

**Edition 2020**

# **BUSINESS GUIDEBOOK**

## **Czech Republic**

The Country for Investment in Challenging Times



## Association for Foreign Investment

is a non-governmental, non-profit organisation established by a group of leading global and regional firms with key competences in supporting new and existing investors in all areas of their activities and actively promoting the Czech Republic as an investment destination of choice. The AFI has been actively assisting investors since 1996 and cooperates closely with the Czech government, CzechInvest – Business and Investment Development Agency and all relevant public authorities.

### Contact the AFI for more information



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## How we help investors

Expert support for investors and exporters in all key phases of investment decision-making and implementation:

- Support in the area of country comparison and the selection process
- General information relating to the country and investment environment
- Advice on site selection
- Comprehensive services related to getting established on the market
- Necessary information from all sectors of the economy („doing business“, analyses)
- Organisation of investors' visits to Czech Republic
- Personal consultation
- Mediation of contacts with business partners and other relevant entities on the market
- Facilitation of contact with the public sector, the academic sphere and science and research organisations
- Expert support in the area of visas and work permits
- M&A advisory, target selection

AFI Main Partner



AFI Patron



AFI Supporting Partner





# BUSINESS GUIDEBOOK

Czech Republic  
The Country for Investment in Challenging Times  
Edition 2020



This is the fifth edition of the publication Business Guidebook: Czech Republic – The Country for Investment in Challenging Times, which was first issued in connection with the AFI's 20th anniversary at the beginning of 2016. The purpose of this guidebook is to provide newly incoming and existing businesses with comprehensive information about investing in the Czech Republic. The authors of the individual articles come mostly from the ranks of AFI members and are leading experts in their respective fields.

## Forewords

**Andrej Babiš, Prime Minister of the Czech Republic**  
**Kamil Blažek, Chairman, Association for Foreign Investment**  
**Martin Tlapa, Deputy Minister of Foreign Affairs**  
**Patrik Reichl, CEO, CzechInvest**

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CzechInvest

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CzechInvest

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CzechInvest

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Bilfinger Tebodin Czech Republic, s.r.o.

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Enviros

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*Andrej Babiš*  
*Prime Minister of the Czech Republic*

## Dear Readers,

Creativity is one of the core values of the Czech Republic and its people, whose ideas and contributions are firmly embedded in many products around the globe, from cybersecurity software to machine tools; from bio- and nanotechnology to water turbines and the automotive and aircraft industries. The range of local activities is broad and highly diversified. We greatly appreciate the talents of the Czechs who help grow many global brands, as well as the companies that have chosen the Czech Republic as the location of their manufacturing facilities, R&D centres and outsourced operations or as their tax seat.

The Czech Republic has long been attractive for foreign investments thanks to its perfect combination of a flexible, innovative culture and a highly skilled and educated workforce. With an Aa3 rating from Moody's Analytics and its seventh-place ranking in the global Sustainable Development Goals Index, the country is an island of political and economic stability at the forefront of the CEE region. In short, the Czech Republic is a unique environment for investors.

The government's top priority is to foster further innovation-driven economic and social growth.

The Innovation Strategy of the Czech Republic 2019-2030 is a crucial part of this effort. Closer cooperation between local and foreign experts and between the private and public sectors promotes locally based enterprises and research initiatives, which in turn promote growth and development across the whole Czech economy and society.

We see investments as the perfect opportunity for the introduction of new technologies, as well as for the establishment of stable partnerships between the private sector and R&D facilities. We especially envisage such development taking place in the fields of Industry 4.0, artificial intelligence, cybersecurity, advanced materials and advanced engineering. In all of these areas, partnerships between universities, research organisations and medium-sized and large companies have proven functional, efficient and reliable.

I would like to take this opportunity to draw your attention to – among other forms of support for locally conducted R&D – the tax deduction for research and development expenditures. In conjunction with the recently amended Investment Incentives Act, it could make the Czech Republic your best choice for investments in developing new technologies.

I truly believe that you will see the Czech Republic as the Country for the Future.



Kamil Blažek

Chairman, Association for Foreign Investment

## Dear Readers,

I have the greatest pleasure of bringing you the fifth edition of a very special publication: *Business Guidebook: Czech Republic – The Country for Investment in Challenging Times*. This guidebook presents contributions of leading experts in each of their respective fields in the Czech Republic. Our aim is to showcase the Czech Republic as a destination in Europe that provides the ideal mix of good return on investment, reasonable costs, strong ideas, potential for future development, superb human capital and an enthusiastic working environment, and as a place where it is fun to live and start a business. All that even in times of major changes and challenges. The year 2020 began with an unexpected pandemic that is not only a global humanitarian and health catastrophe, but also brought about huge economic impacts of a short-, medium- and long-term nature. The next two years, 2020 and 2021, will be marked by recovery from a recession or even an economic crisis that will diminish global investment activity and undermine investors' confidence over a large part of 2020. However, this Guidebook is here to bring you good news. As much as I do not aspire to predict the future, I have a few good arguments as to why the Czech Republic will continue to succeed as a safe place for investment for both Czech and international investors. Our well-educated people, institutional and political stability, excellent access to major European markets, safe environment and high quality of living – none of that has disappeared, nor will any of it disappear any time soon. All of these factors will still be here to ensure a stable return on your existing or future investment, which is something that you may not see in many other countries. Also, at this time of expected deglobalisation of supply chains,

the Czech Republic ticks all of the boxes as a target for new investment within the EU. For all of these reasons, I remain optimistic about our future and your future with us as well. Our Association for Foreign Investment will be here to help you succeed.

The Association for Foreign Investment (AFI) is a non-governmental non-profit organisation which was established on 1 January 1996. I am very pleased that it is still thriving twenty-four years later and that it has become the first point of contact for foreign investors in the Czech Republic. We are ready and able to help all new and existing investors to enter the Czech market and orientate them in the local environment and to provide them with assistance if and when it is needed. Our members are leading international and Czech companies that provide a comprehensive range of services for investors on the Czech market, as well as for Czech investors abroad. In conducting our activities, we closely cooperate with CzechInvest, the Ministry of Industry and Trade, the Ministry of Foreign Affairs and other public and private institutions in the Czech Republic and abroad.

Finally, I would like to thank everyone who played a role in creating this publication, as well as all of the current members and partners of the AFI, CzechInvest, the Ministry of Foreign Affairs and all of the non-governmental organisations that have long collaborated with us and helped us to prepare this publication. We highly value your support.

I am convinced that this unique guidebook will serve as a trustworthy source of information that you find useful in your strategic decision-making. We will welcome your feedback, opinions and suggestions on how to improve it. Please get back to me at [kamil.blazek@afi.cz](mailto:kamil.blazek@afi.cz) with any ideas or comments you may have regarding this guidebook or the topics covered or not covered in it.



*Martin Tlapa*  
*Deputy Minister of Foreign Affairs*

## Dear Readers,

Since the beginning of our modern history, the Czech Republic has been a safe place for your investments in the heart of Europe. Furthermore, according to the World Peace Index, the Czech Republic is the tenth safest country in the world.

In the last two years, we celebrated many important milestones – 2018 brought the centennial celebrations of the founding of Czechoslovakia and 2019 marked 30 years since the Velvet Revolution, the twentieth anniversary of Czech Republic's membership in NATO and the fifteenth anniversary of the country's accession to the European Union. However, as important as it is to remind ourselves of our history and celebrate milestones, it is also necessary to look to the future. The Czech Republic is a modern export-oriented economy with a very good industrial base. Our companies and their products are innovative, high-tech and of excellent quality. Whether we are talking about smart city systems, transport infrastructure, electron microscopes or the ability to build turnkey hospitals, it is clear that our companies are manufacturing tremendous products.

We should take advantage of our ongoing industrial tradition, innovative endeavours and location in Central Europe. We are already proving that we have the potential to become an innovation leader.

The brand Czech Republic: The Country for the Future promotes our country as a land of scientific potential, well-developed industry connected to research in many fields, and smart, imaginative and well-educated people. I could not agree more.

In 2019, our economy reached CZK 4.5 trillion (approx. EUR 0.18 trillion) in exports for the first time. We continue to have stable economic growth (approx. 2.5%) and one of the lowest unemployment rates in Europe (2.9%). It is also necessary to mention that the Czech Republic was the first from the group of Central and Eastern European countries to be admitted to the OECD. The Czech Republic ranks 32<sup>nd</sup> among 141 countries in the World Economic Forum's Global Competitiveness Index.

Of course, these are just a few of many variables that need to be considered by potential foreign investors before making their decisions.

The Ministry of Foreign Affairs has been working hard to build modern and efficient economic diplomacy that has the capacity to facilitate meaningful cooperation among governmental and non-governmental actors and to help Czech companies abroad. This collaborative environment is helping us to achieve our goals in the field of international business. I would like to stress that the Ministry of Foreign Affairs appreciates the work of the AFI, CzechInvest and other institutions supporting companies based in the Czech Republic, and we are looking forward to another successful year.



*Patrik Reichl*  
CEO, CzechInvest

## Dear Readers,

The year 2020 symbolically closes not only a calendar decade, but also a phase of our country's economic development. In the past decade, we have made tremendous strides in the area of technological development, thus increasing the innovation and export potential primarily of small and medium-sized companies. However, that is not the end, but rather the beginning of another phase of growth. With its new Strategy 2019+, CzechInvest is facing the enormous challenge of how to manage and exploit this potential in order to put the Czech Republic in the best possible position within the global economy.

Strategy 2019+ contains 25 key measures through which CzechInvest intends to operate in the areas of support for the business environment, the start-up and spin-off scene, support for the innovation activities of Czech SMEs and support for the growth of smart investments, both foreign and domestic. The topic of invest-

ments, particularly foreign direct investments, is worthy of a new debate and deserves to be defended not only before the expert public. It is necessary to realise that without the inflow of FDI to the target country, economic decline will gradually occur. If a country is not an interesting destination for foreign investments, that is clearly and demonstrably an indication that its economy is not healthy.

Economic theory and experience have clearly shown that investments are the bearer of economic growth. Therefore, CzechInvest has set for itself the goal of "rehabilitating" the topic of foreign and domestic investments in the Czech Republic. It is clear that the economic situation in the Czech Republic has changed dramatically over the past decade and that investments must be aimed at new objectives. Foreign investments must flow into the Czech Republic for different reasons than before.

CzechInvest will now strive to focus all of its efforts on making the next decade at least as successful as the previous one. I wish you pleasant reading.

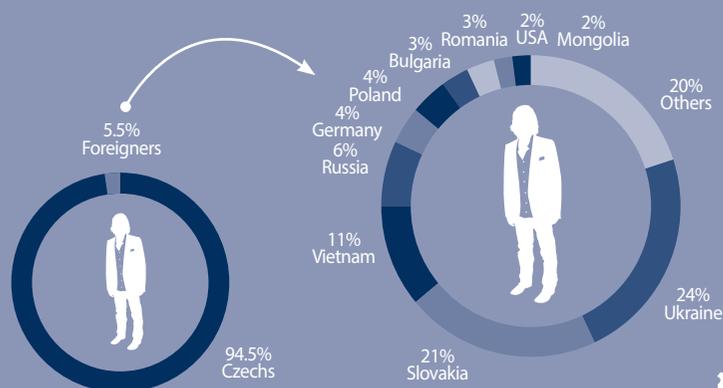
# The Czech Republic

## Location



**10.6 mil**  
Population

**78.866 km<sup>2</sup>**  
Area



Note: Percentage of foreigners in total population  
Source: Directorate of Alien Police Service, September 2019

Note: Percentage of foreigners, by citizenship  
Source: Directorate of Alien Police Service, September 2019



## Recent history

### Velvet Revolution

In November and December 1989 the people of Czechoslovakia held a series of non-violent demonstrations against the communist government, which resulted in the regime's collapse. The leading figure of the events, Václav Havel, was later named the first president of the free, post-communist Czechoslovakia.

### Velvet Divorce

The federated Czechoslovakia was divided into the Czech Republic and Slovakia on 1 January 1993 through a bilateral political decision. Due to the peaceful course of the breakup, the event was called the Velvet Divorce.

### Accession to NATO

The Czech Republic became a member of NATO in 1999.

### Accession to the EU

The Czech Republic joined the European Union in 2004.

1989

1993

1999

2004

## Politics



Miloš Zeman  
President

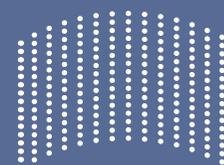


Andrej Babiš  
Prime Minister



Government

**14**  
members



Chamber of Deputies  
200 members/4 years

**200**  
members

**4**  
years



Senate  
81 members/6 years

**81**  
members

**6**  
years

## Economy

**2.5%**



**GDP growth:** The gross domestic product increased in the Q3 2019 by 2.5% year-on-year.

**32<sup>th</sup>**



**The 32<sup>th</sup> most competitive country in the world** according to the Global Competitiveness Index, 2019. The Czech Republic is also among the most competitive countries in the CEE region.

## Industry

**24.9%**



**Industry's share in the economy:** The Czech Republic is one of the most industrialised countries in the European Union. Industry accounts for 24.9% of the commercial economy.

## Quality of life

**10<sup>th</sup>**



**The 10<sup>th</sup> safest country in the world** according to the Global Peace Index 2019.

**1<sup>st</sup>**

**The 1<sup>st</sup> happiest country among the newer EU member countries** according to World Happiness Report issued by the United Nations, 2019.

# Quick facts about the Czech Republic





# The Czech Republic – Heart of Europe

## Basic data

|                         |                        |
|-------------------------|------------------------|
| <b>Area</b>             | 78,866 km <sup>2</sup> |
| <b>Population</b>       | 10.6 million           |
| <b>Workforce</b>        | 6.8 million            |
| <b>Capital</b>          | Prague                 |
| <b>Language</b>         | Czech                  |
| <b>Currency</b>         | Czech koruna (CZK)     |
| <b>Political system</b> | Parliamentary republic |

### Location

The Czech Republic is a landlocked country in the middle of Europe. It is bordered by Germany to the west, Poland to the north, Slovakia to the east and Austria to the south.

Thanks to its location, which makes it a notional gateway between Western and Eastern Europe, the country is often referred to as the “Heart of Europe”. The Czech Republic is comprised of parts of historical territories which for a significant part of history were the Lands of the Bohemian Crown, namely Bohemia, Moravia and part of Silesia. Administratively, the country is divided into 14 self-governing regions. The capital city, Prague, is also one of the regions. Approximately 10.6 million people live in the Czech Republic. The population of Prague is 1.3 million. With 381,000 inhabitants, Brno is the country’s second most populous city and is the natural centre of Moravia. The main city in Silesia, Ostrava, is the country’s third-biggest with a population of 289,000. The Czech Republic’s landscape comprises mainly highlands and rolling hills. Sixty-seven percent of the country’s territory is at an elevation of up to 500 m above sea level, 32% in the range from 500

to 1,000 m above sea level and approximately 1% above 1,000 m above sea level. The country’s highest point is Sněžka Mountain in the Krkonoše range (1,603 m above sea level), and its lowest is Hřensko (115 m above sea level).

### Modern history

From the 16<sup>th</sup> century, the Czech lands were ruled by the Habsburg dynasty, which gradually incorporated the territory into the Habsburg monarchy, later the Austro-Hungarian Empire. In response to Germanification, the Czech national revival began at the end of the 18<sup>th</sup> century as an effort to restore Czech culture and language and, later, to foster the acquisition of power by Czech political parties. The Czech lands underwent major economic development in the second half of the 19<sup>th</sup> century. The majority (approximately 70%) of industry in Austria-Hungary at the time was concentrated in the Czech lands. At the end of the First World War, Czechoslovakia was established through the joining of the Czech lands with the geographically and linguistically close Slovak nation. Tomáš Garrigue Masaryk was elected the first president of Czechoslovakia. During the interwar period from 1918 to 1938,

Czechoslovakia became the last remaining democracy in Central Europe and enjoyed a rich industrial heritage and high quality of life. The Communist Party of Czechoslovakia seized power in February 1948. The country became

### The Czech Republic is a member of these organisations

- United Nations
- European Union
- NATO
- Organisation for Economic Cooperation and Development
- World Trade Organisation
- International Monetary Fund
- World Bank
- Council of Europe
- Organisation for Security and Cooperation in Europe
- European Customs Union
- Schengen Agreement
- Visegrad Group

### Economy of the Czech Republic

|                                      |                                |
|--------------------------------------|--------------------------------|
| Inflation (12/2019)                  | 2.8%                           |
| Unemployment rate (12/2019)          | 2.9%                           |
| Average gross monthly wage (Q3/2019) | CZK 33,697 (approx. EUR 1,336) |
| GDP growth (Q3/2019)                 | 2.5%                           |

Source: Czech Statistical Office, 2019

a totalitarian state and part of the Eastern Bloc. The structures of civil society, free association and economic life were suppressed. The end of the 1950s saw the start of a gradual liberalisation, which came to an end on 21 August 1968, when an invasion by the Soviet Union and other Warsaw Pact countries crushed the reform movement known as the Prague Spring. The Velvet Revolution, which began on 17 November 1989, overthrew the communist regime and enabled the return of democracy and restoration of free enterprise. Václav Havel became the first president of the free, post-communist Czechoslovakia. On 1 January 1993, the Czechoslovak Federative Republic was dissolved through a bilateral political agreement, the result of which was the establishment of two independent successor states: the Czech Republic and Slovakia. The Czech Republic was gradually accepted into Western European political structures, joining NATO in 1999 and the European Union in 2004. It has been part of the Schengen Area since 2007.

### Political system

The Czech Republic was established on 1 January 1993 in connection with the dissolution of Czechoslovakia. Since that date, the country has had a constitution according to which it is a parliamentary democracy with a liberal political system based on free competition of political parties and movements. The head of state is the country's president, whereas the supreme and only lawmaking body is the Parliament of the Czech Republic.

Parliament is a bicameral body composed of the Chamber of Deputies and the Senate. The Chamber of Deputies has 200 members elected every four years on the basis of proportional representation. The Senate's 81 members serve six-year terms, with two-round majority elections held for one-third of seats every two years. The president and the government (i.e. the prime minister and cabinet) hold executive power, whereas the government is the supreme executive body. The government is accountable to the Chamber of Deputies. The president, who is elected through direct voting, appoints the justices of the Constitutional Court with the consent of the Senate. Under certain conditions, the president can dissolve the Chamber of Deputies and veto bills. The president also names the prime minister, and other members of the government are named at his suggestion.

The Constitutional Court, with 15 justices, is the guarantor of constitutionality, ensures protection of fundamental rights and can repeal laws or provisions of laws. However, it is not part of the system of general courts. The Supreme Court is the highest body in civil and criminal justice as well as in the area of administrative adjudication.

### Economics

The Czech Republic is a developed country with a market economy. According to a number of economic, social and political indicators, it ranks among the world's most advanced countries. Since 2005, the Czech Republic has been part of the group of the thirty most advanced countries according to the World Bank, to whose budget it has become a contributor. The country is considered to have the most stable and most

### Motorway network in the Czech Republic



Source: Road and Motorway Directorate of the Czech Republic, 2019

## National holidays in the Czech Republic

|           |  |              |  |
|-----------|--|--------------|--|
| 1 January | New Year's Day, Restoration Day of the Independent Czech State | 28 September | Czech Statehood Day                    |
| Varies    | Good Friday, Easter Monday                                     | 28 October   | Independent Czechoslovak State Day     |
| 1 May     | Labour Day   | 17 November  | Struggle for Freedom and Democracy Day |
| 8 May     | Victory in Europe Day  | 24 December  | Christmas Eve                          |
| 5 July    | Day of Slavic Missionaries Cyril and Methodius                 | 25 December  | Christmas Day                          |
| 6 July    | Jan Hus Day  | 26 December  | St. Stephen's Day                      |

prosperous economy of all post-communist states. According to Eurostat, it was the sixteenth richest country of the European Union in 2018 in terms of per-capita GDP based on purchasing power parity. It was the most successful of the new EU members.

In 2019, industry accounted for 24.9% of the total economy. In 2018, 25.6% of all Czech employees were employed in industry. More than half of Czech industrial production is exported. The most important branch of Czech industry is vehicle manufacturing, including motorcycles and trailers, which has more than doubled in the past decade. The other main pillars of Czech industry are the mechanical-engineering, metals, chemical and food sectors. The energy, construction and consumer-goods industries are also important components of the Czech economy. Germany is the country's biggest foreign trade partner. The Czech Republic's currency is the koruna. Due to a foreign exchange intervention carried out by the Czech National Bank, the koruna-euro exchange rate is currently CZK 25,2/EUR 1. Upon accession to the European Union in 2004,

the country committed to adopting the single European currency.

The Czech Republic's national debt is low in comparison with that of other EU member countries. The development and current state of the country's finances are also judged favourably in comparison with other European countries. In August 2011, Standard & Poor's raised its rating of the Czech Republic by two places, from A to AA-, which is the fourth-best possible rating. At present, it can be stated that the Czech economy is in very good condition. The country's gross domestic product increased by 2.5% year on year in 2019. In the same period, gross value added increased by 3% year on year. The unemployment rate has also fallen, specifically to 2.2% in November 2019 and is the lowest in the whole European Union.

### Infrastructure

The Czech Republic has a well-developed network of motorways and expressways. The motorway network is under construction and is constantly being refurbished. The most significant motorway

## Investment risk rating

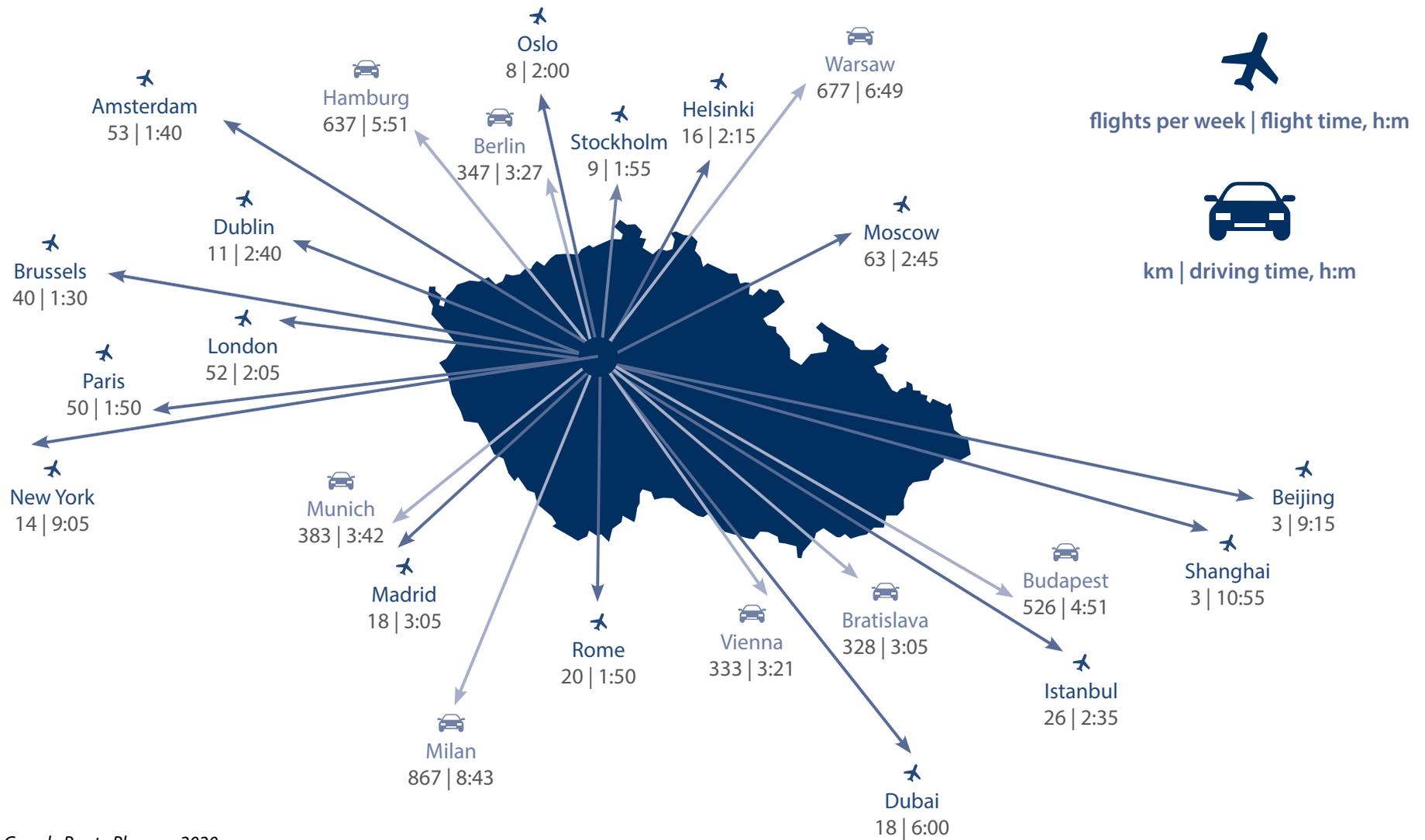
| Country               | Standard and Poor's | Moody's    | Fitch      |
|-----------------------|---------------------|------------|------------|
| <b>Czech Republic</b> | <b>AA-</b>          | <b>Aa3</b> | <b>AA-</b> |
| Slovak Republic       | A+                  | A2         | A+         |
| Poland                | A-                  | A2         | A-         |
| Russia                | BBB-                | Baa3       | BBB        |
| Bulgaria              | BBB-                | Baa2       | BBB        |
| Romania               | BBB-                | Baa3       | BBB-       |
| Hungary               | BBB                 | Baa3       | BBB        |

Source: Czech National Bank, 2019

in the Czech Republic is the D1 joining Prague and Brno with Ostrava and Poland (toward Katowice). In 2015, completion works began on the D1 motorway's next-to-last section, which should be finished within four years. Construction of another section of the D11 motorway is being under construction since 2017 with the purpose of connecting Hradec Králové and the Polish border. Another motorway under construction is the D3 linking Prague to České Budějovice and Austria; the D3 will follow the route of the E55 backbone international motorway. The country's motorways that have already been completed are the D2 connecting Brno and Slovakia (toward Bratislava) and the D5 connecting Prague, Plzeň and Germany (toward Nuremberg). The amount of goods transported on Czech roads and motorways in Q3 2019 was 370,639,000 tons according to statistics from the Ministry of Transport. Rail transport increased in Q3 2019 with the volume of transported goods by 1.1%. Together with road transport, rail transport in the Czech Republic makes up the backbone of the domestic transportation system while also serving for international transit. With 9,580 km of track, the Czech Republic has the densest rail network in Europe. The corridor routes of the nationwide lines leading to the European rail system for long-distance and transit service cover 1,402 km.

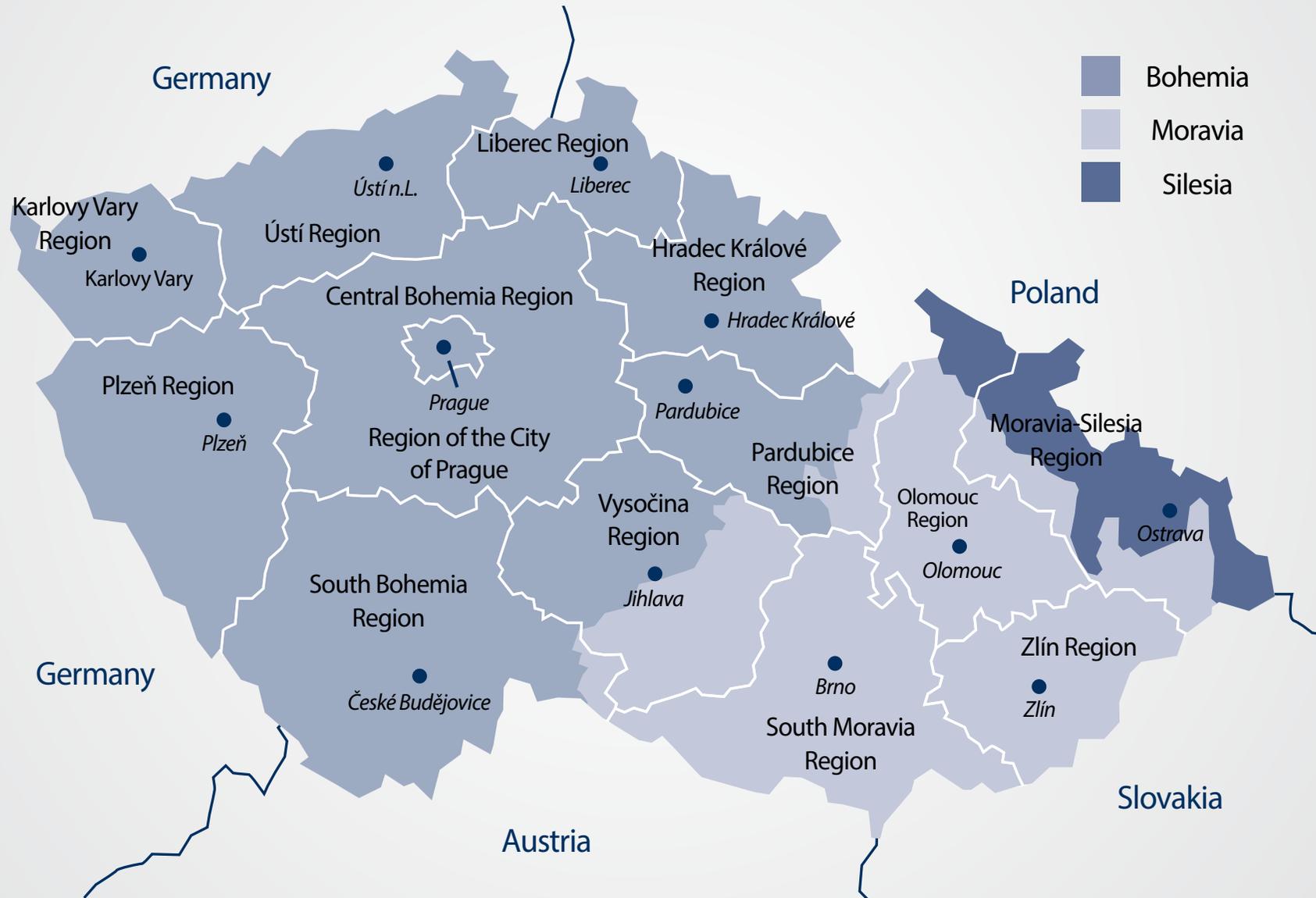
The Railway Infrastructure Administration is the administrator and operator of the absolute majority of railway infrastructure in the Czech Republic. The biggest rail transporter is Czech Railways, whose subsidiary, ČD Cargo, is the fifth-biggest rail freight operator in European Union. The rail freight market has been liberalised; liberalisation of the passenger transport is ongoing. The Czech Republic is connected to the EuroCity international rail network, while some international connections are covered by SuperCity trains, for which the busy Prague-Ostrava line is a core route. Czech Railways operates on the same routes as the high-speed Pendolino trains. Other private railway companies also provide passenger transport. The Czech Republic has public international airports in Brno, Karlovy Vary, Ostrava, Pardubice and Prague. Václav Havel Airport in Prague is the most important Czech airport and is also the biggest airport among the new EU member countries. Its operator is the company Prague Airport. Václav Havel Airport annually handles almost seventeen million passengers carried by approximately 69 airline companies connecting Prague on direct routes to roughly 171 destinations around the world. Five freight carriers also operate out of Prague's airport and dozens of other companies provide charter services. Czech Airlines is the country's flagship carrier. ■

## Travel distances from Prague



Source: Google Route Planner, 2020  
 Source: Vaclav Havel Airport Prague, 2020

# Regions of the Czech Republic



# Region of the City of Prague

**Name:** Region of the City of Prague

**Regional capital:** Prague

**Total area:** 496 km<sup>2</sup>

**Population:** 1,324,000 (as at December 2019)

**Working-age population:** 855,000 (as at December 2018)

**Unemployment rate:** 1.90% (as at December 2019)

**Institutions of higher education – type, number of students:**

more than 120,000 students enrolled in eight public and at least twenty-two private universities, forty-nine public research institutions (67% of the country's total) (2018/2019)

**Sectors in which the region excels:** artificial intelligence, gaming, space technologies, cultural and creative industries, financial services

**Highlights:** The City of Prague is the capital of the Czech Republic, which is located in Central Europe. It is not only the nation's largest city, but is also one of the country's 14 autonomous regions. Prague is the cultural and economic centre of the Czech Republic, accounting for a quarter of the country's GDP. The city has a rich historical and architectural heritage and its historical centre has been listed as a UNESCO World Heritage site since 1992.

According to the PICS Index, Prague ranks 13<sup>th</sup> out of 113 world cities in terms of quality of life. Prague is also ranked as the 26<sup>th</sup> best location in the world for study according to international students. FDI ranks Prague as the second best small European region of the future in terms of business friendliness. Prague is a cosmopolitan city with one of the best public transportation systems in Europe. Prague is ranked second in the CEE region in terms of sustainable development, is the third largest European City of the Future (human capital and lifestyle) and sixth most developed region in the EU.

The City of Prague is ranked among the world's top 50 cities for start-ups and among the top three Eastern European ecosystems for start-ups and scale-ups. Prague won first place in the European Enterprise Promotion Awards 2019 at the national level and was shortlisted at the European level in the Improving the Business Environment category. Prague is also a city of science and research and the capital of satellite navigation, as it hosts the headquarters of the European Global Navigation Satellite Systems Agency. Prague's ESA Business Incubation Centre is the first facility of its kind in the CEE region focused on developing technologically progressive start-ups that use space technologies and systems. Prague also hosts the Prg.ai initiative, which has the long-term goal of transforming the city into one of the global hubs of artificial intelligence (AI) by focusing on creating an active AI ecosystem, reversing brain drain, attracting AI researchers, educating AI talents, incubating AI start-ups and innovating businesses.

**Zdeněk Hřib**  
**Mayor of Prague**  
[www.praha.eu](http://www.praha.eu)

# Central Bohemia Region

**Name:** Central Bohemia Region

**Regional capital:** Prague

**Total area:** 10,929 km<sup>2</sup>

**Population:** 1,385,000 (as at December 2019)

**Working-age population:** 878,000 (as at December 2018)

**Unemployment rate:** 2.44% (as at December 2019)

**Institutions of higher education – type, number of students:**

one public university - ŠKODA AUTO University (approximately 1,271 students) and one private university - ACADEMIA RERUM CIVILIUUM - College of Political and Social Sciences, s.r.o.

**Sectors in which the region excels:** automotive industry, glass industry, chemical industry, agriculture

**More detailed information was not provided.**



# South Bohemia Region

**Name:** South Bohemia Region

**Regional capital:** České Budějovice

**Total area:** 10,057 km<sup>2</sup>

**Population:** 644,000 (as at December 2019)

**Working-age population:** 412,000 (as at December 2018)

**Unemployment rate:** 2.31% (as at December 2019)

**Institutions of higher education – type, number of students:**

more than 16,539 students enrolled in four public (University of South Bohemia in České Budějovice, VŠTE, Faculty of Management of the University of Economics, Department of the Faculty of Mechanical Engineering of the University of West Bohemia in Plzeň) and three private universities (VŠERS, FAMO, CEVRO Institut Český Krumlov) (2018/2019)

**Sectors in which the region excels:** services, construction, tourism, industry, fisheries, agriculture, forestry

**Highlights:** The South Bohemia Region is located in the southwestern part of the Czech Republic and borders the Plzeň, Central Bohemia, South Moravia and Vysočina regions. South Bohemia shares its southern border with Germany and Austria.

The total area of South Bohemia is 10,057 km<sup>2</sup>, which accounts for 12.8% of the total area of the Czech Republic. More than one third of the region is covered with forests, while 4% is covered with water. A large part of the region is located at an altitude of between 400 and 600 metres above sea level, which is associated with more unfavourable climatic conditions.

South Bohemia has a long history of fish farming, with 25,000 ha of ponds accounting for half of the Czech Republic's fish production. Agriculture also remains very important to the region's economy. There are many industrial enterprises in the region (for example, Motor České Budějovice, Bosch České Budějovice, ZVVZ Milevsko, ČZ Strakonice, Jihostroj, Engel Kaplice, Schneider Electric and Viscofan, among others), as well as companies operating in the food industry (Jihočeské Mlékárny, Madeta, Budvar, Fruko-Schulz). Other large companies include KOH-I-NOOR Hardtmuth and Stabilo.

The main advantages of the South Bohemia Region are its cultural and tourism offer associated with leisure activities.

The region also has a relatively strong science and research base.

In the field of natural sciences, it is an important centre at the national and, in some extraordinary cases, global levels.

In addition to universities, the Academy of Sciences of the Czech Republic, the South Bohemian Science and Technology Park and the Technology Centre in Písek support the region's science and research base.

In the future, the South Bohemia Region wants to focus on projects in the areas of infrastructure, education, healthcare and the environment, as well as development of historic sight and smart regions.

**Ivana Stráská**  
Governor

[www.kraj-jihocesky.cz](http://www.kraj-jihocesky.cz)

# Plzeň Region

**Name:** Plzeň Region

**Regional capital:** Plzeň

**Total area:** 7,649 km<sup>2</sup>

**Population:** 590,000 (as at December 2019)

**Working-age population:** 377,000 (as at December 2018)

**Unemployment rate:** 2.33% (as at December 2019)

**Institutions of higher education – type, number of students:**

more than 12,483 students enrolled in two public universities (University of West Bohemia in Plzeň, Charles University Faculty of Medicine in Plzeň)

**Sectors in which the region excels:** manufacture of electronic components and consumer electronics, machinery and equipment, electrical equipment, motor vehicles, railway locomotives, rolling stock and other transport equipment, aircraft and spacecraft and related machinery (aircraft interiors, aircraft seats, aircraft engine parts), medical and dental instruments and supplies (eyeglass lenses, plastic products for the medical industry)

**Highlights:** The Plzeň Region's industrial history dates more than 150 years. Well-established companies manufacturing highly specialised products, such as Škoda Transportation (locomotives, trams, trolleybuses) and DOOSAN (development and manufacture of unique turbines), are successfully doing business in the region. The world's leading carmakers engage in collaboration with the local companies MBtech Bohemia (AKKA) and ZF Engineering, which develop systems for self-driving cars, e-mobility and vehicle safety and efficiency. The Plzeň Region sees the future in automation and robotics. One exceptionally successful company in this field is Aimtec, a Plzeň-based company that develops and supplies smart manufacturing systems.

Universities are strongly represented in the Plzeň Region, with the University of West Bohemia playing a crucial role. More than 11,000 students study technical, art, medical and humanities-based fields at the university's nine faculties. The university is outstanding due to its range of courses in mathematics, mechanics, electronics, and software and application automation and development. Specifically, the Faculty of Applied Sciences, Faculty of Mechanical Engineering and Faculty of Electrical Engineering offer interesting fields of study. The city of Plzeň hosts the 2,500-student campus of the prestigious Charles University Faculty of Medicine.

The region's technically focused research centres, which primarily specialise in mechanical engineering, development of new materials, nanotechnology, electrical engineering, electronics and ICT, have also achieved success. Plzeň-based researchers were involved in the development of an alpha, beta and gamma radiation detector that is about the size of a USB stick.

Excellent medical research is conducted in the Plzeň Region, including in the fields of clinical and general medicine and medical engineering. Scientists working in the region have made major advances in organ replacement and regeneration. The Techmania Science Centre popularises science and fosters interest in science and technology, annually welcoming over 200,000 visitors, mostly young people.

**Josef Bernard**  
Governor  
[www.plzensky-kraj.cz](http://www.plzensky-kraj.cz)

# Karlovy Vary Region

**Name:** Karlovy Vary Region

**Regional capital:** Karlovy Vary

**Total area:** 3,310 km<sup>2</sup>

**Population:** 295,000 (as at December 2019)

**Working-age population:** 192,000 (as at December 2018)

**Unemployment rate:** 2.74% (as at December 2019)

**Institutions of higher education – type, number of students:** Branches and dislocated workplaces of four public universities and regional workplaces of two private colleges. Dozens to several hundred students – official numbers are not publicly accessible.

**Sectors in which the region excels:** mechanical engineering and custom metalworking, electrical engineering, automotive industry, traditional industries – glass, ceramics, porcelain, other non-metal mineral products, power industry and use of renewable energy sources, processing of secondary raw materials – advanced recycling technologies, production of rubber and plastic products, spas and tourism, beverage production, chemistry

**Highlights:** Welcome to the Karlovy Vary Region, to the region that never gave anything for free to its residents, but that rather always offered those who settled here something extraordinary. Its geographical location on the borders of Bohemia, Bavaria, and Saxony always presented and remains to be a challenge for logistics. For example, 500 years ago, its natural wealth gave birth to the precursor of the dollar – the Jáchymov silver tolar, and helped, for instance, in the discovery of the element of radium. It also offers materials for production of porcelain and glass, releases the energy stored in coal, began with Daguerreotypes and made it all the way to the International Film Festival, progressed from the very beginnings of air travel to an international airport, and primarily, it is the home of mineral waters and spas.

The sector of the spa industry and balneology is characterised by the so-called spa triangle formed by the cities of Karlovy Vary, Mariánské Lázně and Františkovy Lázně. The significance of traditional industries, such as the production of glass and porcelain, cannot be ignored, and companies such as Moser, Thun, and others are renowned in the field worldwide. In terms of the largest employers in industry, we should mention Sokolovská uhelná, which produces electricity and mines brown coal, and WITTE Nejdek, which operates in the sector of the production and development of locking systems in the automotive industry. Traditional engineering production has great potential in the region, and the portfolio of traditional companies has been enriched by the arrival of the prominent automotive brand BMW, which plans to construct a testing centre with a polygon for autonomous cars.

The Karlovy Vary Region is distinguished by its lower unemployment rate in the long term, but it also is taking the necessary steps to remain an interesting location for the development of industry as well as for the development of research and development in science. Especially the Sokolov area, which is now facing the challenges of the transformations of the “post-coal” era, offers great potential for the arrival of new, interesting investors.

We invite you as business partners, tourists, spa guests, and even as our future neighbours to this region that aspires to be and will be a pleasant and promising place for life.

**Petr Kubis**  
Governor

[www.kr-karlovarsky.cz](http://www.kr-karlovarsky.cz)

# Ústí Region

**Name:** Ústí Region

**Regional capital:** Ústí nad Labem

**Total area:** 5,339 km<sup>2</sup>

**Population:** 821,000 (as at December 2019)

**Working-age population:** 531,000 (as at December 2018)

**Unemployment:** 3.90% (as at December 2019)

**Institutions of higher education – type, number of students:** one public university with more than 12,000 students (Jan Evangelista Purkyně University in Ústí nad Labem), three private universities and three detached workplaces (Czech Technical University Prague, University of Chemistry and Technology Prague, Technical University of Ostrava)

**Sectors in which the region excels:** energy, chemical industry

**Highlights:** The Ústí Region has a fine industrial past. Historically, industry in the region was built on the mining of brown coal and its subsequent use for energy. The chemical industry also has a long tradition here. The region now focuses on research, development and modern technologies. Given the need to move the economy away from coal mining, the key vision is to use hydrogen as a source of clean energy. The Ústí Region and 17 other entities concluded a so-called hydrogen memorandum, the aim of which is to prepare and implement activities supporting the complex use of hydrogen in the Ústí Region, particularly the hydrogen that is already produced in the technological processes in place at local companies. Hydrogen will be processed, distributed and used in the region as a clean, carbon-free energy source (e.g. for the development of emission-free transport).

Focusing on modern technologies is also crucial for the future development of the region. The PORTABO project, a digital data platform for the Ústí Region, is being created via unique cooperation between the regional government, the local university, towns and the Innovation Centre. This is a web portal where data from various sectors and places – transport, culture, sports, individual municipalities, etc. – will be uploaded in a uniform format. This data will also be available to third parties in open reports for further evaluation and processing – for the purpose of creating smart applications, statistics, comparisons within the region, etc.

