



FLASH ANALYSIS OF INFLATION DEVELOPMENTS

DECEMBER

2023

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 Gergely Baksay, Executive Director for Economic and Fiscal Analysis.

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

<https://www.mnb.hu/en/publications/studies-publications-statistics/flash-analysis-on-inflation-developments>

ASSESSMENT OF INFLATION DATA FOR DECEMBER 2023

In December 2023, domestic inflation continued to decline rapidly; consumer prices rose by 5.5 percent year on year. Core inflation and core inflation excluding indirect tax effects fell to 7.6 percent (Chart 1 and Chart 2). Total consumer basket price was down by 0.3 percent on a monthly basis, as prices rose by 0.2 percent regarding core inflation. The rate of price change compared to the previous month was below the historic average usually seen this time of year primarily due to a fall in fuel prices. In 2023, average annual inflation was 17.6 percent with annual core inflation standing at 18.2 percent.

A slowdown in inflation is still perceived on a broad base, reflecting the combined effects of tight monetary policy, the Government's measures to strengthen competition, the subdued demand environment, base effects and the significantly lower external cost environment compared to last year. Overall, core inflation was in line with the mean of the forecast range in the December Inflation Report, while headline inflation was lower than that. This deviation is primarily due to the fall in piped gas and processed food prices.

Inflation slowed down by 2.4 percentage points compared with the previous month, to which the decline in fuel prices (-2.4 percentage points) contributed decisively. Year-on-year core inflation fell by 1.5 percentage points, with disinflation being a general factor. The Bank's measures of underlying inflation developments capturing persistent inflationary trends, calculated on a year-on-year basis, also fell. The inflation of sticky-price products inflation and the core inflation excluding processed food prices both declined by 0.9 percentage point relative to the previous month (Chart 3).

The continued slowdown in underlying inflation is signalled by the fact that core inflation and inflation were below 3 percent in a shorter-based comparison (3 months/3 months) (Chart 4). The price of the basket calculated excluding fuel and regulated product prices was up by 0.1 percent relative to the previous month (Chart 5). Month-on-month core inflation excluding processed food, which better reflect underlying developments, was 0.3 percent in December (Chart 6).

Below is a brief analysis of price changes across the main product categories.

The annual inflation of *tradables* fell to 6.6 percent. The prices of this product group rose by 0.3 percent compared to the previous month (Chart 7). Within this product group, the monthly rise in non-durables prices was partly offset by the decline in durables prices. The rise in the prices of non-durables was primarily caused by the volatility in air fares prices, while in terms of durables, the main contributor to the fall was second-hand cars.

Year-on-year price index of *market services* declined to 12.6 percent; and as a result, the fall in annual price growth, started in June, continued. On a monthly basis, prices rose by 0.3 percent.

Annual *food* inflation fell to 4.8 percent in December based on HCSO data release. Within the product group, the annual price index of processed food fell considerably with unprocessed food prices rising slightly as a result of basis changes (Chart 9). Compared to November, unprocessed food prices and processed food prices decreased by 0.2 percent and 0.4 percent, respectively (Chart 10). The decline in unprocessed food prices was due to the fall in poultry meet and fresh domestic and southern fruit prices, as the drop in the prices of unprocessed food was attributable to the fall in milk and dairy products prices.

Fuel prices decreased by 5.0 percent on a monthly comparison mainly reflecting a fall in oil prices. In addition to the monthly decline in prices, the significant base effect arising from the discontinuation of the price cap in December 2023 was also a contributing factor to the decline of 4.2 percent in the annual average price of the product group.

