

# Czech Republic

2014/2015

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Czech Republic 2014 / 2015 is an informative brochure issued by the American Chamber of Commerce in the Czech Republic. The purpose of this document is to provide some basic information about the Czech Republic and recent economic activity. The overview includes the key economic indicators, information about doing business in the Czech Republic, specific sector briefings, details of the tax system and other information relevant to those looking to invest and/or operate in the Czech Republic.



## GENERAL INFORMATION

<b>Area:</b>	78,867 km <sup>2</sup>
<b>Population:</b>	10.5 million
<b>Labor Force:</b>	5.7 million
<b>Capital:</b>	Praha (Prague)
<b>Length of state border:</b>	2,303 km
<b>Border Countries:</b>	Germany (810 km) Poland (762 km) Austria (466 km) Slovakia (265 km)
<b>Distances from Prague:</b>	Berlin – 282 km Paris – 864 km London – 1,030 km New York – 6,561 km
<b>Time zone:</b>	GMT +1, summer time GMT +2
<b>Official Language:</b>	Czech
<b>Official Currency:</b>	Koruna (Kč)/Czech Crown (CZK) 1 USD = 20.81 CZK, 1 EURO = 27.85 CZK Average value for 2013 1 USD = 19.56 CZK, 1 EURO = 25.97 CZK
	<i>Source: Czech National Bank, August 11, 2014, Czech Statistical Office</i>



For further information about regions go to chapter 18

Located at the crossroads of Europe, the Czech Republic is a nation of vast cultural and historical heritage as well as inspiring natural beauty. Its economic performance has ensured its successful entry into the European Union and established it as an important economic player in the increasingly globalized world.

The Czech Republic is divided into 14 regions, including the capital city Prague. Prague is amongst the most developed regions in the EU, with a GDP per capita over twice the Czech average and an unemployment rate half that of the national rate. Prague has been one of the most economically developed region of the 10 nations which joined the EU in 2004.

### President of the Czech Republic:

- Miloš Zeman  
Further information at [www.hrad.cz](http://www.hrad.cz)

### Prime Minister:

- Bohuslav Sobotka  
Further information at [www.vlada.cz](http://www.vlada.cz)

### Parliament:

- Bicameral
- Chamber of Deputies** – 200 deputies elected for 4 years  
Chairman: Jan Hamáček  
Further information at [www.psp.cz](http://www.psp.cz)
  - Senate** – 81 senators elected for 6 years, (27 Senators are elected every 2 years), Chairman: Milan Štěch  
Further information at [www.senat.cz](http://www.senat.cz)

### Elections:

- Senate** – last election held in October 2012
- Chamber of Deputies** - last election held in October 2013
- President** elected directly in nationwide elections for a 5-year term - last election held in January 2013
- Prime Minister** named by the president on the basis of election results. Based on the prime minister's proposal, the president then names ministers

### Political Groups in the Chamber of Deputies:

- ČSSD – Czech Social Democratic Party (50)
  - ANO 2011 (47)
  - KSČM – Communist Party of Bohemia and Moravia (33)
  - TOP 09 a Starostové – TOP09 and Mayors (26)
  - ODS – Civic Democratic Party (15)
  - Úsvit přímé demokracie Tomia Okamury – Dawn of Direct Democracy of Tomio Okamura (14)
  - KDU-ČSL – Christian-Democratic Union – Czechoslovak People's Party (14)
  - Nonparty Members (1)
- Source: Chamber of Deputies

Key indicators	Reference	Go to Chapter No.
GDP growth rate	1.4 % pred.	1
Inflation	1.4 %	2
Interest rate	0.37 %	3
Trade Balance (million CZK)	188,028.7	4
FDI inflow (million USD)	4,993	5
Number of banks	44	6
VAT	21%	8
Unemployment rate	7% pred.	9
Average monthly wage (CZK)	24,806	9
Share of households with Internet connection	67 %	10
Share of people with university education	17 %	14
Tourist visits	13,868,336	17
Number of regions	14	18
Population	10,507,292	18

## 1 GROSS DOMESTIC PRODUCT (GDP)

Real GDP declined in 2013 by some 0.9 %. The surprising inter-quarterly growth in Q4 2013 was largely due to one-time factors and this promises rather slow growth in Q1 2014. Nevertheless, 2014 should see slow but steady economic recovery, predictions show some 1.4 % or a little more. In 2015 the growth should accelerate to 2.0 %. This year's and next year's growth should be founded on home demand by 2/3 and only by 1/3 on the increased foreign trade.

Source: Ministry of Finance

Income (CZK billion)					
	2008	2009	2010	2011	2012
Net national income	2,987,892	2,797,832	2,785,509	2,845,430	2,815,372
Gross national income	3,668,012	3,508,454	3,505,956	3,565,877	3,560,995

Source: Czech Statistical Office

GDP per capita in purchasing power standard (EU27 = 100)						
Country	2008	2009	2010	2011	2012	2013
CZECH REPUBLIC	81	82	81	81	81	80
Poland	56	60	63	65	67	68
Slovakia	72	73	74	75	76	76
Germany	116	115	120	123	123	124
Austria	124	126	126	129	130	129
EU 27	100	100	100	100	100	100
EA 17/18	109	109	108	108	108	108
United Kingdom	114	112	108	105	104	106
United States	151	150	151	149	155	155

Source: Eurostat

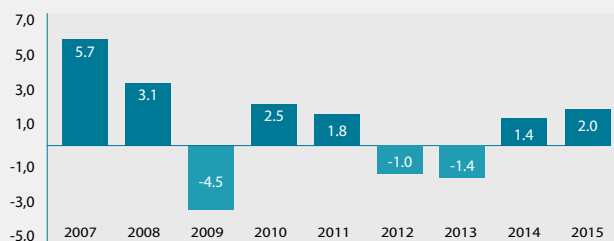
GDP volume	2009	2010	2011	2012	2013
CZK billion, current prices	3,759.0	3,790.9	3,823.4	3,845.9	3883.8
GDP per capita	2009	2010	2011	2012	2013
CZK, current prices	358,288	360,444	364,249	365,995	369,507
GDP, % y/y	2009	2010	2011	2012	2013
CZK, constant prices	-4.5	2.5	1.8	-1.0	-0.9

Source: Czech Statistical Office

Consumption	2008	2009	2010	2011	2012	2013
% (y/y)	2.3	1.3	0.7	-0.4	-2.1	0.6
from household % (y/y)	3.0	0.2	1.0	0.5	-2.7	0.1
Ratio household / government	1.70	0.15	-6.50	-0.67	-6.00	n/a

Source: Czech Statistical Office, Ministry of Finance (Macroeconomical Prediction 2013)

### GDP growth rate 2007-2013 (2014, 2015 prediction)



Source: Czech Statistical Office (Prediction for 2014-2015 by Ministry of Finance)

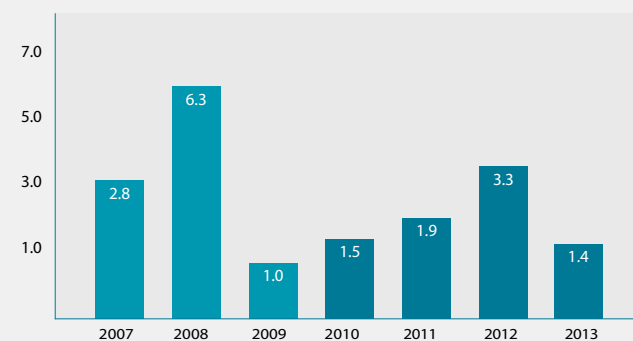
## 2 INFLATION

### Czech National Bank and inflation targeting

- Czech National Bank adopted inflation targeting in 1998 to fulfill its primary objective of maintaining price stability.
- A headline inflation target of 2 % was set by the Czech National Bank from January 2010 until the country joins the euro zone. As before, the CNB will strive to ensure that actual inflation does not differ from the target by more than one percentage point in either direction.
- To increase transparency, accountability and credibility of the independent central bank, the CNB publishes interest rate path forecasts into the medium term in addition to quarterly inflation reports.
- Currently, the inflation rate is 0.7 % (June 2014). The CNB predicts a slightly higher level of inflation in the following quarters with the value slowly reaching the 2 % target.

Source: Czech National Bank

### Inflation rates (% y/y) 2007-2013



Source: Czech Statistical Office

HICP - Annual average rate of change in Harmonized Indices of Consumer Prices (HICPs) (%)	2010	2011	2012	2013
CZECH REPUBLIC	1.2	2.1	3.5	1.4
Poland	2.7	3.9	3.7	0.8
Slovakia	0.7	4.1	3.7	1.5
Germany	1.2	2.5	2.1	1.6
Austria	1.7	3.6	2.6	2.1
EU 27	2.1	3.1	2.6	1.5
EA 17	1.6	2.7	2.5	1.3
United Kingdom	3.3	4.5	2.8	2.6
United States	1.6	n/a	n/a	n/a

Source: Eurostat



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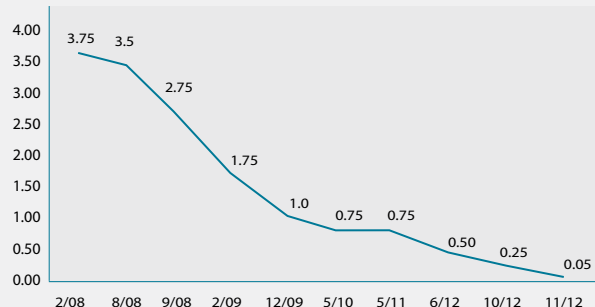
### 3 INTEREST RATES

The 3-month interest rate is a representative short-term interest rate series for the domestic money market.

