

REPORT ON INFLATION

9 October 2026

Despite the lower-than-expected headline inflation data the picture is not as rosy as it first appears

- Hungary's headline inflation increased to 1.6% year-on-year in September from 1.3% in August. The published data was lower than the consensus and our forecast (both 1.8%). The lower-than-expected inflation was due to above expectation core inflation but a bigger than expected decline in food prices and a decrease in administered prices.
- While the headline number increased less than expected, underlying indicators broadly stagnated on a YoY basis instead of the decline expected by us. The MNB's constant-tax core inflation declined from 2.0% to 1.9% YoY, while sticky-price inflation increased from 3.8% to 3.9% YoY. The core inflation indicator excluding processed foods stagnated at 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 from 3.6% to 4.6% on an annualized MoM basis, due to higher non-durable goods inflation compared to the previous month, while our filtered service inflation indicator stagnated. In the case of non-durable goods the upside surprise was relatively widespread among the sub-groups, as 4 out of 9 sub-groups' inflation was higher than our forecast. The bigger picture, however, is that in Q3 the annualized QoQ growth increased to 2.9% from 2.7% in Q2 and 2.3% in Q1. It means the significant downside surprise in July – our "supertrend" indicator was only 0.5% – did not prove long-lasting and strengthens our view that an EUR/HUF exchange rate of around 360 (or below) is necessary to meet the new 2.5% inflation target. But the good news is that household and corporate inflation expectations have declined significantly in recent months. Latter increased during the spring and early summer months – most probably due to the situation in the Strait of Hormuz – but it seems those concerns were exaggerated.
- The main reason for the lower-than-expected headline inflation was primarily driven by a decline in administered prices, while fuel inflation came in only marginally below our forecast. The downside surprise in administered prices mainly reflected a 2% MoM decline in pharmaceutical prices following the VAT reduction on certain subsidized pharmaceutical products introduced in September, as well as a 5% monthly fall in air fare prices. Latter is quite surprising due to the recent rise in the kerosine prices. Notably, gambling prices also declined in September. It is also quite surprising as in August lottery ticket prices and other products offered by Hungary's state-owned gambling operator (Szerencsejáték Zrt.) were increased around 25%, and this price hike did not appear either in the August inflation data.
- Food prices continued to decline roughly in line with expectations, and they still significantly contributed to the very low inflation in Hungary. However, prices of several agricultural commodities have started to rise in recent months, reinforcing our view that food prices will no longer contribute to disinflation in 2027.
- We kept our 2026 inflation forecast unchanged at 1.7%, but we raised our 2027 inflation forecast from 2.6% to 2.9%. This is mainly because of the announced excise duty hike on tobacco products (–0.2ppts) and higher energy prices. Previously we mentioned, it may have room for only one further rate cut this year, if the medium-term fiscal and macroeconomic outlook that will be published in October will reinforce the euro adoption narrative and help decouple domestic

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

REPORT – HUNGARIAN INFLATION

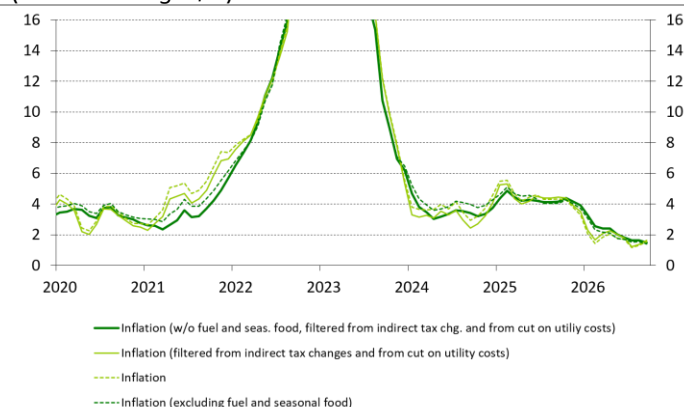


monetary policy from international trends. But in the light of the less-favorable underlying inflation trends in September and persistently high energy prices we now believe that a December rate cut requires not only the previously mentioned condition to be met, but also a decline in international energy prices by then.