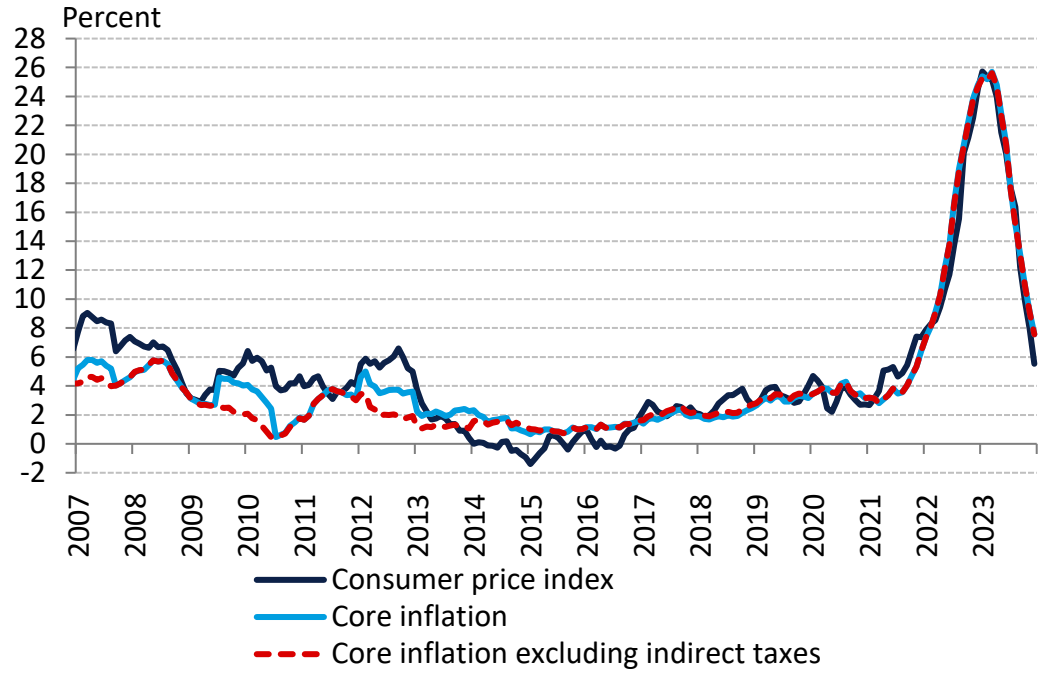
The prices of *regulated products and services* fell by 0.2 percent compared to November. Primarily this was caused by a decrease in piped gas prices, which was the result of the further increase in the proportion of household consumption below the volume limit of the lower, officially regulated price.

The indicators, measuring *households' inflation expectations*, showed unusually high volatility (Chart 11). *Corporate expectations for retail sales and services prices* fluctuated at pre-Covid19 levels in December (Chart 12).

Prepared by Géza Rippel

Budapest, 12 January 2024

Chart 1 Consumer price index, core inflation and core inflation excluding indirect taxes
annual change



Note: Seasonally unadjusted core inflation.

