REPORT ON INFLATION

12 November 2025

CPI stagnated at 4.3% for the fourth month in a row, but details reveal why the MNB is cautious about interest rate cuts

- Hungary's headline inflation stagnated at 4.3% year-on-year (YoY) for the third consecutive month. This figure matched our forecast, but it was slightly below the market consensus (4.4%). Food inflation, especially seasonal food inflation was lower, but service inflation and alcohol beverages' inflation were higher than we had forecasted.

- Underlying indicators accelerated in October. The MNB's constant tax core inflation increased from 3.6% to 3.9% YoY while sticky price inflation accelerated from 5.1% to 5.3% YoY. The MNB's core inflation without processed food inflation and the profit margin cap's effect measure has also increased and clearly stuck above 5% YoY. The latter underlying indicator of the MNB is very similar to our trend inflation indicator, but it still contains the mainly backward-looking pricing of telecom and financial services, which are also affected by the "voluntary" price freezes proposed by the government. Hence, we think our trend inflation indicator is the better underlying gauge in the current environment as it does not contain telecommunication and financial services, therefore it is not affected by any administrative measures. The annualized MoM change of our trend inflation indicator decreased from 6.5% to 5% (see Chart 11), but we should highlight that the unusually low seasonal drop in the prices of trips abroad lifted the September figure about by 3 ppts. Taking into the account this fact, our trend inflation indicator also accelerated in October, from around 3.5% (6.5% less 3%) to 5%. This acceleration was clearly a consequence of the development of service inflation, as annualized MoM service inflation without telecom and financial services accelerated from 7.5% to 9% in October. It is the highest figure since April 2025.

- The positive development of food inflation helped a lot to keep the headline CPI stable in recent months. Our food inflation indicator (see Chart 10), which filters out the impact of profit margin caps and excludes volatile seasonal foods, has shown a clear improvement since early spring 2025. In addition, seasonal food's inflation – which is much more volatile than the previously mentioned food price category and it kept the total food inflation around 4% during the summer – has also helped in recent months, as the seasonally adjusted price level of seasonal foods (fruit, vegetables, potatoes) has fallen by 4% over the past two months.

- Because of the even stronger HUF and the recently announced new margin caps (on certain seasonal food items), we lowered our 2026 inflation forecast from 3.6% to 3.4%, while the forecast for 2025 was left unchanged at 4.5%. We think inflation will probably sink below the 3% target temporarily at the beginning of 2026 because of the delayed excise duty hikes, the expectedly very low re-pricing in administered prices, the strong HUF (vs the EUR), and a significant drop of the oil prices measured in HUF. But incoming data suggest that inflation persistence has still not been satisfactorily broken, so the central bank's caution remains warranted. This is especially true if we take into account that a double-digit minimum wage hike is expected at the beginning of next year, and several consumption-targeted government measures will only come into effect in the coming months.

- If the coming months confirm that the deterioration seen in October in the underlying inflation indicators was only temporary, and repricing at the beginning of next year will also be moderate, then a window of opportunity for rate cuts might open in second half of 2026.

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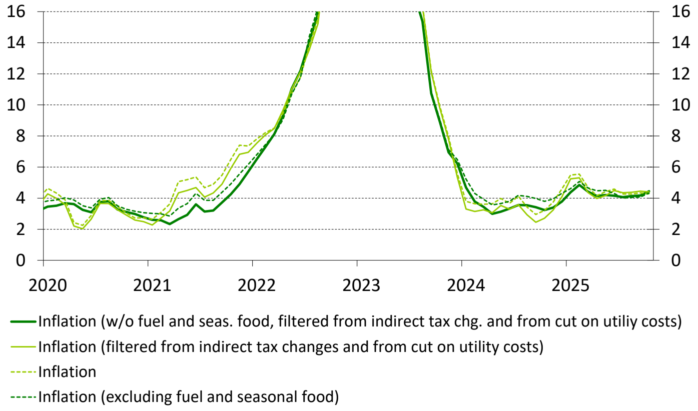
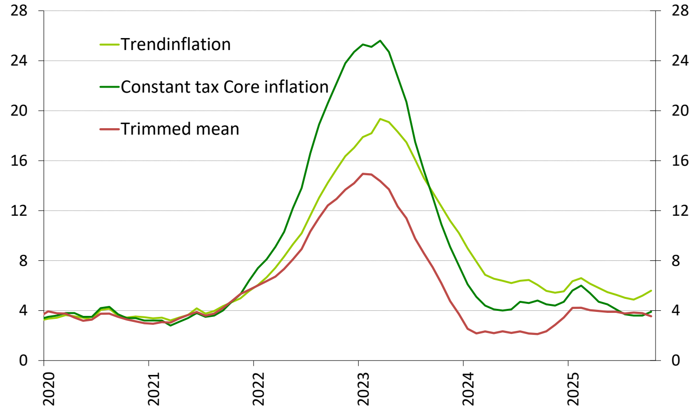
Chart 1: Summary chart of inflationary processes*
(annual changes, %)



