OECD Reviews of Foreign Direct Investment

CZECH REPUBLIC

FINANCE AND INVESTMENT

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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Publié en français :
EXAMENS DE L'OCDE SUR L'INVESTISSEMENT DIRECT ÉTRANGER
La République tchèque

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Overview

The Czech Republic has a long industrial heritage, having evolved from the economic mainstay of the Austro-Hungarian Empire in the late nineteenth and early twentieth century to become one of the 15 most developed countries in the world in the 1930s. Up to the communist take-over in 1948 it remained a major European manufacturing centre, after which almost 40 years of central planning took its toll on the then Czechoslovak economy. During this period the economy had been oriented towards the industrialisation needs of the former Soviet Union and Eastern Europe with resulting isolation from international markets. When the centrally planned economic system collapsed in Czechoslovakia in 1989, 90 per cent of the GDP of the then Czechoslovakia was produced in the state sector and it was one of the former COMECON countries with the highest percentage of state-owned assets (95 per cent).

Whilst the underlying conditions for the economic transformation of the country were favourable in terms of its proximity to major European markets, a well-developed basic infrastructure, good level of education, low inflation and national debt, the structure of the economy was – by western standards – biased towards old and partly obsolete heavy industry. New technologies and the services sector were very underdeveloped.

The Czech Republic's economy has undergone a dramatic transformation in the 1990s. An extensive stabilisation programme was launched in 1991 in line with International Monetary Fund guidelines and included measures such as currency devaluation, price and foreign trade liberalisation, a tight monetary policy and privatisation of state-owned assets. A period of recession ensued until 1993, followed by a period of economic expansion until 1996 when structural problems began to emerge, reflecting the fragile basis for the growth. This growth period was attributed largely to over-high domestic demand against a background of wage increases without accompanying industrial restructuring and increased productivity and competitiveness. The extent of the slow pace of industrial restructuring became increasingly evident, having been aggravated by easy access to credit from state-influenced financial institutions, poorly regulated capital markets and generally inadequate corporate governance. This situation resulted in the stagnation of exports and ultimately unsustainable current account and trade balance deficits of 7.6 and 10 per cent of the GDP respectively by the end of 1996. Two successive stabilisation packages were rapidly introduced to address these problems in Spring 1997 and a controlled floating currency regime was adopted by the Czech authorities to replace the fixed exchange-rate system in place up to then.

1998 was marked by a period of recession and late in that year the Czech authorities began to loosen monetary and fiscal policies and to advance with the restructuring of the banking and corporate sectors. The recession continued into the first half of 1999 when there were signs of a recovery reflected in modest GDP increases. A GDP growth of just under 3 per cent is projected for 2000. Exports are strong – particularly those going to the EU which accounted for about 70 per cent of total trade at the end of 1999 – and have not been affected by the gradual strengthening of the Czech crown since early 1999. Direct investment has increased substantially in 1999, accounting for almost 10 per cent of GDP and reinforcing the solid balance of payments position. Despite these favourable developments, the level of unemployment – projected to exceed 9 per cent by the end of 2000 – remains a concern and is likely to be fuelled by ongoing enterprise restructuring. The pace of recovery is nonetheless uncertain and likely to be influenced by factors such as levels of EU demand, currency fluctuations and the progress of industrial restructuring and privatisation in the country.

One of the most positive indications of good future growth in the Czech economy are the rising inflows of foreign direct investment since 1998 and the country's continuing position as highest per capita recipient of foreign direct investment in the region after a number of years of falling inflows. FDI has continued to increase in 2000 and is clearly contributing to the recovery by enhancing opportunities for domestic industry and generally raising the level of efficiency of the Czech economy. Much of the upswing has been attributed to the acceleration of privatisation of major state assets, the introduction of a comprehensive FDI incentives package in 1998, and increasing levels of greenfield investment.

Since the start of the Czech economic transition process, FDI inflows have been variable, reaching their highest level in 1999. The variations in inflows have depended on the availability of stakes in larger state-owned enterprises, some of which still remain to be restructured for privatisation. The largely voucher-based privatisation programme embracing about 60 per cent of state-owned companies started in 1991 and effectively transferred many assets into private hands, but created fragmented ownership structures involving individual shareholders and investment privatisation funds which were not always conducive to restructuring or establishing good corporate governance practices. This situation failed to generate the necessary levels of capital investment and has acted as a deterrent to some foreign investors with the result that FDI inflows were below the levels of those of other transition economies in the early nineties. There was a substantial upsurge in 1995 on account of the first major privatisation transaction in the telecommunications sector. This trend was then reversed and the foreign presence in Czech industry is now about 30 per cent and there are still enterprises and sectors that would benefit from foreign capital, management and marketing expertise and technologies to complete their restructuring.

The Czech privatisation process involved, along with the direct sale of certain state assets, two waves of voucher privatisation through the National Property Fund (NPF) created in 1991. The voucher method accounted for 36.5 per cent of the nominal value of the assets privatised up to mid-2000 in the large-scale privatisation programme. 63.5 per cent of the assets were sold to local and foreign investors by auction and public tender. There are no restrictions on foreign persons participating in the different privatisation methods still being used in the country.

A state bailout institution Konsolidacni banka was established early in the transition process to absorb bad loans of enterprises and institutions undergoing restructuring for privatisation. The Czech government is fully committed to accelerating the restructuring of the economy and finalising privatisation and in 1999 established the Revitalisation Agency, an institution with the task of restructuring selected industrial groups in financial difficulties and identifying strategic investors for their privatisation. Other priority privatisation initiatives are being directed at the banking, telecommunications and energy sectors and will, in part, involve changes in the regulatory environment to permit access to strategic investors. The Czech authorities are facing particular challenges in the privatisation of the energy sector which has to be opened to competition as soon as possible in line with EU membership requirements.

A further welcome regulatory change affecting the investment climate in the Czech Republic is a recent amendment to the Bankruptcy Act which tightens the rules under which a company must declare bankruptcy and thus eliminates a major deficiency in the regulatory environment. The Commercial Code was also amended to bring it in line with EU legislation and create a more coherent and investor-friendly framework for court proceedings in commercial matters.

Since 1990 most FDI in the Czech Republic has come from Germany, followed by the Netherlands, the United States, the United Kingdom, Austria and France. From 1997 onwards, there was growing interest from Asian investors and by that time many of the leading multinational companies had established a presence in the country. Smaller investments – mostly German and Austrian small and medium-sized companies – have frequently taken the form of joint ventures, the dominant form of FDI up to 1994. Larger FDI projects have come through direct privatisation sales or – increasingly since 1997– through greenfield operations which has been largely concentrated to date in specially created government-aided industrial zones[1] (*e.g.* fully-serviced sites for industrial development) in various regions of the Czech Republic. New Supplier Development and After

Care Programmes for investors implemented by the Czech Agency for Foreign Investment – CzechInvest – have also significantly enhanced the attractiveness of the Czech Republic as an investment base.

The highest share of FDI has been in the telecommunications and transport sector. Investment in the automotive, transport vehicle and components sector has grown steadily as has the presence of multinationals in the consumer goods sector. Other large investments have been made in the electronics, petroleum, gas distribution and power generation sectors. In recent years there has been a strong concentration of FDI in the trade and services sector and financial services which accounted for 50 per cent of total inflows in 1999. Foreign participation in equity in the banking sector was just over 30 per cent by the beginning of 2000.

Slovakia is the largest recipient of outward Czech investment on account of the historical links between both countries. Other transition country recipients of Czech FDI are Poland and Hungary. Outflows also go to the British Virgin Islands, the United Kingdom, Canada and Germany. Some of the FDI outflows are attributable to expansions into neighbouring countries by foreign investors already established in the Czech Republic. Trading companies abroad account for most of the Czech FDI.

Few barriers to or restrictions on FDI remain in the Czech Republic which has successively met its liberalisation commitments since accession to the OECD in 1995 and in pursuit of EU membership. Legislation is pending or being enacted in most outstanding areas – the insurance and telecommunications markets will be fully liberalised by the end of 2000, the auditing profession by early 2001. Arrangements for the liberalisation of the energy sector are under discussion. Some restrictions remain in the areas of gaming and postal services and there are certain restrictions on real estate ownership by non-resident investors acting in the capacity of natural persons.

On the question of the EU membership, all chapters of the *acquis communautaire* have been opened for negotiation with the Czech Republic. The Czech Government expects to close negotiations by the end of 2001. Among the most complex issues in this context are likely to be necessary investment for and pace of implementation of EU environmental standards, EU technical requirements in the area of agriculture, the liberalisation of the real estate market, movement of labour and alignment of the taxation system.

Although inflows of FDI are expected to slow down after the remaining major privatisation transactions are completed over the forthcoming two-year period, other advantages such as access to EU markets and membership in the medium-term, the firmly established industrial tradition of the Czech Republic, competitive and flexible labour force, strong research and development capabilities and investment incentives are expected to continue to attract investors thereafter. Continuing inflows of greenfield investment in particular will remain important to deepen levels of expertise in management, production and technology and sustain export growth.

Chapter 1

A. Foreign Direct Investment in the Czech Republic

1.1. Foreign Direct Investment Trends in the Czech Republic

Since the Czech Republic's accession to the OECD in 1995, the inward stocks of foreign direct investment (FDI) have shown considerable growth, rising from US$8.572 million in 1996 to US$14 375 million by the end of 1998. Of this amount, US$12 220 million represented investment in equity plus reinvested earnings, and US$2 155 million other forms of capital. The preliminary stock figure for 1999 is US$16 246 million. After showing a peak in 1995, the inward flow of FDI declined somewhat in 1996 and 1997 but began to increase substantially in 1998, maintaining this pace of growth the next year as well. In 1999, the inflow of foreign direct investment to the Czech Republic reached the highest level since the beginning of the economic transition process and amounted to US$5 108 million (equity and reinvested earnings). See Table 1. FDI is predicted to reach about US$5billion in 2000. This is reflected in positive early indications from the first and second quarter when FDI flows reached over US$1.8 million, compared with US$1.3 million in the same period of 1999.

The increase in FDI inflows in 1998 – which were double the 1997 volume (although almost 40 per cent below the 1995 level) – was attributable to several factors: privatisation of state-owned enterprises, especially in the financial and telecommunications sectors, expansion of foreign supermarket chains and

Table 1. **FDI in the Czech Republic (in US$ million)**

	1993	1994	1995	1996	1997	1998	1999	2000
Flow	653.5	868.5	2 562.2	1 428.4	1 300.4	2 539.6	4 877.0	3 689.5
Stock	3 423.1	4 546.8	7 350.0	8 572.4	9 233.8	14 375.0	17 552.1	21 095.4

Notes: Preliminary data for 2000. Starting from 1998, the Czech National Bank revised the methodology of collecting FDI data. Data on reinvested earnings and "other capital" have been included in overall FDI stock data for 1997, 1998 and 1999. In 2001, data on reinvested earnings and other capital have been included also inthe FDI flows data for 1998, 1999 and 2000 – see Table 3.

Source: Czech National Bank.

increases in the equity of existing foreign-owned companies. Several greenfield investment projects were also undertaken supported by new investment incentives.

FDI inflows to the Czech Republic have been variable over the years, depending on opportunities to acquire shares in larger state enterprises. The most important transactions involved the sale of a stake in Skoda Automobile to Volkswagen and part of the state tobacco enterprise to Philip Morris in the early nineties, an almost 50 per cent share in the petrochemicals sector to an Agip/ Shell/Concoco consortium in 1995 and a 27 per cent share in SPT Telecom to a Dutch-Swiss consortium in 1996. In more recent years major privatisation transactions in the banking sector have boosted inflows of FDI – among these the sale of Ceskoslovenska Obchodni banka (CSOB) to the Belgian bank, KBC and the acquisition of the state's 52 per cent share in Ceske Sporitelna, the second-largest Czech bank, by the Austrian Erste Bank.

A system of investment incentives was introduced by the Czech Government in 1998. Its aim was to encourage both foreign and domestic investment and to enable the Czech Republic to compete favourably for FDI with other transition countries and, in particular, with Poland and Hungary. The 1998 Government provisions on investment incentives were further enhanced in a law adopted in January 2000. The creation of government-aided industrial zones has also encouraged considerable greenfield investment (see Chapter 2B on Investment Promotion).

Table 2. **FDI in the Czech Republic**
Breakdown of the FDI stock (in US$ million)

	1997	1998	1999
Total stock of FDI	9 233.8	14 375.0	17 552.1
– Equity capital	7 955.7	11 719.3	14 078.9
– Reinvested earnings	263.4	500.3	884.8
– Other capital	1 014.7	2 155.4	2 588.3

Source: Czech National Bank.

Table 3. **Breakdown of FDI inflows, 1997-1999**
(in US$ million)

	1997	1998	1999	2000
Equity capital	1 300.4	2 539.6	4 877.0	3 689.5
Reinvested earnings	–	180.2	689.9	518.3
Other capital	–	998.1	757.1	387.3

– Not reported.
Source: Czech National Bank.

The FDI inflows into equity rose from 2.5 per cent of GDP in 1996 to 4.6 per cent in 1998 and 9.2 per cent in 1999. Of the total fixed investment, the FDI inflows in 1998 and 1999 represented 16.1 and 34.8 per cent respectively.

Table 4. **Comparative indicators of FDI (US$ million and %)**

	Inflows of FDI (US$ million)		Inflows as per cent of GDP (%)		Inflows as per cent of GFCF (%)	
	1998	1999	1998	1999	1998	1999
Czech Republic	2 540	4 877	4.6	9.2	16.1	34.8
Hungary	2 036	1 944	4.1	3.9	18.3	17.0[1]
Poland	6 365	6 471	4.2	4.2	15.8	n.a.

1. Preliminary data.

Source: OECD Secretariat, Hungarian Central Statistical Office and National Bank of Hungary, National Bank of Poland, Czech National Bank.

1.2. Countries of Origin, Sectoral and Geographic Distribution

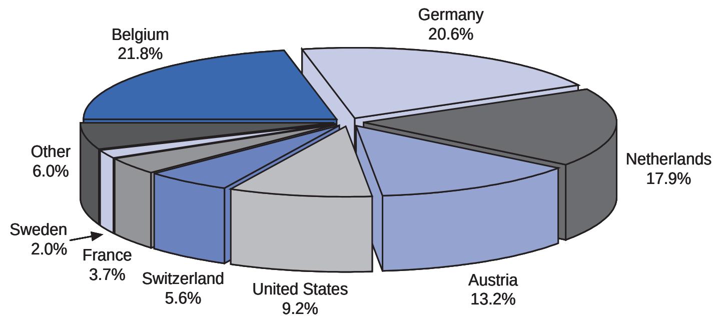
FDI inflows into equity in 1999 reached US$4 877 million, the highest volume in the history of the Czech Republic. Flows in 1999 were over 50 per cent higher than those of 1998 and accounted for almost 10 per cent of GDP.

The most significant acquisition in 1999 was the privatisation of the state's share in Ceskoslovenska obchodni banka (CSOB) by KBC Bank which makes Belgium the largest investor in that year. Germany remained in second position as in 1998 followed by the Netherlands, which had the highest inflows in 1998 due to an increase of share in SPT Telecom by the consortium TelSource. Among the main investor countries generally are Austria, United States, Switzerland, United Kingdom and France.

In 1999, FDI was concentrated in trade and trade services[2] (25.2 per cent) and financial services (25 per cent). Half of the volume of the 1999 inflows went into these two sectors. The third largest inflow was recorded in the electricity, gas and water supply sectors, which reflects the ongoing privatisation of the utility companies. Investors' interest in the services sector continued in the first half of 2000 and FDI inflows to the automotive sector were also high during this period, boosted by the privatisation of the state shareholding in Skoda Auto Mlada Boleslav to Volkswagen. FDI in other high-tech industries, particularly electronics and automotive components also increased steadily.

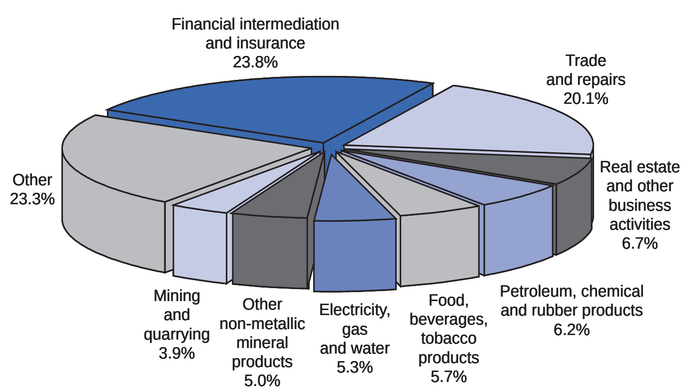
In terms of stocks, Germany is the largest investor in the Czech Republic, accounting for 29.6 per cent of the total investment, followed closely by Netherlands (27.1 per cent). Other countries of origin of FDI are Austria, United States, United Kingdom, France and Slovakia.

Chart 1. **FDI inward flows in the Czech Republic in 1999 – by country of origin**



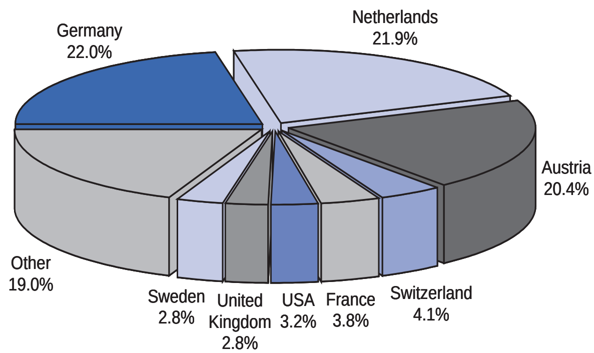
Source: Czech National Bank.

Chart 2. **FDI inward flows in the Czech Republic in 1999 – by sector**



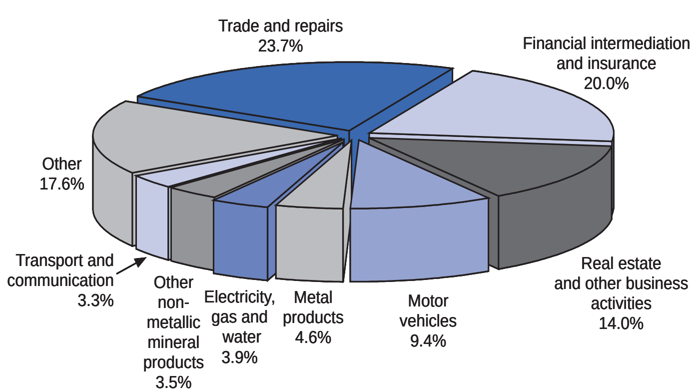
Source: Czech National Bank.

