



**Barnabás Virág**  
Deputy Governor | Magyar Nemzeti Bank

# BACKGROUND DISCUSSION FOLLOWING THE MONETARY COUNCIL'S 17 DECEMBER 2024 DECISION

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Analyst background discussion

17 December 2024



## **MAIN MESSAGES: MACROECONOMIC AND FINANCIAL MARKET ASSESSMENT**

- **Risk aversion towards emerging markets has continued alongside increased volatility in domestic financial markets.**
- **As the expected path of inflation for 2025 has shifted upwards, inflation will only return to the central bank's 3 percent target in a sustained manner in the beginning of 2026.**
- **In 2024, Hungary's economy will expand more moderately than expected, by 0.3-0.7 percent.** The subdued growth is due to factors beyond the scope of monetary policy (agriculture, German industrial production, postponed investments).
- **From 2025 onwards, economic growth will be based on increasingly broad foundations,** therefore GDP is likely to grow in the 2.6-3.6 percent range next year. **The Hungarian economy is projected to enter a dynamic phase of growth from the middle of 2025, again.**
- **Maintaining a stable, predictable economic environment and strengthening confidence fundamentally define the entire path of macroeconomic developments.**



## MAIN MESSAGES: THE DECEMBER MONETARY POLICY DECISION

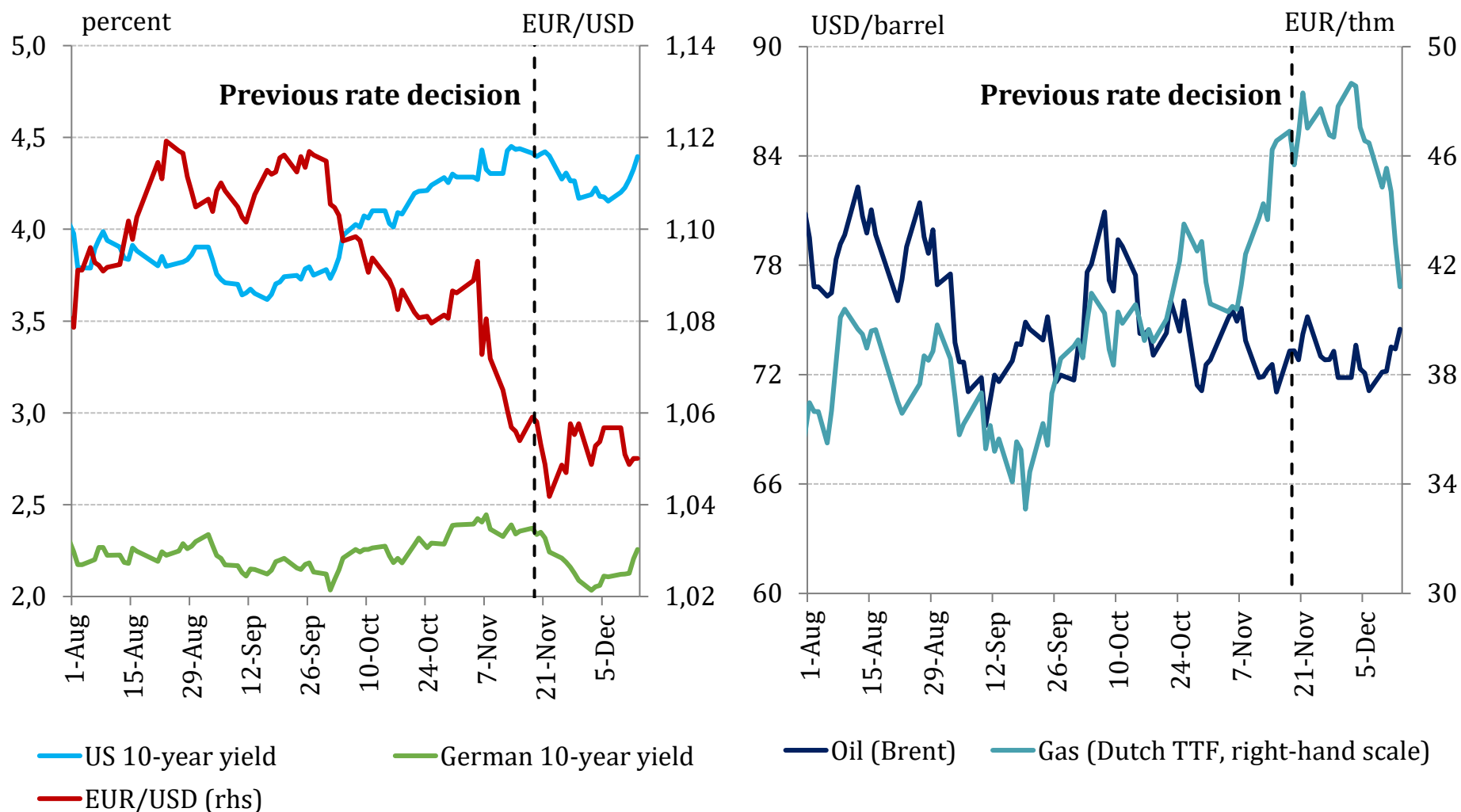
- In accordance with **the stability-oriented approach**, the Council kept the base rate at **6.50 percent** at today's meeting.
- **A disciplined, restrictive and patient monetary policy is still warranted in the current environment.**
- **The Monetary Council is committed to the sustainable achievement of the inflation target.**
- **From the perspective of price stability, preserving financial market stability is key.**
- **The 6.5 percent base interest rate is appropriate from the viewpoint of price stability, financial market stability and growth.**
- In the current environment, **the Bank can contribute the most to the restart of economic growth by strengthening confidence and maintaining price stability and financial market stability.**
- **If warranted** by the external environment and the inflation outlook, **the base rate may remain at the current level for an extended period**, leading to an increase in Hungary's relative interest spread.
- **In order to maintain the stable operation of the FX swap market at the end of the year, the MNB will smooth movements in financial markets on 18 December** by additional tenders with maturities beyond year-end in addition to the regular auctions.



