

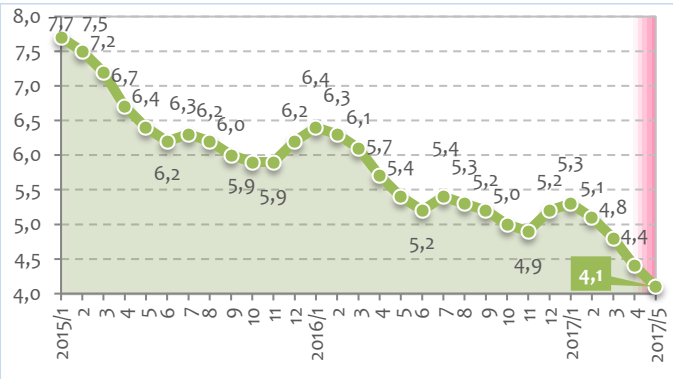
NEWS SUMMARY JUNE 8 – JUNE 14

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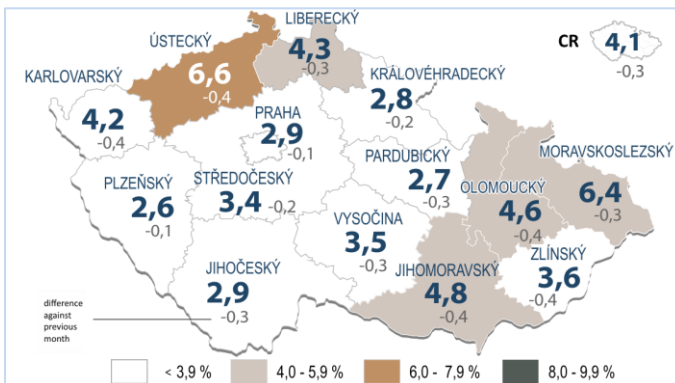
ECONOMY & FINANCE

UNEMPLOYMENT – 8. 6.

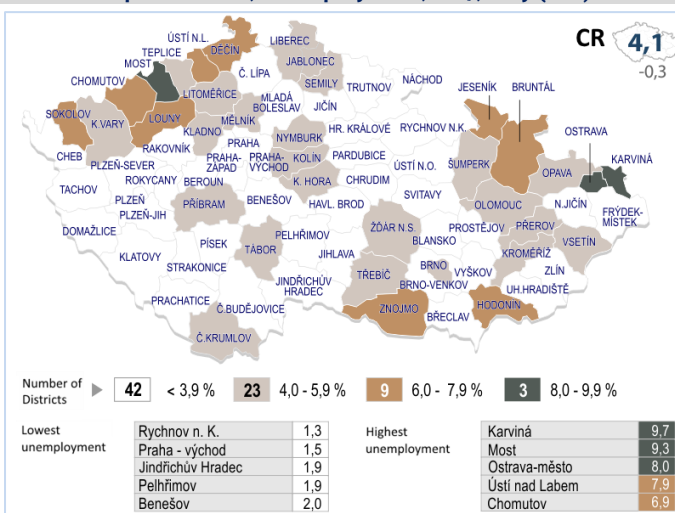
Graph 1: Unemployment, 2015- 2017 (in %)



Map 1: Regions, Unemployment, 2017, May (in %)



Map 2: Districts, Unemployment, 2017, May (in %)



Unemployment ¹ in the CR ² has gone down for the 4th consecutive month and is currently at its lowest level since May 2008. According to the latest figures from the LO³, 4.1% of the potential workforce was jobless in May, down by

¹ **Unemployment rate:** indicator of registered unemployment, the share of unemployed persons, which represents the share of all unemployed job applicants under the Employment Act no. 435/2004 24, who can immediately take up a job, in the age group 15-64 from all residents of the same age, as percentage, **data are issued by the MLSA (LO) based on registered unemployed persons.**

0.3p.p.⁴ on the previous months. Meanwhile, the number of vacancies has been gradually increasing and currently stands at over 174,000.

CONSUMER PRICE INDICES – 9. 6.

