

## NEWS SUMMARY FEBRUARY 15 – FEBRUARY 21

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### ECONOMY & FINANCE

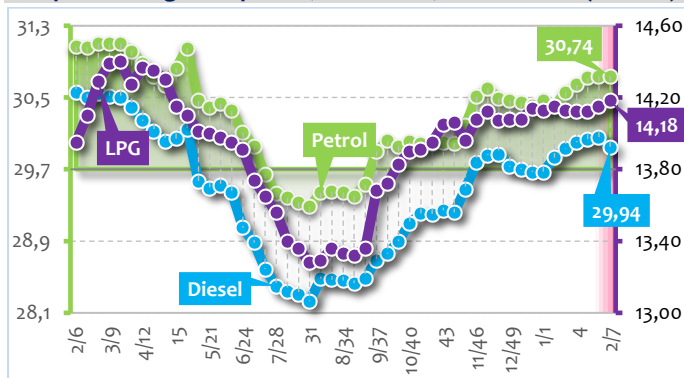
#### ☰ CZECH REPUBLIC'S ACCESSION EU FISCAL PACT – 14.2.

The Cabinet approved the CR's accession to the EU fiscal pact<sup>1</sup>. By signing the document, the CR<sup>2</sup> vows to abide by the pact's budget restrictions. The decision still has to be ratified by the parliament and signed by President.

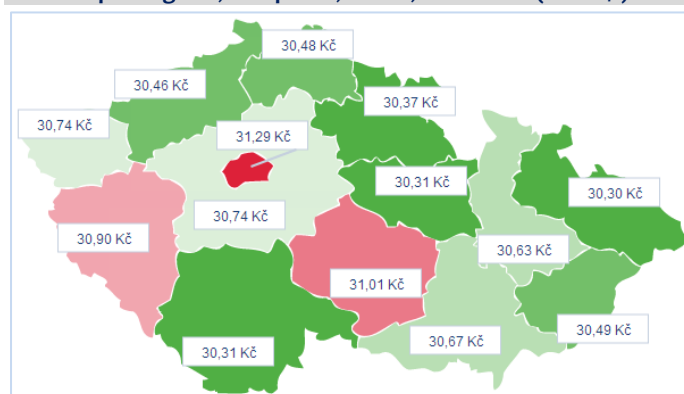
#### 🇪🇺 FUEL PRICES – 16.2.

Natural gas stagnated at CZK<sup>3</sup>30.74/l<sup>4</sup> over the past week. Diesel oil decreased by 12h<sup>5</sup> to CZK29.94/l.

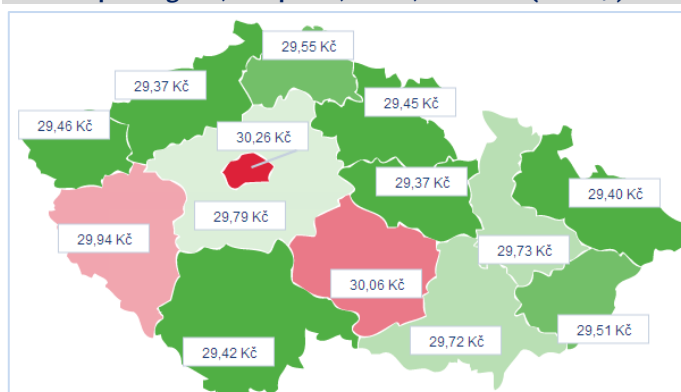
Graph 1: Average fuel prices<sup>6</sup>, 2017 – 2018, Month/Week (in CZK/l)



Map 1: Regions, fuel prices, Petrol, 16. 2. 2018<sup>7</sup> (in CZK/l)



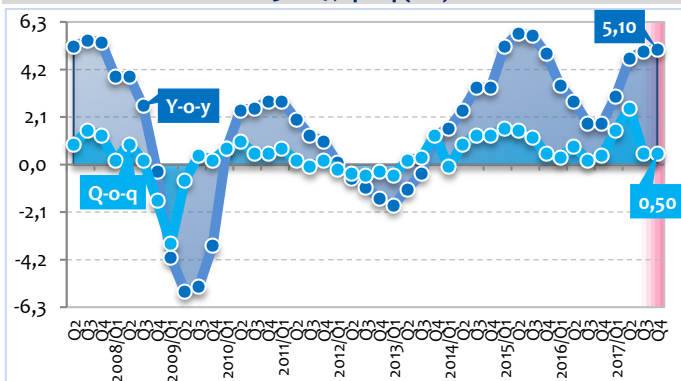
Map 2: Regions, fuel prices, Diesel, 16. 2. 2018 (in CZK/l)



#### 🇪🇺 ECONOMIC GROWTH SLOWS IN Q4 – 16. 2.

The economy grew dynamically in 2017. According to the preliminary estimate, the SA<sup>8</sup> GDP<sup>9</sup> was 4.5% up in 2017. In the Q4<sup>10</sup> 2017, the GDP increased by 0.5%, q-o-q<sup>11</sup>, and 5.1%, y-o-y<sup>12</sup>.

Graph 2: GDP growth, preliminary estimate, purchaser's prices, 2013-2017, q-o-q (in%)



All demand components contributed much to its growth, especially external demand and consumption expenditure of households.

Most of economic activities of the national economy were successful, especially industry, but also economic activities of

<sup>1</sup> **EU Fiscal Stability Treaty:** The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union; also referred to as TSCG or more plainly the Fiscal Stability Treaty, is an intergovernmental treaty introduced as a new stricter version of the Stability and Growth Pact, signed on 2 March 2012 by all member states of the EU, except the Czech Republic, the United Kingdom. The treaty entered into force on 1 January 2013 for the 16 states which completed ratification prior of this date. As of 1 April 2014, it had been ratified and entered into force for all 25 signatories. The Fiscal Compact is the fiscal chapter of the Treaty. It binds 22 Member States: the 19 Member States of the Eurozone plus Bulgaria, Denmark and Romania who have chosen to opt-in. It is accompanied by a set of common principles. Member states bound by the Fiscal Compact have to transpose into national legal order the provisions of the Fiscal Compact. In particular, national budget has to be in balance or surplus under the treaty's definition. An automatic correction mechanism has to be established to correct potential significant deviations. A national independent monitoring institution should be mandated to provide fiscal surveillance. The treaty defines a balanced budget as a general budget deficit not exceeding 3.0% of the GDP, and a structural deficit not exceeding a country-specific Medium-Term budgetary Objective (MTO) which at most can be set to 0.5% of GDP for states with a debt-to-GDP ratio exceeding 60% – or at most 1.0% of GDP for states with debt levels within the 60%-limit.

