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BACKGROUND DISCUSSION FOLLOWING THE MONETARY COUNCIL'S 24 SEPTEMBER 2024 DECISION

Analyst background discussion
24 September 2024



MAIN MESSAGES: MACROECONOMIC ASSESSMENT AND OUTLOOK

- **Following the Fed's and the ECB's September decision, the external monetary policy environment has become somewhat looser.** However, a cautious approach is warranted in assessing the effects of this.
- **Investor sentiment has improved slightly since the previous interest rate decision. Risk indicators have improved after a temporary deterioration,** while stock market indicators rose and long-term bond yields declined.
- **Our outlook on medium-term developments determining inflation is fundamentally unchanged, disinflation is expected to continue from 2025 Q1.**
- **Continued disinflation will be driven by a lower external cost environment and more moderate retrospective repricings next year.** Annual inflation is expected to be between 3.5 and 3.9 percent this year, between 2.7 and 3.6 percent in 2025 and between 2.5 and 3.5 percent in 2026 on average.
- **Hungary's GDP is expected to grow by 1.0–1.8 percent in 2024, by 2.7–3.7 percent in 2025 and by 3.5–4.5 percent in 2026.**
- **The improvement in the external position is likely to continue in 2024 and in the upcoming years.**



KEY MESSAGES: MONETARY POLICY DECISION IN SEPTEMBER

- **In August 2024, inflation eased back to the tolerance band again. In September, inflation will continue to decrease, then a temporary rise is expected until the end of the year.**
- **The shadow of inflation is long:** the impact of inflation perceptions on consumption and investment decisions remains strong.
- The Bank can make the most effective contribution to the **easing of economic agents' increased precaution and to the restart of economic growth** by decreasing inflation, **achieving price stability and maintaining financial market stability.**
- Volatile financial market developments, a renewed increase in geopolitical tensions and **the risks to the outlook for inflation continue to warrant a careful and patient approach.**



KEY MESSAGES: THE BASIC CONDITIONS OF THE MONETARY POLICY DECISION IN SEPTEMBER

I. Inflation outlook

Disinflation continues

II. Developed market interest rates

Fed: -50bps, ECB: -25bps

III. Hungary's risk perception

Slight improvement

IV. Economic agents' confidence

Gradually strengthening confidence

- All these factors allowed a careful reduction in interest rates. At its 24 September meeting, the Council lowered the base rate by 25 basis points to 6.50 percent.
- **We cannot sit back:** looking ahead, a careful and patient approach to monetary policy is still warranted.
- The Monetary Council continues to make its decisions in a **data-driven, month-by-month manner.**

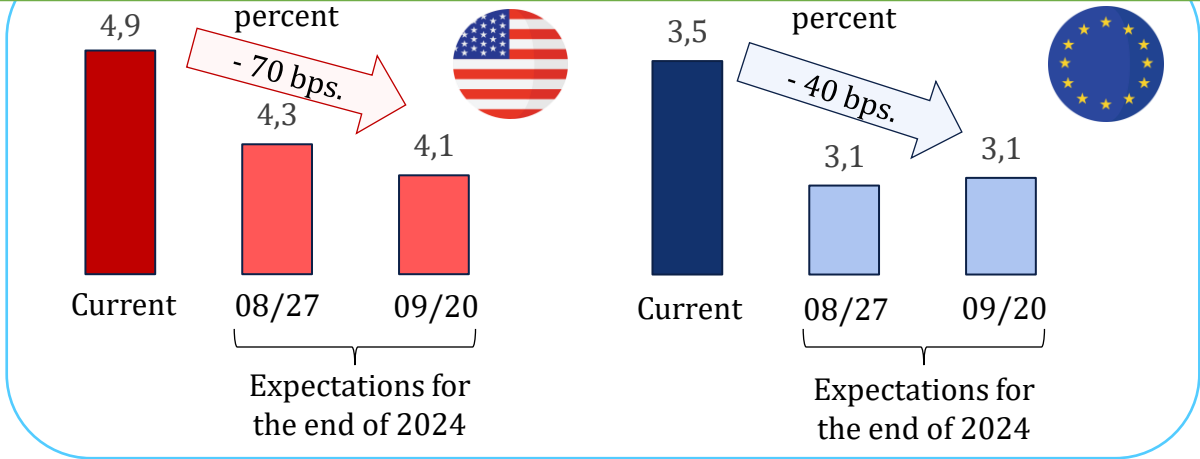


MACROECONOMIC AND FINANCIAL MARKET ASSESSMENT AND OUTLOOK

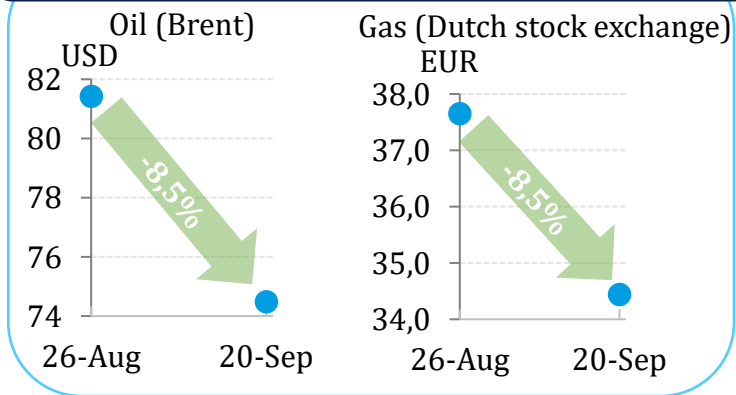
INVESTOR SENTIMENT HAS IMPROVED SLIGHTLY SINCE THE PREVIOUS INTEREST RATE DECISION



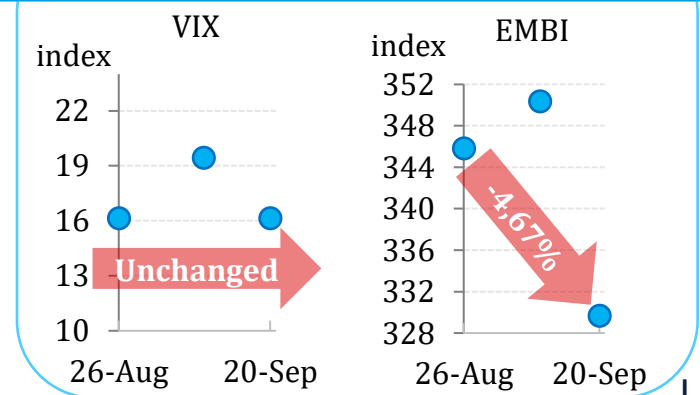
Interest rate paths of the Fed have shifted downward.



