



# Macroeconomic outlook and policy responses

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*The Central & Eastern European Forum, Euromoney*

*18 January, 2011*

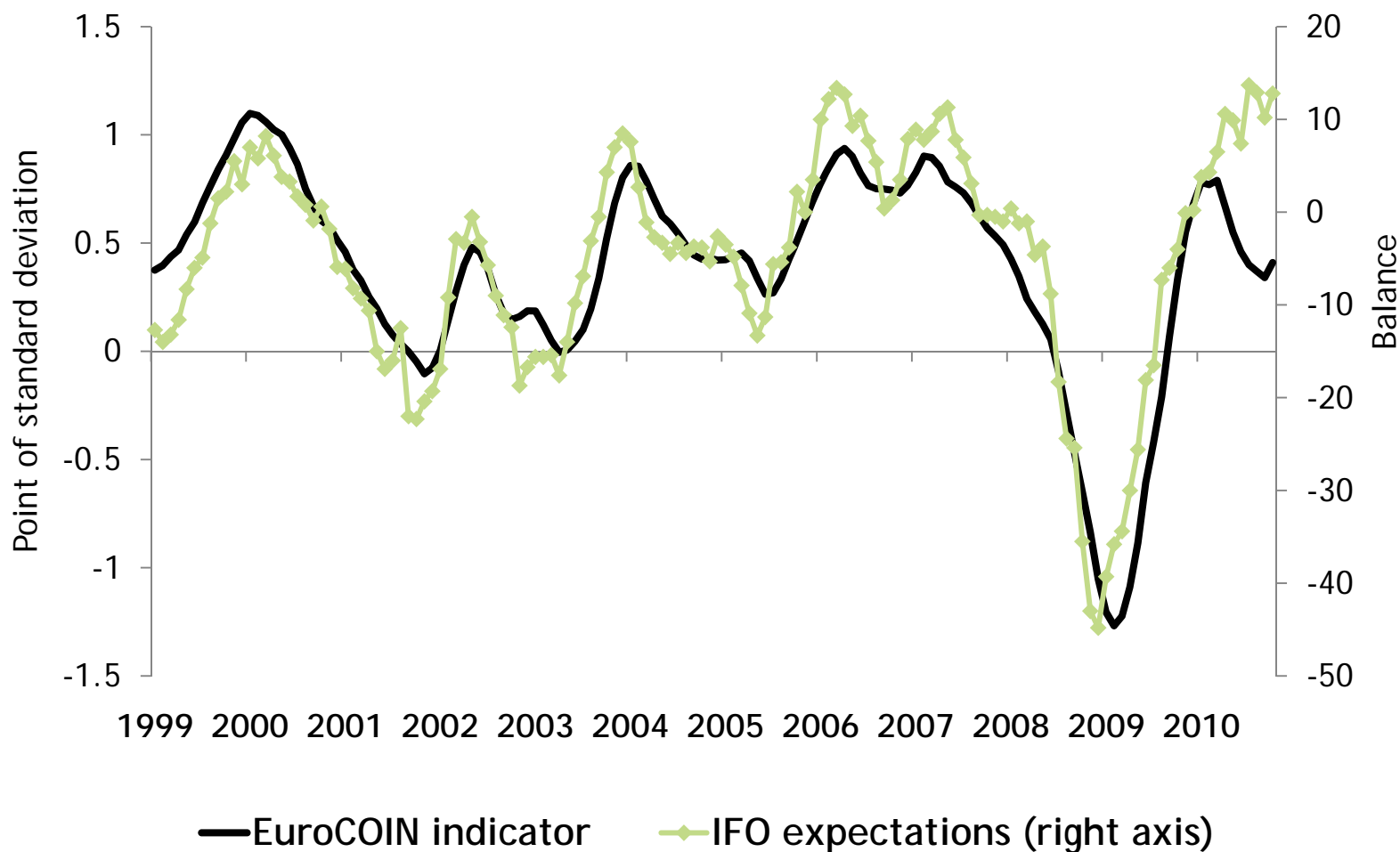


