

## NEWS SUMMARY AUGUST 31 – SEPTEMBER 6

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### ECONOMY & FINANCE

#### CZECH HOUSEHOLD DEBT RISES – 31. 8.

Czech household debt rose in July to CZK<sup>1</sup>1.5tn<sup>2</sup>, according to the CNB<sup>3</sup>.

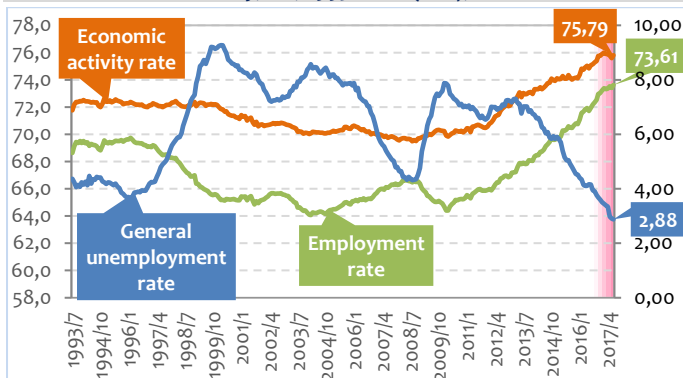
The amount owed by Czech households to banks and financial institutions therefore rose by CZK9bn<sup>4</sup> in comparison with the previous month and by CZK113.6bn compared with the same period in 2016.

Company debt for the same period has increased as well, by around CZK10bn to over CZK1tn.

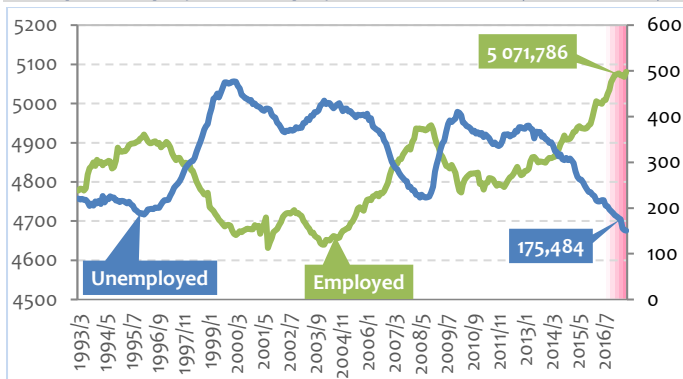
#### ECONOMIC ACTIVITY RATE – 31. 8.

The **employment rate**<sup>5</sup> SA<sup>6</sup>, reached 73.6% in July 2017 and increased by 1.7 p. p.<sup>7</sup> y-o-y<sup>8</sup>.

Graph 1: Rates of employment, unemployment and economic activity, SA, 1993- 2017 (in %), LFS



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



The **general unemployment rate**<sup>9</sup> SA, reached 2.9% in July 2017 and decreased by 1.3 p. p. y-o-y.

<sup>1</sup> CZK: Czech Crown, the currency of the CR since 8 February 1993

<sup>2</sup> tn: trillion

<sup>3</sup> CNB: Czech National Bank

<sup>4</sup> bn: billion

<sup>5</sup> **Employment rate**: the share of the employed persons in the age group 15 – 64 years, as percentage, seasonally adjusted, **data are issued by the CSO based on the results of the Labour Force Survey (LFS)**.

<sup>6</sup> **SA**: seasonally adjusted, Seasonal adjustment is a statistical method for removing the seasonal component of a time series that exhibits a seasonal pattern, which allows to analyse the trend of a time series independently of the seasonal components.

<sup>7</sup> **P. p.**: percentage point

<sup>8</sup> **Y-o-y**: year on year

<sup>9</sup> **General unemployment rate**: the share of the unemployed in the labour force in the age group 15 – 64 years, that is in the total number of the employed and the

The **economic activity rate**<sup>10</sup> SA, reached 75.8% and rose by 0.7 p.p. compared to that in July 2016.

#### CZECH STATE BUDGET SURPLUS DOWN – 1. 9.

State budget surplus decreased to CZK15.6bn as of the end of August from CZK25bn in July, while last August it had a CZK81.2bn surplus, and the annual drop is mainly because of lower EU funding, the MF<sup>11</sup> said.

The state budget has been approved with a CZK60bn gap for this year.

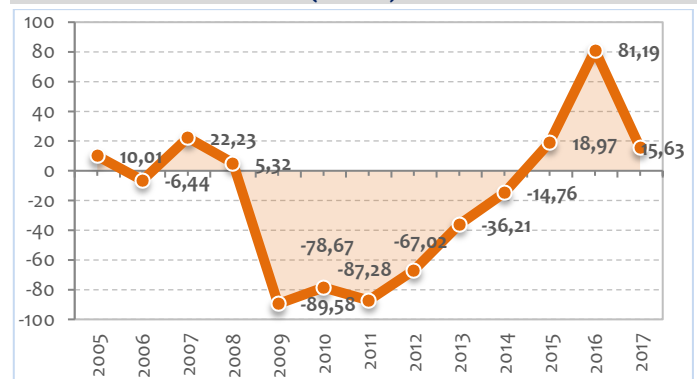
The amount of European money posted an annual drop of CZK84bn as of the end of August. Relatively high amounts were paid mainly in the H1<sup>12</sup> 2016.

Excluding EU funding, the state budget would post a deficit of CZK3.1bn in August, against a CZK10bn gap in August last year, the ministry said.

State budget revenues went down by CZK32.1bn y-o-y to CZK827.2bn and expenditures increased by CZK33.4bn to CZK811.6bn.

Total tax revenues excluding social security payments were CZK27.2bn higher at CZK430.7bn in annual terms.

Graph 3: Deficit/surplus of the State Budget, Jan-August 2005-2017 (CZK bn)



According to experts, the worse result of the state budget than last year mirrors predominantly a slow start of drawing of EU funds within the programming period 2014-2020. Compared to other countries in the CEE<sup>13</sup> region, the CR<sup>14</sup> has so far spent a below-average share of subsidies it was allocated within the current budget period.

