



MONTHLY ANALYSIS OF INFLATION DEVELOPMENTS

JULY
2023

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.

For further information, please contact Géza Rippel (e-mail: rippelg@mnb.hu)

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

<https://www.mnb.hu/kiadvanyok/elemzesek-tanulmanyok-statisztikak/az-mnb-inflacios-alapmutatoi>

ASSESSMENT OF INFLATION DATA FOR JULY 2023

In July 2023, decrease in inflation in Hungary continued and intensified. Consumer prices rose by 17.6 percent in annual terms. Core inflation and core inflation excluding indirect tax effects both fell to 17.5 percent (Chart 1 and Chart 2).

Inflation slowed by 2.5 percentage points relative to the previous month. Processed food prices (-1.3 percentage points) and tradables prices (-0.6 percentage points) were the main contributors to the slowdown in inflation. Year-on-year core inflation fell significantly, by 3.3 percentage points, relative to the previous month. The fall in core inflation was also mainly supported by processed food; however, a wide range of products and services experienced a slowdown in price increases. The Bank's measures of underlying inflation developments capturing persistent inflationary trends, calculated on a year-on-year basis, also fell. The annual increase in the price of sticky-price products and core inflation excluding processed food prices both fell by 1.5 percentage points relative to the previous month (Chart 3).

The basket calculated excluding fuel and regulated product prices was unchanged from the previous month (Chart 4). As seen in June, the monthly change in core inflation excluding processed food, which better reflect underlying inflation developments, was 0.6 percent (Chart 5).

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

Annual inflation of *tradables* fell to 13.5 percent in the month. Prices in this product group rose by 0.5 percent compared to the previous month (Chart 6). Non-durables prices rose relative to the previous month, which was partially offset by the decline in durables prices. A wide range of products in this group contributed to the decline in tradables prices.

Services prices rose by 0.8 percent relative to the previous month (Chart 7). The annual increase in prices in this product group fell to 17.6 percent. As a result, the moderation in annual price dynamics that started in the previous month continued.

According to HCSO data, *food* price inflation slowed for the seventh consecutive month, as a result, it stood at 23.1 percent in July. Within this product group, the annual price indices of both processed and unprocessed foods declined sharply (Chart 8). The slowdown in unprocessed food price inflation primarily reflected declines in poultry meat and egg prices, while the slowdown in processed food inflation was mainly explained by declines in the prices of milk, dairy products and bread. Unprocessed food prices fell by 2.1 percent and processed food prices by 1.4 percent relative to June (Chart 9).

In the group of *alcohol* and *tobacco* products, prices rose slightly, by 0.1 percent, relative to June.

