# **NEWS SUMMARY SEPTEMBER 15 – SEPTEMBER 21**

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#### **ECONOMICS & FINANCE**

### PUBLIC PROCUREMENT STUDY - 15.9.

1 in 4 public tenders in Czech regions was cancelled in the period 2013-2015, the reason often being that they were not attractive enough for companies, a recently study Public Procurement in Czech Regions published by EconLab¹ says. EconLab looked at criteria such as the number of bids/competition of bids, breaches of law by regions, or a number of contracts assigned directly, for example. One of the criticized features of public procurement in Czech regions was the fact that the regions often do not conduct market research before they formulate tender conditions. They get feedback from companies only after the call for bids is published and the authorities subsequently change the conditions of the tender, even several times.

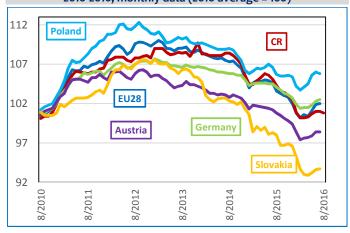
Volume of tenders amounted to CZK² 82,949,777,098 in 2013-2015. The top performers, according to the EconLab analysis, are South Bohemian region, followed by Ústecký, Pardubický, South Moravian and Central Bohemian regions. Also, the study says, South Moravian region cancelled 47% of public tenders in 2013-2015, followed by Plzeňský region with 41% of cancelled tenders.

Among cities and municipalities, the Prague 17 district seems to be the top performer. The district has been evaluating bids based mainly on qualitative criteria such as functionality of solutions, stated deadline for finalization of projects, etc.

## PRODUCER PRICE INDICES - AUGUST 2016 – 16. 9.

In August 2016 compared with the previous month, agricultural producer prices were lower by 0.5% and industrial producer prices went down by 0.2%. Construction work prices and prices of market services stayed unchanged. In comparison to August 2015, agricultural producer prices fell by 6.9% and industrial producer prices also decreased by 3.4%. Construction work prices grew by 0.9% and prices of market services went up by 0.1%.

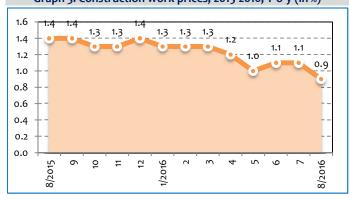
### Graph 1: Industrial producer price index, International comparison, 2010-2016, monthly data (2010 average = 100)



Graph 2: Industrial producer prices, 2015-2016, Y-o-y (in %)



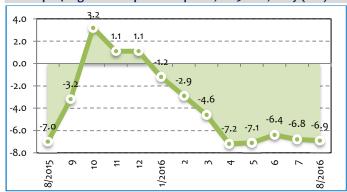
Graph 3: Construction work prices, 2015-2016, Y-o-y (in %)



<sup>&</sup>lt;sup>1</sup> EconLab: research institute at the Charles University

<sup>&</sup>lt;sup>2</sup> CZK: Czech Crown, the currency of the CR since 8 February 1993





#### Graph 5: Market services prices, 2015-2016, Y-o-y (in %)



The CR3's foreign debt increased by CZK 133bn4 in Q25 2016 to reach CZK 3.353tn<sup>6</sup>, according to figures released by the CNB<sup>7</sup>. The CR's foreign debt is equivalent to 72% of GDP<sup>8</sup>. The CR's foreign debt exceeded the CZK 3tn mark for the 1st time last year. It crossed the CZK 2tn line in 2010, 6 years after reaching CZK 1tn for the 1st time.

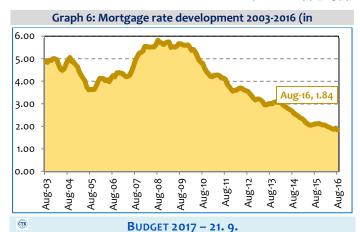
### MORTGAGE MARKET - 21. 9.

Mortgage rates continue to fall and again broke record

The average interest rate on mortgages in August fell to a new record low of 1.84%, 1.88% in July. Previous record low was 1.87% in June.

