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Deputy Governor | Magyar Nemzeti Bank

BACKGROUND DISCUSSION FOLLOWING THE MONETARY COUNCIL'S 18 JUNE DECISION

Analyst background discussion

18 June 2024



MAIN MESSAGES: MONETARY POLICY

- At its meeting today, the Council **lowered the base rate by 25 basis points to 7.0 percent**. With this, the base rate has reached the higher end of the range that had been previously indicated.
- **Risks in our external environment are significant, reducing central banks' room for monetary policy manoeuvre in emerging economies.**
- **In June, monetary policy is entering a new phase. In this period, the Bank will have a substantially smaller room for manoeuvre to lower the base rate.**
- **The forward guidance of the Council has changed:** it 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.**
- **We need to remain focused on disinflation and reaching price stability in a sustainable manner! Anchoring inflation expectations is crucial** for the consumer price index to **return to the central bank target in a sustained manner from next year.**
- We can't sit back: the **volatile financial market environment, significant geopolitical tensions and the risks to the outlook for inflation** continue to warrant a **careful and patient approach.**
- In order for the **precautionary motive to continue easing** and the expanding effect of **domestic savings on consumption** to become more marked, **it is key to maintain financial market stability.**



MAIN MESSAGES: MACROECONOMIC AND FINANCIAL MARKET OUTLOOK

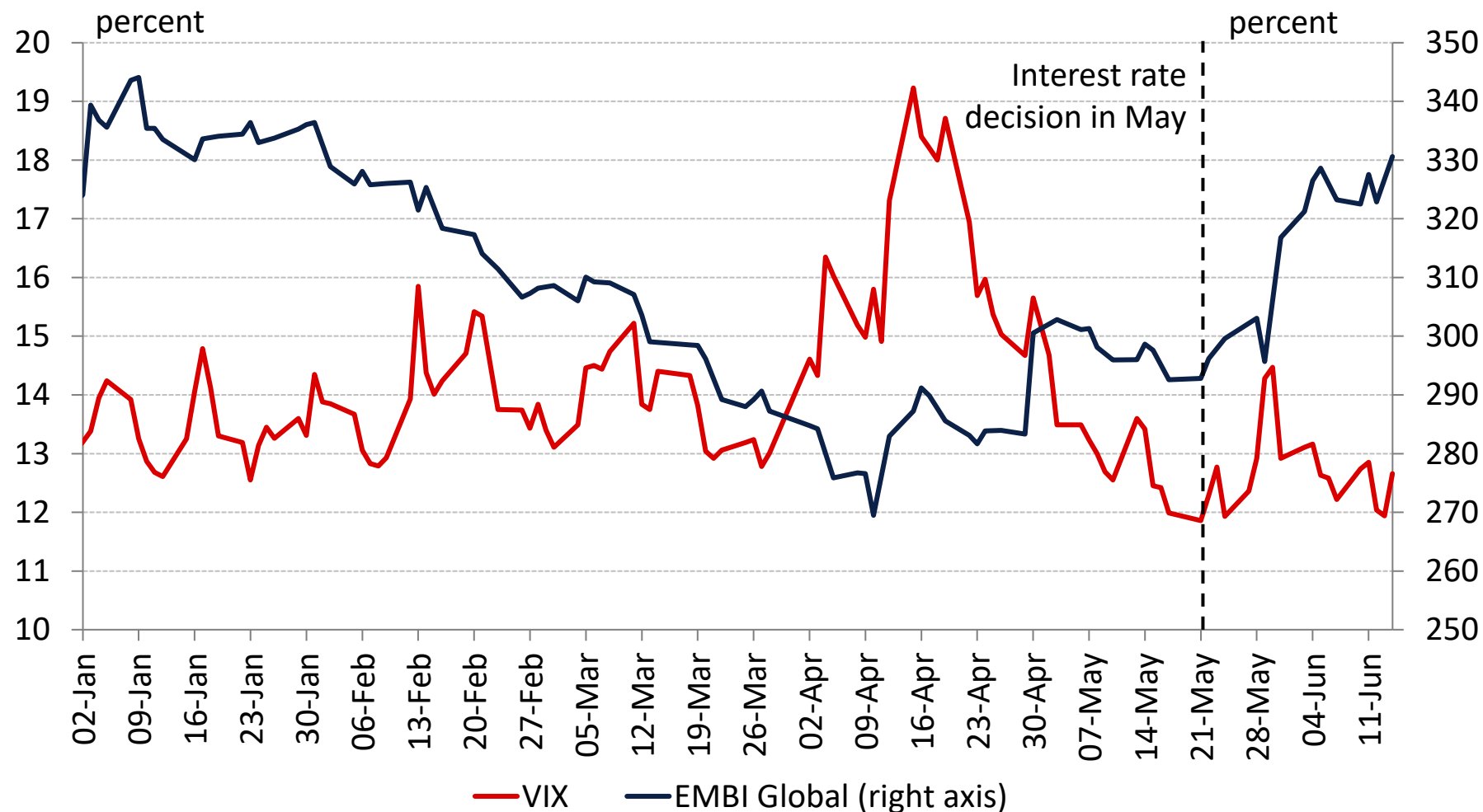
- The consumer price index is expected to fluctuate close to the upper bound of the central bank tolerance band in the coming months, too. The decline in core inflation will stop in the second quarter and core inflation will rise close to 5.0 percent by the end of the year. **Inflation outlook has remained unchanged over the monetary policy horizon.**
- **In 2024**, the gradual expansion in Hungary's GDP will be mainly **supported by the strengthening of domestic demand**. In addition to **the easing of the precautionary motive, the expansionary effect of strong real wage growth on consumption** will become increasingly pronounced in the rest of the year. The level of employment is high, but labour market tightness has eased over the past quarters.
- **In April, the current account surplus rose to another historically high level.** In the coming years, the current account surplus may be **even larger than the Bank's previous expectation.**
- The **new baseline projection** is generally surrounded by **upside risks to inflation and downside risks to economic growth.**
- **Based on market expectations, US interest rates may be higher for a prolonged period, reducing central banks' room for monetary policy manoeuvre in emerging economies.**
- **Global investor sentiment has deteriorated amidst significant turbulence, while volatility in European markets increased following the elections for the European Parliament.**



