

NEWS SUMMARY SEPTEMBER 22 – SEPTEMBER 27

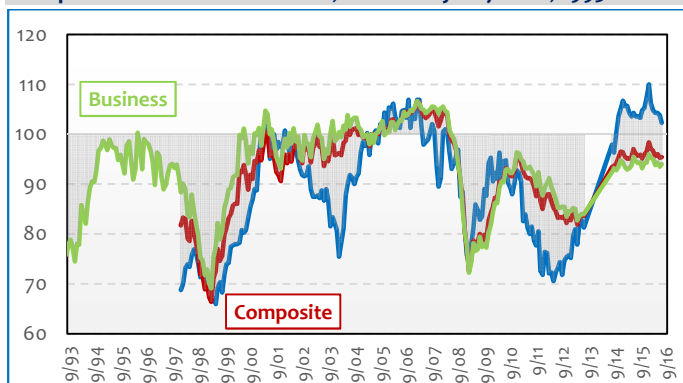
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ECONOMICS & FINANCE

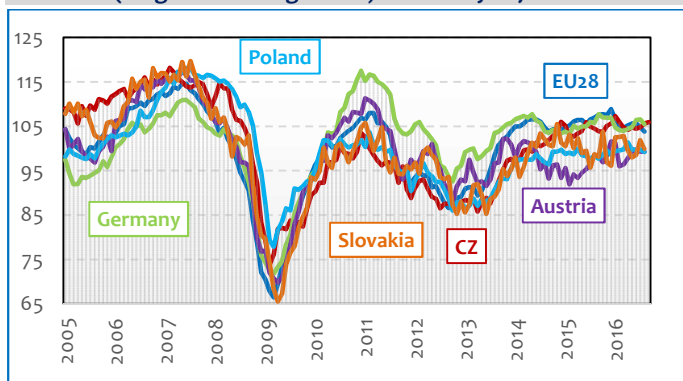
BUSINESS CYCLE SURVEY - SEPTEMBER 2016 – 26. 8.

Overall confidence in domestic economy increased slightly in September. The composite confidence indicator, stated by basic indices, increased slightly by 0.3 p.p.¹ to 97.1, m-o-m². Confidence of entrepreneurs decreased very slightly by 0.1 points to 95.2, compared to August. Among entrepreneurs confidence increased in selected services; in industry decreased slightly; in construction and in trade decreased. Consumer confidence indicator increased by 2.1 p.p. to 106.4, m-o-m. Composite confidence indicator, entrepreneurs confidence indicator and consumer confidence indicator are higher, compared to September 2015.

Graph 1: Confidence Indicators, Seasonally Adjusted, 1993 – 2016



Graph 2: Economic Confidence Indicators - monthly data (long term average = 100) seasonally adjusted



CZECH ECONOMY GREW FASTER THAN EU – 26. 9.

The Czech economy grew steadily in H1³ 2016. GDP⁴ grew by 2.8% that is a stronger growth than the EU⁵ as a whole showed.

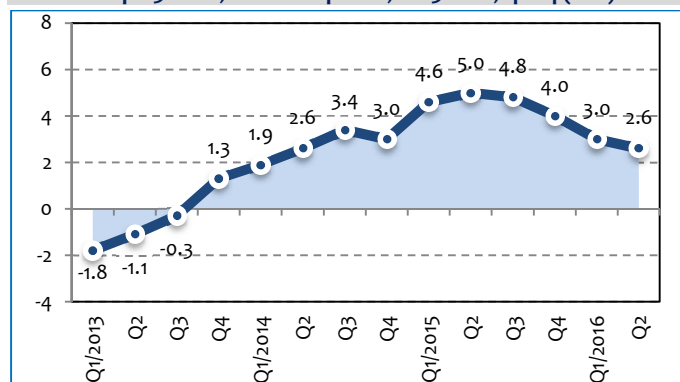
GDP and GVA⁶ increased in Q2⁷, both by 0.9%, compared

with Q1⁸. Annual GDP growth amounted to 2.6% and GVA to 2.7%. The economy grew thanks to an extremely successful foreign trade and household consumption, in contrast to the growth in last year which was significantly supported by investments.