VAT<sup>15</sup> revenues were roughly 10% higher at CZK168bn. VAT collection has been rising at a double-digit rate in the past

unemployed, as percentage, seasonally adjusted, **data are issued by the CSO based on the results of the Labour Force Survey (LFS)**.

<sup>10</sup> **Economic activity rate**: the share of the number of the economically active in the total number of persons in the age group 15 – 64 years, as percentage, seasonally adjusted, **data are issued by the CSO based on the results of the Labour Force Survey (LFS)**.

<sup>11</sup> **MF**: Ministry of Finance

<sup>12</sup> **H1**: 1<sup>st</sup> half of year

<sup>13</sup> **CEE**: Central and Eastern Europe, is a generic term for the group of countries in Central Europe, Southeast Europe, Northern Europe (Baltic countries), and Eastern Europe

<sup>14</sup> **CR**: the Czech Republic, a nation state in Central Europe. The Czech Republic covers an area of 78,866 km<sup>2</sup> with a mostly temperate continental climate and oceanic climate. It is a unitary parliamentary republic, has 10.5 million inhabitants and the capital and largest city is Prague, with over 1.2 million residents.

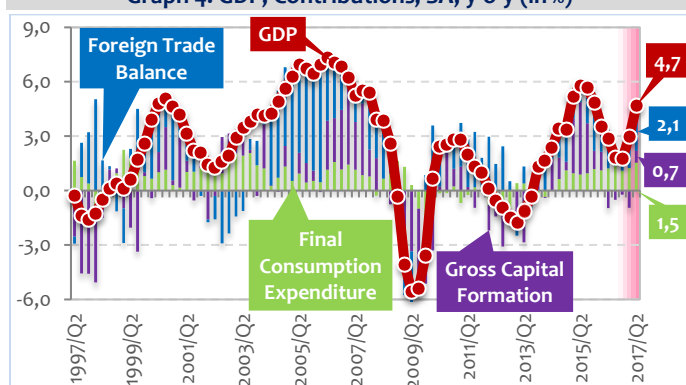
<sup>15</sup> **VAT**: Value-added tax

5 months despite that household and government final consumption expenditures rose by some 6%, said the MF. Last year's introduction of ledger statements and EET<sup>16</sup> is behind the faster growth in VAT collection, the MF said. Revenues from excise duties including energy taxes and solar tax rose by CZK2.3bn to CZK100.4bn. Corporate income tax revenues totalled CZK66.7bn, which was an annual rise of CZK0.8bn. Social benefits amounted to CZK353.6bn, growing by CZK13.5bn y-o-y, with spending on pensions showing a rise of CZK12bn.

**GDP RESOURCES AND USES – Q2 – 1.9.**

The SA GDP<sup>17</sup> was by 2.5% higher than in the previous quarter. In the y-o-y comparison, the real GDP growth rate was 4.7%. The favourable development of the Czech economy was contributed to by both the domestic and external demand.

**Graph 4: GDP, Contributions, SA, y-o-y (in %)**



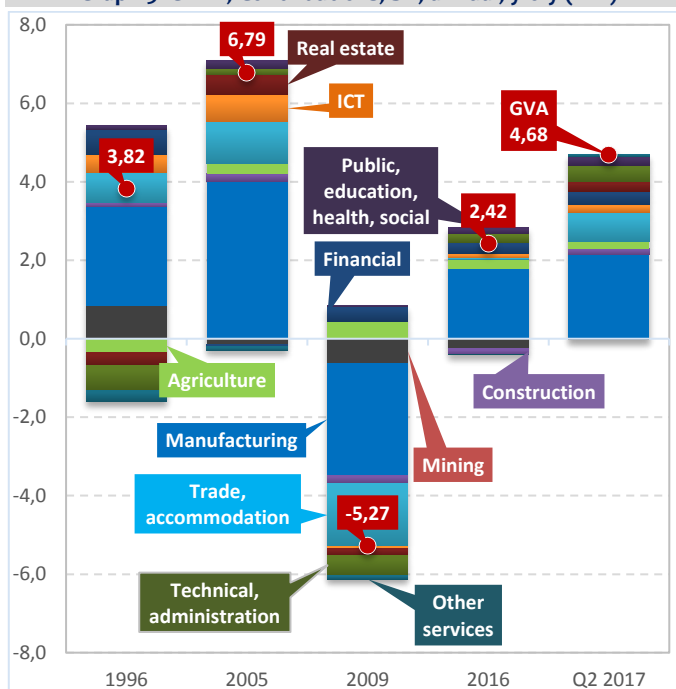
The **GVA increased by 2.3%, q-o-q<sup>18</sup>**, and **by 4.7%, y-o-y**. Most industries of the Czech economy were successful. The following contributed the most significantly to the y-o-y GVA growth: manufacturing (2.1 p.p.), which was driven not only by automotive industry and related industries, but also, for example, by growth of production of electrical equipment. Besides that, the chemical industry production was fully renewed. The GVA of manufacturing increased by 3.5%, q-o-q, and by 7.9%, y-o-y. Most of economic activities of services were growing, too. Construction revived: the GVA there was by 2.6% higher, q-o-q, and by 3.1%, y-o-y.

**On the demand side**, the GDP growth in the Q2 was supported both by the domestic and external demand. Along with household consumption, which has been growing for a long time, there is newly investment activity<sup>2</sup> among the domestic demand growth factors. The y-o-y GDP growth (+4.7%) was contributed to by investment expenditure (+1.7 p.p.), household consumption (+1.5 p.p.), and external trade (+2.1 p.p.).

