

## ECONOMIC NEWS SUMMARY FEBRUARY 21 – FEBRUARY 27

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### ECONOMY & FINANCE



#### NEW MORTGAGES DOWN – 21. 2.

The value of mortgage loans entered into January 2019 dropped CZK<sup>1</sup>4bn<sup>2</sup> m-o-m<sup>3</sup> to CZK10.93bn. the average loan totalled CZK2.29mn<sup>4</sup>. The value of loans dropped by CZK5.5bn y-o-y<sup>5</sup>. The number of arranged mortgages in January dropped by 1,801 m-o-m to 4,764. The average interest rate increased by 9pps to 3.0%. The market had virtually frozen in the context of earlier result. The number of loans arranged in January reached the 5-year low. The only growing indicators are the average loan amount, due to soaring property prices, and the average interest rate.



#### MF ISSUES BONDS IN EUROS AFTER SEVEN YEARS – 22. 2.

The MF<sup>6</sup> has made the 1<sup>st</sup> issue of government bonds in euros after 7 years of issuing government bonds in the domestic currency.

The issue amounted to €100mn. The annual average yield of the bonds, which are to become due in August 2021, is ▲0.03%.

The MF rates of the CNB<sup>7</sup>, which has led to an increase in the yields of government bonds denominated in Czech crowns.

According to the MF, the negative yield was achieved mainly thanks to the situation on the financial markets in the EA<sup>8</sup>, the monetary policy of the ECB<sup>9</sup> and the CR's<sup>10</sup> rating.

The issue of the government bonds in euros is not connected with any interest expenses that would burden the state budget. On the contrary, they present net revenues, the MF said.

The purpose of the pilot issue of bonds in euros on the domestic market is to obtain euros to refinance operations linked with the payment of the state bond in June 2018. This state bond was issued on foreign markets in 2008 in the total nominal value of €2bn and was covered on a short-term basis by loans with negative yields taken on the money market, the MF said.

<sup>1</sup> CZK: Czech Crown, the currency of the CR since 8 February 1993

<sup>2</sup> bn: billion

<sup>3</sup> M-o-m: month on month, compared with preceding month

<sup>4</sup> mn: million

<sup>5</sup> Y-o-y: year on year, compared with the corresponding month of preceding year

<sup>6</sup> MF: Ministry of Finance

<sup>7</sup> CNB: Czech National Bank, is the central bank and financial market supervisor in the CR and a member of the European System of Central Banks. In accordance with its primary objective, the CNB sets monetary policy, issues banknotes and coins and manages the circulation of the Czech koruna, the payment system and settlement between banks. It also performs supervision of the banking sector, the capital market, the insurance industry, pension funds, credit unions and electronic money institutions, as well as foreign exchange supervision.

<sup>8</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>9</sup> ECB: is the central bank for the euro and administers monetary policy of the Eurozone, which consists of 19 EU member states and is one of the largest currency areas in the world. It is one of the world's most important central banks and is one of the seven institutions of the European Union listed in the Treaty on European Union. The capital stock of the bank is owned by the central banks of all 28 EU member states.

<sup>10</sup> CR: the Czech Republic, a nation state in Central Europe. The CR 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.



#### NO-DEAL BREXIT TO SLOW GDP DOWN – 26. 2.

No-deal Brexit<sup>11</sup> could slow the Czech GDP<sup>12</sup> growth down by 0.7-1.4pps, the CNB board member Holub said.

In the CNB's February forecast, which does not involve a no-deal Brexit, the CNB envisages a 2.9% economic rise for this year and 3% for the next.

The growth would decelerate mainly because of a drop in demand for Czech products in the EA, Holub said.

"This scenario seems like an argument for higher interest rates," Holub said. However, it is better to wait and see how the situation pans out and then consider a monetary policy response, Holub said.

In case of a no-deal Brexit, there would be anti-inflationary pressures caused by a drop in exports and economic slowdown, Holub said. On the other hand, the Czech crown's losses, introduction of customs duties, and some global production chains breaking would push prices up.

Based on the MF's February macroeconomic estimates, the Czech economic expansion would be 0.6-0.8%pps lower if Britain leaves the EU<sup>13</sup> without a deal. The MF expects GDP to add 2.5% this year, provided there is a Brexit scenario with a deal.

### AGRICULTURE & ENVIRONMENT



#### 5 THINGS THAT TROUBLE AGRICULTURE – 21. 2.

The 5 main problems of Czech agriculture include a lack of agricultural land, unpredictable weather, expectations of lower subsidies after the year 2020, stagnating prices, despite growing agricultural production prices in retail and general lack of labour force. According to statistics, up to 1/3 of agricultural workers will leave their jobs during the upcoming 10 years.



#### ONE THIRD OF CR FACING SERIOUS DROUGHT – 21. 2.

Around 1/3 of the CR has very low or extremely low levels of underground waters, ME<sup>14</sup> Minister Brabec said.

The situation is particularly bad in central Moravia and Polabí in Central Bohemia. In many places, water towers have to be filled from water tanks. Mr Brabec said this year's

<sup>11</sup> Brexit: The withdrawal of the United Kingdom from the European Union

<sup>12</sup> GDP: Gross domestic product, an aggregate measure of production equal to the sum of all resident and institutional units engaged in production in a period (plus any taxes, and minus any subsidies, on products not included in the value of their outputs).

GDP can be determined in three ways, all of which should, in principle, give the same result. They are the **production approach**, the **income approach**, or the **expenditure approach**.

The production approach sums the outputs of every class of enterprise to arrive at the total. The expenditure approach assumes the value of the total product must be equal to people's total expenditures in buying things. The income approach determines GDP by finding the sum of all producers' incomes.

GDP = GVA + Taxes on products - Subsidies on products

<sup>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 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> ME: Ministry of the Environment

abundance of snow had no effect on the current drought which has been affecting the CR for 5 consecutive years.



#### DROUGHT COMPENSATION REQUESTS – 21. 2.

The SZIF<sup>15</sup> registered in 2018 totally 3,619 requests for the compensation of damages caused by drought. Farmers requested almost CZK1.3bn. The 1<sup>st</sup> phase of acceptance of requests from feeding crops took place in fall 2018. Totally 9,600 growers submitted applications for CZK961mn. CZK2bn is allocated for drought compensations for both phases. The applications are currently being registered into the system and checked. The damage review commission is beginning to assess the requests.

#### PRÁVO BARK BEETLE CALAMITY DOES NOT END – 22. 2.

The bark beetle calamity in the CR will continue this year. It is likely that over 30mn m<sup>3</sup> of affected wood could be logged this year. That is a double compared to last year. The calamity is also affected by draught, which is also likely to continue despite excessive snow in the mountains this winter.



#### AMENDMENT TO THE FOREST ACT – 22. 2.

A more effective action against bark beetle will be the amendment of the Forest Act proposed by the MPs<sup>16</sup> in cooperation with the MA<sup>17</sup>. The proposal will create the legislative conditions for more effective management of the disaster. The Cabinet<sup>18</sup> approved the amendment, and the deputies should accept it at 1<sup>st</sup> reading so that the new rules begin to apply before the beginning of spring when an increase in bark beetle can be expected.

The amendment gives the MA the competence to take extraordinary measures to combat bark beetles, which are different from the current forest law provisions. The CR will be divided into zones according to the extent to which the territory is affected by the bark beetle. Where there is a worst calamity, forest owners will be able to postpone anti-calimity measures that are no longer effective at the site. For example, they do not immediately pay for dry trees from which insects have already fled. This will allow them to concentrate harvesting on places where forest stands can be saved in part. Another exception could be the extension of dead-tree retention periods to bridge the temporary shortage of planting material

"It is essential to respond in real time to real-time situations. Therefore, the measure allowed by an exception to the Forest Act must come into effect on the official date plate of the MA and the municipalities concerned. It is a new tool

<sup>15</sup> SZIF: State Agricultural Intervention Fund, is an accredited paying agency that acts as an intermediary responsible for the administration of financial subsidies allocated from EU funds and Czech national resources. Under the EU's Common Agricultural Policy, EU subsidies are provided from the European Agricultural Guarantee Fund (EAGF) and, in the 2007–2013 and 2014–2020 programming periods, from the European Agricultural Fund for Rural Development (EAFRD) and the European Fisheries Fund (EFF). The Horizontal Rural Development Plan (HRDP) and Operational Programme Rural Development and Multifunctional Agriculture have been replaced by the EAFRD-funded Rural Development Programme (RDP).

<sup>16</sup> MP: Member of Parliament

<sup>17</sup> MA: Ministry of Agriculture

<sup>18</sup> Cabinet: The Government of the CR exercises executive power in the CR. The members of the government are the Prime Minister of the CR (Chairman of the Government), the deputy ministers and other ministers. It has its legal basis in the Constitution of the CR. The government is led by the Prime Minister, who selects all the remaining ministers. Government of the CR is responsible to the Chamber of Deputies of the CR. The Prime Minister is appointed by the President of the CR. The current Prime Minister is Andrej Babiš.

of the MA as the central authority of the state forest management, which will be used when the serious situation is reflected in the territory of 2 or more regions. Our intention is to help forests and their owners," said MA Minister Toman.

"In order to minimize damage, we should start with intensive interventions as soon as possible, ideally this April. According to the proposal, the law should therefore start to apply on the day of its publication in the Collection of Laws, probably in March 2019.

The amendment to the Forest Act is one of the steps that will lead to a more effective solution to the calamity situation in forests and to prevent its recurrence. For example, from the beginning of 2019, a new Decree of the MA began to apply, limiting spruce cultivation to unsuitable habitats and recommending a more varied, more resistant crop."

This year, the total support for forest management will grow to approximately CZK1.15bn while in the year 2018 CZK730mn were paid. Forest owners can use them for example to afforest or protect and raise their stands.

#### ≡ BILLA AND PENNY FINED FOR ABUSING POSITION – 22. 2.

The OPC<sup>19</sup> has fined the food chains Billa<sup>20</sup> and Penny<sup>21</sup> from the REWE<sup>22</sup> CZK164mn for abusing their dominant position on the market.

Both chains reportedly requested a special fee from their suppliers for buying their products, which is banned by the law. The decision is legally binding and both food chains have accepted it.



#### POLAND 2<sup>ND</sup> LARGEST AGRICULTURAL EXPORTER – 22. 2.

Poland is the 2<sup>nd</sup> largest exporter of agricultural commodities to CR after Germany, and Polish agricultural exports amounted to CZK28bn in Q<sub>1</sub><sup>23</sup> – Q<sub>3</sub> 2018, with the export of beef at CZK739.6m, according to the CSO<sup>24</sup>.

Polish export rose by CZK10bn between 2014 and 2015, going down in recent years. Czech capacities are not fully utilised at the moment. Competition mainly from countries in Western Europe is big, their production is much higher, people's purchasing power is higher and surplus production is offered in different countries including CR. Processing companies sell their products in 3<sup>rd</sup> countries, in Asia in particular.

<sup>19</sup> OPC: Office for the Protection of Competition (Úřad pro ochranu hospodářské soutěže), the central authority of state administration responsible for creating conditions that favour and protect competition, supervision over public procurement and consultation and monitoring in relation to the provision of state aid.

<sup>20</sup> Billa: is an Austrian supermarket chain that operates throughout Central, Eastern and Southeastern Europe. The company, which was founded by Karl Wlaschek in 1953, is currently owned by Germany's REWE Group.

<sup>21</sup> Penny: Penny or internationally Penny Market (in Austria Penny Markt), a discount supermarket chain based in Germany, which operates 3,550 stores. The market was founded by Leibbrand Gruppe in 1973; since 1989 it has been fully owned by the Rewe Group.

