

IV. Resources of Business Sector of Czech Economy Up by a Third

At the time of the founding of the independent Czech Republic (1993) and in the years of transformation to a market economy, Czech businesses suffered from a lack of capital – naturally, the governing element of their balance sheets were foreign resources in the form of bank loans. This has, however, changed. Over the last seven years, the business sector in the Czech Republic has undergone a remarkable recovery and the volume of resources available for entrepreneurship has increased by almost a third. In 2004, businesses had at their disposal overall resources (in total liabilities) amounting to almost CZK 7 000 billion (approx. EUR 233 billion), over 40 % of which were accounted for by shareholder capital. An analysis of the years 1997-2004 shows that during the specified period, this share did not further increase substantially. Great shifts were, however, noted in an unprecedented growth of the capital resources of domestic businesses. Nevertheless, the greatest structural change that has occurred in the business sector of the Czech economy has been the huge shifting of resources to the sector of businesses under foreign control and the subsequent effects of their utilisation.

The business sector of the Czech economy, that is, all legal entities and individuals subject to double-entry accounting with the exception of banks, had at the close of 2004 resources in their balance sheets amounting to CZK 6748.4 billion (approx. EUR 212 billion.) and shareholder capital amounting to CZK 2 800 billion (approx. EUR 88 billion). Yet in 1997, the share of resources of domestic businesses in the total volume of resources of the entire business sector was almost 70 %. The significance of this sector to the Czech economy was therefore no longer dominant, it was, however, still strong. Seven years later, their share had decreased to a mere 51.5 %.

At the same time, the volume of shareholder capital for the sector of domestic businesses as a whole decreased less in the years 1997-2004 than their total resources, which is a positive trend that reflects the growing capital resources of domestic businesses.

This circumstance is one of several other significant structural changes – besides the mentioned transfer of resources to the sector of businesses under foreign control, shareholder capital has increased throughout the entire economy and in domestic businesses in particular. The volume of granted bank loans has also decreased significantly expressed both as an absolute figure and as a share in the foreign resources in the balance sheets of businesses or as a share in the overall resources available to the business sector.

Dominance of Processing Industry

The share of the processing industry in the economy of the CR measured by the total of own and foreign resources (CZK 1 901 billion in 2004, i.e. approx. EUR 59.6 billion) remains the highest. The same can be said of the sector of domestic businesses operating in the processing industry, which has, however, seen a great reduction of resources – firstly due to the transfer of businesses under the ownership of foreign companies and secondly due to the closure of companies and higher efficiency with which resources are put to use.

In the sphere of businesses across all institutional sectors (statistically, under the categorisation of the system of national accounts, these include “public enterprises”, “private national enterprises” and “private enterprises under foreign control”) in 1997 the total amount of resources in the processing industry equalled CZK 1478.3 billion (approx. EUR 46.3 billion). Of this volume, shareholder capital totalled CZK 536.3 billion (approx. EUR 16.8 billion), including CZK 537.4 billion (EUR 16.8 billion) in basic capital. The fact that the aggregate basic capital of businesses was in fact higher than the volume of their shareholder capital reflects the fact that the business sector in the processing industry was not profitable in 1997.

Despite an increase of almost half a billion over the seven year period, the processing industry has failed to strengthen its relative share in resources among other branches of the economy – this has remained almost unchanged: whilst in 1997 the total resources of businesses in the processing industry accounted for 28.4 % of total resources of the entire business sector, in 2004 this share was 28.2 %. In 2004 their shareholder capital exceeded CZK 857 billion (EUR 26.9 billion) and was 1.6 times higher than in 1997. At the same time, total resources in the processing industry increased just 1.3 fold. The processing industry has thus improved its share in capital resources, the gap between it and other sectors of the economy has not, however, increased any further.

Industry Lags Behind in Growth of Resources

The greatest dynamics of growth of total resources was noted in a sector that encompasses, according to the NACE classification, activities related to real estate and lease of property, computer technology, research and development as well as other entrepreneurial activities – its resources totalled CZK 1 404 billion (EUR 44 billion) in 2004 and were 81 % higher than in 1997. Domestic businesses in this sector had at their disposal resources amounting to CZK 613 billion (EUR 19.2 billion).

The NACE-defined “Activities related to real estate and the lease of property; entrepreneurial activity” thus comprise a very colourful variety of activities, the most significant of which, by volume of resources, are activities related to real estate – in 2004 businesses operating in this area had at their disposal balance sheet resources amounting to CZK 885.9 billion (approx. EUR 27.8 billion), CZK 314.6 billion (EUR 9.9 billion) of which was shareholder capital. The increase here in comparison to 1997 was indeed huge – in particular, however, in aggregate resources, which increased 2.3 fold during this short time, which is the most in comparison to other sectors of the Czech economy (according to NACE classification). Shareholder capital also increased significantly in comparison to other sectors (1.4 fold), however, in comparison with the afore-mentioned dynamics of the aggregate resources of businesses operating in real estate, this growth was significantly lower. It has resulted in a decrease in capital resources.

The development of the resources of businesses operating in computer technology serves as evidence of the fact that businesses under foreign control are swiftly occupying positions on the market. Their growth was significantly higher (+460 %) than that of the aggregate for this sphere of the "new economy" (+230 %). Overall, however, the volume of resources (CZK 50.8 billion in the 2004 – approx. EUR 1.59 billion) as well as the volume of shareholder capital (CZK 17.8 billion – EUR 0.56 billion) is lower in this area than in the real estate sphere or in other areas of entrepreneurial activity that are included in this NACE sector. Shifts in the volume of total resources (to CZK 430 billion in 2004 – approx. EUR 13.5) and of shareholder capital (to CZK 267 billion – approx. EUR 8.4 billion) in the "other entrepreneurial activity" area clearly reflect the great changes that occurred in particular in the sector of small and medium enterprises.

