

ALFRED NOBEL UNIVERSITY
DEPARTMENT OF THE GLOBAL ECONOMICS

QUALIFICATION WORK OF BACHELOR

“Development and ways of realization of the international investment project
“the hotel in a ski resort” in Czech Republic”

Fourth year student, group IER-16A
in speciality 292 “International economic relations”

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**ALFRED NOBEL UNIVERSITY
DEPARTMENT OF THE GLOBAL ECONOMICS**

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TASKS

for qualification work

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1. Development and ways of realization of the international investment project “the hotel in a ski resort” in Czech Republic
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5. Content of the work (list of questions to be developed):

SECTION 1. CZECH ECONOMY

- 1.1 General information**
- 1.2 Characterization of the local market**
- 1.3 Information on different sectors of the economy**
- 1.4 Quality of labour and labour migration**

SECTION 2. THE PLACE AND ROLE OF THE CZECH REPUBLIC IN INTERNATIONAL ECONOMIC RELATIONS

- 2.1 Foreign trade**
- 2.2 Participation in international economic organizations**
- 2.3 Analyses of the investment climate of the Czech Republic**

SECTION 3. DEVELOPMENT AND WAYS OF REALIZATION OF THE INTERNATIONAL INVESTMENT PROJECT “THE HOTEL IN A SKI RESORT” IN CZECH REPUBLIC

- 3.1 Stages and features of conducting the project’s analysis**
- 3.2 Possible risks and its assessment**
- 3.3 Concept of international investment project**
- 3.4 Evaluation methods of effectiveness of the project and its attractiveness**

6. Date of issue of the assignment _____

№	Name of the stages of qualification work	The deadline for the work stages	
		According to the plan	In fact
1	Section 1 Czech economy		
2	Section 2 The place and role of the Czech Republic in international economic relations		
3	Section 3 Development and ways of realization of the international investment project “the hotel in a ski resort” in Czech Republic		
4	Submission of the finished work to the department		

7. Calendar of work execution

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Summary

Bobyliiev I.O. Development and ways of realization of the international investment project “the hotel in a ski resort” in Czech Republic.

The paper examines the current state and trends of the Czech economy over the past years. It is revealed that the Czech Republic is one of the most successful countries in Eastern Europe, showing high rates of economic dynamics and successes in international economic relations. At the same time, the country is a highly popular destination for labour migrants from the neighbour countries. This creates favourable conditions for the organization of small and medium sized business enterprises, where it is possible to combine investment and job creation for the foreign investor. An international investment project of creating a small hotel in mountains in Harrachov was developed at the expense of an investor from Ukraine. The calculations of the need for investment resources are given, the organizational and legal form of the created business is substantiated, as well as the calculations of the main indicators that made it possible to evaluate the investment attractiveness of the proposed project.

Keywords: Czech economy, investment climate of the Czech Republic, evaluating investment attractiveness, NPV, project's analysis

Бобилев І.О. Розвиток та шляхи реалізації міжнародного інвестиційного проекту «Відкриття готелю гірськолижному курорті» у Чеській Республіці.

У дипломній роботі розглядається сучасний стан та тенденції економіки Чехії за останні роки. Виявлено, що Чехія є однією з найуспішніших країн Східної Європи, демонструючи високі темпи економічної динаміки та успіхи в міжнародних економічних відносинах. У той же час країна є дуже популярним місцем для трудових мігрантів з сусідніх країн. Це створює сприятливі умови для організації малого та середнього бізнесу, де можна поєднувати інвестиції та створення робочих місць для іноземного інвестора. Інтернаціональний інвестиційний проект щодо створення невеликого готелю в горах у Гаррахові був розроблений за рахунок інвестора з України. Наведено розрахунки щодо потреби в інвестиційних ресурсах, обґрунтовано організаційно-правову форму створеного бізнесу, а також зроблено розрахунки основних показників, які дали б змогу оцінити інвестиційну привабливість запропонованого проекту.

Ключові слова: Чеська економіка, інвестиційний клімат Чеської республіки, оцінка інвестиційної привабливості, NPV, аналіз проекту

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INTRODUCTION

International investment activity holds a special place in a modern business, as without it, it would be impossible to reach the same socio-economic development in the world. Thanks to the effective structure of investment policy by setting the international economic relations between different countries, the favourable investment climate occurs in new places all over the world. However, the world does not develop evenly. The biggest part of countries is still underdeveloped, a huge amount of different external and internal factors influence on countries' prosperity. International investment activity, in its turn, provides an innovative basis for a certain country's development.

We can add, that investments are the basis for implementing scientific and technological progress, improving the quality and competitiveness of national products, restructuring the economy and balanced development of all its industries, creating the necessary raw material base for different industries, developing the social sphere, solving the problem of unemployment and environmental protection, etc. Without investments, it would not be possible to purchase securities, to invest in the assets of other enterprises, to ensure the competitiveness of manufactured goods and services, etc.

In the macroeconomic aspect, investment activity is the process of laying the future economy of the country. The greater the volume of investment is, the greater the volume of gross domestic product of the country will be tomorrow. In general, for stable economic growth, investments should be at the level of 15-30% of the GDP, which is ensured by the corresponding levels of savings.

The aim of this course work is to develop skills of practical application of theoretical knowledge gained as the study both special and general economic courses, such as "International Economics", "Economy of foreign countries", "International Marketing", "International Finance", "Accounting" and others. During the writing of coursework on international investment activity, the I will try to demonstrate theoretical

knowledge and practical skills to address specific problems in the international economy.

My bachelor thesis consists of three sections, the first one will present an overall information about the Czech economy, the second section is related to country's foreign economic activity and its investment climate. The third one consists of the information and calculations related to the international investment project itself. In these chapters I will provide not only general information about Czech economy, but I will try to have a much closer and deeper look at this country in order to understand whether Czechia worth investing into its economy or not.

We have also decided to base the analysis on the criteria for investment attractiveness of a country according to some points of the **U.S. Chamber of Commerce**, which include such points as: general characterization of the local market, its availability, quality of labour, currency exchange rate risks, trade policy and state regulations, political stability, etc.

In the fourth chapters we will have a look at development and ways of realization of the international investment project “the hotel in a ski resort” in Czech Republic. We will discuss not only concept of my investment project in details, but also make some necessary calculations, in order to understand whether this project worth investing or not.

In the end of this work, I will conclude all the information written and will provide my verdict on both the investment climate of the Czech Republic and our international investment project.

SECTION 1

CZECH ECONOMY

1.1 General information

Before moving deeper into the economic analysis of a country, let us provide a little overview of the Czech Republic.

The Czech Republic is a country in Central Europe bordered with Germany, Austria, Slovakia and Poland. With its area of 78,866 km², it has hilly landscapes and continental climate. It is a unitary state and its form of government is considered to be a parliamentary republic. There are approximately 10.7 million inhabitants and 1.3 million residents in its biggest city and capital – Prague.

It ranks 27th in the UN inequality-adjusted human development index (IHDI) – it combines a country's achievements in health, education and income with how those aspects are distributed among the population. It also ranks as the 11th safest and the most peaceful country in the world. (Human Development Reports, 2020)

The Czech Republic is a member of NATO since 1999 and a member of the European Union since 2004. Czechia is a member of the United Nations, the Council of Europe, WTO, World bank, International Monetary Fund and the OSCE as well.

GDP (nominal) for 2019 was at the level of \$246.95 billion and \$24,56 – per capita.

The one and only currency is Czech koruna (CZK). The average exchange rate at the moment is - 1 USD = 26.05 CZK, 1 EUR = 27.77 CZK.

The official language is Czech. (Zeman et al., 2020)

1.2 Characterization of the local market

The Czech Republic is a developed and one of the industrialized countries of Central and Eastern Europe. The Czech economy is based on such industries as: engineering, car manufacturing, ferrous metallurgy, production of electrical and electronics devices, chemistry and petrochemistry, agriculture and food processing, pharmaceuticals, manufacturing of glass and textile and last, but not least – services sector.

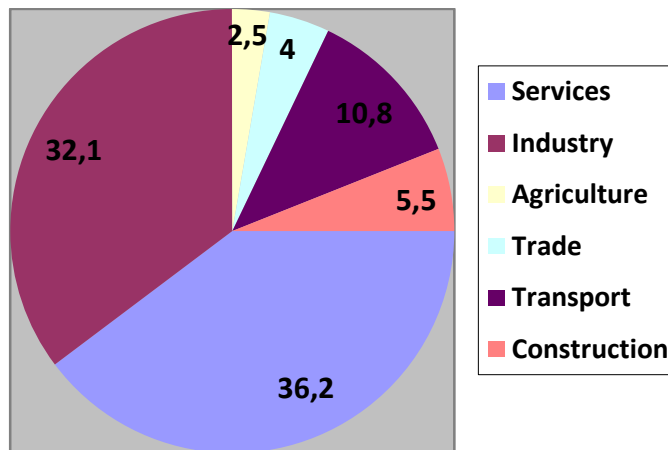


Fig. 1.1 Czech economy structure, %, 2016

(Czech economy structure, 1990-2016, 2020)

The Czech Republic is one of the most important manufacturers of engineering products, taking, in particular, the second place in the world in the production of cars per capita. The Czech Republic annually enters the top 15 countries in terms of the number of cars produced.