Two towns in the Ústí Region, Ústí nad Labem and Bílina, are among the five towns in the Czech Republic where a fifth generation high-speed network (5G) will be piloted. This will make it possible, for example, to operate a so-called U Smart Zone for the development and testing of autonomous (unmanned) vehicle systems in urban traffic and to significantly extend the application of the Ústí Region's PORTABO data platform. This is definitely a great attraction for innovative companies with their own R&D that want to test their new technologies within the 5G environment.

**Oldřich Bubeníček**  
Governor

[www.kr-ustecky.cz](http://www.kr-ustecky.cz)

## Liberec Region

**Name:** Liberec Region

**Regional capital:** Liberec

**Total area:** 3,163 km<sup>2</sup>

**Population:** 444,000 (as at December 2019)

**Working-age population:** 283,000 (as at December 2018)

**Unemployment rate:** 2.95% (as at December 2019)

**Institutions of higher education – type, number of students:**

one public university - Technical University of Liberec (5,640 students - of which PhD students: 272) (2018/2019)

**Sectors in which the region excels:** nanotechnologies, advanced machinery, mechatronics, glass industry, optics, optoelectronics, automotive industry, electronics, ICT, advanced remediation, separation and membrane technologies, textile industry, plastics industry

**Highlights:** The Liberec Region features a blend of unique characteristics: long industrial tradition, a clean natural environment, unique scientific know-how and the entrepreneurial spirit.

The region's traditional economic sectors are textiles, the glass industry and engineering. Unique know-how from the textile industry allowed the emergence of the nanomaterials segment focused on industrial production, nanofibre applications, water recycling and application of nanotechnologies in health-care, materials and surface treatments. Due to its high concentration of glass production, the northern part of the Czech Republic is known as Crystal Valley. Glass production also involves advanced technologies (optics, optoelectronics). Over the past thirty years, the region's economy has expanded in the areas vehicle manufacturing, optics and fine mechanics, production of electronics and electrical equipment, and membrane, remediation and separation technologies.

The Technical University of Liberec holds a significant number of patents and the expertise of its students makes it an excellent pool of human resources for high-tech production. The local educational system corresponds to the region's industrial focus, and the region excels in the number of experts in high-tech specialisations.

Other research organisations in the region include VÚTS, which is focused on advanced engineering; MemBrain, focusing on R&D of membrane technologies, remediation and separation technologies; the Institute of Plasma Physics and the Research Centre of Special Optics and Optoelectronic Systems.

The innovation ecosystem in the region has strong potential for further development, as per-capita investment in research and development is among the highest in the country. Research organisations and companies are involved in international cooperation, including collaboration on the Centre of Excellence for Nanomaterials Research, a joint project of the University of Technology and the Fraunhofer Institute.

Entities in the innovation ecosystem have the know-how and ambition to become more involved in global value chains and to increase value added.

**Martin Půta**  
Governor  
[www.kraj-lbc.cz](http://www.kraj-lbc.cz)

## Hradec Králové Region

**Name:** Hradec Králové Region

**Regional capital:** Hradec Králové

**Total area:** 4,759 km<sup>2</sup>

**Population:** 552,000 (as at December 2019)

**Working-age population:** 349,000 (as at December 2018)

**Unemployment rate:** 2.38% (as at December 2019)

**Institutions of higher education – type, number of students:**

two public universities – University of Hradec Králové (6,000 students), Charles University Faculty of Medicine in Hradec Králové (1,830 students)

**Sectors in which the region excels:** industry, agriculture and tourism

**Highlights:** The "Place for Life" comparative survey has named the Hradec Králové Region as the Czech Republic's best region in terms of quality of life three times in a row. According to the analysis, the region constantly leads in healthcare and social services in comparison with other regions in the country. The shortest average distance to the post office confirms the high level of development of the region's infrastructure. It is also worth mentioning the region's high level of traffic safety, good childcare and educational possibilities.

Many natural attractions are located in the Hradec Králové Region, such as Krkonoše National Park with Sněžka, the highest peak in the Czech Republic, and the stunning sandstone cave cities near Adršpach and Jičín. We can find many castles and other cultural and historical monuments in this region. The newly renovated Kuks hospital is described as the baroque highlight of the western Czech Republic and is proudly honoured as one of the most beautiful architectural monuments in the Hradec Králové Region. Many famous public figures, such as writer Karel Čapek and artist František Kupka, were born in the Hradec Králové Region.

The region's ideal conditions for hiking, cycling, canoeing and skiing go hand in hand with its cultural heritage, which attracts both local and international visitors of all ages.

The region's largest industrial complex is located near Rychnov nad Kněžnou and belongs to Škoda Auto Kvasiny and its suppliers, which together employ more than 12,000 people. The Škoda Superb, Kodiaq and Karoq are manufactured here alongside the Seat Ateca.

A project involving the complete renovation and modernisation of the hospital in Náchod is the current largest investment in the region. The plan includes partial reconstruction of the surrounding buildings and development of two new pavilions in total value of approx. EUR 63.4 million. The former Gayer military base in Hradec Králové is currently being converted into a depository. The site will serve as a new office facility for employees of the Museum of Eastern Bohemia in the city of Hradec Králové and will collect more than two million artefacts.

**Jiří Štěpán**  
Governor  
[www.kr-kralovehradecky.cz](http://www.kr-kralovehradecky.cz)

## Pardubice Region

**Name:** Pardubice Region

**Regional capital:** Pardubice

**Total area:** 4,519 km<sup>2</sup>

**Population:** 523,000 (as at December 2019)

**Working-age population:** 334,000 (as at December 2018)

**Unemployment rate:** 2.20% (as at December 2019)

**Institutions of higher education – type, number of students:**

approximately 6,900 students at one public university - University of Pardubice

**Sectors in which the region excels:** electrical engineering, chemical industry, mechanical engineering, the Pardubice is a transport hub combining air, rail and water transportation

**Highlights:** Located in the centre of the Czech Republic, the Pardubice Region will be ranked among important transport hubs in the near future due to the development of road, rail, air and water transport. It is an attractive region thanks not only to its high degree of safety, housing quality, health and life satisfaction, but also to its long industrial tradition. The decision two nearby cities – Pardubice and Hradec Králové – to join forces in the implementation of Integrated Territorial Investments in the Hradec-Pardubice agglomeration, thus further enhancing the area's attractiveness, has proven to be the right step. The dominant role in the region's economy is played by the manufacturing industry, which is driven by enterprises buttressed by their own research. The region is home to large companies that develop, produce and sell innovative final products and are competitive on the European and global scale, as well as innovation champions among small and medium-sized enterprises with a significant proportion of their own research at the international level, particularly in radio technology, chemistry and biomedicine. A positive aspect is that three-fourths of research funding comes from the private sector. Basic research is conducted at the University of Pardubice, which is developing successfully and where new space for collaboration is being opened. The P-PINK business incubator, whose operation is focused on active support for start-ups, was established in 2018.

The Pardubice Region offers a combination of beautiful countryside and magnificent history, arts, captivating music and all possible kinds of sports. The most important events undoubtedly include Smetana's Litomyšl Festival, the Grand Pardubice Steeplechase and the Golden Helmet. The region is also associated with the taste of Pardubice gingerbread and the presence of horses, which are an essential part of the region. When visiting the Pardubice Region, you will be able to familiarise yourself with the local traditions including handicrafts, see numerous castles and chateaux, ancient military forts and fortifications, urban conservation areas and many attractive examples of Renaissance, Baroque, Art Nouveau and modern interwar architecture.

**Martin Netolický**  
Governor  
[www.pardubickykraj.cz](http://www.pardubickykraj.cz)



## Vysočina Region

**Name:** Vysočina Region

**Regional capital:** Jihlava

**Total area:** 6,796 km<sup>2</sup>

**Population:** 510,000 (as at December 2019)

**Working-age population:** 328,000 (as at December 2018)

**Unemployment rate:** 2.70% (as at December 2019)

**Institutions of higher education – type, number of students:**

one public university - College of Polytechnics Jihlava (2,223 students) (as at 31 December 2018)

**Sectors in which the region excels:** automotive industry, metal-processing and mechanical engineering

**Highlights:** The Vysočina Region is situated in the centre of the Czech Republic. Thanks to its strategic location between the two biggest Czech cities (Prague, Brno) and near the border with Austria, it is very accessible by road and rail. There are also two international airports – in Prague and Brno – within easy reach. The region's well-developed manufacturing base comprises, for example, the automotive industry, metalworking, mechanical engineering, wood processing and the furniture industry, as well as industrial automation and IT.

There are also numerous R&D centres and research facilities in the region, including, for example, the Institute of Theoretical and Applied Mechanics of the Czech Academy of Sciences in Telč, the College of Polytechnics Jihlava, the Forestry and Game Management Research Institute in Pelhřimov, the Potato Research Institute in Havlíčkův Brod, the Institute of Vertebrate Biology of the Czech Academy of Sciences in Studenec and the Nuclear Research Institute in Dukovany. These centres naturally cooperate not only with enterprises, but also with educational institutions.

The Vysočina Region has a well-educated and flexible work force. As for tertiary education, there is the young but rapidly developing College of Polytechnics Jihlava, which offers study programmes in the fields of electrical engineering and informatics, economics and management, midwifery, healthcare, clinical social work, community care in midwifery and quality and safety in healthcare. Many other benefits are derived from international cooperation with partner regions such as Lower Austria, Grand Est (France), Nitra Self-governing Region (Slovakia), Minsk Region (Belarus), Hubei Province (China), Transcarpathian Ukraine and the European Region Danube-Vltava.

A pristine and safe environment, beautiful landscape and rich cultural and natural heritage are typical attributes of the Vysočina Region and, together with good people, they are among the main reasons to invest here.

**Jiří Běhounek**  
Governor  
[www.kr-vysocina.cz](http://www.kr-vysocina.cz)

## South Moravia Region

**Name:** South Moravia Region

**Regional capital:** Brno

**Total area:** 7,188 km<sup>2</sup>

**Population:** 1,192,000 (as at December 2019)

**Working-age population:** 765,000 (as at December 2018)

**Unemployment rate:** 3.48% (as at December 2019)

**Institutions of higher education – type, number of students:**

approximately 64,000 students enrolled in five public, six private and one state university (2018)

**Sectors in which the region excels:** information technology, life sciences, electron microscopy, the space industry, precision instruments, mechanical engineering, production digitalisation, cybersecurity

**Highlights:** South Moravia is a region that excels in innovative business and research and development. It is a unique combination of two worlds: the “big”, which includes business, science, innovation and state-of-the-art technology, and the “less visible” personal, creative and balanced world, which also includes relaxation for everyone. It is a place where ideas are created and used for the purpose of making the world a better place. The capital city of Moravia is Brno. This region has significant potential. Its twelve universities are guaranteed to give the region a youthful spirit, creativity and dynamism. Universities with a long tradition ensure progressive research primarily in biology and medicine, which is also supported by the presence of state-of-the-art scientific research centres such as CEITEC and the ICRC.

Several multinational companies (e.g. Thermo Fisher Scientific, Honeywell, IBM, Red Hat) have built their research and development centres and state-of-the-art production halls in South Moravia. South Moravia actively cooperates on the development of its potential with institutions in the region (e.g. the South Moravian Innovation Centre, the South Moravia Regional Development Agency, Business and Investment Development Agency CzechInvest, Brno Regional Chamber of Commerce, universities, science centres and entrepreneurs).

Other than the region’s abundant universities and scientists, it is also home to businesses and entrepreneurs who are striving to closely cooperate with public institutions. The advantage of this cooperation consists in excellent conditions for increasing the region’s competitiveness in the long run.

South Moravia has long been implementing and supporting investments from national and EU structural funds in the region’s research and development capacities, while also providing support for transportation infrastructure, education, healthcare, culture and social care, thereby ensuring the region’s development.

The region’s international airport in Brno, with regularly scheduled flights to Milan and London. Rail connections from Brno to Prague, Bratislava and Vienna (approx. two hours) are also beneficial for the region.

**Bohumil Šimek**  
Governor  
[www.kr-jihomoravsky.cz](http://www.kr-jihomoravsky.cz)

## Olomouc Region

**Name:** Olomouc Region

**Regional capital:** Olomouc

**Total area:** 5,267 km<sup>2</sup>

**Population:** 632,000 (as at December 2019)

**Working-age population:** 406,000 (as at December 2018)

**Unemployment rate:** 2.94% (as at December 2019)

**Institutions of higher education – type, number of students:**

approximately 21,000 students enrolled in one public (Palacký University in Olomouc) and two private universities (Moravian Business College Olomouc, College of Logistics)

**Sectors in which the region excels:** industry, agriculture, chemical industry

**More detailed information was not provided.**

# Moravia-Silesia Region

**Name:** Moravia-Silesia Region

**Regional capital:** Ostrava

**Total area:** 5,430 km<sup>2</sup>

**Population:** 1,201,000 (as at December 2019)

**Working-age population:** 784,000 (as at December 2018)

**Unemployment rate:** 4.44% (as at December 2019)

**Institutions of higher education – type, number of students:**

more than 25,600 students enrolled in three public (Silesian University in Opava, Technical University of Ostrava, University of Ostrava) and two private universities (The College of Entrepreneurship and Law, Prigo University) (2018/2019)

**Sectors in which the region excels:** IT industry, iron-ore processing, mechanical engineering, vehicle manufacturing, chemical industry, agriculture, food industry and forestry

**Highlights:** Moravia-Silesia is a dynamically developing region with a changing image. Originally reliant on heavy industry and infamous for the negative effects of that, the region is being transformed into an important technological centre. Digitalisation and young technological companies are transitioning the region away from coal and steel towards Industry 4.0. Currently, the number of people working in the region's IT industry is equal to those working in metallurgy. The region welcomes innovations and focuses on research, and is enhancing its enterprising approach while keeping pace with the times and development. The Moravia-Silesia Region is on the right path and is taking specific steps in the area of environmental protection, developing healthcare and social care, strengthening its communities and interconnecting generations. It stresses education, supports culture and sport and generally strives hard to be more attractive and a great place to live.

**Ivo Vondrák**  
Governor  
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# Zlín Region

**Name:** Zlín Region

**Regional capital:** Zlín

**Total area:** 3,963 km<sup>2</sup>

**Population:** 583,000 (as at December 2019)

**Working-age population:** 376,000 (as at December 2018)

**Unemployment rate:** 2.43% (as at December 2019)

**Institutions of higher education – type, number of students:**

more than 9,000 students enrolled in one public (Tomas Bata University in Zlín) and one private university (European Polytechnic Institute, s.r.o.)

**Sectors in which the region excels:** industry, agriculture and tourism

**More detailed information was not provided.**

# Ready for business

The Czech Republic is one of the fastest-growing economies in Europe with the most favourable long-term macroeconomic indicators such as per-capita GDP and public debt. The country has been a regional industrial leader for more than a century and is one of the most successful CEE countries in terms of attracting foreign direct investments.

According to the Czech National Bank (2019), the Czech Republic has received a total of EUR 130 billion worth of FDI since 1993. The largest amount of FDI flows from Germany. According to a survey carried out in 2019 by the Czech-German Chamber of Commerce, 70% of German companies with operations in the Czech Republic consider the country's investment climate to be good. The survey shows that the Czech Republic is the second most attractive location in the CEE region for many reasons, such as its proximity to Germany, quality and availability of local suppliers, productive and motivated skilled workforce and relatively low labour costs. An open investment climate has been a key element of the Czech Republic's economic transition.

### Strategic location

One of the factors that make the Czech Republic extremely attractive for foreign investors is its good access to the European market. The country's convenient location in the middle of Europe makes it possible to reach all European capitals very quickly. Together with EU membership, this makes the country a perfect gateway to the single European market of 500 million consumers and 21 million SMEs. Given the fact that the Czech Republic is at the crossroads of European trade, advanced transport infrastructure was naturally developed here. The Czech Republic is ranked among the world's most advanced countries in terms of transport-network density and several projects involving modernisation and extension of the network are currently underway.

### Stable and transparent business environment

A stable political situation, well-developed private sector, effective legal environment and healthy banking system with a strong and independent central bank are the key features of a society in which business can be conducted effectively and safely. The Czech Republic's open investment climate was a key element in the country's transition, which is reflected in its investment rating from international credit-rating agencies, putting it on an equal footing with Japan and Taiwan and opening the door to early membership in the OECD. The Czech Republic is a fully-fledged parliamentary democracy and one of the most advanced new members of the European Union, which it joined in 2004. Its currency, the koruna (CZK), is fully convertible and extremely stable. Under Czech law, foreign and domestic entities are treated identically in all areas, from protection of property rights to investment incentives. The tax system offers the lowest rates in Europe and has remained stable over the long term. The country's investment grade ratings from international credit-rating agencies and its early membership in the OECD testify to its positive economic fundamentals.

### Investment protection

The Czech Republic is a member of the Multilateral Investment Guarantee Agency (MIGA), an international organisation for protection of investments, which is part of the World Bank-IMF group. The country has signed a number of bilateral treaties that support and protect foreign investments, for example with the United States, Germany, the United Kingdom, France, Austria, Switzerland,

Italy, Belgium, Luxembourg, the Netherlands, Finland, Norway, Denmark and China. The Czech Republic has also concluded agreements for the avoidance of double taxation.

### Educated and skilled workforce

The Czech Republic combines an outstanding level of general education with a strong tradition and experience in science and engineering disciplines. The availability of graduates educated in technical fields at a fraction of the cost of western labour makes the country especially advantageous for manufacturing and R&D-oriented companies. In the academic year 2018/2019, nearly 300,000

### Czech Republic – worldwide rankings

#### 1<sup>st</sup> among new EU members

Quality of Life Index  
(Mercer Quality of Living Survey, 2019)

#### 10<sup>th</sup> most attractive country

Attractive Country for Expats  
(Expats Insider, 2019)

#### 10<sup>th</sup> safest country

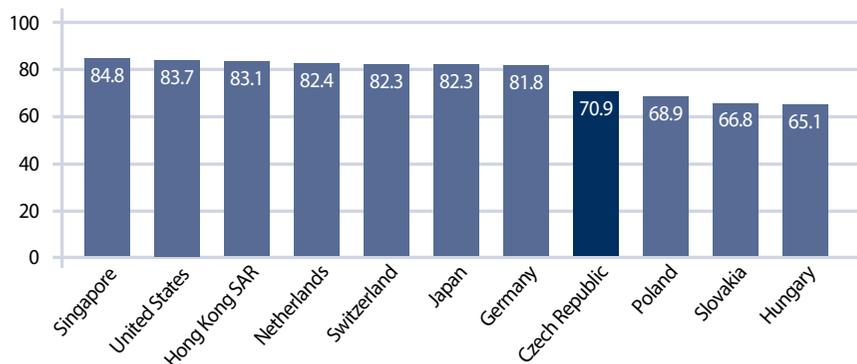
Global Peace Index 2019

#### 32<sup>nd</sup> out of 140 countries

Global Competitiveness Index

## Global Competitiveness Index Rankings

The Czech Republic is among the most competitive countries in the CEE region



Score 0 – 100 (best)

1<sup>st</sup> place - Singapore (GCI - 84.8)

**32<sup>nd</sup> place - Czech Republic (GCI - 70.9)**

Source: World Economic Forum, Global Competitiveness Report, 2019

students were enrolled in the country's 60 universities (Ministry of Education, Youth and Sport, 2019). Roughly one-third of Czech university students study economics and finance, while more than 81,000 students are enrolled in technical programmes. Because the Czech Republic is a relatively small country, studying foreign languages is a necessity. According to the latest STEM survey, more than 72% of Czechs have knowledge of at least one foreign language (predominantly English or German); this figure rises above 90% for those in management positions. The Czech Republic has strong technological potential thanks to its pool of well-educated science workers and its skilled workforce, which have given rise to several rapidly growing industries such as biotechnology and software development. Using financial resources obtained from EU structural funds, new research centres are being established with the objective of becoming prestigious European science centres with state-of-the-art infrastructure and

conditions making it possible to employ the best researchers. Czech employees are very loyal, hardworking and precise. The local workforce is considered to be very reliable and stable.

### Well-developed infrastructure

Besides the country's transport infrastructure, its energy distribution and telecommunications networks also contribute to the creation of an ideal environment for doing business. Energy supplies are very stable with some of the lowest prices in the region. Both the electricity and gas markets

are fully liberalised without any regulations, only activities of a monopolistic nature continue to be regulated. The Czech Republic's energy infrastructure is among the most reliable, efficient and adequately supplied in the region, as the country has some of the largest gas reserves in the EU. The Czech telecommunications market – one of the most highly developed and most liberalised in Central and Eastern Europe – is distinguished by growing demand for data, internet and other communication services. The country's advanced fibre-optic network is part of the European backbone and is being further developed. No exclusive rights exist in the area of electronic communications and the competition environment is sufficiently robust in the context of the European Union. In terms of the business-property market, the country is quite advanced with respect to the number of industrial zones and parks as well as office premises.

### Quality of life

The Czech Republic has the highest quality-of-life index in the region according to the Mercer Quality of Living Survey 2019, which ranks the Czech Republic first among new EU members. The country's urban centres and beautiful countryside offer countless possibilities for leisure activities for both tourists and locals throughout the year. Municipal public transport systems are well managed and efficient, while trains provide a popular and easy way to travel around the country. The Czech Republic is an expat-friendly country with plenty of organisations helping foreigners with everyday issues and organising networking events. Further-

more, in larger cities it is easy to find international schools for children at all grade levels. The country is close to Western Europe not only geographically, but also in terms of social and cultural values. Together with its sustainable business environment and its ability to harness its potential in order to respond to the needs of the global economy, the Czech Republic's high quality of life is yet another factor making it an ideal investment location. ■

### Czech Republic – Global Peace Index

| Rank 2018 | Country               | Score        |
|-----------|-----------------------|--------------|
| 1         | Iceland               | 1.072        |
| 2         | New Zealand           | 1.221        |
| 3         | Portugal              | 1.274        |
| 4         | Austria               | 1.291        |
| 5         | Denmark               | 1.316        |
| <b>10</b> | <b>Czech Republic</b> | <b>1.375</b> |
| 11        | Switzerland           | 1.540        |
| 21        | Hungary               | 1.550        |
| 23        | Slovakia              | 1.550        |
| 29        | Poland                | 1.654        |

Source: Institute of Economics and Peace, 2019

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**CZECHINVEST**  
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# Prague: **A top location** for European headquarters

Every year, Prague is visited by more than four million foreign tourists wanting to see one of the most beautiful cities in the world. What is less obvious to them and others is Prague's complete readiness to host the CEE headquarters of multinational companies.

## Features of Prague and the Czech Republic

- + 2<sup>nd</sup>** Prague is the first region in the Small European Regions of the future in terms of human capital and lifestyle (fDi Intelligence, 2020/2021)
- + 7<sup>th</sup>** Prague ranks seventh among Major European cities in terms of cost effectiveness (fDi Intelligence, 2020/2021)
- + 2 h** Prague is within a two-hour flight of most European cities
- + 15%** The personal income-tax rate in the Czech Republic is only 15%
- + 25** Prague is among the top 25 European Regions of the Future (fDi Intelligence, 2020/2021)
- + ↑** Prague is among the EU regions with the largest share of researchers in total employment
- + 2<sup>nd</sup>** FDI ranks Prague as the second-best small European Region of the Future in terms of business friendliness

**T**he Czech capital is a unique location combining favourable costs and a sense of culture and tradition with a well-developed private sector, a highly skilled workforce and innovation potential, as well as an enticing atmosphere and great conditions for expats. These factors have made this attractive city a popular location for the regional headquarters of major multinationals such as Tesco, Ness Technologies and Bell Helicopters. Furthermore, Prague ranks among the top 25 European regions of the future according to fDi Intelligence magazine.

### At the centre one of the world's biggest markets

Prague is very easily accessible from many other places in the world and is within a two-hour flight of most European cities. There are many daily direct flights connecting Prague to the main European business centres, such as London, Amsterdam and Frankfurt, as well as global centres including New York, Toronto, Tel Aviv, Dubai, Seoul and Beijing. The fact that the European Union is one of the largest markets in the world undoubtedly makes Prague the top choice for those investors who want to conveniently access the European market or further develop their business in Europe.

### Strong innovation potential, R&D and a skilled workforce

The Czech Republic has strong potential in the area of R&D. The main areas of technological specialisation in the Czech Republic include, but are not limited to, construction and construction technologies, materials engineering, transport technologies,

biotechnology, environmental technologies, energy and security. Prague is among the EU regions with the largest share of researchers in total employment (over 2%). "The advanced local R&D infrastructure has a strong, positive impact on Prague's economic development, as the city is home to nine public universities and the Academy of Sciences, which contribute to the generation of new ideas and innovations of products and services. Many R&D-focused start-ups are also based here and are bringing new energy to the local economy," says Jan Dobrovský, director of the Project Management Department of the City of Prague. Martin Ježek, Business Development Director at Grafton Recruitment adds: "Prague excels in the CEE region especially in the field of human resources. Thanks to the concentration of tertiary education across disciplines, the city is able to provide the number of specialists required by the private sector. International shared-services centres established in Prague since the beginning of the last decade currently employ thousands of people who can serve as a source of qualified specialists and managers with above-average language skills for newly established headquarters in Prague."

### A safe, expat-friendly city of culture

Prague offers expatriates a truly safe and culturally rich environment and very good municipal infrastructure. The Czech capital also offers great conditions for families, an effective public transport system and high-quality services in the areas of shopping, dining and entertainment. More than 16% of Prague's inhabitants are expatriates. Prague is a truly cosmopolitan city whose many

notable advantages include the fact that it is one-third cheaper to live here than in London and two times cheaper than in New York (data according to numbeo.com). In addition to that, the Czech Republic is the tenth-safest country in the world according to the Global Peace Index. Though Prague is generally and rightly perceived as a city with a rich cultural heritage and a well-preserved historical centre, it also has a captivating and lively modern cultural environment offering an abundance of concerts, coffeehouses, libraries, theatres, cinemas and museums, as well as film, music, arts and food festivals. Beyond entertainment options, Prague has outstanding municipal infrastructure including green spaces and facilities for sports and outdoor recreation. Family life is very easy for expatriates in Prague thanks to the presence of over forty international preschools and elementary and secondary schools. With its highly efficient public transport system, **it is possible to reach the centre of Prague from practically anywhere in the city within half an hour.** The high-quality healthcare provided here also deserves mention, as 78% of the city's residents claim to be satisfied with the level of care they receive (data according to the Prague Institute of Planning and Development). The Czech capital also excels in terms of the availability of premium shopping and services. Numerous luxury brands are present here and residents can enjoy a number of top-level restaurants and bars, including Michelin-starred establishments.

#### Open business environment

Prague has an open business environment and a well-developed private sector. "The major economic activity in Prague is based on its very strong tertiary and quaternary sectors. Such a structure creates an appropriate environment for HQs, thanks to the direct accessibility of all necessary services and outsourcing for companies of all sizes," says Jan Dobrovský, director of the Project Management Department of the City of Prague. The Czech Republic's legal environment forms a good foundation for effective company management, flexible employment and nimble property management. FDI Intelligence ranks Prague as the second best small European region of the future

in terms of business friendliness. The tax environment in the Czech Republic is stable and offers very good conditions not only for corporations, but also for expatriates: "The corporate income-tax rate was set at 19% in 2010 and remains at that low level today. The personal income-tax rate is also very favourable, especially for persons with high incomes and for a significant part of the expatriate population. The personal income-tax rate is only 15%. Expatriates who are sent to work in the Czech Republic under the regime allowing them to stay within the social-security system of their home country do not have to pay additional social security in the Czech Republic, whereas expatriates from some countries pay only for health insurance," says Jan Linhart, partner with KPMG ČR.

#### Cost effectiveness

Although Prague has a well-developed private sector, prices are still significantly lower than in Western Europe. Investors can thus use most necessary resources for very reasonable prices. According to fDi Intelligence, Prague ranks tenth among major European cities in terms of cost effectiveness. With respect to office rents, the price level is the same as or lower than the average rate in nearby locations in Central Europe. Compared to other major cities in Europe such as London, Munich, Vienna, Amsterdam and Paris, the rental rate in Prague is 20% to 80% lower. The Czech Republic is also very affordable in terms of labour costs, as the average wage here is one-third of the EU average. However, the quality and availability of workers is satisfactory according to fDi Intelligence, which has ranked Prague fifth among major European cities in the Human Capital category. "Prague has numerous advantages in terms of the availability of human resources, especially in the size and diversity of the local labour market. Prague attracts skilled jobseekers both from other regions of the Czech Republic as well as from abroad. In the past 10-15 years, Prague has become a truly cosmopolitan city, not only because it is a popular tourist destination, but also because it has become the home of many expatriates, especially from other European countries. They have found here an enticing ratio of income, quality of life and cost of living," says Martin Ježek. ■

### Reasons for relocating to Prague according to Mayor Hřib

#### ■ One of the safest cities in the world

Prague is one of the safest cities in the world. The Czech Republic is one of the safest European countries and is the tenth-safest destination in the world according to the 2019 Global Peace Index.

#### ■ High quality of life

The Czech Republic, especially its capital, is a preferred destination for many relocating companies, individuals and families. It is a modern country with not only good infrastructure and a well-developed business ecosystem, but also a rich history offering a truly broad range of cultural opportunities.

#### ■ Great transport accessibility

Thanks to its ideal location in the heart of Europe, Prague is easily accessible to travellers from practically anywhere in the world.

#### ■ Location

Prague's location makes it easy to travel to neighbouring countries and their beautiful cities.

#### ■ Transport

Public transport is another thing that Prague can be proud of. In comparison with the mass transit systems of other capital cities, it is cheap, efficient and highly integrated. Prague is also a green city that is suitable for walking, as it offers a great number of tourist attractions in a small area.

#### ■ Education

Prague has a great selection of international and multi-lingual educational institutions ranging from preschools to universities. Prague is the home of Charles University, which was established in 1348, making it one of the oldest institutions of higher learning in Europe. Furthermore, the best Czech technical university and the Czech Academy of Sciences are both located in Prague.

#### ■ Living costs

Living costs in Prague are considered to be low and affordable compared to most other European cities. Average rent is EUR 850/month for a 70 m<sup>2</sup> apartment.

#### ■ Experience with hosting GSA

Prague is the host city of the GNSS Agency and has thus proven its ability to serve as the home of major international institutions and organisations.

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# The top ten facts every investor needs to know about the Czech legal system

Investors coming to the Czech Republic naturally have questions about the country's legal system. Here are the answers.

## Core legal concepts recognised

- ✓ Contractual freedom
- ✓ Choice of law
- ✓ Choice of court jurisdiction
- ✓ Enforceability of foreign judgements (EU)
- ✓ Alternative dispute resolution – arbitration
- ✓ Attorney/client privilege
- ✓ Contractual limitation of liability
- ✓ Protection of intellectual rights
- ✓ Proprietary (in rem) security rights (e.g. pledge, lien, security transfer)
- ✓ Security agent
- ✓ Parallel debt structure (if governed by foreign law)
- ✓ Prohibition of financial assistance
- ✓ Whitewash procedure
- ✓ Contractual subordination
- ✓ Reorganisation
- ✓ Marketability of contracts, receivables and claims
- ✓ Trusts
- ✓ Common corporate vehicles and structures
- ✓ Single-tier board in joint-stock companies
- ✓ Different types of shares with different rights
- ✓ Very small mandatory registered capital of limited liability companies (less than 1 EUR)
- ✓ Transformations
- ✓ Criminal liability of legal entities
- ✓ E-identity and e-signature

**1. What do I need to know about the Czech legal system?** The Czech Republic is an investor-friendly western democracy with a stable and modern legal environment. Czech laws are compatible with EU laws.

**2. Is the Czech legal system similar to developed European legal systems?** Yes. The Czech legal system is based on the civil law system, in particular the Germanic branch of civil law. The legal system is based on written sources of law, namely acts (adopted by Parliament), delegated legislation (adopted by the government or ministries), ratified international treaties and EU law.

**3. Are investments in the Czech Republic protected by any investment protection treaties?** Yes. The Czech Republic has signed 92 bilateral investment treaties.

**4. Are intellectual property rights protected in the Czech Republic?** Yes. The Czech Republic is a signatory to the Bern, Paris and Universal Copyright Conventions.

**5. Does the court system work well and are investors' rights enforceable in the courts?** Yes. The Czech courts work well and investors' rights are enforceable in the courts.

**6. Are court fees reasonable?** Yes. Where a monetary claim is brought to court, the court fee

comprises 5% of the claim. The maximum court fee is CZK 4.1 million (EUR 150,000) for claims amounting to CZK 250 million (approx. EUR 9.1 million) and higher.

**7. Is alternative dispute resolution available in the Czech Republic?** Yes. The most frequent dispute resolution mechanism for parties seeking to avoid litigation in court is arbitration.

**8. Can I enforce foreign judgments issued by a court based in an EU member state in the Czech Republic?** Yes. Foreign judgments issued by EU courts are enforceable subject to the Brussels Regulation and the Hague Convention on Choice of Court Agreements. Can I enforce foreign arbitral awards in the Czech Republic? Yes. Foreign arbitral awards are enforceable subject to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards signed in New York on 10 June 1958.

**9. Are the common corporate structures available in the Czech Republic?** Yes. Business in the Czech Republic is conducted by a variety of different entities which are also common in the EU. These include the following types of companies: limited liability companies, joint-stock companies, general commercial partnerships and limited partnerships. Foreign entities can register to conduct business in the Czech Republic via a branch or through participation in a Czech entity under the same conditions as Czech entities. In addition, the following European forms of legal entities are allowed to operate in the Czech Republic: (i) European Economic Interest Grouping, (ii) European Company (Societas Europea) and (iii) European Cooperative Society.

**10. Is the investment risk small in the Czech Republic?** Yes. The Czech Republic's sovereign debt has been given investment grade ratings by the rating agencies Moody's (A1), Standard & Poor's (foreign currency: AA-; local currency: AA) and Fitch (AA-). ■

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KINSTELLAR

# Six main things to do first



# Establish your **business**

The trend of avoiding overly onerous legal requirements related to starting a business has been strengthened by legislation that came into force on 1 January 2014 with the purpose of, among other things, facilitating the creation of a conducive environment for foreign investors who are considering entering the Czech market.

# 1

## o incorporate or not?

The first question that has to be answered after deciding to do business in the Czech Republic is whether the entity wishes to create a formal (registered) establishment or not. Every non-EU entity that wants to start doing business in the country must either register a branch or establish a company. EU entities have two other options: provide so-called “temporary services” in the meaning of the Directive on the Free Movement of Services or provide services or do other business permanently without any establishment. The latter is allowed by the current law and enables EU entities conducting business in the Czech Republic to proceed in a rather informal way. However, the decision not to incorporate could in some

aspects have a less positive outcome and in some areas increases the risks of uncertainty, especially in relation to official authorities. Accordingly, registration of an entity is still the optimal course of action.

## Choosing the most suitable vehicle

The relevant laws offer a number of different corporate vehicles for doing business. The three most popular corporate vehicles are: 1) branches, 2) limited liability companies (LLC) and 3) joint-stock companies (JSC).

A **branch** is a good choice for an entrepreneur coming to the Czech market for the first time. This vehicle does not have a distinct legal personality and all of its assets and debts belong to its founder.

**LLCs** has their own legal personality. The current Czech law provides a wide range of possible arrangements among shareholders who choose to run a company together. The LLC structure is also very popular for starting a business. Once the registered capital is fully paid up, the shareholders are not liable for any debts of the LLC. Experience shows that branches and LLCs are the most preferred vehicles for starting a business in the country. Once their business grows, some entrepreneurs choose to transform their LLC or

branch into a **JSC**, which is better suited to larger businesses.

## The process of corporate vehicle establishment

Both branches and the other forms of companies commence their existence by being entered into the Czech Commercial Register. The process of establishment differs depending on the vehicle chosen. The simplest is establishment of a branch, whereas establishment of a JSC is slightly more complex. The entity has to have its registered office located in the Czech Republic. Virtual offices are available in the country. Once all the necessary documents are collected, it usually takes five business days to enter the new entity into the Commercial Register.

## Good things to know

**Notaries public can enter a company directly into the Commercial Register.** This can help to speed up the process of establishment, as the registration courts are sometimes congested. **Ready-made companies are available.** An LLC or JSC can be bought as a ready-made company, without any history or previous economic activity. It can then be rearranged according to the buyer's requirements of the buyer. ■



## Basic overview of favorite legal forms

| Form   | Registered capital                       | Statutory body        | Mandatory control body | Maximum number of shareholders |
|--------|--|-----------------------|------------------------|--------------------------------|
| Branch | None                                     | Head of branch        | None                   | One                            |
| LLC    | CZK 1 (approx. EUR 0.04) per shareholder | Executive director(s) | None                   | Unlimited                      |
| JSC    | CZK 2,000,000 (approx. EUR 80,000)       | Board of directors    | Supervisory board      | Unlimited                      |

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# How and why to start your business in the Czech Republic

Have you established a new business and are you looking for a property? If so, the Czech Republic is the right choice for you. With an ideal location in the centre of Europe, the Czech Republic is a stable and safe country with a good investment rating, a high level of science and technical education and well-developed infrastructure. Combined with the country's long-term economic growth, these factors make it attractive for both domestic and foreign investors. In our article, we map the Czech market so that you can get an idea of why and where you should invest in the Czech Republic.

**Commercial property options**  
Practically all Prague office occupants prefer to rent, which is more flexible. Leases are usually for five years, after which the given company can respond to the market situation by leasing larger premises or by downsizing. Buying a property for occupation can tie up a considerable amount of valuable capital that could be used to grow the business. In terms of liquidity,

the ease of selling a property to access the invested capital can often be overestimated and such a sale needs to be carefully planned well in advance. Brno, the second largest city in the country, is another attractive option. It is a university centre and has recently attracted several renowned office occupants. The Czech Republic has continued to enjoy a buoyant real estate investment market. The underlying strengths of the market are dominated by the country's strong macro-economic position in the region, as it has the highest ratings from agencies such as Moody's, S&P and Fitch. This gives investors confidence that the country has a strong and stable economic base and positive outlook. The most prominent and active real estate sectors are office, retail and industrial/logistics.

#### Retail sector

The retail sector is dominated by major shopping centres in Prague and the regional cities. The prime shopping centres continue to benefit from growth in consumer spending with increasing retail turnover and visitor numbers.

#### Office and industrial sectors

Prague's office occupational market is enjoying the lowest vacancy rates in a decade. As a result, there has recently been pressure on the prime rents in the best locations. The industrial sector is again enjoying a strong occupational market with low vacancy rates and strong occupant demand.

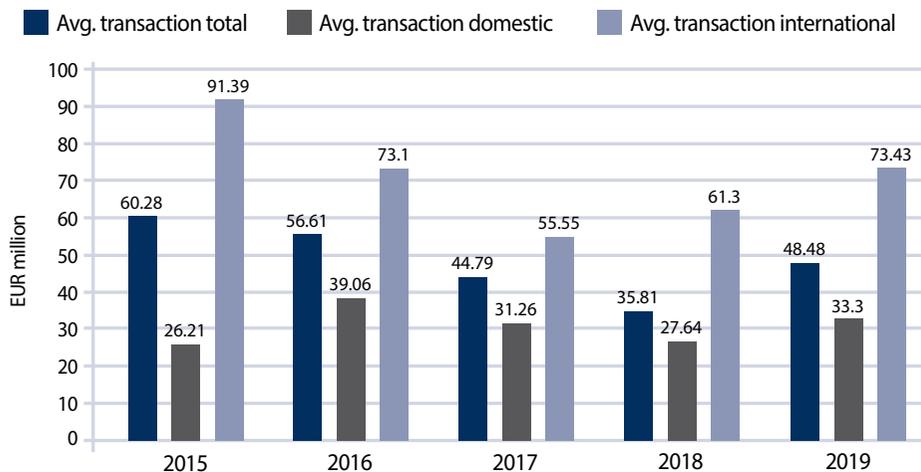
#### Allocation of capital driven by comfortable yield gaps

The Czech market offers higher returns than western markets, with prime office yields at 4.25%, prime retail shopping centres trading at 4.90% with no recent market evidence, and the industrial/logistics sector at 5.50%.

#### Rise of domestic capital

Of particular interest in the CEE markets has been rising to 58% of total capital in 2018 in the Czech Republic, which has been seen to a lesser extent in Hungary and not at all in Poland. This growth of domestic capital is a great symbol of strength for the market. ■

Average volume of transactions by source of capital



Source: JLL CEE Capital Markets, January 2020

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# 3

## Find out more about the labour market

Excellent human resources, a central location and a stable political and economic environment are the main reasons that foreign investors frequently choose the Czech Republic as the country in which to implement their investments. The volume of investments requiring well-educated workers is increasing especially in relation to the high-quality education of the Czech population.

### The most frequently provided benefits

- Meal vouchers
- Refreshments at the workplace
- Corporate social events
- Contribution to pension insurance

### The most desired benefits

- 13<sup>th</sup>/14<sup>th</sup> salary or bonuses
- Holiday leave in excess of that required by the law
- Opportunity to work up hours
- Meal vouchers
- Allowance and health leave/sick days

Source: Grafton Recruitment, 2019

# W

Whether this concerns research and development centres, ICT companies, shared service centres or manufacturing enterprises, the Czech Republic is able to offer a high-quality business environment in terms of good location and transport infrastructure, high-quality workforce and suitable real estate market conditions.

### Companies are flourishing in the heart of Europe

The Czech Republic has an indisputable advantages thanks to its central location, its advanced infrastructure, high quality of university education, excellent quality of life and high level of safety. The good news for investors considering locating their business activities in Central Europe is the fact that the Czech Republic and other countries here demonstrate long-term political and legislative stability, which is why this part of the world is slowly becoming a synonym for nearshoring.

### Human resources

Human resources are the alpha and omega of every successful business project. The costs of people's work are

not the only issue to be addressed; access to workers and, in the case of investments based on intellectual activities, also the educational level, language skills and so-called soft-skills of potential employees are also important. The Czech Republic scores very highly in this regard. It is apparent that Czechs possess these skills and traits in abundance, as they are very adaptable and compatible with a number of cultures. As such, they are able to effortlessly integrate themselves into European, Korean, Japanese and American companies.

### Preferences of Czech employees

The mood has been improving in the Czech Republic since 2014. This is indicated by the latest Survey of the Czech labour market which was conducted by Grafton Recruitment and Behaviolabs among 1,240 respondents in Q1 2019. The main reason for this is the fact that the pay of nearly 67% of employees has increased over the course of 2019. More than half of those employees received a pay rise of up to ten percent and another one-third enjoyed a pay rise of between ten and fifteen percent. Employees are most motivated by salary (29%), whereas meaningful work is the second most important factor (27%), followed by the team of immediate col-

leagues (19%) and the opportunity for personal growth and new experience (16%). Though salary is crucial, it is more important for men and people with a lower income. Conversely, women are more interested in meaningful work and their colleagues. Personal development chiefly motivates people up to age of 34 and university graduates. The most frequent reasons for leaving a job are low salary (28%), unsatisfying work organisation (23%) and lack of leadership (18%). According to the survey, 25% of people are actively seeking a new job, while another 41% would respond to a good offer. This finding confirms that the labour market in the Czech Republic offers investors an unprecedented opportunity to gain skilled labour, regardless of what the general unemployment rate may indicate.

The survey also examined benefits in detail, both those offered by employers and those desired by employees. While employers most frequently provide meal vouchers, refreshments at the work place, corporate social events and contribution to pension insurance, employees consider the top five benefits to be an additional month's salary/bonus, holiday leave in excess of that required by the law, the opportunity to work up hours, meal vouchers/allowance and health leave/sick days. ■

### What motivates employees the most in their job?

|                 |     |                                 |     |
|-----------------|-----|---------------------------------|-----|
| Salary          | 29% | Personal growth, new experience | 16% |
| Meaningful work | 27% | Benefits                        | 7%  |
| Colleagues      | 19% | Career growth                   | 2%  |

Source: Grafton Recruitment, 2019

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**grafton** |  
recruitment

# Get more information about **state aid**

The Czech Republic provides various forms of state aid for launching new investment projects and expanding existing investments. Investment incentives are a key tool in attracting new investments. The current priority is to support investments with higher value added and innovation projects. The Czech Republic focuses on support for high-tech projects, research and development and environmentally friendly initiatives.

