

## ECONOMIC NEWS SUMMARY JUNE 21 – JUNE 27

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### ECONOMY & FINANCE

#### CTK EU'S IMPORT TARIFFS NOT TO IMPACT CR MUCH – 21. 6.

The EU's<sup>1</sup> charging of import duties on selected US goods is understandable, and it will not have a significant impact on Czech companies for now, according to business associations and analysts.

On the other hand, Czech companies would be affected markedly, if the USA imposed tariffs on car imports and the dispute escalated into a trade war, with companies hoping for rationality to prevail and for the USA and the EU to reach an agreement.

On June 29, the EU will start imposing tit-for-tat 25% tariffs on imports including steel and aluminium products, agricultural goods, bourbon, jeans and motorbikes. The EU imports products worth €2.8bn<sup>2</sup> from the USA a year.

A trade war would only have losers, the CCC<sup>3</sup>.

Together with the US protectionist steps, there is a threat of a hike in fuel prices, which would impact all the Czech economy's sectors, the CCC said.

The EU's approach is effective and in the CR's<sup>4</sup> interest, the CI<sup>5</sup> said.

The EU's tariffs concern mainly consumers, according to analysts.

Goods affected by tariffs will very likely grow more expensive, however, by less than the 25%, KB<sup>6</sup> said.

The volume of the concerned imports is relatively small, UniCredit<sup>7</sup> said. The CR's volume would be about CZK<sup>8</sup>1bn, that is 0.3%<sup>9</sup> of overall imports, if imports from the USA were equally spread among the EU member states.

<sup>1</sup> EU: European Union, is a politico-economic union of 28 member states that are located primarily in Europe. It has an area of 4,324,782 km<sup>2</sup>, and an estimated population of over 510mn. The EU has developed an internal single market through a standardised system of laws that apply in all member states. EU policies aim to ensure the free movement of people, goods, services, and capital within the internal market, enact legislation in justice and home affairs, and maintain common policies on trade, agriculture, fisheries, and regional development. Within the Schengen Area, passport controls have been abolished. A monetary union was established in 1999 and came into full force in 2002, and is composed of 19 EU member states which use the euro currency.

<sup>2</sup> bn: billion

<sup>3</sup> CCC: Czech CCC (also HK ČR in Czech), is an organisation which represents the business community in the Czech Republic and is an essential part of the Czech business environment. The chamber's competencies are defined by Act No. 301/1992 Coll., on the Czech CCC and the Czech Chamber of Agriculture. It is organised into two sections - region and industry-based chamber networks. The region-based network is broken down into district, area and Region chambers of commerce. The industry-based network is made up of business communities divided into four professional associations: Retail and tourism; Industry and transport; Business services and other; and Construction, technical crafts and technical equipment. It protects the interests of its members - small, mid-sized and large companies that are in the region-based chamber network and business communities. The Czech CCC has over 13,000 members organised in 65 regional and 83 industry subdivisions. Membership of the Czech CCC is voluntary.

<sup>4</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>5</sup> CI: Confederation of Industry, Svaz průmyslu a dopravy, is an employer association in the Czech Republic founded in 1990. It is non-governmental, independent organization that influences the economic and social policy of the government and acting on the creation of optimal conditions for doing business. It defends the interests of employers in European and world organizations, especially as a member of the Confederation of European Business. The Association brings together 31 sectoral professional or regional associations and associations, 126 individual member companies and 6 observers, 11,000 companies employing 1.3 million workers.

Import tariffs will thus have an impact on Czech consumers equivalent to 0.1% of the total Czech consumption.

"The CR imports mainly machinery, cars, electronics and drugs from the USA, which are not affected by duties so far, Raiffeisenbank<sup>10</sup> said.

#### GIA MORTGAGE LOAN RATES STOPPED GROWING – 21. 6.

The value of mortgages entered into in May 2018 dropped by CZK114m m-o-m<sup>11</sup> to CZK16.77bn. Mortgages extended in May 2017 totalled CZK21.16bn. Newly signed mortgage contracts totalled 7,819 (down 77 m-o-m). The average interest rate stagnated at 2.51%. The average loan amounted to CZK2.14bn. The gradual average rate growth seen over the last 8 months stopped in May 2018 thanks to the banks' spring promotional offers.

#### GIA VAT COLLECTION UP TO CZK162.49BN MUCH – 22. 6.

According to the FA<sup>12</sup>, nationwide VAT<sup>13</sup> collection in CR totalled CZK162.49bn as of June 15, 2018, up from CZK149.17bn as of the same date in 2017. Legal persons' income tax collection grew to CZK74.43bn from CZK71.75bn. The collection of natural persons' income tax from employment increased to CZK83.37bn from CZK72.12bn. Gambling taxes totalled CZK1.93bn and taxes from technical games CZK3.32bn.

#### GIA CR'S FOREIGN DEBT DOWN – 22. 6.

According to the CNB<sup>14</sup>, the deficit of CR's investment position against abroad dropped by CZK14.9bn q-o-q<sup>15</sup> to CZK1.3221tn<sup>16</sup>.

<sup>6</sup> KB: Komerční banka, the parent company of KB Group and is a member of the Société Générale international financial group. KB is a universal bank providing a wide range of services in retail, corporate and investment banking complemented by specialised financial services produced by KB's subsidiaries or other SG Group companies.

<sup>7</sup> UniCredit: UniCredit Bank CR and Slovakia, is a Czech and Slovak bank based in Prague, the Czech Republic. The bank was a subsidiary of Italy-based UniCredit Group for 99.96% stake. UniCredit S.p.A. is an Italian global banking and financial services company. Its network spans 50 markets in 18 countries, with more than 8,500 branches and over 147,000 employees. Its strategic position in Western and Eastern Europe gives the group one of the region's highest market shares

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

<sup>9</sup> ‰ per mille, a sign indicating parts per thousand

<sup>10</sup> Raiffeisenbank: is a member of Austrian Raiffeisen Group that also offers products and services in the Czech Republic in the area of building savings (Raiffeisen stavební spořitelna), insurance (UNIQA pojišťovna) and leasing (Raiffeisen-Leasing, Raiffeisen-Leasing Real Estate). Raiffeisenbank has merged with eBanka, a.s., in 2008.

<sup>11</sup> M-o-m: month on month, compared with preceding month

<sup>12</sup> FA: Financial Administration of the Czech Republic

<sup>13</sup> VAT: Value-added tax, a type of tax that is assessed incrementally, based on the increase in value of a product or service at each stage of production or distribution. VAT essentially compensates for the shared services and infrastructure provided in a certain locality by a state and funded by its taxpayers that were utilized in the elaboration of that product or service. Not all localities require VAT to be charged and goods and services for export may be exempted (duty free). VAT is usually implemented as a destination-based tax, where the tax rate is based on the location of the consumer and applied to the sales price.

<sup>14</sup> CNB: Czech National Bank, is the central bank and financial market supervisor in the Czech Republic and a member of the European System of Central Banks. In accordance with its primary objective, the CNB sets monetary policy, issues banknotes and coins and manages the circulation of the Czech koruna, the payment system and settlement between banks. It also performs supervision of the banking sector, the capital market, the insurance industry, pension funds, credit unions and electronic money institutions, as well as foreign exchange supervision.

<sup>15</sup> Q-o-q: quarter on quarter, compared with preceding quarter

<sup>16</sup> tn: trillion

Y-o-y<sup>17</sup>, the deficit grew by CZK298.7bn and amounts to 25.8% of GDP<sup>18</sup> in current prices.

CR's foreign debt totalled CZK4.3224tn (i.e. 84.3% of GDP) as of the end of Q<sub>1</sub><sup>19</sup>. The debt dropped by CZK25.1bn y-o-y.

In the debt's time structure, liabilities with original maturity longer than a year account for 40.5% of the debt liabilities.

#### US DUTY ON EU CAR IMPORTS TO AFFECT GDP – 22. 6.

A possible imposition of a 20% US tariff on cars imported from the EU would have a tenths of percent effect on Czech GDP, causing a loss of thousands of jobs, State secretary for European affairs Chmelař said.

Economist Schneider said those figures could be higher.

"Should a trade war break out ... that is customs duties be imposed on car imports and trade relations between the USA and Europe be interrupted that would prompt a global economic recession," Schneider said. The crisis would be deeper than the one 10 years ago and it would be more difficult to find ways out of it, he added.

According to Chmelař, the current dispute will not result in an economic crisis. "It may raise interest rates and slow down trade exchange. Some economic downturn can be envisaged for the next 5 to 10 years," he said.

Economist Sedláček said a trade war has begun and that consequences can be catastrophic.

It is still the beginning of a trade war as only some signals are being made by the parties involved, said Chmelař.

The EU's 25% tariff on some US goods imports, which took effect on June 29 in response to US measures, will have a minimum impact on the Czech economy, according to analysts and business associations. It will not influence businesses but consumers. Should the trade dispute between the EU and the USA escalate and the latter impose tariffs on car imports or fuel prices go up, Czech companies would feel the impacts.

US President Donald Trump imposed a 25% tariff on imports of steel and a 10% tariff on aluminium imports in March.

#### CZECH REGIONS' TAX REVENUES RISE IN 2014-17 – 25. 6.

Tax revenues of Czech regions increased from CZK49.3bn in 2014 to CZK64.43bn last year, the MF<sup>20</sup> has said.

