

NEWS SUMMARY MAY 18 – MAY 24

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ECONOMY & FINANCE

CTK CZECH CROWN WEAKENS, REACTING TO SCANDAL IN USA – 18.5.

The Czech crown weakened against the euro today, trading at CZK¹26.56/EUR² at 17:00, 12h³ weaker than on Wednesday, according to the server Patria Online.

Vis-a-vis the US⁴ dollar, the crown lost 15h to trade at CZK23.87/\$.

According to analysts, the weakening is stemming from the political scandal in the USA. The crown was not boosted even by higher growth of producer prices on the domestic market, they said.

"While the Czech political crisis has not affected the crown dramatically, the crisis in the USA has a more notable impact," analyst Jiri Cihlar of Next Finance said.

According to Marek Drimal of Komerční banka, some investors today probably collected the gains they have made thanks to the crown's strengthening in the past two weeks.

"The crown market is very tense and vulnerable. Any major deals can make it fluctuate steeply, particularly because of increased uncertainty among investors due to developments abroad, such as the current problems concerning (US President) Donald Trump," Drimal said.

The crown may also be weakened by a possible outflow of dividends from the CR abroad resulting from the cheaper euro in recent days, Drimal added.

According to Radek Pavlicek of the Roklen investment group, investors should focus on forthcoming events, mainly on three banking titles. Austrian insurer VIG will distribute dividend on Friday, and Komerční banka and Erste Bank will do so on May 26, he noted.

CTK CNB HEAD WELCOMES PM'S INTENTION TO DISCUSS EURO BEFORE ELECTION – 21.5.

CNB⁵ governor Jiri Rusnok is glad that PM⁶ Bohuslav Sobotka wants to open debate on euro adoption before the autumn general election, Rusnok said in the Questions of Vaclav Moravec discussion programme on the public Czech Television (CT) today.

"It is a matter that should be decided, though indirectly, by voters," Rusnok said.

Sobotka said last week that the CR⁷ should set the date of euro adoption. He also said the decision on the matter would have to be made by the next government. In the opposite case, the country could be relegated to the EU's slower stream, he added.

¹ CZK: Czech Crown, the currency of the CR since 8 February 1993

² EUR: (€) Euro is the official currency of the Eurozone, which consists of 19 of the 28 member states of the European Union

³ h: heller, 1/100 of Czech crown

⁴ USD: \$, USD, the United States dollar is the official currency of the United States and its overseas territories. It is the currency most used in international transactions and is the world's most dominant reserve currency.

⁵ CNB: Czech National Bank

⁶ PM: Prime Minister

⁷ CR: the Czech Republic

The euro zone has changed since the CR's EU⁸ entry, Rusnok noted. It has introduced new duties as well as rescue mechanisms for its members, among other things, he said.

"It is a different euro zone now, so it is fair to discuss this matter politically again and to inform citizens of all possible implications, including the fact that it is a technical tool for fixing the exchange rate of own currency," Rusnok said.

CTK SHARE OF CZECH DEBT DEFAULTERS IN Q1 LOWEST SINCE MID-2008 – SOLUS – 22.5.

Czechs' ability to pay off their debts keeps getting better and the first quarter of this year saw 7.41% of the adult population having outstanding debts, which is the lowest share since the middle of 2008 and a quarterly drop from 7.44% at the end of 2016, Solus association told CTK.

The CR registers huge differences in terms of debt defaulters on the level of individual regions, districts and municipalities. The number of people with outstanding debts in the Solus register of individuals has been decreasing in all the regions for four consecutive quarters.

Solus members can learn about the existence of their clients' debts from the Solus register which stores the information for up to three years with the customers' consent.

Solus association was established in the summer of 1999. Its members include 15 banks and building societies, 21 non-banking financial institutions, 11 telecommunication operators, four energy companies, three peer-to-peer loans providers and two retail chains.

Share of debt defaulters in CR's regions in Q1⁹

Region of the CR	Debt Defaulters (in %)
Prague	6.01
Central Bohemia	7.07
South Bohemia	6.64
Plzen	7.63
Karlovy Vary	12.53
Usti	13.95
Liberec	9.89
Hradec Kralove	6.93
Pardubice	6.24
Vysocina	4.84
South Moravia	5.92
Olomouc	7.04
Zlin	4.83
Moravia-Silesia	9.39
CR average	7.41

⁸ 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.

⁹ Q1: 1st quarter of the year

SHARE OF LOANS IN DEFAULT IN CR IS TWICE LOWER THAN EU AVERAGE – 22.5.

The share of bank loans in default in the CR reached 2.5% last year, compared to the EU's average of 5.1%, according to statistics released by the Czech Banking Association (CBA) today.

The volume of loans in default per capita reaching EUR200 (CZK5,400) was 10 times lower than the EU average. The CR ranks first in Europe along with Poland and Romania in this regard.

The CR also shows a high level of coverage of loans in default by adjustments (63%), compared to the European average of 45%. This coverage in the CR is even higher than in the five countries that overcome the CR in terms of the share of loans of default, which means in Sweden, Luxembourg, Estonia, Finland and Great Britain.

DOMESTIC CAPITAL VOLUME AT CZECH FIRMS AT RECORD 54.8% THIS YEAR – 23.5.

Czech entities own 54.77% of domestic firms' share capital, which is a record figure, and foreigners control 37.08% of the overall share capital, which makes it the lowest rate since 2011, according to an ownership structure analysis that was published today.

Firms based in tax havens account for 13.7% of the total figure, said the analysis of Bisnode consulting company.

Total investments in domestic companies' share capital reached some CZK2,740bn¹⁰ at the end of April. Czech investments grew by CZK66bn annually to CZK1,498bn.

Domestic entities' share in the total figure has been steadily rising in the past two years, which Bisnode analyst Petra Stepanova ascribed to the ongoing interest in setting up new companies on the part of Czech entrepreneurs.

Conversely, foreign investments in the overall share capital have been decreasing since 2015. Last year saw a drop of CZK7.2bn to CZK1,010bn. A marked outflow of capital from tax havens is the reason, Stepanova said.

Ownership structure of Czech firms by share in their capital

	Capital in CZKbn	Share in %
Share capital - total	2,735.92	100
Czech capital	1,498.42	54.77
Foreign capital - total	1,014.59	37.08
Tax havens	374.81	13.70
Unknown owner	222.91	8.15

CZECH MUNICIPALITIES RAISE BUDGET SURPLUS TO CZK27BN IN 2016 – 23.5.

Czech municipalities' budgets ran a record surplus of more than CZK27bn in 2016, a rise from CZK10bn in 2015, with about four-fifths of municipalities recording a performance surplus, CRIF - Czech Credit Bureau company told journalists today.

The CRIF analysis attributed the growth in the surplus to a decrease in capital expenditure, down by more than CZK27bn or nearly 40%. Overall expenditures of municipalities thus went down by CZK22bn to CZK177.3bn. Their revenues fell by CZK4bn to CZK204.7bn.

Capital expenditures sank because of nearly 60% cuts in investment activity. Weaker investment activity on the part of municipalities as well as the state was largely due to a slow start of European funding within the new programming period, said CRIF analyst Vera Kamenickova.

Tax revenues of municipalities rose by 9% to CZK139.5bn, their share growing to 68% from the previous 61%.

Subsidies to municipalities declined by CZK18bn annually to CZK30.7bn, with investment subsidies down by 58% to CZK11.9bn.

The number of municipalities with no investment subsidies was the highest in the category of small municipalities (population of 200 to 499), the number falling with the growing number of inhabitants.

By regions, 51% of municipalities in the Hradec Kralove Region did not receive any investment subsidies last year, while in the Moravia-Silesia Region, it was 22% of municipalities.

For the fourth time in a row, municipalities reduced their debts by CZK5.3bn to an aggregate amount of CZK48.5bn last year. More than a half of them, however, had debts, with the highest per capita debt seen for very small municipalities (up to 199 inhabitants) - CZK12,902, their share in all municipality sizes being the lowest.

In terms of CRIF's iRating, the highest A-grade rating was registered by 510 municipalities, while 445 were given the worst C- rating, 51 municipalities fewer. The CR has some 6,250 municipalities.

The overall iRating of municipalities improved modestly last year, hitting the best value in seven years. Performance of 36% of municipalities was excellent or very good last year, 47% showed average results with a stable outlook, while in case of 17% of municipalities there was a risk they might be facing problems with the quality of provided municipal services.

In terms of regions, the best performance was seen for municipalities in the Central Bohemia and Vysocina Regions, while municipalities in the Olomouc and South Moravia Regions occupied the last position.