## Investment incentives are provided mainly in the following forms:

- Corporate income-tax relief for ten taxable periods.
- Cash grants for creation of new jobs (only for selected regions).
- Cash grants for training and retraining of employees (only for selected regions).
- Cash grants for acquisition of fixed assets for strategic investments.

Additional tax benefit can be obtained for R&D activities under a separate measure – R&D tax allowance. There are also other types of state aid available, especially for prioritised investments in R&D, innovations and energy savings.

## Main conditions

The following types of investments can obtain investment incentives:

- **Manufacturing industry** – launch of new production, expansion of existing production or expansion of the product range through introduction of new products or a fundamental change in the production process.
- **Technology centres** – establishment of a new technology centre, expansion of an existing one or expansion through the introduction of new products.
- **Business support services centres** – establishment of a new business support services centre, increase of capacity or launch of new services covering software centres, data centres, repair centres or shared-services centres.

The following conditions apply for all types of investments:

- Acquisition of assets for the project, including con-

struction works, cannot start before the application for incentives is submitted.

- Implementation of environmentally friendly activities, buildings or facilities.
- Retention of the investment at the location of the investment project in the amount and structure corresponding to the claimed state aid.

Every project will be subject to the government's approval. Moreover, projects in the manufacturing industry will also have to achieve higher value added, which relates to R&D activities and wage conditions in selected regions.

## Strategic investments (large projects)

Large projects can qualify for strategic investment status. The main benefit of this status is the possibility to obtain a larger portion of incentives in the form of cash grants instead of tax relief.

## Income-tax relief

The calculation of tax relief is different for greenfield projects (tax holiday) and expanded facilities. However, tax relief may be applied for ten taxable periods for both types of projects.

## Permissible level of state aid

The maximum amount of state aid is set at the level of up to 25% of eligible costs (investment in land, buildings, machinery and equipment and selected intangible assets).

## Cash grant Job creation

Cash grants can be provided to an investor that creates new jobs in a region where the unemployment rate is higher than 7.5%. The cash grant for job creation amounts to CZK 200,000-300,000 per new job (approx. EUR 8,000-12,000) based on the type of position and the region where the investment is carried out.

## Training and retraining of employees

Cash grants for training and retraining employees can cover up to 50% of the eligible costs expended on training and retraining.

## R&D tax allowance

Companies performing R&D activities can apply a special tax deduction for such activities. The R&D deduction in fact allows companies to claim internal R&D costs twice, both within their profit-and-loss account and as a special tax deduction. ■

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# 5

# Protect your **intellectual property rights**

As today's business market develops at a faster and faster rate and competition between entities is forever growing in all sectors of business, one of the most highly recommended steps in terms of doing business is ensuring the protection of intellectual property rights. Therefore, it is necessary to be familiar with the most common intellectual property rights connected with doing business and to know how to ensure protection of those rights in the Czech Republic.

**T**rademarks are regulated by Act No. 441/2003 Coll., on Trademarks, as amended, according to which a trademark is understood as a designation consisting of words, letters, numerals, colours, drawings, shapes of products or their packaging and sounds that is capable of (i) distinguishing the products and services of a particular entity from those of other entities, and (ii) being expressed in the Czech Trademark Register in a way that allows Czech bodies to determine the scope of rights vested in the trademark owner. In order to obtain an ownership title to a Czech trademark, it is necessary to register the trademark with the Czech Intellectual Property Office (IPO). A fee must be paid together with the application. Once an application has been submitted, the application is granted a so-called priority right. If the application

is in accordance with the law, the trademark can be successfully registered and protected for a period of ten years following the filing date of the application with the Czech IPO (thanks to the priority right) with the possibility of renewal for another ten years.

#### Patents

Inventions can be protected by registering them with the Czech IPO. Protection of an invention takes the form of a patent and the registration process and the patent itself are regulated by Act No. 527/1990 Coll., on Inventions and Improvement Proposals, as amended. Again, the process of registering an invention with the Czech Patent Register is carried out by the Czech IPO. A fee must be paid in order to initiate the registration process. The application must include a description of the invention and, most importantly, the claims for the patent. As for the duration of the patent, an invention is protected in the Czech Republic for 20 years following the filing date of the application.

#### Copyrights

The current Czech legislation governing copyrights is Act No. 121/2000 Coll., on Copyrights, as amended, and

Act No. 89/2012 Coll., the Civil Code, as amended. Since copyrights are exclusively associated with an author, only a natural person can be an author of a copyrighted work, i.e. a company cannot be an author. A copyright has two basic components: personal rights and economic rights. Different consequences are connected with each right. In terms of economic rights, the protective period lasts for the life of the author and for an additional 70 years following the author's death. In contrast, personal rights are extinguished upon the author's death. Although copyrights are not registered in any official register, a person other than the author cannot use a copyrighted work without the prior consent of the author.

#### Summary

As is apparent from the above, the Czech legislation provides fairly strong options for protection of intellectual property rights. Due to this fact, anyone may successfully protect his/her intellectual property rights if he/she registers such rights with the Czech IPO and can thus safely do business in the Czech Republic (with respect to intellectual property matters). ■

### Trademark applications

|   | 2013   | 2014  | 2015   | 2016  | 2017  | 2018  |
|---|--------|-------|--------|-------|-------|-------|
| Total applications                                      | 11,360 | 9,630 | 10,394 | 9,639 | 9,909 | 9,647 |
| Total national applications                             | 8,975  | 8,270 | 8,434  | 8,225 | 8,071 | 7,638 |
| of which from domestic applicants                       | 8,302  | 7,643 | 7,848  | 7,439 | 7,438 | 7,042 |
| of which from foreign applicants                        | 673    | 627   | 586    | 786   | 633   | 596   |
| International trademarks designating the Czech Republic | 2,385  | 1,838 | 1,960  | 1,414 | 1,838 | 2,009 |

Source: [www.upv.cz](http://www.upv.cz), November 2019

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# Moving to the Czech Republic (housing, education and medical costs)

The Czech Republic has a number of attributes that make it attractive to foreign corporate and individual investors, not the least of which are its investment incentives, low taxes, strategic location and affordable cost of living. Housing, education and medical costs are all essential considerations that dramatically affect the cost of living and quality of life in any country. So, just how affordable is the Czech Republic?

## Average monthly rental costs

| Studio flat | Two-bedroom flat |
|-------------|------------------|
| Prague      |                  |
| EUR 455     | EUR 1,143        |
| Brno        |                  |
| EUR 375     | EUR 666          |
| Ostrava     |                  |
| EUR 229     | EUR 565          |

Note: Prices of furnished and unfurnished apartments excl. fees  
Source: Sreality.cz, January 2020

## The Czech education system

|   |                    |
|---|--------------------|
| Preschool education   | 2 to 5 years old   |
| Elementary education  | 6 to 15 years old  |
| Secondary education – high schools, grammar schools, colleges and training colleges | 16 to 19 years old |
| Higher education – universities   | 19 and above       |

**Cost of living in the Czech Republic**  
According to Numbeo, one of the world's largest databases focusing on cost-of-living expenses, Prague ranks 242<sup>nd</sup> out of 438 cities in the world in the Cost-of-Living Index. Brno ranks 255<sup>th</sup>, followed by Ostrava at 277<sup>th</sup>.

## Cost of living index

|              |       |
|--------------|-------|
| New York, NY | 100   |
| Paris        | 84.95 |
| London       | 80.82 |
| Munich       | 72.05 |
| Vienna       | 65.47 |
| Berlin       | 64.63 |
| Barcelona    | 58.57 |
| Liubiana     | 54.66 |
| Prague       | 48.96 |
| Bratislava   | 48.15 |
| Brno         | 45.90 |
| Warsaw       | 44.01 |
| Budapest     | 43.39 |

Source: Numbeo, January 2020

## Housing

The costs of short-term serviced apartments, which can be used as temporary accommodation, vary from EUR 1,000 to EUR 3,000 per month depending on location and the scope of provided services.

## Education

Needless to say, school is very important. It is not only a place for education, but also for students to socialise and build a network of peers, which leads to good physical and mental health. Education at public schools/preschools is free of charge in the Czech Republic. Students are required to speak Czech in order to enrol. For expat students who do not speak Czech, international schools/preschools can be a perfect solution. Average annual tuition of private international schools/preschools (for ages range 3-18) cost from approx. EUR 8,770 to 10,940 in Prague, Brno and Ostrava.

## Healthcare

Czech citizens, permanent residents, EU nationals and those contributing to the public healthcare system are entitled to medical care in the Czech Republic (which is funded by mandatory health-insurance contributions). Moreover, there are many private health-insurance plans available for those who need them (e.g. third-country nationals who are not employed in the Czech Republic). The average annual price of comprehensive private health insurance varies from approximately EUR 400 to EUR 2,000, depending on the age of the insured person, level of coverage, insurance policy, etc. If you are seeking individualised healthcare and a language you are familiar with, you can also register at private medical facilities in the Czech Republic. The annual membership fees at such facilities vary from approximately EUR 300 to EUR 800 depending on the facility and the scope of provided services. ■

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RELOCATION & CONCIERGE

# Association for Foreign Investment

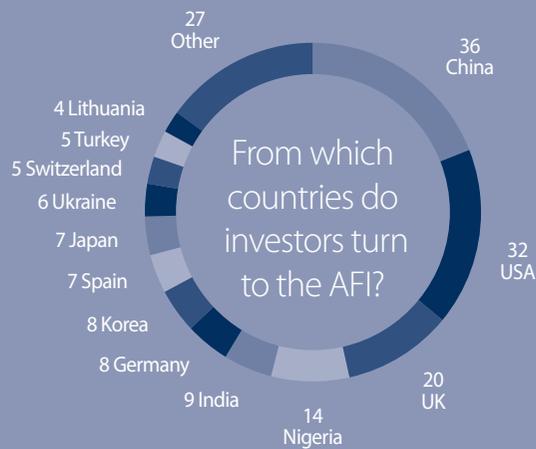
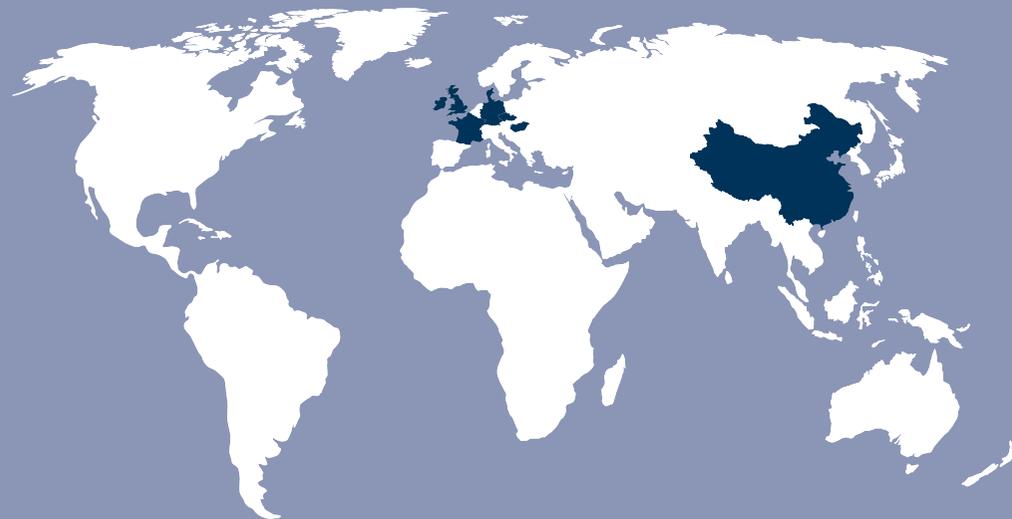


“ We have been cooperating with AFI members for years in a wide range of areas – tax, legal, HR and construction issues. The service they provide us is always on a high professional level that we can rely on and is crucial for such a huge investment project as ours. To a certain extent, the AFI's members are like our guides helping us to understand the local business environment. I am happy that the AFI has become the first point of contact for foreign investors in the Czech Republic. ”



**Ivan Dzido**  
External Affairs  
Senior Specialist  
NEXEN TIRE Europe

Where did the AFI hold events in 2019?



Note: data for the period 2019.

## About the AFI

The Association for Foreign Investment (AFI) is a non-governmental, non-profit organisation representing a group of leading global and regional firms actively supporting investors. The AFI focuses on foreign direct investment, export of investments and services, commercialisation of R&D, support for innovative start-up projects and development of the Czech business environment.

## Notable events

### Cooperation of the Year project

The main objective of the project is to raise the profile of the Czech R&D environment and thus support the inflow of new investments and expansion of existing investments in this sector with higher value added.

### Regional seminars

In cooperation with CzechInvest and other partners, the AFI regularly organises seminars, especially for after-care clients, in areas such as visas, permits and HR.

### Investment seminars

In cooperation with CzechInvest and other partners, the AFI regularly organises seminars for investors abroad. In 2019 these seminars were held in, for example, Dublin, Tel Aviv, Nanjing, Düsseldorf and Taipei.

### How to reach us

- +420 224 911 750
- [www.afi.cz](http://www.afi.cz)
- @AFI\_czech
- LinkedIn

- 1996 when the AFI was established
- 43 members
- 187 enquiries from investors (2019)
- 54 events in the Czech Republic and abroad in 2019



Tomáš Ctibor



Jan Ámos Havelka



Martin Slabý



Jan Bobek



Kamil Blažek

Chairmen of AFI

1996

2000

2005

2008

2010

# Finance your investment



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# How **investment incentives** work in the Czech Republic

Investors who place their investments in the Czech Republic can obtain aid in the form of investment incentives, which are provided pursuant to Act No. 210/2019 Coll., on Investment Incentives (valid as of 6 September 2019).

**C**zech and foreign legal entities and natural persons engaged in business can apply for investment incentives. Only a legal entity with its registered office in the Czech Republic can be a recipient of investment incentives.

## General eligibility criteria

For all types of activities, it further applies that the recipient shall not start work on the given project (i.e. shall not acquire any assets including orders of machinery and equipment and shall not

commence construction works) prior to submitting the incentives application to CzechInvest. All of the conditions must be fulfilled within three years from the issuance of the Decision to Grant Investment Incentives and the recipient shall retain the assets and created jobs throughout the entire period of utilising state aid, at least for a period of five years.

## State aid

| Size of company | % of eligible costs |
|-----------------|---------------------|
| large           | 25                  |
| medium-sized    | 35                  |
| small           | 45                  |

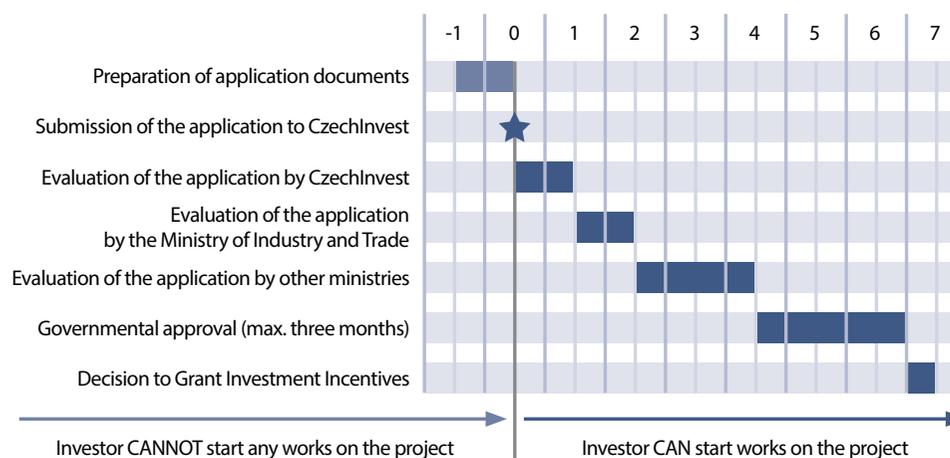
## Sample calculation

The investor (large enterprise) plans to invest a total amount of EUR 6 million in assets in a technology centre. The state-aid intensity is 25% of eligible costs. Therefore, the maximum state-aid ceiling is EUR 1.5 million. The maximum amount of state aid may be drawn in the form of corporate income-tax relief for ten years and cash grants for job creation. Cash grants for training and retraining of employees are provided above the state-aid ceiling, i.e. as cash in addition to the previously mentioned EUR 1.5 million.

## Application process

The process of applying for investment incentives differs depending on whether the investor is initiating a new investment or an expansion of an existing investment. In both cases, the incentives applica-

## Expansion of a Czech entity\*



The approval process takes approx. seven months.

Source: CzechInvest, 2019

### Supported areas

| Manufacturing industry                  | Technology centres                       | Business support services centres                         |
|---|--|---|
| introduction or expansion of production | construction or expansion of R&D centres | construction or expansion of shared-services centres      |
|   |  | construction or expansion of software-development centres |
|   |  | construction or expansion of high-tech repair centres     |
|   |  | construction or expansion of data centres                 |

Source: CzechInvest, 2019

### Definition of the high-value-added condition

|  |  |   |
|--|--|---|
| Min. 80% of employees are paid at least the average wage in the region | + one of the following conditions A) or B) or C) | A) 10% ratio of university degree employees and active collaboration with R&D institutions amounting to 1% of eligible costs<br>*if spend at least 1%, ie. 1% or more |
|  |  | B) 2% ratio of R&D employees  |
|  |  | C) Investment of 10% of eligible costs in machinery for R&D purposes  |

Source: CzechInvest, 2019

tion has to be approved by the Czech Government based on the anticipated benefits of the project for the region and for the state budget. A recent amendment to the Investment Incentives Act extended the application process.  
**In the case of expansion of an investment, it is a single-round process described in the scheme.\***  
**Extended two-round process in the case of initiating a new investment:** This process involves the establishment of a new Czech legal entity. The Decision to Grant Investment Incentives is

issued within roughly ten months following submission of the application to CzechInvest. The investor can start implementing the investment immediately after submitting the application; it is not necessary to wait for issuance of the aforementioned decision.

#### Forms of investment incentives

**Corporate income-tax relief** for companies for a period of up to ten years. For new companies, this incentive is provided in the form of full tax

### Eligibility criteria for strategic investments

|                          | Min. investment in EUR million | Min. number of new jobs |
|--------------------------|--------------------------------|-------------------------|
| Manufacturing industry   | 19                             | 500                     |
| Technology centres       | 8                              | 70                      |
| High-tech repair centres | 8                              | 100                     |

Source: CzechInvest, 2019

Note: Half of the investment must go into new machinery.

relief; for existing companies, in the form of partial tax relief.  
**Cash grants for job creation** in technology centres in the amount of EUR 7,800 per each new job created. An investment in production can receive a cash grant for job creation only in regions with an unemployment rate of at least 7.5%.

**Cash grants for acquisition of assets** for strategic investments in the manufacturing industry in the amount of up to 10% of eligible investment costs; in technology centres and high-tech repair centres, up to 20% of eligible investment costs. This type of support must be approved by the Czech government.

**Cash grants for training and retraining of new employees** in technology centres in the amount of 50% of training costs. An investment in production can receive a cash grant for training and retraining only in regions with an unemployment rate of at least 7.5%.

#### Eligibility criteria

**Manufacturing industry:** Investment of EUR 2-4 million depending on the region, half of which must be

invested in new machinery + the condition of high value added in developed regions.  
**Technology centres:** Investment of EUR 0.4 million, half of which in new technology + creation of 20 new jobs.  
**Business support services centres:** creation of 20-70 new jobs depending on the type of BSS. Services must be provided in at least three countries.

#### Eligible costs

- **Long-term tangible and intangible assets,** whereas the value of machinery must comprise 50% of eligible costs.
- **Two years' gross wages** of employees in newly created positions. The investor shall select one option.

In the period from 1998 to 31 December 2019, a total of 1,278 Decisions to Grant Investment Incentives were issued on the basis of registered applications. In the period from 1998 to 2019, investors committed to investing more than CZK 955 billion (approx. EUR 37 billion) and creating more than 198,600 new jobs. ■

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# Get the best out of **European funds**

Foreign investments involving EU funds are broadly supported by the administrative authorities in the Czech Republic. Banks and other entities offer wide range of products for uninterrupted project financing with regard to the EU subsidies schedule.

It is crucial to correctly manage the EU subsidy application process so that the drawing of subsidies and project financing are smoother and the related costs are minimised. It is recommended that potential applicants:

- i. Regularly monitor opportunities to obtain investment incentives.
- ii. Communicate in a timely manner with the respective authorities regarding the conditions for obtaining investment incentives and prepare the given project so that it properly fulfils the stipulated conditions.
- iii. Establish and coordinate with a team of local tax, legal and other advisors to ensure smooth project implementation and coordination with the authorities.
- iv. Ensure co-financing of the project.
- v. Observe the project's ongoing compliance with the conditions for obtaining investment incentives while it is being drafted.

#### **EU funds**

For the programming period 2014-2020, EUR 24 billion has been allocated from the Funds to the Czech Republic, providing financing through ten programmes supporting more than 196,000 projects. The post-2020 programming period is currently being discussed. The possibility to use European funds in this period will persist until the end of 2023 due to delayed negotiations regarding the provision of funding.

#### **Other investment support opportunities**

The Czech Republic also supports foreign investments such as investment incentives, preparation of industrial zones and other support from governmental

agencies such as CzechInvest and CzechTrade. Banks in the Czech Republic offer products intended for additional funding of projects with EU subsidies.

#### **Banks provide**

- i. Loans for pre-financing of EU subsidies - offer financing to cover the time gap between the immediate need for funding to implement a project and the drawing of a subsidy from EU funds.
- ii. Loans for co-financing projects - serve to cover project expenses not covered by subsidies from EU funds.
- iii. Loan commitments - enable aid applicants to provide evidence of full project financing.

#### **Public entities**

If the aid recipient is an organisational unit of the state administration, a state contributory organisation, a legal entity engaged in the management of school and educational facilities, a territorial self-governing unit, the City

of Prague including its contributory organisation, a public university, a research organisation or a private entity engaged in public-benefit activities, EU aid can be used to cover 85% of the eligible costs of a project in less developed regions and 50% of the eligible costs of a project in the City of Prague without exception.

#### **Private entities**

With respect to other entities, whether or not state-aid conditions have been cumulatively fulfilled within the particular project must be taken into account when determining whether a given project is eligible for EU support. State aid applies in cases where (i) support is provided by the state or via public funds; (ii) support is selectively provided preferentially to certain enterprises or sectors; (iii) competition is/will be disrupted; and (iv) there is an impact on EU member states' trade. Generally, if the drawing of funds by the recipient does not fulfil the state-aid conditions, support at the EU level reaches 85% of eligible costs in less developed regions of the Czech Republic. If the drawing of funds by the recipient fulfils the state-aid conditions, EU aid is further reduced based on the size of the enterprise. The purpose of this article is to provide basic information regarding the use of EU funds in the Czech Republic. ■

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**P / R / K**

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# Finance your **future** with **OPEIC**

Within the framework of the Operational Programme Enterprise and Innovation for Competitiveness for the period 2014–2020, it is possible for applicants to use financial resources from European Union structural funds for co-financing business projects in the manufacturing industry and related services. Funding will be provided in the form of non-returnable subsidies, preferential loans and guarantees. Eligible projects are those that are implemented within the borders of Czech Republic, though outside of Prague.

**T**he Operational Programme Enterprise and Innovation (OPEIC) is the main financial tool for supporting enterprise and manufacturing industry within the Czech operational programs supported through EU funds. Approximately EUR 4.3 billion has been allocated from the European Regional Development Fund for projects within OPEIC. The programme's managing authority (Ministry of Industry and Trade) delegates the majority of the implementation tasks to the Business and Innovation Agency (Agentura pro podnikání a inovace – API). The API is a mediating entity basically for grant-based aid and is responsible for communication with aid applicants and recipients. This communication is conducted through ISKP 2014+, an information system for financial aid beneficiaries, which serves for all operational programmes at the national level in the 2014–2020 programming period.

#### **Aid recipient**

Small or medium-sized enterprises are eligible to receive aid within OPEIC, though in some programmes large enterprises with more than 250

employees can also apply for aid. Projects must be implemented within the Czech Republic, outside the city of Prague (the seat of the company can be located anywhere in the Czech Republic). Aid will be provided in compliance with the individual state-aid rules.

Applicants must be registered as income-tax payers within EU countries uninterruptedly for a period of no less than two closed tax periods preceding the date of the submission of the aid application (in the case of related enterprises, the parent company's account history can be provided). The given company must be registered in the Czech Republic as at the date of the Decision to Provide a Subsidy. Another important criterion is that any project implemented within OPEIC must be implemented in the manufacturing industry, generally in sectors CZ-NACE 10-33.

#### **Process of applying for aid and project evaluation**

Applications for the OPEIC grant programmes are submitted via the MS2014+ internet application, which is only in Czech language. Application can be accessed via [mseu.mssf.cz](http://mseu.mssf.cz).

## Overview of the OPEIC programmes

| Programme  | Programme description  |
|--|--|
| Innovation – Innovation Project and Project for Protection of Industrial Property Rights | Support for activities aimed at implementation of innovation projects in enterprises; support for activities aimed at the protection of industrial-ownership rights  |
| Potential  | Support for creation and expansion of infrastructure for companies' development and innovation activities  |
| Application  | Support for industrial research and experimental development   |
| Knowledge Transfer Partnership   | Support for establishment of partnerships between small and medium-sized enterprises and organisations for research and dissemination of knowledge for the purpose of transferring knowledge and related technologies and skills   |
| Cooperation  | Support for the creation and development of cooperative branch groupings – clusters, fields of excellence, technology platforms and co-operative projects  |
| Innovation Vouchers  | Support for purchase of consulting, expert and supporting services in the area of innovation from organisations for research and dissemination of knowledge with the objective of initiating or intensifying the innovation activities of small and medium-sized enterprises |
| Infrastructure Services  | Support for the establishment, development and operation of science-and-technology parks and technology-transfer centres   |
| Proof of Concept   | Support for activities leading to commercialisation of research results through activities involving verification of feasibility   |
| Technology   | Support for increasing the number of implemented new business projects of small start-up companies and small and medium-sized enterprises  |

|                                       |  |
|---------------------------------------|--|
| Marketing                             | Increase of small and medium-sized enterprises' marketing activities in foreign markets; support for participation of manufacturing companies and service providers at foreign trade fairs and expositions |
| Properties                            | Support for the creation and development of business properties including related infrastructure, enterprise zones and brownfield regeneration   |
| Training Centres                      | Support for the creation and development of infrastructure intended for education and development of human resources in businesses   |
| Expansion                             | Support for dynamically developing small and medium-sized enterprises in the form of subsidiary loans and guarantees   |
| Venture Capital                       | Financing of entrepreneurial projects of entities entering into business for the first time or after an extended period of inactivity  |
| Renewable Sources of Energy           | Expanded use of renewable and secondary sources of energy  |
| Energy Savings                        | Reduction of the energy intensity of production  |
| Smart Grids I (Distribution Grid)     | Support for deployment of automated, remotely controlled elements in distribution grids  |
| Low-Carbon Technologies               | Introduction of innovative technologies and pilot projects involving introduction of energy-accumulation, savings and transportation technologies  |
| Energy Savings in Heat Supply Systems | Refurbishment and development of heat supply systems, primarily heat distribution facilities and introduction and increased efficiency of electricity/heat co-generation systems                           |
| Smart Grids II (Transmission Grid)    | Support for construction, reinforcement, modernisation and refurbishment of transmission mains and transformers  |
| High-Speed Internet                   | Modernisation or expansion of the existing infrastructure for high-speed access to the internet  |
| ICT and Shared Services               | Support for new manufacturing technologies, ICT and selected business support services   |

Source: API, 2020

The conditions to which the applicant is bound to comply include, in particular:

- Selection of suppliers of orders for which aid will be provided from OPEIC in accordance with previously established regulations.

**I.** Successful registration requires a qualified certificate (electronic signature). The first step is to establish a User Account.

**II.** The application includes information about the applicant and the project and the required appendices, particularly the business plan and the specific requirements of the particular programme. With the application, the date on which eligible costs arise is given. From this date, costs expended in connection with the project can be considered as deductible. The applicant can also begin construction works, sign contracts, order goods and services, pay for orders, etc.

**III.** The applicant and the project will undergo an evaluation of acceptability including an economic evaluation. Projects are evaluated on the basis of clearly defined and publicly known criteria.

**IV.** In the event that the project is approved, a Decision to Provide a Subsidy including the terms and conditions thereof shall be signed by the aid recipient and the Ministry of Industry and Trade.

**V.** The subsidy will be paid out to you ex-post on the basis of a submitted application for payment. You will submit the Application for Payment of a Grant in electronic form following completion of a phase of the project or of the entire project in accordance with the Decision to Provide a Subsidy.

- Assurance of publicity of supported projects in the form of posters, signs, billboards, etc. during and after implementation of the project in accordance with the established regulations.
- Division of projects into individual phases according to the schedule of works on the basis of previously established conditions (the length of phases is limited by duration and the aid amount).
- Monitoring of projects in the sustainability period – continuous evaluation of progress in the supported projects. The period is three years for SMEs and five years for large enterprises (from the date of the last payment). ■

### Support in compliance with the guidelines on regional state aid

| Size of enterprise | Aid intensity in 2014-2020 |
|--------------------|----------------------------|
| Small              | 45%                        |
| Medium-sized       | 35%                        |
| Large              | 25%                        |

Source: API, 2020

### Framework of state aid for research, development and innovation

| Type of aid   | Small enterprise | Medium-sized enterprise | Large enterprise |
|---|------------------|-------------------------|------------------|
| Industrial research   | 70%              | 60%                     | 50%              |
| Experimental development                                      | 45%              | 35%                     | 25%              |
| Aid for feasibility studies                                   | 70%              | 60%                     | 50%              |
| Aid for construction and upgrading of research infrastructure | 50%              | 50%                     | 50%              |

Source: API, 2020

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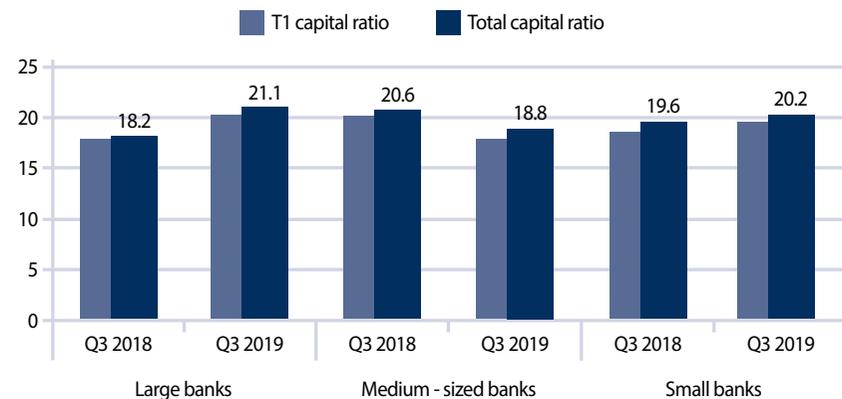
BUSINESS  
AND INNOVATION  
AGENCY

# Financing foreign investments in the Czech Republic

Many countries strive to attract foreign direct investment (FDI), as the knowledge brought by multinationals is likely to spill over into domestic industries and increase their productivity. Local governments typically use different investment incentives to support FDI inflow. However, incentives need to be complemented with liberal exchange control rules, a healthy banking wsector and functional financial and capital markets to allow for efficient financing of individual investments.

The Czech Republic has been a member of the European Union since May 2004 and it fully complies with the key principles of free trade and capital flows. Therefore, there are virtually no restrictions or administrative burdens for foreign investors with respect to providing equity contributions or intercompany loans to finance their investments and, conversely, to repatriating profits from their investments through payment of dividends or to repaying intercompany loans. The country's legislation and regulations also permit the utilisation of liquidity management structures and investors can efficiently manage their intragroup funding through all types of local and cross-border target balancing and cash pooling systems. If investors need external funding in the Czech Republic, they will find a very modern, safe and competitive banking sector. There are 49 entities with banking licenses on the Czech market (as at December 2019). Two of these are owned by the Czech state while most of the remaining 47 institutions are either branches or subsidiaries of foreign banks.

The Czech banking system's capital adequacy ratios, in %



Source: Czech National Bank, 2019

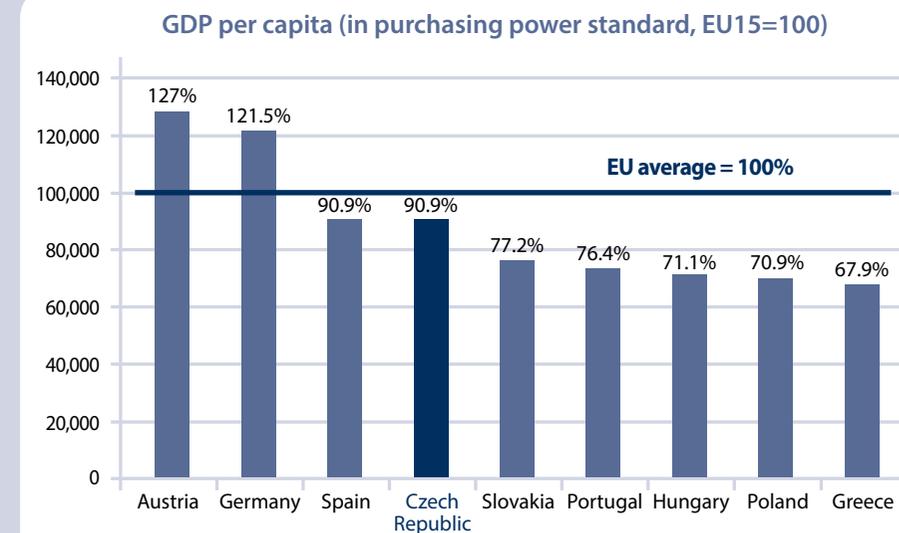
In terms of market share, the local banking sector is quite concentrated on loans and roughly 63% of all loans are held by the four leading banks (as at September 2019). The Czech banking sector is very safe, with strong liquidity (average loan/deposit ratio of 70% as at December 2019), high capital adequacy (average total capital ratio of 20.2% as at September 2019; see chart) and good asset quality (average share of non-performing loans to resident and non-resident clients of 2.7% as at September 2019). As a result, local banks are able and willing to extend financing to all viable foreign investments in the Czech Republic at very competitive prices in domestic and foreign currencies. Local banks offer all types of funding products, from plain vanilla financing (investment loans, working capital financing, overdrafts) through trade, export and asset-based finance (buyer's credit, factoring, forfaiting, structured trade finance, real estate financing, leasing), to structured finance (club and syndicated loans, acquisition and leveraged finance, project finance), all of which support foreign investments throughout all stages of their lifecycle.

Larger investments can be financed through debt and equity capital markets that offer deep and liquid distribution to both domestic and international investors. The Czech Republic boasts the best ratings (S&P and Fitch: AA-, Moody's: Aa3, all of which are stable) of all the CEE countries and its sovereign strength is positively reflected in sought-after corporate issuance in CZK and EUR. Thus, the local capital market has proven to be the most active when compared to its CEE peers. The individual funding instruments are typically used in combination in order to create the optimum capital structure and to minimise financing costs. Corporate issuers can also make use of hedging of the interest-rate and FX risks related to the chosen funding structure.

The Czech Republic is an open, export-oriented economy with liberal exchange control regulation, a competitive banking sector and efficient financial and capital markets. As such, it offers a broad range of financing instruments to foreign investors, which can efficiently fund and manage financial flows related to their investments in the Czech Republic. ■

## The Czech Republic: a converging economy with opportunities

Due to lower initial starting conditions, the degree of economic development in the Czech Republic measured by GDP per capita in purchasing power standards is still somewhat lower than the European Union average. However, the Czech Republic, thanks to its higher average growth, has been converging towards EU levels and, in terms of GDP per capita, it has already overtaken several older EU and euro-area member states. The country's growth potential is expected to remain strong for the foreseeable future. The Czech Republic has benefitted from its membership in the European Union and from its close economic integration with the euro area. The share of trade with the euro area is around 65%; the country's largest trading partner is Germany, followed by Slovakia. Skilled and competitive labour is one of the comparative advantages of the Czech economy, along with political stability and geographical and cultural proximity to its euro-area trading and business partners. The Czech economy has therefore attracted a sizable regular inflow of foreign direct investment. Close ties with German manufacturing create strong demand for the quality of Czech production and have contributed to rapid technological advances. The Czech economy's potential is supported by its economic policies. The country's independ-



Sources: European Commission, 2018

ent monetary policy proved an advantage in the economic crisis and its aftermath. The central bank's clear strategy of inflation targeting has proven effective in steering inflation expectations in the economy towards healthy levels.

The still relatively low general government debt is another advantage of the Czech economy. The share of government debt to GDP is around 33% and is projected to somewhat decline in the coming years thanks to economic growth.

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# Czech discoveries and inventions

## Tatra

Established in 1850, the Czech company Tatra is the third-oldest car manufacturer in the world. One of the world's oldest factory-made cars is the Tatra Präsident, which was first produced in Kopřivnice in 1897.

## Beer

The first pilsner-style beer was produced in Plzeň in 1842.

## Polarography

Physical chemist Jaroslav Heyrovský invented polarography in 1922 and is considered to be the father of electroanalytical chemistry. He received the Nobel Prize for chemistry in 1959.

## Laws of heredity

Moravian scientist Gregor Mendel discovered the basic laws of heredity and was the first to use biostatic methods in his work, the results of which were initially presented in 1865.

## AIDS drugs

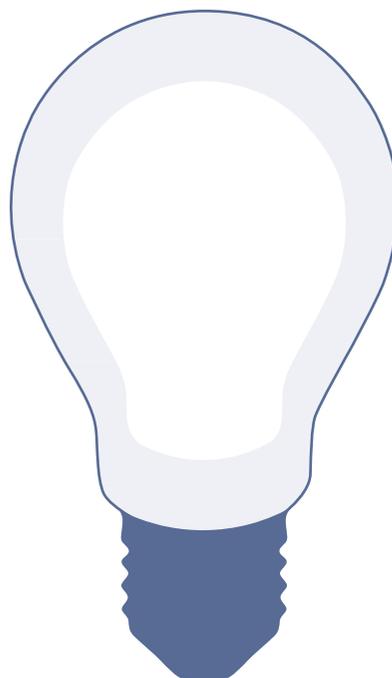
Drugs developed by Czech chemist Antonín Holý are part of the most effective available medications for fighting AIDS, as well as shingles, viral infections of the ocular mucous membranes and hepatitis B.

## Blood types

Czech neurologist Jan Jánský discovered the four basic blood types in 1907.

## Electron microscope

Czech physicist Armin Delong introduced the first Czech electron microscope into production in 1949, which later led to the fact that the city of Brno is considered to be the global centre of electron microscopy.



## Kaplan turbine

In 1910-1912, Czech scientist Viktor Kaplan invented the Kaplan turbine, which became the most significant type of turbine used in large hydropower plants around the world.

## Sugar cubes

This common form of sugar was first produced at a sugar mill in the town of Dačice in 1843.

## Robot

The word "robot" was coined by Czech writer Karel Čapek.

## Semtex

The plastic explosive is named after Semtín, where it was first manufactured in 1964. The plant was later renamed as Explosia, a subsidiary of Synthesia. Semtex was invented by Czech chemist Stanislav Brebera.

## Soft contact lenses

Czech inventor Otto Wichterle designed and produced the first soft contact lenses in 1961.

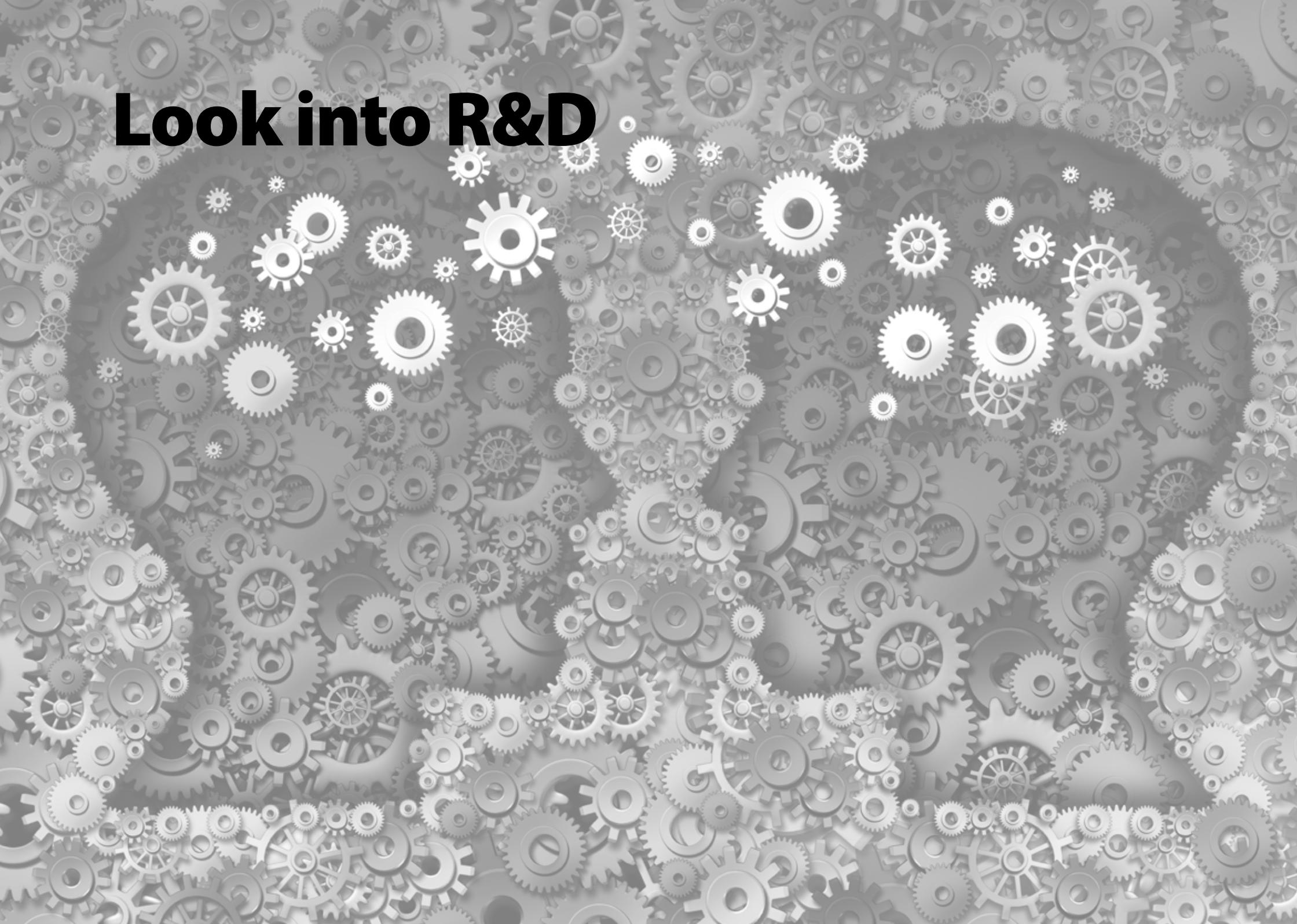
## Lightning rod

The lightning rod was invented by Czech inventor Václav Prokop Diviš in 1754.

## Screw propeller

The inventor of the maritime screw propeller, Josef Ressel, was from the Czech lands. Ressel had a ship-propulsion system comprising a steam engine and screw of his own design patented in 1827.

**Look into R&D**



# Digital and innovations - An opportunity for investors

In February 2019, the Czech government adopted a new innovation strategy called The Czech Republic – The Country for the Future, which lays out the vision for domestic economic development until 2030.

The Czech Republic's economic growth must be based on the innovation economy and not on the low costs of domestic production. It is necessary to foster the global success of companies through support for research, development and innovation and through closer cooperation between academia and industry.