Continuous annual growth in household consumption was supported by average wages rising, record employment and the continuing high consumer confidence. On the contrary to Q1, in the case of capital formation, loss of subsidies from EU funds, which led in particular to a decline in investment in other buildings and structures, has become fully apparent. Construction in Q2 decreased by 5.5%. Conversely, the manufacturing industry is in good condition. The GVA increased in all major service sectors.

The domestic economy in Q2 was doing better than the EU28. EU annual growth was 1.8%, which is 0.8 p.p. worse than the actual CR⁹'s GDP. Growth of the national economy was faster by 0.5 p.p. also from the q-o-q¹⁰ perspective. CR's economy remains between 1/3 of the fastest growing member states. For example, economies of Romania, Slovakia and Spain grew more significantly y-o-y¹¹ in Q2. Consumer price inflation was low, 0.2%. Deflationary pressures penetrated into the Czech economy through external trade prices. Retail sector prices, sold mainly to households, accelerated their growth momentum in the environment of historically record low interest rates on mortgages.

Graph 3: GDP, constant prices, 2013-2016, q-o-q (in %)



TRADE WITH THE EU IS CONTINUING TO GROW – 27. 9.

Exports of CR to the EU reached CZK 3.2tn in 2015, which is about CZK 249.2bn more than in 2014. Exported are mainly machinery and transport equipment. CR exports to the EU more goods than it imports since its accession.

Last year, exports to the EU accounted for 83.2% of the aggregate volume of Czech exports. The value of imports of

¹ P.p.: percentage point

² M-o-m: month-on-month

³ H1: 1st half of year

⁴ GDP: Gross domestic product

⁵ EU: European Union

⁶ 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.

⁷ Q2: 2nd quarter of the year

⁸ Q1: 1st quarter of the year

⁹ CR: Czech Republic

¹⁰ Q-o-q: Quarter on quarter

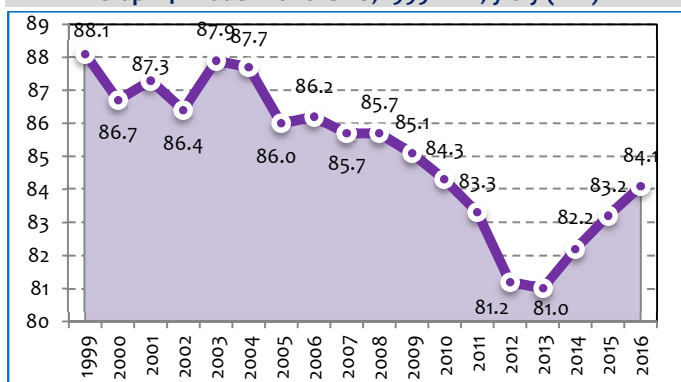
¹¹ Y-o-y: Year on year

goods to the CR from member countries amounted to 65.5% of total imports. The annual increase of exports to the EU was mainly influenced by trade with Germany with an increase of CZK 87.1bn, Slovakia with an increase of CZK 43.9bn and the United Kingdom, which has risen by CZK 22.1bn. Imports from the EU with growth of CZK 156.9bn amounted to CZK 2.28tn in total. This was mainly due to stronger imports from Germany, Poland and Italy.

Dominant position in Czech exports to the EU market has machinery and transport equipment. The total exports are 55% with y-o-y increase of CZK 156.4bn. The main export item are road vehicles which value amounts to 1/5 of total exports of the CR. Furthermore, the CR exports mainly intermediate products, material and industrial consumer goods.

Significant is the import of machinery and transport equipment, which contributed to 46% of total imports in 2015. Higher shares of imports from the EU have also intermediate products and materials, chemical products and industrial consumer goods.

Graph 4: Trade with the EU, 1999-2016, y-o-y (in %)



AGRICULTURE & ENVIRONMENT

FIGHTING DROUGHT – 25. 9.

ME¹² Minister Brabec wants to earmark another CZK¹³ 3bn¹⁴ next year to fight drought. According to him, the ME has handed out EU subsidies totalling CZK 3bn since 2014. The ME Minister also wants to submit a national action plan on climate change adaptation with measures aimed at reducing the effects of climatic change in the CR.

SOCIAL & HEALTH & EDUCATION

HEALTH EXPENDITURES FOR CHILDREN AND SENIORS – 23. 9.

