REPORT ON INFLATION

10 September 2026

Inflation in August was 1.3% YoY much below the inflation target, but service inflation is still high

- Hungary's headline inflation increased to 1.3% year-on-year in August from 1.2% in July. The published data was lower than the consensus and our forecast (both 1.4%). The lower-than-expected inflation was due to above expectation core inflation but lower than expected fuel inflation and lower increase of administered prices.

- While the headline number increased less than expected, underlying indicators showed a slight increase on a YoY basis instead of the decline expected by us. The MNB's constant-tax core inflation rose from 1.9% to 2.0% YoY, while sticky-price inflation stagnated at 3.8% YoY. The core inflation indicator excluding processed foods rose from 3.1% to 3.3% YoY. Our "supertrend" inflation indicator (Chart 9), which is similar to the aforementioned MNB indicators but does not contain the mainly backward-looking pricing of telecommunication and financial services and is filtered for the effects of the margin cap (therefore it is not affected by any administrative measures), increased significantly from 0.5% to 3.6% on an annualized MoM basis, following a significant decline last month due to very low goods inflation in July.

- In case of core inflation, the most significant negative surprise came from market services. There are two reasons for this: first, larger-than-expected part of the inflation-indexed fee hikes remained for August in the financial sector, following the voluntary price freezes in the telecommunication and financial services sectors ended at the end of June. Second, transport service inflation was also higher which is sensitive for diesel prices. But the big picture is that the annualized MoM rate of service inflation w/o backward looking pricing items is still 6% which needs to be lower to reach the inflation target in a more sustainable manner.

- The main reason for the lower-than-expected headline inflation was that both fuel inflation and the increase in administered prices were lower than we had forecast. In the case of administered prices, this was mainly due to a smaller-than-expected increase in taxi fares, which rose by 8% MoM despite Budapest taxi fares having increased by more than 18% from 1 August. In addition, gambling prices increased by only 0.7% MoM, despite a roughly 25% increase in lottery ticket prices and other products offered by Hungary's state-owned gambling operator, Szerencsejáték Zrt. We do not know why this price increase was not reflected in the current release, but we expect it to appear in next month's data.

- Food prices continued to decline roughly in line with expectations. It is very hard to assess how the exchange rate can affect this product group. Indeed, bananas, oranges, etc. are 100% imported, but the fruits that are in season at this time of the year and have a domestic origin (watermelon, peaches, etc.) also have a significant effect on fruit prices. This statement is even more true for vegetables and potatoes. So, we rather think that the good season can be the main reason for the favorable price development.

- We kept our inflation forecast unchanged at 1.7% for 2026 and 2.6% for 2027. Despite the favorable headline data, some upside risks have emerged recently. These risks stem from the severe drought and fertilizer shortages in agriculture, as well as rising natural gas and diesel prices. We also note that, despite the expected fiscal consolidation, the new government, based on current information, has not cancelled the consumption-supporting measures introduced by the previous Fidesz government that are set to come into force in 2027. Instead, the Tisza

