



HNB

Monetary policy challenges on the way out of the COVID-19 crisis

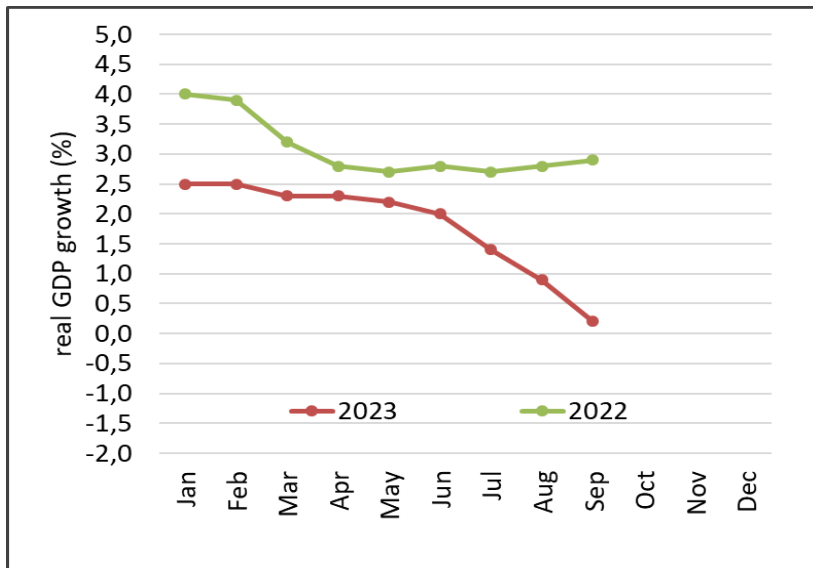
Istanbul, October 31 2022

**Seventh Annual Conference of
Mediterranean Central Banks**

Boris Vujčić, Governor

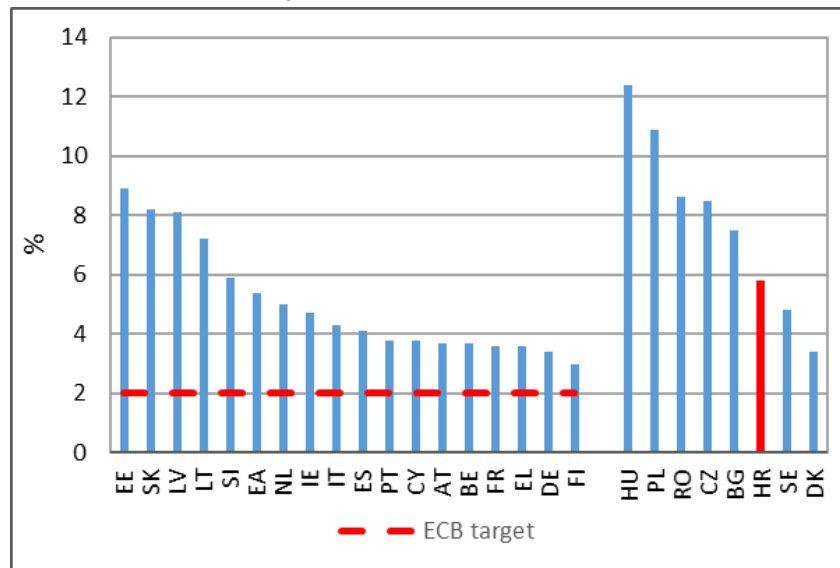
Severe slowdown in economic activity set against a rapidly deteriorating inflation outlook

