

SENTIMENT IMPROVES, NUMBER OF FIRMS INCREASES



PICK OF THE WEEK

The overall **confidence in domestic economy** increased in December 2017. The **overall confidence indicator**, expressed as a basis index (as of 2005), grew 0.6 points to 99.6 compared to November 2017. **Entrepreneurs' sentiment** was 0.8 points better and totalled 97.5 points. **Consumers' sentiment** dropped to 110 points (-0.3). These figures stem from a cyclical survey conducted by the Czech Statistical Office (ČSÚ). The values of all indicators are higher in a year-on-year comparison.

In December, the main influence on the increased confidence in national economy came from entrepreneurs. In the next three months, industrialists expect production to grow, which, at an approximate 6% pace in 2017, brings a promising outlook for the sector's development in 2018 as well.

This statement was made by **Czech Banking Association** chief economist **Eva Zamrazilová**. Despite the worse sentiment in retail, **Komerční Banka** economist **Marek Dřímál** expects an ongoing increase in wages, consumption and revenues in the entire economy. **AKCENTA** analyst **Miroslav Novák** said that domestic companies more or less expected a stable or slightly higher increase in production and did not intend to lay their staff off.

In November, 2,850 **commercial companies** were founded in the Czech Republic, while 1,303 were terminated, the highest number ever. According to an analysis by **CRIF – Czech Credit Bureau**, the net increment was 1,547 companies.

Komerční Banka analysts predict that the **Czech National Bank** will increase **interest rates** four times in 2018. According to **Marek Dřímál**, the first time should occur at the beginning of February. In the forecast, he further stated that the **koruna** should continue strengthening and end the year 2018 at CZK 24.70/EUR.

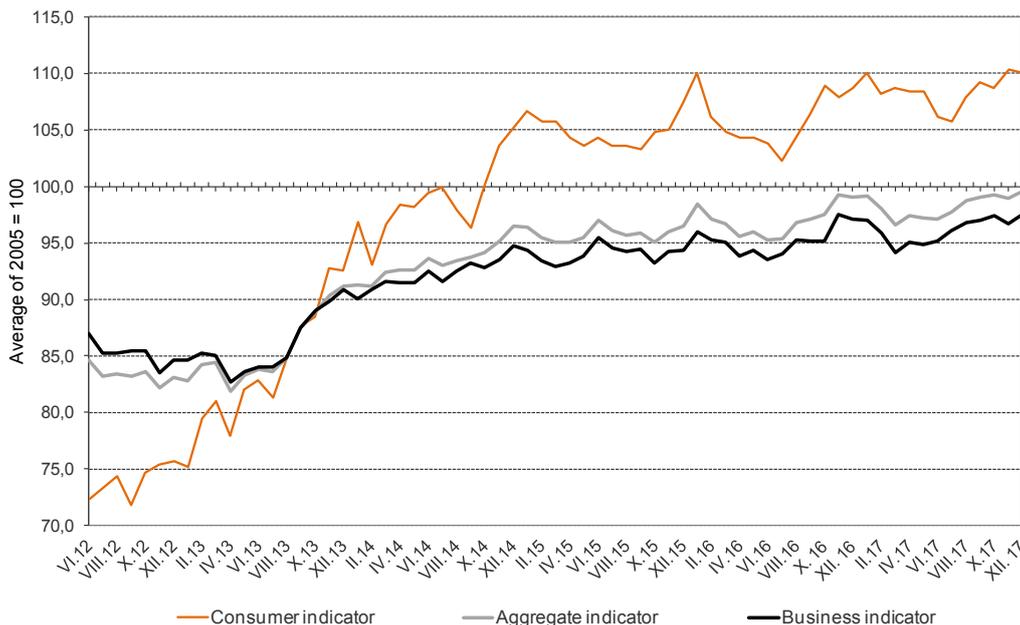
The **mortgage** volume for 2017 should total CZK 230bn, according to an estimate by **Swiss Life**. The average mortgage interest rate should attack 3% in 2017.

Economic growth was faster also in the third quarter of 2017, increasing to 5.0% on the year. Increases in **wages** and **employment** continued. In September, the general **unemployment rate** totalled 2.7%, down 1.2 pp on the year. This data was published by the **ČSÚ**, which added that the **consumer-prices** dynamic increased to 2.5%, also due to more expensive food items.

