



Monthly analysis of inflation developments

February 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 FEBRUARY 2014

In February 2014, the consumer price index stood at 0.1 per cent and core inflation at 2.8 per cent.¹ Indirect tax-adjusted core inflation was 1.6 per cent in the month. The incoming data showed that inflation rose by 0.1 percentage point and core inflation fell by 0.6 percentage points relative to the previous month. The slight increase in the inflation rate reflected the base effect of the reduction in regulated energy prices at the beginning of last year, which was largely offset by the moderation in the annual indices for alcohol and tobacco products and market services within core inflation (Chart 1).

The Bank's measures of underlying inflation developments (demand-sensitive and sticky-price inflation) corrected partly relative to the increase in the previous month. The levels of the measures continue to indicate a low inflation environment (Chart 2).

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

Inflation of tradables rose by 0.7 per cent relative to a year earlier. Extremely high volatility of air fares in recent months has made it difficult to form a judgement on inflation developments in this product group.² Adjusting for these effects, price dynamics of non-durable tradables continued to be moderate in the month. Prices of durable tradables, which tend to show significant volatility at the monthly frequency, after January continued to rise slightly.

In February 2014, services prices fell by 0.5 per cent relative to the previous month. The dampening effect on inflation of the opportunity to withdraw cash from ATMs free of charge twice a month had a significant moderating impact on developments in the price index for market services.³ Adjusting for this effect, prices changes in a wide range of services were moderate, as seen in recent years (Chart 3).

In seasonally adjusted terms, processed food prices were broadly unchanged relative to January.

Budapest, 11 March 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, similarly 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.

² 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.

³ The measure has affected a narrow range of products and has influenced inflation only temporarily. Therefore, its effects have been recorded for indirect taxes.

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

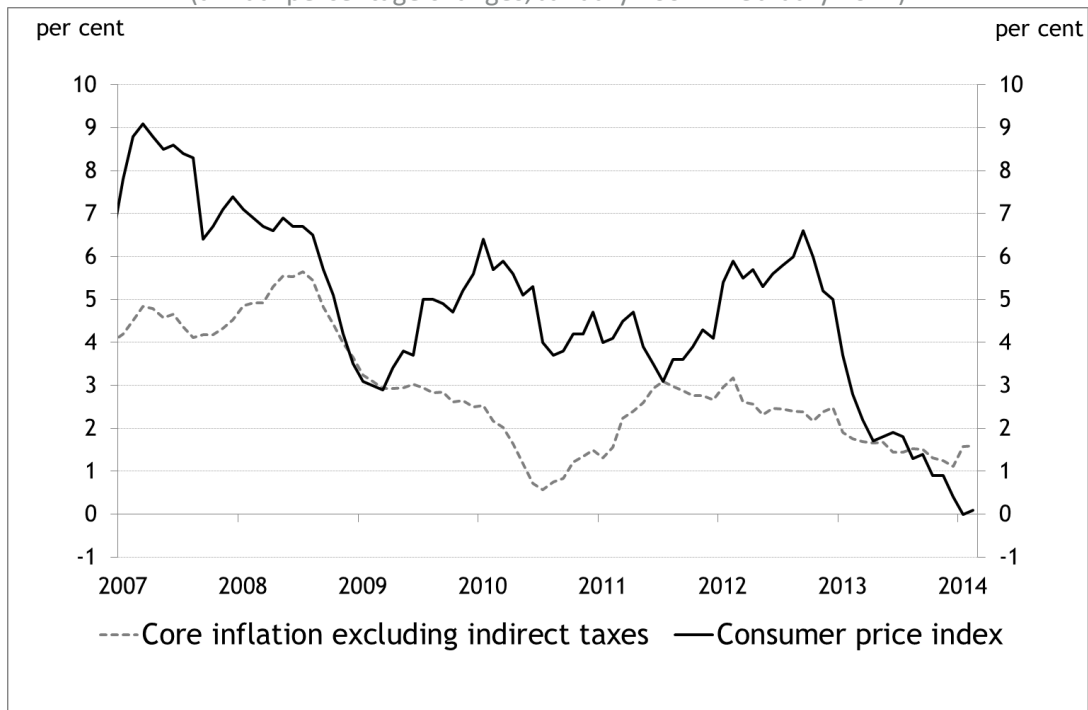
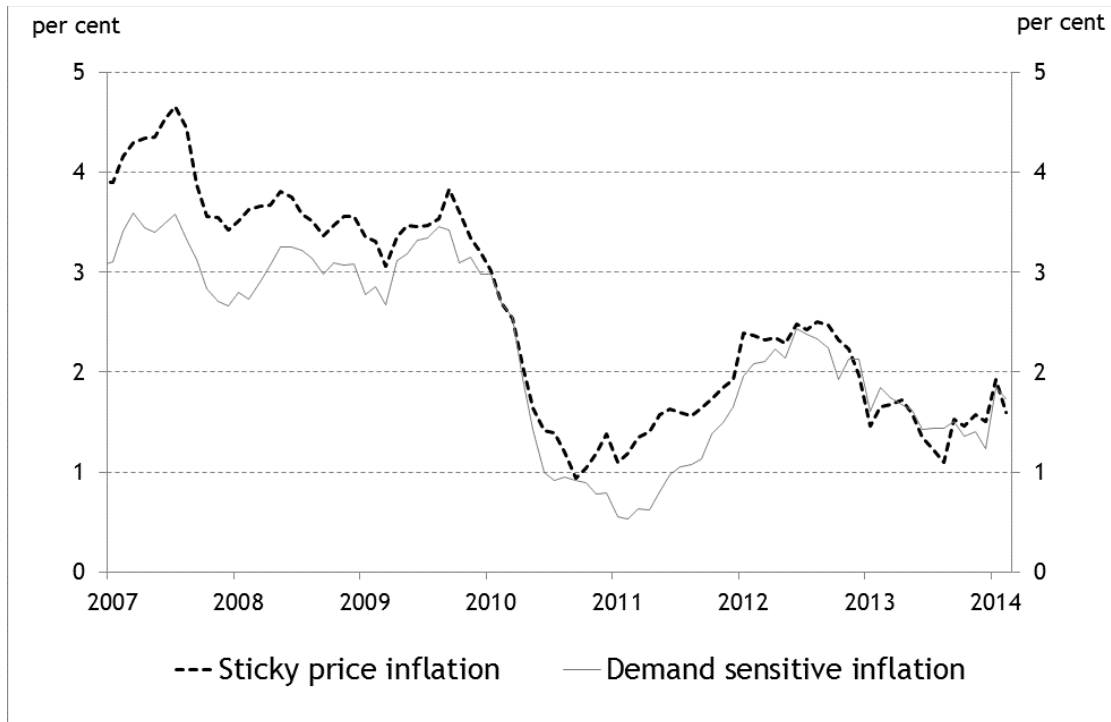


