

CZECH ECONOMY FACTS IN BRIEF

NORDIC CHAMBER OF COMMERCE
IN THE CZECH REPUBLIC



NORDIC CHAMBER
OF COMMERCE IN THE CZECH REPUBLIC

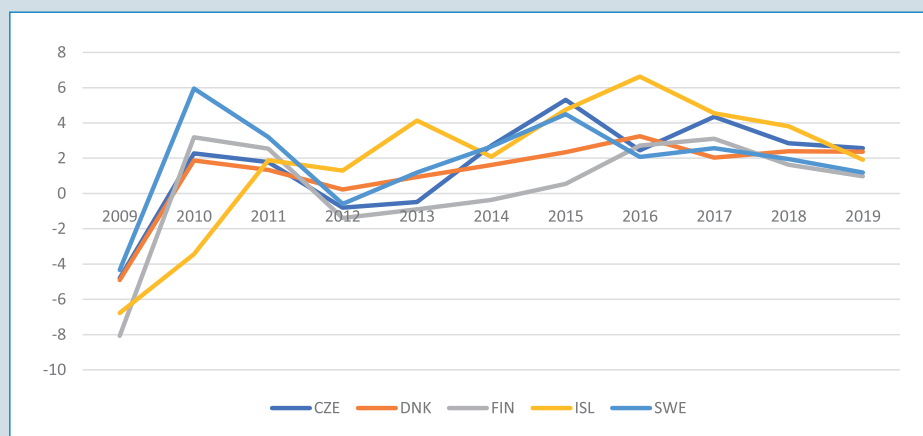


CZECH ECONOMY FACTS IN BRIEF 2019

The Czech Republic is a country with a population of 10,6 million people situated in the heart of Europe. Nowadays is proud to have one of the lowest unemployment in the European Union and GDP per capita reached 92,5 % of EU average in 2019. It has been well known for its smooth transformation from centrally planned to a market-oriented economy. Czech economy and whole society suffered a lot during more than 40 years under the communist regime. At the beginning of the 20th century it was a driving engine of Austro-Hungarian empire, and between the world wars became to the most developed countries over the world. Fortunately, after the Velvet revolution in 1989, the Czech Republic started very successful convergence. According to the newest available data, the Czech Republic is on the 23th place in the Index of economic freedom, on the 41th place in Doing Business rank provided by World bank and on the 31th place in GDP per capita (PPP) in the world¹. The specific feature of the Czech Republic is highly export-oriented structure of the economy. Amount of export in 2019 reached 74 % of GDP, compared to 47 % average in EU². Moreover, in the Czech Republic there is currently one of the lowest unemployment among all EU countries.

Almost one decade after the Euro-American financial crises from 2008/2009, the Czech Republic is part of faster-growing countries in EU and the one with the lowest unemployment. Evolution of GDP growth is available in graph 1. On the other hand, the Czech economy is facing several risks. First of all as mentioned above, the export-oriented economy might cause problems in the future, especially in the context of diversification. More than 80 % of Czech exports go to the EU countries (mainly to Germany).

Graph 1: Real GDP growth (%)



Source: Worldbank (2019)

The second part of the problem is the export structure - more or less based on low value added (subcontracting) goods and services. Another facing risk is for example high tax burden of the labor force.

On the graph 1, there is a development of GDP growth for the Czech Republic and Nordic countries over past 10 years. All of

the countries suffered significant GDP decrease in 2009 and a quite slow recovery in the following years. During the years 2014 and 2019 the Czech Republic has been one of the fastest growing country and according to the Worldbank data. Nevertheless, the significant GDP decline is expected in 2020 due to the current pandemic situation.

Table 1: GDP in 2019

	GDP 2019 Euro million	GDP (PPP) per capita	GDP (nom.) per capita	GDP (PPP) EU28 - 100%
Czech Republic	223 945	29 620	20 990	92,5 %
Denmark	312 747	41 180	53 760	128,7 %
Finland	240 556	35 170	43 570	109,9 %
Norway	360 301	45 720	67 370	142,9 %
Sweden	474 194	38 210	46 130	119,4 %
Iceland	21 635	41 230	60 000	128,8 %

Source: Eurostat

TRADE BETWEEN THE CZECH REPUBLIC AND NORDIC COUNTRIES IS GROWING

As mentioned above the Czech Republic is a small open economy relying on its exports to foreign countries. In 2019 the value of goods and services sold abroad was almost 80 % of country's GDP. The table below shows that most of the exports head to Czech's closest Western neighbor – Germany. Germany is the Czech biggest business partner not only on the export side but also on the import. This creates a substantial dependence of the Czech economy on its German neighbor

and might cause troubles if Germany enters in a recession of any kind. On the one hand, business with Nordic countries is quite smaller than the one with neighboring countries. Thus none of them reached the top ten in exports or imports.

