

# Foreign Direct Investments – A Key Prerequisite for Economic Growth – Case of the Czech Republic

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# Content of the presentation

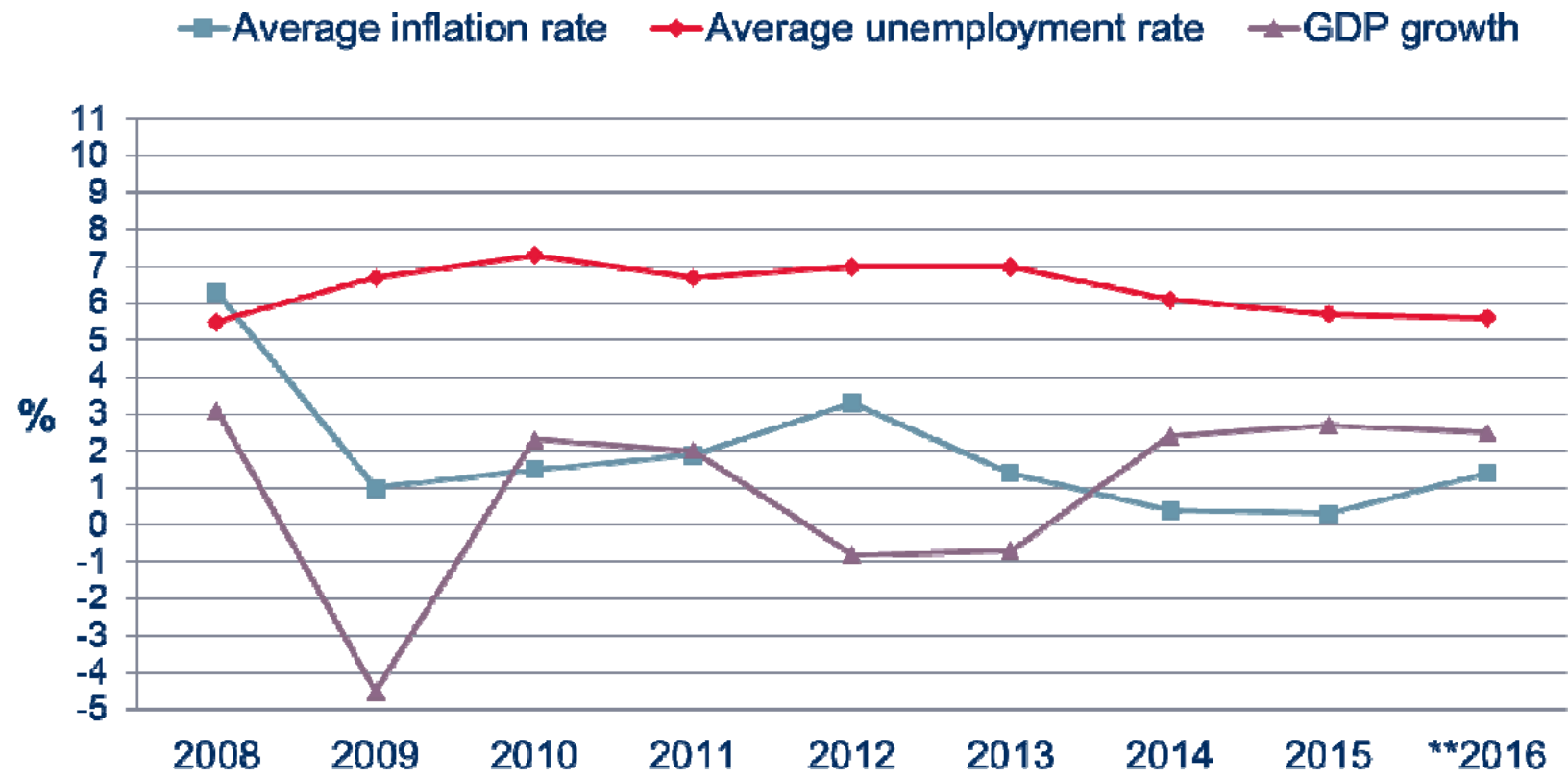
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- Czech Republic – selected data
- historical overview – waves of FDI
- overview of FDI in the Czech Republic
- important factors for attracting FDI
- scheme of incentives in the Czech Republic to attract FDI

