

Main Economic & Financial Indicators Czech Republic

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Overview

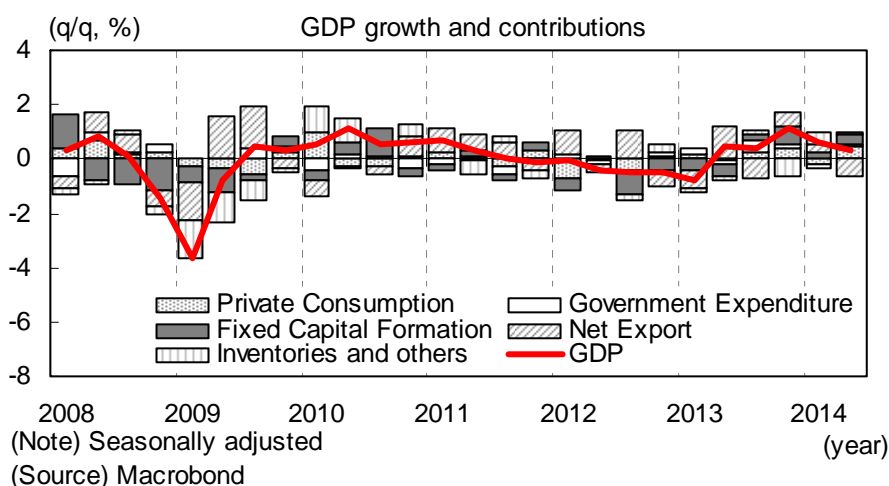
The Czech economy has maintained its recovery path, however, there are some signs of a slowdown. Real GDP in Q2 grew by 0.3% over the quarter, much slower than the previous quarter's 0.6% q/q, mainly due to weaker exports. Meanwhile, growth in private consumption and fixed capital formation enjoyed stronger growth, thus domestic demand underpinned overall growth, recording positive growth for the fifth consecutive quarter. It grew by 2.5% on a yearly basis, maintaining a relatively robust pace. However, data released in Q3 suggested that economic activities are slowing down somewhat. Industrial production in August fell by 5.2% over the year due to a substantial decrease in output in the manufacturing sector, registering negative growth for the first time since June 2013. September's Purchasing Managers' Index (PMI) for the manufacturing sector suggests that the underlying trend is becoming weaker, although it was slightly improved from the previous month's reading. While overall new orders have remained in expansionary territory supported by solid domestic demand, new export orders have been showing a downward trend since March. Data from the national statistics office revealed that new orders have been weakening at a much faster pace. While private consumption has enjoyed steady growth underpinned by improving labour markets, the latest consumer sentiment indicator suggests that private consumption could weaken in the coming months on the back of growing uncertainties over the economic outlook. In particular, concerns over further sanctions on Russia and its possible retaliations are growing. That said, low inflation should help households' real income increase, and the relatively small debt burden of households would underpin consumer spending to a degree. In addition, the fact that the government has managed to restrict its deficit so far this year would allow it to expand its spending, should the economy start to show signs of a slowdown. This suggests that the near-term economic prospects for the Czech Republic are relatively stable.

The deteriorating relationship between Russia and the West has cast a shadow over the Czech Republic's economic prospects, however. While the weaker rouble has already reduced the number of Russian tourists, the food import ban by Russia will have significant negative impacts on the agricultural and food sectors, although these sectors account for a relatively small part of the economy. More importantly, weaker demand from those neighboring countries directly impacted by the sanctions will reduce exports, the vital driver for growth. Russia's

suggestion of a possible imports ban on auto parts from the EU in the case of further sanctions has also raised concerns, adding downward pressure on the Czech economy.

GDP

Real GDP growth in Q2 was revised up to 0.3% q/q from the preliminary estimate of flat growth. Looking at the components of GDP by expenditure, while exports experienced a marked slowdown from the previous quarter's 3.3% q/q to 0.5% q/q, private consumption, fixed capital formation and government expenditure were up by 0.9% q/q, 1.4% q/q and 0.6% q/q respectively, making up for some of the losses in exports.

