

## NEWS SUMMARY MAY 11 – MAY 17

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### ECONOMY & FINANCE

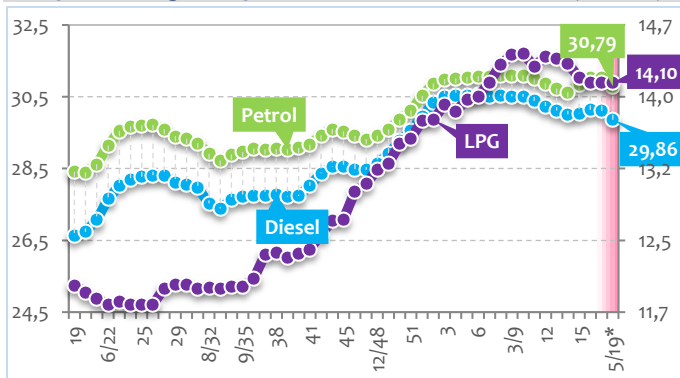
#### EC PREDICTS GROWTH FOR THE CR<sup>1</sup> - 11. 5.

The EC<sup>2</sup> has released its spring macro-economic forecast for the CR, predicting a 2.6% growth in 2017 and a 2.7% growth next year. The deficit in public spending should be around 0.3% of the GDP<sup>3</sup> and inflation is expected to increase from last year's 0.6 to 2.5%. The forecast is more optimistic than that of the MF<sup>4</sup>, which last month lowered the projected growth from 2.6 to 2.5%.

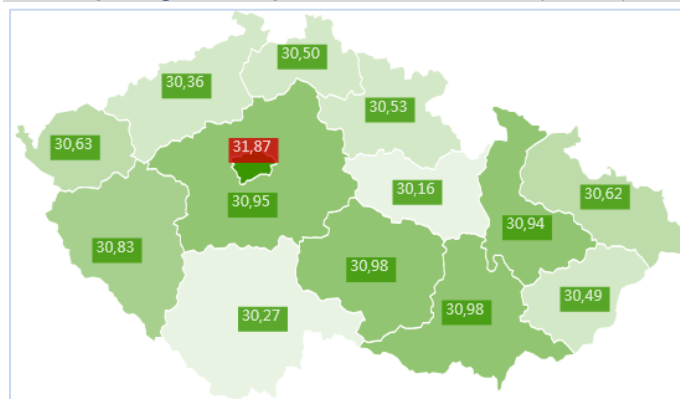
#### CCS FUEL PRICES – 11. 5.

Natural gas decreased by ▲25 h<sup>5</sup> to CZK<sup>6</sup>30.79/l<sup>7</sup> over the past week. The average price of diesel oil decreased by ▲25h to CZK29.86/l.

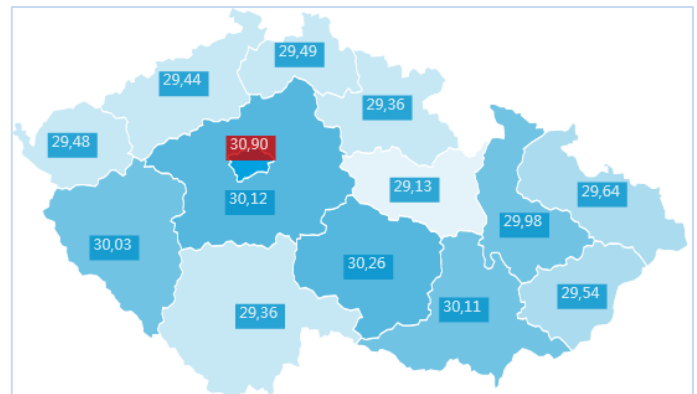
Graph 1: Average fuel prices<sup>8</sup>, 2016/2017, Month/Week (in CZK/l)<sup>9</sup>



Map 1: Regions, fuel prices, Petrol, 12. 5. 2017<sup>10</sup> (in CZK/l)



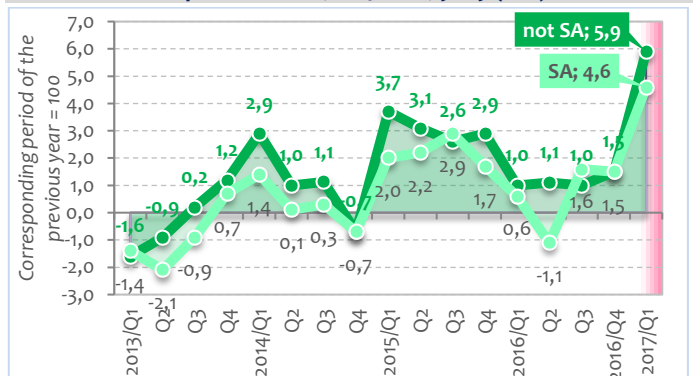
Map 2: Regions, fuel prices, Diesel, 12. 5. 2017 (in CZK/l)



#### RESULTS SERVICES – 11. 5.

In the Q1<sup>11</sup> 2017, SA<sup>12</sup> sales in services increased at constant prices by 2.1%, q-o-q<sup>13</sup>. Working days adjusted sales increased by 4.6%, y-o-y<sup>14</sup>; non-SA sales increased by 5.9%, y-o-y.

Graph 2: Services, 2013-2017, y-o-y (in %)



#### RESULTS TOURISM – 11. 5.

Q1 2017, the number of guests' overnight stays in collective accommodation establishments increased by 9.3% y-o-y. The number of nights by domestic visitors went up by 11.3%, non-residents by 7.3%. There were more guests' arrivals too; residents by 13.8% and non-residents by 8.6%.

The number of overnight stays in collective accommodation establishments totalled 10.0mn in Q1 2017; this was by 9.3% more than in the same period of the previous year. Domestic clients spent in accommodation establishments more nights

<sup>1</sup> CR: the Czech Republic

<sup>2</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>3</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>4</sup> MF: Ministry of Finance

<sup>5</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>6</sup> CZK: Czech Crown, the currency of the CR since 8 February 1993

<sup>7</sup> l: litre, is an SI accepted metric system unit of volume equal to 1 cubic decimetre (dm<sup>3</sup>), 1,000 cubic centimetres (cm<sup>3</sup>) or 1/1,000 cubic metre.

<sup>8</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>9</sup>\* Exception in time series, data issued by the CCS Company

<sup>10</sup> data issued by the CCS Company

<sup>11</sup> Q1: 1<sup>st</sup> quarter of the year

<sup>12</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.