As a result of the socio-economic reforms and the privatization of state property, a significant part of the Czech industry has been modernized, and therefore the country's economy has become less energy intensive. Currently, large transnational and national companies operate in the Czech Republic, several industrial clusters have been formed, and industry and business associations are operating.

During the recent years, the Czech Republic has been actively exploring the national initiative “Industry 4.0”, which involves massive automation, robotization and digitalization of all industries. (Bartonova, 2020)

The number of unemployed by the end of 2016 amounted to 381,373 people. The average annual unemployment rate in the reporting period was at about 5.5%.

An important role in the formation of Czech GDP is played by foreign trade of different goods. In 2016, the Czech foreign trade turnover in dollar terms increased by 1.8% and amounted to 304.8 billion US dollars. Exports grew by 3.0% to 162.7 billion USD, imports - by 0.5% to 142.1 billion USD, thus we can see the surplus of the foreign trade balance, which is 20.6 billion USD.

In 2016, the Czech government’s public debt was 1.844 trillion CZK (\$75.4 bln). An interesting fact is that, despite prognoses from experts, during the same 2016, it was said that there would be a state budget deficit in the amount of 70 billion CZK (\$2.8 bln), however the Czech state budget surplus amounted to 61.8 billion CZK, which is (2.5 billion USD).

As we can see, the Czech economy has been showing quite positive dynamics for the recent years, which was confirmed by several indicators: GDP growth that was and is still rising (3.5% for the last year), unemployment rate has a positive decrease of 6.7%, which is one of the lowest in the EU and the best indicator in the Czech Republic itself since 2008. FDI stocks are increasing up to \$185.6 billion and public debt also has a positive decrease. In 2016 the surplus was ensured by savings in the budget expenditures, low interest rates for servicing the state debt, income from insurance contributions to the treasury, an effective tax collection mechanism, and economic growth, accompanied by a high degree of employment and higher wages. At the same time, the volume of government debt of the Czech Republic in 2019-2020 amounted to 31.3% and 29.4% of the country’s GDP representatively. The volume of gold and foreign exchange reserves of the Czech Republic in 2016 amounted to 2 197.99 billion CZK (\$90 bln).

(The economy of the Czech Republic, 2020)

Talking about exchange reserves, the next question arises: “why hasn’t Czechia switched to Euro?”. While reading different materials, I found out that joining the eurozone remains a long-term issue for Czechia. Nevertheless, Czechia tries to have a deeper coordination with the economic, financial and budgetary policies of the states of the eurozone, which are based on the principles of solidarity and responsibility.

According to the European Commission, the Czech Republic does not fulfil some of the conditions, necessary for entering the single European currency zone. On the one hand, a country meets the criterion of price stability. At the same time, the country's national debt does not exceed 60% of GDP, and the state budget deficit - 3% of GDP, which are the requirements necessary for joining the Eurozone. On the other hand, the Czech Republic did not join the ERM II exchange rate mechanism, unlike Greece, Denmark, Estonia, Lithuania and Slovakia. However, some economists and analytics believe that Poland, Hungary and Czechia will join the Eurozone in the next 5-10 years.

Currently, the Czech Republic uses a free-floating exchange rate regime.

Unlike almost all the other post-communist countries of the Czech Republic, hyperinflation and sharp devaluations of the national currency were avoided. After some weakening of the koruna in the late 1990s, to date, its exchange rate against major world currencies has appreciably increased.

Since the Czech National Bank lifted its ceiling on the value of the koruna in April 2017, the currency has experienced a modest appreciation, and we expect this broad trend to continue over the medium term. There will be more volatility in the short term than in recent years, when the currency ceiling ensured exchange-rate stability.

1.3 Information on different sectors of the economy

Industry

The Czech Republic to the EU countries with its dynamics of industrial production being above average. The contribution of transport engineering to the overall growth of industrial production is about 50%, another quarter comes from the production of electrical equipment, as well as the manufacture of rubber and plastic products. The most dynamic growth was demonstrated by the production of motor vehicles (+ 11.5%) and the sphere of printed products and reproduction recorded media (+ 13.6%). A record was reached in the number of cars produced, good results were recorded in the production of buses and trucks. The increase in the index of production of computers, electronic and optical devices is amounted to 5.6%. It should be noted that for more than four years, there has been a revival in industries such as textile, pulp and paper and pharmaceutical production. In the spheres of the chemical and food industry there were a slightly negative trends. The mining industry showed a decrease of 9.0%, due to its long-term reduction.

Automotive industry

Currently in the Czech Republic there are three car factories for the production of cars (Škoda Auto, Hyundai Motor Czech Manufacturing, Toyota Peugeot Citroën Automobile - TPCA), one truck manufacturing plant (Tatra Trucks Kopřivnice), two bus manufacturing plants (Iveco - Česká republika and SOR-Libchavy), as well as more than 300 enterprises - suppliers of automotive components, spare parts and car accessories. The largest automaker is the Škoda Auto concern, whose parent plant is located in the city of Mlada Boleslav (two more are in the cities of Kvasiny and Vrchlabi). Unlike other enterprises, the concern provides a full cycle of automobile production - development, design, production of body parts, welding, body painting, engine and gearbox manufacturing.

In 2016, the volume of production of motor vehicles (including cars, small commercial vehicles, trucks, buses, motorcycles, tractors and chassis) increased by 8% compared to 2015 and amounted to 1.35 million vehicles. Passenger car production rose 8.3% to 1.344 million units, and bus production fell 2.9%

Aviation industry

Czech aviation industry provides release jet training and combat aircraft, aircraft for regional communications, sports aircraft and gliders, and is also engaged in the rapidly developing production of ultralight aircraft. The largest aviation company in the Czech Republic is AERO Vodochody AEROSPACE. Its most significant projects include the production of a combat trainer L-159, developed in cooperation with the American Boeing.

The Czech Republic continues to actively develop the production of light and ultralight aircraft, which allowed Czech companies to take a strong position in this market segment in Europe and the USA. Their leading manufacturers are: Evektor-Aerotechnik, JIHLAVAN airplanes, BRM AERO, ATEC.

Transport infrastructure

The Czech Republic is an important element of European transport system, where the main highways for moving goods from the ports of the Baltic Sea to the Central and Eastern Europe. The Czech Republic also plays a big role in the supply of goods to Germany, Poland, Austria, Slovakia and Hungary.

The government implements the policy reflected in the conceptual program document “Transport policy for the period 2014-2020” (with perspective until 2050), in accordance with which, it is recommended to allocate annually at least 70 billion Czech korunas for the development of transport infrastructure, which is about \$3.3 bln. The priorities of the program include improving the quality of road transport, modernizing rail and water transport, developing a trans-European transport network, etc.

During the reporting period, the transport sector retained the status of recipient of grants from EU funds. The plans of the Czech Ministry of Transport include the widespread use of state projects in the country with the involvement of private capital on the basis of public-private partnership with the further expansion of the toll road system.

Fuel and energy complex

The energy industry is managed by the Ministry of Industry and Trade of the Czech Republic together with the Energy Regulatory Authority. The State Energy Concept is in force since 2015 and it focuses on the possibilities of further development of the nuclear energy and renewable energy in the Czech Republic. The key strategic objectives of the document are safety, competitiveness and stability of the energy sector. The concept provides certain steps for a reduction in electricity production from coal by 2040 to 8%.

Coal is currently the main source electricity production in the Czech Republic, but its reserves at current consumption, according to Czech experts, will be enough only until 2030. At the same time, the life of most of the existing large coal-fired power plants will be still operational in 2020. Along with a decrease in coal electricity production, it is planned to significantly increase its efficiency burning at energy sources and increase the financial efficiency of electricity exports.

1.4 Quality of labour and labour migration

According to the recruiting agency “Adecco”, that made a survey in 125 countries, the Czech Republic ranked 25th in terms of quality of labour protection and a wide range of employment opportunities.

