



# Monthly analysis of inflation developments

January 2017



*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 Barnabás Virág, Executive Director responsible for monetary policy, financial stability and credit incentives.*

*For further information, please contact Judit Várhegyi (e-mail: [varhegyij@mnbb.hu](mailto:varhegyij@mnbb.hu))*

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/mnbb\\_statisztikai\\_idosorok/mnbb\\_elv\\_prices/underlying\\_inflation\\_indicators\\_MNB](http://english.mnb.hu/Statisztika/data-and-information/mnbb_statisztikai_idosorok/mnbb_elv_prices/underlying_inflation_indicators_MNB)

## ASSESSMENT OF INFLATION DATA FOR JANUARY 2017

In January 2017, annual *inflation* was 2.3 per cent. *Core inflation* stood at 1.6 per cent and *core inflation adjusted for the effects of indirect taxes* at 1.6 per cent (Chart 1). *Inflation* rose by 0.5 percentage points and *core inflation* fell by 0.1 percentage point relative to the previous month. The increase in inflation largely reflected the price index for fuel to some extent due to base effects. (Charts 1 and 2).

The Bank's measures of *underlying inflation developments* (annual inflation rates of demand-sensitive and sticky-price products and services) were broadly unchanged compared with the previous month (Chart 3).

In January, changes in the prices of demand-sensitive products and more volatile items with greater sensitivity to cost changes, i.e. food and energy, had an upward effect on prices.

Below is a brief analysis of price changes across the main product categories.

The annual inflation rate of *tradables* was broadly unchanged relative to December, and continued to be at moderate levels (Chart 4). Within this product group, the price indices for both *durables* and *non-durables* were little changed. Movements in tradables prices have been shaped by the price reducing effect of moderate import prices and the opposite effect of steadily rising domestic demand.

In January, *services* prices were unchanged relative to the previous month, with the reduction in the VAT on restaurant prices and Internet subscription fees being a contributing factor. Excluding the effect of the VAT reduction, in January, which is determining regarding the repricing of services, the change in prices was smaller than that usually seen around the beginning of the year (Chart 5).

Seasonally and tax-adjusted *processed food* prices rose relative to December, with the change in bread prices being a key contributing factor.

Seasonally adjusted and tax-adjusted *unprocessed food* prices rose in the month, due mainly to the change in pork prices.

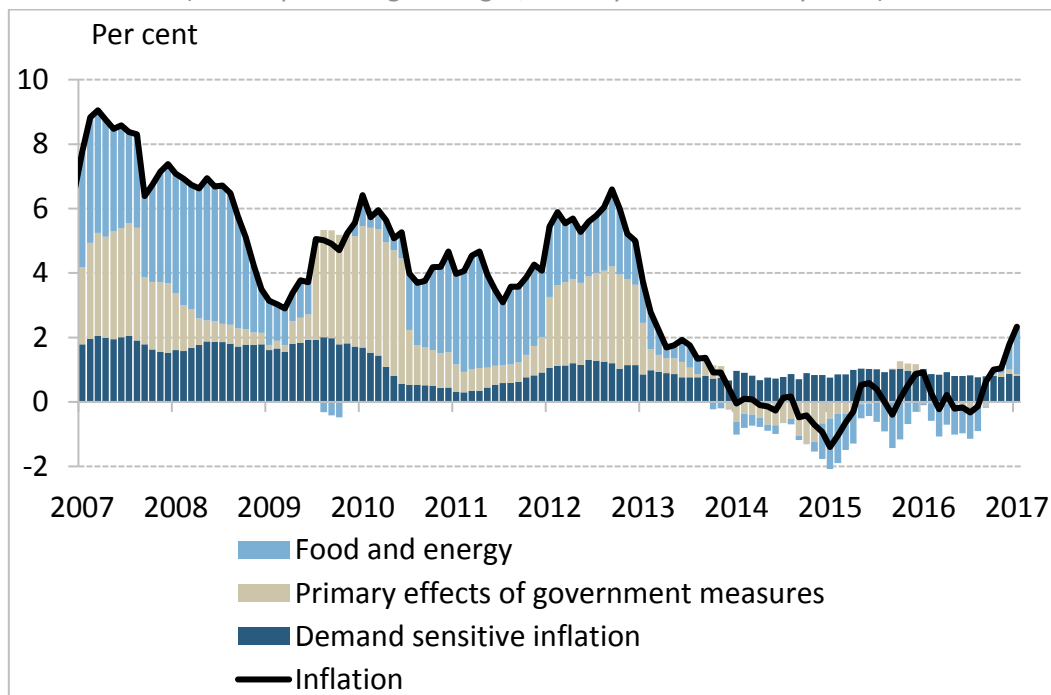
*Regulated* prices were largely unchanged relative to the previous month.