Chart 3. **FDI inward flows in the Czech Republic in 2000 – by country of origin**



Source: Czech National Bank.

Chart 4. **FDI inward flows in the Czech Republic in 2000 – by sector**



Source: Czech National Bank.

By sector, the largest recipients of inward FDI were financial services (12.6 per cent), wholesale and commission trade (9.9 per cent), manufacture of other non-ferrous mineral products (9.5 per cent), post and telecommunications (8.5 per cent), and motor vehicle production (6.8 per cent).

The geographic distribution of FDI in the Czech Republic in terms of stock in 1998 indicates that approximately. 47 per cent of capital is linked to enterprises based in Prague. This level of concentration is due mainly to the capital of banks, insurance companies, foreign-owned investment funds and investments in the telecommunications sector. The remaining part of FDI is distributed to varying degrees throughout the country. There is trend towards increased investment throughout the regions and investors in the fields of electronics, other developed technologies and the automotive industry are attracted to industrial parks established by the municipalities within the framework of the investment incentives programme.

Table 5. **FDI stocks in the Czech Republic**

Regional distribution in % (1998)

Prague	46.9	North-Moravia	7.4
Mid-Bohemia	12.3	East-Bohemia	6.6
South-Moravia	9.4	West-Bohemia	4.8
North-Bohemia	9.2	South-Bohemia	3.4

1.3. Impact on the Czech Economy

Inflows of foreign direct investment in the Czech Republic played an important role in the restructuring, growth and foreign trade of the country. Their role in the economy in terms of number of companies, their exports or contribution of GDP is relatively high, especially compared to other economies in the region.

The Czech National Bank's FDI Register lists about 3 000 companies with foreign participation. It is based on the Companies' Register maintained by the Czech Statistical Office and represents only legally incorporated entities. Sole proprietorships and other small independent business entities are not included. The breakdown of companies with foreign participation according to ownership structure indicates that over 50 per cent of them are in the full or majority control of foreign investors.

There are no official statistics on greenfield investment. Companies with less than 100 per cent foreign participation generally evolved through the privatisation process or as joint ventures. FDI theories suggest that, at least in the medium-term, greenfield investments are more beneficial for the host economy in terms of

Table 6. **Foreign investors' share in equity**

At the end of 1998 (in %)

	Number of companies	Equity volume
10% to 50%	30.7	47.5
50% ++ to 100%	25.9	27.6
100%	43.4	24.9
At the end of 1999 (in %)		
	Number of companies	Equity volume
10% to 50%	31.5	46.5
50% ++ to 100%	24.3	27.4
100%	44.2	26.0

Source: Czech National Bank.

creating an additional capital base and employment and deploying more modern technologies. However, in transition economies, even privatisation and joint ventures may have similar impacts in terms of restructuring the existing company in some cases by adding to and upgrading the existing capacities. A number of relatively large greenfield investments were undertaken in the Czech Republic in the second half of the nineties in particular when the pace of greenfield investment stepped up.

As in other former transition economies with a substantial stock of foreign investments, companies with foreign participation in the Czech Republic have been enjoying a more dynamic growth than their domestic counterparts in terms of output, profit, investment and employment. According to the survey by Czech-Invest, the government investment promotion agency, companies with foreign participation account for 65-70 per cent of total manufacturing exports, and employ 280 000 employees (approximately 6 per cent of total workforce).

Industries with companies with foreign participation have been also performing better in the above areas and in terms of exports than those sectors with a relatively low level of foreign investment. The fastest growth has been recorded in the production of radio and TV sets and office machinery, medical, precision and optical instruments and chemicals. Companies with foreign participation have on average twice as high productivity as domestic enterprises and they are three times more likely to export a unit of production compared to their total sales. In terms of sales they are twice as big as the domestic companies.[3] According to the findings of another study,[4] firms acquired by foreign owners had the highest total factor productivity (TFP) growth in the 1992-96 period, followed by joint ventures.

In the same study, firms with foreign participation surveyed indicated that certain forms of technology transfers had taken place. An example of this development is TTC Tesla Telekomunikace Ltd. which was established as a joint venture between Tesla telekomunikace and the Italian Marconi S.p.A. (now Marconi Communications). The foreign partner provided the advanced technology and the expertise from the world market, while the Czech partner had knowledge of the local market and local technology. The joint venture thus combined successfully the assets and strengths of both partners and won numerous tenders.

FDI facilitated the restructuring of a number of industrial sectors, an outstanding example of which can be found in the Volkswagen-Skoda plant in Mlada Boleslav. The original Skoda plant, which produced cars for the COMECON market prior to the transition period, was purchased by Volkswagen in 1991. The company's automotive products have become highly competitive on both developed and transition markets. In 1999 alone, its revenues rose by 4.4 per cent to US$2.82 billion; and net profits increased by 17.8 per cent to US$66 million, compared to the previous year. The company purchased automotive parts and components to the value of US$1.7 billion from its suppliers in 1999, 64 per cent of which came from Czech companies. Suppliers included, the Volkswagen-Skoda venture accounts for 13.5 per cent of Czech total exports.

Many existing companies with foreign participation plan to expand their activities. They contribute significantly to investment activities in the Czech Republic, tend to have a more competitive structure and easier access to financing. The latest annual survey of foreign manufacturers in the Czech Republic conducted by CzechInvest, found that almost all firms (91 per cent) have already reinvested additionally. Two-thirds of them reinvested more than the initial value of their investments. Almost every second firm plans further expansion of their production, and 61 per cent of them will create additional jobs.

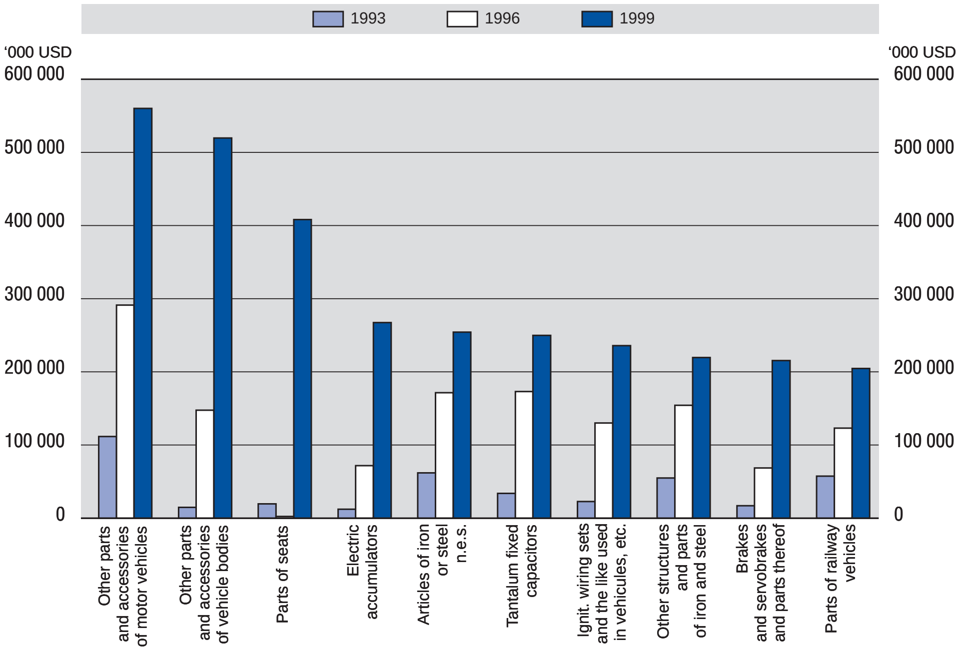
Table 7 below illustrates the role that companies with foreign participation play in Czech exports:

Table 7. **The top 10 Czech exporting companies**

Company	Foreign participation
1. Skoda Auto	Yes
2. Ceske Aerolinie	No
3. AVX Czech Lanskroun	Yes
4. Metalimex	No
5. Barum Continental	Yes
6. Moravia Steel	No
7. Nova Hut' Ostrava	Yes
8. Rakona Rakovnik	Yes
9. Dioss Nyrany	No
10. Autopal Novy Jicin	Yes

Source: Czech Statistical Office.

Chart 5. **The most important export products share in total exports in 1993, 1996, 1999**



Source : OECD Foreign Trade Database.

The important contribution of foreign investment to Czech exports is reflected in the fact that five of the top ten exporters are companies with foreign participation. The top exporter, Volkswagen Skoda and its suppliers, account for about one-sixth of Czech exports.

In recent years there has been spectacular growth in many of the most important export product categories (see Chart 5). Foreign investors have played a major role in this development by restructuring and expanding existing capacities and securing access to the growing EU markets for many Czech products. Their activities have had a significant impact on the reorientation and development of Czech exports in the nineties.

Those FDI projects which have been less than successful tend not to have been fully restructured prior to launching new operations or have not had the benefit of appropriate new expertise in the areas of production, technology, management and marketing to compete in international markets. There remain still marked disparities in the Czech economy and whilst the dynamic export-oriented companies (mainly with foreign participation) are fuelling the recovery, a large number of companies in traditional sectors are still in financial difficulties and are burdened with increasing losses and debts, excess labour and poor management resources to address these problems. Such companies also have limited access to credit to carry out restructuring or expand their activities.

Unemployment rates in regions dependent on steel, mining and agricultural activities are disproportionately high – in excess of 15 per cent in some cases, although attempts are being made to address some of these problems by offering investment incentives, tax advantages, job-creation and training grants in targeted areas.

B. Czech Direct Investment Abroad

The total stock of Czech FDI outflows reached US$804 million at the end of 1998. With the exception of 1995 and 1997 results, outward flows of FDI were growing gradually, reflecting the increased interest of domestic investors in placing capital abroad. The stock figure for 1999 is US$908 million and this level had already been exceeded in the first two quarters of 2000, whilst in the same period there was a slight downward trend in flows compared to the same period of 1999.

Table 8. **Czech investments abroad (in US$ million)**

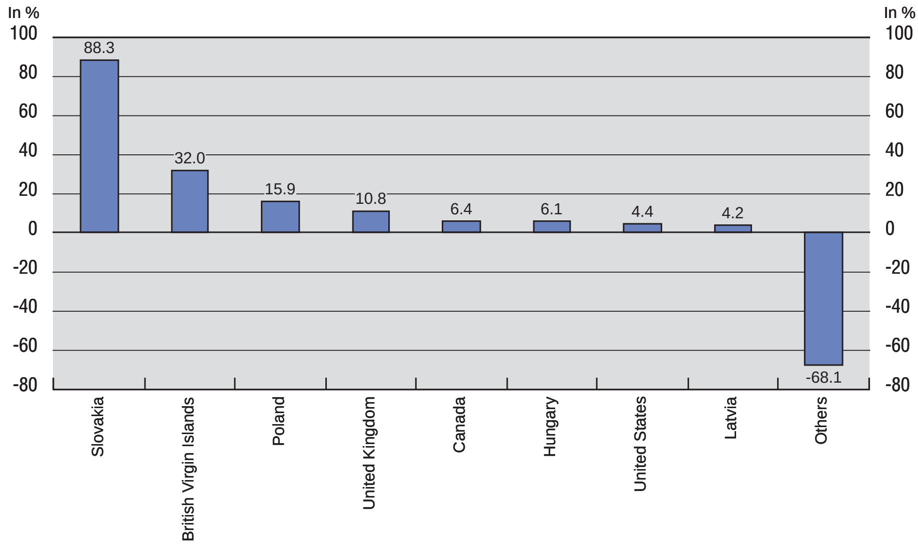
	1993	1994	1995	1996	1997	1998	1999	2000
Flow	90.2	119.6	36.6	152.9	25.2	175.1	90.3	103.8
Stock	181.4	300.4	345.5	497.9	548.2	804.0	699.0	–

Note: See note for Table 1.
Source: Czech National Bank.

1.4. Host Countries and Sectoral Distribution

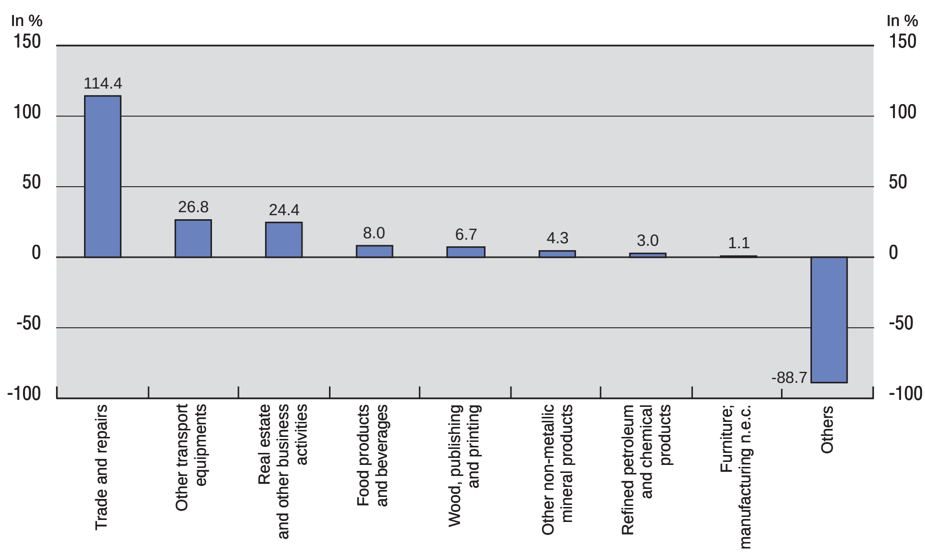
The majority of Czech investment is directed to Europe. Slovakia remains the largest recipient of Czech FDI due to the historical links between both countries. Among other transition economies, Slovenia and Poland are the main destinations

Chart 6. **FDI outward flows from the Czech Republic in 1999 by destination**



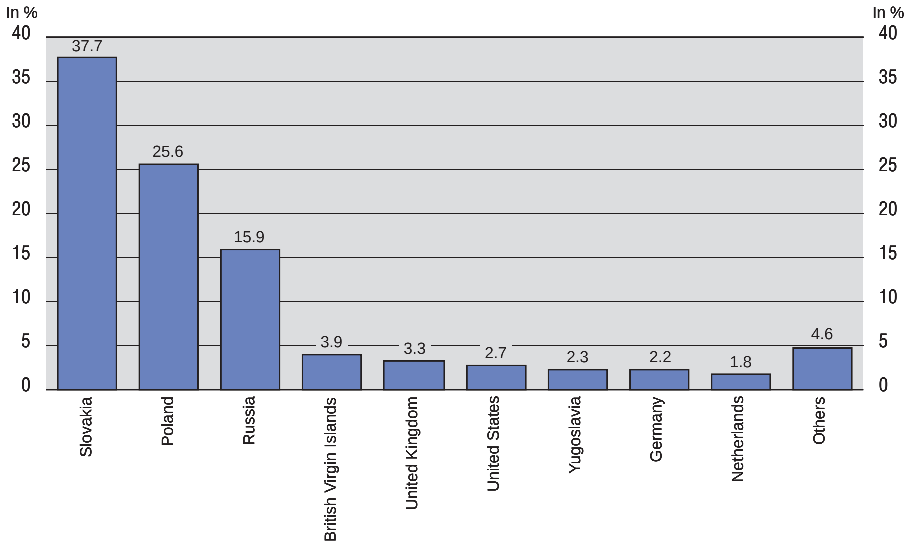
Source: Czech National Bank.

Chart 7. **FDI outward flows from the Czech Republic in 1999 by sector**



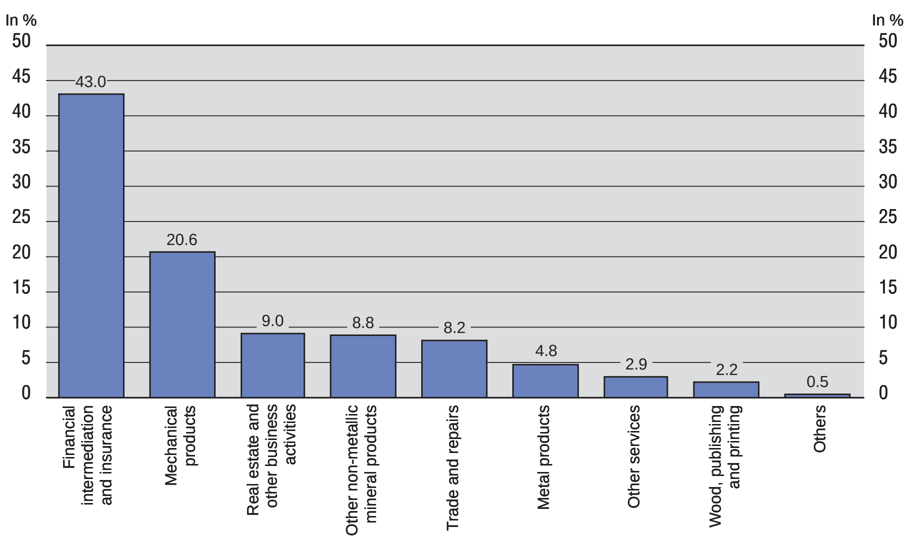
Source: Czech National Bank.

Chart 8. **FDI outward flows from the Czech Republic in 2000 by destination**



Source: Czech National Bank.

Chart 9. **FDI outward flows from the Czech Republic in 2000 by sector**



Source: Czech National Bank.

for Czech capital. Germany, the major investor country in the Czech Republic, is a significant investment recipient as well. Considerable amounts are also directed to offshore destinations for tax purposes.

Given the volume of the outward FDI, each investment transaction has a significant impact on the overall investment structure and can bring about a change in the geographic and sectoral breakdown. Financial services and the wholesale trade are among the main business activities targeted by Czech investors. The outflows of FDI reached almost US$197 million in 1999 with the largest share going to Slovakia (41.6 per cent), a significant share was also directed to the British Virgin Islands (25.0 per cent), an attractive investment base for taxation reasons, followed by Poland (11.8 per cent), the United Kingdom (3.8 per cent), Canada (3.3 per cent), Hungary (3.2 per cent), Germany (2.8 per cent) and Latvia (1.9 per cent).

On a sectoral basis, the major part of the total volume was invested into trade and services (65.6 per cent), the second largest share in production of transport equipment (12.4 per cent), followed by real estate activities (7.2 per cent), financial services (6.6 per cent), publishing and printing (3.1 per cent) and food production (1.5 per cent).

As a whole, the outward direct investment is on the increase, partially owing to inward flows of FDI: a considerable number of foreign investors use their branches and subsidiaries in the Czech Republic for further expansion to other transition countries in particular such as Slovakia, Poland and Hungary.

The main focus of Czech FDI is to market domestic production through trading companies in the host country whilst a smaller part of investment goes into production facilities abroad. Although much smaller in volume than inward FDI, overall Czech outward direct investment is gaining in importance.

