

## EVENTS OF THE WEEK

**MPs approve new building act**

On July 13, 2021, the Chamber of Deputies of the Czech Republic approved the new Building Act. The deputies overrode a unanimous Senate veto. As ČIANEWS has already reported, the aim of the regulation is to significantly simplify the permitting of buildings and ensure compliance with deadlines. In the future, construction authorities will conduct only one procedure, which will result in one decision instead of the current zoning decision and building permit. The new law will also ensure that the appeal authority will always have to make a decision. With regard to digitization, the new construction system will make do with 4,000 to 5,000 officials instead of the current 7,000. Building authorities are to come under the Supreme Construction Authority. ■

**Government: First dose of vaccination is not enough**

The Government has approved the decision of the Ministry of Health of the Czech Republic that from July 9, 2021, the first dose of vaccination will no longer be recognized as sufficient to ensure infection-free status. People who have so far received only one dose of a two-dose vaccine will again have to show a negative test for covid-19 when visiting restaurants, cultural events, visiting a patient in a hospital, or a relative in a social care facility. In all cases, a person will now be considered infection-free for up to 14 days after the vaccination has been completed. As ČIANEWS has already reported, the cabinet has also introduced mandatory testing after returning from vacation. ■

**ŠKODA AUTO invests EUR 110m in new FABIA lines**

ŠKODA AUTO has started production of the fourth-generation FABIA at its plant in Mladá Boleslav. The investment in the modifications to the production lines amounted to EUR 110m. For the first time, the ŠKODA FABIA is based on the Volkswagen Group's MQB-A0 modular platform and offers a range of new safety and assistance systems. Five low-emission petrol engines of the EVO generation are available. More than 4.5 million units have been sold since the FABIA was introduced in 1999. It is the brand's second most successful model after the OCTAVIA. ■

**MPs pass amendment to act on supported energy sources**

In the third reading, MPs have approved an amendment to the act on supported energy sources. According to Minister of Industry and Trade Karel Havlíček (for ANO), it is a crucial act that allows the transition to clean mobility. At the same time, he considers the act a remedy for the erroneous system of supporting photovoltaic installations from 2009 and 2010. For this reason, according to him, the government proposed to change the parameters of supporting photovoltaics, but no other renewable sources, despite a so-called internal yield percentage at 6.3%. At the same time, the MPs approved an additional solar contribution for installations from 2009 and 2010 at 10%. ■

**Draslovka will buy company in RSA for CZK 2.23bn**

Draslovka Holding has entered into an agreement with Sasol South Africa Limited to acquire its sodium cyanide business based in Sasolburg. Draslovka announced that the value of the transaction is approximately CZK 2.23bn. The acquisition is the company's first corporate venture in Africa and is part of its international expansion plans. In addition to the initial investment, it plans to invest a further USD50m to upgrade the plant, expand it and ensure it meets global environmental standards. At the same time, Draslovka has partnered with Navuka Investment Holdings, which will own 25% plus one share of the South African operations. The transaction is subject to regulatory approvals and is expected to be completed in the first half of 2022. ■

## TOP HEADLINE NEWS

**ČNB: Rate hikes will continue in 2H21****Government discussed covid measures and pensions****EC approves EUR 600m for entrepreneurs hit by pandemic****Lidl launches one of its largest centers in Europe****P. Tkáč consolidates investments with D. Křetínský****Norton and Avast in merger talks****EC expects Czech economy to grow by 3.9 %****Currency and Bourse**

Currency	Value	% w/w
CZK/EUR	25,59	-0,234
CZK/USD	21,66	-0,231
CZK/GBP	30,03	-0,300
CZK/CHF	23,63	-0,127

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

**Prague bourse**

Share	Value	% w/w
AVAST ↗	176,45	14,452
ČEZ ↘	596,50	-0,671
ERSTE ↘	790,80	-0,784
Kofola →	279,00	0,000
KB ↘	770,00	-0,519
Moneta ↗	87,10	0,230
O2 C.R. →	263,00	0,000
PM ↘	14 320,00	-1,397
Stock ↘	79,40	-0,252
CZG ↗	421,00	0,238
VIG ↘	594,00	-0,337

PX index ↗	1197,16	3,183
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source: BCP Praha

