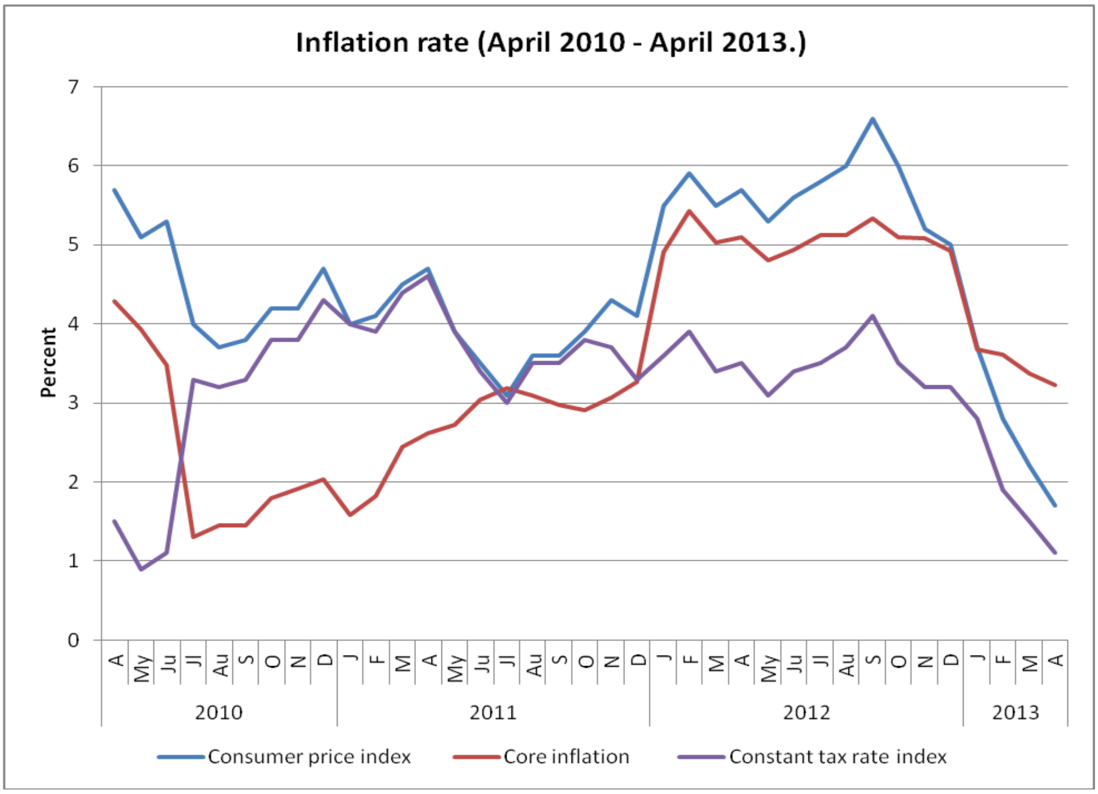
MINISTRY
FOR NATIONAL ECONOMY

Inflation at a record low in Hungary

In accordance with the central bank's inflation target, Hungary aims to achieve a consumer price index level of 3 percent. After declining moderately over the past couple of years, the pace of inflation decrease accelerated sharply as of the beginning of 2013. The annual inflation rate – for the very first time since the inflation target system was established – declined to below 3 percent in February, 2.2 percent in March and **1.7 percent in April**. Looking back at a period covering several decades it can be concluded that the annual inflation index reached a historic low in April 2013.



Source: National Bank of Hungary (MNB)

In the second half of 2010 and the first half of 2011, **core inflation**, which excludes unprocessed food, prices of electricity, fuels and subsidized prices, **was well below the consumer price index** which was almost on the same level with the constant tax rate index. The reason for this development is that in this period the price increase was mainly due to higher food prices. In 2012, however, core inflation was already very close to the consumer price index and significantly exceeded the constant tax rate statistics. **This means that in 2012 the**

Government measures exerted a substantial influence on both the core inflation and the consumer price index.

One of the key reasons for the decrease in consumer price index was the Government's public utility tariff cut. **In the period January-April 2013, households' energy prices were down by 5.4 percent** compared to the level of one year before. As the impact of last year's tax measures is already taken into account, the gap between the consumer price index and the constant tax rate index has narrowed.

