

NEWS SUMMARY JANUARY 5 – JANUARY 11

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ECONOMY & FINANCE



THE MAASTRICHT CONVERGENCE CRITERIA – 5.1.

The document¹ describes how well the CR² is fulfilling, and will fulfil in the coming years, the Maastricht criteria³ and the degree of alignment of the Czech economy with the EA⁴.

According to the report, the CR is very likely to be compliant with the criterion on price stability in 2016, notwithstanding the exceptionally low level of the criterion, reflecting persisting deflation in many EU⁵ countries. According to the outlook for inflation, compliance with this criterion is ensured until 2019 with a margin of around 1%.

The CR is also compliant with the criterion on the government financial position. It is likely to remain compliant with it by a sufficient margin (more than 2% for the deficit and 20% for debt) in the medium term.

The CR has long been comfortably compliant with the criterion on the convergence of interest rates and is likely to remain so until 2019 (by a margin of at least 2%).

The CR is formally non-compliant with the criterion on participation in the ERM II⁶, as it has not joined the mechanism. Assessment of this criterion will only be possible after the CR joins ERM II and the central rate of CZK⁷ against €⁸, against which exchange rate fluctuations would be monitored, has been set.



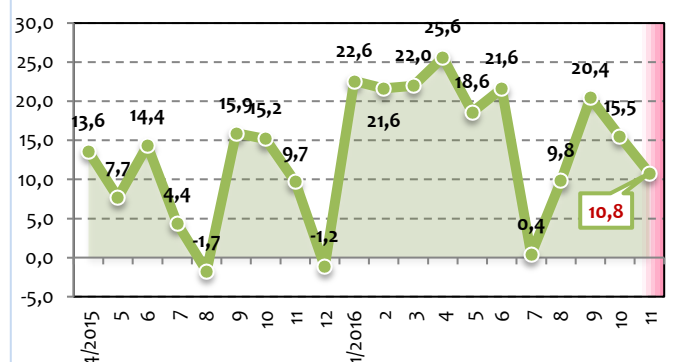
EXTERNAL TRADE – 6. 1.

In November 2016, according to preliminary data of external trade in goods⁹, the trade balance ended in a surplus of CZK10.8bn¹⁰, which was an increase of CZK1.1bn, y-o-y.

Y-o-y, total balance was favourably influenced mainly by a decrease of deficit in 'chemicals and related products' (+CZK0.9bn), 'food and live animals' (+CZK0.6bn) and 'beverages and tobacco' (+CZK0.2bn). Surplus also rose in 'miscellaneous manufactured articles' (+CZK0.8bn) and 'crude materials' (+CZK0.4bn). Total balance was unfavourably affected by a y-o-y deepening of deficit in 'mineral fuels' (▲CZK0.7bn) and a decrease of surplus in

'machinery and transport equipment' and 'manufactured goods classified chiefly by material' (both ▲CZK0.4bn).

Graph 1: External Trade, current prices, 2015 – 2016 (in CZKbn)



In November, the trade balance with EU28¹¹ ended in a surplus of CZK56.1bn, which was a y-o-y increase by CZK1.3bn. Deficit of trade with non-EU countries increased by CZK0.7bn to amount to CZK43.4bn.

M-o-m¹², SA¹³ exports fell by 0.2%, while imports grew by 1.4%. The development trend shows decreasing exports (▲0.1%) and increasing imports (both +0.9%).

Y-o-y, exports and imports grew by 3.7% (to CZK301.1bn) and by 3.4% (to CZK290.3bn) respectively.



INDUSTRY – 6. 1.

In November 2016, industrial production increased at constant prices by 7.0%, y-o-y. Working days adjusted industrial production increased by 4.5%, y-o-y. SA industrial production was by 1.7% higher, m-o-m. The value of new orders increased by 10.7%, y-o-y.

The following contributed the most: manufacture of motor vehicles, trailers and semi-trailers (+3.0 p.p.¹⁵, +15.4%), electricity, gas, steam and air conditioning supply (+0.62 p.p., +5.4%), and manufacture of rubber and plastic products (+0.60 p.p., +9.7%). Industrial production decreased in manufacture of other transport equipment (▲0.5 p.p., ▲18.9%), mining and quarrying (▲0.2 p.p., ▲6.7%), and

¹ Assessment of the Fulfilment of the Maastricht Convergence Criteria and the Degree of Economic Alignment of the CR with the Euro Area (2016)

² CR: the Czech Republic

³ Euro convergence criteria: (also known as the Maastricht criteria) are the criteria which EU member states are required to meet to enter the 3rd stage of the Economic and Monetary Union (EMU) and adopt the euro as their currency. The 4 main criteria, which actually comprise 5 criteria as the "fiscal criterion" consist of both a "debt criterion" and a "deficit criterion", are based on Article 140 of the Treaty on the Functioning of the European Union. Includes price stability, public finance sustainability, exchange rate stability and convergence of long-term interest rates.

⁴ EA: Eurozone, officially called the euro area is a monetary union of 19 European Union (EU) member states that have adopted the euro (€) as their common currency and sole legal tender.

⁵ EU: European Union, is a politico-economic union of 28 member states that are located primarily in Europe. It has an area of 4,324,782 km², and an estimated population of over 510mn. The EU has developed an internal single market through a standardised system of laws that apply in all member states. EU policies aim to ensure the free movement of people, goods, services, and capital within the internal market, enact legislation in justice and home affairs, and maintain common policies on trade, agriculture, fisheries, and regional development. Within the Schengen Area, passport controls have been abolished. A monetary union was established in 1999 and came into full force in 2002, and is composed of 19 EU member states which use the euro currency.

⁶ ERM II: The European Exchange Rate Mechanism II, in ERM II, the exchange rate of a non-euro area Member State is fixed against the euro and is only allowed to fluctuate within a range of ±15% with respect to a central rate against the euro. ERM II entry is based on an agreement between the ministers and central bank governors of the non-euro area Member State and the euro-area Member States, and the European Central Bank (ECB).

⁷ CZK: Czech Crown, the currency of the CR since 8 February 1993

⁸ Euro: €, EUR, is the official currency of the Eurozone, which consists of 19 of the 28 member states of the European Union

⁹ National concept of external trade: in current prices, 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.

¹⁰ Bn: billion

¹¹ EU28: 28 member states of the EU, which are party to the founding treaties of the union and thereby subject to the privileges and obligations of membership

¹² M-o-m: month on month

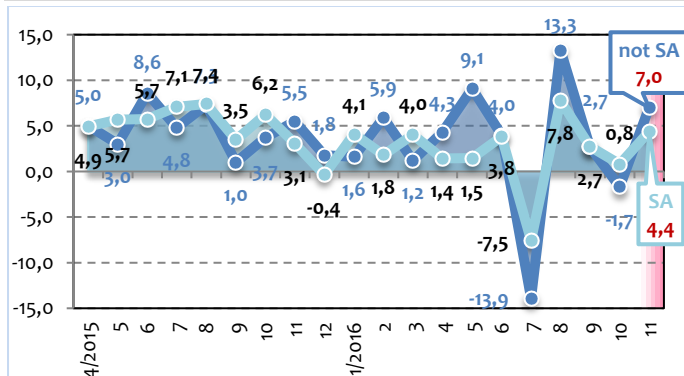
¹³ SA: Seasonally adjusted

¹⁴ EU28: 28 member states of the EU, which are party to the founding treaties of the union and thereby subject to the privileges and obligations of membership

¹⁵ P.p.: percentage point

manufacture of basic pharmaceutical products and pharmaceutical preparations (▲ 0.1 p.p., ▲ 8.5%). Sales from industrial activity at current prices increased by 7.8%, y-o-y, in November 2016. Direct export sales of industrial enterprises increased at current prices by 8.6%. Domestic sales, which include also indirect export via non-industrial enterprises increased at current prices by 6.8%.

