

## ECONOMIC NEWS SUMMARY JANUARY 9 – JANUARY 15

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### ECONOMY & FINANCE

#### MORTGAGE MARKET DROPS TO CZK 181BN – 13. 1.

The mortgage market was worth CZK 181bn in 2019, which represented a year-on-year decrease by almost one-fifth. This information was provided by Hypoteční banka board chairman and general director Jiří Feix who added that the forecast for 2019 expected a result around CZK 200bn. The year 2019 on the mortgage market included banks and customers adapting to the recommendation of the Czech National Bank from October 2018 and to stricter conditions for getting a mortgage loan. For the first time in the past decade, the market dropped.

#### CURRENT ACCOUNT PASSIVE AT CZK 3.2BN – 14. 1.

The current account deficit reached CZK 3.2bn in November 2019, due to a deficit of primary income. In the balance of primary income on the liability side, dividends from direct investment totalled CZK 17.5bn. The balance of goods and services was active in the amount of CZK 23.2bn. The primary and secondary income includes a deficit of CZK 1.4bn on transfers from the Czech Republic to the EU budget. In the capital account, revenues from the EU budget amounted to CZK 19.8bn.

#### ECONOMIC GROWTH IN CEE TO SLOW DOWN TO 3.3% - 14. 1.

The Central and Eastern Europe (CEE) region will see a slowdown in economic growth to 3.3% from 3.8% in 2020, rating agency Moody's Investors Service predicts. External effects and a lack of structural reforms and a positive robust domestic demand will have a negative effect. Despite the weakening economic environment, the minimum wage should continue to increase in the CEE countries, which, while helping GDP dynamics in the short term, may jeopardize the region's cost competitiveness and increase unemployment.

#### ČNB'S BENDA SEES CZECH CROWN FIRING FURTHER – 15. 1.

The Czech central bank expects some crown firming ahead but not as strong as in previous years, rate setter Vojtěch Benda said Wednesday at an economic conference in Vienna, Reuters reports.

He is quoted as saying the Czech currency should continue to gradually strengthen but probably not at the same pace seen in 2008 and 2009, the time of the global financial crisis.

On Wednesday morning the crown gained past a key level against the euro to touch a 7-year high as markets priced in rising chances of an interest rate increase in 2020. Shortly before 10:00 am, the Czech currency traded at 25.118 CZK/EUR, according to the Patria.cz server.

### AGRICULTURE & ENVIRONMENT

#### BRUSSELS DEMANDS RETURN OF CZK 1.6 BILLION – 9. 1.

The European Commission is seeking the return of CZK 1.6 billion paid out in agricultural subsidies to the Czech Republic, iRozhlas.cz reported on Thursday. The penalty is based on an audit carried out three years ago aimed at establishing whether the funding was actually being used by farmers under the “active farmer” concept.

The European Commission says the Czech Ministry of Agriculture failed to keep sufficient tabs on how the subsidies were being allocated.

The Ministry of Agriculture disputes the findings of the EU audit and wishes to contest the amount set. It will therefore request a conciliation procedure, iRozhlas.cz said.

#### LESY ČR ANTICIPATES LOWER HARVEST – 9. 1.

Lesy České republiky anticipates in the coming years a gradual decrease of logging up to pre-calamity level of 8 million m<sup>3</sup> per year. This was stated by the CEO Josef Vojáček, according to whom harvesting will culminate in 2020 due to calamity. The company also sets out the basic directions and principles of further development in the published Development Strategy of Lesy České republiky 2019-2024. The company is e.g. changing its business model, with three new types of contracts being tendered, based on the effect the calamity has on the relevant region.

#### CZECH FARMERS' PROFIT EXCEEDS CZK 19.4 BILLION – 9. 1.

Czech agricultural turnover exceeded CZK 19.4 billion last year, discounting EU subsidies, according to preliminary data of the Institute of Agricultural Economics and Information, released on Thursday.

Agricultural production in 2018 rose by 9.1 billion crowns to over CZK 151 billion, while expenditures increased by CZK six billion to 175 billion.

According to the head of the Agrarian Chamber, Zdeněk Jandajsek, EU subsidies account for up to 25 percent of the country's overall agricultural production.

#### SVS EXTEND BIRD-FLU CHECKS AT POULTRY FARMS – 10. 1.

Czech vets have extended their special checks aimed at preventing an outbreak of bird flu to apply also to live poultry coming from Slovakia in addition to poultry from Poland, Petr Majer of the State Veterinary Administration (SVS) told CTK today.

Vets launched the checks on Wednesday, targeting farms to which live poultry is transported from Poland, where the disease was detected at five farms last week.

Slovak authorities confirmed the occurrence of bird flu at a small farm in the south of the country today. They said it was the same strongly pathogenic H5N8 avian influenza virus that was detected in Poland.

A Slovak farmer reported deaths of three out of 22 birds at his poultry farm. The Slovak national laboratory confirmed the disease on Thursday.

Preliminary results have shown that the poultry were contaminated by wild birds.

Czech breeders have been told to keep poultry indoors or take other steps to separate them from wild birds. In addition, persons and vehicles travelling to countries where bird flu has been detected need to be cautious, Majer said.

Czech commercial breeders are obliged by law to report a drop of more than 20 percent in feed or water consumption among their poultry, a fall in egg production of over 5 percent in a two-day period and if death rates increase by more than 3 percent a week.

Bird flu broke out in the Czech Republic after ten years in 2017, hitting other European countries as well. Millions of birds had to be culled then, 98,000 of them in Czechia. Almost all of the birds were contaminated by the H5N8 bird flu strain, which does not transmit to people.

According to SVS data, 2.35 million live poultry birds were imported from Slovakia to Czech farms last year, and another 1.7 million were transported to slaughterhouses. Poultry meat imports from Slovakia last year amounted to 6,392 tonnes, and egg imports reached 19.5 million pieces.

#### ☰ FROSTS CAUSE FRUIT YIELD TO FALL – 14. 1.

The fruit harvest in the Czech Republic declined by 27 percent year-on-year in 2019, according to official figures released on Tuesday. The reason for the decline was frosts in the spring, experts said.

With the exception of apricots, raspberries and blackberries, all types of fruit recorded a year-on-year fall in yield last year. The overall volume of fruit harvested in 2019 was 18 percent below the average over the last five years.

#### 🇨🇪 GOVERNMENT APPROVES ENERGY AND CLIMATE PLAN – 14. 1.

Czech government approved on January 13, 2020, an amendment to the Land Consolidation Act. It indicates that it will newly be possible to take measures against drought in multiple connected cadastral areas. The cabinet also expressed its approval of the energy and climate plan for the Czech Republic. Based on the plan, the share of renewable sources in the total energy consumption should increase to 22% in the Czech Republic by 2030.

#### 🇨🇪 SZIF TO ALLOCATE CZK 6.67BN FOR GREENING – 15. 1.

The State Agriculture Intervention Fund (SZIF) has started issuing decisions on calves for slaughter, greening and temporary national support. A total of 6,527 applicants asked for subsidies for calves. They will get over CZK 646m. The rate is CZK 8,083.99/VDJ (large cattle unit). A total of 30,217 farmers have asked for greening subsidies and they will get CZK 6.67bn. The rate is CZK 1,884.30/hectare. A total of 28,386 farmers asked for a temporary national support. A total of CZK 596m was allocated for them.

### EDUCATION & RESEARCH & IT & SECURITY

#### ☰ NEARLY 20% OF COMPANIES FACED CYBERATTACK – 13. 1.

Close to one in five companies was exposed to a cyberattack in 2018, a year on year increase of around 20 percent, according to new data released by the Czech Statistics Agency. The most common form of attack was denial-of-service, wherein the perpetrator floods the targeted resource with superfluous requests in an attempt to overload systems and prevent legitimate requests from being fulfilled. The most endangered entities are the state administration, banks, energy companies and, increasingly, universities. Experts say that the threats that companies face are not only external but sometimes from the businesses' own employees too.

#### 🇨🇪 MATERIAL TO REDUCE 5G'S ENERGY INTENSITY – 9. 1.

Scientists from the Institute of Physics of the CAS (FÚ AV) in cooperation with American and German colleagues developed a new microwave material for 5G mobile networks. It has the lowest dielectric loss and high tunability. It will significantly reduce the energy consumption of mobile

networks and the frequency of charging mobile phones. Stanislav Kamba from the Institute of Physics of the Academy of Sciences of the Czech Republic added that the material can work at up to 125 GHz, higher than required by 5G mobile networks.

#### 🇨🇪 GOV'T TO DELIBERATE INVESTMENT INCENTIVES AND 5G NETWORKS – 10. 1.

On January 13, 2020 the government of Prime Minister Andrej Babiš (ANO) will deliberate investment incentives for the strategic investments of companies AAC Technologies Oy, ZF Engineering Plzeň and Bombardier Transportation Czech Republic. Its program also includes the draft of the government directive on conditions for the use of funds from the State Housing Development Fund in the form of a loan provided for energy modernization of residential buildings. The government will also assess the implementation and development of 5G networks in the Czech Republic.

