

ECONOMIC NEWS SUMMARY JUNE 28 – JULY 4

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ECONOMY & FINANCE

CIA ČNB COULD RAISE RATES AGAIN IN NOVEMBER – 28. 6.

According to the GI¹, the CNB² raised rates in a reaction on higher-than-expected inflation and a depreciation of the Czech currency. According to KB³, a further growth in the rates could come in November 2018. ING⁴ said the next decision on the growth in rates could come also at the monetary meeting in September.

CNB CZECH HOUSEHOLD DEBT UP IN MAY – 29. 6.

Czech household debt to banks increased by CZK11.9bn m-o-m to CZK⁵1,577bn⁶ in May, growing by CZK110bn in annual terms, according to data made public by the CNB. Corporate debt went up in both m-o-m⁷ and y-o-y⁸ terms in May.

Household debts have been steadily rising since February 2016, adding about CZK250bn over the period. Housing loans, mainly mortgages, constitute about ¾ of the total household debt to banks, the CNB said.

Housing and consumer loans posted a modest rise in May on the month.

Debts of companies changed more frequently compared to debts of households in recent years. Debts of non-financial enterprises have grown recently but their monthly and annual hikes differed from one another to a smaller degree than in case of households.

Debts of businesses posted m-o-m rise of CZK8.1bn to CZK1,064bn, being about CZK16bn higher annually.

CTK STATE DEBT FINANCING IN 2018 – 29. 6.

The MF⁹ will need CZK351.3bn to finance the state debt in 2018, the MF said. In December, the MF said it would need CZK351.6bn.

¹ GI: Generali Investments CEE, part of the Assicurazioni Generali S.p.A., an Italian insurance company, the largest in Italy and third in the world.

² 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.

³ KB: Komerční banka, the parent company of KB Group and is a member of the Société Générale international financial group. KB is a universal bank providing a wide range of services in retail, corporate and investment banking complemented by specialised financial services produced by KB's subsidiaries or other SG Group companies.

⁴ ING: the ING Group (International Netherlands Group), a Dutch multinational banking and financial services corporation headquartered in Amsterdam. Its primary businesses are retail banking, direct banking, commercial banking, investment banking, asset management, and insurance services.

⁵ CZK: Czech Crown, the currency of the CR since 8 February 1993

⁶ bn: billion

⁷ M-o-m: month on month, compared with preceding month

⁸ Y-o-y: year on year, compared, compared with the corresponding month of preceding year

⁹ MF: Ministry of Finance

¹⁰ H: Half of year

¹¹ 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**.

In 2019 and 2020, the MF will need CZK348.3bn and CZK283.7bn, respectively, according to the updated strategy. For this and coming years, the MF envisages a CZK50bn state budget gap.

The actual finances necessary will depend on the state budget performance and the amount of buy-backs and exchange operations of government bonds carried out in 2018.

The state might issue government bonds in foreign currency, provided the conditions are favourable, the document said. In H₂¹⁰ 2018, the MF envisages redemption of treasury bond for CZK74.4bn, savings government bond for CZK1.4bn, and reinvestment savings government bond for CZK8bn.

The state debt to GDP¹¹ ratio should drop from 32.1% in 2017 to 31.3% in 2018.

The Maastricht criteria¹² for joining the EA¹³ state that the debt-to-GDP ratio must not exceed 60%.

CTK CZECH STATE BUDGET ENDS IN DEFICIT IN JUNE – 2. 7.

The CR's¹⁴ state budget ran a deficit of CZK5.9bn at the end of June, a CZK10.5bn worse result than in the same period 2017, when there was a CZK4.6bn surplus, the MF said.

At the end of May 2018, the state budget showed a CZK23.1bn deficit. The state budget has been approved with a CZK50bn deficit for 2018.

Two main factors contribute to the y-o-y deterioration since April. The 1st is a CZK5.8bn transfer from April 2017 from the privatisation account to state budget revenues for covering the deficit of the pension insurance system.

The 2nd is April's CZK4.3bn transfer to the EGAP¹⁵ insurance funds, the MF said.

Adjusted for money from EU funds¹⁶, the state budget would have ended in a CZK28.8bn deficit.

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

¹² Maastricht criteria: The euro convergence criteria, the criteria which European Union member states are required to meet to enter the third stage of the Economic and Monetary Union (EMU) and adopt the euro as their currency. The four main criteria, which actually comprise five criteria as the "fiscal criterion" consists of both a "debt criterion" and a "deficit criterion", are based on Article 140 of the Treaty on the Functioning of the European Union.

¹³ 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.

¹⁴ CR: the Czech Republic, a nation state in Central Europe. The Czech Republic covers an area of 78,866 km² 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.

¹⁵ 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.

¹⁶ 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,

The size of total state budget revenues was positively influenced mainly by tax revenues, including social security payments which increased by CZK37.7bn y-o-y to CZK599.4bn. Total state budget expenditures reached CZK694bn and were CZK64.1bn higher than in the same period of 2017.

"The almost balanced budget hides weak investment expenditures which were unable to compensate the poor beginning of the year this month, either. The expenditures also lag significantly behind the approved plan," said Raiffeisen¹⁷. The positive news are faster investments financed from EU funds, it added.

State servants got paid CZK53.1bn in H1 2018, 14.2% more than in the same period of 2017, BH Securities remarked. "Spending on wages of state servants is beginning to get out of control, the number of office employees should be cut," it added.

VAT¹⁸ brought in CZK131.5bn, CZK6.1bn more y-o-y. Excise duty collection reached CZK73.1bn and was CZK0.6bn higher than at end-June 2017. Corporate income tax generated CZK64.8bn, down CZK0.7bn y-o-y.

In June alone, the state budget ended in a CZK17.2bn surplus, while in June 2017 the surplus reached CZK23.3bn.

The MF plans a CZK50bn deficit also in 2018. The approved state budget for 2017 was with a CZK60bn deficit, the real deficit reached CZK6.2bn.

AGRICULTURE & ENVIRONMENT

CIA CEREAL HARVEST TO BE UP TO 25% BELOW AVERAGE – 28. 6.

