

## NEWS SUMMARY MARCH 2 – MARCH 8

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### ECONOMY & FINANCE

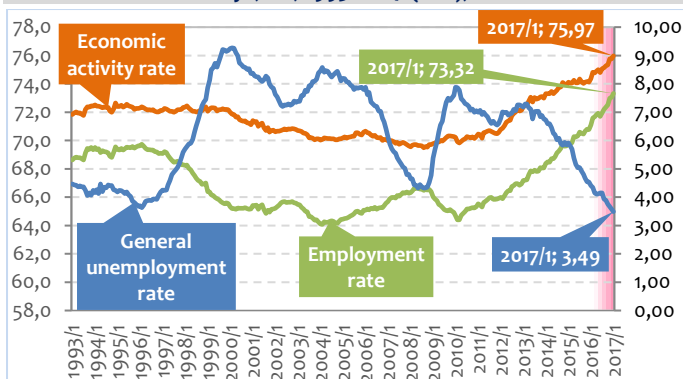
#### CR'S STATE BUDGET WITH SURPLUS – 2. 3.

CR's<sup>1</sup> state budget had a surplus of CZK<sup>2</sup>3.7bn<sup>3</sup> as of the end of February 2017. Budget income totalled CZK197.2bn. Spending amounted to CZK193.5bn. MF<sup>4</sup> has stated that the surplus, which was lower than a year ago (February 2016: CZK27.7bn) was influenced significantly by the EU funds<sup>5</sup> and financial mechanisms, which dropped by CZK39.8bn in February 2017. Tax collection, including social security payments, grew by CZK19bn. Total income thus dropped CZK19.6bn y-o-y<sup>6</sup>. VAT<sup>7</sup> collection totalled CZK48.0bn.

#### UNEMPLOYMENT – 2. 3.

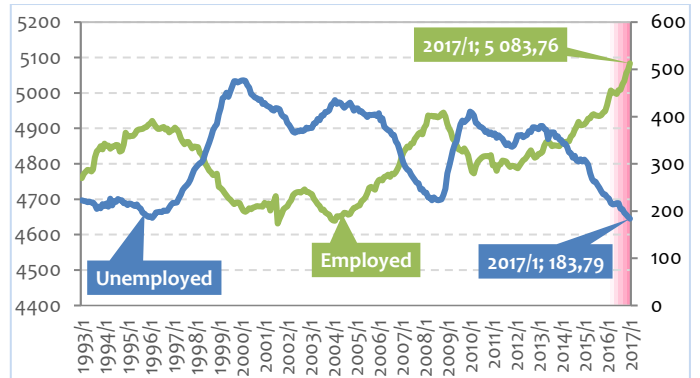
The **employment rate**<sup>8</sup> SA<sup>9</sup>, reached 73.3% in January 2017 and increased by 2.2 p. p.<sup>10</sup> y-o-y. The male employment rate was 80.2%; the female employment rate was 66.2%, both SA. The employment rate of persons aged 15 – 29 years, SA, was 48.9%, in the age group 30 – 49 years it attained 87.7%, and in the age group 50 – 64 years it got to 70.8%.

Graph 1: Rates of employment, unemployment and economic activity<sup>11</sup>, SA, 1993- 2017 (in %), LFS<sup>12</sup>



The **general unemployment rate**<sup>13</sup> SA, reached 3.5% in January 2017 and decreased by 0.9 p. p., y-o-y. The male unemployment rate SA, attained 2.9%; the female unemployment rate was 4.2%.

Graph 2: Employed, unemployed, SA, 1993- 2017 (in thousands)

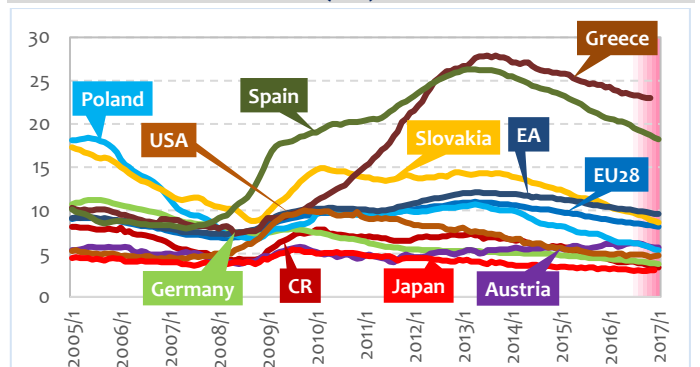


The **economic activity rate**<sup>14</sup> SA, reached 76.0% and rose by 1.6 p. p. compared to that in January 2016.

#### EU28 UNEMPLOYMENT – 2. 3.

The EA<sup>15</sup> SA unemployment rate was 9.6% in January 2017, stable compared to December 2016 and down from 10.4% in January 2016.

Graph 3: Unemployment in EU, monthly average, 2005 - 2017, y-o-y (in %)



The EU28<sup>16</sup> unemployment rate was 8.1% in January 2017, down from 8.2% in December 2016 and down from 8.9% in January 2016.

<sup>1</sup> CR: the Czech Republic

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

<sup>3</sup> bn: billion

<sup>4</sup> MF: Ministry of Finance

<sup>5</sup> 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.

<sup>6</sup> Y-o-y: year on year

<sup>7</sup> VAT: Value-added tax

<sup>8</sup> Employment rate: the share of the employed persons in the age group 15 – 64 years, as percentage, seasonally adjusted, data are issued by the CSO based on the results of the Labour Force Survey (LFS).

<sup>9</sup> 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.

<sup>10</sup> P. p.: percentage point

<sup>11</sup> The source for processing of monthly data on employment and unemployment are data from the LFSS

<sup>12</sup> LFS: Labour Force Sample Survey, data collection for EU LFS, a large household sample survey providing quarterly results on labour participation of people aged 15 and over as well as on persons outside the labour force. LFS is carried out continuously in a randomly selected sample of households according to the definitions of the International Labour Organisation (ILO). All definitions apply to persons aged 15 years and over living in private households. The European Union Labour Force Survey (EU LFS) is conducted in the 28 Member States of the European Union, 2 candidate countries and 3 countries of the European Free Trade Association (EFTA) in accordance with Council Regulation (EEC) No. 577/98 of 9 March 1998. At the moment, the LFS micro data for scientific purposes contain data for all Member States plus Iceland, Norway and Switzerland.

<sup>13</sup> 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 percentage, seasonally adjusted, data are issued by the CSO based on the results of the Labour Force Survey (LFS).

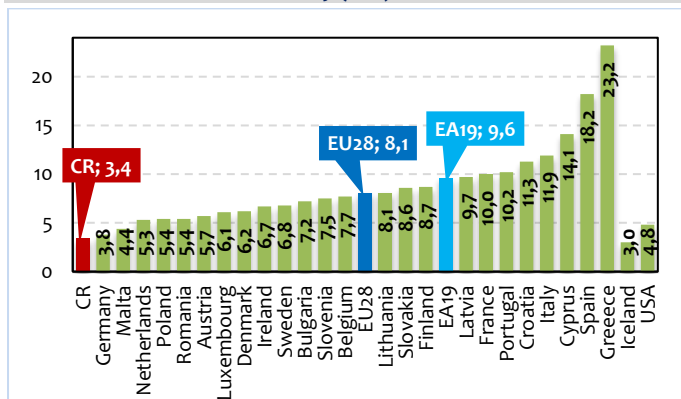
<sup>14</sup> Economic activity rate: the share of the number of the economically active in the total number of persons in the age group 15 – 64 years, as percentage, seasonally adjusted, data are issued by the CSO based on the results of the Labour Force Survey (LFS).

