

Main Economic & Financial Indicators Czech Republic

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Overview

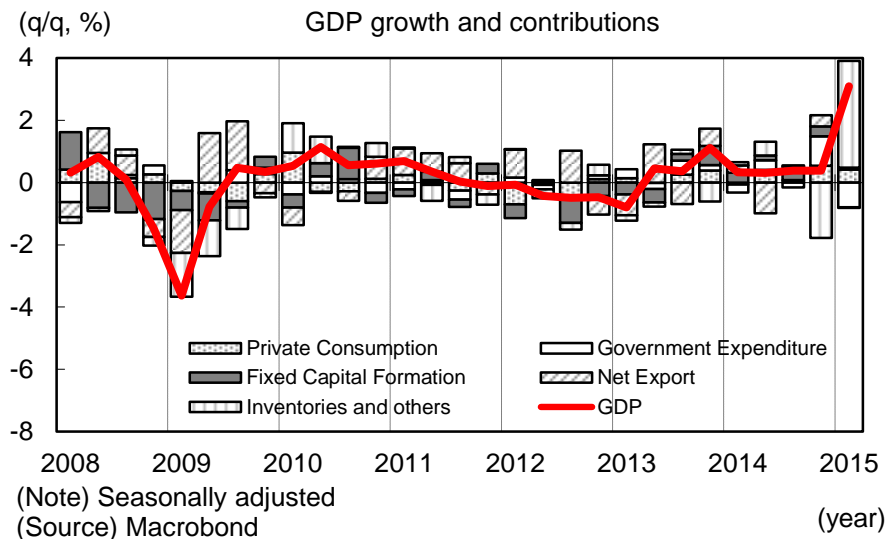
The Czech economy has maintained its recovery momentum. Low inflation and the improving labour market situation have triggered real income increases, underpinning private consumption and thus overall growth. During Q1, GDP grew by 3.1% q/q. This significant increase was attributed to the strong growth in inventories, reflecting the adjustment to the change in excise duties on tobacco products, hence it is highly likely to be a one-off event. Private consumption remained a major contributor to growth by adding 0.4% points to the overall growth rate over the quarter. In addition, exports started to pick up on the back of the improvements in the euro area economy. That said, by responding to the relatively robust domestic demand, imports grew much faster than exports, reducing the net export contribution to growth. The latest data confirmed that the environment surrounding consumption continues to be sanguine: consumer sentiment is showing an upward trend, reflecting the increasing job opportunities and thus underpinning relatively strong retail sales. Industrial production, mainly led by the manufacturing sector (in particular the transport branch), enjoyed an expansion, benefitting from the mild recoveries seen both in domestic and external markets.

Looking ahead, a large proportion of Czech households are likely to benefit from the low inflation and improving labour market, thus supporting private consumption. In addition, the increase in public investment projects underpinned by the EU fund inflows coupled with the possible increase in corporate investment in response to low interest rates and improving economic prospects should support the overall economy. The Czech National Bank (CNB) predicted in its latest inflation report that real GDP growth will expand at a faster pace in 2015 at 2.6% y/y, driven by domestic demand, namely consumption and investment. In regards to inflation, the bank expects it to stay at a very low level of around 0.2% y/y, much lower than the previous year's inflation rate of 0.4% y/y, mainly due to falls in regulated prices, in particular utility prices.

GDP

Real GDP in Q1 was up by 3.1% q/q (4.2% y/y). This substantial acceleration from the previous quarter's 0.4% q/q (1.4% y/y) was attributed to the change in the excise duties on tobacco products in Q4 and the subsequent adjustments in inventories which pushed inventories' contribution to growth up by 3.9% points over the quarter (2.6% points over the

year), implying that this was a one-off event. The developments of the other GDP components confirmed that the fundamental trend remained the same: private consumption rose by 0.9% q/q (3.0% y/y), fixed capital formation was up by 0.2% q/q (3.2% y/y), both slightly decelerated from the previous quarter but the underlying trend remains stable. While exports expanded strongly, rising by 3.8% q/q (7.7 y/y) due to a mild recovery in the euro area, imports grew even stronger, up by 4.1% q/q (9.0% y/y), reflecting the increase in imports of intermediate and capital goods, thus net exports' contribution to growth has shrunk somewhat.