## CR'S RATING

**Long-term rating**

Moody's	Aa3
S&P	AA-
Fitch	AA-

**Short-term outlook**

Moody's	P-1
S&P	A-1
Fitch	F1+

Source: Moody's, Standard&Poor's, Fitch

## GDP

**Y/Y real**

	%
1Q/2021	-2,4
4Q/2020	-4,8
3Q/2020	-5,0
2Q/2020	-10,9

**Q/Q real**

	%
1Q/2021	-0,3
4Q/2020	0,6
3Q/2020	6,9
2Q/2020	-8,7

Source: Czech Statistical Office

## ECONOMIC POLICY

### ČNB: Rate hikes will continue in 2H21

Overall, the ČNB Bank Board assessed the uncertainties and risks to the spring forecast as slightly inflationary. A more favorable-than-expected development of the pandemic will contribute to a faster economic recovery. On the upside, the outlook for external development, higher-than-expected growth in domestic market wages at the start of the year, and an increase in the outlook for administered prices in 2022 are inflationary. On the downside, the Board identified a stronger-than-expected exchange rate of the koruna as a downside risk. A renewed deterioration in the epidemic situation could also not be ruled out. However, this should not be associated with the reintroduction of broad-based restrictions in the economy, given the rapid progress of vaccination. With the current decision, monetary policy is likely to enter a phase of gradual interest rate increases and can be expected to continue in 2H21. ■

### Government discussed covid measures and pensions

On July 12, 2021, the Government of the Czech Republic appointed Igor Stríže as the Supreme State Prosecutor. The government subsequently supported a one-off compensation for those affected by the explosion of ammunition depots in Vrbětice. The government also gave its consent to two measures by the Ministry of Health of the Czech Republic. In the first, the interval between doses of the Pfizer/BioNTech vaccine will be reduced to 21-23 days from July 15. The second measure instructs organizers of events attended by more than 1,000 people to notify the relevant regional health station. Tests indicated by a physician or hygienist will continue to be covered by health insurance. Similarly, children under the age of 12 and those who cannot be vaccinated for health reasons will continue to have the tests free of charge. The cabinet has taken a neutral position on the pension reform proposal. The ČSSD proposal will still be discussed by the coalition council. ■

### EC approves EUR 600m for entrepreneurs hit by pandemic

The European Commission (EC) has approved support for Czech sole traders and partners in small limited liability companies that have been negatively affected by the Covid pandemic. It will distribute EUR 660m to them by the end of 2021. The program is expected to support 200,000 self-employers and other entrepreneurs. Support will be provided by the Ministry of Finance in the form of direct subsidies. ■

### ČNB: Banks approved COVID III loans worth CZK 34.66bn

As of June 15, 2021, banks in the Czech Republic approved 3,152 loan applications for CZK 14.14bn to non-financial corporations under the COVID II state guarantee program. This follows from data from the Czech National Bank (CNB). Within the COVID PRAHA program, there were 302 applications with a total value of CZK 1.55bn. Those interested in support from the COVID III program sent 8,742 applications. Banks have so far approved 5,252 of them for CZK 34.66bn. The total number of submitted applications in the COVID EGAP program reached 157 and 104 applications in the amount of CZK 15.02bn were approved. ■

### Chamber of Deputies OKs expansion of NKÚ authority

The Chamber of Deputies of the Parliament of the Czech Republic approved the extension of the powers of the Supreme Audit Office (NKÚ). The law, which specifies the new powers of the NKÚ, follows on from the amendment to the Constitution, which was to enable this extension. The NKÚ should now be able to control, among other things, the management of statutory cities, regions, Czech Television and Czech Radio, state-owned enterprises and funds, and health insurance companies. The amendment will now be considered by the Senate. ■

### ČMZRB will receive EUR 191m from EIB for infrastructure of Czech Republic

The European Investment Bank (EIB) will provide the Czech-Moravian Guarantee and Development Bank (ČMZRB) with EUR 191m to support the financing of public infrastructure development projects in the Czech Republic. The transaction will enable the implementation of a newly created program to support sustainable regional development. The EIB loan will contribute to the recovery of the Czech economy from the negative consequences of the pandemic. ■

### Govt introduces mandatory testing after return from vacation

The government decided on its session on July 1, 2021 that when people return from vacation, they will have to be tested for COVID-19 before returning to work. They will also have to wear a respirator for five days. This

is a consequence of the spread of the more contagious delta mutation. The test will also be mandatory for people after one vaccine dose. However, the government does not plan to expand the number of tests covered by insurance. Prior to the government session, Prime Minister Andrej Babiš (ANO) accepted 100,000 doses of the Pfizer/BioNTech vaccine, which were provided to the Czech Republic by Hungary. ■

### MF: Procurement for public administration at CZK 20bn

Joint procurement for public administration reached almost CZK 20bn in 2019 and 2020. Almost a quarter of this went to the purchase of electricity and gas. The Ministry of Finance of the Czech Republic (MF) reported that the number of those interested in joint purchasing is growing, with more than 250 public administration organizations having joined in the last two years. Finance Minister Alena Schillerová (ANO) said that smaller authorities achieve significantly lower prices thanks to central procurement and their savings are usually between 20-35%. Most often, the state also buys computer equipment, operator services, stationery, and furniture or software centrally. During 2019 and 2020, the MF also awarded 35 procurement contracts for the purchase of passenger vehicles under central purchasing. ■