On the other hand, the Nordic countries have come to play a far more significant role in Czech economy than their combined population would indicate. As a Czech export market, the Nordic countries overshadowed the USA in 2019³. The mu-

tual trade between the Czech Republic and Nordic countries is underlined by hundreds of companies involved in both markets.

The mutual international trade development is available on Graph 2. There is an obvious increasing trend among all countries, except for a specific decline in trade turnover between the Czech Republic and Norway.

The most significant international trade turnover among the Nordic countries the Czech Republic has with **Sweden**. The

¹ Worldbank, 2019 ² Eurostat, 2019 ³ Czech statistical office, 2019

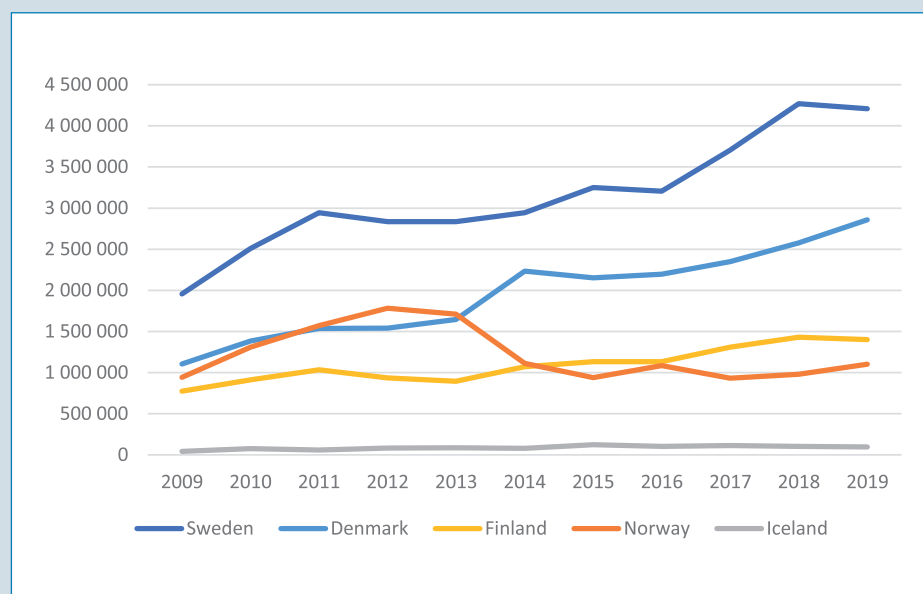
Czech trade with Sweden was growing almost all the years between 2009 - 2019. There are three exceptions only, the years 2012, 2016 and 2019 where a slight decrease occurred. The overall turnover more than doubled from 1 956 mil. EUR to 4 209 mil. EUR during the past ten years. The Czech Republic trade balance with Sweden was increasing during these years as well. In recent years the export from the Czech Republic has been more than twice higher than import from Sweden. Thus the overall trade balance is strongly positive for the Czech Republic. The balance more than tripled from 556 to 1 630 mil. EUR between 2009 and 2019. The dominant part of Czech export consists of machinery

Table 2: Exports and Imports to the Czech Republic 2019

Exports		Imports	
1. Germany	56 780	1. Germany	39 438
2. Slovakia	13 507	2. China	25 334
3. Poland	10 792	3. Poland	12 258
4. France	9 163	4. Slovakia	7 053
5. United Kingdom	8 031	5. Italy	6 580
14. Sweden	2 920	21. Sweden	1 290
18. Denmark	1 793	24. Denmark	1 065
21. Finland	940	39. Finland	462
27. Norway	771	44. Norway	331
86. Iceland	34	70. Iceland	63