#### 🇨🇪 NUKIB HEAD TO JOIN NSC'S CENTRAL CRISIS TEAM – 14. 1.

The director of the National Cyber and Information Security Agency (NUKIB) will be a member of the central crisis team of the National Security Council, the Czech government has written on its website.

The government made the decision on Monday. The change was proposed by Defence Minister Lubomir Metnar (for ANO) and Interior Minister Jan Hamacek (Social Democrats, CSSD).

The two ministries' argued that the NUKIB head should join the team in order to improve the country's readiness to face hybrid threats. The significance of cyber security has been growing, they added.

The central crisis team prepares proposals of solutions to crisis situations such as the declaration of war or of an emergency state. Members of the team include representatives of nine ministries, the State Office for Nuclear Safety director, National Security Council secretariat head, the police chief, firefighters director, the chief-of-staff and the Presidential Office head.

NUKIB statutory deputy director Jaroslav Smid has been temporarily heading the office since December when the government sacked Dusan Navratil as NUKIB director. Prime Minister Andrej Babiš (ANO) said Navratil was sacked due to his low professionalism and insufficient managerial and communication skills.

The government declared a tender for a new NUKIB director last week. The new director should head the office as of April.

#### 🇨🇪 MIT CONCERNED ABOUT HOW 5G AUCTION SETUP – 15. 1.

- ♦ Industry ministry Havlicek reportedly doubts all of auction goals will be achieved
- ♦ Telecom regulator has argued it cannot be legally influenced by industry ministry
- ♦ Auction may be launched as early as this week

The industry ministry is reportedly concerned about how the CTU, the telecom regulator, has set up the forthcoming auction for 5G licences, according to ministry sources of E15, a newspaper. Industry minister Karel Havlicek himself has expressed doubt that the auction could reach all of its goals, which are to ensure the introduction of 5G technology and introduce a fourth mobile operator to the Czech market. It is the reason why the auction has been delayed for some time,

as the industry ministry insists on more guarantees that auction conditions will be favourable so that there will be enough participants and a competitive price will be obtained. For the time being, the CTU has been resisting pressure, arguing that the industry ministry cannot influence its decisions. Indeed, local legislation says that the CTU is independent and it is the authority that has been tasked with organising the auction. Yet, it is the government that appoints CTU leadership, so there is some pressure for things to go the way the government thinks they should be. In our opinion, the industry ministry's concerns are mostly about the possibility that even if a fourth mobile licence is awarded, it may happen at a lower price than desired. The industry ministry hopes on at least CZK 6bn (EUR 238mn) proceeds from the auction, but apparently there are people sceptical that it will happen the way currently planned. According to information of E15, the CTU may open the auction as early as this week and the goal is to wrap it up by the end of Q1 2020.

#### ☰ CR COULD LAUNCH MILITARY SATELLITE – 15. 1.

The Czech Republic could launch its own satellite to serve the new NATO satellite centre SATCEN ČR, a spokesperson for the country's military counterintelligence – which runs it – said. The hardware, which could be launched within a few years, would be part of a national satellite technology project.

The Ministry of Defence invested hundreds of millions of crowns into SATCEN ČR, which went into full operation at the start of this year. It evaluates images and data for both NATO and the Czech Army and other Czech institutions, though little information on its activities has been made public.

### INDUSTRY & ENERGY & TRANSPORT

#### ☰ AMENDING PROPOSED BUILDING ACT – 13. 1.

The Ministry for Regional Development will amend its proposal for a new Building Act, Minister Klára Dostálová told Czech Television on Monday after a meeting with the head of the Association of Towns and Districts. The decision comes after heavy criticism from the association, which primarily represents regional officials, as well as remarks from courts which studied the proposed legislation.

The ministry says it now intends to cut down on the level of centralisation it originally envisaged. Local building authorities at the district level will be preserved, while public works and large construction programmes will be decided on the state level.

#### ➡ MT IS CONSIDERING PPP FOR D35 HIGHWAY – 9. 1.

Another potential project monitored in terms of PPP (public-private partnership) is the D35 motorway. The spokesman of the Ministry of Transport, František Jemelka, has confirmed to ČIANEWS that the ministry is currently working on PPP for D4 and in connection with its success in terms of closing the selection procedure, preparation of D35 will eventually begin. A key condition for initiating a debate on this topic is the issuing of final planning decisions for the Ostrov-Mohelnice section in its entirety.

#### 📊 PASSENGER CAR REGISTRATIONS DOWN 4.4% IN 2019 – 9. 1.

The number of newly registered passenger cars in the Czech Republic for the year 2019 decreased by 4.41% y/y to 249,915.

Company cars accounted for 72.5% of the registrations and private cars for 27.5%. Only motorcycles recorded a significant increase year-on-year, by 8.5%. Other categories are roughly at the level of 2018. Registration of light commercial vehicles reached 20,436 units. Furthermore, 1,220 buses, 9,852 trucks and 18,744 motorcycles were registered. In December alone, passenger car registrations grew by 27.55%.

#### 📊 TOYOTA INCREASED NUMBER OF ORDERED VEHICLES – 10. 1.

In 2019 brand Toyota increased the number of ordered passenger cars and light utility vehicles by 16 % to 12,009. Overall it had 10,827 registered vehicles on file. Premium brand Lexus registered a 7.4% increase in registrations to 438 automobiles. The share of hybrids sold increased in the case of Toyota by 9 pp to 40 %. In the case of brand Lexus sales are stable with nine out of ten vehicles sold having hybrid propulsion. The brand's best-selling model was the Toyota Corolla with 2,786 vehicles ordered. It is followed by the Yaris (2,022 vehicles) and new generation of the RAV4 (1,801).

#### 🏛️ SUPREME COURTS CRITICISE CONSTRUCTION BILL – 10. 1.

The Czech Republic's Supreme Court (NS) as well as the Supreme Administrative Court (NSS) do not recommend that the Regional Development Ministry continue drafting the planned amendment to the construction law in the current version, according to the courts' comments available on the government's website.

Both institutions have voiced objections against almost all parts of the draft version and they have recommended that it be redrafted.

Opinions should be heard from both experts and groups whom the law concerns, the courts said.

According to NSS, the ministry has presented a draft that was prepared by one of interest groups.

The draft was prepared by lawyers of the Chamber of Commerce.

The ministry sent the articulated version of the bill to the comment procedure in November, and the procedure ended on December 23.

The bill is aimed at accelerating and facilitating the building permit procedure in the country.

Regional Development Minister Klara Dostalova told CTK the new law should come into effect in mid-2023.

In reaction to the courts' comments Dostalova said that her ministry welcomed any comments targeted at improving the bill and that she planned to hold talks with both courts.

Neither court has questioned the essence of the building law reform, which consists in the principle of integrating building authorities within the new system of state construction administration, Dostalova said.

Critics say the bill plays into the hands of developers and neglects public interests. Some opponents even say it is anticonstitutional.

"The construction bill protects public interests as well as the interests of individual participants in building proceedings," Dostalova said in reaction to the criticism today.

According to information obtained by CTK, more than 5,000 comments and objections have been gathered, and the ministry should handle them by the end of March.



#### BABIS TO DISCUSS CONSTRUCTION BILL – 12. 1.

Prime Minister Andrej Babis and Regional Development Minister Klara Dostalova will meet on Monday to hold talks about the draft construction bill with Frantisek Lukl, the chairman of the Association of Municipalities, which is criticising the draft strongly, Babis said on the Prima television station today.

According to the association, the draft is so bad that it needs to be redrafted.

Babis is also planning separate talks with Interior Minister Jan Hamacek, Culture Minister Lubomir Zaoral and preservationists.

According to the Regional Development Ministry, the bill should accelerate and simplify the building permit proceedings, cutting their length from the current average of 5.4 years to one year. The new legislation should take effect in mid-2023.

Critics say the bill plays into the hands of developers and neglects public interests. Some opponents even say it is anticonstitutional.

Large municipalities have voiced concerns about the possibility of influencing urban development.

The bill has also been criticised by protectionists and fire fighters.

According to Babis, the new law is necessary as the building permit proceedings in the Czech Republic rank among the slowest in the world.

"The 157th ranking is a catastrophe. Building proceedings currently take five and a half years, and even 13 years in relation to motorways," Babis noted.



#### COAL COMMISSION TO DRAFT PHASEOUT OPTIONS – 13. 1.

The Czech coal commission will prepare the scenarios of a fast, medium and slow path towards coal phaseout and will present them in September along with recommendations for the government, Industry Minister Karel Havlicek, who chairs the commission, told journalists after the commission's meeting today.

