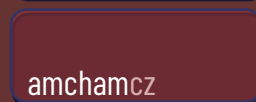


2025 Business Outlook



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President's Intro



Milan Šlapák
CEO
RSBC

President
American Chamber
of Commerce
in the Czech Republic

We live in an era of disequilibrium. The status quo, the steady state, are being smashed apart by mutating geopolitics and worsening global security, by an altering climate, and by accelerating technological change affecting all aspects of our business and lives.

The only variable we can fix when we now assess business continuity is the quality of our management. Good managers gather every scrap of data about what is happening around them. Great managers find profitable insight in numbers that others ignore because on the surface that data seems to have nothing to do to the regular running of core business.

AmCham decided to focus more resources on collecting public data covering a wide spectrum of economic activity, and to supplement that data with membership expertise in a series of AmChamIntel sessions and publications. In the past year, we have covered Macroeconomics, Supply Chains, Energy, Geopolitics and Workforce by gathering the data and debating it.

This Business Outlook is the flagship of this effort, and pulls together research and insight shared at other Intel sessions. It is not meant to be comprehensive, but it is meant to provide you with a multi-sided perspective of what is going on in our country, so that you can plan your business better, and that we together can move this country forward to a time of even greater prosperity and security.



AmCham's Intel activities are built on two facts.

Businesses need to make decisions on the best and most complete information they can gather on a market.

Our membership contains a wealth of experts with disparate and crucial information for understanding the market, and with interesting and sometimes conflicting interpretations of that information.

We are trying to create publications and forums that provide with that data and those views.

This report attempts to unify those activities in one overview of the market. That market is broken down into the important factors that impact your business: technology, people and infrastructure. We excluded government policy and will address that separately in an advocacy report.

We will supplement this report with events at which we will encourage the experts in our membership to interpret data. We will also add a workforce report and a technology report.

When we present data, we want to compare our outcomes with our neighbors and the countries with which we aspire to compete. Our benchmark neighbors are Austria, Poland and Hungary. Our aspirational benchmarks are Ireland, the Netherlands, and Germany.

We mean to provide you tools for making business decisions, a channel for hearing other business people's views of the market, and a platform for promoting your own expertise. Please let us know how we can achieve these goals better.

My own view of the Czech market is that we are in a major transition, and many important business leaders and politicians are ignoring that reality. Our primary economic partners are making larger investments into sustainable technology and sustainable energy than we are. Our primary economic partners are moving faster in investing into digital business and government than we are. Our primary partners understand the need to supplement domestic talent with foreign STEM and innovative students and experts, and have moved first and further in attracting them than we have. It is not too late for us to catch up and surpass our rivals, but we need more focus and better execution.

I hope this Business Outlook becomes an essential part of your decision-making. Please let us know how we can improve it.



Martin Skřehota
Senior Director
Operations
Finance Strategy
Carrier

Vice President for Intel
American Chamber
of Commerce
in the Czech Republic



Our aim in this Outlook is to present you with data and some analysis without providing you with too many “answers”, because the right way to view the Czech market depends a great deal on what your business does. So, what we aim to do with this document is to give you a diverse set of facts, and let you sift through them to see how they fit your business.

To help you along, we have asked experts in our members to provide some analysis and research of their own. We thank Hays and EY for giving us a better idea of what is going on in key parts of the economy.

AmCham does policy, and what we get from the policy perspective is the following:

- **Czech GDP per capita is trending upwards at a similar rate as the EU average, not enough to catch up to that average, but also not so that the prospects of surpassing the EU average are diminishing. (page 7)**
- **We need more major, paradigm shifting investment in business research. (page 11)**
- **Our demographics will not switch overnight, and we need much more immigration, particularly in STEM-related areas. (page 16,19,20)**
- **If we want equal opportunity for equal pay, we need to take a look at what is happening with the employment of women aged 15-29. (page 17)**
- **We need to take a look at why university graduation is down, especially in STEM studies (page 19)**
- **We are a better than most of the EU at reducing the energy intensity of our economy, but we need to accelerate our energy efficiency if we are to increase competitiveness (page 24)**
- **We need to take a look at why our recovery in air passengers has been among the slowest in Europe. (page 28)**

That is what we will take from this outlook and what we will be discussing with members and the government in the coming months.

