

## チェコ経済月報(12 月 31 日)

### 主な動き<sup>i</sup>

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**Jan 1** The year 2018 will bring a number of significant anniversaries. Around 170 events are marking the centenary of the birth of Czechoslovakia in October 1918, the 50th anniversary of the Soviet-led invasion of 1968 and the foundation of the independent Czech Republic in 1993.

It will also bring a number of important political events. On January 12-13 Czechs will vote in the first round of presidential elections and incumbent minority government will ask the ChD for a vote of confidence.

2018 will bring a number of significant changes in the social sphere, including a higher minimal wage which should reach CZK12,200 a month, a 4% hike in pensions, amounting to close to CZK500 a month and tax benefits for parents with children, as well as a more flexible parental leave and a week-long paternity leave. There will be more money for old age homes and caregivers and higher benefits for companies employing people with disabilities.

**3** Minority investors that together hold a shareholding of more than 1.0% in ČEZ will call for an extraordinary general meeting of the company and if the government pushed for ČEZ to pay for a new nuclear reactor at Dukovany on its own.

The Constitutional Court ruled that all 9 candidates, registered by the MI will run for Czech president in the upcoming elections.

The CR's state budget ended 2017 with a deficit of CZK6.2bn. The result was the 2<sup>nd</sup> best figure in the past 2 decades, the MF said. According to the resort, the deficit was caused mainly by slower drawing of EU funds. Last year, the CR enjoyed a record CZK62bn surplus, thanks to the refunds from the EU covering projects from the previous budget period. According to the MF's estimates, 2018 should see a similar surplus.

**4** The EC has announced that it has lodged a complaint against the CR, Poland and Hungary for their refusal to accept asylum seekers according to an agreement between EU member states.

The CEFC has been refused permission from the CNB to increase its stake in the J&T Financial Group. CEFC has been refused its application to increase its stake from 9.9% to over 50%.

**8** PM Babiš' minority government presented its policy program including 6 priority areas for the CR: digitalisation, strategic investment, pension reform, a high profile within the EU, state reform and increased security. Another aspect envisioned by the government is free train travel for students up to the age to 26 and seniors over the age of 65.

**9** Unemployment rose in December to 3.8% after 4 months of decline, according to the LO. The figure stood at just over 280,000. Despite the rise, it is still the lowest December figure since 1997. In December 2016, unemployment stood at 5.2%. The number of vacancies increased in December to nearly 217,000, which is almost 3,000 more in November.

**10** In an address to the ChD, President Zeman called on Babiš's ANO minority government to win support ahead of an expected 2<sup>nd</sup> attempt to pass the vote of confidence that it requires to rule. He said he would give Babiš sufficient time to try to find the necessary backing.

**11** According to the CSO, retail sales rose by 7.8% in the month compared with the situation in the same month a year earlier. Sales of non-food items showed the biggest increase at 10.7% with food items up 3.3%. Sales by mail order or the Internet climbed by almost a ¼ compared with the previous year. Many Czech have extra money in their pockets thanks to higher wages and low unemployment.

Government debt narrowed in the Q3 2017 to 35.11% of GDP, the CSO announced. That compares with the ratio of 38.24% at the same time a year earlier. Revenues in the latest period were up 6.8% with government spending advancing by 5.2%.

The CNB has announced a shake-up of its system for managing its foreign currency reserves. It will now divide its reserves into 2 categories: those destined for fast access and use and those regarded as long-term investments. The former, accounting for around 45% of reserves, will be solely in the euro and US dollar. The later will have a wider currency spread and will include the Canadian and Australian dollars as well as the Swedish koruna. At the end of last year, the CNB's reserves stood at around CZK3,150bn.

**12** The CR is looking to open fresh talks with EMH over its plans to extract lithium. MIT Minister Hüner has said that a meeting should take place within 2 weeks at the latest.

- Jan 13** Miloš Zeman and Jiří Drahoš have emerged as the strongest candidates from the 1<sup>st</sup> round of the Czech presidential election and are heading to a run-off for the top post in 2 weeks' time.
- 16** Czechs are marking the 49<sup>th</sup> anniversary of the death of student Jan Palach who set himself on fire on January 16, 1969, in protest to the growing public apathy to the Soviet invasion of Czechoslovakia. He died three days later; he was just 20 years old. A number of events were scheduled to honour his memory and sacrifice including a memorial ceremony at the Philosophy Faculty at Charles University. The ChD's mandate and immunity committee recommended that the ChD plenary session release PM Babiš and ANO first deputy head Faltýnek for prosecution in the Capi hnizdo case of a suspected EU subsidy fraud. It is not sure yet when the whole ChD will deal with the police request for their release. Minority government failed to get backing in a confidence vote and received no support from any other party in ChD. All 78 ANO party members voted in favour but the government did not attract a single vote from any other party in the ChD. 117 MPs voted against.
- 17** The CR's minority government led by PM Babiš agreed to resign after it failed to get backing a day earlier in a confidence vote. The PM will now request a meeting with the president who has promised to give him a 2<sup>nd</sup> chance at forming a new government. The current one will hold power until its replacement is named. He signalled earlier he preferred a minority cabinet while the president has pushed for him to form a broader coalition to secure a majority.
- 19** The ChD has voted to strip PM Babiš of his parliamentary immunity, opening the way for prosecution. Mr. Babiš, who is suspected of EU subsidy fraud, has denied any wrongdoing. The CR should reduce the numbers of its wild boar population by 90% in order to prevent the spread of the highly infectious ASF, MA Minister Milek said. He said the wild boar population should be reduced across Europe for the measures approved to be successful. The Czech authorities have ordered a cull on wild boar in the affected area of the Zlin region and a ban has been issued on keeping domestic pigs. The CR is expected to spend CZK200mn crowns this year on measures aimed at containing and eliminating the infectious disease.
- 20** The Standard & Poor's has affirmed the CR's AA- long-term foreign currency sovereign credit rating. The outlook remains stable.
- 23** The number of foreigners working living legally in the CR last year exceeded 0.5mn for the first time, according to MI. Of the 524,000 non-nationals registered in the CR in 2017 over 40% came from Ukraine or Slovakia. There were 14 refugees in the CR last year. The number of foreigners in the CR has risen by over 130,000 in the last decade. A large percentage of non-nationals registered in 2017 were from the EU. These included 111,500 Slovaks, over 20,300 Poles, nearly 21,300 Germans, around 3800 French citizens and 5,300 Brits.
- 24** The Czech government will send some CZK225mnto the EU Trust Fund for Africa. The Czech donation should be used in Libya to improve medical services and ease the return of immigrants to the country. The money should be delivered to Libya by the end of February. President Zeman accepted the resignation of Andrej Babiš's ANO minority government, a week after it failed to pass a first vote of confidence in the ChD. The president has already said that he will immediately give Mr. Babiš a second chance to put together a government and will appoint the ANO chief PM again. The number of cars on Czech roads exceeded 5.5mn last year, according to the CIA. The number of passenger cars in the car registry reached 5.6mn at the end of December 2017, an increase by 224,000 on the previous year. The average age of cars in the CR has increased year-on-year from 14.48 years to 14.62 years.
- 25** TU Škoda Auto have tabled a demand for pay rises this year of 18%. They have asked for a 14%increase in the basic wage and a further 4.0% rise related to personal evaluations. Unions are also seeking to repeat last year's practice where 2 special one off payments totalling around CZK90,000. The average wage for a car worker last year was around CZK40,000/month. A new deal should be in place by April 1 to cover the following 12 months.
- 27** Current Czech president Miloš Zeman was re-elected Czech president, winning around 52% support against challenger Jiří Drahoš' 48% in the presidential vote. The turnout was given as around 66.5%.
- 30** The government is planning to invest close to CZK600mn to increase security at the country's international airports in Brno, Karlovy Vary, Ostrava and Pardubice. A special commission is to be set up to assess their needs. Prague's Vaclav Havel International Airport has significantly increased security in recent years, bringing security measures in line with European norms. The airport's security department received new equipment for the detection of radioactive and chemical substances. Altogether CZK200mn have been spent on increasing security at Prague's main airport.

**Jan 31** The average price of new apartments in Prague grew by 19% y-o-y in 2017, according to a study produced by the property development companies Trigema, Skanska Reality and Central Group. The number of new flats sold last year declined by 17%. The volume of new properties on the market in the capital last year was half the figure for mid-2015. Critics say excessive red tape is preventing the construction of sufficient numbers of new apartments, creating a bottleneck and pushing up prices.

The CR gained CZK55.4bn more from the EU budget than it paid in last year, according to the MF. In 2016, the CR made a net gain of CZK80.6bn from the EU's coffers. MI said this was because that year and in 2015 there was a cluster of payments from the 2007 to 2013 budget period. The CR has been a net beneficiary in terms of funding every year since it joined the EU in 2004.

**Feb 1** Around 32,200 new companies were created in the CR in 2017, according to the Bisnode. That's the highest figure since the pre-crisis year of 2007. Most of the new companies were created in Prague and South Moravia with their main activities services, rentals, management of real estate, wholesale and accommodation. The total number of companies in the country last year rose by 5.3% to stand at 475,600.

A Cabinet decision on how to fund the construction of new nuclear reactors in the CR should come in April or May. The MIT's standing committee on nuclear issues said earlier that it expected the various scenarios for funding new power plants to be prepared by the end of March in time for its next meeting.

The CNB announced that it had increased its basic interest rate by 0.25p.p to 0.75%. The move had been widely expected with the crown strengthening ahead of the announcement. It moved to its highest level against the euro since the so-called low crown policy was ended last year before retreating slightly.

- 2 The CNB raised its forecast for the 2018 public sector surplus to 1.6% of GDP from an earlier estimate of 1.4%. The bank improved its outlook for the 2019 surplus to 1.8% from a previous forecast of 1.5%. The bank increased its expectation for 2017 public debt to 34.7% of GDP from 33.8%. In 2019, the debt level should drop further to 29.8% of GDP.

The area of the Zlín region covered by special measures to counter ASF has been reduced sharply. The area covered from February 1 by special measures now covers just 40% of the Zlín district. The reduction was agreed by the EC following a Czech request. Special measures had applied to the whole of the Zlín district from the middle of last year. Czech authorities are trying to stop the spread of the fever, which is fatal for pigs, from the population of wild boar to the livestock being raised on farms.

- 3 The PM in resignation Babiš has said early elections could take place if a second government he plans to form fails to win the necessary vote of confidence in the ChD. Mr. Babiš says he aims to gain support for a second government by the end of this month.

- 5 Exports by Czech companies reached a record CZK4.2tn last year, the CSO confirmed. The CR experienced a balance of trade surplus of CZK152.6bn last year. The result was CZK11.1bn down on the balance of trade surplus recorded in 2016. Compared to the previous year, Czech exports increased by a record 5.6%, to CZK4.2tn, in 2017. Imports grew by 6.3%. Exports to China rose by 1/5, while exports to neighbouring Germany rose by 7.3%; Germany remains the CR's biggest export market; 32.8% of total exports from the CR last year were to the neighbouring country, accounting for CZK1.38bn. The vast majority of exports from the Czech Republic are to EU countries: 83.7%.

- 7 Outgoing PM Babiš has said that a special group of experts from the fields of energy and finance will be created to evaluate state dominated power company ČEZ's plans to split the company.

The CR could start becoming a net contributor to the EU budget as early as 2024 or 2025, according to economists. Since joining the EU in 2004, the Czech Republic has always been on the receiving end of EU payments overall. The change in status results from the country's increasing wealth, changes in the EU budget currently being worked on, and the likelihood of new and poorer states joining in the coming years.

- 8 Unemployment in January rose to 3.9% from December's 3.8%, according to the LOCR. Around 289,000 are registered as jobless and seeking work. This is the lowest January figure since 1998. The unemployment rate in January 2017 was 5.3%. The number of vacancies increased in January to 231,000.

There were a record number of tourist stays in Czech hotels, pensions, and camps in 2017. The total number of stays rose to over 20mn, around 1.7mn more than in 2016. That represents a y-o-y increase of 9.1%. Stays by foreigners increased by 8.1% and by Czechs by 7.7%. The biggest increase in stays occurred in the South Moravian region.

According to the EC, Czech economic growth this year will be around 3.2%. The previous estimate for 2018 was 3.0% growth. The Czech economy is expected to have grown by 4.5% in 2017. The EC's estimate for 2019 growth is unchanged at 2.9%.

