

NEWS SUMMARY MARCH 30 – APRIL 5

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ECONOMY & FINANCE

CNB ENDS INTERVENTION REGIME – 6. 4.

The CNB) Bank Board ended its forex intervention regime with immediate effect today, CNB spokesman Marek Zeman has said.

The CNB will thus no longer hinder the crown's firming beyond CNB27/€.

However, the CNB said earlier it would be ready to use its tools to moderate any big swings of the crown currency after it quits its weak crown policy.

The governing board did not discuss the setting of interest rates at its meeting today.

The CNB launched the forex intervention regime early in November 2013 out of fear of deflation with the aim to weaken the crown and keep the exchange rate near CZ27/€. Between November 2013 and the end of January this year, the bank intervened in the currency market, its transactions amounting to CZK1,300bn.

Interventions worth hundreds of billions of crowns were also made in February and March, analysts said.

The interventions brought to exports CZK687bn directly and CZK590bn indirectly during the entire period, according to the CAE. Czech GDP increased by CZK147bn.

According to analysts, the CZK's exchange rate may firm towards CZK26 against the euro immediately after the CNB's step. However, they do not rule out even a brief weakening of the crown all the way to CZK29/€.

In the long run, the CZK will be posting gains and its exchange rate can be between CZK25.50 and CZK26.30/€ at the end of this year. Investors' stance will be of key importance in this respect, economists said.

Foreign speculators are betting on the currency appreciation versus the euro, which means they would get more euros for one crown. However, the question is if there will be someone to sell them euros, analysts noted.

The CNB's action in November 2013 was criticised by some analysts as well as politicians.

FOREX INTERVENTION REGIME – 30. 03.

The CNB¹ will continue intervening against the CZK² to keep the exchange rate at around CZK27/€³. The CNB will also leave interest rates unchanged at all-time lows. Governor Jiří

Rusnok said the interventions could end any time after the end of March.

INTERVENTIONS HELPED DIRECTLY TO EXPORTERS – 30. 3.

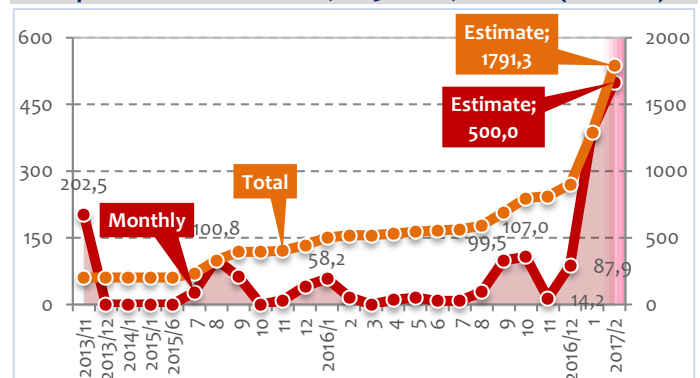
The CNB's forex⁴ interventions have brought to exporters CZK687bn⁵ directly and CZK590bn⁶ indirectly since the launch of the weak crown regime in November 2013 and the CR's⁷ GDP⁸ has increased by CZK147bn, the CAE⁹ said.

According to the CAE, exporters used the money gained thanks to interventions to increase competitiveness and employee wages. Wages in the CR have been rising for the past 6 quarters, adding about 4% y-o-y¹⁰, he added. Last year, exports of Czech companies grew by 2.3% to record-breaking almost CZK4,000bn.

However, the positive development is ending and 2017 will present the acid test for exporters, because the CNB will most likely soon lift its cap on the CZK's exchange rate and the CZK will strengthen to € in a short period of time, with the exchange rate's volatility increasing dramatically.

This year's export will be impacted mainly by the end of the intervention regime and a lack of qualified employees. The market is short of roughly 150,000 employees, which cost the export CZK150bn last year, the CAE said.

Graph 1: Forex interventions, 2013 – 2016, Estimate (in CZKbn)



Forex interventions totalled hundreds of billions of crowns in February and March, analysts estimated.

AVERAGE CONSUMER FUEL PRICES – 31. 3.

Fuel prices showed decrease for the 2nd week in a row as the average price of top-selling petrol Natural 95 decreased by ▲15 h¹¹ to CZK¹²30.73/ l¹³ over the past week.

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

⁹ CAE: Czech Association of Exporters

¹⁰ Y-o-y: year on year

¹¹ H: Heller, a term was used for a coin valued at 1/100 of a CZK, it continues to be used as a means of calculation since the CNB removed the coins themselves from circulation in 2008 and notionally replaced them with rounding to the next CZK.

¹² CZK: Czech Crown, the currency of the CR since 8 February 1993

¹³ l: litre, is an SI accepted metric system unit of volume equal to 1 cubic decimetre (dm³), 1,000 cubic centimetres (cm³) or 1/1,000 cubic metre.

¹ CNB: Czech National Bank

² CZK: Czech Crown, the currency of the CR since 8 February 1993

³ EUR: (€) Euro is the official currency of the Eurozone, which consists of 19 of the 28 member states of the European Union

⁴ 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.

⁵ bn: billion

⁶ bn: billion

⁷ CR: the Czech Republic

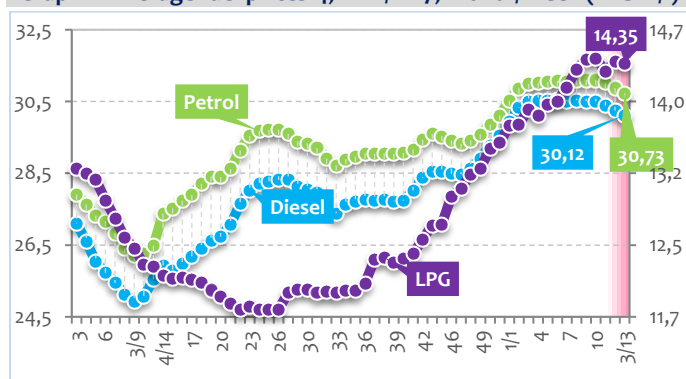
⁸ GDP: Gross domestic product, an aggregate measure of production equal to the sum of all resident and institutional units engaged in production in a period (plus any taxes, and minus any subsidies, on products not included in the value of their outputs).

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**.

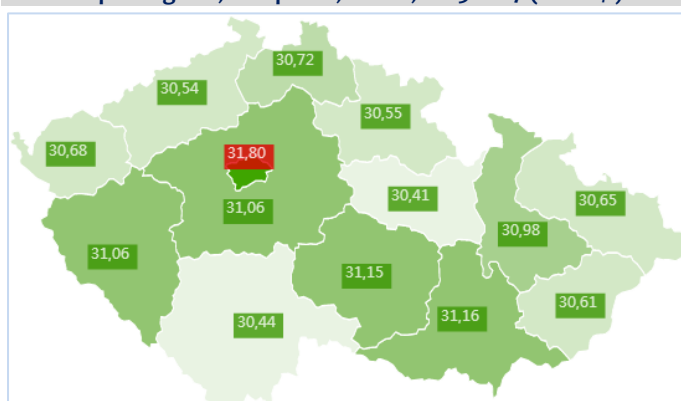
The average price of diesel oil decreased by ▲12h to CZK30.12/l.

Petrol and diesel oil prices have been growing steadily since the end of November 2016. The growth almost stopped at the end of January and prices are decreasing last 2 weeks.

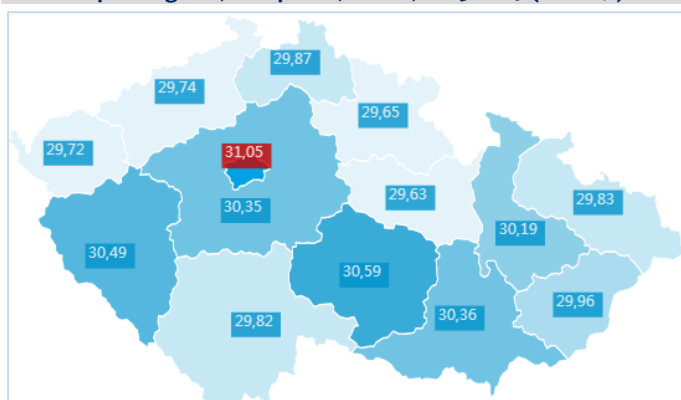
Graph 2: Average fuel prices¹⁴, 2016/2017, Month/Week (in CZK/l)



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



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



CZECH HOUSEHOLD DEBT UP – 31. 3.

Czech household debt to banks rose to CZK1,436bn at the end of February, adding CZK6bn monthly and CZK100bn annually, according to data published by the CNB.

Non-financial companies owed CZK1,008bn to banks, which is CZK7bn more m-o-m¹⁵ and CZK59.5bn y-o-y.

¹⁴ 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.