### MPSV prepares programme for people hit by tornado

The Ministry of Labour and Social Affairs of the Czech Republic (MPSV) has prepared a programme to help self-employed persons, employees and employers affected by the tornado. It is similar to Antivirus. The statutory Kurzarbeit has been in force since July 1 and cannot be used in the context of a natural disaster. The Labour Office will contribute to wage reimbursements as well as the wages themselves. This will be in full up to the amount of the employee's earnings in the previous quarter. The Czech Social Security Administration will waive penalties on late payment of compulsory social insurance premiums for employers and self-employed persons affected by the tornado. It will be possible to pay it without penalty by the end of the year. ■

### ERC approved EUR 2.4bn science grant program

The European Research Council (ERC) has approved a program of more than EUR 2.4bn to fund grants to around 1,100 researchers in the EU and associated countries. It is the Council's second work program under Horizon Europe. Funding will be awarded in a series of grant competitions, which will be evaluated by juries of internationally recognized scientists. ■

### MZe accepts applications for tornado subsidies

On July 12, 2021, the Ministry of Agriculture (MZe) started accepting applications for subsidies through the State Agricultural Intervention Fund for mitigating the damage caused by the natural disaster in June 2021 in the South Moravian and Ústí nad Labem regions. A total of up to CZK 1.5bn will be paid out. It will also support the restoration of damaged water supply systems, sewers, and other facilities under the program Support for the construction and technical improvement of water supply and sewerage infrastructure. State enterprises such as Povodí Moravy, Lesy ČR, the State Land Office, and the Support and Guarantee Fund for Agriculture and Forestry are also supporting those affected by the natural disaster. ■

### MŽP to distribute CZK 14bn within 2021+ boiler subsidies

Boiler subsidies will continue until the old boilers are banned, i.e. until September 1, 2022. Households with lower incomes will receive a higher subsidy, up to 95%. The decision was made by the Ministry of the Environment (MŽP). Other households can also replace their boiler with a subsidy, and will receive up to 50% of the cost of replacement. At least CZK 14bn will be available for the 2021+ boiler subsidies, of which CZK 5.5bn will be distributed among low-income households. The remaining CZK 8.5bn will be available through the New Green Savings Programme. ■

### MPO to present Czech Republic's Hydrogen Strategy

At an international hydrogen conference on July 16, 2021, the Czech Ministry of Industry and Trade (MPO) will present the Czech Republic's Hydrogen Strategy. It is based on four pillars: the production and use of low-carbon hydrogen, transportation and warehousing, and hydrogen technologies. The target the strategy strives to contribute to is climate neutrality. The plan describes the starting point and forecast development by 2050 related to the European Green Deal. It also brings an overview of programmes that can support the development of hydrogen technologies. After approval by the government, it will be available on the Ministry's website. ■

### Additional CZK 450m to be allocated for potable water sources

In the newly published three-year framework of the National Environment

Program, the Ministry of the Environment of the Czech Republic has allocated an additional CZK 450m for the continuation of the subsidy title intended for the construction and regeneration of drinking water sources. The ministry plans to launch the third call in September 2021. As part of the previous call, which was completed in June 2021, the Ministry of the Environment registers more than 700 received applications in the amount of over CZK 1bn. ■

### Deputies approved an amendment to Execution Rules

The Chamber of Deputies of the Parliament of the Czech Republic approved the amendment to the Act on Bailiffs and Execution Activities (Execution Rules), returned by the Senate. The Minister of Justice Marie Benešová (for ANO) stated that the proposal abolishes the obligation of the bailiff to demand an advance on the costs of execution. It also regulates the suspension of execution for non-deposit of the costs of execution and changes the legal regulation of the suspension of unsuccessful executions in the future. The adoption of the Senate version is supported by People in Need, Caritas CR, the Institute of Prevention and Solution of Over-indebtedness, RUBIKON Center and State Reconstruction. They perceive the repayment of the principal before accessories or the so-called humanization of mobile executions as positive. ■

### PSP supported deducting fines from benefits

On July 9, 2021, the Chamber of Deputies of the Parliament of the Czech Republic (PSP) approved the introduction of a rule according to which people who repeatedly commit the most serious offences will see their fines deducted from benefits in material need. According to the main submitter of the standard, Jan Bauer (ODS), this proposal responds to the situation in problem regions and aims to increase the motivation of some people dependent on social benefits to act in accordance with the law. ■