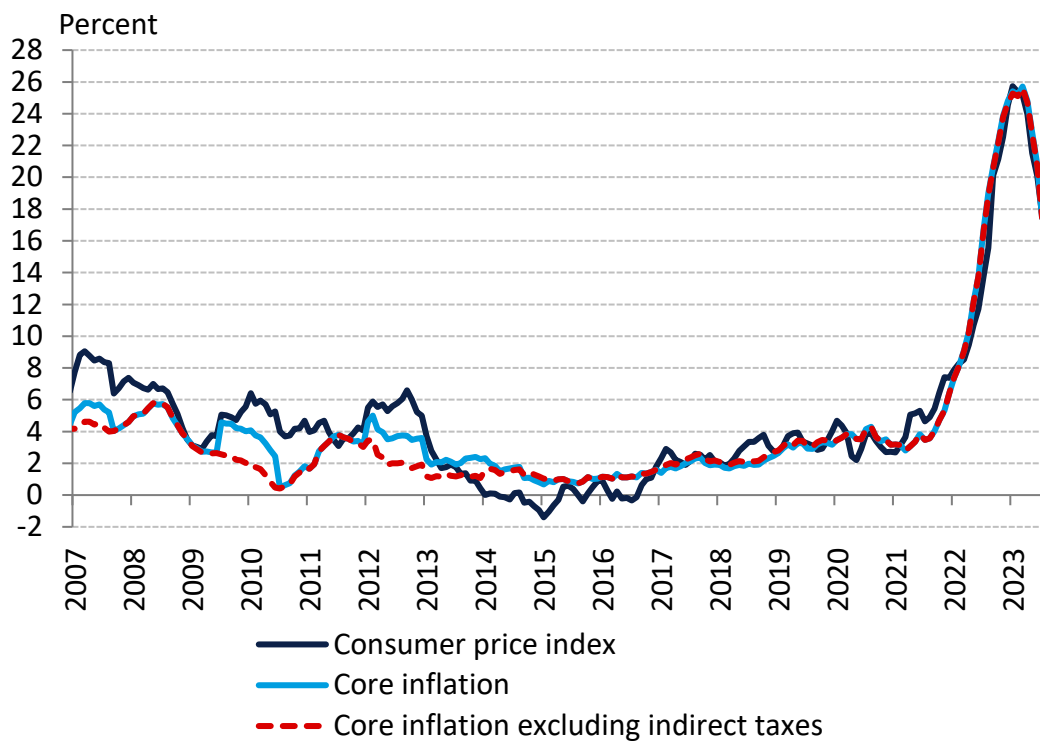
The prices of *regulated products and services* rose by 1.2 percent compared to June. Here, rises in the prices of long-distance transport and piped gas were the main contributors to the increase. The rise in the latter was caused by an increase in the share of higher-priced gas consumption exceeding the volume limit of the lower officially regulated price.

The indicators measuring *households' inflation expectations* continue to show higher than usual volatility (Chart 10). The decline in *corporate expectations for both retail sales and services prices* continued in the month (Chart 11).

Prepared by Géza Rippel

Budapest, 8 August 2023

Chart 1 Consumer price index, core inflation and core inflation excluding indirect taxes
annual change



Note: Seasonally unadjusted core inflation.

