REPORT ON INFLATION

11 November 2026

Headline inflation accelerated in line with expectations, while underlying inflation pressures remained elevated

- Hungary's headline inflation rose by 0.4 ppts to 2.0% year-on-year in October, up from 1.6% in September. The data was in line with the market consensus (2.0%) and marginally above our forecast (1.9%). The main reason for the acceleration of headline inflation was the further increase of fuel inflation while processed food prices decreased less than expected mainly due to sugar and confectionaries. However, food prices still significantly contributed to the low inflation in Hungary, so the fact that prices of several agricultural commodities have started to rise in recent months, reinforces our view that food prices will no longer contribute to disinflation in 2027.

- While headline inflation increased, our core inflation proxy remained unchanged, as expected, suggesting that the recent increase in fuel prices has not generated broader inflationary pressures. The MNB's constant-tax core inflation increased from 1.9% to 2.1% YoY, the core inflation indicator excluding processed foods increased from 3.3% to 3.4% YoY, while sticky-price inflation stagnated at 3.9% 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), essentially stagnated at 4.5% on an annualized MoM basis, as lower non-durable goods inflation compared to the previous month was offset by accelerating durable goods inflation following the muted dynamic in September. Meanwhile, our filtered service inflation indicator increased to 8.2% from the 7.2% average of the previous three months on an annualized MoM basis. For both the "supertrend" inflation indicator and filtered services inflation, the last time we saw similarly elevated readings was in December of last year.

- The big picture is that, following the exceptionally subdued repricing observed at the beginning of the year, when our closely watched "supertrend" indicator fell to roughly half of its Q4 2025 level, the indicator accelerated again in both Q2 and Q3 compared with the previous quarter. While in July the strong exchange rate appeared to trigger a more pronounced decline in goods prices, the August and September data failed to confirm these positive developments, and the October reading that has just come in also showed no improvement. The 4.5% readings recorded over the past two months do not support further disinflation and, particularly in light of the expected increase in food prices next year, are not consistent with achieving the inflation target. This strengthens our view that an EUR/HUF exchange rate of around 360 (or rather below) is necessary to meet the new 2.5% inflation target.

- As a result of higher-than-previously-expected energy prices, we marginally increased our 2026 inflation forecast from 1.7% to 1.8%, and our 2027 inflation forecast from 2.9% to 3.0%. The 2027 budget is likely to add to inflationary pressures next year, due to significant income transfers to more consumption-oriented lower-income households are coupled with higher corporate taxes and excise tax increases. As a result of this, and given the recent deterioration in underlying inflation trends, and as the October medium-term fiscal and macroeconomic outlook failed to surpass already elevated market expectations or provide further support for the euro adoption narrative, coupled with uncertainty over energy prices and next year's minimum wage increase, we consider now a December rate cut as increasingly unlikely. In our view, the MNB should refrain from further easing until there is greater clarity regarding next year's wage dynamics, the

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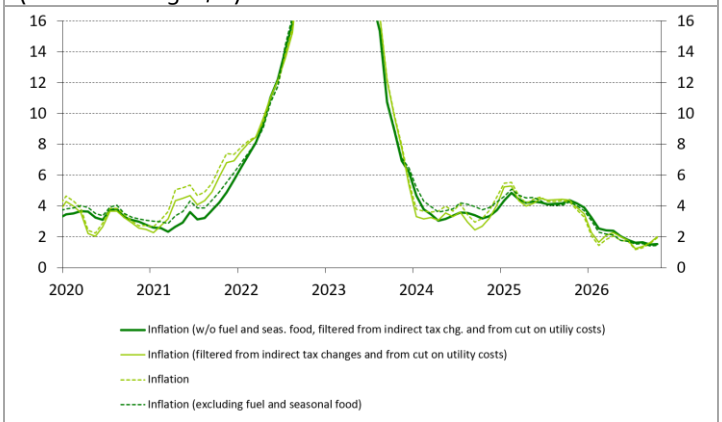
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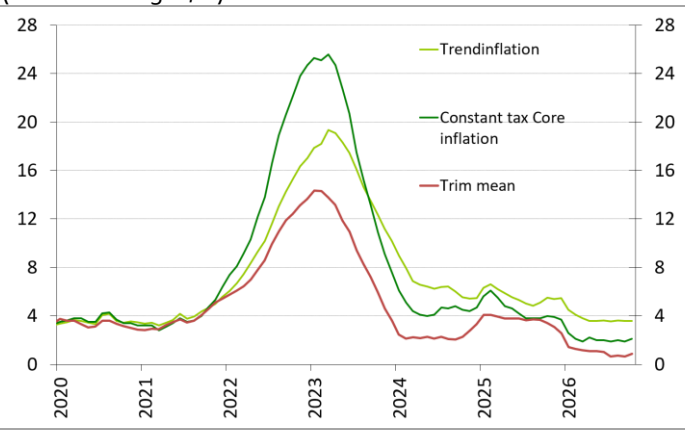
repricing period at the beginning of the year, developments in energy markets, and the trajectory of the fiscal deficit.