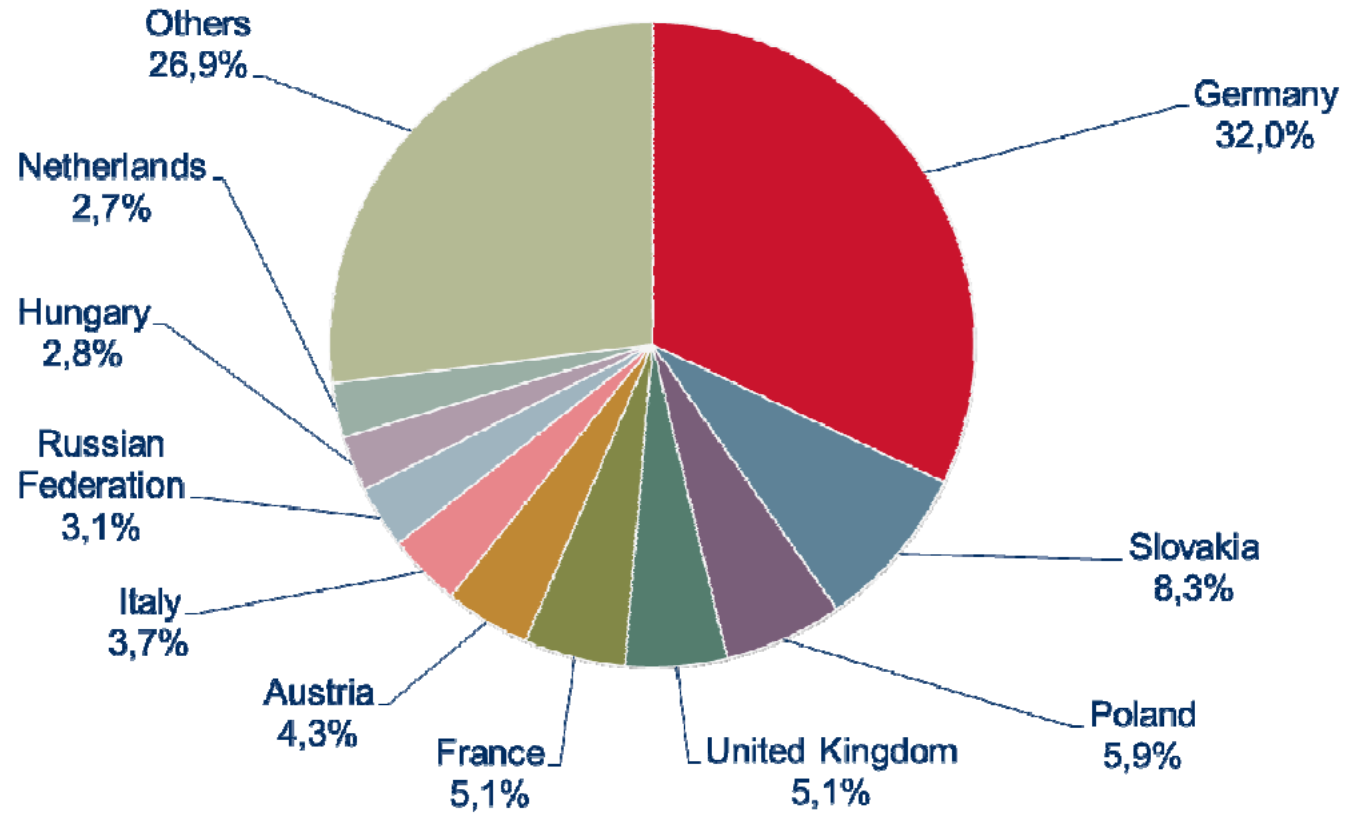
# Czech Republic – selected data

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- population – 10.5 million
- labour force – 5.3 million
- GDP per capita (2013) – 14.200 EUR – (84% of the EU average)
- unemployment – 4.5% - lowest in the EU
- average salary in 2015 – 964 EUR
- inflation in 2015 – 0,6 %
- FDI – 89 billion EUR since 1993
- stock of FDI – 66 % of GDP



## Export Destinations in 2014 (share of total exports )



# Historical overview

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## 1. privatization:

