

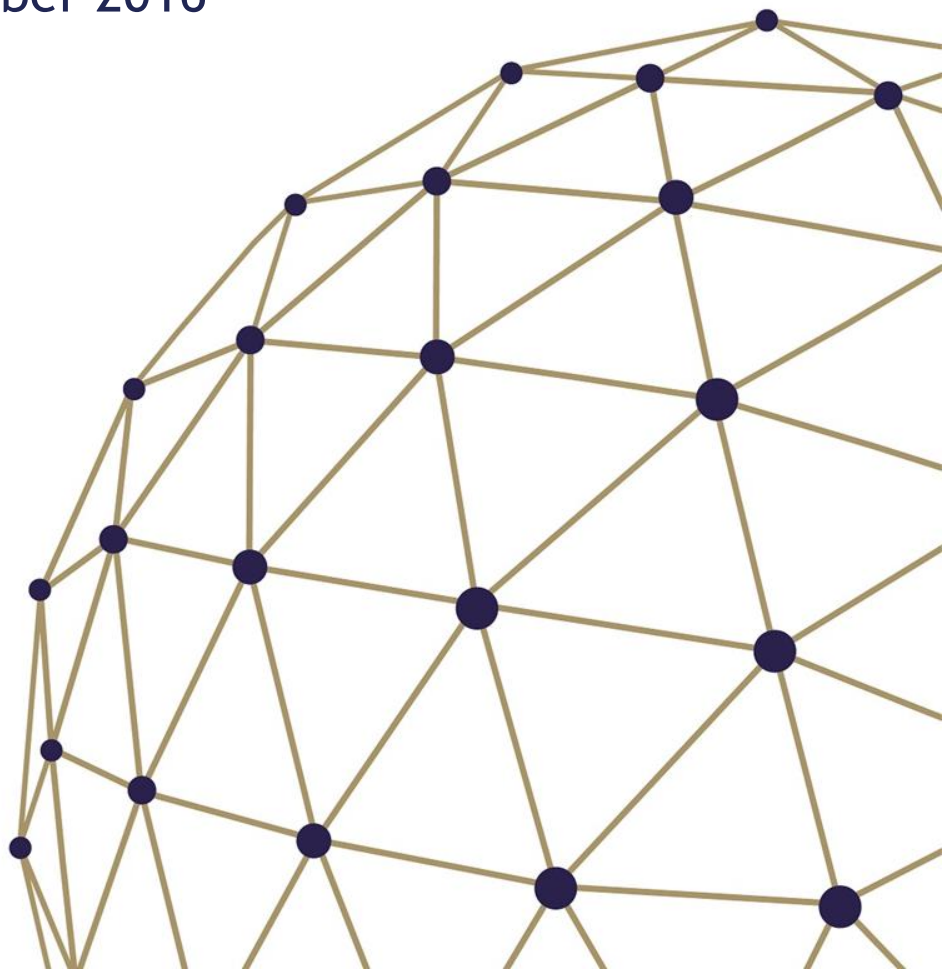


Merits of unorthodox monetary policy

Dániel Palotai

Executive Director and Chief Economist, Magyar Nemzeti Bank

EFBS Congress, 20 October 2016



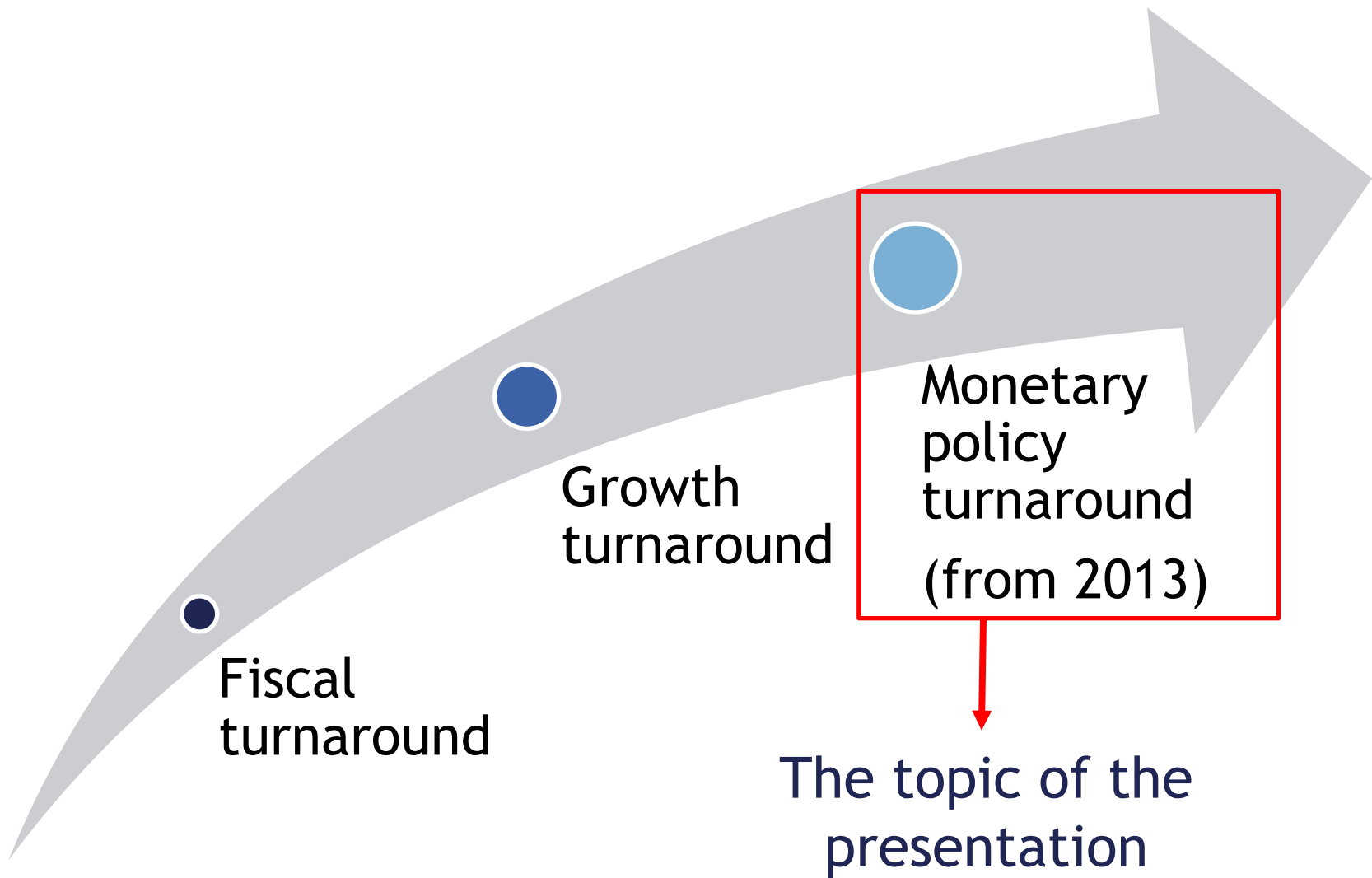


Hungary at risk in 2009/2010: economic policy trap

	2009	Today
Inflation	Above target (4.2%)	Below target (0.6%)
GDP	Decreasing (-6.6%)	Increasing (around 3%)
Budget deficit/GDP	Above Maastricht criterion (4.6%)	Below Maastricht criterion (below 2%)
Net external debt/GDP	High (55%)	Lower (around 23%)
Share of FX debt of households	Large (66.1%)	Negligible (around 2%)
Share of FX debt of government	Large (46.2%)	Smaller (around 30%)

