

## THE ECONOMY OF THE CZECH REPUBLIC

*Stručni članak*

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### Abstract

*The economy of the Czech Republic is open and depended on the economic development in the European Union. The pandemics Covid-19 and inflation have affected negatively the Czech economy as well as economies in the whole European Union in the similar extent. The world's economy is quickly returning to the pre-crisis period of economic activity and it was predicted that it would happen in the second half of 2024. However, economy was affected by inflation and energetic crisis that made the growth slower again. The return of the Czech economy to the pre-crisis level was expected to be at the beginning of 2024 but it will be slowed down by the inflation crisis. The Czech economy has been slowed down by the Covid-19 pandemics, inflation, energetic crisis and the lack of components what has been reflected in export. Economic factors that perform in the Czech Republic are foreign investments, entrepreneurial activities that have many positive effects for the growth of the particular economy and at the same time also the development of living standard.*

**Keywords:** economic growth, business environment, GDP, investments, employment, Czech Republic.

## 1. INTRODUCTION

Macroeconomy deals with the economy as such, while it studies the critical tendencies in the development of the whole national economy. The main aim of macroeconomy is to understand relationships among the particular factors that have the influence on the performance of the economy as a whole. The measurement of performance of economy is important as from the point of view of theory as for the economic policy. On the basis of those economic variables like gross domestic product, gross national product, unemployment, inflation, international trade and state budget, we can evaluate the maturity of economy and living standard of the particular country.

The Czech Republic became the member of European Union in 2004. From the economic point of view, it meant for the country the improvement of its international status, bigger amount of foreign investments, the possibility to use the Structural Funds of EU for the development of regions or the possibility for Czech citizens to commute to work to another state of EU.

The Czech Republic is one of the most developed industrial economy in Central and Eastern Europe and in the V4 countries (The Czech Republic, Slovakia, Hungary and Poland). Economy and industry focus mainly on metallurgy, chemical production, food and drink processing, glass production, engineering, motor vehicles, electronics, pharmaceuticals, textile and paper.

## 2. ANALYSIS OF MACROECONOMIC INDICATORS OF CZECH REPUBLIC

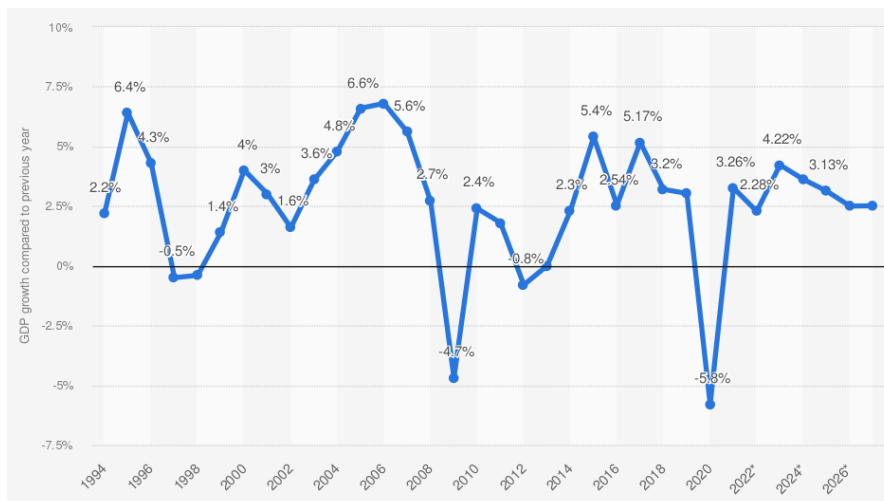
Analysis of macroeconomic indicators of Czech Republic can be divided into analysis of:

- GDP
- Inflation
- Unemployment
- Foreign Trade

### **The analysis of growth rate of GDP in the Czech Republic from 1993 to 2026**

In years 2009 and 2020, the growth of GDP reached negative values. The economic growth should have dramatically increased (graph no. 1). The growth of gross domestic product (GDP) in the Czech Republic improved in 2021 outstandingly in comparison with the pandemic year 2020 and it grew year-on-year to 3,26 %. The main reasons for not growing GDP in 2022 were the third wave of pandemics, high inflation, the lack of energy, the lack of components in industry what was reflected in the export and the acceleration of the growth of labour productivity.

