

Foreign Controlled Companies in the Czech Economy

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Abstract

The article analyzes influx of foreign direct investment into the Czech Republic from the territorial point of view and partly from the perspective of receiving branches. However, it is primarily focused on impacts of this influx, i.e. creation of an institutional sub-sector of foreign controlled companies. They operate mainly in the sector of non-financial corporations and dominate in sector of financial institutions in the Czech Republic. This analysis is concentrated on the weight of foreign controlled companies on the performance and income characteristics of these two sectors and Czech economy as a whole, as well. Development of output, intermediate consumption and gross value added is used for non-financial foreign controlled companies as the performance characteristics and then profits and paid-out wages as the income characteristics. Problem of taxes paid by these companies to the state budget is mentioned and development of their investment in fixed assets, as well. Financial foreign controlled companies are viewed in terms of their proportion of total assets, loans and deposits, capital and reserves and capital adequacy ratio. Finally, impact of foreign direct investment on employment and gross value added in branches of economy is analyzed and double-tracking in industry is identified. Conclusion summarizes benefits and negative effects of the foreign controlled companies in the Czech Republic within their existing presence in 1995–2009.

Keywords

Foreign direct investment, institutional sub-sector, foreign controlled companies, Czech Republic

JEL code

D0, E22, E23, E24, G21, L60

INTRODUCTION

The foreign direct investment in the Czech Republic in form of foreign controlled companies has become a significant factor of the Czech economy which accelerated its output and capacity to export. The weight of these companies markedly increased in the period 1995 to 2009 in terms of output and income characteristics and especially of achieved profits and productivity level. This study monitors, save for the introductory part aimed at the inflow of direct foreign investment to the Czech Republic, its structure and development in time, position of foreign controlled companies in the economy or in the relevant sector. From among foreign controlled companies we look at financial institutions focusing on banking sector and, in wider scope, also on non-financial corporations. The study also deals with the contribution of foreign controlled companies in the relevant branch to the gross value added and employment and to employment in economy. The last chapter provides the analysis of the role of foreign controlled

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companies in the Czech industry including their position in the achieved revenues, number of the employed, average wage, and other similar things.

Data sources and methodological solutions

- Foreign controlled companies are in the system of national accountancy an institutional sub-sector inside institutional sectors. The institutional sector of non-financial corporations includes national private non-financial corporations and public non-financial corporations. The companies are included into sub-sectors according to the prevailing ownership representation in the company registered capital.
- The analysis proceeded from annual national accounts, production accounts, accounts of income formation and accounts of secondary distribution of income. From among the data provided by the Czech National Bank the table data from publications dealing with direct foreign investment (up to 2009), data characterising the investment position against foreign countries and the data from quarterly balance of payment financial account were used.
- From among industrial branch statistics the data structured by NACE classification valid from the end of 2008 were available. Monitoring of foreign controlled companies in the industrial branch and, in more detailed structure in manufacturing by selected parameters used in this analysis will be gradually supplied by the Czech Statistical Office according to CZ NACE.
- The empirical analysis proceeds from the original impulse, i.e. the inflow of direct foreign investment to the Czech Republic, its transformation into output of foreign controlled companies and determination of its weight according to selected parameters for the totals of sectors and economy.

1 INFLOW OF DIRECT FOREIGN INVESTMENT INTO THE CZECH REPUBLIC

Direct foreign investment is usually connected with know-how transfers, uses of cost effects in target country for an investor. Most often it is related to cheaper labour force compared to the home country and also with material investment be it in valuation of the existing equipment of purchased companies or new investment.

The Czech Republic received, during its existence from 1993 to the end of September 2011 including period until 1st January 1993 when the Czechoslovak federation collapsed, the total of CZK 2 498.951 billion of direct foreign investment.² By the end of 2010 the investment inflow accounted for CZK 2 435.618 billion. The inflow of investment achieved two peaks during this period in terms of volume, i.e. in 2002 and 2005 when the annual inflow exceeded the level of a quarter of trillion.

At the beginning the inflow of capital was focused on manufacturing but soon direct investment into other branches of the Czech economy prevailed. A great interest of foreign investors to invest was recorded mainly at the beginning of previous decade and its peak came in 2000. This consequently showed not only in growing investment imports necessary to equip new purchased operations but naturally in growing investment activity in general (for more details see chapter 4 thereof). In the period around 2000 a huge increase of gross fixed capital formation was recorded in the Czech Republic.

Where the inflow of direct foreign investment in the Czech Republic in 1993–2000 accounted, on average, for CZK 57 billion per year and in 2001–2010 CZK 129.2 billion, during the period of mere four

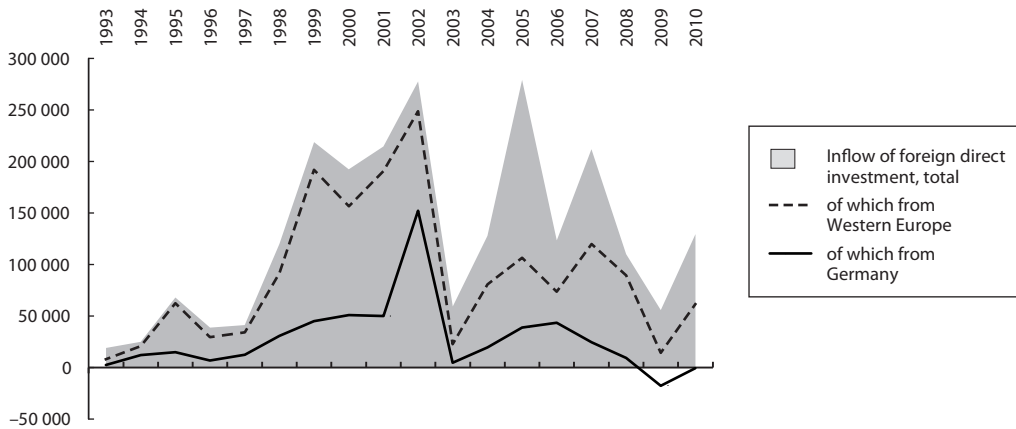
² This applies to the data provided by the Czech National Bank concerning the balance of payment statistics and data on investment position against foreign countries, available at: <http://www.cnb.cz/cs/statistika/platebni_bilance_stat/investicni_pozice/index.html>. The data are defined as preliminary data on direct foreign investment and are published quarterly within the term T+90 as data of investment position against foreign countries. This refers to total balances of direct foreign investment in the Czech Republic and domestic investment in abroad broken by registered capital (incl. re-invested profit) and other capital.

years, i.e. 1999–2002, the Czech economy received from abroad CZK 226 billion on average per year in form of direct investment.

Since 1998 practically until the pre-crisis year 2008 the inflow of direct foreign investment in the Czech Republic exceeded the level of a hundred billion crowns. The second culmination of this investment wave took place in 2005, i.e. the year following the accession to the European Union. Though the main inflow of direct investment arrived to the Czech Republic later than to Poland or Hungary, at the beginning of millennium it was, converted per capita, one of the biggest in the world and became an important stimulus of domestic economy.

While until 2002 the strength of direct investment into the Czech Republic was determined by European capital (Figure 1) and mainly from Germany, an exception was the period 1998–2000, when the Czech Republic received investment also from other west European countries, in the years following the accession to the European Union the Czech Republic welcome a massive inflow of capital from non-European countries. This can be explained by increasing attractiveness of the Czech Republic as a member country of EU 27, which for many conservative out-of-Europe investors had a reputation of a country with EU reliability, and, therefore, lower assumed risk.

Figure 1 Annual inflow of foreign direct investment to the Czech Republic roughly broken by area (in CZK million)



Source: Czech National Bank

1.1 Inflow of direct foreign investment from territorial and material aspect

It is convenient and beneficial for the Czech Republic, in respect of its geographic location, that it is situated in the territory near to the area of very high purchase ability. It is important mainly for its foreign trade. The capital flows show that in form of foreign investment the Czech Republic received capital from the nearest countries such as Germany and Austria. These two countries contributed by more than a quarter to the balance of direct border investment in the Czech Republic by the end of 2009.

Although it is generally accepted that the biggest direct investor to the Czech Republic is the Federal Republic of Germany, the German investors occupied the second place according to the recorded inflow of money by the balance of foreign direct investment in the Czech Republic by the end of 2009. The German investors transferred to the Czech Republic CZK 317.2 billion for the above period, mainly in form of equity capital (CZK 185.5 billion). German investors left in the Czech Republic CZK 134.4 billion in form of reinvested earnings.

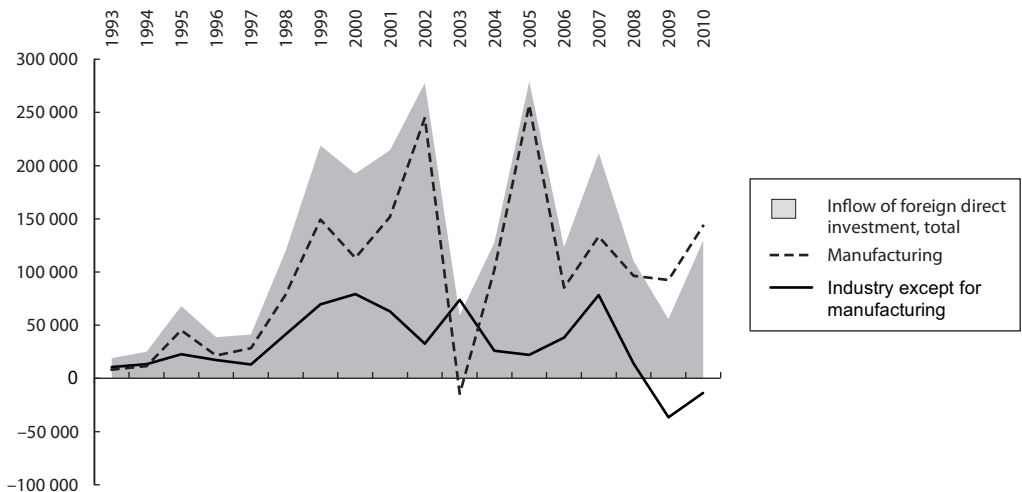
The domain of German investors was, in terms of the amount of input capital, specifically the investment into financial sector, trade and automobile industry. Direct German investment into retail-trade reached CZK 31.1 billion, along with the capital invested into the whole trade (CZK 24.2 billion) the trade branch thereby contributes by 17% to the inflow of direct investment into the Czech economy.

