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# BACKGROUND DISCUSSION FOLLOWING THE MONETARY COUNCIL'S 22 OCTOBER 2024 DECISION

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Analyst background discussion

22 October 2024



## **MAIN MESSAGES: MACROECONOMIC ASSESSMENT AND OUTLOOK**

- **Risk aversion towards emerging markets has increased since the September interest rate decision as global investor sentiment deteriorated.**
  - **The intensification of geopolitical conflicts resulted in a significant increase in commodity prices.**
  - **Expectations for the Federal Reserve's interest rate path have shifted upward.**
  - **Domestic yield spreads have also risen, while the forint has depreciated.**
- **Declining to 3.0 percent in 2024 September, inflation stood at a level consistent with the central bank target. Core inflation rose and the upside risks to inflation increased.**
- **The improvement in the external position is likely to continue further in 2024. The current account registered a surplus of nearly EUR 4.4 billion in the first eight months of the year.**
- **The Monetary Council is committed to the sustainable achievement of the inflation target.**



## **KEY MESSAGES: ENVIRONMENT OF THE OCTOBER MONETARY POLICY DECISION**

- **Several aspects of the space for decision-making have changed:** the factors determining the environment of the decision have been characterised by several unfavourable shifts.
- **Upside inflation risks have strengthened:**
  - **Deteriorating international investor sentiment and volatile commodity prices together pose an upward risk to domestic inflation.** Household inflation expectations have risen slightly in recent months.
  - **The external interest rate environment may decrease at a slower pace** than previously expected, while **the expected interest rate paths of the world's leading central banks are surrounded by uncertainty.**
  - **The financial market environment has become more fragile. Maintaining stability is of key importance.**



## KEY MESSAGES: THE OCTOBER MONETARY POLICY DECISION

- In accordance with the **stability-oriented approach**, the Council kept the **base rate at 6.50 percent** at today's meeting.
- **We cannot sit back: a careful and patient monetary policy is 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.
- **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 continues to make decisions in a **data-driven manner, from month to month.**