Chart 2 Inflation decomposition
annual change

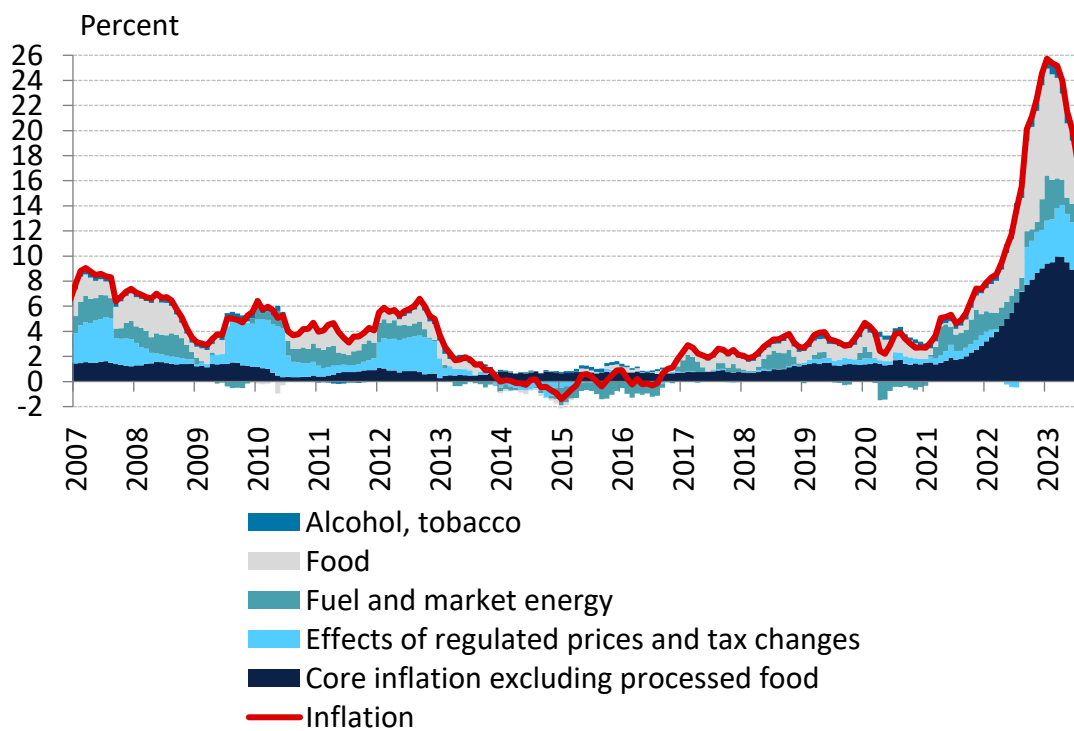
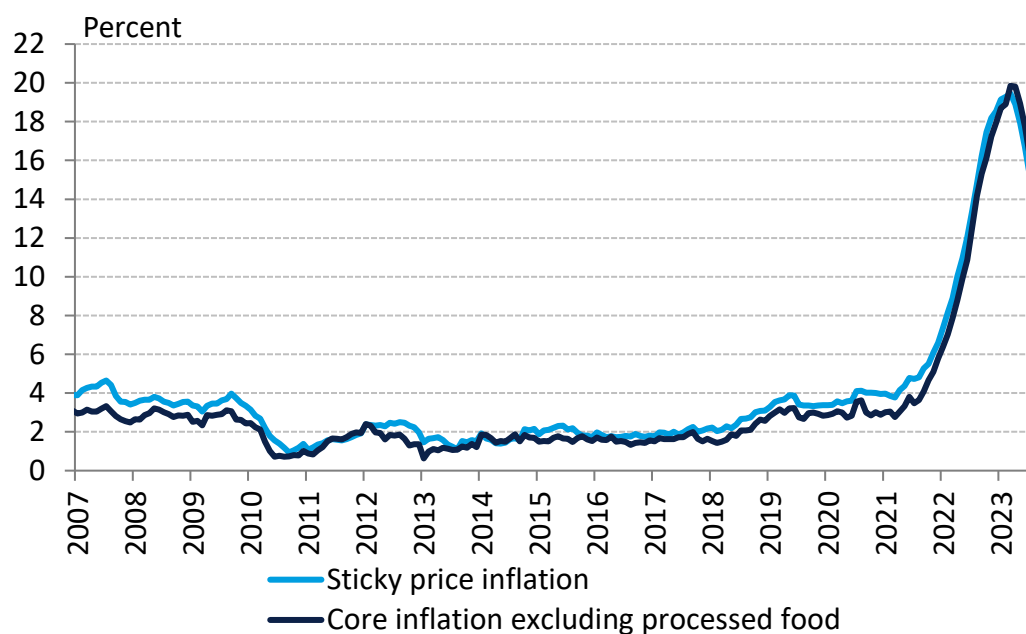


Chart 3 Underlying inflation indicators
annual percentage changes excluding indirect taxes



Note: 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. Core inflation excluding processed foods with unchanged content is equivalent with the earlier demand sensitive inflation. The new name is justified by the fact that the previous name might be ambiguous in a period of significant cost shocks with general effects.

Chart 4 Monthly changes in consumer prices excluding fuel and regulated products prices
tax-adjusted, seasonally unadjusted monthly percentage changes

