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BACKGROUND DISCUSSION FOLLOWING THE MONETARY COUNCIL'S 19 NOVEMBER 2024 DECISION

Analyst background discussion

19 November 2024



MAIN MESSAGES: MACROECONOMIC AND FINANCIAL MARKET ASSESSMENT

- **Risk aversion towards emerging markets has increased** in parallel with strengthening of the US dollar in the period.
- **The rise in domestic inflation to 3.2 percent in October reflected the accelerating dynamics in food and fuel prices**, which was partly offset by moderate rises in annual services prices.
- **The weak performance of industry, construction and agriculture** were the driving forces behind the decline of the economy in the third quarter, while the moderation was held back by an increase in value added in services.
- **The basis for restarting economic growth remains the achievement of the inflation target in a sustainable manner.**



MAIN MESSAGES: ENVIRONMENT OF THE NOVEMBER MONETARY POLICY DECISION

- **Risk aversion towards emerging markets** is raising upside risks to inflation.
- **The lower-than-expected inflation data in October points towards lower inflation** in the short term. **However, exchange rate depreciation** seen in recent months is **likely to have inflationary effect** next year.
- **Many factors with various effects** influence the inflation outlook. Their resulting effect **will be assessed in the December Inflation Report**.
- **In 2024, we have reached significant progress regarding inflation, but its shadow also needs to be eliminated** in order to restart the economy quickly.
- **The Monetary Council is committed to the sustainable achievement of the inflation target.**
- **Stability-oriented approach to monetary policy is of key importance.**

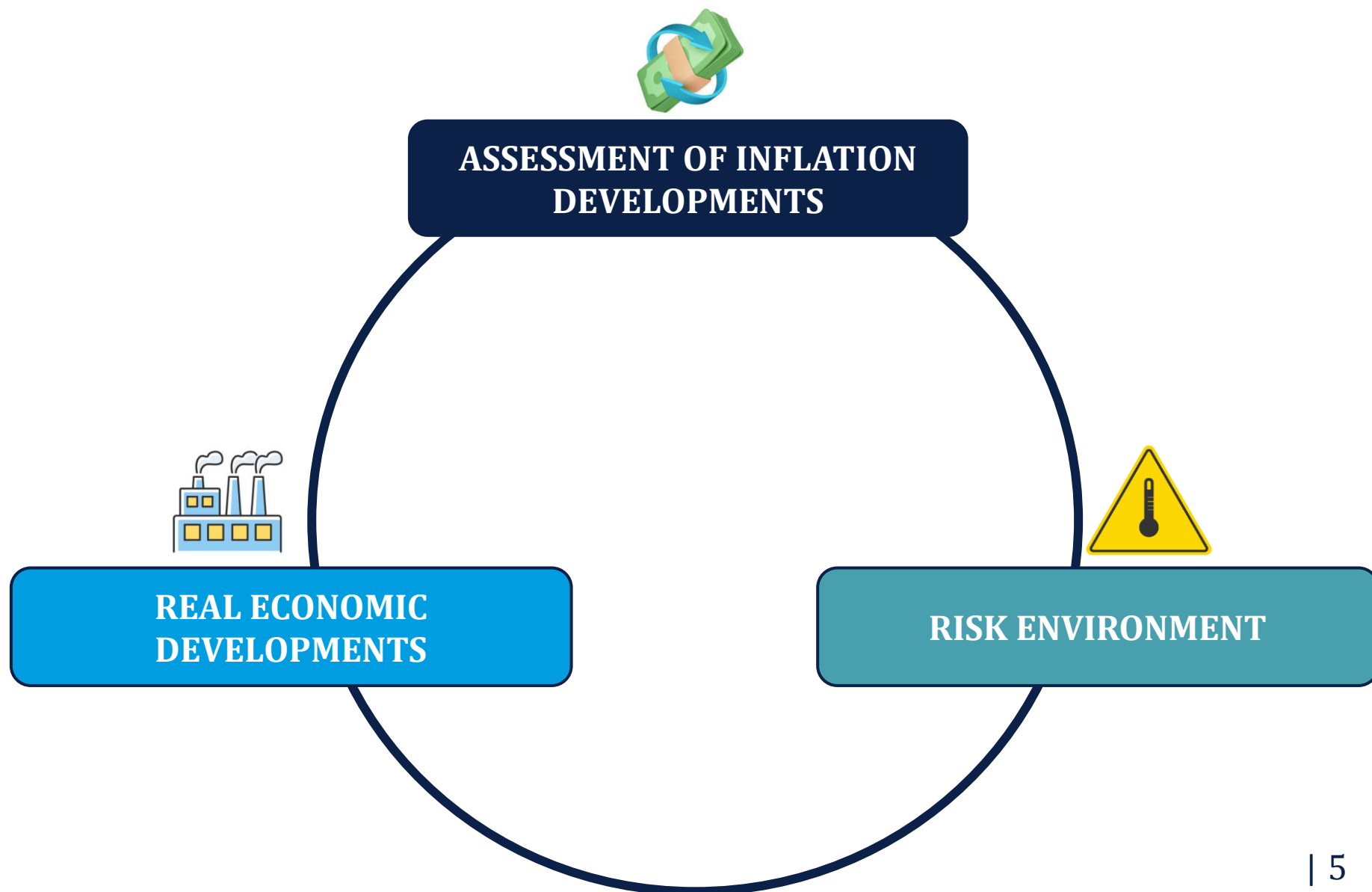


MAIN MESSAGES: THE NOVEMBER MONETARY POLICY DECISION

- In accordance with **the stability-oriented approach**, the Council kept the **base rate at 6.50 percent** at today's meeting.
- A **disciplined, restrictive and patient monetary policy** has remained warranted in the current environment.
- If warranted by the external environment and the inflation outlook, **the base rate may remain at the current level for an extended period**, causing an increase in our relative interest spread.
- **From the perspective of price stability, financial market stability is key.**
- **At the end of the year, the MNB stands ready to smooth movements in financial markets** with swap tenders, discount bond auctions and longer-term instruments.



