

NEWS SUMMARY JUNE 15 – JUNE 22

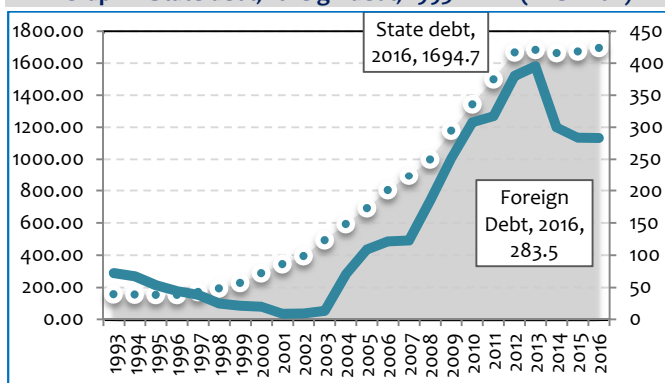
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ECONOMY & FINANCE

STATE DEBT – 15. 6.

According to the MF¹, state debt increased in Q1² 2016 by CZK³ 21.7bn⁴ to CZK 1.695tn⁵. Foreign debt decreased by CZK 1.5bn to CZK 283,5bn.

Graph 1: State debt, foreign debt, 1993 – 2016 (in CZK bn)



COMPARATIVE PRICE LEVELS FOR FOOD – 15. 6.

Price levels for food, beverages and tobacco vary considerably across the EU⁶ Member States. In 2015, the prices for food and non-alcoholic beverages in Denmark were 145% of the EU average, while in Poland they were 63% of the EU average.

In comparison, which ignores the difference in the purchasing power of the population, after Poland, the cheapest prices are in Romania, Bulgaria and Lithuania. The CR⁷ follows, together with Hungary. Food and non-alcoholic beverages in both countries can be bought for 79% of the EU average.

Alcohol was priced in Ireland at 175% of the EU average, but at 64% in Bulgaria. For tobacco the highest prices were observed in the United Kingdom (218% of the EU average), while the lowest were recorded in Bulgaria (50%).

LOW CROWN POLICY NOT IN INTEREST OF EXPORTERS – 15. 6.

President Zeman has warned that while the low crown regime of the CNB⁸ might have short term gains for exporters, there might also be a longer term cost. The low crown encouraged laziness, a lack of innovation, and improved productivity, Zeman warned. He added that the CR should not compete abroad on the basis of its low cost workforce but on their skills and education. He added that small countries could not afford to take the moral high ground when negotiating export contracts.

¹ MF: Ministry of Finance

² Q1: 1st quarter of the year

³ CZK: Czech Crown, the currency of the CR since 8 February 1993

⁴ Bn: billion

⁵ Tn: Trillion

⁶ EU: European Union

⁷ CR: Czech Republic

⁸ CNB: Czech National Bank

NEW LEGISLATION TO BE AVAILABLE ONLINE – 16. 6.

The current wording of all valid Czech laws will be available online for free as of 2020 thanks to the bill on the introduction of the electronic form of the Collection of Laws that the Senate smoothly passed at its session.

The bill is yet to be signed into law by the president.

The bill wants to make the legislation more available and more comprehensible.

The MI⁹ will administer the electronic system and be responsible for the published version being complete and correct. It will be obliged to release all information on changes ensuing from the rulings of the CC¹⁰.

CHINESE BANK ICBC TO OPEN SUBSIDIARY IN CR – 16. 6.

One of the world's leading banks, ICBC¹¹, will open a subsidiary in the CR. The Czech Secretary of State for European Affairs, Tomáš Prouza, signed a memorandum confirming the bank's entry onto the Czech market, during PM¹² Sobotka's visit to China. The bank has also launched a Czech section of its online platform e-Mall. PM said after the signing of the memorandum that the CR fulfils its target to become the financial centre for Chinese institutions for CEE¹³.

EC SUPPORT FOR REVERSE CHARGE VAT - 17. 6.

MF¹⁴ Minister Babiš said after a meeting of EU finance ministers in Brussels on Friday that the EC had taken a positive stand to his proposal for clamping down on VAT fraud. Babiš said the EC¹⁵ had promised to present a draft legislation on reverse charge VAT by the end of the year. The MF Minister has sought the go ahead from fellow ministers for the CR to have the widest possible remit to use so-called reverse charge VAT, where the tax is paid by the consumer and not the seller. He believes that greater use of reverse charge could save the EU a large part of the around €170bn lost every year in unpaid VAT¹⁶.