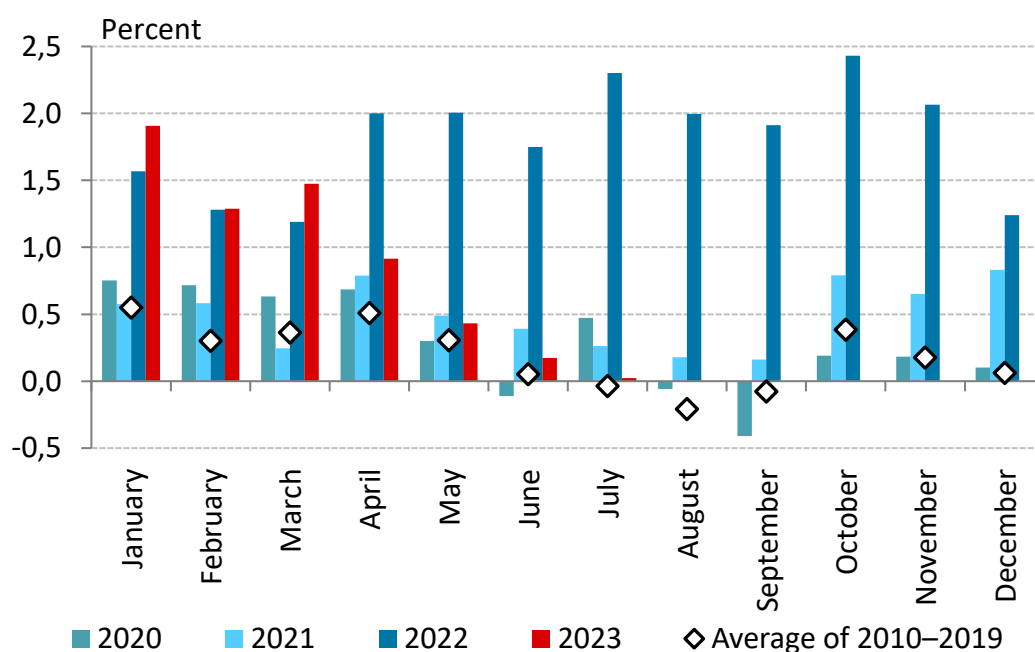


Chart 5 Monthly change in core inflation excluding processed food
tax-adjusted, seasonally unadjusted monthly percentage changes

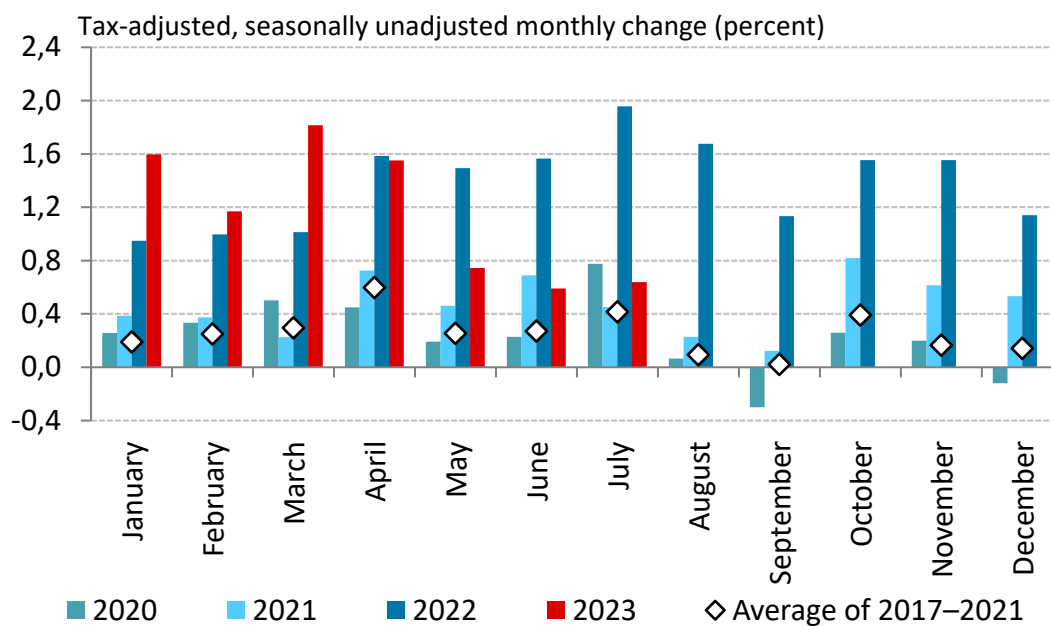


Chart 6 Inflation of tradable goods
seasonally unadjusted, tax-adjusted monthly change

