Czech inflation remains at the central bank’s target

March inflation data confirms that inflationary pressures are slowing further in the Czech Republic. However, core inflation may not be slowing as we would have expected. In turn, this will lead the CNB to continue with cautious rate cuts, even though we expect inflation to fall further below the central bank's target over the coming months

Czech National Bank headquarters in Prague

2.0%

Czech headline inflation

% YoY

As expected

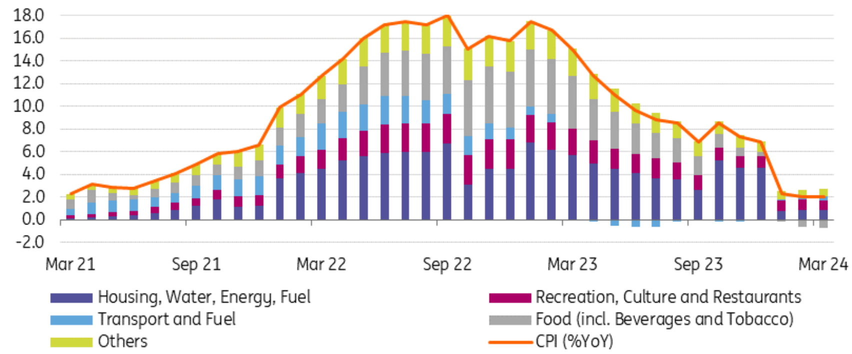
Inflationary pressures slow down again

Inflationary pressures slowed again in March from 0.3% to 0.1% month-on-month in the Czech Republic, leaving the headline number unchanged at the Czech National Bank's target of 2.0%

year-on-year. Downward pressure on inflation was mainly driven by food, energy, imputed rent and recreation prices. On the other hand, transport prices were higher due to higher fuel prices and an expected increase in the price of motorway stamps.

The structure of inflation was in line with our expectations, but the decline in prices of some services was lower than expected while the increase in transport prices was more pronounced. The significant decline in food and household energy prices was confirmed and should continue in the coming months.

Headline inflation breakdown



Source: Macrobond, ING

No change for CNB but inflation will fall further

For the CNB, today's figures do not change much. With headline inflation stable, the deviation from the February forecast widened slightly from 0.8pp to 0.9pp. Core inflation remains stable at 2.8% YoY according to our estimates, which in turn reduces the deviation from 0.7pp to 0.5pp. So overall, the main surprises are likely to come from core inflation, which is not falling as quickly as we had expected. Services inflation has slowed in MoM terms, but this still means a higher YoY number from 0.7%/5.2% to 0.4%/5.4%. On balance, it looks as though the CNB will continue to choose the safe path of 50bp rate cuts per meeting.

Our fresh nowcast after today's numbers indicates a further slowdown in inflation to 0.0% MoM for April, which would translate into a slight uptick in inflation to 2.2% YoY. But the next few months, we expect headline inflation to head slightly below the central bank's 2% target, mainly due to a further decline in household energy prices and a slowdown in core inflation.

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