No Business in Research and Development

The stagnation of the very weak resources of the underdeveloped business sector that deals independently with research and development in the CR is alarming. The existing volumes of overall resources of the NACE section entitled "Research and Development", which are very low, amounting to CZK 6.739 billion in 1997 (approx. EUR 0.211 billion) have further shrunk, totalling CZK 6.665 billion (approx. EUR 0.209 billion in 2004). From the structural aspect, it is interesting to note an increase in resources of domestic research and development companies, which is, however, most probably attributable entirely to privatisation as the degree to which the resources of public enterprises decreased roughly equals the degree, to which the resources of domestic businesses operating in the area of research and development increased. The operation of businesses under foreign control is more tangible here, resources are, however, insignificant (with CZK 0.423 billion, i.e. approx. EUR 0.013 billion in 2004 against CZK 0.163 billion, i.e. approx. EUR 0.005 billion in 1997). It is, however, necessary to keep in mind that development sites as organisational units of industrial or other businesses are not included in this classification.

Significant Resources of Trade Sector

In 2004 as in 1997, the third place in the ranking of sectors of the Czech economy by volume of overall resources belonged summarily to businesses from the NACE sector of "Trade incl. repairs of motor vehicles and products for personal consumption, especially for the household". In 1997 this sector still ranked in second place behind the processing industry. In 2004 the volume of total resources in trade reached CZK 961.6 billion (approx. EUR 30.1 billion) and in comparison to 1997 (CZK 762.2 billion – EUR 23.4 billion) increased by roughly a quarter. A very sharp rise in shareholder capital is also apparent here, with own resources of businesses rising by almost 150 % in the given period (from CZK 121.7 billion in 1997 – approx. EUR 3.81 billion to CZK 302.7 billion in 2004 – approx. EUR 9.49 billion).

Weakening of Basic Industry, Growth of Public Services

The basic industry sectors have noted a slump in resources. The farming industry has seen a reduction in part due to a decrease in long-term and short-term liabilities as the volume of basic capital decreased only very slightly (to CZK 70.5 billion in 2004 (approx. EUR 2.21 billion) as apposed to CZK 73.7 billion in 1997 (approx. EUR 2.31 billion). The high degree of capital in forestry (89.5 % own resources in proportion to total liabilities) is in part attributable to non-monetary deposits (the value of woods) in the basic capital of forestry companies.

Public services have seen a significant growth in resources, however, businesses operating in this area partake only slightly in the total resources of the business sector of the Czech economy. In areas such as education, the public health system, public administration and defence, compulsory social security and other community, social and personal services, the resources of businesses amounted to merely CZK 130.1 billion (EUR 4.08 billion) in 2004, accounting for just 1.9 % of the resources of the business sector in the CR. The significant growth in comparison to the year 1997 is attributable to the low initial base.

Conclusion

The growth of total resources in the business sector of the Czech economy was generally accompanied by rising profits, reductions in the volume of drawn bank loans and by a significant growth in long-term and short-term liabilities in the balance sheets of businesses, which also include supplier credits. The latter allows us to deduce that there is evidently a significant cultivation of the commercial environment in progress employing alternative financial services, such as factoring or straightforward agreements on the postponing of the maturity date. This is helping to improve the competitive strength of businesses and to stimulate market growth. In the first half of the nineties, for example, there existed in principle no surrender of claims in the CR and the business dealings of factoring companies focused merely on the surrender of claims related to exports and imports. Today, domestic factoring is larger in volume than factoring related to exports and imports. This is reflected by a substantial elimination of risks related to mutual business relations on the domestic market. The impact on the finances of businesses is thus evident from the growing volume of liabilities, both long-term and short-term.

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Drahomíra Dubská
Macroeconomic Analyses and Analytical Methods Department
(e-mail: drahomira.dubska@czso.cz)

Editor's note: the approximate figures in the article are calculated on the basis of the average CZK/EUR exchange rate for the year 2004

Table No. 1: Shareholder capital of domestic businesses and all businesses (excluding banks) for the period 1997 - 2004

NACE section		All businesses in the CR		Domestic businesses in the CR	
		Shareholder capital/total liabilities		Shareholder capital/total liabilities	
		1997	2004	1997	2004
A	agriculture, hunting and forestry	56.4%	68.1%	41.6%	55.3%
B	fishing, operation of fish hatcheries and related activities	33.2%	67.0%	56.6%	73.5%
C	mineral extraction	67.6%	68.3%	64.6%	74.3%
D	processing industry	36.3%	45.1%	35.9%	45.4%
E	production and distribution of electricity, gas and water	59.0%	59.0%	57.8%	59.0%
F	construction industry	20.5%	29.6%	20.6%	29.5%
G	trade; repairs of motor vehicles and products for personal consumption, especially for the household	16.0%	31.5%	15.9%	31.0%
H	hotels and restaurants	13.9%	20.3%	13.5%	25.6%
I	transport, storage and communication	65.5%	63.1%	35.3%	57.1%
J	financial intermediation (excluding banks)	39.7%	12.7%	43.0%	14.3%
K	activities related to real estate and the lease of property; entrepreneurial activity	47.4%	43.7%	51.1%	52.2%
L to O*		38.4%	44.9%	43.0%	42.4%
C+D+E		55.3%	47.9%	41.6%	50.1%
A to O		40.8%	41.4%	37.7%	44.3%

L= public administration and defence; compulsory social security, M=education, N=health and social work, O=other community, social and personal service activities

Source: calculations of the Czech Statistical Office