

NEWS SUMMARY FEBRUARY 2 – FEBRUARY 8

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ECONOMY & FINANCE



CNB KEEPS INTEREST RATES UNCHANGED- 2. 2.

The CNB¹ Bank Board decided at its meeting today to keep interest rates unchanged. The 2-week repo rate² was maintained at 0.05%, the discount rate³ at 0.05% and the Lombard rate⁴ at 0.25%. The CNB Bank Board also decided to continue using the exchange rate as an additional instrument for easing the monetary conditions and confirmed the CNB's commitment to intervene on the foreign exchange market if needed to weaken the CZK⁵ so that the exchange rate is kept close to CZK27/€⁶.



CNB DOWNGRADES GDP GROWTH ESTIMATE – 2. 2.

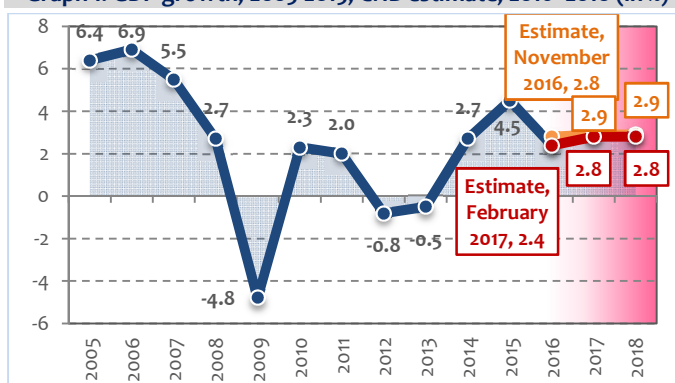
The CNB's new forecast worsened its GDP⁷ growth estimate for both this and next year to 2.8% from the previous 2.9%, and for 2016 the economy is expected to have risen by 2.4%, a drop from November's estimate of 2.8%.

The CNB also upgraded its inflation estimate for Q1⁸ 2018 to 2.5% from the previous 2.4%. For Q2⁹ 2018 it kept its estimate at 2.3%.

Czech inflation accelerated markedly at the end of last year, returning to the CNB's 2% target.

According to the forecast, the conditions for meeting the inflation target in a long run will be met in about the middle of 2017.

Graph 1: GDP growth, 2005-2015, CNB estimate, 2016 -2018 (in %)



Risks for the estimated development are balanced. After the planned exit from the currency commitment, the development of the crown's exchange rate may either increase or decrease inflation against current estimates.

The MF¹⁰ improved its GDP estimate for this year to 2.6% from November's 2.5% in its new macroeconomic forecast released this week. For last year, the MF improved its estimate to 2.5% from the previous 2.4%. In 2018, the economic growth will slow down moderately to 2.4%.

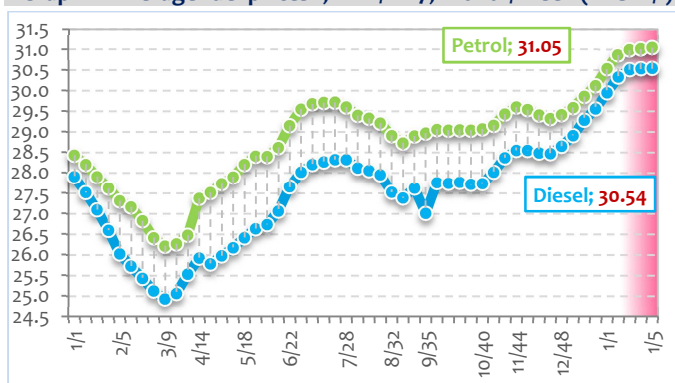


AVERAGE CONSUMER FUEL PRICES – 3. 2.

Fuel prices stagnated in the past week after weeks of growth and the average price of top-selling petrol Natural 95 rose by just 1h¹¹ to CZK31.20/l¹².

The average price of diesel oil fell by 1h to CZK30.46/l. Czech fuel prices had been growing steadily since the end of November 2016. The fuel prices in the CR should not change significantly in the coming days.

Graph 2: Average fuel prices¹³, 2016/2017, Month/Week (in CZK/l)



¹ **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.

² **Repo rate:** The discount rate at which a central bank repurchases government securities from the commercial banks, depending on the level of money supply it decides to maintain in the country's monetary system. To temporarily expand the money supply, the central bank decreases repo rates (so that banks can swap their holdings of government securities for cash). To contract the money supply it increases the repo rates. Alternatively, the central bank decides on a desired level of money supply and lets the market determine the appropriate repo rate. Repo is short for repossession.

³ **Discount rate:** An interest rate that a central bank charges depository institutions that borrow reserves from it.

⁴ **Lombard rate:** An interest rate charged by a central bank for very short term loans to other banks against an approved collateral.

⁵ **CZK:** Czech Crown, the currency of the CR since 8 February 1993

⁶ **Euro:** €, EUR, is the official currency of the Eurozone, which consists of 19 of the 28 member states of the European Union

⁷ **GDP:** Gross domestic product

⁸ **Q1:** 1st quarter of the year

⁹ **Q2:** 2nd quarter of the year

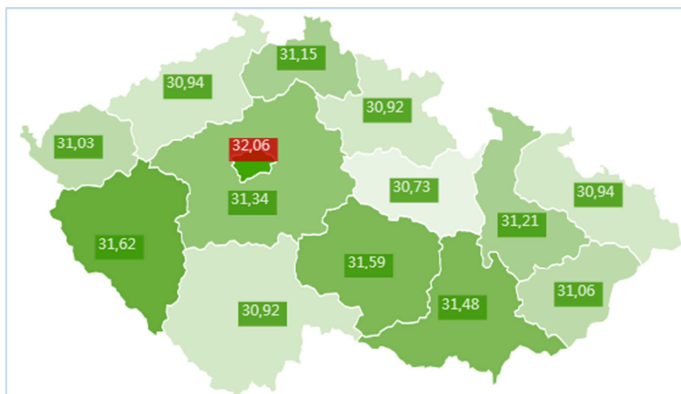
¹⁰ **MF:** Ministry of Finance

¹¹ **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.

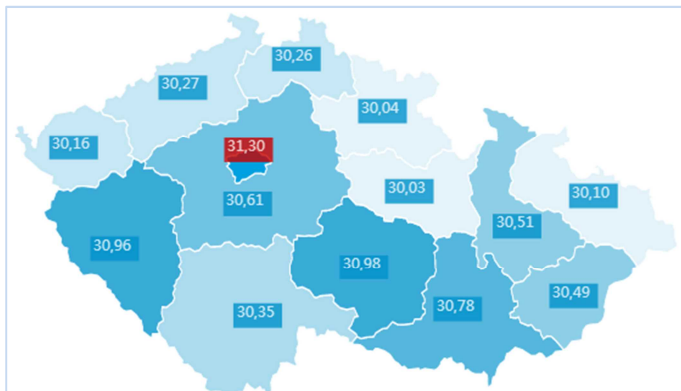
¹² **l:** litre, is an SI accepted metric system unit of volume equal to 1 cubic decimetre (dm³), 1,000 cubic centimetres (cm³) or 1/1,000 cubic metre.