- Small – foreign investors denied access
- Large privatization
  - Direct sales – around 60 companies directly sold to foreign companies
  - Public tenders
  - Voucher method

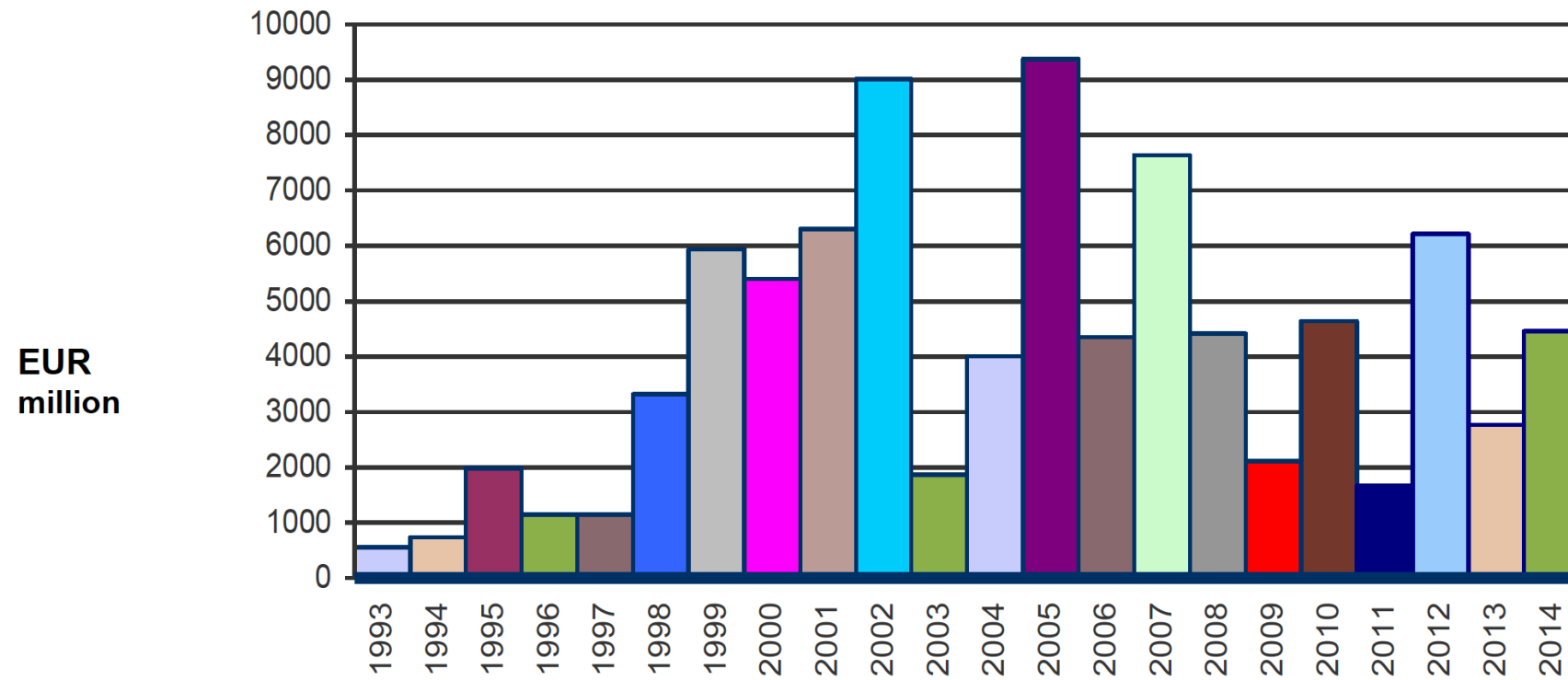
## 2. “second round” of privatization

## 3. restructuring and privatization of banks

## 4. FDI era

- (hard investments) - telecommunications, manufacturing, real estate
- (soft investments) – technology centers, business support services

## INFLOW OF FOREIGN DIRECT INVESTMENT TO THE CZECH REPUBLIC



Source: Czech National Bank, April 2015

## Inward FDI stock per capita in EUR

	2007	2008	2009	2010	2011	2012	2013
<b>Czech Republic</b>	7,380	7,798	8,347	9,169	8,870	9,838	9,383
Slovakia	5,405	6,731	6,766	6,985	7,434	7,818	7,903
Hungary	6,475	6,226	6,851	6,804	6,654	7,921	8,163
Poland	3,043	2,895	3,184	4,002	3,816	4,427	4,687

