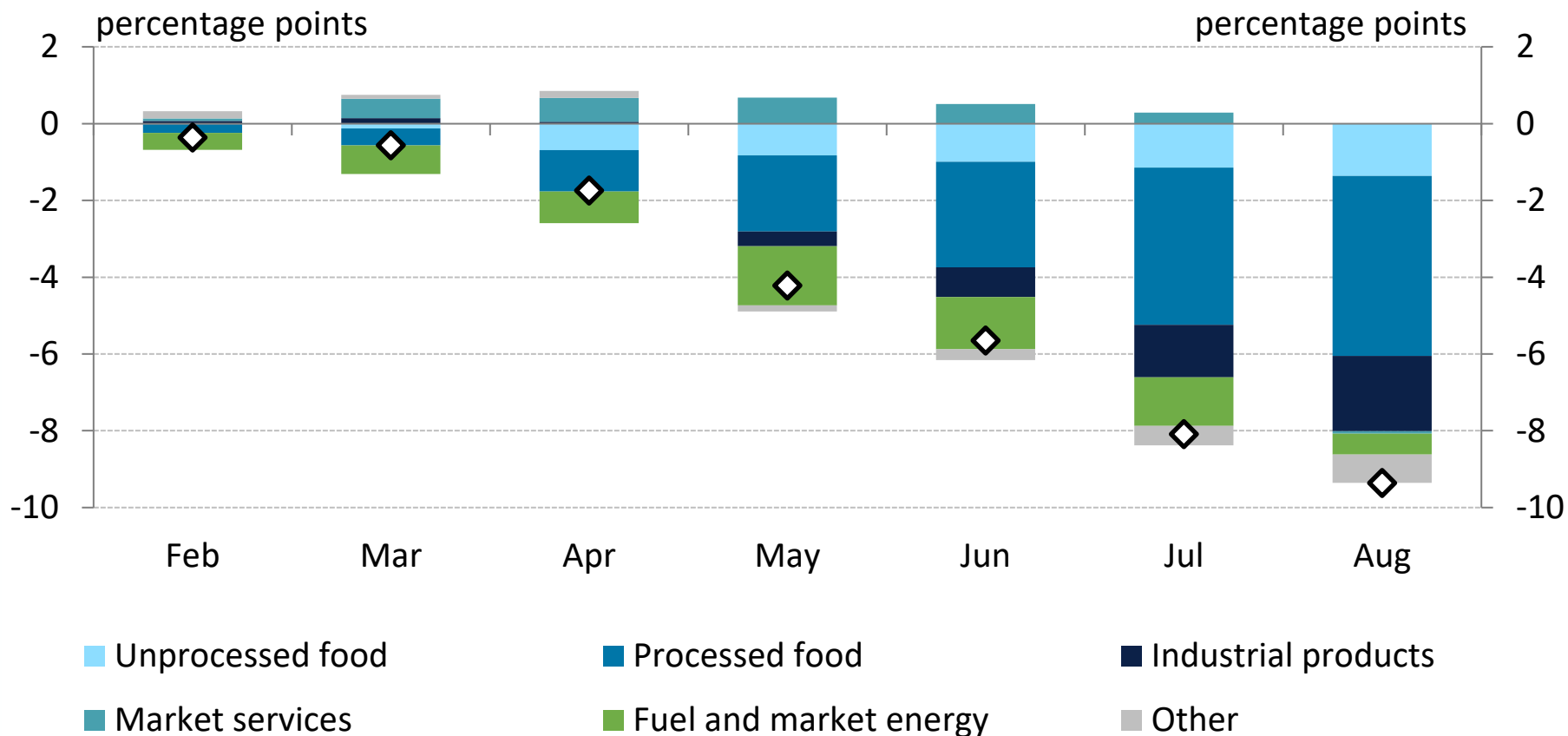
CHANGES IN OIL AND GAS PRICES

Source | Bloomberg

STRONG DISINFLATION HAS CONTINUED IN HUNGARY

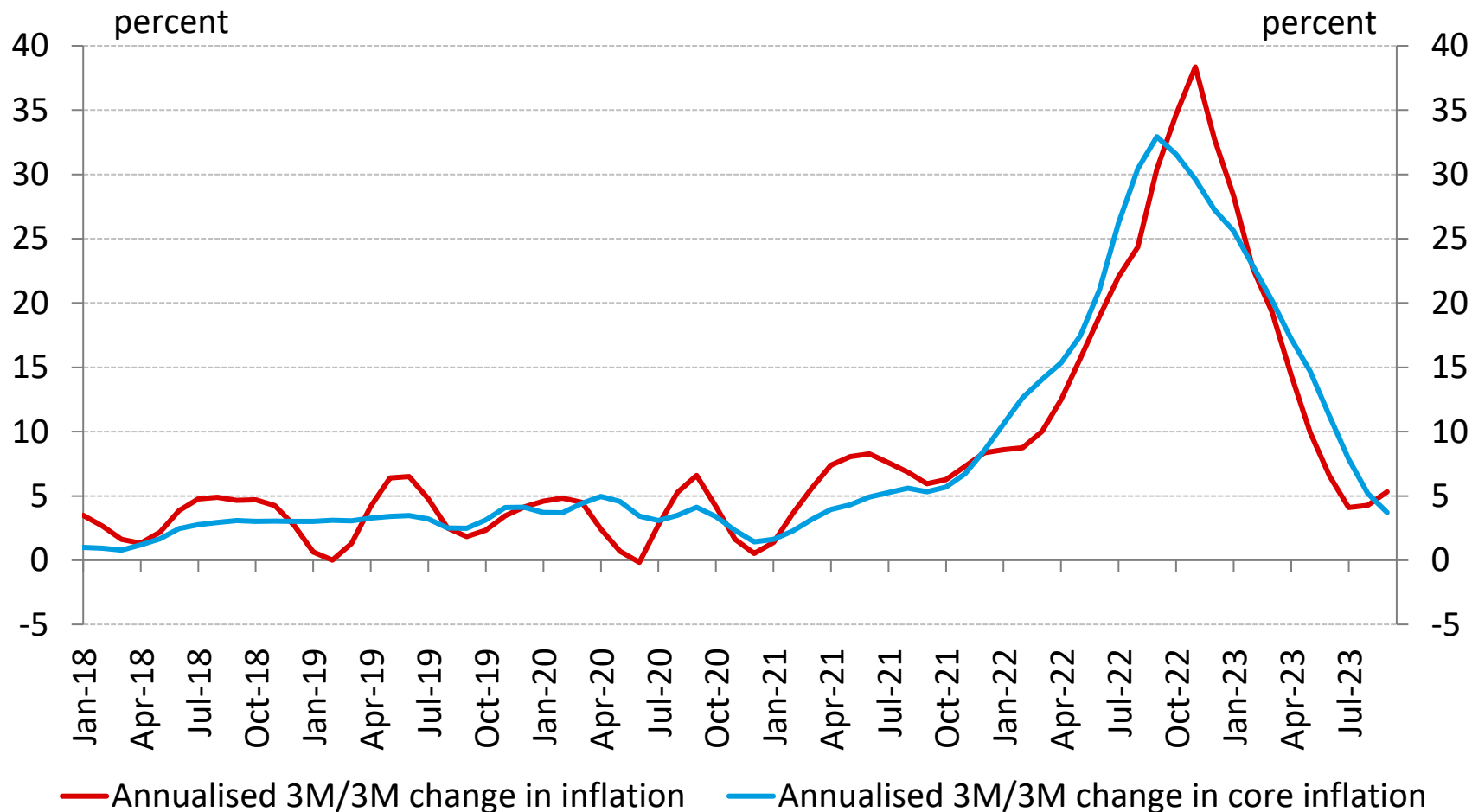


The process has been supported by the Government's measures to strengthen market competition and the stabilising effect of monetary policy in financial markets.