GDP forecasts for the euro area



Source: Consensus Forecast, September 2022

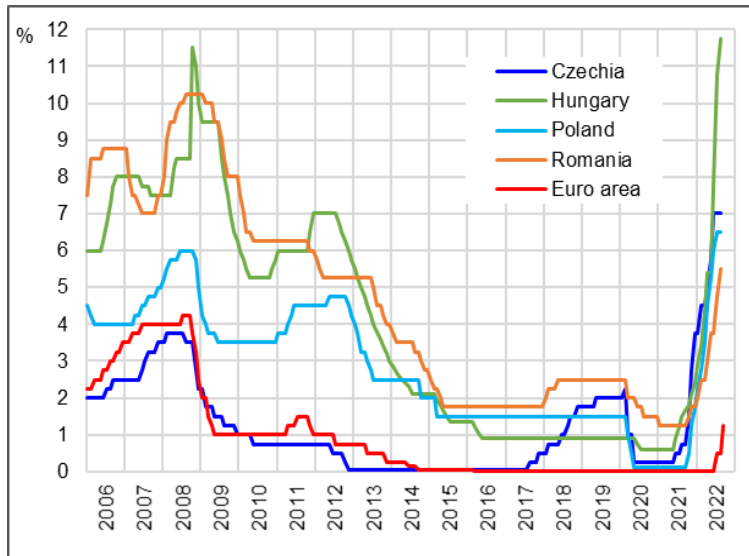
HICP inflation projection for 2023 in EU countries



Source: Consensus Forecast, September 2022

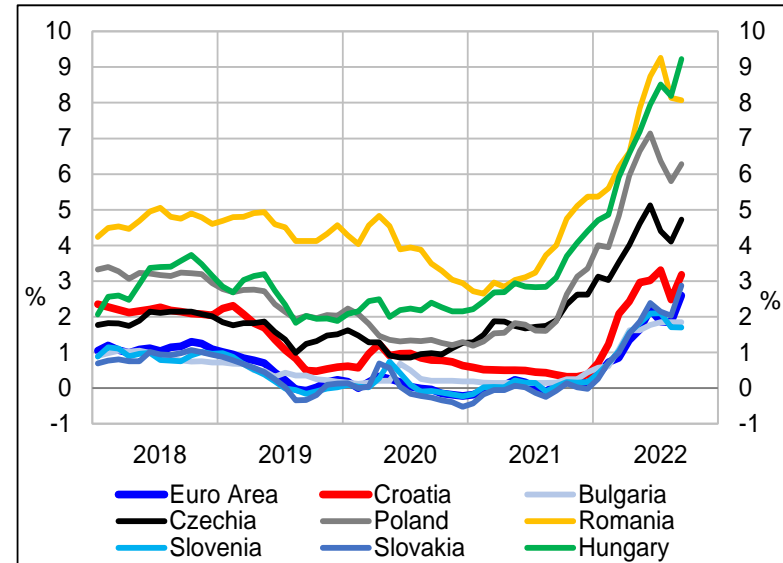
The expected increase in the pace of monetary policy adjustment drives up government bond yields

Central bank policy rates



Source: BIS

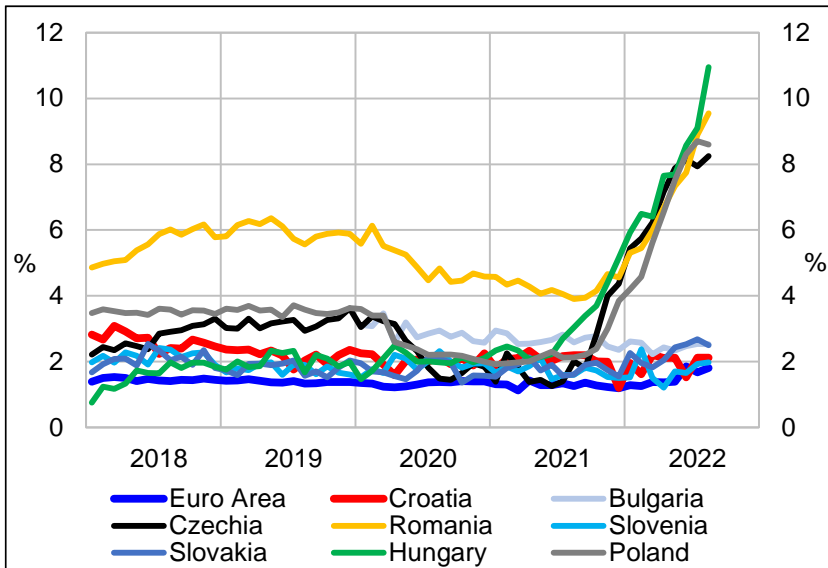
Ten-year or similar government bond yield in domestic currency