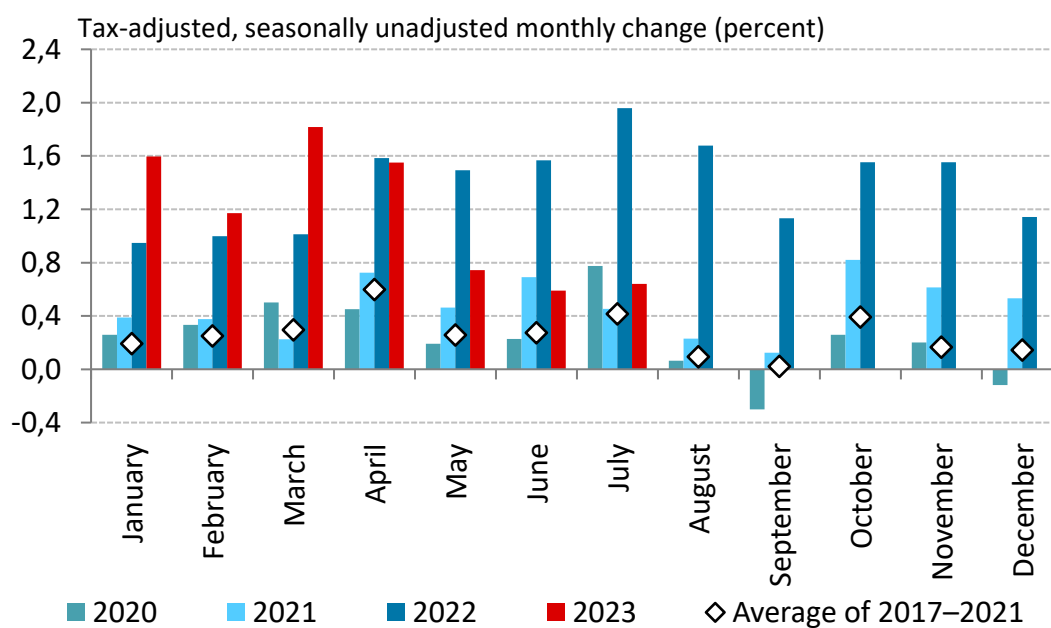


Chart 7 Market services inflation
seasonally unadjusted, tax-adjusted monthly change