## The leading role of artificial intelligence and other new and emerging technologies

The Czech government recently adopted the National AI Strategy (NAIS) and committed significant funding for investments aimed at boosting innovations in the economy, especially SMEs. The artificial intelligence agenda is included among the priority topics of the future EU multiannual financial framework for the pe-

riod 2021-2027 (e.g. the future Horizon Europe framework programme, Digital Europe Programme). The existence of the NAIS is a prerequisite for the efficient use of these EU instruments. The Czech Republic is heavily involved in the process of building a strong, interconnected and sustainable network of European digital innovation hubs. Furthermore, the construction of a European Centre of Excellence in AI in the Czech Republic is also one of the objectives of the government's Digital Economy and Society Strategy. The primary aim of the Czech Republic in the field of artificial intelligence is to increase the value added of innovative processes and services in industry and other services through the use of AI technologies while supporting Czech businesses in overcoming technological and economic challenges and exploiting the opportunities of the digital economy and Industry 4.0.

## Innovations and new technologies as an opportunity

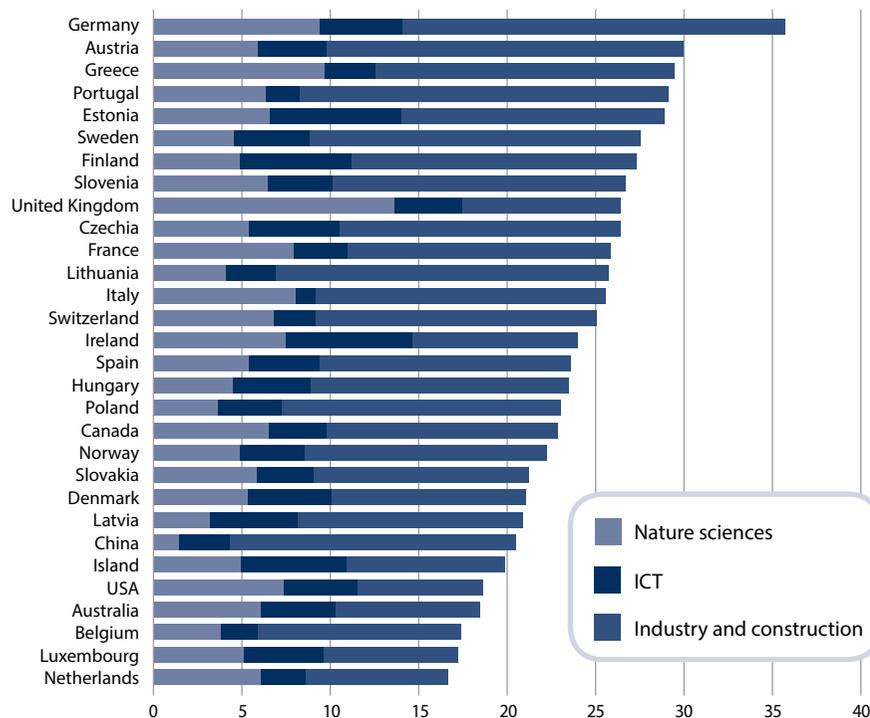
Advanced technologies and technological processes have spread to all areas of human life and we can expect this trend to continue in the future. It can be assumed that there will be greater demand for graduates in the fields of life sciences, mathematics and ICT, as well as for Big Data specialists, who are needed to create systems, and experts in robotics, cybernetics and informatics. Engineers, analysts and programmers will need

to be able to see beyond the narrow frameworks of their fields and to think across business models, production processes, machinery and data operations. The ability to effectively work with information is closely related to digital literacy. The key will be the ability to learn throughout one's life, to actively seek out current industry information and to use new technologies, the internet, social media, etc. Furthermore, there will be increasing emphasis on creative approaches to solving problems, independence, self-management, initiative, responsibility and ethics.

## What should Czech companies focus on?

Innovations and new technologies should lead mainly to the inception of individualised mass production, which will allow manufacturers to easily turn out unique products in units for a low price that approaches that of series production. In order for companies on the Czech market to be able to make individualised products for every customer for a favourable price, they need to adopt new business models and technological processes, such as advanced robotics and automation systems with algorithms of artificial intelligence. It will also be necessary to improve warehouse management, logistics and planning. While these issues represent complicated challenges, they also offer opportunities for capable and intelligent people, which the Czech Republic undoubtedly has. ■

Distribution of graduates and entrants by field (share of total number of graduates, %)



Source: OECD, 2017

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# The future of the Czech Republic lies in innovation.

## Our research makes collaboration attractive for businesses

Innovation in industry and other sectors of the Czech economy is an increasingly important driver not only for the many companies operating in the Czech Republic, but also for research institutes and universities that work with business. In this respect, the Czech Republic's research and innovation potential has strengthened significantly in recent years.

**B**ilateral cooperation between the business sector and researchers, with effective government support, is becoming one of the pillars of the Czech economy. Not only have we succeeded in increasing private sector expenditure on research, we have also stabilised public spending. A long-term plan to increase the institutional component of research funding by 4% year on year has been adopted. The Czech Republic offers to both domestic and foreign researchers a high-quality network of scientific infrastructure facilities whose construction was financed in the past through European funds. **In terms of the number and quality of its research centres, the Czech Republic is one of the EU's leaders.**

In the Czech Republic, the research, development and innovation environment has been developing vigorously in recent decades. Total expenditure on research and development in the Czech Republic has increased over the long term; in 2018, a record EUR 4.01 billion was spent on research and development in the Czech Republic.

Businesses invested nearly EUR 2.34 billion in research and development in 2018, mainly in in-house R&D. According to statistics, EUR 1.37 billion in domestic public funding was spent in 2018. However, the main objective in the area of funding is to create conditions for business expenditure to be at least 1.5% of GDP in 2025 and to reach 2% of GDP by 2030.

The involvement of respected foreign scientists in Czech research institutions is one of the most important forms of international cooperation that we have been able to develop recently. With ongoing support

from the government, RDI Council has **facilitated and simplified the arrival of incoming third-country scientists**; in addition to that, it is reinforcing its emphasis on scientific diplomacy with the aim of presenting the Czech Republic in selected regions as a country supporting public-private cooperation, including support for foreign investment. **Research is now an important employer in the Czech Republic.** At the end of 2018, almost 113,500 people (head count) worked in research and development, of whom 54.4% were researchers. Furthermore, a government-approved change in the methodology for evaluating research quality will be a key step in strengthening effective cooperation between the research sector and business, which will enable the RDI sector to be incentivised in the areas of basic, applied and corporate research. In addition, in line with the state investment policy, from now on only those companies whose activities are linked to research and development will receive investment incentives in the Czech Republic.

### **Innovation Strategy: The Country for the Future**

All of the aforementioned achievements of Czech science policy are supported in the current **Innovation Strategy of the Czech Republic 2019-2030**.

The strategy is ambitious in identifying the weaknesses of the Czech system and remedial measures, together with the objectives to be achieved over time. If all of its objectives are met, the Czech Republic should rank among the global leaders in research and innovation within the next decade.

The principal author of the Innovation Strategy, Deputy Prime Minister for the Economy, Minister of Industry

and Trade and Minister of Transport Karel Havlíček, who is also Vice-Chairman of the RDI Council, stresses that cooperation between companies (including support for SMEs) and research organisations has already become commonplace in the Czech Republic. It is now a matter of efficiently combining these strengths, including **improving the quality and efficiency of Czech research, development and innovation**. At the same time, science and research is one of the declared priorities of this government (evaluation and funding of research comprise the first pillar of the Innovation Strategy). Traditional Czech industry must take advantage of the challenges of, among other things, IT, robotics, cybernetics and biotechnology, and strengthen its competitiveness on the international scale by introducing new technologies. Connection to the digital economy, where most private-sector R&D expenditure is already heading, can help in this respect, as can existing support for the growth of the national start-up and spin-off environment. The automotive sector has the largest share of Czech industry and its exports; this is also reflected in its research and development.

### **Inducements for foreign scientists**

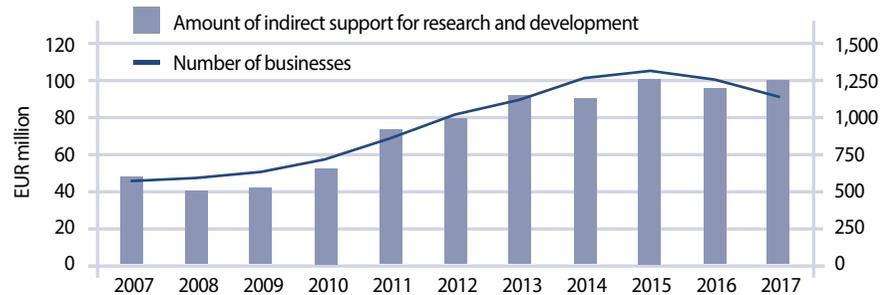
Today the Czech Republic can boast numerous outstanding research infrastructure facilities and science centres, which are beginning to have a significant impact on the quality of research. Currently, the primary objective is not to further expand the number of research facilities and centres, but rather to optimise their operation and to focus on supporting the best and most effective of them. The aim of research centres is to be able to generate top-level results over the long term, to employ top foreign scientists and to be attractive to private innovation firms, which should also increasingly participate in their operation and financing. Research facilities would then complementarily provide technological expertise that keeps step with the advanced international environment. Research infrastructure facilities and centres thus offer a suitable opportunity, for example, to form consortia with international participation or other forms of cooperation where larger and smaller companies will join together with research institutes and universities. ■

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# Tax deduction of R&D costs

Indirect public support for research and development and the number of private businesses benefiting from R&D tax deductions, 2007-2017



Source: Czech Statistical Office, based on GFD's administrative data, 2019

| Year | Number of legal entities |                    | Deductible amount (EUR million) |                    | Indirect R&D support (EUR million) |                    |
|------|--------------------------|--------------------|---------------------------------|--------------------|------------------------------------|--------------------|
|      | Total                    | Private businesses | Total                           | Private businesses | Total                              | Private businesses |
| 2005 | 454                      | -                  | 124                             | -                  | 32                                 | -                  |
| 2006 | 553                      | -                  | 163                             | -                  | 39                                 | -                  |
| 2007 | 583                      | 570                | 198                             | 197                | 48                                 | 47                 |
| 2008 | 608                      | 596                | 192                             | 191                | 40                                 | 40                 |
| 2009 | 641                      | 632                | 207                             | 206                | 41                                 | 41                 |
| 2010 | 739                      | 716                | 273                             | 273                | 52                                 | 52                 |
| 2011 | 892                      | 859                | 382                             | 380                | 73                                 | 72                 |
| 2012 | 1057                     | 1021               | 412                             | 410                | 78                                 | 78                 |
| 2013 | 1146                     | 1120               | 477                             | 475                | 91                                 | 90                 |
| 2014 | 1284                     | 1264               | 471                             | 468                | 90                                 | 89                 |
| 2015 | 1322                     | 1306               | 525                             | 522                | 100                                | 99                 |
| 2016 | 1266                     | 1248               | 495                             | 493                | 94                                 | 94                 |
| 2017 | 1149                     | 1135               | 522                             | 521                | 99                                 | 99                 |

Source: Czech Statistical Office, based on GFD's administrative data, 2019

The deduction of R&D costs from the income tax base is an easy way to reduce the amount of money paid to the tax authorities. Compared to direct subsidies, such deductions are easier to administer and can be used by any business, regardless of its place of business, scope of activity or size.

Every company in the Czech Republic is legally entitled to deduct twice the cost of R&D projects from its income-tax base (such costs can be applied twice on tax returns, i.e. as standard costs and again as deductions). However, it is necessary to first send a notice of the intention to claim a deduction to the tax authority. Companies must also process sound project documentation before a tax return is filed for the first fiscal year in which the given project is being implemented.

#### Yes to salaries, no to buildings

R&D deductions include operating costs, mainly the salaries of the staff involved in the project, depreciation of in/tangible fixed assets and the services of research organisations etc. On the other hand, deductions cannot include the purchase price of technologies or the depreciation of immovable assets.

#### What is research and development?

Companies primarily need to resolve the issue of what activities can be included in R&D deductions. The basic criterion is the presence of an element of novelty and the resolution of research or technical uncertainty.

An element of novelty with a value that can be determined comprises a clearly descriptive qualitative improvement of specific parameters or properties of a new product in comparison with the company's existing production. Research or technical uncertainty consists in, for example, conceptual, technological and constructional difficulties and/or the need to investigate the physical, chemical and other quantities or properties of materials more generally.

In short, it is necessary to research and develop new marketable products or services, at least within the company, without 100% assurance that results can be achieved. The activities supported by deductions include, for example, the production and validation of prototypes, experimental or theoretical work for application in new products, trial operations and methodological or software development.

#### Annual savings: EUR 98 million

The data collected in the past five years show that more than 1,100 businesses make use of tax deductions to save over EUR 78.4 million annually. In 2017, which is the last year for which data are available, a total of 1,141 businesses made use of tax deductions, saving a combined EUR 98.75 million. Businesses can apply R&D deductions directly or with the assistance of professional agents. ■

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# How TA CR funds science and research

The Czech Republic has always been a country of innovation. It has left its mark on all aspects of technology from holograms and nanofibres to cybernetics and astrophysics. We are the nation that invented the lightning rod, the ship propeller and contact lenses, and provided the first description of blood types.

Czech technical and even non-technical universities have a long tradition of conducting outstanding research. Our country has long been home to researchers who have changed the world for the better and aimed to propel the nation forward. Among them was Jaroslav Heyrovský, who received the 1959 Nobel Prize in Chemistry for his discovery of the analytic polarographic method. We are a nation of smart solutions, which is why we continue to invest in innovations that will lead to a better future for all. And this is also the goal of the Czech Republic's new innovation strategy titled *The Country for the Future*, which is composed of nine interlinked pillars, namely Financing and Evaluation of Research and Development, Innovation and Research Centres, Polytechnic Education, Digitalisation, Mobility and the Construction Environment, Intellectual Property Protection, Smart Investments, and Smart Marketing. The Technology Agency of the Czech Republic (TA CR) is one of the crucial institutions contributing to the successful implementation of this strategy and helping to achieve its strategic objectives.

Czech industry invests heavily in research and innovation actively used in digital manufacturing models that include AI, IoT and robotics. Even though Industry 4.0 is currently a key initiative in our country, Czech industry is also developing advanced technologies in other areas including autonomous mobility, pure mobility, cyber security, optoelectronics and many more. The Technology Agency of the Czech Republic is the main provider of state funding for research and innovation. Its objective is to promote cooperation between research organisations and businesses in order to ensure that practical

uses are found for the results of applied research. State-funded projects generate unique products, patents and other outputs that make it possible to quickly apply the results of research in practice. We help to increase the competitiveness of the Czech economy, which is growing thanks mainly to innovative domestic and foreign companies. Our programmes aim to provide funding for research and innovation that responds to new

## Main TA CR programmes\*

**GAMMA 2** - funds the verification of R&D results in terms of their practical application and subsequent commercial or societal use

**THETA** - focuses on new technologies and key trends in the energy industry

**ETA** - because TA CR does not wish to neglect the social sciences, this programme supports the innovative potential of social sciences, humanities and the arts

**ZETA** - support young researchers by helping them implement their applied research projects

**BETA 2** - aims to satisfy the research needs of the public administration and helps ministries and other institutions carry out research that should improve the functioning of the state

**National Centres of Competence** - ensures efficient collaboration between research organisations and businesses through virtual research centres focused on progressive disciplines that are crucial for increasing the Czech Republic's competitiveness

opportunities on the market and societal needs. TA CR funds hundreds of projects worth hundreds of millions of Czech korunas. These projects are closely related to the Smart Life principles and create an environment for the progressive development of new methods and technologies required for the implementation of the Industry 4.0 concept. Researchers and companies that wish to contribute to our country's development in any area with their unique solutions can submit their project proposals to individual TA CR programmes, each of which has its own functions and importance.\*

As the main provider of state funding for research and innovation, TA CR also administers the programmes of individual ministries. These include the **TREND programme** of the Ministry of Industry and Trade, which aims to increase the international competitiveness of enterprises through new products, manufacturing processes and services. The purpose of the **Ministry of Transport's Transport 2020+ programme** is to modernise transport while emphasising sustainability, safety and social needs. The Ministry of the Environment's programme called **Environment for Life** is aimed at creating a healthy environment and promoting the sustainable use of natural resources. Other programmes managed by TA CR for ministries include the **Land Programme**

and **The Country for the Future**, both of which are based on the Czech Republic's innovation strategy.

Our objective is to offer our support in research, development and innovation to as many partners as possible so that they can help us change the world for the better. We recognise that international collaboration and shared knowledge are essential for research. That is why we have several tools for promoting bilateral and multilateral collaboration. The bilateral tools include programmes of international cooperation focused on the development of knowledge and research through international collaboration between Czech entities and partners from various non-European countries (**DELTA 2 programme**) and Norway, Liechtenstein and Iceland (**KAPPA programme**). TA CR is also an active member of ERA-NET Cofund, which enables Czech entities to establish multilateral research cooperation in various thematic calls such as CHIST-ERA IV, M-ERA.NET, EuroNanoMed 3, ERA MIn 2 and AquaticPollutants. In addition to these funding tools, the agency is a member of the TAFTIE European network of innovation agencies, which gives TA CR the opportunity to share experience and information with partner agencies that also support research, development and innovation in various parts of the world. ■

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# CzechInvest: Your port of entry for R&D-related investment and more



[www.czech-research.com](http://www.czech-research.com)

The website was officially launched by CzechInvest in December 2016. Its main goal is to provide an overview of the Czech R&D system and its important players to foreign investors and other interested parties. The sections of the website cover the R&D system, R&D environment, funding, news and events, and a series of articles on key sectors and trends in applied research.

CzechInvest is a well-known partner of investors coming to the Czech Republic. However, it might be less obvious that it also provides considerable support in the field of research and development (R&D). These efforts are concentrated especially in the agency's Innovation department, which provides advice on issues such as funding, the legal and institutional framework, and successful matchmaking for R&D projects. It also organises missions and seminars that cultivate the Czech R&D scene.

CzechInvest bases its support for research and development on solid analysis of massive amounts of data. The agency makes use of public information about nationally funded R&D activities, analysing the register of research projects and identifying targeted actors. Furthermore, data on international cooperation is also used to track “who does what with whom and where,” as the department commonly refers to its monitoring activities. The data include joint publications with individual countries and participation in Horizon 2020 and other programmes of international cooperation in R&D. CzechInvest also proactively collects its own data, not only through continuous contact with Czech research facilities, but also through a unique internal database of excellent R&D entities in various fields ranging from information technologies to medicine, chemistry and other fields. Moreover, the database of these entities has been publicly available on CzechInvest's website in a form of an interactive map since the first half of the 2019. Insight into this wealth of collected information about Czech R&D can also be found on the website at [www.czech-research.com](http://www.czech-research.com) which CzechInvest

created to help foreign investors and other partners to navigate through the system of Czech research. The website serves as a gateway to specific domains of R&D, allowing interested parties to find out who the key players of Czech R&D are, see the system's key main documents and become familiar with the institutions and companies that form the backbone of Czech research. These include, among others, 19 technical universities and universities with STEM-oriented faculties and the Czech Academy of Sciences with its 54 outstanding institutes, selected research organisations and an overview of new R&D infrastructure comprising eight top-notch European Centres of Excellence and 40 regional R&D centres that are actively building cooperation with international partners and industry. The information about the various entities provided on the website is complemented with relevant news from Czech R&D and calls issued within programmes that financially support international research cooperation. The official partners of the website are the Ministry of Education, Youth and Sports, the Czech Academy of Sciences, the Technology Agency of the Czech Republic and the Ministry of Foreign Affairs of the Czech Republic. Apart from providing information services, CzechInvest also supports the internationalisation of Czech

R&D. The agency has a long history of organising technology missions to foreign countries, thereby bringing Czech firms and institutions together with partners in specific fields, primarily in applied research. Since 2005, more than 60 outgoing and incoming missions of this kind have been carried out and have resulted in valuable endeavours and projects. The concept of technology missions involves a very hands-on approach, where selected researchers and innovative companies along with universities embark on a “door-to-door” roadshow and visit carefully selected foreign partners, thus enabling practical discussion and establishment of new partnerships. CzechInvest then complements these efforts with activities in the Czech Republic, such as local semi-

nars and conferences on relevant technologies and trends in research. In this way, CzechInvest bridges the gap between the industrial sector and academia and facilitates dialogue between all of the parties involved in R&D. The Czech Republic offers a sea of excellent R&D which is gaining great recognition for its world-class quality. CzechInvest is continuously mapping this sea in order to facilitate collaboration between foreign companies and researchers on projects with added value. Therefore, if you are interested in sailing off into Czech R&D, do not hesitate to contact the experts at CzechInvest, who will provide their services to you free of charge as part of the Czech government's business support measures. ■

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We proudly fulfill the three pillars  
of the Innovation Strategy of the Czech Republic 2019–2030:

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# Large research infrastructures of the Czech Republic

## **R**esearch infrastructures' relevance, importance and impact

Research infrastructures are one of the key pillars of the research, technological development and innovation systems of the EU member states, the European Research Area as a whole and other world macro-regions. They represent the principal backbone for conducting **cutting-edge R&D, developing state-of-the-art technologies and introducing breakthrough innovations**, as they bring together **top-class expertise and unique experimental devices**. Research infrastructures facilitate "frontier" research in fundamental and applied scientific fields, as well as development of innovative products and services with high value added.

Construction of research infrastructures and their upgrades aimed at preserving their world-class level offer **tremendous opportunities for enterprises** to take part in tenders for such deliveries. Generally, the private sector benefits from research infrastructures from both the economic and knowledge perspectives, as it is encouraged to **supply research infrastructures with high-tech products** and to use the know-how resulting from R&D carried out in research infrastructures to **develop innovative solutions to major socio-economic challenges**.

Operation of research infrastructures in line with the principles of the **transnational open access policy** allows their users from around the world to achieve results that would be difficult to ob-

tain by individual researchers and innovators using solely their own institutional capacities and capabilities. In this respect, research infrastructures **increase the efficiency of public spending on research, technological development and innovation** by making the most up-to-date technologies available to a broad user community and by preventing research funding organisations and beneficiaries of public funding from fragmenting resources and duplicating efforts.

## **Policy approach to large research infrastructures in the Czech Republic**

The Czech Republic has responded to the significantly increasing importance of research infrastructures in the European Research Area and worldwide and has taken a number of steps aimed at **providing them with a stable legal framework and predictable financial environment**. In 2009, Act No. 130/2002 Coll., on Support of Research, Experimental Development and Innovation from Public Funds, introduced a specific legal instrument for financing the "large research infrastructures" of the Czech Republic and entitled the **Ministry of Education, Youth and Sports** to become the Czech national policy-maker and public-funding provider in this field.

The very first edition of the **Roadmap of Large Research Infrastructures of the Czech Republic** was issued in 2010 and subsequently updated in 2011, 2015 and 2019. The Czech Republic's road-mapping procedure is fully aligned with the pan-European approach, which is coordinated within the framework of the **European Strategy**

**Forum on Research Infrastructures (ESFRI)**, including international peer-review assessments and monitoring exercises organised on a regular basis as an expert input for evidence-based political decision-making processes.

The Ministry of Education, Youth and Sports has developed a **multi-source model of public funding** of the large research infrastructures of the Czech Republic by **combining state budget expenditures with European Structural and Investment Funds (ESIF)** in the most synergic and complementary way. While the operating costs of large research infrastructures are covered by state budget expenditures, their investment costs are funded by use of the EU Cohesion Policy instruments (currently the Operational Programme Research, Development and Education). In a number of cases, these investments have enabled major upgrades of the technical equipment of existing large research infrastructures. Brand-new facilities of national, macro-regional and even worldwide importance (e.g. ELI Beamlines) have been constructed as well. Furthermore, apart from financing large research infrastructures based in the Czech Republic, the Ministry of Education, Youth and Sports has introduced mechanisms for the participation of Czech large research infrastructures in international R&D facilities located abroad, including **in-kind deliveries of experimental devices** to those facilities (e.g. European Spallation Source in Lund, Sweden, and the Jules Horowitz Reactor in Cadarache, France).

#### **Internationalisation of large research infrastructures of the Czech Republic**

In recent years, the Czech Republic has been very active in the area of internationalisation of its large research infrastructures. Besides being a **member state of eight international R&D organisations** (CERN, EMBC, EMBL, ESA, ESO, JINR, VKIFD and ITER) founded under international public law, the Czech Republic has become a **member state of 14 European Research Infrastructure Consortium (ERIC)** established under the legal framework

of the EU and participates in a number of other international single-sited, distributed and virtual research infrastructures founded under the national legal frameworks of their host countries in Europe and the United States. From the ESFRI perspective, Czech large research infrastructures are involved in 28 pan-European research infrastructures included in the **ESFRI Roadmap 2018**, 23 of which are ESFRI Landmarks and five ESFRI Projects. The Czech Republic will also become a member state of the ELI ERIC organisation, which will operate the **Extreme Light Infrastructure**.

#### **Large research infrastructures of the Czech Republic – overview**

The research and innovation community of the Czech Republic gathers a broad portfolio of knowledge and technical expertise, which has enabled the construction and operation of various large research infrastructures in the fields of **physical sciences and engineering, energy, environmental sciences, biological and medical sciences and social sciences and humanities**, supported by an **e-infrastructure** providing both research infrastructures' operators and their users with high-quality and adequately scaled ICT services. The large research infrastructures of the Czech Republic follow good-practice examples of user access policies and, therefore, are open to scientists and innovators from both Czech and foreign/international research organisations. Besides enabling researchers and innovators to carry out experiments of a unique nature and technology level, the large research infrastructures of the Czech Republic also offer great job

#### **Extreme light infrastructure – the “cern of lasers”**

The **Extreme Light Infrastructure (ELI)** is the **world's leading laser-based research infrastructure** and will serve for cutting-edge basic and applied research in physical, chemical, material and medical sciences as well as breakthrough industrial innovations. Implementation of three ELI facilities – **ELI Beamlines** in the Czech Republic, **ELI Attosecond** in Hungary and **ELI Nuclear Physics** in Romania – is nearing completion with commissioning well under way and initial operations with early users. The European Research Infrastructure Consortium (ELI ERIC) will be established in 2020 to manage their operations for the benefit of international academic and industrial users. The three ELI facilities were financed with more than **EUR 820 million** from national and European Structural and Investment Funds (ESIF) in their host countries. The establishment of ELI ERIC, which will bring together the countries of the major ELI user communities and enable them to access the **world's most intense and shortest-pulsed lasers for research and innovation**, will ensure long-term sustainable operations as well as further technological development of ELI as an international flagship research infrastructure initiative. ELI will provide environments for the **collaboration of thousands of leading scientists** from around the world and enable high-tech industries and innovators to be involved in the **development of state-of-the-art technologies**. From the macro-economic point of view, the ELI facilities situated in Central and Eastern Europe increase cohesiveness within the European Research Area by bridging the innovation divide in the EU.

opportunities for world-class managers, excellent scientists, skilled technicians and qualified administrators in high-tech fields and attractive international environments.

The Czech Republic – and the Ministry of Education, Youth and Sports in particular – has been an **active player in the field of research infrastructures**. The large research infrastructures of the Czech Republic are networked within the European Research Area and worldwide,

and thus have significant international overlap and impact. The appointment of Dr. Jan Hrušák as the ESFRI chair proves that the Czech Republic is also able to provide extraordinary personalities in the area of formulating strategy relating to research infrastructures.

The **latest news** concerning the large research infrastructures of the Czech Republic is available on the dedicated website:

**[www.vyzkumne-infrastruktury.cz/en](http://www.vyzkumne-infrastruktury.cz/en)**. ■

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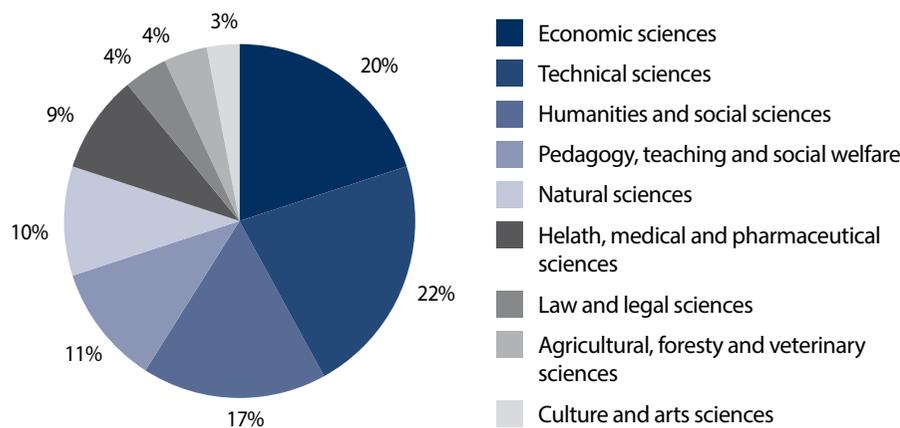
  
**LARGE RESEARCH  
INFRASTRUCTURES**

  
**MINISTRY OF EDUCATION,  
YOUTH AND SPORTS**

# Higher education in the Czech Republic

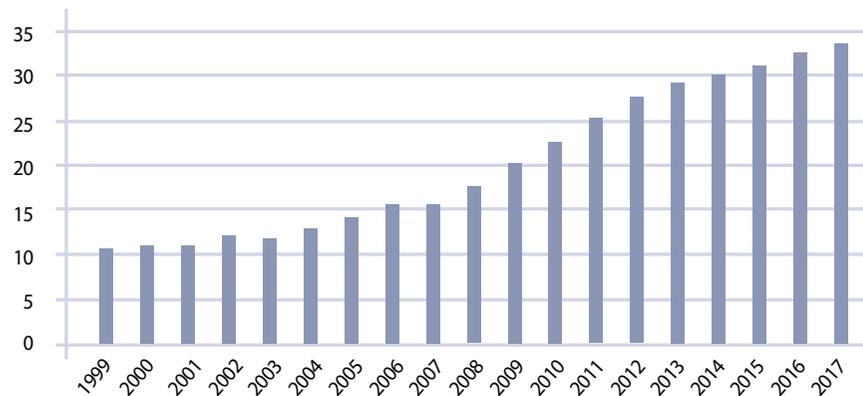
The Czech Republic is proud of both the long history and dynamic present of its system of higher education. Charles University, the largest institution of higher education in the Czech Republic, was established in 1348 as the first university in Central and Eastern Europe, making it older than any university in Germany, Austria or the rest of the region.

Field of study at public institutes of higher education in 2017



Source: CzechInvest, 2018

Percentage of 25-34 years olds with tertiary education



Source: OECD, 2019

Since then, higher education has spread throughout the country. With its nearly 700 years of academic tradition, the Czech higher-education system consists of more than 60 institutions in over 20 cities, of which 26 are public, 34 are private and two are state institutions. The Czech Republic is also home to 17 branches of international universities and colleges. At least one institution is located in almost every regional capital, stimulating regional development and providing local industries with good access to skilled labour. Three Czech universities feature in the top ten and eighteen in the top 300 institutions and of the QS EECA University Rankings® 2020 – a dedicated ranking of top universities in Emerging Europe and Central Asia – and nine are included in the QS World University Rankings® 2020.

## Current trends in Czech higher education

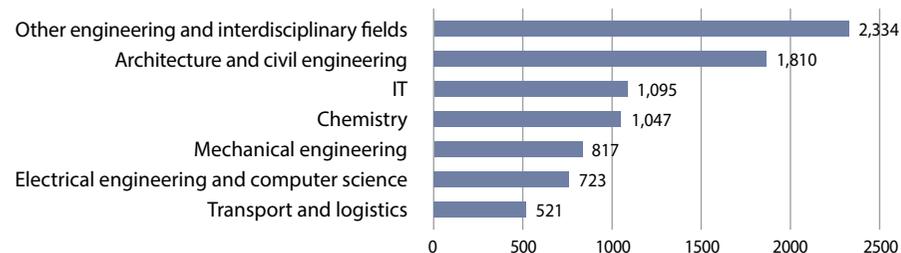
Access to higher education has been expanding rapidly over the past two decades in the Czech Republic, delivering a significant boost to the country's innovation capacity. Currently, there are approximately 300,000 students at public, state and private higher-education institutions. Roughly 88% of students attend public higher-education institutions. Over 50% of students are enrolled in economics, technical and social sciences and humanities study programmes. Engineering fields are the most popular, accounting for 23% of new entrants, followed by business and economics with 20% of new entrants. Every

year, six to seven thousand new, skilled master's-level engineers and experts in natural sciences enter the labour market, together with over 300 PhD graduates in the same fields. Among master's-level graduates in engineering fields, architecture and civil engineering is the most common discipline, followed by significant numbers of professionals in IT, chemical engineering, mechanical engineering and electrical engineering. In addition to traditional disciplines, a substantial number of experts graduate every year from developing and interdisciplinary programmes such as security engineering, process engineering, environmental protection and biotechnology, as well as from programmes teaching various field-specific applications of informatics. Today, the Czech Republic is also a destination with progressively increasing popularity for international studies at higher-education institutions. There are currently about 45,000 foreign students enrolled in full degree programmes, a 19.2% increase since 2010. Over 16,000 students choose to study in the Czech Republic for exchange or short-term study programmes every year. International degree students can choose from 1,000 diverse accredited bachelor, master and doctoral programmes in English and other foreign languages. More than 100 offered programmes are joint or double degree.

## Innovation and collaboration with industry

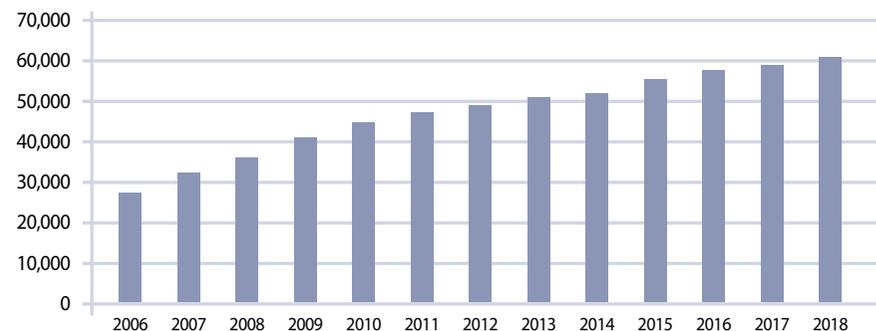
Universities play an important role in research and development. Their success in this field can be seen in, for example, new treatments for cancer

### Graduates 2017



Source: Ministry of Education, Youth and Sports, 2017

### Foreign students in degree and exchange programmes



Source: Ministry of Education, Youth and Sports, 2019

and haematological and urological diseases, the development of new construction technologies and advanced materials, and cooperation on international projects (e.g. in collaboration with CERN and the Joint Institute for Nuclear Research in Dubna). The Czech Republic has achieved international renown in areas ranging from Egyptology to high-tech fields such as non-woven nanofibers; Nanospider, a unique nanofibre production technology, is now sold all over the world. European Union funds are also helping to further develop the country's university-based research infrastructure, including the construction of centres of excellence in research focused on the development of laser systems, biomedical and materials science, energy research and complex mathematical modelling in the natural, medical and technical sciences. The Czech government recently introduced the new Innovation Strategy of the Czech Republic

2019-2030. With its new strategy titled The Czech Republic: The Country for the Future, the country aims to become an innovation leader in Europe. The Czech Republic's strong focus on science and innovation is illustrated by current projects of Czech scientists and companies, such as nanotechnological coatings to improve air quality, a system for effective harvesting of water from desert air, capacitors for Mars rovers, operation of the most powerful laser in the world and the emergence of a local superhub for artificial intelligence. The Strategy Framework agreed on by the Academy of Sciences, universities, company representatives, science institutions and ministries includes a complete innovation chain ranging from support of basic research and applied research and development to industrial applications and support for enterprise innovation. Applied research focused on specific needs of industry is supported extensively by the Tech-

nology Agency of the Czech Republic, which was established in 2009. In 2018, more than EUR 0.89 billion in public subsidies was provided by the agency to universities, public research institutions and private organisations in order to stimulate innovation, technological development and knowledge transfer. The agency's programmes cover all levels of the innovation chain and a broad range of disciplines, from materials science, transportation and IT to social challenges and public policy. Almost every public university has established its own infrastructure supporting innovative start-ups and projects, such as the INQBAY incubator at the Czech Technical University in Prague, the xPORT Business Accelerator at the University

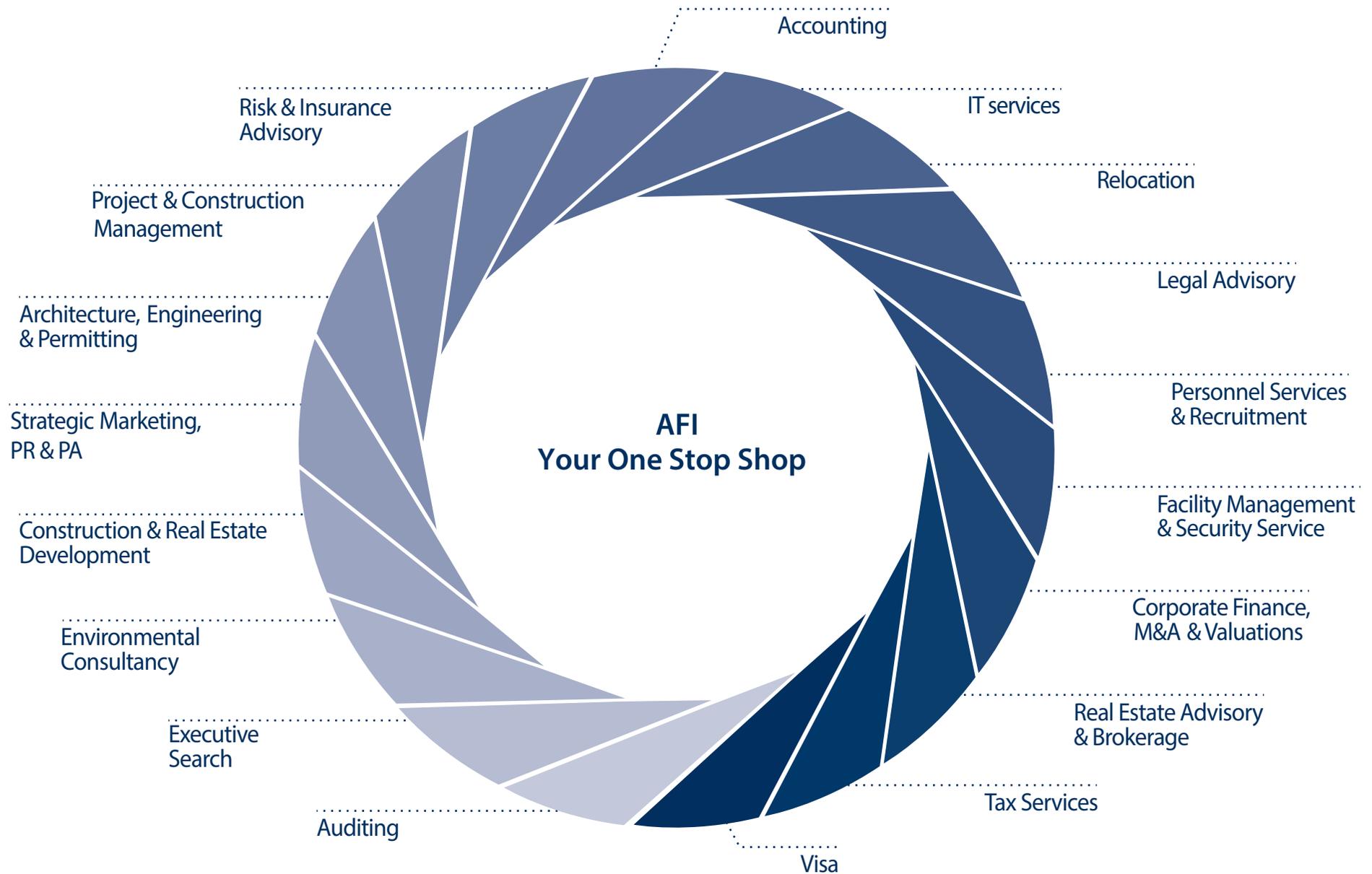
of Economics, the Technology Innovation Transfer Chamber at the Brno University of Technology and Point One at the Czech University of Life Sciences. Spin-offs and technology transfer are further supported by an established network of regional innovation centres and industry associations. Collaboration with industry in teaching and learning received a significant boost from a recent amendment of the Higher Education Act, which opened up a lot more space for professional programmes and promotion of internships. A successful mechatronics programme developed through collaboration between the University of South Bohemia and the German technology giant Robert Bosch GmbH can serve as an example of this development. ■

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# Development of industrial zones in the Czech Republic

The Czech Republic ranks among the European countries with the densest infrastructure connected with industrial production. This is due to the country's industrial history, which dates back to the time of the Austro-Hungarian Empire.

## Industrial zones in the Czech Republic – public vs. private industrial zones and further development

State-supported industrial zones were established after 1998, when their preparation was commenced in accordance with a government decree.

Over the past 20 years, however, the property market has developed significantly, moving to a different level both quantitatively and qualitatively. While 10 to 20 years ago the market was dominated by industrial zones built and offered by the public sector (cities, municipalities, regions), vacant land was offered directly to investors, who built their own industrial buildings. Many private industrial parks with speculative permits, usually held by developers, are appropriate primarily for investors who are very pressed for time and whose investments have lower demands – e.g. warehouses and light-industry projects.

Due to changes in the Czech government's incentives policy, which has become more strict since late 2019 and is focused especially on projects with high value added, investors are no longer attracted and addressed

solely by state agencies, but in cooperation with property owners, developers and multinational consulting companies.

All of the above-mentioned facts are leading to changes, the most important of which is **increased interest in brownfields and their regeneration**. Brownfields have many benefits, such as existing permitted environmental and construction limits, existing infrastructure, etc.

Taking into account all of the local and external aspects, **brownfields are definitely the way of future development of industrial zones**.

## Quality aspects, smart solutions and trends

What should be done next in light of the evolving Industry 4.0? Industrial Property 4.0 should follow Industry 4.0's trends, focusing mainly on environmental friendliness that meets the needs of the third millennium.

Today a number of projects in the Czech Republic have some kind of "green building" certification, which generally refers to the internationally applied LEED and BREEAM systems.

Though industrial zones are not being certified, local conditions and legislation can be employed to bolster the "green" rating of a given project.

## Important to know – what to focus on when choosing a plot of land

If an investor selects an industrial zone, it is important to have knowledge of certain parameters of the given property as well as its surroundings and related infrastructure.

-  Urban development plan
-  Technical and transport infrastructure
-  Process wastewater management
-  Environmental limits
-  Local burdens

Investors occasionally entrust the selection of an industrial zone to a team of professionals focused on different aspects (production, financing, etc.). In such a case, it is good to consider the involvement of an independent professional consultant that can help to evaluate the strengths and weaknesses of the given location and that does not have a preference in the evaluation of industrial zones owned by the state and those owned by private entities. ■

## Main criteria for green certification of industrial zones

### Water management

maximum possible rainwater retention on the land, closed or semi-closed water management

### Transport

incorporation of public mass transit for employees, connection to bike paths

### Green areas

enough space for natural greenery, incorporation of protected landscape areas and nature

### Land category

use of brownfields or land unsuitable for agriculture

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# Industry 4.0 is in the offing in the Czech Republic

By adopting a number of strategic documents, the Czech Republic has committed itself to actively implementing the Industry 4.0 concept. All of these strategic plans build on global technological changes and related market developments. But what does implementing these innovations in the Czech Republic look like in practice? Which specific Czech locations have the prerequisites for the development of Industry 4.0?