Despite this significant capital inflow into the Czech Republic, Germany occupies only the second place in the rating of countries. More than a double was the inflow from the Netherlands, in the amount of CZK 684.3 billion. Direct investment coming from Luxembourg (CZK 156.2 billion) was very significant, following Austria and occupying the fourth place.

The Netherlands and Luxembourg were sought for as the registered office for companies whose capital may not come from these countries at all. The reason is, as a rule, tax optimization and other specific conditions for business activities. If a company chooses as its registered office the country such as the Netherlands or Luxembourg and then invests in the Czech Republic, the capital inflow is understood to come from these countries.

Applying such approach, the Czech Republic received from the Netherlands the biggest amount of money to invest to electricity, gas, steam and air conditioning supply (CZK 127.5 billion) and also to manufacture of motor vehicles, trailers and semi-trailers (CZK 107 billion). Over CZK 65 billion flew to the management consultancy activities where there are also important re-invested profits in the amount of CZK 40 billion.

Figure 2 Annual inflow of foreign direct investment to the Czech Republic by industry (1993–2010, in CZK million)



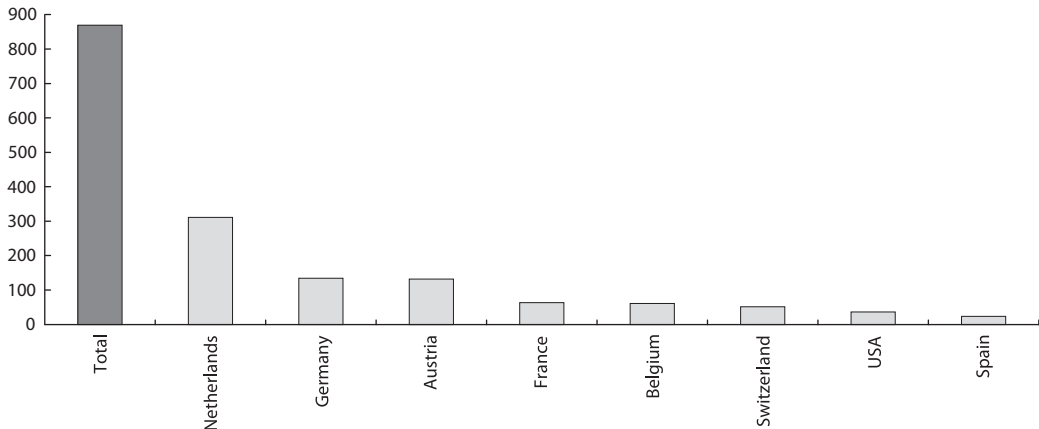
Source: Czech National Bank

In 2010 the Czech Republic received the biggest volume of direct investment from Austria (CZK 28.3 billion) especially in form of reinvested earnings (CZK 25.7 billion). In total, in 2010 the Czech Republic received CZK 129.5 billion of direct investment in which the reinvested earnings (CZK 82.6 billion) prevailed. Domination of reinvested earnings was apparent mainly for the group of old member-countries of the Union (EU 15).

The rest of the world except for Europe did not seek for the Czech Republic in 2010. It is attested to the fact that the recorded inflow of direct investment from the whole world in the amount of CZK 129.5 billion was lower than the inflow from European countries (CZK 133 billion). In this particular year the

outflow of foreign capital from the Czech Republic back to the countries of non-European direct investors took place.

Figure 3 Reinvested earnings in the Czech Republic by countries (end of 2009, in CZK billion)



Source: Czech National Bank

2 WEIGHT OF FOREIGN CONTROLLED COMPANIES IN THE CZECH ECONOMY

Foreign controlled companies form an important segment of the Czech economy which during 1995 to 2009 significantly strengthened its weight in production and gross value added of the whole sector of non-financial enterprises, in sector of financial institutions and in the economy as a whole. Its contributions to the outputs in economy showed multiplied increases and the same was recorded in contributions to income characteristics of their activities, i.e. achieved profits of paid-out wages.

In 1995 foreign controlled companies in the sector of financial institutions and non-financial corporations together contributed to the output parameters of the Czech economy ranging from 4% (in case of contribution to the net operation surplus and mixed income for economy) to 8.6% (in case of their contribution to intermediate consumption).

As early as then their contribution to profit in form of net operation surplus, i.e. profit of a “big“ economy (mixed income is a characteristic feature recorded only for household sector where it is difficult to separate profit and wages in trader’s activities) were significant. Contribution of foreign controlled companies to the net operation surplus in 1995 reached 8%.

The biggest strengthening of weight of foreign controlled companies took place in the Czech economy in 1995–2000 and especially in 1999 and 2000. Then the contributions in percentage from low bases recorded the biggest increase. This was due to the fact that in the latter half of the 90’s the Czech Republic underwent monetary crisis and then it broke out from shallow recession. In 1999 it gained trust and still the assets offered for sale to foreign investors in form of attractive state shares in the biggest companies or those which they picked in other areas were cheap. This was an attraction for all investors. In addition to strong capital inputs into the financial sector the strong emergence of retail chains was observed in this period with the massive volume of the investment.

2.1 Contributions of foreign controlled companies to the outputs of economy

Foreign controlled companies between the years 1995–2000 increased their contribution to the production in economy from 7.3% to 23.3% and even more marked was the growth of their contribution to

intermediate consumption (from 8.6% to 27.2%). As early as then it pointed out higher rate of reprocessing characteristics of foreign direct investment in the Czech Republic (privatized by German capital was Škoda Mladá Boleslav as early as then).

This conclusion could proceed from the fact that the contribution of companies with prevailing foreign capital to the gross value added was substantially smaller than their contribution to intermediate consumption. In 2000 it exceeded a quarter (27.2%), while the contribution to the gross value added was only one sixth (15.3%). This can be partly explained by the reprocessing characteristics of investment. In addition, this can also be attributed to the fact that the sector of public services where the added value is formed mainly by wages of employees (e.g. in education, health care, state administration, etc.) is naturally included in the total of gross value added for economy. Thereby, the level of the indicator for economy increased, while production and intermediate consumption refer mainly to the sector of non-financial corporations. In this sector the weight of foreign controlled companies is higher than in economy.

In the period 2000–2005 the weight of foreign controlled companies continued to grow, however, not so markedly as in previous five years. In production, the weight increased from almost one quarter to more than a third (34.8%), for intermediate consumption it grew a little more by almost two fifths (+39.7%). Falling behind in gross value added was confirmed even though the contribution of foreign companies in the Czech Republic to its total amount in the economy came close to a quarter (23.7%). See Table 1.

Table 1 Weigh of foreign controlled companies in the Czech economy (contributions of financial and non-financial foreign controlled corporations to the vales related to the Czech economy, in %)

	1995	2000	2005	2008	2009
Production	7.3	23.3	34.8	42.7	42.5
Intermediate production	8.6	27.2	39.7	47.8	47.7
Gross value added	4.8	15.3	23.7	30.3	30.6
Wages and salaries	5.5	17.2	26.7	33.3	33.0
Profit (Net operation surplus*)	8.0	37.8	48.8	56.1	60.0
Profit (Net operation surplus + mixed income**)	4.0	21.0	30.3	37.5	38.8

* Net operation surplus.

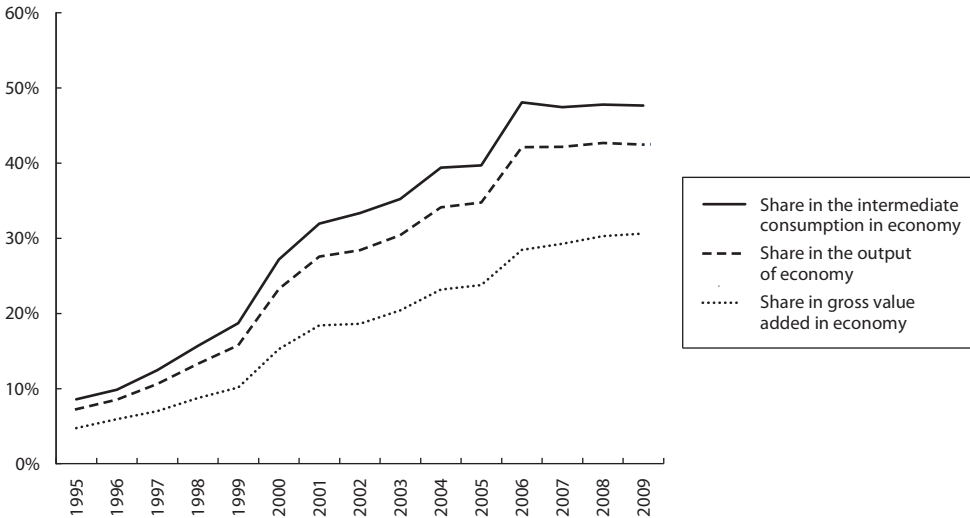
** Net operation surplus and mixed income.

Source: Czech Statistical Office, own calculation

After the year 2000 a new phenomenon appeared affecting through companies of direct investors the Czech economy also the area of foreign trade. Foreign companies in the Czech Republic began to focus on exports. This was due to the fact that in some export branches the foreign capital has already been established (automotive industry) in other industries this process was under preparation. In connection with the life cycle of investment³ could be observed that classic life cycle investment ran: until 2003 reinvested earning outweigh the amount of dividends, 2004 and 2005 showed roughly the same ratio and then investors converted a larger share of profits to the parent countries. Retained profits of foreign investors in the Czech Republic reached almost CZK 870 billion by the end of 2009.

At the same time, i.e. after the year 2000 robust imports of investment nature took place when direct investors were equipping their new-gained production capacities by machinery, caused then a significant deficit in foreign trade. However, it was not a risk for external balance of the Czech economy just because the imports referred mainly to investment and not to consumption.

³ Mandel, M., Tomšík, V.: Foreign Direct Investment and the External Balance in the Transition Economy: the Application of Life Cycle Theory. *Political Economy*, 2003, No. 6, pp. 723–741.

Figure 4 Shares of foreign controlled financial and non-financial corporations in total economy (in %)

Source: Czech Statistical Office, own calculation

In the period of relatively long economic boom in the Czech Republic during which a significant conversion towards the average level of economic and monetary union in Europe took place, the weight of foreign controlled companies again increased in the economy as a whole and specifically in the sector of non-financial corporations.

While in 2005 the production of foreign companies reached in financial and non-financial sectors the total of CZK 2.646 trillion with a clear predominance of production of non-financial companies with CZK 2.485 trillion resulting from the character of given sector, after a robust economic growth the production increased in 2008 to CZK 4.156 trillion. The intermediate consumption of foreign controlled companies increased in 2005–2008 by more than a trillion (CZK 1 085.8 billion). These companies then consumed CZK 2.991 trillion for their production.