THE MONETARY COUNCIL'S ASSESSMENT THAT INFORMS ITS DECISION FOCUSES ON THREE MAIN AREAS



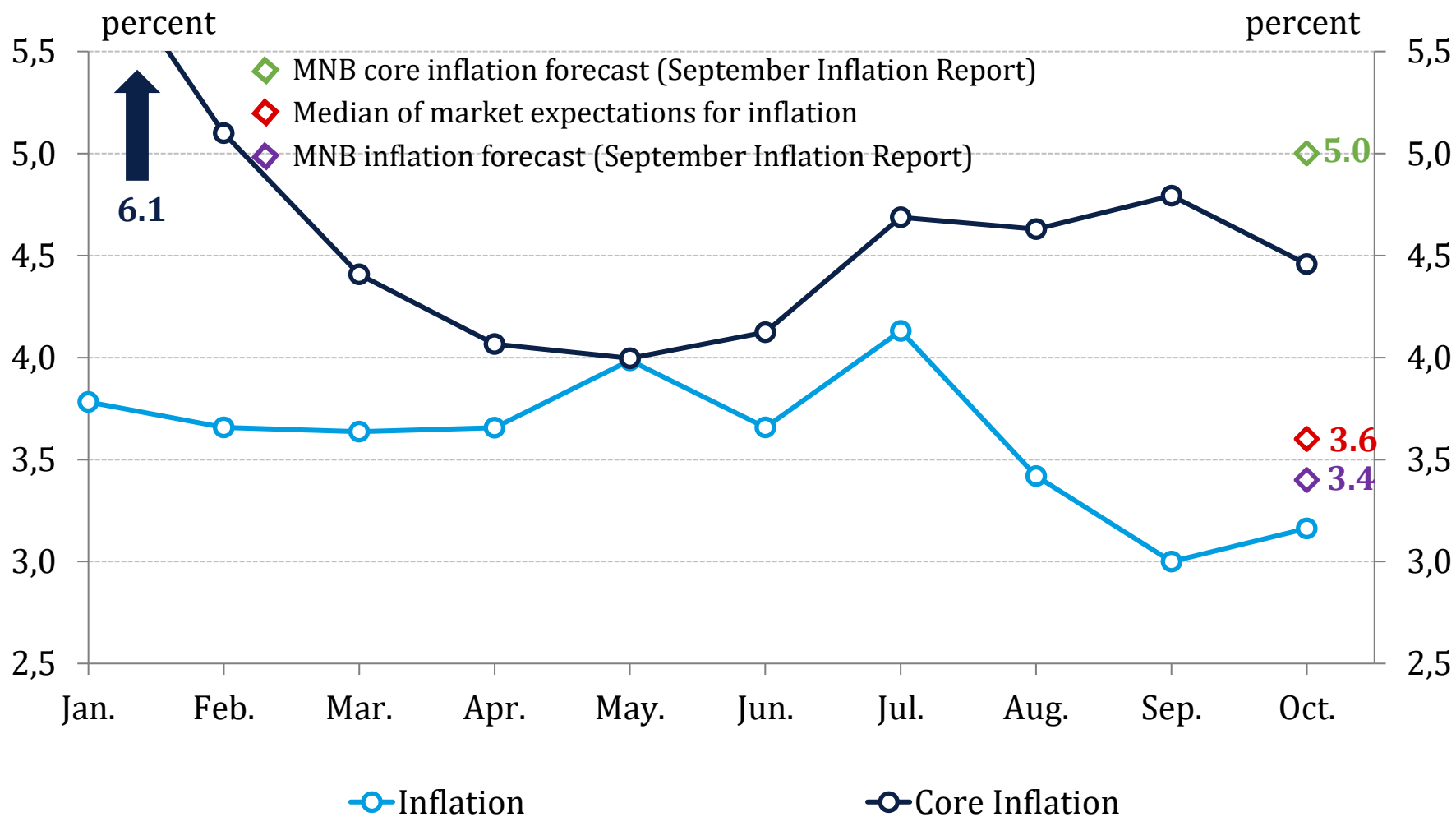


ASSESSMENT OF INFLATION DEVELOPMENTS





INFLATION IN OCTOBER WAS BELOW THE MNB FORECAST AND MARKET EXPECTATIONS AS WELL

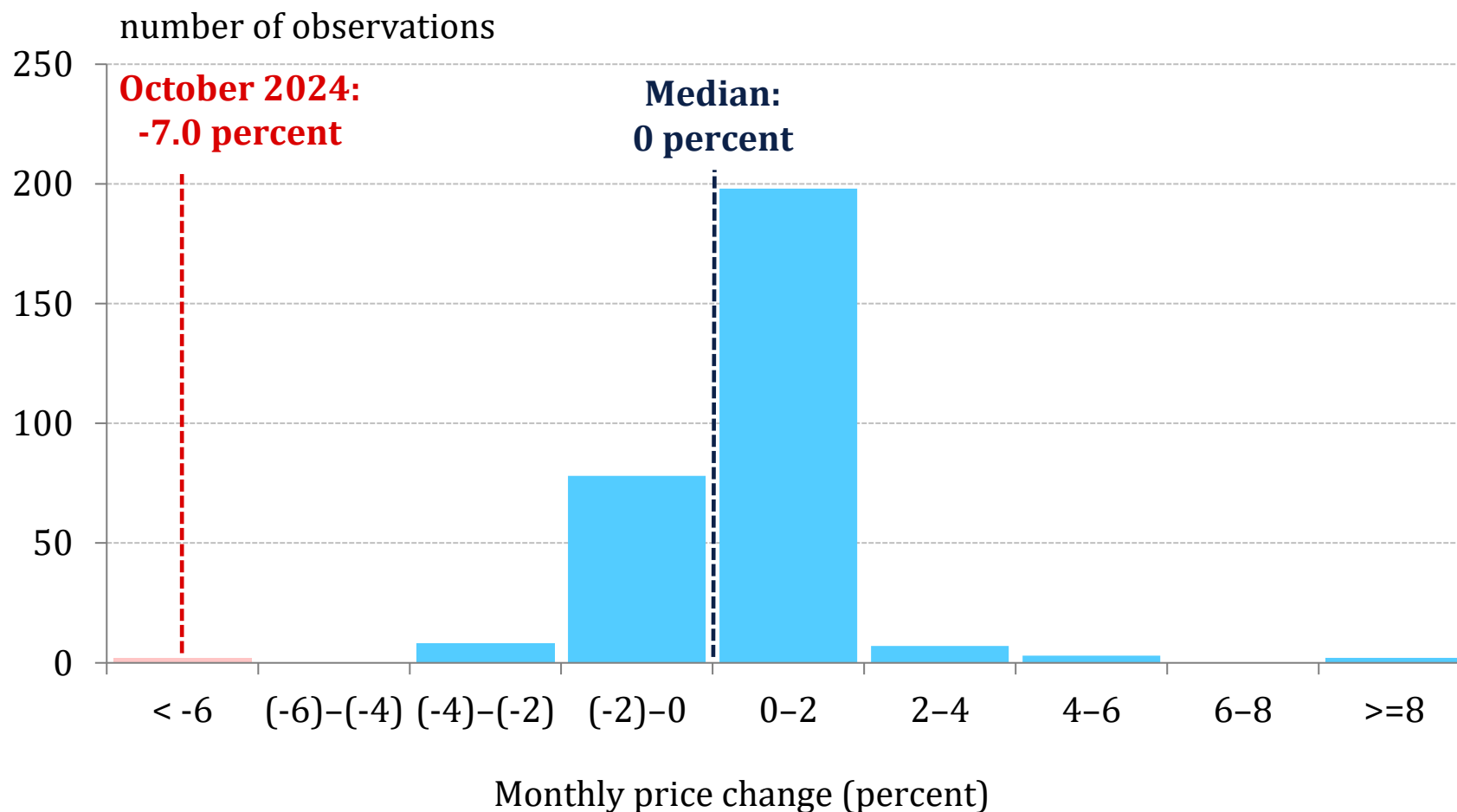


INFLATION AND CORE INFLATION IN 2024

Source | HCSO, Bloomberg, Portfolio, MNB



THE PRICES OF MOBILE AND INTERNET SERVICES DECREASED BY AN EXTENT UNSEEN BEFORE



HISTOGRAM OF THE MONTHLY MOVEMENTS IN THE PRICES OF MOBILE AND INTERNET SERVICES

Note | Based on data between January 2000 and October 2024.