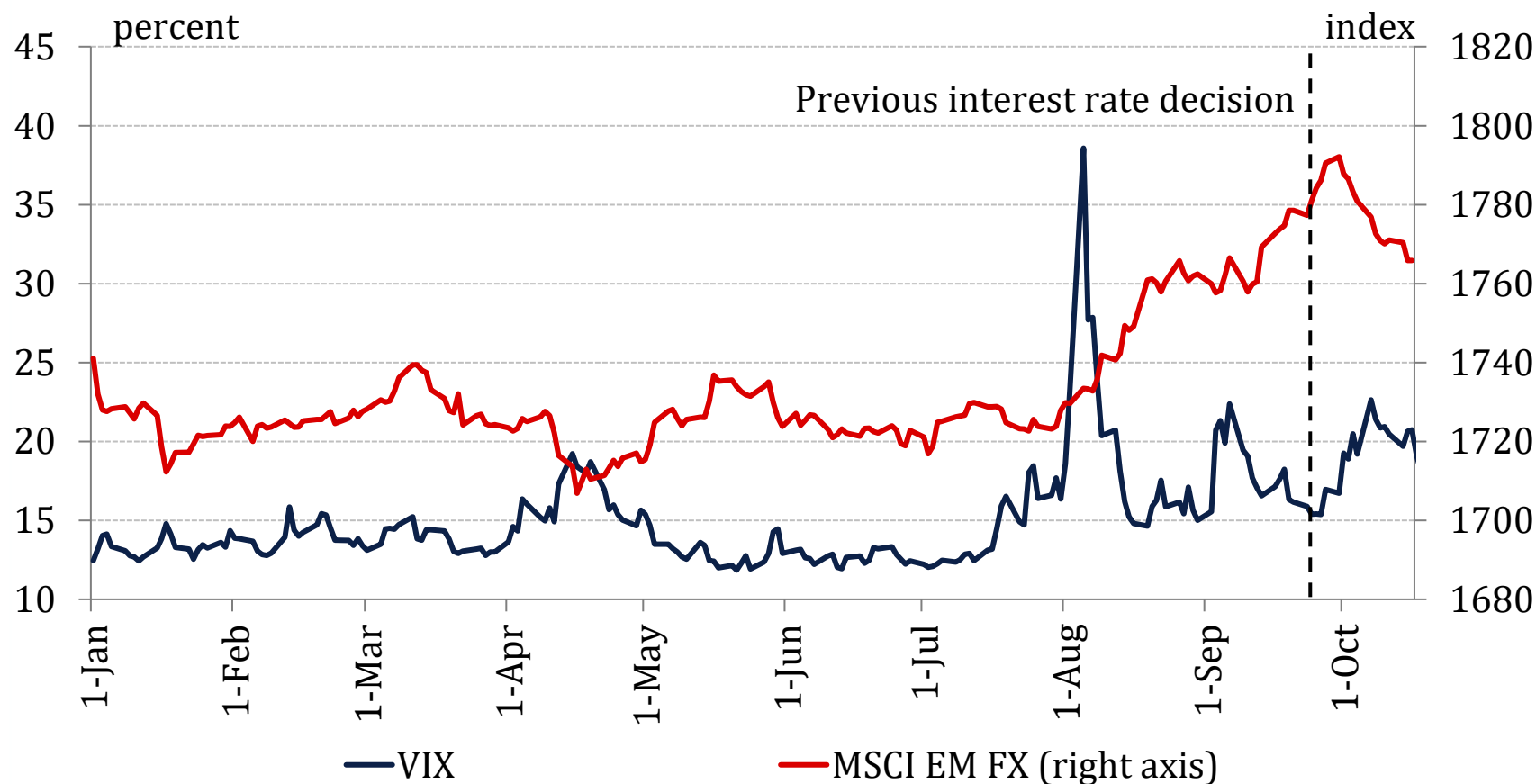


# MACROECONOMIC AND FINANCIAL MARKET ASSESSMENT AND OUTLOOK



## IN THE DETERIORATING INTERNATIONAL INVESTOR SENTIMENT, RISK AVERSION TO EMERGING MARKETS HAS STRENGTHENED

Emerging market currencies have depreciated significantly since the end of September.



