

## ECONOMIC NEWS SUMMARY MAY 24 – MAY 30

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### ECONOMY & FINANCE

#### EURO ADOPTION NOT A PRIORITY – 27. 5.

PM Babiš reiterated his negative stand to euro adoption and said joining the euro was not a priority and he was happy with the Czech currency.

In the event of problems, the PM<sup>1</sup> said he trusted the intervention of the CNB<sup>2</sup> which had proved beneficial in the past.

Mr. Babiš noted that in the case of Greece and Italy the common currency had been a reckless experiment.

#### CZK WILL RETURN TO APPRECIATION – 25. 5.

CNB's governor Rusnok believes the CZK<sup>3</sup> will return to appreciation in the coming weeks.

He said that the CNB may hike interest rates faster and more if the CZK remains weaker than the CNB forecast for a longer time.

The CZK dropped to its weakest levels since December 2017 trading at 25.85CZK/€.

#### PRICE OF FLATS OVERINFLATED BY 15% - 28. 5.

The price of flats in the CR<sup>4</sup> is overinflated by around 15% percent, CNB's governor Rusnok said.

The governor said the CNB was keeping a close eye on prices on the housing market since mortgages make up around 60% of all loans granted to households.

Mr. Rusnok said he would address the issue in greater detail on June 12, 2018.

<sup>1</sup> **PM:** Prime Minister, the Czech Republic is a parliamentary representative democracy, with the Prime Minister acting as head of government and the President acting as head of state. The first Prime Minister of the Czech Republic was Václav Klaus, who served as the second President from 7 March 2003 until 7 March 2013. The current and 12th Prime Minister is Andrej Babiš, leader of the ANO 2011, who was appointed by the President on 6 December 2017.

<sup>2</sup> **CNB:** Czech National Bank, is the central bank and financial market supervisor in the Czech Republic and a member of the European System of Central Banks. In accordance with its primary objective, the CNB sets monetary policy, issues banknotes and coins and manages the circulation of the Czech koruna, the payment system and settlement between banks. It also performs supervision of the banking sector, the capital market, the insurance industry, pension funds, credit unions and electronic money institutions, as well as foreign exchange supervision.

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

<sup>4</sup> **CR:** the Czech Republic, a nation state in Central Europe. The Czech Republic covers an area of 78,866 km<sup>2</sup> with a mostly temperate continental climate and oceanic climate. It is a unitary parliamentary republic, has 10.5 million inhabitants and the capital and largest city is Prague, with over 1.2 million residents.

<sup>5</sup> **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> **PSE:** is the largest and oldest securities market organizer in the Czech Republic. PSE is by law a joint-stock company. Its largest shareholder is CEESEG Aktiengesellschaft, with a 92.739% ownership interest. PSE and its subsidiaries comprise the PX group. In addition to the Stock Exchange, the most important members in the group are Power Exchange Central Europe, a.s. (PXE) and Central Securities Depository Prague (CSD Prague). PXE was founded in 2007 and is a trading platform for dealing in electricity for the Czech Republic, Slovakia and Hungary. CSD Prague has the principal position in the settlement of securities trades on the Czech capital market, maintains the central register for dematerialized securities issued in the Czech Republic, and assigns international securities identification numbers (ISIN) to investment instruments. PSE is a member of the CEE Stock Exchange Group (CEESEG), which also includes the Vienna Stock Exchange

<sup>7</sup> **H:** Half of year



#### CZK FALLS NOTABLY TO €, \$ – 29. 5.

The CZK occurred under pressure and at one moment was even on the weaker side of CZK25.90/€, the lowest level this year, and in the end it lost 10 hellers to CZK25.85/€ and 20h<sup>5</sup> to CZK22.35/\$.

The political crisis in Italy has an impact on the CZK, said experts. "However, we have to look also for other factors behind the CZK's weakness. For example, investors do not pay much attention to the promises that CNB may raise interest rates soon."

The ending dividend season in Prague also influences the CZK. Dividends of most stocks on the PSE<sup>6</sup> are paid in H,<sup>7</sup> 2018.

Erste's<sup>8</sup> shares were traded for the first time without the right to dividend May 29 and the record day for dividend payment will also be before the start of the summer holidays for O<sub>2</sub><sup>9</sup> and ČEZ<sup>10</sup>. The PX index<sup>11</sup> will thus keep falling and investors will move their capital elsewhere for a while.

"Everything indicates that if the CNB wants to have stronger CZK before the summer, it will have no other option but to raise interest rates," expert noted.

However, it looks very unlikely already now that the CNB's forecast for the average rate of the CZK at CZK25.00/€ this year will materialise. "For this, the CZK's rate would have to break through the CZK25.00/€ level very soon, which we do not expect."



#### CR TO SEE STRUCTURAL FUNDS CUT – 29. 5.

The CR is going to see a 25.2% cut (in 2018 prices) in structural funds<sup>12</sup> in the 2021-2027 EU<sup>13</sup> budget framework, according to

<sup>8</sup> **Erste:** Erste Group Bank AG (Erste Group) is one of the largest financial services providers in Central and Eastern Europe serving 15.7 million clients in over 2,700 branches in 7 countries: Austria - Erste Bank der oesterreichischen Sparkassen AG; Czech Republic - Česká spořitelna a.s.; Slovakia - Slovenská sporiteľňa; Montenegro - Erste Bank Montenegro; Hungary - Erste Bank Hungary Zrt.; Croatia - Erste & Steiermärkische Bank d.d.; Serbia - Erste Bank a.d. Novi Sad; Romania - Banca Comercială Română; Slovenia Banka Sparkasse d.d.

<sup>9</sup> **O<sub>2</sub>:** a trading name for Telefónica Europe, a European telecommunications provider. O<sub>2</sub> Czech Republic (operating under the O<sub>2</sub> brand) is a major integrated operator in the Czech Republic. In 2013 it was announced that Telefónica would sell its stake in the company to PPF and the company would continue to use the O<sub>2</sub> brand for a maximum of four years. As of 1 June 2015 the separation of O<sub>2</sub> Czech Republic as two mutually independent companies has been in force. Therefore, there are now two new telecommunications companies with two different lines of business: the retail operator O<sub>2</sub> and the wholesale infrastructure provider CETIN. The separation includes commercial and managerial leadership and management of both companies, including security, IT and control systems.

<sup>10</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. ČEZ is the biggest electricity supplier in the Czech Republic.

<sup>11</sup> **PX index:** is a capitalization-weighted index of major stocks that trade on the Prague Stock Exchange (PSE).

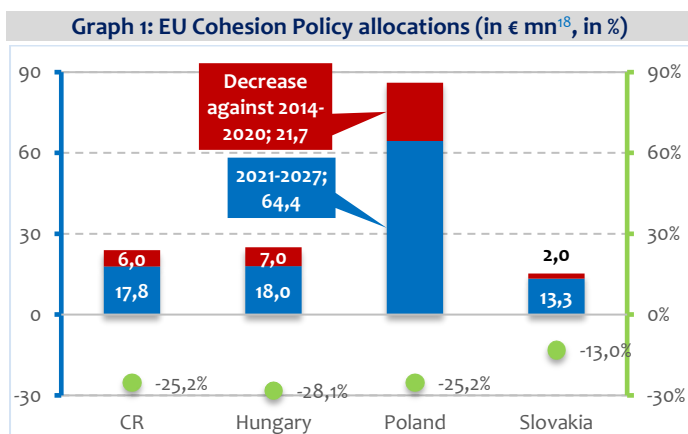
<sup>12</sup> **EU Funds:** financial tools set up to implement the regional policy of the EU (CP – Cohesion Policy and CAP – Common Agricultural Policy), funds under CP consist of the Structural Funds (the ERDF – the European Regional Development Fund and the ESF – the European Social Fund), and the 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>13</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

a proposal published by the EC<sup>14</sup>. The change stems from the EC's new approach to favour less developed regions in the south and east of Europe, which has provided hikes for countries like Spain, Portugal, Bulgaria and Romania. Other criteria than GDP<sup>15</sup> per capita have been introduced, such as youth unemployment, low education level, climate change, as well as reception and integration of immigrants.