# MACROECONOMIC AND FINANCIAL MARKET ASSESSMENT AND OUTLOOK



## DEVELOPED MARKET YIELDS AND GAS PRICES HAVE DECREASED SINCE NOVEMBER'S RATE DECISION

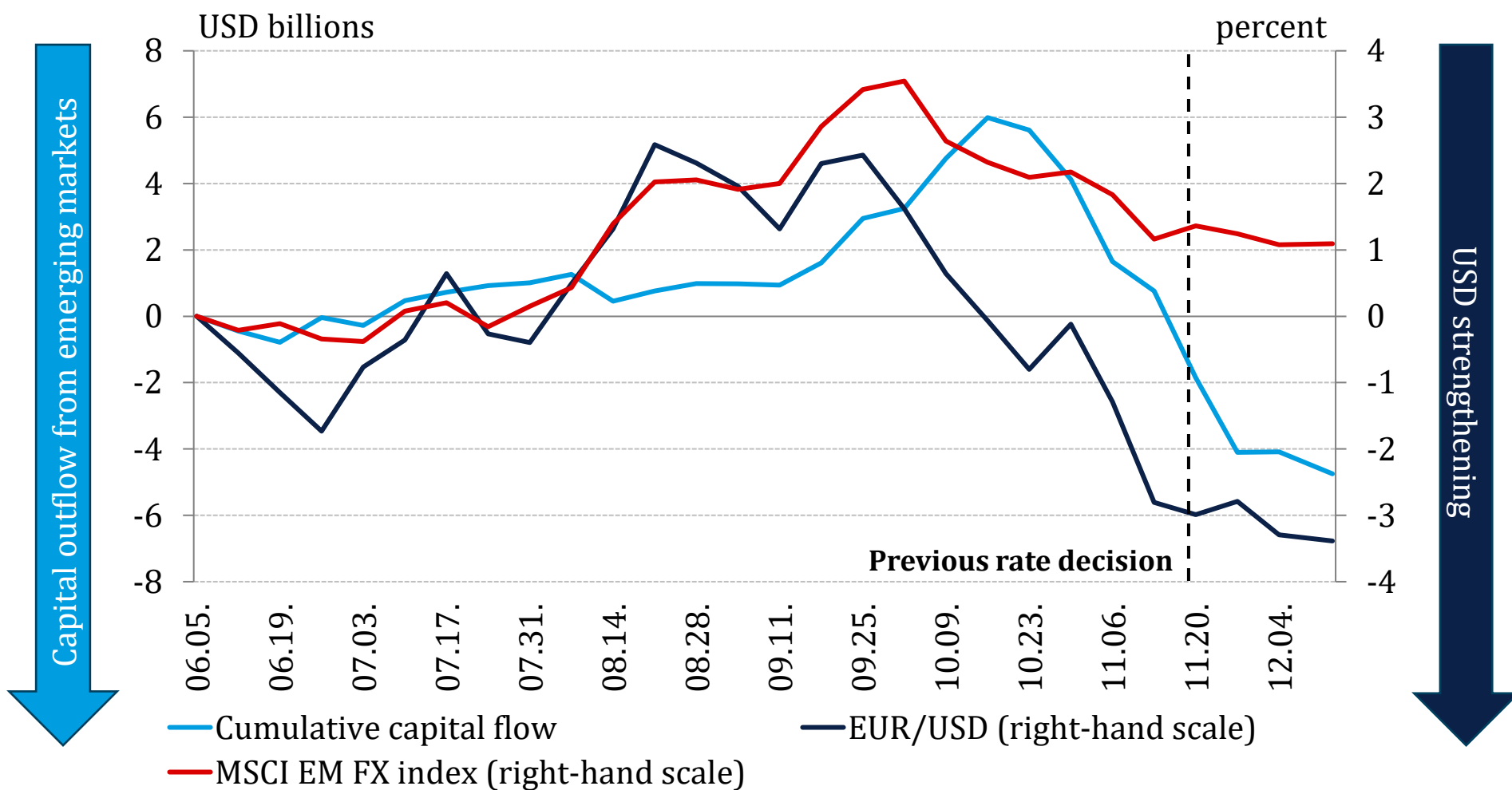


DEVELOPED MARKET 10-YEAR GOVERNMENT BOND YIELDS AND THE EXCHANGE RATE OF THE DOLLAR AGAINST THE EURO (LEFT PANEL); OIL AND GAS PRICES (RIGHT PANEL)