- From January 1999, the euro area rate is the 3-month „Euro InterBank Offered Rate“ (EURIBOR) EURIBOR is the benchmark rate of the large euro money market that has emerged since 1999. It is the rate at which euro InterBank term deposits are offered by one prime bank to another prime bank. The contributors to EURIBOR are the banks with the highest volume of business in the euro area money markets.
- The panel of banks consists of banks from EU countries participating in the euro from the outset, banks from EU countries not participating in the euro from the outset, and large international banks from non-EU countries but with important euro area operations.
- Monthly data are calculated as averages of daily values. Data are presented in raw form.

Source: ECB

#### Interest rates (%) 2008 - 2013 (in 2014 without any change)



Source: Czech National Bank

#### 2 Week Repo, Discount rate, Lombard rate

	29 June 2012	1 October 2012	2 November 2012
2 Week Repo	0.50	0.25	0.05
Discount rate	0.25	0.10	0.05
Lombard rate	1.50	0.75	0.25

Source: Czech National Bank



“In November 2012, the Czech National Bank (CNB) set its base rate at 0.05 % to stimulate the Economy. We have been operating in the environment with historically lowest interest rates ever since. We have noticed increased investment appetite of companies from the last quarter of 2013. However, the combination of very low inflation, quite strong banking competition and behaviour of CNB gives me reasons to expect flat market rates in 2014 and only modest growth of rates in 2015.”

Michal Brothánek, Executive Director of Institutional Banking in CSOB

#### 3-month interest rate, monthly average (NSA)

Country / Month	04/ 2013	05/ 2013	06/ 2013	07/ 2013	08/ 2013	09/ 2013	10/ 2013	11/ 2013	12/ 2013	01/ 2014	02/ 2014	03/ 2014	04/ 2014
EA17(18)	0.21	0.20	0.21	0.22	0.23	0.22	0.23	0.22	0.27	0.29	0.29	0.31	0.33
Czech Republic	0.47	0.46	0.46	0.46	0.46	0.45	0.45	0.40	0.38	0.37	0.37	0.37	0.37
Poland	3.29	2.86	2.69	2.70	2.70	2.69	2.67	2.65	2.67	2.70	2.71	2.71	2.72
United Kingdom	0.51	0.51	0.51	0.51	0.51	0.52	0.52	0.52	0.52	0.52	0.52	0.52	0.53
United States	0.28	0.28	0.27	0.27	0.26	0.25	0.24	0.24	0.24	0.24	0.24	0.23	0.23

Source: Eurostat

### 4 EXTERNAL TRADE

In the first quarter of 2014, exports increased by 14.8 % and imports by 12.9 % in comparison with the same period in 2013.

The largest external trade turnover was reached with developed market economies (82 %). A large part of them were member states of the European Union, whose share of external total trade turnover of the Czech Republic was 74.9 %. The most important trading partner for the Czech Republic is Germany, whose share of turnover is almost 30 %, followed by Slovakia with 6.7 %.

Source: MPO

Balance of Payment (CZK million)	2009	2010	2011	2012	2013
Current Account	-89,280.5	-146,644	-103,959	-51,291.6	-55,980.6
Current Account (USD million)	-4,849	-7,601.5	-6,111.7	-2,547.9	-2,853
Trade Balance	87,334.9	53,826.3	90,323.1	148,633.5	188,028.7
Exports	1,875,117	2,175,097	2,409,328.1	2,596,886.3	2,653,020.9
Imports	1,787,782	2,121,271	2,319,005	2,448,252.8	2,464,992.2
Balance of Services	73,927.6	75,307.9	58,438.1	62,266.5	52,996.8
Capital Account	51,233.2	32,524.8	14,727.8	51,930.6	74,754.5
Financial Account	143,176.2	174,253.5	59,443.6	74,315.5	187,889.8

Source: Czech National Bank

## 4 EXTERNAL TRADE

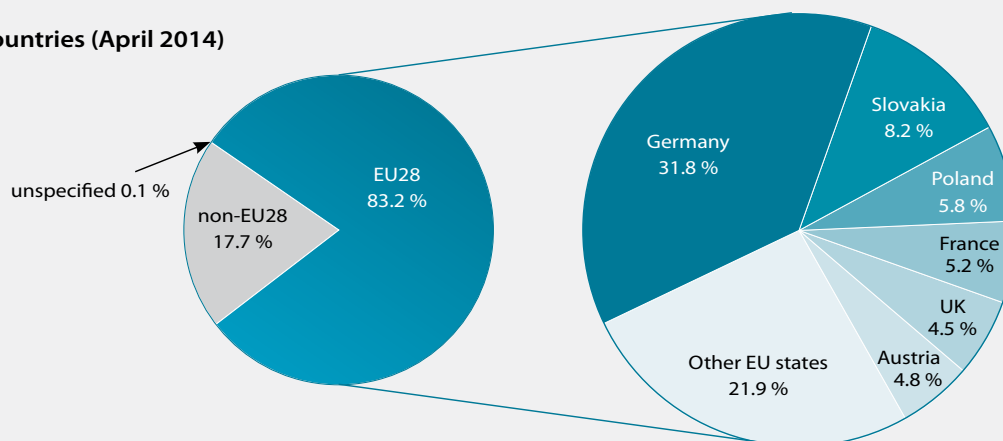
Trade product breakdown 2013	Exports volume (CZK mil)	Exports volume (%) <sup>1)</sup>	Share of exports (%)	Imports volume (CZK mil)	Imports volume (%) <sup>1)</sup>	Share of imports (%)
Plastics products	34,916	106.3	1.1	62,192	104.7	2.2
Chemicals and chemical products	19,270	102.4	0.6	39,629	111.4	1.4
Fabricated metal products, except machinery	165,516	107.1	5.2	112,860	105.7	4.0
Basic metals	104,759	96.8	3.2	131,942	96.2	4.7
Machinery, equipment for electricity production	89,876	98.8	2.8	90,990	102.3	3.2
Machinery, equipment for further industrial production	82,121	100.5	2.6	57,098	100.5	2.0
Machinery, equipment for industrial use	217,674	109.0	6.9	140,247	104.3	5.0
Computer, electronic and optical products	308,556	106.1	9.7	273,029	102.2	9.7
Motor vehicles, trailers and semi-trailers	560,198	106.1	17.7	231,657	104.8	8.2

Source: Czech Statistical Office, <sup>1)</sup> Corresponding period of previous year =100

External trade (in total)	2012	2013
Export (CZK mil)	3,072,597	3,167,423
Import (CZK mil)	2,766,888	2,816,810
Turnover (CZK mil)	5,839,486	5,984,233

Source: Czech Statistical Office

### Export to selected countries (April 2014)



Source: Czech Statistical Office

## 5 FOREIGN DIRECT INVESTMENT (FDI)

The Czech Republic is one of the most successful CEE countries in terms of attracting foreign direct investment. Over 173,000 Czech firms across all sectors are now supported by foreign capital. According to the Czech National Bank, a total amount of EUR 77,8 billion worth of FDI has been recorded since 1993 to 2012.

The introduction of investment incentives in 1998 stimulated a massive inflow of FDI into greenfield projects. The Czech Republic's accession to the European Union in 2004 and the amendments to the investment-incentives legislation have further boosted investment. According to an Economist Intelligence Unit database, the Czech Republic has consistently attracted a high rate of foreign direct investment per capita since 2000, which confirms the country's strong attractiveness for foreign investors.

In 2013, the FDI inflow reached almost USD 5 billion. Some 80 % of the investment projects were aimed at expanding the already existing investments. The most important investors are Germany, the US, Japan, Switzerland, Austria, the Netherlands, the UK and Denmark. Most of the investments in 2013 flowed into automotive and machinery industries, followed by rubber and plastic production, food production, electronics, pharmacy and biotechnology.

