

## NEWS SUMMARY OCTOBER 26 – NOVEMBER 2

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## ECONOMICS &amp; FINANCE

## CHD PASSES 2017 BUDGET DEFICIT PROPOSAL – 26. 10.

The ChD<sup>1</sup> in 1<sup>st</sup> reading passed the broad outline of the budget for 2017. This counts on a budget deficit of CZK<sup>2</sup> 60bn<sup>3</sup> next year compared with the approved deficit of CZK 70bn this year. Opposition parties TOPo<sup>4</sup> and the ODS<sup>5</sup> failed to push through a proposal to get the approved deficit for next year cut by a further CZK 30bn to a final CZK 30bn. ChD can now propose changes within the agreed overall budget and spending and revenue raising limits.

## EU CORPORATE TAX REFORM – 27. 10.

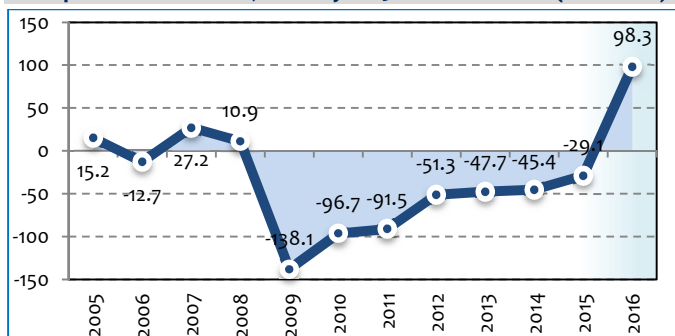
The EC<sup>6</sup> announced plans for major reform of corporate tax in the EU<sup>7</sup>, clamping down on tax avoidance by multinationals, who would have to be taxed where they make their profits. The new, revised proposals for a CCCTB<sup>8</sup> 1<sup>st</sup> tabled in 2011, aim to create a level-playing field for multinationals in EU by closing off avenues used for tax avoidance. The revision follows consultation with EU member states, businesses, civil society and the EP<sup>9</sup>, and bolstering pro-business to help cross-border companies cut costs, red tape and to support innovation.

A CCCTB would give companies operating in the EU a single set of rules for calculating their taxable profits. With the CCCTB, companies will for the 1<sup>st</sup> time have a single rule book for calculating their taxable profits throughout the EU. The new corporate taxation system will be mandatory for large multinational groups which have the greatest capacity for aggressive tax planning, ensuring that companies with global revenues exceeding €750mn<sup>10</sup> a year are taxed where they really make their profits. Companies will also be able to use a single set of rules and work with their domestic tax administration to file one tax return for all of their EU activities.

## FRESH RECORD BUDGET SURPLUS SET IN OCTOBER – 1. 11.

The state budget surplus reached a new record of CZK 98.3bn at the end of October, up from CZK 82.3bn at the end of September. The result was the best for the 10<sup>th</sup> month of the year since the foundation of the CR<sup>11</sup> in 1993. Officials attribute the development to improved tax collection. While a deficit of CZK 70bn was planned for the whole of 2016, MF<sup>12</sup> Minister Babiš said the budget would actually show a surplus for the entire year.

Graph 1: State balance, January 2015 – October 2016 (in CZK bn)



## ELECTRONIC CASH REGISTER SYSTEM BEGINS TRIAL RUN – 1. 11.

The CR's new EET<sup>13</sup> system, designed to provide the state with immediate information about cash transactions at venues, has entered a month long trial-period ahead of the official launch in December. Pubs, restaurants, and hotels, to officially begin using the system first, have 30 days to get used to it.

Establishments have 30 days to test-run the new electronic cash register system which aimed at significantly scaling back tax evasion and consequently boosting revenues. The long-planned system, electronically connects registers with an online tax authority and will be required for a majority of retailers, eventually. The 1<sup>st</sup> phase affects drinks and food and accommodation services. Ahead of the trial period and start in December, MF Minister Babiš expressed confidence that most entrepreneurs had, by now, been well-informed about the changes ahead.