*Households' inflation expectations* have been broadly unchanged in recent months and remained at moderate levels, in line with underlying inflation developments (Chart 6).

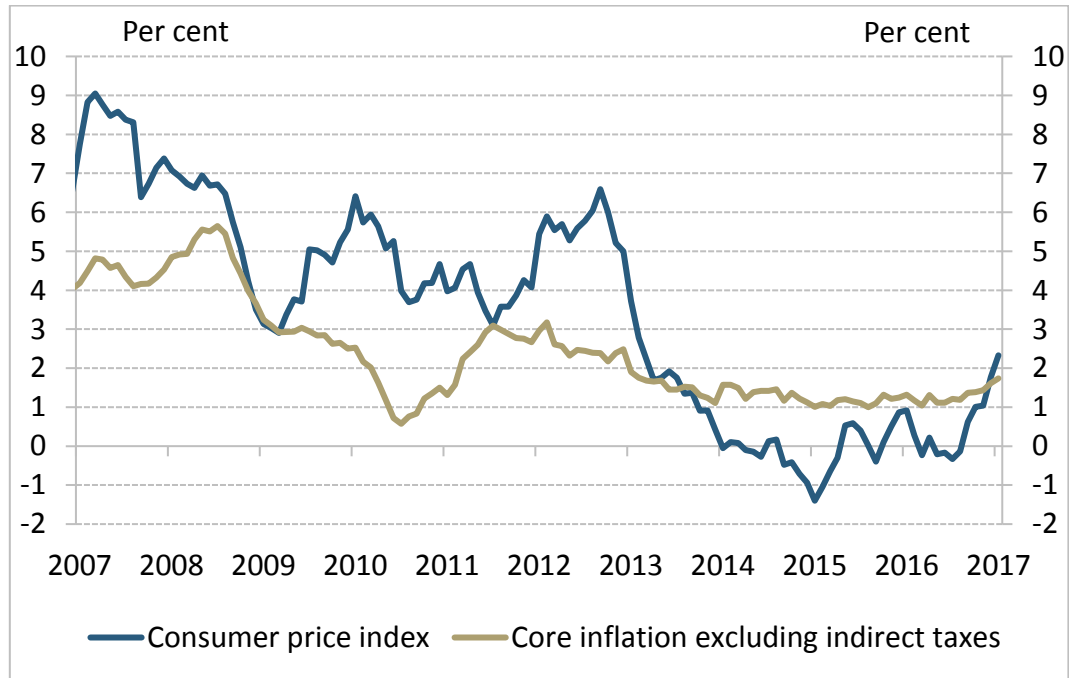
Prepared by Judit Várhegyi

Budapest, 14 February 2017

**Chart 1: Inflation decomposition**  
(annual percentage changes, January 2007 – January 2017)