Source | Bloomberg



## RISK AVERSION TOWARDS EMERGING MARKETS HAS CONTINUED WITH THE STRENGTHENING OF THE U.S. DOLLAR



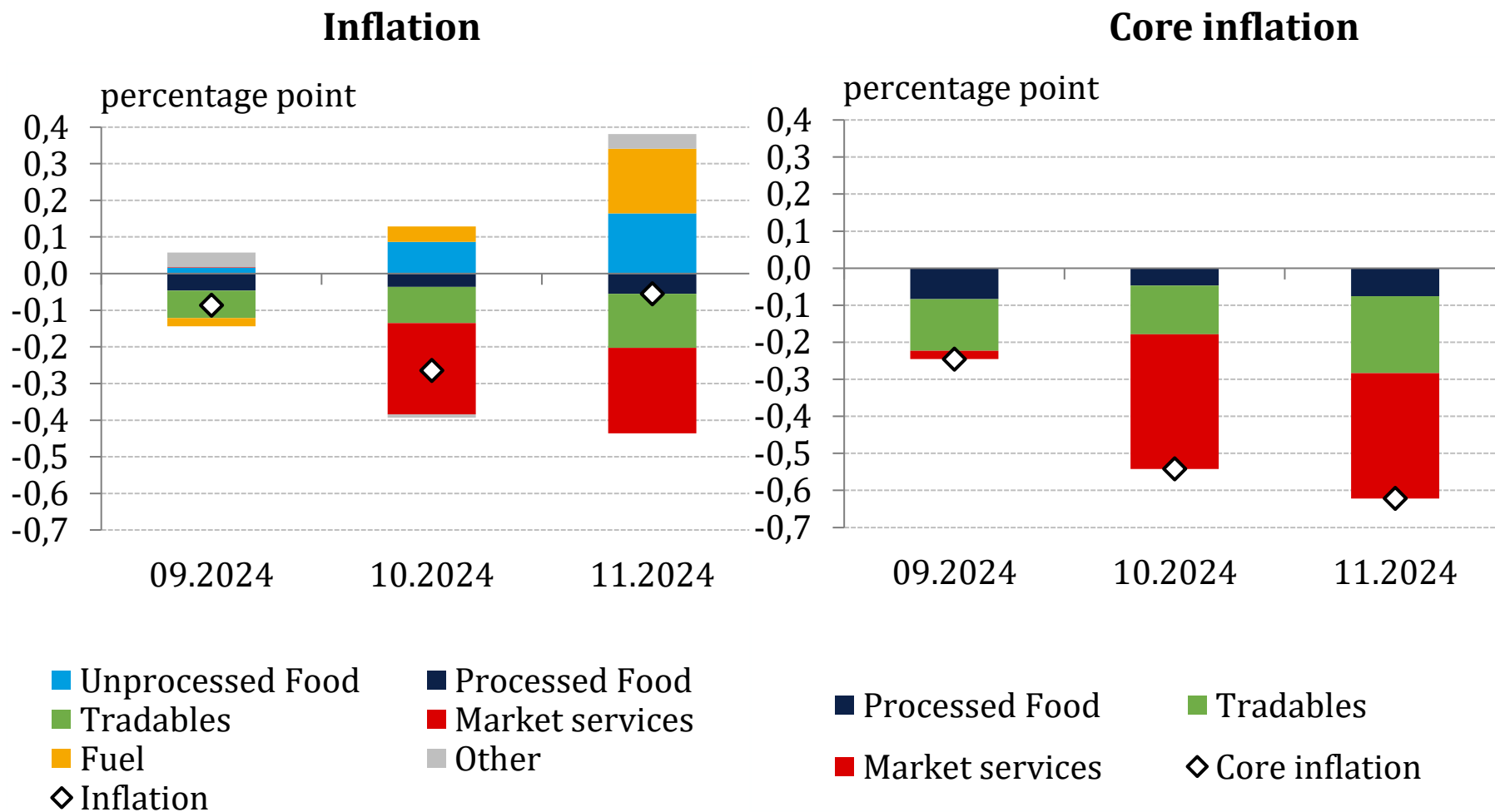
EMERGING MARKET CAPITAL FLOWS, THE EUR/USD EXCHANGE RATE, AND THE AVERAGE EXCHANGE RATE OF EMERGING MARKET CURRENCIES

Note | Capital flows indicate the cumulative net flow of emerging market portfolio investments since June.