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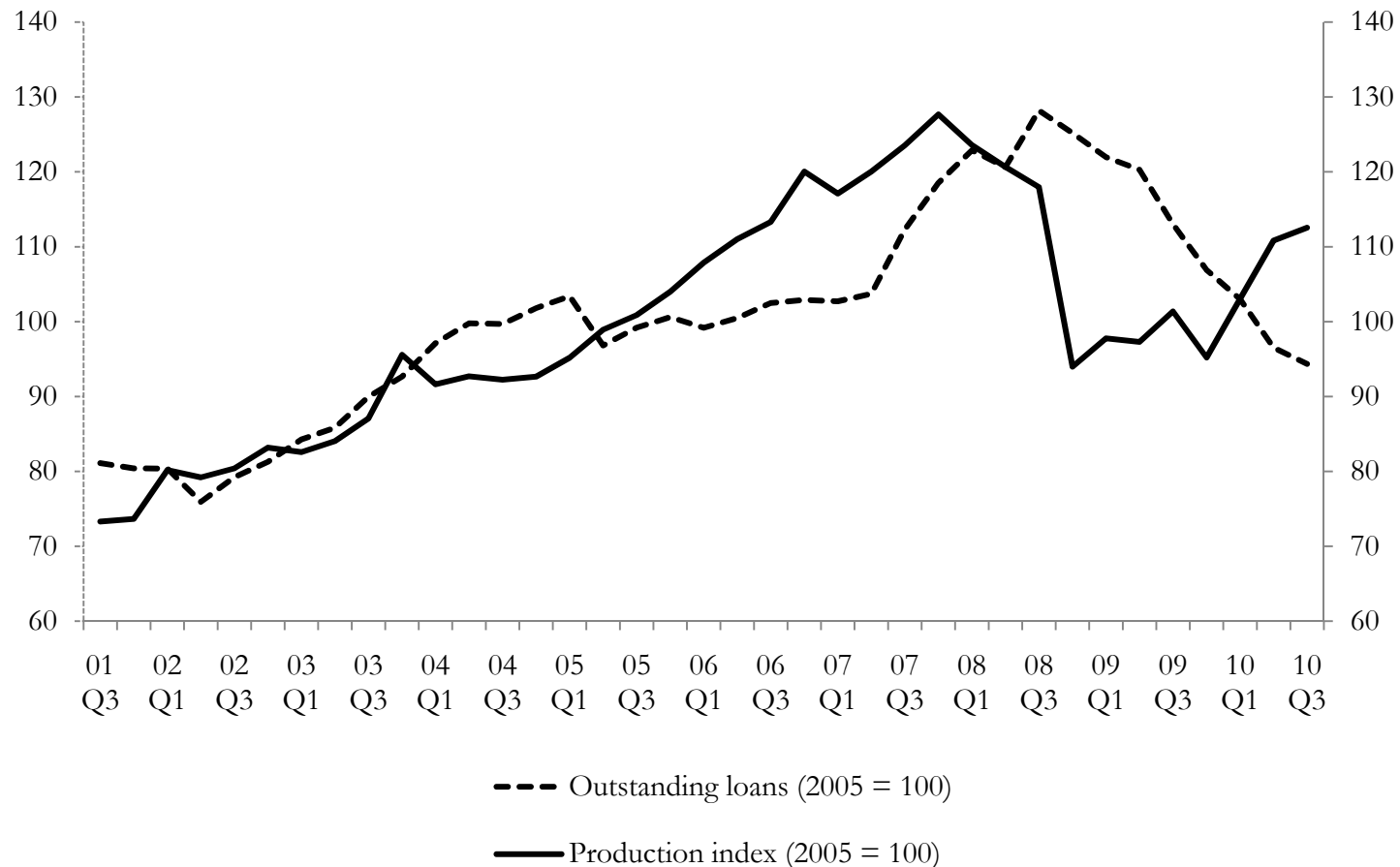
# Growth outlook: Light at the end of the tunnel



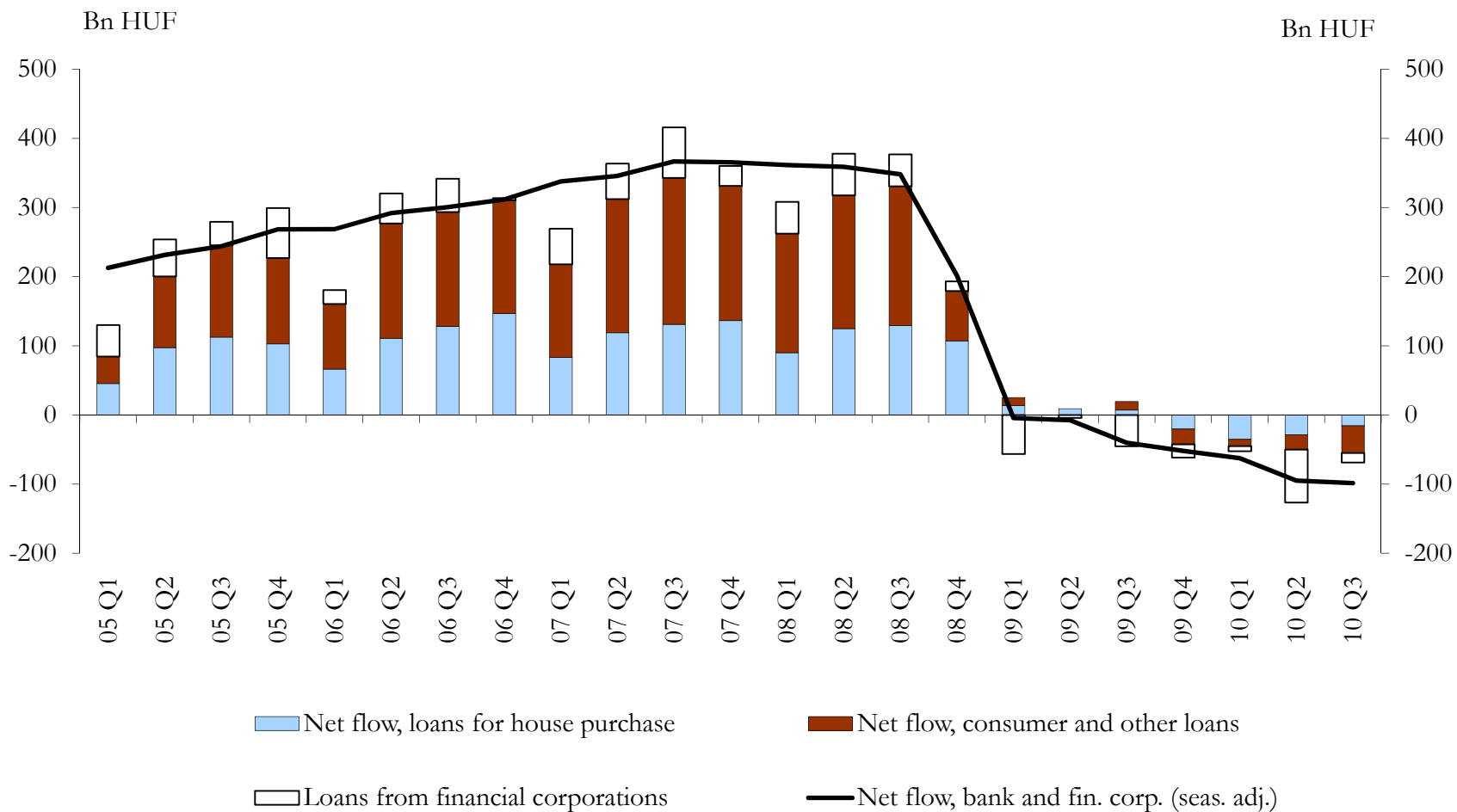
# Global economy seems to slow down, but German export growth is promising