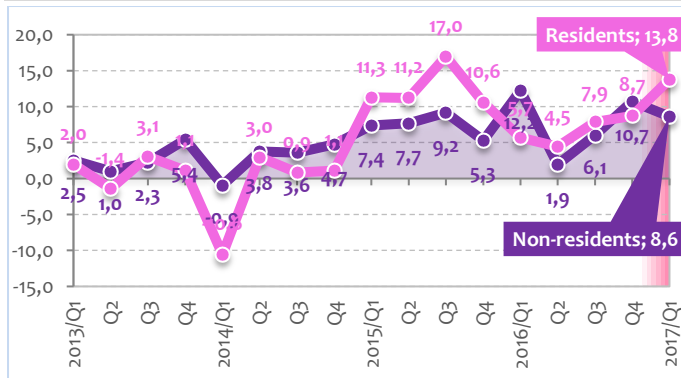
<sup>13</sup> Q-o-q: quarter on quarter

<sup>14</sup> Y-o-y: y-o-y

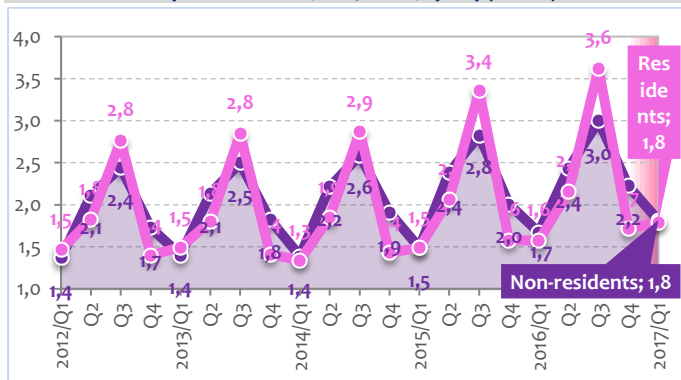
by 11.3% and foreign guests increased the number of overnight stays by 7.3%. The highest number of nights (6.8mn<sup>15</sup>) was recorded in hotels, by 8.3% more than previous year. The highest growth reported pensions, where the number of nights went up nearly by 1/3, by 29.3%. A total of 3.6mn guests arrived in collective accommodation establishments; this was 11.1% more y-o-y. The number of foreign guests was higher than the number of residents. Compared to the previous year the number of guest from abroad went up by 8.6% and the number of residents even by 13.8%.

previous year. The dynamics of arrivals has dramatically changed in the beginning of this year, when the number of Russian guests in collective accommodation establishments increased by 45.3% in entire quarter. In February, there were more quests from Russia even by 66.2% and in March by 60.9%. The number of guests from Slovakia in Q1 was 126,000, with y-o-y increase by 8.1%. The border of 100,000 arrivals reach also guests from Poland (+15.9%) and the Great Britain (+5.9%). Similarly like in case of Germans occupancy of guest from Austria went down by 4.8%. On contrary arrivals form Korea and China have been steadily growing.

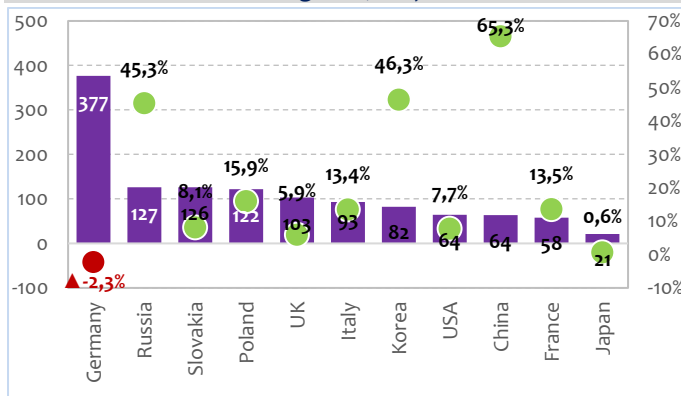
Graph 3: Tourism, 2013-2017, y-o-y (in %)



Graph 4: Tourism, 2013-2017, q-o-q (in mn)



Graph 5: Tourism, TOP 10 countries + Japan, Q1 2017 (in thousands of guests, in %)



The highest number of foreign guests (by nationality) came from Germany. There were 377,000 Germans in the surveyed establishments; this was by 2.3% less than a year ago, due to the decrease by 14.1% in March. The 2<sup>nd</sup> largest group of guests in Q1 was visitors from Russia. Russians started to come to the CR after several years of recession at the end of

Table 1: Foreign tourist numbers at Czech accommodation facilities in Q1

Country	Number (in thousands)	Change (in %)
Germany	376.9	-2.3
Russia	126.5	45.3
Slovakia	126.3	8.1
Poland	121.6	15.9
UK	103.4	5.9
Italy	93.3	13.4
South Korea	82.0	46.3
USA	64.2	7.7
China	63.6	65.3
France	58.1	13.5



**MORE ROOM FOR INTEREST RATES HIKE – 12.5.**

If the CZK's exchange rate remained weaker than forecasted, there would be more room to tighten monetary conditions through a raise of interest rates, according to the CNB<sup>16</sup>.

Such scenario would be more favourable from the financial stability point of view since tightening the monetary conditions through the exchange rate would not have the desired dampening effect on households' demand for loans.

"Nevertheless, there was a consensus that the tightening of the interest rate component of the monetary conditions in the second half of this year should be gradual so as to ensure, among other things, that it did not lead to an increase in credit risk. It was also repeatedly mentioned that the exit from the exchange rate commitment represented a step towards a gradual return to the standard form of monetary policy-making through the setting of interest rates," the CNB stated.

On the other hand, the CNB also said that the monetary policy was still not in its normal mode so soon after the exit from the exchange rate commitment.

In its forecast the CNB said the CZK poses the main uncertainty for the estimated economic development.

"The market remained overbought and the closing of CZK positions by financial investors could lead to increased exchange rate volatility in the future. The CZK could stay at weaker-than-forecasted levels on average, the minutes say.

According to the minutes, current data from the economy as well as the CNB's forecast are indicating that inflation is sustainable with respect to future fulfilment of the 2% target thanks in part to favourable labour market developments in the form of growing employment and upward pressure on wages.

<sup>15</sup> mn: million

<sup>16</sup> CNB: Czech National Bank

"This reflected the position of the economy near its potential output level, which was leading to robust growth in consumption," the CNB said.

At its first policy meeting after the end of the currency commitment held last week, the CNB Bank Board kept interest rates at record-low levels.

The benchmark interest rate has thus stayed at 0.05%.

The CNB cut the interest rates to all-time lows in November 2012.

#### LICENCE TO ICBC BANK TO OPEN BRANCH IN CR – 14.5.

CNB governor Rusnok handed over a licence to ICBC<sup>17</sup> to open a branch in the CR at a Czech-Chinese forum on financial and trade cooperation in Beijing. Visiting President Milos Zeman attended the forum. The CNB granted the licence to one of the world's largest banks recently.

Negotiations on ICBC's entry into the Czech market began in 2016 and the bank asked for the licence in the middle of last year.

Rusnok described the talks as difficult because ICBC's Czech office will be its first direct first-level branch established by a parent bank outside the EU<sup>18</sup>.

ICBC is considering setting up of the branch office in the Q4<sup>19</sup> 2017.

PPF<sup>20</sup> and J&T<sup>21</sup> are supposed to contribute some €2200mn to ICBC's investment fund, which is based in Munich, Germany. As a follow-up to the Chinese strategic project of the New Silk Road<sup>23</sup>, this fund should finance infrastructure projects in the EE<sup>24</sup>.

