

Main Economic & Financial Indicators Czech Republic

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Overview

The Czech economy has enjoyed moderate growth supported by private consumption and underpinned by falling oil prices. GDP grew by 0.4% q/q, maintaining the same pace as the previous quarter. The overall growth rate for 2014 was 2.0%, registering positive growth for the first time in three years. Looking at the monthly data, retail sales activities grew at a brisk pace, implying that the negative impacts of the deteriorating relationship with Russia on Czech consumer sentiment seem to have been somewhat limited. Industrial production, which had been showing a moderate downward trend, seems to have finally bottomed out in December 2014. Overall industrial production for 2014 grew by 4.9% supported by the weak koruna.

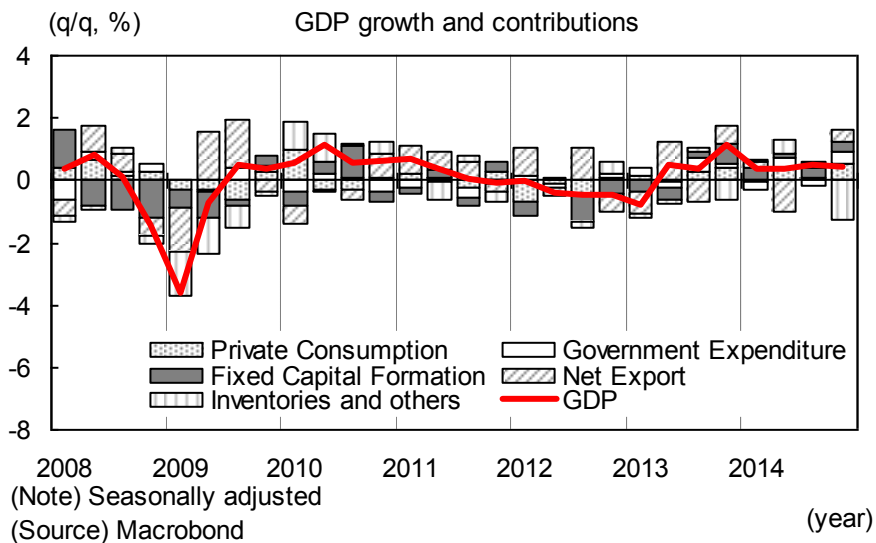
Inflation fell significantly, to close to zero, and it is suggested that it could fall into negative territory in the coming months. As nominal wages are growing by around 2% y/y, this should increase households' real incomes and in turn their purchasing power. Recently, consumer sentiment has improved substantially to a level last seen before the financial crisis, which indicates that private consumption is likely to remain solid in the near future.

The central government budget, the main part of the general government budget, recorded a deficit of CZK77.8bn (US\$3.8bn) in 2014, which was substantially smaller than projected in the budget plan of CZK112bn thanks to spending cuts and solid tax collection. While lower spending on benefits and lower debt service costs due to ultra-low interest rates reduced overall spending, higher-than-expected VAT collection increased revenues. The approved 2015 budget is projected to increase spending in social services, which include public sector workers' pay rises and higher pension payouts. As a result, the budget deficit is expected to reach 2.2% of GDP in 2015 from the current estimate of 1.5% of GDP in 2014. While this would be a substantial increase, it is still well below the 3% limit set by the EU. While export demand from the other European countries is likely to remain subdued, solid domestic demand, which includes larger government spending, should underpin the Czech economic recovery.

GDP

Real GDP in Q4 was 0.4% q/q and 1.5% y/y, both of which were revised up from the preliminary result. GDP components confirmed solid recovery in domestic demand; private consumption rose by 1.2% q/q (up from the previous quarter's 0.2% q/q), government

spending (which fell in the previous quarter) was up by 1.9% q/q, and fixed capital formation maintained a solid growth pace of 1.2% q/q. Furthermore, the contribution by external demand rose somewhat on the back of faster exports growth than that of imports.

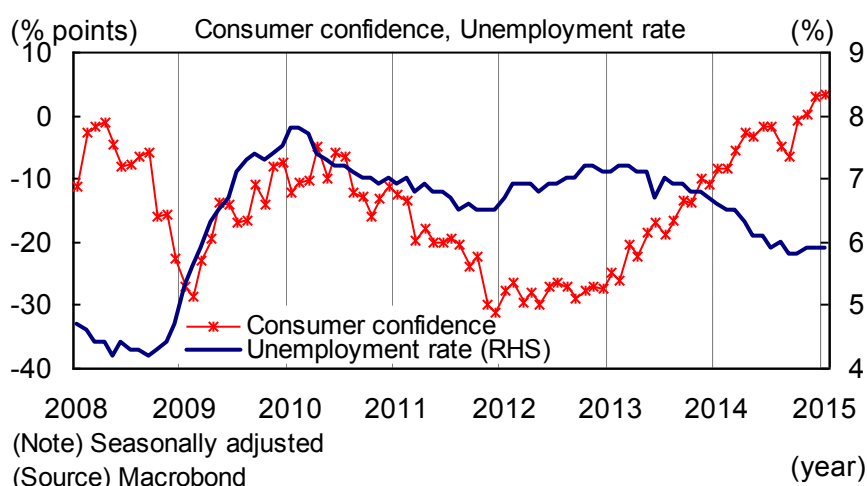


Output

Industrial production jumped by 7.3% y/y in December, a sharp increase from the previous month's contraction of 0.4%. The strong performance in the manufacturing sector, rising by 9.8% y/y, underpinned overall growth in industrial production. While the manufacturing Purchasing Managers' Index (PMI) stood at 55.6 in February, down from the previous month's reading of 56.1, it seems to have already bottomed out last December at 53.3.