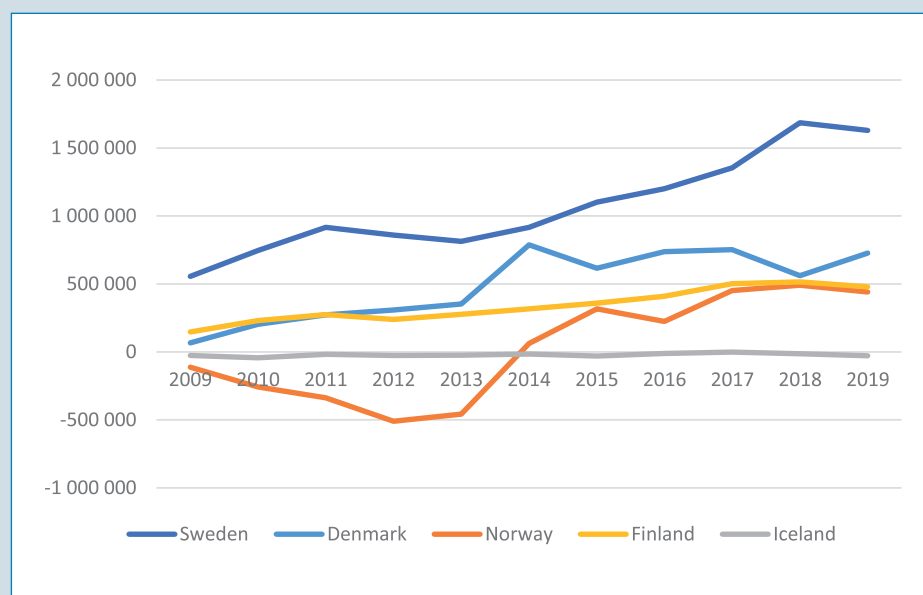
Source: Czech statistical office, mil. EUR

Graph 2: The Czech Republic trade turnover 2009-2019 (EUR)



Source: Czech statistical office, 2019

Graph 3: The Czech Republic trade balance 2009-2019 (EUR)



Source: Czech statistical office, 2019

and transport equipment (64 %), miscellaneous manufactured articles (15,7 %) and manufactured goods classified chiefly by material (13,7 %).

Most of the foreign investment from Sweden is directed to housing, metal production, metallurgical processing, engineering and financial services. At the beginning of 2020, Heimstaden Bostad bought RESIDOMO company, which owns and manages 43000 flats in Ostrava region and is the largest provider of rental housing in the Czech Republic. Other Swedish companies investing in the Czech Republic are Sandvik Materials Technology (stainless steel products), Mölnlycke Health Care (the world's leading manufacturer of wound care) and many others. There are also multiple Czech divisions of Swedish companies like IKEA and SKANSKA.

Foreign investments from the Czech Republic are not so significant. Czech company operating in Sweden is LINET, who is currently the leader in the Swedish healthcare beds market. Other Czech companies as SUBTERRA, FENESTRA WIEDEN, RockSalt are involved in Swedish construction market. ČKD Blansko is involved in hydro-energetics in Sweden.

The trade balance development and a comparison with other Nordic countries is available on Graph 3.

The second largest trade turnover the Czech Republic has with **Denmark**. According to the latest data, the mutual trade has increased significantly during the last ten years. There was the only one decrease in the year 2015. The overall trade increased from 1 105 to 2 858 mil. EUR between 2009 - 2019, which means 158 % growth. The more significant part consists of exports from the Czech Republic to Denmark. The final trade balance between these two countries is positive for the Czech Republic. The trade balance increased more than ten times from 67 mil. EUR to 727 mil. EUR during the years

2009 – 2019, nevertheless the development is stable during the past years. The structure of the trade is following. Czech export mainly consists of machinery and transport equipment (50,2 %), chemicals and related products (25,1 %) and manufactured goods (11,2 %). Import from Denmark is based on Chemical products (46,2 %), machinery and transport equipment (18,7 %) and of manufactured articles (18,1 %).