CRIF analyses municipalities' performance on an annual basis based on data on the www.informaceoobcich.cz portal. Prague is not included in these data.

MF WANTS TO REDUCE BUDGET DEFICIT TO CZK50BN IN 2018 – 23.5.

Priorities of the state budget of the CR for the year 2018 include a reduction of the planned deficit by CZK10bn to CZK50bn. The information was provided by the MF¹¹ on May 22, 2017. The ministry also intends to raise expenditures on pensions by CZK21.6bn and raise expenditures on wages by CZK21.8bn. The share of municipalities of the national gross income from VAT will grow to 23.58% as of January 1, 2018. This represents a growth in tax income for municipalities by CZK8.5bn. MF will save CZK5bn on the state debt in 2017 and this will reduce the debt from CZK46.3bn to CZK41.3bn. The ministry saved CZK11.7bn in 2015.

¹⁰ bn: billion

¹¹ MF: Ministry of Finance

AGRICULTURE & ENVIRONMENT

 **CR'S FOREIGN AGRICULTURE TRADE DEFICIT DOWN TO CZK5.2BN IN Q1 – 18.5.**

The CR's agriculture foreign trade deficit dropped annually by CZK1.7bn to CZK5.2bn in the Q1 of this year, and the total turnover declined by 2.5% to CZK104.2bn, according to data published by the Agriculture Ministry today.

Agriculture exports and imports decreased yr/yr by 0.4% to CZK49.5bn and by 2.1% to CZK54.7bn, respectively, the ministry said. Agriculture Minister Marian Jurecka said that the quarterly data are preliminary.

The data have confirmed the long-term negative trend of decreasing significance of Czech agriculture, Jiri Felcarek of the Agrarian Chamber told CTK.

Exported agriculture products accounted for 4.7% of the overall Czech foreign trade, and imports made up 5.9%, where both figures are below average, according to the ministry. The CR's main export articles included cigarettes, wheat and bakery products.

On the other hand, the country imported mostly pork, with the volume increasing annually by 13.6% to CZK3.5bn in Q1, followed by chocolate, bakery products, cigarettes and cheese.

Jurecka said it is positive that the trade balance improved, with exports covering 90.4% of imports, up by 2.5 percentage points. "The ministry has been long supporting and will keep supporting export activities of Czech farmers and food producers," Jurecka stated.

Germany accounted for over a fifth of the CR's agriculture exports and Slovakia represented a similar share, with Poland, Italy, Austria and Hungary following. China's volume increased annually by more than a third to CZK238m.

The CR imported the biggest volume of agriculture products from Germany, Poland, Slovakia, the Netherlands, Spain and Italy. China and Turkey accounted for 1.4 and 1.3%, respectively.

Last year, the Czech foreign agriculture trade deficit increased by CZK3.3bn to CZK22.6bn.

CR's foreign agriculture trade

Year	Exports (CZKmn ¹²)	Imports (CZKmn)	Surplus/deficit (CZKmn)
1993 (CR's establishment)	32,276	31,497	779
1995	35,596	47,636	-12,040
1996	32,555	54,353	-21,798
1999	39,757	60,484	-20,727
2000	47,729	65,011	-17,282
2001	49,411	69,228	-19,817
2002	45,174	69,040	-23,866
2003	48,805	74,259	-25,455
2004 (EU accession)	61,526	93,822	-32,295
2005	78,520	103,522	-25,003
2006	78,542	112,737	-34,195
2007	96,880	129,333	-32,453
2008	106,931	131,048	-24,117

¹² mn: million

2009	101,708	133,735	-32,027
2010	105,364	140,008	-34,644
2011	120,381	156,674	-36,293
2012	148,309	173,026	-24,717
2013	160,594	184,674	-24,080
2014	180,247	199,909	-19,662
2015	201,383	220,686	-19,303
2016	201,995	224,631	-22,636
Q1 2016	49,900	56,800	-6,900
Q1 2017	49,500	54,700	-5,200

 **SPRING FROSTS CAUSE FRUIT GROWERS DAMAGE ESTIMATED AT CZK478MN – 19.5.**

This year's spring frosts caused Czech fruit growers' damage estimated at CZK478mn and roughly a quarter of the harvest, where Moravian orchards were the most impacted, according to CTK's sources.

Czech fruit growers have been impaired by frosts for the second consecutive year, with last year's damage amounting to CZK400mn, the Fruit Growers' Association chairman Martin Ludvik told CTK today.

It has been the sixth time since 2007 that the fruit production was negatively impacted by spring frosts, Ludvik added.

The biggest harvest decline of some 80% is expected with apricots and peaches.

Apples, the CR's main fruit kind, are estimated to see the biggest loss of about CZK270mn.

Last year, the government provided fruit growers with a CZK133mn frost damage compensation. Agriculture Minister Marian Jurecka said last week that fruit growers can count on the state's aid.

Frosts damaged harvest volume estimated at 42,000 tonnes.

Preliminary estimate of fruit production damage caused by 2017 spring frosts

Fruit	Average harvest in 2014-2016 (in tonnes)	Estimated production drop in 2017 (in %)	Estimated loss (in CZKmn)
Apples	137,700	-22	270
Pears	6,800	-49	33
Cherries	2,300	-51	36
Sour cherries	5,400	-22	12
Apricots	1,600	-82	39
Peaches	800	-74	12
Plums	7,000	-39	27
White and red currant	1,600	-30	4
Black currant	400	-49	3
Strawberries	3,400	-40	42
Total	167,000	-25	478

LABOUR & SOCIAL & HEALTH

 **CHAMBER OF DEPUTIES APPROVES HIGHER SICKNESS BENEFIT FOR LONG-TERM PATIENTS – 18.5.**

The Chamber of Deputies approved in the third reading on April 17, 2017, the government's amendment to the social

security insurance act and contribution for government's employment policy. The MPs¹³ have also approved the adjusting proposal to boost the sickness allowances for long-term patients. The temporary sickness benefit should be raised to 66% of the daily assessment base from the 31st day of temporary work inability and 72% of the base from the 61st calendar day. The norm will raise the spending on sickness allowances by CZK2.4bn in 2018, CZK2.5bn in 2019 and CZK2.7bn in 2020.

PM SOBOTKA WANTS TO RAISE MINIMUM WAGE TO CZK12,200 – 19.5.

The government of the CR could decide on a growth in the minimum wage at least by CZK1,200 to CZK12,200 already in the first half of 2017. This was stated by Czech PM Bohuslav Sobotka (ČSSD¹⁴) during interpellations in the Lower House of the Parliament of the CR. The minimum wage would increase to 40.5% of the average wage beginning January 1, 2018, Mr. Sobotka said. The proposal will be submitted to the government by Czech Minister of Labour and Social Affairs Michaela Marksová (ČSSD).

FOREIGN STUDENTS MAY GET CZECH STUDY VISAS MORE EASILY – 22.5.

Foreigners from outside the EU admitted to selected Czech universities may gain study visas more easily in the future, according to a material by the Education Ministry that the government will discuss on Monday and that counts with 340 students a month.

According to the new system, they would no longer have to register in the Visapoint system, but they would submit their applications at the embassy or consulate on a set date. The applicants in 11 countries involved could get the visas within two months.

The system of registration of Visapoint visas applicants has long been criticised for a restricted capacity, which drives the foreigners into the hands of middlemen. This is mainly true of Ukrainians and Vietnamese.

The ministry says the new Student regime would restrict the middlemen's activities and avert the abuse of study visas. The introduction of the Student Regime is supported by the Confederation of Employer and Business Associations, saying that until now every ministry created its own "regime for foreigners."

CAR INDUSTRY IN V4 COUNTRIES TO NEED 100.000 WORKERS – 23.5.

The automotive industry in V4¹⁵ countries, already struggling with a lack of qualified workforces, will need about 100,000 workers in the years to come, representatives of the four countries' car industry associations said an international conference in Bratislava today.

The associations released a joint statement calling on their governments to intensify regional cooperation in the car industry.

¹³ MP: Member of Parliament

¹⁴ ČSSD: Czech Social Democratic Party, centre-left party

¹⁵ V4: the Visegrád Group, also called the Visegrád Four, or V4 is an alliance of four Central European states – Czech Republic, Hungary, Poland and Slovakia – for the purposes of furthering their European integration as well as advancing their military, economic and energy cooperation with one another.

"We are hitting the limit of the existing economic potential," Czech Automotive Industry Association head Bohdan Wojnar told journalists.

"We are calling for better programmes for support of mobility and both internal and external migration. In the opposite case, the problem will become an obstacle for the country's economic performance," he added.