<sup>2</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>3</sup> **CZK:** Czech Crown, the currency of the CR since 8 February 1993

<sup>4</sup> **l:** litre

<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> 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>7</sup> data issued by the mBenzin.cz

<sup>8</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>9</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. GDP can be determined in 3 ways. 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>10</sup> **Q-:** \* quarter of the year

<sup>11</sup> **Q-o-q:** quarter on quarter

<sup>12</sup> **Y-o-y:** year on year, compared, compared with the corresponding month of preceding year

services. Performance of Czech economy was increasing also in the end of the year.

The GDP growth in the Q<sub>4</sub> was contributed to by all demand components equally.

The labour market was positively influenced by strong economic growth in 2017.

Employment increased by 1.6% in 2017. In the Q<sub>4</sub> 2017, employment remained unchanged compared to the previous quarter; it increased by 1.5%, y-o-y.

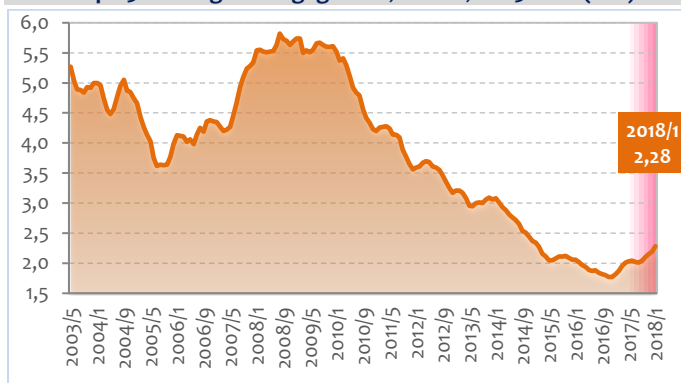
**AVERAGE INTEREST RATE ON MORTGAGES UP – 21. 2.**

The average interest rate on mortgage loans increased to 2.28% in January from 2.19% in December and was 0.46% higher than a year ago, according to the Hypoindex data. It has been on declining path since mid-2015 until end-2016, and crossed the 2%-level for first time in 14 months in April 2017.

It has been on a relatively gradual upward trend since August when the CNB<sup>13</sup> raised the 2-week repo rate<sup>14</sup> to 0.25% and in November.

Expectation is that the average interest rates on mortgages will continue growing, all the more that individual banks have already started and continue raising the rates.

**Graph 3: Average mortgage rate, m-o-m, 2003-2018 (in %)**



**THE TAX PACKAGE LOWERS THE TAXPAYERS' BURDEN – 21. 2.**

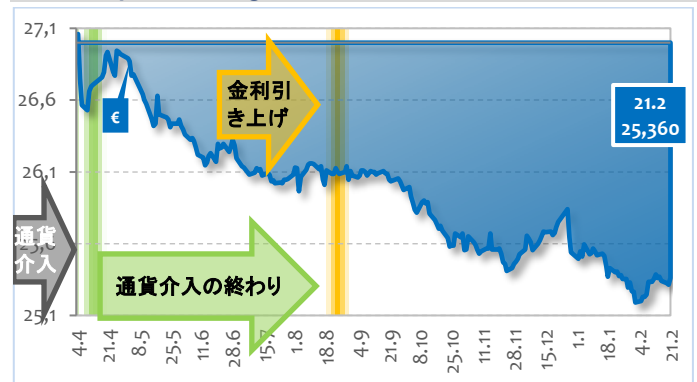
According to the MF<sup>15</sup>, the tax package for the year 2019 reduces the tax burden for Czech taxpayers by CZK23bn<sup>16</sup>. It thus represents the greatest reduction of the tax burden in the past 10 years. The package is currently undergoing the comments proceeding.

<sup>13</sup> **CNB:** Czech National Bank, is the central bank and financial market supervisor in the CR 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.

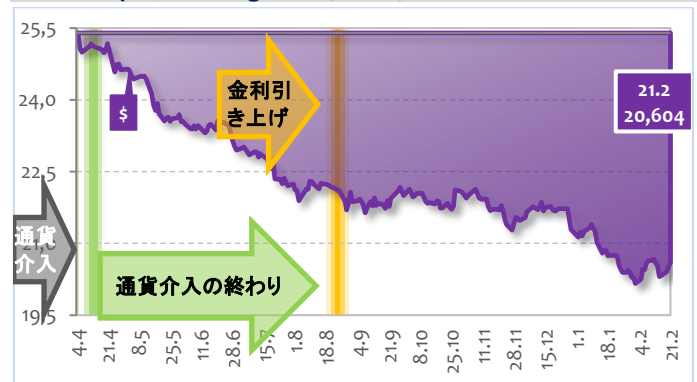
<sup>14</sup> **Repo rate:** The discount rate at which a central bank repurchases government securities from the commercial banks, depending on the level of money supply it decides to maintain in the country's monetary system. To temporarily expand the money supply, the central bank decreases repo rates (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

**CZKVs EURO, US DOLLAR, YEN – 21. 2.**

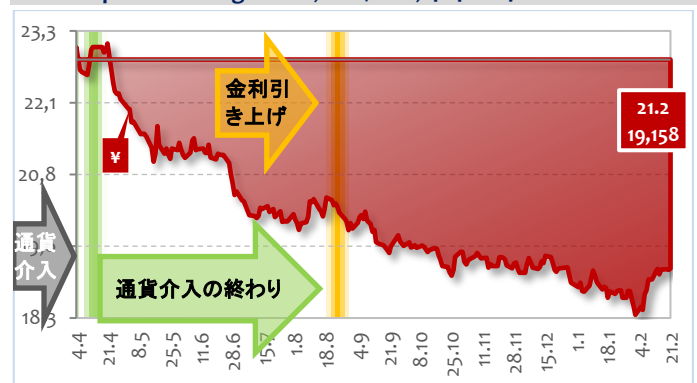
**Graph 4: Exchange rates, CZK/€, 4. 4. 2017 – 21. 2. 2018**



**Graph 5: Exchange rates, CZK/\$, 4. 4. 2017 – 21. 2. 2018**



**Graph 6: Exchange rates, CZK/100¥, 4. 4. 2017 – 21. 2. 2018**



**LABOUR & HEALTH & SOCIAL**

**CZECH COMPANIES EXPECT WAGE GROWTH – 18. 2.**

Czech companies expected average wages to grow by 3.26% this year in Q<sub>4</sub> 2017, while they anticipated an increase of slightly more than 2.5% in the previous quarters, according to a poll conducted by the CI<sup>17</sup> and the CNB.

supply and lets the market determine the appropriate repo rate. Repo is short for repossession.