The CR has thus suffered from both its economic success, as it has a well-developed labour market, solid education level and higher GDP per capita. At the same time, the Czech government has been hostile to refugee distribution within the EU and has been opposing attempts to reach a settlement on that issue. As a result, the cut is likely to be seen as very harsh and the Czech cabinet<sup>16</sup>, regardless whether it is the outgoing one or the new one, will not probably accept such a decline in cohesion funds.

The proposal may be considered as a starting position for negotiation, though pressure on the V4<sup>17</sup> will likely be considerable. A united front towards resisting these cuts is expected, but given hikes from some other EU members, particularly those in the south and the east, the V4 are likely to be isolated. Cuts along the same line as the CR are seen in all V4 countries, but budget negotiations are yet to start in earnest, so final figures are likely to be more favourable. Still, the V4 will not probably escape a cut in structural funding in the next EU budget.



**NEGOTIATING BETTER TERMS IN EU BUDGET – 30. 5.**

The government will do its best to negotiate better terms in the next EU budget framework for 2021-2027, MF<sup>19</sup> Minister Schillerová said, commenting the first proposal of the EC for Cohesion Policy allocations. She said she couldn't confirm yet that the cut of funding for the CR would be in the vicinity of

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>14</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>15</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.

24%, but she said that all effort would be invested to remedy that, if necessary. Still, she implied that the government would have to adjust to lower Cohesion Policy funding in the next budget period, given that the general EU strategy is changing. According to the new approach, more funding will be aimed at regions which are less economically developed, with criteria like youth unemployment and education levels to be included. Here, the CR is the victim of its own success, at least compared to members who entered the EU in 2004 or later, so objectively it will have to put up with lower funding.

While it is still too early, preliminary opinions seem to be not so gloomy, as some local economists argued this could be a good thing. For instance, there are probably going to be lower funding to agriculture, which some see as an opportunity to boost productivity, as the current system doesn't really encourage that. However, this is only economists' opinions and it depends on what politicians will come up with. This is where it can get ugly, especially after some of the new criteria include readiness to accept and integrate refugees, where the CR is not likely to score well.

Czech government is expected to oppose the new framework proposal in principle, even if the economic impact is not likely to be that considerable. After all, the new cabinet is planning to boost public investment in infrastructure, and a lot of these projects are co-financed through the EU's Cohesion Policy. Given these appetites, resistance is expected to be considerable.

**LEGISLATION ON EXCHANGE OFFICES – 30. 5.**

The Cabinet has approved legislation aimed at reining in exchange offices that rip off customers. Under the bill it will be possible to abrogate a transaction and receive one's money back for a period of up to 2 hours. The change was proposed by the CNB.

The MF Minister Schillerová said it was no secret that the practices of some exchange offices were giving the CR a bad name. She said tourists might receive only CZK15/€ from some currency exchanges on Prague's Old Town Square. The standard rate at present is almost CZK26/€.

**OECD OUTLOOK – 30. 5.**

According to the OECD<sup>20</sup> Outlook, economic growth of the CR will remain robust in 2018 and 2019. Increasing wages and employment will keep household consumption growth high. Private investment growth is also projected to increase

GDP = GVA + Taxes on products - Subsidies on products

<sup>16</sup> **Cabinet:** The Government of the Czech Republic exercises executive power in the Czech Republic. The members of the government are the Prime Minister of the Czech Republic (Chairman of the Government), the deputy ministers and other ministers. It has its legal basis in the Constitution of the Czech Republic. The government is led by the Prime Minister, who selects all the remaining ministers. Government of the Czech Republic is responsible to the Chamber of Deputies of the Czech Republic. The Prime Minister is appointed by the President of the Czech Republic. The current Prime Minister is Andrej Babiš.

<sup>17</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.

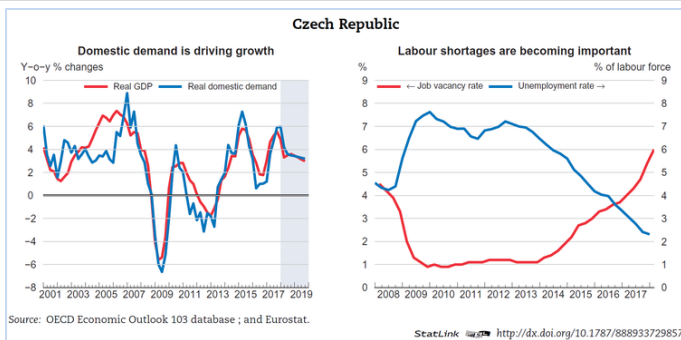
<sup>18</sup> **mn:** million

<sup>19</sup> **MF:** Ministry of Finance

<sup>20</sup> **OECD:** Organisation for Economic Development and Cooperation

thanks to favourable credit conditions. External demand will remain high, driven by growth in trading partners. Inflation will stay slightly above the target of the central bank, driven by accelerating wages. Following the interest rate increase in February 2018, monetary policy should raise interest rates only gradually as inflation remains close to its target and avoid creating a gap vis-à-vis the EA<sup>21</sup> rate. Fiscal space is ample to boost infrastructure investment and address spending needs in education, R&D, vocational training and ageing related spending to prepare for the future.

Graph 2: CR, Economic forecast summary (May 2018)



AGRICULTURE & ENVIRONMENT

BUDVAR EXPORTED TO 76 STATES – 25. 5.

In 2017 the exports of Budvar<sup>22</sup> destined for 76 countries increased by 1.5% y-o-y<sup>23</sup> to more than 990,000hl<sup>24</sup> of beer. Overall production fell by 4% to 1.55mn hl. Lager sales increased by 2%. During 2017 the brewery was unable to satisfy all demand, as a result not only of restricted production capacities and congestion of lines but also due to an ongoing lack of employees. In 2018 Budvar will commence construction of a building for a new bottling plant and production capacities for main fermentation. The final phase of the development plan will be a new brewhouse. Once all planned investments worth roughly CZK2bn<sup>25</sup> are completed, annual production of the brewery will increase by one quarter to 2mn hl.

AGRICULTURAL FIRMS INVESTING IN AUTOMATION – 25. 5.

A total of 57% of agricultural companies have invested in automation and robotisation over the past ten years, according to a survey of Trexima company, with the cooperation of the ACCR<sup>26</sup> and TUs<sup>27</sup> in the field. Despite such investments, agricultural companies deal with a lack of employees, ACCR said adding that companies do not want to invest any more as they would not have people to operate the machinery.

<sup>21</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>22</sup> Budějovický Budvar: a Czech brewery, headquartered in České Budějovice, CR. Budweiser Budvar Brewery is a state-owned company in charge of Ministry of Agriculture, known for brewing a beer known as Budweiser Budvar, brewed in accordance with the 1516 Reinheitsgebot law, using water, barley and hops. The original Budweiser Bier was founded in 1871. A dispute has been ongoing since 1907 with American brewer Anheuser-Busch InBev over the name "Budweiser". In the United States, Canada, Mexico, Panama, Brazil and Peru, the Budvar beer is marketed as Czechvar. In other countries, it is sold as Budweiser Budvar. American Budweiser is labelled as Bud in all European Union markets, except for the United Kingdom, Ireland and Sweden, where both beers are sold as Budweiser. On 29 July 2010, Anheuser-Busch

lost its last-instance appeal, which means that Anheuser-Busch may not register the name Budweiser as an EU-wide trademark for beer. Budweiser Budvar is one of the highest selling beers in the Czech Republic in 2014, it was exported into approximately 66 countries. It is the bestselling imported beer in Germany and the bestselling Czech beer in Austria and Great Britain.

There should be cuts in costs thanks to technology, however, all agricultural association cannot confirm that. Costs of servicing, maintenance and updates are high. Robotisation in agriculture does not save money but it is necessary as the sector lacks employees.