An interesting fact is that Prague was highly appreciated in a field of protection of a high standard of living. The capital of the Czech Republic is ahead of Washington, London and Paris in those parameters and has the 8th place among 114 other cities all over the world. Prague is the city that has the optimal development strategies that definitely will play an important role in attracting talented people, as even now Chechia, and Prague in particular, are extremely popular place to immigrate among the citizens of Ukraine. (Vashkova, 2019)

If we'll have a closer look at statistical data, we would be able to see that the Czech Republic has indicators that are **above the average level of salaries and working places, personal security, education and skills, well-being, the balance between work and personal life and social connections**. However, on the other hand, it has indicators **below the average in terms of housing, public health, income and welfare, civic engagement and the quality of the environment**. (Explore Economies, 2020)

Moving back to employment level, we can see that 74% of Czech citizens aged from 15 to 64 have paid work. Among men, about 81% have paid work, and 66% among women. About 6% of workers work overtime in the country, which is lower than the OECD's average of 11%. Few words about education, as it plays significant part in finding a job. 94% of the adult population of the Czech Republic aged 25 to 64 have a diploma of full secondary education, which is again, which is the highest among other countries, according to the OECD. (Better life index, 2020)

In the Czech Republic, family income per capita averages \$21,453 per year, which is less than the OECD's average of \$ 33,604 per year. (Minimal Wage in the Czech Republic)

Starting January 1, 2020, the minimum salary was set on the level of CZK 14,600 (569.33) per month and CZK 86.90 per hour (\$3.39). (Quality in work and employment — Czech Republic, 2020)

While talking about quality of labour it is impossible to pass over the question of labour migration, as it is well known, that Czech Republic is a very attractive destination for migrants from many countries, especially post-soviet countries, who are playing an increasingly important role in the Czech economy. At the end of the first half of 2019, more than 140,500 Ukrainians legally resided in the Czech Republic, the number of which in the interannual comparison increased by more than 14,435 people. It was they who took first place in the ranking of foreigners among citizens of non-EU countries.

The volume of construction work in the Czech Republic in September increased by 2.9%. Largely thanks to foreign workers, who make up 16% of all employed in this area. Two thirds of construction companies, including the most active developers, use their services in the country. According to a survey by CEEC Research in October, most foreigners come to the Czech Republic from Eastern Europe and Asia, in particular, from Turkey, in search of work. Compared to 2017, while maintaining the total number of visiting workers, the number of Ukrainians employed at construction sites decreased. The survey involved about one hundred Czech construction companies.

It is necessary to add that last year the Czech government approved quotas for the reception of foreign workers for individual countries. This was reported by the Czech news agency Ceske Noviny. (Are migrant workers salvation for the Czech Republic?| Radio Prague International, 2020)

Now the Czech Republic is ready to accept 40,000 workers from Ukraine per year, instead of 19,600 as it was before. From Serbia and Montenegro, 2,000 people can be hired. From Moldova, the Philippines and Mongolia - 1000 people each, from India and Kazakhstan –600 and 300 people respectively.

Such interest of Czech employers in the Ukrainians is associated primarily with the linguistic and cultural proximity of citizens, which caused a several-fold increase in the quota, the Czech Interior Ministry explained. (Czech Republic doubled quota on employment of Ukrainians, 2019)

SECTION 2

THE PLACE AND ROLE OF THE CZECH REPUBLIC IN INTERNATIONAL ECONOMIC RELATIONS

2.1 Foreign trade

Foreign trade in goods and services makes a major contribution to the development of the Czech economy. According to CSD (Czech Statistical Department), in 2016, in dollar terms, Czech trade increased by 1.8% to \$ 304.8 billion, including Czech exports grew by 3.0% to \$ 162.7 billion, while imports to the Czech Republic increased by 0.5% and amounted to 142.1 billion US dollars.

Table 2.1

Foreign trade of the Czech Republic (2009-2016)

Year	Commodity circulation		Export		Import		Net balance
	Bln.of USD	Growth rates, %	Bln. Of USD	Growth rates, %	Bln. Of USD	Growth rates, %	Bln. Of USD
2009	218.4	75.7%	113.2	77.3%	105.3	74.0%	7.9
2010	259.6	118.9%	133.0	117,5%	126.6	120.3%	6.4
2011	315.0	121.3%	162.9	122,5%	152.1	120.2%	10.8
2012	298.7	94.8%	157.2	96.5%	141.5	93.0%	15.7
2013	304.8	102.4%	161.4	103.0%	143.4	101.7%	18.0
2014	329.2	108.0%	175.0	108.4%	154.2	107.7%	21.6
2015	298.6	90.7%	158.1	90.3%	140.5	89.9%	17.6
2016	304.8	101.8%	162.7	103.0%	142.1	100.5%	20.6

(Český statistický úřad | ČSÚ, 2020)

Thus, we can say that the structure of Czech foreign trade remains quite balanced. The imbalance towards imports in foreign trade in mineral fuels, chemicals and food products is offset by the significant prevalence of exports over imports of groups such as “Machinery, equipment and vehicles”, as well as “various finished products”.

Czech foreign trade is sensitive to changes in world markets. The risk for the country's export is the fact that the majority of Czech products are exported to EU countries (about 80%). Crisis phenomena and stagnation of the European economy always negatively affect local companies.

Despite the general positive dynamics in the development of Czech foreign trade with the countries of the world, in 2016 a decrease in the Czech Republic's trade turnover with certain significant trading partners was recorded: by 2.5% with Slovakia; 5.8% with China; 3% from the USA and 18.4% from Russia.

Concerning about the main foreign partners of the Czech Republic and trends in the total trade turnover, I can say that the key foreign trade partners of the Czech Republic are traditionally the EU countries, whose share in the Czech Republic's turnover reached 76.0%, including 83.7% in Czech exports and 67.3% in imports. The positive balance of the Czech Republic in foreign trade with EU Member States in the reporting period exceeded 42 billion US dollars.

The main foreign trade partner of the country is Germany, its share in the turnover of the Czech Republic reached 29.6%. This is due to the fact that many Czech industrial enterprises are owned by German companies and are their subcontractors.

The second and third places in terms of turnover are other neighboring countries - Poland and Slovakia, their share in the foreign trade of the Czech Republic was 6.9% and 6.8%, respectively. The remaining EU members also play a significant role in Czech foreign trade, including Italy (4.3%), France (4.3%), the UK (4.0%), Austria (3.6%), and the Netherlands (2.9 %), Hungary (2.6%), Spain (2.4%), Belgium (2.0%), Romania (1.3%), Sweden (1.2%), etc.

Table 2.2

Foreign trade of the Czech Republic in 2018 (USD mln)

index	Commodity circulation	Share	Export	Share	Import	Share	Net balance
Developed countries	253,786	83.3%	148,090	91.0%	105,695	74.4%	42,395
EU countries	231,766	76.0%	136,084	83.7%	95,682	67.3%	40,403
Germany	90,333	29.6%	52,665	32.4%	37,669	26.5%	14,996
Poland	21,167	6.9%	9,377	5.8%	11,790	8.3%	-2,412
Slovakia	20,856	6.8%	13,641	8.4%	7,215	5.1%	6,427
Developing countries	18,328	6.0%	6,889	4.2%	11,440	8.1%	-4,551
CIS countries	9,197	3.0%	4,618	2.8%	4,578	3.2%	40
Russia	6,046	2.0%	3,075	1.9%	2,971	2.1%	103
Other	20,627	6.8%	2,046	1.3%	18,580	13.1%	-16,534
China	19,668	6.5%	1,916	1.2%	17,752	12.5%	-15,837

The structure of Czech exports is dominated by machinery, equipment and vehicles, the share of which in the total volume of Czech supplies to the world countries is amounted up to 56.3%. Most of the exports in this group of goods are road vehicles and their parts, industrial and office equipment, telecommunications products, electrical equipment and tools.

The share of “food products” in the value of Czech exports reached 3.6%, non-food raw materials exceeded 2.1%, and mineral fuels - 1.9%. The share of other product groups in the export of the Czech Republic is about 1.5%

A significant part of Czech imports is also made up of cars, equipment and vehicles, whose share in the value of deliveries to the Czech Republic reached 45.9%. The basis of Czech supplies in this group of goods is electrical equipment and tools, road vehicles and their parts, industrial and office equipment.

The import into the country of “various finished products” amounted to 12.4%. This group distinguishes the import of plastic products, children's toys, measuring instruments, clothing and furniture.

The share of “chemical products” in the import of the Czech Republic reached 11.5% of its value. In this group of goods supplies of pharmaceutical products, organic chemical compounds and various colouring materials.

Deliveries of foreign "food products" to the Czech Republic amounted to about 5.0% (mainly vegetables, fruits, meat and meat products, coffee, chocolate, cheeses, seasonings, etc.)

The main Czech exports of services include:

- Tourism (26.3%);
- Transport services (22.8%)
- Other business services (20.0%)
- Computers and telecommunication (13.5%)

The main Czech imports of services include:

- Tourism (24.9%)
- Other business services (24.1%)
- Transport services (22.6%)
- Computers and telecommunication (9.5%)
- Intellectual property fees (6.1%)
- Insurance services (3.5%)

2.2 Participation in international economic organizations

The Czech Republic is a member of 59 international organizations, including 51 as the legal successor of Czechoslovakia (1993): the UN (since 1945), the OSCE (since 1975), the IMF (since 1995), the OECD (since 1995), WTO (since 1995), etc.

The European Union has the greatest impact on the country's integration into world space and its further development. Consider the main stages in the development of relations with the EU and the results of the chairmanship of the Czech Republic in it.

The key moment was the conclusion in 1993 of an agreement with the EU on associate membership, which provided the Czech Republic with a facilitated regime of inclusion in the internal market of the European Union and the possibility of further development of the political dialogue on obtaining its EU member status. By a decision of the Luxembourg Summit in 1997, the Czech Republic was included in the first group of candidate countries for EU accession.