We can find approx. 90 companies with Danish capital acting in the Czech Republic. These companies are mainly from the manufacturing sector, focused mostly on technologies. Most essential entities operating on Czech market are Dansk Eternit Holding, A.P. Moeller-Maersk, DISA, Norwood and Marius Pedersen. Significantly involved in the Czech construction market is TK Development, participated in large shopping centers construction. Other Danish companies involved in the Czech Republic are LEGO A/S, Rockwool A/S, NKT Holding, Bang&Olufsen, Coloplast, Fibertex, Faerch Plast, Jysk, Kompan and Novo Nordisk. Czech companies are not engaged in Danish market in a significant way.

A similar trade turnover the Czech Republic has with Finland and Norway. The overall trade turnover with **Finland** increased from 774 to 1 402 mil. EUR during the observed period, which represents a 81 % increase. The amount of export from the Czech Republic has been more than two times larger than import from Finland. Thus, the overall trade balance has been growing. It increased from 147 to 478 mil. EUR between 2009 – 2019. Czech export to Finland mainly consists of machinery and transport equipment (67,3 %), follow-

ing with manufactured goods (15,2 %) and chemical products (9,3 %). Among Finnish export to the Czech Republic prevails manufactured goods (37,9 %), machinery and transport equipment (31,8 %) and chemicals and related products (13,9 %). The most significant foreign investments from Finland in the Czech Republic were to the KONE (elevators construction), TIE-TO (IT sector), STORA ENSO (wood production), YIT (construction and housing) and ALMA MEDIA (employment agency). The most essential Czech foreign investment to Finland was made by Škoda Transportation, which bought Finnish company Transtech Oy, which is European leading producer of double-decker railway units, low-floor trams mainly designed for demanding climatic conditions in Scandinavia. In 2018, VAFO PRAHA bought the oldest finish producer of pet food – PRIMA PET.

Overall trade turnover between the Czech Republic and **Norway** increased from 944 to 1 710 mil. EUR during 2009 – 2013 and sharply declined to 939 mil. EUR in 2015. It was mainly caused by a change in gas import policy towards higher diversification in 2014. Previously the gas import from Norway represented more than ¾ of all gas imports. In the following years, the trade turnover development was more less stable, and its level reached 1 101 mil. EUR in 2019. The overall trade balance was negative for the Czech Republic due to the massive gas imports between 2009 – 2013, but it has been growing in positive numbers in recent years from 62 to 441 mil. EUR. The most important export articles to Norway are machinery and transport equipment (64,7 %), manufactured goods (19 %) and miscellaneous

manufactured articles (11,8 %). Import to the Czech Republic mainly contains from Mineral fuels, lubricants and related materials (29,3 %), Manufactured goods (23,5 %) and food and live animals (19,6 %).

Wikov Industry (producing gears and mechanical gearboxes) and Ferram (production and assembly of special conveyor and handling equipment) operate in the form of a joint venture in Norway. Sicar Nordic, a subsidiary of Sicar, manufactures and services ambulances. Norwegian companies operating on the Czech market are Norske Skog (paper production), Orkla Foods (food supplier), Norwood (production of skewers for lollipops) and Jotun Powder Coating (chemical industry). Other investments are from Norwegian government pension fund which invests in Komerční banka, a. s. and Moneta Money Bank, a. s.