The total cereal harvest in 2018 will be 15-25% below the long-term average. The ACCR¹⁹ has stated that the amount and quality of production was affected adversely by long-term lack of precipitation and high temperatures. ACCR estimates the total winter colza harvest at 1.25mn²⁰ t²¹, down

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.

¹⁷ **Raiffeisenbank**: is a member of Austrian Raiffeisen Group that also offers products and services in the Czech Republic in the area of building savings (Raiffeisen stavební spořitelna), insurance (UNIQA pojišťovna) and leasing (Raiffeisen-Leasing, Raiffeisen-Leasing Real Estate). Raiffeisenbank has merged with eBanka, a.s., in 2008.

¹⁸ **VAT**: Value-added tax, a type of tax that is assessed incrementally, based on the increase in value of a product or service at each stage of production or distribution. VAT essentially compensates for the shared services and infrastructure provided in a certain locality by a state and funded by its taxpayers that were utilized in the elaboration of that product or service. Not all localities require VAT to be charged and goods and services for export may be exempted (duty free). VAT is usually implemented as a destination-based tax, where the tax rate is based on the location of the consumer and applied to the sales price.

¹⁹ **ACCR**: Agrarian Chamber of the Czech Republic, associates majority of entrepreneurs in agriculture, forestry and food processing industry. It provides advisory, consultation and legal services for its members. The Agrarian Chamber is non-governmental agricultural professional organization representing interests of more than 100 000 farmers, foresters, food processors, beekeepers etc.

²⁰ **mn**: million

²¹ **t**: tonne, metric ton is a non-SI metric unit of mass equal to 1000 kilograms

²² **ha**: hectare is a non-SI metric system unit of area equal to 10,000 m²

²³ **SMSČR**: Association of Local Governments (Sdružení místních samospráv ČR), is a non-governmental apolitical organization with a national competence that brings together and defends the interests of municipalities and towns in the Czech Republic.

²⁴ **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.

²⁵ **CTU**: Czech Technical University (České vysoké učení technické, ČVUT), is one of the largest universities in the Czech Republic, established as the Institute of Engineering Education in 1707. It is also the oldest non-military technical university in Europe. CTU currently has eight faculties (Civil Engineering, Mechanical Engineering, Electrical Engineering, Nuclear Science and Physical Engineering, Architecture, Transportation

moderately y-o-y. The yield will reach ca. 2.9-3.1t/ha²². The planted area totals ca. 400,000ha.

CIA CALLS TO COMBAT BARK BEETLE ACTIVELY – 4. 7.

The SMSČR²³ argues that the government's response to the bark beetle calamity is slow and insufficient. The SMSČR requests higher support and inspection of private forest owners. It has stated that municipalities that own ca. 17% of all forests in CR are unable to fight with the calamity from their own funds and sufficiently in time.

ENERGY & INDUSTRY & TRANSPORT

CIA ŠKODA AUTO'S CAR SHARING PLATFORM UNIQWAY – 29. 6.

Škoda Auto²⁴ and Škoda Auto DigiLab have created the conditions for implementation of a unique pan-European platform for car sharing, Uniqway. Students from the CTU²⁵, the CULS²⁶ and the VŠE²⁷ helped create the mobile service. Škoda will provide 15 Fabia Style vehicles for implementation of the project. The pilot will commence in Prague at the start of July 2018.

CIA PRAZDROJ'S DAILY SALES UP – 29. 6.

Daily beer sales in the CR for the long weekend in early May 2018 in the CR reached 45,000hl²⁸, said Prazdroj²⁹. It added that this is a record volume that is otherwise only achieved on hottest mid-summer days of the summit. Demand for beer was above-average over the whole of May. Prazdroj distributes beer to 2,000 seasonal establishments. The most successful outlets sell up to 150 hl per month.

CIA ŠKODA AUTO AND VW TO DEVELOP NEW A0 MODELS – 3. 7.

Škoda Auto and VW³⁰ will jointly develop new models in the A0 segment for the Indian market. An SUV³¹ in the A0

Sciences, Biomedical Engineering, Information Technology) and about 21,000 students across its bachelor, masters and doctoral programmes.

²⁶ **CULS**: Czech University of Life Sciences Prague (Česká zemědělská univerzita, ČZU), is a university of agricultural education and research in Prague, the Czech Republic, established in 1906. Currently the university has more than 18 000 students across its bachelor, masters and doctoral programmes, 6 Faculties (Faculty of Economics and Management; Faculty of Agrobiological Sciences, Food and Natural Resources; Faculty of Engineering; Faculty of Forestry and Wood Sciences; Faculty of Environmental Sciences; Faculty of Tropical AgriSciences) and 1 Institute (Institute of Education and Communication).

²⁷ **VŠE**: University of Economics, (Vysoká škola ekonomická v Praze, VŠE), is an economics and business-oriented public university located in Prague, Czech Republic. It is the largest university in the field of economics, business and information technology in the Czech Republic, with more than 15,000 students across its bachelor, masters and doctoral programmes. Currently has 6 Faculties (Faculty of Finance and Accounting, Faculty of International Relations, Faculty of Business Administration, Faculty of Informatics and Statistics, Faculty of Economics, Faculty of Management).

²⁸ **hl**: hectolitre, a unit of capacity equal to 100 litres

²⁹ **Plzeňský prazdroj a. s.**: a Czech brewery founded in 1842 and headquartered in Plzeň, CR. It is the 1st brewery to produce pilsener blond lager style beer, branded Pilsner Urquell, making it the inspiration for more than 2/3 of the beer produced in the world today, which are named pils, pilsner and pilsener. Both Plzeňský Prazdroj and Pilsner Urquell can be roughly translated into English as "the Fountainhead at Pilsen" or "the original source of Pilsner". With about a 45% market share, it is the largest beer making group in the CR. Its brands include Pilsner Urquell, Gambrinus, Velkopopovický kozel, Radegast, Birell and cider Kingswood. Plzensky Prazdroj sold a total amount of 10mn hectolitres of beer in 2015, roughly the same amount as in 2014. Pilsner Urquell sales on the domestic market and abroad topped 2mn hectolitres. Direct exports of the premium lager were 4.5% higher at 792,000 hectolitres.