MACROECONOMIC AND FINANCIAL MARKET ASSESSMENT AND OUTLOOK



INVESTOR SENTIMENT IN EMERGING MARKETS HAS DETERIORATED SINCE THE PREVIOUS INTEREST RATE DECISION

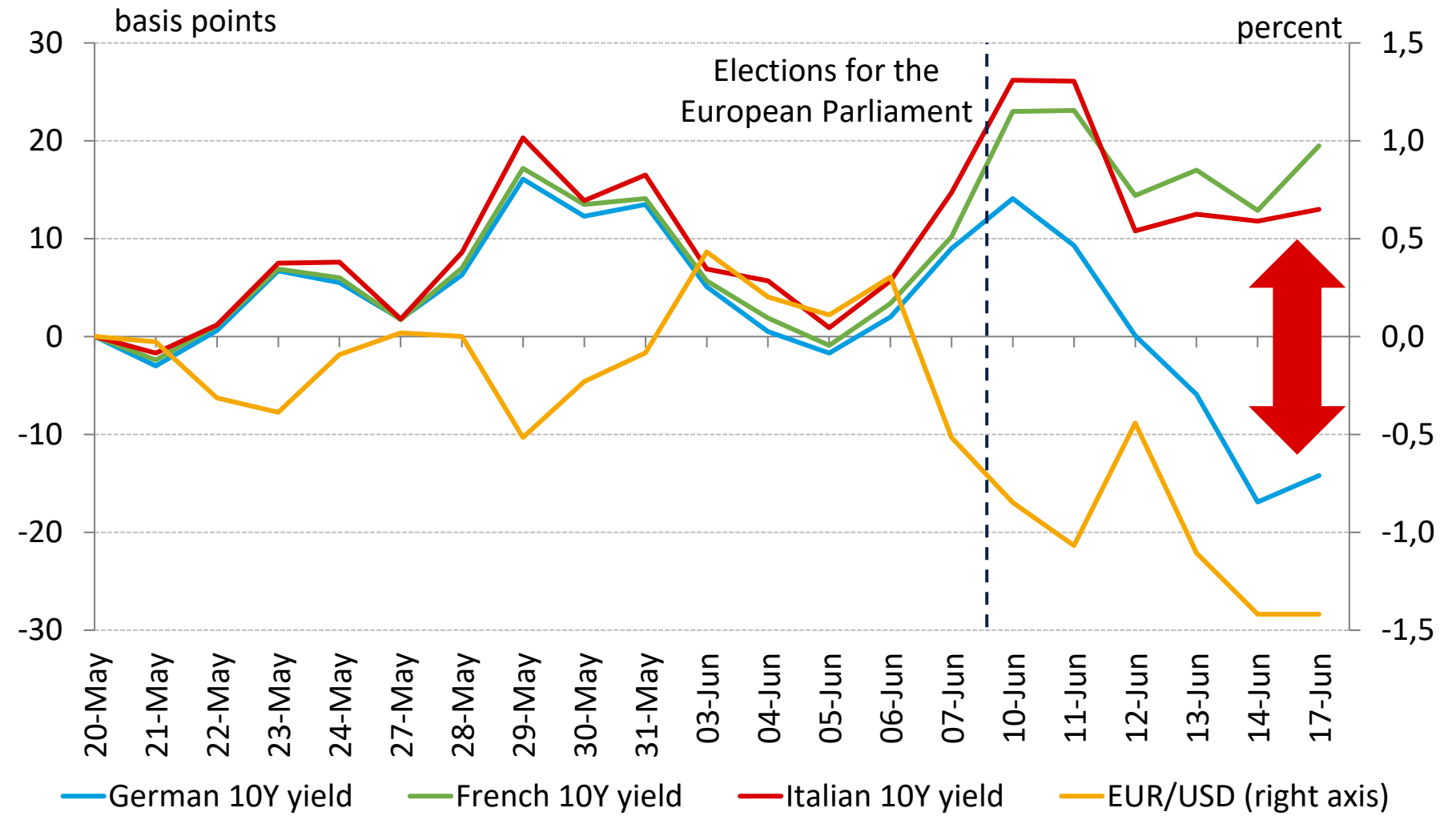


THE VIX INDEX AND THE EMBI GLOBAL INDEX

Source | Bloomberg



FOLLOWING THE ELECTIONS FOR THE EUROPEAN PARLIAMENT, VOLATILITY INCREASED

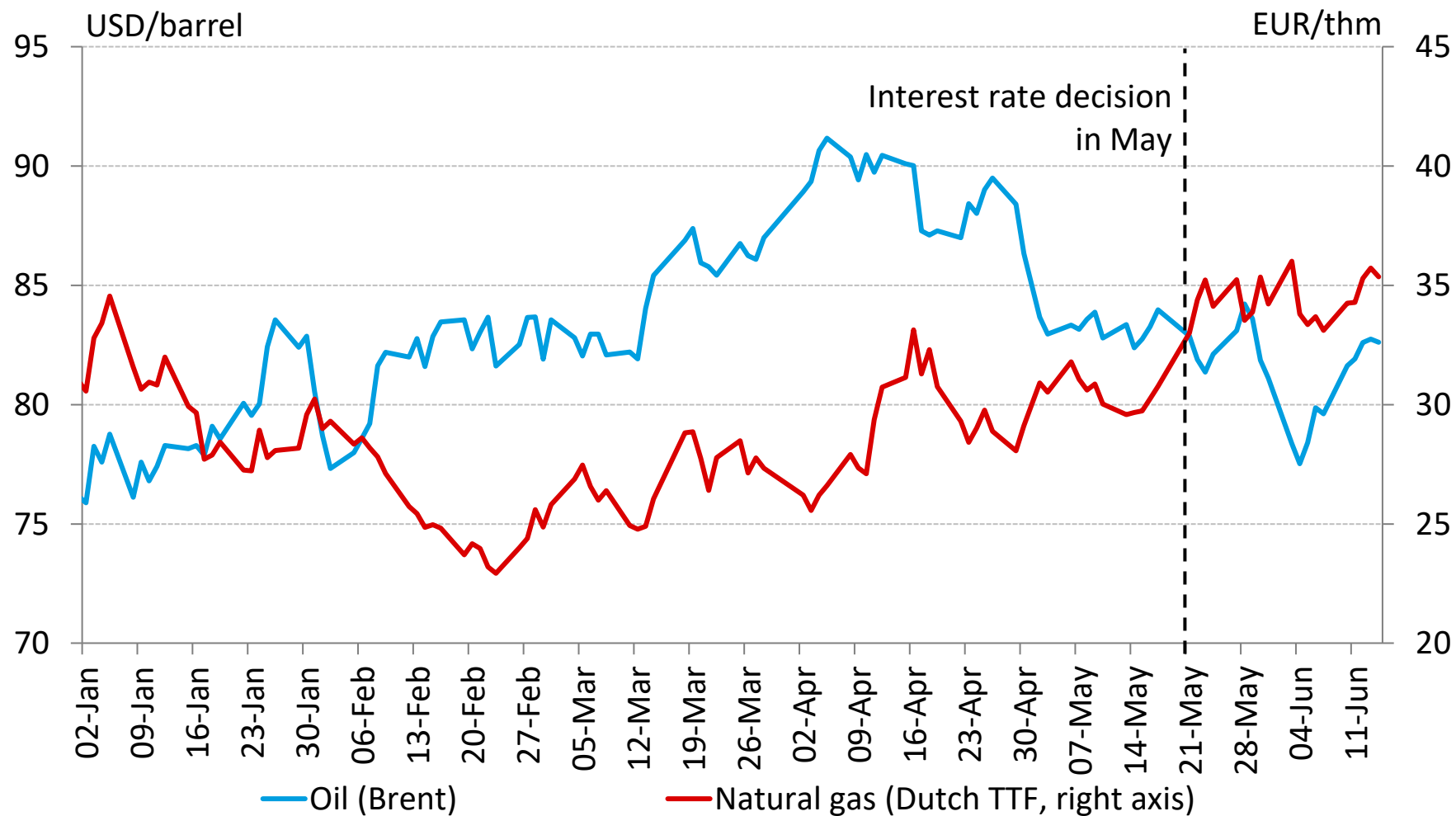


DEVELOPMENTS IN 10-YEAR GOVERNMENT BOND YIELDS AND THE USD/EUR EXCHANGE RATE

Source | Bloomberg



OIL PRICES HAVE BEEN UNCHANGED AND GAS PRICES HAVE RISEN SINCE THE LATEST INTEREST RATE DECISION

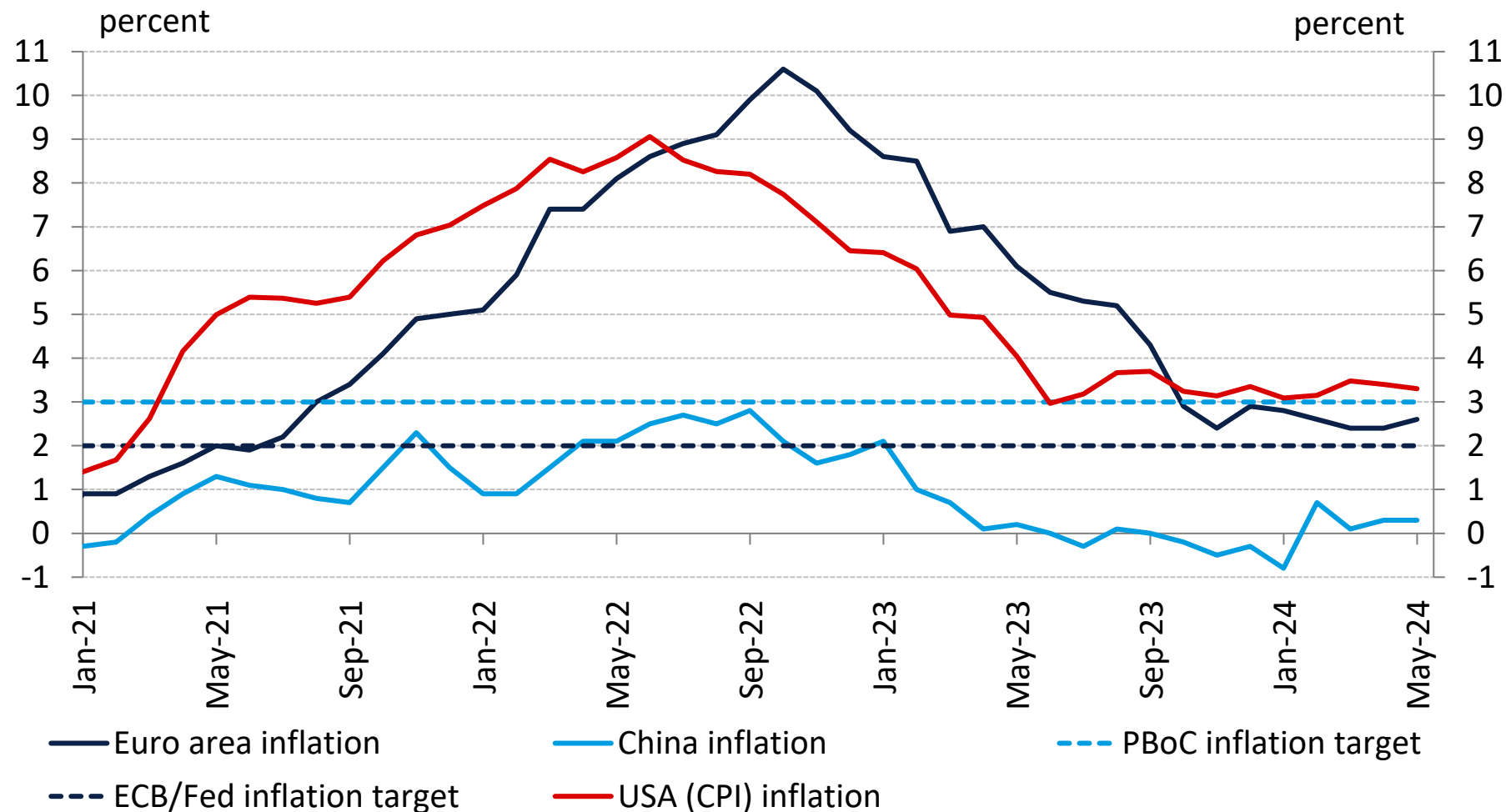


