

REPORT ON INFLATION

8 July 2026

Inflation in June declined to 1.7% YoY and still running below the expectations, but not all details are so rosy what the headline figure suggests

- Hungary's headline inflation decreased to 1.7% year-on-year in June from 1.8% in May. The published data was lower than the consensus (1.8%) and met our forecast (1.7%). Not only did the headline CPI figure match our expectations, but there were also only minimal differences between the data and our forecasts for the major inflation categories. The only noteworthy difference appeared in market service inflation due of the unexpected MoM acceleration in catering service inflation and partial reversal of the decline in the transportation service prices (market-priced, so this category does not contain for example public transportation) observed in May.
- Underlying indicators remained basically favourable, but they indicated the disinflation is running out of steam. The MNB's constant tax core inflation stagnated at 2.0%, while the sticky price inflation decreased further from 3.8% to 3.6% YoY. The core inflation indicator w/o processed foods increased from 3.0% to 3.1% YoY. Our "super trend" inflation (Chart 9) indicator that is similar to the latter-mentioned MNB indicator but it does not contain the mainly backward looking pricing telecommunication and financial services, and it is filtered from the margin cap's effect (therefore it is not affected by any administrative measures) also increased somewhat from 2.9% to 3.2% on annualized MoM terms. That was the fourth month in a row when our 'supertrend' inflation indicator accelerated and it has gradually climbed from 1.7% in February to slightly above 3% in June. This level is still roughly half of the average of the last four months of 2025 (5.3%), but at the same time, the data also highlights that there is still work to be done in improving underlying inflation, as with a less favorable food inflation than this year, the headline CPI could easily return to the central bank's current 3% inflation target (which, due to the planned euro adoption, would need to be reduced within the foreseeable future). The fact remains unchanged that households received significant income transfers before the elections, and since then consumer confidence has strengthened considerably and in May the industrial production and retail sales showed clear bottoming out signals which reinforced our view that economic activity is gradually recovering. At the same time, pricing expectations have increased in business confidence surveys. Although this is likely more of a consequence of the uncertainty related to the Strait of Hormuz, it is nevertheless a development that cannot be ignored in the context of strong consumer confidence and strong real income growth.
- Due to the significant decline in oil prices and the more favourable-than-we had expected price development of the agro-commodity prices, we are lowering our inflation forecast for this year from 2.3% to 2.0% and from 3.1% to 2.9% for 2027. The main driver of the expected pickup in inflation in 2027 will be the fading (or disappearance) of the very strong disinflationary effect coming from food prices this year while we expect only minor improvements in the underlying inflationary processes. Our inflation forecast for 2027 is higher than the MNB's figure (2.3%) and we think that for the MNB's forecast to materialize, either food prices would need to continue to develop very favorably, or there would need to be further improvement in underlying processes, which, however, have been moving in the opposite direction in recent months.
- In its most recent statement, the central bank strongly indicated that it intends to cut the policy rate in its next two rate-setting meetings. Further rate cuts, however, carry greater uncertainty. Market pricing indicates two additional rate cuts during the autumn, which is in line with our

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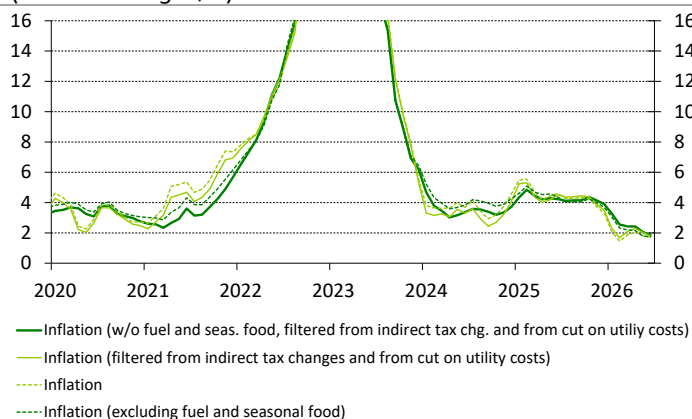
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expectations. However, medium-term macroeconomic and fiscal outlook, which expected to be published in October will be crucial for maintaining the market's initial trust in the euro adoption and for paving the way for further rate cuts. If all goes well, the key rate may decline to 5% by the end of the year. Regarding the next year's interest rate cuts in addition to the mid-term fiscal outlook, the development of the underlying inflation processes in the last quarter of the year will also be crucial.