C. Statistical Data and Methodology

FDI statistics for the Czech Republic are compiled by the Czech National Bank (CNB) as a part of the balance of payments statistics. The methodology behind the balance of payments and basic monetary statistics was elaborated in close co-operation with the IMF Statistics Department when the former Czechoslovakia was preparing itself for IMF membership in 1990. The CNB, as agency responsible for the documentation of the Czech Republic's balance of payments and international investment position, is authorised to obtain statistical data from the reporting sources on the basis of the following legislation:

- Act on the Czech National Bank /1993/
- Act on Banks /1992 and 1998/
- Foreign Exchange Act /1995/

As a candidate for EU membership, the Czech Republic compiles and provides statistics in a number of areas according to EU principles, procedures, and definitions. It accepts the EU *acquis communautaire* regarding the management and handling of statistical information and does not intend to request any transition period for adaptation purposes. Full alignment with EU norms and practices is expected to be achieved by 2002.

Until 1996, only basic FDI data were collected in report form, containing predominantly export and import information. The Foreign Exchange Act, adopted in 1995, facilitated a significant improvement of FDI data by providing for a reporting obligation. Under this provision, the CNB is entitled to require statements of FDI financial transactions (flows of equity) from companies in respect of both inward and outward flows. The statements also contain information on the countries of origin of FDI and on the economic sectors to which the companies concerned belong. There is no value threshold for reporting these transactions. The Foreign Exchange Act defines FDI according to the 10 per cent rule of ownership or voting power rights. (An acquisition of less than 10 per cent of the shares of a company is classified as portfolio investment.)

Prior to 1998, the compilation of FDI data was based almost exclusively on the reporting obligation. As this system did not provide an adequate basis for collecting all the elements of FDI data, only the figures for inward FDI equity were published. This system is still being used as a basis for the data on both inward and outward flows which are compiled on a quarterly basis.

In 1998, a new system for compiling FDI data was introduced and this improved the quality of data available. The implementation of this system was a crucial step towards providing FDI statistics that would be fully in compliance with the internationally agreed principles. The CNB's Balance of Payments Division has prepared two reporting forms for FDI stocks and flows, one for inward and one for outward data. The required data are based on the audited balance sheets of enterprises and facilitate the preparation of detailed data breakdowns by sectors and territory. The goal was to incorporate into these reporting forms the principles of the OECD's Benchmark Definition of Foreign Direct Investment to produce comprehensive, reliable, and internationally comparable FDI data.

The main improvements include:

- inclusion of investment in equity, reinvested earnings and other capital,[5]

- enhancement of the database of FDI investors and direct investment enterprises,
- better quality of FDI data.

However, the new system brought a significant break in the time series of the FDI stocks and comparable breakdowns by territory and sector have been available since 1997. For the period 1993-1996, only the totals were revised and the flows are still recorded under the old system. Work is in progress on the introduction of a comprehensive system of recording FDI flows covering both all the elements of the NACE[6] classification and territories. In order to arrive at a homogenous basis for the territorial breakdown of inward and outward FDI, the country of the foreign direct investor and the direct investment enterprise are derived from the address recorded in the Business Register. As a result of this provision, certain changes occurred in the territorial breakdown of FDI compared to the data provided by the previous system.

The reporting forms for outward and inward FDI stocks were submitted for the first time in 1998 for 1997 data. They are provided annually on a calendar year basis which corresponds to the accounting year in the Czech Republic. The required data are based on audited balance-sheets of enterprises and, as a new feature, cover not only foreign equity capital, but also reinvested earnings and other capital. As additional information, details of the number of employees and the year of the foreign investment are required.

The main source for the database of foreign direct investment enterprises is the Business Register, maintained by the Czech Statistical Office. Another source is a list of owners of 10 and more per cent of company shares, published regularly by the Securities Register. In addition, public sources of information such as newspapers and other media sources are used.

In 1999, approximately 2 100 enterprises were recorded as inward investors and 600 for outward investment. This response shows clearly that inward stock and flows are much higher in the Czech Republic than outward FDI.

As the reports also contain information on NACE classification and the country of origin of the FDI, they permit detailed breakdowns by sector and territory. For inward investment, a breakdown by sector within each country was also compiled and published. However, as the figures for the outward investment on a sectoral basis would be very close to the individual company data, given the number of investment companies, the decision was made not to release them. The results for 1997 FDI were published only in respect of stock. Questionnaires were also submitted for the first time in 1997 to the OECD and Eurostat with detailed figures for equity capital including reinvested earnings and other capital with the required geographic and economic activity breakdowns.

The data for outward and inward FDI flows are compiled quarterly in a cumulative form (quarterly data 8 weeks and annual data 11 weeks after the end of period). They are published by the CNB and available on its website. The report on the development of the balance of payments is prepared on a biannual basis and contains comments and analyses of FDI among other items of the current and financial accounts. The annual data are also published in the Yearbook of the Czech Statistical Office. The inward and outward stock as well as audited flow data are published annually in a special publication on FDI. The latest edition for the 1998 FDI stock was prepared in March 2000.

Chapter 2

A. General Legal Framework

2.1. Overview

The Czech Republic's FDI regulatory regime is a very liberal one, embracing the principle of national treatment and reflecting the importance attached to the role of FDI by the Czech authorities in the country's transition to a market economy. Therefore there have been no significant changes in laws and regulations since accession to the OECD except in the telecommunications, distilling and coal mining sectors which have been opened up to private investors, both foreign and domestic.

There is no specific law governing FDI in the Czech Republic. The establishment of commercial companies and operation of enterprises by foreign investors are subject to registration in the Commercial Register according to the Commercial Code which has recently been amended to bring it into line with EU norms (see Section 2.2.). Exemption from the requirement to register will be granted from 1st February 2001 to natural persons resident in EU member states or other states within the European Economic Area who are engaged in business activities in the Czech Republic. Amended bankruptcy legislation also became effective in 2000, in order to rectify a major deficiency in the regulatory environment affecting companies and their operation (see Box 1).

Foreigners may invest in the Czech Republic by creating or expanding a wholly foreign-owned company, by establishing a subsidiary or a branch or by acquiring partial or full ownership of an existing enterprise.

The acquisition of real estate related to direct investment is open to legal persons established under Czech law. However, non-resident physical persons, including the branches of non-resident legal persons are not allowed to acquire real estate (see Section 2.3).

The participation of foreign nationals in an existing bank and in stock exchange transaction is subject to approval. Foreign investment in air transport, gaming and local telephone networks and services is also restricted. The Czech Republic's current reservations under item I/A of the Capital Movements Code and exceptions reported under the National Treatment Instrument are detailed in Annex 1.

Box 1. **Amended bankruptcy legislation**

One of the major regulatory deficiencies affecting FDI and the overall business climate has been the lack of effective bankruptcy regulations which was tackled in several amendments to the Bankruptcy Act, the last of which will become effective from January 1st 2001. The purpose of the legislative changes is to speed up and simplify bankruptcy proceedings and make the process less costly and more efficient, thus improving the position of creditors and the rights of employees.

The amendment to the Act also enhances the rights to court-appointed liquidators to settle in favour of creditors instead of requiring each action to be approved step-by-step by a court. Creditors will be in a position to recover funds from the foreclosure of property in the possession of debtors and unrelated to the assets which are the object of the bankruptcy proceedings.

The Act adds stricter provisions for a protection period during which a company facing bankruptcy may restructure and tightens the rules governing a company's obligation to declare bankruptcy which, under the new legislation, will focus on the disposal of assets.

Companies or entrepreneurs (their statutory bodies or statutory agents) have now a duty to institute bankruptcy proceedings, if they cannot meet their financial obligations for an extended period of time or if they cease their payments or if the value of their financial obligations is higher than the value of their assets. Persons responsible will be liable for damage caused to creditors and punishable by imprisonment (6 months to 3 years) and/or fine (2 000-5 million CZK) and/or by prohibition from engaging in business for failing to do so.

The remaining concerns not addressed by the amendment are the law's failure to provide for comprehensive restructuring when a company is bankrupt and the lack of established qualified commercial courts and a network of appropriate financial experts to oversee the procedures involved. A new amendment to the Code on Civil Procedure (law No. 30/2000 Coll.), which will enter into effect from 1st January 2001, provides for more clear criteria for establishing the jurisdiction of different courts and resolving jurisdictional disputes, thus enabling the courts to deal with cases more swiftly. As the amendment stipulates that matters of greater complexity or importance (including bankruptcy proceedings) will be dealt with by regional courts (which are usually only courts of second instance), the appropriate levels of competency and specialisation of judges will be ensured.

At the time of accession, the Czech Republic lodged a reservation with respect to foreign participation in auditing services exceeding 40 per cent of equity shares. The new Act on Auditors will remove this reservation when it enters into force on 1 January 2001. In the intervening period prior to the implementation of the legislation, the Czech authorities have undertaken not to apply the restriction which still exists in law to investors from OECD Member countries (see also 3.2.).

2.2. Changes in the Commercial Code

Legislation to amend the Czech Commercial Code came into effect on 1st January 2001. Whilst the legislation introduces some new administrative (*e.g.* disclosure of certain information and proof of legal title) and financial requirements (new or increased equity deposits) concerning the establishment and governance of companies, the changes strengthen the position of creditors and minority shareholders, improve the rights of members of co-operatives and raise equity requirements for a limited partner's deposit, limited liability companies, joint-stock entities and initial public offerings.

Creditor protection will be institutionalised and enhanced by restricting partnership in limited liability companies with sole partnership for natural persons and company co-ownership to a maximum of three companies in order to limit the practice of transferring property to elude creditors. Furthermore, a limited liability company with a sole partnership cannot be a partner in another such company, for the same reason, except the case of a group of companies.

Minority shareholders will in future benefit from the new reduced 3 or 5 per cent (previously 10 per cent) minimum level of shareholders required to convene a general meeting. Mandatory buy-outs will be subject to the supervision of the Securities Commission. The legislation also addresses forms of splitting and merging companies. Most importantly it provides a framework for solving conflicts according to EU standards and practices which has been lacking for investors to date. It is also envisaged that this legislation will evolve and be amended over time in line with investors' needs and the changing business climate.

2.3. Real Estate

There have been no new regulatory developments in this field since OECD accession. The acquisition of real estate, including land, by foreign non-residents is restricted. However, this restriction does not represent a serious obstacle for foreign companies in the Czech Republic as foreign investors can freely establish a resident legal entity or participate as a partner or a member in such entity which may acquire real estate without limitation. In particular, there is no limitation on the purchase of real estate by subsidiaries established by non-residents, as subsidiaries automatically assume resident status.

The use, rent or sale of real estate and lease of natural resources, agricultural land and forestry is not restricted.

The restriction on the acquisition of real estate by branches of both resident and non-resident legal persons remains. Under the Czech Commercial Code, branches are considered organisational units of the parent companies without the independent legal capacity to invest, so that real estate used by a branch can only be acquired in the name of the parent company. However, in the case of a non-resident parent company, ownership of real estate is not permitted pursuant to the Foreign Exchange Law.

A side effect of this limitation is also that non-resident investors' access to the mortgage banking business through branches is restricted.

In order to permit ownership of real estate by a non-resident legal person operating its branch on Czech territory, it would be necessary to add branches to the list of exceptions from the general restriction on acquisition of real estate under Article 17 of the Foreign Exchange Act. According to the Legislative Plan adopted by the Czech Government, the right of branches to acquire real estate will be ensured by an amendment to the Foreign Exchange Act by the end of 2001 at the latest.

B. Investment Promotion and Incentives in the Czech Republic

2.4. Investment Promotion

The Ministry of Industry and Trade set up CzechInvest, the national investment promotion agency of the Czech Republic in November 1992 to assist foreign investors in establishing or expanding manufacturing operations throughout the country. The Agency currently employs over 50 staff and has six overseas offices in London, Paris, Düsseldorf, Yokohama, Silicon Valley and Chicago and 15 local representatives in all regions of the Czech Republic. On national level, the Agency provides information, services and assistance to investors from the industrial sector embarking on greenfield, brownfield and joint venture projects. On behalf of investors, the agency processes incentives applications, provides sector-specific data, identifies sites, production facilities, potential partners, sources of supplies and facilitates contacts with national and local institutions. The agency plans to include in the near future into its activities service sector projects in the areas of shared services, call centres, software deve lopment, R&D, design centres and advanced distribution centres.

2.5. Investment Incentives

A programme of national investment incentives was introduced in the Czech Republic in April 1998 and is believed to have been a significant factor behind the surge in FDI since then. In 1999, job-creation grants were increased and the minimum investment volume requirement was reduced from US$25 million to

Box 2. **Investment incentives offered by the Czech Government**

1. Relief on corporate tax for 10 years (newly established companies, legal entities and natural persons) or partial discount of corporate tax for 5 years (already existing legal entities and natural persons).
2. Job-creation grants.
3. Training grants.
4. Provision of low-cost building land and/or infrastructure support.

Eligibility Criteria

1. Investment in high-tech manufacturing sectors listed in the Act or in other manufacturing sectors provided that at least 50 per cent of the cost of the production line consists of machinery listed on a government-approved list of high-tech machinery.
2. Investment in the acquisition or construction of a new production plant or in the expansion or modernisation of existing production facilities to launch a new production activity.
3. Minimum investment of CZK 350 million (approximately US$10 million); in regions with high unemployment this requirement is reduced to CZK 175 million (approximately US$5 million)
4. Investor's equity must account for at least CZK 145 million (US$4 million)
5. Investment in machinery must account for at least 40 per cent of the total investment.
6. The proposed production must meet all Czech environmental standards.

Source: *http://czechinvest.org*

US$10 million and just recently lowered again in regions of high unemployment to US$5 million to widen access to the programme. Since the start of the incentives scheme in April 1998 up to the end of 2000, almost 50 companies received support for investment projects involving investment commitments of US$2.1 billion and nearly 16 000 new jobs. These companies include well-known foreign companies such as koda Volkswagen, Schoeller, Continental, Glaverbel, Matsushita, Philips and others. The programme was devised under the supervision of the EU Monitoring Authority and complies with general rules on public aid.

Since May 2000, investment incentives are offered to both domestic and foreign investors on the basis of a new Investment Incentives Act (No. 72/2000 Coll.).[7]

The total amount of public aid offered through the incentives is monitored by the Office for Protection of Economic Competition on the basis of the new Act on Public Aid (Act No. 59/2000 Coll.).

Since 1999 also, the Czech Ministry of Trade and Industry has started promoting the development of industrial zones throughout the country to meet the requirements of new and established investors. Under this scheme, the municipalities receive government subsidies to co-finance the development of such zones in their region. Transfer of land from the National Land Fund of the Czech Republic to the municipality at a discounted price or government subsidy to the municipality for the purchase of land from other owners is also possible. In 1999, CZK 158 million (approx. US$4.5 million) was provided to 18 municipalities to create almost 360 hectares of fully serviced industrial zones. Within this programme a further CZK 380 million CZK (US$11 million) will be invested in the creation of 32 industrial zones in 2000 – to prepare some 710 hectares of fully serviced sites for potential investors.

The most successful industrial zones are those near Plzen in West Bohemia, Kladno near Prague and Hranice in Central Moravia. The industrial zones account for the majority of greenfield investments in the Czech Republic. Three further large greenfield investment projects are currently under way, among them the biggest one to date – a TV screen production unit for Philips Electronics of the Netherlands which should create 3 250 jobs. The other two involve the expansion of the Panasonic TV set production by Japanese Matsushita and the establishment of a cable plant by the American company, Tyco Electronics.

In line with the 1999 Accession Partnership agreed between the Czech Republic and the European Union, comprehensive support programmes for small and medium-sized enterprises was launched to facilitate their participation in industrial projects and their trade, services, construction and regional transport sectors. Seventeen programmes were approved at the end of 1999 and provide for a range of subsidies to strengthen the competitiveness of Czech industry at SME level which accounts for over 50 per cent of the country's GDP.

CzechInvest is also implementing the new 3-year pilot Supplier Development Programme. The objective is to link multinational companies located in the Czech Republic with the existing local supplier network and, at the same time, to upgrade generally the level of local suppliers to be able to meet all requirements of foreign companies and derive optimal benefits from backward linkages. The programme is financed jointly by the Czech government and the European Union Phare Programme. The pilot stage of the programme is focused on the rapidly developing electronics sector and it is presumed that the next phase will be extended to other industrial sectors.

C. Bilateral Investment Protection, Double Taxation and Other International Agreements

The Czech Republic has concluded about 60 bilateral agreements on the prevention of double taxation and about 70 agreements on the promotion and protection of investment. These agreements are already in place with all the OECD Member countries except for Japan, Iceland, Mexico and New Zealand. A further 10 agreements have been signed and are awaiting ratification. Since accession, four new agreements on the promotion and protection of investment have been signed with, Ireland, Italy, Korea and Turkey. Seven new double taxation agreements have entered into force with Australia, Belgium, Finland, Ireland, Korea, Portugal and Switzerland. A complete list of such agreements is attached as Annex 2.

The Czech Republic ratified the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions[8] early in 2000 and has also ratified the OECD Declaration and Decisions on International Investment and Multinational Guidelines.[9]

Chapter 3

Sectoral Measures and Restrictions

3.1. Financial Sectors

a) *Banking*

As of 30 September 2000, 42 banks were operating in the banking sector of the Czech Republic. There are 22 fully foreign-owned banks, of which 10 are branches (Table 9). The market is dominated by 4 major banks, one of which (*Komercni banka*) is controlled by the NPF, whose share in the bank is 60 per cent. The share of foreign banks and foreign bank branches has steadily increased. (Table 10).[10]

Table 9. **Number of banks according to groups of banks**
Operating banks

	1 January 1990	31 December									
		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Total	5	9	24	37	52	55	54	53	50	45	42
of which:											
Large banks	5	5	6	6	6	6	6	5	5	5	5
Small banks	x	4	14	19	22	21	18	12	9	8	5
Foreign banks	x	x	4	8	11	12	12	13	14	13	13
Foreign bank branches	x	x	x	3	7	8	10	9	9	10	10
Specialised banks	x	x	x	1	5	7	8	9	9	9	9
Banks under administration	x	x	x	x	1	1	0	5	4	0	0
Banks without licence	x	x	x	x	x	1	4	6	10	18	21

The privatisation of Komercni banka, the last major Czech bank in state ownership, is in progress and it was offered to strategic investors in September 2000. Goldman Sachs are currently working on the privatisation transaction and it circulated the Information Memorandum to potential investors in September 2000. The Czech government is expected to finalise the sale with the buyer selected by the first half of year 2001.

