

Main Economic & Financial Indicators The Czech Republic

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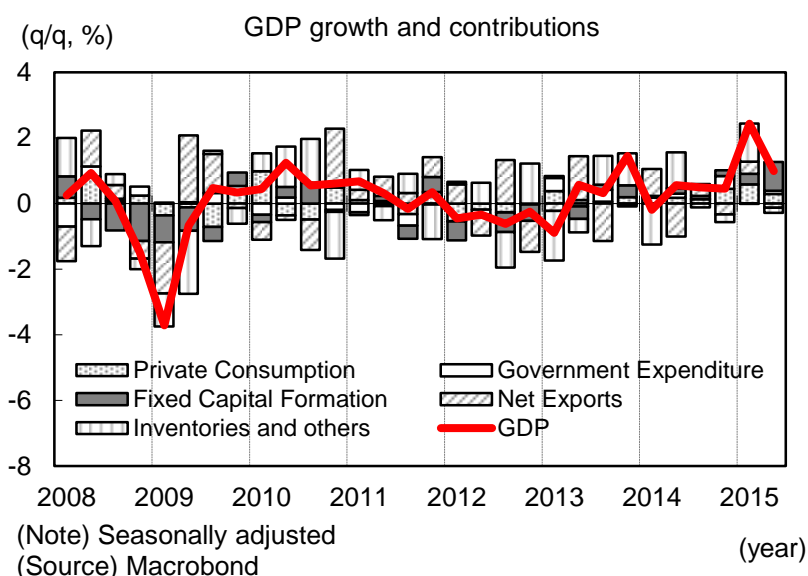
Overview

The Czech economy remained in a phase of steady recovery, supported by the stable expansion of private consumption and fixed capital formation. Low inflation and an improving labour market situation have increased household real income, thereby underpinning private consumption. Fixed capital formation expanded considerably, reflecting a growing number of public investment projects as the Czech Republic tries to utilise EU funds that had been allocated to it during the previous budgetary term (between 2007 and 2013), before access to the funds expires at the end of this year. In Q2, real GDP grew by 1.0% q/q, driven by domestic demand. Although the growth pace was much slower than that of Q1, the underlying trend remains relatively solid after a one-off adjustment significantly pushed up overall growth. Volumes of both exports and imports decreased; however, exports fell by a larger volume than imports, so the net exports' contribution to growth turned negative, albeit marginally. The latest data confirms that the environment surrounding consumption continues to be sanguine and consumer sentiment remains stable which is reflected by solid retail sales results. Industrial production, mainly led by the manufacturing sector (in particular, the transport equipment branch), is enjoying a steady expansion so far.

Looking ahead, a large proportion of Czech households are likely to benefit from the low inflation and improving labour market, which in turn will support private consumption. The improving business sentiment, especially of the construction sector, indicates an expansion in business investment. That being said, the diesel emissions scandal in the US by a German car-manufacture is expected to have unavoidable negative impacts on the Czech manufacturing sector, which has developed as a part of the supply chain for the German car industry. A spokeswoman from the Czech finance ministry had commented that the damage could lower the country's GDP growth rate by between 0.1% and 0.2% points. However, some financial institutions estimated the possibility of a much larger downward impact on the overall economy.

GDP

In Q2, real GDP was up by 1.0% q/q (4.4% y/y). Although the q/q growth pace slowed substantially due to an elevated base effect, the yearly growth rate registered its highest level since Q4 in 2007, indicating that the underlying trend remains stable. The significantly high growth rate in Q1 was caused by adjustments in inventories which were affected by the change in excise duties on tobacco. GDP components confirmed that private consumption and fixed capital formation were the main drivers, growing by 0.7% q/q (+3.1% y/y) and 3.5% q/q (+5.9% y/y) respectively. Regarding fixed capital formation, investment in the construction sector was particularly robust, underpinning overall growth. Net exports' contribution to GDP was -0.1%, turning negative as exports slowed much faster than imports. Within exports, service exports expanded soundly, while goods exports fell, decelerating overall exports to 0.4% q/q (7.0% y/y). The pace of imports also became modest, growing only by 0.6% q/q (7.1% y/y).