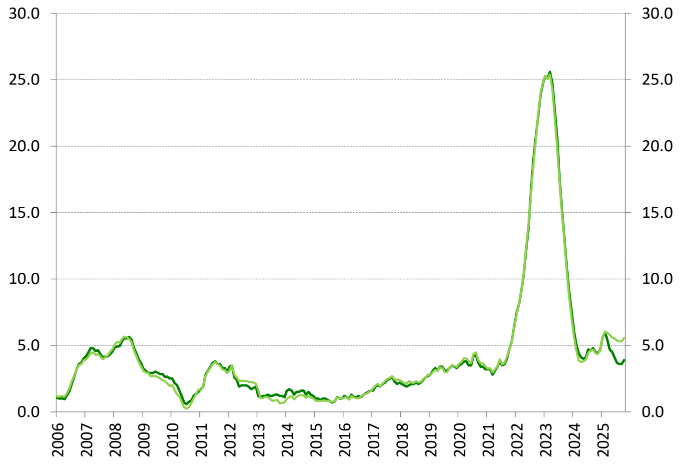
Sources: KSH, OTP Research
**: our filtered inflation indicator corrected with the price-cap effects on certain food items*

Chart 2: Core, trend* and trimmed mean inflation
(annual changes, %)



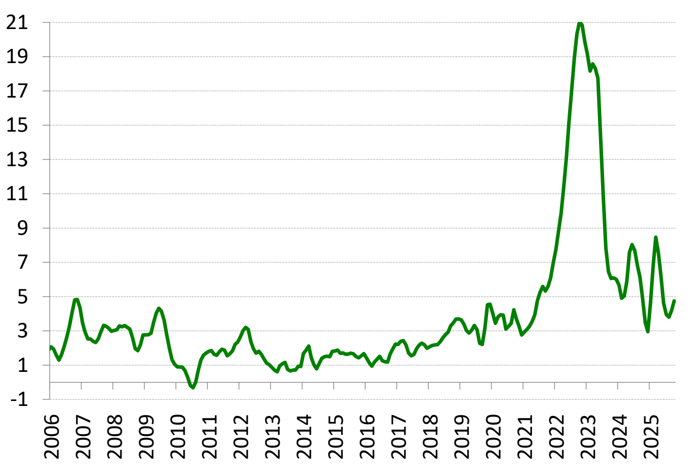
Sources: KSH, OTP Research
**Filtered from indirect tax and visit fee changes, and one-off items and w/o second-hand car prices*

Chart 3: Constant tax core inflation and our proxy*
(annual changes, %)



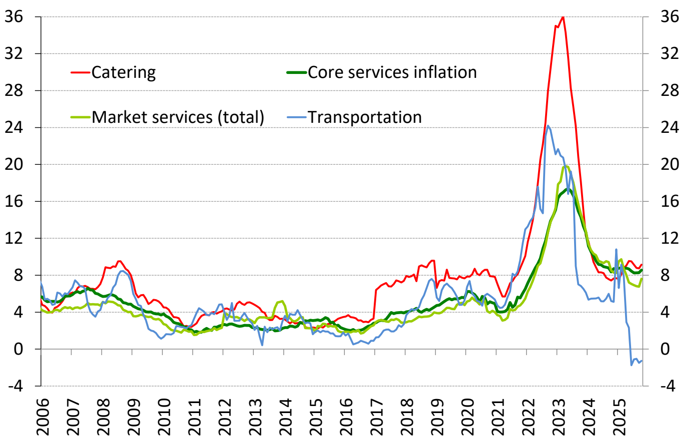
Sources: KSH, OTP Research
** We cannot reproduce exactly the constant tax core inflation because (1) the MNB has its own methodology for the calculation of tax changes, (2) In addition, core inflation cannot be calculated exactly from the KSH's 160 CPI items. So, our calculation tries to proxy the MNB's core vai indicator. Our Core VAI indicator filters out the margin cap' effect*

Chart 4: Trend inflation*
(3M/3M annualized change, %)