CZECH GDP LIKELY TO SHRINK IN CASE OF BREXIT – 20. 6.

A British withdrawal from the EU could result in a drop in Czech growth of up to 0.23% of GDP¹⁷ a year or around CZK 10.4bn, according to a study released by the consultancy Deloitte. The Deloitte study is based on figures from the British Treasury which sees GDP down by 3.6% in the short term compared to the scenario if the country

⁹ MI: Ministry of the Interior

¹⁰ CC: Constitutional Court of the Czech Republic

¹¹ ICBC: Industrial and Commercial Bank of China Ltd. is the largest bank in the world by total assets. It is one of China's 'Big Four' state-owned commercial banks. It was founded as a limited company on January 1, 1984. As of March 2014, it had assets of US\$3.18 trillion. It is generally considered the largest bank in the world by assets.

¹² PM: Prime Minister

¹³ CEE: Central and Eastern Europe, is a generic term for the group of countries in Central Europe, Southeast Europe, Northern Europe, and Eastern Europe

¹⁴ MF: Ministry of Finance

¹⁵ EC: European Commission

¹⁶ VAT: Value-added tax

¹⁷ GDP: Gross domestic product

remained in the group of 28 countries. The long term impact over 15 year is shrinking of GDP to the tune of 3.4 to 4.3%. The consequences are based on Britain, like Norway, signed up to the EEA¹⁸ if it quit the EU. The impact would be much more dramatic if Britain just remained in the WTO¹⁹.

BREXIT WOULD COST ČR TENTHS OF PERCENT OF GDP – 21. 6.

The impact of Britain's departure from the EU on the Czech economy would be worth tenths of percent of GDP, PM's chief adviser Vladimír Špidla said.

He said the overall impact of Brexit, on which the Britons will vote in a referendum on Thursday, is difficult to guess. However, the decision may also influence the operation of NATO²⁰, Špidla said.

"Anything may happen, including an increase in nationalism...It is difficult to imagine what [the possible departure] would mean for NATO, it is difficult to imagine how it would influence Great Britain itself," Špidla said.

He said that Britain has military bases in Scotland that might demand independence from Britain in case of Brexit according to observers.

Špidla said that various kind of analyses show that Brexit would have an important, but not fundamental impact on the Czech economy.

He said that even if Britain left the EU, the CR should strive for Britain being maximally integrated in the EU.

"A new arrangement will have to be formulated. Generally, I believe that it would be correct if Britain were as close (to the EU) as possible in any situation," Špidla said.

CR LOSES CZK 109BN A YEAR DUE TO GREY ECONOMY – 21. 6.

The CR loses more than CZK 109bn a year due to grey economy. According to estimates, the informal sector amounts to 11.3% of GDP. As for sector distribution, the dominant share is taken by the segment of food products, beverages and tobacco (39.6%), a study by EY²¹ and MA²² has revealed. According to the study, introduction of electronic wage payments could increase the government revenue (+ CZK 1.4bn) as well as electronic payments of government transfers, pensions and social benefits (+ CZK 5.1bn). An additional CZK 26bn could be brought in by consumer incentives.

¹⁸ EEA: European Economic Area

¹⁹ WTO: The World Trade Organization (WTO) is an intergovernmental organization which regulates international trade. The WTO officially commenced on 1 January 1995 under the Marrakesh Agreement, signed by 123 nations on 15 April 1994, replacing the General Agreement on Tariffs and Trade (GATT), which commenced in 1948. The WTO deals with regulation of trade between participating countries by providing a framework for negotiating trade agreements and a dispute resolution process aimed at enforcing participants' adherence to WTO agreements, which are signed by representatives of member governments and ratified by their parliaments.

²⁰ NATO: the North Atlantic Treaty Organization, also called the North Atlantic Alliance, is an intergovernmental military alliance based on the North Atlantic Treaty which was signed on 4 April 1949. The organization constitutes a system of collective defence whereby its member states agree to mutual defence in response to an attack by any external party.

²¹ EY: Ernst & Young is a multinational professional services firm headquartered in London, United Kingdom. It is one of the "Big Four" audit firms and is the 3rd largest professional services firm in the world, after PwC and Deloitte.