The goal of the Innovation Strategy of the Czech Republic for 2019-2030 is to include the Czech Republic among Europe's innovation leaders and to transform it into a country with a technological future. Strategy 2019+, drawn up by CzechInvest, refers to an economy driven by innovation, identifying the inflow of direct foreign investments and expansions with high value added as one of the key areas. Modern Industry 4.0 technologies have above-standard infrastructure requirements, so it is usually not possible to imagine them being implemented in the existing industrial zones in the Czech Republic. Such infrastructure should include not only a high capacity of electricity and heat, water pipes and wastewater treatment plants, but also an extremely fast and high-capacity internet connection. Examples of suitable locations in the Czech Republic include brownfields where major technology companies were active in the past. In Plzeň, this applies to the former premises of Škoda Plzeň in Borské terasy, which is a location with above-standard infrastructure (see the infographics). The planned investment of CZK 2 billion (approx. EUR 80 million) will revitalise the area into a modern Industry 4.0 zone in which it will be possible to carry out production with high value added and to collaborate with the University of West Bohemia, thereby creating hundreds of new jobs for highly qualified workers. Another location suitable for the development of Industry 4.0 is the Kovošrot site in Prague's Dolní Měcholupy district, where the first low-emission industrial zone in the Czech Republic could

## A standard industrial zone versus the Industry 4.0 zone in Plzeň

|                            | Standard industrial zone           | Zone for Industry 4.0 in Borské terasy |
|----------------------------|------------------------------------|--|
| Electricity                | 2-5 MW                             | 11 MW (up to 40)                       |
| Heat output                | 6,000 GJ per year                  | 900,000 GJ per year                    |
| Data connection            | 10-100 mbps                        | 1,000,000 mbps                         |
| Water supply               | 1-3 litres per second              | 25 litres per second                   |
| Wastewater treatment plant | 100-500 PE (population equivalent) | unlimited PE                           |

Source: Panattoni, 2020

be established. The location is perfect for company headquarters, light manufacturing of final products, sophisticated IT operations, R&D, showrooms and other associated operations. The aim of the upcoming urban innovation centre on the site is to bring technology giants such as GE Aviation and FESTO to Dolní Měcholupy. While Industry 4.0 remains an unfulfilled vision in the Czech Republic, it has become a reality

in neighbouring countries. In Poland, for example, Panattoni has constructed three buildings that are fully compliant with this concept. In the Czech Republic, the company has implemented the most technologically demanding projects to date for Lear Corporation, Assa Abloy, Amazon and Filtration Group. Industry 4.0 is in the offing in the Czech Republic and the only question is how soon it will arrive. ■

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 PANATTONI

# The beauty of brownfields

Situated at the intersection of European trade routes, the Czech Republic was exposed to two world wars and endured a forty-year period of totalitarianism under the former communist regime. Each of these periods was reflected to a significant extent in the development of the country's industrial production. What is now the Czech Republic was once the manufacturing base of the Austro-Hungarian Empire prior to the First World War. Following the establishment of the independent Czechoslovak state, manufacturers such as Bata, Škoda and ČKD grew into major industrial players. The country was ruled by a totalitarian communist regime from 1948 to November 1989. Natural industrial development was halted in favour of centrally planned production quotas, with priority given to heavy engineering and the defence industry, while the competitive environment was completely eliminated. The Velvet Revolution in 1989 brought forth a number of important changes. The democratic system was restored together with private ownership of property,

the borders were opened and the market economy was reborn. This fact and the country's overall stability spurred the establishment of foreign-investment programmes, which are frequently supported by government incentives. Investors entered the country either through acquisition of Czech companies or by building their own production facilities. In the intervening years, a number of industrial zones have been established, some of which are still not completely occupied. Industrial zones allowed for the rapid development of the post-revolution automotive industry in particular (Škoda Auto, PTCA, Hyundai), as well as all auxiliary industries complemented by rapid development of extensive logistics facilities and shopping centres located conveniently next to the most important transportation routes.

In comparison with greenfield investments, regeneration of brownfields is a far more complicated process. The country's brownfields arose through the long-term disuse of facilities previously used for energy- and labour-intensive industries that are now in decline. A separate category of brownfields comprises former military facilities that were refurbished and converted for civilian uses following the end of the Cold War. However, brownfields are often found in strategic locations and thus offer opportunities for investments in new industries, IT, distribution, sales and leisure activities, as well as public-sector investment. Regeneration of brownfields with environmental contamination will also significantly improve the quality of the environment while being of real benefit for all activities in surrounding areas. ■

## Benefits of brownfield regeneration

- Increase of economic activity in the regenerated area – business and trade, housing, services
- Inflow of foreign direct investments
- Decrease of unemployment through job creation
- Increase of competitiveness
- Increase of attractiveness of the given municipality and thus increase of tourism (brownfields are usually located within urbanised areas)
- Unlike greenfield projects, limited claims on agricultural land in line with the principles of sustainable development
- Improvement of the environment through decontamination of the given site
- Mobilisation of private capital
- Increase in property values within brownfield sites and the surrounding areas
- Positive influence on crime prevention and thus reduction of crime rates

## Examples of successfully regenerated brownfield projects

- **Dox Centre for Contemporary Art (Prague)**
- **Waltrovka (Prague)** – office centre and residential project located in one of the biggest former industrial sites in the city
- **Vysočany (Prague)** – a former industrial site turned into a multipurpose facility, shopping and social centre, including residential premises and service centres
- **Vítkovice (Ostrava)** – gradual transformation of former steelworks into a cultural, social and educational centre
- **Breda (Opava)** – shopping and social centre partially utilising refurbished buildings
- **Šantovka (Olomouc)** – shopping and social centre on a former industrial site located in the city centre

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# The maturing Czech property market offers stability and reliability to tenants

Leasing commercial space represents a significant commitment for any business. Fortunately, tenants in the Czech Republic will find that international real estate standards have been adopted by many local landlords.

**Rental levels**  
The question of location strongly influences the rental prices. Prime locations (Prague 1), achieve the highest rates for retail (EUR 230/m<sup>2</sup>) and office units (EUR 23/m<sup>2</sup>). For warehouses, higher rents (over EUR 4/m<sup>2</sup>) have a direct relationship to transport connections. However, the Czech Republic and its capital city, Prague, offer a broad range of properties where rental rates can be up to 30% below the prime rental levels, but still offer good quality and a convenient location.

**Lease term**  
Generally, a tenant will receive the best terms on a lease of at least five years. If a tenant cannot

commit to the standard term, landlords will most likely demand higher rents and/or provide fewer incentives.

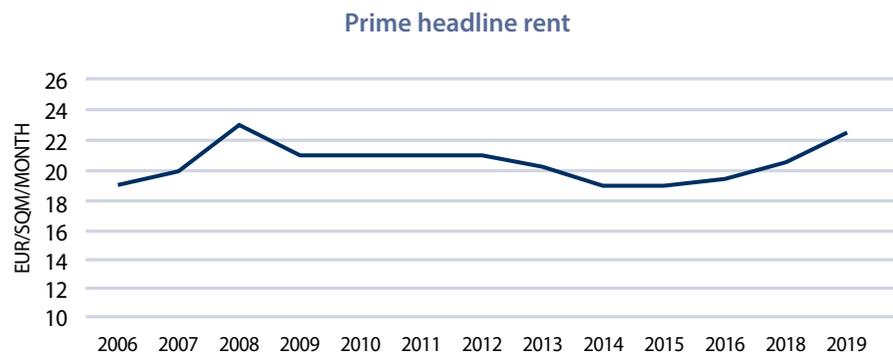
**Incentives**  
In recent years, the market has experienced increased tenant demand, less speculative development, absorption of vacancy and a substantial jump in construction prices, all of which have brought incentive levels to a more balanced state than in the previous periods. The most common incentive is **rent free**, meaning the tenant will not pay rent for a period of time - usually one month per each year of the lease contract. The other common incentive is a **fit-out contribution**, meaning the landlord will pay for leasehold improvements for the tenant. Fit-out contributions range from EUR 50 to EUR 100/m<sup>2</sup> of leased area, based upon a five-year lease.

**Indexation**  
Indexation refers to annual adjustments of the rent on the basis of a cost-of-living index. Landlords seek these adjustments to cope with overall inflation in the econ-

omy and may require a minimum indexation figure. The advantage of this inflation-based approach is that Czech leases seldom have rent review provisions, making rental-rate growth more predictable.

**Service charges**  
Leasing commercial property entails consuming a variety of ancillary services related to building operation (utilities, security, cleaning, reception, maintenance). The scope and cost of the offered services will vary significantly depending on the class and type of the property. For industrial properties, service charges are roughly EUR 1/m<sup>2</sup>/month. For both office and retail properties, service charges range from EUR 3 to EUR 5/m<sup>2</sup>/month. Additionally, tenants will be charged for the direct consumption of utilities.

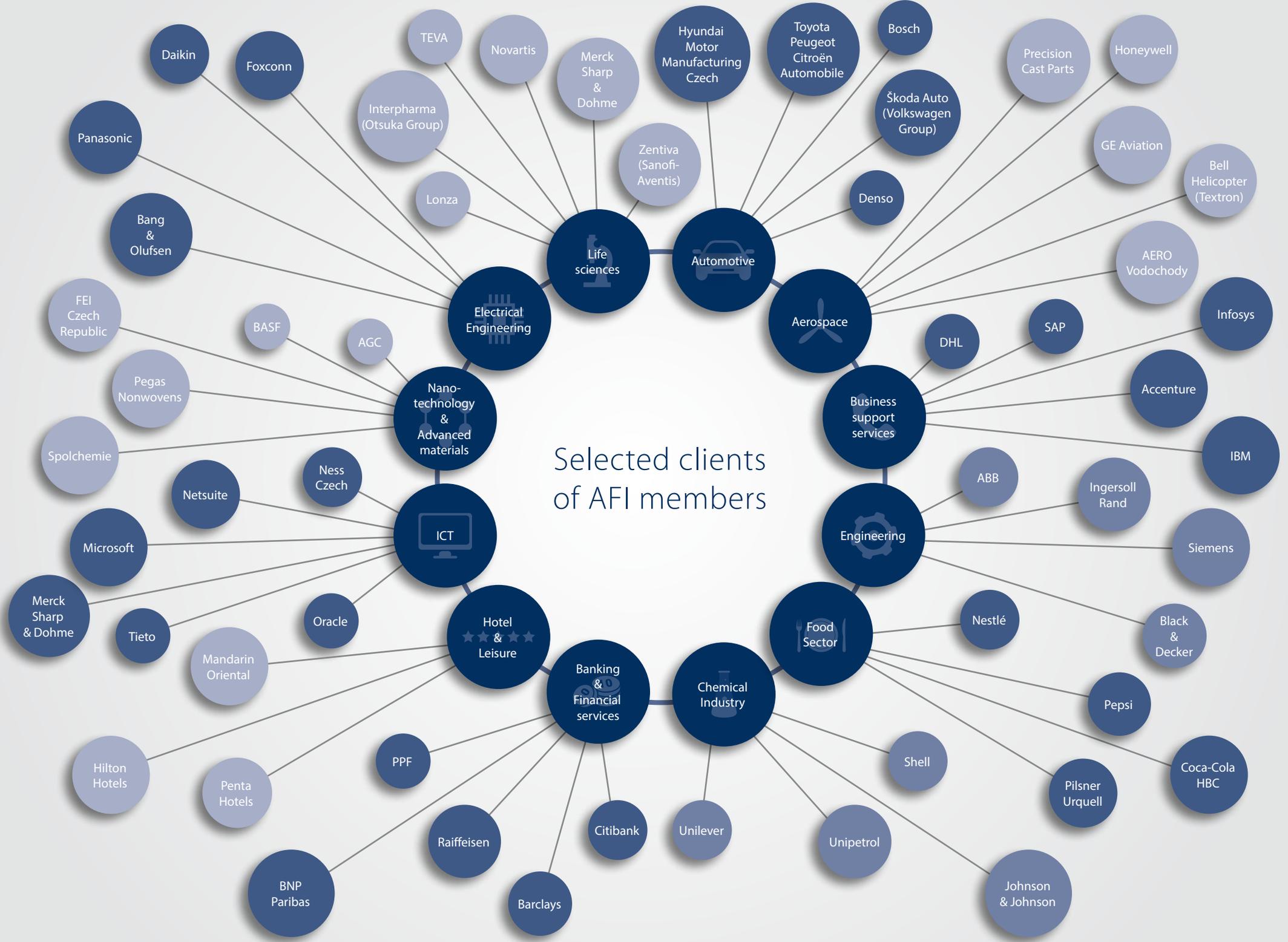
**Security deposit**  
Landlords will always demand, even from the best companies, some form of security deposit (bank guarantee) in the amount of at least three months' rent and service charges plus VAT. ■



Source: Prague Research Forum, 2019

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# Czech commercial property market: confidence, stability, potential

Confidence, stability, potential. At first glance, this three-word summary of the Czech commercial real-estate market may seem like an oversimplification. Nevertheless, having a certain perspective is an important aspect in forming an objective approach to evaluating the market.

Whether we focus on the volume of construction activity, the number of new projects in various stages of completion, the investment activity of domestic and foreign entities or the declining vacancy rate, the values of all these indicators do not leave observers in doubt that the Czech market is strong and highly attractive for investors. It is also necessary to include the local market's favourable conditions for bank financing, well-developed infrastructure and stable business environment.

**Historical perspective: 1990s to present**  
Since the early 1990s, investment activity within the country has been primarily focused on the areas of retail and administrative premises. New projects began to arise on greenfield sites and existing buildings

were remodelled in order to meet the demands associated with interior-design trends. Further technological development in recent years has brought a new wave of investment in the office property segment focused on innovations, a modern approach to design and efforts to make buildings more environmentally friendly. Projects are being implemented on brownfields, which allow investors to take advantage of the genius loci of such locations while providing the benefits that come with being close to the city centre.

The currently strong interest in administrative and shopping centres can be illustrated with a summary of recently concluded transactions on the Czech market, including last year's sale of the Orchard Office Park, the largest modern office complex in Ostrava, which was purchased by the BHS Real Estate Fund based in the Czech Republic. Other significant transactions include the sale of Waltrovka and Dynamica complexes in Prague 5 to the South Korean private investor Hanwha Investment & Securities and Blox in Prague 6 to Českomoravská Nemovitostní a.s.

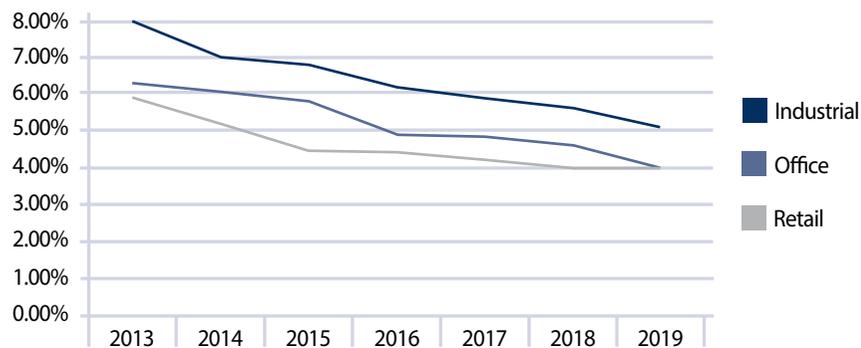
**Market saturation: Retail**  
Trade in retail real estate intensified around 2013 as the impacts of the global financial crisis subsided. Since

then, we have annually seen rising interest in the retail sector from both private investors and institutional investment funds in the Czech Republic.

**Industrial boom**  
Current development is fully following global trends including environmental certification of modern warehouses, focus on maximum efficiency and new construction of "big box" projects. At the beginning of 2020, there are almost 8.5 million square metres of modern industrial space in the Czech industrial real-estate market. More than 70% of this space is covered by the four largest developers: Panattoni, P3 Logistic Parks, CTP and Prologis.

**Conclusion**  
What conclusions can be drawn from this? The Czech Republic is currently a very interesting location for real-estate investors in the industrial, office and, to some extent, retail segments of the market. Suitable conditions can be found in the Czech Republic for the implementation of major investment projects. In the case of industrial real estate, a very positive feature is the country's location within the European transport network, as well as its highly skilled workers and advantageous costs compared to developed Western European countries. ■

Prime yields



Source: 108 AGENCY, 2019

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# Key considerations for successfully establishing your business premises in the Czech Republic

Business premises used to be just a place to work. This has changed alongside technological progress and the way people think of their work-life balance. Coworking, co-living, multifunctional, automated and shared spaces are just some of the subsectors driven by the changing needs of occupants.



The digital revolution has the power to seismically change the way many industries function and real estate is no exception. Not only is the workplace changing as technology allows different and more flexible ways of doing business, but retail and logistics are also changing. An investor looking to establish or expand operations should consider all of the above together with the local property-market conditions and regulations, and incorporate them into the strategic planning and implementation of its business premises, including the fit-out.



Legend:



Each stage covers areas of Legal, Technical, Health & Safety, Tenant Information, Insurance/Warranties, Consultants and General Requirements.

When searching for business premises, an investor needs to prepare a project brief that has two main phases: planning and implementation. In the planning stage, it is important to define the spatial and timing needs and prepare an initial list of suitable premises in the target location. At the same time, the project team should meet with consultants and lawyers to discuss the local property market and the legal, technical, and health and safety conditions. When selecting the premises, the project team should assess the risks connected with the favoured options (usually two or three) by performing technical and legal due diligence. A concept design is then prepared for the selected premises, including spatial and technology layouts and a preliminary cost plan. For both new and existing premises, technical due diligence should establish the condition and suitability of the premises. In the implementation phase, it is necessary to prepare the detailed design of the future business premises based on the information gathered

in the previous stages. This documentation forms the basis of the fit-out tender process and contract for the fit-out works. During the fit-out stage, the investor needs onsite monitoring to check the quality of the work. During the handover process, sometimes before the fit-out is completed, the investor starts to move into the premises, with defects noted and a remedy period agreed with the contractor. Putting the premises into use is subject to all necessary permits and approvals. The commercial real estate market in the Czech Republic can currently be described as a landlord market with low vacancy and relatively strong demand. Thus, in some locations, it can take up to 18 months to close a lease on business premises. In the case of a build-to-own scenario, it can take up to 24 months. In build-to-own business premises, part of the fit-out can be leased or financed via a bank. In the case of a build-to-lease scenario, an investor can acquire the fit-out and amortise it in the investor's accounting or rentalise the fit-out. ■

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# The Czech Republic remains attractive for **industrial tenants**

The industrial real estate market in the Czech Republic is strengthened by several important factors: location in the heart of Europe, good infrastructure, skilled workforce, low labour costs, political stability and governmental investment incentives.

**R**ecent survey – Czech Republic Logistics & Supply Chain Confidence Index 2019/2020 – provides detailed insight into the current and expected business conditions on the Czech market. It was carried by P3, CBRE and Analytiqa among top managers of logistics, retail and manufacturing companies.

- **Turnover and profit:** 59% and 43% of respondents expect their turnover and profit, respectively, to increase in 2020.
- **Headcount:** almost 40% of respondents expect to increase their headcount in 2020.
- **Reasons for locating operations in the Czech**

**Republic:** for logistics companies, the key factor is the strategic location for European markets and domestic market growth and opportunities. Retailers and manufacturers value the country's lower labour costs as well as its strategic location.

- **Innovation:** 84% of manufacturers and retailers plan to introduce some sort of automation/robotics solution, while 71% of logistics companies will be looking into utilising cloud services better.

The level of demand reflects two basic factors. The first is the expansion of successful businesses operated by existing tenants that is supported by the current economic situation with forecasted GDP growth at an average annual rate of 2.6% during 2019-2021. The second growth factor is the influx of new investors who are seeking high-quality premises for their production and storage operations in the Czech Republic.

#### Established and new locations

Areas near large cities, particularly Prague, Brno, Ostrava and Plzeň, attract the highest levels of in-

dustrial real estate investment. Recently, however, there has been a consistent rise in demand for previously secondary locations, such as Lovosice in the Ústí region, which provides great connections to Germany and Poland, as well as the rest of the Czech Republic; Cheb in the Karlovy Vary region and the development zone spread across a triangle delimited by the cities of Ostrava, Havířov and Karviná.

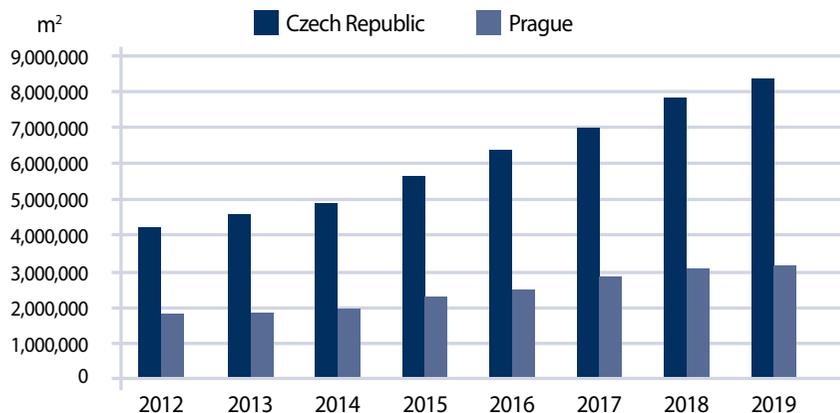
#### Production e-commerce facilities

Despite being a relatively new business sector, e-commerce is a phenomenon that is gaining more and more importance in influencing the industrial real estate business. The growing volumes of purchases made through e-shops are boosting the demand among e-commerce companies for modern warehouse space. An important aspect is the need to have pickup points for end customers. It is therefore likely that industrial parks near large cities will be transformed over the next few years in line with their new function. Logistics operations will move farther away from urban areas and smaller units will be built in suburban locations to serve the needs of light manufacturing and retail. ■

## 4.1% Vacancy

The nationwide vacancy rate is 4.1%, having decreased by 27 bp since Q4/2018. This figure represents 342,400 m<sup>2</sup> of modern industrial space.

Total stock of modern industrial space in the Czech Republic



Source: Industrial Research Forum, 2020

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# The best office and where to find it in the Czech Republic

The Czech Republic provides an attractive, modern office environment to a variety of businesses, from R&D facilities to business services centres where a wide range of skills and languages is required. While the typical first choice might be Prague, regional cities should also be considered.

**P**rague  
The office stock in Prague at the end of 2019 stood at approximately 3.67 million m<sup>2</sup>, with a further 174,600 m<sup>2</sup> due for delivery in 2020. New supply has been exceeded by strong demand in recent years, resulting in the current vacancy rate of just 5.5%. Average gross demand in Prague between 2015 and 2019 reached 483,000 m<sup>2</sup> and has been increasing continuously. As we do not expect the vacancy rate to rise above

7% in the near future, we recommend starting your search or negotiations as soon as possible. Due to the age of some buildings, we have started to see a wave of complete refurbishment projects, where fully renovated properties with modern features are leased at corresponding rental rates. Prime rental costs have been increasing in recent years, mainly due to decreasing vacancy, and have risen to EUR 22.00-EUR 23.00/m<sup>2</sup>/month. Inner-city rents range between EUR 15.00 and EUR 17.00/m<sup>2</sup>/month, while outer-city rents range between EUR 13.50 and EUR 15.00/m<sup>2</sup>/month. The city-wide average remained at EUR 13.75/m<sup>2</sup>/month in 2019.

## Ostrava

Ostrava has a small but moderately growing office market and is recording greater levels of demand. In 2019, the office stock in Ostrava grew by 6,400 m<sup>2</sup> to 219,800 m<sup>2</sup>. With limited new supply, there are fewer options for tenants, so the annual demand figures are lower, at approximately 11,200 m<sup>2</sup> in 2019, when the vacancy rate in Ostrava reached 8% (17,600 m<sup>2</sup>). With the limited pipeline, we expect the vacancy rate to continue slowly decreasing. Prime headline rents in Ostrava have increased to approximately EUR 12.25/m<sup>2</sup>/month.

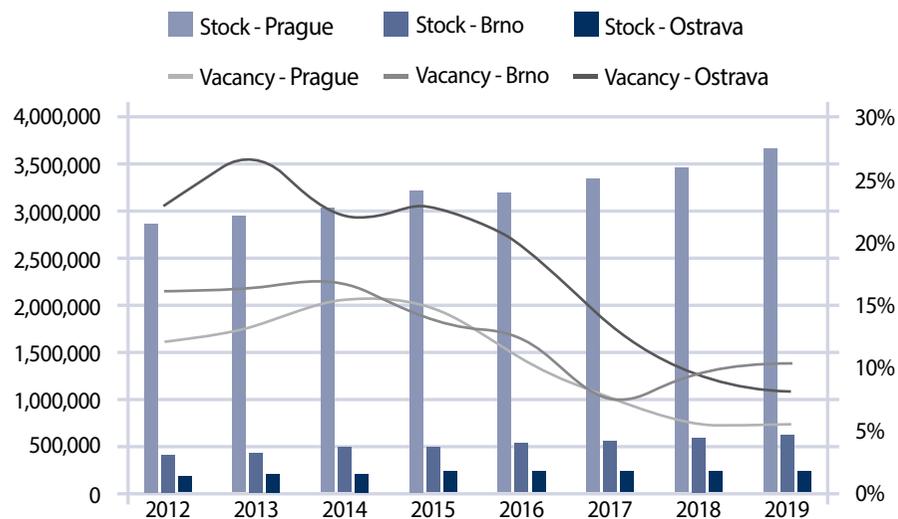
## Prognosis

The positive development of the Czech economy is the main driver behind the demand for office premises. The only downside of current economic development is the low unemployment rate resulting in labour cost growth, which could turn off some potential occupants and prevent existing businesses from growing. While the vacancy rates in Ostrava and Brno should continue to decrease, the vacancy rate in Prague should stabilise. At the same time, we still see room for rents to rise. ■

## Brno

Brno has an established office market with approximately 625,200 m<sup>2</sup> at the end of 2019. The presence of several universities has made the city attractive for various IT companies and R&D centres. Development of the market has been driven mainly by increased demand. Gross annual demand has averaged approx. 62,400 m<sup>2</sup> since 2015. At the end of 2019, the vacancy rate in Brno stood at 10.3%. Prime headline office rents increased to EUR 15/m<sup>2</sup>/month in 2019.

Stock vs. vacancy in major Czech cities



Source: Colliers International / Prague Research Forum, 2020

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# Retail on the rebound

The Czech retail market has become mature and stable and is enjoying a favourable period with the economy growing and both purchasing power and consumer behaviour also experiencing positive development.

Growth of shopping-centre stock as at 2020



Source: CBRE Research, 2019

## Planned shopping-centre development

| Project                | City         | Status  | Size (m²) | Year    | Developer  |
|------------------------|--------------|---------|-----------|---------|------------|
| Bořislavka             | Prague       | UC      | 9,600     | 2020    | KKCG       |
| Atrium Palác Pardubice | Pardubice    | Planned | 8,000     | 2020    | Atrium     |
| Spektrum               | Prague       | Planned | 8,000     | 2020/21 | CPI        |
| Avion Shopping Park    | Brno         | Planned | 4,400     | 2021    | Inter IKEA |
| Centrum Černý Most     | Prague       | Planned | 11,000    | 2021    | URW        |
| Varyáda                | Karlovy Vary | Planned | 7,000     | 2021    | EPG        |
| Galerie Šantovka       | Olomouc      | Planned | 24,600    | 2022    | Dandreet   |

Source: CBRE Research, 2019

Note: UC – Under construction

The volume of shopping-centre stock comprised 2.4 million m<sup>2</sup> in 2019. Total density of 226 m<sup>2</sup> /1,000 inhabitants places the Czech Republic in the group of European countries that have reached optimal market saturation. Within CEE, the density volume is the 3<sup>rd</sup> highest after Slovakia and Poland. At the end of 2019, one shopping centre was under construction and 7 were in the planning stage. We anticipate limited development of large shopping centres and greater focus on smaller projects with high footfall and expansion of well-performing schemes. The exception is Prague, which has significantly higher purchasing power and a better economic situation. Moreover, we see a trend of renovation. Thanks to the good market conditions and sales, despite the consistent growth of e-commerce, more owners are willing to incur the costs for more extensive renovations. The strongest demand remains in Prague's prime shopping centres and high street. Due to the strong competitive environment, diversification on the market continues in terms of both schemes and tenants.

### Supply & Demand

The market has nearly tripled in size in the past ten years. The biggest shopping-centre boom was recorded between 2004 and 2008, when nearly 1 million m<sup>2</sup> of shopping centre space was delivered to the market. Construction declined rapidly after 2008, bottoming out in 2011. Development has since recovered and is now stable with approximately 1% of the total stock to be delivered annually in the next 3 years.

The Czech Republic ranks highly in attractiveness for international retailers, especially thanks to the high purchasing power of Prague and stable GDP growth. Italy, France and the UK were the most common countries of brands origin. The dominant sectors among incoming brands are luxury and business fashion, as well as mid-range fashion. In last 2 years, the F&B sector has also become very active with a lot of international chains entering the market. Many retailers also consider entering the market through franchising. Subsequent expansion to the regions is relatively slow - some international retailers are not interested, which increases the importance of local retailers.

### Rental rates

The prime high street rent in Prague has been increasing since 2012 and is currently at EUR 235/m<sup>2</sup> /month. The highest prime rent is on Na Příkopě and Pařížská street. The prime shopping centre rent in Prague currently stands at EUR 150/m<sup>2</sup>/month. We perceive slight pressure on prime rents in 2020 due to good economic results. Therefore, we expect somewhat lower rental-rate growth that is slightly above indexation levels.

### Retail investment market

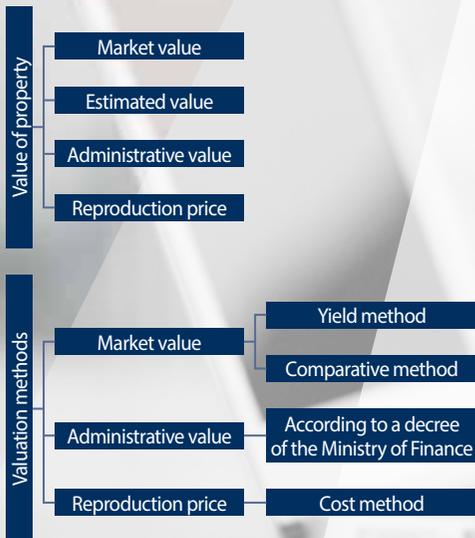
The overall investment transactions are mainly influenced by supply. It is common that retail accounts for about 15-20% of investment in commercial real estate. High streets in Prague and Brno are among the most attractive assets. Greatest potential is in Prague and regional centres valued at up to EUR 80 million. Portfolios of supermarkets, hypermarkets and shopping parks in high-quality locations are also popular products. ■

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# Valuation of property in the Czech Republic

The value of property is a quantity that often affects the economic decision-making of investors. Each investor encounters the need to determine the value of assets. That may involve the valuation of real estate, machines, intangible assets and much more. We will take a closer look at real-estate valuation in the Czech Republic.



## Factors

- Location
- Size
- Parking
- Equipment
- Transport accessibility
- Data network
- Construction
- Capacity
- Purpose
- Surroundings

Investors face the need for valuation when deciding whether to buy or lease premises for their businesses. The investor also encounters the need for valuations of various types of corporate transactions, investment decisions, loan drawdowns, pledges and tax calculations for the acquisition of immovable property.

## Price of real estate

Every property has several different price categories which vary according to the purpose and the user of the valuation. The market value for the purchase or sale of property may be different from the estimated value for a bank considering financing the purchase of the property or for the purpose of securing the property as collateral for a loan, or from the administrative value for calculating the tax on the acquisition of immovable property. The property price with respect to the purpose and user of the valuation can be determined either by an expert or an appraiser.

## Real-estate valuation methods

Several methods are used to determine the value of real estate. Determination of the market value is most often used for the valuation of a property for the purpose of ownership transfer. The most commonly used methods of calculating market value include the comparative method and yield methods.

The comparative method compares the realised prices of a number of similar properties. It is important that this is the price actually realised, not just the offer price. This method is also applicable in practice to determine the usual rental rates.

There are several types of yield methods of property valuation. Their common denominator is the valuation of the benefit deriving from ownership of the property as rent collected by the owner or landlord.

## Factors influencing the value of real estate

The key factor that is common to almost all real estate is location, which is not only the geographic location, but also the prestige of the locality, transport accessibility and the surroundings. Specific factors that affect land prices are the land's area, shape and slope, as well as its orientation. When it comes to building land, the presence of utility networks, or the possibility and difficulty of building them, is also important. Specific factors that affect the cost of office buildings are the area of office space and its layout. The price is also influenced by the design of the building, number of parking places and the building's equipment, such as air conditioning, blinds and distribution of electrical and data networks. A particular factor for the price of production facilities and warehouses is their construction, including the height of the facility, the number of floors and

the load-bearing capacity of the walls and individual floors, as well as the possible uses of the facility. A specific requirement regarding location is accessibility for freight transport, particularly proximity to motorways or railways.

## Specifics of real-estate valuation

A separate aspect of real-estate valuation is taxes. The basis for calculating tax on the acquisition of immovable property in the Czech Republic is the value of the property. This value can be determined either on the basis of the purchase price or on the basis of a target value according to a decree of the Ministry of Finance or an expert opinion. The rules that apply to prices are determined by the applicable laws.

## Conclusion

Real-estate valuation has many specific details and the determination of a property's value depends on many factors that can affect its price. Therefore, when a real-estate transaction is being planned and a calculation of the property's value is needed, we always recommend contacting experts to help you determine the price in the most appropriate way. ■

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# Modern trends in efficient building management

The unemployment rate is currently very low in the Czech Republic, resulting in a shortage of skilled manpower and forcing service providers to bolster the human factor with smart technologies.

**R**emote management of technologies and utilities (i.e. electricity, gas, water, heating) brings forth considerable savings

The Czech Republic is able to offer foreign investors the latest security and facility management technologies. One of the solutions in this area is an innovative model of effective property-care management, where by means of camera systems, analytics software and specially trained operator-analysts, it is possible to get online and offline data from a client's building and to control and administer its technologies and energies remotely from a single place. This enables clients to reduce their operating costs, increase sales, extend the service life of buildings, increase the value of their properties and minimise losses, while incurring minimal costs. This model also makes it possible to provide clients with regular reporting and, thanks to the collected data, to design effective marketing campaigns and business strategies. In addition, this innovative management model enables continuous management of clients' properties, with which it can interconnect from anywhere in the world.

#### IoT – wireless communication, convergence of multiple technologies and real-time analysis

The importance of the Internet of Things (IoT) has grown in recent years, slowly becoming part of our daily lives. In addition to smart households, the business environment of the Czech Republic is beginning

to prepare smart offices as well. IoT represents a new trend in the control of commonly used objects and their communication with each other and with humans, especially via the internet and wireless data transfer technologies. Connected devices thus enable the collection of large amounts of data, which can be further processed and used in different areas such as logistics, energy, transport, meteorology, etc. This technology is broadly applicable in the field of intelligent electrical installations and in so-called "smart buildings", where sensors and internal localisation help to increase convenience for both property managers and end-users.

#### Robotisation on the rise

The issue of robots is being intensively addressed not only at the global level, but also in the Czech Republic, and not only in connection with the lack of skilled labour. One of the biggest advantages of robots is the reduction of both operating and production costs. Service providers in the Czech Republic have already

introduced a trial version of intelligent humanoids that can be used, for example, for securing data centres, logistics facilities, public buildings and parking garages. Such a robot is connected to the building's control system, monitors the environment, detects suspicious persons and reports when conducting patrols. On the basis of the data obtained by the robot, the responsible employee may take further action if necessary. Worth mentioning is the technological innovation e-Reception, a unique technology that greatly helps with streamlining reception service in buildings. This is a combination of a technology platform and reception service. A huge advantage is clearly the modularity of the technological solution, which offers a broad possibility of use in different types of buildings and automation of inputs, from using a standard access card and generating QR codes for visits to managing the entrance of an industrial complex. e-Reception is able to communicate with building technologies such as the ACS system, parking system, reservation system and many more. ■

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# **Handle the permit and construction processes**



# Permitting basics

If you are undertaking a construction project somewhere in the Czech Republic, you should be aware of the approval procedure before starting construction, as well as the inspection procedure for building use and the operation agreement, which is quite strictly governed by the Building Act and other related regulations. Czech laws are progressively updated to reflect construction development, to support investment plans and to promote environmental protection and safety.

**A**n **environmental impact assessment (EIA)** is the initial phase of each building project even if such project is planned in an area with a valid land-use plan. Apart from verification of the new building's compliance with the land-use plan, all of the environmental aspects have to be evaluated on the basis

of the project announcement and related studies. The existing state is compared with the future situation brought about by the new building and its operation. The environmental limits are verified by specialists and approved by the authorities. Both the relevant authorities and the general public have to be informed about all of the prepared projects and can express their standpoints regarding those projects. The location of a building and its connection to utilities has to be approved in the **planning permit** procedure, which can take several different forms depending on the scope of the building and the conclusions of the EIA. Regardless of which form the procedure takes, statements of all the relevant authorities and utility providers have to be collected and incorporated into the planning permit documentation. Though the authorities should issue their statements within the period stipulated by the Administrative Code, in complicated cases they have a right to extend the deadline. After a valid planning permit has been obtained and all of the necessary statements collected on the basis of the building permit documenta-

tion, a **building permit** can be applied for. This step is not necessary for the precisely defined group of small and simple buildings with no environmental, public health or safety impacts. A building notice or even no action is required for such buildings. Following the completion of construction, a final inspection of the building by all of the involved authorities has to be carried out in accordance with the usage rules set forth in the Building Act and in all of the conditions of the previous permits and statements. If all conditions are fulfilled, a trial operation permit is then issued in the case that there are some requirements given by the authorities during the proceedings or by **building use agreement**. Due to this quite complicated permit procedure, which is composed of several steps and can be carried out in several different ways, it is appropriate to use the services of an experienced design and construction company whose authorised designers and specialists are able to adjust your project according to the Czech regulations and prepare all of the necessary documentation so that the permit procedures run smoothly. ■

## Basic and related Czech legislation mentioned in the article

|                                  |   |
|----------------------------------|---|
| <b>Act No. 183/2006 Coll.</b>    | on Urban Planning and the Building Code (the Building Act)  |
| <b>Act No. 169/2018 Coll.</b>    | Amendment to the Building Act   |
| <b>Decree No. 499/2006 Coll.</b> | on Construction Documentation   |
| <b>Decree No. 500/2006 Coll.</b> | on Analytical Materials for Land-use Planning, Land-use Planning Documentation and the Manner of Recording Land-use Planning Activities |
| <b>Decree No. 503/2006 Coll.</b> | on More Detailed Regulation of Land-use Proceedings, Public Contracts and Land-use Planning Measures                                    |
| <b>Act No. 100/2001 Coll.</b>    | on Environment Impact Assessment  |
| <b>Act No. 225/2017 Coll.</b>    | by which Act No. 100/2001 is amended  |
| <b>Act No. 76/2002 Coll.</b>     | on Integrated Prevention  |
| <b>Act No. 254/2001 Coll.</b>    | on Water  |
| <b>Act No. 500/2004 Coll.,</b>   | the Administrative Code   |

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# Zoning permits and environmental impact assessments

Before the building authorities grant approval for any investment project, an environmental impact assessment (EIA) must be completed. In the Czech Republic, local authorities issue detailed zoning plans and conditions for land usage for the purpose of facilitating and regulating construction and development. These plans are developed with the aim of protecting a given area's value and character, as well as contributing favourably to the overall environment.

## The four steps in the EIA process in the Czech Republic:

### 1. Development of EIA documentation

The investor appoints a specialised company or individual to prepare documentation identifying the environmental and public-health impacts of the project.

### 2. Fact-finding procedure

The competent authorities assess project documentation and conclude whether a project can be approved without any further evaluation or if further evaluation is required, often referred to as a "full EIA".

### 3. Full EIA

A full EIA primarily involves the obligation to provide additional details of the environmental and health impacts of the project, including an expert's independent opinion, as well as a public hearing on the project.

The amendment of the Building Act implemented in January 2018 allows authorities to issue joint EIA, zoning and building procedures, including the possibility of issuing a joint ruling for such procedures, in order to accelerate the permitting process.

Zoning permits define the conditions for obtaining building permits and allow commencement of the initial phases, such as creating service lines, testing soil layers and preparing the land itself. A zoning permit is valid for two years and is a prerequisite for obtaining a building permit. The statutory period for completing the zoning-permit procedure is 60 to 75 days excluding the time needed for an environmental impact assessment (EIA), if required.

### 4. Consequences

The environmental impact assessment process is completed and the project is either rejected or accepted. In the case of an unfavourable statement, the investor may submit a revised project that may, for example, use more eco-friendly technology or relocate the project to a more suitable location.

The overall time for obtaining the permit is usually 9 to 12 months.

Prior to submitting a zoning-permit application, an EIA is required. There are two options:

- A fact-finding process with no need for a full EIA, which takes between 6-8 weeks.
- A full EIA may require 4 or 5 months.

#### Environmental impact assessment

In general, the purpose of an EIA is to implement a strategy of sustainable development and to allow officials and all concerned citizens to understand the likely consequences of a development plan. The EIA process is ultimately a compromise between the economic interests of an investor and the priorities of the environment and public health.

An EIA looks into the impact of traffic, pollution,

noise, utilities shortages, rain water, wastewater connections, change of agricultural land for industrial use, top-soil removal, landscape disturbance, etc.

#### Practical advice

To reduce delays, we recommend investing in the planning stage and providing as much detail as possible regarding the environmental impacts of your project. Well-prepared documentation is generally better accepted both by the authorities and by the affected public.

The better the communication from the investor, the better the chance that your EIA process will run smoothly and quickly. Discussing the project in advance with the authorities before submitting the documentation may allow comments to be incorporated into the documentation in advance, thus preventing months of delay. ■

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# Cost planning: The first step

No two building projects are the same and clients have varying priorities; this is as true in the Czech Republic as it is in the rest of the world.

**T**he client could be a manufacturer requiring a new facility in which to operate its core business or a developer whose core business is generating return on investment by adding value to an existing asset. Each project is defined by a unique combination of factors and determining what, where, when and how allows us to determine how much.

#### What

Most clients who come to the Czech Republic have a precise idea of the scope of their project. Local knowledge will highlight the opportunities for added value through the use of local materials and the tailoring of the design for a given location.

#### Where

Some industrial zones have pre-approved permitting processes for appropriate projects, thus enabling commencement of site works in a very short time. Other locations may require a comprehensive planning service including zoning changes and environmental impact assessments.

#### When

The timeline of a given project depends greatly on its location and the stage that the client has reached in the development of the project documentation. Time constraints may also influence how the project is implemented.

#### How

The most common contractual arrangements in the Czech Republic are contracts based

on a bill of quantities (BOQ) with a guaranteed maximum price (GMP), engineering, procurement and construction (EPC) and engineering, procurement and construction management (EPCM) contracts.

Experience in the Czech Republic shows that the following conclusions can be drawn: The EPC/GMP approach reduces risk and the administrative burden for the client by placing responsibility for project delivery with the contractor. The downside of this, however, is that the project costs will be higher, as this risk is factored into the price and it is often not possible to finalise detailed specifications for the works prior to appointment of the contractor. Once the contract is awarded, the contractor controls the detailed design and construction process and will aim for the minimum compliant standards with a natural tendency to select the cheapest subcontractors.

With the EPCM approach, the project is divided into several trade packages and the packages are awarded to specialist companies. This system gains time for the design process, thus allowing

for the production of more comprehensive project documentation, especially for later packages. This in turn yields benefits for the management of the budget, with savings on early packages adding to reserves and potentially allowing for upgrades to the later packages. The downsides here are that more risk lies on the client side and with more contractors to manage, project management is more complex and more expensive. However, the client maintains tighter control over the design and budget, and in our experience the overall costs can be 5% to 10% lower compared with procurement via a general contractor.

#### How much

Whatever the procurement route, it is important to maintain control of costs at all stages of the project.

#### Typical cost structure

The costs of project implementation can be divided between labour, services and materials (direct costs) and the intrinsic costs associated with the project (indirect costs). ■

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**Bert Hesselink**

Group Business Development Director  
CTP Invest

*The Czech Republic offers the perfect conditions for enjoying a comfortable family life and having plenty of exciting opportunities at work and in business.*



**Clare Sheils**

Managing Director  
CBRE

*As a mother, I mostly appreciate safety and good healthcare. The Czech Republic is definitely a great place to live and work.*



**Blake Wittman**

Director  
GoodCall

*The Czech Republic was once considered Eastern Europe, but in the past ten years, I've watched this country surpass many Western European countries in any number of areas, from safety to services to general quality of life.*



**Ben Creighton**

Associate Director  
PM Group

*For a relatively small country, the Czech Republic punches well above its weight in creative fields, high-tech research and professional services.*



**Renaud Chevalier**

General Manager  
Legrand

*Prague is really a nice city to relocate to with a family, as I did. Its medium size makes it very good for easy living, and its numerous green areas, wonderful public transport and safety make the quality of life here quite enjoyable.*



**Mike Jennings**

Advisory Partner  
PricewaterhouseCoopers  
Česká republika s.r.o.