<sup>15</sup> **MF:** Ministry of Finance

<sup>16</sup> **bn:** billion

<sup>17</sup> **CI:** Confederation of Industry, Svaz průmyslu a dopravy, is an employer association in the CR 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.

At the end of last year, workforce costs rose significantly, and a lack of employees became a more burning issue for companies. A total of 52% of entrepreneurs thought the situation concerning labour costs worsened in Q<sub>4</sub>, while it was 39% in Q<sub>3</sub>. The share of those thinking that the qualified workforce shortage issue deteriorated reached 54%, which is the highest figure since the poll's beginning. This indicator was at minimum 9% at the turn of 2012.

Respondents considered both domestic and foreign demand positive. However, the economic growth raised prices of material, CI said. Positive outlook of entrepreneurs reflected a mildly positive development in investment activity expectations. Loan availability remained good and 70% of companies expect it to stay stable in the future. The share of exports with a safeguard against exchange rate risk rose moderately, reaching 34.1%.

Companies said the state did not attempt to create a development supporting environment, and that business conditions did not improve significantly.

A total of 31% of companies thought the bureaucracy situation became worse, which is what 26% thought about legislation quality and 11% about transport infrastructure.

#### GOVERNMENT WILL RAISE PENSIONS – 19. 2.

The government plans to raise pensions by CZK918 per month in 2018. It also wants to add extra CZK1,000 to pensioners older than 85 years. According to PM<sup>18</sup> Babiš, this would be the highest annual growth in pensions in the history of the CR. State budget expenses would thus grow by CZK32bn per year.

#### ŠKODA AUTO'S<sup>19</sup> TU<sup>20</sup> CONFIRMED STRIKE ALERT – 19. 2.

Škoda Auto's TU have confirmed the preparedness for a strike, unlimited in time, to support the achievement of acceptable results of collective negotiations. The information was provided by TU KOVO<sup>21</sup> Škoda Auto's weekly Škodovácký Odborář. TU refused the company's wage proposals from the second round of collective negotiations as insufficient. The initial proposal from the trade includes total wage hike of 18%, with tariff increase amounting to 14%, while the company has offered tariff increase close to the inflation rate. The carmaker will not comment on the negotiations until they are finalised.

#### ŠKODA AUTO HAS OFFER A 15 % INCREASE OF WAGES – 21. 2.

In a collective negotiation, Škoda Auto has offered a 15% increase of wages over 27 months in a collective negotiation with the TU. Out of this, an increase of personal surcharge by 0.7% and a 14.3% increase of tariffs. The growth of wages will occur 4 times in total, for the first time on April 1, 2018 by 4.3%. Within a tariff agreement for 27 months, the company also offered bonuses above the framework of the regular bonus system reaching a total of CZK25,000.

<sup>18</sup> PM: Prime Minister

<sup>19</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>20</sup> TU: Trade union, around 1/6 of all employees are union members in the CR.

<sup>21</sup> KOVO: the metalworkers trade union, affiliated member union of ČMKOS, with some 140,000 members.

#### TU REJECTED OFFER OF ŠKODA AUTO – 21. 2.

Skoda Auto's TU have named Škoda Auto's offer on raising wages as a "big squabby zero". According to TU, this proposal is equal to the wage that TU demands in 1 year. At the same time, TU is rejecting the talks on introducing atypical system of shifts.

#### AGRICULTURE & ENVIRONMENT

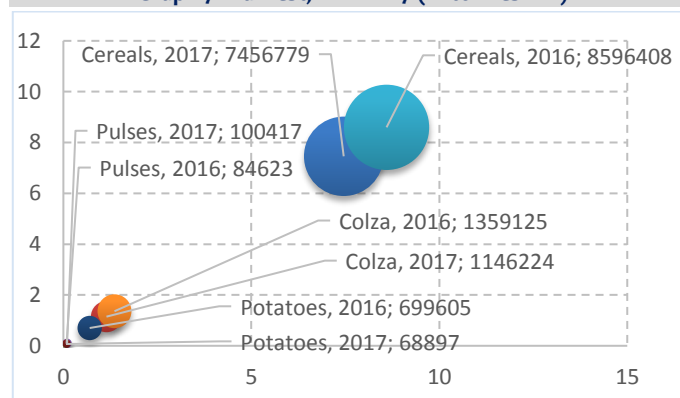
#### HARVEST OF MOST MAIN CROPS IN CR DOWN – 16. 2.

Harvest of most main crops in the CR dropped annually in 2017, with cereals and rape reporting a fall of more than 10%, and per ha<sup>22</sup> yields of most crops decreased as well, according to the CSO<sup>23</sup>.

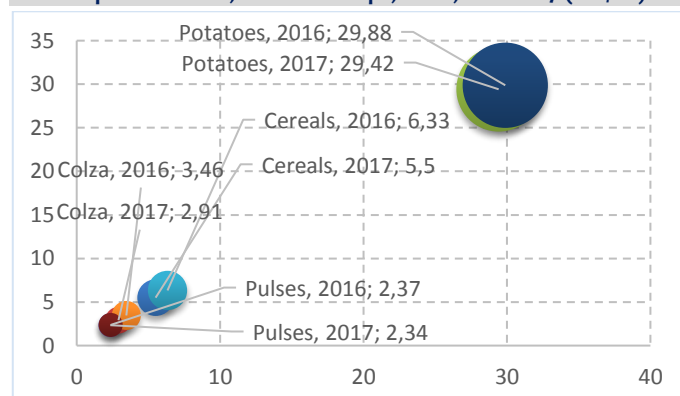
Harvest of spring wheat, rye, oats, pulses and sugar beet increased. Production went down y-o-y mostly because of lower per ha yields, the CSO said.