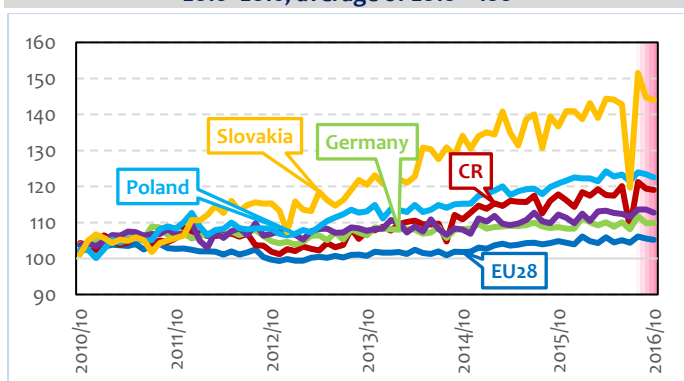
Graph 2: Industry, constant prices, 2015 – 2016, y-o-y (in %)



The value of new orders in selected industrial CZ-NACE¹⁶ activities increased by 10.7%, y-o-y, in November 2016. Non-domestic new orders increased by 12.7%, while domestic new orders increased by 7.0%. The y-o-y increase of new orders in total was the most contributed to by the following CZ-NACE divisions: manufacture of motor vehicles, trailers and semi-trailers (+7.9 p.p., +19.8%), manufacture of computer, electronic and optical products (+0.9 p.p., +10.0%), and manufacture of fabricated metal products (+0.7 p.p., +5.9%). New orders decreased in manufacture of machinery and equipment (▲ 0.13 p.p., ▲ 1.1%), manufacture of basic pharmaceutical products and pharmaceutical preparations (▲ 0.09 p.p., ▲ 6.8%), and manufacture of other transport equipment (▲ 0.09 p.p., ▲ 4.5%).

According to the Eurostat¹⁷, industrial production in the EU28 in October 2016 increased by 0.5%, y-o-y.

Graph 3: Industrial production index, international comparison, 2010–2016, average of 2010 = 100



¹⁶ NACE: Nomenclature générale des Activités économiques dans les Communautés Européennes, Statistical Classification of Economic Activities in the European Community, the industry standard classification system used in the EU. The current version is revision 2 and was established by Regulation (EC) No 1893/2006. It is the European implementation of the UN classification ISIC, revision 4; CZ – NACE: Classification of Economic Activities according to the CSO

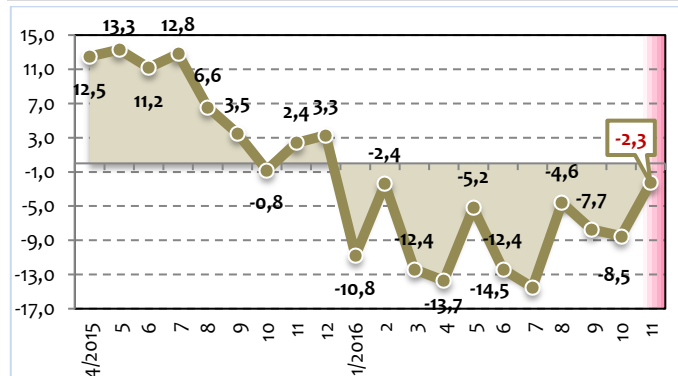
¹⁷ Eurostat: Eurostat is a Directorate – General of the European Commission. Its main responsibilities are to provide statistical information to the institutions of the EU and to promote the harmonisation of statistical methods across its member states and candidates for accession as well as EFTA countries.

¹⁸ Y-o-y: year on year

CONSTRUCTION – 6. 1.

In November 2016 the construction output decreased by 2.3% y-o-y¹⁸, in real terms. The planning and building control authorities granted by 5.7% more building permits, y-o-y, and the approximate value of permitted constructions increased by 18.3%, y-o-y. The number of started dwellings jumped up by 33.8%, y-o-y, and the number of completed dwellings grew by 9.3%, y-o-y.

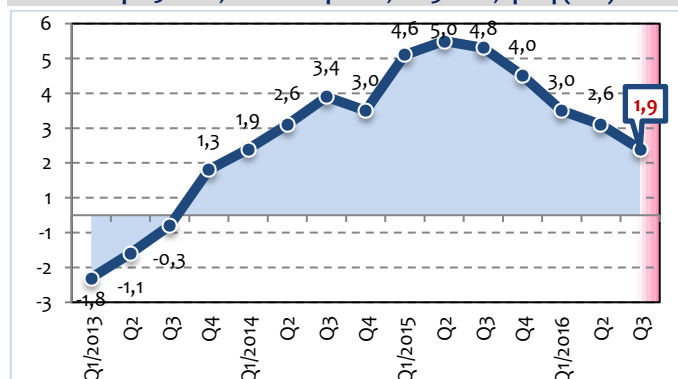
Graph 4: Construction, constant prices, 2015 – 2016, y-o-y (in %)



QUARTERLY SECTOR ACCOUNTS – 6. 1.

Economy grew by 1.9% y-o-y in the Q3¹⁹ 2016, the slowest growth in 2.5 years, and compared with the Q2²⁰, GDP²¹ growth reached 0.2%. In the Q2 2016, GDP grew by 2.6% y-o-y. The growth accelerated again in Q4²² 2016, which should pull the total growth for last year to 2.5%. The economic growth should accelerate a bit more to 2.7% this year.

Graph 5: GDP, constant prices, 2013-2016, q-o-q (in %)



Profit rate²³ in the Q3 2016 dropped to 49.6%, which is by 2.2 p.p. down, y-o-y. The decrease in profit rate of corporations is mainly due to high y-o-y growth of wage costs, in nominal terms by 7.1%. Investment rate²⁴ remained unchanged, y-o-y, on the level of 29.0%.

¹⁹ Q3: 3rd quarter of the year

²⁰ Q2: 2nd quarter of the year

²¹ GDP: Gross domestic product

²² Q4: 4th quarter of the year

²³ Profit rate of non-financial corporations: the gross operating surplus divided by the gross value added. The indicator refers to profitability of production factors from the production process.

²⁴ Investment rate of non-financial corporations: the gross fixed capital formation divided by the gross value added. The indicator refers to the investments in non-financial assets (buildings, machinery etc.) divided by the value created during the production process.

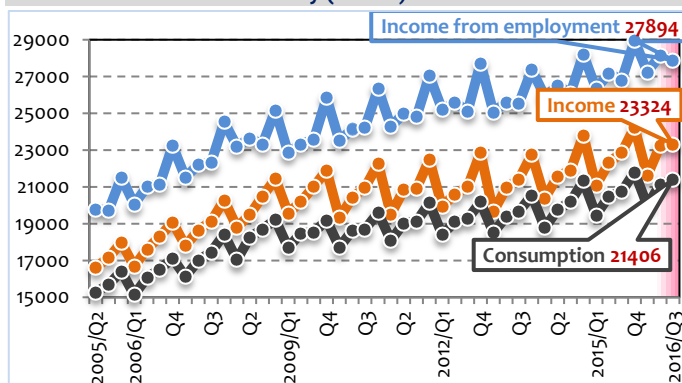
Household real income²⁵ increased by 1.2%, y-o-y. Household real consumption²⁶ grew with approximately a 1.2 p.p. higher growth rate, i.e. by 2.3%.