# Expansion in manufacturing expansion is not constrained by limited credit availability



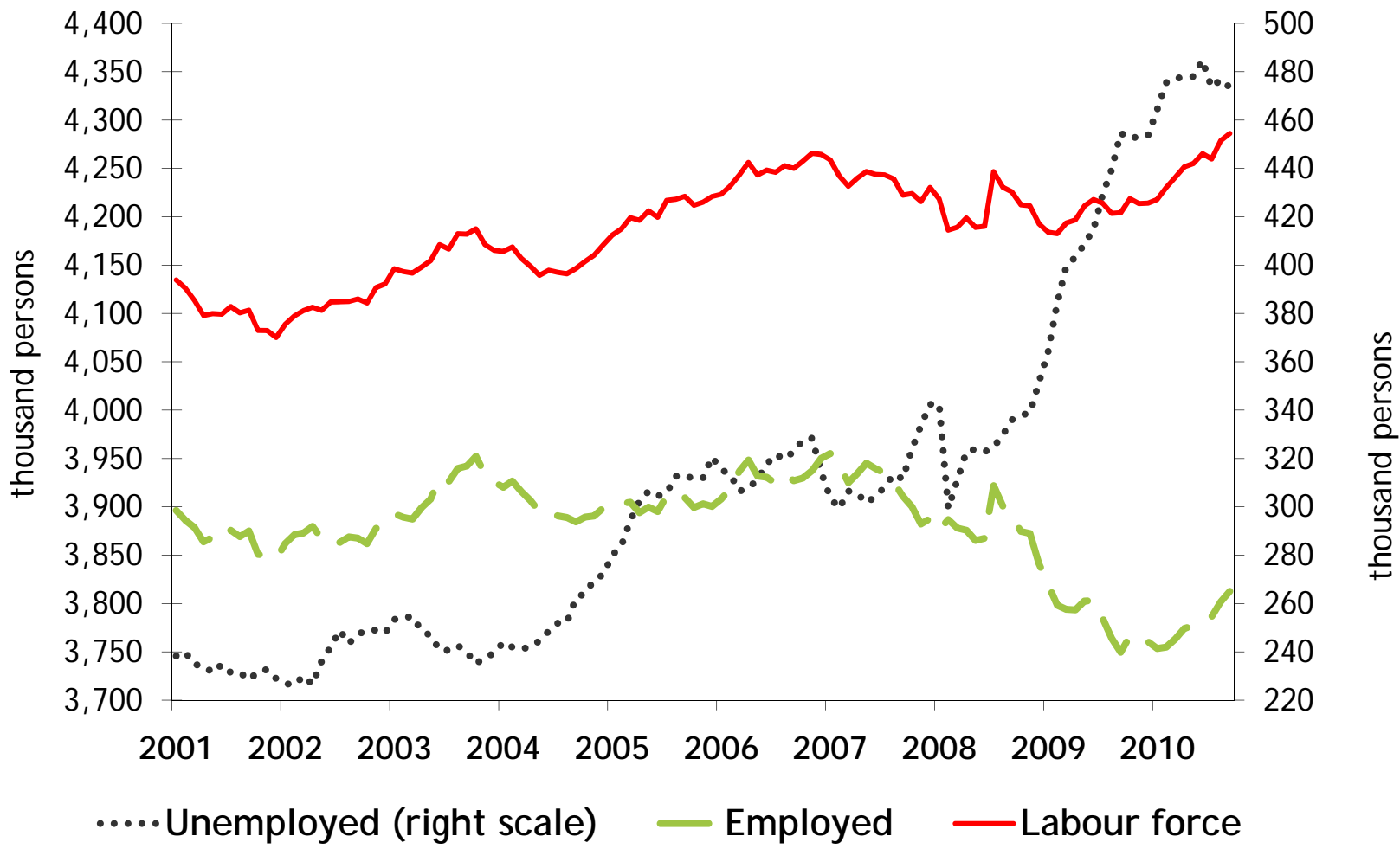
# Deleveraging and tighter credit conditions might withhold more broad based growth