In light of **the latest data by the Hungarian Central Statistical Office** (KSH), after inflation hit 2.2 percent in March – also a historic low at that time – **consumer prices in April were only 1.7 percent higher compared to the level of April 2012,** in line with market expectations. The decrease of inflation was mainly a consequence of lower fuel prices and the public utility tariff cut. On the other hand, **price pressure is easing within the economy even without the latter factor** which is aptly demonstrated as **annual core inflation** – edging closer to the 3 percent target – **slipped to 3.2 percent**.

In comparison to March 2013, consumer prices were on average 0.3 percent higher. Food prices were up by 0.7 percent, and within that category the rate of inflation regarding seasonal food products, chocolate and cocoa, sugar and cheese products increased by 4.3 percent, 6.2 percent, 1.5 percent and 1.4 percent, respectively. Compared to the level of the previous month, however, **prices declined steeply regarding eggs (3.9 percent), cooking oil (1.9 percent) and flour (0.7 percent).**

Prices of clothing and footwear increased, in line with seasonal changes, by 3.4 percent; the increase concerning alcoholic beverages, tobacco products and services was 0.2 percent, while household energy prices were unchanged. Prices concerning other items were down by 0.6 percent, and within this category the price of motor vehicle fuels was 1.7 percent more favourable than in March.

In comparison to April 2012, food prices registered an above-average increase of 3.4 percent; this increase was primarily attributable to the price increase regarding seasonal food products (14.8 percent), flour (14.3 percent), pork fat (9.4 percent) and pasta products (8.9 percent). As far as eggs are concerned, the year-on-year price decline was 20.8 percent, while prices of sugar and milk were down by 3.5 percent and 2.7 percent, respectively. As excise taxes were not increased in 2013, price pressure regarding tobacco products and alcoholic beverages diminished, but despite of that prices increased more than average, by 10.8 percent.

The price index of services was 3.6 percent. Within this category, waste disposal and local public transport fees were more expensive (by 8.3 percent and 5.3 percent, respectively). **The price of durable consumer goods was down by 1.9 percent** -- with prices lower for televisions (11.3 percent), computers and cameras (7 percent). **Households' energy prices were also 8.4 percent lower.** Within this latter category, **consumers paid 10.1 percent less for natural gas, 10 percent less for electricity and 11.7 percent less for district heating**. **Motor fuels and oils cost 5.3 percent less than they did one year ago**. The price index was pushed lower by basis effect and the period's price changes as well.

Change in consumer prices, April 2013 (%)

	month/month change	12-month change
Food	0,7	3,4
Alcoholic beverages, tobacco products	0,2	10,8
Clothing and footwear	3,4	0,4
Durable goods	0,3	-1,9
Household energy	0,0	-8,4
Other items, motor fuels	-0,6	-0,5
Services	0,2	3,6
Consumer price index	0,3	1,7

Source: Hungarian Central Statistical Office (KSH), Ministry for National Economy (NGM)

The Government's public utility tariff cut has played a key role in a lower inflation rate. The Government decision of December 2012 reduced consumer prices for electricity, natural gas and district heating as of 1 January 2013 which step influenced about 4 million households. The fact that the public utility costs of Hungarian households can be considered to be relatively high compared to regional or EU averages substantiates this measure. **At the end of April, the Parliament laid down public utility tariff cuts in a regulation**: in addition to cutting the prices of natural gas, electricity and district heating as of 1 January 2013, it stipulates a price decrease of 10 percent for fees of water, sewage and waste disposal services as of 1 July 2013. Thus, **the Government has been committed to improving the financial conditions of families.**

The public utility tariff cut has exerted a distinct influence on consumer confidence. **A survey** by market research firm Nielsen **with regard to Hungary in the first quarter of 2013 signals a marked improvement of consumer sentiment**: the indicator gauging confidence improved markedly from 37 points in the previous quarter to 42 points. In the survey consumers were asked to evaluate their situation from three aspects: their personal financial conditions, job prospects and perceptions concerning their current spending. Although the Hungarian index is still very low from an EU perspective, this outstanding improvement placed Hungary among those ten countries surveyed by Nielsen where the indicator registered the largest increases.

In Hungary, **17 percent of respondents were of the opinion that their personal finances will be in a "good" shape over the next year**; this is a significant improvement compared to the figure of 12 percent in the previous quarter.