

Snap | 8 April 2020 Hungary

Hungary: Inflation sinks on fuel prices

Change in inflation from February to March was shaped by the oil market shock, stockpiling for food due to the coronavirus outbreak and the record weak HUF also played a role



The biggest market in Budapest

3.9%

Headline CPI (YoY)

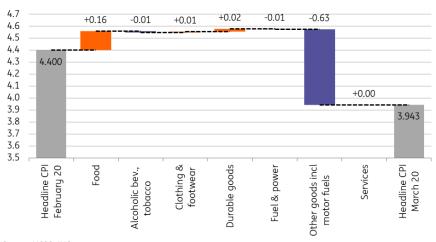
Consensus 3.6% / Previous 4.4%

Higher than expected

March headline inflation came in at 3.9% year-on-year, showing a 0.5ppt deceleration compared to February. A lot of different factors were at play - some were pro-inflationary, while others helped the indicator to retreat.

Snap | 8 April 2020 1

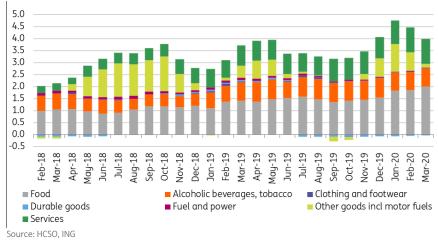
Main drivers of the change in the headline CPI (%)



Source: HCSO, ING

- The Hungarian central statistical office measured only a 5.3% MoM drop in fuel prices in March. Due to methodological reason (data collection ends on the 20th day of every month), the majority of the price drop will be carried over in the April reading, contributing to the higher-than-consensus headline reading;
- Food inflation came in at 7.6% year-on-year on the back of food stockpiling. So, as we expected, in the short term, the coronavirus will be pro-inflationary;
- Tobacco products showed a 1.2% monthly price increase causing an upside surprise which might be related to tax changes and HUF weakness;
- Speaking of the forint, durable goods inflation strengthened by 0.2% on a monthly basis, as prices of import-heavy products rose (vehicles, jewels, white goods);
- Price change in services remains unchanged for the third month in a row at 0.5% MoM. The lack of demand due to the lockdown has not yet affected prices.

The composition of headline inflation (ppt)



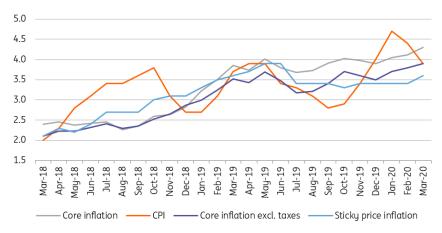
The deceleration in the headline indicator was stemming from technical factors and non-core items.

2 Snap | 8 April 2020

In the meantime, the underlying inflationary processes accelerated on durables, processed food, tobacco, translating into a 0.2ppt higher core inflation (4.3% YoY). If we adjust this reading for tax changes, core inflation excluding indirect taxes show only a 0.1ppt acceleration to 3.9% year-on-year.

Against this backdrop, half of the increase in core inflation stems comes from tax changes.

Headline and core inflation measures (% YoY)



Source: NBH, ING

Looking ahead, we see headline inflation dropping further due to oil prices and the base effect is also looking favourable.

On the other hand, the short-term inflationary impact of a weak HUF and a run for non-perishable items might keep core inflation elevated. However, by the end of the year, we see both readings hovering around the central bank's inflation target at 3%.

Author

Peter Virovacz

Senior Economist, Hungary 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.

Snap | 8 April 2020 3

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 www.ing.com.

Snap | 8 April 2020 4