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BACKGROUND DISCUSSION AFTER THE MONETARY COUNCIL'S 27 FEBRUARY DECISION

Analyst background discussion

27 February 2024



MAIN MESSAGES: MONETARY POLICY DECISIONS

- **At its meeting today the Monetary Council cut the base rate by 100 basis points to 9.00 percent.**
- **The interest rate level expected by the Monetary Council for the middle of the year did not change.** Lower inflation (our short-term view was pushed down by about 0.5 percentage points) and the favourable development of the country's risk assessment made it possible to temporarily accelerate the reduction of the base rate.
- **The Council does not focus on a single decision, but intends to achieve the interest rate path that ensures the achievement of price stability, the maintenance of financial market stability and the reconstruction of market-based lending.**
- **Market participants are currently expecting an interest rate of 6.00-7.00 percent by the end of the first half of the year.** This scenario seems realistic.
- **The Council continues to make decisions in a data-driven manner.**
- **The March Inflation Report will be especially important in assessing the rate at which interest rate cuts will continue in the second quarter of 2024.**



MAIN MESSAGES: MONETARY POLICY DECISIONS

- **Disinflation has been strong and general in the Hungarian economy.** Both the external and internal environment contribute to disinflation.
- **Strong tightness of the labour market has eased.**
- **Throughout 2023, Hungary's external position improved significantly.** The arrival of EU funds improves the country's net lending and further increases the foreign exchange reserves, which have reached a historical peak.
- **Shall not sit back! It is necessary to maintain a disciplined and stability-oriented monetary policy to achieve price stability in a sustainable manner.**
- **Gradualism and the maintenance of an appropriately positive real interest rate environment remain the main elements of monetary policy.**
- **The causes of the financial market noise that arose before the January interest rate decision have come to a standstill, and the domestic risk environment has remained stable since the January interest rate decision.**



MAIN MESSAGES: MACROECONOMIC ASSESSMENT AND OUTLOOK

- In January, consumer prices rose by 3.8 percent in annual terms, **bringing inflation within the Bank's tolerance band after 34 months.**
- **Inflation will remain close to the upper bound of the tolerance band in the coming months. Underlying inflation is muted.**
- **Hungarian economic performance stagnated in 2023 Q4 following the rebound in the previous quarter.**
- **The easing in the strong tightness of the labour market** is indicated by a decrease in the number of weekly hours worked and new advertised vacancies.
- **Based on company surveys, financing and interest rates are not among the biggest issues for companies.**
- **The current account improved significantly in 2023**, turning into a surplus of 0.2 percent of GDP from a deficit of 8.2 percent in 2022.
- **Global investor sentiment has remained broadly unchanged, while gas prices fell further.**
- Based on market pricings, **the world's leading central banks might start interest rate cuts at a later date** than expected earlier.



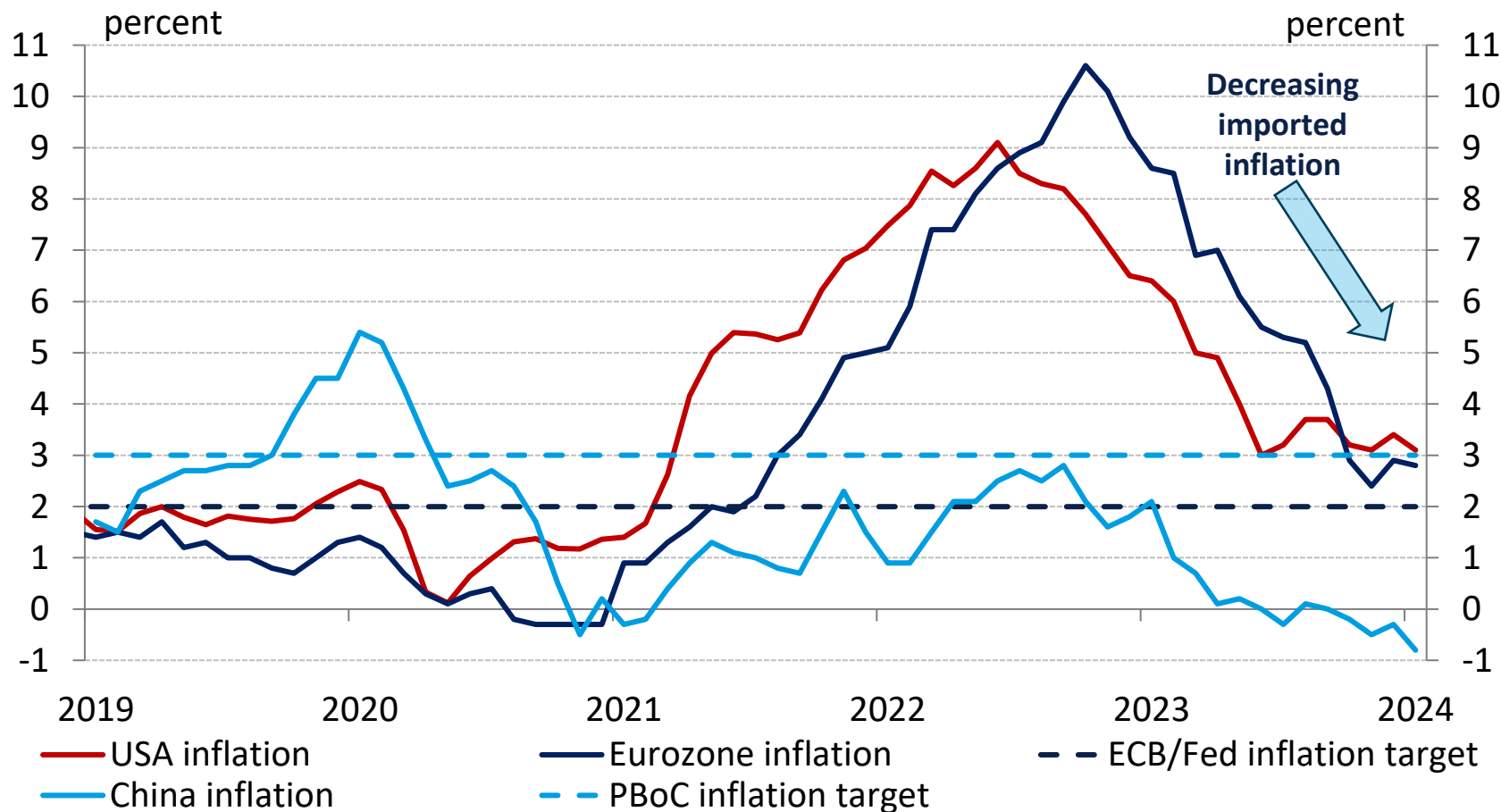
MACROECONOMIC ASSESSMENT AND OUTLOOK





INFLATION IS MODERATING GLOBALLY

However, geopolitical tensions may cause disruptions in global value chains, leading to a renewed rise in freight costs.