Source: CzechInvest

Rating	S&P
Czech Republic	AA-
Slovakia	A
Poland	A-
Hungary	BB

Source: <http://countryeconomy.com/ratings>

## 5 FOREIGN DIRECT INVESTMENT (FDI)

FDI Inflows (USD mil)	2010	2011	2012	2013
EU28	380,112	482,753	209,185	239,374
CZECH REPUBLIC	6,147	2,323	8,000	4,993
Slovakia	1,770	2,145	2,827	591
Poland	13,879	20,652	6,067	-6,038
Hungary	2,204	6,306	14,001	3,093
Austria	838	10,628	3,941	11,081
Germany	65,623	59,372	13,208	26,716
United Kingdom	50,587	51,133	45,945	37,099
United States	205,851	230,224	166,411	193,361
FDI Outflows (USD mil)	2010	2011	2012	2013
EU28	482,899	587,484	237,824	251,622
CZECH REPUBLIC	1,168	-328	1,794	3,296
Slovakia	946	491	-74	-422
Poland	7,228	8,169	728	-4,852
Hungary	1,149	4,675	11,351	2,271
Austria	9,995	21,896	17,066	13,936
Germany	126,318	81,045	79,638	57,539
United Kingdom	39,489	106,663	35,068	19,439
United States	301,079	409,005	388,293	359,641

Source: OECD Statistics

## Czech Republic: Inward Foreign Direct Investment by Industry, 2012–2013

Sector (NACE classification)	2012 (EUR, thousands)	2012 (USD, thousands)	2013 (EUR, thousands)	2013 (USD, thousands)
<b>Non-manufacturing</b>				
Agriculture, hunting, and forestry	-29,108	-37,373	-11,933	-15,842
Mining and quarrying	10,726	13,771	67,150	89,147
Electricity and gas supply	-223,752	-287,279	-1,843,386	-2,447,233
Construction	-122,682	-157,514	-70,209	-93,208
Hotels and restaurants	-79,345	-101,872	-3,452	-4,583
Transport, storage and postal services	2,027,405	2,603,025	-182,160	-241,830
Financial intermediation	2,053,340	2,636,324	2,041,783	2,710,620
Real estate business activities	-279,343	-358,654	685,972	910,679
IT and communication services	-62,752	-80,569	-485,648	-644,735
Administrative and supporting services	-36,273	-46,571	1,510,912	2,005,849
Innovation, development, technologies	-206,488	-265,115	1,010,976	1,342,146
<b>Manufacturing</b>				
Food and tobacco	669,456	859,528	-61,347	-81,443
Textiles, wearing apparel	25,735	33,041	13,278	17,627
Wood, paper and publishing	-15,091	-19,376	107,869	143,204
Refined petroleum and chemicals	205,319	263,613	52,705	69,970
Basic metals and metal products	-147,707	-189,644	124,327	165,054
Machinery and equipment	226,912	291,336	210,545	279,514
Other manufacturing	170,513	218,925	-187,036	-248,304
Motor vehicles	1,725,208	2,215,028	226,975	301,326
Other transport equipment	14,578	18,717	67,669	89,835

Source: Czech National Bank

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## 6 BANKING & FINANCE

The Czech National Bank acts as an independent central bank in setting interest rates and supervising financial markets and the banking sector. Further information at [www.cnb.cz](http://www.cnb.cz)

- Commercial banks are private and the majority are foreign-owned.
- Bank lending remains the main source of company financing in the CR.
- Banks operating on the Czech market: Česká spořitelna, Citibank, Commerzbank, Československá obchodní banka, GE Money Bank, ING Bank, Raiffeisenbank, The Royal Bank of Scotland, UniCredit Bank and others.
- Net profit of the banks exceeded CZK 61 billion in 2013, which is a slight decrease compared to 2012.
- The total assets of the Czech banking sector stood at CZK 5,266 billion at the end of May 2014. Loans to residents are the predominant asset item. Their volume reached CZK 3,151 billion. Deposits of residents, which are the most important item among banking sector liabilities, totalled CZK 3,552 billion.
- The Czech banking sector has remained well capitalised and has not required any public aid. The average sector capital adequacy ratio has also been at healthy values.

Source: Czech National Bank

### Market of Shares / Trade Value

	2012	2013
Total Trade Value (CZK bn)	250.5	174.7
Average Daily Trade Value (CZK mil)	998.3	698.9
PX index	1,038.7	989.0
Number of Issued Shares (mil. pieces)	28	26
Total Trade Value of bonds (CZK bn)	594.2	1.93
Number of issued bonds (Total Trade Turnover CZK bn)	98	110

Source: Prague Stock Exchange

### Shares – Trade Values / Issues of shares with the highest total trade value in 2013

Rank	Issues	Values (CZKbn)	Share (in %)
1.	Erste Group Bank	62,400.1	20.53
2.	Komerční banka	60,495.0	19.91
3.	VIG	58,924.8	19.39
4.	ČEZ	57,853.3	19.04
5.	Telefónica ČR	18,623.2	6.13

Source: Prague Stock Exchange



*“The overly-liquid and highly competitive Czech banking market has caused banks to re-assess business fundamentals such as profitability and client relationship management to improve client retention and cross-selling capabilities. We see financial institutions moving from a product-centric approach to a client-centric approach with a full understanding of their clients' needs/businesses to be more relevant and focused. Going forward the ability to respond to real customer needs will also be the most differentiating factor among banks, and Czech companies as well as retail customers will greatly benefit from it by receiving a higher quality of financial solutions and services in general.”*

Robert Chudoba, Head of Client Coverage,  
ING Commercial Banking

### Number of Banks (March 31, 2014)

Czech-owned banks	8
Foreign owned banks	15
Branches of foreign banks	21
<b>Total</b>	<b>44</b>

Source: Czech National Bank

### Capital Adequacy Ratio (CAR)

	12/2012	03/2013	06/2013	09/2013	12/2013
Capital adequacy ratio (%) and CNB's outlook	16.42	16.38	17.14	17.33	17.22

Source: Czech National Bank - Financial Stability Report 2013/2014

## 7 GLOBAL COMPETITIVENESS INDEX

	Out of 7
GCI 2013-2014.....	4.4
<b>Basic requirements (20.0 %)</b> .....	<b>4.8</b>
Institutions.....	3.6
Infrastructure.....	4.7
Macroeconomic environment.....	5.0
Health and primary education.....	5.8
<b>Efficiency enhancers (50.0 %)</b> .....	<b>4.5</b>
Higher education and training.....	4.9
Goods market efficiency.....	4.4
Labor market efficiency.....	4.2
Financial market development.....	4.2
Technological readiness.....	4.9
Market size.....	4.5
<b>Innovation and sophistication factors (30.0 %)</b> .....	<b>4.1</b>
Business sophistication.....	4.4
Innovation.....	3.7



Source: World Economic Forum, The Global Competitiveness Report 2013-2014

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## 8 TAX SYSTEM

### Tax Rates in the Czech Republic

<b>Corporate Income Tax</b>	<ul style="list-style-type: none"> <li>The standard corporate tax rate is 19 %.</li> <li>A special tax rate of 5% is applied to investment, pension and collective investment funds.</li> <li>Investment income received from abroad by Czech companies forms a separate tax base that is taxed at 15 %.</li> <li>Dividends distributed to non-residents are subject to a withholding tax of 15 %. The tax rate may be decreased by an applicable double tax treaty or EC Parent-Subsidiary directive.</li> <li>A withholding tax of 5 % is applied on income from financial leasing if the rental payment is paid to a non-resident.</li> </ul>
<b>Personal Income Tax</b>	<ul style="list-style-type: none"> <li>Personal income is subject to a flat tax rate of 15 %. However, taxable income of employees consists not only from their gross salary, but also includes their mandatory social and health contributions. Thus, the effective tax rate can be higher (up to 20 %). Employment and/or business income in excess of 48-times the average wage in 2013–2015 (annual income of CZK 1,245,216 in 2014) is subject to 7 % solidarity tax.</li> </ul>
<b>Value Added Tax</b>	<ul style="list-style-type: none"> <li>The standard rate is 21 % and the reduced rate is 15 %.</li> </ul>
<b>Real Estate Tax</b>	<ul style="list-style-type: none"> <li>The real estate tax varies according to type, location and purpose of use and is levied on the occupation of real estate property or plots of land.</li> </ul>
<b>Tax on the Acquisition of Real Estate</b>	<ul style="list-style-type: none"> <li>This tax is payable by the seller of real estate unless the parties agree that it will be paid by the buyer. The rate of tax is 4 percent of the higher of the sale price and the reference value of the property.</li> </ul>
<b>Energy Taxes</b>	<ul style="list-style-type: none"> <li>Energy taxes apply to natural gas and other gases, electricity and solid fuels. Only supplies of these products delivered within the Czech Republic are subject to energy taxes. There is a wide range of exemptions (e.g. for energy used in metallurgic or mineralogical processes). In order to claim an exemption, approval needs to be obtained from the customs authority.</li> </ul>
<b>Consumption Tax</b>	<ul style="list-style-type: none"> <li>Excise tax is imposed on entities that produce or import certain goods, including hydrocarbon fuels and lubricants, alcohol and spirits, beer, wine and tobacco products.</li> <li>The tax is based on the quantity of goods expressed in specific units and tax may be levied only once on a particular good.</li> </ul>
<b>Road Tax</b>	<ul style="list-style-type: none"> <li>Road tax applies on vehicles according to the engine capacity and number of axles. Reductions in rates exist for new and hybrid vehicles.</li> </ul>
<b>Inheritance and Gift Tax</b>	<ul style="list-style-type: none"> <li>There are no gift and inheritance taxes as of 1 January 2014. Gifts are subject to income tax except for those between close relatives.</li> </ul>

Revised by KPMG

### Retirement Age

- For people born between 1936 and 1977 there is a special enclosure to the Pension law specifying the retirement ages depending on gender, year of birth and until year of birth 1975 for women also on number of children. For people born in 1977 unification of retirement age for men and women occurs firstly. For example, the retirement age for people born in 1977 is 67 years for both men and women (irrespective of the number children). Nevertheless, the law contains also provision with rules for calculation of the retirement age for the people born after 1977.
- Both men and women can claim early retirement. If the retirement age is lower than 63 years, the early pension can be granted 3 years earlier. If the retirement age is at least 63 years or higher, it is possible to request early pension 5 years earlier (but not sooner than at 60 years).
- Individuals can claim retirement benefits on the condition of having worked for at least 25 – 35 years depending on the year of achieving the retirement age.