## IMF'S FORECAST – 2. 11

According to the IMF<sup>14</sup>, economic growth remains solid in much of CESEE<sup>15</sup>, while Russia's outlook is improving, and other countries of the CIS<sup>16</sup> are emerging from recession. For the region as a whole, GDP<sup>17</sup> growth is projected to reach 1.3% in 2016 and 2.1% in 2017, largely reflecting the improved outlook in CIS.

Outside the CIS, growth continued at a good pace led by buoyant consumption, reflecting declining unemployment and rising wages. Credit recovery is picking up in the region. CEE<sup>18</sup> GDP is estimated at 2.8% in 2016 and 3.0% in 2017.

<sup>1</sup> ChD: Chamber of Deputies, the lower house of Parliament of the CR

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

<sup>3</sup> Bn: billion

<sup>4</sup> TOPo: conservative, centre-right party, it has been noted for its support of fiscal conservatism and is considered pro-EU.

<sup>5</sup> ODS: Civic Democratic Party, Liberal conservative, centre-right party, soft Eurosceptic party

<sup>6</sup> EC: European Commission

<sup>7</sup> EU: European Union

<sup>8</sup> CCCTB: Common Consolidated Corporate Tax Base

<sup>9</sup> EP: European Parliament

<sup>10</sup> Mn: Million

<sup>11</sup> CR: Czech Republic

<sup>12</sup> MF: Ministry of Finance

<sup>13</sup> EET: electronic cash registers system

<sup>14</sup> IMF: International Monetary Fund

<sup>15</sup> CESEE: Central, Eastern, and South-eastern Europe; IMF's category includes Estonia, Latvia, Lithuania, Czech Republic, Slovakia, Poland, Hungary, Slovenia, Romania, Bulgaria, Croatia, Albania, Bosnia and Herzegovina, Kosovo, Macedonia FVR, Montenegro, and Serbia

<sup>16</sup> CIS: Commonwealth of Independent States; is a regional organization formed during the breakup of the Soviet Union. 9 out of the 15 former Soviet Republics (Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Uzbekistan) are member states, and 2 are associate members (Ukraine and Turkmenistan). Georgia withdrew its membership in 2008, while the Baltic states (Estonia, Lithuania and Latvia) refused to participate.

<sup>17</sup> GDP: Gross domestic product

<sup>18</sup> CEE: Central and Eastern Europe, IMF's category includes Czech Republic, Slovakia, Poland, Hungary, and Slovenia

SOCIAL &

**DNES** PROPOSALS TO BOOST BIRTH RATE – 2. 11.

The MLSA<sup>19</sup> Minister Marksová is preparing far-reaching changes in family policy in a bid to boost fertility rates in the CR. Her proposals include free kindergartens, higher one-off maternity benefits and children's allowance and encouraging father's to take paternity leave. Minister Marksová's plans have the support of her ČSSD<sup>20</sup> party leader, PM<sup>21</sup> Sobotka. However, coalition partners the KDU-ČSL<sup>22</sup> want the project to be halted and the issues considered at government level. ANO<sup>23</sup> chief Andrej Babiš said he had not yet seen the proposals. The likely cost has not been outlined.

AGRICULTURE & ENVIRONMENT

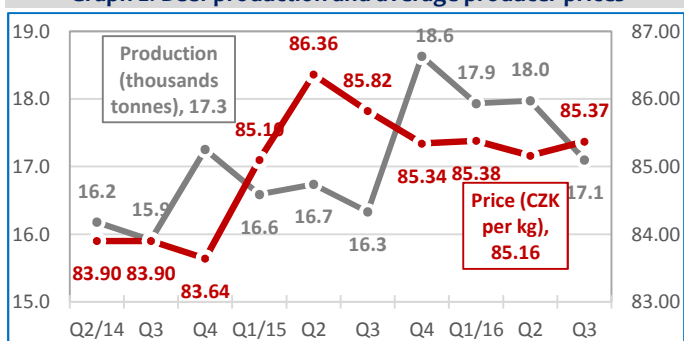
FLOOD PREVENTION – 31. 10.