¹³ 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.

Map 1: Regions, fuel prices, Petrol, 3. 2. 2017 (in CZK/l)



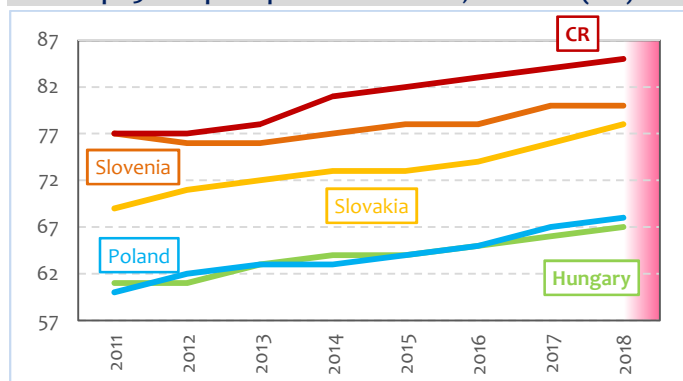
Map 2 Regions, fuel prices, Diesel, 3. 2. 2017 (in CZK/l)



LIVING STANDARDS IN CR TO RISE – 5. 2.

The standard of living in the CR¹⁴ is going to rise modestly, its GDP growth per capita vis-a-vis the EU19¹⁵ countries to increase to 84% this year and to 85% of the EA¹⁶'s average in 2018, the MF said in its macroeconomic forecast. The CR would thus be better off than Poland, Hungary, Slovakia, Portugal or Slovenia. "A faster economic growth in the CR than in the EA in 2016-18 may gradually increase its relative economic level up to 85% of the EA19's average in 2018," the MF said.

Graph 3: GDP per capita based on PPS¹⁷, 2011 - 2018 (in %)



¹⁴ CR: the Czech Republic

¹⁵ EU19: 19 member states of the Eurozone

¹⁶ 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.

¹⁷ PPS: the purchasing power standard, is an artificial currency unit. Theoretically, one PPS can buy the same amount of goods and services in each country. However, price differences across borders mean that different amounts of national currency units are needed for the same goods and services depending on the country. PPS are derived by dividing any economic aggregate of a country in national currency by its respective purchasing power parities.

Slovakia's economic level will grow to 76% of the EA's average this year and to 78% in 2018, according to the forecast.

In 2015, the Czech price level grew to 63% of the EA's average.

"In the coming years, the comparative price level of GDP may go up all the way to 66% (of the EA's average) in 2018, which will further boost the competitiveness of the Czech economy," the MF said.

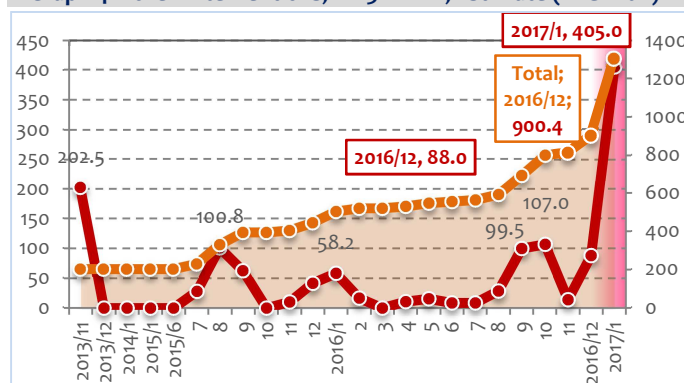
FOREX INTERVENTION – 6. 2.

According to the CNB¹⁸, the volume of forex¹⁹ interventions in November was CZK14.15bn²⁰.

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

Volume of interventions is increasing and it is estimated to CZK88.0bn in December 2016 and to a record CZK405bn in January 2017.

Graph 4: Forex interventions, 2013 – 2016, Estimate (in CZKbn)²¹



RETAIL TRADE – 6. 2.

In year 2016, in retail trade except of motor vehicles and motorcycles²², sales increased at constant prices²³ by 5.6%, y-o-y; a growth was recorded in all months of 2016. Sale of automotive fuel increased for the entire year by 7.5%, non-food goods by 6.8%, and food by 3.3%. The highest growth was reported as for sales in retail sale via mail order houses or via Internet (+21.9%). In specialized stores with non-food goods sales increased for cultural and recreation goods by 7.0%, for other household equipment by 6.0%, for clothing

¹⁸ 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.

¹⁹ 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.

²⁰bn: billion

²¹ 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.

²² CZ – NACE 47

²³ Constant prices: Constant series show the data for each year in the value of a particular base year

and footwear by 4.6%, for dispensing chemist, medical and orthopaedic goods, and cosmetic and toilet articles by 3.8%, and for information and communication equipment by 2.0%. The average price deflator for 2016 was 98.5%.

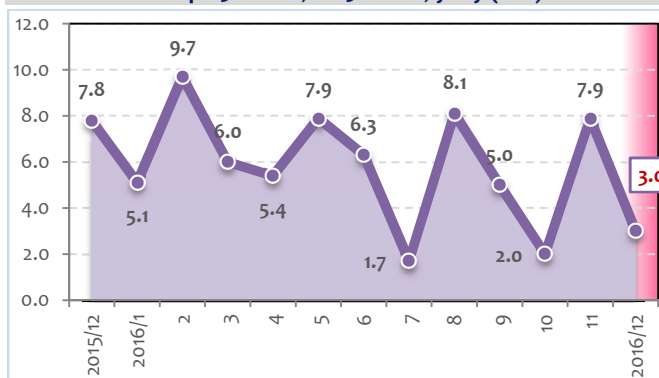
In the **automotive segment**²⁴, sales **increased** at constant prices **by 8.0%, y-o-y**; for sale of motor vehicles it was by 8.6% and for repair of motor vehicles by 5.4%.

In the **Q4 2016**, sales in **retail trade** **increased** at constant prices **by 4.2%, y-o-y**. Sales for non-food goods increased by 6.5%, for automotive fuel by 5.9%, and for food by 0.2%. In the **automotive segment**, sales **increased by 4.3%**; for sale of motor vehicles (including spare parts) sales increased by 4.7% and for repair of motor vehicles by 2.7%.