### Central Government Budget for 2014

- The total budgeted expenditure for 2014 is CZK 1,211.3 billion.
- The total budgeted revenue for 2014 is CZK 1,099.3 billion.
- The resulting budget deficit is CZK 112 billion.

Source: Ministry of Finance

### Social Insurance

- State social security system covers health care provisions, pensions, employment insurance and sickness pay as well as child-related benefits and other social services.
- Both employers and employees contribute to the social security system.
- All companies must pay a total of 34 % of their employees' gross salaries towards social security and health care funds.
- Social security contributions are not paid from income exceeding 48 times the average monthly (gross) salary as a result of cap on social security payments (for 2014 the cap is set at CZK 1,245,216). No cap applies to health insurance in 2013 to 2015.

### Mandatory Contributions to Social Security Scheme (%)

Insurance Type	Employer-portion	Employee-portion	Self-employed
Healthcare	9	4.5	13.5
Pension	21.5	6.5/8.5*	28/30.0*
Unemployment	1.2	0	1.2
Sickness	2.3	0	2.3
<b>Total</b>	<b>34</b>	<b>11</b>	<b>45</b>

\*if the person participates in the second pension pillar

Revised by KPMG





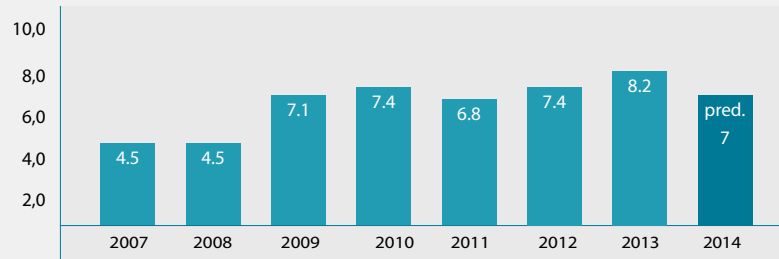
## 9 LABOR MARKET

### Average monthly wage 2012–2014 (CZK)

Q4 2012	27,055
Q1 2013	24,013
Q2 2013	24,917
Q3 2013	24,778
Q4 2013	26,591
Q1 2014	24,806

Source: Czech Statistical Office

### Unemployment rate (%) 2007–2014



Source: Czech Statistical Office (Prediction for 2014 by the Ministry of Finance)

### Structure of employment and average wages by selected sectors (NACE classification) in 1Q 2014

Structure of employment and average wages by selected sectors (NACE classification) in 1Q 2014	Monthly avg. wage in CZK	Employees in the sector (thousands)
Finance and insurance	52,340	70.5
IT & Telco	48,188	97.4
Energy	43,265	29.5
Research & Science	31,534	152.5
Public sector service	26,165	275.4
Education	23,135	273.8
Healthcare	24,338	271.5
Construction	21,309	198.8
Wholesale, Retail, maintenance of vehicles	23,117	480.8
Transportation & Storage	21,309	237.3
Manufacturing	24,671	1,047.8

Source: Czech Statistical Office | For further information about regions (unemployment rate, avg. monthly wages) go to section 11.2.



“As of 24 June 2014 amendment of Foreigner’s Stay Act changes fundamentally the present system regulating the issuance of work permits and long-term work visas. One of the new items is a dual residency permit, so-called employment card, which combines both a work and residence permits into one document. Thanks to this amendment, the whole process should be administratively simpler and shall have positive impact mainly on companies and potential investors who cannot find qualified workers in the Czech Republic. The changes do not affect EU citizens; they concern citizens of third countries only.”

Michael Mullen, Partner, PwC CEE Legal Leader, PwC

## Employment Law

### Employment of foreigners

- Foreign employees (other than EU nationals and their relatives) who intend to perform working activities for a Czech employer, either on the basis of a direct employment contract or secondment, require relevant documentation.
- In case of an employee on a Czech work contract a work permit (issued by a local labour office) and a visa (issued by the Czech embassies) or an employee/blue card (issued by the Czech Ministry of the Interior) are required.
- In case of a seconded employee a work permit (issued by a local labour office) and a rvisa (issued by the Czech embassies abroad) or a residence permit (issued by the Czech Ministry of the Interior) are required.

### Employment relation

- Czech legal entities can employ Czech nationals mainly under a Czech employment contract.
- Foreign entities/branches can employ Czech nationals, and Czech entities can employ foreigners, on the basis of an employment contract governed by the law of any country, unless an international treaty concluded by the Czech Republic stipulates otherwise. However, choice of foreign law may not have the result of depriving the employee of the protection afforded to him by mandatory provisions of the Czech labour law.
- Employment can be terminated on the basis of written agreement of both the employer and employee. The employee may terminate by written notice for any reason or without giving a reason. The employer can serve termination notice in writing exclusively based on reasons that are set out in the Labour Code. Stricter conditions apply to collective dismissals.
- A minimum two months’ notice is required from both employers and employees. Longer notice periods can be agreed.

- A probation period of three months for regular employees and of six months for managing employee (unless a shorter period is agreed) can be agreed upon in the employment contract. During the probation period, both the employer and the employee may terminate the employment relationship in writing for any reason or without stating a reason.

- Employment can be also terminated on the basis of written immediate termination for a serious breach of duties.

### Selected aspects of employment

- The minimum working week is 15 hours, maximum working week is 40 hours; the minimum salary is CZK 9,500.
- Overtime may be ordered up to 8 hours a week and 150 hours a year. In case of overtime work, the employee is entitled to compensation amounting to his/her average earnings, plus a premium payment of 25 % of his/her average earnings; alternatively, employer and employee may agree that the employee will be provided with time off instead of paying the premium.
- The employer is not obliged to pay premium or provide time off instead of paying the premium, if the salary reflects any potential overtime. This must be concluded in the agreement with the respective employee. Such an agreement may be concluded with managerial employees for all of their overtime work (i.e. 416 hours per year) and with other employees (i.e. blue-collar workers) for up to 150 hours of overtime per year.
- A non-compete obligation can be agreed between the employee and employer under the terms set out in the Labour Code.
- Further, under certain circumstances, employers and employees are allowed to conclude repeated fixed-term labour agreements. These changes particularly favour companies that depend on seasonal workers including, for example, those operating in the construction, agriculture and tourism sectors.

Revised by PwC

## 10 IT &amp; TELCO

Telecommunication in 2013 (%)	
Households with personal computer	68
Households with internet connection	67
Households having broadband connection	64
Households with mobile phone	98

Source: Czech Statistical Office

Most frequent types of internet connection in 2013 (%)	
Wi-Fi	50.1
TV Cable	21.3
ADSL	22.4
Dial-Up, ISDN	4.0

Source: Czech Statistical Office

### Situation in the Industry

- Telecommunications and NGA (New Generation Access) infrastructure is the basic building block of modern information society. The Czech telecommunication market is characterized by a fierce competition in the mobile segment, with four mobile network operators – T-Mobile, Vodafone, O2 and Air Telecom. There are further challenges in deploying the Next Generation Access infrastructure, mainly in the form of fibre networks.
- In many parameters of NGA infrastructure, the Czech Republic is starting to lag behind not only Western European part of the EU but also behind progressively digitalized Eastern economies (Digital Agenda for Europe - EU 2014 Digital Scoreboard).
- According to the information of the Czech Statistical Office, in 2Q 2013, 96 % of the Czech population over 16 years was using mobile phones and 70% Internet.
- The mobile market is very competitive. Year-to-year (2013-14) prices of mobile services have fallen by 70% (source: CTO). The number of active SIM cards has been growing only modestly, and by estimation it exceeded the number of 14 million in 2013. The total number of subscribers has been growing only slowly, there are only shifts among the service providers. The ratio between the post-paid and pre-paid customers has stagnated, the post-paid is slightly increasing, the pre-paid slightly decreasing.
- The mobile market has been flooded by several dozen of virtual mobile operators (MVNO) that gained around 5% of the market by March 2014 after a year and a half of operation.
- The mobile market is marked by the Czech Telecommunication Office as consolidating, particularly thanks to mergers and acquisitions of companies operating networks and providing electronic communications services. The most significant acquisition was the sale of 65.9% stake in Czech a 100% stake in Slovak O<sub>2</sub> to PPF, which is Petr Kellner's investment company. GTS Central Europe has been sold to Deutsche Telekom. The merger of T-Mobile and T-Systems Czech Republic was completed. In August 2013, Telefónica and T-Mobile, two largest mobile operators, agreed to share their mobile 2G and 3G networks, and in spring 2014, they extended their agreement to LTE networks. At request of the third operator, the agreement will be subject to review by relevant authorities.
- The financial disputes conducted before the Czech Telecommunications Office still constitute very problematic issues. The number of disputes currently pending has exceeded 400,000 and every month tens of thousands of other disputes occur. Other issues are disputes that are or potentially will be resolved before courts. New political representatives and lawmakers are trying to solve small claims systemically, however, there is general tendency to aggravate the enforceability of such amounts and reduce compensation for costs on the proceedings. For the telecommunications sector, where in most cases the so-called "form" or "generically filed" simple disputes are not concerned; it means a risk of creating large volume and number of lost or principally collected debts.
- A significant change in the legislation is the prepared Cyber Security Bill and related implementing regulations that will come into force on 1 January 2015. A measure, which is very much expected and which should lead to much greater development of data infrastructure, will be the implementation of the EU Broad Band Cost Reduction Directive and national on Linear Structures Act - reducing barriers to construction. In order to improve the position of the Czech Republic in possible application of benefits of the development and operation of the digital economy and to increase our competitiveness, it will be necessary to equalize the legislative approach to traditional robust infrastructure (energy, water, logistics) and to sophisticated data infrastructure (metallic and optical information networks).