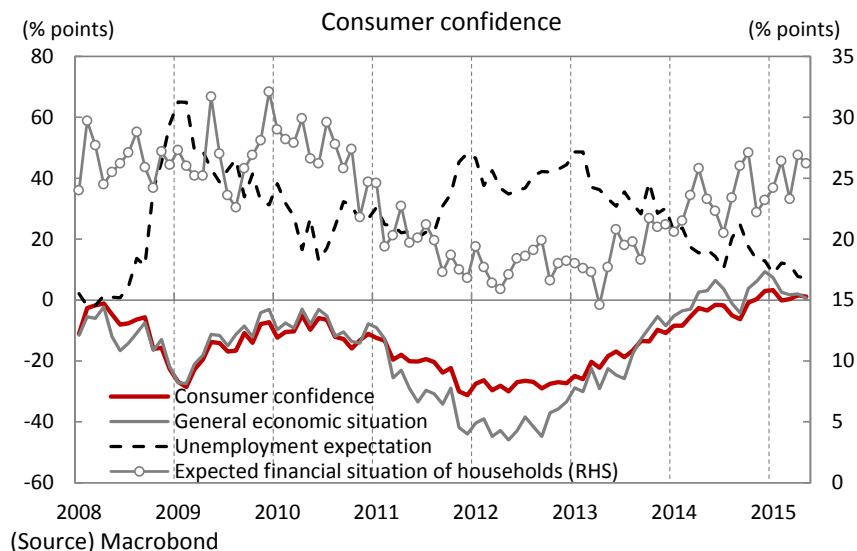
Output

Industrial production was up by 6.3% y/y in August, accelerating from 4.6% y/y the previous month. Output in the manufacturing sector rose by 6.6% y/y, supported by the robust output of transport goods and rubber and plastic products, all of which recorded double digit growth rates. The manufacturing Purchasing Managers' Index (PMI) stood at 55.5 in September, slightly declining from the previous month's reading of 56.6. This was owing to the reading for new orders deteriorating somewhat. The impact from the diesel emissions scandal by the German car-maker is likely to be felt in the Czech manufacturing sector, creating a potential downward pressure on overall industrial production.

Consumption, Labour market

Growth of real retail sales in August stood at 4.4% y/y, decelerating from 5.7% y/y in July as sales of fuel and clothes weakened. Even so, the environment surrounding retail sales,

remains favourable to date. Despite persistent low inflation, wage growth remains on a mild upward trajectory and the number of employed continues to rise. Furthermore, consumer sentiment indicators have returned to the level seen before the financial crisis. However, signs of concerns have been observed recently; a downward trend in the unemployment rate has almost halted in the past few months and concerns over future employment increased somewhat. It is important to note that the impact of the diesel emissions scandal has not been reflected on the latest data, which means that the current, relatively favourable consumer environment could deteriorate in the coming months.



Prices, Monetary Policy

Low inflation is expected to continue. While headline inflation had followed a slowly increasing trend since February, the growth pace was not maintained and the inflation rate fell for the second consecutive month after reaching 0.8% y/y in June. This was mainly due to a drop in food and fuel prices. The latest inflation rate was marginally stronger at 0.4% y/y, up from the previous month's 0.3% y/y.

At the Czech National Bank's (CNB's) monetary policy meeting on September 24th, the bank decided to keep both its policy rate unchanged at 0.05% and its commitment to maintain the foreign exchange rate at around CZK27/EUR at least until mid-2016. The CNB acknowledged that they could identify some upward inflationary pressure in the steady economic growth and solid wage increases. However, risks of further price falls stubbornly remain, reflecting the persistent declines in food prices as well as lower oil prices. Therefore the CNB stated that the inflation rate would not return to the target level of 2% before the start of 2017.

Balance of payments

During Q2 this year, the current account balance recorded a surplus of US\$0.1 billion. This is a substantial improvement from the deficit of US\$1.5 billion recorded during the same period last year. The trade surplus has been shrinking, reflecting a weaker increase in exports. This is due to a rise in the koruna's real effective exchange rates, on the back of the ECB's aggressive monetary easing. Meanwhile, imports expanded at a relatively solid pace as the country's domestic demand gathered pace. The trade balance's latest result in August recorded a deficit of US\$6 million, for the first time since last December. As previously mentioned, the diesel emissions scandal is expected to have significant impacts on the Czech car industry. The Czech industrial structure is highly dependent on the car industry compared with neighboring countries. Exports of road vehicles account for roughly 20% of total Czech exports. Therefore, downward pressure on the trade surplus is likely to increase in the coming months.