*The Czech Republic is a great place to have a business. People have very strong technical skills, are motivated at work to do new things, and have great language skills. And the Czech Republic, being the heart of Europe, is close to many other potential markets. I have thoroughly enjoyed living and working here for the last 20 years!*

# Hire people



# The Czech Republic: **Increasing skills in a competitive labour market**

The Czech labour market has been very dynamic in recent years. Demand for new staff has continued to grow rapidly, resulting in companies looking for different ways to attract new candidates. Although pressure from the market to increase wages has continued, this has been resisted by employers in most industries.

## Salary levels on selected job roles

| Sector / position                        | Min.  | Max.  | Typical |
|--|-------|-------|---------|
| <b>Finance</b>                           |       |       |         |
| Financial Accountant                     | 1,538 | 1,923 | 1,731   |
| Senior Accountant                        | 1,923 | 2,308 | 2,115   |
| Senior Controller                        | 2,308 | 3,077 | 2,692   |
| Finance Manager                          | 3,846 | 5,769 | 4,615   |
| <b>Construction &amp; Property</b>       |       |       |         |
| Site Manager - General Contractor        | 1,538 | 2,692 | 1,923   |
| Project Manager Developer                | 2,692 | 5,769 | 3,846   |
| Property Manager                         | 2,308 | 3,462 | 2,692   |
| Asset Manager                            | 2,308 | 3,462 | 2,692   |
| <b>Business Services - Finance AP/AR</b> |       |       |         |
| Junior                                   | 1,269 | 1,462 | 1,346   |
| Specialist                               | 1,346 | 1,538 | 1,462   |
| Senior                                   | 1,538 | 1,923 | 1,731   |
| Team Leader                              | 1,923 | 3,077 | 2,308   |
| Manager                                  | 3,077 | 5,000 | 3,846   |

Note: Monthly salary, EUR

Source: Hays Czech Republic Salary Guide 2020

The Czech economy grew again, by 2.7%, in the third quarter of 2019, up 2.5% year on year. Positive economic development continues in most sectors, with lower growth rates being seen only in the industrial sector, due to slowing economic growth in neighbouring Germany.

By 2017, a large number of new investors were coming to the Czech Republic, especially in the business services sector, offering thousands of new jobs, but with a relatively flat job profile structure. Since last year, we have observed greater diversity of job opportunities arising in the Czech Republic, even though the number of new investors has decreased slightly. Not only are the levels of seniority diverse, but also the focus and responsibilities of new positions. In general, we can speak of incoming investments with higher value added. Traditionally strong segments and the demand for qualified candidates will continue this year, despite the gradual rationalisation of the labour market situation.

What is the situation in the various areas of the labour market in 2020?

### Technology

We can expect continuous strong demand for candidates in technical areas, such as IT, engineering and construction and property. In the **IT sector**, there is continuing interest in development specialists, including Java and .NET experts, QA engineers and security experts. The Internet of Things is still a trend and remains attractive to both employers and candidates.

In **engineering**, the latest trend is automation and robotisation. Therefore, we can see the emergence of a number of new roles that connect engineering and IT qualifications. Due to strong demand for qualified experts, the market for calls for acceleration of the recruitment process, moving towards a single-round recruitment process that covers all aspects necessary for making hiring decisions.

**Construction and property** specialists have plenty of opportunities to choose from. The hospitality segment is booming and we can see a number of new investors coming to Czech Republic. Therefore, the hotel industry is one of the busiest segments in the area of construction. The industrial property market also seems to be in very good condition and we expect the strongest employment potential there.

### Business services

In 2019, the **business services** sector continued to expand, especially in the Prague region. New shared-services centres have been established and there is a trend

of expanding existing ones with new responsibilities. This creates a lot of new opportunities for jobseekers with the possibility of a career growth, which is what they are looking for. Smaller centres are still preferred due to the broader range of duties within a given job description.

### Retail and hospitality

In the retail industry, not only fast **retail** brands have expanded as expected, but also companies trading in premium and luxury goods. Due to the increasing purchasing power in the Czech Republic, we can expect further growth of these brands as well as the arrival of new retailers this year.

**Tourism** in the Czech Republic is continuing its positive growth trend. The number of tourists visiting the Czech Republic has again increased across all regions. More tourists mean more business for restaurants and hotels, as the demands of customers are increasing. An innovative approach is required, especially in terms of the creativity of the environment and offer. ■

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# Flexibility for employers

The employment legislation in the Czech Republic has evolved over the past two decades from a rigid system of rules into a system on the European standard, which emphasises the liberalisation of employment relationships. Employment relationships are regulated, in particular, by written labour law, collective agreements and individual employment contracts.

## Important employment regulations

The main statutes and regulations relating to employment relationships in the Czech Republic are:

- Act No. 262/2006 Coll., the Labour Code
- Act No. 435/2004 Coll., the Employment Act
- Act No. 251/2005 Coll., on Labour Inspection
- Act No. 2/1991 Coll., on Collective Bargaining
- Government Decree No. 590/2006 Coll., on the Scope and Extent of Other Important Personal Impediments to Work

**E**mployment models  
The regulations above apply only to employees (not to self-employed persons), granting them statutory protection, as they are subordinated to the employer and perform work at the employer's expense and responsibility. The employment arrangements stipulated by the Labour Code are:

- employment contract,
- agreement to complete a job (in Czech *dohoda o provedení práce*),
- agreement to perform work (in Czech *dohoda o pracovní činnosti*).

The vast majority of employees perform work for an employer under an employment contract; the other two agreements are used for less extensive and/or less time-demanding jobs. Under an employment contract, the employee is required to work up to a maximum of 40 hours per week. Working hours are usually scheduled over five working days per week. The overall overtime work required by the employer may not exceed eight hours per week and 150 hours per calendar year. Upon mutual agreement, total overtime work may reach up to 416 hours per calendar year.

## Terms and conditions of employment

All employment relationships must be governed by a written contract containing:

- type of work,
- place of work,
- date of commencement of work.

The parties may agree to a trial period in the duration of up to three months for regular employees or up to six months for employees in charge// Additionally, employees must be familiarised in writing, within one month of commencing the employment relationship, with the information regarding their employment, such as the annual holiday entitle-

ment, weekly working hours, etc. (the complete list is stipulated by the Labour Code).

## Remuneration, overtime and annual holiday

The development of the minimum and average monthly wage over the past five years is shown below.\*

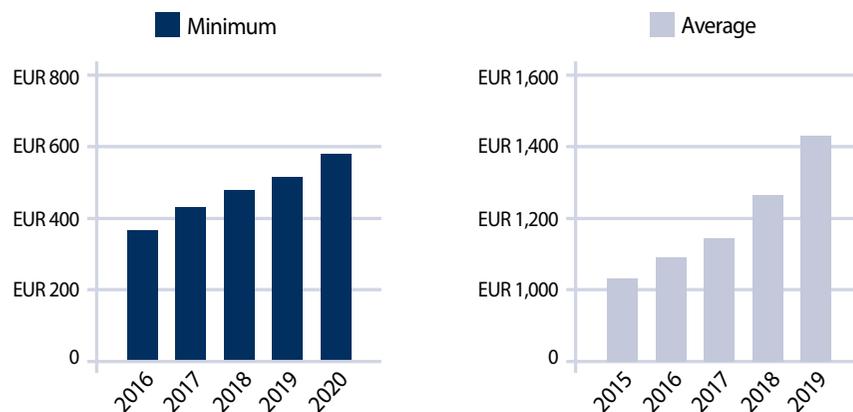
The minimum annual paid holiday is 20 working days. An employee performing overtime work is entitled to a premium payment of at least 25% of his/her average earnings for overtime work (or time off in lieu of such premium payment).

## Termination of employment

An employment relationship could be terminated in several ways, with mutual agreement and notice of termination being the most frequent methods. The Labour Code sets out a closed list of grounds on the basis of which an employer may serve a notice of termination to an employee, such as redundancy of the employee or continuous breaching of the employee's work obligations. A notice of termination given without grounds or on the basis of any other grounds is invalid. The statutory termination notice period is two months and commences on the first day of the calendar month following the month in which the termination notice was delivered. ■

## Remuneration, overtime and annual holiday \*

The development of the minimum and average monthly wage over the past five years.



Source: Czech Statistical Office, 2019

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# Being an employer in the Czech Republic

Insurance, support and assistance are the ingredients of a just social system for everyone. They are also the responsibility of employers, employees and the social-security administration in the case of unemployment, sickness, disability, care or emergencies in the Czech Republic. What costs must be calculated when hiring employees? This article outlines the computation of wages and elements thereof, benefits and mandatory contributions in the Czech Republic.

## Example of salary calculation

| Gross salary (monthly)                                 | CZK 33,000 / EUR 1,295 |            |           |          |            |           |
|--|------------------------|------------|-----------|----------|------------|-----------|
|  | Employee               |            |           | Employer |            |           |
| <b>Health insurance</b>                                |                        |            |           |          |            |           |
| Health Insurance (4.5% / 9%)                           | 4.5%                   | CZK 1,485  | EUR 58    | 9%       | CZK 2,970  | EUR 116   |
| <b>Social insurance</b>                                |                        |            |           |          |            |           |
| Sickness insurance (0% / 2.3%)                         | 0%                     | CZK 0      | EUR 0     | 2.1%     | CZK 693    | EUR 27    |
| Pension insurance (6.5% / 21.5%)                       | 6.5%                   | CZK 2,145  | EUR 84    | 21.5%    | CZK 7,095  | EUR 278   |
| State employment policy (0% / 1.2%)                    | 0%                     | CZK 0      | EUR 0     | 1.2%     | CZK 396    | EUR 16    |
| Social insurance total (6.5% / 25%)                    | 6.5%                   | CZK 2,145  | EUR 84    | 25%      | CZK 8,250  | EUR 321   |
| <b>Insurance contributions total</b>                   |                        |            |           |          |            |           |
| Insurance contribution (11% / 34%)                     | 11%                    | CZK 3,630  | EUR 142   | 34%      | CZK 11,220 | EUR 437   |
| <b>Tax relief</b>                                      |                        |            |           |          |            |           |
| Employee relief  |                        | CZK 2,070  | EUR 81    |          |            |           |
| <b>Child tax credit:</b>                               |                        |            |           |          |            |           |
| 2 <sup>nd</sup> Child tax credit                       |                        | CZK 2,884  | EUR 113   |          |            |           |
| <b>Income tax</b>                                      |                        |            |           |          |            |           |
| Monthly taxable salary                                 |                        | CZK 44,200 | EUR 1,733 |          |            |           |
| Income tax deposit                                     | 15%                    | CZK 6,630  | EUR 260   |          |            |           |
| Solidarity tax if income exceeds 139,340 CZK/5,465 EUR | 7%                     | CZK 0      | EUR 0     |          |            |           |
| Tax deposit after deduction of tax reliefs             |                        | CZK 1,676  | EUR 66    |          |            |           |
| <b>Net monthly salary</b>                              |                        | CZK 27,694 | EUR 1,086 |          |            |           |
| <b>Salary cost to the employer</b>                     |                        |            |           |          | CZK 44,220 | EUR 1,734 |

Source: Adecco, 2019

## S

### social-security system

In the Czech Republic the social-security system is implemented through three main tools, namely social insurance, state social benefits and social assistance and services. Contributions to social insurance are mandatory under the law. Czech social insurance is divided into the following systems: sickness insurance, accident insurance, health insurance and pension insurance. In other words, social insurance helps people prepare for possible life situations, for example, unemployment – citizens of the Czech Republic contribute to the Employment Policy Fund, which is actually an unemployment benefit fund; ill health – citizens contribute to the health-insurance system; short-term disability – citizens pay sickness-insurance contributions; long-term disability – pension-insurance contributions; and work-related accidents – personal-injury insurance. Health insurance contributions fund basic healthcare. All employees and self-employed people as well as individuals without taxable income residing permanently in the Czech Republic are obliged to pay contributions. Part of the insurance is paid by employees themselves and part is paid by their employer. Health insurance covers medical treatments, medical devices, medication, etc. It does not cover some drugs and services that are not part of basic healthcare. These are paid for by patients.

### Payroll accounting

Payroll accounting is part of employers' accounting and it is one of the basic sources of information about the financial situation of a company. Payroll accounting includes HR and payroll data, salary calculations, social and health-insurance deductions, taxes, garnishing of wages and other salary deductions. HR and payroll administration are essential for mandatory reports and summaries sent to social-security bodies, health-insurance companies, the Tax Office, the body responsible for statutory employer insurance, the Labour Office and other institutions. Payroll and HR administration can be outsourced and in the Czech Republic these services are provided by a great number of companies.

### Salary

Since 2008, the so-called super-gross salary has been used in calculating personal income tax and social-security and health-insurance contributions. It comprises the employee's basic salary plus insurance contributions paid by the employer. Net pay is equal to an employee's gross salary for a calendar month minus income tax plus tax credits minus the social-security insurance premium (6.5% of the gross salary) and the health-insurance premium (4.5% of the gross salary). ■

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# Why recruitment agencies are superior to social networks

## Advantages of recruitment agencies compared to social networks – conditions in the Czech Republic

- ✦ Personal approach
- ✦ Extensive database of high-quality specialists and managers
- ✦ Search for appropriate candidates
- ✦ Market monitoring
- ✦ HR-marketing campaign preparation
- ✦ Subsequent cooperation with the client company's senior management
- ✦ Ability to form complete work teams
- ✦ Feedback
- ✦ Satisfaction guarantee or replacement of unsuccessful candidates
- ✦ To be able to motivate a candidate for company

LinkedIn, has approximately 300 million registered users. Conversely, the largest Czech recruitment agencies collectively have about 300,000 specialists and managers using their services. Though LinkedIn obviously has vastly superior numbers, the quality of a recruitment agency trumps the social network's quantity when it comes to finding senior managers or specialists in a particular field.

**S**ocial networks differ mainly in their focus. While Facebook is commonly used for sharing entertainment content, LinkedIn brings together professionals from different business sectors and from all around the world. LinkedIn members use the network for various purposes, such as sharing the latest industrial intelligence, engaging in discussions on specialised topics, communicating with specific professional groups, looking for suitable employees and looking for vacant positions.

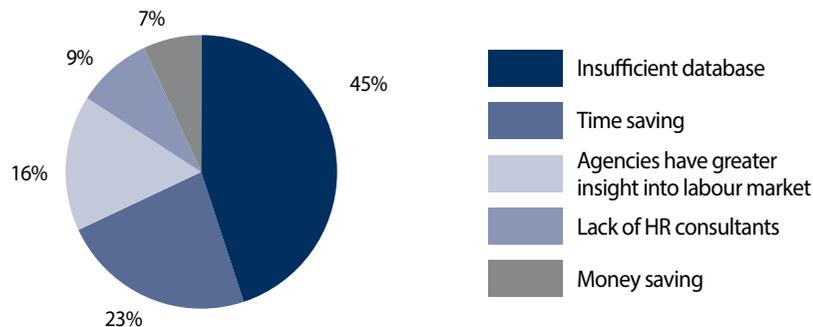
### In the Czech Republic recruitment agencies are most preferred

According to research conducted by the British company Link Humans, LinkedIn is used by 94% percent

of respondents, regardless of their professional discipline. In the Czech Republic, there are approximately 1.5 million LinkedIn users, though companies rarely use social networks when looking for new employees. Currently in the Czech Republic, LinkedIn is used mostly by men, who make up 60% of all users. Generally, social networks are used here by younger people aged 25 to 34, with the majority of them working in IT, software services, telecommunications or banking. Companies in the Czech Republic still prefer to use recruitment agencies when searching for new employees. According to a survey conducted by Advantage Consulting, in 71% of cases companies choose recruitment agencies due to the lack of quality CVs submitted directly to companies by potential candidates, to save time in 37% of cases and in 25% of cases because recruitment agencies have greater possibilities to find suitable candidates. The survey also indicates that companies searching for new employees use only Facebook and/or LinkedIn, and ignore other social networks. In the Czech Republic, only 10% of companies search for new employees via social networks. The services of recruitment agencies are also indispensable for foreign investors coming to the Czech

Republic. For new branches, recruitment agencies are able to form complete teams, from junior staff to senior management. In this case, social networks cannot compete with recruitment agencies. Furthermore, recruitment agencies are flexible and respond to companies' demands immediately. If a company's senior manager resigns, the recruitment agency is able to replace him or her in a very short time with a new candidate who meets the company's needs. Senior managers are responsible for recruitment in the company too, so they also start to cooperate with the agency as a business partner. This is advantageous because they not only know their staff but also know how the agency operates, how flexible it is and how quickly high-quality results can be achieved. Recruitment agencies should therefore become companies' partners that will not only be able to find senior managers for them but will also help them to form the rest of their teams and set up the appropriate corporate culture. At the same time, the agency is able to create a marketing and promotional campaign that attracts people to the region. For their own campaigns, many companies often use the same old schemes, e.g. billboards across the country, which are often ineffective. ■

## The most frequent reasons why companies on the Czech market cooperate with recruitment agency



Source: Advantage Consulting, 2019

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# Employment agencies and recruitment of blue-collar workers in the Czech Republic

The Czech Republic has been experiencing a declining trend in unemployment since 2010. In 2019, the unemployment rate reached the lowest level in the modern history of the country, with the annual average being 2.6%. The lack of skilled workers is reflected in considerable nominal wage growth, which amounted to 8.5% in 2018, decreasing in 2019 to 6.9%, which was more than was expected. An analysis of the jobless group indicates that over 50% of the unemployed are women and around 5% are school-leavers.

## Major sources of applicants for blue-collar jobs

- Recommendations by the company's own employees
- CVs submitted by applicants
- Labour Offices
- Job portals
- Cooperation with schools

## Tips on how to recognise a good employment agency

- The agency has a clear vision
- Clear manner of communication
- Long-term presence on the Czech market
- Compliance with Czech legislation and, ideally, with APPS (Association of Providers of Personnel Services) standards

Naturally, the distribution of unemployment is far from uniform in the Czech Republic. North Bohemia and north Moravia are still among the regions of the Czech Republic with the highest unemployment rates. The strongest demand for employees is still found in the manufacturing industry.

**The latest trends in recruitment of blue-collar workers include extended cooperation with employment agencies, a comprehensive system of corporate benefits and special methods of selecting new employees.**

### Role of employment agencies in recruitment

The majority of jobseekers in the Czech labour market are passive (only approximately 10% of jobseekers actively engage in a job search several times a week), though they are inclined to communicate with employment agency consultants. There is also an increasing number of very satisfied employees who do not intend to change jobs. These statistical figures also apply to blue-collar jobs. In the past, recruitment of production workers consisted in publishing job ads and waiting for CVs to come in. At present, it is necessary to actively seek out candidates. The latest trend in this area consists in the ever-greater

use of employment agencies during the start-up stage of companies. When cooperating with an employment agency, value added lies primarily in the following aspects:

1. Time savings during the recruitment process.
2. Interviews, short listing, training, medical examination, provision of protective equipment, administration, wages, etc.
3. The demanding induction training stage is conducted through the agency.
4. Flexibility.
5. A verifiably productive worker may be hired as a permanent employee.
6. 24/7 support and services.
7. Arrangement of transport/accommodation for employees.
8. Personnel/legal consultancy, know-how transfer.

9. Presence of the agency's representative at the workplace.
10. Possibility of a fixed trial period including the possibility of hiring the given worker as a permanent employee.

In extensive recruitment projects, businesses still more frequently use employment agencies offering the "try & hire" service, where agency employees are hired as permanent staff members after an agreed period of time. This enables companies to identify reliable workers. In the financial respect, cooperation with an employment agency involves purchasing of services. The costs of agency employees are therefore included in service costs and not labour costs. Agency employment is also beneficial when dealing with a high rate of employee turnover in a business, as it reduces the costs of recruiting new employees. ■

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# Understanding shifting motivations as the key to the talent management

**A** competitive market place, rapid development of new technologies and changing employee expectations mean that businesses in the Czech Republic must re-evaluate how they attract and

retain staff. The recruiter's role in the talent selection and management process has changed. The days when an agency's expertise was solely in reviewing candidates' experience and knowledge - with workers driven by salary and working hours - are gone. Recruiters are now matchmakers between candidates' motivations and employers' culture.

## Employee motivation and needs

Employees are no longer motivated to work solely by remuneration. They also value factors including work environment, career development and training opportunities. Workers now expect employers to cater specifically for their needs, as well as providing them with bespoke career development plans.

It is no longer enough for employers and recruiters to identify hard, technical skills and previous experience. As well as a shift towards softer skills, researching employee motivation and whether a business can satisfy their needs is critical.

## Talent management strategies have to address shifts in candidates' motivations towards:

- Individuality
- Work-life balance
- Recognition
- Loyalty and stability
- Friendly environment
- Self-development
- Efficiency and balance
- Embracing change
- Technology savvy and driven

## The rise of talent management

Companies in the Czech Republic now understand the importance of retaining key employees and developing processes to assist with this; talent management. Talent management has become fundamental to the role of an HR team.

Talent management professionals not only rely on recruitment agencies identifying potential employees, but also analysing and understanding their needs. This is where recruitment agencies provide the link between the employer and candidates, matching candidates' motivations with employers' talent management schemes.

These schemes must identify what it is that employees want from a job. The key means of maintaining employee engagement include: motivation, career development, a positive work environment, recognition, respect, and management support.

Without an established talent management strategy, companies risk losing talented employees who believe they could find greater job satisfaction elsewhere.

Talent management makes a company attractive and competitive. It helps businesses to retain their most valuable assets – employees.

## Talent management in the Czech Republic

The Czech Republic has talent management practices comparable to those in Western European countries. Most international companies have established performance and succession processes

which include talent management tools.

This is critical, as the Czech Republic's low rate of unemployment makes it difficult to attract and retain top talent.

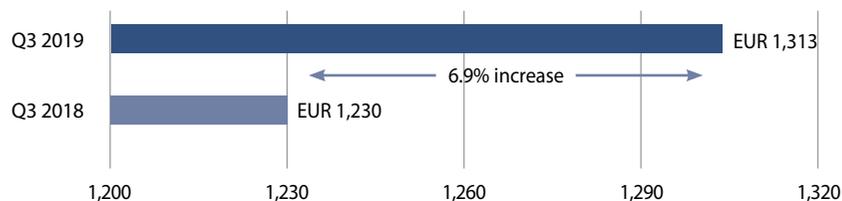
The Czech Republic had an unemployment rate of **2.2%** in Q3 2019, the lowest in Europe.

There are still factors nationally which are threatening companies' ability to remain competitive and offer the experience employees demand. Chief among them is the outflow of experienced, skilled workers, combined with the simultaneous influx of less experienced graduates.

Businesses must also account for wage growth. In Q3 last year, consumer prices grew by 2.8% and wages increased by 4.0% in real terms. Companies must be prepared for valued employees to look for salary increases, or else look to move to other businesses who will pay them more.

Talent management is becoming ever more crucial in determining business success. The battle for talent sits alongside the race to innovate. HR managers that recognise this and respond accordingly will have an unprecedented opportunity to help themselves to the cream of the crop. This will enable them to become leaders in the new working world. ■

## Average wages



Source: Czech Statistical Office, 2019

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# Manage costs. Invest in talent.

## How to do both and succeed in today's environment

The current talent shortage has changed the employment landscape. A major struggle consists in the effort to manage operating costs while investing in recruitment and talent development in order to maximise performance. Modern outsourcing strategies meet the need for a more agile workforce.

**H**uman resources outsourcing is transforming how companies manage talent. It is still important to reduce costs. However, expense savings have become a by-product of superior benefits, such as workforce agility, visibility and control of performance. The best HR outsourcing today creates more nimble workforces to address fast-changing skills needs in a fast-changing business environment. It improves the processes for adding talent and the ability to serve and manage it in ways that lead to higher productivity. It also enhances the employer brand – how a company's management of its workforce is perceived by the outside world – thus improving its ability to attract more talent.

Today, the spectrum of outsourcing options is wide and deep, crossing various models of work and categories of workers. With the right outsourcing partners, companies can mix and match solutions, thus customising outsourcing to fit their full-time and contingent workforce needs. At a time when being agile and cost-effective are crucial, companies are seeking outsourcing providers who take over the bulk of outsourcing or contingent workforce, while improving related processes.

Companies can focus on improving the hiring of full-time employees via **Recruitment Process Outsourcing (RPO)**. The use of RPO has soared in recent years as companies look for logical places to maximise investments while improving productivity. RPO providers have a unique ability to find the best workers quickly,

often in crucial, high-growth industries and regions. RPO providers are clearly handling traditional elements of recruiting, including sourcing, screening and assessment, with greater efficiency than before. This has resulted partly from improvement in technology and a greater understanding of how RPO can benefit an organisation: outsourcing providers can tailor their services in new, more innovative ways. In recent years, RPO providers have assumed a larger role in onboarding (orientation of new hires), employee training and development, and even offboarding (separation of workers). They are increasingly managing the social media that generates communities of potential candidates and helps define the employer brand.

Companies may choose a **Managed Service Provider (MSP)** to supply and manage their contingent workforce and manage other outsourcing tasks. MSPs bring new efficiency to the selection and management of providers of outsourcing services and independent contractors. Increasingly, employers are utilising contingent workforce strategies to provide flexibility. And

as the number of contingent workforce sources increases, so do the challenges, such as managing costs, standardising processes and tracking performance. In a world of diminished resources, companies are looking for trusted partners who can help them find more innovative, creative ways to get things done – and done fast. In the era of the skills revolution, this means accomplishing significant goals with fewer resources. Outsourcing can provide the means of achieving objectives that might otherwise be out of reach, at least in the short term. This isn't simply because the outsourcing partner can perform specific responsibilities, but rather because of its deep knowledge of the area, function, industry and, most of all, the clients themselves. We hear almost daily from the companies we help how much they value us and how outsourcing has evolved into an integral part of their organisations. Clearly, there are things – important things – that companies aren't able to do effectively without outsourcing. Therefore, outsourcing is truly a workforce model for our time. ■

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# Increased productivity, reduced costs and **happier employees**

## **F**lexible planning as the key to increased productivity and reduced costs

A committed, professional and cost-efficient workforce is an important factor in the success of any company, especially where there is a large proportion of temporary employees. Ensuring that employees have the right work at the right time and at the right place is not an easy task. One of the solutions is **Inhouse Services**, a concept developed for companies with a strong demand for flexible personnel. This model offers a complete tailor-made solution specialised in providing a large amount of skilled, flexible labour

### **Inhouse Services = workforce management solutions with the purpose of:**

- Increasing workforce retention and reduce attrition.
- Reducing absenteeism and lost productivity through effective absence management.
- Increasing worker productivity and satisfaction.
- Reducing overtime costs.
- Reducing labour and material waste.

### **Inhouse Services can be measured by these benefits:**

- Total personnel cost savings of 1% to 7%.
- Higher delivery speed.
- Shorter familiarisation times.
- Lower personnel costs.
- Reduced workload of the personnel department.

### **When to apply Inhouse Services:**

- In the case of a large production facility, call centre or logistics operation.
- Between 50 and 1,000 flexible employees are regularly needed.
- The number of required employees is subject to strong seasonal fluctuations.

and is specifically designed to help companies with high-volume staffing needs in the logistics, manufacturing, warehouse and contact centre environments.

### **How it works**

Inhouse Services provides a total workforce management solution aligned with a company's operational objectives and staffing needs, which can increase the productivity of existing workers, help decrease attrition and absenteeism and generate cost savings. It delivers the complete HR process from recruitment, selection, introduction, planning and management of workers (local or foreign) to provision of detailed management reports. It is provided onsite, so all processes can be customised to specific needs. Working with a strategic onsite partner brings savings by reducing overtime, absenteeism, turnover and idle time, while improving overall workforce utilisation. It also helps to achieve measurable improvements in productivity, quality and operating efficiency.

### **Tailor-made solutions**

Inhouse Services does not operate based on a "one size fits all" approach. Each of the onsite delivery models is designed specifically around the client's organisational culture, vision and operational objectives. A dedicated account team works exclusively for each customer

and has its workplace onsite directly at the customer's place of business. This team thinks and acts like internal HR employees. It cooperates closely with the customer, together creating a talent pool made up of flexible and permanent staff. The pool works in the same way as a reservoir. It compensates perfectly for any over- or under-capacity and provides exactly the right number of employees, who are available at all times, thus reducing unnecessary personnel costs and lowering the fluctuation rate and absenteeism. The account team is supported by workforce analysts and other experts. Workforce analysts work with their clients at the operational level in order to truly understand their needs. When examining the client's business, the workforce analysts first conduct a detailed onsite analysis within the company. They meet with all levels of management and training, H&S and HR teams in order to gain an understanding of the client's business. This enables them to recommend relevant actions and activities to drive efficiencies and cost savings. The aim is to identify solutions for the removal of waste, both production and time, and improve efficiencies in the workforce using skills-gap analysis, skills clustering, process improvement, onboarding and training improvements. Every step is carefully planned and ongoing reporting/metrics are provided to rigorously analyse staff utilisation. ■

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# Candidates are passive

## To be successful, you will need to be active

### Four key steps to successful recruiting

1. Promote your brand with an authentic EVP.
2. Look through your digital footprint and make sure it will convert.
3. Numbers will show you the way both online and offline.
4. You will still need to proactively source and engage the market.

### Quick Facts:

- More than 80% of the market is passive.
- Job descriptions that are 600-800 words have the highest click-to-apply ratios versus longer ones.
- If your application process takes more than five minutes, you will lose almost half of the candidates.
- More than 60% of all job searches start on a mobile device.
- Time-to-fill is a great metric to watch, but more qualitative ones will have a bigger impact.
- Approaching a candidate directly as the final employer has a much higher success rate than external agencies.

The behaviour of candidates is fundamentally different today than it was in the past. People's expectations for the recruitment process are also different and higher than in the past. The solution is to not only accept this, but to embrace and actively participate in it.

**T**here are lots of people on the market, but most of them already have jobs. Welcome to the world of passive candidates. But if you look closely, you will realise that there is no need for great despair, because the fact that many people are passive does not mean that they will not consider any changes at all. It simply means that they are not actively approaching companies. Your job is to actively approach them. To help that process, you should take some important steps in the digital and marketing space and get used to new tools and new people. This will help you develop a brand and an understanding of the market so that the best talent is attracted to you.

So, what can you do in this challenging, yet very attractive market? We would recommend taking four important steps to ensure that you are setting yourself up for success when recruiting:

### Step 1

#### Promote your authentic brand

Before you begin to tell the world why they should join you, you must understand why others have joined you. The message, when you tell it, needs to be authentic; otherwise, it will not resonate with your audience. Start by asking

current and new employees why they are in your company. This will give you a sense of what your EVP (Employee Value Proposition) is at the local level and then you can begin telling the market about it using real people, pictures and stories.

### Step 2

#### Upgrade your digital world

Have you looked at your career page lately? Read through your job descriptions and ask yourself if the average millennial would read them to the end. Try your entire process, through applying for job, on your mobile device. Many companies struggle with having an experience that is not just acceptable, but also enjoyable. Today's talent simply will not accept an experience, and therefore a company, that has not been updated in years. Finally, determine whether you need a separate landing page to drive people to one location and and give them the information they demand.

### Step 3

#### Know your numbers

Which of your job descriptions is read the most? How many visitors did your career page have last month? How many candidates do you need to review in order to hire for your most important roles? These and many more questions should guide you in understanding where you are doing well and where you need more assistance.

### Step 4

#### Get active

To get the people you really want, you'll need to source and engage candidates using the tools that they are used to. Your target market is probably on Facebook and Instagram and LinkedIn. Well, you should be too, at least in some way – perhaps as a company or maybe just your recruiters. At any rate, pro-actively talking to candidates is critical because if you wait for them to send their CVs, you will probably be waiting for a while. ■

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about taxes**



# The Czech tax environment: Transparent and competitive

The Czech tax system is transparent and competitive, and offers a number of interesting opportunities to both domestic and foreign investors.

**F**or individuals  
The income of residents and non-residents is taxed at a flat rate of 15%. A potential surcharge of 7% is applicable to annual gross income exceeding approximately EUR 62,000.

The final tax liability may be lowered by different tax deductions and forms of tax relief depending on the individual's personal situation. Participation in the Czech social security and health insurance systems is generally required but can be modified by the application of EU legislation or a respective totalisation agreement. The Czech social security system covers a wide range of state support including high-quality public medical care, pension and disability insurance, sickness insurance and unemployment benefits.

#### For businesses

Business income is taxed at a flat rate of 19%. A 5% rate applies to basic investment funds as defined in the Czech tax law. There is no alternative minimum tax. The corporate income tax base is determined in accordance with the Czech Accounting Standards with adjustments for tax purposes. The functional currency is the Czech koruna. Withholding tax is applicable to limited types of payments to non-residents (mainly dividends, interest and royalties); however, exemptions based on the respective EU directives (i.e. parent-subsidiary, interest-royalty directives) and/or double taxation treaty can be obtained. The Czech Republic has a broad network of double taxation treaties with both EU and non-EU countries. These double taxation treaties are based mainly on the OECD Model Tax Convention.

In order to attract investments and support the development of activities with high value-added, the Czech Republic maintains and actively develops a number of investment incentive schemes. Companies with R&D activities may apply a special deductible item with respect to R&D costs. Eligible costs are thus deducted twice – once as operating costs and, for the second time, as a special deduction. The R&D deduction can be increased to 110% for incremental eligible costs incurred in the tax period. Unlike foreign programmes, there is no requirement that the entity claiming the benefit must own the resulting R&D. Therefore, companies conducting contract R&D activities for their customers may also apply for this deduction. There are also other means of R&D support available and you can find details about them in another article focusing on this topic. Other corporate income tax deductions, such as tax losses and an education deduction, are available. Tax losses may be carried forward for five tax periods. Reflecting on various base erosion and profit shifting initiatives at the EU level, the Czech tax authorities follow the trends and are focusing increasingly on the area of transfer prices. Although there is no explicit transfer pricing documentation obliga-

tion in the Czech Republic, taxpayers must justify the arm's-length level of prices agreed with related parties. A binding ruling can be obtained.

#### Indirect taxes

For VAT payers performing taxable activities, VAT generally should not represent an additional cost. A potential refund of excess VAT paid is usually available within 30 days of filing. The standard VAT rate is 21% and the reduced rates are 15% and 10%. Certain supplies are exempt. The Czech Republic implemented Directive 2006/112/EC on the common system of VAT and is thus generally harmonised with the principles applied within the EU. The transfer of goods within EU member states is generally not regarded as export or import. Goods imported from third countries are subject to import customs duties, excise duties, VAT and other commercial policy measures based on the EU customs tariff.

#### Other taxes and duties

Several rather immaterial taxes such as property tax, property transfer tax and road tax are applicable in the Czech Republic. ■

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# Paying corporate taxes in the Czech Republic

## Illustrative comparison of corporate income tax rates in the Czech Republic and neighbouring countries

|                | Corporate income tax rate                      |
|----------------|--|
| Czech Republic | 19%  |
| Slovakia       | 21%  |
| Poland         | 19%  |
| Hungary        | 9% + local business tax (max. 2%)              |
| Austria        | 25%  |
| Germany        | 15.825% + local trade tax (approx. 12.6–20.3%) |

Source: PwC World Wide Tax Summaries, online tool covering corporate and individual taxes in 151 territories worldwide.

## Illustrative comparison of VAT rates in the Czech Republic and neighbouring countries

|                | VAT rates  |                              |                              |                              |
|----------------|------------|------------------------------|------------------------------|------------------------------|
|                | Basic rate | 1 <sup>st</sup> reduced rate | 2 <sup>nd</sup> reduced rate | 3 <sup>rd</sup> reduced rate |
| Czech Republic | 21%        | 15%                          | 10%                          | N/A                          |
| Slovakia       | 20%        | 10%                          | N/A                          | N/A                          |
| Poland         | 23%        | 8%                           | 5%                           | N/A                          |
| Hungary        | 27%        | 18%                          | 5%                           | N/A                          |
| Austria        | 20%        | 19%                          | 13%                          | 10%                          |
| Germany        | 19%        | 7%                           | N/A                          | N/A                          |

Source: PwC online tool GlobalVATOnline which provides up-to-date information on VAT/GST rates, rules and requirements around the world.

**Corporate income tax**  
**Rate:** There is only one corporate income tax (CIT) rate of 19% applied to the general CIT base. (As an exception, certain investment funds have a special CIT rate of 5% and pension funds a 0% CIT rate.) There are no state, municipal or other similar local income taxes.

**Base:** The CIT base is calculated based on the accounting result determined according to the Czech accounting principles. The accounting result is then adjusted for non-tax-deductible costs and non-taxable revenues. If the CIT base is negative, the tax loss can be carried forward for five subsequent tax years.

**Capital income:** Dividends from abroad are generally subject to a reduced CIT rate of 15%. Capital gains from sale of shares is included in the standard tax base (19% CIT). Dividends and capital gains from EU subsidiaries can be exempt under the EU Parent-Subsidiary Directive. Dividends, interest, license fees and some other types of income paid to abroad are subject to a withholding tax (WHT) of 15%. The WHT can be reduced based on the applicable double taxation treaty or based on the EU Parent-Subsidiary or Interest/Royalty Directives.

**Transfer pricing:** The transfer pricing (TP) rules for transactions between related parties are compatible with the OECD TP guidelines. TP documentation is not obligatory; it is only recommended.

**Tax incentives:** Investment incentives in the form of CIT relief for ten years are available for certain new investments (manufacturing plants, technology development

and shared-services centres). The maximum level of state aid is 25% of the costs of the investment. A generous tax incentive is also available for R&D activities; this incentive has the form of a double tax-deduction for costs incurred on R&D projects.

### Value added tax

**Value added tax (VAT)** is charged by all VAT payers as part of the agreed price when supplying most of goods or services locally. A customer that is a VAT payer may claim the input VAT back. In some cases, a “reverse charge” may apply, i.e. VAT is not charged by the supplier, but is self-accounted by the customer.

**Rates:** There are three VAT rates. The standard rate of 21% is applied to most goods and services. The first reduced rate of 15% is applied to, for example, accommodation and construction works related to social housing. The second reduced rate of 10% is applied to certain types of medication, books, newspapers, draft beer, etc. There are also VAT-exempt goods and services, e.g. banking and insurance services, rent of apartments, education and health services, etc.

**Tax-administration obligations:** Besides the VAT return and EC Sales List (when EU sales of goods or services are carried out), a control statement (a Czech form of SAF-T) must be submitted by Czech VAT payers.

**Generalised reverse-charge mechanism** should be implemented as an EU pilot project that will apply to all supplies of goods and services in the Czech Republic with a value greater than EUR 17,500. It is expected to be valid until June 2022. ■

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# Paying personal income tax in the Czech Republic

Czech tax law recognises five types of individual income that are subject to tax and stipulates specific rules for calculating the partial tax base from each of them. The total tax base of an individual is then represented by the sum of these partial tax bases. The personal income tax rate is a flat 15% (for higher income the “tax solidarity surcharge” of an additional 7% is applied).

## Calculation of tax liability from the aggregate tax base

- Aggregate tax base
- Deductions (e.g. deduction of paid mortgage interest, contributions made to a private pension scheme and/or private life-insurance account, charitable donations)
- = Tax base the nearest hundreds korunas
- × Tax rate
- Tax allowances
- = Tax liability

For each activity, the maximum limits for lump-sum deductions are set as follows:

| Lump-sum deduction   |
|--|
| Maximum limit for the lump-sum deduction for the taxable period 2020 |
| <b>60%</b> in most trade-license activities                          |
| CZK 1,200,000 (approx. EUR 47,000)                                   |
| <b>40%</b> e.g. lawyers, tax advisors, architects, doctors, artists  |
| CZK 800,000 (approx. EUR 31,300)                                     |

**Tax residency**  
Czech tax residents have a duty to pay tax in the Czech Republic from their worldwide income. An individual is considered to be a Czech tax resident if he or she has a permanent address in the Czech Republic or spends here at least 183 days in total per year.

**Types of taxable income**  
The following five general types of income are recognised in relation to individuals:

- employment income,
- business income,
- income from capital assets,
- rental income,
- other income.

**Employment**  
Employment income is mainly income from performing work based on an employment contract or remuneration of statutory representatives of companies. Tax base is calculated as follows:  
**Tax base („super-gross“ salary) = gross salary and taxable benefits (i.e. employment income) + the employer’s social security and health insurance contributions (33.8% of the employee’s income).**

A maximum assessment base applies to social security. For the taxable period 2020, the limit is set at CZK 1,672,080 (approx. EUR 65,600). However, there is no maximum limit applicable to health insurance.

**Business income**  
The partial tax base (or tax loss) in relation to business profits is represented by the difference between earned business income and related busi-

ness expenses. The individual may select the more convenient of the following methods of claiming tax-deductible expenses:

- paid expenses in the actual (documented) amount,
- lump-sum deduction.

**Capital income**  
Income from capital assets mainly comprises received dividends, interest and income from pension accounts and life-insurance policies.

**Rental income**  
This category includes income from leases excluding some exceptions. The mechanism for calculating the partial tax base (or tax loss) from leases is similar to that for business income (i.e. the individual may choose between claiming actually incurred expenses or claiming a lump-sum standard deduction, which is 30% with the maximum limit of CZK 600,000 (approx. EUR 23,530) for the taxable period 2020.

**Other income**  
Any income other than that described above falls within the scope of the partial tax base, e.g.

income from the sale of property or movable assets including shares, from occasional activities and leasing of movable property, non-monetary income, etc.

**Calculation of tax liability**  
An individual can also apply deductions and tax allowances, which are applied under the stipulated conditions available mostly to tax residents of the Czech Republic. The tax liability reduced by tax allowances is the final tax liability to be settled with the tax authority. The most frequently applied tax allowances are general annual allowance, allowances for students and children, and allowances for taxpayers with a low-income spouse.

**Tax compliance**  
The obligation of an individual to submit a tax return arises if the individual has earned taxable income (not subject to withholding tax) in the annual amount of at least CZK 15,000 (approx. EUR 590). If the individual has earned employment income, the related tax obligations are in most cases settled by the employer and no obligation to file a tax return arises. ■

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**Interested  
in M&A?**



# Specifics of acquiring Czech privately owned / family business

In November 2019, we celebrated the 30th anniversary of the Velvet Revolution. This milestone in Czech history brought not only political liberties, but also the freedom to conduct business. The first generation of Czech entrepreneurial pioneers will soon reach retirement age and are looking to hand over their businesses to their heirs or sell the businesses outside of their families. Conversely, acquisition of a Czech privately owned/family business has several specific aspects that one needs to take into account when weighing such a purchase.

## Aspects of management

As a leader and visionary, the founder of a Czech privately owned family company is typically not only the sole shareholder, but also usually serves as the day-to-day business executive of the company. Professional management is engaged only in rare cases. This stems from the fact that founders had to manage their companies by themselves from the very start, as there were no qualified outside managers. A certain lack of trust is also present. It is necessary to take these unique management aspects into account, as the founder often possesses vital know-how vis-à-vis the company which is not easy to transfer to the new owner. Therefore, we would recommend a smooth acquisition model with (i) at least a one-year transition period and (ii) legal counsel with specific skills who can delicately handle any unusual elements stemming from the combination of heightened sentiment, high expectations, negotiation style, specific values and the given company's legacy.

## Lack of experience with the M&A process

The sale of a company is usually the sole event during which the founder deals with the M&A process. Founders frequently hesitate to cooperate with upper-tier M&A advisors and lawyers and have a tendency to manage the transaction exclusively with the support of their day-to-day/commonly retained lawyer. This may lead to misunderstandings and disenchantment due to inadequate experience with the M&A process. From our experience, it is critical to explain to such sellers the purpose of an SPV, the workings of the due diligence process, the standard terms and conditions of an M&A deal and the structuring of the share purchase agreement. Moreover, it is probable that the company's internal management and the related rules will need to be rearranged or even established from the ground up.