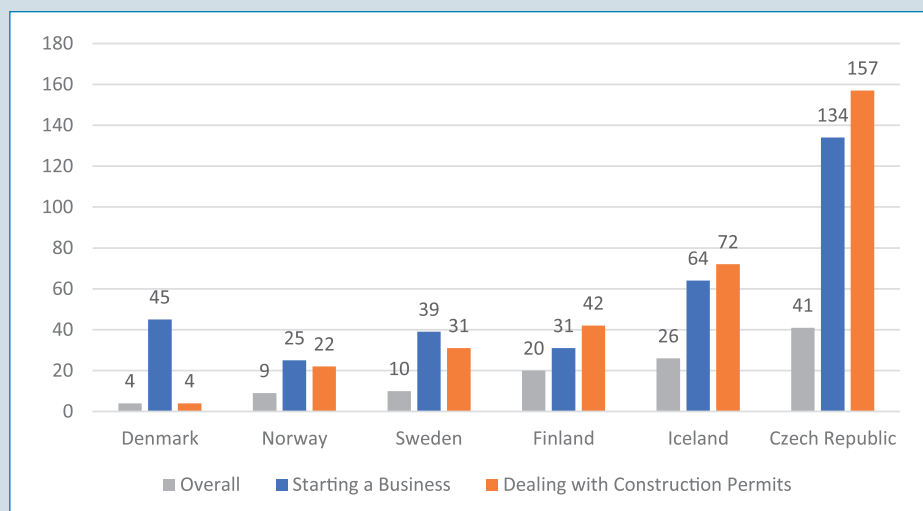
Iceland, as the smallest country from the Nordic countries, is in the last place in terms of trade turnover with the Czech Republic. However, the overall trend has been increasing. The trade turnover more than doubled from 43 to 98 mil. EUR during the observed period. Iceland is the only country from the Nordic countries with a negative trade balance for the Czech Republic between 2009 – 2019. The trade balance for the Czech Republic is moreover stable, around -25 mil. EUR during the period. The structure of the mutual trade is following. Czech export mainly consists of machinery and transport equipment (63,2 %), miscellaneous manufactured articles (17 %) and manufactured goods (11,8%). Import from Denmark is based on Manufactured goods (86,2 %), food and live animals (9,6 %) and of miscellaneous manufactured articles (2 %).



ALARMING RESULTS IN DOING BUSINESS RANKING

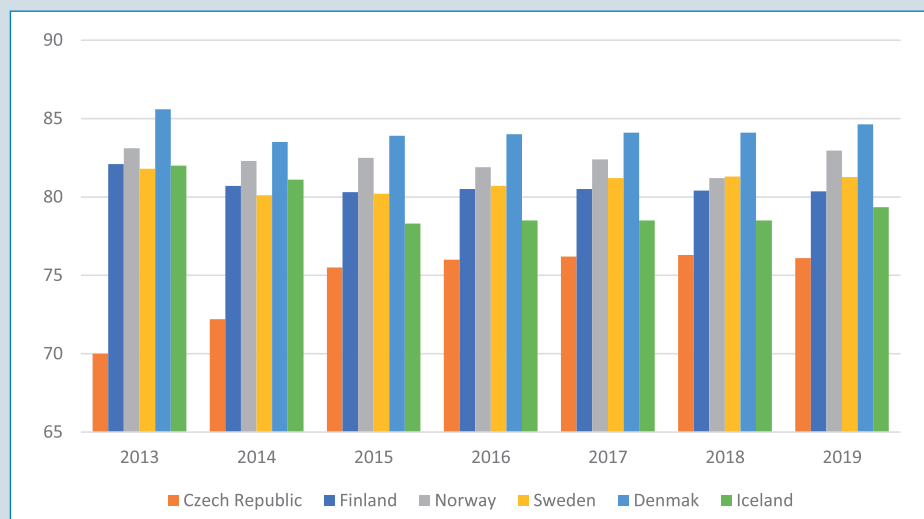
Business is the main driving force in the whole economy. Data named "Doing Business" provided by World bank suggests large difference between the Czech Republic and Nordic countries. According to the newest available data, the Czech Republic is ranked as the 41th country in the world in the overall ranking. Way worse ranking the Czech Republic achieved in partial assessment named "Starting a Business". 134 countries are ranked better. Very alarming is the rank "Dealing with Construction Permits", where the Czech Republic is on 157. place. The latest available data are shown on the graph 4. In general, the Nordic countries get better ratings. The best ranking achieved Denmark (4.) followed by Norway (9.), Sweden (10.), Finland (20.) and Iceland (26.). In "Starting a Business" rating Norway (25.) got the best rating, second best end-

Graph 4: Doing Business ranking 2020



Source: *Doing Business, Worldbank*

Graph 5: Doing Business in DTF



Source: *Doing Business, Worldbank (higher number is better)*

ed Finland (31.) followed by Sweden (39.), Denmark (45.) and Iceland (64.). Finally, there is a huge space for improvements for the Czech Republic. Historical data for years 2013 - 2019 are available in graph 5, and they are provided in DTF format. The distance to frontier (DTF) measure shows the distance of each economy to the "frontier", which represents the best performance observed on each of the indicators across all economies in the Doing Business sample.