Agriculture is short of 10,000-15,000 workers, ACCR said. Another 1/3 of employees can retire within the next decade. Young people will not replace them as only a small part of agricultural schools' graduates actually go and work in the field, it said.

Companies cannot provide good salaries, with agriculture's median wage being around CZK23,000 in 2016. The CR's average wage was CZK31,646 in Q4<sup>28</sup> 2017.

Investments are driven by an attempt to improve production and increase effectiveness (72%), by trying to keep up with the latest trends (50%), and the fact that companies are having difficulties getting suitable employees (almost 20%), according to the survey carried out in February and March.

A total of 70% of companies' investments go in navigation systems.

Workers from Ukraine and Mongolia could help companies, however, their inflow is slow, according to the ACCR.

In 2016, the number of people working in agriculture decreased annually by 0.7% to 100,200, accounting for 1.9% of the overall employment.

FLOOD DAMAGE EXPECTED TO REACH MILLIONS – 26. 5.

Insurance companies say the damage caused by flash floods last week is likely to reach CZK tens of millions.

Insurers say hundreds of insurance claims were made in the course of May 24 and more are expected in the coming days, since many people and institutions were engaged in emergency clean-up work and are only now taking stock of the damage.

Flash floods hit dozen of towns and villages in the central, southern and western parts of Bohemia.

LIDOVÉ NOVINY SPREADING BARK BEETLE – 28. 5.

Not only climate change and draught are to blame for the bark-beetle calamity in the CR, but also logging and wood-processing firms that store the infested timber and transport it, spreading the beetle all over the country.

Experts dealing with forest protection, said trucks and freight trains with the infested logs should not make stops on their way.

If such a train makes a stop for half a day because the railway is crowded or if the truck driver stops to have dinner, bark beetles may emerge from their pupa and fly out into the surrounding area.

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<sup>23</sup> Y-o-y: year on year, compared, compared with the corresponding month of preceding year

<sup>24</sup> hl: hectolitre, a unit of capacity equal to 100 liters

<sup>25</sup> bn: billion

<sup>26</sup> ACCR: Agrarian Chamber of the Czech Republic

<sup>27</sup> TU: Trade union, around 1/6 of all employees are union members in the CR.

<sup>28</sup> Q: \* quarter of the year



The infested wood may be transported only if bark beetles are in the stages of eggs or larvae. If the life cycle moves on to the stages of pupas or beetles, the wood must not leave its location unless it is decontaminated.

"The transport of bark-beetle timber all over the CR is absolute nonsense," experts said. Only wood that was decontaminated should be transported to other areas.

The infested logs were usually cleaned close to the places where the trees had been cut, but wood-processing firms from far away bought the infested logs in recent years.

In the 1980s, one of the measures adopted to stop a bark-beetle calamity was to take the contaminated trees away from the forest. But then the logs were moved to the nearest storage area up to 20km away, while now it is transported over long distances.

The whole Moravia, the eastern part of the CR, has been hit by the bark beetle due to mistakes in transport and wood-processing.

In the early 1990s, the bark beetles spread from northern Moravia. The infested logs were sent to other areas because the local sawmill did not manage to process them in time. In this case, the insect was not the European spruce bark beetle, the most common kind in the CR, but the double-spined bark beetle, which is resistant to many measures applied against the European spruce bark beetle.

The bark beetle also got to Moravia with timber that was transported from Russia to Vienna.

Experts say the spruce forests in northern Moravia may be irreversibly damaged and bark beetle may hit all the forests in the CR.

MA<sup>29</sup> Minister Milek, who is in charge of forest management, submitted a report on the bark-beetle calamity to the cabinet in early May. According to the report, the CR does not have enough railway cars to transport the wood.

The report writes that the life cycle of the bark beetle started 4 weeks earlier this spring, which was very warm. If 3mn m<sup>3</sup> of infested trees are not processed and cleaned, the bark-beetle calamity may markedly worsen in the H<sub>2</sub> 2018 and in the years to come, the report concluded.

The state-controlled forest management firm LČR<sup>30</sup> has been facing problems with lacking staff for a long time. Moreover, the demand for wood is not very high in CE<sup>31</sup>.

In 2017, 5.4mn m<sup>3</sup> of bark-beetle wood was logged. In total, 17mn m<sup>3</sup> of wood was logged in the CR last year.

<sup>29</sup> MA: Ministry of Agriculture

<sup>30</sup> LČR: Forests of the Czech Republic, state enterprise based in Hradec Kralove founded by the Ministry of Agriculture. LCR main activity is the management of the majority of forests (over 1.3 million ha), which are owned by the CR. Furthermore, the company is in charge of nearly 20,000 kilometres of small watercourses.

<sup>31</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

<sup>32</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>33</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

The CR can do entirely without electricity from coal-fired power plants in 2030, provided it develops solar and wind power sources, according to a model study of German company Energynautics for environmentalists and other organisations.

A special software was used to simulate a situation when electricity stops being generated from coal by 2030, while preserving heating plants.

The model included Temelín NPP<sup>32</sup> and Dukovany NPP<sup>33</sup> operating at their current capacity.

Based on the study's scenario, energy generated from renewable sources would increase significantly, with wind farms producing 2,050MW<sup>34</sup>, up from last year's 278MW, and photovoltaics making 5,500MW of energy, up from 2,100MW.

"It is a scenario of course, current trends do not suggest we would get there," Duha<sup>35</sup> said.

It is necessary to break through the stagnation of RES<sup>36</sup> for the scenario to come true, it said adding that it can happen very quickly with the right conditions.

When carrying out the study for the CR, Energynautics took into account the situation and trends in the surrounding European countries, especially Germany.

The simulation run for the Czech network showed a development during a year, counting with different day and seasonal consumption levels.

The study had 3 versions based on the extent of strengthening RES, and development in Germany.

The Czech network is currently ready for transmitting a large amount of energy, not hampering the integration of renewable sources, Energynautics said.

The CR would remain an energy exporter, according to the study.

The coal-fired power plants issue has been discussed as regards air quality and possible lifting of mining limits.

Environmentalists wanted the study to show whether it is necessary to worry about a blackout after coal-fired power stations shut down, and they consider the result hopeful.

ČEPS<sup>37</sup> envisages several different development scenarios, its strategy department said. ČEPS did not comment on the Energynautics study, as it wants to look into it first



#### ČEZ HAS LAUNCHED BATTERY PILOT IN TUŠIMICE – 25. 5.

The ČEZ has launched the preparatory phase of a project for a large-capacity battery system for storing energy. The device (a 3MW Li-ion battery) located at the power plant in Tušimice

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>34</sup> MW: 10<sup>6</sup> watts

<sup>35</sup> Duha: The Rainbow Movement - Friends of the Earth Czech Republic is an environmental movement in the Czech Republic. Hnutí DUHA is one of 30 national organisations represented in the Friends of the Earth Europe umbrella organisation, it has been its member since 1994.

<sup>36</sup> RES: renewable sources

<sup>37</sup> ČEPS: an exclusive operator of the power grid in the CR based on a licence from the ERU. It maintains, upgrades and develops 41 substations with 71 transformers. ČEPS's power network is now over 5,000 km long. The company is fully owned by the state via the MIT.

will as of 2019 be used as part of a pilot as well as to test various regimes for provision of support services. This will thus also lead to the further use of extensive power plant property without any impact on occupation of farmland.

#### **CIA** LEO EXPRESS WILL TRAVEL TO POLAND – 25. 5.

For summer 2018 Leo Express<sup>38</sup> is preparing entry into Poland. After a 2-year administrative process, the transporter has had its travel schedule approved. It is currently waiting for the last step by the UTK<sup>39</sup>, which will allow Leo Express trains to enter Poland. The company is also leading talks with other regions in the CR about entry on to regional rails. At present it offers its commercial bus and train lines in 10 regions. The transporter will gradually submit offers for the takeover of regional transport after 2019. Leo Express has already submitted a concrete bid for servicing Prague suburban line S41.