Chart 2 Inflation decomposition
annual change

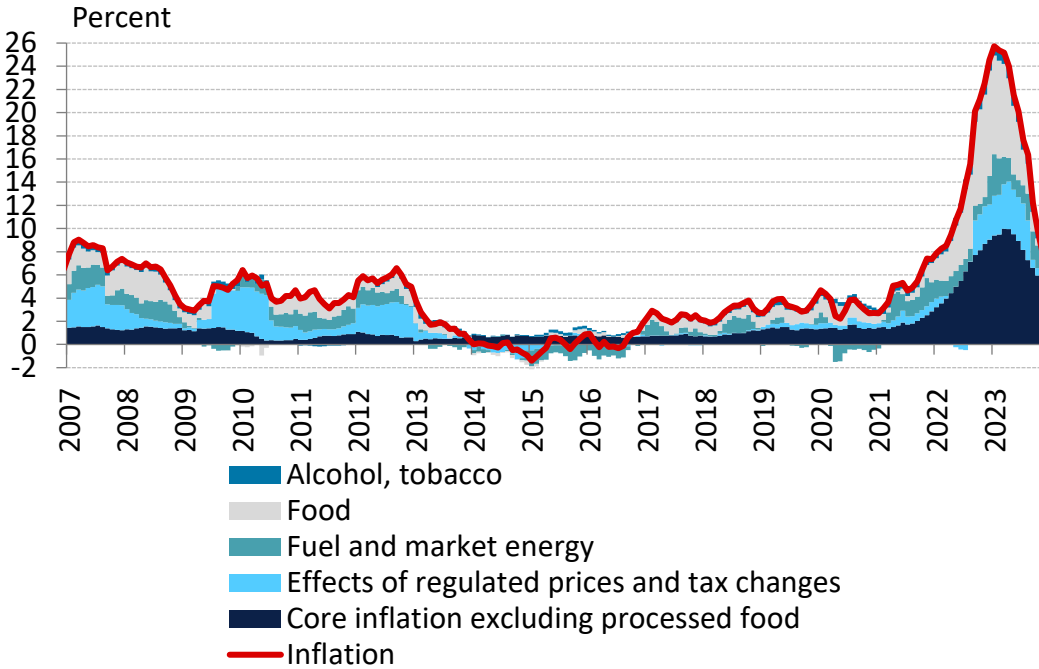
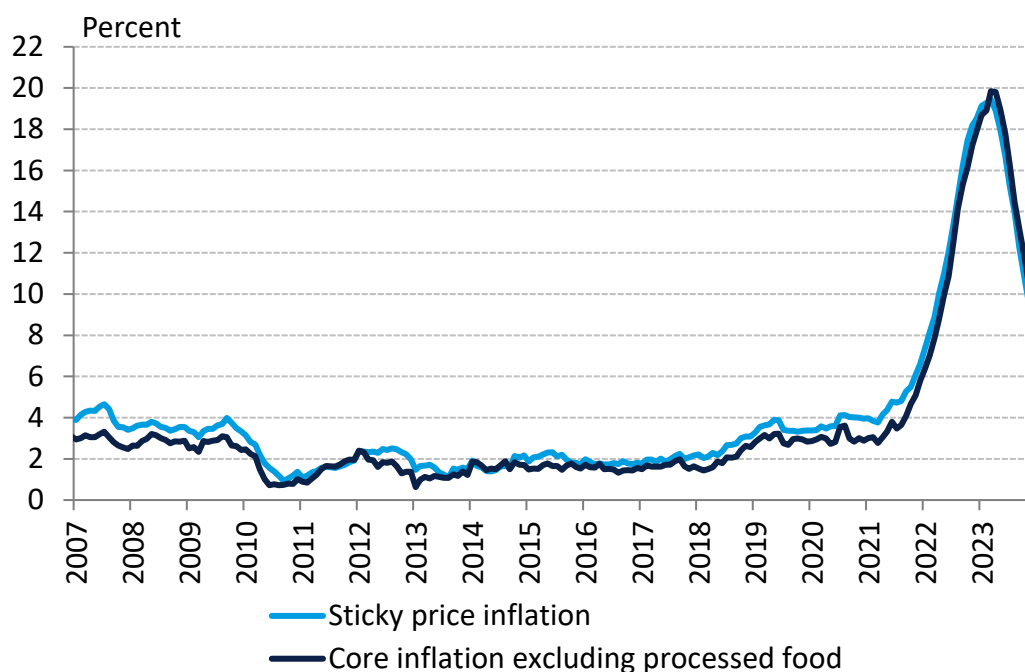


Chart 3 Underlying inflation indicators
annual percentage changes excluding indirect taxes



Note: Inflation of sticky-price products is composed of items of the consumer price index where maximum 15 percent of elementary prices change monthly on average. MNB calculation based on data released by the HCSO. Core inflation excluding processed foods with unchanged content is equivalent with the earlier demand sensitive inflation. The new name is justified by the fact that the previous name might be ambiguous in a period of significant cost shocks with general effects.

Chart 4 Three-month annualised changes in inflation and core inflation
According to the seasonally adjusted data