<b>Feb 8</b>	Foreign investors in the Czech Republic are becoming concerned over the prospect of the CR leaving the EU, according to the deputy head of the CI, Radek Špicar. He said one Japanese investor had asked if so called Czexit is on the cards with the warning that if it happened they would quit the country. Worries over the CR leaving the EU have surfaced in connection with party talks over the format of general referenda. ANO leader and outgoing prime minister Andrej Babiš has said that such a question as leaving the EU should not be posed. Around 80% of Czech trade is with other EU countries with a 1/3 of all trade accounted for by neighbour Germany.
<b>10</b>	TU Škoda Auto have rejected a pay offer from management. TUs said that management made an offer which did not even match the inflation rate in 2017. Czech inflation last year averaged at 2.5%. TUs have been pressing for a pay increase of 18% with most of that made up in a wage rise and the rest resulting from workers' individual assessments. TU said that company management were seeking a deal over 27 months but the TUs regarded this timeframe as far too long. A new deal over wages should take effect from April 1.
<b>11</b>	The offer of industrial real estate is expected to increase by around 10% compared to 2017 while demand is expected to rise by 8.3%. Most of the interest in new industrial property comes from foreign based firms. The changes in Czech investment incentives are likely to profoundly shape the industrial real estate market with an emphasis on higher value added production and research and development rather than assembly. Demand for real estate around Brno and in the direction of Vienna is expected to be especially strong.
<b>13</b>	The Czech economy's current account balance of payments ended in a record surplus of CZK63.4bn last year, according to CNB's preliminary figures. 2017 was the 4th year of surplus in succession. This is the first such period; from the foundation of the CR until 2013 the current account balance was consistently in deficit.
<b>14</b>	The pace of annual Czech inflation slowed in January to 2.2% from December's 2.4%, which is the lowest figure since last April, according to the CSO. Slower increases in the costs of growth of food and soft drink prices was one of the main factors for the fall. Compared to the previous month, prices increased by 0.6% in January.  The Czech Cabinet approved the CR's accession to the EU fiscal pact. By signing the document, the country vows to abide by the pact's budget restrictions. The decision still has to be ratified by the parliament and signed by president Zeman. The intergovernmental Fiscal Stability Treaty was signed in March 2012 by all EU member states with the exception of the CR and the UK.
<b>16</b>	An extension of Prague's underground to Václav Havel airport from the current station at the Motol Hospital would cost CZK26.8bn with preparations and construction taking 11 years. The extension of the current A line would add 5 new stations on the new stretch of line totalling almost 7km. Prague City Council is also considering whether to extend its current C line eastwards for around 3km towards the suburb of Čakovice.
<b>22</b>	ČEZ said it had agreed the sale of its remaining Bulgarian assets to local company Inercom. The final sale agreement is expected within days. The deal still has to be cleared by Bulgaria's anti-monopoly authority. The sale of the 7 companies should draw a line under ČEZ's 14 year history in Bulgaria which has in recent years involved frequent conflicts with the government and regulators.
<b>26</b>	A new poll by the CVVM suggests that if elections were held today they would be easily won by ANO, currently heading the outgoing government of its ministers together with experts. ANO would receive 33.5% – up from 30.5% last month. The Pirates would receive 13%, the ČSSD 12%, and the ODS 10.5%. The last to get into the ChD would be the KSČM and SPD, projected at 10% and 6.5%, respectively. Three parties in the current ChD would slip below the minimum 5% threshold: the Christian Democrats, TOP 09 and STAN.
<b>27</b>	The number of doctors retiring from the profession in the CR could next year exceed the number of fresh medicine graduates. However, teaching hospitals are unable to boost student numbers due to a lack of funding and teachers. Unless changes are made, a 1/3 of working doctors will be aged 60 or over by the year 2025. The number of medical students needed to grow by 20 to 25% to prevent a shortfall in future.
<b>28</b>	Prague was the 7 <sup>th</sup> richest region of all EU member states in 2017, according to Eurostat. Prague's GDP stands at 182% of the EU average. London ranks number 1 in Europe with 611% of the EU average, followed by Luxembourg and south-east Ireland. The entire CR is ranked at around 88% of the EU average.
<b>Mar 1</b>	Agricultural earnings fell to CZK21.3bn in 2017, which is a drop by 5.5% on the previous year, according to CSO. That figure still represents the 3 <sup>rd</sup> best result since the year 2000. The best result recorded by Czech farmers to date was in 2014, when agriculture earnings reached CZK22.9bn.



**Mar 2** Czech economic growth in Q4 accelerated to 5.2% y-o-y, up from 5.1 in the previous quarter, according to the CSO. GDP growth in 2017 rose to 4.5%. The economic growth was driven largely by consumer demand which rose to 4.3 % y-o-y.

**6** The CR is the 8<sup>th</sup> most attractive country in the world for manufacturing, according to Cushman & Wakefield. The CR ranked 3<sup>rd</sup> among 19 European countries, behind Lithuania and Hungary. China topped the overall rankings. C&W said rising labour costs in Central Europe were leading firms in labour-intensive industries to look beyond the region.

**7** Škoda Auto plans to create about 3,000 new jobs at its plant in Mladá Boleslav, if it reaches agreement with the unions to launch an 18-shifts-per-week system. The company is ready to launch negotiations with the government as well as with the town and regional representatives to build to new infrastructure that would enable the company to increase its capacity.

**8** Miloš Zeman took presidential oath of office at Prague Castle at the start of a 2<sup>nd</sup> 5-year presidential term.

**9** The pace of yearly average gross wage rises speeded up in Q4 2017 to 8.0%, the CSO announced. In real terms, discounting inflation, the rise was 5.3%. The average gross monthly wage was CZK31,646. Average monthly wages for the whole of 2017 rose by 7.0% to CZK29,504. The median wage, the level at which most people are earning removing part of the distortion from high earners, in Q4 rose by 8.9% to CZK27,320.

The pace of inflation slowed in February to an annual 1.8%, down from January's 2.2%, according to the CSO. Among the main factors depressing higher inflation were a slowdown in prices of many food items and drinks. Phone services also became cheaper. Some of the biggest price rises over the month were for utilities and rents of flats and other accommodation.

The CR had a CZK11.9bn surplus in the trade in goods in January 2018. Exports rose by 0.4% and imports by 4.2% compared with the same month in 2017. The latest figure is CZK9.4bn lower than the surplus during the same month in 2017. One of the main factors in the diminished surplus was a significant CZK3.7bn drop in the exports of vehicles as well as higher deficits in trade of basic metals and agricultural products. That was offset slightly by a CZK1.9bn dent in the deficit for crude petroleum and natural gas.

**12** The head of China's Energy giant CEFC and special advisor to Czech President Miloš Zeman, Ye Jianming, was arrested in mid-February and is being investigated for economic crimes, according to the news. A spokesman for the president said Mr. Zeman had received the Chinese ambassador to Prague to discuss the situation.

**14** Czech teachers' gross monthly wage increased to CZK31,632 last year, which is an increase by 7.3% on the previous year, according to data released by the MEYS. Over the past 5 years, teachers' salaries have increased by 19%, which is the most rapid wage growth increase in recent years. The average gross monthly wage in the CR increased last year by 7% to CZK29,504.

**15** Industrial production rose by 5.5% in January, according to the CSO. The increase was 0.6% compared with December. New orders were 3.4% higher compared with a year earlier. The biggest contribution to the production increase was manufacturing of cars, machinery and equipment, and electrical goods.

Activity in the construction sector rose by more than 1/3 in January compared with the same period a year earlier. The increase came to 33.6% compared with January 2017. New planning permits granted increased y-o-y by 1.4% with the value of the new permits rising by 20.8%. New construction starts were up 23.1% compared with a year earlier. The building sector last year appeared to come out of a long running slump but some sectors, such as civil engineering and infrastructure still appear to be depressed due to the lack of new government and public sector orders.

Turnover in the retail sector was 8.2% higher in January compared with a year earlier, according to the CSO. Activity was 0.8% higher in January compared with December. Most of the increased turnover was in the food sector, with turnover up 2.3%, compared with the non-food sector where the rise was 1.5%.

**16** The ongoing reconstruction of the D1 highway will take a year longer than originally expected to complete, MT Minister Ťok has said, confirming that the 2020 deadline would not be met due to delays in some tenders. The beginning of some projects would be delayed by 0.5-1 year, the minister said. Some construction permits were challenged by the environmental organization Friends of the Earth. The D1 renovation is expected to cost CZK19bn.

**18** The CNB's governor Rusnok has said wage rises next year in the CR can be expected to slow down. Rusnok said that real wage rises should be in line with real economic growth that is somewhere around 4.0%. In Q4 2017 Czech gross average monthly wages exceeded CZK30,000 for the first time after an 8.0% rise. Taking account for inflation the real wage rise was 5.3% with y-o-y growth, 5.2% q-o-q. Rusnok added that current Czech economic growth is around 1pps lower than it could be if some problems, such as the shortage of labour, could be ironed out.

**Mar 21** The population of the CR grew in 2017 by around 31,000 and topped the 10.6mn mark for the first time since the end of the Second World War. The population rose as births exceeded deaths and as a result of 28,000 immigrants coming to the CR, the highest figure since 2010. Births totalled 114,405 and deaths 111,443.

**22** The number of foreigners residing in the CR has risen to 493,400, the highest number in the CR's modern history, the CSO reported. The largest foreign minorities are Ukrainians, Slovaks and Vietnamese. Together these three nationalities make up more than ½ of the foreigners living in the CR.

**23** Czech foreign debt climbed during 2017 to stand at CZK4.372tn by the end of the year. That's CZK875bn more than at the end of 2016, according to the CNB. The total foreign debt represents 86.71% of the GDP. Around 72% of the Czech foreign debt is owned by private entities with the Czech government, state agencies, and majority owned state companies responsible for the rest. Around 44% of the overall debt is held by banks.

**29** The cabinet has earmarked CZK36bn in support of science and technology in 2019, which is CZK2.1bn than this year. The need was stressed for better planning in research for the funds to be drawn and used since 6.9 billion crowns from previous funding remain untapped. Supporting research, development and innovation is a government priority and the cabinet has approved a resolution which should keep funding stable in the future.

The new head of the CzechInvest Jírotková has said the CR must in future prioritize foreign investment that will bring added value and 4.0 technology to the CR, rather than just job opportunities. Jírotková said she was working on a new strategy in which CzechInvest would focus on 3 groups of clients –foreign investors, Czech SMEs and start-ups, which it would try to link-up and create new synergies. She said she was also planning organizational changes in the agency.

**Apr 3** The economy expanded by 4.6% in 2017, according to revised data released by the CSO. A previous figure published in early March put GDP growth at 4.5%. The reason for the improvement was new information for last year from the government institutions sector. In 2016 GDP expanded by 2.5%, up from the 5.4% recorded the previous year.

**4** Czech earnings from the tourism sector amounted to 3.0% of total GDP in 2016 with around 231,000 people employed in it according to the CSO. Total tourism earnings rose by almost 9.0% over the year to CZK272bn. That is the highest level since calculations for the sector started in 2003, the CSO said. Foreign visitors to the CR accounted for 58% of the overall turnover.

The employment for the Czech population aged between 15 and 64 reached 74.7% in February. That's a jump of 1.4pps compared with the situation a year earlier. The male employment rate stood at 81.7% with the female level at 67.5%. The overall employment rate in January was 74.5%.

Czech public finances ended 2017 with a surplus of CZK80.6bn. That represents 1.59% of GDP. The latest figures is almost double the surplus of 2016 when it represented 0.73% of GDP. Finances were in deficit in 2015. The CNB estimates that this year public finances will improve further with the surplus rising to 1.6% of GDP. Last year public sector revenues rose by 6.5%, outstripped a 4.2% increase in spending.

The Cabinet has agreed to change its legal system so that collective actions can be launched in the future. At the moment there is no room in the CR's legal framework for such actions to be brought which sets the CR apart from most European states. Common actions are frequently brought in other countries in cases such as over mass transport accidents and failures by multinationals such as Volkswagen's diesel gate affair. The current government promised to introduce legislation to make such actions possible. At the moment only the basic intention to introduce the legislation has been outlined by the MJ. It expects to table detailed plans by the Q1 2019 which can be put to parliament.

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**7** Workers at Škoda Auto look set to get a pay rise amounting to 20%. Individual TUs at the CR's biggest exporter have approved a management pay offer that would see basic salaries rise by 12%, valid from April 1. A ČMKOS must still rubberstamp the offer. Counting overtime, Škoda employees should see their pay packets expand by over 20%. Last year workers at the company got an average of CZK40,557 a month. The new pay deal should be in place for a one-year period.

**9** The foreign trade surplus dropped in February y-o-y by CZK2.9bn to CZK18bn, according to the CSO. Exports dropped by 1.2% y-o-y and imports were down 0.2%. The fall is attributed primarily to a drop in car exports and electronics. The German economy has followed a similar trend.

**10** Unemployment has reached a new 20-year low, dropping to 3.5% in March, down from 3.7 the previous month. According to the CSO the downward trend was recorded in all regions of the CR. LOs registered 263, 000 unemployed who could take their pick from over 250,000 job vacancies on the market.

- Apr 12** The Škoda Auto increased deliveries in Q1 2018 by 11.7% to total 316,700 vehicles. In March, deliveries climbed by 10.7% to 120,200. Key markets such as China, Russia, and Western Europe were strong. High demand was shown for the Octavia series as well as the new Kodiaq SUV.
- 15** The CR claims debts worth CZK29.6bn in foreign countries, according to MF. Last year, that figure stood at CZK38.2bn. Communist Cuba is the biggest owner, with its debt from civilian loans including interest reaching CZK7bn.
- 17** After 5 years of growth Czech beer production last year dropped by 0.7% to 20.3mn hl. The drop was caused by lower demand on the domestic market which is ascribed to the smoking ban in pubs and restaurants that went into effect in May of 2017. Czech beer consumption dropped by 5l/head to 138l per year. On the other hand beer exports were up by 4.5%.
- The IMF has revised its economic growth forecast for the CR in 2018 from a projected 2.6% in the fall of last year to 3.5 % of the GDP. The CR saw a 4.3% growth last year. In 2019 the IMF predicts a further slowing of the economy to 3% growth. This year's unemployment has been forecast at 3.0% up from 2.9% last year with an outlook for 3.2% in 2019.
- 18** The Cabinet has approved compensation to the farmers who suffered losses due to last year's drought, amounting to CZK2bn. Another CZK208mn will go to fruit growers, whose harvest was damaged by spring frosts last year. The MA will also earmark CZK141mn for building irrigation systems. The compensation represent just a fraction of the overall damage caused by weather conditions last year, which amounted to about CZK12bn.
- A program enabling physicians, pharmacists and dentists from Ukraine to work in the CR without taking additional exams will soon be terminated. The government agreed to end the project due to strong criticism from the associations of doctors, pharmacists and dentists. Their representatives said the lack of exams did not guarantee quality care and some of these doctors had a problem communicating in Czech. The program will continue for nurses. More than 200 physicians and dentists and some 130 nurses and other health care workers came to the CR within the program in the past 2 years.
- The average price for new flats in Prague increased in Q1 2018 by 22.8% y-o-y to CZK88.552/m<sup>2</sup>. The number of sold apartments dropped by 11% in Q1 to 1,200 compared to the same period last year. As of 2015, the prices of flats in Prague have increased by 3/5.
- 19** Car production in the CR dropped by 2.6% in Q1 2018. The Škoda Auto increased production by 2.5%, to stand at just over 377,000. The biggest drop came from Hyundai where output was down 15.5%. Production from the TPCA joint venture fell by 1.5%. The AIA said it expects production to pick up over the remainder of the year. The auto sector represents around 9.0% of Czech GDP.
- 20** The CZK could reach 23.80 to € in 3 years' time, according to the MF. This year the Czech currency has been trading at an average of 25.10 to €. It also suggests that economic growth will slow in the coming years, from around 3.5% in 2018 to 2.5% in 2021.
- 24** The number of foreign-owned companies in the CR has climbed to 86,000. The number has increased by 49% over the last 7 years. Most of those foreign companies are Russian-owned though their number has declined slightly. Most foreign capital flowing into the CR comes from Germany.
- Overall confidence in the Czech economy climbed by 0.4p.p in April after March's fall, the CSO announced. The composite index climbed to 100.1p.p.. The biggest jump in confidence came from the business sector, particularly manufacturing industry. Among consumers, confidence was down. Compared with April last year, the confidence indicators are higher across the board.
- 25** Prazdroj produced a record 11mn hl of beer last year. That was a volume increase of 3% y-o-y. Exports grew by 8% in 2017. Last year Plzeňský Prazdroj was bought by the Japanese group Asahi from SABMiller.
- 26** The CR's public finances should stay in the black through to 2021, albeit at a reduced level compared with 2017, according to a report to be put to the government on Monday. The updated convergence report sees the overall budget surplus sliding to 1.5% of GDP in 2018 from 1.6% last year. The surplus should continue until 2021 when it will have narrowed to 0.9% of GDP.
- 27** ČMKOS want to see a cut in the working week by 2.5h. They also want to see a CZK1,500 hike in the minimum wage from January next year from the current CZK12,200 to CZK13,700. The TU point out that past increases in the minimum wage have not dented the performance of the Czech economy, as employers had warned.
- 29** Czech Tourism has estimated that this summer 4.5mn foreign tourists will come to the CR. That represents an 8% rise on last year. For the whole year estimate is 11mn foreign visitors. Czech interest in taking domestic holidays is estimated to rise by around 20% this year. That interest has been boosted by higher local wages. South Bohemia and South Moravia are among the locations where tourism is expected to increase most.