In **December 2016**, SA²⁵ sales in **retail trade**, except of motor vehicles and motorcycles **decreased by 1.4%** at constant prices, **m-o-m**. SA sales **increased by 3.0%, y-o-y**, the same as non SA. Non SA sales for sale of automotive fuel increased by 6.8%, y-o-y, for sale of non-food goods by 4.1%, and for sale of food by 0.1%.

SA sales for **sale and repair of motor vehicles decreased** at constant prices **by 0.2%, m-o-m**. Y-o-y, sales were **5.5% up**, both for SA and non SA. Sales for **repair of motor vehicles increased by 6.5%, y-o-y**, and for **sale of motor vehicles (including spare parts) by 5.3%, y-o-y**.

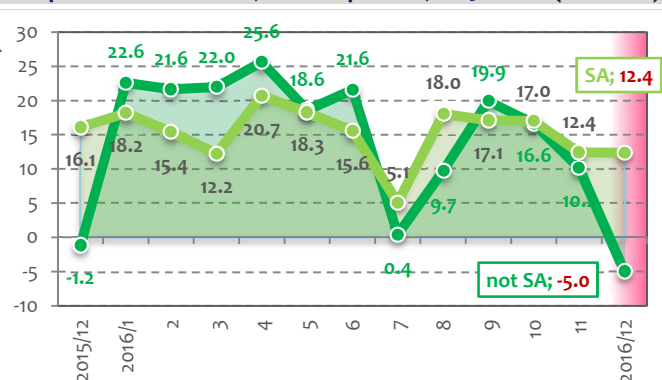
Graph 5: Retail, 2015 – 2016, y-o-y (in %)



EXTERNAL TRADE – 7.2.

In **2016**, the **trade surplus reached CZK183.9bn** which represented a **y-o-y increase of CZK52.9bn**. From the beginning of the year **exports went up by 1.4%** while **imports fell by 0.2%, y-o-y**.

Graph 6: External Trade, current prices²⁶, 2015 – 2016 (in CZKbn)



In **December 2016**, according to preliminary data of external trade in goods²⁷, the **trade balance ended in a deficit of CZK5.0bn**, which was by CZK3.8bn worse result, y-o-y²⁸.

Y-o-y, total balance in the national concept was unfavourably influenced mainly by a y-o-y decrease of surplus in 'machinery and transport equipment' (+CZK4.0bn) and by a deepening of deficit in 'mineral fuels' (▲CZK2.1bn). Surplus in 'miscellaneous manufactured articles' was lower (+ CZK0.2bn) and deficit in 'beverages and tobacco' grew (▲CZK0.1bn). A decrease of deficit in 'chemicals and related products' and 'manufactured goods classified chiefly by material' (▲CZK0.7bn and ▲CZK0.6bn) and a growth of surplus in 'crude materials' (+CZK0.7bn) affected the total balance positively.

SA **exports and imports rose both by +0.4%, m-o-m**²⁹. The development trend shows increasing exports (+0.1%) and imports (+0.6%).

Exports and imports grew by 1.2% (to CZK247.6bn) and **by 2.7%** (to CZK252.6bn), y-o-y, respectively.

In **December 2016**, the **trade balance with EU28**³⁰ ended in a **surplus of CZK33.1bn**, which was a y-o-y **decrease ▲CZK0.7bn**. Deficit of trade with **non-EU countries increased** by CZK4.2bn to amount to **▲CZK36.3bn**.

31

INDUSTRY – 7.2.

In **2016**, **industrial production increased by 2.9%, y-o-y**. The value of **new orders increased by 4.5%, y-o-y**. **Employment increased by 2.8%**. **Wages increased by 3.8%, y-o-y**, and reached CZK29,376.

In the **Q4 2016**, **industrial production increased by 2.7%, y-o-y**. The value of **new orders increased by 5.9%, y-o-y**. **Employment increased by 2.2%**. **Wages increased by 3.5%, y-o-y**, and reached CZK31,123.

In **December 2016**, **industrial production increased** at constant prices **by 2.7%, y-o-y**. SA **industrial production decreased by 2.2%, m-o-m**. The value of **new orders increased by 9.4%, y-o-y**. **Employment increased by 2.1%**. **Wages increased by 1.7%, y-o-y**, and reached CZK30,260.

²⁶ **Current prices:** Current prices correspond to foreign exchange (FX) rates declared by the Czech National Bank by the invoice date, are influenced by the effect of price inflation

²⁷ **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.

²⁸ **Y-o-y:** year on year

²⁹ **M-o-m:** month on month

³⁰ **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

³¹ **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

²⁴ CZ – NACE 45

²⁵ **SA:** seasonally adjusted, Seasonal adjustment is a statistical method for removing the seasonal component of a time series that exhibits a seasonal pattern, which allows to analyse the trend of a time series independently of the seasonal components.

In 2016, industrial production increased by 2.9%, y-o-y. The following contributed the most: manufacture of motor vehicles, trailers and semi-trailers (+2.0 p.p., 11.0%), manufacture of fabricated metal products (+0.4 p.p., 4.5%), and manufacture of rubber and plastic products (+0.3 p.p., 4.9%). Industrial production decreased in mining and quarrying (▲0.3 p.p., ▲9.0%), manufacture of chemicals and chemical products (▲0.2 p.p., ▲7.0%), and manufacture of food products (▲0.1 p.p., ▲2.5%).

Sales from industrial activity at current prices were higher by 1.0%, y-o-y, in 2016. Direct export sales of industrial enterprises increased at current prices by 2.7%. Domestic sales, which include also indirect export via non-industrial enterprises, decreased at current prices by 1.3%.

The value of new orders increased by 4.5%, y-o-y, in 2016. Non-domestic new orders increased by 6.4%, while domestic new orders increased by 0.9%.

The average registered number of employees increased by 2.8%, y-o-y, in 2016. Their average gross monthly nominal wage in 2016 increased by 3.8%, y-o-y, and reached CZK29,376.

In the Q4 2016, industrial production increased by 2.7%, y-o-y. Compared to the Q3 2016, seasonally adjusted industrial production in the Q4 2016 was by 2.4% higher.

Sales from industrial activity at current prices were higher by 3.3%, y-o-y, in the Q4 2016. Direct export sales of industrial enterprises increased at current prices by 4.1%. Domestic sales, which include also indirect export via non-industrial enterprises, increased at current prices by 2.3%.