#### **CIA** ŠKODA AUTO WILL INTRODUCE SUPERB – 25. 5.

Škoda Auto<sup>40</sup> is preparing the introduction of the Superb with a plug-in engine, the electric version of the Citigo with a range of 300 km and more vehicles with hybrid engines. The company could expect challenging times related with the development of the connectivity and the introduction of expensive technologies to comply with emission standards in 2020 at latest.

#### **E** INVESTMENT IN SECONDARY DISTRIBUTION BOARDS – 25. 5.

An exchange of electric distribution boards takes place during the shutdown of the Unit 1 of the Dukovany NPP. The original distribution boards were installed during the construction of the power plant and the company will exchange them for new ones. Technicians will exchange 278 technology fields for new ones, equipped with modern devices, in nearly 2 months. The company will conduct another 34 technology and investment events during the unit shutdown for the fuel exchange. The modernisation of the secondary distribution boards is among the most challenging projects. The preparation of the project with a scheduled completion in 2021 started in 2015. Total costs will reach CZK420mn.

<sup>38</sup> **Leo Express:** is an open-access train operator set up in 2010. It launched inter-city services in November 2012 on the Prague–Ostrava route, on which CD and RegioJet (open-access train operator) were already running trains. In 2013 LEO Express became the first private railway operator introducing direct connection between Prague and South Moravian Region.

<sup>39</sup> **UTK:** Polish rail authority

<sup>40</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>41</sup> **AIA:** Automotive Industry Association (AutoSAP), an interest industrial grouping of the manufacturing, commercial and other companies which make up the Czech automotive and allied industries. AIA represents companies making up nearly 90% of the Czech automotive industry. Their share in total industrial production posted an annual rise of 1% to 22%.

<sup>42</sup> **LUV:** light utility vehicle

<sup>43</sup> **Hyundai CZ:** Hyundai Motor Manufacturing Czech based in the Industrial Zone of Nošovice was founded in 2006.

<sup>44</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.

#### **CIA** 497,208 ROAD VEHICLES PRODUCED BY APRIL – 25. 5.

According to the AIA<sup>41</sup>, the number of road motor vehicles manufactured in the CR in the January to April 2018 period fell 0.69% y-o-y to 497,208. Of this total, production of passenger cars and LUV<sup>42</sup> totaled 495,039 (▲0.62%). A total of 457,596 vehicles were destined for export. Škoda Auto accounted for the largest share of production (312,407; +3.67%). It was followed by Hyundai<sup>43</sup> (111,400; ▲10.88%) and TPCA<sup>44</sup> (71,232; ▲0.76%).

#### **ERO** GROSS CONSUMPTION OF ELECTRICITY GROWS – 25. 5.

The consumption of electricity in the CR increased 1.9% y-o-y to 73.8TWh<sup>45</sup> in 2017.

This represents the highest value at least since 1981, since when the ERO<sup>46</sup> has available data. The growth in the consumption reflects primarily the development of the economy.

It is also important that the decrease in the production of electricity registered in previous years stopped.

The total (gross) production of electricity reached 87TWh (+4.5%).

ERO also informed that the consumption in the gas industry increased 3.3% to 8.53bn m<sup>3</sup> and the production of heat reached nearly 170PJ<sup>47</sup>.

#### **E** TEMELÍN FILLS UP TWO-YEAR FUEL RESERVE – 29. 5.

Temelín NPP has acquired 78 fuel sets from Russian corporation TVEL<sup>48</sup> in 2018. ČEZ has thus filled up the nuclear fuel reserves in Temelín.

The utility has held the reserves at levels sufficient for 2 years since 2016. The Dukovany NPP is also holding fuel reserves.

One reactor in Temelín holds 163 fuel sets. Each set is over 4.5m long and weighs 750 kg. Each reactor thus holds totally 86 tons of fuel.

The fuel remains in the active zone usually for 4 years and ¼ is thus exchanged every year.

#### **CIA** FLIGHTS FROM PRAGUE TO HEATHROW – 29. 5.

British Airways announced the addition of an additional frequency from Prague to London Heathrow Airport during the winter flight schedule 2018/2019. The total number of flights will increase to 34 from 27 per week. The new connection will be added as of October 28, 2018 daily except

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

<sup>46</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>47</sup> **PJ:** The petajoule (PJ) is equal to one quadrillion (10<sup>15</sup>) joules. The joule is a derived unit of energy in the International System of Units. It is equal to the energy transferred to (or work done on) an object when a force of one newton acts on that object in the direction of its motion through a distance of one metre (1 newton metre or N·m). It is also the energy dissipated as heat when an electric current of one ampere passes through a resistance of one ohm for one second. In terms firstly of base SI units and then in terms of other SI units: J=kg\*m<sup>2</sup>/s<sup>2</sup>=N\*m=Pa\*M<sup>3</sup>=W\*s=C\*v, where kg is the kilogram, m is the metre, s is the second, N is the newton, Pa is the pascal, W is the watt, C is the coulomb, and V is the volt.

<sup>48</sup> **TVEL:** a Russian nuclear fuel cycle company headquartered in Moscow. It belongs to the Atomenergoprom holding company

Saturdays. The reason is the increasing demand of passengers.

#### DECISION ON GAS SUPPLY PRICES FOR 2019 – 29. 5.

The ERO published Decision 1/2018 setting fixed prices for the booked transmission capacity at entry and exit border points of the transmission system for the year 2019. The price decision will make it possible to set regulated gas transport prices with effect before the annual auction of transmission capacity, which is set for July 2, 2018. This price decision is effective from January 1, 2019.

### LABOUR & HEALTH & SOCIAL

#### INCREASING ADDITIONAL PAYMENT FOR NURSES – 25. 5.

The Cabinet will consider increasing the additional payment for nurses working shifts from the current CZK3,000 to CZK7,000, stated after a meeting with hospital representatives by PMBabiš and MH<sup>49</sup> Minister Vojtěch. As part of the discussion hospital directors confirmed that they support the competence of hospitals to decide directly about salary increases more than a national increase in tariffs.

#### EMPLOYEES PAID FROM STATE BUDGET – 27. 5.

Czech ministries, offices and their subsidised organisations employ 453,400 people this year, which is roughly 8,000 more y-o-y, with the number concerning jobs for which budget money has been set aside, the MF said.

The figure includes 167,000 teachers, which is the largest number, some 64,000 non-teaching workers in education, 55,000 people in armed forces, and nearly 25,000 soldiers.

A total of CZK251.4bn should be allocated for wages from this year's budget, excluding the EU money, which accounts for 18% of all expenditures.

The social and health insurance payment rate of Czech employers is the 2<sup>nd</sup> highest among the OECD countries, reaching 34%. France is 1<sup>st</sup> with 36.6%.

#### ČSSZ REGISTERED SICKNESS LEAVES IN Q1 – 28. 5.

The ČSSZ<sup>50</sup> registered 595,881 terminated temporary sickness leaves in Q1 2018, up almost 30,000 y-o-y. On the average, people were sick for 33.20 days, down 3 days y-o-y. The highest portion of people on a sickness leave were from the 40-49 years group. The longest average treatment period was registered in the 60+ group (49.06 days).

<sup>49</sup> MH: Ministry of Health

<sup>50</sup> ČSSZ: Czech Social Security Administration

<sup>51</sup> ChD: Chamber of Deputies, is the lower house of the bicameral Parliament of the CR. The seat of the Chamber of Deputies is Thun Palace in Malá Strana, Prague.

<sup>52</sup> ČSSD: Czech Social Democratic Party, centre-left party

<sup>53</sup> ANO: ANO 2011, centre-right party

<sup>54</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>55</sup> Rainbow Wisdom: a company controlled by CITIC

<sup>56</sup> CITIC: CITIC Group Corporation Ltd., formerly the China International Trust Investment Corporation, is a state-owned investment company of the People's Republic of China, established in 1979. Its headquarters are in Chaoyang District, Beijing. As of 2017, it is one of China's biggest conglomerates, with one of the largest foreign assets in the world.

