CZECH REPUBLIC

INVESTMENT CLIMATE STATEMENT

2015

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Executive Summary

The Czech Republic is a medium-sized, open, export-driven economy. Around 80 percent of its GDP is comprised of exports – mostly from the automotive and engineering industries. Its strong dependence on foreign demand, especially from the Eurozone, of which it is not a member, was highlighted in the global financial crisis of the late 2000s. However, the Czech banking sector remained relatively healthy. After two years of economic contraction, the Czech economy emerged from recession in early 2013 and enjoyed two percent GDP growth in 2014. Experts predict approximately 2.5 percent growth in 2015.

In November 2012, the Czech National Bank (CNB) lowered the two-week repurchase rate to a record low of 0.05 percent, referred to as technical zero, in order to address deflationary pressures. A year later, the CNB launched a foreign exchange intervention to mitigate the risk of continued deflation. Since then, the exchange rate has remained at 27 Czech crowns/1 euro or weaker (27.5 as of April 2015). Accordingly, due to the fall of the euro in 2014, the Czech crown has weakened to 25/1 USD (as of April 2015). The Czech crown is fully convertible and all international transfers of investment-related profits and royalties can be carried out freely without delay. While there has not been significant political momentum toward Euro accession in recent years, the current government under Prime Minister Sobotka has demonstrated a more positive approach to EU integration than any past government. CSSD, Sobotoka’s party and the coalition leader, expressed support in March 2015 for joining the Eurozone by 2020. President Zeman is also a strong supporter of Euro accession.

The Czech Republic fully complies with EU law and OECD standards for the equal treatment of foreign and domestic investors. Labor laws are comparable with most developed nations, but a gap still exists between wages of Czech individuals and their neighbors in Western Europe. The U.S.-Czech Bilateral Investment Treaty provides for international arbitration of investor–State disputes. Great strides have been taken since the fall of communism to open the market to competition and privatization, but the prosecution of anti-trust violations is still less than adequate. Corruption remains a problem. Czech Intellectual Property Rights (IPR) protections are still not optimal, but the legal framework for IPR protection has been tested and proven successful in punishing infringers. Other western concepts such as entrepreneurship and corporate social responsibility (CSR) are growing trends in the Czech business and NGO communities.

There are no general restrictions on foreign investment, although limits exist within certain sectors. The Czech Republic attracts a great deal of FDI for its size, and has taken strides to diversify its traditional investments in engineering into new fields of research, development and innovative technology. In fact, EU structural funding has enabled the country to open a number of world-class scientific and hi-tech centers. Companies from EU member states are the chief foreign investors in the Czech economy, but the government has signaled a desire to seek more export and investment opportunities from non-European regions, including the United States, China, and South Korea.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

The Czech Republic is a recipient of substantial foreign direct investment (FDI). As a medium-sized, open, export-driven economy, the Czech Republic is strongly dependent on foreign demand, especially from the Eurozone. In 2014, more than 82 percent of Czech exports went to fellow EU states, with about 60 percent shipped to the Eurozone, and 32 percent to the Czech Republic's largest trading partner, Germany. The recent global economic crisis pulled the Czech Republic into its longest historical recession and highlighted its sensitivity to economic developments in the Eurozone. In early 2013, the economy finally emerged from recession, and has shown moderate growth since then. In 2014, GDP growth reached two percent.

2013 Czech per capita GDP was 82 percent of the EU average, putting the Czech Republic not only above all fellow former communist states except Slovenia, but also above Greece and Portugal. The trade balance has been positive every year since 2005, and in 2013 and 2014 rose substantially, with surpluses of around USD 9.3 billion, and USD 11.8 billion, respectively. Exports comprise nearly 80 percent of the country's GDP. The main export commodities are automobiles, machinery, and information and communications technology.

Over the past ten years, the Czech Republic has taken a wait-and-see approach regarding the country's entry into the Eurozone. Recent economic difficulties in the Eurozone weakened public support for the country's adoption of the euro, and previous governments opposed setting a target date for accession. The current government, led by Prime Minister Bohuslav Sobotka (CSSD), has indicated its readiness to adopt the Fiscal Compact, a treaty committing signatories to limit their state budget deficits to 0.5 percent of GDP, and subsequently to adopt the euro. While there has not been significant political momentum toward euro accession in recent years, CSSD at its March 2015 conference expressed support for joining the Eurozone by 2020.

Some unfinished elements in the economic transition, such as the slow pace of legislative and judicial reforms, have posed obstacles to investment, competitiveness, and company restructuring. The Czech government has harmonized its laws with EU legislation and the acquis communautaire. This effort involved positive reforms of the judicial system, civil administration, financial markets regulation, intellectual property rights protection, and in many other areas important to investors.

While there have been many success stories involving American and other foreign investors, a handful have experienced problems, mainly in heavily regulated sectors of the economy, such as in the media sector. The slow pace of the courts is often compounded by judges' lack of familiarity with commercial or intellectual property cases. In the 2015 World Bank's, Ease of Doing Business, the Czech Republic ranks 44th overall out of 189 economies, and 28th out of 189, in the category of Protecting Minority Investors.

Both foreign and domestic businesses voice concerns about corruption. Other long term economic challenges include dealing with an aging population and diversifying the economy away from an over-reliance on manufacturing toward a more high-tech, services-based, knowledge economy.

Attitude Toward FDI

Since 1990, the Czech Republic has become one of the leading countries in the Central and Eastern European (CEE) region attracting most of incoming FDI. Though Poland was the leader by total volume of FDI gained, the Czech Republic and Hungary managed to achieve the highest FDI per capita ratio. While in the early years massive volumes of FDI flowed primarily into the Czech automotive, real estate, and alternative energy sectors, in 2010, the Czech Republic, together with its fellow Visegrad Four countries (Slovakia, Hungary, Poland) attracted 70 percent of all FDI headed towards development of services and R&D projects in the CEE region. FDI inflow tripled in 2012 after a sharp drop-off during the economic crisis. 2014 FDI inflow data recorded a year-on-year increase of about 60 percent. The increased activity of foreign investors reflects a gradual recovery of the European market, driven mostly by the automotive industry. CzechInvest, the government investment promotion agency, has adopted a new strategy to place the Czech Republic among Europe´s ten most attractive investment destinations. The strategy is based on five pillars: enhanced activity abroad; improved service for investors; better coordination of support for small and medium-sized enterprises; emphasis on the use of research and development; and general improvement in communication among FDI-related agencies and institutions.