Based on the law on tax distribution, regions and municipalities receive a portion of the money collected by the state in taxes.

Last year, municipalities received more than CZK206bn in taxes. Regions were paid nearly CZK182bn in total (including subsidies), and municipalities and their voluntary alliances received an aggregate amount of CZK298bn.

Tax revenues of municipalities and regions are growing at a very fast rate, one of the reasons being a rising share of tax collection set by the law, the ministry said.

Regions received 7.86% of VAT revenues until the end of 2015, the share rising to 8.92% in 2016. Other reasons behind the

growth in the regions' tax revenues are higher tax collection and economic growth, the MF said.

Prague received CZK55bn worth of collected taxes last year, and the Central Bohemia Region more than CZK9bn, while the lowest amount of CZK2.55bn went to the Karlovy Vary Region.

Tax collection amounted to CZK979.7bn last year, rising by nearly CZK69bn annually, and the state budget received CZK689.4bn. Some money went to regions and municipalities, with 2% being transferred to the State Transport Infrastructure Fund.

Regions get 8.92% of gross VAT revenues, income tax paid by employers on behalf of employees and of corporate income tax. Regions received nearly CZK15bn in corporate income tax last year, according to the state final account.

**Table 1: Tax revenues of regions (in CZKbn)**

Region	2005	2016	2017
<b>Total</b>	39.61	58.75	64.43
<b>Prague</b>	37.96	51.25	55.08
<b>Central Bohemia</b>	5.61	8.33	9.14
<b>South Bohemia</b>	3.51	5.21	5.71
<b>Pízen</b>	2.95	4.40	4.81
<b>Karlovy Vary</b>	1.56	2.33	2.55
<b>Usti</b>	3.37	4.99	5.49
<b>Liberec</b>	1.91	2.83	3.11
<b>Pardubice</b>	2.27	3.38	3.71
<b>Hradec Kralove</b>	2.63	3.92	4.28
<b>Vysocina</b>	3.04	4.46	4.88
<b>South Moravia</b>	3.88	5.78	6.33
<b>Olomouc</b>	2.77	4.09	4.52
<b>Moravia-Silesia</b>	3.92	5.84	6.40
<b>Zlin</b>	2.18	3.19	3.49



#### **BANKING SECTOR POSTS PROFIT – 25. 6.**

Banks operating in the CR reported profit for the current accounting period of CZK18.22bn for Q<sub>1</sub> 2018.

In the same period of 2017 the profit had totaled CZK18.59bn. Profit from financial and operating activities amounted to CZK44.43bn.

Interest income was CZK39.49bn and earnings from fees and commissions totaled CZK11.16bn.

The CNB reported that the number of banks and branches of foreign banks operating on the domestic market fell y-o-y by one entity to 46.

Their assets amounted to CZK7.316tn (Q<sub>1</sub> 2017: CZK7.047tn).



#### **MORA NOT TO RECOMMEND EURO ADOPTION – 25. 6.**

CNB board member Mora said he wouldn't recommend Euro adoption, speaking before foreign economic officials. He said that the Euro area was currently a suboptimal monetary union with persisting problems, which only the next recession would show how newly-introduced mechanisms can handle them. Other arguments against adopting the Euro is losing the exchange rate as a mechanism to mitigate price

<sup>17</sup> Y-o-y: year on year, compared, compared with the corresponding month of preceding year

<sup>18</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**.

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>19</sup> Q<sub>1</sub>: \* quarter of the year

<sup>20</sup> MF: Ministry of Finance

growth, as domestic Czech prices will inevitably have to grow faster than those in Western Europe if the CR joins the Euro area.

Mora's statement is indicative of economic thinking in the CR, where the economic establishment is firmly against Euro adoption. A big part of this is the relatively successful monetary policy led over the past decade or so, with a capable leadership and not a lot of political interference. In addition, there is low support from the general public, where Euro adoption approval has never exceeded 20%. It is the reason why former CNB governor Singer commented that adopting the Euro is much more a political, rather than a monetary decision.

#### CZECHS SECOND MOST SUCCESSFUL IN PAYING DEBTS – 27. 6.

Czech debtors are the 2<sup>nd</sup> most successful ones in paying their debts in Europe.

According to CCC, the success rate in paying debts corresponded with the economic growth, ¼ of all debtors paid all their liabilities.

#### CNB BANK BOARD RAISES INTEREST RATES – 27. 6.

The CNB raised interest rates today, with the basic rate<sup>21</sup> growing by 0.25 p. p. to 1%.

Analysts see the development of the domestic economy as the reason for the rate hike. Wages grow significantly, the crown fell in the last few weeks and inflation occurred below the CNB's 2% target.

"The CZK reacted to the announcement by firming to CZK25.70/€, " KB said.

However, further verbal interventions of CNB representatives will be needed during the summer holidays to make the CZK firm more, Cyrrus<sup>22</sup> said, "Today's decision is a moderate surprise for the markets, but it is logical and makes sense," it added.

The CNB also raised the Lombard rate<sup>23</sup>, by 0.5 p. p. to 2%. The discount rate<sup>24</sup> remained at 0.05%.

"The CNB's decision can be considered as correct," ING said.

The economic development is not dampened by stronger rate of the CZK as was expected, it added.

In its latest forecast, the CNB expected the average rate at CZK25.2/€ in Q<sub>2</sub> 2018. The real average rate of the CZK, however, moves around CZK25.6/€, ING noted.

The CNB raised interest rates the last time at the beginning of February, with the basic rate growing by 0.25 p. p. at that time. At its last policy meeting on May 3, the board kept the rates flat.

<sup>21</sup> **Repo rate:** The discount rate at which a central bank repurchases government securities from the commercial banks, depending on the level of money supply it decides to maintain in the country's monetary system. To temporarily expand the money supply, the central bank decreases repo rates (so that banks can swap their holdings of government securities for cash). To contract the money supply it increases the repo rates. Alternatively, the central bank decides on a desired level of money supply and lets the market determine the appropriate repo rate. Repo is short for repossession.

<sup>22</sup> **Cyrrus:** a licensed securities trader and one of the largest brokerage companies in the Czech Republic.

<sup>23</sup> **Lombard rate:** An interest rate charged by a central bank for very short term loans to other banks against an approved collateral.

<sup>24</sup> **Discount rate:** An interest rate that a central bank charges depository institutions that borrow reserves from it.

<sup>25</sup> **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 national governments of the CR. It accomplishes this goal through the management of the Czech Statistical Service.

Raiffeisenbank is of the opinion that the CNB should raise interest rates once more in Q<sub>4</sub> 2018. "The 2-week repo rate should thus be at the level of 1.25% at the end of the year," it said.

## AGRICULTURE & ENVIRONMENT

### WOOD HARVESTING IN CZECH FORESTS UP – 21. 6.

According to the CSO<sup>25</sup>, a record total of 19.4mn<sup>26</sup> m<sup>3</sup> of wood without bark was harvested in Czech forests in 2017, up 10% y-o-y. Random harvesting accounted for 61% of the total. The most wood was harvested in Olomouc and Moravia-Silesia Regions. Trees were newly planted on almost 20,000 ha, with 125mn new trees planted, 54% of them deciduous. The biggest foresting rate was reported from Olomouc Regions. Forests cover a total area of 2.7mn ha<sup>27</sup> in CR. Their area increased by almost 3% over the last 50 years.

### NATURAL WATER SOURCES ON VERGE – 22. 6.

The quality of water being fed into Czech reservoirs is rapidly declining, an expert from the CAS<sup>28</sup> said at conference in Prague on drinking water, and in some areas is on the verge of being untreatable, meaning it cannot be readily filtered to become potable.

The biggest threat comes from rising levels of cyanobacteria and pesticides in natural water sources.

### WORSE-QUALITY WATER SUPPLY – 23. 6.

A total of 102 Czech water pipelines that supply 280,000 people with drinking water had a softer sanitary limit, or an exception for the supplied water quality, in 2017, the NIPH<sup>29</sup>, said at a seminar in the ChD<sup>30</sup>.

Last year's figures are similar to those in 2016 and much better than in 2015, when a part of Praguers were hit by noroviral infection.

In the case of a worse quality of water, which cannot be removed within 30 days, the operator can apply for a softer sanitary limit for a period of up to 3 years.

A total of 102 water pipeline operators did so last year.

"The most frequent cause for granting a softer sanitary limit in 2017 were pesticides," NIPH said, adding that the more and more frequent detection of pesticides is also a consequence of the improving analytic methods.

In 2015, the situation was far worse. In May, noroviral infection spread in the pipeline system in Dejvice, a northwestern district of Prague, afflicting 11,000 people.

<sup>26</sup> **mn:** million

<sup>27</sup> **ha:** hectare is a non-SI metric system unit of area equal to 10,000 m<sup>2</sup>

<sup>28</sup> **CAS:** Czech Academy of Sciences, established by Act No. 283/1992 Coll. is set up as a complex of 54 public research institutions. The Academy employs over 8,000 employees more than a half of whom are researchers with university degrees. The primary mission of the CAS and its institutes is to conduct basic research in a broad spectrum of the natural, technical and social sciences and the humanities.

<sup>29</sup> **NIPH:** National Institute of Public Health (Státní zdravotní ústav) is a budgetary organisation of the Ministry of Health. The mission of the Institute is to cover a spectrum of activities comprising creation of the basis for national public health policy, health promotion and protection, providing methodical reference activities and monitoring related to public health, researching the environmental impact on human health, international collaboration, post-graduate education in medical fields and health-related education of the general public.

