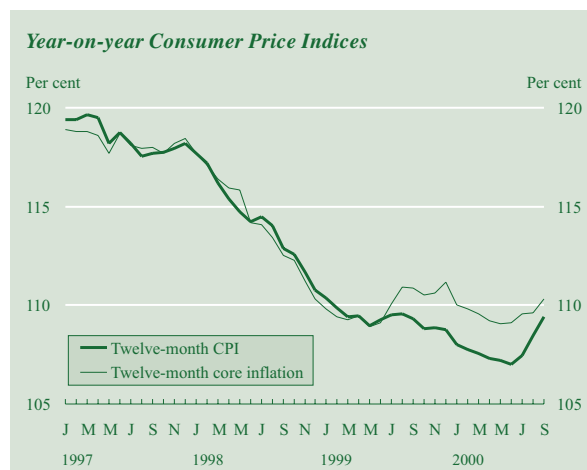


## II. PRICES AND EXCHANGE RATES

### Consumer prices

The year-on-year rate of core consumer price inflation<sup>1</sup> was 9.4%<sup>2</sup> in September. That meant an increase of 0.9 of a percentage point relative to the preceding month. The not seasonally adjusted measure of core inflation showed a one-month increase of 1.3%.



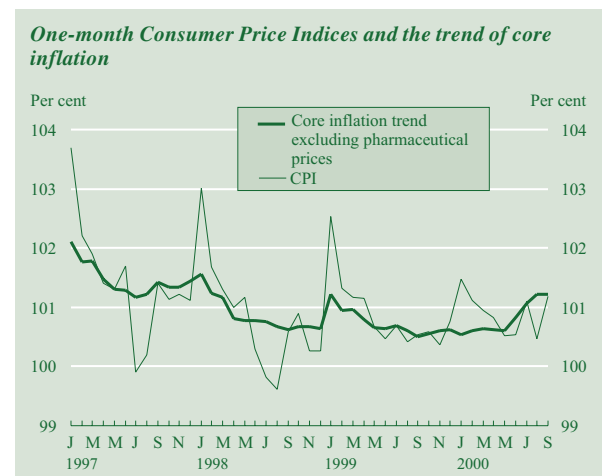
**Core inflation rates in the twelve months to September 2000**

	Twelve-month core inflation	Annualised trend of core inflation
September 1999	109.31	106.25
October	108.81	106.88
November	108.80	107.62
December	108.75	107.69
January 2000	108.02	106.60
February	107.78	107.50
March	107.54	108.00
April	107.32	107.66
May	107.20	107.59
June	106.99	110.44
July	107.44	113.64
August	108.47	115.57
September	109.40	115.61

**Note:**

Trend values are derived from a model applied to fixed-base indices. The trend has been calculated for the time series beginning in January 1994. The model is imposed on the January 1994–June 2000 sample, so the values have remained constant despite the inclusion of new outcomes. The model is revised every six months.

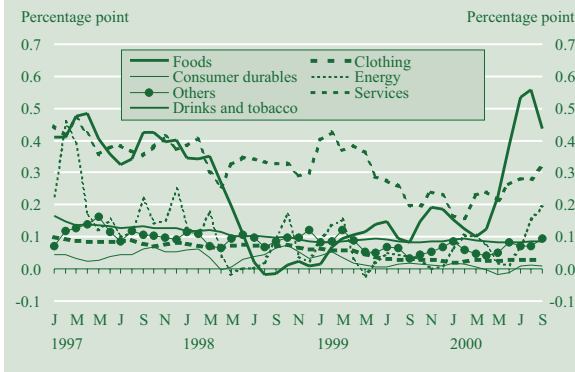
The trend value of core consumer price inflation, at 1.3% in September, indicated another significant increase from August. The upward correction of food prices, lasting for several months, continued to account for most of the monthly increase in inflation. Input prices and transportation costs are increasingly pushing the prices of more and more manufactured goods higher. The contribution of price changes in this product group to the trend of core inflation was 0.44 of a percentage point in the month under review. In addition to food prices, services prices also made an important contribution to the pick-up in core inflation in September. The absolute contribution of services prices rose from 0.22 of a percentage point in August to 0.32 of a percentage point in the month under review. That higher outturn reflected in part a considerable increase in housing costs