<sup>22</sup> REWE: REWE Group, a German diversified retail and tourism co-operative group based in Cologne, Germany. The most important companies under the umbrella of the REWE Group operate under the REWE-Zentral AG and REWE-Zentralfinanz eG names. The basis of the co-operative trade group consists of a network of independent retailers. In the 2017 financial year, the REWE Group had total external sales of €57.8 billion. The REWE Group is the second largest supermarket chain in Germany behind EDEKA.

<sup>23</sup> Q.: \* quarter of the year

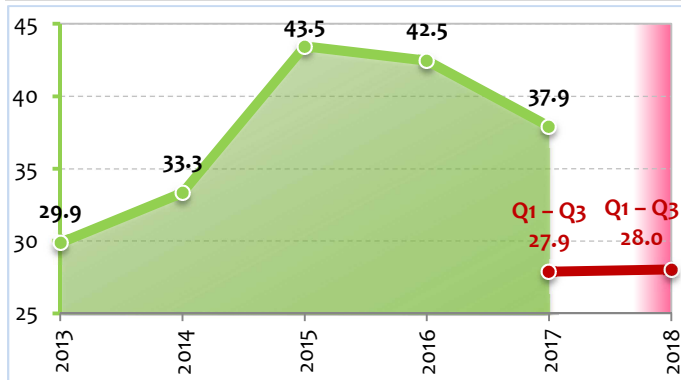
<sup>24</sup> CSO: Czech Statistical Office, is the main organization which collects, analyses and disseminates statistical information for the benefit of the various parts of the local and national governments of the CR. It accomplishes this goal through the management of the Czech Statistical Service.

The CR's agricultural foreign trade deficit increased by about CZK7.88bn y-o-y to a record-high amount of CZK40.3bn last year.

Agricultural imports totalled CZK228.6bn last year, CZK2bn more y-o-y, with exports at CZK186.1bn, an annual drop of some CZK10bn. The AACR<sup>25</sup> said the CR was dependent on foreign products.

According to the MA, a deficit in trade with EU member states<sup>26</sup> rose by an annual rate of 43% to CZK24.2bn.

Graph 1: Agricultural foreign trade with Poland (CZKbn)



ALL SUSPECT DELIVERIES OF POLISH BEEF TRACED – 22. 2.

SVA<sup>27</sup> has traced all of the deliveries of Polish beef which were part of a shipment infected with the Salmonella virus. Overall the suspect shipment amounted to 700kg<sup>28</sup> of beef, delivered to stores, restaurants, school canteens and hospitals. According to inspectors 110kg of the meat has already been consumed.

The CR has introduced strict controls on all beef imports from Poland. Although Poland protested against the move, the EC<sup>29</sup> said it was up to the Czech authorities to take reasonable measures aimed at protecting consumers.

FREE PUBLIC TRANSPORT DURING SMOG – 25. 2.

Prague City Council has agreed to introduce free public transport, including trains, during smog alerts. The cost to the budget would be approximately CZK5mn per day.

In recent years, Prague City Hall has considered implement a range of regulations to be enforced during periods when the city is hit by particularly bad air pollution.

These include requiring factories to temporarily reduce output during periods of high smog barring trucks from entering the city.

<sup>25</sup> AACR: Agriculture Association of the CR, Zemědělský svaz ČR; Organization of employers - entrepreneurs in agriculture. It is a voluntary, independent, non-governmental and non-political association of legal and natural persons - agricultural business companies, agricultural cooperatives, sales cooperatives and companies, farmers and other entrepreneurs whose business is primarily focused on agriculture, breeding, and services. As one of the three agricultural communities it is incorporated into the Agrarian Chamber of the CR together with the Czech-Moravian Association of Agricultural Entrepreneurs and the Agrarian Union of the CR.

<sup>26</sup> EU Member States: The EU comprises 28 member states. Each member state is party to the founding treaties of the union and thereby subject to the privileges and obligations of membership. Unlike members of most international organisations, the member states of the EU are subjected to binding laws in exchange for representation within the common legislative and judicial institutions. Member states must agree unanimously for the EU to adopt policies concerning defence and foreign affairs. Subsidiarity is a founding principle of the EU.

<sup>27</sup> SVA: Czech State Veterinary Administration), an administrative authority of the MA and the highest veterinary authority with nationwide jurisdiction.

<sup>28</sup> Kg: kilogram is the base unit of mass in the International System of Units and is defined as being equal to the mass of the International Prototype of the Kilogram (IPK)

<sup>29</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.

SVA SEARCH POSSIBLE SALMONELLA-INFECTED BEEF – 25. 2.

Days after announcing they had traced all deliveries of Polish beef infected with the Salmonella<sup>30</sup>, the SVA now says another suspect beef from the same source was imported into the CR.

Polish authorities informed their Czech counterparts about another shipment of 1,164kg of potentially infected meat under the terms of a rapid alert system.

Last week, the CR introduced strict controls on all beef imports from Poland.

LIDOVÉ NOVINY BIRDS OF PREY NUMBER RISES IN CR – 26. 2.

According to experts, birds of prey are returning to the CR, which is a positive piece of news in contrast to the shrinking populations of the most widespread perching bird species.

Small birds have been rapidly disappearing from Czech fields and meadows. On the other hand, experts have recorded a rise in the populations of some protected birds such as falcon, which were completely liquidated by the DDT<sup>31</sup> insecticide before it was banned in the 1970s.

It lasted 20 years before the first falcons re-appeared in CR and started nesting there. At present, there are about 60 nesting falcon pairs.

Similarly, predator birds such as the white-tailed eagle, the red kite and the Western marsh harrier have started returning.

"From environmentalists' point of view, this is an excellent piece of news, which proves that the law on nature protection is effective. The species that have been protected for a long time, are returning now and their populations are rising," experts said.

This is also true of other than predator species such as the rare common raven, the grey-headed woodpecker and the European bee-eater.

Even the number of common quails has increased in Czech fields, though the field birds population in general has massively shrunk due to intensive farming.

"There is a number of factors behind the return of selected species. It is important to know what is limiting for the given population in the given moment - whether a shortage of food, its low quality or contamination with heavy metals, or a lack of conditions for nesting, too high a number of predators or the lethal peril posed by high voltage lines," experts said.

However, in the case of most bird species it is not clear why their populations are declining.

The cause has been ascertained with the falcon, for example. Experts found out that DDT prevented the development of falcon eggshells, as a result of which the whole falcon

<sup>30</sup> Salmonella: Salmonella is a genus of rod-shaped (bacillus) Gram-negative bacteria of the family Enterobacteriaceae. Salmonella species are non-spore-forming, predominantly motile enterobacteria with cell diameters between about 0.7 and 1.5 µm, lengths from 2 to 5 µm. Salmonella species are intracellular pathogens;[6] certain serotypes cause illness. Nontyphoidal serotypes can be transferred from animal-to-human and from human-to-human. They usually invade only the gastrointestinal tract and cause salmonellosis, the symptoms of which can be resolved without antibiotics.

<sup>31</sup> DDT: Dichlorodiphenyltrichloroethane, commonly known as DDT, is a colorless, tasteless, and almost odorless crystalline chemical compound, an organochlorine, originally developed as an insecticide, and ultimately becoming infamous for its environmental impacts. A worldwide ban on agricultural use was formalized under the Stockholm Convention on Persistent Organic Pollutants, but its limited and still-controversial use in disease vector control continues, because of its effectiveness in reducing malarial infections, balanced by environmental and other health concerns.

population died out with a single generation, which had no offspring.

However, in the case of most other species, there is a complex of various causes behind their disappearance. In most cases, no adequate research has been completed to ascertain them. In the same way, it is not clear why some species are returning to CR.

**ZUBR GOLD NAMED BEST CZECH BOTTLED BEER – 26. 2.**

Zubr Gold has taken top honours at the 27<sup>th</sup> annual Pivex Golden Cup contest in 2 categories. The Přerov brew was named best bottled beer and best light draft beer.

This year 50 brands from 13 industrial breweries took part in the 2-round competition.

Bernard won in the category of top dark lager. Holba won in the mixed beer category for its cranberry and mint brew.

In the mini-brewery contest, the Merklín crocodile of the Petr Petružálek brewery took 1<sup>st</sup> prize.

**EC NOT HAPPY ABOUT CR'S CHECKS OF POLISH BEEF – 27. 2.**

The EC does not like extraordinary checks the CR introduced for Polish beef, MA Minister Toman said.

The EC wants the duty to report meat imports 24 hours ahead to be cancelled, Toman said.

Toman said he was ready to abolish the extraordinary measures at the end of March provided Poland takes the promised steps.

From February 21, no beef from Poland can be released onto the market without undergoing a salmonella test in a certified laboratory first.

Semi-finished meat products do not require obligatory checks for now. Samples are being taken and the SVA is ready to introduce extraordinary measures should a problem occur.

Poland has promised it would adjust veterinary inspection rules, and monitor slaughterhouses 24 hours a day.

**EDUCATION & RESEARCH**

**WAVE MICRO POWER PLANT HEADING TO MARKET – 21. 2.**

The micro power plant WAVE<sup>32</sup>, developed by the University Centre of Energy-efficient Buildings of the CTU<sup>33</sup>, underwent full live testing and is heading to the market.

The first installed facility is located in Mikolajice, Opava district, where it delivers heat and electricity to the municipal office, store and the fire house. The plan to install WAVE in this location was initiated by the start-up YOUNG4ENERGY. The facility offers thermal output of up to 50kW<sup>34</sup> and is capable of running independently of the distribution network.

<sup>32</sup> **WAVE:** a micro power plant with fully automatic system for the combined production of electricity and heat on the principle of the organic Rankine cycle (an idealized thermodynamic cycle of a heat engine that converts heat into mechanical work while undergoing phase change). It uses local renewable resources, wood chips or pellets as fuel.

<sup>33</sup> **CTU:** Czech Technical University (České vysoké učení technické, ČVUT), is one of the largest universities in the CR, 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 Sciences, Biomedical Engineering, Information Technology) and about 21,000 students across its bachelor, masters and doctoral programmes.

<sup>34</sup> **kW:** 10<sup>3</sup> watts, This unit is typically used to express the output power of engines and the power of electric motors, tools, machines, and heaters. It is also a common unit used to express the electromagnetic power output of broadcast radio and television transmitters.

The next planned step is the launch of small series production with thermal output of 120kW and power output of 6kW. The PP with higher performance parameters is being developed to achieve better economic efficiency. It will be launched by Damgaard Consulting.

**CABINET RAISING SPENDING ON SCIENCE – 23. 2.**

Some CZK37.5bn will be spent on science and research next year, CZK1.6bn more than in 2018, said ASMP's<sup>35</sup> head Havlíček after a meeting of the RDIC<sup>36</sup>.

Havlíček said special demands of various offices, amounting to roughly CZK0.5bn, would be covered from unspent expenditures.

The budget for science amounting to CZK37.5bn was already expected in the medium-term forecasts for 2020 and 2021.

Havlíček said, out of the approved CZK33.8bn on science, research and innovations for 2018, a total of CZK33.4bn was spent.

This year, the budget expenditures on science are to be CZK35.9bn.

The RDIC also dealt with action plans for the new Innovation Strategy of the CR for 2019-2030.

"In this, we will be much helped by CzechInvest<sup>37</sup>. This has been preliminarily agreed on with its head Jirotkova," Havlíček said.

The action plans are to be finished in a month, he added.

A new anti-bureaucracy working group will be in charge of all the administrative tasks associated with both national and multinational programmes of special support. RDIC deputy chairman Baran is to create it.

"There will be representatives of the MEYS<sup>38</sup>, the CAS<sup>39</sup>, and research organisations," Havlíček said.