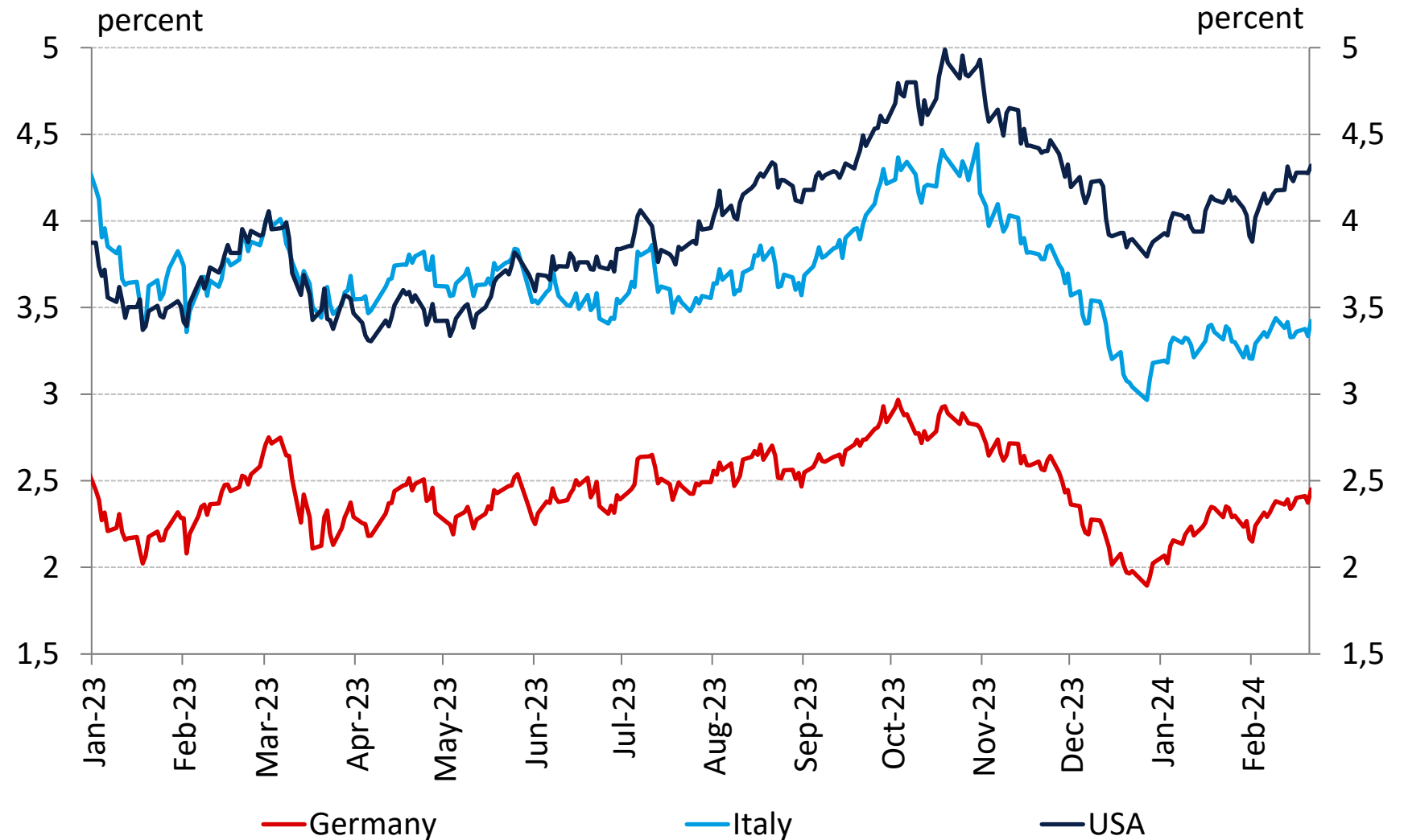


INFLATION IN THE USA, CHINA AND THE EURO AREA

Source | Eurostat, OECD



DESPITE A RECENT RISE, LONG-TERM YIELDS IN DEVELOPED MARKETS ARE STILL SIGNIFICANTLY BELOW THEIR PEAKS

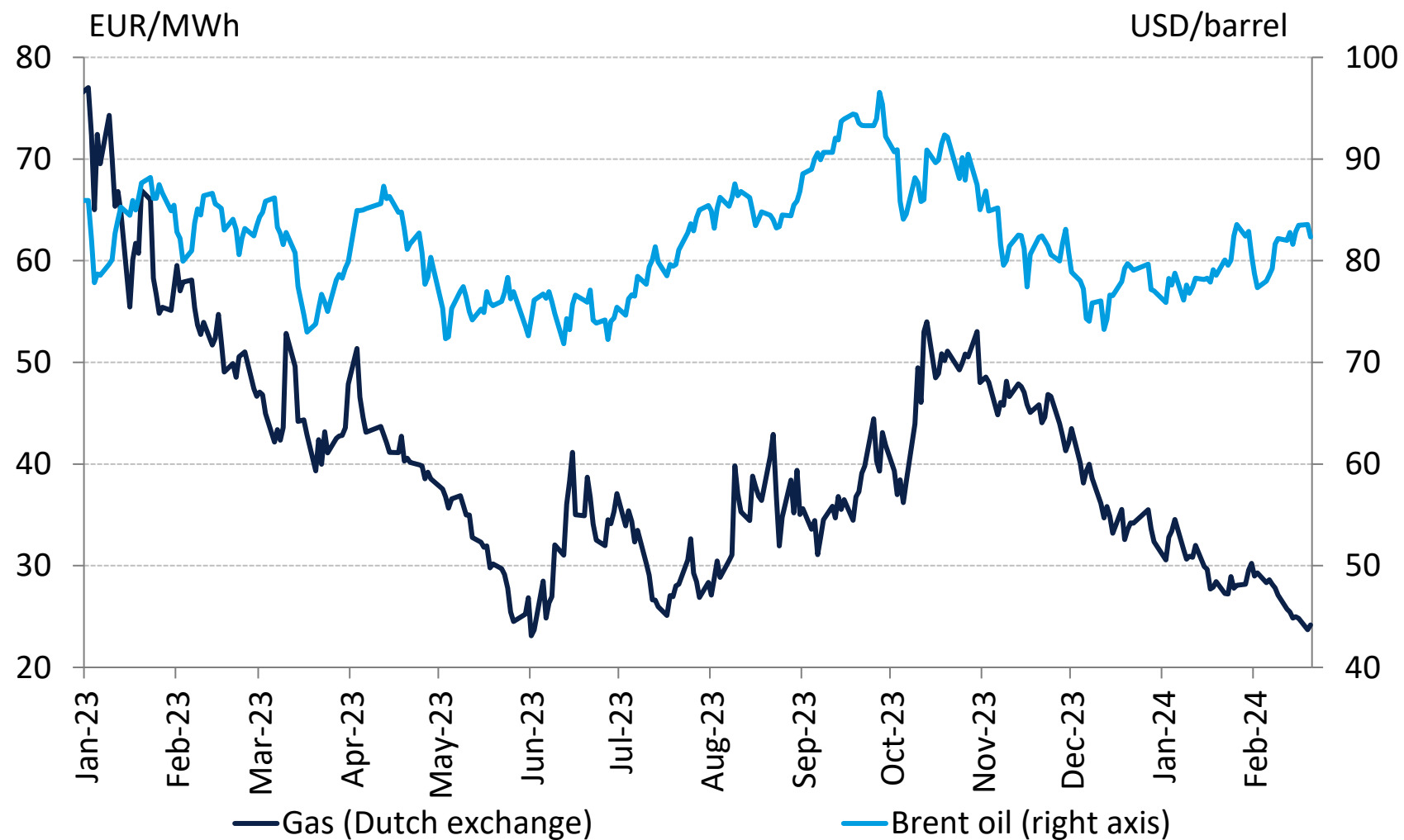


DEVELOPMENTS IN 10 YEAR GOVERNMENT BOND YIELDS

Source | Bloomberg



DESPITE GEOPOLITICAL TENSIONS, EUROPEAN GAS PRICES FELL FURTHER



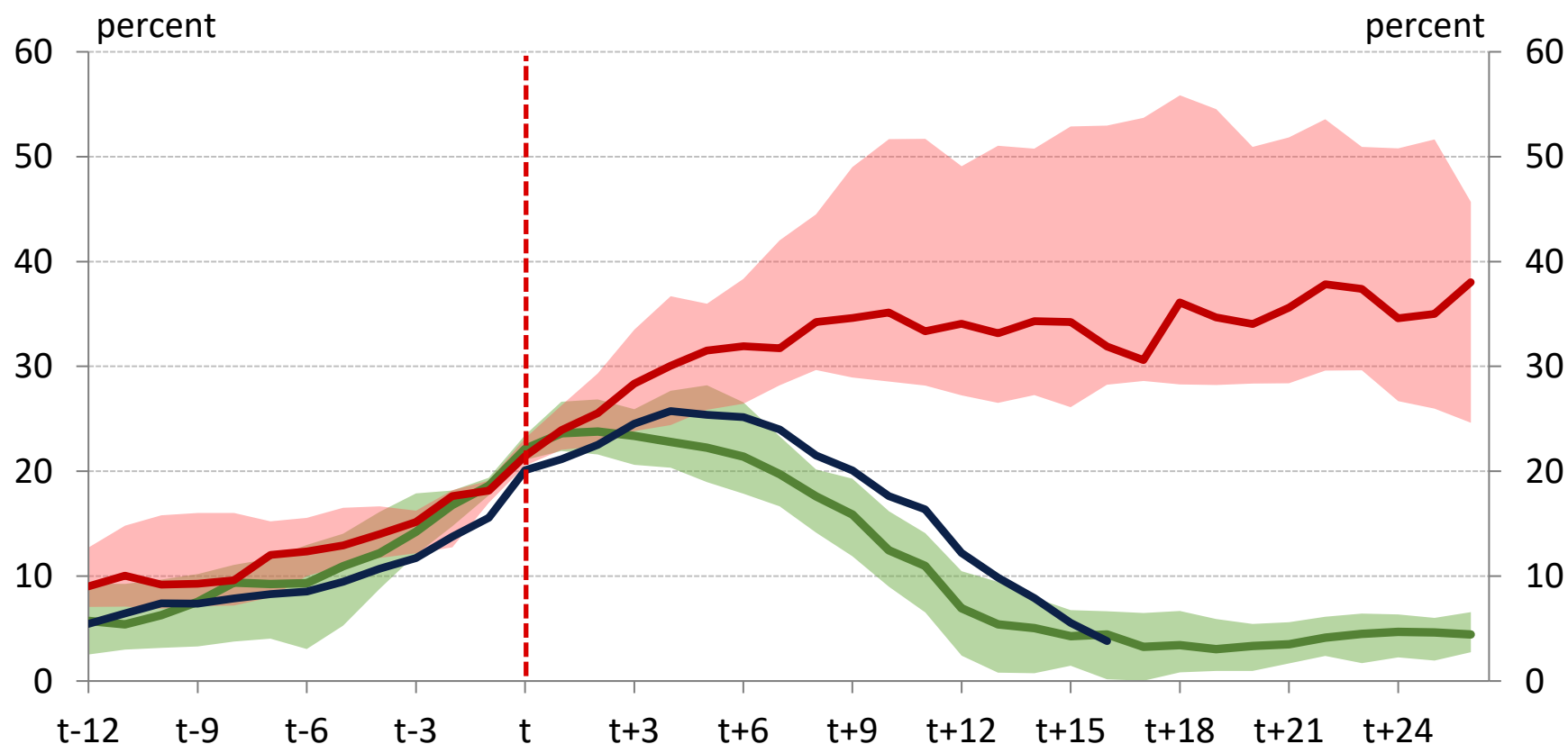
DEVELOPMENTS IN OIL AND GAS PRICES

Source | Bloomberg



DOMESTIC PRICE DYNAMICS CONTINUE TO FOLLOW THE PATH OF COUNTRIES THAT HAVE SUCCESSFULLY DISINFLATED IN THE PAST

