

## 4. 2009 Position

### 4.1. Basic Tendencies

- ***Decrease in aggregate economic performance and major structural changes***

The aim and purpose of this Chapter is to point out certain specific features in the performance of the Czech economy in 2009, i.e. the position of that year in content-based continuity and context, with a medium-term perspective of formation and use of sources. The aggregate economic results presented by the national accounting system and, within those, the movement of economic flows recorded in the accounts concerning goods and services shows fully different transactions in products on both the source side and the product use side in 2009 than in the previous years. Similarly, different movements were recorded in the distribution transactions, from the generated value added to the disposable income. Although it is known that national economy structures are basically characterized by immense inertia and a strong tendency to reproduce on the basis of the same quantitative context, which were conditional in the past, characteristic features and distinctive aspects of development of the national economy in 2009 – apart from the essential phenomenon of the economic recession – included major structural changes on both the demand side and the supply side of the economy.

The largest year-on-year changes were recorded in foreign economic relations in 2009. This influenced the completely different movements within the entire economy and in proportions between the domestic and external sectors or, as the case may be, between resident and non-resident entities. Following the long-lasting strengthening of external economic transactions and increase of their weight in the source reproduction (and use) process as well as in the income circulation, the scope of external operations experienced a substantial decrease in 2009. This clearly resulted in the strengthening of the influence of the domestic sector and weakening of the influence of the external sector. This is evidenced by the increased share of domestic transactions and the decreased share of foreign transactions on the part of total sources formed and sources disposable for final expenditure, as well as on the part of use of total sources and total final expenditure. As regards the formation side, the share of domestic production including net taxes increased, while the share of total imports declined. As regards the use side, the share of intermediate consumption (substantial part of imports) decreased, while the share of final use increased, particularly due to final consumption because the share of total exports declined.

All structural changes manifested themselves more on the demand side than on the supply side. Establishment of fully new economic proportions is a general phenomenon. The same applies to the structure of use of total sources formed, realized domestic demand as well as effective domestic supply. All year-on-year changes were not only strongly reflected in the macroeconomic variables referred to above, but also had a major influence on the movement of income, expenditure and capital transactions.

- ***Year-on-year GDP growth rates started slowing down in the 2<sup>nd</sup> half of 2007***

In addition to the above-mentioned structural changes, the development of the Czech economy in 2009 was also characterized by decrease in aggregate economic performance. The slowdown of gross domestic product growth rates, however, started in the previous period already. The economic performance, as measured by the development of GDP adjusted for price influences, seasonal factors and unequal number of working days, shows that, following the high year-on-year GDP growth figures in the 2<sup>nd</sup> half of 2006 and in the 1<sup>st</sup> half of 2007, the growth rates started decelerating until the 4<sup>th</sup> quarter of 2008 to record a year-on-year decrease in GDP volume in all quarters of 2009. On a quarter-to-quarter basis, the GDP volume started decreasing in the 4<sup>th</sup> quarter of 2008 already and then increasing again in the 3<sup>rd</sup> and 4<sup>th</sup> quarter of 2009, confirming the signals of slight economic recovery. The same tendencies, although in different dimensions, are confirmed by annualized data concerning the GDP development. The loss of GDP growth rates is also shown in the seasonally unadjusted (initial) data. In 2008 already, the GDP growth was lower than a year ago and, after three quarters of growth rate deceleration, GDP declined slightly in the 4<sup>th</sup> quarter when the Czech Republic was already fully hit by the economic crisis. This obviously indicated that 2009 would be one of the worst years since 1995 from the point of view of economic growth.

The entry of the Czech economy in 2009 was thus strongly marked by the developments in the previous period including external factors, i.e. the global economic downturn. The symptoms of economic recession became fully manifested during the year as the GDP volume decreased in every quarter on a year-to-year basis. Expenditure on gross capital formation was dropping extremely fast, which is a typical sign of general depression. Volumes of fixed capital expenditure were decreasing continuously since the 2<sup>nd</sup> half of 2008, also with the contribution of the credit crisis at the end of the year. This, together with the substantial growth deceleration and considerable decrease in the exports of goods in the last quarter of 2008, resulted, in turn, in adjustment of the industrial production. The economic activity of the industry, in particular processing industry, as well as industry producing accumulation goods, was also weakened by the falling production prices.