The group will be submitting its report on an RDIC meeting each month, he added.

The RDIC also discussed the new instrument with which to support foreign researchers and scientists in the CR.

Institutions should be able to arrange a perfect background for the foreign experts, Havlíček said.

Institutions should be able to provide for such affairs as accommodation or handling of the visas. It is inadmissible that a scientist from the USA has to wait for months before getting the working visas and permit, Havlíček said.

"This must be finished immediately and swiftly," he added.

<sup>35</sup> **ASMP:** Association of Small and Medium-Sized Enterprises and Crafts in the CR (Asociace malých a středních podniků a živnostníků České republiky), provides an open, apolitical platform for small and medium-sized enterprises, self-employed persons and their organisations across the CR.

<sup>36</sup> **RDIC:** The Research, Development and Innovation Council (RVVI Rada pro výzkum, vývoj a inovace) is a professional and consultancy body of the Government of the CR in the field of research, experimental development and innovation, established and its activities are governed by Act No 130/2002 on the support of research, experimental development and innovation from public resources.

<sup>37</sup> **CzechInvest:** Business and Investment Development Agency CzechInvest, is an agency of the Ministry of Industry and Trade. Established in 1992, the agency contributes to attracting foreign investment and developing domestic companies through its services and development programmes. CzechInvest also promotes the CR abroad and acts as an intermediary between the EU and small and medium-sized enterprises in implementing structural funds in the CR.

<sup>38</sup> **MEYS:** Ministry of Education, Youth and Sports

<sup>39</sup> **CAS:** Czech Academy of Sciences, established by Act No. 283/1992 Coll. is set up as a complex of 54 public research institutions. The Academy employs over 8,000 employees more than a half of whom are researchers with university degrees. The primary mission of the CAS and its institutes is to conduct basic research in a broad spectrum of the natural, technical and social sciences and the humanities.

## ENERGY &amp; INDUSTRY &amp; TRANSPORT



## NORD STREAM 2 TO STABILISE ENERGY PRICES – 20. 2.

Nord Stream 2<sup>40</sup> will stabilise energy prices in the CR, and if the pipeline plan did not get carried out, Czech energy would get much more expensive, Deputy MIT<sup>41</sup> Minister Neděla has said.

The CR will not, however, harm Ukraine's position by using the pipeline, as 97% of gas the CR already gets from Russia goes outside Ukraine, Neděla said.

Even though the CR is neutral when it comes to politics around the pipeline, in terms of energy, the project is very favourable for the CR, Neděla said. Nord Stream 2 will stabilise the CR network by diversifying the sources, Neděla said, stressing also the transit position of CR.

The CR gets about 75% of its gas consumption from Russia via Ukraine and Slovakia. It has also alternative routes, such as the Gazela and Yamal pipelines.



## NEW NUCLEAR BLOCK MUST BE ACCELERATED – 21. 2.

The process of the construction of a new nuclear block in CR must be accelerated, says the CI's<sup>42</sup> president Hanák. He has assured members of the Czech Energy Alliance's committee that the CI supports the development of nuclear energy. According to him, CR needs a stable source of electricity that will replace the outdated coal-power plants and will produce electricity without carbon dioxide emissions.

He has added that Czech companies should participate on the power plant's construction as much as possible. The state energy concept foresees that NPPs<sup>43</sup> will produce 46-58% of power by 2040.



## CONTRACT WITH ČEZ IS BETTER THAN GUARANTEE – 21. 2.

It will be better for the Czech state to close a deal with ČEZ<sup>44</sup> than to provide a guarantee for new nuclear unit construction in the CR, PM<sup>45</sup> Babiš said at conference on the future of nuclear energy in the ChD<sup>46</sup>.

<sup>40</sup> Nord Stream 2: Nord stream AG, operator of Nord Stream pipeline, in 2011, started evaluation of an expansion project which would include 2 additional lines to increase the overall annual capacity up to 110 billion m<sup>3</sup>. The route of additional lines would mainly follow the route of existing lines, except in the Russian onshore and offshore sections. The project is considered to violate the long-term declared strategy of the EU to diversify its gas supplies. A letter, signed by the leaders of 9 EU countries, has been sent to the EC in March 2016, warning that the Nord Stream 2 project contradicts the European energy policy requirements that suppliers to the EU should not control the energy transmission assets, and that access to the energy infrastructure must be secured for non-consortium companies. Supporters of the pipeline, including Germany, believe that unlawful deference has been made to US wishes of the project not proceeding. In January 31, 2018, Germany granted Nord Stream 2 a permit for construction and operation in German waters and landfall areas near Lubmin. Via the pipeline, Gazprom will supply gas to Germany along the bottom of the Baltic Sea. Nord Stream 2, which is nearly completed and is supposed to be put into operation at the end of 2019, will not go through Ukraine. Up to 55 billion m<sup>3</sup> of natural gas a year will be supplied via the about 1,200-kilometre long Nord Stream 2.

<sup>41</sup> MIT: Ministry of Industry and Trade

<sup>42</sup> CI: Confederation of Industry, Svaz průmyslu a dopravy, is an employer association in the CR founded in 1990. It is non-governmental, independent organization that influences the economic and social policy of the government and acting on the creation of optimal conditions for doing business. It defends the interests of employers in European and world organizations, especially as a member of the Confederation of European Business. The Association brings together 31 sectoral professional or regional associations and associations, 126 individual member companies and 6 observers, 11,000 companies employing 1.3 million workers.

<sup>43</sup> NPP: Nuclear Power Plant

<sup>44</sup> ČEZ: ČEZ Group is a conglomerate of 96 companies (including the parent company ČEZ, a.s.), 72 of them in the CR. Its majority shareholder is the Czech government, owning 70% of shares. It is involved in the electricity generation, trade, distribution and heat, as well as coal mining. ČEZ is the biggest electricity supplier in the Czech Republic.

<sup>45</sup> PM: Prime Minister, the CR 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 CR was Václav Klaus, who served as the second

The state will have more control over the construction, and the option to take action in case the market parameters change or take over the construction from ČEZ should the costs grow, he said.

A guarantee would mean granting a blank cheque, Babiš said.

ČEZ now has to immediately launch preparations, which means it needs to get a zoning permit and organise a tender, Babiš said.

The Cabinet is keeping track of similar projects in the world, especially those that are delayed, Babiš said.

The state will focus on one location during the new nuclear unit construction preparation, and it is Dukovany NPP<sup>47</sup>, government envoy for nuclear energy Míl said at the conference.

A deal with ČEZ's subsidiary ČEZ Dukovany II should be closed this year, he said.

The completion of a tender for the new unit construction could be affected by negotiations about the EU support with the EC, Míl said.

The tender procedure could start in 2020 or 2021 depending on how fast the talks go, and the first preparation phase could be done in 2024 when the tender will have a winner and the project a zoning permit, Míl said.

In 2024-2029, the process would move to getting a building permit and an approval of the SONS<sup>48</sup>, Míl said. "The goal of the contract is to ensure energy security," Míl said.

Details of the contract have not been sorted out, Babiš told journalists.

The contract could cover both rights and obligations of ČEZ as an investor, and also the regulatory environment stability, ČEZ CEO Beneš said. Now is the time to find an agreement about construction of new nuclear sources and its financing, he said.

At the beginning of the conference, Babiš said he regretted that a tender for construction at Temelín NPP<sup>49</sup> was cancelled in 2014, saying the conditions were ideal then.

The tender was cancelled because the Cabinet did not want to provide guaranteed prices then, which was the right decision, the Modern Energy Union programme director Sedlák tweeted.

Babiš said the state would monitor the electricity market during the construction and react to the social acceptability of the price from the new source.

President from 7 March 2003 until 7 March 2013. The current and 12th Prime Minister is Babiš, leader of the ANO 2011, who was appointed by the President on 6 December 2017.

<sup>46</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>47</sup> Dukovany NPP: Dukovany NPP annually supplies approximately 14 TWhr of electric energy to the national power network. NPP is owned and operated by ČEZ Group. Dukovany covers a 1/5 of the total electricity consumption in the CR with its installed output of 2,040MW. The NPP has 4 units. ČEZ has submitted request for new licences for further operation of units 3 and 4 to the SONS. Current 10-year licences for the units will expire at the end of this year. SONS has granted new operation licences for units 1 and 2.

<sup>48</sup> SONS: State Office for Nuclear Safety, a governmental body as stipulated by Act. Number 2/1969 Coll., headed by Chairman appointed by the Government of the CR. The SÚJB is a regulatory body responsible for governmental administration and supervision in the fields of uses of nuclear energy and radiation and of radiation protection. The authority and responsibilities of the SÚJB, as stipulated by on Peaceful Utilisation of Nuclear Energy and Ionising Radiation (Atomic Act).

<sup>49</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 CR.

MIT Minister Novakova mentioned the Czech project's meaning in the European context, saying nuclear energy will be weakened by Brexit.

She also talked about prolonging the lifespan of Dukovany's units.

For a few years, plans for the construction of a new nuclear unit in the CR have been hampered by uncertainties around its financing.

In November 2018, Babiš said that a new unit at Dukovany should be built by a ČEZ subsidiary and that the state was ready to support the investment as next in line guarantor.

6 companies have expressed interest in building a nuclear unit in CR - CGN<sup>50</sup>, Areva<sup>51</sup>, Atmea<sup>52</sup>, Westinghouse, KHNP<sup>53</sup> and Rosatom<sup>54</sup>. Representatives of the companies presented their projects to the ChD.

The construction needs to have political support to get carried out, Míl said.

The conference was supposed to start a broader discussion on building sources for a time when the capacity of coal-fired sources will be decreasing and the current nuclear sources will come to an end of their operational life.

Environmentalists have long been against the new nuclear unit construction.



#### TATRA INTRODUCES NEW TRUCK – 25. 2.

Tatra<sup>55</sup> has introduced the new vehicle of the model range Tatra Tactic at the fair IDEX 2019 taking place in Abu Dhabi. The new vehicle is a logistics and security military vehicle with a ready-made framework chassis and genuine portal axle tree Tatra Rigid. The company introduced a 4x4 vehicle at the fair; however, it will offer also the 6x6 version.



#### RWE BUYING STAKE IN GAS DISTRIBUTOR – 25. 2.

Innogy<sup>56</sup> and RWE<sup>57</sup> have signed an agreement according to which innogy sold its 50.04% stake in innogy Grid Holding to

company RWE. The parties agreed to not make the purchasing price public. The transaction has already been completed as it is not subject to a merger due to existing group relations between the parties.



#### TOLL CONTRACT WITH CT/ST IS VALID – 26. 2.

The contract for the operation of the toll system between the MT<sup>58</sup> and CT/ST<sup>59</sup> is valid based, the OPC said.

OPC thus confirmed the OPC's decision of December and dismissed an appeal by Kapsch.

Kapsch<sup>60</sup> challenged the signing of the contract, saying it ran counter to the previous OPC decision. Both decisions have taken legal effect. Kapsch can file a lawsuit over the decisions with the Regional Court in Brno.

In the appeal, Kapsch said OPC evaluated erroneously the validity and efficacy of the preliminary injunction in its decision of last September.

In the said decision, OPC partly halted the proceedings and partly dismissed Kapsch's objections. Kapsch was an unsuccessful bidder in the challenged toll procedure. The decision did not come into effect, however. According to Kapsch, the preliminary injunction was thus in force barring the MT from entering into contract with the winner of the tender until the final decision was made.



