

NOTE ON INFLATION

8 June 2023

Better-than-expected inflation data in May allows the MNB to cut rates by another 100 bps in June

Due to technical problems, our report on inflation will be published with a one-day delay. Please read our early thoughts on the May inflation data, published today.

- Hungary's headline inflation decelerated to 21.5% YoY in May, from 24% in April. The data caused downside surprise for us (nowcast: 22%) and an even larger for the market (consensus: 22.3%). Energy and food prices played a significant role in disinflation.
- Nevertheless, the improvement of underlying indicators also continued in May. The MNB's closely watched constant tax core inflation fell from 24.7% to 22.7% YoY, while the core inflation figure of the statistical office eased from 24.8 to 22.4%. Monthly repricing also moderated, the seasonally adjusted MoM core inflation figure fell to 0.6%, the lowest since Q4 2021. While goods' inflation slowed in annual terms, monthly repricing remained high; annual services inflation even accelerated, albeit modestly.
- All in all, in our view the probability of inflation falling to single-digit territory by December rose further. This will allow the MNB to go on with rate cuts; we think that another round of 100 bps is in the pipeline for June. Even if we cannot rule out a more aggressive cut in June, we find it less likely, as the monthly repricing of services was still well above the comfortable level in May, while the recently announced, stronger-than-expected excise duty hikes will add 0.5 percentage points to inflation in 2024.

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