

## NEWS SUMMARY MARCH 16 – MARCH 22

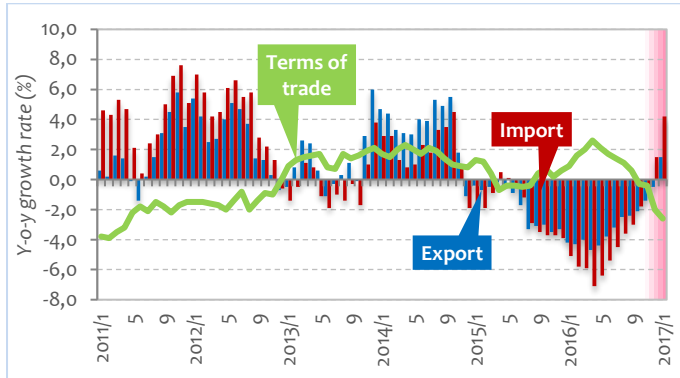
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### ECONOMY & FINANCE

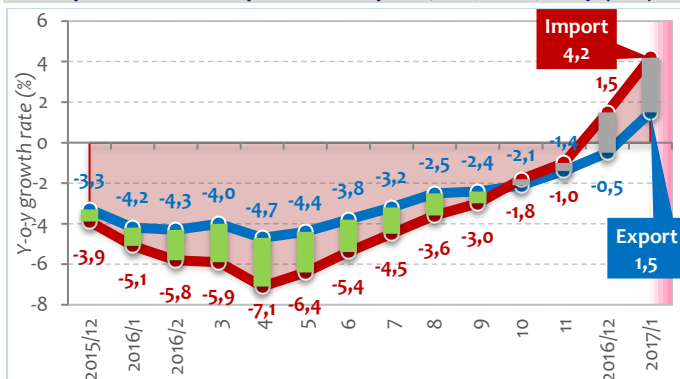
#### PRICE INDICES - EXPORT AND IMPORT – 16. 3.

In January 2017, export prices rose by 1.5%, import prices by 4.2%, the terms of trade reached 97.4%, y-o-y<sup>1</sup>.

Graph 1: Prices of exports and imports, 2011-2017, Y-o-y (in %)



Graph 2: Prices of exports and imports, 2015-2017, Y-o-y (in %)



Y-o-y, export prices increased by 1.5% (▲0.5% in December) and recorded 1<sup>st</sup> growth after 25 months. The change of the total y-o-y export price index was driven mainly by a 32.4% price growth in 'mineral fuels, lubricants, and related products' (especially coal, electricity and crude oil). Prices grew in 'crude materials, inedible, except fuels' by 10.6%, 'miscellaneous manufactured articles' and 'manufactured goods classified chiefly by material' increased both by 1.3%. Prices of 'machinery and transport equipment' dropped ▲0.4%.

Y-o-y, import prices increased by 4.2% (+1.5% in December), growing for the 2<sup>nd</sup> consecutive month. The change of the total y-o-y import price index came mainly from a 31.4% price growth in 'mineral fuels, lubricants, and related products'. Prices of 'crude materials, inedible, except fuels', 'food and live animals' and 'manufactured goods classified chiefly by material' increased by 12.0%, 7.7% and 5.6%; respectively. Prices of 'machinery and transport equipment' decreased by ▲0.1%.

Y-o-y, the terms of trade figures decreased to the value of 97.4% (98.0% in December) staying in negative values for the 4<sup>th</sup> consecutive month. Prices of 'food and live animals'

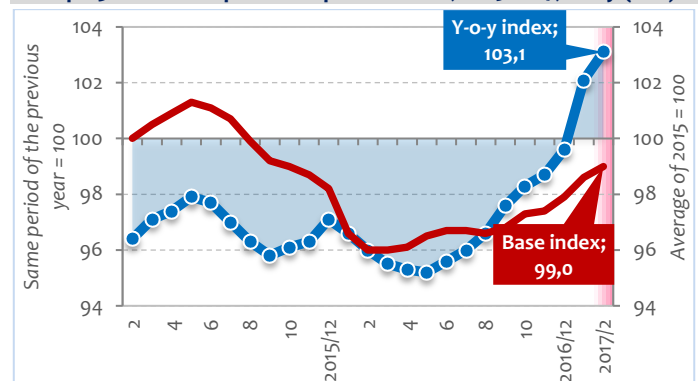
<sup>1</sup> Y-o-y: year on year

(95.1%), 'manufactured goods classified chiefly by material' (95.9%) and 'machinery and transport equipment'(99.7%) reached negative values of terms of trade. Among important sections, positive values of the terms of trade were reached by prices of 'miscellaneous manufactured articles' (101.2%).

#### PRODUCER PRICE INDICES – 16. 3.

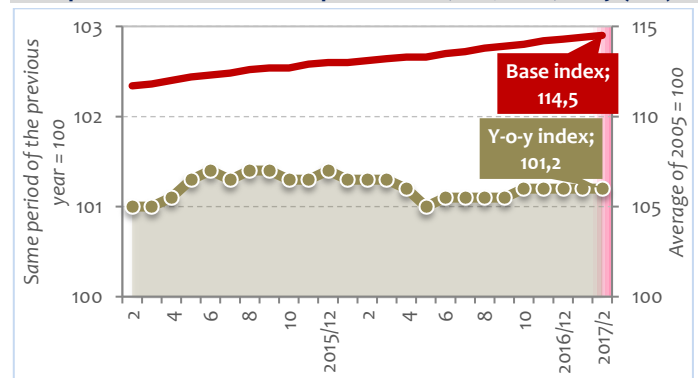
In February 2017 compared to February 2016, industrial producer prices went up by 3.1%, construction work prices increased by 1.2% and prices of market services were higher by 0.6%. Agricultural producer prices went down by 0.8%.

Graph 3: Industrial producer price indices, 2015-2017, Y-o-y (in %)



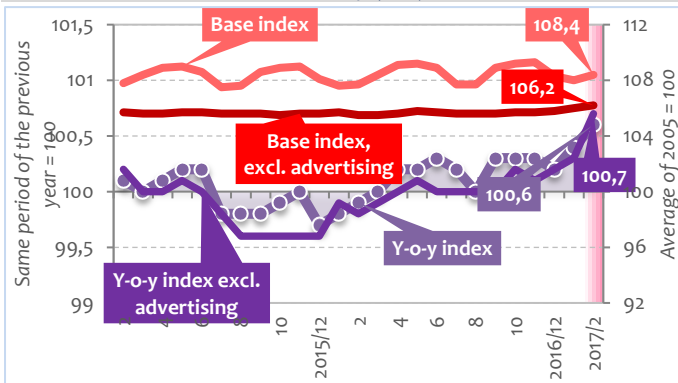
Y-o-y, prices of industrial producers rose by 3.1% (+2.1% in January). Prices went up the most significantly in 'coke, refined petroleum products'. Higher were prices in 'chemicals and chemical products' (+8.5%), 'mining and quarrying' (+5.8%) and 'basic metals, fabricated metal products' (+4.8%). On the increase were also prices in 'food products, beverages, tobacco' (+0.6%), thereof 'dairy products' (+3.4%). Prices went down in 'basic pharmaceutical products' (▲1.3%), 'electricity, gas, steam and air conditioning' (▲1.2%) and 'transport equipment' (▲0.9%). Among the main industrial groupings, prices of 'energy' increased the most (+8.3%) and decreased only prices of 'durable consumer goods' (▲0.4%), y-o-y.

Graph 4: Construction work price indices, 2015-2017, Y-o-y (in %)



Y-o-y, construction work prices rose by 1.2% (like in January) and construction material input prices grew by 1.6% (+0.6% in January).

