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Analyst background discussion

21 November 2023

BACKGROUND DISCUSSION AFTER THE MONETARY COUNCIL'S 21 NOVEMBER 2023 DECISION



MAIN MESSAGES: MONETARY POLICY DECISIONS



- **The Council takes decisions step-by-step, in a careful and data-driven manner, depending on the factors affecting the inflation path and developments in the risk environment.**
- **Macroeconomic developments continue to show a trend-like improvement: inflation is single-digit, the improvement in the external balance continues, the economy has exited recession.**
- **We can't sit back and prematurely declare victory over inflation! Disinflation needs to be continued in 2024!**
- **It is necessary to maintain a disciplined monetary policy in order to achieve price stability.**
- **Strong disinflation and the stability of financial markets allow the MNB to continue the cycle of base rate decreases.**
- **External risks continue to warrant a cautious approach. In line with this, at its meeting today the Monetary Council cut the base rate by 75 basis points to 11.50 percent.**
- **At the meeting, the Council discussed three options (-50, -75, -100 bp). Regarding the pace of interest rate cuts, a unanimous decision was reached.**
- **With disinflation accelerating, the domestic real interest rate has risen further. The positive real interest rate supports the further decline in inflation.**
- **The base rate could fall below 11 percent by the end of the year and it may reach single-digit territory in February 2024.**

MAIN MESSAGES: MACROECONOMIC ASSESSMENT AND OUTLOOK

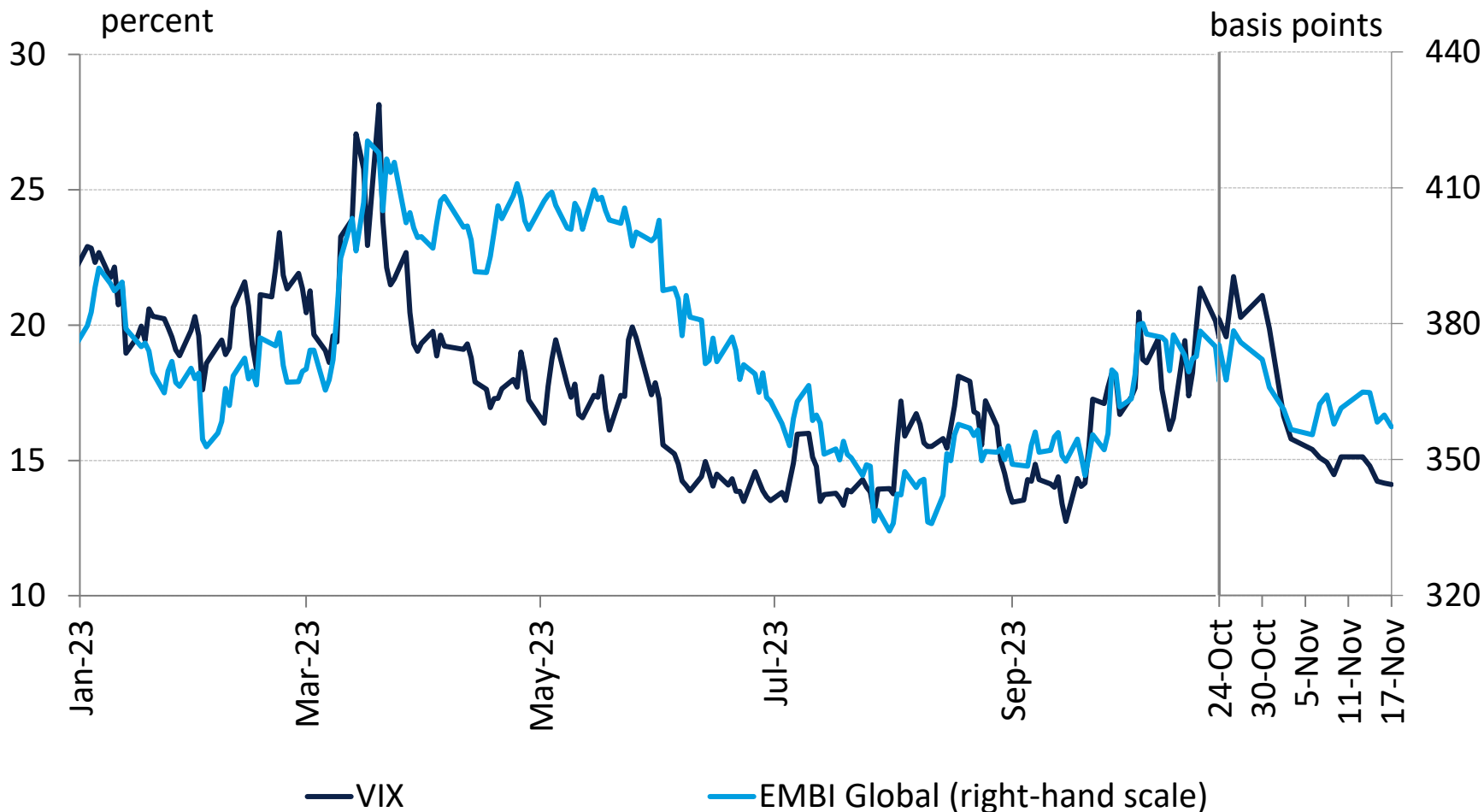


- **Inflation declined to 9.9 percent in October**, bringing the rate of price increases back into **single-digit territory again**, nine months after the peak in inflation at the beginning of the year. **Inflation will be around 7 percent at the end of the year.**
- **Short-term repricing patterns show a similar picture to the period before 2020.**
- **Economic growth has returned. GDP rose by 0.9 percent** quarter-on-quarter in the **third quarter**. Based on high-frequency data, domestic economic output is expected to improve further towards the end of the year.
- **Our external position is showing a rapid and significant improvement.** In September, **the current account balance was in surplus again, and looking ahead, it may improve even by more than previously expected.**
- **Overall, risk appetite has improved since the previous interest rate decision. Long-term yields in developed markets have corrected** but remain at higher levels than in recent years.
- **Global uncertainty** is increasing in parallel with **rising geopolitical tensions** and **international risks**, which warrants a cautious approach.