<sup>57</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



#### CANCELING A WAITING PERIOD – 30. 5.

The ChD<sup>51</sup> gave a chance to ČSSD's<sup>52</sup> proposal on restoring payments of the 1<sup>st</sup> 3 days of illness. The amendment to the Labor Code has passed the vote on rejection as requested by the ODS and is now being examined by the Social and Economic Committee. The draft concerns not only employees but also, for example, soldiers, police officers, firemen and members of other security forces.

The cancellation of the deferment period is also in the program statement of the possible ANO<sup>53</sup> and ČSSD minority Cabinet. Reimbursement should start from the document by July next year, patients should receive 60% of salary. The Cabinet should also discuss the possibility of compensation to employers.

### INVESTMENTS & TRADE & SERVICES



#### CITIC GROUP TO BUY J&T'S CLAIMS ON CEFC – 28. 5.

Representatives of J&T<sup>54</sup>, J&T Private Investments and Rainbow Wisdom<sup>55</sup>, companies managed by CITIC<sup>56</sup>, have entered into an agreement about the sale of claims and mutual cooperation. As part of the agreement Rainbow Wisdom will buy from J&T all claims on companies from the CEFC<sup>57</sup>.

The crisis management team put in place by J&T will be removed.

Once all subsequent transaction are completed, company Rainbow Wisdom will be a shareholder with 9.9 % and the holder of perpetual certificates of J&T Finance Group.



#### MIT TO PROMOTE PARTICIPATION IN FAIR IN CHINA – 28. 5.

The MIT<sup>58</sup> wants to provide financial aid to boost the Czech firms' participation in a trade fair that will take place in China in November, planning to submit the relevant proposal to the Cabinet in June.

The 1<sup>st</sup> China International Import Expo will be held in Shanghai from November 5 to November 10, 2018. Firms will pay CZK49,000 for their participation in the event. Filipova did not specify the portion of the sum that might be covered by the MIT.

President Zeman will attend the trade fair along with a business delegation that will comprise representatives of several tens of Czech companies.



#### CCC PROPOSES 2 TYPES OF INVESTMENT INCENTIVES – 29. 5.

The CCC<sup>59</sup> wants to influence how and to whom the state provides investment incentives. According to the CCC, the

Shanghai, China. CEFC China has picked the CR as the main seat for its European activities. Since September 2015, it has bought into Czech beer maker Pivovary Lobkowicz Group (PLG), J&T Finance Group, engineering company Zdas, air carrier Travel Service, online seller of trips Invia.cz, media group Medea Group, publishing house Empresa Media and television group Barrandov. CEFC also owns two five-star Prague hotels - Mandarin Oriental Prague and Le Palais Art Hotel Prague and a historic building of former Zivnobanka in Prague centre, and Martinický palác at Hradčany. It is also the majority owner of soccer club Slavia Praha. In 2017, CEFC bought a 14.16 % stake in Russia's largest oil producer Rosneft for about \$9 billion. In 2018, after its chairman Ye was detained for questioning on the order of the Chinese president Xi Jinping, South China Morning Post reported that "Shanghai Guosheng Group, a portfolio and investment agency controlled by Shanghai's municipal government, had taken control of CEFC China Energy

<sup>58</sup> MIT: Ministry of Industry and Trade

<sup>59</sup> CCC: Czech Chamber of Commerce (also HK ČR in Czech), is an organisation which represents the business community in the Czech Republic and is an essential part of the Czech business environment. The chamber's competencies are defined by Act No. 301/1992 Coll., on the Czech Chamber of Commerce and the Czech Chamber of

state should cease to treat investment incentives as an instrument of internal cohesion policy that compensates for territorial differences. Cohesion instruments should be dealt with separately. CCC therefore proposes the introduction of incentives of 2 types. The 1<sup>st</sup> would be innovation-oriented support with the highest added value irrespective of location. The latter would serve as a compensatory tool to offset extraordinary local problems.

#### LIDOVÉ NOVINY CZECH BUSINESS TRIP TO IRAN POSTPONED – 29. 5.

MIT Minister Hüner will not go to Iran with representatives of Czech firms in late June since the visit has been indefinitely postponed over the development related to the American sanctions against Iran.

"The MFA<sup>60</sup> did not recommend the trip to Iran on the planned date in June," Hüner said. "The postponement of the trip was approved after an agreement of the foreign and trade ministers with regard to the development around the USA sanctions against Iran," MFA said.

The companies that export to Iran or want to invest there plunged into uncertainty following the USA decision to withdraw from the nuclear deal with Iran. The USA has made it clear that those who would keep trading with Iran may face sanctions. This also applies to the CR.

The CI<sup>61</sup> that invited Czech firms to the planned visit to Iran eventually supported the postponement, too.

Mr. Lukáš, who heads the CI's international section, said the EC is very likely to back Czech and EU firms but it is still unclear how the support will look like and how the negotiations will be developing. "This is why we supported the postponement of the (business) mission (to Iran) by let's say 3 to 6 months until the situation gets clear," he said.

MFA Deputy Minister Tlapa said there were 3 possible ways in which the situation between Europe and the USA in relation to the sanctions against Iran may develop.

1<sup>st</sup>, the EU will negotiate an exemption from the American sanctions. Tlapa said statements by EC's President Juncker indicated that the EC was trying to find a legal framework within which companies that do business with Iran would not be sanctioned. But the USA seems unwilling to show understanding for the European business activities in Iran.

Shortly after USA President Donald Trump announced on May 8 that his country withdraws from the nuclear deal with Iran, the new USA ambassador to Berlin, Richard Grenell, tweeted that German companies should leave Iran as soon as possible.

USA Secretary of State Mike Pompeo threatened last week that the USA would exert an unprecedented financial pressure on Iran. The sanctions are to concern banks, oil industry, car makers and the manufacturing industry.

Agriculture. It is organised into two sections - region and industry-based chamber networks. The region-based network is broken down into district, area and Region chambers of commerce. The industry-based network is made up of business communities divided into four professional associations: Retail and tourism; Industry and transport; Business services and other; and Construction, technical crafts and technical equipment. It protects the interests of its members - small, mid-sized and large companies that are in the region-based chamber network and business communities. The Czech Chamber of Commerce has over 13,000 members organised in 65 regional and 83 industry subdivisions. Membership of the Czech Chamber of Commerce is voluntary.

<sup>60</sup> MFA: Ministry of Foreign Affairs

<sup>61</sup> CI: Confederation of Industry, Svaz průmyslu a dopravy, is an employer association in the Czech Republic founded in 1990. It is non-governmental, independent organization

2<sup>nd</sup>, the USA sanctions would also apply to 3<sup>rd</sup> parties, or companies trading with Iran as well as with the USA. This would increase the tension between America and Europe because a number of firms from Europe started investing in Iran after the sanctions were lifted in January 2016, Tlapa said.

This would harm firms like the Total and Shell oil companies, VW, Renault and Peugeot car makers, Airbus and Boeing aircraft producers, and Siemens industrial manufacturing company.

Last autumn, the Czech firm Ostroj signed a contract for the construction of a black-coal mine in Iran worth CZK tens of millions.

Czech and European firms can hardly find a bank that would finance the trading with Iran these days because the USA can exert pressure on European banks. No bank in the CR is ready to finance exports to Iran and Czech exporters address Austrian, German and even Russian banks.

On the other hand, Iran is calling on the EU to offer it a series of economic measures that will compensate for the USA withdrawal from the nuclear deal signed in 2015, including maintaining trade with European banks and continuing to buy Iranian oil. Unless this happens, Iran threatens to return to its nuclear programme.

3<sup>rd</sup>, the EU and the USA may agree on that Trump will negotiate with Iran about a diplomatic solution to the dispute and include in it other issues such as the Iranian ballistic missile programme and support for Syria, Tlapa said. But the USA demands are unacceptable for Iran and the EU has not withdrawn from the nuclear deal, he added.