Inflation is falling faster than earlier expected.



HISTORICAL DISINFLATIONS, BOTH SUCCESSFUL AND UNSUCCESSFUL, FOLLOWING PERIODS OF INFLATION ABOVE 20 PERCENT AND THE DEVELOPMENTS IN CURRENT INFLATION IN HUNGARY

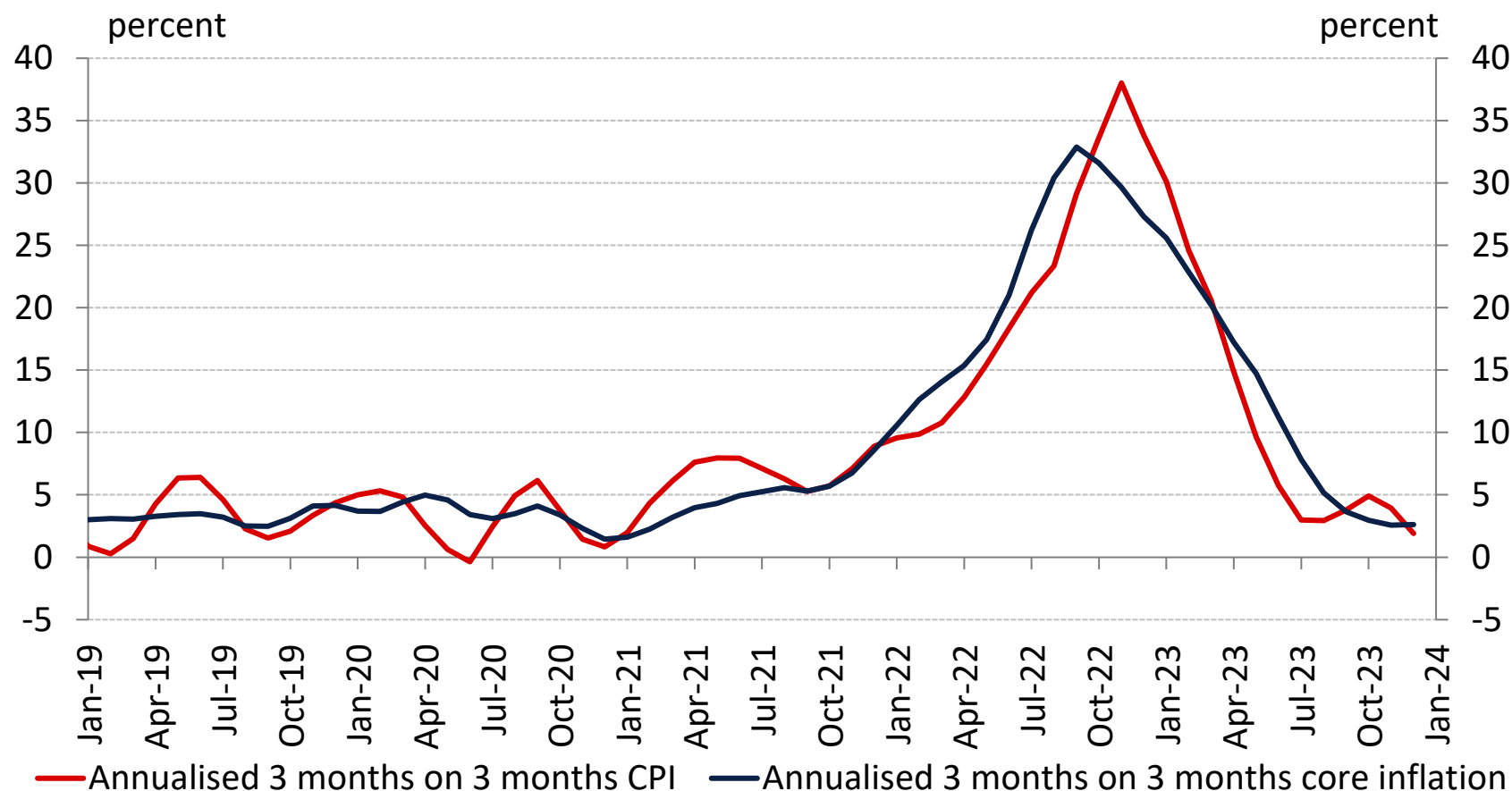
Note | The figure shows the median (solid line) and the 25th and 75th percentiles (range). Green: successful, red: unsuccessful cases. For Hungary, t is September 2022.

Source | World Bank, HCSO, MNB calculation



ANNUALISED THREE-MONTH CHANGE IN CORE INFLATION HAS BEEN BELOW 3 PERCENT SINCE OCTOBER

Short-base inflation indicators already show pre-2020 patterns.