# Private consumption is not falling further...

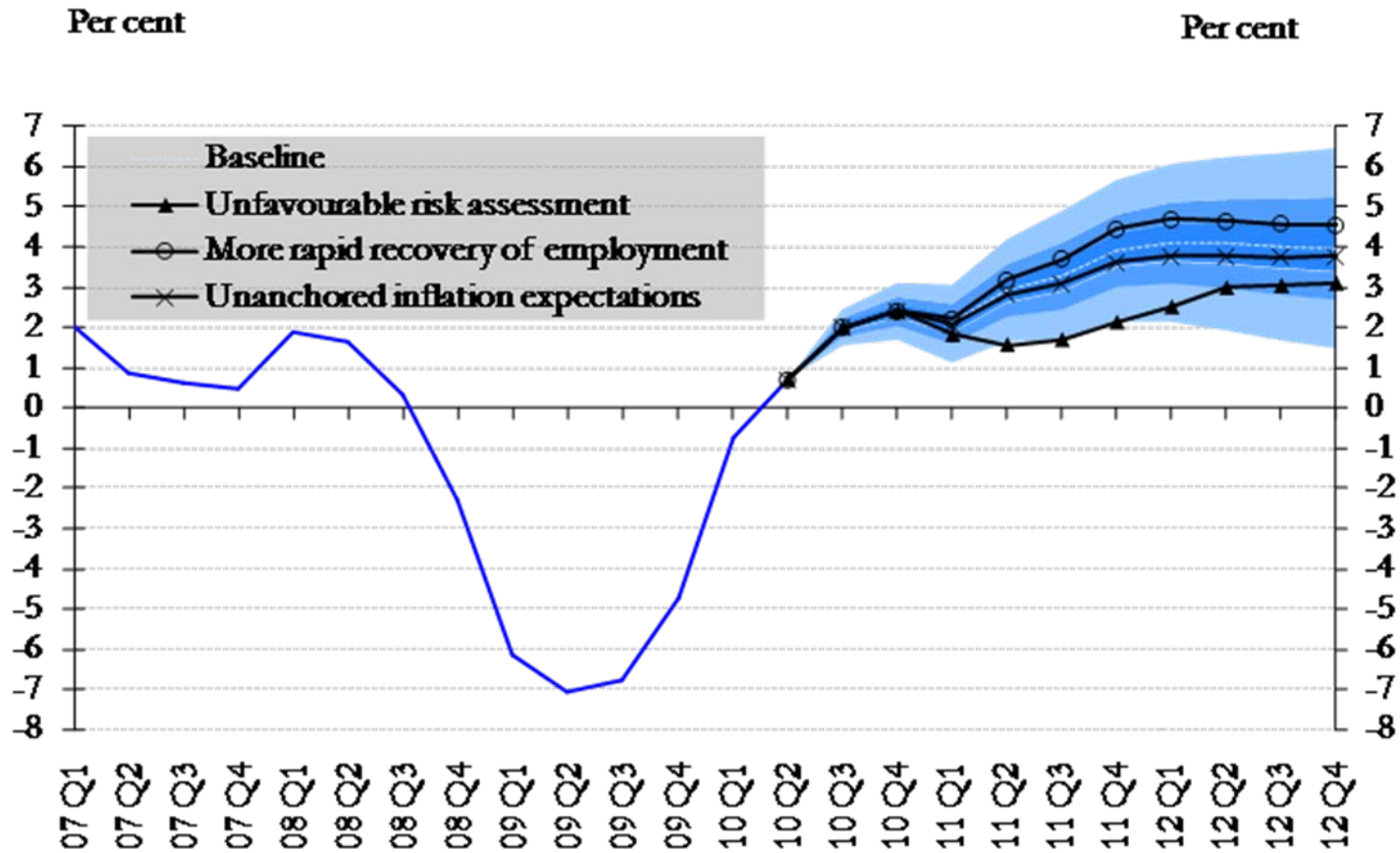


# ... reflecting improving employment prospects and increasing consumer confidence



# GDP fan chart

(Inflation report 2010 November)

