



Monthly analysis of inflation developments

April 2014



Article 3 (1) of the Central Bank Act (Act CXXXIX of 2013 on the Magyar Nemzeti Bank) defines the achievement and maintenance of price stability as the Magyar Nemzeti Bank's primary objective. Assessments of inflation developments have key importance in monetary policy decision-making. The MNB attaches a high priority to informing the general public on a continuous basis and thereby to improving the transparency and predictability of its decisions. Consistent with this principle, the Magyar Nemzeti Bank produces publicly available analyses of its assessments of inflation developments and the extent of medium-term inflationary effects on a monthly basis.

The analysis has been prepared by the Economic Forecasts and Analysis Directorate and approved by Dániel Palotai, Executive Director responsible for monetary policy.

The publicly available analyses and the related statistical databases are accessible on the MNB's website at:

http://english.mnb.hu/Statisztika/data-and-information/mnben_statisztikai_idosorok/mnben_elv_prices/underlying_inflation_indicators_MNB

ASSESSMENT OF INFLATION DATA FOR APRIL 2014

In April 2014, the consumer price index stood at -0.1 per cent and core inflation at 2.3 per cent.¹ Indirect tax-adjusted core inflation was 1.2 per cent in the month. Consumer price inflation fell by 0.2 percentage points and core inflation by 0.4 percentage points relative to March. The moderation in the inflation rate in April was mainly accounted for by the decline in the annual index for fuel prices, apart from this, prices changes were generally moderate in other product groups as well (Chart 1).

The Bank's measures of underlying inflation developments (demand-sensitive and sticky-price inflation) fell relative to the previous month. The levels of the measures continue to indicate a moderate inflation environment (Chart 2).

Below is a brief analysis of changes in the prices of items determining medium-term inflation developments.

Tradables inflation was unchanged relative to the same period a year earlier. The price dynamics of non-durable tradables, adjusted for the effect of extremely volatile air fares, continued to be moderate in the month². The prices of durable tradables, which tend to be highly volatile at the monthly frequency, after three months of price increases, fell in April.

In April 2014, services prices edged down by 0.1 per cent relative to the previous month (Chart 3). The downward impact on inflation from the withdrawal of increases in banking fees had a moderating effect on the prices index for this product group. Adjusting for this factor, prices within the broader category of services increased moderately, as seen in recent years.

In seasonally adjusted terms, processed food prices fell relative to the previous month. In April, mainly higher dairy product prices had an upward impact on processed food prices, which was offset by declines in the price indices for several products.

Budapest, 13 May 2014

¹ In Hungary, tobacco products are included in the measure of core inflation. As part of the changes in the tobacco market last year, the retail margin was increased by the Government. The increase in the retail margin affects the consumer price index only temporarily, similar to an increase in indirect taxes, while it does not influence the assessment of longer-term inflation trends. Accordingly, in addition to the tax effects, the effects of the increase in the margin on tobacco products have also been eliminated from the core measure of inflation in calculating indirect tax-adjusted core inflation.

² The external component represents a significant weight in air fares, and it tends to respond sensitively to movements in exchange rates. For this reason, air fares have been categorised into tradables.

Chart 1: The consumer price index and core inflation excluding indirect taxes
(annual percentage changes, January 2007 – April 2014)

