

## NEWS SUMMARY JULY 12 – JULY 20

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### ECONOMY & FINANCE

#### CONSUMER PRICE INDICES – 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 y-o-y<sup>1</sup> rise in consumer prices was 0.1% in June, the same as in May. The m-o-m<sup>2</sup> increase in consumer prices in 'transport' came from the rise in automotive fuel prices by 4.0%. In 'recreation and culture', prices of package holidays went especially up by 1.3%.

A decrease in the price level came particularly from a price drop in 'food and non-alcoholic beverages', where prices of bread went primarily down by 1.6% as well as prices of eggs by 6.2%, milk by 2.0%, cheese by 1.1%, other milk products by 1.9%, butter by 3.7%, non-alcoholic beverages by 0.8%. Vegetable prices dropped by 2.9%, of which prices of vegetables cultivated for their fruit declined by 15.1%, while potato prices rose by 11.5% because market offer switched from old to new potatoes. In 'clothing and footwear', prices of garments were lower by 1.0% and prices of shoes and other footwear remained unchanged. Prices of goods in total went up by 0.1% as well as prices of services.

The total consumer price level increased by 0.5% in Q2<sup>3</sup> 2016 compared with Q1<sup>4</sup> 2016. Consumer prices rose by 0.2% in Q2 2016, y-o-y, which was 0.3% down on Q1 2016.

#### CR'S EURO ZONE ENTRY – 13. 7.

The CR<sup>5</sup>'s entry into the euro zone is a sovereign political decision and the CNB<sup>6</sup> is a mere adviser to the government in this respect, new CNB governor Rusnok said. "We do not consider it essential to set a date (to join the euro)," he said. "We can neither force the government nor discourage it (from setting any dates), we can only express our opinion from a point of view of the criteria that we can monitor ...," Rusnok said.

The government said it repeatedly that it will not set the euro adoption date during its current term of office. PM<sup>7</sup> Sobotka said at a euro adoption conference in Prague early this year that the CR should not set any dates unless it improves the condition of public finance and raises living standards vis-a-vis the advanced EU countries.

#### MORTGAGE RATES REACH NEW LOW – 20. 7.

Average mortgage rates in the CR reached an all-time low of 1.87% in June. The average rate last month was down slightly on the 1.89% recorded in May. Lenders had agreed a record number of new mortgages – over 12,000 – in the pre-holiday month of June.

<sup>1</sup> Y-o-y: Year on year

<sup>2</sup> M-o-m: month-on-month

<sup>3</sup> Q2: 2<sup>nd</sup> quarter of the year

<sup>4</sup> Q1: 1<sup>st</sup> quarter of the year

<sup>5</sup> CR: Czech Republic

<sup>6</sup> CNB: Czech National Bank

<sup>7</sup> PM: Prime Minister

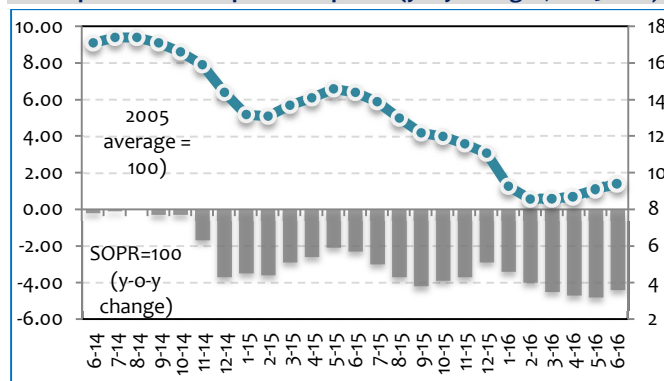
#### PRODUCER PRICE INDICES - 20.07.

In June 2016 compared with the previous month, agricultural producer prices went up by 1.0% and industrial producer prices grew by 0.3%. Construction work prices were also higher by 0.2%. Prices of market services went down by 0.3%. In comparison to June 2015, agricultural producer prices were lower by 6.4% and industrial producer prices fell by 4.4%. Construction work prices grew by 1.1% and prices of market services increased by 0.3%.

In Q2 2016, compared to Q1 2016, agricultural producer prices were lower by 5.7%. Construction work prices, according to an estimate, and industrial producer prices were both higher by 0.3%. Prices of market services grew by 1.1%.

In comparison with Q2 2015, prices of agricultural producers fell by 6.9% and prices of industrial producers went down by 4.6% in Q2 2016. Construction work prices, according to an estimate increased by 1.1%. Prices of market services also went up by 0.2%.