¹⁵ M-o-m: month on month

¹⁶ MF: Ministry of Finance

¹⁷ 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

Housing loans made up more than CZK1,000bn and consumer loans represented CZK221bn at the end of February.

STATE BONDS IN FOREIGN HANDS – 31. 3.

Foreign investors hold more than 2/5 of state bonds in CZK, that is bonds for CZK602bn out of the total volume of CZK1,433bn of bonds issued on the domestic market, according to information released by the MF¹⁶. In January 2016, the share of foreign bondholders was at less than 25%. Analysts say that the amount of the bonds in the hands of foreign owners is record. The MF is selling state bonds with a shorter maturity even with a negative yield since 2015. Experts believe that investor interest in Czech bonds with a short maturity and negative yield will drop notably when the CNB's exchange rate pledge ends and that some investors will even start selling them.

In total, the Czech state had issued bonds for CZK1,647bn as of the end of February and CZK214bn of them were in foreign bond issues.

RECORD DIVIDENDS IN 2016 – 31. 3.

A record amount of CZK289bn went abroad from the CR in the form of dividends in 2016, which is CZK62.5bn more than in 2015, and the amount has been growing in the past two years, according to data released by the CSO¹⁷.

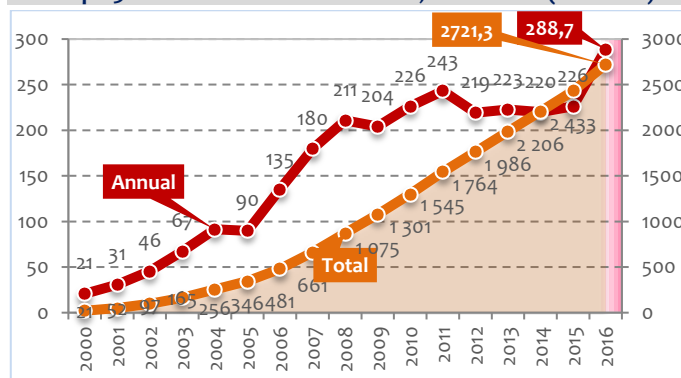
Thus far, 2011 with CZK243bn paid to foreign owners of domestic companies had been record. The dividend volume is related to the high foreign direct investment profitability, the CSO said. The profit from foreign investment exceeded CZK398bn last year, with income outflow to abroad representing 8.4% of GDP.

The income inflow partially compensated for the income outflow, especially by interest and employment income.

Negative balance of primary income from abroad reached CZK293.2bn.

Germany ranks first among foreign owners of domestic companies and is followed by the Netherlands, Luxembourg and Austria, with the foreign owners controlling, for example, big banks and car companies in the CR, according to Bisnode¹⁸.

Graph 3: Dividend outflow to abroad, 2000 - 2016 (in CZKbn)



national governments of the CR. It accomplishes this goal through the management of the Czech Statistical Service.

¹⁸ 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

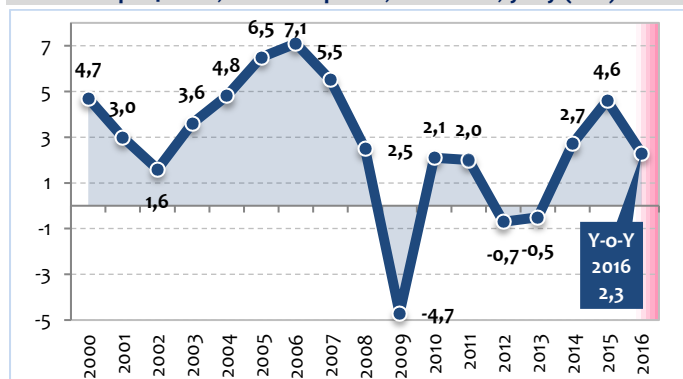
PM¹⁹ Sobotka wants to hinder the banks' profit outflow to abroad, with the ČSSD²⁰ proposing the introduction of a special bank tax in their election programme.

A total of CZK460bn has gone from banks to abroad in the form of dividends since 2000, Sobotka said.

SECTOR ACCOUNTS QUARTERLY – 31. 3.

The Czech economy grew by 2.3% y-o-y in 2016 and by 1.9% in the Q4²¹ 2016, the CSO said.

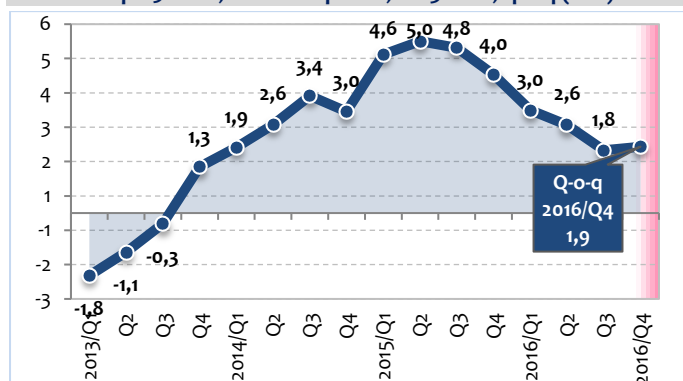
Graph 4: GDP, constant prices, 2000-2016, y-o-y (in %)



Last year's rise was significantly slower compared to 2015, when GDP expanded by 4.6%, however, the lower growth does not mean that the positive economic development is taking a turn, according to the CSO.

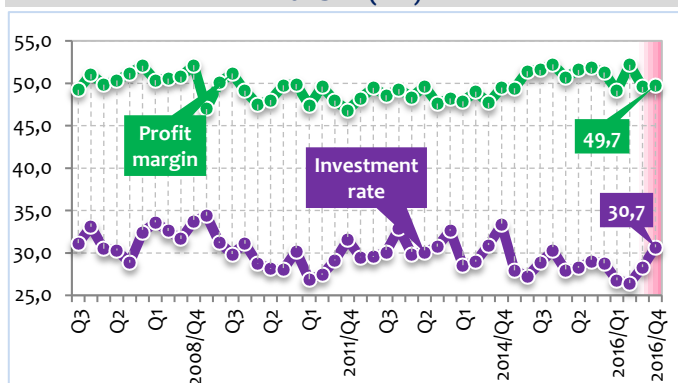
The q-o-q²² economic growth in Q4 reached 0.4%. The GDP estimate was revised due to new data on the government institutions sector, however, it did not impact the economic growth rate significantly.

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

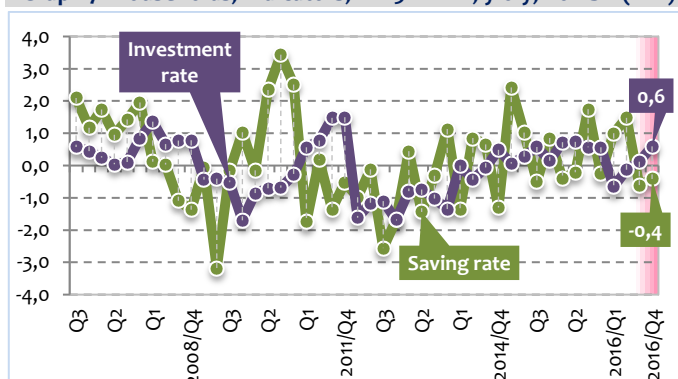


The profitability of non-financial corporations²³ decreased slightly in Q4, with the profit rate reaching 49.7%, which is 1.5% less annually. The drop was caused mainly by a rise in wage costs, adding 5.8% y-o-y. The investment rate of companies grew.

Graph 6: Non-financial corporations, indicators, 2005 – 2016, y-o-y, non SA²⁴ (in %)



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

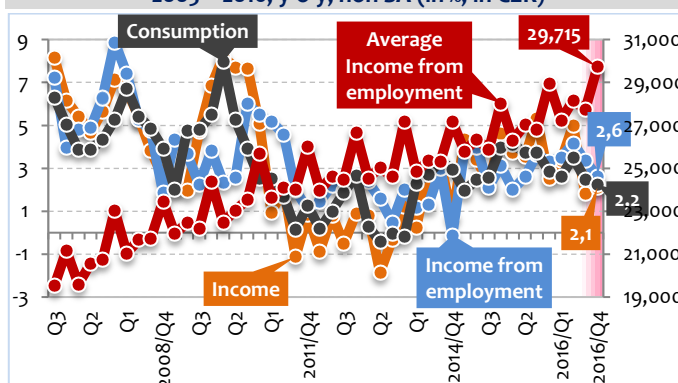


The domestic economy has been strengthening steadily for the past 3 years, with last year's growth being the lowest.

Household real income per capita increased by 3.1% y-o-y in 2016 and household real consumption per capita went up by 2.7%, according to the CSO.

