

Main Economic & Financial Indicators: Czech Republic

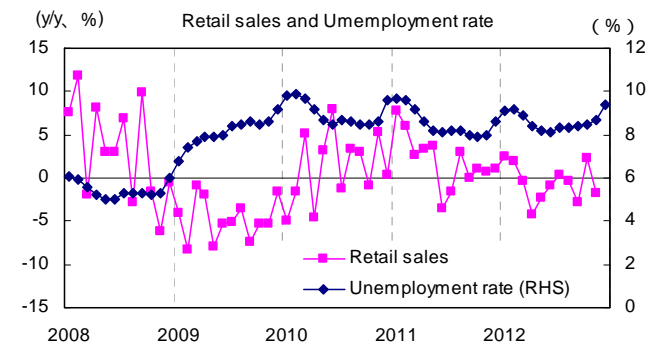
Economic Research Office  
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Overview Consumption/Labour Markets

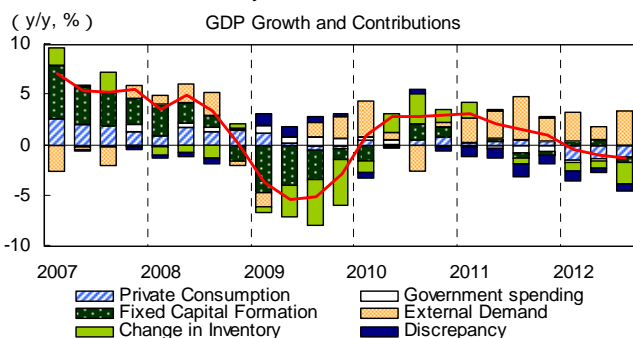
The Czech economy remained negative for the third consecutive quarter in y/y terms, reflecting weak domestic demand. Real GDP growth in Q3 in seasonally-adjusted terms, contracted by 1.3% y/y, deteriorating from a decline of 1.0% y/y in Q2. A close look at the data reveals that the growth of private consumption contracted by 2.4% y/y, following a decline of 2.8% y/y in Q2. This was due to the continuous deterioration in the employment environment and the adoption of fiscal austerity measures, which have been squeezing private consumption. Also, growth of gross fixed capital formation declined by 2.3% y/y down from 1.9% y/y growth in Q2, reflecting the decreases in business investment. By way of contrast, net exports in Q3 continued to make a positive contribution to overall growth.

The Czech government signed the recent decision to hike the VAT into law on 21 December 2012, in order to achieve its 3.0% of GDP fiscal deficit target for 2013. As part of this law, a 1 percentage point rise in both the lower and upper rates of VAT came into effect on 1 January 2013. In addition, in order to promote the long-term sustainability of public finances, the government has been advancing structural reforms, including in the areas of social welfare, pensions and tax. This suggests that these measures are likely to put additional pressures on private consumption and thus, current tendency of weak domestic demand is likely to remain for a while.

Retail sales in November contracted by 1.8% y/y, down from 2.2% y/y growth in October. This was owing to a decline in sale and repair of motor vehicle by 3.0% y/y, as well as the continuous decrease in sales of food. Meanwhile, the unemployment rate in December rose to 9.4%, the highest level since February 2011, pointing to a harsh employment environment. On top of the recent decline in real wages, the VAT rise on some products is likely to continue to squeeze private consumption growth, suggesting a weak outlook for private consumption.



(Source) Czech Statistical Office

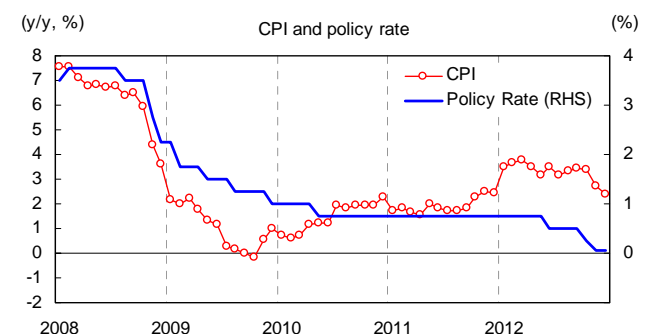


(Source) Czech Statistical Office, seasonally-adjusted data

Price/Interest rates

Prices : The consumer price index in December rose by 2.4% y/y, decelerating from 2.7% y/y in November. This was due to the slowdown in the pace of price increases for food, as well as the fact that the increases in health service and a natural gas seen in December 2011 dropped out of the twelve-month inflation rate. However, the VAT rise implemented on 1 January is likely to prevent inflation from abating.