The fast scenario would envisage the phaseout in 2030-2035, the medium one in 2035-2045 and the slow one in 2045-2050. Ideally, the cabinet could make a decision by the end of the year, Havlicek said.

The medium option would mean a compromise reached by industry representatives and environmental organisations. The slow path would be used if something extraordinary happened and the country needed to keep mining coal longer, Havlicek said.

The fast-growing price of carbon credits might require a faster phaseout, he added.

All the parties involved should be prepared for all options, he said.

The speed of the coal phaseout will also depend on how the country manages to use and extend new sources of energy, Havlicek said.

This concerns, for instance, the planned construction of a new unit of the Dukovany nuclear power plant, which should be completed in 2036, or the fulfilment of ambitions in the use of renewable sources.

"In my opinion, the medium path should be realistic," Havlicek said.

Along with the scenarios, the commission will present their impacts on the industry, economic structure, energy and environment as well as analyses of their social impacts on employment in the regions hit by the phaseout.

Scientists say clearly that the Czech Republic must end coal mining and exploitation by 2030, Jiri Kozelouh of environmentalist movement Friends of the Earth, Hnutí Duha, noted.

The 19-member coal commission's task is to solve issues connected with the planned coal phaseout as well as the overall energy mix in the Czech Republic, including renewable sources and nuclear power.

The commission, chaired by Havlicek and Environment Minister Richard Brabec, meets once a month.



#### DRAFT OF BUILDING ACT REMAINS UNACCEPTABLE – 14. 1.

The draft of the new Building Act remains absolutely unacceptable for the Association of Regions of the Czech Republic (AK ČR). A concentration of professional agendas ensuring respect for the public interest in a single state office would, according to AK ČR, result in a decline in expertise and a noticeable increase in corruption risk. The Governor of the Vysočina Region, Jiří Běhounek (on behalf of ČSSD) in charge of AK ČR management, added that the acceleration of planning and construction proceedings is possible only by digitization and sensitive, balanced adjustments to procedural rules. And this involves not only the Building Act, but also the Code of Administrative Procedure and other laws.



#### AGC AUTOMOTIVE RAISED NUMBER OF CAR GLASSES – 14. 1.

In 2019, Chudeřice-based automotive glass manufacturer AGC Automotive Czech increased year-on-year the number of development of new types of windshields from 146 to 151. On average, it takes about 2.5 years to prepare one project from initial customer request to production. 40 people participate in the development. Car makers want more and more windshields combined with information and entertainment for the driver and the entire crew.



#### ŠKODA AUTO DELIVERED 1.24M CARS IN 2019 – 14. 1.

ŠKODA delivered in 2019 a total of 1.24 million vehicles worldwide. This represents a year-on-year drop of 0.9%, mainly due to the declining overall passenger car market in China. In other markets, ŠKODA increased its deliveries to customers by 5.3% to 960,700 vehicles. In Europe (+ 5.8%) and Russia (+ 8.8%), the carmaker recorded another record year. In December 2019 alone, ŠKODA AUTO increased its deliveries to customers worldwide to 114,700 (+ 9.1%). In 2020, the fourth generation of the OCTAVIA will enter the markets, and the mass production of the first modular electrified platform (MEB) will also be launched.



#### CZECH HAULIERS SEE ONE-THIRD DROP – 14. 1.

Czech hauliers recorded a 33-percent decrease in their international lorry transport in the first three quarters of 2019, seeing a drop for the fourth consecutive year due to foreign competition, hauliers' association Cesmad Bohemia told CTK in a press release today.

In the period between the country's EU entry in 2004 and 2018, revenues of Czech hauliers decreased by 45 percent, the volume of freight falling by 10.2 percent.

"About 50 percent of Czech hauliers, whose qualities have been time-tested over their 30-year existence, are posting losses at present, as eastern competition is taking over their contracts," Cesmad spokesman Martin Felix said.

In addition, these competitors do not pay taxes in this country, so the situation has a significant impact on the state budget as well, he said.

Moreover, some of domestic hauliers have seen their expenditures rise in connection with the extension of the toll duty to another 900 km of roads as of January, he added.

Cesmad representatives held talks about the situation with Prime Minister Andrej Babis today.

Babis understands the seriousness of the situation and has promised support, Cesmad head Josef Melzer said.

At talks with Finance Minister Alena Schillerova planned for next week, Cesmad is going to propose steps towards creating equal conditions for domestic and foreign hauliers with regard to the road tax, diesel oil excise duty, toll rates and other payments, Melzer said.

#### **TPCA TO MANUFACTURE YARIS FOR TOYOTA IN KOLÍN – 15. 1.**

Automaker Toyota Peugeot Citroën Automobile Czech (TPCA) will manufacture the model Yaris for Toyota in its Kolín-based plant. It will produce cars with petrol and hybrid engines there. The company will announce the timing of the production, the volume of investments and the estimate volume of the production later.

### **INVESTMENTS & TRADE & SERVICES**

#### **SALES OF HYBRID CARS UP BY 73 PERCENT IN 2018 – 9. 1.**

Sales of hybrid cars in the Czech Republic increased by 73 percent last year to over 8,300 vehicles, while the country's automobile market dropped by four percent. Sales of electric cars increased by three percent to 636 vehicles.

The share of hybrid vehicles combining a petrol or diesel engine with a battery and electric motor on overall car sales currently amounts to over 3.3 percent, according to data released by the Car Importers Association on Thursday.

The highest number of hybrids, over 4,000, was sold by Toyota, followed by Audi and Mercedes-Benz. Czech car-maker Škoda sold 85 of its Superb iV plug-in hybrids last year.

#### **KOYO BEARINGS INVESTS CZK 22M IN CNC LATHES – 13. 1.**

Koyo Bearings is investing over CZK 22m in three CNC lathes. In the first phase, the producer of bearings, control systems, axles, machines and tools has installed the OKUMA LT 200EX-2T2M machine. It is equipped with two spindles, two revolving heads with tools and a so-called manipulator to handle other than circular parts. The second phase is planned for the end of February 2020.

### **LABOUR & HEALTH & SOCIAL**

#### **UNEMPLOYMENT UP AT 2.9 PERCENT IN DECEMBER – 9. 1.**

Unemployment in the Czech Republic rose to 2.9 percent in December, up from 2.6 percent in November, according to data released by the Czech Labour Office on Thursday.

Despite the rise, it is the lowest figure for the period of December since 1996. According to the statistics, there are currently 215,500 people seeking employment.

The lowest unemployment rate was in Prague, with 1.9 percent, while the highest number of unemployed, 4.4 percent, was registered in the region of Moravia-Silesia.

### **GROWTH OF PENSIONS WILL CONTINUE – 12. 1.**

The growth of pensions will continue regardless of the economic situation of the country and in 2021 the average monthly pension should reach 15,000 crowns, Prime Minister Andrej Babiš said in a debate on commercial TV Prima on Sunday.

He also rejected claims that the Czech pension is in danger of collapsing in view of the retirement of people from particularly high birth rate years in the near future.

According to Mr. Babiš, this decline will be replaced by higher social contributions from rising wages.

The cabinet is to debate a proposed pension reform on Tuesday.

### **FOOD RETAIL CHAINS TO RAISE SHOP STAFF'S WAGES – 12. 1.**

Food retail chains operating on the Czech market are planning to raise wages of their shop staff further as well as to introduce new benefits this year, according to a poll conducted by CTK.

According to union of workers in commerce, logistics and services (UZO) president Renata Burianova, trade unions of most of food retail chains have managed to negotiate wage hikes of around 10 percent.

Albert raised wages by 9 percent as of January, investing about Kco.5bn in the wage hike.

Albert operates more than 300 supermarkets in Czechia, employing over 10,000 people in them. Since the end of 2016 it has raised its shop staff's wages by almost 60 percent on average.

Billa, which runs over 200 stores employing about 6,000 people, raised wages by 17 percent on average and plans to improve working conditions this year as well. It will disclose details after it finishes talks with partner organisations, Billa spokeswoman Dana Bratankova said.

Kaufland is planning changes in benefits and education opportunities for employees. It will disclose details later, spokeswoman Renata Maierl said.

Kaufland operates more than 1,000 stores in Czechia, employing about 15,000 people in them.

Penny Market raised wages last time in March 2018, hiking them by 10 percent on average. The current terms are valid until February 29, with collective bargaining about the next period starting in January, communication manager Tomas Kubik said.

Penny runs almost 400 stores with over 5,600 workers.

Globus has invested over a half of its profit in wages over the past three years, raising them by 40 percent. It plans further investment for this year, depending on the development of the Czech economy and the company's business results, corporate communication head Rita Gabrielova said.

Globus employs 5,400 people, one fifth of them in its own stores. It runs 15 hypermarkets in Czechia.