Energy prices have decreased significantly.

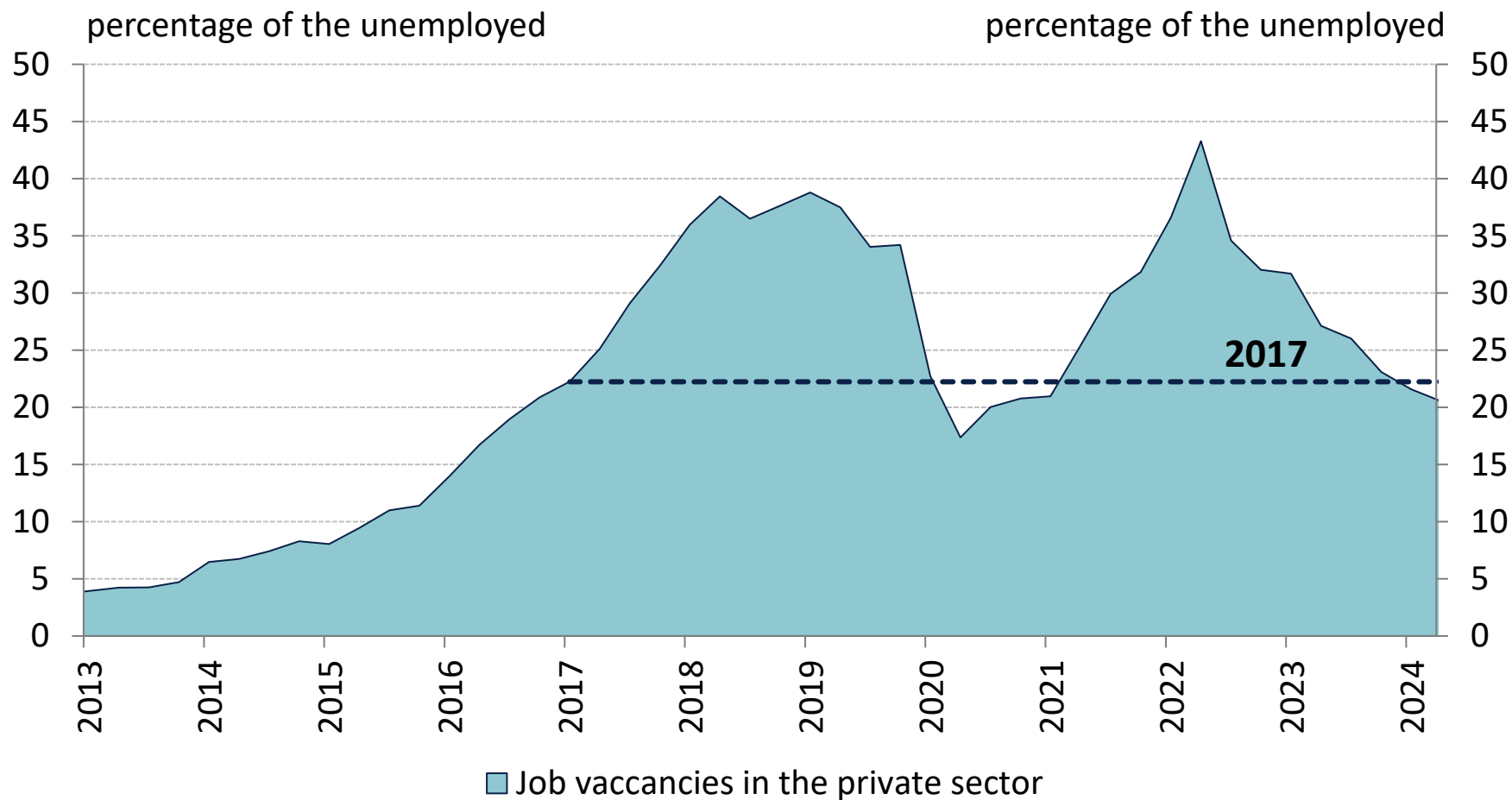


Risk indicators have improved after a temporary deterioration.





