

Main Economic & Financial Indicators Czech Republic

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Overview

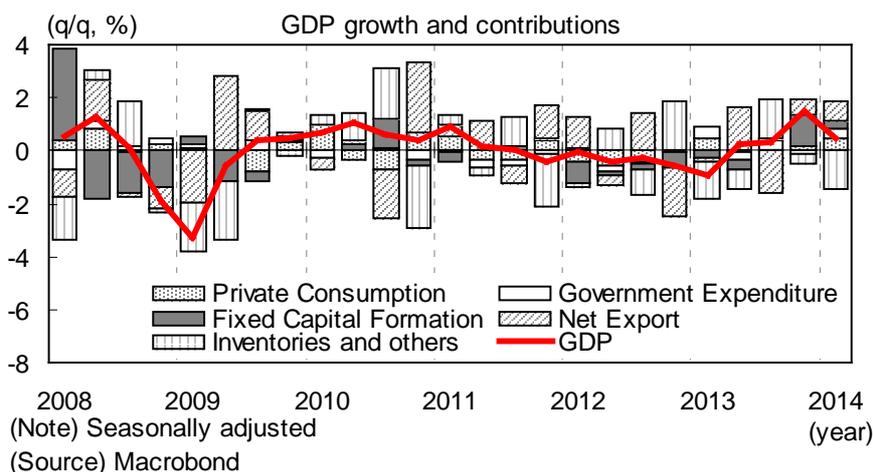
Recent economic data suggests that the recovery in the Czech economy is more or less on track. Real GDP in Q1 grew by 0.4% over the quarter, recording positive growth for the fourth consecutive quarter, while on a yearly basis it grew by 2.5%, which is the strongest growth rate since Q1 2011.

The inflation rate in May was 0.4% y/y, which was well below the target range of 1-3% set by the Czech National Bank (CNB), although it went up by 0.3% points from the previous month due to higher import prices on the back of the weaker koruna (CZK), which resulted from the currency market interventions by the CNB that started last November. Looking at foreign trade statistics, exports enjoyed a steady increase, supported by the weaker currency coupled with a modest recovery in demand from the euro area, in particular from Germany. Imports also picked up somewhat, as imports of manufacturing parts increased. The improvement in the Purchasing Managers' Index (PMI) for the manufacturing sector, owing to steady growth in new orders, suggests that output will grow at a stable pace.

Looking at private consumption, consumer confidence has improved to the level last seen in 2008 as expectations for the economic situation and the labour market have been picking up somewhat. Low inflation should help households to increase real income on the back of their relatively small debt burden. In addition, the fiscal policy is to be relaxed in 2014 given the significantly improved budget situation in 2013, which should help the recovery of private consumption. Looking ahead, there remain risks to the recovery in consumption as a relatively high level of unemployment could dent consumer confidence. Additionally, the recovery momentum remains weak for the time being as both supply and demand for business investment remain sluggish.

GDP

Real GDP growth in Q1 was revised up to 0.4% q/q from the preliminary estimate of flat growth. Looking at the components of GDP by expenditure, net exports contributed most of the increase in overall growth. Exports destined to the euro area, in particular to Germany, grew markedly. Private consumption also increased by 1.2% y/y, up from the previous month's 0.3% y/y. Thus, the economic recovery began to become broad-based.