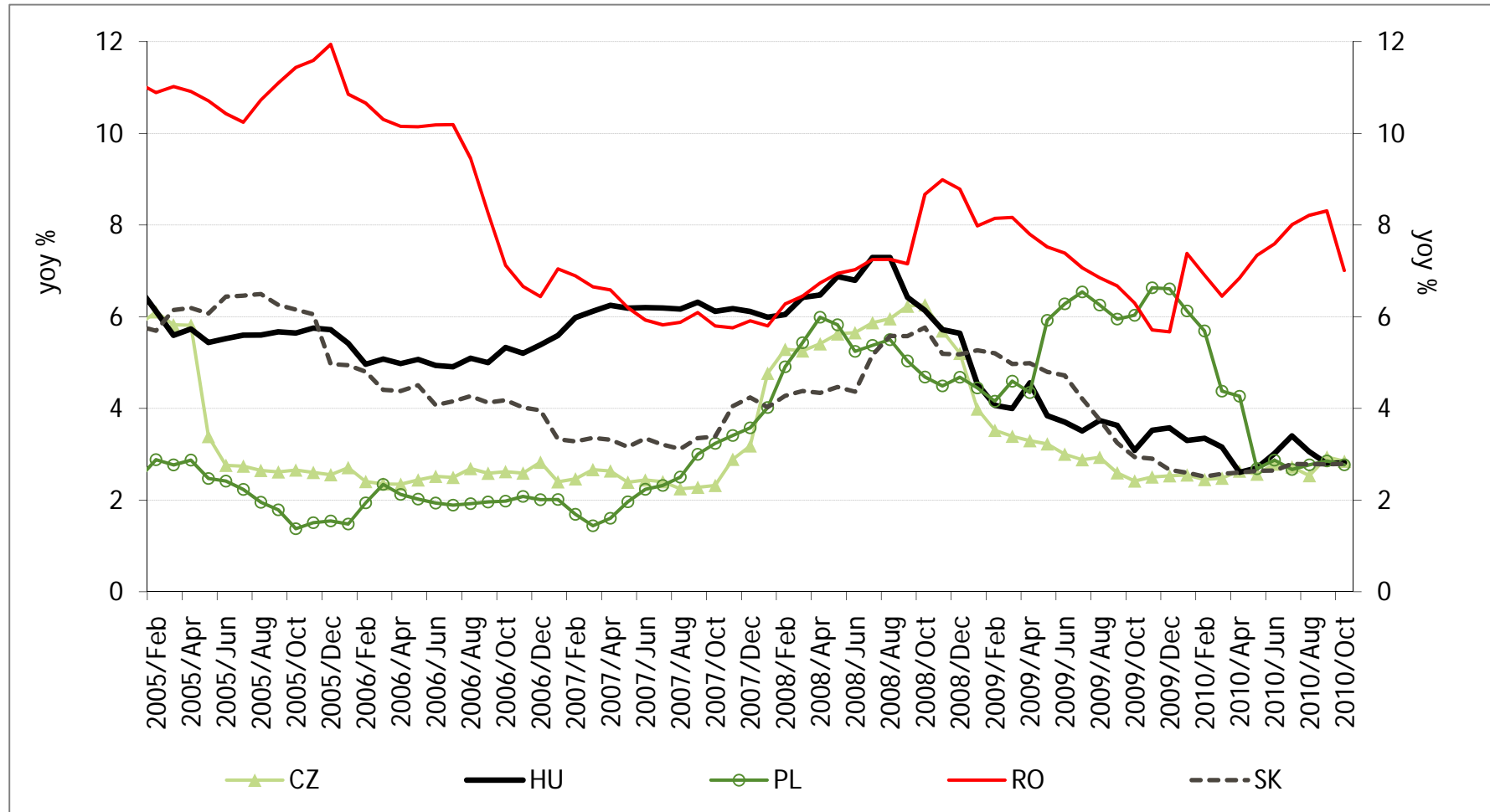


# Inflation outlook: More protracted temporary shocks



# The recession has moderated domestically generated inflation

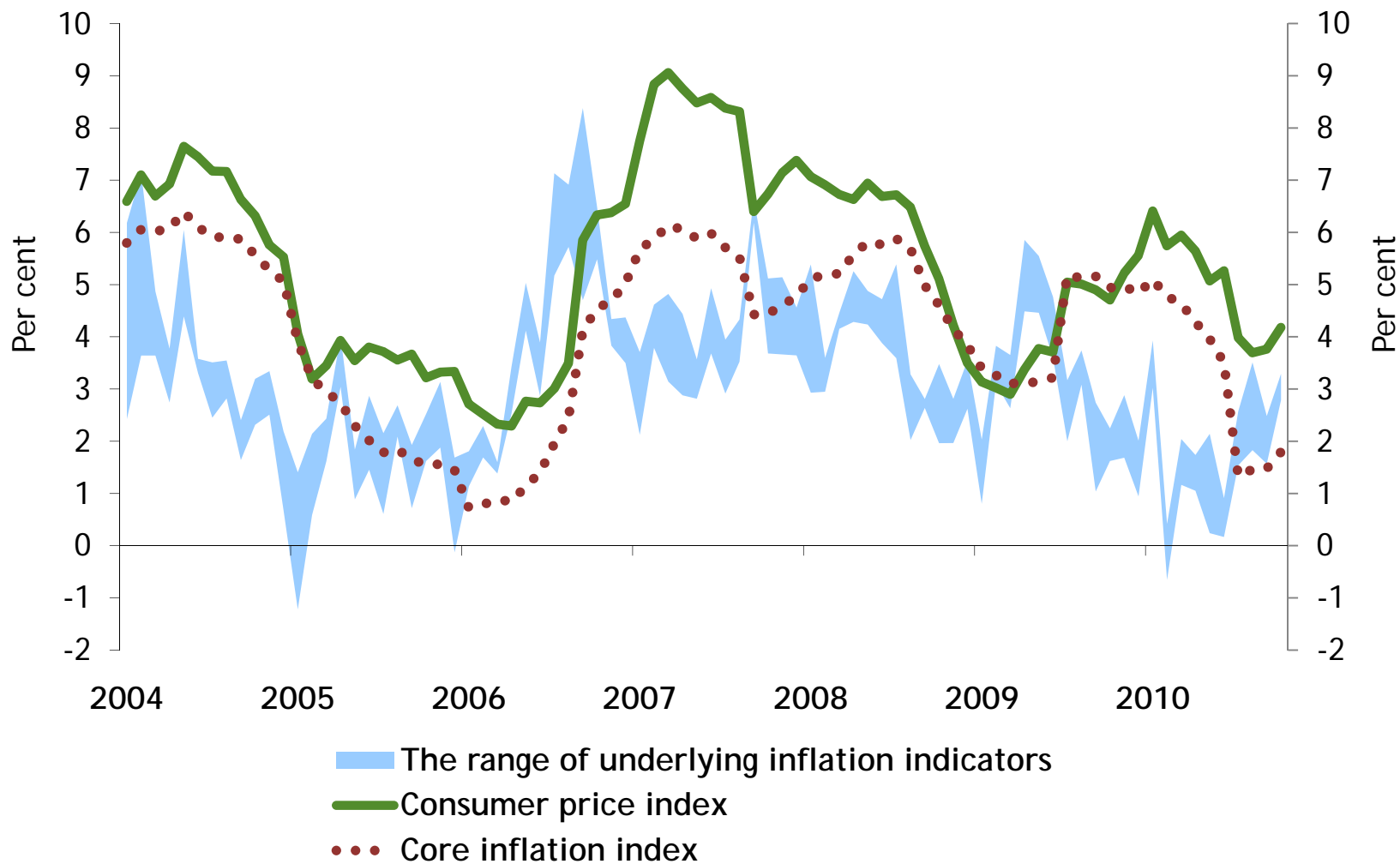