For more three years the production of these companies increased 1.57times and in the Czech economy as a whole only 1.28times. The intermediate consumption showed similar growth proportion (+157% compared to +130% for economy as a whole). Even for gross value added the foreign controlled companies recorded a growth comparable with the growth of production and intermediate consumption which does not apply to the Czech economy as a whole. The Czech economy recorded in 2005–2008 slower growth of VAT (+123.5%) than in total for foreign controlled financial and non-financial corporations.

This can be attributed to very high profits typical especially for foreign controlled companies while the wage growth in the economy including public sector was, despite very significant y-o-y nominal increases so sharp, as it was for profit dynamics measured by net operation surplus.

Contributions to values for economy as a whole increased proportionally to the above growths. In 2008 the share of foreign controlled companies performing business activities in non-financial and financial sectors was 42.7% of production of economy as a whole and 47.8% of intermediate consumption. This development took place mainly after a jump in 2006, when the share of foreign controlled companies in production increased by 7.3 p.p. and in the intermediate consumption even by 8.4 pp. The increase of contribution to gross value added in 2006 compared to the production and intermediate production was significantly smaller (+4.8 p.p.).

The above suggests the following: in 2006 there was a culmination of economic boom in the Czech Republic mainly due to foreign controlled companies. Then, reprocessing character of foreign direct investment in the Czech Republic was apparent especially in 2006 when its contribution to the gross value added increased, y-o-y, significantly less than contributions to production and the intermediate consumption.

Also in 2008 which was affected by drop owing to sharp decrease of foreign demand as late as in the last quarter, the growth of foreign controlled companies in the Czech economy continued. The year-on-year stagnation of their contribution to the production in 2007 (42.2%) was followed by a mild increase (42.7%). In the intermediate consumption a drop in contribution in 2007 (47.4%) was also followed by an increase in 2008.

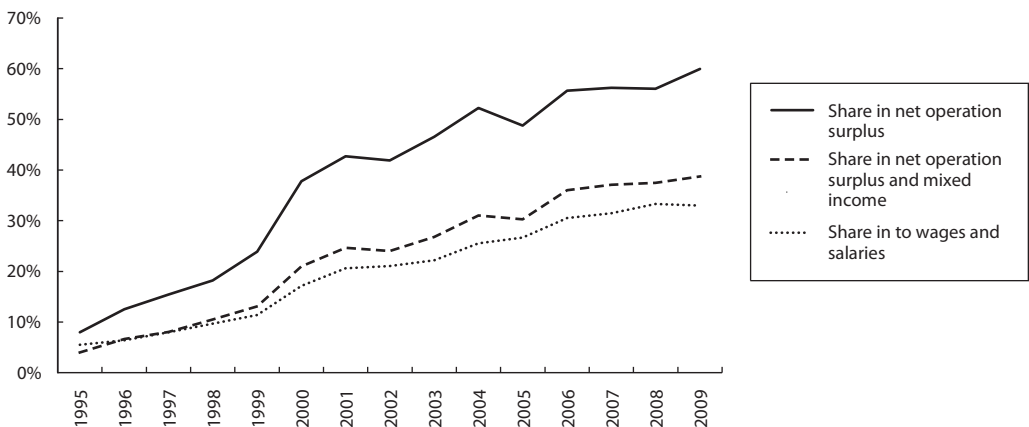
Contribution of foreign controlled financial and nonfinancial corporations to gross value added in the Czech economy grew continuously in 2005–2008 (it increased from 23.7% to 30.3% in 2008). These corporations formed gross value added in the amount of CZK 1.165 trillion and in the whole Czech economy the gross value added in 2008 amounted to CZK 3.848 trillion.

2.2 Contributions of foreign controlled corporations to income parameters of economy

Contribution of foreign controlled corporations to the profit in form of net operational surplus in the Czech economy increased from 8% in 1995 to 60% in 2009. Similarly, as for output characteristics even here the biggest increase was recorded in the latter half of the 90's (up to 37.8% in 2000). This can be attributed to a low base as it was mentioned above and also to massive privatisation wave taking place just in 1999 and 2000.

If, in addition to the net operation surplus, the profit included also mixed income and profit of traders in the household sector, the foreign controlled corporations contributed to the above defined profit in the economy in 2009 by almost two fifths (38.8%). A significant growth over the above mentioned fifteen years also took place because in 1995 the contribution of foreign controlled corporations was only 4%.

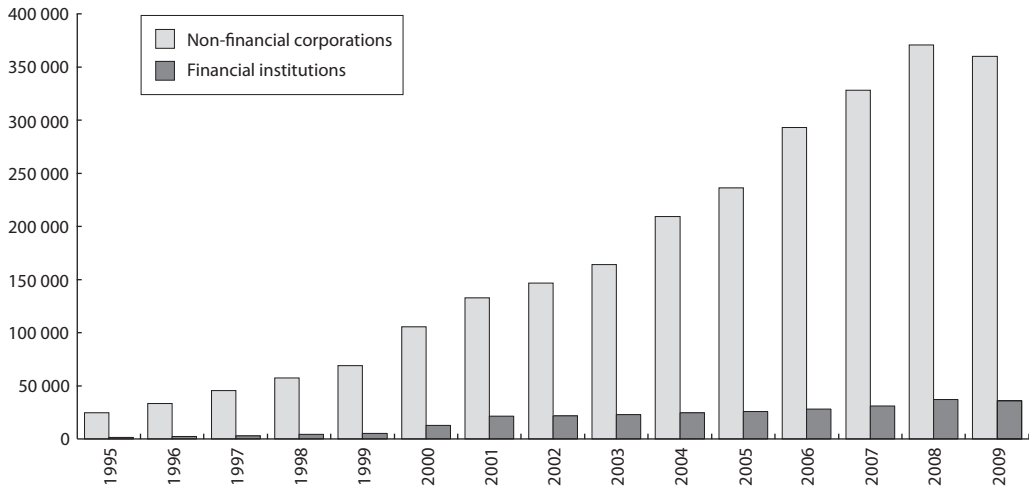
Figure 5 Share of foreign controlled financial and non-financial corporations in income in the economy (in %)



Source: Czech Statistical Office, own calculation

Profitability of foreign controlled corporations in the Czech Republic is significantly high. Half of all profits in the economy was exceeded by this segment as early as in 2004 (Figure 5) when the profits in form of net operation surplus for the whole Czech Republic (CZK 5.286 trillion) was contributed to by foreign controlled financial and nonfinancial corporations by 52.3% (CZK 2.764 trillion).

Figure 6 Volume of wages in foreign controlled corporations (in CZK million)

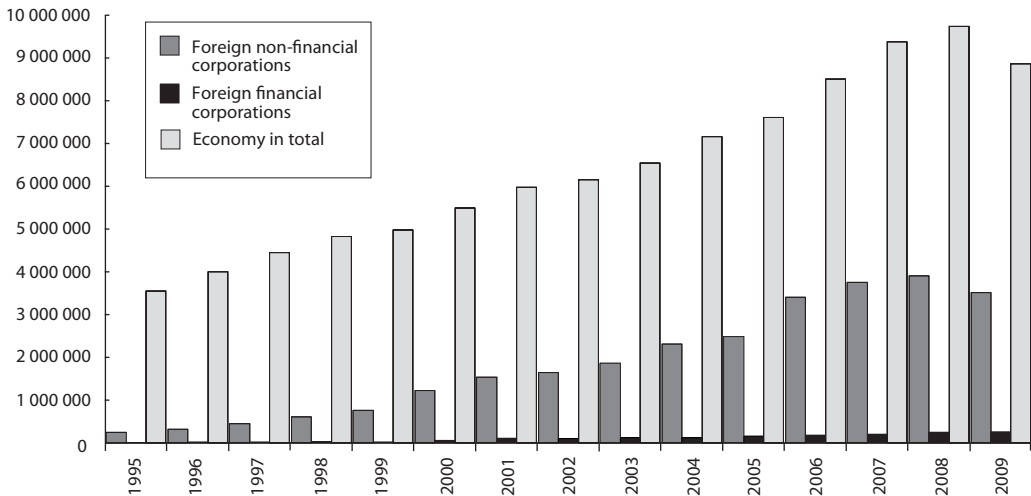


Source: Czech Statistical Office

Growing profits of financial institutions in the crisis year 2009 (+11.6 billion) compared to 2008 caused that their drop in the whole segment of foreign controlled corporations was not so profound (CZK -15.4 billion). However, sharp drop of profits of the Czech (private national) national companies caused that in the economy as whole the net operation surplus in 2009 decreased compared to 2008 by CZK 79.1 billion.

In terms of next income parameter foreign controlled corporations paid out in 1995 only 5.5% of the volume of all wages and salaries in the economy. In 2000 the volume increased to 17.2%. During the

Figure 7 Production of foreign controlled financial and non-financial corporations (in CZK million)



Source: Czech Statistical Office, own calculation

last decade the volume of wages of foreign controlled corporations in 2009 reached one third (33.3%) of the total volume of wages and salaries in the Czech economy. The y-o-y drop in crisis year 2009 then caused that compared to 2008 the contribution of this sector of economy decreased intangibly (by 0.3% down to 33%).

Relatively low contribution of wages of foreign controlled corporations in the Czech Republic is given by the public sector proportion to the total paid-out wages and salaries in the economy. Compared to the contribution of profit which is very high (60% in 2009) against massively lower contribution to wages and salaries (33% in 2009) it could be concluded that “productivity” of foreign controlled corporations is high since it forms with lower share of wages higher contributions to production and gross value added in the economy.