Since March 1998, she began regular negotiations with the European Commission on the adaptation of national legislation to EU standards. On the way to joining this international organization, the Czech Republic needed to coordinate approximately 20,000 legal acts, adapt its political, institutional, economic, social, cultural, educational, entrepreneurial systems, as well as security systems to the conditions of the European Union. We managed to cope with this extremely difficult process, and the Czech Republic joined the EU without much difficulty and upheaval.

Since the integration process has not yet been completed, there are a number of “transition periods” that remain the subject of negotiations. In particular, under the “free movement of people” section, EU member states can, for 7 years, unilaterally or on the basis of bilateral agreements, apply restrictive measures to allow Czech labor to enter their labor markets. The EU labor market is open to Czech labor without restrictions for Ireland, Sweden, the UK, Portugal, Spain, Finland, the Netherlands (since January 2008). Other EU member states (Austria, Germany, France) so far restrict the access of Czech labor to their labor markets.

On December 21, 2007, the Czech Republic acceded to the Schengen Agreement, which provided Czech citizens with additional advantages in relation to free movement in the EU countries.

In general, the benefits of joining the EU for the Czech Republic are varied and especially significant in the economic sphere. The accession to the European Union opened the country access to the benefits and privileges granted to economically weaker members, strengthened its competitive position in the global investment market. Since May 1, 2004, the Czech Republic has been represented in EU institutions and is involved in decision-making. When discussing certain issues, when the principle of unanimity is in effect, it has the right to veto. The Czech Republic, as an export-oriented country, can use all the benefits arising from the single EU internal market, which is based on the free movement of citizens, goods, services and capital.

The Czech Republic as a member of the EU uses its financial resources. These are mainly funds intended for agriculture and funds that the Czech Republic can receive from structural funds.

I would like to add that in 2009, the Czech Republic presided over the European Union and achieved success in the ratification of the Lisbon Treaty. Summing up the country's membership in the EU, we can conclude that it had a positive impact on its development.

Other important international organizations, which include the Czech Republic, are the World Trade Organization (WTO), the Organization for Economic Co-operation and Development (OECD), the International Monetary Fund (IMF) in cooperation with the World Bank. Let us consider in more detail the country's place in these organizations.

The Czech Republic is a full member of the WTO and a party to all its multilateral agreements. She is interested in further linking and lowering tariffs and liberalizing the regulation of non-tariff measures in the field of trade in industrial goods in developed and developing countries, eliminating tariff barriers that impede Czech enterprises from promoting their products to foreign markets.

Being a member country of the OECD since 1995, the Czech Republic, on its own behalf, actively participates in work on projects in the field of state support for exports, the development of electronic commerce, improving the management structures of companies, etc. The Czech Republic pays particular attention to OECD activities in the field of international investment cooperation, the provision of export loans, and environmental protection.

Also, the Czech Republic is currently part of the IMF and receives technical assistance from it, consisting of providing recommendations to the Ministry of Finance of the Czech Republic and the Czech National Bank on monetary and financial policies of the country. The World Bank also provides Czech Republic with technical assistance for various projects and the Czech Republic has the right to apply for grants for environmental protection projects. Collaboration with the World Bank consists mainly of the Czech bank experts conducting research on the Czech economy, followed by relevant recommendations.

Thus, the Czech Republic, one of the first countries of the former socialist camp, joined the EU, integrated into its structures, actively cooperates with the IMF, using the capabilities of various projects under the auspices of these organizations.

2.3 Analyses of the investment climate of the Czech Republic

As it was said in the introduction, while talking about the investment climate of Czechia, we will refer to some points of the U.S. Chamber of Commerce, which are: quality of labour, currency exchange rate risks, trade policy and state regulations, political stability, etc.

So, let us start from the state regulation of industry and services.

1) *State regulation of industry* in the Czech Republic is based on the relevant EU directives. Special attention is paid to improving the business climate and reducing state regulation of entrepreneurial activity. Some measures are also being taken in order to stimulate certain branches and industries of particular importance to the Czech Republic's economy.

I can also add, that one of those measures, that were taken by the Czech state to develop industrial infrastructure, is the creation of the so-called strategic industrial zones. They are usually given to interested investors, and the area of such zones is at least 200 ha. In cases when such zone is considered to be created on a built-up but unused territory, its size should be at least 100 ha. This category of objects also includes land prepared for a specific large investor, who takes on himself the obligation to invest a significant amount of capital and create a certain number of working places. The creation and development of projects in these strategic zones can't be held without the assistance of the Ministry of Industry and Trade of the Czech Republic, the CzechInvest state agency and representatives of regional and local governments.

One of the directions of the Czech strategy in the field of the economy state is to reduce the administrative pressure on entrepreneurs. Specific commitments were created by the European Commission in order to reduce unnecessary bureaucracy and pressure by a quarter. (ECONOMIC OVERVIEW AND BASIC STATES DIRECTIONS OF FOREIGN ECONOMIC CZECH REPUBLIC, 2017)

Over the last years, the Czech Republic has received funds from the EU, to support entrepreneurial initiatives and innovations. In the “Concept of SME (small and middle-sized enterprise) Support for the Period 2014–2020” A list of industries that can receive funding from EU structural funds is given. This list covers almost all areas of the extractive and manufacturing industries, with few private exceptions, such as the construction of ships and floating equipment.

In a sphere of state regulation of the banking and insurance systems, the Government of the Czech Republic is guided by EU directives as well. The Czech banking system consists of two levels - the Central Bank (Czech National Bank, Česká národní banka) and commercial banks that are independent business entities (about 20 companies) - Československá obchodní banka, Česká spořitelna, Komerční banka, GE Money Bank Uni, Slovakia, Air Bank, PPF banka, Equa Bank, Fio banka, Hypoteční banka, J&T banka, Raiffeisenbank, Česká exportní banka, Expobank CZ, etc.

The central governmental body in the field of financial market is the Ministry of Finance of the Czech Republic. It develops a policy for regulating the financial market, by taking into account EU standards and rules in this area, as well as national experience in legal regulation and its practical results. Supporting a transparent environment for business and investing in the financial market is the main goal of Czech government policy. (Banks in the Czech Republic - Overview & Guide to Top Banks, 2020)

If talking about the sphere of insurance services in the Czech Republic, then we can add that 54 institutions are currently operating. They can be represented in the form of joint-stock companies, cooperatives or state enterprises. Some types of insurance can also be provided by commercial and savings banks, as well as travel agencies.

The activities of insurance companies in the Czech Republic are carried out as part of a concession system, i.e. no commercial organization can engage in insurance business without the permission of a government agency. Such permission could be given by the Ministry of Finance. Before filing the application, a cash contribution of at least 10 million CZK (approximately 500 thousand US dollars) must be paid, due to the fact that

every created insurance company should have sufficient financial resources to start operating.

2) Now, let's move to the *protection of intellectual property*.

Copyrights, like any type of property, are often subjected to unauthorized use by third parties, and therefore need appropriate protection.

Intellectual property protection is carried out in a jurisdictional form, if any violation of your rights occurs, you can ensure their protection with the help of specially authorized state bodies, for example, by going to court.

Intellectual Property refers to exclusive rights to manage literary and artistic works, inventions and other intangible results of the process of the human creativity, exploration and mind. Intellectual property is divided into Copyright Protection and Industrial Property Rights.

Copyright Protection includes the results of creative activity and investments of authors, performers and other right holders protected under copyright law, Act No. 121/2000 Coll., on Copyright and Rights Related to Copyright and on Amendment to Certain Acts (the Copyright Act), as amended.

The licence agreement is regulated by the Act No. 89/2012 Coll., Civil Code (art. 2358 – 2389). Copyright law in the Czech Republic belongs to the competence of the **Ministry of Culture** where you can find more information on the activities of the Ministry, Copyright Directive or answers to frequently asked questions.

Table 2.3

Czech Intellectual Property Systems

copyright	rights to the results of creative and inventive activity
sound creator right	audio-visual recording creator right
broadcasting and television broadcasting right	designation rights
industrial property rights	trademark right
geographical right	right of designation of place of origin
common rights of an individual	

(Intellectual and industrial property in the Czech Republic | BusinessInfo.cz, 2020)

3) *Political stability* is the third point that we are going to discuss in order to get a better understanding of investment climate of the Czech Republic.

The Czech Republic is one of the ten safest countries in the world. Such data stem from information from the Global Peace Index, which is published annually by the Institute for Economics and Peace. Since 2008, when the index was first published, the Czech Republic has improved its position by eight places. In 2015, she took 10th place, overtaking Portugal and Ireland. The Global Peace Index is calculated annually on the basis of 23 criteria in individual countries aimed at the absence of violence or fears of possible violence. It examines internal and external security, crime rates, violent crimes, political stability, respect for human rights and the potential threat of terrorist attacks, as well as violent demonstrations. The first places for a long time belong to Iceland, Denmark and Austria. Of the European countries, the worst situation is in Turkey. (CZECH REPUBLIC HAS MOST TEN THE MOST SAFETY COUNTRIES OF THE WORLD | Radio Prague International, 2020)

However, dissatisfaction of the Czechs with the political situation in the country continues to grow. Such data are provided by the agency for the study of public opinion. It is reported that during a recent survey in June 46% of Czechs expressed their dissatisfaction with the political situation. Over the past two months, this figure has grown by eight percentage points. At the same time, 20% of respondents adhere to the opposite opinion. Another 31% said that they have a neutral attitude towards politicians. Accord-

ing to the authors of the survey, this is due to recent ministerial appointments and anti-government demonstrations.