### M. Zeman signed laws on construction and residence of foreigners

President Miloš Zeman signed three laws on July 15, 2021. They are the building law; the Act amending certain acts in connection with the adoption of the Building Act and the Act on the Residence of Foreigners in the Czech Republic. As ČIANEWS has already informed, the new building law is intended to significantly simplify the permitting of constructions. The building authorities will conduct only one procedure, which will result in one decision instead of the current planning decision and building permit. The new construction system will have to make do with 4 to 5 thousand officials instead of the current 7 thousand, due to digitisation. The construction authorities are to be placed under the Supreme Construction Office. ■

### Chamber of Deputies approved electronic healthcare bill

On July 7, 2021, the Chamber of Deputies of the Parliament of the Czech Republic approved the bill on electronic health care. It addresses rules and tools for the secure sharing of information between registries of healthcare professionals, patients and providers or healthcare facilities. The law does not plan any central repository, patients' medical records are to be stored only with doctors as before. However, they will be able to share them in a secure form. The draft will now be submitted to the Senate for consideration. ■

## COMPANY NEWS

### Lidl launches one of its largest centers in Europe

Retail chain Lidl has launched one of its largest logistics headquarters in Europe in Buštěhrad. The center with an area of 60,000 m<sup>2</sup> in the area of the former steelworks Poldi Kladno will gradually supply up to 90 stores and provide up to 500 jobs. The building will use rainwater to flush toilets and water greenery. The annual savings thus reach almost 1,800 m<sup>3</sup> of water. This year, the installation of a photovoltaic power plant, which will produce up to 870 MWh per year, which is 15 % of the center's consumption, is planned. This will help reduce the carbon footprint by up to 685 tons of CO<sub>2</sub>. ■

### P. Tkáč consolidates investments with D. Křetínský

Patrik Tkáč is consolidating his joint investments with Daniel Křetínský into the holding J&T Capital Partners (J&T CP), which is under the exclusive control of Mr. Tkáč, with J&T Private Equity Group participating economically and in terms of capital. The goal of the new company is to manage and develop all existing and future interests in the joint business projects of the Tkáč and Křetínský tandem. The holding company has already bought a 44% stake in Energetický a průmyslový holding (EPH), which brings together investments in the energy sector. In the coming

months, it will buy out other ownership stakes controlled by P. Tkáč. Following the approval of the antitrust authorities and the sellers' creditors, an indirect 25% stake in the Spanish retail chains CECOSA Supermercados and CAPRABO will also be incorporated into the holding. ■

### AGROFERT shows revenues of CZK 160.98bn, invests CZK 10bn

AGROFERT reported consolidated sales of CZK 160.98bn in 2020. The sum totaled CZK 162.04bn one year earlier. Concern's non-consolidated sales reached CZK 231.19bn. A consolidated profit after taxation totaled CZK 3.76bn compared with CZK 4.48bn in 2019. The main reason for the reduction was the impact of the pandemic on AGROFERT's activities in the media services sector. EBITDA was CZK 18.10bn. The balance sheet decreased by 1.57 % to EUR 156.94bn. The concern returned to higher investment activity and, despite the coronavirus crisis, implemented most of the planned investments. The total amount of investments reached CZK 10.07bn. ■

### Norton and Avast in merger talks

NortonLifeLock (Norton) has confirmed that it is in advanced discussions with the board of Czech cyber security firm Avast regarding a potential merger. Norton and Avast's board of directors also confirmed the merger talks, adding that no agreement has yet been reached. ■

### EG.D to invest CZK 31bn by 2025, some in digitisation

E.ON Group's EG.D invests over CZK 5bn per year in its distribution network. In 2020, it built 6,000 construction projects that should help it ensure stability and safety. One of them is the 110/22 kV Tábor-Náchod substation. EG.D head of high-voltage power line construction Tomáš Záček specified that the existing substation in Tábor was very busy, mainly in the winter months, and that there could have been a risk of energy blackout over time. The new substation has therefore released the burden and distributed it to the existing transformer station. By 2025, EG.D plans investments exceeding CZK 31bn, including CZK 7.3bn in intelligent technologies and digitisation. ■

### ČEZ starts arbitration in Bulgaria

ČEZ Group has initiated arbitration against Bulgaria. This stems from the announcement of the International Centre for Settlement of Investment Disputes (ICSID), with ČEZ accusing Bulgaria of violating the Energy Charter Treaty. ČEZ spokeswoman Alice Horáková declined to comment on the arbitration, saying that ČEZ would not comment on the ongoing disputes. ■

