

Zdeněk Štěpánek

University of J.E. Purkyně in Ústí nad Labem

THE WORLD CRISIS AND ITS IMPACT ON REGIONAL DEVELOPMENT

Summary: The financial crisis, which started in autumn 2008 and spread all over the world, has inflicted qualitative as well as quantitative restraints in the regional development. The paper deals with some implications of the crisis in case of the Czech Republic. The regional politics has been recently weakened due to the lack of finances. In such a situation the attention of the ruling is focuses on the distribution channels of EU funds.

In 2008, the culminating financial turbulence brought about quite dramatic events in all major world economies. In particular, the failure of the US investment bank Lehman Brothers in September 2008 significantly increased the lack of confidence in the interbank markets in the whole world. In the attempt to alleviate the situation, central banks in many countries began to gradually introduce aggressive non-standard instruments to their arsenal. In some countries, first signs of an unusually rapid and strong recession appeared.

The Czech financial system has also suffered from this situation. During 2008, risk premiums on the money market were gradually increasing, and there was a temporary decline in liquidity on the government bond market. However, fears that the problems of foreign parent companies would spill over to the Czech banking sector were not confirmed, thanks, among the other things, to the regulatory measures restricting the volume of liquidity transferred from Czech subsidiaries to foreign parent banks.

At the same time, unsubstantiated fears that the Czech as well as Central and Eastern European banks could pose a threat to their Western European parent companies began to spread. The fears were based on the supposition that these economies would suffer deep consequences of economic slowdown. But, in the case of the Czech Republic, the proponents of the gloomy outcomes – some journalists, analysts and unfortunately even international institutions – seemed to have forgotten that banks in the Czech Republic are, for the most part, subsidiaries of foreign parent companies, and that these entities are exclusive lenders to their parent banks. The difficulties among the subsidiaries could only have an indirect impact on the finan-

cial health of their parent companies primarily in form of negative effect on their reputation or lower dividends. However, any direct impact causing a decline in the value of assets or decrease of capital at the parent bank was very unlikely. In addition, the communication between investors and comments among foreign media lacked the emphases on the fundamental difference between the concerned countries regarding the private and public financial condition. While the precedent popularity of granting loans in foreign currencies in Hungary or the Baltic states made the financial situation of debtors very sensitive to exchange rate changes, the Czech economy stood relatively untouched due to a different loan structure.

The financial segment dealing with mutual funds was one of the most affected segments. It was due to the external developments in the Czech Republic. Shareholders were concerned with the continued decline in the prices of shares that had led to a situation in which the total value of the funds of the purchased participation certificates in 2008 exceeded the overall value of sold participation certificates in the volume of CZK 29 billion. Traders in non-banking securities were also greatly affected by that and they had to cope with a decline of more than 60% in loans and other client receivables. However, the capital adequacy of non-banking trade was at a sufficient level of 23.3%.

The leasing segment also experienced a certain decline in 2008, and year-on-year growth of loans for leasing reached only 5.6% (in comparison to 16.4% for bank loans). This was triggered by policies that employed restrictions on tax benefits for leasing. Consumer loans, installment loans, and credit card loans from other credit institutions increased year-on-year to 16% (while the growth rate of bank consumer loans was 20%). Although the non-banking credit institutions are not under the direct supervision of the CNB (Czech National Bank), many of them are controlled by banks or other financial institutions. It can be said that the financial crisis affected the Czech financial sector in time when the situation in the Czech Republic appeared in a relatively good condition. One may suppose, that after our main business partners have recovered from the recession, which will hopefully be in 2010, the Czech economy and its “financial backbone” should return to its former levels of health and stable growth. We can only hope that the economy comes out of the crisis without any visible wounds.

From today’s perspective, the year 2008 has been imprinted into history of financial markets and because of historically one of the biggest financial crises in modern age, it will mark the future economic thoughts. Global financial markets were shaken by fundamental changes in American financial sector and the final consequences will inevitably change the whole world.

At present, we can state that the Czech economy significantly slowed, primarily because of lower consumption of households, which was partially offset by higher inflation. The slowdown exceeded the benchmark by 7%, and inflation grew primarily due to higher energy and food prices, which was fortified by government reforms (e.g. the fees at doctor’s office, higher VAT). Even though the inflation in 2008 dra-

matically increased, the Czech koruna appreciation erased its impact having reached a historical maximum of 22.80 CZK/EUR and 14.50 CZK/USD. These changes were positive for import; on the other hand the depreciation of euro and dollar to Czech koruna troubled home exporters, whose products became less competitive because of higher prices. The second half of the year brought noticeable correction due to the global development and Czech koruna wiped out the yearly gains to close at 27 CZK/EUR.