DECOMPOSITION OF THE CHANGE IN INFLATION COMPARED TO THE PEAK VALUE IN JANUARY 2023

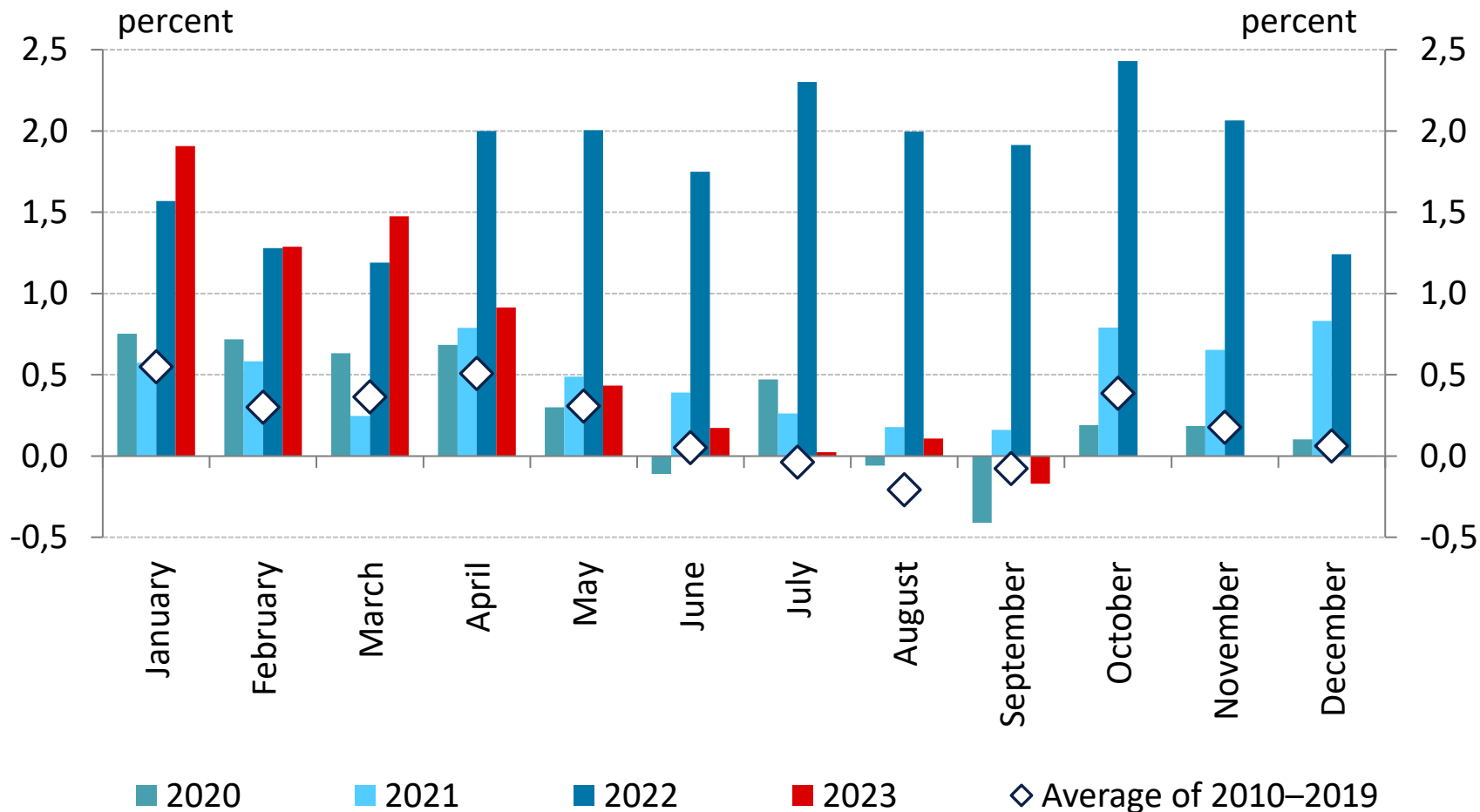
SHORT-TERM CORE INFLATION INDICATES A RAPID EASING IN UNDERLYING INFLATION



ANNUALISED 3-MONTHS ON 3-MONTHS INCREASE OF CONSUMER PRICES AND CORE INFLATION IN HUNGARY