<sup>15</sup> 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.

<sup>16</sup> 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

Among the Member States<sup>17</sup>, the lowest unemployment rates in January 2017 were recorded in the CR (3.4%) and Germany (3.8%). The highest rates were observed in Greece (23.0% in November 2016) and Spain (18.2%).

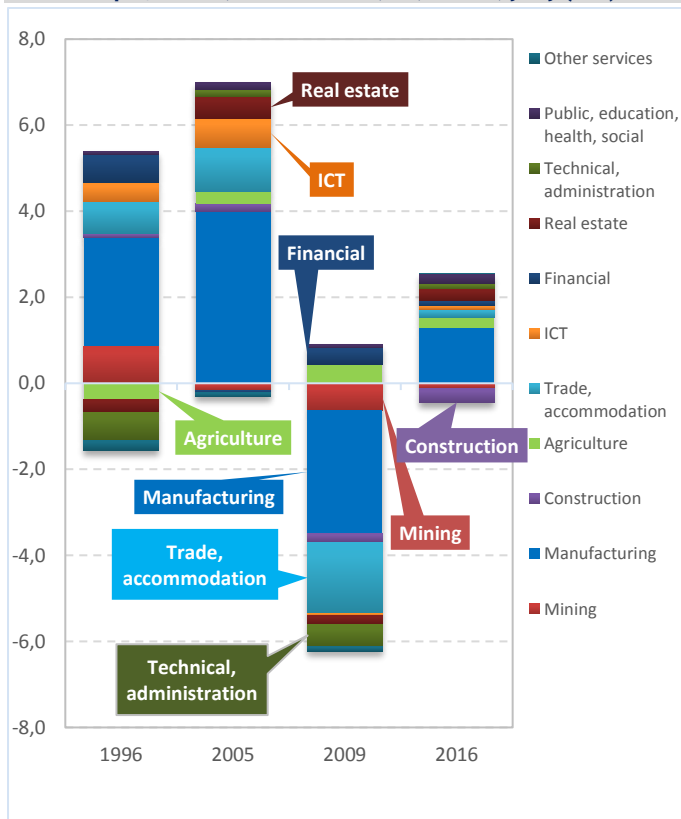
Graph 4: Unemployment in EU, monthly average, January 2017, y-o-y (in %)



GDP RESOURCES AND USES – 3. 3.

The economy growth in the end of 2016 slightly accelerated. The growth was supported mainly by increasing consumption of households and by external demand.

Graph 5: GVA<sup>18</sup>, Contributions, SA, annual, y-o-y (in %)

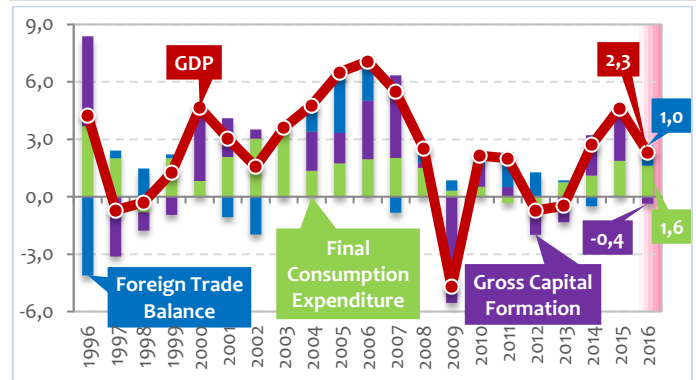


<sup>17</sup> EU Member States: The EU comprises 28 member states. Each member state is party to the founding treaties of the union and thereby subject to the privileges and obligations of membership. Unlike members of most international organisations, the member states of the EU are subjected to binding laws in exchange for representation within the common legislative and judicial institutions. Member states must agree unanimously for the EU to adopt policies concerning defence and foreign affairs. Subsidiarity is a founding principle of the EU.

<sup>18</sup> GVA: Gross Value Added, is a measure in economics of the value of goods and services produced in an area, industry or sector of an economy. In national accounts GVA is output minus intermediate consumption; it is a balancing item of the national accounts' production account.  
GVA = GDP - Taxes on products + Subsidies on products =

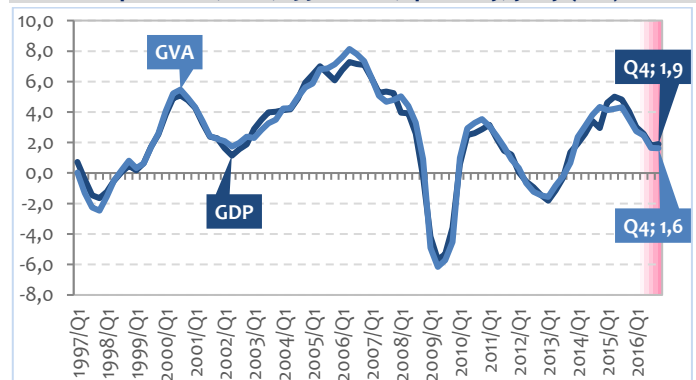
In 2016, the GDP<sup>19</sup> for 2016 was by 2.3% higher than in 2015.

Graph 6: GDP, Contributions, SA, annual, y-o-y (in %)



In the Q4<sup>20</sup> 2016, the main growth factors were: household consumption and external trade. The contribution of household consumption to the GDP growth was 1.1 p. p., and contribution of external demand was 1.2 p. p. However, investment activity did not contribute to growth throughout the entire year.

Graph 7: GDP, GVA, 1997 – 2016, quarterly, y-o-y (in %)



Final consumption expenditure of households increased by 2.9%, y-o-y, especially thanks to growing purchases of durables, e.g. cars. However, what was also growing was expenditure in all other categories.

External trade balance increased at current prices by CZK67.4bn, y-o-y, to CZK347.2bn, which is the highest annual increment in the history of the CR.

Gross capital formation for the entire year 2016 was by 1.3% lower than in 2015.

GVA in 2016 increased by 2.1% compared to the previous year. Economic growth (except for construction) has been reported across the entire economy, while contribution of manufacturing (1.3 p. p.) was over a half of the GVA growth. Total employment increased by 1.8%, y-o-y, to 5,273,000 persons. In total, there were by 2.6% more hours worked than in 2015.

<sup>19</sup> GDP: Gross domestic product, an aggregate measure of production equal to the sum of all resident and institutional units engaged in production in a period (plus any taxes, and minus any subsidies, on products not included in the value of their outputs). GDP can be determined in three ways, all of which should, in principle, give the same result. They are the production approach, the income approach, or the expenditure approach.

The production approach sums the outputs of every class of enterprise to arrive at the total. The expenditure approach assumes the value of the total product must be equal to people's total expenditures in buying things. The income approach determines GDP by finding the sum of all producers' incomes.

GDP = GVA + Taxes on products - Subsidies on products

<sup>20</sup> Q4: 4<sup>th</sup> quarter of the year

CNB FORECAST – 3. 3.