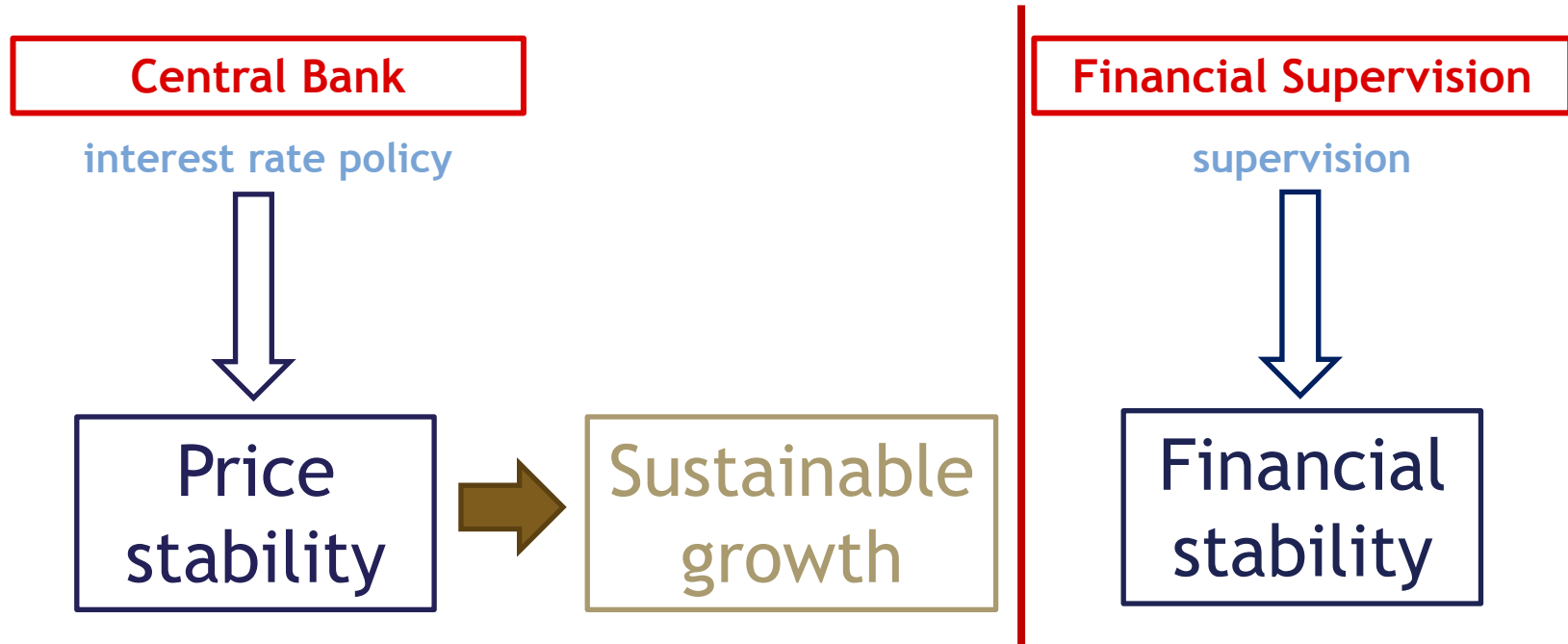


Economic Balance and Growth





Before the crisis: one target - one instrument



Central banks were successful from the aspect of price stability, whilst risks jeopardizing financial stability emerged

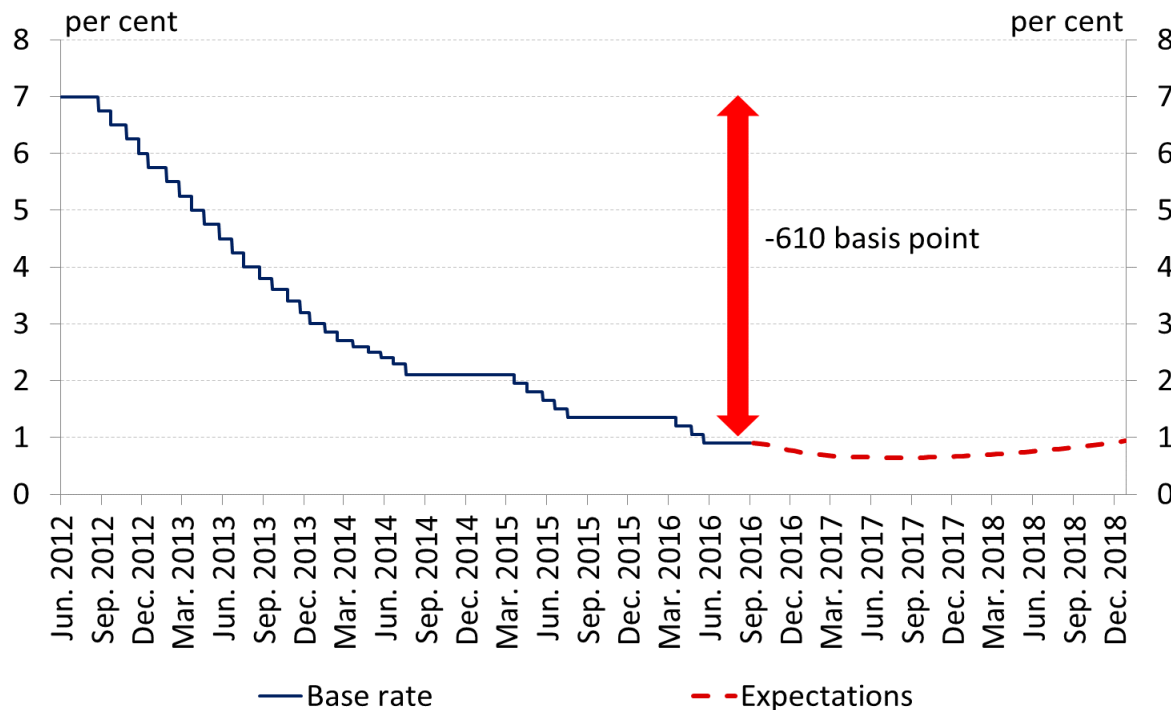


Growth was not sustainable



Monetary easing with the primary tool

- Medium-term inflation target at 3 per cent
- Introduction of a tolerance band \rightarrow ± 1 percentage point to ensure larger flexibility in case of significant shocks