<sup>30</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.



In the past, the presence of nitrates in water was the main problem, being dangerous for infants and pregnant women. It poses no problem any more.

Another risk is lead, which penetrates into water only in the pipeline systems in houses, if the pipes are old and made of lead. Since lead gets into water shortly before the latter's consumption, there are no detailed data to map the problem. Drinking water has also been infiltrated by remnants of medicines, most often the ibuprofen analgetic. However, to consume a dose corresponding to one ibuprofen pill, one would have to drink water for 26,000 years, NIPH said, adding that the risk posed by drug remnants seems to be negligible.

NIPH said the quality of drinking water has been analysed in detail since 2004, and it improved in the given period. It is mostly smaller pipelines whose results are worse, because their operators are incompetent, which is water quality's biggest problem.

Almost 95% of Czech population receive water supplies through public pipelines. About a ½ of the water comes from surface sources and the other ½ from underground ones. The quality of almost all water meets the set sanitary limits.

#### CTK FEWER CZECHS SATISFIED WITH ENVIRONMENT – 26. 6.

Czechs' satisfaction with the state of the environment in the place of their residence fell to 74%, which is 5% less than a year ago, when it reached the maximum level, according to the CVVM<sup>31</sup>.

With regard to the whole of the CR, the satisfaction rate declined by 6% to 66%.

On the other hand, the number of the people taking interest in the environment has increased.

Interest in information on the environment was expressed by 57%, while it was 52% a year ago.

Czechs tend to believe that there is not enough such information in the CR. The view is held by over ½ of them, while ¼ believe the reverse is true.

When it comes to their place of residence, Czechs are most satisfied with the quality of drinking water and access to the wild. This is given a positive evaluation by ¾ of them.

A slightly smaller proportion of them give a positive assessment to the nature around them and ¾ also to the quality of air.

By contrast, Czechs are the least satisfied with the density of road traffic. Only ¼ of them are satisfied with it.

Czechs are also rather dissatisfied as regards the reserves of ground and underground waters.

The environment in the place of residence is mostly given a positive evaluation by the people with good living standards, the residents of villages and of the Hradec Kralove and Liberec regions.

The least satisfaction was expressed by the people from the Karlovy Vary and Moravia-Silesia regions and big towns.

<sup>31</sup> CVVM: Public Opinion Research Centre of the Institute of Sociology of the Academy of Sciences of the CR

<sup>32</sup> t: tonne, metric ton is a non-SI metric unit of mass equal to 1000 kilograms



#### FRUIT HARVEST ESTIMATE – 27. 6.

Czech fruit harvest will increase annually by 55% to above-average 185,184t<sup>32</sup> in 2018, as orchards were not damaged by spring frosts which decreased harvest significantly in 2016 and 2017, according to estimates of the ÚKZÚZ<sup>33</sup>.

This year's harvest should be 22% higher than the 5-year average. All fruit kinds are expected to report a harvest increase, except gooseberry.

The volume expected for this year is the 2<sup>nd</sup> highest since 2006 when fruit growers harvested 190,955t of produce.

Harvest of apples, the CR's main fruit kind, is expected to add annually 48% to 150,279t, with the average per-ha yield at 23.03t. Compared to the 5-year average, apple harvest will grow by 18%.

The CR's orchards cover 13,979ha in area, and the size keeps decreasing, as they covered 18,000ha in 2013. Apple trees grow on 6,879ha.

Annual revenues of orchard production is estimated at more than CZK1bn in an average year.

The segment employs some 5,000 people, including seasonal workers.

This year's very dry and warm spring has had negative impacts on strawberries and early ripening cherry varieties. Apple harvest will show the drought's effect on the total business results.

Table 2: Harvest in CR's intensive orchards in 2008-2018 (in tonnes)

	2008	2009	2010	2011	2012
<b>Total</b>	183,817	178,090	121,019	101,249	138,205
	2013	2014	2015	2016	2017
<b>Total</b>	149,205	152,464	188,462	150,100	119,310
	2018				
<b>Estimate</b>	185,184				

	apples	pears	cherries	sour cherries	apricots
<b>2008</b>	156,697	2,649	2,023	6,851	2,651
<b>2009</b>	144,993	5,866	2,595	6,891	4,209
<b>2010</b>	103,304	3,482	1,851	3,472	1,031
<b>2011</b>	79,134	3,103	1,519	5,825	2,44
<b>2012</b>	117,897	5,774	1,323	4,34	904
<b>2013</b>	120,602	7,437	1,59	5,486	3,556
<b>2014</b>	130,902	3,758	2,03	5,227	1,871
<b>2015</b>	155,64	10,002	2,306	5,847	2,21
<b>2016</b>	126,434	6,643	2,706	5,19	662
<b>2017</b>	101,844	4,043	1,925	4,141	811
<b>2018</b>	150,279	10,712	3,124	6,683	2,477

	peaches	plums	goose berries	currants	raspberries, blackberries
<b>2008</b>	3,883	5,609	0	3,415	39.0
<b>2009</b>	3,038	7,543	0	2,919	36.0
<b>2010</b>	1,717	4,218	0.80	1,927	15.0
<b>2011</b>	1,839	5,741	0.02	1,630	20.0
<b>2012</b>	1,465	3,950	0.60	2,524	28.0
<b>2013</b>	1,888	6,536	0.70	2,095	14.0
<b>2014</b>	893	5,750	1.64	2,005	25.0
<b>2015</b>	1,282	8,742	2.11	2,385	46.0
<b>2016</b>	268	6,378	1.31	1,767	51.0
<b>2017</b>	428	4,319	1.63	1,746	50.1

<sup>33</sup> UKZUZ: Central Institute for Supervising and Testing in Agriculture (Ústřední kontrolní a zkušební ústav zemědělský), established by the Act No. 147/2002 Coll., on Central Institute for Supervising and Testing in Agriculture, as amended. The Institute is the administrative authority subordinate to the Ministry of Agriculture.

2018	1,059	8,544	1.58	2,190	114.0
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It will depend on rainfalls in the coming months.

Czech harvest does not affect prices of fruit, as prices in the CR are driven by the European market.

It seems that harvest volumes in many of the main harvest countries of the EU will be average or moderately above average. The current higher prices will return to the level reported two years ago, that is before most European countries registered a drop in harvest because of frosts.

#### ☰ STOPPING USING CAGED HENS IN EGG PRODUCTION – 27. 6.

Ceasing using caged hens in egg production in the CR would cost up to CZK6bn, the ČMDU<sup>34</sup>.

It said that many poultry farms were built in the 1960s and would require major investment to allow breeders to stop keeping hens in cages.

Following a recent ČT<sup>35</sup> report on conditions at poultry farms a number of major retailers have said they will phase out eggs produced by caged hens by the 2025.

#### EDUCATION & RESEARCH

#### 📄 NEW PANCREATIC CANCER BIOMARKERS – 21. 6.

Doctors and scientists from the IMCLFUK<sup>36</sup> and the ÚVN<sup>37</sup> are seeking and testing new pancreatic cancer biomarkers using spectroscopic methods and analysis of the patients' plasma. The goal is to ensure earlier detection of pancreatic tumours and help fast and efficient therapy. The IMCLFUK's chief physician Zavoral has stated that the research is carried out on separate plasma gained from regular blood taking from patients. The project attempts to detect subtle changes to the structure of all plasma molecules and searches for biomolecules with a different structure in patients with pancreatic cancer, healthy persons, diabetics and pancreatic cancer precursors. Beside earlier diagnosis, the biomarkers could help answer the question why pancreatic cancer forms at all.

#### 🇬🇧 UK'S SUBSIDIARY FOR TECHNOLOGY TRANSFERS – 26. 6.

The UK<sup>38</sup> has founded a daughter firm named CUIP<sup>39</sup> Charles University Innovations Prague for transfers of scientific knowledge into practice, which it owns fully, as the first university in the CR, UK's officials said.

CUIP is to serve as a bridge between teams of scientists and companies and will aim to found and support spin-off companies that will implement the research results in their business activities.

<sup>34</sup> ČMDU: Czech-Moravian Poultry Association (Českomoravská drůbežářská unie), is a voluntary civic association, a non-governmental organization that represents the interests of its members, which are primarily primary producers - poultry farmers of all commodities, but also organizations associated with primary production (eg technology companies, packaging manufacturers, feed manufacturers, etc.).

<sup>35</sup> ČT: Czech Television (Česká Televizie), is the public television broadcaster in the Czech Republic, broadcasting six channels. It is based on Czech Television Act (Act No. 483/1991 Coll.) as a television service for the citizens of the Czech Republic. Česká televize is funded through television licence fees (larger part of revenue) and from advertising, which may not exceed 0.5% of the daily broadcasting time for each program.

