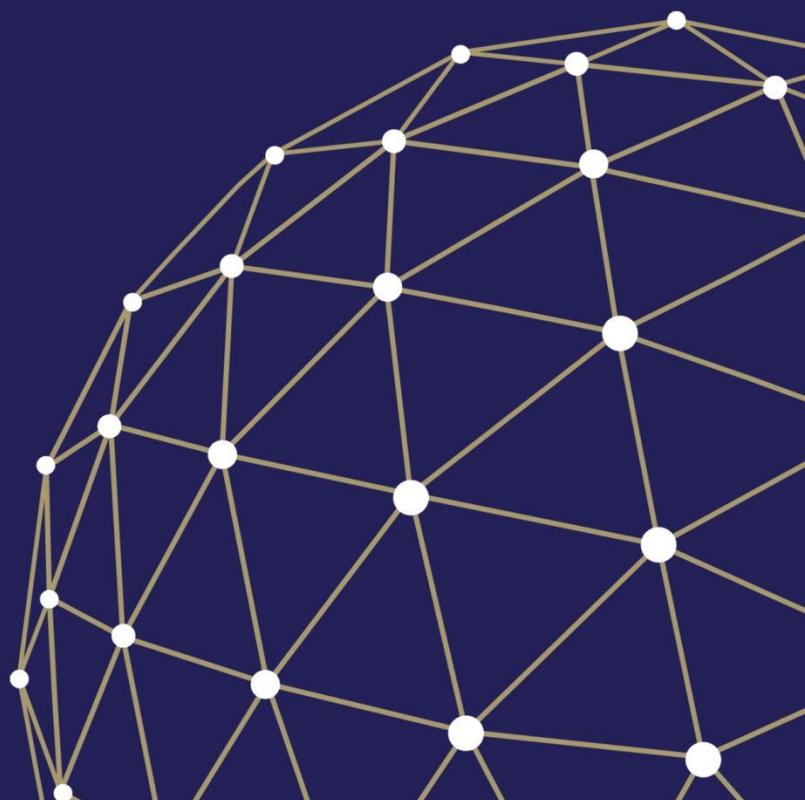




Monthly analysis of inflation developments

May 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 MAY 2014

In May 2014, the *consumer price* index stood at -0.1 per cent and *core inflation* at 2.5 per cent. *Indirect tax-adjusted core inflation* was 1.4 per cent in the month.¹ Consumer price inflation was unchanged and core inflation rose by 0.2 percentage points relative to the previous month. The slight increase in core inflation in May was accounted for by the rise in the price indices for several products (Chart 1).

The Bank's measures of *underlying inflation* developments (demand-sensitive and sticky-price inflation) were broadly unchanged relative to April. 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 prices rose slightly relative to the same period a year earlier. The price dynamics of *non-durable tradable* goods continued to be moderate in the month. Prices of *durable tradable* goods, which tend to be highly volatile at the monthly frequency, continued to fall in the month.

Services prices rose by 0.1 per cent relative to April (Chart 3), representing much more favourable price dynamics compared with previous years. This reflected in part the sharp decline in non-local government rent rates.

In seasonally adjusted terms, *processed food* prices rose relative to the previous month.

Budapest, 11 June 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.