The Czech Republic will provide **investment incentives** only in exceptional and substantiated cases to projects with a high value added, according to the proposal of the **programme declaration** by the **government** of Prime Minister **Andrej Babiš (ANO)**. The government also counts on a simpler, more transparent and faster provision of permits for **foreign employees**, based on the requests from the business sphere. At the same time, it wants to pay attention not to increase the **security risk** in the country. The government also wants to start up the country's **complete digitalisation**.

The **Czech National Bank** and the **Czech Banking Association** have agreed to launch the implementation of the Immediate Payments project at the beginning of 2018. Its objective is to offer bank clients a quick and nonstop possibility to transfer money between accounts. Currently, roughly one-third of banks are considering their participation in the project. Testing will be underway in the second half of 2018. The new functionality should be commissioned by the end of 2018.

Seasonally Adjusted Confidence Indicators



Source: ČSÚ

PICK OF THE WEEK

Government wants to start up complete digitalisation of CR

Andre Babiš (ANO)'s government wants to introduce one Central IT Authority for the Digitalisation of the State led by a **government plenipotentiary for IT and digitalisation** who will be directly subordinate to the Prime Minister. The Digital Czech Republic's foundation will be one digital identity for each citizen with all state services accessible at one point. The digital identity will include an ID card with a chip. According to its proposed programme declaration, the government will also complete the construction of a high-speed internet network all over the Czech Republic. ■

MF predicts decrease of debt-to-GDP ratio to 31.4% in 2018

The Ministry of Finance of the Czech Republic (MF) predicts a **decrease** of the share of the **state debt of the Czech Republic to GDP** from 33.8% in 2016 to 32.4% in 2017. The ministry intends to continue in the trend also in 2018, when it predicts a decrease to 31.4%. The total requirement for funding in 2018 reaches CZK 351.6bn including the approved state budget gap in the amount of CZK 50.0bn. The ministry plans to cover the requirement by an issue of state bonds with maturity periods exceeding 5 years. Issues of mid-term and long-term state bonds on the domestic market are planned in a total nominal value of at least CZK 150bn. This stems from the Strategy of Financing and Management of State debt of Czech Republic for 2018. ■

ERÚ issues pricing decision supporting KVET

The Energy regulatory Office of the Czech Republic (ERÚ) issued in December 21, 2017 pricing decisions determining the **support** for years 2017 and 2018 for production **units using the combined production of electricity and heat (KVET)**. ■

Macroeconomics and Taxes

MF: Government will not determine date for euro adoption

The government of the Czech Republic has accepted a joint recommendation of the Ministry of Finance of the Czech Republic (MF) and the Czech National Bank to not determine a date for the adoption of the European single currency euro. The unfinished process of a real economic convergence of the Czech Republic to the euro area including the different level of prices and wages was the main burden for the euro adoption process. The Czech Republic has not solved the problem of the public finances sustainability due to the aging population. The Czech economy still shows differences in its structure compared with the euro area. According to information provided by the Ministry of Finance of the Czech Republic (MF), the economic situation in the euro area is not stabilised even despite the current recovery. ●

GFR: Definition of unreliable VAT payer will be extended

Criteria for the application of the institute of an unreliable VAT payer will be extended as of January 1, 2018. Payers violating their legal duties can become unreliable VAT payers if the tax determined by the tax administrator is significantly different from what was originally declared by the tax payer. Particular violations will be assessed by the tax administrator with regard to the entity of the payer and their current experience. The information was provided by the General Financial Directorate of the Czech Republic (GFR). ●

TSČR: Support for KVET will contribute in maintaining of prices of heat

The approval of the operational support for the production of electricity from co-generation and heat from renewable resources will contribute in the development of the heating industry and maintaining favourable prices of heat for customers. This stems from information provided by the Heating Association of the Czech Republic (TSČR) in relation with the approval of the operational support regime for the production of electricity from highly efficient sources of combined production of electricity and heat (KVET) introduced in 2013-2015 and the support of heat from renewable resources by the European Commission. According to TSČR Director Martin Hájek, operators of facilities contributing in the protection of the environment in the Czech Republic, now have the legal certainty for the payment of subsidisations. ●