Volumes climbed to CZK 18.139bn, an increase of CZ 2.914 bn in comparison with July.

The average mortgage payment for 20 years fell below CZK 5,000 for the 2<sup>nd</sup> time this year it is at CZK 4,985 a month.



The government approved the draft state budget for next year with a deficit of CZK 60bn. The budget envisages increase in the salaries of teachers and workers in health sector, increasing deductions for state social insurance and growth of pensions.

Salaries of teachers increased by 8% since September this year, wage rates rose by 6%. Wages for police officers, firefighters, workers in the public sphere and soldiers will increase since November by 4%. Pensions should rise by an average of CZK 308 per month to CZK 11,745.

The Cabinet decided last spring that the state will give CZK 3.6bn more in 2017 for health insurance of children, pensioners and the unemployed. This allows for increase of 10% of the salaries of workers in the health sector since January. The government has approved an increase in spending on science by CZK 3.75bn.

The MI<sup>9</sup> will receive an extra CZK 100mn<sup>10</sup> for volunteer firefighters, CZK 120mn for investments and CZK 200mn for energy regulation of buildings in the Green Savings Scheme. The MD<sup>11</sup> budget will increase annually by CZK 4.75bn to CZK 52.5bn and the MC<sup>12</sup> budget by CZK 100mn in 2017 for live art and mainly for the regions.

#### ⊗ » OECD OECD OUTLOOK - 21. 9.

Global GDP growth is projected to slow marginally to 2.9% in 2016, lower than in 2015 remaining around the same 3% of recent years. For 2017, global GDP growth is expected to improve only modestly to 3.2%, all well-below historical norms. Overall, the global GDP projection is largely unchanged since June 2016, with weaker conditions in advanced economies, including the effects of Brexit, offset by a less negative performance of major commodity producers. Overall, the world economy remains in a lowgrowth trap with persistent growth disappointments weighing on growth expectations and feeding back into weak trade, investment, productivity and wages.

### **RESEARCH & DEVELOPMENT & INNOVATION**

#### CZECH INNOVATION CAPACITY DECREASED - 20.9.

The EC's<sup>13</sup> DG Growth<sup>14</sup> has asked Copenhagen Economics<sup>15</sup> to identify the main drivers of FDI<sup>16</sup> into the EU<sup>17</sup> and

999

<sup>&</sup>lt;sup>3</sup> CR: Czech Republic

Bn: billion

<sup>&</sup>lt;sup>5</sup> Q2: 2<sup>nd</sup> quarter of the year

Tn: Trilion

CNB: Czech National Bank

GDP: Gross domestic product

<sup>&</sup>lt;sup>9</sup> MI: Ministry of the Interior

<sup>&</sup>lt;sup>10</sup> Mn: Million

<sup>11</sup> MD: Ministry of Defence

<sup>12</sup> MC: Ministry of Culture

<sup>&</sup>lt;sup>13</sup> EC: European Commission

construct an FDI Attractiveness Scoreboard that can be used to benchmark individual countries on their attractiveness. Measured by 18 indicators for 44 countries, the Scoreboard shows that Finland, Ireland and the Netherlands are the most attractive EU countries for FDI, while Italy, Greece and Croatia are the least attractive.

In 2014, the CR had the 7<sup>th</sup> highest FDI intensity (share of FDI as a % of GDP) among 25 assessed EU Member States. The report mentions US software investments in the CR, adding that Hungary, Poland, Bulgaria, the CR and Romania account for a combined share of 12% of the value of US greenfield investments into this sector in the EU over the period 2003-2014. This is driven in part by the relatively low wage costs in Eastern Europe combined with a well-educated, English-speaking labour force. In the period 2003-2014, the CR was among top 5 EU destinations in terms of greenfield investments by Japan. Also, Romania, Bulgaria, Poland and the CR accounted for close to a 1/4 of Russian greenfield investments over the same time period.