The state will invest some CZK 1.25bn in flood prevention. According to the ME<sup>24</sup>, the funds will in particular be used for the development of new systems to better manage flood risk, provide better retention and management of rainfall and to introduce better detectors and alarms in municipalities threatened by floodwaters.

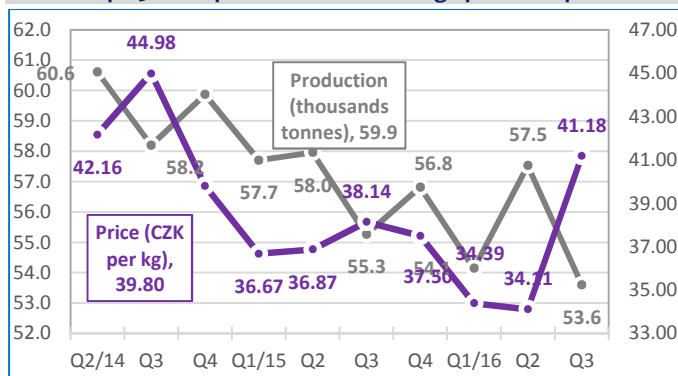
AGRICULTURE IN Q3 – 31. 10.

In Q3<sup>25</sup> 2016 the meat production amounted to 110,348t (-1.0%, y-o-y<sup>26</sup>), of which 17,090t<sup>27</sup> (+4.7%) were beef and veal, 53,602t (-3.0%) was pig meat, and 39,620t (-0.5%) was poultry meat.

Graph 2: Beef production and average producer prices

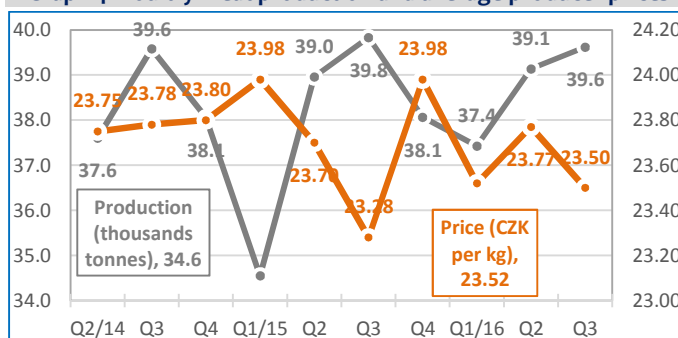


Graph 3: Pork production and average producer prices



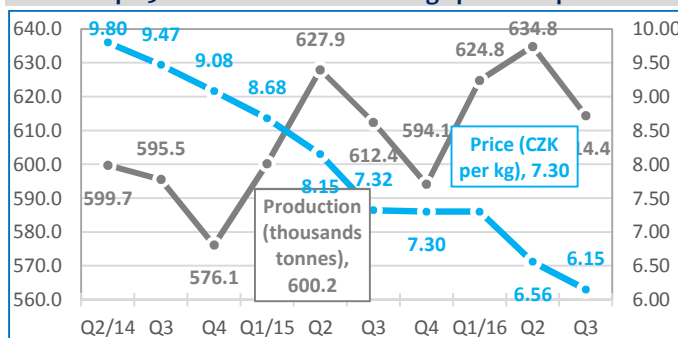
Agricultural producer prices of cattle for slaughter went down, y-o-y, (-2.4%) while those for chicken for slaughter slightly rose (+1.0%) and those for pigs went up by 6.7% in comparison with Q3 2015. Prices of milk, however, remained far below the Q3 2015 level (-16.0%).

Graph 4: Poultry meat production and average producer prices



Dairies purchased 614,429,000<sup>28</sup> of milk (+0.3%) from domestic producers and collection centres.