## Nontradable inflation in CEE



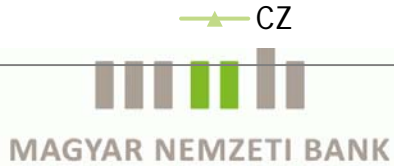
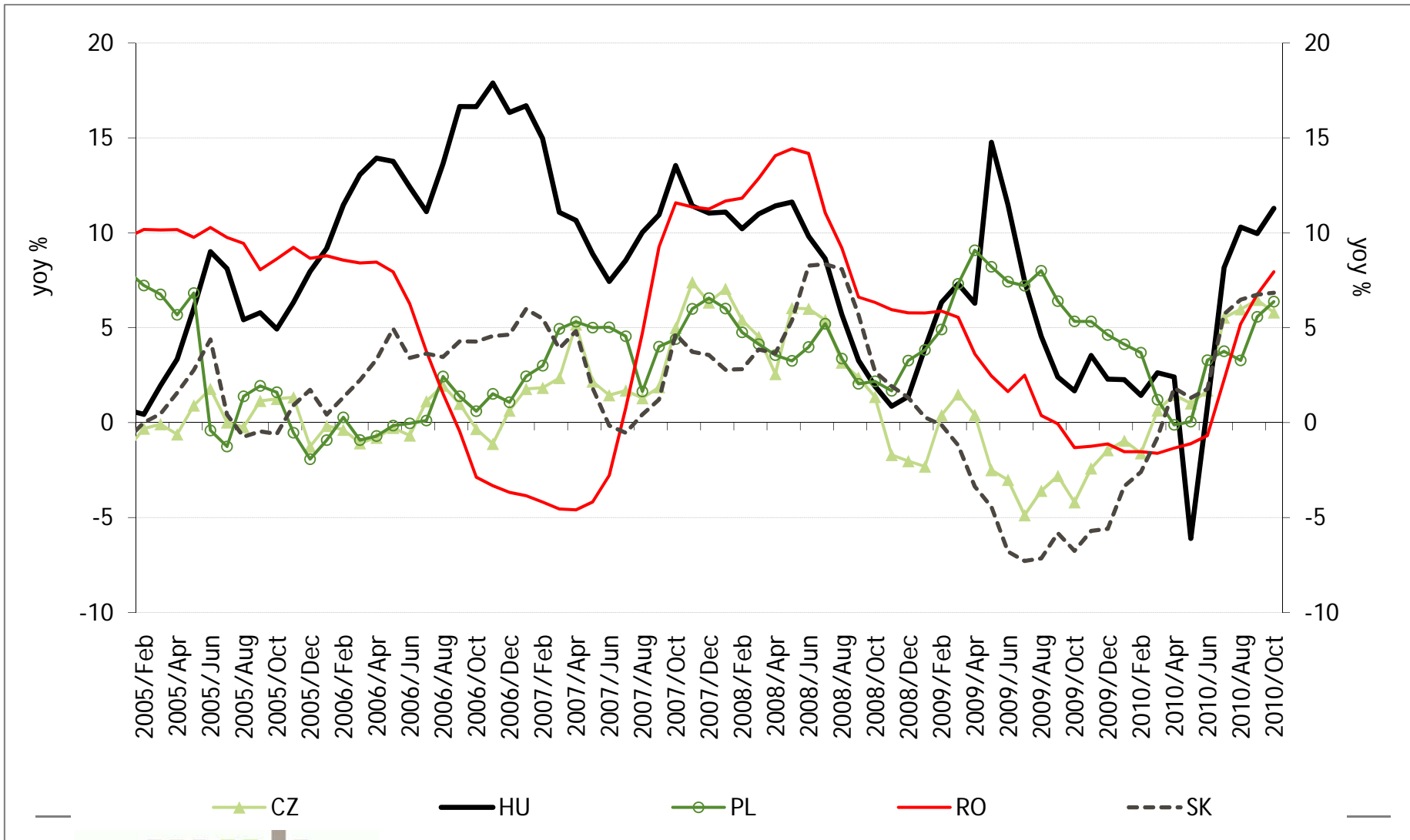
# Wage growth persistence has been broken as well