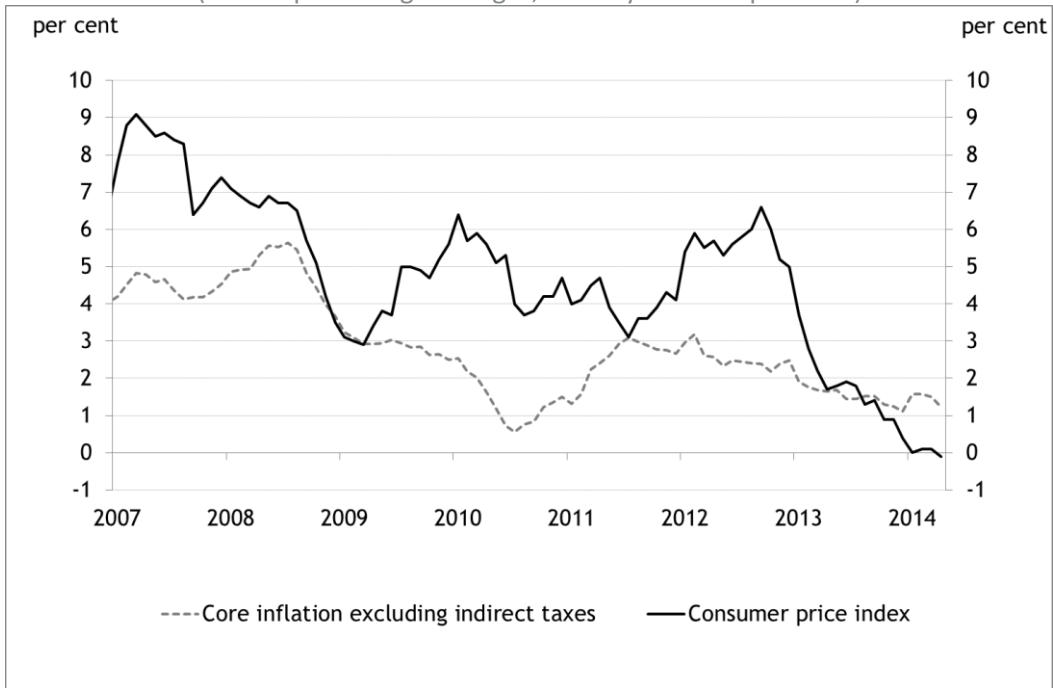
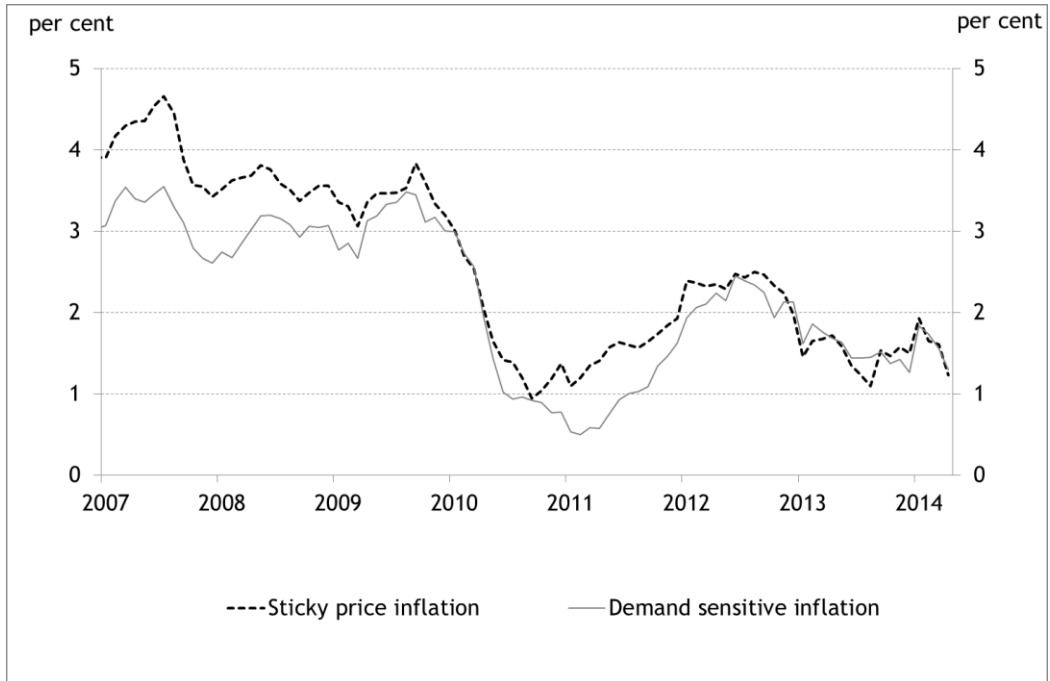


Chart 2: Underlying inflation indicators

(excluding indirect taxes, annual percentage changes, January 2007 – April 2014)



Note: Demand-sensitive inflation is derived by eliminating processed food prices from core inflation. Inflation of sticky-price products is composed of items of the consumer price index where maximum 15 per cent of elementary prices change monthly on average. MNB calculation based on data released by the CSO.