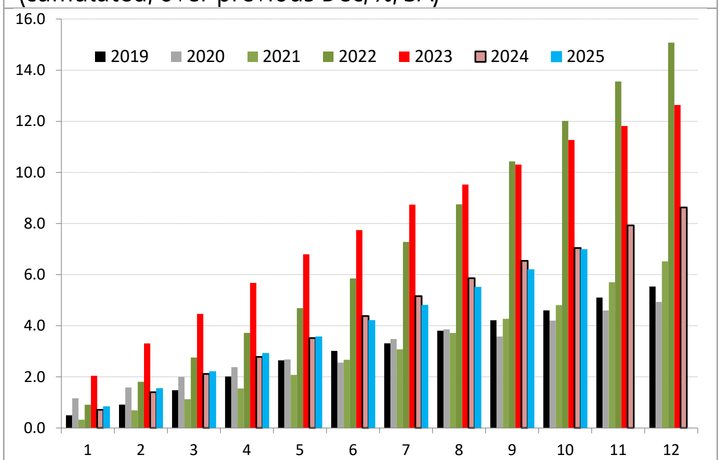
Sources: KSH, OTP Research
** Filtered from indirect tax (including the financial transaction tax) and visit fee changes*

Chart 5: Services inflation*
(annual changes, %)



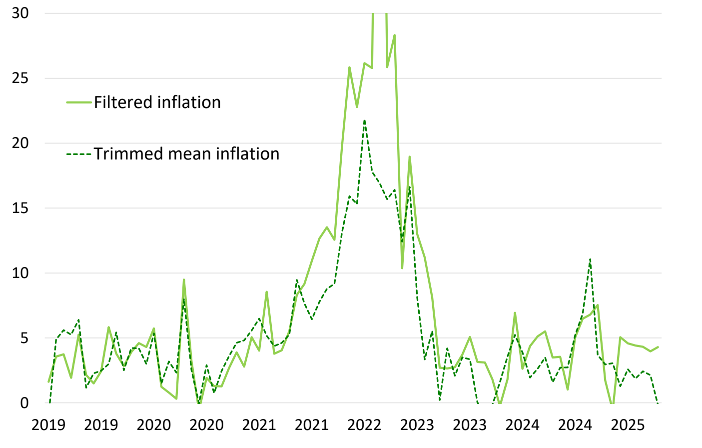
Sources: KSH, OTP Research
** Filtered from indirect tax (including the financial transaction tax) and visit fee changes*

Chart 6: Intra-year price setting in core services*
(cumulated, over previous Dec, %, SA)



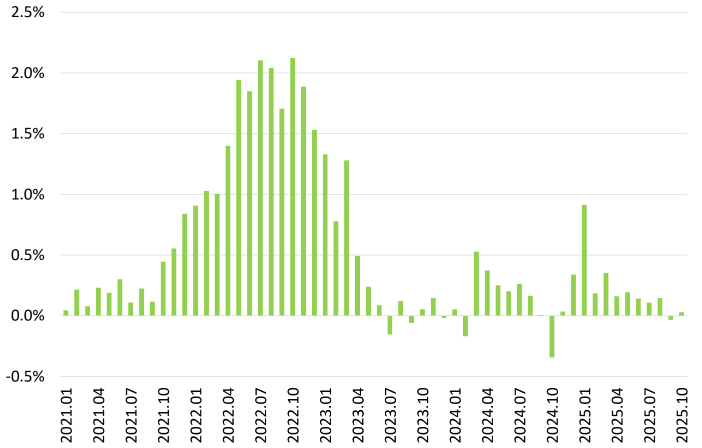
Sources: KSH, OTP Research
** Aggregation of the most demand-sensitive and labour-intensive services, filtered from indirect tax and visit fee changes*

Chart 7: Filtered and trimmed mean inflation
(annualized MoM change, %)



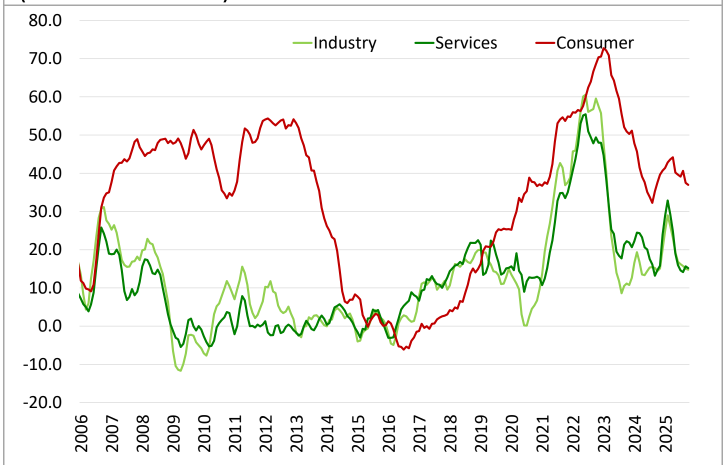
Sources: KSH, OTP Research

Chart 8: Extra re-pricing* in the constant tax core inflation
(%point)