Investment Trends

Originally the Czech Republic attracted FDI mainly in the engineering industry. New, large automotive greenfield projects emerged in the northeast and central part of the country. These investments especially benefited from lower labor costs (relative to Western countries), the strong tradition of Czech engineering, as well as a central location.

The structure of FDI has changed in recent years, shifting from manufacturing to other high-technology sectors, such as information and communications technology. The Czech Republic aims to become a destination for investments with high value added content. Therefore, the Czech Republic focuses on negotiations with investors from the areas of R&D and services, to which it can offer an optimal combination of favorable investment factors, such as a strategic location, and a highly qualified and innovative work force.

Other Investment Policy Reviews

The Czech government underwent an OECD investment policy review in 2001 in the process of joining the OECD. The World Bank's, Doing Business 2015 Economic Profile and Economist's Intelligence Unit likewise provide further detail on the Czech Republic's investment climate.

Laws/Regulations of Foreign Direct Investment

In 2012, the Czech Parliament passed a new Civil Code (effective January 1, 2014), modifications to the existing civil law, and a new regulation for corporations – an Act on Corporations (also effective January 1, 2014).

The Czech Ministry of Industry and Trade maintains a business registration website at www.businessinfo.cz, which aids foreign companies in establishing and managing a foreign-owned business in the Czech Republic, including how to navigate the legal requirements, licensing, and operating in the EU market.

Liability

Criminal liability – related offences are included in the new Criminal Code, Act No. 40/2009 Coll., which has been in effect since January 1, 2010. Penalties include imprisonment, a ban on the activity, asset forfeiture or fines.

Administrative liability covers administrative offenses committed by both individuals and legal entities (or individuals as entrepreneurs).

A new law on criminal responsibility of legal entities has been in force since January 1, 2012. It outlines a list of offenses that could be committed by legal entities. A legal entity is responsible for the behavior of its management, personnel and any bodies that fall under its control.

The latest statistics from the Supreme Public Prosecutor show that there were 175 prosecutions of legal entities in 2014. The most frequent crime was fraud – especially tax fraud – as well as extortion and environmental crimes. There have been convictions in some cases. The most frequent penalty was a fine (from CZK 10,000 to 50,000 CZK). In two cases the court decided to abolish the company. The Ministry of Justice is currently working on an amendment to the law on criminal responsibility of legal entities.

Organizational Structure of Investments

Foreign investors can, as individuals or business entities, establish sole proprietorships, joint ventures and branch offices in the Czech Republic. In addition, the government recognizes joint-stock companies, limited liability companies, general commercial partnerships, limited commercial partnerships, partnerships limited by shares, and associations.

National Treatment

From a legal standpoint both foreign and domestic investors are treated equally. The government does not differentiate between foreign investors from different countries, and does not screen foreign investment projects other than in the banking, insurance and defense sectors. Upon accession to the Organization of Economic Cooperation and Development (OECD), the Czech government agreed to meet (with a small number of exceptions) OECD standards for equal treatment of foreign and domestic investors and implement limitations on special investment incentives. The U.S.-Czech Bilateral Investment Treaty contains specific guarantees of national treatment and Most Favored Nation treatment for U.S. investors in all areas of the economy other than insurance and real estate (see the section on the Bilateral Investment Treaty below).

Industrial Promotion

Industrial production, a key export component, has recovered from the economic downturn of the late 2000s. After a significant decline in 2009 and 2010, it recorded moderate growth in 2011, stagnated again 2012 and 2013. In response to unfavorable economic conditions, the

Czech government expanded its export strategy to include markets beyond Western Europe, and reduce its dependence on the automotive, heavy and general industrial equipment sectors. 2014 industrial production gained almost five percent, with the automotive industry accounting for a large part of this gain.

While the export strategy still includes traditional export destinations in Western Europe, it focuses on twelve additional priority countries: Brazil, China, India, Iraq, Kazakhstan, Mexico, Russia, Serbia, Turkey, Ukraine, the United States, and Vietnam, in addition to another 25 countries of interest. The strategy characterizes chemicals or chemical products as new, promising export commodities.

In response to Russia's illegal annexation of Crimea in early 2014, the EU adopted economic sanctions against Russia, binding on all member states. This resulted in a decrease of approximately 2.5 percent in Czech exports to Russia in 2014.

Limits on Foreign Control

Foreign individuals or entities can operate a business under the same conditions and to the same extent as Czech persons. Some areas, such as banking, financial services, insurance, media, or defense equipment have certain limitations or registration requirements, and foreign entities need to register their permanent branches in the Czech Commercial Register. Some professions, such as architects, physicians, lawyers and tax advisors require membership in the appropriate professional chamber. These licensing and membership requirements apply equally to foreign and domestic professionals.

Privatization Program

According to the Ministry of Finance, as a result of several waves of privatization of formerly state-owned companies since 1989, almost 90 percent of the Czech economy is now in private hands. Privatization programs have been generally open to foreign investors. In fact, most major state-owned companies have been privatized with foreign participation. The government evaluates all investment offers for state enterprises. Many complainants have alleged non-transparent or unfair practices in connection with past or planned privatizations.