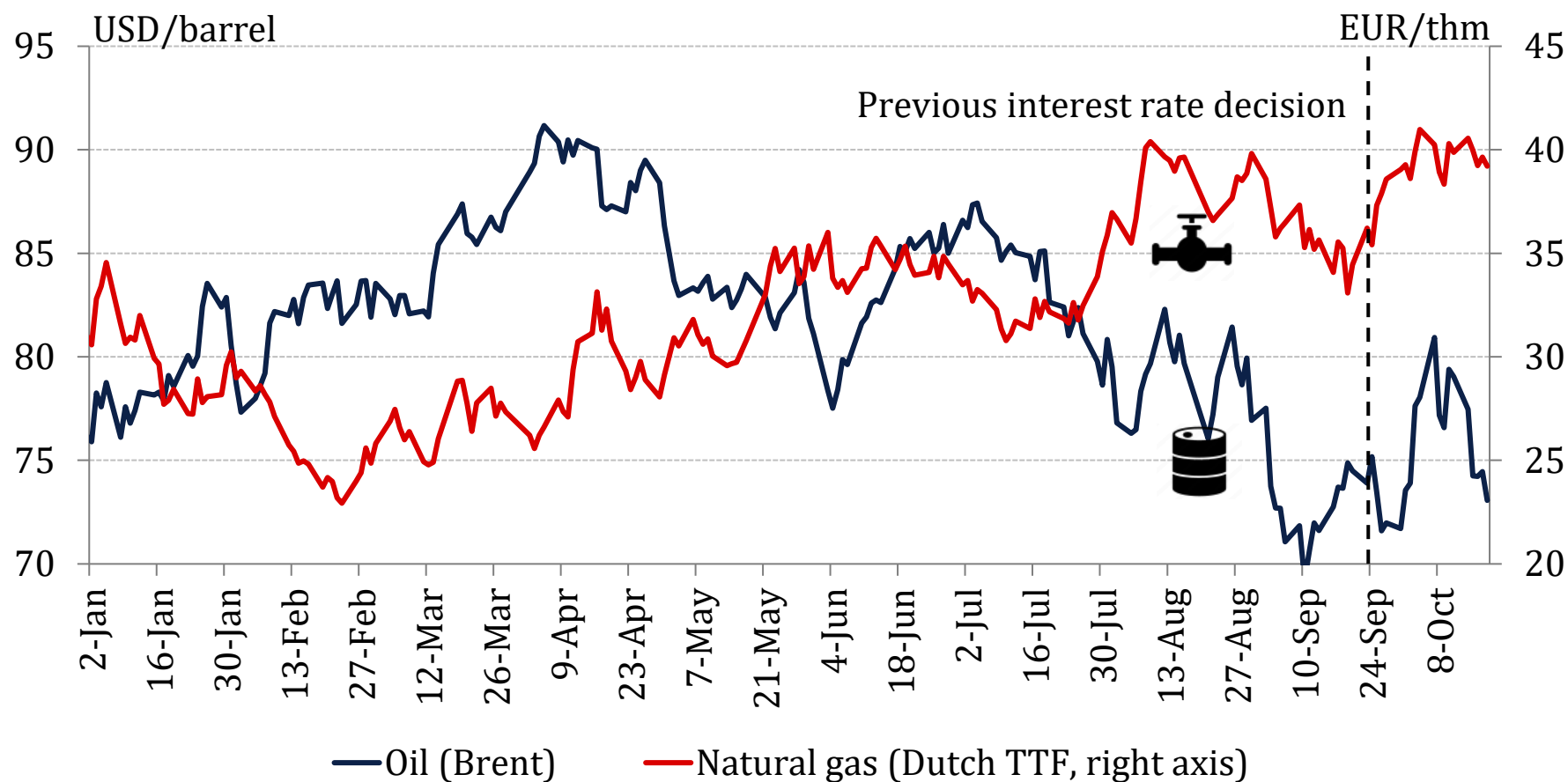
THE VIX INDEX AND THE MSCI EMERGING MARKETS FX COMPOSITE INDEX

Source | Bloomberg



## OIL AND GAS PRICES INCREASED SHARPLY FOLLOWING THE INTENSIFICATION OF THE GEOPOLITICAL CONFLICTS

...with a correction in oil prices at the end of the period.



