



MONTHLY ANALYSIS OF INFLATION DEVELOPMENTS

MARCH

2021

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/Statisztika/data-and-information/mnben_statisztikai_idosorok/mnben_elv_prices/underlying_inflation_indicators_MNB

ASSESSMENT OF INFLATION DATA FOR MARCH 2021

In March 2021, annual *inflation* stood at 3.7 percent and core inflation at 3.9 percent. Core inflation adjusted for the effects of indirect taxes was 3.1 percent (Chart 1). Inflation rose by 0.6 percentage points and core inflation fell by 0.2 percentage point relative to the previous month. The rise in inflation primarily reflected an increase in fuel prices.

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, fell relative to the previous month (Chart 2).

In March 2021, the contribution of demand-sensitive products to inflation fell slightly. By contrast, fuel prices contributed to a rise in inflation by 0.8 percentage point (Chart 3).

Pricing decisions showed higher volatility and an unusual seasonal pattern after the onset of the coronavirus pandemic. With disinflationary effects strengthening since September 2020, there was a generally weaker price growth in the last months of 2020. In the first months of 2021, repricing was below the level seen in 2020 (Chart 4). Currently, changes in inflation are determined by increases in fuel prices.

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

Annual inflation of *industrial goods* remained unchanged in March. Within the product group, durables price index fell relative to the previous month, and non-durables price index rose slightly. A combination of several products contributed to a decline in the prices of durables.

Market services prices rose by 0.2 percent compared with the previous month (Chart 5). Lower price changes, 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* continued to decline in March. Within the product group, the unprocessed food price index was mainly reduced by a fall in potatoes, fresh vegetables and fruit prices, while more modest changes in processed meat and dairy product prices reduced the inflation of processed food.

Prices of *regulated products* were unchanged relative to February.

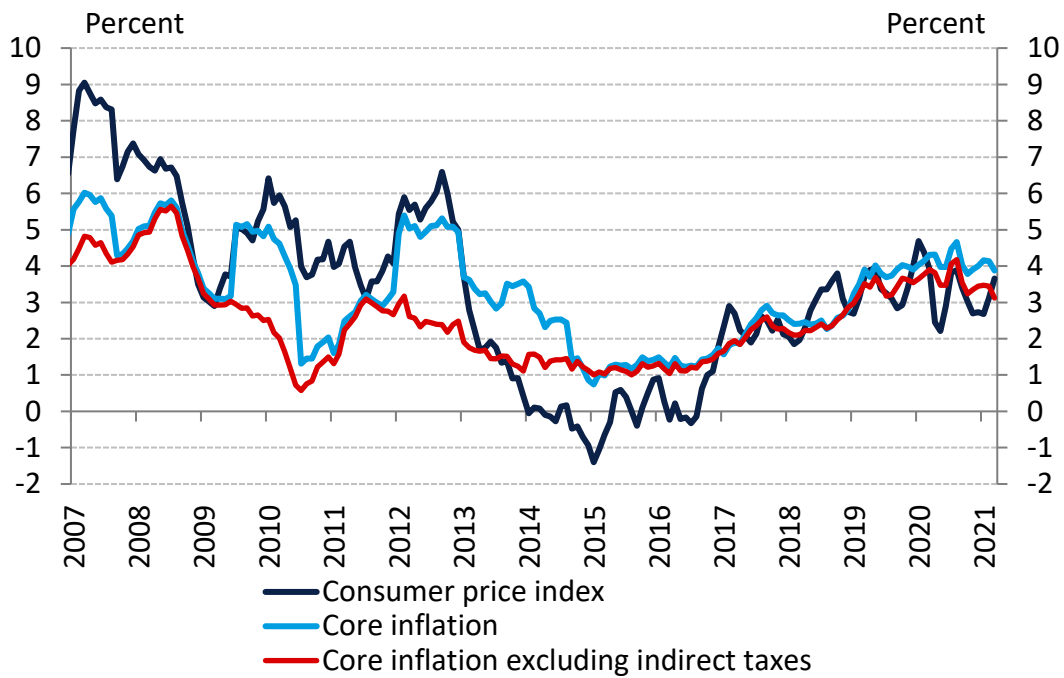
Fuel prices rose as the world market price of crude oil grew relative to the previous month. The base effect of last year's decline in prices played a key role in a double-digit rise in the inflation of fuel.