In early 2013, the Czech government approved the sale of a 44 percent stake in the national airline, Czech Airlines (CSA), to Korean Air. The Czech government sought a strong, non-European investor who would help CSA to further develop, and to expand the number of CSA flights to overseas destinations. The tender process met EU rules, and the final purchase conditions were subject to approval by the European Commission. The government had attempted, unsuccessfully, to privatize the airline in 2009. A local private carrier, Travel Service, acquired an additional 34 percent stake in CSA. Czech Aeroholding, an umbrella company which includes a national group of companies operating in air transport and related services, holds a minority stake of 19.74 percent, and the Czech Insurance Company (Česká Pojišťovna) owns 2.26 percent.

Screening of FDI

The government does not differentiate between foreign investors from different countries, and does not screen foreign investment projects other than in the banking, insurance and defense sectors.

Competition Law

The Antimonopoly Office (Urad pro ochranu hospodarske souteze) reviews both domestic and international transactions for competition-related concerns, including fair competition, public procurement, and concessions. An Act on the Protection of Economic Competition took effect in 2001, adopting antitrust rules consistent with EU competition policy related to restrictive agreements, abuse of a dominant market position, practices distorting competition, and merger control.

Investment Trends

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2014	53 of 175	transparency.org/cpi2014/results
World Bank's Doing Business Report "Ease of Doing Business"	2015	44 of 189	doingbusiness.org/rankings
Global Innovation Index	2014	26 of 143	globalinnovationindex.org/content.aspx?page=data-analysis
World Bank GNI per capita	2013	USD 18,950	data.worldbank.org/indicator/NY.GNP.PCAP.CD

2. Conversion and Transfer Policies

Foreign Exchange

The Czech crown is fully convertible. Imports or exports equal to or exceeding 10,000 euros (USD 13,000) in cash, travelers' checks, money orders, securities or commodities of high value (such as precious metals or stones) must be declared at the border.

The Ministry of Finance and Czech National Bank (CNB) administer the foreign exchange market. Foreign exchange authorities, the Ministry of Finance, and the CNB supervise compliance with foreign exchange regulations. Articles of Agreement (http://www.imf.org/External/Pubs/FT/AA/index.htm#art7)

Remittance Policies

All international transfers of investment-related profits and royalties can be carried out freely. The U.S.-Czech Bilateral Investment Treaty guarantees repatriation of earnings from U.S. investments in the CR. However, a 15 percent withholding tax is charged on repatriation of profits from the Czech Republic. This tax is reduced under the terms of applicable double taxation treaties. For instance, under the U.S. treaty, the rate is five percent if the U.S. qualifying shareholder is a company controlling more than 10 percent of the Czech entity, and 15 percent in other cases. There are no administrative obstacles for removing capital. The law permits conversion into any currency. The average delay for remitting investment returns meets the international standard of three working days.

Similar to the central banks in most other developed economies, the CNB uses a managed floating exchange rate for the national currency, the Czech crown, and uses monetary policy for other purposes, such as stabilizing employment and prices.

3. Expropriation and Compensation

The Embassy is unaware of any expropriation of foreign investment since 1989. Government acquisition of property is done only for public purposes in a non-discriminatory manner, and in full compliance with international law. It is unlikely that any investor losing property due to a governmental action would not receive full compensation.

Potential investors should first ensure they have clear title to all land and property associated with potential projects. The process of tracing the history of property and land acquisition can be complex and time-consuming, but it is necessary to ensure clear title. Title insurance is still a relatively new concept in the Czech Republic. Investors participating in privatization of state-owned companies are protected from restitution claims through a binding contract signed with the government.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

The Czech commercial code and civil code are largely based on the German legal system which follows a continental legal system where the principle areas of law and procedures are codified. The commercial code details rules pertaining to legal entities and is analogous to corporate law in the United States. The civil code deals primarily with contractual relationships among parties.

As of January 1, 2014 the Czech Commercial Code, Act No. 513/1991 Coll. (former Czech Commercial Code), ceased to exist; some areas which were regulated by the former Czech Commercial Code are newly governed by the new Czech Civil Code, Act. No. 89/2012 Coll, while other parts have been abolished. The new Czech Act on Business Corporations, Act No. 90/2012 Coll. (Corporations Act) has stepped in to govern those areas which are specifically concerned with trading companies and cooperatives.

Matters related to the Czech Commercial Register are governed by Act No. 304/2013 Coll., on public registers of legal entities and individuals. The new Czech Act on Business Corporations introduces substantial changes to Czech corporate law. Detailed provisions for mergers and time limits on decisions by the authorities on registration of companies are covered, as well as protection of creditors and minority shareholders.

The judiciary is independent, but decisions may vary from court to court. The reason for diverse legislative approaches may well be the fact that the new Civil Code does not only rewrite the system but also introduces new terminology. Consequently, the two substantive laws, the Penal Code and the Civil Code, have been adopted without a new procedural law to explain how the laws should be applied, which would allow courts to proceed according to a clearly outlined jurisdiction. Some observers ascribe the variances to the lack of a procedural law to delineate application of the Penal and Civil Codes.

Bankruptcy

The bankruptcy law addresses important structural impediments such as the slow and uneven performance of the courts, weakness of creditors' legal standing, and the lack of provisions for corporate restructuring. According to local legal experts, the law shortened court proceedings and made them much more transparent, gave a stronger position to creditors, and incorporated some elements designed to increase efficiency. The latest issue of the World Bank´s Doing Business Report ranked the Czech Republic 17th for ease of resolving insolvency, placing it ahead of many fellow EU member states.

Investment Disputes

Post is aware of only one-- and still ongoing -- investment dispute during the last ten years. In 1993 the Czech Republic became a member state to the International Centre for Settlement of Investment Disputes (ICSID Convention). The 1993, U.S.-Czech Bilateral Investment Treaty contains provisions regarding the settling of disputes through international arbitration.