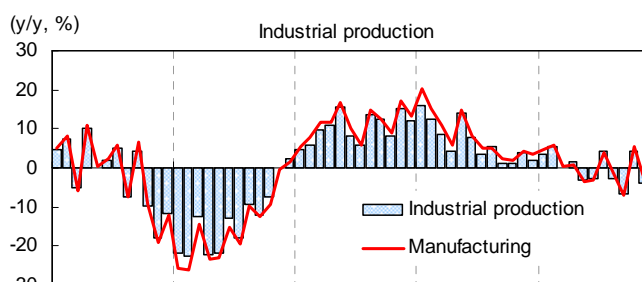
Policy rate : The monetary policy committee of the Czech National Bank (CNB) kept its policy rate unchanged at 0.05% at its December meeting. The CNB had decided to cut the policy rate by 20 basis points from 0.25% to a record low of 0.05% at its November meeting. The CNB revealed that considering the weak pace of domestic and global economic activity, the overall risks to the inflation outlook remained on the downside, somewhat offsetting the impact of the recent VAT rise. Also, the CNB implied the possibility of currency intervention in the near future, given the fact that there is no further space left for cutting its policy rate.



(Source) Czech Statistical Office and The Czech National Bank

Output

Industrial production contracted by 3.9% y/y, down from 4.1% y/y growth in October. A close look at the data reveals that the mining sector remained negative for the fourth consecutive month, with the November figure coming in at -1.8% y/y. The utility sector declined by 9.8% y/y, down from a negative growth of 6.3% y/y in October. Also, the manufacturing sector decreased by 3.3% y/y, a deterioration from 5.4% y/y growth in October. This contraction in the manufacturing sector was largely due to the decline in the production of basic metals, rubber and plastic products. The Purchasing Managers Index (PMI) for the manufacturing sector in December stood at 46.0, a level below the neutral mark of 50, for the ninth month in a row, suggesting a prolonged weak tendency in manufacturing production. Meanwhile, with the ongoing decline in demand from Europe, there has been a slowdown in new export orders, which suggests the recent tendency in terms of weak production prospects will last for a while.



(Source) Czech Statistical Office

Balance of payments

The current account deficit in Q3 narrowed to US\$2.53bn from US\$3.33bn in the same period a year earlier. Due to the deteriorating EU economy, its main trade partner, growth in exports was negative at 8.1% y/y. Meanwhile, reflecting the decreases in domestic demand, growth in imports was also negative at 12.5%. As a result, the trade surplus in Q3 widened to US\$3.535bn from US\$2.035bn in Q3 2011.

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### 1. Annual and quarterly data