The **m-o-m**⁵ rise in consumer prices in 'food and non-alcoholic beverages' came from the increase in prices of fruit by 2.5%, pork by 2.6%, bread and cereals by 0.8%, non-alcoholic beverages by 0.9%. In 'alcoholic beverages and tobacco', prices of spirits were higher by 2.5%, wine by 3.2% and tobacco by 0.5%. In 'restaurants and hotels' continued moderate growth of prices in catering services, that amounted to 0.3% in May.

A drop in the price level came primarily from a price decrease in 'transport' due to lower prices of automotive fuel (▲1.1%). In 'miscellaneous goods and services', prices of personal care went down by ▲0.6% and prices of financial services by ▲1.1%. In 'food and non-alcoholic beverages', prices of vegetables were particularly lower by ▲7.2%, of which prices of vegetables cultivated for their fruit by ▲17.1% and prices of potatoes by ▲11.5%. Prices of goods in total went up by 0.2% as well as prices of services.

In terms of the **y-o-y**⁶ comparison, in May, the consumer prices increased by 2.4%, i.e. 0.4 p. p. up compared with April. The increase in the y-o-y price level in 'food and non-alcoholic beverages' was caused by acceleration in the price growth for many kinds of food. Prices of rolls and baguettes rose by 9.5% (8.4% in April), meat by 5.6% (3.5% in April), milk by 5.2% (2.0% in April), cheese by 14.3% (12.7% in April), yoghurts by 8.8% (8.1% in April), oils and fats 8.9% (7.7% in April), fruit by 4.3% (0.1% in April). The acceleration in the y-o-y price growth came also from the prices in 'alcoholic beverages and tobacco', where the decreasing influence of prices of spirits slowed down to ▲0.7% (▲4.1% in April). In 'clothing and footwear', the prices of garments turned from a drop by ▲0.4% in April to 0.2% growth in May and prices of shoes and other footwear accelerated to 4.3% (3.3% in April). In 'housing, water, electricity, gas and other fuels', y-o-y decrease in prices of natural gas decelerated in May to ▲0.8% (▲7.1% in April), due to particular m-o-m price drop in May 2016. In 'transport', prices of automotive fuel slowed down to 7.8% (12.6% in April).

The biggest influence on the growth of the y-o-y price level in May came from prices in 'food and non-alcoholic beverages'. Prices of eggs went up by 17.5%, butter by 16.4%, sugar by 19.6%. Next in order of influence were prices in 'housing, water, electricity, gas and other fuels', where prices of the net actual rentals rose by 2.7%, water supply by 1.2%, sewerage collection by 0.4%, electricity by 0.3%, solid fuels by 5.3%. The rise in the price level came also from prices in

² **CR:** the Czech Republic

³ **LO:** Labour Office

⁴ **P. p.:** percentage point

⁵ **M-o-m:** month on month

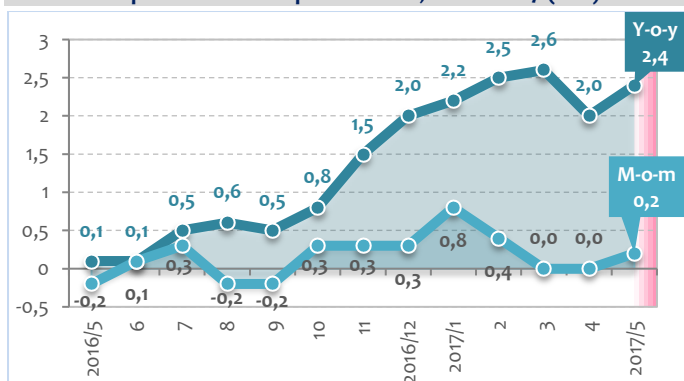
⁶ **Y-o-y:** year on year

'transport' (a growth by 4.1%) and in 'restaurants and hotels', where prices of catering services went up by 6.3% and prices of accommodation services by 2.2%.

A reduction in the price level came from the price decrease in 'furnishings, household equipment and routine household maintenance' (▲0.2%) and in 'communication' (▲0.1%). In 'housing, water, electricity, gas and other fuels', prices of heat and hot water went down (▲2.3%).