Source: wiiw FDI Report, September 2014

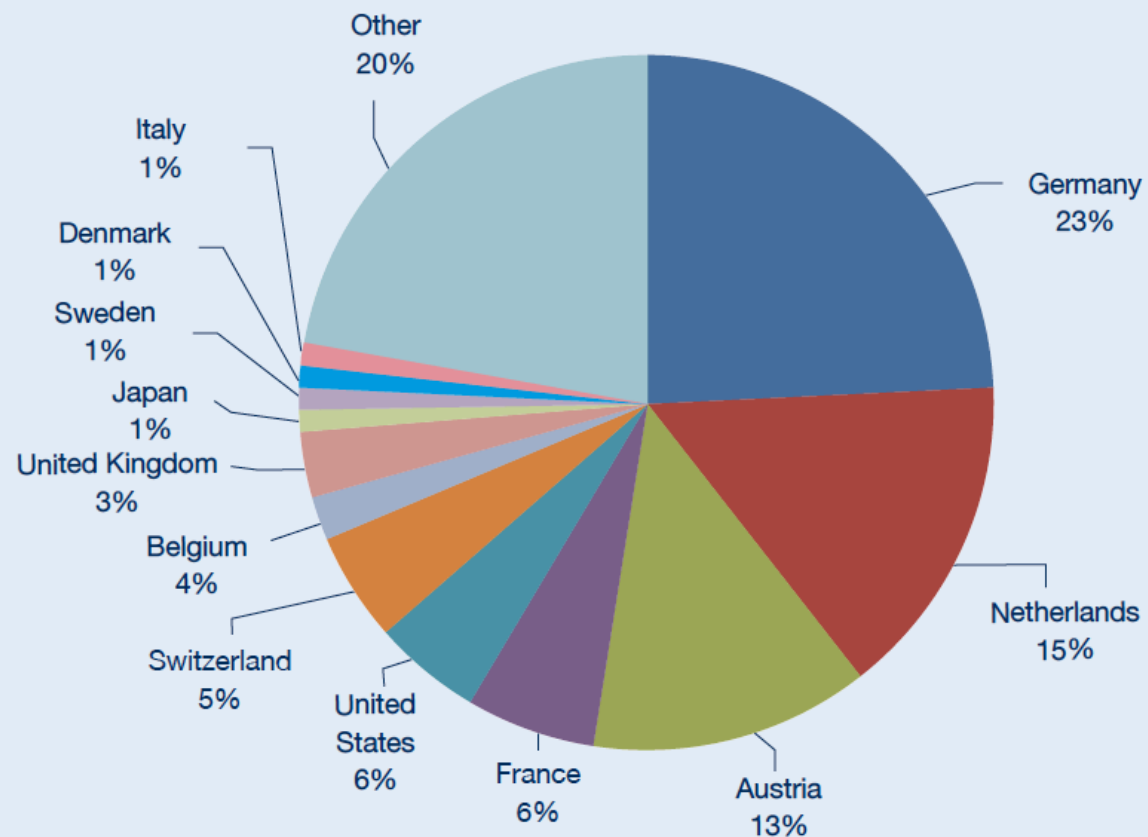
## Inward FDI stock as a percentage of GDP

	2007	2008	2009	2010	2011	2012	2013
<b>Czech Republic</b>	57.9	52.7	61.4	64.1	59.9	67.7	66.0
Slovakia	53.0	56.2	58.1	57.2	58.2	59.5	59.3
Hungary	65.4	59.2	75.1	70.6	66.8	80.9	82.2
Poland	37.3	30.4	39.1	43.1	39.7	44.7	46.3