Also in the 2003-2014 period, the CR was among Top 10 destinations for greenfield investments in the EU automotive sector (with 30 greenfield investments, that is 6% share of the total number of investments and 5% share of the total capital expenditure). Slovakia with 24 greenfield investments had 5% share of the total number of investments and 11% share of the total capital expenditure. Large FDI inflows into especially Poland, Hungary, Slovakia and the CR were deployed by Germany and directed towards the manufacturing sector in general but in particular towards the manufacturing of motor vehicles and other transport equipment. Among the drivers behind German investments in EE, are a relatively low wage level and the geographical proximity and cultural similarities with Western Europe countries (IMF 18, 2013). German investments in the automotive industry in the CR and in Hungary have also been substantial.

A case study on SolarWinds, a hybrid IT infrastructure management software provider, says that aside from talent, other important factors in the company's decision to locate in the CR and Poland include a good digital infrastructure in both countries (reliability and speed of internet), political stability and good English skills.

As for the scoreboard, the CR ranked 22<sup>nd</sup> for overall FDI attractiveness (the top performers Hong Kong, Finland and Switzerland), 17<sup>th</sup> for infrastructure and market access, 26<sup>th</sup> for political, regulatory and legal environment, 29<sup>th</sup> for knowledge and innovation capacity (a negative change). Lithuania, the UK, Finland and the CR are the EU countries, which have improved the most their ranking position due to an increase in their relative wage competitiveness combined with reductions in corporate tax rates. In comparison, Slovakia is the Member State, which has fallen the most in

<sup>14</sup> DG Growth: Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs. It is responsible for completing the internal market for goods and services and is implementing the industrial and sectorial policies to help turn the EU into a smart, sustainable and inclusive economy. In the Framework of the Small Business Act, it has as objective to reduce the administrative burden on SME's, to facilitate access to funding and support access to internationalisation.

the ranking and now ranks as the 17<sup>th</sup> most cost competitive country out of the 44 countries included, compared to the  $9^{th}$  in 2009. This is due to an increase in the corporate tax rate from 19% in 2009 to 22% in 2014. In the CR, the rate was 20% in 2009 compared to 19% in 2014.

### **AGRICULTURE & ENVIRONMENT**

### FRUIT HARVESTERS SUFFER LOWER YIELDS – 16. 9.

The yield from this year's apple harvest is expected to be some 23% less y-o-y<sup>19</sup> and pears as much as 50%, according to FGU<sup>20</sup>. The amount of apples grown this year amount to 119,373t<sup>21</sup>, while pears will weigh in at 5,484t, some 45% less than a year ago; this year's poor yield could leave some harvesters on the financial brink.

### Brewer Plzeňský Prazdroj to raise – 21. 9.

One of the CR's leading breweries, Plzeňský Prazdroj, is set to raise its prices by an average of 3.2% from the start of October. It will cost pubs and restaurants an extra 60 hellers a 0.5l for the 10° lager Gambrinus and CZK 1 more a 0.5l of the 12° Pilsner Urquell. The brewer said it was raising its prices to cover more expensive raw materials, in particular hops, and investment in modernizing and expanding its sale.

### **SOCIAL & HEALTH & EDUCATION**

### OECD: EDUCATION AT A GLANCE 2016 - 16. 9.

Average expenditure of OECD<sup>22</sup> countries on public and private educational institutions from primary to tertiary education amounts to 5.2% of GDP, compared with 4% in the CR and 6.7% in the UK (top performer).

As for the CR, 35% of tertiary-educated adults studied engineering, manufacturing or construction, whereas 15% completed teacher training or studied education science (data from 2012 or 2015). Expenditures per student by educational institutions have risen since 2005, most notably expenditures by tertiary educational institutions. Public expenditure on education as a percentage of GDP has not changed significantly since 2005, the report shows.

On average, Czech teachers are older and paid less.