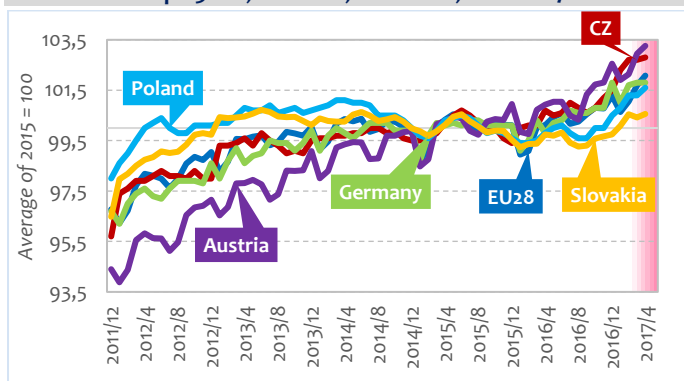
Prices of goods in total went up by 2.2% and prices of services by 2.8%. The overall consumer price index excluding imputed rentals was 102.3%, y-o-y.

Graph 2: Consumer prices Index, 2016 – 2017 (in %)



According to preliminary data of Eurostat⁷, the y-o-y change in the average HICP⁸ in the EU28⁹ member states amounted to 2.0% in April, i.e. 0.4 p. p. more than in March. The rise in prices was the highest in Estonia (3.6%) and Lithuania (3.5%) and the lowest in Romania (0.6%). In Slovakia, the price increase decelerated to 0.8% in April from 1.0% in March. In Germany, prices rose by 0.8% in April from 1.0% in March. According to preliminary calculations, the HICP in the CR in May rose by 0.2%, m-o-m, and by 2.5%, y-o-y. The MUICP¹⁰ flash estimate for the EA¹¹ in May 2017 was 1.4%, y-o-y

Graph 3: EU, Inflation, Countries, 2011 - 2017



⁷ Eurostat: Eurostat is a Directorate-General of the European Commission. Its main responsibilities are to provide statistical information to the institutions of the EU and to promote the harmonisation of statistical methods across its member states and candidates for accession as well as EFTA countries.

⁸ HICP: Harmonized Index of Consumer Prices

⁹ EU28: 28 member states of the EU, which are party to the founding treaties of the union and thereby subject to the privileges and obligations of membership

¹⁰ MUICP: Monetary Union Index of Consumer Prices

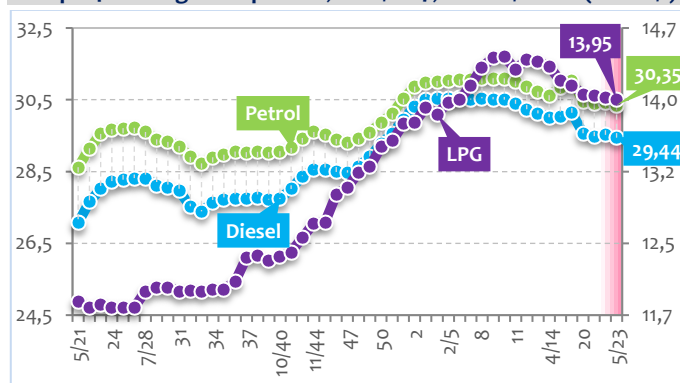
¹¹ EA: Eurozone, officially called the euro area is a monetary union of 19 European Union (EU) member states that have adopted the euro (€) as their common currency and sole legal tender.



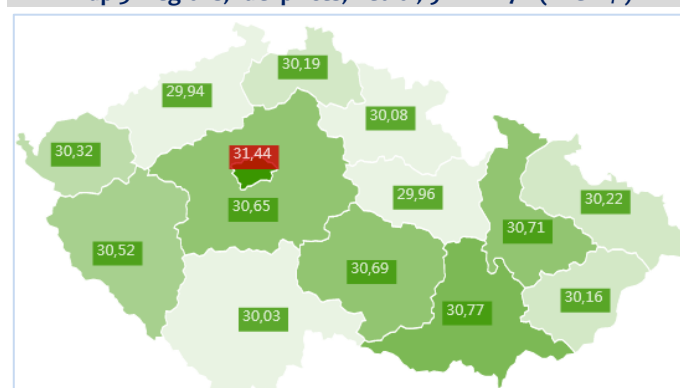
FUEL PRICES – 9. 6.