The Czech car industry will need 30,000 up to 40,000 workers. The car industry in Slovakia will need about 14,000 workers in the next three years, according to the local association.

"The issues faced by our countries are almost identical, whether they concern qualified workforce, infrastructure or opinions on the European legislation regarding emissions," Slovak association head Juraj Sinay said.

According to the four associations, the sector will face multiple challenges in areas such as use of alternative fuels, development of the network of roads and in digitisation and mobility services.

According to Wojnar, the Czech automotive sector has launched strategic cooperation with the government this year, and the first steps have already been made.

"We organised a conference in Mlada Boleslav in mid-February ... to persuade everybody that it is necessary to hold consistent talks so that everybody understands that trends such as electromobility and digitisation have already arrived," Wojnar said.

The automotive industry ranks among important sectors of the economies in Central Europe. Last year, the V4 region produced 3.65mn cars, which was about a quarter of the total car output in Europe. Slovakia and the CR rank among world leaders in car output per capita.

CR SHOULD NOT BASE COMPETITIVENESS ON CHEAP LABOUR - PM SOBOTKA – 23.5.

The CR should not build its competitiveness on cheap labour and tax dumping, whereas structural changes are necessary for the economy to be successful, Czech PM Bohuslav Sobotka said at a congress of ČMKOS¹⁶ trade union confederation today.

Investment incentives should orient towards production with a higher value added, Sobotka said.

Trade union leaders called upon politicians to clearly demonstrate that the CR's future strategy cannot be founded on cheap labour, with unions pushing a pay rise via their Konec levne prace (end of cheap labour) campaign.

Trade unionists demand "a decent labour code". Sobotka said that he would fight to push an amendment to the Labour Code through until the end of the election period.

Sobotka, a union member, praised the pay rise campaign today, saying that it would continue in the forthcoming years. He said that infrastructure construction and education changes are needed.

"Investment incentives change has been debated so that in the future, we can support things which will bring highly qualified and well-paid positions," Sobotka stated.

¹⁶ ČMKOS: a dominant union confederation in the CR, which had almost 400,000 members in 2011. ČMKOS is the Czech successor of the Czech and Slovak union confederation. It has separate affiliated member unions divided broadly on an industry basis, of which the largest are the metalworkers union, OS KOVO, with some 140,000 and the teachers' union, ČMOS PŠ, with around 50,000 members.

The current government and the future governments will have to make a number of decisions for the CR's wages to grow in the forthcoming years, he said.

Sobotka's cabinet has raised the minimum wage every year. Labour and Social Affairs Minister Michaela Marksova will propose that the minimum wage increase by CZK1,200 to CZK12,200 as of January 2018. Trade unions demand CZK12,500.

CMKOS plans to hold a congress in Prague on September 14 before the start of the next year's pay rise collective bargaining.

CTK TRANSFORMED PENSION FUNDS' YIELDS REACH 0.8% IN 2016 – 23.5.

Clients of transformed pension funds gained an average of 0.8% in yields last year, with three out of the eight pension funds on the market surpassing the inflation rate of 0.7%, the Czech Association of Pension Funds told journalists today. The year before, the funds added an average yield of 1.15% to clients amidst inflation of 0.3%.

The average yield of transformed funds in 1995-2016 was 3.72%, the average inflation rate being 3.43%, Tomas Vystrcil, the vice-president of the Association, said.

"Transformed funds are bringing low yields at present. With regard to the situation on the capital markets, they cannot even be expected to generate higher yields," Broker Consulting analyst Martin Novak told CTK.

All 27 participation funds reported positive yields by the end of March 2017, with 26 surpassing the inflation rate.

In 2016, 26 participation funds showed positive yields, with 15 of them beating the inflation rate.

The profit of transformed funds of pension companies dropped by CZK900m to CZK2.81bn last year. The assets in transformed funds were predominantly conservative, with 90% of them placed in bonds, 7.3% on the money market, and 1.9% in shares and participation certificates.

Participation funds and transformed funds form the "third pillar" of the Czech pension system.

The number of clients in the third pillar reached 4.504 million at the end of March, which was about 15,000 fewer than at the end of 2016.

The transformed funds, which can no longer be entered by clients, registered 3.9 million clients at the end of March 2017, about 70,000 fewer than at the end of 2016.

Supplementary pension savings, which replaced the previous private pension schemes as of 2013, registered 596,000 clients, 55,000 more than in December.

Pension companies administered assets worth over CZK389bn in third-pillar funds. The volume of clients' contributions rose by CZK6.2bn since the beginning of this year. Private pension schemes with state contributions were introduced in the CR in 1994. More than 70% of economically active population has voluntary private pension insurance.

¹⁷ **CzechInvest:** Business and Investment Development Agency CzechInvest, is an agency of the Ministry of Industry and Trade. Established in 1992, the agency contributes to attracting foreign investment and developing domestic companies through its services and development programmes. CzechInvest also promotes the Czech Republic abroad and acts as an intermediary between the EU and small and medium-sized enterprises in implementing structural funds in the Czech Republic.

Average yields of transformed funds in %

	2010	2011	2012	2013	2014	2015	2016
Conseq (Aegon)	1.80	1.70	2.50	2.00	0.71	0.4	0.47
CS	2.34	2.07	1.90	1.27	1.37	0.85	0.94
CP (Generali Raiffeisenbank)	2.00	1.50	1.90	2.09	1.68	1.4	0.68
Allianz	3.00	2.69	2.20	1.62	1.64	1.38	1.03
CSOB (Zemsky, Hornicky)	1.26	1.71	2.10	1.70	1.40	1.2	0.7
KB	2.23	2.00	1.80	1.43	1.35	1.16	0.66
NN (ING)	2.10	2.10	2.10	1.44	1.14	0.88	0.66
Axa (Winterthur)	1.47	1.47	1.50	2.58	1.53	1.1	1.025
Average	2.03	1.91	2.00	1.77	1.35	1.15	0.8
Inflation	1.50	1.90	3.30	1.40	0.40	0.30	0.70

INDUSTRY & ENERGY & INVESTMENT

DIA CZECHINVEST¹⁷ TO DISTRIBUTE CZK70MN AMONG START-UP ENTREPRENEURS – 18.5.

Business and investment development agency CzechInvest will support start-up entrepreneurs within the framework of the CzechAccelerator project.

Selected Czech start-ups will get office premises, mentoring and consulting in foreign entrepreneurial incubators in Silicon Valley, New York, Singapore and London.

CzechInvest plans to send 60 firms there. Overall, over CZK70mn has been prepared for them. The first round of registrations will last from June 17 to July 31, 2017.

DIA ŠKODA JS OBTAINS ORDERS WORTH OVER CZK4.2BN – 18.5.

ŠKODA JS¹⁸ revenues for 2016 amounted to CZK4.4bn, up more than 25% year on year. Exports made up 56% of the revenues and headed to 16 countries, with the main destinations being Slovakia, Hungary, Ukraine and Sweden. The volume of newly acquired contracts exceeded CZK4.2bn. Pre-tax profit grew from CZK108mn to CZK178mn. ŠKODA JS continues to renew its devices and equipment, on which it spent over CZK100mn in 2016. ŠKODA JS realised the highest share of the revenues (57%) in the Engineering division.

CTK NEW COMPACT SUV TO BE PRODUCED IN KVASINY FROM JULY – 18.5.

The Kvasiny plant of Czech car manufacturer Skoda Auto will start producing the new compact SUV Skoda Karoq at the end of July, Skoda spokesman Vitezslav Pelc told CTK during the world premiere of the new model in Stockholm today.

Karoq is to replace the Yeti model. Customers will be able to order the new cars as of the end of July and they will first receive them in the second half of October. According to Skoda Auto's Czech representation head Lubos Vlcek, Skoda plans to sell 8,000 Karoq cars next year, which is about 3,000 more than annual Yeti deliveries.

CTK CEZ SETTING UP NUCLEAR ENERGY DIVISION – 18.5.

Energy utility CEZ¹⁹ creates a new nuclear energy division as of June 1 that will be headed by Temelin NPP²⁰ director Bohdan Zronek who will also become a member of the CEZ

¹⁸ **Škoda JS:** the Pilsen-based engineering giant owned by Russian engineering group OMZ

¹⁹ **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.

²⁰ **NPP:** Nuclear Power Plant

board of directors, CEZ spokesman Ladislav Kriz told CTK today.

Jan Kruml will replace Zronek as Temelin head as of September 1. Zronek will also be responsible for construction of new nuclear sources.

By setting up the new division, CEZ is responding to the need to meet the requirements of the amended atomic law and improve the safety level at nuclear facilities, said Kriz.