The indicators, measuring *households' inflation expectations*, showed unusually high volatility, similarly to the consumer price index. The indicator decreased in March compared to earlier months (Chart 6).

Prepared by Judit Várhegyi

Budapest, 9 April 2021

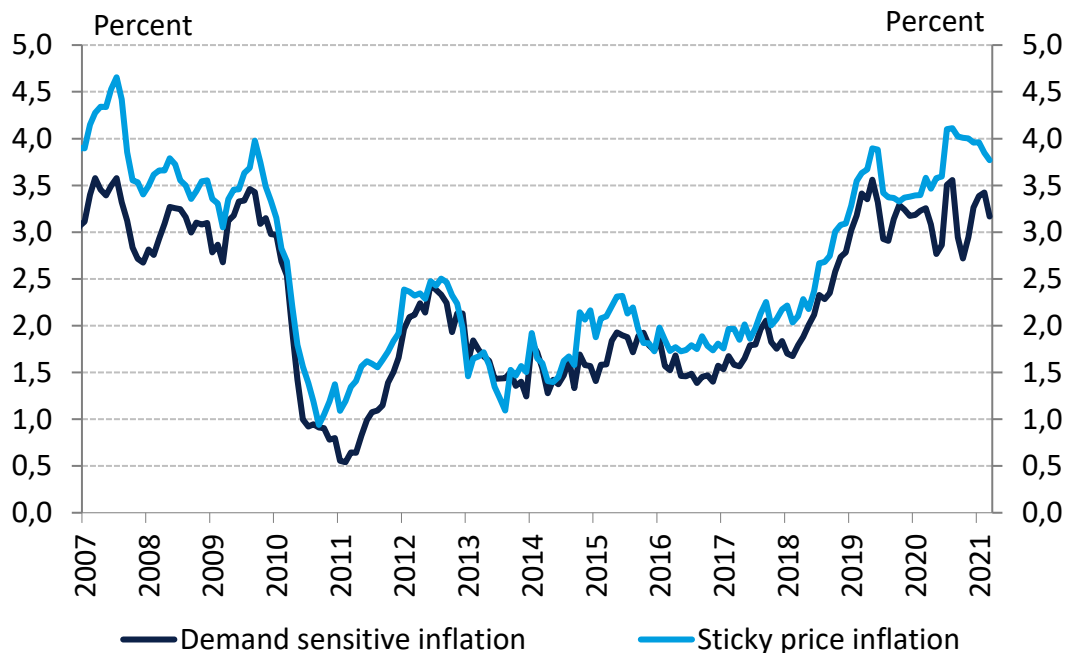
Chart 1 Consumer price index, core inflation and core inflation excluding indirect taxes
(annual percentage changes, January 2007 – March 2021)



Note: Seasonally unadjusted core inflation.

Chart 2 Underlying inflation indicators

(excluding indirect taxes, annual percentage changes, January 2007 – March 2021)



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 HCSO.

Chart 3 Inflation decomposition

(annual percentage changes, January 2007 – March 2021)

