# Hungary: Inflation moderates on fuel

Headline CPI eased somewhat on fuel prices but remains elevated. In light of the coronavirus and oil market developments, this data might prove to be irrelevant for policymakers


The biggest market in Budapest

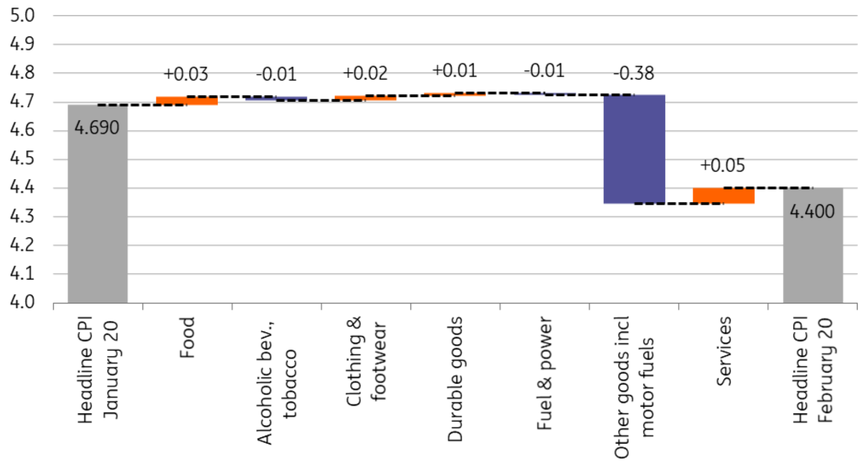
**4.4%** Headline CPI (YoY)

Consensus 4.3% / Previous 4.7%

Higher than expected

After an eight-year peak in January, headline inflation moderated by 0.3 percentage points to 4.4% year-on-year in February. It is a minor upward surprise compared to market expectations but we don't want to overreact as core inflation came in as expected. If we check the details, it becomes clear that fuel prices are responsible for the drop.

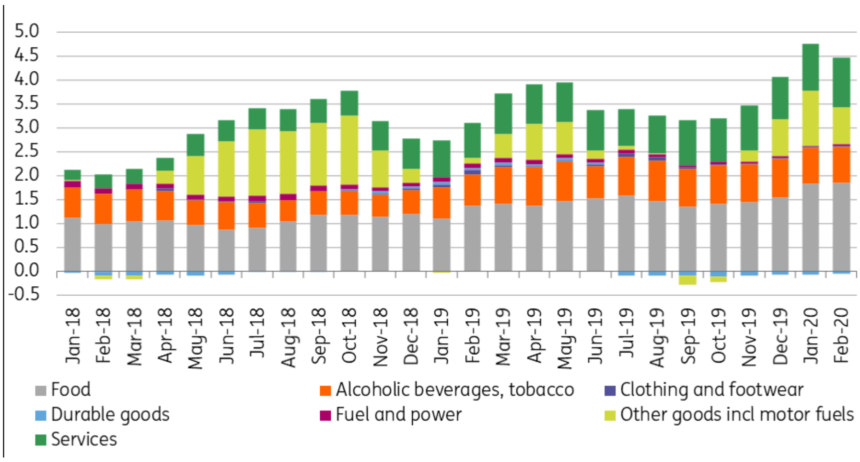
## Main drivers of the change in the headline CPI (%)




Source: HCSO, ING

- The weighting of fuel in the CPI basket is the highest in the CEE at 6.67%. The importance of this item, combined with a 4.3% month-on-month drop in fuel prices, in February translated into a significant drag on inflation, fully explaining the move in the headline reading from January.
- Inflation in food decelerated to 1.5% month-on-month as prices of pork and tea dropped significantly. However, price pressure remained strong as second-round effects impact processed foods;
- As the one-off excise duty hike is behind us, tobacco products showed no change in price in February, easing the pressure on headline inflation;
- Durable goods prices were lower by 0.2% on a monthly basis, translating into a 0.8% year-on-year drop, having a downward impact on core inflation;
- Inflation in services came in flat at 0.5% MoM in February, translating into a minor acceleration in the year-on-year reading to 3.8%. It pushed core inflation higher and erased some of the downward effect due to fuel prices. Transportation services and rents are the main reasons behind this.

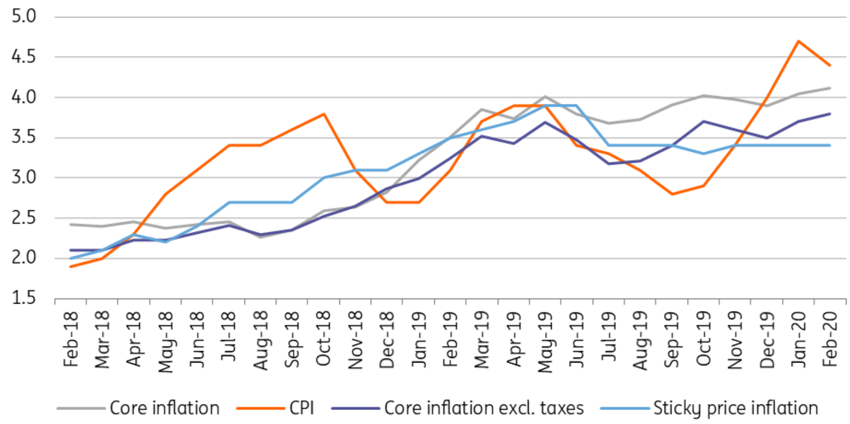
## The composition of headline inflation (ppt)




Source: HCSO, ING

The drop in the headline indicator came from volatile (non-core) items, so it hardly comes as a surprise that underlying inflation was unaffected by this move. February's core inflation at 4.1% YoY shows a 0.07ppt acceleration. If we adjust this reading for tax changes, core inflation excluding indirect taxes shows the same acceleration, to 3.8% year-on-year. However, sticky price inflation has remained at 3.4% for four months.

## Headline and core inflation measures (% YoY)




Source: HCSO, NBH

So inflation is still high but is it relevant enough to move the needle on monetary policy? Without the Covid-19 risk we'd say yes. However, as this risk throws the entire growth and inflation outlook into doubt, we hardly see this data as a game-changer. Particularly with the recent drop in oil prices, we think the National Bank of Hungary could backpedal from February's hawkish message in March, as average inflation in 2020 could fall by 0.6ppt on average, if recent oil prices stay with us through the second quarter.

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