²² MA: MasterCard Incorporated or MasterCard Worldwide is an American multinational financial services corporation. Throughout the world, its principal business is to process payments between the banks of merchants and the card issuing banks or credit unions of the purchasers who use the "MasterCard" brand debit and credit cards to make purchases. MasterCard Worldwide has been a publicly traded company since 2006.



RUSSIAN SANCTION – 21. 6

Ambassadors of the EU countries have agreed to extend economic sanctions against Russia by the end of January next year, according to ČTK²³ information from diplomatic circles. The foreign ministers of the EU countries should have to confirm the move formally on Friday, assuming that the French Parliament will raise no a last minute objections. Yet diplomats have no doubt that the EU will extend by 6 month sanctions, which would otherwise have expired at the end of July.



CR WAS 6TH FASTEST GROWING ECONOMY - 21. 6.

The growth of the Czech economy in the Q1 2016 was the 6th highest in the EU and among the countries with a better result were Malta, Romania, Slovakia, Sweden and Spain, according to an analysis released by the CSO²⁴.

Compared with the GDP development in the EU, the growth of the Czech economy was stronger. This is the tenth quarter in a row when the CR reached a higher GDP growth than the whole EU, the CSO said.

Czech economy grew by 3% y-o-y²⁵ and by 0.4% against the previous quarter in the Q1 2016.

"The favourable economic development was based on increasing domestic demand. Household spending was the main factor but the foreign trade result was improving as well," said the CSO.

According to earlier comments of analysts, the Q1 data confirm the good condition of the Czech economy. They at the same time forecast that the growth will be weaker in the coming quarters due to the end to drawing of money from EU funds for the past programming period.

For the whole of this year, Czech economic growth should move around 2.5%.

SERVICES & ICT & RDI²⁶ & TOURISM



SCIENTISTS DISCOVER AGENTS EFFECTIVE AGAINST ZIKA – 16. 6.

Czech scientists from the Biological centre of the CAS²⁷ in Prague and the Veterinary Research Institute in Brno have discovered a group of agents with a strong effect against the mosquito-born Zika virus. It is the first described substance which is effective against the tick-born encephalitis and the Zika virus. The team of scientists cooperates with the Institute of Organic Chemistry and Biochemistry, which is working on transforming the newly discovered molecules into a medicine. The Zika virus, which has spread from Brazil to more than 20 countries, is linked to severe brain damage or death in infants born to mothers who contracted the disease during pregnancy.



TAČR NEGOTIATES COLLABORATION IN JAPAN – 20. 6.

Support of international collaboration in applied research is the objective of a MoU²⁸ signed by the TAČR²⁹ and Japan's

²³ ČTK: The Czech News is a national public service news agency in the Czech Republic. It publishes in Czech, Slovak, and English

²⁴ CSO: Czech Statistical Office

²⁵ Y-o-y: Year on year

²⁶ RDI: Research, Development and Innovation

²⁷ CAS: Czech Academy of Sciences

²⁸ MoU: Memorandum of Understanding

²⁹ TAČR: The Technology Agency of the Czech Republic is an organizational unit of the stat that was founded in 2009 by the Act No. 130/2002 Coll. on the support of research, experimental development and innovation.

agency NEDO³⁰. TAČR representatives also met their counterparts from the NISTEP³¹.

Figure 1: Signing MoU between TACR and NEDO



CZECH REGION'S MISSION TO ATTRACT TOURISTS – 21. 6.

The mission the Central Bohemia Region has opened in Chengdu, south western China, will help Czech entrepreneurs enter the local market and offer information on Central Bohemia and its attractions to potential Chinese visitors. The mission was opened in Chengdu, the capital of the Sichuan province, on July 20.

ENERGY

GOVERNMENT ENVOY FOR NUCLEAR ENERGY – 15. 6.

The Czech cabinet appointed Ján Štuller as a government commissioner for nuclear energy, who will be in charge of coordinating the construction of new nuclear units, for four years today, MIT³² Minister Mládek said.

Štuller had been appointed the first chairman of the SUJB³³ after the split of Czechoslovakia in the early 1990s, and had been performing the post until 1999.

The new permanent committee for nuclear energy which is to supervise the construction of new nuclear units held its first meeting in March this year. The committee is headed by Mládek.