The average monthly income of households per capita was CZK23,436, while the average monthly household consumption per capita reached CZK21,295.

Graph 8: Households, Growth rate of average monthly indicators, 2005 – 2016, y-o-y, non SA (in %, in CZK)



¹⁹ PM: Prime Minister

²⁰ ČSSD: Czech Social Democratic Party, centre-left party

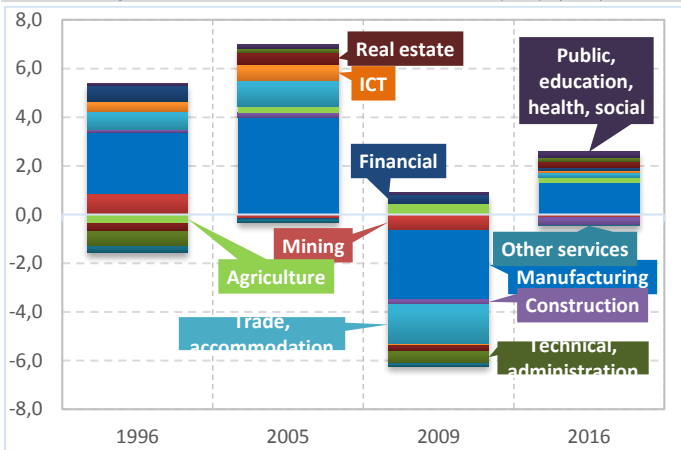
²¹ Q4: 4th quarter of the year

²² Q-o-q: quarter on quarter

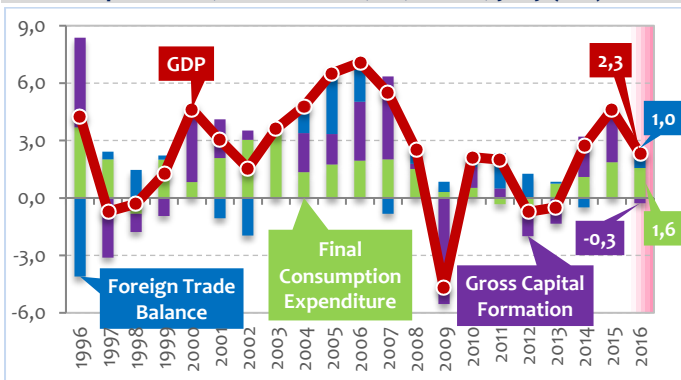
²³ Non-financial corporation: a corporation that engages in the production of market goods and (non-financial) services.

²⁴ 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.

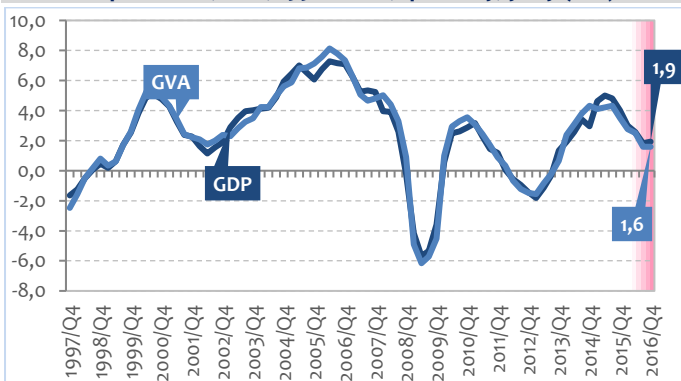
Graph 9: GVA, Contributions, SA, annual, y-o-y (in %)



Graph 10: GDP, Contributions, SA, annual, y-o-y (in %) ²⁵



Graph 11: GDP, GVA, 1997 – 2016, quarterly, y-o-y (in %)



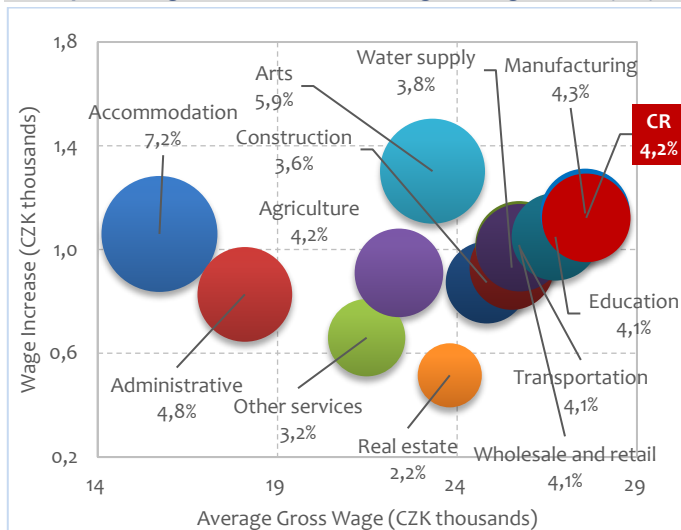
GDP TO GROW – 31. 3.

Czech economy will grow 2.6% in 2017, according to analysts polled by the CNB in March. The economists predict that GDP growth rate will stagnate at 2.6% in 2018. The economic development outlook for 2017 remained unchanged from February in March, while the outlook for 2018 dropped 0.1 p.p. ²⁶ The economic performance in 2017 should continue to be driven by domestic and foreign demand. Household consumption will benefit from real wage growth and positive consumer sentiment. Inflation will reach 2.0% next year. In February analysts predicted the inflation rate at 2.1%. Consumer price growth of 2.0% is foreseen in the 3-year horizon.

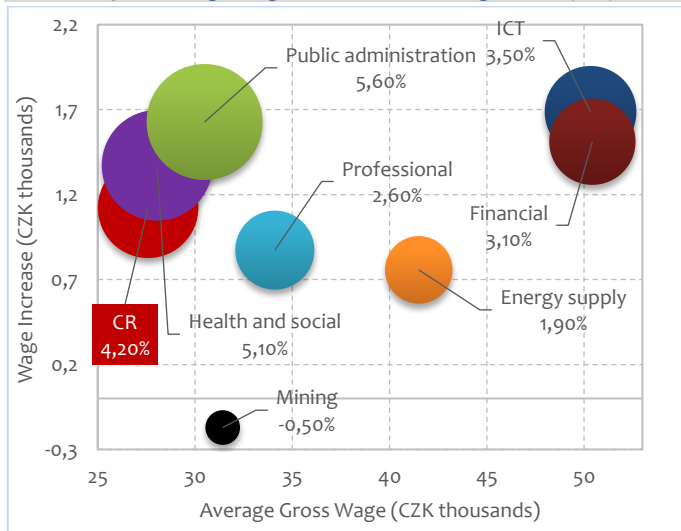
²⁵ Final Consumption Expenditure: Households + Government + NPISH; Gross Capital Formation: Fixed + Change in Inventories + Net Acquisition of Valuables; Foreign Trade Balance: External Balance of Goods and Services (Export (Goods + Services) – Imports) ²⁶ P. p.: percentage point

WAGES – 31. 3.

Graph 12: Wages ²⁷ lower than CR's wage average 2016 ²⁸, y-o-y

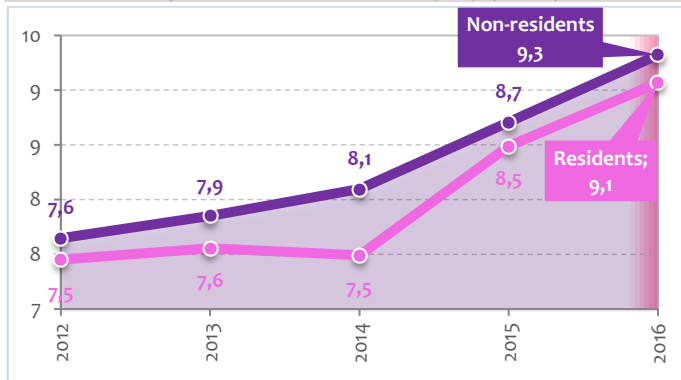


Graph 13: Wages higher than CR's average, 2016, y-o-y



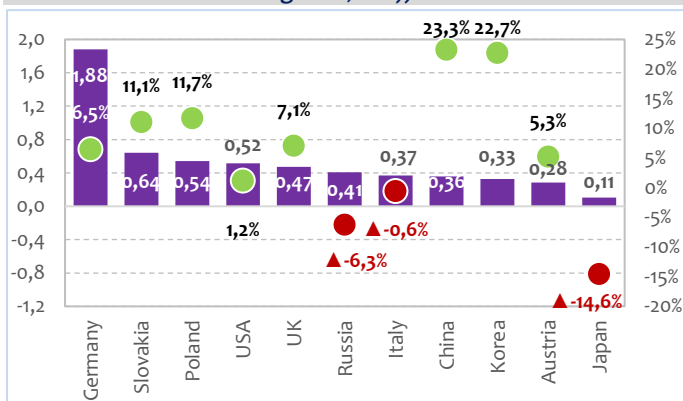
RESULTS TOURISM – 31. 3.