Table 10. **Bank privatisation transactions**

Bank	Year of privatisation	Shares sold to strategic investors		Privatisation price (price per share as per cent of face value)
		Percentage of registered capital	In CZK million	
CSOB	1999	65.69	3 353	n.a.
Ceska Sporitelna	2000	57.02/56.22[1]	7 915	n.a.
Zivnostenska banka	1992	52.00	707	n.a.
IPB	1998	36.29	2 062	148

1. The first figure indicates the number of shares, the second figure represents voting rights.
Source: Czech National Bank.

A special-purpose bank, Konsolidacni Banka, is in state ownership and its liabilities are fully guaranteed by the state. It had the task of collecting the non-performing loans of state-owned companies and recently has also become involved in the restructuring of selected state-owned enterprises and banks. (See Chapter 4 on Privatisation.)

The establishment of foreign banks, whether as branches or subsidiaries, is subject to a banking license, which is granted on the basis of national treatment by the Czech National Bank (CNB) on the recommendation of the Ministry of Finance. The sector is regulated by the Banking Law which was amended in 1998 to accommodate foreign and non-resident investors in the sector.[11]

Table 11. **The ownership structure of Komercni Banka**

Shareholders	Resident		Non-resident	
	% share of equity capital	% share of voting rights	% share of equity	% share of voting rights
Major shareholders				
National property Fund	49	49		
GDR[1]			18	18
Other major shareholders	5	5	2	2
Total				
Small shareholders				
Total	**15**	**15**	**11**	**11**
of which:				
– Financial institutions	n.a.	n.a.	n.a.	n.a.
– Others	15	15	11	11

1. GDR = Global Depository Rights.
Source: Czech National Bank.

Table 12. **Individual groups of banks**

As of 31 December 1999, in per cent of total banking sector assets

	1995	1996	1997	1998	1999
Large Czech banks	76.96	73.35	68.97	66.35	65.07
Small Czech banks	2.79	3.09	2.91	2.98	1.57
Foreign Banks (subsidiaries and branches)	17.99	20.26	23.59	25.19	27.11
Specialised banks	2.27	3.29	4.53	5.49	6.25
Total	**100**	**100**	**100**	**100**	**100**

Source: Czech National Bank.

Branches of foreign banks have non-residential status under the Commercial Code so that, under the terms of the Foreign Exchange Law, they are prevented from acquiring real estate, including office premises, necessary for the normal conduct of their business activities and also not permitted to operate as mortgage banks (see also Section II. B. 2.2.). The Czech authorities confirm that for any other operations, branches enjoy full equivalent treatment with domestic banks by virtue of the Banking Law.[12]

"Agencies" of foreign banks, frequently representative offices, require no banking license. Foreign banks are obliged to register their agencies before becoming operational. Agencies are not considered as business entities and are classified as non-resident under the Commercial Code and the Foreign Exchange Law.

The acquisition of shares by non-residents in Czech banks is subject to the same conditions as in the case of residents since the last amendment of the Banking Act in 1998. The Act stipulates that the legal entity or natural person intending to acquire a direct or indirect share in a bank representing at least 10 per cent, 20 per cent, 33 per cent or 50 per cent of the voting rights or to increase its direct or indirect share in such a way that it reaches or exceeds these limits is obliged to apply to the CNB for prior approval. The same duty applies to persons acting in concert.[13]

The full harmonisation of the banking rules with the EU directives, including among other things licensing and acquisitions of banks, is expected in the next amendment to the Banking Act which is currently in the legislative process and expected to come into force in January 2001.

b) *Stock Exchange*

The acquisition of shares on the Prague Stock Exchange (as a company) by foreign investors is not subject to any special restrictions. Shares of the Stock Exchange which are not traded on a secondary market, are registered in name and transferable to other persons only with the consent of the Stock Exchange Chamber. It is, however, not necessary to be a shareholder in order to be a member of the Stock Exchange.[14]

Securities may be bought and sold on the Prague Stock Exchange by persons licensed by special law and who are either shareholders of Stock Exchange or persons who were granted a licence by the Stock Exchange Chamber. In addition, persons licensed by special law and non-licensed persons can trade in securities within the RM System,[15] an off-stock exchange market. Securities may also be traded on the over-the-counter market.

There are no restrictions on the access of foreigners to the securities market in the Czech Republic.

c) Insurance

There are 41 insurance companies in the Czech Republic, of which a majority is in the form of joint-stock companies and without government ownership involvement. The government holds 30.25 per cent ownership, which is administered through the NPF, in the Czech Insurance Company, whose market share changed from nearly 65 per cent of the total written premiums in 1996 to 58.4 per cent in 1999. The Czech Insurance Company was the exclusive supplier of compulsory vehicle third-party liability insurance but this monopoly was abolished in January 2000 when Act. No. 168/1999 Coll. came into force and twelve companies now offer this insurance product on the Czech market. The monopoly for compulsory air transport insurance was abolished in 1997 by the new Civil Aviation Act. There is also significant direct government involvement in the Export and Guarantee Insurance Company (EGAP) which provides insurance on export credits. All other insurance companies operate without direct government participation in their capital structure. However, the government holds a partial ownership, administered through the NPF, in one bank which partly hold shares in insurance companies. In the last years the NPF lost technical majority in Czech Insurance Company (Ceska Pojistovna a.s) and presently holds only a 30.25 per cent share and plans to privatise this asset in 2001.

Since the Czech Republic's accession to the OECD, 16 new insurance companies have been licensed and one authorisation has been withdrawn. Six of the 41 insurance companies operating in the Czech Republic are foreign-owned branch offices, and 15 insurance companies are controlled by foreign shareholders. Three of the existing insurance companies deal only with life insurance, 20 deal only with non-life insurance and the remaining 18 insurance companies are composite. Two insurance companies providing reinsurance services.[16]

The same licensing and operating requirements apply to both domestic and foreign investors in this sector.

d) Pension Funds

There are 20 existing pension funds in the Czech Republic, all of them private joint-stock companies without the participation of the Czech government. Four pension funds have been established by foreign investors.

The same licensing and operating requirements apply to both domestic and foreign investors and this sector is regulated by Act No. 170/1999.

Under the terms of current legislation, Czech pension funds investing abroad may only place their assets in bonds issued by OECD Member states or by central banks of OECD Member states.

This requirement has been in force for only a short time and there are as yet no official statistics on the level of investment activity abroad by Czech pension funds.

e) Other Financial Services

Non-resident investors can establish a subsidiary or a branch to provide other financial services in the Czech Republic or acquire a shareholding in existing financial institutions engaged in such activities on conditions equivalent to those applying to domestic investors.

Currently there are 34 investment funds in the Czech Republic, five of which are partly foreign-owned (*i.e.* over 10 per cent of shares are in foreign ownership) and 30 investment companies, of which five (36 per cent of shares) are wholly-owned by foreign investors.

Investment companies and investment funds

Establishing an investment fund or investment company is regulated by the Law on Investment Companies and Investment Funds which provides the legal and supervisory framework for the operation and licensing of such institutions.[17]

A foreign investor may be the sole or joint founder of investment companies or investment funds and may also join an existing Czech company. Investors may also acquire equity positions in investment funds through the Czech securities market. There is no upper limit on foreign investment in these companies and funds.

In accordance with the amendment to the Investment Companies and Investment Funds Act No. 248/1992 Coll., which entered into force 8, June 1998, the process of mandatory transformation of the investment funds and close unit funds into the open unit trust funds was initiated in the first quarter of 1999 with the deadline for completion by the end of 2002.

Securities firms

The conditions for foreign direct investment in securities firms in the Czech Republic are regulated by the Securities Act No. 591/1992 Coll. Foreign direct investment in securities firms in the Czech Republic is not restricted.

At the end of March, 2000 there were a total of 123 securities firms, 99 non-banking enterprises (16 wholly foreign-owned, 5 partly in foreign ownership) and 24 banking entities. There are 6 branches and 7 subsidiaries of foreign banks and 9 further banks with foreign participation.

The responsibility for the supervision of the capital market lay with the Ministry on Finance until 1998. Changes in the regulatory framework led to the establishment of a special authority for the supervision and protection of the capital market – the independent Securities Commission which commenced operation on 1 April 1998.[18]

The main task of the Securities Commission is to improve and reinforce state supervision of the capital market and to ensure transparency in its operation. One of the Commission's key tasks in 1999 was to organise the re-licensing process of securities traders and investment companies which resulted in the withdrawal of a large number of licences from individuals and companies.

The Government reacted to the problems in the capital markets by introducing several changes to enhance the efficiency and transparency of the markets in all their functions. It has prepared several amendments to the acts regulating the functioning of the capital market: the Securities Act, the Stock Exchange Act, the Act on Bonds, the Accounting Act and the Commercial Code. All these amendments have already been already approved by the Parliament of the Czech Republic and will come into force from January 1, 2002.

3.2. Non-financial Sectors

The Czech authorities confirm that laws and regulations governing the non-financial sectors comply with the principle of national treatment for the establishment and operation of foreign enterprises in all fields, with the exception of the three sectors examined below and real estate and telecommunications which are covered in Chapters 2.3 and 5.3 respectively.

a) *Auditing*

As part of its accession commitments, the Czech Republic committed itself to removing its restriction on foreign participation in companies providing auditing services by means of a new Act on Auditors. Under current legislation, foreign participation in auditing practices may not exceed 40 per cent of the equity capital of the company and non-Czech citizens cannot qualify as auditors in the sense of Czech legislation.

A new Act on Auditors and the Provision of Auditing Services was approved by the Czech government in January 2000. It subsequently had its first reading in Parliament and is expected to enter into force with other related laws in January 2001. The delay in the adoption of the amendment concerning foreign equity participation in auditing practices is due solely to the fact that it is part of a more general revision of the Act, concerning many elements other than foreign investment, and has required longer consideration within the Parliament than originally expected. The Czech authorities have, however, indicated that, in the meantime, any application involving foreign investment in auditing services has been, and will continue to be dealt with by the competent authorities in compliance with the Czech Republic's international commitments. Under Section 27 of the Act on Auditors and the Chamber of Auditors, the requirement to be Member of the Chamber of Auditors to establish a partnership (and thereby comply with the 40 per cent participation provision described above) can be waived on a case-by-case basis by the Assembly of the Chamber of Auditors. The Czech authorities consider that Section 27 provides a legal basis to allow participation by foreign investors beyond the 40 per cent ceiling, should such cases arise. The new Act on Auditors has removed this restriction and will enter into force on 1 January 2001.

b) *Air Transport*

With respect to air transport, foreign operators intending to carry out commercial activities through an establishment in the Czech territory must submit an application for registration under the terms of the Commercial Code.

Under the current Civil Aviation Act (49/1997), in order to register an aircraft and obtain a licence to operate an air transport enterprise as a Czech company and to obtain the necessary Czech air operating certificate, the carrier must be a legal person with a base in the Czech Republic in which Czech nationals have at least 51 per cent of the capital and voting rights and an effective influence on the management and full control of the activities of the enterprise. In order to operate air taxi services, however, it is only necessary to be a resident of the Czech Republic. It must be noted that this nationality requirement also applies to the establishment of companies operating domestic flights (*cabotage*), which is permitted but not provided for under the Chicago Convention, unlike the case of international flights.

The Czech authorities have indicated that the nationality requirement for the establishment of an air transport company may be waived, in most cases on the basis of a bilateral agreement or arrangement with the country of origin of the foreign investor. These bilateral agreements or arrangements provide for adequate information exchange, supervisory and security arrangements between the competent authorities of the parties. The Czech authorities are prepared to consider applications from any OECD country interested in entering into such bilateral agreements or arrangements.

The air transport sector in the Czech Republic is dominated by the national airline CSA, the shareholders of which are the National Property Fund (56.91 per cent of shares), the state special-purpose bank Konsolidacni banka (32.64 per cent) and two other shareholders, Ceska pojistovna (Czech insurance company) and the City of Prague. In addition to CSA, there are several charter air companies. Having failed to privatise the airline in the early nineties after the participation of Air France in CSA had to be ended, the Czech government approved in June 2000 the airline's entry into the Air France – Delta Global Alliance (Sky Team Alliance) and will decide on the privatisation of the state share in the company later in line with the provisions of the Alliance Agreement.

c) *Gaming*

Following further scrutiny of relevant laws and regulations it appears that, under the 1990 Act on Lotteries and Other Similar Gaming Activities, permission to operate lotteries or other similar activities can be issued only to a legal person without any foreign participation and having its headquarters on the territory of the Czech Republic. Due to an oversight, this restriction was not notified to the OECD at the time of accession. (However, an exception can be granted to legal persons with foreign participation having their seat in the territory of the Czech Republic for the operation of a casino.)

The Czech authorities justify this restriction for "consumer protection and supervisory" reasons. They consider that the participation of foreign capital in the activities may lend itself to money laundering and other illegal activities. Under Czech law, a portion of the revenues arising out from lotteries and gaming must be transferred to the State for public interest and humanitarian purposes. The Czech authorities consider it difficult to envisage foreign investors being interested in serving such non-commercial purposes and note, in this regard, that in a related case of dispute [C-275/92], the European Court of Justice delivered the opinion that the Member states are justified in setting out special rules for the operation of lotteries, given their special nature. They also refer to the fact that the Second Chamber of the Court of the first instance of the EC expressly decided in a judgement delivered on 27 October 1994 (T-32/93 Ladbroke Racing/EC Commission) that the conduct of operators of lotteries and other similar games cannot be determined solely by commercial rules.

The Czech authorities have not indicated any plans for liberalisation. A new reservation under item I/A of the Code and a new exception to the National Treatment instrument has been added with a narrower restriction of access to this sector.

Chapter 4

Privatisation

4.1. Status

Prior to 1989, the Czech Republic – as part of Czechoslovakia – was one of the former COMECON countries with the highest percentage of state-owned assets (95 per cent). Fastest possible privatisation of those assets which remained in Czech ownership has been one of the key components of the country's economic reform process and is essentially complete now with over 80 per cent of former state assets and, in particular, commercial, industrial and service companies already in private ownership or transferred to the National Property Fund (NPF) which succeeded the Ministry of Privatisation in 1991 as the institution responsible for the implementation of the privatisation process (see Box 3 on Institutions involved in the Czech Privatisation Process). The value of the remaining saleable state assets is estimated at US$3-4 billion. Most of the revenues from privatisation transactions are to be used to develop the infrastructure, build housing facilities, promote further investment and to cover the cost of eliminating old environmental damages.[19]

The Czech legislation on privatisation dates from 1991. It was amended in 1996 and in 2001 and allows foreign investors full access to the investment opportunities created by the privatisation process. Privatisation projects are first approved by the government, then passed on to the Ministry of Finance to initiate the procedure and finally entrusted to the NPF for implementation.

The Czech Republic has been using a combination of three different methods of privatisation in order to implement a rapid transfer of state assets to private owners: restitution (mainly of previously confiscated retail businesses), small-scale privatisation (auctions of shops and restaurants) and large-scale privatisation of incorporated and unincorporated companies. Of the incorporated companies, 36.5 per cent of the former were transferred into private ownership by a system of voucher privatisation in which all Czech citizens over 18 could participate either by directly acquiring shares in companies or indirectly through investment privatisation funds (IPFs). Two waves of voucher privatisation were completed in 1992 and 1994.

The combination of the privatisation methods used generally facilitated a quick transfer of ownership, but in many cases, failed to generate new capital investment and delayed the actual restructuring of the enterprises involved. The failure of many companies up to now to complete their restructuring processes, raise productivity, reduce indebtedness and raise competitiveness is attributed to the voucher privatisation method in particular. This resulted in widely dispersed small shareholdings with a complicated ownership structure and, in some cases, unclear corporate governance provisions. All too frequently there was no clear connection between the interests of owners and those of management of the company and lack of consensus among shareholders. On the one hand, small shareholders were unable to exercise control over the management and, on the other hand, large shareholders were often more interested in quick and high returns instead of the long-term management and performance of the company. Links between IPFs and banks in turn allowed cross-subsidisation of companies and easy access to credits with the inevitable postponement of restructuring in many cases. Many IPFs have been unable to consolidate their shareholdings to date in order to assume control over companies and finalise restructuring and dispose of shares as appropriate to manager investors.[20]

In response to the corporate governance problems affecting the pace of restructuring and privatisation of companies, legislative changes affecting IPFs were introduced in 1998. The 1998 Bank Act prohibited banks from exercising direct or indirect control over legal entities other than banks and financial institutions, in order to severe the links between banks and companies. Certain large state-owned banks were privatised. These triggered off sales of companies to strategic investors by some of the funds seeking to consolidate their shareholdings. In order to boost the 1998 legislative measures directed at IPFs and speed up the industrial restructuring process, in 1999 the Czech government initiated a revitalisation programme and established the Revitalisation Agency through the Konsolidacni banca to arrange debt-for-equity swaps and restructure selected companies with a view to reselling them to strategic investors (see Box 3).

The figures in Table 13 below reflect the major role of FDI in the privatisation process. By June 2000 the NPF had received almost 40 per cent of all the revenues from privatised property[21] through FDI. The overall level of FDI in the Czech privatisation process is expected to increase substantially in the near future when the remaining one bank, utilities, mining enterprises and other state assets are offered for sale to private investors. In 1999 alone, the FDI share on the NPF privatisation revenues was over 96 per cent.

An Act on terms for the transfer of state-owned agricultural and forest land to other subjects (No. 95/1999 Coll.) has enabled the sale of the remaining

Box 3. **Institutions involved in the Privatisation Process**

National Property Fund of the Czech Republic (NPF)

The National Property Fund (NPF) was created by the Czech government in 1991 with the task of executing the privatisation decisions of the government and of temporarily administering state stakes in incorporated (mostly joint-stock) and unincorporated companies which represented about 60 per cent of the total assets officially singled out for privatisation after 1989. The state shares of the majority of these entities were transferred to the NPF for completion of the large-scale privatisation process.

The NPF is not a state body in the conventional sense, but is entered in the Commercial Register and operated as a company. Its supreme body is a Presidium, elected by the Czech Parliament and chaired by the Minister for Finance. The Presidium elects the Executive Committee of the NPF. Its Supervisory Board is elected by Parliament to which its independently audited annual reports are submitted for approval. Between 1991 and mid-2000 the NPF had handled 6 573 privatisation projects (representing 14 443 entities) and 6 373 of these projects or 97 per cent of the total had been completed by end June 2000. The NPF had been entrusted by the Finance Ministry with the transfer of assets of a book value of over CZK 937 billion. As of June 2000, 99 per cent of this total book value had been transferred to private ownership.

The NPF also has the task of administering or delegating the administration of state holdings in strategic enterprises on which no privatisation decision has been taken as yet (metallurgy, heavy engineering, coal mining, power and gas distribution, telecommunications, etc. – see Table 15).