LABOUR MARKET TIGHTNESS HAS BEEN EASING SINCE 2022 Q2



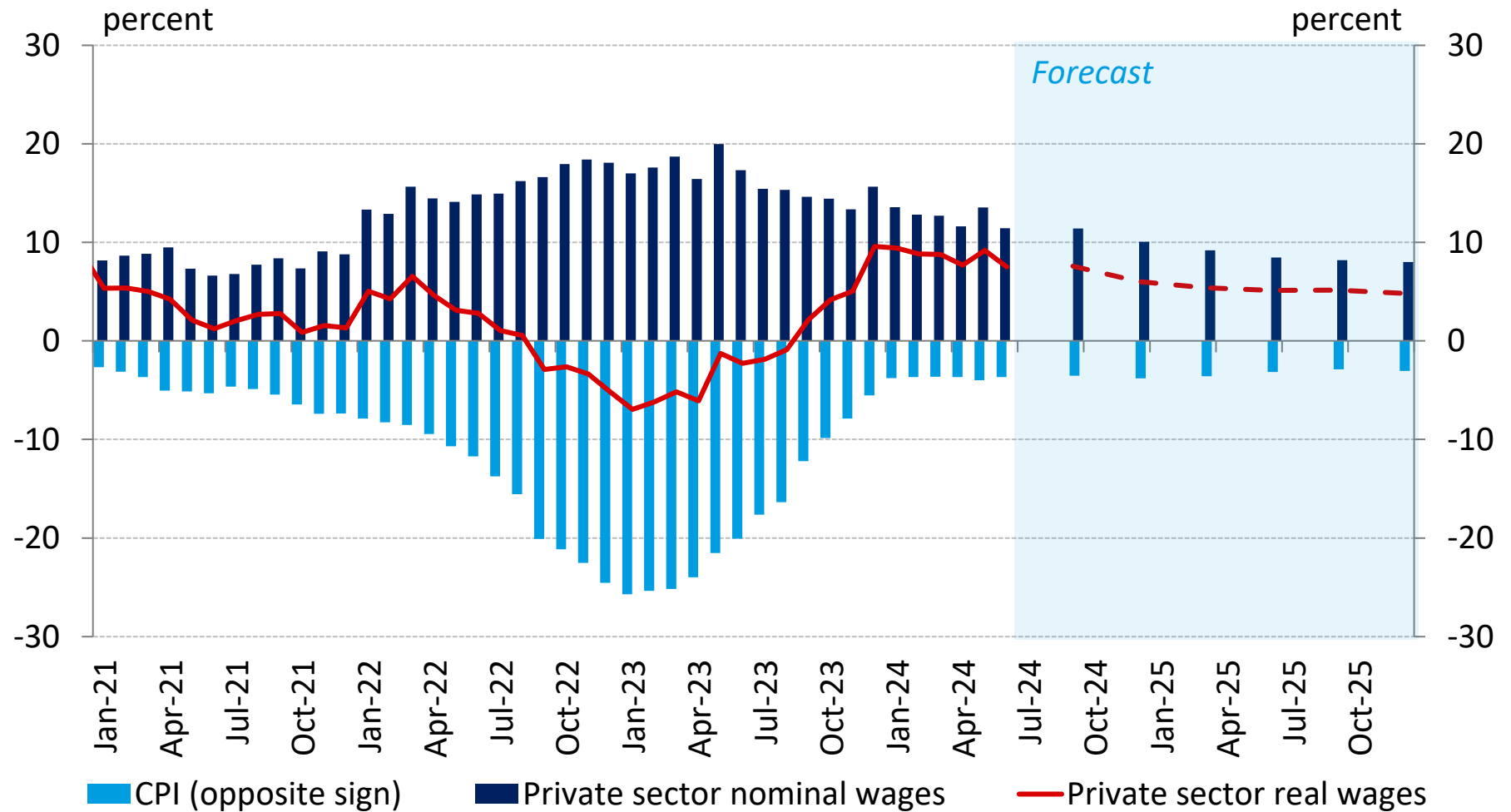
LABOUR MARKET TIGHTNESS

Note | Seasonally adjusted data.

