

NEWS SUMMARY SEPTEMBER 1 – SEPTEMBER 8

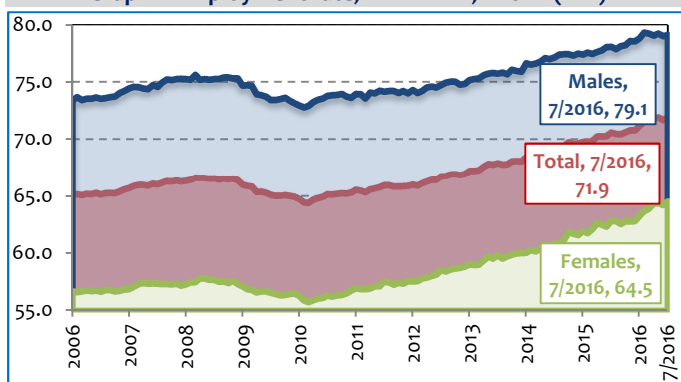
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ECONOMICS & FINANCE

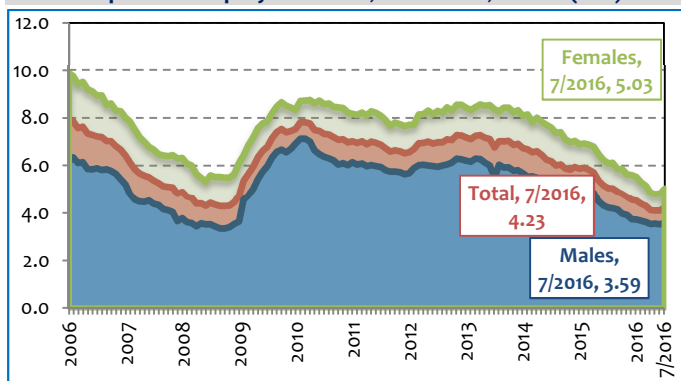
UNEMPLOYMENT RATE DOWN TO 4.2% IN JULY – 1.9.

Seasonally adjusted general unemployment rate¹ totalled 4.2% in July 2016, down 0.8% p.p.², y-o-y³. Men's unemployment rate reached 3.6% and women's 5.1%. Employment rate totalled 71.9% in July (up 1.4 p.p.) The economic activity rate reached 75.1% (up 0.8 p.p.) in the 15-64 years age group.

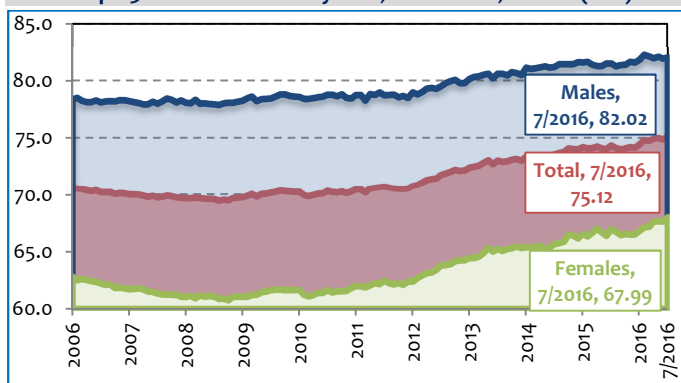
Graph 1: Employment rate, 2006- 2016, m-o-m (in %)



Graph 2: Unemployment rate, 2006- 2016, m-o-m (in %)



Graph 3: Economic activity rate, 2006- 2016, m-o-m (in %)



¹ General unemployment rate: 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