BC<sup>25</sup> launched its outlet in the CR in 2015. According to last year's news, BoCom<sup>26</sup> is considering entering the Czech market, too.

Zeman said the two countries' relations improved significantly, one of the reasons being his personal friendship with President Xi Jinping. He said he gave the president a

letter with 22 projects who then ordered his subordinates to deal with the projects.

#### INFLATION WILL IN 2018 FALL TO 2% TARGET – 15.5.

At the start of 2018 inflation will find itself close to the CNB's 2% target. Currently significant cost pressures, stemming from the continued growth of the domestic economy and related growing tension on the labour market and from the pro-inflationary effects of import prices will be moderated. One-off effects of increasing inflation will at the same time subside. The CNB also said that the economy will be supported by the continuing growth of foreign demand and the gradual renewal of government investments co-financed from EU funds<sup>27</sup>. In 3Q<sup>28</sup> 2017 domestic market interest rates will increase. Their growth will continue also in 2018.

#### CR SHOULD SET DATE OF EURO ADOPTION – 16.5.

The CR should set the date of euro adoption since it has become clear that the integration of the EA<sup>29</sup> will accelerate after elections in France and Germany and Europe will not wait for some of its members, PM<sup>30</sup> Sobotka said at a meeting of the CCC<sup>31</sup>.

"Sooner or later we have to decide not whether but when we will be ready to adopt the single European currency," Sobotka said.

"We have to hold an intensive public debate on how we will proceed so as not to get to the periphery of the EU but to stay in the EU core," Sobotka said.

"The CR needs the euro. It is a stabilising element," Senate<sup>32</sup> chairman Štěch said at the CCC meeting.

The government has reiterated several times that it will not set the date of euro adoption during the current term of office.

Sobotka said earlier the CR should not set the date until the condition of public finances improves and the living

<sup>17</sup> **ICBC:** Industrial and Commercial Bank of China Ltd. is the largest bank in the world by total assets. It is one of China's 'Big Four' state-owned commercial banks. It was founded as a limited company on January 1, 1984. As of March 2014, it had assets of US\$3.18 trillion. It is generally considered the largest bank in the world by assets.

<sup>18</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>19</sup> **Q4:** 4<sup>th</sup> quarter of the year

<sup>20</sup> **PPF:** PPF is a privately held international financial group. It operates in the area of consumer financing, retail banking and insurance. It develops its activities in many countries. Its headquarters is located in the Netherlands. The largest shareholder of PPF is Petr Kellner (98,94%). PPF invests into a number of sectors, from banking and financial services to telecommunications, insurance, real estate, agriculture, retail services and biotechnologies. It operates in Europe, Russia, Asia and the USA.

<sup>21</sup> **J&T:** a Central European investment group founded in 1993 in Slovakia. It pursues business in the private equity and banking sectors, the largest portion of the value of its investments being in the Czech Republic and Slovakia. J&T invests mainly into the financial services, energy sector, real estate, health care, media and sports.

<sup>22</sup> **EUR:** (€) Euro is the official currency of the Eurozone, which consists of 19 of the 28 member states of the European Union

<sup>23</sup> **New Silk Road:** Officially first announced in 2013 by President Xi Jinping, China's "one belt, one road" initiative aims to improve connectivity between China, Asia and Europe. The initiative merges both the land-based Silk Road (from China via Central Asia to Turkey and the EU) with the Maritime Route (via the Indian Ocean and Africa to Europe). Both routes were created with the intention of developing transportation infrastructure, facilitating economic development and increasing trade. The belt on land connects China, Central Asia, Russia, and Europe in the north and links China with

the Persian Gulf and the Mediterranean Sea through Central Asia and the Indian Ocean in the south. The maritime route starts from China's coast to Europe through the South China Sea and the Indian Ocean in one route and to the South Pacific in the other – estimated to cover 4.4 billion people and US\$2.1 trillion gross production, respectively 63 percent of world population and 29 percent of world GDP.

<sup>24</sup> **EE:** Eastern Europe, views on which countries belong to EE are vastly varied, the region includes Belarus, Bulgaria, Czech Republic, Hungary, Moldova, Poland, Romania, Russia, Slovakia, and Ukraine. Depending on context, EE countries are sometimes grouped as Southern/South-eastern Europe, Central Europe and North-Eastern countries, collectively or individually.

<sup>25</sup> **BC:** Bank of China, one of the 5 biggest state-owned commercial banks in the PRC. Its headquarters are in Xicheng District, Beijing. As at 2009, it was the 2<sup>nd</sup> largest lender in China overall, and the 5<sup>th</sup> largest bank in the world by market capitalization value.

<sup>26</sup> **BoCom:** the Bank of Communications is amongst the top 5 leading commercial banks in China and has an extensive network of over 2,800 branches covering over 80 major cities. Apart from Hong Kong, the Bank has also established overseas branches in New York, Tokyo, Singapore and representative offices in London and Frankfurt.

<sup>27</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>28</sup> **Q3:** 3<sup>rd</sup> quarter of the year

<sup>29</sup> **EA:** Eurozone, officially called the **euro area** is a monetary union of 19 European Union (EU) member states that have adopted the euro (€) as their common currency and sole legal tender.

<sup>30</sup> **PM:** Prime Minister

<sup>31</sup> **CCC:** Czech Chamber of Commerce (also HK ČR in Czech)

<sup>32</sup> **Senate:** the Senate of the Parliament of the CR, usually referred to as the Senate, is the upper chamber of the Parliament of the Czech Republic. The seat of the Senate is Wallenstein Palace in Prague.

standards in the country increase in comparison with more advanced EU countries.

The CR pledged to adopt the euro in the future during its EU accession in 2004.



#### GDP PRELIMINARY ESTIMATE – 16. 5.

Czech economy growth continued in the beginning of 2017. According to the preliminary estimate, the SA adjusted GDP increased in the Q1 2017 by 1.3%, q-o-q, and compared to the Q1 2016 it was by 2.9% up.

The development was contributed to especially by external demand supported by growing consumption of households. According to the preliminary estimate, performance of most of industries of the Czech economy was growing, i.e. not only that of manufacturing, but also performance of majority of economic activities (industries) of services.

In the Q1 2017, employment was by 0.6% higher, q-o-q, and compared to the corresponding quarter of the previous year it increased by 1.5%.



#### ECONOMIC ACTIVITY IN GERMANY UPS DEMAND – 16. 5.

German economic growth increases local companies' interest in supplies from the CR, CzechTrade<sup>33</sup> said, adding German companies also seek to balance supplies from Asia with those from the post-Communist countries.

The German economy may rise by 1.5 to 1.8% this year, the CzechTrade said at the 7<sup>th</sup> annual Czech-German business exchange, Sourcing Day Tschechien 2017, held in Plzen.

Last year, the CR became one of the top 10 trading partners of Germany, surpassing the latter's trade volume with Belgium.

Czech exports to Germany grew by nearly 12% y-o-y in March alone, said CzechTrade.

The CR's exports to Germany have been rising since 2005, and they still have the growth potential because there is a number of German purchasing companies with no experience in the CR. "Exports to Bavaria (one of German states) are higher than aggregate exports to China, India, Russia and the USA."