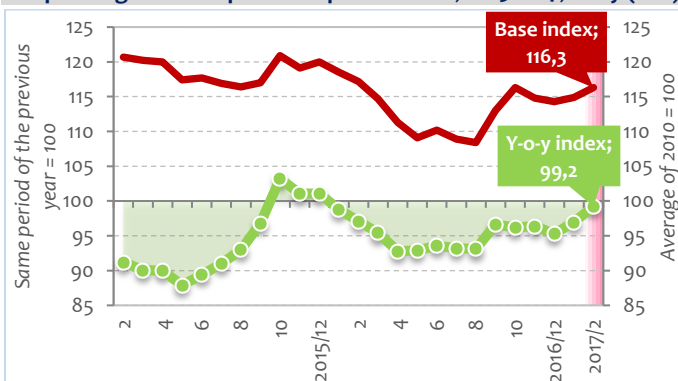
Graph 5: Market services price indices in business sphere, 2015-2017, Y-o-y (in %)



Y-o-y, prices of **market services in the business sphere** grew by **0.6%** (+0.4% in January).

Increasing were prices in ‘postal and courier services’ (+8.4%), ‘insurance, reinsurance and pension funding services, except compulsory social security’ (+4.8%) and ‘advertising and market research services’ (+1.4%). Decreasing were prices in ‘architectural and engineering services’ (▲1.2%) and ‘legal and accounting services’ (▲0.2%). Market services prices excluding advertising services increased by 0.7% (+0.3% in January).

Graph 6: Agricultural producer price indices, 2015-2017, Y-o-y (in %)



Y-o-y, **agricultural** producer prices were **lower** by **▲0.8%** (▲3.0% in January).

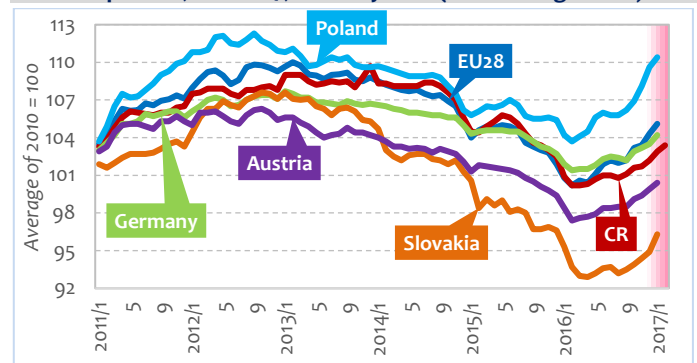
Prices of crop products went down by ▲7.8%. Lower were prices of fresh vegetables (▲35.6%), potatoes (▲20.5%), cereals (▲10.1%) and fruit (▲3.9%). Prices of animal products grew by 6.7% due to increasing prices of pigs for slaughter (+18.1%), milk (+7.0%) and eggs (+5.5%). Lower were prices of poultry (▲3.5%) and cattle for slaughter (▲0.3%).

According to the Eurostat, **industrial** producer prices **increased** in January by **0.8%** (+0.9% in December 2016) in EU28, **m-o-m**<sup>2</sup>. Prices rose in all Member States, the most in Malta (+2.3%). Prices went up in Slovakia (+1.5%), the CR, Germany and Poland (+0.7% all) and Austria (+0.5%).

Industrial producer prices were **higher** in January by **4.3%** (+2.4% in December 2016) in EU28, **y-o-y**. The largest increase in prices was recorded in Belgium (+13.3%). Prices rose in Poland (+6.0%), Germany (+2.3%), the CR (+2.1%), Austria

(+2.0%) and Slovakia (+1.0%). Prices decreased the most in Luxembourg (▲3.1%).

Graph 7: Industrial producer price indices, International comparison, 2011-2017, monthly data (2010 average = 100)



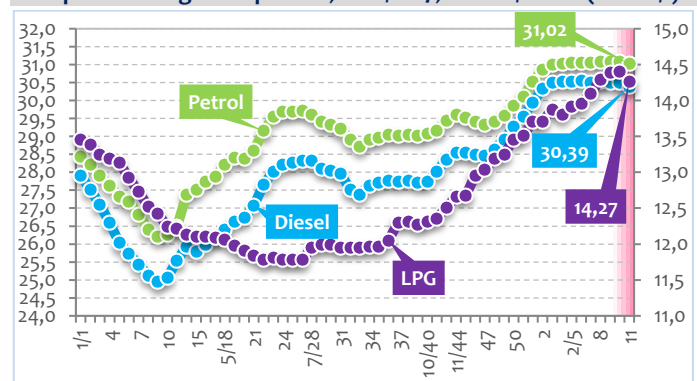
AVERAGE CONSUMER FUEL PRICES – 17. 3.

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 decreased by ▲7 h<sup>3</sup> to CZK<sup>4</sup>31.23/<sup>5</sup> over the past week.

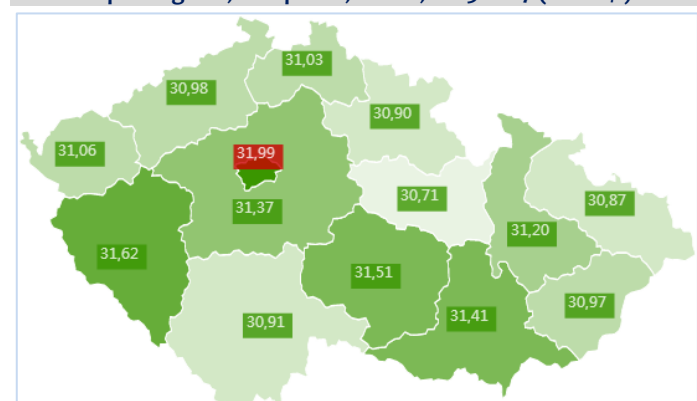
The average price of diesel oil decreased by ▲7h to CZK30.45/l.

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

Graph 8: Average fuel prices<sup>6</sup>, 2016/2017, Month/Week (in CZK/l)



Map 1: Regions, fuel prices, Petrol, 20. 3. 2017 (in CZK/l)



<sup>2</sup> M-o-m: month on month

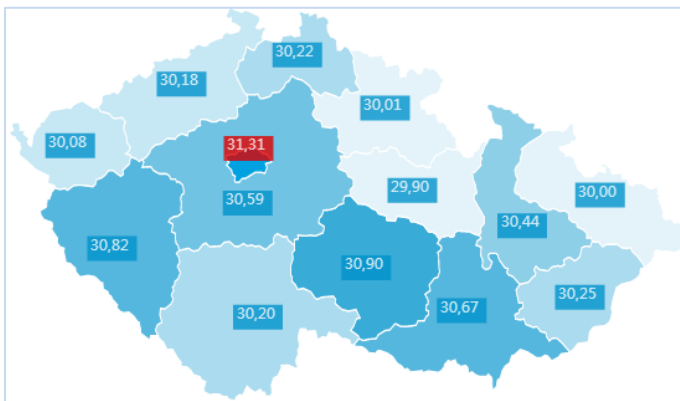
<sup>3</sup> H: Heller, a term was used for a coin valued at 1/100 of a CZK, it continues to be used as a means of calculation since the CNB removed the coins themselves from circulation in 2008 and notionally replaced them with rounding to the next CZK.

<sup>4</sup> CZK: Czech Crown, the currency of the CR since 8 February 1993

<sup>5</sup> l: litre, is an SI accepted metric system unit of volume equal to 1 cubic decimetre (dm<sup>3</sup>), 1,000 cubic centimetres (cm<sup>3</sup>) or 1/1,000 cubic metre.