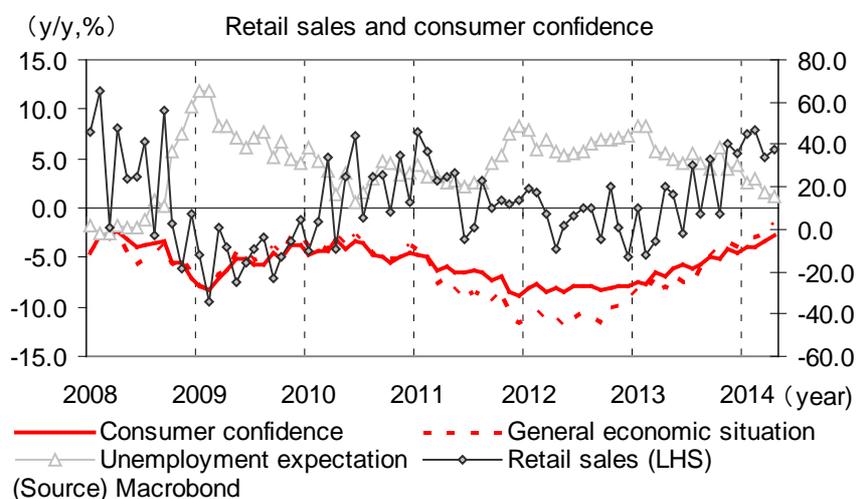


Output

Industrial production (calendar adjusted) rose by 9.2% y/y in April, registering the fastest growth rate since May 2011. A breakdown of this figure reveals that production of motor vehicles was the main driver, growing by 16.5% y/y (non calendar adjusted) and maintaining a double-digit growth rate for the fifth consecutive month. Solid external demand underpinned growth as non-domestic new orders grew by 16.4% over the year, while domestic new orders were up by 11.4% on the year. The manufacturing Purchasing Managers' Index (PMI) stood at 57.3 in May, a further improvement from the previous month, and mainly reflecting the rise in new orders.

Consumption, Labour market

Growth of retail sales in April stood at 6.0% y/y, accelerating further from the previous month's 5.1% y/y. Better-than-expected wage growth coupled with low inflation underpinned consumer confidence. While the unemployment rate remained at a high level of 6.5% in April, it came down by 0.1% point from the previous month. Furthermore, expectations for employment have improved somewhat, all of which is pointing in the direction of an improved labour market situation. The latest consumer confidence indicator has returned to the level seen during 2008 just before the recession hit the economy.



Prices, Monetary Policy

Consumer price inflation in May was up from the previous month's 0.1% y/y to 0.4% y/y. Rises of alcoholic beverages and tobacco prices from 2.1% y/y to 3.4% y/y, as well as fuel prices from -0.4% y/y to 2.0% y/y, pushed up overall prices. The Czech inflation rate has been falling since the beginning of this year as the impact of the VAT rate hike introduced in January 2013 fell out of the statistics, and the cuts in electricity tariffs imposed this January have created further downward inflationary pressure. However, the CNB expects inflation to go up gradually in the second half of the year on the back of the weaker koruna, which would raise imported goods prices. In addition, the bank expects that a recovery in domestic demand and wage growth would create upward inflationary pressure. In line with this view, the CNB predicts that the inflation rate will return to the target of 2% y/y ($\pm 1\%$) at the beginning of 2015. Meanwhile, at the CNB's monetary policy meeting on June 26th, the bank decided to keep its policy rate unchanged at 0.05% and its foreign exchange rate commitment, maintaining the exchange rate at around CZK27/Euro. The CNB expressed its intention to keep it at least until the middle of 2015, and possibly beyond that.

Fiscal Policy

The budget deficit was cut substantially to 1.5% of GDP in 2013 from 4.2% in 2012, thanks to an increase in tax revenues resulting from the VAT rate hike together with spending cuts imposed on local governments. The Czech government has met the deficit target of 3% of GDP set under the Stability and Growth Pact (SGP) for the first time since 2008. Given the marked improvement in the Czech budgetary situation, the EU council decided to close the Excessive Deficit Procedures (EDP) which had been launched in 2009.

On the back of the improved fiscal position, the new government which was formed in January has relaxed its fiscal stance, increasing public investment as well as welfare spending. The government assured that additional spending would be covered by higher tax revenues on the back of better economic performance and more effective tax collection, hence the budget deficit will be limited to 1.8% of GDP in 2014 and 2.3% in 2015 respectively, according to the latest convergence plan submitted to the EU commission.