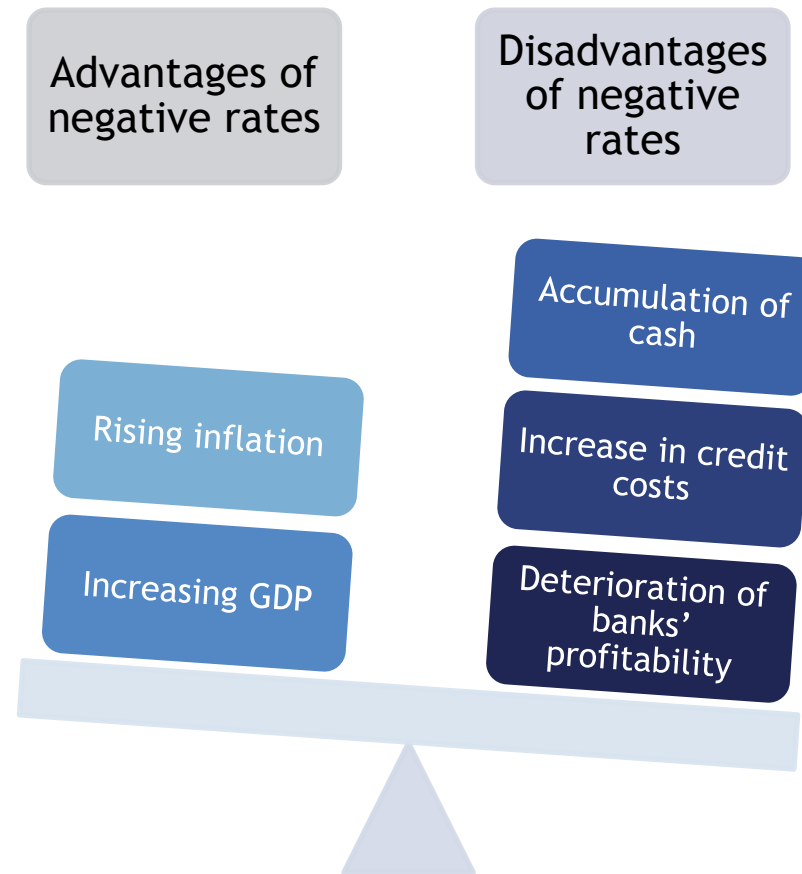


The path of the central bank base rate



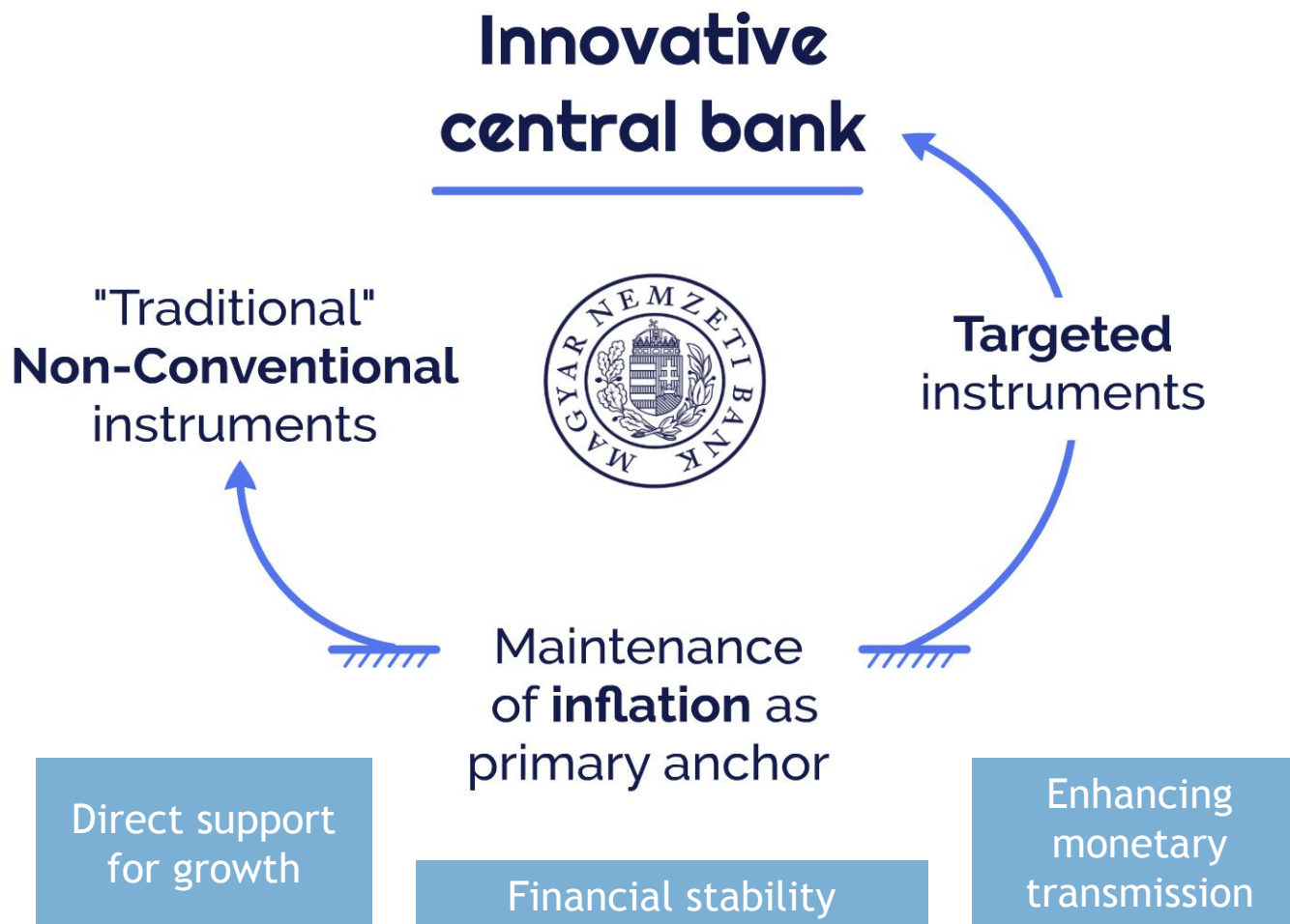
How binding is the zero lower bound? - There is further need for central bank innovations

Targeted instruments instead of negative interest rates → stimulation and stability



