



MONTHLY ANALYSIS OF INFLATION DEVELOPMENTS

DECEMBER

2020

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 Gergely Baksay, Executive Director for Economic Analysis and Competitiveness.

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The publicly available analyses and the related statistical databases are accessible on the MNB's website at:

http://english.mnb.hu/Statiztika/data-and-information/mnben_statiztikai_idosorok/mnben_elv_prices/underlying_inflation_indicators_MNB

ASSESSMENT OF INFLATION DATA FOR DECEMBER 2020

In December 2020, annual *inflation* stood at 2.7 percent and core inflation at 4.0 percent. Core inflation adjusted for the effects of indirect taxes was 3.4 percent (Chart 1). Headline inflation was unchanged and core inflation rose by 0.1 percentage points relative to the previous month. This was driven by a stronger price growth of alcohol and tobacco products.

With the release of the December data, in 2020 as a whole, the consumer price index was 3.3 percent, core inflation was 4.1 percent and core inflation adjusted for the effects of indirect taxes was 3.7 percent.

The Bank's measures of underlying inflation developments capturing persistent inflationary trends, i.e. the price index for demand-sensitive products and the inflation of sticky-price products and services, overall did not change substantially relative to the previous month (Chart 2).

In December 2020, the inflation contribution of demand-sensitive products and fuel rose, which was offset by a decline in the contribution of foods. As a result, overall, inflation remained unchanged relative to the previous month (Chart 4).

Pricing decisions have shown higher volatility and an unusual seasonal pattern after the outbreak of the coronavirus pandemic. After the higher repricing in the summer months, disinflationary effects strengthened from September. Consistent with this, the last period of 2020 was characterized by a generally weaker price dynamics (Chart 3).

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

Annual inflation of *industrial goods* remained unchanged in December. Within the product group, durables price index slightly rose relative to the previous month, and non-durables price index fell slightly.

Services prices fell by 0.1 percent compared with the previous month (Chart 5). A lower monthly price growth, unseen in the average of recent years, was mainly due to a fall in the prices of mobile phones and Internet charges.

The inflation of *foods* decreased significantly relative to the previous month. Within the product group, the unprocessed food price index was mainly reduced by a fall in pork, egg, and fresh fruit prices, and a decline in a wide range of product prices decreased the inflation of processed food.

Prices of *regulated products* were broadly unchanged relative to November.

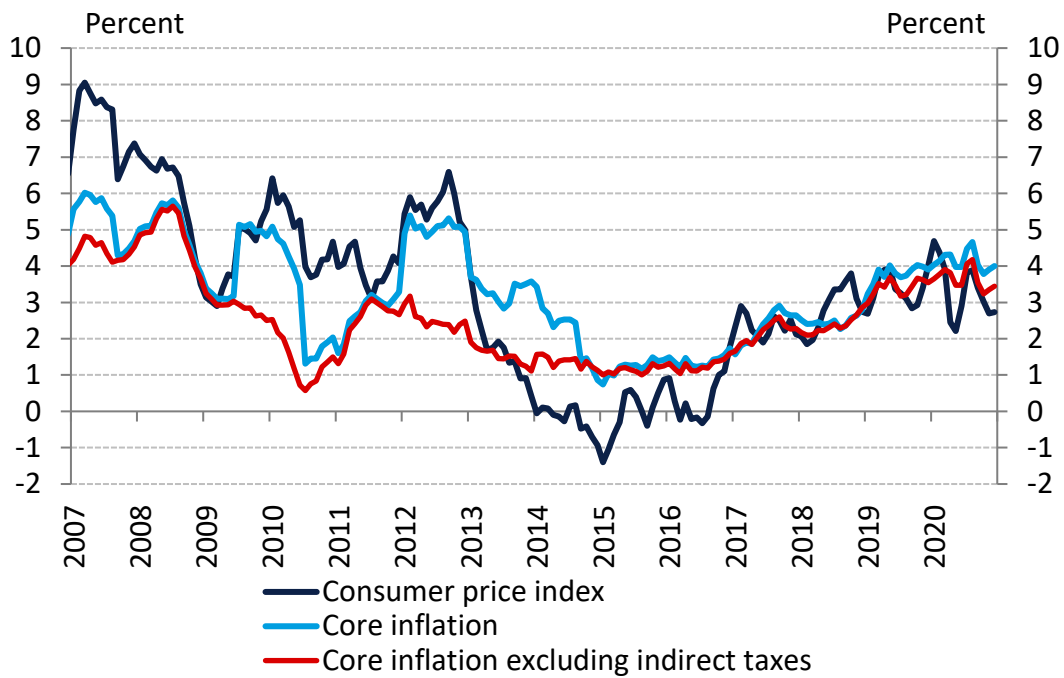
Fuel prices rose as the world market price of oil grew relative to the previous month.