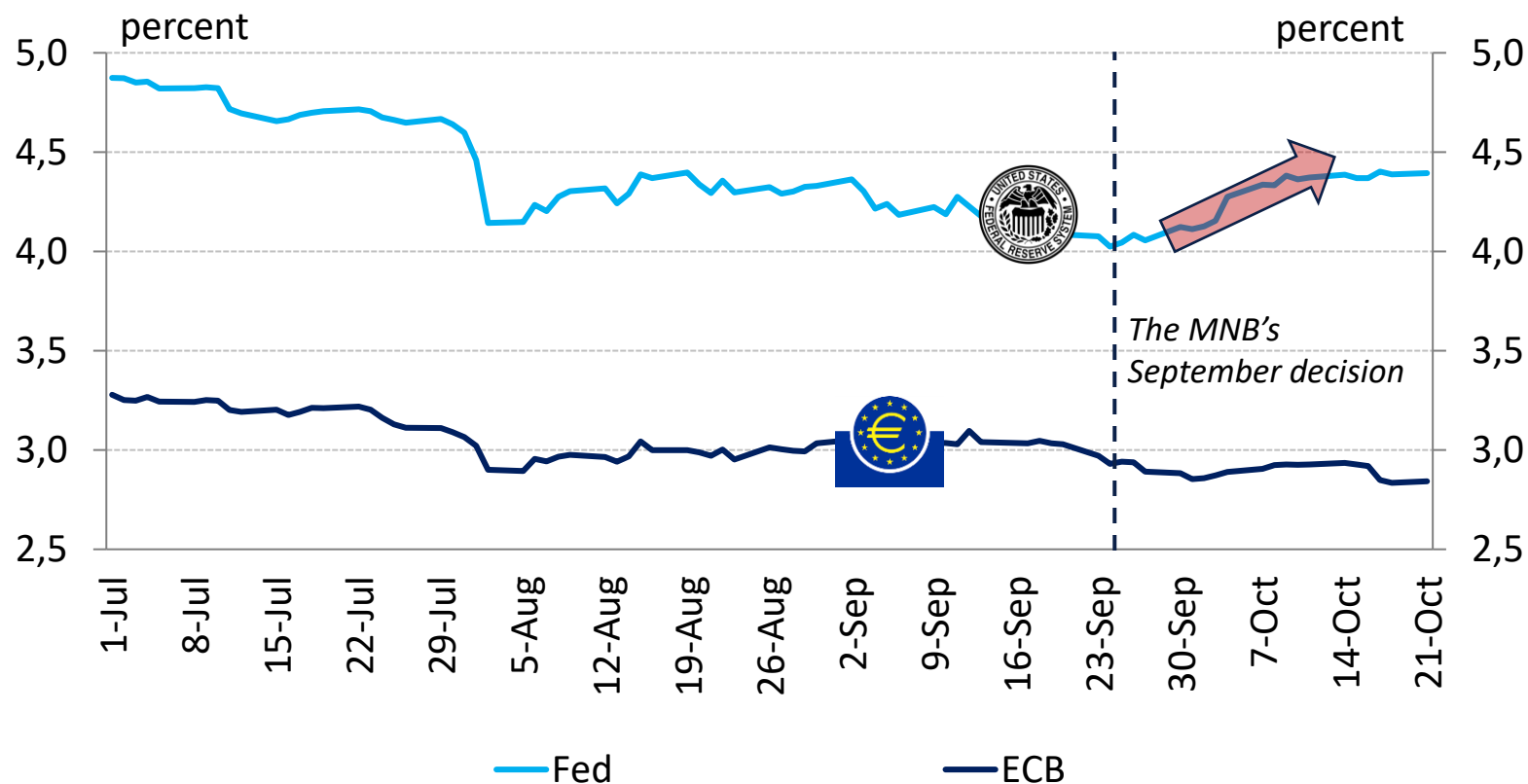
### DEVELOPMENTS IN OIL AND GAS PRICES

Source | Bloomberg, MNB



## EXPECTATIONS FOR THE FEDERAL RESERVE'S INTEREST RATE PATH HAVE SHIFTED UPWARD

**Expectations for the year-end level of the Fed's interest rates have shifted upward by around 40 basis points since September.