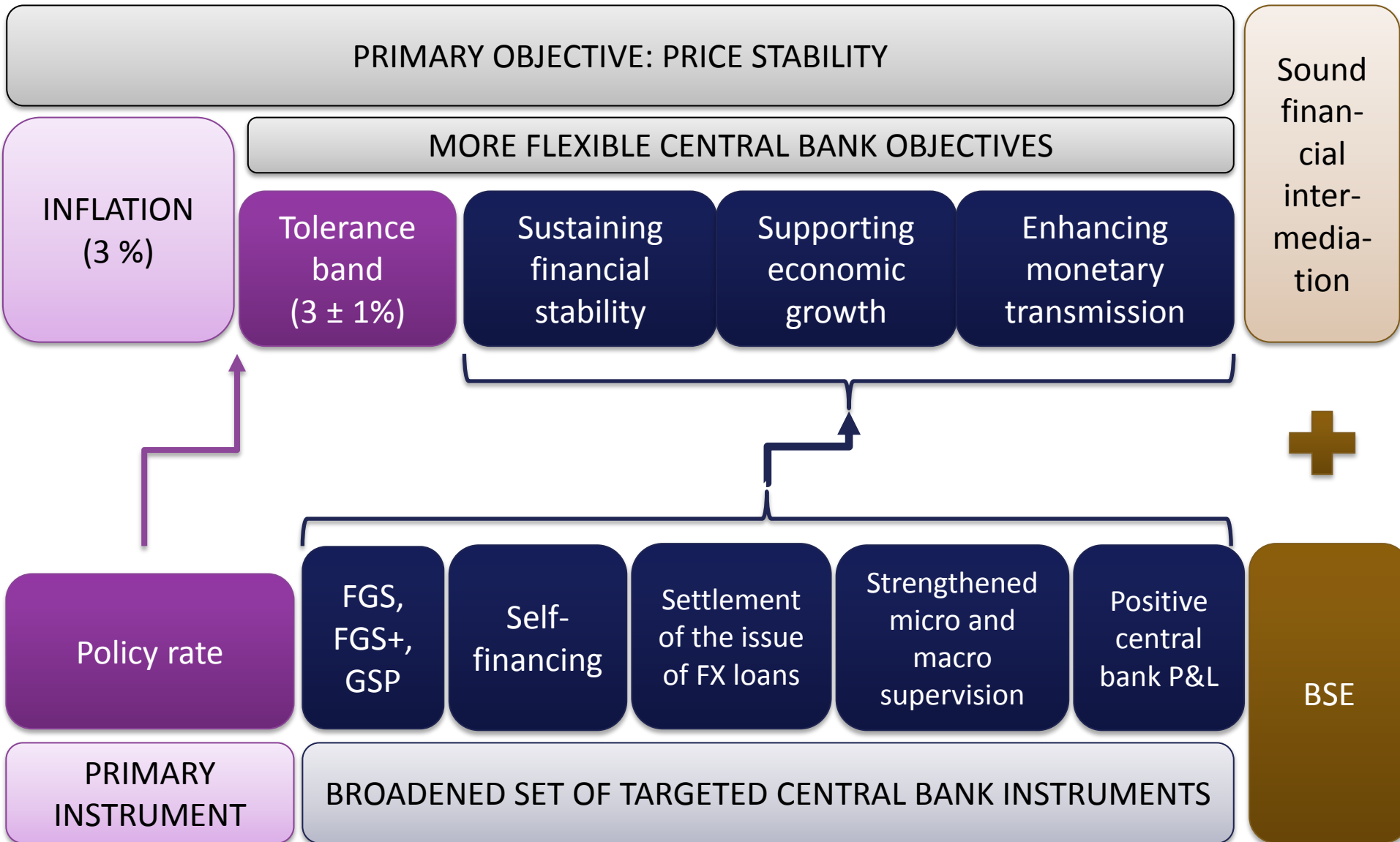


What can central banks do?