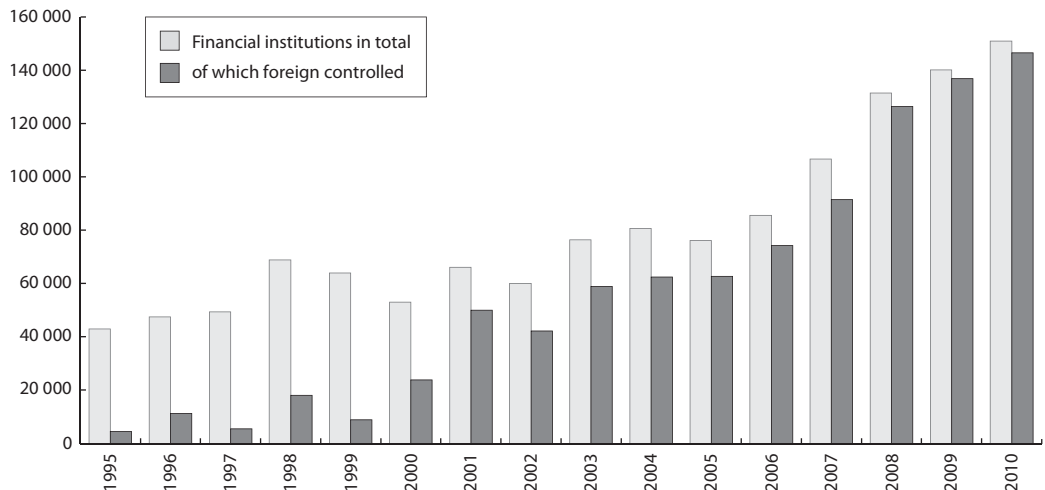
3 FOREIGN CONTROLLED FINANCIAL INSTITUTIONS

Financial sector in the Czech Republic is practically 100% owned by foreign capital. It is a result of massive privatization of the Czech state ownership interest in the biggest banks and by entering of foreign insurance companies and pension funds the Czech market.

As a result of such development in 2010 foreign controlled corporations represented, according to preliminary data, 97.1% of gross value added of the whole financial sector of the Czech Republic, while in 1995 they contributed by a mere one tenth (10.4%). In absolute figures the amount of gross value added formed by these corporations in 1995 was only CZK 4.5 billion but in 2000 it amounted to CZK 23.8 billion which made 45% of gross value added in the whole sector of financial institutions.

In the next decade a very sharp growth of gross value added took place shortly after the year 2000 upon privatization of state ownership interests in the biggest Czech banks, to reach CZK 146.5 billion in 2010 which represented the already mentioned 97.1% of gross value added of the whole Czech financial sector. Gross value added was increasing smoothly and its growth was not suspended by crisis in 2009 which the financial institutions in the Czech Republic, contrary to banks in Europe or banks with global impact mainly in the USA, endured without problems.

Figure 8 Gross value added in financial institutions as a whole and in segment of foreign controlled financial corporations (in CZK million)



Source: Czech Statistical Office

Development of foreign controlled corporations in financial sector of the Czech Republic was largely affected by the sale of state ownership interests in the biggest Czech banks (see below in sub-chapter dealing with the commercial banks segment).

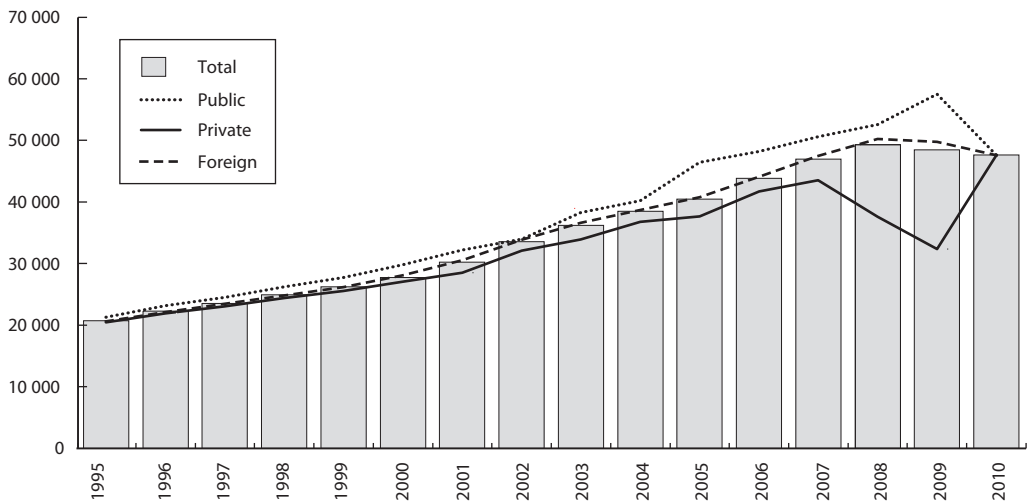
Foreign corporations in the Czech Republic dominate the financial sector logically also in the contribution of paid-out wages and numbers of employees. Although, in wages also this sector was in 2009 affected by unfavourable economic development, but the y-o-y drop in volume of wages can be attributed to the drop in the number of employees. By transfer of a large part of financial sector to foreign hands the numbers of employees increased in jumps in 2001 and they became employees of foreign controlled corporations.

Wages in financial sector belong to the biggest ones in the Czech Republic. Figure 9 shows differences by form of ownership of the financial corporation. It shows that the average wage in financial sector is determined by the wage growth in the foreign controlled segment.

Somehow astonishing is higher than average wage of employees in financial institutions where public ownership prevails. It can naturally be explained by the character of business activity of the institutions. The biggest banks in the Czech Republic represent majority of financial sector with large network of branches where the clerks at the counters do not reach such high wages as it is shown by average wage level for the whole sector or for a specific commercial banks. On the contrary, only a small number of financial institutions which are controlled by public sector, such as the Czech Export Bank, Export Guarantee and Insurance Corporation (EGAP), Czech-Moravian Guarantee and Development Bank are in terms of number of employees relatively small and are focused on more sophisticated work. Wages are not diluted by wages of lower income groups like in big commercial banks.

Wages grew a little faster than employment which affected also the change in average wage of employees of foreign controlled corporations in financial sector of the Czech Republic (deviation in connection with the purchase of decisive part of bank sector was mentioned above). Foreign controlled corporations in the financial sector of the Czech Republic paid out in 1995 to their employees in wages over CZK 1.5 billion. In 2000 wages amounted to CZK 12.8 billion while in this year an impact of privatization on wages (y-o-y growth by 146%) was apparent. However, in 2001 the volume of wages accounted for CZK

Figure 9 Average wage in financial sector by ownership (in CZK monthly)



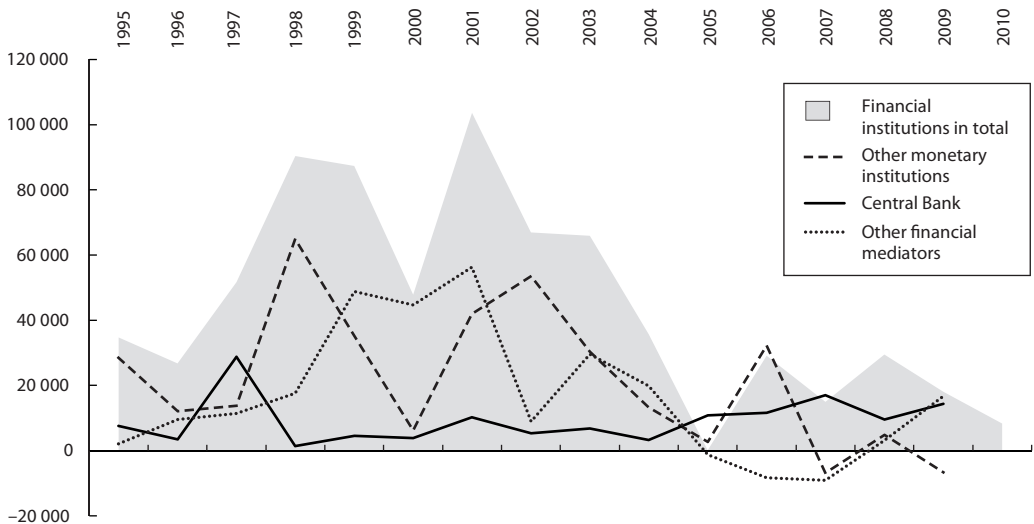
Source: Czech Statistical Office

21 billion and until 2010 it increased to CZK 36.5 billion. The biggest y-o-y growth of wages took place in the Czech financial sector in 2008 when the world coped with global financial crisis. The volume of wages increased by one fifth (+19.9%), i.e. by CZK 6.2 billion.

In terms of summary result of business activity in the sector of financial institutions in form of mutual relation between sources and their use according to the national book-keeping, it is obvious from the chart 10 that for the whole monitored periods this sector showed surpluses. In 2005 its business activity was balanced (CZK +0.09 billion). In 2008 the sector of financial institutions in the Czech Republic as a whole recorded the biggest surplus since 2005 when net loans reached CZK 29.5 billion. Along with the surplus in the household sector (CZK 11.8 billion) these two institutional sectors were able to finance deficits of other sectors of the Czech economy, and mainly of the government sector which recorded in 2005 a deficit of CZK 83 billion but also the sector of nonfinancial corporations (CZK -33 billion).

In 2009 the surplus of financial institutions sector shrank to its third lowest value in time series from 1995 due to deficit which appeared in other monetary institutions including commercial banks. Just this deficit was until 2006 a relevant segment for the aggregate result of the sector of financial institutions. In 2010 the surplus continued to shrink (more detailed data are not yet available).

Figure 10 Surpluses and deficits (net loans + / net borrowings -) in the sector of financial institutions (in CZK million)



Source: Czech Statistical Office

3.1 Commercial banks

From the aspect of the ownership structure the most significant changes took place from the aspect of ownership structure of the Czech economy on which the analysis is focused, specifically in the financial sector of the Czech Republic in the period around the year 2000. Then the Czech state decided to privatize its ownership interests in the biggest banks in the country according to the time-schedule assuming that the sale will be completed by the end of 2000. And this actually happened. Gradually the Investment and Post Bank (IPB) was privatized through its sale to the Japanese investment bank Nomura, Československá obchodní banka (ČSOB) to the Belgic BC, Česká spořitelna (ČS) to Austrian Erste Bank and Komerční banka (KB) to the French Soci t  G n rale.

3.1.1 Privatization genesis and problem solution

In the latter half of the 90's the banking sector showed transfers to other than the existing owners of commercial banks which did not have character of state ownership interest privatization. It was rather a solution of bad situation of banks being sold which the new owners were supposed to rescue. This applied to the sale of Agrobanka, middle-size financial house aimed at small and middle-size companies to the hands of American GE Money. Although, in the latter half of the 90's in the Czech Republic the segment of small banks and partially also middle-sized banks practically collapsed mostly due to the equity crisis.

However, this did not apply to the difficulties of small and middle-size banks segment. Before privatization the state had to costly rescue credit portfolios of the biggest Czech banks which would almost throw them to the edge of the precipice. The cause was the overvaluation of mortgage loan securities. If this adjustment would not have taken place the sale of the state ownership interests would be impossible. The sale of banks into European private hands made the big Czech banks subsidiaries under foreign control which in many market aspects is practically 100% control.

