

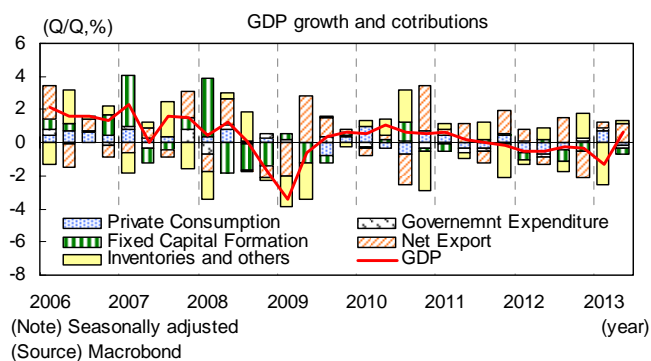
Main Economic & Financial Indicators: Czech Republic

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Overview

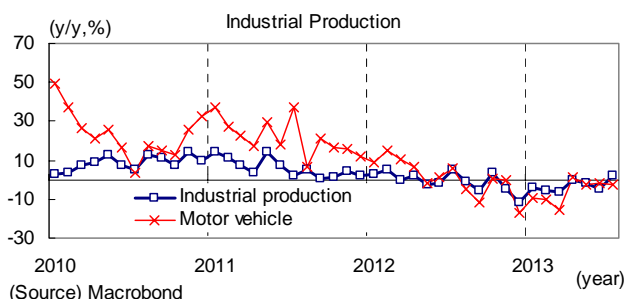
Although the Czech Republic has come out of recession in Q2, there remain downside risks to the economy. GDP growth in Q2 was up 0.6% q/q after six consecutive quarters of contraction. That said, a rebound from a sharp contraction of 1.3% q/q in Q1 seems to have contributed to the growth. GDP growth in Q1 was adversely affected by the winter weather conditions as well as a sharp decrease in inventory investment caused by stockpiling of tobacco products in Q4 2012 ahead of the excise tax increase in January 2013. Looking at GDP figures in Q2 in terms of expenditure, net exports were the main positive contributor to overall growth reflecting stronger growth in exports which were boosted by the economic recovery in Germany. Meanwhile, domestic demand remained weak. Private consumption decreased by 0.4% q/q. As companies continue to be reluctant to invest. Gross fixed capital formation declined by 0.3% q/q.

More recent data reveals that there are positive signs in manufacturing industry as growth in industrial production turned positive in July as well as continuous improvements in the PMI which remained expansive for four months in a row. Acceleration in exports destined to Germany also appears to suggest that external demand will continue to support the economy. That said, considering the slowdown in emerging economies such as China as well as weak demand from the Euro periphery countries, growth in external demand is likely to be gradual. Meanwhile, the latest data concerning domestic demand suggests that it is likely to remain sluggish. Although there are some improvements in consumer confidence on the back of the better labour market conditions and lower inflation, there remain downside risks to growth including weak earning growth and the government's austerity measures. In light of these circumstances, sustained recovery in the Czech economy is likely to be some time away.



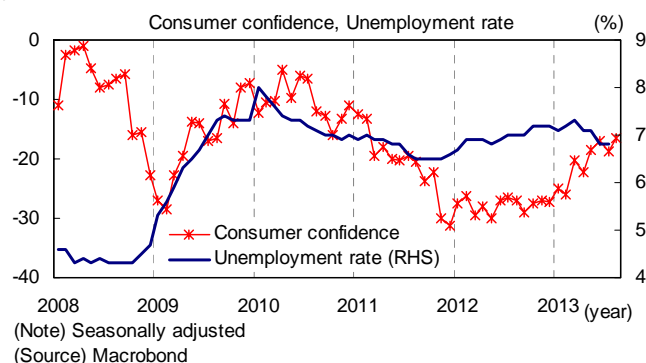
Output

Industrial production rose by 2.1% y/y in July after eight months of decline boosted by 4.1% y/y growth in the manufacturing sector. Production of motor vehicle continued to decline by 2.7% y/y while metal and machinery increased by 11.2% y/y and 8.3% y/y respectively. The Purchasing Managers Index for the manufacturing sector in August stood at 53.9, up from 52.0 in July. A look at breakdown of this figure suggests that new orders grew on the back of strong growth in export orders while both the volume of outstanding work and employment increased.