Tesco plans to raise wages, too. Collective bargaining is to start within three months, spokesman Vaclav Koukolicek said. Tesco's about 200 stores employ 8,400 people.

Lidl, too, raises wages regularly, along with increasing its offer of benefits. For this year it expects the pressure on wage rise to moderate, spokeswoman Zuzana Hola said.

Lidl employs over 11,000 people in Czechia, where it operates more than 250 stores.

According to the Platy.cz portal, a Czech shop assistant earns between Kc17,000 and Kc31,000 monthly, depending on the region and employer.

The Czech average wage rose by 6.9 percent yr/yr to Kc33,697 in Q3 2019, according to data from the Czech Statistical Office (CSU).

#### AVERAGE PENSION TO EXCEED CZK 15,000 IN 2021 – 13. 1.

Pensions will continue to grow and in 2021 the average pension should exceed CZK 15,000. Prime Minister Andrej Babiš (ANO) said this in TV Prima's political discussion show Partie, adding that the government intends to include increases in pensions in the budget frameworks for the coming years. A. Babiš added that the resources consist of increasing wages and hence higher premium payments. No news in this category.

#### MLSA TO SUBMIT DRAFT PENSION REFORM IN MONTHS – 13. 1.

Minister of Labour and Social Affairs Jana Maláčová (ČSSD) will present a specific legislative draft of pension reform within several months. She made this statement on January 10, 2019 following a meeting of the Commission for Fair Pensions and added the standard must target financial sustainability of the pension system, its simplification and justice. The parties have agreed on the pension system architecture which assumes the division of the current first pillar into two parts. The so-called zero pillar will form the basis financed from taxes while the new first pillar will consider the extent of merit and should be drawn from social security payments.

#### ALTERNATIVE TO MEAL VOUCHER SYSTEM – 14. 1.

The Czech government coalition (ANO and Social Democrats, ČSSD), decided to preserve the current meal voucher system in the coming years and add an option of using the employee benefit as untaxed income, Finance Minister Alena Schillerova (for ANO) said.

The tax relief will be the same for meal vouchers and the alternative, she said.

The alternative was designed for the million employees in Czechia that get no benefits because their employers cannot afford them, Schillerova said.

About 1.5 million employees get meal vouchers.

Unions rejected the plan to introduce an alternative benefit system in the autumn. Restaurateurs, on the other hand, welcome it, complaining about administration and commissions on meal vouchers.

Meal voucher companies think the change will affect regular eating habits, decrease the number of cafeterias and lower budget revenues.

The change is supposed to be part of the tax package which is to take effect in 2021 and reduce the administration burden and tax exemptions, Schillerova said.

The coalition today postponed discussion about the abolition of the super-gross wage (employee's gross wage plus social and health insurance) until it holds talks on next year's budget, ČSSD leader Jan Hamacek said.

#### EXPENDITURE ON PENSIONS IS AVERAGE IN EU – 15. 1.

Expenditure on pensions is the eighth lowest in the EU in relation to GDP in the Czech Republic. While the EU28 countries averaged 9.2% of GDP in 2017, it was 6.8% in the Czech Republic. According to the National Budget Council

(NRR), after adjusting for the effect of population aging, taxation and the share of compensation of workers in GDP, the amount of pension expenditure in the Czech Republic is average compared with the situation in EU. Therefore, according to the NRR opinion, lower gross expenditure on pensions in the Czech Republic cannot be a relevant argument that there is a significant room for increasing public expenditure.

### MISCELLANEOUS

#### VISEGRAD FOUR PMS, AUSTRIAN PM TO MEET – 9. 1.

Czech PM Andrej Babis (ANO) will meet his counterparts from the Visegrad Group (the V4, comprised of Czechia, Slovakia, Poland and Hungary), as well as Austrian Chancellor Sebastian Kurz, at a summit to be held in Prague next week, the government office reported in a press release today.

The venue of the summit will be the National Museum in Prague and the main topics will include transportation, defence, energy and EU agenda.

The summit will begin on Thursday, when Babis plans to meet Polish PM Mateusz Morawiecki, Hungarian PM Viktor Orban and Slovak PM Peter Pellegrini.

Kurz, whose government was appointed by Austrian President Alexander Van Der Bellen on Tuesday, will arrive one hour later.

After the meeting of all five officials, they will have a working lunch and then gather for a joint press conference.

After the press conference, Babis will use the opportunity to have a bilateral meeting with Kurz.

#### MAJORITY DO NOT WANT REFERENDUM ON CZEEXIT – 10. 1.

The majority of Czechs do not want a referendum in which the country would vote on whether to leave the EU.

In a poll conducted by the CVVM agency 54 percent of respondents said they would be against such a referendum being held; 30 percent would welcome it.

If it were to take place 21 percent of respondents said they would vote for Czeexit while 45 percent would be against.

#### ZEMAN SNUBS CHINA OVER LACK OF INVESTMENTS – 12. 1.

President Miloš Zeman will not go to China in April for the 17 + 1 summit, attended by representatives from Central and Eastern Europe. He said one of the reasons for his decision was the lack of Chinese investments in the Czech Republic contrary to promises made.

Zeman told Blesk.cz. he would ask Deputy Prime Minister Jan Hamáček to represent the country at the talks in China, which he considered adequate to the level of cooperation.

It is the first snub from the Czech head of state, who has spearheaded efforts to bring about a restart in Czech-Chinese relations.

In the same interview, the president confirmed his participation in the planned V-Day celebrations in Moscow.

His participation was uncertain after the Russian Foreign Ministry criticized the introduction of a Czech memorial day commemorating the victims of the Soviet-led invasion of Czechoslovakia in 1968. Mr. Zeman said he intended to bring up the issue in person during the visit.

#### PRAGUE AND TAIPEI SIGN SISTER CITY AGREEMENT – 13. 1.

Prague Mayor Zdeněk Hřib has signed a partnership agreement with the Mayor of Taiwan's capital Taipei, Ko

Wen-je, on economic, trade and cultural cooperation, the Czech News Agency reported on Monday. Three other memoranda, including one on cooperation between the cities' zoos, were signed as well. Partnership between the cities was agreed upon by the Prague City Hall leadership during a visit to Taiwan last spring, and the plan was then approved by the City Hall assembly at the end of 2019. Prague previously had a sister agreement with Beijing, but a dispute over a clause regarding the One China policy led to it being terminated by the Czech capital last October.

#### KUBERA'S TRIP WILL DAMAGE RELATIONS WITH CHINA – 13. 1.

President Miloš Zeman will ask Deputy Prime Minister and ČSSD chairman Jan Hamáček to replace him on his trip to China. The President has stated in an interview for Blesk.cz that he believed that the Chinese party did not fulfil what it had promised and his exchange with J. Hamáček could be seen as a signal. Mr. Zeman also stated that if Senate chairman Jaroslav Kubera (ODS) indeed visits Taiwan, his trip will damage the Czech Republic's relations with China. In the interview, the President also appreciated Helena Valková's (for ANO) decision to withdraw her candidacy for the Ombudsman and a stated that he would not oppose the nomination of former Minister of Education Kateřina Valachová (ČSSD).

#### SHANGHAI CUTS ALL OFFICIAL TIES WITH PRAGUE – 14. 1.

China's biggest city, Shanghai, has cut all official ties with Prague, news agency Reuters reported on Tuesday. The move came after Prague City Hall signed a partnership agreement with the Taiwanese capital of Taipei on Monday and is seen as the latest exchange in Czech-Chinese diplomatic tensions.

Prague previously had a sister city agreement with the Chinese capital of Beijing, which included a clause recognising the One China policy. However, following elections in 2018, Prague City Hall's new ruling coalition said it wanted to remove the clause, sparking a series of tit-for-tat moves that led to the cancelling of the agreement.

#### PRAGUE-TAIPEI DEAL MAY AFFECT TOURISM & TRADE – 14. 1.

The signing of a partnership agreement between Prague and Taiwan's capital Taipei and the subsequent suspension of all official interactions with Prague on the part of Shanghai may harm tourism in the Czech capital, the Czech Chamber of Commerce and the Mixed Czech-Chinese Chamber of Mutual Cooperation said today.

#### ANO WAY OUT IN FRONT – 15. 1.

The governing ANO party would have taken 33.6 percent of the vote if elections had been held last month, suggests a poll conducted by the STEM agency. The December survey

indicates that the Pirate Party and the Civic Democrats would have tied for second on 12.3 percent each.

All nine of the parties in the current Chamber of Deputies would get back in, according to the poll. Though previous polls put them approaching the 5 percent threshold, the Tricolour party of Vaclav Klaus Jr. would only have received 0.5 percent of the vote in December, the new survey suggests.