We would like to hear what you learned, and what we can do better next time.

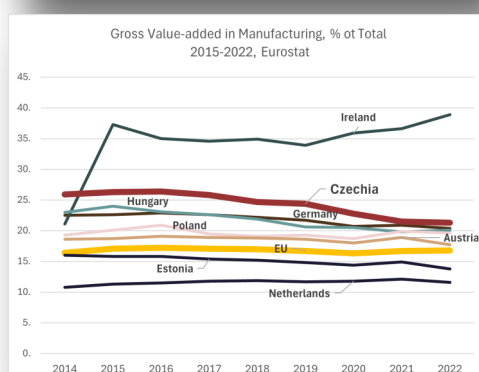
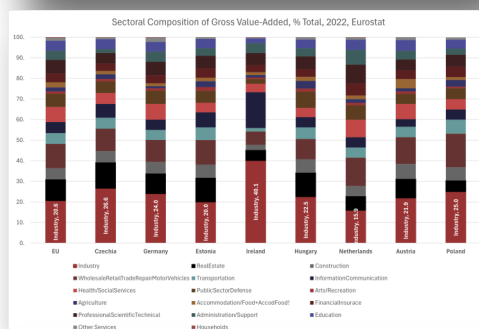
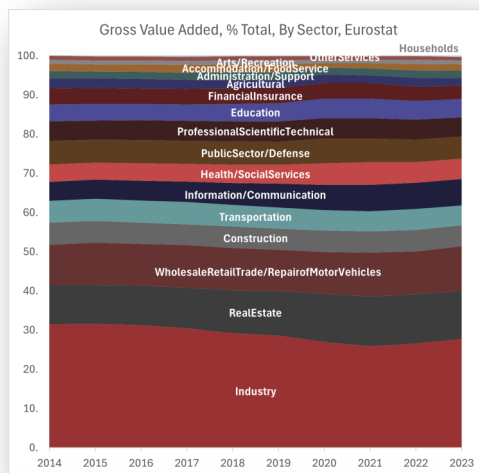
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General Economic Indicators

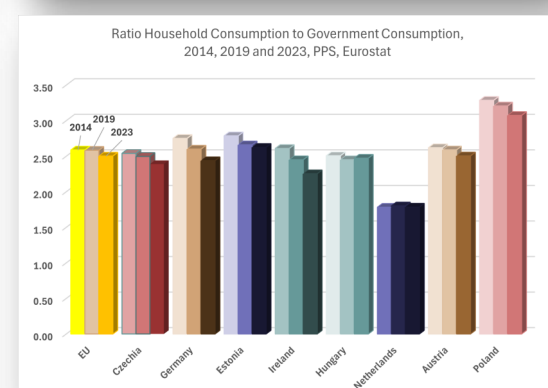
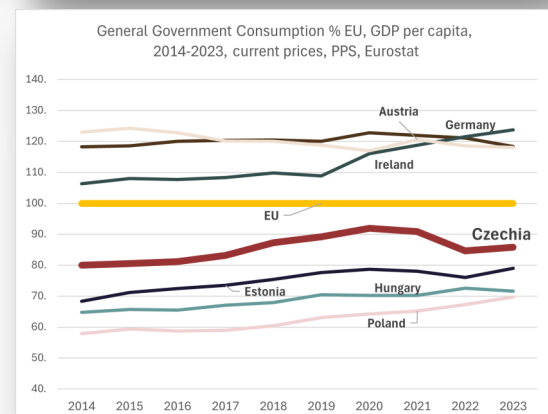
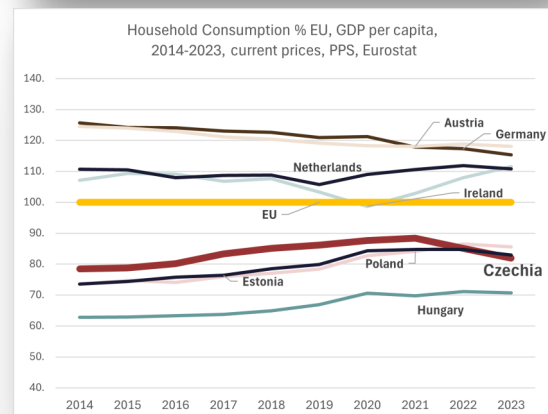
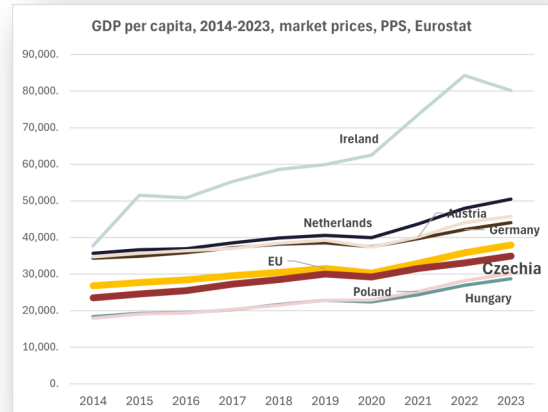
General Indicators