Source | HCSO, MNB



STRONG REAL WAGE GROWTH IS EXPECTED OVER THE ENTIRE FORECAST HORIZON

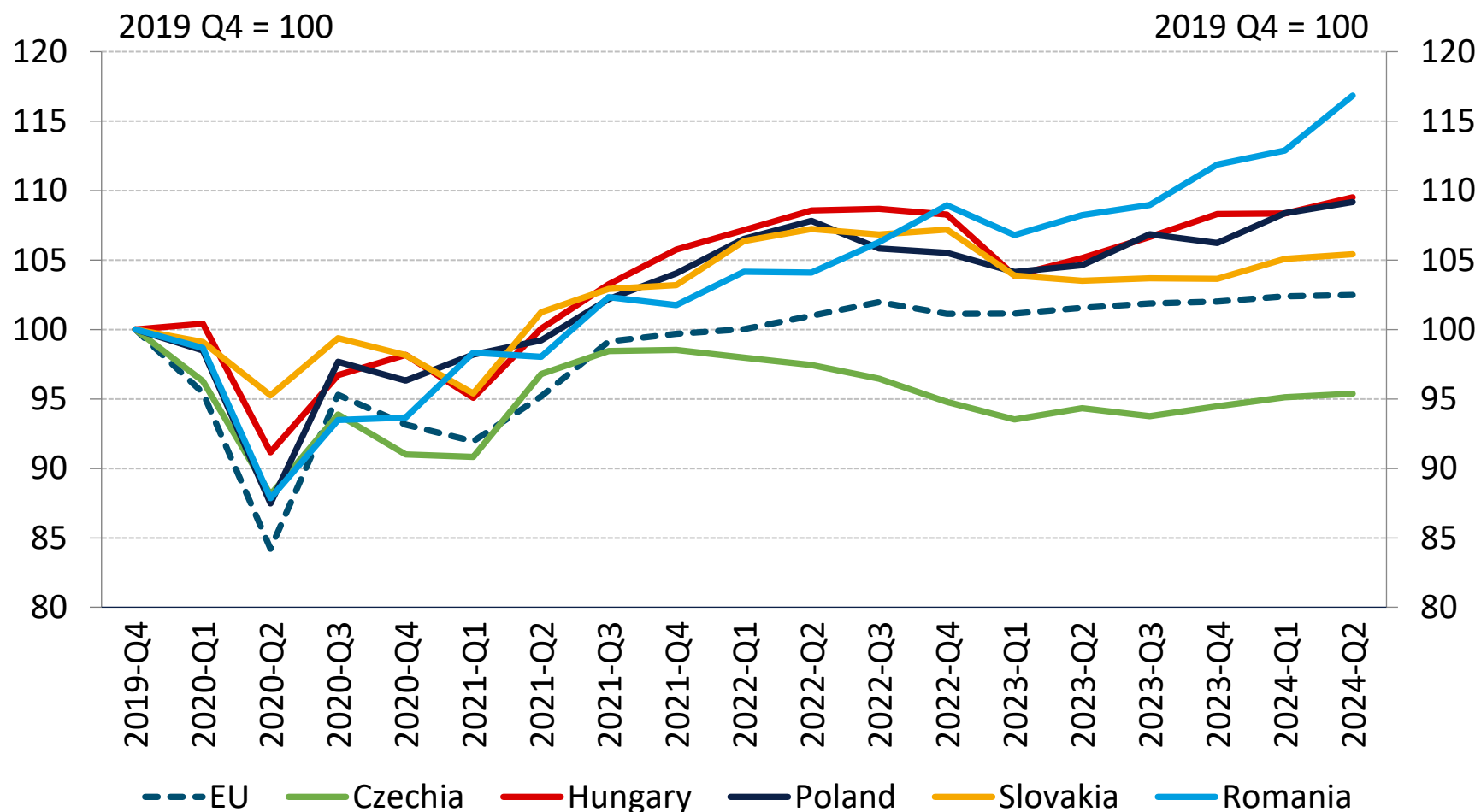


REAL WAGE DYNAMICS IN THE PRIVATE SECTOR

Source | HCSO, MNB



DOMESTIC CONSUMPTION IS INCREASING IN LINE WITH THE REGIONAL PATTERN



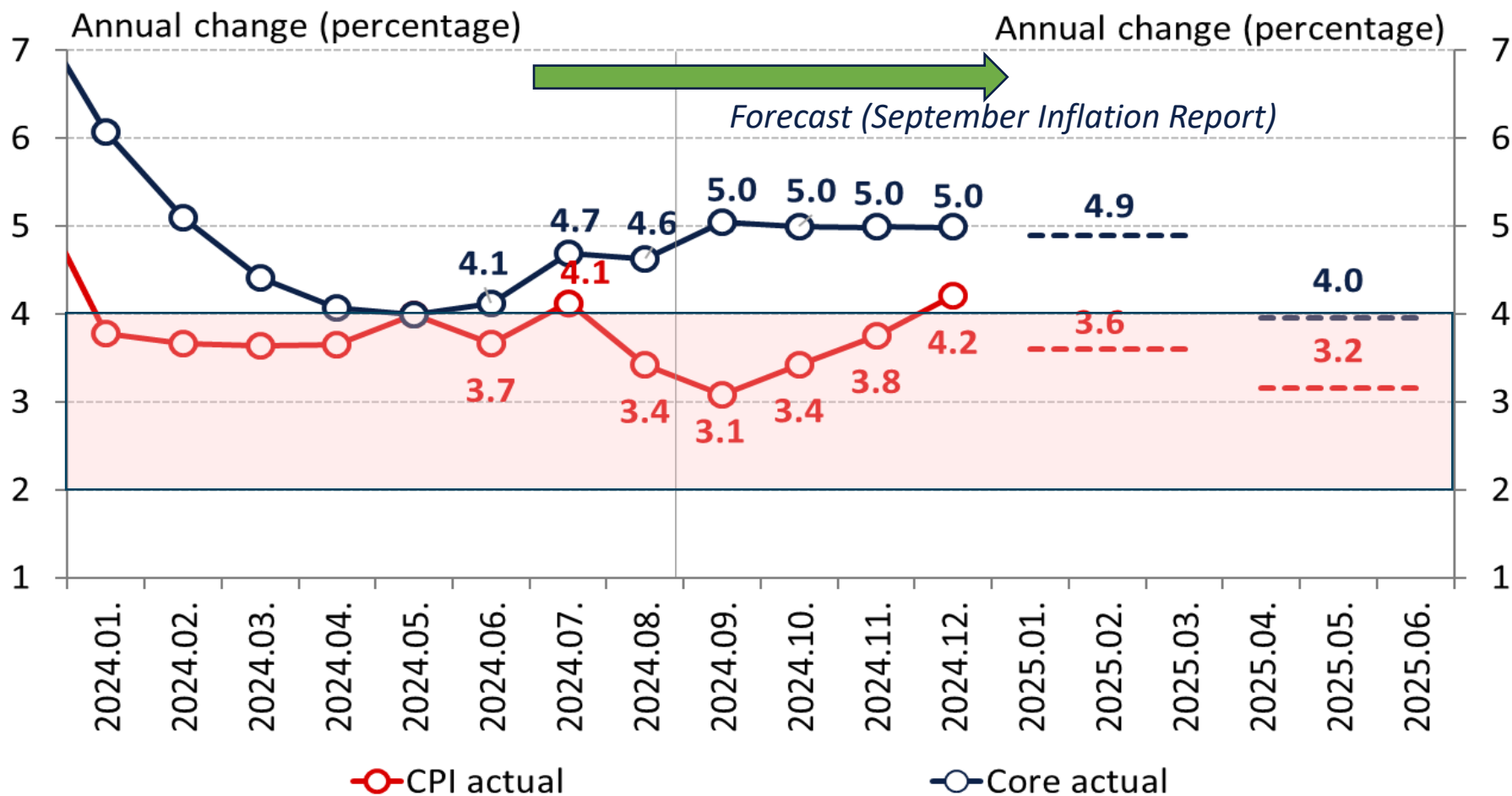
EVOLUTION OF HOUSEHOLD CONSUMPTION EXPENDITURE

Note | Household consumption expenditure including Individual consumption of nonprofit institutions. Data adjusted for seasonal and calendar effects.

Source | Eurostat



INFLATION IS EXPECTED TO RISE SLIGHTLY ABOVE 4 PERCENT BY THE END OF 2024, THE TREND IN DISINFLATION IS EXPECTED TO CONTINUE FROM 2025Q1



INFLATION AND CORE INFLATION

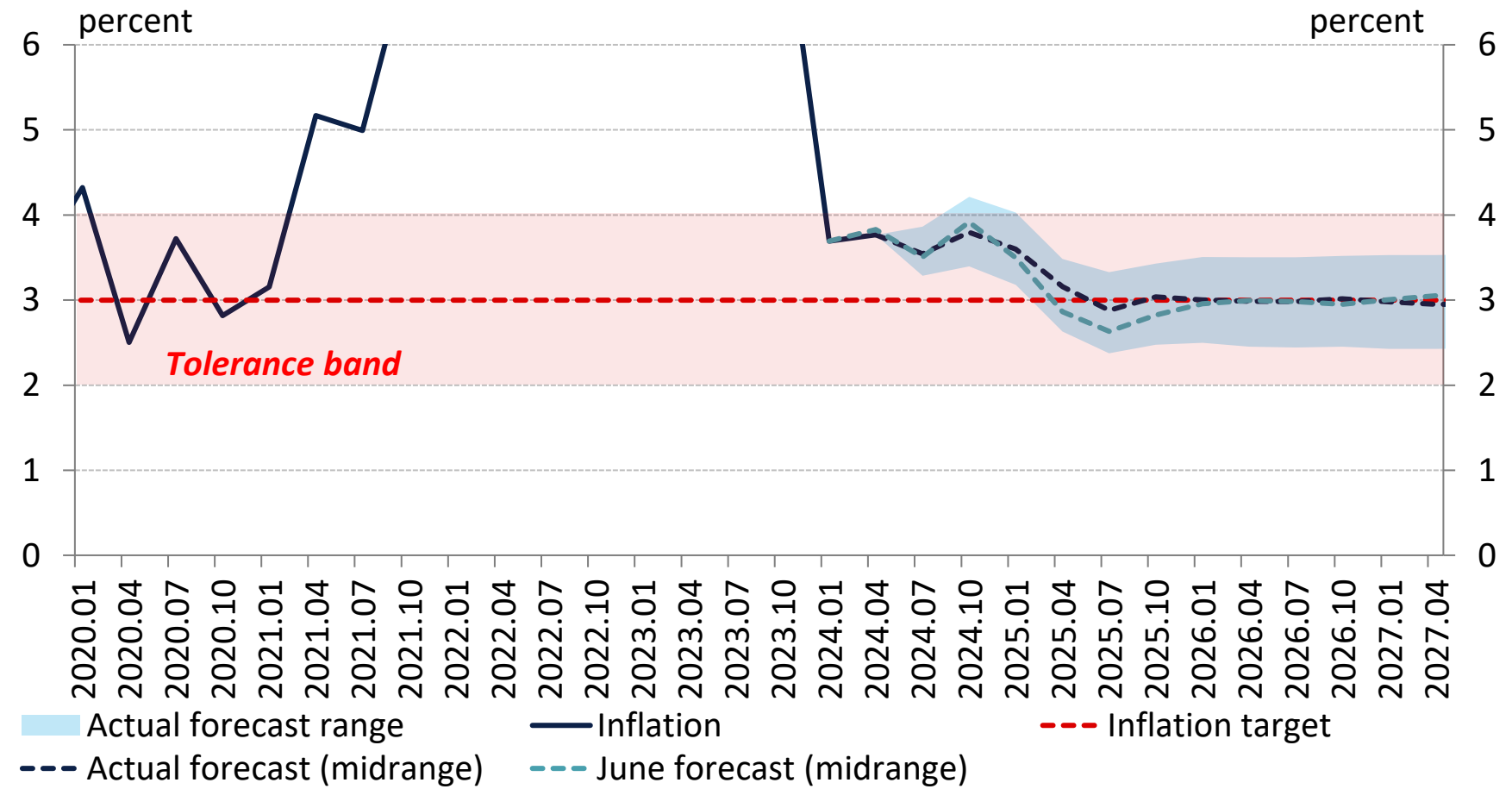
Note | Based on the midpoint of the MNB's forecast range. The inflation forecast for 2025 is shown in a quarterly frequency.