<sup>6</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.

Map 2: Regions, fuel prices, Diesel, 20. 3. 2017 (in CZK/l)



**EURO ADOPTION – 18. 3.**

CNB<sup>7</sup> governor Rusnok says the CR<sup>8</sup> may not consider adopting the common European currency for another 5 years. He said there would be no ideal moment for politicians to decide on joining the euro. However, he also said he would first like to see Czech price levels become closer to EU<sup>9</sup> averages and for the EA<sup>10</sup> to resolve its own problems stemming from the financial crisis, including the Greek question and unsound banks.

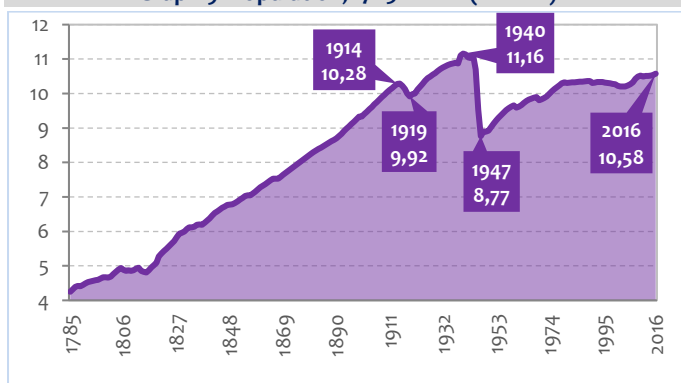
**CNB MAY END INTERVENTIONS BEFORE MID-2017 - 20. 3.**

The CNB may end the forex<sup>11</sup> intervention regime sooner than in mid-2017, which it has been planning so far, President Zeman said after holding talks with CNB governor Rusnok. The end of the intervention regime will have a much more positive impact on the economic growth of the CR than the devaluation of the Czech crown has had, Zeman said. The CNB governing board reiterated in early February that it considers the middle of this year the probable date of ending the intervention regime.

**POPULATION – 21. 3.**

The **population** of the CR **increased by 25,000 to 10,578,800** during 2016.

Graph 9: Population, 1785 – 2016 (in mn<sup>12</sup>)



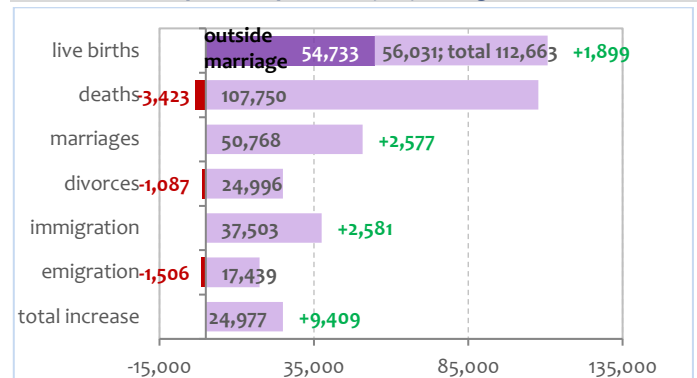
<sup>7</sup> CNB: Czech National Bank

<sup>8</sup> CR: the Czech Republic

<sup>9</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 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.

The population growth resulted from net migration (20,100) as well as natural change (4,900). In the y-o-y comparison, the number of live births (112,700) increased and the number of deaths (107,800) went down at the same time. The number of marriages (50,800) was the highest over the past 8 years. On the contrary, the number of divorces was lower (▲25,000). The number of abortions did not significantly change.

Graph 10: Population, y-o-y change, 2016



**CR'S EXTERNAL DEBT UP – 21. 3.**

The CR's external debt rose by CZK332bn y-o-y to CZK3,528bn<sup>13</sup> last year, making up 74.8% of economic output, and the growth rate accelerated from an annual hike of CZK172bn at end-2015, according to updated data by the CNB. Q4<sup>14</sup> debt increased by some CZK142bn compared to Q3<sup>15</sup>. Turning to the sectoral breakdown of the external debt, the debt of the banking and government sectors increased in particular.

The liabilities of the banking sector rose due to purchases of bank bonds by non-residents and short-term deposits received from abroad. The government sector's external debt (including the CNB liabilities) accounted for 34% of the total debt.

The increase in the stock of external liabilities in the government sector was mainly associated with purchases of crown bonds by non-residents. The government sector's liabilities accounted for 24.6% of the total external debt.

The external debt of the private sector accounted for 65.4% of the total external debt. Public sector liabilities accounted for the rest (34.6%).

As regards the time structure of the external debt, the share of liabilities with original maturities longer than one year was 52% of total debt liabilities.

The external debt has been steadily rising, surpassing the level of CZK1,000bn at the end of 2004, the level of CZK2,000bn in 2010 and the level of CZK3,000bn at the end of 2014, according to the updated data.

<sup>10</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>11</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.

<sup>12</sup> **mn**: million

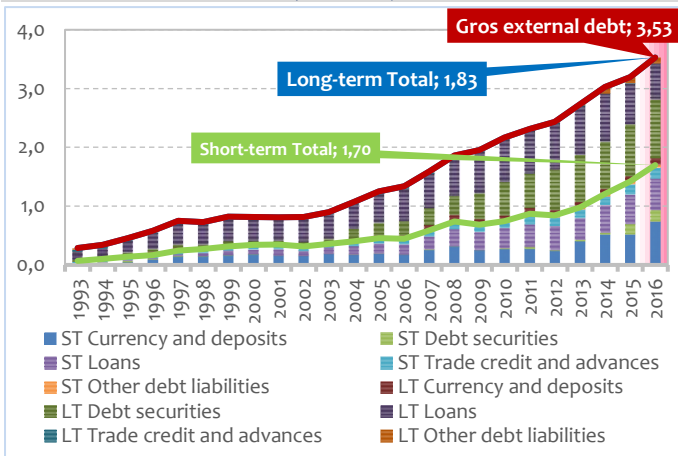
<sup>13</sup> **bn**: billion

<sup>14</sup> **Q4**: 4<sup>th</sup> quarter of the year

<sup>15</sup> **Q3**: 3<sup>rd</sup> quarter of the year



Graph 11: CNB, External Debt by Instruments, 2002 – 2016 (in CZK tn)



AGRICULTURE & ENVIRONMENT

CZECH WINEMAKER WINS WINE CATEGORY AT US – 17. 3.

Czech winemaker Josef Valihrach has won a dry white wine category at the Great American International Wine Competition, which is a younger but prestigious contest. Taking part in the event for the 1<sup>st</sup> time, Valihrach was awarded the highest prize for the Ryzlink rynsky (Riesling) 2015 variety in one of the seven categories. More than 1,000 wines from 12 countries took part in the contest.

BOILER SUBSIDIES – 17. 3.

The ME<sup>16</sup> is launching the 2nd wave of boiler subsidies. Totally CZK3.4bn will be divided among family house owners in the newly opened call through regional authorities. Additional up to 35,000 old boilers should be exchanged. Eligible costs may include not only boiler purchase and installation costs, but also the costs of new heating systems or reconstructions, including regulation, metering and adjustment of combustion residue canals.