EDUCATION AND INTERNATIONAL COMPARISON

The female employment rate in the Nordic countries is, by far, the highest of all Europe. This is mainly caused by the cultural differences in relations between men and women, which is historically more liberal in Nordic countries. Czech Republic is, in this matter, slightly above the EU 28 average, but of course, there is always some space for the improvement of the current situation.

Proper education and skills are essential requisites for finding a job. In the Czech Republic, 69,5 % of adults aged 25-64 have completed upper secondary educa-

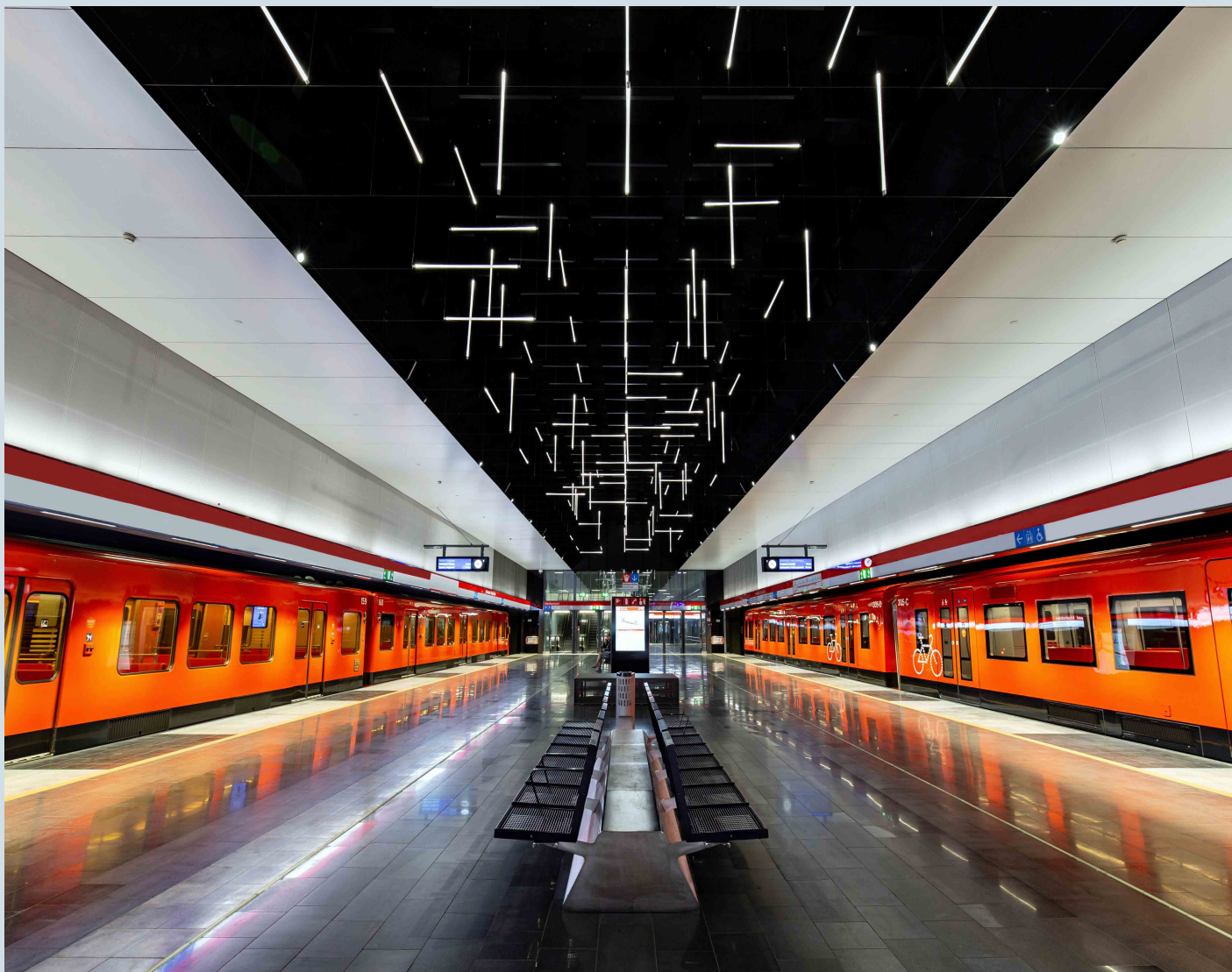
tion, well above the OECD average of 41 % and the highest rate in the OECD. This is truer of men than women, as 72,4 % of men have successfully completed high-school compared with 66,5 % of women⁴. In terms of education quality, the average student scored 487 in reading literacy, 492 in maths and 493 in science in the OECD's Programme for International Student Assessment (PISA). This score is exactly on the OECD average values. On average in the Czech Republic, girls outperformed boys in reading literacy, but boys achieved better results in mathematics performance.