Average monthly income²⁷ was CZK23,324; of that, CZK3,962 consisted of individual services and goods²⁸ provided by the general government and NPISHs²⁹.

Average monthly income from employment³⁰ reached CZK27,894 in the Q3 and it increased in nominal terms by 4.0%, y-o-y; in real terms it was by 3.2%. Average monthly consumption of households³¹ reached CZK21,406.

compared to the previous year, namely 11.4%. Investment rate in the household sector, on the contrary, increased to 9.7%, y-o-y.

Graph 8: Households, average monthly indicators, 2005 – 2016, y-o-y (in CZK)

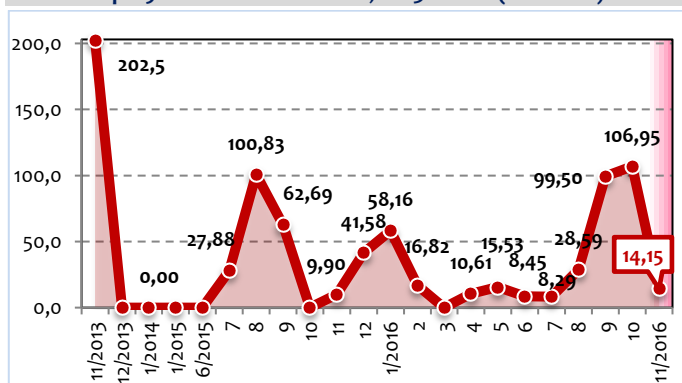


FOREX INTERVENTION – 6. 1.

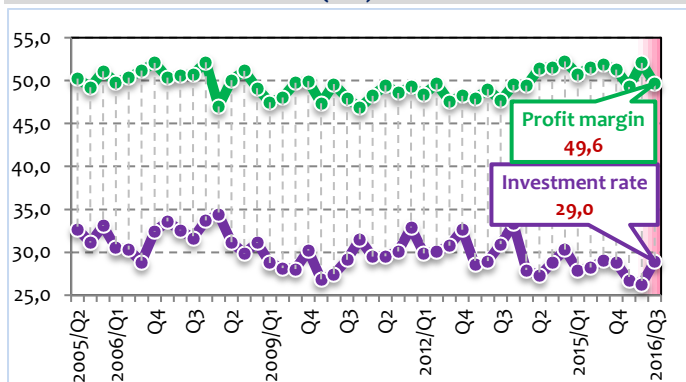
According to the CNB³³, the volume of forex³⁴ interventions in November was CZK14.15bn.

The 2nd biggest total amount from beginning intervention was spent in October, exceeded only by the initial intervention CZK200.5bn in September 2013.

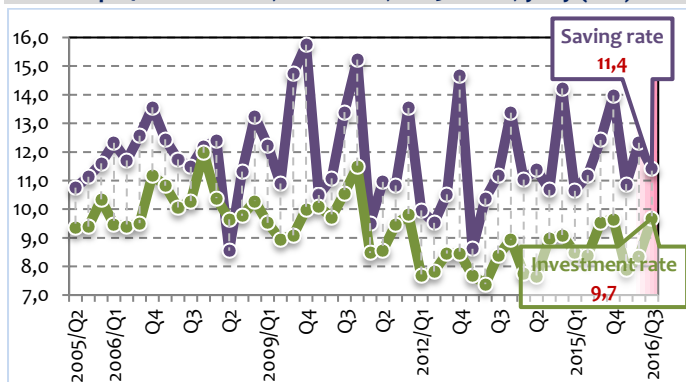
Graph 9: Forex interventions, 2013 – 2016 (in CZKbn)³⁵



Graph 6: Non-financial corporations, indicators, 2005 – 2016, y-o-y (in %)



Graph 7: Households, indicators, 2005 – 2016, y-o-y (in %)



Resulting from the faster growth of household expenditure compared to their income was a lower saving rate³²

²⁵ **Household real income per capita:** the adjusted gross disposable income of households, in nominal terms, divided by the mid-year population and deflated by the deflator (price index) of household final consumption expenditure.

²⁶ **Household real consumption per capita:** real household final consumption, in nominal terms, divided by the mid-year population and deflated by the deflator (price index) of household final consumption expenditure.

²⁷ **Average monthly income of households per capita in nominal terms:** the adjusted disposable income of households divided by the mid-year population.

²⁸ **Individual services and goods:** provided to households by the general government and non-profit institutions serving households (NPISHs) refer to the value of products and services provided in the form of health and social care, education, housing, and the like. They include especially benefits in kind related to health insurance (payments for health aids, medical and dental treatment, medical operations, and the like) paid by health insurance companies to providers of such goods and services. Social transfers in kind further include benefits in kind provided by municipalities (including reimbursements for approved household expenditure for certain types of products and services) and all the value of non-market services of the general government and non-profit institutions serving households provided for individual consumption. The same value is imputed in the sector of households on the income side (adjusted disposable income) as well as on the expenditure side (real final consumption of households).

²⁹ **NPISH:** non-profit institution serving households

³⁰ **Average monthly income from employment:** wages and salaries for the national economy in average per month divided by the number of employees (full-time equivalent). The wages and salaries indicator includes all income from employment, namely in cash as well as in kind (employee benefits) regardless of whether they have been officially reported or not. The number of employees (full-time equivalent) includes all forms of employment, formal and informal. Various types of agreements are also included. The calculation does not include hours worked by working owners of

enterprises, who are according to national accounts definitions included in the category of employees.

³¹ **Average monthly consumption of households per capita:** in nominal terms, is defined as the real household final consumption divided by the mid-year population.

³² **Household saving rate:** the gross saving divided by the gross disposable income with inclusion of adjustment for net share of households in reserves of pension funds. Gross saving is part of gross disposable income, which has not been consumed in the form of final consumption expenditure.

³³ **CNB:** Czech National Bank, is the central bank and financial market supervisor in the CR with its headquarters in Prague and a member of the European System of Central Banks. In accordance with its primary objective, the CNB sets monetary policy, issues banknotes and coins and manages the circulation of currency, the payment system and settlement between banks. It also performs supervision of the banking sector, the capital market, the insurance industry, pension funds, credit unions and electronic money institutions, as well as foreign exchange supervision.

³⁴ **Forex:** foreign exchange market is a global decentralized market for the trading of currencies. This includes all aspects of buying, selling and exchanging currencies at current or determined prices.