**



THE EXPECTED INTEREST RATE OF THE FEDERAL RESERVE AND THE EUROPEAN CENTRAL BANK AT THE END OF 2024 BASED ON MARKET PRICING

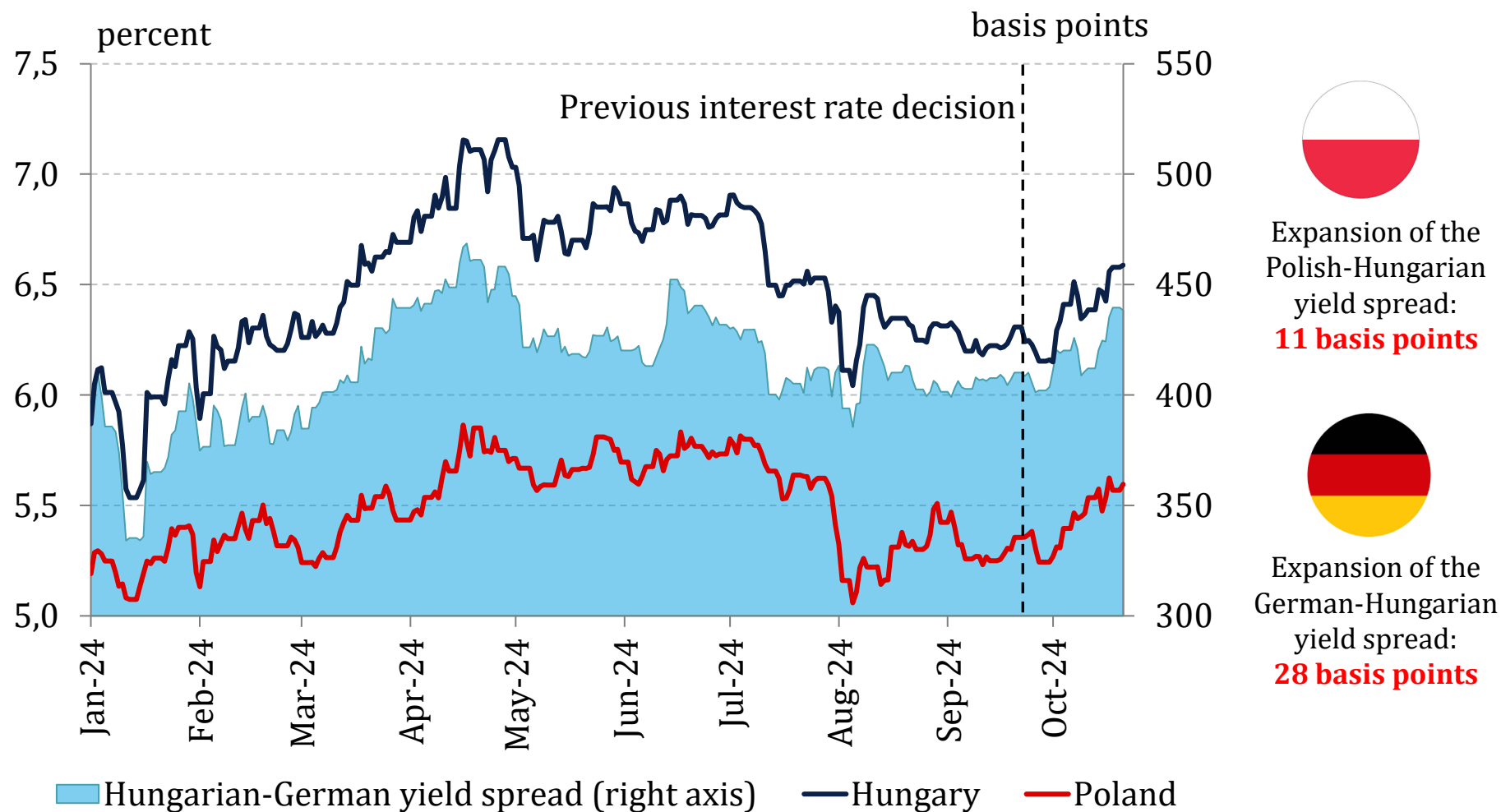
Note | Expectations for the Federal Funds Effective Rate in the case of the Fed and expectations for the deposit rate in the case of the ECB.