GDP

After the covid hit the rise of GDP per capita, Czechia has again resumed a steady increase that tracks what is happening in many EU countries. Our GDP per capita remains in a middle ground between the EU average and rivals in the region such as Poland and Hungary. Czech GDP per capita rose 48% from 2014 to 2023. That is above average for the EU (40%), higher than Germany (28%) and Austria (32%), and lower than Hungary (56%) and Poland (68%). Czech general government consumption per capita rose 52% between 2014-2023. Final household consumption rose 43% for the same period. The increase in general government consumption was above the EU average for the period.



GDP Indicators



General Indicators

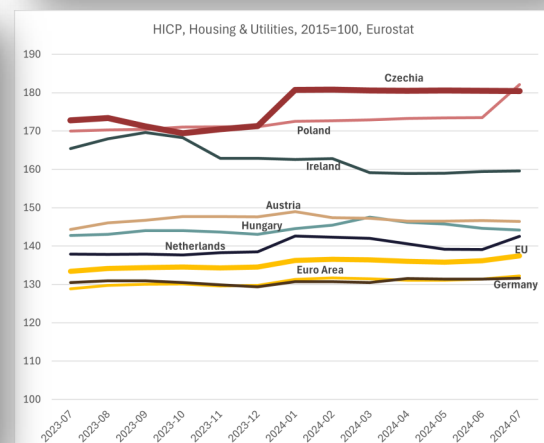
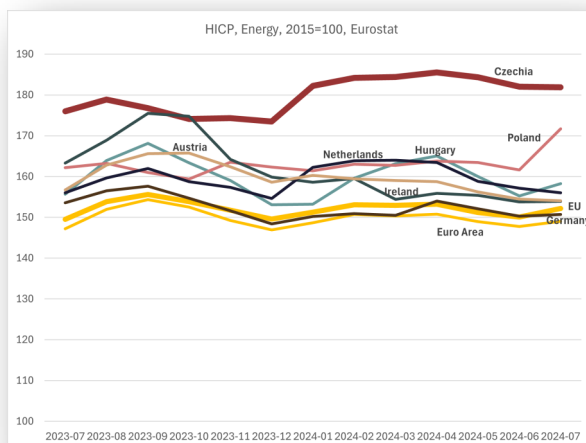
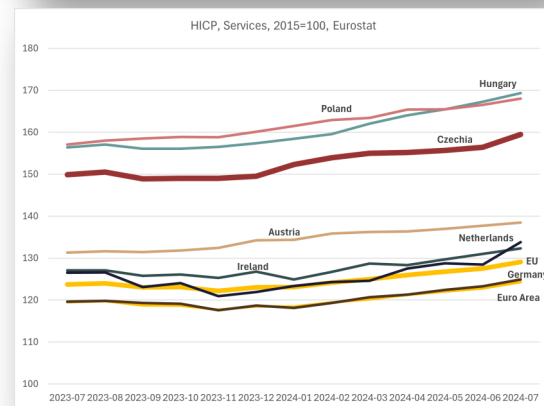
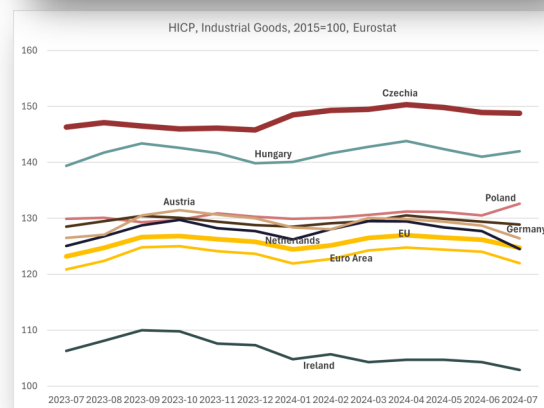
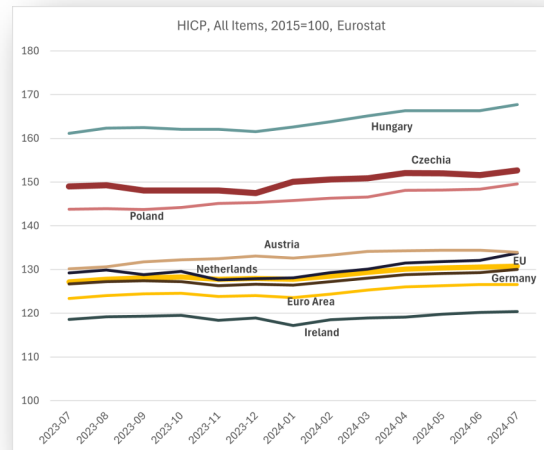
Consumer Prices