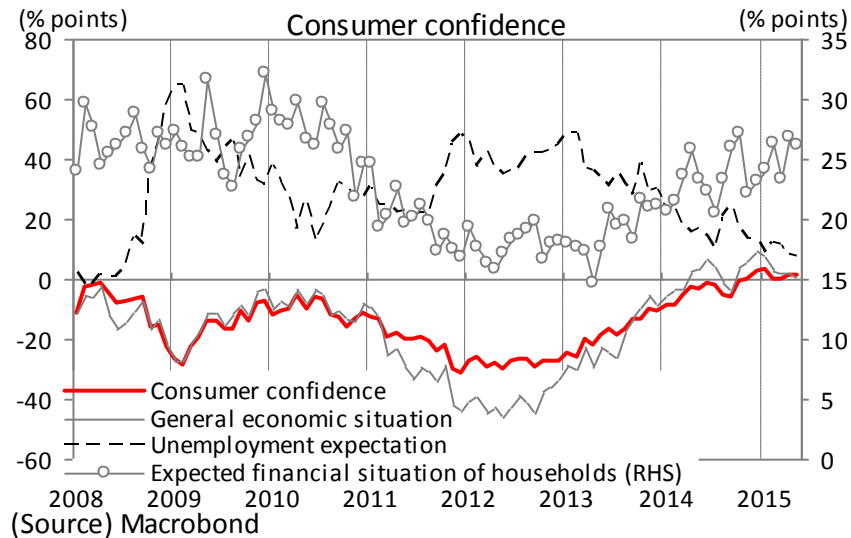
Output

Industrial production was up by 4.3% y/y in April. While it decelerated from the previous month's 6.3% y/y, seasonally adjusted data showed a 0.8% increase over the month compared with the previous month's 0.1% decrease, implying that the underlying trend turned somewhat upward. The manufacturing Purchasing Managers' Index (PMI) stood at 55.5 in May, a slight improvement from the previous month's reading of 54.7. While the reading for export new orders has weakened somewhat, the reading for overall new orders stayed at the relatively high level of 56.0, reflecting robust domestic new orders due to solid domestic demand.

Consumption, Labour market

Growth of real retail sales in April stood at 6.4% y/y, decelerating from the previous month's 8.8% y/y as sales of automobiles and fuel weakened somewhat. That being said, steady wage growth – even under the low inflation environment – coupled with the improving labour market has been pushing up consumer sentiment, underpinning consumption. The level of employment has returned to the pre-crisis level and the concerns over future unemployment have receded in the face of the recent improvements in the labour market. Furthermore, households' expectations of their future financial situations and economic prospects have been

improving, implying that the environment surrounding consumption remains somewhat favourable



Prices, Monetary Policy

While the low inflation environment is expected to continue, the headline inflation has already bottomed out after reaching 0.1% y/y during last December and this February. Inflation has now started to show a moderate upward trend. Consumer price inflation rose by 0.7% y/y in May, growing faster than the previous month for the third consecutive month. More moderate falls in transport costs (which includes fuel prices) and prices of food and beverages were observed during May, falling by 0.3% y/y and 3.1% y/y respectively, while during the previous month the costs of these items dropped by 0.7% y/y and 3.8% y/y. In addition, costs of entertainment and cultural activities increased by 1.0% y/y, creating upward pressure on inflation.

At the Czech National Bank's (CNB's) monetary policy meeting on May 7th, 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 expects inflation to remain at the current low level throughout the rest of 2015 on the back of regulated price cuts in response to the past falls in the oil price. The CNB foresees that inflation will gradually pick up later on, and is likely to stay just below the 2% target until the end of the second half of 2016. The bank admitted, however, that potential downward pressure on inflation remains, which will require the bank to continue its weaker koruna policy at least before the second half of 2016. Even after that, if signs of growing concerns over deflation, weaker domestic demand and receding inflation expectations become visible, the CNB stands ready to keep the weaker currency policy for an extended period of time.

Balance of payments

During Q1 in 2015, the current account balance recorded a surplus of US\$3.7bn. The size of the surplus was slightly reduced from US\$4.2bn during the same period of the previous year,

as the mildly stronger koruna against the euro (due to the QE by the ECB) coupled with the modest recovery in the domestic market increased import bills, thus reducing both trade and service surpluses. Meanwhile, the secondary income account (income transfer) recorded a surplus of US\$0.5bn, a substantial increase from the same period in the previous year of US\$-0.8bn. 2015 will be the final year during which the EU member states will have access to the funds allocated during the previous budgetary period between 2007 and 2013. The Czech Republic still has unused funds worth roughly EUR4bn, and some portion of this fund is expected to flow into the country during the rest of the year. That said, as the EU fund is only paid to completed projects, the anecdotal evidence suggests that it is likely that only about a half of the fund will be transferred to the country.