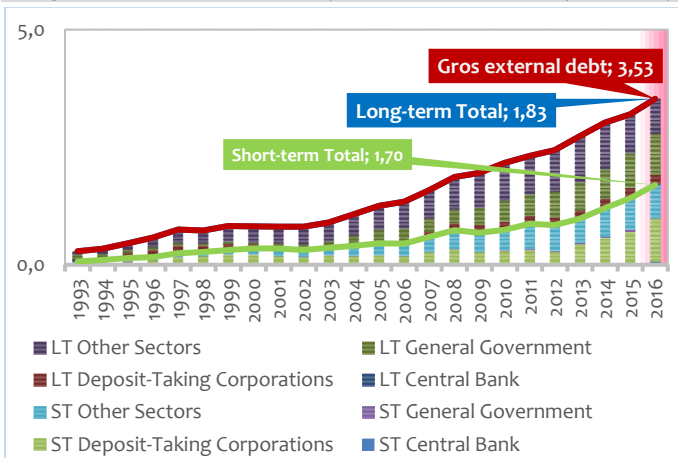
FULFILLING ECOLOGICAL COMMITMENTS – 21. 3.

As of 2017, the MF<sup>17</sup> wants to invest roughly CZK3bn per year in the removal of ecological burden. When the revitalisation programme is terminated (roughly in 2023), the amount should total up to CZK4.5bn. So far, the state has invested CZK75bn of the total CZK176bn in the fulfilment of ecological contracts. Within the framework of the remaining 158 commitments with a total guarantee of CZK101bn, 114 contracts are in the stage of realisation. In 44 cases, the MF is negotiating their termination with the assignees. According to the MF, the total price of the state's ecological commitments will not exceed CZK30bn, which is CZK71bn less than the total guarantee.

WATER SHORTAGES – 22. 3.

Around 2/3 of the CR could be severely affected by drought especially if there were increased demands for water because of a lack of groundwater reserves. The report drew on the conclusions of a report by the GS<sup>18</sup> which mapped the state of groundwater reserves across the CR. In the case of the sort of droughts which have occurred over the last 5 years, serious shortages across large parts of the CR are threatened. The government has started to make preparations for saving water and creating more local water reserves that can be drawn on in times of drought.

Graph 12: CNB, External Debt by Debtors, 2002 – 2016 (in CZK tn)

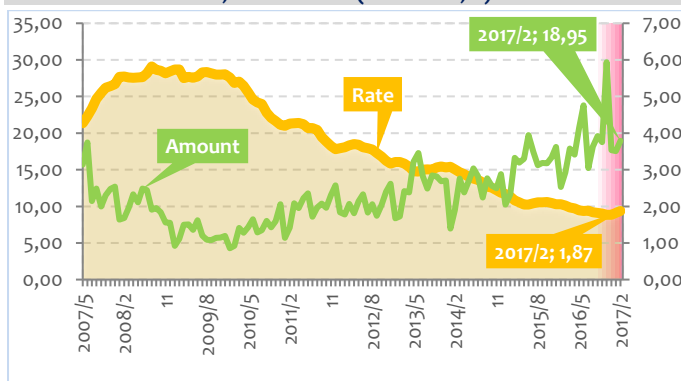


The CR's international investment position (the balance of its financial assets and liabilities in respect of non-residents) recorded an annual decrease in deficit to CZK1,175.5bn last year. The deficit dropped by ▲CZK336.9bn in annual terms and represented 24.9% of GDP at current prices, the CNB said.

AVERAGE INTEREST RATE ON MORTGAGES UP – 22. 3.

The average interest rate on mortgage loans in the CR rose to 1.87% in February, up from January's 1.82%. November and December saw the index plunging to its minimum of 1.77%.

Graph 13: Mortgage development, households, amount, rate, m-o-m, 2006 – 2016 (in CZK bn, %)



<sup>16</sup> ME: Ministry of the Environment  
<sup>17</sup> MF: Ministry of Finance

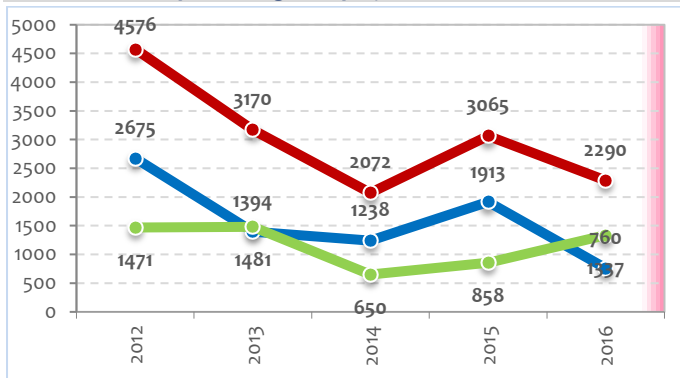
<sup>18</sup> CGS: Czech Geological Service

LABOUR & SOCIAL & HEALTH

**LABOUR INSPECTORS REVEAL ILLEGALLY EMPLOYED – 16. 3.**

The SUIP<sup>19</sup> conducted 9,308 inspections focusing on detection of illegal employment last year, revealing 2,290 illegally employed people.

Graph 14: Illegal employment, 2012 -2016



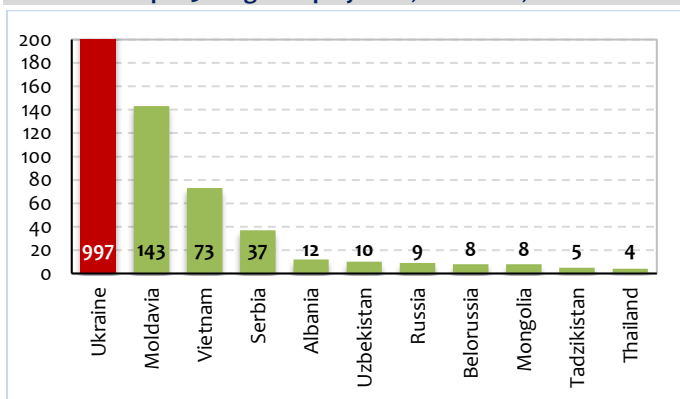
The illegally employed people included 760 Czechs, 193 citizens of EU countries and 1,337 foreigners from non-EU countries.

Most of the illegally employed foreigners were citizens of Ukraine (997), Moldova (143), Slovakia (108) and Vietnam (73). They also included people from Tajikistan, Thailand and the Philippines.

The SUIP imposed 725 fines totalling over CZK75mn for breaches of illegal employment regulations last year.

The illegally employed people worked mainly in construction (20.2%), the manufacturing industry (14.2%), and wholesale, retail and repairs and maintenance of motor vehicles (11%).

Graph 15: Illegal employment, Countries, 2016



**WOMEN WORK MORE TO EARN MEN'S ANNUAL WAGE – 19. 3.**

According to BPW<sup>20</sup>, Czech women work more than 14.5 months on average to earn the same annual wage as men.

The average salary of women is ▲22.5% lower than that of men, which is the second worst position in the entire EU. In the EU, it is 16.7% lower on average.

<sup>19</sup> SUIP: State Labour Inspection Office

<sup>20</sup> BPW: Business & Professional Women CR

<sup>21</sup> MLSA: Ministry of Labour and Social Affairs

<sup>22</sup> TB: Tuberculosis, an infectious disease caused by the bacterium Mycobacterium tuberculosis. Tuberculosis generally affects the lungs, but can also affect other parts of the body. Most infections do not have symptoms; in which case it is known as latent tuberculosis. About 10% of latent infections progress to active disease which, if left untreated, kills about half of those infected. The classic symptoms of active TB are a chronic cough with blood-containing sputum, fever, night sweats, and weight loss.

In the private sector, women earn 24% less than men on average, while in the public sector their wage is ▲17% lower on average, according to the latest data from the MLSA<sup>21</sup>.

Women have lower wages and salaries mainly because they often work in less-paid jobs and occupy lower positions, having big difficulties to get to higher positions.

A year ago, the MLSA launched a 5-year project called "22% Towards Equality" to address the issue of unequal remuneration of men and women.