The national action plan of nuclear energy development envisages the construction of one unit at Temelin and one at Dukovany nuclear power plant, with a possible extension to two units at both plants. Dukovany's completion is a priority task.

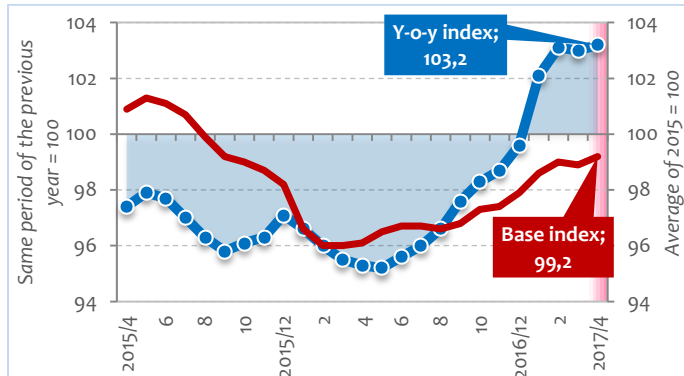
Zronek started working at Temelin in 1994, and has been its director since 2015. "The creation of the independent division is a logical step responding to the new legislation," said Zronek. He said he will seek to simplify management and find synergies between the existing and potential new sources.

"It will not be easy in the current Europe but I believe we will still rank among the European leaders in the field of nuclear energy," Zronek said.

CEZ is 70% owned by the state via the Finance Ministry. CEZ netted CZK8.7bn in Q1, an annual drop of 13%. Sales reached CZK52.8bn, about 2% more in annual terms.

CSO: APRIL GROWTH IN CZECH INDUSTRY PRICES UP AT 3.2% Y-O-Y – 18.5.

Graph 1: Industrial producer price indices, 2015-2017, Y-o-y²¹ (in %)



Czech industry prices accelerated their annual rise in April to 3.2% from 3% in March and prices went up in agriculture, construction as well as in services, the CSO²² said today.

Export prices grew faster in March in annual terms, by 2.6%, while import prices saw a slowdown to 5.3%. Month on month, the former prices stayed unchanged, while the latter prices fell by 0.2%, the CSO said.

"Inflation of industrial prices in April was the fastest since February 2012. Industrial producers are currently worried mainly about growing prices of iron, steel and copper," analyst Lukas Kovanda of the Cyrrus company said.

Producer prices are in line with the core inflation growth in the Czech economy, Radomir Jac, chief economist at Generali Investments CEE, said.

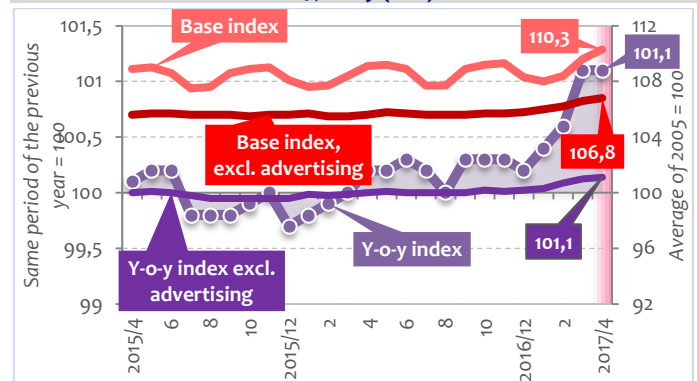
"Although the influence of commodity prices may moderate in the months to come, strong demand and upward pressure

²¹ Y-o-y: year on year

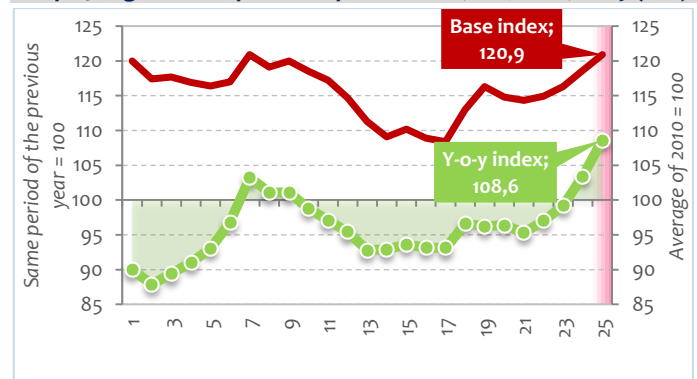
²² CSO: Czech Statistical Office, is the main organization which collects, analyses and disseminates statistical information for the benefit of the various parts of the local and

on wages will continue to force domestic producers' prices to grow," Kovanda said.

Graph 2: Market services price indices in business sphere, 2015-2017, Y-o-y (in %)



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

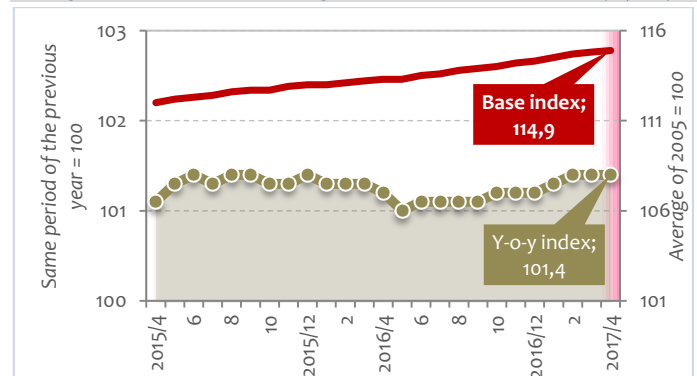


Farmers' prices increased by an annual rate of 8.6% in April. Statisticians said crop production prices were higher than those in animal production, by 4.5%, such a development seen for the first time in 12 months. Animal production prices rose by 13.7% because of rising prices of slaughter pigs, milk and eggs.

Construction work prices grew by 1.4% in April annually, the same rate as in March, which was also true of prices of services that posted an annual rise of 1.1% in April due, above all, to growing prices of postal and courier services.

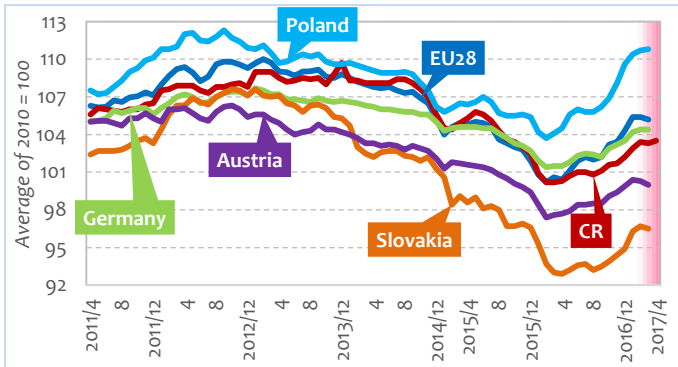
Industrial producer prices added 0.3% on the month, prices in agriculture rose by 1.9%, in construction by 0.1% and in services by 0.6%.

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



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

Graph 5: Industrial producer price indices, International comparison, 2011-2017, monthly data (2010 average = 100)



CEZ SUPERVISORY BOARD FAILS TO OK SALE OF POCERADY TO CZECH COAL – 18.5.

The supervisory board of energy group CEZ today did not approve a sale of Elektrarna Pocerady brown coal-fired plant to Vrsanska uhelna company of financier Pavel Tykac's group Czech Coal, said supervisory board chairman Vaclav Paces.

The situation in the European brown coal industry is uncertain, which is the main reason behind CEZ's decision, Paces said. "Czech Coal takes note of the decision of the CEZ supervisory board," Gabriela Sarickova Benesova, spokeswoman for Czech Coal, told CTk.

"We perceive this choice as a confirmation that conventional Czech coal sources that significantly stabilise the power network, becoming unsteady due to supplies of electricity from renewable sources, have a strategic importance and yet a long future," said Benesova.

"In line with this trend, we will continue supplying coal for CEZ's Pocerady plant until 2060, as set in the valid contract," she added. According to earlier information, the possible sale of the plant was backed by the board of directors of CEZ.

Vrsanska uhelna said previously it offered CZK10bn for Pocerady and that the offer was valid under the agreed conditions until the end of April. It said on Wednesday it extended its offer so that it might be discussed by the supervisory board at its meeting today. Vrsanska uhelna said the deal would not materialise without a consent by the Finance Ministry by means of which the state holds a majority at CEZ.

