

Snap | 9 November 2017

CZECH REPUBLIC

Czech inflation hits five-year high

October CPI climbed to the highest rate since 2012 beating consensus but still in line with the central bank estimates



Stronger inflation driven by food prices

October CPI climbed to 2.9% YoY, the highest level since 2012 when prices grew slightly more than 3% year-on-year. The main reason behind the strong October CPI numbers was food prices that accelerated by 1.6% month-on-month, and their YoY dynamics reached 7.8%. This is also the strongest year-on-year growth since the end of 2012.

7.8% **Food price dynamics (YoY)**

The main driver of inflation in October

CPI expected to slow down

In the forthcoming months, inflation will slightly slow down. This will be the statistical effect of a higher base, as prices start to accelerate as a result of higher food prices and restaurant prices in last November. However, the expected slowdown of the YoY figure will be lowered by

higher fuel prices which means inflation in the next two months will be only slightly below today's figure.

Structure of the inflation in the Czech republic

	YoY (%)	Contribution (ppt)	MoM (%)	Contribution (ppt)
Total	2.9	2.9	0.5	0.5
Food and non-alcoholic beverages	7.8	1.4	1.6	0.3
Alcoholic beverages, tobacco	1.2	0.1	0.2	0.0
Clothing and footwear	-0.9	0.0	2.9	0.1
Housing, water, energy, fuel	2.3	0.6	0.3	0.1
Furnishings, households equip.	0.1	0.0	0.1	0.0
Health	3.8	0.1	-0.4	0.0
Transport	2.5	0.3	0.2	0.0
Post and telecommunication	-2	-0.1	-0.5	0.0
Recreation and culture	1.2	0.1	0	0.0
Education	1.6	0.0	0	0.0
Restaurants and hotels	6.6	0.4	0.1	0.0
Miscellaneous goods and services	1.3	0.1	0.9	0.1

Source: CZSO, ING Bank

3.2%

Growth in prices of services (YoY)

Indicating broad-based inflationary pressures

Inflationary pressures support further monetary tightening

The average inflation this year will get to 2.5% (vs 0.7% in the previous year). In the next year, despite a higher base, it should remain at a similar level, driven by favourable household consumption supported by stronger wage dynamics.

Their growth should pick up by more than 8% next year, which will be a clear pro-inflationary factor. This indicates that inflationary pressure should remain strong, which supports further monetary policy tightening. In our view, the Czech National Bank will continue gradual hiking despite its latest forecast assuming only one hike in 2018.

[Read more about Czech National Bank's dovish forecast](#)

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms*

THINK economic and financial analysis

part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies). The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.