³⁰ **VW**: Volkswagen is a German car manufacturer headquartered in Wolfsburg, Lower Saxony, Germany. Established in 1937, Volkswagen is the top-selling and namesake marque of the Volkswagen Group, the holding company created in 1975 for the growing company, and is now the second-largest auto maker in the world

³¹ **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

segment will be the 1st model in the India 2.0 project. The SUV will be presented in 2020. The technical development of new products will take place mainly in India in the new project centre, to ensure maximum proximity to the market. VW group will invest €1bn into the project, primarily between 2019 and 2021.

GIA SAAR GUMMI LAUNCHED PRODUCTION IN NEW HALL – 4. 7.

Saar³² has launched serial production in a new hall. It will produce sealing for Mercedes cars of A and B class and for BMW X3 and X4. The current investment in the hall represents nearly CZK300mn.

GIA ŠKODA POWER NEW COMPONENTS FOR TURBINES – 4. 7.

Škoda Power³³ is the coordinator of the FlexTurbine international partnership, which unites 21 industrial and academic partners from 7 European countries. It aims at developing new components for steam and gas turbines together, which will enable problem-free flexible use in the currently used power plants. The Czech team has focussed on the research of the so-called flutter in the area of aero-elastic instabilities. It consists of harmful transmission of energy of the circulating steam into the blade grid, the creation of resonance and development of mechanical damage of the turbine blades.

INVESTMENTS & TRADE & SERVICES

CTK STRENGTHENING EXPORT SUPPORT IN SAHEL, OMAN – 28. 6

The MFA³⁴ will extend its representative office in Sahel and strengthen support to Czech exporters in Oman and CzechTrade³⁵ will strengthen its representation in Argentina, their officials said.

"For the MFA, economic diplomacy is a priority. The annual evaluation of its representative offices in the economic agenda documents this - over 60% of its representative offices had the best rating, also thanks to very positive reactions of companies and business associations," said Deputy MFA Minister Tlapa.

The MFA said this week that 2 Czech general consulates would be opened in 2018. Their task will be, among other things, to support Czech exports. The CR will have new representative offices in Manchester and Milan.

include the towing capacity of a pickup truck with the passenger-carrying space of a minivan or large sedan.

³² **Saar:** SaarGummi Czech, manufacturer of rubber sealing systems for moving parts of automotive bodies, is a subsidiary of SaarGummi Group currently operating in 14 different countries, which is owned by CQLT (Chongqing Light Industrie and Textile (Co.) Ltd.), a 100% subsidiary of SASAC. SASAC (督管理委員會), State-owned Assets Supervision and Administration Commission, is a special commission of the People's Republic of China, directly under the State Council. It supervises and manages the state-owned assets of the enterprises under the supervision of the Central Government (excluding financial enterprises).

³³ **Škoda Power:** a Czech a subsidiary of the Doosan Group. It is an OEM steam turbine designer and manufacturer that provides systems, components and maintenance services to fossil and nuclear power generation plants, municipal waste-to-energy and biomass incineration plants, and any manufacturing or petrochemicals application that requires turbo generator technology.

³⁴ **MFA:** Ministry of Foreign Affairs

³⁵ **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.

³⁶ **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

"Foreign trade grapples with many tests this year, like US customs duties on steel, US withdrawal from agreement with Iran and European customs duties on imports of selected US products," said CI³⁶.

"At this time, stability of the whole export support and financing system is key. This is why this event is important, it can help significantly to exporters," it added.

CTK CZECH ARMS, MATERIEL EXPORTS DOWN – 28. 6.

Czech exports of arms and military equipment dropped from the record-breaking CZK18.2bn in 2016 to CZK15bn in 2017, according to an estimate of the DSIA³⁷.

Armament companies gained export licences worth over CZK20bn. 2017's decrease was thus caused merely by the length of sales, with many of them being carried out in 2018, the DSIA said.

Licences are usually granted for a longer period of time. In 2016, companies got 1,180 export licences.

Materiel³⁸ worth CZK1.66bn headed to Iraq, which was the largest amount, while CZK1.4bn worth of military equipment was exported to the UAE, and CZK1.15bn and CZK1.1bn worth of products went to Slovakia and Egypt, respectively.

In 2016, armament exports to countries outside the EU³⁹ totalled CZK3.4bn, with the biggest amount going to the USA, Canada and Thailand.

The CR's arms trade is diversified, DSIA said. No more than 10% of the overall volume heads to the biggest export territory.

There were 251 companies and 2 natural persons with foreign trade licences in the CR at the end of 2016.

Exports account for 90% of Czech armament companies' production. The share is 10-30% in other EU and NATO⁴⁰ states.

Table 1: Czech material export in 1999-2017 (CZK bn)

Year	Export volume	Year	Export volume	Year	Export volume	Year	Export volume
1999	3.32	2004	2.86	2009	4.63	2014	11.77
2000	3.09	2005	2.62	2010	5.48	2015	15.13
2001	2.06	2006	2.63	2011	4.51	2016	18.24
2002	2.37	2007	4.83	2012	6.77	2017	15*
2003	2.64	2008	4.73	2013	7.43		

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.

³⁷ **DSIA:** Defence and Security Industry Association of the Czech Republic

³⁸ **Materiel:** military materials and equipment

³⁹ **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 km², 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.

⁴⁰ **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.

LABOUR & HEALTH & SOCIAL

EIA EMPLOYEES INTERESTED IN MEAL VOUCHERS – 29. 6.

People with meal vouchers eat lunch at restaurants 3 times as often as people without meal vouchers. % of them say that they would scale back eating at restaurants if vouchers were abolished.

A survey by the UEACR⁴¹ and the ASMP⁴² also shows that % employees who do not yet receive meal vouchers would be interested in them. People with meal vouchers pay an average of CZK106 for lunch, CZK84 with their voucher and CZK22 in cash.