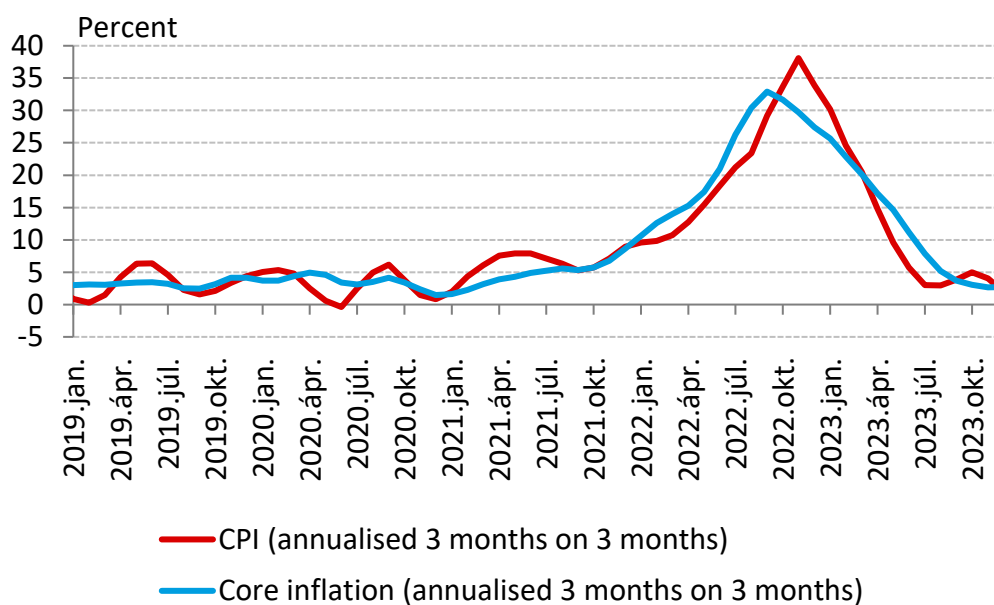


Chart 5 Monthly changes in consumer prices excluding fuel and regulated products prices
tax-adjusted, seasonally unadjusted monthly percentage changes

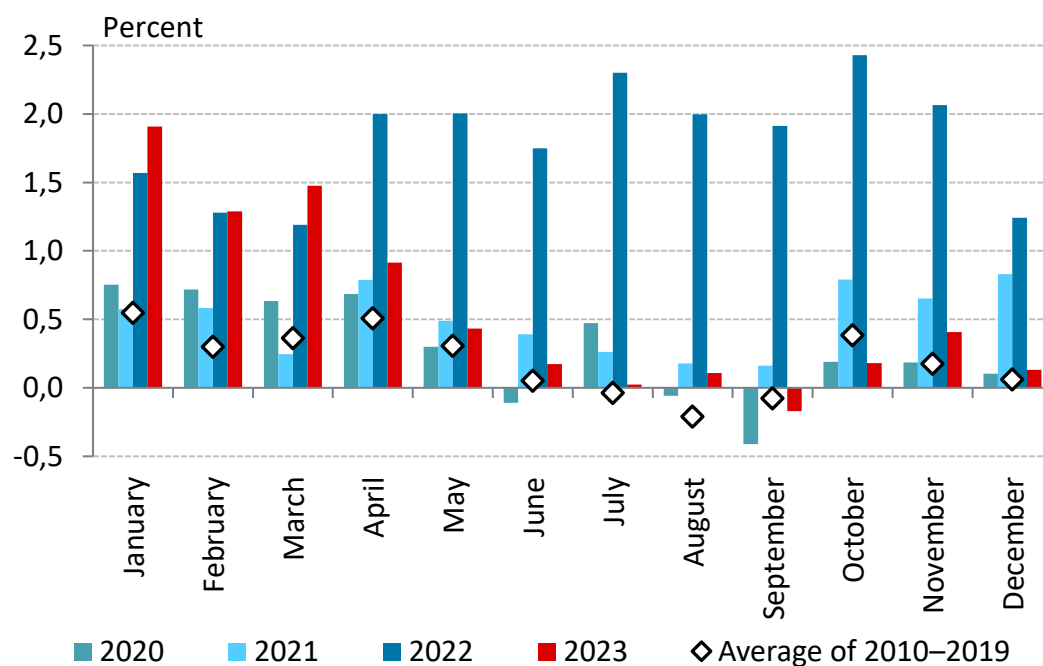


Chart 6 Monthly change in core inflation excluding processed food
tax-adjusted, seasonally unadjusted monthly percentage changes

