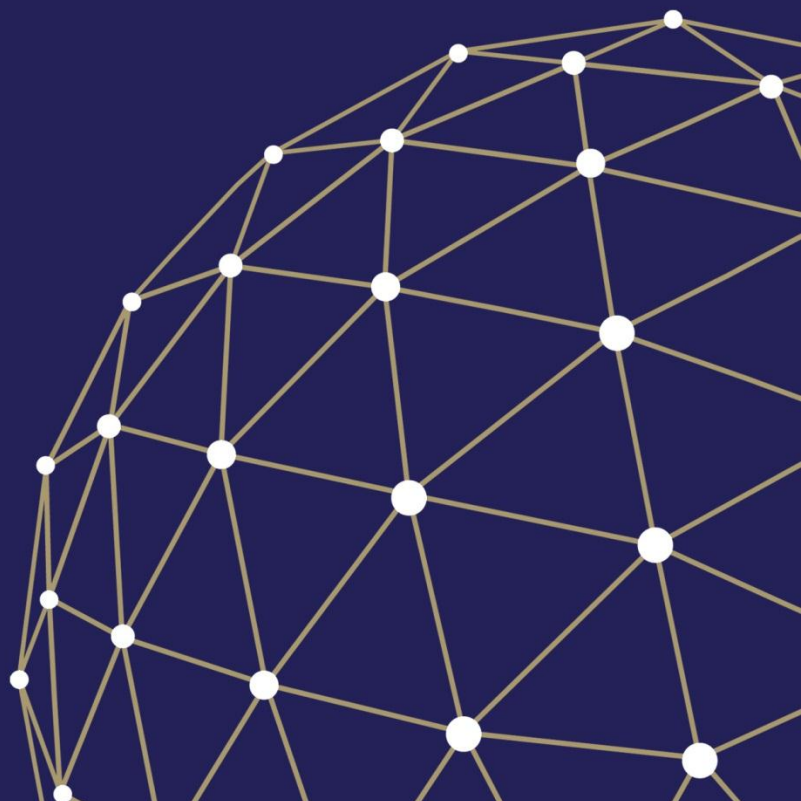




Monthly analysis of inflation developments

March 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 MARCH 2014

In March 2014, the consumer price index stood at 0.1 per cent and core inflation at 2.7 per cent.¹ Indirect tax-adjusted core inflation was 1.5 per cent. Consumer price Inflation was unchanged and core inflation fell by 0.1 percentage point relative to the previous month. Prices of the individual product groups changed only slightly relative to February (Chart 1).

The Bank's measures of underlying inflation developments (demand-sensitive and sticky-price inflation) were broadly unchanged relative to the previous month. 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 inflation rose by 0.4 per cent relative to the same period a year earlier. As was the case in previous months, extremely high volatility of air fares 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. The prices of durable tradables, which tend to be highly volatile at the monthly frequency, continued to rise.

In March 2014, services prices rose by 0.3 per cent relative to the previous month, similar to the increase in March 2013 (Chart 3). Price changes within this product group were generally subdued.

In seasonally adjusted terms, processed food prices rose relative to the previous month, mainly reflecting an increase in the price index for milk and dairy products.

Budapest, 11 April 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 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 core inflation excluding indirect taxes
(annual percentage changes, January 2007 – March 2014)