In June last year, the government approved the NAPDNE³⁴. It envisages the construction of one nuclear unit at the Dukovany NPP³⁵ and one unit at the Temelin NPP, with a possible extension to two units at both facilities

DUKOVANY UNITS' CLOSURES TO BE DELAYED – 20. 6.

The closure of units at the Dukovany NPP will be delayed by months in 2017 due to checks of welds and tests of equipment and investments CEZ will have to finish before filing an application for a new licence to operate three units, a spokesman said.

The decision to raise the amount of checks was made in the middle of last year over shortcomings in the welds' documentation. The extensive inspections will be completed next year, Dukovany spokesman said.

³⁰ NEDO: New Energy and Industrial Technology Development Organization

³¹ NISTEP: National Institute of Science and Technology Policy

³² MIT: Ministry of Industry and Trade

³³ SUJB: State Nuclear Safety Authority

³⁴ NAPDNE: National Action Plan of Nuclear Energy Development

³⁵ NPP: Nuclear Power Plant

Dukovany has 4 units. The current licence for the operation of the 3rd and 4th units at Dukovany will expire as of December 31, 2017.

The checks will apparently take longer in the case of unit two as well. Its licence will end at the end of this year. CEZ, Dukovany's operator, seems likely to ask the SUJB for extending the validity of the licence, which also happened in the case of unit one last year. It is the only unit at Dukovany which has been granted a new licence for a long-term operation.

CONSTRUCTION OF NEW NPP DISCUSSED – 22. 6.

The Cabinet approved a Request for information for strategic decision on the next procedure regarding construction of new nuclear source in the CR (document no. 777/16, item no. 16 of the program list) submitted by MIT Minister Mládek at the meeting on June 22, 2016.

AGRICULTURE & ENVIRONMENT

CAR EMISSION TESTS – 15. 6.

The EC and member states have agreed a deadline for stricter vehicle carbon emissions and fuel consumption testing, despite lobbying from the car industry to delay it. Tests consist of a succession of strictly fixed actions, like accelerating, braking, and standing idle.

EU regulators proposed stricter tests on car fuel consumption and carbon dioxide emissions from late next year to plug loopholes highlighted by the Volkswagen emissions scandal.

The draft EU executive proposal, which will go before the EP³⁶ and EU leaders, would introduce tougher testing procedures for new cars from September 2017 and for all vehicles a year later.

The EC is also expected to review CO₂ and fuel consumption standards for the period after 2020 later this year or early the next. The proposed new testing methodology would give regulators better tools to police these targets.

INDUSTRY & TRADE

CAR PRODUCTION INCREASED – 16. 6.

Car production in the CR has increased by 13% to 593,743 vehicles over the past five months, according to data from the AIA³⁷ released. At the same time, exports of Czech cars and light commercial vans increased over the same period by 7.5% to 686,694 vehicles. That suggests some previous production had been held in reserve. Domestic sales grew by nearly 8% to 3,229 cars. Last year, Czech car makers produced a record 1.3mn³⁸ vehicles and the association expects further growth this year.

CHINESE COMPANY TO INVEST INTO AVIATION – 19. 6.

The Chinese company Wanfeng Auto Holding will invest USD 100mn (CZK 2.4bn) into Czech-Chinese aviation projects. A memorandum to that effect was signed between the said company and the CzechTrade agency during PM Sobotka's working visit to China. Sobotka said the company was interested in financing the production of light and medium

³⁶ EP: European Parliament

³⁷ AIA: Automotive Industry Association

³⁸ Mn: Million

aircraft, with plane parts produced in the CR and assembled in China. Cooperation in the aviation industry was one of the main topics discussed during the Czech-Chinese talks.

LABOUR & SOCIAL & HEALTH

☰ WAGE HIKE FOR TEACHERS – 17. 6.

The latest version of the state budget draft for 2017 recons with an additional CZK 7bn for the education sector, MEYS³⁹ Minister Valachová said. She said she planned to ask the cabinet to support a proposed 10% increase in pay for teachers and 5% increase for non-teaching staff. Such an increase would meet teachers unions' demands. The minister, who has made it a priority to improve the status of teachers in the CR, said she would also push for the government to approve a long-term-development-strategy for the education sector which would guarantee future pay hikes and attract more young people to the profession.

☰ NO INCREASE IN SOCIAL BENEFITS NEXT YEAR – 19. 6.