In January 2016, MIT Minister Mládek visited Iran, accompanied by representatives of about 60 firms. The Czech business delegation to Iran, originally scheduled for June, was to be smaller, including representatives of a dozen firms.



#### HOME CREDIT SINKS IN CHINA – 30. 5.

Home Credit group, a consumer loan provider, made a €31mn loss in Q1 2018, plunging from a €80mn profit annually, which was caused by the turbulent development on the Chinese consumer loan market, the company said.

Another reason for the business result was a change in the Chinese regulatory environment, Home Credit, a unit of PPF<sup>62</sup>, said. The company provided €4.4bn worth of new loans, with the volume growing by 2.6%, and by 28.4% excluding China.

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.

<sup>62</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.

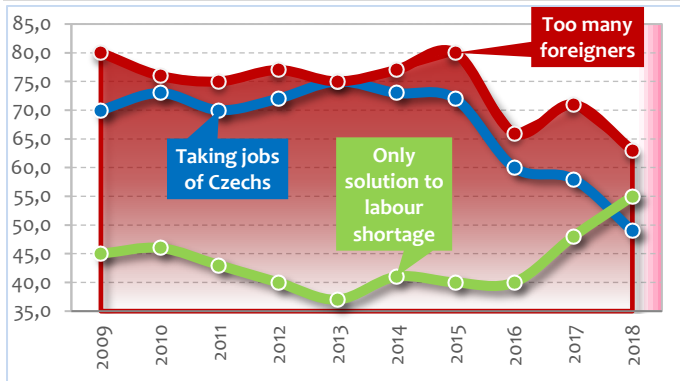
MISCELLANEOUS

**CZECHS READIER TO ACCEPT FOREIGN WORKERS – 23.5.**

The proportion of the Czechs ready to accept working foreigners as they may be the only solution to the problem of the shortage of manpower rose to 55% over the past 2 years, according to a poll conducted by the STEM<sup>63</sup>.

Before 2016, this view was only held by 1/3 of Czechs. The proportion of those believing that foreigners deprive Czechs of work has been correspondingly falling.

Graph 3: Foreigners in the CR, 2009 – 2018 (in %)



However, there is still the predominant view that too many foreigners work in the CR. This year, the view was expressed by 63%, while it was the record 80% in 2015.

In 2015, 72% of Czechs shared the view that foreigners deprive Czechs of work, but the figure declined to 49% by this year.

"In the long run, different attitudes than in the past seem to be prevailing in the assessment of the position of foreigners on the Czech labour market," STEM said. "The current situation on the Czech labour market with a very low jobless rate and the state of the Czech economy in general certainly play a role," they added.

It is of major importance that the weakening reluctance to accept foreign workers can be observed in all groups of attained education. "This suggests that this is a general transformation, not only any affair typical of a part of society," the STEM said.

In April, the national jobless rate was 3.2%, while it stood at 6.1% in March 2016. According to the data of the CSO<sup>64</sup>, in 2016, there were 493,400 foreigners in the CR, the highest number since 1993. Most of them were Ukrainians, followed by Slovaks and Vietnamese.

They mostly come to the CR for economic reasons. Ukrainians earn on average CZK21,300 a month here, while in Ukraine, the average salary is the equivalent of CZK5,000 to CZK6,000.

<sup>63</sup> STEM: Public Opinion Research company, private company focusing on statistical surveys of public opinion on various topics

<sup>64</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>65</sup> GDPR: EU General Data Protection Regulation, GDPR applies to all companies, state institutions, non-profit organisations and self-employed persons registering employees, members and customers. It is a regulation by which the European Parliament, the Council of the European Union and the European Commission intend to strengthen and unify data protection for all individuals within the European Union (EU). It also addresses the export of personal data outside the EU. The GDPR aims primarily

**30% OF FIRMS WANT INCREASE LABOUR PRODUCTIVITY – 24.5.**

A total of 91% of engineering companies plan to take the necessary steps in 2018 to increase labour productivity.

Some 30% of companies plan to achieve this through investments, 13% through reorganization, and 48% of CEOs said they planned to increase both investments and reorganize their production.

Companies hope to increase labour productivity by an average of 10% with these steps, a study by CEEC Research has shown.

**BABIŠ PM REGARDLESS OF ČSSD REFERENDUM – 24.5.**

President Zeman will appoint ANO's chairman Babiš the PM regardless of the outcome of ČSSD's intra-party referendum on potential participation in the government with ANO. According to the President, the Cabinet could realistically be formed in late June/early July. He does not snap election, even though they could help reduce the no. of parties elected into the ChD.

**IMD WORLD COMPETIVENESS RANKING – 25.5.**

The CR occupies the 29<sup>th</sup> position in the IMD World Competiveness Ranking 2018. This represents an annual deterioration by one position. Slovakia currently ranks 55<sup>th</sup> (2017: 51<sup>st</sup> position).

The ranking includes 63 economies. Ranked 1<sup>st</sup> is the USA followed by Hong Kong and Singapore.

**ENTREPRENEURS TO PAY TO INTRODUCE GDPR – 25.5.**

Entrepreneurs have paid and will still pay roughly €25 bn to introduce measures related to the GDPR<sup>65</sup> directive on personal data protection.

This is based on calculations by the CCC. Most companies will spend up to CZK50,000 on the GDPR. Each of more than 1/3 of large companies (with more than 250 employees) has spent more than CZK500,000 on measures. 1/3 of companies with up to 10 employees said that they have no expenditures as they have not prepared specifically for the GDPR.

**ANO HAS NO PLAN B – 27.5.**

The ANO party does not have a Plan B in the event that the ČSSD rejects entering into a coalition with it in their party referendum, ANO deputy leader Brabec said.

He rejected the idea that the party was ready to fall back on a minority government supported by the SPD<sup>66</sup> and the KSČM<sup>67</sup>, saying that finding common ground with the anti-migrant, anti-EU SPD would not be easy.

He said that should such a scenario emerge the party would have to decide between this option and early elections.

to give control back to citizens and residents over their personal data and to simplify the regulatory environment for international business by unifying the regulation within the EU. When the GDPR takes effect, it will replace the data protection directive (officially Directive 95/46/EC) of 1995. The regulation was adopted on 27 April 2016. It becomes enforceable from 25 May 2018 after a two-year transition period and, unlike a directive, it does not require national governments to pass any enabling legislation, and is thus directly binding and applicable.

<sup>66</sup> SPD: Freedom and Direct Democracy, an eurosceptic, and pro-direct democracy political party in the CR. The party was founded in May 2015 by Tomio Okamura and Radim Fiala after a split of a few MPs from the Dawn of Direct Democracy, now Dawn - National Coalition

<sup>67</sup> KSČM: Communist Party of Bohemia and Moravia, far-left party



### ☰ SMOKING BAN SUPPORTED BY 71% OF CZECHS – 28. 5.

A tough smoking ban in pubs and restaurants, which went into force a year ago, is supported by 71% of Czechs, according to the results of a poll carried out by the Ipsos. 12% of respondents were vehemently against the ban. Surveys suggest that around a ¼ of Czechs still smoke.

The CC<sup>68</sup> recently rejected a complaint against the smoking ban on the grounds that it restricted the rights of individuals and entrepreneurs. A recent move to soften the ban in ChD also failed.

### CTK CZECHS SAVE ACTIVELY FOR OLD-AGE PENSION – 28. 5.

Around 70% of Czechs actively save for their old-age pension and 90% of them use private pension insurance, according to the Profi Credit survey.

Some 7 out of 10 Czechs are responsible and do not rely solely on state pension. Good economic situation and permanently growing wages contribute to the trend.

Private pension insurance is the most popular product in this respect. Further products mentioned in the survey were home-building saving (21%), investment life insurance (18%) capital life insurance (17%) and saving of money (14%). A number of people combine more forms of savings.

Growing interest in loans is linked with the stable economic situation and improving payment discipline. Over ⅓ of the respondents admitted that they have also another loan than a mortgage loan.

People borrow money the most frequently for household equipment (36%), buying a car (32%) and electronics (29%).