Source: ECB

Tightening of financing conditions is the strongest in inflation targeting non-EA countries

Interest rates on loans to corporates

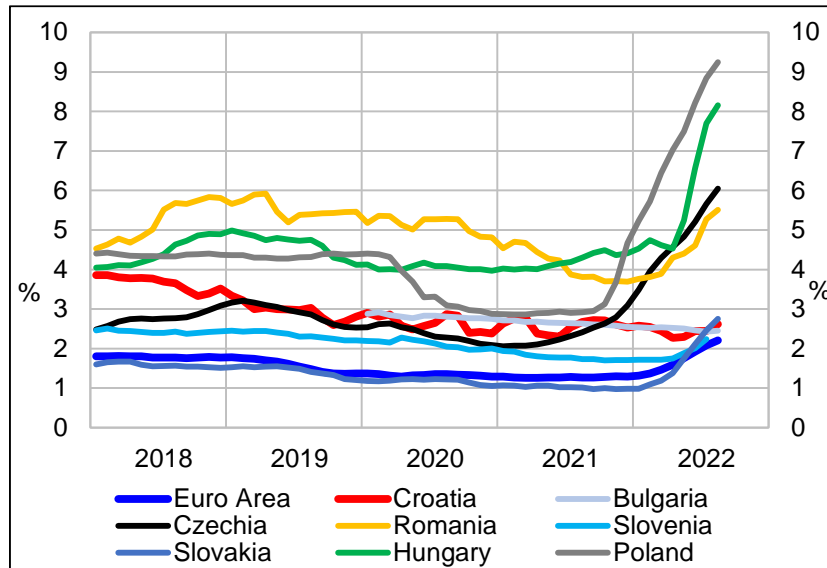


Note: Interest rates refer to new loans in domestic currency.

Source: ECB

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Interest rate on housing loans

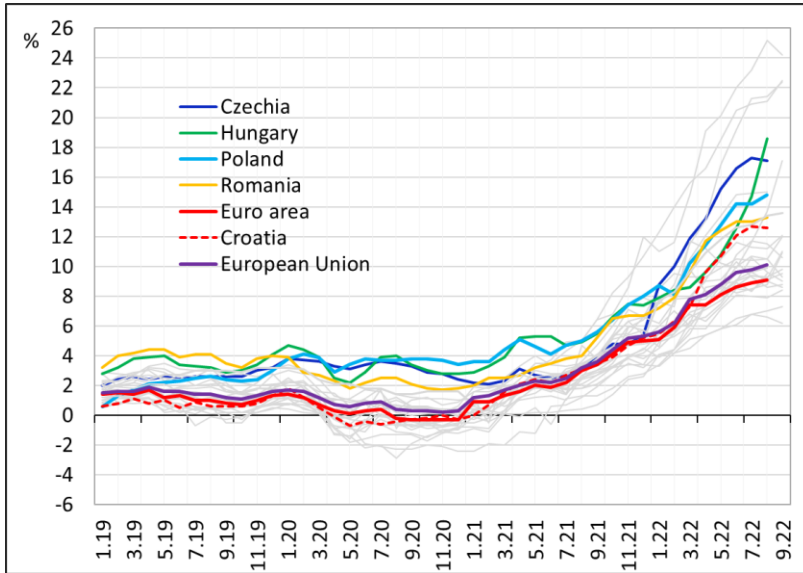


Note: Interest rates refer to new loans in domestic currency.