In addition, according to the survey, the level of trust in Czech President Milos Zeman has not changed and amounts to 49%. The government and parliament are trusted by 39% and 29% of Czechs, respectively. The most trusted are municipal councils (63%) and mayors (64%). (In the Czech Republic, dissatisfaction with the political situation in the country is growing: EADaily, 2020)

4) *Tax rates and benefits* are the next extremely important point to discuss.

Czech fiscal policy is the main instrument for regulating the national economy. The functions for its implementation are assigned to the Ministry of Finance of the Czech Republic, which, in addition to budgeting and improving tax legislation, regulates prices for a number of goods and services: some types of food and utilities, railway tariffs, rental of a certain type of housing, etc.

The modern tax system of the country has developed in the course of a large-scale tax reform carried out in the country in 2007-2009.

Since 2008, the Czech Republic has a single personal income tax rate of 15%. The corporate income tax has been set at 19% since 2009. Investment funds and companies, mutual investment funds and pension insurance institutes have been paying tax at the rate of 5% since 2004. The role of excise taxes is also quite significant - the share of this group of tax revenues exceeds the income of each of the two main income taxes.

The most significant of the innovations in the field of income taxation and related legal acts in the reporting period was the entry into force of Law No. 125/2016 of Law No. 586/1992 on the income tax from May 1, 2016, which provides for an increase in tax benefits for the second and each subsequent child. For the second child, their amount increased from 15 804 Czech. CZK (\$ 647) 5 to 17 004 Czech CZK (696 US dollars) annually, and for further addition in the family - from 17 004 Czech. CZK up to 20 604 CZK CZK (843 US dollars) per year.

Real estate tax is regulated by relevant law No. 338/1992, subject to recent changes. According to this regulatory legal act, the subject of taxation is land registered in the Czech Real Estate Cadastre.

The taxpayer becomes the owner of the land. The law establishes cases where the taxpayer is another person who does not act as an owner (for example, a land fund, a national property fund, the Office of the State Material Reserves of the Czech Republic, a tenant or a user of a site).

Real estate tax is not levied on land plots under construction (meaning built-up area along the contour of the structure), and on some types of forests, surfaces of water bodies and plots intended for state defence.

The tax exemption applies to the following land plots:

- owned by the state;
- used by diplomatic missions, consulates and other persons who, in accordance with international law, enjoy the appropriate privileges and immunity and are not Czech citizens (the principle of reciprocity is ensured);
- land plots forming a functional whole with the structures of churches, religious societies, trade union and international organizations, as well as architectural and cultural monuments;
- land plots with buildings belonging to schools, museums, galleries, libraries, state archives, medical institutions and social services, as well as foundations.

The basic tax rate for apartments is 1 CZK (\$ 0.04) per sq. m, multiplied by a coefficient that is calculated by the number of residents in the village and which can be increased or decreased by local authorities. Raising factors established in the above way are the same as for land.

If the building is multi-story, then starting from the second floor the tax rate increases by 0.75 CZK (0.03 US dollars) per sq. m. m for each subsequent floor, if their area exceeds the first floor by at least two-thirds.

The period of application of property tax rates is a calendar year. The tax is paid twice a year in equal shares: until August 31 and until November 30. If its size does not exceed 5 thousand CZK, it must be paid in one amount no later than May 31 of this accounting year.

Leasing land and buildings (for commercial purposes or for living) is exempt from VAT without the right to deduct tax upon receipt of this service. However, if the lease is provided to another registered payer (for using the facility as part of a business), the lessor may use the opportunity to deduct VAT on the purchase.

On January 1, 2016, § 101a para. 3 of the Law on Value Added Tax, which allowed some individuals to file a paper tax declaration, ceased to apply. Now this document can be provided exclusively in electronic format.

Since 2008, in the Czech Republic, “environmental” taxes have been applied: for gas, solid fuels and electricity. The procedure for their calculation and collection is defined in Law No. 261/2007 "On the stabilization of public budgets."

The main volume of tax benefits is provided in a form of tax credits (deduction from the amount of the accrued tax payment) for the following items:

Table 2.4

The main volume of tax benefits in a form of tax credits

Social tax benefits for personal income tax	CZK
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For pensioner	16,560
Spouse (s) with complete disability requiring ongoing care	16,560
For a person with a partial disability	2,520
For a disabled person with a complete disability	5,040
For a disabled person requiring constant care	16,140
Per student	4,120
Per child	10,200

(Czech tax system, 2020) (Taxation system, 2020)

5) For a better understanding the next data of *macroeconomic policy of Czech Republic* are presented in a form of a table:

Table 2.5

Macroeconomic policy of Czech Republic

INDEX	DATE	LAST RESULT	MEASUREMENT	FREQUENCY
Prices				
Base consumer price	Feb. 2020	112.00	points	Month
Inflation level	Dec. 10, 2019	3,10	%	Month
Change in producers' prices	Dec. 16, 2019	0,90	%	Month
PPI	Dec. 16, 2019	-0,10	%	Month
Petrol prices	Mar. 2020	1,26	USD/litre	Month
Import prices	Jan. 2020	94,90	points	Month
Export prices	Jan. 2020	95,50	points	Month
Labour				
Unemployment rate among the teenagers	Feb. 2020	5,30	%	Month
Vacancies	Feb. 2020	351,624	-	Month

Table 2.5, continued

Women Retirement Age	Dec. 2018	62,67	-	Year
Men Retirement Age	Dec. 2018	63,33	-	Year

Employed population	Dec. 2019	5,305	thousands	Quarter
Salary	Dec. 2019	36, 144.00	CZK/month	Quarter
Minimal wage	Dec. 2019	519.00	CZK/month	Quarter
Part-time job	Sep. 2019	320.00	thousands	Month
Total amount of unemployed	Feb. 2020	227,369.00	-	Month
Full-time job	Sep. 2019	4,834.00	thousands	Quarter
Productivity rate	Dec. 2019	121.00	points	Quarter
Wage growth	Dec. 2019	3.60	%	-
Level of unemployment	Dec. 9, 2019	2.60	%	Month
Level of Employment	Sep. 2019	75.20	%	Quarter
Money				
Gold reserves	Dec. 2019	7,99	tons	Quarter
Coef. of cash reserves	Jan. 2020	2.00	%	-
Interbank interest rate	Apr. 2020	0,17	%	Day
Interest rate	Dec. 18, 2019	2.00	%	Day
Interest rate on deposits	March 2020	0,05	%	Year
Lending rate	March 2020	2.00	%	-
Government				
Budget expenses	March 2020	165,371.00	CZK mln.	Month
Gov. income	March 2020	148,079.00	CZK mln.	Month
Gov. spending	Dec. 2019	230.00	CZK bln.	Quarter
State budget	March 2020	-17,292.00	CZK mln.	Month
State debt	Dec. 2018	1,734,720.00	CZK mln.	year
Trade				
Import	March, 2013	213,90	CZK mln	month
FDI	Dec. 2018	114,674.00	CZK mln	Year
Foreign currency reserves	Dec. 9, 2019	146,20	USD bln.	month
				Table 2.5, continued
Current balance of payment	Dec. 13, 2019	666.00	EUR mln.	quarter
Trade balance	Dec. 9, 2019	41,70	CZK bln	Month
Ratio of export	Jan. 2020	101.00	points	Month

and import prices				
Export	March 8, 2013	245,40	CZK mln	month

(Czech Republic - key indicators of the economy, 2020)

6) Finally, we are moving to the last point, which is ***the infrastructure development of the Czech Republic.***

The main conditions for economic growth in the Czech Republic are intensive research and innovation processes, the systematic and timely implementation of their results in the industry, as well as the professional management of already developed technologies. The main necessary element of these processes is a high level of comprehensive and high-quality education, as well as the constant attention to the programs of planned advanced training and retraining of specialists.

Industrial developments in the Czech Republic are a primary factor in the country's innovation process. Priority is given to high-tech areas, such as the automotive and aviation industries, information, telecommunications, nano- and biotechnologies. The Center for Aviation and Space Research is successfully operating in the Czechia.

