

VAT Reform Basel III Czech Economy 2012



CEC Government Relations is the leading independent public affairs agency in Central Europe, offering a full range of professional consultancy in the field of public affairs, lobbying and strategic communications to its clients, mainly from multinational companies. Through our offices in Prague, Warsaw, Bratislava and Budapest, as well as our broad network of consultants in other countries of Central and Eastern Europe, we provide full support for our clients in the realisation of their public affairs strategies and better orientation in the regulatory environment.

Political Rating

BB+

The Czech political rating has improved by two degrees from the previous BB- due to the fact that the political situation has temporarily calmed down; however, it was accompanied by a series of fast and not clearly transparent changes in the cabinet. The PM has strengthened his position within the party by appeasing the Central and Southern Bohemian regions with two cabinet posts. The coalition party TOP 09 has nominated its leader Schwarzenberg as first candidate for the 2013 presidential election. Neither the obstructions nor subtle anti-government protests in the streets have helped the opposition gain significant political predominance. The populist movement of billionaire Andrej Babiš ANO 2011 (Action of Unsatisfied Citizens), which has the potential to become a non-parliamentary radical opposition on the Czech political scene for the next two years, has started collecting protest votes. **Political investment in the current government is speculative, and future development is possible to envisage in a maximum of several months.**

Do you want to know how the political situation will impact your business? Do you want to be warned in a timely fashion about legislation changes that may affect your business? Contact us at prague@cecgr.com.

Reform Watch

The tax reform has eventually upheld a tax break for meal vouchers until at least 2013 (most likely until 2014). The cabinet has resolved the election theme of taxation of gambling by introducing a flat 19 % taxation rate for gambling companies, together with a 20 % levy on the difference between the amount gambled and the amount paid out. The state is increasing the lowered VAT rate from 10 % to 14 % (the higher VAT rate will remain at 20 %). Payments of long-term unemployment benefits will be conditioned after two months of unemployment by performance of welfare work. Simultaneously, employee relations are to be changed: redundancy payment claims decrease if an employee has not worked for a firm for at least two years. Abuse of the health insurance system may newly be a reason for termination of employment. State subsidies for building savings have been limited from the maximum of CZK 3 000 to CZK 2 000 annually and the added interest will be taxed 15 %, as in the case of other bank savings products.

Will you be affected by the reform? Do you believe your interests are not being respected? Contact politicians, lobby and let them know your stances! Contact us at prague@cecgr.com.

We know how politics can impact your business.

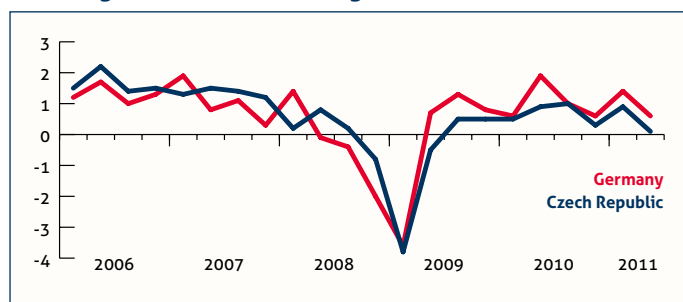


EU Affairs: Basel III Impacts

The Basel Committee on Banking Supervision agreed in 2010 to tighten requirements for banks' capital adequacy and stability, which is reflected not only in the regulatory capital (to remain at 8 %), but in particular in a healthy structure of their assets. The state of Czech banks is already meeting the requirements for 2019; however, it will be practically impossible for many EU banks to implement the Basel III requirements. Investors use the Credit Default Swap (CDS) mechanisms to indicate a worsening state of banking institutions. Some European banks see the development of CDS values as very negative, which reflects concerns that Basel III implementation may fail. A plan to introduce regulations that will aim at reducing risks for banks arising from short selling and CDS certificates is based on an EC proposal. The EP has approved CDS regulations of government bonds together with short selling regulations.