Source: ECB

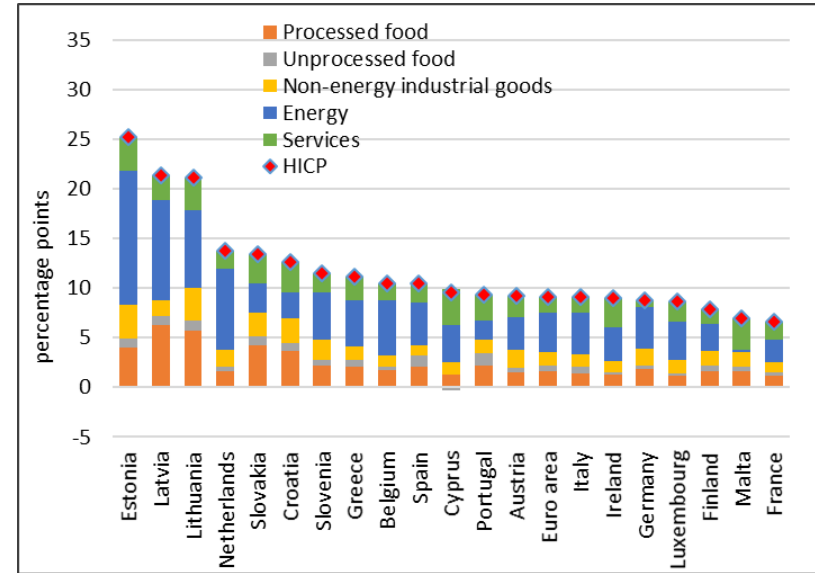
Dispersion in inflation across Europe largely driven by diverging effects of energy shock