The indicators, measuring households' inflation expectations, showed a higher-than-usual volatility, similarly to the consumer price index. The indicator continued to decrease in December compared to earlier months (Chart 6).

Prepared by Judit Várhegyi

Budapest, 14 January 2021

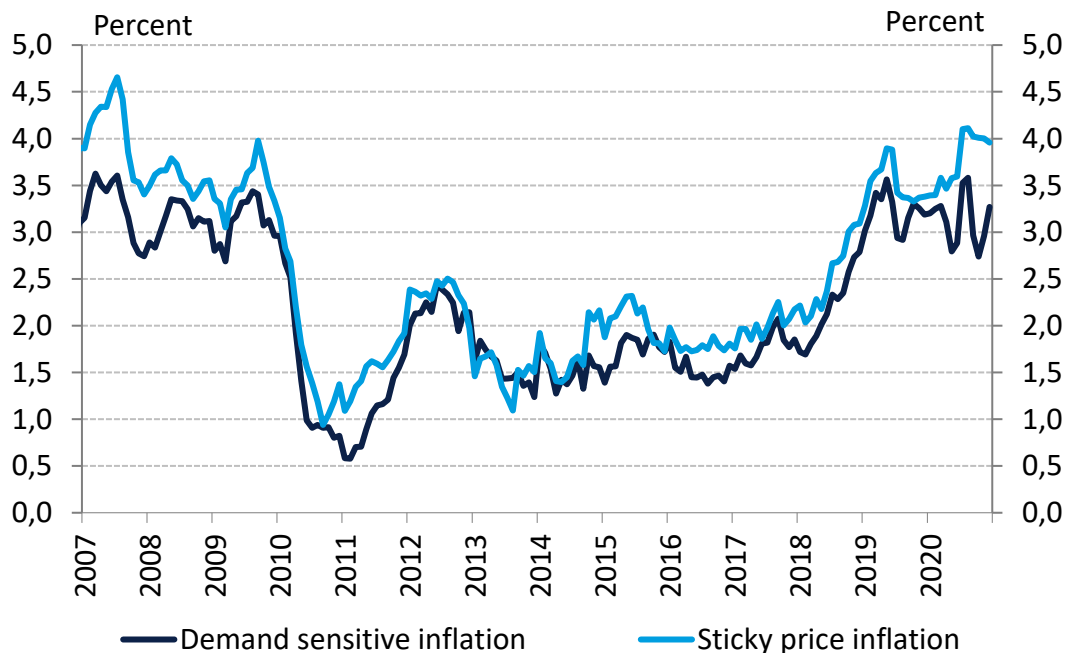
Chart 1 Consumer price index, core inflation and core inflation excluding indirect taxes
(annual percentage changes, January 2007 – December 2020)



Note: Seasonally unadjusted core inflation.

Chart 2 Underlying inflation indicators

(excluding indirect taxes, annual percentage changes, January 2007 – December 2020)



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 percent of elementary prices change monthly on average. MNB calculation based on data released by the HCSO.

Chart 3 Monthly changes in consumer prices excluding fuel prices
(tax-adjusted, seasonally unadjusted monthly percentage changes)