Source | HCSO, MNB calculations

EXCLUDING FUEL AND REGULATED PRICES, THE PRICE LEVEL OF THE CONSUMER BASKET DECREASED IN SEPTEMBER

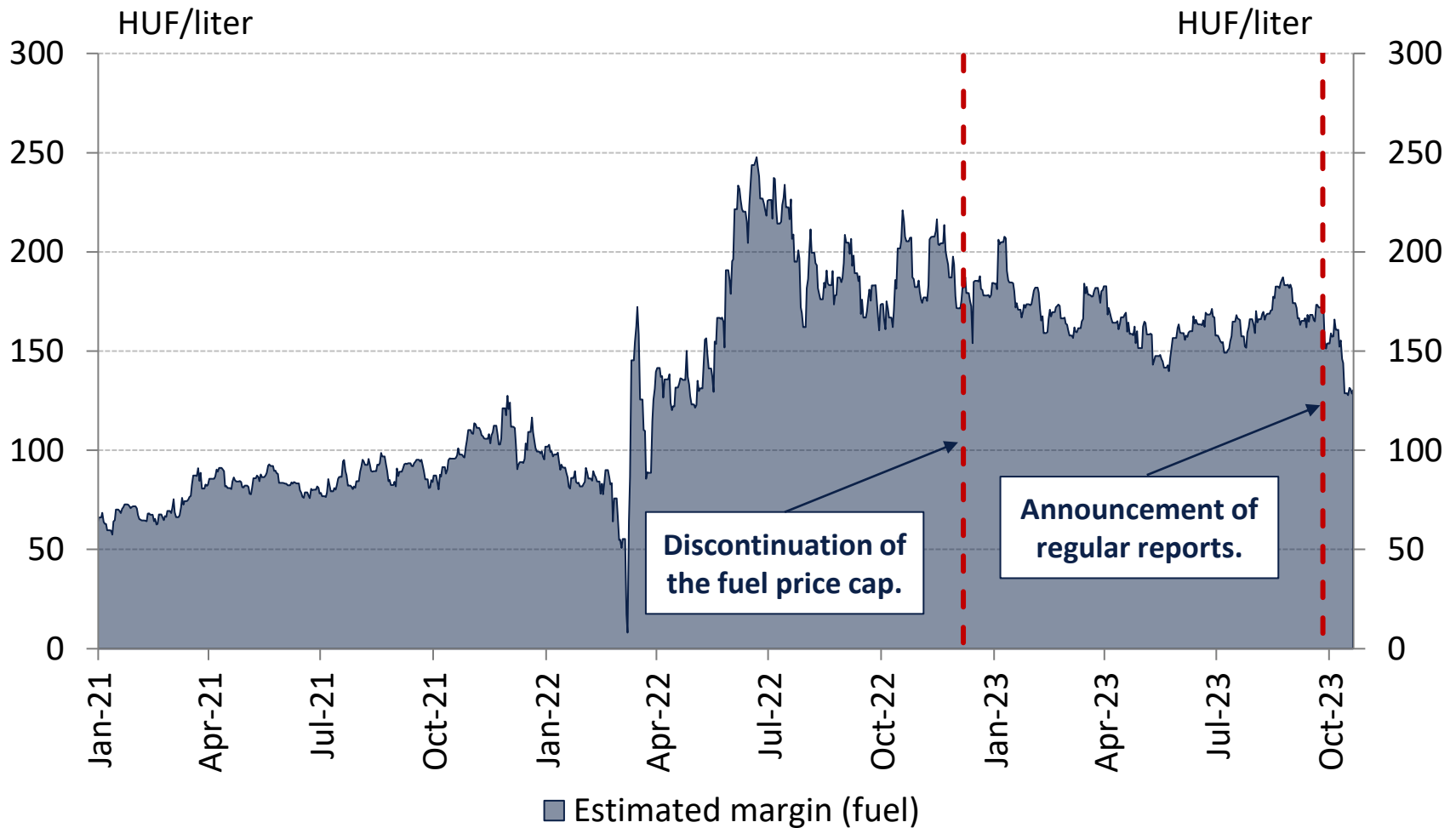


MONTHLY PRICE CHANGES OF CONSUMER PRICES EXCLUDING FUEL AND REGULATED PRICES

Note | Tax-adjusted, seasonally unadjusted monthly change.