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



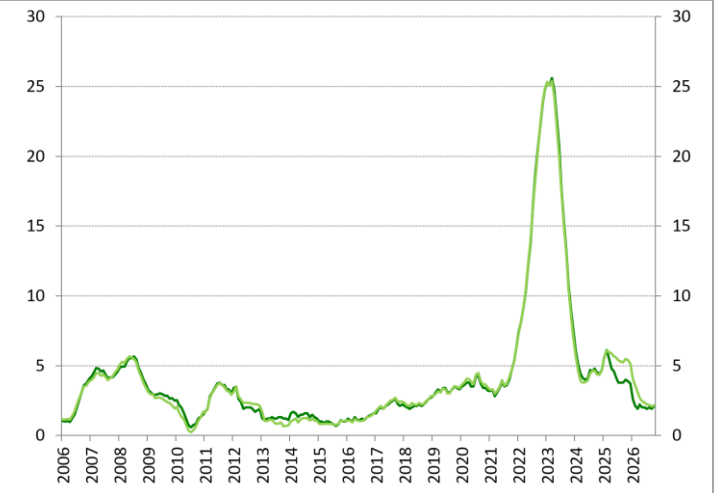
Sources: KSH, OTP Research
**: our filtered inflation indicator corrected with the price-cap effects on certain food items*

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



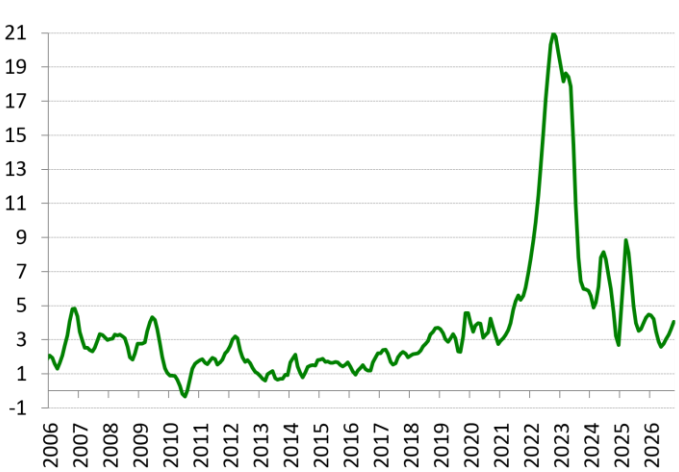
Sources: KSH, OTP Research
**Filtered from indirect tax and visit fee changes, and one-off items and w/o second-hand car prices*

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*

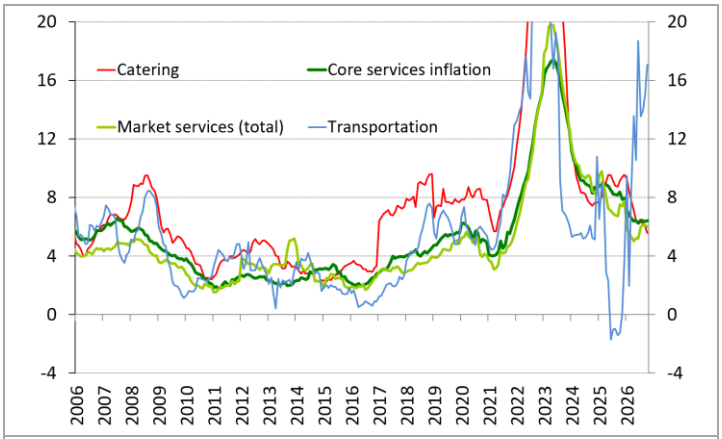
Chart 4: Trend inflation*
(3M/3M annualized change, %)



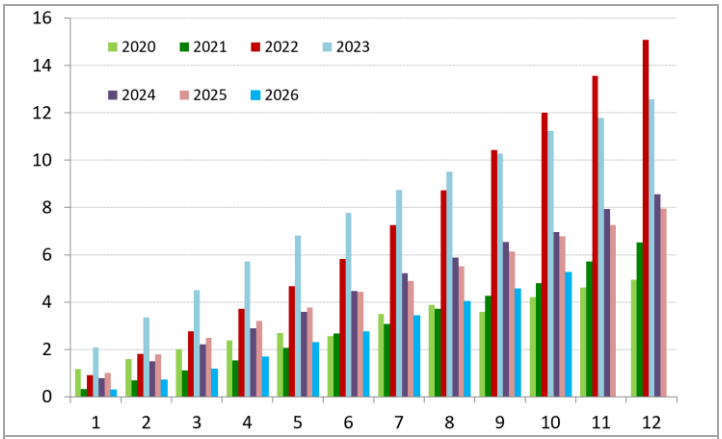
Sources: KSH, OTP Research
** Filtered from indirect tax (including the financial transaction tax) and visit fee changes*