Bavaria accounts for 1/3 of the CR's exports to the German market. North Rhine-Westphalia ranks 2<sup>nd</sup> and is followed by Baden-Wurttemberg.



#### CZECH PM GOES TO JAPAN – 16. 5.

PM Sobotka, accompanied by a delegation of businesspeople, will visit Japan in late June to meet his counterpart Shinzo Abe and discuss cooperation in science, research, investments and tourism.

The defence branch, too, offers a significant opportunity for future bilateral cooperation, he said.

<sup>33</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>34</sup> **OGCR**: Office of the government of the Czech Republic

<sup>35</sup> **Asahi Group**: Asahi Group Holding, a leading brewery and soft drink company based in Tokyo, Japan. As of January 2014, Asahi, with a 38% market share, was the largest of the 4 major beer producers in Japan followed by Kirin Beer with 35% and Suntory with 15%. In April 2016, Asahi purchased Meantime Brewery of London, and the Grolsch and Peroni beer brands from SABMiller. Asahi sold 20.5mn hectolitres of beer in 2015.

<sup>36</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

This will be one of Sobotka's last big foreign trips before the autumn end of his government's mandate.

The general election is due on October 20-21.

"I would like to complete visiting the Asian trefoil that is very important for the CR both economically and politically," Sobotka said.

Accompanied by Czech businesspeople, he has visited South Korea and China already, he said.

"The 3 countries rank among important investors, they are significant partners in the field of tourism," he added.

Sobotka and Abe are also to discuss foreign political affairs and EU-Japan relations.

Sobotka will visit Tokyo, Kyoto and Hiroshima.

According to the plan released by the OGCR<sup>34</sup>, his trip will also include negotiations with Japanese trade partners, investors and personalities who play an important role in Czech-Japanese relations.

"The Japanese pursue a number of activities in our country. I consider it important for us to pay the visit [to Japan] to provide political support to mutual relations," Sobotka said.

The Asahi Group<sup>35</sup> took over Prazdroj<sup>36</sup> this March.

A Czech PM visited Japan in 2005 last time, when the cabinet was headed by Paroubek.

The personnel composition of the Sobotka-led delegation is still being discussed.

"Some ministers or ministry representatives may join it if their participation is logical. One of the issues of our possible future cooperation with Japan is the defence, in my opinion," Sobotka said.



#### CURRENT ACCOUNT ACTIVE BALANCE – 16. 5.

The active balance of the current account of balance of payments totalled CZK31.2bn<sup>37</sup> in March 2017. The balance of goods and services was active at CZK36.7bn. On the part of liabilities, primary income balance consisted of dividends from direct investments totalling CZK4.1bn. Primary and secondary incomes include active balance of transfers from EU budget to the CR, totalling CZK3.2bn. Capital outflow from the financial account (net loans to abroad) totalled CZK28bn. The balance of foreign direct investments reached CZK25.6bn. The balance of reinvested profit reached CZK8.3bn and portfolio investment balance totalled CZK346bn.



#### CR'S GDP TO GROW TO 3% - 17. 5.

Czech economy's growth rate will accelerate to 3.0%. Higher GDP will be driven primarily by domestic demand. Consumption will be supported by strong growth of real wages, certainty of employment and low interest rates. This stems from the regular annual report by the IMF<sup>38</sup>. According

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. Plzensky 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>37</sup> **bn**: billion

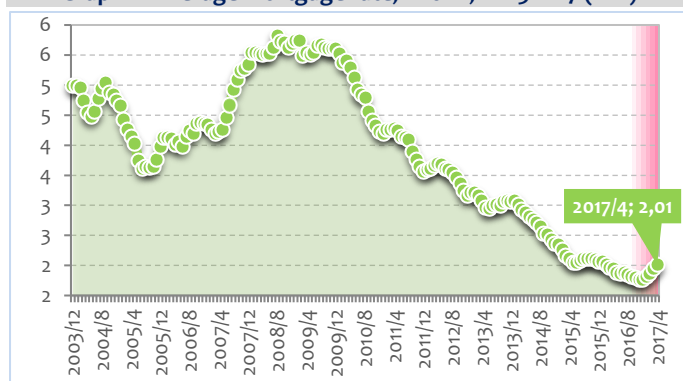
<sup>38</sup> **IMF**: International Monetary Fund

to IMF, investments will grow thanks to the drawing of funds from EU in the new program term. Lack of employees on the labour market will probably limit GDP growth to ca. 2.5% in the medium term horizon. Inflation will reach 2.3% in 2017 and subsequently will get close to the 2.0% target.

### ☰ AVERAGE MORTGAGE RATES CLIMB – 17.5.

Average mortgage rates in the CR have again increased. They reached 2.01% in April, up from 1.95% in March. The figure for last month was the highest since February 2016. At the end of last year Czech mortgage rates hit a record low of 1.77%.

Graph 6: Average mortgage rate, m-o-m, 2003-2017 (in %)



## AGRICULTURE & ENVIRONMENT

### CTK ORGANIC FOOD CONSUMPTION IN CR – 12.5.

Organic food consumption in the CR increased by 11.4% in 2015 and people spent on it CZK2.25bn, CZK213 per capita, which was the highest level since 2008, the MA<sup>39</sup> Ministry announced.

Turnover from organic food, including exports, reached CZK3.73bn. According to data, the share of organic food in total food and drinks consumption in the CR stands at 0.81%. "I am glad that people dedicate increasingly higher attention to what they eat and try more to buy really quality goods," said MA Minister Jurečka.

"The Czech market is to a large extent able to react to the constantly growing demand for organic food, also thanks to programmes with which the MA Ministry supports farmers," he added.

People buy the most often organic milk and dairy products, baby formula, coffee, tea, fruit and vegetables. Almost a ½ of organic products was sold in retail chains.

"The 17% y-o-y growth in sales to companies and other direct sales can also be considered as positive," the MA added. Exports of Czech organic food increased to CZK1.48bn in 2015. The exports target mostly Germany and Austria.

In January-August last year, the number of domestic organic food producers rose by 8.5% to around 590, compared with a 7.1% growth in 2015.

The number of organic farms went up by 220 to 4,316 farms in January-September last year.

The state tries to support organic farming more this year than in the past years. The MA earlier said that CZK30m was to go for its promotion this year.

<sup>39</sup> MA: Ministry of Agriculture

The government in 2015 approved a development plan for organic farming until the year 2020. It plans, for example, the share of organic food in total food and drinks consumption to reach 3% by 2020.

Environmentalists complain that the plan is not ambitious enough, in particular as regards raising of the share of farmland used for organic farming which takes up around 500,000 hectares in the CR that is some 12% of the farmland.

## LABOUR & SOCIAL & HEALTH

### CTK PENSIONERS LIVING ALONE FACE INCOME POVERTY – 11.5.

1 in 12 Czech pensioners live under the income poverty line and among pensioners who live alone one of five faces income poverty, according to the CSO data on the living conditions of Czech households.