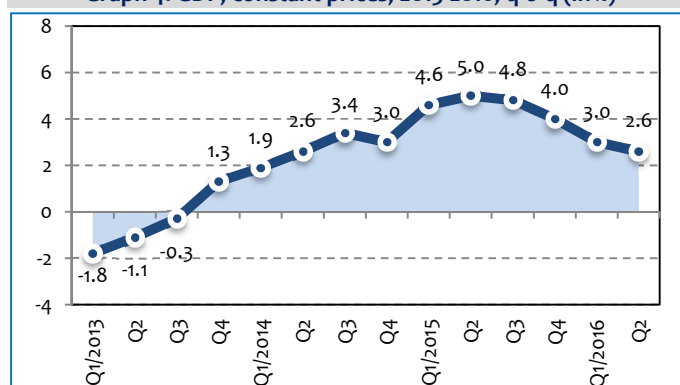
² P.p.: percentage point

³ Y-o-y: Year on year

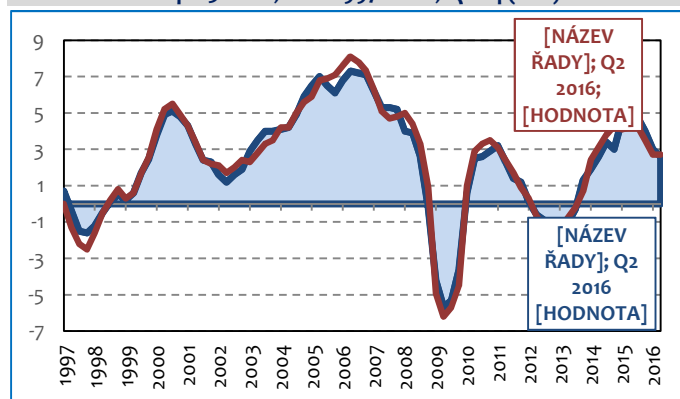
GDP Q2 – 2.9.

According to a refined estimate, the GDP⁴ in Q2⁵ 2016 increased by 0.9%, q-o-q⁶, and by 2.6%, y-o-y. Main growth factors of the Czech economy were strong foreign demand and stable household consumption.

Graph 4: GDP, constant prices, 2013-2016, q-o-q (in %)



Graph 5: GDP, GVA 1997- 2016, Q-o-q (in %)



The GVA⁷ increased by 0.9%, q-o-q, and by 2.7%, y-o-y. The favourable development of the economy continued in most of the economic activities of the Czech economy, except for construction. In manufacturing, which was supported mainly by a fast-growing automotive industry, the GVA increased by 1.3%, q-o-q, and by 4.8%, y-o-y. On the contrary, in construction, especially due to y-o-y lower investment subsidies, the GVA dropped by 5.5%. Other economic activities of services continued to grow. For example, in trade, transport, and accommodation the GVA increased by 2.5%, y-o-y, in real estate services by 2.1%, and in professional, scientific and technical activities by 3.4%. The y-o-y GDP growth (+2.6%) was contributed to by external trade (by 2.5 p.p.) and final consumption expenditure of households (by 0.8 p.p.). What on the other

⁴ GDP: Gross domestic product

⁵ Q2: 2nd quarter of the year

⁶ Q-o-q: Quarter on quarter

⁷ GVA: Gross Value Added, is a measure in economics of the value of goods and services produced in an area, industry or sector of an economy. In national accounts GVA is output minus intermediate consumption; it is a balancing item of the national accounts' production account.

hand negatively influenced the GDP growth was a significant decrease of investment activity related mainly to the drop of construction investments (in other buildings and structures).

Final consumption expenditure of households increased by 2.2%, y-o-y; in the q-o-q comparison it was 0.1% up. Similarly as in the previous quarters, expenditure grew in all basic categories of household consumption. Final consumption expenditure of general government increased by 2.5%, y-o-y; in the q-o-q comparison it was by 0.8%.

AVERAGE WAGES RISE BY 3.9% IN Q2 – 5. 9.