Consumption, Labour market

Growth of real retail sales in December stood at 5.9% y/y, supported by robust sales of automobiles and fuel which rose by 6.5% y/y and 13.6% y/y respectively. In 2014 as a whole, retail sales increased by 5.4%, enjoying the strongest growth rate since 2007 and supported mainly by auto sales. Consumer confidence, which had once shown signs of deterioration in the face of growing economic uncertainties due to the worsening relationship with Russia, has started to show an upward trend on the back of relatively favourable labour market conditions, in particular the unemployment rate falling to below the 6% level, as well as lower oil prices. The confidence index has risen to a level last seen before the financial crisis, implying that the underlying trend in private consumption will remain solid.



Prices, Monetary Policy

On the back of lower oil prices, inflation continues to fall to very low levels. Consumer price inflation rose by a mere 0.1% y/y in January, unchanged from the previous month. The cost of transport (which includes fuel prices) fell by 4.6% y/y and the price of food and beverages dropped by 1.5% y/y, both decelerating faster than in the previous month. Meanwhile, the cost of housing (which includes utility prices) increased by 1.2% y/y as the impact of the electricity price cuts introduced at the beginning of last year fell out of the statistics. In 2014 as a whole, the inflation rate rose by only 0.4%. While the weaker koruna led by the central bank's monetary policy has created upward pressure on inflation through higher imported goods prices, falling oil prices, which have progressed since the latter half of last year, have created stronger downward pressure on inflation. Thus, the inflation rate remains well below its target range of 2% (± 1)

At the Czech National Bank's (CNB's) monetary policy meeting on February 5th, 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 and intervene in the market only when upward pressure on the koruna occurs. The CNB expects inflation to remain around zero or fall into negative territory in 2015 on the back of falling oil and food prices, and it is likely to stay below the 2% target until the second half of 2016. As the impact of the ECB's quantitative easing (QE) programme on the euro area's economic activities and inflation is unclear, the degree of uncertainty surrounding the Czech Republic's inflation outlook has increased somewhat. Under such circumstances, the CNB stated that it would maintain the use of the exchange rate as a monetary policy instrument at least until the beginning of the second half of 2016.

Balance of payments

According to the preliminary data, the current account balance was about USD0.75bn (0.4% of GDP) in surplus in 2014, a stark contrast to the deficit recorded in the previous year of USD2.9bn (1.4% of GDP), reflecting an increase in the trade surplus due to the weak koruna

led by the CNB. In 2015, it is likely that the current account will return to deficit, as strong domestic demand as well as further koruna depreciation will be limited.