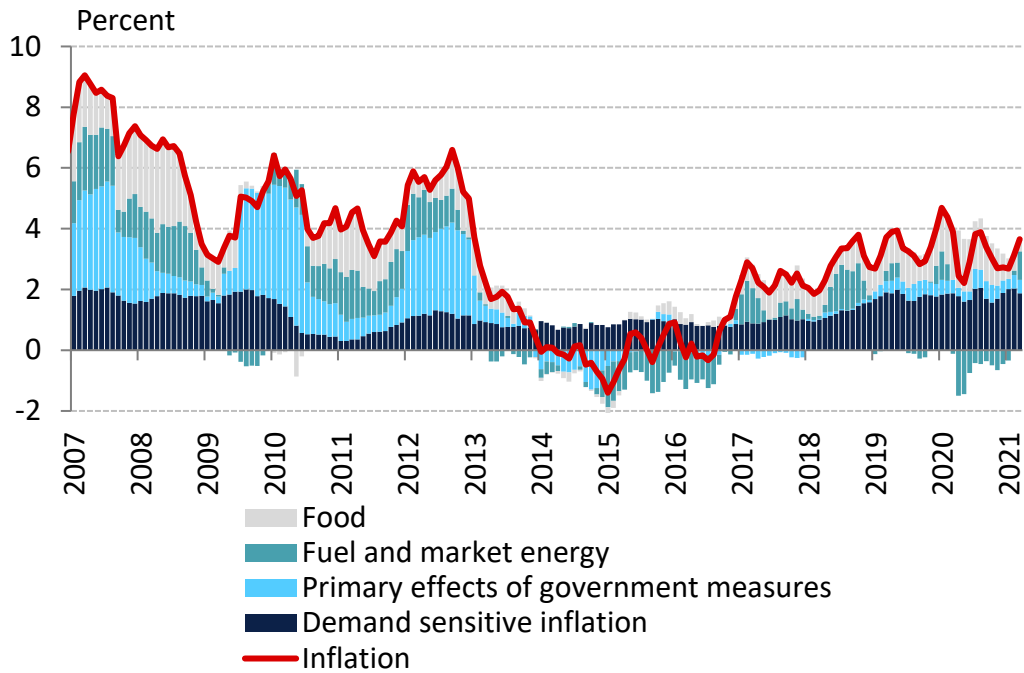


Chart 4 Monthly changes in consumer prices excluding fuel prices

(tax-adjusted, seasonally unadjusted monthly percentage changes)

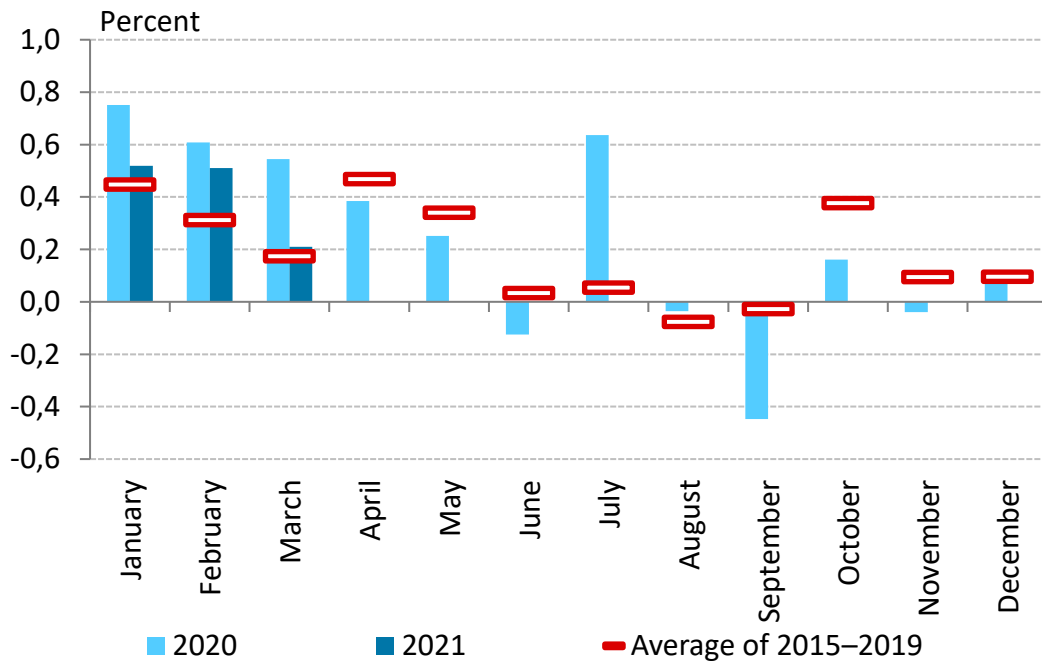


Chart 5 Market services inflation

(seasonally unadjusted, tax-adjusted monthly percentage changes, January 2016 – March 2021)

