

## Hungary: Inflation drops big on services

Although we expected inflation to start falling, we didn't expect it to start as early as September. The main factors behind the disinflation are IT and recreational services



Shoppers in Budapest

# 3.4%

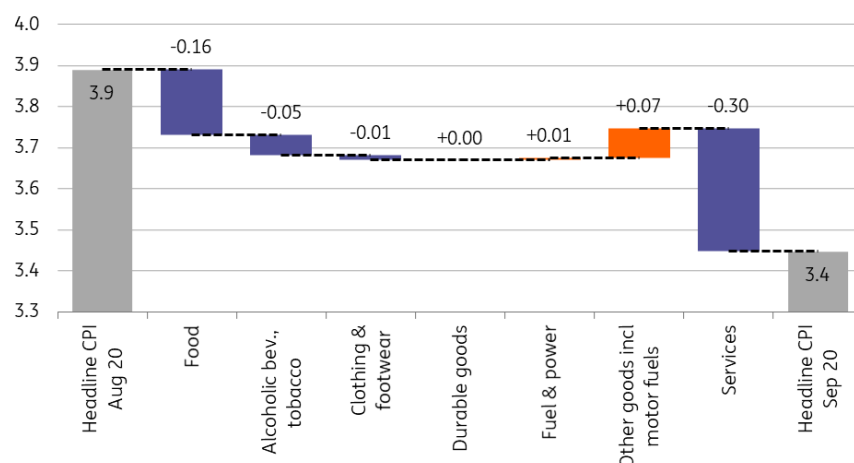
Headline CPI (YoY)

Consensus 3.9% / Previous 3.9%

Lower than expected

Headline inflation came in at 3.4% year-on-year in September, a 0.5 percentage point deceleration compared to the August reading and a major downside surprise. Although we expected something similar in the months ahead (due to the high base), we didn't expect it to start as early as September. The strong deceleration was mainly driven by services.

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

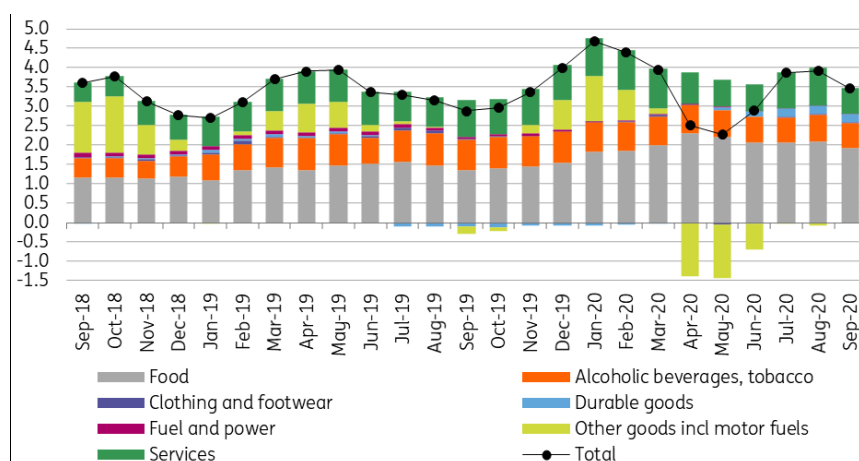


Source: HCSO, ING

## The breakdown

- Inflation in services came in at 2.4% year-on-year, the lowest reading since December 2018. However, if we really want to see a long-standing record broken, the month-on-month change was -0.9%. The last time prices in services dropped so much was back in September 2009;
- Prices of recreational services dropped by almost 7% month-on-month, a surprise as we expected recreational prices to remain elevated to make up for some of the losses generated by Covid. Moreover, prices of internet and telephone services also dropped by 1.5% MoM in September, while exactly a year ago there was an extreme one-off increase of 3.1% MoM;
- Inflation in food decelerated to 7.3% YoY, mainly on meat and dairy products, while prices of seasonal fruits, vegetables and potatoes remained elevated. Meals at restaurants became 8.1% more expensive on a yearly basis;
- Prices of durables increased by 2.6% YoY, showing no easing in price pressures, while clothing prices eased somewhat. Fuel prices increased by 0.5% MoM, meaning that prices matched the levels seen last September.

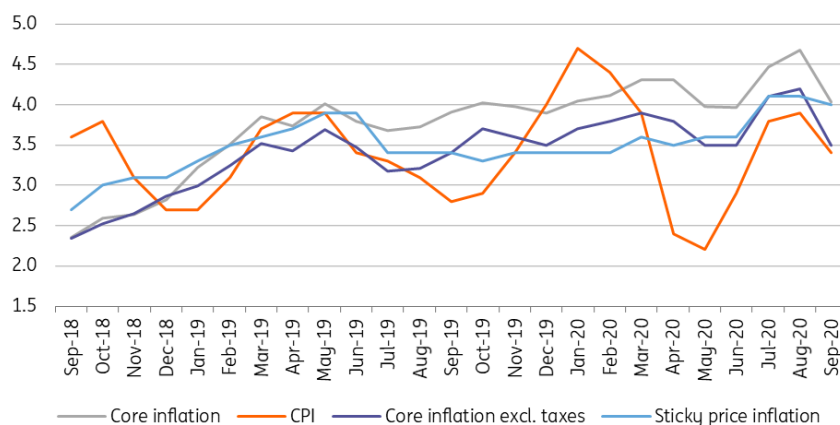
## The composition of headline inflation (ppt)



Source: HCSO, ING

Against this backdrop, we can see that it was mainly core factors that were responsible for the significant easing in price pressures. Core inflation fell by 0.7ppt to 4.0% YoY, a downside surprise. It is now back at the top of the National Bank of Hungary's 2-4% target range. As part of the inflation is caused by an excise duty hike, core inflation excluding indirect taxes came in at 3.5% YoY, well within the target range.

## Headline and core inflation measures (% YoY)



Source: HCSO, NBH

### What's next?

All this means that the pressure has significantly eased on monetary policy as all the major inflation indicators are now in the target range. But it is not just about monetary policy. Real interest rates have also improved significantly, which also supports Hungary's forint. However, we hardly see today's data being a game changer for monetary policy. We expect the NBH to hold rates steady, and don't see a quick reversal of the last implicit rate hike.

## 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>.