*"Quality services, reliable network and top customer care are key factors of success of a telecommunications company. Open and fair competition and appropriate regulation constitute a key to success of the telecommunications industry. The industry is under great pressure, it has been declining rapidly (in double-digits annually). We see the future in data service and in the high-speed access to the Internet, through both fixed network and fast mobile data services in all corners of the country - therefore we now provide Turbo Internet. We wish to maximally contribute to the development and competitiveness of the Czech Republic, and I hope that all responsible representatives will share this intention with us."*

Balesh Sharma, CEO, Vodafone Czech Republic a.s.

### Network

- In 2013, mobile operators launched LTE commercial offerings of already held frequencies in 1800 MHz band in their networks. In the autumn of 2013, Vodafone launched a project to provide coverage of the entire territory of the Czech Republic, especially rural areas, by LTE services on frequencies in the 900 MHz band, and a service called Turbo Internet.
- In November 2013, an auction of frequencies for 4G mobile networks was held, which, however, in spite of a significant motivation for an entry of a new operator, has not brought a new player. The offered spectrum was divided among the existing three players - T-Mobile, O<sub>2</sub> and Vodafone. The proceeds from the auction in the amount of CZK 8.5 billion constituted an income of the state budget, and the originally estimated amount of CZK 4 billion was not directed to support the development of NGA infrastructure.

### Legislation

- In August 2013/in February 2014 (6-month transitional period due to deferred effect of amending provisions of the Act), the so called Husak's amendment of the Electronic Communications Act came into force which introduced a much broader information obligation and significantly strengthened the position of users, especially in the area of fixed-term agreements where it has introduced the option to terminate an agreement before the agreement term expiry with maximum possible contractual performance in the amount of one fifth of the remaining monthly fees.

### Telecommunications Policy in EU and CR

- At EU level, the negotiation on Telecom Single Market Package, a set of measures which should direct the EU countries towards a single digital communications market, is being held. Among the most discussed topics there are network neutrality, specialized services, roaming and spectrum harmonization. The trend set by lawmakers of Husak's amendment copies the strengthening of consumer protection. The fate of the whole package is discussed by the new European political representation, but it can be however expected that there will be a will to re-evaluate the document and to make it closer to current and strategic needs of free telecommunications and ICT markets and national economies.
- The new Government has included broadband support in its policy statement. The Ministry of Trade and Industry subsequently reported on the progress in meeting the objectives of the Czech Digital 2.0 (document matching the objectives of the European Digital Agenda 2020), which unfortunately confirmed that the Czech Republic has not made significant progress in meeting these objectives. Relevant ministries then began to take their first steps to set up the strategy of eGovernment development and review existing commitments (such as mandatory eReceipt from 1 January 2015 for which the Czech infrastructure is not prepared).

Revised by Vodafone

## 11 LEGAL & BUSINESS

### Czech Legal System

- The Czech legal system is a civil law jurisdiction appertaining to the continental legal system.
- As the Czech Republic is a Member State of the European Union, EU law forms part of the Czech legal system.
- The New Civil Code, Act on Business Corporations and related legislation became effective on 1st January 2014. They represent the biggest legislative change in Private Law in over 20 years. The Act on Business Corporations aims to modernize the regulation of Czech corporate law, and thus it introduces numerous new possibilities to the Czech corporate legal system. At the same time, the new legislation does not change the legal forms through which business may be conducted in the Czech Republic.

### Business Presence

- Both natural persons and legal entities may engage in business in the Czech Republic.
- Generally, there is no limitation on the level of foreign participation in a Czech legal entity. Foreigners/foreign companies can establish both joint-ventures and wholly-owned subsidiaries in the Czech Republic.
- As of July 1, 2011 there are no limitations of acquisition of real property by foreign legal entities and individuals.

#### Companies

- Types of companies include a joint-stock company, a limited liability company, a limited partnership and an unlimited partnership.
- Joint-stock and limited liability companies are the most commonly used for business purposes; only the joint-stock company must fulfil the minimum capital requirements.
- A joint-stock company can be set up by one or more legal entities or individuals. The minimum share capital requirement is CZK 2 million or EUR 80,000, if the joint-stock company keeps its accounts in EUR. As from January 1, 2014 the bearer certificated shares are not allowed.
- A limited liability company can be set up by one or more legal entities or individuals. There is no requirement for the minimum amount of registered capital; however, each shareholder is required to contribute at least CZK 1.
- As from 1 January 2014, it is possible for a limited liability company with a sole shareholder to be a sole shareholder of another limited liability company (i.e. previous ban on chaining of limited liability companies has been abolished). The registered capital of such sole-member company must be fully paid up before the registration into the Commercial Register.
- Under the new legislation, there is no longer an obligation for joint-stock or limited liability companies to establish a reserve fund.

#### Other types of business entities

- Besides companies, business may be conducted by means of the following legal forms: a co-operative, a branch, a silent partnership, an association, a European Company (Societas Europaea) and a European Economic Interest Grouping.
- A branch (of a legal entity) does not form a separate legal entity, and thus any actions by the branch are seen as actions of the entity registering the branch. A registered branch may generally undertake the same scope of business activities as a Czech legal entity.
- Authorization of a foreign entity to carry out business activities in the Czech Republic within the scope of activities registered in the Commercial Register takes effect upon registration of such entity or its branch in the Commercial Register.

#### Commercial Register

- Companies, co-operatives, as well as branches and foreign non-EU or non-EEA sole proprietors are required to be registered in the Commercial Register.
- Court fee for the registration of a joint-stock company is CZK 12,000 and for the registration of a limited liability company is CZK 6,000.

#### Trade licensing / Business authorization

- A trade license authorizes the legal entity or foreign entity acting through its branch or a foreigner to carry out business.
- All required types of licenses and qualification requirements are defined by the Trade Licensing Act.
- Special authorization may be needed to carry out activities in certain areas that are not governed by the general trade licensing regime, e.g. certain financial services (such as banks, securities brokers, insurance companies, investment funds, investment companies/unit trusts, and pension funds), telecommunications, utilities, pharmaceuticals, broadcasting, gaming and employment mediation (recruitment, executive searches, etc.).

### Civil Procedure and Arbitration

- There is no trial by jury system in the Czech Republic; nearly any evidence is admissible before the Czech courts. Punitive damages are not available and class action lawsuits are generally not available either; however, in certain cases (where specifically stipulated by law) lawsuits may have an effect that is similar to a class action.
- Court fees for property disputes are generally 5 % of the amount in dispute. Cost-shifting is commonplace and also includes costs incurred for legal representation. However, compensation of incurred costs for legal representation is determined pursuant to a governmental decree, i.e. costs are not compensated in correlation with the amount actually spent.
- Contingency fee arrangements with legal counsel are not widely used in practice, however, they are not forbidden either. The majority of attorneys charge an hourly fee for services rendered.
- Judgments and arbitral awards are enforced either by the courts or (private) executors. Czech Republic is the party to "New York" Convention on the Recognition and Enforcement of Foreign Arbitral Awards.
- Parties to a contract may agree on a choice of law, provided that at least one of the parties is a foreign entity or a foreigner.
- Parties to commercial disputes may agree on prorogation, i.e. they may select the court to which their dispute will be submitted.
- Court proceedings typically last for 2-4 years (provided an appeal is filed).
- Property disputes, either domestic or international, may be submitted to the arbitration court. The only permanent arbitration court with general jurisdiction is the Arbitration Court attached to the Economic Chamber of the Czech Republic and Agricultural Chamber of the Czech Republic. Arbitrators' fees are determined on the basis of the amount in dispute.
- Parties to property disputes may also opt for ad hoc arbitration proceedings, e.g. arbitration pursuant to UNCITRAL Arbitration Rules, or any foreign arbitration court.
- Czech Republic is the party to a large number of bilateral investment treaties and it is also the party to "Washington" Convention on the Settlement of Investment Disputes between States and Nationals of Other States.

