



# Monthly analysis of inflation developments

July 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](http://english.mnb.hu/Statisztika/data-and-information/mnben_statisztikai_idosorok/mnben_elv_prices/underlying_inflation_indicators_MNB)

## ASSESSMENT OF INFLATION DATA FOR JULY 2014

In July 2014, the *consumer price index* stood at 0.1 per cent and *core inflation* at 2.5 per cent. *Core inflation adjusted for the effects of indirect taxes* was 1.4 per cent in the month.<sup>1</sup> The rise in inflation in July mainly reflected the increase in the price index for unprocessed food (Chart 1).

The Bank's measures of *underlying inflation developments* (annual inflation rates of demand-sensitive and sticky-price products) were broadly unchanged from June. 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.

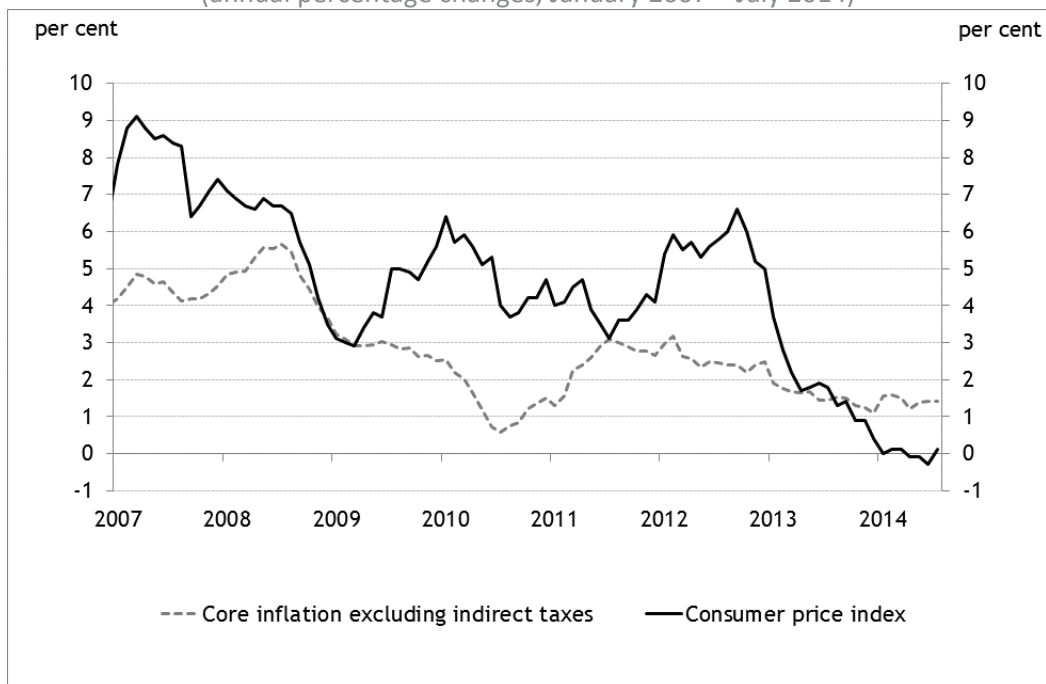
*Tradables* prices were unchanged relative to the same period a year earlier. The price dynamics of *durable* and *non-durable tradable goods* continued to be moderate.

*Services* prices rose by 0.7 per cent on the previous month (Chart 3), exhibiting higher price dynamics compared with previous years. Higher health care prices contributed significantly to the increase in services prices. Excluding this effect, price increases continued to be modest across a wider range of services (Chart 3).

In seasonally adjusted terms, *processed food* prices were unchanged relative to the previous month. Modest changes in prices were observable across a broad range of products.