In accordance with Law No. 72/2000 “On Investment Support” (as amended on May 1, 2015, www.zakonyprolidi.cz/cs/2000-72), incentives for investors, research and development organizations, innovative enterprises are provided in the form of significantly lower, compared with market, rental rates for office and industrial premises, as well as in the form of the provision of business services at a relatively low price. (Kayer, 2020)

SECTION 3

DEVELOPMENT AND WAYS OF REALIZATION OF THE INTERNATIONAL INVESTMENT PROJECT “THE HOTEL IN A SKI RESORT IN CZECH REPUBLIC”

3.1 Stages and features of conducting the project's analysis

The project analysis is one of the most important and responsible stages of the project cycle. With its help it becomes possible to determine if a current project might be profitable or not. It is a combination of methodological measures and different techniques used to prepare and justify certain decisions. It means, that before implementing any investment project in life, it should be properly selected, designed, calculated, and most importantly, its effectiveness should be evaluated by comparing the costs of the project and the possible results from its implementation.

The project analysis includes the next ways of analysing:

1. **Marketing** – analyses the sales market of goods and services that are going to be sold after implementation of the investment project;
2. **Technical** – finds out which technique and technology should be used for a certain project;
3. **Institutional** – evaluating the organizational, administrative, political and legal spheres, in which implementing of the project is going to be held;
4. **Socio-cultural** – analysing how the project may influence on locals' lives;
5. **Environmental** - assessment of possible damage to the environment that may be caused by this project;
6. **Financial and economic** - compares the costs and possible profit of the project. Economic analysis evaluates profitability from the point of view of the whole society (country), and financial evaluates the project from the position of the company and its investors. (What is Project Analysis and Why It is Important in Project Delivery? - SmartTask, 2020)

(Analysis Techniques for Projects, 2020)

All these analyses are extremely important, however, in many cases the financial and economic analysis plays the key role as it determines the real effectiveness and advisability of investments, as investors and creditors are worried about reliable and timely return of debt with interest.

As the procedure of financial and economic analysis of the investment project usually plays a significant role in decision-making, let us have a closer look at its procedure, which is the next:

- Determination of funding sources with the inclusion of the project in the information database of investment projects. Its main criteria for evaluating customer's performance are:

- 1.1 project payback;

- 1.2 financial and production stability of the enterprise;

- 1.3 solvency of the enterprise.

- Based on the preliminary assessment of the investment projects, one of the following decisions should be made:

- 2.1 on the examination of the investment project, assessment of the financial condition of the enterprise and determination of investment risks;

- 2.2 on transferring projects to lending divisions, if the project meets the requirements of these divisions, for processing in accordance with the current regulatory documents of the lender;

- 2.3 about the impossibility of further work on the project at the moment due to the unsatisfactory result of a preliminary analysis of the investment project or the absence of an investor interested in financing the project on the proposed conditions.

- An in-depth analysis of the investment project, the main task of which is to determine the potential possibility of the project at the expense of the creditor (bank) and the borrower's ability to rationally dispose of the attracted investment funds in order to obtain the expected result.

(Economic and financial analysis - Panteia.com, 2020) (Panteia.com 2020)

When evaluating projects from the point of view of their implementation and investment attractiveness, cash flows are analysed and performance indicators are calculated using several methods: statistical, dynamic and risk-methods.

Statistical and dynamic methods are based on evaluating of expediency of making investments without thinking about possible risks unlike the third one. Also, there should be taken into account the next information, that makes it possible to confirm the legal correctness of registration of all property rights of project participants and the power of authorized representatives of the project, as well as their business reputation and ability to make decisions, profitability, availability of own funds, their interests and obligations.

Based on the examination, the final compliance of the specified project with the requirements of the investor and creditor is going to be made. Based on the results of the examination of investment projects, the lender who is interested in this project should make one of the following decisions:

- lending for the project can be provided;
- lending can be provided after the fulfilment of certain conditions;
- lending cannot be provided, but consideration of the issue can subsequently be returned;
- lending cannot be provided at all.

3.2 Possible risks and its assessment

Risk is considered to be the deviation of expected results from the average or

expected value. It can also be considered as a chance to receive losses or income from investing in a particular project. Risk is divided up into two categories: risk level and time risk.

The risk level can be determined by comparing the riskiness of certain deposits. For example, the risk is significantly less when dealing with IBM than with a small computer company. Thus, there are more or less risky firms. Less risky companies can borrow money at a lower percentage than high risk companies. For them, the discount rate is lower, therefore the income that the less risky company receives is valued more than the same income of the highly risky company.

From a financial point of view, risk is called an increasing function of time. That is, if a longer term deposit, then the risk is greater. If it is guaranteed that investments are made in a very short period and do not bring losses, then they are called safe investments. If money is invested for a long period, the lender must receive a reward for taking the risk of time.

Project risk is a set of risks that pose a threat to the economic efficiency of the project, which is reflected in the negative impact on cash flows. Commercial banks that lend to investment projects must exclude the possibility of failure of the project and avoid damage to themselves.

When deciding on the feasibility of investing in an investment project, it is necessary to determine the risk factors, stages and specific work during which there is a risk, i.e. identify potential risk areas and then identify them.

For this, a project risk classification system and basic methods for their reduction are used:

Table 3.1

A project risk classification system

Project risks	Characteristics	How to prevent
Delay in putting project into operation	The reasons of such delay might be in a form of construction mistakes, failure of contractor in fulfilment of his/her obligations, delay of equipment needed	The inclusion of a clause on high fines in case of construction delays, the establishment of a fixed construction cost, execution of a guarantee in favour of the creditor on timely commissioning of the construction
Production risks	Occurs because of different technical and/or economic issues	Use of insurance in case of glitches in production; long-term supply contracts
Managerial risks	This type is connected with the poor management and insufficient qualification of employees	the project during the entire period of using the loan should be managed by a competent group of specialists
Financial risks	Include all the risks that may occur during the financial operations	To reduce such risks, the insurance tools are used
Political risks	These risks might happen due to political and legislative state activities where the project is going to be implemented	The state guarantees in money transfer should be used, as well as insurance by export-import agencies, etc.
Force Majeure Risks	Risks that are difficult to predict	Insurance by well-known and reliable insurance agents
Sales Risks	Associated with changes in market conditions, such as price movements and changes in the volume of the produced goods. Such risks may not coincide with forecast calculations	To limit these risks, long-term contracts should be used with buyers of products, where the price and sales volumes of products are fixed

To calculate investment risk indicators, the statistical method is used. The essence of this method is the analysis of all statistical data about the effectiveness of the imple-

mentation of the considered investment operations by the enterprise and the calculation of the probability of having losses:

(3.1)

$$f = \frac{n}{N},$$

Where: n – is amount of certain cases happened;

N – total amount of cases n the statistical sample.

The following main risk areas are identified:

1. A risk-free area is an area characterized by the absence of any losses during the implementation of an investment transaction with a guarantee of obtaining at least a calculated investment profit;

2. The area of minimal risk is an area characterized by a level of losses not exceeding the size of net profit (the range of 0-25%). The company risks that as a result of investment activity, in the worst case, it will not receive net profit and will not be able to pay dividends on issued securities, if any, and at best it will receive the bulk of the profit;

3. The area of high risk is an area that is characterized by the level of losses in the amount of the estimated amount of profit (the range of 25-50%). The company risks that as a result of investment activities in the worst case it will cover all costs, and at best it will receive a profit less than the calculated level;

4. The area of critical risk is an area that is characterized by the fact that within its limits losses are possible in the amount of the estimated amount of the company's income (the range of 50-75%). An enterprise risks losing gross income as a result of an investment transaction;

5. The area of catastrophic (unacceptable) risk is an area within which losses are possible that are close to the size of the company's own funds (the range of 75-100%). Studies by experts have shown that the optimal risk factor is approximately 30%, and risk factor leading to investor bankruptcy - 70% or more.

3.3 Concept of international investment project

The main idea of this work is not only to explain how to analyse the effectiveness of the international investment project, but to make one by myself. As it was said in the

very beginning, we have decided to explain and show the ways of realization of the international investment project “the hotel in a ski resort in Czech Republic”.

We have chosen such project because tourism nowadays becomes more and more developed, if 15 years ago a journey to Turkey was a luxury, then now everyone can afford it for a certain price. Czech ski resorts are one of the most budgetary in Europe. In addition, accommodation costs less in Prague in winter than in high season. I believe, that opening a small cottage with few bedrooms for several families that have common yard and dining room, as well as the beautiful view of the mountains from the windows and a possibility to go skiing, is truly a great idea that provides opportunities for development and a stable income, that, however, depends on the season and location.

Bearing in mind the idea of this project for several month, I have planned and took into consideration many factors and concepts that might evolve into something bigger and attractive for investors.

I imagine it to be a two-floors house, with 5-6 rooms of different sizes with both single and double beds, 3 bathrooms, common kitchen and dining room with a possibility of adding play room and a tiny sauna. It should be located in one of the ski resorts of a country, as Czech Republic has several extremely popular resorts that might suit to our project. They are: Harrachov, Spindleruv Mlyn, Kakronosze or so-called Giant Mountains, Rokytnice nad Jizerou, Liberec and Sněžka. (Czech Republic - The 6 Best Czech Ski Resorts, 2020)

Concerning the staff, we have concluded, that there is no need in hiring too many people, as there won't be too many rooms and customers that spend all their weekend by sitting in the room. That is why, I see it in such way: there should definitely be administrator, chef (with 1 assistant probably), a watchman and a handyman with 1 cleaner. It shouldn't be a

premium-class hotel, as a huge amount of people prefer more budgetary vacations and because I would like to create such project with minimal costs.