**FOREIGNERS MAKE UP HALF TB<sup>22</sup> CASES IN PRAGUE – 21. 3.**

Doctors registered 496 cases of TB in the CR in 2016, which is 22 fewer than in the preceding year, with foreigners making up 29% of the cases, and even 50% in the capital city.

The CR still ranks among the countries with a low TB rate.

Doctors say the number of foreigners coming to work in the CR without any health insurance has been rising.

TB treatment costs from CZK60,000 to CZK300,000 depending on how serious the disease is. The costs are paid by hospitals, which are bound by law to treat TB patients and keep them in isolation. The costs of the treatment of such patients in Czech hospitals exceed CZK3mn a year.

The MH<sup>23</sup> will recommend that general practitioners send the foreign immigrants from the countries with a high TB rate to special check-ups to rule out the disease.

The measure is desirable in the case of foreigners coming from the countries where the TB rate exceeds 40 cases per 100,000 inhabitants, such as Belarus, Lithuania, Latvia, Moldova, Romania, Russia and Ukraine.

In the CR, the rate stands below 5 cases per 100,000 inhabitants. Out of the 496 TB patients registered last year, 19 died. A total of 146 cases (29%) were foreigners, mostly coming from Ukraine (41), Slovakia (21), Vietnam (20) and Romania (18).

**EMPLOYEES' EDUCATION – 21. 3.**

Employers may apply from March 20, 2017, for a contribution from the 2<sup>nd</sup> call for the Professional Employees' Education Support II. The contribution may reach up to CZK6mn and cover up to 85% of real costs.

The wage contribution totals up to CZK198 per hour and employee. The LO<sup>24</sup> has announced that it has entered into more than 7,000 agreements with employers in the 1<sup>st</sup> call.

Almost 18,000 persons undertook the training courses.

LO has an allocation of CZK1bn for the project. Applications will be accepted electronically.

**ŠKODA WILL PAY OUT BONUS OF CZK45,000 – 17. 3.**

Trade union KOVO MB has agreed on a variable bonus with Škoda Auto<sup>25</sup>. The bonus will be connected with a special payment of CZK4,000 and will total CZK45,000. This was agreed during the 4<sup>th</sup> round of collective bargaining on March 13, 2017.

<sup>23</sup> MH: Ministry of Health

<sup>24</sup> LO: Labour Office

<sup>25</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 1.127 million cars in 2016.

## INDUSTRY &amp; ENERGY &amp; INVESTMENT



## CZECH CAR PRODUCTION AT RECORD – 16. 3.

Car manufacturers produced a record amount of 251,774 units in the CR in January and February, which was 9.2% more in annual terms, according to data published by the AIA<sup>26</sup>.

Škoda Auto and Hyundai<sup>27</sup> recorded a rise in their production volumes, while TPCA<sup>28</sup> saw a decline. Škoda Auto turned out 150,612 units, 16% more y-o-y, and Hyundai's Nosovice plant produced 63,100 cars, which was a rise of 5.5% from January-February last year. TPCA's output dropped by ▲7% to 38,062 vehicles. Total domestic sales were 14% higher at 18,083 cars, with exports rising by 9% to 234,189 units. All the producers saw a hike in their sales on the Czech market, with TPCA recording a drop in exports.

Lorry production, represented by Tatra<sup>29</sup>, soared by 88% to 231 units. Bus production was 1% higher at 642 units, with 565 buses made by Iveco Bus and 72 by SOR. Motorcycle production fell by 50% to 231 units at the end of February. The sales of new passenger cars went up by 12.5% to record 259,693 units last year, with Škoda Auto ranking 1<sup>st</sup> having a 31.7% market share.



## NO. OF ELECTRIC CARS REGISTERED IN CR DOWN – 17. 3.

The number of electric cars registered in the CR decreased by a quarter to 271 units in 2016, while this year's January and February added 68 cars, according to data of the CIA<sup>30</sup>.

Last year's decline might have been caused by postponed demand of some companies and municipalities due to subsidies of the MIT<sup>31</sup> and ME, according to experts.

Over the past 5 years, people have registered 1,067 electric cars in the CR, ČEZ<sup>32</sup> said. The highest number was reported in 2015.

Electric cars used 2.3mn kWh<sup>33</sup> of electricity a year, which roughly corresponds to the average consumption of a 1,000 Czech households.

ČEZ, operating 70 charging stations, will cut the electric charging time at its 45 stations by the end of April.

<sup>26</sup> **AIA:** Automotive Industry Association (AutoSAP), an interest industrial grouping of the manufacturing, commercial and other companies which make up the Czech automotive and allied industries. AIA represents companies making up nearly 90% of the Czech automotive industry. Their share in total industrial production posted an annual rise of 1% to 22%.

<sup>27</sup> **Hyundai CZ:** Hyundai Motor Manufacturing Czech based in the Industrial Zone of Nošovice was founded in 2006.

<sup>28</sup> **TPCA:** Toyota Peugeot Citroën Automobile Czech (TPCA) is an automobile manufacturing company in Kolín, Czech Republic. It is a joint venture between Toyota Motor Corporation of Japan and PSA Peugeot Citroën of France.

<sup>29</sup> **Tatra:** a Czech vehicle manufacturer was founded in 1850 as the third oldest car maker in the world after Daimler and Peugeot. Production of passenger cars ceased in 1999, but the company still produces a range of primarily all-wheel-drive 4x4, 6x6, 8x8, 10x10 and 12x12 trucks.

<sup>30</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>31</sup> **MIT:** Ministry of Industry and Trade

<sup>32</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>33</sup> **kWh:** a derived unit of energy equal to 3.6 megajoules. If the energy is being transmitted or used at a constant rate (power) over a period of time, the total energy in kilowatt hours is the power in kilowatts multiplied by the time in hours.

<sup>34</sup> **t:** tonne, metric ton is a non-SI metric unit of mass equal to 1000 kilograms

<sup>35</sup> **Asahi Group:** Asahi Group Holding, a leading brewery and soft drink company based in Tokyo, Japan. As of January 2014, Asahi, with a 38% market share, was the largest of the 4 major beer producers in Japan followed by Kirin Beer with 35% and Suntory with

In 2020, the annual electric car sales will reach up to 7,000 vehicles, according to Roland Berger consulting company.

Škoda Auto is supposed to introduce its electric car after 2019.

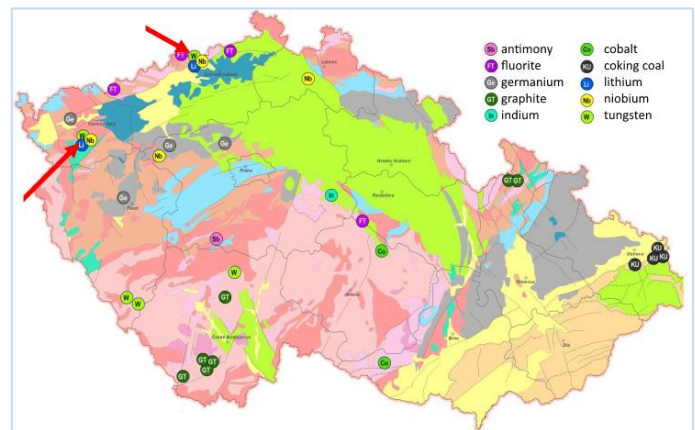


## LITHIUM AT CÍNOVEC – 20. 3.

According to CGS, lithium reserves at the Cínovec location in Krušné Hory mountains total up to 1.4mn t<sup>34</sup>. Pure lithium ore reserves total more than 800,000 t. The rest of the reserves is formed by complex tin, wolfram and lithium ore.