Source | HCSO, MNB

THE INFLATIONARY EFFECT OF FUELS WAS MITIGATED BY THE REDUCTION IN MARGINS

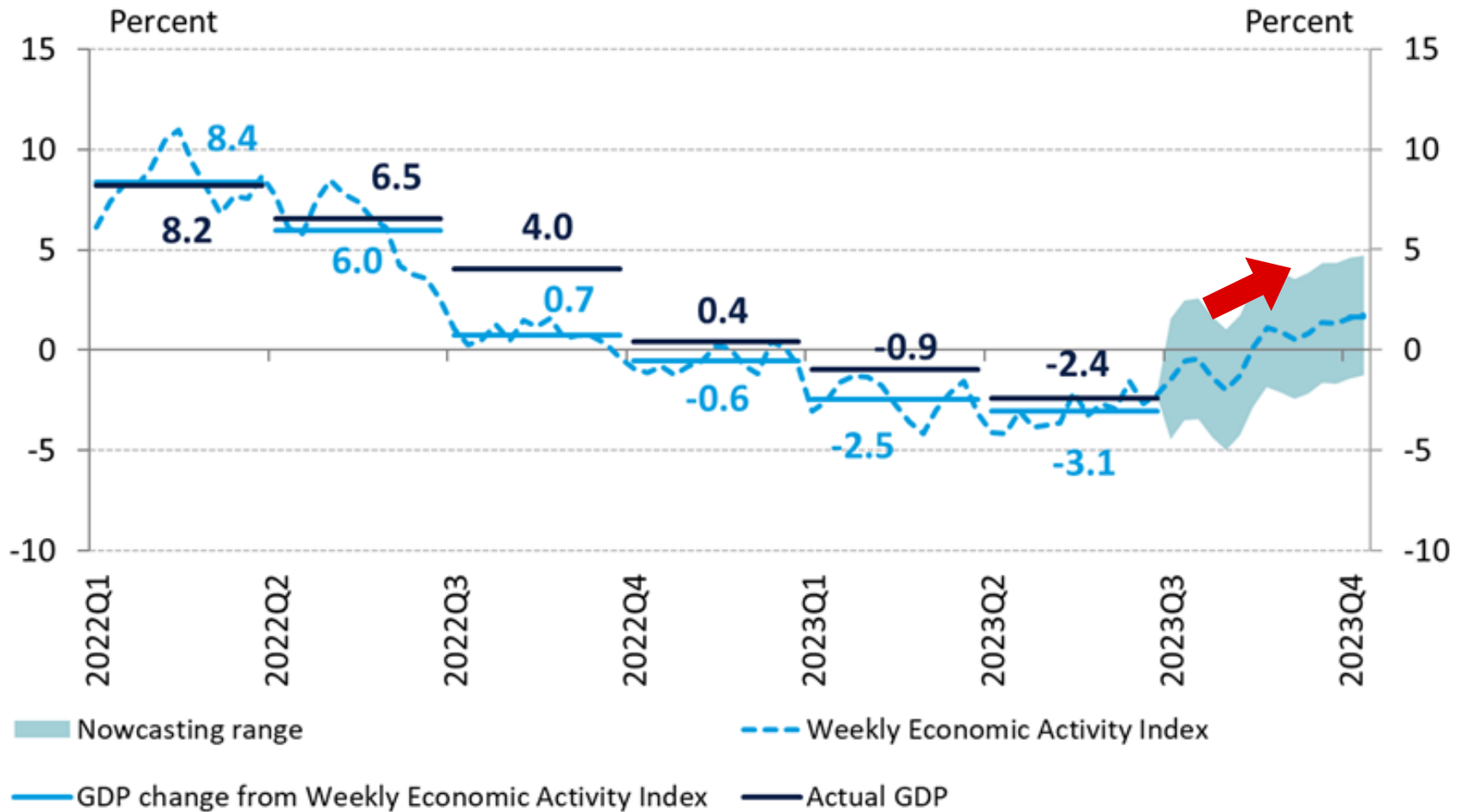


ESTIMATED MARGIN ON FUEL PRICES

Note | Transit-cost filtered margins. Margins represent all costs associated with the refinement of crude oil and the transportation and wholesale and retail distribution of the refined goods.