Grain maize production dropped by 30.5% to 588,000t<sup>24</sup>, registering the most significant fall among the most common cereals.

Graph 7: Harvest, 2016-2017 (in tonnes mn)



Graph 8: Harvest, Selected crops, Yield, 2016-2017 (in t/ha)



#### TWO MORE CZECH DAIRIES CAN EXPORT TO CHINA – 18. 2.

Dairies Mlekarna Pragolaktos and Mlekarna Benesov can now export their products to China, with the former exporting cream and the latter cheese, which increases the number of Czech dairy exporters to China to 23, SVA<sup>25</sup> said.

<sup>22</sup> ha: hectare is a non-SI metric system unit of area equal to 10,000 m<sup>2</sup>

<sup>23</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.

<sup>24</sup> t: tonne, metric ton is a non-SI metric unit of mass equal to 1000 kilograms

<sup>25</sup> SVA: Czech State Veterinary Administration

Czech dairy exports to China rose over the past year. Czech companies exported 1,267t of milk and dairy products to China, while it was less than 500t in 2016, SVA said. SVA was informed about approval of the dairies by the Embassy of the CR in Beijing. The CR has one of its agricultural diplomats in China. SVA has been negotiating the possibility of opening the Chinese market for exports of meat and meat products and cattle genetic material.

#### NUMBER OF MINI BREWERIES IN CR GROWS TO 400 – 20. 2.

The number of mini breweries grew by around 50 to some 400 in the CR last year, they mostly have an output below 1,000hl<sup>26</sup>/year, ČMSMP<sup>27</sup> said.

A new mini brewery thus appears approximately every week. Mini breweries contribute around 2% to the total beer output on the Czech market.

The ČMSMP would like the paperwork for this business to get simpler. It has been trying to achieve this goal in the long term. It said several years ago that, according to its analysis, the paperwork takes up 42 days a year to their relevant employee.

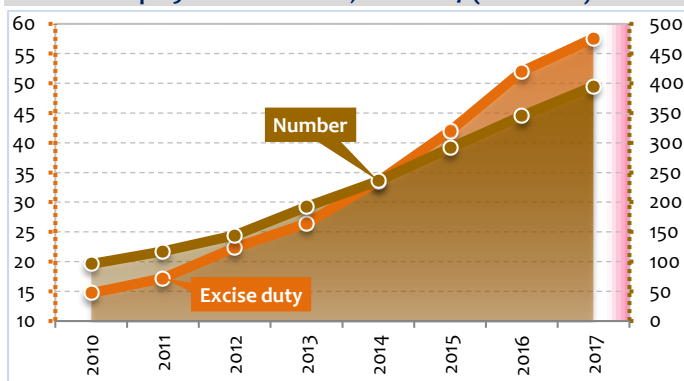
The same as in the past, the output of some mini breweries has exceeded 10,000hl annually so they are not labelled as mini breweries any more.

Beer consumption in the CR stagnated at 143l per capita in 2016 and beer export increased by 4.5%.

Production of Czech breweries was record in 2016, it grew by 1.9% to 20.5mn hl, including non-alcoholic beer.

The highest exports targetted Slovakia, Germany and Poland. Of countries outside of the EU, the most important export territories were Russia, South Korea and the USA.

Graph 9: Mini Breweries, 2010 - 2017 (in CZK mn)



<sup>26</sup> hl: hectolitre, a unit of capacity equal to 100 liters

<sup>27</sup> ČMSMP: Bohemian-Moravian Association of Mini Breweries

<sup>28</sup> MT: Ministry of Transport

<sup>29</sup> MEP: Member of European Parliament

<sup>30</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>31</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>32</sup> ALDE: Alliance of Liberals and Democrats for Europe, is the liberal-centrist, political group of the European Parliament. It is made up of MEPs from two European political parties, the Alliance of Liberals and Democrats for Europe Party (formerly the European

#### INDUSTRY HAS REDUCED EMISSIONS – 21. 2.

According to the CI, the industry and the energy sector have invested tens of billions of crowns in lowering emissions in the recent years, reducing them fundamentally. In the years 2000 to 2016, emissions of sulphur dioxide and nitrogen oxides decreased by 52 and 46%, respectively.

All polluters must participate in the lowering of harmful emissions.

Any legislative proposals, which relate to the production and consumption of energy, must analyse the actual benefits and effects on the environment consistently, including relation to valid or intended legislation and the effects on safety and stability of energy supplies.

#### INDUSTRY & TRANSPORT & ENERGY

#### POSTED WORKERS DIRECTIVE – 15. 2.

The CR wants transport services to be excluded from the proposal for general approach on the posted workers directive by the middle of the year, and transit transport should not be subject to the regulation, MT<sup>28</sup> Minister Ťok said.

The general approach was intended as a protection measure of some European countries for workers employed abroad, such as construction workers, not for lorry drivers who can travel through more European countries in one day, MEP<sup>29</sup> Dlabajova said. "We need to join forces and protect Czech interest in the EUC<sup>30</sup> and the EP<sup>31</sup>," said Dlabajova who, as a shadow rapporteur of the ALDE<sup>32</sup>, takes part in negotiation of the EC<sup>33</sup>, EUC and EP.

The current version of the directive is devastating to domestic hauliers, Ťok said adding it breaches the free movement of goods and services principle. Bureaucratic and wage conditions will destroy Czech hauliers if transport stays in the directive, he added.

#### NET4GAS DISAGREES WITH ERO – 16. 2.

NET4GAS<sup>34</sup> disagrees with the verdict of the ERO<sup>35</sup>, which excluded the BACI<sup>36</sup> project from the 10-year development plan of the transport grid in the CR. The company has said that it is considering further actions.

Liberal Democrat and Reform Party) and the European Democratic Party, which collectively form the Alliance of Liberals and Democrats for Europe.

<sup>33</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>34</sup> NET4GAS: is responsible for natural gas transit for foreign business partners transporting their natural gas through Czech Republic, natural gas imports from foreign suppliers into Czech Republic and domestic transmission to local partners.