Source | HCSO, MNB



THE DECREASING PRICES IN SEVERAL SECTORS IN OCTOBER MIGHT INDICATE THE REVISION OF PROFIT DRIVEN INFLATION IN 2022-2023

Mobile and internet services



105 percent **increase in profits** in 2022-2023
7 percent monthly **price decrease** in October 2024



Spirits



286 percent **increase in profits** in 2022-2023
First **price decrease** in October since 2015 in 2024



Pet food



93 percent **increase in profits** in 2022-2023
1.8 percent monthly **price decrease** in October 2024



Note | Operating profit from the corporate tax database. NACE 6110 for mobile and internet services, NACE 1092 for pet food, and NACE 1101 for spirits.

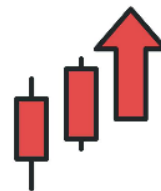
Source | HCSO, NTCA

A CAUTIOUS ASSESSMENT OF INFLATION OUTLOOK IS NECESSARY



Food prices

The extent of repricing in the last month was **above the historic average** in the case of food prices.



Exchange rate

Since the beginning of September, the forint has weakened **against the euro by nearly 4 percent** and **against the dollar by more than 8 percent**.



Tax measures

Valorization of the system of excise duties are likely to have inflationary effects next year.

At the same time, the general demand environment has a disinflationary effect.

In the current macroeconomic environment, the Bank can make the most effective contribution to the easing of economic agents' increased precaution and to the restart of economic growth by preserving price stability and maintaining financial market stability.

The Monetary Council is committed to the achievement of the inflation target in a sustainable manner.



REAL ECONOMIC ASSESSMENT

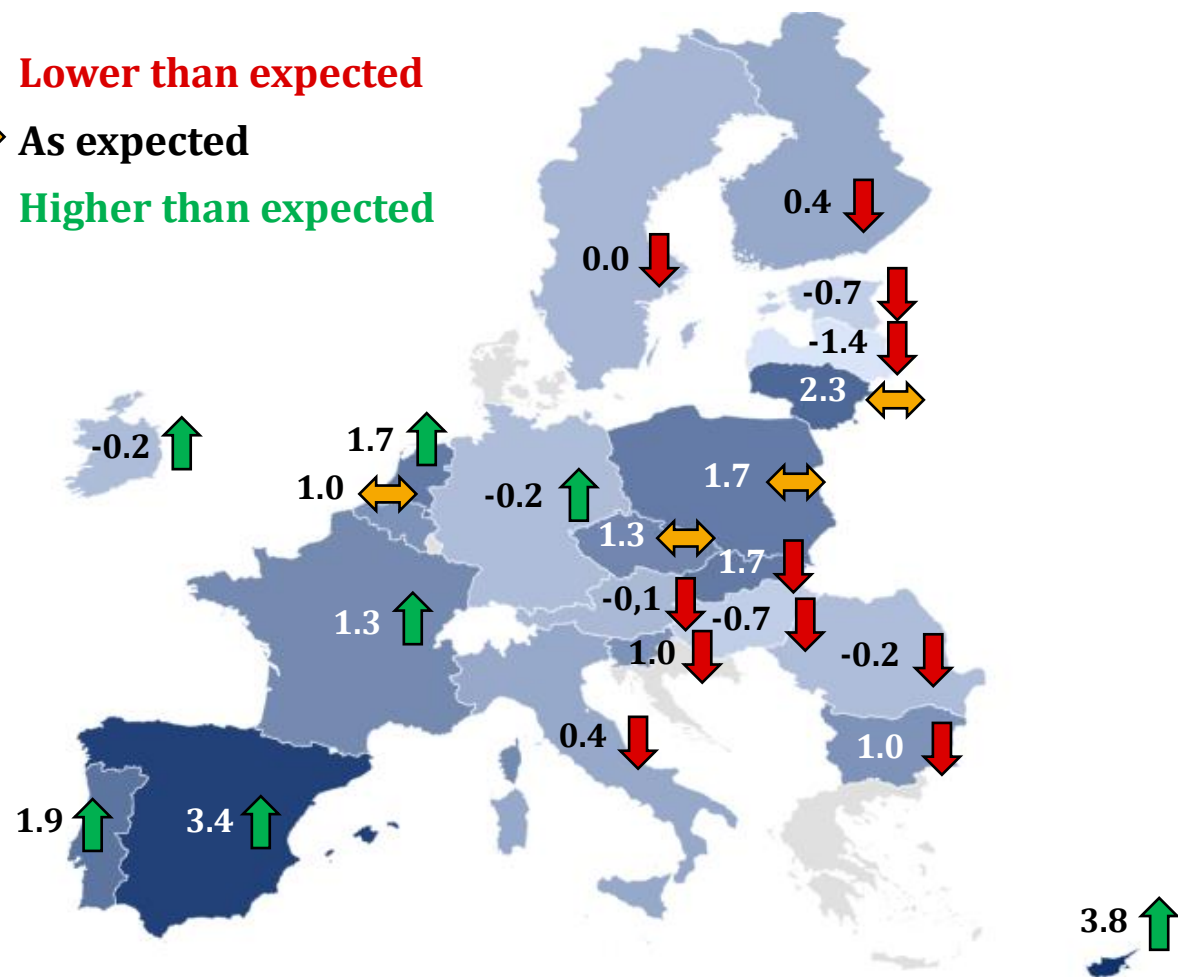




GROWTH CONTINUED AT A MODERATE PACE IN EUROPE IN THE THIRD QUARTER



Lower than expected
As expected
Higher than expected



ANNUAL CHANGE OF GDP IN 2024 Q3

Note | Seasonally and calendar adjusted data. Regional countries: Poland, Slovakia, Czechia and Romania. There is no available data for Denmark, Greece, Croatia, Luxembourg and Malta in 2024 Q3.

Source | Eurostat, Trading Economics, Bloomberg



THE SUBDUED DOMESTIC GROWTH IS MAINLY DUE TO FACTORS BEYOND THE SCOPE OF MONETARY POLICY



Domestic consumption

In the first half of 2024, household consumption increased by 3.9 percent year-on-year.