Source | Bloomberg, holtankoljak.hu, MNB estimate

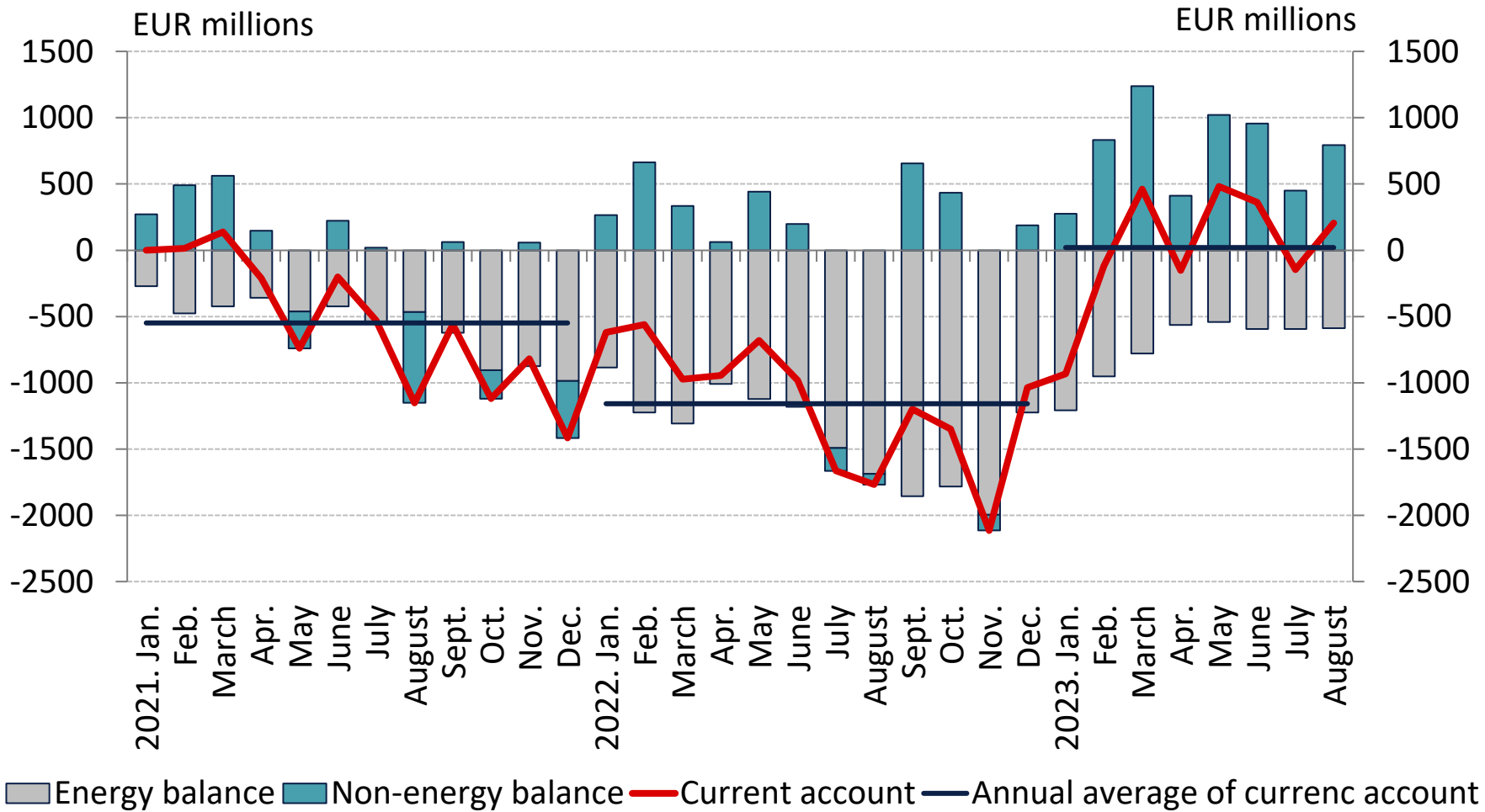
THE GRADUAL INCREASE IN DOMESTIC ECONOMIC ACTIVITY HAS BEGUN IN THE THIRD QUARTER



WEEKLY GDP-TRACKER

Source | HCSO, MNB

THE RAPID AND SUBSTANTIAL IMPROVEMENT IN THE EXTERNAL BALANCE CONTINUED



DEVELOPMENTS IN CURRENT ACCOUNT AND ENERGY BALANCE

Note | The August value of the energy balance is an estimate.