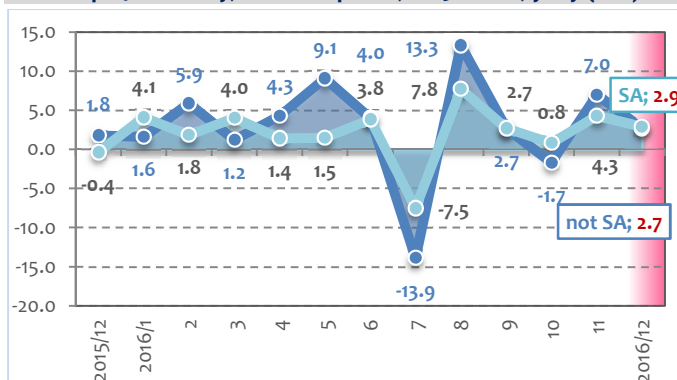
The value of new orders increased by 5.9%, y-o-y, in the Q4 2016. Non-domestic new orders increased by 8.1%, while domestic new orders increased by 1.7%.

The average registered number of employees increased by 2.2%, y-o-y, in the Q4 2016. Their average gross monthly nominal wage in the Q4 2016 increased by 3.5%, y-o-y, and reached CZK31,123.

In December 2016, the following contributed the most to the y-o-y growth of industrial production: electricity, gas, steam and air conditioning supply (+1.34 p.p.³², 10.1%), manufacture of motor vehicles, trailers and semi-trailers (+1.28 p.p., 7.6%), and manufacture of rubber and plastic products (+0.4 p.p., 8.0%). Industrial production decreased in mining and quarrying (▲1.0 p.p., ▲26.5%), manufacture of machinery and equipment (▲0.4 p.p., ▲4.3%), and manufacture of food products (▲0.3 p.p., ▲5.1%).

Sales from industrial activity at current prices increased by 4.6%, y-o-y, in December 2016. Direct export sales of industrial enterprises increased at current prices by 5.7%. Domestic sales, which include also indirect export via non-industrial enterprises increased at current prices by 3.5%.

Graph 7: Industry, constant prices, 2015 – 2016, y-o-y (in %)

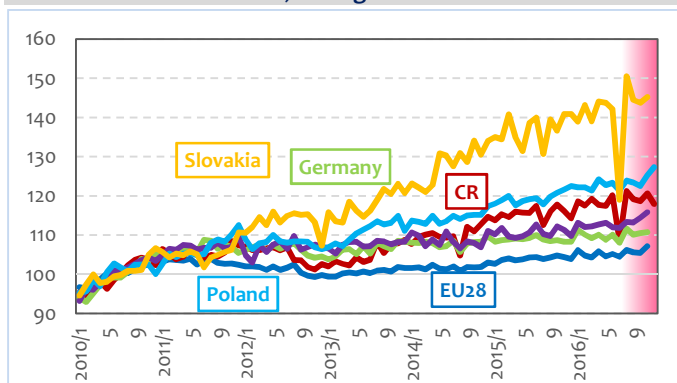


The value of new orders³³ increased by 9.4%, y-o-y, in December 2016. Non-domestic new orders increased by 12.6%, while domestic new orders increased by 3.5%. The most contributed the following CZ-NACE³⁴: manufacture of motor vehicles, trailers and semi-trailers (+6.9 p.p., 18.2%), manufacture of machinery and equipment (+0.9 p.p., 7.7%), and manufacture of electrical equipment (+0.7 p.p., 7.5%). New orders decreased in manufacture of other transport equipment (▲0.3 p.p., ▲10.6%), and manufacture of basic pharmaceutical products and pharmaceutical preparations (▲0.2 p.p., ▲13.4%).

The average registered number of employees³⁵ increased in December 2016 by 2.1%, y-o-y. Their average gross monthly nominal wage increased in December 2016 by 1.7%, y-o-y, and reached CZK30,260.

According to the Eurostat³⁶, SA industrial production in the EU28 in November 2016 increased by 3.1%, y-o-y.

Graph 8: Industrial production index, international comparison, 2010–2016, average of 2010 = 100



CONSTRUCTION – 7.2.

In 2016, the construction output decreased by 7.6%, y-o-y, in real terms. The number of started dwellings increased by

³³ in selected industrial CZ-NACE activities

³⁴ 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

³⁵ in industrial enterprises with 50+ employees, the registered number of employees indicator does not include persons working under various contracts for work, working owners of enterprises, and cooperating household members, who do not have contracts of employment. The piece of data on the registered number of employees in industry also excludes agency workers, who have contracts of employment within activities of services (CZ-NACE 78.2).

³⁶ 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.

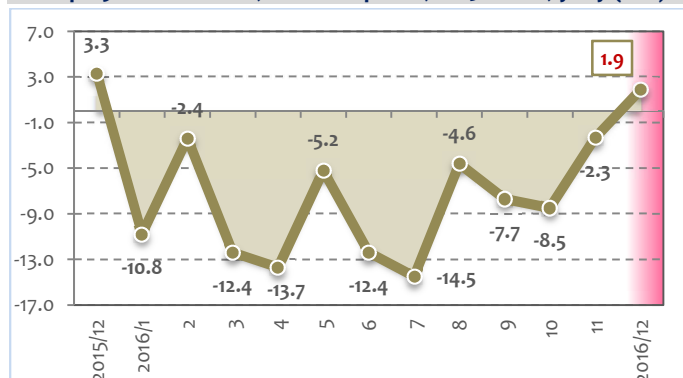
³² P.p.: p. p.

3.2%, y-o-y, and the number of **completed dwellings** grew by 8.9%, y-o-y.

In the Q4 2016, the construction output decreased by 3.3%, y-o-y, in real terms. Compared to Q3 2016 the seasonally adjusted construction output was by 1.1% higher, q-o-q. The production in building construction increased by 3.8% (+2.4 p.p.), y-o-y, and the production of civil engineering construction dropped by 15.8% (▲5.7 p.p.), y-o-y.

In December 2016, the construction output increased by 1.9% y-o-y, in real terms. The planning and building control authorities granted by 13.5% more building permits, y-o-y, and the approximate value of permitted constructions increased by 21.1%, y-o-y. The number of started dwellings grew by 19.9%, y-o-y, and the number of completed dwellings grew by 4.3%, y-o-y.

Graph 9: Construction, constant prices, 2015 – 2016, y-o-y (in %)



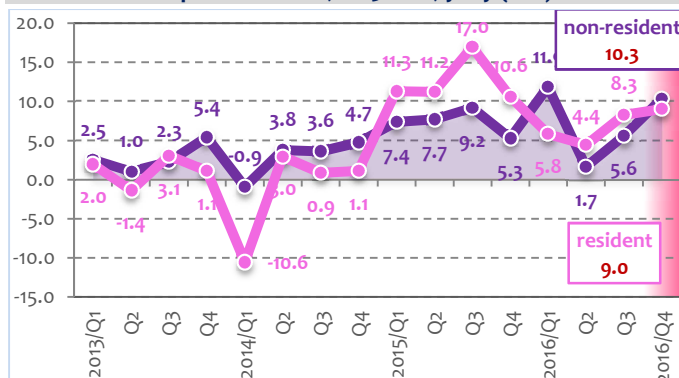
TOURISM – 8. 2.