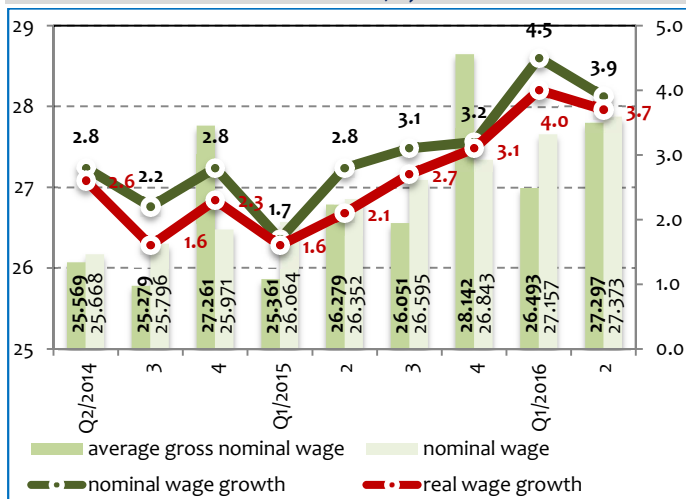
Average monthly wages in the CR⁸ rose in the Q2 by an average 3.9% y-o-y, according to the CSO⁹. The average rise of CZK¹⁰ 1,019 boosts the average to CZK 27,297. When inflation is factored in, the average percentage rise comes in at 3.7%. Compared to the Q1¹¹, wages rose by 0.8%.

The median wage was CZK 23 047. The wage volume grew by 5.8% and the number of employees increased by 1.8%.

The average wage in the business sphere increased nominally by 3.9% that means its growth was 3.7% in real terms; in the non-business sphere the average wage increased nominally by 3.6%, and thus grew by 3.4% in real terms.

The median wage increased by 4.5% compared to the same period of the previous year. The male median wage reached CZK 25 176 and the female one was CZK 20 567. 80% of employees earned wages within the interval from CZK 11 238 to CZK 43 752. In H1¹² 2016 the average wage reached CZK 26 898 and its increment was CZK 1 074 (4.2%), compared y-o-y, and consumer prices grew by 0.4% and thus wages increased by 3.8% in real terms.

Graph 6: Average gross monthly wages, 2014- 2016, q-o-q (in CZK thousands, %)



RETAIL SALES STILL STRONG IN JULY – 5. 9.

In July 2016, sales in retail trade after seasonal adjustment decreased at constant prices by 0.2%, m-o-m¹³. Sales adjusted for calendar effects increased by 5.1%, y-o-y. Non-

⁸ CR: Czech Republic

⁹ CSO: Czech Statistical Office

¹⁰ CZK: Czech Crown, the currency of the CR since 8 February 1993

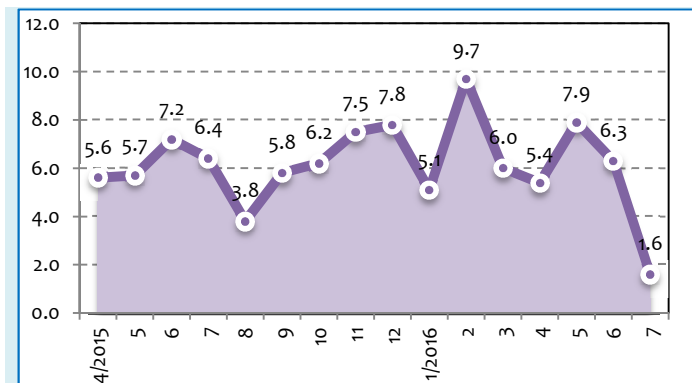
¹¹ Q1: 1st quarter of the year

¹² H1: 1st half of year

¹³ M-o-m: month-on-month

adjusted sales increased by 1.6%, y-o-y. The sales development was influenced also by a lower number of working days compared to the previous year. Sales were especially strong in non-food goods, where they climbed by around 8%. Growth in food sales was just 2.1%. The trend of increasing sales through mail order or via the Internet continues, with those sales up by nearly 20%.

Graph 7: Retail, 2015 – 2016, y-o-y (in %)

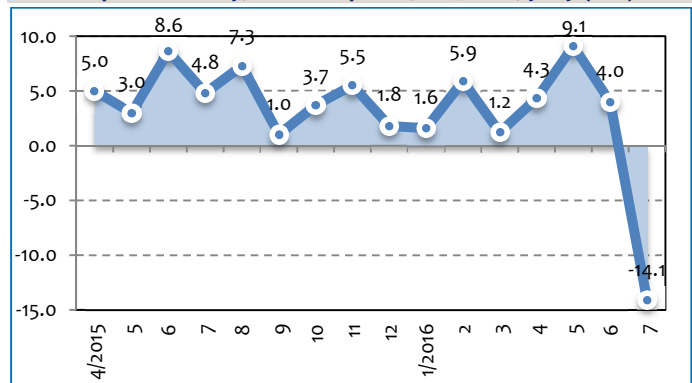


INDUSTRY - JULY 2016 – 6. 9.