Source | EPFR, Bloomberg



## INFLATION WAS IN LINE WITH OUR SEPTEMBER FORECAST, BUT ITS STRUCTURE DIFFERED FROM OUR PROJECTION



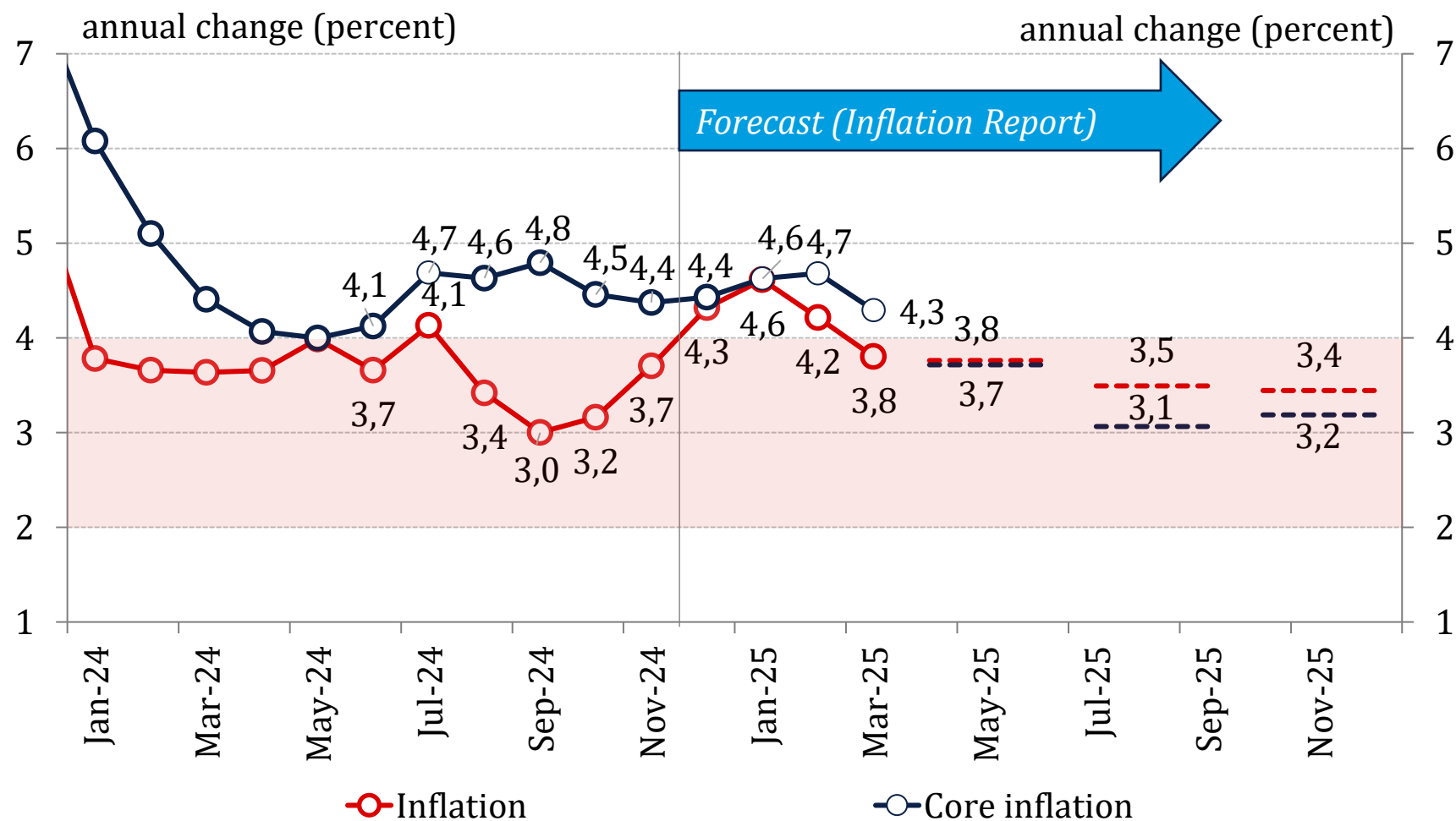
### DIFFERENCE BETWEEN INFLATION AND CORE INFLATION FORECAST COMPARED TO ACTUAL DATA

Note | Based on the mid-range forecast of the September Inflation Report.

Source | HCSO, MNB



## INFLATION WILL INCREASE TEMPORARILY IN THE COMING MONTHS, THE DISINFLATIONARY TREND WILL RESTART AFTER JANUARY 2025



### DEVELOPMENT AND SHORT-TERM FORECAST OF INFLATION AND CORE INFLATION

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

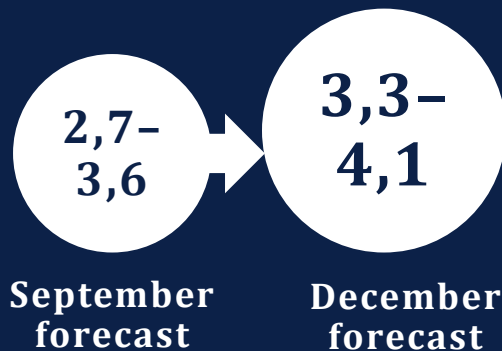
Source | HCSO, MNB





## AS THE EXPECTED PATH OF INFLATION HAS SHIFTED UPWARDS, THE CENTRAL BANK TARGET WILL ONLY BE REACHED IN A SUSTAINED MANNER IN 2026