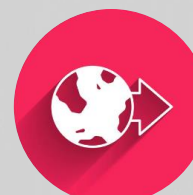
Labour market

In the first half of 2024, real wages rose by 9.9 percent; easing but still tight labour market.



Declining agriculture

The drought again reduced crop averages.



Weak exports

Due to the weak European economy, domestic industrial output fell by an average of 4.2 percent in January-September.



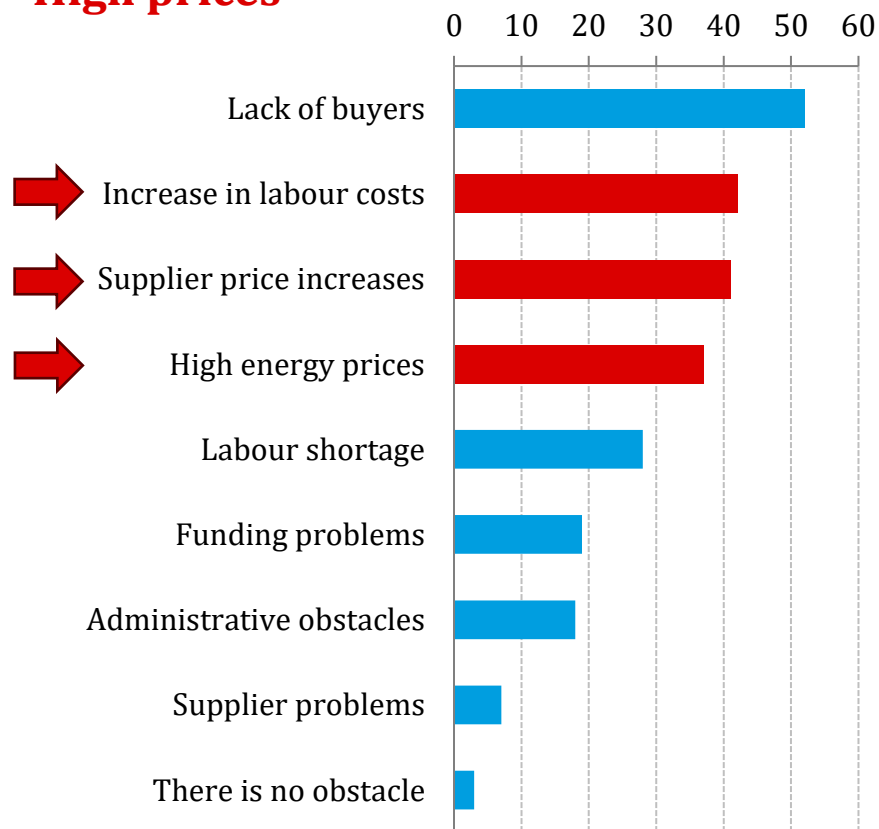
Underinvestment

With the long shadow of inflation and uncertain demand prospects, investments fell by 12 percent in the first half of the year.
Due to public investments, budget developments are also decisive.

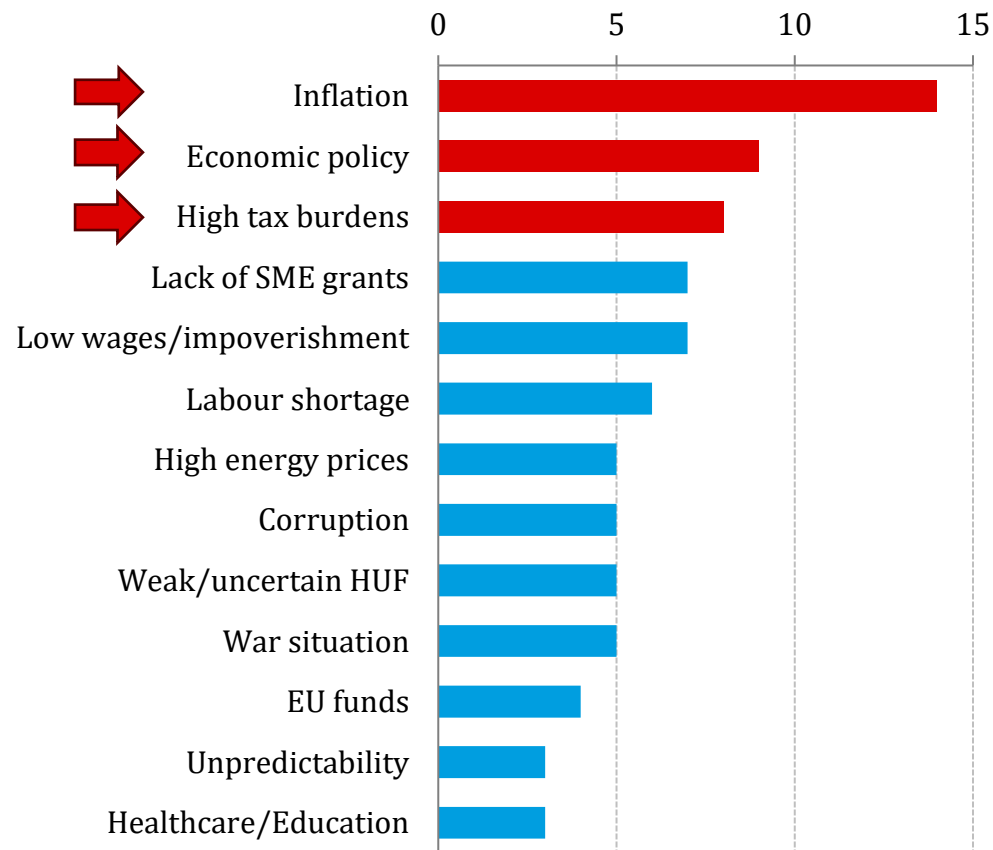


MAINTAINING PRICE STABILITY IS ESSENTIAL FOR THE RESTART OF ECONOMIC GROWTH

High prices



FACTORS COMPLICATING THE ACTIVITIES OF COMPANIES ACCORDING TO THE MNB'S OCTOBER SURVEY



THE MOST IMPORTANT PROBLEMS RELATED TO THE COUNTRY'S ECONOMIC SITUATION IN THE SECOND QUARTER OF 2024 ACCORDING TO THE RESPONSES TO THE VOSZ COMPANY SURVEY