Konsolidacni banka, s.p.ú. (KOB)

KOB is a special-purpose bank established by the Ministry of Finance in 1991 to assume and administer bad loans from the corporate sector. Its liabilities are fully guaranteed by the state and it falls under the jurisdiction of the Czech Bank Board. It has its own internal audit and inspection body and its annual reports are subject to an independent audit.

The role of the KOB originally was to solve problems arising prior to 1998 in relation to the management and disposal of assumed and purchased assets, acting as a state bailout institution. Recently KOB has been actively involved in pre-privatisation restructuring measures for selected enterprises, involving the acquisition of shareholdings and bad loans to facilitate their privatisation. Its total assets amounted to CZK 196 billion at the end of 1999 and losses of CZK 36 billion. It also has a portfolio of shareholdings in a range of joint-stock companies to be privatised by the Revitalisation Agency (see below). One of the future greatest challenges for the KOB will be effective management of its bad loan portfolio and it is trying to improve its financial position by selling loans to other investors, entering into joint ventures with other financial institutions and restructuring its debtors. There is concern that the KOB's losses could otherwise have implications for the Czech budget deficit.

Box 3. **Institutions involved in the Privatisation Process** (*cont.*)

Revitalisacni agentura, a.s. (RA)

In response to major solvency problems in the industrial sector and a number of difficulties with the privatisation of certain state manufacturing holdings, the Czech government launched a revitalisation programme and authorised the KOB to establish a 100 per cent subsidiary, Revitalisacni agentura, a.s. (Revitalisation Agency) in 1999 to target a limited number of heavily indebted companies, carry out debt-equity swaps, recapitalisation or other measures as appropriate and prepare them for privatisation. The operations of this Agency are to be wound up by 2002.

Following an international public tender process, the management of the Revitalisation Agency (RA) was entrusted to an international consortium of Lazard Frères and Latona Associates. It is to handle the restructuring and privatisation of selected viable, but struggling manufacturing enterprises. The RA is initially and currently focusing on 8 industrial companies identified by a government appraisal commission: AliaChem and Spolana Neratovice (chemicals), CKD Praha Holding and Skoda Plzen (engineering), Tatra Koprivnice (trucks), Vitkovice (steel), ZPS Zlin (machine tools) and Zetor (tractors).

In each case the RA has got a mandate *i*) to purchase the companies' classified loans from Czech commercial banks, *ii*) to manage, restructure or capitalise their receivables, *iii*) to gain ownership control of the company, *iv*) to negotiate with other banks or business creditors, *v*) to plan and implement programmes of operation and financial restructuring and, finally, *vi*) to achieve full privatisation of the companies concerned by identifying strategic investors.

Although the initiation of the revitalisation programme was viewed very positively, there is some concern as to the final cost of the restructuring programmes involved which are likely to exceed the upper limit of just under US$200 million envisaged by the Ministry of Finance and criticism of its limited scope which covers only a handful of troubled enterprises. The dilution of shareholders' interests as a result of the debt-equity swaps for restructuring purposes also constitutes an unresolved issue in the future implementation of the programme.

tracts to physical persons of Czech nationality. This process has already started in the year 2000.

The privatisation of Czech Railways is planned on the basis of a special act reflecting EU agreements. The government also expects to dispose of its stake in Czech Airlines (CSA) in the coming years, respecting the Alliance Agreement concluded in July 2000 between CSA and Air France-Delta Sky Team Alliance.

Since 1998 the main focus of economic transformation initiatives by the government has been the privatisation of the remaining large state shareholdings. All

Table 13. **Breakdown of privatisation revenue from 1992 to mid-2000**

As of 30 June 2000

	Domestic investment in CZK	Foreign investment in CZK	Total in CZK
1992	12 628 003 222	13 904 166 947	26 532 170 169
1993	15 938 442 558	8 466 547 149	24 404 987 707
1994	26 451 863 475	4 145 190 053	30 597 053 528
1995	21 647 916 942	4 262 302 346	25 910 219 288
1996	23 854 893 535	625 482 277	24 480 357 812
1997	12 051 173 999	456 219 246	12 507 393 245
1998	10 040 706 872	4 069 852 818	14 110 559 690
1999[1]	927 359 081	24 577 637 020	25 504 996 101
2000	468 776 271	0	468 776 271
Total[1]	**124 009 135 955**	**60 507 397 856**	**184 516 533 811**

1. Most of the foreign investment revenue comes from the sale of CSOB bank where 65 per cent of the selling price (CZK 26 billion) was cashed in directly by the Czech National Bank. The more representative figures for 1999 would be: foreign investment: CZK 50 577 637 020 and total CZK 51 504 996 101 billion.

Source: Czech National Property Fund.

remaining state assets are to be privatised with the exception of schools, large hospitals and prisons (as is the case with museums, state libraries and other facilities under the Ministry of Culture).

4.2. Holdings in joint stock companies

As of 30 June 2000 the NPF had a share in the equity capital of 282 joint-stock companies, including 38 strategic companies and 244 non-strategic companies (of which the state holds golden shares in 65).

The strategic companies are involved mainly in energy production and distribution, gas distribution, the metallurgy sector, petrochemical industry, coal mining and telecommunications and occupy important, often monopolistic positions on their respective markets. In the case of some sectors the state still has to implement gradual price de-regulation measures. There are already foreign partners with minority shareholdings in several of these companies such as, for example, the Swiss-Dutch strategic partner in *Cesky telecom, a.s.* and Danish partner in *České radiokomunikace, a.s.* Important minority foreign partners (mostly German or Austrian, and one Swedish) are already present in nearly all the 16 power and gas distribution companies. Table 15 gives full list of strategic companies with the level of state participation and sector of activity. Compared with the mass privatisation initiatives at the beginning of the nineties, privatisation of the strategic companies will be a more demanding longer-term process.

The state stake in non-strategic companies may still appear to be relatively high and represented a nominal value of shares of CZK 18 911 billion at the end of

Table 14. **Ownership structure in main business sectors of the Czech economy**

Selected entrepreneurial fields in 1998[1] and in 1999[2]

Sector	Legal entities in total[1]	Including selected sections[1]			Companies with partial state (NPF) ownership[2]			
		Private enterprises and corporations	Under foreign control	Natural persons	Total	% of shares		
						1-15	16-50	51-100
A. Agriculture, hunting and forestry	128 080	5 326	520	118 012	15	14	1	–
B. Fishing, operation of fish hatcheries and fish farms; related service activities	539	64	3	444	30	28	–	2
C. Mining and quarrying	690	296	32	353	9	8	–	1
a) Mining and quarrying of energy producing materials	184	49	9	110	8	7	–	1
b) Mining and quarrying of other materials	506	247	23	243	1	1	–	–
D. Manufacturing	234 876	26 821	4 385	207 383	133	85	23	25
a) Manufacture of food products; beverages and tobacco	11 599	2 910	277	8 561	24	17	3	4
b) Manufacture of textiles and textile products	33 091	2 018	469	31 041	10	8	1	1
c) Manufacture of leather and leather products	2 195	330	62	1 854	3	3	–	–
d) Manufacture of wood and wood products	39 783	2 682	470	37 079	7	5	2	–
e) Manufacture of pulp, paper and paper products; publishing and printing	9 807	2 524	274	7 210	7	5	–	2
f) Manufacture of coke, refined petroleum products and nuclear fuel	40	18	1	16	10	1	7	2
g) Manufacture of chemicals, chemical products and man-made fibres	3 614	735	95	2 865	–	–	–	–
h) Manufacture of rubber and plastic products	3 499	1 250	240	2 232	15	9	1	5
i) Manufacture of other non-metallic mineral products	9 655	1 369	198	8 231	4	2	–	2
j) Manufacture of base metals and fabricated metal products	57 628	5 296	1 383	52 263	5	3	1	1
k) Manufacture of machinery and equipment	8 473	2 267	245	6 088	41	29	4	8
l) Manufacture of electrical and optical equipment	33 685	3 155	326	30 474	–	–	–	–
m) Manufacture of transport equipment	1 408	374	58	1 000	1	1	–	–
n) Manufacturing n.e.c.	20 399	1 893	287	18 469	6	2	4	–
E. Electricity, gas and water supply	1 325	460	22	604	15	2	11	2
F. Construction	186 507	21 178	8 521	165 081	15	12	1	2

Table 14. **Ownership structure in main business sectors of the Czech economy** (*cont.*)

Selected entrepreneurial fields in 1998[1] and in 1999[2]

Sector	Legal entities in total[1]	Including selected sections[1]			Companies with partial state (NPF) ownership[2]			
		Private enterprises and corporations	Under foreign control	Natural persons	Total	% of shares		
						1-15	16-50	51-100
G. Wholesale and retail trade; repair of motor vehicles, motor cycles and personal and household goods	575 682	98 751	31 847	476 504	10	9	1	–
H. Hotels and restaurants	81 745	6 028	689	75 428	1	1	–	–
I. Transport, warehousing and communications	62 383	6 936	810	55 214	10	5	–	5
J. Financial services	22 483	1 696	165	20 763	3	–	2	1
K. Real estate, renting and business activities	287 141	44 199	8 262	240 683	16	12	2	2
L. Public administration and defence; compulsory social security	13 117	51	3	2 500	2	1	–	1
M. Education	20 569	1 360	215	13 566	–	–	–	–
A. Health and social work	28 858	1 083	48	25 131	18	15	1	2
O. Other community, social and personal service activities	137 124	3 765	571	68 702	6	5	–	1
P. Private households with employed persons	74	–	–	74	–	–	–	–
Q. Extra-territorial organisations and bodies	141	–	–	4	–	–	–	–
Total	**1 781 334**	**218 014**	**56 093**	**1 470 446**	**283**	**197**	**42**	**44**

1. *Source*: Czech Statistical Office (data from the Business Register) as of 31 December 1998.
2. Data from the NPF of the Czech Republic register as of 31 December 1999.

Table 15. **Equity participation of the NPF in strategie companies as of 30 June 2000**

No.	Joint stock company	NPF's share on company's basic capital		
		% of shares	Nominal value of shares in CZK mil.	Sector
1.	Aero Holding, a.s.	61.83	4 861.66	Engineering
2.	CEPRO, a.s.	100.00	4 155.81	Transportation and storage of propellants, oils, etc.
3.	Ceska pojistovna, a.s	30.25	1 032.33	Finance
4.	Ceska sporitelna, a.s.[2]	52.07	7 914.67	Banking
5.	Ceske aerolinie, a.s.	56.92	1 556.98	Air transportation
6.	Ceske radiokomunikace, a.s.[1]	51.00	1 570.15	Radio telecommunications
7.	CEZ, a.s.	67.60	40 014.65	Power production/distribution
8.	Chemicke závody Sokolov, a.s.[2]	73.74	1 338.31	Chemical industry
9.	Jan Becher-KV Becherovka, a.s.[3]	59.00	252.18	Foodstuffs
10.	Jihoceska energetika, a.s.	48.06	921.10	Power distribution
11.	Jihoceska plynarenska, a.s.	46.68	226.62	Gas distribution
12.	Jihomoravska energetika, a.s.	46.66	1 647.79	Power distribution
13.	Jihomoravska plynarenska, a.s.	47.65	711.49	Gas distribution
14.	Komercni banka, a.s.[1]	48.74	4 631.13	Banking
15.	MERO CR, a.s.	100.00	8 430.92	Crude oil transp. and storage
16.	Nova hut, a.s.	49.00	5 618.45	Metallurgy
17.	OKD, a.s.	45.88	11 149.59	Coal mining
18.	Paramo, a.s.[2]	70.87	942.62	Refinery
19.	Plzensky Prazdroj, a.s.	0.00	0.00	Foodstuffs
20.	Prazska energetika, a.s.	48.19	1 864.80	Power distribution
21.	Prazska plynarenska, a.s.	49.18	708.11	Gas distribution
22.	SEVAC, a.s.	78.86	167.05	Health industry
23.	Severoceska energetika, a.s.	48.05	1 565.34	Power distribution
24.	Severoceska plynarenska, a.s.	49.19	507.19	Gas distribution
25.	Severoceske doly, a.s.	54.00	4 712.52	Coal mining
26.	Severomoravska plynarenska, a.s.	47.17	828.94	Gas distribution
27.	Severomoravska energetika, a.s.	47.25	1 566.32	Power distribution
28.	Sokolovska uhelna, a.s.	48.69	3 302.59	Coal mining
29.	Cesky telecom, a.s.[1]	51.10	16 458.80	Telecommunications
30.	Stredoceska energeticka, a.s.	58.29	1 870.76	Power distribution
31.	Stredoceska plynarenska, a.s.	48.49	314.93	Gas distribution
32.	Skoda Praha, a.s.	54.77	305.35	Engineering
33.	Unipetrol, a.s.	62.99	11 422.40	Petrol and chemical industry
34.	Vitkovice, a.s.	67.31	8 937.85	Metallurgy and engineering
35.	Vychodoceska energetika, a.s.	49.62	1 265.18	Power distribution
36.	Vychodoceska plynarenska, a.s.	47.10	452.41	Gas distribution
37.	Zapadoceska energetika, a.s.	48.29	775.32	Power distribution
38.	Zapadoceska plynarenska, a.s.	45.84	356.41	Gas distribution

1. Privatisation process or preparations started in 2000.
2. Contract signed with foreign strategic investor in 2000.
3. To be sold to existing strategic investor with present minority share.

Source: National Property Fund (NPF).

June 2000. Privatisation revenue from such companies is expected, however, to be lower. The total number of 244 non-strategic companies includes, for example, 65 companies in which the NPF holds a single so-called golden share to safeguard specific state interests in the company and 55 companies are under bankruptcy proceedings or in liquidation. State participation in the remaining 124 companies varies, but is generally not significant. The NPF controls more than 10 per cent of shares in about only 18 per cent of these companies.

The practice of retaining a golden share is regulated in the Czech Republic by the Law on Conditions of Transfer of State Property No. 92/1991. Only the NPF and the Land Fund may hold golden shares which fall into one of three categories of shares defined in the Commercial Code. The rights associated with golden shares are specified in the statutes of companies. They ensure that the state retains preferential voting rights, in particular veto rights, on major aspects of the company's operation. A golden share was provided for in certain privatised companies to protect what were considered to be fundamental state interests such as continuation of the company activity or preservation of trademarks. The state intends to retain its golden share in some companies for a period of time and ultimately dispose of it.

Table 16 below shows that the NPF maintains 65 such golden shares, distributed among 29 water and sewerage processing companies, 15 spa treatment companies, 6 research institutes, 6 cultural entities (cinema and audio facilities, publishing) 2 pharmaceutical companies and 7 others.

4.3. Opportunities and Restrictions

After a slowdown in the privatisation process in 1997-98 caused by economic problems, political instability and inadequate corporate restructuring, the new government decided in 1998 to speed up the privatisation of state shares in companies with substantial state holdings.

The government plans to complete privatisation of the banking sector first and is actively pursuing this objective. C*eskoslovenska obchodni banka, a.s* (CSOB), the fourth largest Czech bank was taken over in 1999 by the strategic investor, KBC bank (Belgium) at a price of CZK 40 billion and became the largest acquisition in the history of Czech privatisation to date. C*eska sporitelna, a.s.*, the second largest bank, was acquired by another strategic partner, Erste Bank, the second largest Austrian bank, in March 2000, leaving only the last state-controlled commercial bank K*omercni banka, a.s.* which is expected to be sold off by the first half of year 2001. The next priority areas for privatisation are the telecommunications and energy sectors. The state's 51 per cent stake in the wireless operator, C*eske* R*adiokomunikace*, is to be sold to a private investor in the beginning of 2001 and the public tender procedure was announced in July 2000.

Table 16. **List of companies with "golden share" as of 30.6.2000**

No.	Name of the joint-stock company	Share nominal value in CZK
1.	AB BARRANDOV a.s.	16 000
2.	ALBATROS, nakladatelství, a.s.	1 000
3.	Anenské slatinné lázně a.s.	1 000
4.	Ateliéry Zlín, a.s.	1 000
5.	BÄRENREITER EDITIO SUPRAPHON	1 000
6.	BASK a.s. v likvidaci	1 000
7.	Bohemia-lázně, a.s.	1 000
8.	Cinemart, a.s.	1 000
9.	České přístavy, a.s.	1 000
10.	Geofyzika, a.s.	1 000
11.	Hřebčín Napajedla a.s.	1 000
12.	Chebské vodovody a kan., a.s.	1 000
13.	Chodské vodárny a kan., a.s.	1 000
14.	INFUSIA a.s.	1 000
15.	KINOTECHNIKA Praha a.s.	1 000
16.	Kovohutě Příbram, a.s.	1 000
17.	Lázeň. sanatorium Švýc. dvůr a.s	1 000
18.	Lázně Libverda, a.s.	1 000
19.	Lázně Luhacovice, a.s.	1 000
20.	Lázně Poděbrady, a.s.	1 000
21.	Lázně Teplice nad Bečvou a.s.	1 000
22.	Lázně Teplice v Čechách a.s.	1 000
23.	Lázně Velichovky, a.s.	1 000
24.	Léč. Láz. Konstantinovy Láz. a.s.	1 000
25.	Léčeb. lázně Bohdaneč a.s.	1 000
26.	Léčebné Lázně Jáchymov a.s.	1 000
27.	Léčiva, a.s.	1 000
28.	Plzeňský Prazdroj a.s.	1 000
29.	Priessnitzovy léč. lázně, a.s.	1 000
30.	Sanatorium Astoria a.s.	1 000
31.	SEMPRA PRAHA a.s.	1 000
32.	Severočeská vodáren. spol. a.s.	1 000
33.	Slovácké vodárny a kan., a.s.	1 000
34.	Solné mlýny a.s.	1 000
35.	SVÚM a.s.	1 000
36.	SVÚOM Praha a.s.	1 000
37.	SVÚSS, a.s.	1 000
38.	Ústav nerostných surovin a.s.	1 000
39.	Vědeckovýzk. uhelný ústav, a.s.	1 000
40.	Vodárenská a kan. a.s., Plzeň	1 000
41.	Vodárny Kladno-Mělník a.s.	1 000
42.	Vodohosp. a občh. spol. a.s. Jičín	1 000
43.	Vodohosp. spol. Olomouc a.s.	1 000
44.	Vodohosp. spol. Vrchlice a.s.	1 000
45.	Vodohosp. zař. Šumperk, a.s.	1 000
46.	Vodovody a kan. Beroun a.s.	1 000
47.	Vodovody a kan. Bruntál, a.s.	1 000
48.	Vodovody a kan. Břeclav a.s.	1 000
49.	Vodovody a kan. H. Králové a.s.	1 000
50.	Vodovody a kan. Havl. Brod a.s.	1 000
51.	Vodovody a kan. Hodonín a.s.	1 000

Table 16. **List of companies with "golden share" as of 30.6.2000** (*cont.*)

No.	Name of the joint-stock company	Share nominal value in CZK
52.	Vodovody a kan. Chrudim a.s.	1 000
53.	Vodovody a kan. Jablonné a.s.	1 000
54.	Vodovody a kan. Kroměřž a.s.	1 000
55.	Vodovody a kan. Ml. Boleslav a.s.	1 000
56.	Vodovody a kan. Náchod a.s.	1 000
57.	Vodovody a kan. Nymburk a.s.	1 000
58.	Vodovody a kan. Pardubice a.s.	1 000
59.	Vodovody a kan. Prostějov a.s.	1 000
60.	Vodovody a kan. Přerov a.s.	1 000
61.	Vodovody a kan. Trutnov a.s.	1 000
62.	Vodovody a kan. Vsetín a.s.	1 000
63.	Vodovody a kan. Vyškov a.s.	1 000
64.	Vodovody a kan. Zlín a.s.	1 000
65.	Výzkumný ústav bavlnářský a.s.	1 000

Note: One golden share represents just several thousandths of a per cent participation in the equity of the above companies.