MACROECONOMIC ASSESSMENT AND OUTLOOK

INTERNATIONAL INVESTOR SENTIMENT HAS IMPROVED; HOWEVER, RISKS ARE STILL PRESENT



DEVELOPMENTS IN THE VIX INDEX AND THE EMBI GLOBAL INDEX

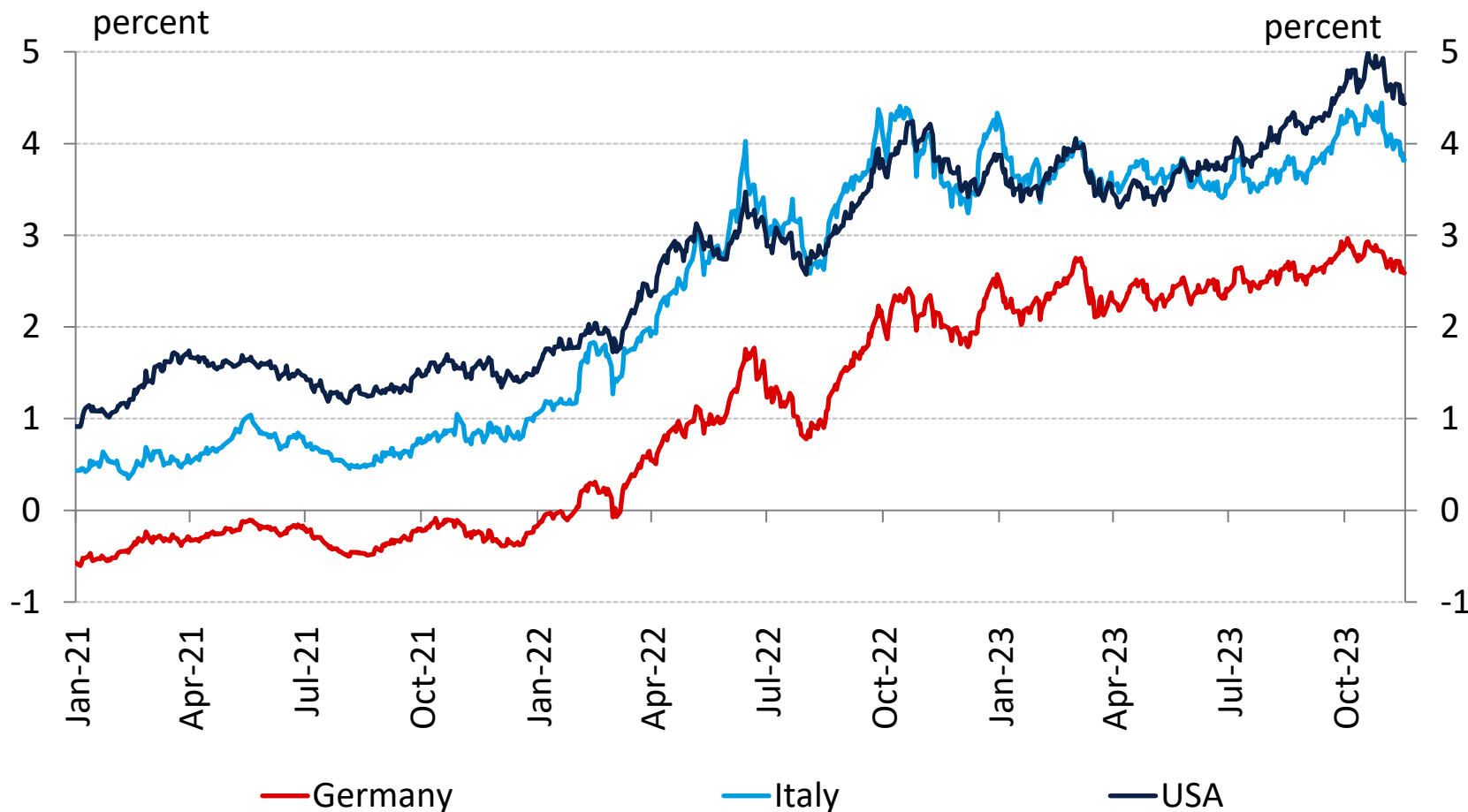
Note | A rise in the VIX index and the EMBI Global index signals a deterioration in investor sentiment.