DEVELOPMENTS IN OIL AND GAS PRICES

Source | Bloomberg



INFLATION ROSE IN THE EURO AREA AND REMAINED MARKEDLY ABOVE THE TARGET IN THE USA IN MAY

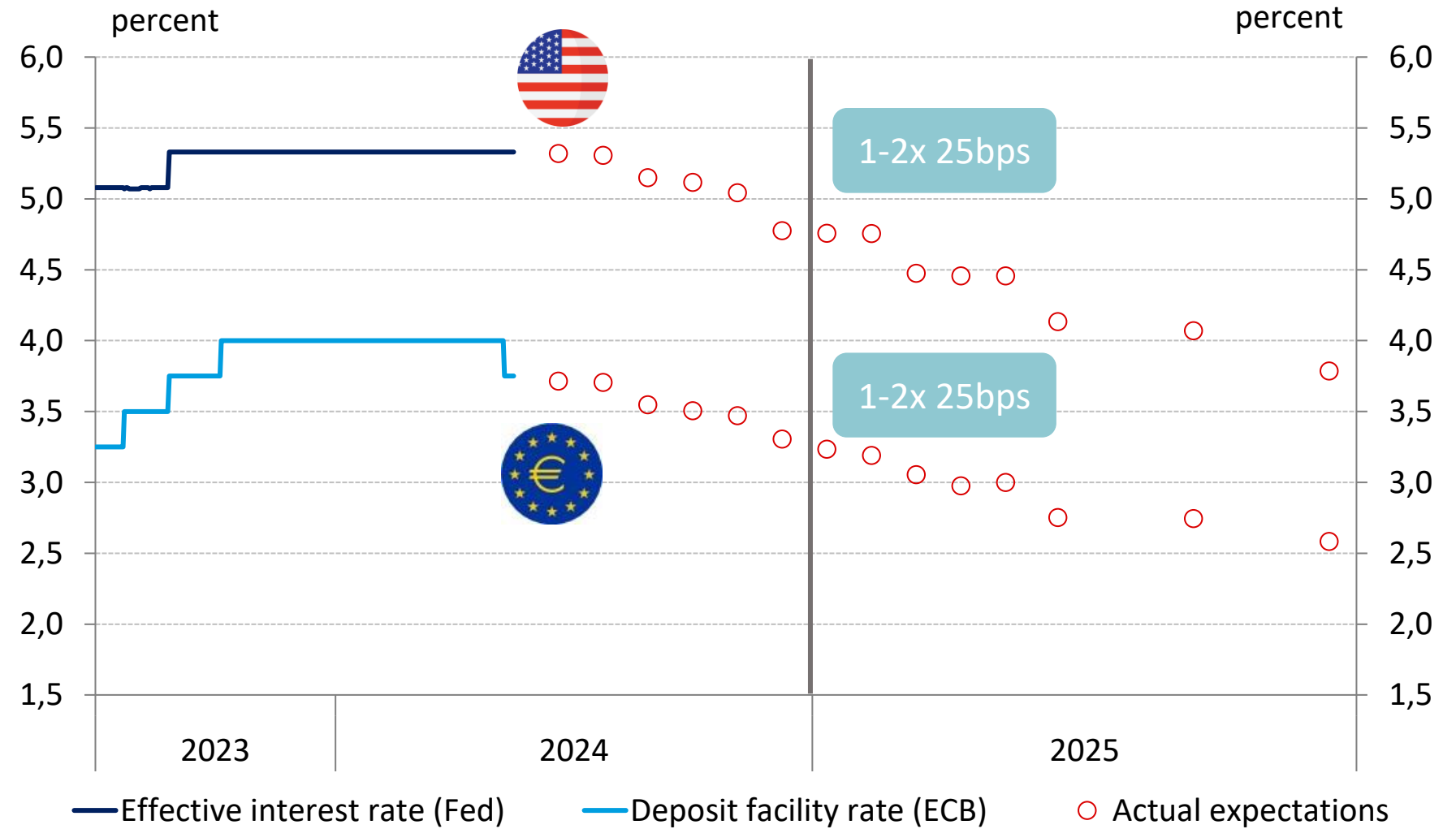


INFLATION IN THE UNITED STATES, CHINA AND THE EURO AREA

Source | Eurostat, OECD



EXTERNAL INTEREST RATE ENVIRONMENT MAY REMAIN HIGH FOR A PROLONGED PERIOD

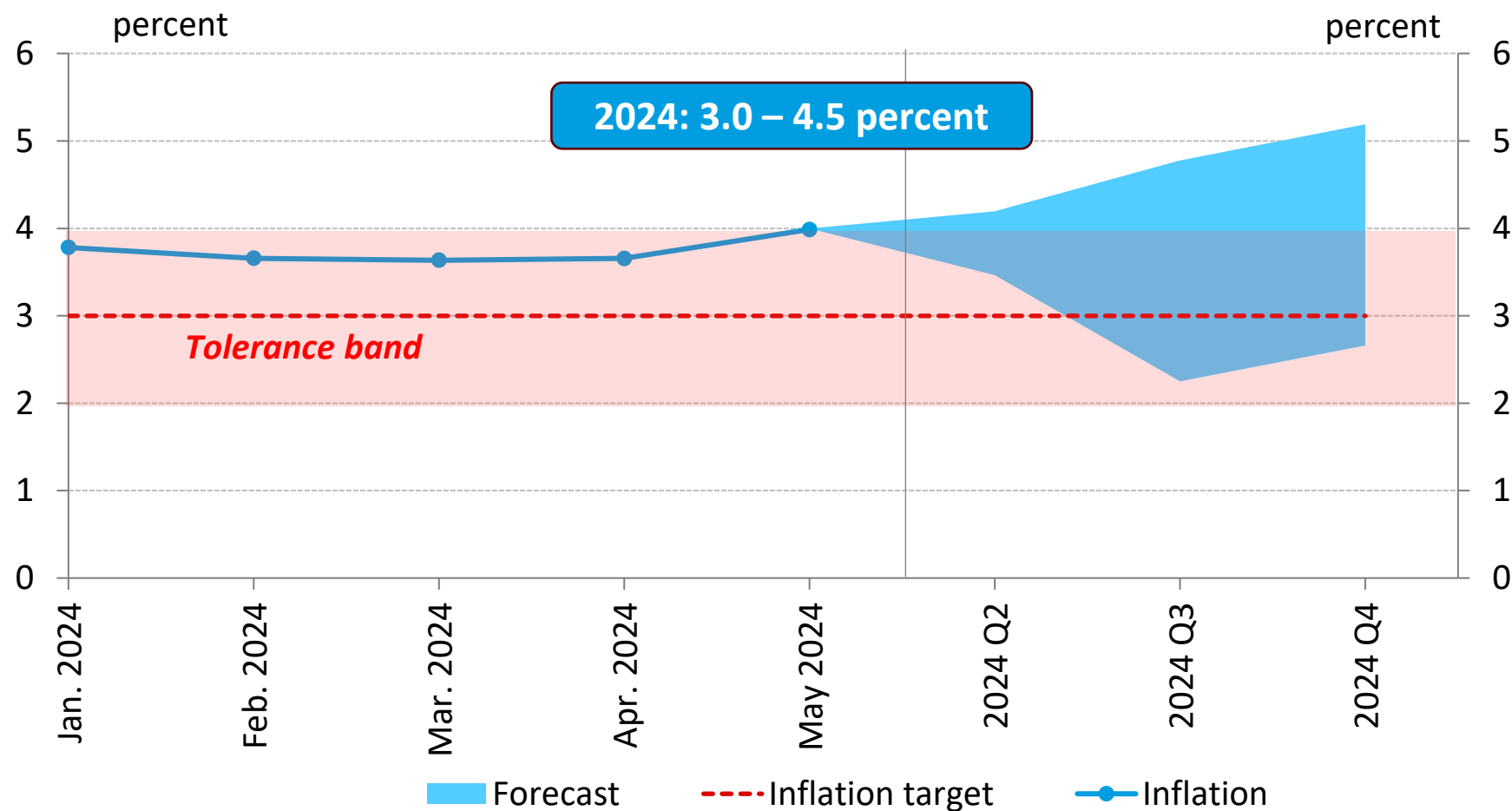


THE EXPECTED INTEREST RATE PATH OF THE ECB AND THE FED BASED ON MARKET PRICING

Source | Bloomberg



DOMESTIC INFLATION RATE IS EXPECTED TO FLUCTUATE WITHIN THE TOLERANCE BAND, CLOSE TO ITS UPPER BOUND IN THE COMING MONTHS