Analyst

Győző Eppich
EppichGyo@otpbank.hu

Institutional Sales Desk

Attila Preisz
Head of Department
+36 1 288 7526
Attila.Preisz@otpbank.hu

Zoltán Ballai
+36 1 288 7545
Zoltan.Ballai@otpbank.hu

Csinszka Kis-Böndi
+36 1 288 7574
Kis-BondiCs@otpbank.hu

Péter Nagy
+36 1 288 7551
Peter.Nagy.4@otpbank.hu

Lilla Mohos
+36 1 288 7548
Lilla.Mohos@otpbank.hu

Corporate Sales Desk

János Imrei
Head of Department
+36 1 288 7544
Janos.Imrei@otpbank.hu

Orsolya Edit Kovács Gyimóti
+36 1 288 7542
KovacsGyE@otpbank.hu

Nóra Ilona Gordos
+36 1 288 7549
Nora.Ilona.Gordos@otpbank.hu

Borbála André
+36 1 288 7541
Borbala.Sarolta.Andre@otpbank.hu

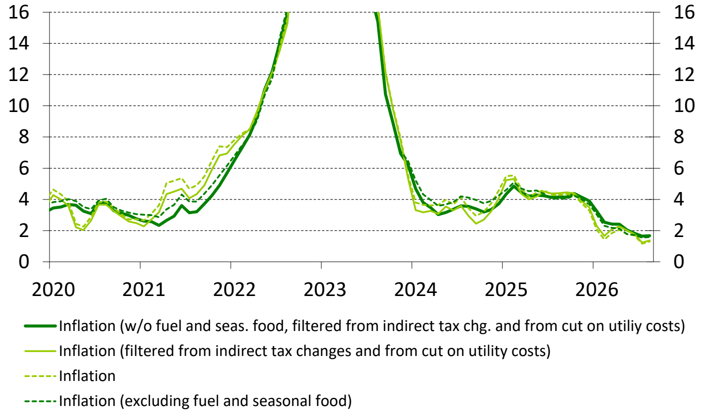
István Fodor
+36 1 288 7555
Istvan.Fodor.1@otpbank.hu

Flóra Zsófia Margaritisz
+36 1 288 7558
Flora.Zsofia.Margaritisz@otpbank.hu

Péter Huck
OTP Trader
+36 1 288 7543
Peter.Huck.2@otpbank.hu

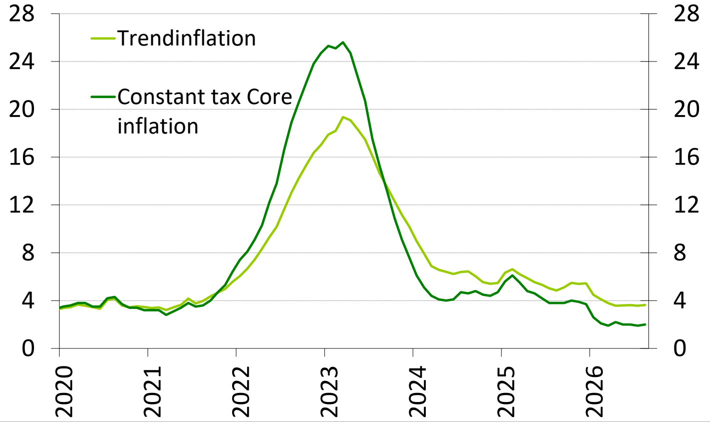
government has introduced additional measures, such as a tax credit for low-wage earners. Therefore, we believe that the MNB needs to remain cautious, which is why it may pause its rate-cutting cycle in September. This view is consistent with our expectation that the policy rate will reach 5% by year-end. We think the easing cycle could resume after the government publishes its medium-term fiscal and macroeconomic outlook, which should reinforce the euro adoption narrative and help decouple domestic monetary policy from international trends. An announcement regarding the inflation target is also expected soon, and we believe the MNB will most likely set the new target at 2.5%.

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



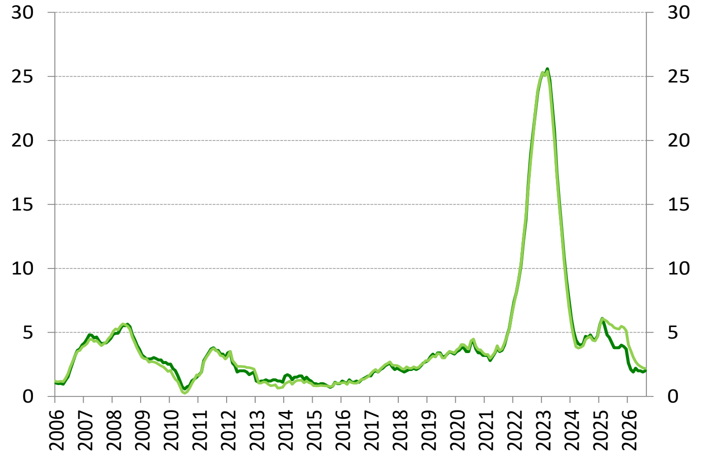
Sources: KSH, OTP Research
**: our filtered inflation indicator corrected with the price-cap effects on certain food items*