Economic growth in Q4 was slower than expected by the CNB<sup>21</sup>, the difference being 0.2 p. p. y-o-y, and 0.1 p. p., q-o-q. Q4 GDP grew 1.9%, y-o-y and 0.4% q-o-q based on the CSO<sup>22</sup>. The economy expanded by 2.3% for the entire year 2016.

The annual deviation from the CNB forecast was caused by a bigger fall in the value of gross capital formation because of larger cuts in fixed investment.

The strong negative impact of a decline in government investments due to a slow start of the new EU<sup>23</sup> programming period was apparently still visible in the Q4 2016, the CNB said.

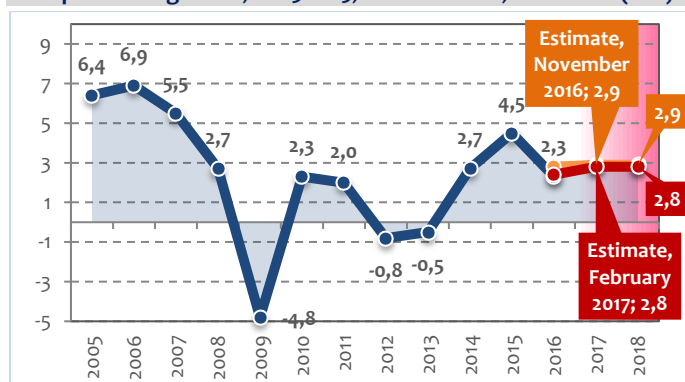
On the other hand, the positive effect of net exports was more significant than predicted by the CNB.

Exports grew slightly faster than estimated by the CNB, while the outlook for imports of goods and services was more or less in line with the forecast.

All in all the CNB said that the GDP growth slightly accelerated in Q4, however, to a lesser extent than foreseen by the CNB.

The CNB estimates a 2.8% economic expansion for this year as well as for 2018.

Graph 8: GDP growth, 2005-2015, CNB estimate, 2016 -2018 (in %)



CAPITAL FROM TAX HAVENS IN CZECH FIRMS DROPS – 5. 3.

The volume of capital from tax havens<sup>24</sup> in Czech firms fell by CZK40bn last year, entrepreneurs invested CZK2,650bn in share capital of Czech firms and 14% of the amount (CZK377bn) came from entities with registered seat in tax havens, Bisnode<sup>25</sup> has announced.

The share of the amount of money from these investors dropped from 3.1% to 2.9%. The reason for the outflow of the subscribed capital from tax havens is gradual removal of the Netherlands from the holding structures.

At the end of last year, 13,185 Czech companies had an owner in destinations considered tax havens, 234 fewer than in 2015.

<sup>21</sup> European union

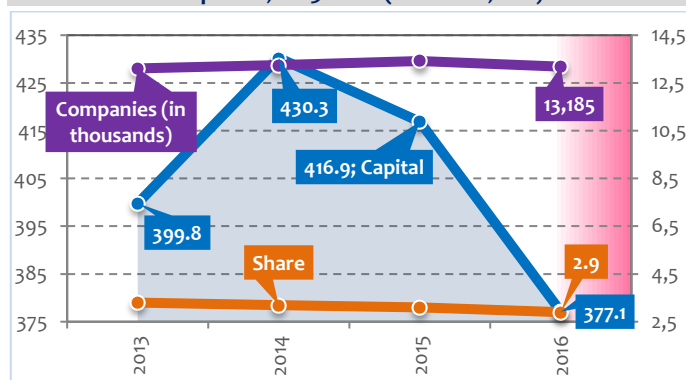
<sup>22</sup> CSO: Czech Statistical Office, is the main organization which collects, analyses and disseminates statistical information for the benefit of the various parts of the local and national governments of the CR. It accomplishes this goal through the management of the Czech Statistical Service.

<sup>23</sup> 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 km<sup>2</sup>, 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

In the same period of time, the volume of the capital from tax havens invested in share capital of Czech firms decreased by CZK40bn, which is a y-o-y drop by almost a 1/10.

The volume of the capital from tax havens in Czech firms reached its peak in 2014 and as of the end of last year, the volume decreased by over CZK54bn.

Graph 9: CR, Capital in Tax havens, Volume, Share, Number of companies, 2013 -2016 (in CZK bn, in %)



If it were not for last year's drop in Dutch capital in the share capital of Czech firms by more than CZK45bn, total share capital from tax havens would have increased by CZK5.2bn last year. Despite that, Dutch capital with 43% (CZK165bn) prevails among foreign owners from tax havens but its share has fallen by 14 p. p. since 2013.

Luxembourg capital, whose share grew by 11 p. p., follows with 24% and Cyprus capital with 16% is 3<sup>rd</sup>. Of the total amount of the capital subscribed from tax havens, 88% is from European destinations. Between the years 2015 and 2016, the highest increase in the volume of capital was seen from Jersey (+3,887%), Monaco (+2,867%) and Hong Kong (+1,529%). In absolute figures, the growth in capital from Monaco reached CZK7.9bn, the growth in capital from Jersey CZK3bn and the growth in capital from Hong Kong CZK1.5bn. The biggest drop in the capital was registered by the United Arab Emirates (-85%), the Isle of Man (-57%) and the Netherlands (-21%).

In absolute figures, the biggest outflows were from the Netherlands (-CZK45bn), Cyprus (-CZK7bn) and the United Arab Emirates (-CZK2.2bn).

Analysts say that due to tax havens, the Czech state is losing up to tens of billions of crowns annually. Even a larger damage is caused by the possibility of money laundering and crime concealment.

AVERAGE CONSUMER FUEL PRICES – 4. 3.

Fuel prices showed just a small rise for the 5<sup>th</sup> week in a row as the average price of top-selling petrol Natural 95 went up by 3 h<sup>26</sup> to CZK31.31/ l<sup>27</sup> over the past week.

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.

<sup>24</sup> Tax haven: a country with low or no taxation of foreign companies, with the goal of gaining foreign capital and making the country an important financial centre.

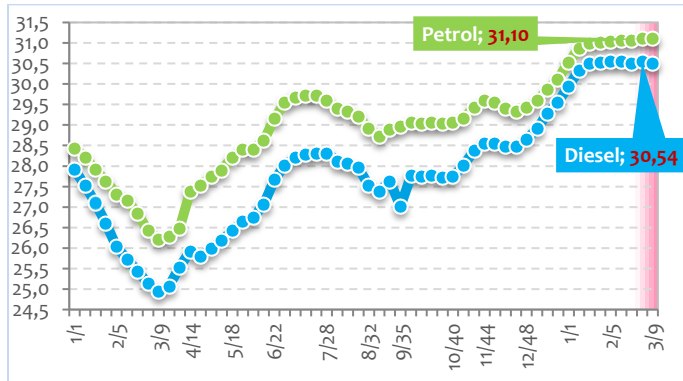
<sup>25</sup> Bisnode: a company that offers decision support in the form of digital business, marketing and credit information. Founded in 1989, Bisnode is present in 19 European countries and has its headquarters in Stockholm, Sweden

<sup>26</sup> 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.

