The Czech economic story: the successful present and promising future

Is the Czech Republic one big assembly line for car manufacturing? Does its economy depend solely on Germany’s well-being? Or is it an open economy with varied export markets and a big share of high-tech exports that is well shielded against vulnerability to one-sector shock? Find answers to these questions and much more about the Czech economy and society in this booklet.
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33%
Gross public debt (% of GDP)
Low public and private debt, trade balance surplus

Stable and safe society – 7th place
Global Peace Index
Healthy life, low risk of poverty and one of the safest countries in the world

9th place in the world
Economic Complexity Index
One of the highest export complexity in the world

Growth opportunities
13 EUR
Average hourly labour costs – Industry
The EU average is 27 EUR
Qualified and competitive labour force

79% GDP
Exports of goods and services
Open economy in the centre of the EU single market with 500M customers

14%
5th place in the EU
Share of high-tech exports

2.2%
The lowest unemployment rate in the EU

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Healthy life, low risk of poverty and one of the safest countries in the world
Long-term growth and visible real convergence

In the last 20 years, the Czech economy has generated an average annual growth rate of 3%. Despite a slowdown in the Euro Area, the Czech economy continued growing at a relatively fast pace in 2018, its GDP growth achieving 2.9%.

Sustainability in growth has significantly contributed to closing the gap between western economies and the Czech economy. Before Czech entry into EU, it was 76%, now the rate is 89%, the highest level in the CEE territory, with great potential for further growth and soon to catch up with Spain and Italy.
No macroeconomic imbalances

The Czech Republic still dominates the EU in terms of macroeconomic, fiscal and structural performance within the European Semester comparison. It belongs to an elite group of EU members that have a stable economic environment.
European Semester 2019
Macroeconomic imbalances and government deficits

**Countries in Excessive Deficit Procedure**
(corrective arm)

- No in-depth review 2019
- No imbalances
- Imbalances
- Excessive imbalances
- Excessive imbalances with corrective action

**Countries not in Excessive Deficit Procedure**
(preventive arm)

- Austria
- Belgium
- Czech Republic
- Denmark
- Estonia
- Finland
- Hungary
- Latvia
- Lithuania
- Luxembourg
- Malta
- Poland
- Slovakia
- Slovenia
- United Kingdom
- Bulgaria
- Croatia
- France
- Germany
- Ireland
- Netherlands
- Spain
- Portugal
- Romania
- Sweden
- Cyprus
- Greece
- Italy

Commission recommends to abrogate Excessive Deficit Procedure - June 2019
Solid economic structure based on diversified and internationally competitive manufacturing

Historically developed, innovative and internationally competitive manufacturing has had a long tradition in the Czech Republic. Compared to the EU, its share in overall economic activities remains high, which appears to be a long-term advantage.

Manufacturing as a core creates the opportunity for both creative industries and associated service providers to optimize value chains. Furthermore, there will be more opportunities for increasing the autonomy of domestic companies in the international business environment, especially for innovative SMEs.

Any business development here may rely on a predictable and low-inflationary environment.
Share of economic sectors (% GVA, 2018)
Open economy with a high value added

At the beginning of the 90s, when external demand was dominated (more than 90%) by first-class world markets, mostly in Europe, the shifting of exports saw an unprecedented increase in the qualitative benchmark for Czech exports.

This allowed investment in export-oriented, high-tech manufacturing capacities, yielding the best high-tech exports ratio, exceeding even Germany’s high share of high-tech exports (the highest in CEE, above Germany).

Another advantage consists in very high economic complexity (9th in the world). Sectoral diversity minimizes the vulnerability of an economy based on a dominant sector.
Europe 90.6% (% of total export)

North America 2.2%
Asia 4.9%
Australia and Oceania 0.3%
South America 1.0%
Africa 1%

Germany 32.4%
Austria 4.5%
Slovakia 7.6%
Poland 6.0%
France 5.1%
United Kingdom 4.6%

CZE
EU
The Czech Republic is the 9th most complex economy in the world according to the Economic Complexity Index.

The Czech economy is well shielded against vulnerability to one-sector shock.

It also has a big share of high-tech exports.
Export structure in the Czech Republic (%)
147 bn EUR

- Metals: 36%
- Machines: 23%
- Transportation: 23%
- Others: 11%
Healthy labour market with a low unemployment rate

Since the beginning of the 90s, the Czech Republic has been among the countries with a low unemployment rate in Europe which is also confirmed currently with the lowest unemployment rate in the whole EU.

It reflects a strong motivation of people to work as well as the common sense typical in key labour market performers.
Unemployment rate (% 2018)

Czechia
Germany
Hungary
Malta
Netherlands
Poland
United Kingdom
Romania
Austria
Denmark
Slovenia
Bulgaria
Estonia
Luxembourg
Ireland
Belgium
Lithuania
Sweden
Slovakia
EU
Portugal
Latvia
Finland
Eurozone
Cyprus
Croatia
France
Italy
Spain
Greece
Cost-effective and attractive labour market

The Czech labour market has kept up a long-term and fragile balance between wage costs and productivity, reflected in the unit labour costs (ULCs) indicator. Its current value and the long-term trend both confirm its healthy development, which was attractive to investors in the past and is promising for future decisions to come to the Czech Republic.

Labour costs increase has almost never exceeded productivity growth, thereby not eroding competitiveness.