Source | Bloomberg

LONG-TERM YIELDS IN DEVELOPED MARKETS HAVE CORRECTED, BUT REMAIN AT HIGH LEVELS



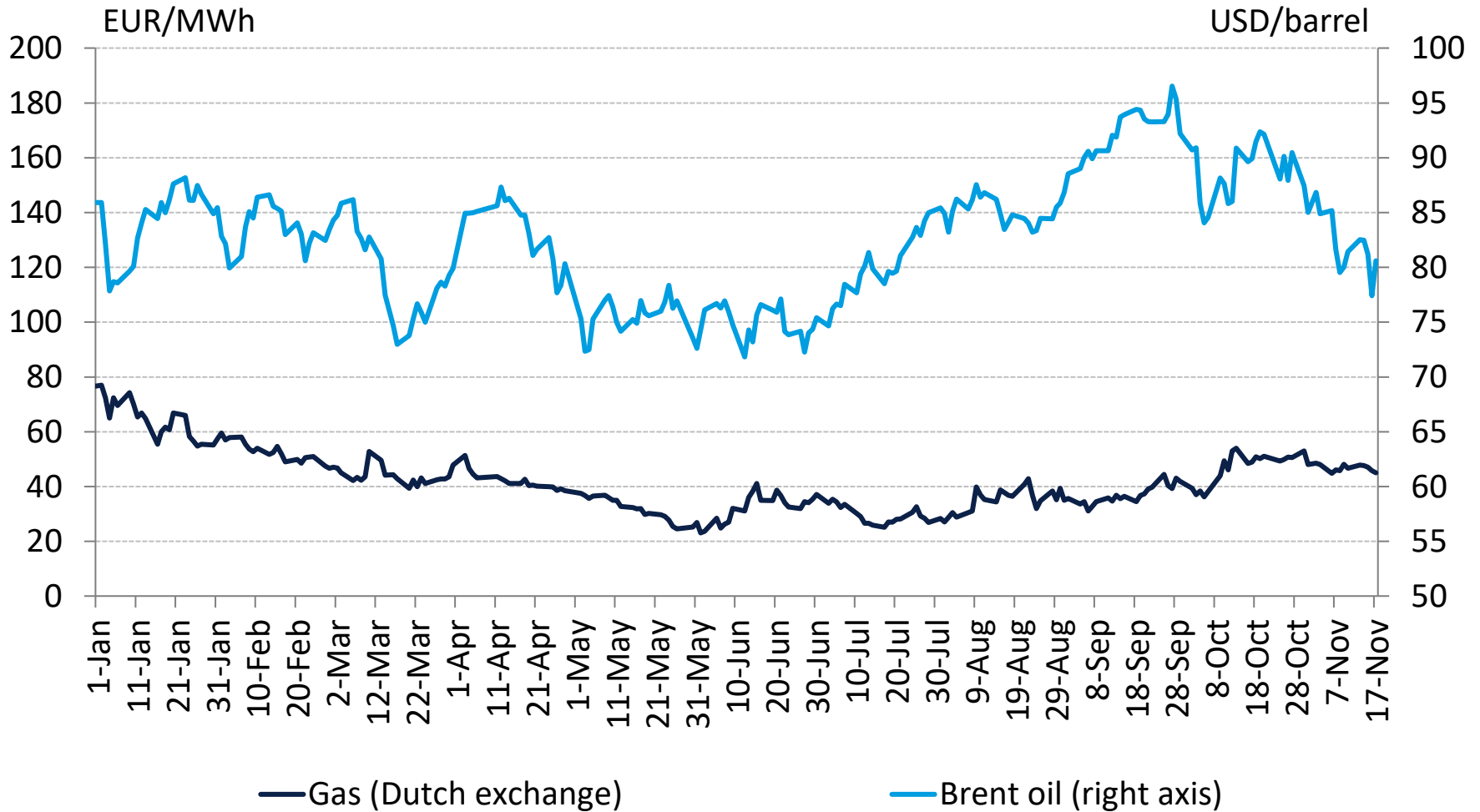
The international outlook is surrounded by substantial risks.



DEVELOPMENTS IN YIELDS ON 10-YEAR ZERO COUPON BONDS

Source | Bloomberg

EVEN WITH GEOPOLITICAL CONFLICTS PRESENT, OIL PRICES HAVE DECREASED



CHANGES IN OIL AND GAS PRICES

INTERNATIONAL RISKS STILL CALL FOR CAUTION



**Geopolitical tensions,
sanctions**

**Energy and commodity
market shocks**



**Recession fears, labour
market tensions**

**Armed conflicts, nuclear
armament**



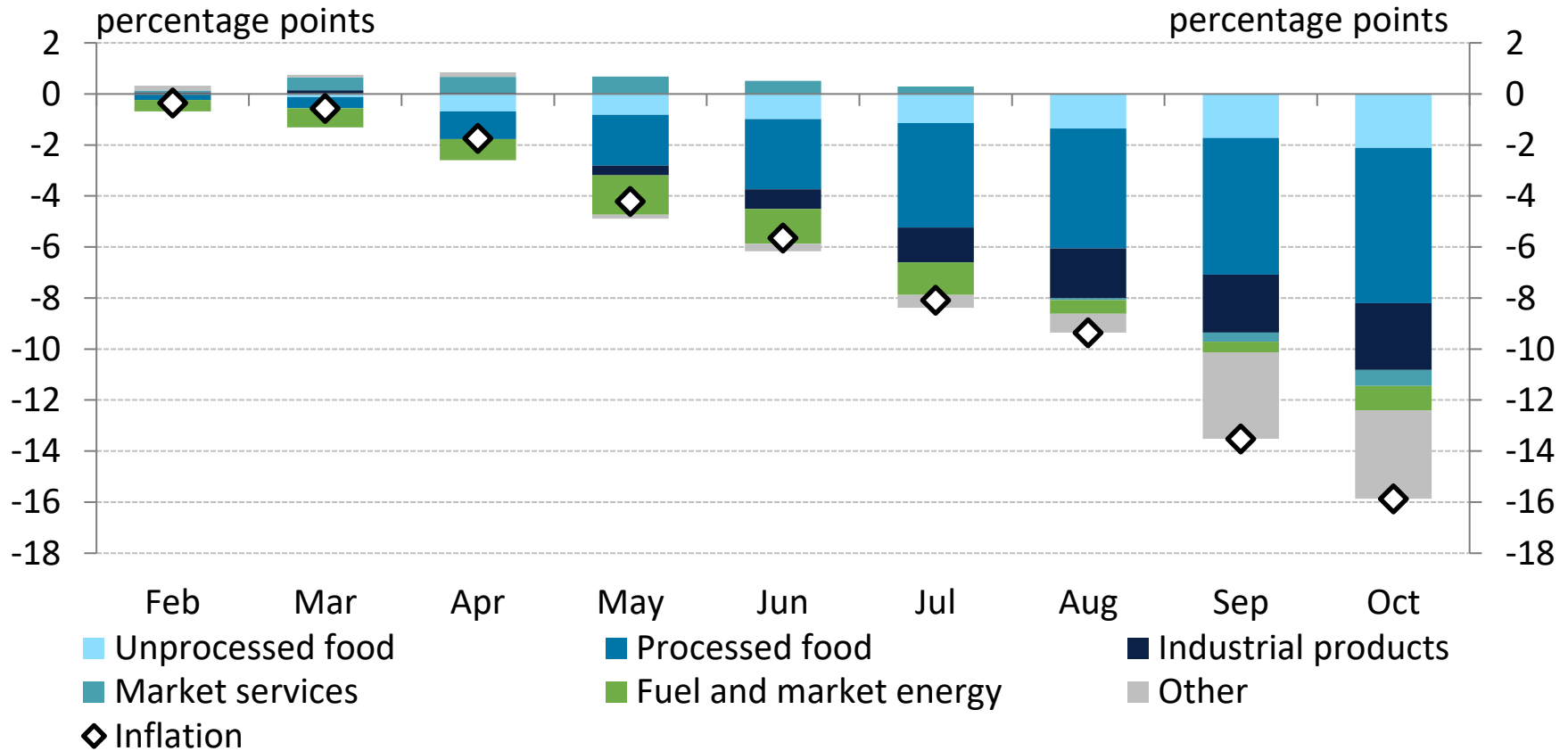
The economic landscape has become volatile and difficult to predict due to increased risks, which warrants a cautious approach.