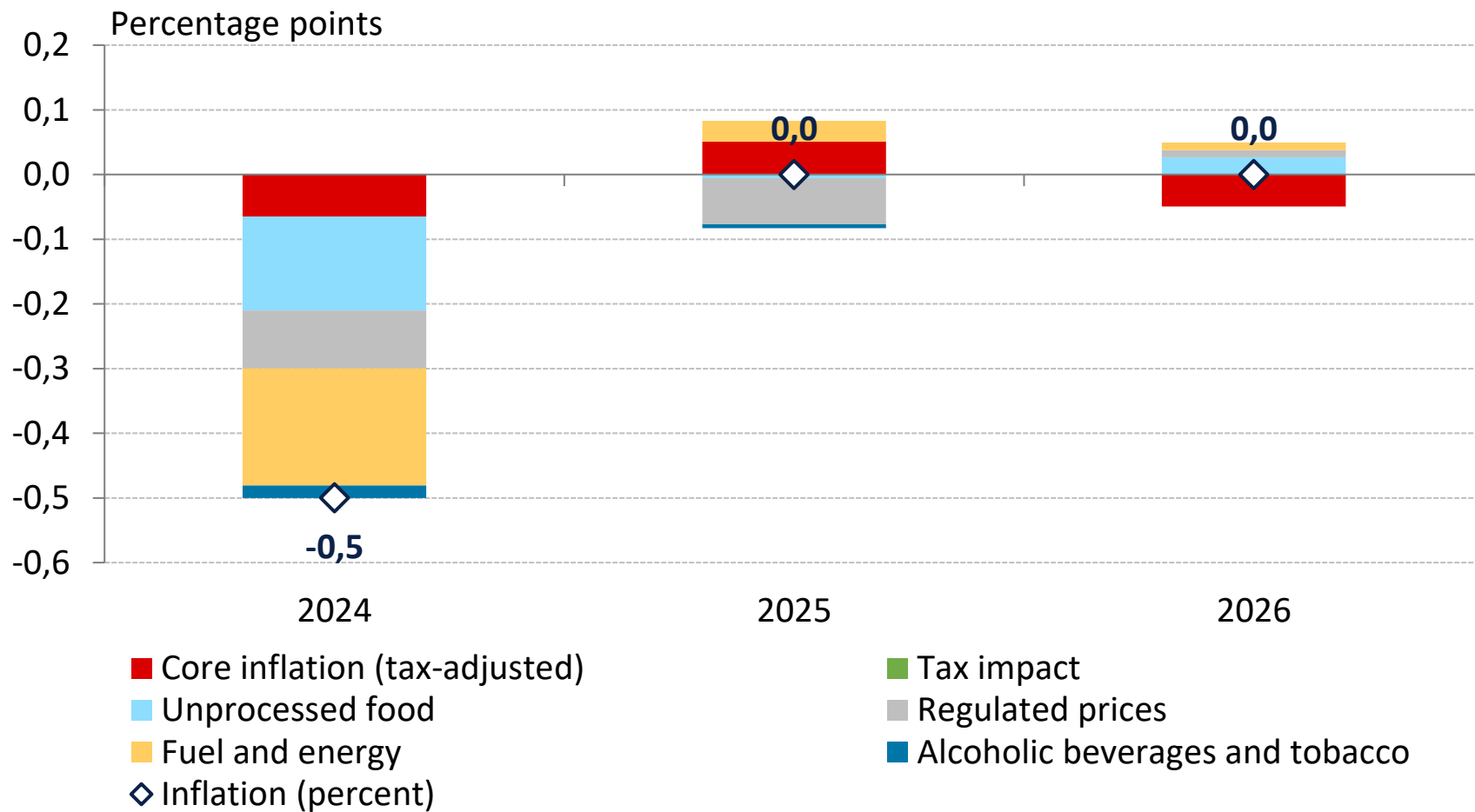


SHORT-TERM INFLATION FORECAST

Source | MNB calculation



OUR INFLATION FORECAST HAS DECREASED BY 0.5 BASIS POINTS COMPARED TO THE MARCH FORECAST

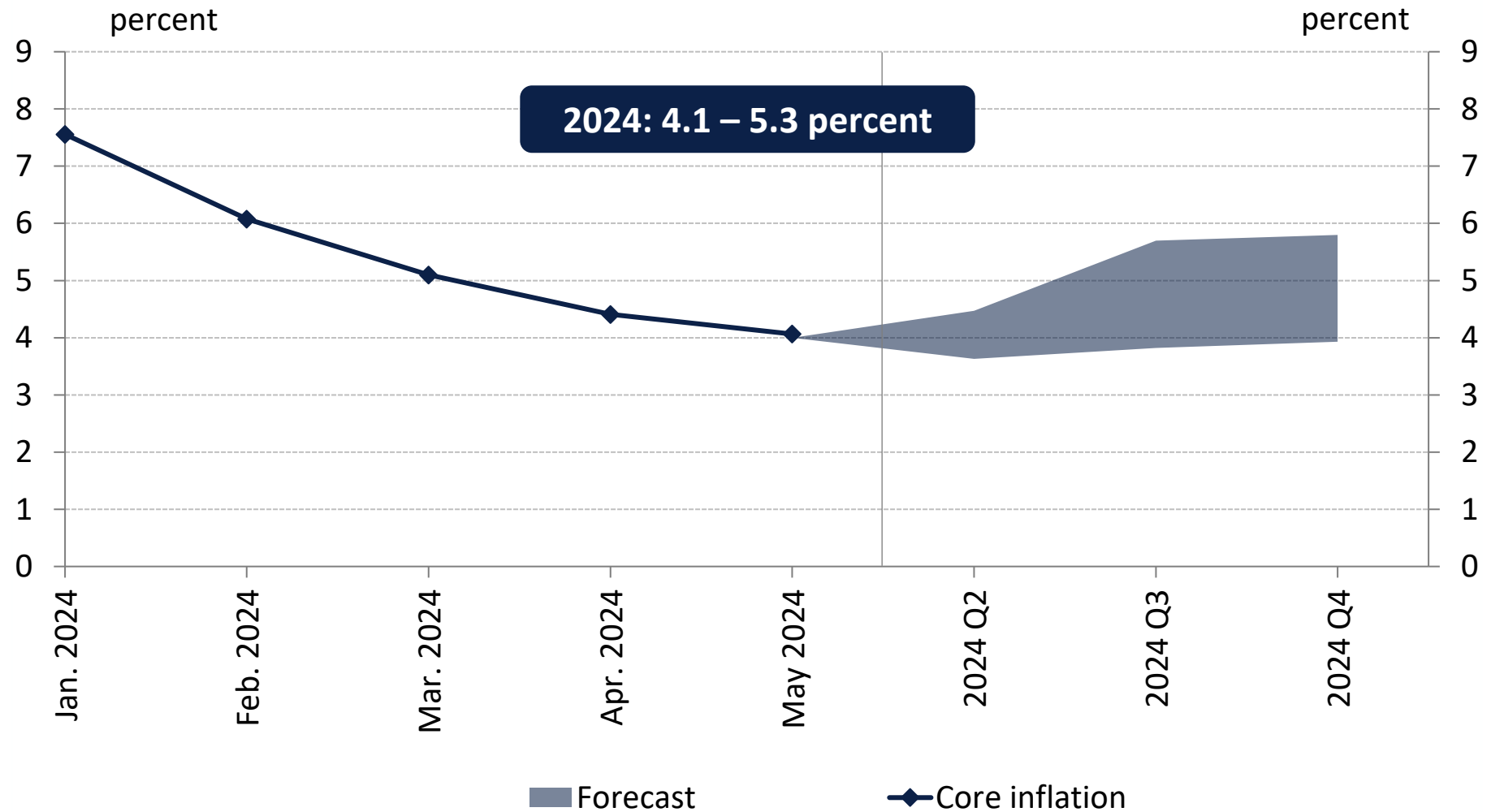


DECOMPOSITION OF INFLATION FORECAST CHANGES COMPARED TO THE MARCH PROJECTION

Source | MNB calculation



THE DECLINE IN CORE INFLATION WILL STOP IN THE SECOND QUARTER AND IT WILL RISE CLOSE TO 5.0 PERCENT BY THE END OF THE YEAR

