

NEWS SUMMARY JUNE 30 – JULY 13

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ECONOMY & FINANCE

INDUSTRY & TRADE

INFLATION IN JUNE 2016 UNCHANGED – 12.7.

Consumer prices in June increased compared with May by 0.1%. This development was primarily due to a growth of prices in 'transport' and 'recreation and culture'. The year-on-year rise in consumer prices was 0.1% in June, i.e. the same as in May.

INDUSTRY GREW 8.6 % IN MAY – 12.7.

In May industrial production grew a real 8.6 % y/y. After adjusting for the number of workdays it was up 1.0 %. Compared to the preceding month it was after adjusting for seasonal effects down 0.4 %. The value of new contracts was up 13.5 % y/y. The increase was primarily driven by the manufacture of motor vehicles, trailers and semi-trailers (contribution of +3.9 p.p., growth of 21.4 %).

FOREIGN TRADE SURPLUS SHRINKS TO 18.2 BILLION CROWN IN MAY – 8.7.

The Czech Republic (CR) recorded a foreign trade surplus of 18.2 billion crown in May, which is an improvement of CZK 7.7 billion compared to the same month last year.

At the same time, it is the lowest foreign trade surplus figure recorded so far this year. In previous months, it always exceeded CZK 20 billion. Exports in machinery and cars were among the main factors fuelling the surplus.

Export soared 6.8% to CZK 282.9bn and import 4.1% to CZK 264.7bn. The total balance was influenced positively primarily by higher surplus of trading with machinery and means of transport (up CZK 4.4bn y/y).

ICT & RDI¹

FREQUENCY AUCTION COULD YIELD OVER CZK 4BN – 13.7.

The total costs of the migration to DVB-T2 broadcasting standard in 2016-2021 are estimated at CZK 871m-1.05bn in the Digital Terrestrial Broadcasting Development Strategy document. The income for the state budget is estimated at CZK 1.16bn. With the inclusion of the auction of the frequencies made available after the transfer, the positive balance is foreseen at CZK 4.73-4.91bn. The spokesperson for the Ministry of Industry and Trade, Dita Havlíčková, has told CIANEWS that the migration will commence in late 2016 and will be completed upon synchronised shutdown of all existing DVB-T networks no later than in early 2021.

GREEN LIGHT GIVEN FOR MASSIVE STATE DATA CENTRE – 6.7.

Approval has been given for the construction of a new data centre for the Czech government which will store some of its most sensitive details about citizens and tax payments.

The project has a budget of around CZK 280 million with the new centre located on eastern outskirts of Prague. Construction should start in mid-2017. Some of the data stored will include that from electronic cash registers, the flagship project of the Ministry of Finance to counter tax evasion. The new centre was first proposed in 2008.

AGRICULTURE & ENVIRONMENT

ENVIRONMENT MINISTRY APPROVES PLAN AGAINST DROUGHT – 12.7.

The Ministry of Environment has launched a new programme to deal with drought, which threatens to become a more regular feature in the future. On Tuesday, Environment Minister Richard Brabec promised to earmark CZK 300 million in subsidies to help municipalities find new sources of drinking water in villages and towns across the country.

The goal of the project is to ensure sufficient amount of drinking water for the inhabitants of the CR in years to come. According to Environment Minister Richard Brabec, the fight against drought is one of the ministry's priorities.

Last year saw the driest summer in over a decade and many of the CR's towns and villages had to take special measures to deal with the lack of drinking water, such as bans on using mains water for watering plants, filling swimming pools, or washing cars.

The new project of the Environment Ministry approved on Tuesday will focus on drilling new sources of drinking water and connecting them to the public water supply as well as on enforcing the existing water sources. The subsidies should also motivate town and villages to focus on water management and learn to use water more efficiently.

The minimum amount earmarked for one project is CZK 100,000 and the maximum CZK 3,000,000. Municipalities can apply for the project at the State Environmental Fund until June 30, 2017. Last summer saw record low levels of rain in the CR. The amount of precipitation was 150 millimetres, while the long-term average is 650 millimetres. Water levels in some of the country's rivers remained below average even at the start of winter.

The Ministry of Environment has previously supported other projects dealing with drought, such as environmentally friendly measures to keep water in the landscape, smart management of water in municipalities or reconstruction of existing water plants.

Meanwhile, the Agriculture Ministry has also been taking steps to fight the lack of rain water. Earlier this year, the ministry approved investments of over CZK 1 billion for South Moravia, a region most affected by drought, which include measures helping soak water into the ground.

The Ministry has also selected four locations in the CR where new dams could be built in the future.