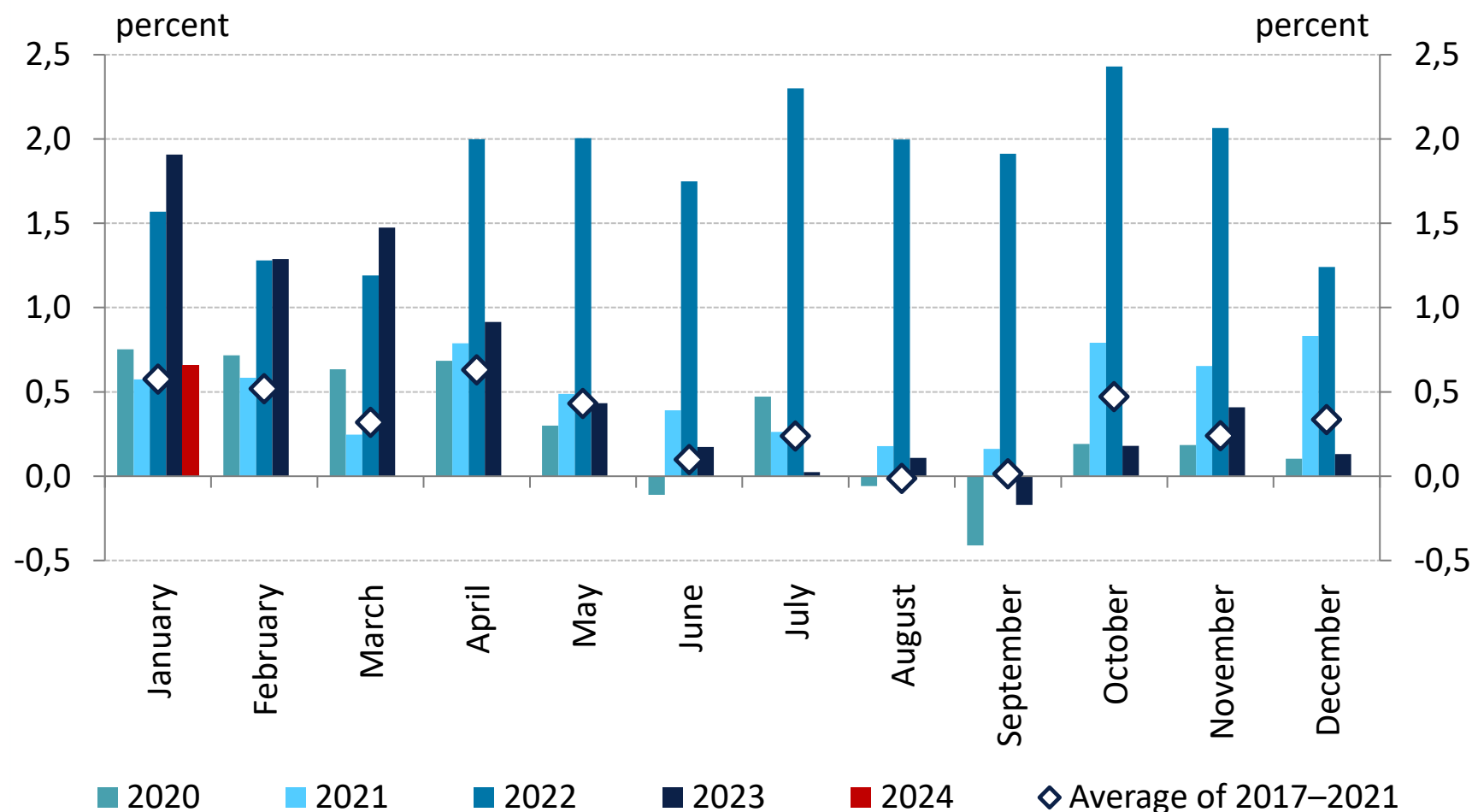
ANNUALISED 3MONTH-ON-3MONTH CHANGE IN INFLATION AND CORE INFLATION

Note | Based on seasonally adjusted data.

Source | HCSO, MNB calculation



REPRICINGS AT THE BEGINNING OF THE YEAR HAVE RETURNED TO THE LEVELS SEEN BEFORE THE WAR



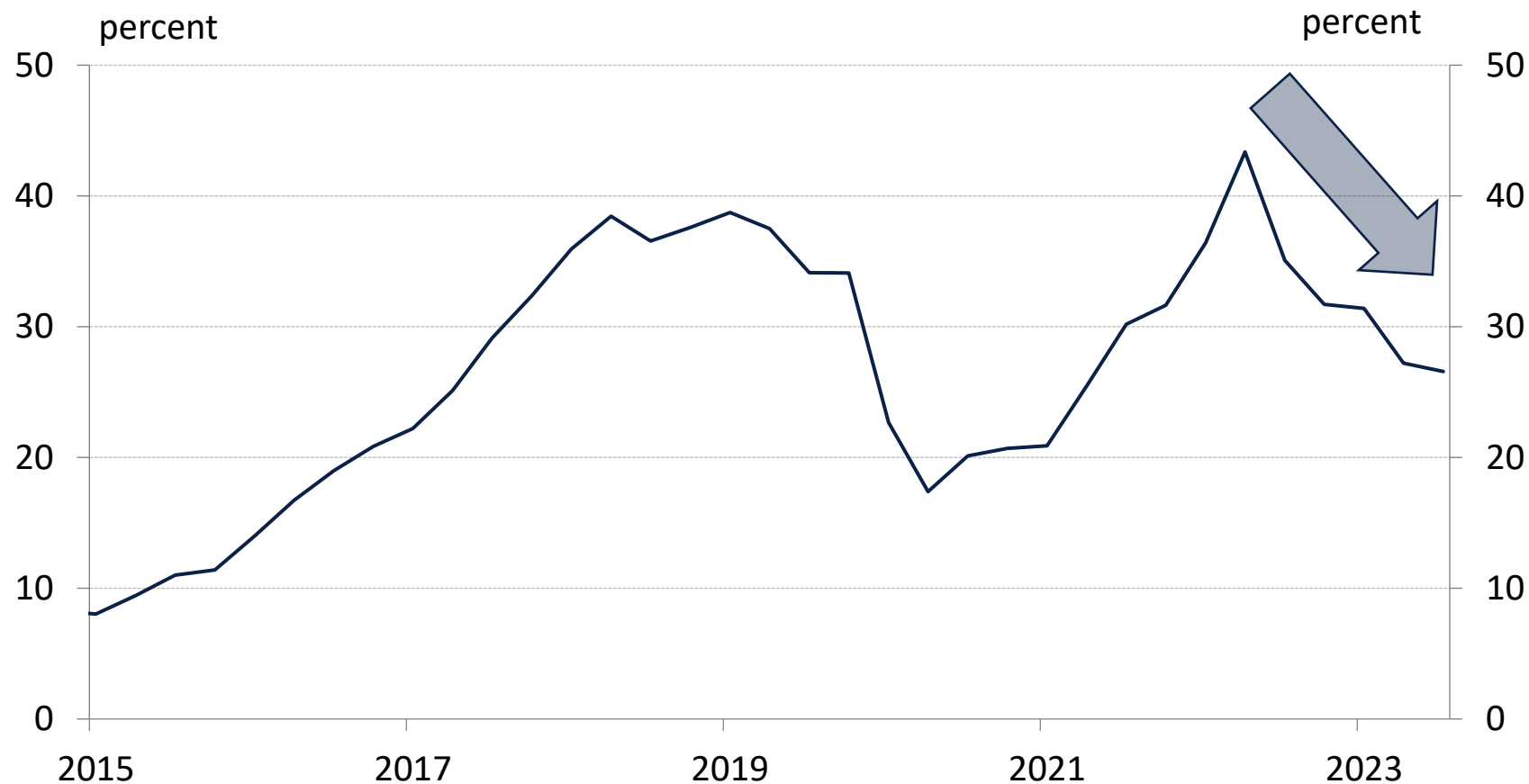
MONTHLY CHANGE IN CONSUMER PRICES EXCLUDING FUEL AND REGULATED PRICES

Note | Tax-adjusted, seasonally unadjusted monthly change.

Source | HCSO, MNB calculation



THE STRONG TIGHTNESS OF THE LABOUR MARKET HAS EASED



— Labour market tightness - vacancies in the private sector, as a percentage of the unemployed

