

Hungary

Inflation in Hungary moves up yet again

The January re-pricing was much stronger than expected, translating into a significant acceleration both in headline and core inflation, leading us to revise our outlook



The fuel price cap is helping to keep a lid on petrol and diesel prices

7.9%

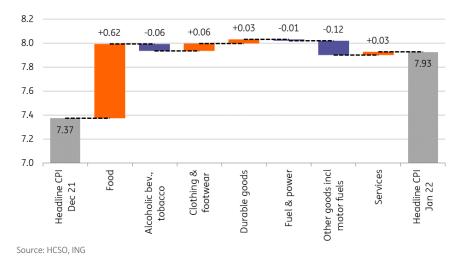
Higher than expected

Headline inflation (YoY)

ING forecast 7.6% / Previous 7.4%

Headline inflation close to 8%

The community of analysts were hoping for some consolidation in the Hungarian headline inflation reading in January. However, this has become wishful thinking lately as incoming inflation data from other countries were all surprising on the upside. And indeed, Hungary has just joined that group. Headline inflation surprised widely on the upside with a 7.9% year-on-year reading in January. The monthly figure came in at 1.4%, much higher than the usual reading, or what we have seen over the past couple of years (0.9-0.9%). To make things worse, this is quite a broadbased price pressure as 76% of the consumer basket shows an above 3% year-on-year price increase.



Main drivers of the change in headline CPI (%)

The details

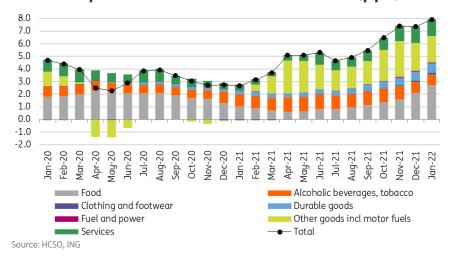
- The acceleration in headline inflation was caused by food prices. Inflation in this category reached 10.1% year-on-year. Out of which based on the National Bank of Hungary (NBH) calculation 30% is related to unprocessed food with the remainder coming from processed food. This shows a strengthening spill-over effect from supply shocks and that the more than 27% yearly increase in agricultural producer prices is translating into a strong consumer price pressure. The price cap introduced by the government only came into force in February, thus it hasn't yet affected the inflation in this product group.
- Inflation in services also accelerated by 0.2ppt to 5.2% YoY in January. It is hard to pinpoint one or two sectors here, as the majority of services were showing a significant pick up in price increases. Transportation, holiday packages, medical services were showing the most significant changes. The 0.7% monthly price increase in services is higher than the historical average, showing a strong re-pricing on all sorts of cost side pressures (e.g. transportation, energy, and labour costs).
- We also need to talk about durables, where inflation moved up to 7.9% YoY after another 1% monthly price increase. But this should hardly come as a surprise with inflation rising steadily across the board as manufactured goods producers face increasing cost pressures in a shortage economy. Moreover, the January strengthening of the Hungarian forint (HUF) couldn't limit these pressures.
- What was, however, a major limiting factor in inflation is the fuel price cap. This has become effective again as oil prices moved up close to US\$90/barrel during January. According to our calculation, instead of the 1.1% monthly increase (limited by the price cap) the price change could have topped 5%, moving the headline inflation reading well above 8%.

The impact of price caps

The fuel price cap which limits the retail prices of the non-premium petrol and diesel fuel at HUF480 is going to expire on 15 February. According to our estimation, without the price cap, the petrol price would be around HUF510 and diesel around HUF530/litre. On average this could mean an additional 0.5-0.6ppt inflation pressure, although it would spread over two months due to statistical recording reasons. In this respect, we see the government

extending the fuel price cap for another three months.

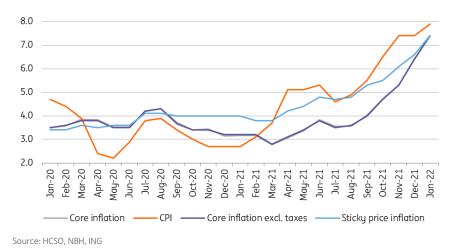
Regarding the price caps which affect the price of some basic foods from 1 February, this will impact only the February inflation reading. As prices reverted to levels seen in October according to the regulation, we calculate a roughly 0.5ppt downward impact going forward. So, the monthly headline inflation will be dragged down by this amount, all other things being equal.



The composition of headline inflation (ppt)

Underlying price pressure breaks multi-decade record

All in all, there is widespread inflation pressure in both core and non-core parts of the consumer basket showing a significant spillover effect from supply related price shocks and the second-round effects of wage growth. Core inflation rose by 1.4% month-on-month translating into a 7.4% yearon-year figure in January, a level not seen since the end of 2001. The so-called sticky price inflation (which shows the prices of components of the consumer price index which are slow to change, and therefore are good predictors of medium-term developments in headline inflation) spiked to 7.4% YoY as well, posting a new record.



Headline and core inflation measures (% YoY)

Inflation outlook moves up, warranting the need for tightening

Taking into account a possible lengthening of the fuel price cap and the incoming impact of food price caps, we see February inflation showing a decrease although it will remain above 7% YoY in our view. Considering the upside surprise in all the various inflation readings and seeing the rising price expectations of both households and corporates, we revise our previous 5.7-5.8% inflation forecast to 6.0-6.1% in 2022. Risks stemming from economic developments remain on the upside.

In light of today's data, we expect the National Bank of Hungary's tightening cycle to continue in the coming months. We see the effective interest rate rising to at least 5.50% in the first half of this year. As the January inflation figures are well above the base case forecasts of the central bank, we also do not rule out the possibility that a higher terminal rate is needed to reach the 3% inflation target in 2023.

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 www.ing.com.