CTK MPS APPROVE CHANGE TO PENSIONS – 29. 6.

The base part of a monthly pension will go up by 1% to 10% of the average pay and people over 85 will see their pension rise by CZK1,000, according to the Cabinet⁴³-sponsored bill that the ChD⁴⁴ passed and that is yet to be debated by the Senate⁴⁵.

The planned change in the pension calculation method will slightly weaken the principle of merit, which secures higher pensions for those who paid higher contributions to the pay-as-you-go pension system⁴⁶ while at their productive age.

The MLSA⁴⁷ said the changes should raise the living standard of people with low pensions, of which the base pension makes a large part.

The principle of merit in the pension calculation method has been reduced from 78 to 76%.

Pensions have been regularly indexed in January in dependence on the growth of real wages and prices. The new bill preserves this rule, but it increases the sum added to the base pension and accordingly reduces the sum that raises pensions in a way equivalent to clients' previous contributions to the pension system.

For a part of old people, this means a slower increase in pensions from January 2020, when the measure takes effect. The planned increase in pensions will cost the state some CZK14bn next year.

The monthly pension of seniors over 85 is to be increased by CZK1,000 on January 1, 2019.

In the 10.5mn CR, almost 2.9mn people were eligible for an old-age, disability and widow or widower's pension in late 2017, including 2.4mn with old-age pension.

The average monthly old-age pension was CZK11,850 in late 2017. It rose to CZK12,347 by the end of March.

⁴¹ UEACR: Union of Employer Associations of the CR (Unie Zaměstnavatelských svazů); It brings together more than 12,000 organizations with over 770,000 employees and has a dominant position in public services such as health, social services, education, culture, and the non-profit sector with overlapping into insurance, financial services, industry, construction and public administration.

⁴² ASMP: Association of Small and Medium-Sized Enterprises and Crafts in the CR (Asociace malých a středních podniků a živnostníků České republiky), provides an open, apolitical platform for small and medium-sized enterprises, self-employed persons and their organisations across the Czech Republic.

⁴³ 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.

⁴⁴ 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.

EIA TPCA HIRING PRODUCTION OPERATORS AS CORE STAFF – 2. 7.

TPCA⁴⁸ is hiring new employees for operator positions in production also directly as core TPCA employees. With this step it wants to offer candidates greater security than to date. The company has prepared a contract directly with TPCA from day one for experienced applicants. Applicants without such experience can still be hired through agencies and possibly transition among core TPCA employees after 4 months.

MISCELLANEOUS

EIA AVAILABLE APARTMENTS' OFFER PRICE UP 12% - 29. 6.

According to Deloitte⁴⁹, the average offer price of vacant apartments in developer projects increased to CZK99,400/m² in the spring months of 2018. Y-o-y growth is more than 12%. The number of vacancies on the Prague market decreased by 1.1% and at the beginning of May totalled 4,827. A total of 899 dwellings were sold. The average sold apartment was

CTK CHD APPROVES FAST-TRACK EXPROPRIATION OF LAND – 29. 6.

The ChD has approved an amendment which aims to facilitate and accelerate preparations for expanding the CR's energy, communications and transportation infrastructure. Part of those preparations includes the expropriation of land via a so-called interim decision. This means construction can begin on plots even before the amount of compensation owed to the landowner is determined.

The amendment lists specific buildings and plots for fast-track expropriation, including areas where motorways and railways are to be expanded or new metro stops to be built. It will now go to the Senate for debate, where it is expected to pass. The amendment could come into force in September.

CTK CONDITIONS IN MANUFACTURING INDUSTRY IMPROVE – 2. 7.

Conditions in the Czech manufacturing industry improved in June, with the PMI⁵⁰ rising to 56.8 points from May's 56.5 points.

The latest PMI survey data signalled a sharp improvement in business conditions across the Czech manufacturing sector in June. Output and new orders expanded at faster rates compared to May.

"June survey data continued to indicate a sharp output expansion across the Czech manufacturing sector. Similarly, new orders rose at a quicker pace, which in turn helped to

⁴⁵ Senate: the Senate of the Parliament of the CR, usually referred to as the Senate, is the upper chamber of the Parliament of the Czech Republic. The seat of the Senate is Wallenstein Palace in Prague.

⁴⁶ Pay-as-you-go pension system: a system in which state retirement benefits are financed by contributions levied from current workers, as opposed to a funded system in which contributions are invested to pay for future benefits.

⁴⁷ MLSA: Ministry of Labour and Social Affairs

⁴⁸ 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.

⁴⁹ Deloitte: Deloitte Touche Tohmatsu Ltd., a UK-incorporated multinational professional services network. Deloitte is one of the "Big Four" accounting organizations and the largest professional services network in the world by revenue and number of professionals. Deloitte provides audit, tax, consulting, enterprise risk and financial advisory services with more than 263,900 professionals globally.

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

boost business expectations towards the year ahead," Business confidence improved, driven by sustained growth in new orders and investment in technology.

Q₂ saw a sharp expansion overall, albeit one that was the weakest since Q₃ 2017.

PMI's rise in June was surprising, said KB. The Czech figure ranks among the best in the region, signalling a significant improvement in the sector. The growth of the Czech PMI is even more surprising in view of the fact that in most EU countries the overall sentiment in industry deteriorated in H₁ 2018.

There are several reasons for such a development, one of them being the threat of trade wars after the USA, the EU and China started imposing new tariffs and are talking about more trade barriers they are ready to introduce.

The faster rise of output and new orders and a decent increase of employment boosted the Czech business sentiment. Entrepreneurs are optimistic, considering new investment and appreciating access to new export markets.