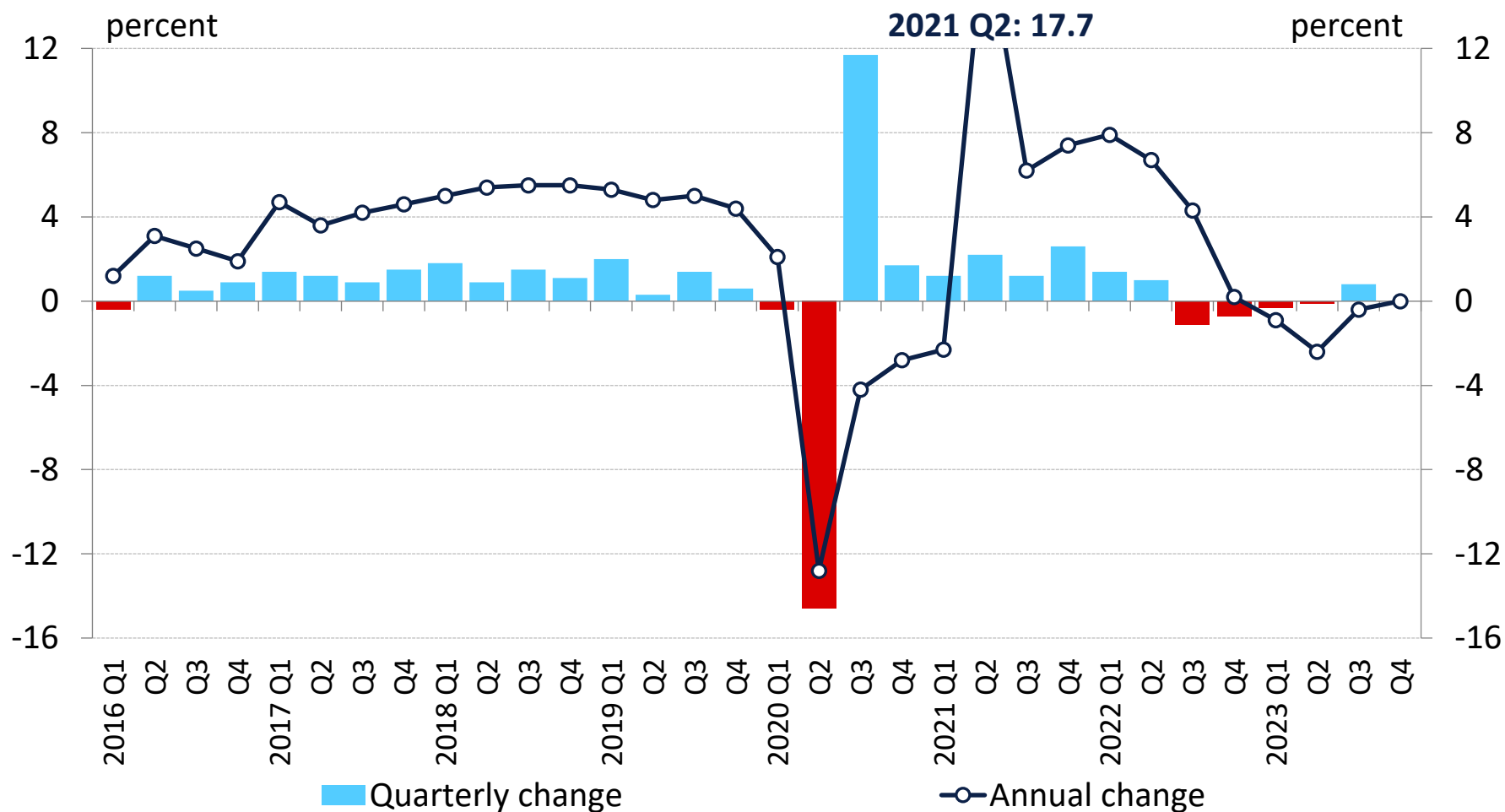
LABOUR MARKET TIGHTNESS INDICATOR

Note | Seasonally adjusted quarterly data.

Source | HCSO, MNB calculation



HUNGARY'S ECONOMY STAGNATED AT THE END OF 2023



DEVELOPMENTS IN THE DOMESTIC GDP IN ANNUAL AND QUARTERLY TERMS

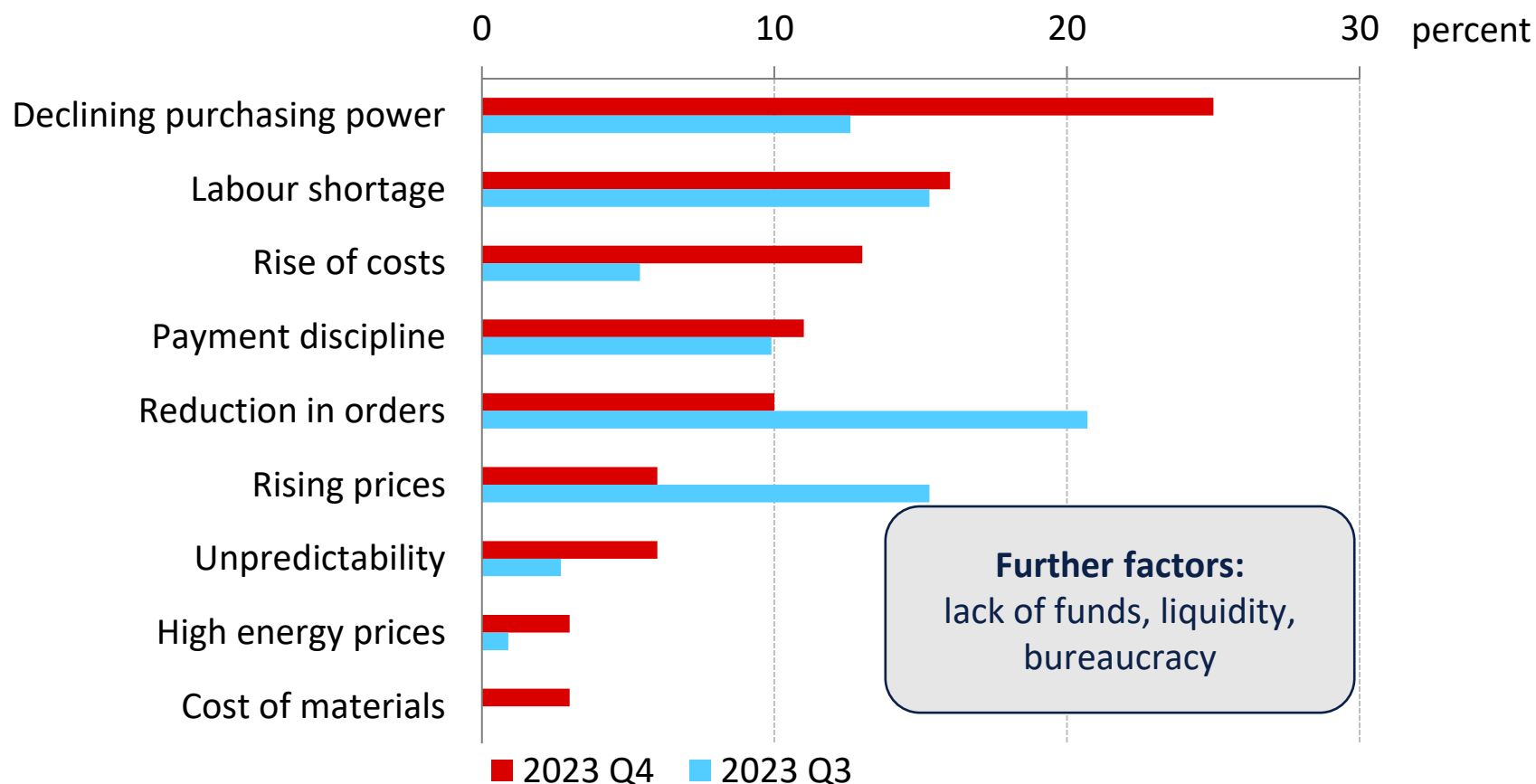
Note | Quarterly changes based on seasonally and calendar adjusted data.

Source | HCSO



BASED ON THE SURVEY CONDUCTED BY THE VOSZ, FINANCING AND INTEREST RATES ARE NOT AMONG THE BIGGEST ISSUES FACING COMPANIES

High interest rates were not among the 9 most important factors according to companies. The main issues were the lack of demand and inflation.