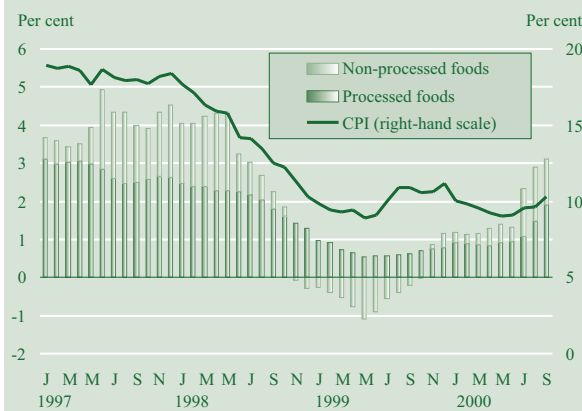
<sup>1</sup> The Bank's estimate of core inflation. It is derived by removing price shocks, believed to have only short-run effects, which do not directly influence the underlying trend of inflation (shocks caused by price changes of seasonal foods, solid and liquid fuels, motor fuels, pharmaceuticals and medical equipment). The gauge currently used by the Bank covers goods whose price changes, whether resulting from administrative measures or from autonomous market price-setting, can be anticipated with relative certainty in the Hungarian inflationary environment.

<sup>2</sup> The value of the index, excluding the effect of the change in meat prices, was 8.9%.

*Contributions of the CSO's major product categories to the trend of core inflation*



*Contribution of food prices to year-on-year CPI*



which are normally determined by market forces, and in part the increase in the wired telephone call prices.<sup>3</sup> Considering the effects the various product groups exercised on the overall level of prices, household energy was third, with an increase of 0.19 of a percentage point, mainly reflecting increases in the centrally controlled and market determined price of natural gas.

Twelve-month consumer price inflation, reported by the CSO, was 10.3% in September, the highest outcome in 2000 to date. Here, the index of consumer durables, at 1.1%, continued to mark the lowest extreme of the vertical scale in the month. At 13.4%, the food price index was at the highest extreme of the spectrum, followed by the other goods and motor fuel price index (11.4%), the price index for alcoholic beverages and tobacco (10.7%), the household energy index (10.6%), the services price index (9.8%) and the clothing price index (5.6%).

<sup>3</sup> Coincided with the end of low-price long distance call offer on 31 August.

<sup>4</sup> The index eliminates the effects of changes in the prices of electricity, gas, steam and hot water supply as well as of production, treatment and distribution of water.

## Producer prices

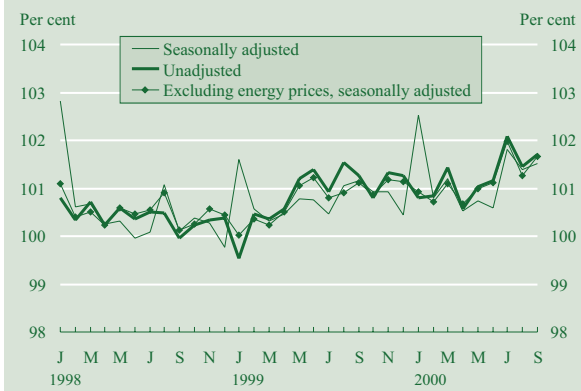
Seasonally adjusted domestic industrial output prices excluding energy prices, a reliable gauge of fluctuations in producer price levels, once more showed a considerable increase of 1.7% in September 2000 relative to the preceding month.<sup>4</sup>

The CSO release of domestic sales prices showed a rise of 1.5% in one month, the September-to-September increase measuring 15.4%.

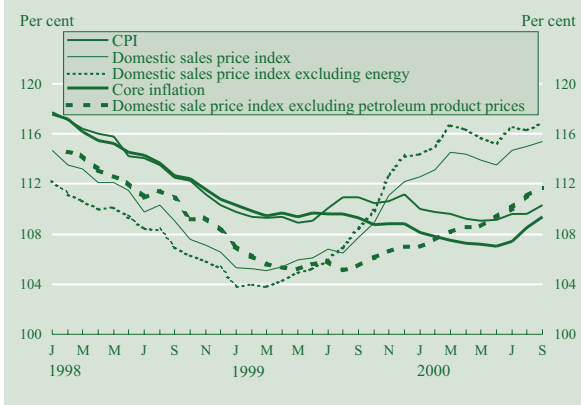
The combined, one-month change in domestic and export sales prices was an increase of 1.2% and one of 12.8% year on year.

Manufacturing industry prices, which are a dominant factor influencing movements in domestic sales prices, stood 1.9% higher in September than in the preceding month. That was the highest one-month outturn in the year to date. The upward trend in chemical and food industry prices continued uninterrupted in the month. Increases in base material prices and transportation costs continued to be the major contributing factors to the average 2.3% rise in food prices. Considering the change

*Domestic output price indices  
Preceding month = 100*



*Domestic output price index excluding petroleum in relation to other price indices  
Same month of previous year = 100*



in chemical industry prices, the 2.9% increase in the month was largely explained by fresh developments in the world market – petroleum product prices rose by another 5.8% in one month. The monthly outcomes for price indices in the remainder of manufacturing sectors varied between 0.5% and 1.7%.

Domestic producer price indices, categorised by end-user, showed that the one-month price index for the sectors producing energy and intermediate goods increased by 1.5%. The investment goods index rose by 0.4% and that of consumer goods by 2%.