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1. Annual and quarterly data

		2012	2013	2014	14/Q1	14/Q2	14/Q3	14/Q4	15/Q1
GDP (at current prices) *	(US\$ bn)	206.8	208.8	205.5	52.8	53.1	51.3	48.7	45.4
Real GDP growth *	(%, q/q)	-0.7	-0.7	2.0	0.3	0.3	0.4	0.4	3.1
	(%, y/y)				2.3	2.1	2.2	1.4	4.2
(Private consumption)*	(%, y/y)	-1.8	0.4	1.7	1.1	2.0	1.7	2.0	3.0
(Gross fixed capital formation)*	(%, y/y)	-2.8	-4.4	4.5	2.8	5.3	5.5	4.3	3.2
Industrial production	(%, y/y)	-0.7	0.1	5.0	6.9	6.0	3.9	3.4	4.5
Retail sales	(%, y/y)	-0.9	1.1	5.6	7.1	4.8	5.7	4.8	7.9
Bank credits to the private sector	(%, y/y)	3.3	2.5	3.6	2.8	4.0	3.7	3.8	4.5
Consumer price index	(%, y/y)	3.3	1.4	0.4	0.2	0.2	0.6	0.5	0.1
Average monthly wage growth	(%, y/y)	2.5	-0.1	2.3	3.2	2.1	1.6	2.2	2.2
Unemployment rate *	(%)	7.0	7.0	6.1	6.5	6.2	5.9	5.8	5.8
Trade balance	(US\$ mn)	3,291	5,444	7,421	2,775	2,293	1,596	874	2,377
Exports	(US\$ mn)	139,268	142,393	151,825	38,822	39,514	37,482	36,268	34,193
Export growth	(%, y/y)	13.2	2.2	13.1	17.6	13.5	13.4	8.6	7.9
Imports	(US\$ mn)	135,977	136,949	144,404	36,047	37,221	35,886	35,394	31,815
Import growth	(%, y/y)	11.0	0.7	11.9	15.4	14.2	11.3	7.4	8.2
Current account	(US\$ mn)	-3,235	-1,113	1,257	4,173	-1,460	-1,597	228	3,730
Capital and financial balances	(US\$ mn)	3,306	7,704	3,859	4,915	-458	-718	264	5,191
Foreign direct investment	(US\$ mn)	9,438	7,358	4,884	2,379	-636	2,145	984	1,041
Foreign reserves	(US\$ mn)	44,265	55,798	54,085	57,058	58,566	54,410	54,085	52,036
External debt	(US\$ mn)	127,746	137,376	125,105	135,062	137,486	128,573	125,105	-
Stock price index		1199.2	1216.4	1239.6	1,259.9	1,268.3	1,222.6	1,208.6	1,238.6
Short-term int. rates (Interbank 3m)	(period end)	0.998	0.457	0.357	0.372	0.363	0.350	0.344	0.328
EU Harmonised Gov. 10y bond yields		2.826	2.133	1.581	2.321	1.785	1.365	0.877	0.551
Koruna/USD		19.573	19.567	20.764	20.026	20.016	20.848	22.132	24.542
Koruna/Euro		25.144	25.986	27.537	27.442	27.447	27.619	27.634	27.625
Koruna/GBP		31.012	30.609	34.173	33.143	33.693	34.795	35.023	37.159

2. Monthly data

		14/10	11	12	15/01	2	3	4	5
Industrial production	(%, y/y)	2.9	-0.6	7.8	2.5	4.6	6.3	4.3	-
Retail sales	(%, y/y)	7.8	0.7	5.8	6.9	7.9	8.8	6.4	-
Bank credits to the private sector	(%, y/y)	4.4	3.2	3.9	4.4	4.5	4.6	5.0	-
Consumer price index	(%, y/y)	0.7	0.6	0.1	0.1	0.1	0.2	0.5	0.7
Unemployment rate	(%)	5.8	5.9	5.8	5.8	5.8	5.8	5.9	-
Trade balance	(US\$ mn)	614	495	-223	842	789	749	784	-
Exports	(US\$ mn)	13,382	12,384	10,542	10,878	11,224	12,067	11,104	-
Export growth	(%, y/y)	11.5	4.2	10.4	4.0	8.2	11.4	5.8	-
Imports	(US\$ mn)	12,768	11,889	10,765	10,035	10,435	11,318	10,320	-
Import growth	(%, y/y)	10.0	4.6	7.6	2.2	6.9	15.0	4.5	-
Stock price index		1,197	1,216	1,213	1,190	1,249	1,278	1,303	1,279
Short-term int. rates (Interbank 3m)		0.35	0.34	0.34	0.33	0.33	0.32	0.31	0.31
EU Harmonised Gov. 10y bond yields		1.05	0.82	0.76	0.54	0.59	0.53	0.43	0.77
Koruna/USD		21.77	22.18	22.46	23.99	24.30	25.32	25.36	24.57
Koruna/Euro		27.59	27.67	27.65	27.89	27.61	27.38	27.45	27.40
Koruna/GBP		34.98	35.00	35.09	36.37	37.26	37.86	37.97	37.96

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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