The sale of a part of Investiční a poštovní banky (IPB) to Japanese Nomura was later challenged due to extremely low sales price mainly because Nomura was not a strategic but financial investor. By taking out of the most valuable assets held by IPB and their consequent sale to foreign investors which took place afterwards, resulted into the fact that marks related to the Czech "family silver" such as Plzeňský Prazdroj (new owner is a South-African brewery) passed to foreign hands.

IPB was well market-focused bank whose many transactions, however, attacked the level of acceptable risk. Following its actual failure in 2000 it became part of already privatized (into foreign hands) ČSOB. The ČSOB was provided by 100% state guarantee for all assets acquired from IPB (a merger, extremely advantageous for a new IPB owner and disadvantageous for the state took place). The above mentioned guarantee exceeded CZK 163 billion. Sales price did not at all took into account the fact what was valuable in IPP was that its financial group included subsidiaries – market leaders in their particular area, such as very successful Českomoravská stavební spořitelna with excellent marketing strategy and relatively strong pension fund in terms of the number of clients. IPB privatization can be assessed as badly done. Subsequent taking out of bad assets of the bank into Consolidation Agency was a burden for the Czech tax-payers who had to rescue also a huge mass of transferred bad claims from the KB and ČS portfolios.

For privatization of 52% of ownership interest in Česká spořitelna the state acquired CZK 19 billion for Austrian Erste Bank. However, the state had to take out for the balance of Česká spořitelna to Consolidation Bank⁴ bad loans in the amount of CZK 33 billion and had to count with further expenses in relation to the state guarantee for some loans which remained in Česká spořitelna portfolio. The price was by 55% higher compared to the book value of net equity of Česká spořitelna at the end of 1999 and by 36% higher than market price of Česká spořitelna closely before the sale. Erste Bank agreed to increase within two years the registered capital of Česká spořitelna group by the total amount of four billion Czech crowns. Apart from obligation to pay the purchase price and to increase the registered capital Erste Bank offered a number of initiatives to support the Czech economy in the total of CZK 22 billion..

Česká spořitelna was purchased by a small Austrian Erste Bank whose client base was compared to 5 million clients of Česká spořitelna very small. Neither in belonged Austria Erste Bank to the biggest banks, however, it had a clear growth strategy with the aim to acquisitions in the Central Europe which it later implemented. In the Czech Republic Erste Bank actually supported small and medium-size companies by special (beneficial) programmes of financing and also by the manner how it financed the Czech housing market. It was just the product of Česká spořitelna called "Top living" which put in motion the Czech mortgage market since before the banks granted low numbers of mortgage loans to

⁴ Loss of the Consolidation Bank (later renamed to Consolidation Agency) was to be compensated from public means which actually happened.

a very narrow circle of clients with highest rating. The “subsidized” interest rates of mortgage loans from privatized Česká spořitelna attracted to large number of persons interested in mortgages, directly forced other banks to reduce their rates and may stand behind the boom of mortgage loans which culminated in the half of the last decade.

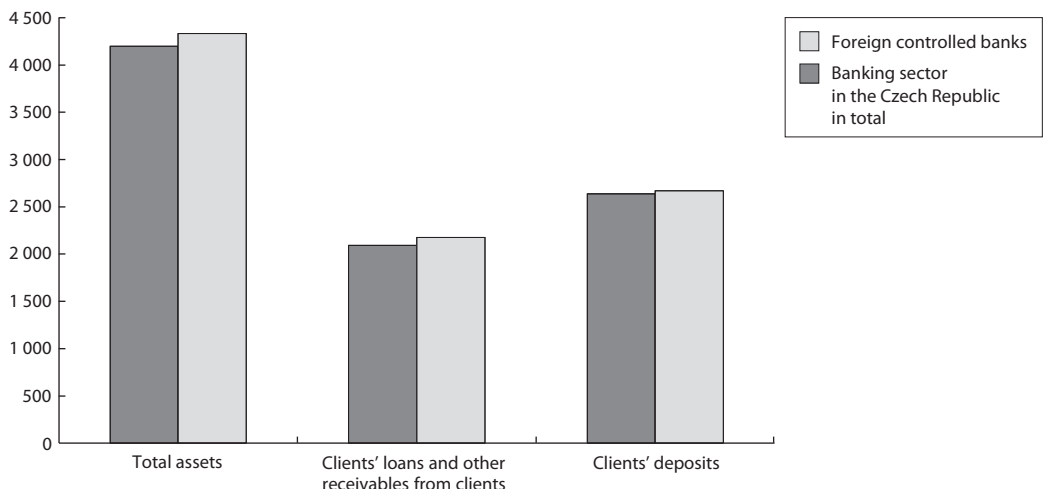
Komerční banka (KB) was purchased in 2000 in tender procedure in competition with Bavarian Hypovereinsbank and French Credit Agricole finally by Société Generale, bank with global scope, at CZK 40 billion. A half of this sum was subsidized by the Transport Infrastructure Fund. Komerční banka was even before relatively well managed and focused mainly on companies. Its potential including financial groups was not as significant as in case of Česká spořitelna; however, we can say that even here the arrival of new owner increased sensitiveness for business projects of small and middle-size enterprises.

ČSOB was privatized in half of 1999 by Belgian KBC Bank from KBC financial group. It was not purchased by Deutsche Bank as it was generally expected but again, like in case of Česká spořitelna, by a small bank, originally family enterprise. The sole shareholder of ČSOB became KBC Bank as late as in 2007 after the purchase of shares of minority shareholders. Upon the takeover of IPP the ČSOB following long and difficult merger focused on retail banking. Originally, it was established in the 60s of the last century as a bank serving foreign trade transactions of companies of the Czech Republic and securing also the foreign-exchange transactions.

3.1.2 Conduct of new owners

Arrival of new foreign owners was accompanied also by their logic efforts to enhance faster and more tangible return of invested capital. Erste Bank planned to reach this aim within two years from purchase of Česká spořitelna and its assumption concerning 18% return of the capital appeared unfeasible given the then expense-to-revenue ratio of Česká spořitelna. However, the aim was achieved, as well as conversion of information systems, introduction of Internet banking, enhanced risk management and new financial products.

Figure 11 Assets, loans and deposits in banking sector of the Czech Republic and weight of foreign controlled banks (in CZK billion)



Source: Czech National Bank

Another thing, which is, however, unfavourable from the aspect of clients, was higher charges of bank services introduced by foreign owners. Given long-term low interest rate in the Czech economy which was kept down by weak consumer inflation, the net interest rate revenues of banks and revenues from charges and commissions practically equalled due to achieved margins.

By the end of 2010 it is possible to monitor prevailing dominance of foreign controlled banks in all more significant criteria for assessment of bank activities in the Czech Republic ranging from 96–99% (see Figure 11). The contribution of foreign controlled banks to total assets of banking sectors was 96.9%, i.e. CZK 4.197 trillion. Most of these assets is determined in Czech crowns (CZK 3.573 trillion) and the rest in Euro (CZK 524 billion) and in other currencies (CZK 100 billion).

Contributions approaching 100% show foreign banks in the Czech Republic also in client's loans (96.3%, i.e. CZK 2.094 trillion) and in securities purchased into their portfolios (96.8%, i.e. CZK 817 billion). This segment is dominated in main items by active side of balance of the Czech banking sector.

Absolutely biggest share of the sector as a whole is recorded for foreign banks in the Czech Republic in client's deposits. Clients entrusted them the total of CZK 2.637 trillion which makes 98.8% of all client's deposits in the Czech banking sector. At the same time, an overwhelming majority of this sum is represented by deposits in CZK (Figure 12). Therefore these banks have very cheap primary sources available for their active transactions.

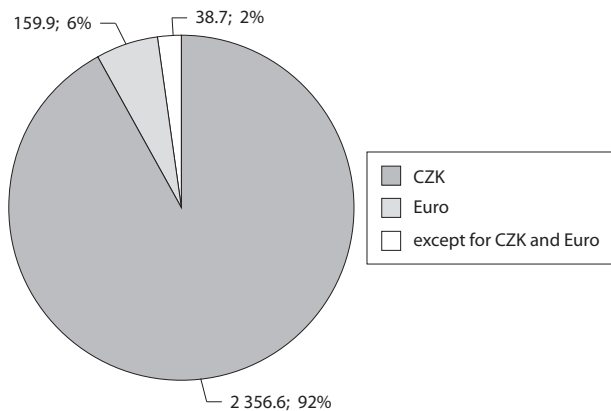
Beside client's deposits as the most significant items of passive side of balance foreign banks have big shares also in reserves and capital. The registered capital of foreign controlled banks accounted at the end of 2010 “only” for CZK 72.7 billion, i.e. 91.6% of its amount for the whole banking sector. It was less than shares in transactions. However, the total of capital and reserves of foreign controlled banks by the end of 2010 amounted almost to half trillion (CZK 468.9 billion). This was due to high retained profit as non-distributed part of profit from the last years in the amount of CZK 124 billion. In the year 2010 the net profit of foreign controlled banks amounted to CZK 54.4 billion.

Due to accumulated profits, reserves and capital the banks in the Czech Republic have a thick “pillow” to cover their transaction risks. Capital adequacy ratio expressing the amount of capital against risk weighted assets is extremely high in the Czech banking sector. While, according to international regulations the limit for capital adequacy ratio is 8% to risk weighted assets, banks in the Czech Republic have this ratio significantly higher (Figure 13). In addition, in the crisis period it increased to 14.4% in 2009 and in 2010 it grew up to 15.5%.

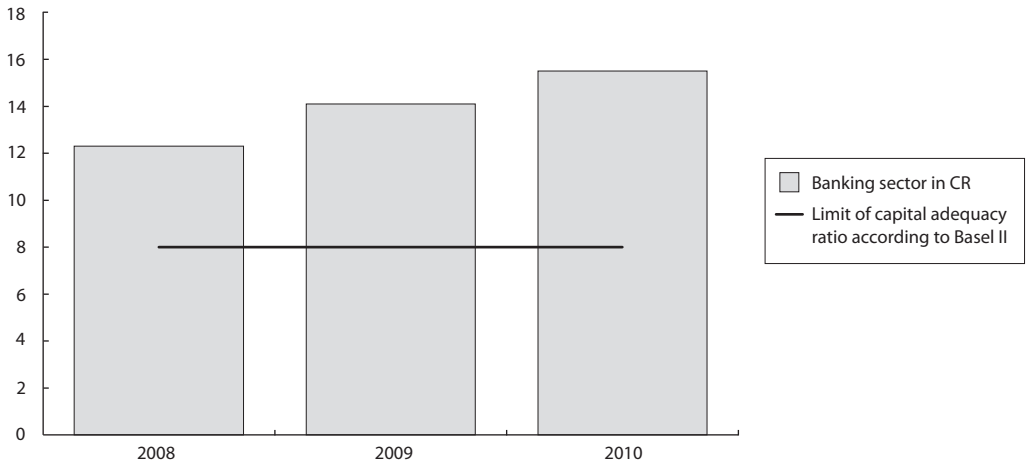
Commercial success of foreign controlled banks acting in the Czech Republic along with high capitalization caused that they endured the financial crisis and economic recession unharmed although their parent companies faces problems.

