



# CZECH CONSTRUCTION INDUSTRY REPORT

## CURRENT DEVELOPMENTS AND BASIC TRENDS

The construction industry is one of the most important economic branches in the Czech Republic and can be considered as one of the pillars of the economy, when producing approx. 7 % of the value added (at current prices), employing approx. 9 % of labour force of the civil sector and the employment in the branch is long-term, having important share in fixed capital formation; its creation is one of the growth factors of the all economy.

During the process of economic transformation the construction industry proved its ability to adapt to market conditions:

- facing up to changes in demand, restructure in production base same as
- claims to higher quality and architectural level of housing structures
- successfully follow European trends in all main sectors of construction industry

### Construction industry

- holds on to own production and economical potential, to know-how of foreign partners, which are important owners of the biggest construction companies with residence in Czech Republic.
- creates market structure, in term of size of companies and its legal forms, which is created from classical supplier-consumer relationships with wide background of sub-suppliers, developer companies, architects, designers and with links to activities in property market.
- participate significantly on regeneration of Czech economy
- in some activities is on the same level or almost the same as construction in EU countries.

Construction sector causes a multiplying effect when influencing the demand for products from other sectors (construction industry consumed products and services of other sectors in bulk volumes, the amount of which is approximately CZK 200 bill. a year) as following services connected with maintaining of buildings. This all generates revenues to the State budget and long-term effect to the State finance (payment of debts) and services.

In the production structure, the dominant position is the works in Czech Republic and new constructions (including reconstructions and modernizations).

In the second half of 90', civil engineering became the most important sector, thanks to public sector contracts, particularly contracts for surface transport infrastructure projects. Civil engineering took over from non-dwelling, non-production buildings, which were the most significant segment of the market in the first half on 90'. Due to boom in banking sector; the decrease of its investments was partly compensated with investments of foreign retail chains. Foreign investments are becoming very important source of funding of investments and construction works. The rate of residential buildings, which is in foreign economies usually at top, is still low in Czech Republic.

## Development of building production volume

|      | <i>Constant prices (as at 2000)</i> |                          | <i>Current prices</i> |                          |
|------|-------------------------------------|--------------------------|-----------------------|--------------------------|
|      | <i>CZK bili.</i>                    | <i>previous y. = 100</i> | <i>CZK bili.</i>      | <i>previous y. = 100</i> |
| 2000 | 258,9                               | 105,3                    | 259,7                 | 109,3                    |
| 2001 | 283,8                               | 109,6                    | 295,7                 | 113,8                    |
| 2002 | 290,9                               | 102,5                    | 311,2                 | 105,2                    |
| 2003 | 317,0                               | 108,9                    | 346,8                 | 111,4                    |
| 2004 | 347,7                               | 109,7                    | 394,3                 | 113,7                    |
| 2005 | 362,1                               | 104,2                    | 422,7                 | 107,2                    |
| 2006 | 386,1                               | 106,6                    | 463,1                 | 112,7                    |

The year 2000 can be considered the first year of construction market revitalization. Since that time, construction works have been growing constantly, in the year 2006 the production output increased by 50 percent since year 2000. The rate of growth year-on-year in constant prices is getting round the interval + 2.5 % to + 9.7 % from which in year 2006 it was by + 6,6 %.

## Structure of construction works by type of production

|  | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|--|------|------|------|------|------|------|
| <i>% from whole volume of made construction works</i>                            |      |      |      |      |      |      |
| Work abroad  | 2,0  | 1,3  | 1,1  | 1,4  | 1,5  | .    |
| inland   | 98,0 | 98,7 | 98,9 | 98,6 | 98,5 | .    |
| - new  | 74,1 | 73,4 | 72,7 | 76,1 | 78,2 | .    |
| - repairs/maint.   | 23,0 | 24,3 | 25,2 | 21,7 | 19,5 | .    |
| - other  | 0,9  | 1,0  | 1,0  | 0,8  | 0,8  | .    |
| <i>% from vol. of all constr. works made by ent. with more than 20 employees</i> |      |      |      |      |      |      |
| Work abroad  | 2,3  | 1,4  | 1,2  | 1,5  | 1,6  | 2,5  |
| inland   | 97,7 | 98,6 | 98,8 | 98,5 | 98,4 | 97,5 |
| - new  | 84,7 | 84,1 | 83,5 | 84,4 | 85,4 | 85,0 |
| - repairs/maint.   | 12,2 | 13,5 | 14,3 | 12,9 | 11,7 | 11,8 |
| - other  | 0,9  | 1,0  | 1,0  | 1,2  | 1,3  | 0,6  |

### Notes:

*new = new construction + reconstruction + modernization*

The significant majority had still works inland, their rate was about 98 %. From works inland, new constructions prevailed (including reconstruction and modernization of investment character) which participate on total production by ¾ in this decade; more significant majority had those works in enterprises with 20 or more employees about 85 %; compared to other advanced European countries their rate of new constructions is higher, sometimes markedly.