HICP inflation dispersion across EU member states



Source: Eurostat

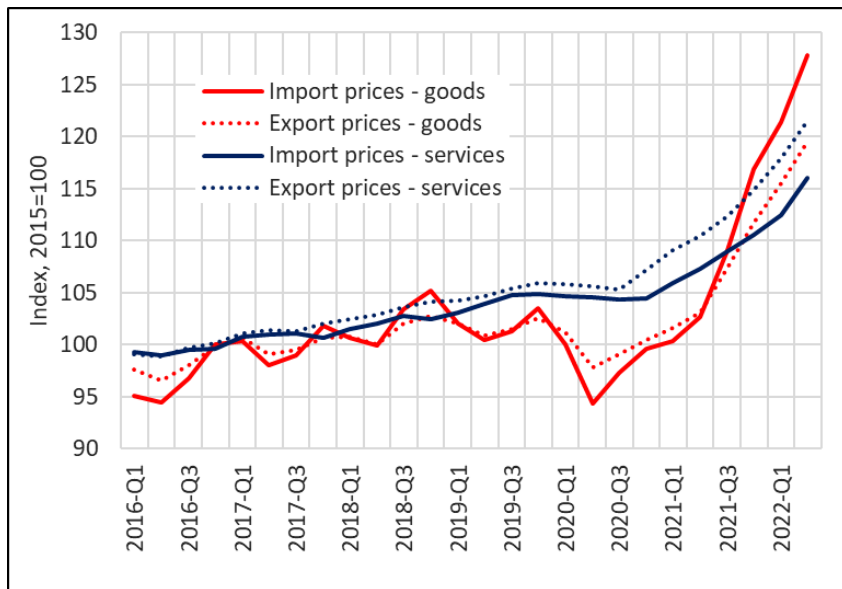
Contributions to inflation, August 2022



Source: Eurostat

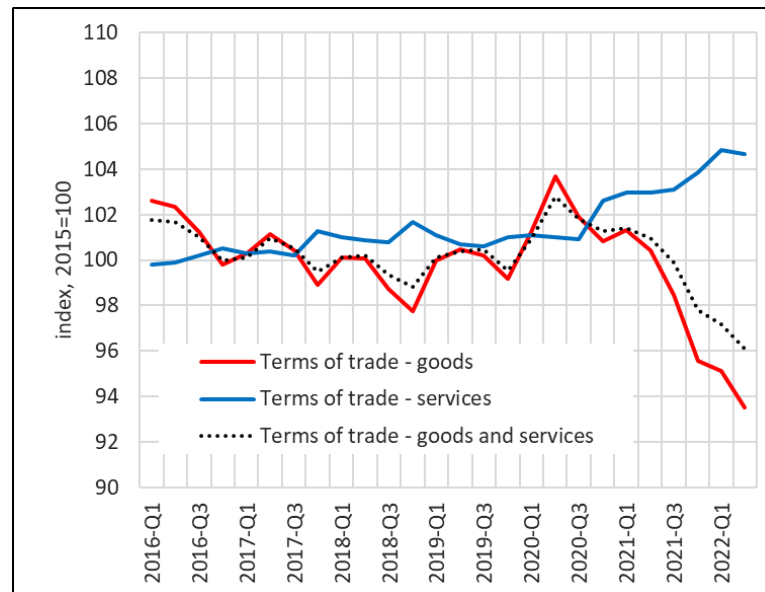
Higher services prices partly offset the deterioration in terms of trade driven by energy prices...

Export and import prices in the EU



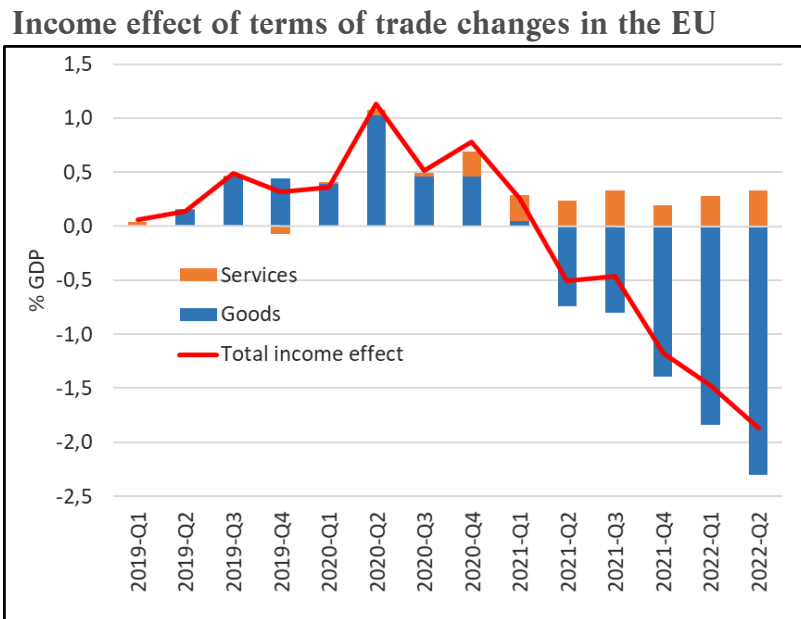
Source: Eurostat

Terms of trade for the EU



Source: Eurostat, CNB calculation

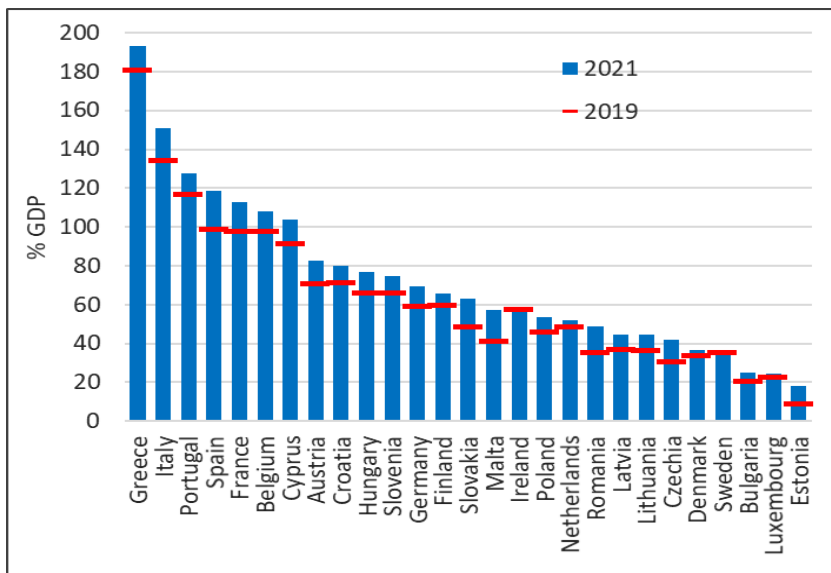
... and partially mitigate the negative income effect for service exporters