<sup>36</sup> IMCLFUK: Internal Medicine Clinic of the 1<sup>st</sup> Faculty of Medicine of Charles University

<sup>37</sup> ÚVN: Central Military Hospital - Military University Hospital Praha (Ústřední vojenská nemocnice – Vojenská fakultní nemocnice Praha)

<sup>38</sup> UK: Charles University in Prague is the oldest and largest university in the CR. Founded in 1348, it was the first university in Central Europe, east of France and north of the Alps. It is one of the oldest universities in Europe in continuous operation and ranks in the upper 1.5% of the world's best universities

<sup>39</sup> CUIP: Charles University Innovations Prague, wholly-owned subsidiary of the Charles University in Prague, its task is to find use for the University's knowledge and

#### ENERGY & INDUSTRY & TRANSPORT

#### 📄 MOTOR VEHICLE PRODUCTION IN MAY – 21. 6.

According to the AIA<sup>40</sup>, motor vehicle production in CR in May 2018 totalled 627,664; 624,779 of the vehicles were passenger cars (down 0.03% y-o-y). Bus production increased by 8.8% to 1,956. Truck production reached 356 (down 45.7%). Motorcycle production dropped by 27.1% to 573.

#### 🇨🇪 PAČES QUILTS AS ČEZ SUPERVISORY BOARD CHAIR – 23. 6.

Former chairman of the CAS Pačes leaves the post of supervisory board chairman at power producer ČEZ<sup>41</sup>, and board members Šťastný and Polák quit their posts as well, the general meeting decided June 23.

It lasted for more than 14 hours and was the longest general meeting of ČEZ.

Šťastný was regarded as a nominee of the KDU-ČSL<sup>42</sup>. Polák was backed by former PM Sobotka (ČSSD<sup>43</sup>), media said.

Former member of the CNB' Board Lízal, the MF's state budget department head Tyll, and former vice-president of the KAČR<sup>44</sup> Hora have been appointed new members of the board.

Lízal and Tyll were proposed for the posts on the supervisory board by the MF and their candidacy was approved by the Government Committee for Personal Nominations last week. Hora has worked in a ČEZ audit committee.

The supervisory board has 12 members, 8 are state representatives and the rest are representatives of employees.

As a MF Minister in Sobotka's government, PM Babiš (ANO<sup>45</sup>) said that based on the then coalition agreements his ministry nominated 4 candidates to represent the state on the supervisory board of ČEZ, the ČSSD proposed 3 candidates and the KDU-ČSL 1 candidate.

Media have speculated in recent years that Babiš wants to raise his influence in ČEZ.

#### 🇨🇪 ČEZ TO PAY SAME DIVIDEND AS LAST YEAR – 23. 6.

ČEZ will pay the same dividend as last year, that is CZK33 per share before taxes, with CZK17.8bn to be distributed among shareholders from the 2017 profit, and the state as a majority shareholder will get some CZK13bn, the general meeting of the company has decided. June 28 is a record day for dividend.

Shareholders first rejected a proposal of the board of directors for payment of a CZK33 per share dividend and

technology in practice. The priorities are the establishment, management and investment in university spin-offs.

<sup>40</sup> AIA: Automotive Industry Association (AutoSAP), an interest industrial grouping of the manufacturing, commercial and other companies which make up the Czech automotive and allied industries. AIA represents companies making up nearly 90% of the Czech automotive industry. Their share in total industrial production posted an annual rise of 1% to 22%.

<sup>41</sup> ČEZ: ČEZ Group is a conglomerate of 96 companies (including the parent company ČEZ, a.s.), 72 of them in the CR. Its majority shareholder is the Czech government, owning 70% of shares. It is involved in the electricity generation, trade, distribution and heat, as well as coal mining. ČEZ is the biggest electricity supplier in the Czech Republic.

<sup>42</sup> KDU-ČSL: Christian and Democratic Union – Czechoslovak People's Party, centre party

<sup>43</sup> ČSSD: Czech Social Democratic Party, centre-left party

<sup>44</sup> KAČR: Chamber of Auditors of the Czech Republic is a self-regulating professional organization established by the Act on Auditors for the purpose of governance of the auditing profession in the Czech Republic.

<sup>45</sup> ANO: ANO 2011, centre-right party

bonuses to the company's management worth CZK21m, and then approved a MF counter-proposal. The MF proposed the same dividend but did not reckon with bonuses for the board of directors and the supervisory board. Managers did not receive any bonuses in the previous 3 years.

#### APPROVED ENERGY SAVINGS COULD BE TOO MUCH – 22. 6.

The newly approved commitments for the energy efficiency are very ambitious and they could be economically unbearable for the CR if wrongly implemented, stated the CI in a reaction on the discussion of the EUC<sup>46</sup>, the EC<sup>47</sup>, and the EP<sup>48</sup> about EED II. The approved amount of energy savings would mean for the CR the duty to reduce the final consumption of energy by approximately 8% (85.6PJ<sup>49</sup>) by 2030. Related investments would reach CZK625bn - CZK1,210bn. CI thus wants the MIT<sup>50</sup> and the EC to determine national commitments with regard to real possibilities of the CR.

#### SICHUAN AIRLINES TO FLY FROM PRAGUE TO ZURICH – 22. 6.

Sichuan Airlines will start flying on the new route between Prague and Zurich, Switzerland, on June 23, 2018. The carrier will serve the route twice per week.

#### ŠKODA AUTO TAKING OVER RESPONSIBILITY IN INDIA – 25. 6.

The VW<sup>51</sup> concern has entrusted project INDIA 2.0 to Škoda Auto<sup>52</sup>. The aim is the long-term strengthening of the concern's position on the Indian market.

All models developed and manufactured locally in India in the future will be based on the VW's MQB platform<sup>53</sup>. As part of the INDIA 2.0 project Škoda Auto is also taking over complete responsibility for subcompact platform MQB Ao, initially with a focus on India (MQB-Ao-IN). The Škoda Auto will introduce the first model on platform MQB-Ao-IN in 2020.

<sup>46</sup> **EUC:** The European Council, charged with defining the European Union's overall political direction and priorities, is the institution of the EU that comprises the heads of state or government of the member states, along with the President of the European Council and the President of the European Commission. The High Representative of the Union for Foreign Affairs and Security Policy also takes part in its meetings. Established as an informal summit in 1975, the European Council was formalised as an institution in 2009 upon the entry into force of the Treaty of Lisbon.

<sup>47</sup> **EC:** European Commission, is the executive body of the EU responsible for proposing legislation, implementing decisions, upholding the EU treaties and managing the day-to-day business of the EU.

<sup>48</sup> **EP:** European Parliament, is the directly elected parliamentary institution of the European Union. Together with the Council of the European Union and the European Commission, it exercises the legislative function of the EU. The Parliament is composed of 751 members, who represent the second-largest democratic electorate in the world (after the Parliament of India) and the largest trans-national democratic electorate in the world (375 million eligible voters in 2009).

<sup>49</sup> **PJ:** The petajoule (PJ) is equal to one quadrillion (10<sup>15</sup>) joules. The joule is a derived unit of energy in the International System of Units. It is equal to the energy transferred to (or work done on) an object when a force of one newton acts on that object in the direction of its motion through a distance of one metre (1 newton metre or N·m). It is also the energy dissipated as heat when an electric current of one ampere passes through a resistance of one ohm for one second. In terms firstly of base SI units and then in terms of other SI units:  $J=kg\cdot m^2/s^2=N\cdot m=Pa\cdot M^3=W\cdot s=C\cdot v$ , where kg is the kilogram, m is the metre, s is the second, N is the newton, Pa is the pascal, W is the watt, C is the coulomb, and V is the volt.

<sup>50</sup> **MIT:** Ministry of Industry and Trade

<sup>51</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>52</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

#### HÜNER HAD NO OPPORTUNITY TO SHOW QUALITIES – 26. 6.

Outgoing MIT Hüner had no opportunity to fully demonstrate and put into practice his ideas and plans during about six months in office, professional associations have agreed.

The government's insufficient mandate for making fundamental decisions was the reason, they said.

In a new government which is formed by the ANO with the ČSSD and with support from the KSČM<sup>54</sup>, Hüner will be replaced by the ATT's<sup>55</sup> president Nováková.

ASMP<sup>56</sup> president Havlíček said Hüner's position was not easy but he was not resolute enough in dealing with the skeletons in the cupboard and was not convincing in communication. In this connection, Havlíček mentioned problems with drawing structural funds<sup>57</sup> within the OPEIC<sup>58</sup>, Czech energy policy and communication with ČEZ energy group.

AES<sup>59</sup> chairman Sedlák said Hüner was the first industry minister to say that, for its decision on the construction of new nuclear units and ways of financing the project, the government lacked information on the economic impacts of the move on the state budget and electricity consumers. "Unfortunately, he did not have much time to deal with the other issues in the domestic energy sector," he said.

Bigger progress failed to be made in renewables development and battery energy storage systems under Hüner, the AKU-BAT<sup>60</sup> CEO Fousek said. However, he appreciated activities of the MIT's staff in preserving certain continuity at the MIT.

RESC<sup>61</sup> chairman Chalupa praised Hüner's efforts in preparing an amendment to the law on supported energy sources.

#### 165,000 M2 OF OFFICES TO BE COMPLETED IN PRAGUE – 27. 6.

A total of 165,000m<sup>2</sup> of modern office premises should be completed in Prague in 2018. It was almost 39,000m<sup>2</sup> in Q1. Up to 41% of these new offices have been leased prior to their completion. A total of 334,000m<sup>2</sup> is under construction. The

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>53</sup> **MQB platform:** the Volkswagen Group MQB platform, is the company's strategy for shared modular design construction of its transverse, front-engine, front-wheel-drive layout (optional front-engine, four-wheel-drive layout) automobiles.