### Structure of construction output by type of work

|                                   | 2000  | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|-----------------------------------|---|------|------|------|------|------|------|
| <b>Total production</b>           | <i>% from the whole volume of new buildings (incl. R and M)</i> |      |      |      |      |      |      |
| Residential buildings             | 15,4  | 15,0 | 15,5 | 17,3 | 18,6 | 18,7 | 18,7 |
| Non-resid. non-indust.buildings   | 19,4  | 16,4 | 17,0 | 16,2 | 18,5 | 17,0 | 21,6 |
| Non-resid. industrial buildings   | 27,5  | 33,7 | 30,4 | 29,5 | 22,5 | 21,6 | 17,0 |
| Civil engineering                 | 35,6  | 33,7 | 35,8 | 35,4 | 38,9 | 41,2 | 41,2 |
| Water buildings                   | 2,1   | 1,2  | 1,3  | 1,6  | 1,5  | 1,5  | 1,5  |
| <b>Ent. with 20 or more empl.</b> | <i>% from the whole volume of new buildings (incl. R and M)</i> |      |      |      |      |      |      |
| Residential buildings             | 13,8  | 13,2 | 13,7 | 15,9 | 17,4 | 17,4 | .    |
| Non-resid. non-indust.buildings   | 19,7  | 16,1 | 16,8 | 15,8 | 18,6 | 16,8 | .    |
| Non-resid. industrial buildings   | 28,1  | 36,0 | 31,7 | 30,6 | 22,2 | 21,0 | .    |
| Civil engineering                 | 36,5  | 34,0 | 36,8 | 36,4 | 40,6 | 43,6 | .    |
| Water buildings                   | 1,9   | 2,0  | 1,0  | 1,3  | 1,2  | 1,2  | .    |

In structure of new constructions by type:

In year 2001 the civil engineering constructions and non-residential industrial buildings dominated with the rate one third each; in next years the rate of non-residential industrial buildings had decreasing tendency, decreased down to 20 %; civil engineering constructions had growing tendency and their rate got over 40 %.

The growth of rate of civil engineering constructions occurred after significant investments into public sector especially to traffic infrastructure, roads and railroads; the priority of investments into infrastructure is characteristic for all "new" EU members by finding of FIEC;

The non-residential non-industrial buildings had high rate in 90' especially thanks to the investments of bank sector;

The important changes were in residential buildings construction, after decline to 7 % in year 1995 the rate got over the level 15 % in year 2000 and in following years there was slight grow up to 19 %; in spite of this increase the rate is pretty low than common level in most European countries where new residential construction is the main in whole construction.

### Orders for new works\* as at the end of year

|                       | 2000                                     | 2001   | 2002   | 2003   | 2004    | 2005    | 2006    |
|-----------------------|--|--------|--------|--------|---------|---------|---------|
|                       | <i>bili. CZK, current prices</i>         |        |        |        |         |         |         |
| Buildings             |  |        |        |        |         |         |         |
| - residential         | 13,636                                   | 13,234 | 18,506 | 20,455 | 22,053  | 25,637  | 29,785  |
| - non-resid non-ind.  | 28,062                                   | 26,849 | 29,115 | 40,998 | 33,384  | 38,011  | 35,802  |
| - non-res. industrial | 11,003                                   | 8,956  | 7,525  | 8,701  | 12,079  | 15,397  | 22,205  |
| Buildings             | 40,517                                   | 59,807 | 70,352 | 74,109 | 122,508 | 103,785 | 119,626 |
| - civil eng. works    | 2,169                                    | 1,977  | 2,279  | 3,422  | 3,275   | 2,920   | 2,756   |
| - water buildings     |  |        |        |        |         |         |         |
|                       | 2000                                     | 2001   | 2002   | 2003   | 2004    | 2005    | 2006    |
|                       | <i>percentage (new constr.* = 100,0)</i> |        |        |        |         |         |         |

|                       |      |      |      |      |      |      |      |
|-----------------------|------|------|------|------|------|------|------|
| Buildings             |      |      |      |      |      |      |      |
| - residential         | 14,3 | 11,9 | 14,5 | 13,8 | 11,4 | 13,8 | 14,2 |
| - non-resid non-ind.  | 29,4 | 24,2 | 22,8 | 27,8 | 17,3 | 20,5 | 17,0 |
| - non-res. industrial | 11,5 | 8,1  | 5,9  | 5,9  | 6,2  | 8,3  | 10,6 |
| Buildings             |      |      |      |      |      |      |      |
| - civil eng. works    | 42,5 | 54,0 | 55,1 | 50,2 | 63,4 | 55,9 | 56,9 |
| - water buildings     | 2,3  | 1,8  | 1,8  | 2,3  | 1,7  | 1,6  | 1,3  |

\* including reconstruction and modernization

The strongest type of constructions are orders for engineering buildings by volume of orders. In the end of year 2006 it reached 119.6 bill. CZK and on total had the rate of 57 %. Thanks to year-on-year increase of volume in high + 15.3 % its rate increased by + 1 p.p. The similar rate is since year 2001, around 54.0 %.