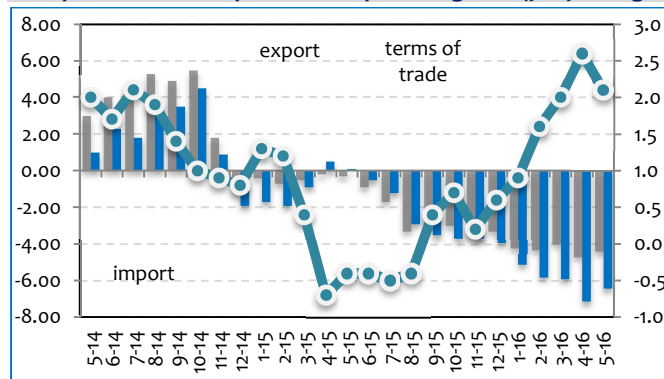
Graph 1: Industrial producer prices (y-o-y changes, 2005=100)



#### EXPORT AND IMPORT PRICE INDICES - 20.07.

In May 2016, both export prices increased by 0.2%, import prices by 0.4%, the terms of trade figures reached 99.8%, m-o-m. Export prices decreased by 4.4%, import prices by 6.4%, the terms of trade reached 102.1%, y-o-y.

Graph 2: Prices of exports and imports of goods (y-o-y changes)



The change of the total m-o-m export price index was driven mainly by a 4.3% price growth in 'crude materials, inedible,

except fuels', the total m-o-m import price index was driven mainly by a 4.1% price growth in 'mineral fuels, lubricants and related materials'.

The change of the total y-o-y export price index was driven mainly by a 2.5% price drop in 'machinery and transport equipment' influenced by strong koruna against the euro, the change of the total y-o-y import price index came mainly from a 31.9% price drop in 'mineral fuels, lubricants, and related products' (mainly due to petroleum and natural gas).

## ICT & RDI<sup>8</sup>



### SCIENCE BRANCHES IMPORTANT FOR FUTURE -12. 7.

Digital and industrial technologies, the environment and transport means for the 21st century were singled out as important for the Czech economy by the government.

The priorities are included in an updated National Strategy of Intelligent Specialisation presented by Deputy PM for Research Bělobrádek. It counts with CZK<sup>9</sup> 70bn<sup>10</sup> from European, national, regional and private sources to be spent on them in the years ahead.

The document is a preliminary condition for drawing European funds. It is yet to be approved by the EC<sup>11</sup>.

Bělobrádek says the strategy will contribute to a better cooperation between the private sector and firms. The document also focuses on promotion of private investments in science and applied research.

Bělobrádek said fields on which focus will be placed also include electronics, advanced machinery, health care, advanced medicine, cultural and creative industries, agriculture and social challenges.



### CZECH EXPERTS WANT NATIONAL SPACE AGENCY - 19. 7.

Deputy PM for Research Bělobrádek is to meet representatives from the finance and transport ministries in the weeks ahead and speak with them about a space research agency, which would help firms and which experts promote. The CR does not yet have a national body which would be a strong state partner for the ESA<sup>12</sup> and the NASA<sup>13</sup> and for the establishment of which firms have long been calling because it could bring them new business opportunities.

The government budget wants to earmark an additional CZK110mn<sup>14</sup> for space research annually, which would help the country join prestigious programmes of the European missiles Ariane and Vega.

However, it is not known yet whether some of the money will be spent on the establishment of the space agency, too. The agency would allow Czech firms enter space consortia, which is problematic now. Czech firms already produce spare parts for major missile technologies and satellites.

<sup>8</sup> RDI: Research, Development and Innovation

<sup>9</sup> CZK: Czech Crown, the currency of the CR since 8 February 1993

<sup>10</sup> Bn: billion

<sup>11</sup> EC: European Commission

<sup>12</sup> ESA: European Space Agency, is an intergovernmental organisation dedicated to the exploration of space, with 22 member states. Established in 1975 and headquartered in Paris, France, ESA has a worldwide staff of about 2,000 and an annual budget of about €5.25 billion

<sup>13</sup> NASA: National Aeronautics and Space Administration, an independent agency of the executive branch of the United States federal government responsible for the civilian space program as well as aeronautics and aerospace research established in 1958.