NINE MONTHS AFTER THE PEAK AT THE BEGINNING OF THE YEAR, INFLATION FELL TO THE SINGLE-DIGIT TERRITORY

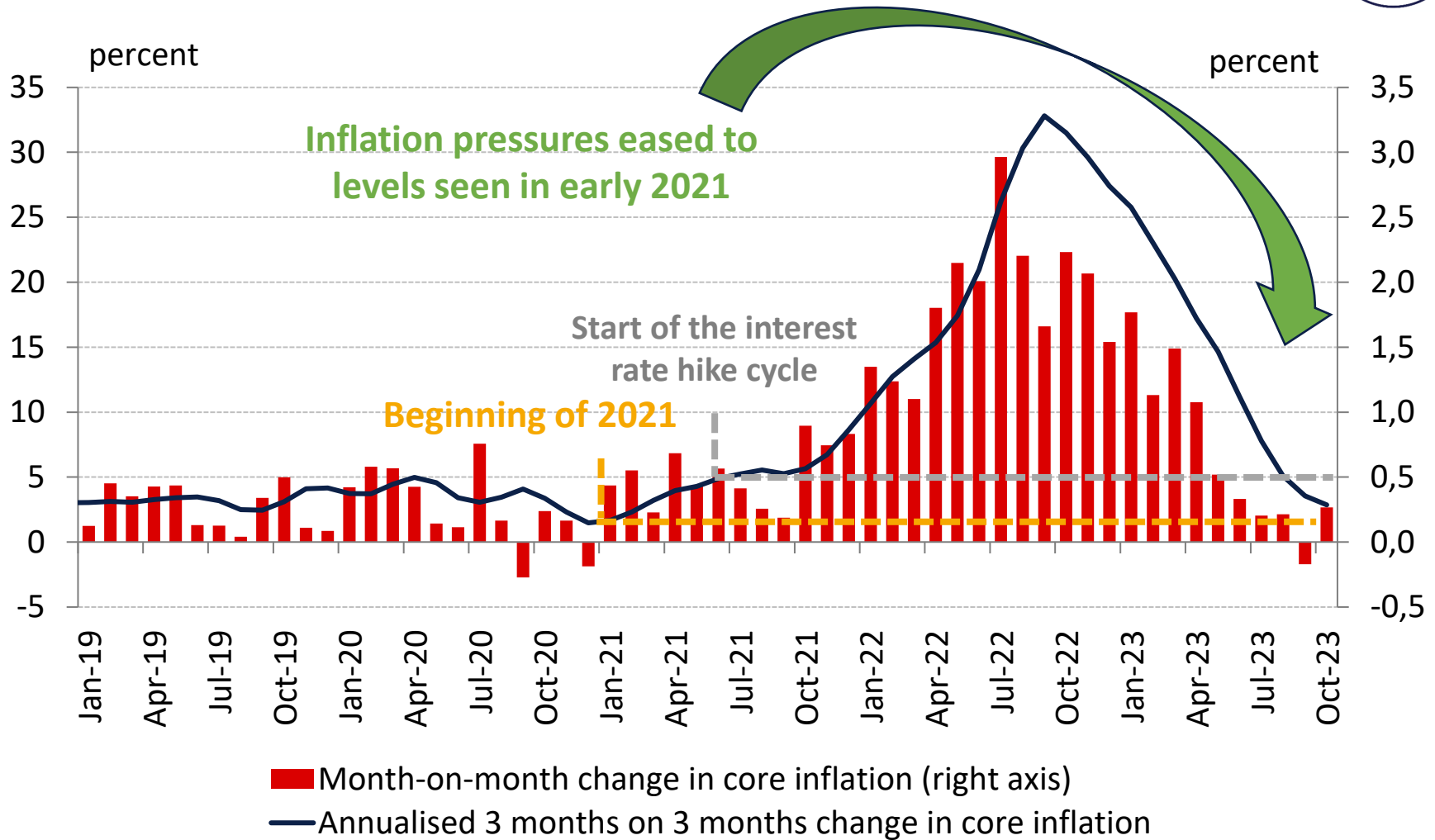


Consumer prices rose by 9.9 percent in annual terms in October.