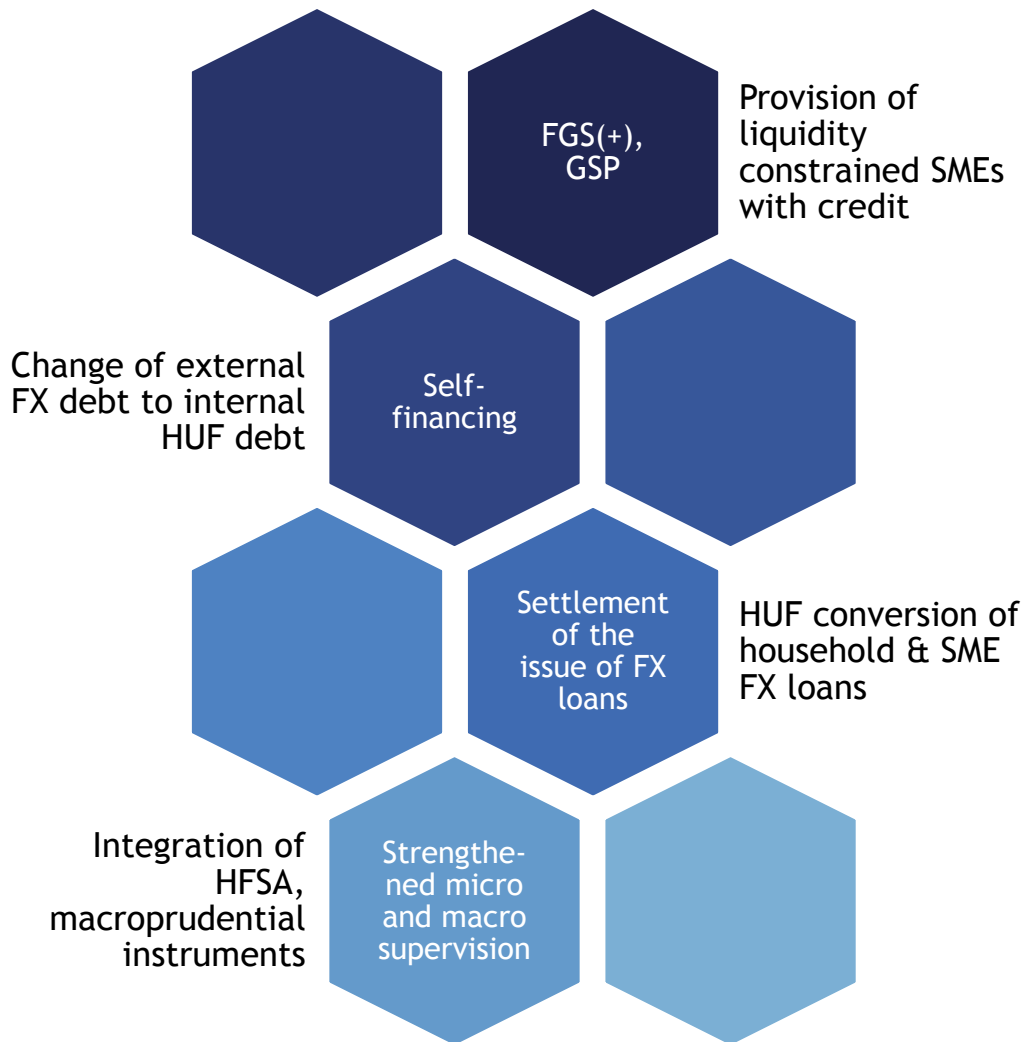


The MNB's new monetary policy framework



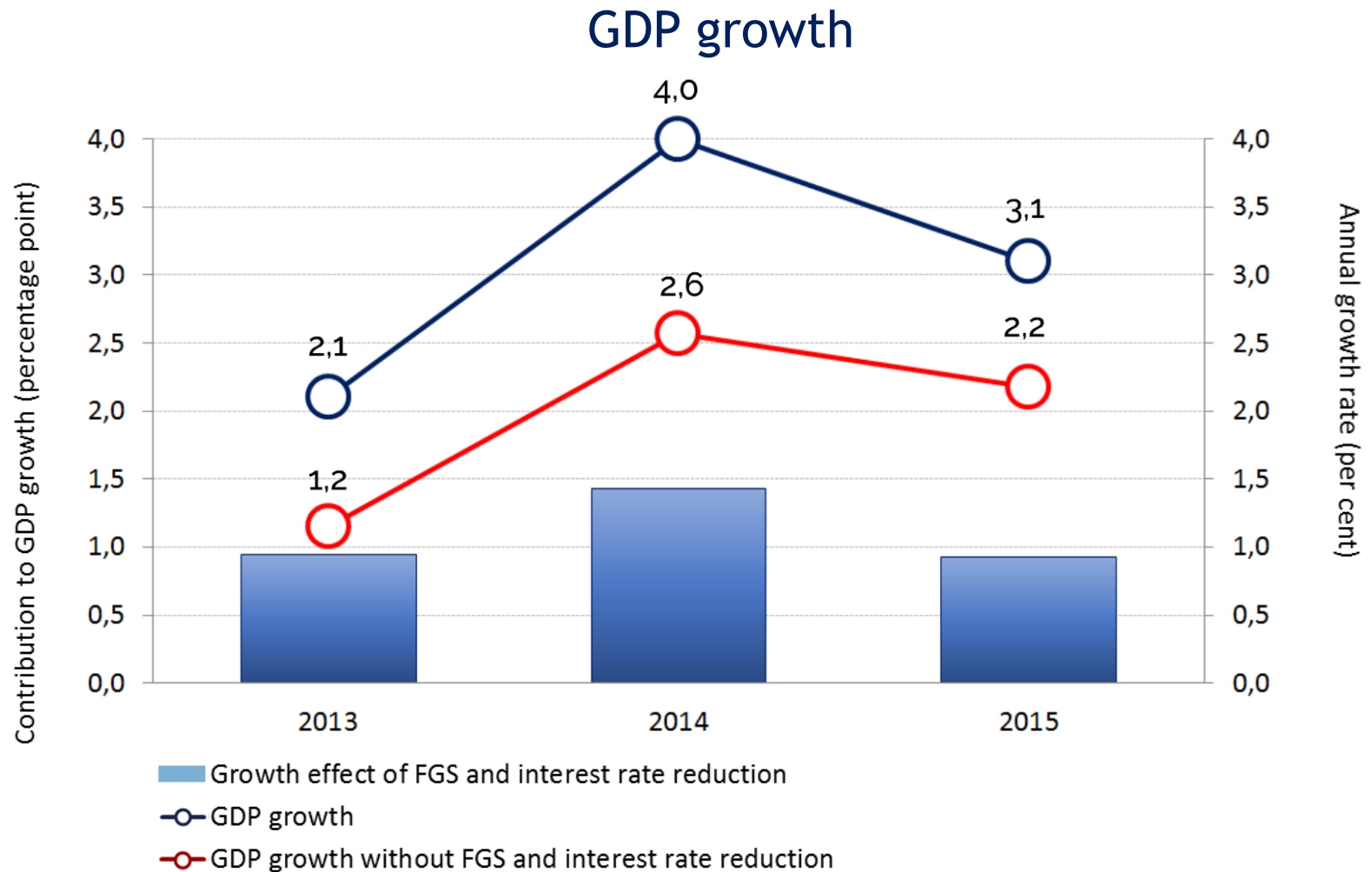


Broadened set of central bank instruments



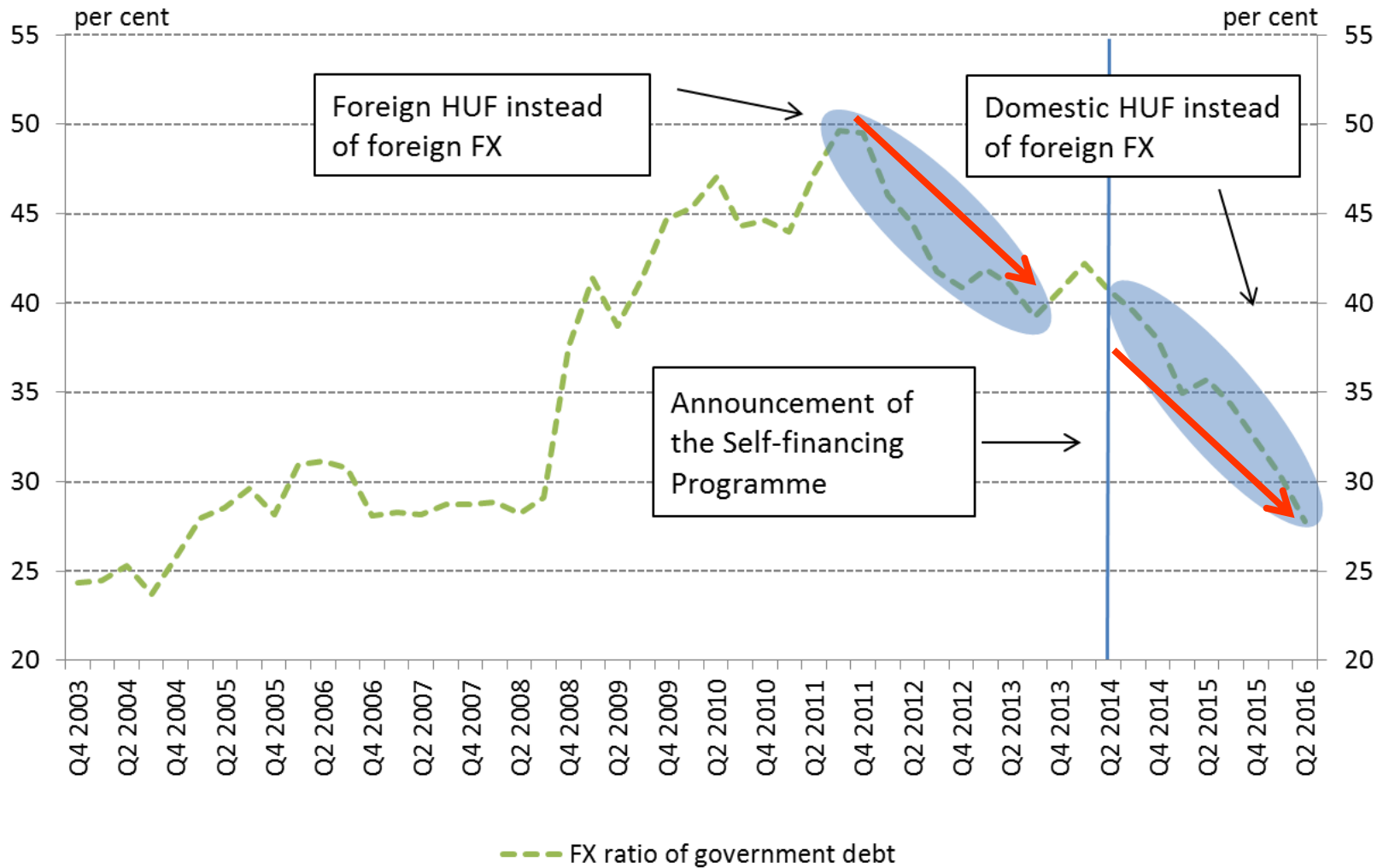