In 2016, there was a higher number of guests by 6.9% and the number of overnight stays by 5.4%. The number of tourists both residents and from abroad went up (+7.0% and +6.7% respectively). The number of overnight stays was higher for

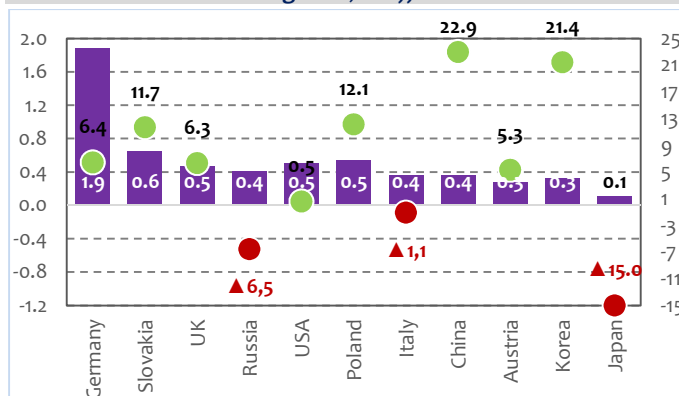
Higher number of foreigner guests came to the CR in 2016 compared to previous year. A decrease of guests from Russia (▲6.5%; ▲28,000 guests) or Japan (▲15.0%; ▲19,000 guests) was compensated by higher occupancy of guests from not only neighbouring countries. Germans increased their number by 6.4% (+113,000) y-o-y. The number of Slovaks went up by 11.7% and guests from Poland by 12.1%. Higher demand continued also as for guests from Asia is concerned, i.e. from China, South Korea and Thai-Wan or from middle-east Israel.

In the Q4 2016, the number of guests' overnight stays in collective accommodation establishments increased by 8.5% y-o-y, of which residents by 8.7% and foreigners by 8.3%. In total, more guests arrived by 9.8% in this period, foreigners by 10.3% and domestic guests by 9.0%. A total of 3.9mn³⁷ guests arrived in collective accommodation establishments during the surveyed period; this was 9.8% more y-o-y. The number of non-residents went up by 10.3%; residents by 9.0%.

Graph 10: Tourism, 2013-2016, y-o-y (in %)



Graph 11: Tourism, TOP 10 countries + Japan, 2016 (in millions of guests, in %)

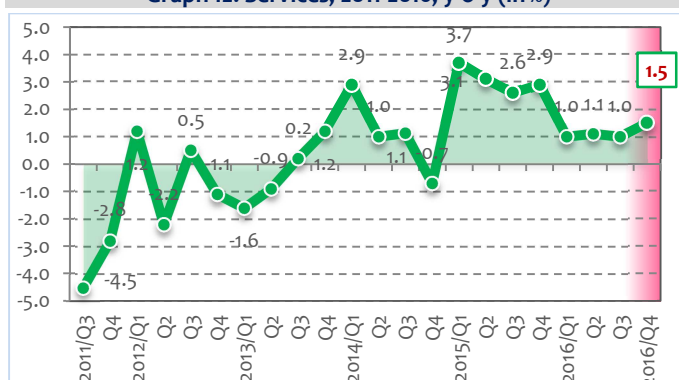


SERVICES – 8. 2.

In 2016, sales in services increased by 1.2%, y-o-y, at constant prices. All economic activities of services contributed to the growth except for professional, scientific and technical activities.

In the Q4 2016, SA sales in services increased at constant prices by 0.1%, q-o-q. SA sales increased by 1.5%, y-o-y, the same as non-adjusted. The most significant sales growth was recorded by accommodation and food service activities section.

Graph 12: Services, 2011-2016, y-o-y (in %)



AGRICULTURE & ENVIRONMENT

NO. OF AVIAN INFLUENZA EPICENTRES IN CR RISES – 8. 2.

The number of avian influenza epicentres in the CR rose to 25.

45 cases of H5N8 influenza were confirmed in wild birds.

³⁷ Mn: Million

The MA³⁸ is accepting applications from farmers and breeders for compensation for the birds that had to be culled. So far, they have applied for a total of nearly CZK4.5mn. The MA has earmarked more than CZK31mn for the compensations.

LABOUR & SOCIAL

FINMAG

UKRAINIAN WORKING IN POLAND – 3.1.

Polish employers already employed more than a 1mn of Ukrainians instead of 2-3mn of Poles, who left for the West. More agrarian-based Poland experiences a shortage of labour, not only in industry but also in agriculture.

Polish companies have requested 400,000 temporary work permits for Ukrainians in 2015, last year it was already 1.3mn applications. These permits allow Ukrainians to work in Poland for 1 year, then it must be renewed. But the number of Ukrainians, who decided to relocate and work in Poland permanently, rises rapidly. This type of permits received over a 100,000 Ukrainians last year, double the number in 2015.

Ukrainians worked almost exclusively as seasonal workers in agriculture in Poland a few years ago, but they are employed in all sectors existing in Poland in the last two years. Especially in industry, construction, restaurants, hotels and transport, but also in white-collar occupations, for example in IT. The share of Ukrainians working in agriculture thus dropped from 60% to just 27% of the total number of Ukrainians workers.

Ukraine dropped to the level of wages that are equivalent to CZK 3,000-5,000 and they are willing to work for about CZK 13,000 (gross wage).

However, this does not apply universally. For example, Ukrainians want the same salaries as the Poles or the Czechs in IT, which lacks experts. A similar situation as in IT is, for example, in the armaments industry.

Also Czech companies, who are looking for 150,000 workers primarily to industry, rely on import of labour force from Ukraine. But their situation is more difficult due to the simplicity of Polish temporary work permits. Ukrainians are already accustomed to the Polish labour market, they often find it easier and cheaper to travel to Poland and the Polish and Czech wages are at least comparable now. Despite the declared interest of Czech companies, the number of Ukrainians working in the CR does not grow significantly.

If the Czech company build a business plan on the cheap Ukrainian work or if the Czech government thinks that it will be easy to import labour force to Czech companies from Ukraine, it is high time to rethink things. The same people are wanted also elsewhere and there is a will to pay them.

In addition, the economic recovery is reported also in Ukraine now - for the first time after 3 years, the economy has grown last year, redirection of Ukrainian exports to the EU³⁹ gets better. The willingness of Ukrainians to work in

the CR may decline. Or perhaps they will be willing to work in the CR, but not for not-well-paid work.



SOCIAL SECURITY AGREEMENT – 1. 2.