**The expected path of inflation for 2025 has shifted upwards.**



**A persistent return to the inflation target has been delayed to 2026.**



**The inflation outlook is surrounded by upwards risks.**

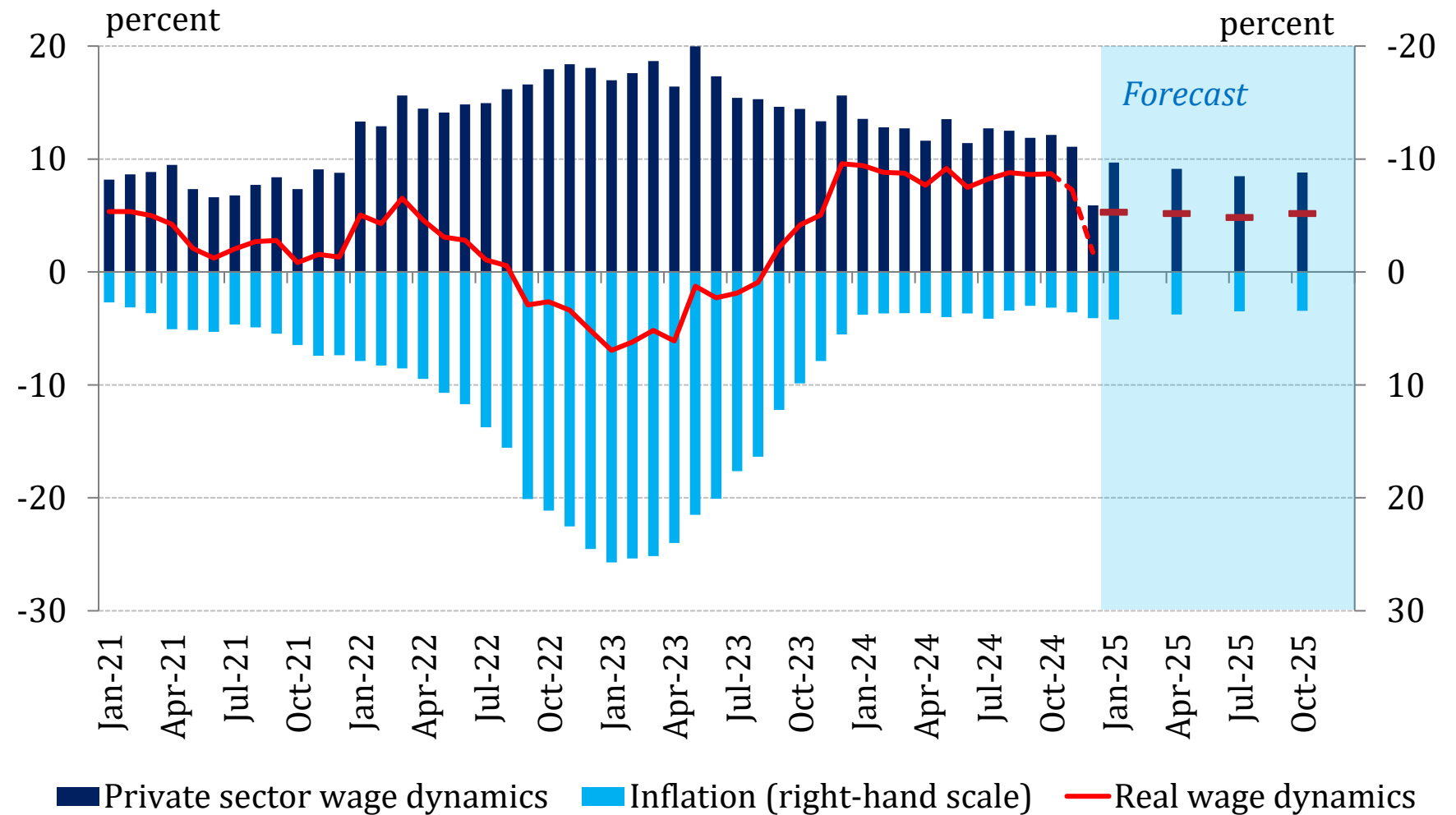


Note | The inflation forecast for 2025 shows annual averages.