According to estimates, the CR holds 6% of global lithium reserves. Most of the Czech lithium is located at Cínovec, the rest at Slavkovský Les. The metal is used primarily for batteries for electro mobiles.

## Map 3: CR, Schematic geological map, deposits and potential sources of critical raw materials of the EU, CGS



## ASAHI TO TAKE OVER PRAZDROJ – 20. 3.

Asahi Group<sup>35</sup> will take over Prazdroj<sup>36</sup> as of March 31 and will pay nearly CZK200bn for 5 breweries in Europe - Poland, Hungary, Romania and Slovakia, the deal has already been approved by the EC<sup>37</sup>.

Asahi said earlier it considers Pilsner Urquell a very strong premium brand. According to brewing experts, the purchase of SABMiller's<sup>38</sup> brands by Asahi is a piece of goods news for the Czech brewer.

<sup>35</sup> In April 2016, Asahi purchased Meantime Brewery of London, and the Grolsch and Peroni beer brands from SABMiller. Asahi sold 20.5mn hl of beer in 2015.

<sup>36</sup> **Plzeňský prazdroj a.s.:** a Czech brewery founded in 1842 and headquartered in Plzeň, CR. It is the 1<sup>st</sup> brewery to produce pilsener blond lager style beer, branded Pilsner Urquell, making it the inspiration for more than 2/3 of the beer produced in the world today, which are named pils, pilsner and pilsener. Both Plzeňský Prazdroj and Pilsner Urquell can be roughly translated into English as "the Fountainhead at Pilsen" or "the original source of Pilsner". With about a 45% market share, it is the largest beer making group in the CR. Its brands include Pilsner Urquell, Gambrinus, Velkopopovický kozel, Radegast, Birell and cider Kingswood. Plzensky Prazdroj sold a total amount of 10mn hl of beer in 2015, roughly the same amount as in 2014. Pilsner Urquell sales on the domestic market and abroad topped 2mn hl. Direct exports of the premium lager were 4.5% higher at 792,000 hl.

<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> **SABMiller:** SABMiller plc was a multinational brewing and beverage company headquartered in London, England. It was the world's 2nd largest brewer measured by revenues and was also a major bottler of Coca-Cola. Its brands include Fosters, Miller, and Pilsner Urquell. It operated in 80 countries world-wide and in 2009 sold around 21bn l of beverages. In October 2015, Anheuser-Busch InBev announced plans to acquire SABMiller for \$104bn. The acquisition, which would drop the name SABMiller, was approved by shareholders of both companies on 28 September 2016, and completed on 10 October 2016. The sale of SABMiller's activities in the CR, Poland, Hungary, Romania and Slovakia is part of the conditions for the company's takeover by rival group AB InBev. Apart from Plzeňský Prazdroj, the assets to be sold include Polish brands Tyskie and Lech, Slovakia's Topvar, Hungary's Dreher and Romanian Ursus. AB InBev agreed on SABMiller's takeover last year and completed the transaction worth CZK2,400bn in October.



In the financial year from April 1, 2015 to March 31, 2016, Prazdroj generated a pre-tax profit of CZK3.7bn, 5% more y-o-y. Sales grew by 3.3% y-o-y to CZK14.4bn.

#### **BUDVAR INCREASED PRODUCTION – 20. 3.**

For 2016 Budvar<sup>39</sup> posted a 0.8% y/y increase in beer production to 1.615mn hl<sup>40</sup>. As it reached the top limit of its capacity the brewery had to reject customer demands in a number of cases. A further increase in beer sales will be possible only after the expansion of logistics and production. Related investments which are expected to total CZK2bn should be completed by 2020.

It will subsequently be possible to increase the brewery's production to 2mn hl. At present the brewery is also working on upgrading its central information system and building an automated warehouse.

The company is at the same time completing project preparations for the expansion of fermentation capacities and for the construction of a third bottling line including expansion of the capacity of the brew house.

#### **LARGEST BEER PRODUCERS IN CR – 20. 3.**

##### **Plzeňský Prazdroj**

- ❖ Pilsner Urquell Investments B.V. belonging to the world's 2<sup>nd</sup> largest group SABMiller has been sole shareholder until now. Sale of SABMiller's assets in CR, Poland, Hungary, Romania and Slovakia is part of conditions of the company's takeover by US brewer Anheuser-Busch InBev. Takeover was completed in October 2016. Plzensky Prazdroj will be acquired by Asahi Group Holdings.
- ❖ It runs 3 breweries in CR - in Plzen (Pilsner Urquell, Gambrinus brands), Nosovice (Radegast) and Velke Popovice (Velkopopovicky kozel).
- ❖ Brewer sold 10mn hl of beer in CR and abroad in 2015, about the same amount as in 2014. Its gross profit in the financial year, ending in March 2016, saw a rise of 5% to CZK3.7bn on sales growing by 3.3% to CZK14.4bn.

##### **Pivovary Staropramen, a.s.**

- ❖ It is part of US group Molson Coors.
- ❖ The 2<sup>nd</sup> largest beer producer in CR, running two breweries - Staropramen in Prague-Smichov (main brands Staropramen, Branik) and Ostravar in Ostrava (Ostravar).
- ❖ It sold 3.12mn hl of beer in 2015, with exports growing by 7% to more than 600,000 hl. Its loss reached CZK2.74bn because of write-offs, with sales at CZK8.48bn. Exports accounted for more than CZK5.3bn of the figure.

##### **Heineken Ceska republika**

<sup>39</sup> Budějovický Budvar: a Czech brewery, headquartered in České Budějovice, CR. Budweiser Budvar Brewery is a state-owned company in charge of Ministry of Agriculture, known for brewing a beer known as Budweiser Budvar, brewed in accordance with the 1516 Reinheitsgebot law, using water, barley and hops. The original Budweiser Bier was founded in 1871. A dispute has been ongoing since 1907 with American brewer Anheuser-Busch InBev over the name "Budweiser". In the United States, Canada, Mexico, Panama, Brazil and Peru, the Budvar beer is marketed as Czechvar. In other countries, it is sold as Budweiser Budvar. American Budweiser is labelled as Bud in all European Union markets, except for the United Kingdom, Ireland and Sweden, where both beers are sold as Budweiser. On 29 July 2010, Anheuser-Busch lost its last-instance appeal, which means that Anheuser-Busch may not register the name Budweiser as an EU-wide trademark for beer. Budweiser Budvar is one of the highest selling beers in the Czech Republic in 2014, it was exported into approximately

- ❖ Sole shareholder is Heineken International B.V. of the Netherlands, the third largest beer making group in the world.
- ❖ It runs 3 breweries in CR - Starobrnno in Brno and Kralovsky pivovar Krusovice and Velke Brezno in the Usti area. Its portfolio includes brands such as Krusovice, Zlatopramen, Starobrnno and Breznak.
- ❖ Heineken CR sold 2.3mn hl of beer and cider in 2015, with Krusovice being the best-selling brand. In 2014, its beer sales reached 2.24mn hl. Cider production was launched in 2015.

##### **Budějovický Budvar**

- ❖ It is still controlled by the state. Long-standing director Jiri Bocek left the company at the end of last year. His successor is being sought at present.
- ❖ Sales reached 1.61mn hl of beer last year, the highest amount in history. Beer is exported to 76 countries all over the world.