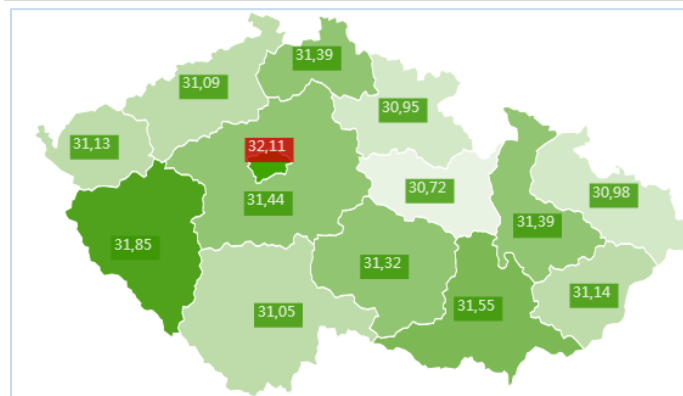
<sup>27</sup> l: litre, is an SI accepted metric system unit of volume equal to 1 cubic decimetre (dm<sup>3</sup>), 1,000 cubic centimetres (cm<sup>3</sup>) or 1/1,000 cubic metre.

The average price of diesel oil rose by 2h to CZK30.52/l.

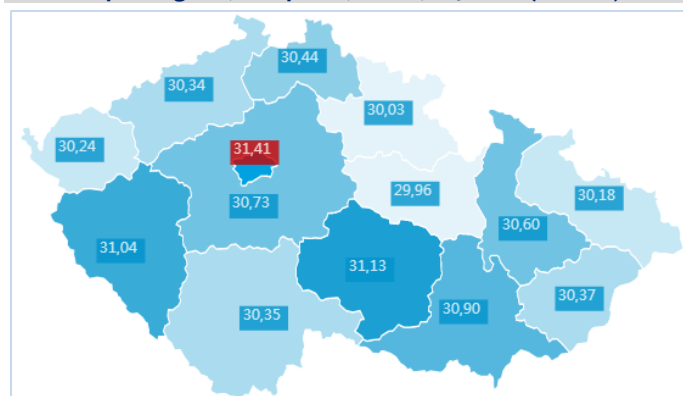
Graph 10: Average fuel prices<sup>28</sup>, 2016/2017, Month/Week (in CZK/l)



Map 1: Regions, fuel prices, Petrol, 4. 3. 2017 (in CZK/l)



Map 2: Regions, fuel prices, Diesel, 4. 3. 2017 (in CZK/l)



Petrol and diesel oil prices have been growing steadily since the end of November 2016. The growth almost stopped at the end of January.

**FOREX INTERVENTION – 7. 3.**

According to the CNB<sup>29</sup>, the volume of forex<sup>30</sup> interventions in January was CZK391bn<sup>31</sup>, which was the highest monthly

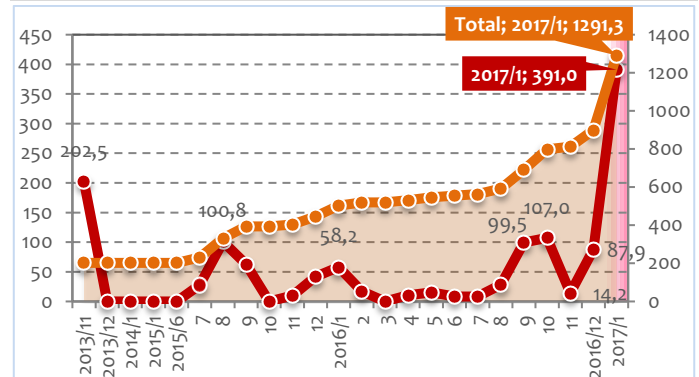
<sup>28</sup> Consumer price indices calculated from the weekly price survey are not qualitatively adjusted and thus do not express the net price development applied at inflation measurement.

<sup>29</sup> **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.

<sup>30</sup> **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.

amount since the launch of the regime in November 2013, with their total amount at CZK1,291.3bn.

Graph 11: Forex interventions, 2013 – 2016, Estimate (in CZKbn)<sup>32</sup>



The previous record of CZK202bn was registered during the first month of the intervention regime aimed at keeping the crown on the weak side of CZK27 per euro in September 2013. Economists attributed the increase in the volume of interventions to growing inflation and growing investor expectations that the CNB will soon end its weak crown policy.

The CNB reiterated early in February that it would likely quit the regime in the middle of this year. It said it would end the exchange rate commitment no sooner than in Q2<sup>33</sup> 2017.

**VOLUME OF NEWLY PROVIDED LOANS INCREASES – 7. 3.**

Total debt of Czech households was worth CZK1.960bn last year, CZK151bn higher than in 2015, and debt from newly provided loans reached a record CZK549bn.

The volume of debt from newly provided loans increased by 16% last year and for the first time exceeded the CZK500bn level. People borrowed money the most often in the Q4 2016. New long-term debt reached CZK100bn for the first time in a quarter and was 27% higher y-o-y. New short-term debt was worth CZK51.5bn. The volume of endangered long-term loans fell by 14% to CZK14.3bn and the volume of endangered short-term loans by 7% to CZK29.7bn.

The volume of endangered long-term and short-term debt decreased in all categories except for people aged under 24. Young people are the riskiest group of clients of banks and financial institutions in the long term. Some 5% of people aged under 24 with long-term debt and 16% of these people with short-term debts failed to pay debts for 3 months in a row or more or due to their poor payment discipline, the creditor demanded the whole debt, plus interest, at once.

<sup>31</sup>bn:bn

<sup>32</sup> 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.

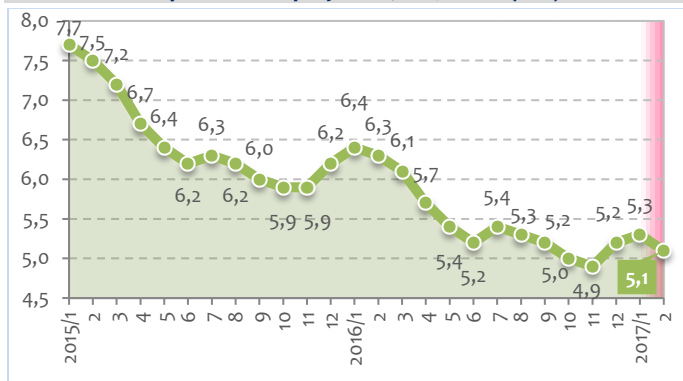
<sup>33</sup> **Q2:** 2<sup>nd</sup> quarter of the year



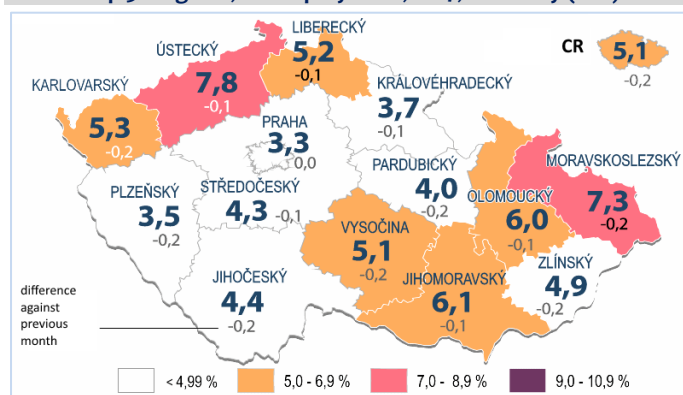
**UNEMPLOYMENT DECREASES – 8. 3.**

Unemployment rate<sup>34</sup> fell in February to 5.1% from January's 5.3%, and there were 380,200 job seekers, the lowest amount since February 2008, the LO<sup>35</sup> said.