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



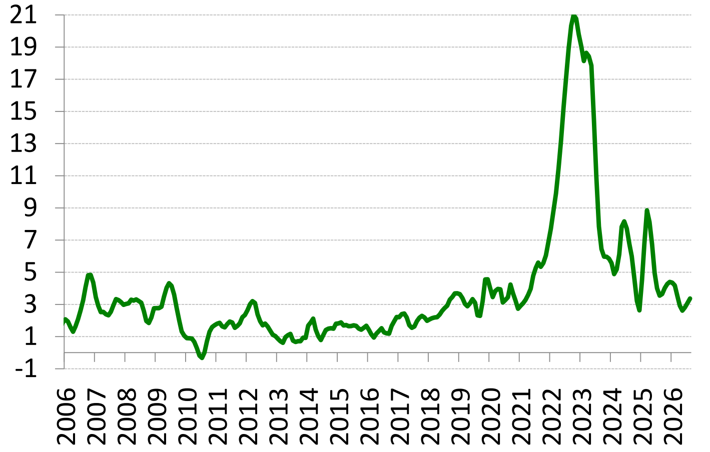
Sources: KSH, OTP Research
**Filtered from indirect tax and visit fee changes, and one-off items and w/o second-hand car prices*

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



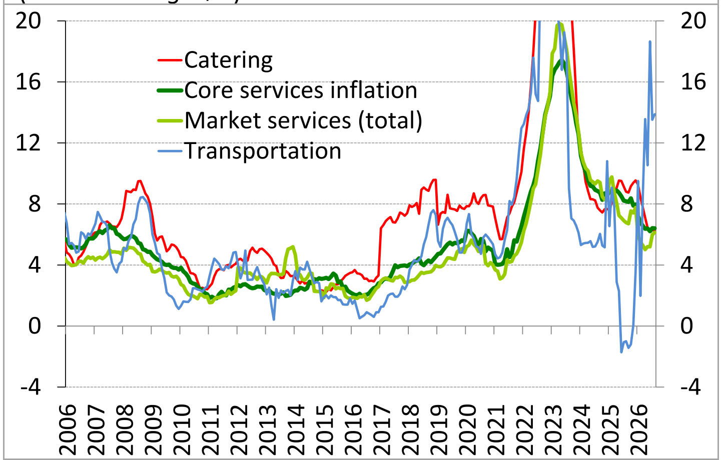
Sources: KSH, OTP Research
** We cannot reproduce exactly the constant tax core inflation because (1) the MNB has its own methodology for the calculation of tax changes, (2) In addition, core inflation cannot be calculated exactly from the KSH's 160 CPI items. So, our calculation tries to proxy the MNB's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

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



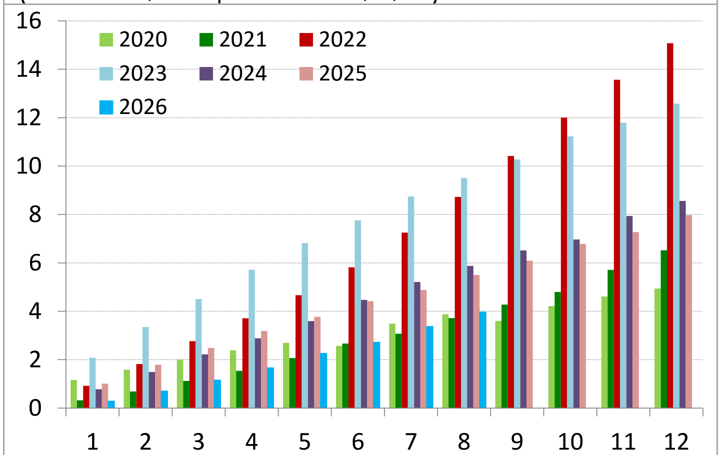
Sources: KSH, OTP Research
** Filtered from indirect tax (including the financial transaction tax) and visit fee changes*

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



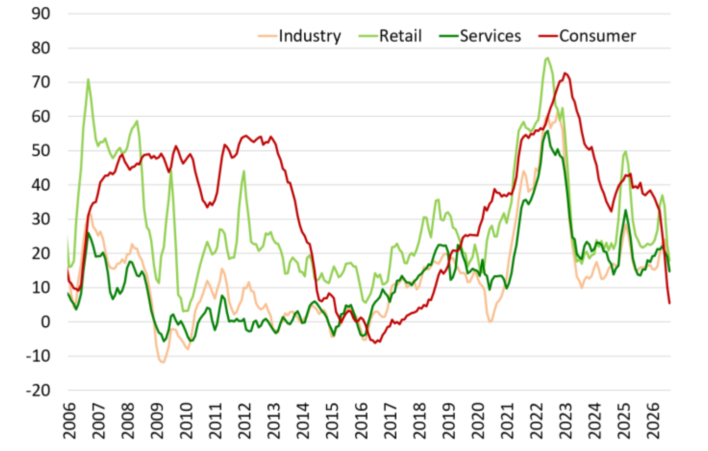
Sources: KSH, OTP Research
** Filtered from indirect tax (including the financial transaction tax) and visit fee changes*