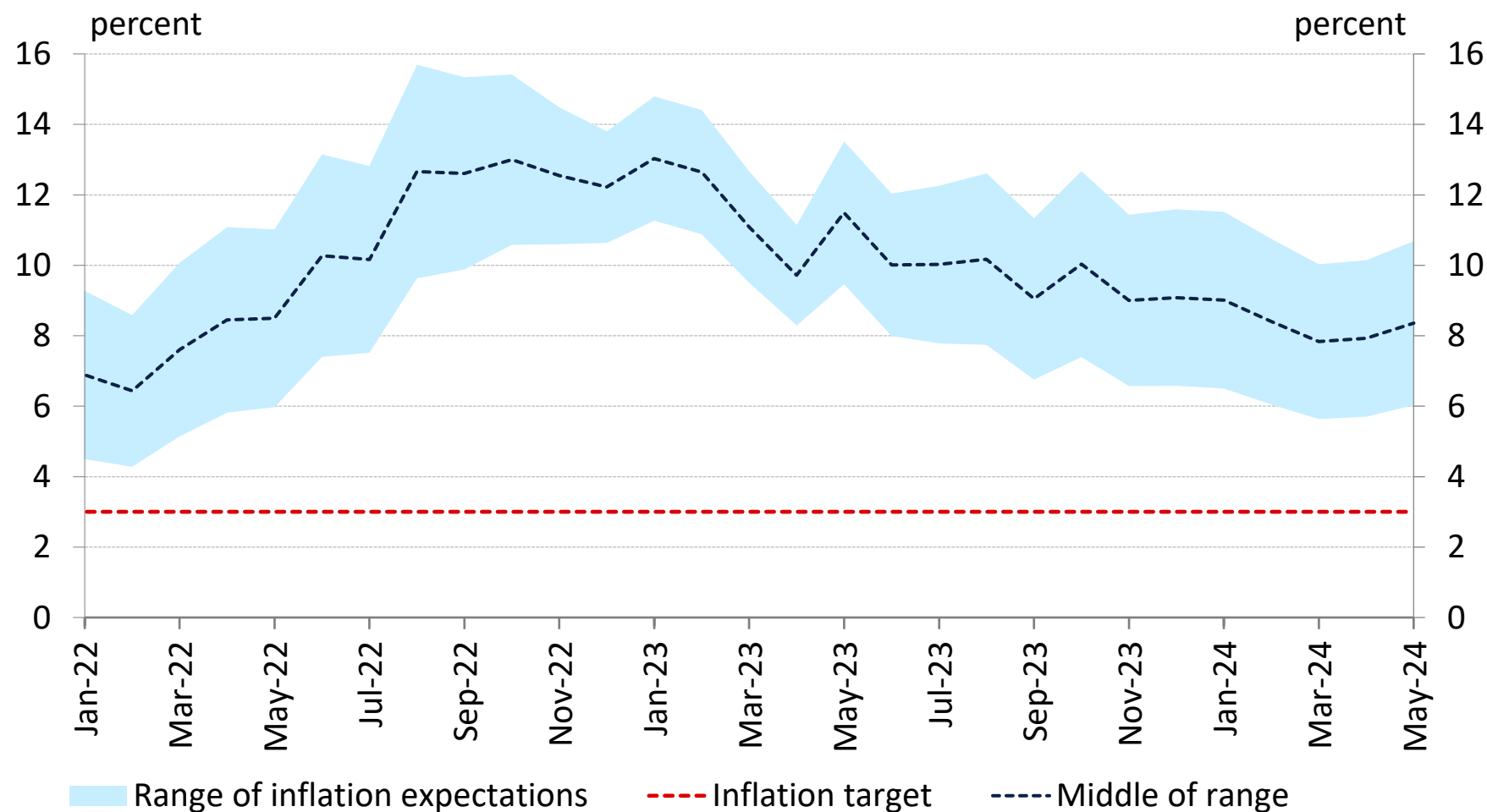


SHORT-TERM CORE INFLATION FORECAST

Source | MNB calculation



ANCHORING INFLATION EXPECTATIONS IS A PROLONGED PROCESS, THE EXPECTATIONS MUST BE ANCHORED ON THE INFLATION TARGET AGAIN

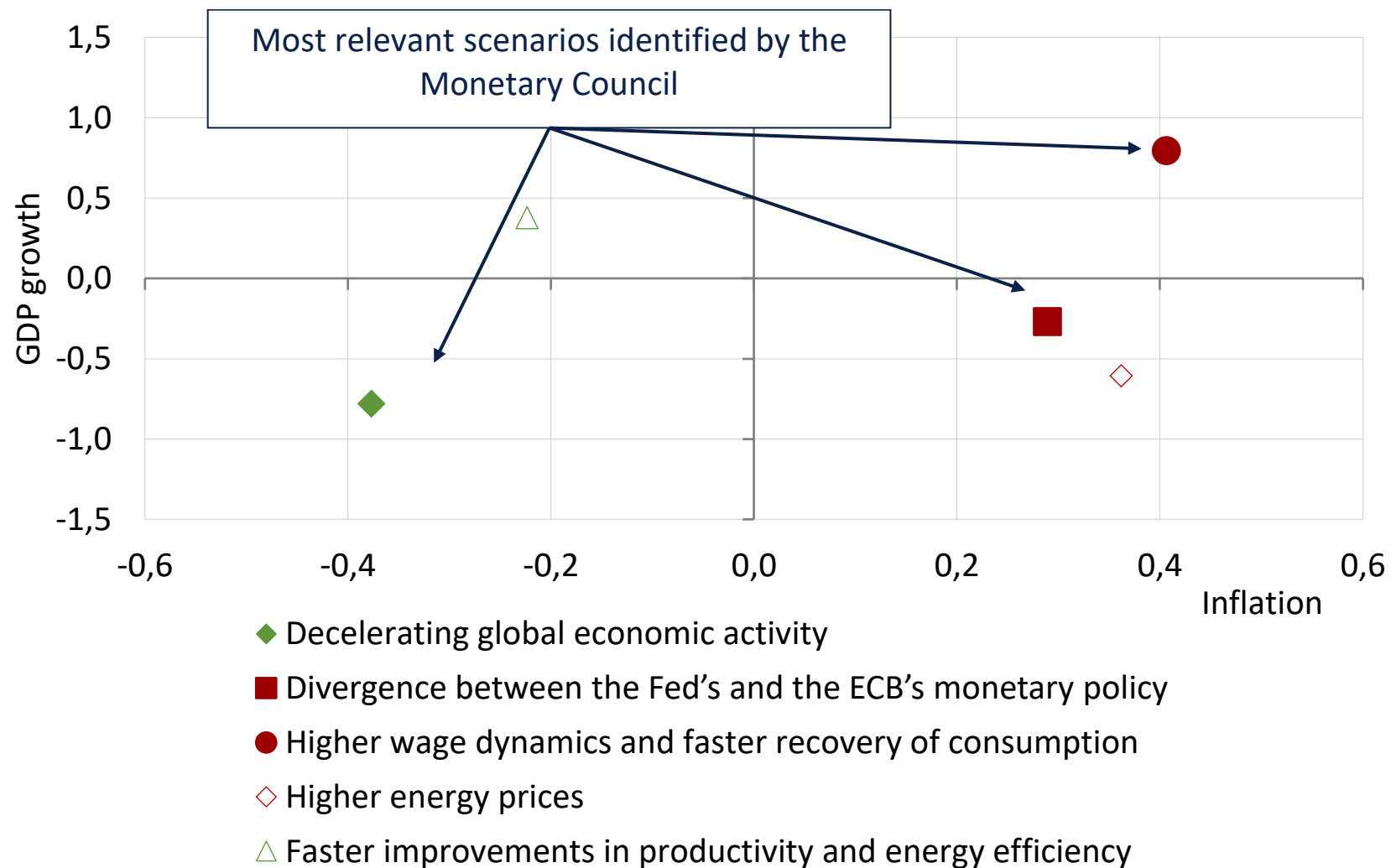


DOMESTIC INFLATION EXPECTATIONS HUNGARY

Source | MNB calculation based on European Commission data



THE MAJORITY OF THE HIGHLIGHTED INFLATION RISKS ARE ON THE UPSIDE



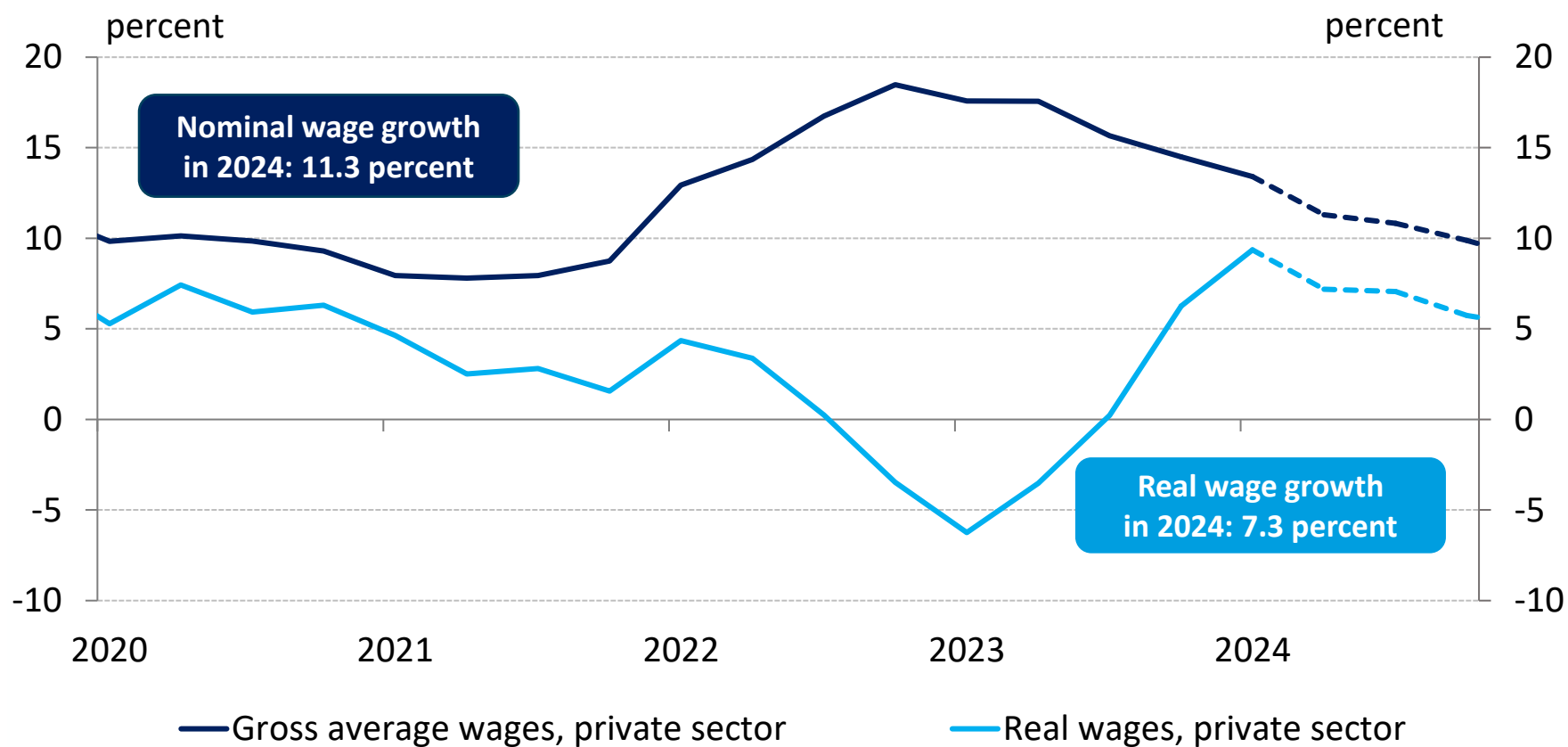
Note | The risk map presents the average difference between the inflation and growth path of the alternative scenarios and the baseline forecast over the monetary policy horizon.

Source | MNB



NOMINAL WAGE GROWTH MAY BE SLOWER COMPARED TO LAST YEAR, BUT REAL WAGE GROWTH WILL STILL INCREASE SIGNIFICANTLY

The gross average earnings of the national economy rose by 13.9 percent, while those of the private sector increased by 12.7 percent in March.