## 11 LEGAL &amp; BUSINESS

## Competition Law, Public Procurement, Investment Incentives

- The central authority of state administration in the field of competition and public procurement is the Antimonopoly Office.



*"This year cannot be characterized better than by the implementation of the new Civil Code and other related new legal regulations. In the near future, fine-tuning of particular legal institutes will continue, with the aim of bringing them in line with the real life. In this respect, big expectations are focused on the future judgements that will set up new trends."*

*Marcel Šebek, Legal Counsel CZ & SK,  
McDonalds – Legal and Business*

## Act on Protection of Economic Competition

- Arrangements distorting economic competition (such as price-fixing agreements and other cartel arrangements) are prohibited.
- The business conduct of enterprises with a dominant market position (competitors with less than a 40 % share of the relevant market are presumed not to have a dominant position, unless proven otherwise) is subject to special regulation.
- Any concentration of businesses that exceed a minimum threshold (a combination of criteria based on world-wide and Czech net turnover) requires approval by the Antimonopoly Office. Notification on concentration can be filed with the Office either prior to signing the respective concentration agreement or after, however, always before the respective concentration is to take effect.

## Public Procurement

- Public procurement is governed by the Public Procurement Act and the Concession Act. The area of public procurement has been declared as one of the major topics on the government's agenda. A substantial amendment to the Act on Public Contracts was introduced in April 2012. According to the Amendment, most public contracts must be publicized as well as detailed reasoning of the qualification criteria

and state contracts over CZK mil 300 have to be approved by the Government. The Amendment also enlarges the array of subsidized organizations whose contracts are treated under the Act. The Office for the Protection of Competition is the superior state authority that supervises the process of public contracts granting (control, assessment of objections and possible imposing fines on specific breaching the law).

## Investment Incentives

- Investment incentives (e.g. tax allowance) may be granted pursuant to the Investment Incentives Act to the investors investing in manufacturing industries.
- For companies considering an investment in the Czech Republic, regardless whether in form of establishing a new entity or expanding their current business, the recent amendment to the Investment Incentives Act (Act No. 72/2000 Coll.) may be a decisive factor. The main goal of the law effective as of July 12, 2012 is to create the possibility of direct subsidies for strategic investment projects. The following criteria must be met in order to qualify as strategic investment project:
  - Manufacturing industry projects – investment in the amount of at least CZK 500 million (approx. USD 25.3 million), out of which at least CZK 250 million must be spent on machine equipment and at least 500 new jobs must be created
  - Technological centres (focused on research and development) – investment in the amount of at least CZK 200 million (approx. USD 10.1 million), out of which at least CZK 100 million must be spent on machine equipment and at least 120 new jobs must be created
  - Strategic services centres (i.e. centres for creation of software, repair centres and centres for shared services involving at least 2 states).
- Provided that these requirements are met and the project is approved by the Czech Government, the investors may claim up to 5 % of their investment costs in form of a direct subsidy (certain limits apply). Under specific circumstances, it is possible to claim even up to 7 % of the investment costs.

*Revised by Weinhold Legal*



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## 12 REAL ESTATE

### Office space

- At the end of Q1 2014, the total modern office stock in Prague stood at 2,902,738 m<sup>2</sup>. New built space continues to increase its share, reaching 74 % of the total. The remaining 26 % are quality refurbishments.
- The highest rents achieved in prime office buildings in the city centre remain in the range of €19-20/m<sup>2</sup>/month. The Q1 vacancy rate in Prague increased by 52 basis points to its current level of 13.67 %. A bigger hike of vacancy is expected in the forthcoming quarters as there will be more, mainly speculative, projects coming to the market. The trend of increasing vacancy, mainly in refurbished, B class schemes, continues. Over the past two years, the vacancy rate of B class stock increased by 416 bps, while A class increased by only 100 bps. Despite new completions being mostly A class schemes, the vacancy rate of A class stock has been oscillating below the average vacancy level since 2012. Due to new, predominantly speculative office schemes coming to the market, we expect a significant increase of vacancy in 2014. As net-take-up is driven mainly by relocations of tenants within the current stock into modern premises, vacancy will increase mainly in lower quality buildings.
- There is currently ca. 153,400 m<sup>2</sup> under construction with expected completion over the following three quarters. The total volume of expected office supply during 2014 will represent an approximate 100 % y-o-y increase and a ca. 8 % increase on the 10 year average.

#### Prime Yields Q1 2014

Sector	Yields (%)	Trends
Offices	6.00 – 6.25	↘
Retail	6.25	↘
Warehouses	7.50 – 8.00	↘

Source: Jones Lang LaSalle

### Retail

- By the end of Q1 2014, the combined retail stock in Prague stood at approximately 982,000 m<sup>2</sup>; with shopping centres accounting for 828,000 m<sup>2</sup>. In spite of new completions scheduled for completion during the remainder of 2014, the development pipeline remains constrained. This is also reflected in the very low vacancy rate which is at ca. 3.5 %.
- The Czech Republic remains the 2nd most sought after retail market in CEE, after Poland. It registers healthy retail demand which is focused on Prague, its high street and the best performing shopping centres with proven track records. In respect to luxury retail, Prague remains one of the top spots for retailers in Europe. For the vast majority of new markets entries, franchising remains the preferred business model. The Golden Cross and Pařížská Street remain high on retailers' shopping lists, whether established or entering the market. Mainstream brands are actively monitoring Na Příkopě or the lower part of Václavské Náměstí, whilst luxury brands remain faithful to Pařížská.
- Prime shopping centre rents in Prague remain at a level of €95 m<sup>2</sup>/month (for a 100 m<sup>2</sup> unit). Prime High Street rents in Prague are stable at a level of €180 m<sup>2</sup>/month. However, demand levels, combined with an undersupply of suitable space, are in favour of a rental increase.

### Industrial

- In Q1 2014, the total modern industrial stock (owned by developers and investors) in the Czech Republic reached 4,531,000 m<sup>2</sup> (excluding ancillary office space and owner occupiers). Greater Prague remains to be the most developed Czech industrial submarket accounting for 39 % of the country stock. The Brno and Pilsen regions rank second and third, with shares of 16 % and 14 % respectively.

At the end of Q1 2014, the total amount of space under construction reached over 188,000 m<sup>2</sup>. It includes 17 different schemes in 7 regions; the highest share of space under construction is currently in Central Bohemia with approximately 43,000 m<sup>2</sup>, followed by the Greater Prague, Brno and Pilsen regions.

- In Q1 2014, the vacancy rate in the Czech Republic increased to 8.2 % (+ 22 bps q-o-q). In Greater Prague, the opposite trend has been registered. The vacancy rate decreased in the capital city, both quarterly and annually to 7.8 % (-121 bps q-o-q). The trend of decreasing available space in Prague has been observed since Q2 2013.
- In Q1 2014, prime headline rents in Prague remained stable at €3.80 - 4.25 m<sup>2</sup>/month. Prime rents in the Brno region are currently at €3.90 - 4.25 m<sup>2</sup>/month. Built-to-suit developments command higher rents than those quoted, especially when situated in locations with limited competition.

### Residential

- In 2013, the trend of subdued new development continued with only 3,620 apartments in 59 projects being commenced in Prague. This represents an approximate 13 % decline compared to 2012. For 2014, ca. 4,000 apartments are planned to be commenced. In 2013, we have recorded the completion of 3,950 units in apartment buildings and villa houses in Prague. Compared to the previous year, this is a decrease of 10 %.
- Currently, there are more than 5,500 apartments under construction in Prague, with completion expected mainly in 2014. Once again Prague 9 and Prague 10 are dominating these statistics with almost 50 % of all apartments under construction being located in these two districts.
- The trend of strong demand from the second half of 2012 and first half of 2013, continued throughout the rest of 2013. In total, 2,577 units were sold in new apartment buildings and villa houses in the second half of 2013. Unsurprisingly, the largest volume of sold apartments was recorded in Prague 9 and Prague 10, which altogether accounted for almost 1,400 apartments. In 2013, a total of almost 5,100 units were sold, representing a 10 % increase compared to 2012.
- While in mid-2013 there were 6,066 apartments available on the market, it had reached 6,391 units at the end of the year. The largest increase was recorded within projects under construction. Nevertheless the total volume is still significantly low compared to the years 2010 and 2011.
- At the end of 2013, the weighted average price slightly increased to CZK 51,393 per sqm. The range among the districts is obviously relatively wide and the district average price levels range from CZK 43,350 per sqm of inner area (excl. VAT) in Prague 9, to CZK 160,500 per sqm of inner area (excl. VAT) in the city centre.

