

## Falling inflation in Hungary may prompt the central bank to rethink

Headline inflation in Hungary has dropped to the central bank's target and we expect further slowdown. Combine that with a stronger currency and the central bank might just have to re-evaluate things



# 3.0%

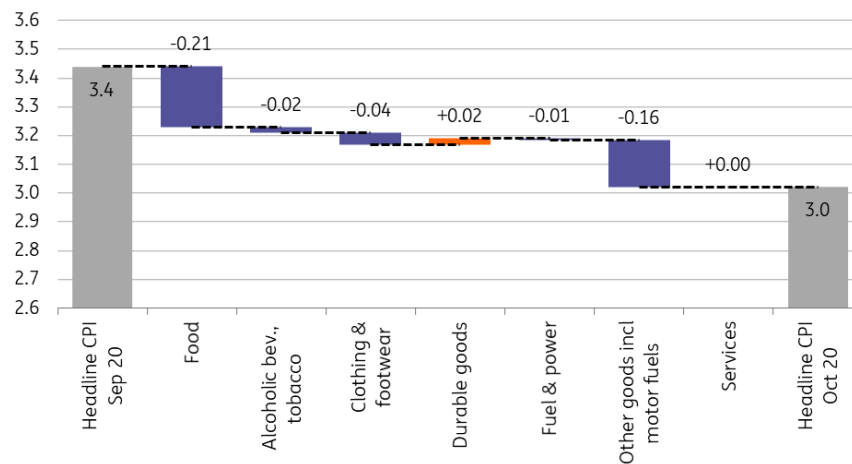
Headline CPI (YoY)

Consensus 3.1% / Previous 3.4%

Lower than expected

Hungarian headline inflation came in at 3.0% year-on-year in October, posting another significant slowdown compared to the previous reading. The drop below-consensus level was mainly driven by non-core factors, as deceleration in core inflation was softer than we expected.

## Main drivers of headline CPI change (%)

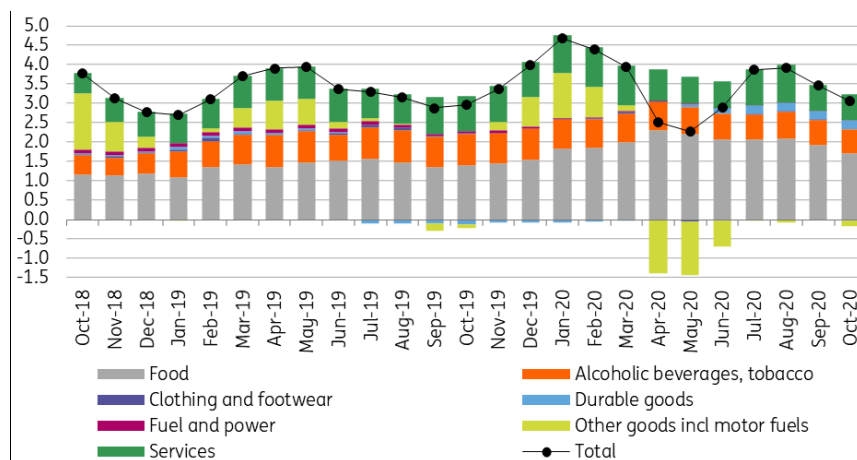


Source: HCSO, ING

## What the breakdown shows

- Fuel prices decreased by 0.2% on a monthly basis, meaning a 5.3% year-on-year drop versus the -3.4% YoY reading in September. This move was the main driver behind the deceleration in inflation
- Another non-core factor depressing inflation was food prices. The monthly stagnation eased the yearly price pressure by 0.8ppt to 6.5% YoY. This was mainly driven by unprocessed food like potato, fruits, meat and milk.
- Inflation in tobacco prices eased somewhat on the high base caused by an excise duty hike last autumn, while the eased demand pushed clothing prices lower
- The main surprises on the upside affected core inflation elements, like durables and services. Durables prices rose by 2.9% YoY, which is an unusually high figure, probably driven by a quicker and stronger pass-through of forint weakening into import prices. Prices decreased at a slower pace in recreational services than expected, causing a flat 2.4% YoY inflation in services.

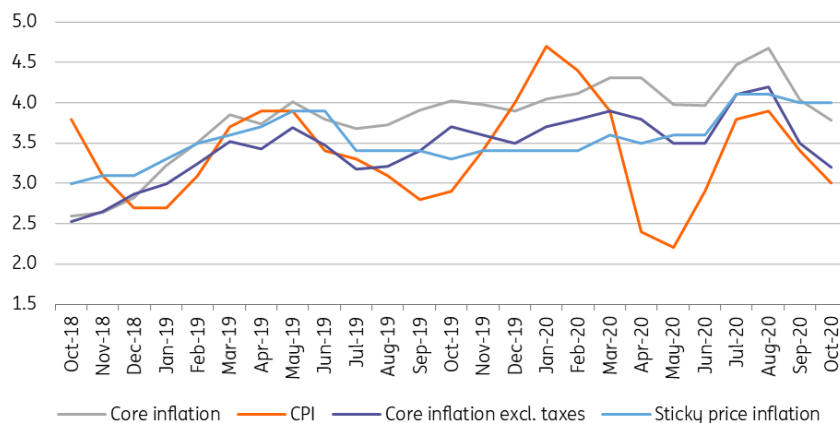
## The composition of headline inflation (ppt)



Source: HCSO, ING

Against this backdrop, mainly core factors are responsible for missing our forecast as we expected an even bigger drop in headline and core inflation than the market consensus. Core inflation only eased by 0.2ppt to 3.8% YoY, but tax effect became even stronger. Core inflation excluding indirect taxes sits at only 3.2% YoY, so the two main indicators of the central bank (headline and core ex-tax) is just around the inflation target.

## Headline and core inflation measures (% YoY)



Source: HCSO, NBH

### What's next?

All this means, that from an inflation point of view, pressure has significantly eased on monetary policy.

On top of that, the recent risk-on mood in markets has helped the forint to strengthen and stabilise. The combination of these developments might open the door for policymakers to rethink some of the messages from December. Moreover, with the second wave of Covid-19 and curfew measures introduced in November, the economy might need more help.

### Author

**Peter Virovacz**

Senior Economist, Hungary

[peter.virovacz@ing.com](mailto: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.

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 <http://www.ing.com>.