<sup>35</sup> ERO: Energy Regulator Office, was set up on 1 January 2001 under Act No. 458/2000 of 28 November 2000, on the Conditions of Business and State Administration in Energy Industries and Changes to Certain Laws (the Energy Act) as amended, as an administrative authority responsible for regulation in the energy sector. Its competencies include: Price controls; Support for the use of renewable and secondary energy sources and combined heat and power generation; Protection of customers' and consumers' interests; Protection of licence holders' vested interests; Inquiries into conditions for competition; Co-operation with the Office for the Protection of Competition (ÚOHS); Support for competition in the energy industries; Supervision over markets in the energy industries

<sup>36</sup> BACI: Bidirectional Austrian-Czech Interconnector project, foresees connection of the Austrian and Czech gas markets between the stations in Břeclav, CRand Baumgarten,

**ČEZ MODERNISED HYDRO POWER PLANT – 16. 2.**

ČEZ<sup>37</sup> has invested CZK400mn<sup>38</sup> into the modernisation of the Lipno I hydro power plant. The installed output totals 120MW<sup>39</sup>. The innovation was the exchange of the hydraulic system, which was transferred to a high pressure system. As a consequence, the amount of operating liquid was reduced to a 1/10 and thousands of litres of oils are saved and the risk of leak is reduced. ČEZ has invested more than CZK2bn into the ecologisation and modernisation of approximately 20 systems in all types of hydro power plants in the last decade.

**RYANAIR<sup>40</sup> OFFERS NEW LINES FROM PRAGUE – 19. 2.**

Ryanair offered 3 new lines from Prague to Cagliari and Lamezia, Italy and Valencia, Spain via Milano on February 16, 2018. The airline has thus extended its offer by 27 lines to 181. Ryanair currently offers air tickets for €19.99 for trips by the end of February 2018.

**PRESSURE FOR DUKOVANY CLOSURE – 19. 2.**

Czech politicians will have to deal with Europe's pressure for earlier closing of the Dukovany NPP's<sup>41</sup> units in the next decade, SONS's<sup>42</sup> chairwoman Drabová said. There is a general European tendency to have nuclear units optimally in operation for only 40 years, Drabová said. In the case of Dukovany, it would mean the units might be shut down 10 years earlier than planned. Czech policymakers "will be facing a battle for another 10 years at Dukovany around 2023," Drabová said.

**CR SHOULD SUPPORT THE NORD STREAM 2<sup>43</sup> – 20. 2.**

The CR should support the Nord Stream 2 project, because it will lead to an increase of the strategic role of the state in international gas transport. Another benefit will be the increase of tax revenues from the transport grid, ERO's chairperson Outrata said. He added that the project also eliminates the risk of expensive liquidation of a major part of the transit grid reaching tens of billions of crowns.

**NATURAL GAS CONSUMPTION IN CR GROWS – 20. 2.**

Consumption of natural gas in the CR grew by 3.3% to 8.53bn m<sup>3</sup> last year, according to ERO updated figures. Cold weather was among the reasons for the growth. Consumption in January reached 1.46bn m<sup>3</sup> and was the highest in one month in the past several years.

Austria, forming the first direct connection between both countries. The new pipeline's length on the territory of the CR is foreseen at 12km.

<sup>37</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>38</sup> mn: million

<sup>39</sup> MW: 10<sup>6</sup> watts

<sup>40</sup> Ryanair: Ryanair Ltd., is an Irish low-cost airline founded in 1984, headquartered in Swords, Dublin, Ireland, with its primary operational bases at Dublin and London Stansted airports. In 2016, Ryanair was the largest European airline by scheduled passengers flown, and carried more international passengers than any other airline.

<sup>41</sup> Dukovany NPP: Dukovany NPP annually supplies approximately 14 TWhr of electric energy to the national power network. NPP is owned and operated by ČEZ Group. Dukovany covers a 1/5 of the total electricity consumption in the CR with its installed output of 2,040MW. The NPP has 4 units. ČEZ has submitted request for new licences for further operation of units 3 and 4 to the SONS. Current 10-year licences for the units will expire at the end of this year. SONS has granted new operation licences for units 1 and 2.

<sup>42</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

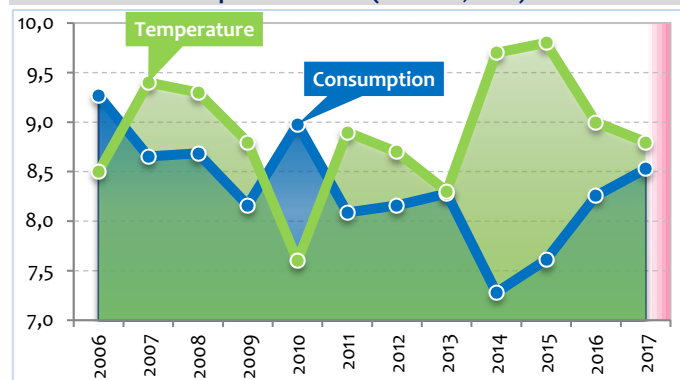
There are around 2.04mn buyers of natural gas in the CR, 92.6% of them are households and 7.4% small, medium-sized and large buyers.

Large buyers used 3.82bn m<sup>3</sup> of natural gas last year, some 0.5% less than in 2016. Household consumption increased by 2.5% to 2.43 bn m<sup>3</sup>.

The CR imports natural gas mostly from Russia. Russian gas flows to the CR via Ukraine and Slovakia also through alternative gas routes.

Among them is Gazela gas pipeline, which connects the CR to natural gas from Russian sources. The gas is transported to Europe by Nord Stream gas pipeline across the Baltic Sea. Yamal gas pipeline transports natural gas via Belarus and Poland.

**Graph 10: Annual natural gas consumption and average temperature in CR (in bn m<sup>3</sup>, in °C)**



**ČEZ WANTS TO INVEST IN DUKOVANY IN 2018 – 21. 2.**

ČEZ is planning on investing CZK 1.70bn in the Dukovany NPP in the year 2018.

Among other things, it will install new spent fuel pool pumps or regulation armatures in the primary circuit.

Dukovany will probably also hire approximately 120 employees.

Dukovany together with the Temelín NPP<sup>44</sup> want to increase production again to 30TWh<sup>45</sup>.

Dukovany will probably participate in it representing approximately 1/2.