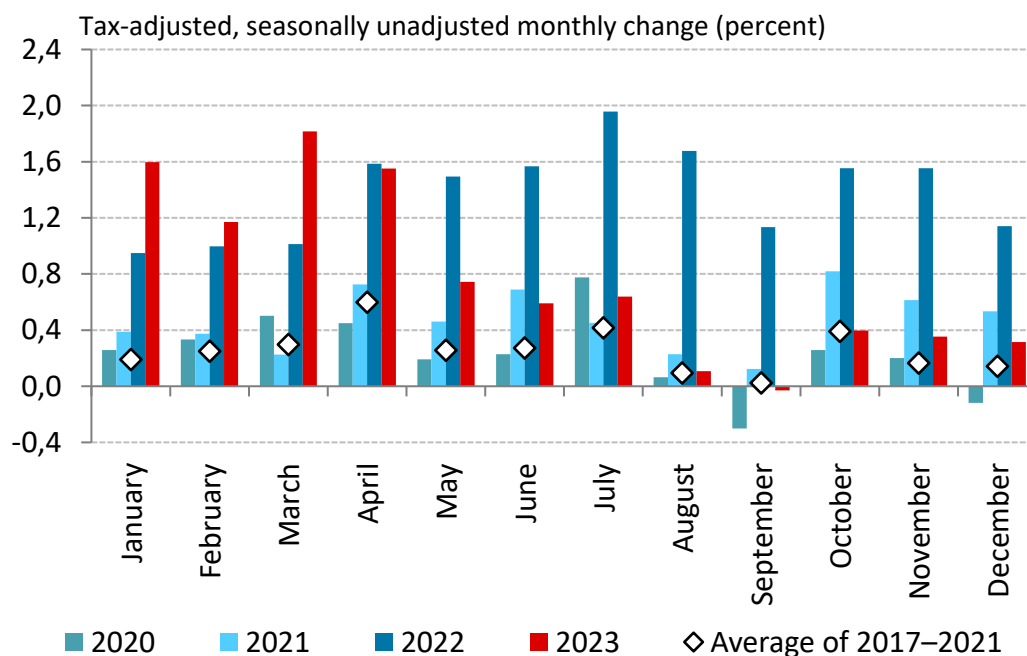


Chart 7 Inflation of tradable goods
seasonally unadjusted, tax-adjusted monthly change

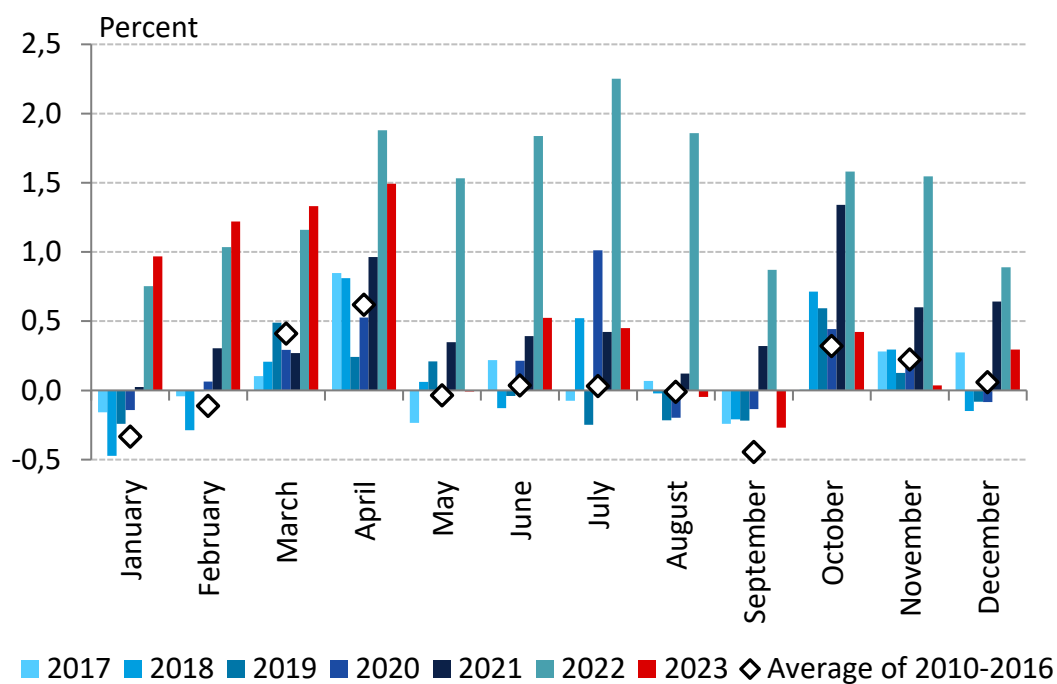


Chart 8 Market services inflation
seasonally unadjusted, tax-adjusted monthly change