		2010	2011	2012	11/Q4	12/Q1	12/Q2	12/Q3	12/Q4
GDP (at current prices) *	(US\$ bn)	198.9	217.2	-	53.8	47.2	49.0	48.2	-
Real GDP growth *	(%, y/y)	2.5	1.9	-	0.9	-0.5	-1.0	-1.3	-
( Private consumption ) *	(%, y/y)	1.0	0.7	-	0.6	-3.0	-2.8	-2.4	-
( Gross fixed capital formation ) *	(%, y/y)	1.0	-0.7	-	-1.7	1.2	1.9	-2.3	-
Industrial production (real)	(%, y/y)	10.3	6.5	-	2.4	2.9	-1.5	-2.0	-
Retail sales	(%, y/y)	1.3	1.8	-	0.9	1.2	-2.4	-1.0	-
Bank credits to the private sector	(%, y/y)	2.8	5.0	-	4.9	4.7	3.8	3.0	-
Consumer price index	(%, y/y)	1.5	1.9	3.3	2.4	3.7	3.4	3.3	2.8
Average monthly wage growth	(%, y/y)	2.2	2.4	-	2.4	3.3	2.3	2.3	-
Unemployment rate	(%)	9.0	8.5	8.6	8.2	9.1	8.2	8.3	8.9
Trade balance	(US\$ mn)	6,420	10,775	-	3,118	5,081	3,484	3,535	-
Exports	(US\$ mn)	133,020	162,897	-	40,364	40,954	39,017	36,987	-
Export growth	(%, y/y)	17.5	22.5	-	7.3	3.7	-8.8	-8.1	-
Imports	(US\$ mn)	126,600	152,122	-	37,246	35,873	35,533	33,452	-
Import growth	(%, y/y)	20.3	20.2	-	2.7	-1.5	-11.7	-12.5	-
Current account	(US\$ mn)	-7,602	-6,348	-	-926	1,196	-1,017	-2,529	-
Capital and financial balances	(US\$ mn)	10,739	5,942	-	1,666	1,111	46	2,256	-
Foreign direct investment	(US\$ mn)	6,117	5,379	-	2,139	1,963	2,717	2,686	-
Foreign reserves	(US\$ mn)	41,909	39,670	-	39,670	42,383	38,847	39,925	44,143
External debt	(US\$ mn)	94,217	93,914	-	93,914	103,451	94,608	97,706	-
Stock price index		1459.8	1394.8	1199.2	1,138.2	1,236.5	1,143.7	1,174.1	1,241.7
Short-term int. rates (Interbank 3m )	(EP)	1.313	1.190	-	1.160	1.200	1.230	0.977	-
EU Harmonised Gov. 10y bond yields		3.792	3.716	2.797	3.555	3.371	3.273	2.453	2.100
Koruna/USD		19.101	17.687	19.571	18.780	19.138	19.698	20.056	19.395
Koruna/Euro		25.284	24.586	25.139	25.281	25.079	25.250	25.069	25.159
Koruna/GBP		29.484	28.342	31.008	29.510	30.057	31.157	31.670	31.146

### 2. Monthly data

		12/05	6	7	8	9	10	11	12
Industrial production	(%, y/y)	-3.1	-2.7	4.2	-2.6	-6.8	4.1	-3.9	-
Retail sales	(%, y/y)	-2.2	-0.8	0.4	-0.4	-2.9	2.2	-1.8	-
Bank credits to the private sector	(%, y/y)	4.3	4.0	3.3	3.0	2.6	1.9	1.7	-
Consumer price index	(%, y/y)	3.2	3.5	3.1	3.3	3.4	3.4	2.7	2.4
Unemployment rate	(%)	8.2	8.1	8.3	8.3	8.4	8.5	8.7	9.4
Trade balance	(US\$ mn)	1,031	1,357	1,144	799	1,592	1,830	1,794	-
Exports	(US\$ mn)	12,971	12,851	11,834	11,785	13,368	14,852	14,041	-
Export growth	(%, y/y)	-10.3	-12.0	-8.3	-9.4	-6.9	2.8	-1.1	-
Imports	(US\$ mn)	11,940	11,494	10,690	10,987	11,776	13,021	12,247	-
Import growth	(%, y/y)	-13.0	-15.5	-12.3	-15.1	-10.1	2.7	-7.3	-
Stock price index		1,127.5	1,119.3	1,140.3	1,176.1	1,209.0	1,231.3	1,228.3	1,267.2
Short-term int. rates (Interbank 3m )		1.240	1.210	1.060	1.000	0.870	0.710	0.540	-
EU Harmonised Gov. 10y bond yields		3.288	3.086	2.592	2.366	2.401	2.231	1.968	2.096
Koruna/USD		19.783	20.453	20.707	20.149	19.233	19.222	19.765	19.197
Koruna/Euro		25.304	25.636	25.440	24.993	24.748	24.939	25.357	25.191
Koruna/GBP		31.476	31.808	32.277	31.676	30.994	30.908	31.545	30.990

Note: \*Seasonally adjusted

Source: Czech National Bank, Czech Statistics Office etc.

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