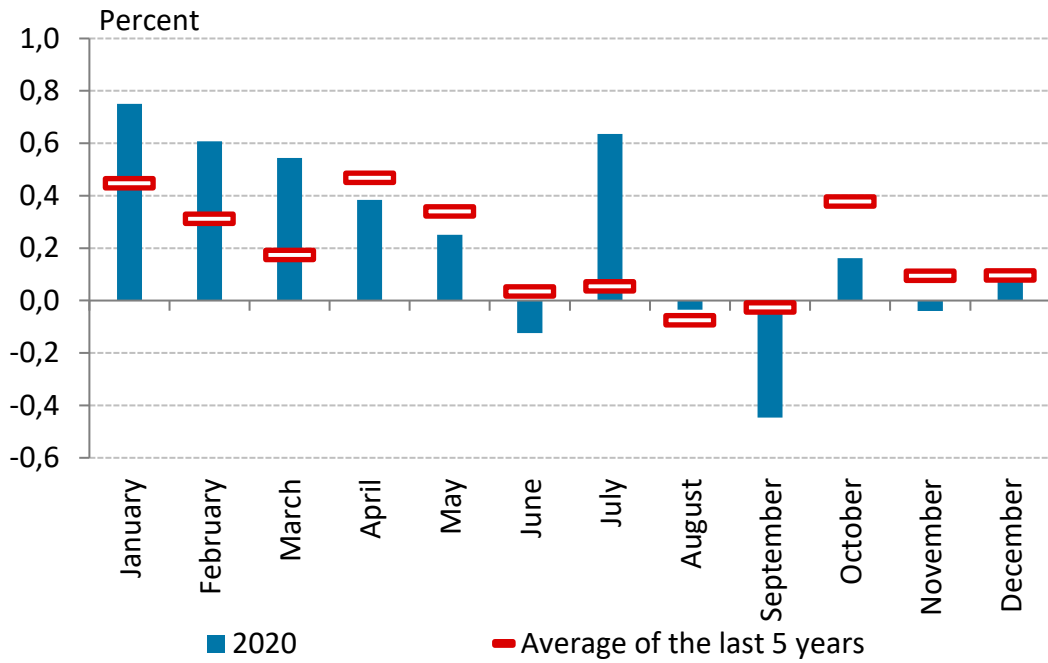


Chart 4 Inflation decomposition

(annual percentage changes, January 2007 – December 2020)

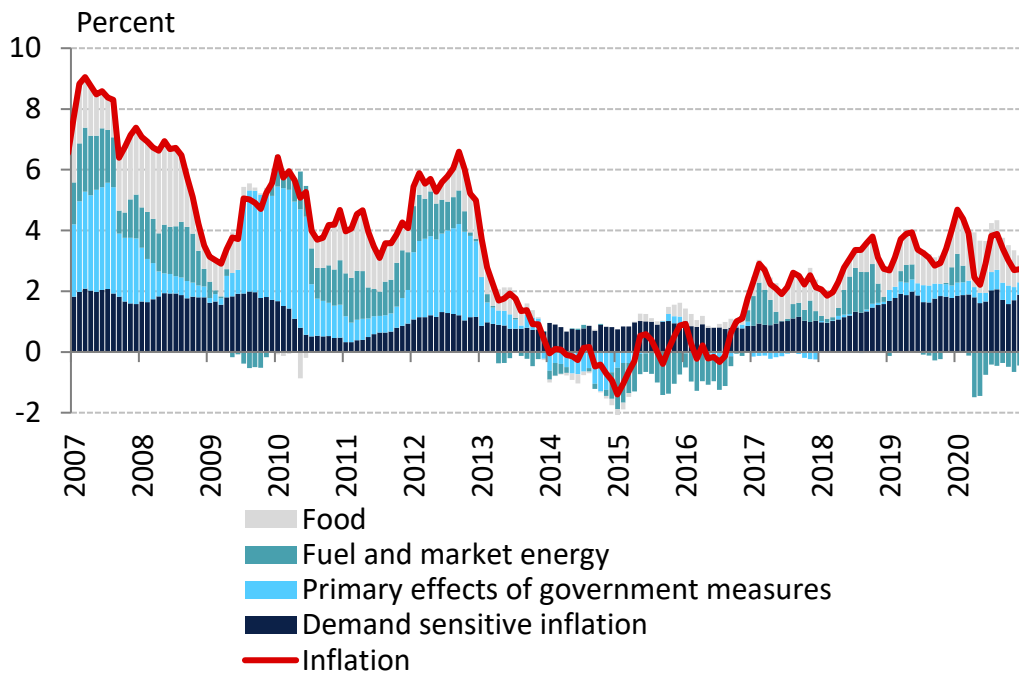


Chart 5 Market services inflation

(seasonally unadjusted, tax-adjusted monthly percentage changes, January 2016 – December 2020)