Graph 14: Tourism, 2013-2016, y-o-y (in mn)



²⁷ Wage growth in %: Bubble size; Average Gross Wage in CZK thousands: x-axis; Wage Increase in CZK thousands: y-axis ²⁸ CR's Average Wage: CZK 27,589 in 2016

Graph 15: Tourism, TOP 10 countries + Japan, 2016 (in millions of guests, in %)



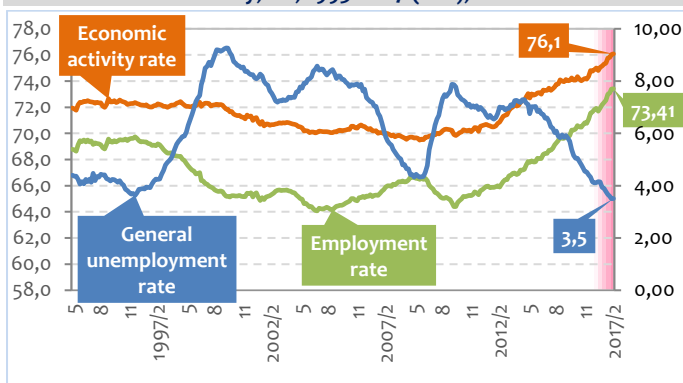
ECONOMIC ACTIVITY RATE – 3. 4.

The **employment rate**²⁹ SA³⁰, reached 73.4% in February 2017 and increased by 1.9 p. p.³¹ y-o-y.

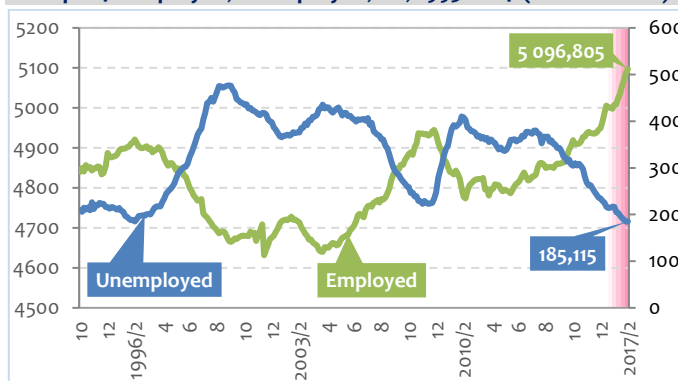
The **general unemployment rate**³² SA, reached 3.5% in February 2017 and decreased by 0.8 p. p. y-o-y.

The **economic activity rate**³³ SA, reached 76.1% and rose by 1.3 p.p. compared to that in February 2016.

Graph 16: Rates of employment, unemployment and economic activity, SA, 1993- 2017 (in %), LFS



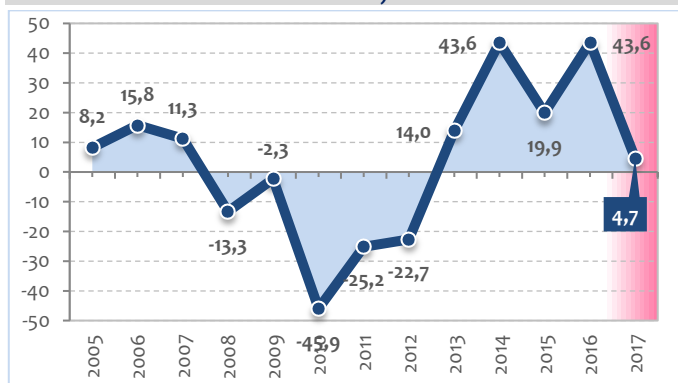
Graph 17: Employed, unemployed, SA, 1993- 2017 (in thousands)



CZECH STATE BUDGET SURPLUS GROWS – 3. 4.

The CR's state budget surplus grew to CZK4.7bn in March from February's CZK3.7bn but last year in March, state budget surplus had reached a record CZK43.6bn, the MF announced. The reason for the y-o-y drop in the surplus is a significantly lower amount of money received from the EU³⁴, the MF explained.

Graph 18: State balance, Period January – March, 2005 - 2016 (in CZK bn)



For the whole of this year, state budget with a CZK60bn deficit has been approved.

The inflow of money from the EU sank by CZK52.7bn y-o-y in March. In particular in the first half of last year, relatively high volumes of money from EU funds³⁵ were paid.

Without the influence of the money from the EU on the revenues and expenditures, the state budget ended in a CZK4.6bn deficit in March and in a CZK12bn gap last year in March, the MF said.

"Thanks to better collection in all tax categories, adjusted for the influence of money from the EU the state budget result improved by CZK7.4bn y-o-y," MF Minister Babiš said.

²⁹ **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).

³⁰ **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.

³¹ **P. p.:** percentage point

³² **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).

³³ **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).

³⁴ **EU:** European Union, is a politico-economic union of 28 member states that are located primarily in Europe. It has an area of 4,324,782 km², and an estimated

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

³⁵ **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.

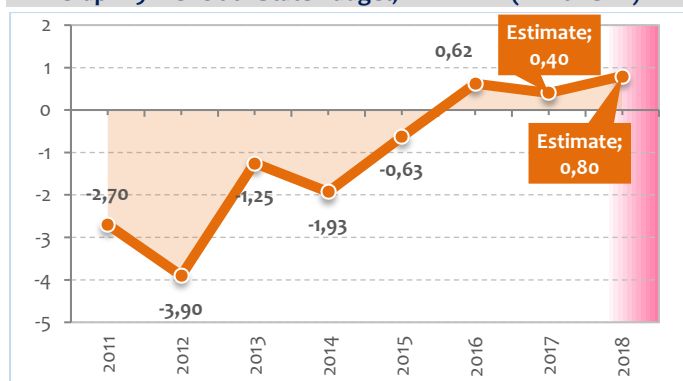
"Despite the fact that revenues from the EU are at a record-low level after the close of the programming period 2007-2013, the state budget remains in a surplus. This is a clear evidence that the improving state budget data are not given by any random external factors but are based on firm structural foundations," he added.

As of the end of March this year, state budget revenues were CZK34.3bn lower y-o-y at CZK307.7bn, while state budget expenditures increased by CZK4.6bn to CZK303bn.

Total tax revenues without social insurance payments rose by CZK11.4bn y-o-y to CZK157.5bn.

"We can evaluate March's figures similarly to February's data. In particular the shortfall in extraordinary revenues from EU funds stand behind the significantly lower surplus," said Komerční banka economist. "However, if we focus on revenues adjusted for the influence of the EU funds, we see a favourable trend in the collection of taxes and social insurance payments." Based on these data, he expects state budget deficit to reach CZK45bn at the end of this year, against the planned CZK60bn.

Graph 19: Deficit of State Budget, 2011 - 2016 (in % of GDP)



VAT³⁶ revenues went up by CZK3.9bn y-o-y to CZK57.2bn. The y-o-y growth in VAT collection clearly reflects the high effectiveness of VAT ledger statements in fight against tax evasion, the MF said.

On the other hand, the cut in the VAT rate on catering services from 21% to 15% in connection with the electronic registration of sales introduction had a negative influence on VAT collection.

Since the beginning of March, VAT has also been cut from 15% to 10% for newspapers and magazines. The y-o-y growth in tax collection was also lowered by the fact that the FA³⁷ was withholding a much lower amount of disputable excessive VAT deductions.

"VAT collection in 2017 should be positively influenced by the impact of measures introduced in 2016, namely the introduction of VAT ledger statements and electronic registration of sales in which businesses from the area of hotels and restaurants have entered as of December 2016 and those in retail and wholesale in the second stage as of March 1, 2017," the ministry said.

³⁶ VAT: Value-added tax

³⁷ FA: Financial Administration of the Czech Republic

³⁸ MRD: Ministry of Regional Development

³⁹ OP: Operational programmes are detailed plans in which the Member States set out how money from the EU Funds will be spent during the programming period. They can be drawn up for a specific region or a country-wide thematic goal. For the European

Excise duty collection increased by CZK0.7bn y-o-y to CZK34.9bn this year in March.

State budget expenditures for social benefits increased by CZK6.5bn y-o-y to CZK132.4bn. These spendings are to reach CZK530.5bn in the whole of this year.

CNB VOLUME OF LOANS EXTENDED TO COMPANIES – 3. 4.

Long-term loans accounted for the largest share, 56 %, of loans to resident non-financial companies in the CR, which totalled CZK 990bn in February.

The share of defaulted loans is falling; it totalled 5.2 % in February.

ČTK DRAWING EU FUND IN 2007-13 – 4. 4.