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

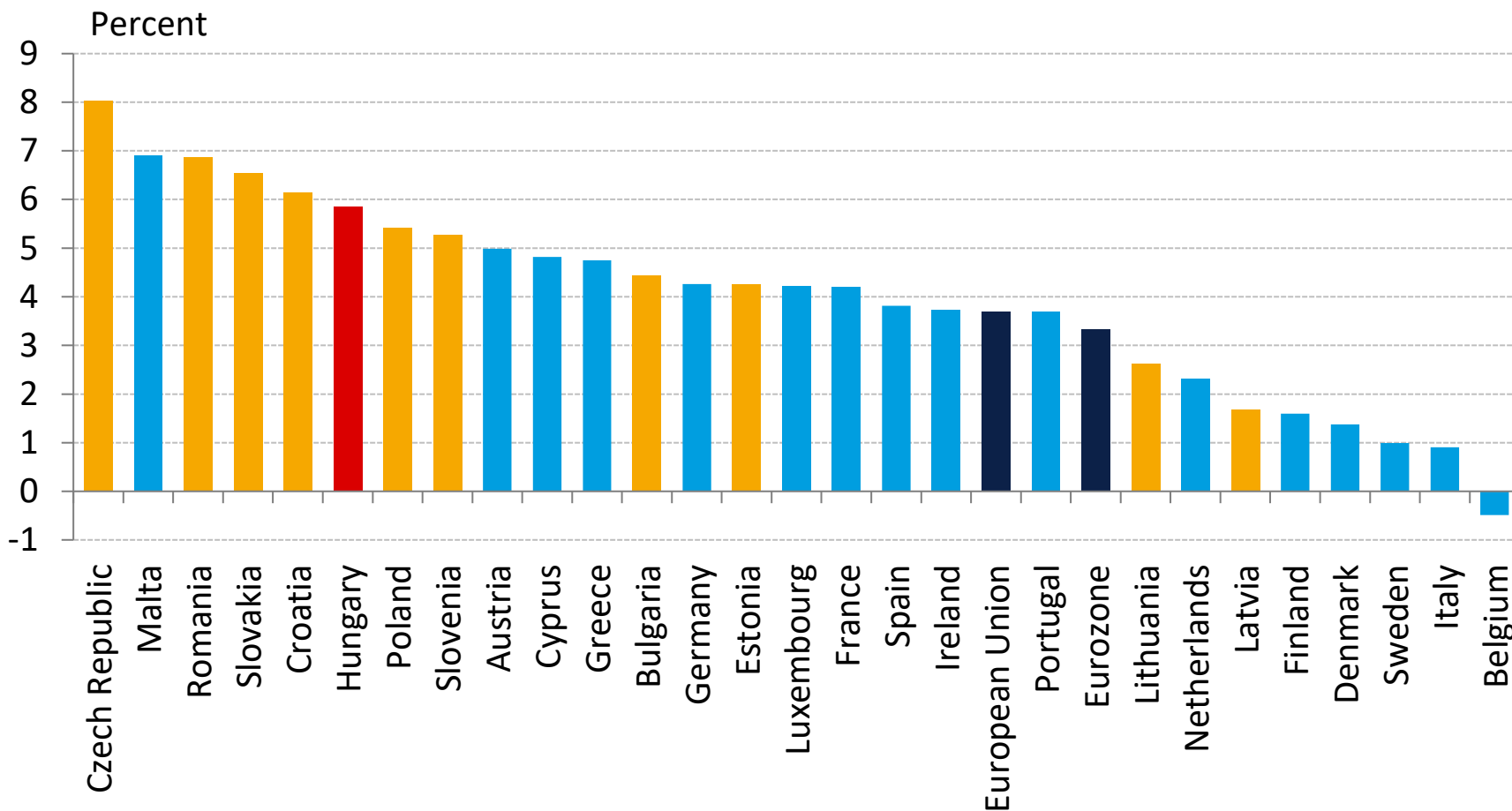
SHORT-TERM REPRICING PATTERNS SHOW A SIMILAR PICTURE TO THE PERIOD BEFORE 2020



SHORTER-TERM UNDERLYING INFLATION INDICATORS

Source | HCSO, MNB calculations

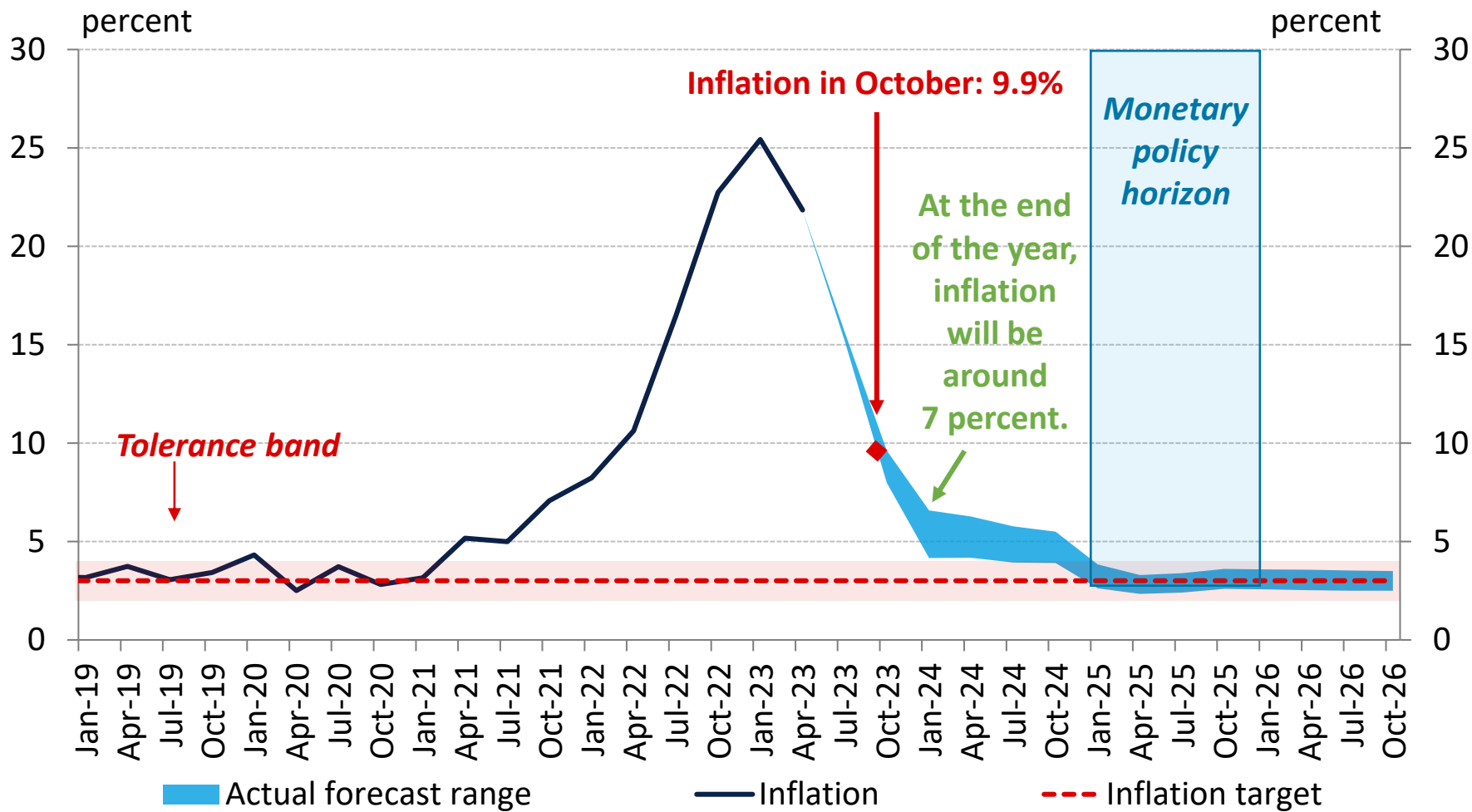
THE PRICE INCREASE SINCE THE BEGINNING OF THE YEAR IS SIMILAR TO THAT OF THE