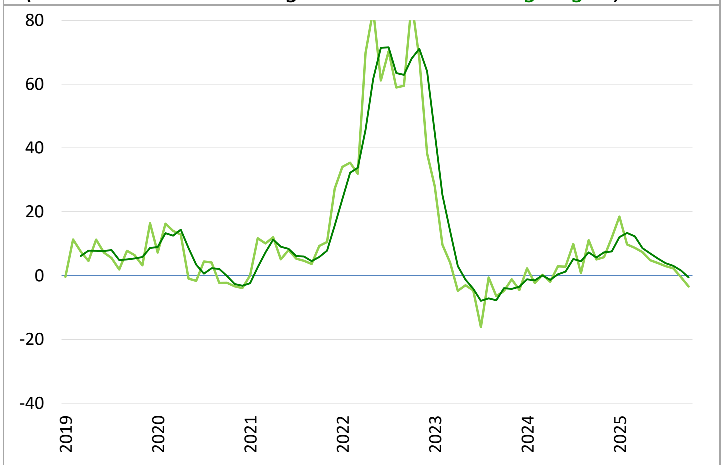
Sources: KSH, OTP Research
**: %point difference of MoM changes compared to the average MoM rate of given month in the 2017-2019 period; data are adjusted by the effect of the price and margin caps on certain food and drugstore items*

Chart 9: Inflation expectations
(balance indicator)



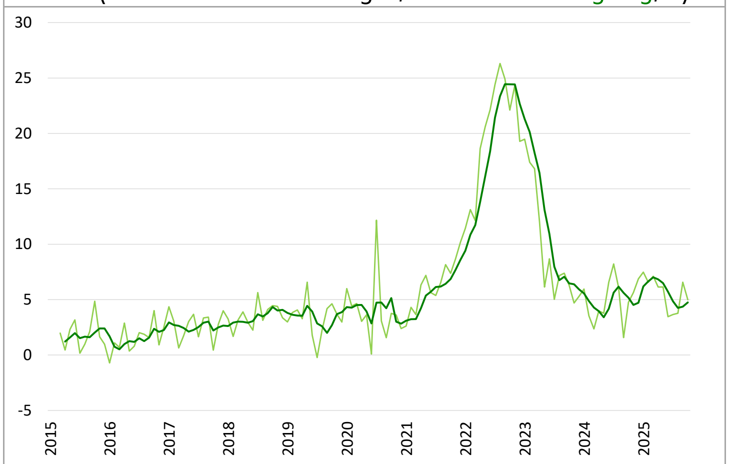
Sources: European Commission, OTP Research

Chart 10: Food inflation*
(annualized MoM changes, and its 3M rolling avg, %)



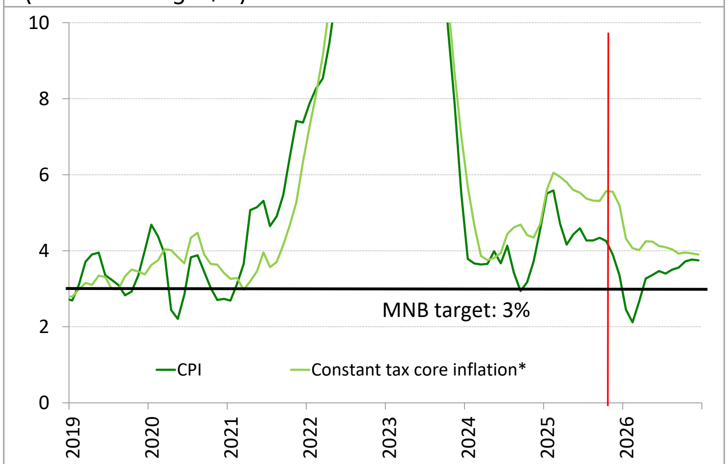
Sources: KSH, OTP Research
**: w/o seasonal foods; filtered from price cap, and margin cap measures*

Chart 11: Trend inflation w/o backward-looking pricing items* (annualized MoM changes, and it' 4M rolling avg, %)



Sources: KSH, OTP Research
**: telecom, financial fees*

Chart 12: Inflation forecast
(annual changes, %)



Sources: KSH, MNB, OTP Research
**: our constant tax core inflation is filtered from the margin cap' effect in contrast to the MNB' Core VAI indicator*

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