

ECONOMIC CRISIS AND THE CZECH REPUBLIC

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Abstract in original language:

This article deals with the recently economic downturn. Aim of this article is to point out economic situation before economic downturn and during the first months economic downturn in the Czech Republic in 2009. The next part of this article is aimed at analysis approaches of government to solving the situation and methods how to rebuild economic growth. Description, analysis and comparison are used for processing of this article.

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Economic crisis, Czech Republic, economic environment, government.

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1. INTRODUCTION

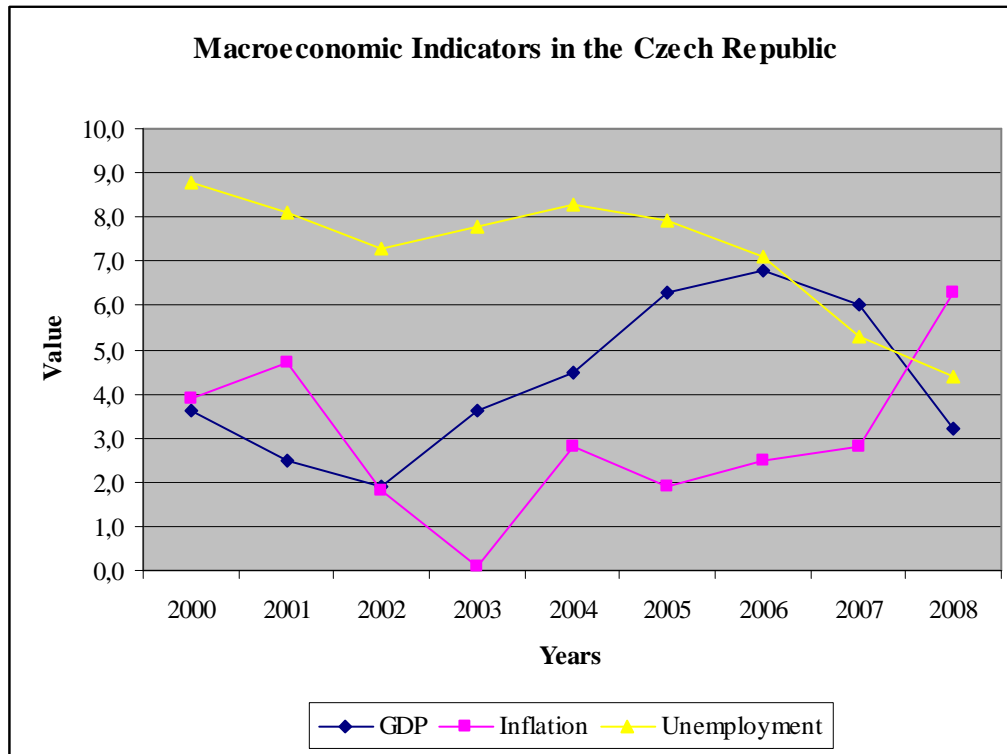
Economic downturn affects through all social classes, however, the main impact of this economic downturn is on low social classes. Economic downturn is often marked as economic crisis. This economic crisis starts with decreasing number of orders which is caused rational (natural) or irrational reasons (human made). Human made like proactive regulations, protection some interests, state bank policy or unexpected consumers behaviors are the most often reason for economic downturn.

Financial turbulence was appearing in USA in August 2007 and it changes in credit crisis at beginning of 2008. This event leads towards to turning of credit cycle. Turning of credit cycle shows of price changes of assets, fluctuation of interest rate and exchange rate. This situation is very difficult for positive economic development and stability of financial system. This environment brings a lot of insecurities to whole economic processes.

Purpose of this article is to point out economic situation before economic downturn and during the first months economic downturn in the Czech Republic in 2009 and analysis approaches of government to solving the situation and methods how to rebuild economic growth. The first part of this article describes and analyses economic environment in the Czech Republic, the next analyze and compare advantages and disadvantages of government intervention and the rest offer prediction of next development.

