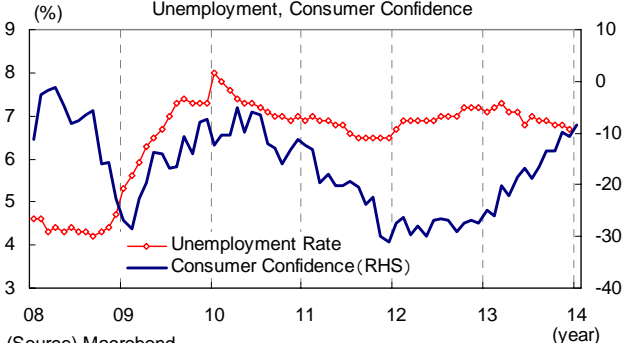
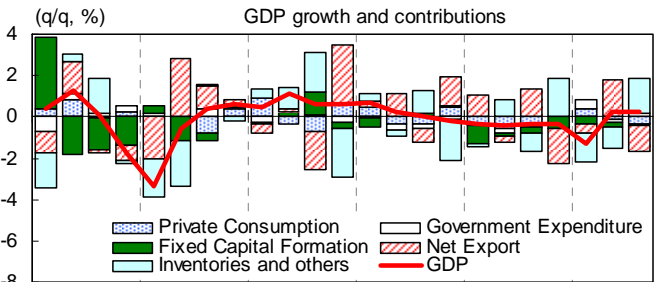
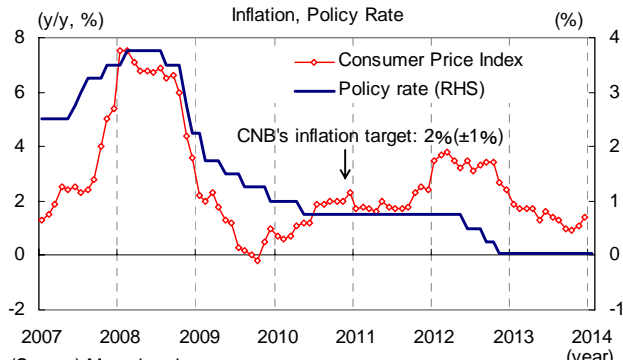