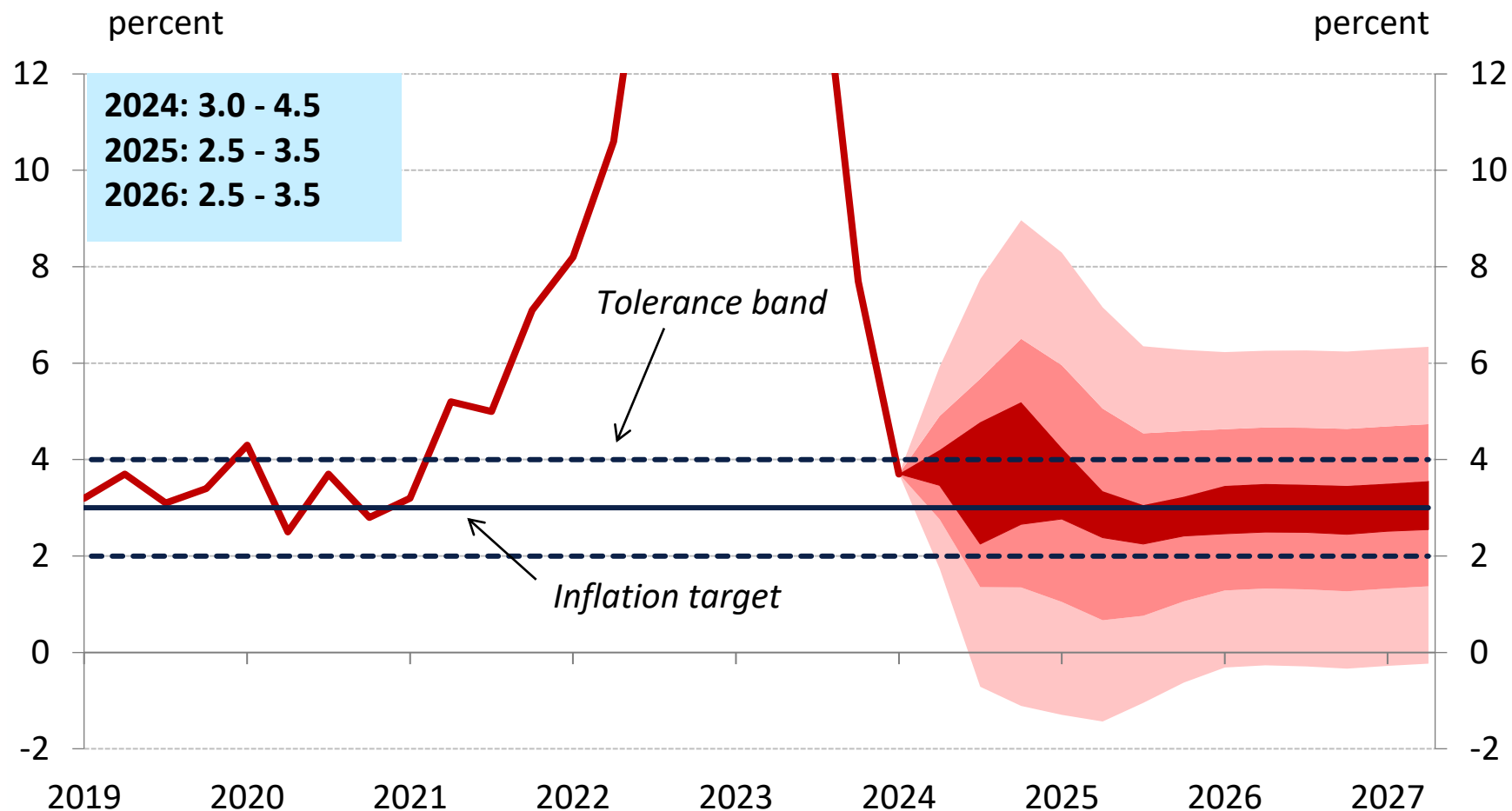


ANNUAL CHANGE IN GROSS AVERAGE WAGES IN THE PRIVATE SECTOR

Note | Seasonally adjusted data
Source | HCSO, MNB



INFLATION OUTLOOK HAS NOT CHANGED OVER THE MONETARY POLICY HORIZON

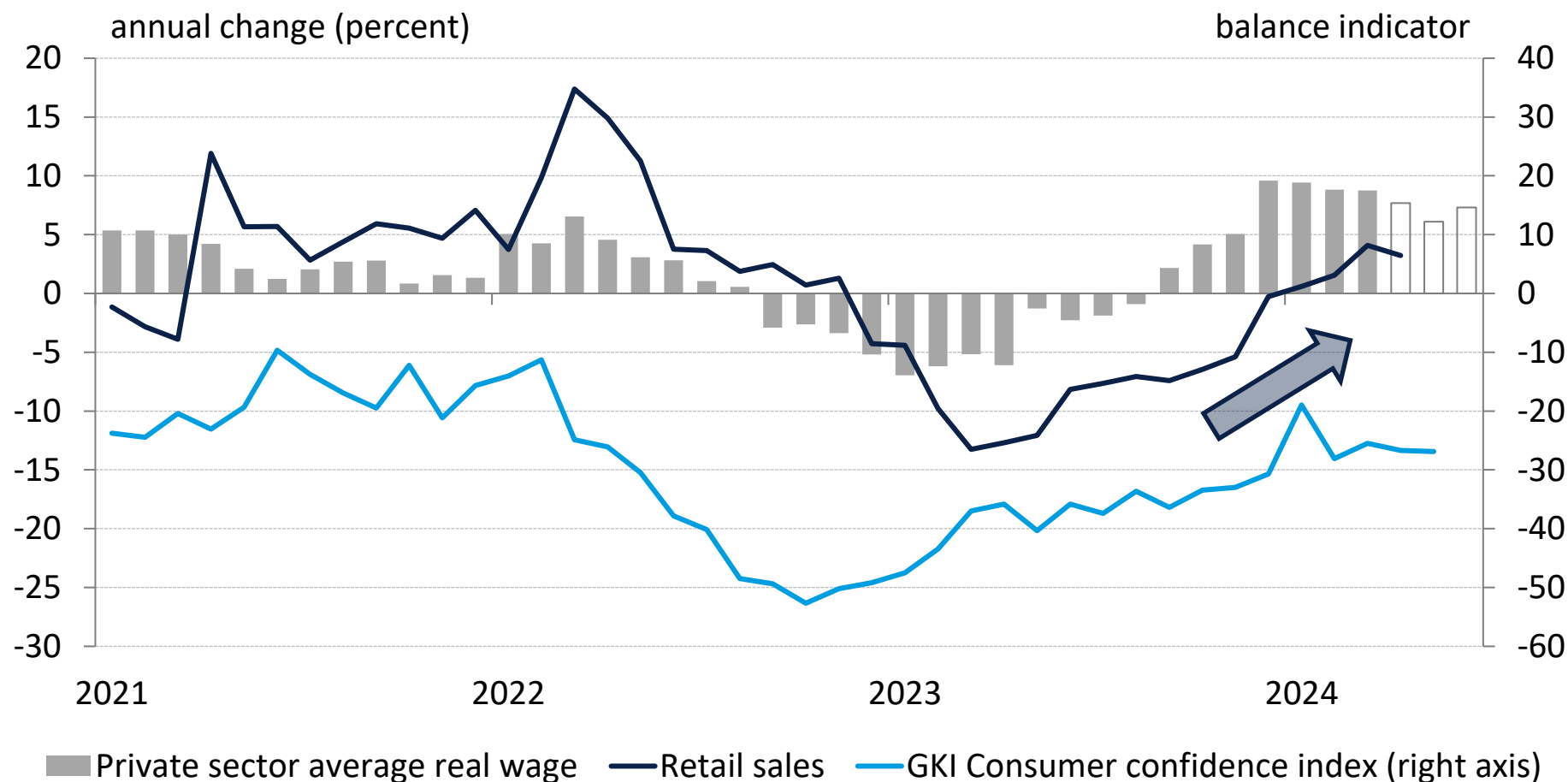


INFLATION FORECAST FAN CHART

Note | Based on seasonally adjusted data
Source | HCSO, MNB



THE EASING OF THE PRECAUTIONARY MOTIVE AND THE POSITIVE EFFECT OF THE INCREASE IN REAL WAGES ON CONSUMPTION WILL BE MORE PRONOUNCED IN THE REMAINDER OF THE YEAR



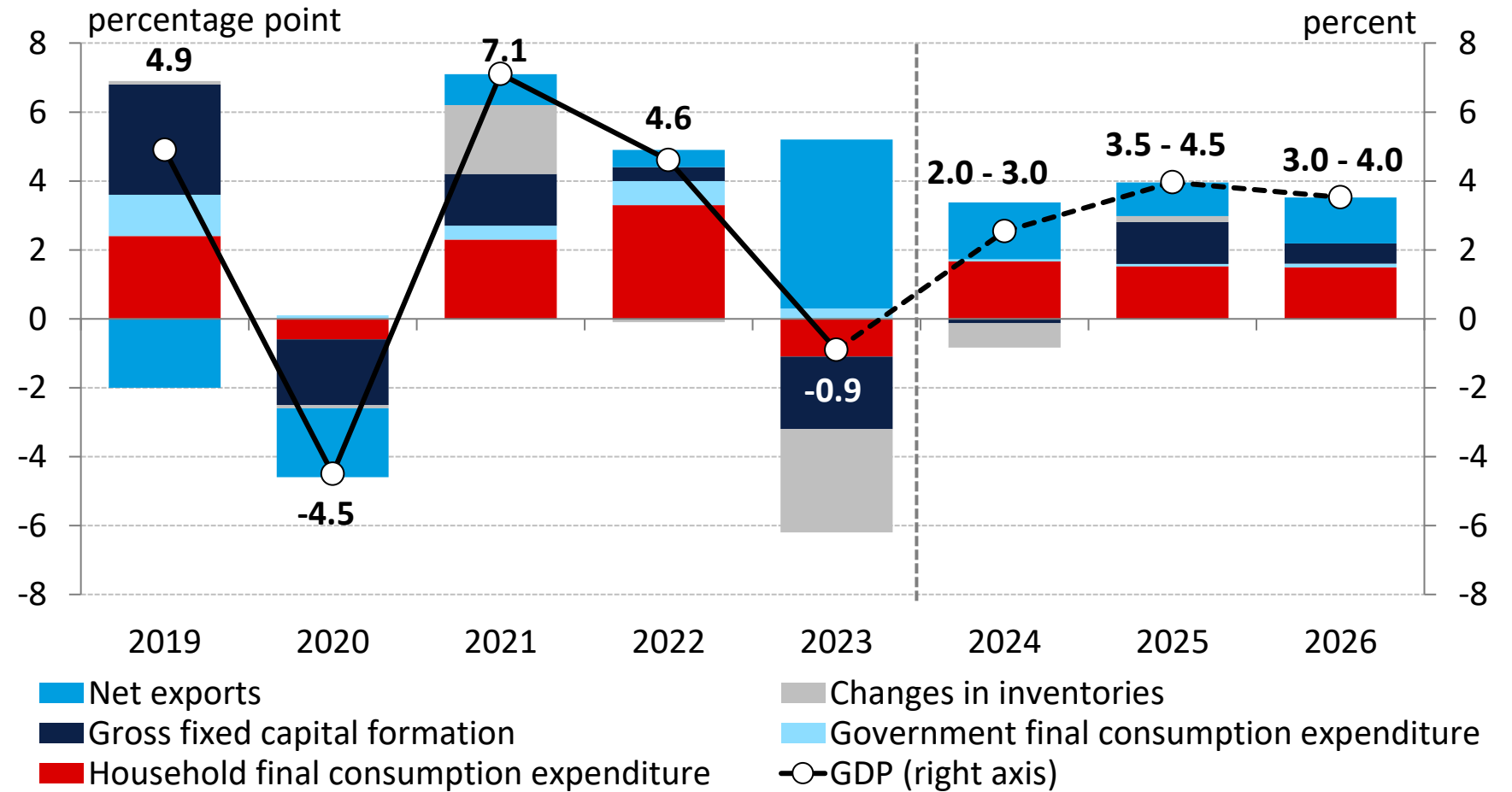