The operator has already invested more than CZK 8bn in the four current blocks since 2000.

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>43</sup> Nord Stream 2: Nord stream AG, operator of Nord Stream pipeline, in 2011, started evaluation of an expansion project which would include 2 additional lines to increase the overall annual capacity up to 110 billion m<sup>3</sup>. The route of additional lines would mainly follow the route of existing lines, except in the Russian onshore and offshore sections. The project is considered to violate the long-term declared strategy of the EU to diversify its gas supplies. A letter, signed by the leaders of 9 EU countries, has been sent to the EC in March 2016, warning that the Nord Stream 2 project contradicts the European energy policy requirements that suppliers to the EU should not control the energy transmission assets, and that access to the energy infrastructure must be secured for non-consortium companies. Supporters of the pipeline, including Germany, believe that unlawful deference has been made to US wishes of the project not proceeding. In January 31, 2018, Germany granted Nord Stream 2 a permit for construction and operation in German waters and landfill areas near Lubmin.

<sup>44</sup> Temelín NPP: Temelín NPP is owned by ČEZ Group, which employs 1000 workers at this site. It is, with 2,000 MW of installed capacity and 4 units, largest power resource in the Czech Republic.

<sup>45</sup> TWh: terawatt-hour, a measure of electrical energy, 10<sup>12</sup> watt-hours

## CTK CAR PRODUCTION IN CR UNCHANGED IN JANUARY – 221. 2.

Czech passenger car production stagnated at 130,258 units in January in annual terms, with Škoda Auto recording a 5% growth in its output, while Hyundai<sup>46</sup> and TPCA<sup>47</sup> registered a fall of nearly 8%, the AIA said.

A slowdown was seen in the sector at the end of last year, and the industry predicted a modest drop in the production volumes for this year.

Škoda Auto, which had the best January sales result in its history, made 80,564 vehicles.

TPCA's production decreased to 19,694 units and Hyundai's to 30,000 units.

Hyundai said previously it would cut its output to some 330,000 units this year because of a weaker demand from Great Britain.

TPCA has been grappling with falling interest in its mini cars in the past few years.

The AIA does not want to draw any conclusions from the January result, because "It has to be taken into account that last January, with which the figure is compared, was very strong."

Tatra Trucks' lorry output plunged by 72% y-o-y to 29 units in January because of technological changes owing to which it launched production in the second half of the month.

Bus production fell by 7% to 288 vehicles. Iveco, the largest bus producer, raised its output by 2% to 266 units.

Jawa turned out 13 motorcycles in January, displaying an annual drop of 63%. Its domestic sales soared by 175%.

## TRADE &amp; INVESTMENTS

CIA ŠKODA AUTO<sup>48</sup> SUPPLIES RECORD IN JANUARY – 15. 2.

In 2018, Škoda Auto supplied 103,800 vehicles (a January record) to customers all over the world, up 10.7% y-o-y.

The vehicles sold best mainly in Europe (+13.7%), Russia (+26%) and India (+13.8%).

The result was significantly boosted by the new SUV<sup>49</sup> models, Kodiaq and Karoq.

Škoda Auto said that in March 2018 the carmaker would be introducing a modernised Fabia model in Geneva.

## CTK SALES IN TEXTILE, CLOTHING INDUSTRIES IN CR – 15. 2.

Sales in the CR's textile and clothing industries rose annually by 2.8% to CZK55.3bn in 2017, with the textile industry accounting for 86% of the volume, according to information of the ATOK<sup>50</sup>.

<sup>46</sup> **Hyundai CZ:** Hyundai Motor Manufacturing Czech based in the Industrial Zone of Nošovice was founded in 2006.

<sup>47</sup> **TPCA:** Toyota Peugeot Citroën Automobile Czech (TPCA) is an automobile manufacturing company in Kolín, Czech Republic. It is a joint venture between Toyota Motor Corporation of Japan and PSA Peugeot Citroën of France.

<sup>48</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>49</sup> **SUV:** a sport utility vehicle or suburban utility vehicle, a vehicle classified as a light truck, but operated as a family vehicle. They are similar to a large station wagon or estate car, usually equipped with four-wheel drive for on- or off-road ability. Some SUVs include the towing capacity of a pickup truck with the passenger-carrying space of a minivan or large sedan.

<sup>50</sup> **ATOK:** Association of Textile, Clothing and Leather Industry

<sup>51</sup> **TSI:** turbocharged stratified injection

<sup>52</sup> **kW:** 10<sup>3</sup> watts

<sup>53</sup> **Hp:** horsepower

The average monthly wage in the industries increased y-o-y by 7.7% to CZK21,700 at the end of last year, which is roughly a 1/4 below the CR's average.

The average wage in the country was CZK29,050 at the end of the Q<sub>3</sub> 2017, according to the CSO.

The number of employees in the field went up by 0.1% to 33,500 in annual comparison. ATOK includes data of companies with more than 20 employees. Workforce productivity, measured as sales per employee, went up by 2.7% y-o-y.

Imports outweighed exports last year, ATOK said adding that it was caused mainly by significant imports of clothing which is then shipped to other European countries.

## CIA ŠKODA KODIAQ L&amp;K IN GENEVA – 16. 2.

Škoda Auto will introduce in a global premiere the top-of-the-line version of SUV Kodiaq L&K at the March auto show in Geneva. The highest L&K series will be offered with gas and diesel engines and with front- or all-wheel drive. Together with the model's introduction to the market in 2018 the offer of engines for the entire Kodiaq series will be updated. An innovation is engine 1.5 TSI<sup>51</sup> with output of 110 kW<sup>52</sup> (150hp<sup>53</sup>). In the case of gas engine 2.0 TSI, performance increased from 132 kW (180hp) to 140 kW (190hp). Deliveries of the KODIAQ model totaled 13,600 vehicles in January 2018. In 2017, when the vehicle was introduced to the market, sales totaled 100,000.

## CTK MIT MINISTER WANTS TO FOCUS ON CEB AND EGAP – 16. 2.

MIT<sup>54</sup> Minister Hüner wants to focus on stabilisation and transformation of the CEB<sup>55</sup> and EGAP<sup>56</sup> this year, he said after a meeting of the Steering Committee to implement the Export Strategy.