### STATISTICS



#### EXTERNAL TRADE<sup>1</sup> – 9. 1.

According to CuP<sup>2</sup> preliminary data, in **November 2019** the external trade balance in goods ended in a surplus of CZK10.2bn, which thus was by ▲CZK6.9bn lower, y-o-y.

Total balance of international trade<sup>3</sup> in goods<sup>4</sup> was unfavourably influenced mainly by a larger deficit in 'computer, electronic and optical products' by ▲CZK6.6bn and by a lower surplus in 'motor vehicles, trailers and semitrailers' by CZK5.0bn. The trade deficit in 'electrical equipment' was by ▲CZK1.1bn larger, y-o-y.

Total balance of international trade<sup>5</sup> in goods<sup>6</sup> was unfavourably influenced mainly by a larger deficit in 'computer, electronic and optical products' by CZK6.6bn and by a lower surplus in 'motor vehicles, trailers and semitrailers' by CZK5.0bn. The trade deficit in 'electrical equipment' was by ▲CZK1.1bn larger, y-o-y.

A lower deficit in 'crude oil and natural gas' by CZK2.0bn (the impact of falling prices on world markets), 'basic metals' by CZK1.8bn (the impact of falling prices and declining imports); and 'chemicals and chemical products' by CZK1.1bn brought the main positive effect on the total balance.

In November 2019, the trade balance with the EU28<sup>7</sup> Member States ended in a surplus of CZK64.8bn, and thus it was by CZK7.5bn lower, y-o-y. The trade deficit with non-EU countries decreased by ▲CZK0.9bn to reach the amount of CZK53.2bn.

**Compared to October 2019**, the SA exports and imports fell by ▲2.3% and ▲1.8%, respectively. The trend shows decreasing exports (▲0.4%) and imports (▲0.7%).

Compared to the same month of 2018, exports decreased by ▲6.2% to reach CZK325.5bn, and imports fell by ▲4.4% to attain CZK315.4bn. November 2019 had one less working day than November 2018.

In the period from **January to November 2019**, surplus of the trade balance in goods amounted to CZK152.1bn, which represented an increase by CZK49.0bn, y-o-y. From the beginning of the year, exports and imports went up by 2.3% and 0.9%, respectively, y-o-y.

<sup>1</sup> Since 2020, the CSO has changed the terminology and the manner in which data is presented. The external trade is now referred to as international trade. The data based on the change of ownership between residents and non-residents (former so-called the "national concept of external trade"), from now on, it will be referred to as "international trade in goods (change of ownership)". The "cross-border concept of external trade" will be referred to Cross-border movements of goods.

<sup>2</sup> CuP: current (or "nominal") prices for each year are in the value of the currency for that particular year, are influenced by the effect of price inflation.

<sup>3</sup> The international trade balance is the difference between exports from the Czech Republic and imports to the Czech Republic.

<sup>4</sup> The international trade in goods reflects export and import performance of the Czech economy, i.e. the international trade balance of the Czech Republic as well. It measures

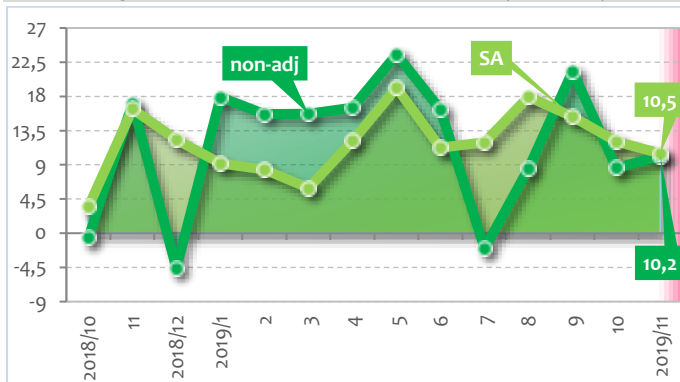
real trade in goods carried out between Czech entities and foreign ones, i.e. the change of ownership between residents and non-residents.

<sup>5</sup> The international trade balance is the difference between exports from the Czech Republic and imports to the Czech Republic.

<sup>6</sup> The international trade in goods reflects export and import performance of the Czech economy, i.e. the international trade balance of the Czech Republic as well. It measures real trade in goods carried out between Czech entities and foreign ones, i.e. the change of ownership between residents and non-residents.

<sup>7</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

Graph 1: External Trade, CuP, 2018 – 2019 (in CZKbn)



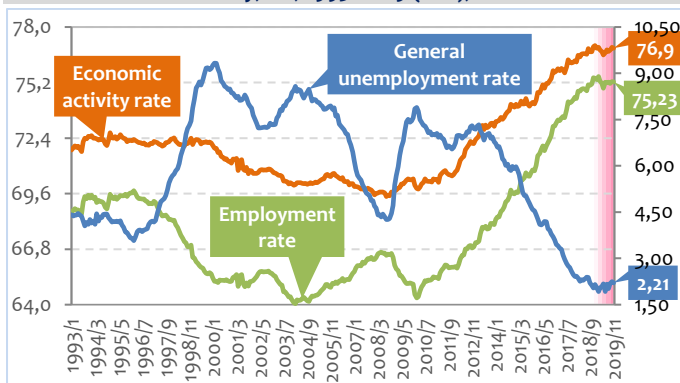
UNEMPLOYMENT LFSS – 9. 1.

The **employment rate**<sup>8</sup> SA, reached 75.2% in November 2019 and decreased by ▲0.2pps compared to that in November 2018.

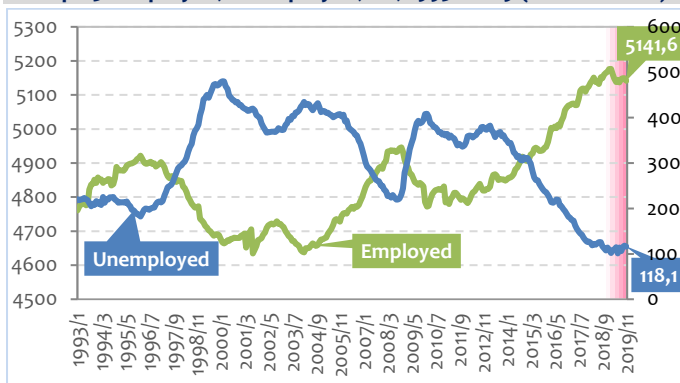
The **general unemployment rate**<sup>9</sup> SA, reached 22.2% in November 2019 and increased by 0.2pps, y-o-y.

The **economic activity rate**<sup>10</sup> SA, reached 76.9% and declined by ▲0.1pps compared to that in June 2018.

Graph 2: Rates of employment, unemployment and economic activity, SA, 1993 - 2019 (in %), LFS



Graph 3: Employed, unemployed, SA, 1993 - 2019 (in thousands)



CONSTRUCTION – 10. 1.

In **November 2019**, the SA WDA<sup>11</sup> construction output increased by 4.5%, y-o-y, in real terms. The SA construction output increased by 1.2%, m-o-m. The planning and building

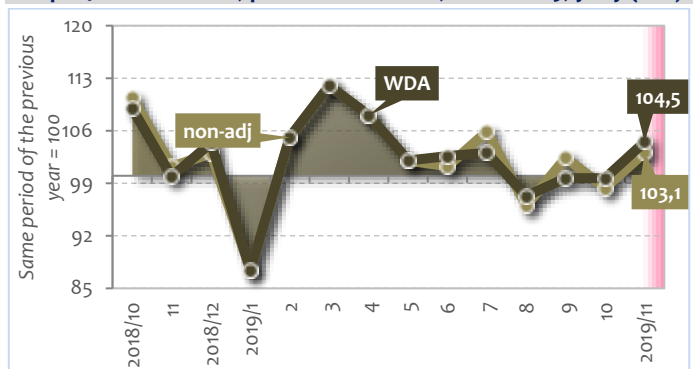
<sup>8</sup> **Employment rate**: the share of the employed persons in the age group 15 – 64 years, as%age, seasonally adjusted, **data are issued by the CSO based** on the results of the Labour Force Survey (LFS).

<sup>9</sup> **General unemployment rate**: the share of the unemployed in the labour force in the age group 15 – 64 years, that is in the total number of the employed and the unemployed, as%age, seasonally adjusted, **data are issued by the CSO based** on the results of the Labour Force Survey (LFS).

<sup>10</sup> **Economic activity rate**: the share of the number of the economically active in the total number of persons in the age group 15 – 64 years, as%age, seasonally adjusted, **data are issued by the CSO based** on the results of the Labour Force Survey (LFS).

control authorities granted by 2.2% more building permits, y-o-y; the approximate value of permitted constructions dropped by ▼15.1%, y-o-y. The number of started dwellings decreased by ▲11.8%, y-o-y. The number of completed dwellings increased by 38.0%, y-o-y.

Graph 4: Construction, production indices, 2018 – 2019, y-o-y (in %)



INDUSTRY – 10. 1.