The government has already approved foreign advisor J.P. Morgan on the privatisation of CESKY TELECOM. The method of privatisation of the 51 per cent state share in *Cesky Telecom* is expected to be approved by the government in November 2000 and the sale itself at the latest by the middle of 2001.

Privatisation of the energy sector is proving more complex. The state holds 67.6 per cent of CEZ, the electricity monopoly and 100 per cent of *Transgas*, the monopoly gas importer, and a majority shareholding in most of the regional electricity and gas distributors. The municipalities which hold approximately one-third of shares of these distributors have in the meantime been selling purchase options to foreign investors awaiting the start of the energy privatisation process in the Czech Republic. The government considered various options for privatisation of this sector and is putting in place the final aspects of the necessary regulatory framework. In early October 2000 the government decided to start preparations for the privatisation of state shares in CEZ and in 6 electricity distributors to one single strategic investor. It plans to complete the privatisation process in the electricity sector in 2001. A privatisation decision regarding the gas sector companies is expected in 2001.

The Czech government is under particular pressure to privatise the sector as quickly as possible and liberalise the energy market in order to meet EU requirements (see also 5.1). The Czech Republic currently exports electricity to Germany, Switzerland and Italy among other markets, although the main power utility, CEZ, faces competition from exports and small local private generators.

Approval has already been given by the Czech government for the privatisation of the following joint-stock companies and other (movable and immovable) assets in the year 2000. These include:

a) *Strategic joint-stock companies*

Company	% NPF share	Sector
Ceske radiokomunikace, a.s.	51.00	Radio and telecommunications
Paramo, a.s.[1]	70.87	Refinery
Ceska sporitelna, a.s.[2]	45.00	Banking
Chem. zavody Sokolov, a.s.[2]	73.74	Chemical industry
Komercni banka, a.s[3]	48.74	Banking
Jan Becher-Karlovarska Becherovka, a.s.[4]	59.00	Foodstuffs

1. Tender process finished in September 2000.
2. Sold early 2000.
3. Sale delayed and expected in 2001.
4. To be sold to existing strategic investor with present minority share.

b) *Non-strategic joint-stock companies*:

Company	% NPF share	Sector
Ceská typografie, a.s.	100	Printing industry
TONAVA, a.s.	90.85	Engineering
Prazske vodovody a kanalizace, a.s.[1]	66.00	Utilities
Forte, a.s.	100	Engineering
Kabelovna Decin, a.s.[2]	4.77	Engineering
CSAD Liberec, a.s.[2]	66.00	Transport
Pilana, a.s.[2]	19.64	Engineering
Lecebne lazne Mar. Lazne, a.s.	22.00	Health services
Zeleznobrodské sklo, a.s.	84.80	Glass industry
Interhotel Bohemia, a.s.	100	Hotel industry
NOVA, a.s.	100	Grocery
Strojosvit – F, a.s.	100	Engineering
Tiskarna periodik Ostrava, a.s.[2]	100.00	Printing industry

1. Tender process started in 2000, closure expected in March 2001.
2. Already sold by October 2000.

Source: Czech National Property Fund.

c) *The NPF plans to sell other additional assets (movable and immovable, excluding shares) of a total value of about CZK 1.198 billion in 2000*

In other significant privatisation decisions, the Czech government approved the sale of its 30 per cent stake in *Skoda Auto* to Volkswagen in 2000, and its majority stake in the refinery and petrochemical group, *Unipetrol*, is to be sold off in 2001.

In the medium-term, the government intends to also privatise state holdings primarily in the following 24 strategic companies:

Company	Sector
Cesky Telecom, a.s.[1]	Telecommunications
SEVAC, a.s.	Health care industry
Nova Hut, a.s.	Metallurgy
Vitkovice, a.s.	Metallurgy and heavy engineering
CEZ, a.s.[2]	Power generator
8 power distribution companies[2]	Power distribution
8 gas distribution companies	Gas distribution
Ceska pojistovna, a.s.	Financial services
Unipetrol, a.s.[2]	Chemistry
Koramo, a.s.	Refinery

1. To be sold off in the 1st half 2001.
2. To be sold in 2001.

Source: Czech National Property Fund.

The government's commitment to finalising the privatisation process is reflected in its awareness of the importance of transparency in the privatisation methods. Information on the relevant legislation and regulations determining the methods of privatisation is freely available to the public. Most privatisation transactions are concluded by public tenders on the basis of clearly established and binding rules. The Supreme Audit Office was established as a body independent from both the government and the Parliament and can exercise control over the privatisation process and over the courts. Case-by-case parliamentary control can also be, and has been, exercised. Wherever possible the details of individual privatisation procedures are disclosed to the public and full access is given to foreign investors, given the importance attached to the role of FDI in the process.

Prior approval of the Securities Commission is necessary if an investor, whether foreign or domestic, intends to acquire over 10 per cent of voting rights or registered capital of an investment company or fund. Similarly, every 5 per cent increase in the share of voting rights or registered capital is subject to approval. Investors failing to obtain the Commission' s approval shall forfeit the voting rights related to its share of voting rights or registered capital in excess of 10 per cent.

The amendment to the Investment Companies and Investment Funds Act No. 248/1992 Coll., which entered into force on June 8, 1998, stipulates that by July 1999 investment funds and companies have to ensure that a portfolio of securities held in unit funds and managed by an investment company and a portfolio of securities held in an investment fund will not include more than 11 per cent of the total nominal value of securities of one kind from the same issuer. When an investment company manages the assets of the investment fund, the person acting in the name of the investment company may not exercise the voting rights which arise from the shares owned by the investment fund.

Sales of shares by funds have enabled outside strategic investors to acquire substantial stakes in a number of companies.

4.4. Future Strategy

The Czech authorities are aware of the problems arising from maintaining state shareholdings particularly in sectors of the economy with large companies in heavy industry, mining and engineering and acknowledge that, in certain cases, the social and financial implications of the restructuring process will be extremely demanding.

The government therefore is trying to carefully identify first-rate consulting companies to oversee the process of selection of strategic partners. The objective is to select financially strong, reliable, mainly foreign potential investors, whose strategy will be in line with Czech government policy for the respective sectors of the national economy.

Realising that the importance of legal and institutional framework underlying the economic transformation process was underestimated in the past and that legislation in several fields was inadequate, the government is determined to remove the remaining obstacles complicating the implementation of restructuring measures prior to privatisation. Further parliamentary measures are therefore necessary to improve the legal processes for bankruptcy and liquidation of companies, protect creditors' rights, ensure efficient administration of receivables and accelerate and streamline court procedures.

Chapter 5

A. Monopolies and Concessions

The Czech legislation on monopolies and concessions is outlined in Annex 2. There have been no changes in the situation prevailing at the time of accession except in the areas of alcohol distilling and coal mining (Table 17). Exclusive or partial state monopolies still exist in a few sectors. Former state-owned entities have been transformed into joint-stock companies with the government as the sole or majority shareholder, as is the case of power generation and distribution, the gas industry and telecommunications. The monopoly on compulsory third party car insurance was abolished by January 2000. The monopolies in gas imports (*Transgas* – state company), postal services (*Ceska posta* – state company) and railways (*Ceske drahy* – state organisation) will remain under full government control.

Foreign investors can apply for concessions in privately owned monopolies designated by the government on a national treatment basis (provided they establish themselves as Czech legal persons).

Table 17. **Monopolies and concessions in the Czech Republic**

Monopolies		Concessions
Activities reserved for the State	With state participation	
Postal Services Operation and maintenance of railway transport network	Power generation and distribution Telecommunications services Gas industry	Minerals, natural medicinal springs including mineral water

Source: Czech Ministry of Finance.

5.1. Power Industry

Electricity generation is still predominantly concentrated in the joint-stock company ČEZ, which accounts for about 70 per cent of the domestic power generation.

The Czech transmission system was detached from ČEZ as of 1 January 1999 as ČEPS, a joint-stock company. This company will assume the role of Transmission System Operator (TSO) in a newly prepared market model of the Czech electricity system. The National Property Fund (NPF) still owns 67 per cent of ČEZ shares. The Government recently re-assessed the state participation in ČEZ following the completion of the Temelín nuclear power plant. A number of environmental investments were completed by the end of 1998 and currently all power stations with an installed capacity of 50 MW per unit and over comply with EU environmental standards.

Foreign and domestic investors have equal access to the market. 33 per cent of the shares of CEZ have been privatised and these shares are traded on the secondary market.

A small part of the generating capacities belongs to industries producing electricity for their own consumption and selling their surplus to the system. Another part of the capacities belongs to a group of independent power and heat producers (CHP – combine heat and power production, small co-generation systems, renewable energy etc.), which were completely transferred into private ownership during the first and second waves of privatisation (1992-1994).

The NPF is a major shareholder and owns approximately 46-58 per cent of shares of the eight regional electricity distribution companies. 15 per cent of the shares were sold within the voucher privatisation programme, 34 per cent were transferred to municipalities and a small shareholding was privatised by way of restitution. The decision on a medium-term progressive privatisation of energy distribution companies was taken in October 2000. In the meantime, the government is seeking to complete the regulatory framework by reorganising the Energy Regulatory Authority into a fully independent entity with the implementation of the new Energy Law in 1 January 2001.

5.2. Gas Industry

The NPF now holds 46-49 per cent of the eight gas utility companies. Both foreign and domestic investors had the chance to buy part of shares openly traded on the secondary market and also the registered shares held previously exclusively by municipalities (34 per cent). The transfer of shares is carried out according to the Act No. 513/1991 Coll., the Commercial Code and the other acts on securities. It is anticipated that the decision on the sale of the rest of state shares and on further privatisation of the state company, Transgas, will be taken by the Government after the new Energy Law comes into force and the new Energy Regulatory Authority as mentioned in 5.1 above starts its restructured activities.

5.3. Postal Services and Telecommunications

a) Postal Services

The Act on Postal Services – approved in January 2000 – regulates the monopoly (reserved services) in full conformity with the European Union Directive 97/67/EC. This means that the services which may be reserved for the universal service provider (Czech Post, a state enterprise) must be less than five times the public tariff for an item of correspondence in the first weight range, provided that it weighs less than 350 grams. All other postal services under this price and weight limit can be provided in open competition.

b) Telecommunications

Telecommunications services in the Czech Republic, with the exception of trunk and international phone calls, are currently provided on a basis of an individual or general licence in a fully competitive environment and national treatment is guaranteed. Exclusive rights to establish and operate the Public Switches Telephone Network (PSTN) and to provide trunk and international phone calls was granted in 1995 to SPT TELECOM now Cesky Telecom, a joint-stock company. There are 7 licence holders[22] authorised to provide local calls within specified local area networks throughout the country. According to the bidding rules, all these licence holders are Czech legal persons with no more than 34 per cent of the capital owned directly or indirectly by foreign legal or natural persons. This exception to national treatment is not covered[23] by the Czech Republic's current reservations under the Codes and exceptions to the National Treatment instrument.

The incumbent operator – ČESKY TELECOM – was transformed into a joint-stock company in 1994 and part-privatised in 1995. At present, the state holds 51 per cent of shares through NPF, in order to maintain its monopoly position in a fixed network infrastructure and international and trunk telephone services, 27 per cent of shares were sold to the strategic partner[24] TelSource (a consortium of the KPN and SwissCom). Three licences have recently been granted for GSM networks and services.

Liberalisation of the telecommunications market was recently postponed and, under a new telecommunications law, ČESKY TELECOM will continue to have a monopoly on fixed-line communications until 2002 when customer call-by-call carrier selection will be implemented. Permanent carrier selection and number portability from carrier to carrier will only be introduced in 2003. The new law has been criticised by both telecommunications companies and the EU as it is felt it will retard the development of this sector in the Czech Republic, is anti-competitive and not in line with the necessary pre-EU accession market reforms. After 2003 there will be no restrictions on foreign investment in the

Czech telecommunications market in terms of ownership or share capital. The new law does not require the foreign investor to establish a headquarters in the Czech Republic. It is sufficient to be entered into the Commercial Register. According to the new Act on Telecommunications 151/2000 Coll., the exclusivity of the incumbent ČESKY TELECOM for provision of fixed line voice telephony will terminate by 31 December 2000. According to the Act, the measures or liberalised services on the telecommunications market will be introduced by 30 June 2002 in the case of call-by-call carrier selection. Permanent carrier selection and number portability will be introduced by the end of 2002. From 1 January 2001 there will be no restrictions on foreign investments on the Czech telecommunications market as far as ownership or shares are concerned.

5.4. Transport Services

With the exception of the air transport sector, the Czech authorities have confirmed that there are no restrictions on the entry and establishment of foreign transport enterprises in the transportation sector and that national treatment applies to established foreign-controlled companies in road, water and rail transport.

The government-owned railways (Czech Railways – state organisation) maintains and operates the railway network which is in the exclusive ownership of the state. The Act on Railways, in force as of January 1995, provides for national treatment of rail transport operators. There are no restrictions on foreign investors in this sector and several private companies have already obtained operating licenses. At present, Czech Railways which has been recording losses both in passenger and freight traffic is being restructured and this process is expected to be followed by privatisation of a part of the regional railway line network on the basis of economic considerations.

5.5. Agriculture

The tobacco monopoly was abolished in 1993 and the monopoly in the distillery sector in 1997.

The salt monopoly was abolished in 1999, the state salt mills have been privatised and the remainder of the NPF shares has been sold on the capital market. However, the Czech authorities indicate that, in order to secure the government's access to the necessary strategic reserves of this raw material, one share with special rights, a "golden share" has been issued to the NPF (see also List of Companies with Golden Shares).

Czech agricultural products continues to battle against cheaper imported foods from subsidised producers both EU and other Eastern European countries. By 1997 agricultural subsidies in the Czech Republic had been cut from 59 to 9 per cent of the total sector revenue, making it the least subsidised country in Europe. Subsidies in Hungary amount to 7, in Poland to 22 and in the EU to 38 per cent.[25]

5.6. Mining

The mining industry (hard and black coal-mining) is organised in 5 joint-stock companies. Currently, two coal-mining companies, Severočeské doly, a.s. and Sokolovská uhlená, a.s. which are engaged in extracting brown coal in open-cast mines are owned partly by the State as a majority owner through NPF. In OKD, a.s., the biggest hard coal producer in the Czech Republic, the state is a shareholder. Both foreign and domestic registered companies may ask for approval for access to new areas for mineral extraction under the Act No. 513/1991 Coll., Commercial Code, and the Act No. 44/1988 Coll., on Mining.

5.7. Refineries

The NPF looked for private sector investors for the state-owned joint-stock petrochemical companies (oil refineries) and a framework agreement between the NPF and a consortium of three foreign investors (Shell, Conoco, AGIP) was approved by the Government on 7 July, 1995. Following this, the consortium bought 49 per cent of the shares of the Czech Refining Company (Česká rafinérská a.s.) in 1996.

B. Government Procurement

Government procurement procedures are regulated in the Czech Republic by the Public Procurement Act. Non-resident applicants may participate in public tenders. Resident or domestic applicants can be given a preference of up to 10 per cent above the lowest tender of non-resident applicants. This preferential treatment applies to established foreign-controlled enterprises incorporated in the Czech Republic, but not to branches of non-resident companies as they do not have resident status. This situation remains unchanged even after the recent amendment to the Public Procurement Act and is discriminatory towards both foreigners and Czech non-residents. The abolition of the domestic preference clause is, however, expected to be proposed in a new public procurement bill to be drafted in the near future.

A Draft on Public Procurement was submitted to the Government in September 2000 and is expected to become effective in July 2001. The Government will take a decision on whether the provision on repealing the domestic preference clause will be suspended by the time accession of the Czech Republic to the European Union at the latest. In the case of a suspension, the Czech Republic will – in accordance with European Agreement – continue to periodically examine the possibility of abolishing this clause prior to accession.

Notes

1. Industrial zones are set up by municipalities to attract foreign investors to set up greenfield operations. Municipalities typically provide land with infrastructure to foreign investors.
2. The item "Trade and trade services" comprises the following economic activities: "Wholesale trade and commission trade, except for motor vehicles and motorcycles" (Code 5100 of NAC classification), "Retail trade, except for motor vehicles and motorcycles; repair of personal and household goods" (Code 5200), and "Other business activities" (Code 7400).
3. Zemplinerova, A. (1998) Impact of FDI on the Restructuring and Growth in Manufacturing, Prague Economic Papers 7(4), December 1998 pp. 329-45.
4. Djankov S. and B. Hoekman (1999) *Foreign Investment and Productivity Growth in Czech Enterprises*, Washington, World Bank Policy Research Working Paper.
5. In accordance with the OECD's definition, "other capital" covers lendings and borrowings of funds between the direct investor and the direct investment enterprise.
6. General Industrial Classification of Economic Activities within the European Communities.
7. The abbreviation "Coll." used in this publication, refers to the Collection of Acts. Any bill must pass through the required legislative procedure (i.e. be approved by both Chambers of the Parliament and signed by the President) and be published as a new act in the Collection of Acts to become valid. Similarly, international treaties binding on the Czech Republic are published in the Collection of international treaties since 1st January 2000.
8. Refer to the following website for further information: *www.oecd.org/daf/nocorruption*
9. Refer to the following website for further information: *www.oecd.org/daf/investment/guidelines/declarat.htm*
10. The banking sector also includes a group of small banks with a 5 per cent share in total assets and specialised banks, mainly building societies, with a 3.8 per cent share. Banks under conservatorship accounted for 3.5 per cent of total assets of the banking sector.
11. The detailed essentials for the banking licence can be found in the Provision of the CNB No. 33/1999 of 2 February 1999).
12. Treatment is equivalent but not formally identical as far as the evaluation of the capital of a branch is concerned, the capital of its mother parent company established abroad being considered for regulatory purposes while the capital of the banks incorporated under Czech law, including subsidiaries of foreign banks, is the one constituted on the Czech territory.
13. The essentials are laid down by the Decree of the CNB No. 32/1999 of 2 February 1999.