<sup>54</sup> **KSČM:** Communist Party of Bohemia and Moravia, far-left party

<sup>55</sup> **ATT:** Association of Trade and Tourism

<sup>56</sup> **ASMP:** Association of Small and Medium-Sized Enterprises and Crafts in the CR (Asociace malých a středních podniků a živnostníků České republiky), provides an open, apolitical platform for small and medium-sized enterprises, self-employed persons and their organisations across the Czech Republic.

<sup>57</sup> **EU Funds:** financial tools set up to implement the regional policy of the EU (CP – Cohesion Policy and CAP – Common Agricultural Policy), funds under CP consist of the Structural Funds (the ERDF – the European Regional Development Fund and the ESF – the European Social Fund), and the CF – the Cohesion Fund. Funds under the CAP, consist of the EAGF – the European Agricultural Guarantee Fund, the EAFRD – the European Agricultural Fund for Rural Development, and the EFF – the European Fisheries Fund.

<sup>58</sup> **OPEIC:** Operational Programme Enterprise and Industry for Competitiveness 2014-2020

<sup>59</sup> **AES:** Alliance for Energy Self-Sufficiency (Aliance pro energetickou soběstačnost), an independent association that serves as a communications platform for representatives of the renewable energy sector.

<sup>60</sup> **AKU-BAT:** the Association for Energy Accumulation (Asociace pro akumulaci a baterie), an association bringing together the most important actors active in the field of energy storage.

<sup>61</sup> **RESC:** the Chamber of Renewable Energy Sources (Komora obnovitelných zdrojů energie), is a Czech association associating professional associations of individual renewable resources, including industrial producers of technologies and scientific institutions.



volume of the office market grew by almost 4% to 3,357,500m<sup>2</sup>.

The vacancy rate dropped down to a record-low of 6.2% (▲3 p. p.). It is the lowest in Prague 2 (3.6%), while Prague 3 is traditionally one of the districts with the largest area of vacant offices (11.1%). The value of the highest rents is at €21/m<sup>2</sup> per month and an increase can be expected during the year.

**ČD INTERESTED IN ENTERING LEO EXPRESS – 27. 6.**

ČD<sup>62</sup> is monitoring the situation of private Czech carriers. The company is interested in possible terms under which it could enter Leo Express<sup>63</sup> or RegioJet<sup>64</sup>, but ČD was not planning any concrete steps yet. Leo Express declined speculation about the possible sale of the company or its merge with competing carriers: "We did not receive any official offer, but the discussions are ongoing. There is nothing specific on the table today, any cooperation with the Czech Railways is ruled out." RegioJet refused eventual sale earlier.

**INVESTMENTS & TRADE & SERVICES**

**VIETNAM IS TOP SECURITY RISK – 21. 6.**

Vietnam means organised crime and has become a security risk of the first category, ChD foreign affairs committee chairman and former MFA<sup>65</sup> Minister Zaorálek said in a debate in the committee.

He said this in a discussion about the MFA's financial management in 2017, following the MFA state secretary Stašek's accounts of the situation regarding the issuing of visa for the CR in some countries. Stašek said the bad situation in Vietnam continued and that it was a theme for a separate debate.

"We paid special attention to this and the NSC<sup>66</sup> also dealt with this," Zaorálek said.

According to Zaorálek, Vietnam simply meant organised crime and even the ordinary Vietnamese in Hanoi were apologising to him for Vietnam exporting crime to the CR at such an extent.

Zaorálek said the main problem between the CR and Germany was the production of MA<sup>67</sup> and the Chinese or Vietnamese gangs making it.

"The damage for the CR is so huge, in dozens of CZK bn. I remember that even Babiš was shocked when he saw these sums, the losses they meant for the CR," Zaorálek described.

<sup>62</sup> **CD**: Czech Railways, is the main railway operator in the Czech Republic providing regional and long-distance services.

<sup>63</sup> **Leo Express**: is an open-access train operator set up in 2010. It launched inter-city services in November 2012 on the Prague–Ostrava route, on which CD and RegioJet (open-access train operator) were already running trains. In 2013 LEO Express became the first private railway operator introducing direct connection between Prague and South Moravian Region.

<sup>64</sup> **RegioJet**: RegioJet is a Czech open access passenger railway company founded in 2009 and headquartered in Brno. Since 2015, RegioJet is also a brand of the bus transport operated by Student Agency and by the Slovak company of RegioJet.

<sup>65</sup> **MFA**: Ministry of Foreign Affairs

<sup>66</sup> **NSC**: National Security Council

<sup>67</sup> **MA**: Methamphetamine, is a potent central nervous system stimulant that is mainly used as a recreational drug and less commonly as a second-line treatment for attention deficit hyperactivity disorder and obesity. It is known as pervitin in the Czech Republic, which was the brand name used for methamphetamine sold in tablet form during World War II.

<sup>68</sup> **MP**: Member of Parliament

This information was never published fully, it was only debated in the NSC and the Vietnamese side was never able to do anything about it, Zaorálek said.

MP<sup>68</sup> Zahradníková wanted to discuss support for visas for Vietnamese students, but was opposed by Zaorálek, who said student visas were the best way to bring criminals to the country.

Zaorálek also dismissed that employees of the Czech embassy would participate in illegal practices when issuing visas, arguing that MFA checked on this through the intelligence service.

The committee finally agreed to hold a special meeting on the issue of visas in Vietnam. The ChD has already approved 2 agreements with Vietnam, one on cooperation in tackling crime and the other on extradition of convicts.

**JOINT ECONOMIC DIPLOMACY PROJECTS – 25. 6.**

The MT<sup>69</sup>, MH<sup>70</sup> and ME<sup>71</sup> may take part in the joint economic diplomacy projects, Deputy MFA Minister Stašek said at a meeting of economic diplomats in Prague.

The fund to finance projects aimed at boosting contacts between Czech and foreign companies and opening up new trade opportunities has a CZK60mn budget this year.

"The joint financial framework for economic diplomacy projects has become the most important part of support for exports," Stašek said.

The MFA, MIT, MD<sup>72</sup>, MA, MI<sup>73</sup> and MRD<sup>74</sup> and the OGCR<sup>75</sup> make contributions to the fund, and the MH, ME and MT have expressed interest in joining the projects. There is potential to enhance water management, transport and health equipment projects, said Stašek.

Ministries promised to provide CZK53mn to the joint fund in support of economic diplomacy last year. In cooperation with embassies, they helped finance 300 projects in 100 countries, such as business missions, seminars and companies' participation in trade fairs.

Some 230 projects have been approved so far this year, Stašek said. In the future, the priority should be given to increasing the quality of supported projects and not to increasing their number, but the spent funding.

MIT Hüner backed the planned merger of state-run agencies CzechTrade<sup>76</sup> and CzechInvest<sup>77</sup>. The latter's structure must be adapted to suit the present-day needs, he said.

Nowadays the CR has problems quickly recruiting both qualified and unqualified foreign workers because of the

<sup>69</sup> **MT**: Ministry of Transport

<sup>70</sup> **MH**: Ministry of Health

<sup>71</sup> **ME**: Ministry of the Environment

<sup>72</sup> **MD**: Ministry of Defence

<sup>73</sup> **MI**: Ministry of the Interior

<sup>74</sup> **MRD**: Ministry of Regional Development

<sup>75</sup> **OGCR**: Office of the government of the Czech Republic

<sup>76</sup> **CzechTrade**: National trade promotion agency of the Ministry of Industry and Trade of the CR, established by the MIT in May 1997. The agency is an official contact partner for those foreign companies looking for qualified Czech-based suppliers of products, providers of services or investors. CzechTrade operates worldwide via 47 foreign representatives.

<sup>77</sup> **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.

economic growth. Attracting new investors without any value added is meaningless at such times, Hüner said.

Economic diplomats meetings are attended by the MFA Minister and the PM.

Two general consulates will be launched, one in Manchester and one in Milan, to boost Czech exports this year. The country will also reinforce its representation in Sub-Saharan Africa. It is posting economic, development and agricultural diplomats to fill posts at these offices.

#### OPC PERMITS TAKEOVER OF CEFC AND LAPASAN – 26. 6.

The OPC<sup>78</sup> has authorised in the simplified proceeding Hengxin Enterprises Limited from the CITIC<sup>79</sup> to exercise sole control over CEFC<sup>80</sup> and Lapasan<sup>81</sup>. The concentration of undertakings takes place mainly in the field of metallurgy, brewing, hotel operation, operation of a sports club, rental of real estate and production of aluminium wheels and aluminium castings for the automotive industry. The decision is not final yet.

#### FOREIGN, CZECH COMPS INVESTING IN CR – 26. 6.

Foreign and Czech companies plan to invest over CZK65bn in the CR, and 1 in 3 projects, out of a total of 106 projects mediated by the state-run agency CzechInvest last year, is a high-tech project, according to data CzechInvest.

Major foreign investors are German, US and Japanese companies.

New investor numbers will be lower in the future, said CzechInvest CEO Jirotková.

"We are no longer able to absorb, to such an extent (as in the past), purely manufacturing operations that are not very demanding technologically. At the same time, we are much more interested in hi-tech investments," Jirotková said.

More advantageous investment incentives will likely come into force next year by which the state will motivate companies to make technologically more demanding and R&D (research and development) investments, she added.

80 projects involved expansion of the existing facilities and 26 were new investment projects.

German investment plans total CZK23.8bn, US projects reach CZK2.6bn and Japanese projects amount to CZK4bn.