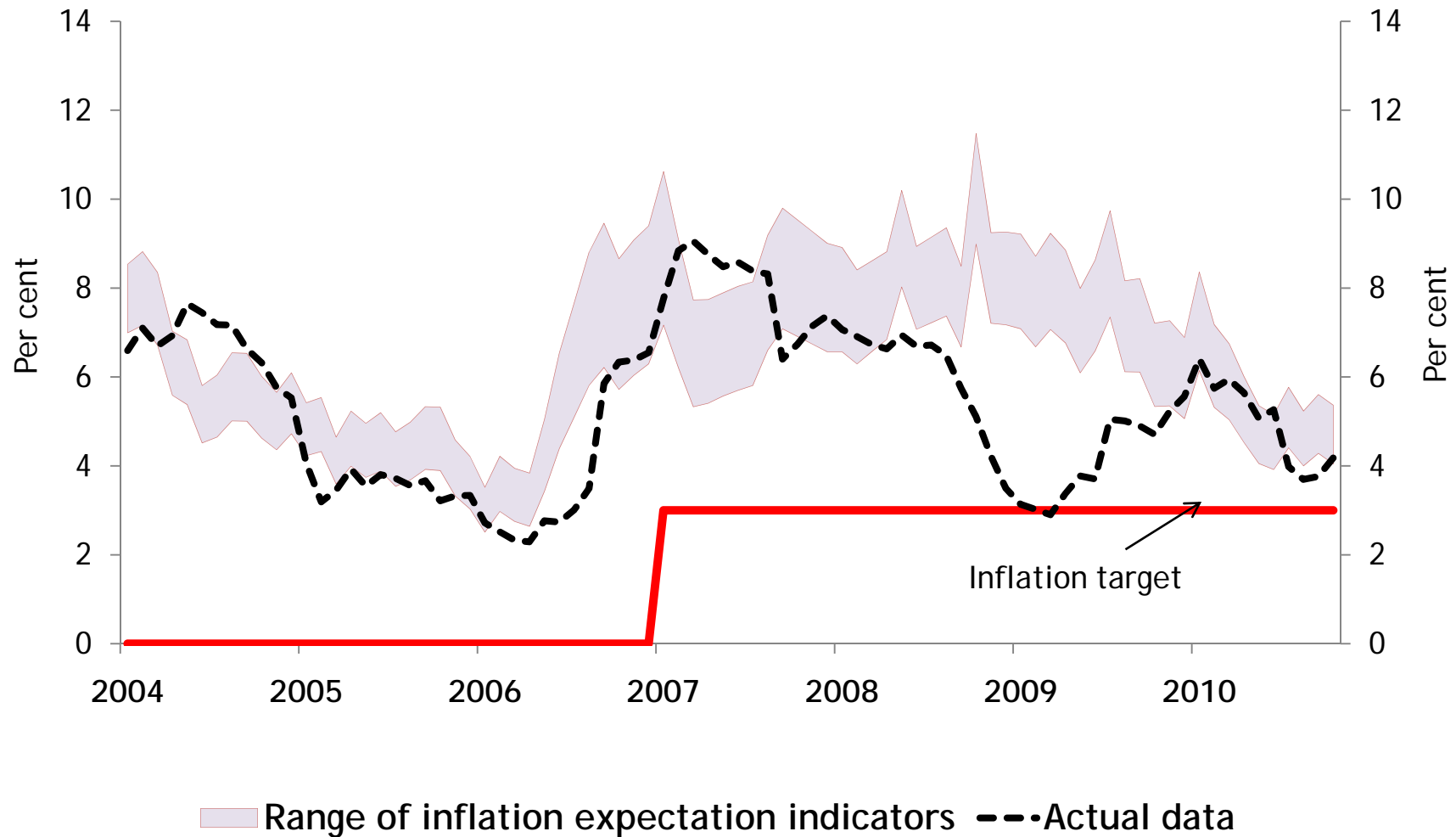
# Underlying inflation is increasing



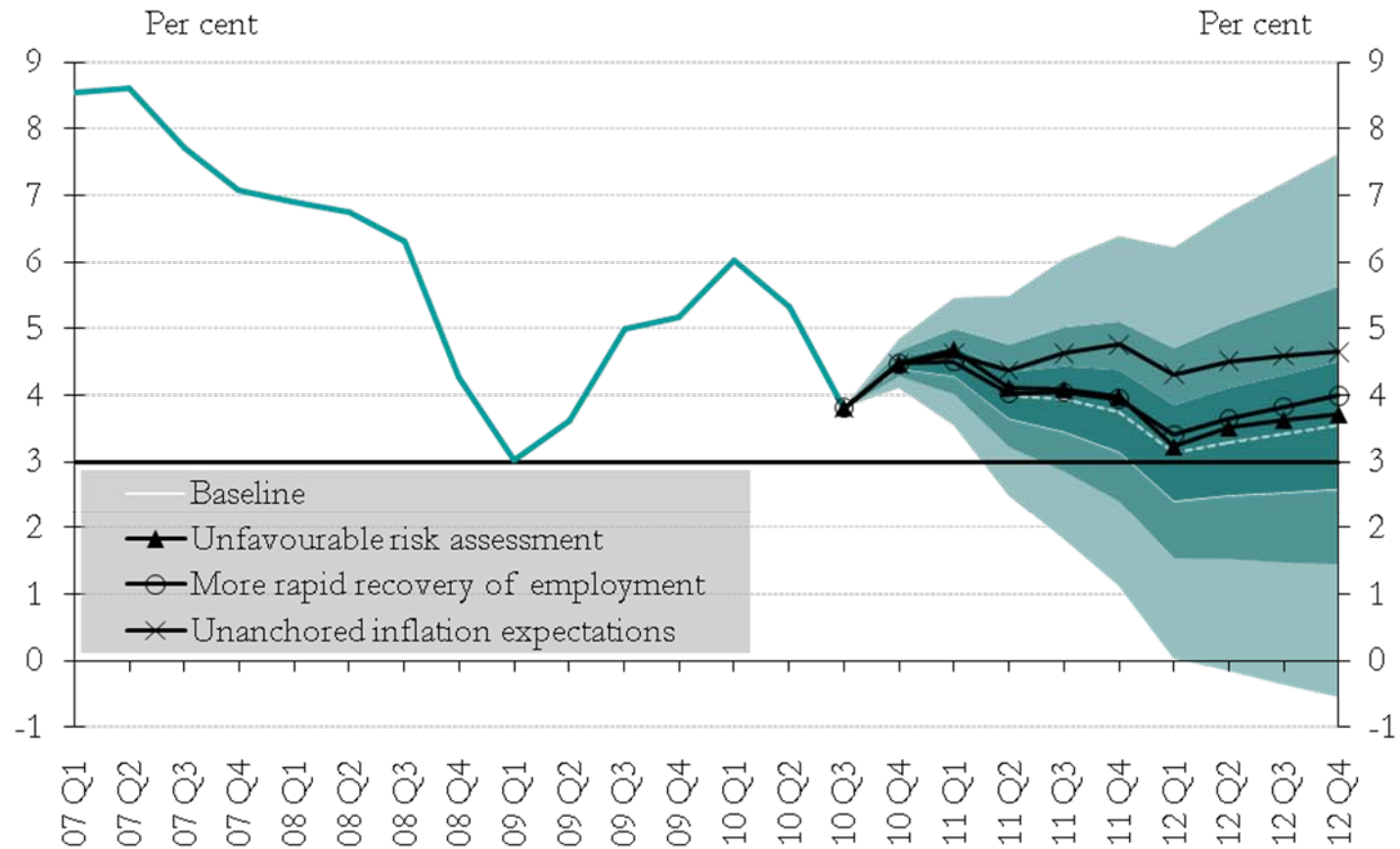
# Food prices are expected to raise inflation in the short term