In a twelve-month comparison, consumer goods prices increased by 13.4% and investment goods prices by 5.9%. The increase in the prices of energy and intermediate goods amounted to 17.8% in the September-to-September period.

Industrial companies raised their export prices by 0.9% in the month. (The monthly average exchange rate of the forint depreciated by 0.5% vis-à-vis the official currency basket.<sup>5</sup> The average deviation of the market rate from the central parity measured 201 basis points towards the strong edge of the exchange rate band.) Export prices of mechanical engineering, weighing heavily within industrial exports, continued to be barely changed. Chemical industry export prices, in contrast, rose by 3.7% and food prices by 2.1% in one month. Other sectors experienced price changes ranging between 0.2% and 2%.

The overall level of export prices increased by 10.1% in the twelve-months from September 1999. (The Hungarian currency lost 3.9% of its value in the period). There continued to be significant differences in the rates at which prices changed in the various sectors. Above-trend rises of 39.2% and 18.4% were recorded in chemical and food industry export prices respectively. The change in mechanical engineering export prices, at 3%, was below average.

## The exchange rate

The market rate of the forint slightly departed from the strong edge of the official intervention band in September. That meant the exchange rate depreciated by 0.92% against the currency basket in comparison with end-August. The National Bank of Hungary officially devalued the central rate by 0.28% in the month. (Since 1 January 2000 the currency is officially devalued against a currency basket consisting 100% of the euro. The monthly devaluation rate fell to 0.3% from 1 April.) The average deviation of the exchange rate from the central rate was 201 basis points toward the strong extreme of the intervention band.

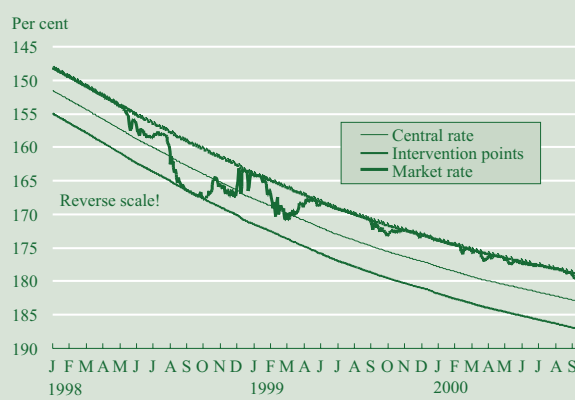
### Monthly devaluation of the currency

	Per cent					
	Depreciation of the currency in the market*			Official devaluation of the central rate**		
	1998	1999	2000	1998	1999	2000
January	0.81	-1.76	0.2	0.84	0.56	0.37
February	0.81	2.60	0.52	0.84	0.56	0.39
March	0.88	1.50	0.62	0.90	0.62	0.44
April	0.99	-1.38	-0.06	0.99	0.64	0.28
May	2.62	0.09	0.47	0.87	0.58	0.31
June	0.70	0.31	0.28	0.80	0.59	0.31
July	-0.31	0.51	0.12	0.86	0.51	0.28
August	4.14	0.49	0.35	0.76	0.48	0.32
September	1.51	1.26	0.92	0.78	0.50	0.28
October	-0.23	-0.25		0.74	0.39	
November	-0.16	0.49		0.67	0.40	
December	0.39	0.31		0.77	0.47	
January–December	12.75	4.39		10.29	6.50	

\* Vis-à-vis the currency basket.

\*\* The Bank devalues the forint for the given day and two value dates ahead using a constant percentage rounded to two decimals. Thus there may be differences between the measures of actual rate adjustments in a month and the pre-announced rate of devaluation. (The monthly rate of crawl was 1.2% between 1 January 1996 and 31 March 1997, 1.1% from April 1997, 1.0% from 15 August 1997, 0.9% from 1 January 1998, 0.8% from 15 June, 0.7% from 1 October, 0.6% from 1 January 1999, 0.5% from 1 July and 0.4% from 1 October. Since 1 April 2000 the rate has been 0.3%.) One possible cause of this gap is the fact that the daily rate is rounded and the number of calendar days vary in different months. Another source of difference may be that in the scheme of calendar-day exchange rate adjustments the currency is devalued on Thursdays or the immediately preceding day(s) rather than on Saturdays and Sundays or, possibly, holidays. Consequently, it may happen that weekends and holidays are shifted back one month statistically, although actually they fall in the following calendar month.

### Exchange rate movements within the intervention band 13 March 1995 = 100



<sup>5</sup> The series calculated from daily depreciations has been replaced by the indicator showing depreciation of the average exchange rate, the former being less informative in terms of exchange rate movements in a given month. The new indicator shows the ratio of current month's average exchange rate to the preceding month's average.