Natural 95 decreased by ▲8 h¹² to CZK¹³30.35/l¹⁴ over the past week. The average price of diesel oil decreased by ▲8h to CZK29.44/l.

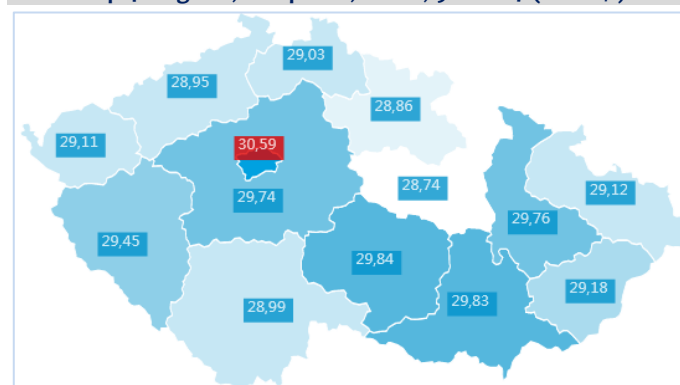
Graph 4: Average fuel prices¹⁵, 2016/2017, Month/Week (in CZK/l)



Map 3: Regions, fuel prices, Petrol, 9. 6. 2017¹⁶ (in CZK/l)



Map 4: Regions, fuel prices, Diesel, 9. 6. 2017 (in CZK/l)



FINANCIAL SECTOR STABLE – 13. 6.

The CNB¹⁷ stress tests confirmed the banks' resilience to a very strong recession and growing loss loans, but mortgages are a risk, according to the Financial Stability Report 2015/2016.

¹² 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.

¹³ CZK: Czech Crown, the currency of the CR since 8 February 1993

¹⁴ 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.

¹⁵ 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

¹⁶ data issued by the CCS Company

¹⁷ CNB: Czech National Bank

The financial sector's resilience remains stable and the sector is highly resilient to potential negative shocks, said the report.

CNB RAISES COUNTERCYCLICAL BUFFER RATE – 13. 6.

The CNB has raised the countercyclical buffer rate¹⁸ for all banks, credit unions and securities dealers to 1% from the current 0.5%, with effect as of July 2018, due to continued rapid credit growth and a need to create buffers for "worse times".

"The domestic economy has shifted further into a growth phase of the financial cycle, characterised by rapid growth in loans. It is necessary to use good times for provisioning, as provisions enable the banking sector to operate smoothly in worse times," CNB governor Rusnok said.

The CNB sets countercyclical buffer rate on a quarterly basis, always with effect from the following year.

CZECH CABINET APPROVES 2018 BUDGET – 14. 6.

The Czech cabinet approved the MF's¹⁹ draft state budget for 2018 with a CZK50bn deficit and outlined a medium-term budget outlook for 2019 and 2020.

Before the cabinet meeting, PM²⁰ Sobotka said the 2019 and 2020 budget plan should mainly raise defence spending.

"Our main problem rests in defence spending. That is why I would like us to outline defence spending worth 1.4% of GDP in the budget outlook for 2020. The outlook's present shape, as submitted [by the MF], does not meet the goal for the time being," Sobotka said.

Earlier, leaders of the government coalition parties, or the ČSSD²¹, ANO²² and the KDU-ČSL²³ agreed that the budget gap should not exceed CZK50bn next year.

However, individual ministries have come up with additional budget demands worth dozens of billions.

Sobotka said he believes that the ministries' claims will be reduced within the upcoming budget debate.

He said the cabinet will deal with the budget bill again in late August.

Sobotka wants the 2018 budget to primarily enhance the budget of universities, social services, health care and co-financing of EU projects.

The 2018 draft budget's expenditures are projects at CZK1,342bn and the revenues at CZK1,292bn.