##### **Pivovary Lobkowicz Group,**

- ❖ Lapasan bought 79.4% of the brewery for CZK1.9bn in September 2015. Lapasan is majority owned by Chinese investment group CEFC. China's Beijing Er Shang Group promised to buy 10% of shares.
- ❖ PLG is made up of breweries Cerna Hora, Protivin, Uhersky Brod, Jihlava, Klaster, Vysoky Chlumec and Rychtar.
- ❖ Group sold 894,000 hl of beer in 2014. It did not publish data for last year. Sales posted an annual drop of ▲1.2% to CZK1.188bn in 2015.

#### **ČEZ SEES 2016 NET PROFIT DOWN – 21. 3.**

ČEZ saw its net profit fall by 29% to CZK14.6bn last year in annual terms, with sales down by 3% to CZK203.7bn.

The ČEZ announced that its board of directors will be proposing a CZK33 per share dividend for 2016. In the past 4 years, ČEZ paid out a CZK40 per share dividend to its shareholders annually.

Net profit adjusted for extraordinary effects posted a drop of ▲29% to CZK19.6bn. EBITDA<sup>41</sup> decreased by ▲11% to CZK58.1bn. These figures are better than planned as in its outlook, ČEZ expected the adjusted net profit and EBITDA to reach CZK18bn and CZK56bn, respectively.

Analysts predicted ČEZ would meet its targets.

#### **CHINESE CAPITAL IN CZECH COMPANIES DOWN – 21. 3.**

The volume of Chinese capital subscribed in the registered capital of Czech companies has decreased by ▲CZK198mn to CZK5.5bn since Chinese President Xi Jinping visited the CR in March 2016, according to Bisnode.<sup>42</sup>

66 countries. It is the bestselling imported beer in Germany and the bestselling Czech beer in Austria and Great Britain.

<sup>40</sup> hl: hectolitre, a unit of capacity equal to 100 liters

<sup>41</sup> EBITDA: a company's earnings before interest, taxes, depreciation, and amortization; an accounting measure calculated using a company's net earnings, before interest expenses, taxes, depreciation and amortization are subtracted, as a proxy for a company's current operating profitability, i.e., how much profit it makes with its present assets and its operations on the products it produces and sells, as well as providing a proxy for cash flow.

<sup>42</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

The number of companies with Chinese owner dropped by 35 to 2,101, with China ranking 22<sup>nd</sup> among the biggest foreign investors in the CR. "Earlier announced big Chinese investments have not been carried out," Bisnode said.

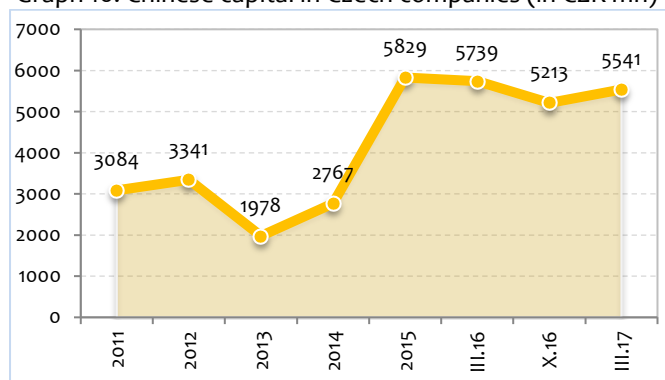
The Chinese capital volume subscribed in the registered capital of Czech companies would have annually dropped by significant ▲ CZK630mn, had it not been for Chinese Eurasia Development Group Limited acquiring 71.1% in Czech Mountfield garden equipment retailer.

Germany ranks 1<sup>st</sup> among foreign owners with CZK239bn, followed by the Netherlands with CZK165bn, Luxembourg with CZK97bn and Russia with CZK77bn.

CEFC<sup>43</sup> represents the main Chinese investor in the CR. CEFC is completing another CZK30.7bn worth of investments, with its newly-planned investments exceeding CZK10bn.

The OPC<sup>44</sup> is dealing with an ownership change at J&T.<sup>45</sup>

Graph 16: Chinese capital in Czech companies (in CZK mn)



**TATRA TRUCKS FOR DANISH ARMY – 21. 3.**

French firm NEXTER Systems has won the tender for new howitzers<sup>46</sup> for the Danish Army with the CAESAR 8x8 type, using a chassis made by Tatra. The Danish Army has ordered 15 howitzers and has option for another 6.

The delivery is to be completed by the end of the decade. Tatra has informed that this is the 1<sup>st</sup> projects in which a chassis made by Tatra has succeeded as a new arms platform for a western member of the NATO<sup>47</sup>.

**PUBLIC CONTRACTS WORTH CZK42.6BN – 21. 3.**

According to CEEC Research analysis, companies were awarded 1,150 public contracts worth CZK42.6bn in January 2017, up 86.1% y-o-y in terms of the number and up 282.5% y-o-y in terms of the volume. Some tenders have not been completed and the data will be updated in the months to come.

<sup>43</sup> **CEFC:** China CEFC Energy Company Limited, through its subsidiaries, engages in trading of oil, petrochemical products, and oil storage. The company is based in Shanghai, China. CEFC China has picked the CR as the main seat for its European activities. Since September 2015, it has bought into Czech beer maker Pivovary Lobkowicz Group (PLG), J&T Finance Group, engineering company Zdas, air carrier Travel Service, online seller of trips Invia.cz, media group Medea Group, publishing house Empresa Media and television group Barrandov. CEFC also owns two five-star Prague hotels - Mandarin Oriental Prague and Le Palais Art Hotel Prague and a historic building of former Zivnobanka in Prague centre. It is also the majority owner of soccer club Slavia Praha.

<sup>44</sup> **OPC:** Office for the Protection of Competition, the central authority of state administration responsible for creating conditions that favour and protect competition, supervision over public procurement and consultation and monitoring in relation to the provision of state aid.

<sup>45</sup> **J&T:** a Central European investment group founded in 1993 in Slovakia. It pursues business in the private equity and banking sectors, the largest portion of the value of its investments being in the Czech Republic and Slovakia. J&T invests mainly into the financial services, energy sector, real estate, health care, media and sports.

The statistics include a wide range of segments, from the construction sector through services, transport, means of transportation, waste collection, IT, devices up to health care.

**ŠKODA AUTO INCREASES NET PROFIT – 22. 3.**

Škoda Auto raised its net profit by 34% to €951mn (roughly CZK25.7bn) in 2016, with its sales growing by a 1/10 to record €13.7bn (CZK370bn).

The number of sold cars increased by 6.7% to 1.127mn units. Škoda sold 317,000 cars in China, its biggest market.

Reasons for the profit growth include the higher number of sold cars, improved model mix and optimised product costs, According to Škoda Auto, the 2016 results exceeded the its expectations and 3<sup>rd</sup> consecutive year reporting record-breaking figures proves the success of Škoda Auto's steady growth strategy.

With the Strategy 2025, the brand will continue to increase in the forthcoming years, including entering new markets, client segments and digital business areas.

In 2020, Škoda Auto will introduce its 1<sup>st</sup> electric car model to the market. This year, the company plans to introduce 11 model innovations.

The number of Škoda Auto employees went up by 11% to 29,580 last year, with the average wage rising by 30% since 2010. The average blue-collar worker wage is about CZK36,000.

**POLITICS & RANKINGS & OTHER**

**CR DROPS IN DESI INDEX – 16. 3.**

According to DESI<sup>48</sup>, the CR lost 1 position on the year and finished 18<sup>th</sup> out of 28 evaluated countries.

The CTO<sup>49</sup> said as much in its monitoring report for March 2017 and added that with the score of 0.5, the CR finished below the EU average (0.52).

A total of 54% of the population has basic digital skills. On the other hand, the highest increase was recorded in the area of open data, in which the CR moved from last year's 25<sup>th</sup> position to this year's 17<sup>th</sup>.