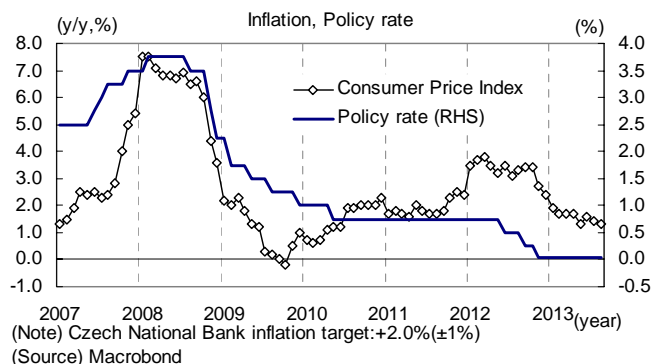
Consumption/Labour Markets

Retail sales in July rose by 4.0% compared to the same month a year earlier. The positive growth is likely a result of a rebound from a sharp decline in June as well as the recent lower inflation. The unemployment rate (seasonally adjusted) stood at 6.8% in July. Although it is still at an elevated level, it is an improvement from the recent high of 7.3% in March. Consumer confidence in August stood at a two-year high at -16.5 reflecting a better economic outlook as well as easing concerns on inflation and unemployment. That said, consumer confidence remained at a low level, suggesting that sustained recovery in consumer spending will take some time yet.



Price/Interest rates

Consumer price inflation in August eased from 1.4% y/y in July to 1.3% y/y. The Czech National Bank (CNB) expects that the inflation rate will remain below its target of 2.0% until 2015 as inflationary pressures from the demand side remain weak as domestic demand is likely to remain sluggish. As the CNB's current policy rate is at 0.05% leaving the bank no room for further interest rate cuts, its governor Miroslav Singer has been signalling the possibility of foreign exchange intervention to depreciate the value of the Czech Koruna in order to push up prices of imports as well as giving a boost to exporters. According to the document released after the CNB's monetary policy meeting held on September 26th, the bank said that the risks to the inflation forecast are slightly on the downside, tilting towards the need for slightly easier monetary conditions. However, it seems that the majority of the committee members are still reluctant towards foreign exchange intervention as import price inflation may push down consumer confidence which has been showing some improvements in recent months.



Balance of payments

The current account deficit in Q2 narrowed to US\$260 million from US\$2.4bn in the same period a year earlier. Due to a recovery in Germany, its main trade partner, exports rose by 1.9% compared to the same period a year earlier. Meanwhile, imports fell by 1.7% y/y reflecting the decreases in domestic demand. As a result, the trade surplus widened to US\$2.9bn from US\$1.8bn a year earlier.

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1. Annual and quarterly data