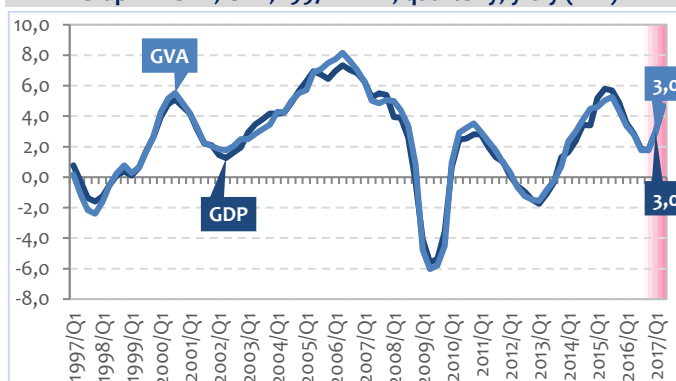
<sup>16</sup> **EET**: electronic cash registers system, a method of online registration of sales, when the data on each transaction of merchant are sent online to the financial administration. EET system was launched in the CR on December 1, 2016, it has been introduced already in other countries: in Croatia (2013), in Hungary (2015), where it is operated via a hybrid system of cash registers and online registration, in Slovenia (early 2016); in Slovakia, where online registration of sales is optional. Offline registration of sales using cash registers was introduced also in other 15 EU countries by 2016.

<sup>17</sup> **GDP**: Gross domestic product, an aggregate measure of production equal to the sum of all resident and institutional units engaged in production in a period (plus any taxes, and minus any subsidies, on products not included in the value of their outputs). GDP can be determined in three ways, all of which should, in principle, give the same result. They are the **production approach**, the **income approach**, or the **expenditure approach**.

**Graph 5: GVA<sup>19</sup>, Contributions, SA, annual, y-o-y (in %)**



**Graph 6: GDP, GVA, 1997 – 2016, quarterly, y-o-y (in %)**



**Final consumption expenditure of households** was 1.8% up, q-o-q, and 4.4% up, y-o-y. Expenditure increased in all categories of consumption. **Final consumption expenditure of general government** increased by 0.4%, q-o-q, and by 1.9%, y-o-y.

Both y-o-y and q-o-q **growth of investment activity** was supported in the Q2 by investments **in all categories of assets**. Investments grew not only in transport equipment and dwellings, but very strong investments were made also in machinery and equipment; growing investment expenditure went again also in other buildings and structures. In the q-o-q comparison, the fixed capital formation was by 6.3% higher; compared to the corresponding quarter of the previous year, it increased by 7.7%.

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

$$GDP = GVA + Taxes on products - Subsidies on products$$

<sup>18</sup> **Q-o-q**: quarter on quarter

<sup>19</sup> **GVA**: Gross Value Added, is a measure in economics of the value of goods and services produced in an area, industry or sector of an economy. In national accounts GVA is output minus intermediate consumption; it is a balancing item of the national accounts' production account.

$$GVA = GDP - Taxes on products + Subsidies on products =$$

The Czech economy growth was contributed to also by stable results of the external trade. **The balance of external trade** in goods and services in the Q2 2017 at current prices reached the value of CZK92.9bn. **Exports**, which increased in real terms by 7.3%, y-o-y, was driven as usually by trade in transport equipment, but also, for example, by trade in machinery and electrical equipment. The growth of **imports** by 6.2% was significantly contributed to by sub-deliveries for the automotive industry, manufacture of electrical equipment, and trade in basic metals.

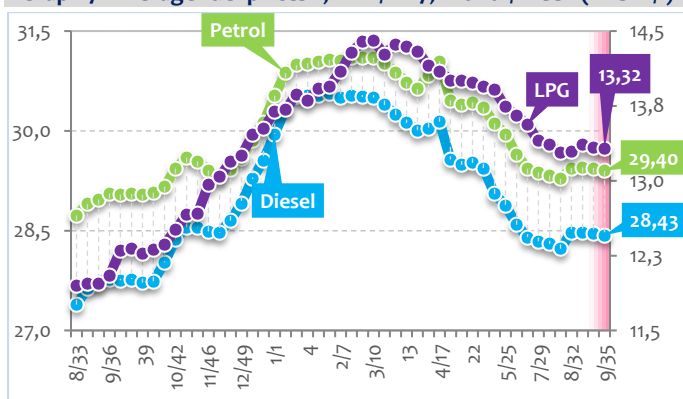
From the point of view of **price development** in the Q2 2017, the y-o-y deflator of final consumption expenditure of households reached 2.4% and the deflator of capital formation 1.6%. The total GDP deflator, which was 1.0%, was decreased by higher growth of import prices than of export prices.

The Czech economy growth continued to be accompanied by the growth of employment. Total **employment** was by **0.4% up, q-o-q**; in the **y-o-y** comparison it increased by **1.3%**. Development on the labour market thus continued to copy the Czech economy performance growth.

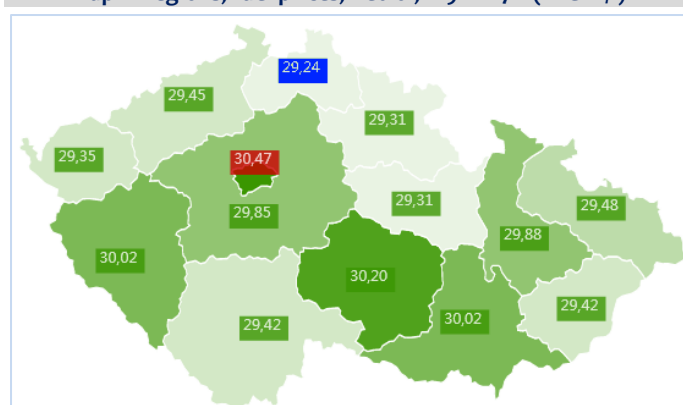
**FUEL PRICES – 1. 9.**

Natural gas decreased by  $\Delta$  4h<sup>20</sup> to CZK29.40/l<sup>21</sup> over the past week. Diesel oil decreased by  $\Delta$  3h to CZK28.43/l.

**Graph 7: Average fuel prices<sup>22</sup>, 2016/2017, Month/Week (in CZK/l)**



**Map 1: Regions, fuel prices, Petrol, 1. 9. 2017<sup>23</sup> (in CZK/l)**



<sup>20</sup> h: Heller, a term was used for a coin valued at 1/100 of a CZK, it continues to be used as a means of calculation since the CNB removed the coins themselves from circulation in 2008 and notionally replaced them with rounding to the next CZK.

