



# Monthly analysis of inflation developments

December 2013



*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\\_statistikai\\_idosorok/mnben\\_elv\\_prices/underlying\\_inflation\\_indicators\\_MNB](http://english.mnb.hu/Statisztika/data-and-information/mnben_statistikai_idosorok/mnben_elv_prices/underlying_inflation_indicators_MNB)

## ASSESSMENT OF INFLATION DATA FOR DECEMBER 2013

In December 2013, the consumer price index stood at 0.4 per cent and core inflation at 3.6 per cent. Indirect tax-adjusted core inflation was 1.1 per cent in the month.<sup>1</sup> The incoming data showed that inflation fell by 0.5 percentage points and core inflation rose by 0.1 percentage point relative to the previous month. The decline in the annual inflation rate mainly reflected the moderation in regulated energy prices (Chart 1). Over the year as a whole, the consumer price index was 1.7 per cent, core inflation 3.3 per cent and tax-adjusted core inflation 1.5 per cent.

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

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

Seasonally adjusted month-on-month inflation of tradables slowed relative to November. The extreme volatility of air fares in recent months has made it difficult to form a judgement on inflation developments in this product group,<sup>2</sup> and therefore it is useful to eliminate the effects of this from the time series when making an assessment. Taking into account this factor, the price dynamics of both non-durable and durable tradables were moderate in the month.

In the case of market services, end-of-year repricing is rather rare. In line with this, price developments in December last year showed nearly identical shifts to those observed in previous years.

The seasonally adjusted price level of processed food rose slightly relative to November. Dairy product continued to be the main contributing factor to the increase in prices.

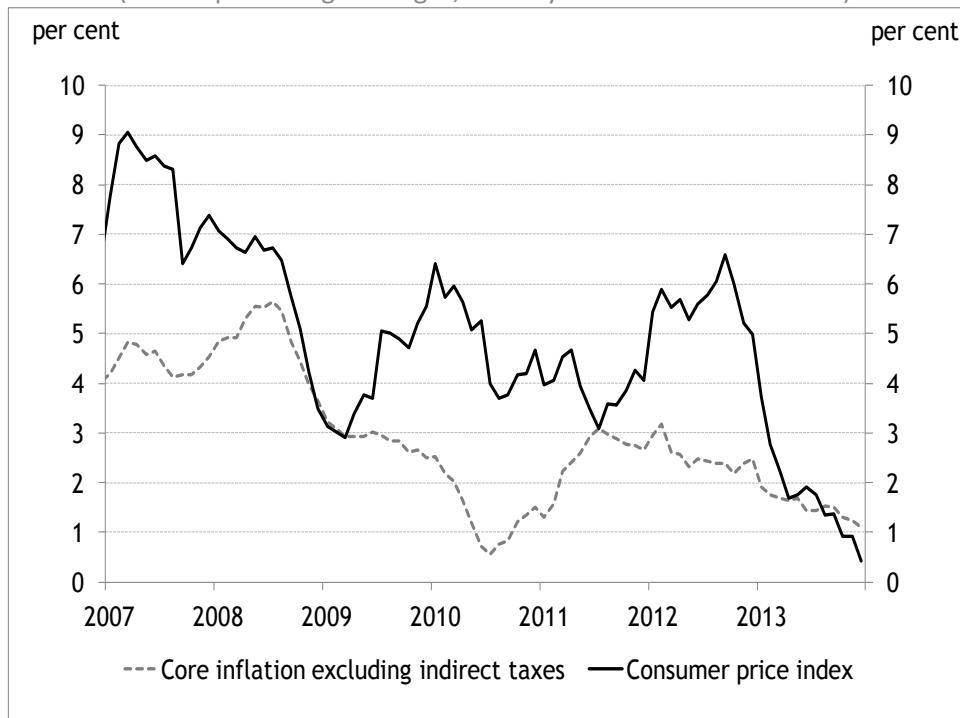
Budapest, 15 January 2014

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<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, similarly to a 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.

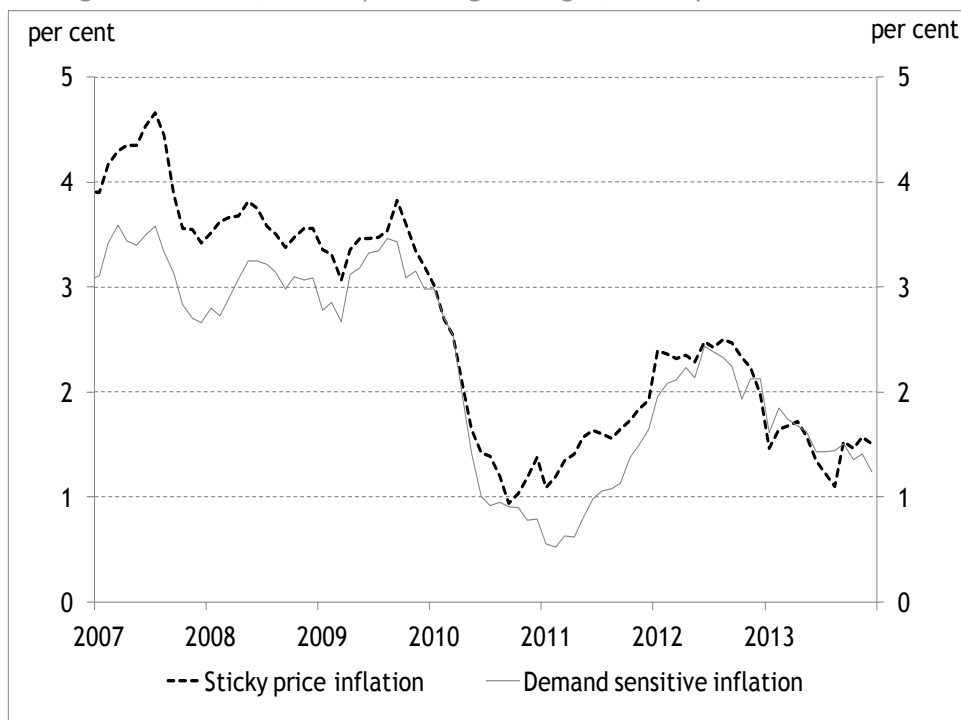
<sup>2</sup> The external component represents a significant weight in the air fares, and it tends to respond sensitively to movements in exchange rates. For this reason, air fares have been categorised into tradables.

**Chart 1: The consumer price index and the core inflation excluding indirect taxes**  
(annual percentage changes, January 2007 – December 2013)



**Chart 2: Underlying inflation indicators**

(excluding indirect taxes, annual percentage changes, January 2007 – December 2013)



*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.*

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

Consumer price index, December 2013 (CSO)					
0.4% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
<b>Contribution of sticky price inflation (percentage point), weight 32,1%</b>	<b>0.5</b>	<b>Contribution of demand sensitive inflation (percentage point), weight 53,3%</b>	<b>0.7</b>	<b>Contribution of core inflation excluding indirect taxes (percentage point), weight 65.8%</b>	<b>0.7</b>
Contribution of other items (percentage point)	-0.1	Contribution of other items (percentage point)	-0.2	Contribution of other items (percentage point)	-0.3

Sources: CSO and the MNB's own calculations

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