## Czech Republic: Growth rate of the real gross domestic product (GDP) from 1993 to 2026



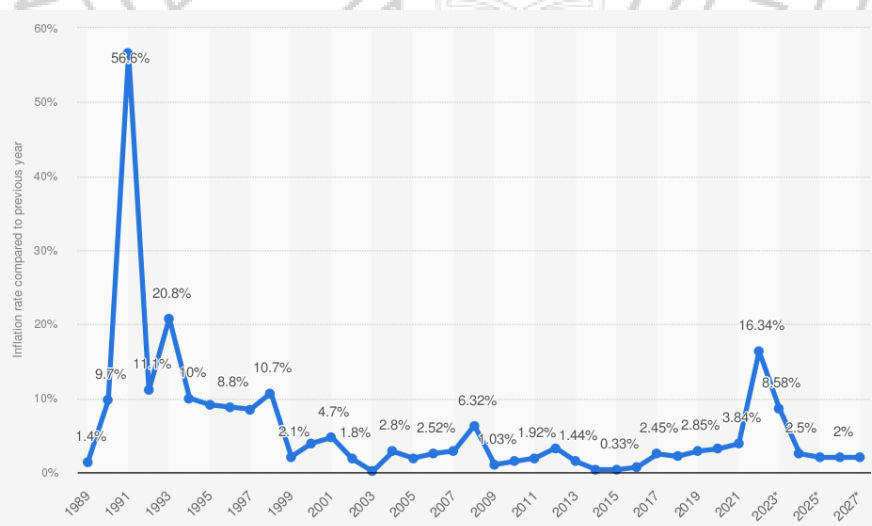
Source: IMF. (2023). Czech Republic: Growth rate of the real gross domestic product (GDP) from 1993 to 2026 (compared to the previous year) [Graph]. In *Statista*. Retrieved September 17, 2022, from <https://www.statista.com/statistics/369860/gross-domestic-product-gdp-growth-rate-in-czech-republic/>

The statistic shows the growth in real GDP in the Czech Republic from 2017 to 2020, with projections up until 2027. In 2020, the Czech Republic's real gross domestic product decreased by around 5.8 percent compared to the previous year (Statista 2023).

### Inflation

The stable and low inflation rate secures the functioning of financial system of state and it belongs into indicators that show the balance of economy and success of economic policy of the state. In 2024, the quite high inflation rate period of about 9% is expected.

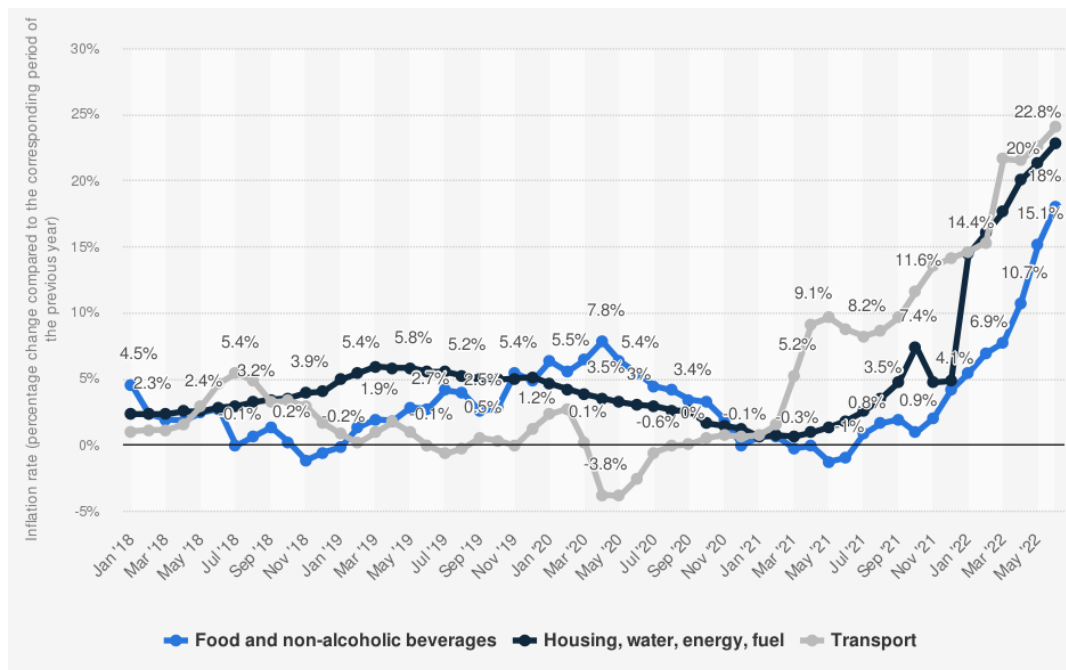
### Czech Republic: Inflation rate from 1989 to 2027