The living conditions of Czech pensioners have been worsening in the recent years. In 2013, 6.1% of pensioners faced income poverty, while last year it was 8.1% of them.

1/3 of the 4.35mn households in the CR are households of pensioners and nearly ½ of the pensioners' households have only 1 member, and these are threatened with poverty the most.

Thanks to modern medicine, a more healthy life style and improved environment, people live longer in the CR and they spend more years in retirement. In 2000, Czech men lived 17 years after their retirement and women 23 years on average. In 2015, men and women received old-age pensions for 19 and 27.5 years on average.

Old women are threatened by poverty the most not only because they live longer than men but also because their pensions are by about one fifth lower than those of men.

At the end of 2016, about 2.4mn people received old-age pensions. One fourth of them had lower pensions because they got retired prematurely.

The income poverty line was set at CZK10,691 for 1 person and 16,036 for a 2-member household a month last year. The average monthly pension was CZK11,460.

The biggest part of the incomes of households of pensioners are the pensions they receive from the state. In 2016, the Czech state paid out CZK389bn in pensions, or CZK16.3bn more than it received in pension insurance payments. In 2015, the debt of the Czech pension account increased by CZK33.5bn. In 2014, the debt increased by CZK43.4bn.

### CTK HIGHER BENEFITS FOR LONG-SICK EMPLOYEES – 17.5.

Czech employees on long sickness leave will see their sickness benefits increased as of next year, according to a government-sponsored bill that the ChD<sup>40</sup> passed, which, however, still needs the consent of the Senate and President Zeman.

At present, employees receive 60% of the assessment base as of the 15<sup>th</sup> day of illness.

The new legislation raises the benefit to 66% as from the 31<sup>st</sup> day of illness, and further to 72% as of the 61<sup>st</sup> day.

If introduced, the measure would raise the state's spending on sickness benefits by CZK2.4bn next year and by CZK2.5bn and CZK2.7bn in the following 2 years, respectively.

<sup>40</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.

Employees receive no benefits in the first 3 days of sickness. From the fourth to the 14<sup>th</sup> day, they receive a pay compensation from the employer.

MLSA<sup>41</sup> Minister Marksová said that the bill returns the situation back before the cuts caused by the economic crisis. The new model benefits the people who are sick for long, who worked and paid social insurance, Marksová said.

The bill also simplifies the social insurance paperwork for the self-employed.

#### INDUSTRY & ENERGY & INVESTMENT

##### ČEZ'S QUARTERLY RESULTS SURPASS EXPECTATIONS – 11.5.

The results of ČEZ42Group for the Q1 2017 have surpassed market expectations, analysts said, but they pointed at the fact that one-off items had an influence on them.

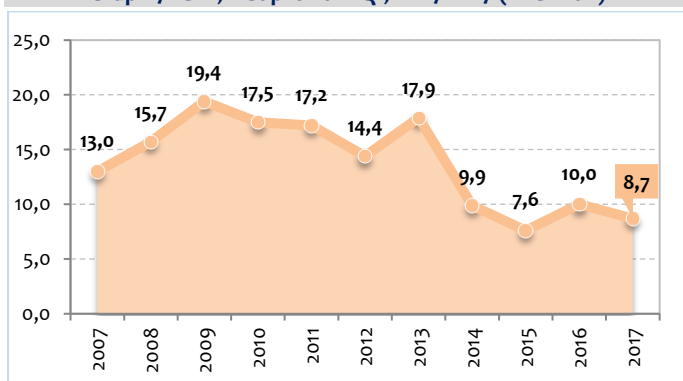
ČEZ announced that its net profit fell by 13% y-o-y to CZK8.7bn in the Q1 2017 and operating revenues reached CZK52.8bn, 2% higher y-o-y.

Despite the drop in the quarterly profit, the group improved full-year outlook for adjusted net profit to CZK17bn, mainly thanks to the sale of shares of company MOL.

"ČEZ improved this year's outlook for adjusted net profit from the originally set interval between CZK12bn and CZK17bn to CZK17bn, which we evaluate positively as we expected the figure to be set at the level of CZK15bn," said experts. ČEZ also included a CZK0.7bn positive impact of a settlement agreement with company Sokolovská uhelná in its accounting. "We have not anticipated this favourable influence," they added. They noted that the reported results are in harmony with the company's outlook for a drop in profits this year. The outlook talks about the creation of annual EBITDA43 profit at CZK52bn.

"The net profit moderately surpassed our expectations as well as market expectations but it was reached mainly thanks to the influence of one-off items. The results are not much different from market expectations so we do not suppose that the price of ČEZ shares will react to them in a significant way," they added.

Graph 7: ČEZ, Net profit in Q1, 2007-2017 (in CZKbn)



<sup>41</sup> MLSA: Ministry of Labour and Social Affairs

<sup>42</sup> ČEZ: ČEZ Group is a conglomerate of 96 companies (including the parent company ČEZ, a.s.), 72 of them in the CR. It is involved in the electricity generation, trade, distribution and heat, as well as coal mining.

<sup>43</sup> EBITDA: a company's earnings before interest, taxes, depreciation, and amortization; an accounting measure calculated using a company's net earnings, before interest expenses, taxes, depreciation and amortization are subtracted, as a proxy for a company's current operating profitability, i.e., how much profit it makes with its present assets and its operations on the products it produces and sells, as well as providing a proxy for cash flow.

##### DOPRAVNÍ NOVINY BREXIT HITS THE AUTOMOBILE INDUSTRY – 11.5.

European car manufacturers and parts suppliers and accessories warn against the impact of Brexit on the competitiveness of the sector, which accounts for 6.5% of the EU's gross domestic product and employs approximately 12.2mn Europeans across the continent.

The EU is Britain's largest trading partner. More than ½ of the vehicles and over 90% of commercial vehicles from the UK are bought by customers in Europe. By contrast, more than 80% of the EU's fuel imports to the EU amount to € 42bn. 7 out of 10 cars sold in the British Isles have their origins in European manufacturing and assembly plants. "Car production in the UK and the EU is very closely linked, whether in terms of economic, regulatory or technical standards. Any interference in such a complex degree of integration will have an impact on the production and sales of cars in the UK and the EU and will undoubtedly affect the whole European economy," said CEO of the European car manufacturers association ACEA Erik Jonnaert.

##### ŠKODA AUTO SALES IN APRIL – 11.5.

Škoda Auto<sup>44</sup> sold 97,300 cars in April, 100 units more y-o-y, and its sales grew chiefly in CEE<sup>45</sup>. Sales on the Chinese market went down.

Škoda's Octavia, Rapid, Superb, Yeti and Citigo models recorded a drop in sales. With 34,300 units, Octavias remained its best-selling cars though the figure represented an annual decrease of 7.2%. Fabia came next, with 18,200 units, displaying an annual rise of 2.3%. The Yeti model registered the biggest decline of 14.2% to 6,900 units annually, and a new SUV Kodiaq version reported 4,900 units sold.

The April figure confirmed the record sales from last year and proved the company's strength even in difficult market conditions.