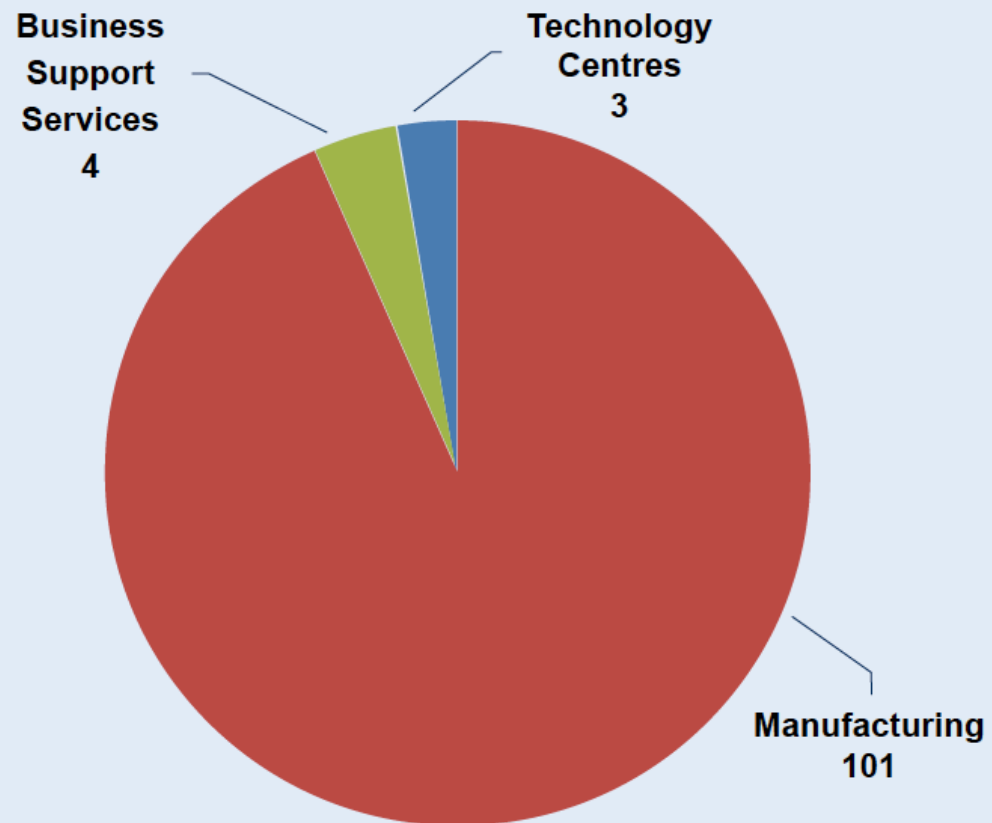
Source: wiiw FDI Report, September 2014



## Cumulative FDI Inflow by Country 1993-2013 (Total 85.57 billion EUR; Total 101.42 billion USD)



## Number of CzechInvest's Projects by Type of Activity 2013



FDI top sectors in the Czech Republic, January 2003 – December 2014

Sector	Projects	Investment (USD million)	Jobs
Automotive Components	214	5,783.6	44,097
Financial Services	138	4,292.7	8,825
Textiles	115	1,053.7	9,980
Industrial Machinery, Equipment & Tools	107	2,279.5	17,327
Food & Tobacco	107	2,601.8	15,068
Software & IT services	101	1,482.3	10,293
Transportation	96	2,133.9	7,467
Consumer Products	95	2,736.7	24,073
Business Services	81	310.5	2,101
Real Estate	78	7,098.8	56,588
Electronic Components	65	1,580.1	21,797
Plastics	61	970.7	7,771
Communications	55	2,004.1	5,028
Consumer Electronics	53	735.5	12,059
Automotive OEM	53	5,409.0	27,910
Metals	47	1,308.1	4,543
Pharmaceuticals	44	561.2	2,310
Hotels & Tourism	31	1,005.8	6,408
Coal, Oil and Natural Gas	31	2,087.3	3,189
Business Machines & Equipment	25	625.8	7,021
Others	192	9,675.1	25,999
<b>Total</b>	<b>1,789</b>	<b>55,736.6</b>	<b>319,854</b>

## Top investment projects mediated by CzechInvest

Company	Source country	Type of activity
Nexen Tire Corporation	South Korea	Rubber
Hyundai	South Korea	Automotive
Toyota/PSA	Japan/France	Automotive
Volkswagen	Germany	Automotive
Denso	Japan	Automotive
Caterpillar Solar Turbines	USA	Machinery
Eaton	USA	Electronic components
DHL	UK	IT data centre, business support services
Red Hat	USA	IT
IBM	USA	IT, business support services
Honeywell	USA	Aerospace, business support services

