

Czechia Watch: Inflation remained within CNB target in March

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In February, inflation finally reached the CNB's target after a long period, and this development was sustained in March, aligning with our forecast. This is undoubtedly good news, but there are apparent differences in the individual sections of the consumer basket.

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Inflation rose by 0.1% month-on-month, mainly due to price developments in the **transport section**. In March, an increase in the motorway toll was announced, with the annual voucher now at CZK 2 300, whereas previously, it was CZK 800 lower. At the same time, prices at petrol stations rose this month due to increasing global oil prices and a weaker koruna. Increases were also recorded for tobacco products (+2.1%), accommodation services (+1.9%) and food services (+0.5%). On the other hand, prices in the food and alcoholic beverages section were the main contributors to the decline in the price level, with decreases in the prices of eggs (-6.0%), yoghurt (-3.7%), fruit (-2.6%), pork (-1.7%) and cheese and curd (-1.1%). Prices of goods were flat again, while services prices rose by 0.4%, indicating a still slightly upward inflationary risk.

Contributions to monthly and yearly inflation (in percentage points)

	mom	yoy
Food and non-alcoholic beverages	-0,1	-1,1
Alcoholic beverages, tobacco	0,0	0,4
Clothing and footwear	0,0	0,2
Housing, water, energy and fuel	0,0	0,9
Furnishing, household equipment	0,0	0,0
Health	0,0	0,1
Transport	0,2	0,4
Post and telecommunication	0,0	0,1
Recreation and culture	-0,1	0,3
Education	0,0	0,0
Restaurants and hotels	0,1	0,5
Miscellaneous goods and services	0,0	0,2
Total	0,1	2,0

Source: CZSO

The Czech National Bank's February forecast estimated March inflation at 2.9%. Yet, this projection was made before the release of the January result, which significantly exceeded expectations for the better. Hence, the March result should be no surprise to the bank board and not be a compelling reason to alter the monetary policy stance. Inflation has returned to the CNB's target. However, there are still upside risks to the economy, including a weaker koruna, leading us to conclude that the Bank Board will

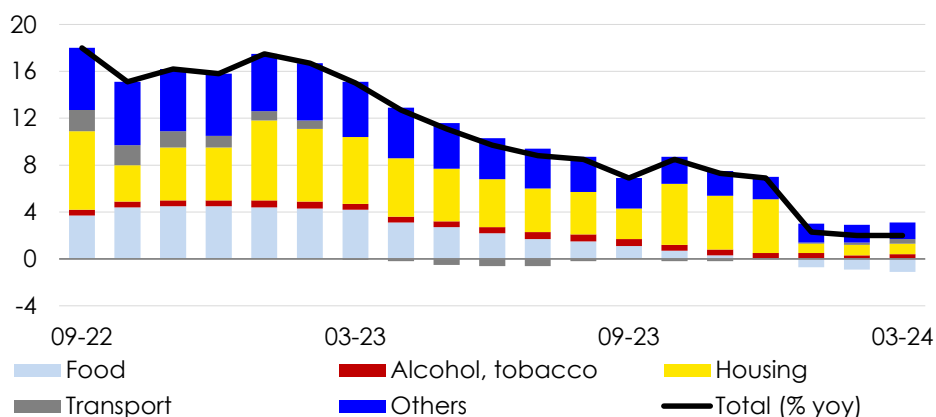
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proceed in the same way at the May monetary policy meeting as at the last two meetings. Consequently, we expect the key interest rate to be cut again by 50bps.

Inflation structure



pp contributions to yoy% headline inflation

Source: Macrobond, Raiffeisen Research

Inflation again reached the CNB's inflation target in March. However, we observe a different development of the individual components as food prices continue to fall. On the other hand, prices of services continue to rise quite dynamically. At the same time, fuel prices, dampening inflation last year, are starting to rise. In addition to service prices, food prices remain an inflationary risk. Although they have fallen so far this year, inflation would rise again if this trend were to reverse, although probably within the upper part of the tolerance zone.

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

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