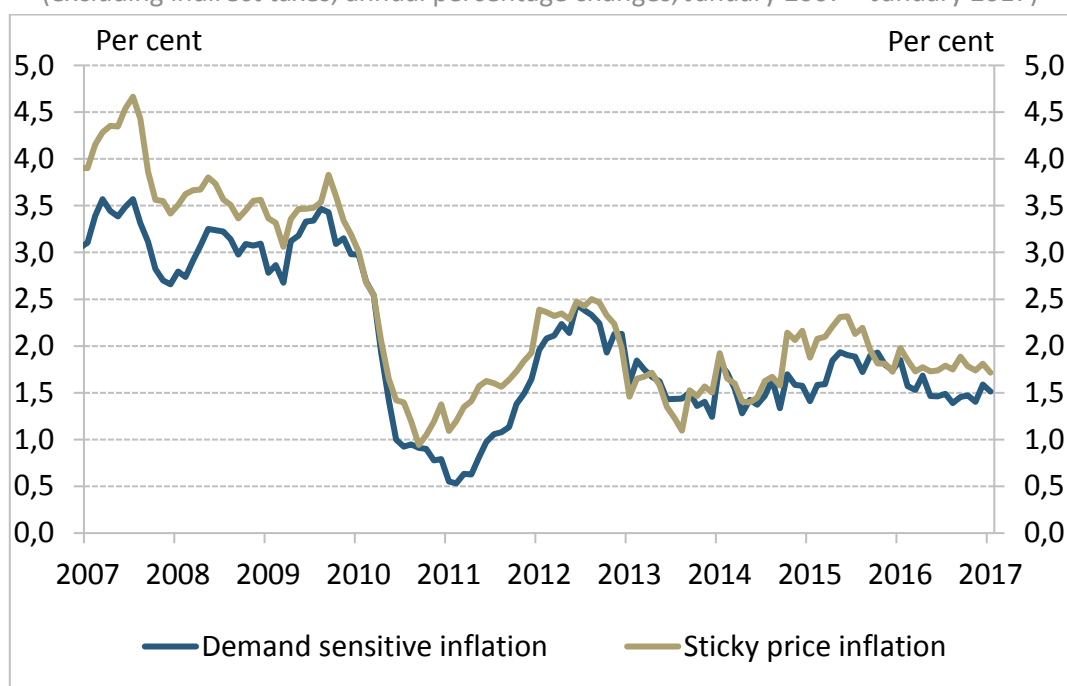


**Chart 2: The consumer price index and core inflation excluding indirect taxes**  
(annual percentage changes, January 2007 – January 2017)



**Chart 3: Underlying inflation indicators**

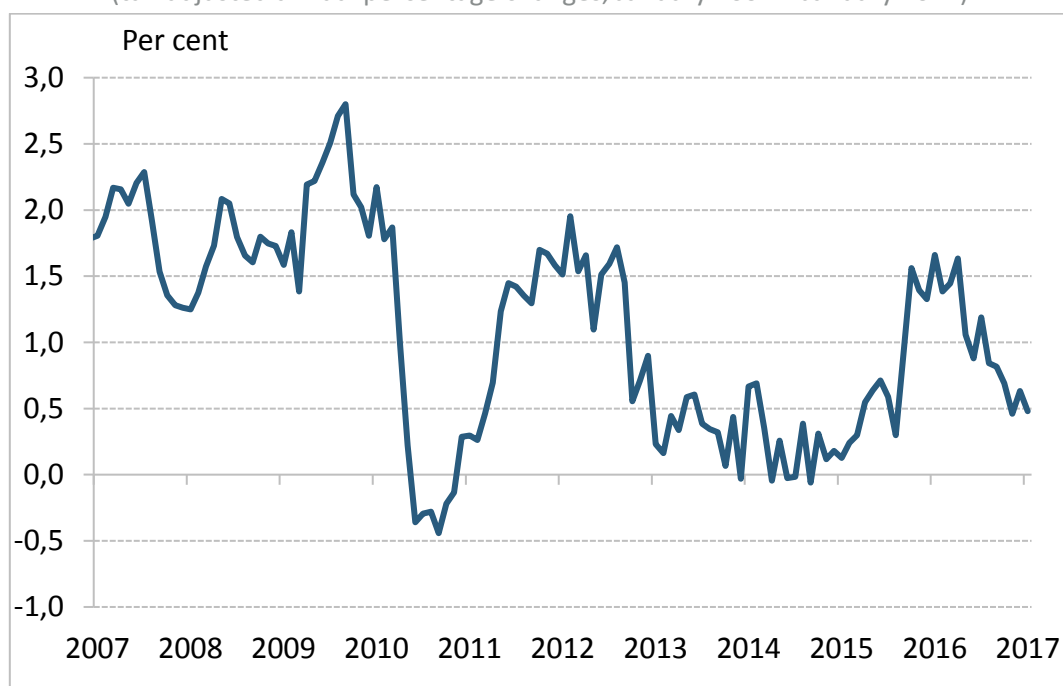
(excluding indirect taxes, annual percentage changes, January 2007 – January 2017)