Robust economic growth



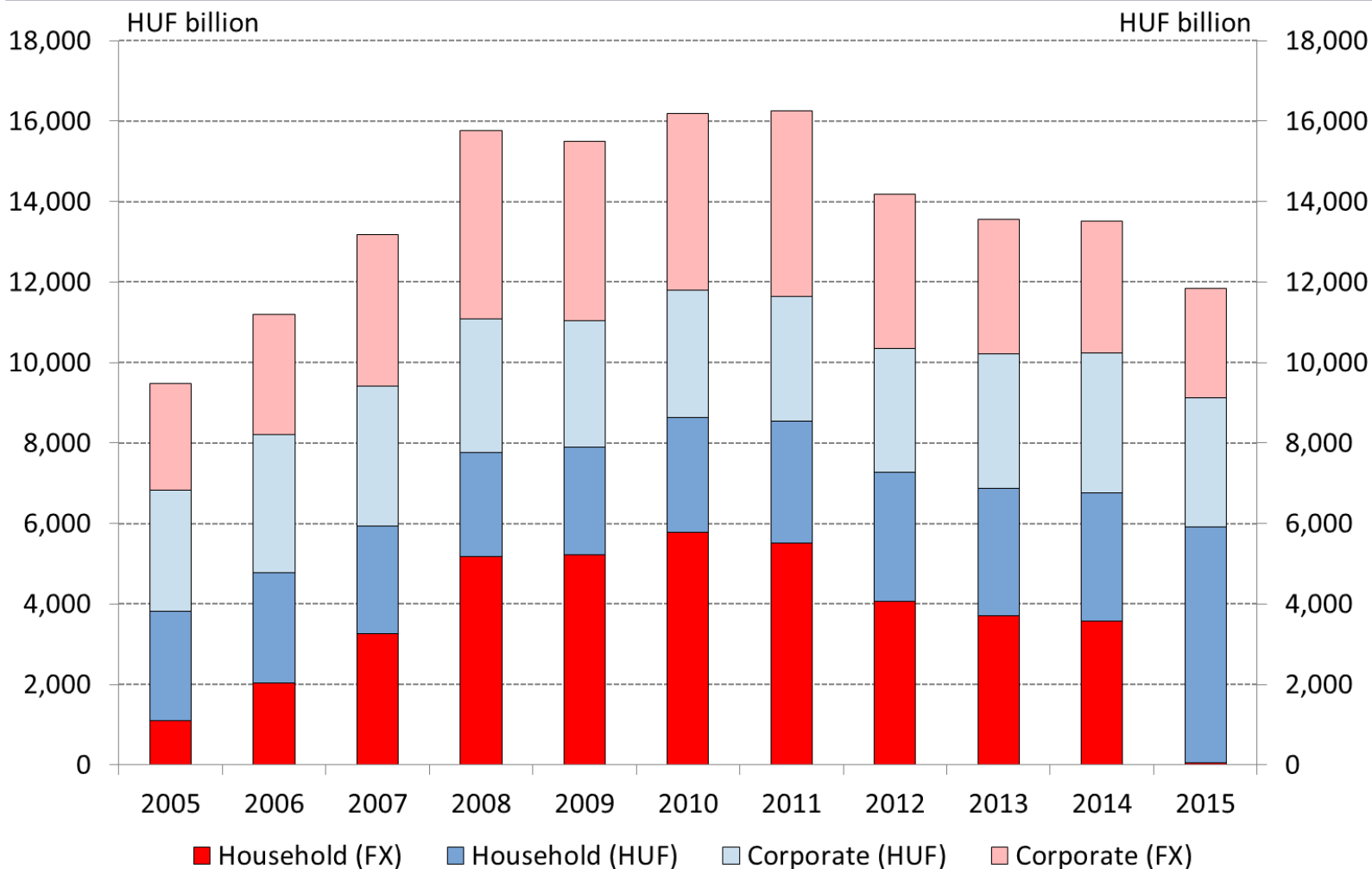


The FX share of government debt decreased significantly





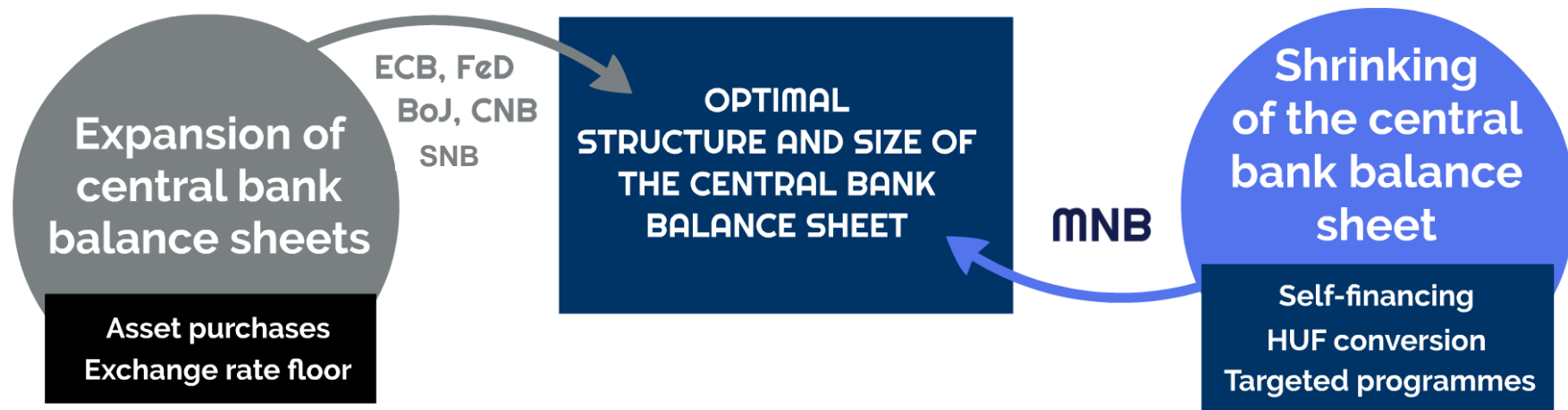
Household FX loans were phased out by the forint conversion