- Over recent years, student international mobility has increased drastically.
- As of 2015, 22% of 25-64 year-olds in the CR had attained tertiary education, which is lower than the OECD average of 35%.
- Compared with a full-time, full-year worker who has attained upper secondary education, tertiary educated Czechs in 2013 earned almost twice as much, or 92% more
- Women make up a higher proportion (more than 60%) of graduates from tertiary institutions than men.
- Female enrolment in science, technology, engineering and mathematics courses is low, especially in engineering and manufacturing.
- Women earn less than men at all levels of educational attainment.

<sup>&</sup>lt;sup>15</sup> Copenhagen Economics: a leading economic consultancy in the Nordic region

<sup>&</sup>lt;sup>16</sup> FDI: Foreign Direct Investment

<sup>&</sup>lt;sup>17</sup> EU: European Union

<sup>&</sup>lt;sup>18</sup> IMF: International Monetary Fund

<sup>&</sup>lt;sup>19</sup> Y-o-y: Year on year

<sup>&</sup>lt;sup>20</sup> **FGU:** Fruit Growers Union of the Czech Republic

<sup>&</sup>lt;sup>21</sup> t: tonne, metric ton is a non-SI metric unit of mass equal to 1000 kilograms

<sup>&</sup>lt;sup>22</sup> OECD: Organisation for Economic Development and Cooperation

## OLD-AGE PENSIONS SET TO RISE BY CZK 300 – 18. 9.

The parties in the Czech coalition government have agreed to increase old-age pensions by CZK 300 a month from January. MF<sup>23</sup> Minister Babiš said that the necessary CZK 3.5bn to fund the increase had been found in the state budget and that he would put the proposal forward at a cabinet meeting. ČSSD<sup>24</sup> also want to give pensioners and extra CZK 300 a month, though a hitherto coalition agreement had envisaged an increase of just CZK 200.

### SALARIES INCREASE – 21. 9.

According to the analysis of the CCC<sup>25</sup>, wages will rise nominally by from 4.8 to 5.0%. However, increase in the minimum and guaranteed wage planned by the government threatens the competitiveness of companies, the economy as a whole and GDP growth.

#### **INDUSTRY & ENERGY**

#### ČTK

### CAR PRODUCTION - 21. 9.

According to ACM<sup>26</sup>, production of passenger cars rose by 7.6% to 876,023 vehicles from January to August. The dynamics of growth come closer to the values of the H1<sup>27</sup> 2016 before factory holidays of many car producers.

Škoda Auto<sup>28</sup> has increased production by 9.8% to 495,684 cars, TPCA<sup>29</sup> grew by 7.6% to 158,139 cars and Hyundai<sup>30</sup> produced 222,200 cars, an increase of 3.2% over the same period last year.

#### **TRADE & SERVICES & TRANSPORT**

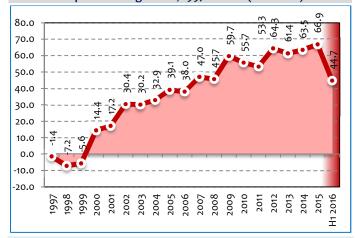
#### AVERAGE PRICE OF APARTMENTS INCREASED – 15. 9.

The average price of apartments in Prague and other regional towns in the CR increased by 11.1% y-o-y in Q2 2016, according to the price-tracking website cenovamapa.org. The average price per  $\rm m^2$  in Prague was CZK 60,300, while in Ústí nad Labem,  $\rm m^2$  is sold for CZK 11,400. The q-o-q<sup>31</sup> increase was 6.1%, which is the fastest growth since 2010. The sales of apartments in Q2 amounted to CZK 20bn.

#### CZECH BANKS POST AGGREGATE NET PROFIT – 15. 9.

The aggregate net profit of banks in the CR increased in H1 2016 by CZK 7.27bn y-o-y to CZK 44.73bn, according to the data release by the CNB. The banking sector's total assets amounted to CZK 5.84bn at the end of June, which is an increase by CZK 375bn compared to the end of 2015. The banks recorded a 98.43bn profit from financial and operational activities, y-o-y increase by CZK 10.3bn.

