Hungary sees an unexpected inflation surge in January

Inflation picked up in January, with fuel and food prices continuing their upward trend and services now rising too. This data release poses challenges for monetary policy, as inflation expectations are climbing and core inflation is worsening

5.5%

Headline inflation (YoY)

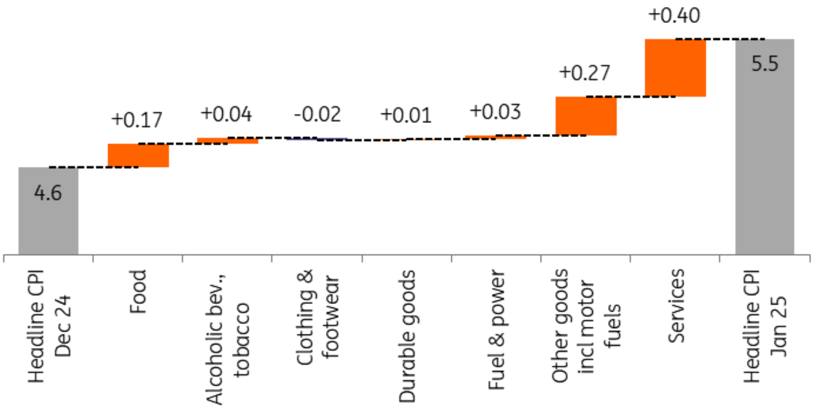
ING estimate 4.8% / Previous 4.6%

Surprisingly high inflation in January

Hungary's inflation reading for January was an extraordinary and unpleasant surprise. The latest data published by the Hungarian Central Statistical Office (HCSO) showed a much higher-than-expected acceleration of price changes. The year-on-year indicator jumped from 4.6% to 5.5%. This surge in inflation was due less to the base effect than to an unexpectedly high monthly increase in the average price level of 1.5%.

The inflation rate not only exceeded market expectations but also surpassed the highest forecast, making it a significant surprise.

Main drivers of the change in headline CPI (%)

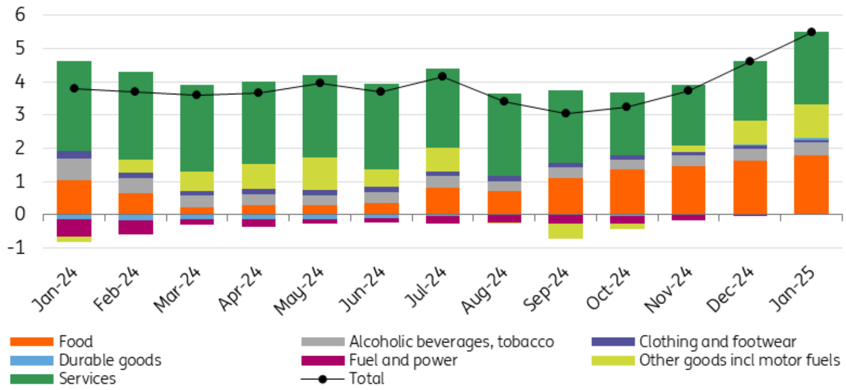


Source: HCSO, ING

The details

- Further increases in food prices were a major cause of the strong one-month inflation reading. Against this backdrop, recent comments by Economy Minister Márton Nagy on the possible reintroduction of price caps for food are hardly surprising. Interestingly, the 1.9% monthly rise in food prices mirrors the rate seen during the cost-of-living crisis. Both processed and unprocessed food prices saw significant increases, driven mainly by dairy products for the former and fruits and vegetables for the latter.
- The rate of fuel inflation also came as a bigger surprise, as the HCSO registered a substantially higher price increase than our usually reliable estimate. The 2.7% one-month price hike – which is partly reflecting the excise duty change – is therefore a significant part of the explanation for the strong inflation in January.
- There were also unusually high price increases in services, which may partly reflect re-pricing related to tax changes in the financial and insurance sectors. In addition, the prices of cultural, educational and entertainment services and communication services rose sharply. The almost 10% increase in the price of telephone and internet packages is very surprising, as in theory contract prices could only be increased by the average inflation rate of the previous year. The phasing out of the October rebates likely had a technical effect on the reading. Finally, there was also a significant re-pricing of health and household services at the beginning of the year.

The composition of headline inflation (ppt)



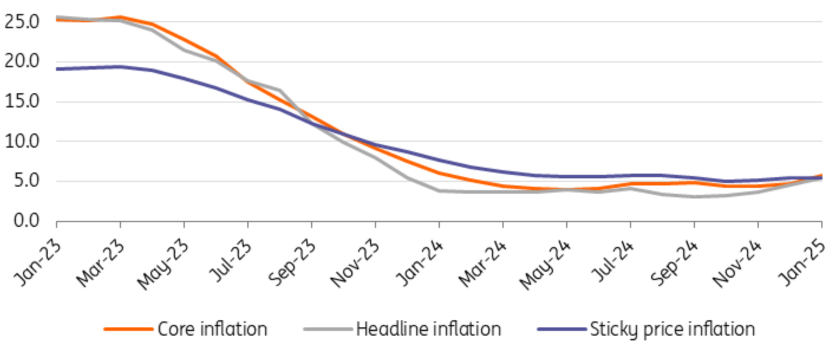
Source: HCSO, ING

Deteriorating core inflation

Looking at the year-on-year indices, services accounted for half of the 0.9ppt acceleration in inflation. In addition, the rise in fuel prices was also a significant factor pushing up the inflation rate, as was, unsurprisingly, the change in processed and unprocessed food prices. All this means that not only were price changes in items subject to frequent repricing (non-core items) significant, but underlying inflation pressure also rose markedly. This is reflected in the 1.4% increase in core inflation on a monthly basis, which translates into a year-on-year rate of 5.8%.

The inflation situation is therefore deteriorating on all fronts and the upward pressure on perceived inflation is also increasing. This, in turn, will significantly reduce the room for manoeuvre for monetary policy by keeping inflation expectations at an elevated level.

Headline and underlying inflation measures (% YoY)



Source: HCSO, NBH, ING

We have raised our forecast for the year due to the January data

Before the January inflation shock, our inflation forecast for this year (an average of 4.5%) was already among the highest in the market. The technical effect of the latest January data has raised our forecast for average inflation in 2025 to above 5%. In terms of the expected range of fluctuation during the year, we see the inflation rate moving between 4.5% and 6.0% YoY. This also means that the rate of increase is unlikely to return to the central bank's inflation target range.

All these developments also suggest that the National Bank of Hungary may have little room for manoeuvre to cut interest rates this year. Unless this year's economic performance is shockingly weak, which is becoming more likely in this inflationary environment, the central bank will probably have to keep the key interest rate unchanged at 6.50% throughout the year.

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