

## Hungary: Inflation finally softens

After six months of acceleration, the main inflation indicators have finally retreated somewhat but remained above target. This development supports the recent stance of the National Bank of Hungary



Source: Shutterstock

# 3.4%

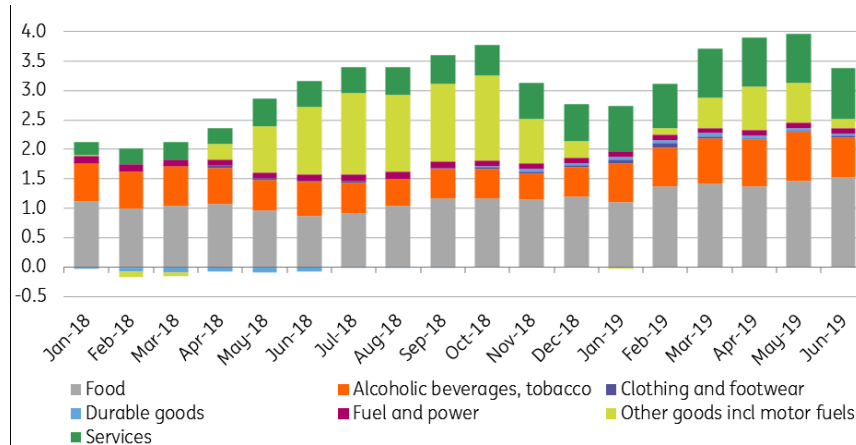
Headline CPI (YoY)

Consensus 3.7% / Previous 3.9%

Lower than expected

Both the market and the central bank expected headline inflation to cool down. And finally, after six months of acceleration, headline CPI dropped by 0.6 percentage points to 3.4% year on year in June. The below-consensus deceleration came in on three main elements out of which none are real surprises.

## The composition of headline inflation (ppt)

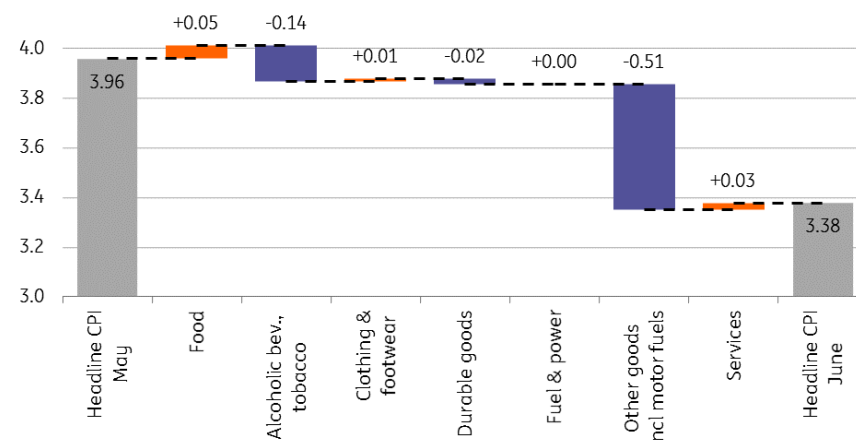


Source: HCSO, ING

Fuel prices decreased by almost 4% on a monthly basis and last year's base was also high, so the year-on-year drop of 1.3% was in line with expectations. Just fuel prices shaved 0.5ppt off the May inflation reading, so basically, this one main element is really behind the significant deceleration.

Other than this, both durables and tobacco prices helped drag down the headline data. But these moves were roughly counterbalanced by the accelerating inflation registered in food and services. The latter is now sitting at 3.1% YoY - the highest yearly price increase in services since end-2013.

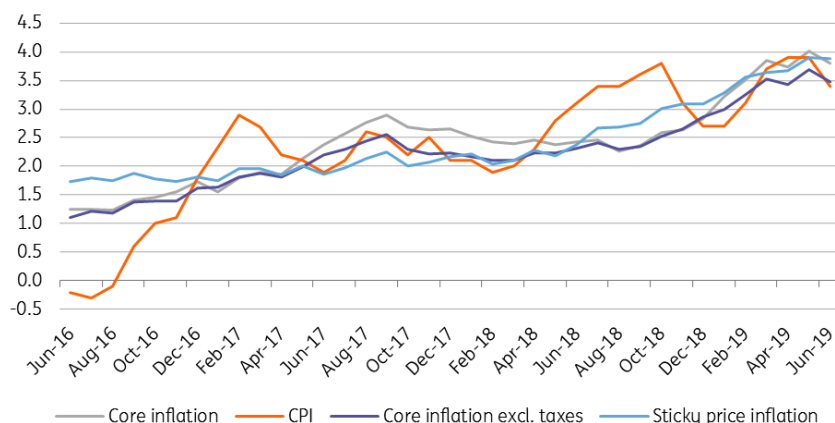
## Main drivers of the change in headline CPI (%)



Source: HCSO, ING

When it comes to core inflation, it also headed south by 0.2ppt to 3.8% YoY in June. The main factor behind the drop was alcoholic beverages and tobacco products, which are included in the core CPI basket in Hungary. Other than these, the price decrease in durables also helped core inflation to drag down somewhat. The main indicator of monetary policy, which is core CPI excluding indirect taxes, also retreated by 0.2ppt to 3.5% YoY.

## Headline and core inflation measures (% YoY)



Source: HCSO, NBH, ING

Overall, as all of the important indicators show some easing of price pressure, the central bank’s credibility might increase somewhat. The recent releases are in line with the central bank’s expectations and support its view that the second half of the year will bring us some deceleration in inflation. We agree on that view, as we see the headline inflation at 3.3% YoY on average in 2019 as a whole.

So what does it mean for monetary policy? Decelerating domestic inflation, weakening external economic activity (especially in Germany) coupled with dovish messages from Fed and ECB are supporting a no policy change scenario. Moreover, all of these together are increasing the (still slim) chances that the next move by the NBH will be rather a dovish one.

### 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>.