<sup>14</sup> Mn: Million

## AGRICULTURE & ENVIRONMENT



### TAX REGISTER DUTY - 18. 7.

The MA<sup>15</sup> is proposing an amendment to the law on electronic tax registers which would exempt farmer's markets and small entrepreneurs making less than CZK 5,400 a month from the duty to register all sales electronically. MA Minister Jurečka who will present the proposed amendment to the cabinet said the requirement to use electronic cash registers would bring small entrepreneurs such as those selling their goods on farmers markets to bankruptcy. The proposal should be put to the lower house in September. MF<sup>16</sup> Minister Babiš – who pushed through the law as an instrument in fighting tax evasion – is strictly against exemptions on the grounds that it would reduce its effectiveness. The law is expected to go into effect in December 2016 and the duty to use electronic tax registers will be implemented in several stages for different categories of entrepreneurs.



### CZECH DAIRY FARMERS TO GET INCREASED SUBSIDIES - 18. 7.

Czech dairy farmers should get aid of about €<sup>17</sup>10.4mn within increased subsidies for farmers across the block approved by the EC. MA Minister Jurečka has welcomed the move, saying the sum allotted to Czech farmers was the 10<sup>th</sup> highest in the 28-member block. National governments can top up this aid with subsidies from state coffers. Czech dairy farmers are facing severe problems due to a milk glut and low prices across Europe.



### POTATOES HARVEST - 20. 7.

According to the MA, the harvest of potatoes in the CR should return to the average of previous years, following last year's decline of 2%. Farmers, who planted potatoes at total of 23,414 ha<sup>18</sup>, an increase of 3.2%, could harvest more than 26,00t<sup>19</sup> of potatoes this year. Harvest of early potatoes already begun in the Elbe region and in South Moravia.

## INDUSTRY & ENERGY



### TECHNICAL SUPPORT CONTRACT FOR MOCHOVCE - 14. 7.

Rusatom Overseas, part of Russian state nuclear corporation Rosatom<sup>20</sup>, and Škoda JS<sup>21</sup> on 11 July signed a 2-year contract for technical support during installation of the primary systems and start-up and adjustment while completing construction of units 3 and 4 at Slovakia's Mochovce NPP<sup>22</sup>.

<sup>15</sup> MA: Ministry of Agriculture

<sup>16</sup> MF: Ministry of Finance

<sup>17</sup> Euro: €, EUR, is the official currency of the Eurozone, which consists of 19 of the 28 member states of the European Union

<sup>18</sup> ha: hectare is a non-SI metric system unit of area equal to 10,000 m<sup>2</sup>

<sup>19</sup> t: tonne, metric ton is a non-SI metric unit of mass equal to 1000 kilograms

<sup>20</sup> Rosatom: Rosatom State Atomic Energy Corporation, a state corporation (non-profit organization) in Russia, established in 2007, the regulatory body of the Russian nuclear complex. It is headquartered in Moscow. Rosatom is the only vendor in the world able to offer the nuclear industry's entire range of products and services. It runs all nuclear assets of the Russian Federation, both civil and weapons. Along with commercial activities which move forward nuclear power and nuclear fuel cycle facilities, it acts as a governmental agent, primarily in the field of national security (nuclear deterrence), nuclear and radiation safety, basic and applied science.

<sup>21</sup> Škoda JS: the Pilsen-based engineering giant owned by Russian engineering group OMZ.

<sup>22</sup> NPP: Nuclear Power Plant

The Mochovce Phase II construction project is being undertaken by a consortium of Škoda JS (leader), Russian company Atomstroyexport and three Slovak companies: Enseo, VUJE, and Inzinierske stavby.

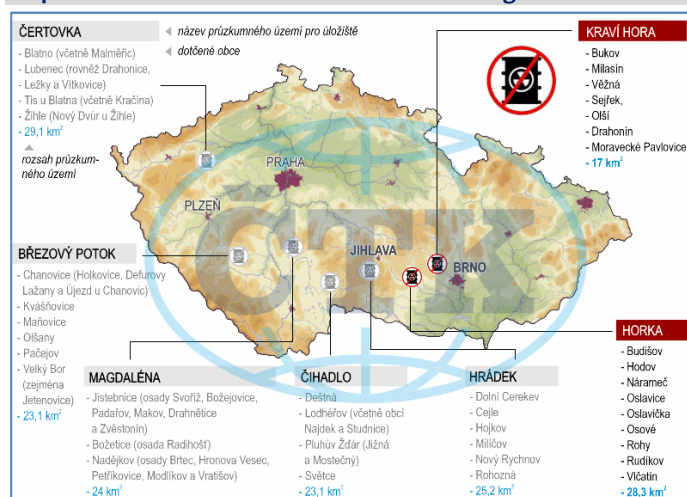
#### CTK LIFTING BAN ON DELIVERIES TO IRANIAN NPP – 13. 7.