There exist several reasons: foreign investors purchased banks adjusted for bad claims which allowed them for subsequent massive capitalization. As early as from 2002 profitability of foreign controlled banks

Figure 12 Deposits at foreign controlled banks (in CZK billion)



Source: Czech National Bank

Figure 13 Capital adequacy ratio (in % of risk weighted assets)

Note: Second of Basel agreements (recommendation for the bank law and regulation of Basel Committee for banking supervision).

Source: Czech National Bank

was very high and return of invested capital was above the global average. While western banks were forced to obtain significant part of sources in the capital market, banks in the Czech Republic could use the already mention very cheap deposits of clients. These are then used for transactions which allows for the growth of margins.

High capitalization rate creates space for active transactions and possibility to cover their risk is wide. Another important aspect of successful endurance of crisis in the years 2008 and 2009 was the fact that banks in the Czech Republic did not have stronger representation of risky structured instruments in their portfolios of securities which became for many global banks fatal.

4 SECTOR OF NONFINANCIAL CORPORATIONS

Non-financial corporations were the primary target of foreign capital flowing into the Czech economy. Foreign controlled companies increased their lower shares in 1995 (10.1% in the production of non-financial corporations and only 8.8% in their gross value added) to the above-half share in production of non-financial sector (52.5%) in 2008 and in production for economy they also approached a half (46.5%). The growth of the above mentioned shares continued in the crisis year 2009 although it might appear that just a strong drop of foreign demand may affect mainly foreign controlled companies in the Czech market aimed at export more markedly than the rest of economy.

Partly “reprocessing” character of foreign controlled non-financial corporations is attested to the fact that compared to shares of this segment in production or value added in the sector of non-financial corporations the shares of the segment in the intermediate consumption are higher. It means that these corporations consume in their production bigger mass of material, energies and other components of intermediate consumption to reach the final amount of production and gross value added than the rest of the sector of non-financial corporations (i.e. public and national private enterprises).

The share of foreign controlled non-financial corporations both in the production and value added of the sector of non-financial corporations in the period of strong boom of the Czech economy increased most slowly in the whole time-series 1995–2009. This might be caused also by the fact that private national (Czech) companies started to grow in this period. The most robust increment of this share was

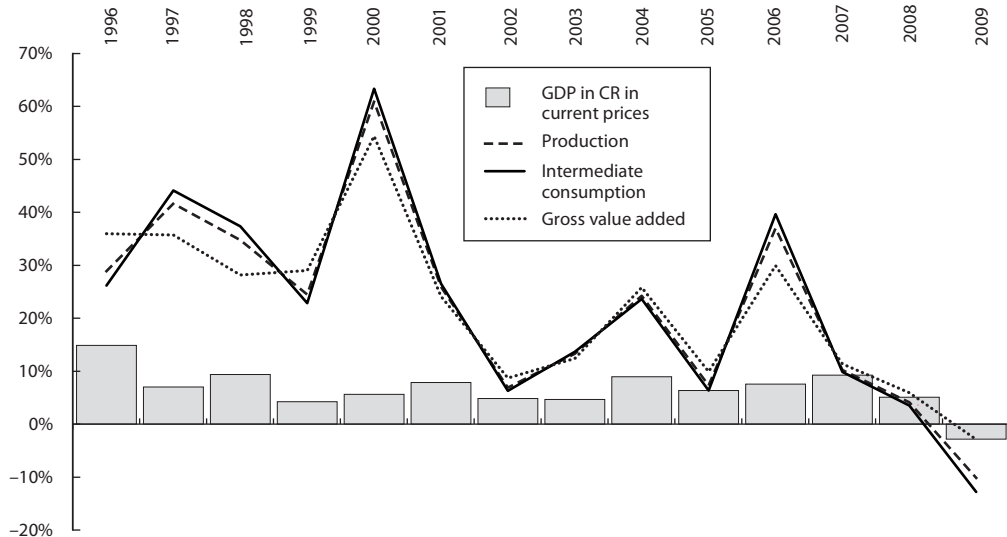
recorded in 2000 and 2006. This might be related to intensive inflow of direct foreign investment into the Czech economy.

Production of foreign controlled companies exceeded the 50% level of the whole production of non-financial corporations sector as early as in 2006. Strong growths of shares at the beginning of the decade were apparent after the inflow of direct investment into branches manufacturing machinery and equipment (electrical, office, medical, transport) the inflow of investment recorded in 2000 compared to 1999 almost tripled (from CZK 15.6 billion to 40.6 billion).

The fact that also in 2008 and 2009 the growth of contribution of foreign controlled non-financial corporations to the total production of non-financial corporations was recorded is somewhat surprising. Upon a drop of foreign demand at the beginning of crisis it was more probable that most affected would be just foreign controlled companies aimed at export. Finally, it was the sector of domestic companies. The contribution of foreign controlled companies to the total production of non-financial corporations thereby increased and the y-o-y drop of their production was in 2009 less profound (-10.1% compared to the sector in total (-11.4%). Figure 14 shows how their output was affected by crisis.

The intermediate consumption of foreign controlled non-financial corporations increased in 1995–2009 roughly 14times, gross value added 14.7times. The strength of foreign controlled non-financial corporations in the Czech economy is attested to the act that compared to these extreme increments of intermediate consumption and gross value added in the period 1995–2000 in the sector of non-financial corporations these values increased in both case only 2.7times.

Figure 14 Dynamics of performance characteristics of foreign controlled non-financial corporations (y-o-y, in %)

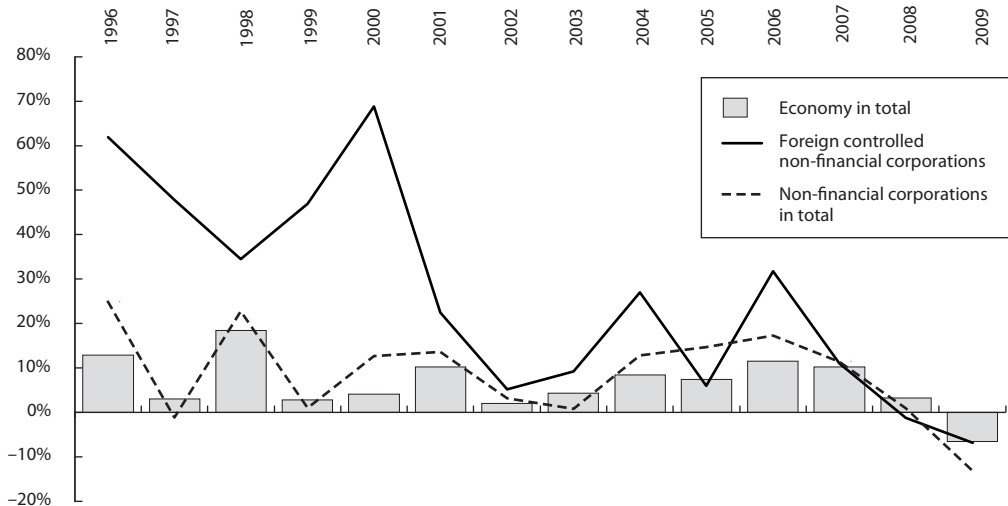


Source: Czech Statistical Office, own calculation

Financial results of foreign controlled corporations segment were for the whole period 1995–2009 markedly better than in the sector of non-financial corporations and the Czech economy as a whole. Profits of foreign controlled non-financial corporations (measured by net operation surplus) increased in 1995–2009 more than 20times (20.4times), in the sector of non-financial corporation only 3.1times. They did not decrease nor in 2009 by so much as did the whole sector of non-financial corporations, however,

their drop was recorded due to the earlier affects of crisis in 2008. In 2009 almost two thirds (64.2%) of profits of the sector and this contribution increased markedly compared to 2008 (59.8%) compared to 9.5% in 1995. Foreign non-financial corporations were in the Czech Republic from the beginning of their activity more profitable than the rest of the sector or economy, their contributions to production and gross value added were lower compared to the contribution to profit. They determine the development of profits in the Czech economy (correlation coefficient shows 0.99).

Figure 15 Dynamics of profit of foreign controlled non-financial corporations (net operation surplus including income in household sector, y-o-y, in %)



Source: Czech Statistical Office, own calculation

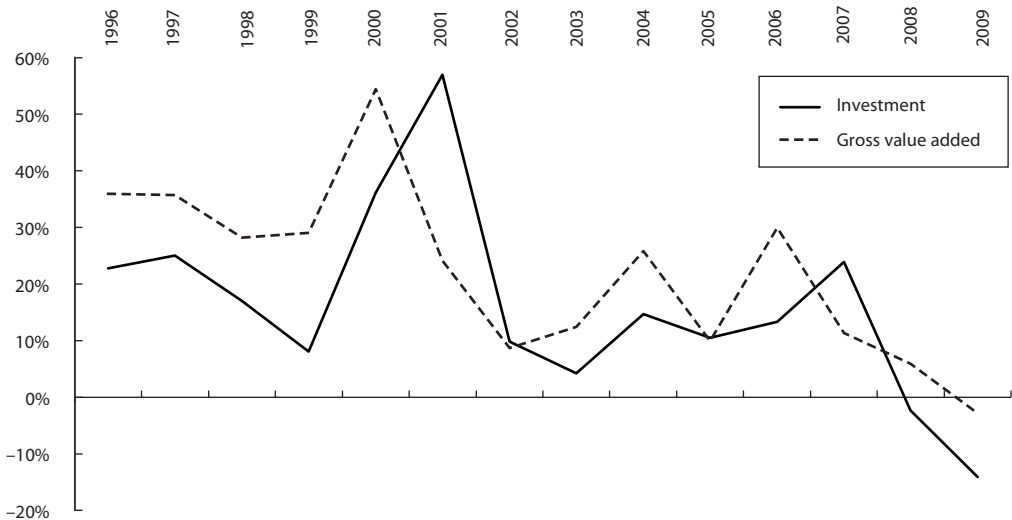
Growth of volumes of paid-out wages was significantly faster compared to the sector in total or for the economy which was due to changes in ownership structure of the Czech economy and non-financial corporations sector. Foreign companies contributed to paid-out wages in the sector in 2009 by 41.5% (in 1995 by 7.6%) which contribution is lower than contribution corresponding to proportions in output characteristics. Total volume of wages and salaries in the segment of foreign controlled non-financial corporations decreased in 2009 more markedly, y-o-y, (-2.9%) than in the sector (-2.1%) where employees received by almost CZK 11 billion less (for the sector by CZK 26 billion less in total).