International Arbitration

ICSID Convention and New York Convention

The Czech Republic is a signatory and contracting state to the International Centre for Settlement of Investment Disputes (ICSID Convention) They have also ratified the convention on the Recognition and Enforcement of Arbitral Awards (1958 New York Convention). This convention obligates local courts to enforce a foreign arbitral award if it meets the legal criteria. Applications for enforcement of foreign judgments can be made to Czech courts and are determined in accordance with a bilateral recognition treaty, agreement or convention, if such does not exist, then in a manner which is consistent with Czech law. Judgments rendered in other EU countries are enforceable in accordance with applicable EU regulations.

Duration of Dispute Resolution

Legal proceedings for commercial disputes can last six years or longer for the most complex cases involving multiple appeals. However, many cases reportedly are resolved within one to three years.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

The Czech Republic is a party to the Agreement on Trade-Related Investment Measures (TRIMS).

Investment Incentives

The Czech Republic investment incentives are available to both Czech and foreign investors. The Czech Republic offers incentives to foreign and domestic firms that invest in the manufacturing sector, technology, research and development centers, business support service centers, etc. Standard incentive packages include relief from corporate income taxes for up to ten years, job-creation grants, re-training grants, and opportunities to obtain low-cost land. Financial grants for job-creation and/or re-training are provided to those firms operating in regions where the annual unemployment rate exceeds the national average by at least 50 percent. Strategic investments in the manufacturing or technology sectors, are eligible for potential cash grants of capital investment for up to 5 percent of declared value, with a maximum of USD 75 million (for investments in the manufacturing sector), or USD 25 million (for technology center-related investments).

For more information consult CzechInvest's Investment Climate Report at http://www.czechinvest.org/data/files/investment-climate-en-2015-53-en.pdf, or contact CzechInvest directly at +420 296 342 674, incentives@czechinvest.org, or www.czechinvest.org.

Research and Development

In the past fifteen years, the Czech Republic's expenditure in R&D has increased from less than 1 percent to nearly 2 percent of GDP, making it a regional R&D leader. After the entry of the Czech Republic into the EU, the inflow of structural funds into the R&D sector accelerated the development of new science and technology parks. These include the Central European Institute of Technology in Brno, focusing on life sciences and advanced materials and technologies; the International Clinic Research Centre in Brno which is focused on cardiovascular and neurological diseases; the IT4Innovations in Ostrava, a super computer facility combining IT research and applications; and two science parks located close to the capital of Prague – the Biotechnology and Biomedicine Centre and the Extreme Light Infrastructure (ELI) Beamlines. ELI Beamlines is a high-powered laser system which will support cutting-edge research and innovations in medicine, biology, physics, and material sciences. The Lawrence Livermore National Laboratory in California provided the Czech Academy of Sciences (Institute of Physics) with an initial laser for about USD 46 million, out of a total project cost of USD 340 million. In

2014 the American company National Energetics, along with its Lithuanian partners, signed a deal to provide the Academy with another laser, valued at USD 48 million. Honeywell invested USD 10 million in 2015 in new labs at their R&D Center of Excellence in Brno, making it the largest Honeywell R&D Center in Europe.

Performance Requirements

Post is not aware of any performance requirements mandated by the Czech government for foreign investors, with the possible exception of those that receive investment incentives from the Czech government.

Data Storage

Data storage is governed by EU standards.

6. Right to Private Ownership and Establishment

As of early 2012, U.S. and other non-EU nationals can purchase real property, including agricultural land, in the Czech Republic without restrictions. Czech legal entities, including 100 percent foreign-owned subsidiaries, may own real estate without any limitations. The right of foreign and domestic private entities to establish and own business enterprises is guaranteed by law in the Czech Republic. Enterprises are permitted to engage in any legal activity with the previously noted limitations in some sensitive sectors. Laws on auditing, accounting and bankruptcy are in force. These laws include the use of international accounting standards (IAS) for consolidated corporate groups.

7. Protection of Property Rights

Real Property

Real estate (land and buildings) located in the Czech Republic must be registered in the Cadastral Register, which is maintained by the Cadastral Office. The Cadastral Register is the primary source of information on real estate (including related encumbrances, easements or liens). The Cadastral Register, containing information on plots of land and buildings, housing units and non-residential premises, is publicly available and information on a particular property can be obtained from the Cadastral Register. Transfer of ownership title to real estate (e.g., sale and purchase agreement) is effective from the date of execution of a written agreement and registration of the transfer of the ownership title in the Cadastral Register. The Czech Republic has improved from 37th place in 2013 to 31 in 2015 for ease of registering property in the annual World Bank´s Doing Business Index.

Intellectual Property Rights

The Czech Republic is a signatory to the Bern, Paris, and Universal Copyright Conventions. In 2001, the government ratified the World Intellectual Property Organization (WIPO) Copyright Treaty and the WIPO Treaty on Performances and Phonograms. Domestic legislation protects all intellectual property rights, including patents, copyrights, trademarks, industrial designs, and utility models. Amendments to the trademark law and the copyright law have brought Czech law into compliance with relevant EU directives and WTO Trade-Related Aspects of Intellectual Property Rights (TRIPS) requirements. The civil procedure code provides for ex parte search and seizure in enforcement actions. Literary works enjoy copyright protection from 50 to 70 years. The customs service and the Czech Commercial Inspection have legal authority to seize counterfeit goods. A 2006 amendment to the Law on Civil Procedure made ex-parte search more accurate, clearer and easier to apply and enforce. The amendment also made it easier to define and recover losses caused to owners by piracy. The Criminal Code which came into effect January 1, 2010, increased maximum penalties for trademark, industrial rights and copyright violations from two to eight years.

Intellectual property rights (IPR) violations at markets on the borders of Germany and Austria were once an issue of greater concern, but since 2008, Czech authorities have made substantial efforts against physical markets and have adopted an acceptable legal framework for IPR protection. In recognition of this fact, USTR removed the Czech Republic from the Special 301 Watch List in 2011. While online piracy is a growing concern, the legal framework for IPR protection has been tested and proven successful in punishing infringers. The Embassy will continue to work with U.S. industry and Czech government officials to strengthen enforcement of intellectual property rights.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO’s country profiles at http://www.wipo.int/directory/en/.