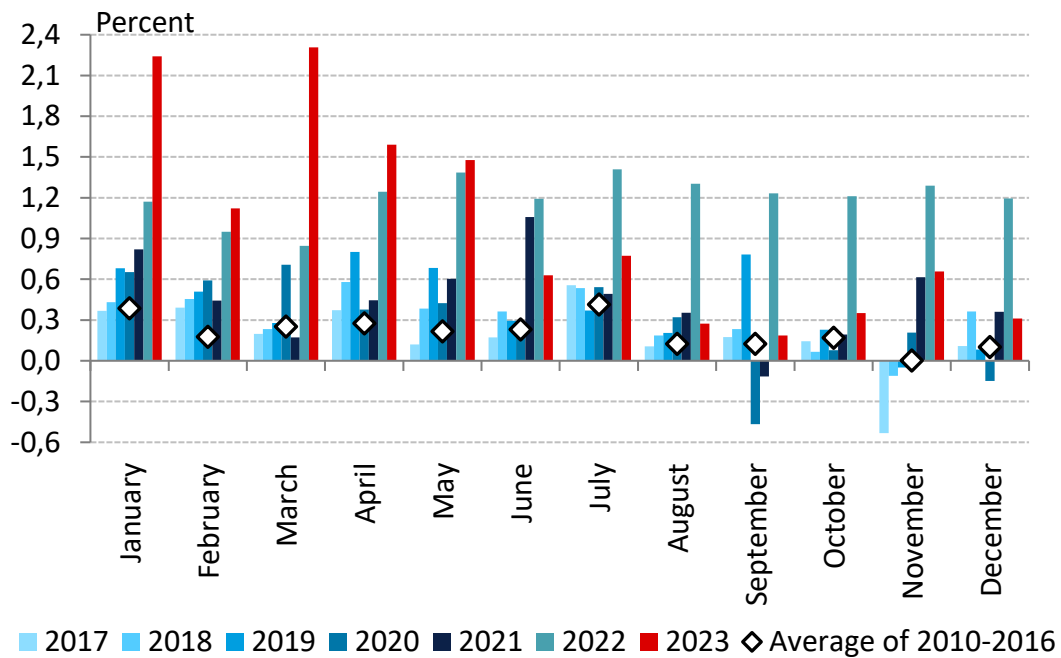
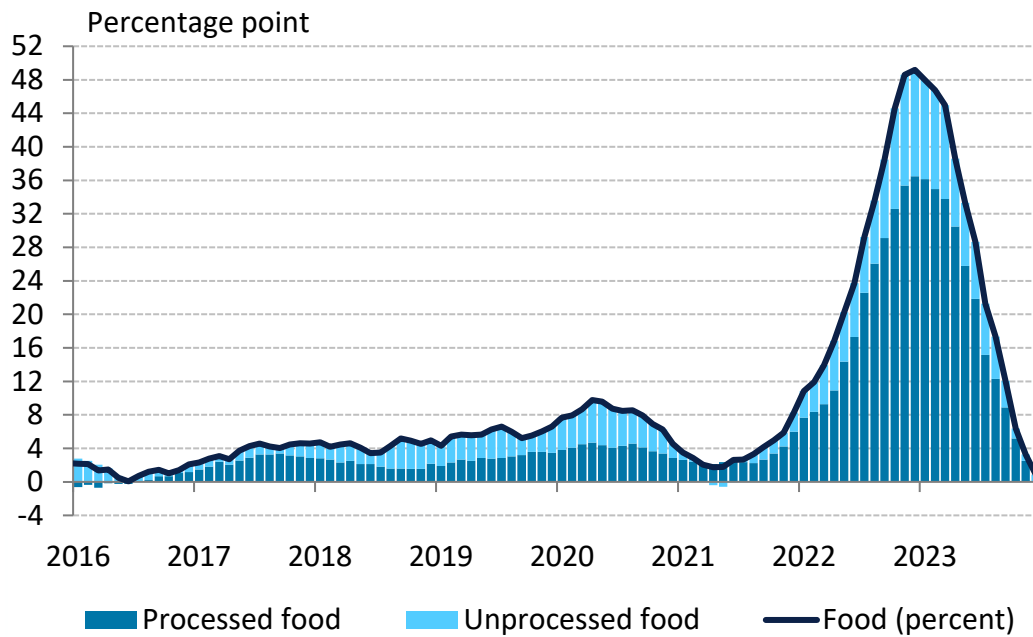
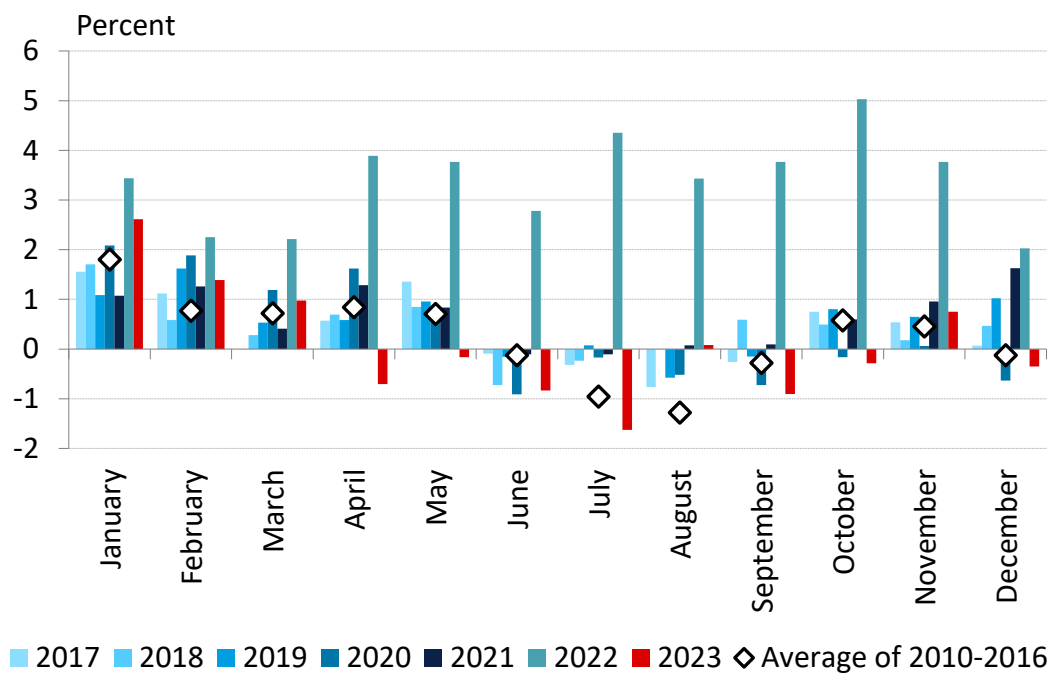


