The tenth anniversary of the Czech Republic’s accession to the EU is a unique opportunity to reflect on this important historical milestone along the path of Czech integration into European economic structures. Accession to the EU single market was not itself the starting point of this integration path, but rather ‘official confirmation’ of the intensive economic transformation already undertaken by the Czech Republic. The process of economic restructuring and strengthening the institutional framework stimulated Czech trade with the EU member states. It also fuelled deepening cohesion between Czech producers of goods and services and their EU business partners via huge inflows of foreign direct investment.

The first four years after accession to the single market can be described as the most prosperous period in modern Czech economic history. Export growth, the main engine of the Czech economy, immediately accelerated into double figures once the remaining trade barriers were removed. The inflows of foreign direct investment intensified further, fuelling an increase in new production capacities, mostly built from scratch. The negative shock to the Czech economy caused by the global financial crisis and subsequent contraction in demand in the eurozone revealed, however, that spillovers in a deeply integrated common market are not necessarily always positive. This is especially true for highly export-oriented economies such as the Czech Republic. The headwinds stemming from plunging demand in the eurozone and the subsequent, gradual recovery contributed markedly to the longest recession in Czech history, a recession from which the economy emerged only in the middle of 2013.

“Prudent fiscal and monetary policies are vital for the long-term competitiveness of companies in the single market”

The economic slowdown showed how important it is to maintain prudent fiscal and monetary policy in ‘good times’ in order to minimize the adverse effects of any negative external shocks. Thanks in no small measure to the Czech National Bank’s previously cautious approach to maintain price and financial stability, the Czech economy faced the deterioration in the external economic environment without any visible external or internal imbalances. Owing to the solid condition of the Czech financial sector, the Czech National Bank did not have to divert any of its resources into bank rescue programmes and could concentrate fully on its main objective – to maintain price stability. A gradual reduction of the policy interest rate toward the zero lower bound and depreciation of the exchange rate minimised the risk of the economy falling into pernicious deflation and contributed to the economy’s return to a sustainable growth path.

The past turbulent decade has taught us a useful lesson: prudent fiscal and monetary policies are highly important for maintaining the long-term competitiveness of local companies in the EU single market. Economies that are tackling previously accumulated imbalances (due partly to an inappropriate mix of economic policies) are likely to experience a more gradual recovery. Local labour market flexibility, a healthy financial sector, a low debt burden, easy access to credit, and low funding costs are likely to be crucial factors in terms of how much companies will be able to benefit in the future from the gradual economic recovery and the single market in the EU. So far, it seems that the Czech Republic’s integration path has been a successful one and the Czech economy should remain a ‘net beneficiary’ of the single European market.