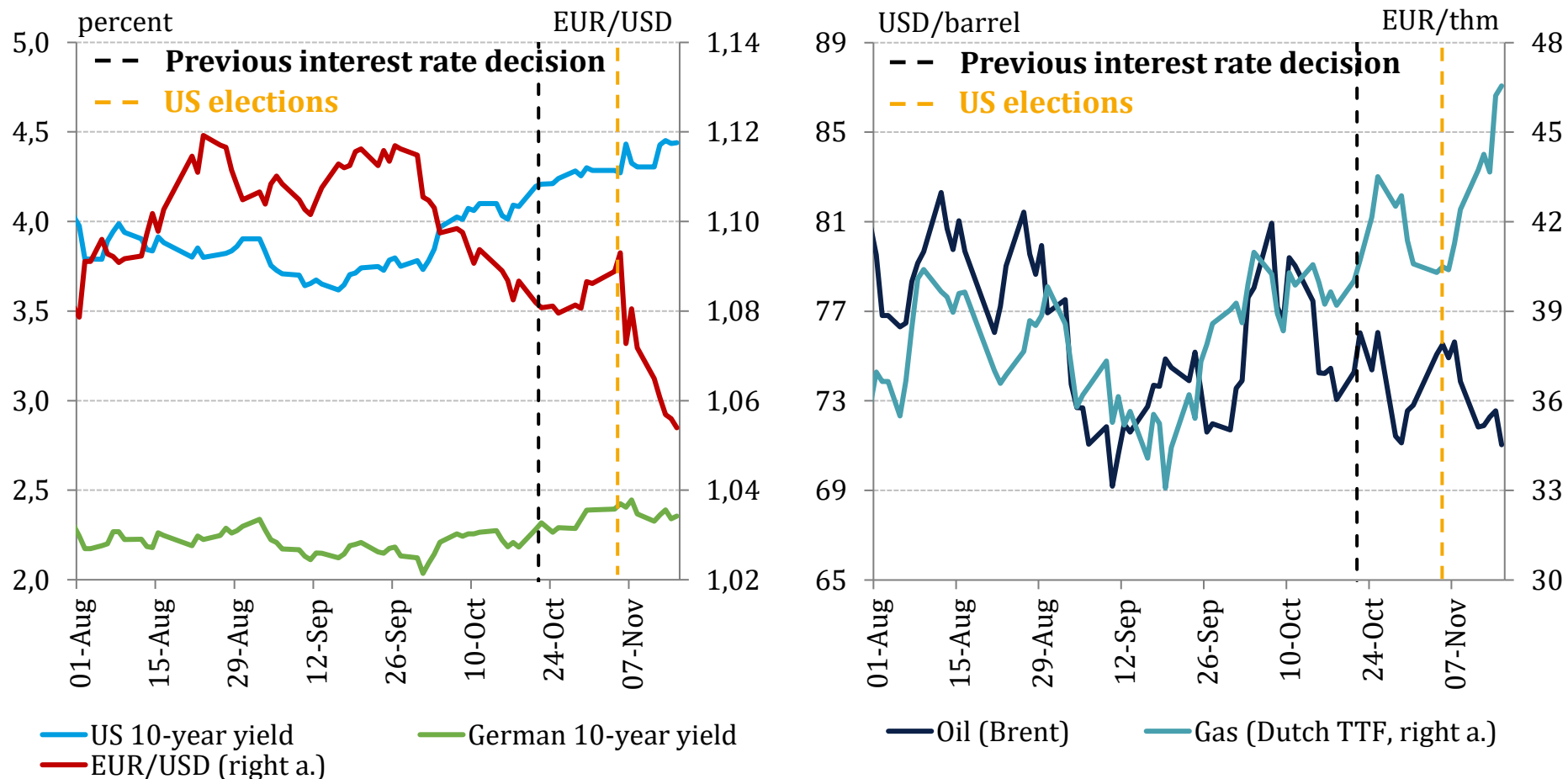
DEVELOPMENTS IN THE RISK ENVIRONMENT





DEVELOPED MARKET LONG YIELDS CONTINUED TO RISE, WHILE THE DOLLAR STRENGTHENED SIGNIFICANTLY

Global oil prices fell significantly, while gas prices rose substantially.

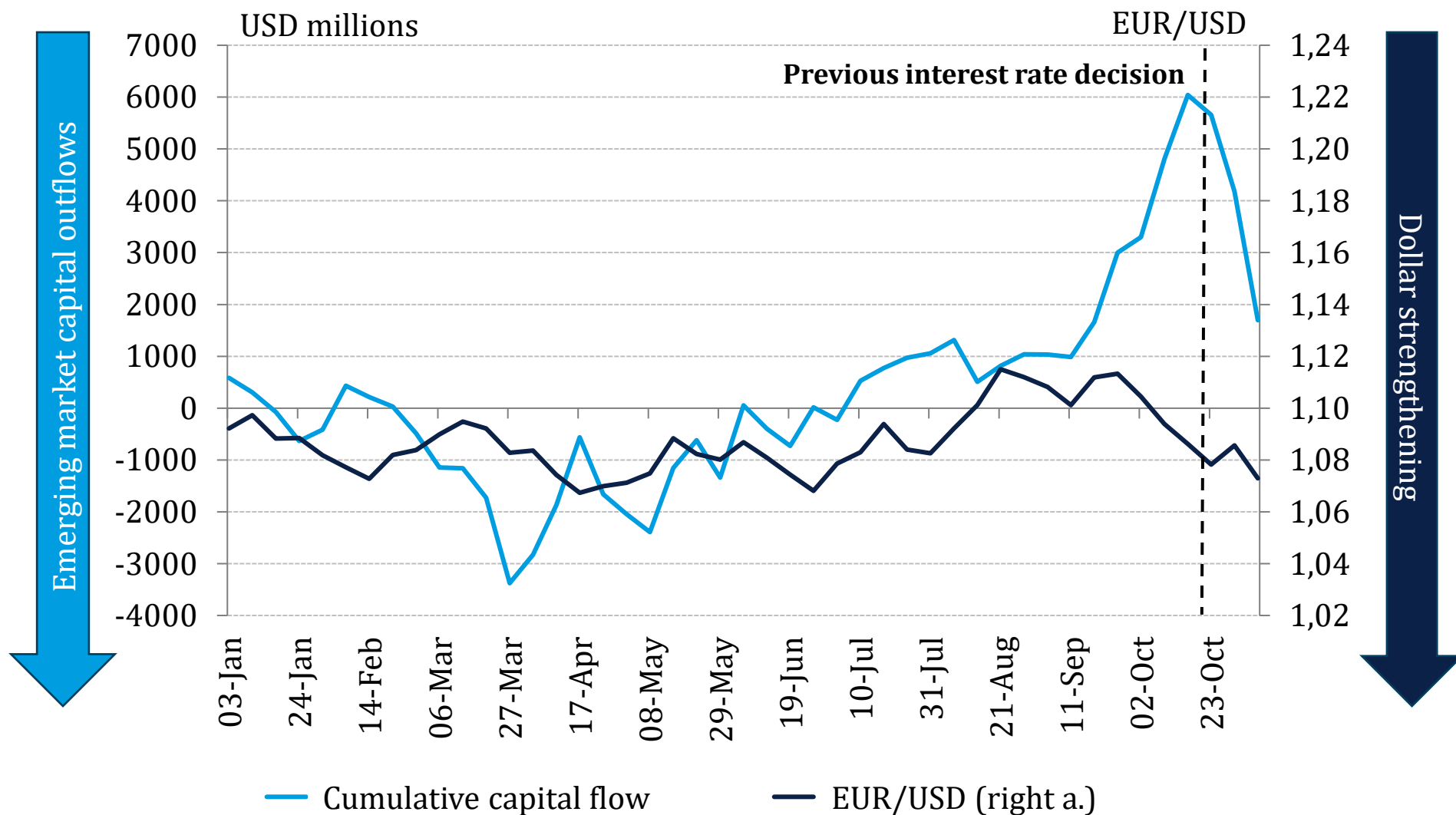


DEVELOPED MARKET 10-YEAR GOVERNMENT BOND YIELDS AND THE EXCHANGE RATE OF THE DOLLAR AGAINST THE EURO (LEFT PANEL) AND OIL AND GAS PRICES (RIGHT PANEL)