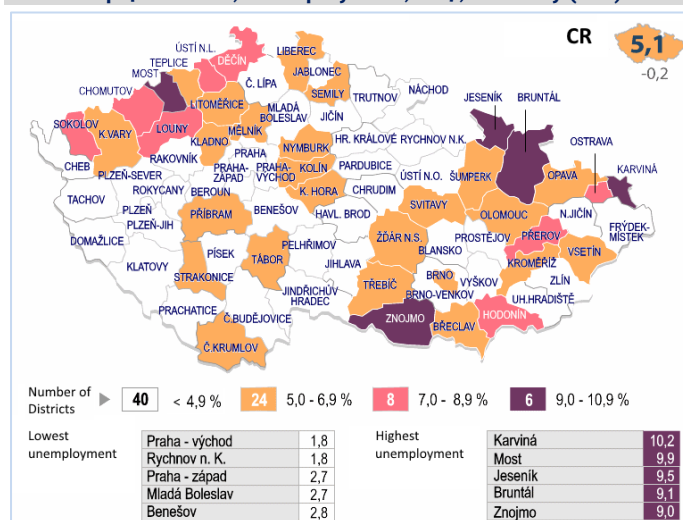
**Graph 12: Unemployment, 2015- 2016 (in %)**



**Map 3: Regions, Unemployment, 2017, February (in %)**



**Map 4: Districts, Unemployment, 2017, February (in %)**



<sup>34</sup> **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 percentage, **data are issued by the MLSA (LO) based on registered unemployed persons.**

<sup>35</sup> **LO:** Labour Office

<sup>36</sup> **V4:** the Visegrád Group, also called the Visegrád Four, or V4 is an alliance of four Central European states – Czech Republic, Hungary, Poland and Slovakia – for the purposes of furthering their European integration as well as advancing their military, economic and energy cooperation with one another.

The number of job openings increased to 143,098. Economic growth and favourable weather conditions are behind the fall of the jobless rate. Seasonal jobs are starting to build up in construction, spa industry, forestry and tourism. There are currently 2.7 job seekers per vacancy in the CR.

**AGRICULTURE & ENVIRONMENT**

**DOUBLE STANDARDS IN QUALITY OF FOOD – 2. 3.**

The leaders of the V4<sup>36</sup> have issued a joint statement calling on the EC<sup>37</sup> to take action to eliminate double standards in quality of food products sold by companies in EE<sup>38</sup> and in the West. PMs<sup>39</sup> met in Warsaw to make a joint motion on a problem that has plagued all four states for years now. They are angry that European producers are often selling lower quality foodstuffs under the same label in their countries compared with richer neighbours such as Germany and Austria. MA<sup>40</sup> Minister Jurečka has commissioned a comparative survey in all four states and Austria which would reveal the extent of the problem.

**AGRICULTURE SHOWS RECORD PROFIT FOR 2016 – 3. 3.**

Czech farmers made a record profit in 2016. Agricultural earnings increased by nearly 26% on the previous year, to CZK20.22bn, which represents the 2<sup>nd</sup> best result since 2000. The value of production increased by 1.8% y-o-y to CZK129.3bn. Revenues from cultivation of crops reached CZK77.3bn and livestock production dropped slightly to the total CZK51.6bn.

**INVESTMENT INCENTIVES SHOULD GO TO SMEs – 5. 3.**

According to MA Minister Jurečka, the money that the Czech state is using for investment incentives should go for support to SME<sup>41</sup> businesses. He wants the government to re-evaluate its approach to support to businesses in Czech countryside.

The size of the promised investment incentives reached CZK12.5bn last year, compared with CZK5bn in 2015.

Jurečka is of the opinion that investment incentives from the government for foreign companies should be granted only in cases of high value added and when the recipient guarantees that it will make research in the CR, not for warehouses and production.

Investment incentives were promised for 72 projects last year. The supported companies promised to create almost 10,000 new jobs.

According to AMSP<sup>42</sup>, the number of people in villages with up to 500 residents is falling permanently. Owing to the outflow of people from small towns and lower interest in crafts, traditional professions linked with countryside are disappearing.

<sup>37</sup> **EC:** European Commission, is the executive body of the EU responsible for proposing legislation, implementing decisions, upholding the EU treaties and managing the day-to-day business of the EU.

<sup>38</sup> **EE:** Eastern Europe, views on which countries belong to EE are vastly varied, the region includes Belarus, Bulgaria, Czech Republic, Hungary, Moldova, Poland, Romania, Russia, Slovakia, and Ukraine. Depending on context, EE countries are sometimes grouped as Southern/Southeastern Europe, Central Europe and North-Eastern countries, collectively or individually.

<sup>39</sup> **PM:** Prime Minister

<sup>40</sup> **MA:** Ministry of Agriculture

<sup>41</sup> **SME:** Small and medium enterprises

<sup>42</sup> **AMSP:** Association of Small and Medium-Sized Enterprises and Crafts in the CR

The number of small self-service shops is falling rapidly, 1/3 out of the nearly 20,000 self-service shops disappeared in the last 20 years.

Out of the 5,566 towns in the CR, 2,546 have been put in the category of underdeveloped towns. Of the 3,454 towns with up to 500 residents, 1,849 are in this category.

The number of companies active in agriculture stagnated in the last 5 years but the number of food processing companies grows. This growth concerns mainly larger villages and small towns. The trend of people leaving villages and the falling interest in crafts is visible mainly in the falling number of people who have just ended their studies at schools and apprentice centres for construction professions. In the last 10 years, the number of masons decreased by 32% in the CR and the number of joiners sank by 63%.

### CZECH WINE WINS PRESTIGIOUS COMPETITION – 6. 3.

Wine maker Vinarstvi Horak has won the most prestigious category of white wines in competition Vinalies Internationales in Paris with its wine Hibernál, selection of grapes 2016, one of the biggest successes of Moravian wine makers ever.

In the same competition, the company's owner Leos Horak won the title of champion among rose wines last year.

A total of 36 Moravian and Czech wines gained a medal in Paris, ten wines won a gold medal and 26 a silver medal. Moravian and Czech wine makers have brought 11 medals more from the competition this year than last year.

A total of 3,540 wines from 45 countries took part in the competition. From the CR, 122 wines competed and 36 of them gained a medal.

### SOLUTION TO DUAL FOOD QUALITY IN EU – 6. 3.

More precise interpretation of EU consumer protection regulations should help solve problems with lower quality of some food products on the markets in CE<sup>43</sup> EU members at least partly without the need for new European legislation, MA Minister Jurečka said after meeting of EU28 agriculture ministers.

This should help in the first stage, Jurečka remarked, adding that EU commissioner for justice, consumers and gender Jourová has promised more precise interpretation of the regulations. "I consider dual quality of food and goods like detergents as an unfair business practice on the common European market", she said.

She sees putting European consumer protection rules in practice as the path towards effective correction.