The ChD<sup>23</sup> supported in the 1<sup>st</sup> reading lifting the ban on deliveries to the Iranian NPP in Bushehr enacted in 2000, proposed by the KSČM<sup>24</sup>. It is already the 3<sup>rd</sup> bill to this effect proposed by the KSČM. The previous 2 were rejected. The same proposal was presented by the government in June, but it has not yet been debated. The ChD may enact the latest legislation in autumn.

#### NUCLEAR WASTE STORAGE STIRRING CONTROVERSY – 15. 7.

MIT Minister Mládek said that geological tests for a potential nuclear waste storage site would take place near the towns of Horka and Kraví Hora in Moravia. 5 other localities which were initially also considered have been ruled out due to strong opposition from the locals. He said the MIT would not enforce the decision and the nuclear waste site would only be built with consent from nearby localities. Shortly after the announcement the mayors of Horka and Kraví Hora said they were taken aback by the decision. The mayor of Horka said the town would make its opposition to the plan clear to the authorities.

Map 1: Possible localities for nuclear waste storage site



#### CTK ČEZ APPLIES FOR EIA OVER NEW BLOCKS – 20. 7.

ČEZ<sup>25</sup> applied for an EIA<sup>26</sup> at the Dukovany NPP in case new reactors are constructed there. According to Dukovany spokesman, the step is part of the NAPDNE<sup>27</sup>, which calls for at least 1 reactor to be built at Dukovany by 2037 to take over from the ageing reactors currently operating at the site. The company gave the ME<sup>28</sup> documents needed to start the process of EIA.

<sup>23</sup> ChD: Chamber of Deputies, the lower house of Parliament of the CR

<sup>24</sup> KSČM: Communist Party of Bohemia and Moravia, far-left party

<sup>25</sup> ČEZ: ČEZ Group is a conglomerate of 96 companies (including the parent company ČEZ, a.s.), 72 of them in the CR. It is involved in the electricity generation, trade, distribution and heat, as well as coal mining.

<sup>26</sup> EIA: Environmental Impact Assessment

<sup>27</sup> NAPDNE: National Action Plan of Nuclear Energy Development

<sup>28</sup> ME: Ministry of Environment

## TRADE & TRANSPORT & CONSTRUCTION

CTK

### INVESTMENT INCENTIVES VOLUME – 13. 7.

As many as 36 investors' projects were promised investment incentives worth CZK4.3bn in H1<sup>29</sup>, the amount increasing twofold y-o-y, thanks to which investments worth CZK18bn were supported and the companies will create 4,108 new jobs, according to the latest information of CzechInvest<sup>30</sup>. The volume of investment incentives granted will be published by the agency in August.

In H2<sup>31</sup> 2016, CzechInvest expects similar figures as in H1.

The biggest investment with state aid is supposed to be a steel wires plant of Kiswire Company in Triangle industrial zone near Žatec, north Bohemia, worth over CZK2.4bn. The state will provide up to CZK474mn and the plant is supposed to create 332 jobs.

In July 2014, the EC lowered the highest possible state aid in the Czech regions from 40 to 25% of the investment volume. In 2015, a total of 57 projects were promised investment incentives worth CZK5bn. CzechInvest mediated 106 new investment projects worth nearly CZK45bn in the CR. Thanks to the investments, 14,040 new jobs will be created, 2,500 of which in 2 regions with a high unemployment rate, Moravia-Silesia and Ústí nad Labem. The number of investors not applying for state incentives grew significantly.

### CITY PLANNING PROJECT STIRRING CONTROVERSY – 16. 7.

The construction of new high-rise buildings should in future be restricted to 14 selected localities in Prague, according to a proposed long-term city planning strategy which should go into effect in 2020. Among the selected areas, proposed by the Institute for Planning and Development, are Chodov, Roztyly, Vysočany and Libeň. The plan is still undergoing debate and has met with opposition from both councillors and the mayors of individual districts.