CURRENT ACCOUNT SHOWS SURPLUS IN Q1 – 14. 6.

The current account of balance of payments showed a surplus of CZK94.5bn²⁴ in Q1²⁵ 2017.

The balance of payments usually shows a surplus in Q1 of a year and sometimes also in Q4²⁶. A year ago, the surplus was CZK15.4bn higher, hitting an all-time high.

The financial account recorded an outflow of funds (net lending abroad) worth CZK39.8bn. Reserve assets increased by CZK1,119.2bn, mainly due to the CNB's foreign exchange interventions.

¹⁸ **Countercyclical buffer rate:** The aim of creating the buffer is to prevent financial institutions' possible problems from shifting to the economy. As a consequence, growth of loans may slow down. The countercyclical capital buffer was introduced as an important macro prudential policy instrument within the European Union in 2014. Banks, credit unions and investment firms should create such a buffer on the basis of instructions from the regulatory authority at times of excessive credit growth, which are usually characterised by rising financial imbalances and accumulating systemic risk as a result of strong credit expansion. By contrast, the buffer should be released and used by banks as a capital buffer to cover losses at times of economic downturn

The balance of goods and services balance showed a surplus of almost CZK112bn. The y-o-y increase of CZK3.6bn was a result of an improvement in the balance services, where increases were recorded mainly for receipts from goods processed for foreign owners and receipts from transport.

Travel balance recorded a y-o-y rise in both credits and debits, and the surplus increased by CZK0.7bn.

The primary income deficit decreased by CZK2.9bn y-o-y due to an increase in funds from the EU budget. The resulting deficit was CZK2.3bn. Secondary income showed a deficit of CZK15bn, compared to a surplus of CZK6.8bn a year ago. The annual deterioration was caused by a decline in funds drawn by the CR from the EU budget.

Direct investments recorded a net inflow of CZK54bn. "The main factors were an increase in capital and reinvestment of earnings by foreign owners in domestic corporations," the CNB said.

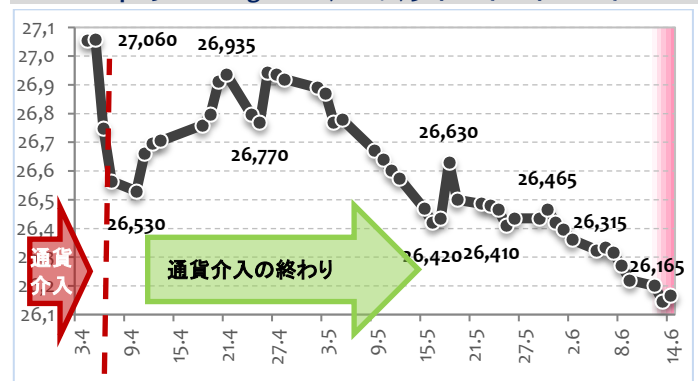
Portfolio investments saw a net inflow of CZK445.6bn, the key factor being purchases of government and bank bonds by foreign investors.

Table 1: balance of payments (selected items, in CZK bn) - Q1 2017

Current account	94.545
Goods and services	111.828
Primary income	▲2.254
Secondary income	▲15.029
Capital account	0.877
Financial account	39.817
Direct investment	▲53.986
Portfolio investment	▲445.584

CROWN VS EURO – 14. 6.

Graph 5: Exchange rates, CZK/€, 3. 4. 2017 – 14. 6. 2017



accompanied by rising loan losses. This is aimed at preventing a credit crunch and transmission of an additional shock from the financial sector to the real economy.

¹⁹ **MF:** Ministry of Finance

²⁰ **PM:** Prime Minister

²¹ **ČSSD:** Czech Social Democratic Party, centre-left party

²² **ANO:** ANO 2011, centre-right party

²³ **KDU-ČSL:** Christian and Democratic Union – Czechoslovak People's Party, centre party

²⁴ **bn:** billion

²⁵ **Q1:** 1st quarter of the year

²⁶ **Q4:** 4th quarter of the year

AGRICULTURE & ENVIRONMENT

APPROVING EIA TRANSPOSITION AMENDMENT – 8. 6.