Source | HCSO, MNB



OUR OUTLOOK ON MEDIUM-TERM DEVELOPMENTS DETERMINING INFLATION IS FUNDAMENTALLY UNCHANGED

The inflation target will be reached in 2025 in a sustainable manner.



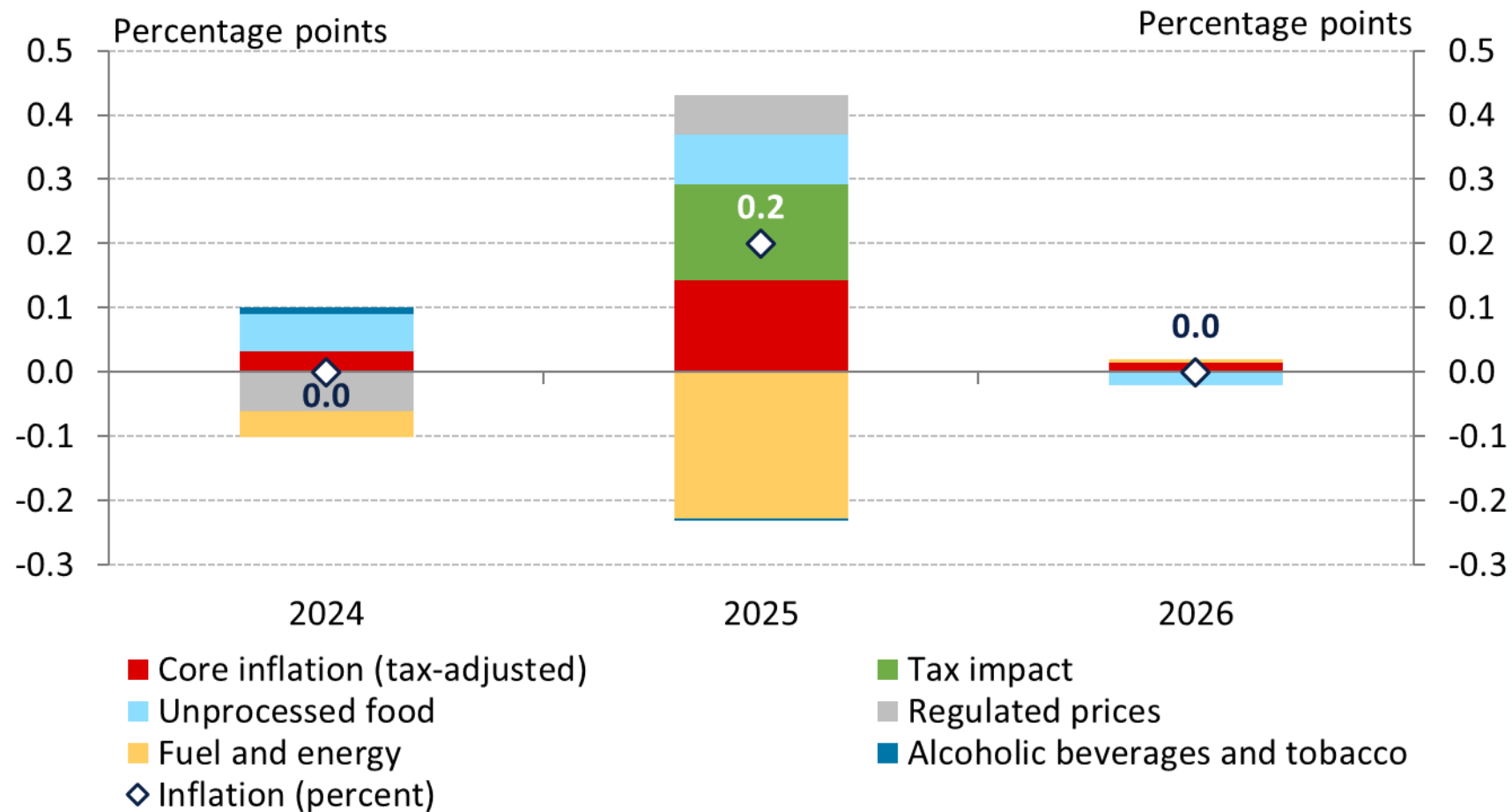
FAN CHART OF THE INFLATION FORECAST

Note | Not seasonally adjusted data.

Source | HCSO, MNB



THE HIGHER INFLATION FORECAST FOR NEXT YEAR IS EXPLAINED BY THE PASS-THROUGH OF INCREASED BANK TRANSACTION FEES INTO CONSUMER PRICES



DECOMPOSITION OF THE CHANGE OF OUR INFLATION FORECAST COMPARED TO THE JUNE INFLATION REPORT

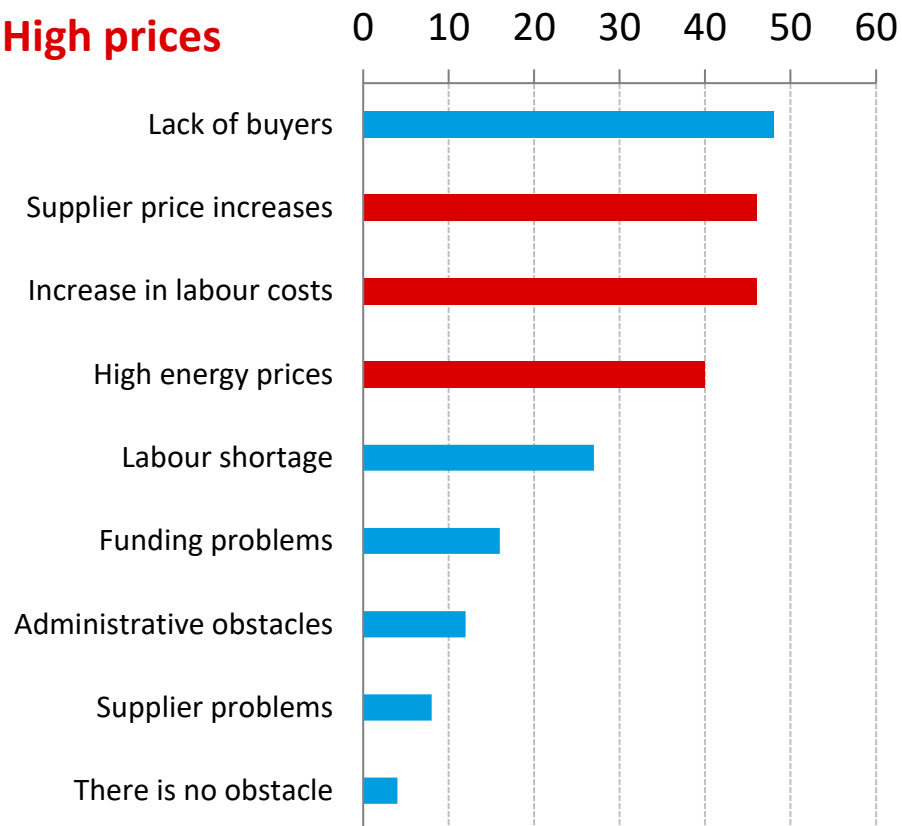
Note | Based on the midpoint of the MNB's forecast range