# Households' inflation expectations are stuck significantly above target



# The November inflation fan chart



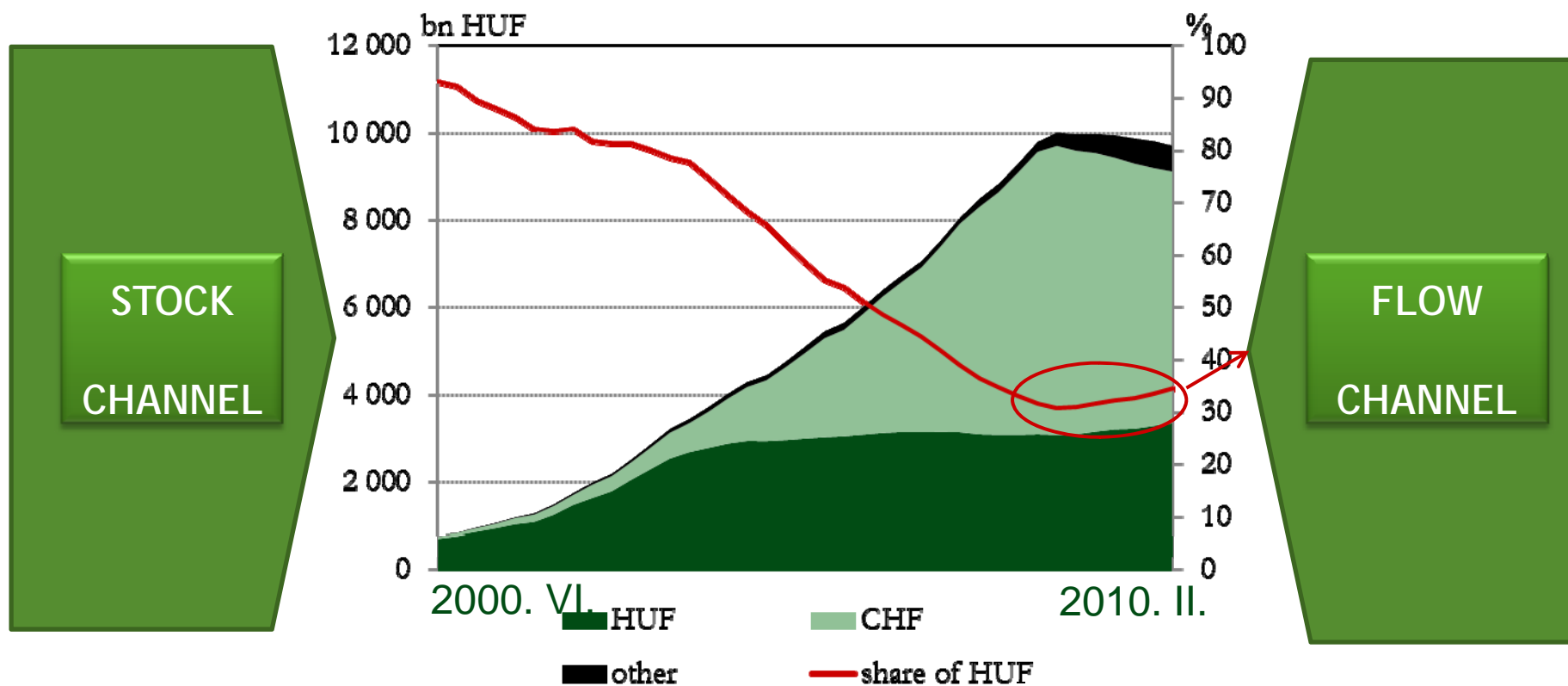
## Upside risks to inflation:

- Despite significant disinflation, inflation is still above target at the trough of the recession
- Negative output gap is still at work, but supply driven price hikes may drive up inflation if expectations are not anchored
- Negative output gap may fast shrink due to lower than expected potential GDP and higher than expected internal demand

## Favorable trade offs

- Balance sheet effects - due to unhedged FX loans - are significant
- The Hungarian economy's risk perception has deteriorated
- Tighter monetary conditions are preferable also for the stability of the financial system, which may play a key role in the recovery

# The stock and flow channels of monetary policy might counteract



# Modest tightening cycle

- The Monetary Council has started a tightening cycle in November (25 bp + 25 bp in 2 months)
- Preemptive move to stabilize inflation expectations and foster modest wage setting
- Medium term objective, directed at secondary inflationary impacts of the commodity price shocks