We believe that Harrachov would be a decent choice for opening such hotel. It is a tiny city, located near the Polish border, in the Giant Mountains and is considered to be

one of the most popular ski resorts in Czech Republic. Its population is about 1400 people with area of 36,634961 km². It has several touristic sights and it provides a lot of opportunities for winter sports lovers. Despite bus routes between other nearby settlements, there is also a train station that connects Czech city Kozhenov with the Polish Jelenia Góra. (Ski-resort Harrachov - Harrachov Info, 2020)

While searching the information about real estate in Czechia, I have noticed, that the prices for modern houses, that are located in Harrachov, with 4+ bedrooms and 1-2 bathrooms with the land area of ~800-900m² varies from 250 to 500 thousand USD. The quality of such cottages varies indeed. Prices for land only is quite cheap, for example, the land plot in Prague with area of 1,010 m² costs 126,000\$, however, the land in Karlovy Vary – the most popular resort town in Czechia, costs around 780,000\$ with the area of only 353m², so as you can see, the level of prices in Czech Republic varies significantly. Because of that, we have decided to take the average price for both land only and a cottage with yard, in order to see which option would be cheaper. From the personal experience, I decided to stop with total area of 0,15 ha. In case of buying the land only, of course there would be the need of construction a building from the very beginning. Because of that fact, I've been searching for information about the construction cost in Czech Republic. Costs are summed up from a complex of works and materials, that consist of: preparatory works, works and materials directly related to the construction itself, landscaping works and works and materials for the interior part.

The concept of such hotel includes 6 bedrooms – one – for 4 persons, one – for 3, two rooms – double-standard and two rooms with two separate beds. As we can see, the hotel can accept 15 tourists maximum. I have checked the price level of different hotels in Harrachov, and decided that the price of 750 USD per 12 nights is quite favourable, thus, with maximal amount of people, it would be profitable to keep these prices at that level, as in such case, it would bring profit of **11,250 USD** per month.

The project will generate income not only via accommodating tourists, but through the list of additional paid services. For example, we have decided to include breakfasts into price of accommodation, but not second breakfast, lunch, dinner and other snacks will be available for purchase only. The same is concerned about other services, such as play room, sauna, archery and horseback riding. All these activities would be a nice addition to a relaxation in mountains.

Concerning promotion materials, we have decided not to spend additional money on designers and other related things, as I have skills and knowledge to do branding (create logo, brandbook, tagline, different web-pages, etc.) by myself, which will save us some part of capital, that might be spent on something else.

3.4 Evaluation methods of effectiveness of the project

The first step in determining the performance indicators of an investment project is to analyse and evaluate the cash flows of the investment project, based on forecast in-

formation on the estimated volumes of output and sales of products, the amount of operating expenses, analytical conclusions about the initial and subsequent requirements for long-term assets and net working capital. To calculate the cash flow, the planned period for the implementation of capital investments is recommended to be divided into three periods of time according to the periods of occurrence of cash:

- 1) development and initial investment of the project;
- 2) operation of the investment project;
- 3) completion of the project.

(Evaluation of investment effectiveness, 2019)

The construction cost prices are the next:

(House in the Czech Republic: Types of houses and their prices, 2020)

~5,000 CZK (196,53 USD) per 1m²;

The approximate cost of connecting individual networks with a length of about 20m:

Water supply ~18,000 CZK (708 USD)

Sewerage ~24,500 CZK (963 USD)

Electricity ~9,200 CZK (362 USD)

(How to build a cottage in Czech Republic, 2020)

The maintenance of the future house consists of:

- House heating
- Household appliances and lighting
- Water heating
- Waste collection

- Annual tax on real estate and land
- Real estate and property insurance
- Repair Fund
- Salary

Thus, we can calculate a real cost for constructing and maintaining of our future cottage:

Table 3.2

Costs for constructing and maintaining the investment project

Land area	0,15 ha (1,500m ²)
Acquisition of land (average)	180,000 USD
Construction cost	220,000 USD
Network of water supply and sewerage	83,55 USD per 1m 83,55*250m=20,887.5 USD
Electricity network	18 USD per 1m 18*1500m=27,150 USD
Total costs if we are going to build from the very beginning	448,037.5 USD
Annual tax on real estate or land (paid twice a year)	1 st floor - 0.03 USD per 1m ² 1,500m ² *0.08 USD=120 USD 120*2=240 USD
Income tax	680,348.4 USD-15%=578,296.14 USD (102,052.26)
Annual real estate insurance (average)	350 USD
VAT	21%
The average monthly price of utilities (heating, electricity, gas, etc.)	2,227 USD
Acquisition of a completed house (average)	520,000 USD
Average salary of different employees in a sphere of tourism (monthly)	22,792 CZK or 895.50 USD
Monthly expenditures on salary (6 people)	5,373 USD
Annual expenditures on salary	64,476 USD
Maximum income per month (accommodation only)	14,446 USD

Table 3.2, continued

Total income annual (accommodation only)	173,352 USD
Total income annual + VAT (accommodation only)	138,681.6 USD

As we can see, it would be cheaper to buy a land area and to build a cottage, than buying an existing one, however, it should be said, that the construction cost is calculated without taking into account the inner decoration and furniture, because of that, we can conclude, that the total cost might or might not be even higher, than if had bought the ready-made house. On the other hand, it would definitely take more time to build a house in mountains, than buying one. However, we have decided to stop with the first variant – building the cottage. We have already calculated that the cost of construction is going to be **448,037.5 USD**, however, in order to save more money, I have chosen the loft style for the inner decoration of the cottage. This style is usually used exactly to cut the expenses, as it needs minimal costs because such things as wall paintings and ceiling decoration are not needed at all, a lot of furniture is no longer needed as well. Taking that into account, I guess that we will be able reduce costs up to 420,000 USD.

We still got the question of how we are going to **generate income**. The concept of such hotel includes 1 common kitchen and dining room, 2 bathrooms and 9 bedrooms – one – for 4 persons, two – for 3, three rooms – double-standard and three rooms with two separate beds. As we can see, the hotel might place 19 people. Two rooms are going to have a giant windows with an incredible view on mountains (1 double-standard and one with 2 separate beds), thus, such rooms will cost more, than the other. For example, I have checked the price level of different hotels in Harrachov, and decided that the price of 750 USD per 12 nights is quite favourable, but for the room with a view, the price is going to be 799 USD, thus, with maximal amount of people, it would bring profit of **14,446 USD** per month. Also, the project will generate income not only via accommodating tourists, but through the list of additional paid services. For example, we have decided to include breakfasts into price of accommodation, but not second breakfast, lunch, dinner and other snacks will be available for purchase only. The same is concerned about other services, such as play room, sauna, archery, rent of different equipment, such as boats, skis, snowboards, tents, etc. Other possibility to get additional profit

is to use the opportunity that the town of Harrachov gives us – city tours, as I have already mentioned that this town has some of really interesting sights and places to visit. However, we don't think that hiring additional employee is a good idea, as we already spend 64,476 USD on a salary annually. Because of that, we have decided to make a contract with some of the local touristic agencies – we will bring new people to their agency and get a revenue from every excursion they have participated in.

Table 3.3

The maximum income possible			
Index	Quantity	Price	Income (monthly)
Standard rooms (15 pers)	6	62,5 USD per day	11,250 USD
Rooms with a view (4 pers)	3	66,58 USD per day	3,196 USD
Total per month	14,446 USD		
Total annually	173,352 USD		
Lunch and dinner (Average price of \$12)	$12 \cdot 19 \cdot 2 \cdot 365 = 166,440$ USD		

Play room	1	5 USD per hour	$\sim 12 \cdot 5 \cdot 30 = \$1,800$
Sauna	1	8 USD per hour	$\sim 12 \cdot 8 \cdot 30 = \$2,880$
Archery	1	6.99 USD per hour	$\sim 12 \cdot 6.99 \cdot 30 = \$2,516.4$
Boat	2	12 USD per hour	$\sim 12 \cdot 2 \cdot 12 \cdot 30 = \$8,640$
Skis	5	10 USD per hour	$\sim 10 \cdot 5 \cdot 12 \cdot 30 = \$18,000$
Snowboards	5	10 USD per hour	$\sim 10 \cdot 5 \cdot 12 \cdot 30 = \$18,000$
Tents	2	15 USD per hour	$\sim 15 \cdot 2 \cdot 12 \cdot 30 = \$10,800$
Income from partnership with touristic agencies	2	20 USD per person	$\sim 20 \cdot 19 \cdot 30 \cdot 2 \cdot 12 = \$273,600$
Tennis	1	12 USD per hour	$\sim 12 \cdot 12 \cdot 30 = 4,320$
Total annual income (accommodation+ services)	680,348.4 USD		
Total annual income + VAT (accommodation+ services)	544,278.72 USD		

Of course, not every person in the hotel will use all of the services mentioned above, and surely there is no doubt that the hotel will be full of customers for 365 days, however we are calculating the maximum profit possible.