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

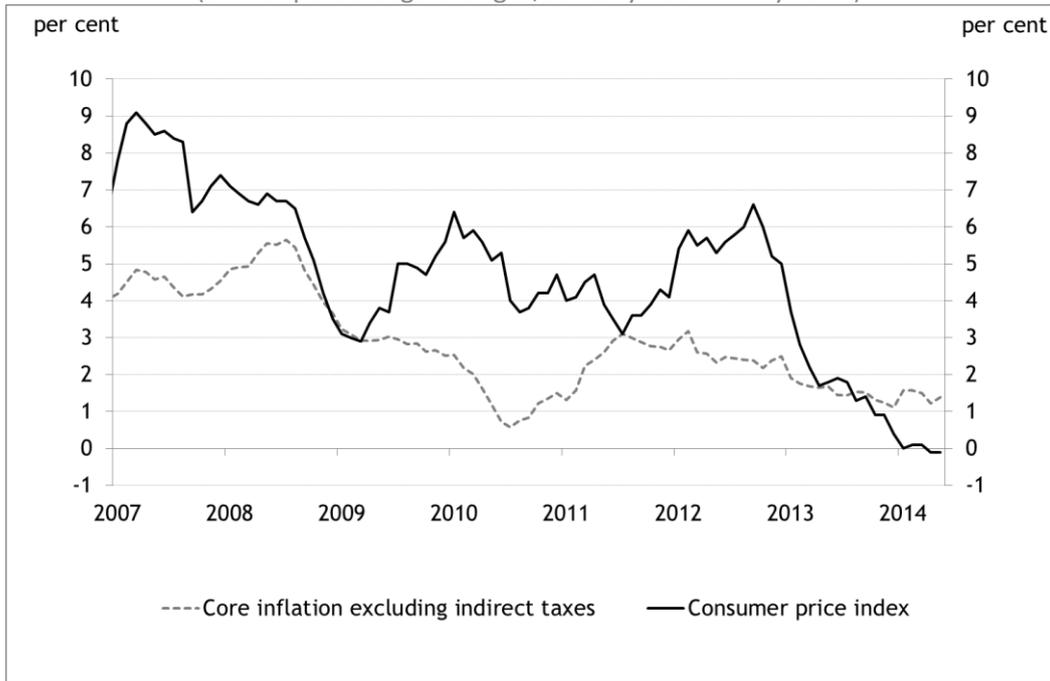
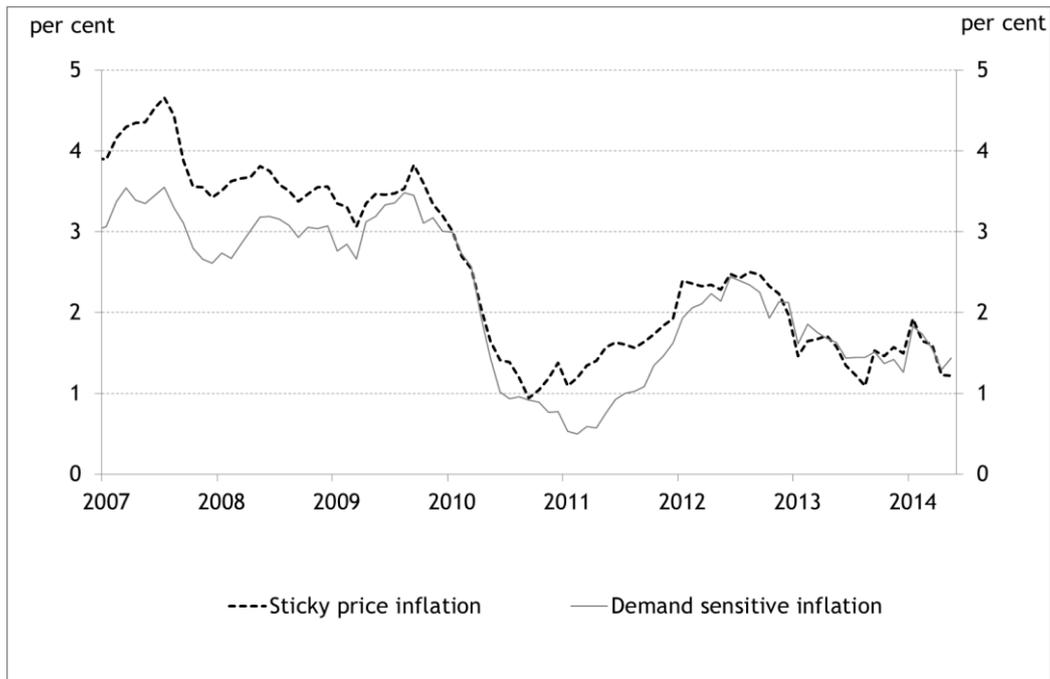


Chart 2: Underlying inflation indicators

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

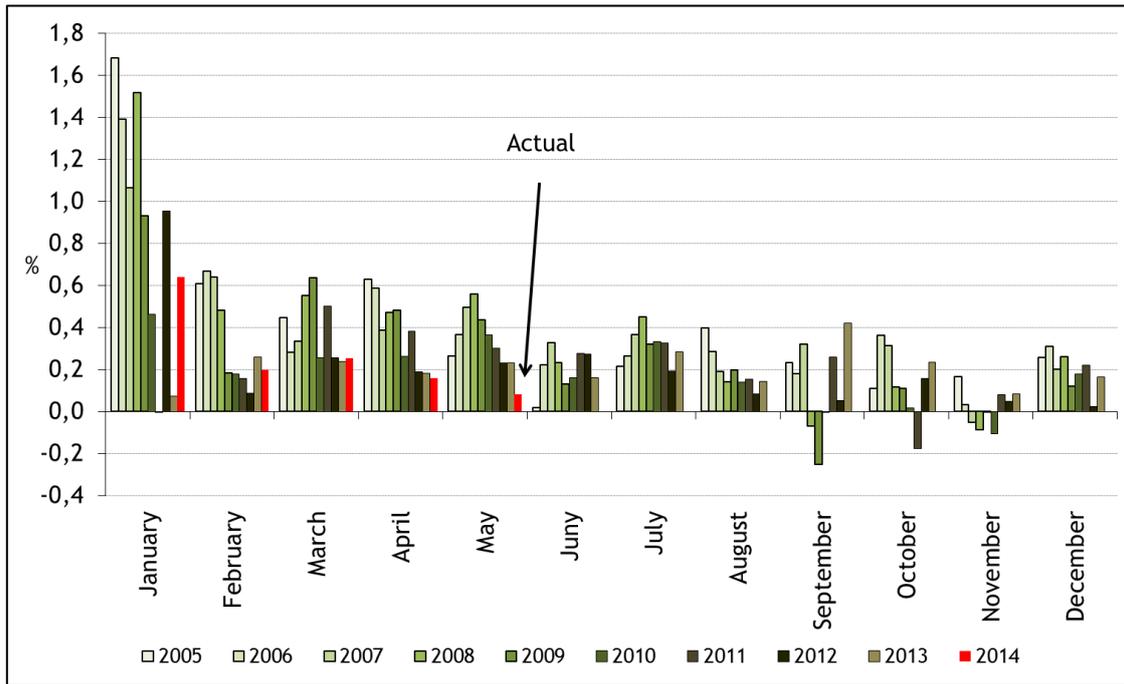


Table 1: Annual change in the consumer price index and contribution of the measures of underlying inflation

Consumer price index, May 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%	0,8	Contribution of core inflation excluding indirect taxes (percentage point), weight 65,6%	0,9
Contribution of other items (percentage point)	-0,5	Contribution of other items (percentage point)	-0,9	Contribution of other items (percentage point)	-1,0

Sources: CSO and the MNB's own calculations.

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