Over a ½ of the respondents (57%) have only 1 loan, 29% have 2 loans and 14% have 3 or more loans.

Some 18% of the respondents admitted that they live from hand to mouth and cannot save anything from their income. These people take a loan also for current spending (18% of those who have a loan) or even for the payment of another loan (17%). A typical loan applicant is a single person aged 39 years. Monday is the most frequent day when people apply for a loan.

### CTK CZECH JUDICIARY GOOD IN EU COMPARISON – 28. 5.

The legal system in CR arises as good from a comparison with other EU countries, Jourová, the Czech European Commissioner for Justice, Consumers and Gender Equality, said. She unveiled an overview of the state of the judiciary in the EU countries.

It emerges from it that the perception of independence of judicial systems by businesspeople has improved in ⅔ of the EU countries since 2010.

Both companies and individuals cited the interventions or pressure by the government and politicians as the main reason for their mistrust in the independence of courts and judges.

<sup>68</sup> CC: Constitutional Court of the Czech Republic; is a specialized type of court which primarily works to protect the people in the Czech Republic against violations of the Constitution by either the legislature, government or by any other subject that violates people's constitutional rights and freedoms. In this respect, it is similar in functionality to the US Supreme Court, but is distinct from the Supreme Court of the Czech Republic. Of all the various levels of the Czech Judiciary it is the one created with the greatest specificity in the constitution. The decisions of the Court are final, cannot be overturned and are considered being a source of law, similar to precedents in a common law system.

People and companies trust most the independence of the judiciary in Denmark, while the judiciary has the worst reputation in Croatia and Slovakia.

In the CR, 51% of people and 39% of the companies trust fully or fairly the independence of the judiciary.

Czech judges themselves gave the high mark of 9.2 to the independence of the judiciary on the 0-10 scale.

Jourová said the length of the proceedings should be shortened in the CR.

"People much complain about this and our figures, too, show that the civil proceedings in particular are very long," she added.

The Czech judiciary should adopt the experience of other countries that use IT much more, Jourová said.

In 2016, the average length of the 1<sup>st</sup> instance proceedings was 155 days in the CR, while it was 21 days in Denmark.

### GIA ZEMAN TO APPOINT BABIŠ PM BEFORE JUNE 15 – 29. 5.

President Zeman will appoint Andrej Babiš the PM again before June 15, 2018. The President said on May 28, 2018, that he would not wait for the result of ČSSD's referendum on joining the coalition with ANO supported by KSČM and added that he wants to accelerate the formation of the new government.

### ☰ PM CONFIRMS TARGET TO NAME GOVERNMENT – 30. 5.

PM Babiš confirmed he intends to submit the composition of his new Cabinet to President Zeman by the end of June. That target had previously been set with the aim of getting a full government in place 8 months after elections to ChD last October.

### ☰ SPD PARTY SIMILAR TO EXTREME RIGHT – 30. 5.

The SPD<sup>69</sup> expresses itself in a way similar to extreme right wing parties and share many views with them, according to a report into extremism by the MI<sup>70</sup>.

The report was leaked early on May 30 by the news server Aktualne.cz before having been given final approval by the interior minister or undergoing consultations with other ministries. Representatives of the SPD party said it was scandalous that parts of the report had come out in this way and denounced it as a move to discredit the party.

SPD won 22 seats in last year's elections to the 200-seat lower house making it jointly the 3<sup>rd</sup> biggest party in parliament. It ran on an anti-immigrant, anti-EU platform.

## STATISTICS



### FUEL PRICES – 25. 5.

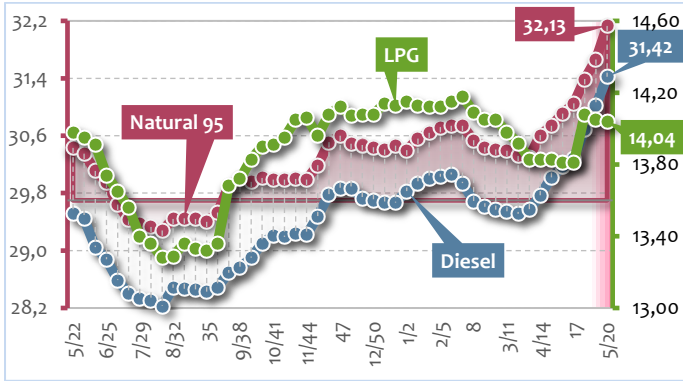
Natural 95 increased by 47h to CZK32.13/l<sup>71</sup> over the past week, Diesel oil increased by 40h to CZK31.42/l.

<sup>69</sup> SPD: Freedom and Direct Democracy, an eurosceptic, and pro-direct democracy political party in the CR. The party was founded in May 2015 by Tomio Okamura and Radim Fiala after a split of a few MPs from the Dawn of Direct Democracy, now Dawn - National Coalition

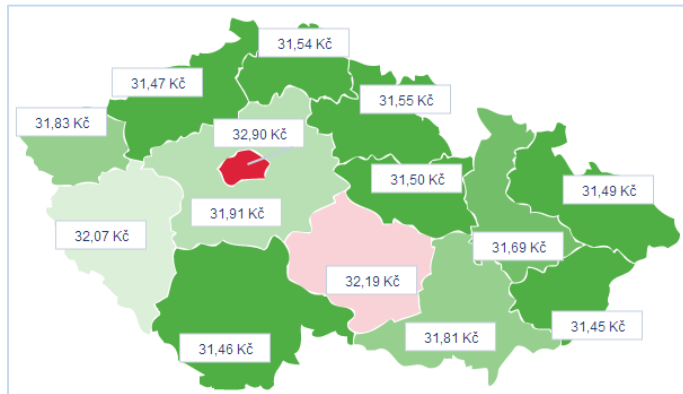
<sup>70</sup> MI: Ministry of the Interior

<sup>71</sup> l: litre

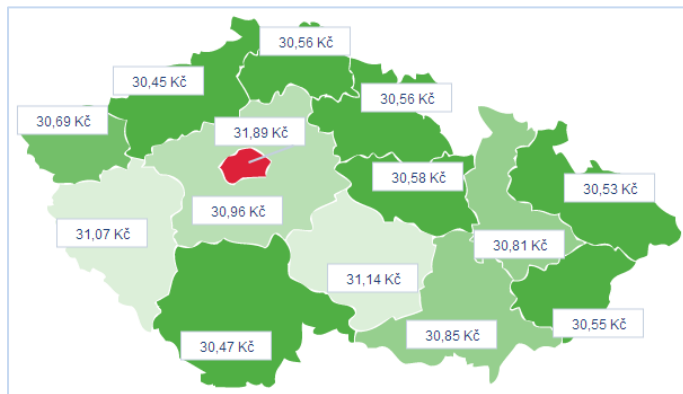
Graph 4: Average fuel prices<sup>72</sup>, 2017 – 2018, Month/Week (in CZK/l)



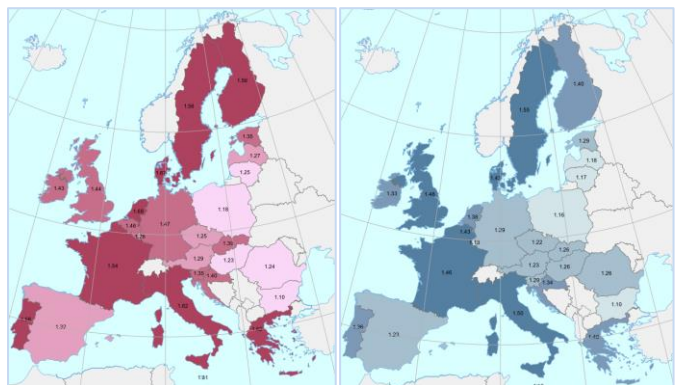
Map 1: Regions, fuel prices, Natural 95, 25. 5. (in CZK/l)<sup>73</sup>



Map 2: Regions, fuel prices, Diesel, 25. 5. (in CZK/l)



Map 3: EU, Average fuel prices, Natural 95, Diesel, 21. 5. (in €/l)<sup>74</sup>



<sup>72</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>73</sup> data issued by the mBenzin.cz; <https://www.penze.cz/ceny-benzinu-a-ceny-nafty>



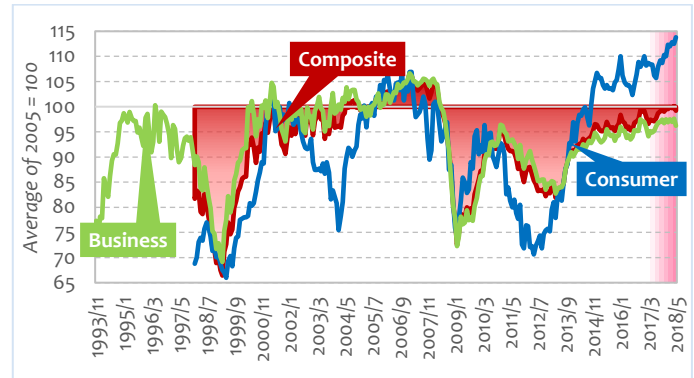
BUSINESS CYCLE SURVEY – 25. 5.

