# Hungarian inflation increases in a bigger step

As expected, inflation began to rise at a faster pace as the year drew to a close. Fuel and food prices rose. The data release is broadly positive for monetary policy, but households are likely to perceive this differently, which may further undermine consumer confidence


Inflation in Hungary rose in November on higher food and fuel prices

**3.7%**

Headline inflation (YoY)

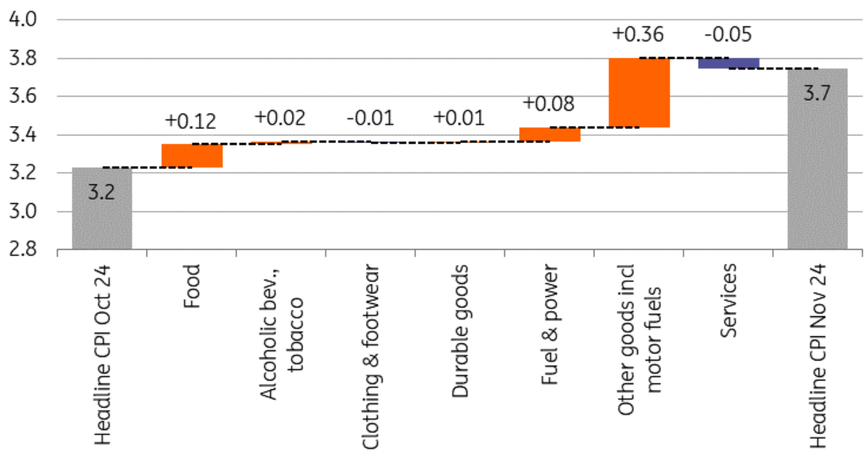
ING estimate 3.8% / Previous 3.2%

Lower than expected

## The expected arrival of higher inflation

Inflation in Hungary accelerated in November, roughly in line with expectations. The annual rate rose from 3.2% to 3.7%. The high average monthly repricing of 0.5% and a low base last year were both responsible for the rise in the inflation rate. And while headline inflation is moving away from the National Bank of Hungary's 3% inflation target, the underlying inflation picture remains encouraging for now. This is due to the fact that demand-side price pressures are likely to be subdued, while the shocks in non-core items are coming from the supply side.

## Main drivers of the change in headline CPI (%)

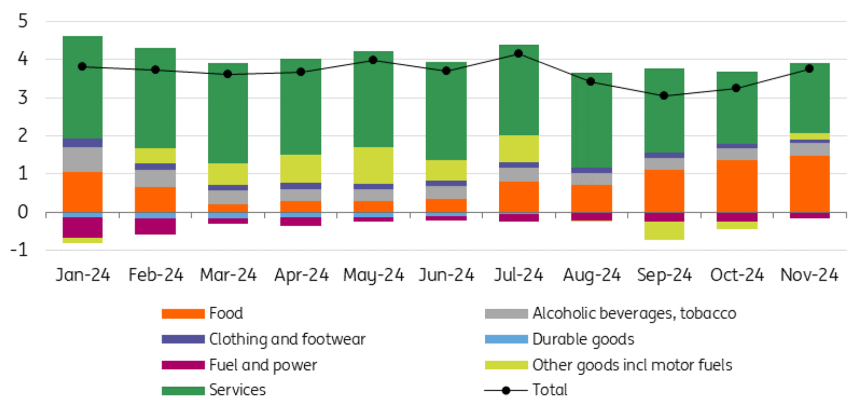



Source: HCSO, ING

## The details

- Further increases in food prices were an important source of the strong monthly repricing. The price index in this segment rose by 0.9% in November compared with the previous month, continuing the similarly strong price increases seen since September. Unprocessed food prices were up 2.1%, while processed food prices rose by 0.3% on a monthly basis.
- Somewhat surprisingly, the average price of consumer durables fell, mainly for televisions and audio and video equipment (durable goods for recreation). This suggests that the impact of "Black Friday" may have been stronger than usual in this product group. Shops selling electronic goods may have tried to stimulate the otherwise sluggish demand by offering larger discounts.
- As expected, household energy prices rose slightly on a monthly basis as the colder weather set in. Fuels were the other main contributor to the acceleration in inflation, rising by 2.4% on a monthly basis. Prices for market services rose by 0.4% on a monthly basis, which could be explained by higher prices for health services.