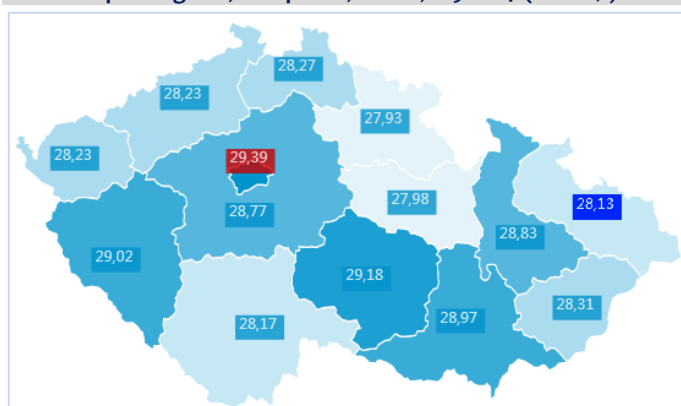
<sup>21</sup> l: litre

<sup>22</sup> Consumer price indices calculated from the weekly price survey are not qualitatively adjusted and thus do not express the net price development applied at inflation measurement, data issued by the CSO

<sup>23</sup> data issued by the CCS Company

<sup>24</sup> AMSP: Association of Small and Medium-Sized Enterprises and Crafts in the CR

**Map 2: Regions, fuel prices, Diesel, 1. 9. 2017 (in CZK/l)**



**GDPR TO AFFECT 64% OF ENTREPRENEURS – 3. 9.**

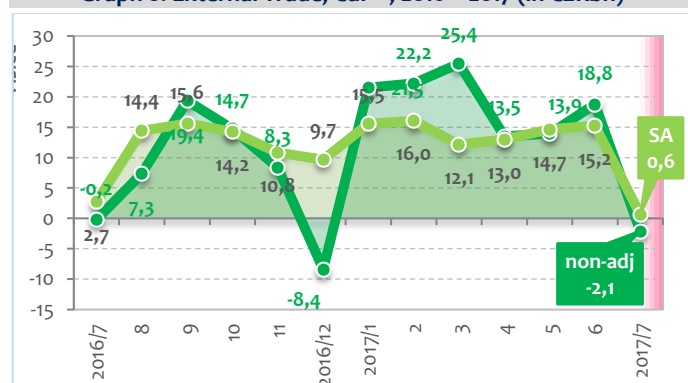
According to ASMP's <sup>24</sup> survey, GDPR<sup>25</sup>, which will gain effect on May 28, 2018, will affect 64% of entrepreneurs. 93% of employers work with their employees' data and 67% use data about their business partners. 9 out of 10 companies store data internally, 15% opt for an external solution and 13% of firms use cloud solutions. Less than 1/2 of entrepreneurs with annual turnover below CZK5mn<sup>26</sup> plan to analyse their data management. Among companies with turnover of CZK500mn1bn, 84% are readying analyses. 4 out of 10 companies have confirmed experience with cyber-attacks.

**EXTERNAL TRADE – 6. 9.**

According to preliminary data, in July 2017 the external trade balance in goods ended in a deficit of CZK2.1bn<sup>27</sup>, which was by CZK1.9bn larger, y-o-y.

The total NC<sup>28</sup> trade balance was unfavourably influenced mainly by a larger deficit of balance in 'crude petroleum and natural gas' and 'basic metals' by CZK3.4bn and CZK1.7bn, respectively, y-o-y. Surplus of balance in 'other transport equipment' fell by CZK1.0bn.

**Graph 8: External Trade, CuP<sup>29</sup>, 2016 – 2017 (in CZKbn)**



An increase in surplus of balance in 'motor vehicles, trailers and semitrailers' by CZK4.0bn brought the main positive effect on the total balance. Deficit of balance in 'coke and refined petroleum products' and 'computer, electronic and

<sup>25</sup> GDPR: European General Data Protection Regulation

<sup>26</sup> mn: million

<sup>27</sup> bn: bn

<sup>28</sup> National Concept: the national concept of external trade reflects export and import performance of the Czech economy, i.e. the external trade balance of the CR as well. It measures real trade in goods carried out between Czech and foreign entities, i.e. a change of ownership between residents and non-residents.

<sup>29</sup> CuP: current (or "nominal") prices for each year are in the value of the currency for that particular year, are influenced by the effect of price inflation.



optical products' decreased by CZK3.1bn and by CZK0.8bn respectively, y-o-y.

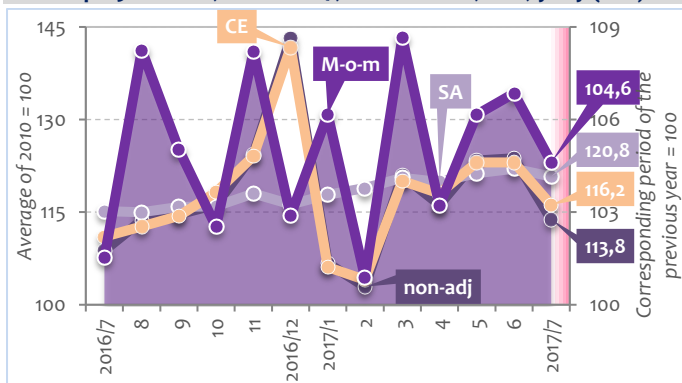
In July 2017 the trade balance with the EU28<sup>30</sup> Member States ended in a surplus of CZK38.9bn, and thus it was by CZK7.4bn higher, y-o-y. A deficit of trade with the non-EU countries increased by CZK▲9.5bn to reach the amount of CZK▲39.7bn.

Compared to June 2017 NC's SA exports and imports fell by ▲10.8% and ▲6.1% respectively. The development trend shows stagnating exports and decreasing imports (▲4.2%). Compared to the same month of 2016, exports and imports rose by 5.8% (to CZK240.1bn) and by 6.6% (to CZK242.1bn), respectively.

**RETAIL TRADE – 5. 9.**

In June 2017, CoP<sup>31</sup> SA<sup>32</sup> sales in retail trade decreased by 1.0%, m-o-m<sup>33</sup>. CE<sup>34</sup> sales increased by 4.6%, y-o-y<sup>35</sup>, the same as non-adj<sup>36</sup>.