With big distance on the second place there are non-residential non-industrial buildings. The volume in height of 35.8 bill. CZK and rate 17.0 %. Their rate increased in last three years, but significantly varies.

On the third place there are residential buildings: their volume is continuously growing in last 5 years, in the end of 2006 up to 30 bill. CZK and the rate to 14 %.

The orders for non-residential industrial buildings increased their volume and rate in last 2 years by + 4 p.p. and absolute growth is about 10 bill. CZK of which + 7 bill. CZK is in year 2006.

The weakest course in new constructions according to volume of orders were water constructions. The volume had decreasing tendency in last years.

The public sector stayed at the significant position as a submitter also in year 2006. It has two thirds majority in both total parts, in total inland orders and total orders for new construction, the public sector kept its dominant position ( level of 90 %) in engineering and water constructions, especially thanks to traffic infrastructure projects and also in non-residential non-industrial buildings (about 60%).

### CZECH CONSTRUCTION COMPANIES - TOP 30

|                                    | Sales |          | Assets |          | Number of employees |         |
|------------------------------------|-------|----------|--------|----------|---------------------|---------|
|                                    | order | CZK bill | order  | CZK bill | order               | person  |
| Skanska CZ, a. s.                  | 1.    | 33,903   | 1.     | 23,101   | 1.                  | 7 043 4 |
| Metrostav, a. s.                   | 2.    | 24,535   | 2. 4.  | 14,972   | 2. 3.               | 555 3   |
| Stavby silnic a železnic, a. s.    | 3.    | 18,876   | 3. 6.  | 10,628   | 4.                  | 732 2   |
| STRABAG, a. s.                     | 4.    | 18,525   |        | 11,750   | 22.                 | 415     |
| Geosan Group, a. s.                | 5.    | 7,612    |        | 3,360    |                     | 510     |
| OHL ZS, a. s.                      | 6.    | 7,314    | 5.     | 4,530    | 5.                  | 1 963 1 |
| TCHAS, spol. s r. o.               | 7.    | 5,948    | 7.     | 3,014    | 8.                  | 241 1   |
| HOCHTIEF VSB, a. s.                | 8.    | 5,404    | 9. 12. | 2,928    | 6.                  | 703     |
| IMOS Brno, a. s.                   | 9.    | 5,370    | 8.     | 2,286    | 10.                 | 884 1   |
| VCES, a. s.                        | 10.   | 3,745    |        | 2,965    | 9.                  | 001     |
| ODS Dopravní stavby Ostrava, a. s. | 11.   | 2,891    | 15.    | 1,614    | 19.                 | 569     |
| Elektrizace železnic Praha, a. s.  | 12.   | 2,778    | 13.    | 1,819    | 15.                 | 714     |
| COLAS CZ, a. s.                    | 13.   | 2,689    | 17.    | 1,445    | 12.                 | 807     |
| UNISTAV, a. s.                     | 14.   | 2,634    | 11.    | 2,358    | 21.                 | 523     |
| SYNER, spol. s r. o.               | 15.   | 2,465    | 16.    | 1,461    | 32.                 | 310     |

|   |     |       |     |       |     |       |
|---|-----|-------|-----|-------|-----|-------|
| SWIETELSKY stavitelství, spol. s r. o.      | 16. | 2,342 | 22. | 0,964 | 13. | 729   |
| SMP CZ, a. s.                               | 17. | 2,319 | 19. | 1,124 | 14. | 728   |
| PSJ holding, a. s.                          | 18. | 1,928 | 14. | 1,714 | 37. | 277   |
| Průmstav, a. s.                             | 19. | 1,758 | 27. | 0,796 | 24. | 438   |
| Dálniční stavby Praha, a. s.                | 20. | 1,741 | 10. | 2,482 | 33. | 298   |
| BAK, a. s.                                  | 21. | 1,687 | 20. | 1,030 | 16. | 651   |
| M - SILNICE, a. s.                          | 22. | 1,479 | 18. | 1,190 | 17. | 639 1 |
| VOKD, a. s.                                 | 23. | 1,422 | 43. | 0,316 | 7.  | 250   |
| NAVATYP, a. s.                              | 24. | 1,420 | 21. | 1,013 | 28. | 367   |
| FIRESTA - Fišer, rekonstrukce, stavby, a.s. | 25. | 1,416 | 29. | 0,542 | 25. | 407   |
| Vodohospodářské stavby, spol. s r. o.       | 26. | 1,398 | 25. | 0,812 | 20. | 550   |
| Stavební podnik Klatovy, a. s.              | 27. | 1,230 | 31. | 0,513 | 27. | 374   |
| Českobudějovické pozemní stavby, s. r. o.   | 28. | 1,078 | 34. | 0,410 | 31. | 322   |
| Energie - stavební a báňská, a. s.          | 29. | 1,033 | 24. | 0,862 | 11. | 830   |
| PKS HOLDING, a. s.                          | 30. | 0,944 | 33. | 0,413 | 18. | 582   |