### ČEPS to increase electricity transfer in LBK and ULK

ČEPS has launched an investment project to double the 400 kV V450 line between substations Výškov in the Ústí nad Labem Region (ULK) and Babylon in the Liberec Region (LBK) for approximately CZK 2bn. The main goal is to strengthen the reliability of electricity transmission. As part of the event, 208 new Danube-type masts will be built, and new phase conductors, ground ropes and insulator suspensions will also be installed. Member of the board of directors Karel Slončík stated that the management will also enable the transmission of electricity produced in the planned renewable sources in LBK and ULK. The commissioning of the V450/V428 is scheduled for autumn 2022. ■

### Škoda Electric supplied 30 trolleybuses to Bulgaria

Škoda Electric has delivered 30 new low-floor trolleybuses to the Bulgarian capital. The value of the contract was approximately CZK 500m. The project manager of Škoda Electric Oldřich Husa stated that the company completed the delivery of all 18m articulated vehicles of the Škoda 27 Tr type during June 2021. The machines are equipped with traction batteries, thanks to which they run in Sofia even in places where there are no overhead lines. They will travel about 5 km on a single charge. Their capacity is 123 passengers and the equipment includes, among other things, an advanced diagnostic system with remote data transmission, a passenger information system and air conditioning. ■

### MINT buying more than 200 flats from Metrostav

On June 30, 2021, the MINT I. residential sub-fund of SICAV focusing on rental housing signed an acquisition agreement with Metrostav Development for the first stage of the Vysočanský mlýn. This is the first joint transaction in which MINT will acquire over 200 new flats for rent in the newly emerging complex in the area of the former Odkolek bakeries. The parties do not wish to disclose the value of the transaction. ■

### ARETE gets EUR 30m loan from Raiffeisenbank

Investment and real estate ARETE Group has signed a contract with Raiffeisenbank to draw a EUR 30m loan. The funding will be used to

accelerate the growth of ARETE INDUSTRIAL SICAV fund's portfolio through prepared investments. It will also be directed at building new industrial real estate. ARETE co-founder Lubor Svoboda said that the above funding was the first step that heralded the fund's ambition to administer assets worth over EUR 400m. He believes that concerning investment projects in preparation, this credit line may even increase at the turn of 2021. ■

### DRFG: CDF acquires Residence Spojovací for CZK 305m

The new Czech Development Fund SICAV (CDF) controlled by the investment group DRFG has purchased the Prague project Residence Spojovací. The project with a market value of CZK 305m will offer a total of 40 flats. As ČINAWEBS has already reported, the real estate fund of qualified investors wants to acquire up to five projects per year and guarantees a minimum yield of 5.75% pa. ■

### Energovod to install movables for CZK 690m in Prague

The Council of the Capital City Prague took note of the conclusion of a contract for the supply of new elements of urban furniture with Energovod CZ. The company won the open tender announced by the city's company Technologie hl. m. Prahy (THMP). Specifically, it involves the delivery of new bus stop shelters, railings, and large-capacity waste bins, the installation of which will be provided by THMP. The new elements of urban furniture will be delivered to THMP from 2021 to 2023 and the total value of delivery and installation amounts to CZK 689.88m. The total value of the infrastructure will be CZK 88.88m excluding VAT. ■

### LIBERTY ships 600,000 tons; EBITDA to exceed CZK 1.6bn

LIBERTY Ostrava shipped over 600,000 tons of steel products in a period from April 1 to June 30, 2021. The volume of the production was around 200,000 tons in every month of the period and this was achieved for three consecutive months in 2008 for the last time. The company expects 2Q gross operating profit (EBITDA) to be higher than the 1Q profit of CZK 1.6bn. This will be the best quarterly result since July 2019, when the Ostrava-based steelworks was taken over by GFG Alliance. The company has enough orders for the following months and has secured raw materials for maximum production. Production was almost 80% higher than in 2Q 2020 when the steel industry was hit by the coronavirus to the highest degree. ■

### OKD production fell to 2.37m t of coal due to Covid-19

The total production of the mining company OKD in 2020 reached 2.37m tons of coal. A year earlier it was 3.65m tons of coal. Coking coal (1.06m tons) and thermal coal (841,188 t) contributed the most to production. Net turnover decreased to CZK 6.55bn from CZK 11.57bn. The company deepened its loss from the previous year's CZK 860.87m to CZK 2.44bn. OKD's investment activity decreased to CZK 125.40m, from CZK 617.07m. In the annual report published in the Commercial Register, the company further stated, among other things, that the mining goal to exceed 2019 was thwarted by the coronavirus pandemic and related personnel problems. ■