Resources for Rights Holders

The Embassy POC covering IPR issues in the Czech Republic:

Marko Velikonja
Senior Economic Officer
+420 257 022 000

Country/Economy resources:

American Chamber of Commerce (AmCham), address: Dušní 10, Prague 1, Postal Code: 110 00, phone: +420 222 329 430, fax: +420 222 329 433, http://www.amcham.cz/

Association for Foreign Investment, address: Stepanska 11, Prague 2, Postal Code: 120 00, phone: +420 224 911 750-1, http://afi.cz/

CzechInvest, the Investment and Business Development Agency, address: Štěpánská 15, Prague 2, Postal Code: 120 00, phone: +420 296 342 500, fax: +420 296 342 502, www.czechinvest.org

Czech Chamber of Commerce, address: Freyova 27, Prague 9, Postal Code: 190 00, phone: +420 266 721 300, fax: +420 266 721 532, http://www.komoracz.eu/

Ministry of Industry and Trade of the Czech Republic, address: Na Františku 32, Prague 1, Postal Code: 110 15, phone: +420 224 851 111, fax: +420 224 811 089, www.mpo.cz

Commercial Register, address: Vyšehradská 16, Prague 2, Postal Code: 128 10, phone: +420 221 997 111, fax: +420 224 919 927, www.justice.cz

Trade Register, www.rzp.cz

Ministry of Finance of the Czech Republic, address: Letenská 15, Prague 1, Postal Code: 118 10, phone: +420 257 041 111, www.mfcr.cz

Czech National Bank, postal address: Na Příkopě 28, Prague 1, Postal Code: 115 03, phone: +420 224 411 111, fax: +420 412 404, filing room address: Senovážná 3, Prague 1, Postal Code: 115 03, www.cnb.cz

Ministry of Foreign Affairs of the Czech Republic, Doing Business Guide including contact information for investors: https://www.mzv.cz/beijing/cz/obchod_a_ekonomika/kdo_jsme_a_kde_nas_najdete/all_you_have_to_know_about_doing/index.html

8. Transparency of the Regulatory System

Tax, labor, environment, health and safety, and other laws generally do not distort or impede investment. Policy frameworks are consistent with a market economy. All laws and regulations are published before they enter into force. Opportunities for prior consultation on pending regulations exist, and all interested parties, including foreign entities, can participate. A biannual governmental plan of legislative and non-legislative work is available on the Internet, along with information on draft laws and regulations (often only in the Czech language). Business associations, consumer groups and other non-governmental organizations, including the American Chamber of Commerce, can submit comments on laws and regulations.

A 2014 OECD Country Economic Survey notes that, since joining the EU, the Czech Republic has made progress in improving its inconsistent competition policy and removing bureaucratic barriers that inhibit competition. The competition framework is on par with OECD best practices, but successful prosecution of cartels has rarely happened. The OECD survey is available at: http://www.oecd.org/czech/economic-survey-czech-republic.htm.

9. Efficient Capital Markets and Portfolio Investment

Money and Banking System, Hostile Takeovers

Large domestic banks belong to European banking groups. Most operate conservatively and concentrate almost exclusively on the domestic Czech market. As a result, Czech banks remained relatively healthy throughout recent global financial crisis. Results of regular banking sector stress tests, as conducted by the Czech National Bank (CNB), repeatedly confirm the outstanding state of the Czech banking sector, presenting a capital adequacy ratio exceeding 18 percent, on average, which is deemed sufficient resistance to potential shocks. Stress test conditions developed by the CNB present substantially stricter criteria than those set up by the European Central Bank (ECB). As of December 31, 2014, the total assets of commercial banks stood at CZK 5.31 trillion (approximately USD 213 billion), according to the CNB. Foreign investors have access to bank credit on the local market, and credit is generally allocated on market terms. Domestic household borrowing in foreign currencies is negligible. In 2002, banks established a mechanism for sharing credit histories of borrowers.

The issue of hostile takeovers is covered by the EU Directive 2004/25/EC on Takeover Bids. The copy of this document is available at: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2004:142:0012:0023:EN:PDF

The Prague Stock Exchange (PSE) is small, with only 14 companies listed. The overall trade volume of stocks dropped from CZK 174.7 billion (USD 7.0 billion) in 2013 to CZK 153.5 (USD 6.1 billion) in 2014, with an average daily trading volume of CZK 614 million (USD 24.6 million). The PSE index (PX) weakened by 4.3 percent in 2014, similar to index movements recorded on the European and world stock markets. The PX development trend reflected lower activity as well as decreasing liquidity on the PSE.

In March 2007, the PSE created the Prague Energy Exchange (PXE) to trade electricity in the Czech Republic and Slovakia and, later, Hungary. (The Exchange's official name now is Power Exchange Central Europe) PXE's goal is to increase liquidity in the electricity market and create a standardized platform for trading energy.

A new securities law was adopted in 2001 to improve regulation of brokers and dealers. In 2006, supervision over banks, capital markets, insurance houses and pension funds were combined under the umbrella of the Czech National Bank http://www.cnb.cz/en/index.html.

10. Competition from State-Owned Enterprises

The Ministry of Finance generally has oversight of SOEs. Issues of potentially conflicting interests are covered by existing Act No. 159/2006 on Conflict of Interests. Legislation on the civil service took effect January 1, 2015 establishing measures to prevent political influence over public administration, including operation of SOEs.

Private enterprises are generally allowed to compete with public enterprises under the same terms and conditions with respect to access to markets, credit, government contracts and other business operations, although there are frequent accusations that large domestic companies – including both SOEs and private firms – use their political clout and connections to gain unfair advantage. SOEs are subject to the same domestic accounting standards, rules and taxation policies as their private competitors. State-owned or majority state-owned companies are present in several (strategic) fields, including the energy, postal service, information & communication, and transport sectors. The Czech state also owns interests in two small banks, and in an insurance house. One of the banks and the insurance house specialize in export financing; their services are available to both private firms and SOEs.