Graph 5: Milk collection and average producer prices



DIFFERENCES IN PRICES – 1. 11.

Some retail chains in the CR are marking up a Czech food than an imported food. It stems from a pricing study of the MF conducted between January to May this year, said MA<sup>29</sup> Minister Jurečka. The exception was as eggs.

The study includes data from 6 retail chains, the average profit margin on Czech chickens amounted to 38%, while on the EU's chicken to about 13.5%. The Czech semi UHT milk had profit margin about 17% in, while imported milk had margin 11.4%.

<sup>19</sup> MLSA: Ministry of Labour and Social Affairs  
<sup>20</sup> ČSSD: Czech Social Democratic Party, centre-left party  
<sup>21</sup> PM: Prime Minister  
<sup>22</sup> KDU-ČSL: Christian and Democratic Union – Czechoslovak People's Party, centre party  
<sup>23</sup> ANO: ANO 2011, centre-right party  
<sup>24</sup> ME: Ministry of Environment  
<sup>25</sup> Q3: 3<sup>rd</sup> quarter of the year  
<sup>26</sup> Y-o-y: year on year  
<sup>27</sup> t: tonne, metric ton is a non-SI metric unit of mass equal to 1000 kilograms

<sup>28</sup> l: litre, is an SI accepted metric system unit of volume equal to 1 cubic decimetre (dm<sup>3</sup>), 1,000 cubic centimetres (cm<sup>3</sup>) or 1/1,000 cubic metre.  
<sup>29</sup> MA: Ministry of Agriculture

## INDUSTRY &amp; TRADE

## ☰ ŠKODA AUTO BOOSTS OPERATING PROFIT – 27. 10.

Škoda Auto<sup>30</sup> raised its operating profit in 9 months of the year by 28.1% to CZK 25.5bn according to figures released by German parent company VW<sup>31</sup>. Škoda has been able to boost its sales and spread its costs over the period. To September, the carmaker has been able to produce 606,000 cars and is set for a record production figure for 2016.

## ☰ OKD UNIONS THREATEN TO TAKE STRIKE ACTION – 27. 10.

TU<sup>32</sup> at the OKD<sup>33</sup> have given notice of the possibility of strike action. The move is aimed at highlighting anger that management is allegedly undermining existing agreements and a social agreement, under which miners leaving work would be entitled to 12 months' pay, for the Paskov mine. No date has been set for specific action. The Paskov mine is at high risk of closure under a reorganisation plan which management is set to finalize at the start of November. The company management has been reported to be seeking a further CZK 600mn<sup>34</sup> in aid from the government to cover its social commitments to workers. MIT<sup>35</sup> Minister Mládek said the mining company should come out officially if it needs new financing.

## EIS.cz DELAY IN NPP CONSTRUCTION – 27. 10.

Current delays in construction of new nuclear units in the CR could be eliminated by a legislative changes that would speed up the permitting process, said SÚJB's<sup>36</sup> Chairwoman Drábová. She pointed out that in the case that a political decision is taken, it is possible that time span that now exists between decommissioning old units and starting new units will not happen.

She reminded that the approval process of building new units is, among other things, affected by the EIA<sup>37</sup> Act and Construction Act. "If the licensing process takes place as the current legislation envisages, we have delay about 2 years," said Drábová.

Current delay relates to Dukovany NPP<sup>38</sup>. Drábová stated that Dukovany NPP will probably need a new unit in 2035, when the technical life of its units ends. "The real estimate, if the legislation does not change, is that the new unit could be in operation in 2037," she added.

<sup>30</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. Its total global sales reached 1.04 million cars in 2014.

<sup>31</sup> VW: Volkswagen is a German car manufacturer headquartered in Wolfsburg, Lower Saxony, Germany. Established in 1937, Volkswagen is the top-selling and namesake marque of the Volkswagen Group, the holding company created in 1975 for the growing company, and is now the second-largest auto maker in the world.