Source: Jones Lang LaSalle



"2014 is seeing positive changes on various fronts; the number of new office buildings and projects under speculative development has grown compared to last year (58,000 m<sup>2</sup>) and will reach ca. 160,000 m<sup>2</sup> to be completed and delivered in 2014. This will represent a 176 % year-on-year increase. We also see new businesses entering the market and investors have included Czech Republic back on their radar screens. The first half of 2014 continued to show increasing levels of investor activity, following on from the second half of 2013. With the large number of transactions under offer and/or in various stages of marketing, we predict 2014 to have the potential to record similarly high volumes of transactional activity as 2011 (€2.06bn) or even 2007 (€2.89bn). Overall, we see the Czech Republic slowly but surely picking up with positive signs of recovery and economic growth and most importantly winning back the businesses' confidence in the market."

Tewfik Sabongui, Managing Director, Jones Lang LaSalle Czech Republic

## 13 ENERGY

### Energy market

- The Czech electricity and gas market is fully liberalized. All households and companies are eligible customers with the right to select their own electricity and gas supplier.
- Power electricity and gas prices in the Czech Republic are strongly influenced by the price level in Germany.
- Decline in the installed capacity of fossil fuel plants due to ending life time will require new investments in conventional generation capacity.
- Highly subsidized renewable sources in the Czech Republic and Germany which have also minor operating costs triggered persistent low market prices of power electricity. This creates a difficult market situation for investments into the new traditional generation capacities.

### Expected trends

- Adoption of EU legislative enabling a drop in the support for renewable sources to offset the consequences of subsidies and thus improve the market conditions for traditional sources companies.
- The motivation for new investments into traditional energy sources will be probably solved by restructuring of the energy market and introduction of a new compensation mechanisms such as capacity payments.
- Increased regulatory powers in respect of market transparency and the monitoring of transactions with energy commodities and their derivatives.
- Projects increasing energy efficiency may be co-financed by the government subsidy programs from 2015 onwards in order to comply with the directive EU 27/2012 concerning energy efficiency. Government has prepared up to 100 billion CZK until 2020 for this program.

Source: EY

Electricity export and import (TWh)	2009	2010	2011	2012	2013
Export 110, 220, 400 kV	-24.2	-26	-31.1	-27.4	-27.7
Import 110, 220, 400 kV	10.5	11.1	14.1	10.3	10.8
<b>Balance</b>	<b>-13.7</b>	<b>-14.9</b>	<b>-17</b>	<b>-17.1</b>	<b>-16.8</b>

Source: Energy Regulatory Office



“Czech electricity prices depend on traditional market demand and supply, and meanwhile supply in Central Europe continues to grow due to investment subsidies in renewable sources, the demand-side expectations are not very promising. Together with the trend in emission allowances market which fails to function during economic recession, I presume we cannot expect any significant growth in electricity prices in the near future.”

Blahoslav Němeček, Senior manager of Excellence Regulatory Center in EY

### Structure of energy production (%)

	2011	2012	2013
Thermal	57.10	53.97	51.38
CCGT + SCGT	4.50	5.06	6.05
Hydro	3.20	3.38	4.32
Nuclear	32.30	34.63	35.31
Wind	0.50	0.48	0.55
Solar	2.40	2.48	2.37

Source: Energy Regulatory Office

### Structure of renewable electricity production 2011-2013 (%)

	2011	2012	2013
Hydro	47.7	26.7	29.6
Wind	5.7	5.2	5.2
Solar	10.5	26.7	21.9
Biomass	25.9	22.6	18.0
Biogas and Landfill gas	10.2	18.5	24.2

Source: Energy Regulatory Office

Annual electricity consumption among industry sector 2012-2013	2012 (GWh)	2012 (%)	2013 (GWh)	2013 (%)
Industry	24,064	34.16	23,587	33.61
Energy Industries	12,571	17.84	12,213	17.40
Transportation	3,151	4.47	3,294	4.69
Construction	349	0.50	326	0.46
Agriculture	1,240	1.76	1,216	1.73
Households	14,609	20.74	14,732	20.99
Services	6,674	9.47	6,831	9.73
Others	11,430	11.06	7,978	11.36
<b>Total</b>	<b>70,453</b>	<b>100.00</b>	<b>70,177</b>	<b>100.00</b>

Source: Energy Regulatory Office

## 14 EDUCATION

The Czech Republic combines an outstanding level of general education. Technical education in the Czech Republic has a long tradition and enjoys a strong reputation around the world. The availability of technically educated graduates at a fraction of the cost of western labor creates a perfect environment for both manufacturing and R&D-oriented companies. About one-third of Czech students study economics, finance or IT. According to the last Eurobarometer survey, 80 % of Czechs are able to speak a foreign language (predominantly English or German).

Source: CzechInvest

Graduates	2011	2012	2013
Public Universities	76,640	76,858	76,554
Private Universities	16,347	17,091	15,006

Source: Ministry of Education, Youth and Sport

Public universities in the Czech Republic	Number of students (Academic year 2012/2013)	Number of students (Winter semester 2013/2014)
Charles University in Prague	48,487	48,200
Masaryk University in Brno	39,983	37,351
Czech Technical University in Prague	21,401	21,542
Technical University in Ostrava	20,538	19,237
Brno University of Technology	22,319	22,319
Palacky University in Olomouc	21,717	21,316

Source: Ministry of Education, Youth and Sport

## 14 EDUCATION

Economically Active Population According to Education (Q1 2014)	In thousands	Share (%)
No education and Elementary school	1,283.6	14.4
Vocational school	3,087.0	34.6
Secondary school	3,032.8	34.0
University education	1,516.2	17.0

Source: Czech Statistical Office

University students	2009/2010	2010/2011	2011/2012	2012/2013
University Students total	389,044	396,047	392,176	381,272
Public Universities	332,455	338,660	338,388	332,880
Private Universities	56,589	57,387	53,788	48,392

Source: Czech Statistical Office

## 15 HEALTHCARE

On 2 July 2014 government has adopted an amendment that abolishes fees for visiting a doctor, with the exception of 90 CZK payment for emergency.

Healthcare services are paid for by one of the public health insurance companies. All individuals have to have insurance – it is mandatory and no qualifying individual can be denied coverage by a public health insurance company. In the case of an employment relationship, the employer pays for the health insurance at the rate of 13.5 % of the calculated base income (of which one third is paid by the employee and two thirds by the employer). In certain cases, the insurance premiums are paid for by the state (dependent children, pensioners, etc.).

Source: Ministry of Health

International Comparison of expenditure on healthcare	Public expenditure on healthcare as % of total	Total expenditure on healthcare as % of GDP	Total Health Care expenditure per capita, USD PPP
CZECH REPUBLIC	84,2	7,5	1,966.0
United Kingdom	82,8	9,4	3,405.5
Poland	70,3	6,9	1,452.4
Austria	76,2	10,8	4,546.4
Germany	76,5	11,3	4,494.7
Hungary	65,0	7,8	1,682.7
Slovakia	73,3	7,9	1,914.9

Source: OECD Health Data 2013

Czech Health Statistics	
Number of hospital beds (per 1000)	6.8
Average Life Expectancy	78 years

Source: OECD Health Data 2013

The Czech healthcare system includes a diversity of provision, with mainly private ambulatory care providers and public hospitals which have contractual arrangements with the insurance fund; and joint negotiations among key players on coverage and reimbursement issues. Providers are paid based on various schemes, with DRG-based schemes having increasing presence.

Prague and other cities have a growing range of private international clinics.

There is a strong pressure for healthcare system reforms due to public budget constraints, an aging population and technological development.

Source: KPMG

Expenditures on healthcare according to sources of financing as % of total expenditures on healthcare	
Public insurance	77.8
Public budgets	6.1
Private expenditures	15.9

Source: Czech Statistical Office



*“To improve healthcare increasing attention must be paid to gaining control over quality by making care safe, effective, timely and centered on patient needs. A strong focus on quality care will raise clinical standards and reduce costs. Systematic measurement of quality is in the best interest of patients, professionals, providers and those paying for and regulating care. That’s why I consider it one of the most important tasks of Czech healthcare in the near future.”*

František Dostálek, Chairman and CEO,  
KPMG Central & Eastern Europe

## 16 TRANSPORT

- With the very good location in the middle of Europe the Czech Republic (mainly Prague) belongs to the most attractive countries for foreign investors. The significance of the transport infrastructure has been increased after entry of the Czech Republic in to EU in 2004.
- The motorways and trunk roads carry the largest proportion of transportation and connect the most important political, economic and recreational centres. With a density of 0,70 km of roads and motorways per 1 km<sup>2</sup> the Czech Republic ranks among the leading European countries.
- Modernization of D1 motorway, which is the busiest road in the Czech Republic connecting Prague, Brno and Ostrava, started in May 2013. The daily traffic flow on D1 motorway totals 100,000 vehicles. The modernization shall bring improvement of the road’s technical condition, but also cost savings in the long-term. The planned process of modernization should last until 2019-2020.
- There are 4 important airports: Prague, Brno, Ostrava and Karlovy Vary. Václav Havel Airport Prague is the busiest and operates flights to the main important business destinations. It is located 17 km northwest of Prague city center. In 2013 it processed 11 million passengers.
- 52 airlines provided regularly scheduled flights to a total of 118 destinations in 2013. The favourite passenger destinations were Great Britain, Russia, Germany, France and Italy. The TOP 5 airports with the highest number of connections from Václav Havel Airport Prague traditionally include Paris/ Charles de Gaulle with 66 flights per week, Moscow with 59 flights, Frankfurt with 52 flights, Amsterdam with 48 flights and Warsaw with 41 flights per week. From the standpoint of destinations offered, first place goes to Russia and Italy with 12 destinations each and Great Britain with ten destinations.
- The Czech Republic has a wide railway network providing a good connection between cities within the country and Europe (avg. train travel time from Prague to Vienna is 4 hours, to Berlin 5 hours).