Source | HCSO, MNB



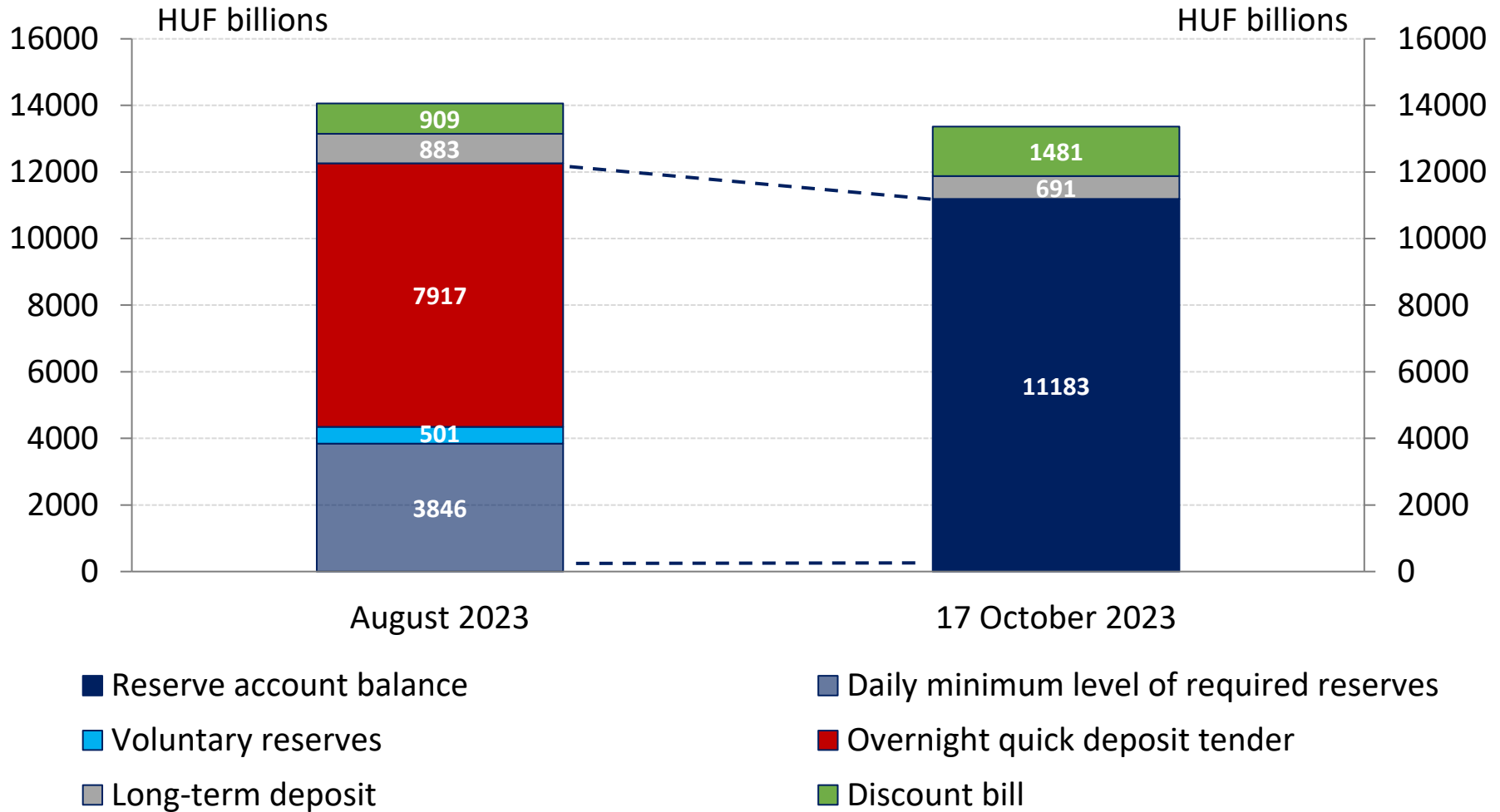
MONETARY POLICY

INTEREST RATE DECISION OF THE MONETARY COUNCIL IN OCTOBER



Central bank instrument	Interest rate	Previous interest rate (percent)	New interest rate (percent)
Central bank base rate		13.00	12.25
O/N deposit rate	Central bank base rate minus 1.00 percentage point	12.00	11.25
O/N collateralised lending rate	Central bank base rate plus 1.00 percentage point	14.00	13.25

FOLLOWING THE SIMPLIFICATION, THE RESERVE ACCOUNT BECAME THE MAIN STERILISATION INSTRUMENT



THE IMPACT OF SIMPLIFYING INSTRUMENTS

Note | Based on the average stock of central bank forint deposits in August 2023.

Source | MNB



Inflation target

Annual inflation is expected to reach the 7–8 percent territory towards the end of the year, but the increase in external risks warrants a careful approach.



Financial market stability

Ensuring financial market stability is the condition for achieving price stability.

Data-driven mode

The Council takes a step-by-step decision on interest rates based on a careful approach, depending on incoming data, factors affecting the inflation path and developments in the risk environment.

Communication in advance

Clear communication promotes consistency between central bank decisions and interest rate expectations. As part of this, the MNB publishes regular flash analyses of key macroeconomic indicators.





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



THANK YOU FOR YOUR
KIND ATTENTION!