Table 3: Gender employment

2019	Female	Male
Czech rep.	72,7 %	87,7 %
Denmark	74,7 %	81,9 %
Finland	75,8 %	78,5 %
Iceland	83 %	88,6 %
Norway	76,8 %	82 %
Sweden	79,7 %	84,4 %
EU 28	68,2 %	79,6

Source: *Eurostat*

⁴ OECD, 2019



THE LOWEST UNEMPLOYMENT IN EU

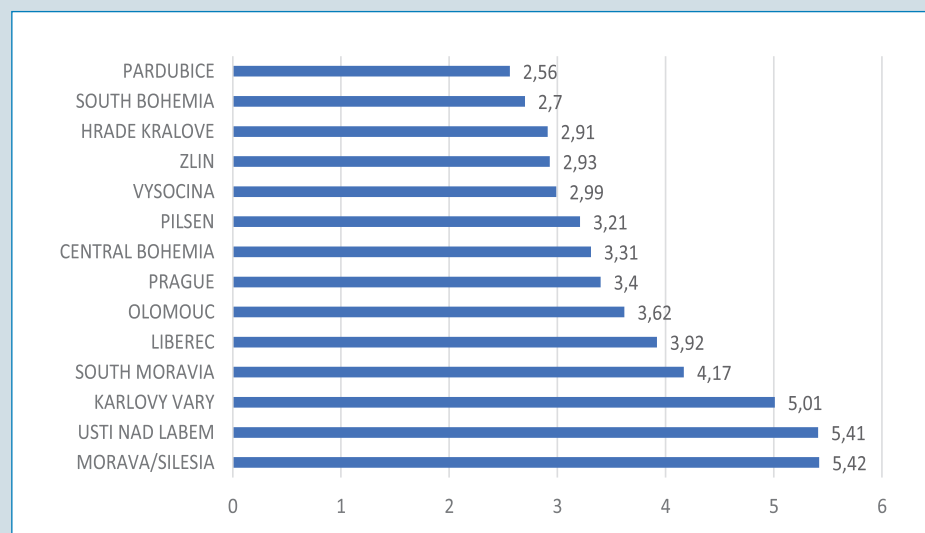
According to the Czech Statistical Office (ČSU), the average monthly wage in the Czech Republic grew by CZK 2 257 to CZK 34 125 in 2019; the median monthly wage in 2019 reached to CZK 31 202 Kč. Four out of five employees were earning gross wages between CZK 14 566 and CZK 51 420 a month. The highest wages in the long term are in the banking and insurance sectors, which are about twice the average of other sectors, but employees in information and communication technologies are catching up very fast.

The unemployment rate in the Czech Republic is currently the lowest in the EU. Czech unemployment in the past decade has been under the average of the whole EU. Although the aggregate looks really nice, if we look closer at the individual regions of Czech Republic, we can find significant differences between them. Currently, the best situation with unemployment is in Pardubice region followed by South Bohemia, and the

worst one is in the Moravian-Silesian region in the north of the country, which is famous for its coal mining and heavy

industry – branches of the economy that are slowly fading away.

Graph 6: Large regional differences in unemployment 2020



Source: Czech statistical office, (%)

GREAT HEALTHCARE AND EXPENSIVE HOUSING

The Czech Republic is and has always been, famous for its beautiful nature, some magical cities and many sights to visit. The Czech Republic is safe, its population is getting richer and richer, healthcare is on the level of the Nordic countries and beer is still cheap. Prague usually ranks among the world's most beautiful cities and everywhere there are always things to do – from theaters,

sports games and good restaurants, to concerts, sightseeing or just hanging out in the cities or the countryside.

