

Hungary: Inflation remains on downward trajectory

Inflation has been decelerating for three months now. The move in August is related to seasonal and one-off factors, as core CPI remains unchanged



Shoppers in Budapest

3.1%

Headline CPI (YoY)

Consensus 3.2% / Previous 3.3%

Lower than expected

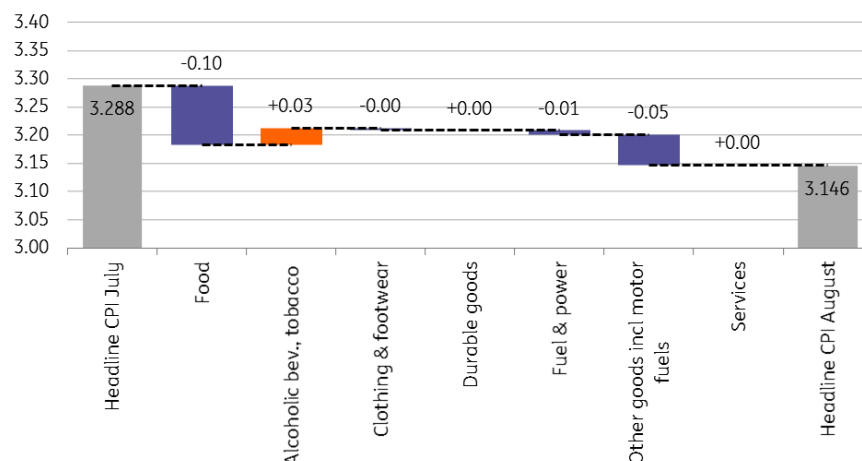
Headline inflation came in at 3.146% year-on-year in August, the third drop in a row. The lower-than-expected overall price increase is a result of three main factors:

- Food prices dropped 0.4% on a monthly basis, showing a significant deceleration in year-on-year terms as well. This is mainly due to falling vegetable and coffee prices
- According to the Statistical Office, fuel prices retreated by 0.3% in August, translating into a 2.6% YoY decrease due to the high base. We expected a monthly increase but a lot depends

on when exactly the statistical office notes the prices, especially when you have a change in trend mid-month

- The carry-over effect stemming from an excise duty hike in tobacco products was lower than expected.

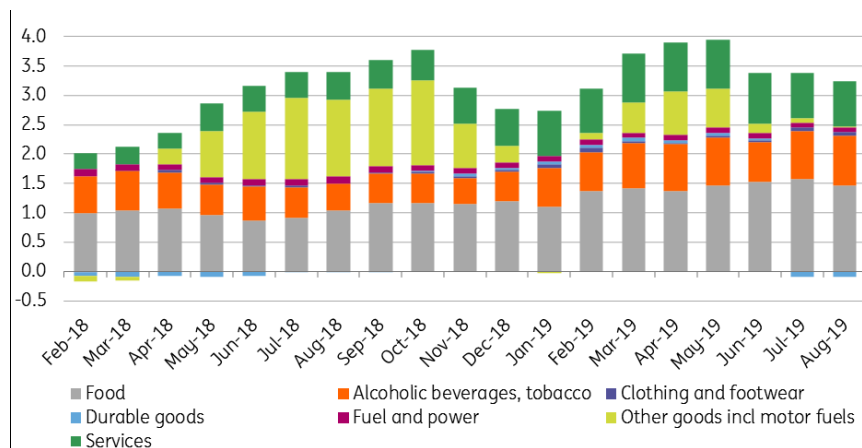
Main drivers of the change in headline CPI (%)



Source: HCSO, ING

In the meantime, the weaker forint did not show up in prices of durables, while inflation in services remained flat at 2.8% YoY. Against this backdrop, the deceleration in headline inflation is due to seasonal and one-off factors, while underlying inflation remained steady. Core inflation remained unchanged at 3.7% YoY in August, while core inflation excluding indirect taxes also came in flat at 3.2% YoY.

The composition of headline inflation (ppt)

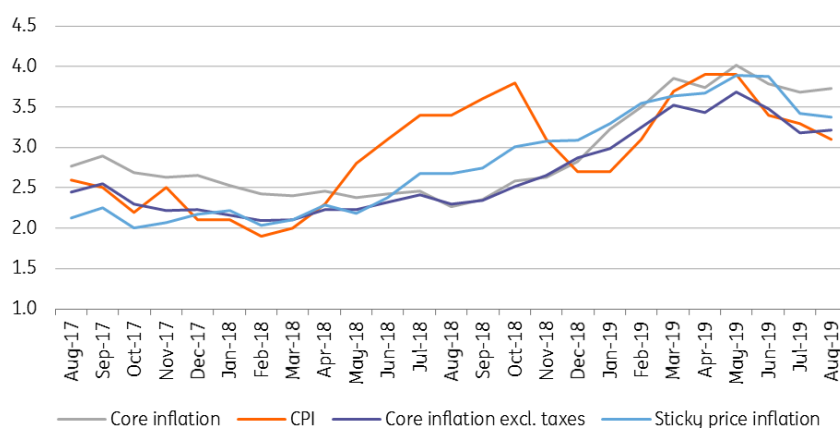


Source: HCSO, ING

Hungarian headline inflation is trending south and underlying measures are hovering around the target. A slowdown in domestic economic activity is on the way and the global outlook remains cloudy. Against this backdrop, the National Bank of Hungary's expectation of lower inflation in 2H19 seems valid and the central bank's focus can now shift towards moves by major central

banks (mainly European Central Bank & Federal Reserve). More dovishness in global monetary policy combined with dropping local inflation may further increase the probability that the next move by the NBH will be a dovish one, although a change is not imminent.

Headline and core inflation measures (% YoY)



Source: HCSO, NBH, ING

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