CR and Japan signed the Protocol amending the agreement on Social Security between the two countries. Japanese workers, who are sent to the CR to key positions, will be able to conclude contracts with subsidiaries in the CR and at the same time remain insured exclusively in the Japanese social system. Conclusion of a protocol was previously approved by the Czech government on January 25, 2017.



UNEMPLOYMENT LOWEST EVER IN CZECH HISTORY – 2. 2.

Unemployment⁴⁰ in Q4⁴¹ 2016 fell to 3.6%, the lowest ever in Czech history, the CSO⁴² reported. There has also been a significant drop in the number of people who have been out of work for longer than a year. LOs⁴³ registered 192,500 unemployed at the end of 2016, with a slight prevalence of women (101,900). Economic experts say the drop in unemployment and the lack of skilled workers on the labour market will bring about further wage growth.



NEED TO SPEED UP WORK PERMITS FOR UKRAINIAN – 6. 2.

The CCC⁴⁴ and the CI⁴⁵ have asked the government to speed up the immigration process of Ukrainian workers seeking employment in the CR. Due to the record low unemployment many Czech firms are recruiting workers from Ukraine but they say that the process of securing a working permit lasts for 6 months which is creating serious complications.

The business associations have urged the MFA⁴⁶ to take effective measures to resolve the problem as quickly as possible. The MFA has already increased the quotas for work permits for Ukrainian workers from 320 to 400 a month but it may have to double that number to meet demand.



UNEMPLOYMENT – 8. 2.

According to the MLSA⁴⁷, unemployment rate⁴⁸ grew slightly in January, rising to 5.3% from 5.2% the previous month.

into full force in 2002, and is composed of 19 EU member states which use the euro currency.

⁴⁰ **General unemployment rate:** the share of the unemployed in the labour force in the age group 15 – 64 years, that is in the total number of the employed and the unemployed, as%age, seasonally adjusted, data are issued by the CSO based on the results of the Labour Force Survey (LFS) that is carried out continuously in a randomly selected sample of households according to the definitions of the International Labour Organisation (ILO).

⁴¹ **Q4:** 4th quarter of the year

⁴² **CSO:** Czech Statistical Office, is the main organization which collects, analyses and disseminates statistical information for the benefit of the various parts of the local and national governments of the CR. It accomplishes this goal through the management of the Czech Statistical Service.

⁴³ **LO:** Labour Office

⁴⁴ **CCC:** Czech Chamber of Commerce

⁴⁵ **CI:** Confederation of Industry

⁴⁶ **MFA:** Ministry of Foreign Affairs

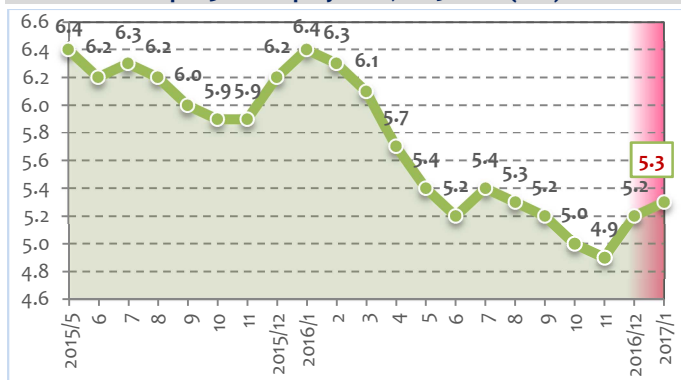
⁴⁷ **MLSA:** Ministry of Labour and Social Affairs

⁴⁸ **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%age, data are issued by the MLSA (LO).

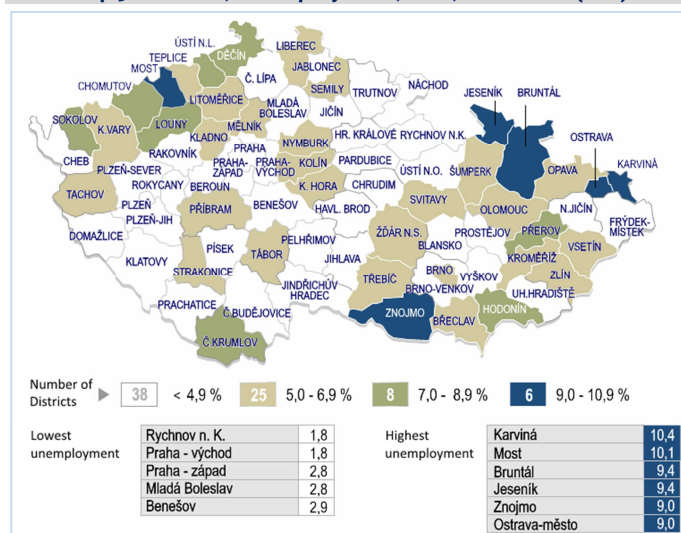
³⁸ **MA:** Ministry of Agriculture

³⁹ **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

Graph 13: Unemployment, 2015- 2016 (in %)



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



INDUSTRY & TRADE & TAX & SERVICES

TESLA MOTOR'S PLANT – 1. 2.

MIT⁴⁹ Minister Mládek says he hopes to visit the Tesla Motors electric car headquarters in the USA and possibly meet with founder Elon Musk to encourage him to site a plant in the CR. According to Mládek, his trip to the USA could take place in May and exploratory talks with Tesla were already underway. Czech chances of landing an electric car plant have reportedly been boosted by the possibility of exploiting large lithium⁵⁰ deposits in the north of the CR near the German border.

TPCA'S CAR PRODUCTION – 2. 2.

In 2016, TPCA⁵¹ produced 220,606 cars, which is the highest number since 2011 and a 0.7% increase compared to 2015. With 88,505 units, the Toyota AYGO had the largest share in the production (40%). It was followed by the Peugeot 108 (30%; 66,534 units) and the Citroën C1 (30%; 65,567 units).

NEW PASSENGER CAR SALES UP– 3. 2.

New passenger car sales in the CR rose by 19% to 20,818 units in January, with Škoda Auto⁵² selling the most, followed by VW⁵³ and Hyundai⁵⁴ companies, the CIA⁵⁵ said.

⁴⁹ MIT: Ministry of Industry and Trade

⁵⁰ Lithium is a key material for the batteries used in electric cars.

⁵¹ TPCA: Toyota Peugeot Citroën Automobile Czech (TPCA) is an automobile manufacturing company in Kolín, CR. It is a joint venture between Toyota Motor Corporation of Japan and PSA Peugeot Citroën of France.

⁵² Škoda Auto: is a Czech automobile manufacturer founded in 1895 as Laurin & Klement. It is headquartered in Mladá Boleslav, Bohemia, Czech Republic. The car

Last year, the number of sold cars in the CR increased by 12.5% to record 259,693 vehicles. Škoda Auto sold 6,455 cars in January, VW 2,979 and Hyundai 1,491 cars.