The ChD²⁷ approved the amendment to the EIA²⁸ act. ME²⁹ Minister Brabec has stated that the amendment will reduce the number of smaller projects to which mandatory EIA will apply by up to 2,000 annually. The process will also be 6 weeks shorter for all reviewed projects. The EIA amendment also transposes into the Czech law the new mandatory EU³⁰ legislation on EIA.

LABOUR & SOCIAL & HEALTH

SENATE APPROVES PENSION INSURANCE AMENDMENT – 9. 6.

The Senate³¹ approved on a draft amendment of the Pension Insurance Act. According to MLSA³² Minister Marksová the amendment determines a fixed limit for the retirement at 65 years, but the government will be able to adjust this limit in future. It also adjusts conditions for the growth in pensions, pensions will grow by CZK500 next year. Impacts of the measure as of January 1, 2018 represent a growth in expenditures by CZK2.5bn.

SECURITY DEPOSIT FOR AGENCY EMPLOYMENT – 9. 6.

The Senate approved on a draft amendment of the Employment Act. According to MLSA Minister Marksová, the amendment adjusts the segment of agency employment and introduces the institute of a security deposit as one of conditions for a permit for job agencies.

68,500 PEOPLE HOMELESS – 10. 6.

There are around 68,500 homeless people in the CR, according to a report that the government was due to discuss on March 14. Another almost 120,000 adults and children live in unstable or unsuitable accommodation, the study says. Just under a ¼ of the CR's homeless are women, almost 12% are under 18 and over 10% are aged 65 or more. Debt, alcohol addiction and unemployment are cited as the main causes of homelessness.

INDUSTRY & ENERGY & INVESTMENT

SUPPLIERS INVEST IN RESEARCH – 8. 6.

Suppliers and sub-suppliers associated in the AIA³³ raised their revenue by 14.6% y-o-y in 2016. Their exports increased 12.8%. The share of their investments in research and development grew to 65.4% (CZK11.1bn out of the total of CZK16.9bn invested by the automotive industry).

ACCOMMODATION VIA AIRBNB – 8. 6.

The number of visitors in the CR accommodated via the Airbnb room rental site reached 710,000 last year. That figure

is an increase of 59% on the previous year. The average length of stay was 3 days. There are currently nearly 16,000 rooms or flats on offer in the CR, with 11,500 of them in Prague. The number of Czech tourists, who searched for accommodation abroad through Airbnb increased by 100% last year to 265,000.

YFAI OPENS NEW PRODUCTION PLANT – 9. 6.

YFAI³⁴ has opened a new production plant in the CTPark Planá nad Lužnicí. The plant currently employs 170 people. The employee base will likely reach 300 at the beginning of 2018. According to YFAI, the company will now gradually start to ramp up production and will be able to robustly start operations and mass production by early 2018. CTP is building the new 2-storey production centre on an area exceeding 23,000m² for nearly 1 year.

HOSPODÁŘSKÉ NOVINY GZ MEDIA'S PLANT IN JAPAN – 9. 6.

The Czech vinyl manufacturer GZ Media is planning, after Canada and USA, its own manufacturing plant in Japan (it is in advanced negotiations with a partner in Japan). GZ Media, which is considered to be the world leader in the production of LP records, gained CZK2.4bn last year.

The company agreed on a joint venture with Isotope Music, Canadian music distributor. The joint venture was named Pretorium Record Pressing. GZ Media also got a stake in an existing company Memphis Record Pressing.

In cooperation with Siemens, the company is now close to completing the first fully automatic record (disc) press.

AMENDMENT TO DETERMINATION OF TAXES – 9. 6.

The ChD approved the proposal made to issue an amendment to the budgetary determination of taxes. The norm will increase the share of tax income for municipalities and cities to 23.58%. According to the estimates of the MF, this totals roughly CZK8.5bn.

TRANSPORT FUND INVESTED IN INFRASTRUCTURE – 12. 6.

The SFTI³⁵ invested a total of CZK78.7bn in the construction and maintenance of roads, motorways and railways last year, using 98% of its budget.