Chart 3: Services price inflation

(seasonally unadjusted, tax-adjusted monthly changes, January 2005 – April 2014)

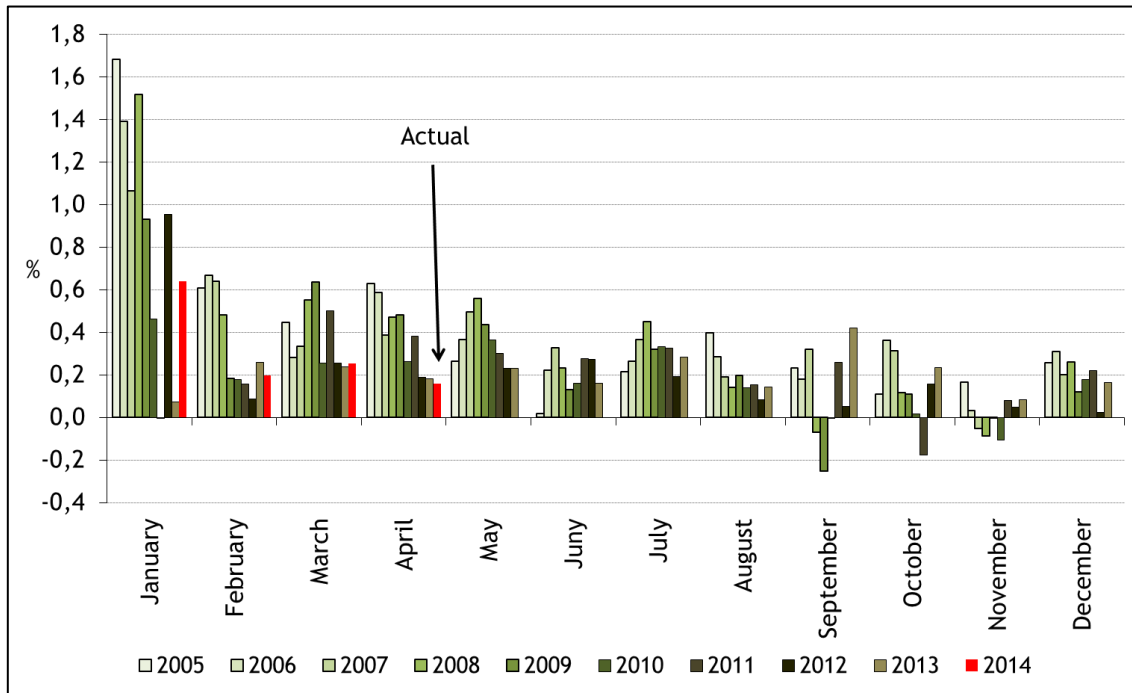


Table 1: Annual change in the consumer price index and contribution of the measures of underlying inflation

| Consumer price index, April 2014 (CSO) | | | | | |
|--|------------|--|------------|---|------------|
| -0,1% (annual change) | | | | | |
| MNB underlying inflation indicators (MNB calculation) | | | | | |
| Contribution of sticky price inflation (percentage point), weight 31,3% | 0,4 | Contribution of demand sensitive inflation (percentage point), weight 52,8% | 0,7 | Contribution of core inflation excluding indirect taxes (percentage point), weight 65,6% | 0,8 |
| Contribution of other items (percentage point) | -0,5 | Contribution of other items (percentage point) | -0,8 | Contribution of other items (percentage point) | -0,9 |

Sources: CSO and the MNB's own calculations.

The sum of contributions may differ from the official figures due to rounding.