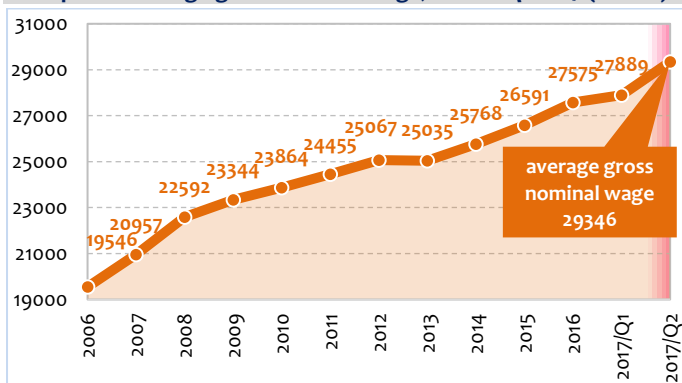
**Graph 9: Retail<sup>37</sup>, 2016 – 2017, basic indices, CoP, y-o-y (in %)**



**WAGES – Q2 – 5. 9.**

In Q2 2017, the average gross monthly nominal wage per FTE employee in the national economy increased by 7.6%, y-o-y. In real terms it grew by 5.3%. The median wage was CZK24,896.

**Graph 10: Average gross nominal wage, 2006 – Q2 2017 (in CZK)**

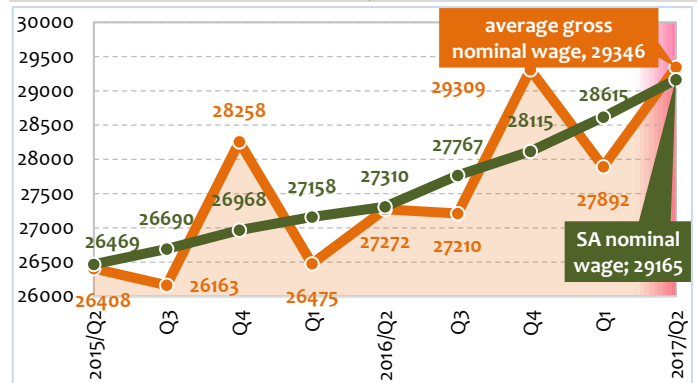


<sup>30</sup> EU28: 28 member states of the EU, which are party to the founding treaties of the union and thereby subject to the privileges and obligations of membership

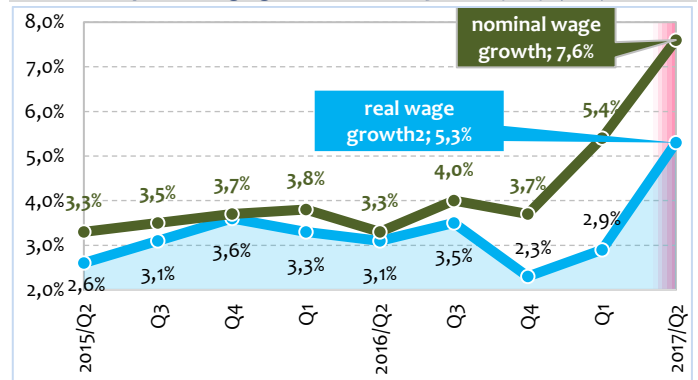
<sup>31</sup> CoP: constant prices are used to measure the true growth of a series, i.e. adjusting for the effects of price inflation.

<sup>32</sup> SA: seasonally adjusted, Seasonal adjustment is a statistical method for removing the seasonal component of a time series that exhibits a seasonal pattern, which allows to analyse the trend of a time series independently of the seasonal components.

**Graph 11: Average gross nominal wages, 2015 – Q2 2017, y-o-y (in CZK)**



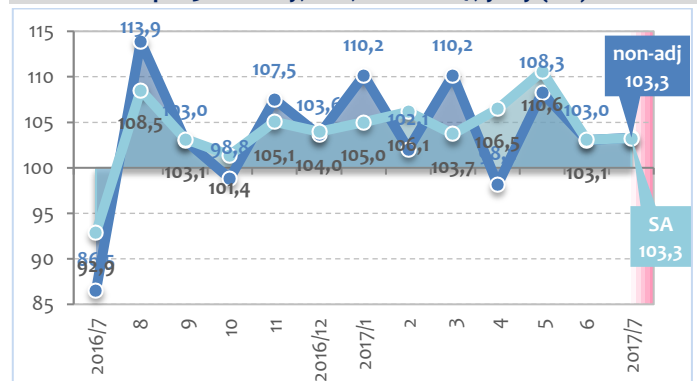
**Graph 12: Wage growth, 2015 – Q2 2017, y-o-y (in %)**



**INDUSTRY – 6. 9.**

In July 2017, SA industrial production increased by 3.3%, y-o-y, and decreased by 9.8%, m-o-m. The value of new orders increased by 7.6%, y-o-y.

**Graph 13: Industry, CoP, 2016 – 2017, y-o-y (in %)**



The following contributed the most to the y-o-y increase of industrial production: manufacture of motor vehicles, trailers and semi-trailers (+2.5 p.p., 17.1%), manufacture of machinery and equipment (+0.8 p.p., 9.4%), and manufacture of fabricated metal products (+0.5 p.p., 5.3%). Industrial production decreased in electricity, gas, steam and air conditioning supply (▲0.9 p.p., ▲8.0%), manufacture of other transport equipment (▲0.6 p.p., ▲28.1%), and mining and quarrying (▲0.4 p.p., ▲14.3%).

<sup>33</sup> M-o-m: month on month

<sup>34</sup> CE: adjusted for calendar effects, the pre-adjustment for calendar effects involves removing from the time series calendar effects such as working days/trading days effect, leap year effect and moving holidays effects.