**SECOND-RATE CONSUMERS – POLL – 16. 3.**

Nearly 3/4 of Czechs feel that, as consumers, their position differs from that of citizens in other EU countries, with most of them blaming it on the worse quality of goods compared, for instance, with the German or Austrian market, a recent survey by the STEM<sup>50</sup> has shown.

Consumers aged between 45 and 59 and people living in Prague are more critical. As much as 73% of respondents said

<sup>46</sup> **Howitzer:** a type of artillery characterized by a relatively short barrel and the use of comparatively small propellant charges to propel projectiles over relatively high trajectories, with a steep angle of descent

<sup>47</sup> **NATO:** the North Atlantic Treaty Organization, also called the North Atlantic Alliance, is an intergovernmental military alliance based on the North Atlantic Treaty which was signed on 4 April 1949. The organization constitutes a system of collective defence whereby its member states agree to mutual defence in response to an attack by any external party.

<sup>48</sup> **DESI:** Digital Economy and Society Index, is a composite index that summarises relevant indicators on Europe's digital performance and tracks the evolution of EU member states in digital competitiveness. It is regularly evaluated by the European Commission.

<sup>49</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>50</sup> **STEM:** Public Opinion Research company, private company focusing on statistical surveys of public opinion on various topics



they feel they are 2<sup>nd</sup>-rate consumers, with a 1/5 of people holding the view that "it is more or less the same everywhere" and 2% thinking that Czechs' conditions are better.

A total of 81% of those polled attributed the Czechs' feeling to the worse quality of goods available in the CR and 55% said multinational companies see the CR as a lower-quality market.



### CZECHS' SATISFACTION WITH LIFE GROWS – 17. 3.

The satisfaction of Czechs with their lives has been growing in the past 4 years, and the share of those satisfied is 65% now, according to the CVVM.<sup>51</sup>

Young people with higher education prevail among the satisfied. A total of 65% of respondents said they are satisfied with their lives, but only a minor part of them said they are "very satisfied," while most of them said they are "rather satisfied."

1/4 of those polled said they are neither satisfied nor dissatisfied, and some 10% said they are dissatisfied.

People's satisfaction has remained unchanged compared with the previous poll from January, and also with a poll conducted 1 year ago. However, the satisfaction rate has evidently been growing since May 2013 when the share of those satisfied with their lives stood below 60%.



### ELECTION COALITION – 18. 3.

The KDU-ČSL<sup>52</sup> will run in the autumn Czech general election in a coalition with STAN<sup>53</sup>, the party's national conference decided by a narrow majority of the vote. The STAN leadership approved the coalition agreement and its national conference is to confirm the decision next weekend.

KDU-ČSL leader Bělobrádek said the conditions of the coalition still need to be discussed. However, the 2 parties had the same position on most of the issues, he added.

The threshold to enter the ChD<sup>54</sup> is 5% of the vote for a party, but if two parties form an alliance, they must get at least 10% to succeed. This is why a part of the KDU-ČSL politicians opposed the planned coalition.

The latest opinion polls indicate that the junior ruling KDU-ČSL would win over 6% of the vote, while the STAN only 2%.



### POST-WAR RECONSTRUCTION OF IRAQ – 19. 3.

The CR is set to pledge CZK25mn toward the post-war reconstruction of Iraq. The MFA<sup>55</sup> Minister Zaorálek is to

<sup>51</sup> CVVM: Public Opinion Research Centre of the Institute of Sociology of the Academy of Sciences of the CR

<sup>52</sup> KDU-ČSL: Christian and Democratic Union – Czechoslovak People's Party, centre party

<sup>53</sup> STAN: The Mayors and Independents (Czech: Starostové a nezávislí), abbreviated to STAN, is a political party in the CR. The Mayors and Independents focus on localism and promoting powers for municipalities. The party grew out of the Independent Mayors for Region, which allied itself to the liberal conservative SNK European Democrats, but now cooperates with the similarly liberal conservative TOP 09.

<sup>54</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.

<sup>55</sup> MFA: Ministry of Foreign Affairs

<sup>56</sup> ISIS: The Islamic State of Iraq and the Levant (ISIL), also known as the Islamic State of Iraq and Syria (ISIS), Islamic State (IS), and by its Arabic language acronym Daesh. It is a Salafi jihadist unrecognised proto-state and militant group that follows a fundamentalist, Wahhabi doctrine of Sunni Islam.

<sup>57</sup> CEFR: The Common European Framework of Reference for Languages: Learning, Teaching, Assessment, is a guideline used to describe achievements of learners of foreign languages across Europe and, increasingly, in other countries. It was put together by the Council of Europe as the main part of the project "Language Learning for European Citizenship" between 1989 and 1996. Its main aim is to provide a method of learning, teaching and assessing which applies to all languages in Europe. In November 2001, a European Union Council Resolution recommended using the CEFR to

make the pledge at a meeting of the Global Coalition working to defeat ISIS<sup>56</sup> in Washington on March 22. The Czech government is set to approve the figure in the coming days. Mr. Zaorálek says the money will go toward decontamination efforts, demining and the destruction of unexploded ordinance. The MFA wants the money to come from the reserves of the MF, which in turn wants the MFA to cover the amount.



### ADVANCED FOREIGN LANGUAGE SKILLS – POLL – 20. 3.

A total of 26% of Czechs have advanced foreign language skills<sup>57</sup>, being at the C1 advanced level or C2 proficiency level, where English speakers account for 79% of the surveyed job applicants, according to Grafton<sup>58</sup>.

As much as 8% of those surveyed proved to have German skills, French speakers making up 7%. The poll revealed that 61% of job applicants are at the B1/B2 independent user level. The C1/C2 level was required for 44% of jobs, according to an analysis of 45,000 job offers. The average wage offered to employees at the C2 level is usually r than for those at the C1 level, with the gap reaching up to CZK11,000.

Employers demanded English abilities for 72% of jobs, while German was required at 5% of positions. Other languages are sought out, including Polish, Italian, Swedish, Russian and Chinese.

Being fluent in English is now taken for granted by the employers, requiring skills in another language, mostly at least at the B2 intermediate level, for an increasing number of job positions, Grafton said.

Positions requiring people using 2 foreign languages accounted for some 40% of all last year's job offers, according to Grafton.



### NEW INDUSTRY MINISTER – 21. 3.

PM<sup>59</sup> Sobotka will meet President Zeman on March 23, 2017 to propose a new MIT Minister to him. According to two reliable sources from the ČSSD<sup>60</sup>, it should be Deputy MIT Minister Jiří Havlíček. After the recalling of Jan Mládek, the PM has been in charge of the MIT since March 1, 2017.©

set up systems of validation of language ability. The six reference levels are becoming widely accepted as the European standard for grading an individual's language proficiency. A language user can develop various degrees of competence in each of these domains and to help describe them the CEFR has provided a set of six Common Reference Levels (A1, A2, B1, B2, C1, C2).

<sup>58</sup> Grafton: Grafton Recruitment is one of the largest recruitment companies in Europe providing organisations permanent and temporary jobs including outsourced recruitment solutions and FDI's projects.

<sup>59</sup> PM: Prime Minister

<sup>60</sup> ČSSD: Czech Social Democratic Party, centre-left party

News outside the time span of this News summary	
	CIA News (Česká informační agentura)
	Czech Press Agency (Česká tisková kancelář)
	Czech Statistical Office (Český statistický úřad)
	KOVO MB Trade Union
	Ministry of Environment
	Ministry of Finance of the CR
	Radio Prague (Český rozhlas)