Source: IMF. (October 12, 2021). Czech Republic: Inflation rate from 1989 to 2026 (compared to the previous year) [Graph]. In *Statista*. Retrieved December 07, 2021, from <https://www.statista.com/statistics/369876/inflation-rate-in-czech-republic/>

This statistic shows the average inflation rate in the Czech Republic from 1989 to 2027, with projections up until 2027. In 2022, the average inflation rate in the Czech Republic amounted to about 16.34 percent compared to the previous year (Statista 2023).

### Consumer price index (CPI) in Czechia from 2018 to 2022, by type of product



**Source:** Czech Statistical Office. (August 5, 2022). Consumer price index (CPI) in Czechia from 2018 to 2022, by type of product [Graph]. In Statista. Retrieved November 15, 2022, from <https://www.statista.com/statistics/1321891/czechia-inflation-rate-by-product-type/>

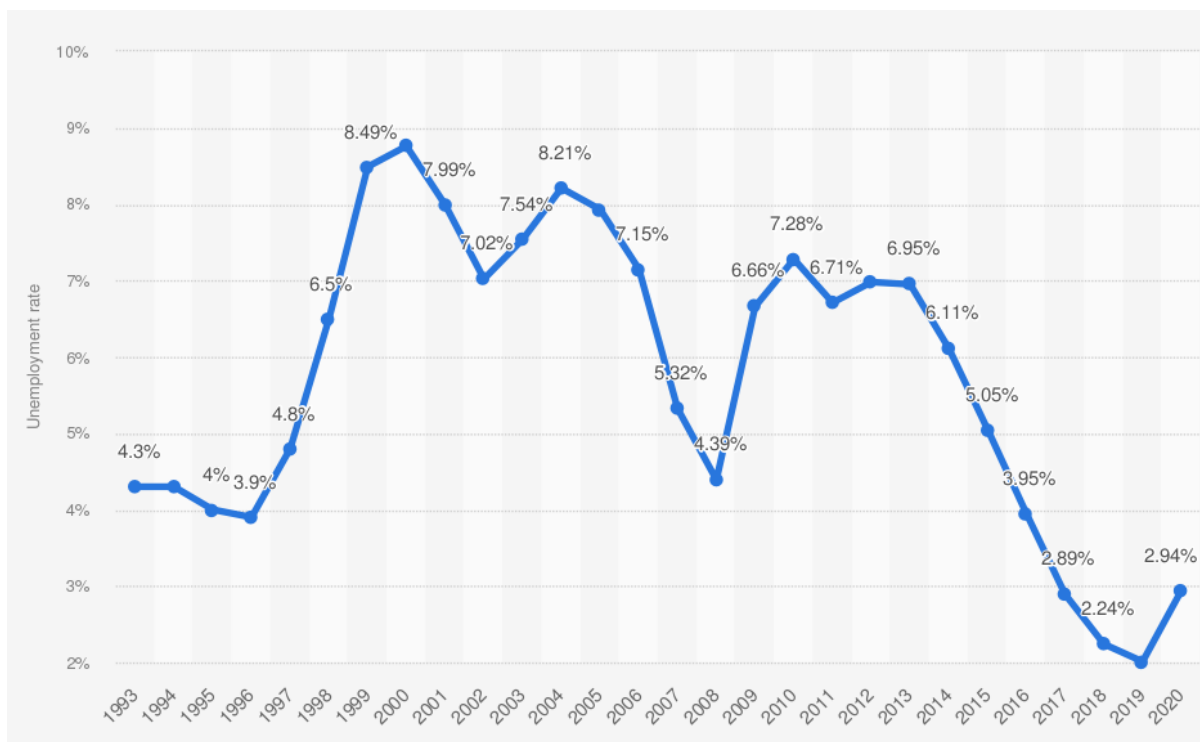
Prices of food and non-alcoholic beverages in Czechia in June 2022 increased by 18 percent compared to the same month last year. Transport prices increased the most, by around 24 percent year-on-year (Statista 2023).

