REPORT ON INFLATION

14 January 2026

Higher-than-expected inflation in December once again highlighted that the central bank's caution is warranted

- Hungary's headline inflation declined to 3.3% year-on-year in December, from 3.8% in November. In 2025, the annual average inflation was 4.4%. The December figure was slightly above the consensus (Bloomberg: 3.2%), and exceeded our forecast (3.0%), as well. Higher-than-expected inflation was caused by several items: higher-than-expected airfare prices, durable goods inflation, telecom and financial services fees. The impact of the margin cap for additional 14 food products, which came into effect on 1 December, did not reach -0.1%.

- Underlying indicators moved in various directions in December. The MNB's constant tax core inflation declined from 3.8% to 3.6% YoY, and the sticky price inflation decreased from 5.4% to 5.2% YoY. The MNB's core inflation without processed food inflation and the profit margin cap's effect measure has remained 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 (Chart 11) 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 accelerated from 5% to 6.7% (see Chart 11), while its annualized QoQ rate in Q4 was 5.6%, up from 4.6% in Q3 and 5.2% in Q2. This QoQ figure has almost reached its 2024 Q4 level (5.9%). In general, it can be said that the disinflation seen in the last quarter (inflation fell from 4.3% to 3.3%) occurred as a result of a deterioration in underlying trends, which was more than offset by favourable developments in food and fuel inflation (which are however, much more volatile than underlying trends).

- One of the most important surprises is the higher-than-expected inflation in durable goods. This is particularly surprising because this is the most exchange rate-sensitive product group, and the forint's exchange rate has been strengthening for some time. This development – especially before the main repricing period at the beginning of the year – may be cause for concern for the central bank's policymakers, as it may indicate that economic actors do not have sufficient confidence in the sustained strength of the exchange rate. In addition, in the case of consumer electronics (part of the durable goods aggregate), the chip and graphics card shortage caused by the "AI frenzy" could bring further surprises.

- Among the negative developments, it is also worth noting that intra-year price settings in the core service segment (Chart 6) was essentially the same as in 2024, meaning that there was no real progress in disinflation in this segment. In addition, the annualized QoQ change of the indicator accelerated to 8.3% in Q4, from 7.6% in Q3, and exceeded the 8.2% seen in Q2.

- Food inflation continues to develop favourably. 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. The favourable price trends for foodstuffs may strengthen even further, as China's import restrictions on milk could lead to oversupply in the EU's internal market. This could push down the prices of other dairy products, in addition to milk.

- Currently, two opposing effects are influencing our forecast: persistently low energy prices and favourable food prices would pull down our inflation forecast, while the clear slowdown in the

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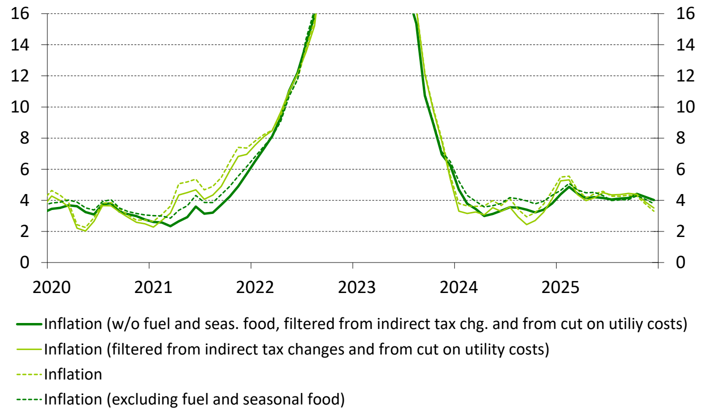
improvement of underlying processes would increase it. The net effect of these two factors is currently unclear, so we are keeping our inflation forecast for 2026 unchanged at 3.4%. We think inflation will probably sink well below the 3% target temporarily at the beginning of 2026 because of the delayed excise duty hikes, the expectedly very low re-pricing in administered prices, and a significant drop of the oil prices measured in HUF. But incoming data strengthen again our view that inflation persistence has still not been satisfactorily broken, so the central bank's caution remains warranted. This is particularly true if we take into account the 11% minimum wage hike, effective from this January, and the consumption-stimulating government measures coming into effect these days.