## The fine line between business and private life

Founders usually live for their businesses, which thus form an integral part of their lives. This may cause them not to appreciate the boundary between the business and private ownership. Eventually, companies may hold a great amount of assets not related to their core business. Moreover, companies usually hold cash from the profits of the preceding years be-

cause the owners pay dividends only in the amounts necessary to satisfy their needs. This cumulative approach results in the necessity of carrying out pre-transaction process carve-outs by experienced M&A advisors or lawyers.

Understandably, owners who have built up their companies over the greater part of their professional lives care about the future of their companies even after they exit. To avoid any misunderstandings, it is advisable to sit down with the owner and discuss future changes such as post-acquisition mergers, renaming of the company or relocation of the seat and back office and – perhaps most importantly – any resulting dismissals of employees. This emotional block might be even greater when the purchaser happens to be a foreign entity. In such a case, the presence of experienced M&A advisors is of the utmost importance.

## Conclusion

Right now is the best time to acquire privately owned/family businesses. A large number of solid mid-size companies are or will be up for grabs as the first generation of founders/owners reaches retirement age and begins exploring their exit strategies. ■

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# Making informed investment decisions

A recent study indicated that 11% of investors identified sound due diligence as the most important factor in achieving a successful M&A deal. However, what elevates financial due diligence from a bare necessity to a critical success factor?

**Persistent value creation?**  
It is vital to look for weaknesses in performance measurement, changes in cost structure, dissynergies or creative accounting. Interim performance reports of Czech SMEs are often affected by the limited scope of the monthly closing procedures. This may be misinterpreted as proof of an optimistic business plan. When dealing with long term contracts, proper revenue recognition should be considered due to the inherent limitations of the Czech Accounting Standards.

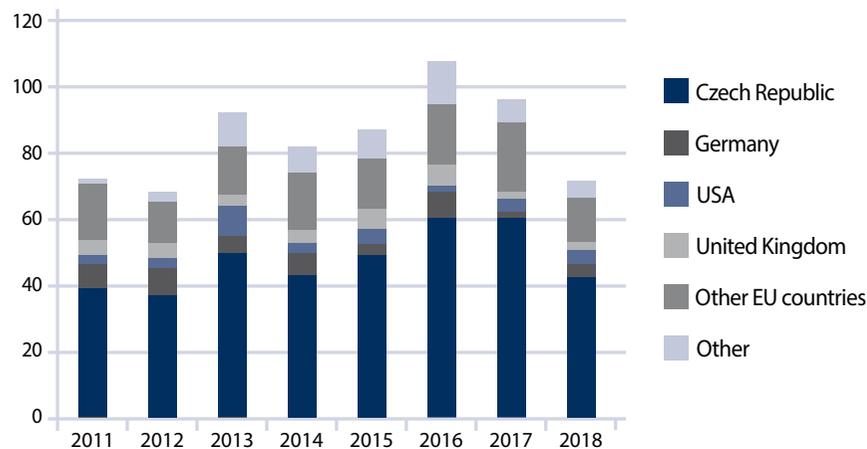
**Avoiding unpleasant surprises**  
A working capital analysis is not a checklist with several standardized tests, it is crucial to identify oddities in working capital movements. Advisors should attempt to calculate the expected impact of the transaction on working capital. Analysing net debt involves also finding risks that may not even be captured by financial statements. Underinvested fixed assets or unreported contingent liabilities may backfire if not identified prior to the transaction closing. Foreign investors should be aware of local accounting specifics. Such concerns are becoming more frequent with recent changes in IFRS. The most critical part is collaboration with the client on appropriate protection. Issues may be priced in or covered through warranties, indemnities, insurance etc.

decreasing unemployment rates and growth in average personnel costs. We observe a rise in due diligence projects at companies in earlier stages of their development that originated as start-ups. Therefore, due diligence teams need to base their view on more restricted data. This brings forth in-depth discussions about the target's processes and gives rise to non-due diligence services (e.g. assistance with preparation of data).

**Not many changes in the origin of key bidders**  
Local deals comprised more than half of all deals. Despite a decline in the past two years, Germany remains the traditionally most active investor. British investors have been less active in the past two or three years, quite likely due to Brexit. Investment from non-EU countries has recently received considerable coverage in the local media, but the share of non-EU investors has remained rather stable over the past five years. Traditionally, Czechs are rather sellers than bidders. There have been few deals involving Czech investors acquiring companies outside the domestic market or CEE. Despite that, their appetite for foreign investment seems to be on the rise. ■

**Trends reshaping due diligence in the Czech Republic**  
Clients are becoming increasingly concerned about human resources and their impact on financial performance. Personnel costs or staff fluctuation are becoming scrutinized in even greater detail than before. This is likely due to persistently

Acquisitions of Czech companies by bidder origin



Source: Deloitte, Mergermarket 2019

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# W&I insurance for M&A deals

Due to its location in the heart of Central Europe, the Czech Republic has become something of a hub for overseas investment in the region over the past few years.

The real estate market in Central and Eastern Europe has been a particular area of focus for investors due to the following three key factors:

- Availability of “dry powder” from institutional and private investors.
- “The search for yields”. With government bonds and stock markets now producing negligible returns, investors are prepared to increase their appetite for perceived risk in order to achieve greater yields.
- The political situation across Europe following Brexit has seen foreign investors looking for returns in the stable Central European political environment and non-eurozone countries.

Last year, EUR 22.66 billion was invested in the CEE market by private equity funds and an additional EUR 16.6 billion was invested in the CEE real estate market across all asset classes.

As investment has flooded into the region, it has brought with it financial instruments derived from the US/British M&A market.

Though warranty and indemnity (W&I) market has been in existence for a decade, it has become a staple deal tool only in the past five years. This product is increasingly being used in deals across CEE and in Czech deals in particular.

The purpose of W&I insurance is to wrap the transactional risk in a policy so as to eliminate, or at least minimise, the impact of the liability on the parties in a sale and purchase agreement.

The policy fills the “warranty gap” in cases where sellers:

- I. are not prepared to provide warranties (e.g. PE houses or family sellers), or
- II. intend to cap their liability at GBP 1/EUR 1/USD 1 (e.g. real estate transactions), or
- III. in some cases, are unable to give warranties and indemnities (e.g. family sellers or SPVs).

The starting point for the insurer is that the policy sits back to back with the SPA and indemnifies a party to a transaction (buyer, seller or interested party) against financial losses arising from the sale and purchase agreement.

This includes claims:

- I. for a breach of warranty (general, fundamental, tax),
  - II. under the tax covenant,
  - III. under an indemnity in respect of a known issue.
- Specific known issues such as tax or litigation may also

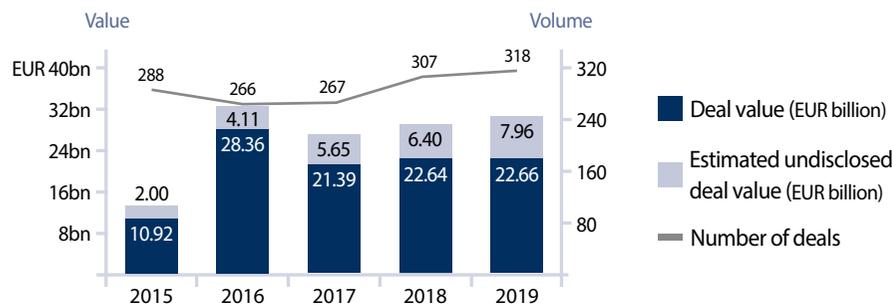
be covered by the W&I market with a separate policy. Policies can be held by either the buyer or the seller, but it is far more common for the buyer to hold the policy. The benefit of a buy-side policy is that, in the event of a claim, the buyer will be reimbursed directly by the insurer, rather than the seller, for any covered financial loss under the contract, as a claim that would have been against the seller will now be against the insurer. This gives the buyer certainty that, in the event that any of the warranties that the buyer relied upon are not correct or are even fraudulent, the policy will respond (assuming a risk has not been specifically excluded).

From the seller’s perspective, W&I insurance can be used to limit liabilities and mitigate balance-sheet exposure. This allows the seller to exit deals cleanly and thus be free to use the proceeds of the sale without having to set aside funds for any future claims.

**From the buyer’s perspective, W&I insurance can be used to make a bid more attractive to a prospective seller. It can therefore help a buyer secure a greater number of deals.**

As the product becomes more commonly used, claims data is starting to emerge from the market. AIG recently published its claims data, noting claims on 20% of policies written in EMEA. The most common breaches involved financial statements, tax, contracts, intellectual property, employee and litigation warranties. Interestingly, over 50% of claims arose in the first twelve months of a policy being written. ■

Private equity - deals by value and volume



Source: CMS Emerging Europe M&A report 2019/2020

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# From preparation to operation

When making decisions in the process of preparing and implementing an investment in the Czech Republic, foreign investors have the possibility to use the services of consulting firms connected with resolving various construction-technical and organisational issues. This pertains to both new construction projects and brownfields. The services are offered to foreign investors based on the service providers' past experience gained particularly in the Czech Republic.

**T**he character of provided services is fully dependent on the character of the given project. These services should minimise investors' risk associated with errors arising from a lack of understanding of the specific conditions and differences in construction-related legislation.

## Technical screening

Investors are offered services consisting in collection and assessment of information required for making a decision on the given project's location. This involves assessments of the following aspects:

- Proposed location of the structure with respect to urban development documentation and possible risks.
- Transportation infrastructure with respect to not only the implementation and operation of the structure, but also to accessibility for employees.
- Utilities networks, especially with respect to their long-term operability, quality, capacity and loading.
- Climatic conditions in relation to transport, energy intensity, operating costs and the scope of facility management.

It is necessary to check the following:

- Quality of given building and its individual parts and the utilised construction materials from the perspective of the structure's anticipated service life.
- Determination of the extent of the building's compliance with the technical standards and regulations.
- Condition of equipment and the location of all necessary energy sources for flawless and economical operation.
- Condition of the fire-protection system and assurance of occupational safety.

Foreign investors commonly request this overview of analytical documents and information from consulting firms.

## Preparation and implementation

In this part of the project lifecycle, the project and cost management services are as follows: Recommendation regarding the specific professional competence of the project manager and management teams, with focus on thorough knowledge of the technical and organisational conditions of the construction process in the Czech Republic. Assessment of materials for selection of a general contractor alerting investors to risks that may arise. A technical audit of the documentation for selection of the contractor carried out by a consulting firm is extraordinarily beneficial for investors. Assistance with the actual selection and evaluation of bids is a natural part of the offered services. Management services with focus on the key milestones of the construction project, the basic links between the structural and technological works and a statement of significant risk areas. The process should be as follows:

### Step 1:

The investor and consulting firm define the objectives and set up the time schedule and organisational assurance. Usually, a representative of the consulting firm explains to the investor all aspects of the agreed activities.

### Step 2:

The consulting firm forms a team of specialists according to the agreed requirements with the objective of precisely specifying the preliminary actions to be taken.

### Step 3:

The consulting firm's specialists verify individual areas and prepare partial reports including necessary documentation and recommendations.

### Step 4:

The management of the consulting firm submits a final summary report to the investor. Within this report, emphasis is placed on a comprehensive solution for determining the status with a statement of the degree of importance of the determined facts.

The process of providing such technical due diligence services as described above is common practice and is always the result of the initial discussions and the requirements precisely formulated by the investor. ■

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# Environmental due diligence – A cornerstone of New Acquisitions Assessment

Environmental due diligence (EDD), i.e. the ecological audit of industrial companies, administrative buildings or undeveloped land plots intended for further developments is an important element of making decisions about new property acquisitions.

The purpose of EDD is comprehensive evaluation of the given property regarding possible risks connected with the environment. The audit provides the client with an assessment of whether the property is in compliance with the applicable laws, as well as a calculation of the possible risks and costs associated with remedial measures. Typical clients requesting EDD services include individual industrial companies and business chains, as well as important developers and companies providing facility management services.

As there is no specific EDD methodology in place in the Czech Republic and as most acquisitions involve foreign investments, most consulting companies provide EDD services according to the E-1527-05 ASTM-standard issued by the American Society for Testing and Materials (ASTM). This approach ensures easy orientation and fulfilment of foreign investors' expectations.

Environmental due diligence is performed in two stages according to the ASTM methodology.

The first EDD stage includes the evaluation of the site according to its compliance with legislative requirements. The current state of the site and all activities taking place there are assessed during an actual visit. Based on the available information, the following points are assessed:

- The historical use of the site with emphasis on uncovering old ecological burdens.
- The environmental impact of current activities (waste handling, use and storage of chemicals, technological operations, heating and cooling).

- Review of all available documentation (public registers and databases, documentation at the site).
- Particular consideration is paid to the assessment of waste, wastewater and handling of hazardous substances, as well as the amount of airborne emissions produced.

The guiding principle behind this approach consists in an attempt to establish links between a hazardous source and a potential receptor via an exposure pathway.

Risk assessment is the process of collating known information on a hazard or set of hazards in order to estimate actual or potential risks to receptors. Receptors may be humans, a water resource, a sensitive local ecosystem or future construction materials. Receptors can be connected with the hazard via one or several exposure pathways (e.g. direct contact). Risks are generally managed by isolating or removing the hazard, isolating the receptor or by intercepting the exposure pathway. Without the three essential components of source (hazard), path-

way and receptor, there can be no risk. Thus, the mere presence of a hazard at a site does not mean that there will necessarily be attendant risks.

The **second EDD stage** is carried out in the case that the first stage defines the necessity of further specialised research for the purpose of making a qualified decision about the environmental state of the site. The most frequently performed activities during the second stage are research of asbestos occurrence and research and analysis of soil and ground water samples – the most frequent contaminant being petroleum products (hydrocarbons) or PCBs from the operation of old transformers and the like.

We can unambiguously conclude that performing environmental due diligence should be a standard step during acquisitions of properties, as it can significantly contribute to the decision-making process as a whole and reduce the costs of remedial measures. The most important approach is to have EDD done by a high-quality company that knows the local conditions and all related circumstances. ■

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# Finding a trustworthy director in the Czech Republic

Nominee services are used when a nominee (fiduciary) looks after the assets on someone else's behalf and acts in their best interest. Such a person is usually nominated based on a contract between the client and a professional provider, which means the nominee is not someone from the client's staff.

**T**he trust element

The nominee director service, which is probably the most common type of nominee service, is typically provided by independent trust firms or individuals. Clients recruit from various industries and business segments and use this service for different reasons. As the element of trust is of great importance in this relationship (which is why providers of such services are often referred to as "trust firms"), clients tend to look for reputable providers with a proven track record. Reputable trust firms serve as a sort of guarantor in this relationship, as they have adequate procedures in place ensuring that their directors will act strictly on the client's instructions only. This means that the client decides what contract to enter into and the director, in cooperation with the client's lawyers, tax advisers and other professionals, executes the client's wishes. It is for this reason that clients usually reach out to trust firms for this type of nominee service.

#### Why and when to use a nominee director

Why use a nominee director when many companies use their own staff? Why not use your own people when finding the right provider is not always an easy task?

To answer these questions, some commonly cited reasons for choosing this service are provided below.

**Local management and control** – If the client has its headquarters abroad, appointing

a foreigner as the director of a local company might lead to speculation with respect to where the real management and control are being executed. This risk is mitigated by appointing a professional local director who lives in the same country in which the company is registered.

**Independence and responsibility** – Having an independent trust firm with professional indemnity insurance and director and officers liability insurance appropriate to the size of its clients and which can also handle back-office management (accounting, payroll, compliance, etc.) is much more effective than using one's own employee, who not only has to deal with directorship tasks in addition to his/her primary duties, but may also go on holiday, become ill, leave the company unexpectedly or pursue his/her own interests.

**Limited presence in the country** – This is typical for inward investors who do not need many people locally and manage their investments in multiple countries from their headquarters

abroad. Having a local director with a proven track record who knows local legislation and the business community, can recommend local experts in other service areas and is used to daily operational matters such as how banks, the tax office and other governmental authorities operate saves the client time and resources and is more effective than having an expatriate dealing with these issues in multiple jurisdictions at once.

**Cost** – It is cheaper to outsource an experienced local director than to move one's own full-time employee with the required seniority and experience to a foreign country to serve as a director.

#### Summary

Nominee services are not a magic bullet that eliminates all concerns and problems associated with a new investment. However, if used in the right way and with the right partner, they can save a lot of time and financial resources and add an extra dimension of comfort and corporate governance. ■

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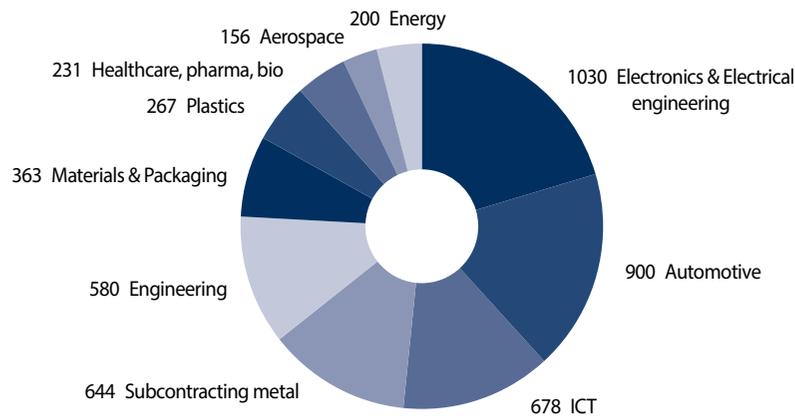
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VISTRA 

# Sourcing and business partnership

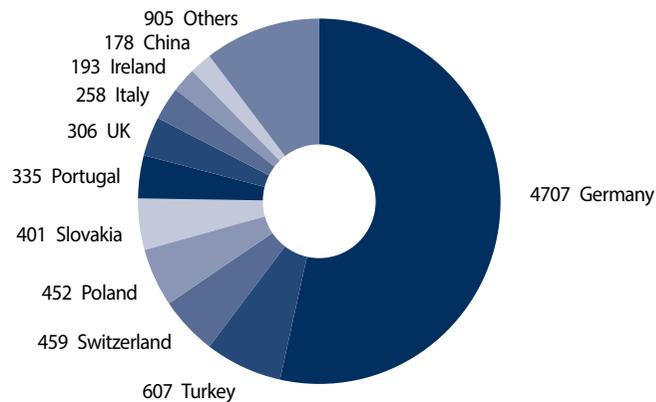
Are you looking for a suitable supplier or a joint-venture or acquisition partner in the Czech Republic? If so, CzechInvest's sourcing services are crucial for you.

Number of companies in the database by sector in 2019



Source: CzechInvest, 2020

Database accesses by country in 2019\*



Source: CzechInvest, 2020

\*not including the Czech Republic

## CzechInvest's Sourcing Department

CzechInvest established its Sourcing Department 22 years ago with the aim of seeking out suitable Czech suppliers and joint-venture and acquisition partners to ease foreign investors' start of production in the Czech Republic. Sourcing is frequently used by manufacturing companies that are considering establishing or expanding their manufacturing activities through either a greenfield investment or an acquisition or joint venture. The Sourcing Department's services are provided free of charge.

## Supplier market screening

In 2019, sourcing specialists prepared 100 market screens of Czech suppliers for 39 clients from 18 countries. The strongest demand for supplier market screening was from American companies, followed by South Korean, German, Chinese and Swedish firms. Market screens are prepared based on CzechInvest clients' specifications and contain valuable information such as maps of locations and revenue-per-employee ratio charts of selected suppliers, as well as detailed company profiles comprising information on, for example, quality certificates, specifications of products and technical equipment, and major customers.

## Visit to Czech suppliers

Based on the market screens, foreign companies shortlist selected Czech suppliers. Sourcing specialists are prepared to help foreign companies organise visits to selected suppliers and assist them during such visits. Services include formulation of itineraries of business trips in the Czech Republic, interpreting and transport.

## Sectoral database of suppliers

Czech supplier companies as well as companies that are seeking a partner or investor are listed in CzechInvest's sectoral database of suppliers. The database contains standardised profiles of nearly 3,600 Czech manufacturing and ICT companies. Suppliers are classified into ten sectors (e.g. automotive, aerospace, engineering) and further sorted into subcategories. Typical supplier companies are common firms engaged in, for example, plastic injection moulding, metalworking, CNC machining or, mechanical engineering. Registration in the sectoral database of suppliers is available on CzechInvest's website and is free of charge. Investors and companies from all over the world use the database to find suppliers or JV partners that best fit their needs and to get an overview of supplier status concerning a specific sector. The database is used by global companies such as BMW, Boeing, Cisco, Microsoft, IKEA, DHL, Nikon, KPMG, Siemens and Jaguar Land Rover, among many others. ■

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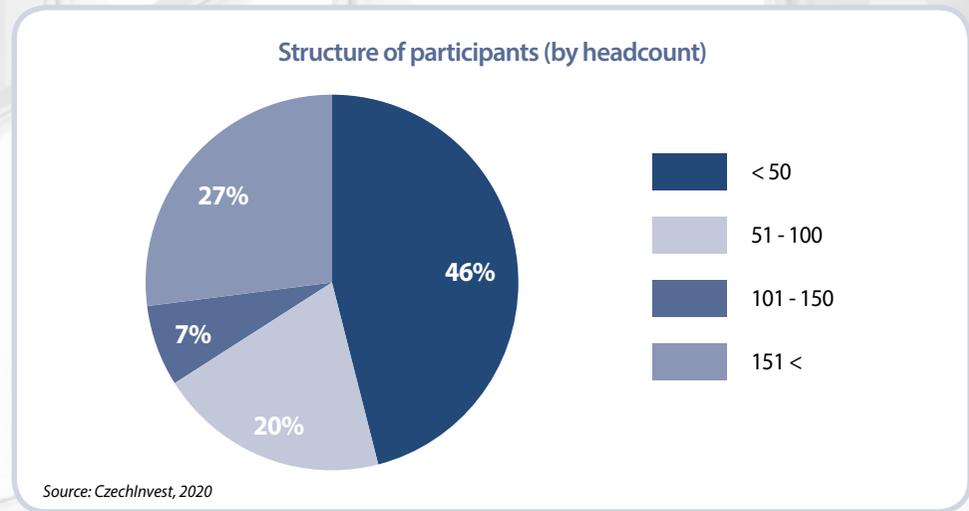
# CzechLink: The easy way to find a **strategic partner**

CzechInvest's CzechLink project is intended for Czech companies that are seeking strategic or investment partners, while also offering investors a way to enter the Czech market through a merger, acquisition or joint venture.

**C**zechLink was initiated in response to the heightened demand among foreign companies for mergers with and acquisitions of Czech firms. The purpose of the project is to seek out suitable acquisition targets and

to facilitate foreign investors' capital entry into Czech companies. CzechLink is most frequently used by manufacturing companies that are considering expanding their activities through an acquisition, merger or joint venture, as well as by investment funds and banks. Czech companies that are seeking a partner or investor through CzechLink must be headquartered in the Czech Republic and have at least a five-year history of operation in the country. They must also be financially healthy (i.e. they must not be in bankruptcy or subject to settlement). CzechLink helps firms to resolve problems with management succession and provides the opportunity to gain a strong partner for expansion. With respect to the project's conditions, the size of investment targets is in no way limited, though they are usually small and medium-sized enterprises annual income ranging from EUR 1 million to EUR 10 million and fewer than 150 employees. CzechLink is intended for manufacturing and ICT companies. Project participants are commonly firms engaged in software development, metalworking, plastic injection molding, the automotive sector and the textile industry. The current list of CzechLink participants is available on CzechInvest's website.

For every firm participating in the project, CzechInvest prepares an information sheet containing a detailed description of the given company (i.e. ownership structure, legal form, quality control, products, technology profile, top customers and main competitors, equity offer, etc.), as well as economic indicators of the compa-



ny covering the past three years. The information sheet also serves as an internationally comprehensible presentation of the firm's results. This sensitive information is provided to investors only after signing a confidentiality agreement with CzechInvest. Subsequently,

CzechInvest arranges introductory meetings between the potential partners. However, the actual structure of the transaction (financing and management audit) is exclusively at the discretion of the investor and the given firm. ■

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**CZECHINVEST**  
Business and Investment Development Agency

# Visa support provided to foreign investors

Relocating a company to a foreign destination is always a demanding administrative process. In this respect, CzechInvest can assist foreign companies coming to the Czech Republic. In addition to tailored consultation, CzechInvest administers several programmes aimed at accelerating or enabling relocation.

**M**ajor changes in 2019  
Several major changes influencing the process of migration to the Czech Republic came into effect in 2019. For example:

- An amendment to the Immigration Act set new conditions for changing employers, while enabling an easier migration process for students and scientists.
- Due to the country's low unemployment rate, the labour market test may be adjusted to just ten days.
- The government approved new visa programmes to facilitate the migration process for employees from non-EU countries and set a quota of employee-card and business-visa application intake at selected embassies.

## The Programme for key and scientific personnel

The Programme for key and scientific personnel substantially eases the process of arranging residence permits for key employees of companies coming to the Czech Republic. Those eligible to register in the programme include newly established Czech business entities of foreign investors, start-ups, technology companies, research institutes and Czech entities of foreign investors with at least 50 employees in the country and 250 worldwide. The project is intended for statutory representatives, managers and key specialists who need to reside in the Czech Republic for longer than 90 days. The benefit of this programme consists in accelerated issuance of a residence permit within 30 days following submission of the ap-

## Visa and residence permits for stays over 90 days (work and business purpose)

### Long-term visa

- Business - for statutory representatives

### Long-term residence permit

- Employee card
- Blue card - university education or higher vocational education, the duration of which was at least three years
- Intra-company employee transfer card - managers, specialists, employed interns
- Purpose: investment - entrepreneurs and foreign nationals in the management of commercial enterprises that intend to undertake a significant investment in the Czech Republic

## New visa programmes in effect since 1 September 2019

Qualified worker

Highly qualified worker

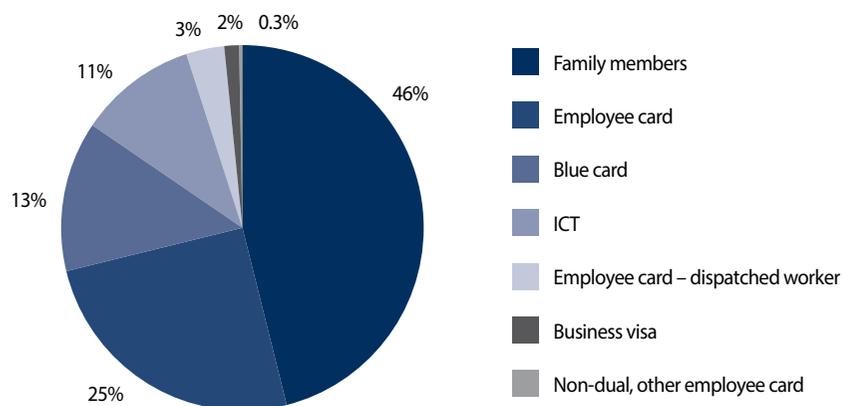
Key and scientific personnel

Annual quota set by the government regulation

## Programme for key and scientific personnel (September-December 2019)

- 353 employees and their family members
- Duration of the relocation process with and without the programme: approx. 30 days with the programme, approx. 90 days without the programme
- Nationalities: India 13%, United States 28%, Belarus 4%, Russia 36%, Kazakhstan 6%, Japan 7%, Philippines 4%, Ukraine 2%

### Residency permit applications within Programme key and scientific personnel



Source: CzechInvest, 2020

plication, which is a significant reduction in comparison with the standard time periods: up to 90 days to issue an employee card and up to 120 days to issue a blue card or long-term business visa. This programme also supports the relocation of employees' family members who apply for a visa for the purpose of cohabitation of a family. Individual applications of members of the same family are thus processed jointly. Within the Programme for key and scientific per-

sonnel, companies can use two means of relocating their employees and statutory representatives. These are **internal transfer**, whereby a foreigner is transferred on the basis of a contract to work at a Czech branch while remaining in an employment relationship with the foreign investor, and **localisation**, whereby the transferred employee enters into an employment relationship with the Czech entity.

#### The Programme for highly qualified workers

The Programme for highly qualified workers enables applicants and future employees from non-EU countries and their family members to arrange appointments at embassies and consulates. The number of available appointments granted within this programme is set by a government regulation. This programme is used mainly by IT companies or Business Shared Services, may be used by Health care providers to employ foreign national carrying out a health profession.

#### Programme for highly qualified workers (September-December 2019)

- 257 employees and their family members
- Nationalities: most often from Ukraine, India, Russia and Belarus

#### The Programme for qualified workers

The Programme for qualified workers enables applicants from selected countries to arrange appointments at embassies and consulates that are otherwise not easily reachable. The **annual quota** for each of these countries is set by a government regulation:

#### Quotas in the Programme for qualified workers

| Country                                 | Quota  |
|---|--------|
| Ukraine                                 | 40,000 |
| Mongolia                                | 1,000  |
| Serbia                                  | 2,500  |
| Montenegro (shares a quota with Serbia) | 2,500  |
| Philippines                             | 1,000  |
| Belarus                                 | 800    |
| Moldova                                 | 600    |
| India                                   | 600    |
| Kazakhstan                              | 300    |

Source: Government Regulation No. 220/2019 Coll.

This programme is aimed at employers with at least a two-year history and at least six employees in the Czech Republic in the areas

#### Process of the Programme for qualified workers

Labour market test  
10-30 days



Guarantors\*  
Inclusion in the project  
3-5 days



Ministry of Foreign Affairs appointment  
in 21-60 days\*\*



Ministry of the Interior employee-card  
approval process  
60-90 days

\* CzechInvest is one of the guarantors together with other business associations.

\*\* The waiting time for an appointment is country specific and can differ month to month.

of manufacturing, services or the public sector that are seeking to employ citizens of Ukraine, Serbia, Montenegro, Mongolia, the Philippines, India, Moldova, Belarus or Kazakhstan to perform skilled labour. The programme is mainly used by manufacturing companies such as Daikin Industries Czech Republic, Toyota Peugeot Citroën Automobile Czech and Adient Czech Republic. ■

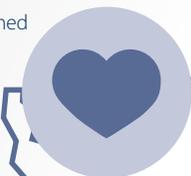
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# Where Czechs excel

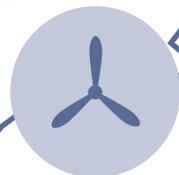
## Cardiology and heart surgery

Thanks to the extraordinary development of heart surgery here, the Czech Republic currently ranks among the most advanced European countries in terms of both the number of surgeries performed and the quality of care.



## Ultralight aircraft

The Czech Republic is among the world leaders in the production of ultralight aircraft and is the third biggest producer in Europe.



## Musical instruments

Established nearly 150 years ago, the family-owned Czech company Petrof in Hradec Králové is the biggest European piano manufacturer.



## Footwear industry

Bata, a family-owned global footwear and fashion accessory manufacturer and retailer was founded in 1894 in Zlín, Moravia by Tomáš Bata, his brother Antonín and his sister Anna. Today, the company has a retail presence of over 5000 retail stores in over 90 countries. Bata has entered the Guinness Book of Records as the largest retailer and manufacturer of shoes in the world.



## Automotive industry

With more than 1.43 million cars produced in 2019, the Czech Republic is the leading automotive producer in the CEE region. The most significant Czech carmaker is Škoda Auto, which has been in existence for over a century. Czech trams are also well known elsewhere in the world.



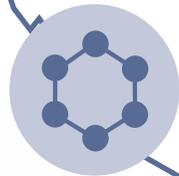
## Plastic surgery

Czech physician František Burian laid the foundations of plastic surgery. In 1939, Czechoslovakia became the first country to recognise plastic surgery as a separate field of medicine.



## Nanotechnology

In 2003 Oldřich Jirsak developed a reliable method of spinning fibres measuring 200 nanometres in diameter. Based on his patent, the Czech company Elmarco became the first supplier of industrial-scale nanofibre production equipment in 2004.



## Defence industry

Already in the time of the First Czechoslovak Republic, the country was one of the world's biggest arms exporters. Nowadays, developed by the Pardubice-based company ERA, the Věra and Tamara passive radar systems are among the best in the world and can detect stealth aircraft.



## Cyber security

The anti-virus software companies AVG Technologies and AVAST have become a symbol of success for the Czech ICT sector. Together these companies currently provide protection against cyber threats to more than 435 million users worldwide.



# Top sectors for investment



# The automotive industry



The Czech automotive industry remains a stable pillar of the Czech economy. It accounts for nearly one-tenth of the Czech Republic's gross domestic product, one-fifth of the country's total exports, one-quarter of industrial production and more than one-third of investments in R&D in manufacturing.

## Strong and stable

Production of road vehicles, i.e. motor vehicles and trailers reached nearly 1.46 million units last year. This figure comprises 1.43 million passenger cars, five thousand buses, 980 motorcycles and

more than 26,000 trailers. These numbers make the Czech Republic a very important and respected player both within Europe and at the global level. In per-capita terms, the Czech Republic is still the world leader in bus production and ranks second in passenger car production. In terms of the total number of cars, the Czech Republic ranks fifth in the EU and fifteenth in the world. The Czech automotive industry employs more than 170 thousand people directly and almost 500 thousand indirectly in total.

In 2019, total passenger-car production declined slightly by 0.7% year on year. The largest share in total production, 63.6% was held by Škoda Auto, a member of Volkswagen Group, with 907,942 vehicles manufactured at its Czech plants. Hyundai Motor Manufacturing Czech produced 309,500 vehicles and Toyota Peugeot Citroën Automobile manufactured 210,121 cars. With its 88.3% market share, IVECO Czech Republic is the country's most important bus manufacturer, followed by SOR Libchavy. The traditional brand JAWA remained the only motorcycle manufacturer in the country. Revenues of final manufacturers exceeded EUR 24.1 billion in 2018.

Although carmakers are the most visible part of the Czech automotive industry, the majority of people employed in the sector are active in the supplier base, which is extraordinarily strong and stable in the Czech Republic and comprises one of the country's undeniable competitive advantages. The importance of component and accessory suppliers is documented in, among other things, data from the Automotive Industry Association (AutoSAP), a respected professional organisation associating most entities in the automotive sector. In 2019, AutoSAP member companies employed more than 130,000 people, two-thirds of whom worked for suppliers. Though these companies' total revenues are lower than those of the final manufac-

turers, they are still respectable, reaching nearly EUR 17.9 billion in 2018. Finally, one of the fastest-developing parts of the automotive industry, special purpose organisations (e.g. research facilities, laboratories, measuring centres), achieved year-on-year revenue growth of 25% in 2018, earning EUR 0.97 billion.

## New trends, opportunities and threats

It is more than obvious that after an extraordinarily favourable period over the past several years, we are now probably past the peak of the economic boom and thus expecting a further slight slowdown in the years to come. There are several reasons for this situation. We are currently experiencing a turbulent period and many variables are coming into play. First, the industry must face the geopolitical situation, trade disputes, a global economic slowdown and Brexit. Second, the premise of climate change is giving rise to a long-term debate and societal pressure to decarbonise human activity and protect resources and the environment. Finally, scientific advances and technological changes are fundamentally transforming the automotive industry into mobility as a service in addition to production itself.

The rapid development of technologies, stricter environmental and safety requirements imposed by the European Union and new trends in the social area, e.g. the sharing economy, urbanisation and new ways of working, have the consequence of forcing the automotive industry to undergo the biggest transformation in its history.

However, the range of expected changes is considerable, and even if vehicle manufacturing is one of the strongest industrial sectors, it is hard to turn the wheel alone. Carmakers and suppliers are prepared. It is not only the companies' technological readiness that is essential, but above all the readiness and future interest of customers and the infra-

structure conditions in the market, which manufacturers cannot influence themselves.

Together, these general points are directed towards the major trends and challenges that have been topics of discussion at AutoSAP for several years – zero-emission mobility, digitisation and automation, connectivity and use of artificial intelligence, and the development of technologies for autonomous vehicles. The automotive industry is no longer just about automakers and their suppliers. Cooperation with players from other sectors – energy, IT and telecommunications – is crucial for the success of the Czech automotive industry, as is active cooperation with the government and other stakeholders in the country and at the EU level. The new trends require investments in the development of charging infrastructure, education and R&D, as well as accelerated adoption of legislative measures. Many firms see in this a major challenge and opportunity. Research capacities are gaining a new impetus and, to a significant extent, a new direction. Carmakers and suppliers are developing and testing systems and technologies for the future. Today, the automotive industry ranks among the sectors that are leaders in terms of investing in research and development. The automotive industry accounts for one-third of spending on industrial research and development in general.

The Czech Republic has no small ambitions for the future. Domestic firms, particularly those in the automotive industry, have been proving for many years that they are able to succeed on global markets. They are high-quality and reliable. It is apparent that an opportunity exists for the Czech automotive industry to develop into a sector focusing not only on vehicle manufacturing, but also on provision of comprehensive mobility services. If we work hard and act in synergy with each other, the Czech Republic has a chance to become an innovator and technological leader.

**Bohdan Wojnar**

**Member of the ŠKODA AUTO Board of Management and President of the Automotive Industry Association**

## Automotive

The Czech Republic has a special place among Central European countries. It has a strong industrial tradition dating back to the early 19<sup>th</sup> century, when the Czech lands were the most industrialised part of the Austro-Hungarian Empire. One of the oldest factory-made cars in the world is the Tatra Präsident produced in Kopřivnice in 1897. Before the Second World War, many automobile companies were established in the Czech lands, e.g. Tatra (1850), Laurin & Klement (1895, now under the name Škoda Auto, a subsidiary of Volkswagen AG), Karosa (1896, now Iveco Bus, a subsidiary of CNH Industrial), Walter (1902), Praga (1908), Aero (1929) and several others. In the 1930s, Czechoslovakia was one of the most motorised countries in Europe, with 14 cars per 1,000 inhabitants in 1936. A new boom of Czech OEMs came in the 1990s and 2000s, when Volkswagen AG acquired Škoda Auto, Toyota and PSA Peugeot Citroen established a joint-venture in Kolín, and Hyundai opened its only European plant near Ostrava. With over 1.4 million cars manufactured in 2019, the Czech Republic is the biggest vehicle producer in Central and Eastern Europe. Carmakers in the Czech Republic manufacture vehicles in all segments, from city cars to SUVs and MPVs. Development and production of buses (Iveco and SOR Libchavy) and trucks (TATRA) are also significant.

The Czech automotive sector is characterised not only by OEMs, but also by its robust supplier base. Fifty-five of the top 100 global tier-one suppliers have at least one facility in the Czech Republic. The world's most renowned global automotive suppliers, particularly those from Europe, Japan, South Korea and the United States, have established operations in the Czech Republic in recent years and are planning further expansions here in the coming years. The automotive sector is crucial for Czech industry, as it accounts for approximately 25% of total industrial production and 21% of exports. While employing over 2.6% of the country's workforce, it accounts for 9% of the Czech Republic's GDP. Nearly 5,000 R&D employees and annual investments totalling more than CZK 8 billion make the automotive sector a leader in research and development activities in the Czech Republic. The accelerated rise of new technologies is affecting traditional vehicle manufacturers and suppliers, and the Czech automotive sector must be ready to adapt to those changes.

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Sector Manager for Automotive  
CzechInvest



## Aerospace

The aerospace sector has been successfully forging its position within Czech industry since the first airplanes took to the skies over a century ago. Aviation currently ranks among the key high-value-added industries and in many ways the Czech Republic is an indispensable part of the aerospace world.

With a long, successful track record in producing various aircraft parts, engines, avionics and hydraulic systems as well as space technologies, the Czech Republic is well integrated into global supply chains and is a traditional OEM of multiple civil and military aircraft.

The Czech aerospace industry's well-known quality is embodied in the light sport aircraft (LSA) and ultralight (UL) categories, which are among the industry's unique attributes. Companies in this segment rely on experienced engineers and workers as well as the vital position of specialised high schools and universities. Therefore, the Czech Republic has become one of the world's largest manufacturers in these categories.

Many leading international companies have chosen the Czech Republic as their location for the expansion. One such company Honeywell, which employs over four thousand people in administration, R&D and manufacturing. The Czech Republic has thus become one of the company's key bases in Europe in the field of aerospace and beyond. GE Aviation Czech is another successful investor, having placed its turboprop-engine centre of excellence in Prague with design, development and production under one roof. Bell Helicopter, a leading manufacturer of rotary-wing aircraft, also chose Prague as the location for its service centre. When it comes to space activities, the Czech Republic is gradually reaching the highest levels. Focus is placed on high-value-added areas such as satellite systems, components and innovation programmes. The Czech Republic's commitments to the European Space Agency (ESA) are steadily growing and Czech companies can proudly display their achievements through, for example, the manufacturing of components for the Ariane 6 launch vehicle. Moreover, Prague is the home of the European GNSS Agency responsible for the Galileo navigation system project and the Czech Republic is also an active member of ESA structures.

For many years, the Czech Republic's aviation industry has been among the most competitive in the world. It is once again proving that its expertise is valuable on the global market and that Czech companies are ready for the challenges of the 21<sup>st</sup> century. Join the world's elite and invest in the Czech Republic on the wings of success.

**Michal Janečka**  
Sector Manager for Aerospace  
CzechInvest

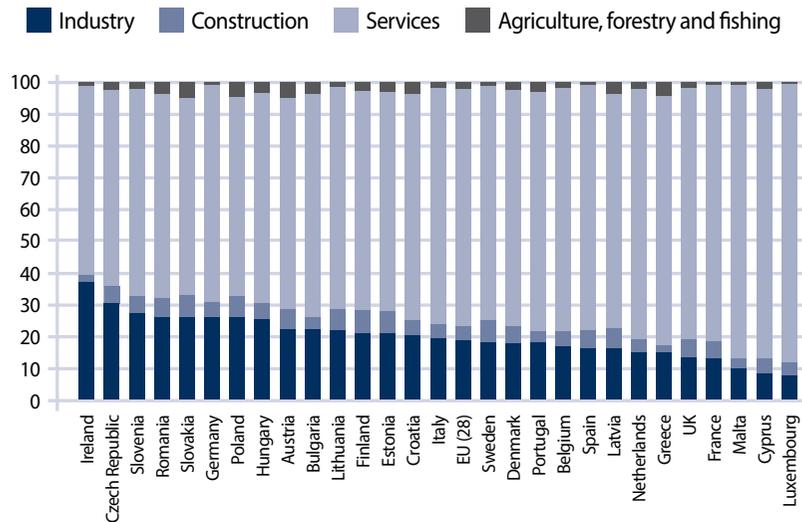
# Czech industry has great potential to automate production

The Czech Republic is a country with a strong industrial tradition. After the establishment of Czechoslovakia in 1918, 70% of the industrial production of the former Austro-Hungarian Empire was located on its territory. During the period of communism, industry was the main sector in the expansion of the economy. Today the Czech Republic is the second most industrialised country in the European Union. The industrial sector accounts for 32% of Czech economic output, which is significantly more than in neighbouring Germany (26%) or far above the EU average (19.6%). Production of motor vehicles and their components holds the strongest position and dominates Czech industry, accounting for more than a quarter of total industrial revenues and one-fifth of total exports from the Czech Republic.

## Industry 4.0 is on the rise, robotisation of production is accelerating

The industrial sector is currently undergoing major changes around the world. A frequently mentioned trend consists in the arrival of digitalisation of production and everything related to concepts such as Industry 4.0, the Internet of Things, big data, predictive maintenance and machine learning. Alongside this, a reduction in the prices of new technology, automated solutions and robotisation of production is occurring worldwide. The result is that the introduction of new robots into production is growing globally. Most of them are in the sectors that are also dominant in the Czech economy, i.e. in the automotive, electrical engineering and metalworking industries.