##### DUKOVANY STARTS 120-DAY SHUTDOWN OF UNIT 4 – 12.5.

The Dukovany NPP started reducing the performance of its unit 4 due to a planned shutdown that is to last 120 days, ČEZ said. The plant's total output will be 50% lower for 2 weeks, as unit 1 is offline as well. Unit 1 is to resume power supplies on May 25. Dukovany consists of 4 units.

"The restriction of production will not affect electricity supplies to consumers. ČEZ will cover the production from its other sources," ČEZ said.

During the shutdown of unit 4, technicians will replace one fifth of fuel and carry out 55 important technical tasks as well as extensive checks.

The results of the tests will form part of the documentation that will be submitted to the SONS<sup>46</sup> along with a request for a new licence for further operation of unit 4. Current licences for units 3 and 4 are to expire at the end of this year.

<sup>44</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 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>45</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>46</sup> SONS: State Office for Nuclear Safety, a governmental body as stipulated by Act. No. 2/1969 Coll., headed by Chairman appointed by the Government of the Czech Republic. The SÚJB is a regulatory body responsible for governmental administration and


**CRRC'S PURCHASE OF ŠKODA TRANSPORTATION – 14.5.**

The acquisition of Škoda Transportation<sup>52</sup> by CRRC<sup>53</sup> is one of the projects that could possibly be signed at a Czech-Chinese business forum at Prague Castle in July, according to the Czech Presidential Office. Other projects under way include an entry by ICBC's investment fund into Vítkovice group and construction of a plant by Linglong Tire.

President Zeman arrived in China on May 12 with a list of 22 projects that were approved and are waiting for being implemented. Another 16 projects will be prepared for signing in mid-July, Zeman said. Projects, for instance, concern Home Credit and its financial cooperation or expansion of cooperation between Czech company TSS Cargo and CEFC<sup>54</sup>. The Václav Havel Airport Prague plans cooperation with CEA<sup>55</sup> in maintaining and repairing its equipment.

According to an estimate, CRRC, which is the world's largest train manufacturer, might pay CZK50bn for Škoda Transportation. The Czech group is the largest rail vehicle producer in CEE. In 2015, its sales reached a record CZK18.3bn, 11% more y-o-y, and its net income was CZK588mn.

Zeman, who submitted the list of the 22 approved projects to his Chinese counterpart, said that the president recommended that his subordinates back the deals. They embrace the making of the CR and the Prague airport a traffic hub for Chinese air carriers, cooperation between CEB<sup>56</sup> and CDB<sup>57</sup>, enhancement of cooperation between J&T and CDB and development of cooperation between the Czech and Chinese football associations.


**CZECHS TO TEACH CHINESE ICE HOCKEY – 14. 5.**

Czechs will help Chinese develop their ice hockey skills before the 2022 Beijing Olympics under the memorandum signed by the CSLH<sup>58</sup>, and his Chinese counterparts.


**SILK ROAD PROJECT – 14. 5.**

Speaking at a summit in China, President Zeman called the Silk Road project plan launched by China in 2013 the “most fascinating project of modern history”. In scope and significance he compared to the US’ Marshall Plan which helped rebuild post-war Western Europe after WWII. Chinese President Xi Jinping pledged \$124bn for the project, formally

ČEZ plans to submit applications for new licences for these units to SUJB at the end of June.

Dukovany needs to obtain new licences for three of its four units this year. Concerning unit 2, ČEZ expects SONS to make a decision at the end of June.

Last year, ČEZ obtained a new licence for Dukovany's unit 1. With installed capacity of 2,040MW<sup>47</sup>, Dukovany covers roughly 1/5 of the CR's electricity consumption.

Last year, Dukovany supplied 11.954 TWh<sup>48</sup> of electricity to the grid.


**CZECHINVEST TALKING PROJECTS IN CHINA – 14.5.**

CzechInvest<sup>49</sup> is discussing projects worth some CZK60bn in China, CEO Kučera said in Beijing.

Kučera is a member of a delegation accompanying President Zeman on his current visit to China.

Decision has been made on one project and talks are now under way on its size and location, Kučera said. Decision on about 3 deals can be possibly made this year or within 12 months, he added.

"Projects for green field investments that are expected to raise production and service capacities within the CR are of bigger size than those negotiated with the Chinese side up to now," Kučera said referring to talks with Chinese partners.

The projects in question are worth hundreds of millions of dollars, planning to create hundreds or even thousands of jobs. "This means (the deals) are supposed to have a greater impact on the economy," Kučera said.

The aggregate amount of CZK60bn includes contracts with more than a 50% advance in negotiations and thus a bigger chance of success, Kučera said.

A Linglong Tire representative will soon arrive in Prague for talks on possible construction of a new plant in the CR, MIT<sup>50</sup> Minister Havlíček and Kučera said.

According to earlier information, the investment worth billions of CZK might create up to 1,500 new jobs.

China's hotel operators are interested in entering the Czech market, MRD<sup>51</sup> Minister Šlechtová said. Some Czech hotel owners, too, have shown interest in selling their hotels, she said.

supervision in the fields of uses of nuclear energy and radiation and of radiation protection. The authority and responsibilities of the SÚJB, as stipulated by on Peaceful Utilisation of Nuclear Energy and Ionising Radiation (Atomic Act).

<sup>47</sup> MW: 10<sup>6</sup> watts

<sup>48</sup> TWh: terawatt-hour, a measure of electrical energy, 10<sup>12</sup> watt-hours

<sup>49</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.

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

<sup>51</sup> **MRD:** Ministry of Regional Development

<sup>52</sup> **Škoda Transportation:** a Czech engineering company headquartered in Plzeň. Its operations are in the area of transport engineering, manufacture of rail vehicles for urban and railway modes of transport, traction motors and drives for transport systems in the tradition of Škoda manufacturing plants. It has a strong footprint in the local and international market.

<sup>53</sup> **CRRC:** China Railway Rolling Stock Corp Corporation Limited is a Chinese publicly traded rolling stock manufacturer. It has 175,700 employees, and is the largest rolling stock manufacturer in the world. The parent company of CRRC Corporation is CRRC Group, a state-owned enterprise that was supervised by the State-owned Assets Supervision and Administration Commission of the State Council.

<sup>54</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. It is also the majority owner of soccer club Slavia Praha.

<sup>55</sup> **CEA:** China Eastern Airlines Corporation Limited is an airline headquartered in Shanghai. It is a major Chinese airline operating international, domestic and regional routes. Its main hubs are at Shanghai Pudong International Airport and Shanghai Hongqiao International Airport, with secondary hubs at Kunming Changshui International Airport and Xi'an Xianyang International Airport. China Eastern Airlines is China's second-largest carrier by passenger numbers.

<sup>56</sup> **CEB:** Czech Export Bank

<sup>57</sup> **CDB:** China Development Bank is a financial institution in the PRC led by a cabinet minister level Governor, under the direct jurisdiction of the State Council. As one of 3 policy banks of the PRC, it is primarily responsible for raising funding for large infrastructure projects.

<sup>58</sup> **CLSH:** Czech Association of Ice Hockey

known as the Belt and Road initiative, with the aim of growing an “open world economy”.