In **November**, WDA CoP industrial production decreased by ▲3.2%, y-o-y. SA industrial production decreased by ▲1.1%, m-o-m. The value of new orders decreased by ▲2.9%, y-o-y.

CoP industrial production decreased in November 2019 by ▲1.1%, m-o-m. In the y-o-y comparison, it decreased by ▲3.2%, partially owing to a high comparison base of the previous year. The following economic activities contributed the most to the y-o-y change in industrial production: manufacture of other transport equipment (▲0.7pps, ▲28.8%), manufacture of machinery and equipment (▲0.6pps, ▲7.6%), and manufacture of motor vehicles, trailers and semi-trailers (▲0.6pps, ▲3.0%). Industrial production increased in the following economic activities: manufacture of electrical equipment (+0.4pps, +6.6%), manufacture of rubber and plastic products (+0.4pps, +6.0%), manufacture of basic pharmaceutical products and pharmaceutical preparations (+0.2pps, +14.8%). Non-adj industrial production was by ▲5.7% lower, y-o-y (there was one working day less in November 2019 compared to November 2018).

CuP sales from industrial activity decreased by ▲6.0%, y-o-y, in November 2019. Direct export sales of industrial enterprises decreased at current prices by ▲7.7%. CuP domestic sales, which include also indirect export via non-industrial enterprises decreased by ▲3.7%.

The value of new orders in surveyed industrial CZ-NACE<sup>12</sup> activities decreased by ▲2.9%, y-o-y, in November 2019. Non-domestic new orders decreased by ▲0.5%, while domestic new orders decreased by ▲8.0%. The y-o-y decrease of new orders in total was contributed to by the following CZ-NACE divisions: manufacture of computer, electronic and optical products (▲1.2pps, ▲11.5%), manufacture of basic metals (-1.0pps, ▲15.8%), and manufacture of machinery and equipment (▲0.9pps, ▲8.0%). New orders increased in manufacture of motor vehicles, trailers and semi-trailers

<sup>11</sup> **WDA**: working days adjusted

<sup>12</sup> **NACE**: Nomenclature générale des Activités économiques dans les Communautés Européennes, Statistical Classification of Economic Activities in the European Community, the industry standard classification system used in the EU. The current version is revision 2 and was established by Regulation (EC) No 1893/2006. It is the European implementation of the UN classification ISIC, revision 4; **CZ-NACE**: Classification of Economic Activities according to the CSO

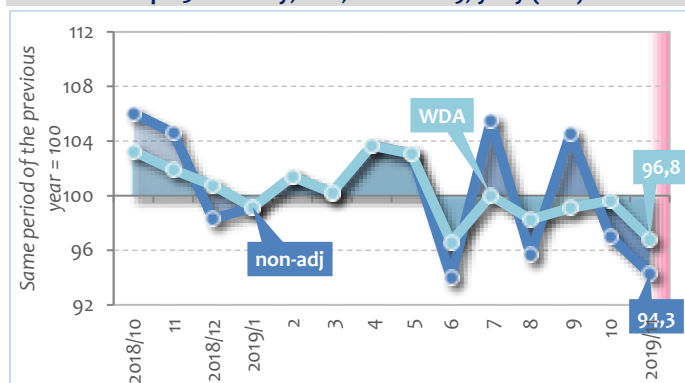


(+2.4pps, +6.7%), manufacture of electrical equipment (+0.4pps, +4.2%), and manufacture of paper and paper products (+0.02pps, +0.7%).

The average registered number of employees in industry decreased in November 2019 by ▲1.7%, y-o-y. Their average gross monthly nominal wage increased in November 2019 by 3.6%, y-o-y.

According to the Eurostat<sup>13</sup>, WDA industrial production in the EU28 in October 2019 decreased by ▲1.7%, y-o-y.

Graph 5: Industry, CoP, 2018 – 2019, y-o-y (in %)



SECTOR ACCOUNTS QUARTERLY – 10. 1.

According to SA<sup>14</sup> data, the total of monetary and non-monetary income of households increased in real terms by 1.6%, q-o-q<sup>15</sup>. The real consumption per capita increased by 1.2%, q-o-q, and the saving rate increased by 0.5pps. The investment rate of non-financial corporations increased by 0.3pps compared to the previous quarter.

The profit rate<sup>16</sup> in the Q<sub>3</sub> 2019 was 46.4%, which is by 0.1pps more, q-o-q, and by 0.7pps more, y-o-y. The total labour costs of non-financial corporations increased by 6.2%, y-o-y. The investment rate increased by 0.3pps, q-o-q, and reached 28.0%. It decreased by ▲1.2pps, y-o-y.

Household real income<sup>17</sup> increased in the Q<sub>3</sub> 2019 by 1.6%, q-o-q, and by 3.6% in the y-o-y comparison. The household real consumption<sup>18</sup> grew slower, q-o-q, namely by 1.2%, q-o-q, and by 3.9% in the y-o-y comparison.

The average monthly income from employment<sup>19</sup> reached CZK34,532 non-adj<sup>20</sup>, in the Q<sub>3</sub> and it increased in real terms by 1.2%, q-o-q; in the y-o-y comparison it was 3.5% up.

Resulting from the faster growth of household income compared to their expenditure was a higher saving rate<sup>21</sup> compared to the previous quarter, i.e. 11.0%. The investment

<sup>13</sup> Average registered number of employees: in industrial enterprises with 50+ employees, the registered number of employees indicator does not include persons working under various contracts for work, working owners of enterprises, and cooperating household members, who do not have contracts of employment. The piece of data on the registered number of employees in industry also excludes agency workers, who have contracts of employment within activities of services (CZ-NACE 78.2).

<sup>14</sup> SA: seasonally adjusted, Seasonal adjustment is a statistical method for removing the seasonal component of a time series that exhibits a seasonal pattern, which allows to analyse the trend of a time series independently of the seasonal components.

<sup>15</sup> Q-o-q: quarter on quarter, compared with preceding quarter

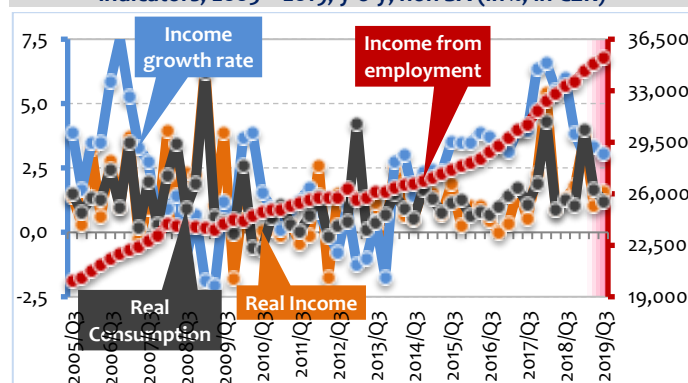
<sup>16</sup> Profit rate of non-financial corporations: is defined as the gross operating surplus divided by the gross value added. The indicator refers to profitability of production factors from the production process.

<sup>17</sup> Household real income per capita: is defined as the adjusted gross disposable income of households, in nominal terms, divided by the mid-year population and deflated by the deflator (price index) of household final consumption expenditure.

<sup>18</sup> Household real consumption per capita is defined as real final consumption of households, in nominal terms, divided by the mid-year population and deflated by the deflator (price index) of final consumption expenditure of households.

rate in the household sector increased by 0.1pps, q-o-q, and reached 8.8%.

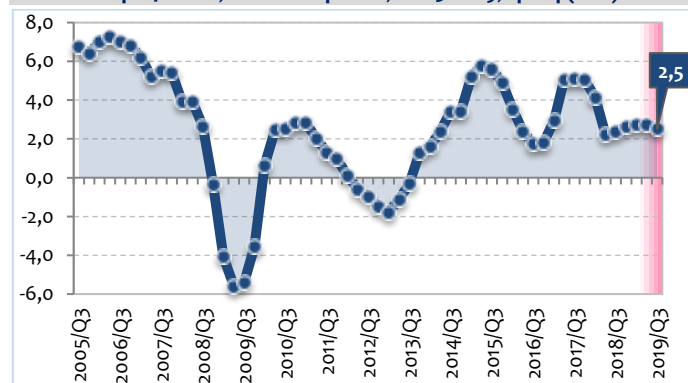
Graph 6: Households, Real growth rate of average monthly indicators, 2005 – 2019, y-o-y, non SA (in %, in CZK)



### GDP estimate refinement

According to the revision policy, annual national accounts for the year 2018 have been newly published; now they are fully in accordance with the notification version of the accounts for the general government sector from October 2019. The refinement had no influence on total growth rates of the GDP in the Q<sub>3</sub> 2019. The GDP increased by 0.4%, q-o-q; in the y-o-y comparison it grew by 2.5%.