14. According to the Stock Exchange Act, only persons licensed by the Securities Commission to engage in securities trading may trade on a Stock Exchange. They must be either Stock Exchange shareholders, or persons who were granted a licence by the Stock Exchange Chamber. The latter licence is issued by the Stock Exchange Chamber and is granted on the following conditions:
    - Only a legal entity whose object of activity is trading in stocks pursuant to Article 8 of the Act on Securities and which proves paid up fixed assets amounting to at least Kc 10 million, or a bank authorised by the Ministry of Finance to trade in stocks, can become a Stock Exchange Member;
    - An entity, whose property was adjudged bankrupt or subject to settlement or whose petition in bankruptcy was rejected due to lack of property, cannot be admitted to Stock Exchange membership for a period of five years since conclusion of this proceeding. Neither such entity, against whose property an execution of a court ruling has been conducted or whose property stability is otherwise endangered, can be admitted as a Stock Exchange member;
    - A bank under receivership can not become a Stock Exchange member.
15. The RM-System is an entity (legal person) which has been licensed by the Securities Commission to organise and oversee an off-stock exchange market. The licensed entity is required to publish the market rules and current prices of securities on the off-stock exchange market, but is not permitted to trade in securities.
16. Special authorisation is needed for an established company (whether foreign-controlled or domestic) to provide "active reinsurance" services, in the Czech Republic or abroad. Conditions for providing active reinsurance services are given by the new Act on Insurance No. 363/1999 Coll. which came into force on April 1, 2000.
17. For the establishment of an investment company (IC) or an investment fund (IF), permission by the Securities Commission is necessary. Decision by the Securities Commission is taken on the basis of the following criteria:
    - the origin and amount of the basic assets of the IC or IF, which must be sufficient to enable them to carry out their activities properly;
    - the material, personnel and organisation prerequisites for the activity of the IF or IC;
    - the professional qualifications and integrity of proposed statutory bodies or their members and the members of the supervisory council of IC or IF;
    - the bank which will carry out the function of depository for IC or IF.

    According to the amendment to the Investment Companies and Investment Funds Act No. 248/1992 Coll., section 4, the minimum amount of registered capital necessary for the permission for the establishment of an investment company is 20 bill. CK. The minimum amount of registered capital necessary for the establishment of investment fund is given by the Commercial Code and it is l mill. CK.

    According to the amendment to the Securities Act No. 591/1992 Coll., the minimum amount of registered capital necessary for the permission for the establishment of an securities trader is 10 mill. CK.

    Permission is granted for an indefinite period and cannot be transferred to another person.
18. Act on the Securities Commission and on amendments to the other laws (Act No. 15/1998 Coll.).

19. Zemplínerova and Martin, 2000.
20. See OECD Economic Survey of Czech Republic 1998, p.49 ff.
21. The figure does not cover FDI transferred through Czech legal entities set up in the country by some investors in advance.
22. These licence holders altogether do not have more than 1 per cent of all subscribers in the field of fixed telephony.
23. The Committees agreed that this restriction did not constitute a breach of the standstill obligation of the Codes since it has been introduced in the context of an opening of a sector which was until recently formally closed to any private investors and with respect to which the Czech Republic therefore could not have undertaken obligations at the time of accession. The Committees agreed that a new reservation to the Capital Movements Code can be introduced pursuant to Article 2*b.iii*) of the Code, together with a new exception to the National Treatment instrument. At the same time, the Committees encouraged the Czech authorities to consider an early removal of this restriction.

    More specifically, the Czech authorities justify this exception to national treatment by the need to allow time for new and small operators and providers of public voice telephone services to adjust to the new competitive environment without compromising the quality and continuity of services.
24. A "strategic partner" is the entity to which the NPF sells a significant share of stocks in a joint-stock company. When negotiating on the specific conditions of the sale of this share, the strategic partner is expected to make new investments, to provide know-how and to expand the export market of the company concerned. A strategic partner is also expected to be a stable owner in the company. In this connection, the NPF may offer to such partner, under certain conditions, to surrender its proprietary rights for a certain period in favour of this partner in the company where the strategic partner gets the minority shares (*e.g.* ČESKY TELECOM).
25. *Plan Econ Review and Outlook for Eastern Europe: Outlook for the Czech Republic*, Mark Katzmann, July 2000.

Annex 1

The Czech Republic's Current Position under the Code of Liberalisation of Capital Movements and under the National Treatment Instrument

Introduction

As a signatory to the OECD Code of Liberalisation of Capital Movements (the Code) and the National Treatment Instrument (NTI), the Czech Republic has undertaken a number of obligations in the FDI field. This annex and Annex 2 highlight the main provisions of these instruments as well as the Czech Republic's position under them.

The OECD Commitments

The Code and the NTI are the two main instruments for co-operation among OECD Member countries in the field of foreign direct investment.

The Code, which has the legal status of OECD Council Decisions and is binding on all Member countries, covers the main aspects of the right of establishment for non-resident enterprises and requires OECD members to progressively liberalise their investment regimes on a non-discriminatory basis and treat resident and non-resident investors alike.

The NTI is a "policy commitment" by Member countries to accord to established foreign-controlled enterprises treatment no less favourable than that accorded to domestic enterprises in like situations. While the NTI is a non-binding agreement among OECD Member countries, all measures constituting exceptions to this principle and any other measures which have a bearing on it must be reported to the OECD.

Member countries need not, however, liberalise all their restrictions upon adherence to the above instruments. Rather, the goal of full liberalisation is to be achieved progressively over time. Accordingly, members unable to fully liberalise are permitted to maintain "reservations" to the Code of Capital Movements and "exceptions" to the NTI for outstanding foreign investment restrictions. These limitations to the liberalisation obligations may be lodged at the time a member adheres to the Codes, whenever specific obligations begin to apply to a member, or whenever new obligations are added to the instruments.

The investment obligations of the Code and the NTI are, in fact, complementary, both dealing with the laws, policies and practices of Member countries in the field of direct investment. However, the Code addresses the subject from the point of view of non-resident investors in an OECD host country, while the NTI is concerned with the rights of established foreign-controlled enterprises. Limitations on non-resident (as opposed to resident) investors affecting the enterprises' operations and other requirements set at the time of entry or establishment are covered by the Code. The investment operations of foreign-controlled enterprises after entry, including new investment, are covered by the National Treatment Instrument.

Measures pertaining to subsidiaries fall under the purview of the Code or the NTI depending on whether they set conditions on entry/establishment or concern the activities of foreign-controlled enterprises already established. As to branches, the 1991 Review of the OECD Declaration and Decisions on International Investment and Multinational Enterprises introduced a distinction between "direct" branches on non-resident enterprises and "indirect" branches, that is branches of already established foreign-controlled enterprises. The latter are subject to all the five categories of measures covered by the NTI (investment by established enterprises, government procurement, official aids and subsidies, access to local financing and tax obligations). The investment activities of "direct" branches of non-resident enterprises, which concern the category of measures covered by the NTI, fall however, exclusively under the purview of the Code.

The Committee on Capital Movements and Invisible Transactions and the Committee on International Investment and Multinational Enterprises together conduct country examinations of every member country measures covered by these OECD commitments. These examinations involve a face-to-face discussion between representatives of the two Committees and experts from the country being examined. The discussion is based on submission by the Member concerned and a document prepared by the Secretariat. The objective is to clarify the nature and purpose of remaining restrictions and to identify possible areas for further liberalisation. The examinations usually conclude with modifications to the Member country's position and recommendations by the OECD Council to the Member's authorities concerning the future direction of the country's foreign direct investment policies.

Current Reservations of the Czech Republic in Annex B to the Code of Liberalisation of Capital Movements

List A, Direct Investment:

I/A

– In the country concerned by non-residents:

Remark: The reservation applies only to:

i) The purchase of real estate by branches of non-resident enterprises;

ii) The operation of a branch as a "mortgage bank" to the extent that a "mortgage bank" is defined under Czech law as an institution authorised to issue mortgage securities on domestic markets, which is reserved to financial institutions incorporated under domestic law;

iii) Access to local telephone network and services by investors other than:

- *joint ventures established between* SPT *Telecom and a Czech legal person fully owned either by Czech natural persons or by legal persons fully owned by Czech nationals, or*
- *a Czech legal person, the capital of which is not owned directly or indirectly, by more than 34 per cent, by foreign legal or natural persons.*

This reservation ***iii)*** ceases to apply on 31 December 2000;

iv) Air transport;

v) Operation of lotteries and similar games:

Remark: This reservation does not apply to

i) Betting games in casinos for which an authorisation may be granted to legal persons established in the Czech Republic;

vi) *Consumer lotteries in which the prize may be only in-kind fulfilment, services or goods, products etc. provided that the total value of the in-kind prizes for one calendar year does not exceed the sum of 200 000 Czech crowns and the value of one prize does not exceed the sum of 20 000 Czech crowns.*

Czech Republic's Exceptions Reported under the National Treatment Instrument

I. Investment by established foreign-controlled enterprises

***Air transport*:**

Substantive ownership and effective control must be vested in the state or nationals of the Czech Republic.

II. Official aids and subsidies

None.

III. Tax obligations

None.

IV. Government purchasing

None.

V. Access to local finance

None.

Annex 2

Investment Protection, Double Taxation and Other Agreements with the Czech Republic

	Investment Protection and Promotion Agreement		Double Taxation Agreement
	Signed	Effective	Effective
Albania	27.06.1994	07.07.1995	10.09.1996
Argentina	27 09.1996	23.07.1998	
Australia	30.09.1993	29.06.1994	27.11.1995
Austria	15.10.1990	01.10.1991	12.02.1979
Belarus	14.10.1996	09.04.1998	15.01.1998
Belgium	24.04.1989	13.02.1992	17.12.1997
Brazil			14 11.1990
Bulgaria			02.07.1999
Canada	15.11.1990	09.03.1992	22.07.1992
Croatia	05.03.1996	15.05.1997	28.12.1999
Cyprus			30.12.1980
Democratic People's Republic of Korea	27.02.1998	10.10.1999	
Denmark	06.03.1991	19.09.1992	27.12.1982
Egypt	29.05.1993	04.06.1994	04.10.1995
Estonia	24.10.1994	18.07.1995	26.05.1995
Finland	06.11.1990	23.10.1991	12.12.1995
France	13.09.1990	27.09.1991	25.01.1975
Germany	02.10.1990	02.08.1992	17.11.1983
Greece	03.06.1991	30 12.1992	23.05.1989
Belgium-Luxembourg	24.04,1989	13.02.1992	
Hungary	14.01.1993	25.05.1995	27.12.1994
Chile	24.04.1995	05.10.1996	
China	04.12.1991	01.12,1992	23.12.1987
India	11.10.1996	06.02.1998	27.09.1999
Indonesia	17.09.1998	21.06.1999	26.01.1996
Ireland	28.06.1995	01.08.1997	21.01.1996
Israel	23.09.1997	16.03.1999	23.12.1994
Italy	22.01.1996	01.11.1997	26.06.1984
Japan			25.11.1978
Kazakhstan	08.10.1996	02.04.1998	29.10.1999
Kuwait	08.01.1996	21.01.1997	
Latvia	25.10.1994	01.08.1995	22.05.1995
Lebanon			24.01.2000
Lithuania	27.10.1994	12.07.1995	08.08.1995

	Investment Protection and Promotion Agreement		Double Taxation Agreement
	Signed	Effective	Effective
Luxembourg	24.04.1989	13.02.1992	30.12.1992
Malaysia	09.09.1996	03.12.1998	09.03.1998
Malta			06.06.1997
Mongolia	13.02.1998	07.05.1999	22.06.1998
Netherlands	29.04.1991	01.10.1992	05.11.1974
Nigeria			02.12.1990
Norway	21.05.1991	06.08.1992	28.12.1979
Paraguay	21.10.1998	24.03.2000	
Peru	16.03.1994	06.03.1995	
Philippines	05.04.1995	04.04.1996	
Poland	16.07.1993	29.06.1994	20.12.1993
Portugal	12.11.1993	03 08.1994	01.10.1997
Republic of Korea	27.04.1992	16.03.1995	03.03.1995
Romania	08.11.1993	28.07.1994	11.08.1994
Russian Federation	05.04.1994	06.06.1996	18.07.1997
Singapore	08.04.1995	08.10.1995	21.08.1998
Slovakia	23.11.1992	01.01.1993	01.07.1993
Slovenia	04.05.1993	21.05.1994	28.04.1998
South Africa	14.12.1998	17.09.1999	03.12.1997
Spain	12.12.1990	28.11.1991	05.06.1981
Sri Lanka			19.06.1979
Sweden	13.11.1990	03.09.1991	08.10.1980
Switzerland	05.10.1990	07.08.1991	23.10.1996
Tajikistan	11.02.1994	06.12.1995	
Thailand	12.02.1994	04.05.1995	14.08.1995
Tunisia	06.01.1997	08.07.1998	25.10.1991
Turkey	30.04.1992	01.08.1997	Not yet in force
Ukraine	17.03.1994	02.11.1995	20.04.1999
United Arab Emirates	23.11.1994	25.12.1995	09.08.1997
United Kingdom of Great Britain and Northern Ireland	10.07.1990	26.10.1992	20.12.1991
United States of America	22.10.1991	19.12.1992	23.12.1993
Uzbekistan	15.01.1997	06.04.1998	
Venezuela	27.04.1995	23.07.1996	12.11.1997
Vietnam	25.11.1997	09.07.1998	03.02.1998
Yugoslavia			17.04.1983

Source: Czech Ministry of Finance.

Annex 3

Foreign Direct Investment Statistics

Annex Table 1. **Direct investment from abroad in OECD countries: *inflows***

Million US dollars

	Cumulative flows		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999p
	1971-1980	1981-1990										
Australia	11 295	39 822	6 513	4 042	5 036	3 007	3 951	12 737	5 171	7 510	6 502	4 441
Austria	1 455	3 274	647	359	940	982	1 314	1 904	4 429	2 656	4 902	2 952
Belgium-Luxembourg	9 215	27 986	7 966	9 292	11 326	10 751	8 313	10 812	14 061	12 093	22 724	15 868
Canada	5 534	33 409	7 562	2 870	4 717	4 748	8 204	9 255	9 407	11 470	16 499	24 268
Czech Republic	. .	. .	. .	. .	1 004	654	869	2 562	1 428	1 300	2 540	4 877
Denmark	1 561	3 467	1 212	1 453	1 015	1 681	4 890	4 176	776	2 801	6 722	7 450
Finland	376	2 838	787	–247	406	864	1 578	1 063	1 109	2 116	12 141	3 024
France	16 908	54 588	15 609	15 157	17 855	16 439	15 580	23 677	21 942	23 174	28 955	37 416
Germany	13 816	19 691	2 962	4 729	–2 089	368	7 134	12 019	6 577	11 092	21 271	52 403
Greece	. .	6 145	1 005	1 135	1 144	2 583	3 081	4 272	5 888	3 586	3 709	539
Hungary	. .	512	311	1 462	1 479	2 339	1 146	4 453	2 275	2 173	2 036	1 944
Iceland	. .	74	22	18	–11	. .	. .	14	82	149	112	90
Ireland	1 659	1 371	258	1 168	1 244	850	420	621	1 888	1 676	3 904	5 422
Italy	5 698	24 888	6 344	2 481	3 210	3 746	2 236	4 817	3 535	3 698	2 611	5 019
Japan	1 424	3 324	1 806	1 286	2 755	210	888	41	228	3 224	3 193	12 378
Korea	. .	4 025	789	1 180	728	588	809	1 176	2 325	2 844	5 416	8 798
Mexico	. .	24 421	2 633	4 762	4 393	4 389	10 973	9 526	9 185	12 830	11 311	11 568
Netherlands	10 822	37 857	12 165	6 552	7 824	8 561	7 333	12 216	15 055	14 499	41 977	33 341
New Zealand	2 598	3 940	1 681	1 695	1 089	2 212	2 690	2 697	3 697	1 832	2 172	989
Norway	3 074	5 634	1 807	655	–426	2 244	2 713	2 230	3 201	3 786	3 882	6 579
Poland	. .	88	88	359	678	1 715	1 875	3 659	4 498	4 908	6 365	6 471
Portugal	535	6 920	2 608	2 451	1 914	1 550	1 265	695	1 368	2 278	2 802	570
Spain	7 060	46 158	13 839	12 445	13 352	8 073	9 425	6 285	6 820	6 387	11 797	9 357
Sweden	897	8 619	1 971	6 351	–41	3 843	6 346	14 448	5 076	10 968	19 569	59 102
Switzerland	. .	14 068	5 485	2 644	411	–83	3 368	2 224	3 078	6 642	7 499	3 412
Turkey	228	2 434	778	910	911	746	636	885	722	805	940	783
United Kingdom	40 503	130 469	32 889	16 027	16 214	15 468	10 497	22 738	26 084	33 245	64 388	82 176
United States	56 276	363 421	48 951	23 695	20 975	52 552	47 438	59 644	88 977	109 264	193 375	282 507
Total OECD	**190 934**	**869 442**	**178 688**	**124 931**	**118 052**	**151 080**	**164 972**	**230 846**	**248 882**	**299 006**	**509 314**	**683 744**

p Provisional.

Break in series: Australia 1995, France 1988, Greece 1992, Ireland 1990.

Source: OECD – DAFFE, Financial Statistics Section – Base on national sources.