Corporate and household loan stock

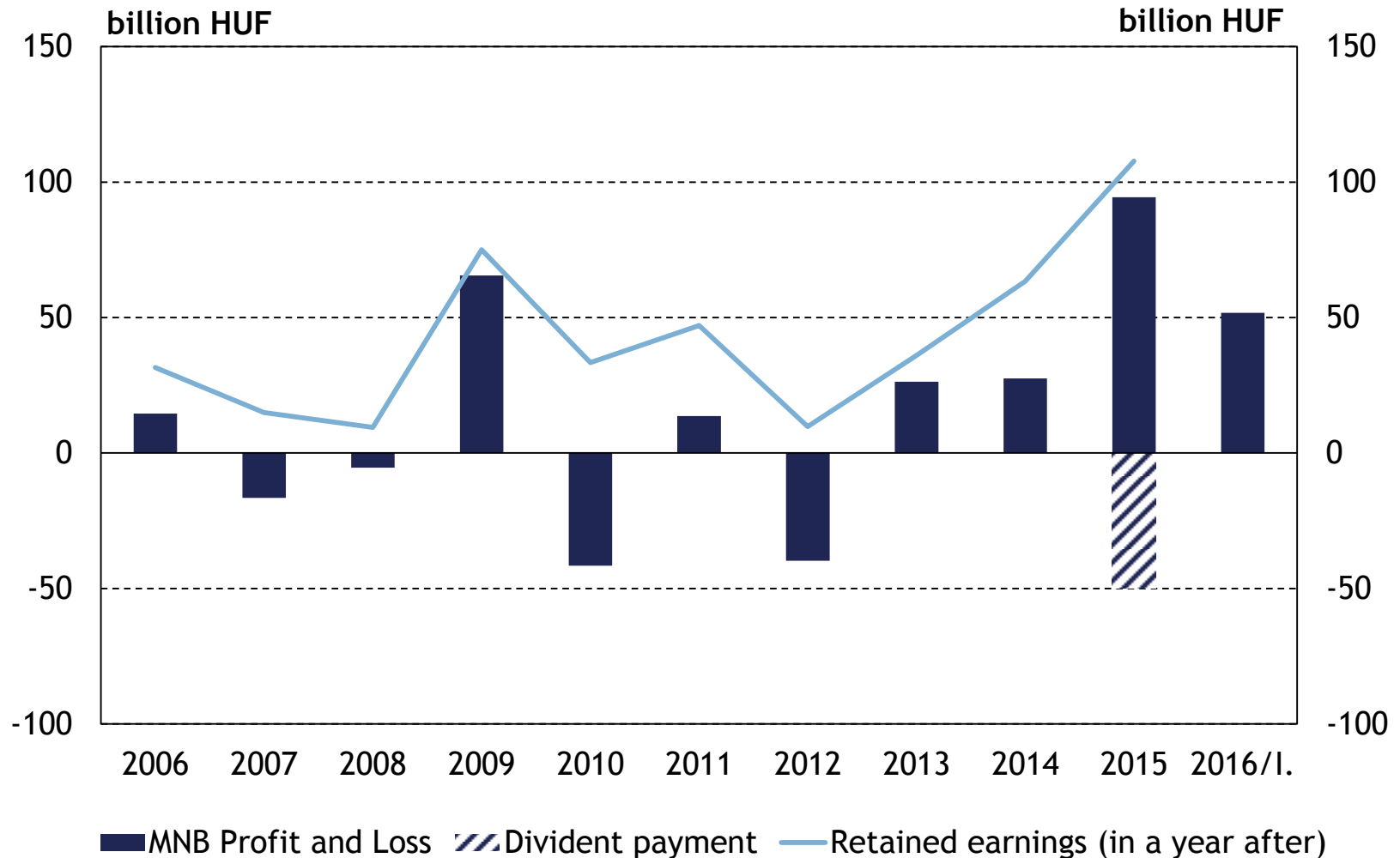


The MNB has eased monetary conditions while reducing its balance sheet



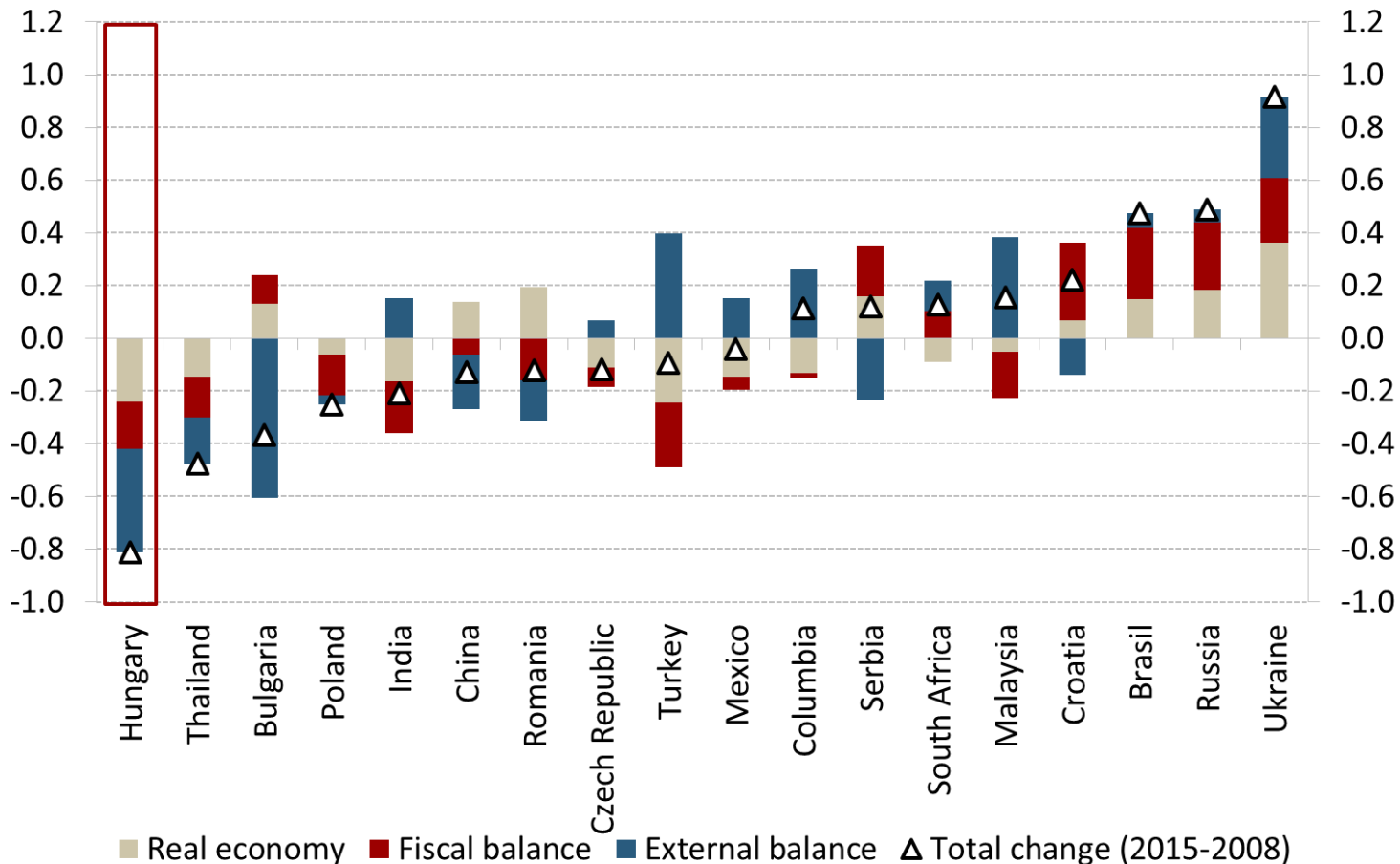


Central bank P&L is no longer a macro risk





Hungary's vulnerability decreased the most, moreover, in a balanced structure



Change in vulnerability indicators between 2008-2015



Foreign investors believe MNB is the most innovative central bank

Morgan Stanley

“ Hungary has a very creative monetary policy set-up”

CEEMEA Macro Focus: The Who's Who of Orthodoxy, April 13, 2016.

Goldman Sachs

“ Considerable success of the new policy framework”

CEEMEA Views: Hungary: More rate cuts as NBH continues to transform policy framework, April 25, 2016.



“ Hungary's net external position improved significantly”

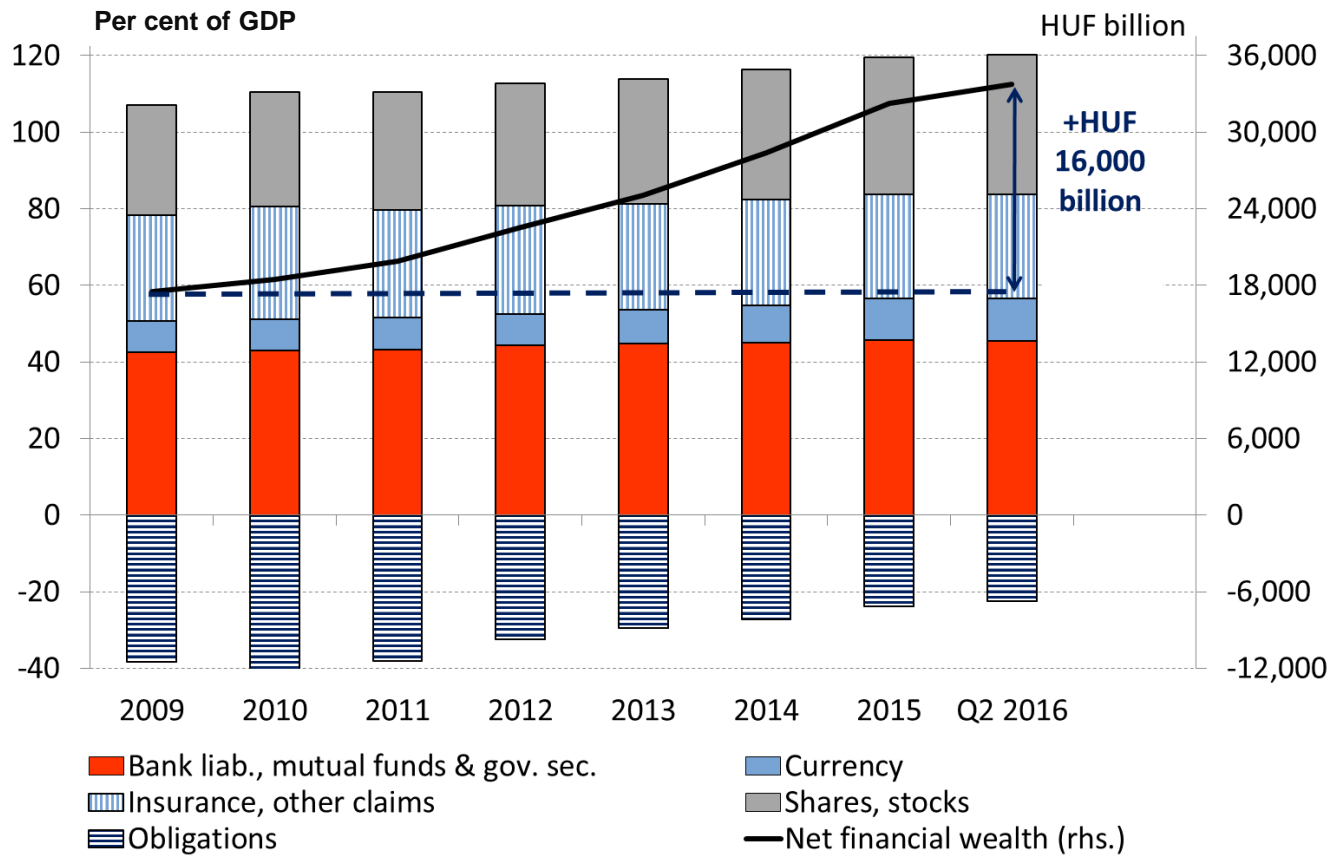
Country Report Hungary February 26, 2016.