	2010	2011	2012	12/Q2	12/Q3	12/Q4	13/Q1	13/Q2
GDP (at current prices) * (US\$ bn)	198.3	216.0	195.7	48.7	47.6	49.2	49.2	48.5
Real GDP growth * (% , y/y)	2.3	1.9	-1.1	-1.1	-1.4	-1.6	-2.4	-1.3
(Private consumption)* (% , y/y)	0.9	0.5	-2.7	-2.6	-2.7	-3.5	-0.7	0.5
(Gross fixed capital formation)* (% , y/y)	0.8	0.4	-2.5	-0.1	-3.5	-6.0	-4.1	-6.2
Industrial production (% , y/y)	8.6	6.1	-0.7	-0.8	-0.6	-4.2	-5.4	-2.3
Retail sales (% , y/y)	1.4	1.9	-0.9	-2.2	-1.0	-1.5	-2.9	0.4
Bank credits to the private sector (% , y/y)	1.2	4.6	3.3	3.8	3.0	1.8	2.7	1.7
Consumer price index (% , y/y)	1.5	1.9	3.3	3.4	3.3	2.8	1.8	1.5
Average monthly wage growth (% , y/y)	2.2	2.5	2.7	2.2	1.7	3.5	-0.4	1.2
Unemployment rate (%)	7.3	6.7	7.0	6.9	7.0	7.2	7.2	7.0
Trade balance (US\$ mn)	-1,077	677	3,523	978	748	132	1,866	1,909
Exports (US\$ mn)	113,854	136,191	132,516	33,229	31,155	33,500	32,738	33,774
Export growth (% , y/y)	16.0	10.8	7.7	7.7	7.3	4.1	-4.6	2
Imports (US\$ mn)	114,932	135,513	128,993	32,251	30,408	33,368	30,872	31,865
Import growth (% , y/y)	19.1	9.2	5.3	5.8	2.5	4.2	-5.5	-1
Current account (US\$ mn)	-7,677	-5,877	-4,804	-1,327	-2,421	-1,874	706	-257
Capital and financial balances (US\$ mn)	10,825	4,193	8,865	94	2,264	5,450	-47	1,246
Foreign direct investment (US\$ mn)	6,139	2,319	10,595	2,705	2,667	3,299	2,894	1,110
Foreign reserves (US\$ mn)	95,396	94,155	101,860	94,686	97,776	101,860	98,824	-
External debt (US\$ mn)	41,909	39,670	44,265	38,847	39,927	44,265	43,892	43,196
Stock price index	1459.6	1394.8	1199.2	1,143.7	1,174.1	1,241.7	1,265.4	1,189.4
Short-term int. rates (Interbank 3m) (period end)	1.220	1.170	0.500	1.080	0.820	0.500	0.470	0.460
EU Harmonised Gov. 10y bond yields	3.943	3.720	2.826	3.290	2.501	2.092	1.999	1.816
Koruna/USD	19.102	17.688	19.573	19.700	20.057	19.395	19.361	19.786
Koruna/Euro	25.287	24.597	25.145	25.260	25.075	25.160	25.550	25.833
Koruna/GBP	29.495	28.355	31.014	31.168	31.679	31.149	30.037	30.376

2. Monthly data

	13/01	2	3	4	5	6	7	8
Industrial production (% , y/y)	-4.2	-5.8	-6.1	0.0	-2.1	-4.9	2.1	-
Retail sales (% , y/y)	-0.4	-4.9	-3.5	2.1	1.5	-2.5	4.0	-
Bank credits to the private sector (% , y/y)	2.6	2.8	2.8	2.3	1.3	1.4	1.7	-
Consumer price index (% , y/y)	1.9	1.7	1.7	1.7	1.3	1.6	1.4	1.3
Unemployment rate (%)	7.1	7.2	7.3	7.1	7.1	6.8	6.8	-
Trade balance (US\$ mn)	158	882	821	664	674	571	356	-
Exports (US\$ mn)	10721	10789	11218	11397	11091	11305	10731	-
Export growth (% , y/y)	-3.1	-4.7	-5.9	6.4	1.1	-1.0	3.6	-
Imports (US\$ mn)	10562	9907	10397	10733	10417	10733	10375	-
Import growth (% , y/y)	0.2	-9.2	-7.1	1.3	-2.4	-1.1	3.1	-
Stock price index	1297.2	1250.3	1245.0	1198.9	1216.5	1147.5	1110.7	-
Short-term int. rates (Interbank 3m) (period end)	0.50	0.50	0.47	0.46	0.46	0.46	0.46	0.46
EU Harmonised Gov. 10y bond yields	2.00	2.05	1.94	1.73	1.63	2.13	2.18	2.34
Koruna/USD	19.21	19.07	19.80	19.83	19.95	19.55	19.84	19.38
Koruna/Euro	25.54	25.46	25.65	25.83	25.89	25.77	25.94	25.81
Koruna/GBP	30.67	29.51	29.87	30.36	30.49	30.25	30.09	30.06

Note: *Seasonally adjusted

Source: Czech National Bank, Czech Statistics Office etc.

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