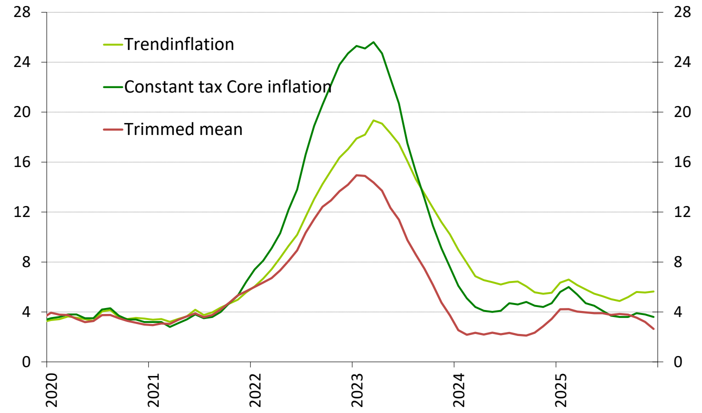
- We maintain our view that moderate price setting at the beginning of the year is necessary for looser monetary policy, therefore we expect two rate cuts in 2026, if the underlying inflation indicators are expected to decline to a level that is consistent with the MNB's 3% target, thereby confirming that inflation expectations are sufficiently anchored.

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



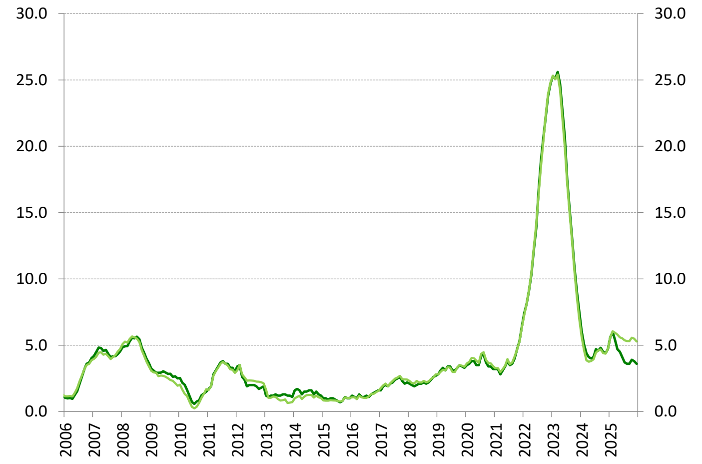
Sources: KSH, OTP Research
*: our filtered inflation indicator corrected with the price-cap effects on certain food items

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



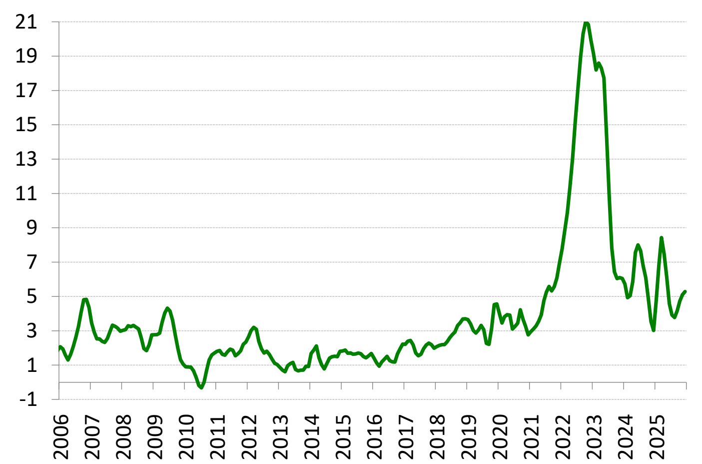
Sources: KSH, OTP Research
*Filtered from indirect tax and visit fee changes, and one-off items and w/o second-hand car prices

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



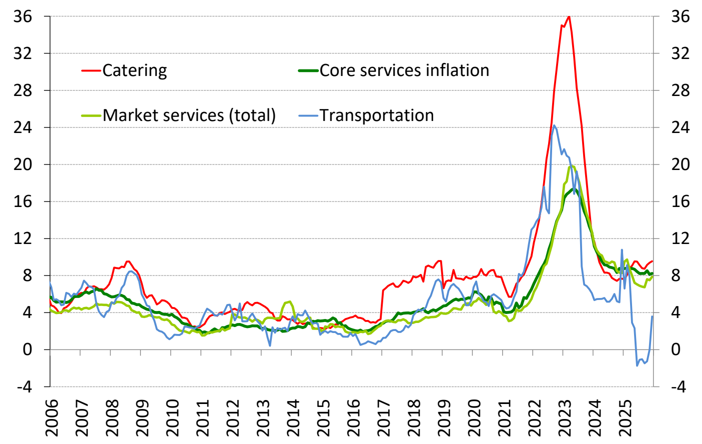
Sources: KSH, OTP Research
* We cannot reproduce exactly the constant tax core inflation because (1) the MNB has its own methodology for the calculation of tax changes, (2) In addition, core inflation cannot be calculated exactly from the KSH's 160 CPI items. So, our calculation tries to proxy the MNB's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

