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## Hungary: fiscal and monetary policy news

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The European media has been paying attention to unorthodox economic policies in Hungary for years, supporting or opposing them depending where they stand on the political spectrum. At the same time Hungarian decision makers always stress they represent the normality. Here comes the question: should we finally expect both monetary and fiscal policy normalization in the following years?

What do I mean on normal fiscal and monetary policy and where do the signals point to? Normal fiscal policy means a policy mix based on professional economic competence that supports sustainable growth and long term competitiveness of the country. Normal monetary policy requires a credible, independent central bank to tackle inflation and provide financial stability.

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Hungary*Source: MNB; Erste Research; per 28.2.2019*

### A look behind the numbers

On the field of fiscal policy we experience that the main macro numbers are improving and under control during the Orbán government, debt to GDP is slowly shrinking, central government deficit is around 2% of GDP in the last 5 years and current account surplus is reached year by year, employment is on all time high. The numbers look nice but we should look behind the numbers to evaluate long term sustainability. The structure of the economy has barely changed, still multinational industrial investments and production and very cyclical building sector activity pushes the growth above potential. Hungary is still very exposed to global growth and economically still vulnerable, although the biggest rating agencies have acknowledged that Hungary made huge progress on being more resistant to economic shocks. S&P and Fitch has just upgraded Hungary to two notch above investment grade.

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Hungary*Source: Weltbank; Feb 2019*

### Time to prove monetary policy is sustainable

The Orbán era monetary policy looks similar. There are plenty of results such as significantly declining gross and net external debt, low inflation, low yields and stable Forint. Two factors played significant role: globally loose monetary policy environment and slowly but gradually improving credibility of the central bank although this belief is rather based on the achievements than on the independence of the institution.

Now comes the time for the governor and for the staff to prove that the progress the Hungarian monetary policy reached is sustainable. Perfect timing of life is that Governor Matolcsy has been just appointed for a second 6 year long term. Even in the end of last year there was a rumor that Governor Matolcsy prefers being a minister who is responsible for national economic strategy, but it looks that Mr. Orbán follows the old sport principal: Never change a winning team!

### Conclusion

We expect that keeping the hard won credibility of the national bank requires monetary normalization slowly to begin in this year. The tone of the central bank has already changed, they stress that as the economy reached potential growth level, the monetary policy must focus solely on inflation targeting and tax adjusted core inflation trend is used as main proxy for monetary policy direction. Time will show whether this new 6 year mandate will be successful or not, let's hope for the best, but keep our powder dry!

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