Overall confidence in economy decreased. The composite confidence indicator<sup>75</sup> decreased by ▲0.9 p. p.<sup>76</sup> to 99.2 m-o-m<sup>77</sup>.

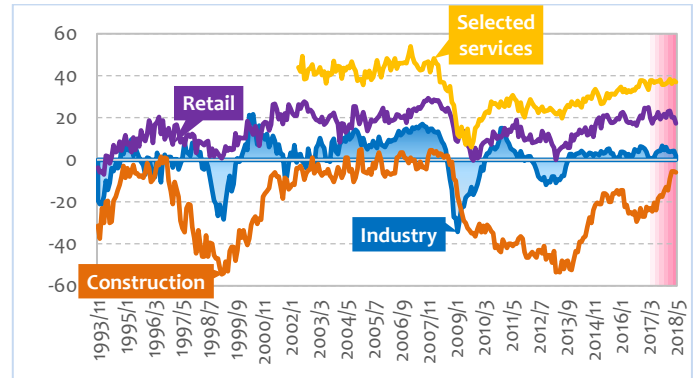
Confidence of entrepreneurs decreased by ▲1.4 p.p. to 96.2 compared to April. Consumer confidence indicator increased by 1.3 p.p. to 113.8, m-o-m.

Composite confidence indicator, entrepreneurs' confidence indicator and consumer confidence indicator are higher, compared to May 2017.

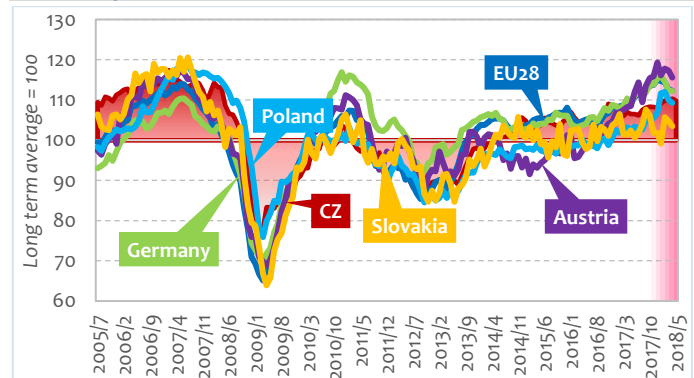
Graph 5: Confidence Indicators, SA, Overall, Basic Indices, 1993 – 2018



Graph 6: Confidence Indicators, SA, Sectors, Balances, 1993 – 2018



Graph 7: Confidence Indicators, Countries, 2005 – 2018



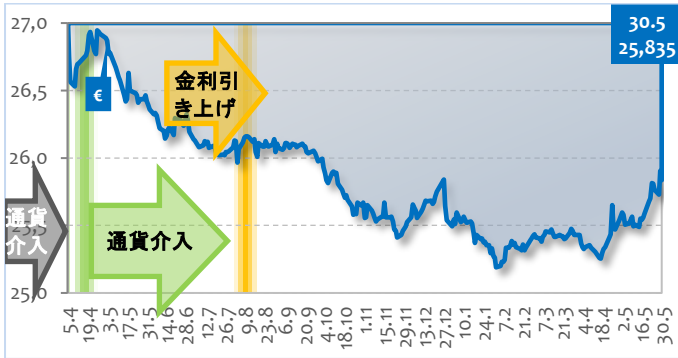
<sup>74</sup> data issued by the European Commission; <https://ec.europa.eu/energy/en/data-analysis/weekly-oil-bulletin>

<sup>75</sup> economic sentiment indicator, stated by basic indices

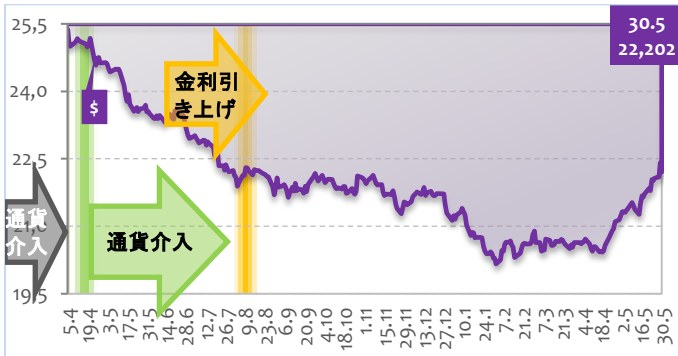
<sup>76</sup> P.p.: percentage point

<sup>77</sup> M-o-m: month-on-month

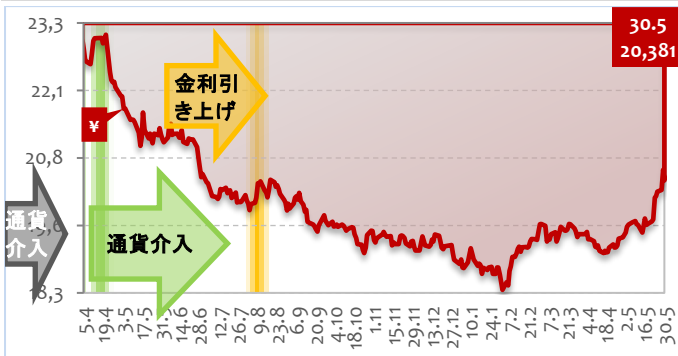
Graph 8: Exchange rates, CZK/€, 5. 4. 2017 – 30. 5. 2018



Graph 9: Exchange rates, CZK/\$, 5. 4. 2017 – 30. 5. 2018



Graph 10: Exchange rates, CZK/100¥, 5. 4. 2017 – 30. 5. 2018



News outside the time span of this News summary

- ČEZ Group
- CIA News (Česká informační agentura); an independent news agency, specialising in the Czech Republic's economy and markets.
- HKČR, Czech Chamber of Commerce (Hospodářská komora ČR)
- CEEMarketWatch, is a subscription-based analytical service, covering the emerging regions of Central and Eastern Europe, Euro zone periphery, Middle East, Africa and Latin America..
- ČNB, Czech National Bank (Česká národní banka)
- ČTK, Czech Press Agency (Česká tisková kancelář)



ČSÚ, Czech Statistical Office (Český statistický úřad)  
 ERÚ, Energy Regulatory Office (Energetický regulační úřad)  
 LN, Lidové noviny Daily; the publisher of the daily is Lidové noviny a.s., owned by Mafra a.s., that in 2013 became a subsidiary of the Agrofert group, a company owned by billionaire Andrej Babiš. Its internet version is server lidovky.cz  
 OECD; Organisation for Economic Co-operation and Development  
 Radio Prague (Český rozhlas); is the official international broadcasting station of the Czech Republic. Radio Prague broadcasts in six languages: English, German, French, Spanish, Czech and Russian. It broadcasts programmes about the Czech Republic on satellite and on the Internet. Broadcasting first began on August 31, 1936.