2. ECONOMIC ENVIRONMENT IN THE CZECH REPUBLIC

Economic development was positive in the Czech Republic till 2007. Economic was stable in the Czech Republic for a long time. The first outcome of this economic downturn was appraising of Czech crown in winter 2007. After 2007, GDP is fallen down; inflation is increased; only unemployment rate is decreased, see Picture 1.

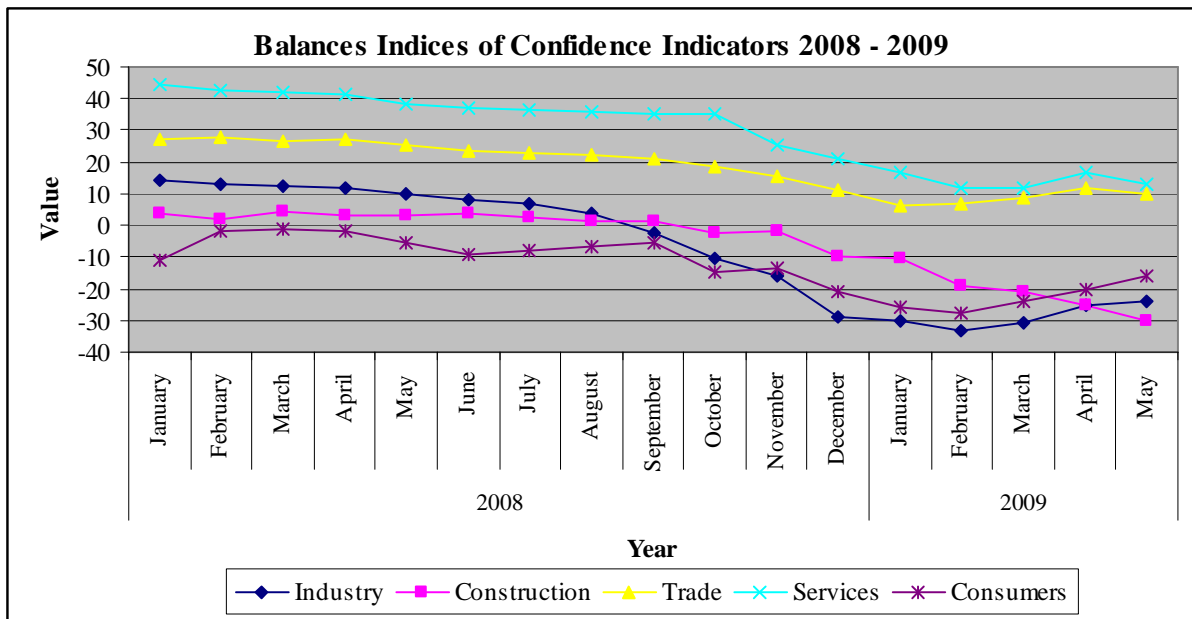


Obrázek 1 Macroeconomic Indicators in the Czech Republic (%) (Czech Statistical Office)

Total external trade decreased in 2008 compared with 2007, index of turnover total was 99.8. Export was higher than import, however, total exports in percent of imports was 103.7 in 2007 and 102.9 in 2008. It could be seen, that economic crisis influence more export of Czech goods than import goods to the Czech Republic. Products of the Czech Republic are liable of economic swings. There is dangerous for the companies in the Czech Republic.

In autumn 2008, there are the first companies with worse sales which lead toward insolvency of companies. Companies product glass and porcelain goods published bankruptcy, the next branches with problems were automobile companies, carriers etc.

Nowadays, all sectors of economic publish their losses and weak companies leave the market. The high underflow shown industry; industry decreased about 37 % of confidence indicators from January 2008 till May 2009 along to Czech Statistical Office. Other branches have difficult position too, e.g. construction decreased about 33.5 % of confidence indicators; services decreased about 30.7 % of confidence indicators and trade is decreased about 17.3 % of confidence indicators in this period. Downtrend of branches show Picture 2.