Main Economic & Financial Indicators: Czech Republic

1. Annual and quarterly data

		2011	2012	2013	13/Q1	13/Q2	13/Q3	13/Q4	14/Q1
GDP (at current prices) *	(US\$ bn)	216.0	196.5	198.5	49.6	48.7	49.6	50.6	50.2
Real GDP growth *	(%, y/y)	1.8	-0.9	-0.9	-2.3	-1.6	-1.0	1.1	2.5
(Private consumption)*	(%, y/y)	0.5	-2.1	0.1	-1.4	-0.2	0.8	1.2	1.5
(Gross fixed capital formation)*	(%, y/y)	0.4	-4.3	-3.5	-5.3	-6.5	-5.0	2.7	5.2
Industrial production	(%, y/y)	6.1	-0.7	0.1	-5.8	-2.8	3.6	5.2	6.7
Retail sales	(%, y/y)	1.9	-0.9	1.1	-2.7	0.4	2.9	3.8	6.8
Bank credits to the private sector	(%, y/y)	4.6	3.3	2.5	2.7	1.7	2.2	3.5	2.8
Consumer price index	(%, y/y)	1.9	3.3	1.4	1.8	1.5	1.2	1.1	0.2
Average monthly wage growth	(%, y/y)	2.5	2.5	0.0	-0.5	1.2	1.4	-1.7	3.3
Unemployment rate *	(%)	6.7	7.0	6.9	7.2	6.9	6.9	6.7	6.6
Trade balance	(US\$ mn)	677	3,291	5,495	1,754	2,191	857	689	2,499
Exports	(US\$ mn)	136,191	139,268	144,253	34,676	35,773	35,762	38,033	38,916
Export growth	(%, y/y)	10.8	13.2	3.6	-4.4	2.6	6.3	10.1	16
Imports	(US\$ mn)	135,513	135,977	138,758	32,922	33,582	34,905	37,344	36,417
Import growth	(%, y/y)	9.2	11.0	2.0	-5.0	-1.0	5.8	8.3	14
Current account	(US\$ mn)	-5,877	-2,621	-2,861	513	-700	-2,161	-504	-
Capital and financial balances	(US\$ mn)	4,193	6,451	13,423	-24	1,495	947	10,972	-
Foreign direct investment	(US\$ mn)	2,319	7,986	4,991	2,910	1,084	160	854	-
Foreign reserves	(US\$ mn)	39,670	44,265	55,798	43,892	43,196	45,326	55,798	-
External debt	(US\$ mn)	94,155	101,860	111,338	99,583	102,920	103,114	111,338	-
Stock price index		1394.8	1199.2	1216.4	1,265.4	1,189.4	1,168.5	1,243.6	1,259.9
Short-term int. rates (Interbank 3m)	(period end)	1.189	0.998	0.457	0.496	0.463	0.458	0.411	0.372
EU Harmonised Gov. 10y bond yields		3.720	2.826	2.133	1.999	1.816	2.343	2.364	2.321
Koruna/USD		17.688	19.573	19.567	19.361	19.786	19.519	19.600	20.026
Koruna/Euro		24.591	25.144	25.986	25.562	25.829	25.853	26.685	27.442
Koruna/GBP		28.346	31.012	30.609	30.046	30.373	30.256	31.742	33.143

2. Monthly data

		13/10	11	12	14/01	2	3	4	5
Industrial production	(%, y/y)	3.1	3.9	8.6	5.6	6.2	8.4	7.7	-
Retail sales	(%, y/y)	-0.6	6.5	5.6	7.5	7.9	5.1	6.0	-
Bank credits to the private sector	(%, y/y)	2.9	4.0	3.7	3.0	2.7	2.7	3.6	-
Consumer price index	(%, y/y)	0.9	1.1	1.4	0.2	0.2	0.2	0.1	0.4
Unemployment rate	(%)	6.7	6.8	6.7	6.7	6.6	6.6	6.5	-
Trade balance	(US\$ mn)	529	632	-452	667	637	1201	-	-
Exports	(US\$ mn)	14004	13292	10790	12501	12604	13832	-	-
Export growth	(%, y/y)	6.1	9.2	16.6	17.2	15.5	15.6	-	-
Imports	(US\$ mn)	13475	12659	11242	11834	11967	12631	-	-
Import growth	(%, y/y)	2.0	7.6	17.4	12.3	18.6	12.6	-	-
Stock price index		1227.3	1275.2	1230.6	1261.4	1274.5	1244.3	1263.1	1256.5
Short-term int. rates (Interbank 3m)		0.45	0.40	0.38	0.37	0.37	0.37	0.37	0.37
EU Harmonised Gov. 10y bond yields		2.42	2.32	2.35	2.44	2.29	2.21	2.02	1.76
Koruna/USD		18.81	19.97	20.07	20.18	20.08	19.81	19.88	19.98
Koruna/Euro		25.66	26.93	27.52	27.48	27.44	27.40	27.45	27.44
Koruna/GBP		30.27	32.16	32.87	33.24	33.26	32.93	33.29	33.67

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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