**May 2** The number of long-term unemployed in the CR has continued to go down, according to the CSO. The number of Czechs who have been unemployed for more than a year has dropped over the past year by 7.8p.p. to 31.4% (of the total number of unemployed). It is one of the lowest figures in the EU, with the exception of Scandinavia and the UK. The number of unemployed between the ages of 15 to 24 stands at 6.3%, which puts the CR in 2<sup>nd</sup> spot in Europe, right behind Germany.

**3** The EC has predicted a slowdown in the Czech economy. The Spring forecast sees GDP growth falling to 3.4% this year and to 3.1% in 2019. In 2017 Czech economic growth was above initial expectations at 4.4%. This year's EC's forecast is nonetheless an increase on February's figure of 3.2%. The main motor of growth is expected to be buoyant domestic demand.

**6** State expenditures for wages of public sector employees rose by CZK5.2bn last year reaching CZK166.6bn, according to a government report presented to Parliament. The average wage of public employees reached CZK30,627/month in 2017, while the average wage in the CR is CZK29,504/month. The number of public sector employees grew by over 9,000.

**7** Industrial production dropped by 1.1% y-o-y in March, after a 10 month climb, according to the CSO. Economists had expected a 0.6% drop for the month. Construction output dropped 0.3% yearly in March, in contrast to a 9.4% surge in February. The decrease is ascribed to a drop in car production and the fact that March had 2 fewer work days than last year.

**10** The tourism has witnessed a buoyant Q1 with guest figures up 11.4% compared with the same period in 2017. Overnight stays by Czech residents rose by 9.5% with those by foreign visitors increasing by 9.0%. The total number of overnight stays totalled 10.8mn. The average length of stays has increased to 3.7 days. The biggest boost in tourist stays was in the Plzeň region with a 22% annual increase and for the Central Bohemia region, where the figure was 17.2%.

The CSO said a more than 4.0% hike in the prices of alcoholic drinks was one of the main factors fuelling faster price rises. Tobacco prices also rose by 3.5%. Across the board increases in April for a series of utility services, such as water, wastewater, and electricity also contributed significantly. Higher rental charges, up 2.6%, for property were also a factor. In the opposite direction, there were lower charges for telecoms and for clothing and footwear.

Unemployment fell to 3.2% in April from March's 3.5%, according to LO. It said that seasonal work was now in full swing and the jobless total could increase in coming months. The LO added it had almost 243,000 job seekers on its books. That's the lowest figure since August 1997. In April 2017, the jobless rate was 4.4%. The number of vacancies, at just over 267,000, once again exceeded the jobless total in the CR. Most job offers are in Prague, central Bohemia, the Plzeň and Pardubice regions.

**15** The Czech economy continued to grow strongly in Q1 2018, albeit at a slower rate than previously. GDP expanded by 4.5% y-o-y between the start of January and the end of April, down from 5.5% in Q4 2017, according to preliminary official data. Analysts attributed the GDP growth to increasing domestic demand, with household expenditure and investments by companies continuing to rise substantially.

**16** The Czech economy faces no real threats with relatively high economic growth seen in the next years, according to the IMF. The annual evaluation said it could see no major imbalances, budget policy was prudent, and rising wages are a response to the need to fill jobs. It sees economic growth this year at 3.7% and in 2019 at 3.2%. That's slightly down on the 3.9% and 3.4% forecasts of the CNB. The IMF sees mid-term Czech growth averaging at 2.5%.

**18** PM Babiš criticized the concept of a two-speed EU and said that the fact that different EU member states needed to go at their own pace in reaching the common goal should not be a divisive factor and should not be allowed to impede the functioning of the common market. Babiš argued that an elite club would only undermine EU unity and that debates relating to the future of the European Union should be open to all members, without regard to their economic pace and degree of integration.

**21** The price of petrol and diesel is rising and is now at its most expensive since 2015. The price of petrol has now reached 32.23 crowns per litre on average and analysts predict it could reach 34 crowns per litre in the course of the summer. The price of crude oil has been rising due to a growing global demand and the crown is weaker against the dollar than expected.

**23** The CR currently meets 2 out of 4 conditions for joining the EA, according to the EC's Convergence Report reviewing member states' progress towards euro adoption. The report concludes that the CR fulfils the criteria on public finances and long-term interest rate but doesn't meet the price stability and the exchange rate criteria.

**24** An annual competitiveness report compiled by the IMD Business School in Switzerland puts the CR at 29<sup>th</sup> place on its world rankings, a drop of one place compared with last year. Nevertheless, the CR keeps its top position among the countries that joined the EU in 2004. At the top of the chart of 63 states are the United States, followed by Hong Kong and Singapore. The rankings measure how well countries manage their economic and human resources to increase their prosperity.



- May 25** CNB's governor Rusnok believes the CZK will return to appreciation in the coming weeks. He said that the CNB may hike interest rates faster and more if the CZK remains weaker than the CNB's forecast for a longer time. The CZK dropped to its weakest levels since last December trading at 25.85 CZK/€.
- 27** PM Babiš reiterated his negative stand to euro adoption and said joining the euro was not a priority and he was happy with the Czech currency. In the event of problems, the PM said he trusted the intervention of the CNB which had proved beneficial in the past. Mr. Babiš noted that in the case of Greece and Italy the common currency had been a reckless experiment.
- 28** The price of flats in the CR is overinflated by around 15%, CNB governor Rusnok said, adding that the CNB was keeping a close eye on prices on the housing market since mortgages make up around 60% of all loans granted to households.
- 29** The CZK occurred under pressure and falls notably to CZK25.85/€ and to CZK22.35/\$, even it was on the weaker side of CZK25.90/€, the lowest level this year. The political crisis in Italy has an impact on the CZK, said experts. Also other factors behind the CZK's weakness is, for example, that investors do not pay much attention to the promises that CNB may raise interest rates soon. The ending dividend season in Prague also influences the CZK.
- The CR is going to see a 25.2% cut (in 2018 prices) in structural funds in the 2021-2027 EU budget framework. The change stems from the EC's new approach to favour less developed regions in the south and east of Europe, which has provided hikes for countries like Spain, Portugal, Bulgaria and Romania. Other criteria than GDP per capita have been introduced, such as youth unemployment, low education level, climate change, as well as reception and integration of immigrants.
- 31** The number of non-smokers in the CR rose by 3.5% between 2016 and 2017. Last year 24% of respondents in an annual survey conducted by the State Health Institute said that they were smokers.
- Jun 1** In its first draft of the 2019 state budget the MF envisages a deficit of CZK50bn. The budgetary priorities are increased pensions, higher wages for teachers and higher investments. Deficits of roughly that amount are expected until the year 2021. All ministries have been promised more funds for next year, with the biggest increase being to the budget of the MLSA. Opposition parties have criticized the size of the deficit at a time of economic growth.
- The Czech economy growth slowed to 4.4% y-o-y Q1 2018, according to revised figures. Provisional calculations had put the GDP expansion in the January to April period at 4.5%. Growth in the last quarter of 2017 stood at 5.5%. The positive growth rate in the 1<sup>st</sup> 3 months of 2018 was due to accelerated investment expenditures supported by continued growth in domestic consumption, the CSO said
- 4** The construction sector should grow by around 5.1% this year, according to figures released by the company CEEC Research. The growth is 0.8pps higher than companies predicted at the start of the year. However, many firms say they are still being held back by a shortage of workers. Growth in 2019 is expected to slow to 3.7%. The construction sector was one of the last to emerge out of recession with its performance in recent years often lagging the rest of the economy.
- Average wages rose by 8.6% in the Q1 to CZK30,265. After taking off the impact of inflation, the real rise comes to 6.6%. The median wage, the most frequently paid which cancels out the impact of very high wages on the average, rose by 8.3% to CZK25,674 according to the CSO. Wages are rising faster than in most neighbouring countries with the average wage breaking the CZK30,000 mark for the first time at the end of 2017.
- The ČSSD has scored its best result in voter popularity polls since the October 2017 general election, and with 13% of voters it would rank 2<sup>nd</sup> after ANO with 29%, according to the CVVM poll. The ODS would also gain 13% if a general election were held in May. The Pirates, KSČM, SPD and KDU-ČSL, would enter the ChD as well, according to the poll. The STAN and TOP 09, with 4.5% and 3%, respectively, would not cross the 5% limit for entering the ChD.
- 5** The retail sales boom speeded up in April with a 5.6% y-o-y increase. March sales rose at the rate of 3.9%. Sales rose fastest in non-food items, food sales were almost unchanged. And the boom in sales via the Internet and via mail order companies continued with a 20.3% annual increase.
- 6** SA industrial production fell in April compared with the same month in 2017. Factoring in the difference of two working days, the annual drop in production was 0.2% y-o-y. Unadjusted, there was an increase of 5.5%. The main increases in production were focused on auto production, manufacturing of electrical equipment and production of metal products. The value of new orders rose at an annual rate of 0.6%. While there was a slight drop in foreign orders this was more than compensated for by a 2.9% rise in domestic orders. This confirms that domestic demand is still strong and one of the biggest factors fuelling economic growth.

**Jun 6** The trade surplus widened in April compared with a year earlier. It climbed to CZK15.8bn, CZK3.8bn more than in the same period in 2017. The main factors fuelling the surplus were car, machinery, and electrical equipment exports. The main dents in the surplus came from increased imports of chemicals and coke. The trade surplus so far this year stands at CZK73.6bn. The CSO said the overall trend is for decreasing exports and stagnating imports.

**8** Unemployment hit a new low in May, dropping to 3% from 3.2 in April, the LO reported. The y-o-y decline is even steeper, down from 4.1%. At the end of the month LOs reported 230,000 unemployed, the lowest number since June 1997. The unemployment rate has been dropping steadily since February and labour market experts say the trend is likely to continue.

**11** Consumer price growth accelerated by 2.2% in May y-o-y, according to the CSO. The growth was driven by higher prices of food products and fuel, predominantly meat, fruits and vegetables. The price of telecommunication services and clothes dropped year-on-year. Inflation has been growing for the 2<sup>nd</sup> month in a row.

**12** The CNB will introduce stricter rules for the provision of mortgage loans in October. Under the change, mortgage holders should not be allowed to spend more than 45% of their monthly income on repayments. The CNB's restrictions are not legally binding but are generally followed by banks. Announcement comes against a backdrop of growing concerns that a shock to the economy could lead to widespread defaults on mortgages.

Property prices in the CR grew by an average of 16% through most of 2017, the highest rate in the whole of the EU. The CNB said that Czech apartments were overvalued by around 14% at the end of last year and warned that the figure was rising. Officials said the conditions for a spiralling of the difference between property prices and the cost of loans remained in place. The CNB has identified this as the greatest risk to domestic financial stability since 2016.

The population of the CR climbed slightly in Q1 2018 to reach just over 10,613,000. The population at the end of March was around 3,300 higher than at the end of 2017.

**13** 1 in 5 young adults in the CR is at risk of falling below the poverty line. Some 300,000 people between the ages of 18 and 30 are essentially living from pay packet to pay packet, according to a survey conducted by the Median Agency.

**14** The CR had the 5<sup>th</sup> fastest growing economy within the EU in Q1 2018, according to preliminary data released by the CSO. Internal consumption and investments were among the main factors behind the strong growth figures. The Czech economy, which slowed from 5.5 to 4.4% over the last quarter, was outpaced by Latvia, Poland, Slovenia and Hungary. The available figures don't include data about the Irish economy, which also belongs among the fastest growing in Europe.

**18** The EU's proposed budget for the next programme period is "absolutely unacceptable" to the CR, according to PM Babiš. He said that the future budget was flawed in a similar manner to the one that is currently in operation. Mr. Babiš said the EU had dictated programmes for the 2014 to 2020 period in which large sums were earmarked for social areas but were hard to access.

The Czech leader said his government was therefore mapping fields in which investment was required and would push for more funding for those in the period beginning 2021.

**19** The acting Czech government has approved an outline state budget for 2019 and a mid-term outlook for the economy for 2020 and 2021. The MF Minister Schillerová said that there would be a maximum deficit of CZK50bn next year. The 2019 draft budget envisages increased funding for teachers' salaries and pensions as well as reduced social welfare benefits. Most ministries can expect more state money, except for the MH, which is projected to take in more from health insurers.

**20** Czech car companies and car-parts suppliers saw record turnover last year amounting to CZK1.1tn, which represents an increase by 7% on the previous year, CIA announced. Czech car makers' exports increased by 6% last year to CZK918bn. Some 84% of cars made in the CR are exported to the EU, mainly to Germany, Great Britain and France.

Annual timber production in Czech forests in 2017 increased by 1/10 on the previous year to a record 19.4mn m<sup>3</sup>, according to the CSO. It is the highest figure since 2007, when hurricane Kyrill devastated more than 100,000m<sup>3</sup> of the CR's forests. Around 3/5 of the timber production consisted of trees infested by the bark beetles or tress damaged by recent storms. Coniferous trees amounted to 90% of the overall timber production.