The year 2016 was the last year when EU funds from the Transport I operational programme could be drawn. SFTI managed to spend almost all of the funds available. A total of CZK36.859bn, or 46.8% of SFTI's total expenditures, were invested in railways via the RIA³⁶. Approximately the same amount of money (CZK36.834bn) was invested in roads and motorways via the ŘSD³⁷.

According to SFTI, collection of excise duty, road tax, motorway toll and motorway stickers contributed CZK28.2bn to the fund, which was CZK1.9bn more than expected. These

²⁷ ChD: Chamber of Deputies, is the lower house of the bicameral Parliament of the CR. The seat of the Chamber of Deputies is Thun Palace in Malá Strana, Prague.

²⁸ EIA: Environmental Impact Assessment

²⁹ ME: Ministry of the Environment

³⁰ 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.

³¹ Senate: the Senate of the Parliament of the CR, usually referred to as the Senate, is the upper chamber of the Parliament of the Czech Republic. The seat of the Senate is Wallenstein Palace in Prague.

³² MLSA: Ministry of Labour and Social Affairs

³³ AIA: Automotive Industry Association (AutoSAP), an interest industrial grouping of the manufacturing, commercial and other companies which make up the Czech automotive and allied industries. AIA represents companies making up nearly 90% of the Czech automotive industry. Their share in total industrial production posted an annual rise of 1% to 22%. Suppliers employ a total of 65% of AIA members' employees. The association registers 147 vehicle producers, suppliers, and other entities.

³⁴ YFAI: Yanfeng Automotive Interiors, core business is interior automotive components.

³⁵ SFTI: State Fund for Transport Infrastructure

³⁶ RIA: Railway Infrastructure Administration (also SŽDC in Czech)

³⁷ ŘSD: Road and Motorway Directorate

revenues accounted for more than 41% of SFDI's national incomes. Over 52% of SFTI's incomes came in a form of subsidy from a state budget.

The SFTI has more than CZK80bn available for investments in 2017. MT³⁸ Minister Ťok said that the increase should continue in 2019 as well when SFTI's budget should exceed CZK100bn. At the same time, there are more types of projects that can be funded from the SFTI.

DISCUSSING BUDGET AND RAW-MATERIAL POLICY – 13. 6.

On June 14, 2017, the government will discuss the preparation of the state budget for 2018 and a medium-term outlook for 2019 and 2020. The agenda also includes the Raw Material Policy of the CR in the Area of Raw Materials and Their Sources and a draft government resolution to impose the duty to use the National Electronic Tool for public contracts.

BREWERIES INVEST INTO PRODUCTION – 14. 6.

Brewery Rodinný Pivovar Bernard is expanding its brewing facility and completing the reconstruction of the bottling plant. The company calculates with an investment totalling over CZK70mn.

Brewery Pivovar Zubr has installed a can packing line worth CZK15mn. The facility was put into operation in May 2017.

Pivovar Svijany is building a new can filling facility worth ca. CZK100mn. It is scheduled to open in Q4 2017.

Heineken ČR is completing the construction of the distribution centre in Velké Březno brewery. The firm plans to continue with investments into technologies and employees' safety, which totalled CZK85.5mn³⁹ in 2016.

Pivovar Litovel is investing about CZK25mn. The brewery will expand lager capacities and focus also on logistics.

CONTINENTAL AUTOMOTIVE PLANT IN BRANDÝS – 14. 6.

Continental Automotive CR, a manufacturer of interior electronics for cars, will hire more than 100 new employees for its plant in Brandýs nad Labem. It offers especially jobs in production and storage, but also other jobs, such as financial accountant and work in the IT department. The clients of the company include for example Volkswagen, BMW, Fiat, Toyota and Volvo.

TOYOTA INCREASED SALES – 14. 6.

Toyota Central Europe-Czech has announced that from the beginning of the year 2017 to the end of May, it sold 3,748 cars in the CR, which represents a y-o-y increase of sales by 78%. To private clients it has supplied 1,653 cars (+57%). In the fleet sector, it has increased sales doubly compared to the year 2016. The demand for the Yaris model is the highest among clients.