Source | MNB



## STRONG REAL WAGE GROWTH IS EXPECTED OVER THE ENTIRE FORECAST HORIZON



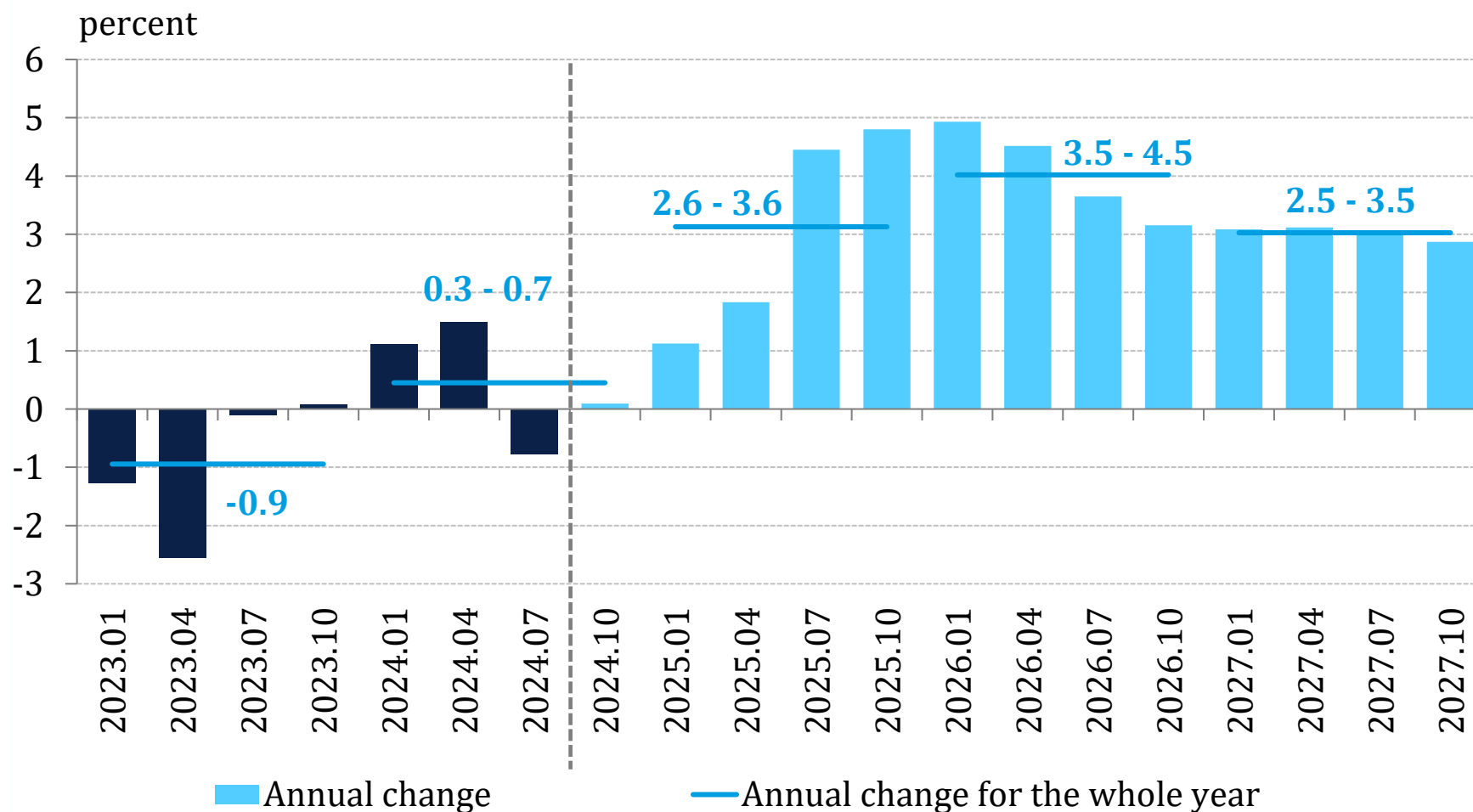
### REAL WAGE DYNAMICS IN THE PRIVATE SECTOR

Note | Inflation is shown on an inverted scale.

Source | HCSO, MNB



## THE HUNGARIAN ECONOMY IS PROJECTED TO ENTER A DYNAMIC PHASE OF GROWTH FROM THE MIDDLE OF 2025, AGAIN



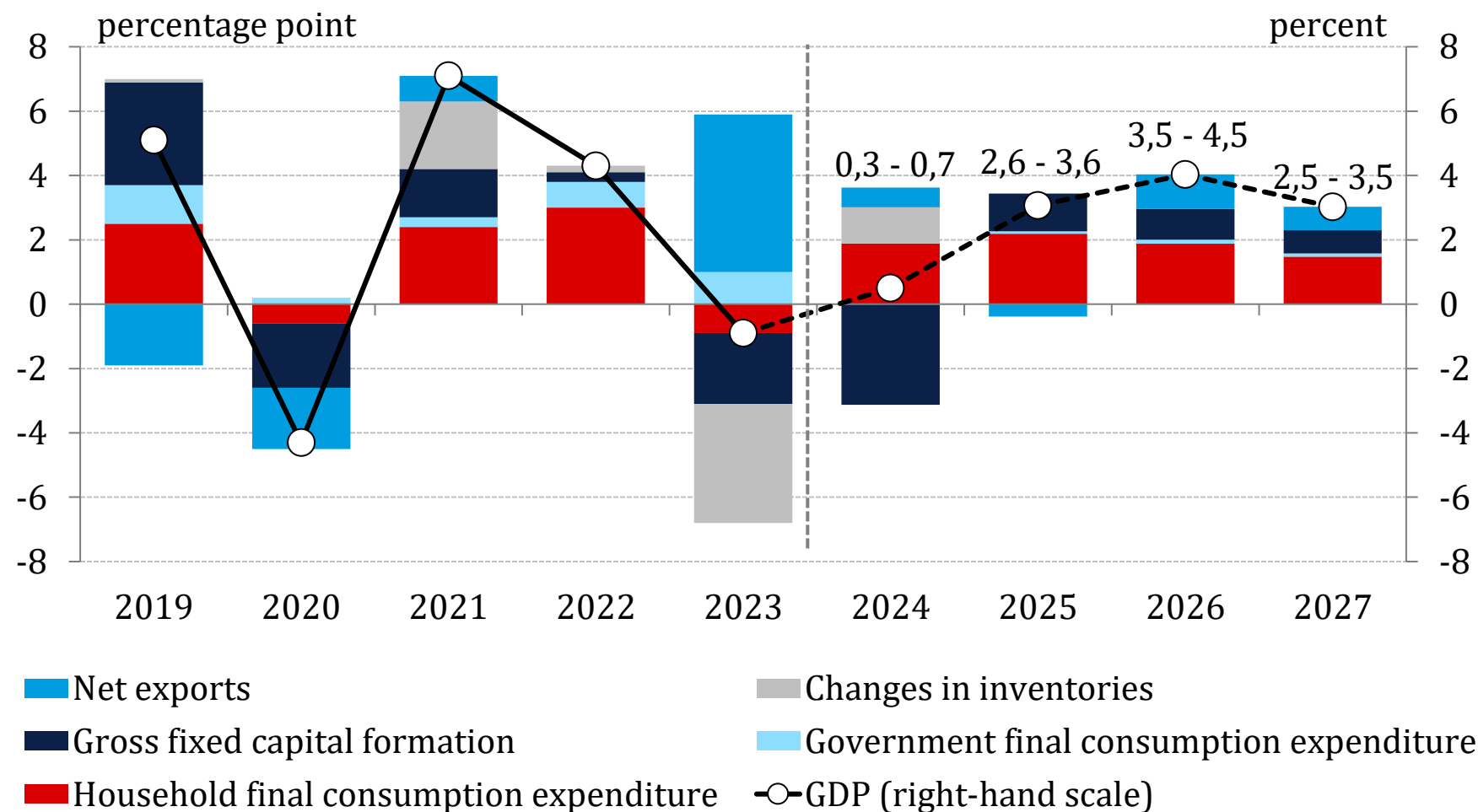
### ANNUAL GDP GROWTH PROJECTION

Note | The figure shows the central values of the forecast band.