*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.*

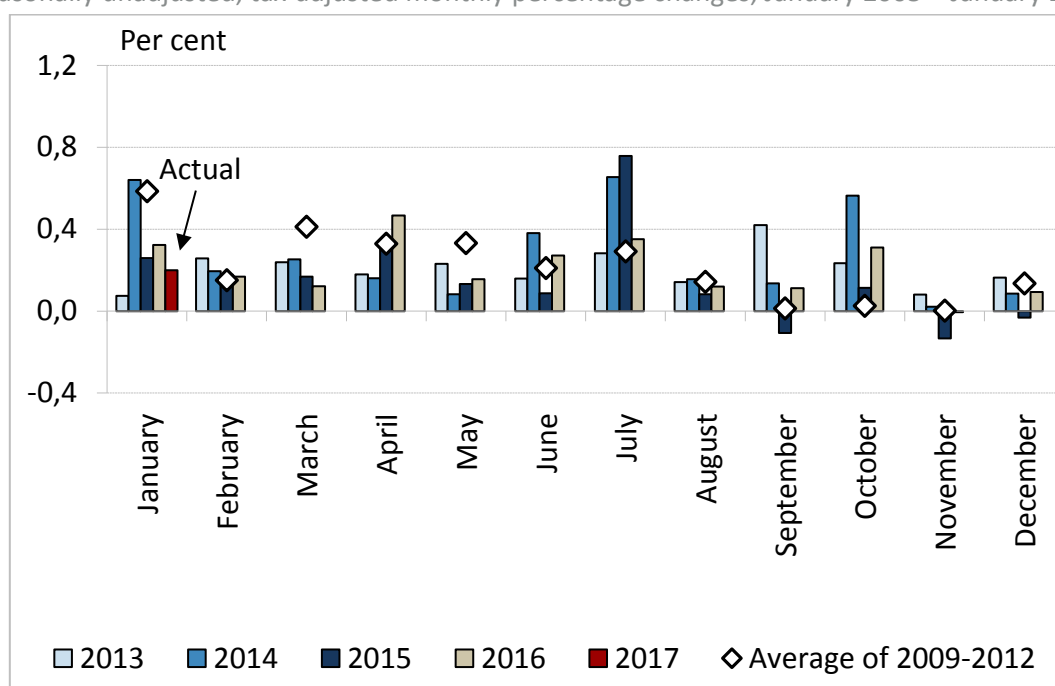
**Chart 4: Inflation of tradable goods**

(tax-adjusted annual percentage changes, January 2007 – January 2017)



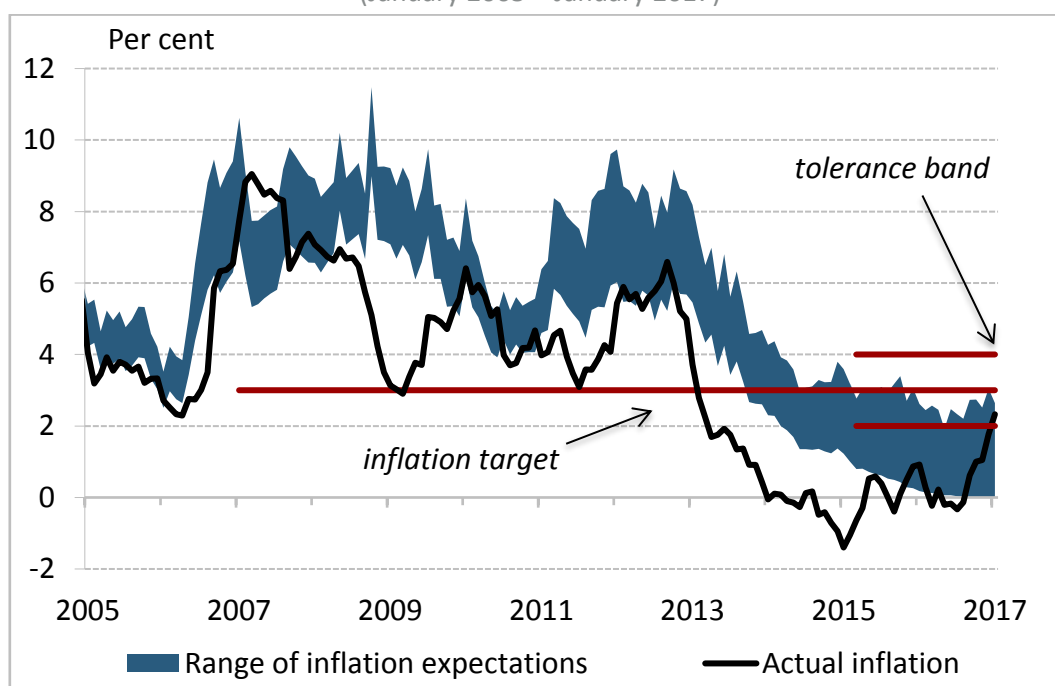
**Chart 5: Inflation of market services**

(seasonally unadjusted, tax-adjusted monthly percentage changes, January 2005 – January 2017)



**Chart 6: Households' inflation expectations**

(January 2005 – January 2017)



Sources: MNB calculations based on European Commission data; and CSO.

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

Consumer price index, January 2017 (HCSO)					
2.3% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
<b>Contribution of sticky price inflation (percentage points), weight 32.9%</b>	<b>0.6</b>	<b>Contribution of demand sensitive inflation (percentage points), weight 55.8%</b>	<b>0.8</b>	<b>Contribution of core inflation excluding taxes (percentage points), weight 68.9%</b>	<b>1.2</b>
Contribution of other items (percentage points), weight 67.1%	1.8	Contribution of other items (percentage points), weight 44.2%	1.5	Contribution of other items (percentage points), weight 31.1%	1.1

*Sources: CSO and the MNB's own calculations.*

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