The MH¹⁵ wants to reduce health expenditures for seniors and children by lowering the ceiling on annual expenses for medicines for groups at risk. According to the proposal people over 70 should not have to contribute more than CZK 500 a year to their medicines, down from the present CZK 2,500, and minors should pay a maximum CZK 1,000, down from the present CZK 5,000. Under the present arrangement patients are reimbursed for anything paid over that limit by their respective insurance company at the end of the year. The opposition centre-right parties are opposed

¹² ME: Ministry of Environment

¹³ CZK: Czech Crown, the currency of the CR since 8 February 1993

¹⁴ Bn: billion

¹⁵ MH: Ministry of Health

to the idea, arguing that the present ceilings are generous enough.

DNES BRODA SEEKS SPA INVESTMENT – 26. 9.

Investor Michael Broda and his Delta Capital are intending to expand in health business. Mr Broda is currently seeking a Czech spa which could be connected to traditional Chinese medicine. Delta Capital and its Chinese partners Tong Ren Teng are aiming to proceed with the acquisition during the upcoming 12 months.

INDUSTRY & TRADE & SERVICES & TRANSPORT

mbrain SUMITOMO TIRE CHOSEN BY FOR SUPERB – 22. 9.

The Falken-brand tire of Japanese company Sumitomo Rubber Industries has been chosen by Skoda Auto as the original equipment on its Superb model, which has been newly redesigned. The Ziex ZE914A tire, Falken noted, were chosen on the back of its environmental performance and drivability.

DNES STEELWORKS AGAINST CHINA – 22. 9.

European steel producers fear that if the EC¹⁶ grants a status of market economy to China, Europe will be flooded by cheap Chinese steel. Therefore, steel companies from the Moravia-Silesia region have requested help from the government in negotiations regarding the issue. Chinese production of steel reached one half of global steel production.

AERO TO SERVICE CR'S MILITARY AIRCRAFT – 23. 9.

The MD¹⁷ and plane maker Aero Vodochody have signed an agreement under which the company will service the military's fleet of 24 L-159 fighter jets and four Albatros L-139 planes until 2022. The contract is for CZK 2.5bn. According to ministry sources the price is realistic since up until now the fleet's maintenance cost approximately CZK 250mn annually. The air force has 9 Albatros planes, but 5 are not in use and the ministry is looking for a buyer.

L-410 PLANES PRODUCTION TO REMAIN IN MORAVIA – 26. 9.

The production of L-410 airplanes manufactured by the Russian-owned company Aircraft Industries will remain in Kunovice, South Moravia, representatives of the Russian company confirmed in talks with MIT¹⁸ Minister Mládek. The company's employees had been holding a strike alert over fears that production would be reduced or shifted to Russia. The situation in the company has been deteriorating, with sales of the LET aircraft in one of the main markets, Russia, dropping sharply. Many of the 900-strong employees have been forced to take leave with reduced wages. According to the company's management the firm has acquired new orders from China and full operation should be renewed by November.

CTK BETTER TRANSPORT LINKS, JOINT SKY PROTECTION – 27. 6.

Slovakia and the CR will continue implementing joint projects in the area of road and rail connection and airspace

¹⁶ EC: European Commission

¹⁷ MD: Ministry of Defence

¹⁸ MIT: Ministry of Industry and Trade

protection, Slovak PM¹⁹ Fico said after a joint meeting of the two cabinets in Bratislava. Czech PM Sobotka said a Czech-Slovak agreement on joint skies protection may be signed by the end of the year. "Several projects still remain open, mainly a motorway interconnection and the reconstruction of the rail corridor," Fico said.

The Czech and Slovak governments want to continue supporting the projects such as a road connection between the neighbouring regions of Zlin, southeast Moravia, and Trencin, southwest Slovakia, and also Frydek-Mistek, northeast Moravia, and the adjacent Slovak region of Zilina. As far as rail transport is concerned, modernisation of the corridor from Breclav, south Moravia, via Bratislava to Sturovo, south Slovakia, has been planned.

E NPP²⁰ TEMELÍN AND DUKOVANY – 27. 9.

According to the ČEZ²¹, additional modifications mounted up in the non-nuclear part of Temelín Unit 2. The unit should have started electricity production at the beginning of October. The increased scope of work pushes the unit connection to the transmission system to mid of October. At Unit 1, the 5th week of outage is under way. Unit 2 is in the outage for the revision of the turbine bearing stands sealing system. The auxiliary systems are working in accordance with the operation needs of individual units. Units 1, 3 and 4 at Dukovany NPP are operated on power operation. Unit 2 is in planned outage. All systems are working in accordance with operational needs of the units. At the Units 1 a planned outage is under way, that is connected with the annual refuelling of the reactor fuel.