Source | Bloomberg





## HUNGARIAN LONG-TERM YIELDS AND YIELD SPREADS HAVE RISEN SINCE THE PREVIOUS INTEREST RATE DECISION



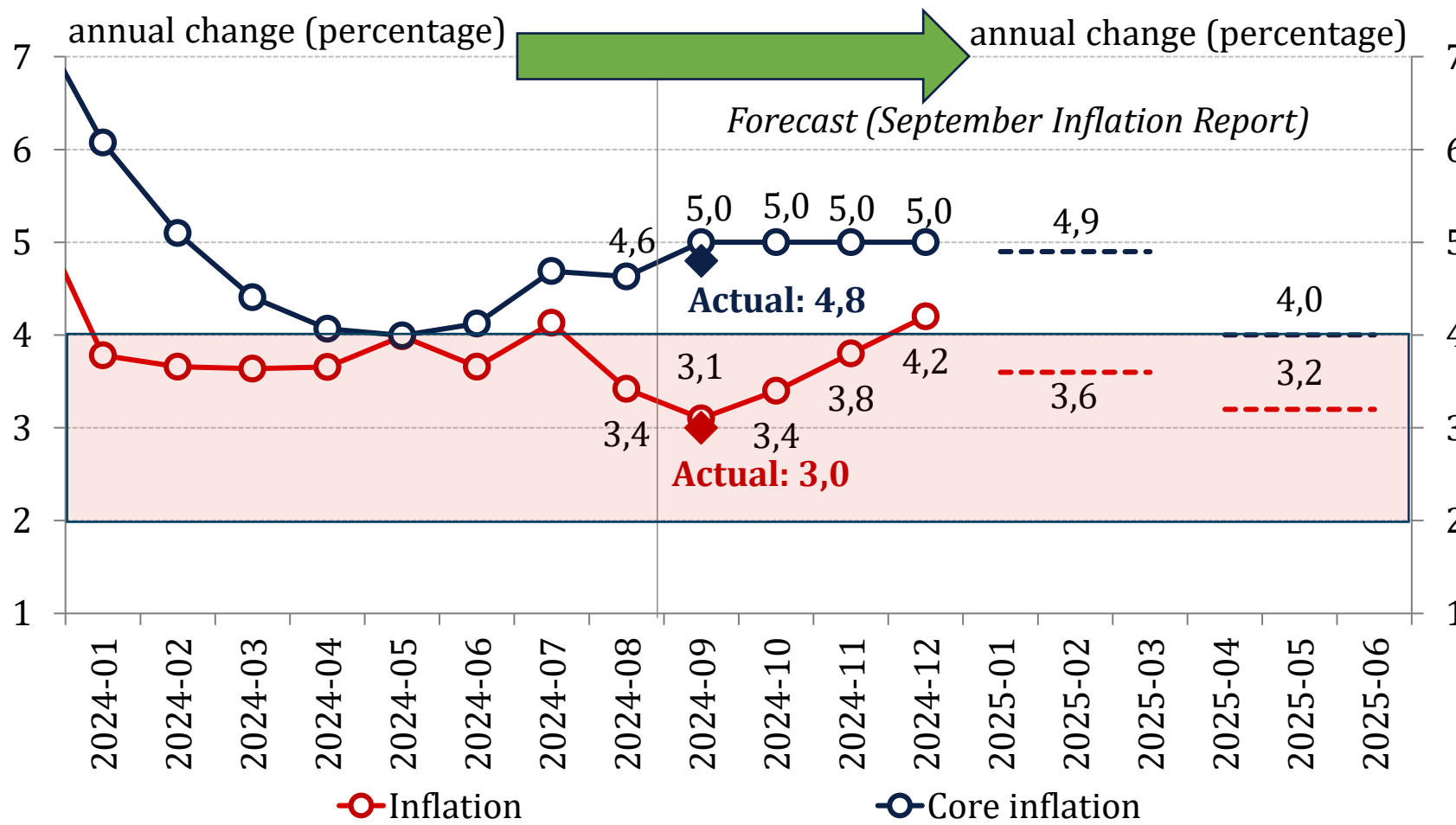
THE HUNGARIAN AND POLISH 10-YEAR GOVERNMENT BOND YIELDS, AND THE HUNGARIAN-GERMAN YIELD SPREAD