#### KEPCO E&C AND ÚJV ŘEŽ ARE COOPERATING – 26. 2.

Representatives of KEPCO E&C<sup>61</sup> and ÚJV<sup>62</sup> have signed a MoU<sup>63</sup>, which includes cooperation on the solution of projects of nuclear sources construction. The partnership also involves development of enterprising in the area of nuclear power plants security, mutual exchange of experience and human resources and deals with localisation of nuclear technology. According to the memorandum, the ÚJV will familiarise itself more closely with substitute

<sup>50</sup> **CGN:** China General Nuclear Power Group is a major clean energy corporation under the State-owned Assets Supervision and Administration Commission of the State Council of the State Council. CGN has operating nuclear plants at Daya Bay Nuclear Power Plant, Ling Ao Nuclear Power Plant, Hongyanhe Nuclear Power Plant and Ningde Nuclear Power Plant, with five new nuclear power stations under construction and another 2 planned. CGN operates in other emerging energy industries like wind energy and solar energy, as well as more traditional industries like hydroelectricity.

<sup>51</sup> **Areva:** is a French multinational group specializing in nuclear and renewable energy. It is the world's largest nuclear company. Its nuclear technology business group was created by absorbing the nuclear business line of German company Siemens; it has developed the EPR, an advanced 3<sup>rd</sup> generation pressurized water nuclear reactor.

<sup>52</sup> **Atmea:** a joint venture between Mitsubishi Heavy Industries and Areva that develops, markets, licenses and sells the ATMEA1 reactor, a new generation III+, medium-power pressurized water reactor. The company is headquartered in Paris.

<sup>53</sup> **KHNP:** Korea Hydro & Nuclear Power, a subsidiary of the Korea Electric Power Corporation (KEPCO). It operates large nuclear and hydroelectric plants in South Korea, which are responsible for about 40% of the country's electric power supply. It was formally established in 2001 as part of a general restructuring at KEPCO.

<sup>54</sup> **Rosatom:** Rosatom State Atomic Energy Corporation, a state corporation (non-profit organization) in Russia, established in 2007, the regulatory body of the Russian nuclear complex. It is headquartered in Moscow. Rosatom is the only vendor in the world able to offer the nuclear industry's entire range of products and services. It runs all nuclear assets of the Russian Federation, both civil and weapons. Along with commercial activities which move forward nuclear power and nuclear fuel cycle facilities, it acts as a governmental agent, primarily in the field of national security (nuclear deterrence), nuclear and radiation safety, basic and applied science.

<sup>55</sup> **Tatra:** a Czech vehicle manufacturer was founded in 1850 as the third oldest car maker in the world after Daimler and Peugeot. Production of passenger cars ceased in 1999, but the company still produces a range of primarily all-wheel-drive 4x4, 6x6, 8x8, 10x10 and 12x12 trucks.

<sup>56</sup> **Innogy:** Innogy SE is a German energy company. It is a subsidiary of the German energy company RWE. The company was created on 1 April 2016, by splitting the renewable, network and retail businesses of RWE into a separate entity. The new entity combined RWE subsidiaries RWE Innogy, RWE Deutschland, RWE Effizienz, RWE Vertrieb and RWE Energiedienstleistungen.

<sup>57</sup> **RWE:** RWE AG, is a German electric utilities company. Through its various subsidiaries, the energy company supplies electricity and gas to more than 20 million

electricity customers and 10 million gas customers, principally in Europe. RWE is the second largest electricity producer in Germany, and has increased renewable energy production in recent years

<sup>58</sup> **MT:** Ministry of Transport

<sup>59</sup> **CT/ST:** consortium of CzechToll/SkyToll. CzechToll s.r.o. is a Czech private limited company, part of the PPF Group, with PPF a.s. holding 100% of its shares. SkyToll operates the highway toll system in neighbouring Slovakia. CzechToll has been declared the winner of the tender to implement and operate a system for electronic toll collection in the Czech Republic from 2020 to 2030, alongside the Slovak company SkyToll a.s. With a CZK10.75bn bid, the CzechToll/SkyToll consortium won the toll tender to operate the system for another 10 years after 2019.

During the tender process, Kapsch filed a complaint against the course of action with the anti-monopoly office which dismissed its objections. Kapsch does not agree with the decision and is ready to file a complaint with a court or the European Commission or even to initiate arbitration proceedings.

<sup>60</sup> **Kapsch:** The Kapsch Group, headquartered in Vienna, Austria, is an international Road Telematics, Information Technology and Telecommunications Company. The corporate group, with more than 5,000 employees worldwide generated total revenue of € 908.8 million as of March 2015. It is the current operator of the toll collection system in the Czech Republic.

<sup>61</sup> **KEPCO E&C:** KEPCO Engineering & Construction Company, INC., is a power plant design and engineering company in South Korea. It was established in 1975 as a public enterprise. KEPCO E&C engages in designing, engineering, and constructing nuclear and fossil power plants. The company operates as a subsidiary of Korea Electric Power Corporation (KEPCO).

<sup>62</sup> **ÚJV:** the Institute of Nuclear Physics (ÚJV Ústav jaderné fyziky) was established in 1955. The institute was privatized as a whole in 1992 and transformed from a contributory organization into a joint-stock company. The shareholder becomes ČEZ, a.s., SE, a.s., ŠKODA JS a.s. and Husinec and Institute of Nuclear Research Řež a.s. gradually became mainly an engineering company and focused on commercial contracts in domestic and foreign markets. The ability to convert research projects into real-time practice is one of the company's major competitive advantages. Basic orientation on project activities, safety and efficient operation of energy equipment, material engineering, and radioactive waste management is gradually expanding the development and production of radiopharmaceuticals, especially for PET (positron emission tomography). Experts participate in projects in the development of new types of nuclear reactors and many other commercial activities at home and abroad.

<sup>63</sup> **MoU:** Memorandum of Understanding

technologies of components in nuclear power plants and will provide expert technical services in the given area.

#### LIDOVÉ NOVINY AUTOMOTIVE INDUSTRY SLOWS DOWN – 26. 2.

Car sales in Europe have been declining for the past 5 months and there are no signs of improvement. Weaker demand is felt by automotive companies as well as their suppliers in the CR. "Practically all European automotive plants are starting to decrease their production and the business of suppliers is weakening", explains Brano<sup>64</sup>.

#### CIA KVASINY MANUFACTURES OVER 300,000 CARS – 27. 2.

Škoda Auto<sup>65</sup> achieved a production record in its Kvasiny-based production plant in 2018. It was able to manufacture more than 300,000 cars within 1 year there. The plant manufactures models Superb, Karoq and Kodiaq. The carmaker is currently preparing the plan for a switch to electric models. In 2019, the production of the model Superb with a plugin hybrid engine will begin in Kvasiny. Beginning 2023, the Škoda will manufacture the family of vehicles Passat of the concern VW<sup>66</sup> there. The carmaker employs roughly 9,000 employees in the plant.

### INVESTMENTS & TRADE & SERVICES

#### LIDOVÉ NOVINY CZECH TARIFFS TOO EXPANSIVE – 21. 2.

The offer of mobile services in the CR significantly lags behind the possibilities offered in other EU countries. Czech tariffs are expensive and for an equivalent price Czech customers receive less data than other EU countries. The daily highlights Italy, where competitiveness among operators forced tariff prices very low.

#### CTR BAN ON DELIVERIES TO IRANIAN NUCLEAR PLANT – 21. 2.

The ChD economic committee recommended to the ChD to reject the KSČM's<sup>67</sup> proposal to lift the ban on deliveries to Iran's Bushehr NPP. Last year, the ChD security committee also recommended the rejection of the proposal.

The European affairs committee has not adopted a position on the affair and the rest of the committees have suspended the debate on it.

The ChD sent the legislation for debate to 6 committees after the ODS<sup>68</sup> failed to have it rejected in the 1<sup>st</sup> reading.

The KSČM argue that the law prevents the normalisation of trade and economic relations with Iran, harming the Czech exports. They also say this is a useless regulation.

The Cabinet as a whole has adopted a neutral position on the latest proposal, but the MD<sup>69</sup> is against it.

The CI and the CCC<sup>70</sup> support the lifting of the ban.

<sup>64</sup> Brano: Brano Group, a.s. is a developmental partner oriented on electromechanical products, particularly products for automobile industry, locking systems, handling equipment and small castings

<sup>65</sup> Škoda Auto: is a Czech automobile manufacturer founded in 1895 as Laurin & Klement. It is headquartered in Mladá Boleslav, Bohemia, CR. 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. Škoda Auto supplied 1.2mn cars to clients in the whole world in 2017. It has 3 production plants in the CR and produces cars also in China, Russia, Slovakia, Algeria, India, Ukraine and Kazakhstan. The company employs more than 35,000 people and is active on over 100 markets.

<sup>66</sup> VW: Volkswagen is a German car manufacturer headquartered in Wolfsburg, Lower Saxony, Germany. Established in 1937, Volkswagen is the top-selling and namesake marque of the Volkswagen Group, the holding company created in 1975 for the growing company, and is now the second-largest auto maker in the world

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

<sup>68</sup> ODS: Civic Democratic Party, Liberal conservative, centre-right party, soft Eurosceptic party

<sup>69</sup> MD: Ministry of Defence

KSČM already proposed that the ban, enacted in 2000, be lifted in 2009.

#### ☰ US TARIFFS COULD HIT CZECH ECONOMY HARD – 22. 2.

According to the WIIW<sup>71</sup>, if President Trump were to impose tariffs on European car makers, the Czech economy would suffer a loss of approximately CZK26bn and an estimated 25,000 people would lose their jobs, which is 0,5% of all employees. According to an assessment by the MIT, tariffs could hit Czech exports to the USA to the tune of CZK20bn. The possible impact of a trade war between Europe and the USA is expected to dominate talks between US President Trump and PM Babiš on March 7.

#### ☰ FIRMS DOING BUSINESS WITH UK HIT BY BREXIT – 25. 2.

Czech companies doing business with British firm have already been impacted by the UK's impending exit from the EU. A poll by the BCC<sup>72</sup> found 28% of Czech firms have noted a decrease in orders or revenue, which they blame on Brexit. About 40% said they had felt an indirect influence, for example, in the form of additional administrative costs or modifications to existing terms and conditions.

However, only a ¼ of Czech firms surveyed said they worry that their British business partners will be unable to pay outstanding invoices.

#### CTR MF REJECTS US CAR TARIFFS IN TALKS WITH POMPEO – 23. 2.

MFA<sup>73</sup> Minister Petříček rejected the tariffs that USA President Donald Trump threatens to impose on car imports during his talks with Secretary of State Mike Pompeo in Washington. "I rejected the car tariffs and repeated the invitation for President Trump (to Prague). We talked about cyber security," Petříček said on Twitter after his nearly one-hour negotiations with Pompeo.

"We are a country in which automotive industry plays a big role and possible tariffs would have a considerable impact on our economy," Petříček said, adding that the introduction of the tariffs might harm the Czech-USA relations.

"I believe a solution can be found so that the tariffs need not be imposed and a compromise is reached," he said.

<sup>70</sup> CCC: Czech Chamber of Commerce (also HK ČR in Czech), is an organisation which represents the business community in the CR 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 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>71</sup> WIIW: Vienna Institute for International Economic Studies (*Wiener Institut für Internationale Wirtschaftsvergleich*), an independent, non-profit institution, centre for research on Central, East and Southeast Europe. Thematic work is focused on macroeconomic developments and structural change, international economics, labour markets and social issues, as well as on selected issues related to sectoral and regional economic developments

<sup>72</sup> BCC: British Chamber of Commerce in the Czech Republic has been working since 1997 to strengthen business ties between the United Kingdom and the Czech Republic, promoting trade, growth and the creation of new business opportunities. The Chamber's membership encompasses a broad spectrum of over 200 British, Czech and international companies, and work closely with all of these members to provide individualised support and market expertise.