Main Economic & Financial Indicators: Czech Republic

1. Annual and quarterly data

| | | 2012 | 2013 | 2014 | 13/Q4 | 14/Q1 | 14/Q2 | 14/Q3 | 14/Q4 |
|--------------------------------------|--------------|---------|---------|---------|---------|---------|---------|---------|---------|
| GDP (at current prices) * | (US\$ bn) | 206.8 | 208.8 | 205.5 | 53.2 | 52.8 | 53.1 | 51.3 | 48.6 |
| Real GDP growth * | (%, y/y) | -0.7 | -0.7 | 2.0 | 1.1 | 2.3 | 2.1 | 2.2 | 1.5 |
| (Private consumption)* | (%, y/y) | -1.8 | 0.4 | 1.7 | 1.6 | 1.1 | 2.0 | 1.7 | 2.0 |
| (Gross fixed capital formation)* | (%, y/y) | -2.8 | -4.4 | 4.7 | 0.0 | 3.1 | 5.4 | 5.7 | 4.4 |
| Industrial production | (%, y/y) | -0.7 | 0.1 | 4.9 | 5.2 | 6.7 | 5.7 | 3.7 | 3.4 |
| Retail sales | (%, y/y) | -0.9 | 1.1 | 5.4 | 3.8 | 6.8 | 4.8 | 5.6 | 4.7 |
| Bank credits to the private sector | (%, y/y) | 3.3 | 2.5 | 3.6 | 3.5 | 2.8 | 4.0 | 3.7 | 3.8 |
| Consumer price index | (%, y/y) | 3.3 | 1.4 | 0.4 | 1.1 | 0.2 | 0.2 | 0.6 | 0.5 |
| Average monthly wage growth | (%, y/y) | 2.5 | 0.0 | - | -1.7 | 3.3 | 2.3 | 1.8 | - |
| Unemployment rate * | (%) | 7.0 | 7.0 | 6.1 | 6.8 | 6.5 | 6.2 | 5.9 | 5.9 |
| Trade balance | (US\$ mn) | 3,291 | 5,444 | 7,564 | 495 | 2,738 | 2,400 | 1,569 | 970 |
| Exports | (US\$ mn) | 139,268 | 142,393 | 151,285 | 37,710 | 38,689 | 39,315 | 37,378 | 36,160 |
| Export growth | (%, y/y) | 13.2 | 2.2 | 12.7 | 9.2 | 17.2 | 13.0 | 13.0 | 8 |
| Imports | (US\$ mn) | 135,977 | 136,949 | 143,721 | 37,215 | 35,951 | 36,915 | 35,809 | 35,190 |
| Import growth | (%, y/y) | 11.0 | 0.7 | 11.4 | 8.0 | 15.1 | 13.2 | 11.1 | 7 |
| Current account | (US\$ mn) | -3,235 | -2,902 | 749 | -903 | 3,997 | -1,341 | -1,683 | -224 |
| Capital and financial balances | (US\$ mn) | 3,306 | 3,214 | 3,691 | -1,103 | 4,431 | -893 | -521 | 675 |
| Foreign direct investment | (US\$ mn) | 9,438 | 6,910 | 4,719 | 457 | 2,234 | -636 | 1,947 | 1,175 |
| Foreign reserves | (US\$ mn) | 44,265 | 55,798 | 54,085 | 55,798 | 57,058 | 58,566 | 54,410 | 54,085 |
| External debt | (US\$ mn) | 127,746 | 136,882 | - | 136,882 | 134,920 | 137,583 | 127,007 | - |
| Stock price index | | 1199.2 | 1216.4 | 1239.6 | 1,243.6 | 1,259.9 | 1,268.3 | 1,222.6 | 1,208.6 |
| Short-term int. rates (Interbank 3m) | (period end) | 0.998 | 0.457 | 0.357 | 0.411 | 0.372 | 0.363 | 0.350 | 0.344 |
| EU Harmonised Gov. 10y bond yields | | 2.826 | 2.133 | 1.581 | 2.364 | 2.321 | 1.785 | 1.365 | 0.877 |
| Koruna/USD | | 19.573 | 19.567 | 20.764 | 19.600 | 20.026 | 20.016 | 20.848 | 22.132 |
| Koruna/Euro | | 25.144 | 25.986 | 27.537 | 26.685 | 27.442 | 27.447 | 27.619 | 27.634 |
| Koruna/GBP | | 31.012 | 30.609 | 34.173 | 31.742 | 33.143 | 33.693 | 34.795 | 35.023 |

2. Monthly data

| | | 14/07 | 8 | 9 | 10 | 11 | 12 | 15/01 | 2 |
|--------------------------------------|-----------|--------|--------|--------|--------|--------|--------|-------|-------|
| Industrial production | (%, y/y) | 8.4 | -5.7 | 8.5 | 3.2 | -0.4 | 7.3 | - | - |
| Retail sales | (%, y/y) | 6.6 | 3.5 | 6.7 | 7.5 | 0.8 | 5.9 | - | - |
| Bank credits to the private sector | (%, y/y) | 3.9 | 3.7 | 3.6 | 4.4 | 3.2 | 3.9 | 4.4 | - |
| Consumer price index | (%, y/y) | 0.5 | 0.6 | 0.7 | 0.7 | 0.6 | 0.1 | 0.1 | - |
| Unemployment rate | (%) | 5.9 | 6.0 | 5.8 | 5.8 | 5.9 | 5.9 | 5.9 | - |
| Trade balance | (US\$ mn) | 524 | 107 | 928 | 583 | 532 | -134 | - | - |
| Exports | (US\$ mn) | 13,249 | 10,634 | 13,477 | 13,318 | 12,377 | 10,505 | - | - |
| Export growth | (%, y/y) | 20.2 | 2.7 | 15.7 | 11.0 | 4.1 | 10.0 | - | - |
| Imports | (US\$ mn) | 12,725 | 10,527 | 12,549 | 12,735 | 11,845 | 10,639 | - | - |
| Import growth | (%, y/y) | 18.0 | 2.2 | 12.7 | 9.8 | 4.2 | 6.3 | - | - |
| Stock price index | | 1,202 | 1,221 | 1,245 | 1,197 | 1,216 | 1,213 | 1,190 | 1,249 |
| Short-term int. rates (Interbank 3m) | | 0.35 | 0.35 | 0.35 | 0.35 | 0.34 | 0.34 | 0.33 | 0.33 |
| EU Harmonised Gov. 10y bond yields | | 1.48 | 1.40 | 1.21 | 1.05 | 0.82 | 0.76 | 0.54 | 0.59 |
| Koruna/USD | | 20.29 | 20.89 | 21.39 | 21.77 | 22.18 | 22.46 | 23.99 | 24.30 |
| Koruna/Euro | | 27.46 | 27.82 | 27.60 | 27.59 | 27.67 | 27.65 | 27.89 | 27.61 |
| Koruna/GBP | | 34.64 | 34.89 | 34.87 | 34.98 | 35.00 | 35.09 | 36.37 | 37.26 |

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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