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

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

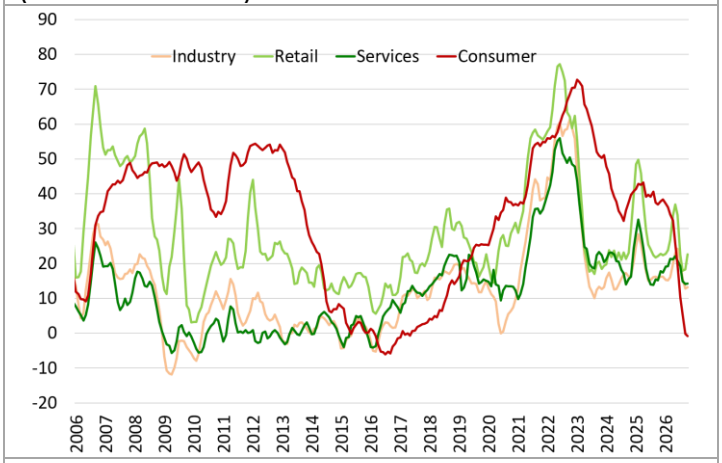


Sources: KSH, OTP Research
** Filtered from indirect tax (including the financial transaction tax) and visit fee changes*



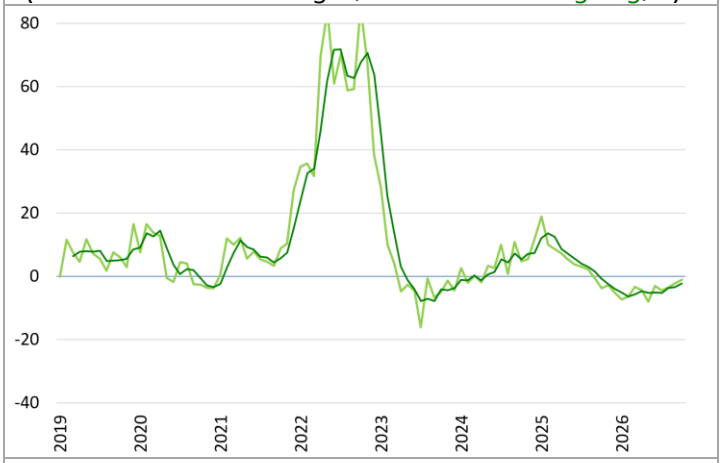
Sources: KSH, OTP Research
** Aggregation of the most demand-sensitive and labour-intensive services, filtered from indirect tax and visit fee changes*

Chart 7: Inflation expectations
(balance indicator)



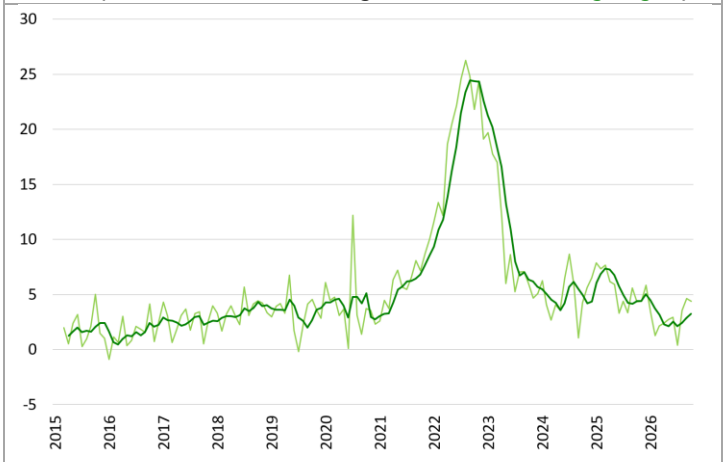
Sources: European Commission, OTP Research

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



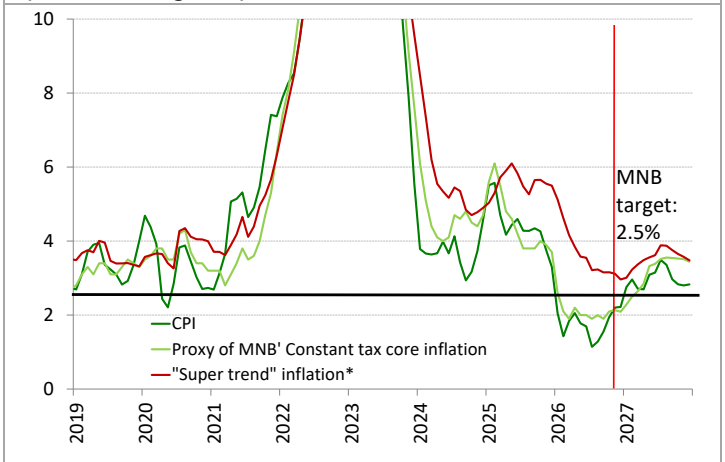
Sources: KSH, OTP Research
**: w/o seasonal foods; filtered from price cap, and margin cap measures*

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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