Source | Bloomberg



RISK AVERSION TOWARDS EMERGING MARKETS HAS INCREASED IN PARALLEL WITH STRENGTHENING OF THE US DOLLAR

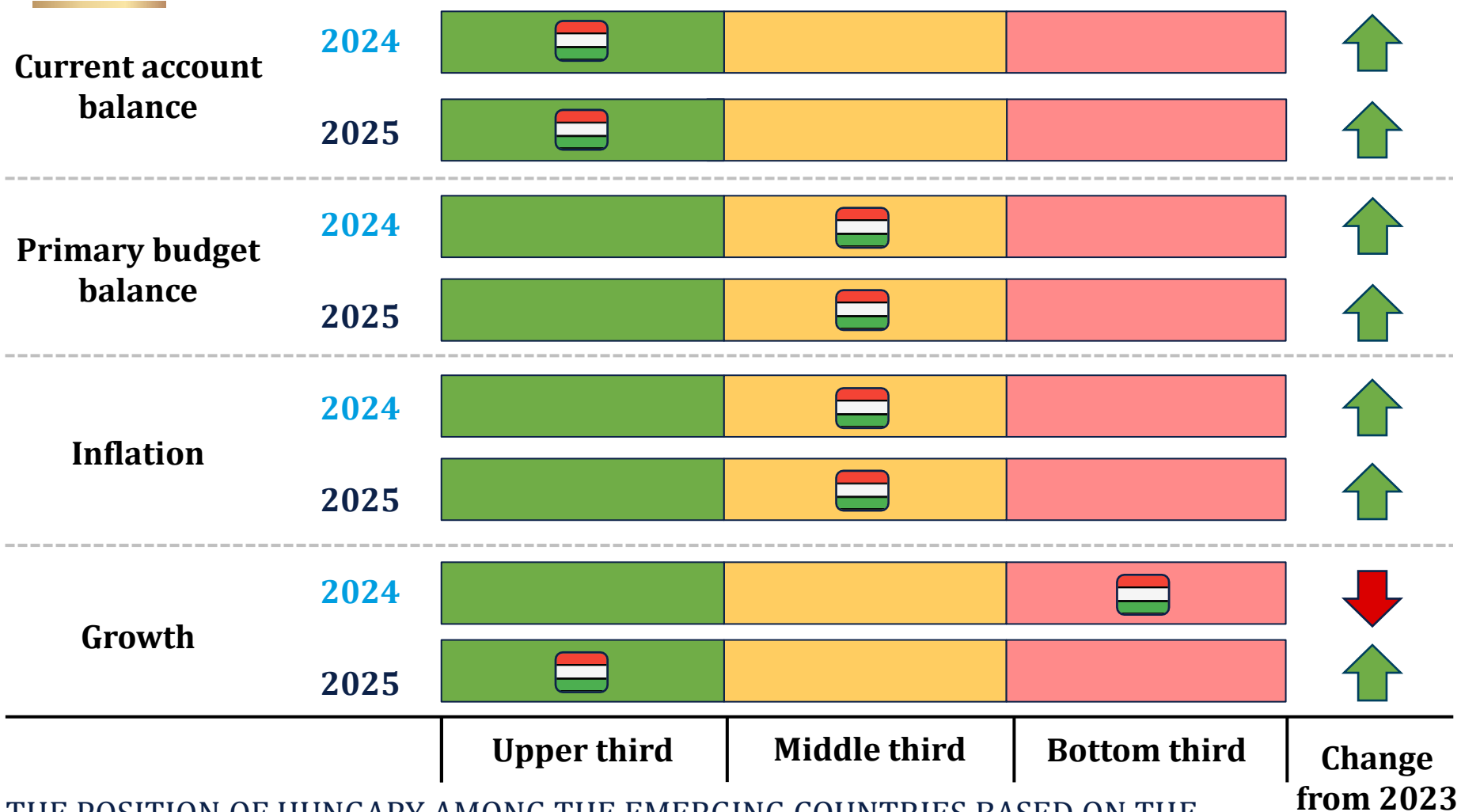


CAPITAL FLOWS AND THE EUR/USD EXCHANGE RATE

Source | EPFR, Bloomberg



HUNGARY IS RESILIENT AMONG EMERGING COUNTRIES, THE FUNDAMENTALS ARE STRONG



THE POSITION OF HUNGARY AMONG THE EMERGING COUNTRIES BASED ON THE EXPECTATIONS, AND THE DIRECTION OF THE EXPECTED CHANGE COMPARED TO 2023