Source: Ministry of Transport



## 17 TOURISM

The Czech Republic offers tourist and business people a colorful variety of landscapes and activities. Prague has one of the few remaining living historical centers, a vibrant cultural community and a modern conference infrastructure. The countryside is dotted with castles and ancient chateaux, and criss-crossed with hiking, biking and ski routes.

- Information on the options available for tourists in the Czech Republic: [www.czechtourism.com](http://www.czechtourism.com) and [www.kudyznudy.cz](http://www.kudyznudy.cz)
- Calendar of events throughout the year in Prague: [www.pragueeventscalendar.cz](http://www.pragueeventscalendar.cz)
- Interested in organizing an event in Prague?: [www.pragueconvention.cz](http://www.pragueconvention.cz)

### Occupancy in collective accommodation establishments (number of guests)

	2009	2010	2011	2012	2013
Residents	5,953,539	5,877,882	6,183,645	6,482,337	6,558,480
Non-Residents	6,032,370	6,333,996	6,715,067	7,164,576	7,309,856
<b>Total</b>	<b>11,985,909</b>	<b>12,211,878</b>	<b>12,898,712</b>	<b>13,646,913</b>	<b>13,868,336</b>

Source: Czech Statistical Office



*"The Prague hotel scene has witnessed an increasing occupancy since the crisis, however, on the account of the average spent per night with no win for the hoteliers. Clients continue to focus more on value for money whilst at the same time being more experienced and requiring seamless service. We see a vast growing digital media influence when it comes to decision making and sharing with others. These trends are likely to continue in the near future and our industry has to be prepared for this. We go away from the traditional traveller into the new digital one."*

Michael Specking, Cluster General Manager  
Hilton Prague & Hilton Prague Old Town

### Foreign guests, 2013

Germany	1,484,169
Russia	803,152
Poland	424,402
USA	413,085
UK	379,373
Italy	357,099

Source: Czech Statistical Office

## 18 REGIONS

Region	Website	Regional Capital	Area (km <sup>2</sup> )	Region Population (2013)	Unemployment rate % (2013)	Share of national GDP % (2013)	Public (private) universities (2013)	Average monthly wage in CZK (2013)	Number of economic entities (March 2013)	Number of Non-Czech nationals
Prague	<a href="http://www.praha-mesto.cz">www.praha-mesto.cz</a>	Prague	496	1,243,201	4.1	24.7	9 (25)	32,879	540,360	162,715
Central Bohemia	<a href="http://www.kr-stredocesky.cz">www.kr-stredocesky.cz</a>	Prague	11,015	1,297,209	6.9	10.9	0 (2)	23,890	314,688	56,810
South Bohemia	<a href="http://www.kraj-jihocesky.cz">www.kraj-jihocesky.cz</a>	České Budějovice	10,057	636,707	7.1	5.2	2 (2)	21,712	159,363	14,838
Pilsen	<a href="http://www.kr-plzensky.cz">www.kr-plzensky.cz</a>	Pilsen	7,561	573,469	6.4	4.8	1 (0)	23,095	141,202	23,866
Karlovy Vary	<a href="http://www.kr-karlovarsky.cz">www.kr-karlovarsky.cz</a>	Karlovy Vary	3,315	300,309	9.3	2.0	0 (1)	20,095	76,802	19,411
Ústí nad Labem	<a href="http://www.kr-ustecky.cz">www.kr-ustecky.cz</a>	Ústí nad Labem	5,335	825,120	11.5	6.3	1 (1)	21,867	172,030	30,607
Liberec	<a href="http://www.kraj-lbc.cz">www.kraj-lbc.cz</a>	Liberec	3,163	438,609	8.5	3.2	1 (0)	22,117	114,472	16,604
Hradec Králové	<a href="http://www.kr-kralovehradecky.cz">www.kr-kralovehradecky.cz</a>	Hradec Králové	4,758	551,909	7.3	4.5	1 (0)	21,978	133,970	14,078
Pardubice	<a href="http://www.pardubickykraj.cz">www.pardubickykraj.cz</a>	Pardubice	4,519	515,985	7.4	3.9	1 (0)	21,317	115,116	11,115
Vysočina	<a href="http://www.kr-vysocina.cz">www.kr-vysocina.cz</a>	Jihlava	6,925	510,209	8.0	4.1	1 (1)	21,636	107,395	7,752
South Moravia	<a href="http://www.kr-jihomoravsky.cz">www.kr-jihomoravsky.cz</a>	Brno	7,066	1,170,078	8.9	10.5	6 (7)	23,216	295,523	36,690
Olomouc	<a href="http://www.kr-olomoucky.cz">www.kr-olomoucky.cz</a>	Olomouc	5,159	636,356	9.8	4.7	1 (2)	21,656	137,119	9,807
Zlín	<a href="http://www.kr-zlinsky.cz">www.kr-zlinsky.cz</a>	Zlín	3,964	586,299	8.3	4.9	1 (1)	21,368	138,197	7,968
Moravia - Silesia	<a href="http://www.kr-moravskoslezsky.cz">www.kr-moravskoslezsky.cz</a>	Ostrava	5,535	1,221,832	10.5	10.2	3 (2)	22,377	248,500	23,117
<b>Total</b>				<b>10,507,292</b>					<b>2,694,737</b>	<b>435,378</b>

Source: Czech Statistical Office

## 19 USEFUL INFORMATION

Short-stay visas	Long-stay visas
<p><b>1. Airport transit visa – type A</b></p> <p><b>2. Short-stay visa up to 90 days – type C</b></p> <ul style="list-style-type: none"> <li>• for the purpose of tourism</li> <li>• for the purpose of visit (invitation)</li> <li>• for the purpose of culture</li> <li>• for the purpose of sport</li> <li>• for the purpose of study</li> <li>• for the purpose of employment</li> <li>• for the purpose of scientific research</li> <li>• for the purpose of business journey</li> <li>• for the official/political purpose</li> </ul>	<p><b>1. A visa for stay over 90 days granted for purposes of stay – type D</b></p> <ul style="list-style-type: none"> <li>• for the purpose of entrepreneurship</li> <li>• for the purpose of participation in a legal entity (managerial position)</li> <li>• for the purpose of study</li> <li>• for the purpose of scientific research</li> <li>• for the purpose of family unification</li> <li>• for the purpose of sport</li> <li>• for the purpose of medical treatment</li> <li>• for the purpose of collection of green/blue card/long-term residence/permanent residence permit</li> </ul>

Source: PwC

### Business Hours

- Government and offices: Monday to Friday 8.00 – 17.00
- Banks: Monday to Friday 8.00 – 17.30
- Shops: Monday to Friday 8.00 – 18.00, on Saturdays 8.00 – 12.00
- Major shopping centers: all weekdays 9.00 – 21.00

### Weather/Climate

- Temperate climate with characteristically mild spring, warm, sometimes humid summers, cool autumns and cold winters with moderate precipitation.

### National Holidays in 2014/2015

January 1st (New Year's Day), April 21st, 2014/April 6, 2015 (Easter Monday), May 1st (Labor Day), May 8th (National Liberation Day), July 5th (Constantine and Methodius), July 6th (Jan Hus Day), September 28th (St. Wenceslas Day), October 28th (Foundation of the independent Czechoslovak State), November 17th (Struggle for Freedom and Democracy Day), December 24th-26th (Christmas).

Source: www.czech.cz

### Main Sources:

AmCham, CzechInvest, Czech Statistical Office, Czech National Bank, Czech Top 100, Czech Tourism, Energy Regulatory Office, EY, European Central Bank, Eurostat, Chamber of Deputies, ING, Jones Lang LaSalle, KPMG, McDonalds, Ministry of Education, Youth and Sport, Ministry of Finance, Ministry of Industry and Trade, Ministry of Labor and Social Affairs, OECD, Office of the Government of the Czech Republic, Prague Stock Exchange, PricewaterhouseCoopers, Roads and Motorways in the Czech Republic, Václav Havel Airport Prague, Vodafone, Weinhold Legal, World Economic Forum, www.czech.cz.

Other useful data available on [www.czechmarketplace.cz](http://www.czechmarketplace.cz) - Business news portal of AmCham member companies.

Every effort was made to verify the data used. Information is subject to change. The American Chamber of Commerce is not responsible for any inaccuracy or subsequent adjustment in the data found in this document.

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An underwater photograph of a swimming pool. A swimmer is visible in the center, moving from right to left. The water is a deep blue-green color. Lane lines are visible, and the tiled walls of the pool are seen in the background. The lighting is bright, creating ripples and bubbles in the water.

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