SKODA AUTO UPS SALES IN MAY – 14. 6.

Škoda Auto increased its deliveries to clients by 2.4% y-o-y to 99,000 cars in May, making it the best May in the company's history.

³⁸ MT: Ministry of Transport

³⁹ mn: million

⁴⁰ ACEA: European Automobile Manufacturers' Association, ACEA represents Europe's car, van, truck and bus manufacturers, and works with a variety of institutional, non-governmental, research and civil society partners - as well as with a number of industry associations.

⁴¹ HUV: heavy utility vehicle

The Chinese market and the Octavia, Rapid and Yeti models, however, recorded fall.

Despite the drop, Octavia remains Skoda Auto's best-selling model. The company sold 33,000 Octavia in May, 10% fewer y-o-y.

CARS PRODUCTION IN 2016 – 14.6.

According to the ACEA⁴⁰, in the year 2016, 1.34mn cars and 1,217 HUV⁴¹ were manufactured in the CR. In the Slovakia, 942,550 cars were produced in the same period.

In the entire EU it was 16.47mn cars; 2.16mn LUV⁴²; 111,700 MUV⁴³ and 417,240 HUV.

POLITICS & OTHER

MEYS MINISTER – 10. 6.

Valachová, who was due to step down on June 9, will remain MEYS⁴⁴ Minister as for now. President Zeman had given her until June 10 to reconsider her decision to resign following the charging of her deputy with large-scale corruption. Though she has not changed her mind, the president is set to go on a regional tour on June 10 and will not officially accept her resignation until he returns on June 14. She will be replaced by Stanislav Štech, who has hitherto been a MEYS deputy minister.

PM TO TOP JAPANESE OFFICIALS – 12. 6.

PM Sobotka will meet his opposite number Shinzo Abe, head of the lower house of parliament Tadamori Oshima and Crown Prince Naruhito during his forthcoming 5-day visit to Japan, according to a document the cabinet will discuss on June 14.

A delegation of entrepreneurs and some ministers will accompany Sobotka on the visit he is to pay later this month on the 60th anniversary of the resumption of diplomatic relations between Japan and Czechoslovakia.

According to the document ČTK⁴⁵ has at its disposal, CR's relations with Japan rank among its most important relations with non-European countries.

"The CR is interested in intensive cooperation with Japan in all fields. Unlike the positive dynamism of the economic level of bilateral relations, the two parties can see reserves in the cooperation in the political area," the document says.

On arrival in Japan, Sobotka will open the Czech-Japanese business forum to be attended by representatives of more than 30 firms from the CR.

MIT⁴⁶ Minister Havlíček and MC⁴⁷ Minister Herman will accompany Sobotka to help boost bilateral relations.

Apart from Abe and Prince Naruhito, Sobotka will also meet the mayors of Kyoto and Hiroshima.

"The visit is to further enhance bilateral relations and it should enable the exchange of views on current regional and global issues," the report addressed to ministers says.

⁴² LUV: light utility vehicle

⁴³ MUV: medium utility vehicle

⁴⁴ MEYS: Ministry of Education, Youth and Sports


⁴⁵ ČTK: The Czech News is a national public service news agency in the Czech Republic. It publishes in Czech, Slovak, and English


⁴⁶ MIT: Ministry of Industry and Trade


⁴⁷ MC: Ministry of Culture


The two countries' PMs have visited the other country only 4 times so far. Czech PMs Klaus and Paroubek visited Japan in 1996 and 2005, respectively.
The Japanese PMs paid visits to the CR in 2003 and 2009.



 News outside the time span of this News summary

 Chamber of Deputies of the Parliament of the CR

 CIA News (Česká informační agentura)

 Czech National Bank (Česká národní banka)



Czech Press Agency (Česká tisková kancelář)
Czech Statistical Office (Český statistický úřad)
Government of the CR
Ministry of Labour and Social Affairs of the Czech Republic
Radio Prague (Český rozhlas)
Senate of the Parliament of the CR