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



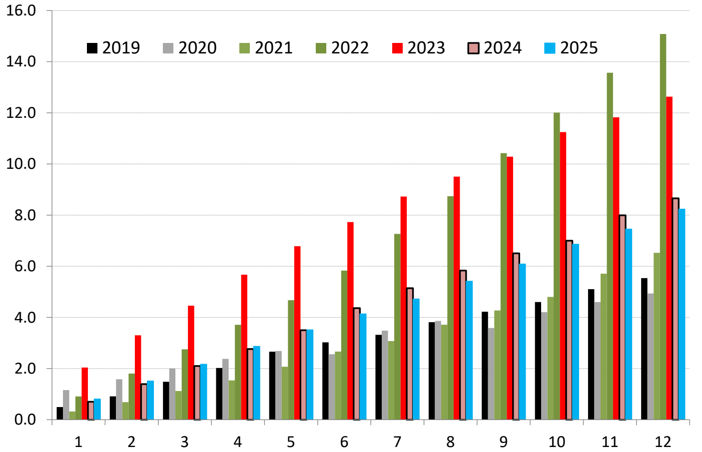
Sources: KSH, OTP Research
* Filtered from indirect tax (including the financial transaction tax) and visit fee changes

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



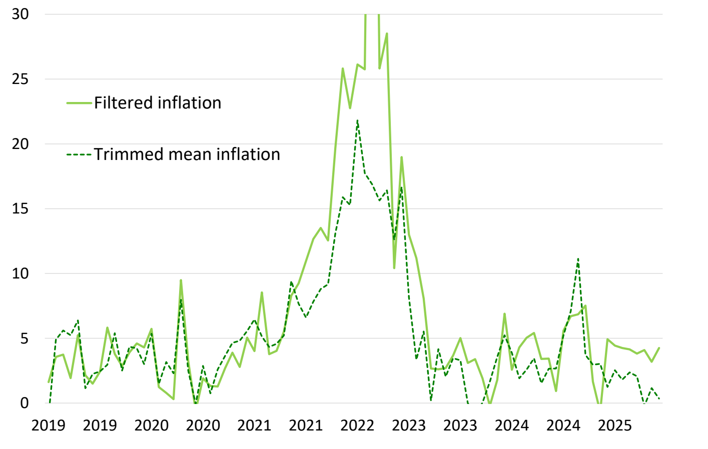
Sources: KSH, OTP Research
* Filtered from indirect tax (including the financial transaction tax) and visit fee changes

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



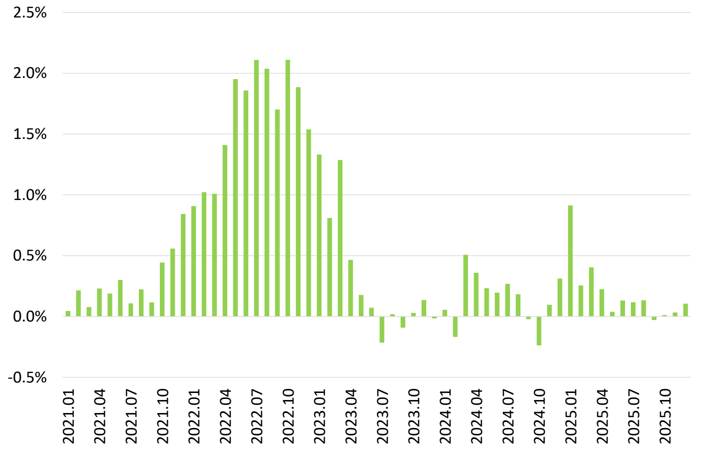
Sources: KSH, OTP Research
* Aggregation of the most demand-sensitive and labour-intensive services, filtered from indirect tax and visit fee changes

