

Hungary: Inflation close to target

Headline CPI increased more than expected mainly due to rising fuel prices. But core inflation remained flat, and we don't expect any action by the central bank



Shoppers on Vaci Utca, the main shopping street in Budapest, Hungary

Source: Shutterstock

2.8%

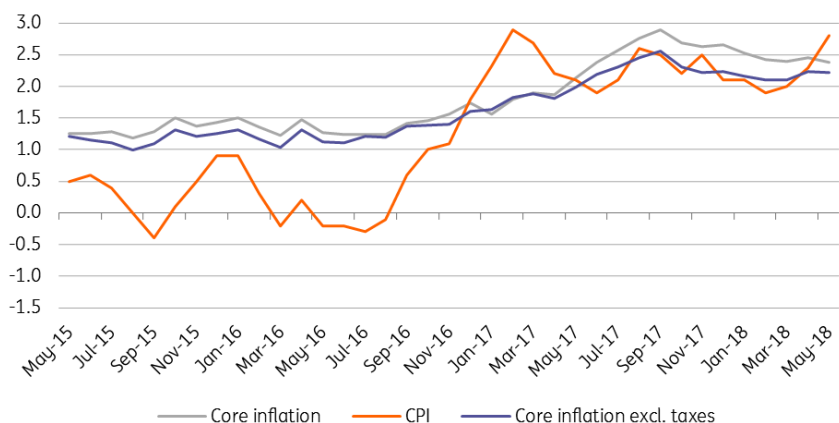
Inflation (YoY)

Consensus (2.7%) / Previous (2.3%)

Higher than expected

Headline inflation came in at 2.8% year on year in May, posting a 0.5ppt acceleration compared to the previous month's data. This is the first time since Feb-17, that the headline inflation rate came close to the Hungarian National Bank's (NBH) 3% inflation target. Before this date, we have to go back to 2013 to see higher CPI figures. Still, the recent uptick in inflation has been purely due to items outside of the core inflation basket. Core inflation remained unchanged at 2.4% year on year. As such, we think the NBH is unlikely to see the current acceleration as permanent and we don't expect any change in monetary policy.

Headline and core inflation measures (% YoY)

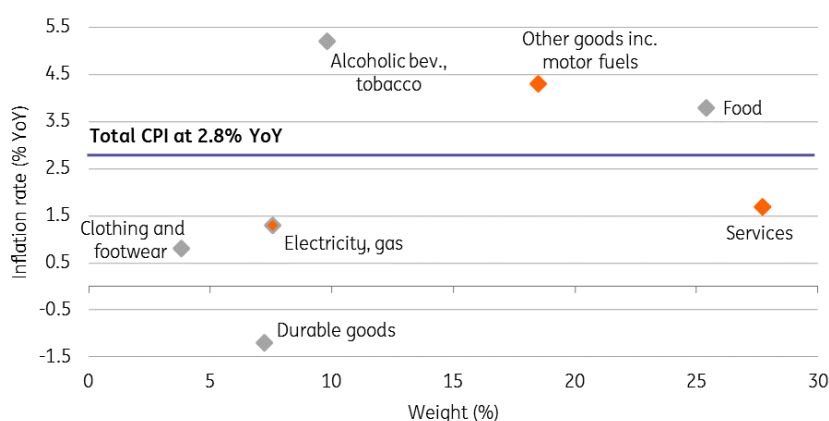


Source: HCSO, ING, NBH

In line with expectations, the main driver behind the acceleration was the 9.5% YoY increase in fuel prices, up from 2.1% YoY compared to April data. In practice, this alone explains the 0.5ppt acceleration in the headline indicator. Food, alcoholic beverages and tobacco prices slowed down but have remained above average. In contrast, we saw a further drop in prices of durable goods. Despite the 1.7% YoY inflation in services (an eight-month high) we still can't consider this a serious price pressure.

CPI by main groups in May

Orange signs point to an acceleration while grey signs signify a slowdown in inflation compared to the previous month. Orange in grey border means the level is unchanged.



Source: HCSO

We believe inflation could reach or even overshoot the NBH target in June, though the degree largely depends on global oil prices and weakness in the Hungarian forint. As prices slow, mainly due to base effects in the second half, we see inflation coming in at 2.6% YoY in 2018 as a whole.

Author

Peter Virovacz

Senior Economist, Hungary

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>.