

## Hungary: Underlying inflation strengthens further

Headline inflation remained at the same high level in May, while core CPI ex-tax reached its highest rate since 2007. However, a dovish ECB will keep Hungary's central bank on hold



Source: Shutterstock

# 4%

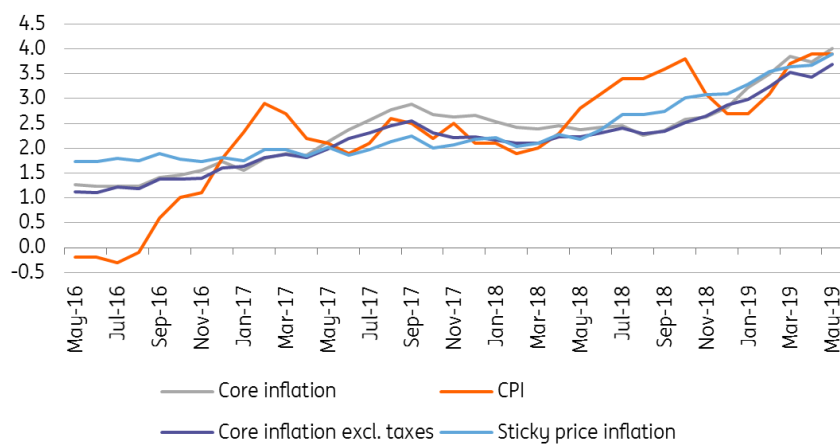
## Hungarian core CPI (YoY)

Previous (3.7%)

Headline inflation came in at 3.9% year-on-year in May, in line with market expectations. While it may seem that prices stabilised, in fact, headline CPI increased by 0.05 percentage point compared to April. The pace of inflation was mainly driven by non-core elements, like unprocessed food prices, counterbalanced by the deceleration in fuel inflation. The highest inflation was seen in alcoholic drinks and tobacco products, mostly because of the increase in excise duty. Services inflation remained at the level seen in April, although prices in market services rose significantly

(around 4.5% YoY) on the back of strong wage growth.

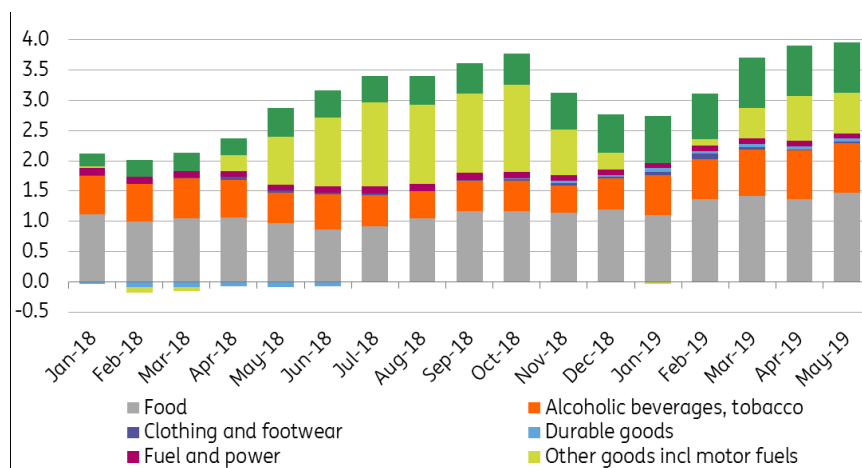
## The composition of headline inflation (ppt)



Source: HCSO, ING

Considering the strong price increase in market services and also processed food prices, it's no surprise that core inflation jumped to 4.02% YoY in May from 3.74% YoY in April. It's now at the highest level since September 2012. Core CPI, excluding indirect taxes (the most important inflation measure for the NBH), also accelerated at the same pace, reaching 3.7% YoY. The indirect tax effect thus remained 0.3ppt. Going forward, this effect will increase as a new round of excise duty hikes on tobacco products will kick in from July, further raising core CPI.

## Headline and core inflation measures (% YoY)



Source: HCSO, NBH, ING

As for monetary policy, the National Bank of Hungary's new inflation report is released in June, which could offer clues about the central bank's direction for the next three months. With inflation measures significantly exceeding previous estimates, the new forecast may include a higher CPI figure. Still, we believe the NBH won't be pressured to raise rates. We see the headline CPI normalising sharply on base effects in the coming months and predict a CPI rate of 3.3% on average in 2019. Recent strength in the EUR/HUF also helps in

the short run. Adding the ECB to the equation, where the next move is likely to be a cut rather than a hike, we expect the Hungarian central bank to remain dovish.

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