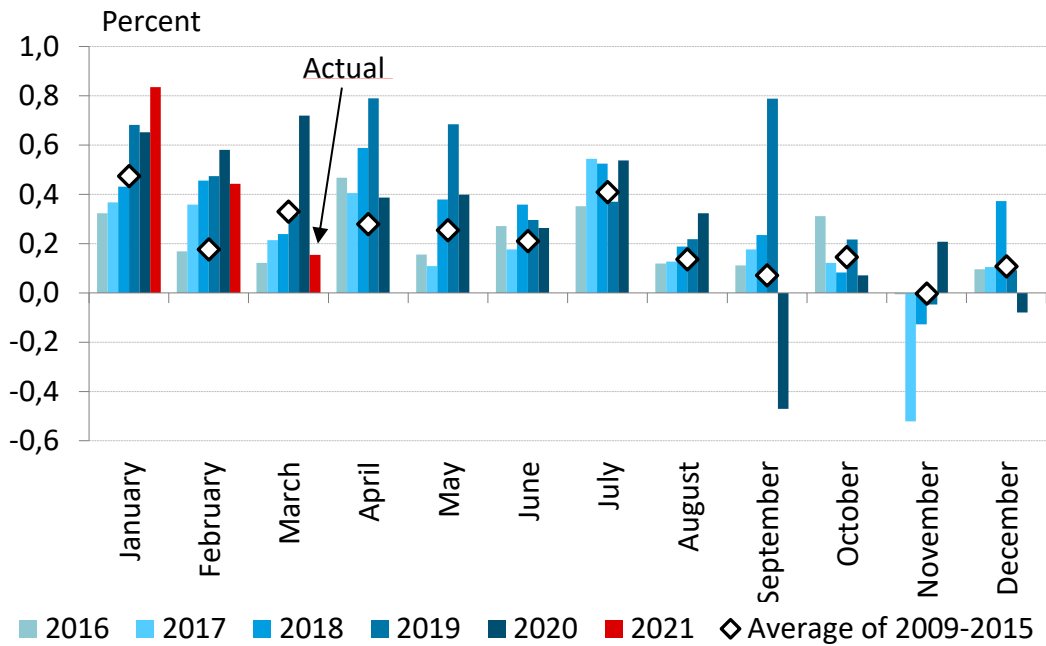
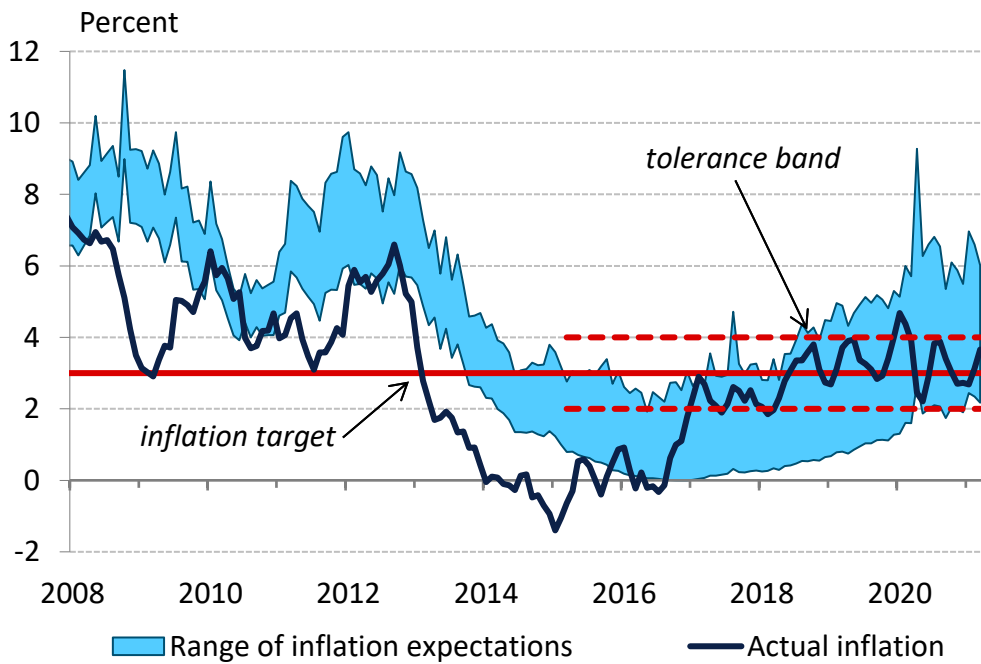


Chart 6 Households' inflation expectations

(January 2008 – March 2021)



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, March 2021 (HCSO)					
3.7% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
Contribution of sticky price inflation (percentage points), weight 36.7%	1.4	Contribution of demand sensitive inflation (percentage points), weight 59.2%	1.9	Contribution of core inflation excluding taxes (percentage points), weight 73.0%	2.3
Contribution of other items (percentage points), weight 63.3%	2.3	Contribution of other items (percentage points), weight 40.8%	1.8	Contribution of other items (percentage points), weight 27.0%	1.4

Sources: HCSO and the MNB's own calculations.

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