Source | Reuters, MNB calculation



## INFLATION STOOD AT LEVELS CONSISTENT WITH THE CENTRAL BANK TARGET...

...however, it is expected to rise slightly above 4 percent by the end of 2024.



### DEVELOPMENTS IN INFLATION AND CORE INFLATION IN THE RECENT PERIOD

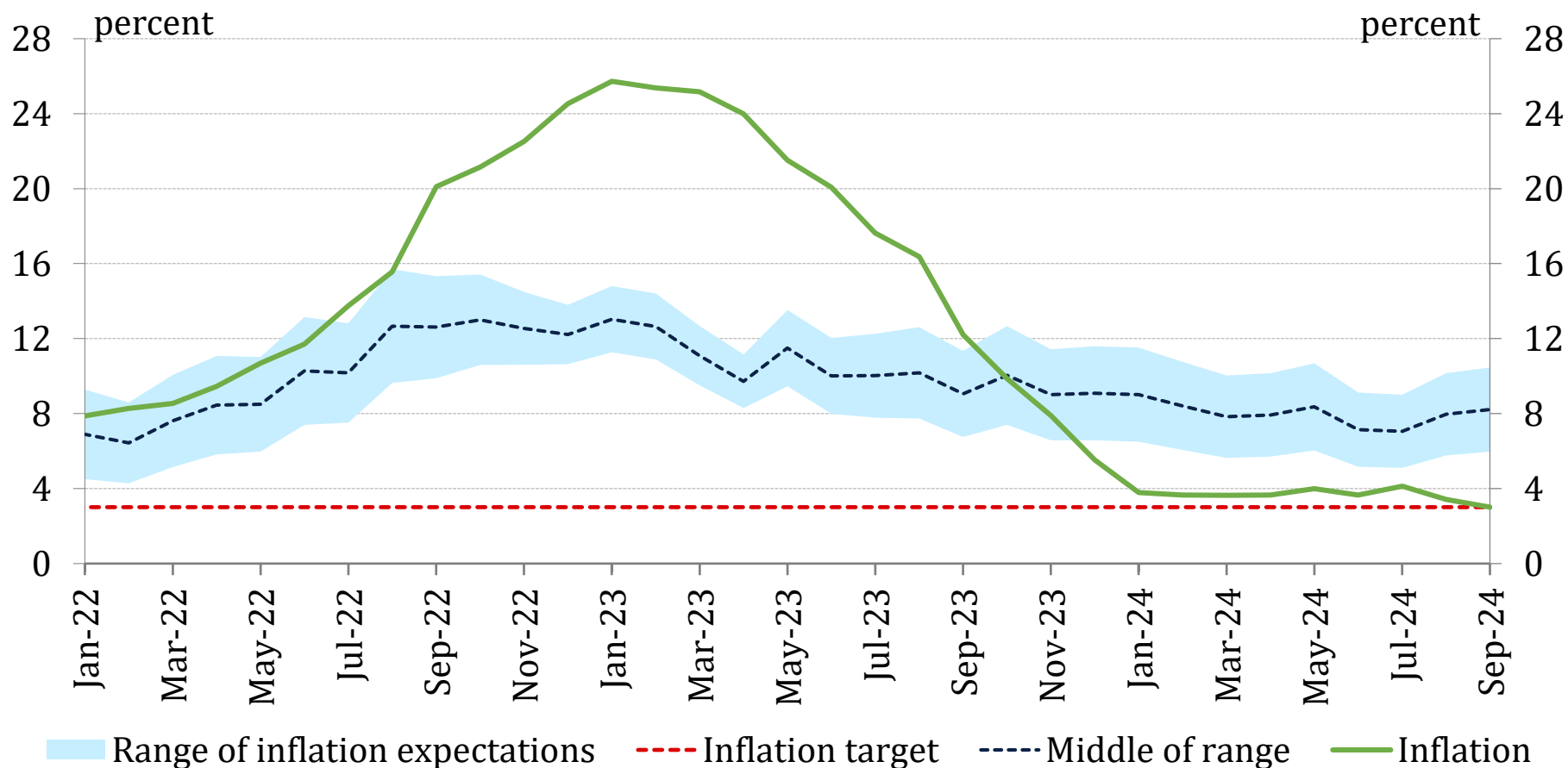
Note | The inflation projections for 2025 are shown as quarterly averages.