**24** The ČSSD would end close above the parliament threshold, with 5.4% of the vote and ANO would win with 25.5% if elections were held now, according to an opinion poll by the Phoenix Research agency. The Pirates would end 2<sup>nd</sup> with 12.1%, followed by the ODS with 11.1%, the KSČM (9.6%) and the SPD (8.6%). The other parties represented in parliament now, including TOP 09 and the KDU-ČSL, would not cross the 5% threshold.

**Jun 25** Confidence in the Czech economy rose in June with the main index increasing by 0.8 points to 100 points compared with May's score, according to the CSO. Confidence among entrepreneurs was up by 1.2 points to 97.4 points, while consumer confidence dropped by 0.8% m-o-m to 113 points. Compared to figures from this time last year, the overall indicator is up by nearly 3 points.

MT, MH and ME should be more involved in Czech economic diplomacy in the future, deputy MFA minister Stašek said at an annual meeting of economic diplomats. The main goal of Czech economic diplomacy is to facilitate the mutual contact of Czech and foreign companies and create favourable conditions for Czech exports, he said. This year, around CZK60mn have been allocated for such projects.

**27** The president Zeman appointed a government coalition of ANO and the ČSSD in a ceremony at Prague Castle. A previous government headed by ANO leader Andrej Babiš failed to win a vote of confidence in the ChD. The new government does not have a majority and expects to count on the backing of the KSČM in crucial votes.

**28** The CNB unexpectedly increased the 2-week repo rate by 25 basis points to 1% in order to contain inflation. At the same time, it increased the Lombard rate by 50 basis points to 2% and kept the discount rate unchanged at 0.05%. The new interest rate levels will come into effect on June 28, 2018. It is the 3<sup>rd</sup> hike in under a year, as the ČR's economy continues to accelerate and record-low unemployment pushes up wages. Analysts had not expected a hike until August.

**29** The ChD has approved a government proposed amendment to the pensions' law which would increase old age pensions for all, with a special focus on people over the age of 85. The bill would increase the fixed component of old-age pensions to 10% of the average salary from the current 9%, and a further increase would be linked to the merit-based component of the pension. The pensions of people over 85 would be increased by CZK1,000 a month on the argument that they need to spend more money on medical care. All pensioners should get an increase of at least CZK540 per month in addition to the regular pensions' indexation. The cost of the pensions' increase would reach CZK14.5bn. The bill still needs to win approval in the Senate and be signed by the president.

**Jul 2** Public support for Czech membership in the EU is almost back to its old-time high, with 53% of Czechs now saying they support the country's membership in the EU. During the past 7 years trust in the EU was deeply undermined by the financial and migrant crisis with support figures sliding from 59% to 38% in 2016. The strongest degree of support for EU membership is among the young generation where it is now at 63%.

**4** If elections were held in June, ANO would win 32% of the vote according to the STEM model. The ODS won 15.5%, the Pirates 10.2%, the KSČM 9.1%, the SPD 8.6%, the ČSSD 7.9% and the KDU-ČSL 6.3%. TOP 09 received 4.9%, just under the threshold to enter parliament, and the STAN 2.7%.

**8** The ČR's largely coniferous forests are facing the worst bark beetle infestation in at least 200 years. The amount of spruce wood damaged by bark beetles has risen steadily in the past few years, from 2mn m<sup>3</sup> of spruce wood in 2015 to more than 5.5mn m<sup>3</sup> in 2017. Experts are warning that the nation's forests could be wiped out if the current monoculture forestry format is not unchanged.

**9** The Czech external trade balance in goods ended in a surplus of CZK6.9bn in May, down CZK8.2bn in annual terms, according to the CSO. From January to May, the trade balance surplus reached CZK80.9bn, a decrease of CZK13.2bn in annual terms. From the start of 2018, exports decreased by 2.6% y-o-y and imports increased by 0.6%.

**10** Czechs are the biggest opponents of the euro in the EU, suggests the latest Eurobarometer survey. Some 73% of Czech respondents in the poll said they were against euro. In 2005, a year after the ČR joined the EU, some 63% of Czechs were in favour of the euro. Last year, the most recent date for which figures are available, that had fallen to 22%.

**11** Consumer prices in June rose 2.6% y-o-y, driven by higher costs for fuel, electricity, and household rent, the CSO said. Prices for telecommunications, clothing and heating fell in annual terms. Inflation has accelerated for a 3<sup>rd</sup> consecutive month, following a growth rate of 2.2% y-o-y in May.

The ČR's economy continues to accelerate and record-low unemployment is pushing up wages. Another unexpectedly strong inflationary factor has been the weakening of the crown against major world currencies. The CZK is now at its lowest level against the euro in nearly a year, at CZK 25.9/€.

Unemployment in the ČR fell to 2.9% in June, down from 3.0% the previous month, according to the LOCR. In June last year the jobless rate stood at 4.0%. The number of jobless last month was the lowest since July 1997, while number of vacant posts climbed last month to over 301,500.

**12** The minority government of PM Babiš won a parliamentary confidence vote. Mr Babiš's new government is the 1<sup>st</sup> since 1989 to cooperate with the KSČM, who pledged to back him in exchange for positions in state-owned enterprises and policy concessions.

**Jul 12** The EC has revised downward its forecast for the growth of the Czech economy this year and in 2018. According to its latest prognosis, Czech GDP should expand by 3.0% this year and 2.9% next year. An earlier forecast had suggested growth of 3.4% in 2018 and 3.1% in 2019. The EC issued less positive growth predictions for the EA and the EU as a whole.

**16** According to the OECD, the Czech economy is thriving, marked by robust employment, expanding exports and falling government debt. Efforts should now focus on boosting workforce skills and innovation to improve labour supply and productivity, further reduce poverty and inequality, and to “green” the economy, it said. Czech GDP should grow 3.8% this year, mainly driven by strong demand stemming from rising salaries and export growth. Next year, GDP growth should slow to 3.2%. The OECD warned that Czech property prices – the highest in the EU last year compared to wages – represent a risk to the stability of the economy. It also recommended reducing the overall tax burden.

**23** The CR through the end of 2017 had drawn down only 3% of the nearly €850mn worth of subsidies allocated to the country from 2014 to 2020 towards implementing energy-savings schemes. According to the SAO, the lengthy approval process is a major factor in the country’s failure to make sufficient use of the available EU funds. The CR has set itself a goal of saving 51PJ worth of energy by 2020. Of that amount, 20PJ should be guaranteed through European funding. However, not even 1% of the target was achieved by the end of 2017, according to the SAO.

**25** The price of flats in Prague continues to rise. According to data made public by a group of real estate agencies the average price of flats in Prague rose by 24% y-o-y, reaching CZK94,000/m<sup>2</sup> at the end of Q<sub>2</sub>. As compared to Q<sub>1</sub> 2018 this is a rise of 6.2%.

**27** The CR received CZK10.4bn more from the EU budget than it paid in dues in H<sub>1</sub> 2018, according to the MF. It received the equivalent of CZK32.9bn from the EU budget while contributing CZK22.5mn. The CR is one of many EU member states that has been receiving more from the EU than it contributes.

**28** Since 2012, the CR has experienced a severe drought every year, but this summer’s could prove the worst, as the air temperature has since April been far above average, climatologist said. Most rainstorms have short and local rather than nationwide. Groundwater reserves have become steadily lower in recent decades with mild winters, in terms of snowfall, a contributing factor.

**29** The number of reported crimes in Prague has decreased every year since 2013, when police recorded 82,005 crimes. Last year, 50,726 crimes were reported, a drop of 38% from 4 years earlier. The most significant drop has been in terms of property theft and violent crime. The most reported crimes include pickpocketing, especially in high tourist seasons, and car break-ins.

**30** The FA has accessed and compiled data on people renting out property in the CR through Airbnb and begun systematic checks into whether they are meeting their tax obligations. The office in recent months has stepped up efforts to tax so-called “shared economy” businesses, such as the taxi company Uber, which earlier in July agreed to register new drivers and report earnings using electronic cash registers later this year.

A greater percentage of migrants born outside the EU have found work in the CR than in the other 27 EU member states, according to the Eurostat. In 2017, the employment rate of persons in the EU aged 20-64 years ranged from 63.0% among migrants born outside the EU, through 73.0% among the native-born population, to 75.4% recorded for migrants born in a different EU member state. For migrants born outside the EU, the employment rate was highest in the CR, at 79.4%, followed by Romania, at 76.3%, Portugal, at 74.5%, and Poland, at 73.0%, according to Eurostat.

Czech banks may see profits drop by hundreds of millions of crowns due to the Markets in Financial Instruments Directive (MiFID II), which forces lenders to reveal how much they bill customers for exchange rate hedging operations. Part of Europe’s biggest regulatory overhaul in a decade, the regulations in part were intended to stop banks from selling products that clients do not need or understand. Czech banks, especially established lenders, have had a reputation of charging high and hidden fees. Newcomers to the market often highlight transparency in this regard to win over customers.

**Aug 1** PM Babiš (ANO) is still the most popular Czech politician with 47%, according to a poll conducted by the STEM polling institute in June. He is followed by the chairman of the ANO deputy group, Faltýnek, with 38%. The popularity of the ČSSD leader, Deputy PM Hamáček, fell to 31%, while that of KSČM leader Filip rose from 27 to 33%. Babiš’s rating dipped under 50%, which has been his worst result since 2014. President Zeman named Babiš’s 2<sup>nd</sup> government of ANO and the ČSSD on June 27, 8 months after the election to the ChD.

**2** PM Babiš wants a decision on financing ČEZ’s NPP expansion by year’s end. ČEZ has refused to invest in new plants without some form of state support. Instead, it proposes spinning off its RES and energy services, leaving coal and nuclear sources in state hands. Babiš says ČEZ is big enough to build new nuclear units without being split up and wants a subsidiary to be the main vehicle to build new reactors.



**Aug 2** The CNB increased the 2-week repo rate by 25 basis points to 1.25%. At the same time, it increased the Lombard rate by 25 basis points to 2.25% and the discount rate by 20 basis points to 0.25%. The new interest rate levels come into effect on 3 August 2018. It is the 3<sup>rd</sup> hike in interest rates since the end of the bank's forex interventions against the crown. CNB Governor Rusnok has not ruled out further increases this year.

**4** The Fitch Ratings Agency has upgraded the CR's credit rating from A+ to AA-, with a positive outlook. The improvement reflects the positive impact of stable economic growth on revenues, contained government spending and improved drawing of EU funds.

**7** ČEZ's Q<sub>2</sub> revenues and profit dropped sharply despite increased electricity production due to higher wholesale electricity and emissions prices after forward selling production at lower levels. ČEZ said however that the hit from its hedging operations should dissipate in the H<sub>2</sub> 2018. Its revenues dropped to CZK40.9bn in the Q<sub>2</sub>, compared with CZK48.1bn in the same period in 2017. Net profit for the Q<sub>2</sub> dropped to CZK0.5bn crowns taking half-year net profit to CZK7.7bn, down 54% compared y-o-y.

**8** The number of tourists in Czech hotels, hostels and camps rose to 5.5mn in the Q<sub>2</sub>, a 4.6% increase y-o-y. The data indicate that the increase is also due to a higher number of Czechs holidaying at home. There has been a 7.9% increase in Czech holiday makers, the number of foreign visitors increased by 1.6%. The biggest number of foreign tourists are from Germany, who make up a 1/5 of all foreign visitors, followed by tourists from Slovakia and China. Tourist figures have been rising for 5 years in succession now.

After steadily dropping for 5 straight months, the unemployment rate rose slightly in July to 3.1%. However, seasonal factors are behind the increase, including the entry of new high school graduates on the labour market. According to the LO, the number of unemployed is in fact at its lowest level since 1997 for the month of July. The number of vacancies now stands at nearly 310,000 and only three regions have more jobseekers than openings: the Ústecký region, the Moravian-Silesian and South Moravian regions.

**9** FA says it has records of the untaxed revenue of Czech Airbnb hosts dating back to 2015 and will soon begin collecting them. Apart from back payments, the tax authority plans to impose penalties of up to 40%. The FA also considers Airbnb hosts to be subject to VAT payments for the fees Airbnb charges. In Prague, Airbnb hosts may also owe fees to the municipality, which can charge a penalty of up to CZK500,000 for failing to register for local taxes.

Consumer price inflation slowed to 2.3% in July from 2.6% in June. Compared to July 2017, housing and fuel prices, in particular, grew while prices for clothing, footwear and telecommunication services dropped. Fuel and oil prices rose by 12.6% y-o-y in July, the cost of electricity increased by 5%, and residential rental prices grew by 3.2%.

**13** The grain harvest is expected to drop by 7.5% on the previous year, hitting an overall yield of 6.3mn t, according to CSO's preliminary data. It is 3<sup>rd</sup> lowest figure over the past 10 years. The harvest of poppy seeds will also be affected by this year's prolonged period of drought, dropping by ¼ on the previous year to 15,000 t. The harvest of colza, on the other hand, is expected to increase by over 12% to 1.3mn t.

**14** Economic growth slowed to 2.3% in the Q<sub>2</sub> 2018 from 4.2% in the Q<sub>1</sub>, according to an official preliminary estimate. Analysts had expected slightly faster expansion in the April to August period. GDP growth for the whole of 2018 should reach around 3%, according to experts. They say that the economy is currently performing at close to its maximum potential.

**15** Czech dependence on exports to EU keeps increasing despite the government's efforts to diversify. According to the CSO, some 84.2% of Czech exports go to other EU countries, a y-o-y increase by nearly 1pps, exports to North America and Asia, on the other hand, have dropped.

**19** The CCC begun to receive applications for workers from Serbia after the government agreed to speed up the process. A similar system has been in place for Ukrainians for 2 years and today over 13,000 are employed in the CR. Up to 2,000 Serbs could receive Czech work permits. The CCC's head Dlouhý said Serbs could be hired in the automotive industry and others involving trades. The organisation plans to open an office in Serbia itself.

**20** MLSA Minister Maláčová will propose a new mechanism for determining the minimum wage, setting it at 50% of the average salary in the CR for the previous year. As of this January, the minimum wage in the CR is CZK12,000. TUs had been seeking an increase of CZK1,500, or 12%. The valorisation mechanism proposed by Minister Maláčová would require amending the Labour Code. TUs would back the proposed change, which could come into effect in 2020.

**21** More than 90% of the area of the CR has been affected by drought, according to a report carried out by a scientific team within a project called InterSucho. Over 72,000 km<sup>2</sup> are currently affected by the drought-out period of dry weather and lack of rainfall. According to experts, there are between 40 and 80ml of water lacking in the soil. The situation could only improve by a long-term, moderate rain.