SOEs are usually structured as joint-stock companies. They do not report directly to ministries but are managed by a Board of Directors (statutory body) and a Supervisory Board that generally includes representatives of both the government and the private sector. Like privately owned joint-stock companies, the SOEs are fully responsible for their obligations towards third parties although shareholders are not personally liable for a company's obligations. SOEs are required by law to publish an annual report and disclose their accounting books, and submit to an independent audit.

Private enterprises and SOEs carry out procurement in accordance with the Act on Public Procurement No 137/2006 (http://www.portal-vz.cz/getmedia/f93961f9-8ea1-41dc-852f-154e657e791e/137-2012-AJ-KZ-_2) which is fully harmonized with the existing EU Directive No 2004/18 on Public Procurement. In harmony with the long-term efforts to secure single rules for public procurement purposes, the EU has recently adopted a reform of the public procurement policy. This includes a package of three proposals on public procurement directives, approved by the European Parliament on January 15, 2014. If they receive European Council approval, new directives should become part of Czech legislation within two years.

A list of some 50 state-owned or majority state-owned companies is available at: http://www.mfcr.cz/cs/verejny-sektor/hospodareni/majetek-statu/2015/majetkove-ucasti-ministerstva-financi-ke-20805.

OECD Guidelines on Corporate Governance of SOEs

As an OECD member, the Czech Republic promotes the OECD Principles of Corporate Governance and the affiliated Guidelines on Corporate Governance for SOEs. SOEs are subject to the same legislation as private enterprises regarding their commercial activities. Corporate Governance rules are covered by:

Act on Criminal Liability of Legal Entities
Act on Corporations
(New) Civil Code
Act on Capital Markets
Act on Audit
Act on Banks
Money Laundry Act
Public Procurement Act

In 2004, an Administration and Management Code was developed based on the OECD Principles of Corporate Governance to set up standards of operation for business entities and their relation to shareholders, investors, creditors and auditors. As a result of numerous subsequent legislative updates, corporate governance rules are now in the process of being modified to reflect current trends in corporate administration and management, as well as to meet new rules (to be) adopted by the EU, such as on obligatory provision on data collection.

Information on Corporate Governance principles is available on the web sites of the Ministry of Industry and Trade, http://www.mpo.cz/zprava11127.html, and the Corporate Governance Institute http://www.governance.cz/cs/.

Sovereign Wealth Funds

The Czech government does not operate any sovereign wealth fund.

11. Corporate Social Responsibility

Corporate Social Responsibility (CSR) is a burgeoning concept in the Czech Republic. The emphasis on strategic CSR is driven mainly by private companies, especially by international corporations with a local presence in the Czech Republic. These large companies are utilizing their knowledge, skills, and models from abroad. Czech small and medium-sized companies have developed their own CSR programs, generally focusing on an employee-friendly work atmosphere and on reducing their environmental impact. A number of Czech company owners, additionally, engage in private philanthropy, particularly in areas related to their business activities. While companies are not required to publicly disclose information about their CSR, most gladly promote their efforts, for example by applying for prestigious CSR awards.

In April 2014, the Czech government approved a National Action Plan (NAP) for CSR. The strategy was drafted by the Ministry of Industry and Trade in cooperation with NGOs and private companies with significant CSR programs. The purpose of the NAP is to set ground rules and to support and promote business' uptake of CSR, employing the risk-based 'due diligence' approach of the UN Guiding Principles for Business and Human Rights, as well as the OECD Guidelines for Multinational Enterprises.

OECD Guidelines for Multinational Enterprises

As an Organization for Economic Cooperation and Development (OECD) member the Czech Republic adheres to the OECD Guidelines for Multinational Enterprises; the National Contact Point resides in the Ministry of Trade and Industry. Contact information here: http://mneguidelines.oecd.org/ncps/czechrepublic.htm

12. Political Violence

The risk of political violence in the Czech Republic is extremely low. Two historic political changes – the Velvet Revolution, which ended the communist era in 1989, and the division of Czechoslovakia into the Czech Republic and Slovakia in 1993 – occurred without loss of life or significant violence.

13. Corruption

Current law criminalizes both giving and receiving of bribes, regardless of the perpetrator's nationality. Prison sentences for bribery or abuse of power can be as high as twelve years for officials, and police investigate bribery with tools such as wire-tapping. Corruption of public officials is prosecuted on the regional level to ensure that prosecutors have specialized knowledge and avoid bias; the government believes that regional prosecutors know the local environment and actors better that their colleagues on the national level. The special Organized Crime Police Unit (UOOZ) and the Unit for Combating Corruption and Serious Financial Criminality (UOKFK) are primarily responsible for investigating high-level corruption cases.

Bribes are not tax deductible, and all anti-corruption laws apply equally to Czech and foreign investors. Criminal procedure law allows for the seizure of criminal proceeds paid or transferred to family members of corrupt officials, although their prosecutions depend on evidence.

In 2013, the government canceled the lifetime immunity of politicians, abolished anonymous bearer shares, and abandoned the practice of losovacka (lottery), which had allowed the government to limit the number of bidders in public procurements by drawing lots. The Necas government, however, collapsed in the wake of its own corruption scandal in June 2013.

In October 2013, the caretaker cabinet of Prime Minister Jiri Rusnok approved an anti-corruption program that applies to all governmental departments and offices and went into effect immediately. Government agencies had three months to bring themselves into compliance with the program, which included the introduction of internal codes of conduct. Many international companies have effective internal controls, ethics, and compliance programs in place to detect and prevent bribery.

The current government has proclaimed fighting corruption as one of its priorities, and to that end, has been working on anti-corruption legislation. It has passed an amendment to the law on public procurement a new law on the register of public tenders is expected to be submitted to the Chamber of Deputies in 2015. In addition, a new law on the public prosecution service that envisages a more independent prosecutor is currently going through the intergovernmental review procedure as of April 2015.