The Sobotka government will not be raising the majority of social benefits next year, according to MLSA⁴⁰ Minister Marksová. Minister Marksová said that given the low unemployment rate the emphasis was on increasing the minimal wage in order to get more people to seek employment. Labour offices currently report around 130,000 vacancies. There are some 400,000 unemployed. All three ruling parties approve of this strategy.

🌐 CO-OPERATION WITH DRUM TOWER HOSPITAL – 21. 6.

Motol University Hospital has entered into an agreement with Drum Tower Hospital in Nanjing that will enable student exchange, scientific collaboration and co-operation in neurology, immunology and rehabilitation. Motol Hospital and its Chinese counterparts also made an agreement regarding joint research of Alzheimer's disease.

POLITICS & SECURITY

CTK CSSD NEGOTIATE WITH CHINESE COMMUNISTS – 21. 6.

PM Sobotka and other CSSD senior officials conducted talks about cooperation with the CPC⁴¹ Central Committee of the Communist Party of China during their visit to China. Sobotka and the delegation paid a working visit to China on June 16-20. It largely focused on economic and healthcare issues.

A few days before, the party released a report online saying that cooperation between the two parties on the bilateral level and the European-Chinese dialogue within the Party of European Socialists were discussed.

Sobotka was accompanied to the CPC Central Committee by MLSA Minister Marksová, MIT Minister Mládek, head of the Association of Czech Regions Hašek, MPs⁴² Birke and Chvojka and a number of other senior Social Democrats.

☰ SECURITY COMMITTEE TO DISCUSS POLICE – 21. 6.

The ChD⁴³'s Security Committee will meet on Thursday to discuss recent divisions surrounding the police force. The

³⁹ MEYS: Ministry of Education, Youth and Sports

⁴⁰ MLSA: Ministry of Labour and Social Affairs

⁴¹ CPC: Central Committee of the Communist Party of China

⁴² MP: Member of Parliament

⁴³ ChD: Chamber of Deputies, the lower house of Parliament of the CR

committee's deputy chairman Schwarz of ANO⁴⁴, said he had convened the meeting at the request of MPs. Mr. Schwarz said it would also be attended by Robert Šlachta, who recently stood down over plans to merge his organised crime unit with the anti-corruption police, the head of the Ostrava branch of the organised crime unit, Jiří Komárek, and state attorney Ivo Ištvan.

☰ QUITTING POLITICS BEFORE GOING INTO OPPOSITION – 21. 6.

ANO leader and MF Minister Babiš has said he would withdraw from politics if his party was forced into opposition following elections to the lower house of parliament scheduled for next year. Babiš said in an interview with HN⁴⁵ that he would prefer to go back to business and travel than play at politics in opposition. Polls have consistently given ANO a lead over their nearest rival, fellow government party, the Social Democrats, over the past year. Babiš added in the interview that ANO had been disingenuous in sealing the current coalition and should have pressed for more seats to reduce the chances of being outvoted in Cabinet.

POLLS & SURVEY & OTHERS

inCONCERT INSIDE A COOLING TOWER OF TEMELÍN NPP – 21. 6.

The South Bohemian Philharmonic Quartet performed in a somewhat unusual venue on Monday – inside the cooling tower of a Czech nuclear power plant.

The quartet played music by Wolfgang Amadeus Mozart, Claude Debussy and Antonin Dvorak to an audience of 30 people at Temelin plant, where a 1,000 megawatt unit was shut for a regular fuel exchange, allowing the concert to take place.

Figure 2: Concert inside a cooling tower of Temelín NPP



Video link: <https://www.novinky.cz/kultura/407148-filharmonici-hrali-mozarta-v-jaderne-elektrarne-temelin.html>

"If Mozart had lived, he might have said that famous sentence ("My Praguers understand me." when Austrians criticized his music while Prague people praised and celebrated it), I will paraphrase it in a funny way: "My Temeliners understand me." Where else should Mozart's music be played, when the Austrians are the ones who most protest against nuclear power, while we (Czechs) know that for us it is the most needed source. That's why we're here,"

⁴⁴ ANO: ANO 2011, centre-right party

⁴⁵ HN: Hospodářské noviny Daily

said the director of the South Bohemian Philharmonic, Otakar Svoboda.