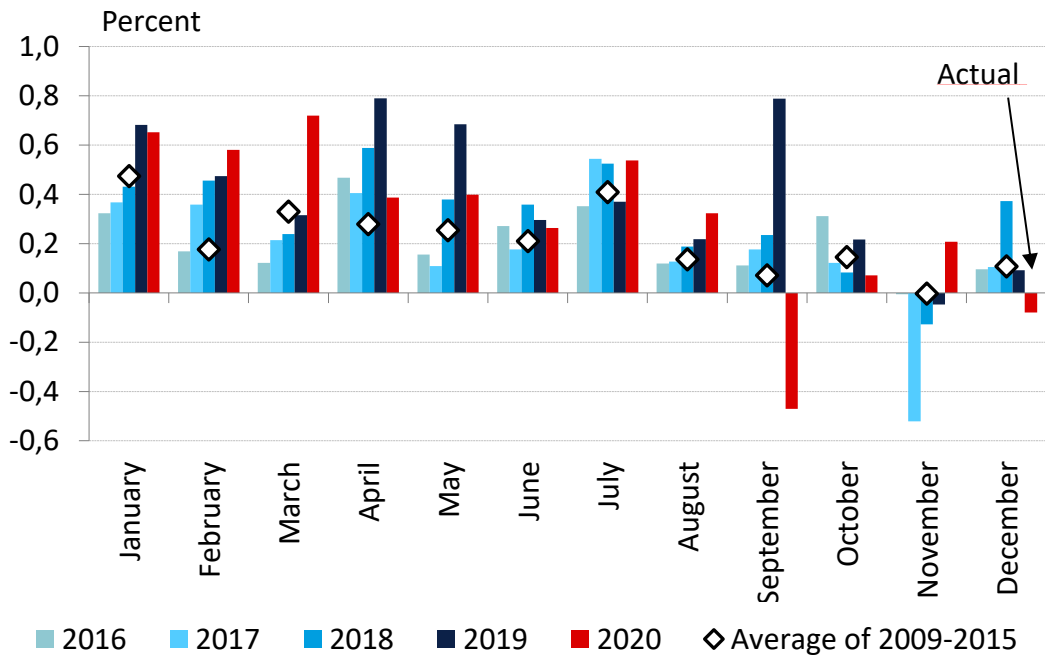
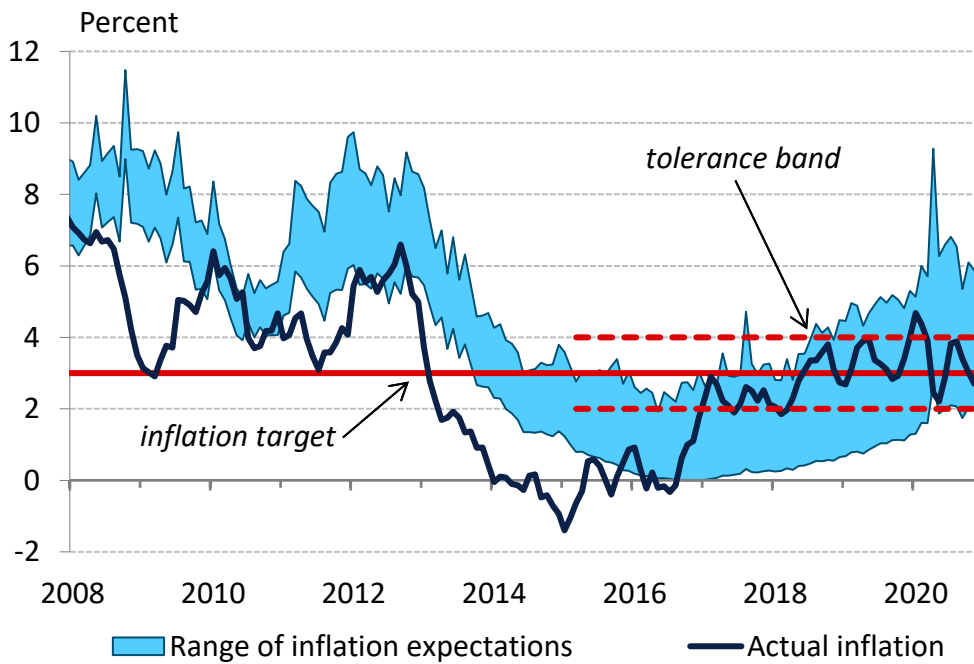


Chart 6 Households' inflation expectations

(January 2008 – December 2020)



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

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

Consumer price index, December 2020 (HCSO)					
2.7% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
Contribution of sticky price inflation (percentage points), weight 34.8%	1.3	Contribution of demand sensitive inflation (percentage points), weight 57.7%	1.8	Contribution of core inflation excluding taxes (percentage points), weight 70.6%	2.4
Contribution of other items (percentage points), weight 65.2%	1.4	Contribution of other items (percentage points), weight 42.3%	0.9	Contribution of other items (percentage points), weight 29.4%	0.4

Sources: HCSO and the MNB's own calculations.

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