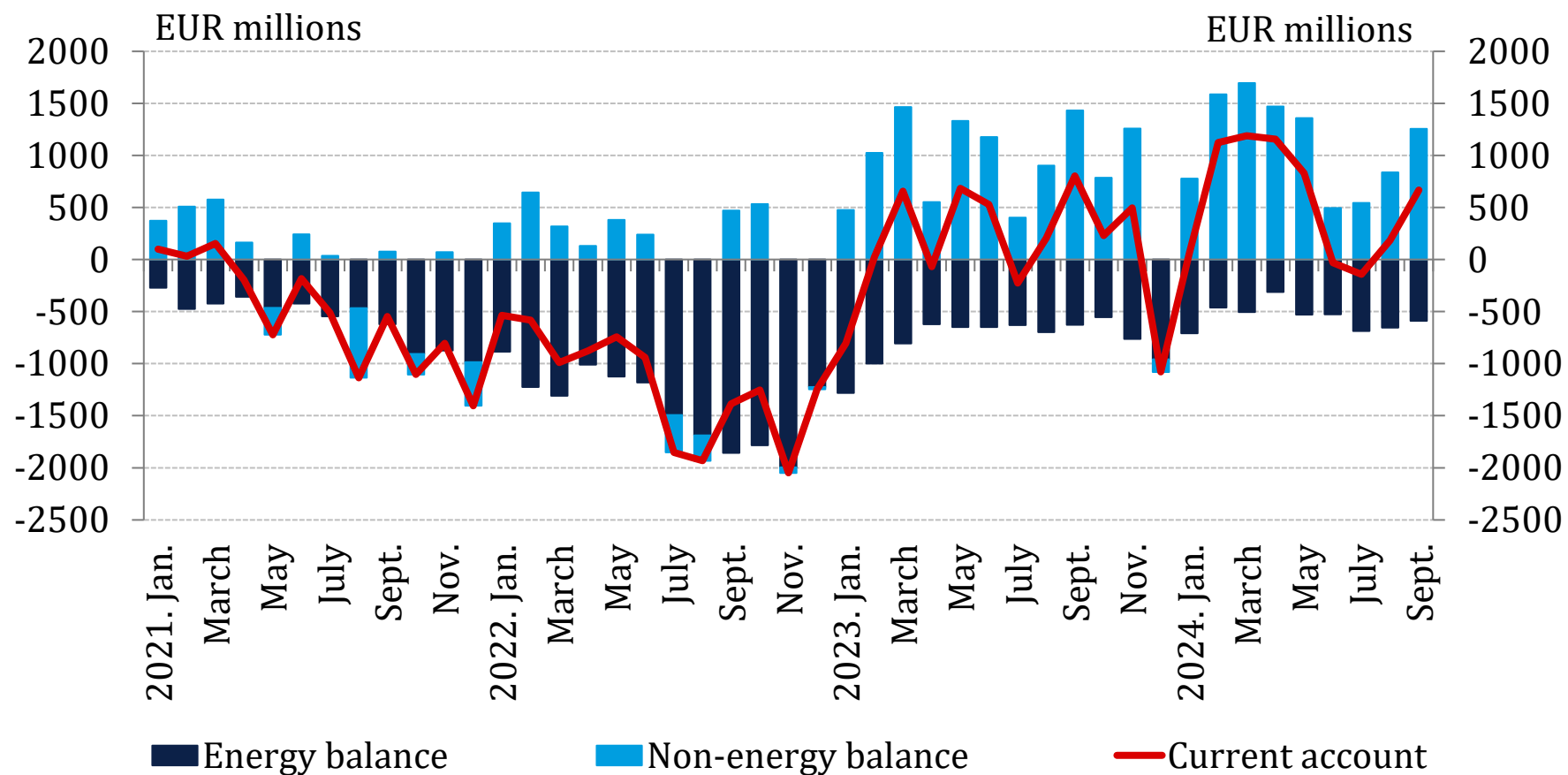
Note | The sample includes 13 emerging economies. The upward arrow indicates an improvement, the downward arrow indicates a deterioration in the relative position.

Source | Bloomberg, IMF



THIS YEAR'S SURPLUS OF THE CURRENT ACCOUNT CONTINUED TO INCREASE IN SEPTEMBER

The current account registered a surplus of more than EUR 5 billion in the first nine months of the year.



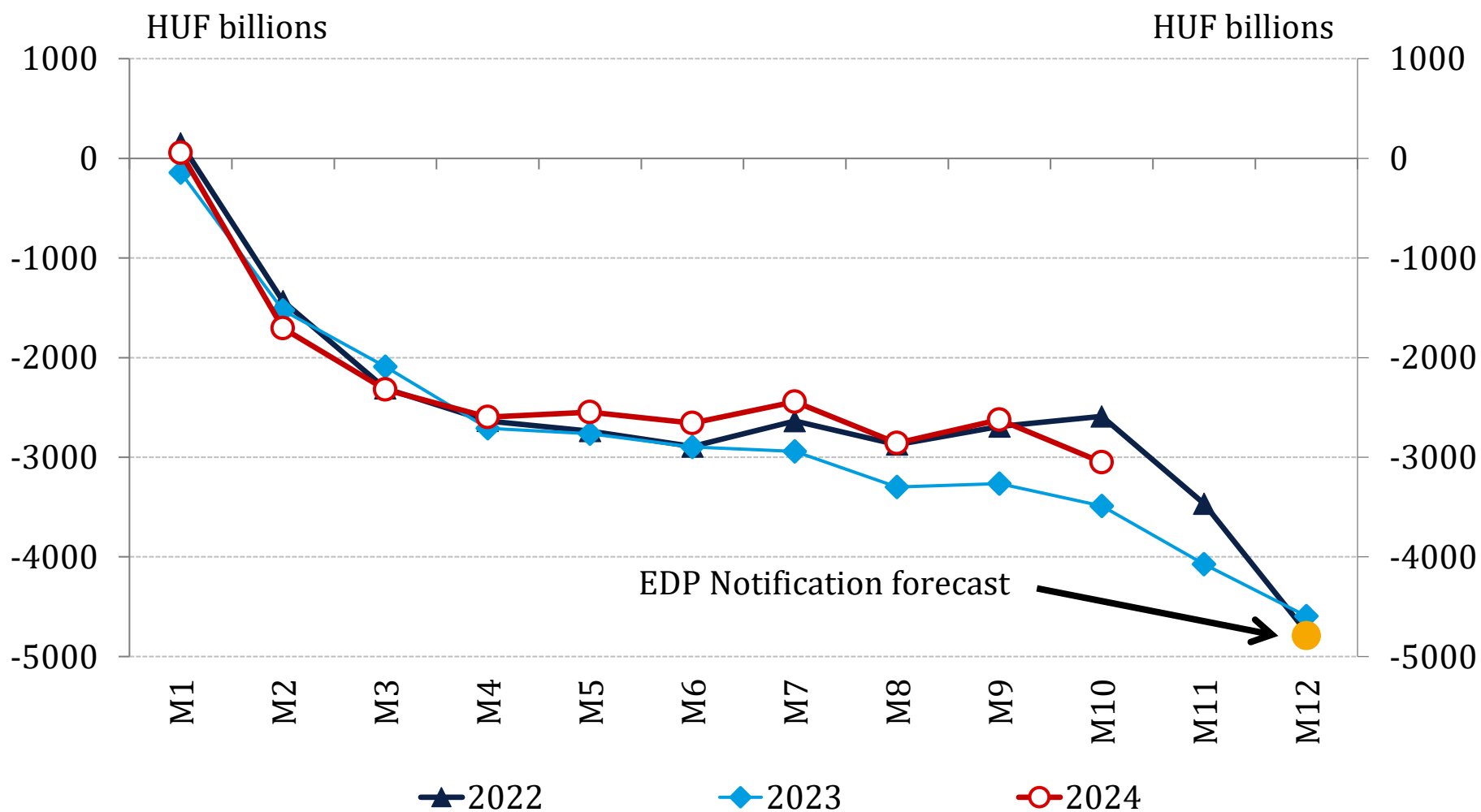
DEVELOPMENTS IN THE CURRENT ACCOUNT AND THE ENERGY BALANCE

Note | Energy trade balance for the latest month is an estimate.