Tax on revenues of foreign controlled non-financial corporations increased significantly less compared to their production and gross value added (for years 1995–2009 their volume grew by 9times, profits 20times). To taxes on production and import paid and showed on the account of income formation for the Czech economy the foreign controlled non-financial corporations contributed by only 21.5%. However, these corporations contributed in 2009 to the total of income taxes by 51.9% which shows that the dynamics of income tax coming from national private companies along with foreign controlled corporations of public sector was even lower compared to foreign controlled non-financial corporations.

However, the area of investment into fixed capital showed above-the-average growth rate. The investment activity of foreign controlled non-financial corporations was for the whole period 1995–2009 substantially more dynamic that for the rest of economy where the strongest wave was monitored in 2000 and 2001 with the y-o-y growth by 36% and 57% (annually fixed investment of these companies made then CZK 88 billion and 139 billion, respectively). The foreign controlled non-financial corporations

contributed to the investment of sector by 10.6% in 1995 and by 44.3% in 2009. However, crisis brought a sharp drop, as soon as in 2008 both public nonfinancial corporations and national private companies invested more, y-o-y, (CZK +9 billion and +11.5%, respectively). In the crisis year 2009 the investment for the whole Czech economy was lower by CZK 104 billion while practically this drop was due to the mitigation of non-financial corporations investment (CZK -95 billion). The limited investment of foreign controlled companies (CZK -39 billion) affected by more than 50% the drop of investment in this sector.

Figure 16 Dynamics of investment and gross value added of foreign controlled non-financial corporations (y-o-y, in %)



Source: Czech Statistical Office, own calculation

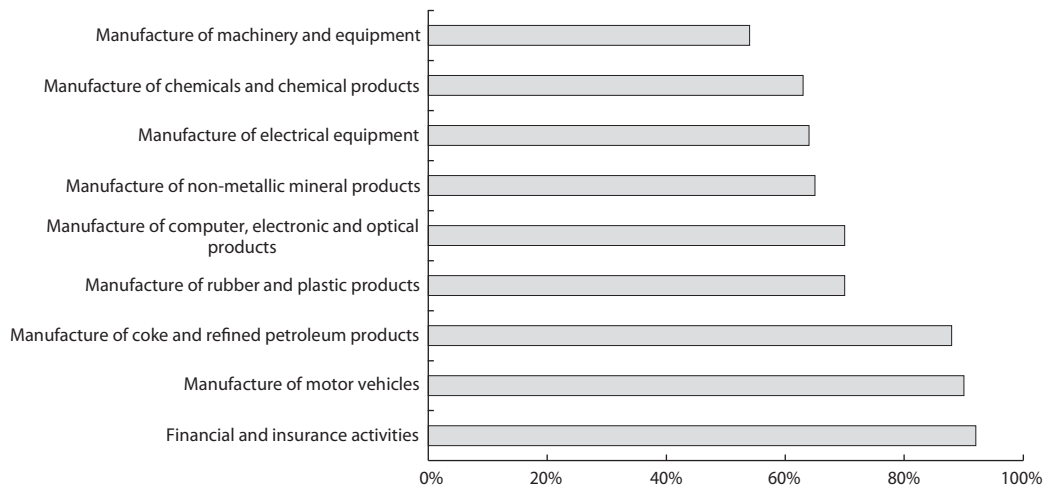
5 FOREIGN CONTROLLED COMPANIES LOOKED-AT BY BRANCHES

The biggest share is attributed to foreign capital in banking and insurance. In 2009 these foreign controlled financial companies contributed to the total value added in this branch as a whole by 91.7%. The rest fell upon the Czech (private national companies, i.e. 7.7%) and companies under control of public money (0.6%). According to preliminary data for 2010 this contribution increased for 2010 up to 97.1%. On the contrary, in manufacturing in 2009 the gross value added of foreign controlled companies made 57.6% of gross value added in the whole industry. Companies owned mainly by public money do not actually exist in this industry (0.8% share of gross value added). Czech companies form minority (56.1%). These companies in 1995 contributed by two thirds to the gross value added in manufacturing, foreign controlled companies by one tenth.

The second place in terms of weight in the output of the industry by gross value added is automotive industry with 90% (Figure 17). The relationship towards suppliers shows a strong position of foreign capital in manufacture of rubber and plastic products (70%). The third place belongs to mmanufacture of coke and refined petroleum products (88%). Due to mobile operators in telecommunications the share is high also in information and communication (70%) and also in manufacturing of construction materials. The last-mentioned manufacturing production area belongs to the manufacture of other non-metallic mineral products where the share of weight of foreign controlled companies is 65%. Shares of foreign companies to the output by gross valued added in majority of other industries are substantially lower.

Very low contribution of public service is logical, in 2009 it was only 0.5% in education which was even less compared to 1995 (0.6%). The other way round, in human health activities and social work activities it increased to 4% from 0.1% in 1995).

Figure 17 Share of foreign controlled non-financial corporations in gross value added in industry (in %)



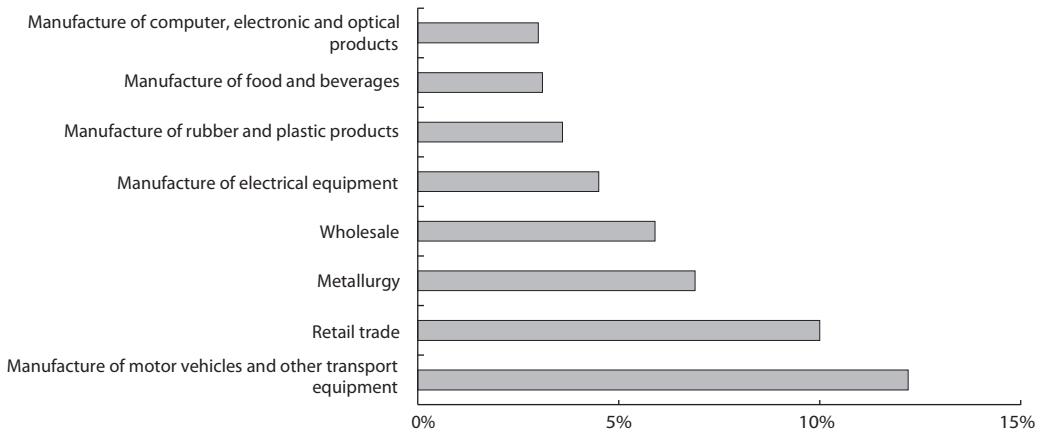
Source: Czech Statistical Office

Manufacture of motor vehicles (automotive industry) forms through foreign controlled companies 90% of gross value added of its industry which is the second biggest share following financial and insurance activities. However, in employment the weight of these companies on the number of the employees in manufacture of motor vehicles as a whole is 87%, i.e. the biggest share among all other branches in the economy. High relative employment compared to the number of employees in the respective industry is recorded also in manufacture of electrical equipment and in manufacture of chemicals and chemical products, i.e. almost four fifths of persons employed in manufacture of electrical equipment worked in foreign controlled companies (79%), in manufacture of chemicals 75%. A 70% employment in an industry is recorded for foreign controlled segment also in information and communication and in manufacture of coke and refined petroleum products. Almost two thirds of employees of the total number in industry employed by foreign companies are monitored also in manufacture of machinery and equipment (66%) or in manufacture of rubber and plastic products (65%).

By the end of 2009 in foreign controlled companies in the Czech Republic the total of 1.069 million workers were employed (roughly a fifth of all the employees in the Czech economy). Taking into account that contributions to the production or value added are substantially bigger than the above share it can be concluded on the basis of mutual proportion that foreign controlled companies show bigger productivity compared to other institutional sectors and economy as a whole.

Should we relate employment in foreign controlled non-financial corporations in individual branches to the total of employees in all foreign controlled companies in the Czech Republic, the relative weight of manufacture of motor vehicles compared to other industries shows the biggest value (Figure 18). In 2009 foreign companies in manufacture of motor vehicles (except for motorcycles), trailers and semitrailers employed 118.4 thousand persons, i.e. 11.2% of the total number of employees in foreign controlled companies in the Czech Republic. Along with the employed in manufacture of other transport vehicles and equipment (1.1%) their share was even bigger.

Figure 18 Share of foreign controlled non-financial corporations of the respective branch in total employment in the foreign controlled segment in economy of the Czech Republic (in %)



Source: Czech Statistical Office, own calculation

6 FOREIGN COMPANIES IN THE CZECH INDUSTRY

In manufacturing the weight of foreign controlled companies exceeded a half of all sales in 2002. Upon the culmination of boom in 2006 the weight of foreign companies in manufacturing on its aggregate sales was moderately decreasing until 2008 for which period the data covering industry under foreign control are available.⁵ Even here according to industrial statistics there was an obvious difference between the weight of foreign controlled companies on sales and employments (Figure 18). Not only the gross value added but also sales show higher productivity of foreign controlled companies which recorded higher sales with lower number of employees.

Earnings of persons employed by foreign controlled industrial companies were, according to data for the period 2000–2008, higher compared to the wage average for the industry as a whole. This phenomenon is even more significant in manufacturing. In 2001, employees of foreign controlled companies earned by almost 17% (16.9%) more compared to the average in manufacturing. For the industry as a whole the excess accounted for 13.7%. The wage difference in favour of the employees of foreign companies gradually diminished. This trend in the year of culminating economic boom in the Czech Republic moderately slackened. However, in 2008 the wage excess of employees in foreign controlled companies in manufacturing was only 10.6% and 9.5% for all persons employed in the industry as a whole.