V3 COUNTRIES, SO BY THE END OF THE YEAR, HUNGARIAN INFLATION MAY REACH THE REGIONAL LEVEL



PRICE CHANGE COMPARED TO DECEMBER 2022 IN THE COUNTRIES OF THE EUROPEAN UNION (OCTOBER 2023)

Note | HICP data.
Source | Eurostat

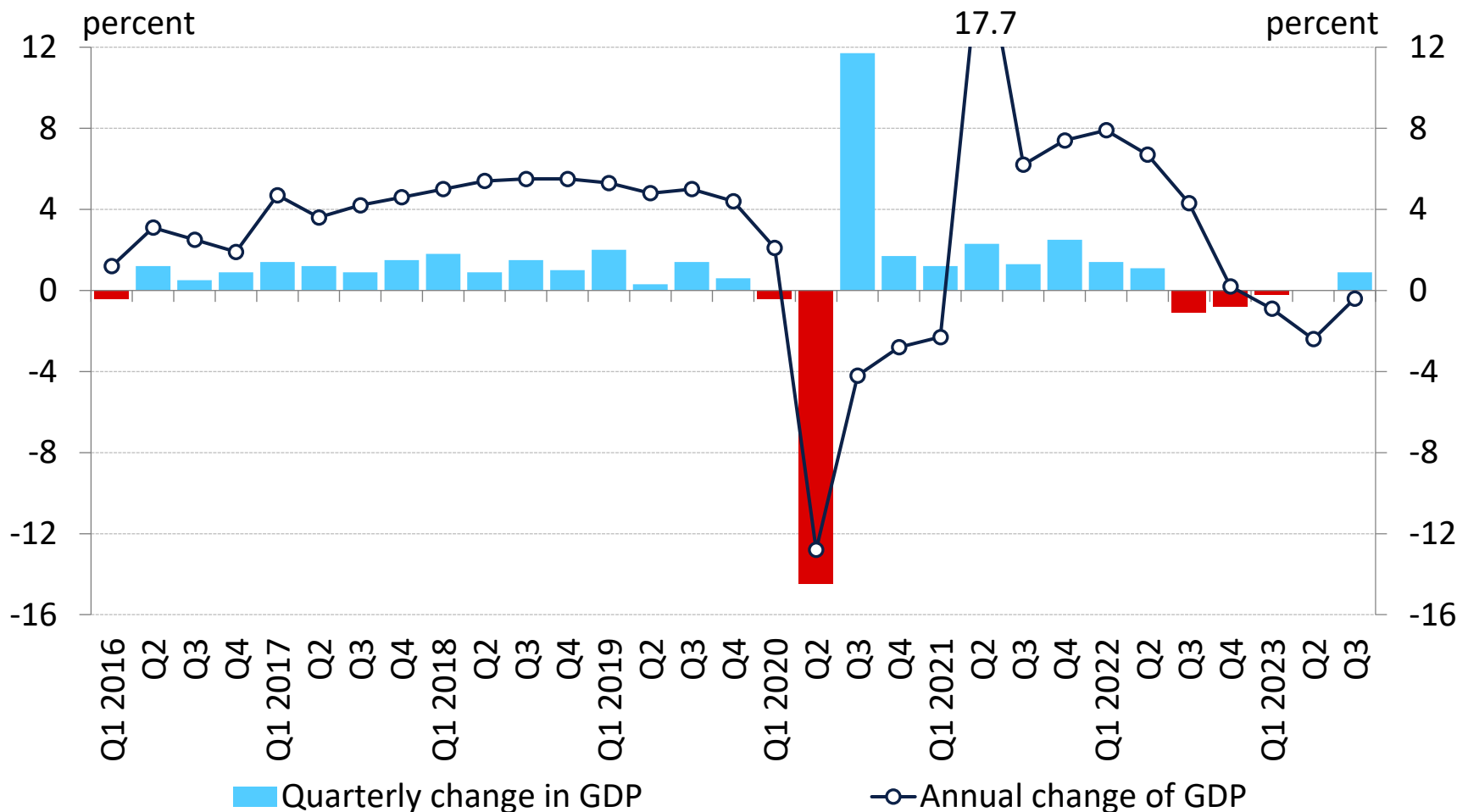
AT THE END OF THE YEAR, INFLATION WILL BE AROUND 7 PERCENT, DISINFLATION NEEDS TO BE CONTINUED IN 2024!