The CR spent 96.4% of the amount of money it was allocated within the EU's programming period 2007-13, receiving CZK697bn and failing to draw roughly CZK26.34bn, the MRD³⁸ said.

On the part of the CR, this programming period ended on March 30 when it sent the final documents from all the 19 OPs³⁹ to the EC⁴⁰ including applications for the payment of the last portion of €1.2bn. In this particular case, the EC is verifying the authenticity of EU funding. Figures regarding unspent EU money may thus change.

The CF and ERDF made up 34% of all the government capital investments between 2007 and 2013, contributing 2% to the annual growth of GDP, MRD said.

With the help of EU money, 4,526 km of downcomers were built in sewerage systems and 147 wastewater treatment plans were modernised, the MRD said.

EU funding targeted 90% of primary and 75% of secondary schools, public transport, enterprises and research.

The cohesion policy and support for tens of thousands of projects helped create more than 94,000 new jobs, over 6,000 of them in the area of research.

MF Minister Babiš said he sees the use of more than 96% of the allocated EU money as a success of the current cabinet.

"We started in a situation where EU money was spent only to a low extent or was not spent at all, where there were no projects and will to improve the situation," Babiš said.

"Thanks to our efforts and the crisis management we have managed to avert the threat that the CR might lose its money," Babiš said.

In the worst-case scenario, the original estimate of the amount of unspent money from the EU was up to CZK85bn.

In the current programming period 2014-2020, the CR has been allocated nearly CZK650bn worth of funds.

At the end of last year, the CR had secured contracts for CZK86.6bn or 14.2% of EU funding. The MRD said early in February that CZK53bn might be drawn from EU funds this year. At the end of the previous programming period, the CR had to raise EU funding because of the CNB's interventions aimed at keeping the crown currency at low levels.

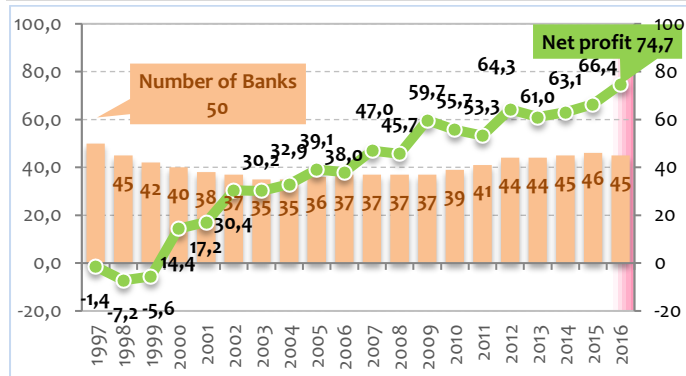
Territorial Cooperation goal, cross-border or interregional operational programmes are drawn up.

⁴⁰ 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.

CZECH BANKS' NET PROFIT UP – 4. 4.

Last year's net profit of the Czech banking sector grew by CZK8.4bn y-o-y to CZK74.73bn, with total assets rising by CZK492bn to CZK5,981bn in annual terms, according to data made public by the CNB. Profit from financial and operating activities posted an annual rise of CZK6.1bn to CZK180.3bn in total. Interest income fell by CZK7.5bn to CZK143.4bn and fee and commission income decreased by CZK3.2bn to CZK44.7bn.

Graph 20: Banking sector, net profit (in CZK bn)⁴¹



Among large domestic banks, KB⁴² saw its net profit rise by 7.2% y-o-y to CZK14.07bn last year. ČS⁴³ reported a rise of 8.1% to CZK15.5bn and UniCredit⁴⁴ saw a hike of 7.6% to CZK6bn. The ČSOB⁴⁵ group's net profit was 8% higher at CZK15.1bn and Raiffeisenbank recorded an annual hike of 2.6% to CZK2.6bn. Conversely, Moneta⁴⁶ saw a drop in profit to CZK4.05bn from CZK4.51bn in 2015.

Experts attributed the growth in the total profit to rising loan volumes and a sale of banks' stakes at Visa Europe. The business results were mainly influenced by the one-off sale of the banks' stakes at the Visa card association. Adjusted for the one-off effect, the banks would see around a 1% increase in their profits, just like in case of ČSOB, or profits would even go down modestly. They pointed out that the fee and commission income is falling at a faster rate. ČS's income fell by 9.2% to CZK9.3bn, KB recorded a 4.1% drop to CZK6.7bn and ČSOB saw a drop of 3% to CZK6.22bn.

According to them, banks focused their attention on interest income and income from other services with higher value and both interest income and interest costs have been falling. Last year's interest income was 25% lower compared to 2008, which was the last year before the CR was fully hit by the world financial crisis. Interest costs fell by 64.2% compared to 2008. The gap between interest income and interest costs was nearly CZK110bn last year, about CZK12bn more than in 2008. Net fee income fell by 10.4% or CZK3.8bn. Unlike in previous years, the banks managed to make their operations more efficient.

There were 45 banks, branches of foreign banks and building societies operating on the Czech financial market at the end of last year. With the planned exit from the CNB's weak CZK policy and a possible CZK appreciation vis-a-vis the euro, the

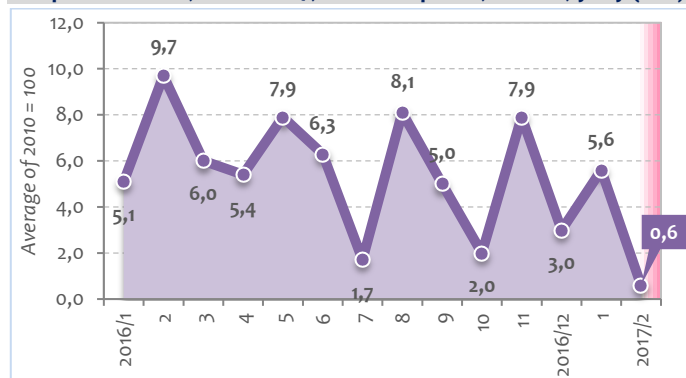
⁴¹ Final Consumption Expenditure: Households + Government + NPISH; Gross Capital Formation: Fixed + Change in Inventories + Net Acquisition of Valuables; Foreign Trade Balance: External Balance of Goods and Services (Export (Goods + Services) – Imports)
⁴² KB: Komerční banka
⁴³ ČS: Ceska sporitelna
⁴⁴ UniCredit: UniCredit Bank CR and Slovakia

volume of subsidies in CZK may go down in the current programming period until 2020.

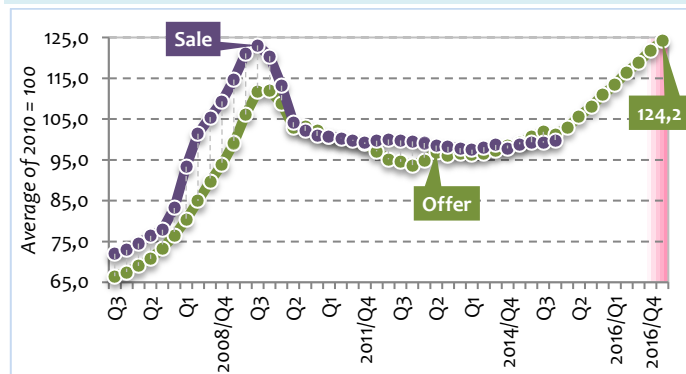
RESULTS RETAIL TRADE – 5. 4.

In February 2017, SA sales in retail trade at constant prices increased by 0.9%, m-o-m. SA sales increased by 4.8%, y-o-y, non SA increased by 0.6%, y-o-y. SA sales for sale and repair of motor vehicles decreased at constant prices by 0.3%, m-o-m and increased by 3.1%, y-o-y. Non SA increased by 2.2%, y-o-y; sales for sale of motor vehicles (including spare parts) increased by 2.6%, y-o-y, while sales for repair of motor vehicles decreased by 0.1%, y-o-y.

Graph 21: Retail⁴⁷, 2016 – 2017, Constant prices, non SA, y-o-y (in %)



HOUSE PRICE INDEX – 5. 4.



AGRICULTURE & ENVIRONMENT

AVIAN INFLUENZA EPIDEMIC IN CR SUBSIDING – 4. 4.

The avian influenza, which broke out in the CR 3 months ago after a decade, has subsided, MA⁴⁸ said.