### VÍTKOVICE STEEL reduced losses, prices to grow with boom

Despite the pandemic, VÍTKOVICE STEEL achieved the best result in the last three years. The company informed about it, stating that the result is a loss of CZK 267m, but operating profit EBITDA reached zero, which confirms the positive trend of operating performance. In 2020, it was again able to produce more than 0.5m tons of products. Revenues from the sale of products and services fell by more than 20% to CZK 6.5bn due to the coronavirus crisis. 70% of products sold went abroad, with EU countries being key markets. Renovations of cranes and their equipment with remote controls took place, sheet metal marking with bar codes and automatic ordering of transports were introduced. The company's management considers this year extraordinary, as the recovery in demand exceeded producers' expectations and created an environment of rocketing price growth. However, the price of the input material - steel slabs - also increased, up to three times last year's summer prices. ■

### ELDIS to deliver parts for 11 radars in India

ELDIS Pardubice has been awarded a contract to supply key components for 11 combined PSR/MSSR (Primary Surveillance Radar/Monopulse Secondary Surveillance Radar) radars for the Indian Navy and Coast Guard. The project worth nearly CZK 1bn will be executed in partnership with Mahindra Telephonics. ■

### Banka CREDITAS acquires leasing company Ekorent

CREDITAS Bank has expanded its presence in the SME sector with the acquisition of Ekorent, which provides loans and lease financing to private physicians. Ekorent has been present on the Czech market for over 25 years. During its operation, it has financed investments exceeding CZK 5bn for its

clients. The company's total balance sheet amount reaches CZK 800m. Vladimír Hořejší, Chairman of the Board of Directors of the bank, said that CREDITAS is also pursuing opportunities to realize synergy effects. This is especially in the area of selling other banking services, including mortgages, and gaining contacts to new prospective creditworthy clients. ■

## MACROECONOMIC DATA AND POLLS

### EC expects Czech economy to grow by 3.9%

The improving health situation and the consequent continued easing are putting EU economies back in motion. The European Commission (EC) has stated that these factors outweigh the temporary shortage of production inputs and rising costs affecting parts of the production sector. It has therefore adjusted the growth expectations of the EU economies. For the Czech Republic, it expects GDP growth of 3.9% this year and 4.5% in 2022. Inflation is expected to remain around 2.7% in 2021 and to slow to 2.3% next year. For Slovakia, the EC estimates GDP growth of 4.9% this year and 5.3% next year. Inflation is expected to accelerate slightly from 2.1% to 2.2%. ■

### Inflation slows down to 2.8%; fuel prices up by 20.2%

Consumer prices in the Czech Republic rose by 2.8% y/y in June 2021, 0.1 pp down compared to May. The Czech Statistical Office reported that prices in the transport section again had the biggest impact on growth. Prices of cars were 5.7% higher and prices of fuels and oils 20.2% higher. Prices of goods rose by 2.4% in aggregate and prices of services by 3.4%. The aggregate consumer price index excluding imputed rent was 102.6%. On a month-on-month basis, consumer prices rose by 0.5%. Prices of goods and services increased by 0.3% and 0.9% respectively. The inflation rate, expressed as the increase in the average consumer price index over the last 12 months compared with the average of the previous 12 months, was 2.8%. ■

### Analysts: Central bank will raise rates again

Inflation would tend to fall slightly in the coming months, mainly due to the effect of last year's benchmark base. It will return to roughly its current level by the end of 2021. Reacting to the statistical data, Petr Dušek, an analyst at ČSOB, said that a slight decline could occur next year, but there are still many unknowns at play, including the further development of the pandemic, the stabilization of the commodity market, the strength of domestic demand or the recovery in tourism. BHS chief economist Štěpán Křeček added that the central bank has already responded to inflation by raising interest rates. Nevertheless, monetary policy is still loose. This is helping the economy to recover quickly, but it is also making products and services more expensive. Michal Brožka, an economist at Komerční banka, expects the central bank to raise rates again in early August. ■

### Industrial production up 25.3%, contracts up 46.5%

In May 2021, industrial production grew by 25.3% y/y in real terms. The largest contributors to growth were the manufacture of motor vehicles, trailers and semi-trailers (an increase of 59.5%). The data were published by the Czech Statistical Office. Revenues from industrial activity at current prices increased by 31.2%. The value of new orders in the monitored industries was up 46.5% y/y. The average registered number of employees in industry decreased by 1.4%. According to Eurostat data, industrial production in the EU27 increased by 38.7% in April 2021, Czech industry strengthened by 55.1%. ■