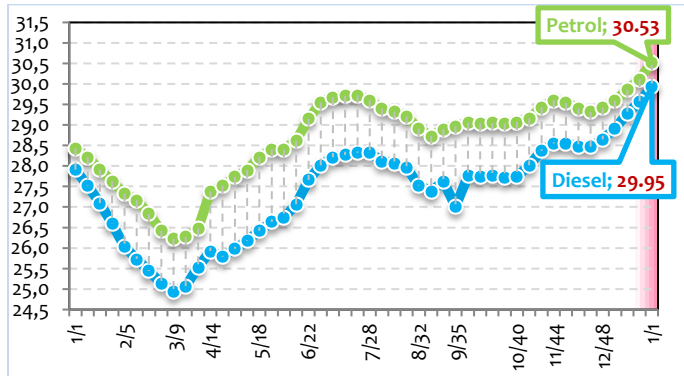
³⁵ In H2 2015 the currency cap started to be tested, prompting the CNB to intervene more regularly in the currency market to defend the cap. GDP grew by 4.4% y-o-y Q2 2015, picking up from 4.0% in Q1, while analysts had expected growth to slow down. The market consensus was for a drop of 0.2% in the Q2 from Q1, but GDP grew by 0.9% q-o-q. Brisker-than-expected economic growth in the CR has piled pressure on the CNB to stop intervening to keep the crown artificially weak. In January 2016, the CZK was pushed towards firming by favourable data from the Czech economy headed by last year's GDP growth and foreign trade figures, as well as by the outlook for the monetary policy in the euro zone.

AVERAGE CONSUMER FUEL PRICES – 6. 1.

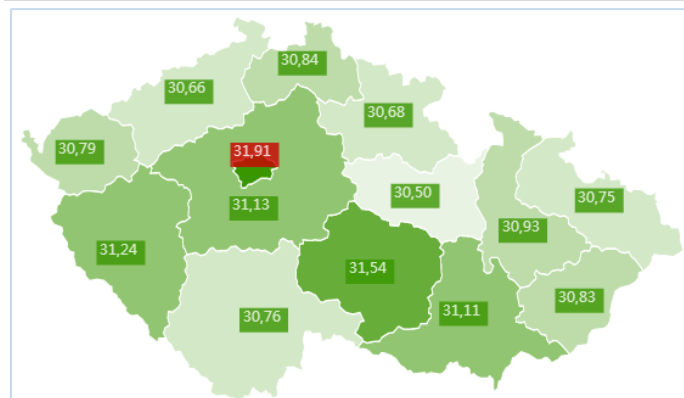
Czech fuel prices increased further in the past week, the average prices of top-selling petrol Natural 95 and of diesel oil both grew by 35h³⁶, petrol sold for an average CZK30.53/l³⁷ and diesel oil for CZK29.95/l.

Prices of motor fuels have been steadily rising since the end of November 2016, petrol is the most expensive since October 2015 and diesel oil since August 2015.

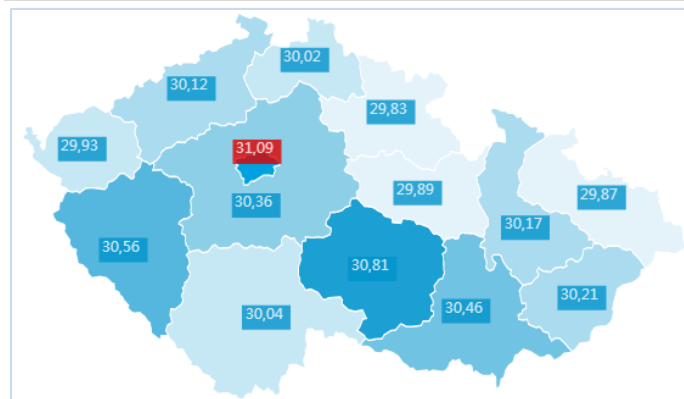
Graph 10: Average fuel prices³⁸, 2016/2017, Month/Week (in CZK/l)



Map 1: Regions, fuel prices, Petrol, 6.1.2017 (in CZK/l)



Map 2 Regions, fuel prices, Diesel, 23.12.2016 (in CZK/l)



HIGHER RECEIPTS IN ALL FORMS OF TAXATION – 8. 1.

The Czech authorities saw increased receipts in all forms of taxation last year. According to figures just released by

³⁶ H: Heller, a term was used for a coin valued at 1/100 of a CZK, it continues to be used as a means of calculation since the CNB removed the coins themselves from circulation in 2008 and notionally replaced them with rounding to the next CZK.

³⁷ l: litre, is an SI accepted metric system unit of volume equal to 1 cubic decimetre (dm³), 1,000 cubic centimetres (cm³) or 1/1,000 cubic metre.

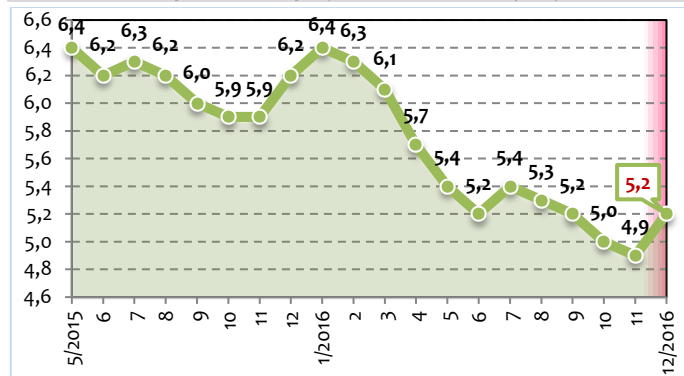
³⁸ Consumer price indices calculated from the weekly price survey are not qualitatively adjusted and thus do not express the net price development applied at inflation measurement.

central agency the FA³⁹, VAT⁴⁰ receipts reached nearly CZK350bn in 2016, an increase of CZK18bn on the previous 12-month period. Income tax jumped by CZK17bn to CZK164.7bn. The tax authorities have also seen higher company tax and levies from lotteries.

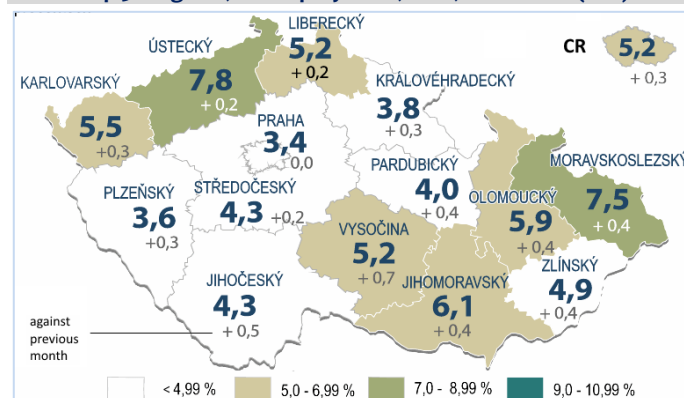
UNEMPLOYMENT – 9. 1.

According to the MLSA⁴¹, unemployment rate⁴² grew slightly in December, rising to 5.2% from 4.9% the previous month.