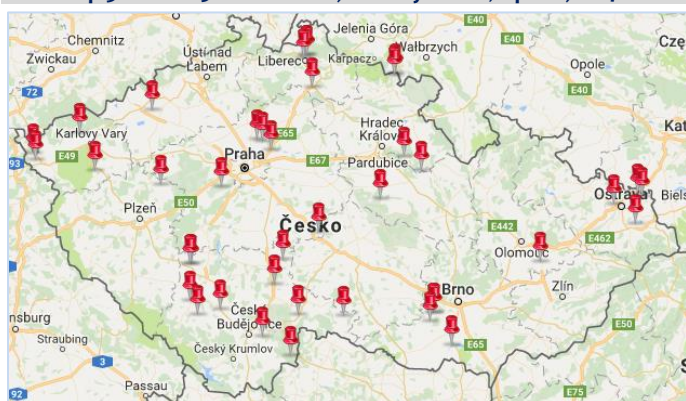
Unlike the epidemic in 2007, when the disease affected only small parts of the CR, this year it hit the entire territory. SVA⁴⁹ confirmed a total of 39 epicentres and culled about 98,000 birds. Farmers filed 866 applications for compensation.

The MA will ask the government to raise its budget by CZK70mn⁵⁰ in this connection. Originally it had a CZK31.3mn budget for this year. By the end of March, the MA sent compensation to 175 farmers and made decisions regarding 259 entities. "At this moment we do not have the exact calculation of the costs and losses for which the MA will

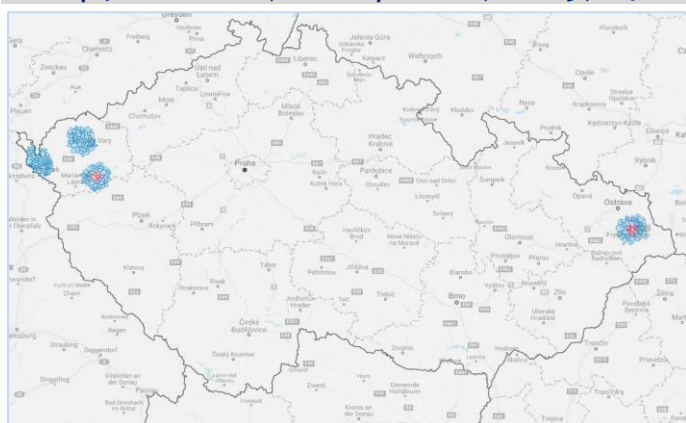
⁴⁵ ČSOB: Československá obchodní banka
⁴⁶ Moneta: Moneta Money Bank
⁴⁷ except of motor vehicles and motorcycles
⁴⁸ MA: Ministry of Agriculture
⁴⁹ SVA: Czech State Veterinary Administration
⁵⁰ mn: million

compensate farmers, but we can say that the figure will amount to tens of millions of crowns," the MA said. The disease started spreading at the beginning of this year. The first epicentre was found in southern Moravia. "The disease situation has improved rapidly in recent weeks, as proven by the number of new epicentres. While in January we declared 15 and in February 22 epicentres, in March we declared only two," the SVA said and noted that in other European countries, however, the number of epicentres keeps growing.

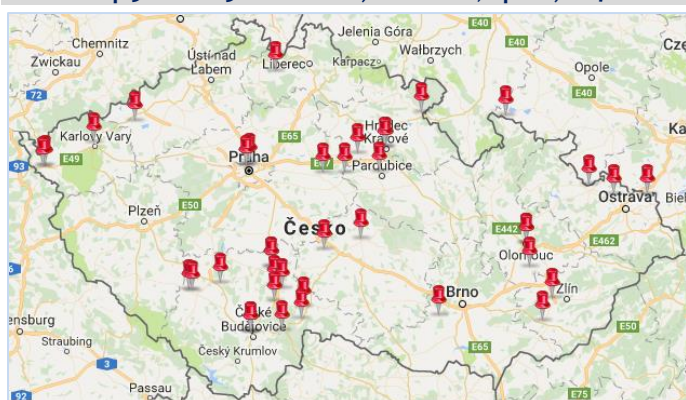
Map 3: HPAI H5N8 in the CR, Poultry farms, April 2, 2017⁵¹



Map 4: HPAI in the CR, Zones of protection, March 31, 2017



Map 5: HPAI H5N8 in the CR, Wild birds, April 2, 2017



Some non-EU countries, such as Russia, Ukraine, Hong Kong, Israel, Mexico, Belarus and Iraq, have restricted imports of Czech poultry.

In 2007, the SVA culled more than 171,000 head of poultry at large farms and more than 1,900 head of domestic poultry. The state paid out compensation worth CZK50mn in total then.

SUPPORT TO RURAL DEVELOPMENT – 4. 4.

The MA is now receiving applications from farmers, foresters, food makers and fishermen for support from the RDP⁵² and from the OPF⁵³. There is CZK 1.7bn allotted for the RDP's 4th round and some CZK166mn for the OPF.

OVERTURNING VETO ON NATIONAL PARKS BILL – 5. 4.

MPs⁵⁴ have overturned a presidential veto on new rules for the CR's 4 national parks: Krkonoše, České Švýcarsko, Podyjí and Šumava. President Zeman had refused to sign the legislation, which had strong backing from environmental groups, saying it did not acknowledge the particularities of the Šumava national park. The ME⁵⁵ says the bill provides stability in that no changes can be made to a new system of zones in national parks for 15 years. The state is also now barred from selling off any of the land.

LABOUR & SOCIAL & HEALTH

BUS DRIVERS TO STRIKE ON THURSDAY – 3. 4.

Bus drivers will strike for higher wages in 3 regions on Thursday April 6, namely in regions Zlín, South Moravia and Ústí, representatives of the ARCR⁵⁶ and CI⁵⁷ announced after talks on April 5.

The CI's president Hanák considers the strike as unreasonable, wages of most bus drivers in regions have been raised in harmony with the government ruling, he said. The ARCR also disagrees with the strike.

Agreement has already been reached in most regions and money for the wage increase has been transferred, said the ARCR's chairwoman and Karlovy Vary governor Vildumetzová.

However, regions are unable to check whether the money was really used for the wage hike. The NLI⁵⁸ should have been doing it since February, she noted, adding that according to information from the MLSA, the checks are just beginning.

She also complained that PM Sobotka had proposed to the ARCR a meeting on the bus drivers' wages only for Friday, April 7, that is one day after the strike.

The association will insist that the government provides CZK1bn for transport in regions, either as a contribution for the purpose or through the SFTI⁵⁹ for repairs of roads, she declared.

The government ruling is not being obeyed in regions South Moravia and Ústí where the transport companies have been picked according to price as the law on public procurement required at the time of the tenders.

⁵¹ State Veterinary Administration, April 2, 2017: Maps – Avian influenza 2017; https://www.svscr.cz/mapy-aviarni-influenza-2017/#mapa_ai_01

⁵² RDP: Rural Development Programme 2014-2020

⁵³ OPF: Operational Programme Fisheries 2014-2020

⁵⁴ MP: Member of Parliament

⁵⁵ ME: Ministry of the Environment

⁵⁶ ARCR: the Association of Regions in the Czech Republic, a private interest group aims to promote the regions' joint interests, especially overseeing the overall development of the territory and tending to the needs of its citizens.

⁵⁷ CI: Confederation of Industry

⁵⁸ NLI: National Labour Inspectorate (Státní úřad inspekce práce)

⁵⁹ SFTI: State Fund for Transport Infrastructure

How many drivers will in the end join the strike in the four regions is not clear. If at least 30 to 40% of the bus drivers strike there, it will be impossible to replace them as fast, Hanák said.

It is understandable that the ASCR disagrees with the strike but it is less understandable as regards the employers, OSD⁶⁰ said. Transport companies cannot be satisfied with the stance of the government and regions. In some regions, the companies have not yet received the money for raising the wages and in other cases, the contribution has been guaranteed for 2 to 3 years and not for the whole time of the contracts' validity.

If the transport companies do not join their employees in the pressure for gaining the money, the OSD will demand that they themselves provide the resources for the wage increase. Bus drivers in regular transport have been protesting against low wages since October 2015.

Based on the government's decision, bus drivers' wages were to increase to CZK98.10/h⁶¹ of driving and to CZK88/h of waiting as of the beginning of this year.

In addition, a new bonus of CZK6.60/h was introduced because of a demanding work environment.

HYUNDAI TO BOOST WAGES BY 12% - 3. 4.

In the CR, the South Korean car manufacturer Hyundai is to hike wages by 12% in 2017. In comparison, an 8% wage increase was planned previously. Employers in the CR have been facing lack of workforce and thus they need to boost salaries.

NIKKO SECURITIES EYES SKODA PRAHA - 3. 4.

Japanese-Indonesian firm Nikko Securities has expressed an interest in the Škoda Praha⁶². The ČEZ⁶³ might sell the whole of the firm or its part.

DAIKIN DEVICE CR UP WITH SALES - 3. 4.

Daikin Device CR⁶⁴ raised its sales from own products and services by roughly a 1/4 to CZK2.4bn in the financial year ending in March 2016⁶⁵. Last year, the company decreased its net profit to CZK64mn, generating CZK157mn the year before. Three years ago, Daikin Device launched production of new models, which led to an increased demand. The company's sales went up also thanks to its new customer, Isitma Turkey, Daikin Device CR head Hiroyuki Kubota said.

