

An unpleasant surprise in Hungarian core inflation

Inflation took a new turn at the start of the year, with fuel and food prices continuing to climb. This data release poses challenges for monetary policy, but a more significant issue is the rise in perceived inflation, driven by the rapid increase in the prices of key items



4.6%

Headline inflation (YoY)

ING estimate 4.5% / Previous 3.7%

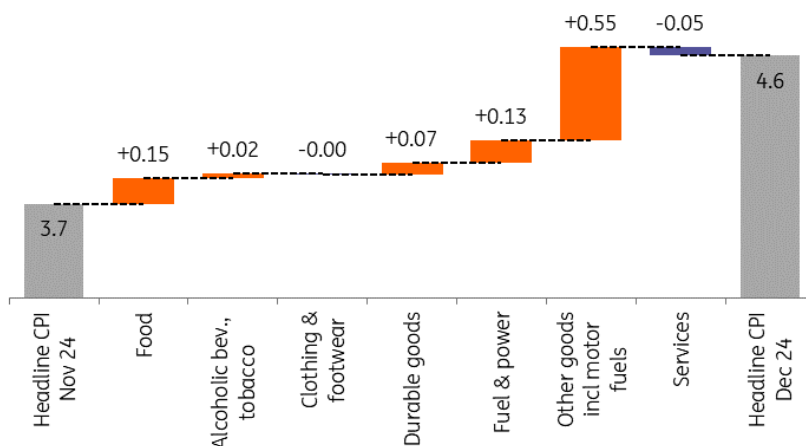
Higher than expected

Higher-than-expected inflation in December

Inflation has once again provided an unpleasant surprise. The inflation report from the Hungarian Central Statistical Office (HCSO) showed a stronger-than-expected acceleration in inflation in December. The year-on-year indicator jumped from 3.7% to 4.6%.

The increase in inflation was partly driven by a significant 0.5% monthly rise in the average price level and a low base from last year. Although the monthly repricing met our expectations, the composition of the changes caused some surprises.

Main drivers of the change in headline CPI (%)

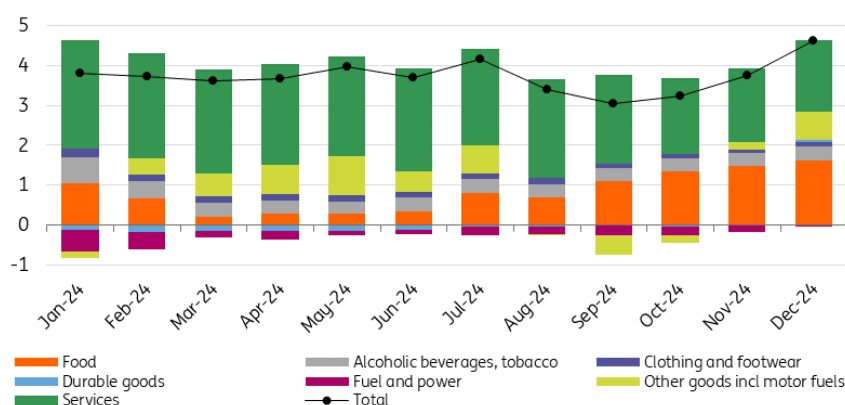


Source: HCSO, ING

The details

- Further increases in food prices were an important source of the strong one-month inflation. However, price increases were more moderate than in previous months and lower than expected. A bigger surprise, however, is that the Statistical Office recorded a 0.5% rise in the price of spirits and tobacco.
- What we missed in November occurred in December: a further significant depreciation of the forint was eventually reflected in the prices of consumer durables in the last month of 2024. According to the HCSO, this was the strongest one-month repricing (0.6%) of the year.
- The slightly colder weather in December compared with the previous year led to a significant increase in the average household energy bill, well above our expectations. Unsurprisingly, one of the most significant inflationary items was again the rise in fuel prices, with the average price up by 2.2% compared with November.
- In contrast, the change in services was somewhat milder than the year-end repricing of recent years. However, transport services, rents and insurance fees rose significantly in this category. This may also be due to the weakening of the forint, which is now being reflected in rising prices.