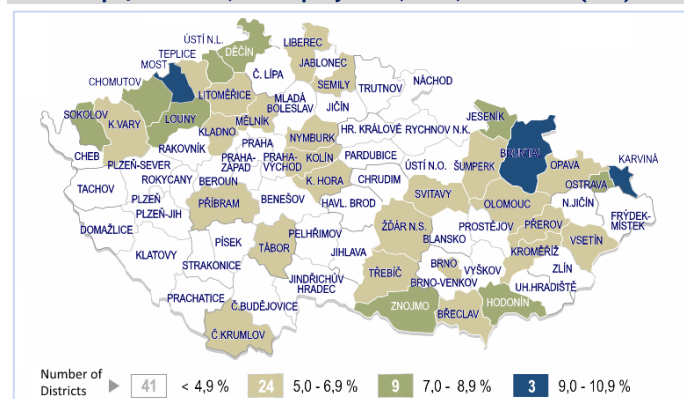
Graph 11: Unemployment, 2015- 2016 (in %)



Map 3: Regions, Unemployment, 2016, December (in %)



Map 4: Districts, Unemployment, 2016, December (in %)



The development was typical of the end of the year, when seasonal work ends, and that the figure was still the best recorded for December since 2008. The number of people out of work last month was just over 381,000, the total

³⁹ FA: Financial Administration of the Czech Republic

⁴⁰ VAT: Value-added tax

⁴¹ MLSA: Ministry of Labour and Social Affairs

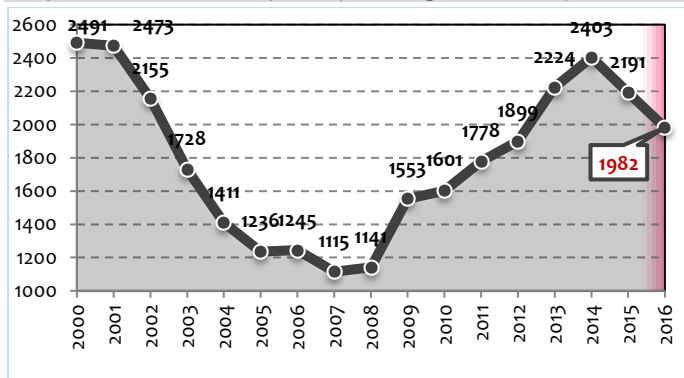
⁴² Unemployment rate: indicator of registered unemployment, the share of unemployed persons, which represents the share of all unemployed job applicants under the Employment Act no. 435/2004 24, who can immediately take up a job, in the age group 15-64 from all residents of the same age, as a percentage, data are issued by the MLSA (LO).

number of applicants was 381,373, the number of available was 360,170, and the number of jobs was 132,496. There are 2.9 applicants per 1 vacancy at present.

NUMBER OF BANKRUPTCIES DOWN – 9. 1.

The number of business bankruptcies decreased by 209, y-o-y, to 1,982 last year, going down for the 2nd time in a row, with the number of sole traders in bankruptcy falling by 82 to 1,076.

Graph 6: Business bankruptcies (including sole traders), 2000-2016



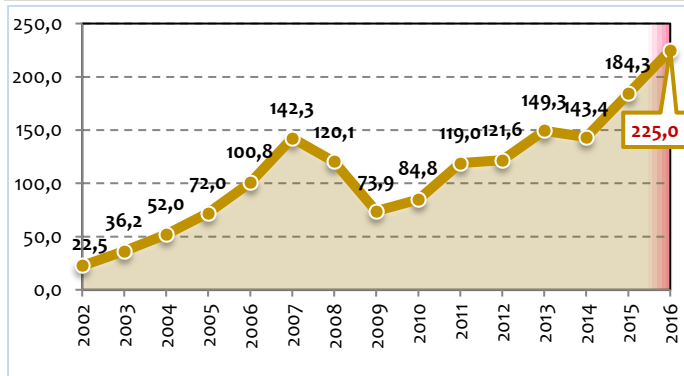
The positive economic development was reflected in a drop in insolvency petitions filed against both businesses and consumers. Their number fell by 18.8 and 8.4%, respectively. Insolvency petitions were filed, for instance, against some of the Vitkovice group's units - Vitkovice Power Engineering, Vitkovice Gearworks, Vitkovice Envi and Vitkovice Mechanika. Black coal mining company OKD was declared insolvent in May last year. Other companies that had financial problems include Kovosvit MAS, zP Commercial Agency and CKD Praha DIZ.

MORTGAGE MARKET – 10. 1.

The volume of new mortgage loans in the CR rose by 22% to a record of CZK225bn in 2016.

In November 2016, interest rates fell to an all-time low of 1.77%. The average interest rate for the entire year reached 2.12%. The size of an average mortgage loan increased from CZK1.82mn⁴³ in 2015 to CZK1.97mn.

Graph 6: Mortgage development 2002-2016 (in CZK bn)



⁴³ Mn: Million

⁴⁴ LTV: loan-to-value

⁴⁵ MRD: Ministry of Regional Development

⁴⁶ Q1: 1st quarter of the year

⁴⁷ Y-o-y: year on year

⁴⁸ EET: electronic cash registers system, a method of online registration of sales, when the data on each transaction of merchant are sent online to the financial administration. EET system was launched in the CR on December 1, 2016, it has been introduced already in other countries: in Croatia (2013), in Hungary (2015), where it is operated via a hybrid

The new law brought a number of new rules concerning providing information to clients, early repayment of loans as well as changes in the responsibility of loan providers. Another notable change on the mortgage market was presented by the CNB recommendations regarding the lowering of the LTV⁴⁴ limit from 100 to 95%.

As of April, 15% of new loans will have to lower the LTV limit further to 80-90%.

According to the MRD⁴⁵, domestic banks provided a record number of 80,000 mortgage loans worth almost CZK154bn for the Q1⁴⁶ - Q3 2016, compared with 76,000 mortgage loans worth CZK135bn in the same period the year before.

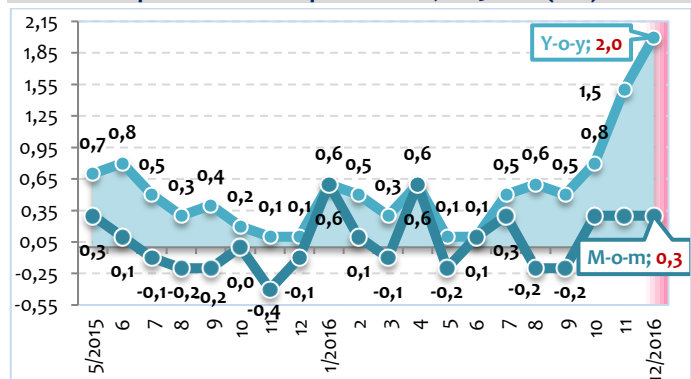
GOVERNMENT INSTITUTIONS' DEBT DOWN – 10. 1.

Government institutions' debt dropped 1.92 p.p. to 38.73% of GDP as of the end of Q3 2016. The sector's budget ended with a surplus totalling 2.16% of GDP in Q3 2016 alone. Government institutions' income gained 1.9% y-o-y, primarily thanks to higher income from income taxes (+11.2%), social contributions (+7.0%) and product taxes (+4.7%). Accepted investment subsidies dropped 77.1%.

CONSUMER PRICE INDICES – INFLATION – 10. 1.

Consumer prices in December increased compared with November by 0.3%. This development was primarily due to a rise in prices in 'food and non-alcoholic beverages', 'restaurants and hotels', 'transport'. The y-o-y⁴⁷ growth of consumer prices amounted to 2.0%, i.e. 0.5 p.p. up on November. It is the highest y-o-y price growth since December 2012. The average inflation rate amounted to 0.7% in 2016, which was the highest value for the last 3 years.

Graph 12: Consumer prices Index, 2015-2016 (in %)



The inflation rate in December was also influenced by the price impacts of the introduction of EET⁴⁸ in accommodation and food services. Their contribution to headline inflation can be estimated at 0.1%-0.2%, according to CNB.

NEW MEMBERS OF THE CNB'S BOARD – 10. 1.

President Milos Zeman will appoint Oldřich Dedek and Marek Mora as new members of the CNB Board⁴⁹ on January 31.

system of cash registers and online registration, in Slovenia (early 2016); in Slovakia, where online registration of sales is optional. Offline registration of sales using cash registers was introduced also in other 15 EU countries by 2016.