Source | HCSO, MNB forecast



# GROWTH WILL BE BUILT ON STRONGER AND BROADER FOUNDATIONS 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



## NEXT YEAR'S GROWTH IS UNDERPINNED BY STRONG FUNDAMENTALS

### *Incomes*



- Real wages are projected to grow by **4.7–5.7 percent** in 2025
- **2x** Family tax allowance

### *Credit market*



- Household lending is expected to grow by **13.5–15.0 percent** next year
- The Subsidised Workers' Credit Programme will boost household credit by **3.7 percentage points** next year
- Corporate lending will expand by **8.3–9.7 percent** in 2025

### *Construction*



- The stock of contracts in construction was **31.8 percent** higher in October 2024 year-on-year

### *Manufacturing*



- Battery manufacturing was **10.2 percent** higher in October compared to its lowest point in May
- Investments in the automotive and battery industries (BMW, BYD, CATL) will start producing, which will boost next year's GDP by **0.6 percentage points**

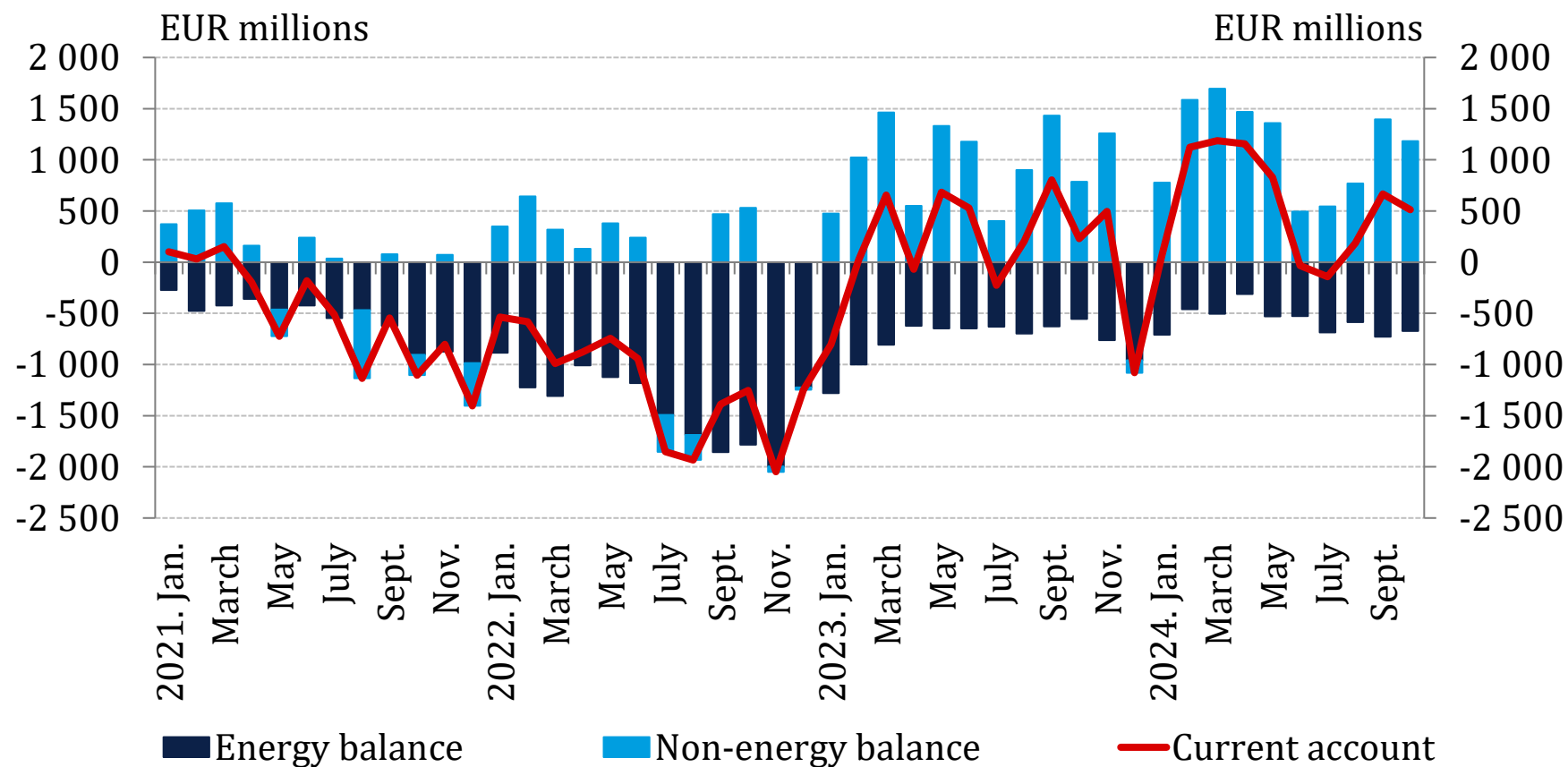


**In the current macroeconomic environment, the central bank can make the most effective contribution to the restart of economic growth by strengthening confidence and maintaining price stability and financial market stability.**



## THE MONTHLY BALANCE OF THE CURRENT ACCOUNT WAS IN SIGNIFICANT SURPLUS IN OCTOBER, AS WELL

The current account showed a surplus of nearly 5.6 billion euros in the first ten 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



## HUNGARY'S FUNDAMENTALS HAVE GENERALLY IMPROVED



Compared to emerging markets, the current account will persistently reach an outstanding surplus, with net external debt remaining stable at a low level.