¹ RDI: Research, Development and Innovation

HARVEST OF GRAIN WILL FALL BY 9.5% TO 6,995,000 TONS – 7.7.

The harvest of basic grain in the CR will decrease by 9.5% y/y to 6,995,000 tons in 2016. The decrease is contributed to by a decrease in the expected yield per hectare by 6.6% to 5.54 ton and a decrease in the sowing area by 3.0% to 1,264,000 hectare. This stems from the first estimations of the harvest as of June 10, 2016 published by the Czech Statistical Office.

ENERGY**CZECHS MAY LIFT BAN ON DELIVERIES TO IRANIAN NUCLEAR PLANT – 13.7.**

The Czech Chamber of Deputies supported in the first reading lifting the ban on deliveries to the Iranian nuclear plant in Bushehr enacted in 2000, proposed by the Communists (KSCM), on Tuesday.

It is already the third bill to this effect proposed by the KSCM. The previous two were rejected in the lower house. The same proposal was presented by the government in June, but it has not yet been debated.

The Chamber of Deputies may enact the latest legislation in autumn.

The law on Bushehr was passed in 2000 in reaction to the plans of the Czech ZVZ Milevsko firm to supply ventilation equipment for the plant. The deal was then criticised by Britain and the United States suspecting Iran of abusing civilian programmes to cover up its nuclear projects.

The legislation banned Czech manufacturers from exporting goods and providing services, documentation and information in connection with the Bushehr plant.

The government says in the draft that the international community has lifted its sanctions against Iran in the nuclear sphere, due to which the threat of harming the CR's interest is over. This is why the government has proposed that the legislation be revoked.

STATE RESERVES BODY SAYS CZECH FUEL TO BE RETURNED FROM GERMANY – 12.7.

The state body tasked with keeping emergency reserves, the Administration for State Reserves, says that it has signed an agreement with the insolvency administrator and new owner of German fuels storage company, Viktoriagruppe, which guarantees the return of Czech stored fuel worth around 1.2 billion CZK. The state body says that the fuel should be shipped back to the CR within two months after a rail link to the storage site at Krailing is repaired. The agreement should draw a line under a long tussle over ownership of the fuel following the bankruptcy of the German company.

ČEZ LAUNCHES ARBITRATION AGAINST BULGARIAN STATE – 12.7.

The Czech energy giant CEZ has launched an international investment arbitration case against Bulgaria, company spokesperson Barbora Půlpánová said on Tuesday. CEZ is seeking hundreds of millions of euros from the Bulgarian state. Ms. Půlpánová said that CEZ had decided on the step following a number of interventions on the part of Bulgarian institutions that had harmed the firm's business activities in

the country. The antitrust authority in Sofia fined CEZ over EUR 600,000 for abusing its dominant position on the local market.

TRANSPORT & CONSTRUCTION**CZECH TRUCK MANUFACTURER TATRA TRUCKS MAKING INROADS IN MIDDLE EAST, ASIA, LOOKING TO INCREASE WORKFORCE, WRITES IDNES – 8.7.**

The Czech truck manufacturer Tatra Trucks, owned since 2013 by Jaroslav Strnad, is making new inroads in Middle Eastern and Asian markets, looking to increase its workforce by some 200, the Czech daily iDnes reported on Monday, noting that the manufacturer wants to build 1,300 vehicles this year. In 2015, it rolled out 858. The truck producer recently signed military contracts in Egypt and Jordan, with India looming as a promising market, the daily writes. In its heyday in Communist Czechoslovakia, the then state-owned truck maker produced some 15,000 vehicles annually.

KAPSCH TRAFFICOM SAYS CZECH GOVERNMENT APPROVES PROLONGATION OF TOLLING CONTRACT – 11.7.

Czech government approved prolongation of contract to operate nationwide toll system for at maximum three years. During this period current supplier will obtain from state CZK 6 billion, these are approx. EUR 221.9 million.

DOPRAVNÍ NOVINY AVIATION POLICY UNTIL 2020 APPROVED BY THE GOVT – 11.7.

The government approved the policy of aviation until 2020. After a government meeting, the Transport Minister Dan Ťok. Material processed by the Ministry of Transport prepares airports and other aviation infrastructure for the expected growth in the number of air passengers. Among other things, it also envisages the construction of additional, so-called parallel runway, at Prague airport Vaclav Havel.

YEAR-ON-YEAR DECLINE IN CONSTRUCTION PRODUCTION SLOWED DOWN – 8.7.