Chart 2: Underlying inflation indicators

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

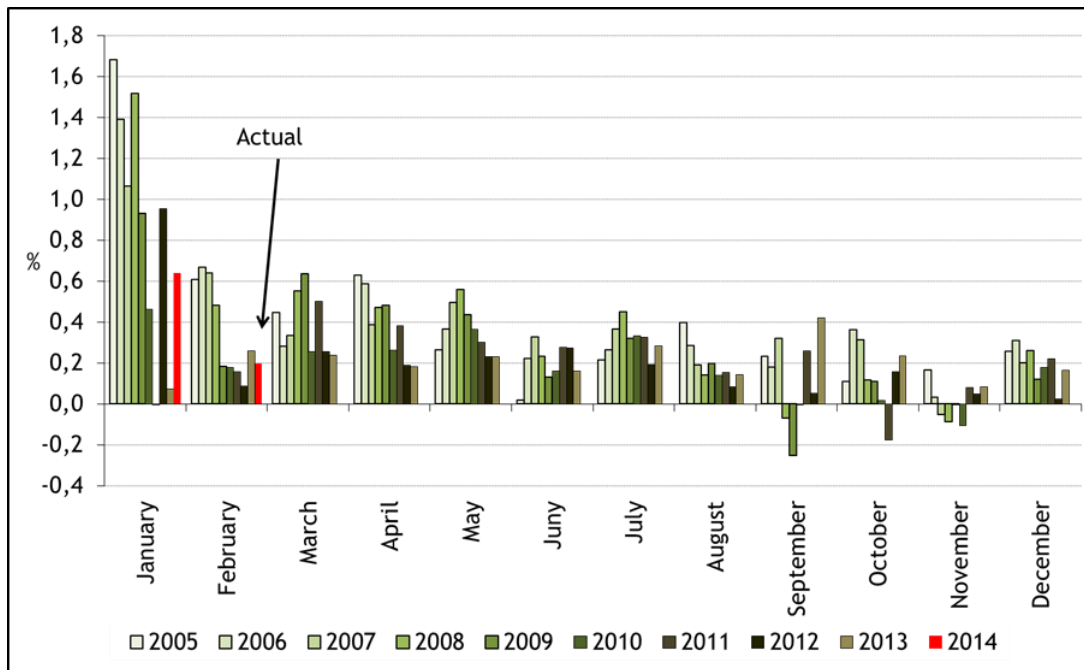


Table 1: Annual change in the consumer price index and contribution of the measures of underlying inflation

Consumer price index, February 2014 (CSO)					
0,1% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
Contribution of sticky price inflation (percentage point), weight 31,3%	0,5	Contribution of demand sensitive inflation (percentage point), weight 52,8%	0,9	Contribution of core inflation excluding indirect taxes (percentage point), weight 65.6%	1,0
Contribution of other items (percentage point)	-0,4	Contribution of other items (percentage point)	-0,8	Contribution of other items (percentage point)	-0,9

Sources: CSO and the MNB's own calculations.

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