It is crucial that all 3 pillars of state export support are maintained, that is financing, insuring, and narrowing of interest rates gap, Hüner said.

Changes in the state export promotion system were planned by the previous government. There are 5 possible scenarios, according to a report approved by the cabinet last year, with one envisaging a merger of EGAP and CEB and another seeing CEB as EGAP's subsidiary.

Both institutions have been dealing with loss-making trade cases from 2007-2011, some being investigated by the police. This year, Hüner also wants to concentrate on better cooperation and creating synergies between the TACR<sup>57</sup> and

<sup>54</sup> **MIT:** Ministry of Industry and Trade

<sup>55</sup> **CEB:** Czech Export Bank, a specialised, directly and indirectly state-owned banking institution. Established in 1995, it forms one of the pillars of the government's pro-export policy system. Its mission is to support Czech exports and the renown of the Czech Republic as a well-established international exporter, and thus promote the overall competitiveness of Czech products throughout the world. CEB focuses on financial services related to exports.

<sup>56</sup> **EGAP:** Export Guarantee and Insurance Corporation is a credit insurance corporation insuring credit connected with exports of goods and services from the Czech Republic against political and commercial risks uninsurable by commercial insurance. EGAP was founded in 1992 as a joint stock company fully owned by the state. The Czech Republic exercises its shareholder rights through the Czech Ministry of Finance, the Czech Ministry of Industry and Trade, the Czech Ministry of Foreign Affairs and the Czech Ministry of Agriculture. Its activities are governed by the Insurance Law and the Act No. 58/1995 Coll., on insuring and financing state supported export.

<sup>57</sup> **TACR:** The Technology Agency of the Czech Republic is an organizational unit of the stat that was founded in 2009 by the Act No. 130/2002 Coll. on the support of research, experimental development and innovation.

CzechTrade<sup>58</sup> and CzechInvest<sup>59</sup> in services and both regional and foreign network.

Czech exports were record-breaking last year, increasing y-o-y by 5.7% to CZK4,200bn in the cross-border concept.

Exports to the EU<sup>60</sup> rose by 5.8%, with the largest growth being reported in Germany, Poland, France and the Netherlands. Exports to Slovakia dropped moderately.

Czech companies exported more, for example, to China, Russia, Ukraine, Colombia, Hong Kong and Kazakhstan.

Czech exporters have reached the limit of their production possibilities and they fail to keep up with the number of orders from abroad, according to analysts.

Growth of Czech exporters is hampered mainly by a lack of workforce and lately also by a lack of material.

The year 2018 will be more difficult for exporters than the previous years, and no records are expected to be broken, CAE<sup>61</sup> said.



#### CZEXIT WOULD BRING COLLAPSE – 16. 2.

Czexit would mean collapse of many segments and companies and firing of employees, and those talking about leaving the EU mystify citizens with a possible positive outcome, ČMKOS's<sup>62</sup> head Středula said. People talking about Czexit are not able to offer anything, he said.

Figures say that exports to the EU member states<sup>63</sup> are dominant, exceeding other territories in all aspects, Středula said.

The interest in Czech exports is not so high outside the EU. Investors cannot be expected to still be interested in the CR if the country quits the EU, he added.

The CR's damage would be much larger than what it being discussed in the case of Britain, as the CR is not as significant territorially nor as big economically, Středula stated.

Economists and business associations think Czexit would be economic suicide, according to a recent ČTK<sup>64</sup> study.

The CR's departure from the EU would cost hundreds of thousands of people their job, and the Czech economy would sink to the level of Belarus, some experts say.

CI vice-president Radek Spicar has said he rejects any doubts about the CR's EU membership as it sends negative signals to foreign investors.

<sup>58</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>59</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>60</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>61</sup> **CAE:** Czech Association of Exporters, a voluntary association that represents its members in the promotion of common interests, a transparent, non-discriminatory and



#### VOLUME OF PUBLIC CONTRACTS UP – 18. 2.

Public investors in the CR awarded 27,204 contracts worth CZK351.1bn to companies in 2017, with the value growing by 54% y-o-y being the highest since 2010, according to an analysis of CEEC Research.

The number of awarded public contracts rose by 94%, it said. The largest contract worth CZK20bn was awarded by Cepro state-run fuel distributor. It was a framework agreement on a supply of selected mineral oils.

Construction has long been accounting for the largest volume of public contracts, making up nearly 2/5 last year.

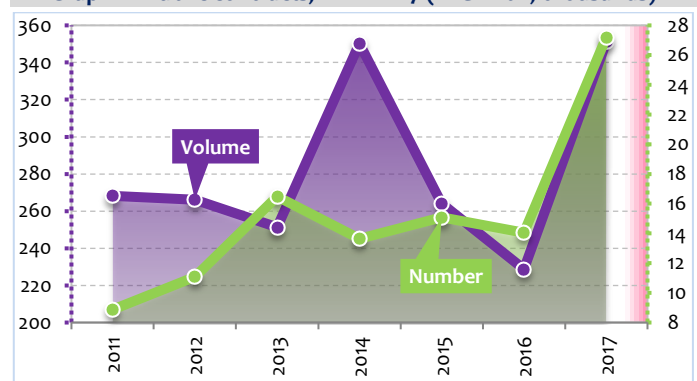
The value of 14 contracts exceeded CZK1bn last year, according to URS Praha engineering company. There were 7 such contracts in 2016.

The biggest contract was the CZK3.56bn reconstruction of the Kočín switching station near Temelín NPP<sup>65</sup>, which was obtained by a consortium of companies Egem, ASE and VÚJE. The CEEC Research data showed that the volume of new tenders fell annually by 13% to CZK337bn last year, with their number dropping by 13% to 7,695.

The annual gap was significantly impacted by an increased activity of investors in August and September 2016 before the expected amendment to the public procurement law, CEEC Research said.

Last year's largest tender worth CZK28.8bn was declared by the MT involving the electronic toll system.

Graph 11: Public contracts, 2011 - 2017 (in CZK bn, thousands)



#### CZECH FIRMS EXPORT GOODS THROUGH LIDL – 19. 2.

Czech food producers and other companies exported their products worth CZK5.5bn under private brands to 24

free business environment in order to maintain and increase the competitiveness of domestic companies and companies, especially export companies. AE acts with state administration bodies, promotes its goals in the media, organizes educational, social and promotional actions aimed at achieving the goals.