Source | HCSO, MNB



THE DEFICIT REDUCTION MEASURES OF 2024 CONTRIBUTE TO THE ACHIEVEMENT OF THE 4.5 PERCENT DEFICIT TARGET OF THIS YEAR



THE CUMULATIVE CASH BALANCE OF THE CENTRAL GOVERNMENT BUDGET FROM THE BEGINNING OF THE YEAR

Source | Hungarian State Treasury, HCSO



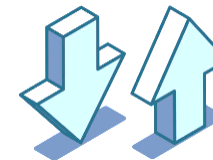
FROM THE PERSPECTIVE OF PRICE STABILITY, FINANCIAL MARKET STABILITY IS CRUCIAL



Based on the fundamentals, Hungary is resilient among emerging economies, and the restoration of balance continues.



But at the same time, the external factors determining the risk-taking environment have changed.



The short position of foreign participants increased, but at the same time, the stabilizing behaviour of the domestic sector moderated the weakening of the forint.

We closely monitor the factors behind the weakening of the forint and the changes in the sectors.



MONETARY POLICY



A CAUTIOUS AND DATA-DRIVEN APPROACH REMAINS WARRANTED

GLOBAL RISK FACTORS

Global investor sentiment is volatile.



Risk aversion towards emerging markets has increased in parallel with strengthening of the US dollar in the period, which has partly resulted from the widening of USD-EUR interest rate spread.

Presence of geopolitical tensions also contributes to a persistently uncertain external environment.



PRECAUTION

Due to experiences with high inflation, households have remained cautious. Inflation expectations are volatile and significantly above the central bank target.



The shadow of high inflation also need to be eliminated in order to restart the economy quickly.

DOMESTIC INFLATION

In October 2024, inflation rose to 3.2 percent. Price dynamics is expected to increase temporarily in the rest of the year.





DISCIPLINED AND STABILITY-ORIENTED APPROACH REMAINS NECESSARY!



Inflation increased slightly in October. Regarding the inflation outlook, the December Inflation Report will offer new information.



With significant uncertainty, external interest rate environment may decline slower than previously expected.



Ongoing geopolitical tensions are raising upside risks to inflation through increasing risk aversion towards emerging markets.



In line with its earlier practice, the MNB pays special attention to the expected state of the FX swap market at the end of the year and in order to ensure the effectiveness of monetary policy transmission, it stands ready to smooth movements in financial markets in December as well.

Further pause in cutting interest rates supports the MNB's stability-oriented approach.

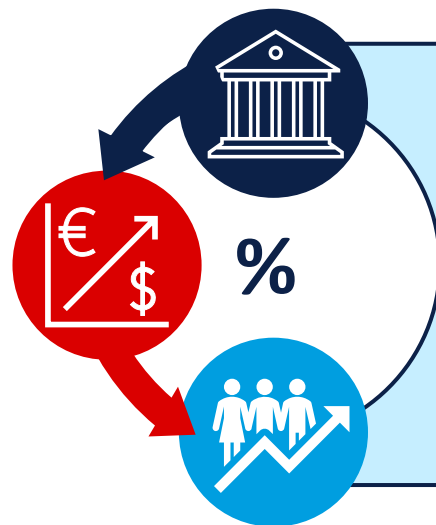


THE MONETARY COUNCIL'S DECISION IN NOVEMBER

Central bank instrument	Interest rate	Previous interest rate (percent)	New interest rate (percent)
Central bank base rate		6.50	6.50
O/N deposit rate	Central bank base rate minus 1.00 percentage point	5.50	5.50
O/N collateralised lending rate	Central bank base rate plus 1.00 percentage point	7.50	7.50



THE MNB WILL TAKE THE NECESSARY STEPS TO PRESERVE FINANCIAL MARKET STABILITY AT THE END OF THE YEAR TOO



For the effective functioning of monetary transmission, it is essential that short-term interest rates develop consistently with the level of interest rates determined by the Monetary Council in every sub-market and in every period.

Therefore, in line with its earlier practice, the Bank pays special attention to the expected state of the FX swap market at the end of the year.



The central bank's regular swap tenders continuously ensure the effective transmission of monetary policy.

The MNB stands ready to smooth movements in financial markets by using instruments with longer maturities in December, in addition to one-day FX swap tenders announced on a daily basis and weekly discount bill auctions.



ON 18 DECEMBER, THE MNB WILL HOLD ADDITIONAL TENDERS WITH MATURITIES BEYOND YEAR-END

On 18 December, two additional tenders will be held:

- Two-week foreign exchange swap tender
- Two-week central bank discount bill

Regular tenders will continue to be held:

- Tomorrow next (TN) FX swap on a daily basis
- One-week central bank discount bill

Date	Regular discount bill	Year-end discount bill	Year-end FX swap
16-12-2024			
17-12-2024			
18-12-2024	I. Auction (10:00-10:30)	Auction (9:30-10:00)	Tender (11:00-11:30)
19-12-2024	I. Value date	Value date	
20-12-2024			Value date
23-12-2024			
30-12-2024	II. Auction (10:00-10:30)		
31-12-2024	II. Value date/ I. Maturity date		
02-01-2025		Maturity date	
03-01-2025			Maturity date
06-01-2025			
07-01-2025			
08-01-2025	III. Auction (10:00-10:30)		
09-01-2025	III. Value date/ II. Maturity date		
10-01-2025			

IMPORTANT DATES OF THE CENTRAL BANK TENDERS IN DECEMBER 2024



THE MONETARY COUNCIL IS COMMITTED TO THE ACHIEVEMENT OF THE INFLATION TARGET IN A SUSTAINABLE MANNER

Based on incoming data, the Council takes month-by-month decisions on the level of the base rate.



Ongoing geopolitical tensions are raising upside risks to inflation through increasing risk aversion towards emerging markets.

If warranted by the external environment and the inflation outlook, the base rate may remain at the current level for an extended period.

We are closely following:

The inflation outlook



- Anchoring of inflation expectations
- Volatile market environment and external inflation risks

Hungary's risk perception



- External balance processes
- Disciplined achievement of budgetary targets

Financial market stability



- Maintaining a positive real interest rate environment
- Developments in the global interest rate environment and investor sentiment

The evolution of all these factors **strongly influences the room for maneuver of monetary policy.**



Looking ahead, a **careful and patient, stability-oriented** monetary policy is still warranted.



THE MONETARY COUNCIL'S FORWARD GUIDANCE

*„The expected interest rate paths and future fiscal policies of major economies are still surrounded by uncertainty. Ongoing geopolitical tensions **are raising upside risks to inflation through increasing risk aversion** towards emerging markets. Looking ahead, **a careful and patient approach to monetary policy is still warranted**. Based on the incoming macroeconomic and financial market data, the Monetary Council **will take decisions on the level of the base rate in a cautious and data-driven manner**. In the Council's assessment, geopolitical tensions, volatile financial market developments and the risks to the outlook for inflation **warrant further pause in cutting interest rates.**”*

**THANK YOU FOR
YOUR KIND
ATTENTION!**

[https://www.mnb.hu/en/monetary-policy/
the-monetary-council/background-discussions](https://www.mnb.hu/en/monetary-policy/the-monetary-council/background-discussions)



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