Main Economic & Financial Indicators: Czech Republic

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Overview	Consumption/Labour Markets
<p>Although the Czech Republic came out of recession in Q2, there remain downside risks to the economy. Despite positive growth was maintained, real GDP growth (seasonally-adjusted) was up only by 0.2% q/q in Q3. In addition to sluggish domestic demand, negative contribution from net export dragged overall growth.</p> <p>The policy rate of the Czech National Bank (CNB) currently stands at 0.05%, leaving no room for further rate cuts. In response to a further drop in inflation, the CNB decided to intervene in the foreign currency markets by selling Czech koruna (CZK) in order to bring the exchange rate close to 27CZK/Euro, as an additional monetary easing measure. Looking at foreign trade statistics after the CNB's currency intervention, exports destined for the euro area, Germany in particular, increased significantly in December, thanks to the enhanced competitiveness of the koruna as well as Germany's economic recovery. The Purchasing Manager's Index (PMI) for the manufacturing sector remained above the 50 mark which indicates an expansion in the sector for the ninth consecutive month mainly owing to growth in export orders, indicating that production is likely to remain resilient for a while. Looking at private consumption, retail sales accelerated in Q4, supported by improved consumer confidence due to some improvements in the labour market conditions and lower inflation. That said, retail sales seem to have been elevated in anticipation of a rise in import prices due to koruna depreciation since November. Looking ahead, there remain risks to the recovery in consumer demand reflecting the downward pressures on household budgets as earning growth remains weak.</p>	<p>Growth of retail sales in December remained relatively high, although they decelerated slightly to 5.2% y/y from 6.2% y/y in November. This was partly owing to increased demand ahead of an anticipated rise in the price of import goods affected by the foreign exchange intervention by the CNB since November. Meanwhile, the unemployment rate in December stood at 6.7%. Although it was the lowest level seen in the last two years, it still remained at an elevated level. Consumer confidence in January improved to the highest level since 2010. Looking ahead, pressures on household budgets eased somewhat owing to the cuts in electricity prices imposed in January. However, considering weak earnings growth and the sluggish growth of household loans, consumer loans in particular, recovery in private consumption is likely to take sometime.</p>  <p>(Source) Macrobond</p>
GDP	Price/Interest rates
<p>Real GDP growth (seasonally-adjusted) in Q3 stood at 0.2% q/q. Looking at the components of GDP by expenditure, net exports contributed negatively to overall growth. Growth in exports decelerated from 2.5% q/q to 1.0% q/q, due to sluggishness in exports to non-EU countries, mainly Russia, while imports accelerated from 0.5% q/q to 2.8% q/q. Private consumption fell by 0.7% q/q, recording the second consecutive quarter of contraction. Inventory investment, on the other hand, made a positive contribution. This was owing to the facts that inventory investment started to rebound after a sharp decrease which followed the enforcement of an excise tax increase in January 2013 as well as a rebound from a decrease in the first half of the year by bad weather.</p>  <p>(Note) Seasonally adjusted (Source) Macrobond</p>	<p>Consumer price inflation in December accelerated to 1.4% y/y from 1.1% y/y in November. A breakdown of this figure reveals that rise in food and transport prices led this increase, up by 4.8% y/y and 1.1% y/y respectively. This is likely to have been caused by increases in price of imported goods due to a weakening of the koruna. Looking ahead, despite upward inflationary pressure from a weaker koruna, electricity price cuts in January, and the falling out of VAT rate hike imposed in January 2013 from annual comparisons as well as sluggish domestic demand, is likely to push down overall inflation further in the coming months. The CNB expects that the inflation rate will recede further to 0.4% y/y in Q1. Subsequently, however, it considers that its foreign exchange intervention should also prevent the risk of deflation. In line with this view, it predicts that the inflation rate will start to accelerate gradually and is likely to reach the CNB's target of 2% (±1%) y/y in Q3, much earlier than the CNB's initial assumption (the beginning of 2015), which was made in November just before the foreign exchange intervention started. Meanwhile, at the CNB's monetary policy meeting on February 6th, the CNB decided to keep its policy rate unchanged at 0.05% and its foreign exchange rate commitment which the CNB intends to keep at least until the start of 2015.</p>  <p>(Source) Macrobond</p>
Output	
<p>Industrial production rose by 9.3% y/y in December, accelerating from 6.2% y/y growth in November. A breakdown of this figure reveals that production of motor vehicles achieved robust growth of 17.8% y/y, pushing up overall manufacturing growth to 11.8% y/y. The manufacturing PMI in January stood at 55.9, the highest level since 2011. The growth pace of new export orders accelerated, mainly from Germany. However, input price grew sharply reflecting the rise in prices of imports on the back of the recent koruna depreciation while output prices did not grow as fast, raising concerns over manufacturers' profitability.</p>	