- Aug 22** The average mortgage rate rose marginally to 2.5% in July, according to Hypoindex. Last month the average rate stood at 2.49%.
- 24** Overall confidence in the economy rose by 0.4 points to 99.1 in August, following a decline in trust the previous month. Y-o-y, the composite confidence indicator was also higher. In m-o-m terms, however, while the confidence indicator of entrepreneurs increased by 0.8 points to 96.9 the consumer confidence indicator decreased by 1.5 points to 110.3.
- 25** The MH is proposing to set aside an extra CZK6.8bn over through 2020 for allowing four medical schools (Charles University, Masaryk, Palacký, Ostrava) to accept more students. MH Minister Vojtěch said action must be taken now to address a looming, serious shortage of doctors within the next 10 years. Of the 40,000 doctors now practising some 13,000 will be over the age of 60 as of 2020, or 5 years short of retirement age. Each year, about 1,400 new medical students are accepted while last year only 1,170 students graduated. Furthermore, an estimated 10-25% of graduates leave the CR to practise medicine.
- The ANO is set to dominate municipal elections in October nationwide while the opposition ODS, the Pirates and SPD also have a great chance of success, according to polling agency SANEP. Of 6 major cities surveyed, only in Prague would ANO not take first place, where the movement would end 3<sup>rd</sup> behind the Pirates and ODS, said SANEP, without providing detailed numbers. ANO would win in Brno, Pilsen, Liberec, Ostrava and Ústí nad Labem while the Pirates will likely gain ground in Pilsen and Brno, it said.
- 26** The bark beetle infestation and drought contributed to a 38% drop profit for state-owned forester Lesy ČR's in the H<sub>1</sub> 2018. Lesy ČR recorded a 20% decline in sales and noted a dramatic fall in prices on the central European market.
- The CR awarded 14,847 contracts worth a total of CZK198.7bn in the H<sub>1</sub> 2018, an increase of about a 1/3 in value in annual terms. The largest single tender, worth CZK14bn, was commissioned by Čepro in January for the supply of specific types of oil by rail. Construction and infrastructure contracts, as usual, made up the lion's share of tenders.
- The state budget for 2019 should have a deficit of CZK40bn, MF Minister Schillerová said, noting a revised reading of macroeconomic data. Last month, the deficit was projected at up to CZK50bn. The 2019 budget approved by the government envisages increased funding for teachers' salaries and pensions as well as reduced social welfare benefits. Most ministries can expect more state money, except for the MH, which is projected to take in more from health insurers.
- 28** Average earnings in the public sector have been rising more quickly than in the private sector in the CR. Wages rose by an average of 8.4% among public sector employees in 2017, compared to an average rise of 6.8% for those working in the private sphere. Public sector staff took home an average of just under CZK32,000 a month last year, around CZK1,000 more than those in the private sector.
- 29** PM Babiš is likely to visit Great Britain at the end of October, for talks on bilateral relations post-Brexit. If the visit goes ahead as planned, the PM would hold talks with his British counterpart Theresa May and attend a concert of the Czech Philharmonic held on the occasion of the centenary of Czechoslovakia.
- The MLSA has put forward a new decree that would raise the minimum wage in the CR by over 12%. The previously announced change would see the minimum wage climb by CZK1,500 to CZK13,700. The amendment to the Labour Code, also envisages tying growth of the minimum wage to average salary increases from the year 2020.
- State support for NGOs has been lowered by CZK586mn as opposed to the government's original plan, PM Babiš said. There should be less money for NGOs linked to the education sector but more for those active in the field of social services. Overall state support for NGOs should rise y-o-y by approximately CZK800mn. The government is also planning lay-offs in state administration. Over 1,300 positions will be scrapped, many of which have been unfilled for some time.
- 30** PM Babiš will hold talks with German Chancellor Angela Merkel in Berlin on September 5. The talks are expected to focus primarily on migration, the EU budget, Brexit and European elections. A number of bilateral issues are also on the agenda, such as road construction, cooperation in research and development and the Czech-German Fund of the Future. The PM this week held talks in Italy and Malta to try to convince European leaders to change their approach to the migrant crisis.
- 31** TUs have reached agreement with the government on wage rises in the public sector as of January 2019. According to MF Minister Schillerová there will not be a blanket increase and employees with lower wages should get a bigger hike. The average raise for public sector employees will be at around 8%. The projected wage increases will cost the state budget some CZK25bn.

Aug 31	A decision on the means of financing new nuclear reactors in the CR should be made by the end of the year, MIT Minister Nováková said. At present 3 options are on the table: creating a new subsidiary of ČEZ with Dukovany and Temelin assets, opening the door to a foreign investor, and splitting ČEZ to transfer its nuclear plants to a state-owned company. Minister Nováková said that either way, ČEZ would be expected to play a significant role, since the CR's top nuclear experts were there.
Sep 1	Cheaper train and bus fares for people under 26 and over 65 were introduced in the CR. They will now have to pay just a quarter the price of regular tickets. The move represents the fulfilment of one of the promises made by ANO party in pre-election campaigning. It will cost the state up to CZK6bn, though no precise estimate can be made.
3	<p>The occupancy rate of Prague hotels in July fell by 4.4% in annual terms. Members of the Association of Hotels and Restaurants say the boom in shared accommodation services, in particular via Airbnb, is behind the drop. Airbnb's share of overnight stays in Prague stood at 14.7% last year, up 4.7% from 2016. The areas renting out the most flats via shared accommodation are the historical quarters of Nové Město and Staré Město, and the district of Žižkov. The number of guests staying in the CR through Airbnb last year rose 52% to 1.02mn.</p> <p>ANO would have won elections last month on 28% of the vote, according to an opinion poll of the Kantar TNS agency. That figure is less than 2 points below what the party received in October's elections. The Pirates, who got under 11% in October would now receive 15%. 13% of respondents in the poll said they would vote for the ODS. The KSČM and SPD would receive 8% of the vote, while the ČSSD and the STAN would get 6.5%, the KDU-ČSL would get 5.5% and TOP09 5%.</p> <p>The PMI dropped to 54.9 points in August from 55.2 in July. Although the August figure is the lowest in a year, it still indicates improving conditions in the manufacturing industry, albeit at a slower pace.</p>
4	<p>The Cabinet has earmarked CZK6.8bn to try to ensure the CR does not lack doctors in the future. That figure should ensure that the intake of medicine students at the teaching hospitals increases by 15.</p> <p>The average monthly salary in the CR increased by 8.6% y-o-y in the Q<sub>2</sub> to CZK31,851, according to the CSO. In real terms, accounting for inflation of 2.3% during the Q<sub>2</sub>, the average salary rose by 6.2%. In the previous quarter, real wages rose 6.6%, their fastest pace in 15 years. The median wage, the level at which most people are earning removing part of the distortion from high earners, stood at CZK27,236 in the Q<sub>2</sub>.</p>
5	<p>The distribution of refugees remains to be the only problematic issue in the otherwise excellent Czech-German relations, German chancellor Merkel said on meeting with Czech PM Babiš.</p> <p>Sales of new passenger cars in the 1<sup>st</sup> 8 months of 2018 increased by 4% compared to the same period last year, to 193,252 vehicles, according to the AIA. The growth has been a direct result of a change in the exhaust emissions limits, which came into effect in September last year. The biggest seller in the period between January and August was Škoda with over 59,300 cars, followed by Volkswagen and Hyundai. The Škoda Octavia remains to be the best-selling model, followed its Fabia and Rapid models.</p>
9	Some 15% of Czech employees changed jobs in the past 6 months, according to the recruitment agency Randstadt. ¼ of Czechs are considering finding a new employment or are actively searching for it, which is 5% more than in the previous 6 months. People employed agriculture, forestry, hospitality and catering changed jobs were most willing to change jobs. The study also suggest that 62% of Czech employees are happy with their current employer, while 10% are dissatisfied.
11	<p>The unemployment rate stood at 3.1% in August, the LO reported. The number of job seekers reached 230,490, which is the lowest figure for the month since the year 1997. The number of vacancies increased slightly to 313.000. Last August the unemployment rate was at 4%.</p> <p>The population of the CR grew to just under 10,625,500 in the H<sub>1</sub>, according to the CSO. That figure was around 15,400 higher than at the end of 2017. More people died than were born in the CR in the January to July period and the rise has been attributed to immigration, mainly from Ukraine and Slovakia.</p> <p>The ČMKOS has recommended that TU negotiators push for pay rises of 7 to 9% next year. The ČMKOS's leader Středula said the figures were a guideline and that TUs would make pay demands depending on the situation at concrete firms. It also discussed working conditions, with TU's leaders saying they plan to press for reduced hours without a cut in earnings.</p>
12	CNB governor Rusnok has said that due to the revved-up economy the CNB was likely to increase interest rates before the end of the month and then one more time before the end of the year. He said he expected a serious debate on a possible interest rate move at a meeting of the bank board on September 26, saying a hike was a strong possibility and there were few arguments against it. The CNB has lifted interest rates at its last 2 policy meetings.

**Sep 15** Government officials, employers and TU leaders approved the priorities outlined in the government's draft budget for 2019. The MF has proposed a state budget with a CZK40bn deficit that envisages a hike in public sector wages, higher pensions and more money for investments. The Cabinet aims to scrap 1300 jobs in public administration, which should save around CZK3.4bn.

**17** The CR has the highest number of job vacancies in the EU, according to the Eurostat. According to quarterly data on the ratio of job vacancies and the number of occupied posts, the CR had 5.4% unoccupied positions compared to the EU average of 2.2%. A year ago the Czech Republic had 3.6% unoccupied positions. It is followed by Belgium (3.5%), The Netherlands (3.1%) and Germany (2.9%).

**19** The average mortgage rate rose marginally in August to 2.53%. In July, the average rate stood at 2.5%. Over the summer months, no major bank changed its mortgage rate, but a gradual rise is expected in the autumn months.

The Cabinet has proposed increasing the average old-age pension by about CZK900 as of January 2019. The fixed component of such pensions, which is the same for all and now stands at CZK2,700, would rise by CZK570. The component reflecting the amount the recipient paid into the system during their working years will rise 3.4%.

The Cabinet approved the draft budget for the year 2019. It counts on a deficit of CZK40bn, the same amount as in the years 2020 and 2021, said PM Babiš. On the expenditure side, the focus is on investment, increasing pensions and raising salaries for public sector workers, Mr Babiš said. Some opposition politicians argued that during a period of strong economic growth, running such high budget deficits is irresponsible. They also said the level of investment was too low.

**20** The CR ranks 26<sup>th</sup> in the world in a quality of life index compiled by the Social Progress Imperative group. Of the new EU member states, only Slovenia finished higher, in 22nd place. The best living standards are enjoyed by the people of Norway; the worst by people in the Central African Republic. In total, 146 countries were evaluated.

**24** Overall confidence in the economy rose, for a 2<sup>nd</sup> successive month, by 0.5 points to 99.6 in September, the CSO said. Y-o-y, the composite confidence indicator, or Economic Sentiment Indicator, was also higher. Confidence in the economy had been dipping and rising in the Q<sub>1</sub> and Q<sub>2</sub>.

The coalition parties ANO and the ČSSD agreed that the first 3 days of sick leave will be financially compensated as of July next year. Under the present legislation, employees are not entitled to any wage compensation in the first 3 days of sick leave. This practice was introduced in 2008 within broader measures to stabilise public funds. The ČSSD have been pushing to change the practice for years.

**25** The CR has placed 30<sup>th</sup> on the Economic Freedom of the World Index published, up by 7 spots compared to last year. The index compares data from 162 countries, assessing a number of indicators, including the size of the public score, the quality of legislation, foreign trade and overall regulation. Monetary issues and inflation are also taken into consideration. Hong Kong has traditionally placed top of the ladder, followed by Singapore and New Zealand.

**26** ČNB board has increased the 2-week repo rate by 25 basis points to 1.5%. At the same time, it increased the Lombard rate to 2.5% and the discount rate to 0.5%. The board has raised interest rates by 25 basis points at the 3 rate-setting sessions since June. The new levels come into effect on 27 September 2018. Earlier, CNB governor Rusnok, citing economic growth, inflation and wage development, said he would not rule out more hikes before the end of the year.

**27** Czech importers of pork and pork products from states where ASF has been confirmed will be held responsible for getting such imports tested for the virus, the SVA said. Importers will have a duty to test all pork imports from Belgium, Bulgaria, Estonia, Lithuania, Latvia, Hungary, Poland and Romania. Belgium and Poland are the 3<sup>rd</sup> and 4<sup>th</sup> biggest importers of pork to the CR. Failure to comply with the regulation will be punishable by a fine of up to CZK2mn.

**Oct 1** Stricter rules for the provision of mortgage loans have taken effect as of October 1st. Under the change introduced by the CNB, mortgage holders should not be allowed to spend more than 45% of their monthly income on repayments. Likewise the overall loan should not exceed 9 times the holder's annual income. The new conditions will make mortgages inaccessible to 20% of households which met the previous conditions. The CNB's restrictions are not legally binding but are generally followed by banks.

**2** It takes Czechs considerably longer on average to save to purchase an apartment than people in other European states, according to the Deloitte. Comparing 12 states last year, the report found that a new flat in the CR is equivalent to 11.3 years of average pay. Belgians, meanwhile, need the equivalent of 3.7 years' salary to cover the price of a property of 70 metres squared. A lack of new apartments on the market is one factor forcing property prices up in the CR. Mortgage regulations, lengthy permit procedures, high taxation and consumer sentiment are other factors.



