Hungarian inflation exceeds all expectations in February

Inflation accelerated further in February, despite all expectations pointing to a slight slowdown. Food and services prices are the main drivers. The government is introducing measures to combat high inflation, but success remains uncertain

Looking at the cumulative price increase over a five-year horizon, we see an 80.3% increase in food prices between February 2020 and February 2025

5.6%

Headline inflation (YoY)

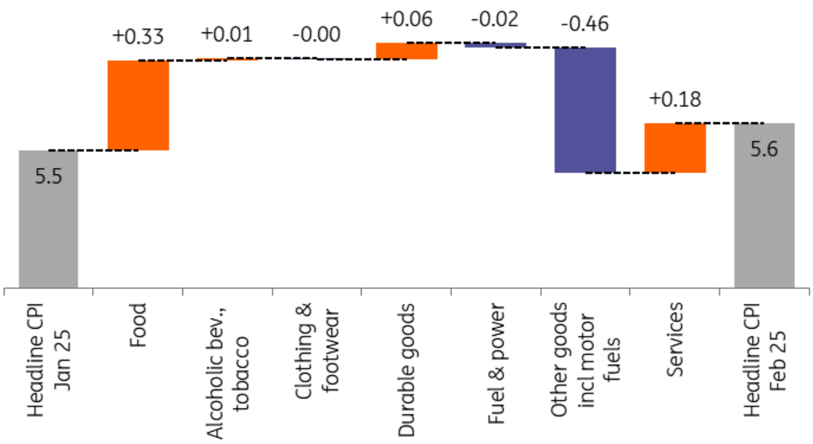
ING estimate 5.3% / Previous 5.5%

Higher than expected

Surprisingly high inflation in February

Analysts expected a slight moderation in inflation in February but instead, the latest data from the Hungarian Central Statistical Office (HCSO) showed a further acceleration. February inflation was not only higher than the market consensus but also exceeded all expectations. This means that inflation has been a very unpleasant surprise for two months in a row. Prices rose 0.8% month-on-month in February, bringing the year-on-year inflation rate to 5.6%. The actual monthly repricing is about four times higher than the 0.2-0.3% average monthly increases seen in the years before the inflation fever.

Main drivers of the change in headline CPI (%)

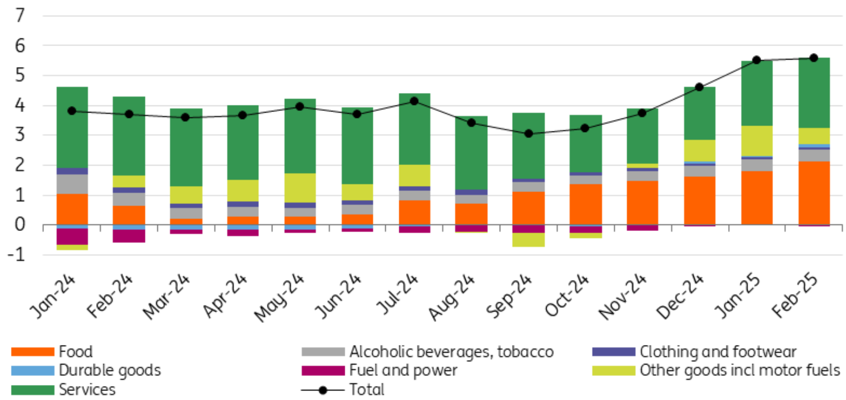


Source: HCSO, ING

The details

- The continued sharp rise in food prices was the major source of the strong one-month increase. Food price increases seen in the last two months are a repricing rate reminiscent of the period of the cost of living crisis. Both processed and unprocessed food inflation remained strong.
- Consumer durables also rose on a monthly basis, despite the more pronounced appreciation of the forint during February, so this came as a surprise.
- Household energy was a pleasant surprise, as it hardly contributed to the rise in inflation. Fuel and clothing prices also pulled back inflation, but these were roughly in line with expectations.
- In services inflation we saw another shock, with prices in this segment rising by 1.2% compared to January. Other services rose significantly, where we find price changes for financial and insurance services. Prices for labour-intensive services, such as health care and household services, are also up sharply. Here, it is likely that the minimum wage increase is being passed on to consumer prices.

The composition of headline inflation (ppt)



Source: HCSO, ING

Deteriorating inflation picture in all aspects

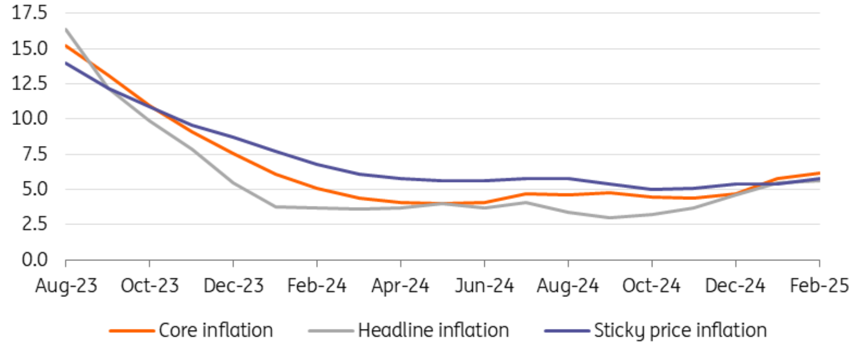
In the context of perceived inflation, the overall picture continues to be worsened by significant increases in everyday expenditures, such as food and some basic services. A pick-up in perceived inflation is likely to further undermine consumer confidence, and this will particularly be the case if fears surrounding a reluctance among companies to raise wages this year are confirmed. Indeed, a significant proportion of households could face a reduction in their purchasing power if this year's wage increase falls short of the rate of inflation. At this point, therefore, we should fear a recessionary impact of inflation rather than a price-wage spiral.

To illustrate how big this issue is – and why households are feeling pressured – all we have to do is check price developments in food. Looking at the cumulative price increase over a five-year horizon, we see an 80.3% increase in food prices between February 2020 and February 2025. It's hardly surprising that households are generally dissatisfied with their financial situations.

It also comes as little surprise that the Minister for the National Economy, Márton Nagy, and Prime Minister Viktor Orbán have already announced some measures from March through May to tackle inflation. The problem is that from a political perspective, immediate action could be positive – but previous experiences have shown that these interventions can have downsides that are difficult to quantify at this point.

If we turn our focus to monetary policy, in addition to perceived inflation, the rise in core inflation to 6.2% should also make the central bank cautious. Indeed, in the current situation, conventional monetary stimulus could only exacerbate the inflationary shock through a depreciation of the forint. The inflation situation is deteriorating on all fronts, significantly narrowing the room for manoeuvre when it comes to monetary policy.

Headline and underlying inflation measures (% YoY)



Source: HCSO, NBH, ING

We have raised our forecast for the year due to the February data

We have once again revised our inflation forecast for this year after the February inflation release. We previously raised our forecast for this year to 5.1% following the release of January's figure, and today's data brings the new forecast to 5.6% in 2025. The year-on-year rate of price changes is expected to fluctuate between 5.0 and 6.5% throughout the remainder of the year. With this kind of inflation outlook, there is a growing possibility of another big negative surprise in Hungary's economic performance.

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