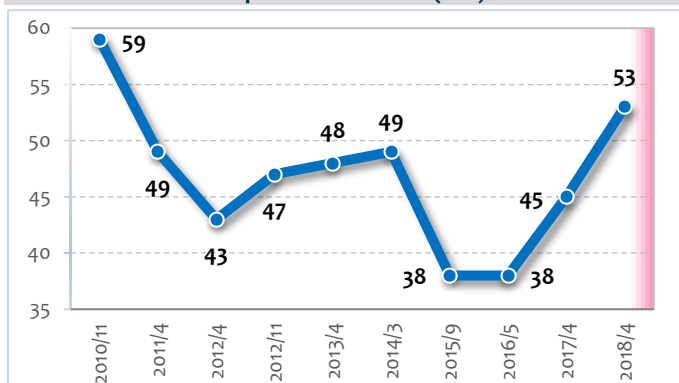
PUBLIC TRUST IN EU BACK TO PRE-CRISIS DAYS – 2. 7.

Public support for Czech membership in the EU is almost back to its old-time high, with 53% of Czechs now saying they support the CR's membership in the EU.

During the past 7 years trust in the EU was deeply undermined by the financial and migrant crisis with support figures sliding from 59% to 38% in 2016.

The strongest degree of support for EU membership is among the young generation where it is now at 63%.

Graph 1: EU accession (in %)



⁵¹ **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.

⁵² **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.

⁵³ **CEE:** Central and Eastern Europe, is a generic term for the group of countries in Central Europe, Southeast Europe, Northern Europe (Baltic countries), and Eastern Europe

⁵⁴ **CEEC-China Summit:** The 16+1 format is an initiative by the People's Republic of China aimed at intensifying and expanding cooperation with 16 Central and Eastern European countries (11 EU Member States and 5 Balkan countries - Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia) in the fields of investments, transport, finance, science, education, and culture. In the framework of the initiative, China has defined three potential priority areas for economic cooperation: infrastructure, high technologies, and green technologies. CEEC-China Summits: 1.

PMS TO MEET AHEAD OF 16+1 SUMMIT – 4. 7.

PM ⁵¹ Babiš is due to meet his Polish counterpart PM Morawiecki on July 6 to discuss ways to boost bilateral trade and cooperation, as well as wider European issues affecting the V4⁵², which also includes Hungary and Slovakia.

The two leaders will meet in Karlovy Vary before heading to Bulgaria for a conference taking place within a summit between China and 16 CEE⁵³ countries.

The "CEEC-China (16+1) Summit⁵⁴", now its 7th year, has raised alarm in Brussels over the intensifying level of engagement between the member countries and communist China, which has invested heavily in the CEE region.

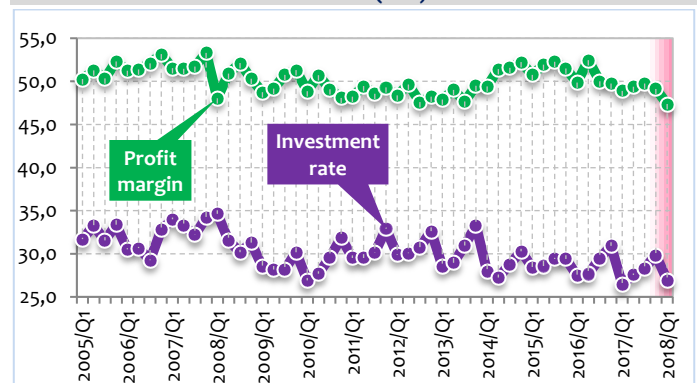
STATISTICS

SECTOR ACCOUNTS QUARTERLY – 29. 6.

According to SA ⁵⁵ data, the total of monetary and non-monetary income of households increased in real terms by 4.2%, q-o-q⁵⁶, and real consumption per capita increased by 5.5% in the Q₁ 2018. The investment rate of non-financial corporations increased by 0.2 p.p., q-o-q.

Profit rate⁵⁷ in the Q₁ 2018 was 48.4%, which is by ▲ 0.8 p.p. less, q-o-q, and by ▲ 1.0 p.p. less, y-o-y. Total labour costs of non-financial corporations increased by 9.2%, y-o-y. The profit rate of domestic corporations still remains above average, because based on the available data of Eurostat ⁵⁸ the average profit rate of non-financial corporations for the EU is about 40.0% for a long-term. The investment rate⁵⁹ increased by 0.2 p.p., q-o-q, and reached 28.1%. In the y-o-y comparison it increased also by 0.2 p.p.

Graph 2: Non-financial corporations, indicators, 2005 – 2018, y-o-y, non SA⁶⁰ (in %)



Warsaw, Poland (2012), 2. Bucharest, Romania (2013), 3. Belgrade, Serbia (2014), 4. Suzhou, China (2015), 5. Riga, Latvia (2016), 6. Budapest, Hungary (2017), 7. Sofia, Bulgaria (2018)

⁵⁵ **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.

⁵⁶ **Q-o-q:** quarter on quarter, compared with preceding quarter

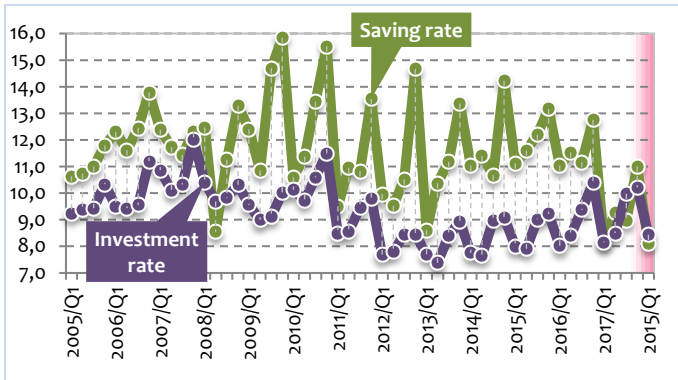
⁵⁷ **Profit rate of non-financial corporations:** is defined as the gross operating surplus divided by the gross value added. The indicator refers to profitability of production factors from the production process.

⁵⁸ **Eurostat:** Eurostat is a Directorate-General of the European Commission. Its main responsibilities are to provide statistical information to the institutions of the EU and to promote the harmonisation of statistical methods across its member states and candidates for accession as well as EFTA countries.