### Czech Republic: Unemployment rate from 1993 to 2020

Nowadays, unemployment rate is a big problem in world's economies. It represents the state of labour market, when the part of population is not able to find the paid working opportunity. Unemployment is measured by the indicator unemployment rate. (Uramová 2005).

The crisis in 2008, liquidated many work positions not only in the Czech Republic, but also in the whole Europe. The growth of economy after crisis brought new working positions. Slovak economy reached the top and in 2008, economy recorded the lack of appropriate workforce. The year 2009 is thanks to the crisis in the increase of unemployment rate and the amount of people without work. The crisis in the Czech Republic began to demonstrate its power in this period. Unemployment rate began to decrease gradually and in 2017 reached its minimum, 2,9 %, when the average unemployment rate among EU countries is 7,6 %. The reason for the decrease of unemployment is continuing growth of the Czech economy and industrial production as well as distribution of seasonal work in many fields: building industry, agriculture and tourism.

The slowdown of economic activity should suppress also the growth of employment. In 2022-2023, companies started to fill in open work positions very quickly. Labour market situation should improve by leaving of third wave of pandemics, fast growth of salaries and solving problems with the lack of components.

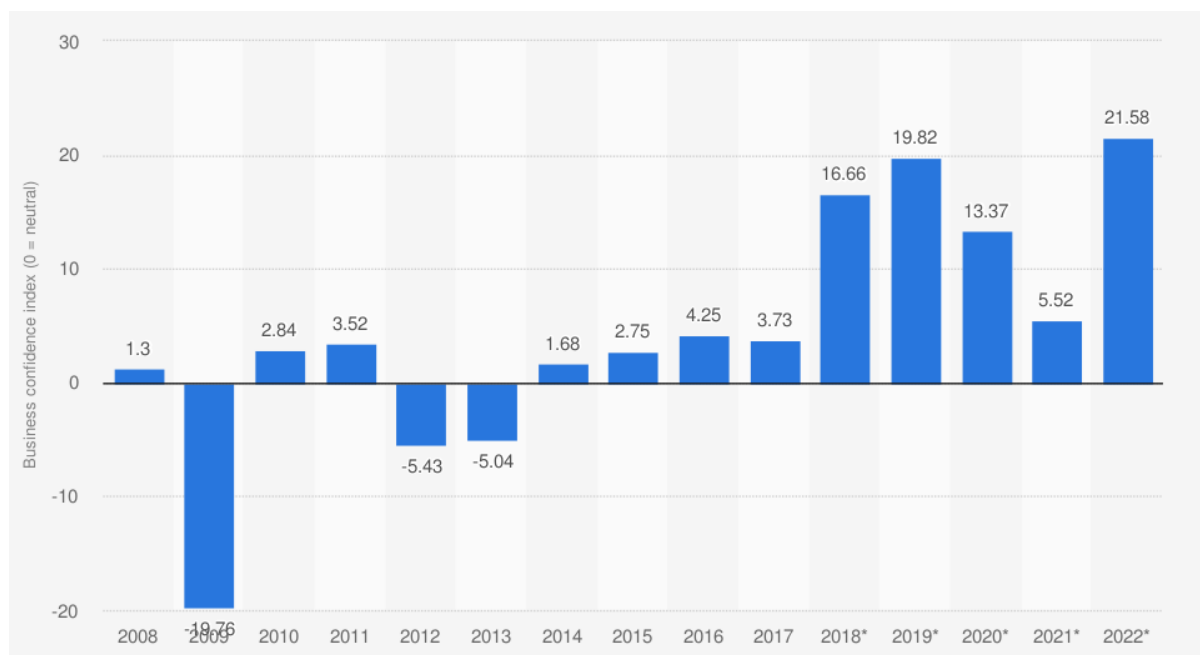