Annex Table 2. **Direct investment abroad from OECD countries: *outflows***

Million US dollars

	Cumulative flows		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999p
	1971-1980	1981-1990										
Australia	2 510	22 266	265	3 001	951	1 779	5 291	3 846	5 927	6 262	2 466	–3 192
Austria	578	4 132	1 663	1 288	1 871	1 467	1 201	1 131	1 935	1 948	2 948	2 703
Belgium-Luxembourg	3 213	20 984	6 130	6 493	10 389	4 693	1 205	11 712	8 065	7 273	28 453	24 937
Canada	11 335	42 337	5 222	5 813	3 586	5 868	9 293	11 461	12 879	22 054	26 575	17 362
Czech Republlc	..	..	..	..	21	101	120	37	153	25	175	197
Denmark	1 063	6 292	1 509	1 844	2 225	1 373	4 041	3 069	2 518	4 210	3 962	8 207
Finland	605	11 577	2 708	–124	–753	1 409	4 297	1 498	3 596	5 292	18 643	4 194
France	13 940	101 365	36 220	25 115	30 416	19 732	24 381	15 757	30 395	35 586	41 913	88 324
Germany	27 830	94 239	24 233	22 947	18 596	17 197	18 858	39 030	50 841	40 716	91 183	98 853
Greece	..	..	..	..	..	..	..	..	..	..	..	573
Hungary	..	..	..	..	..	11	49	43	–3	431	481	249
Iceland	..	26	10	27	3	11	23	24	62	51	99	70
Ireland	..	..	..	..	..	..	..	..	..	..	8 569	18 326
Italy	3 597	28 707	7 612	7 326	5 948	7 221	5 109	5 732	6 465	10 619	12 078	3 038
Japan	18 052	192 410	50 774	31 688	17 301	13 916	18 117	22 629	23 424	25 991	24 159	20 730
Korea	..	2 406	1 052	1 489	1 162	1 340	2 461	3 552	4 670	4 449	4 799	4 044
Mexico	..	..	..	..	..	..	..	..	..	..	..	..
Netherlands	27 829	65 771	15 288	13 577	14 366	12 343	17 745	20 159	31 230	29 247	51 365	45 540
New Zealand	375	4 556	2 358	1 472	391	–1 386	2 015	1 751	–1 260	–1 602	376	1 020
Norway	1 079	8 995	1 478	1 840	–80	791	2 098	3 139	5 918	5 047	2 418	5 483
Poland	..	..	..	..	13	18	29	42	53	45	316	123
Portugal	21	374	165	474	687	141	283	689	776	1 668	2 901	2 679
Spain	1 274	8 793	3 442	4 424	2 171	2 648	3 900	4 158	5 590	12 547	18 935	35 421
Sweden	4 597	48 074	14 743	7 053	409	1 357	6 698	11 215	4 664	12 648	24 376	18 951
Switzerland	..	33 553	6 709	6 212	6 050	8 765	10 798	12 214	16 150	17 747	16 631	17 910
Turkey	..	97	88	127	133	175	78	113	110	251	367	645
United Kingdom	55 112	185 581	18 636	15 972	19 156	25 573	28 251	44 329	34 125	61 620	119 463	199 275
United States	134 354	225 911	37 519	38 233	48 733	84 412	80 697	99 481	92 694	109 955	132 829	152 152
Total OECD	**307 364**	**1 108 446**	**237 824**	**196 291**	**183 745**	**210 955**	**247 038**	**316 810**	**340 977**	**414 079**	**636 480**	**717 814**

p Provisional.

Break in series: Australia 1995, France 1988.

Source: OECD – DAFFE, Financial Statistics Section – Based on national sources.

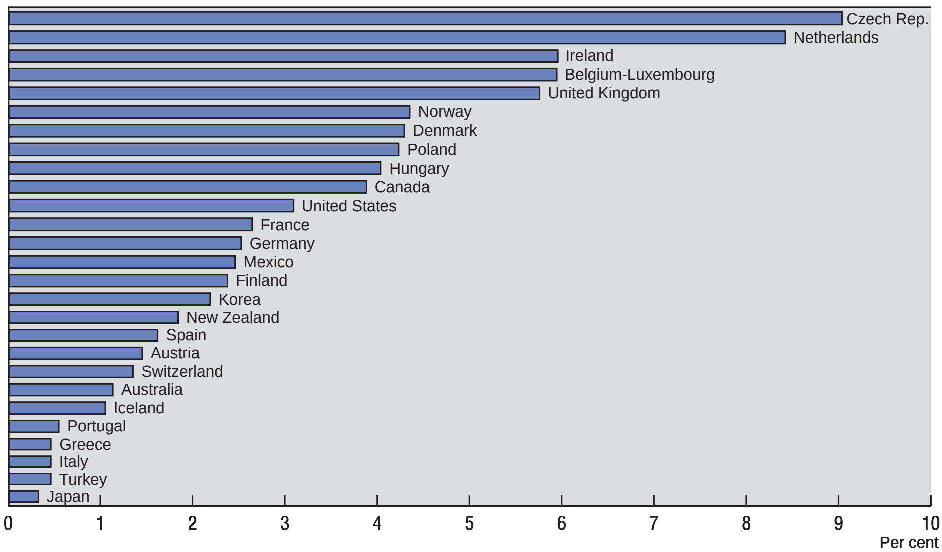
Annex Table 3. **Direct investment from abroad in OECD countries: *inflows***

As a percentage of GDP

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999p
Australia	2.20	1.36	1.72	1.05	1.21	3.60	1.24	1.79	1.74	1.10
Austria	0.41	0.22	0.50	0.54	0.67	0.82	1.91	1.28	2.32	1.41
Belgium-Luxembourg	3.86	4.38	4.77	4.74	3.37	3.72	4.91	4.63	8.46	5.97
Canada	1.32	0.49	0.83	0.86	1.49	1.61	1.56	1.85	2.78	3.89
Czech Republic	. .	. .	3.36	1.90	2.18	5.04	2.47	2.45	4.50	9.07
Denmark	0.91	1.08	0.69	1.21	3.22	2.31	0.42	1.66	3.85	4.29
Finland	0.58	–0.20	0.38	1.02	1.61	0.84	0.87	1.73	9.45	2.35
France	1.31	1.26	1.35	1.32	1.17	1.54	1.41	1.64	1.99	2.61
Germany	0.18	0.28	–0.11	0.02	0.35	0.50	0.28	0.52	0.99	2.48
Greece	1.21	1.27	1.16	2.80	3.12	3.68	4.73	2.97	3.05	0.43
Hungary	0.87	4.37	3.97	6.06	2.76	10.06	5.03	4.75	4.33	4.02
Iceland	0.35	0.27	–0.16	. .	. .	0.20	1.12	1.99	1.35	1.01
Ireland	0.57	2.53	2.38	1.73	0.77	0.95	2.61	2.13	4.60	5.98
Italy	0.58	0.22	0.26	0.38	0.22	0.44	0.29	0.32	0.22	0.43
Japan	0.06	0.04	0.07	0.00	0.02	0.00	0.00	0.08	0.08	0.28
Korea	0.31	0.40	0.24	0.18	0.21	0.26	0.45	0.60	1.69	2.14
Mexico	1.00	1.51	1.21	1.09	2.61	3.33	2.76	3.20	2.73	2.43
Netherlands	4.29	2.26	2.43	2.73	2.17	3.07	3.66	3.85	10.73	8.45
New Zealand	3.90	4.07	2.72	5.06	5.24	4.49	5.66	2.83	4.11	1.81
Norway	1.57	0.56	–0.34	1.93	2.21	1.52	2.03	2.46	2.65	4.35
Poland	0.15	0.47	0.80	1.99	2.02	3.07	3.15	3.43	4.01	4.24
Portugal	3.77	3.13	2.03	1.85	1.44	0.66	1.23	2.18	2.56	0.52
Spain	2.81	2.35	2.31	1.69	1.95	1.12	1.12	1.14	2.03	1.58
Sweden	0.86	2.65	–0.02	2.07	3.20	6.25	1.94	4.62	8.23	24.71
Switzerland	2.40	1.14	0.17	–0.04	1.29	0.72	1.04	2.59	2.86	1.33
Turkey	0.52	0.60	0.57	0.41	0.49	0.52	0.40	0.42	0.47	0.40
United Kingdom	3.37	1.58	1.55	1.64	1.03	2.05	2.22	2.53	4.59	5.77
United States	0.88	0.41	0.35	0.83	0.71	0.85	1.15	1.33	2.22	3.07

p Provisional.
Source: OECD – DAFFE, Financial Statistics Section – Based on national sources.

Chart A1. **Direct investment from abroad in OECD countries: inflows**
As a percentage of GDP, 1999



Source: OECD.

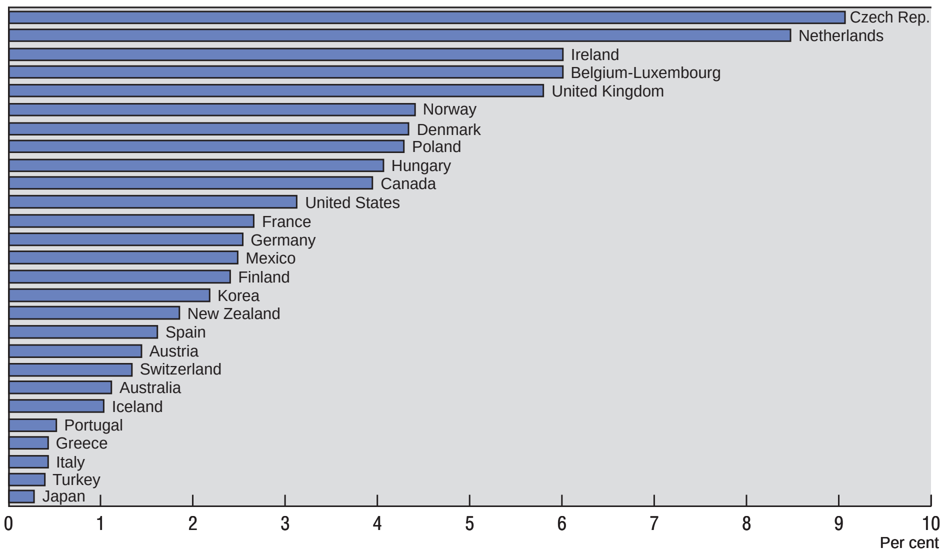
Annex Table 4. **Direct investment abroad from OECD countries: *outflows***

As a percentage of GDP

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999p
Australia	2.20	1.36	1.72	1.05	1.21	3.60	1.24	1.79	1.74	1.10
Austria	0.41	0.22	0.50	0.54	0.67	0.82	1.91	1.28	2.32	1.41
Belgium-Luxembourg	3.86	4.38	4.77	4.74	3.37	3.72	4.91	4.63	8.46	5.97
Canada	1.32	0.49	0.83	0.86	1.49	1.61	1.56	1.85	2.78	3.89
Czech Republic	. .	. .	3.36	1.90	2.18	5.04	2.47	2.45	4.50	9.07
Denmark	0.91	1.08	0.69	1.21	3.22	2.31	0.42	1.66	3.85	4.29
Finland	0.58	–0.20	0.38	1.02	1.61	0.84	0.87	1.73	9.45	2.35
France	1.31	1.26	1.35	1.32	1.17	1.54	1.41	1.64	1.99	2.61
Germany	0.18	0.28	–0.11	0.02	0.35	0.50	0.28	0.52	0.99	2.48
Greece	1.21	1.27	1.16	2.80	3.12	3.68	4.73	2.97	3.05	0.43
Hungary	0.87	4.37	3.97	6.06	2.76	10.06	5.03	4.75	4.33	4.02
Iceland	0.35	0.27	–0.16	. .	. .	0.20	1.12	1.99	1.35	1.01
Ireland	0.57	2.53	2.38	1.73	0.77	0.95	2.61	2.13	4.60	5.98
Italy	0.58	0.22	0.26	0.38	0.22	0.44	0.29	0.32	0.22	0.43
Japan	0.06	0.04	0.07	0.00	0.02	0.00	0.00	0.08	0.08	0.28
Korea	0.31	0.40	0.24	0.18	0.21	0.26	0.45	0.60	1.69	2.14
Mexico	1.00	1.51	1.21	1.09	2.61	3.33	2.76	3.20	2.73	2.43
Netherlands	4.29	2.26	2.43	2.73	2.17	3.07	3.66	3.85	10.73	8.45
New Zealand	3.90	4.07	2.72	5.06	5.24	4.49	5.66	2.83	4.11	1.81
Norway	1.57	0.56	–0.34	1.93	2.21	1.52	2.03	2.46	2.65	4.35
Poland	0.15	0.47	0.80	1.99	2.02	3.07	3.15	3.43	4.01	4.24
Portugal	3.77	3.13	2.03	1.85	1.44	0.66	1.23	2.18	2.56	0.52
Spain	2.81	2.35	2.31	1.69	1.95	1.12	1.12	1.14	2.03	1.58
Sweden	0.86	2.65	–0.02	2.07	3.20	6.25	1.94	4.62	8.23	24.71
Switzerland	2.40	1.14	0.17	–0.04	1.29	0.72	1.04	2.59	2.86	1.33
Turkey	0.52	0.60	0.57	0.41	0.49	0.52	0.40	0.42	0.47	0.40
United Kingdom	3.37	1.58	1.55	1 64	1.03	2.05	2.22	2.53	4.59	5.77
United States	0.88	0.41	0.35	0.83	0.71	0.85	1.15	1.33	2.22	3.07

p Provisional.
Source: OECD – DAFFE, Financial Statistics Section – Based on national sources.

Chart A2. **Direct investment abroad from OECD countries: inflows**
As a percentage of GDP, 1999



Source: OECD.

Annex Table 5. **Direct investment in OECD countries: *inward and outward positions* (at year-end)**
Million US dollars

	Inward					Outward				
	1992	1994	1996	1998	1999p	1992	1994	1996	1998	1999p
Australia	78 592	86 974	116 201	102 763	116 715	34 712	39 857	59 190	62 025	54 924
Austria	11 209	13 092	18 258	22 800	24 800	6 862	9 282	12 781	16 500	18 500
Belgium-Luxembourg	..	..	..	..	..	..	..	..	..	..
Canada	108 503	110 204	131 634	142 973	166 266	87 870	104 302	131 779	160 642	178 347
Czech Republic	1 606	3 077	8 572	14 375	16 246	..	..	498	804	908
Denmark	..	..	..	..	..	..	..	..	..	..
Finland	3 689	6 714	8 797	16 455	16 539	8 565	12 534	17 666	29 407	31 803
France	100 209	123 887	143 937	..	..	140 679	163 075	192 973	..	..
Germany	129 970	160 128	188 502	..	..	170 867	213 654	271 241	..	..
Greece	..	..	..	..	..	..	..	..	..	..
Hungary	3 424	7 087	14 958	18 517	19 276	..	291	474	1 286	1 586
Iceland	124	128	197	457	499	97	146	241	361	413
Ireland	..	..	..	..	..	..	..	..	..	..
Italy	48 474	58 846	72 482	103 107	106 788	65 816	81 383	107 441	159 171	188 487
Japan	15 511	19 211	32 675	26 647	..	248 058	275 574	282 257	267 584	..
Korea	..	..	..	..	..	4 511	7 623	13 796	20 433	..
Mexico	11 453	6 234	5 975	..	..	..	..	..	..	..
Netherlands	81 191	103 359	131 936	..	..	124 746	149 023	201 475	..	..
New Zealand	..	19 849	33 584	33 323	32 537	..	5 167	8 925	5 513	7 039
Norway	15 206	16 305	21 591	26 083	..	13 144	16 909	25 440	..	..
Poland	1 370	3 789	11 463	22 479	..	101	461	735	1 165	..
Portugal	..	..	18 947	22 446	20 513	..	..	4 488	9 221	9 605
Spain	79 203	86 161	109 326	118 877	112 889	20 911	28 331	40 094	69 153	97 821
Sweden	13 773	22 247	34 784	50 985	70 198	47 707	59 237	72 187	93 534	108 322
Switzerland	32 990	48 667	53 919	69 687	..	74 413	112 586	141 591	181 541	..
Turkey	..	..	..	..	..	..	..	..	..	..
United Kingdom	185 925	218 211	228 642	305 325	394 534	223 774	286 394	330 432	491 924	664 059
United States	423 130	480 667	598 021	811 756	..	502 063	612 893	795 195	980 565	..
Total OECD	**1 345 551**	**1 594 838**	**1 984 400**	**1 909 055**	**1 097 799**	**1 774 896**	**2 178 722**	**2 710 899**	**2 550 828**	**1 361 812**

Note: Data are converted using the end-of-year exchange rates.
p Provisional.
Break in series: Australia 1994, Germany 1992, Japan 1995, Poland 1993.
Source: OECD-DAFFE, Financial Statistics Section – Based on national sources.

Annex Table 6. **Czech Republic – Direct investment from abroad: inward position by industrial sector**

	US$ million				Million Czech koruna	
	1993	1994	1995	1996	1997	1998p
Agriculture and fishing	**–**	**–**	**5**	**4**	**–**	**–**
Mining and quarrying	**–**	**–**	**81**	**86**	**2 880**	**3 780**
of which: Extraction of petroleum and gas	–	–	–	–	18	–19
Manufacturing	**1 368**	**1 939**	**2 544**	**3 174**	**165 974**	**196 422**
of which:						
Food products	201	288	825	875	36 023	30 612
Textile and wood activities	–	–	88	311	20 726	25 446
Petroleum, chemical, rubber and plastic products	123	176	275	600	24 036	26 887
Metal and mechanical products	94	127	292	331	14 363	20 780
Office machinery, computers, radio, TV and communication equipment	–	–	–	–	1 829	1 835
Vehicles and other transport equipment	417	718	1 064	1 056	22 085	30 144
Electricity, gas and water	**–**	**–**	**169**	**323**	**13 661**	**19 198**
Construction	**263**	**392**	**481**	**588**	**4 435**	**4 489**
Trade and repairs	**102**	**145**	**299**	**573**	**37 219**	**74 346**
Hotels and restaurants	**–**	**–**	**–**	**–**	**2 560**	**301**
Transport and communication	**–**	**65**	**1 415**	**1 560**	**30 082**	**39 695**
of which:						
Land, sea and air transport	–	–	–	–	1 308	2 413
Telecommunications	–	–	–	–	28 463	36 510
Financial activities	**208**	**358**	**443**	**464**	**36 791**	**63 333**
of which:						
Monetary institutions	–	–	354	378	–	–
Other financial institutions	–	–	–	–	31 861	54 275
of which: Financial holding companies	–	–	–	–	–	–
Insurance and activities auxiliary to insurance	–	–	–	–	4 930	9 057
Other financial institutions and insurance activity	–	–	89	86	36 791	63 333
Real estate and business activities	**–**	**–**	**–**	**–**	**11 209**	**23 567**
of which: Real estate	–	–	–	–	4 586	11 372
Other services	**112**	**180**	**360**	**289**	**–**	**–**
Unallocated	112	180	360	289	183	679
Total	**2 053**	**3 077**	**5 797**	**7 061**	**305 231**	**429 168**
of which:						
Primary	**–**	**–**	**86**	**90**	**2 880**	**3 780**
Manufacturing	**1 368**	**1 939**	**2 544**	**3 174**	**165 974**	**196 422**
Services	**573**	**959**	**2 807**	**3 508**	**136 194**	**228 288**

– Not available or not applicable or data not provided for confidentiality purposes.
Source: International Direct Investment database, 2000, OECD.

OECD PUBLICATIONS, 2, rue André-Pascal, 75775 PARIS CEDEX 16
PRINTED IN FRANCE
(21 2001 11 1 P) ISBN 92-64-18338-8 – No. 51837 2001