It also reflects the rather pragmatic, long-term ability to reach consensus between business and trade unions.
Total hourly labour costs (EUR, 2018, Industry)
Market for competent labour

As the economic structure dictates, the labour market requires a well-educated, trained and skilled labour force, mostly in technical professions.

This trend will continue and creates new challenges for the educational system to accommodate the still growing demand for workers with university and secondary-school education, particularly with technical backgrounds and skills, and motivate them adequately to actively participate in future development.
Strong discipline and no substantial financial imbalances

Czech fiscal policy is traditionally disciplined, with a low budget deficit as well as government debt ratio well below the Maastricht criteria – one of the best performers in Europe – both tending to improve in the medium-term outlook.

Other key actors – households and businesses – also tend to act responsibly and their rather conservative behaviour contributes to an environment of no excessive imbalances. This attitude substantially contributed to no public intervention being required to support the financial sector.
Government debt and deficit/surplus (% GDP, 2018)

Total debt (loans and securities, % GDP, 2017)

- 6% Maastricht criterion

EU

Eurozone

Debt (top axis)

Deficit/Surplus (bottom axis)
Attractive destination for foreign direct investments (FDIs)

Following the economic transition in the 1990s, the Czech Republic soon became one of the most popular FDI targets, both within CEE and elsewhere.

This undoubtedly very much contributed to the overall successful Czech economic story.

Now, the character and circumstances of FDIs have changed. The favourable economic and business environment still represents a strong reason to invest in the Czech economy now as well as in the future.
Low risk creates attractive market conditions

Fortunately, the extremely volatile and unpredictable financial conditions of the recent crisis times are over.

Using the 10-year government bond yield as a barometer of long-term, comprehensively evaluated economic risks, the outlook for the Czech economy is extremely positive, comparable to the most developed and low-risk European economies, reflecting healthy macroeconomic conditions and disciplined fiscal systems, thanks to the Czech National Bank’s prudent monetary and government fiscal and economic policies.

This allows to have attractive conditions and investment activity to continue as required.
10Y government bond yield (%)
Banking sector stability and profitability

The Czech banking sector is specific in many aspects. Most of the sector is dominated by strong European financial groups, and its activities primarily focus on the Czech republic. This coexistence seems ideal, as the sector demonstrates one of the best loan performance rates in Europe and best capital adequacy ratios worldwide. At the end of 2018, capital adequacy of the banking system amounted to 19.6%. Czech banks generated ROE close to 15% in 2018, one of the highest in Europe. In 2018, the net profit of commercial banks amounted to CZK 82 bn.

Such a healthy environment allows forward thinking without being impeded by measures to improve the banks’ balance sheets.

The loan-to-deposit ratio remains fairly low, but in the long term, it is adjusting to the average EU levels. Banks have appropriate resources without needing to borrow wholesale or abroad.
Return of equity & Capital adequacy (%, December 2018)

- Return on Equity (ROE) (top axis)
- Czechia - Capital Adequacy (market) (bottom axis)

* dates from June 2018

HUNGARY
ROMANIA
CZECHIA
BULGARIA
SWEDEN
LITHUANIA
LATVIA
SLOVENIA
SLOVAKIA
CROATIA
AUSTRIA
POLAND
ESTONIA
NETHERLANDS
LUXEMBOURG
SPAIN
FINLAND
DENMARK
IRELAND
BELGIUM
FRANCE
EU
MALTA
ITALY
UNITED KINGDOM
PORTUGAL
GERMANY
CYPRUS*
GREECE

* dates from June 2018
High level of social homogeneity

From the long-term perspective, the Czech Republic could be considered the most homogenous EU country in terms of income inequality and poverty risk.

The existing income inequality motivates an economically active generation while not leading to any serious social tensions between different groups of the population. Those at risk of poverty have a greater chance than elsewhere of returning to mainstream society and not remaining excluded.
Income inequality and risk of poverty (%, 2017)

- Income inequality (top axis)
- People at risk of poverty or social exclusion (bottom axis)

Countries listed:
- Czechia
- Finland
- Slovakia
- Netherlands
- France
- Slovenia
- Denmark
- Sweden
- Austria
- Germany
- Malta
- Poland
- Belgium
- Luxembourg
- United Kingdom
- Eurozone
- Ireland
- Portugal
- Estonia
- Cyprus
- Hungary
- Croatia
- Spain
- Latvia
- Italy
- Lithuania
- Greece
- Romania
- Bulgaria

Income inequality and risk of poverty data presented in a bar graph format.
The Czech Republic as an extraordinarily safe country

Safety and security now matter more than ever. Their importance increases as new global risks and threats arise and intensify.

A comprehensive evaluation ranks the Czech Republic as the 7th safest country worldwide, and 4th in the EU, which further highlights its attractiveness from an investment point of view.
## European Union

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Data for Malta and Luxembourg - not available

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## TOP 10 in the world

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Key Takeaways on Czech economic performance:
A high level of social homogeneity, low security risks and a safe society.

A strong FDI inflow appreciating the economic, political and social business preconditions.

Long-term growth and visible real convergence vis-à-vis the EU average.

External openness, especially towards Europe, which makes our EU membership highly beneficial.

A solid economic structure relying on diversified and internationally competitive manufacturing accompanied by an accelerating services segment.

Cost-effective, competent and hard-working labour force.

A healthy financial sector and excellent conditions for financing development projects.

A high level of social homogeneity, low security risks and a safe society.
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Sources:
European Commision, Eurostat, Czech National Bank, International Monetary Fund,
The Institute for Economics and Peace, The Observatory of Economic Complexity

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