Finance Minister Andrej Babis criticised the plant's sale previously. However, the MF said on Wednesday that its stance cannot outweigh that taken by the supervisory board. CEZ spokesman Ladislav Kriz said the board's decision is changing nothing on the company's strategy counting on brown coal phase-out and its being carbon-neutral by 2050:

"CEZ was dealing with the plant's sale because the counterparty came up with an advantageous offer which had to be examined thoroughly in the interest of shareholders. The transaction under the agreed conditions had been recommended by independent expertise from three companies - Deloitte, KMPG and Erste Corporate Finance."

The supervisory board has 12 members, eight of whom are representatives of the state and four represent employees.

²³ 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, data issued by the CSO

The deal has been criticised by environmentalists who mind the fact that Vrsanska uhelna would run the plant longer than CEZ. Elektrarna Pocerady is located between the towns of Louny and Most in the north-west of Bohemia. With an installed capacity of 5 x 200 MW, it is one of the largest coal-fired plants in the country.

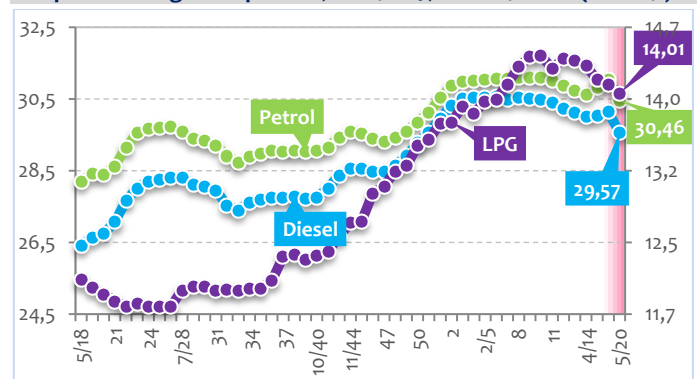
CEZ said in its annual report that the coal plant's net profit soared by 63% to CZK439m last year, with sales growing by 44% to CZK7.7bn. Total assets posted an annual rise of 10% to CZK9.7bn.

In 2013, Vrsanska uhelna signed a 50-year contract with CEZ on coal supplies to Pocerady, which comprised two options for Pocerady's sale. CEZ may have exercised one option in 2015, however, it did not do so. By the end of 2019, it will have to make a decision on a second option for the plant's sale as of 2024. Should it exercise the option, it would get CZK2bn for the plant.

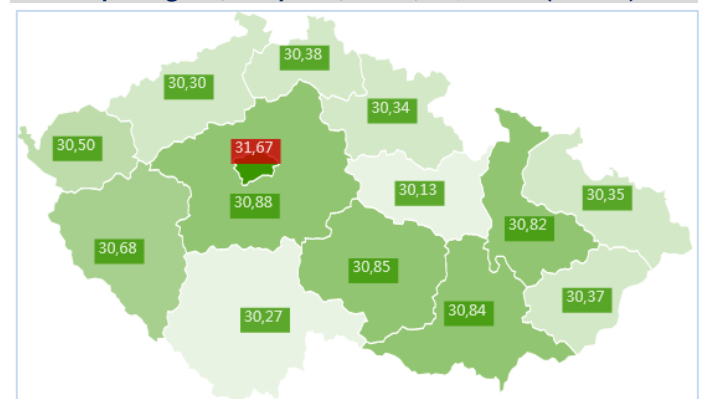
CCS: FUEL PRICES DOWN FOR THIRD STRAIGHT WEEK IN CR – 18.5.

Czech fuel prices decreased for the third time in a row in the past week, with top-selling petrol Natural 95 prices down by 16h to CZK30.63/l on average and diesel oil selling for an average CZK29.67/l, a drop of 16h, according to CCS company. Finlord analyst Boris Tomciak said Czech fuel prices will soon stop falling: "We are expecting another mild decrease by a few hellers in the coming week, however, the end of May can see a modest growth in prices."

Graph 6: Average fuel prices²³, 2016/2017, Month/Week (in CZK/l)²⁴



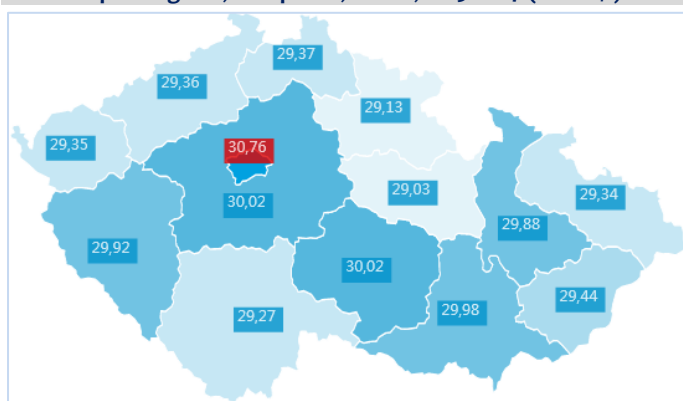
Map 1: Regions, fuel prices, Petrol, 12. 5. 2017²⁵ (in CZK/l)



²⁴* Exception in time series, data issued by the CCS Company

²⁵ data issued by the CCS Company

Map 2: Regions, fuel prices, Diesel, 12. 5. 2017 (in CZK/l)



The reason is a renewed oil price growth and an almost certain extension of a deal to limit oil output by OPEC (Organisation of the Petroleum Exporting Countries) and Russia, Tomciak said.

"Saudi Arabia and Russia said they were in favour of extending the deal ... until the end of the first quarter of 2018 because of the high supply of oil in the world," Tomciak said. Petrol prices have declined by some 40h and prices of diesel oil by 50h on average since the start of the month, hitting the lowest level compared to the end of 2016 and the beginning of 2017.

Conversely, prices were at their highest in March, with a litre of petrol and diesel oil selling for more than CZK31.30 and CZK30.50, respectively.

Average prices of motor fuels in CR as of May 17 (CZK/l)

Region	Natural 95	Diesel Oil
CR	30.63	29.67
Prague	31.75	30.78
South Bohemia	30.28	29.32
South Moravia	30.92	30.03
Karlovy Vary	30.58	29.41
Hradec Kralove	30.31	29.23
Liberec	30.43	29.39
Moravia-Silesia	30.37	29.33
Olomouc	30.88	29.93
Pardubice	30.09	29.07
Plzen	30.67	29.95
Central Bohemia	30.90	30.02
Usti	30.28	29.39
Vysocina	30.95	30.07
Zlin	30.45	29.41

CEZ MAY PAY, FOR 1ST TIME, SOME DIVIDEND FROM RETAINED PROFITS – 19.5.

The board of directors of CEZ power producer wants to pay a part of dividend from retained profits, which would be for the first time since 2001 when it launched dividend payouts, said a report for a general meeting of the company scheduled for June 21.

CEZ's management is proposing a dividend of CZK33 per share before taxes for last year.

In the last four years, its dividend was CZK40 per share.

A total of CZK17.8bn is to be distributed among shareholders, with CZK8.8bn to be paid from the 2016 net profit.

The state as a majority shareholder might receive CZK12.4bn. For the first time in 16 years, CEZ's management is not proposing any bonuses to the board of directors and the supervisory board. The MF banned their payment in the past two years.

DIA CEEC: INVESTORS AWARD TENDERS FOR CZK95.2BN IN Q1 – 19.5.

Public investors completed and awarded to contractors a total of 2,904 public tenders in the value of CZK95.2bn in a period from January to March 2017. This represents the highest number of awarded contracts in last three years and a two-year high in terms of their volume. Public investors opened 2,029 public tenders in the value of CZK52.6bn in the first quarter of 2017. This stems from an analysis developed by CEEC Research based on data published in the Public Tender Bulletin.

CTK MOL TO SUPPLY DIESEL OIL WORTH CZK230M TO CZECH RESERVES – 21.5.

Hungarian oil company MOL, which runs fillings stations in the CR, will supply diesel oil worth almost CZK230m without VAT to Czech state reserves, as it has won a public tender organised by the Administration of State Material Reserves (SSHR), SSHR spokeswoman Edita Pechalova has told CTK.

MOL will supply 20 million litres of diesel oil for arctic and extremely cold climate, Pechalova said.

"The contract has been signed for two years and its price will change moderately depending on the exchange rate of the US dollar. The diesel oil is designed for long-term storage and it must not be older than 60 days from the day of production. It must not contain any organic additives," Pechalova said.

At the beginning of April, SSHR said the CR no longer complies with the EU directive on emergency reserves of crude oil, as it now has reserves for 87 days while the required minimum reserves for countries not extracting oil are set at 90 days.

The decrease in reserves was caused by the growing economy and higher imports of petrol to the CR, according to SSHR.

According to Pechalova, the current purchase of diesel oil will improve these statistics moderately, but the CR will still not get above the required level.

SSHR chairman Pavel Svagr said that in order for the CR to meet the EU directive, it would need more money from the government.