Breakdown of gross value added by industry (in %, 2018)



Source: Eurostat, 2018

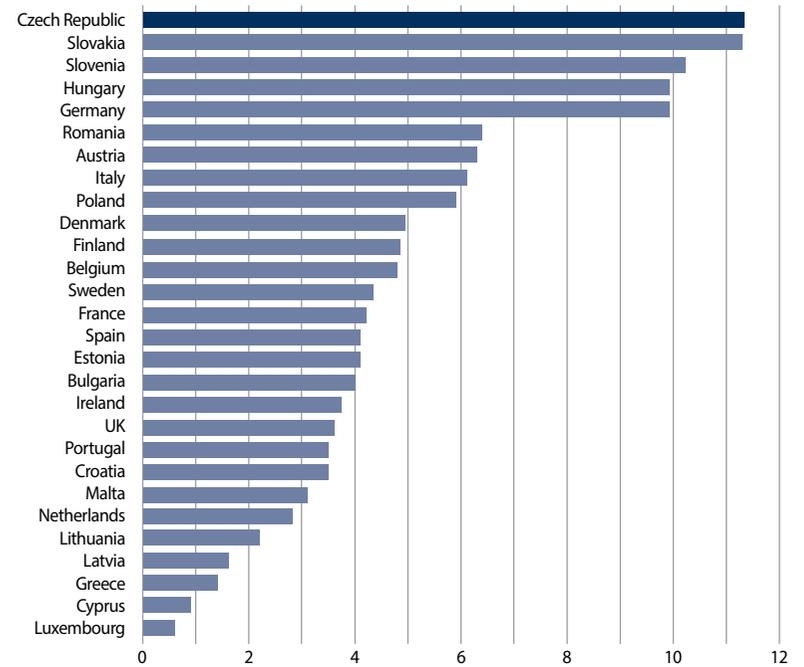
## The number of robots in the Czech Republic is growing, the potential is still high

According to data from the International Federation of Robotics, 119 industrial robots per ten thousand employees were involved in production in the Czech manufacturing industry in 2017, a significant year-on-year increase of 18%. Despite this growth, the Czech manufacturing industry's level of robotisation is still only one-third that of the advanced industrial nations Germany and Japan and one-sixth that of the global leader, South Korea. Therefore, there is still strong potential for the involvement of robots in the manufacturing sector in the Czech Republic.

## Effective and attractive labour market

The rapid introduction of robotisation and progress in the digitalisation of production is therefore essential for Czech manufacturing companies in terms of raising their international competitiveness. Since the beginning of the 1990s, the Czech Republic has been among the European countries in Europe with low unemployment, which still holds true today, as the country currently has the lowest unemployment rate in the EU. This reflects the strong

Employment in high-tech and medium high-tech manufacturing (in % of the total economy, 2018)



Source: Eurostat, 2018

motivation of the Czech people to work, as well as the common sense that is typical of the key labour market actors. As the economic structure demands, the labour market offers a well-educated, trained and skilled workforce, mostly in technical professions. For example, the share of people employed in high-tech manufacturing in the Czech Republic is highest in the EU. This is an essential condition for further robotisation, as well as an advantage of Czech industry.

#### **The payback period of robots is getting shorter**

With declining robot prices and the moderate increase in labour costs in the Czech Republic in recent years, automation of operations and robotisation of production are becoming more and more profitable for businesses. For the Czech economy as a whole, this represents a necessary shift from an economic model benefiting from cheap labour to production with high value added that relies on high-quality and skilled workers. Planned changes in the state investment incentives system are also moving in this direction, where support will be given to applicants offering more high-skilled positions for educated employees who collaborate on innovation with research and higher-education institutions.

#### **Tailored services thanks to robots**

In addition to cost effectiveness, industrial robots also have other advantages. They can work 24 hours a day, do not need rest, do not go on strike, can handle heavy objects, make fewer mistakes and are more accurate than humans. Thanks to robots, firms can increase the quality of their products, shorten delivery times and provide more flexibility in their production, i.e. supply products and services tailored to the individual requests of clients. Cheaper technology also brings forth new business models in which, for example, machines are no longer sold, but only rented. On the other hand, there are still many work activities for which automation is not suitable or is too expensive. Companies should thus always pay attention to what a new technology will bring to them and their clients.

**Radek Novák**  
Analyst , Economic and Strategic Research  
Česká spořitelna

## ICT

The Czech Republic is one of Europe's top locations for ICT investments. This fact is confirmed by the strong inflow of high value-added projects of the world's top ICT companies and is fuelled by the country's tradition of excellence in technical fields. The list of successful investors in the country includes Microsoft, Skype, SAP, Tieto, Red Hat, SolarWinds, Oracle, IBM, H2O.ai, Cisco, CA Technologies and many more. Besides foreign investors, there are many internationally successful Czech IT companies, such as GoodData, Y Soft, STRV and Seznam.cz, to name just a few. Furthermore, IT companies with Czech origins are renowned worldwide for their products, such as antivirus software from AVAST and network security solutions from Flowmon Networks. Most of the ICT companies operating in the Czech Republic are concentrated in the two largest cities, Prague and Brno. These cities are also home to some noteworthy game development studios, such as Bohemia Interactive, Warhorse Studios, 2K Czech, Madfinger Games, Amanita Design and About Fun, among others. Czech universities have quickly adopted the latest trends in the ICT sector and through intense focus on data mining, image and voice recognition, artificial intelligence, computer graphics and game development, and M2M communication technologies, they are answering the challenges put forth by the development of, among other things, cloud computing and mobile technologies, thus enabling the creation of new solutions for smart cities and Industry 4.0. The Czech Republic aims to become one of the leading developers of these solutions. Thanks to investments in infrastructure, the Czech regions outside of Prague are gaining attractiveness, especially in the ICT sector. Brno, the second largest city in the Czech Republic, is considered to be the Czech IT hub, where companies' needs are met by qualified professionals, R&D facilities and institutions and advanced ICT infrastructure. Ostrava has been gaining importance in recent years and is on the path to greater international recognition thanks to projects such as IT4Innovations. Therefore, it is not surprising that companies like Tieto have decided to establish their development centres there. Overall, the Czech Republic offers an attractive business environment for ICT companies, a well-educated and skilled workforce, highly developed infrastructure, start-up incubators and accelerators, and financial support through EU funds and national investment incentives.

**Matěj Zahradník**  
Sector Manager for ICT  
CzechInvest

## Advanced engineering

Mechanical engineering has a great history in the Czech Republic and it is one of the cornerstones of the Czech economy. Thanks to its excellent location in Central Europe and more than a century of experience in the production of automobiles, turbines, machinery and other products, the Czech Republic is an important sales market and extremely attractive country for investors in the engineering segment. The long-term know-how and high level of technical education among the country's population has attracted renowned international companies involved in manufacturing and, increasingly, activities with higher value added, especially research, development and innovation. Engineering companies employ the largest number of people in all engineering-related sectors; machinery and vehicle manufacturing, sectors with relatively high value added, account for more than half of Czech exports. Industrial equipment manufacturing is the sector with the largest share of revenue and, together with other industrial segments, contributes significantly to GDP and employment. Official statistics published by the Czech Statistical Office show that major economic indicators such as sales, turnover, number of units produced, value added, equity and assets have experienced an upswing since declining during the period from 2008 to 2010. Employment in the engineering sector has been rising since 2010 and the official statistics confirm that the positive trend of the main indicators continued in 2018 and 2019. However, this traditional sector is gradually being disrupted by the so-called Fourth Industrial Revolution. The Ministry of Industry and Trade of the Czech Republic announced an official Industry 4.0 initiative in which the main vision involves preparing industry for the digital economy, which is transforming the thinking of people involved in the organisation and management of industrial production. Ultimately, this trend will have a positive impact on industry and society. The aim is to efficiently get Czech companies involved in customer-supplier chains and customised mass production and, in cooperation with the research sector, to prepare solutions that help them in this effort to improve their position with respect to activities with higher value added in order to maintain their global competitiveness.

**Robert Keil**  
Sector Manager for Advanced Engineering  
CzechInvest

## Electrical engineering and electronics

The electrical engineering and electronics is growing rapidly due to digitisation, miniaturisation and emerging technologies for e-mobility, IoT, energy storage systems (smart grids) and intelligent connectivity (5G). It is the second-largest sector of the Czech economy with a more than 13% share in overall manufacturing output. Over 15,000 companies in the sector employ nearly 150,000 workers with a variety of skills. R&D centres dealing with electrical engineering and electronics are gaining importance and form the foundation for high-value-added in the future. Since the 1990s, the Czech Republic has welcomed numerous investors in various sub-sectors of the electronics industry. The whole sector is growing, particularly due to the economic stability and the presence of well-known manufacturers. The consumer electronics segment is represented by, for example, Panasonic, the largest flat-panel television manufacturer in the Czech Republic, which produces state-of-the-art TV receivers enabling not only traditional means of media consumption, but also consumption of on-demand services. Tymphany is the global leader in the design and manufacture of audio systems, producing unique audio products and operating a research and development division in the Ostrava region. Many electronics companies are also important suppliers to other branches of industry, particularly the automotive, health-care and engineering sectors. The rapid development of the automotive sector in the Czech Republic and neighbouring countries has attracted a number of automotive electronics suppliers including Siemens, Bosch, Valeo, Daikin, Tyco and Kostal. Lighting equipment for automobiles is manufactured in the Czech Republic by Hella Autotechnik, Varroc Lightning Systems and Automotive Lighting. With respect to high value-added products, it is very important to mention that every third electron microscope originates in the Czech Republic. The Brno-based companies Thermo Fisher Scientific, Tescan Orsay Holding and Delong Instruments are not only producers, but also conduct R&D activities with global impact. Other companies, such as ABB and On Semiconductor, offer good examples of how local know-how in specific fields can be used in high-tech manufacturing and R&D activities as well. The dynamic growth of the electronics industry and great references from investors prove the Czech Republic's status as a renowned investment destination. The country's long tradition in the electronics sector, together with its solid educational system and strategic location, has attracted numerous foreign companies in the electronics sector, which are evenly distributed across the entire country.

**Robert Keil**  
Sector Manager for Advanced Engineering  
CzechInvest

## Nanotechnology

Over the past decade, nanotechnology has attracted more and more attention worldwide with a lot of new, promising applications in the fields of medicine, textiles, surface treatment and filtration.

The Czech Republic has established its own respectable position in the world of nanotechnology thanks to its industrial tradition, growing state-of-the-art research infrastructure with institutions cooperating on the most prestigious projects, university education offering high-quality PhD programmes, globally recognised R&D centres and many companies developing final products and coming up with innovative ideas. Current specialisation in the field is the result of decades of research and development. Armin Delong's introduction of the first electron microscope into production in 1949 in Brno later led to the fact that the city is now considered to be the global centre of electron microscopy. Czech-based Tescan-Orsay Holding and the American company FEI, which built the world's largest microscope factory in the world in 2014 in Brno, are both located there. FEI was acquired by Thermo Fisher Scientific in 2016. This unique environment accounts for one-third of current worldwide production of electron microscopes.

In 2003, Prof. Oldřich Jirsák developed a reliable method of spinning fibres measuring 200 nanometres in diameter. Based on his patent, the Czech company Elmarco became the first supplier of industrial scale nanofibre production equipment in 2004. That allowed other Czech enterprises to process nanofibres and produce membranes for water and air filtration, soil treatment, functional textiles, medical devices and functional cosmetics. Other remarkable fields in which Czech companies are highly competitive on the global scale include production of monocrystalline materials (Crytur), electron lithography for holography applications (IQ Structures), wound healing and tissue regeneration (Contipro), research of nanostructured and cross-linked polymeric materials (Synpo), and production of nanoparticles for special purposes (Advanced Materials – JTJ). Most of the Czech nanotech companies are members of the Czech Nanotechnology Industries Association focusing on active support of all opportunities for cooperation between industry and research.

Nanotechnology itself could not exist without robust chemical and textile industries and strong abilities in the area of developing new materials. This vibrant new sector is highly attractive to major foreign companies; current ongoing investments include, for example, Fibertex in nonwoven textiles, Toray in waterless printing technology and AGC in advanced glass. The Czech Republic is a key location for the Saint-Gobain group, which invested more than EUR 65 million on expansions here in 2015 alone. We can also see significant progress in printed and smart materials and electronics (such as nano-sensors, pocket-lab, 3D printers, etc.).

**Jakub Hájek**  
Director of Innovations Department  
CzechInvest

## Life sciences

The Czech Republic has a rich history of scientific discoveries in life sciences ranging from the laws of heredity laid down by Gregor Johann Mendel, through the invention of soft contact lenses, to groundbreaking antiviral drugs whose principal compounds were developed by Professor Antonín Holý at the Institute of Organic Chemistry and Biochemistry of the Czech Academy of Sciences.

The country is particularly strong in biomedical chemistry. Today, the primary areas within which the Czech life-sciences community operates and collaborates internationally are research, development and production of human and veterinary pharmaceuticals, diagnostics, synthetic and fermentation technologies, animal and plant biotechnologies, medical devices and the use of biotechnologies in waste liquidation and environmental protection.

Development of the sector is supported by effective patent protection, adoption of GMP, GLP and GCP standards, advanced genetic engineering and the government's policy goals comprising continuation of support for R&D and acceleration of the transfer of knowledge between the science and business communities. Moreover, the country's membership in the European Union guarantees a regulatory framework compatible with all EU countries, which comprise a consumer market of over 500 million customers within a two-hour flight from Prague.

Examples of global companies conducting business, R&D and/or manufacturing in the Czech Republic include Teva Pharmaceutical, Zentiva, Lonza Biotech, Novartis, Otsuka Pharmaceutical, MSD, Ferring, Bioveta, Gilead Sciences, Glenmark Pharmaceutical and Beckman Coulter, among others. Due to the demands placed on healthcare systems and the public's ever increasing expectations with respect to healthcare services, the Czech government set development of new pharmaceutical treatments and diagnostics and human resources development as one of its top priority areas in the long-term direction of research and innovation and used substantial public funding amounting to nearly EUR 3 billion during the last decade to strengthen the sector's research infrastructure in this field. New, state-of-the-art research facilities have been completed around the major university centres in Prague, Brno and Olomouc to complement the existing institutes of the Academy of Sciences of the Czech Republic and universities.

The country is home to a number of noteworthy research centres recognised for their high-quality research in molecular biology and genetics, immunology, analytical and pharmaceutical chemistry and biochemistry, oncology, immunology, cardiology, neurology, metabolic diseases and, recently, medical applications of nanotechnologies. Thanks to the introduction of these policy and fiscal measures in combination with the country's low corporate tax rate (19%) and R&D tax credits and investment incentives, the Czech Republic is an attractive location for both R&D collaboration and manufacturing of pharmaceuticals.

**Hana Chlebná**  
Sector Manager for Life Sciences  
CzechInvest

## Nuclear power and industry

The year 2015 marked the sixtieth anniversary of the first steps toward the peaceful use of nuclear energy and the establishment of the Faculty of Technical and Nuclear Physics of the Czech Technical University in Prague and the Nuclear Research Institute, thanks to which the Czech Republic (and the former Czechoslovakia) reached the peak of the nuclear-power industry in all of its aspects – operation of nuclear power plants, research and development, and nuclear engineering and services – as both a supplier and service provider.

Strong firms capable of delivering their products in practically the whole supply chain of nuclear facilities have been established and the Czech nuclear-energy sector possesses extraordinarily strong human resources and knowledge potential in all areas, from development to implementation of construction works.

In connection with the necessity to continue in the nuclear programme within the National Action Plan for Nuclear Energy, this extraordinary potential is maintained not only through activities related to the operation of the nuclear power plants in Dukovany and Temelín, but also through the expectation of continued development of nuclear power and construction of new nuclear plants.

To support the development of nuclear power, the State Energy Strategy and the Action Plan for Nuclear Power Development were approved by the Czech government a few years ago. The government's decision related to the commencement of new nuclear builds was adopted in 2019. This decision outlines not only the principles, schedule and milestones for preparation and construction of new nuclear builds, but also the main features of the upcoming project. ČEZ (the biggest electricity supplier on the Czech market) is set as the builder and the development of the project is supported by a special contract between the state and ČEZ. The current approach places emphasis on the construction of one unit with 1200 MW installed capacity in Dukovany, with the option to further construct up to four units (Dukovany and Temelín). The activities of ČEZ and the Special Governmental Envoy for Nuclear Power are now focused on a notification from the European Commission and preparation of the terms and conditions of the tender. It is expected that the tender will be open to the strongest technology suppliers with the appropriate financial background. The discussion is also focused on the localisation of domestic industry and supplier/services companies. Fulfilling the objective of the National Action Plan (two units in Dukovany and two units in Temelín by 2040 and 2060, respectively) will require an investment of at least CZK 600 billion (EUR 25 billion), which is absolutely the biggest investment in the Czech Republic and a major challenge for strong, world-leading companies. With respect to the indicated willingness to ensure the implementation of local projects with the greatest possible extent of domestic supplies, now is the best time to consider investment opportunities in both the areas of direct financing and improving the qualitative potential of Czech companies operating in the nuclear industry.

**Jiří Marek**  
Director and Partner, JMM CS Ltd.  
President of the Association of Nuclear Veterans

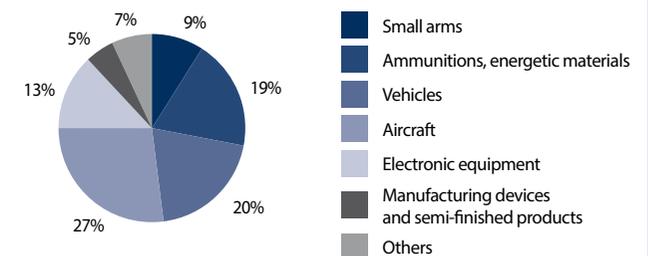


## Defence industry

The Czech defence and security industry is well known for its long history, unique structure, high-quality products and strong innovation potential. Czech producers of military materiel have always struggled with the limited options of the domestic customer resulting from the small size of our country and its armed forces. Therefore, Czech producers of defence and security technologies had to constantly innovate their products in order for them to be competitive mainly on foreign markets, to which we export 90% of our production. The competitiveness of Czech products, the country's full range of defence and security professionals and the good name of the traditional Czech arms industry form the cornerstone of the Czech defence sector's potential. The Czech defence industry develops and manufactures some of the world's most unique and highly sophisticated technologies including passive surveillance systems, light combat aircraft and military jet trainer aircraft.

In comparison with the foreign competition, the Czech defence industry excels primarily in the area of high-tech innovations. Military technologies originating here are very sophisticated, whereas it is always necessary to adapt them to the needs of customers and their technical requirements, which often involves integration with existing systems. In this case, creativity is highly important and Czechs are masters of applying it. Thanks to thorough care for delivered products throughout their lifecycle, continual modernisation and a willingness to cooperate with local companies in export destinations, Czech defence companies have a strong possibility to beat out their foreign competitors in tenders around the world. Two-thirds of Czech defence companies are small and medium-sized enterprises that, with a few exceptions, are privately owned. Altogether, this creates an ideal environment for foreign investors to find success in the further development of this industrial sector, which is gaining more and more importance in today's world.

### Sectoral structure of the Czech defence industry



Source: Ministry of Trade and Industry, 2018

**Jiří Hynek**  
President  
Defence and Security Industry Association  
of the Czech Republic

## Chemical industry

The chemical sector is one of the most important branches of industry in Europe. Chemicals play a key role in the Czech economy as well. In terms of sales, the integrated chemical industry is the second-largest industrial sector in the Czech Republic after the automotive industry. The Czech chemical industry's products include inorganic and organic chemicals, fertilisers, basic petrochemicals, primary-form plastics, synthetic resins, synthetic rubber, paints, dyestuffs and pigments, agrochemicals, pharmaceuticals and cosmetics, soaps and detergents, chemical fibres and explosives.

In 2018, the Czech chemical industry's sales amounted to EUR 19.67 billion at current prices and the industry employed 129,500 people. Nevertheless, chemical imports exceeded exports by EUR 13.3 billion – a deficit that increased by EUR 6 billion year on year. In 2018, 1,851 chemical companies were registered in the country. Annual investment reached EUR 1.98 billion and Czech companies financed 50%-70% of R&D themselves, with the balance comprising EU and state funding in the total amount of EUR 43.2 million. Collaboration between industry and academia is working well.

The main chemical clusters are in northwest Bohemia, north Moravia and central Bohemia, but plants can be found throughout the country. Several Czech chemical plants (Deza, Lovochemie, Precheza, Synthesia) are owned by Agrofert, a domestic holding company focused mainly on fertiliser production, though foreign investors also play a significant role in the local chemical industry. Unipetrol, which is owned by the Polish-based Orlen Group, is engaged in oil refining. The Orlen Group has its own filling-station chain in the Czech market and is the majority owner of two other production complexes, Unipetrol in Litvinov (petrochemicals and refinery products) and Spolana in Neratovice (polymers and fertilisers). The Polish firm also owns another major plant near Prague, Synthos in Kralupy nad Vltavou (synthetic rubber).

The Hungarian firm Borsodchem manufacturers base chemicals at its plant in Ostrava in the northeast of the Czech Republic, while Synthomer engages in acrylic acid production in the west of the country. There are numerous examples of successful foreign investments in Czech chemical industrial parks, such as those of Cayman Pharma (API production) in the Spolana complex, Eurosupport Manufacturing (catalyser production), Air Products in the Unipetrol Litvinov complex, Dukol (adhesives production) at the Borsodchem facility and Central Glass (electrolyte production) in the Synthesia complex.

The Czech Republic has tremendous potential as a destination for investments in the chemical industry thanks to its infrastructure and workforce, as well as the space that it has available for such investments. The industry is a crucial supplier of raw materials for a number of downstream domestic industries. It also ranks among the industrial sectors with the highest innovation potential.

**Martin Dittrich**  
Business Development Director  
Bilfinger Tebodin Czech Republic, s.r.o.



## Energy efficiency services

Progress in energy management systems opens up new opportunities for the further growth of energy efficiency approaches. Energy efficiency services lead to a situation in which the costs of the actual implementation of an energy management system are soon covered by non-investment measures. Moreover, M&T makes objective and accurate proof of saving possible, which applies to quite complex production processes as well. It can be stated that, due to this fact, utilisation of energy efficiency services could be considered a key-stone of the management of every industrial site.

The development of these systems has led to the creation of the ESCO scheme, which enables enterprises to finance the implementation of an energy management system by a third party, i.e. an energy service company (ESCO). The fact remains that the initial costs are often an obstacle preventing the implementation of modern procedures in the field of energy management, even though these costs are low in comparison with the savings potential. Companies focused on ESCO and related services are united in the Association of Energy Service Providers (APES). As of 2020, APES has 26 members.

Formulation of the ESCO scheme was enabled by the development of standardised energy management systems. Czech companies that have implemented or are implementing an energy management system using the M&T approach include, for example, Plzeňský Prazdroj, Škoda Auto, Unilever, Kovohutě Příbram, Danone Benešov, Koramo Kolín, Mondi Štětí, Vishay Electronic and Eutit Stará Voda. M&T can be implemented in a small enterprise with simple technology or in a building, but its commercial use is best proven in the case of medium-sized and large enterprises paying quite a lot for annual energy consumption (at least approx. CZK 10 million, i.e. EUR 400,000). The system's good economic return (usually within a year) is due to the fact that implementation costs are relatively small compared to the achieved savings, which amount to a certain percentage of annual energy bills and can reach as high as 15%.

A significant form of support for the implementation of energy efficiency services consists in the inclusion of energy management principles in the ISO 50001 standard. As well as the actual economic benefits, the relevant legislation allows enterprises to supersede the mandatory energy audit by implementing the standard, and enterprises that have the ISO 50001 standard implemented enjoy preferential points when their applications for grants from the EU structural funds within the Operational Programme Enterprise and Innovation for Competitiveness are assessed. ISO 50001 certification is provided by all authorised companies operating on the European market, such as TUV, DNV and Bureau Veritas.

**Jan Pavlík**  
Business Director  
Enviros

## Transport and infrastructure

It is well known that the transport industry is one of the main pillars of Czech industrial manufacturing. The Czech Republic is a highly industrialised country and produces most types of vehicles for road, rail and air transportation, with a strong presence of global brands such as Siemens, Bombardier, GE Aviation, Kapsch and Honeywell, as well as strong, Czech-owned industry flagships such as Škoda Transportation (trains and trams), Aero Vodochody (aircraft), SOR Libchavy (buses) and Bonatrans (rail stock components). There are vast opportunities for foreign investors in the transport infrastructure sector, particularly in the areas of construction and development. Despite having a reliable and very dense transport infrastructure serving industrial manufacturers, the Czech Republic needs advanced rail and road infrastructure such as high-speed rail connections to major cities in neighbouring countries. The Czech government intends to implement projects that will connect Prague with Berlin, Vienna and Budapest. However, given the high capital requirements, it is expected that such projects would be implemented with the help of foreign partners. Feasibility studies for pilot high-speed rail projects are already underway and substantial investment will be needed for such projects. In our opinion, private investors will have an opportunity to contribute.

In the area of road construction, plans call for roads to be built with the help of public-private partnerships and the involvement of international equity investors. You can see below a few highlights of both the current D4 pilot PPP project, financial closure of which is anticipated in 2020, and projects in the pipeline (D35, D6 and D3) that may transition from the planning stage to the implementation stage in the short to medium term.

| Type                  | Motorway        |  |                 |                 |
|-----------------------|-----------------|--|-----------------|-----------------|
|                       | D4              | D35  | D3              | D6              |
| Estimated investment  | EUR 275 million | EUR 2 billion (potentially one of the largest schemes of its kind in Central and Eastern Europe) | EUR 1.9 billion | EUR 716 million |
| Number of km planned  | 32              | 80*  | 83*             | 63*             |
| Start of construction | 2020/2021       | 2021   | 2021-2024       | 2021-2023       |

*\* total km planned, privately financed part to be confirmed*  
Source: Road and Motorway Directorate, 2020

**Kamil Blažek**  
Partner, Kinstellar  
Chairman, Association for Foreign Investment

## Business support services

The CEE region is still the most popular destination for business services operations. The Czech Republic is one of the leaders in this sector. According to a survey conducted by the Association of Business Service Leaders (ABSL, 2019), operators of BSS centres consider the Czech Republic to be a perfect place to build their business, stating greater than 80% satisfaction with the country's infrastructure and business environment.

The business support services sector includes captive centres as well as business process outsourcing centres and is one of the youngest sectors in the Czech Republic. The first delivery centres were established in the 1990s followed by significant growth since 2000. In the past decade and a half, Czech BSS centres have developed their capabilities and, in terms of the proportion of processes, reflect the structure observed in other CEE countries. Established centres have successfully expanded in terms of headcounts as well as new activities. The most frequently shared services are IT services, finance and accounting and customer support. Rapidly growing shared services include human resources, logistics and legal services.

Double-digit growth of the industry continued for several consecutive years, standing at 11% in 2019. The optimistic outlook for the industry is represented by the fact that, according to the aforementioned ABSL survey, 82% of BSS operators are planning to expand within the next two years.

According to the ABSL (2019), there are approximately 290 SSC/BPO centres employing approximately 100,000 people in the Czech Republic. The list of existing captive and outsourced shared-services centres in the country includes those of companies such as Accenture, Computer Associates, DHL, ExxonMobil, Hewlett-Packard, IBM, Microsoft, Skype, Monster Technologies, SAP, Tieto, Infosys, Red Hat and Honeywell.

The Czech Republic's stable financial and political environment and its close relations with certain Western European countries encourage many western companies to choose it as the location of their CEE operations. The biggest BSS hubs with more than 5,000 employees are located in Prague, Brno and Ostrava. However, smaller companies are placing their activities in other locations as Plzeň, Olomouc, Hradec Králové, České Budějovice, Liberec and Pardubice. The activities outside of the main hubs account for 17% of all BSS activities.

The main reasons for placing SSCs in the Czech Republic are the strong potential of graduates and professionals, especially with respect to IT and language skills, the country's well-developed infrastructure and available high-quality office space, as well as its cosmopolitan society, which makes it an attractive place to live.

**Tereza Horská Matulová**  
Director of Investment Development  
Czechinvest

## Hotel and leisure industry

Since the start of the 21<sup>st</sup> century, the Czech hotel industry has had its ups and downs. The average daily rate for a Prague hotel room fell from the sky-high CZK 3,700 (approx. EUR 140) in 2001 to CZK 1,700 (approx. EUR 63) during the global economic crisis ten years later. We have been seeing steady recovery of both prices and occupancy since then. Occupancy has already exceeded 80%, outperforming Paris, Berlin and Rome. Therefore, rather than intensifying utilisation, there is more room for a modest price increase, which depends on the development of exchange rates as well as the performance of the local and global economy.

Prague is the focal point of the hospitality industry in the Czech Republic, as it is not only the Czech capital and the country's economic and political centre with more than 1.3 million inhabitants, but it is also the country's main destination for both tourists and business travellers. The historical centre of Prague has been listed as a UNESCO World Cultural and Natural Heritage site since 1992. Prague hosted over 9.2 million visitors in 2019, making it the 22<sup>nd</sup> most visited city worldwide.

Prague is also a major destination for business travel and events. Eurostat reports that Prague is the seventh richest region in the EU, with the city's GDP per capita at 187% of the EU average. The growth of hotel supply in Prague has been modest, with several high-ranking openings announced for the coming years. In contrast to the flourishing office and residential development, the hotel investment sector is more conservative and aimed at premium downtown and business park locations. This supply slump has allowed existing hoteliers to profit from the RevPAR revival; in the coming years, however, growth will be rather modest due to the absence of large events and the overall slowdown of economic growth.

Despite recently strong local demand in absolute terms, most overnight stays come from abroad, with Germany leading the crowd, followed by Russia, the United States and two neighbouring countries – Slovakia and Poland.

The recent year-on-year growth has been fed by higher local demand resulting from a steep increase of income. However, in absolute terms, the majority of overnight stays come from abroad with Germany leading the crowd. We have been seeing steady growth of demand from Asia for the past several years, e.g. Chinese visitors accounted for more than half a million overnight stays in 2018.

The structure of the hotel business is rather fragmented in the Czech Republic. There are a few local midsize players, large international groups and numerous independent owners and operators. The sharing economy, represented mainly by Airbnb, competes with standard short-term accommodation models and providers. It is estimated that Airbnb's share in Prague's total overnight stays is around 15%. Representatives of city hall have initiated discussions on regulating the sharing economy.

**Jan Musil**  
Director  
PwC Audit

## Food sector

Food production is one of the traditional industrial sectors in the Czech Republic. The broad structure of the sector is based primarily on processing of domestic raw materials comprising primary agricultural production of plant and animal origin complemented with other foreign raw materials. The main segments are dairy products, meat processing and preservation, other food products and beverages. A major part of the sector's output is produced industrially. Digitalisation and automation have been introduced into the sector.

The importance of the sector is due to the fact that food production ensures the nourishment of the population, which requires a certain quantity of basic food types for self-sufficiency. Food policy based on food regulations considers food safety to be a priority monitored at the government level. The necessary obligations in this context are mainly placed on food-industry operators and the relevant supervisory authorities.

Food quality is another priority that is gaining importance both in the Czech Republic and in the EU. Food production and agriculture comprise one of the most promising sectors in the Czech Republic and thus represent a favourable investment opportunity here. The alliance of food producers and manufacturers of food-production technology dates back more than a century and is a key factor in the Czech food sector's good reputation abroad. Food and beverage production accounts for nearly 4% of GDP on its own and up to 15% in combination with related sectors.

Online grocery sales have been gaining in importance. The Czech Republic has long striven to further improve the food-supply chain and optimise it for consumers. The range of food is very wide, from fresh products with short consumption times to non-perishable food items. Organic food and farm-raised products are also available. Czech products are characterised by their high level of qualitative standards. Food safety remains the government's priority in this area.

Our government supports modernisation of production capacities in the food industry and innovative production processes, for which financial resources are drawn from EU structural funds and the national budget. One of the ways to achieve significant improvement in the sector is through foreign direct investments that bring forth not only technical solutions, but also new production and marketing methods.

The innovation process is a subject of intense interest in the research sphere and the government is striving to ensure the improvement of the process of putting research results into practice. Food waste is an important issue in both the Czech and European contexts and is thus a subject of the innovation process.

Besides traditional segments such as brewing, wine-making and sugar production, the Czech food industry also features modern production technologies including biotechnology and extrusion technology.

Consumer protection is also at a high level in line with modern trends. Furthermore, the local industry boasts a large number of registered trademarks and a generally high level of protection of intellectual property rights.

**Miroslav Toman**  
Minister of Agriculture of the Czech Republic

# Banking

The Czech banking sector is unique in many respects. Most of the sector is dominated by strong European financial groups and its activities are primarily focused on the Czech Republic.

## Capital position

Czech banks remain well-capitalised in spite of the impressive growth they have shown over the past two decades and capitalisation is well above all regulatory requirements. With total capital adequacy above 18% (in 2018), Czech banks are among the best-capitalised in the world, with limited use of Tier II instruments (the Tier I ratio is thus close to total capital adequacy). High profitability and prudent management of both commercial banks and the central bank are to “blame” for these solid results.

## Profitability

Czech banks are among the most profitable in Europe. With ROE above 13% in the past decade (and average ROE of 15% in 2018 against the EU average of 7%), Czech banks have generated some of the most impressive returns for their shareholders in a global comparison.

Profitability is strongly supported by the benign environment including a strong macro picture, prudent supervision and a friendly investment environment, as illustrated by the absence of a special banking tax.

Profitability was well tested during the financial crisis. Apart from a few scratches from losses on structured products, Czech banks maintained strong and stable profitability without any need for state support.

The whole sector produced record profits in 2019 as well (estimated EUR 3.5 billion). Outstanding net profit was boosted by an exceptional operating result, especially net interest income, benefiting from a steadily growing loan portfolio and reasonable cost of funds. The interest margin remains solid in spite of relatively low interest rates. The whole sector received a tailwind from recent CNB interest rates hikes.

With net profit accounting for roughly 1.6% of GDP, the Czech banking sector is among the most profitable when compared to the size of the Czech economy.

## Efficiency

With costs between 45% to 49% of income over the past ten years, Czech banks are among the most cost-efficient globally.

Apart from overall good cost control, banks benefit from the high market concentration (roughly 65% of total assets are in the hands of the three biggest players). This allows significant economies of scale.

## Asset quality

Asset quality remains at its all-time highest level. The share of nonperforming loans is fairly low at around 2% in the course of 2019. Provision coverage hovers comfortably above 60%.

The currency split of loans in the Czech banking sector shows that if any foreign currency lending exists, it is mostly denominated in EUR and most likely in the corporate segment. Therefore, unlike in the Hungarian and Polish markets, FX mortgages have not been an issue in the Czech market.

## Opportunities

Further loan growth can be anticipated, as penetration still lags behind developed Europe; compared to other EU countries, the Czech market is still underpenetrated, mainly in housing loans and corporate loans. In other words, the convergence story continues and there is still room to grow faster than Europe.

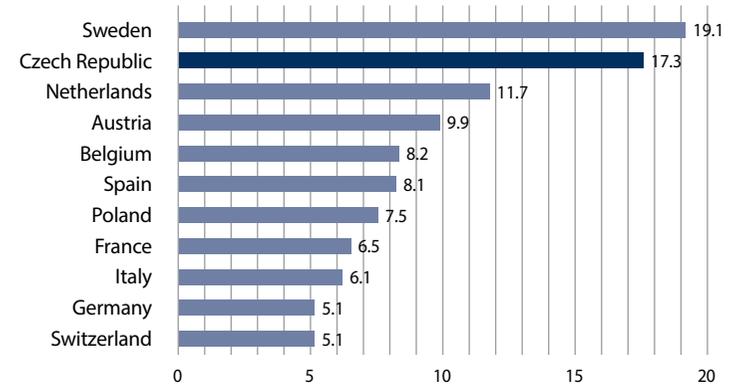
Czech banks are flooded with deposits and can benefit from a relatively cheap cost of funding as a source for future loan growth.

Given the high capital base and cheap funding, the banking sector is well prepared to support strong demand for lending.

As households are becoming richer (e.g. nominal wages increased by 7% between Q3 2017 and Q3 2018), banks can further support wealth growth by offering fee-generating products such as investment funds, life insurance and products in the pension area. This will bring prosperity to both the banks and their customers.

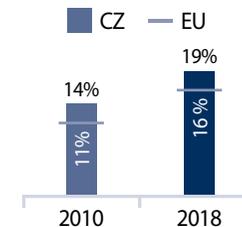
**Miloš Novák**  
Head of Capital participations and IR  
Česká spořitelna

## Which banking sector is the most profitable? ROE Pre-tax (%), latest available figures



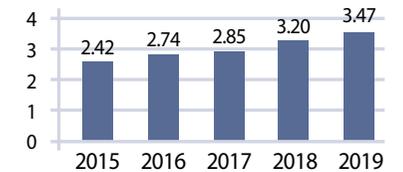
Source: World Bank, 2018

## Tier I ratio



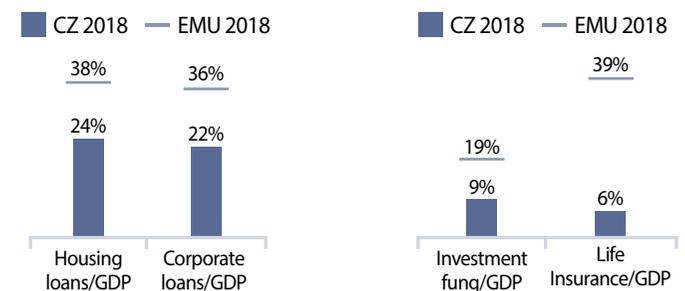
Source: Czech National Bank, 2018

## Czech banks' net profit (2019, estimated)



Source: Czech National Bank, 2018

## A lot to catch up with Western Europe



Source: European Banking Authority, 2018

# Insurance

The insurance sector in the Czech Republic is characterised by a strong competitive environment that favours and protects consumers. Competition puts pressure on prices and fosters a larger scope of provided services and innovation. The sector has remained profitable and stable even during periods of crisis. Whereas the domestic banking sector has a unique, dominant position in terms of its share in financing the economy in comparison with the situation abroad, the insurance market has significant room for further growth. In the Czech Republic, the combined share of premium billing in GDP was 3.0% for life and non-life insurance in 2018. This figure is approximately double in Western European countries. Consolidation of ownership is ongoing in the market, which could be seen as presenting an interesting investment opportunity.

## Stability of the Czech insurance market

The Czech insurance market exhibits a high degree of stability and capital resilience. In comparison with the values for the EU as a whole, the Czech market consistently maintained a substantially higher solvency ratio in comparison to the minimal capital requirement defined by the regulator (the solvency ratio for the Czech market results in approximately 330% of the minimal capital requirement, which in recent years has been fully comparable with the results of Europe as a whole due to an increase of capital adequacy in the overall EU data) until implementation of Solvency II in 2016.

During the transition to the new Solvency II regime, no instability of the insurance market occurred. The Czech insurance market prepared for the new solvency regime very seriously and carefully. Moreover, the market focused great attention on risk management in general and more specifically on the adequate and prudent setting of technical reserves. The introduction of Solvency II in 2016 affected the solvency ratio figures and thus data for the period up to 2015 and figures starting after 2016 are not comparable, as the solvency calculation methodology was adjusted significantly. However, the solvency ratio and overall capital adequacy are still at very prudent level and more than double the regulatory requirements. Moreover, regularly performed stress tests confirm that the Czech insurance sector remained solvent even under scenarios of significant economic recession connected with a high degree of capital market dropdowns as well as the higher level of lapses of insurance contracts due to adverse economic developments.

## High profitability in comparison with the EU average

In comparison with the EU average, the Czech insurance market's profitability is significantly higher, exceeding the European average multiple times over in both the ROA (return on asset) and ROE (return on equity) indicators. The Czech insurance market did not suffer a substantial decrease in profits during the financial crisis and recession of 2008-2009, when profits in the European market as a whole were minimised.

## Claims performance of non-life insurance

The claims ratio in non-life insurance in 2012 and 2013 reached approximately 51% and 58% with a smaller reduction to 54% in 2014 and 53% in 2015, respectively. Despite the existence and gradual increase of the risk of its further growth in this area, these are still significantly lower claims ratio figures than those reached in the Europe-wide market, where this indicator for non-life insurance was approximately 70%-71% in the same period.

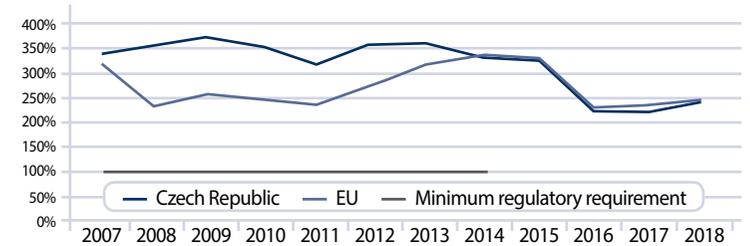
Even though there is potential for further growth in non-life insurance (the basic difference in non-life insurance penetration is connected with the minimal share of commercial health insurance and long-term care in the Czech Republic so far), the main imbalance in insurance penetration within the population between the Czech Republic and the EU as a whole is seen in the area of life insurance.

## Potential for further development of the life-insurance market

The average annual life-insurance premium in the EU is approximately EUR 1,240 per person. By comparison, this figure for the Czech Republic in 2018 reached EUR 197, as growth of the average life-insurance premium in the country practically stalled in 2010. The relative importance of life insurance for investment and pension benefits is currently significantly higher in the EU as a whole than in the Czech Republic. There is potential for its further development if there continues to be improvement in the regulatory and self-regulatory sales culture and the transparency of life insurance together with an increase in clients' awareness of the importance of this product both as adequate protection against risks and as pension benefits, as well as in terms of investment.

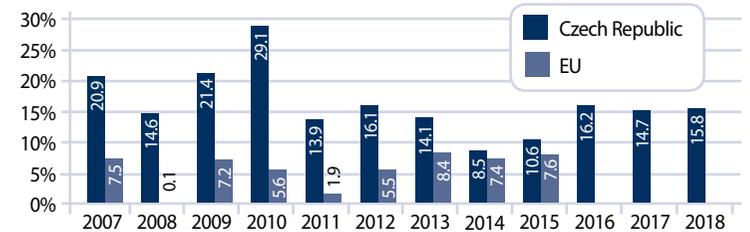
**Petr Jedlička**  
Team Leader of Actuarial and Analytical Services  
Czech Insurance Association

## Share of available and required solvency



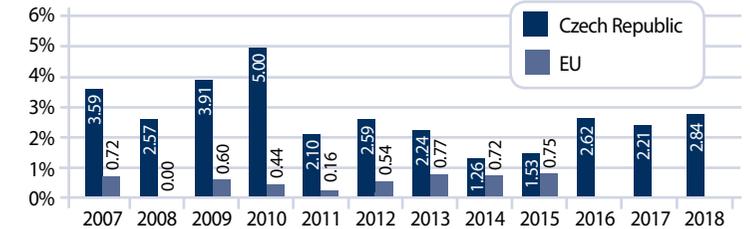
Source: EIOPA, 2018

## Comparison of ROE in the insurance industry – Czech Republic and EU



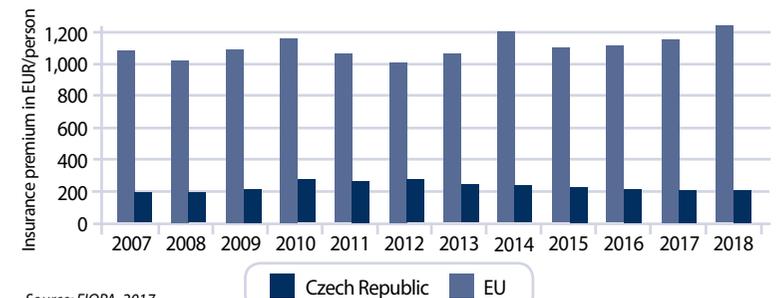
Source: EIOPA, 2017

## Comparison of ROA in the insurance industry – Czech Republic and EU



Source: EIOPA, 2017

## Comparison of life-insurance premiums – Czech Republic and EU



Source: EIOPA, 2017





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# The Czech Republic in the world