<sup>73</sup> MFA: Ministry of Foreign Affairs

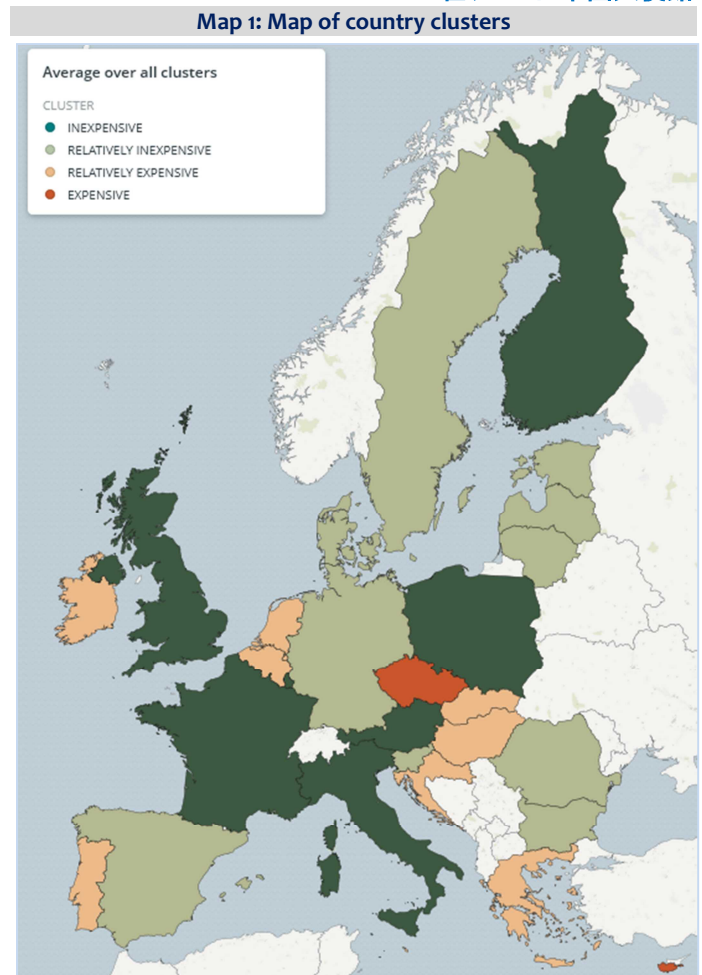
Trade cooperation was to be one of the main topics of the Pompeo/Petříček talks. The talks between Pompeo and Petříček did not cover 2 big issues: the USA withdrawal from the Iranian nuclear deal that still matters for the EU, and Westinghouse's<sup>74</sup> interest in taking part in possible tenders for building new nuclear units.

**VEHICLE PRODUCTION FALLS IN JANUARY – 25. 2.**

Vehicle production fell by 11.3% y-o-y in January, down to 115,817 units, according to figures the AIA<sup>75</sup>. It was the 2<sup>nd</sup> consecutive month with a decline, reflecting the poor performance of the manufacturing PMI<sup>76</sup>, which was at its lowest in the past 6 years in January. Poor external demand has been the primary factor behind lower production, which was reflected in exports, down by 10.7% y-o-y in January (in volume). Domestic sales didn't fare much better, down by 18.1% y-o-y, as already implied by car registration data from the CAE<sup>77</sup>, the car importers' association. The main difference between the 2 indicators is that this one reflects only domestic production, while CAE data includes new vehicle imports as well.

**MOBILE BROADBAND PRICES WENT DOWN – 25. 2.**

According to the EC's study, the CR together with Cyprus have the most expensive mobile data in the EU.



- ◆ The inexpensive countries are: Italy, Poland, Austria, France, the United Kingdom, Luxembourg, and Finland.
- ◆ The relatively inexpensive countries are: Slovenia, Latvia, Estonia, Lithuania, Romania, Sweden, Denmark, Bulgaria, Germany, and Spain.
- ◆ The relatively expensive countries are: Belgium, the Netherlands, Ireland, Croatia, Malta, Portugal, Hungary, Greece, and Slovakia.
- ◆ The expensive countries are: the CR and Cyprus.
- ◆ No country is in the inexpensive or expensive cluster for all the OECD usage-baskets.
- ◆ Spain, Belgium, Ireland, Hungary, Portugal, Hungary, Greece, Slovakia, the CR, and Cyprus have no offer belonging to the inexpensive cluster.

**BABIŠ SUPPORTS DIGITAL TAX FOR INTERNET GIANTS – 25. 2.**

PM Babiš supports the introduction of a special tax for Internet giants such as Facebook, Apple and Google.

The proposal for the introduction of a digital tax in the EU was submitted by the EC last year. It would entail indirect taxation of revenues from some digital activities of companies with an annual global turnover of more than €750mn and total taxable revenues of €50mn generated in the EU. The proposal did not, however, find support among EU member states in December.

"I have backed it (the digital tax) in the CoE<sup>78</sup> because the amount of taxes paid by supranational companies that operate here is not sufficient," Babiš said.

<sup>74</sup> **Westinghouse:** Westinghouse Electric Company LLC, a US based nuclear power company founded in 1999 offering nuclear products and services to utilities internationally, including nuclear fuel, service and maintenance, instrumentation, control and design of nuclear power plants. As of 2014 Westinghouse builds and operates approximately one-half of the world's operating nuclear plants. Toshiba Group is the majority owner of Westinghouse.

<sup>75</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>76</sup> **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.

<sup>77</sup> **CAE:** Czech Association of Exporters, a voluntary association that represents its members in the promotion of common interests, a transparent, non-discriminatory and free business environment in order to maintain and increase the competitiveness of domestic companies and companies, especially export companies. AE acts with state administration bodies, promotes its goals in the media, organizes educational, social and promotional actions aimed at achieving the goals.

<sup>78</sup> **CoE:** Council of Europe. is an international organisation whose stated aim is to uphold human rights, democracy and the rule of law in Europe. Founded in 1949, it has 47 member states, covers approximately 820 million people and operates with an annual budget of approximately half a billion euros. The organisation is distinct from



Austria intends to introduce its own digital tax. MF Minister Schillerová is monitoring local proposals, Babiš said.

The Czech Cabinet has not yet dealt with the issue of a potential rise of excise duty on alcohol, but the topic was mentioned during a debate on the state budget for next year, Babiš also said.

"Tax could be raised against revenues from gambling, cigarettes and alcohol, but no concrete proposal has been submitted yet," Babiš said.

#### ☰ CABINET TO DISCUSS 4<sup>TH</sup> MOBILE OPERATOR – 26. 2.

In March and April the CR will hold talks with mobile telephony operators from the US, Italy, France, the UK and South Korea about the planned introduction of a 4<sup>th</sup> operator onto the Czech market, PM Babiš said. An auction of frequencies should take place by the end of December, with the winner expected to receive them from the state in January or February 2020.

Mr. Babiš also said he would put forward a bill making it easier for customers to end their contracts with existing mobile operators in the CR.

Under his legislation, clients would be able to cancel their agreements after 2 days, instead of 10 at present, while they would be able to end a contract without paying any penalty after three months. Mr. Babiš is due to meet operators in 2 weeks' time.

#### 📊 TOYOTA RAISES SALES TO 10,338 UNITS – 27. 2.

Sales of Toyota<sup>79</sup> increased in 2018 by 17.3% to 10,338 units, the highest number in the history of the company. Toyota was able to deliver to its customers 125 models Land Cruiser and 317 pickups Hilux. The Proace is the most popular model recording a growth in sales by 160% to 742 units. The company, together with its authorised dealer Autobond Group, delivered models Land Cruiser, Hilux and Proace Verso also to the Regional Military Headquarters in Ostrava.

February 27, 2019 (14:20) | Publication: CTK - Daily News

#### 🇪🇺 SENATE PASSES EU-JAPAN ECONOMIC AGREEMENT – 27. 2.

The Senate approved the ratification of the Agreement on Strategic Partnership between the EU, its member states and Japan today, the document presents a legal framework for cooperation in tackling climate change, natural disasters and cyber crime among other areas.

The strategic partnership agreement is connected to the Agreement on Economic Partnership, which is not subject to ratification in the individual EU member states.

the 28-nation European Union (EU), although it is sometimes confused with it, partly because the EU has adopted the original European Flag which was created by the Council of Europe in 1955, as well as the European Anthem. No country has ever joined the EU without first belonging to the Council of Europe. The Council of Europe is an official United Nations Observer.

<sup>79</sup> **Toyota:** Toyota Motor Corporation (トヨタ自動車株式会社), multinational automotive manufacturer headquartered in Toyota, Aichi, Japan. In 2017, Toyota's corporate structure consisted of 364,445 employees worldwide and, as of October 2016, was the 5th-largest company in the world by revenue. As of 2016, Toyota is the world's largest automotive manufacturer. Toyota Motor Corporation produces vehicles under five brands, including the Toyota brand, Hino, Lexus, Ranz, and Daihatsu. It also holds a 16.66% stake in Subaru Corporation, a 5.9% stake in Isuzu, as well as joint-ventures in China (GAC Toyota and Sichuan FAW Toyota Motor), in India (Toyota Kirloskar), in the Czech Republic (TPCA), along with several "nonautomotive" companies. TMC is part of the Toyota Group, one of the largest conglomerates in Japan.

The EU and Japan signed the Agreement on Strategic Partnership last year and the EP<sup>80</sup> passed it together with the economic partnership agreement in December.

"Both agreements are expected to bring real advantages and opportunities to both the EU and Japanese citizens," the Czech government states in its report to support the ratification. It adds that the CR has always been in favour of the agreement as its goals are in line with Czech priorities.

Former PM Bohuslav Sobotka spoke in its favour during his official visit to Japan in 2017.

The agreement states that both parties are obliged to protect world peace and security through preventing the proliferation of weapons of mass destruction and support the 1968 Treaty on the Non-Proliferation of Nuclear Weapons.

They will also take steps to fight illegal trade with handguns and small arms. The partnership should also strengthen cooperation in fighting terrorism and organised crime.

This is a "presidential agreement" and will be signed by President Zeman after it passes through the ChD and the Senate.

### LABOUR & HEALTH & SOCIAL

#### 📊 AUTOSAP COMPANIES EMPLOYEES IN 2018 – 21. 2.

The number of employees in member companies of the AIA grew 3.8% y-o-y to 133,079 in 2018. Their average monthly wage totalled CZK40,865, up 8.7% y-o-y.

An increase in wages and employee numbers was registered in all categories - final producers, suppliers and other companies and organisations. Employee numbers and wages grew substantially in the final producers group.

The AIA has stated that Czech automotive industry managed to generate new jobs in 2018, despite a slowdown on global markets.

#### ☰ DOCTORS AND NURSES VACCINATED AGAINST MEASLES – 22. 2.

MH<sup>81</sup> Minister Vojtěch has said he wants to order a blanket vaccination of doctors and nurses in high-risk departments, such as ER, against measles<sup>82</sup> in view of the growing number of infected patients in Prague.

In January and February alone doctors have registered 51 cases, as compared to 103 cases in all of 2018.

The spread of measles is attributed to the fact that more parents are refusing to get their children vaccinated for fear of side effects. Doctors say this poses a serious problem for the whole society.

<sup>80</sup> **EP:** European Parliament, is the directly elected parliamentary institution of the European Union. Together with the Council of the European Union and the European Commission, it exercises the legislative function of the EU. The Parliament is composed of 751 members, who represent the second-largest democratic electorate in the world (after the Parliament of India) and the largest trans-national democratic electorate in the world (375 million eligible voters in 2009).

