

Hungarian disinflation slows

Headline inflation in February inched slightly lower, still remaining below the upper limit of the central bank’s tolerance band. However, we still see two rounds of reflation this year, mainly driven by base effects



Food prices in Hungary have risen by a mere 0.2% MoM, bringing the annual food inflation rate to the lowest level seen post-Covid

3.7%

Headline inflation (YoY)

ING estimate 3.7% / Previous 3.8%

As expected

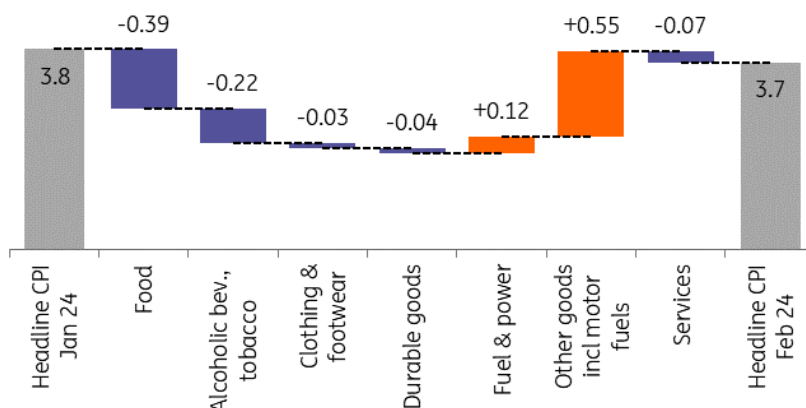
Disinflation is slowing as favourable base effects evaporate

Inflation in Hungary continued to fall in February, with the Hungarian Central Statistical Office (HCSO) reporting a lower inflation rate than the market consensus. This matched our own expectations exactly. Compared with January, headline inflation fell by 0.1ppt to 3.7% year-on-year, bringing inflation a little closer to the central bank’s 3.0% inflation target.

The monthly repricing in February was 0.7%, matching the repricing seen in the previous month. At the same time, core inflation rose by 0.2% month-on-month, suggesting that price pressures

were markedly lower among items included in the core basket.

Main drivers of the change in headline CPI (%)

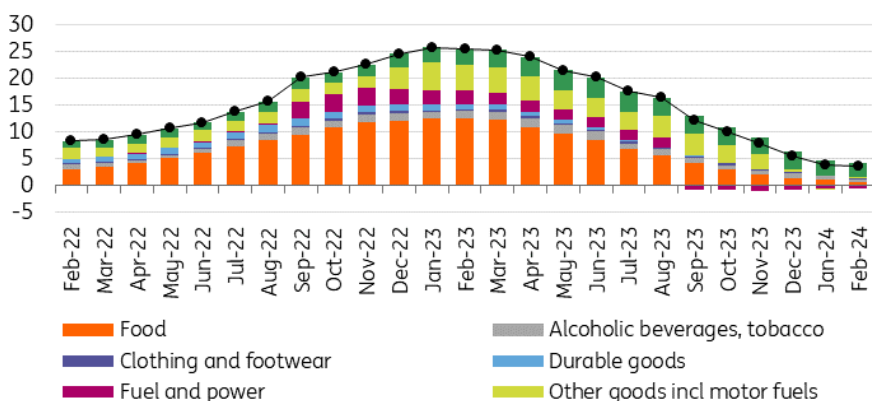


Source: HCSO, ING

The details

- Food prices rose by a mere 0.2% MoM, which brings the annual food inflation rate to 2.2%. This is the lowest level in the post-Covid era. On a monthly basis, both unprocessed and processed food price developments were subdued.
- Fuel prices surged by 6.7% MoM, which alone explains 0.4ppt out of the 0.7% monthly repricing for headline inflation. This is on the back of the significant excise duty increase. At the same time, household energy prices increased on a monthly basis, along with a 1% MoM rise in alcoholic beverages and tobacco prices.
- Prices of durable goods declined by 0.5% MoM in February, which can likely be explained by the easing of global inflationary pressures combined with weak external demand.
- Services prices rose by 0.6% MoM, which brings the annual services inflation rate to 10%. In terms of the annual headline inflation rate, the services component explains 71% of total inflation. This is typical at this point in the disinflation cycle, but it shows that there is still some work to be done.