Chart 1: Summary chart of inflationary processes*

(annual changes, %)

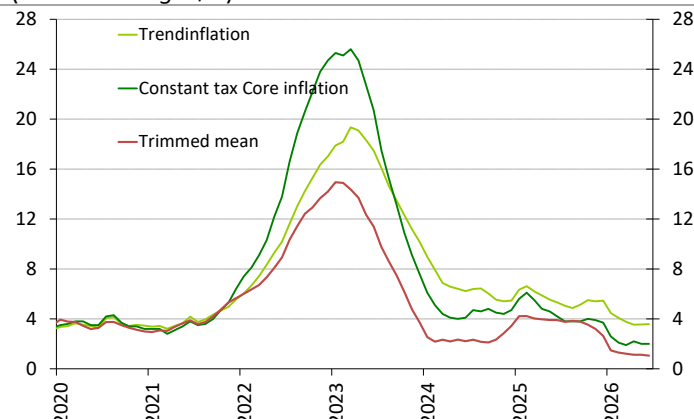


Sources: KSH, OTP Research

*: our filtered inflation indicator corrected with the price-cap effects on certain food items

Chart 2: Core, trend* and trimmed mean inflation

(annual changes, %)

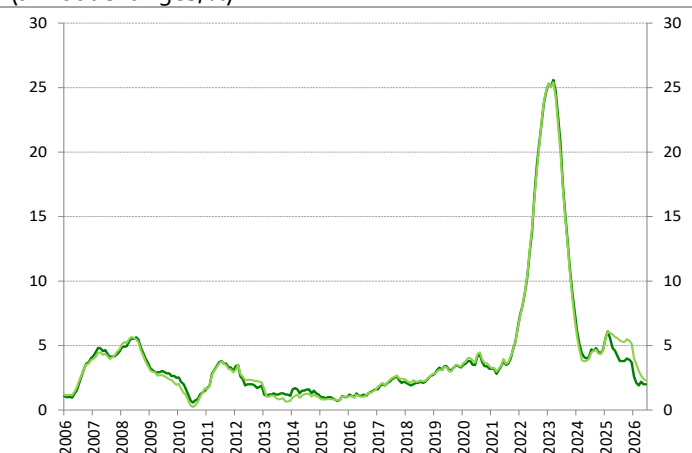


Sources: KSH, OTP Research

*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, %)

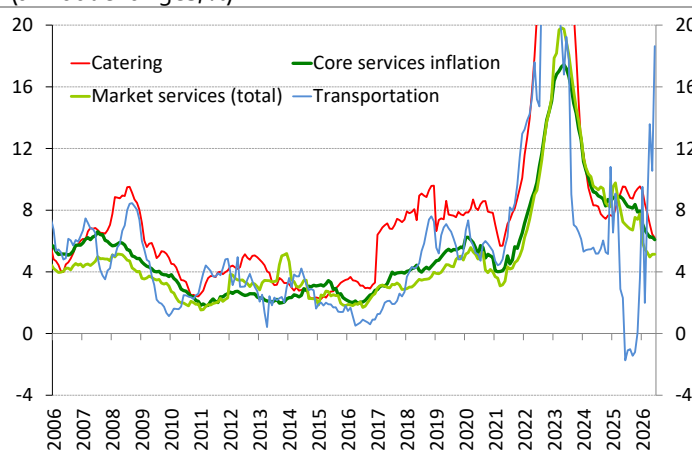


Sources: KSH, OTP Research

* Filtered from indirect tax (including the financial transaction tax) and visit fee changes

Chart 5: Services inflation*

(annual changes, %)

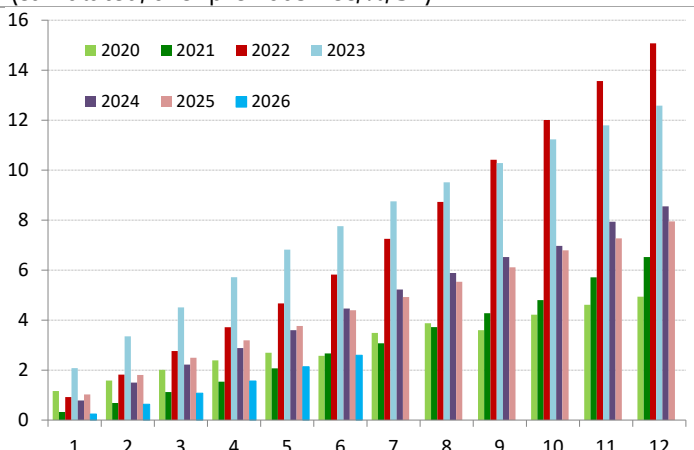


Sources: KSH, OTP Research

* Filtered from indirect tax (including the financial transaction tax) and visit fee changes