The general government's primary balance will remain at near-equilibrium levels.



In contrast with typically rising debt ratios in emerging economies, Hungary's debt-to-GDP ratio is likely to decrease significantly.



Hungary's rebound of economic growth may be at the forefront among emerging markets.



Although the persistent return to the inflation target has been delayed, inflation will remain within the tolerance band for most of 2025.



Vulnerability of Hungary's economy is reducing in an international comparison as well; however, this requires achieving price stability in a sustained manner as well.

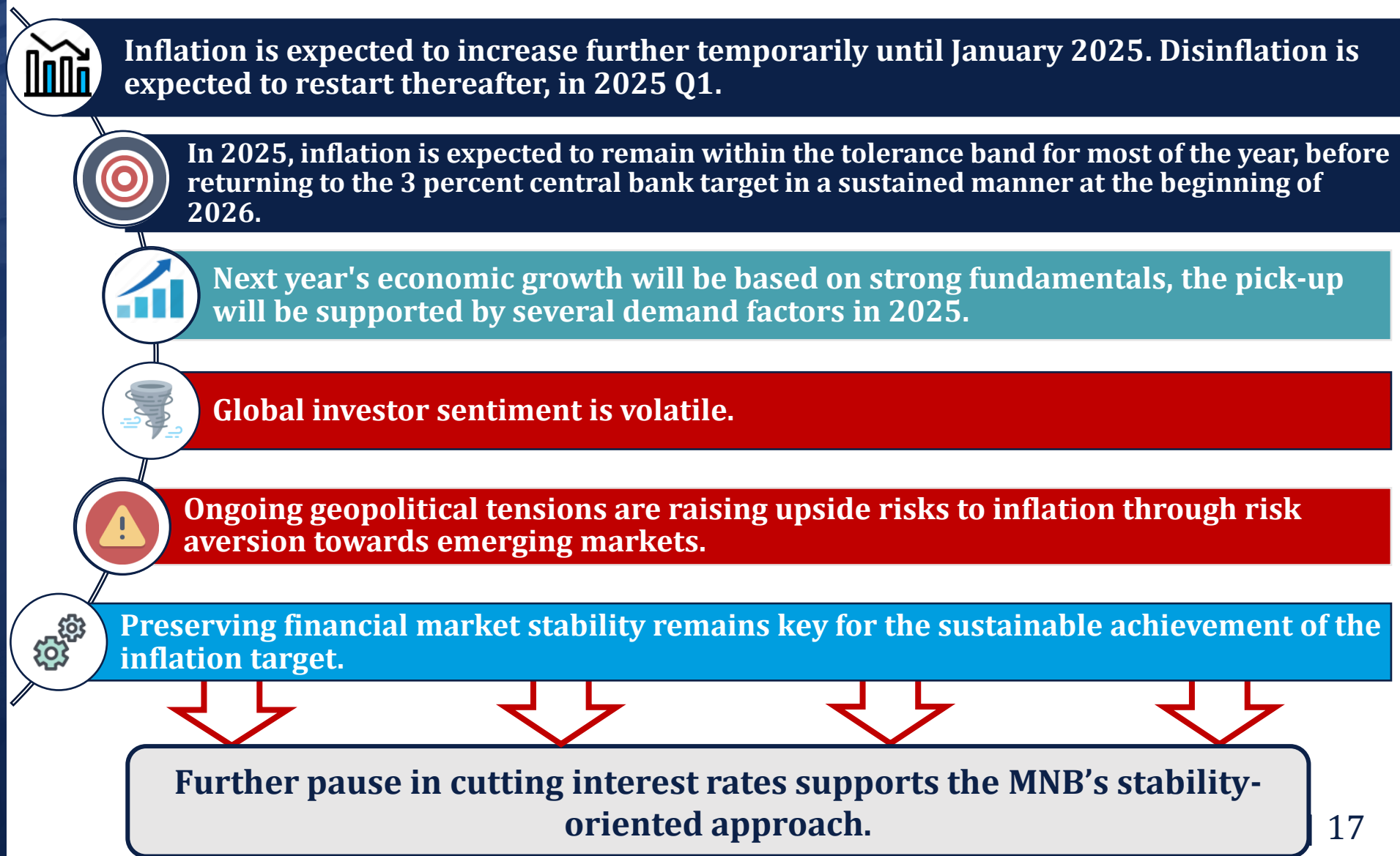


# MONETARY POLICY





## A DISCIPLINED AND STABILITY-ORIENTED APPROACH REMAINS NECESSARY!





## THE MONETARY COUNCIL'S DECISION IN DECEMBER

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

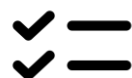


## THE MNB WILL TAKE THE STEPS NECESSARY FOR THE STABLE FUNCTIONING OF THE FX SWAP MARKET



**On 18 December, The MNB will hold additional tenders with maturities beyond year-end:**

- 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
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		



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



**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

- **Inflation expectations rose**, their anchoring is key
- 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 warranted.



## THE MONETARY COUNCIL'S FORWARD GUIDANCE

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*„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 risk aversion towards emerging markets**. Looking ahead, a **careful and patient approach to monetary policy is warranted**. 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!**

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



*100 éve Magyarország  
gyarapodásáért*



WE WISH YOU A BLESSED  
AND PEACEFUL CHRISTMAS!