The composition of headline inflation (ppt)



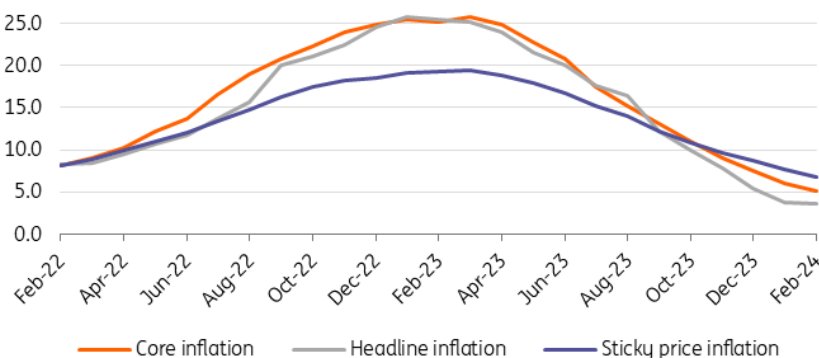
Source: HCSO, ING

Core inflation drops markedly as the monthly repricing remains muted

Core inflation decelerated by 1ppt to 5.1% YoY in February. The National Bank of Hungary's measure of inflation for sticky prices also decreased, displaying a reading of 6.8% YoY. This is the result of a 0.2% MoM increase in core inflation, which is completely in line with the 3% inflation target.

Price pressures in the services sector are certainly an area we'll be watching closely, especially as we expect backwards-looking price adjustments in March and April in the financial and telecom service sectors, which could mean double-digit price increases again in these areas.

Headline and underlying inflation measures (% YoY)



Source: HCSO, NBH, ING

We expect two rounds of reflation this year, driven by base effects

Going forward, we expect monthly repricing to be somewhat lower, with headline inflation hovering around 3.3-3.5% YoY in the coming months. Services inflation is likely to remain the main driver, and the rise in fuel prices should add to the monthly price adjustment. However, the

generally benign inflation picture will not last too long; we expect two rounds of reflation this year.

The first round is expected to start in May and the second in October. As a result, our inflation forecast for December 2024 remains in the 5.5-6.0% range, but our point estimation is currently closer to the upper limit of the band. For the time being, however, it is indeed rather difficult to make forecasts for the second half of the year. The Hungarian economy appears to be showing a rather weak performance, as indicated by the latest fourth-quarter GDP stagnation and the incoming January hard data. On top of this, the tightness of the labour market have eased, which may put downward pressure on wage growth. Even though confidence has improved slightly, this doesn't mean that households will suddenly start a spending spree. All these factors may act as a drag on inflation in the second half of the year and therefore pose downside risks to our forecast.

On the other hand, the fiscal situation is quite worrying as growth prospects dampen, and we do not rule out the need for a fiscal adjustment in the second half of the year to achieve the 4.5% (still unofficial) deficit target. In case of adjustments, these measures could be partially pro-inflationary, as companies can pass on additional costs quite quickly and aggressively when faced with such a situation.

The macroeconomic fundamentals would indicate another 100bp cut

From a monetary policy perspective, the latest data provides the central bank with additional ammunition on the macroeconomic side to push for another 100bp rate cut at the March meeting. The combination of today's favourable inflation and core inflation data, the improvement in the external balance in January, the mixed picture of economic activity in January (which tended to show signs of weakness), and the negative labour market developments could justify maintaining the pace of easing. However, with only roughly two weeks to go before the next decision (26 March), developments in financial markets, especially in the FX market, could reshape the risk and inflation outlook and limit the central bank's room for manoeuvre.

Authors

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Dávid Szónyi

Research Trainee

david.szonyi@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 <http://www.ing.com>.