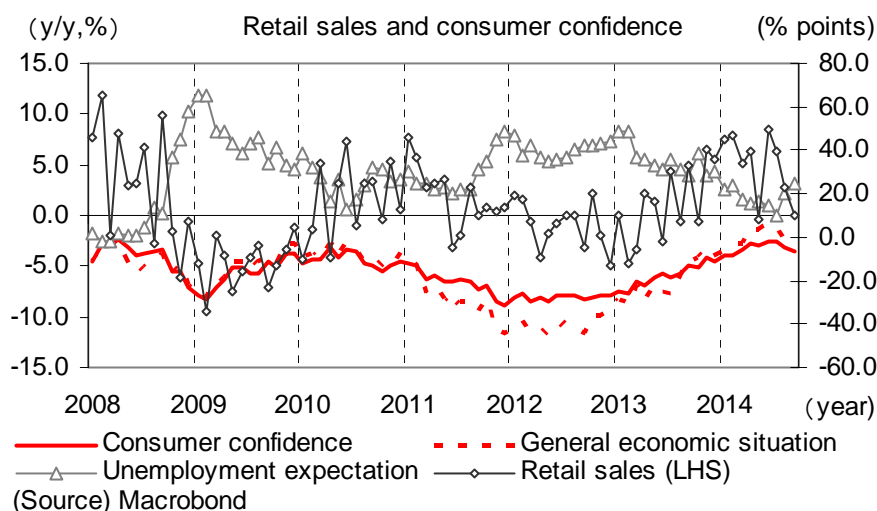


Output

Industrial production contracted by 5.2% y/y in August, recording negative growth for the first time since June 2013, as the manufacturing sector fell by 4.5% over the year. A breakdown by subsector reveals that production of motor vehicles declined substantially by 13.4% over the year, weighing heavily on overall output growth. The manufacturing PMI stood at 55.6 in September, a slight improvement from the previous month given a marginal improvement in new export orders. However, its trend has been a downward one since March.

Consumption, Labour market

Growth of retail sales in August stood at 2.7% y/y, decelerating from the previous month's 6.2% y/y. Consumer confidence had been improving on the back of lower unemployment, rising wages and low inflation. However, the introduction of further sanctions against Russia by the EU at the end of July, as well as the counter-sanctions by Russia, has since been undermining consumer confidence. Its indicator fell in September for the second month in a row and concerns over unemployment are on a rise, albeit slowly. Thus, the worsening relationship between Russia and the West has cast a shadow in consumers' minds.



Prices, Monetary Policy

Czech inflation has started to show a mild upward trend. Consumer price inflation in September rose by 0.7% y/y, 0.1% point up from the previous month. Prices of food and non-alcoholic beverages rose further, from 1.3% y/y to 2.2% y/y, pushing up the overall price level, while housing costs (which include electricity and gas tariffs) fell by 0.7% over the year, creating deflationary pressure.

At the Czech National Bank's (CNB's) monetary policy meeting on September 25th, the bank decided to keep its policy rate unchanged at 0.05% as well as its commitment to maintain the foreign exchange rate at around CZK27/Euro. The CNB expressed its intention to keep the weak koruna policy until the end of Q3 2015 and use the koruna as a monetary policy tool until 2016. The CNB expects the inflation rate to rise to the middle of the target range (between 1-3%) in the second half of 2015 as inflationary pressure from the domestic markets is likely to increase, given the higher import goods on the back of the weaker koruna as well as rising wages. At the same time, it also admitted that the external inflationary pressure has been receding amid stagnant economic growth in the euro area and falling oil prices, implying that the risk to the scenario remains anti-inflationary.

Impacts of sanctions on Russia

The EU introduced further sanctions against Russia at the end of July, and retaliations by Russia will undermine the Czech economic recovery from various channels. The falling rouble has already reduced the number of Russian tourists to the Czech Republic (which had reached 759,000 last year), damaging the Czech tourist industry which accounts for about 3% of GDP. The import ban on agricultural and food products by Russia will likely harm the agricultural and food sectors, both of which account for nearly 2% of GDP. Moreover, redundant food products in the region will flood into the Czech markets, forcing food prices to fall, thus creating further deflationary pressure. The most damaging impacts would be falling demand for manufacturing goods from neighboring countries, in particular from Germany, which has already seen its

export demand fall due to the sanctions. Reflecting this, Czech exports in August have already shown a substantial slowdown, although some aspects of the slowdown can be explained by the fewer working days. Thus, the further developments need to be watched closely. The Czech economy is heavily dependent on its exports sector. Exports of goods and services account for 79% of GDP (as of 2013). A slowdown in the economic activities of neighboring countries could filter through to the Czech economy much quicker than generally anticipated, via both direct and indirect channels.