⁵⁹ **Investment rate of non-financial corporations:** is defined as the gross fixed capital formation divided by the gross value added. The indicator refers to the investments in non-financial assets (buildings, machinery etc.) divided by the value created during the production process.

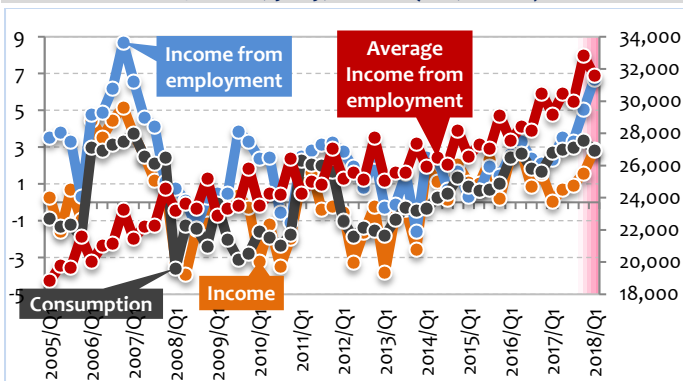
⁶⁰ **SA:** seasonally adjusted, Seasonal adjustment is a statistical method for removing the seasonal component of a time series that exhibits a seasonal pattern, which allows to analyse the trend of a time series independently of the seasonal components.

Graph 3: Households, indicators, 2005 – 2018, y-o-y, non SA (in %)



Household real income per capita⁶¹ increased in real terms by 4.2%, q-o-q, in the Q₁; in the y-o-y comparison it was 2.8% up. Household real consumption per capita⁶² grew faster, i.e. by 5.5%, q-o-q; in the y-o-y comparison it increased by 2.8%. Average monthly income of households per capita in nominal terms⁶³ was CZK24,305, non-adj⁶⁴; of that, CZK4,383 consisted of individual services and goods⁶⁵ provided by the general government and non-profit institutions serving households.

Graph 4: Households, Growth rate of average monthly indicators, 2005 – 2018, y-o-y, non SA (in %, in CZK)



Average monthly income from employment⁶⁵ reached CZK31,576, non-adj, in the Q₁ and it increased in real terms by 1.9%, q-o-q; in the y-o-y comparison it was 6.7% up. Average monthly consumption of households per capita⁶⁶ in nominal terms reached CZK22,922. Resulting from the faster growth of household expenditure compared to their income was markedly lower saving rate⁶⁷ compared to the previous year, namely 8.1%. Investment rate in the household sector increased by 0.2 p.p., q-o-q, and reached 8.4%.

⁶¹ Household real income per capita: is defined as the adjusted gross disposable income of households, in nominal terms, divided by the mid-year population and deflated by the deflator (price index) of household final consumption expenditure.

⁶² Household real consumption per capita is defined as real final consumption of households, in nominal terms, divided by the mid-year population and deflated by the deflator (price index) of final consumption expenditure of households.

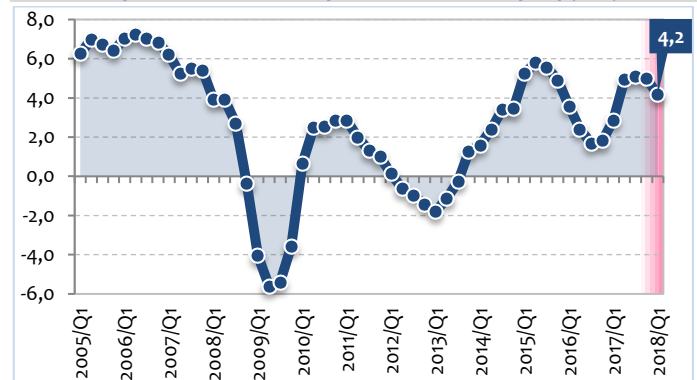
⁶³ Household real consumption per capita: is defined as real household final consumption, in nominal terms, divided by the mid-year population and deflated by the deflator (price index) of household final consumption expenditure.

⁶⁴ Non-adj: non-adjusted

⁶⁵ Average monthly income from employment: is defined as wages and salaries for the national economy (D.11) in average per month divided by the number of employees (full-time equivalent). The wages and salaries indicator includes all income from employment, namely in cash as well as in kind (employee benefits) regardless of whether they have been officially reported or not. The number of employees (full-time equivalent) includes all forms of employment, formal and informal. Various types of

Concurrently, the GDP estimate has been refined. The GDP increased by 0.5%, q-o-q; in the y-o-y comparison it grew by 4.2% in the Q₁ 2018.

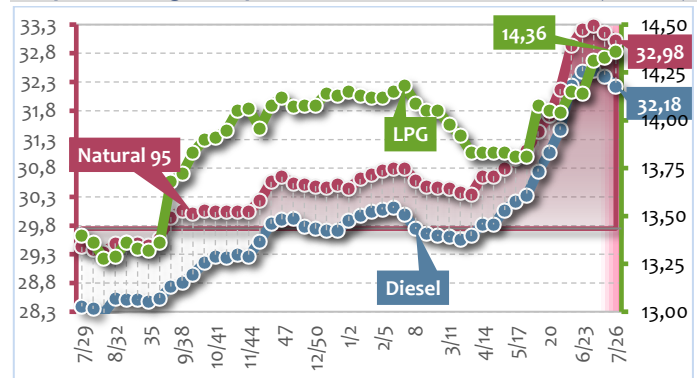
Graph 5: GDP, constant prices, 2005-2018, q-o-q (in %)



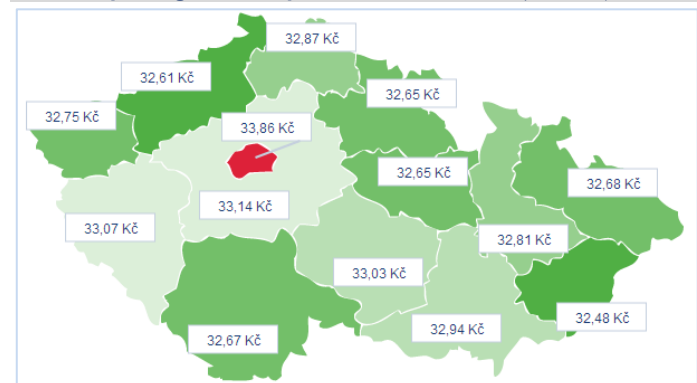
FUEL PRICES – 29.6.