Despite the anti-corruption efforts of NGOs and other concerned stakeholders, inadequate legislation on financial disclosure, weak campaign finance rules, and limited funding for investigations continues to limit the ability of authorities to root out corruption.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

A law introducing criminal liability for legal entities came into effect on January 1, 2012. The government ratified the OECD Anti-Bribery Convention in January 2000 and the UN Convention Against Corruption (UNCAC) in January 2014. According to Transparency International (TI) reports, there is little or no enforcement of the OECD Convention in the Czech Republic. TI cites insufficient definition of foreign bribery offenses, jurisdictional limitations, lack of coordination between investigation and enforcement entities, inadequate whistleblower protection, and lack of awareness as the causes for this lack of enforcement.

The Czech Republic became a member of the Open Government Partnership in 2011, and in 2012 approved an Action Plan including the adoption of an Act on Civil Servants, which was intended to lead to a system allowing freer access to information and publication of data. Yet due to the 2013 collapse of the Necas Government, none of the goals have been fulfilled.

In 2013 a new anti-corruption initiative called Reconstruction of the State was launched. This confederation of nearly 20 locally-renowned anti-corruption organizations has worked towards strong anti-corruption reform in the Czech Republic and has successfully advocated for the adoption of six new pieces of anti-corruption legislation.

Despite widespread concern about corruption, U.S. companies have not been significantly deterred from investing in the Czech Republic. The most common allegations of corruption relate to public procurement and external pressures on the judiciary. An April 2012 procurement reform law lowered the threshold for application of procurement rules to contracts valued at one million Czech crowns (USD 50,000) for services and three million crowns (USD 150,000) for construction, although the Senate later amended it by raising the threshold by 10 percent. The law requires more than one bidder for all procurements and mandates that the tender be published. The law also requires bidders to disclose more of their ownership structure in the bidding process, but it contains some exceptions to that obligation. American businesses have also cited inconsistent competition policies as an investment obstacle.

An amendment to the Law on the Central Registry of Contracts is currently being debated by the government. The amendment proposes to require all national, regional and local authorities and companies to make public all newly concluded contracts valued at CZK 50,000 (USD 2,000) or more. If the amendment is passed by the Parliament, it would be effective as of January 1, 2016.

Resources to Report Corruption

Contact at government agency responsible for combating corruption:
Eva Kyzourova
Department for Combating Corruption
Office of the Government
Vladislavova 4
11000 Praha 1
+420 224 002 412
sekretariat.brs@vlada.cz

Contact at watchdog organization:
David Ondracka
Director
Transparency International Czech Republic
Sokolovska 260/143
+420-224 240 895
ondracka@transparency.cz

14. Bilateral Investment Agreements

The Czech Republic and United States share a bilateral investment treaty (BIT). The former government of Czechoslovakia signed the original BIT with the United States in 1992, and the Czech Republic adopted this treaty in 1993, after the split with Slovakia. The Czechs amended the treaty in 2003, along with other new EU entrants which had U.S. BITs, following negotiations with the European Commission about conflicts within the EU acquis communautaire.

Several dozen other countries have signed and ratified investment agreements with the Czech Republic, and some are in the process of ratification. The Czech Republic has abrogated several treaties – mostly those with other/new EU member states, in accordance with the EU determination that, given the Commission's new investment competence under the Lisbon Treaty, investment treaties among member states are now inconsistent with EU legislation. The full list of agreements, including ratification dates, can be found on the Ministry of Finance website http://www.mfcr.cz/cs/legislativa/dohody-o-podpore-a-ochrane-investic/prehled-platnych-dohod-o-podpore-a-ochra.

Bilateral Taxation Treaties

A bilateral U.S.-Czech Convention on Avoidance of Double Taxation has been in force since 1993. In 2007 the U.S. and Czech governments signed a bilateral Totalization Agreement that exempts Americans working in the Czech Republic from paying into both the Czech and U.S. social security systems. The agreement entered into force on January 1, 2009. In 2013 the U.S. and Czech governments signed a Supplementary Totalization Agreement amending the original agreement to reflect new Czech legislation on health insurance. In 2014, the U.S. and the Czech Republic signed an Agreement on Improvement of International Tax Compliance and to Implement FATCA (the Foreign Account Tax Compliance Act).

15. OPIC and Other Investment Insurance Programs

Finance programs of the Overseas Private Investment Corporation (OPIC), including investment insurance, have been available in the Czech Republic since 1991. Investors are urged to contact OPIC's offices in Washington directly for up-to-date information regarding availability of services and eligibility. The OPIC Info Line (202) 336-8799 offers general information 24 hours a day. Application forms and detailed information may be obtained from OPIC, 1100 New York Avenue, NW, Washington D.C. 20527. The Czech Republic is a member of the World Bank Group's Multilateral Investment Guarantee Agency (MIGA).

16. Labor

The wide availability in the Czech Republic of an educated, relatively low-cost labor force on the doorstep of Western Europe has been a major attraction for foreign investors. While the wage gap continues to narrow, the income convergence process was slowed due to the recession. According to the Czech Statistical Office, 67.7 percent of Czechs from age 15-64 were employed in 2013, and the general unemployment rate was 6.1 percent. According to Eurostat, this is the fifth lowest unemployment rate in the EU. However, unemployment rates vary significantly between regions. In September, 2014, the unemployment rate was lowest in Prague (5.1 percent) and highest in the northwestern region of Ústí nad Labem (10.9 percent).

Freedom of Association and the Right to Collective Bargaining

Czech law guarantees workers' rights to form and join independent unions of their choice without authorization or excessive requirements. It permits them to conduct their activities without interference. The right to freely associate covers both citizens and foreign workers. The law also provides for collective bargaining. It prohibits anti-union discrimination and does not recognize union activity as a valid reason for dismissal. Workers in most occupations have the legal right to strike if mediation efforts fail, and they generally exercise this right.