SECURITY & POLLS & RANKINGS & OTHERS

EXPAT EXPLORER SURVEY – 22. 9.

Table 1: Expat Explorer Survey - Overall league table

Country	Total		Economics		Experience		Family	
	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Singapore	1	0.57	2	0.61	4	0.59	3	0.50
New Zealand	2	0.55	15	0.51	1	0.64	4	0.50
Canada	3	0.54	10	0.53	3	0.60	5	0.49
CR	4	0.53	12	0.52	8	0.55	2	0.51
Switzerland	5	0.52	1	0.66	17	0.50	26	0.38
Norway	6	0.51	4	0.58	11	0.54	16	0.42
Austria	7	0.51	7	0.54	16	0.51	6	0.48
Sweden	8	0.51	6	0.56	31	0.46	1	0.52
Bahrain	9	0.50	17	0.51	6	0.56	9	0.44
Germany	10	0.50	3	0.60	27	0.47	12	0.43
Australia	11	0.50	18	0.51	5	0.59	20	0.40
United Arab Emirates	12	0.49	5	0.58	19	0.50	22	0.40
Hong Kong	13	0.48	19	0.50	12	0.53	18	0.41
Taiwan	14	0.48	24	0.45	7	0.56	15	0.42
Netherlands	15	0.48	9	0.53	28	0.46	10	0.43
Spain	16	0.46	42	0.31	2	0.61	7	0.47
Russia	17	0.46	25	0.45	23	0.48	8	0.44
Oman	18	0.46	14	0.52	15	0.51	34	0.34
Vietnam	19	0.44	13	0.52	25	0.48	35	0.34
Japan	20	0.44	28	0.42	13	0.52	25	0.39

¹⁹ PM: Prime Minister

²⁰ NPP: Nuclear Power Plant

²¹ 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.

According to a survey by HSBC²² Expat Explorer, which took place in 45 countries, the CR is among the workers foreigners 4th most popular destinations in the world. Compared with last year, the Czech improved its position in the overall standings by 14 places. Ranking lead Singapore, New Zealand and Canada.

Graph 5: Expat Explorer Survey



ONE EXIT FROM BLANKA TUNNEL TO BE CLOSED – 22. 9.

One exit from Prague's Blanka tunnel complex by the Prašný most crossroads will be closed temporarily within a few weeks in an effort to combat severe congestion around Vítězné náměstí, a square in Prague 6 that serves as a traffic hub. The Prague 6 authorities say there have been increased traffic jams around the square since last year's opening of Blanka; these have been exacerbated by roadworks nearby. Leaders at the citywide level first opposed closing the exit but have now accepted the idea.

ECONOMIC FREEDOM OF THE WORLD INDEX – 23. 9.

The CR has placed 31st on the Economic Freedom of the World Index published by the Canadian institute Fraser, up by 11 places as compared to last year. The index compares data from 159 countries, assessing a number of indicators, among them the size of the public sector, the quality of legislation, foreign trade and overall regulation. Monetary issues and inflation are also taken into consideration. Hong Kong, Singapore and New Zealand are at the top of the ranking.

COMMON LINE IN BREXIT TALKS – 26. 9.

The Czech and Slovak PMs have stressed the need for the EU to show unity in the Brexit talks. Speaking in Bratislava following a joint session of the Czech and Slovak cabinets, Czech PM Sobotka said it was potentially dangerous for Britain to negotiate Brexit conditions separately with selected EU members. He said Prague and Bratislava considered it unacceptable for Britain to be granted full access to the EU market while restricting movement of labour on its own territory. The Slovak PM Fico, also stressed the importance of the EU holding a common line in talks with Britain. Fico and Sobotka also spoke of the planned celebrations of the centenary of the birth of

²² HSBC: HSBC Holdings plc is a British-based multinational banking and financial services company headquartered in London, United Kingdom. It is the world's fourth largest bank by total assets, with total assets of US\$2.67tn. It was established in its present form in London in 1991 by The Hongkong and Shanghai Banking Corporation Limited to act as a new group holding company

Czechoslovakia, a former joint state of Czechs and Slovaks,
in 2018. ©

