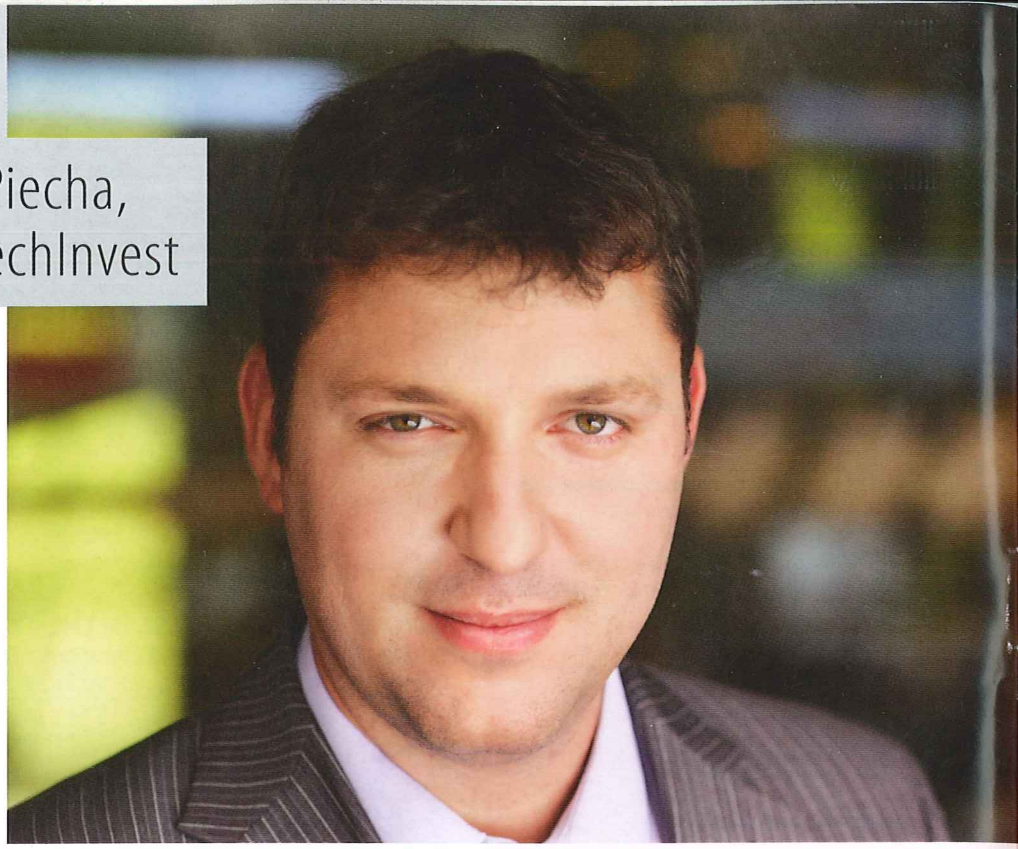
Questions for Marian Piecha, General Director of CzechInvest



Which are the main goals and priorities you have set yourself as General Director of CzechInvest?

My main goal is to bring the Agency back to its former glory days. This means to outline new concepts of attracting investments and to prepare the new programming period. At the same time, I would like to push through the idea of making CzechInvest more project-oriented and also profitable in future. My priority now is to prepare the concept of attracting investment. We must specify what exactly should be done to entice as many investors to the Czech Republic as possible, how we can assist in this and how, for example, the administrative burden could be reduced. This concept naturally also includes business promotional activities.

An investment incentives act amendment is currently being drafted in reaction to the changes made by the European Commission concerning the reduction of public support from 40% to 25%. Within the framework of those changes, CzechInvest would also like to accentuate steps to help increase domestic and foreign direct investments In the Czech Republic. Can you give us more details?

For example, the Investment Incentives Act Amendment provides for an Income Tax allowance for the manufacturing industry and support in the form of an allowance on the sum of wages and a premium for social and health insurance for technological centres and strategic services centres. We are also negotiating other benefits. Financial support of investments, however, is not the only area where more action is needed in relation to potential investors. For example, the support of technical education, shortening of permission procedures and less red tape are also very important.

You are also preparing a concept of investment incentives for 2014 - 2020. Which type of investments do you want to support in particular – domestic or new foreign investments?

We do not like distinguishing between domestic and foreign investments. If they create new jobs, add to the development of the region or provide new opportunities for suppliers, they are equally valuable. Recently, however, a new trend – reinvestment – has been witnessed in this area. This means that foreign firms which entered this country in previous years, now trust the Czech Republic and are enlarging their projects they have already realised here. We are viewing this as a positive signal for potential investors planning higher added value projects, who are still weighing up where to place them. Therefore, in future we want to focus especially on attracting foreign investors whose projects have a good expansion potential.

Which sectors will participate most in the future development of investments?

Currently, the dominant investment projects are those in the automotive industry. I don't think this is a bad thing. The automotive industry has a tradition in the Czech Republic, and it can be seen that we have the adequate number of skilled employees this sector requires. At the same time, however, we do not want to limit ourselves by highlighting certain sectors in advance. No one can deny that many interesting innovations are possible, for example, in the food industry. Nevertheless, one thing is certain, and that is that firms must be open to technological innovations.

In 2012, new investments brought more than CZK 26 billion into the Czech Republic and created over 12,000 new jobs. What are your expectations for this year?