Obrázek 2 Balances Indices of Confidence Indicators (%) (Czech Statistical Office)

Along to Czech Statistical Office, industry in the Czech Republic fell by 21 % in 1st quarter 2009 compared with the 1st quarter 2008. This fall in industrial production was most contributed to by manufacture of motor vehicles, trailers and semi-trailers (contribution -4.2 p.p., drop by 26.2%), manufacture of fabricated metal products (contribution -3.1 p.p., drop by 34.6%) and manufacture of machinery and equipment (contribution -2.5 p.p., drop by 28.4%). Revenues from industrial activity fell by 18.5% (current prices). Direct export revenues of industrial enterprises at current prices declined by 21.6%.

Results from the first quarter of 2009 show that the Czech Republic is afflicted by economic crisis. GDP was -3.4 %, inflation in May 2009 was 4.1 % and unemployment in May 2009 was 7.9 %.

EU countries show the similar situation. GDP grow will be very low or negative, unemployment will be higher and businessman as well as consumers will be nervous. According to the Eurostat, industrial production in the EU 27 declined by 16.3% in January 2009 compared with January 2008 and by 17.5% in February 2009, compared with February 2008.

3. ADVANTAGES AND DISADVANTAGES OF GOVERNMENT INTERVENTION

After the first information about scandal with mortgage in USA, people divide into two groups along to their opinions. The first group believes that economic downturn is caused by a lack of government regulation, the second group emphasizes that the reason for economic downturn is caused by a lot of government interference. Government is broken into two groups too. Protectionisms spread in words a lot of politicians. These words are loud before to call an elections. The second part of this paper should be point out advantages and disadvantages of government regulation and protectionisms. Where is the best rate between freedom and regulation?

Supporters of regulation stress stabilization of economic conditions, protection rights of investors and total renew economic growth with their intervention into economic. Opponents

stress invisible danger connected with this approach. State debt will be increased with using of this instrument and government will be limited in utilization of stabilization policy in future.

Which kind of this policy is better? It depends on political opinion and for the position of view. High state expenditures bring advantages in short time because economic increases, but they have a lot of negative impacts for a long time. It depends on which expenditures will be increased too. Government has two possibilities – to give money to consumers or to businessmen.

The first possibility is only populist step. This approach is acceptable especially for low income people. Demand of goods will increase but increment will be only small because a lot of people want to save money for worse time. The second group of people spends the money for usual things and they want to get next money. The third group of people takes loan and spends all money for buying car or realty. They could have problem with pay back the debt in the future. The first possibility does not help with economic growth. Support of consumers has negative effect to businessmen. Businessmen do not have money for paying employees therefore unemployment increases.