### CIA ČD CARGO AND ČD LOGISTICS AND ZHENGZHOU – 14. 7.

Cargo railroad company ČD Cargo has signed a contract on strategic cooperation with the firm Zhengzhou International Hub Development and Construction. The documents defines the terms of further cooperation with focus e.g. on the development of railroad container transport and/or logistic centres. ČD Logistics has signed a similar document with the Chinese company and is already participating on shipments, e.g. through the Lovosice container terminal.

### CTK ECONOMIC EXPERTS TO JOIN DIPLOMATIC MISSIONS – 19. 7.

12 new economic diplomats will start working at the Czech diplomatic missions in Canada, Germany, Ghana, Hong Kong, India, Japan, Jordan, Malaysia, the Philippines, South Africa, Taiwan and the United States this year, Deputy MFA<sup>32</sup> Minister Tlapa said.

<sup>29</sup> H1: 1<sup>st</sup> half of year

<sup>30</sup> CzechInvest: Business and Investment Development Agency CzechInvest, is an agency of the Ministry of Industry and Trade. Established in 1992, the agency contributes to attracting foreign investment and developing domestic companies through its services and development programmes. CzechInvest also promotes the Czech Republic abroad and acts as an intermediary between the EU and small and medium-sized enterprises in implementing structural funds in the Czech Republic.

<sup>31</sup> H2: 2<sup>nd</sup> half of year

<sup>32</sup> MFA: Ministry of Foreign Affairs

Their task will be to help Czech firms succeed on the local market and mediate contacts with business partners in the given country.

Earlier this year, diplomats focusing on agriculture and food industry joined the Czech embassies in China, Russia, Saudi Arabia and Serbia.

In 2015, Czech economic diplomats were sent to seven diplomatic missions. The first Czech diplomat for research has been operating in Israel since October 2015.

Tlapa said the CR wants to increase its economic activities in developing countries. Some diplomats were moved from the European Union to diplomatic missions outside the EU, he said.

## LABOUR & SOCIAL & HEALTH

### NUMBER OF FOREIGN WORKERS TRIPLES IN 15 YEARS – 13. 7.

The number of foreign workers in the CR has more than tripled in the last 15 years, according to a new government report. 3/4 of non-native employees are from the EU and therefore do not require work permits; the highest number are from Slovakia. At the end of last year there were 323,000 such workers in the CR; that figure was nearly 40,000 higher than in 2008, when the financial crisis began.

### POLICE EMPLOYS OVER 40,000 PEOPLE – 13. 7.

The police is currently employing some 40,000 people, according to data released by the Police Presidium. That total is 25% higher than in 1991, when the new law on police came into force. The highest number of employees, over 47,000, worked for the police force in 2005. The Police Presidium is planning to draft 4,000 new police officers over the next 4 years to tackle the growing number of crimes, including extremism, terrorism and cyber criminality. The strengthening of the police force is expected to cost over CZK8bn.

### TPCA UNIONS ON EMERGENCY STRIKE – 14. 7.

TPCA<sup>33</sup> TU<sup>34</sup> voted to go on strike because of wage increase, but date has not been decided yet. Talks with the management continue.

The TU's referendum confirmed that majority of members insist on a wage increase of CZK 1,350 and want to go on strike. The company management had already decided to increase wage by CZK 700. The average salary in the blue-collar positions of the TPCA is CZK 30,600.

### INCREASE OF TEACHERS' PAY EARLIER – 19. 7.

MF Minister Babiš says he has secured the funds to increase teachers' pay from September, not January as originally planned. The money would come from savings made in the servicing of the state debt. The government last month approved an 8% rise in teachers' salaries from the start of next year. TU have been pushing for the increase to be brought forward to coincide with the start of the academic year. The cabinet will discuss the matter next week.

<sup>33</sup> TPCA: Toyota Peugeot Citroën Automobile Czech (TPCA) is an automobile manufacturing company in Kolín, Czech Republic. It is a joint venture between Toyota Motor Corporation of Japan and PSA Peugeot Citroën of France.

<sup>34</sup> TU: Trade union, around 1/6 of all employees are union members in the CR.

## CZECHS WORKING ABROAD RETURNING HOME – 20. 7.

1/4 of Czechs who left abroad to work there in the past years are considering returning home, according to a poll conducted by the Monster Career CZ firm among the people whom it helped find jobs in another country. Most of them want to return to the CR because they feel homesick and miss their family and friends.

The poll shows that people who have lived abroad for five and more years and those aged from 35 to 40 are more willing to return home than the rest. "We explain this mainly by the fact that these people, who have lived abroad for quite a long time, have gained experience and had a chance of earning good money. Though they must count with a lower salary in the CR than they are used to abroad, most of them are willing to accept it. They consider it decisive to be close to their family that they miss."