ČBA and ČNB will launch instant payments project in 2018

The Czech National Bank (ČNB) and the Czech Banking Association (ČBA) have agreed to launch a project of instant payments at the beginning of 2018. The goal of the project is to offer the possibility of a quick and non-stop transfer of money from account to account. The limit for such transfers would be CZK 400,000. People would be able to get the money in a matter of seconds. Nearly one third of banks in the Czech Republic intend to join the project, which will be tested in the second half of 2018. The new function will likely be officially launched by the end of 2018. The information was published by ČBA. ●

ČSSZ: Assessment of all types of pensions to increase by 3.5 % from January

The percentage assessment of all types of paid pensions will increase by 3.5 % from January 2018. The basic assessment will increase by CZK 150 to CZK 2,700. The Czech Social Security Administration (ČSSZ) has informed about this, adding that further changes will relate to the payment of pensions in some case or the duties of pension recipients, among other things. Top limit on pension at 65 years will apply to persons born after the year 1971. The minimum monthly insurance premium for voluntary pension insurance will reach CZK 2,099 in the year 2018. ●

Government: Czech Republic will only rarely provide investment incentives

The Czech Republic will only rarely provide investment incentives. The incentives will be provided only to projects with a high value added. This stems from the draft policy statement of the government led by PM Andrej Babiš (ANO). The government also wants to use requirements from the business segment to simplify and accelerate the system for the provision of working permits for foreign workers, primarily in cases of need and only after inhabitants of the Czech Republic would not be interested in such positions. The government also wants to reduce safety risks in the Czech Republic. ●

Miloš Zeman rejects early elections

If the cabinet headed by Andrej Babiš (ANO) fails to gain confidence in January 2018, President Miloš Zeman will create space for talks of political entities so that the second attempt could take place in February. Miloš Zeman made this statement in his Christmas message to citizens and added that he would not announce early elections. As for the Czech Republic's economy, he sees declining investments and a high number of officers as a problem. The reduction of so many public officers could provide workforce for the private sector. He also pointed to the need to index pensions to all with the same amount and to the reduction of social benefits to those who reject to work. In his evaluation of the EU and NATO membership, he emphasised that the Czech Republic should be a vigorous partner that can show that something is not favoured. He added that immigration quotas should be resolved in accordance with Czech interests. ●

A. Babiš will visit Slovakia and Bulgaria in January

Czech PM Andrej Babiš (ANO) will visit Slovakia on January 5, 2018. Mr. Babiš stated that after a meeting of the government on December 22, 2017 adding that he would also visit Bulgaria, the next presidency of the EU Council. Mr. Babiš has also asked for a meeting with European Commission President Jean-Claude Juncker and for a visit in Austria. Austria will take over the presidency of the EU Council on July 1, 2018. ●

Pirates want to publish contracts closed by ČEZ and adjust executions

Czech political party Česká pirátská strana (Pirates) will submit in January 2018 a draft law related with the publication of contracts closed by Czech power utility ČEZ. This was stated by representatives of Pirates after a meeting with Czech PM Andrej Babiš (ANO) on December 21, 2017. The party will also propose rules for appointing people to supervisory boards of state-owned companies. Pirates would like to amend the Execution order and secure the integration of multiple executions. Pirates also want Andrej Babiš to defend interests of the Czech Republic related with the issue of tax paradises in EU. The goal of the party is to tax all money generated in the Czech Republic. Pirates informed Mr. Babiš about their own draft of the bill on line constructions accelerating the construction of motorways or a subway. They also confirmed that they would not support the minority government led by Mr. Babiš. ●

Government doesn't want to postpone e-prescription and fixed expenditures on defence

The government led by PM Andrej Babiš (ANO) adopted on December 22, 2017 a negative stance to the proposal to postpone the mandatory issue of e-prescriptions beginning January 1, 2018. The government also rejected a draft determining minimal expenditure on defence at 2% of GDP or a law abandoning the tax on property acquisition, which would cause an outage in the state budget in the amount of CZK 11bn. The government also rejected a proposal to abandon the electronic revenue registration system or a proposal to cancel the ban on sales in some stores above 200 m² during holidays. ●

MZČR prepares system of payment regulation for medical accessories

The Ministry of Health of the Czech Republic (MZČR) has started the preparation of an amendment of the Public Health Insurance Act, which will likely introduce a new system for the payment regulation for medical accessories. According to the ministry, the law must take effect as of January 1, 2019 or the system of payments for medical accessories will collapse. This would cause a growth in expenditures from the public health insurance system by up to CZK 2bn a year. The ministry also prepares the adoption of new regulations on medical accessories and in vitro diagnostic medical means. ●