Combination of industrial environment and beautiful music was also appreciated by the present President of the State Office for Nuclear Safety, Dana Drábová. She commented that she had suspected that the cooling tower power plant would have an amazing acoustics.



CZECHS HOPE BRITS REMAIN IN EU – 22. 6.

60% of Czechs do not wish Britain to leave the EU and 22% hold the opposite opinion, according to a flash poll by the Median⁴⁶.

The poll also showed that less than a half of Czechs would support remaining in the EU if they had a similar chance.

Czechs are mainly afraid of the economic impact of Britain's possible withdrawal from the EU. They mainly cited a loss of job opportunities for Czechs in Britain and a reduction of export to Britain.

Brexit is opposed by voters of a majority of Czech parties in parliament, particularly the rightist opposition TOP 09⁴⁷ and the three government coalition members - ANO, ČSSD⁴⁸ and KDU-ČSL⁴⁹.

Voters of the opposition Dawn⁵⁰, KSČM⁵¹ and ODS⁵² form the strongest group of Brexit supporters, the poll showed.

49% of respondents would vote for remaining in the EU if a referendum were held in the CR.

More than 1/3 of the polled would support leaving the EU, 12% would not participate in the referendum and the rest were unable to give an answer.

The supporters of the CR's remaining in the EU would win in the proportion 59 to 41 if those who rule out their participation in the referendum were subtracted.

Median conducted the flash poll on a sample of more than 1000 people.



CR 6TH MOST PEACEFUL COUNTRY – 22. 6.

Annual Global Peace Index sees conditions worsening around the world

The CR was among 81 countries that improved their standing in the 10th annual Global Peace Index put out by the Institute for Economics and Peace. The CR rose to 6th place out of 183 countries. It had been at 10 out of 162 countries in 2015.

Iceland came in first place, followed by Denmark, Austria, New Zealand and Portugal.

The rest of the V4⁵³ Group did not score as well. Neighbouring Slovakia was 24th, Poland was 16th and Hungary was 19th.

⁴⁶ **Median**: a research agency in the area of market research, media and public opinion.

⁴⁷ **TOP**: TOP09 with the support of Mayors and Independents, centre-right party

⁴⁸ **ČSSD**: Czech Social Democratic Party, centre-left party

⁴⁹ **KDU-ČSL**: Christian and Democratic Union – Czechoslovak People's Party, centre party

⁵⁰ **Dawn**: Dawn - National Coalition, formerly (from June 2014 to August 2015) Dawn of Direct Democracy or (from June 2013 to June 2014) Tomio Okamura's Dawn of Direct Democracy, is a right-wing populist and Eurosceptic political party in the Czech Republic.

⁵¹ **KSČM**: Communist Party of Bohemia and Moravia, far-left party

⁵² **ODS**: Civic Democratic Party, Liberal conservative, centre-right party, soft Eurosceptic party

⁵³ **V4**: the Visegrád Group, also called the Visegrád Four, or V4 is an alliance of four Central European states – Czech Republic, Hungary, Poland and Slovakia – for the

“While 81 countries improved, the deterioration in another 79 outweighed these gains, meaning that peace declined at a faster rate than in the previous year. Despite this some of the most peaceful countries are now recording historically high levels of peace,” a news release from the Institute for Economics and Peace stated.

The index gauges on-going domestic and international conflict, safety and security in society, and the degree of militarization in 163 countries and territories by taking into account 23 indicators. The 2016 edition expands its coverage by including Palestine for the first time.

The CR scored well in all areas except security officers and police. The country was noted for its low homicide rate, lack of violent crime and lack of internal conflict. The difficult access to weapons, low military expenditure and good relations with neighbouring countries were also positive factors.

purposes of furthering their European integration as well as advancing their military, economic and energy cooperation with one another.

- CIA News (Česká informační agentura)
- Czech Press Agency (Česká tisková kancelář)
- Czech Statistical Office (Český statistický úřad)
- Public Opinion Research Centre (Centrum pro Výzkum Veřejného Měnění)
- EIS.cz E15
- European Commission
- Eurostat
- Government of the CR
- Hospodářské noviny
- Labour Office of the CR
- Lidové noviny
- ManpowerGroup
- Median
- Novinky.cz
- Organisation for Economic Development and Cooperation
- Právo Daily
- Prague TV
- Radio Prague (Český rozhlas)
- Technology Agency of the CR