INFLATION FORECAST

Source | HCSO, MNB

THE RECESSION HAS ENDED IN THE THIRD QUARTER OF 2023

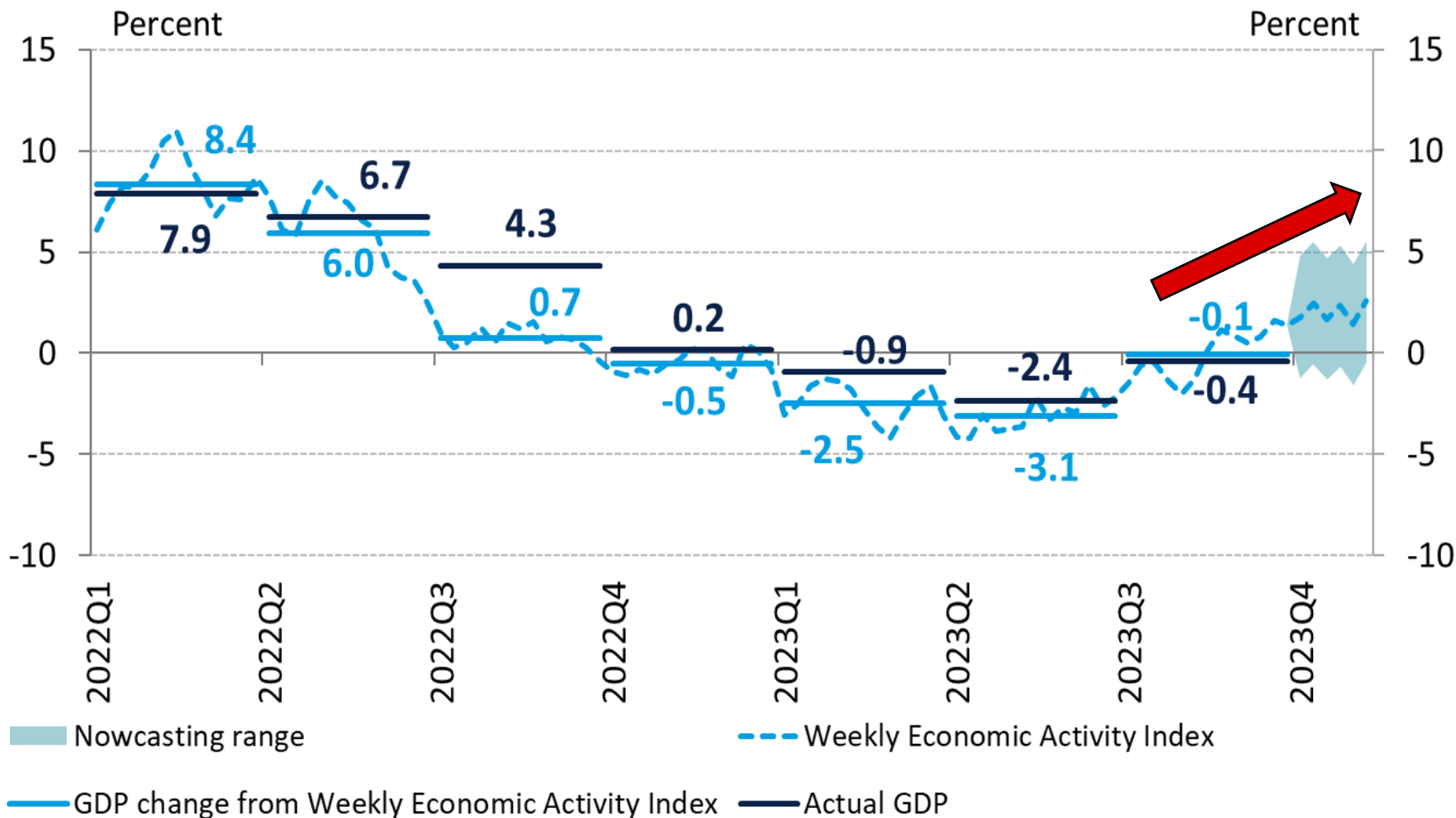


ANNUAL AND QUARTERLY CHANGES IN GDP

Note | In the case of the quarterly change, seasonally and calendar-adjusted data.