REPORT – HUNGARIAN INFLATION

Chart 1: Summary chart of inflationary processes*

(annual changes, %)

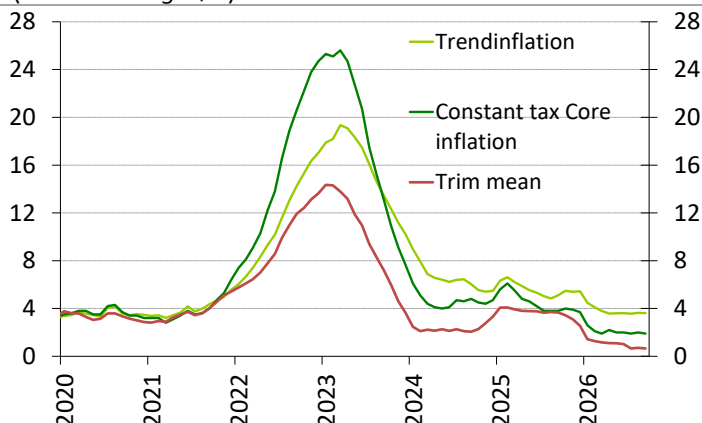


Sources: KSH, OTP Research

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

Chart 2: Core, trend* and trimmed mean inflation

(annual changes, %)

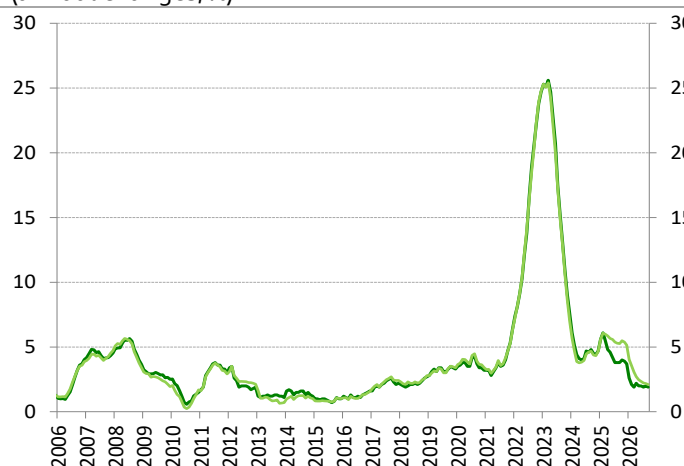


Sources: KSH, OTP Research

*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, %)

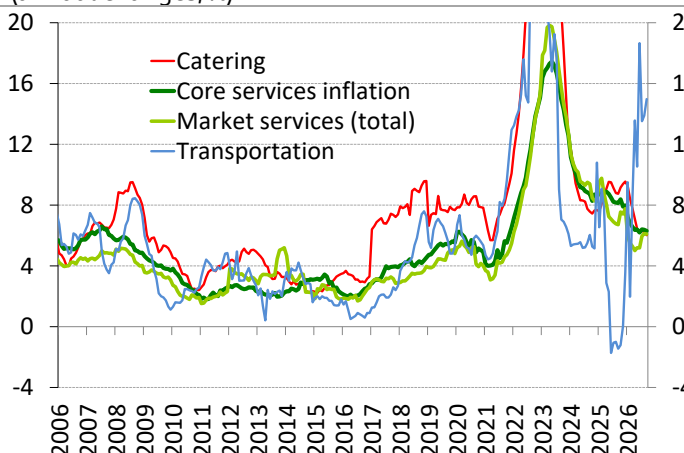


Sources: KSH, OTP Research

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

Chart 5: Services inflation*

(annual changes, %)

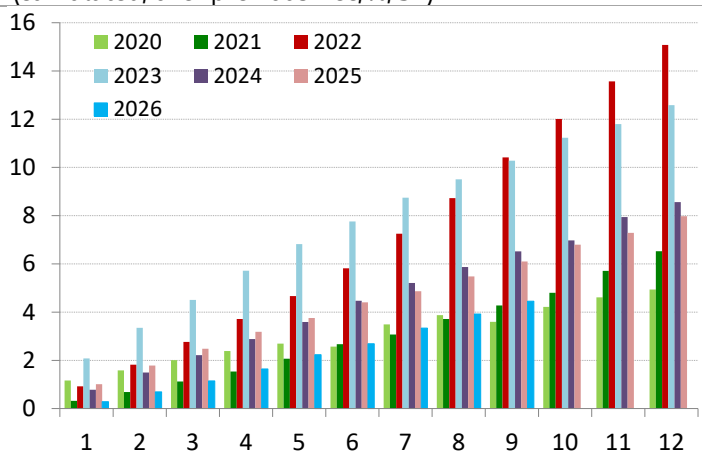


Sources: KSH, OTP Research

* 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)