Main Economic & Financial Indicators: Czech Republic

1. Annual and quarterly data

		2011	2012	2013	12/Q4	13/Q1	13/Q2	13/Q3	13/Q4
GDP (at current prices) *	(US\$ bn)	216.0	196.5	-	49.5	49.6	48.6	49.3	-
Real GDP growth *	(%, y/y)	1.9	-0.9	-	-1.4	-2.3	-1.7	-1.2	-
(Private consumption)*	(%, y/y)	0.5	-2.1	-	-3.1	-1.3	-0.3	-0.1	-
(Gross fixed capital formation)*	(%, y/y)	0.4	-4.3	-	-7.4	-5.6	-6.1	-5.3	-
Industrial production	(%, y/y)	6.1	-0.7	0.6	-4.2	-5.4	-2.3	3.8	6.3
Retail sales	(%, y/y)	1.9	-0.9	0.9	-1.5	-2.9	0.4	2.7	3.6
Bank credits to the private sector	(%, y/y)	4.6	3.3	2.5	1.8	2.7	1.7	2.2	3.5
Consumer price index	(%, y/y)	1.9	3.3	1.4	2.8	1.8	1.5	1.2	1.1
Average monthly wage growth	(%, y/y)	2.5	2.7	-	3.5	-0.3	1.2	1.3	-
Unemployment rate	(%)	6.7	7.0	7.0	7.2	7.2	7.0	6.9	6.8
Trade balance	(US\$ mn)	677	3,523	6,096	132	1,879	2,301	1,036	875
Exports	(US\$ mn)	136,191	132,656	135,348	33,542	32,765	33,423	33,631	35,525
Export growth	(%, y/y)	10.8	7.8	2.0	4.2	-4.6	0.9	5.0	7.0
Imports	(US\$ mn)	135,513	129,133	129,252	33,410	30,885	31,122	32,595	34,650
Import growth	(%, y/y)	9.2	5.4	0.1	4.3	-5.5	-3.2	4.2	4.8
Current account	(US\$ mn)	-5,877	-4,804	-	-1,874	706	-742	-1,493	-
Capital and financial balances	(US\$ mn)	4,193	8,865	-	5,450	-47	1,501	1,038	-
Foreign direct investment	(US\$ mn)	2,319	10,595	-	3,299	2,894	1,084	102	-
Foreign reserves	(US\$ mn)	94,155	101,860	-	101,860	98,652	102,054	102,135	-
External debt	(US\$ mn)	39,670	44,265	55,722	44,265	43,892	43,196	45,326	55,722
Stock price index		1394.8	1199.2	1216.4	1,241.7	1,265.4	1,189.4	1,168.5	1,243.6
Short-term int. rates (Interbank 3m) (period end)		1.170	0.500	0.380	0.500	0.470	0.460	0.450	0.380
EU Harmonised Gov. 10y bond yields		3.720	2.826	2.133	2.092	1.999	1.816	2.343	2.364
Koruna/USD		17.688	19.573	19.567	19.395	19.361	19.786	19.519	19.600
Koruna/Euro		24.591	25.144	25.986	25.166	25.562	25.829	25.853	26.685
Koruna/GBP		28.346	31.012	30.609	31.149	30.046	30.373	30.256	31.742

2. Monthly data

		13/06	7	8	9	10	11	12	14/01
Industrial production	(%, y/y)	-4.9	2.2	2.0	7.2	3.5	6.2	9.3	-
Retail sales	(%, y/y)	-2.5	4.0	-0.6	4.5	-0.6	6.1	5.2	-
Bank credits to the private sector	(%, y/y)	1.4	1.7	2.3	2.5	2.9	4.0	3.7	-
Consumer price index	(%, y/y)	1.6	1.4	1.3	1.0	0.9	1.1	1.4	-
Unemployment rate	(%)	6.8	7.0	6.9	6.9	6.8	6.8	6.7	-
Trade balance	(US\$ mn)	800	264	199	576	694	670	-463	-
Exports	(US\$ mn)	11190	10793	10578	12288	13156	12368	10055	-
Export growth	(%, y/y)	-2.1	4.1	1.7	8.9	2.6	5.7	15.0	-
Imports	(US\$ mn)	10389	10528	10379	11712	12462	11697	10518	-
Import growth	(%, y/y)	-4.4	4.4	-0.8	8.9	1.2	4.7	9.3	-
Stock price index		1147.5	1110.7	1197.9	1201.0	1227.3	1275.2	1230.6	1261.4
Short-term int. rates (Interbank 3m) (period end)		0.46	0.46	0.46	0.45	0.44	0.38	0.38	0.37
EU Harmonised Gov. 10y bond yields		2.13	2.18	2.34	2.52	2.42	2.32	2.35	2.44
Koruna/USD		19.55	19.84	19.38	19.31	18.81	19.97	20.07	20.18
Koruna/Euro		25.76	25.94	25.82	25.79	25.66	26.93	27.52	27.48
Koruna/GBP		30.25	30.09	30.06	30.64	30.27	32.16	32.87	33.24

Note: *Seasonally adjusted

Source: Czech National Bank, Czech Statistics Office etc.

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