⁴⁹ CNB Bank Board: sets the country's monetary policy and makes decisions on fundamental monetary policy issues. Apart from determining the monetary policy, the central bank supervises the entire financial sector including banks, insurers and the capital market. The CNB board has seven members. The members cannot hold the post more than twice.

Dědek and Mora will replace current members Pavel Řezábek and Lubomir Lízal as of February.

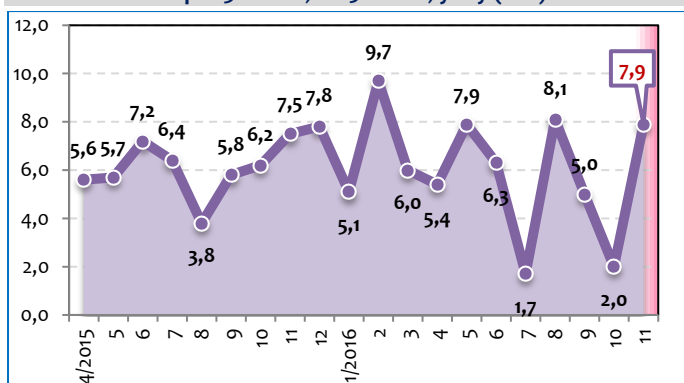
Dědek had been CNB vice-governor between February 1999 and February 2005. Under the law on the CNB, he can be appointed for another 6-year term. In March 2007, Dědek was appointed the national coordinator for euro adoption. Mora has held senior positions in the Czech government as well as in EU institutions. In 2009 he headed the team that was coordinating and preparing the Czech presidency of the EU.



RETAIL TRADE – 6. 12.

SA sales in retail trade, except of motor vehicles and motorcycles⁵⁰ increased by 1.9% in November at constant prices, m-o-m. Sales adjusted for calendar effects increased by 6.7%, y-o-y. Non SA sales increased by 7.9%, y-o-y, for sale of automotive fuel they increased by 6.5%, for sale of non-food goods by 12.1%, and for sale of food by 2.3%.

Graph 13: Retail, 2015 – 2016, y-o-y (in %)



Seasonally adjusted sales for sale and repair of motor vehicles⁵¹ increased at constant prices by 2.5%, m-o-m. Sales adjusted for calendar effects increased by 6.5%, y-o-y. Non SA sales increased by 9.9%, for sale of motor vehicles (including spare parts) they increased by 11.6%, y-o-y, and for repair of motor vehicles by 3.5%, y-o-y.



WD FORECAST – 11. 1.

The WD⁵² is forecasting the global economy will accelerate slightly in 2017 after turning in the worst performance last year since the 2008 financial crisis.

The WD said that commodity exporters in emerging markets and other developing economies should see their economies expand by 2.1% in 2017 after a barely discernible 0.3% gain in 2016. The new forecast expects commodity prices to gradually recover, and Russia and Brazil to resume growing after recessions last year.

Among advanced economies, the WD said the USA should benefit from a rebound in manufacturing and investment after last year's slowdown.

The WD outlook said that commodity-importing emerging market and developing countries should grow by 5.6% this year, down slightly from 5.7% last year. In this group, China is projected to continue an orderly slowdown in growth to a

⁵⁰ CZ – NACE 47

⁵¹ CZ – NACE 45

⁵² WD: The World Bank, is an international financial institution that provides loans to developing countries for capital programs. It comprises two institutions: the International Bank for Reconstruction and Development (IBRD), and the International Development Association (IDA). The World Bank is a component of the World Bank Group, which is part of the United Nations system.

6.5%, compared to an estimated 6.7% last year. Overall global growth of 2.7% this year would match the gains seen in 2014 and 2015.

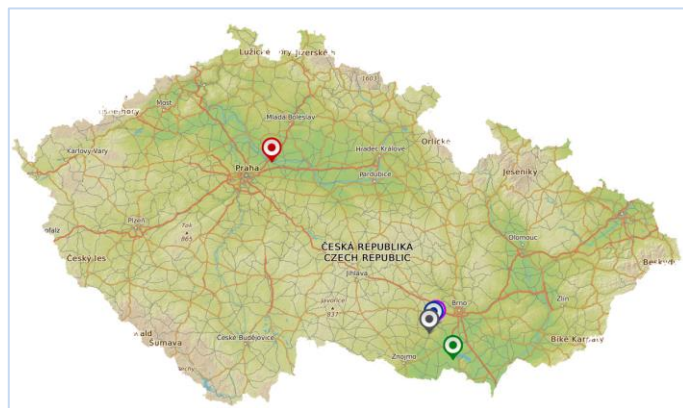
ENVIRONMENT & HEALTH & SOCIAL



AVIAN INFLUENZA – 8. 1.

The 5 cases of the H5N8⁵³ version of avian influenza in the CR have been declared after a gap of around 10 years. Cases have been confirmed in swans in the Znojmo area in South Moravia and also at four poultry farms in the region. Another case was confirmed in the Central Bohemia Region. All poultry within 3km from the avian influenza epicentres will be liquidated, the SVA⁵⁴ said.

Map 5: HPAI in the CR, January 10, 2017



The MA⁵⁵ announced allocated were CZK31.3mn for the payment of cash compensation to the farmers for destroying the poultry infected by avian influenza.

17 countries in Europe have been hit by the virus, among them Germany, Austria, Croatia, Denmark, Finland, France, Italy, Switzerland and Great Britain.

The SVA have banned keeping birds in commercial breeds in the open air due to the bird flu and breeders face up to a CZK2mn fine if they do not obey.

The measure will be valid until it is cancelled, the same as the earlier issued ban on holding bird exhibitions and bird breeding and postal pigeons' competitions.



CZECH FAMILY POLICY CONCEPT TO INCREASE BENEFITS – 9. 1.

The latest version of the Czech family policy, drafted by the MLSA⁵⁶, wants to raise the parental allowance from CZK220,000 to at least CZK250,000, to increase the maternal allowance and to double child benefits.

It also wants loans for new marital couples, start-up flats, artificial insemination of lone women, the 3-month treatment allowance for the care for infirm parents and support for shared jobs. The measures are to cost CZK20-30bn a year.

PM⁵⁷ Sobotka said in mid-December that he would soon unveil a new support for the "working families with children." Sobotka is of the view that many families are not entitled to the current benefits and tax reliefs.

⁵³ H5N8: The highly contagious H5 virus is not dangerous for people.

⁵⁴ SVA: Czech State Veterinary Administration

⁵⁵ MA: Ministry of Agriculture

⁵⁶ MLSA: Ministry of Labour and Social Affairs

⁵⁷ PM: Prime Minister

The government assigned the MLSA to draft the family policy concept two years ago. It summarises the recommendations of an expert commission that is comprised of demographers, sociologists and economists.

Its authors say the family is changing. It is composed of individuals, childless couples, marital couples, consensual unions, registered partnerships with children and lone parents with their descendants. Czechs are not much interested in a legal marriage, the childbearing age is rising and the divorce rate is high. The birth rate is falling and society is ageing.

According to the MLSA, the state should ensure the conditions in which people would want to have children.

The MLSA says that 1/2 of children are born out of the wedlock, while lone parents or people with low incomes cannot use the relief. Almost 1/4 of marital couples who apply for the relief do not have any descendants. The proposals include the support for shared and flexible jobs, the school clubs for all lower grade schoolchildren and the 3-month treatment allowance for the care for infirm parents.