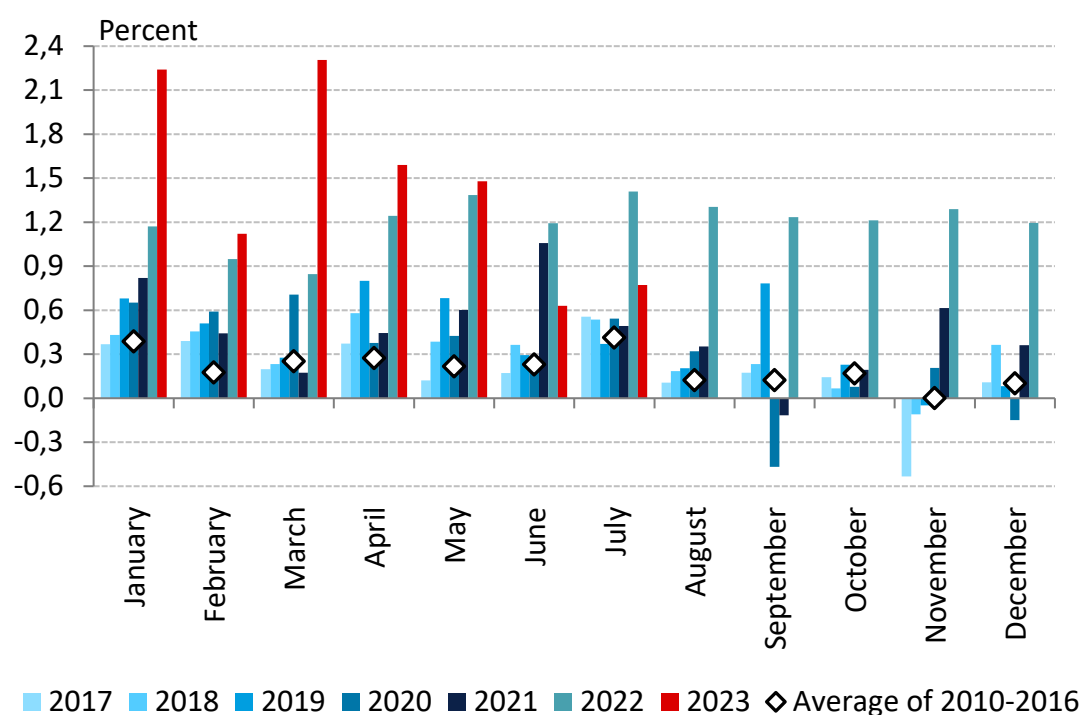
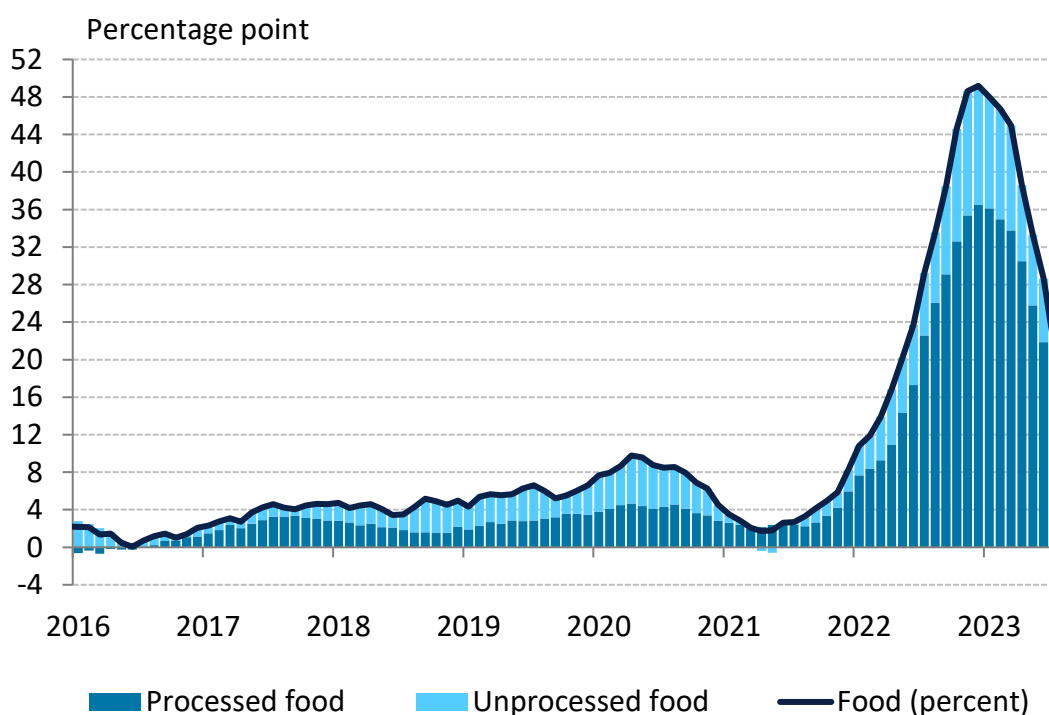
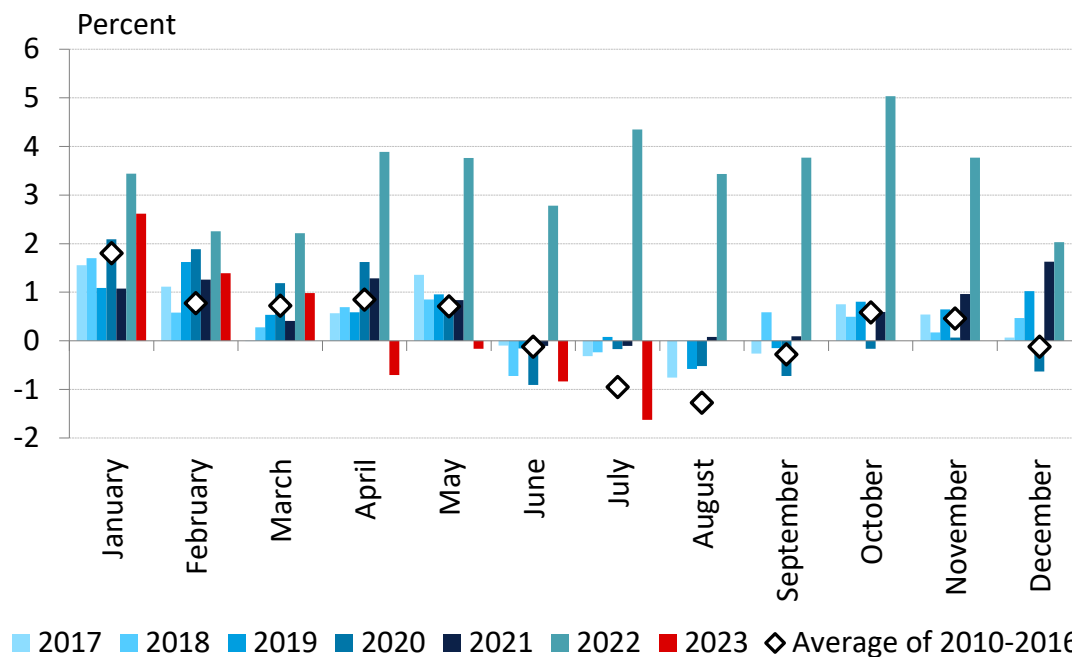