- Oct 2** Following consultations with the EC, the SVA has reversed its order for imported pork products to undergo tests for ASF. The special measures concerned imports from countries where ASF has been confirmed and were to have come into effect this week. The EC protested against the decision on the grounds that it would destabilize the trade in pork. It moreover pointed out that in all of the states concerned, ASF had only been detected in wild boar, not in commercial pig farms.
- 3 Stricter mortgage rules, in force since October, apply not only to new contracts but also to refinancing existing housing loans, the CNB said. According to the report, this is in direct contradiction with what the CNB governor Rusnok said in June, taking some commercial lenders by surprise.
- 4 The number of Czechs who travelled abroad during the summer increased by 25% compared to 2017, according to the data released by ERV travel insurer. The most popular destination of Czech travel agencies this year was Greece, followed by Turkey, which saw twice as many Czech tourists as last year.
- 6 Economists Aleš Michl and Tomáš Holub are set to become the newest members of the CNB board in November. Michl, an external advisor to PM Babiš, has often come out in favour of a stronger crown and criticized forex interventions by the central bank. Holub has worked at the CNB since 2004 as head of the currency department. They will fill the seats of Mojmir Hampl and Vladimír Tomšík, whose mandates are finishing.
- 8 Coalition talks on the set-up of local councils are taking place around the CR in the wake of the weekend communal elections. ANO, which won in all the big cities with the exception of Prague and Liberec, is consolidating its position in the other municipalities. In Prague, the Pirates Party, which came a close 2<sup>nd</sup>, after the ODS, is negotiating a possible coalition deal with TOP 09, the Mayors and Independents and the new grouping Praha sobě.
- Unemployment in Prague fell to 2.1% in September, down 0.1% compared to August. Prague has the 4<sup>th</sup> lowest unemployment rate among the regions, after those of Pardubice (at 1.9%) and Pilsen and South Bohemia (both at 2%). The Moravian-Silesian Region has the highest rate of unemployment (at 4.6%) followed by the Ústí nad Labem region (at 4.5%). That national unemployment rate is currently under 3%, the lowest level in 22 years.
- 9 The media group Mafra, which is part of the Agrofert conglomerate built up by PM Babiš, is taking over the Bauer Media publishing house in the CR and Slovakia. The acquisition price was not made public. Bauer Media produces tabloid titles, lifestyle and women's magazines. The PM was forced to put the Agrofert conglomerate into a trust fund in order to comply with a strict new conflict of interest law. The MI has proposed sending CZK50mn in aid to Iraq, Mali, Nigeria and Chad as part of the CR's policy of helping countries of migrant origin. The money is to be used to improve the countries' infrastructure, build houses for migrants who wish to return home, clean water facilities and health care.
- The IMF has revised down its estimate for global economic growth by 0.2% to 3.7%, for this and next year. The growth estimate for the CR in 2018 was also downgraded to 3.1% from a previous forecast of 3.7%. The growth estimate for 2019 is currently at 3.0%.
- 13 Voting has ended in the 2<sup>nd</sup> round of elections to a 1/3 of seats in the Senate. Voter turnout in the 2<sup>nd</sup> round was considerable lower than in the 1<sup>st</sup>, with an estimated 16% of eligible voters taking part in the runoffs. The ODS have emerged as the biggest winners. 10 of the party's 11 candidates secured a seat, bringing the party total in the 81-member Senate to 16. The STAN won 7 seats, increasing their overall number of senators to 17 and forming the largest senators' group in the Senate. The ČSSD and the ANO are seen as the biggest losers in the senatorial elections. The ČSSD, who were defending 13 seats in the upper chamber, managed to win just 1. ANO has also secured only 1 seat, bringing the party total to 7. The KSČM failed to elect a representative in a Senate race for the 1<sup>st</sup> time since the Senate was formed.
- 14 The average mortgage interest rates in the CR are the 6<sup>th</sup> highest in EU, according to the the website ChytrýHonza.cz. Interest rates on mortgages in Europe range from 1.09% in Denmark to 4.4% in Poland. In the CR, the average rate is 2.2%. However, the level of indebtedness of the Czechs is not as great as, for example, that of the French.
- 15 Due to the chronic labour shortage, Czech economic growth will slow to 3.6% this year and to 3.3% in 2019, the CCC says in a new forecast. By June 2019 there could be 0.5mn unfilled positions, about 60,000 more than today, according to the CCC, which has been lobbying the government to double the annual quota for workers from Ukraine to 40,000 to help fill the gap.
- 16 President Zeman appointed Tomáš Petříček of the ČSSD Minister of foreign affairs. Mr. Petříček had formerly been a deputy foreign minister. The president rejected the ČSSD's previous nominee for the post of foreign policy chief, Miroslav Poche, and the ČSSD's MI Minister Hamáček, filled the role for a number of months in a caretaker capacity.

**Oct 17** The Cabinet has increased the budget for transport infrastructure next year to CZK86.3bn. The amount to be spent on construction and renovation of the CR road and rail networks will be CZK14bn higher than in 2018. Cabinet members have also given the green light to Strategic Framework 2030, a plan whose objective is described as to improve the quality of life of all inhabitants of the CR while respecting natural limits.

The average mortgage interest rate rose in September to 2.57% from 2.53% in August, according to Fincentrum. Despite higher rates, the number of applicants surged as people sought to get mortgages before tougher lending guidelines came into effect on October 1. Under the new guidelines set by the CNB, a borrower should not be eligible for a loan greater than 9 times their annual net income or have to spend over 45% of their monthly net income to service the debt.

**18** President Zeman and the chief justice of the Constitutional Court Rychetský, are the CR's most trustworthy politicians. Each enjoys the trust of 45% of respondents. However, the number of people who distrust the Czech head of state is even higher, currently standing at 48%, while in the case of Mr. Rychetský it is only 31%. The least trusted Czech politician is the former TOP09 leader Kalousek, the survey suggests.

**19** Estimated losses from the summer drought this year have topped CZK24billion. According to experts, 2018 will be the driest year on record, outdoing 2015, which has been the driest so far. Rainfall levels in October have so far been 5 times lower than the average. Prices of potatoes, beer and carp are expected to rise due to the drought.

An ambitious project to build a canal linking the Danube, Odra and Labe rivers would make economic sense, according to a study produced by the MT. The construction of the canal would cost up to CZK582bn. The project has long been advocated by President Zeman. However, environmentalists are opposed to it.

**23** German Chancellor Merkel is to visit the CR on Friday at the start of a weekend of celebrations marking the centenary of the birth of Czechoslovakia on October 28, 1918. She is to meet with PM Babiš and other top officials. French President Macron will also travel to Prague to attend the celebrations, highlighting France's contribution to the birth of independent Czechoslovakia.

**24** The Cabinet agreed to allocate CZK2bn towards supporting drought-stricken farms and orchards. In September the MA estimated damages to crops at CZK11bn. According to EU rules, such government support can be granted to private growers only when damages from drought exceed 30% of average annual production.

**25** 7 out of 10 Czechs are in favour of abolishing daylight saving time, according to the STEM. 44% of respondents would prefer to stay on summer time throughout the whole year instead of changing the clocks in spring and autumn. The EC announced earlier this year that it would recommend that EU states abandon the practice of switching times, since most EU citizens were in favour of the move. Daylight saving time ends in the CR on Sunday, October 28.

PM Babiš said following a meeting with his British counterpart that he is confident the EU and UK will reach an agreement on Brexit. PM May said she hoped for strong business links after Brexit, stating she was looking forward to discussions on how to strengthen ties and trade. For this part, Mr. Babiš said that in his discussion with Ms. May he had emphasized that Czechs and other EU citizens living in the UK should not be worse off after Brexit. Before flying to London, he noted that the Brexit problem was now mainly focused on the Northern Ireland border issue.

**26** The ruling coalition of ANO and the ČSSD together with the KSČM have pushed through an amendment to the civil service law in the ChD that will make it possible for government ministers to recall state secretaries. The opposition parties say this would mean a step back, leading to a politicized state administration. The civil service law approved in 2014 was meant to stabilize public administration, open it up to experts and prevent purges at ministries after each general election. The proposed change still needs to win approval in the Senate but efforts to block it can be overturned by the ChD.

German Chancellor Merkel visited Prague in connection with the centenary celebrations on October 28. Her talks with PM Babiš focussed on bilateral topics and EU-related issues, primarily migration. PM Babiš said it was wrong to create a divide between the V4 and other EU members. He stressed that the CR is pro-European and wants the EU to function well. French President Macron is to arrive in Prague later on October 28, also in connection with the centenary celebrations. His talks with PM Babiš and President Zeman are expected to focus on migration and the French president's plans for EU reform for which he is seeking supporters across the bloc.

**Oct 26** The ANO movement of PM Babiš is clearly the most popular political party in the CR, according to the latest the STEM's poll that indicated that ANO would win elections with 33.4% of the vote now, followed by the ODS with 12.9%. STEM election model showed that 8 parties would enter the ChD, crossing the 5% threshold. The junior opposition TOP 09 would fail. The Pirates received 12.6%, SPD 9.6%, the KSČM 7.4% and the ČSSD 6.7%. The KDU-ČSL would win 6.4% and the STAN 5.3%.

**28** One of the highlights of the centenary celebrations in Prague was the biggest military parade in the country's modern history. The parade on Evropská street showcased the best that the country's security forces have to offer. Over 2,000 people including professional soldiers from the country's elite units, police officers, firemen and emergency crews took part, displaying the latest military technology. A planned flyby of Gripen army planes and helicopters went ahead, despite heavy rain. The parade was viewed, from a special tribune, by Czech and Slovak top officials, visiting foreign guests and members of the diplomatic corps. Among the foreign guests present was US Secretary of Defence James Mattis.

**30** The PM Babiš says the service life of the Dukovany NPP could be extended by a decade. That would cost CZK20bn, compared to building a new nuclear unit, which would cost around 10 times that amount, he said. Dukovany was previously expected to keep operating until 2035. Keeping it running for another 10 years would mean the Czech government would not have to decide now on how to fund the expansion of NPPs operated by the ČEZ, which is reluctant to launch a tender without state guarantees for the massive investments. However, Mr. Babiš argues that the ČEZ can handle the project on its own. The MIT Minister Nováková said that the government may postpone a decision on whether to force ČEZ to construct new reactors at Temelín NPP.

**Nov 1** The CNB raised the basic interest rate by 0.25pps to 1.75%. It is already the 5<sup>th</sup> hike in interest rates this year, as the bank response to rapid pace of wage growth and the resulting impact on inflation. According to CNB governor Rusnok, there will be no more hikes before the end of the year. The CNB has also downgraded its growth forecast for this year to 3.1% and for next year to 3.3%.

The number of long-term unemployed in the CR continues to drop, according to the CSO. The number of Czechs who have been unemployed for more than a year has dropped over the past year to 29.9% (of the total number of unemployed). Last year, that figure stood at 37.5%. In September, LO registered 67,093 people who have been unemployed for more than 12 months. The total number of unemployed dropped to 3% in September, which is the lowest figure for that month since 1996.

**2** PM and ANO movement leader Babiš continues to be the most popular politician in the CR, positively assessed by a 1/2 of people, and opposition Pirates head Bartoš is 2<sup>nd</sup> with 41% of positive assessments, a STEM agency poll has shown. SPD's leader Okamura ended 3<sup>rd</sup> with 36% in the STEM's poll surveying the popularity of members of the cabinet and parliament parties' chairmen. Babiš, Bartoš and Okamura all see their position improve as against the previous similar poll in June.

The ANO movement of PM Babiš would get 30% of the vote if elections were held in October, followed by the ODS with 19%, or 5% more than they gained in the previous poll, according to the CVVM. The Pirates would receive 11%, the ČSSD 9%, or 3% less than in September, the KSČM 8.5% and the KDU-ČSL 7%, compared with 4.5% in September. The CVVM election model showed that the SPD, the STAN and especially TOP 09 might not cross the 5% threshold to enter ChD. According to CVVM, the SPD would get 5%, the STAN 4% and TOP 09 3.5%.

PM Babiš's ANO would win the election to the ChD if it was held in October with 27%, but it would be a drop of 2.5% from September as well as from last year's elections, according to the Kantar. A decrease in voter support would also be seen by the junior ruling ČSSD, whose popularity has fallen by 1.5% to a new low of 5.5%. The Pirates would achieve 16%. The popularity of the ODS improved by 2.5% to 14% over the year. A loss of 3% was sustained by the SPD, which would win 7.5% this October. The position of STAN, on the other hand, firmed by 2% to 7%. They were followed closely by the KSČM with 6.5% and the KDU-ČSL with 6%. TOP 09's voter support would improve by 1% to 5%.

**4** The grape harvest in should exceed that of the 2 previous years. According to the Wine Fund, the grape harvest is about 30% higher than the 10-year average. Contrary to expectations, the quality of grapes, with the exception of early varieties, has not been affected by drought. Due to the exceptionally hot and dry weather, the grape harvest in the CR started a few weeks earlier.

**5** Approximately 90% of Czech companies plan to invest in modernization and expansion, according to the EIB's survey. The Czech figure, which is just 1% lower than last year, is still above the EU average of 87%. The Czech companies surveyed said their investment plans were complicated by a lack of skilled workers and excessive regulation of the labour market.

**Nov 5** MFA Minister Petříček has said he wants to help Czech exporters find new markets outside of the EU, on which they are now largely dependent. He would push for better coordination in helping Czech exporters and said that next year he hopes to visit Latin America and Africa with this goal in mind. The MFA is also planning to employ export specialists who will work with Czech exporters in helping to expand their scope.

**6** The MF has cut its forecast for expansion of the economy this year. While in July it said GDP appeared set to grow by 3.2%, they have now revised that figure to 3.0%. Similarly the MF had previously predicted GDP growth for 2019 of 3.1% but now says 2.9% is more likely. The MF says it regards Brexit, increased protectionism and Italy's economic problems as the greatest threats to the Czech economy.

**7** The CR plans to borrow CZK11.5bn from the EIB to modernise 8 railway corridors. The government will and allocate the same amount towards the project from the national budget. In total, the SFTI plans on allocating some CZK86bn towards improving the infrastructure next year, with CZK20.8bn coming from EU programmes.

**8** Unemployment in the CR dropped to 2.8% in October, which is the lowest point since June 1997. The number of people without work was around 215,622, while the number of vacancies grew to nearly 316,900. Last October, unemployment stood at 3.6%. Meanwhile, the number of long-term unemployed dropped by 7.6% y-o-y, to 29.9% (of the total number of unemployed).

The EC's released macro-economic forecast sees GDP growth falling to 3% this year. In 2017 Czech economic growth stood at 4.3%. The growth is expected to be driven mainly by growing domestic demand. According to the prognosis, Czech GDP should be at around 2.9% in 2019 and 2.6% in 2020.

**9** Growth in consumer prices slowed down to 2.2% in October from 2.3% in September, the CSO said. Compared to the previous month, prices increased by 0.4% in October. Compared to October 2017, housing and fuel prices grew, while prices of food and clothing have dropped.

