

## Hungary: A short-term inflation turnaround

Headline inflation in Hungary is up for the first time since April. Higher pork prices, in part due to swine flu, combined with excise duty changes kicking in with full force. Core inflation also jumped, and it looks like the lows are behind us for the rest of the year



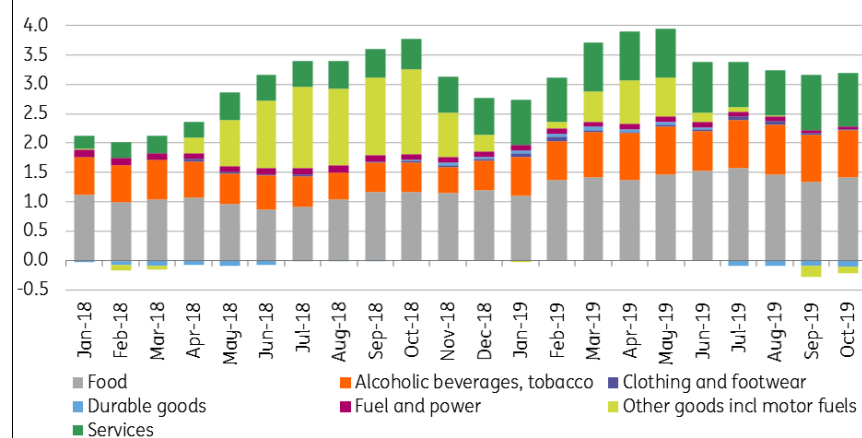
The biggest market in Budapest

Hungarian headline inflation came in at 2.9% year-on-year in October, posting a 0.1ppt higher reading than a month ago. It's stopped the downward trend which began in the spring. The upside surprise was mainly driven by food and energy but, this time, core items were also behind the moves:

- Food prices soared 0.8% on a monthly basis, driven by pork prices and the related processed food products. Due to the latter, this impacted core inflation too. Fruit and sugar prices also jumped, while milk and dairy products also moved the needle for both core and headline inflation;
- Tobacco products continued to become more expensive due to excise duty changes, posting a 1.8% monthly price increase, also affecting core inflation;
- Among energy-related goods, coal, briquettes and firewood showed a stronger-than-expected price increase pushing the energy price increase to 0.2% MoM, the highest in the

past twelve months;

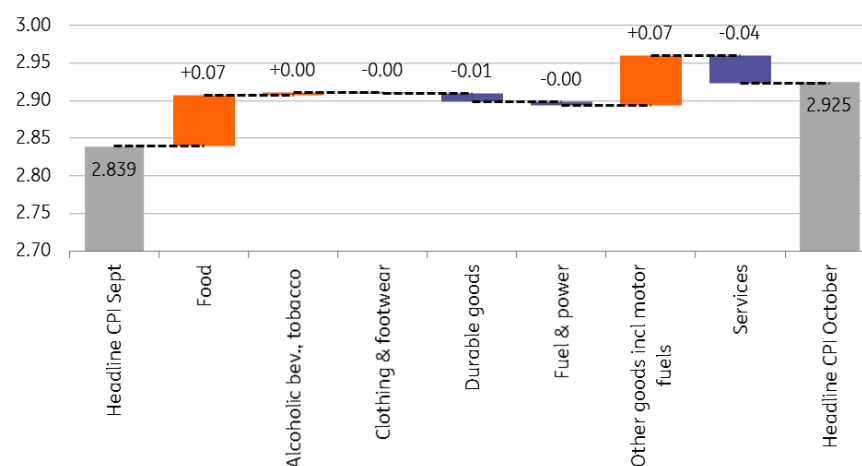
## The composition of headline inflation (ppt)



Source: HCSO, ING

The year-on-year drop in fuel and durable goods prices was not enough to counterbalance the upside surprises in food, energy and tobacco products. Elsewhere, inflation in services remained broadly unchanged, despite the strong base effect from last year. So it also added to the surprise in core inflation, which accelerated by 0.1ppt to 4% YoY in October, while core inflation excluding indirect taxes jumped to 3.7% YoY, as the previous round of excise duty hikes dropped out from the base.

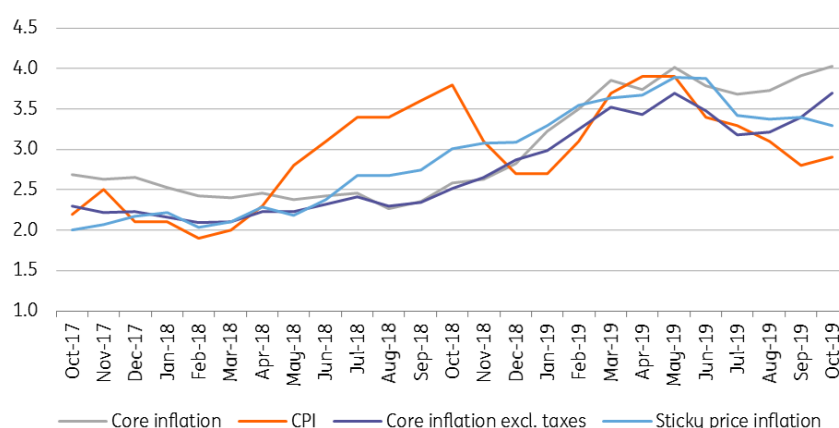
## Main drivers of the change in headline CPI (%)



Source: HCSO, ING

Despite the surprise compared to consensus, the recent headline reading is in line with the central bank's forecast. Core inflation came in a touch higher than the NBH might have expected, but we hardly see this as a trigger to change monetary policy.

## Headline and core inflation measures (% YoY)



Source: HCSO, NBH, ING

As inflation was already accelerating in October, it means the nadir was in the previous month. As favourable base effects faded in the remainder of the year, both headline and underlying inflation measures continue to accelerate. Against this backdrop core (and core ex-tax) CPI might rise to above 4% by the year-end before it starts lowering again by the end of the first quarter next year.

## Author

**Peter Virovacz**

Senior Economist, Hungary

[peter.virovacz@ing.com](mailto:peter.virovacz@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>.