Strikes can be restricted or prohibited in essential service sectors such as hospitals, electricity/water supply services, air traffic control, the nuclear energy sector, and oil /natural gas sectors. Members of the armed forces, prosecutors, and judges may not form trade unions or strike. The scope for collective bargaining is limited for civil servants, whose wages are regulated by law. Only trade unions may legally represent workers, including non-members.

Prohibition of Child Labor and Minimum Age for Employment

The minimum age for employment is 15. Employment of children between the ages of 15 and 18 is subject to strict standards of safety, limitations on hours of work, and the requirement that work not interfere with education. Infringement of child labor rules is subject to fines up USD 100,000. The State Bureau for Labor Inspections (SBLI) effectively enforced these regulations. The SBLI has not reported any recent cases of child labor law violations.

Acceptable Conditions of Work

The law provides for a 40-hour workweek, two days of rest per week, and a break of at least 30 minutes during a standard eight-hour workday. Employees are entitled to at least 20 days of paid annual leave. Employers may require up to eight hours per week of overtime to meet increased demand but not more than 150 hours of overtime in a calendar year. Additional overtime is subject to employee consent. The provisions of the labor code govern premium pay for overtime, which is equal to at least 125 percent of the average earnings.

The Ministry of Labor and Social Affairs establishes and enforces minimum wage standards. During the year the national minimum wage increased from USD 340 to USD 367 per month (Note: The wage increased from CZK 8,500 to 9,200 per month, but the dollar value has declined due to depreciation of the Czech Crown against the U.S. Dollar). By comparison, the minimum subsistence cost, defined as the minimum amount needed to satisfy the basic needs of a working-age adult for a month, was USD 136. Enforcement of the minimum wage was one of the primary objectives of SBLI inspections.

The government sets occupational health and safety standards. The labor code obliges an employer to provide safety and health protection in the workplace, maintain a safe and healthy work environment, and prevent health and safety risks.

17. Foreign Trade Zones/Free Ports/Trade Facilitation

Both Czech and EU laws permit foreign investors involved in joint ventures to take advantage of commercial or industrial customs-free zones into which goods may be imported and later exported without depositing customs duty. Free zone treatment applies to both non-Community and Community goods, and duties need to be paid only in the event that the goods brought into the free zone are introduced into the local economy. However, since the Czech Republic has been part of the single customs territory of the European Community, and offers various exemptions on customs tariffs, the use of these 11 free-trade zones has declined.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	**Year**	**Amount**	**Year**	**Amount**	
Host Country Gross Domestic Product (GDP) ($B USD)	2013	208.8	2013	162.6	www.worldbank.org/en/country

Foreign Direct Investment	**Host Country Statistical source***		**USG or international statistical source**		**USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other**
U.S. FDI in partner country ($M USD, stock positions)	2013	5,006.7	2013	6,196	http://bea.gov/international/factsheet/factsheet.cfm?Area=364
Host country's FDI in the United States ($M USD, stock positions)	2013	40.2	2013	82	http://bea.gov/international/factsheet/factsheet.cfm?Area=364
Total inbound stock of FDI as % host GDP	2014	2.88	2013	3.8	World Bank

Source: Czech National Bank

Table 3: Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations *(US Dollars, Millions)*					
Inward Direct Investment			**Outward Direct Investment**		
Total Inward	135,627	100%	Total Outward	21,243	100%
Netherlands	40,830	30%	Netherlands	10,621	50%
Germany	16377	12%	Slovak Republic	2,301	11%
Austria	20,386	15%	Cyprus	1,468	8%
Luxembourg	8,554	6%	Romania	1,284	6%
Switzerland	6,127	5%	Bulgaria	421	2%
"0" reflects amounts rounded to +/- USD 500,000.					

Source: IMF Coordinated Direct Investment Survey

Table 4: Sources of Portfolio Investment

The top five sources and destinations for Czech inward and outward FDI are fellow EU member states that are already closely linked with the Czech Republic in trade relations. The majority of both inward and outward direct investment flows to/from the Netherlands. In the early 1990s, the Netherlands became a popular place for corporate registration for domestic and foreign businesses active in the Czech Republic. In past years, the main rationale for registering a business in the Netherlands related to favorable corporate income taxes, stimulating rapid development of offshore corporate structures in the Czech Republic. While the tax haven effect has dissipated (corporate income tax rates in the Czech Republic and Netherlands are nearly equal), the Netherlands remains a popular country for large corporations. Luxembourg attracts Czech businesses for the same reason. In 2013, 4,500 out of 12,000 Czech companies registered abroad resided in the Netherlands. Among the other FDI partner countries, Cyprus offers the lowest level of corporate income tax in the EU (12.5 percent as of 2014), and tax exemption of dividends. Nevertheless, all corporations are required to have an independent audit of their accounting.

These statistical distortions should dissipate in future years with the global adoption of the recently revised OECD Benchmark Definition for FDI, which is designed to discount investment flows from special purpose entities.

Portfolio Investment Assets

Top Five Partners (Millions, US Dollars)

Total			**Equity Securities**			**Total Debt Securities**		
All Countries	28.361	100%	All Countries	12,845	100%	All Countries	15,516	100%
Slovak Republic	3,848	14%	Luxembourg	3,608	28%	Slovak Republic	3,473	22%
Luxembourg	4,243	15%	Belgium	2,319	18%	Netherlands	2,119	14%
Austria	4,058	14%	Austria	1,908	15%	Austria	2,150	14%
Netherlands	2,229	8%	United States	1,306	10%	United States	934	6%
Belgium	2,473	9%	Ireland	663	5%	Poland	915	6%

Source: IMF Coordinated Portfolio Investment Survey

19. Contact for More Information

Marko Velikonja
Senior Economic Officer
Trziste 15, 118 01 Prague 1
+420 257 022 000