Trusts to be registered by registration courts

Registration of trusts will start in January 2018. It will break the current anonymity of their founders and beneficiaries. Trusts will no longer have to prove their existence to banks and companies with which they cooperate. The records will be administered by the registration court where the trustee submits the statutory information. The trust statutes and other documents will be filed in the Collection of Instruments. The trust register will have a public and non-public part which will be accessible only to trustees, public authorities and persons proving legal interest. This information is contained in the amendment to the act on certain measures against the legalisation of proceeds of crime published by the Parliament of the Czech Republic. ●

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The government wants fair subsidies in agriculture

The government of Andrej Babiš (ANO) wants to promote fair approach in subsidies for agricultural companies of various sizes. It is opposed to putting a top limit on subsidies for medium and large companies, but will support higher payment of subsidies for small farmers. According to its programme declaration, the government will also increase payments for animal production and sensitive plant commodities to the detriment of payment per area. It is also planning on lowering the administrative burden and support of research, development and innovations in Farming 4.0 (smart farming), food production and forestry. ●

EC: Czech Republic will remove Stork´s nest from programme funded by EU

The European Commission (EC) has received information that the Czech authorities would remove expenses related with the Stork´s nest project from a programme funded from EU funds. The information was provided to ČIANEWS by Karolína Kottová, the spokeswoman for the representation of the European Commission in the Czech Republic. She also confirmed that EC received a recommendation of the European anti-fraud authority OLAF related with the Stork´s nest project. EC will study and assess the recommendation. ●

Analysts: Economic outlook remains positive

In December 2017, the main influence on the increased confidence in national economy came from entrepreneurs. In the next three months, industrialists expect production to grow, which, at an approximate 6% pace in 2017, brings a promising outlook for the sector´s development in 2018 as well. In reaction to the data published by the Czech Statistical Office (ČSU), this statement was made by Czech Banking Association chief economist Eva Zamrazilová. Despite the worse sentiment in retail, Komerční Banka economist Marek Dřimal expects an ongoing increase in wages, consumption and revenues in the entire economy. AKCENTA analyst Miroslav Novák said that domestic companies more or less expected a stable or slightly higher increase in production and did not intend to lay their staff off. According to him, the outlook for the growth of the national economy remains positive for 2018. ●

Analysts: ČNB will raise rates in February 2018

The Czech National Bank (ČNB) will likely raise its key rates at its next meeting scheduled in February 2018. This was stated by Jakub Seidler, the chief economist of ING Bank for the Czech Republic, in relation with the decision of ČNB to keep interest rates unchanged on December 21, 2017. According to Komerční banka economist Viktor Zeisel, Czech currency exchange rate was the main anti-inflation risk motivating the central bank to raise the rates as it has slightly depreciated recently. According to BH Securities chief economist Štěpán Křeček, the growth in the interest rates will gradually impact all credit products, which is good for creditors, whose assets will appreciate better. ●

Statistics and Development

ČSU: Confidence in economy increases

In December 2017, the overall confidence in national economy in the Czech Republic increased. The overall confidence indicator, expressed in a basis-point index, grew 0.6 points to 99.6 compared to November 2017. Consumers´ mood reached 110 (-0.3 points). These figures stem from a cyclical survey conducted by the Czech Statistical Office (ČSU), from which it also appears that in a year-on-year comparison, the overall confidence, entrepreneurs´ confidence and consumers´ confidence indicators were higher. ●

ČNB: Czech external debt grows to CZK 4,510bn

The external debt of the Czech Republic increased by CZK 1,130bn y/y to CZK 4,510bn (91.2% of GDP) as of the end of Q3 2017. Liabilities with the original maturity longer than one year form 42.5% of all debt liabilities. The information was provided by the Czech National Bank (ČNB) adding that the deficit of the Czech investment positions to abroad exceeded CZK 1,220bn. The deficit was CZK 23.5bn down y/y and formed 24.8% of GDPP at current prices. ●