In July 2016, industrial production decreased at constant prices by 14.1%, y-o-y. Working days adjusted industrial production dropped by 7.6%. Seasonally adjusted industrial production was lower by 9.7%, m-o-m. The value of new orders decreased by 16.2%, y-o-y.

July data were significantly influenced by distribution of public holidays within a working week and by movement of company holidays within both the holiday months. Many important industrial enterprises decided their company holiday to be in 2016 in July, unlike in the previous year when the holidays were taken in August.

Graph 8: Industry, constant prices, 2015-2016, y-o-y (in %)



The following contributed the most to the y-o-y decrease of industrial production: manufacture of motor vehicles, trailers and semi-trailers (-6.7 p.p., -34.8%), manufacture of machinery and equipment (-1.2 p.p., -13.8%), and manufacture of electrical equipment (-1.0 p.p., -12.9%). Industrial production increased in manufacture of basic pharmaceutical products and pharmaceutical preparations (+0.4 p.p., +42.1%), manufacture of other transport equipment (+0.3 p.p., +19.6%), and electricity, gas, steam and air conditioning supply (+0.1 p.p., +1.5%). Sales from industrial activity at current prices decreased by 18.9%, y-o-y, in July 2016. Direct export sales of industrial enterprises decreased at current prices by 20.1%. Domestic sales, which

include also indirect export via non-industrial enterprises decreased at current prices by 17.4%.

The value of new orders in selected industrial CZ-NACE activities decreased by 16.2%, y-o-y, in July 2016. Non-domestic new orders decreased by 15.5%, while domestic new orders decreased by 17.6%. The y-o-y decrease of new orders in total was the most contributed to by the following CZ-NACE divisions: manufacture of motor vehicles, trailers and semi-trailers (-9.1 p.p., - 23.4%), manufacture of electrical equipment (-1.6 p.p., - 16.6%), and manufacture of machinery and equipment (-1.4 p.p., -12.2%). New orders increased in manufacture of other transport equipment (+0.4 p.p., + 24.5%), and manufacture of basic pharmaceutical products and pharmaceutical preparations (+0.2 p.p., +21.3%).



EXTERNAL TRADE – 6. 9.

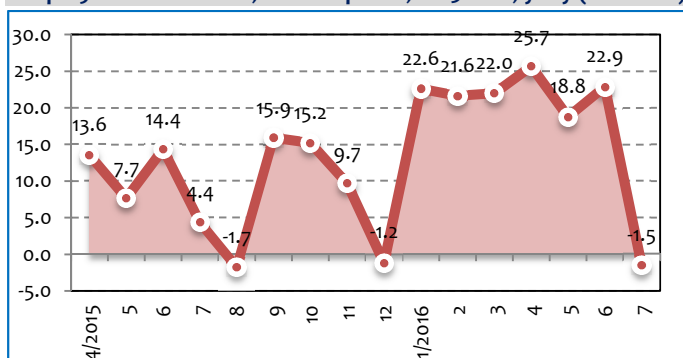
In July 2016, according to preliminary data of 'national concept'¹⁴ in current prices, the trade balance ended in a deficit of CZK 1.5bn compared to a surplus of CZK 4.4bn in July 2015. In July 2016 external trade figures were influenced by the factory holidays in the car industry and three working days less compared to July 2015.

Y-o-y, total balance in 'national concept' was unfavourably influenced by a decrease in surplus of balance 'machinery and transport equipment' (by CZK 11.7bn) mainly due to a lower surplus in 'road vehicles' (by CZK 16.7bn. Furthermore, deficit in 'food and live animals' and 'beverages and tobacco' deepened (both by CZK 0.1bn). Total balance was favourably affected by a decrease of deficit in 'mineral fuels, lubricants and related materials' (by CZK 2.3bn) and 'chemicals and related products' (by CZK 0.4bn). Surplus in 'manufactured goods classified chiefly by material' grew (by CZK 2.2bn) and the trade balance in 'crude materials' improved (by CZK 0.6bn) as a deficit turned into a surplus.