<sup>81</sup> **MH:** Ministry of Health

<sup>82</sup> **Measles:** Measles is a highly contagious infectious disease caused by the measles virus. Symptoms usually develop 10–12 days after exposure to an infected person and last 7–10 days. Initial symptoms typically include fever, often greater than 40 °C, cough, runny nose, and inflamed eyes. Small white spots may form inside the mouth 2 or 3 days after the start of symptoms. A red, flat rash which usually starts on the face and then spreads to the rest of the body typically begins three to five days after the start of symptoms. Complications occur in about 30% of cases and may include diarrhea, blindness, inflammation of the brain, and pneumonia, among others. Measles is an airborne disease which spreads easily through the coughs and sneezes of infected people. It may also be spread through contact with saliva or nasal secretions. Nine out of ten people who are not immune and share living space with an infected person will catch it. People are infectious to others from 4 days before to 4 days after the start of the rash. Most people do not get the disease more than once.

**GIA TU REJECTED INCREASE PROPOSED BY ŠKODA AUTO – 22. 2.**

KOVO<sup>83</sup> rejected the most recent proposal made by Škoda Auto for a collective agreement for 2019. The 3<sup>rd</sup> round of talks took place on February 19, 2019.

According to TU<sup>84</sup> the company's proposal represented in some classes an increase below anticipated inflation and did not reflect the demand to increase tariffs by a single fixed sum.

Škoda Auto said the proposal made by TU was unrealistically high, citing the situation on automobile markets. TU reiterated that they will suspend production if their demands are not met.

**☰ CZECHS SPENDING MORE ON ALCOHOL AND CIGARETTES – 22. 2.**

Czechs spend a bigger share of their family budget on alcohol and cigarettes than they invest in their health, according to Eurostat<sup>85</sup>.

1 in 9 adults has a drink problem and 1 in 4 smokes. This is the worst result in a comparative study of EU member states. On average a Czech family spends 3.3% of its annual budget on alcoholic beverages and 4.3% on cigarettes, while 0.5% of the budget is spent on education and 2.4% on medicines and other health products.

**CTK CABINET NOT AGREEING ON PENSION REFORM – 23. 2.**

Cabinet has not yet agreed on a joint government idea of the future form of pensions and their reform as promised in their manifesto. The coalition has only agreed on three modifications of the current system and debate on its revenues, MLSA<sup>86</sup> Minister Maláčová said.

According to the right-wing opposition, the Cabinet does not have a clear idea of the pension system reform.

"There are 4 key topics on which the coalition council has agreed. These are the women's lower pensions, a lower age at retirement for persons executing physically demanding jobs, revenues and widows' pensions," Maláčová said.

According to the Cabinet manifesto, the pension reform is one of the 6 main strategic directions of the government work.

There should be a separation of the pension account from the state budget and the establishment of a relationship between the account, the state coffers and other revenues. The pension commission is to propose the solutions with the preservation of the current demands, the definition of an overall solidarity system and encouragement for individual saving schemes.

The MLSA will draft a proposal conserving the advantages of the current system such as its stability, low costs and "public guarantees" in the administration of the insurance money.

However, the ODS disagree with the separation of the fictitious pension account from the state budget.

The system must be based on the state pillar, they say.

Maláčová is against the term reform, preferring the need to eliminate injustice from the system. "It is much more

<sup>83</sup> KOVO: the metalworkers trade union, affiliated member union of ČMKOS, with some 140,000 members.

<sup>84</sup> TU: Trade union, around 1/6 of all employees are union members in the CR.

<sup>85</sup> 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.

<sup>86</sup> MLSA: Ministry of Labour and Social Affairs

realistic to change the system than to carry out some Big Bang," Maláčová said.

ODS representative said the Cabinet and the MLSA did not seem to have much ambition to deal with system affairs, preferring partial things.

The new pension commission is also to deal with the revenues of the system.

The topic is to be discussed as the 3<sup>rd</sup> after the women's lower pensions and the earlier age at retirement of selected professions.

"We have little time since there will be elections in two years and a half. If something is to be implemented, the proposals must come up maximally within a year," TOP09<sup>87</sup> representative said.

**☰ 1 IN 5 PRAGUE WORKERS ARE FOREIGN BORN – 25. 2.**

About 200,000 foreigners work in Prague and constitute 1/5 of the workforce, according to the IPR Prague<sup>88</sup>.

Foreign workers in Prague are mainly filling jobs requiring unskilled labour it said. 2/3 are citizens of non-EU countries.

At the end of June 2018, according to the study, most were citizens of Ukraine (49,306), Russia (23,338), Vietnam (12,765), US (6,556) and China (4,967).

Meanwhile, a study by the ISCAS<sup>89</sup> notes that 4 in 5 foreigners registered in Prague have a high school diploma or university degree.

**HOSPODÁŘSKÉ NOVINY FOREIGNERS WORKING ILLEGALLY – 25. 2.**

The labour market is still missing workers and legal recruitment of foreigners is complicated and lengthy. Therefore, firms in many cases opt for illegally employing foreigners. In 2017 a total of 1,900 cases including 3,600 illegal workers were revealed; however, experts claim the number may be up to 250,000.

**GIA LIDL TO RAISE WAGES BEGINNING MARCH – 26. 2.**

Lidl<sup>90</sup> will increase wages to its employees who will earn nearly CZK1,200 more after the 3<sup>rd</sup> year of work in the company beginning March 2019. At 40 hours, they will earn CZK31,429.

The starting wage is CZK28,000 and CZK31,429 in Prague, where, after 3 years of work, employees can earn CZK32,571. In addition, Lidl will increase the meal ticket value from CZK80 to CZK100 and each employee gets a MultiSport card.

<sup>87</sup> TOP09: conservative, centre-right party, it has been noted for its support of fiscal conservatism and is considered pro-EU.

<sup>88</sup> IPR Prague: The Prague Institute of Planning and Development, is the body in charge of developing the concept behind the city's architecture, urbanism, development and formation. It is an organisation funded by Prague and represents the city in spatial planning matters.

<sup>89</sup> ISCAS: the Institute of Sociology of the Academy of Sciences of the CR, was established in its present form in 1990. Institute of Sociology is engaged in the pursuit of research into contemporary society and in the provision of post-graduate education in the field of sociology. It conducts ongoing and one-time empirical surveys, comparative research studies, public opinion surveys, and case studies, applying modern qualitative and quantitative research methods, and it also cultivates the development of sociological theory and methodology. Research at the Institute also makes use of information, concepts and methods drawn from related scholarly fields, such as economics, law, political science, demography, social geography, and gender studies.

<sup>90</sup> Lidl: discount chain, Lidl Stiftung & Co. KG, is a German global discount supermarket chain, based in Neckarsulm, Germany, that operates over 10,000 stores across Europe and USA. It belongs to Dieter Schwarz, who also owns the store chains Handelshof and hypermarket Kaufland. Lidl is the chief competitor of the similar German discount chain Aldi in several markets, including USA. There are Lidl stores in every member state of the European Union, except Latvia and Estonia. It entered the Czech market in June 2003, it now runs 236 stores on CR's market. Private brands make up more than 80% of its assortment. Lidl discount stores made a record CZK4bn pre-tax profit on CZK38.3bn sales in the CR in the 2015/2016 financial year.

MISCELLANEOUS

☰ WHITE HOUSE CONFIRMS PM'S MEETING WITH TRUMP – 21. 2.

The White House has officially confirmed the visit of Czech PM Babiš to Washington. President Trump will receive Mr Babiš on March 7.

The invitation came on the 1<sup>st</sup> day of a visit to Washington by MFA Minister Petříček, who is due to discuss bilateral and global issues with the U. S. secretaries of state and defence, and President Trump's national security advisor.

Cybersecurity issues – not least concerning those the Trump Administration says are presented by using products of Huawei and allowing implementing 5G<sup>91</sup> infrastructure – are high on the Czech agenda.

☰ ANO WOULD WIN GENERAL ELECTIONS – 23. 2.

The ANO<sup>92</sup> would win general elections, if they were held today, according to the CVVM<sup>93</sup>. ANO would get 30% of the vote, followed by the opposition Pirates<sup>94</sup> and the ODS which would both get 15%.

The ČSSD<sup>95</sup> would come 4<sup>th</sup> with 11%, just ahead of the KSČM which would get 10%.

The only other parties which stand a chance of crossing the 5% threshold needed to win seats in the ChD are the KDU-ČSL<sup>96</sup>, the SPD<sup>97</sup> and the STAN<sup>98</sup>.

☰ NCISA HEAD MAY BE REPLACED OVER HUAWEI – 25. 2.

The head of the NCISA<sup>99</sup> Navrátil may be replaced due to political pressure. He has been under fire since the NCISA issued a binding warning against ministries using Huawei's products.

The Huawei<sup>100</sup> threatened to sue after the NCISA did not rescind the warning.

<sup>91</sup> 5G: 5<sup>th</sup> generation wireless systems, abbreviated 5G, are improved networks deploying in 2018 and later. The primary technologies include: Millimeter wave bands (26, 28, 38, and 60 GHz,) are 5G and offer performance as high as 20 gigabits per second; Massive MIMO (Multiple Input Multiple Output - 64-256 antennas) offers performance "up to ten times current 4G networks;" "Low-band 5G" and "Mid-band 5G" use frequencies from 600 MHz to 6 GHz, especially 3.5-4.2 GHz.

<sup>92</sup> ANO: ANO 2011, centre-right party

<sup>93</sup> CVVM: Public Opinion Research Centre of the Institute of Sociology of the Academy of Sciences of the CR

<sup>94</sup> Pirates: The Czech Pirate Party is a political party in the CR, founded in 2009. It is a member of the European Pirate Party. The main topic of the Pirate Party is information and its fundamental meaning in modern society. The Pirates are focused mainly on civil liberties, sharing of information, effective use of technologies and privacy protection.

<sup>95</sup> ČSSD: Czech Social Democratic Party, centre-left party

<sup>96</sup> KDU-ČSL: Christian and Democratic Union – Czechoslovak People's Party, centre party

<sup>97</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>98</sup> STAN: The Mayors and Independents (Czech: Starostové a nezávislí), abbreviated to STAN, is a political party in the CR. The Mayors and Independents focus on localism and promoting powers for municipalities. The party grew out of the Independent Mayors for Region, which allied itself to the liberal conservative SNK European Democrats, but now cooperates with the similarly liberal conservative TOP 09.

<sup>99</sup> NCISA: the National Cyber and Information Security Agency, NÚKIB (Národní úřad pro kybernetickou a informační bezpečnost), is the central body of state administration for cyber security, including the protection of classified information in the area of information and communication systems and cryptographic protection. It is also in charge of the public regulated service of the Galileo satellite system. It was created on August 1, 2017 on the basis of Act Number 205/2017 Coll., amending Act Number 181/2014 Coll., on the Cyber Security and on the Amendments of the Related Acts (Cyber Security Act).

<sup>100</sup> Huawei: Huawei Technologies Co. Ltd. is a Chinese multinational networking and telecommunications equipment and services company headquartered in Shenzhen, Guangdong. It is the largest telecommunications equipment manufacturer in the world,

PM Babiš has criticised Mr. Navrátil for allegedly initially failing to explain his warning to the technology company at first.

PRÁVO HUAWEI'S POSSIBLE CYBER SECURITY THREAT – 25. 2.

Huawei comments on the case when the NCISA issued a warning against Huawei as possible cyber security threat.

It claims that the warning has been based off of the geopolitical situation without actually focusing on technologies and their cyber-security offered by Huawei.

☰ PRAGUE REMAINS 7<sup>TH</sup> RICHEST REGION IN EU – 26. 2.