THE DEVELOPMENT OF RETAIL SALES, REAL AVERAGE EARNINGS OF THE PRIVATE SECTOR AND THE GKI CONSUMER CONFIDENCE INDEX

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

Source | HCSO, MNB, GKI Economic Research Co.



FROM 2025, A BALANCED GDP GROWTH IS EXPECTED IN HUNGARY



DECOMPOSITION OF THE ANNUAL CHANGE IN GDP FROM THE CONSUMPTION SIDE

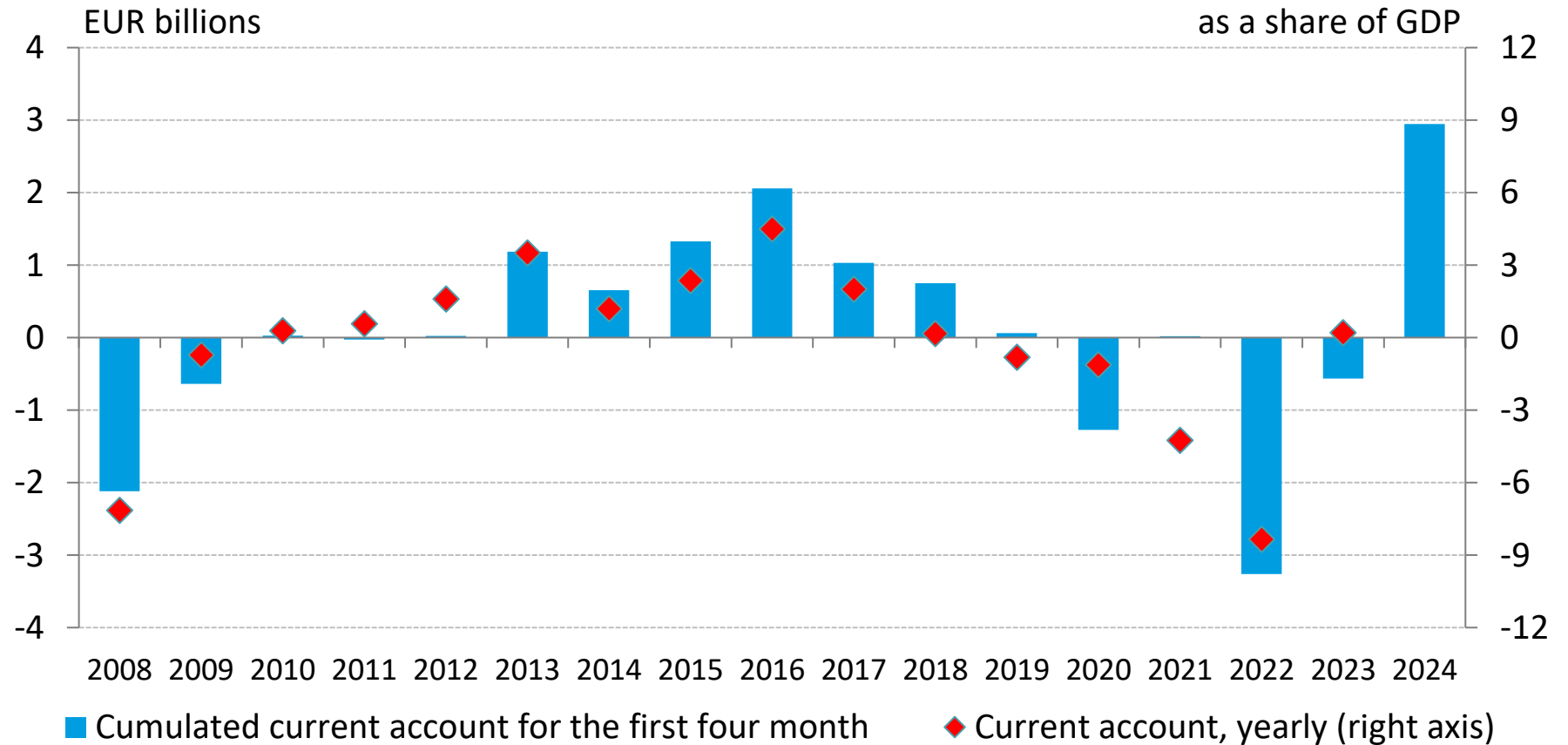
Note | Government final consumption expenditure includes final consumption expenditure of general government and nonprofit institutions