The most popular destinations where Czechs seek jobs are Britain, Ireland and the neighboring Germany. However, they also like to work in France, Spain and Nordic countries, and young Czechs find practice in the USA interesting.

Czechs find jobs abroad primarily in health care, gastronomy, technical fields and IT, while financial reasons are the most frequent motivation for their departure.

## POLITICS & SECURITY

### BREXIT SHOULD NOT DOMINATE EU AGENDA – 14. 7.

Issues surrounding the UK's exit from the EU should not dominate the agenda of talks at European level in the coming months, says the PM Sobotka. He said that while Brexit was an important part of the debate, the key issue would be positive changes in how the EU functions that would generate greater public support. With regard to the UK's plans to leave the bloc, he said the country could not hold on to the advantages of membership and rid itself of the disadvantages.

### BREXIT SPELLS CHANCE – 14. 7.

The UK's departure from the EU represents an opportunity for the CR to attract EU agencies and the headquarters of multi-national companies currently located in the UK, says the state secretary for European affairs Prouza. He made the comment after the first meeting of a working group created to draw up a strategy on Brexit and the future of the EU. He called on the MIT and CzechInvest to draw up a list of firms that may be interested in moving to the CR.

### GOVERNMENT TO RETURN TO POLICE REFORM – 15. 7.

The government is set to return to the issue of a controversial reorganization of elite police units from July 18. PM Sobotka has invited the supreme state attorney Zeman and the police president Tuhý to attend a cabinet meeting. Under the restructuring, the present organised crime and anti-corruption units are to be merged from the start of August. The head of the organised crime unit quit in protest at the reform, which has been pushed through by Tuhý and the MI<sup>35</sup> Minister Chovanec. Sobotka was criticised for

<sup>35</sup> MI: Ministry of the Interior

removing the issue from the agenda of NSC<sup>36</sup> meeting planned for July 20.

### NO IMMINENT THREAT OF TERROR ATTACK – 15. 7.

The BIS<sup>37</sup> has no information pointing to any imminent threat of terrorist attack on Czech territory, its spokesman said in the wake of the attack in Nice. A potential risk remained stemming from the country's membership in NATO and related activities. Key institutions have been given increased police protection. The BIS is cooperating closely with its partners abroad in assessing potential security risks. In 2015 it received over 8,000 reports and sent out over 1,500, all relating to the threat of terrorism.

### POLICE INVESTIGATING OKD – 17. 7.

The police's anti-corruption squad is investigating financial operations at the OKD<sup>38</sup> which was declared bankrupt in May of this year. The company has debts amounting to CZK17bn and there are suspicions that millions of crowns may have been taken out of the firm illegally. Some of its assets were reportedly transferred to other companies. A number of officials at OKD and its parent company NWR<sup>39</sup> are suspected of financial mismanagement and abuse of office.

### FAILED COUP SHOULD NOT SERVE AS EXCUSE – 18. 7.

MFA Minister Zaorálek has stressed that even in the wake of a coup everyone should have the right to a fair trial. Zaorálek said that although the EU condemned the coup attempt in Turkey, it must not serve as an excuse to bypass democratic values. In the present difficult circumstances it is essential that everyone should have the right to a free trial, he said adding that the EU would be closely watching developments in the aftermath of the coup. In connection with calls for the return of the death penalty EUs Foreign Affairs Chief Mogherini warned Turkey that no country with capital punishment could become an EU member.

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<sup>36</sup> NSC: National Security Council

<sup>37</sup> BIS: Security Information Service

<sup>38</sup> OKD: Ostrava-Karviná Mines, a major mining company in the CR, the only producer of hard coal in the CR with an annual production of around 8-9mn tonnes from 4 mines with 23 shafts extracting coal from depths ranging from 600 to 1,300 metres below the surface.

<sup>39</sup> NWR: New World Resources Plc, produces coking and thermal coal for the steel and energy sectors through its subsidiary OKD.

	All For Power
	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 Mínění)
	Denik.cz
	E15
	European Commission
	Eurostat
	Government of the CR
	Hospodářské noviny
	Labour Office of the CR
	Lidové noviny
	M-Brain, News monitoring
	ManpowerGroup
	Median
	Novinky.cz
	Organisation for Economic Development and Cooperation
	Právo Daily



Prague TV  
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Technology Agency of the CR