

## Hungary: Core inflation at top of target range

While headline inflation remained steady in December, core inflation moved above 4% again, confounding the doves who expected a rate cut



The biggest market in Budapest

# 2.7%

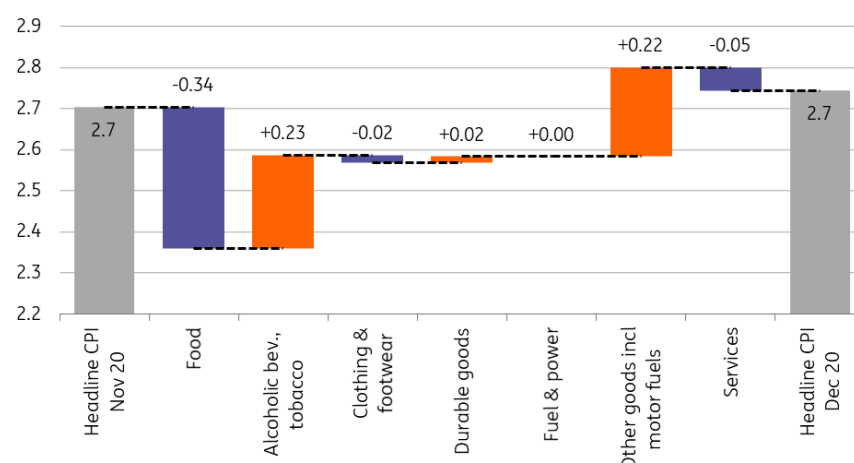
Headline CPI (YoY)

ING forecast 2.7% / Previous 2.7%

As expected

After three months of decline, Hungary's headline inflation steadied at 2.7% year-on-year in December. This is a result of a 0.3% average price increase over a month. Both readings are a tad below the market consensus, but matched ING's forecast. The details also matched our expectations but with a twist.

## Main drivers of headline CPI change (%)

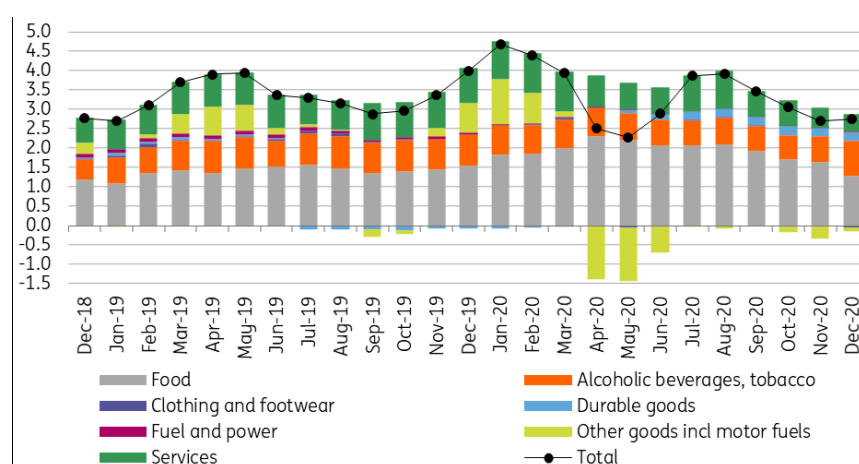


Source: HCSO, ING

## What the breakdown shows

- Fuel prices rose by 3.6% on a monthly basis, the strongest increase since July. The combination of elevated oil prices and a weaker forint is responsible for the upward move.
- An excise duty increase in tobacco products took effect from 1 January 2021. However, producers have already started price increases in December. This is not necessarily a surprise, but the scale of it was bigger than usual. A 5.2% month-on-month price increase was measured in tobacco products.
- Another small surprise comes from durables, where the year-on-year reading rose to 2.8%, adding pressure to core inflation along with tobacco prices.
- As far as compensatory forces in inflation are concerned, we have softening inflation in services, clothing and food. All of them are in line with the expected direction of change. The most interesting story in the food group is that unprocessed food prices were the major force behind easing inflation.

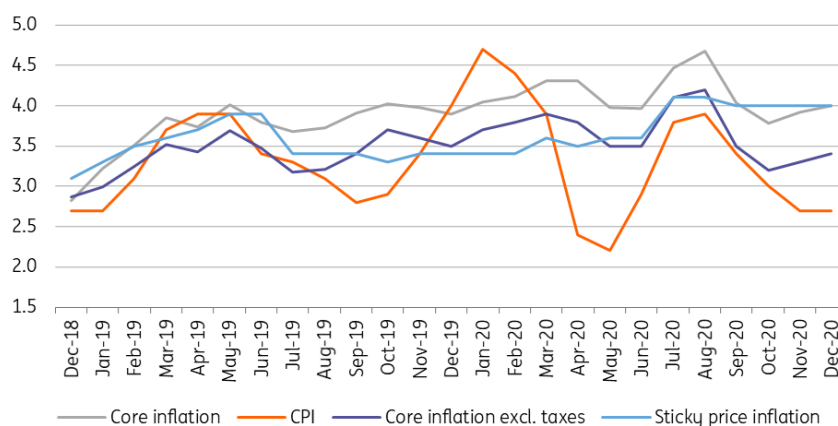
## The composition of headline inflation (ppt)



Source: HCSO, ING

As mainly non-core elements pushed inflation lower, while core elements had an upward impact, core inflation increased. After a 0.2ppt increase, it was at 4.0% year-on-year. Tax effects have remained strong (mainly on excise duty changes), so core inflation excluding indirect taxes came in at 3.4% YoY. In all, this means a quite mixed result with a softening headline inflation rate but elevated core inflation.

## Headline and core inflation measures (% YoY)



Source: HCSO, NBH, ING

## What's next?

In a recent interview, the deputy governor of the central bank Barnabás Virág practically warned the market not to think about any interest rate cuts, shooing the doves away. The headline inflation figure is below target and significantly lower than the central bank's implicit forecast. Maybe it would even allow for a dovish shift. However, core inflation is clearly stubbornly hovering around 4%, just at the top of the National Bank of Hungary's inflation tolerance band. Based on all this, we don't see the central bank making any type of move (especially not a rate cut) soon, so the cautious, wait-and-see monetary policy setup remains.

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