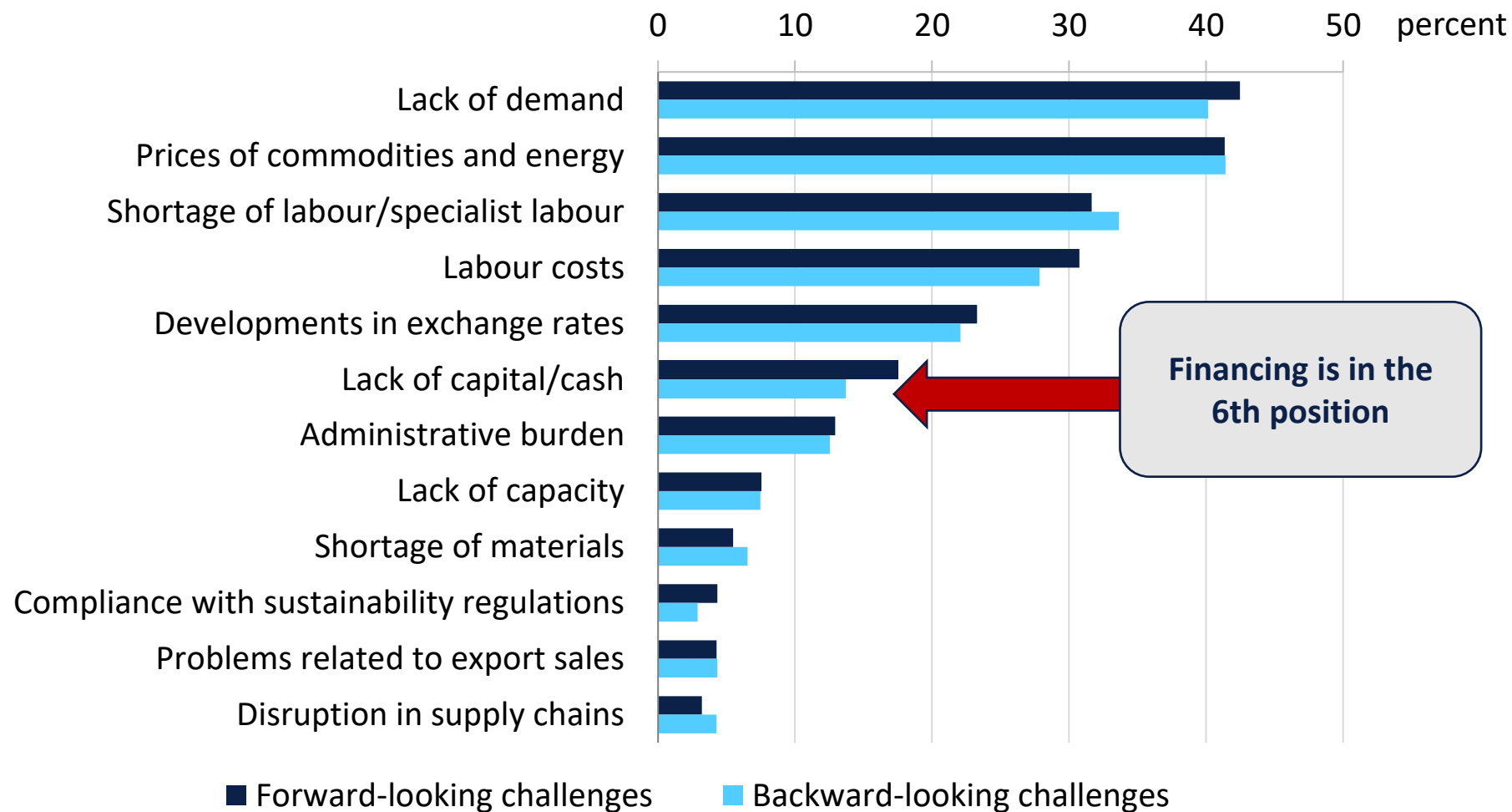
MOST IMPORTANT ISSUES RELATED TO EVERYDAY OPERATIONS

Note | Percentage of respondents.

Source | National Association of Entrepreneurs and Employers (VOSZ)



THE MKIK'S SURVEY LEADS TO THE SAME CONCLUSION: WEAK DEMAND AND RISING COSTS ARE THE MOST CRITICAL FACTORS TO COMPANIES



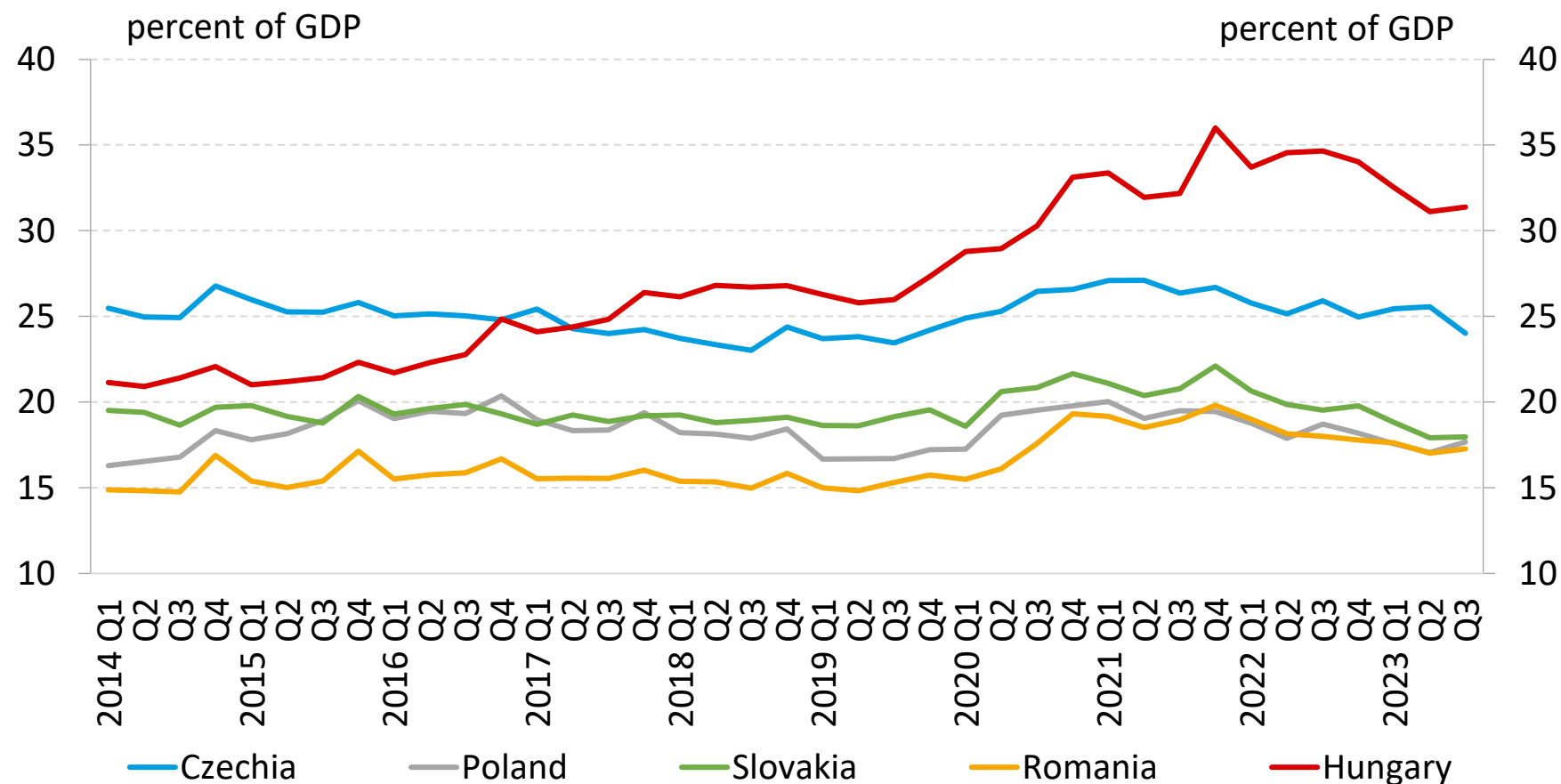
FACTORS HINDERING THE OPERATION OF COMPANIES

Note | Percentage of respondents.

Forrás | MNB-calculation based on data from the Hungarian Chamber of Commerce and Industry (MKIK)