The composition of headline inflation (ppt)



Source: HCSO, ING

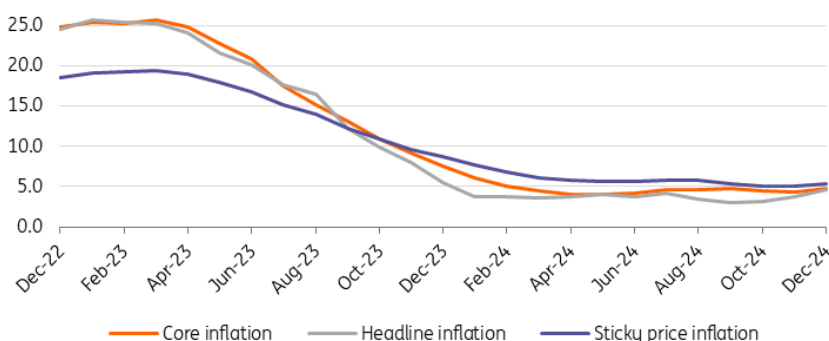
Core inflation also accelerates

In terms of the year-on-year indices, all components except services (where price pressures eased slightly on a yearly basis) contributed to the 0.9ppt acceleration in headline inflation. The main factor pushing up year-on-year inflation was the rise in fuel prices. This accounted for almost two-thirds of the acceleration. At the same time, the rise in the prices of processed food and consumer durables can also be seen as a significant contributor. As a result, core inflation rose from 4.4% to 4.7% in December, in contrast with the expected no-change.

Additionally, these items (food, fuel, and now rents and insurance charges) are significantly impacting perceived inflation, greatly contributing to the overall acceleration in inflation. In other words, household confidence is being impacted not only by the faster-rising official statistical data but also by the increasing perceived inflation, which is exacerbating the negative sentiment.

The National Bank of Hungary's analysis of inflation in December also showed that inflation expectations are becoming less anchored, as households' price expectations are rising in parallel with price expectations in the services and retail sectors.

Headline and underlying inflation measures (% YoY)



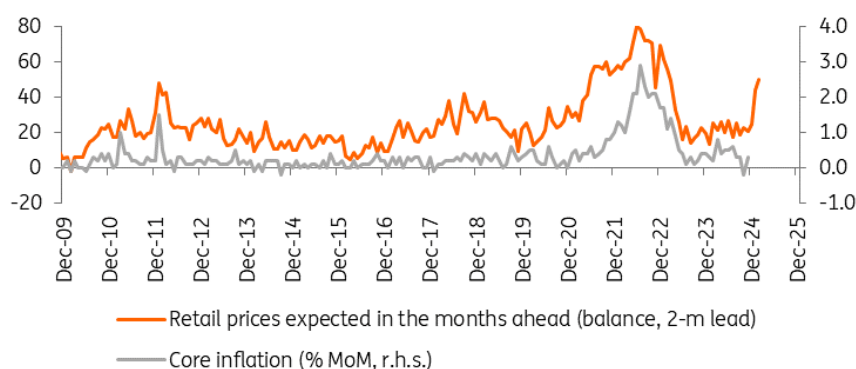
Source: HCSO, NBH, ING

We expect inflation to remain above the tolerance band for most of 2025

Looking at 2024 as a whole, consumer prices rose by an average of 3.7%, which is not only a significant improvement on the previous year, but also a better performance than the expectations outlined at the beginning of 2024. However, this positive development is overshadowed by the extremely weak performance of the Hungarian economy, which fell well below expectations and likely contributed to the inflation rise.

Looking ahead to 2025, we are likely to have a rather volatile year. The inflation rate could fluctuate between 3.7% and 5.1% during the year, while the average could be around 4.2%, according to our latest forecast. This means that the average rate of price increases could accelerate compared to last year. The combination of a weakening forint, higher global commodity prices (especially in food), economic policy measures (mostly tax hikes) and the expected high average wage increase in the private sector could, on average, keep both headline and core inflation outside the National Bank of Hungary's tolerance band of 2-4%.

The correlation between retail price expectations and core inflation



Source: Eurostat, HCSO, ING

From a monetary policy perspective, the December inflation figure is rather unfavourable. Not because of the rise in the headline indicator, but rather because of the rise in core inflation as the price changes of processed food, durables and services accelerate. In our view, the upside surprise in core inflation mostly came from the delayed impact of the weakening of the exchange rate. If this is true, this should certainly make monetary policymakers more cautious. Especially as the forint is still quite vulnerable and events in the coming months are more likely to lead to further weakening in the forint.

Moreover, perceived inflation could also lead to a further rise in inflation expectations, which is also a negative development from a monetary policy perspective. Against this backdrop, there is little chance of a resumption of interest rate cuts in Hungary in the short term.

Author

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.