According to the Quality of Life Index provided by Numbeo, there is a large gap between Nordic countries and the Czech Republic. The Nordic countries have been ranked in top places during decades. The Czech Republic is relatively highly ranked, in front of Sweden and

Iceland, in partial Healthcare index. Similar results are in Safety index, where the Czech Republic end up in front of Norway and Sweden and overall on 12. place in the world. The cost of living is way lower in the Czech Republic compared to the Nordic countries, which is in opposition to the situation in property price to wage ratio, where the Czech Republic is on 62. place in the world.

Table 4: Quality of Life Index

Purchasing power index	Safety index	Healthcare index	Cost of Living index	Property price to wage ratio	Pollution index	Overall - quality of life index
6. Sweden	11. Finland	4. Denmark	38. Czech Rep.	6. Iceland	1. Finland	1. Denmark
7. Denmark	12. Iceland	10. Finland	62. Sweden	8. Denmark	2. Iceland	3. Finland
9. Finland	16. Denmark	12. Czech Rep.	63. Finland	15. Finland	3. Sweden	7. Iceland
16. Norway	17. Czech Rep.	14. Norway	73. Denmark	20. Norway	5. Norway	11. Sweden
25. Iceland	34. Norway	32. Sweden	76. Iceland	24. Sweden	6. Denmark	12. Norway
35. Czech Rep.	62. Sweden	41. Iceland	79. Norway	62. Czech Rep.	26. Czech Rep.	25. Czech Rep.

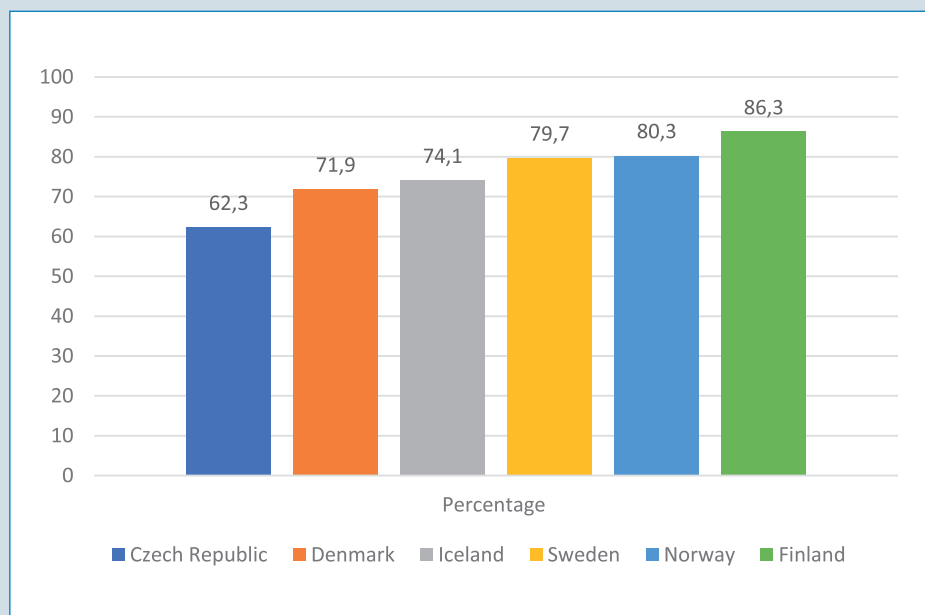
Source: Numbeo, 2020

EXPORT ORIENTED, BUT LOW ADDED VALUE

The Czech Republic is a small open economy relying on its exports to foreign countries. Nevertheless, most of the export structure on low value added (subcontracting) goods and services. The comparison



Graph 7: Domestic value added in gross exports



Source: OECD, 2020

between the Czech Republic and Nordic countries is available in the graph 7 below. Domestic value added in gross exports is an estimation of value added, by an economy, in producing goods and services for export, simply defined as the difference between gross output at basic prices and

intermediate consumption at purchasers' prices. The measure is a percentage share of value. Based on the OECD data for 2019, the Czech Republic had significantly lower added value in exports (i.e. 62,3%), compared to the Nordics countries, where Finland had the highest value – 86,3 %.

phone: +420 774 123 370
e-mail: info@nordicchamber.cz
www.nordicchamber.cz
Václavské náměstí 51, 110 00 Prague 1



NORDIC CHAMBER
OF COMMERCE IN THE CZECH REPUBLIC