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



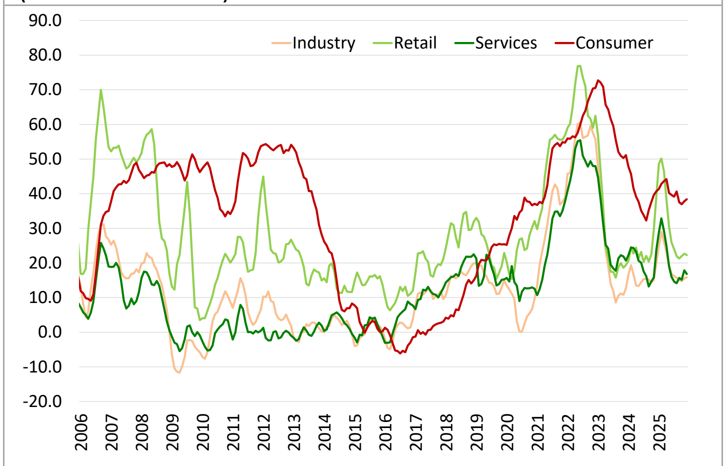
Sources: KSH, OTP Research

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



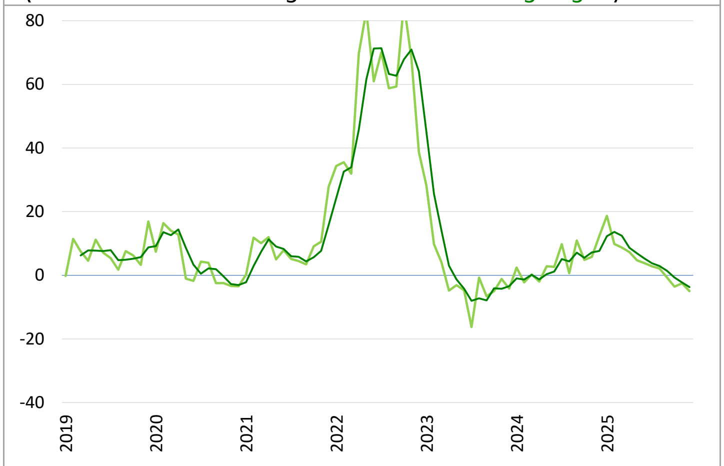
Sources: KSH, OTP Research
**: %point difference of MoM changes compared to the average MoM rate of given month in the 2017-2019 period; data are adjusted by the effect of the price and margin caps on certain food and drugstore items*

Chart 9: Inflation expectations
(balance indicator)



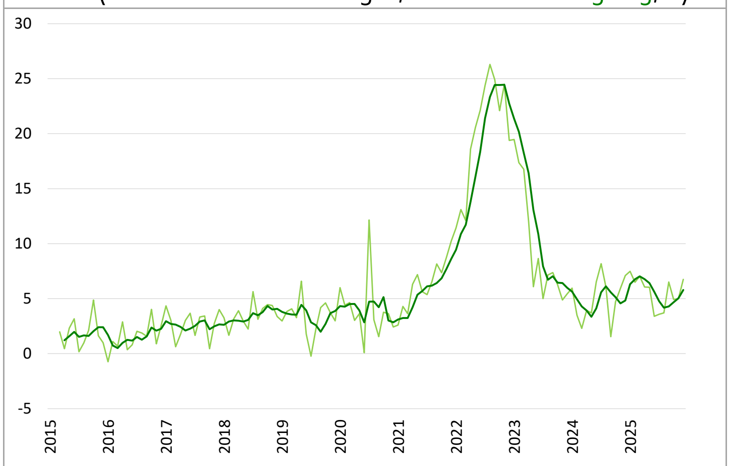
Sources: European Commission, OTP Research

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



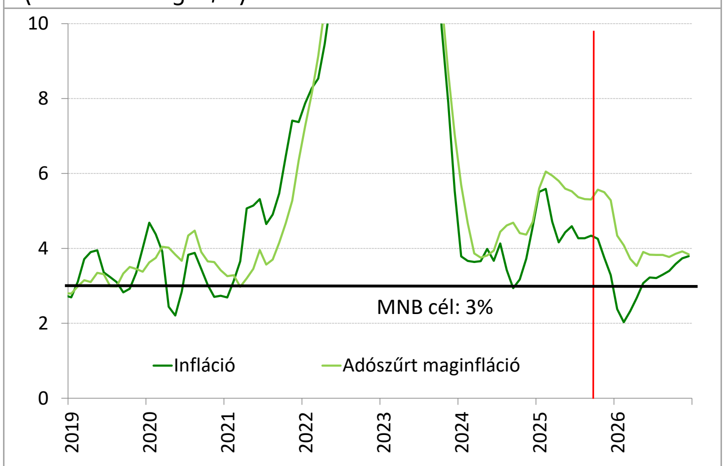
Sources: KSH, OTP Research
**: w/o seasonal foods; filtered from price cap, and margin cap measures*

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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