Source | MNB-forecast



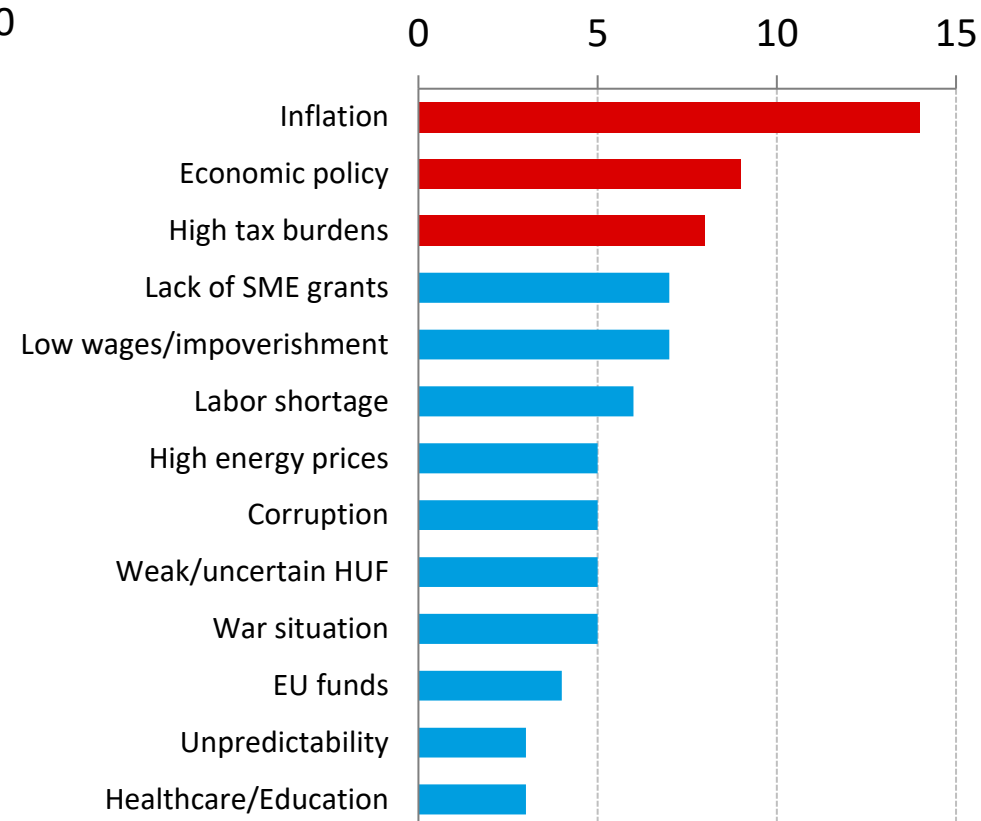
THE BUSINESS ACTIVITY OF COMPANIES IS HAMPERED BY THE LONG SHADOW OF INFLATION, THE LACK OF CUSTOMERS AND UNCERTAINTY