Chart 8 Developments in food price inflation
seasonally unadjusted, tax-adjusted annual change



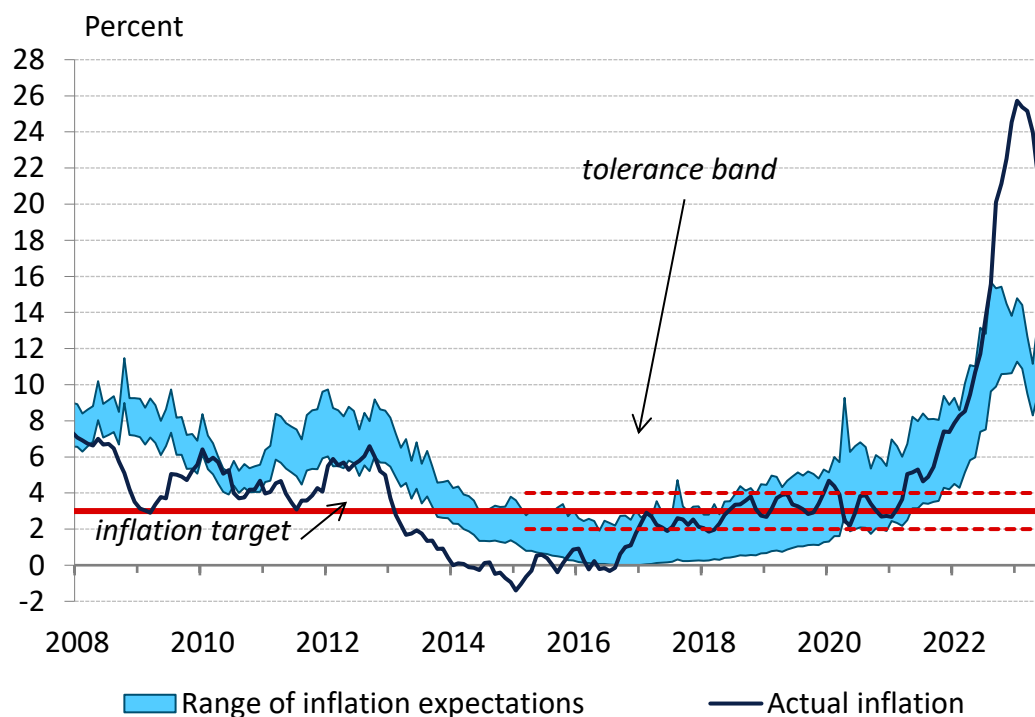
Note: The difference in food price inflation calculated by the HCSO and the MNB is explained by methodological differences. The MNB classifies food-related services as market services (restaurant meals, workplace meals, canteen goods) and the prices of regulated goods and services (school meals, nursery and kindergarten meals), and some beverages as non-durable industrial goods (coffee, tea, soft drinks).