CIA SZIF TO PAY GREENING PAYMENT – 10. 1.

The SSZIF⁵⁸ has started issuing verdicts for Greening payments for compliance with climate- and environment-friendly farming processes. SZIF will allocate totally CZK6.8bn to almost 30,000 applicants. The rate totals CZK1,928/ha⁵⁹.

ENERGY & INDUSTRY & TRANSPORT & TRADE &

IMPACTS OF CETA ON CZECH ECONOMY – STUDY – 5.1.

The MIT⁶⁰ published an analysis of impacts of CETA⁶¹ The study was prepared by the Technical University in Liberec. The impacts should be positive, the study shows, although meagre, as the trade exchange between the CR and Canada is low (CZK10,5bn in 2016). The analysis outlines opportunities for Czech companies in Canada, too.

SALES OF PASSENGER CARS UP – 5. 1.

Sales of new passenger cars in the CR rose by 12.5% last year, the CIA⁶² announced. Close to 260,000 vehicles were sold in the CR in 2016 and the number is expected to rise even further this year. Škoda Auto remains the leader on the domestic market with a 30% market share. Last year, its sales increased by over 11% to 82,000 vehicles.

CIA HYUNDAI INCREASES PRODUCTION – 5. 1.

The Hyundai⁶³ plant in Nošovice produced a total of 358,400 vehicles in 2016, which is 8,400 (+2.4%) more than planned. This represents a 4.7% increase on the year. With 247,000 pieces, the Tucson SUV was the bestselling model (68.8% of total production). More than 73,000 2nd generation i30s went down the production line (20.5%).

⁵⁸ SZIF: State Agriculture Intervention Fund

⁵⁹ ha: hectare is a non-SI metric system unit of area equal to 10,000 m²

⁶⁰ MIT: Ministry of Industry and Trade

⁶¹ CETA: Comprehensive Economic and Trade Agreement, a free-trade agreement between the EU and Canada

⁶² CIA: Car Importers Association

⁶³ Hyundai CZ: Hyundai Motor Manufacturing Czech based in the Industrial Zone of Nošovice was founded in 2006.

⁶⁴ 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

3rd was the Hyundai ix20 (almost 34,000) and the 3rd generation Hyundai i30, whose production began in mid-December 2016 (over 4,500 units).

CIA ŠKODA AUTO SELLS 82,000 CARS IN 2016 – 5. 1.

The cumulated sales of new Škoda⁶⁴ cars on the Czech market exceeded 82,000 in 2016, which is over 8,000 more (more than 11% more) on the year.

The brand recorded sales of more than 6,600 cars in December 2016. In terms of registrations, June was the best month, in which 7,965 customers opted for a Škoda car.

Figure 1: Sales of the most popular cars in 2016



CIA ČEZ INVESTMENTS - 6. 1.

The ČEZ⁶⁵ plans to invest in 2017 e.g. into the boosting of nuclear security and distribution networks, in order to prepare for decentralised energetics. The group is also readying new non-commodity products for end clients - households and corporate clients of ČEZ ESCO. ČEZ will also continue to seek suitable opportunities on the renewables market in Germany and other European countries. The ČEZ will continue with the process for the permission for prolonged operation of Dukovany NPP⁶⁶.

CTR JAPANESE FIRMS INTERESTED IN NEW INVESTMENTS – 8. 1.

Japanese firms are interested in new investments in the CR, especially in industrial production, nuclear power and infrastructure, MOFA⁶⁷ Minister Fumio Kishida said after talks with his Czech counterpart Lubomir Zaorálek.

Zaorálek said Kishida's visit to Prague might be a preparation of the Czech PM's trip to Tokyo. PM Sobotka might visit Japan in H1⁶⁸ 2017, he said.

Kishida said Japan was the 2nd biggest foreign investor in the CR, following Germany.

The largest Japanese investment in the CR has so far been the construction of the TPCA⁶⁹ plant 15 years ago.

Volkswagen Group in 2000, positioned as the entry brand to the group. Its total global sales reached 1.04 million cars in 2014.

⁶⁵ 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.

⁶⁶ NPP: Nuclear Power Plant

⁶⁷ MOFA: Ministry of Foreign Affairs of Japan

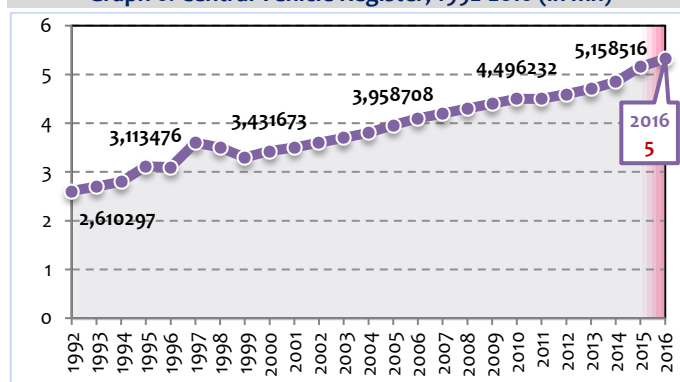
⁶⁸ H1: 1st half of year

⁶⁹ 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.

Asahi Group⁷⁰ recently agreed on the takeover of Plzeňský Prazdroj⁷¹. The Westinghouse⁷² is one of the 6 bidders interested in the construction of new units of Czech NPPs. Zaorálek said he would like the 2 countries to more cooperate in science and research, defence industry and exchange of technology, apart from political and economic cooperation. He said if Sobotka visited Japan, he might support the entry of Czech firms on the Japanese market. "This concerns mainly the food-processing industry and nanotechnologies," Zaorálek said. He said the CR considered Japan a stable and quality partner. Zaorálek also talked about cooperation in culture. Japan declared 2017 the year of Czech culture. The Slav Epic⁷³ by Alfons Mucha⁷⁴ will be displayed in Tokyo for 3 months this spring. Kishida had a look at the paintings in Prague. Kishida today met the organisers of events that will mark the 60th anniversary of the reestablishment of diplomatic relations between the two countries.

Sales of new passenger cars posted a rise of 12.5% to a record 259,693 units last year, with Škoda Auto accounting for a 1/3 of total sales.

Graph 6: Central Vehicle Register, 1992-2016 (in mn)



BUILDING INDUSTRIAL ZONES IN 2017 TO 2022 – 9. 1.

CTK PROTEST AGAINST NUCLEAR WASTE REPOSITORY PLAN – 9. 1.

A large group of people took part in a march in protest against a planned construction of a nuclear waste repository near the village of Chanovice. According to municipalities Mayors, all municipalities in the area have been against the repository for a long time. All official statements that have been made by the municipalities concerned since 2003 when the repository was first discussed oppose the idea. Local referendums were against the repository as well. Local also oppose the geological surveys that the SÚRAO⁷⁵ launched last year. The municipalities even sued the state for permitting the geological surveys. A court decision has not been issued yet. SÚRAO has selected 7 sites in which first geological surveys are being carried out. The survey should tell which place is suitable for the repository. In 2020, the government is to shortlist 2 sites and then the final site will be decided on.