<sup>62</sup> **ČMKOS:** a dominant union confederation in the CR, which had almost 400,000 members in 2011. ČMKOS is the Czech successor of the Czech and Slovak union confederation. It has separate affiliated member unions divided broadly on an industry basis, of which the largest are the metalworkers union, OS KOVO, with some 140,000 and the teachers' union, ČMOS PŠ, with around 50,000 members.

<sup>63</sup> **EU Member States:** The EU comprises 28 member states. Each member state is party to the founding treaties of the union and thereby subject to the privileges and obligations of membership. Unlike members of most international organisations, the member states of the EU are subjected to binding laws in exchange for representation within the common legislative and judicial institutions. Member states must agree unanimously for the EU to adopt policies concerning defence and foreign affairs. Subsidiarity is a founding principle of the EU.

<sup>64</sup> **ČTK:** The Czech News is a national public service news agency in the Czech Republic. It publishes in Czech, Slovak, and English

<sup>65</sup> **Temelín NPP:** Temelín NPP is owned by ČEZ Group, which employs 1000 workers at this site. It is, with 2,000 MW of installed capacity and 4 units, largest power resource in the Czech Republic.

European countries through Lidl<sup>66</sup> last year, 145 domestic companies exported goods through the German chain, Lidl said.

In total, Czech firms exported food products for CZK144bn in 2017 and import reached CZK190bn.

The biggest volume of goods exported through Lidl last year was registered by Mlekarna Pragolaktos dairy, Krahulik - Masozavod Krahulci sausage maker, LE & CO ham producer, Veseta (non-alcoholic drinks), Delimax (delicatessen), Lorraine (baked goods) and Cerozfrucht. The export did not concern only food, one of the exporters within Lidl was Drylock Technologies hygiene products maker.

The highest amount of Czech food products targetted Slovakia, Hungary, Poland, Romania, Croatia, Slovenia, Latvia, Belgium and Germany. The volume of the export, as well as the number of the Czech producers and export destinations, is growing every year.

#### ŠKODA BRAND SALES IN JANUARY – 19. 2.

Škoda Auto delivered totally 35,700 Octavia cars in January 2018, down 4.5% y-o-y. Higher deliveries were reported by FABIA (16,800; +7.2%) and Citigo, which is sold only in Europe (3,000, +19.1%). The brand registered lower registrations of the following models: Rapid (16,400; ▲7.6%), Superb (12,400; ▲8.3%) and Yeti (2,000; ▲68.8%). Kodiaq vehicle deliveries totalled 13,600 and Karoq 3,900.

#### CR TO HAVE A NEW CENTRE FOR SPACE RESEARCH – 21. 2.

A new centre for cosmic research, SATCEN ČR, will be created in the CR as of July 1, 2018, the Military Intelligence under the competence of the MD<sup>67</sup> said. This will happen based on commitments to the NATO<sup>68</sup> in the area of visual intelligence. The satellite centre will fulfil tasks within the Military Intelligence service both for intelligence support of the Czech army and the commanding structures of the NATO, as well as for the state institutions and the integrated rescue system, for example in case of natural disasters.

### MISCELLANEOUS

#### CR IS LIKELY TO PAY MORE TO EU AFTER BREXIT – 20. 2.

The CR is very likely to increase its annual contribution to the EU budget after 2020 because of Britain's departure from the EU, MF Minister Schillerova said after meeting with her counterparts from EU member states.

However, discussion about the long-term EU budget outlook is just beginning, she said.

<sup>66</sup> Lidl: discount chain, Lidl Stiftung & Co. KG, is a German global discount supermarket chain, based in Neckarsulm, Germany, that operates over 10,000 stores across Europe and USA. It belongs to Dieter Schwarz, who also owns the store chains Handelshof and hypermarket Kaufland. Lidl is the chief competitor of the similar German discount chain Aldi in several markets, including USA. There are Lidl stores in every member state of the European Union, except Latvia and Estonia. It entered the Czech market in June 2003, it now runs 236 stores on CR's market. Private brands make up more than 80% of its assortment. Lidl discount stores made a record CZK4bn pre-tax profit on CZK38.3bn sales in the CR in the 2015/2016 financial year.

<sup>67</sup> NATO: the North Atlantic Treaty Organization, also called the North Atlantic Alliance, is an intergovernmental military alliance based on the North Atlantic Treaty which was signed on 4 April 1949. The organization constitutes a system of collective defence whereby its member states agree to mutual defence in response to an attack by any external party.

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PM Babiš's attitude towards the possibility of a higher Czech contribution was rather disapproving when he was in Brussels at the end of January.

Heads of state or government of 27 EU countries will talk about the future of EU money at an informal meeting in Brussels on Friday. Britain, quitting the EU at the end of March 2019, has agreed to do everything it had committed itself to by the end of 2020.

Brexit could cost the EU budget up to €13bn as Britain is a net giver, European Commissioner for budget Öttinger said. Such a gap cannot be filled by savings, with the EU focusing on both traditional areas and new challenges, the EC said. Öttinger and Juncker, the head of the EC, have started talking about new EU budget sources.








#### CZECHS BIGGEST EUROSCEPTICS IN CE<sup>69</sup> – 21. 2.

Czech are the biggest Eurosceptics in CE, suggests a survey carried out by the think tank Europeum.

According to the survey, 54% of Czechs would vote for staying in the EU, while 34% would vote against. Young people and pensioners are among the biggest supporters of Czech EU membership, while most Eurosceptics can be found in the age group from 36 to 50 years of age.

<sup>69</sup> CE: Central Europe, views on which countries belong to Central Europe are vastly varied, the region includes Hungary, Poland, Slovakia, Czech Republic, Slovenia, Croatia, Austria, Germany, Lichtenstein, Switzerland. Depending on context, CE countries are sometimes grouped as Eastern, Western European countries, collectively or individually

News outside the time span of this News summary

-  CEZ
-  CeeMarketWatch
-  CIA News (Česká informační agentura)
-  CNB (Česká národní banka)
-  Czech Press Agency (Česká tisková kancelář)
-  Czech Statistical Office (Český statistický úřad)
-  Government of the CR
-  Radio Prague (Český rozhlas)