CE EU member countries have been calling attention to the problem for a longer time already and with growing intensity.

### MICHELIN RANKING – 8. 3.

The Prague restaurant Eska has newly received the Michelin guide's Bib Gourmand ranking, which is awarded to places

<sup>43</sup> CE: Central Europe, views on which countries belong to Central Europe are vastly varied, the region includes Hungary, Poland, Slovakia, Czech Republic, Slovenia, Croatia, Austria, Germany, Lichtenstein, Switzerland. Depending on context, CE countries are sometimes grouped as Eastern, Western European countries, collectively or individually

<sup>44</sup> MI: Ministry of the Interior

<sup>45</sup> MF: Ministry of Finance

<sup>46</sup> mn: million

<sup>47</sup> MFA: Ministry of Foreign Affairs

<sup>48</sup> 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

with "exceptional good food at moderate prices". Eska is part of the Ambiente restaurant group and is located in the capital's Karlín district. Three restaurants in the city, Alcron, La Degustation and Field, held on to their highly prestigious Michelin stars.

## LABOUR & SOCIAL & HEALTH

### SECURITY FORCES PROMISED WAGE HIKE – 2. 3.

The CR's security forces should see a 10% increase in wages as of July 2017, MI<sup>44</sup> Minister Chovanec announced following a meeting with MF<sup>45</sup> Minister Babiš. Babiš promised to earmark CZK1bn from state funds to make that possible; CZK600mn<sup>46</sup> will come from the MI's own budget. The CR's police force has 40,000 employees and the hike will also apply to the CR's close to 10,000 firemen, customs officials, secret service employees and prison wardens.

### CR TO RAISE HUMANITARIAN AID SPENDING IN 2017 – 8. 3.

Czech diplomacy spent more than CZK100mn on humanitarian aid last year, and it plans to increase the budget of humanitarian projects to CZK130mn this year, the MFA<sup>47</sup> said.

In 2016, most of the money went to the victims of wars in Iraq, Syria and African countries. 1/5 of the budget was sent to the areas hit by natural disasters. Last year, the MFA funded 38 projects in 25 countries.

The Cabinet originally earmarked CZK73mn for humanitarian aid. It released an additional CZK30.5mn for Lebanon during the year.

"More than 70% of the budget (CZK73.5mn) was spent on humanitarian aid connected with conflicts and displacement, primarily in Iraq and Syria, South Sudan and the Central African Republic," the MFA said.

The CR also supported long-term displaced inhabitants in Burma, Afghan refugees in Iran and Pakistan and Palestinian refugees in Gaza.

### DRAFT BILL ON SOCIAL HOUSING – 8. 3.

The Cabinet approved long-awaited draft legislation on social housing, which aims to make emergency, social, and cheap housing available to those with below average incomes. The bill will have to be approved by Parliament and signed by the president before parliamentary elections in October. If it comes into effect, the first applicants could submit their applications for social housing as of mid-2018.

## CULTURE

### MUCHA'S SLAV EPIC IN JAPAN – 6. 3.

The exhibition of the Slav Epic<sup>48</sup> by Mucha<sup>49</sup>, which started in Tokio on March 7, and will last until June 5, is a major part of the Year of Czech Culture in Japan.

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.

<sup>49</sup> 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

The exhibition's inauguration was attended by representatives of Prague and MC<sup>50</sup> Minister Herman.

The Year of Czech Culture was declared on the 60<sup>th</sup> anniversary of resumption of diplomatic relations between Japan and Czechoslovakia, which split into the Czech and Slovak republics as from 1993.

Japan will be the first foreign country where the whole extensive cycle of paintings from Slav mythology will be displayed.

## INDUSTRY & ENERGY & INVESTMENT

### ☰ SURVEY FOR DEEP RADIOACTIVE WASTE SITE STOPPED – 2. 3.

The Czech agency tasked with preparing for a deep underground repository to take the CR's highly radioactive waste has been told to apply again for permits to carry out geological research at 7 possible sites for the storage site.

The ME<sup>51</sup> said that an application to continue the survey process arrived late and the previous permit expired at the end of 2016. That means in effect that the application process to start surveys will have to begin again from scratch. The hitch has been welcomed by opponents at the 7 sites who hope that surveys could be blocked altogether. The government is supposed to decide on a deep storage site by 2025 with its completion targeted for 2065.

### CTK NEW CAR SALES IN CR RISE – 2. 3.

New car sales in the CR rose by 12.2% y-o-y to 41,273 units in January-February of this year, while in February alone, the growth slowed down to 6%, the CIA<sup>52</sup> said.

Škoda Auto<sup>53</sup> sold 12,434 cars, 30.1% more y-o-y. 2<sup>nd</sup> came VW<sup>54</sup> with 5,281 cars sold, followed by Hyundai<sup>55</sup> with 2,945 units.

Other successful makes were Ford, Dacia and Renault.

Škoda Octavia was the best-selling model again, ahead of Škoda Fabia and Škoda Rapid, Škoda Superb and VW Golf.

While petrol engine cars accounted for 54% of the total number of cars sold, the share of cars with diesel engine was 42%.

A total of 79% of cars were bought by companies and 21% by individuals.

The number of imported used cars increased by 0.3% in the same period, the share of cars older than 10 years reaching 53.6%.

LUV<sup>56</sup> sales rose by 8.6% to 2,799 units. Leader Peugeot sold 474 vehicles, Ford 385 vehicles and Fiat 341 vehicles.

Lorry sales fell by 15% to 1,533 units. Most Lorries were sold by Mercedes, MAN and DAF. Bus sales rose by 10.5% to 105

for his distinct style. He produced many paintings, illustrations, advertisements, postcards, and designs.

<sup>50</sup> MC: Ministry of Culture

<sup>51</sup> ME: Ministry of the Environment

<sup>52</sup> CIA: Car Importers Association (Svaz dovozců automobilů), a voluntary association of legal entities importing, selling and servicing road motor vehicles in the Czech Republic, 39 members by 2014

<sup>53</sup> Škoda Auto: is a Czech automobile manufacturer founded in 1895 as Laurin & Klement. It is headquartered in Mladá Boleslav, Bohemia, Czech Republic. The car manufacturer was acquired by Škoda Works in 1925 and became a wholly owned subsidiary of the Volkswagen Group in 2000, positioned as the entry brand to the group. Its total global sales reached 1.04 million cars in 2014.

<sup>54</sup> VW: Volkswagen is a German car manufacturer headquartered in Wolfsburg, Lower Saxony, Germany. Established in 1937, Volkswagen is the top-selling and namesake marque of the Volkswagen Group, the holding company created in 1975 for the growing company, and is now the second-largest auto maker in the world

units. Motorbike sales grew by 4% to 1,271 units. Leader CF Moto was followed by Maxon and BMW.

### CTK SPEEDING UP DUKOVANY'S UNIT CONSTRUCTION – 6. 3.

PM Sobotka wants to speed up the planned expansion of the Temelin and Dukovany NPPs<sup>57</sup>. Following talks with the government's commissioner for nuclear energy Jan Stuller, he said that proposed changes to the construction law, currently being debated in Parliament, could speed up the planned construction of a new reactor at the Dukovany NPP by 3 years. Construction of the new reactor could begin in 2025 and end approximately 10 years later. The government's long-term energy strategy envisages continued reliance on nuclear energy, with plans for the expansion of Dukovany by 1 reactor and the Temelín NPP by 2. The government has yet to decide on the question of financing. 1 reactor is estimated to cost at around CZK100bn.