The current flow of investment projects mediated by CzechInvest Agency does not differ much from that which we could witness in 2012. Production is still the dominant sector, but there is a growth in projects and shared services, as well as in technological centres. The leading sectors are the automotive and the rubber and plastics industries. As I have mentioned before, the issue is not the growth of new investments, but expansion. This year, a positive role was played by the Investment Incentives Act Amendment of July 2012, which a large number of firms had been awaiting impatiently.

Which investment projects have given you, personally, the greatest pleasure?

It is hard to pick just a few examples. In general, each investment project which brought along with it new jobs, was a pleasure. But if I were to pinpoint only one, it would be the investment by JC Interiors Czechia, which was the first strategic investment project whose support was approved by the government in October this year, under the 2012 Investment Incentives Act Amendment. This first instance the Triangle Industrial Park in the Louny District heralds the spending of CZK 1.3 billion plus 537 new jobs. I am firmly convinced that it will be an inspiration to others.

Photo: CzechInvest archives

Marian Piecha handing over the award for the Industrial Zone of the Year to representative of CTPark Mladá Boleslav, that won the category within contest Investor of the year 2012 and Business Property of the Year 2012

The Czech Republic Has Withstood Crisis

The Czech economy ranks among the medium-sized economies in the European context. For this reason, it is the price-taker in most commodities, which means that it takes over the world prices and does not have much influence on their sum. On the one hand, this exerts pressure on companies in the case of major changes, but on the other hand, we have learned to be more flexible thanks to this.

Thus, Czech exports are recording the best results ever, the crisis notwithstanding. In 2012, exports totalled a record CZK 3 trillion (approx. EUR 120 billion) and the balance of trade surplus amounted to CZK 310 billion (approx. EUR 12.4 billion/about 8 per cent of GDP). Besides the success of private companies, the response of the government can be praised as well.

DOMESTIC DEMAND CONTINUES TO BE WEAK

Thus, foreign trade has helped us to avoid a much deeper recession than we would have apparently otherwise faced. True, development of the gross domestic product is not gratifying, but it is still much better compared to states on Europe's southern wing. For example, this is why we have overtaken Greece and Portugal, out of the original 15 member states, in the level of GDP at purchasing power parity. However, domestic demand continues to be weak, and the government tries to change this by pro-growth measures.

While budget responsibility slightly influenced economic development, the effect has been only short term and will gradually fade away. On the other hand, budget conservatism has created an environment for long-term growth, for which healthy public finances are essential. This is why the government reduced the imminent budget deficit by CZK 78 billion (approx. EUR 3.12 billion) by pro-active steps already in the 2011 budget. In 2013, the overall deficit of public finances will thus be brought to below 3 per cent of GDP, which will release the country from the European excessive deficit procedure. In 2012, the Czech Republic's public debt amounted to 45.8 per cent of GDP, and was thus the eighth lowest in the EU as a whole.

Naturally, these positive steps have secondary implications. For example, the Czech Republic has become one of three countries (besides Greece which, however, is rising from the level of a virtually bankrupt state, and Estonia) whose ratings have been raised by two or more grades in the last two years. This is an indisputable success in the post-crisis period. Although rating agencies are often criticised, financial investors very frequently refer to their evaluations. It is even possible to say that the more criticism is levelled at the rating agencies, the more important their evaluations are. Thus the better rating for the Czech Republic was naturally reflected in an increased demand for Czech bonds. This is, for instance, the reason why the interest rates of ten-year Czech bonds have been permanently decreasing, even faster so than those of other developed countries. In the middle of May 2013, these rates were thus in the region of 1.5 per cent.

This is a level below the inflation target of the Czech National Bank. Investors are thus buying Czech bonds, although they know that they will actually lose by this. However, Czech bonds have become such a safe haven that investors find them worth it. To put this level in context, it is the third lowest level after Germany and Denmark within the European Union and the eighth worldwide. Our credibility on the financial markets is thus significantly above-standard. Thanks to this, CZK 22 billion (approx. EUR 880 million) was thus saved against budgeted costs in 2012 alone.

LABOUR MARKET AND SOCIAL SITUATION

Unemployment in the European Union was at the non-negligible 11 per cent in April 2013. However, the Czech Republic's situation is much better, in April it recorded a 7.2 per cent unemployment rate, which ranks the country seventh in terms of the lowest unemployment rates in the European Union. Nevertheless, the Czech government does not want to rest on its laurels and has thus prepared a seven-point plan which is to help reduce unemployment. This plan is targeted, among others, at the most sensitive groups of the unemployed, that is young people, parents with children, and the long-term unemployed.

Also important for social cohesion in this area are the indicators of at-risk-of-poverty rate and income distribution in society. No deterioration has occurred in this either. On the contrary, the poverty rate was at 9.7 per cent in the Czech Republic last year, which was one-tenth of a percentage point better than in 2011. Thus it can be expected that we have maintained the first place with the lowest at-risk-of-poverty rate in the European Union last year. This is also evidenced by the distribution of incomes in society. In the Czech Republic, the 20 per cent high-income population earns 3.5 times more than the 20 per cent of those with the lowest incomes. The European average is 5.1 times. Thus, we have a more even distribution of incomes than, e.g. the Scandinavian countries.

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