The trade balance with EU28 Member States ended in a surplus of CZK 31.8bn, which was a y-o-y decrease by CZK 13.2bn. Deficit of trade with non-EU countries shrank by CZK 7.4bn to amount to CZK 31.8bn.

M-o-m, in 'national concept' seasonally adjusted exports and imports fell by 12.0% and 5.9% respectively. The development trend shows increasing exports (+0.6%) and decreasing imports (-2.3%). Y-o-y, 'national concept' exports and imports decreased by 16.5% (to CZK 227.4bn) and by 14.6% (to CZK 228.9bn) respectively.

Graph 9: External Trade, current prices, 2015-2016, y-o-y (in CZKbn)



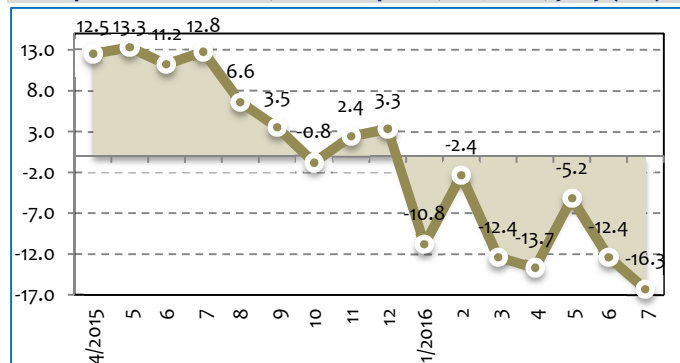
¹⁴ National concept of external trade: reflects export and import performance of the Czech economy, i.e. the external trade balance of the CR as well. It measures real trade in goods carried out between the Czech and foreign entities, i.e. a change of ownership between residents and non-residents.



CONSTRUCTION – 6. 9.

In July 2016 the construction dropped by 16.3% y-o-y, in real terms. The planning and building control authorities granted by 5.2% more building permits, y-o-y, and the approximate value of permitted constructions grew by 17.4%, y-o-y. The number of started dwellings dropped by 15.1%, y-o-y, and the number of completed dwellings increased by 14.0%, y-o-y.

Graph 10: Construction, constant prices, 2015-2016, y-o-y (in %)



FOREIGN CURRENCY INTERVENTIONS IN JULY – 7. 9.

The CNB¹⁵ announced that it spent CZK 8.29bn in July on currency interventions aimed at preventing the appreciation of the Czech crown. The level of intervention is slightly higher than the CZK 8.45bn of June but way below the double digit figures from May, April, and February this year and the CZK 58.16bn figure for January. The CNB has spent around CZK 563bn since it began the so-called low crown policy of keeping the crown at or below CZK 27 to the euro in November 2013.



AGRICULTURE & ENVIRONMENT

CALLS FOR CONSERVATION STEPS AT ŠUMAVA – 7. 9.

Czech authorities have been given an international warning that must take urgent steps to safeguard the Šumava National Park's to safeguard its worldwide recognition as a national park. A resolution adopted by the ongoing meeting of the IUCN¹⁶ set out two conditions for the park to retain its international status. The first is that the so-called non-intervention area where nature is left alone with the minimum of human activity should cover 30% of the national park. The area of minimal human activity should be widened to 50% of the park by 2030, it added. The IUCN previously condemned past park management which opened up the park to extensive logging activities.



SOCIAL & HEALTH



GOVERNMENT SETS RETIREMENT AGE AT 65 – 6. 9.