Natural g5 decreased by ▲14h⁶⁸ to CZK32.98/l⁶⁹ over the past week, Diesel oil decreased by ▲17h to CZK32.18/l.

Graph 6: Average fuel prices⁷⁰, 2017 – 2018, Month/Week (in CZK/l)



Map 1: Regions, fuel prices, Natural g5, 1.7. (in CZK/l)⁷¹



agreements are also included. The calculation does not include hours worked by working owners of enterprises, who are according to national accounts definitions included in the category of employees.

⁶⁶ Average monthly consumption of households per capita in nominal terms: is defined as the real household final consumption divided by the mid-year population.

⁶⁷ Household saving rate: is defined as the gross saving divided by the gross disposable income with inclusion of adjustment for net share of households in reserves of pension funds (B.8g/ (B.6g+D.8)). Gross saving is part of gross disposable income, which has not been consumed in the form of final consumption expenditure.

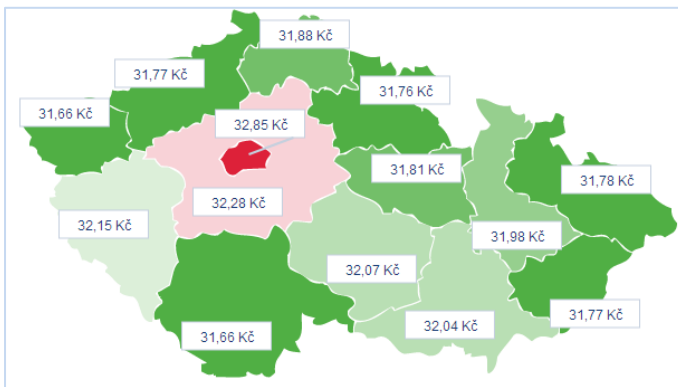
⁶⁸ h: Heller, a term was used for a coin valued at 1/100 of a CZK, it continues to be used as a means of calculation since the CNB removed the coins themselves from circulation in 2008 and notionally replaced them with rounding to the next CZK.

⁶⁹ l: litre

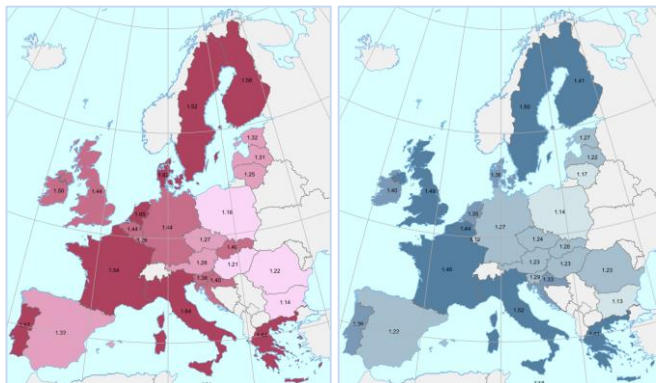
⁷⁰ Consumer price indices calculated from the weekly price survey are not qualitatively adjusted and thus do not express the net price development applied at inflation measurement, data issued by the CSO

⁷¹ data issued by the mBenzin.cz; <https://www.penze.cz/ceny-benzinu-a-ceny-nafty>

Map 2: Regions, fuel prices, Diesel, 1. 7. (in CZK/l)



Map 3: EU, Average fuel prices, Natural 95, Diesel, 25. 6. (in €/l)⁷²



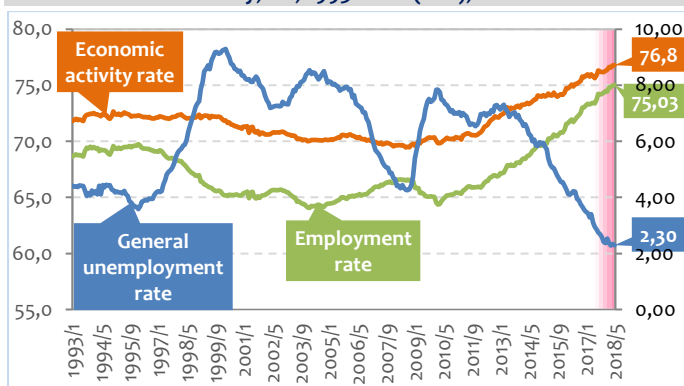
ECONOMIC ACTIVITY RATE – 2. 7.

The **employment rate**⁷³ SA, reached 75.0% in May and increased by 1.6 p. p. y-o-y.

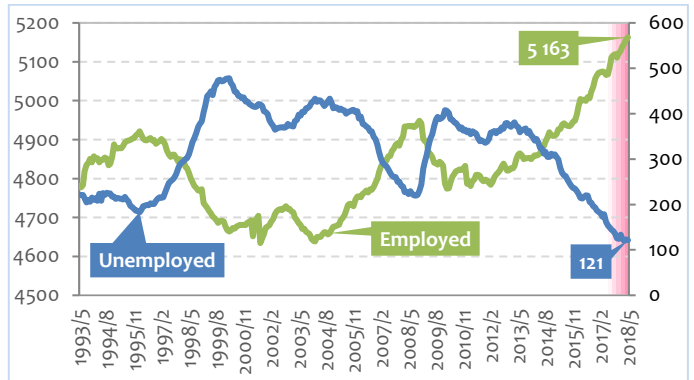
The **general unemployment rate**⁷⁴ SA, reached 2.3 in May 2018 and decreased by ▲0.8 p. p. y-o-y.

The **economic activity rate**⁷⁵ SA, reached 76.8% and rose by 1.0 p. p. compared to that in May 2017.