### Analysts: Industry lacks components and manpower

In May 2021, industrial production fell by 3.6% month on month. The reason for the decline is the lack of parts and raw materials for production, especially in car production. In response to statistical data, Komerční banka economist Michal Brožka stated that problems in subcontracting will persist in the coming months and will limit the performance of industry. ČSOB analyst Petr Dušek added that the lack of components is not the only problem of the domestic industry, which is also bothered by high input prices and a permanent shortage of workers. In addition, it is exacerbated by limited labor migration. Raiffeisenbank analyst Vít Hradil stated that although demand would be enough for even more significant growth, the mentioned factors will probably not allow the industry to exceed the 7% mark. ■

### CRIF: No. of companies up 8586 in H121

Totally 15,924 companies were established in the Czech Republic in H1 2021, up 17% y/y. At the same time, a tenth fewer companies were dissolved (7338). This stems from the analysis of CRIF - Czech Credit Bureau. In the real estate management sector, 39% more companies were established. The

manufacturing industry also recorded a significant growth (+16%). In the accommodation and catering sector, the number of new companies decreased by one-fifth year-on-year, while the number of closed ones increased slightly. The largest number of companies was established in Prague (7,470). In the Ústí nad Labem region, 76% more companies closed down than last year. ■

### CRIF: 386 commercial bankruptcies declared in 1H

In 1H 2021, 386 bankruptcies of commercial companies, 3,338 bankruptcies of natural persons entrepreneurs and 8,389 personal bankruptcies were declared. This follows from CRIF's analysis, with 501 filings for bankruptcy, 3,263 bankruptcies and 8,314 personal indebtedness petitions filed at the same time. The number of bankruptcies of commercial companies increased by 49 y/y, the number of petitions increased by 64. The number of bankruptcies among entrepreneurs decreased by 634 and the number of petitions by 696. The number of personal bankruptcies decreased by 12 % and the number of petitions by 11 %. The number of corporate bankruptcies was the highest since 1H 2017, that is, since the beginning of the effective date of the amendment to the Insolvency Act, which tightened the conditions for filing creditor insolvency petitions. ■

### May trade balance with surplus of CZK 6.3bn

According to preliminary data, the balance of foreign trade in goods at current prices ended in May 2021 with a surplus of CZK 6.3bn (+ CZK 6.9bn y/y). The Czech Statistical Office informed about this, stating that exports increased by 41.6 % y/y to CZK 334.3bn and imports by 38.6 % to CZK 327.9bn. From January to May 2021, the trade balance surplus reached CZK 92.3bn (+ CZK 79.9bn). Since the beginning of the year, year-on-year exports increased by 26.3 % and imports by 20.5 %. The foreign trade balance with the EU27 ended in May with a surplus of CZK 57.5bn (+ CZK 11.4bn). The foreign trade deficit in goods with non-EU27 countries increased by CZK 4.1bn y/y to CZK 49.3bn. ■

### IE: Export to grow 18% despite offer complications

The Export Index (IE) indicates that despite offer complications, the volume of exports will grow on average 18% y/y in the next five months. Raiffeisenbank chief economist Helena Horská said that ongoing problems with shortages of material, staff and transportation were being augmented by the arrival of summer holidays and a related decrease in seasonal demand. At the turn of Q3 and Q4 of 2021, however, the performance of Czech exports should remain at a historic high. ■

### Analysts: Demand from abroad is growing

Leading indicators point to continued growth in foreign demand. In response to foreign trade statistics, Raiffeisenbank analyst David Vagenknecht said imports would rise as a result of the economic recovery, as not only consumer demand but also investment activity are waking up. The chief economist of Komerční banka, Jan Vejmelek, added that this year is clearly marked by an economic recovery, which will be reflected in a higher increase in consumer and investment imports. This year's surplus is estimated at CZK 145 billion. The director of the CzechTrade Regional Center in Germany, Adam Jareš, pointed out that during the coronavirus crisis, a number of Czech companies had accumulated capital. Now, instead of direct export, they are entering the German market as investors and want to establish their own foreign branches. ■

### Moore: Antivirus helps preserve 100,000 jobs

At the beginning of 2021, the Antivirus programme was artificially keeping roughly 100,000 employees at work. An analysis by Moore Czech Republic also showed that the termination of two parts of the programme at the end of May 2021 had hardly any impact on the statistics. Without the programme, the real unemployment rate at the turn of 2021 would have been 1.2 pp higher, i.e., above 5%. Moore Czech Republic partner Radovan Hauk added that there was a long-term shortage of qualified labour in segments such as industry and IT. Gastronomy is now facing a shortage of staff. Employees do not want to return due to an uncertain future. ■