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



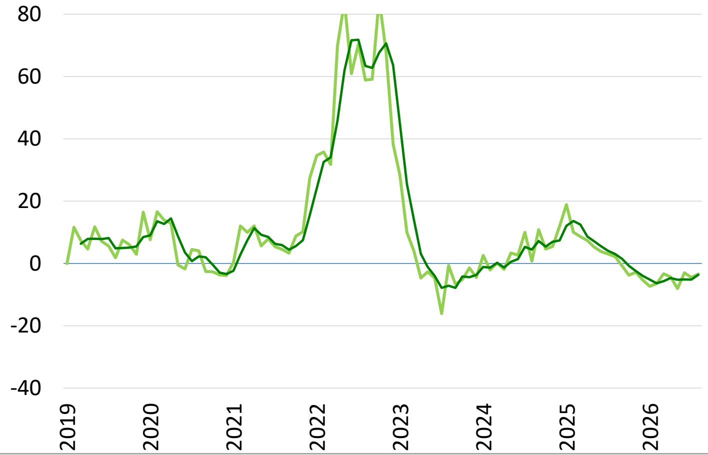
Sources: KSH, OTP Research
** Aggregation of the most demand-sensitive and labour-intensive services, filtered from indirect tax and visit fee changes*

Chart 7: Inflation expectations
(balance indicator)



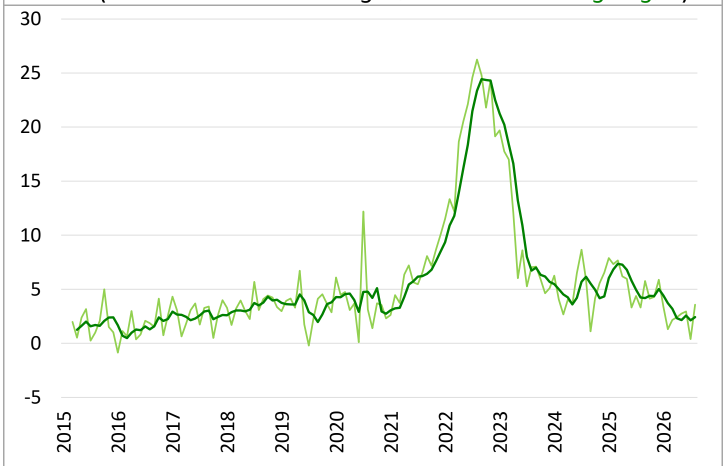
Sources: European Commission, OTP Research

Chart 8: Food inflation*
(annualized MoM changes, and its 3M rolling avg, %)



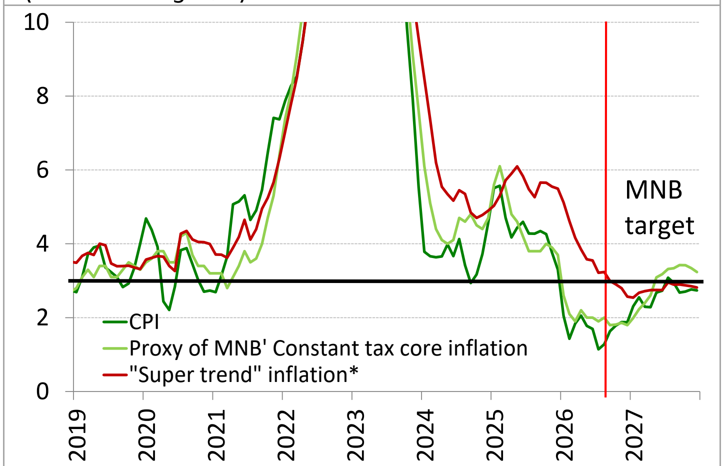
Sources: KSH, OTP Research
**: w/o seasonal foods; filtered from price cap, and margin cap measures*

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



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

Chart 10: Inflation forecast
(annual changes, %)



Sources: KSH, OTP Research

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