Most investments target the South Moravia, Usti and Central Bohemia Regions, and among branches, it is metal processing and metalworking industry, manufacture of transport equipment, IT and software development.

<sup>78</sup> **OPC:** Office for the Protection of Competition (Úřad pro ochranu hospodářské soutěže), the central authority of state administration responsible for creating conditions that favour and protect competition, supervision over public procurement and consultation and monitoring in relation to the provision of state aid.

<sup>79</sup> **CITIC:** CITIC Group Corporation Ltd., formerly the China International Trust Investment Corporation, is a state-owned investment company of the People's Republic of China, established in 1979. Its headquarters are in Chaoyang District, Beijing. As of 2017, it is one of China's biggest conglomerates, with one of the largest foreign assets in the world.

<sup>80</sup> **CEFC:** China CEFC Energy Company Limited, through its subsidiaries, engages in trading of oil, petrochemical products, and oil storage. The company is based in Shanghai, China. CEFC China has picked the CR as the main seat for its European activities. Since September 2015, it has bought into Czech beer maker Pivovary Lobkowicz Group (PLG), J&T Finance Group, engineering company Zdas, air carrier Travel Service, online seller of trips Invia.cz, media group Medea Group, publishing house Empresa Media and television group Barrandov. CEFC also owns two five-star Prague hotels - Mandarin Oriental Prague and Le Palais Art Hotel Prague and a historic building of former Zivnobanka in Prague centre, and Martinický palác at Hradčany. It is also the majority owner of soccer club Slavia Praha. In 2017, CEFC bought a 14.16% stake

Siemens' expansion is the largest investment deal. The company plans to enlarge and modernise its branches in the Central Bohemia, Moravia-Silesia, Olomouc, Hradec Kralove, South Moravia and Usti Regions in the years to come. A development centre in Ostrava is part of the CZK7bn hi-tech investment, CzechInvest said.

Praha Vaccines invests CZK2.5bn to expand production of vaccines against infectious diseases in Ricany, central Bohemia, which is the 2<sup>nd</sup> highest investment and also a hi-tech project.

In 2016, CzechInvest negotiated 100 projects worth CZK64bn. Investment incentives of CZK10.7bn were promised for 83 projects last year.

It has been 29 projects so far this year, with investment incentives at CZK4.5bn.

Investment incentives rules are going to change. They will be provided for projects with higher value added and those enabling creation of more qualified jobs. Incentives should also be more accessible to small and mid-sized companies.

Investment plans prepared in cooperation with a research organisation or university and employing some university graduates will have a better chance to get an incentive, said Jirotková.

**Table 3: Investments mediated by CzechInvest in 2017**

Country	Number of projects	Investment (CZKbn)	Number of jobs created
CR	23	7.740	1,274
Germany	17	23.810	4,837
USA	10	2.630	1,127
Japan	7	4.010	475
UK	6	1.890	148
Austria	5	3.700	248
France	4	3.350	321
Switzerland	4	1.710	300
Italy	3	1.500	205
Spain	3	0.996	194



#### NUMBER OF M&As GROWS – 27. 6.

The number of M&A<sup>82</sup> grows in the CR. The trend is caused primarily by the generation exchange in the managements of firms and new impulses for a further expansion of current companies, according to the BDO<sup>83</sup> analysis.

Together with China, the CR is the only market in the world with a growing number of M&As.

BDO predicts that the year 2018 will not globally reach the level of the year 2017 in the field of M&A.

in Russia's largest oil producer Rosneft for about \$9 billion. In 2018, after its chairman Ye was detained for questioning on the order of the Chinese president Xi Jinping, South China Morning Post reported that "Shanghai Guosheng Group, a portfolio and investment agency controlled by Shanghai's municipal government, had taken control of CEFC China Energy

<sup>81</sup> **Lapasan:** Pivovary Lobkowicz, the regional brewers are Protivin, Uherský Brod, Jihlava, Hlinsko, Klaster nad Jizerou, Vysoký Chlumec and Cerna Hora. Major beer brands include Lobkowicz, Rychtar, Klaster, Platan, Jezek, Cerna 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>82</sup> **M&A:** mergers and acquisitions

<sup>83</sup> **BDO:** Binder Dijkster Otte is an international network of public accounting, tax, consulting and business advisory firms which perform professional services under the name of BDO. As of 2017 BDO has member firms in 162 countries, employs around 74,000 partners and staff in over 1,500 offices throughout the world, and is the fifth largest professional services network globally (BIG5).



A total of 1,620 such transactions took place in Q<sub>1</sub> 2018. It was 26% down compared with Q<sub>4</sub> 2017.

## LABOUR & HEALTH & SOCIAL



### CR MEETS ITS EMPLOYMENT TARGETS – 21. 6.

The CR has met all of its 5 targets regarding employment growth and unemployment cuts within the Europe 2020 strategy, with 78.5% of people aged between 20 and 64 years being employed in the CR at the end of last year, an employment analysis has said. The figure was 1.8 p. p. higher annually.

Under the strategy, 75% of people in the 20-64 age group should have a job in 2020.

Women's employment and employment before retirement was above the set limit, while unemployment of youth and low-qualified people was well below the ceiling, according to the employment analysis for 2017 that was drawn up by the MLSA<sup>84</sup>.

Employment of women between the ages of 20 and 64 should reach 65% at the end of the decade, being at 70.5% last year and rising by an annual rate of 1.9 p. p..

As much as 55% of people in the 55-64 age group should have a job at the end of 2020, their rate rising by 3.6 p. p. annually to 62.1% at the end of 2017.

The EU adopted the Europe 2020 strategy eight years ago, setting sustainable growth and competitiveness targets it would like to meet within the decade. The objectives concerned employment, for example.

The CR has record-low unemployment, the rate being the lowest in the EU. The economic growth and a big demand for workforce help the CR meet the employment target for the end of the decade.

In 2010, the CR also pledged to lower unemployment of youth until 24 years by a third to some 12.2% by 2020. There were 7.9% of unemployed young people in the CR last year.

Unemployment of low-qualified workers is expected to go down by a quarter to 18.8% in 2020. The rate fell to 13.1% last year.

There were 5.22mn people with a job last year, the number going up by 83,000 annually, and 56% were men and 44% women. The number of employees reached 4.33mn and that of entrepreneurs 894,000.

Other objectives in the employment chapter included a 20% growth in labour productivity. The administrative burden of entrepreneurs was to fall by 30% compared to 2005. Employers, however, complain about a growing amount of paperwork.

Other chapters deal with investments in research and development, envisaged at 2.7% of Czech GDP in 2020, and energy efficiency that is expected to increase.

In 2020, 32% of people in the 30-34 age group should have university education. Less than 5.5% of students are expected to leave schools prematurely, however, the percentage is growing from about 5% in 2013 to nearly 7% last year.

The poverty rate which includes a lack of income, assets and work, should not exceed 15% in 2020. It was 12.2% last year, statisticians said.

<sup>84</sup> MLSA: Ministry of Labour and Social Affairs

<sup>85</sup> MEYS: Ministry of Education, Youth and Sports



### MEYS WILL PROVIDE FUNDING TO KINDERGARTENS – 21. 6.

The MEYS<sup>85</sup> will provide kindergartens with CZK300mn for the extension of their capacities. The call is meant also for elementary schools with the 1<sup>st</sup> level of education and schools located in one building with a kindergarten. It is the 6th call in the programme for the development of education capacities in kindergartens and elementary schools for years 2018 and 2019. It is possible to send applications in a period from June 20 to September 1, 2018. Results will likely be published at the end of 2018. The total sum allocated for the programme in years 2014-2021 was thus raised to CZK1.8bn.



### STATE-OWNED HOSPITALS TO BUY SELECTED DRUGS – 22. 6.

MH Minister Vojtěch has decided on the execution of a pilot project for the joint purchase of selected commodities by state-owned hospitals. All hospitals directly controlled by the ministry will thus jointly buy for instance some drugs, syringes or gloves. The hospitals signed contracts on the joint procurement on June 21, 2018. The first joint public tender will likely be opened by the end of September 2018. A. Vojtěch added that the joint tenders would save tens of millions of CZK.



### WAGE GROWTH STIMULATED DOMESTIC DEMAND – 22. 6.

According to the CSO, CR's economy was driven up in Q<sub>1</sub> 2018 by higher investments and household consumption, stimulated by strong wage growth.

The households' purchasing power grew the most in 15 years. The companies used the favourable economic situation primarily for buying ICT<sup>86</sup> and other machinery and equipment.

Foreign trade results dropped due to lower motor vehicle exports. Construction's recovery benefited from good weather and higher activity in infrastructure projects and structural engineering.



### COMPANIES PAY 10.8% MORE IN WAGES – 24. 6.

Czech companies paid 10.8% more in wages to more than 4mn employees in Q<sub>1</sub> annually, the 2<sup>nd</sup> fastest quarterly rise since the beginning of 2008, and the volume of wages reached CZK385bn, according to the CSO.

The volume exceeded CZK347bn a year ago, while in Q<sub>4</sub> 2017 it topped CZK404bn, CSO said.

Q<sub>1</sub> hike was caused by 8.6% wage growth for the quarter and a 2% rise of staff numbers. The purchasing power of wages was 6.6% higher annually, the biggest rise in 15 years.