### CBCB/CNCB: Self-employers borrow CZK 116bn

At the end of April 2021, 142,000 self-employers (16% of the active ones) had a loan from banks and non-bank financial institutions in the Czech Republic. The total debt totaled CZK 116bn. Some CZK 2.1bn was not properly repaid. This stems from data provided by Czech Non-Banking Credit Bureau (CNCB) and Czech Banking Credit Bureau (CBCB). A total of 6,820 entrepreneurs (4.8%) could not repay their loans. In terms of the regions, the best payment morality was enjoyed by the entrepreneurs in the Plzeň Region and in the Central Bohemian Region, where 4.0% did not pay their debts

properly. Executive director of CNCB Jiří Rajl stated that in comparison with commercial companies, self-employers have a threefold share of the volume of threatened debt in the total volume of debt and more than five times higher share of threatened clients in the number of clients with debt. ■

### ÚP: Unemployment fell to 3.7 %, lowest rate in EU

As of June 30, 2021, the Labor Office of the Czech Republic (ÚP) registered a total of 273,302 jobseekers, which is 12,520 less than in May and 3,665 more than in June 2020. The share of unemployed persons was 3.7 %, down 0.2 pp m/m. According to Eurostat, the unemployment rate in the Czech Republic was the lowest in the entire EU in May, at 3.1 % (the Union average was 7.1 %). Viktor Najmon, the general manager of the Labor Office, said that in the coming months, if the epidemic situation does not worsen, unemployment could continue to fall slightly. For example in gastronomy and hospitality, the number of vacancies is gradually increasing in connection with the easing of restrictions. The ÚP currently registers 20,034 of them, the most in Prague (8,143). There is interest in chefs and assistant chefs, as well as waiters, waitresses and kitchen helpers. ■

### Analysts expect unemployment around 4 % in 2021

After the pandemic situation subsides, even more foreigners will enter the Czech labor market than before the crisis. In response to statistical data, Trinity Bank chief economist Lukáš Kovanda said this. The chief economist of Komerční banka, Jan Vejmelek, believes that the mismatch between labor supply and demand, supported by structural changes related to the pandemic, will make it impossible to further reduce unemployment to pre-ideal values. Raiffeisenbank analyst David Vagenknecht predicts unemployment of close to 4% for the whole of 2021. ■

### Construction production up 5.8 %, 32.7 % in EU27

In May 2021, construction production increased by 5.8 % y/y in real terms. The building authorities issued 8,777 building permits (+ 15.1 %). The approximate value of these construction projects was CZK 36.6bn (+ 1.2 %). This was reported by the Czech Statistical Office. The number of dwellings started in May 2021 increased by 20.3 % and reached 4,060 dwellings. The number of completed dwellings decreased by 4.1 % to 2,807 units. According to Eurostat data, construction output in the EU27 increased by 32.7 % in April 2021. Building construction strengthened by 33.9 % and civil engineering by 22.4 %. ■

### Analysts: Construction output will fall by up to 4 pct

Construction production in the Czech Republic will fall by 2 to 4% in 2021. This was stated by Pavel Sobišek, Chief Economist of UniCredit Bank Czech Republic and Slovakia, in response to data from the Czech Statistical Office. He added that the demand for construction work will be concentrated in housing construction, where the historically highest volume of permitted constructions was recorded in May. BH Securities economist Štěpán Křeček stated that flats have become an investment item and are used for speculative transactions. This situation was exacerbated by the abolition of the real estate acquisition tax. The rise in real estate prices has not yet been reflected in long-term rent prices. Komerční banka analyst Martin Gürtler said that the shortage of manpower and building materials may continue to be a limiting factor in the construction industry. ■

### Retail up 8.1 % in May, e-shops grew again

In May 2021, sales in retail trade without adjustment increased by 8.1 % y/y. The Czech Statistical Office informed about it, stating that after adjusting for calendar effects, they grew by 5.8 %. The development was influenced by the relaxation of anti-coronavirus measures. Sales increased mainly in the sale of clothing and footwear (+ 41.1 %). On the other hand, lower sales were recorded for products for culture, sports and recreation (-2.6 %). Sales of goods via the internet or mail order services continued to see double-digit growth (+ 15.6 %). The price deflator for the same period of the previous year (excluding the effect of VAT) was 102.2 %. Month-on-month, adjusted sales increased by 7.3 % at constant prices. ■

### Analysts: Easing restrictions did not slow e-commerce

Even after the opening of brick-and-mortar stores, people are shopping significantly more over the Internet. In response to statistical data, Štěpán Křeček, chief economist at BH Securities, said the situation would probably never return to the state before the pandemic broke out. ČSOB analyst Petr Dufek stated that total retail sales in May 2021 exceeded the level of 2019 and thus largely copied the development from last summer, when customers also returned to stores. Raiffeisenbank analyst David Vagenknecht expects retail sales growth in 2021 as a whole, incl. car sales, of 4.5 %. Excluding cars, it should be close to 3 %. ■