The Czech government wants to set the age at retirement at 65 years, PM¹⁷ Sobotka said. The government voted unanimously for the proposal. The relevant bill, which includes the alternative of a later postponement of the limit according to the development of life expectancy, will be now debated by the parliament. It is likely to be passed there. The right-wing opposition is of the view that this is

¹⁵ CNB: Czech National Bank

¹⁶ IUCN: International Union for the Conservation of Nature

¹⁷ CZK: Czech Crown, the currency of the CR since 8 February 1993

nothing but pre-election populism. "It is not realistic for people to be forced to work over 65," MLSA¹⁸ Michaela Marksova (CSSD) said. Along with the limitation of the age at retirement, the legislation includes the clauses under which a report on the expected life expectancy of the people born between 1966 and 1995 will be drafted in 2019. If it turns out that such people are to spend in retirement more than 1/4 of their lives, a new government is to decide on whether to adapt the maximum retirement age accordingly.

The new assessments are to be made once in 5 years.

The first report for the decision-making is to be drafted on the basis of the data for 2018.

CHD TO DEBATE REWORKED ANTI-SMOKING BILL – 6. 9.

The ChD¹⁹ is due to debate a reworked anti-smoking bill which it rejected in May of this year. If approved, the bill would introduce a broad ban on smoking in bars and restaurants, but would not, as originally proposed, apply to electronic cigarettes or hookahs. The proposed amendment, the toughest ever put forward in a country which has been exceptionally benevolent to smokers, has evoked a storm of controversy in the lower house. The bill was rejected in the spring following a heated argument over whether restaurants should have special rooms for smokers, service-free, to protect restaurant personnel from second-hand smoke. MH²⁰ Minister Němeček said he believed the proposed legislation would eventually win approval, but predicted it would take months rather than weeks.

REMUNERATION IN THE FIRST FEW DAYS OF ILLNESS – 7. 9.

Employees will not receive wage compensation in the first 3 days of illness. An amendment to the Labour Code submitted by KSČM²¹ was rejected in the ChD by narrow majority. The 3rd reading took place on September 7. The KSČM proposal was rejected. MP²² Ivan Pilný (ANO²³) and MP Vladislav Vilímec (ODS²⁴) submitted amending comments proposing to reject the document No. 939. Out of 163 present MPs, ČSSD²⁵, KSČM and Dawn²⁶ voted against the rejection (72 voters). ANO, ODS, KDU-ČSL²⁷, T TOPo9²⁸ voted for the rejection (83). The ČSSD are trying to get support at least for the so-called "sick days" in the coalition. Sick days would allow the employee to take several days of leave in a year without giving a specific reason (to get better when feeling sick). Some companies already provide this option to employees as a benefit.

¹⁸ **MLSA**: Ministry of Labour and Social Affairs

¹⁹ **ChD**: Chamber of Deputies, the lower house of Parliament of the CR

²⁰ **MH**: Ministry of Health

²¹ **KSČM**: Communist Party of Bohemia and Moravia, far-left party

²² **MP**: Member of Parliament

²³ **ANO**: ANO 2011, centre-right party

²⁴ **ODS**: Civic Democratic Party, Liberal conservative, centre-right party, soft Eurosceptic party

²⁵ **ČSSD**: Czech Social Democratic Party, centre-left party

²⁶ **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.

²⁷ **KDU-ČSL**: Christian and Democratic Union – Czechoslovak People's Party, centre party

²⁸ **TOPo9**: conservative, centre-right party, it has been noted for its support of fiscal conservatism and is considered pro-EU.

TU CALL FOR HIKE IN MINIMUM WAGE – 7. 9.

TU²⁹ and representatives from across the CR called for an increase in minimum wages in the private sector from the start of next year to CZK 11,500 a month from the current level of CZK 9,900. The meeting in Prague was organised by ČMKOS³⁰ under the overall banner of "End Cheap Labour." The government has been indicating that it wishes to seek a hike in the minimum wage to CZK 11,000. Employers' organisations dismissed the demand as unrealistic, adding that it would represent an increase of around 7% while current wages settlements are running at around 4%. The government has set a target for minimum wages to reach around 40% of the average wage.

TU CALL FOR INCREASE IN WAGES – 8. 9.

The ČMKOS meeting also called for average across the board wage rises next year of around 5.0%.

MLSA Minister Marksová said that it is not possible for the wage differential between the CR and Germany-Austria to be so great. Employers are constantly complaining that they cannot find workers, she said, but when you ask them how much they pay, the figures are often laughable.