**12** The number of Czech families who have a problem making ends meet on their family budget has dropped to its lowest since 2012, according to the CVVM. 54% of respondents said they had no trouble meeting their needs on their present income, while 43% said this presented a difficulty. 22% of households consider themselves poor, and 12% are in serious financial straits. The number of households which consider themselves poor in the over-60 age bracket is 32%. According to CVVM, the financial situation of Czech households has gradually been improving since 2012.

**14** The Czech government has, as anticipated, refused to participate in the United Nations Global Compact for Migration. PM Babiš confirmed, a week after he and the MFA Minister Petříček said Prague would not sign up to the treaty, which is due to be approved in the middle of next month. The MFA issued a statement saying Czech priorities, such as differentiating between legal and illegal migrants, had not been included in the document.

Jaroslav Kubera, ODS's politician who has been Senator from Teplice since 2000, was elected chairman of the upper house of Parliament in the final round of a secret ballot.

The Cabinet has confirmed plans to increase public sector wages as of January, MLSA Minister Maláčová said. Wages are set to rise most in the sectors of education (by 10% on average) and healthcare (by 7% on average). Most government employees will see their wages rise by 5%, while police, firefighters and soldiers will get a 2% raise. The wage increases were set in the 2019 draft budget, which the ChD approved in its first reading in late October. Apart from the increase in public sector salaries, government spending next year should prioritise the social sphere and investments into infrastructure.

The Czech economy grew at a rate of 2.3% y-o-y in Q<sub>3</sub> 2018, according to data published by the CSO. In quarterly terms, GDP increased by 0.4%pps in July through September. In 2017, the Czech economy grew 4.4% in annual terms, up from 2.6% growth in 2016. Analysts predict more sluggish growth in 2018, of below 3%. Unemployment dropped to a 21-year low of 2.8% in October and some analysts say the economy was at full capacity last year.

**15** The Senate of Czech Parliament has called on PM Babiš to step down over new allegations surrounding the Stork's Nest affair, in which he faces charges of EU subsidy fraud, until the criminal investigation is concluded. According to the senators, Andrej Babiš's presence in the government is unacceptable following suggestions that his son was forcibly held in Crimea so that he would not be able to testify in the corruption case against his father. The resolution was approved by a majority of senators after the PM failed to provide a convincing explanation with regard to his son's alleged kidnapping. Andrej Babiš is facing a criminal investigation into allegations he wrongfully acquired CZK50mn in EU subsidies for the Stork's Nest complex near Prague. He claims the case is politically motivated.

The operation of the European Global Navigation Satellite System Agency in Prague brings around CZK200mn a year to the CR's GDP. Since the moving of the Galileo Supervisory Authority headquarters from Brussels to Prague in 2012, it has brought over CZK1mn worth of benefits to the CR. The overall revenue of GSA should increase to CZK2bn by 2022.



**Nov 17** Politicians, cultural figures and members of the public laid flowers and lit candles at key sites linked to the events of 1989, such as Národní street where the communist police brutally cracked down on a student demonstration and the equestrian statue of St Wenceslas, the nation's patron saint, at the top end of Wenceslas Square. This year's celebrations of the anniversary are marked by a scandal involving PM Babiš who is under massive pressure to resign following his son's claim that he had been abducted to Crimea so that he could not testify against his father in a case involving EU subsidy fraud.

The majority of Czechs, around 70%, believe that PM Babiš divides society, has a conflict of interest and influences the media, according to the Median agency. At the same time the majority of people also say that the PM has improved the country's economy, he is credited with better tax collection and jump-starting investments.

**19** Some 80% of Czech households have access to the internet, according to the CSO. This represents an increase on 5 years ago, when 67% of the CR's households were able to get online. However, the CR is lagging behind the European average – which was 87% last year – in this regard. The number of Czechs making use of social media this year reached 4.5mn, a 50% increase on 2013.

**20** The government will increase the Czech minimum wage by CZK1,150 to CZK13,350 a month from January, the MLSA Minister Maláčová, said. She said she would push to ensure that figure is close to CZK 16,000 by 2021, when the government's term ends. The MF Minister Schillerová said she abstained from a vote held during cabinet meeting. She argued that the change would increase companies' costs. The average monthly salary in the CR in the middle of this year was CZK31,851. Some 4% of the CR's workforce is on the minimum wage.

President Zeman has told PM Babiš that he will task him with forming a new government if his current one loses a no-confidence vote on November 23.

**21** Downward pressure on the CZK will likely continue for years to come due to gradual sell-offs by foreign investors who bought a large volume of the currency during the 3-year period of intervention by the CNB to keep the domestic currency artificially weaker, analysts say.

A bark beetle infestation that has affected spruce forests throughout the CR – said to be the worst in the past 200 years – is likely to double in 2019, according to the MA. Due to the infestation, the CR's largely coniferous forests are facing extensive felling of trees, which could negatively impact many animal species, including hawks and white-tailed eagles. The MA is calling for amending the Forestry Act and implementing a crisis plan.

ČSSD MPs will not be present for scheduled no-confidence vote in the government. In total only 92 MPs have said they will not back the government while 101 votes are needed for the move to pass, so a walk-out by the ČSSD is a symbolic move that will not change the outcome.

**22** The planned new reactor at the Dukovany NPP should be built by a subsidiary of the ČEZ, PM Babiš said. He also said his cabinet was convinced that the new reactor would pay off. ČEZ conditioned the construction of the new reactor by an electricity price guarantee from the government, but the demand has so far not been met.

**23** Owners of the TPCA car factory in Kolín, central Bohemia, may soon be parting ways. PSA of France and Toyota of Japan have agreed to end production of small cars at the Czech site by 2021, the French daily Les Echos reports. The car companies Toyota, Peugeot and Citroën formed the TPCA joint venture in 2002. The Japanese carmaker is expected to take over PSA's stake, but no final decision has been announced. The TPCA plant in Kolín has an annual production capacity of 330,000 vehicles, a mark last achieved in 2009, before the global financial crisis. For this year, the plant is due to roll out only 200,000 cars.

The government of PM Babiš has, as expected, survived a no-confidence vote in parliament. 92 MPs voted for the measure, 90 voted against it, and 18 abstained. To pass, 101 votes were required. It was called by the opposition due to fraud allegations against Mr Babiš involving EU subsidies, triggered by an interview his son gave claiming he had been “kidnapped” so he would not talk to investigators. Mr Babiš's coalition partners, the ČSSD, skipped the vote to allow the government to survive. But they want Mr Babiš to resign. He is refusing to do so.

**24** ANO would have won elections in November with 29.5% of the vote, virtually the same as they achieved in the last general elections, according to the CVVM poll. Most respondents answered the survey prior to November 12, when a scandal surrounding Babiš's son broke. The ČSSD placed 2<sup>nd</sup> in the poll on 14.5%, just ahead of the Pirate Party on 14.0%. Some 10.0% of those surveyed would have cast their ballots for the KSČM, with 9.0%. SPD would achieve 7.5%, the poll indicated.

**Nov 24** The MFA Minister Petříček has described Russia as “dangerous”. He said Moscow was increasingly assertive and represented a danger as it was spreading disinformation and employing various hybrid threats. The minister, who was appointed last month, said Russia was a genuine risk to the CR and other European Union states, adding that reports of the threat posed by Moscow from the Czech intelligence service ought to be taken very seriously. Mr. Petříček said the CR should not “wait with its hands on its lap” but should tackle such threats more effectively. He said it was necessary to boost strategic communication and the combating of disinformation within the framework of the EU.

**25** 6 in 10 Czechs do not trust the CR’s PM Babiš, suggests a poll conducted by the Kantar agency. The survey indicates that 37% of Czechs do trust the ANO chief. The poll also suggests that most Czechs were not in favour of President Zeman’s pledge to give Andrej Babiš another chance to form a government if he lost a no-confidence vote tabled by the opposition.

The president Zeman begins a 4-day state visit to Israel and will meet Israeli president Rivlin, and the PM Netanyahu. He will be accompanied by around 70 Czech business people and representatives of scientific institutions.

**26** The MFA has issued a statement condemning Russia’s use of force against Ukraine’s naval vessels. The MFA says the blockade of the Kerch Strait by Russia is in breach of international law. MFA Minister Petříček said that Russian appropriation of the Sea of Azov was as unacceptable as its annexation of Crimea. The MFA Minister said he expected a joint EU statement on the matter, adding that the CR would be ready to join international sanctions over the incident.

**27** ANO and the ČSSD have agreed to set up a new commission on pensions. It will explore changes to the pension system and should contain party representatives, experts, academics and people from seniors’ organisations and NGOs. ANO and the ČSSD have also agreed to increase the state children’s allowance. From 2020 families will get a total of CZK300,000, up from the present amount of CZK220,000.

**28** Marian Jurečka has announced his intention to run for the post of chairman of the KDU-ČSL at a congress in March. He hopes to replace current chairman Bělobrádek, who had previously said he would not seek re-election. Mr. Bartošek and Mr. Výborný are also challenging for the leadership of the opposition grouping.

South Korean President Moon Jae-in is wrapping up an official visit to the CR. He is due to hold talks with PM Babiš that will focus on bilateral relations, cultural exchanges and the situation on the Korean peninsula. On November 27, Moon Jae-in met with Koreans living in this country. From Prague, he is heading to Buenos Aires for a Group of Twenty summit.

**29** The CR had the lowest unemployment rate in the EU in 2017, according to the CSO. In 2017, the CR had an average unemployment rate 2. 9%, compared with EU average of 7. 6%. The CR was followed by Germany with 3. 8%, while Greece was placed at the other end of the scale with 21. 5%.

**30** The former chairman of the NATO Military Committee, General Petr Pavel has stressed that more needs to be done to fight hybrid attacks from Russia and China. He noted that while Europe’s security forces cooperated well in detecting and minimizing the danger of terrorist attacks Europe still underestimated the threat of hybrid attacks by Russia and China. He said that in fighting the hybrid threat it was essential to explain the concept to the public, how disinformation campaigns work and how big a threat they present.

**Dec 1** According to a confidential EC legal opinion cited by The Guardian, PM Babiš faces a conflict of interest over European Union funds paid to his company. The leaked report, seen by The Guardian, concludes that Babiš is in a situation that “qualifies as a conflict of interest”, because public officials and politicians should not benefit from EU funds they ultimately control. The taxpayers of the CR thus face being asked to repay at least some of the €82m paid to the conglomerate Agrofert in 2018, legal experts say. The EC was asked to investigate the matter after Transparency International CR said it had evidence that although Babiš put Agrofert in a trust fund, he remains the beneficial owner, in breach of Czech and EU law. PM Babiš dismissed the report as yet another slander campaign against him. He said that according to his lawyers he had not breached any laws.

**3** In its 2017 report the Czech intelligence service BIS warns of heightened activity of Russian and Chinese agents on Czech territory. The report says that both Russia and China have stepped up their activity in the sphere of hybrid warfare and disinformation campaigns, often using Czechs who serve as a smoke screen. The report says that Russia is benefitting from an exceptionally large diplomatic corps in the CR and the often irresponsible attitude of local politicians and public service employees to confidential information. The number of Chinese agents serving under the guise of diplomats has significantly increased, the report says. The report also registers 11 fighters in terrorist organizations with links to the CR. Two of them are reported to be Czech nationals.

**Dec 5** The CR has joined NATO member states in urging Russia to comply with the terms of the 1987 Intermediate-Range Nuclear Forces Treaty. At a meeting of NATO foreign ministers in Brussels MFA Minister Tomáš Petříček said the CR fully understands the US decision to abandon the pact if Russia does not start complying with the treaty within 60 days. The CR considers the INF-T treaty important for Euro-Atlantic security as it has eliminated a dangerous and destabilising category of carriers of nuclear and conventional weapons. Should it be abandoned, the responsibility will lie entirely with Russia, the MFA noted.

The National Centre for Combatting Organized Crime has warned that “uncontrolled numbers of people practicing Islam entering the country” presents a security threat. In its annual report the centre says it has registered an increasing number of firms and agencies owned by Muslims being set up in the CR for the purpose of settling visas and residence permits for Muslims to this country. The centre says the long and short term residence permits are often requested for the purpose of accompanying sick relatives to Czech spas and that many of these clients are spending large sums of money which it is difficult to trace.

Brexit could lead to a drop in the Czech GDP by up to CZK55bn, or 1.1pps, according to the retail savings bank Česká spořitelna. The UK's departure from the EU could also trigger the laying off of up to 40,000 workers. Hardest hit will be the Czech automotive, electronics and machinery production sectors, it says. Direct Czech exports to the UK total about CZK210bn per year, about 5% of total Czech exports and 4% of GDP, respectively. Indirect exports account for another CZK120bn.

PM Babiš remains the most trusted leader of a political party now represented in parliament, according to the CVVM. According to the poll, the ANO leader enjoys the trust of 40% of the 1,100 people surveyed. In 2<sup>nd</sup> place is Pirates chairman Bartoš, at 33%, followed by Okamura of SPD at 31%. The ČSSD's head Hamáček, placed 9<sup>th</sup> at 22%.

- 6 Retail sales in October, excluding car sales, rose by 6.4% y-o-y. The growth signals stronger than usual pre-Christmas holiday spending, analysts said, in line with Czechs' rising purchasing power. Online sales grew at an even faster pace, rising more than 24% y-o-y. The ČSO also noted a marked rise in sales of information and communication equipment in specialised stores, such as laptops and smartphones, which rose 18.1%.

The EP will debate possible conflict of interest on the part of the PM Babiš. MEPs are expected to hear the positions of the EC and the Council of the EU on the matter. However, they will not pass a resolution on it.

- 7 Czech industrial production grew by 6.7% y-o-y in October, after somewhat weaker performance in recent months. New orders reached double digit growth, suggesting that recent weakness could be related to one-offs. Manufacturing grew by 7.7%, supported by strong automobile production, up 8.8% in annual terms after falling in the previous 2 months.

- 10 Unemployment in the CR remained at 2.8% in November, the same as the previous month, the LO announced. The number of jobless dropped to 215,010, which is the lowest figure since June 1997, while the number of vacancies increased to over 323,500. Last November, unemployment stood at 3.5%. The lowest rate of unemployment, 1.8%, is in the Pardubice region, while the highest rate is in region of Moravia-Silesia and Ústí nad Labem with 4.3% of people out of work.

