

Hungarian inflation remains on a downward slope

Hungarian headline inflation dropped further in November on the back of fuel prices and free public parking. And in the first quarter of 2021, we expect inflation to dip towards 2%



2.7%

Headline CPI (YoY)

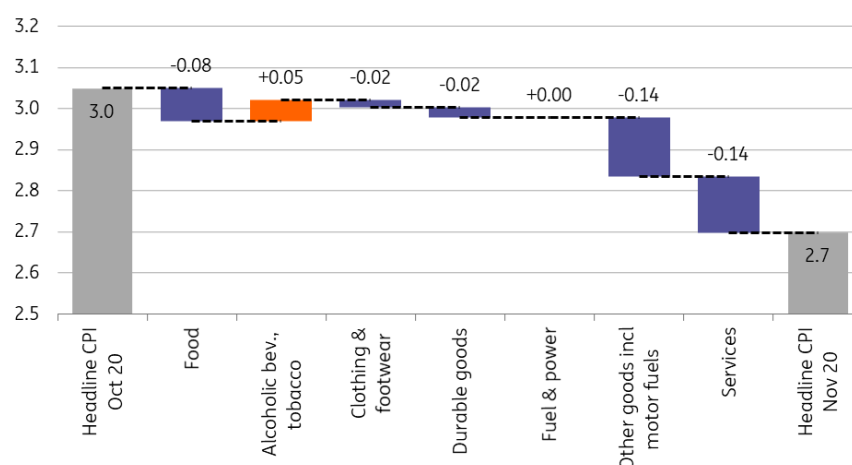
ING forecast 2.9% / Previous 3.0%

Lower than expected

Headline inflation in Hungary came in at 2.7% year-on-year in November, slowing further down compared to the previous reading.

However, the fall was driven by factors which are excluded from the core inflation basket.

Main drivers of headline CPI change (%)

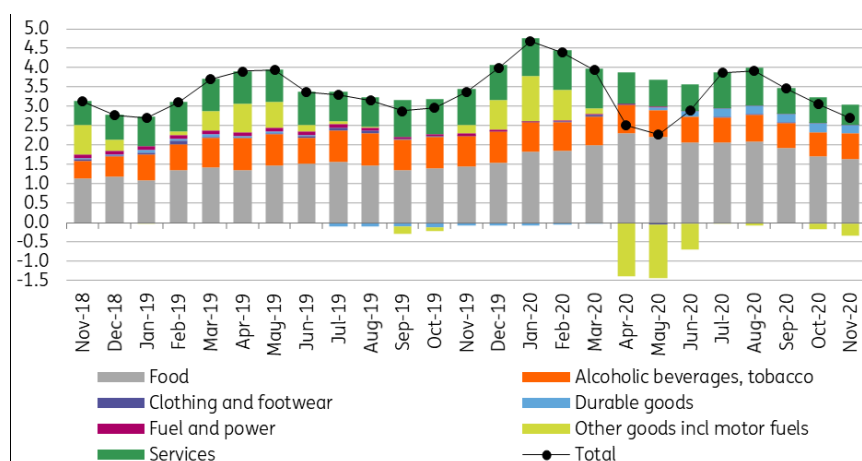


Source: HCSO, ING

What the breakdown shows

- Fuel prices dropped by 3.2% on a monthly basis, which translated into a 7.6% year-on-year deflation in November. The change compared to the previous month explains 0.15ppt from the drop in the headline reading.
- Another non-core factor depressing inflation was related to free public parking from November. This change itself means a 0.2ppt decrease in the CPI and responsible for the decrease of the inflation in services
- Speaking of services, the 1.9% YoY reading is the lowest in two years. However, other than parking services, other categories showed stagnation or a slight increase in prices
- As the pressure on the forint eased in November, inflation in durables also headed south, shrinking to 2.6% YoY. This change was more than counterbalanced by the picking up price increase in alcoholic beverages and tobacco, where the Statistical Office measured a 6.6% year-on-year inflation
- Change in food prices was a mixed bag with the unprocessed food inflation easing mainly on fruits, meats and milk, while edible oil, soft drink and preserved food showed a significant pick up in prices

The composition of headline inflation (ppt)

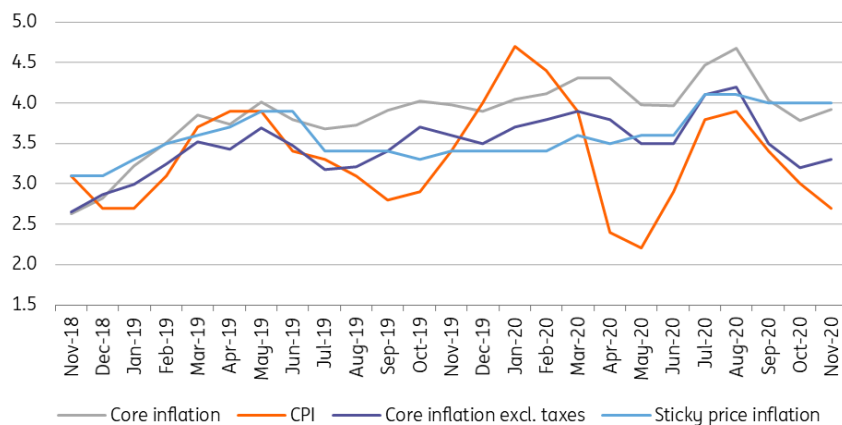


Source: HCSO, ING

As mainly non-core elements were behind the drop in inflation, it hardly comes as a surprise that core inflation showed a marginal increase of 0.1ppt to 3.9% YoY. Tax effects remain strong (mainly on excise duty changes), so core inflation excluding indirect taxes came in at 3.3% YoY.

With that, the indicators which are important for the National Bank of Hungary (headline and core ex-tax) have remained around the inflation target.

Headline and core inflation measures (% YoY)



Source: HCSO, NBH, ING

What's next?

Purely from an inflation point of view, the room for monetary policy has improved significantly.

The data since September came in well below the central bank forecast, so we expect a downward revision in inflation outlook in the December Inflation Report. On the other hand, the debate over the rule-of-law issue brings in huge amounts of uncertainty, not just from a financing and a growth point of view but also from an FX perspective too. As such, we

expect the central bank to wait-and-see.

Our forecast is that inflation will drop further on base effects and lack of demand-driven inflation. In the first quarter of 2021, we see headline inflation coming close to 2%.

Author

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

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