The main principle of evaluation estimation is the comparison of income and costs. When substantiating the economic efficiency of investment projects and their feasibility, a set of indicators is used that cover various aspects of the above principle, which make it possible to systematically evaluate the feasibility of investment.

From now, we are able to move to other important calculations such as: annual recurring revenue, payback period, return on investments, NPV and profitability index.

ARR (Annual Recurring Revenue or also knows as accounting rate of return) is the percentage rate of return expected on investment or asset as compared to the initial investment cost. ARR does not consider the time value of money or cash flows, which can be an integral part of maintaining a business. It is calculated by the next formula:

(3.2)

$$ARR = \frac{\text{Average Annual Net Income}}{\text{Initial Investment}}$$

Max income annual (with VAT)-salary annual-annual cost of utilities-
-real estate insurance-tax on real estate-income tax

544,278.72 -64,476-(2,227*12)-350-240-102,052.26= **350,436.46 USD** - annual net income

$$ARR = \frac{350,436.46 \text{ USD}}{420,000 \text{ USD}} = \mathbf{0.834 \text{ USD}}$$

The main disadvantages of the method for use in financial analysis:

1) completely does not take into account the value of money in time;

2) uses balance sheet income, not cash flows;

3) the method ignores depreciation as a source of cash flow;

4) the average cost of income does not take into account the current value of equipment, which is changing. At the same time, accounting for the residual value of this old equipment may reduce the amount of necessary initial investments or increase cash flow in the future.

Method for calculating the payback period of investments (PP).

Payback period is the number of years during which the initial investment is reimbursed. If this period suits the company, then the project is approved. When comparing several projects, preference is given to a project whose payback period is shorter. However, the adopted project should not exceed a pre-planned time limit.

(3.3)

$$PP = \frac{\text{Initial Investments}}{\text{Average Annual Net Income}}$$

$$PP = \frac{420,000 \text{ USD}}{350,436.46 \text{ USD}} = 1.19 \text{ years}$$

Return on Investment (ROI) is considered to be one of the most important indicators of competitiveness. This indicator indicates how many monetary units an enterprise needs to receive one monetary unit of profit.

(3.4)

$$ROI = \frac{\text{Net Income}}{\text{Cost of Investment}} * 100\%$$

$$\text{ROI} = \frac{350,436.46 \text{ USD}}{420,000 \text{ USD}} * 100\% = \mathbf{0,8343}$$

Method for determining net present value / net present value (NPV).

If the present value of future cash flows from the project is higher than its initial value, then the project should be implemented. The net present value of the approved project must be zero or have a positive value, rejected - negative.

The main thing in this technique is what kind of discount rate to take to calculate. In general, the more risky of the two projects should be discounted at the highest rate. According to this technique, discount rates also depend on the duration of the projects.

Firstly, we have to calculate the discount rate:

$$\begin{aligned} i &= (1 + \text{deposit rate}) * (1 + \text{expected inflation}) * (1 + \text{risk adjusted}) - 1 \\ i &= (1 + 0.02) * (1 + 0.05) * (1 + 0.15) - 1 = \mathbf{0.231} \end{aligned} \tag{3.5}$$

420,000 * **1.231** = 517,020 USD – income, that should be brought by the investment project **for a 2 years period** in order to be attractive.

$$\begin{aligned} \text{NPV} &= \sum_{k=1}^n \frac{P_k}{(1+i)^k} - I \\ \text{NPV} &= \frac{350}{1.231} + \frac{350}{1.231^2} - 420 = \mathbf{95.34} \end{aligned} \tag{3.6}$$

Because the NPV > 0 project is effective.

Profitability index is a method that compares the present value of future cash flows with initial investments.

$$\tag{3.7}$$

$$PI = \frac{\sum_{k=1}^n \frac{P_k}{(1+i)^k}}{I}$$

$$PI = \frac{350}{1.231} + \frac{350}{1.231^2} / 420 = \mathbf{1.227}$$

As $PI > 1$, the international project should be accepted

CONCLUSION

Analysing the investment climate of Czech Republic, I can conclude that the Czech economy belongs to small open developed economies and, having an export-oriented orientation. It is one of the largest global suppliers of engineering products. At the same time, the economic development of the Czech Republic is to some extent dependent on

transnational corporations, which own large Czech enterprises, mainly producing components for the production of technical products or carrying out industrial assembly.

The Czech Republic provides a lot of opportunities for investors in many fields, especially tourism, energy sector and large-scale production. The offer to potential investors of prepared industrial zones in combination with a system of state incentives stimulates the attraction of funds in the field of high technologies in the manufacturing industry, in the construction and development of technology centres, centres of strategic services, as well as in the creation of new working places.

The sphere of services could also be interesting for foreign investors, as small and medium sized enterprises are an integral component of the Czech Republic's economy, representing about 98% of all entrepreneurs and employing 2 million people.

A significant amount of privileges and quite low taxes are creating a favourable investment climate. In a whole, I believe that investing in a Czech's economy could bring more pros, than cons and saying without a doubt, I would recommend doing that.

Taking into consideration all the information, facts and calculations mentioned above, I would like to come to a conclusion, that creating an international investment project is an extremely responsible and brave step, as not everyone is ready to take risks and continue moving on to your dream.

I believe that the idea of creating a cottage for 15 people with 5-6 employees with an opportunity not only to go skiing, but to try different activities while being in the mountains, is really a good idea. The total area of land, building and a yard is 0,15 ha, which we believe would be enough for such project.

According to different legislation, the project can be accepted and implemented with a payback period of 1-2 years and one-time investments in a scale of 420,000 USD

I have never had any business, but I have been looking forward to an opportunity to think about development and ways of realization of the international investment project. I believe that such project with annual maximum income of 544,278.72 USD, and not taking into account the revenue from additional tourists' spending on food and entertain-

ing, would be quite a decent choice to invest money into, especially taking into account the fact that the annual average income in Czech Republic is 15,471 USD (389,592 CZK).

I hope that this provided data would be enough for potential foreign investors.

APPENDICES

(Appendix A)

Macroeconomic policy of Czech Republic

INDEX	DATE	LAST RESULT	MEASUREMENT	FREQUENCY
Prices				
Base consumer	Feb. 2020	112.00	points	Month

price				
Inflation level	Dec. 10, 2019	3,10	%	Month
Change in producers' prices	Dec. 16, 2019	0,90	%	Month
PPI	Dec. 16, 2019	-0,10	%	Month
Petrol prices	Mar. 2020	1,26	USD/litre	Month
Import prices	Jan. 2020	94,90	points	Month
Export prices	Jan. 2020	95,50	points	Month
Labour				
Unemployment rate among the teenagers	Feb. 2020	5,30	%	Month
Vacancies	Feb. 2020	351,624	-	Month
Women Retirement Age	Dec. 2018	62,67	-	Year
Men Retirement Age	Dec. 2018	63,33	-	Year
Employed population	Dec. 2019	5,305	thousands	Quarter
Salary	Dec. 2019	36, 144.00	CZK/month	Quarter
Minimal wage	Dec. 2019	519.00	CZK/month	Quarter
Part-time job	Sep. 2019	320.00	thousands	Month
Total amount of unemployed	Feb. 2020	227,369.00	-	Month
Full-time job	Sep. 2019	4,834.00	thousands	Quarter
Productivity rate	Dec. 2019	121.00	points	Quarter
Wage growth	Dec. 2019	3.60	%	-
Level of unemployment	Dec. 9, 2019	2.60	%	Month
Level of Employment	Sep. 2019	75.20	%	Quarter
Money				
Gold reserves	Dec. 2019	7,99	tons	Quarter
Coef. of cash reserves	Jan. 2020	2.00	%	-
Interbank interest rate	Apr. 2020	0,17	%	Day
Interest rate	Dec. 18, 2019	2.00	%	Day
Interest rate on deposits	March 2020	0,05	%	Year
Lending rate	March 2020	2.00	%	-
Government				
Budget expens-	March 2020	165,371.00	CZK mln.	Month

es				
Gov. income	March 2020	148,079.00	CZK mln.	Month
Gov. spending	Dec. 2019	230.00	CZK bln.	Quarter
State budget	March 2020	-17,292.00	CZK mln.	Month
State debt	Dec. 2018	1,734,720.00	CZK mln.	year
Trade				
Import	March, 2013	213,90	CZK mln	month
FDI	Dec. 2018	114,674.00	CZK mln	Year
Foreign currency reserves	Dec. 9, 2019	146,20	USD bln.	month
Current balance of payment	Dec. 13, 2019	666.00	EUR mln.	quarter
Trade balance	Dec. 9, 2019	41,70	CZK bln	Month
Ratio of export and import prices	Jan. 2020	101.00	points	Month
Export	March 8, 2013	245,40	CZK mln	month

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