

## Summary of the main tendencies

The main feature of the development in 2008 was the significant inconsistency throughout the course of the year which the aggregate annual data may conceal.

- The economic growth of the world economy culminated in 2007 and a rapid fall occurred in 2008. This was accompanied by a slowdown in the world economy. This unfavourable economic development was significantly influenced by the development of the economy in the USA and its financial crisis. The negative reports then undermined the trust in economic subjects and led to a fall in real estate prices, a liquidity crisis and finally a fall in household consumption. Naturally, the intensity of the impact of this differed in various countries. The falling demand in the world markets (and the high worldwide harvest) meant that the trend of the fast growing prices for oil and other commodities changed in the middle of 2008 into a rapid price decline. The developments in the capital markets in 2008 were marked by a fall in the stock market accompanied by significant share price volatility. However, consumer prices increased the most in the monitored period from 2001 to 2008.
- The growth in GDP in the Czech Republic slowed significantly in 2008 (3.2%). There had already been a slight slowdown of growth in 2007 in comparison with 2006, when the highest growth rate in the analysed period from 2001 to 2008 occurred. The performance of the Czech economy in 2008 worsened at the beginning of the 1<sup>st</sup> quarter, but the significant turning point occurred in the 4<sup>th</sup> quarter. More significant than the lower GDP dynamic, however, was the fact that the growth of the gross domestic income was significantly reduced in 2008 and it even fell in the 4<sup>th</sup> quarter of 2008. This was as a consequence of the significant worsening of the terms of trade (i.e. the relationship between import and export prices). The national work was devalued. The gross disposable national income also grew more slowly in 2008 than in the previous year. Amongst other things, this was because the payments to production factors abroad (the repatriation of profit) increased significantly. The gross national savings fell significantly, especially in the 4<sup>th</sup> quarter, which influenced their yearly change. From the 2<sup>nd</sup> quarter onwards, domestic savings were therefore insufficient to finance the gross capital formation and they had to be supplemented with foreign funds. The need for international funds increased significantly in the 4<sup>th</sup> quarter.
- The gross domestic final expenditure in 2008 slowed down significantly. This was contributed to by all of its components, but especially – given its weight – by the fall in household expenditure which was negatively influenced by the exceptionally low growth in real wages caused by the high rate of inflation. This also led to the significant devaluation of the population's savings. The government slightly increased its expenditure, but the investment activities of companies within the Czech Republic were significantly suppressed. The gross capital formation fell year-on-year not only as a consequence of the negative expectations of investors, but also as a consequence of a lack of funds due to the increased caution of the banks. However, the lower creation of inventories contributed more to the fall in the gross capital formation. The fall in external demand, which was especially apparent in the case of the export of goods in the export branches of the processing industry, was only compensated to a limited extent by the depreciation of the exchange rate in the second half of 2008. Overall, however, the seasonally adjusted GDP growth was mainly supported by net exports.
- The below average growth in industry, especially the processing industry, caused some structural changes on the supply side of the economy. The gross added value grew faster than production and intermediate consumption. From the point of view of the branch structure, the tertiary sector strengthened its position in the demand structure and its share of the gross added value. It also contributed most to the increase in the gross added value even though its growth in the service sector was the lowest since 2004.
- The government sector deficit was approximately half the figure in comparison with the average for 2001 to 2008. The gross consolidated debt increased slightly. The extent of the external imbalance measured by means of the current account deficit of the balance of payments to the nominal GDP also did not change in 2008 in comparison with 2007, whereby the balance of services strengthened substantially. The coverage of the nominal current account deficit of the balance of payments using the excess from the financial account remained essentially unchanged, even though the revenue deficit increased. The paid out dividends (repatriation of profit) were higher than the reinvested profits for the third year in a row. Direct foreign investment in the Czech Republic fell slightly. Despite the fact that the financial system in the Czech Republic was not directly affected by the global financial crisis, distrust also moved to the interbank deposit market (due to the connection of the largest banks to parent companies abroad) and later to the provision of loans to domestic subjects (companies and households).
- Of the four Maastricht criteria for nominal convergence, the Czech Republic fulfilled two in 2008, while the criterion concerning the stability of the exchange rate cannot be evaluated, because the country has not yet entered the ERM II system. The Czech Republic did not meet or rather significantly exceeded the

price stability criterion. The Czech Republic met the criterion concerning the adequacy of the public finance deficit and government sector debt for the third year in a row. The highly noticeable slowdown in the GDP growth rate in 2008 meant year-on-year stagnation in the relative position in the GDP per capita in PPP. According to this criterion, the Czech Republic thus achieved the greatest movement in real convergence in 2007 in the period from 2004. Despite that, the Czech Republic's real term GDP surpassed that of the EU 27 most markedly in 2008 in the period from 2004. This mainly occurred as a consequence of the rapid loss of economic vitality in the countries of the EU 15, due to which some found themselves in a technical recession during the course of the year. The convergence in productivity continued at a substantially slower pace.

- In 2008, unemployment fell and employment reached its highest level since 1996. The favourable developments in the labour market have been helped in recent years by the relatively high growth in demand for goods and services and the favourable long-term changes in the demographic and social structure of the work supply which were also in effect in 2008. Long-term unemployment fell, as did its share of overall unemployment. However, during the course of 2008, the structural imbalance in the labour market was replaced with the symptoms of overall imbalance, when unemployment rose slightly in the 4<sup>th</sup> quarter after four years of systematic reduction and the numbers of available jobs fell dramatically. The nominal wage in 2008 increased significantly. This was partly caused by the residue of the tension in the labour market. Given the exceptional growth in consumer prices, the average wage increased in real terms at its lowest rate for ten years.
- The overall price level of the gross domestic final expenditure increased in 2008, especially the level of consumer prices. Inflation was higher than in the EU 27. This was caused by an increase in energy and food prices in foreign markets in the first half of the year, but also by an increase in administratively influenced prices which especially affected the living costs of pensioners. The prices of producers in all price ranges also increased. On the other hand, import costs fell, but export prices fell even more so the terms of trade worsened (unlike the positive rate in 2007).