According to OECD statistics, the Germans after adjustment for purchasing power standard earned more than twice what the Czechs last year.

CCC³¹ president Dlouhy said, "I do not understand why the TU break into an open door. Entrepreneurs increase wages," adding that companies could handle wage growth by 3-5% next year. According to the CCC, entrepreneurs who do not raise wages, are threaten by competitors that could pull out their staff at the current low unemployment

INDUSTRY & ENERGY & TRADE & TRANSPORT

PASSENGER CAR PRODUCTION UP – 2. 9.

Car production in the CR grew 1.1% y-o-y to 756,407 units in 7M 2016. The AIA³² has informed that the minimum y-o-y growth was caused by the fact that Škoda Auto³³ and Hyundai³⁴ plants had factory holidays and suspended production. Motor vehicle production totalled 760,678 pcs (+1.1%).

ŠKODA SEEN ROLLING OUT FOUR NEW MODELS IN 2017 – 5. 9.

Škoda Auto will roll out four new models next year, including a new version of the Yeti, according to various sources within the company. Other new models should be updates of the small Citigo, Rapid, and mid-range Octavia. Škoda Auto should also unveil its 1st plug-in hybrid car in 2019.

²⁹ **TU**: Trade union, around 1/6 of all employees are union members in the CR.

³⁰ **ČMKOS**: a dominant union confederation in the CR, which had almost 400,000 members in 2011. ČMKOS is the Czech successor of the Czech and Slovak union confederation. It has separate affiliated member unions divided broadly on an industry basis, of which the largest are the metalworkers union, OS KOVO, with some 140,000 and the teachers' union, ČMOS PŠ, with around 50,000 members.

³¹ **CCC**: Czech Chamber of Commerce

³² **AIA**: Automotive Industry Association, AutoSAP

³³ **Škoda Auto**: is a Czech automobile manufacturer founded in 1895 as Laurin & Klement. It is headquartered in Mladá Boleslav, Bohemia, Czech Republic. The car manufacturer was acquired by Škoda Works in 1925 and became a wholly owned subsidiary of the Volkswagen Group in 2000, positioned as the entry brand to the group. Its total global sales reached 1.04 million cars in 2014.

³⁴ **Hyundai CZ**: Hyundai Motor Manufacturing Czech based in the Industrial Zone of Nošovice was founded in 2006.

COURT RULING COULD CLOSE PARTS OF PRAGUE RING – 6. 9.

The SAC³⁵ has issued a ruling that could close the busy south-western section of the Prague ring road and affect other roads that have not yet received final building approval. The court upheld a complaint from locals who protested against the length of the trial operation on the south-western section of the Prague ring road, with appropriate noise barriers still not in place, ruling that a trial operation longer than three years was excessive. The south-western section of the Prague ring road went into operation in 2010 and still lacks final building approval due to a number of serious technical defects. The RMA³⁶ is currently reviewing the impact of the ruling on this and other roads.

TEMELIN SECOND UNIT RECONNECTED TO GRID – 7. 9.

ČEZ³⁷ said that its Temelin-2 nuclear reactor was connected to the grid again late Tuesday and should be producing electricity at full capacity on Wednesday. The reactor had been shut down for the previous 95 days for a regular replacement of around 1/4 of the nuclear fuel rods and safety checks. The reactor, with capacity of just over 1,000 MW, together with Temelin-1, are the biggest electricity producers in the country providing for much of ČEZ's baseload electricity needs.

MOC ON STORK II PIPELINE SIGNED BY PMS – 7.9.

During the summit of the V4, the PM Sobotka and Polish PM Szydlová signed a MoC³⁸ on the pipeline Stork II. Stork II project and related pipelines are part of the North-South gas interconnections. The project should be implemented by 2020. It is included in the "EU common interest projects" and "European Energy Security Strategy" among mid-term projects to strengthen the energy security of the EU³⁹.

SECURITY & POLLS & OTHERS**ANO STRONGLY IN THE LEAD IN POPULARITY RATINGS – 4. 9.**

The ANO would currently win parliamentary elections with 29.5% of the vote, according to the outcome of an August survey conducted by the polling agency AISA. The ČSSD would come 2nd with 18% of the vote and the KSČM would place 3rd with 11%. The opposition ODS would get 9.5% support, TOP09 6.5% and the KDU-ČSL would be on the 5% threshold needed to win seats in the ChD.