Chart 9 Developments in food price inflation
seasonally unadjusted, tax-adjusted annual change



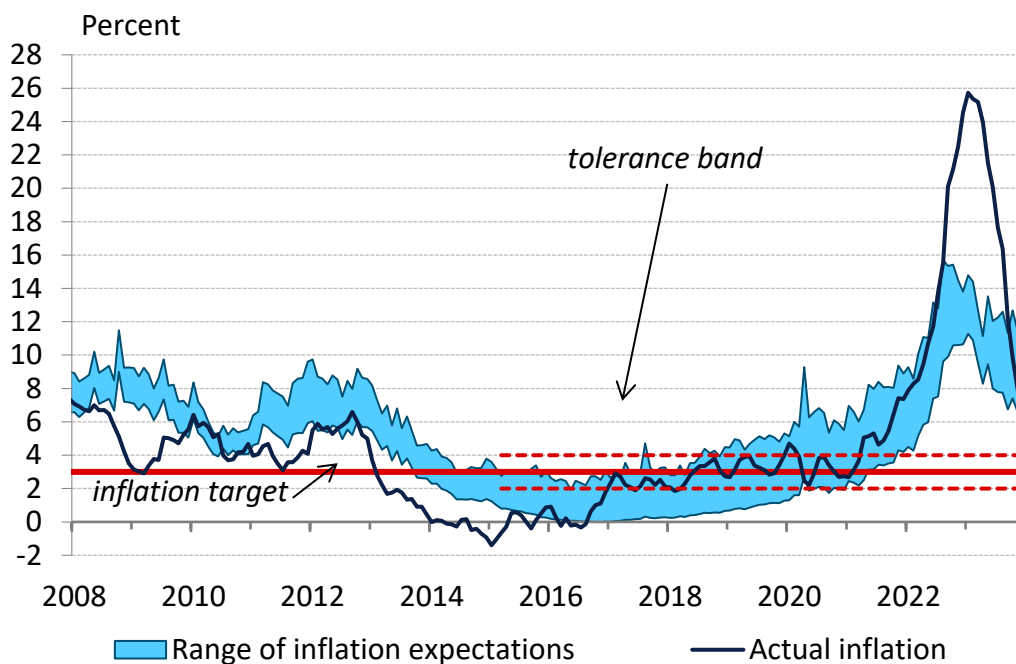
Note: The difference in food price inflation calculated by the HCSO and the MNB is explained by methodological differences. The MNB classifies food-related services as market services (restaurant meals, workplace meals, canteen goods) and the prices of regulated goods and services (school meals, nursery and kindergarten meals), and some beverages as non-durable industrial goods (coffee, tea, soft drinks).