ČNB: Profits of insurers increased to CZK 11.26bn by September

In 1-3Q 2017 the profits of insurers in the Czech Republic exceeded CZK 11.26bn. In the same period of last year they had totaled roughly CZK 8.75bn. The result of the technical account of non-life insurance totaled CZK 5.70bn. The result of the technical account of life insurance totaled CZK 7.22bn. This is based on data published by the Czech National Bank (ČNB). ●

ČSÚ: Growth in GDP, wages and employment continues in Q3

The economic growth in the Czech Republic accelerated also in the third quarter of 2017 and reached 5.0% y/y. The result was contributed to by a growth in the consumption of households, the continuing positive balance in the external trade and a growth in private investment expenses. The growth in wages and employment continued. The general unemployment rate reached 2.7% in September and fell 1.2 percentage point y/y. According to data published by the Czech Statistical Office (ČSÚ), the growth in consumer prices accelerated to 2.5% due to a growth in prices of food. ●

CBRE: Offer of industrial premises will grow by up to 700,000 m²

CBRE predicts a steep growth in the demand for industrial properties in the Czech Republic in 2018. The demand will be driven by premises for e-commerce, a segment, which will require three times more space compared with classic retail. The demand is still driven by logistics companies and companies involved in the automotive industry. The offer of industrial premises will likely grow by up to 700,000 m² and current industrial parks will expand in 2018. ●

ACEA: Number of registrations of vehicles above 18 tons decreases to 7,541

The number of registrations of new heavy utility vehicles above 18 tons in the Czech Republic decreased 11.7% y/y to 7,541 units in a period from January to November 2017. The number of registrations increased 5.0% to 800 units in November. This stems from a statistic published by the European Automobile Manufacturers´ Association (ACEA). ●

ACEA: Utility car registration until November have decreased to 27,206

The number of registrations of all new utility vehicles in the Czech Republic in the period from January to November 2017 has decreased by 4.6% year on year to 27,206. In November, the number of registrations reached 2,824 (+8.7%). This is according to the statistics of the European Car Importers Association (ACEA). ●

ČEZ: Electricity consumption increases by up to 25% on Christmas Eve

During the afternoon and evening of Christmas Eve the electricity consumption of small customers increased by 15 to 25% compared to comparable days. This increase does not have an impact on the operation of the electricity grid as the overall burden falls thanks to reduced consumption of large customers. This was reported by ČEZ. On New Year´s Eve the increase in demand is not as marked but a drop can be seen during the morning hours of January 1. ●

CRIF: Number of firms grows 1,547 in November, number of entrepreneurs is 1,000 up

A total of 2,850 commercial companies were founded in the Czech Republic in November 2017. Some 1,303, the highest number in history, ceased to exist in the period. A net growth thus totalled 1,547 firms. The number of newly founded enterprises increased 128 m/m and the number of firms ceasing to exist grew 327 m/m. A total of 4,300 individual entrepreneurs started their activities in the Czech Republic in November, while nearly 3,200 individuals ended their business activities. The number of individual entrepreneurs increased 1,000 in a period from January to November. The number of new individual entrepreneurs decreased nearly 700 compared with October, while the number of terminated licenses to trade for individuals showed almost no change. This stems from an analysis published by CRIF – Czech Credit Bureau. ●

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GDP

Y/Y real (%)	
3Q / 2017	5,0
2Q / 2017	4,7
1Q / 2017	3,0
4Q / 2016	1,8

source: Czech Statistical Office

Q/Q real (%)	
3Q / 2017	0,5
2Q / 2017	2,5
1Q / 2017	1,5
4Q / 2016	0,4

source: Czech Statistical Office

Inflation

M/M (%)	
11/2017	0,1
10/2017	0,5
9/2017	-0,1
8/2017	-0,1

source: Czech Statistical Office

Y/Y (%)	
11/2017	2,6
10/2017	2,9
9/2017	2,7
8/2017	2,5

source: Czech Statistical Office

Unemployment

Unemployment rate (%)	
10/2017	2,6
9/2017	2,7
8/2017	2,8
7/2017	2,9

source: Czech Statistical Office

State Budget (end of period)

Income (CZK bln)	
11/2017	1 141,81
10/2017	1 045,22
9/2017	940,14
8/2017	827,19

source: Ministry of Finance

Expenditures (CZK bln)	
11/2017	1 153,42
10/2017	1 018,76
9/2017	922,74
8/2017	811,56

source: Ministry of Finance

Balance (CZK bln)	
11/2017	-11,62
10/2017	26,46
9/2017	17,40
8/2017	15,63

source: Ministry of Finance

Balance of Payments (balance)