Over the past few years, the company has been focusing on its production portfolio extension, Kubota said. In the forthcoming years, the company anticipates a stable growth, expecting a gradual market recovery.

MI AND MF AGREE ON SOLUTION TO OKD SITUATION - 4. 4.

The MF and MIT have agreed on a joint proposal for a solution to the situation at insolvent black-coal miner OKD, with the compromise proposal to be submitted to the cabinet on March 5, new MIT Minister Havlíček said.

⁶⁰ OSD: Trade Union of Transport (Odborový svaz Dopravy)

⁶¹ H: Half of year

⁶² Škoda Praha: engineering company, a unit of ČEZ, a supplier of turnkey energy facilities. In its 60-year history it has supplied over 40,000 MW of coal-fired and nuclear power plants to countries all over the world.

⁶³ 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.

Prisko company should make a bid for OKD on behalf of the state, Havlíček said after a meeting with PM Sobotka.

Diamo, too, will take part in the takeover process, he added. "Prisko should submit a bid on behalf of the state, however, it was important for us that the role of state-run company Diamo be clearly defined both in the material and in the final solution since Diamo has the biggest experience with a phase out of mining activities in CR," Havlíček said.

MF Minister Babiš wanted Prisko to submit an offer for OKD. Havlíček hopes the cabinet will approve the joint proposal so that the state can submit its offer within OKD's insolvency proceedings.

The MIT proposal according to which Diamo should buy OKD for CZK1 was rejected by the cabinet in February.

Babiš was to come up with a new plan according to which Prisko should acquire OKD for CZK80mn.

The MF exercises shareholder rights at Prisko, while the MIT at Diamo.

INDUSTRY & ENERGY & INVESTMENT

JAPAN'S ASAHI TAKES CONTROL OF PRAZDROJ - 31. 3.

The Japanese brewery Asahi took over one of the CR's biggest breweries, Plzeňský Prazdroj, On Friday. The brewery was bought, alongside with four other European brewers, from the multinational SABMiller. The Czech brewer, the biggest in the CR, will now be part of Asahi Breweries Europe and will be answerable to the Tokyo company headquarters. The regional headquarters will be in Prague. The sale of some SABMiller assets was the price demanded by the European Commission for clearance of its purchase by AB InBev. Pilsner Urquell is the best known beer produced by the Plzeň brewery.

EXTERNAL PARTNER IN ŠKODA PRAHA - 30. 3.

ČEZ is considering the possibility of an entrance by an external partner in Škoda Praha which it owns. ČEZ spokesman Roman Gazdík told ČIANEWS added that this process was not completed, and therefore the Group would not be commenting on it any further.

YUSEN LOGISTICS BUILDING NEW WAREHOUSE CENTRE - 31. 3.

Yusen Logistics (Czech) has started building a new multifunctional warehouse centre near Ústí nad Labem. The information was confirmed to ČIANEWS by Marketing & PR Specialist Linda Mičlová, according to whom the new warehouse near the D8 highway will be opened in 2018.

PRICES FOR RENEWABLES - 31. 3.

The Energy Regulatory Office (ERÚ) made public its price verdict no. 2/2017 from March 29, 2017, which stipulates the support for renewable energy resources. The basic annual green bonus for electricity from cogeneration units with installed output over 5 MWe ranges from CZK 45 to CZK 200

⁶⁴ Daikin Device has been operating in Brno since February 2006. At the end of 2008, the company bought assets of Ohmori Technos CZ, a Japanese air conditioning component maker. Daikin Device's parent company, Daikin Industries, was established in Japan's Osaka in 1924. Daikin has been operating in the CR since 1992, when it set up a branch in Prague. In 2004, Daikin Industries CZ launched an air conditioning production plant in Plzeň, western Bohemia, to which the Brno company supplies compressors.

⁶⁵ Latest annual report in Register of Companies

per MWh. The new price verdict will gain effect on April 1, 2017.

CHINESE CAPITAL IN CZECH COMPANIES DOWN – 31. 3.

The volume of Chinese capital subscribed in the registered capital of Czech companies has decreased by CZK198m to CZK5.5bn since Chinese President Xi Jinping visited the CR in March 2016, according to an analysis published by Bisnode consulting company today.

The number of companies with Chinese owner dropped by 35 to 2,101, with China ranking 22nd among the biggest foreign investors in the CR, the analysis showed.

China's CEFC company thinks Bisnode's methodology is misleading and does not present the real amount of Chinese investments.

"Earlier announced big Chinese investments have not been carried out," Bisnode analyst Petra Stepanova said.

The Chinese capital volume subscribed in the registered capital of Czech companies would have annually dropped by significant CZK630m, had it not been for Chinese Eurasia Development Group Limited acquiring 71.1% in Czech Mountfield garden equipment retailer, Stepanova said.

Germany ranks first among foreign owners of domestic companies, having CZK239bn in Czech companies' capital, and is followed by the Netherlands with CZK165bn worth of capital, Luxembourg with CZK97bn and Austria with CZK77bn. In the past two years, CEFC has invested more than CZK30.5bn in the CR, said Pavel Bednar, the head of communication at CEFC Group (Europe) Company, which is the main Chinese investor in the CR.

CEFC's investments included buying into J&T Finance Group, Pivovary Lobkowicz Group brewery and Travel Service airline, acquiring 100% in ZDAS engineering company, gaining a majority share in SK Slavia Praha football club and investing in Invia.cz company. In the real estate area, CEFC invested in Florentinum office building and bought Le Palais Art Hotel Prague and Mandarin Oriental Prague hotels.

CEFC is currently completing investments worth more than CZK25.5bn, Bednar added.

NEARLY 140,000 BUSINESSES IN EET SYSTEM – 2. 4.

Around 138,000 businesses are now using the electronic cash registers system, according to the data released by the CR' tax bureau, the Financial Administration. So far, entrepreneurs have issued around 663mn receipts and the finance ministry officials have so far levied 83 fines to totalling 492,000 crowns. The system, under which businesses' sales are relayed to an online taxation database in real time, entered its first phase in December 2016 and as of March this year, it also applies to retail and wholesale sellers. The third and fourth phases affecting business in fields such as transport, agriculture and craft production, will be launched in 2018. The measure was introduced by MF Minister Babiš to counter the grey economy and tax fraud.

SALES OF CNG-FUELLED CARS GROW – 2. 4.

Sales of new CNG-fuelled cars in the CR increased by 3% to 2,843 units last year, and the sale of hybrid cars rose by 50% to 1,541 units, according to data from the Car Importers Association.

Sales of electric cars and LPG-fuelled cars amounted to hundreds of units.

Corporate fleets started using CNG-fuelled cars regularly several years ago.

Hybrid cars, which are the second biggest category of eco-friendly cars, are less successful.

„The sales ratio is three CNG-fuelled cars to one hybrid car. Last year, we sold the same amount of CNG-fuelled car as in all the previous nine years together,“ AAA Auto car dealer operating director Petr Vanecek said.

Interest in CNG has also been registered by CNG distributors.

„Last year we sold about 13% more natural gas than in 2015. It was the consequence of expansion of corporate fleets of large companies that use CNG-fuelled cars for delivery of their products and an increase in the number of CNG-fuelled cars in fleets of large taxi services,“ Prazska plynarenska gas distributor's CNG section head Jan Zakovec said.

A total of 259,693 new cars were sold in the CR last year, 12% more than in 2015.

SHANDONG LINGLONG EYES CR FOR TYRE PLANT -3. 4.

Chinese tyre manufacturer, Shandong Linglong Tire, is looking to build a new production plant in Europe within the next two years, with the CR as a possible location. The representative of the company, Lisa Sheng, has confirmed the plans to build a tyre production plant worth USD 500mn (EUR 468.93mn) and creating 1,500 new jobs, however, added that the negotiations are in early stages. The Czech state investment agency CzechInvest has selected and offered suitable locations for the new plant, with Shandong ideally requiring some 100 ha of space due to possible expansion. The company is also offering to build its own R&D centre and company flats, investing over USD 250mn in the initial phase, with the Czech state's incentive help. According to some reports, the negotiations have reached a bit of a stalemate which could be an issue with time of an essence for Shandong.

CONDITIONS IN MANUFACTURING WORSEN – 3. 4.

Conditions in the Czech manufacturing industry worsened slightly in March, with the Purchasing Managers' Index (PMI) falling to 57.5 points from February's 57.6 points, IHS Markit company said today.

The index indicates a generally strong growth of the Czech manufacturing industry, with all five PMI's components contributing, IHS Markit said.