With the exception of business services, consumer prices seem to have stabilized in 2023 and so far in 2024.

Nevertheless, the Central European region had some of the highest price rises within the EU during the last four years. Czechia had the highest prices in industrial goods, energy and housing & utilities (with exception of Poland) of the benchmark countries.

AmCham held a Macro Outlook session with the CNB. Barbora Vito-va (bvitova@amcham.cz) can send the outlook and the session presentations.

Consumer Prices



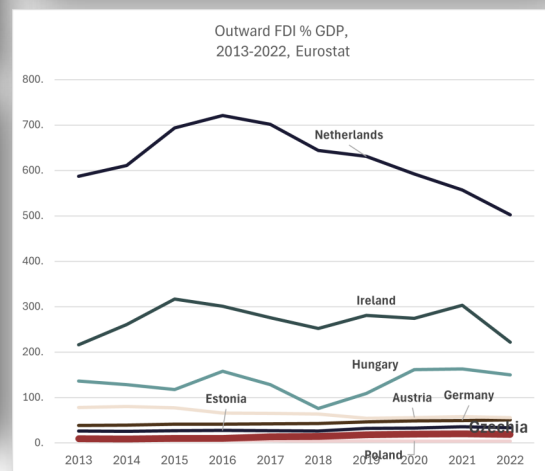
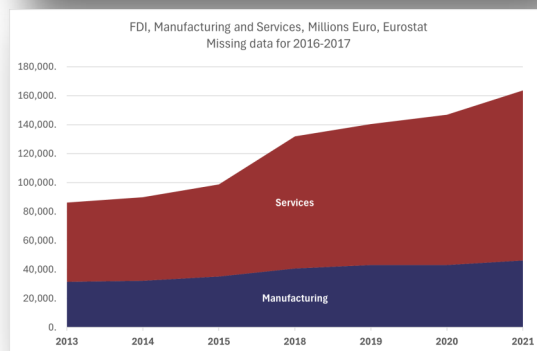
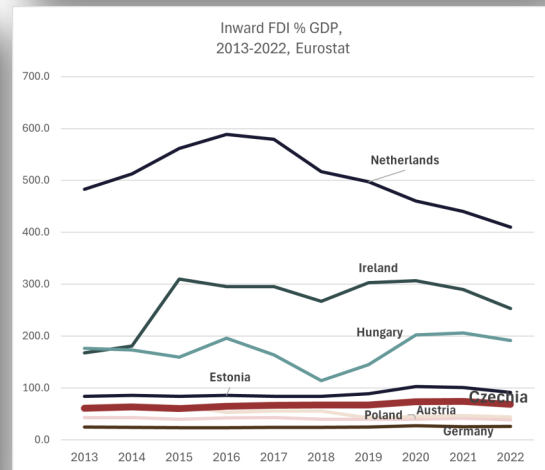
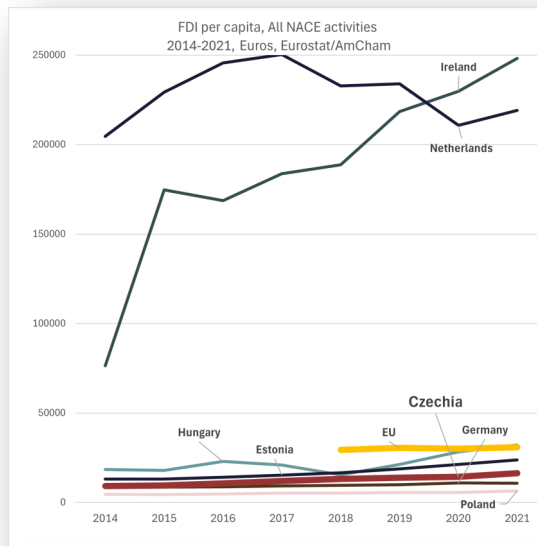
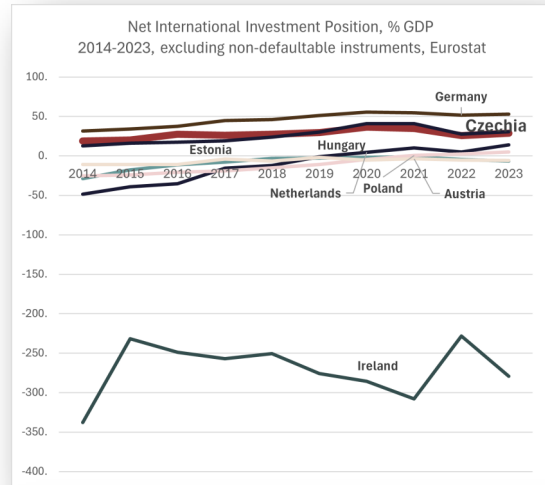
General Indicators

Foreign Direct Investment (FDI)

Czechia remains close to the top of the CEE range for total FDI per capita and FDI per capita in manufacturing. Czechia outperforms Germany in both. The country still lags significantly behind Ireland and the Netherlands.

Growth in FDI is primarily driven by increased investment into services. Czechia manufacturing FDI grew 21% from 2017 to 2021, the 14th best growth in the EU. FDI growth in services was more than 27% in the same period.

FDI



member analysis

The AI Act: A new era of AI regulation

The rise of Artificial Intelligence (AI) in recent years brings with it both tremendous opportunities and new risks. From cyber-attacks to ethical issues, AI is becoming a double-edged sword. Fortunately, the European Union is responding to this challenge with the Artificial Intelligence Act (AI Act), which sets out clear rules for the development and use of AI systems.

Artificial intelligence accompanies us practically every step of the way. AI can help us solve global problems such as poverty, disease and climate change. But it also opens the door to new threats. Cybercriminals are using AI to launch sophisticated attacks that are increasingly difficult to detect. Deepfakes, information manipulation and

tion and competitiveness of European companies. This is achieved, in particular, by making it directly applicable as a regulation in all EU Member States.