Source | HCSO, MNB



THE CUMULATIVE BALANCE OF THE CURRENT ACCOUNT FOR THE FIRST FOUR MONTHS WAS THE LARGEST THIS YEAR SINCE 2008

In April 2024, the current account showed a surplus of 1160 million euros, which was mostly due to the record-breaking surplus of the balance of trading goods.



THE ANNUAL AND THE CUMULATIVE FIRST FOUR-MONTH BALANCE OF THE CURRENT ACCOUNT

Source | MNB

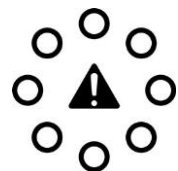


MONETARY POLICY

A DATA-DRIVEN APPROACH REMAINS WARRANTED

GLOBAL RISK FACTORS

Global investor sentiment has deteriorated. Volatility increased in European markets following the elections for the European Parliament



Global interest rate environment may remain high for a prolonged period.

DOMESTIC INFLATION

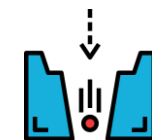
Looking ahead, inflation will fluctuate close to the upper bound of the central bank's tolerance band.



Core inflation is expected to rise. Inflation expectations are decreasing slowly. We monitor the potential inflationary risks of strong wage dynamics.

FURTHER RISK FACTORS

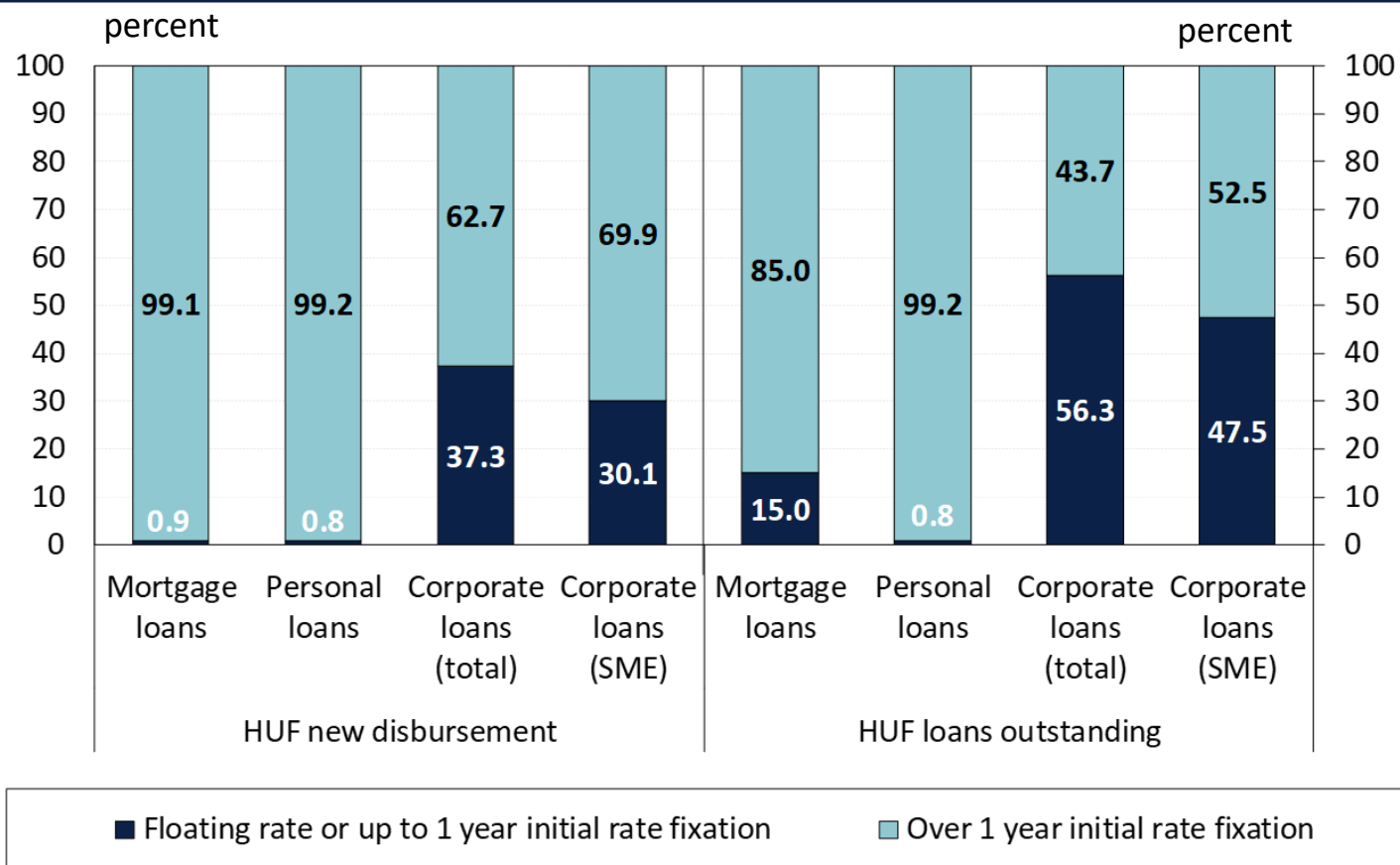
With regards to risk perception, achieving the set budget deficit targets in a disciplined manner is of primary importance.





FOR A SUBSTANTIAL PART OF THE CREDIT MARKET THE BASE RATE IS NOT THE KEY REFERENCE RATE BECAUSE OF LONG-TERM INTEREST RATE FIXATION

The pick-up in domestic lending can be supported by a monetary policy that focuses on lowering interest rates across the entire yield curve.

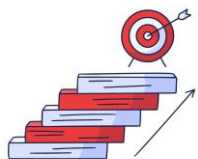


TOTAL NEW HUF LOANS (LEFT PANEL) AND HUF LOANS OUTSTANDING (RIGHT PANEL) BY INTEREST RATE FIXATION

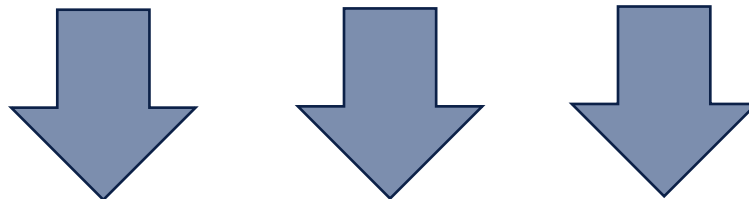
Note | Loans in the credit institutions sector, referring to 2023.
Source | MNB



THE BASE RATE HAS REACHED THE HIGHER END OF THE 6.75-7.0 PERCENT RANGE PREVIOUSLY INDICATED FOR THE MIDDLE OF THE YEAR



Conditions made it possible to reach the higher end of the range indicated in earlier central bank communication.



From June a new phase begins: based on incoming data, we take month-by-month decisions on the level of the base rate.



In the second half of the year, monetary policy will have a narrow room for manoeuvre. Financial market stability remains crucial.

Looking ahead, a **careful and patient** approach to monetary policy is warranted.





THE MONETARY COUNCIL'S JUNE INTEREST RATE DECISION

Central bank instrument	Interest rate	Previous interest rate (percent)	New interest rate (percent)
Central bank base rate		7.25	7.00
O/N deposit rate	Central bank base rate minus 1.00 percentage point	6.25	6.00
O/N collateralised lending rate	Central bank base rate plus 1.00 percentage point	8.25	8.00



THE MONETARY COUNCIL'S FORWARD GUIDANCE HAS CHANGED

MAY

*„[...] The Council is constantly assessing incoming macroeconomic data, the outlook for inflation and developments in the risk environment and will **take decisions on any further reductions in the base rate in a cautious and data-driven manner.**”*



JUNE

*„[...] 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.**”*

**THANK YOU FOR
YOUR KIND
ATTENTION!**

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*100 éve Magyarország
gyarapodásáért*