Source: World Bank, & Czech Statistical Office. (May 25, 2021). Czech Republic: Unemployment rate from 1993 to 2020 [Graph]. In *Statista*. Retrieved December 07, 2021, from <https://www.statista.com/statistics/369864/unemployment-rate-czech-republic/>

This statistic shows the unemployment rate in the Czech Republic from 1999 to 2020. In 2020, the unemployment rate in the Czech Republic was at approximately 2.94 percent.

The Czech Republic has reached positive results of faster economic growth and has gained new foreign investors thanks to the entry to the European Union. On the other hand, The Czech Republic has to face to negative factors as competition on the labour market, leaving of educated professionals abroad, high budget deficit and growing government debt, etc.

## Annual business confidence index for the industrial sector in the Czech Republic from 2008 to 2022



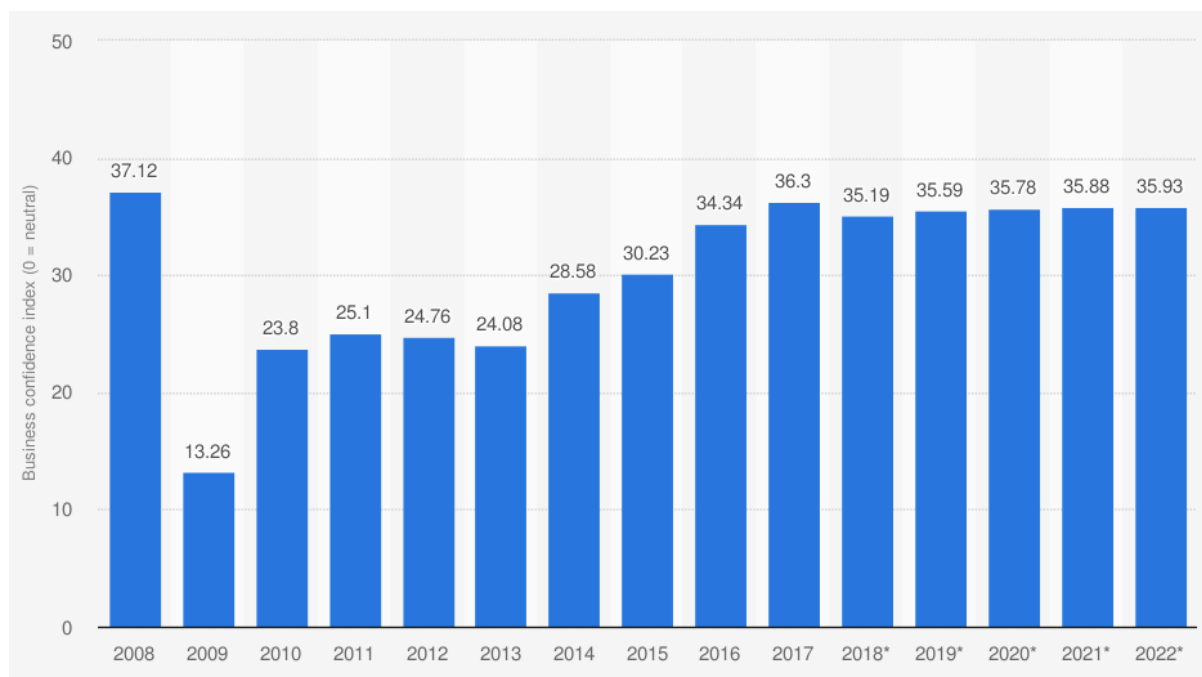
Source: Statista. (April 9, 2018). Annual business confidence index for the industrial sector in the Czech Republic from 2008 to 2022 (0 = neutral) [Graph]. In *Statista*. Retrieved September 17, 2022, from <https://www.statista.com/statistics/370696/czech-republic-industrial-sector-business-confidence-index/>

This statistic shows the business confidence index for the industrial sector in the Czech Republic from 2008 to 2017, with projections up until 2022. In 2017, the confidence index for the Czech industry ranged at approximately 3.73 index points, indicating an increase in business confidence (Statista 2023).