THE LIQUID ASSETS OF CORPORATIONS IS ABUNDANT, WHICH WOULD ALLOW FOR INVESTMENTS FROM SAVINGS

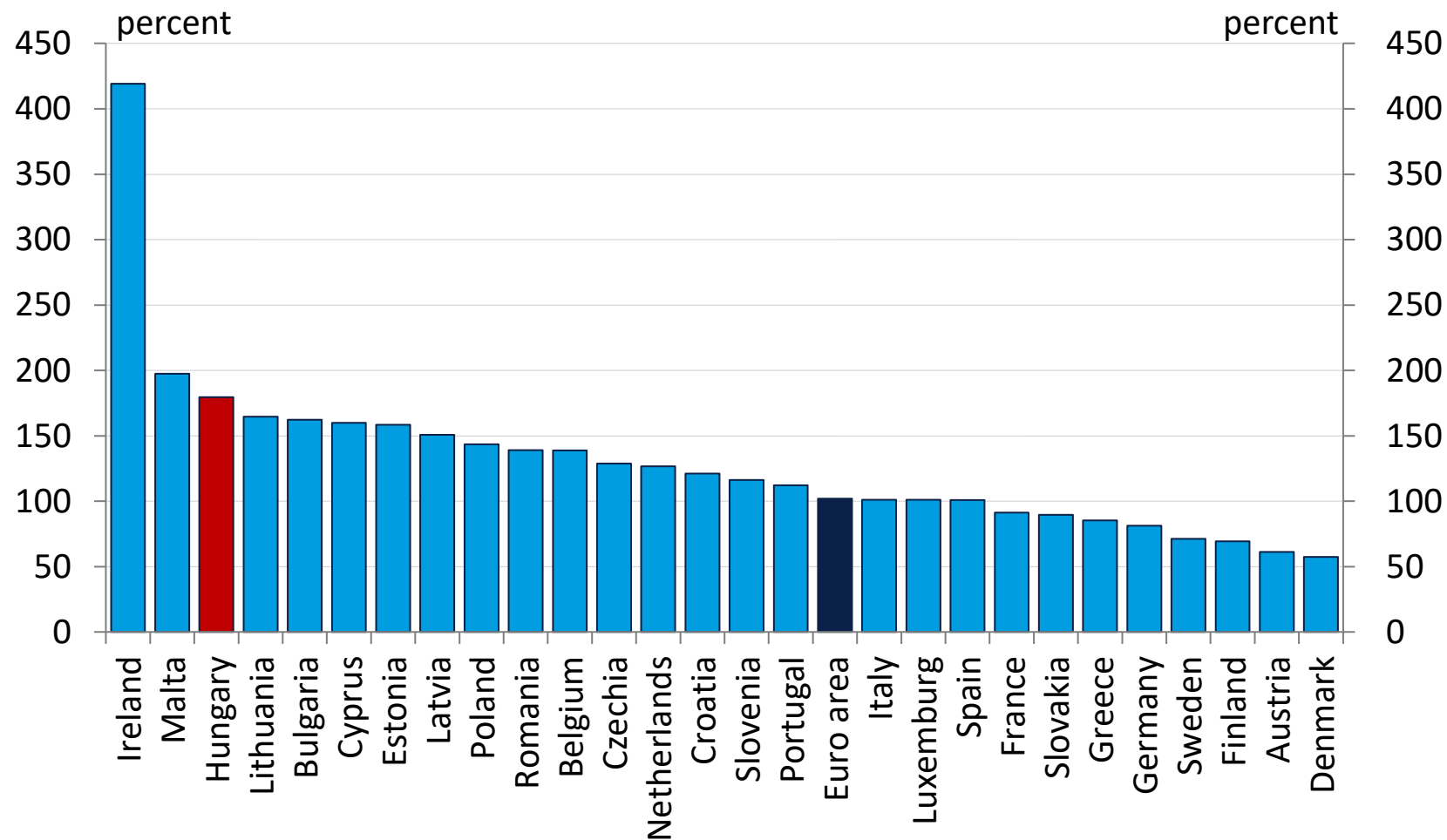


LIQUID FINANCIAL ASSETS OF NON-FINANCIAL CORPORATIONS

Source | MNB, Eurostat



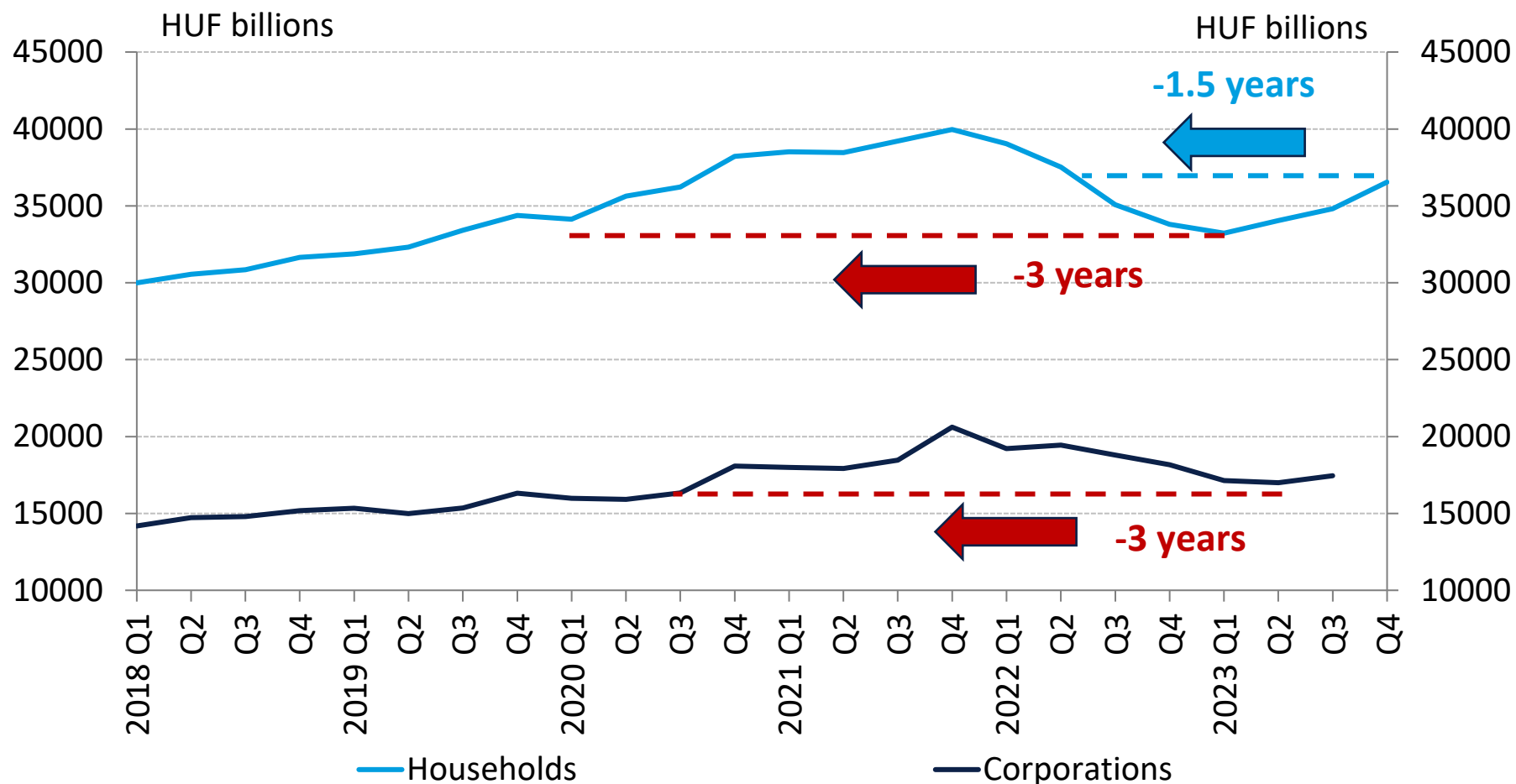
DOMESTIC CORPORATIONS HAVE THE THIRD MOST LIQUID FINANCIAL ASSETS AS A PERCENTAGE OF THEIR BORROWINGS IN THE EUROPEAN UNION



LIQUID ASSETS OF CORPORATIONS AS A PERCENTAGE OF BORROWINGS IN INTERNATIONAL COMPARISON



THE REPARATION OF REAL ASSET LOSSES DUE TO INFLATION IS STILL AN IMPORTANT MOTIVATION



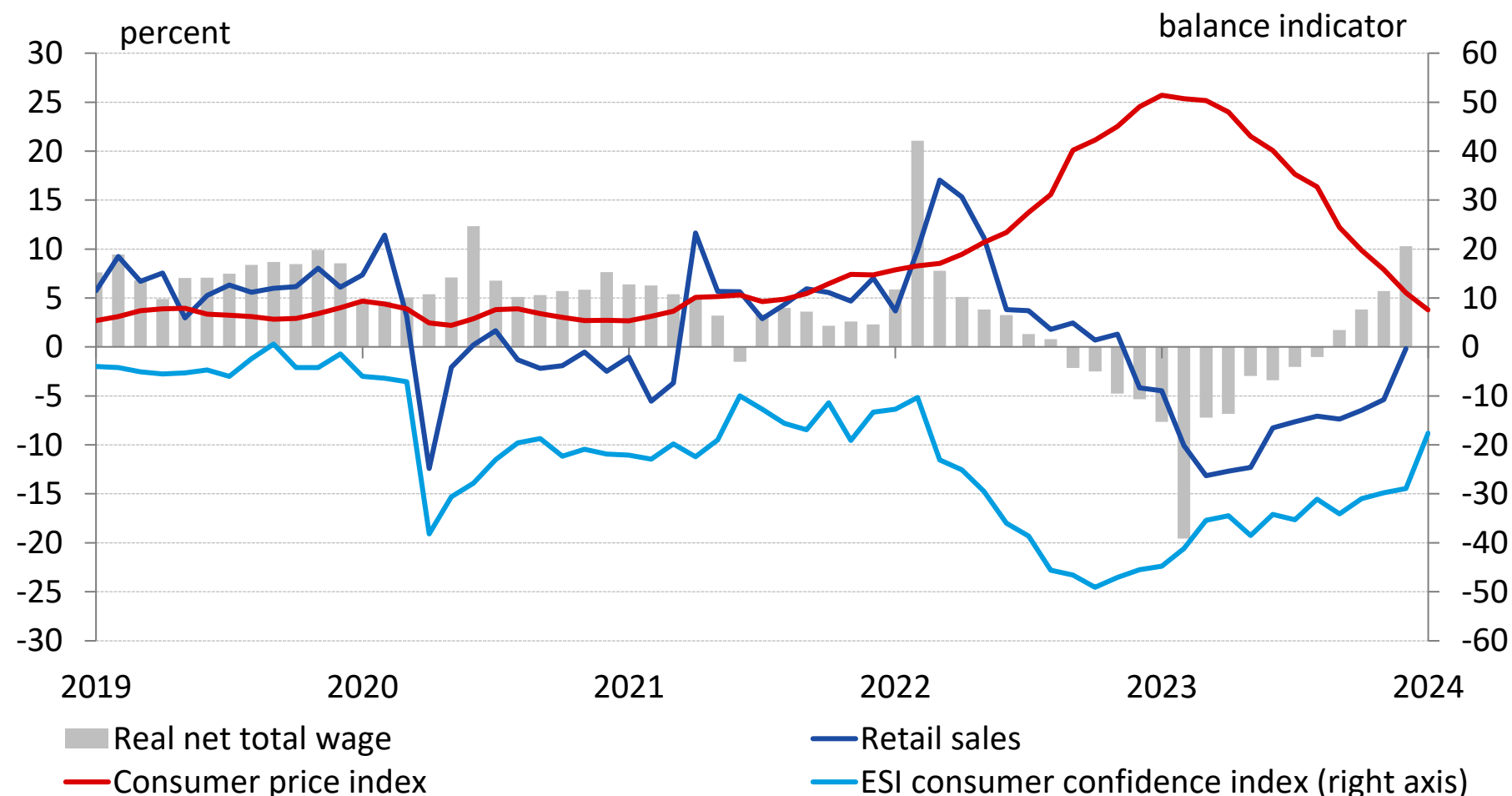
THE REAL VALUE OF LIQUID FINANCIAL ASSETS OF HOUSEHOLDS AND CORPORATIONS

Note | Sum of cash, deposits, bonds, stocks, investment fund shares and insurances in 2020 prices in the given sector.