The 50-point level sets the difference between growth and fall. The PMI index monitors production, new orders, employment, suppliers' delivery times and inventories.

The manufacturing industry will be a key sector in the Czech economic boom in 2017, according to IHS Markit's forecast, which is supported by the Q1 data, IHS Markit economist Sian Jones said.

The volume of new orders received by Czech producers kept increasing significantly in March, with the rate at February's level, which was the highest figure in 19 months.

New orders led to bigger production, whose growth rate decreased mildly month on month.

Employment in the manufacturing sector was at a high level in March.

Input prices grew the most since April 2011 and the inflation rate accelerated for the fourth month in a row.

"The Czech PMI confirms a good situation in the domestic industry," Komerční banka economist Viktor Zeisel said.

GA PRODUCTION OF NEW L-159 – 3. 4.

AERO Vodochody is prepared to renew the delivery of new L-159 type aircraft. In 2016 it manufactured and delivered a two-seat L-159 to one of its international customers. The company expects demand for hundreds of light fighter planes to increase on the market in the next ten years. Future MIT Minister Havlíček stated on March 31, 2017 during the official presentation of the L-159 that Iraq and Argentina currently seem to be prospective markets for the delivery of AERO military planes. PM Bohuslav Sobotka (ČSSD) added that the aviation industry is one of the fastest growing export sectors of the CR.

GA AUTOMOBILES SALES AND ORDERS INCREASE – 3. 4.

In January and February 2017 ŠKODA AUTO sold 12,500 vehicles and received more than 5,500 orders for its Kodiaq model.

Porsche Inter Auto CZ increased its sales in 2016 by 6 % y/y to more than 22,000 new and used vehicles.

Toyota Central Europe-Czech delivered and registered 6,051 new vehicles (+30 %).

The Peugeot brand reported 10,766 registered passenger cars and LUVs (+9.5 %), the number of new vehicle orders totaled 12,822.

The sales of Mercedes-Benz ČR increased by more than 50 % last year.

Its van division increased its sales by almost 30 %.

HN JAPANESE BREWERIES ASAHI BEGIN TO MANAGE ITS CENTRAL EUROPEAN BUSINESS IN PRAGUE – 5.4.

Prague, where a business and marketing management of Prazdroj headquartered, became the seat of Asahi Breweries Europe, a new subsidiary of the Asahi Group Holdings. The Group includes apart from Prazdroj also Slovakian Topvar, Hungarian Dreher, Romanian Ursus and Polish Kompania Piwowarska. Paolo Lanzarotti, former head of the Prazdroj company became a director of Asahi Breweries Europe.

Asahi Group acquired Prazdroj and others at the equivalent of CZK200bn from AB InBev at the end of the last year. The leader of the global beer market, AB InBev, has teamed up with number two SABMiller. The joint venture was consequently forced last year to sell its assets in those markets where there was a risk it would have a dominant position.

Japanese group acquired also other brands from AB InBev in west and south Europe: Grolsch (Netherlands), Peroni (Italy), and Meantime (UK) several months ago. They are all formally covered in Asahi Europe with its seat in London.

Asahi Europe and Asahi Breweries Europe, which together have about one-tenth of the European market and so they are number 3 in Europe, after Heineken and Carlsberg, operate independently and are responsible to the Tokyo headquarters of Asahi.

This, however, does not have to last long. According to HN sources from the market, it is possible that the position of

Prague in the entire functioning of Asahi in Europe will become even stronger in the long term. For example, owing to the upcoming Brexit. Asahi has been reportedly looking for new employees in the CR, especially in the area of IT, as well as for another building. Now hundreds of Prazdroj employees and dozens of managers who are moving to Prague from neighboring Central European countries, are sitting in the center of Prague at the Ovocný trh. The operation of Asahi activities was probably the reason why another company called Asahi CE & Services Europe was founded at the end of this year.

Representatives of Asahi refused to give details yet due to the fact that the process is at its beginning.

Another question also remains whether there will be a change in the longstanding cooperation of Asahi with Prazdroj's competitor, Staropramen brewery, which makes Super Dry brand for export throughout Europe for Asahi. "For now, nothing has changed," said PR manager of Staropramen Brewery brands Denisa Mylbackrová.

POLITICS & POLLS & RANKINGS & OTHER

CTK HEDGE AGAINST EXCHANGE RATE RISKS - 30. 3.

Roughly 2/3 of companies in the CR hedge against the CZK's exchange rate swings and about a 1/3 believe they are ready for the cap on the CZK to be lifted, without the need to change their protection measures, according to a PwC.

A 1/5 of the polled companies started safeguarding themselves in reaction to the expected end of the CNB's forex intervention regime, the survey revealed.

A total of 12% of firms changed their currency hedging and 7% adjusted their contracts with clients and business partners.

≡ PRESIDENT ZEMAN TO MEET XI JINPING – 2. 4.

Czech president Miloš Zeman is set to meet with his Chinese counterpart Xi Jinping during his visit to China in May this year. He is also scheduled to attend a conference related to the New Silk Road project, president's new chief foreign policy adviser Rudolf Jindrák told the Czech News Agency on Sunday. He also said the diplomats are now negotiating the date of a meeting between the Czech President and his US counterpart Donald Trump.

CTK SMES SEE THEIR SALES RISE IN 2016 – 2. 4.

Nearly a half of small and medium-sized enterprises saw their sales rise by 12% on average last year, while one third of businesses saw a stagnation and 17% registered a drop in sales, according to a survey conducted by the Ipsos agency for Expobank.

One fifth of respondents plan to expand in the months to come.

Two thirds of businesses want to invest in new acquisitions and hire new employees.

Mere 3% of respondents are considering selling their share in their business and 1% is considering selling their entire business.

„In general, enterprises with direct links to domestic individual consumption are faring well. Both the average and the minimum wage are growing and people can afford to spend money and buy (goods and services). This is why

enterprises in retail, wholesale and services are faring the best," Expobank CZ board member Jan Roztocil said.

Among other sectors, businesses in the chemical industry and metal processing were successful as well, while enterprises in agriculture and food-processing are on the bottom of the chart.

Every fifth business is planning expansion. Out of those whose sales increased last year, 60% have such plans.

A total of 52% of them are considering expansion in the CR, particularly South Moravia. Over 50% are considering expansion abroad, mainly Slovakia, Poland and other CEE countries.



CZECHS CHANGING JOB – 3. 4.

One fifth of employees have changed job in the CR in the last six months, compared with 15% of people who changed job a year earlier, according to a survey of personnel consulting company Randstad.

Better conditions in the new work were decisive for 30% of the respondents who changed job. Organisation changes played the main role in 24% of the cases and desire for a change ranked third with 18%.

"With the higher number of vacancies in the CR, the appetite of employees grows. Wages in some sectors increased by 15 to 20% last year but the lack of people makes companies offer further incentives to new employees," said Randstad director Hana Pullova.

The age structure of people changing jobs the most often remains the same in the long term. People changing jobs the most frequently are those aged below 34 and people with only elementary education.

The biggest difference against the previous poll was seen in the ratio of men to women which was balanced this time, while usually men prevail. Departures affected the least people working in financial services and the most those working in hotels and restaurants.

The probability of losing job in the coming half a year is realistic but not too high for 19% of Czechs.

Another 5% see the threat as very high. Most employees are not too concerned that they will not be able to continue their career if they lose their job. Over three quarters of Czechs have no doubt that they can find another job.

Some 72% of people are convinced that they would find a comparable work somewhere else. People aged between 25 and 34 are the most self-confident, as are people with higher education.

6% of the employed respondents said that they are looking for a new job and 14% conceded that they are thinking a bit about it.

The online poll was made in January and February among people aged 18 to 65. It does not include self-employed. The lowest size of the surveyed sample were 400 respondents.



NEW MIT MINISTER – 5. 4.

Czech President Miloš Zeman appointed Jiří Havlíček the MIT Minister on April 4, 2017. Mr. Havlíček has taken over the post from PM Sobotka (ČSSD), who has led the ministry temporarily since March 2017. His main tasks include the legislative completion of the amendment to the act on electronic communications, accelerated drawing of EU funds, support for the development of broadband Internet and completion of the new system for investment incentives. According to PM Sobotka, another priority is the preparation and acceleration of construction of the nuclear block in Dukovany power plant, incl. changes to the building act. The information was provided by the Government Office.



	News outside the time span of this News summary
	CEZ
	CIA News (Česká informační agentura)
	CNB (Česká národní banka)
	Czech Press Agency (Česká tisková kancelář)
	Czech Statistical Office (Český statistický úřad)



Hospodářské noviny
Energy Regulatory Office
Government of the CR
M-Brain, News monitoring
Ministry of Finance of the CR
Radio Prague (Český rozhlas)