Graph 7: GDP, constant prices, 2005-2019, q-o-q (in %)



FUEL PRICES – 11. 1.

Natural gas increased by 19h<sup>22</sup> to CZK31.89/l<sup>23</sup> over the past week. Diesel oil decreased by 24h to CZK31.85/l.

<sup>19</sup> Average monthly income from employment: is defined as wages and salaries for the national economy (D.11) in average per month divided by the number of employees (full-time equivalent). The wages and salaries indicator includes all income from employment, namely in cash as well as in kind (employee benefits) regardless of whether they have been officially reported or not. The number of employees (full-time equivalent) includes all forms of employment, formal and informal. Various types of agreements are also included. The calculation does not include hours worked by working owners of enterprises, who are according to national accounts definitions included in the category of employees.

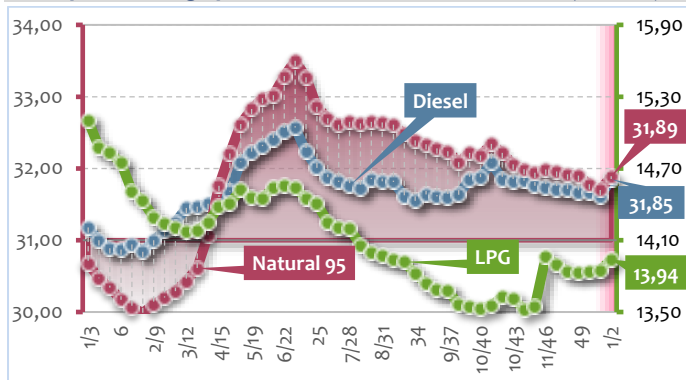
<sup>20</sup> Non-adj: non-adjusted

<sup>21</sup> Household saving rate: is defined as the gross saving divided by the gross disposable income with inclusion of adjustment for net share of households in reserves of pension funds (B.8g/ (B.6g+D.8)). Gross saving is part of gross disposable income, which has not been consumed in the form of final consumption expenditure.

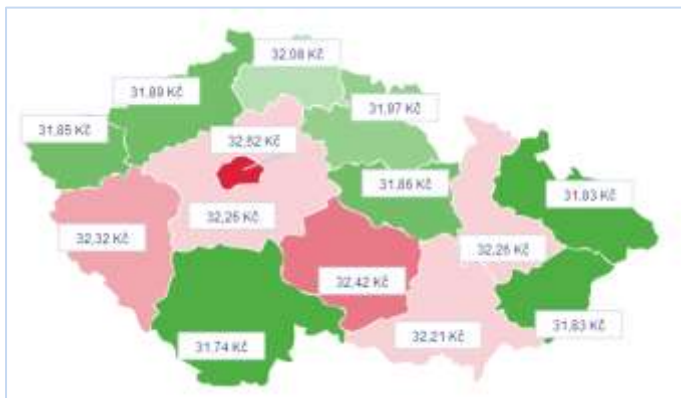
<sup>22</sup> h: Heller, a term was used for a coin valued at 1/100 of a CZK, it continues to be used as a means of calculation since the CNB removed the coins themselves from circulation in 2008 and notionally replaced them with rounding to the next CZK.

<sup>23</sup> l: litre, is an SI accepted metric system unit of volume equal to 1 cubic decimetre (dm<sup>3</sup>), 1,000 cubic centimetres (cm<sup>3</sup>) or 1/1,000 cubic metre.

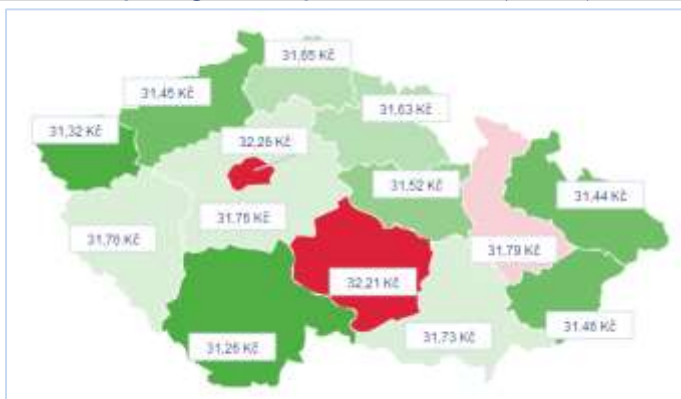
Graph 8: Average prices<sup>24</sup>, 2018 – 2019, Month/Week (in CZK/l)



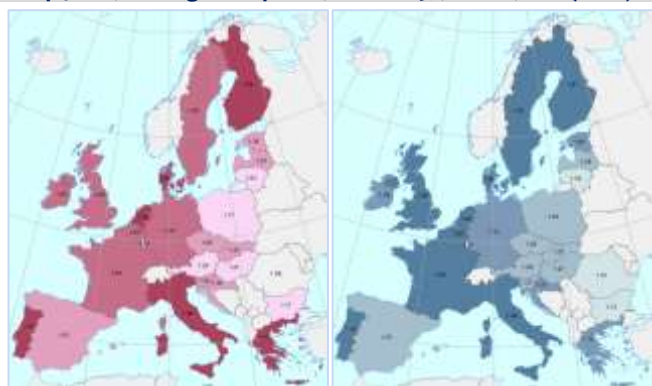
Map 1: Regions, fuel prices, Natural 95, 12. 1. (in CZK/l)<sup>25</sup>



Map 2: Regions, fuel prices, Diesel, 12. 1. (in CZK/l)



Map 3: EU, Average fuel prices, Natural 95, Diesel, 6. 1. (in €/l)<sup>26</sup>



CONSUMER PRICE INDICES – 13. 1.

Consumer prices in December increased by 0.2% compared with November. This development came primarily from a

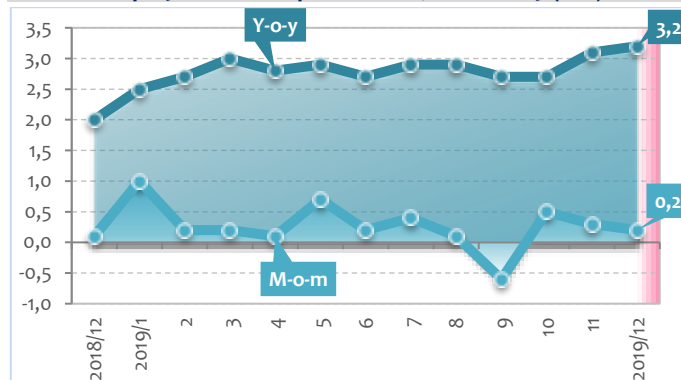
price increase in 'food and non-alcoholic beverages'. The year-on-year growth of consumer prices accelerated to 3.2% in December, which was 0.1pps up on November. The average inflation rate for 2019 as a whole was 2.8%.

M-o-m comparison

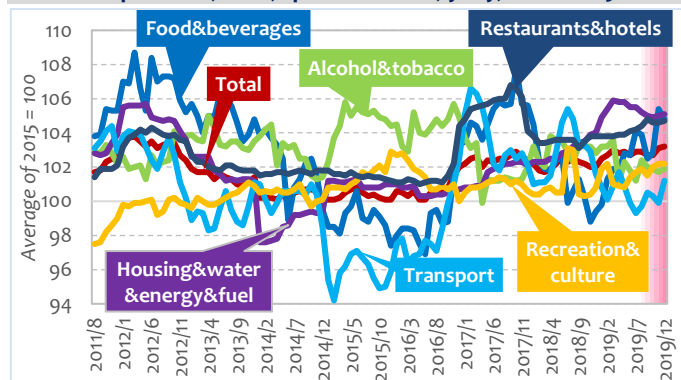
Price growth in 'food and non-alcoholic beverages' was caused mainly by higher prices of vegetables by 4.4%, of which prices of potatoes grew by 7.5%. Prices of non-alcoholic beverages were higher by 2.5%, pork by 3.1%, fruit by 1.3% and UHT semi skimmed milk by 3.4%. In 'housing, water, electricity, gas and other fuels' prices of electricity were mainly higher by 0.8%. Price development in 'transport' was affected by higher prices of motor cars by 0.9%.

The decrease in overall consumer price level in December came primarily from a price drop in 'alcoholic beverages, tobacco', where prices of wine were lower by 2.6% and prices of spirits by ▲1.2%. In 'miscellaneous goods and services', mainly prices of goods and services for personal care dropped by ▲1.3%. In food, prices of yoghurt were lower by ▲6.5%, cheese and curd by ▲1.0%, oils and fats by ▲1.5%. Both prices of goods in total and prices of services went up by 0.2%.