<sup>35</sup> Y-o-y: year on year

<sup>36</sup> Non-adj: non-adjusted

<sup>37</sup> except of motor vehicles and motorcycles

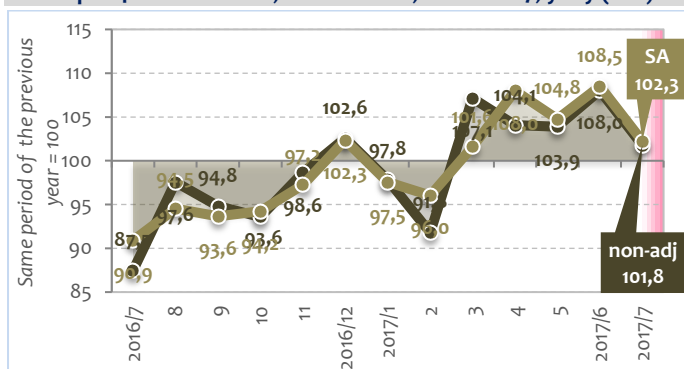
According to experts, the growth of Czech industry stayed solid in July but a shortage of workers and subsequent pressure on wage growth is modestly slowing its dynamics.



### CONSTRUCTION – 6. 9.

In July 2017 the SA construction output increased by 2.3%, non-adj output by 1.8% y-o-y, in real terms. The planning and building control authorities granted by 1.7% less building permits, y-o-y, and the approximate value of permitted constructions soared by 50.0%, y-o-y. The number of started dwellings jumped up by 36.8%, y-o-y, and the number of completed dwellings increased by 13.3%, y-o-y.

Graph 14: Construction, basic indices, 2016 – 2017, y-o-y (in %)

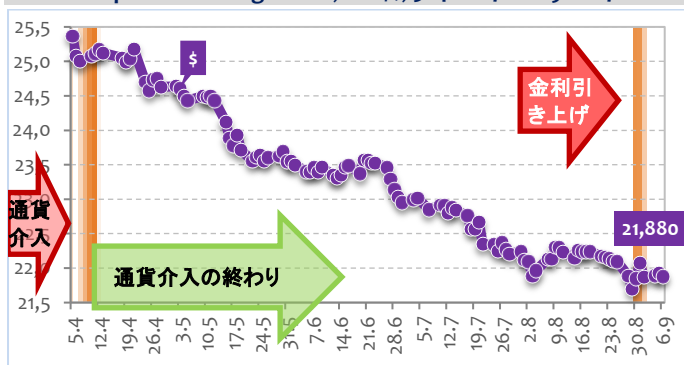


### CZK VS EURO<sup>38</sup>, US DOLLAR<sup>39</sup>, YEN – 6. 9.

Graph 15: Exchange rates, CZK/€, 5. 4. 2017 – 6. 9. 2017



Graph 16: Exchange rates, CZK/\$, 5. 4. 2017 – 6. 9. 2017



<sup>38</sup> EUR: (€) Euro is the official currency of the Eurozone, which consists of 19 of the 28 member states of the European Union

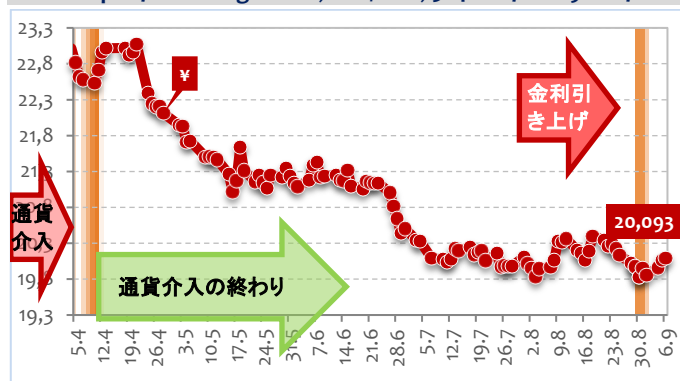
<sup>39</sup> USD: \$, USD, the United States dollar is the official currency of the United States and its overseas territories. It is the currency most used in international transactions and is the world's most dominant reserve currency.

<sup>40</sup> SPA: Strategic Partnership Agreement

<sup>41</sup> KSČM: Communist Party of Bohemia and Moravia, far-left party

<sup>42</sup> MD: Ministry of Defence

Graph 17: Exchange rates, CZK/100¥, 5. 4. 2017 – 6. 9. 2017



### INDUSTRY & TRADE & ENERGY & FDI

#### SPA BETWEEN THE EU AND CANADA – 31. 8.

The CR has ratified the SPA<sup>40</sup> between the EU and Canada, which includes cooperation of the fight against terrorism and weapons of mass destruction.

The SPA is to strengthen bilateral cooperation in the field of foreign policy, sustainable development, research and innovations, education and culture," the MFA said.

It will also involve cooperation in the area of security, fight against terrorism, organised crime and cyber-crime.

In the CR it won approval from all parties with the exception of the KSČM.<sup>41</sup>

#### MD TO SIGN CONTRACTS WORTH CZK5BN – 2. 9.

The MD<sup>42</sup> will sign contracts worth nearly CZK5bn in the near future, MD Minister Stropnický said. Investments planned include maintenance of Mi helicopters<sup>43</sup>, and purchase of military equipment for the ground forces. "We continue to modernize the army and supplement the inventory and within the next few weeks we plan to sign deals with Czech suppliers worth CZK5mn," the MD minister said.

#### CHINESE TIRE MANUFACTURER PLANNING TO INVEST – 5. 9.

A Chinese tire manufacturer plans to build a plant in the Moravian-Silesian region, President Zeman said.

Zeman said he had negotiated with a Chinese company the size of Nexen which wanted to invest in the industrial zone Triangl. According to the president the investment should create 1,500 to 2,000 new jobs.

Although he failed to name the company, the CTK<sup>44</sup> says that investor could be Linglong Tire which had previously shown an interest in investing in the CR.



#### SALES OF NEW CARS UP – 5. 9.

Sales of new cars in the CR increased by an annual rate of 7.3% to 185,292 units in the January-August period, and the August figure of 21,192 vehicles sold was about the same as in August last year, the CIA<sup>45</sup> said.

Škoda Auto<sup>46</sup> ranked 1<sup>st</sup>, its sales nearly 4% higher at 56,851 units.