### CTK DUKOVANY COMPLETES CHECK OF RESISTANCE – 6. 3.

Technicians completed a check of the resistance of the containment vessel of the 2<sup>nd</sup> unit at Dukovany as its operator ČEZ<sup>58</sup> needs results of the test for the unit's new long-term operating licence.

Testing of the hermetic space of the reactor unit was one of the last tasks during the current shutdown. It was also one of the most difficult tests from both a technical and security point of view. The test confirmed a very good condition of the unit that enables its secure operation in the future, CEZ said.

Dukovany has 4 units, with only 2 of them being currently in operation. Unit 2 was disconnected from the power grid on September 16 and is supposed to be taken online by the middle of this month.

The shutdown of unit one began on January 20. It is scheduled to resume power supplies in May.

This year, ČEZ is going to ask the SONS<sup>59</sup> for an operating permit for 3 units at Dukovany. The test of the containment resistance will also be carried out at the remaining 2 units.

Each reactor unit undergoes such tests once in 10 years.

With a total installed capacity of 2,040 MWh<sup>60</sup>, Dukovany covers 1/5 of the CR's electricity consumption. Last year, the power plant supplied 11.954 TWh<sup>61</sup> of electrical power to the grid.

### EC CLEARS INVESTMENT IN CONSTRUCTION OF PAKS II – 6. 3.

The EC has concluded that Hungary's financial support for the construction of 2 new nuclear reactors in Paks involves state aid. It has approved this support under EU state aid rules on

<sup>55</sup> Hyundai CZ: Hyundai Motor Manufacturing Czech based in the Industrial Zone of Nošovice was founded in 2006.

<sup>56</sup> LUV: light utility vehicle

<sup>57</sup> NPP: Nuclear Power Plant

<sup>58</sup> 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.

<sup>59</sup> SONS: State Office for Nuclear Safety, a governmental body as stipulated by Act. No. 2/1969 Coll., headed by Chairman appointed by the Government of the Czech Republic. The SÚJB is a regulatory body responsible for governmental administration and supervision in the fields of uses of nuclear energy and radiation and of radiation protection. The authority and responsibilities of the SÚJB, as stipulated by on Peaceful Utilisation of Nuclear Energy and Ionising Radiation (Atomic Act).

<sup>60</sup> MWh: megawatt-hour - 10<sup>6</sup> Wh

<sup>61</sup> TWh: terawatt-hour, a measure of electrical energy, 10<sup>12</sup> watt-hours

the basis of commitments made by Hungary to limit distortions of competition.

Hungary plans to grant investment support for the construction of two new reactors on the Paks site in Hungary. They aim to replace 4 reactors currently operating at the Paks site, which were constructed in the 1980s and currently account for approximately 50% of Hungary's domestic electricity production. Hungary considers that the construction of Paks II is necessary to replace phased out generation capacity and to address the need for new capacity. Under the EU Treaties, Member States are free to determine their energy mix and have the choice to invest in nuclear technology. The EC's role is to ensure that when public funds are used to support companies, this is done in line with EU state aid rules, which aim to preserve competition in the Single Market.

The EC's state aid investigation found that the Hungarian State will accept a lower return on its investment than a private investor would do. The investment therefore involves state aid within the meaning of TFEU<sup>62</sup> Article 107(1). These rules require state aid to be limited and proportionate to the objectives pursued in order to be approved.

Hungary has demonstrated that the measure avoids undue distortions of the Hungarian energy market. In particular, it has made a number of substantial commitments to limit potential distortions of competition:

a) To avoid overcompensation of the operator of Paks II, any potential profits earned by Paks II will either be used to pay back Hungary for its investment or to cover normal costs for the operation of Paks II. Profits cannot be used to reinvest in the construction or acquisition of additional generation capacity.

b) To avoid market concentration, Paks II will be functionally and legally separated from the operator of the Paks NPP (the incumbent MVM Group) and any of its successors or other state-owned energy companies.

c) To ensure market liquidity, Paks II will sell at least 30% of its total electricity output on the open power exchange. The rest of Paks II's total electricity output will be sold by Paks II on objective, transparent and non-discriminatory terms by way of auctions.

On the basis of the above, the EC has approved the measure under EU state aid rules because the amount of aid is limited

and proportionate to the objectives pursued, while the distortion of competition caused by the state support is minimised.

Hungary chose Rosatom<sup>63</sup> in 2014 to build the 2 new reactors, partly financed by a favourably priced Russian loan worth €6410bn. In return, Rosatom will be the main supplier of the reactor technologies. The new 1,200MW blocks at the Paks plant are expected to start commercial operation in 2025 and 2026.

## TRADE & TAX & SERVICES



### EET SYSTEM REGISTRATION – 2. 3.

The FA<sup>65</sup> registered around 121,000 entrepreneurs in the EET<sup>66</sup> system from its launch in December 2016 until March 2. Some 316mn receipts have been sent to the system during this period. Roughly 165,000 entrepreneurs collected authentication data for the 2<sup>nd</sup> wave of EET that started for wholesalers and retailers on March 1.

The system accepting the receipts is running smoothly.

The FA originally estimated that the 2<sup>nd</sup> wave will concern up to 250,000 businesses.



### CRA LAUNCHES DVB-T2 – 2. 3.

CRa<sup>67</sup> has begun broadcasting in the 1<sup>st</sup> part of the transitional network for the new generation of terrestrial broadcasting, DVB-T2<sup>68</sup>/HEVC<sup>69</sup>, from the transmitters Prague Žižkov and Cukrák. In the following months, the network will be expanded to other regions. According to the CRA, more than 99% of the CR should be covered by the spring of 2018.



### BILL AIMED AT REDUCING MOBILE DATA PRICES – 8. 3.

The Cabinet approved a draft amendment to the telecommunication law aimed at creating downward pressure on mobile data prices.

Mobile operators, however, claim that the amendment will not reduce their prices for customers.

The new law should also provide better protection of consumers, increase the powers of the CTO<sup>70</sup> and facilitate the transition of digital television broadcasting from DVB-T<sup>71</sup> to DVB-T2 format in February 2021.

Last week, political parties agreed to shorten the debate about the bill in the ChD<sup>72</sup> so that it could undergo the legislative process before the end of the current election period.

<sup>62</sup> TFEU: Treaty on the Functioning of the European Union

<sup>63</sup> Rosatom: Rosatom State Atomic Energy Corporation, a state corporation (non-profit organization) in Russia, established in 2007, the regulatory body of the Russian nuclear complex. It is headquartered in Moscow. Rosatom is the only vendor in the world able to offer the nuclear industry's entire range of products and services. It runs all nuclear assets of the Russian Federation, both civil and weapons. Along with commercial activities which move forward nuclear power and nuclear fuel cycle facilities, it acts as a governmental agent, primarily in the field of national security (nuclear deterrence), nuclear and radiation safety, basic and applied science.