Graph 9: Consumer prices Index, 2018 – 2019 (in %)



Graph 10: CR, CPI<sup>27</sup>, specific indices, y-o-y, 2011 – 2019



Y-o-y comparison

In terms of the y-o-y comparison, in December, the consumer prices increased by 3.2%, i.e. 0.1pps up on November. Acceleration in the y-o-y price rise occurred in 'alcoholic beverages, tobacco', where prices of spirits went up by 4.0% (2.2% in November). Price development in 'transport' was affected by a slowdown in price decrease of fuels and lubricants for personal transport equipment. They were lower by ▲1.2% in December (4.3% in November).

<sup>24</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>25</sup> data issued by the mBenzin.cz; <https://www.penize.cz/ceny-benzinu-a-ceny-nafty>

<sup>26</sup> data issued by the EC; <https://ec.europa.eu/energy/en/data-analysis/weekly-oil-bulletin>

<sup>27</sup> CPI: Consumer Price Index

Deceleration in y-o-y price growth occurred in 'food and non-alcoholic beverages'. Prices of fruit were higher by 11.1% (16.2% in November), vegetables by 4.3% (11.8% in November), of which prices of potatoes were higher by 2.4%, y-o-y (23.5% in November). Prices of yoghurt turned from a growth by 5.7% in November to a decrease by ▲0.2% in December.

The biggest influence on the growth of the y-o-y price level in December came again from prices in 'housing, water, electricity, gas and other fuels', where prices of actual rentals for housing went up by 3.7%, water supply and sewage collection identically by 2.6%, electricity by 12.3%, natural gas by 3.0%, heat and hot water by 4.0%. Second in order of influence were prices in 'food and non-alcoholic beverages', where prices of pork were higher by 17.4%, dried, salted or smoked meat by 9.7%, UHT semi skimmed milk by 5.1%, cheese and curd by 2.9%, sugar by 17.9%. The impact on the price level increase had also prices in 'restaurants and hotels, where prices of catering services increased by 4.8% and prices of accommodation services by 3.3%.

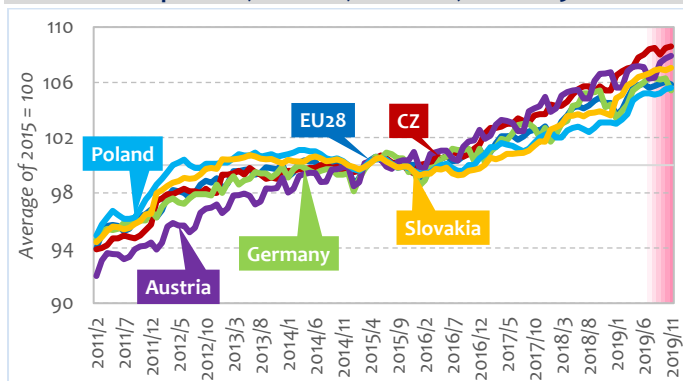
A reduction in the price level in December came again from prices in 'communication', mainly due to prices of telephone and telefax services, which were lower by ▲4.3%.

Prices of goods in total and services went up (3.1% and 3.6%, respectively). The overall consumer price index excluding imputed rentals for housing was 103.1%, y-o-y.

The average inflation rate as measured by the increase in the average consumer price index in the twelve months 2019 compared with the average CPI in the twelve months 2018 was 2.8%, i.e. 0.7 percentage points up on 2018.

Inflation rate<sup>28</sup> amounted to 2.8%, i.e. 0.7pps up on 2018. It was the second highest average inflation rate in the previous 11 years (higher inflation rate was only 3.3% in 2012). Prices of goods in total rose by 2.3% and prices of services by 3.7%.

Graph 11: EU, Inflation, Countries, 2011 - 2019



<sup>28</sup> Inflation rate: the increase in the average consumer price index in the 12 months to May 2018 compared with the average CPI in the previous 12 months

<sup>29</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>30</sup> HICP: Harmonized Index of Consumer Prices

<sup>31</sup> MUICP: Monetary Union Index of Consumer Prices

<sup>32</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>33</sup> CE: adjusted for calendar effects, the pre-adjustment for calendar effects involves removing from the time series calendar effects such as working days/trading days effect, leap year effect and moving holidays effects.

<sup>34</sup> CoP: constant prices are used to measure the true growth of a series, i.e. adjusting for the effects of price inflation. Constant series show the data for each year in the value of a particular base year

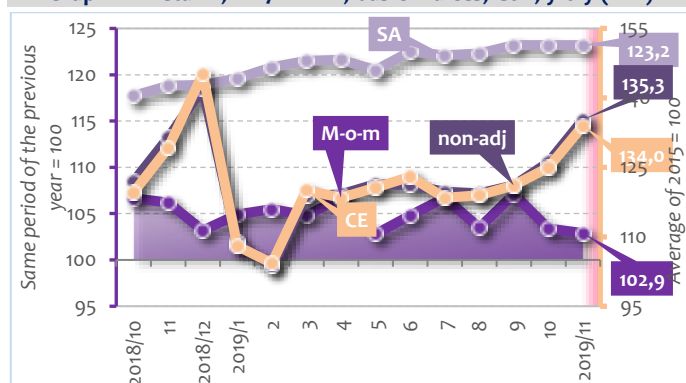
<sup>35</sup> Non-adj: non-adjusted

According to preliminary data of Eurostat<sup>29</sup>, the y-o-y change in HICP<sup>30</sup> in the EU28 member states amounted to 1.3% in November, (0.2 pps up on October). The rise in prices was the highest in Romania (3.8%) and the lowest in Italy and Portugal (both 0.2%). In Slovakia, prices were higher by 3.2% in November (2.9% in October). In Germany, prices increased by 1.2% (0.9% in October). According to preliminary calculations, the HICP in the CR in November rose by in December rose by 0.2% m-o-m and by 3.2%, y-o-y. The MUICP<sup>31</sup> flash estimate for the EA<sup>32</sup> in December 2019 amounted to 1.3%, y-o-y.

RETAIL TRADE – 13. 1.

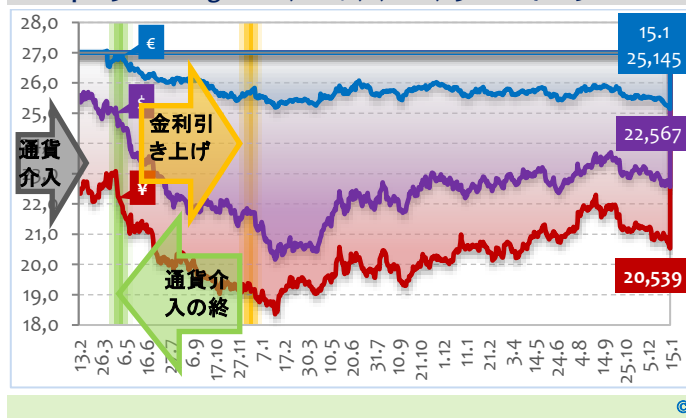
In November, CE<sup>33</sup> CoP<sup>34</sup> sales increased by 3.7%, y-o-y; non-adj<sup>35</sup> sales increased by 2.9%, y-o-y. SA<sup>36</sup> sales in retail trade increased by 0.1%, m-o-m<sup>37</sup>.

Graph 12: Retail<sup>38</sup>, 2017 – 2018, basic indices, CoP, y-o-y (in %)



CZK VS €, \$, ¥ – 15. 1.

Graph 13: Exchange rates, CZK/€, \$, 100¥, 13. 2. 2017 – 15. 1. 2020



<sup>36</sup> SA: seasonally adjusted, Seasonal adjustment is a statistical method for removing the seasonal component of a time series that exhibits a seasonal pattern, which allows to analyse the trend of a time series independently of the seasonal components.

<sup>37</sup> M-o-m: month on month, compared with preceding month

<sup>38</sup> except of motor vehicles and motorcycles

NEWS OUTSIDE OF THE GIVEN TIME SPAN

EXCERPT

CEEMarketWatch, is a subscription-based analytical service, covering the emerging regions of Central and Eastern Europe, Euro zone periphery, Middle East, Africa and Latin America.

The Czech Fiscal Council CFD, Czech Fiscal Council (Národní rozpočtová rada), is an independent expert body whose primary mission is to evaluate whether the state and other public institutions comply with the rules of budgetary responsibility set out by Act No. 23/2017 Coll.

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



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



ČTK, Czech Press Agency (Česká tisková kancelář); a national news agency dealing with the gathering, processing, storing, and distributing of text and pictorial information. ČTK is a public corporation and is governed by the law on ČTK number 517/1992 Coll.



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



MF, Ministry of Finance of the Czech Republic (Ministerstvo financí České republiky)



MLSA, Ministry of Labour and Social Affairs of the Czech Republic (Ministerstvo práce a sociálních věcí České republiky)



MT, Ministry of Transport of the Czech Republic (Ministerstvo dopravy České republiky)



Office of the Government of the Czech Republic (Úřad vlády České republiky)



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