Svagr has been warning against thinning oil reserves several times. Last August he told CTK that domestic reserves of these commodities had fallen from 95 to 91 days since the beginning of 2016.

The Finance Ministry said then that it wanted SSHR to prepare a medium-time strategy for the structure of emergency reserves of crude oil and oil products.

CTK TEMELIN LAUNCHES PLANNED 3-MONTH SHUTDOWN OF UNIT 2 – 21.5.

The Temelin NPP launched the planned three-month shutdown of its unit 2 on Friday night, with technicians to replace a quarter of fuel and upgrade to the volume compensator, Temelin spokesman Marek Svitak has told CTK.

Technicians will also check safety systems and test the tightness of the reactor's containment building.

After the reactor is cooled down over the weekend, the main work will start on Monday, Svitak said.

A total of 43 fuel assemblies will be replaced during the outage.

The tightness of the reactor's containment is tested in each unit once in four years. The shutdown of unit one is scheduled for December 30. It will last three months. Temelin has supplied 7.2TWh of electrical power to the grid this year.

CTK CR'S CAR OUTPUT RISES BY 6% TO 498,124 UNITS IN JAN TO APRIL – 22.5.

Car production in the CR increased by an annual rate of 6% to 498,124 units in the January-April period, with Skoda Auto and Hyundai companies showing a rise of 14% and 2%, respectively, the Automotive Industry Association said today.

"Everything suggests that the domestic car production is heading for a record-breaking year," the Automotive Industry Association head Bohdan Wojnar said.

The car production profited from the euro area's economic acceleration, mainly in Germany, he added.

The euro area's economy is expected to slow down a little, however, the private consumption growth should stay stable supporting the Czech automotive industry which remains a driver of the industrial output, Wojnar stated.

"Czech automotive production fell in April in annual and month-on-month terms, however, this drop was mainly caused by a lower number of working days," said Zdenek Petzl, Secretary General of the Association.

"Adjusted for this effect, the annual growth stayed at a satisfactory rate of some 5%. West European demand remains good, and so do the euro zone's new car registrations," Petzl said.

Komerční banka analyst Viktor Zeisel said the April figure will influence the performance of industry whose production will likely show an annual drop, just like car production. However, adjusted for calendar effects, it should maintain the positive dynamics, Zeisel said.

"Foreign demand for cars is still very good. The registration of new cars in Germany is getting weaker, but for the entire euro area, new car registrations are maintaining a solid annual growth rate," Zeisel said.

"For now, we believe the slowdown in the CR's western neighbour will chiefly affect foreign trade, while household consumption should continue growing, with demand for Czech cars staying good," Zeisel said.

The production of lorries, which is represented by the brand Tatra Trucks, soared by 57% to 518 vehicles. Exports were 38% higher and domestic sales posted a rise of 36%.

A total of 1,385 buses were produced in the first four months of the year, 2% more from the same year-ago period. Iveco CR made 1,264 units and SOR 103 buses.

Motorcycle manufacturer Jawa, the sole Czech producer of one-track vehicles, made 632 units in the Jan-April period, displaying an annual decrease of 30%.

CTK DEPUTY FINANCE MINISTER HAVLICEK: NO ONE CAN SAY THIS GOVT WILL DECIDE ON REACTOR FUNDING – 23.5.

No one can state clearly that the current cabinet will make a decision on the form of financing a new nuclear unit in the CR, Industry and Trade Minister Jiri Havlicek said at the European Nuclear Forum today.

Like PM Bohuslav Sobotka, he described the completion of nuclear power plant Dukovany as a priority. Dukovany has a shorter lifespan than nuclear power plant Temelin.

This issue will be thoroughly discussed at a meeting of the permanent committee for nuclear energy that is scheduled for mid-June this year, Havlicek said.

In the middle of January this year, this committee failed to agree on the form of financing new nuclear units. Before the meeting, Finance Minister Andrej Babis said the state would not provide any money for the construction of a reactor as long as he serves as a finance minister. Energy group CEZ, which runs both plants, can easily borrow in the market, he said.

The neighbouring Slovakia has similar problems.

Slovak Economy Minister Peter Ziga told journalists at the Forum that the Slovak-Czech project of the completion of nuclear power plant Jaslovské Bohunice has been slowed down because it has no economic return presently. The project has been prepared by a joint venture that was created by Czech energy group CEZ and Slovak state-run company JAVYS. The European Commission gave the green light to the joint venture creation in 2009.

The current economic conditions make it impossible to meet the economic targets of the project. "We are waiting for a better period where baseload energy prices on the market will be moderately higher. From a technical point of view, the project has been prepared (for implementation)," Ziga said.

According to earlier information, new units should help make up for the older sources, including two reactor units at Jaslovské Bohunice, that were shut down in Slovakia in the past.

CIA SOUTH MORAVIA: CHINESE INVESTOR TO SPEND CZK1.6BN ON SPA'S CONSTRUCTION – 23.5.

South Moravia Region's representatives have closed another preparatory phase of the Thermal Pasohlávky spa centre project and signed a new Memorandum on Additional Joint Action as part of the Czech President's official visit to the People's Republic of China.

The regional authority has already invested more than CZK250m into the buyout of lots on which the project should be built in the future.

Chinese partner will subsequently invest CZK1.6bn into the building of a new spa resort.

TOURISM & TRADE

CTK CSO: MACHINERY, CARS MAKE UP OVER TWO THIRDS OF CR'S EXPORTS TO UK – 18.5.

Machinery and cars account for more than two thirds of Czech exports to Great Britain, with their 2016 share and volume being 70% and CZK145bn, respectively, and Britain represents the fourth biggest export destination of Czech companies, the CSO said at today's press conference.

Czech companies' exports to Britain have increased nearly 2.5-fold since the CR entered the EU, the CSO said.

Czech exports to Great Britain constitute two thirds of the Czech-British trade, the rest being imports. Last year, the export and import volumes reached CZK207bn and CZK93bn, respectively.

Great Britain was the CR's ninth largest import partner in 2016. The share of Czech exports to Great Britain was 5.2% in 2016, with the country exporting more to Germany, Slovakia and Poland, the CSO chairwoman Iva Ritschelova said.

The road vehicles export to Britain has risen almost fourfold since 2005, reaching CZK67bn last year, said Karel Kral of the CSU's external trade statistics department.

Other export articles include industrial consumer goods, semi-finished products and materials.

Czech imports of machinery and vehicles from the UK account for the biggest share of 54% in the total volume, reaching CZK50bn in 2016. Imports of electric devices and appliances doubled to CZK22bn last year.

In the future, the Czech-British trade might be negatively impacted by Brexit.²⁶ The Confederation of Industry said in March that maintaining free trade with Britain is a priority for Czech companies.

There are roughly 300 British companies operating in the CR, including Vodafone, Tesco, HSBC, Marks & Spencer, Mott MacDonald, AMEC, BAE Systems, Rolls-Royce (engineering), John Crane, Smith Medical, GSK and Ricardo. British companies employ about 65,000 people in the CR.

About 100 Czech companies are on the British market, such as Skoda UK, Budvar UK, Lasvit, Linet and Energeticky a prumyslovny holding.

RUSSIANS FLOCK BACK TO PRAGUE – 18.5.

Some 1,380 000 people visited Prague in the Q1 of 2017, spending over three million nights in the city, according to data released by Prague City Tourism. After years of downfall in the number of Russian tourists, the office has recorded a significant surge in the number of Russian tourists.

NO. OF ASIAN TOURISTS IN PRAGUE UP BY QUARTER IN Q1 – ANALYSIS – 22.5.

The number of Asian tourists visiting Prague has been increasing and this year's first quarter registered an annual growth by a quarter, with their share in the overall number of foreign tourists reaching 17.4%, according to an incoming tourism analysis of Prague City Tourism organisation.

In 2013, tourists from Asia accounted for 11.3% of the total tourist number, the analysis said.

South Korea and China make up half of the number of Asian tourists, staying for 1.7 nights on average, which is the shortest period.

The number of tourists from other Asian countries increased by 21.4% year on year.

The increase in the number of tourists from South Korea and China was influenced by new air routes. There are three regular air routes from China to the CR flying from Beijing, Shanghai and Chengdu. A line from China's Kunming has

been discussed, Regional Development Minister Karla Slechtova has said recently.

Korean Air airline raised the capacity of some of the flights to Prague by introducing double-deck Boeing 747-8i.

Prague welcomed a total of 1.13 million tourists in Q1. A total of 65.1% of foreign tourists coming to Prague were from Europe.