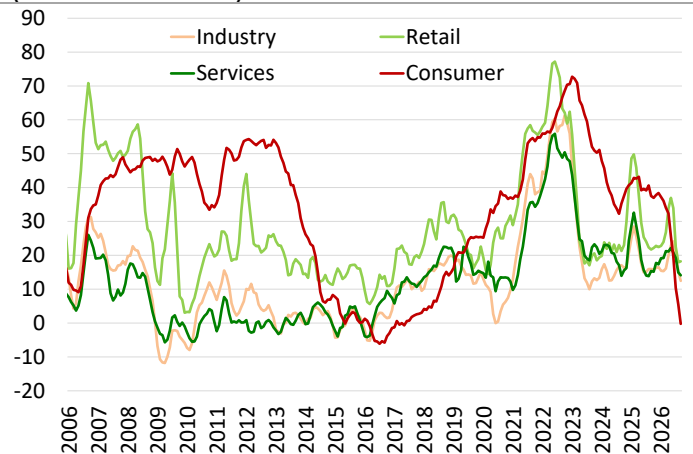


Sources: KSH, OTP Research

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

Chart 7: Inflation expectations

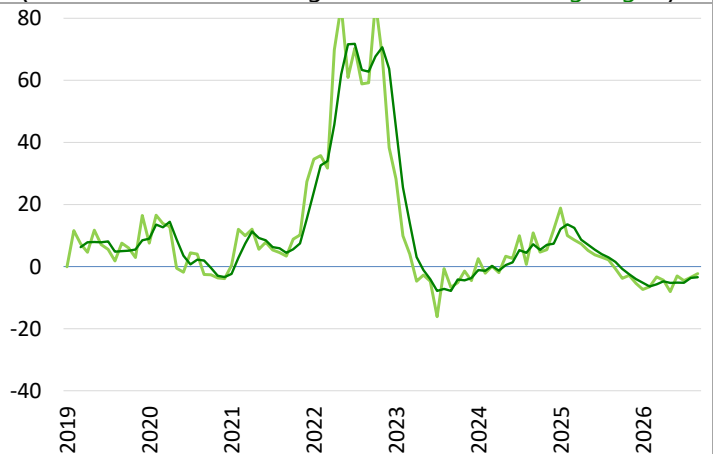
(balance indicator)



Sources: European Commission, OTP Research

Chart 8: Food inflation*

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

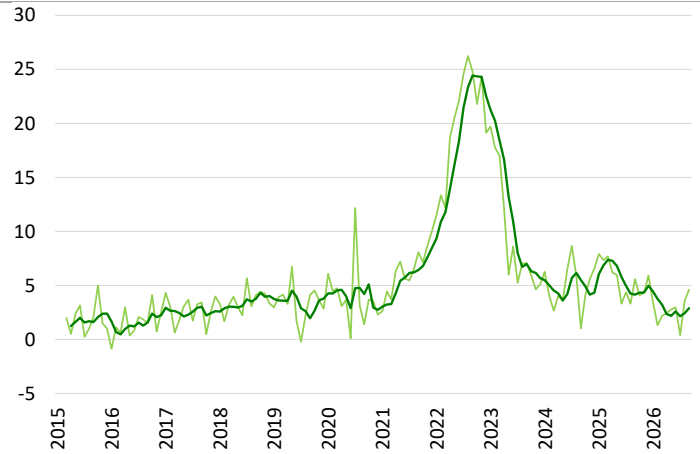


Sources: KSH, OTP Research

*: 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, %)

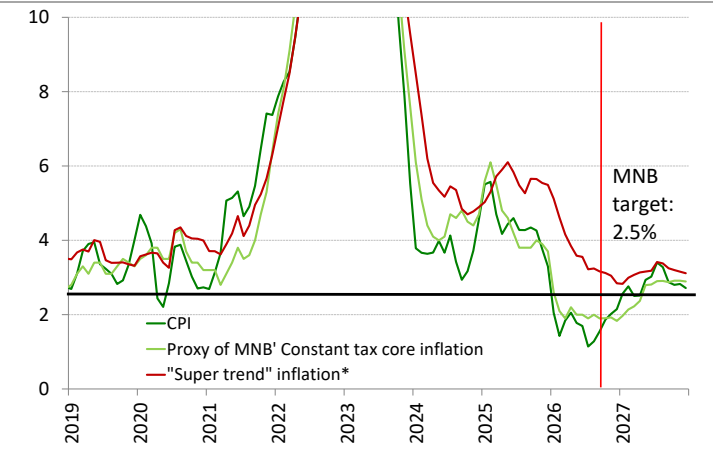


Sources: KSH, OTP Research

*: telecom, financial fees

Chart 10: Inflation forecast

(annual changes, %)



Sources: KSH, OTP Research

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