High prices



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

Source | MNB

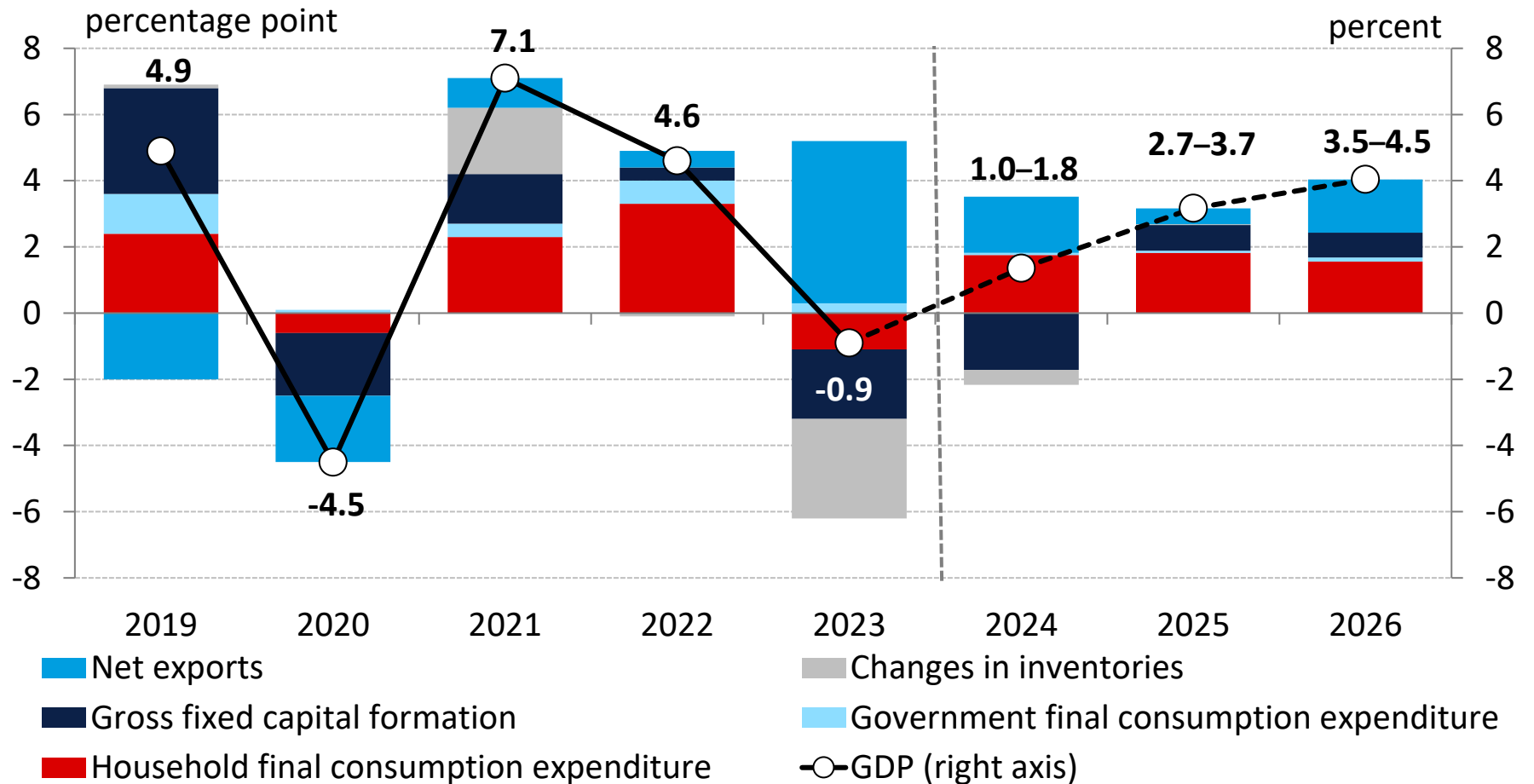


THE MOST IMPORTANT PROBLEMS RELATED TO THE COUNTRY'S ECONOMIC SITUATION IN THE SECOND QUARTER OF 2024 ACCORDING TO THE RESPONSES TO THE VOSZ COMPANY SURVEY

Source | VOSZ



A BALANCED GDP GROWTH IS EXPECTED IN HUNGARY FROM 2025



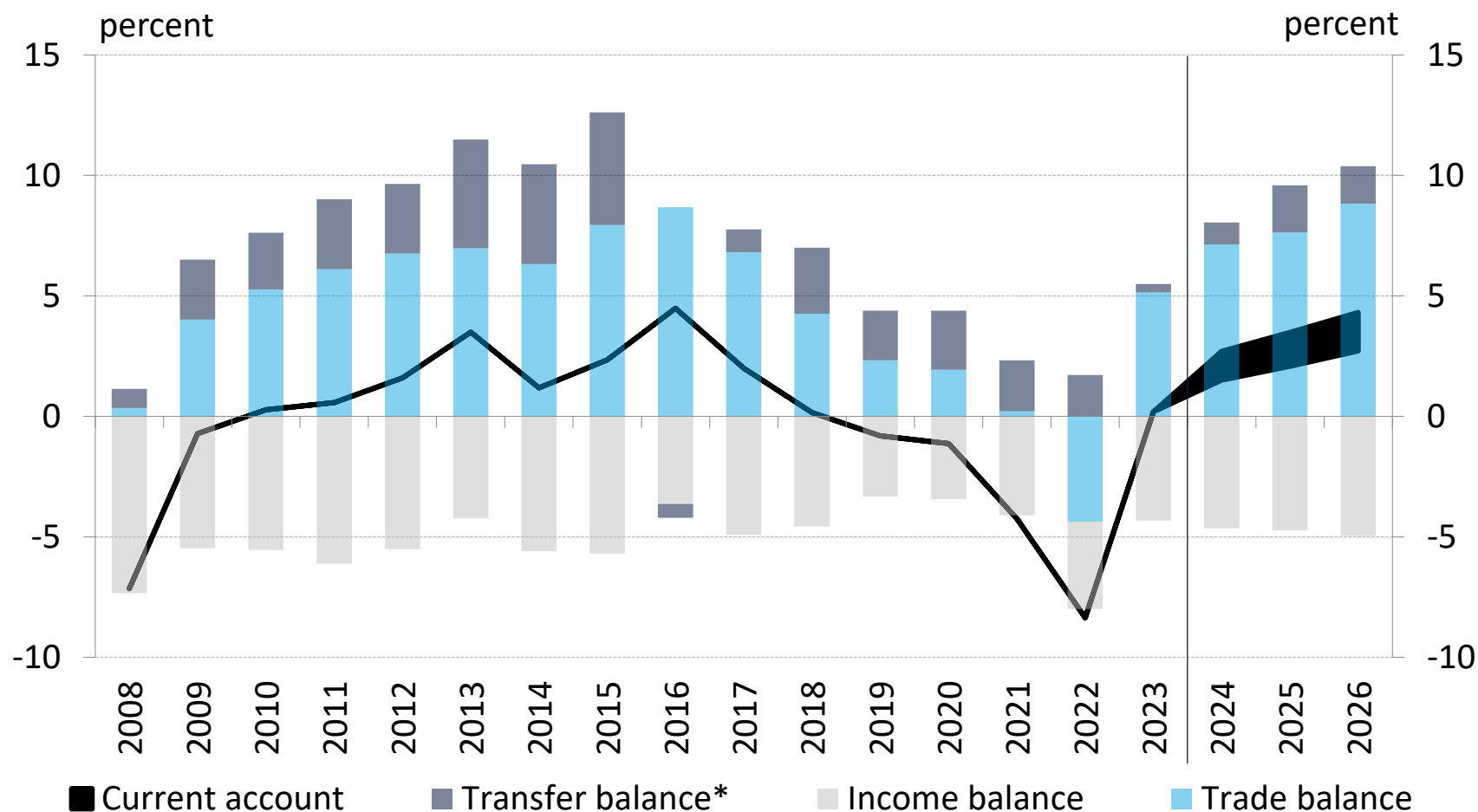
EXPENDITURE SIDE DECOMPOSITION AND FORECAST OF GDP GROWTH

Note | Government final consumption expenditure includes final consumption expenditure of the general government and nonprofit institutions.