# Investment climate

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- political and economic stability, rule of law, law enforcement
- non-discrimination
- investment protection
- protection of property rights
- repatriation of profits
- labour – availability, costs, regulation, education
- taxation
- infrastructure
- investment risk

## **In the overall Global Competitiveness Report 2014–2015, the Czech Republic came...**

- 37th in the competition of 144 countries in the world,
- 2nd in the competition of 10 new member states of the EU

## **The Czech Republic is No. 1 among new member states of the EU in...**

- ✂ the quality of its railroad infrastructure,
- ✂ the quality of its air transport infrastructure,
- ✂ the quality of its electricity supply,
- ✂ the intensity of local competition,
- ✂ business sophistication,
- ✂ ease of access to loans,
- ✂ local supplier quality,
- ✂ the state of cluster development,
- ✂ production process sophistication,
- ✂ the value chain breadth,
- ✂ its capacity to attract and retain talent,
- ✂ its capacity for innovation,
- ✂ company spending on R&D,
- ✂ the availability of research and training services,
- ✂ the availability of scientists and engineers.

# Investment support

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## **Czech Invest agency – established 1992**

- full information assistance
- tailor-made visits
- handling of investment incentives
- access to EU structural funds - implementation of aid programmes financed by the EU and by the state
- business properties identification - Administration of a business-properties database
- business infrastructure development
- search for potential suppliers - administration of a database of Czech suppliers
- care for existing investors - provision of aftercare services to foreign investors who are already operating in the Czech Republic, assurance of support for reinvestments

# Czech Invest – foreign branches

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- USA – New York, San Francisco
- China
- Germany
- Japan
- United Kingdom
- South Korea

# Incentives

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EU regulation:

- Max. 25% of the investment in case of large companies
- Max. 35% in case of medium sized companies
- Max. 45% in case of small companies
- Prague – 0%



# **SUPPORTED AREAS**

## **Industry**

- Introduction or expansion of production in sectors of the manufacturing industry

## **Technology centres**

- Construction or expansion of research and development centres

## **Business support services centres**

Launch or expansion of the activities of:

- Shared-services centres
- Software-development centres
- High-tech repair centres
- Data centres
- Customer support centres (call centres)

## THE NATIONAL INCENTIVES SCHEME

Tax incentive	Corporate income-tax relief for up to ten years for new companies
	Partial corporate income-tax relief for up to ten years for existing companies
Job-creation grants	Financial support for creation of new jobs
Training and retraining grants	Financial support for training and retraining of new employees
Cash grant for capital investment	Financial support in the case of strategic investments in manufacturing or in technology centres
Property tax incentive	Property tax exemption for up to five years

## **Eligibility criteria for the manufacturing industry**

- The investor must invest at least CZK 100 million (approx. \$4 million) within three years. This limit is reduced to CZK 50 million in regions with special state aid and in special industrial zones.
- At least CZK 50 million (CZK 25 million) must be invested in new machinery.
- The investor must create at least 20 new jobs.

### **Strategic investment**

- The investor must invest at least CZK 500 million (approx. \$20 million) within three years.
- At least CZK 250 million must be invested in new machinery.
- The investor must create at least 500 new jobs.

## **Eligibility criteria for technology centres**

- The investor must invest at least CZK 10 million (approx. \$0.4 million) within three years.
- At least CZK 5 million must be invested in new machinery.
- The investor must create at least 20 new jobs.

### **Strategic investment**

- The investor must invest at least CZK 200 million (approx. \$8 million) within three years.
- At least CZK 100 million must be invested in new machinery.
- The investor must create at least 100 new jobs.

## Eligibility criteria for business support service centres

- Creation of at least 20 new jobs at software-development centres and data centres.
  - Creation of at least 70 new jobs at shared-services centres and high-tech repair centres.
  - Creation of at least 500 new jobs at customer support centres (call centres).
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- The maximum state-aid intensity for data centers is 6.25%.
  - Training and retraining grants are not counted towards the maximum state aid intensity, as they are provided as extra cash.

THANK YOU