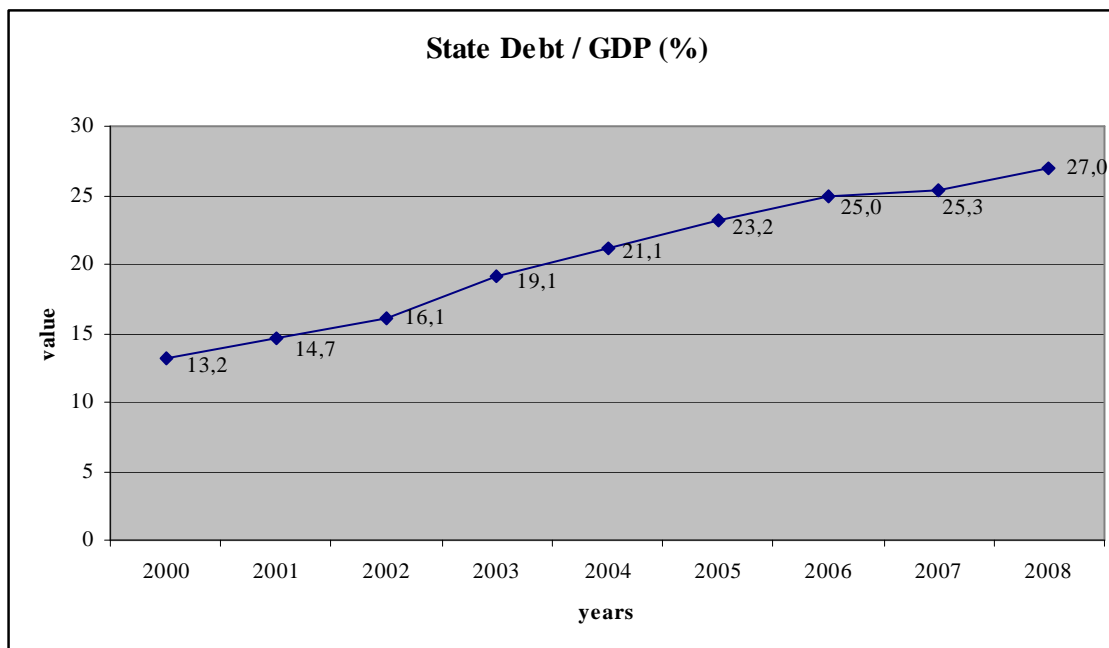
The second possibility is better than the first. Support of businessmen has positive effect for employees, because unemployment does not increase stronger (and unemployment benefits from state budget are not so high).

It is better to give money indirect through tax allowances. This approach helps all businessmen. State tenders help only one branch or selected great companies. State tenders give only great companies, small and medium companies do not have necessary capital. Selection one of branches (nowadays, we can see support of car industry in America and EU countries) handicap other branches. Supported companies which survive economic downturn do not improve the quality of products and to make their product more competitiveness. They do not have any motivation to improve.

Difficult situation is with support of companies introduced “national products” and companies with long position (often a lot about one hundred years) in the market. It is difficult to prohibit protectionisms.

Government intervention depends on high of state debt. It is unthinkable to have high expenditures from state budget during economic downturn if country has high state debt. There is no possibility for doing stabilization politic. High expenditures deepen economic instability of this country.

Government of the Czech Republic realizes expansive fiscal politic for 12 years. Expansive fiscal politic was realized during economic boom. Every year increase state debt. Results from this politic will be negative impact during economic downturn in next years. Situation with the state debt as percentage of GDP shows Picture 3. From this reason, government of the Czech Republic should impede of increasing state debt.



Obrázek 3 Development of State Debt as Percentage of GDP in the Czech Republic (Czech Statistical Office)

Nowadays, answer on question if government interference yes or no is rather political answer than economical answer. There are a lot of politicians form EU countries which have positive attitude toward government interference. These politicians support government interference in other countries. We can see that at buying new car implementation support system. These trends could be dangerous not for economic in the Czech Republic as well as for economic stabilization whole of EU members.

4. DISCUSSION AND CONCLUSION

The new data show that economic in the Czech Republic will decrease for this year. Economic grow should be negative (-2.3 % along the Ministry of Finance) and the view in the 2010 should be soft growth (0.8 %). Total import should be higher than total export and unemployment should be increased (prediction indicate unemployment about 9 % this year). Only inflation will be low, analytics expect inflation about 1.1 % in 2009.

Forecast for the next future is very difficult predicted. It depends on many of variables. The first variable is development of world economic. It is necessary to strengthen situation in financial markets which is very difficult to realize. Banks should be stopped afraid of lending money especially in the Czech Republic where they have stable position for a long time and their bank credit are not specificity as losing.

The second variable is international political stage and national political stage and their approaches towards intervention and protectionism. High state expenditures represent danger in long time and economic development is not sustainable. Government should realize a minimum of intervention in the market. It should stop to help only one company or branch because it discriminate other companies or branches.

The third variable is connected with consumers' behaviors. If consumers will believe in economic, they will start to buy more products and economic will increase. This is the best solution of every economic downturn.

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