Budapest, 12 August 2014

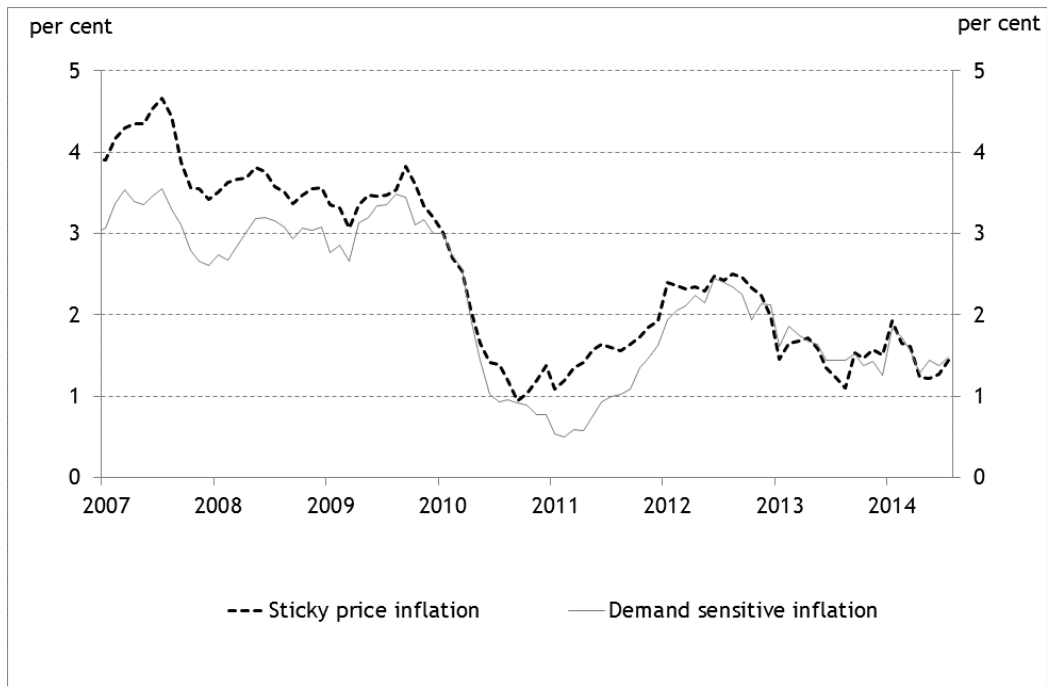
**Chart 1: The consumer price index and core inflation excluding indirect taxes**  
(annual percentage changes, January 2007 – July 2014)



<sup>1</sup> 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 2: Underlying inflation indicators**

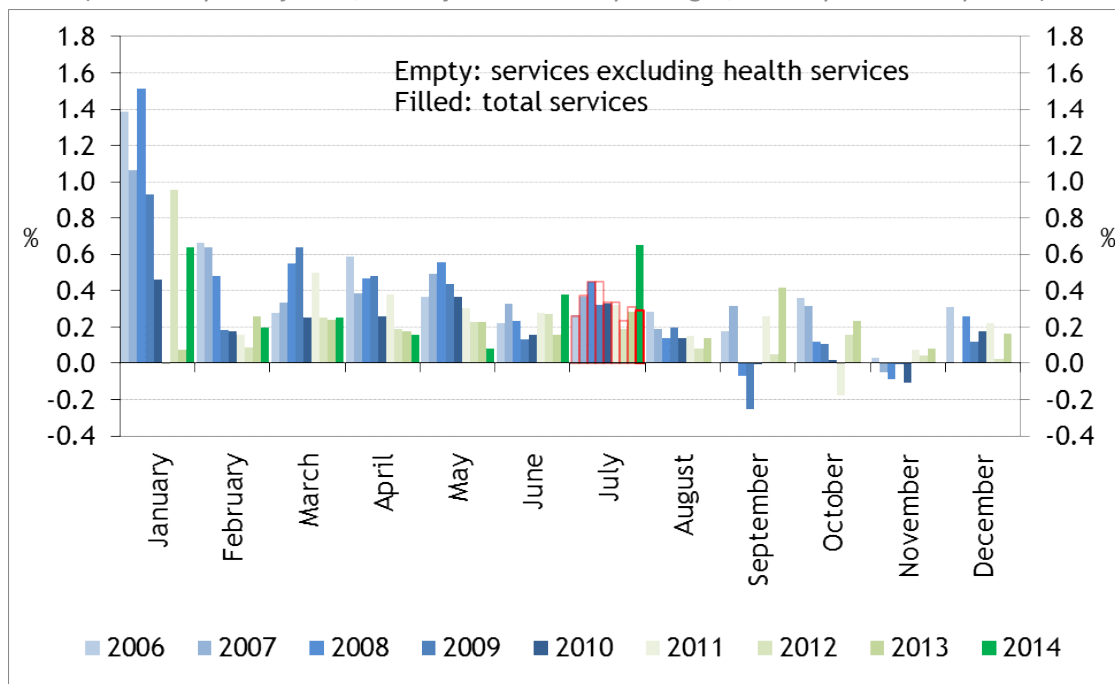
(excluding indirect taxes, annual percentage changes, January 2007 – July 2014)



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 – July 2014)



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

Consumer price index, July 2014 (CSO)					
0.1% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
<b>Contribution of sticky price inflation (percentage point), weight 31,3%</b>	<b>0.5</b>	<b>Contribution of demand sensitive inflation (percentage point), weight 52,8%</b>	<b>0.8</b>	<b>Contribution of core inflation excluding indirect taxes (percentage point), weight 65.6%</b>	<b>0.9</b>
Contribution of other items (percentage point)	-0.3	Contribution of other items (percentage point)	-0.6	Contribution of other items (percentage point)	-0.8

Sources: CSO and the MNB's own calculations.

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