Foreign tourists in Prague in Q1

Ranking	Country	No. Of tourists	Change	Change in %
1.	Germany	144,794	-21,683	-13.0
2.	Russia	92,395	+31,748	+52.3
3.	Great Britain	90,255	+3,478	+4.0
4.	Italy	81,807	+10,426	+14.6
5.	Slovakia	57,687	+3,032	+5.5
6.	South Korea	56,951	+16,901	+42.2
7.	USA	55,347	+3,402	+6.5
8.	France	48,420	+5,872	+13.8
9.	China	42,190	+13,798	+48.6
10.	Poland	36,180	+2,340	+6.9

AUTOSAP: 500,659 VEHICLES MANUFACTURED IN CR IN 4M 2017 – 24.5.

Motor vehicle production in the CR totalled 500,659 in 4M 2017. Of the total, passenger car production amounted to 498,124 (up 6.3%). Bus production grew 30 to 1,385. The sole truckmaker in the country, TATRA TRUCKS, saw its production grow 56.6% to 518. JAWA motorcycle production dropped 29.7% to 632.

TRANSPORT

D. ŤOK: ANOTHER DIRECT FLIGHT ROUTE FROM PRAGUE TO CHINA – 18.5.

The Chinese Civil Aviation Authority has granted a licence for flights from Shanghai to China, with transfer in Xian, Czech Minister of Transport Dan Ťok (ANO²⁷) has confirmed. First flight can take place within six months. Prague has currently direct flight connection to Beijing, Shanghai and Zhangzhou. The minister has added that CR offers capacities for the training of navigation staff, pilots and crew via the Air Navigation Services of the CR. The F-Air pilot school in Benešov gained in October 2016 Chinese licence for training Sichuan Airlines' pilots. The training started in February 2017 with theoretic lessons at Nanjing University

TOK TO PROPOSE NOT JOINING LAWSUIT AGAINST GERMAN TOLL – 19.5.

Transport Minister Dan Tok will propose to the government at its next meeting that the CR do not join the lawsuit against the motorway toll in Germany, Tok told journalists today.

Tok said he wanted to respect the opinion of the EC,²⁸ which has given the green light to the German toll bill.

A number of countries with Austria at the helm are criticising the German toll bill, saying that it will harm foreign drivers. The CR has been considering joining Austria's lawsuit against the German bill.

²⁶ **Brexit:** The withdrawal of the United Kingdom from the European Union

²⁷ **ANO:** ANO 2011, centre-right party

²⁸ **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.

The EC halted the proceedings with Germany on Wednesday. According to Tok, joining the lawsuit would not make sense. In addition, it has to be taken into account that Germany is a significant business partner for the CR, he added.

Both the CR and Austria use motorway sticks for passenger cars, so there is no reason for Germany not to introduce them as well, Tok said.

The critics say the toll will actually be paid by foreign drivers only, while the owners of cars registered in Germany will be refunded for the toll in the form of tax discounts.

The Transport Ministry will manage to spend all funds from the current programme for transport infrastructure development. The state has already paid CZK19.3bn to construction companies for implemented project, Tok also said. The CR can draw about CZK100bn for construction projects from the programme in 2014-2020.

The CR has already prepared 103 projects worth CZK58.6bn, which is more than a half of the total amount available, Tok said. Besides the Transport operational programme, the CR can also draw funds from the Connecting Europe Facility (CEF) programme, in which a total of EUR1.1bn (CZK29.3bn) have been earmarked for it. The CR has already prepared projects worth EUR840m (CZK22.6bn) under this programme, Deputy Transport Minister Tomas Cocek said.

CZECH GOVT OKS REPORT ON HIGH-SPEED RAIL

CONSTRUCTION – 22.5.

The Czech government today approved a report on high-speed rail construction, with the network of high-speed lines connecting the country to its neighbours to cost CZK650bn, Transport Minister Dan Tok, who submitted the document to the cabinet meeting, told CTK.

The lines are to connect the CR and Germany via Dresden in the north, and via Domazlice in the south. The line from Dresden will continue via Prague, Brno and Breclav, with an alternative extension to Vienna and Bratislava.

The rail link from Brno will continue to Katowice and the line from Prague to Wroclaw (both cities are in Poland).

Now it is impossible to set a date for a possible start of the construction of the high-speed rail, which will allow the trains to run at a speed exceeding CZK300km per hour. Tok said the ministry is preparing an outline of a bill aimed at speeding up the construction of these projects. Taking into account the current legislative process, it might take 10 to 15 years to prepare such big projects, he added.

The new legislation, which will be debated by the next cabinet to emerge from a general election in October, should accelerate significantly the preparatory stage, Tok said.

The first line to be built will connect Berlin via Dresden to Prague. A feasibility study is currently being drafted in the CR, Tok said.

The second line will go from Prague to Brno from where it will continue in two directions - Breclav and Ostrava.

RESEARCH & DEVELOPMENT & INNOVATION

NEW SCIENCE AND TECHNOLOGY PARK TO BE BUILT IN

DOBRY – 19.5

COMTES FHT, a company specialising in research and development of metal materials, on Friday started building a CZK150m science and technology park in Dobry, near its

existing research premises, Libor Kraus, a co-owner of the company, told CTK.

The project, focusing on activities with a high degree of value added in the field of innovation, patents and new technologies, will be completed in 2019, creating about 80 new jobs, Kraus said.

GOVT APPROVES SPENDING ON SCIENCE TOTALLING CZK36BN FOR 2018 – 23.5.

Czech government approved on May 22, 2017, state budget spending on research, experimental development and innovations in 2018 with a medium-term outlook for 2019-2020. The Government Council for Research, Development and Innovations (RVVI) plans to spend CZK36bn on science, up CZK1bn on the originally approved outlook. The spending in 2019 is proposed at CZK37.3bn and for 2020 at CZK38.5bn. The medium-term outlook for 2019 and 2020 will be subject to additional debate during the state budget preparation in September 2017.

POLITICS & OTHER

VOLUME OF PUBLIC CONTRACTS AWARDED IN Q1 ALMOST

TRIPLES Y-O-Y – 19.5.

Public investors in the CR awarded CZK95.2bn worth of contracts in the first quarter of this year, with the value nearly tripling, and the number of public contracts went up by 45.6% to 2,904, according to the latest analysis of CEEC Research company made available to CTK.

The value of announced contracts declined annually by 28.6% to CZK52.6bn in Q1, CEEC Research said. The number of announced public contracts dropped by 5% to 2,029 at the end of March.

The number and volume of public contracts was highest in three and two years, respectively.

"The record-breaking number and volume of contracts launched in last year's third quarter, caused by investors worrying about the new law on public procurement, is now being successfully completed," Hochtief construction company board member Tomas Koranda said.

The law took effect in October 2016.

The construction sector accounted for nearly a quarter of all awarded public contracts at the end of March. The value of three construction contracts exceeded CZK1bn, according to data of URS Praha company.

SZDC rail track management company announced the largest public contract in March, with the project of Rikonin - Vlkov u Tisnova rail track reconstruction worth CZK1.4bn.

Latest data show that the decline in public contract announcing in the first few months is phasing out, with the positive Czech economic development and investors' optimistic expectations becoming evident, KPMG Ceska republika's partner Pavel Kliment said.

CR HAS 26.2% OF EU FUNDS SECURED BY CONTRACTS – 21.5.

The CR had 26.2% of European subsidies allotted to it for the budget period 2014-2020, or almost CZK160bn out of the total CZK648bn, secured by contracts as of the end of April, according to information published on the Regional Development Ministry's website.

By the end of this year, the ministry wants to have at least 40% (CZK244bn) of EU subsidies secured by contracts. Since the beginning of this year, the CR has drawn CZK73.2bn from EU funds, which is more than for the entire 2016.

The best progress is shown by the Employment programme, which has already secured three fifths of the allotted CZK56bn by contracts.

In contrast, the worst results are shown by the operational programme Prague, which has secured only 8% of the allotted funds by contracts so far. According to Deputy Regional Minister Olga Letackova, the end of 2018 will be significant for the CR, as the European Commission will be evaluating individual countries and their programmes to assess how they meet their obligations towards the Europe 2020 strategy. If the CR fails to meet these obligations, it might lose 6% (CZK38.6bn) of the amount allotted to it for the current budget period, Letackova noted.

In the budget period 2007-2013, the CR could draw about CZK700bn from EU funds, and about 4% of them remained unspent.

CTK TWO THIRDS OF CZECHS CONSIDER STATE, HOUSEHOLD DEBT HIGH – POLL – 22.5.

About two thirds of Czechs consider the debt level of the CR and its inhabitants high, with two thirds of respondents considering the state debt a serious issue and 71% regarding households' debt as a serious issue, according to a survey conducted by the CVVM public opinion research centre in March.