Current account (CZK bln)	
10/2017	15,0
9/2017	-3,6
8/2017	-8,1
7/2017	-26,0

source: Czech National Bank

Capital account (CZK bln)	
10/2017	5,7
9/2017	1,5
8/2017	0,0
7/2017	6,7

source: Czech National Bank

Financial Account

Direct Investments (CZK bln)	
10/2017	-26,4
9/2017	-11,1
8/2017	20,4
7/2017	-21,3

source: Czech National Bank

Portfolio Investments (CZK bln)	
10/2017	254,5
9/2017	-20,5
8/2017	-25,0
7/2017	198,1

source: Czech National Bank

Construction

Construction output Y/Y (%)	
10/2017	5,9
9/2017	-3,2
8/2017	1,1
7/2017	1,8

source: Czech Statistical Office

Prices of construction work Y/Y (%)	
11/2017	1,8
10/2017	1,8
9/2017	1,8
8/2017	1,7

source: Czech Statistical Office

Prices of construction work M/M (%)	
11/2017	0,1
10/2017	0,2
9/2017	0,2
8/2017	0,2

source: Czech Statistical Office

Currency and Bourse

Currency	Value	% w/w
CZK/EUR	25,645	-0,27
CZK/USD	21,489	-0,90
CZK/GBP	28,878	-0,32
USD/EUR	1,193	0,68
CHF/EUR	1,170	-0,17

*Exchange market rates from previous trading day as of 5 p.m.

Industry

Industrial Production Y/Y (%)	
10/2017	10,5
9/2017	4,9
8/2017	5,8
7/2017	3,3

source: Czech Statistical Office

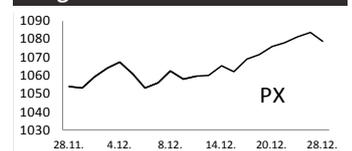
Producer prices in industry Y/Y (%)	
11/2017	0,9
10/2017	1,1
9/2017	1,7
8/2017	1,4

source: Czech Statistical Office

Producer prices in industry M/M (%)	
11/2017	-0,1
10/2017	0,0
9/2017	0,4
8/2017	0,2

source: Czech Statistical Office

Prague bourse



Foreign Trade

Export (CZK bln)	
10/2017	312,6
9/2017	293,8
8/2017	273,1
7/2017	240,1

source: Czech Statistical Office

Import (CZK bln)	
10/2017	302,9
9/2017	273,6
8/2017	267,2
7/2017	242,1

source: Czech Statistical Office

Balance (CZK bln)	
10/2017	9,7
9/2017	20,2
8/2017	5,9
7/2017	-2,1

source: Czech Statistical Office

Share	Value	% w/w
CETV	101,00	-3,81
ČEZ	498,40	0,26
ERSTE	930,30	-0,12
Fortuna	179,70	1,50
Kofola	418,00	-0,21
KB	913,00	0,88
Moneta	82,45	1,35
O2 C.R.	275,60	2,07
Pegas	829,90	0,61
PM	16499,00	2,84
STOCK	77,25	-3,68
TMR	700,00	0,00
UNI	376,20	-0,11
VIG	664,40	-1,90
PX index	1078,63	0,09

source: BCP Praha

Export Y/Y change (%)	
10/2017	9,8
9/2017	1,8
8/2017	4,0
7/2017	5,8

source: Czech Statistical Office

Import Y/Y change (%)	
10/2017	12,2
9/2017	1,6
8/2017	4,7
7/2017	6,6

source: Czech Statistical Office

Rating CR

Long-term Rating	
Moody`s	A1
S&P	AA-
Fitch	A+

Short-term Rating	
Moody`s	P-1
S&P	A-1
Fitch	F-1

Long-term Outlook	
Moody`s	stable
S&P	stable
Fitch	stable

source: Moody`s, Standard&Poor`s, Fitch

Retail

Sales Y/Y constant prices (%)	
10/2017	6,3
9/2017	6,4
8/2017	5,2
7/2017	4,6

source: Czech Statistical Office

Sales M/M constant prices (%)	
10/2017	-1,6
9/2017	1,9
8/2017	0,4
7/2017	1,0

source: Czech Statistical Office