

## Hungary: Core inflation accelerates further

The August set of inflation data was a mixed bag. While the acceleration in headline inflation eased, this was due to non-core elements. Core inflation accelerated further on second-round effects and supply constraints



The biggest market in Budapest

# 3.9%

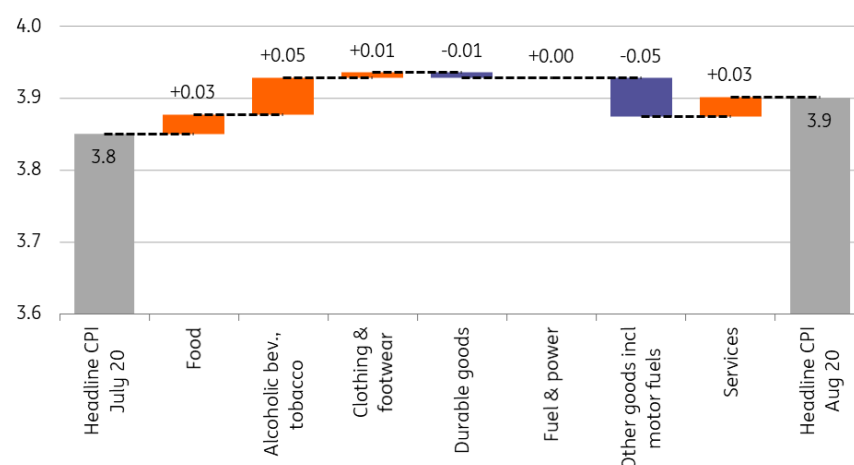
Headline inflation (YoY)

Consensus 3.9% / Previous 3.8%

As expected

Headline inflation came in at 3.9% year-on-year in August, showing only a modest 0.1 percentage point acceleration over the July reading. So, the pace of growth in prices has finally eased with an unchanged average price level on a monthly basis. This slowdown was mainly driven by non-core elements.

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

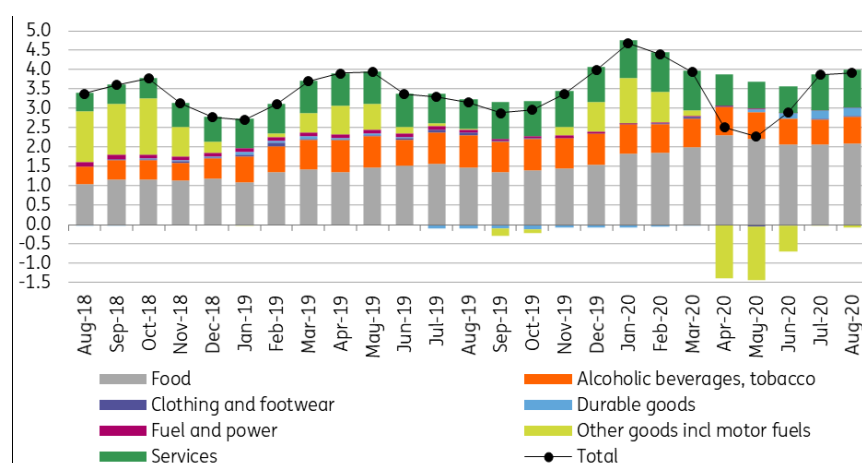


Source: HCSO, ING

## The breakdown

- Fuel prices dropped by almost 1% on a monthly basis, in line with the global oil price move. With this change, fuel is 4.7% cheaper than a year ago;
- Inflation in food accelerated from 7.8% to 7.9% YoY in August, but the aggregate figure doesn't tell the whole story. Prices of meat, seasonal fruit, vegetables and potatoes dropped on a monthly basis, and eased from a year ago as well. So, unprocessed food kept inflation in check. However, the previous months' significant increase in raw food showed up in processed food prices as a second-round effect. For example, processed meat, dairy products, oils and sweets all show elevated prices;
- The government increased the excise duty on tobacco products in July, but due to methodological reasons, part of that spilled over into the August data. Tobacco is now 10.3% more expensive than a year ago.
- It hardly comes as a surprise that after the Covid-shock, the reopening of the economy caused a run in services, causing a significant mismatch between supply and demand. The 3.5% YoY inflation was mainly driven by higher prices in cultural, educational, entertainment and recreational services. Service providers were trying to cover some of their losses in a short time frame.

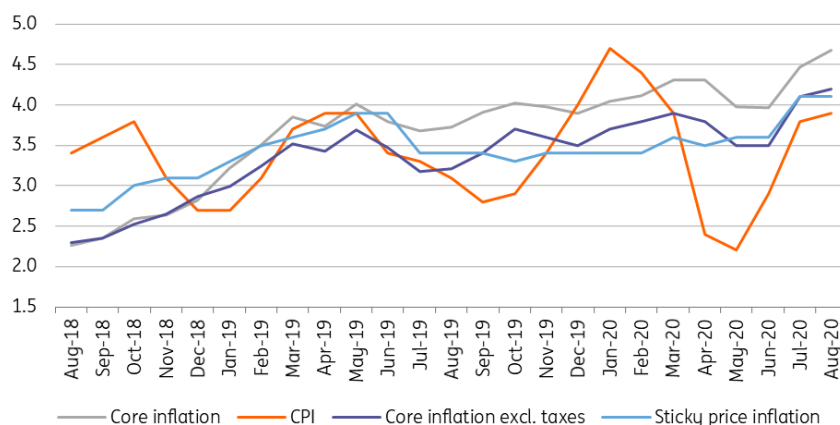
## The composition of headline inflation (ppt)



Source: HCSO, ING

Against this backdrop, we can see that it was mainly non-core factors which were responsible for month-on-month inflation easing, while core elements showed increased price pressure. In line with that, core inflation led to an upside surprise, accelerating by 0.2ppt to 4.7% YoY. This is way above the National Bank of Hungary's 2–4% target range. However, as part of that acceleration is coming from the excise duty hike, core inflation excluding indirect taxes was up by only 0.1ppt to 4.2% YoY. Nonetheless, this is also above the target range.

## Headline and core inflation measures (% YoY)



Source: HCSO, NBH

## What's next?

It's clear that there is an issue with inflation and the central bank must admit that. Today's data might trigger more hawkish communication by the NBH at its September meeting. However, a sudden rate hike would be too harsh, in our view, and might be not necessary either. In the coming months, we see inflation pressure easing due to base effects and lower fuel prices while a softening in the supply-demand mismatch would also help.

## 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>.