The perception of the state debt as a serious issue has been falling since 2013. The same hold true about the perception of households' debts. 23% of those polled said the CR's debt is very high, and another 42% said it is rather high.

According to about one fifth of respondents, the current debt level of the state is adequate. Only 4% of respondents said the state debt level is rather or very low.

Concerning the level of households' debts, 18% of respondents said it is very high and 50% said it is rather high. Slightly over one fifth of respondents said households' debt level is adequate, and 4% said it is rather or very low.

The debt level is assessed as high less frequently by people with good living standards and people aged 15-19 in the case of the state debt and people aged 20-29 in the case of households' debt.

About one fifth of respondents consider the state debt a very serious problem and more than two fifths regard it as a serious problem. About 22% of respondents consider households' debt a very serious problem and nearly 50% regard it as a serious problem. The poll was conducted among 1,045 respondents over 15. At the end of March 2017, the state debt amounted to CZK1,789bn, and Czech households owed CZK1,446bn to banks.

CSO: CONFIDENCE IN CZECH ECONOMY WORSENS BY 0.2 TO 97.2% IN MAY – 24.5.

Confidence in the Czech economy remained almost unchanged in May and the composite indicator dropped

monthly by 0.2 to 97.2 points, with business confidence decreasing by 0.2 to 94.9 points and consumer confidence staying at 108.4 points, the CSO said today.

Annually, confidence in the Czech economy improved, which goes also for both business and consumer confidence, the CSO said.

Despite the mild decrease, business confidence remains at a very good level, Viktor Zeisel of Komerční banka said.

Consumer confidence was not impacted even by the recent government crisis, he stated.

Consumers' concerns about the economic situation deteriorating in the forthcoming 12 months increased, the survey said. Worries about consumers' financial situation remained almost unchanged, as did fears of unemployment and price growth. The intention to save money grew.

Consumer confidence is still the most positive aspect of the generally high confidence, Roklen group economist Michal Soltes said.

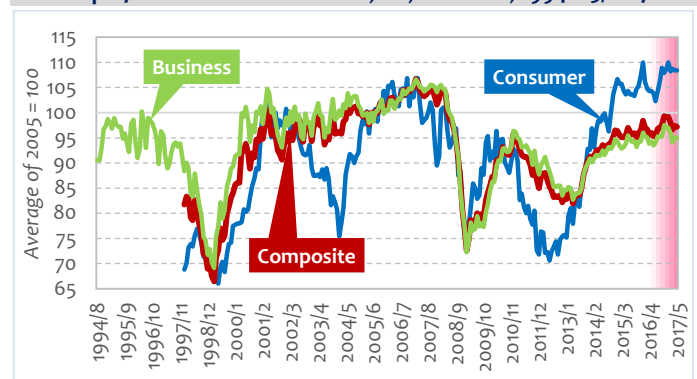
Households confirm the labour market data and employees are not worried about losing their job, with their optimism being supported by a strong wage growth, he added.

In industry, business confidence dropped by 0.1 to 93.6 points. The expected employment growth declined. This fact is likely connected with the labour market's lack of workforce, Zeisel said.

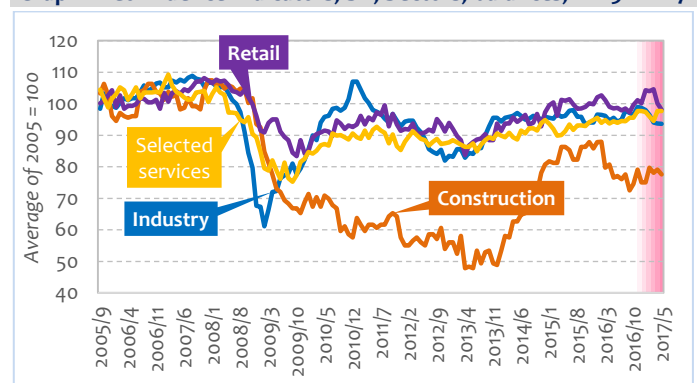
In construction, confidence went down by 1.5 to 77.6 points.

In trade and services, confidence decreased by 2 to 98.1 points and stayed at 97.7 points, respectively.

Graph 7: Confidence Indicators, SA,²⁹ Overall, 1994 – 5/2017

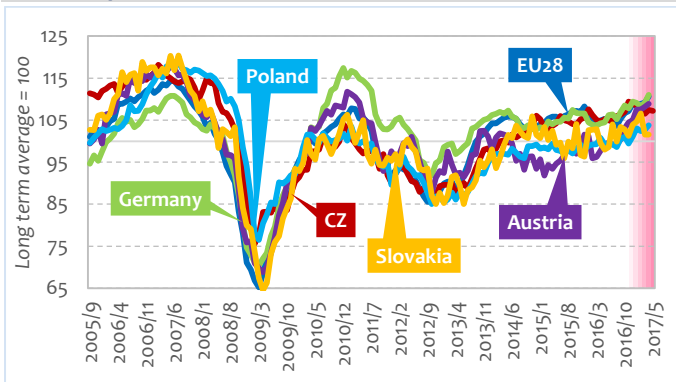


Graph 8: Confidence Indicators, SA, Sectors, balances, 2005 – 2017



²⁹ 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: Confidence Indicators, Countries, 2005 - 2017



ZEMAN TO SACK BABIS, APPOINT PILNY ON WEDNESDAY – 23.5.

Czech President Milos Zeman will dismiss Deputy PM and Finance Minister Andrej Babis from the government and appoint Ivan Pilny (both ANO) as a new finance minister on Wednesday, Zeman's spokesman Jiri Ovcacek told reporters today.

Zeman is to meet ANO chairman Babis before sacking him. Zeman will meet Pilny later today.

Ovcacek also told CTK today that Zeman would appoint Environment Minister Richard Brabec as deputy PM next week to replace Babis.

Zeman will also meet Education, Sports and Youth Minister Katerina Valachova (Social Democrats, CSSD) next week, Ovcacek said.

Valachova decided to tender her resignation as of May 31 to take political responsibility for the case of influencing sport subsidies of which her deputy Simona Kratochvilova is accused along with Miroslav Pelta, chairman of the Czech Football Association (FAČR).

Ovcacek said Zeman would dismiss Babis at Prague Castle, the presidential seat, at 17:00 on Wednesday.

"The government crisis stirred up by PM Bohuslav Sobotka will be thereby terminated," Ovcacek said.

Zeman said last week he had no objections to appointing Pilny and that he might do so this week.

Babis indicated in the past days that he was willing to leave the government. He said he would call on Zeman to dismiss him. However, he disagrees with the reasons for his proposed dismissal.

Sobotka justified his proposal for Babis's dismissal by the suspicions of tax evasion and influencing the media Babis owned.

The ANO movement first proposed Babis's deputy Alena Schillerova and Environment Minister Richard Brabec (ANO) for his replacement. Sobotka rejected these names, arguing with the candidates' close links to the Agrofert Holding.

Babis owned the concern, including several media outlets, until February when he transferred it to trustee funds to comply with an amended conflict of interest law.

The disputes in the government coalition of the CSSD, ANO and the Christian Democrats (KDU-ČSL³⁰) erupted three weeks ago. They were accompanied by several twist and turns, mutual accusations and insulting mainly of Babis and Sobotka but also other top politicians.

Babis ends in the cabinet both as finance minister and deputy PM. Brabec will replace him in the latter post.

ZEMAN APPOINTS PILNY CZECH FINANCE MINISTER REPLACING BABIS – 24.5.

Czech President Milos Zeman appointed today lawmaker Ivan Pilny as new finance minister replacing Andrej Babis (both ANO) whose dismissal PM Bohuslav Sobotka proposed to Zeman on May 5, citing his suspected tax evasion and influencing of the media he owned.

At the same time, Environment Minister Richard Brabec (ANO) replaced Babis in the post of a deputy prime minister. After the appointment ceremony, Sobotka introduced Pilny at the Finance Ministry.

He said the drafting of the 2018 state budget should be Pilny's priority as a minister. The draft budget should provide money to implement new legislation and cover investments and a pay rise.

Furthermore, Pilny should ensure a smooth drawing of money from the EU funds and the launch of a receipt lottery system, and he should assist in targeting economic incentives, Sobotka said.

Pilny said he will try to face the pressure exerted on the budget bill, which "is huge ahead of the elections," and to "bring the budget as close to reality as possible."

He said he also wants to prepare documents for a future tax reform.

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³⁰ KDU-ČSL: Christian and Democratic Union – Czechoslovak People's Party, centre party