Source: Eurostat, CNB calculations

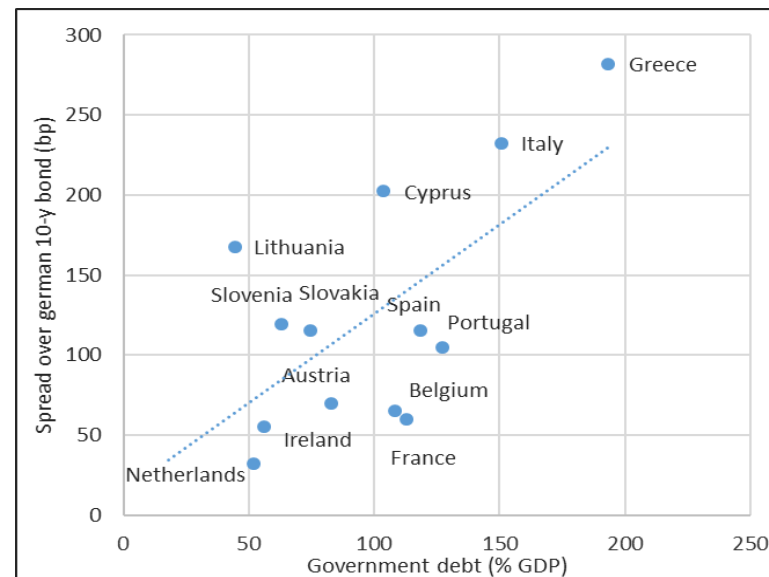
Tightened monetary policy and heightened uncertainty again raised concerns over debt sustainability ...

General government debt



Source: Eurostat

Government debt and yield spreads

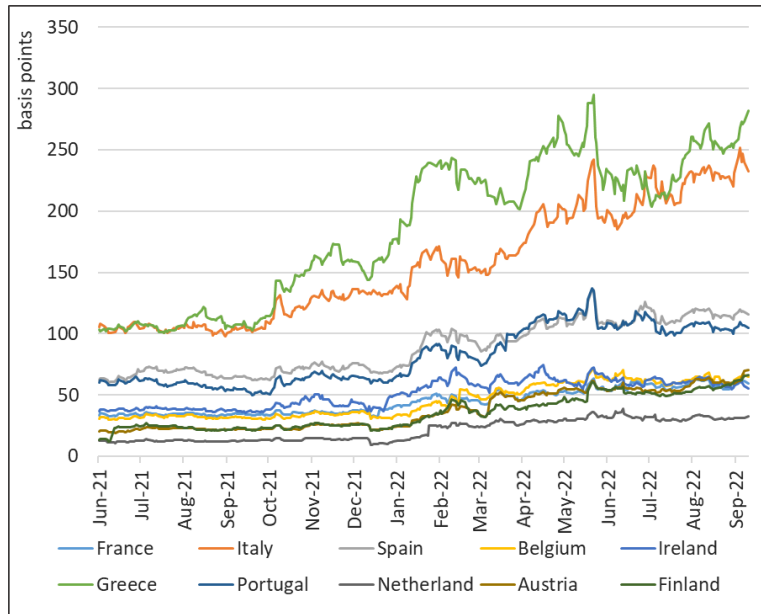


Note: Yield spreads as of October 4, 2022. Government debt at end-2021.

