

Summary of the Main Tendencies

- In 2009, the Czech economy was hit by the economic crisis. The 4.2% drop in the gross domestic product (GDP) in real terms was accompanied by a relatively low external imbalance, significant deterioration of internal imbalance measured by the general government deficit, and imbalance in the labour market resulting in a sharp increase of unemployment and insufficient creation of new jobs. The fall affected mainly the performance of the basic industries, with industrial production and construction industry dropping by 13.5% and 1%, respectively. Market services declined by 9.3%. The economic development was fundamentally affected by the worldwide economic crisis, which followed the global financial crisis. The Czech economy was hit by the downturn at a later point in time than the euro area countries.
- The world economy recorded a decrease in 2009 when problems in the monetary economy contaminated the real economy in full. A large part of the developed economies experienced negative economic growth which was, however, on a global scale mitigated by the favourable development in the developing countries, primarily in Asia. Most developed countries recorded an improvement in the external imbalance and, on the contrary, deepening of the internal imbalance in the context of their expansive fiscal policy. The downturn of the global economy also came hand in hand with a lower intensity of business activities on the international markets. The world trade volumes reduced. In the first half of the year, in particular, the declining demand on the world markets resulted in a significant decrease in the prices of oil and other important commodities. During the second half of the year, they have recovered moderately. Consumer prices, also affected by the declining demand, responded to this development. In many countries, the price level increase slowed down or the prices declined in absolute terms. The year-on-year drop of stock market indices continued; nevertheless, shares experienced a slightly better trend in consistence with the cautiously improving economic development in the second half of the year.
- At the supply side of the economy, 2009 was marked by a deterioration of the production performance. The gross value added (GVA) declined less than production and intermediate consumption. Industry, including the processing industry, and services recorded in 2009 the worst year-on-year change (decrease) of the gross value added since 2001. Naturally, this adverse development had also brought changes in the economic structure. The tertiary sector further strengthened its position in the branch structure at the cost of both agriculture and industry. The decline in the total gross value added was attributable, in particular, to the negative contribution of industry and services, while the primary sector and the construction industry had a positive impact. From the point of view of the sources of economic growth, the recession was negatively supported by employment, labour productivity and capital productivity, while capital stock was the only factor with positive contribution.
- In 2008 and 2009, external balance recorded the best results during the entire decade – the current account deficit of the balance of payments was only 0.6% and 1% of the nominal GDP, respectively. Taking into account the high positive balance on the capital account, the sum of the two accounts in 2009 was a surplus. The deficit of the current account was covered nearly three times by the surplus of the financial account which, however, suffered from the low flow of foreign direct investments as a result of the global economic crisis. Nevertheless, this negative aspect was amply compensated by the flow of portfolio investments in connection with the purchase of Czech bonds.
- The government sector deficit reached 5.9% of the nominal GDP; in addition to the central government (5%), this deficit included also the budgets of local government institutions and newly also the social security funds. In 2007 and 2008, the general government deficits of the Czech Republic were better than the EU average. Gross consolidated debt of the government sector increased to 35.4% GDP in current prices from 30% in 2008. The sustainability of public finance in the Czech Republic remains uncertain in the medium to long run, particularly with regard to the demographic development.
- The growing trend in the number of children born and the fertility rate was interrupted in 2009. As a result, natality seems to have reached its peak in 2008 due to the number of children born to women from the baby-boom years in the 1970's. The shares of children born outside of marriage as well as children born to mothers with a foreign nationality continued to grow. Life expectancy increased by 2.4 years for men and 1.8 years for women compared to 2000. Population above 65 years of age was the fastest growing group; there were 107 persons of that group per 100 children (0-14 years). Following a decrease in 2007, the economic burden index deteriorated during the next two years.
- The unemployment rate increased sharply in 2009, although the pace of its increase slowed down in the second half of the year. The predominant share of persons, who have been unemployed for less than a year, consists of people who lost their job during the year. At the same time, the number of hours work went down and the share of part-time jobs increased, while the total employment dropped. The structural imbalance from the previous years grew into an overall imbalance of the labour market. The growth of the average wage reflects certain structural factors, including the larger redundancies of persons with below-average wages. Wage differentiation was further deepened.

- The aggregate price level of gross domestic final expenditure increased in 2009. The consumer price level rose slowly; throughout the decade, a more moderate price increase was registered in 2003 only. The mild price increase resulted from a high growth of administratively influenced prices and a decrease in the market prices, which declined due to both the lower demand and the dropping prices of energy sources and food commodities on foreign markets during the first half of the year. Inflation was identical to that in EU-27. The prices of industrial, and particularly agricultural, producers dropped in 2009; the price growth in the construction industry and market services was lower than in the last year. The very little growth of export prices in combination with the significant decrease of import prices resulted – contrary to 2008 – in improvement of the terms of trade.
- The 2004–2008 period was characterised by the fact that the environmental burden per GDP unit was decreasing, while growing in absolute terms. The economic boom gave rise to an increase in material consumption, but the material intensity of the economy continued to decline (non-renewable resources, particularly construction mineral resources, contributed with approximately 25% to the consumption growth). Waste production showed a slightly growing trend, both for industrial and municipal waste. Waste intensity was stagnating during the economic growth. Emissions in the air continued to decline, but with a significantly lower pace than in 1990's, limiting the emission intensity of the economy between 2004 and 2007 by 18%. However, this positive phenomenon – similarly to the waste intensity – showed signs of weakening towards the end of the monitored period. Pollution of waterways decreased. Environmental protection expenditure in relation to GDP increased due to non-investment costs; investments amounted to roughly 20 billion CZK per year.
- Just like in 2008, the development of the Czech economy in 2009 was mainly characterised by its considerable changes during the year, but this time from a significant deterioration of the development in the first half-year to its gradual stagnation or, as appropriate, improvement in the second half of the year.
- The primary cause behind the structural changes and the decrease in the aggregate performance in 2009 was the substantial decrease of both the foreign trade transactions, which in the past provided the source of upturn of the national economy, and the gross fixed capital formation expenditure, which determined the speed with which the economy enhanced its productive power.
- On the side of GDP sources, GVA declined on a year-to-year basis by 4.6% in real terms, with a sharp drop in the processing industry (by 15.5%) and a fair increase in the banking and insurance industry (by 5.9%). The growth of net taxes on products contributed to the GDP decrease being lower than that of GVA. On the side of GDP expenditure, which were in total lower by 4.2%, the total exports and imports both declined severely (both by 10.2%), as did the gross capital formation expenditure (by 18.1%), while the final consumption expenditure increased (by 1.2%).
- As a result of the favourable terms of trade (102.6%) and appreciation of the Czech national labour on the international markets in doing foreign trade in goods and services with considerable business profits, the decrease of GDI was much lower (by 2.6% in real terms) than that of GDP.
- Following the strong outflow of net primary income and net current transfers to non-residents or, as appropriate, net income of foreign factors of production (244.6 billion CZK), the decrease in value of GNI (114.9 billion CZK or 3.3%) was larger than the decrease in value of GDP.