In China, President Zeman and several close aides met with Russian President Vladimir Putin. Mr Zeman has met with the Russian leader on numerous occasions in the past, including his last visit to China in 2015. Mr Zeman has previously come out against continuing western sanctions against Russia, imposed after the annexation of Crimea.

#### CTK UP TO 80 CHINESE PILOTS TO BE TRAINED IN CR – 15. 5.

The total of Chinese pilots trained in the CR will increase up to 80 in 2018, under an agreement on strategic partnership signed during President Zeman's visit to China.

F AIR<sup>59</sup> signed the agreement with the Chinese Sichuan Airlines company.

Zeman visited the Bystřice airport last year and supported the training of more Chinese cadets there. Recently, he received a group of future pilots from China at Prague Castle. F AIR had to raise the number of its planes and to admit new instructors in connection with the Chinese contracts.

The partnership agreement with Sichuan Airlines, which also operates regular flights from Chengdu to Prague, was signed in the presence of Zeman, the two countries' transport and industry ministers, the head of the CAAC<sup>60</sup> and the Chinese ambassador to the CR.

The Chinese market needs 5000 new pilots annually and about a half of them are trained abroad.

The intermediate goal of the school is to open further bases in the CR and to train 200 Chinese transport pilots annually.

#### CTK POLITICAL INSTABILITY HAS IMPACT ON BUSINESSES – 15. 5.

The current political instability is sending a negative signal abroad and has an impact on businesses, representatives of the AMSP<sup>61</sup> said, referring to the ongoing negotiations about a new MF minister.

PM Sobotka refused to appoint Deputy MF Minister Schillerová to replace MF Minister Babiš and asked ANO<sup>62</sup> to propose another candidate.

#### ČIA ŠKODA PRAHA PREPARES CONTRACT WITH CNPEC – 17. 5.

Škoda Praha<sup>63</sup> is preparing a contract on cooperation with CNPEC<sup>64</sup>.

According to ČEZ, the cooperation will be related with the monitoring of the local supply chain in the CR for reactor technologies and other facilities in nuclear power plants.

#### HOSPODÁŘSKÉ NOVINY POSSIBLE SCENARIOS OF SPLITTING ČEZ – 17. 5.

ČEZ will allocate all its activities related to nuclear energy to the newly created special division from the beginning of June.

<sup>59</sup> F AIR: flight school, whose major base is at Bystřice in the Benesov vicinity, F AIR gained the Chinese certification in October 2016 and the CR is a 2nd country in Europe after France where Chinese airlines train their pilots. Currently, 14 Chinese pilots are trained at the Bystřice airport. The 14-month course consists of 900 hours of theoretical and 230 flight lessons. F AIR cooperates in the project with the Czech Technical University and a Chinese partner agency, which prepares training candidates. F AIR was founded 27 years ago. It also operates branches of the airport in Prague, Brno and Příbram, central Bohemia, with a fleet of some 40 planes. It trains pilots from 44 countries of four continents. The public airport at Bystřice is situated on regional land. It is operated by the town of Bystřice through the state-subsidised organisation Benesov Airport. The town recently reinforced the taxiway and it plans investments in the landing track and lighting in the future.

<sup>60</sup> CAAC: Civil Aviation Administration of China

<sup>61</sup> AMSP: Association of Small and Medium-Sized Enterprises and Crafts in the CR

<sup>62</sup> ANO: ANO 2011, centre-right party

It will include the existing Dukovany and Temelín NPP<sup>65</sup> and the preparation of the planned construction of new blocks. According to the HN<sup>66</sup>, the current director of the Temelín NPP Zronek will lead the division.

#### CTK CEA INTERESTED IN PRAGUE AIRPORT – 17. 5.

CEA is interested in buying into the CR's Vaclav Havel Airport Prague and Travel Service<sup>67</sup>, and it wants to make Prague a transport hub for the CEE, MT<sup>68</sup> Minister Ťok said. "The question is whether it is currently our interest, too," he added. CEA will operate a new Prague - Shanghai line with a change in China's Xi'an, Ťok said after meeting of President Zeman and the Czech delegation with CEA's representatives in Shanghai.

"The date (of the line's launch) has not been specified," Ťok said. CEA is also considering cargo transport to the state-owned Prague airport, Ťok stated.

He said that the current Prague- Shanghai line has been paying off, being sold out for forthcoming 14 days.

There are 3 regular air routes from China to the CR flying from Beijing, Shanghai and Chengdu.

### POLITICS & OTHER

#### CTK V4 AND BENELUX COUNTRIES' JOINT PRIORITIES – 11.5.

V4<sup>69</sup> countries have in Europe joint priorities with the Benelux countries, or Belgium, the Netherlands and Luxembourg, PM Sobotka said at the close of his 2-day visit to Luxembourg.

Sobotka's visit to Luxembourg, the first by a Czech PM, was largely affected by the current government crisis in the CR.

"They appreciated very much that I did not cancel the visit under the pressure of domestic developments and that it eventually took place," Sobotka said.

He said he used his talks in Luxembourg including in the Luxembourg parliament, to "cast light on certain differences" that still exist in Europe in his opinion.

He mentioned "a certain cultural context that is connected with the opinions we have in the CR, or in Slovakia, or in Poland or in Hungary," Sobotka said.

He said the path to the future does not lead via expelling some countries and their ostracisation, but via the strengthening of dialogue.

The V4 and Benelux countries, all of which are smaller EU members, are now preparing for their first joint summit in Warsaw on June 19.

"Despite all the differences that logically exist between us, I would be glad if the Warsaw deliberations contributed to that we will send out a signal of our joint interest in Europe's cohesiveness." Sobotka said.

<sup>63</sup> Škoda Praha: engineering company, a unit of ČEZ, a supplier of turnkey energy facilities. In its 60-year history it has supplied over 40,000 MW of coal-fired and nuclear power plants to countries all over the world.

<sup>64</sup> CNPEC: China Nuclear Power Engineering Company

<sup>65</sup> NPP: Nuclear Power Plant

<sup>66</sup> HN: Hospodářské noviny Daily

<sup>67</sup> Travel Service: Travel Service Airlines is an airline with its head office on the property of Václav Havel Airport Prague in Ruzyně, Prague. It operates charter flights and also wet and dry leases aircraft to other airlines. It has subsidiaries in Poland, Hungary and Slovakia. It also operates scheduled flights under the brand name SmartWings.

<sup>68</sup> MT: Ministry of Transport

<sup>69</sup> V4: the Visegrád Group, also called the Visegrád Four, or V4 is an alliance of four Central European states – Czech Republic, Hungary, Poland and Slovakia – for the purposes of furthering their European integration as well as advancing their military, economic and energy cooperation with one another.



Sobotka met Belgian PM Charles Michel in Prague last week. Sobotka said the V4 and Benelux are interested in boosting European security as well as in support for economic growth and a better functioning of the EU's internal market. Sobotka said the CR is also interested in bilateral cooperation with the small, but rich and developed Luxembourg. "There exists scope for a broader participation of our firms' active in the field of cosmic technologies in Luxembourg," Sobotka said.