Source | MNB, financial accounts



THE KEY TO THIS YEAR'S GROWTH IS DISINFLATION, WHICH CONTRIBUTES TO RISING REAL WAGES AND A RECOVERY IN CONFIDENCE IN A SUSTAINED MANNER



DEVELOPMENTS IN THE CONSUMER PRICE INDEX, RETAIL SALES, NET EARNINGS AND THE ESI CONSUMER CONFIDENCE INDEX

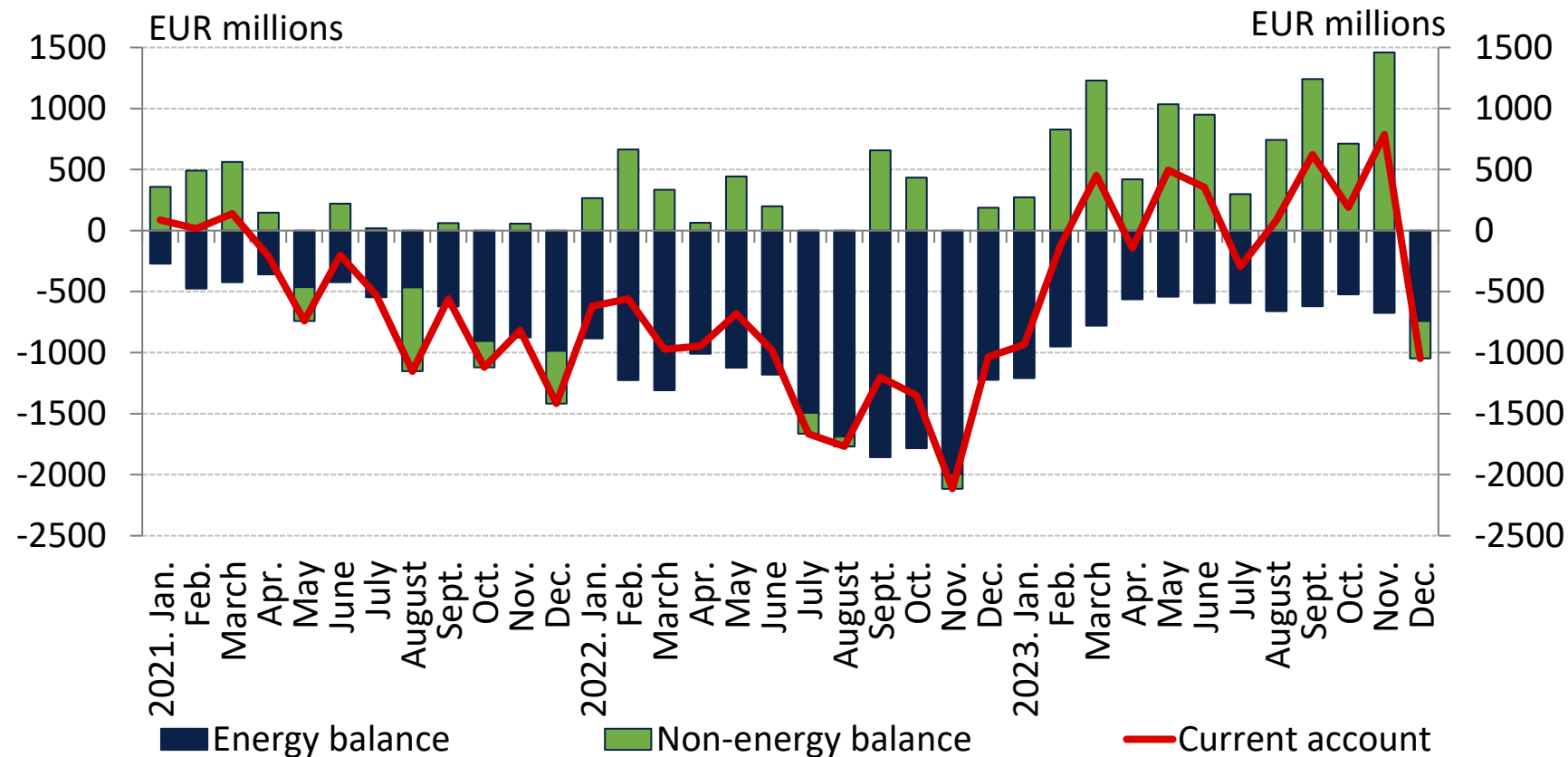
Note | Retail sales based on calendar adjusted, real net earnings and consumer confidence index based on seasonally and calendar adjusted data.

Source | HCSO, MNB



IN 2023, THE CURRENT ACCOUNT TURNED INTO A SURPLUS

In December 2023, the current account was in a deficit. However, throughout 2023, a rapid improvement took place, even in historical comparison.



DEVELOPMENTS IN CURRENT ACCOUNT AND ENERGY BALANCE

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

Source | HCSO, MNB



MONETARY POLICY

DISINFLATION IS STRONG AND GENERAL, THE CAUSES OF THE MARKET NOISE BEFORE THE JANUARY DECISION HAVE COME TO A STANDSTILL

INTERNATIONAL FACTORS



International disinflation has slowed.



In developed markets, long-term yields have risen, but they are still significantly below their peaks.



We are closely monitoring geopolitical tensions in the Middle East and their potential inflationary risks.



The expected date of the first interest rate cuts by the world's leading central banks has been pushed back.



Disinflation has been strong and general in the Hungarian economy.

Inflation is significantly lower than analysts' expectations.

Short-base inflation indicators already show pre-2020 patterns.



The current account improved significantly in 2023 compared to the previous year.



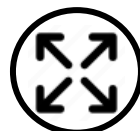
The domestic risk environment has been stable since the January interest rate decision.



As a result of the negotiations, the drawing down of EU cohesion funds has begun, and the first payments have been received.

Foreign exchange reserves

Net lending



The room for maneuver of monetary policy has expanded.



THE MONETARY COUNCIL'S FEBRUARY INTEREST RATE DECISION

Central bank instrument	Interest rate	Previous interest rate (percent)	New interest rate (percent)
Central bank base rate		10.00	9.00
O/N deposit rate	Central bank base rate minus 1.00 percentage points	9.00	8.00
O/N collateralised lending rate	Central bank base rate plus 1.00 percentage points	11.00	10.00



DISCIPLINED MONETARY POLICY IS STILL CONSIDERED TO BE WARRANTED BY THE MONETARY COUNCIL

The Council does not focus on a single decision, but intends to achieve the interest rate path that ensures the achievement of price stability, the maintenance of financial market stability and the reconstruction of market-based lending.

This is how the MNB can mostly contribute to sustainable economic growth.



Price stability must be achieved in a sustainable manner! It is necessary to maintain a disciplined and stability-oriented monetary policy.



We pay particular attention to developments in the international financial market environment and monetary policy.

Market participants are currently expecting an interest rate of 6-7 percent by the end of the first half of the year. This scenario seems realistic.



The Council continues to make decisions in a data-driven manner. The Inflation Report in March will be especially important in assessing the rate at which interest rate cuts will continue in the second quarter of 2024.





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



Inflation target

The consumer price index is expected to return to the central bank inflation target persistently in 2025.



Financial market stability

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

Data-driven mode

In the coming months, the Council will take 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.

Communication in advance

Market participants are currently expecting an interest rate of 6-7 percent by the end of the first half of the year. This scenario seems realistic.





THE MONETARY COUNCIL'S FORWARD GUIDANCE

*„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. In the coming months, **decisions on any further reductions in the base rate and their optimal pace will be made on the basis of this information, in a data-driven manner.**”*

**THANK YOU FOR
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ATTENTION!**

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