The AI Act establishes a classification of AI systems according to risk level. Systems with unacceptable levels of risk, such as social scoring tools or manipulative advertising systems, will be banned altogether. High-risk systems, such as the use of AI in healthcare, justice or transport, will be subject to strict transparency, oversight and accountability requirements.

Who is affected by the AI Act and what are the penalties?

The new rules affect not only entities established or located in the European Union, but also foreign entities whose AI system and its outputs are used in the European Union.

Obligations relating to high-risk AI systems will thus affect most links in the supply chain. This means from those placing AI systems on the EU market under their own name or trademark, to product manufacturers, importers, distributors and those using AI systems, e.g. employers.

Compliance with the AI Act will be monitored at both the national and European level. Violations of the ban for AI systems with unacceptable risk are subject to fines of up to €35 million, or up to seven percent of total worldwide annual turnover. Violations of the obligations for high-risk AI systems and the transparency obligations for AI systems are punishable by a fine of up to €15 million or three percent of the company's worldwide annual turnover.

European financial services leaders and GenAI

77%

of leaders expect GenAI to significantly affect productivity

68%

of leaders predict up to a quarter of all roles will require upskilling

60%

of leaders anticipate AI adoption will significantly affect entry-level roles

35%

of leaders say they lack action plans

autonomous weapons are just some worrying examples of how AI can be exploited.

The ethical question of the use of artificial intelligence also poses problems. Algorithms can discriminate, invade privacy and restrict freedom. Facial recognition systems, predictive policing and social scoring are just a few of the areas where we are on thin ice.

A legal framework for responsible AI development

The European Union has confronted these risks with the Artificial Intelligence Act, the first ever comprehensive legal framework governing the use of AI in the world. The aim of the AI Act is to ensure that AI systems are in line with human rights and EU values, and to promote innova-

Generative AI: a revolution in the digital world and challenges for companies

ChatGPT, Bard or Midjourney – tools leading the revolution in the digital world. They generate text, images, music and other content of unprecedented creativity and quality in an instant. Companies are therefore using them to automate processes, improve customer experience and develop new products.

And this trend continues to accelerate. According to our survey, 77% of European financial services leaders expect generative AI to have a significant impact on work productivity. At the same time, 68% predict that up to a quarter of all roles will need to be reskilled in the next year. This clearly shows the major impact generative AI is having on the workplace.

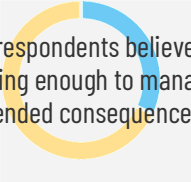
However, with the advent of generative AI, concerns about the security and protection of data and personal information are growing. In our survey of global CEOs from the pioneering world of telecoms and media, 74% of respondents emphasized the need for an ethical approach to AI. Almost half (48%) of consumers are then concerned about how algorithms handle their data.

Companies must ensure that tools are not misused to leak and manipulate sensitive information or to spread misinformation. In addition, if a data breach occurs as a result of an AI system failure, companies may be liable not only under the GDPR, but also under the new requirements of the AI Act specifically.


At the same time, one more look behind telecom companies reveals that 68% of them, in their own words, are not doing enough to prevent the unintended consequences of using AI.

It is also striking that despite the widely acknowledged potential of generative AI among business leaders, many companies are still not prepared for its impact. Our survey revealed that 35% of companies do not have an action plan for employee retraining. This can lead to problems with the implementation and use of generative AI and put their competitiveness at risk.

GenAI reshaping telecoms



68% of respondents believe they are not doing enough to manage the unintended consequences of AI



74% of respondents say they need to do more to mitigate against "bad actors" who could use AI to support cyber attacks and other malicious activities

Intra-company tools as a safe alternative

Fortunately, the aforementioned threats associated with generative AI can be minimized. In-house chats are an effective solution that allows companies to have full control over data access and protection. Unlike publicly available tools such as ChatGPT, in-house chats can be deeply integrated with corporate systems and databases. This gives them access to relevant and up-to-date information, greatly increasing their efficiency and accuracy.