Prague was the 7<sup>th</sup> richest region in the EU in 2017 in terms of per capita GDP, according to the latest data released by Eurostat. The Czech capital occupied the same position in the rankings a year previously.

GDP per person in Prague 2 years ago stood at 187% of the average for the whole of the EU. UK capital London topped the rankings, achieving 626% of the EU average.

ČTK SENATE APPROVES BILL ON NO-DEAL BREXIT – 27. 2.

The Senate<sup>101</sup> approved a bill for the case of no-deal Brexit, under which Britons would have the same rights as EU citizens in the CR in some areas until the end of 2020.

The legislation would only be applied if Britain left the EU without any agreement with Brussels.

Without the respective legislation, Britons living in the CR would be in the same position as citizens from the countries outside the EU in the case of no-deal Brexit. This would affect some 5,000 Britons workings on the Czech labour market.

Some 8,000 UK citizens in total stay in the CR legally at present. Brexit will also influence the life of Czechs in Britain where between 40,000 and 100,000 of them live, according to various estimates.

Britain is to leave the EU on March 29. The British parliament did not pass the Brexit deal previously.

British PM Theresa May admitted for the 1<sup>st</sup> time on February 26 that London might ask for a postponement of the March deadline.

LIDOVÉ NOVINY CZECH CYBER SECURITY ATTACHES – 27. 2.

The CR has been building a network of diplomats focusing on cyber security and these attaches have already been working in Washington, Tel Aviv and Brussels, where the headquarters of NATO<sup>102</sup> and the EU are seated.

The attaches specialising in protection of information and communication systems are employees of the NCISA and the MFA lent them a diplomatic rank, NCISA said.

"The 1<sup>st</sup> cybernetic attache started working at the Czech embassy in the USA at the beginning of 2016," Holy said.

The NCISA did not want to specify the work of these attaches. It said they were in contact with foreign security institutions such as the FBI, the Pentagon and the USA National Security Council.

<sup>101</sup> Senate: the Senate of the Parliament of the CR, usually referred to as the Senate, is the upper chamber of the Parliament of the Czech Republic. The seat of the Senate is Wallenstein Palace in Prague.

<sup>102</sup> NATO: the North Atlantic Treaty Organization, also called the North Atlantic Alliance, is an intergovernmental military alliance based on the North Atlantic Treaty which was signed on 4 April 1949. The organization constitutes a system of collective defence whereby its member states agree to mutual defence in response to an attack by any external party.

**CUTTING OTHER EXPENSES DUE TO HEATING – 27. 2.**

A total of 22% of Czech households have to restrict their other expenses owing to the costs of heating, and 2% of Czechs reduce temperature in some parts of their houses or flats in winter in order to save money, according to the STEM.

As many as 15% of Czech households reduce both other expenses and temperature in some parts of their homes.

More than 2/3 of those polled maintain at least 22°C in their living rooms. 1/4 set the temperature in their living rooms at exactly 22°C.

According to STEM, Czech households tend to overheat their homes in comparison with the rest of Europe, where the standard temperature is 20°C.

Only 6% of Czechs keep temperature below 20°C in their living rooms. 15 up to 20% of Czech households may be endangered by energy poverty. However, exact data are not available.

**CZECH ECONOMY IS FOURTH MOST STABLE IN EU – 27. 2.**

CR has the 4<sup>th</sup> most stable economy in the EU, following Germany, the Netherlands and Slovenia, according to the AEM<sup>103</sup>. Last year, the CR ranked 1<sup>st</sup> on the list. The EU's overall rating was 6.8 points, the highest level since 2001.

CR got 7.8 points, and Germany 8 points. France and Italy had the worst result of 5.5 points. CR maintains its stable and strong growth, exhibiting a very low level of macroeconomic imbalance. Nevertheless, its rating dropped by 0.6 point.

The domestic economy is starting to show signs of overheating. Wage growth has raised the price of labour, and CR's competitiveness is starting to decrease which caused the unsatisfactory 2018 export data compared to global trends. On the other hand, low private and public sector debt and positive labour market situation are among the main factors putting CR high on the list.

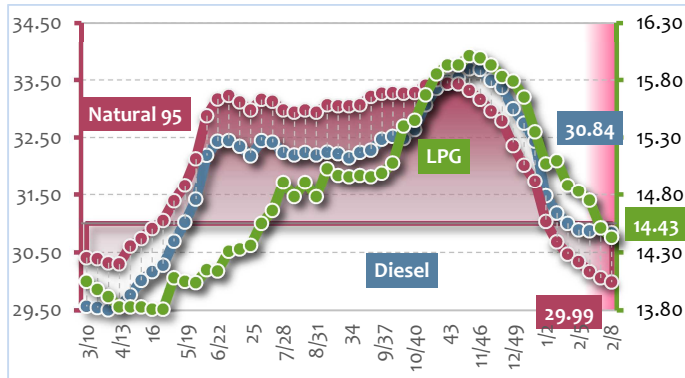
**STATISTICS**



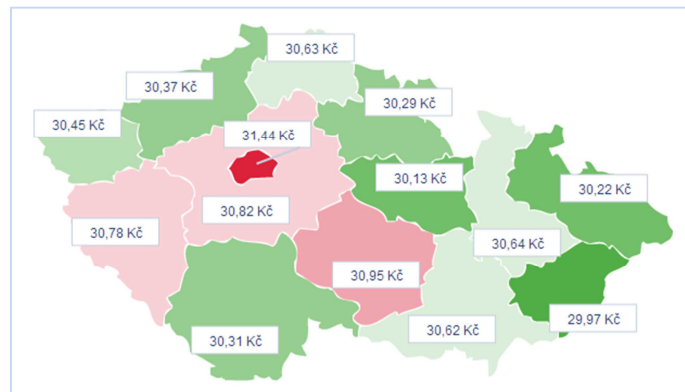
**FUEL PRICES – 22. 2.**

Natural 95 decreased by ▲7h<sup>104</sup> to CZK29.99/l over the past weeks, Diesel oil decreased by ▲10h to CZK30.84/l.

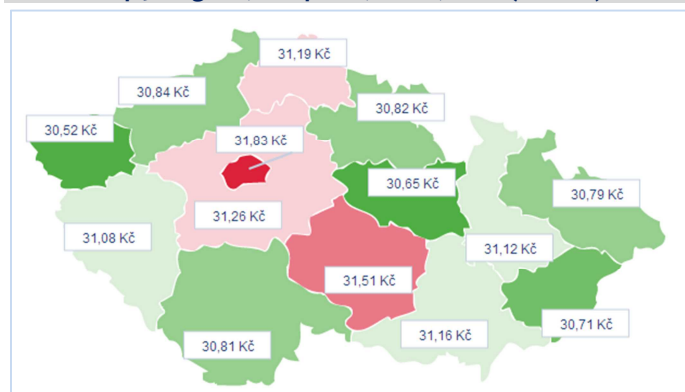
**Graph 2: Average prices<sup>105</sup>, 2018 – 2019, Month/Week (in CZK/l)**



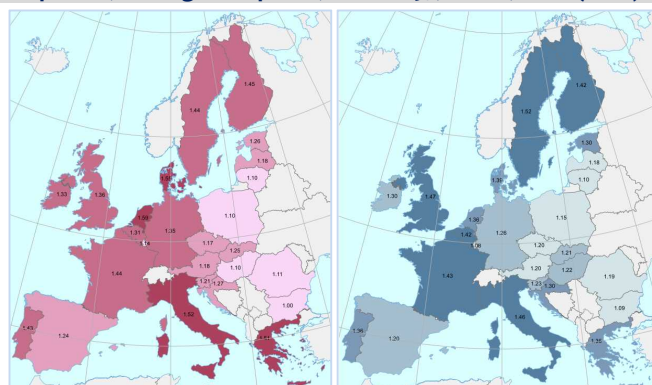
**Map 2: Regions, fuel prices, Natural 95, 24. 2. (in CZK/l)<sup>106</sup>**



**Map 3: Regions, fuel prices, Diesel, 24. 2. (in CZK/l)**



**Map 4: EU, Average fuel prices, Natural 95, Diesel, 18. 2. (in €/l)<sup>107</sup>**



<sup>103</sup> AEM: The Allianz Euro Monitor assesses the economic stability and health of the EA and other EU states. It evaluates 20 indicators in 4 main areas - fiscal sustainability, competitiveness, employment and productivity, and foreign debt. The scale from 1 (very poor) to 10 (very good).

<sup>104</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>105</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

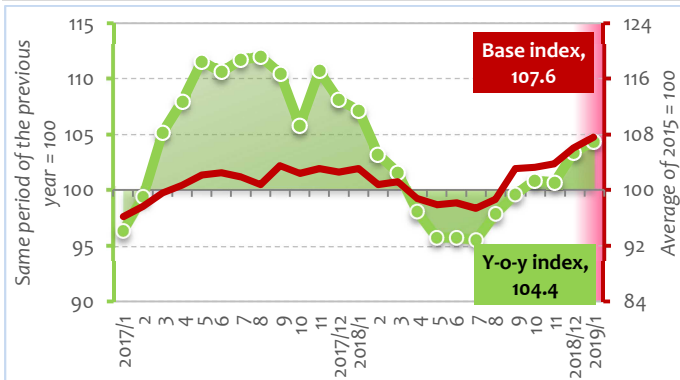
<sup>106</sup> data issued by the mBenzin.cz; <https://www.penize.cz/ceny-benzinu-a-ceny-nafty>

<sup>107</sup> data issued by the EC; <https://ec.europa.eu/energy/en/data-analysis/weekly-oil-bulletin>

PRODUCER PRICE INDICES – 25. 2.

In January 2019 compared with the previous month, agricultural producer prices (+1.4%), industrial producer prices (+1.0%) and construction work prices (+0.3%) were all higher. Prices of market services for businesses were lower by 0.6%. In comparison to January 2018, agricultural producer prices (+4.4%), industrial producer prices (+2.9%), construction work prices (+4.0%) and prices of market services for businesses (+2.7%) all went up.

Graph 3: Agricultural producer price indices, 2017-2019, Y-o-y (in %)



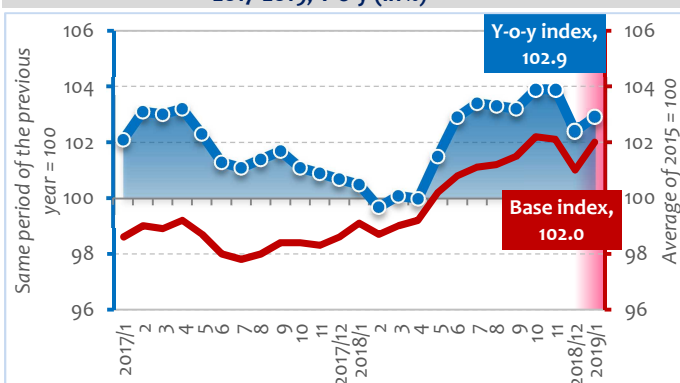
**M-o-m comparison:**

**Agricultural producer** prices increased by 1.4%. Prices of vegetables (+17.6%), milk (+1.4%), oil plants (+1.0%), cattle for slaughter (+0.9%), cereals (+0.7%) and pigs for slaughter (+0.5%) grew. On the decrease were prices of fruit (▲1.2%) and poultry (▲1.8%).

