Treasury Management in the Czech Republic

Copyright 2000 - Knowledge Management Applications - All Rights Reserved - Updated 2-1-2000

Czech Republic Overview

The Czech Republic is located in Central Europe and is bordered by Austria, Germany, Poland, and Slovakia

The currency of the Republic is the Czech koruna (CZK) which is divided into 100 hellers and sometimes referred to as the Crown. The CZK is convertible and freely traded. The CNB intervenes in the market to smooth volatility in the CZK/EUR rate.

The Ceska narodni banka (Czech National Bank or CNB) is the central bank and is responsible for the stability of the CZK, banking supervision, and the payment system. There are modest central bank reporting requirements and the regulatory environment is generally open.

There is one clearing system which supports all payment instruments in the Czech Republic.

1. The Clearing and Settlement Center (CSS) is owned and operated by the CNB and participation is required of all licensed commercial banks. The CSS is a Real Time Gross Settlement (RTGS) system which encompasses all payment instruments used in the Czech Republic and has no minimum or maximum transaction size. Participants maintain special accounts with the CNB for the purpose of settling CSS transactions and the balances in these accounts also serve to meet CNB reserve requirements. Transfer instructions are sent electronically over a network or in physical form on tape or disk, validated by the CSS, and posted to participant accounts.
2. Checks are used infrequently and are cleared in three ways. Checks drawn on, and presented to, the same bank are cleared internally. Checks drawn on one bank and presented to another may be truncated by the receiving bank and cleared through the CSS or presented to the drawee bank on a collection basis.

A corporation is considered to be resident in the Czech Republic if it is incorporated in the Czech Republic. Resident corporations are subject to tax on their worldwide income. Non residents are subject to tax on Czech source income only. The general rate of tax for residents and non residents is 35%. There are no differences in the taxation of Czech owned enterprises and those with foreign investment.

Treasury Management

The Czech economy has successfully negotiated profound political changes in recent years; most recently the partition with Slovakia. Central location and membership in the Central European Free Trade Agreement (CEFTA) combined with prospective membership in the European Union make it an excellent regional distribution point. These factors may elevate Prague into a role as a regional financial center in the future. Currently the focus of treasury management in the Czech Republic is on the efficient injection and repatriation

Sponsor

KMAPPS

Background

USCIA, Library of Congress, and US State Department

Government

Czech National Bank, Ministry of Foreign Affairs, Ministry of Finance, Postbank, CzechInvest, and United States Embassy

Consultants

Ernst & Young and DTT World Tax

Associations

Czech-NA Chamber of Commerce, American Friends of Czech Republic, Union of Accountants, and Chamber of Tax Advisors

Banks

Komercni Banka, CSOB,

of capital followed by the optimization of domestic receipts and payments. To the extent that operations in the Czech Republic participate in a global treasury system, the interface to the system remains manual.

As with many rapidly developing countries there is considerable ambiguity surrounding the use of common treasury techniques in the Czech Republic. A particular technique may not be explicitly prohibited but practical issues such as taxation and financial infrastructure make the application of the technique difficult. Common treasury techniques such as notional pooling, multilateral netting, zero balancing, and cash concentration are not prohibited and are in occasional use.

Multiple CZK accounts can be held to facilitate accounting objectives or as part of an overall treasury strategy. Sweeping (zero balancing) and concentration are permitted.

Accounts

The basic CZK operating account is referred to as a current account and may be held by resident or non-resident corporations. Interest may be paid on current accounts maintained by corporations. Overdrafts are permitted subject to mutual agreement with the bank.

Resident and non resident corporations are allowed to maintain accounts denominated in CZK, EUR, USD, or other currencies without prior approval.

Interest from current accounts is a standard form of short term investment. Larger companies take advantage of higher yields in the overnight market. Deposit accounts, short term government instruments, and trade bills round out the range of short term investment options.

Overdrafts are a standard but expensive form of short term finance. Term loans in CZK or other currencies are available and there is an emerging market for commercial paper.

Payments and Receipts

Cash is the most common means of value transfer between individuals who also use the Post Office in lieu of standard banking facilities to transfer funds and pay bills. Checks are seldom used with the principal form of non cash payment being the credit transfer. Book transfers within commercial banks are also used to move money and are facilitated by a common set of forms and procedures used by all banks in the Czech Republic. Since all banks use the Clearing and Settlement Center of the CNB, receipt of value more than two days following processing of the transaction and debit of the payee's account is unusual.

Lockboxes are not prohibited but are not used due to the infrequent use of checks as a means of value transfer.

Controlled disbursement is not possible due to clearing procedures. Because interest is payable on current accounts and checks are used infrequently there has been no need to find a functional alternative.

Technology and Marketplace

Electronic balance reporting and transaction initiation are offered by foreign and indigenous banks and are in common use. The most used systems are

Ceska Sporitelna, Citibank, Erste Bank, Commerzbank, and Union Banka

News

Czech Republic Today and The Prague Post

Specialist Sites

Prague Stock Exchange

MultiCash (12 banks) and Gemini (8 banks). Telecommunications within the Czech Republic are modernizing rapidly with the state monopoly on basic telephony due to be lifted by the end of 2000. There are currently three cellular providers and the market is fully open in areas critical to business such as the provision of internet services and the operation of leased lines and private networks.

The Czech banking system is under the supervision of the Czech National Bank with agreement from the Ministry of Finance. There are currently over forty banks operating in the Republic but more than 60% of domestic assets are concentrated among five locally incorporated banks. The Czech government holds major stakes in two of the largest banks but has announced its intention to improve banking sector performance through privatization. The Ceska sporitelna (Czech Savings Bank) and Komercni Banka play a major role in retail funds transfer. Major indigenous commercial banks are Komercni Banka and Ceska sporitelna. Ceskoslovenska Obchodni Banka until recently one of the leading indigenous banks is now more than 70% owned by the Belgian KBC. Traditional regional players such as Raiffeisenbank, Bank Austria/Creditanstalt, and Erste Bank offer powerful presence while global banks such as Citibank and ABN-AMRO have branch operations in the Republic.

Treasury Management in the Czech Republic

Copyright 2000 - Knowledge Management Applications - All Rights Reserved - Updated 2-1-2000

About This Document - The copyright is owned by Knowledge Management Applications. The style comes from a document type definition which is the valuable intellectual property of Knowledge Management Applications. The references to sites on the World Wide Web are for your convenience. These sites are provided and maintained according to separate terms and conditions of use. You may display this document on a computer screen, print it on paper, email it to others, and store it in electronic form. You may not modify, extract pages, mimic the style, or restrict access to the document. The document is for your general information and does not constitute any form of advice, recommendation, or arrangement by Knowledge Management Applications. The information in this document is provided 'as is' and there is no guarantee as to accuracy, completeness, or fitness for a particular purpose.