#### Graph 1: Banking sector, 1997-H1 2016 (in CZK bn)



### SECTIONS OF MOTORWAY TO BECOME FREE - 20. 9.

From next year car drivers in the CR will not need motorway vignettes to use certain sections of motorway, MT<sup>32</sup> Minister Ťok announced. The 11 sections of motorway set to become free to use are mainly on the outskirts of cities such as Prague, Plzeň and Ústí nad Labem. He said that ministry was unlikely to see much of a falloff in revenues thanks to the change, which he said was intended to help local drivers who at present do not use the sections of motorway concerned.

#### **SECURITY & POLLS & OTHERS**

## **■** CHECKS INTRODUCED ON CZECH-GERMAN BORDER – 17. 9.

Concerns linked to migrants who fail to win asylum in Germany has led to the introduction of spot checks on the Czech-German border. Speaking at the Svatý Kříž border crossing, the MI Minister Chovanec, said it was likely that asylum seekers rejected in Germany would head for another EU member state and try again there. Similar spot checks have already been in place on the CR's borders with Slovakia and Austria for some time.

### NATO Days military show – 18. 9.

A total of 130,000 people visited the two-day NATO<sup>33</sup> Days and Czech Airforce Days military show at the Mošnov airfield near Ostrava, organisers said. In view of bad weather on Saturday attendance was higher on the 2<sup>nd</sup> day, with 85,000 visitors registered on Sunday. Last year 220,000 people attended the event, which is one of the largest military shows in Europe. Organisers said this year's programme was the richest in the 16-year history of the show. Over 250 pieces of military hardware, including various fighter planes, were on display at the free event.

#### **COALITION WILL SEE OUT TERM DESPITE DISPUTES – 18.9.**

ANO<sup>34</sup> leader Babiš says its coalition government with the ČSSD and the KDU-ČSL<sup>35</sup> will hold together until the next

<sup>&</sup>lt;sup>23</sup> MF: Ministry of Finance

<sup>&</sup>lt;sup>24</sup> CSSD: Czech Social Democratic Party, centre-left party

<sup>&</sup>lt;sup>25</sup> CCC: Czech Chamber of Commerce

<sup>&</sup>lt;sup>26</sup> ACM: Association of Car Makers

<sup>&</sup>lt;sup>27</sup> H1: 1<sup>st</sup> half of year

<sup>&</sup>lt;sup>28</sup> 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.

group.

<sup>29</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>&</sup>lt;sup>30</sup> Hyundai CZ: Hyundai Motor Manufacturing Czech based in the Industrial Zone of Nošovice was founded in 2006.

<sup>&</sup>lt;sup>31</sup> Q-o-q: Quarter on quarter

<sup>&</sup>lt;sup>32</sup> MT: Ministry of Transport

<sup>&</sup>lt;sup>33</sup> 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.

ANO: ANO 2011, centre-right party

<sup>35</sup> KDU-ČSL: Christian and Democratic Union – Czechoslovak People's Party, centre party

scheduled elections despite disputes that divide the parties. He made the comment in reference to a ChD <sup>36</sup> vote preventing government members from owning media outlets that many believe was targeted at him. He also said ANO would not discuss working with the KSČM <sup>37</sup> ahead of general elections scheduled for next year but did not rule out cooperation after regional elections scheduled for November.

### DNES REFUGEE THREAT MARGINALISED IN ELECTION - 19. 9.

The migration threat was expected to play a key role in the campaign ahead of the regional elections, but most parties avoid such rhetoric and even the anti-Islam groupings start admitting that the issue is not attractive for Czech voters. The regional and Senate elections are due in 3 weeks, on October 7-8.

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Council on Czech Competitiveness

Czech Press Agency (Česká tisková kancelář)
Czech Statistical Office (Český statistický úřad)

MF Dnes Daily

OECD

OECD

Radio Prague (Český rozhlas)

<sup>&</sup>lt;sup>36</sup> ChD: Chamber of Deputies, the lower house of Parliament of the CR

<sup>&</sup>lt;sup>37</sup> KSČM: Communist Party of Bohemia and Moravia, far-left party