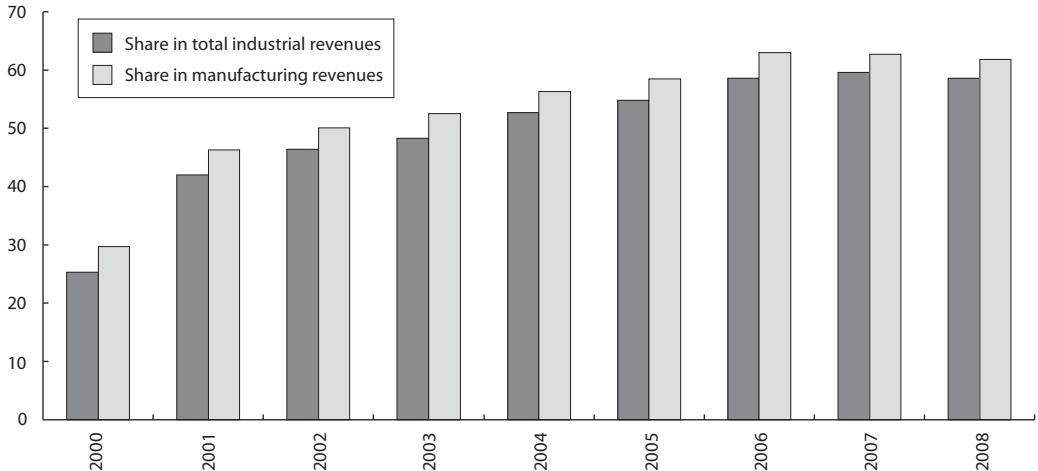
Industrial revenues show a strong focus of foreign controlled companies on export. Their contribution to industrial revenues from direct exports reached in 2006 three quarters (Figure 19); in manufacturing this level was even exceeded (76.6%). This strength has been obvious on long-term basis. As early as in 2001 the share of revenues of foreign companies in manufacturing achieved two thirds of these revenues in manufacturing as a whole (64.4%).

Industrial revenues of foreign companies in the domestic market they are not so significant in terms of weight as in direct exports. But it is due to the structure of the industry (e.g. in manufacture of food products demand for goods is focused predominantly to the domestic market). Despite this even here the share of foreign company is significant. From almost a one third share in 2003 and 2004 domestic

⁵ Analysis of foreign controlled companies in this part of the study ends by the year 2008 since until then the data of NACE in the required classification for foreign controlled companies were available. The Czech Statistical Office in switching to NACE CZ is completing this area in production statistics and relevant data will be available later.

revenues increased up to 44.1% in 2007. In this year the weight of industrial revenues of foreign companies generated from domestic market culminated. Weight was bigger in manufacturing but it reached its maximum in previous year (47.6% in 2006). In 2007 and 2008 the share of foreign companies in total industrial revenues from direct exports to 75.5% only stagnated and from domestic market even dropped in 2008. Regardless the following crisis in 2009 the chart shows that the potential of foreign controlled companies in the Czech industry culminated in the above years. Capacity of foreign companies in industry is probably close to saturation.

Figure 19 Share of foreign controlled companies in revenues in industry (in %)



Source: Czech Statistical Office

CONCLUSION

Activities of foreign controlled companies in the Czech Republic are results of inflow of foreign direct investment. By the end of September 2011 it accounted for CZK 2 498.951 billion (including period before 1993 when the Czech Republic was a federation). The inflow of investment culminated around the year 2000 and the second peak followed the Czech Republic accession to the EU. In 2002 and 2005 the annual inflow of direct investment was over a quarter of trillion. Until 2003 the biggest volume of investment to the Czech Republic came from Western Europe, in the period 2005–2008 from other than European investors. At the beginning the direct investment flew into manufacturing industry and from 1999 to other industries including services. German and Austrian direct investment contributed until the end of 2009 to the balance of direct investment to the Czech Republic by almost a quarter, more than a third of direct investment came from the Netherlands and Luxembourg.

Weight of foreign controlled financial and non-financial corporations in the Czech economy increased in 1995–2009 from less than a one tenth of contributions at the beginning of the monitored period up to 42.5% of the total production, to 47.7% in case of intermediate consumption and to 30.6% of gross value added in economy.

Overwhelming majority was recorded for foreign controlled companies in financial sector. According to preliminary data for 2010 their contribution to gross value added in the sector was 97.1%. The GVA growth in these companies showed even more dynamics in 2008–2010 when other economic areas were hit by economic crisis and financial institutions in Europe and of the rest of the world by global financial crisis.

The banking sector itself controls 96.9% of total assets of the Czech banking sector by its volume in the amount of CZK 4.197 trillion. The similar proportion shows the contribution to the sum of granted loans to clients (96.3%, i.e. CZK 2.094 trillion) and entirely biggest is its contribution to the amount of received deposits (98.8%, i.e. CZK 2.637 trillion) which are practically all denominated in CZK (CZK 2.357 trillion). Specific feature of development of foreign companies in the Czech banking sector which facilitated to go through the crisis without losses is their high capitalization, negligible amount of risky securities in its portfolios and very cheap primary sources available for their active transactions. Reserves and capital of foreign controlled banks in the Czech Republic approached by the end of 2010 the level of half of trillion CZK. Retained profit undivided from past years accounted for CZK 124 billion. Since 2002 these banks has showed high profit ratio, return on their capital has been above the European average for a long time. Capital adequacy ration in proportion to risk weighted assets is very high in foreign controlled banks and in 2008–2010 it continued to increase. In 2010 it was 15.5% which was almost a double of the amount required by international regulations supervision healthy bank operation (8%).

Foreign controlled non-financial corporations in the Czech Republic showed strong growth dynamics projecting in their growing weights both in the sector of non-financial corporations and in the economy as a whole. The value of their production, intermediate consumption and gross value added increased in 1995–2009 fourteen times (14.2times, 14times and 14.7times). In this particular period their output grew 6times faster than the whole sector. The amount of profits of foreign controlled non-financial corporations grew in 1995–2009 more than 20times, for the whole sector of non-financial corporations only 3.1times and their contribution to profits of non-financial corporations sectors approached two thirds (64.2%). In income characteristics dominating is the share of foreign controlled corporations to the amount of profits in economy in form of net operation surplus which increased from 8% in 1995 to 60% in 2009. This segment of economy contributed by one third to the volume of paid out wages and salaries.

Income taxes obtained by public sector from foreign controlled non-financial corporations increased compared to output and especially dynamics of profit substantially slower (8.9times for the period 1995–2009). This can be only partly attributed to investment incentives provided by the Czech state. However, the contribution of income taxes paid out by foreign controlled companies to total income taxes paid by the whole sector of non-financial companies reached in 2009 a half (51.9%). This results into small tax collection from segments of Czech companies (private national) and companies with predominating public ownership. This fact, however, may relate to lower profitability of these segments.

Economic recession affected foreign controlled non-financial corporations earlier than the rest of economy because of they were more seriously hit by the drop of foreign demand due to their predominating focus on export. This showed mainly by significant drop of intermediate consumption, less affected was gross value added. In respect of markedly worse development of the Czech companies in crisis when the gross value added in companies with prevailing public ownership even increased, y-o-y, in 2009, the contribution of foreign controlled non-financial corporations in 2008 and 2009 to the intermediate consumption and gross value added in the sector of non-financial corporations even increased.

Foreign controlled non-financial corporations massively invested into material fixed assets. In 1995–2000 their investment increased, y-o-y, by a quarter, in 1998–2002 even by a third, i.e. markedly more than for the economy as a whole (+4.7%). In the crisis year 2009, however, the level of investment of foreign controlled non-financial corporations recorded a significant drop (-14,1%) below the level recorded for the whole Czech economy. Their gross value added decreased by 2.9%.

Sectoral view suffers a surviving cliché that foreign capital is represented mainly in the manufacture of motor vehicles. This industry occupies, broken by contribution of foreign controlled companies to gross value added, with its 90% the second place according to data for 2009. Financial and insurance activities dominate. Foreign controlled companies show the most significant contribution by formed gross valued added also in Manufacture of coke and refined petroleum products, rubber and plastic products, infor-

mation and communication. Employment in the whole segment of foreign controlled companies is most strongly contributed to by manufacture of motor vehicles (11.2%, i.e. 118 thousand employees) and also retail trade, manufacture of fabricated metal products, wholesale and manufacture of electrical equipment.

In the Czech industry the double-tract effect is given by better results of foreign companies not only in effectiveness but also in growth of revenues in foreign markets but also in domestic market. Wage excess of foreign industrial companies which was the biggest in 2001 and is obvious mainly in manufacturing, gradually decreased to 9.5% and 10.6% compared to average wage in the industry as a whole. In Electricity, gas, steam and air conditioning supply and also in mining and quarrying it was about a quarter higher. Contribution to revenues from direct export of foreign controlled companies in this indicator for industry as a whole has not showed any changes since 2006 and accounted for about three quarters. Originally even high contribution in manufacturing has been mildly decreasing since 2006. Revenues in industry from domestic market were contributed to by foreign controlled companies in the period preceding the boom of the Czech economy by almost 30%, in manufacturing by about one third. Since 2006 this contribution has settled at approximately 42%. In manufacturing it was about one half and then in 2007 and 2008 it was falling. In respect of falls of contribution of manufacturing recorded by foreign controlled companies both to direct exports revenues and domestic revenues of the industry and stagnation of these contributions for the whole industry we can carefully concluded that the capacity of foreign companies in industry is almost saturated.

More important potential for foreign investors offers the sector of services which was given from many aspects inadequate size and qualitative advantages should have been found in the Czech Republic, such as inventiveness of Czech people. However, direct investors may use sustaining potential of qualitative advantages such as lower wage costs although for the years 2000–2008 the increment of unit labour costs in the Czech Republic was the biggest in the EU.

Negative elements accompanying the entry of direct foreign investment was related mainly to the pre-privatization stage in the financial sector and partly in the nonfinancial sector when the Czech state before the sale of its ownership interest to foreign investors costly rescued the biggest Czech banks either in form of transfer of bad assets or in form of guarantees. This rescue accounted for hundreds billion of crowns. Another disputable issue is the reprocessing character of production of foreign controlled non-financial corporations which can be observed rather in their higher contribution to the output and intermediate consumption than in gross value added of the sector.

Benefit of foreign controlled companies in the Czech Republic subsists mainly in the area of employment because thanks to them the unemployment rate in the Czech Republic was for majority of the monitored period lower than in EU27. These companies left in the Czech Republic by the end of 2010 the amount of CZL 953 billion for re-investment. This amount, in respect of the stage of direct investment cycle which can be observed in the CR is so far higher than the volume of paid-out dividends. Their effect showed in higher productivity. Huge investment imports in 2000 had a negative affect on trade balance, however, later they contributed to their surpluses since they were transformed into production aimed at export. In addition, just business relation to mother countries enabled in the period of crisis, with a sharp drop of foreign demand at the beginning, to mitigate finally its impact. Some of foreign controlled non-financial corporations in the Czech Republic manufacture their products using the machinery and equipment of leading world quality.

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