<sup>43</sup> Mi helicopters: Mi-series helicopters, originally designed by the Soviet Union, and now produced by Russia.

<sup>44</sup> CTK: The Czech News is a national public service news agency in the Czech Republic. It publishes in Czech, Slovak, and English

<sup>45</sup> CIA: Car Importers Association (Svaz dovozců automobilů), a voluntary association of legal entities importing, selling and servicing road motor vehicles in the Czech Republic, 39 members by 2014

<sup>46</sup> Škoda Auto: is a Czech automobile manufacturer founded in 1895 as Laurin & Klement. It is headquartered in Mladá Boleslav, Bohemia, Czech Republic. The car manufacturer

VW<sup>47</sup> was next, with sales up 8% at 18,598 units, and Hyundai CZ<sup>48</sup> finished 3<sup>rd</sup>, selling 14,265 cars, 4% more y-o-y. Ford, Dacia and Renault followed.

The Škoda Octavia was the best-selling make, with 18,247 units sold, trailed by the Škoda Fabia (14,956) and the Škoda Rapid (7,754). Other positions were occupied by the Škoda Superb and the Hyundai i30.

Petrol cars accounted for about 58% and diesel cars made up nearly 39% of the total sales figure.

Companies bought 74% of cars, the rest going to private customers.

LUV<sup>49</sup> registrations decreased by 0.4% annually to 12,499 vehicles in August. With 1,978 cars sold, Peugeot was the market leader, followed by Fiat with 1,662 units and Ford with 1,581 registrations.

Sales of lorries were 16% lower at 6,147 units. Mercedes-Benz was number one, trailed by MAN and DAF.

Bus sales declined by an annual rate of 29% to 442 units. SOR sold 104 units, the highest amount, followed by Iveco Bus, with 98 units, and Setra.

Motorcycle sales sank by 6% to 13,079 units. Honda sold 2,279 units, Yamaha 933 and Maxon 710 motorcycles.

#### NEW EIA LEGISLATION – 5. 9.

The ChD<sup>50</sup> passed an amendment that is to simplify the EIA<sup>51</sup> process in the sphere of construction in the version recommended by the Senate, which linked the legislation with the recently passed construction law.

It was also supported by ME<sup>52</sup> Minister Brabec. The amendment, opposed by environmental organisations, is yet to be signed into law by President Zeman.

The amendment is to restrict the number of the intentions to be subjected to the reviewing process and to prolong the basic time of the validity of the EIA from 5 to 7 years.

One of the reasons of why the amendment was drafted was that the EU had refused to grant subsidies to some Czech transport projects over obsolete EIA reports.

Brabec said the CR had tens of transport intentions with the EIA report old up to 15 years.

The amendment is to extend the basic time of an EIA report by 5 years, thanks to which it may be valid for 12 years.

was acquired by Škoda Works in 1925 and became a wholly owned subsidiary of the Volkswagen Group in 2000, positioned as the entry brand to the group. Its total global sales reached 1.127 million cars in 2016.

<sup>47</sup> **VW:** Volkswagen is a German car manufacturer headquartered in Wolfsburg, Lower Saxony, Germany. Established in 1937, Volkswagen is the top-selling and namesake marque of the Volkswagen Group, the holding company created in 1975 for the growing company, and is now the second-largest auto maker in the world

<sup>48</sup> **Hyundai CZ:** Hyundai Motor Manufacturing Czech based in the Industrial Zone of Nošovice was founded in 2006.

<sup>49</sup> **LUV:** light utility vehicle

<sup>50</sup> **ChD:** Chamber of Deputies, is the lower house of the bicameral Parliament of the CR. The seat of the Chamber of Deputies is Thun Palace in Malá Strana, Prague.

<sup>51</sup> **EIA:** Environmental Impact Assessment

<sup>52</sup> **ME:** Ministry of the Environment

<sup>53</sup> **PL:** Pivovary Lobkowicz, the regional brewers are Protivin, Uherský Brod, Jihlava, Hlinsko, Klášter nad Jizerou, Vysoký Chlumec and Černá Hora. Major beer brands include Lobkowicz, Rychtar, Klášter, Platan, Jezek, Černá Hora and Uherský Brod. Lapasan bought 79.4% of the group's shares from entrepreneurs Martin Burda and Grzegorz Hota in September 2015. Prague bourse shareholders and the management held 20.6% of the group last year. Following a share capital hike, a squeeze-out of minority shareholders and the withdrawal from the Prague bourse this year, Lapasan now owns 100% of the shares in the group.

<sup>54</sup> **CR:** the Czech Republic, a nation state in Central Europe. The Czech Republic covers an area of 78,866 km<sup>2</sup> with a mostly temperate continental climate and oceanic climate. It is a unitary parliamentary republic, has 10.5 million inhabitants and the capital and largest city is Prague, with over 1.2 million residents.

#### PIVOVARÝ LOBKOWICZ SHOWS LOSS IN 2016 – 6. 9.

PL<sup>53</sup> saw its loss increase to CZK106mn last year from 2015's CZK83mn, while its turnover increased to CZK1.25bn, according to the company's annual report.

The results are not, however, fully comparable in y-o-y terms as the group acquired a production plant from its subsidiary Pivovary Lobkowicz at the end of 2015.

#### AGRICULTURE & ENVIRONMENT

#### SUMMIT ON DOUBLE-STANDARD IN QUALITY OF FOOD – 4. 9.

The CR<sup>54</sup> and Slovakia have agreed to initiate a summit in Bratislava in October to discuss double standards by international food producers selling foodstuffs of varying quality under the same brand name across different EU countries. They took the decision at a joint government meeting in Lednice.

Slovak PM Fico said that both countries had agreed to take a tough stance on the issue, calling it a serious political problem. Inferior quality of some products in the CR and other former eastern bloc countries is true not only of some international food brands but also in building materials and some pharmaceutical products.