## The composition of headline inflation (ppt)




Source: HCSO, ING

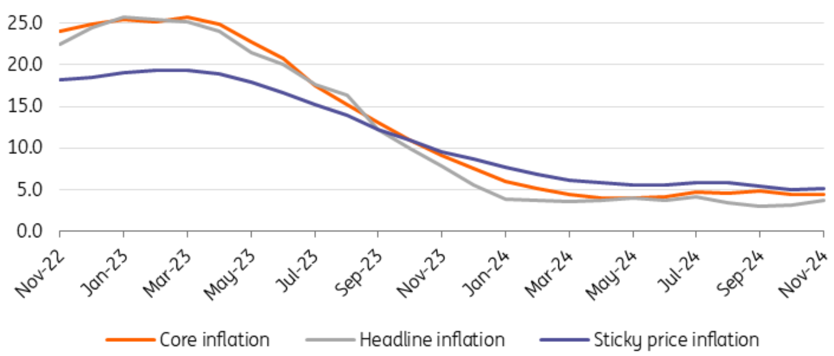
## Food prices and fuel drive inflation

Among products, the rise in food (especially in unprocessed food) and fuel prices from October to November almost entirely explains the 0.5% rise in monthly inflation. It is therefore not surprising that core inflation was more subdued: 0.3% month-on-month. As a result, year-on-year core inflation slowed by 0.1ppt to 4.4% in November. The National Bank of Hungary's measure of sticky price inflation accelerated by only 0.1ppt to 5.1% YoY. Headline inflation was slightly lower than the central bank's forecast in the September Inflation Report, while core inflation was clearly lower than forecast.

The slowdown in core inflation is explained by continued disinflation in market services. Annualised measures, which capture more persistent inflation trends, have not changed much. If we annualise the three-month average of seasonally adjusted core inflation, it stands at 1.6%, which is favourable, but of course, the one-off deflation in October also helped this a lot.

In general, the overall statistical picture looks rather comfortable, especially compared with expectations a few months ago. However, the structure of inflation is not favourable. The two most important items in perceived inflation, food and fuel, have both shown significant price increases recently. In other words, while the overall inflation picture is far from dire, households' experiences may be very different. And a significant rise in perceived inflation could further undermine consumer confidence, which has taken another negative turn in recent months.

## Headline and underlying inflation measures (% YoY)



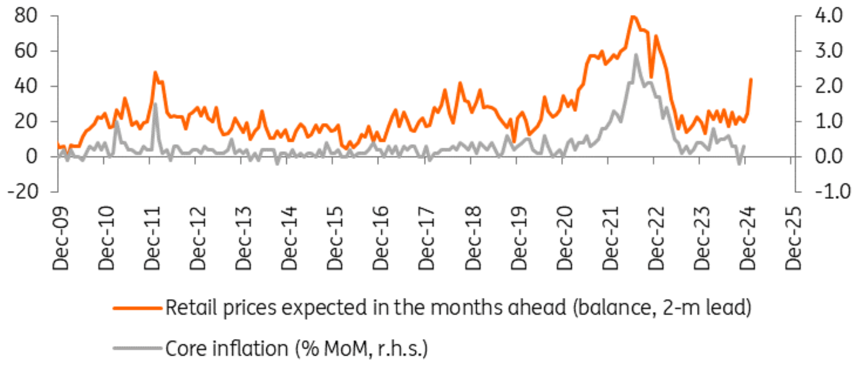

Source: HCSO, NBH, ING

## We expect inflation to accelerate further

Looking ahead to the last month of the year, inflation is expected to accelerate further. In the absence of any significant change in developments over the next ten days, the rise in fuel prices at the end of November will tend to push up the inflation rate. With regard to food, global developments and the weakness of the forint point to further increases. Moreover, even taking into account seasonal effects, the December repricing tends to be stronger. All in all, we expect the rate of price increases in December to be well above 4%. This would result in an average annual inflation rate of 3.7% for 2024 as a whole.

As far as the overall picture for inflation in 2025 is concerned, the average rate could accelerate compared with this year. By how much, will largely depend on the exchange rate of the forint, wage growth and the ability of companies to pass on costs. The latter will also be an important factor in next year's tax increases. Fundamentally, it is clear that weak demand is having a disinflationary effect, and the depreciation of the forint has not yet had its full impact on inflation, but it will. Our current forecast for average inflation next year is 4.2%. We expect monthly repricing to be high again at the beginning of the year.

## The correlation between retail price expectations and core inflation




Source: Eurostat, HCSO, ING

Overall, the data release is positive for Hungarian monetary policy, mainly due to a better picture of underlying inflation. On the one hand, the lack of demand pressures in the short term clearly improves the inflation outlook for the Hungarian economy. At the same time, however, the rise in perceived inflation and the associated upward shift in inflation expectations should continue to prompt the National Bank of Hungary to remain cautious.

However, the central bank hardly needs to address the issue of monetary easing today, given the forint's woes. Although the positive Fitch decision has brought some recovery, the exchange rate against the euro has still not left the 410-415 range and is within half a percent of its all-time high against the zloty.

The question remains whether the central bank will start to openly communicate the possibility of a rate hike in December should circumstances require it. While it may seem logical to talk about it, it could well be that the central bank would only be drawing in investors and encouraging them to test the NBH's breaking point and tolerance for exchange rate weakness. In other words, it could well be that the Monetary Council is setting itself up as a target. Monetary policy is therefore not in an easy position, as the underlying economic fundamentals could justify easing, but the vulnerability of the forint limits this possibility.

## Author

**Peter Virovacz**
Senior Economist, Hungary
peter.virovacz@ing.com

**Kinga Havasi**
Economic research trainee
kinga.havasi@ing.com

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