Implications:
Housing market is on the rise



Household net financial wealth on the rise

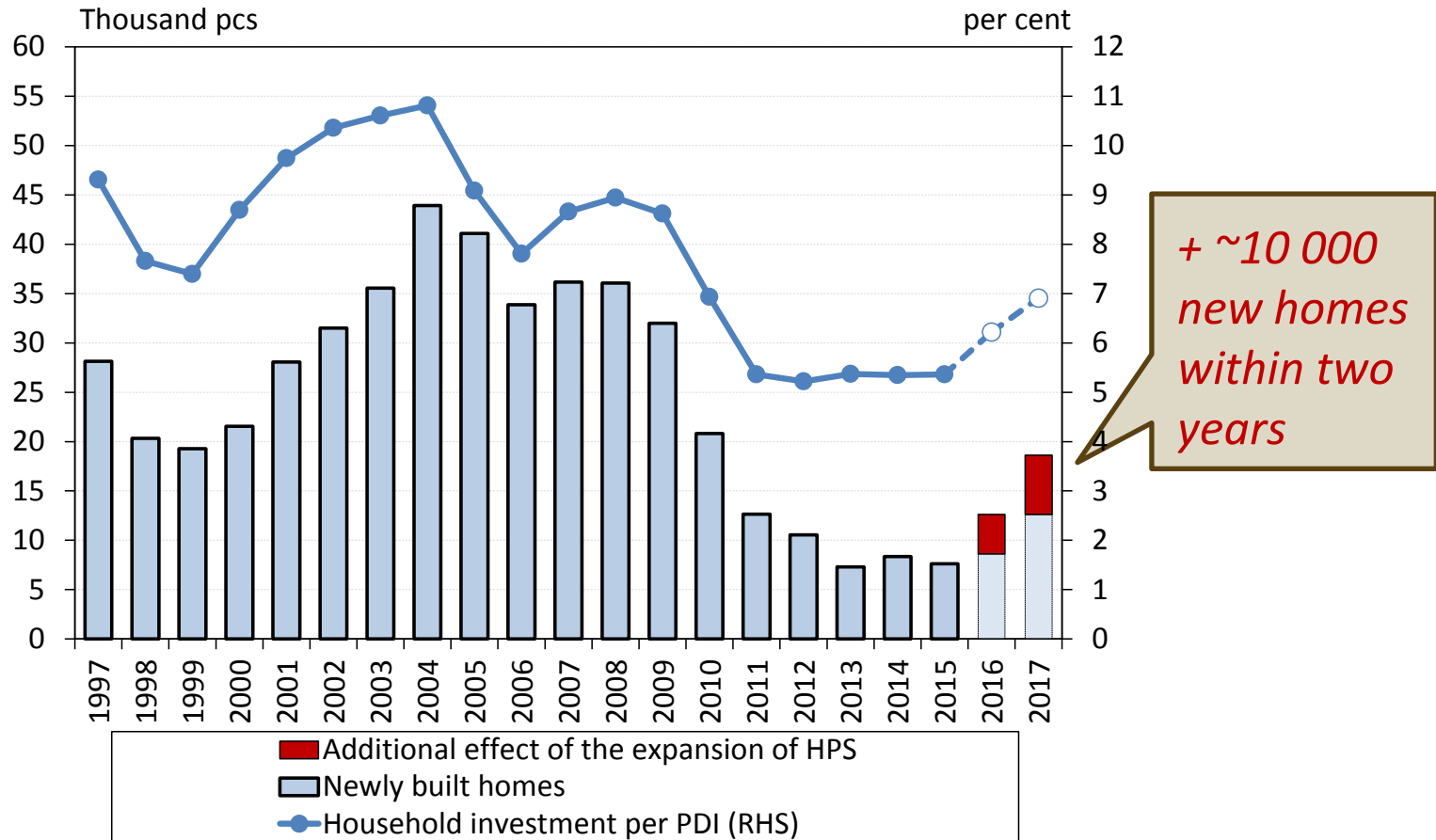
Net financial wealth of households increased significantly due to the reduction of indebtedness



Net financial wealth of households (relative to GDP and nominal)



The new measures may affect a substantial increase in the number of newly built homes



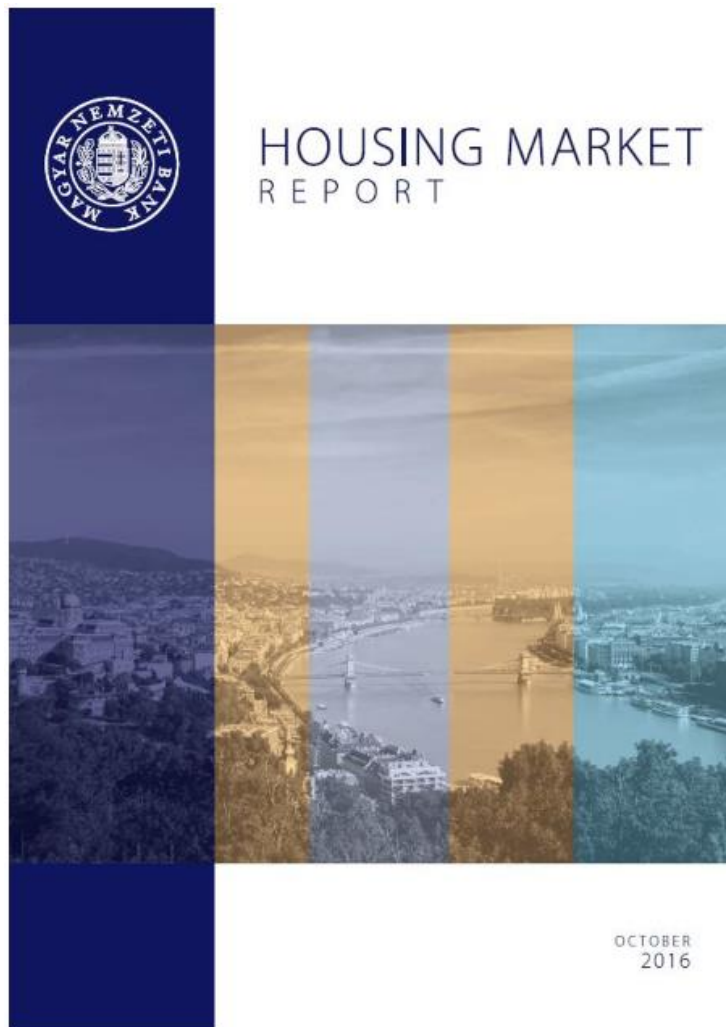
Expected changes to home constructions and household investments

Note: PDI: personal disposable income

Source: HCSO, MNB



MNB Housing market report



The macroeconomic environment broadly supported the continuing housing market rebound.

The supply side of the housing market has also started to adjust.

The upturn on the housing market shows a heterogeneous picture.

In order to track house prices, the MNB has constructed its own house price index.

The appreciation of house prices is not considered to be excessive.

The volume of new housing loans should not be considered to be excessive either.



Thank you for your attention!

