

9 November 2018  
Snap

## Czech inflation slows down to 2.2% due to food prices

Inflation further slowed down to 2.2% in October after 2.3% in September and ended below the market and the central bank forecast. But we don't think this is a game changer for the central bank

Inflation will remain just above 2.0% till year-end and accelerate next year  
Czech October inflation came in below the market and the Czech central bank estimates, which were 2.3% and 2.4% respectively.

This was driven mostly by weaker than expected growth in food prices, which slowed down to 0.2% year on year in October after 1.3% in September, and their contribution to annual CPI growth declined by 0.2 percentage points compared to the previous month.

More importantly, from the central bank's perspective – prices of services – accelerated to 3.2% in October from 2.9%, which indicates mounting inflationary pressures.

Given the nature of CPI slowdown today, in our view, this is no game changer for the central bank

Going forward, we expect inflation to remain broadly similar until the end of the year. For the full year 2018, we expect inflation to come in at 2.2% but expect it to accelerate close to 3% in 1H19 as a combination of growth in core prices and energy prices increase. For 2019, we expect inflation to come in at 2.6%, identical to what the central bank expects in its latest forecast.

### Structure of inflation in the Czech economy

	YoY (%)	Cont (ppt)	MoM (%)	Cont (ppt)	YoY (t-1) (%)	Cont (ppt)
<b>Total</b>	<b>2.2</b>	<b>2.2</b>	<b>0.4</b>	<b>0.4</b>	<b>2.3</b>	<b>2.3</b>
Food and non-alcoholic beverages	0.2	0.0	0.5	0.1	1.3	0.2
Alcoholic beverages, tobacco	3.2	0.3	0.1	0.0	3.3	0.3
Clothing and footwear	-2	-0.1	2.3	0.1	-1.5	-0.1
Housing, water, energy, fuel	3.5	0.9	0.4	0.1	3.4	0.9
Furnishings, households equip.	2	0.1	0.5	0.0	1.6	0.1
Health	3.6	0.1	0	0.0	3.2	0.1
Transport	3.3	0.3	0.3	0.0	3.2	0.3
Post and telecommunication	-0.9	0.0	0	0.0	-1.4	0.0
Recreation and culture	0.3	0.0	-0.1	0.0	0.4	0.0
Education	2.2	0.0	0	0.0	2.2	0.0
Restaurants and hotels	3.5	0.2	0.4	0.0	3.1	0.2
Miscellaneous goods and services	4.1	0.3	0.8	0.1	4.1	0.3

Source: CZSO, ING Bank

Central bank minutes confirms willingness to tighten monetary policy

## further

The central bank's minutes from the last monetary meeting, published today signal that some board members were ready to hike by 50bps at the November meeting, but preferred rather gradual and smaller steps approach.

As such, today's CPI figure does not change our central bank outlook as we continue to expect it to tighten monetary conditions next year, and if a stronger Czech koruna doesn't deliver monetary tightening, it will be done via central bank hikes.

Taking into our EUR/CZK outlook going down lower than the CNB expects, we see a room for three hikes to be delivered by the CNB next year.

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