Luxembourg is the CR's important foreign trade and investments partner. Their trade turnover amounted to more than €384bn in 2016, the GOCR said. Sobotka also had talks with Luxembourg PM Xavier Bettel.

#### PEOPLE PROTEST AGAINST BABIŠ, ZEMAN – 11.5.

Hundreds of people gathered in the square outside the Prague Castle, which is the presidential seat, to protest against President Zeman and MF Minister Babiš.

The protest followed a massive demonstration held in the Prague on May 10, in which roughly 20,000 people took part. Similar protests were held in 6 other Czech towns on May 10. The protesters signed a petition demanding that Babiš leave the government. The speakers called on Czech politicians to try to resolve the government crisis. The CTK reporter did not register any incidents during the one-hour protest.

The next demonstration against Babiš and Zeman is to be held in Prague on May 17.

Last week, PM Sobotka proposed Babiš's dismissal to President Milos Zeman, but Zeman said he would deal with the proposal only after his visit to China. Zeman left for China May 11 and he will return May 17.

On May 10, the ChD issued a resolution declaring that Babiš openly lied and abused his media in order to discredit his political rivals. The parliament's session also urged Zeman to act in complete accordance with the constitution and without any hesitations.

Under the Czech constitution, the president, whose role in the political system is rather formal, dismisses a minister at the PM's request. However, Zeman presented his own interpretation, challenging the established political practice. Earlier this year, the billionaire Babiš had to transfer his giant Agrofert<sup>70</sup>, including business companies and media outlets, to trust funds because of a new conflict of interest law. Zeman challenged the new law at the Constitutional Court.

In reaction to the protests on May 10, PM Sobotka said he appreciated how many people all over the CR stood in defence of the constitution, democracy and political culture. Zeman, who ended his tour of the Liberec Region on May 11, criticised the people who protested against him in Liberec on Wednesday for their gross language. He said he has seen a number of demonstrations against himself, but all the protests died out after a time.

#### PRESIDENT OF THE CCC – 16. 5.

Delegates of the CCC re-elected Vladimír Dlouhý, as the CCC's president for the forthcoming 3-year period.

<sup>70</sup> **Agrofert**: an agricultural, food processing and chemical holding company based in CR. The holding consists of more than 230 companies mainly in CR, Slovakia and Germany. It is the 4<sup>th</sup> largest company in the CR by revenue with revenue exceeding CZK 117bn. It owns or has rented over 57 thousands ha of Czech arable land - 0.7 % of total area of the

Dlouhý, who has been the CCC head for the past 3 years, ran unopposed.

Areas including business conditions, infrastructure and education processes need to be improved, Dlouhý said after being elected.

At CCC's meeting in Prague, Dlouhý expressed his frustration at the government's economy policy, saying that entrepreneurs live in uncertainty surrounded by bureaucracy. The Chamber will support the interest of entrepreneurs even more strongly, he said.

The government contributed to the economic growth recovery, being lucky to be in office at time of the global boom, Dlouhý stated.

PM Sobotka presented to the assembly the cabinet's priorities until the autumn election, including a concept of changing the investment incentive system to be more oriented to small and medium-sized enterprises.

He said that ministers should carefully assess the situation within all operational programmes so that no EU money is lost.

#### ČSSD CONSIDERING PRESIDENTIAL CANDIDATE – 16. 5.

The ČSSD are considering fielding a candidate for the Czech presidency, PM Sobotka said. The party's leader said the ČSSD did not at present see any left-wing candidate who could stand up to the "power tandem" between President Zeman and ANO chief Babiš. Mr. Sobotka ruled out running himself. Mr. Zeman is a former leader of the ČSSD but Mr. Sobotka said he had lost a lot of support in the party over his handling of the current government crisis. The president has refused to follow the PM's call to dismiss Mr. Babiš as MF Minister.

#### PRAGUE CLOSES PARTNERSHIP WITH SHANGHAI – 17. 5.

Prague Deputy Mayor signed a partnership agreement between the Czech capital and Shanghai, with President Zeman and Shanghai Mayor Ying Yong present, during Zeman's visit to China.

The Prague Assembly approved it at the end of April.

Besides, Czech and Chinese representatives signed 2 agreements on healthcare and 1 on the media.

#### MP SOBOTKA ACCEPTED CANDIDATE FOR MF MINISTER – 17.5.

Deputy PM Babiš proposed to PM Sobotka that MP<sup>71</sup> Pilný (ANO), chairman of the ChD economic committee, replace him in the post of MF Minister, Babiš said.

Babiš said Pilný is an independent personality, no puppet.

"He is experienced, he managed big companies, has experience from business. He understands economy well and his public performances are good," Babiš said.

Sobotka said he would announce whether he accepted the candidate after his talks with Pilný.

Five months before the general election, Babiš repeatedly said he would like the present coalition government of the ČSSD<sup>72</sup>, the ANO and the KDU-ČSL<sup>73</sup> to continue ruling the country.

CR or 1.6 % area of Czech arable land. The company was founded in 1993. Its current CEO and sole owner is Andrej Babiš.

<sup>71</sup> **MP**: Member of Parliament

<sup>72</sup> **ČSSD**: Czech Social Democratic Party, centre-left party

<sup>73</sup> **KDU-ČSL**: Christian and Democratic Union – Czechoslovak People's Party, centre party

Babiš said he hopes Sobotka would confirm the candidate so that "this not very positive story of our government can end."

"We want this crisis to end quickly so that we do not bother the people," he said.

Two weeks ago, Sobotka demanded that billionaire businessman Babiš leave the cabinet due to his non-transparent property situation, suspected tax evasion and abuse of the media he owned. President Zeman refused to promptly dismiss Babiš on Sobotka's proposal.

Babiš first opposed the idea that he should leave the government, but later he accepted it. He proposed Deputy MF Minister Schillerová as his replacement, but Sobotka rejected her nomination for MF Minister. Sobotka said she had links to Babiš and his giant holding Agrofert.








Sobotka said he would not accept the nomination of ME Minister Brabec (ANO) for the post for the same reason, however, he nodded to the plan that Brabec would be deputy prime minister instead of Babiš.

Babiš owned Agrofert, including media outlets, until February when he transferred it to trust funds to comply with a new law on conflict of interest. Zeman has challenged the law at the CC<sup>74</sup>.

Sobotka and Pilný met and Sobotka confirmed that he will recommend Mr Pilný to Prezident Zeman as next MF Minister.

©

<sup>74</sup> CC: Constitutional Court of the Czech Republic

	News outside the time span of this News summary
	CCS (Czech Credit Card Company)
	CIA News (Česká informační agentura)
	Czech National Bank (Česká národní banka)
	Czech Press Agency (Česká tisková kancelář)
	Czech Statistical Office (Český statistický úřad)
	Dopravní noviny (Transport and Logistics multimedia)

	EFE International News Agency
	Hospodářské noviny Daily
	Ministry of Finance of the CR
	Prague Daily Monitor
	Prague.tv
	Radio Prague (Český rozhlas)