Chart 6: Intra-year price setting in core services*

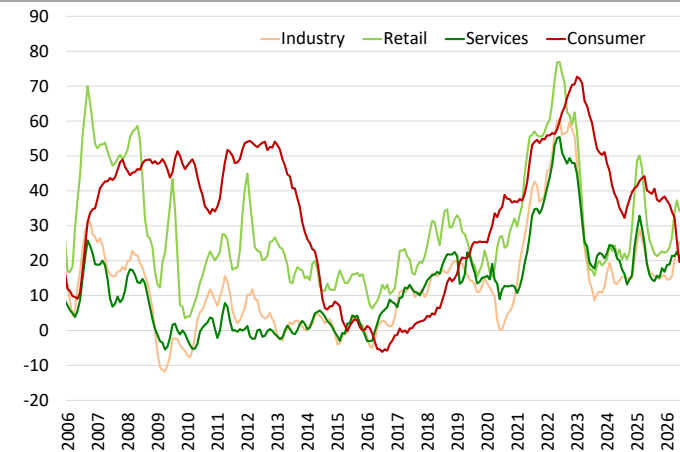
(cumulated, over previous Dec, %, SA)



Sources: KSH, OTP Research

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

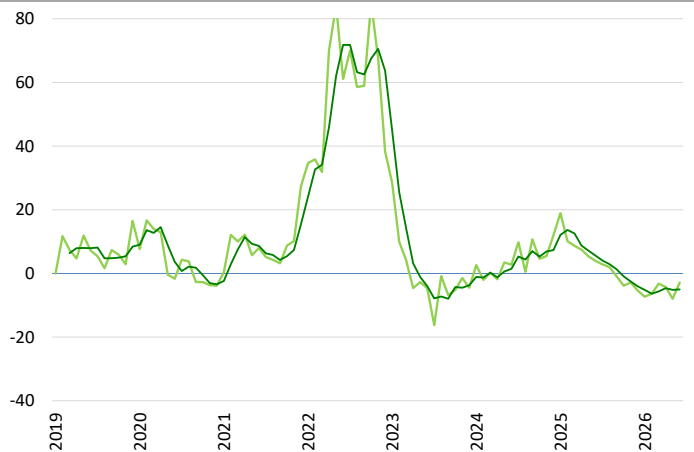
Chart 7: Inflation expectations
(balance indicator)



Sources: European Commission, OTP Research

Chart 8: Food inflation*

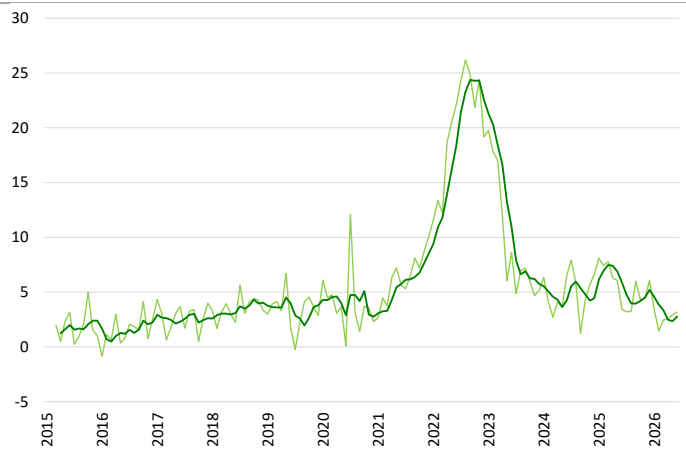
(annualized MoM changes, and its 3M rolling avg, %)



Sources: KSH, OTP Research

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

Chart 9: Trend inflation w/o backward-looking pricing items* (annualized MoM changes, and its 4M rolling avg, %)

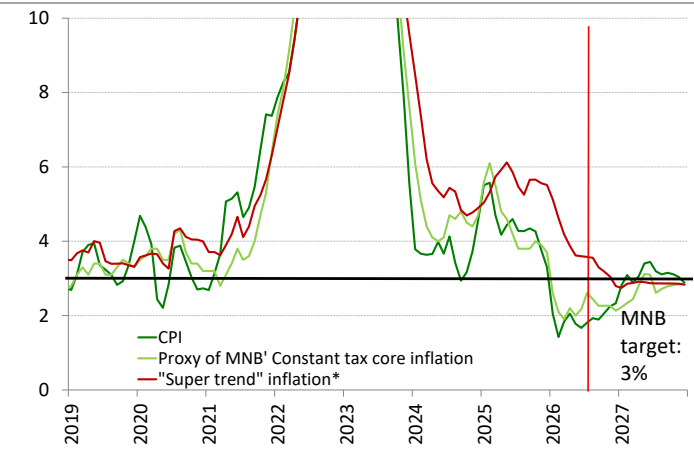


Sources: KSH, OTP Research

*: telecom, financial fees

Chart 10: Inflation forecast

(annual changes, %)



Sources: KSH, OTP Research

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