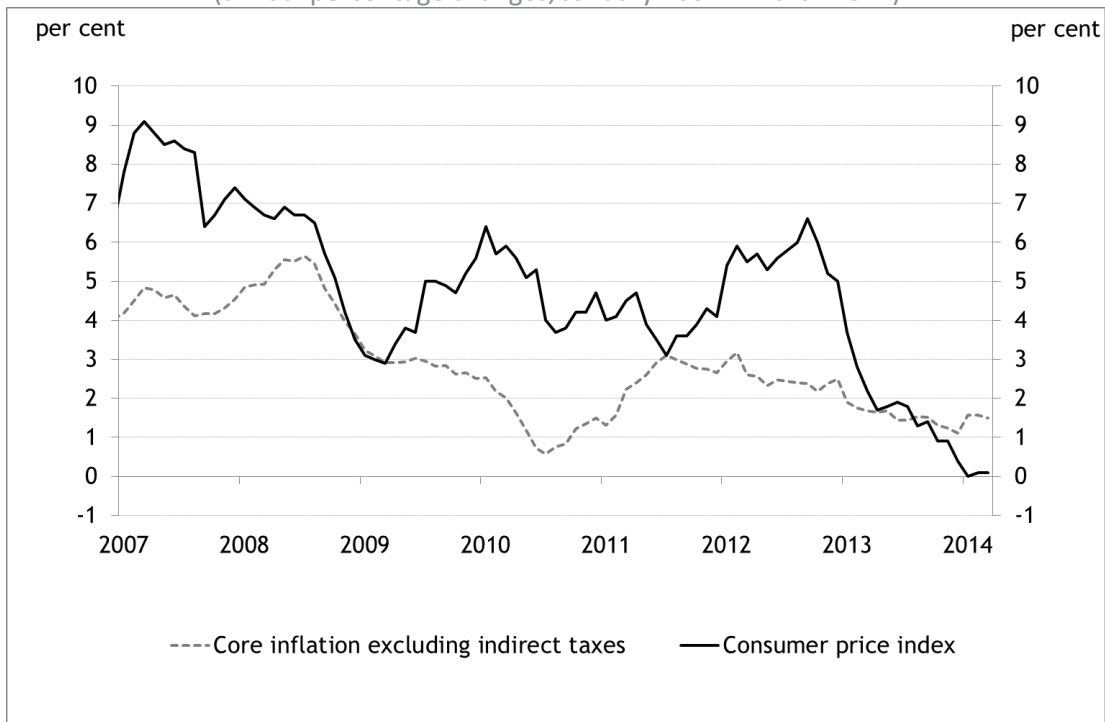
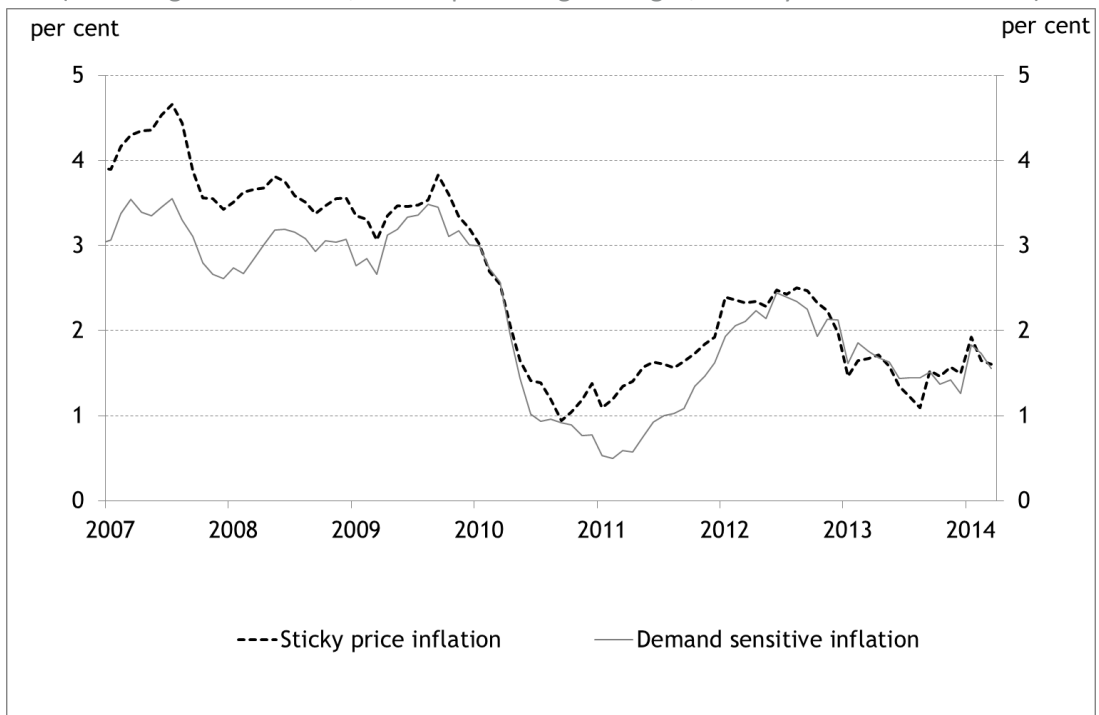


Chart 2: Underlying inflation indicators

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

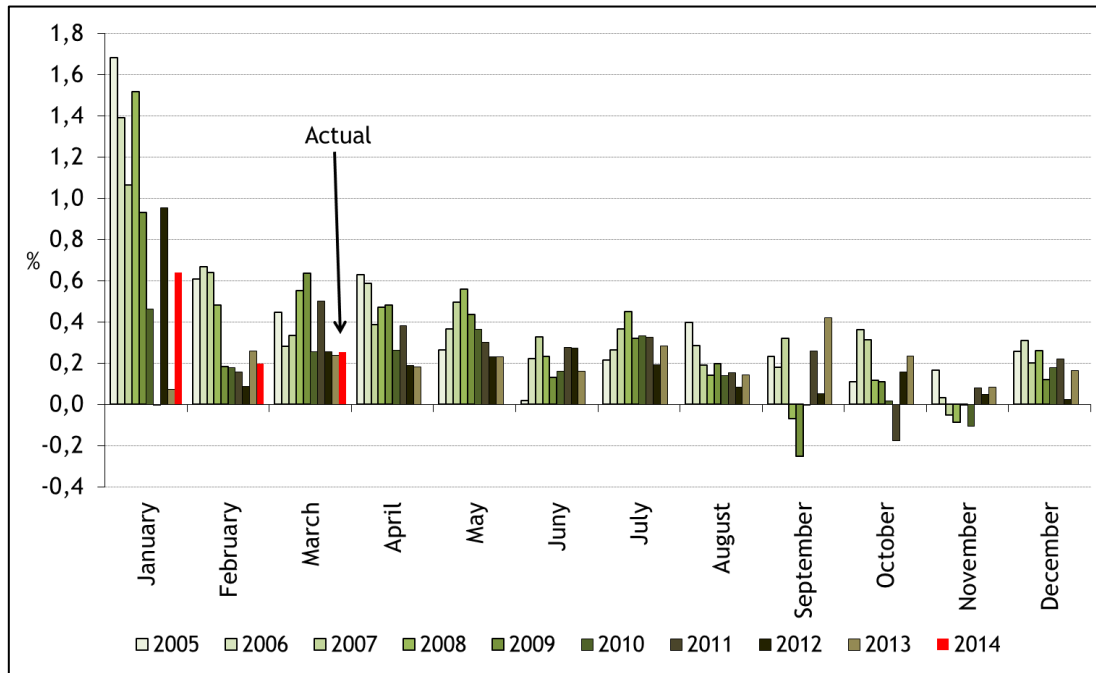


Table 1: Annual change in the consumer price index and contribution of the measures of underlying inflation

Consumer price index, March 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%	0,8	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)	-0,7	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.