Škoda Octavia was the best-selling model reporting 2,183 sold units. The Škoda Fabia and Škoda Rapid models registered sales of 1,591 and 968 vehicles, respectively.

Petrol engine cars accounted for almost 52% of the total number. The share of cars with diesel engine was 45%, while it was 1.3% for CNG⁵⁶ cars and 1% for hybrid cars. The sales of LUV⁵⁷ went up by 22% y-o-y to 1,464 cars. Lorry sales declined by 9% to 838 units. Bus registrations rose by 37% annually to 48 vehicles. The sales of motorcycles grew by 49% to 633 units.

BOOSTING COMPETITION ON MOBILE MARKET – 7. 2.

PM⁵⁸ Sobotka says he plans to rush through changes to the CR's law on electronic communications. The move should increase the powers of the CTO⁵⁹ with a view to increasing competition among mobile telephone operators and thus benefiting customers. The bill would also make it easier for customers to switch operators. A particular issue in the CR is the high cost of mobile data compared to in other states.

INVESTMENTS IN REAL PROPERTY IN CR UP – 7. 2.

In the Q4 2016, 30% of all investments flowing into the region of CEE⁶⁰ went to commercial real property in the CR. The total volume grew by 30% in 2016 to €3.3bn.

Almost 70% of the transactions concerned Prague, according to figures published by C&W⁶¹, which added that total investment in commercial real property in the CEE region had amounted to €4.4bn in the Q4 2016.

The volume for the full year 2016 exceeded €11bn, up 11% on the year. C&W predicts further growth in this region.

NIPPON PAINT WILL PRODUCE COLOURS IN KOLÍN - 8. 7.

According to CzechInvest⁶², Japanese firm Nippon Paint Holdings announced on February 7, 2017, the floating of subsidiary Nippon Paint Automotive Coatings (Czech). The firm will produce colours and coatings for automotive industry. Nippon plans to build a plant sized 50,000m² in Kolín. The plant is scheduled to be completed in October 2018 and production will start in January 2019.

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.

⁵³ 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

⁵⁴ Hyundai CZ: Hyundai Motor Manufacturing Czech based in the Industrial Zone of Nošovice was founded in 2006.

⁵⁵ CIA: Car Importers Association

⁵⁶ CNG: Compressed natural gas

⁵⁷ LUV: light utility vehicle

⁵⁸ PM: Prime Minister

⁵⁹ CTO: Czech Telecommunication Office, a central administrative body for the execution of state administration in matters of Electronic Communications, including market regulation and definition of the conditions for business activities in the areas of electronic communications and postal services.

⁶⁰ CEE: Central and Eastern Europe, is a generic term for the group of countries in Central Europe, Southeast Europe, Northern Europe, and Eastern Europe

⁶¹ C&W: Cushman & Wakefield

⁶² CzechInvest: Business and Investment Development Agency CzechInvest, is an agency of the Ministry of Industry and Trade. Established in 1992, the agency contributes to attracting foreign investment and developing domestic companies through its services and development programmes. CzechInvest also promotes the Czech Republic abroad and acts as an intermediary between the EU and small and medium-sized enterprises in implementing structural funds in the Czech Republic.

GERMANY CONTRIBUTES EXTERNAL TRADE – 8. 2.

In 2016 Germany showed a share of 30% of the total volume of the Czech external trade. Germany is thus the most important business partner for the CR. According to CSO, the volume of the Czech external trade with Germany totalled CZK 2.2tn⁶³ in 2016. The share of Czech exports to Germany reached 33%, while imports from Germany showed a share of nearly 27% of total imports.

AUTOMOTIVE INDUSTRY DRIVES PRODUCTION – 8. 2.

Industry growth rate slowed down to 2.7% as of the end of 2016. This is a major change after the 7% increase in November, but does not necessarily mean that industry no longer fares well or that contracts are missing, because automotive industry continues to be the growth's driving force. Almost 10% increase in new contracts is a promise for the future.

ENERGY

LIDOVÉ NOVINY ČEZ SPLIT RAISED BY CEO – 3. 2.

ČEZ's⁶⁴ CEO Beneš has suggest the company could be split into separate parts where the state was the sole shareholder and where it only had a minority share. According to Beneš, it could solve problems where the state and private investors do not agree. ČEZ is around 70% owned by the state with the remaining shares in the hand of pension funds, investment companies, and ordinary shareholders. ČEZ has faced problems in the past with plans to build new nuclear reactors because private investors could well protest what could be perceived as a state inspired projects. Beneš said the idea should spark debate and did not elaborate on how the split might look.

CEZ TO COOPERATE WITH GE – 6. 2.

Škoda Praha⁶⁵ has signed an agreement with GE⁶⁶ to cooperate on the construction of coal-fired power plant Pljevlja in Montenegro.

Both companies plan to present their proposal of the financing of the project to its investor EPCG⁶⁷ by the end of February.

Škoda Praha signed the contract to build Pljevlja II with EPCG last September. It won the tender procedure in a competition of nine companies, as it offered the best combination of technical and economic parameters.

In October last year, the Reuters agency said the plan of financing of the planned new coal-fired plant in Montenegro had fallen flat and that an alternative solution was being looked for.

ČEZ originally wanted to finance the project with the help of the CEB⁶⁸ and the EGAP⁶⁹. According to information

released earlier, the project is expected to cost about CZK9.5bn.

The output of the new power plant is to reach 250 MW.

TRANSPORT

PLANNED HIGH SPEED RAIL LINKS – 6. 2.

PM Sobotka wants a working group set up to discuss plans for high speed rail links, he said following the meeting with the head of the RIA⁷⁰. The working group should be made up of experts on transport, local development and the environment. Possible high-speed routes have been identified as between Prague and Brno and Prague to Dresden, Germany, where they might be extended to Berlin and Hamburg. Sobotka discussed the latter possibilities with the minister president of the Saxony region, Stanislaw Tillich. The most advanced project for high speed rail in the CR is between Prague and Dresden in Germany, but this is only at an early stage and is unlikely to be built until 2030. Another high speed link has been proposed between Prague and Brno, with another route proposed for Prague and Beroun. A study on high speed rail possibilities in the CR is being done by the MT and is due to be delivered to the Cabinet in March 2017.