Main Economic & Financial Indicators: Czech Republic

1. Annual and quarterly data

		2011	2012	2013	13/Q3	13/Q4	14/Q1	14/Q2	14/Q3
GDP (at current prices) *	(US\$ bn)	227.3	206.8	208.8	52.3	53.2	52.9	53.3	-
Real GDP growth *	(%, y/y)	2.0	-0.7	-0.7	-0.5	1.1	2.6	2.5	-
(Private consumption)*	(%, y/y)	0.3	-1.8	0.4	1.0	1.6	0.9	1.9	-
(Gross fixed capital formation)*	(%, y/y)	1.2	-2.8	-4.4	-4.0	0.0	2.4	5.7	-
Industrial production	(%, y/y)	6.1	-0.7	0.1	3.6	5.2	6.7	5.7	-
Retail sales	(%, y/y)	1.9	-0.9	1.1	2.9	3.8	6.8	4.8	-
Bank credits to the private sector	(%, y/y)	4.6	3.3	2.5	2.2	3.5	2.8	4.0	-
Consumer price index	(%, y/y)	1.9	3.3	1.4	1.2	1.1	0.2	0.2	0.6
Average monthly wage growth	(%, y/y)	2.5	2.5	0.0	1.4	-1.7	3.3	2.3	-
Unemployment rate *	(%)	6.7	7.0	6.9	6.9	6.7	6.6	6.2	-
Trade balance	(US\$ mn)	677	3,291	5,505	881	520	2,800	2,400	-
Exports	(US\$ mn)	136,191	139,268	142,393	35,316	37,710	38,767	39,315	-
Export growth	(%, y/y)	10.8	13.2	2.2	5.0	9.2	17.4	13.0	-
Imports	(US\$ mn)	135,513	135,977	136,888	34,434	37,190	35,968	36,915	-
Import growth	(%, y/y)	9.2	11.0	0.6	4.4	7.9	15.2	13.3	-
Current account	(US\$ mn)	-5,877	-2,621	-2,861	-2,161	-504	3,609	-1,702	-
Capital and financial balances	(US\$ mn)	4,193	6,451	13,423	947	10,972	-968	2,404	-
Foreign direct investment	(US\$ mn)	2,319	7,986	4,991	160	854	655	2,155	-
Foreign reserves	(US\$ mn)	39,670	44,265	55,798	45,326	55,798	57,058	58,566	-
External debt	(US\$ mn)	94,155	102,466	111,338	103,114	111,338	108,067	-	-
Stock price index		1394.8	1199.2	1216.4	1,168.5	1,243.6	1,259.9	1,268.3	1,222.6
Short-term int. rates (Interbank 3m)	(period end)	1.189	0.998	0.457	0.458	0.411	0.372	0.363	0.350
EU Harmonised Gov. 10y bond yields		3.720	2.826	2.133	2.343	2.364	2.321	1.785	1.365
Koruna/USD		17.688	19.573	19.567	19.519	19.600	20.026	20.016	20.848
Koruna/Euro		24.591	25.144	25.986	25.853	26.685	27.442	27.447	27.619
Koruna/GBP		28.346	31.012	30.609	30.256	31.742	33.143	33.693	34.795

2. Monthly data

		14/02	3	4	5	6	7	8	9
Industrial production	(%, y/y)	6.2	8.4	6.9	2.0	8.3	8.6	-5.2	-
Retail sales	(%, y/y)	7.9	5.1	6.3	-0.4	8.5	6.2	2.7	-
Bank credits to the private sector	(%, y/y)	2.7	2.7	3.6	4.0	4.5	3.9	3.7	-
Consumer price index	(%, y/y)	0.2	0.2	0.1	0.4	0.0	0.5	0.6	0.7
Unemployment rate	(%)	6.6	6.6	6.3	6.1	6.1	6.1	6.3	-
Trade balance	(US\$ mn)	743	1288	820	653	926	530	74	-
Exports	(US\$ mn)	12565	13815	13349	12822	13140	13147	10592	-
Export growth	(%, y/y)	17.0	17.3	12.7	10.7	15.6	19.2	2.3	-
Imports	(US\$ mn)	11822	12527	12529	12170	12213	12617	10518	-
Import growth	(%, y/y)	19.3	13.9	13.4	11.6	14.9	16.9	2.1	-
Stock price index		1274.5	1244.3	1263.1	1256.4	1286.1	1202.5	1221.2	1245.0
Short-term int. rates (Interbank 3m)		0.37	0.37	0.37	0.37	0.35	0.35	0.35	0.35
EU Harmonised Gov. 10y bond yields		2.29	2.21	2.02	1.76	1.57	1.48	1.40	1.21
Koruna/USD		20.08	19.81	19.88	19.98	20.19	20.29	20.89	21.39
Koruna/Euro		27.44	27.40	27.45	27.44	27.45	27.46	27.82	27.60
Koruna/GBP		33.26	32.93	33.29	33.67	34.14	34.64	34.89	34.87

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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