<sup>32</sup> TU: Trade union, around 1/6 of all employees are union members in the CR.

<sup>33</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>34</sup> Mn: Million

<sup>35</sup> MIT: Ministry of Industry and Trade

<sup>36</sup> SÚJB: State Nuclear Safety Authority

<sup>37</sup> EIA: Environmental Impact Assessment

<sup>38</sup> NPP: Nuclear Power Plant



## CZECH-CHINESE BUSINESS FORUM – 27. 10.

Czech-Chinese business forum, which was reportedly threatened to be cancelled due to the meeting of MC<sup>39</sup> Minister Herman with the Dalai Lama, will be held in mid-November was confirmed by president's spokesman.



## STEELMAKERS' PRESSURE ON CHINA - 31. 10.

Industry representatives are increasingly pushing that the EU does not grant market economy status to China. According to them it would be a liquidation.

Steelmakers throughout Europe have increasingly complained of EU politicians' inability to effectively defend the domestic market against importation of cheap steel from China. They fear that the EC finally grants the market economy status to China and insist that this threatens millions of jobs in Europe only.

## ☰ CETA WILL OPEN NEW OPPORTUNITIES – 30. 10.

The CR has welcomed the signing of CETA<sup>40</sup>, a long-delayed landmark trade deal, between Canada and the EU. The agreement was signed in Brussels by Canadian PM Trudeau and top EU officials, following weeks of uncertainty due to opposition in Belgium. The Czech PM signed the agreement 2 weeks ago. MIT Minister Mládek said the CR and Canada share the same principles in trade and that the CR would not have a problem meeting the set conditions. The CR expects the agreement to create new jobs, simplify exports and open up new markets for Czech firms in the area of engineering, chemicals production and health products.

## ☰ INTEREST IN CZECH NUCLEAR EXPANSION – 2. 11.

The Czech government appointee tasked with fulfilling its nuclear action plan, Ján Štuller, has said 6 companies and partnerships have expressed interest in building new reactors in the country. The companies are Rosatom<sup>41</sup>; Westinghouse<sup>42</sup>; EDF<sup>43</sup>; the joint venture of Areva<sup>44</sup> and Mitsubishi ATMEA<sup>45</sup>; KHNP<sup>46</sup>, and CGN<sup>47</sup>. The end of October

<sup>39</sup> MC: Ministry of Culture

<sup>40</sup> CETA: Comprehensive Economic and Trade Agreement, a free-trade agreement between the EU and Canada

<sup>41</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>42</sup> Westinghouse: Westinghouse Electric Company LLC is a US based nuclear power company founded in 1999 offering nuclear products and services to utilities internationally, including nuclear fuel, service and maintenance, instrumentation, control and design of nuclear power plants. As of 2014 Westinghouse builds and operates approximately one-half of the world's operating nuclear plants. Westinghouse's world headquarters are located in the Pittsburgh suburb of Cranberry Township, Pennsylvania. Toshiba Group is the majority owner of Westinghouse.

<sup>43</sup> EDF: Électricité de France S.A., a French electric utility company, largely owned by the French government. Headquartered in Paris, France, with €65.2 billion in revenues in 2010, EDF operates a diverse portfolio of 120+ gigawatts of generation capacity in Europe, South America, North America, Asia, the Middle East and Africa.

<sup>44</sup> Areva: is a French multinational group specializing in nuclear and renewable energy. It is the world's largest nuclear company. Its nuclear technology business group was created by absorbing the nuclear business line of German company Siemens; it has developed the EPR, an advanced 3<sup>rd</sup> generation pressurized water nuclear reactor.

<sup>45</sup> ATMEA: a joint venture between Mitsubishi Heavy Industries (MHI) and Areva that develops, markets, licenses and sells the ATMEA1 reactor, a new generation III+, medium-power pressurized water reactor (PWR). The company is headquartered in Paris.

was the deadline for companies to submit technical details of the reactor they could offer. The Czech government wants to build a new reactor at Dukovany, one at Temelín, and possibly a follow-up one at each site.