#### ENTERPRISES WITH FOREIGN CONTROL

The important group is enterprises under foreign control. The arrival of foreign mostly majority owners was the main part of privatisation and Czech building construction transformation, by this also the access to foreign know-how was achieved. The largest building construction enterprises in Czech republic are under foreign control.

#### Selected financial economic indicator for year 2006

|                           | unit      | All enterprises |            | Enterprises with foreign control |            |           |
|---------------------------|-----------|-----------------|------------|----------------------------------|------------|-----------|
|                           |           | Indicator       | 2005 = 100 | Indicator                        | 2005 = 100 | Relation* |
| Enterprises **            | number    | 275 76 323      | 101,5      | 28 13                            | 96,6       | 10,2      |
| Number of employees       | persons   | 297 607 14      | 101,0      | 538 66                           | 102,0      | 17,7      |
| Revenues                  | milí. CZK | 691,8           | 116,3      | 659 3                            | 111,4      | 22,4      |
| B.R. before taxation      | milí. CZK |                 | 130,6      | 231,8                            | 162,4      | 22,0      |
| Revenues profitability    | thous.CZK | 3 899,3         | 115,2      | 4 923,9                          | 109,3      | 1,26      |
| Own capital profitability | %         | 24,9            | 116,9      | 27,0                             | 162,7      | 1,08      |
| Time of stock turnover    | days      | 19,9            | 94,8       | 10,8                             | 68,8       | 0,54      |

\* 1. part. – the rate of enterprises under foreign control from all ent. in %

2. part – the indicator value for enterprises in total = 1,00

\*\* Enterprises with 100 and more employees

The importance of enterprises under foreign control consists in their progress and effectiveness: on total number of enterprises with 100 and more employees they had the rate of 10 %, on employment almost 18 %, on revenues by more than 22 % and on construction production by almost 18 %.



### Comparison of selected financial economic indicators for years 2005 a 2006

|                               | unit         | 2005 F. |        |        | 2006   |        |        |
|-------------------------------|--------------|---------|--------|--------|--------|--------|--------|
|                               |              | Total   |        | U=1,00 | Total  |        | U=1,00 |
| Assets revenue                | %            | 7,9     | 6,2    | 0,78   | 8,7    | 8,6    | 0,99   |
| Profitability of              |              | 4,4     | 3,3    | 0,75   | 4,9    | 4,9    | 1,00   |
|                               |              | 21,3    | 16,6   | 0,78   | 24,9   | 27,0   | 1,08   |
| Business result per employee  | thousand CZK | 148,9   | 149,9  | 1,01   | 192,53 | 238,7  | 1,24   |
| Productivity of revenues      |              | 3 385,8 | 4505,3 | 1,33   | 399,33 | 4923,9 | 1,45   |
| outputs added value           |              | 3 122,4 | 4149,2 | 1,33   | 597,3  | 4566,2 | 1,27   |
| Asset coverage by own sources | % days       | 35,2    | 34,9   | 0,99   | 33,3   | 30,4   | 0,91   |
| Time of stock turnover        |              | 21,0    | 15,7   | 0,75   | 19,9   | 10,8   | 0,54   |

#### Explanations:

Total - construction enterprises with 100 and more employees

F. C. - construction enterprises with 100 and more employees under foreign control

Z - enterprises total

The enterprises under foreign control reached the leading in few quality magnitudes, in last years at first in productivity or in time of stock turnover and in year 2006 - aligned the backwardness in profitability kept or increased the productivity (leading 45 % in revenue productivity indicator), increased the leading of business result per one employee from 1 % in year 2005 to 24 % in year 2006, increased the assets revenue to by + 2.4 p.p. year-on-year.

In last years, the rate of enterprises under foreign control on production of enterprises with 20 or more employees stabilized about 17 to 18 %. The data are in previous parts of this book – data about number of enterprises, production, employment, wages and productivity by institutional sectors.

#### BASIC CONTACTS

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