<sup>64</sup> EUR: (€) Euro is the official currency of the Eurozone, which consists of 19 of the 28 member states of the European Union

<sup>65</sup> FA: Financial Administration of the Czech Republic

<sup>66</sup> 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 registration of sales using cash registers was introduced also in other 15 EU countries by 2016.

<sup>67</sup> CRA: České Radiokomunikace, a telecommunications company in the Czech Republic, offering a complex portfolio of telecommunication and ICT services via their own infrastructure for wholesale and corporate customers. The company has its own

extensive backbone network and broadcast infrastructure, offers wireless solutions, or connecting nearby locations by optical fiber

<sup>68</sup> DBV-T2: DVB-T2 is a digital terrestrial transmission system, the extension of the television standard DVB-T. This system transmits compressed digital audio, video, and other data in physical layer pipes (PLPs), using orthogonal frequency-division multiplexing (OFDM) modulation with concatenated channel coding and interleaving.

<sup>69</sup> HEVC: High Efficiency Video Coding is a video compression standard, one of several potential successors to the widely used AVC (H.264 or MPEG-4 Part 10). In comparison to AVC, HEVC offers about double the data compression ratio at the same level of video quality, or substantially improved video quality at the same bit rate. It supports resolutions up to 8192x4320, including 8K UHD (Ultra-high-definition television).

<sup>70</sup> 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 (also ČTÚ in Czech).

<sup>71</sup> DVB-T: Digital Video Broadcasting - Terrestrial; it is the DVB European-based consortium standard for the broadcast transmission of digital terrestrial television that was first published in 1997. This system transmits compressed digital audio, digital video and other data in an MPEG transport stream, using coded orthogonal frequency-division multiplexing modulation.

<sup>72</sup> 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.

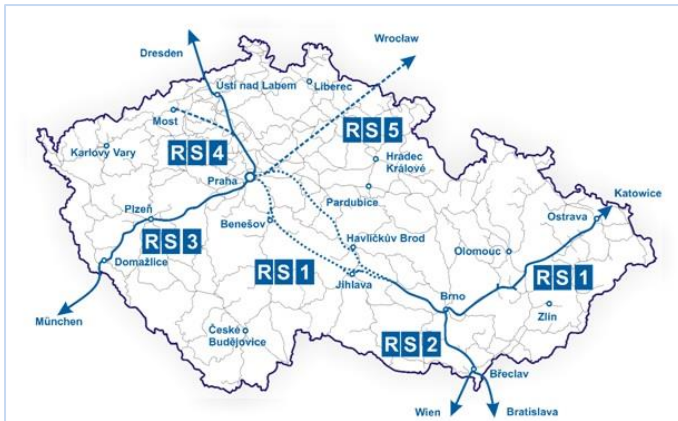


## TRANSPORT

### HIGH SPEED RAIL LINKS – 2. 3.

PMs<sup>73</sup> from across the political spectrum have urged the Cabinet to move faster with plans for high speed rail construction in the CR. The CR currently has no high speed rail links and the most advanced project between Prague and Dresden would see construction launched in 2035. MPs are pushing for construction to start in 2025 and end in 2030, arguing that the CR should have no problem building 40 to 50 km of high speed rail tracks a year, both financially and as regards construction potential.

Map 5: Backbone network of high speed railways



### CSA RAISES 2016 PROFIT – 6. 3.

CSA<sup>74</sup> has reported a profit for the 2<sup>nd</sup> year in a row, following years of financial losses and austerity measures. The airline reports progress in all areas – a higher number of passengers, 11 new air-links and an increase in the number of flights by 9% as compared to the previous year. Its 2016 profit of CZK241mn is an 8% increase y-o-y.

### RMA LAUNCHING MODERNIZATION OF D1 – 6. 3.

The RMA<sup>75</sup> commenced work to modernize highway D1 in segment Psáře - Soutice. Construction costs total CZK929.35mn without VAT<sup>76</sup> according to the contract. The construction suppliers are companies MTS and SWIETELSKY. The section should be completed in November 2017.

## POLITICS & RANKINGS & OTHER

### SIGNIFICANT PROGRESS IN TACKLING CORRUPTION – 2. 3.

The CR has made significant progress in tackling corruption and increasing transparency in party financing, according to a report by the GRECO<sup>77</sup>. The report says that Prague has now fulfilled 9 of the 13 recommendations it was given by the council but regrets the lack of progress in implementing its recommendations concerning the criminalisation of

corruption. These are to accelerate the process of signing and ratifying the Additional Protocol to the Criminal Law Convention on Corruption and to clarify that all public sector employees, in particular those exercising ancillary jobs, fall within the scope of the bribery and trading in influence provisions. GRECO has consistently monitored the situation in the CR and says the CR has made significant progress in the field.

### PROUZA QUILTS AS STATE SECRETARY – 4. 3.

Tomáš Prouza will step down as the State Secretary for European Affairs at the end of March. The media had reported that Mr Prouza lacked proper security clearance; until recently, there was speculation he was a strong candidate for MIT<sup>78</sup> minister.

### KDU-ČSL AGAINST 3<sup>RD</sup> AND 4<sup>TH</sup> EET WAVES – 5. 3.

MA Minister Jurečka has said the KDU-ČSL<sup>79</sup> will not support planned 3<sup>rd</sup> and 4<sup>th</sup> waves of the EET system registers system introduced last December to increase tax revenues and clamp down on the grey economy. He said his party was against the next waves and would not support them after the election later this year. He also said he would not serve as minister in any government that did. The 3<sup>rd</sup> and 4<sup>th</sup> waves are to affect craftspeople and food producers such as farmers' markets. Former MF Minister Kalousek charged that if the KDU-ČSL, the junior party in government, had voted against the EET in the first place, no such step would be necessary. The EET system is the brainchild of current MF Minister Babiš, the head of the ANO<sup>80</sup> party.

### REAL INCOME DROPPED - POLL – 2. 3.

About 1/3 of Czechs believe they can buy or pay less from their household income than a year ago, according to the CVVM<sup>81</sup>. A total of 53% of respondents think the real income of their households is about the same as a year ago, and 11% think it has improved.

The share of people who think their real income has not changed decreased by 5% y-o-y, while the share of those convinced about a drop in their real income rose by 3%.

<sup>73</sup> PM: Prime Minister

<sup>74</sup> CSA: Czech Airlines, the national airline of the Czech Republic with its head office on the grounds of Václav Havel Airport Prague in Ruzyně, Prague. As of 2015 Czech Airlines has three main shareholders, Korean Air 44%, Travel Service 34%, Czech Aeroholding 19.74%, and Česká pojišťovna 2.26%

<sup>75</sup> RMA: Road Management Authority

<sup>76</sup> VAT: Value-added tax

<sup>77</sup> GRECO: Council of Europe Group of States Against Corruption

<sup>78</sup> MIT: Ministry of Industry and Trade

<sup>79</sup> KDU-ČSL: Christian and Democratic Union – Czechoslovak People's Party, centre party

<sup>80</sup> ANO: ANO 2011, centre-right party

<sup>81</sup> CVVM: Public Opinion Research Centre of the Institute of Sociology of the Academy of Sciences of the CR

News outside the time span of this News summary	
	CIA News (Česká informační agentura)
	Czech Statistical Office (Český statistický úřad)
	Czech Press Agency (Česká tisková kancelář)
	European Commission
	Radio Prague (Český rozhlas)