Source | HCSO, MNB



THE IMPROVEMENT IN THE EXTERNAL POSITION IS LIKELY TO CONTINUE IN 2024 AND IN THE UPCOMING YEARS



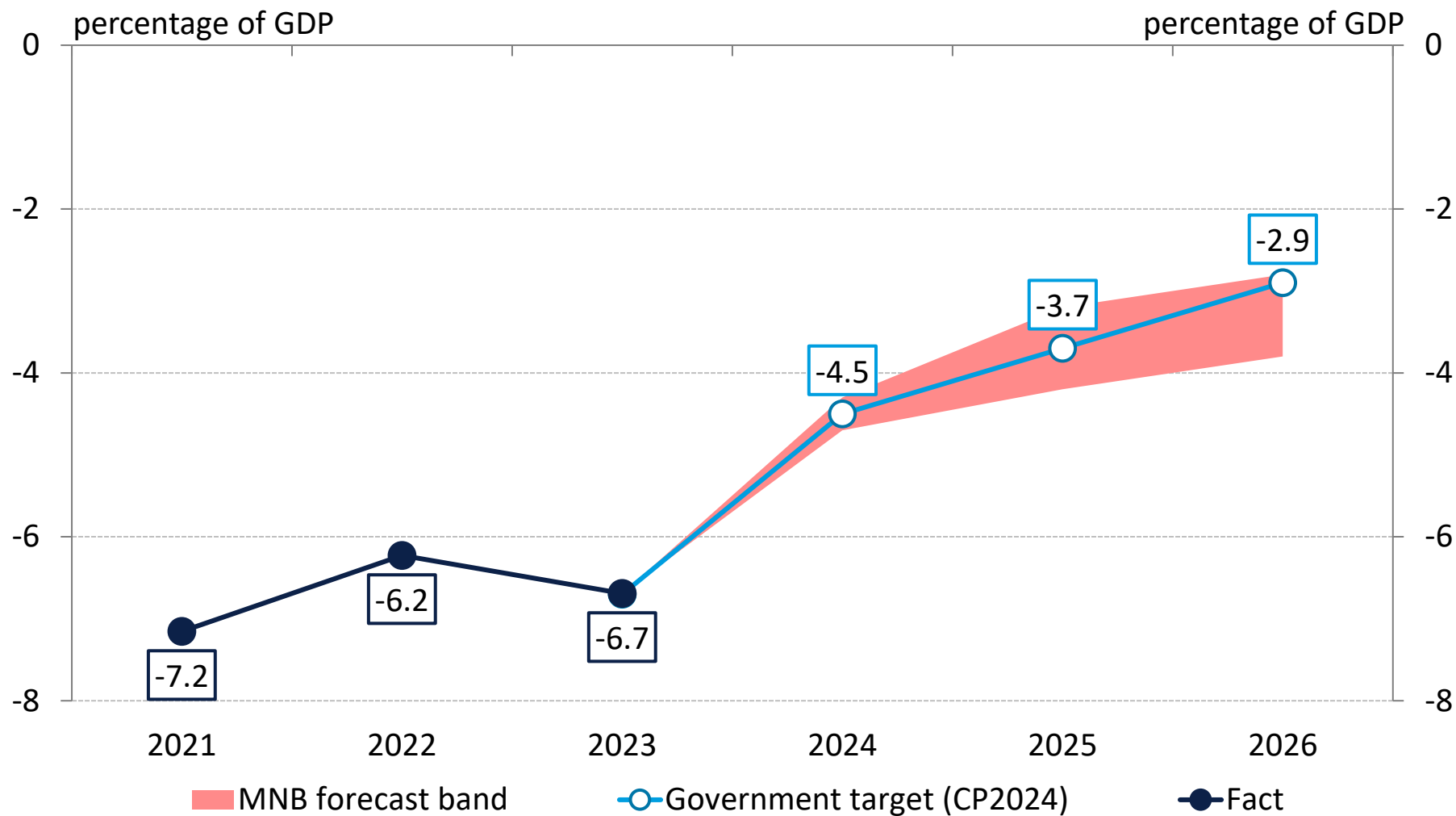
EVOLUTION OF THE CURRENT ACCOUNT BALANCE

Note | As a percentage of GDP *The sum of the balance of the current transfers and the capital account balance.

Source | MNB



IN THE COUNCIL'S ASSESSMENT, THE ATTAINABILITY OF THE BUDGET DEFICIT TARGET FOR THIS YEAR HAS IMPROVED



DEVELOPMENT OF THE BUDGET DEFICIT

Source | Convergence Programmes, MNB



MONETARY POLICY



A CAUTIOUS AND DATA-DRIVEN APPROACH REMAINS WARRANTED

GLOBAL RISK FACTORS

Investor sentiment has improved slightly in September. Financial market developments remain volatile, with emerging markets being highly exposed.



Both the Fed and the ECB decreased their key interest rates in September. Market participants expect larger interest rate cuts by the Fed until the end of the year than before.

Geopolitical tensions continue to contribute to the persistence of an uncertain external environment.



PRECAUTION

Due to experiences with high inflation, households remain cautious. Inflation expectations are decreasing slowly and display more volatility than usual.



Price stability and the maintenance of financial market stability are the most effective ways to contribute to the relaunch of economic growth.

DOMESTIC INFLATION

The CPI is expected to fall further in September and to rise slightly above 4 percent by the end of 2024. Disinflation is expected to continue from 2025 Q1.





UNCERTAINTY HAS DECREASED REGARDING THE FACTORS HIGHLIGHTED IN AUGUST



Inflation returned to the tolerance band in August. Disinflation is expected to continue over the monetary policy horizon.



The Fed lowered the federal funds target range by 50 basis points. The ECB lowered its deposit rate by 25 basis points.



Financial market developments are stable, and the country's risk perception has improved slightly overall.



Looking ahead, household consumption is expected to pick up gradually as confidence recovers slowly.



This has allowed a careful reduction in interest rates.



THE MONETARY COUNCIL'S DECISION IN SEPTEMBER

Central bank instrument	Interest rate	Previous interest rate (percent)	New interest rate (percent)
Central bank base rate		6.75	6.50
O/N deposit rate	Central bank base rate minus 1.00 percentage point	5.75	5.50
O/N collateralised lending rate	Central bank base rate plus 1.00 percentage point	7.75	7.50



THE MONETARY COUNCIL IS COMMITTED TO CONTINUING DISINFLATION AND 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. Decisions are made between leaving interest rates unchanged, and moderate rate cuts.



Since the previous interest rate decision, we have not identified any factor that would warrant a persistent shift in the path of the base rate.

We are closely following:

The inflation outlook

- The sustainable achievement of the inflation target must be ensured.
- Pricing behaviour in the market services sector has to be monitored closely.

Hungary's risk perception

- Developments in the external balance position must be followed closely.
- Reaching fiscal targets in a disciplined manner is also necessary for an improvement in risk perception.

Financial market stability

- Persistent maintenance of positive real interest rate environment is necessary.
- Shifts in global investor sentiment must be taken into account.



We cannot sit back: looking ahead, a careful, patient, and stability-oriented monetary policy remains warranted.



THE MONETARY COUNCIL'S FORWARD GUIDANCE

*„Looking ahead, risks surrounding international and domestic disinflation, as well as the volatility in investor sentiment warrant a **careful and patient approach to monetary policy**. The Council is constantly assessing incoming macroeconomic data, the outlook for inflation and developments in the risk environment, based on which it **will take decisions on the level of the base rate in a cautious and data-driven manner.**”*

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[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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