Economists said the wage growth is not sustainable in the long run. Cyrrus said wages will add 8% this year, their rise to slow to 5.5% next year. The level of some 5% is sustainable, it said. Given the fact that unemployment is very low and its further marked fall is unlikely, the fast growth of wage costs will slow too, becoming more visible as of next year.

Q<sub>1</sub> saw a record-high consumer confidence in the economy thanks to which retail sales were growing dynamically, their annual rise being the 4th highest in the EU, said CSO.

The state raised salaries of civil servants and increased a minimum wage, which boosted the wage hike. Wage volumes grew the most, by more than 16%, in education and

<sup>86</sup> ICT: Information and Communication Technology

generation of heat and electricity this year. In terms of regions, Prague ranked 1st, with a rise of 13.7% to CZK106bn or 27% of wages paid in the CR.

The amount of wages fell in mining, and the Karlovy Vary Region recorded the slowest growth rate of 6.1%. Companies in the region cut their workforce.

Last year, domestic companies paid CZK1,500bn in wages and salaries, which was 8.8% more in annual terms.

GDP grew by 4.6% to CZK5,000bn, reaching the level for the first time last year. Q<sub>1</sub> saw a slowdown in the economy. However, the CR ranked among the fastest-growing EU countries thanks to an annual GDP rise. The economy was driven by higher investment and household consumption.



#### HIRING MORE WORKERS FROM SERBIA – 25. 6.

Cabinet<sup>87</sup> approved on its session on June 22, 2018, an increase in no. of accepted applications for employee cards for qualified workers from Serbia within the “Serbia Regime”, with effect from September 1, 2018.

The decision will enable the raising of application in Serbia Regime by 3,000 p.a. Czech embassy in Belgrade accepts 1,000 applications p.a. now.

Year-to-date, the embassy accepted 700 applications.

#### MISCELLANEOUS



#### OPTIMISM ABOUT ECONOMIC SITUATION HIGHEST – 25. 6.

½ of Czechs are optimistic about the situation of the domestic economy, the best result in the past 19 years, according to the CVVM.

A total of 49% of Czechs who took part in the current survey see the CR's economic situation as good, the stance of 34% was neutral and 15% said it was bad.

The number of optimistic evaluations has grown significantly against last year when only 38% of the respondents were satisfied.

The current share of positive answers is the highest since 1999 when the CVVM started to make the surveys. The worst result was in 2000 when the share of optimists was only at 4.2%. The share of positive answers also sank below 5% in 2009 and 2012 when the CR, like other countries in the world, was hit by the economic crisis. As regards the situation of own household, 53% of Czechs think it is good, the answers of 33% were neutral and 14% said it was poor. This evaluation has not changed much against last year. People with higher education and supporters of right-wing or centre-right parties are more satisfied with their standard of living.

Voters of the Communists, people who do not go to the polls and those who distrust the government are less content.



#### CZECHS CHANGE JOB DUE TO WAGES – 25. 6.

Low wages, lack of acknowledgement and unsatisfactory career rank among the most frequent reasons why Czechs change job, according to the latest survey of Randstad consulting company.

On the other hand, job certainty, financial health of the employer, wages and interesting work are among the reasons why Czechs stay loyal to their current employer.

"Balance between working and private life is becoming increasingly more important for Czechs. Over a quarter of the respondents who said that they changed job in the past year or plan to change it next year want to find work which would provide them with such balance," said Randstad.

The size of wage is more important for men than for women. In case of a too low wage compared with rivals, 57% of men leave their job. For women, the time of commuting to work is an important factor. There are also differences among age groups. Young people between 18 and 24 years are leaving their job more often in case that they do not see the possibility of career advancement. People aged 25 to 44 years leave their job more often due to the absence of acknowledgement or bonuses. As for people between 45 and 64 years of age, they opt for a change if they earn less than they would in other firms.

Respondents with a higher education often leave if they lack the possibility of career advancement. Employees with secondary education quit due to the absence of acknowledgement or bonuses and people with elementary education change job when commuting to work is too long.

"For keeping employees and hiring new people, employers have to understand what is important for Czechs. Even at the current time of very low unemployment, job certainty ranks first, followed by financial health of company and benefits," Randstad said.

The attractiveness of 150 biggest Czech employers from the private sector was also evaluated and Microsoft picked as the most attractive employer in the CR.



#### PRESIDENT ZEMAN APPOINTS GOVERNMENT – 27. 6.

President Zeman appointed the 2<sup>nd</sup> government of Andrej Babiš, comprised of ANO and ČSSD.

Babiš's coalition minority cabinet, which is to be supported by the KSČM, was named 8 months after the general election and 5 months after his first ANO minority cabinet failed to win confidence of the ChD and resigned.

The KSČM will definitively decide on their stance on the government on June 30.

As expected, Zeman did not appoint ČSSD MEP Miroslav Poche as MFA Minister. He assigned ČSSD chairman Jan Hamáček, who also became the MI minister, to head the MFA Ministry. The ČSSD will head 5 ministries - MFA, MI, MA, MLSA and MC<sup>88</sup>. The other 10 government members, including the PM, are nominated by ANO.



#### CC RULES ON COMPULSORY ACQUISITION OF LAND IN – 27. 6.

In cases of compulsory acquisition of land in the public interest the state will still be bound to offer a suitable replacement along with financial compensation.

The CC<sup>89</sup> scrapped an amendment to the law that would only require the state to compensate owners financially as of

<sup>87</sup> **Cabinet:** The Government of the Czech Republic exercises executive power in the Czech Republic. The members of the government are the Prime Minister of the Czech Republic (Chairman of the Government), the deputy ministers and other ministers. It has its legal basis in the Constitution of the Czech Republic. The government is led by the Prime Minister, who selects all the remaining ministers. Government of the Czech Republic is responsible to the Chamber of Deputies of the Czech Republic. The Prime

Minister is appointed by the President of the Czech Republic. The current Prime Minister is Andrej Babiš.

<sup>88</sup> **MC:** Ministry of Culture

<sup>89</sup> **CC:** Constitutional Court of the Czech Republic; is a specialized type of court which primarily works to protect the people in the Czech Republic against violations of the Constitution by either the legislature, government or by any other subject that violates

July 1, on the grounds that it would set a dual standard with regard to various restitutions.

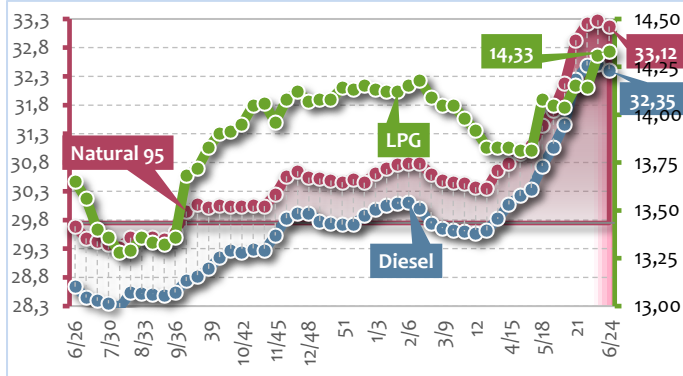
STATISTICS



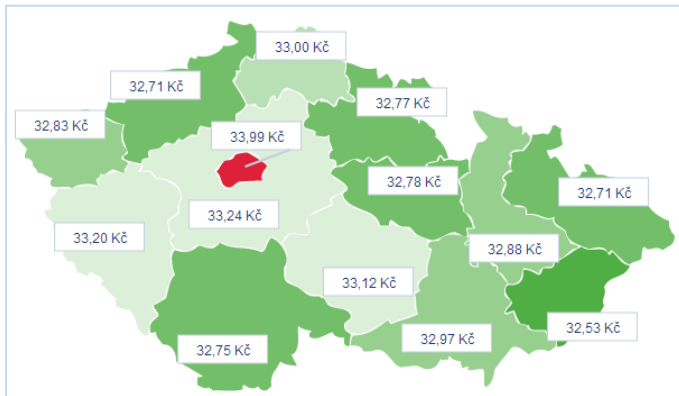
FUEL PRICES – 22. 6.

Natural 95 decreased by ▲11h<sup>90</sup> to CZK33.12/l<sup>91</sup> over the past week, Diesel oil decreased by ▲10h to CZK32.35/l.