In May 2016 the construction output decreased by 4.3% year-on-year (y-o-y), in real terms. The planning and building control authorities granted by 9.7% more building permits, y-o-y, and the approximate value of permitted constructions jumped up by 41.2%, y-o-y. The number of started dwellings jumped up by 44.6%, y-o-y, and the number of completed dwellings soared by 61.4%, y-o-y.

Deloitte NEW APARTMENTS IN CR MOST EXPENSIVE IN REGION – 12.7.

The average price of new apartments in the CR is the highest among former communist states in the region, according to a newly published study by Deloitte. The average cost per square metre of new flats in this country is three quarters more than in Poland and almost twice as much as in Hungary. It would take Czechs 6.9 years of pay to purchase a 70 metre squared apartment, compared to over 7 years for Slovenians and Hungarians and 11 years for Britons, the report says.

In 2015, the average transaction price for a new property in Prague amounted to EUR 2,140 per square meter. Property in Prague was thus 22% more expensive than in Warsaw

(EUR 1,760), and 73% more expensive than in Budapest (EUR 1,240). In the European comparison, the cheapest city was Debrecen with EUR 1,000 per square meter. On the contrary, the most expensive locality was Inner London with a price of EUR 18,130 per square meter and Paris with EUR 10,700 per square meter.

LABOUR & SOCIAL & HEALTH

GOVERNMENT APPROVES INCREASED TAX CREDIT FOR FAMILIES WITH TWO OR MORE CHILDREN – 8. 7.

The government on Thursday agreed to increase tax credits for parents with two or more children. Next year, parents will be able to deduct more from their tax for second and third children. At present, parents get an annual tax credit of CZK 13,400 for the first child, CZK 17,000 for a second child, and CZK 20,600 for every subsequent child. In 2017, parents will be able to deduct CZK 2,400 more from their tax returns for a second child and CZK 3,600 more for every child thereafter.

EMPLOYMENT AND UNEMPLOYMENT RATE – 1.7.

The **employment rate** (the share of the employed persons in the age group 15 – 64 years, as percentage), seasonally adjusted, reached 71.9% in May 2016 and increased by 1.7 percentage point (p.p.) compared to that in May 2015. The male employment rate was 79.1%; the female employment rate was 64.4%, both seasonally adjusted. The employment rate of persons aged 15 – 29 years, seasonally adjusted, was 48.2%, in the age group 30 – 49 years it attained 87.0%, and in the age group 50 – 64 years it got to 68.4%.

The **general unemployment rate** of the aged 15 – 64 years (the share of the unemployed in the labour force, that is in the total number of the employed and the unemployed, as percentage), seasonally adjusted, reached 4.1% in May 2016 and decreased by 1.0 p.p., year-on-year. The male unemployment rate, seasonally adjusted, attained 3.5%; the female unemployment rate was 4.9%.

Eurostat in its press release publishes methodically same monthly unemployment rate, but for the age group 15-74 years. The age group 65 – 74 years is characterized by a low number of unemployed persons and therefore there was a slightly lower general unemployment rate, in May 2016 in the group 15 – 74 years of age was 4.0%. Data for the CR are based on monthly data from the Labour Force Sample Survey (LFSS).

OTHER

CZECHS TO SPEND 100 MILLION MORE ON DEVELOPMENT AID – 12.7.

The contribution to the development aid will be increased by 100 million CZK as of next year, Czech Prime Minister Bohuslav Sobotka (Social Democrats, CSSD) has said on Twitter, referring to the cabinet's decision on Monday.

In all, the Foreign Ministry demanded roughly one billion and an increase by CZK 200 million in a year.

The Finance Ministry was opposed to the idea, arguing that the demands did not correspond with the dimensions of the budget.

Sobotka said the money would be spent on healthcare, food aid and scholarships.

According to the medium-term outlook of the development cooperation funding, the total sum will be annually raised by CZK 100 million until 2019, Foreign Minister Lubomír Zaorálek (CSSD) told reporters.

The development aid encompasses the projects that are to eradicate poverty and to improve the life conditions in threatened regions.

Within a programme of bilateral development aid, the CR divides money among a number of priority countries. Between 2010 and 2017, these are Afghanistan, Bosnia and Herzegovina, Ethiopia, Moldova, Mongolia, Georgia, Cambodia, Kosovo, Palestine, Serbia and Zambia.

After 2017, the group will be reduced to the six following countries: Ethiopia, Cambodia, Zambia, Bosnia and Herzegovina, Georgia and Moldova. The reduction is motivated by the effort to support quality of the aid and to target it better.

The CR provides a much higher sum within multilateral development cooperation, administered by international organisations. According to the Czech Development Agency, the CR sponsored development aid with CZK 4.95 billion last year, 65 percent of which accounted for multilateral cooperation.

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