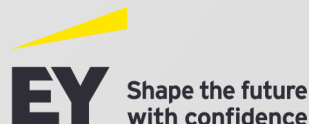
An important advantage of in-house chats is the ability to granularly set up authorization, encryption and monitoring of communication. This allows companies to define who has access to what information and how it can be handled. Proper setup is key to preventing sensitive data leakage.

Let's take an example: if an in-house chat, without proper setup, were to gain access to employee payroll data, it could disclose this information when asked. However, with careful configuration of access rights and security protocols, this risk can be avoided altogether.

In-house chats not only help companies increase productivity and efficiency, but also give them the necessary control over sensitive data and minimize the risks associated with its misuse.

The AI Act and companies: adapting to a new reality

The AI Act presents a new challenge for companies. It is essential to familiarize yourself with it and implement the necessary measures to ensure compliance with the new rules. This includes identifying and classifying the AI systems in use, putting processes in place to manage risk, and ensuring transparency and accountability. But the AI Act must be seen as more than a list of obligations. It is an opportunity to innovate and build trust. The ethical and responsible use of AI can enhance a company's reputation while increasing its competitiveness.



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member analysis

People: Labor Market Outlook

The overall condition of the **labour market** in the Czech Republic remains to be strong and relatively stable. In August, the unemployment rate has slightly increased year-on-year by 0.2 percentage points to the current 3.8 per cent. A drop in the number of job vacancies this year continues to cause a minor excess of demand for available positions over their supply. According to Eurostat's methodology, the Czech Republic remains the country with the lowest unemployment rate in the European Union.

From the perspective of **incoming investments**, we observe a modest increase compared to 2023. Unlike in past years, companies are moving from the data collection and information gathering phase to the implementation phase. There is primarily an expansion of existing investors, with smaller qualified processes relocating to the Czech Republic from for example Western Europe, the United Kingdom, or the USA. The nature of local shared service centres is also shaping, with key functions being centralized here to a greater extent, while simple transactional tasks are being moved further east.

According to the Mid-Year Review report by Hays from June 2024, the **most sought-after positions** this year were administrative roles, followed by positions in IT, manufacturing, and engineering. In the future, also due to investment intentions, this spectrum will not change much. Companies will be looking for engineers, highly qualified professionals in research and development in engineering, IT developers and other IT experts, especially in the field of cybersecurity, AI, ERP, Data, Machine Learning & Cloud, logistics experts, quality and customer service specialists, as well as production operators and lower-skilled professions. For qualified jobs, there will be a greater need for professionals with appropriate education and skill-base.

Czech universities produce an average of 65,000 graduates annually, mostly in fields such as philosophy and social sciences, education, economics, and medicine. Around six thousand people graduate annually from the sought-after technical fields, which may not be sufficient given the future need for technical and technological professions. On

TOP 10 PROFESSIONAL AREAS RECRUITED FOR IN HY1 2024



the other hand, a wave of stronger population cohorts is coming, which in the medium term will mean a larger number of students and subsequently graduates – from both secondary schools and vocational schools, as well as universities. Attracting students to technical fields and offering them an interesting combination of studies with practical experience should become one of the key topics for the Czech education system, right now.

The experience, academic knowledge, and practical skills that new employees bring to companies are, of course, crucial. However, acquiring experienced employees is a challenging and often lengthy process due to high competition in the labour market, so it is necessary to approach recruitment strategies flexibly. Companies are gradually reassessing the **essential requirements** for job positions and trying to work more with potential. This may mean a greater focus on soft skills, such as adaptability, willingness to learn, communication skills, critical thinking, or leadership.

The year 2025 will also bring several **legislative changes** to the Labour Code. Some changes have already been approved, such as an increase in the minimum wage and its regular annual indexation. The often-mentioned flexible amendment to the Labour Code is awaiting approval by the Chamber of Deputies and will likely come into force in 2025. Major changes introduced by the flexible amendment include extending the probationary period up to 4 months, 8 months for managers respectively; notice periods taking effect from the date of delivery; allowing parents to perform the same type of work during parental leave as before the maternity leave; or extending the guarantee of the same job after parental leave to 2 years.



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