European politics are being formed by Member States; you can also lobby for European interests in Prague, Bratislava, Warsaw and Budapest! Write to us at prague@cecgr.com.

Analysis: Economy 2012



Structural problems of the Czech economy that already were emerging in the period before the crisis (increasing public debt, lack of highly qualified and non-qualified labour force, political instability, concentrated sector dependency) have complicated the Czech Republic's ability to stabilise the impact of the crisis. The Czech currency itself will not be able to protect the Czech export economy from a slump (as it is dependent on orders coming from German entities), should the development of the

eurozone crisis continue together with the weakening of European banks. The 2012 budget is based on estimations of a GDP growth of 2.5 %, which may in the end not overcome the level of 1 %, according to the finance minister. Domestic industry orders are declining and causing a slow-down of foreign orders. The construction industry is also seeing a downfall (a 4 % increase of the VAT will further deepen the drop), and stagnating consumer consumption is hampering other sectors as well. Rising inflation (3.2 % is predicted for 2012) will lead to increases in the VAT rate, gas prices (by approximately 5 %), tobacco consumption taxes and health care fees. According to the latest public poll conducted by STEM, 58 % of citizens expect a worsening of the economic situation, and only 14 % await improvements.

Are you interested in the macroeconomic outlook of the Czech Republic? Do you want to manage regulatory risks of your business efficiently? Contact us at prague@cecgr.com.

Institutions you should know about

The Office for Personal Data Protection

The Office's activities cover a broad range of areas. It supervises compliance with obligations regarding



personal data processing as defined by the law and it processes suggestions or complaints from the public on violations of the Personal Data Protection Act No. 101/2000 Coll. It manages a registry of permitted processing of personal data e.g. camera systems and a database of personal data. All your work with personal data comes under the authority of the Office. The Office's activities impact most on the security realm, ICT, marketing and advertising agencies, as well as state institutions or entities that conduct business directly in the area of personal data or database systems.

Do you work with personal data? Do you think the Office's activities may impact your business? Don't be taken by surprise; contact us at prague@cecgr.com!

We lobby in a fair and open way.

Coming soon on the Agenda

01
2012

The Chamber of Deputies' Committees are to debate the Postal Act amendment (No. 29/2000 Coll.) proposed by the cabinet in January. The amendment will implement the third EU Postal Directive and should fully liberalise the postal market as of 2013.

02
2012

The Chamber of Deputies is to discuss the Investment Incentives Act amendment (No. 72/2000 Coll.), which enlarges support for investments in technological and strategic services centres.

03
2012

The Government's Council for Research, Development and Innovation is to approve long-term priorities of Czech applied research, which will serve as a lead for more efficient financing of science upon approval by the cabinet.

CEC services – what we offer:

- Monitoring of changes in the legislation and regulations related to your business
- Who's s who – ministries, parliament, cabinet, regions, municipalities
- Lobbying politicians and state officials for your interests
- Creating a network of contacts – stakeholders map
- Where to be and who to talk to in the interest of your business in the public sector
- Support for your company strategies in the issues of laws and regulations

For more information, please, contact us at prague@cecgr.com.

About us

CEC's Managing Director of the Prague office is Václav Nekvapil, a graduated political scientist with years-long experience from the backstage of Czech politics. He specialises primarily in the field of information and communication technologies, energy, transportation and environment. *"Our company has been on the Central European market for almost 20 years. We were first to adopt the Anglo-Saxon conception of lobbying, which we perceive mainly as a dialogue process among businessmen, politicians and state officials. The basis, however, lies in keeping firms up to date with information on the legal and political environment in which they operate – to know and be prepared for changes always pays off,"* says Nekvapil.

CEC Government Relations, s. r. o.

Husova 9, 110 00 Prague 1

tel.: (+420) 222 540 543; mobile: (+420) 604 849 368

e-mail: prague@cecgr.com

Newsletter is registered under the number MK ČR E 20375