Graph 7: Rates of employment, unemployment and economic activity, SA, 1993- 2018 (in %), LFS



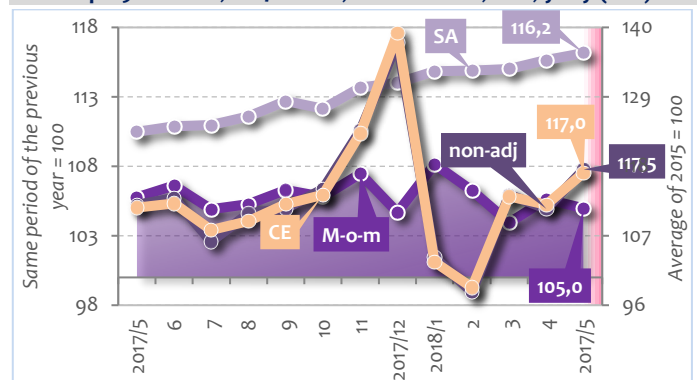
Graph 8: Employed, unemployed, SA, 1993 - 2018 (in thousands)



RETAIL TRADE – 4. 7.

In May 2018, CoP⁷⁶ SA sales in retail trade increased by 0.4%, m-o-m. CE⁷⁷ increased by 5.0%, y-o-y, the same as non-adj sales.

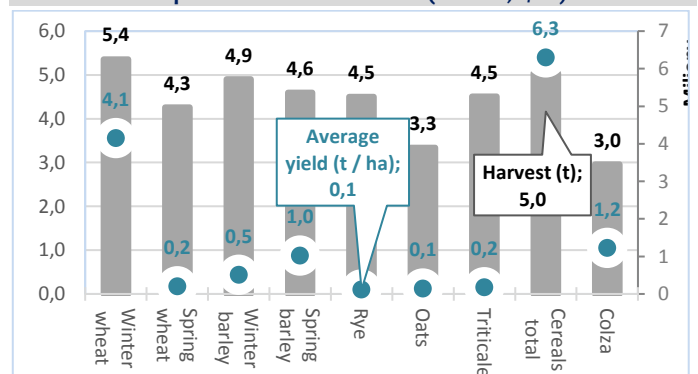
Graph 9: Retail⁷⁸, 2017 - 2018, basic indices, CoP, y-o-y (in %)



HARVEST ESTIMATES – 4. 7.

Based on the 1st estimates of this year harvest as at 10 June it is expected that the production of basic cereals will be 6,298,000t and the production of colza 1,221,000t. Compared to the last year harvest, the production of basic cereals is expected to be by ▲561,000t (▲8.2%); the production of colza is estimated to be 75,000t up (+6.5%).

Graph 10: Harvest Estimates (in t mn, t/ha)



⁷² data issued by the European Commission; <https://ec.europa.eu/energy/en/data-analysis/weekly-oil-bulletin>

⁷³ **Employment rate**: the share of the employed persons in the age group 15 – 64 years, as percentage, seasonally adjusted, **data are issued by the CSO based** on the results of the Labour Force Survey (LFS).

⁷⁴ **General unemployment rate**: the share of the unemployed in the labour force in the age group 15 – 64 years, that is in the total number of the employed and the unemployed, as percentage, seasonally adjusted, **data are issued by the CSO based** on the results of the Labour Force Survey (LFS).

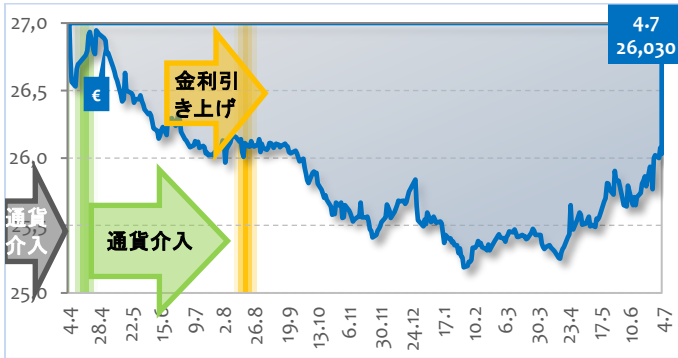
⁷⁵ **Economic activity rate**: the share of the number of the economically active in the total number of persons in the age group 15 – 64 years, as percentage, seasonally adjusted, **data are issued by the CSO based** on the results of the Labour Force Survey (LFS).

⁷⁶ **CoP**: constant prices are used to measure the true growth of a series, i.e. adjusting for the effects of price inflation.

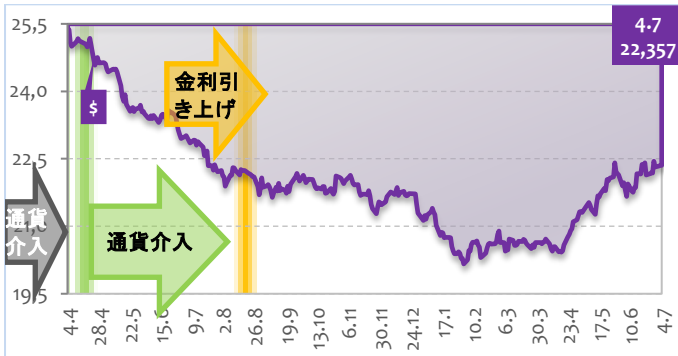
⁷⁷ **CE**: adjusted for calendar effects, the pre-adjustment for calendar effects involves removing from the time series calendar effects such as working days/trading days' effect, leap year effect and moving holidays' effects.

⁷⁸ *except of motor vehicles and motorcycles*

Graph 11: Exchange rates, CZK/€, 4. 4. 2017 - 4. 7. 2018



Graph 12: Exchange rates, CZK/\$, 4. 4. 2017 - 4. 7. 2018



Graph 13: Exchange rates, CZK/100¥, 4. 4. 2017 - 4. 7. 2018



News outside the time span of this News summary

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

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

ČTK
ČTK, Czech Press Agency (Česká tisková kancelář); a national news agency dealing with the gathering, processing, storing, and distributing of text and pictorial information. ČTK is a



public corporation and is governed by the law on CTK no. 517/1992 Coll.

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



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