**Y-o-y comparison:**

**Agricultural producer** prices grew by 4.4% (+3.4% in December). Prices of crop products grew by 12.6% due to increasing prices of vegetables (+82.5%), potatoes (+49.5%), cereals (+16.3%) and oil plants (+7.3%). Lower were prices of fruit by 54.3%. Prices of animal products went down by 4.4%. Lower were prices of eggs (▲29.4%), pigs for slaughter (▲5.1%), cattle for slaughter (▲3.4%) and milk (▲2.3%). Among the main industrial groupings, prices of ‘energy’ (+5.2%)

increased the most. Graph 4: Industrial producer price indices, 2017-2019, Y-o-y (in %) <sup>108,109</sup>



**M-o-m comparison:**

<sup>108</sup> **Base index:** In the base index the price of the calculation period is always compared with the base period. In the base index weights are usually changed less often than yearly, for example, at intervals of five years.

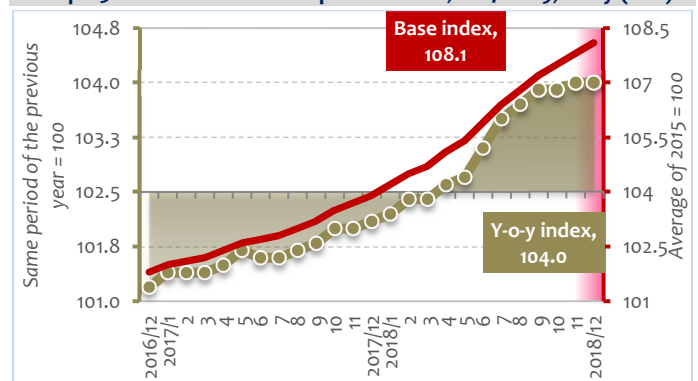
<sup>109</sup> **Base year:** Base year refers to the base point in time of a time series. Normally, years divisible evenly by five are used as base years. In releases base year is noted, for example, as 2000 = 100 or 2015 = 100. The mean of the index point figures of a base year is 100. For example, in monthly indices the index point figures of the months of the base year disclose the distribution of an examined variable between different months.

Prices of **industrial producers** were higher by 1.0%. Prices rose primarily in ‘electricity, gas, steam and air conditioning’ (+5.8%), thereof ‘electricity, transmission and distribution services’ (+7.4%), it was the highest price increasing since January 2009. Prices were higher in ‘mining and quarrying’ (+5.0%). Prices rose in ‘rubber and plastic products, other non-metallic mineral products’ (+1.2%), thereof especially ‘articles of concrete, cement and plaster’ (+4.8%). On the increase were also prices in ‘food products, beverages, tobacco’ (+0.6%), thereof ‘beverages’ (+1.5%) and ‘bakery and farinaceous products’ (+2.6%). Prices went up in ‘water supply; sewerage, waste management and remediation services’ (+2.9%). Prices went down primarily in ‘coke, refined petroleum products’. On the decrease were also prices in ‘chemicals and chemical products’ (▲3.2%).

**Y-o-y comparison:**

Prices of **industrial producers** rose by 2.9% (+2.4% in December). Prices went up particularly in ‘electricity, gas, steam and air conditioning’ (+7.2%), thereof ‘electricity, transmission and distribution services’ (+9.3%), it was, as in the case of the m-o-m comparison, the highest price increasing since January 2009. Prices increased in ‘basic metals, fabricated metal products’ (+3.4%) and ‘rubber and plastic products, other non-metallic mineral products’ (+3.6%), thereof especially ‘articles of concrete, cement and plaster’ (+7.2%). Prices were higher in ‘mining and quarrying’ (+7.9%). On the increase were also prices in ‘food products, beverages, tobacco’ (+1.8%), thereof ‘beverages’ (+3.2%), ‘bakery and farinaceous products’ (+2.7%), ‘grain mill products, starches and starch products’ (+9.4%), on the other hand, lower were prices in ‘preserved meat and meat products’ (▲1.1%). Prices went up in ‘water supply; sewerage, waste management and remediation services’ (+2.9%). On the decrease were prices only in ‘coke, refined petroleum products’, ‘chemicals and chemical products’ (▲0.3%) and ‘electrical equipment’ (▲0.2%).

Graph 5: Construction work price indices, 2017-2019, Y-o-y (in %)



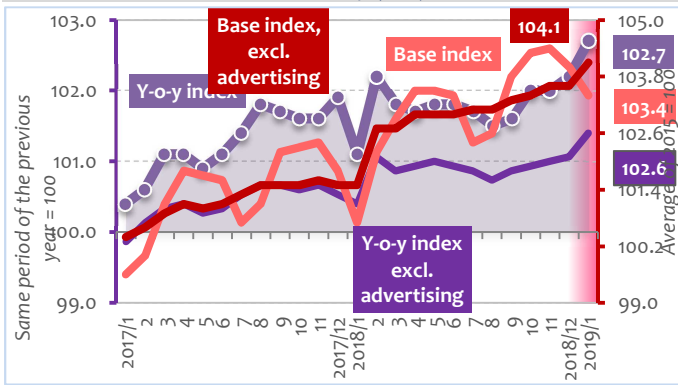
**M-o-m comparison:**

According to an estimate, **construction work** prices rose by 0.3% and construction material input prices grew by 0.7%.

**Y-o-y comparison:**

According to an estimate, **construction work** prices rose by 4.0% (like in December after specification) and construction material input prices grew by 4.9% (like in December).

Graph 6: Market services price indices in business sphere, 2017-2019, Y-o-y (in %)



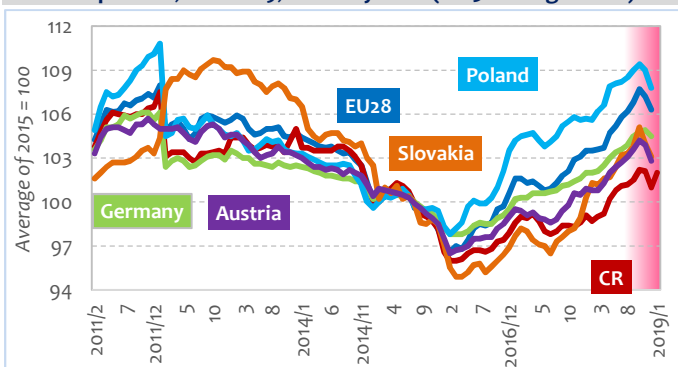
**M-o-m comparison:**

Prices of **market services** for businesses ropped by ▲0.6%. On the decrease were prices of ‘advertising and market research services’ (▲15.8%), ‘warehousing and support services for transportation’ (▲2.0%), ‘architectural and engineering services’ (▲0.7%) and ‘legal and accounting services’ (▲0.5%). Increasing were prices of ‘management consulting services’ (+6.1%), ‘employment services’ (+2.9%), ‘computer programming, consultancy and related services’ (+2.4%), ‘publishing services’ (+1.1%) and ‘land transport services’ (+0.5%). Prices of market services for businesses excluding advertising services rose by 0.5%.

**Y-o-y comparison:**

Prices of **market services** for businesses were higher by 2.7% (+2.2% in December). Increasing were prices in ‘employment services’ (+13.8%), ‘insurance, reinsurance and pension funding services, except compulsory social security’ (+8.4%), ‘security and investigation services’ (+8.2%), ‘postal and courier services’ (+6.6%), ‘management consulting services’ (+4.8%) and ‘advertising and market research services’ (+4.4%). On the increase were also prices of ‘real estate services’ (+3.3%) and ‘architectural and engineering services’ (+0.8%). Lower were prices of ‘warehousing and support services for transportation’ by ▲1.7%. Prices of market services for businesses excluding advertising services increased by 2.6% (+2.1% in December).

Graph 7: Industrial producer price indices, International comparison, 2011-2019, monthly data (2015 average = 100)



**Industrial producer prices in the EU:**

According to the Eurostat, **industrial producer** prices went down in December by 0.8% (▲0.5% in November) in EU28<sup>100</sup>, m-o-m. The largest decrease was recorded in Denmark (▲3.0%). Prices fell in the CR (▲0.4%). Prices rose the most in Latvia (+0.7%).

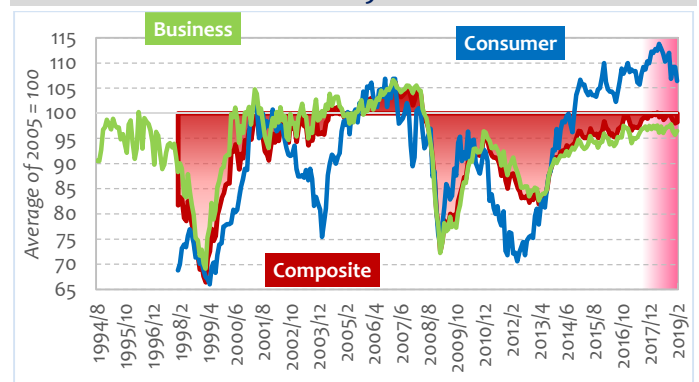
<sup>100</sup> EU28: 28 member states of the EU, which are party to the founding treaties of the union and thereby subject to the privileges and obligations of membership

**Industrial producer** prices were higher in December by 3.1% (+4.2% in November) in EU28, y-o-y. The highest increase was recorded in Estonia (+9.2%). Prices went up in Slovakia (+4.2%), Germany (+2.9%), the CR (+2.4%), Austria (+2.3%) and Poland (+2.1%). The only decreases were observed in Ireland (▲0.4%) and Greece (▲0.1%).

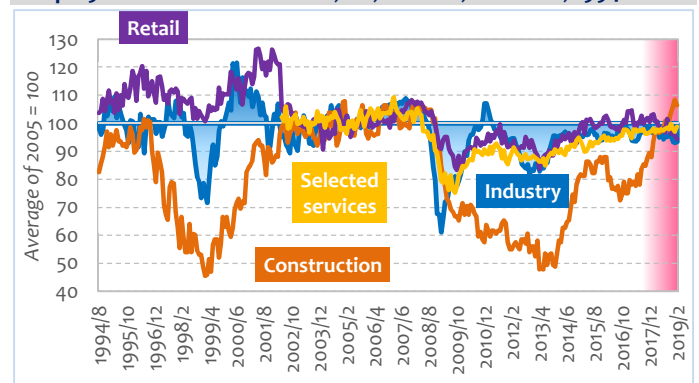
**BUSINESS CYCLE SURVEY – 25. 2.**

Overall confidence in economy increased very slightly. The composite confidence<sup>101</sup> increased by 0.2 points to 98.2 compared to January. Confidence of entrepreneurs increased slightly by 0.8 points to 96.5, m-o-m. Consumer confidence indicator decreased by ▲2.8 points to 106.4, m-o-m. Composite confidence indicator, entrepreneurs confidence indicator and consumer confidence indicator are lower compared to February 2018.

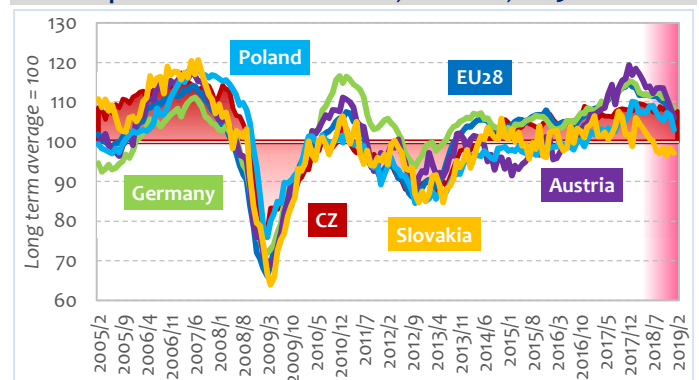
Graph 8: Confidence Indicators, SA, Overall, Basic Indices, 1994 – 2019



Graph 9: Confidence Indicators, SA, Sectors, Balances, 1994 – 2018



Graph 10: Confidence Indicators, Countries, 2005 – 2018



<sup>101</sup> economic sentiment indicator, stated by basic indices