

Hungary: Tax adjusted core CPI reaches target

Headline inflation remained flat at 2.7% year-on-year, but core inflation excluding indirect taxes reached the inflation target, a trigger for the central bank to start policy normalisation soon



Source: Shutterstock

3.0%

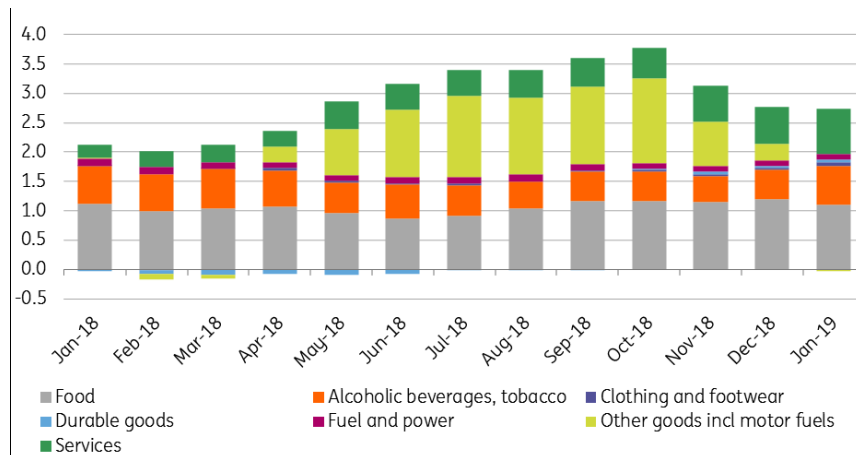
Core inflation ex-taxes (YoY)

Previous (2.9%)

Headline inflation came in at 2.7% YoY in January, practically unchanged from the December CPI. However, this stability might be deceptive, with indications of accelerating underlying inflation. According to the Hungarian Central Statistical Office fuel prices fell by 2.5% in a month, translating into a 3% YoY drop. This change alone dragged down inflation by almost 0.3ppt from the December reading. On the other hand the significant tax changes, mainly for alcoholic and tobacco products, pushed inflation of these products higher, adding nearly 0.2ppt. Inflation in durables and services also increased. The yearly-based price change in services reached 2.8%, a

rate not seen since 2014, while inflation in durables also accelerated to a 33-month high.

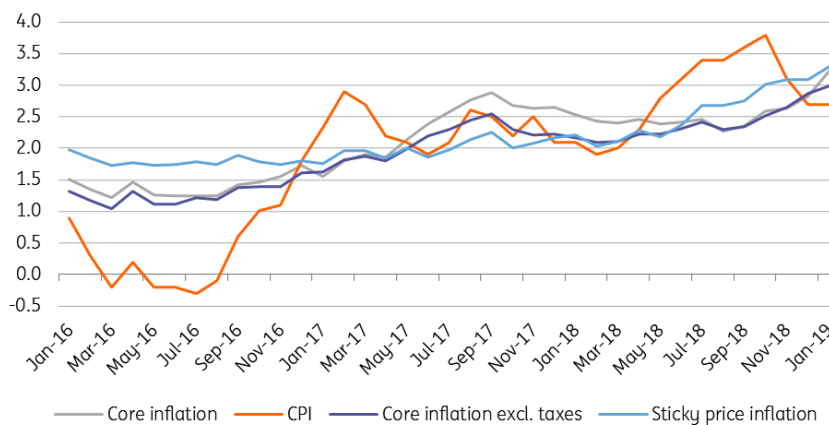
The composition of headline inflation (ppt)



Source: HCSO, ING

Core inflation accelerated by 0.4ppt to 3.226% YoY, exceeding the inflation target level for the first time in five years. More importantly, the NBH-calculated core CPI excluding indirect taxes is also up - by 0.12ppt to 3.0% YoY, the highest figure since 2011. Having only just reached the target, we hardly expect the NBH to pull the trigger already in February. We believe it will definitely do so in March as we expect underlying inflation to strengthen further in coming months.

Headline and core inflation measures (% YoY)



Source: HCSO, NBH, ING

We expect headline inflation to hover around the 3% inflation target, due to the oil price effect. Core inflation is expected to accelerate further to 3.4% YoY in February. The tax effect in January came in at 0.24ppt and is expected to strengthen a bit - we expect core inflation excluding indirect taxes to rise above the target, reaching 3.1-3.2% YoY. This should provide more than enough ammunition for the NBH to pull the trigger in its March rate setting meeting, starting the normalisation with an adjustment in the stock of FX swaps and with a deposit rate hike.

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.

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>.