Chart 9 Monthly changes in food prices
seasonally unadjusted, tax-adjusted monthly change



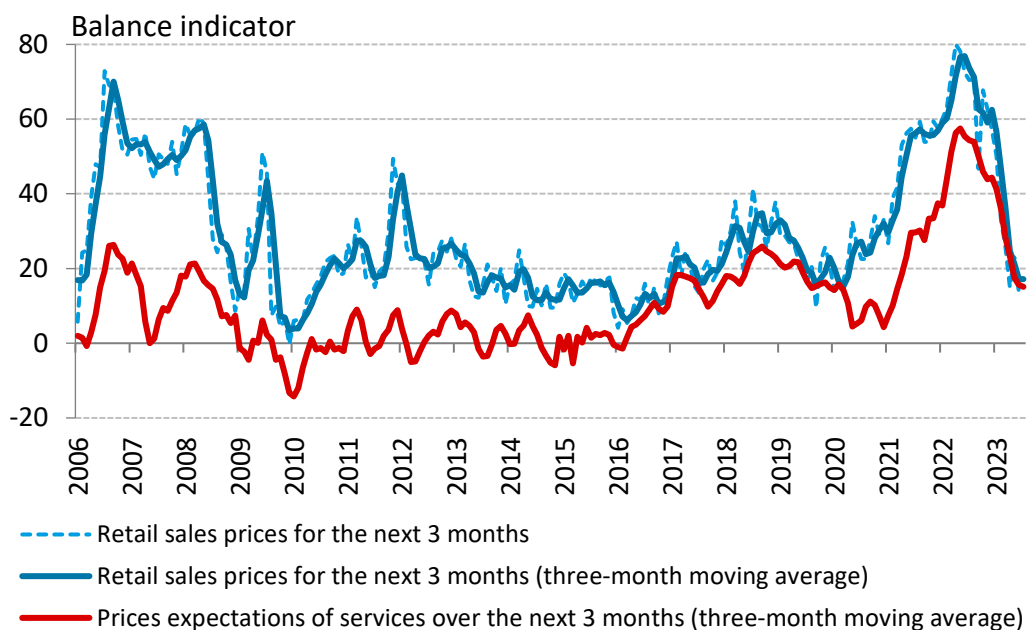
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Chart 10 Households' inflation expectations



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

Chart 11 Changes in expectations for retail sales and services prices in Hungary



Sources: MNB's own calculations based on data from the European Commission

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

Consumer price index, July 2023 (HCSO)					
17.6% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
Contribution of sticky price inflation (percentage points), weight 39.2%	6.0	Contribution of core inflation excluding processed foods (percentage points), weight 50.2%	8.2	Contribution of core inflation excluding taxes (percentage points), weight 63.7%	11.1
Contribution of other items (percentage points), weight 60.8%	11.7	Contribution of other items (percentage points), weight 49.8%	9.5	Contribution of other items (percentage points), weight 36.3%	6.5

Sources: HCSO and the MNB's own calculations.

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