Source | HCSO

DOMESTIC ECONOMIC PERFORMANCE IS EXPECTED TO IMPROVE FURTHER TOWARDS THE END OF THE YEAR



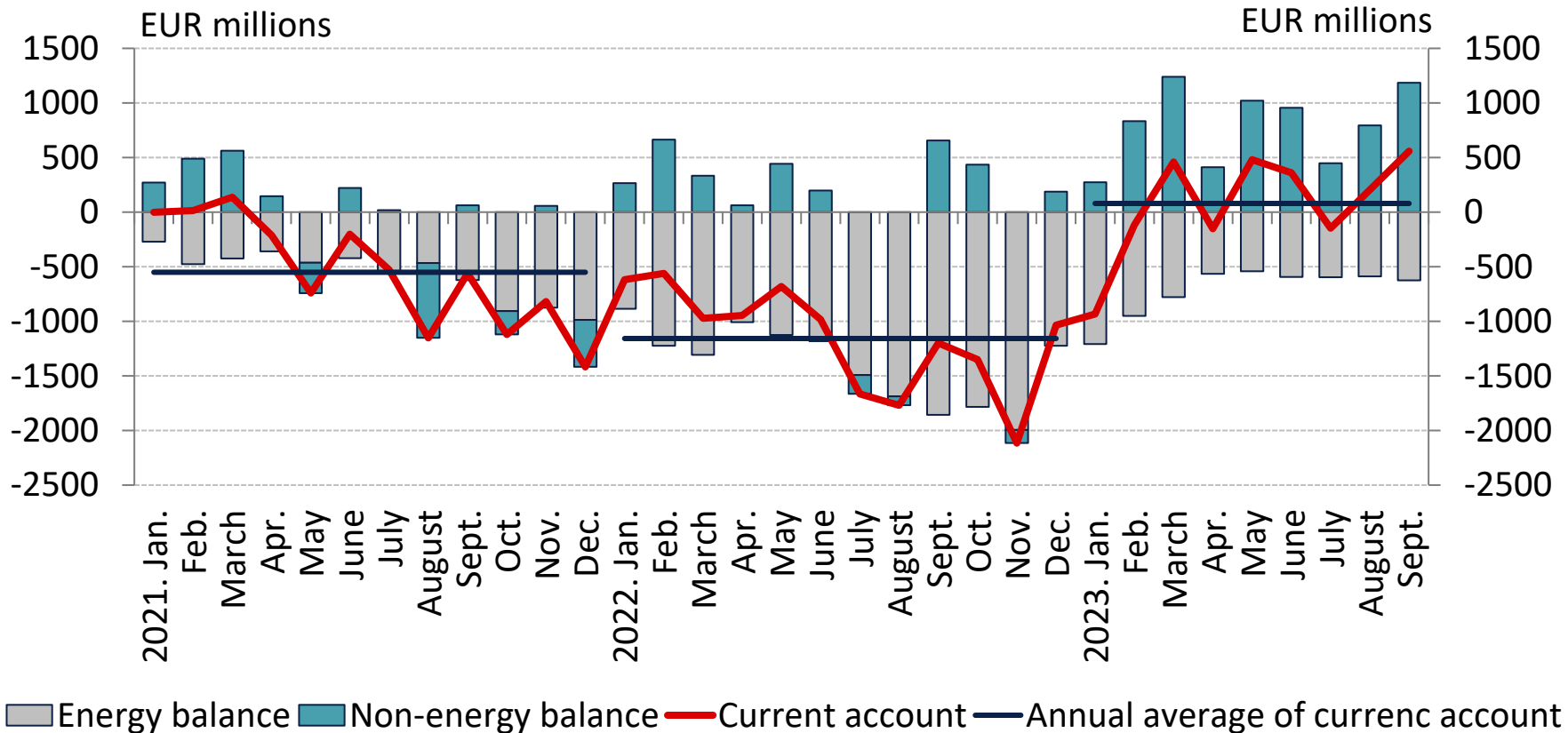
WEEKLY GDP-TRACKER

Source | HCSO, MNB

THE RAPID AND SUBSTANTIAL IMPROVEMENT IN THE EXTERNAL BALANCE CONTINUED



The current account balance may improve by even more than previously expected.



DEVELOPMENTS IN CURRENT ACCOUNT AND ENERGY BALANCE

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

Source | HCSO, MNB



MONETARY POLICY

INTEREST RATE DECISION OF THE MONETARY COUNCIL IN NOVEMBER



| Central bank instrument | Interest rate | Previous interest rate (percent) | New interest rate (percent) |
|---------------------------------|--|----------------------------------|-----------------------------|
| Central bank base rate | | 12.25 | 11.50 |
| O/N deposit rate | Central bank base rate minus 1.00 percentage point | 11.25 | 10.50 |
| O/N collateralised lending rate | Central bank base rate plus 1.00 percentage point | 13.25 | 12.50 |

IT IS NECESSARY TO MAINTAIN A DISCIPLINED MONETARY POLICY IN ORDER TO ACHIEVE PRICE STABILITY



Inflation target

Annual inflation is expected to be around 7 percent at the end of the year, but external risks warrant a careful approach.



Financial market stability

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

Data-driven mode

The Council takes decisions step-by-step, in a careful and data-driven manner, depending on the factors affecting the inflation path and developments in the risk environment.

Communication in advance

The base rate could fall below 11 percent by the end of the year and it may reach the single-digit territory in February 2024.





„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!