Source: Bloomberg, Eurostat

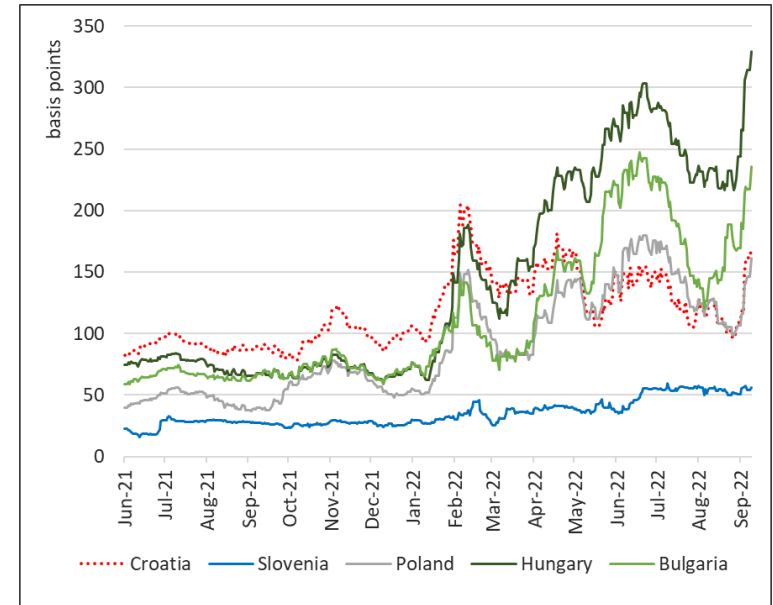
... with yield dispersion gradually increasing...

10-year sovereign debt yield spreads, EA member states



Source: Bloomberg

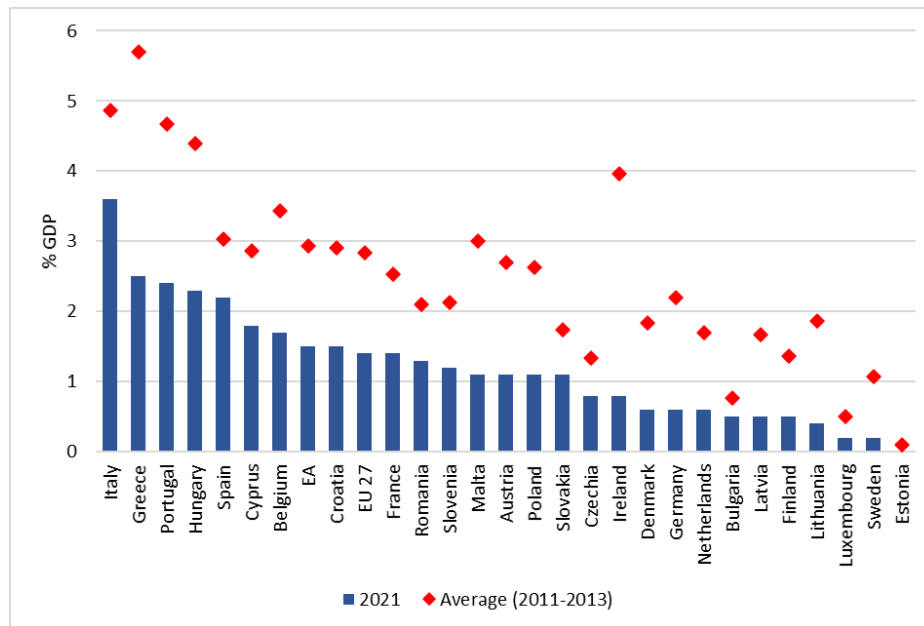
10-year sovereign debt yield spreads, non-EA members



Source: Bloomberg

...but the debt service is significantly lower than during the Eurozone debt crisis

Interest paid on general government debt, in % of GDP



Source: Eurostat

Thank you for your attention!