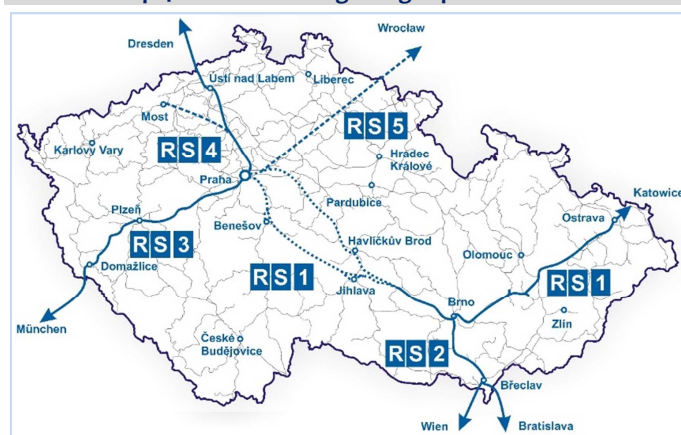
At the end of January, experts of the MT submitted a prepared a 80-page document, a specific plan to build high-speed rail, that should be on agenda of Cabinet meeting for approval in a few months. Now, the document goes through the intergovernmental commentary procedure.

The experts propose 4 routes: 1) Prague - Dresden, 2) Prague - Břeclav, 3) Brno - Ostrava and 4) Prague – Plzeň – Domažlice - state borders.

The document also describes the route cost, run times between cities, and even probable ticket prices.

With the exception of 3 sections (Přerov - Brno, Břeclav - Vranovice and Beroun - state border), all routes would operate on special newly built lines with large radius corners, on which trains could travel at speeds up to 350km/h.

Map 4: Scheme envisaged high speed network



The 3 mentioned segments would undergo only repairs just so they allow trains to reach speeds of 200km/h. A high-speed train from Prague to Brno would go 60-75min, from

⁶³ Tn: Trillion

⁶⁴ 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.

⁶⁵ Škoda Praha: engineering company, a unit of ČEZ, a supplier of turnkey energy facilities. In its 60-year history it has supplied over 40,000 MW of coal-fired and nuclear power plants to countries all over the world.

⁶⁶ GE: US group General Electric

⁶⁷ EPCG: Montenegro's Elektroprivreda Crne Gore

⁶⁸ CEB: Czech Export Bank

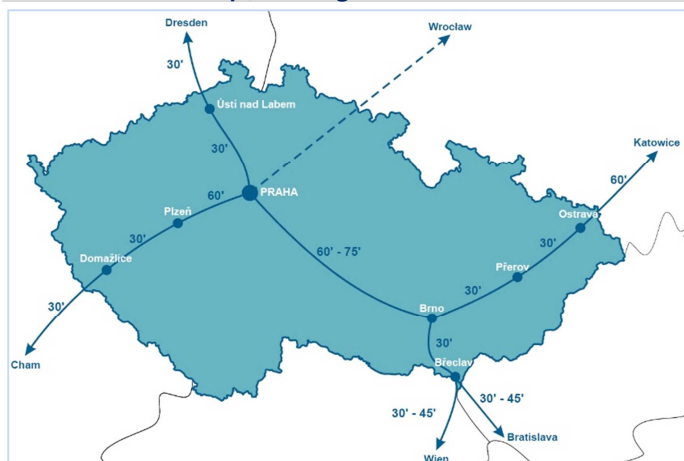
⁶⁹ EGAP: Export Guarantee and Insurance Corporation is a credit insurance corporation insuring credit connected with exports of goods and services from the Czech Republic against political and commercial risks uninsurable by commercial insurance. EGAP was

founded in 1992 as a joint stock company fully owned by the state. The Czech Republic exercises its shareholder rights through the Czech Ministry of Finance, the Czech Ministry of Industry and Trade, the Czech Ministry of Foreign Affairs and the Czech Ministry of Agriculture. Its activities are governed by the Insurance Law and the Act No. 58/1995 Coll., on insuring and financing state supported export.

⁷⁰ RIA: Railway Infrastructure Administration

Prague to Dresden an hour and from Prague to Ostrava 2-2:15 hours.

Map 5: Envisaged travel time



The price of building new tracks, including a 30% margin (risk of becoming more expensive) is calculated at CZK645mn. Money for the construction should be supplied largely by EU funds⁷¹, such as CEF⁷², the CF or standard loans, guarantees and PPP⁷³ funding.

Sobotka and RIA's CEO also discussed a rail link between Prague's Václav Havel airport and the centre of the city.

POLLS

CONSIDERING CR IN CASE OF BREXIT – 2. 2.

According to EY⁷⁴, roughly 14% of foreign investors are planning to move their activities outside of the UK in case of Brexit. 1/10 of the companies would consider the CR. The one of the sectors that could feel the consequences of Brexit in the CR was the automotive industry. The devaluation of the £ lowers the margins of foreign carmakers on the British market and they have to increase prices. This may have a negative impact on the sales of cars.

TAX ENVIRONMENT AS UNFAVOURABLE – 8. 2.

Nearly 2/3 of financial officers of companies in the CR do not think that the tax environment is favourable for business. More than 50% of them view tax changes made in the past 3 years negatively, according to KPMG.

Mere 36% of respondents consider the tax changes of the past 3 years to be positive. Entrepreneurs feel burdened mainly by the introduction of VAT ledger statements (48%) and the EET⁷⁵ of sales (22%).

⁷¹ **EU Funds:** financial tools set up to implement the regional policy of the EU (CP – Cohesion Policy and CAP – Common Agricultural Policy), funds under CP consist of the Structural Funds (the ERDF – the European Regional Development Fund and the ESF – the European Social Fund), and the CF – the Cohesion Fund. Funds under the CAP, consist of the EAGF – the European Agricultural Guarantee Fund, the EAFRD – the European Agricultural Fund for Rural Development, and the EFF – the European Fisheries Fund.

⁷² **CEF:** Connecting Europe Facility

⁷³ **PPP:** public-private partnership is a government service or private business venture which is funded and operated through a partnership of government and one or more private sector companies.

⁷⁴ **EY:** Ernst & Young is a multinational professional services firm headquartered in London, United Kingdom. It is one of the "Big Four" audit firms and is the 3rd largest professional services firm in the world, after PwC and Deloitte.

⁷⁵ **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 system of cash registers and online registration, in Slovenia (early 2016); in Slovakia, where online registration of sales is optional. Offline

The regime of reverse charge has been met with controversial reactions. While more than a 1/3 of managers would welcome it if this duty was introduced for all, about 1/9 regard the extension of this regime as one of the biggest burdens of recent years. The survey has also revealed that entrepreneurs miss an opportunity to hold dialogue with tax authorities.

registration of sales using cash registers was introduced also in other 15 EU countries by 2016.



News outside the time span of this News summary

ČIA News (Česká informační agentura)
Czech National Bank (Česká národní banka)
Czech Statistical Office (Český statistický úřad)
Czech Press Agency (Česká tisková kancelář)
Lidové noviny Daily
Ministry of Labour and Social Affairs of the Czech Republic
Radio Prague (Český rozhlas)