Growing number of Direct foreign investments continues and reflects the high attractiveness of the Czech Republic for foreign investors. The investment activities for domestic companies should increase. The risk for the fast renewal of dynamics is that the financial situation of companies could get worse by the influence of high costs for energetic outputs.



### Annual business confidence index for the service sector in the Czech Republic from 2008 to 2022



Source: Statista. (April 9, 2018). Annual business confidence index for the service sector in the Czech Republic from 2008 to 2022 (0 = neutral) [Graph]. In *Statista*. Retrieved September 17, 2022, from <https://www.statista.com/statistics/370826/czech-republic-service-sector-business-confidence-index/>

This statistic shows the business confidence index for the service sector in the Czech Republic from 2008 to 2017, with projections up until 2022. In 2017, the confidence index for the Czech service industry ranged at approximately 36.3 index points, indicating a major increase in business confidence (Statista 2023).

#### Investment - foreign direct investment in the territory (sectoral and territorial structure)

Economic factors that operate in the Czech Republic are foreign investments, entrepreneurial activities and they have many positive effects for the growth of the particular economy and at the same time the development of living standard and the Czech Republic as a whole.

Foreign direct investment (FDI) in the Czech Republic reached at the end of 2022, the value of 61 billion Euro. FDI directed primarily to manufacturing (38%), finance and insurance (23%), wholesale and retail (9%), real estate (7%), administrative and support services (7%), information and communication technologies (6%).

Within production, FDI are primarily directed in following sectors (Trading Economics, 2022):

- engineering and automotive (ŠKODA AUTO)
- electrical industry (Foxconn, Whirlpool)
- petrochemical and chemical industry (MOL Group, Continental, Agrofert Holding, BASF)
- metallurgy (MORAVIA STEEL, Nemak)
- energy (Energetický a průmyslový holding, energy and industrial Holding,)
- food and beverages (Heineken, Nestlé, Meggle).

Foreign direct investments in Czech Republic are coming from various countries, that are presented in Table 1.

	Firme
1.	ŠKODA AUTO a.s.
2.	ČEZ, a.s.
3.	AGROFERT, a.s.
4.	Energetický a průmyslový holding, a.s.
5.	UNIPETROL, a.s.
6.	FOXCONN CZ s.r.o.
7.	MORAVIA STEEL a.s.
8.	BOSCH Group ČR
9.	ČEPRO, a.s.
10.	MOL Česká republika, s.r.o.
11.	O2 Czech Republic a.s.
12.	GECO, a.s.
13.	Metrostav a.s.
14.	VEOLIA ČESKÁ REPUBLIKA, a.s.
15.	Porsche Česká republika s.r.o.
16.	MAKRO Cash & Carry ČR s.r.o.
17.	T-Mobile Czech Republic a.s.
18.	ARMEX GROUP s.r.o.

The productivity growth includes the improvement of institutional parameters of economy and quality of entrepreneurial environment as well as the implementation of new technologies connected to the flow of direct foreign investments.



#### 4. CONCLUSION

The strategy of economic policy in the Czech Republic till 2023 should bring the improvement of entrepreneurial environment and the main aim and priority will be to search for actively and to gain new investors, creation of effective and systematic tool for the help companies, implementation of new technologies, business models and research activities. Future digitization fundamentally changes the nature of industry and has significant impacts on other parts of the economy and society. We can consider innovation as one of the key areas for the economic growth and competitiveness of businesses, regions and, consequently, the economy of the state as such, whilst The Czech Republic is lagging long term in terms of innovation performance.

#### 5. LITERATURE

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