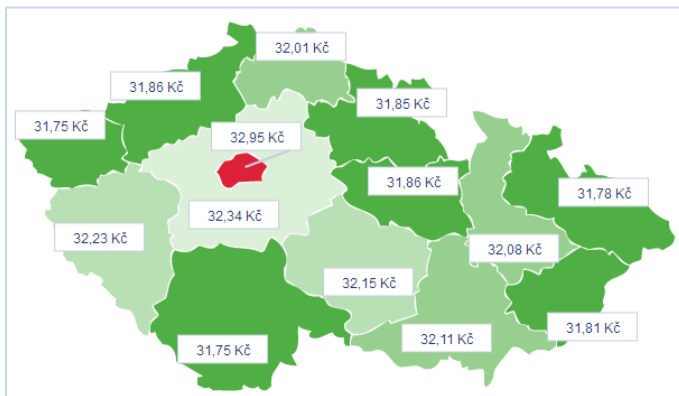
Graph 1: Average fuel prices<sup>92</sup>, 2017 – 2018, Month/Week (in CZK/l)



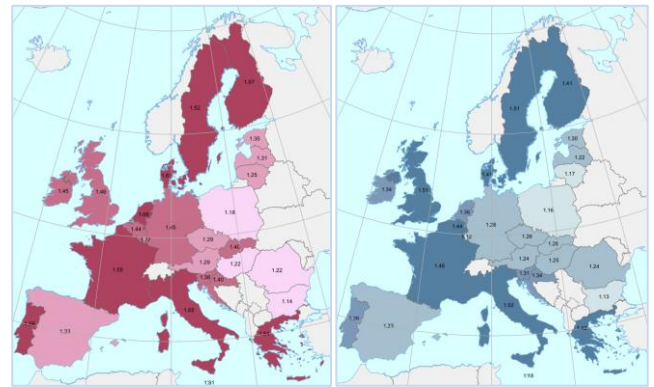
Map 1: Regions, fuel prices, Natural 95, 24. 6. (in CZK/l)<sup>93</sup>



Map 2: Regions, fuel prices, Diesel, 24. 6. (in CZK/l)



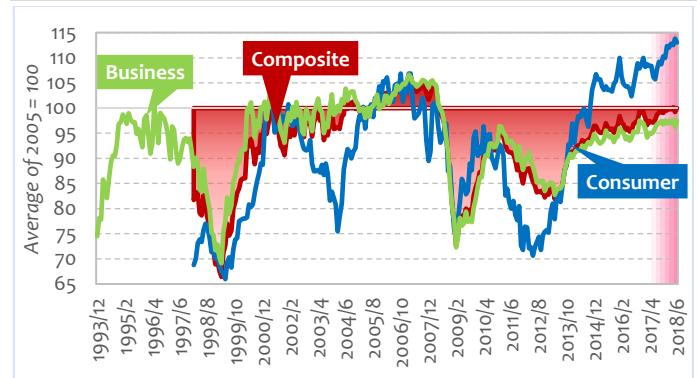
Map 3: EU, Average fuel prices, Natural 95, Diesel, 18. 6. (in €/l)<sup>94</sup>



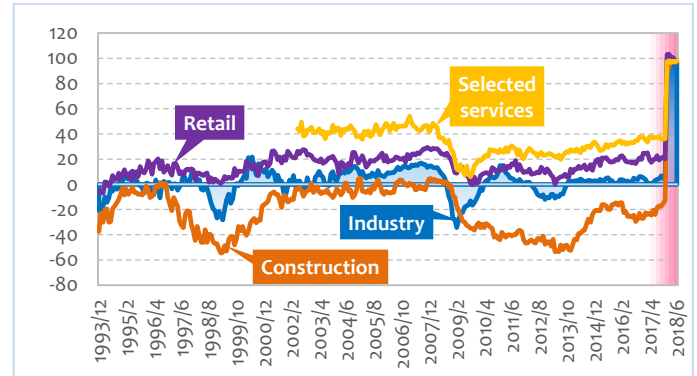
BUSINESS CYCLE SURVEY – 25. 6.

Overall confidence in economy increased. The composite confidence indicator<sup>95</sup> by 0.8 p. p.<sup>96</sup> to 100.0 m-o-m<sup>97</sup>. Confidence of entrepreneurs increased by 1.2 p. p. to 97.4 compared to May. Consumer confidence indicator decreased slightly by ▲0.8 p. p. to 113.0, m-o-m. Composite confidence indicator, entrepreneurs' confidence indicator and consumer confidence indicator are higher, compared to June 2017.

Graph 2: Confidence Indicators, SA, Overall, Basic Indices, 1993 – 2018



Graph 3: Confidence Indicators, SA, Sectors, Balances, 1993 – 2018



people's constitutional rights and freedoms. In this respect, it is similar in functionality to the US Supreme Court, but is distinct from the Supreme Court of the Czech Republic. Of all the various levels of the Czech Judiciary it is the one created with the greatest specificity in the constitution. The decisions of the Court are final, cannot be overturned and are considered being a source of law, similar to precedents in a common law system.  
<sup>90</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>91</sup> l: litre

<sup>92</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>93</sup> data issued by the mBenzin.cz; <https://www.penize.cz/ceny-benzinu-a-ceny-nafty>

<sup>94</sup> data issued by the European Commission; <https://ec.europa.eu/energy/en/data-analysis/weekly-oil-bulletin>

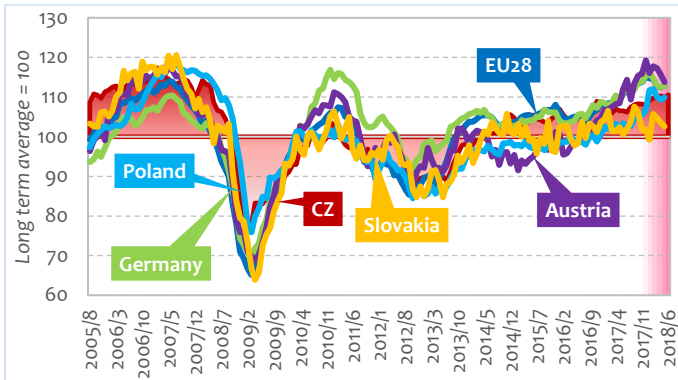
<sup>95</sup> economic sentiment indicator, stated by basic indices

<sup>96</sup> P.p.: percentage point

<sup>97</sup> M-o-m: month-on-month

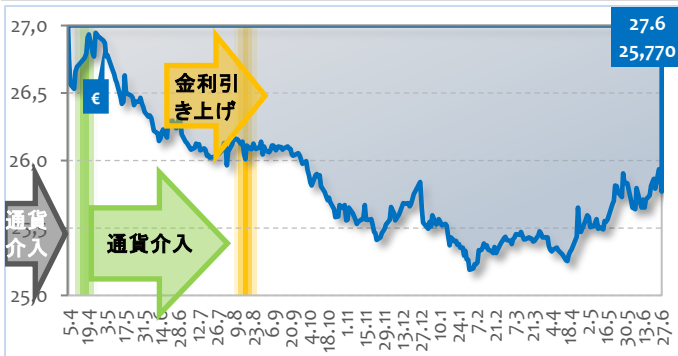


Graph 4: Confidence Indicators, Countries, 2005 – 2018

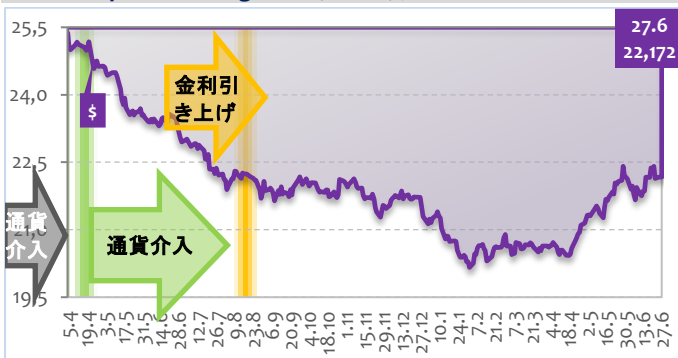


CZKvs €, \$, ¥ – 27. 6.

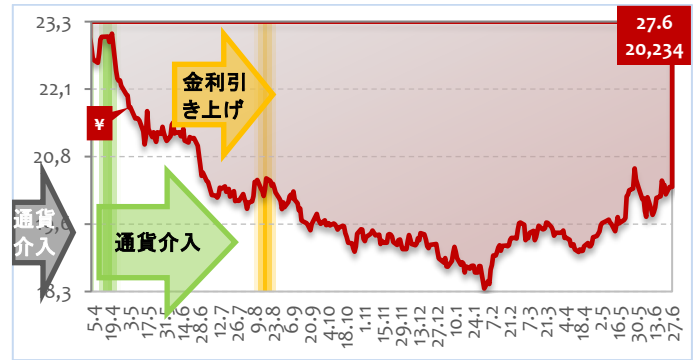
Graph 5: Exchange rates, CZK/€, 5. 4. 2017 – 27. 6. 2018



Graph 6: Exchange rates, CZK/\$, 5. 4. 2017 – 27. 6. 2018



Graph 7: Exchange rates, CZK/100¥, 5. 4. 2017 – 27. 6. 2018



News outside the time span of this News summary



HKČR, Czech Chamber of Commerce (Hospodářská komora ČR); an organisation which represents the business community in the Czech Republic, its competencies are defined by Act No. 301/1992 Coll.



CEEMarketWatch, is a subscription-based analytical service, covering the emerging regions of Central and Eastern Europe, Euro zone periphery, Middle East, Africa and Latin America..



CIA News (Česká informační agentura Ltd.); a news agency, specialising in the Czech Republic's economy and markets. It is owned by Inergo Slovakia Jsc., owned by Emil Hubinák.



ČNB, Czech National Bank (Česká národní banka); is the central bank and financial market supervisor in the Czech Republic and a member of the European System of Central Banks.



ČTK, Czech Press Agency (Česká tisková kancelář); a national news agency dealing with the gathering, processing, storing, and distributing of text and pictorial information. ČTK is a public corporation and is governed by the law on ČTK no. 517/1992 Coll.



ČSÚ, Czech Statistical Office (Český statistický úřad), is the main organization which collects, analyses and disseminates statistical information for the benefit of the various parts of the local and national governments of the CR.



Radio Prague (Český rozhlas); is the official international broadcasting station of the Czech Republic. Radio Prague broadcasts in six languages: English, German, French, Spanish, Czech and Russian. It broadcasts programmes about the Czech Republic on satellite and on the Internet. Broadcasting first began on August 31, 1936.