Chart 10 Monthly changes in food prices
seasonally unadjusted, tax-adjusted monthly change



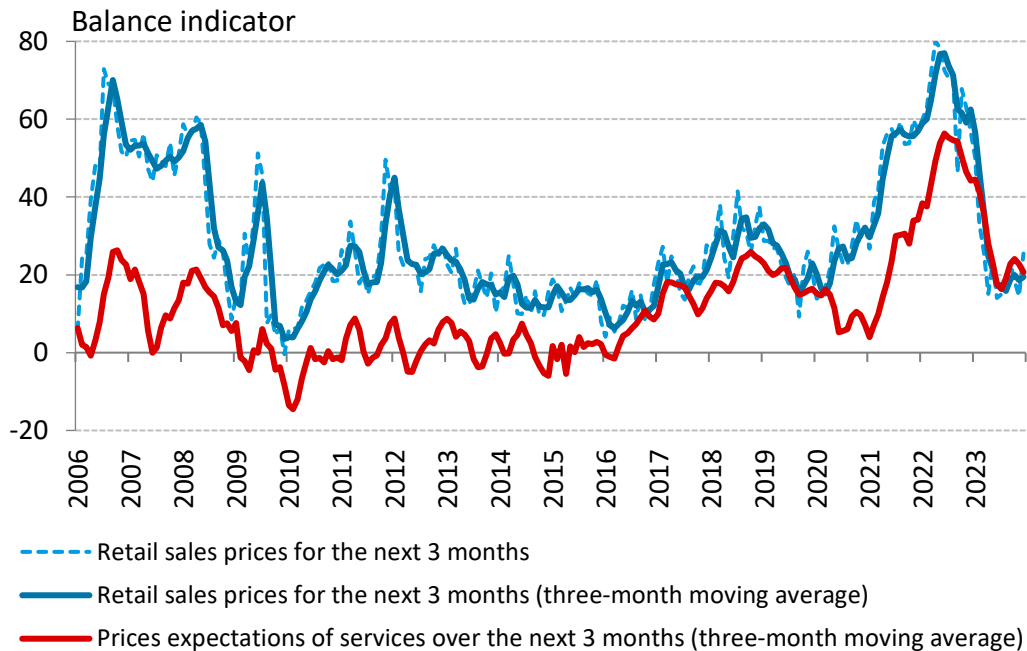
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Chart 11 Households' inflation expectations



Sources: MNB calculations based on European Commission data; and HCSO.

Chart 12 Changes in the expectations for retail sales and services prices in Hungary



Sources: MNB's own calculations based on data from the European Commission

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

Consumer price index, December 2023 (HCSO)					
5.5% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
Contribution of sticky price inflation (percentage points), weight 39.2%	3.4	Contribution of core inflation excluding processed foods (percentage points), weight 50.2%	4.8	Contribution of core inflation excluding taxes (percentage points), weight 63.7%	4.8
Contribution of other items (percentage points), weight 60.8%	2.1	Contribution of other items (percentage points), weight 49.8%	0.7	Contribution of other items (percentage points), weight 36.3%	0.7

Sources: HCSO and the MNB's own calculations.

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