INTERIOR MINISTRY REJECTS COOPERATION WITH HUAWEI

The MI⁴⁰ has rejected cooperation with Huawei⁴¹ because the intelligence service UZSI⁴² concluded that such cooperation would involve a high risk of espionage. Shortly before the June trip of PM Sobotka to China, the MI received a draft memorandum of understanding that was to

open the doors to Huawei in the sphere of Czech interior security. Within a pilot project, Huawei would deliver its electronics to the ministry and the technology would be tested in one of the Czech regions. If the technology passed the test, it would be used in the whole country.

According to Respekt weekly, it does not know what kind of technology was concerned as neither the Government Office nor the MI commented on the issue. The MI asked the UZSI intelligence to check the possible cooperation and said "No" to it after UZSI said the cooperation posed a security risk.

In the past, the USA did not let Huawei on its market. The US Congress said the company was too close to the Chinese Communist Party and the Chinese army, Respekt writes.

Two years ago, the Czech counter-intelligence BIS⁴³ warned against Huawei. "The increasing share of Chinese firms Huawei and ZTE⁴⁴ on the Czech telecommunications market may pose a potential risk. Both companies have been suspected of cooperation with the Chinese intelligence services and an involvement in espionage activities abroad for a long time," Respekt writes, citing the BIS report.

The fresh BIS annual report does not mention Huawei, but it warns against Chinese spies more than in the previous years, Respekt writes.

Huawei and ZTE have become international players in the last several years. This alarmed not only traditional producers from the West, but also organisations and offices responsible for the key infrastructure such as the telephone network. They fear that Chinese spies might use the network technology and software of these firms to wiretap sensitive communication or that they might implant technology in this network that would make China capable of blocking the network in case of a possible conflict, Respekt writes.

The rejected cooperation with Huawei is yet another blow to the expansion of Chinese business in the CR, the weekly writes. The CEFC⁴⁵ recently announced that it suspended the planned purchase of the 50% share in the J&T⁴⁶ and the CNB refused to confirm the granting of advantages to the ICBC⁴⁷ proposed by the Czech government, Respekt writes.

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⁴³ BIS: Security Information Service

⁴⁴ ZTE: a Chinese multinational telecommunications equipment and systems company headquartered in Shenzhen, China. ZTE operates in three business units - Carrier Networks (54%)-Terminals(29%)-Telecommunication(17%). ZTE's core products are wireless, exchange, access, optical transmission, and data telecommunications gear; mobile phones; and telecommunications software. It also offers products that provide value-added services, such as video on demand and streaming media. ZTE primarily sells products under its own name but it is also an OEM. ZTE is one of the top five largest smartphone manufacturers in its home market, and in the top ten, worldwide.

⁴⁵ CEFC: China CEFC Energy Company Limited, through its subsidiaries, engages in trading of oil, petrochemical products, and oil storage. The company is based in Shanghai, China.

⁴⁶ J&T: a Central European investment group founded in 1993 in Slovakia. It pursues business in the private equity and banking sectors, the largest portion of the value of its investments being in the Czech Republic and Slovakia. J&T invests mainly into the financial services, energy sector, real estate, health care, media and sports.

⁴⁷ 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.



CIA News (Česká informační agentura)



Czech Press Agency (Česká tisková kancelář)



Czech Statistical Office (Český statistický úřad)

³⁵ SAC: Supreme Administrative Court

³⁶ RMA: Road Management Authority

³⁷ 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.

³⁸ MoC: Memorandum of Cooperation

³⁹ EU: European Union

⁴⁰ MI: Ministry of the Interior

⁴¹ Huawei: Huawei Technologies Co. Ltd. is a Chinese multinational networking and telecommunications equipment and services company headquartered in Shenzhen, Guangdong. It is the largest telecommunications equipment manufacturer in the world,

⁴² UZSI: Office for Foreign Relations and Information