Source | HCSO, MNB



## THE DECLINE IN INFLATION EXPECTATIONS IS A PROTRACTED PROCESS: EXPECTATIONS MUST BE ANCHORED AT THE INFLATION TARGET AGAIN

Household inflation expectations have risen slightly in recent months.

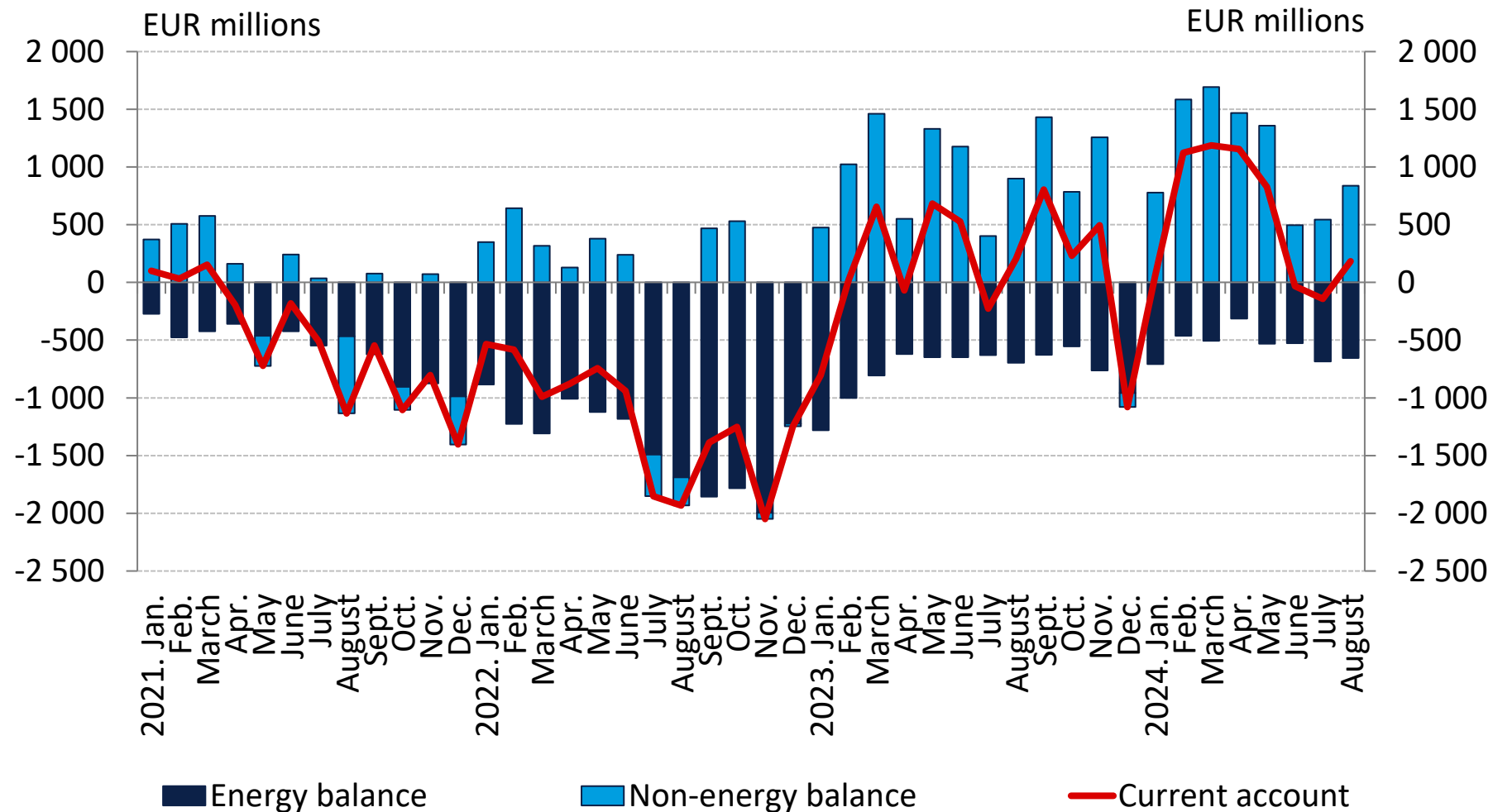


### DOMESTIC INFLATION EXPECTATIONS IN HUNGARY

Source | MNB calculation based on European Commission data



## THE MONTHLY BALANCE OF THE CURRENT ACCOUNT HAS TURNED POSITIVE AGAIN IN AUGUST



### DEVELOPMENTS IN THE CURRENT ACCOUNT AND THE ENERGY BALANCE

Note | Energy trade balance for the latest month is an estimate.  
Source | HCSO, MNB



# MONETARY POLICY



## A CAUTIOUS AND DATA-DRIVEN APPROACH REMAINS WARRANTED

### GLOBAL RISK FACTORS

Financial market developments remain volatile, with emerging markets being highly exposed.



The ECB lowered its key interest rate in October. However, market participants expect smaller interest rate cuts by the Fed than before.

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



### PRECAUTION

Due to experiences with high inflation, households remain cautious. Inflation expectations are more volatile than usual and rose slightly.



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 decreased to 3.0 percent in September. However, it is expected to rise slightly until the end of the year. Disinflation is expected to continue from 2025 Q1.





## THE DECISION-MAKING SPACE HAS CHANGED AT SEVERAL POINTS: SEVERAL FACTORS WARRANT THE MAINTENANCE OF THE STABILITY-ORIENTED APPROACH



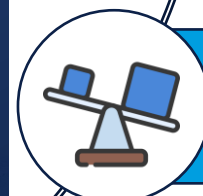
Inflation decreased to the central bank target in September. Core inflation rose to 4.8 percent, while upside inflation risks strengthened.



The expected interest rate path of the world's leading central banks is characterised by divergence. As expectations for the Federal Reserve's interest rate path shift upward, risk aversion to emerging markets is strengthening.



Geopolitical conflicts intensified, and the risks associated with them increased.



The impact of movements in foreign exchange markets is asymmetric: in the current environment, the costs are greater than the presumed benefits.



**A pause in cutting interest rates is warranted.**



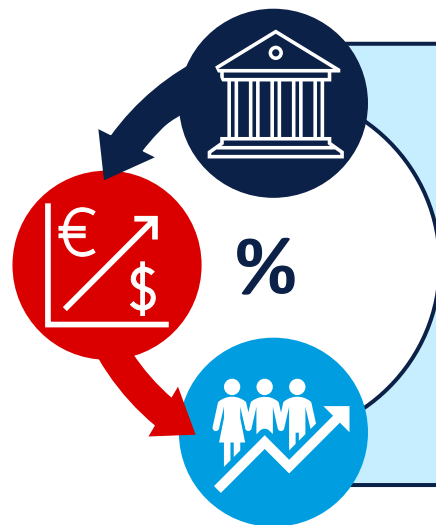
## THE MONETARY COUNCIL'S DECISION IN OCTOBER

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 efficient 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.



# 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.



Global turbulence has intensified.

**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.**



We cannot sit back: looking ahead, a **careful and patient, stability-oriented** monetary policy is justified.



## THE MONETARY COUNCIL'S FORWARD GUIDANCE

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*„The intensification of geopolitical conflicts has led to rises in energy prices and emerging market risk premia. As a result of these two effects, **upside risks to inflation have increased**. 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, re-intensifying geopolitical tensions, volatile financial market developments and the risks to the outlook for inflation warrant a pause in cutting interest rates.**”*

**THANK YOU FOR  
YOUR KIND  
ATTENTION!**

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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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gyarapodásáért*