Main Economic & Financial Indicators: The Czech Republic

1. Annual and quarterly data

		2012	2013	2014	14/Q3	14/Q4	15/Q1	15/Q2	15/Q3
GDP (at current prices) *	(US\$ bn)	206.5	208.4	205.2	51.4	48.7	45.1	45.1	-
Real GDP growth *	(%, q/q)	-0.8	-0.6	2.0	0.5	0.5	2.4	1.0	-
	(%, y/y)				2.3	1.3	4.0	4.4	-
(Private consumption)*	(%, y/y)	-1.5	0.7	1.5	0.3	0.9	1.2	0.7	-
	(%, y/y)				1.5	2.0	2.8	3.1	-
(Gross fixed capital formation)*	(%, y/y)	-3.0	-2.7	2.1	0.4	0.7	1.3	3.5	-
	(%, y/y)				2.7	1.9	3.0	5.9	-
Industrial production	(%, y/y)	-0.7	0.1	5.0	3.9	3.4	4.7	5.3	-
Retail sales	(%, y/y)	-0.9	1.1	5.6	5.7	4.8	7.9	8.2	-
Bank credits to the private sector	(%, y/y)	3.3	2.5	3.6	3.7	3.8	4.5	5.3	-
Consumer price index	(%, y/y)	3.3	1.4	0.4	0.6	0.5	0.1	0.7	0.4
Average monthly wage growth	(%, y/y)	2.5	-0.1	2.3	1.6	2.2	2.3	3.4	-
Unemployment rate *	(%)	7.0	7.0	6.1	5.9	5.8	5.8	5.1	-
Trade balance	(US\$ mn)	3,291	5,444	7,032	1,480	760	2,326	1,768	-
Exports	(US\$ mn)	139,268	142,393	151,668	37,435	36,243	34,104	34,207	-
Export growth	(%, y/y)	13.2	2.2	13.0	13.2	8.5	7.9	7.1	-
Imports	(US\$ mn)	135,977	136,949	144,636	35,955	35,483	31,778	32,439	-
Import growth	(%, y/y)	11.0	0.7	12.1	11.5	7.7	8.1	7.6	-
Current account	(US\$ mn)	-3,235	-1,113	1,257	-1,597	228	3,778	124	-
Capital and financial balances	(US\$ mn)	3,306	7,704	3,859	-718	264	5,824	4,646	-
Foreign direct investment	(US\$ mn)	9,438	7,358	4,884	2,145	984	1,106	-463	-
Foreign reserves	(US\$ mn)	44,265	55,798	54,085	54,410	54,085	52,036	56,683	-
External debt	(US\$ mn)	127,746	137,376	125,105	128,573	125,105	113,154	119,129	-
Stock price index		1199.2	1216.4	1239.6	1,222.6	1,208.6	1,238.6	1,274.9	1,271.6
Short-term int. rates (Interbank 3m)	(period end)	0.998	0.457	0.357	0.350	0.344	0.328	0.310	0.306
EU Harmonised Gov. 10y bond yields		2.826	2.133	1.581	1.365	0.877	0.551	0.789	0.947
Koruna/USD		19.573	19.567	20.764	20.848	22.132	24.542	24.762	24.365
Koruna/Euro		25.144	25.986	27.537	27.619	27.634	27.625	27.385	27.075
Koruna/GBP		31.012	30.609	34.173	34.795	35.023	37.159	37.944	37.732

2. Monthly data

		15/02	3	4	5	6	7	8	9
Industrial production	(%, y/y)	4.9	6.5	4.5	2.6	8.7	4.6	6.3	-
Retail sales	(%, y/y)	7.9	8.8	5.8	7.9	11.1	5.7	4.4	-
Bank credits to the private sector	(%, y/y)	4.5	4.6	5.0	5.2	5.7	7.2	8.3	-
Consumer price index	(%, y/y)	0.1	0.2	0.5	0.7	0.8	0.5	0.3	0.4
Unemployment rate	(%)	5.8	5.6	5.3	5.1	5.0	5.1	5.0	-
Trade balance	(US\$ mn)	765	753	643	493	631	275	-6	-
Exports	(US\$ mn)	11,172	12,044	11,131	10,808	12,288	11,275	9,485	-
Export growth	(%, y/y)	8.0	11.6	6.3	2.9	11.9	3.1	3.9	-
Imports	(US\$ mn)	10,407	11,291	10,488	10,316	11,657	11,000	9,491	-
Import growth	(%, y/y)	6.7	14.9	6.4	2.9	13.4	4.7	4.5	-
Stock price index		1,249	1,278	1,303	1,279	1,243	1,269	1,286	1,261
Short-term int. rates (Interbank 3m)		0.33	0.32	0.31	0.31	0.31	0.31	0.31	0.30
EU Harmonised Gov. 10y bond yields		0.59	0.53	0.43	0.77	1.16	1.15	0.89	0.79
Koruna/USD		24.30	25.32	25.36	24.57	24.35	24.62	24.29	24.16
Koruna/Euro		27.61	27.38	27.45	27.40	27.31	27.09	27.04	27.09
Koruna/GBP		37.26	37.86	37.97	37.96	37.90	38.31	37.83	37.03

Note: *Seasonally adjusted

The source of the unemployment rate has been switched from Eurostat to National Statistic Office

Source: Czech National Bank, Czech Statistics Office etc.

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