#### PRAZDROJ TO INCREASE PRICE OF BEER – 5. 9.

Effective from October 1, 2017, Prazdroj<sup>55</sup> is increasing the price of canned and bottled beer by 3.1% on average. The price adjustments apply only to packaged beverages. Tap beer for pubs and restaurants will not be more expensive. According to Prazdroj, the reason behind the price increase was growing production, packaging and distribution costs.

#### DANGEROUS EGGS IN THE CR – 5. 9.

Several tons of egg products contaminated with the poisonous insecticide fipronil<sup>56</sup> arrived in the CR, warnings from Germany were received by SVA<sup>57</sup>.

The SVA currently inspects information about the arrival of several batches of fipronil contaminated egg products in the total number of tonnes destined for processing in confectionery and bakery products. The details have not

<sup>55</sup> **Plzeňský prazdroj a.s.:** a Czech brewery founded in 1842 and headquartered in Plzeň, CR. It is the 1<sup>st</sup> brewery to produce pilsener blond lager style beer, branded Pilsner Urquell, making it the inspiration for more than 2/3 of the beer produced in the world today, which are named pils, pilsner and pilsener. Both Plzeňský Prazdroj and Pilsner Urquell can be roughly translated into English as "the Fountainhead at Pilsen" or "the original source of Pilsner". With about a 45% market share, it is the largest beer making group in the CR. Its brands include Pilsner Urquell, Gambrinus, Velkopopovický kozel, Radegast, Birell and cider Kingswood. Plzeňský Prazdroj sold a total amount of 10mn hectolitres of beer in 2015, roughly the same amount as in 2014. Pilsner Urquell sales on the domestic market and abroad topped 2mn hectolitres. Direct exports of the premium lager were 4.5% higher at 792,000 hectolitres.

<sup>56</sup> **Fipronil:** Fipronil is a broad-spectrum insecticide that belongs to the phenylpyrazole chemical family. Fipronil disrupts the insect central nervous system by blocking GABA-gated chloride channels and glutamate-gated chloride (GluCl) channels. This causes hyperexcitation of contaminated insects' nerves and muscles. Fipronil's specificity towards insects is believed to be due to its greater affinity to the GABA receptor in insects relative to mammals and its effect on GluCl channels, which do not exist in mammals. Because of its effectiveness on a large number of pests, fipronil is used as the active ingredient in flea control products for pets and home roach traps as well as field pest control for corn, golf courses, and commercial turf. Its widespread use makes its specific effects the subject of considerable attention. This includes ongoing observations on possible off-target harm to humans or ecosystems as well as the monitoring of resistance development.

<sup>57</sup> **SVA:** Czech State Veterinary Administration

been disclosed, the SVA now check where the consignments are, how many goods have already been processed and sold.

## SURVEY



### CONDITIONS IN MANUFACTURING WORSEN – 1. 9.

Conditions in the Czech manufacturing industry worsened in August, with the PMI<sup>58</sup> falling to 54.9 from July's 55.3 points and hitting the lowest value this year.

After a strong H1 2017, the Czech manufacturing sector looks to have lost some momentum in the Q3, according to PMI.

Output and new orders remain in growth territory, but rates of expansion have now slowed for the 4<sup>th</sup> month in a row, down to the lowest in 2017 so far in August. And it's a similar picture for employment, which continues to rise at a solid pace, but more slowly than earlier in the year.

Overall, however, the index shows the industry growth remains strong and demand for materials keeps growing significantly, which has resulted in intense pressure on supply chains and a rise in prices paid for purchases.

According to experts, it shows that recruiting new employees is really a problem. Suppliers' deliveries reported the 2<sup>nd</sup> highest delays since February 2011 in August, with capacity constraints seen among suppliers. In addition, firms have to cope with rising input materials prices that are not easily reflected in prices for final customers. According to them, the industry will be growing at a solid pace in the H2<sup>59</sup> 2017, however, the rate will be slower compared to H1.



### CZECHS' INTEREST IN WORK ABROAD ONE OF LOWEST – 4. 9.

The willingness of Czechs to move abroad for work, either permanently or temporarily, ranks among the lowest in the world, according to global survey Workmonitor conducted by consulting firm Randstad in 33 countries all over the world. Only 35% of Czech respondents said they were willing to move for work, which is the 2<sup>nd</sup> lowest rate in the world.

The share of Czechs willing to move for work temporarily reached the third lowest rate of 41%.

According to Randstad, the unwillingness of Czechs to move for work abroad is of long-term character. In addition, it is being supported by extremely low unemployment, a wide offer of jobs and upward pressure on wages and other employee benefits.

Czech companies are lacking workforce, which has a negative effect on their ability to perform orders and on the economic growth.

The survey has also shown that mere 50% of Czech companies are willing to look for employees abroad, which is also one of the lowest rates worldwide.

When asked for their expectation that certain jobs will become hard to fill in their country, 69% of the global respondents think this will happen. Respondents from Poland have the highest expectation (85%) and people from Switzerland the lowest (59%). In order to fill vacancies that cannot be filled with domestic employees, 59% of the global

respondents agree that it must be possible to attract people from abroad. In Singapore, 71% think this must be possible and in Argentina only 29% think so. To get a job that's not available in their own country, 55% globally would be willing to move temporarily abroad. In Mexico 85% of the respondents would do so whereas people from Austria (38%) are more reluctant. Fewer people are willing to actually emigrate for a job that's not available in their country: globally 51% and at the lowest end, Denmark with 34%. People from Mexico, however, don't see a problem as 83% would be willing to emigrate.

Finally, the majority of the respondents – globally 73% – think that a so-called 'job-for-life' has become extinct. The highest score is in Portugal, where 86% think so and the lowest score is in Luxembourg with 53%.



<sup>58</sup> **PMI:** Purchasing Managers' Index - index is based on the state of new orders, stocks at factories, delivery deadlines, and the recruitment of new workers. Any score higher than 50 is still in positive territory.

<sup>59</sup> **H2:** 2<sup>nd</sup> half of year



News outside the time span of this News summary



CIA News (Česká informační agentura)  
Czech Press Agency (Česká tisková kancelář)  
Czech Statistical Office (Český statistický úřad)  
Echo.24  
Radio Prague (Český rozhlas)