3 new industrial zones with state support should be built in 2017 to 2022, near Cheb in West Bohemia and in Veseli nad Moravou and Moravske Budejovice, South Moravia. The MA at November's government meeting blocked the previous proposal for the zones, it did not want the zones to be built on top quality farmland. Total costs of the construction are CZK765mn and the maximum size of the subsidy from the state budget should not exceed CZK573mn. Industrial zone Cheb II is to cover 142ha, the zone in Veseli nad Moravou is to be on 31ha and the zone in Moravske Budejovice is to be on 31ha of land as well. More than 10 companies will find their seat in the planned industrial zone in Veseli nad Moravou, the town will now have to find 25% of the total costs which will climb to CZK269mn and the rest will be covered from the subsidy. The zone will be completed probably in 2022. It will create 300 new jobs. The zone is designed for 11 to 13 medium-sized companies.

CTK NUMBER OF PASSENGER CARS DOUBLES – 9. 1.

Passenger car numbers more than doubled since the CR's establishment in 1993 to 5.3mn units last year, according to the latest data from the Central Vehicle Register. Last year's vehicle fleet renewal surpassed 5%, the 2nd highest figure in history after 1997. The average age exceeds 14 years, the reason being growing imports of very old used cars and low numbers of cars banned from the roads. The share of imported used cars older than 10 years increased by 4 p.p. to 52% last year.

BIA ECONOMIC RESTRUCTURING OF REGIONS – 10. 1.

Czech government approved the Strategic Framework for Economic Restructuring of Ústí nad Labem Region, Moravia-Silesia Region and Karlovy Vary Region. According to PM Sobotka, basic steps will include redevelopment of environmental damages, improving the quality and accessibility of education, utilisation of brownfields and creation of new jobs. The PM has added that specific proposals of the projects utilising international experience will be processed in an action plan to be submitted to the

⁷⁰ **Asahi Group:** Asahi Group Holding, a leading brewery and soft drink company based in Tokyo, Japan. As of January 2014, Asahi, with a 38% market share, was the largest of the 4 major beer producers in Japan followed by Kirin Beer with 35% and Suntory with 15%. In April 2016, Asahi purchased Meantime Brewery of London, and the Grolsch and Peroni beer brands from SABMiller.

⁷¹ **Plzeňský prazdroj a.s.:** a Czech brewery founded in 1842 and headquartered in Plzeň, CR. It is the 1st brewery to produce pilsener blond lager style beer, branded Pilsner Urquell, making it the inspiration for more than 2/3 of the beer produced in the world today, which are named pils, pilsner and pilsener. Both Plzeňský Prazdroj and Pilsner Urquell can be roughly translated into English as "the Fountainhead at Pilsen" or "the original source of Pilsner".

⁷² **Westinghouse:** Westinghouse Electric Company LLC, 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. Toshiba Group is the majority owner of Westinghouse.

⁷³ **Slav Epic:** Mucha spent many years working on what he considered his life's fine art masterpiece, the Slav Epic, a cycle of 20 large canvases painted by between 1910 and 1928. The cycle depicts the mythology and history of Czechs and other Slavic peoples. In 1928, after finishing his monumental work, Mucha bestowed the cycle upon the city of Prague on condition that the city build a special pavilion for it. Prior to 2012, the work was a part of the permanent exhibition at the chateau in the town of Moravský Krumlov in the South Moravian Region of the Czech Republic. In 2012, all 20 works were moved and are displayed together on the ground floor of the Veletržní Palace in an exhibition organized by the National Gallery in Prague.

⁷⁴ **Alfons Maria Mucha:** (24 July 1860 – 14 July 1939), often known in English and French as Alphonse Mucha, was a Czech Art Nouveau painter and decorative artist, known best for his distinct style. He produced many paintings, illustrations, advertisements, postcards, and designs.

⁷⁵ **SÚRAO:** Radioactive Waste Repository Authority

cabinet by the Ministry for Regional Development in May 2017.

WATER SUPPLY PRICES IN CR TO RISE – 11. 1.

Prices of water supply and sewage collection will rise by 1% to 3% on average in the CR this year but the prices will drop in some regions, the SOVAK⁷⁶ announced.

Prices in Prague will increase by 0.28%, prices in North Bohemia by 0.31%, prices in Brno by 0.8% and prices in the Ostrava region by more than 1%.

The increase in fees for underground water consumption, proposed by the ME⁷⁷ last year, will not influence water prices, neither will higher fees for pollutants contained in sewage, SOVAK said.

A higher price increase concerns in particular those companies which have invested with the help of EU subsidies and the financial model of their investment requires profits from water supply and sewage collection.

According to data from SOVAK, over CZK20bn would be needed annually for the renewal and reconstruction of water supply and sewerage infrastructure but in reality the investments are worth only a bit more than Kc10bn annually.

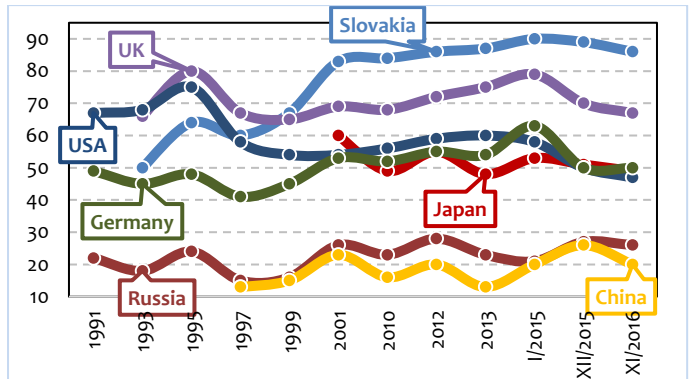
POLITICS & POLLS

RELATION TO FOREIGN COUNTRIES – 5. 1.

According to CVVM⁷⁸, Czech citizens have the relationship to Slovakia, than to Austria, France, Sweden, Norway, Italy and Great Britain, which are followed by Hungary, Japan, Greece, Brazil, Poland, USA and Germany.

Clearly prevailing antipathy at relatively high proportion of neutral attitudes were recorded in the case of India, Russia, Ukraine, China and Israel.

Graph 6: Relation to foreign countries



CONFLICT OF INTEREST LAW – 11. 1.

The ChD⁷⁹ overturned President Zeman’s veto of a conflict of interests bill designed to reign in potential conflicts of interests among public officials. The bill would ban ministers

⁷⁶ SOVAK: Water Supply and Sewerage Association

⁷⁷ ME: Ministry of Environment

⁷⁸ CVVM: Public Opinion Research Centre of the Institute of Sociology of the Academy of Sciences of the CR

⁷⁹ ChD: Chamber of Deputies, is the lower house of the bicameral Parliament of the CR. The seat of the Chamber of Deputies is Thun Palace in Malá Strana, Prague.

⁸⁰ MF: Ministry of Finance

⁸¹ ANO: ANO 2011, centre-right party

News outside the time span of this News summary
CIA News (Česká informační agentura)
Czech Compete

from media ownership and would bar companies where ministers have more than a 25% stake from receiving state subsidies, taking part in public tenders and accessing investment aid. The legislation is widely seen as targeting MF⁸⁰ Minister and ANO⁸¹ leader Andrej Babiš, whose many business and media interests have long come under fire from opponents and anti-corruption activists.

- CNB (Czech National Bank (Česká národní banka))
- Czech Statistical Office (Český statistický úřad)
- Czech Press Agency (Česká tisková kancelář)
- E15.cz
- MF Dnes Daily
- Radio Prague (Český rozhlas)
- State Veterinary Administration
- Radio Prague (Český rozhlas)
- World Bank