## SECURITY & POLITICS & POLLS & RANKINGS & OTHERS

### ☰ L-159 AIRCRAFT IN FIGHTING ON MOSUL – 27. 10.

Czech made L-159 sub-sonic aircraft have been used in Iraq for the 1<sup>st</sup> time against Islamic State, according to the Iraqi Army. The Czech government cleared the sale of 15 excess to requirement aircraft being held by the company Aero Vodochody. The Iraqi Army said the Czech aircraft are now being used on the outskirts of Mosul, which the army and Kurdish forces are currently attempting to win back from IS. Czech training and aircraft advisors have been in Iraq since June to help train Iraqi's to use the planes.

### ☰ ČSSD SUFFER MARKED DROP IN VOTER PREFERENCE – 31. 10.

A new poll conducted by the STEM<sup>48</sup> agency suggests that voter preference for the ČSSD has fallen to a new low, putting them level, or possibly even below, the KSČM<sup>49</sup> if elections were held today. According to the survey, the ČSSD would get just 14.4% of the vote and the KSČM 14.6%, which is within the margin of error. Fellow members in government, ANO, would come 1<sup>st</sup> with 29.7%. The right-wing parties in the opposition, the ODS and TOP09 with STAN, would gain 9 and 7% respectively. The junior members of the government, the KDU-ČSL, would secure 6.7%, and the SPD<sup>50</sup> 5.2%.

### ☰ CANCELLATION OF TRIP BY MA MINISTER – 2. 11.

MFA<sup>51</sup> Minister Zaorálek has expressed his unhappiness at the Chinese move to cancel the visit of MA Minister Jurečka to China. He said that the matter would be broached by deputy minister Tlapa in a meeting with the Chinese ambassador to the CR on Thursday which had already been scheduled. He said the agriculture mission which KDU-ČSL MA Minister Jurečka was supposed to head was aimed at helping to redress the massive trade imbalance between the CR and China. MA Minister Jurečka has been an outspoken backer of fellow KDU-ČSL MC Minister Daniel Herman, who has come under fire from Mr. Zaorálek in particular over whether he broke a pledge from government ministers over meetings with the Dalai Lama.

<sup>46</sup> **KHNP**: Korea Hydro & Nuclear Power, a subsidiary of the Korea Electric Power Corporation (KEPCO). It operates large nuclear and hydroelectric plants in South Korea, which are responsible for about 40% of the country's electric power supply. It was formally established in 2001 as part of a general restructuring at KEPCO,

<sup>47</sup> **CGN**: China General Nuclear Power Group is a major clean energy corporation under the State-owned Assets Supervision and Administration Commission of the State Council of the State Council. CGN has operating nuclear plants at Daya Bay Nuclear Power Plant, Ling Ao Nuclear Power Plant, Hongyanhe Nuclear Power Plant and Ningde Nuclear Power Plant, with five new nuclear power stations under construction and another 2 planned. CGN operates in other emerging energy industries like wind energy and solar energy, as well as more traditional industries like hydroelectricity.

<sup>48</sup> **STEM**: Public Opinion Research company, private company focusing on statistical surveys of public opinion on various topics

<sup>49</sup> **KSČM**: Communist Party of Bohemia and Moravia, far-left party

<sup>50</sup> **SPD**: Freedom and Direct Democracy, a Eurosceptic, and pro-direct democracy political party in the CR. The party was founded in May 2015 by Tomio Okamura and Radim Fiala after a split of a few MPs from the Dawn of Direct Democracy, now Dawn - National Coalition

<sup>51</sup> **MFA**: Ministry of Foreign Affairs



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

E15

European Commission

Hospodářské noviny

International Monetary Fund

MF Dnes Daily

Radio Prague (Český rozhlas)