- 11 The number of British nationals filing requests for Czech citizenship has been steadily rising since the Brexit vote, Czech Television reported. While in 2015 the MI registered 5 requests for Czech citizenship from British nationals, in 2016 it had 42 such requests. The interest is mainly from British citizens with Czech roots and British citizens residing in the CR who fear that after Brexit they would lose the right to travel and work in the EU. The number of requests from British nationals for long-term residence in the CR has also risen by a thousand as compared to 2015.

The European Court of Human Rights has rejected a petition taken by PM Babiš against Slovakia in a dispute centred on the files of the StB, the Communist-era secret police. Mr. Babiš says he is wrongfully listed as an agent of the StB in records held by Slovakia's Nation's Memory Institute, which administers such materials. The Bratislava-born politician took legal action against the institute six years ago and Slovak courts initially found in his favour. However, the Slovak Constitutional Court subsequently ruled against him and he then took the matter to Strasbourg. Mr. Babiš said that he would continue to fight the allegation in Slovakia. He told reporters he would win in the end as he had never signed on to collaborate with the StB.

ANO would have won elections around the turn of the month with 29.5% of the vote, suggests the Median agency. That figure is very close to what ANO received in elections in October 2017. The ODS figured 2<sup>nd</sup> in the poll with 13.5% backing and the Pirates placed 3<sup>rd</sup> on 13.0%. The SPD would receive 10% of the vote, ahead of the ČSSD on 7.5% and the KSČM on 7.0%. The STAN enjoy 6.0% backing, compared to the KDU-ČSL on 5.5% and TOP 09 are hovering around the 5.0% threshold needed to enter ChD.

**Dec 12** The Czech population grew by nearly 28,000 in Q<sub>1</sub> – Q<sub>3</sub> 2018 to an estimated 10,637,794 people. Most of the increase stemmed from immigration. Ukraine and neighbouring Slovakia were the biggest source countries, followed by Romania and Bulgaria. The data also show a rise in the number of marriages, up 1,400 compared to a year ago. The average age of a groom was 29 and that of a bride was 27. At the same time, there were about 1,000 fewer divorces and a slight drop in the number of births. Divorced men averaged 44.7 years, divorced women 41.8 years. The greatest number of children were born to women aged 30 years.

The government has approved a joint recommendation by the MF and CNB not to set a target date for adopting the euro for the time being. According to the CNB, the CR will probably be compliant this year with all the Maastricht convergence criteria except for the exchange rate criterion, as it does not yet participate in the relevant mechanism. Continued compliance with these criteria is likely in the medium term.

**13** The EP has approved a resolution calling on the EC to suspend all EU subsidies to companies belonging to the Agrofert conglomerate founded by PM Babiš until the question of whether he de facto retains control over it is settled. The debate in the EP focussed on whether Babiš, who as PM can influence the disbursal of both Czech and EU subsidies, has a conflict of interest despite having placed Agrofert in trust funds. MEPs also discussed subsidies that Babiš's agribusiness group is alleged to have abused, especially to finance the so-called "Stork's nest" project, control of which was allegedly transferred from Agrofert temporarily a decade ago solely to receive EU subsidies meant for small businesses.

The call for the suspension of EU subsidies to companies belonging to the Agrofert conglomerate founded by PM Babiš does not concern any other businesses in the country, MRD Minister Dostálová said. The MRD coordinates the distribution of EU funds. The ČSSD's leader Hamáček said the government would debate the situation around Agrofert at its next session. Meanwhile, the EC has announced it will send a team of auditors to the CR to look into the distribution of EU subsidies from 2007 until the present day.

The ChD sent a proposal to tax church restitutions into its 3<sup>rd</sup> and final reading, due to take place in January of next year. Taxing money returned to churches, predominantly the Catholic Church, in return for property confiscated by the communists, is a highly sensitive issue. Right-wing opposition parties are vehemently against the idea, arguing that stolen property should be returned without financial strings attached. Taxing church restitutions was one of the conditions laid down by the KSČM in return for supporting the minority government.

**14** The STAN's head Gazdík has confirmed his intention to leave his post at the head of the party in order to make way for change. The STAN's current first deputy Vít Rakušan is a hot candidate for the top post.

Car production in the CR rose by 2.9% to nearly 1.4mn in Q<sub>1</sub> – Q<sub>3</sub> 2018, the AIA said. Exports have grown by 3.3% to 1.25mn vehicles. By contrast, domestic sales of cars have dropped by around 2%. The Škoda Auto raised output by 4.5% to over 831,000 cars and TPCA recorded growth by 11% to nearly 197,000 cars. According to the AIA, car production for the whole of 2018 is expected to reach 1.4mn, which should slightly exceed last year's figure.

The Czech economy's current account balance of payments ended in a surplus of CZK44.7bn in Q<sub>1</sub> – Q<sub>3</sub> 2018, according to the CNB. The surplus for H<sub>1</sub> 2018 totals CZK7.9bn.

**15** The MIT has launched a further round of subsidies to support the development and purchase of electronic vehicles and charging stations to reduce CO<sub>2</sub> emissions. It offers entrepreneurs up to CZK200mn from EU funds for the purchase of electric cars and the purchase of non-public recharging stations.

**17** Czech banks' net profit for the first three-quarters of 2018 increased by CZK2.7bn y-o-y to a record CZK62.6bn, the CNB said. The sector's balance sheet at the end of September was CZK7.6tn, an increase by CZK567bn since the end of last year. There are currently 47 banks and savings banks operating on the Czech financial market.

The average price of new flats in Prague increased in October by 11.8% to 104,100 per m<sup>2</sup>. At the end of October, there were 5,587 new flats available in Prague, which is an increase by 18% on the previous year.

PM Babiš sent a letter to EU Budget Commissioner Günther Oettinger informing him that he had left the board of the government Council for the EU Structural and Investment Funds, which makes recommendations for the distribution of EU money. Under a draft amendment to the Regional Development Act, approved by the government, the council can be chaired by another cabinet member. The Czech PM made the move in reaction to the EU's criticism of the Czech PM over potential conflict of interest. MEPs have voted for the suspension of all EU payments to Agrofert, a company linked to Mr Babiš, until his alleged conflict of interests is settled.



**Dec 17** The MI will prepare a bill defining the rules in case of a “hard” Brexit, PM Babiš said, adding that other ministries have been asked to submit draft clauses dealing with the issue from their respective viewpoints. The cabinet will discuss the bill on January 7 and wants to push it through by March 29 when Britain is to leave the EU, Mr Babiš said. Among other things, the bill would temporarily define the conditions of the British nationals' entry to the CR and their stay in the CR.

- 19** The average interest rate on a residential mortgage rose in November to 2.78% up from 2.66% the previous month, and there is also a sizeable drop in the total value of mortgage loans. The average in November 2017 was 1.8%. The number of loans from banks included in the index fell in November by 2,000 compared to October 2018, to 8,617.

PM Babiš has banned the use of mobile phones by Chinese telecoms company Huawei by Government Office employees. The decision came in the wake of a warning released by the NCISA arguing that phones marketed by Chinese groups Huawei and ZTE could undermine state security. The MIT had already said it would immediately stop using Huawei products and other ministries are expected to follow suit.

A ban on the consumption of wild boar hunted in an area of Moravia where cases of ASF were detected will be partly lifted as of January. Following consultations with the EC, the SVA in October reversed its order for imported pork products to undergo tests for ASF, which had not been detected in commercial pig farms within the EU, but had been found among wild boar.

- 20** The ChD approved the 2019 state budget with a deficit of CZK40bn, or 0.7% of GDP. Budget priorities include increasing pensions overall and civil service salaries, in particular for teachers. The budget counts on economic growth in 2019 of 3.1% and an average inflation rate of 2.3%, with the unemployment holding steady at around 2.3%.

The ANO would win the general election again with 33.5%, which is more than the 2<sup>nd</sup> opposition ODS 14.5% and the 3<sup>rd</sup> Pirates' 14% combined, according to the CVVM. PM Babiš's ANO has strengthened by 4% since November, while the opposition SPD lost slightly and other parties' gains remained more or less unchanged. Some 10% would vote for the KSČM and 9.5% for the ČSSD. Other parties which now sit in the ChD, that is TOP 09, the SPD, the KDU-ČSL and the STAN, would not reach the 5% parliament threshold.

- 27** Confidence in the economy has fallen for a 2<sup>nd</sup> consecutive month, dropping 0.7 points to 98.6 points in December. According to the economic sentiment indicator, business confidence fell 1.4 points to reach 96.4 points in December. Consumer confidence, meanwhile, rose by 2.3 points to 109.2 points following a more pronounced decline in November. Compared to December 2017, overall confidence in the economy is down, and both the business and consumer confidence indicators have fallen in annual terms.

- 29** The CR's public finances are shaping up better than expected and the CR is heading for a balanced budget in 2018. Originally the budget was approved with a projected deficit of CZK50bn. The MF minister Schillerová said this was largely due to a better collection of taxes, following a series of measures to fight tax evasion.

- 30** The MFA's priorities for 2019 include Czech-British relations in the event of a "hard" Brexit, continuing negotiations on the EU budget for 2021-2027 and the CR's upcoming chairmanship of the V4. The Czech government is currently preparing draft legislation that would be needed in the event of a "hard" Brexit which it wants to put to Parliament at the beginning of the year. MFA Minister Petříček will also travel to Latin America and Africa where he wants to boost ties and open up new markets for Czech exporters.

- 31** The number of public service employees is the highest in 7 years. The number of people working in state administration in 2017 was close to 635,000 up by 22,000 as compared to 2014. This is criticized by the opposition parties who accuse the government of squandering public funds and inflating state administration beyond the CR's needs.

Czechs will have to pay more for food, housing and electricity in the coming year. According to economic experts the price of electricity is expected to go up by 8 to 10%, the price of gas by 5 to 7%. Food prices are expected to rise by 4 to 5% on average by mid-2019 and rents are expected to go up by 5 to 10%. The rise in rents is driven by the lack of new construction. Presently around 22% of Czechs live in rented accommodation.

The CR has maintained an excellent credit rating in the past year, getting some of the best ratings in Central and Eastern Europe from key international rating agencies. Standard & Poor's gives the country an AA for local currency and AA- for foreign currency, with a stable outlook. Moody's credit rating for the CR is at A1 with a positive outlook. The agencies looked positively at the shape of public finances, the declining outlook for public debt, low unemployment and sound economic growth. 2018's credit ratings for the CR are the best since 1993.

<sup>i</sup> **ACER**: Agency for the Coordination of European Energy Regulators; **ACM**: Association of Car Makers; **AE**: Association of Exporters; **AIA**: Automotive Industry Association; **ANO**: Ano 2011 Movement; **ASCR**: Academy of Sciences of the CR; **ASF**: African swine fever; **ASME**: Association of Small and Medium-Sized Enterprises and Crafts; **Bn**: billion; **CAE**: Czech Association of Exporters; **CBA**: Czech Banking Association; **CE**: Central Europe; **CEB**: Czech Export Bank; **CEPS**: Czech Electricity Transmission System Operator; **ChD**: Chamber of Deputies of the Parliament of the CR; **CI**: Confederation of Industry; **CIA**: Car Importers' Association; **CMC**: Czech Medical Chamber; **CMKOS**: Czech Confederation of Trade Unions; **CNB**: Czech National Bank; **CNG**: Compressed natural gas; **CR**: CR; **CSA**: Czech Airlines; **CSO**: Czech Statistical Office; **CSSA**: Czech Social Security Administration; **ČSSD**: Czech Social Democratic Party; **CTK**: Czech News Agency; **CTO**: Czech Telecommunications Office; **CVVM**: Public Opinion Research Centre ; **CZK**: Czech crown; **EC**: European Commission; **ECJ**: European Court of Justice; **EE**: Eastern Europe; **EET**: electronic cash registers system; **EIA**: Environment Impact Assessments; **EIB**: European Investment Bank; **EP**: European Parliament; **ERDF**: European Fund for Regional Development; **ERM II**: Exchange Rate Mechanism II; **ERO**: Energy Regulator Office; **ESA**: European Space Agency; **ESIF**: European Structural and Investment Fund; **ESM**: European Stability Mechanism; **EU**: European Union; **EY**: Ernst & Young; **FA**: Financial Administration; **FDI**: Foreign direct investment; **GDP**: Gross Domestic Product; **GRECO**: Council of Europe Group of States Against Corruption; **GVA**: Gross Value Added; **H**: Half of year; **HRL**: Human Rights and Legislation; **ILO**: International Labour Organization; **Kantar**: polling agency; **KDU-ČSL**: Christian Democrats; **KSČM**: Communist Party of Bohemia and Moravia; **LNG**: Liquefied natural gas; **LO**: Labour Office; **M-o-m**: month-on-month; **MA**: Ministry of Agriculture; **MC**: Ministry of Culture; **ME**: Ministry of Environment; **MF**: Ministry of Finance; **MH**: Ministry of Health; **MI**: Ministry of the Interior; **MJ**: Ministry of Justice; **MIT**: Ministry of Industry and Trade; **Mn**: million; **MLSA**: Labour and Social Affairs Ministry; **MRD**: Ministry of Regional Development; **MT**: Ministry of Transport; **NAPDNE**: National Action Plan of Development of Nuclear Energy; **NAPCM**: National Action Plan for Clean Mobility; **NCISA**: National Cyber and Information Security Agency; **NGO**: non-government organisation; **NHI**: National Heritage Institute; **NPP**: Nuclear Power Plant; **ODS**: Civic Democratic Party; **OSA**: Copyright Protection Association for Music Rights; **Pirates**: Czech Pirate Party; **Pps**: percentage point; **PJ**: petajoule; **PM**: Prime Minister; **Q-o-q**: quarter-on-quarter; **Q\***: Quarter \*; **RES**: renewable sources; **RIA**: Railway Infrastructure Administration; **SAO**: Supreme Audit Office; **SFTI**: State Fund for Transport Infrastructure; **SPD**: Freedom and Direct Democracy; **SRMA**: State Material Reserves Administration; **STAN**: Mayors and Independents; **STEM**: Public Opinion Research company; **SÚJB**: State Nuclear Safety Authority; **SÚRAO**: Radioactive Waste Repository Authority; **SVA**: State Veterinary Authority; **t**: tonnes; **Tn**: trillion; **TOPog**: TOP 09 Party; **TTIP**: Transatlantic Trade and Investment Partnership ; **TU**: Trade union; **UN**: United Nations; **Y-o-y**: y-o-y; **V4**: Visegrad Four; **VAT**: Value Added Tax