The year 2008 was also a year of great fluctuations in interest rates in the Czech Republic. While in February the Czech National Bank increased rates to six year maximum of 3.75 %, in the second half of the year it decreased rates down to 2.25%. The global events will further affect the Czech Republic affairs in the rest of 2009. Investments into Czech stocks will depend on the willingness of investors to run the risks. The assumption is that the economic development will rather slide into negative numbers for the rest of the year and the asset value may remain down from previous levels.

Because of the high rate of uncertainty and rapid changes, it is very difficult to estimate the extent of the slowdown of the Czech economy. However, this year we expect a dramatic decrease in budget revenues. We cannot rule out even a deeper economic slowdown in case of prolonged difficulties. Inflation in the Czech Republic should decrease to resemble external trends. An average unemployment grew significantly from 5.5% to 7.9% in 2008. It means a rate approaching 9% by the end of 2009.

An important relative advantage of the Czech economy is its macroeconomic stability – trade balance surplus (CR is the only one out of new EU members), relatively low deficit of the current account of balance of payments, which is fully offset by an influx of foreign investment. There is also quite low indebtedness towards foreign countries, stable banking sector, low inflation in the long run and relatively stable public budgets.

The impacts of this financial crisis and further economic recession on the Czech scene carry along quite specific features, which resemble specifics of the Czech economy. The major facts that may differ the decision-making are:

- The Czech Republic is a quite small country and its economy is restrained. If it should be successful, it must be widely engaged into a world trade.
- The main business partner for the Czech Republic is Germany where the Czech economic affairs are primarily influenced by the development in German economy with some delay of several months.
- The present political turbulences (the fall of the government, incoming votes) promote reluctance to pursue unpopular measures, which would lead to some improvement. The main tool to compensate the drop in GDP caused by diminished revenues is ever increasing indebtedness.
- The deficit of public finances will reach circa 5,5% of GDP in 2009 and in 2010 it can reach 7%. The CR is about to close the door to adopt EURO in the coming

years where the closest term to join the European currency seems to come in about 2015-2017.

- There is a big difference between the economic performance of the Czech metropolitan region and all the other regions. While the other regions show the signs of the slowdown, the Prague region resists these trends.
- The most affected regions are the industrial regions of Ostrava and Usti nad Labem next to those regions that were exposed to foreign investment.

Czech politicians and bureaucrats seem to have a common denominator in their propositions to mitigate the impact of the crisis. Most of their proposals further strengthen the role of the state and promote unprecedented spending of public finances, which is usually followed by promises of better future, while the needed reforms (social, health care) are being postponed. The regional politics has been recently suppressed due to the lack of finances. The main focus remains on governing the distribution channels of EU funding.

Table 1. GDP (% p.a.)

Region	2008	2009*	2010**
Czech Republic	3	-5	0,3
Germany	1,3	-6	0,0

Source: [Czech Statistical... 2009].

Table 2. Unemployment (%)

Region	2008	2009*	2010**
Czech Republic	4,4	8,5	10,0
Germany	6,0	8,6	10,4

Source: [Czech Statistical... 2009].

Table 3. Czech National Debt (bill.)

	2008	2009*	2010**
National debt	1106	1250	-
Budget deficit	-52	-167	-170

Source: [Czech Statistical... 2009].

Table 4. Export:
a/ Exporters

Rank	Country	bill USD in 2008	%
1	Czech Republic	1465	9,1
30	Germany	147	0,9

Source: [Czech Statistical... 2009].

b/ Export from Czech Republic

to	Germany	Slovakia	Poland	Italy
2008	397	115	83	65
2009*	347	91	60	47
20% loss	-13	-21	-28	-28
% share	30	N/A	N/A	N/A

Source: [Czech Statistical... 2009].

Table 5. Living standard in CR NUTS III regions in 2008

Rank	Region	Index (100 = maximum)
1.	Prague region	89
2.	Středočeský region	98
3.	Jihomoravský region	87
4.	Plzeňský region	92
5.	Pardubický region	83
6.	Královéhradecký region	89
7.	Jihočeský region	90
8.	Olomoucký region	86
9.	Vysočina region	85
10.	Liberecký region	88
11.	Moravskoslezský region	92
12.	Zlínský region	85
13.	Karlovarský region	87
14.	Ústecký region	92

Source: [Master Card... 2009].

Note: Index in Table 5 is a compound rate and includes unemployment, investment stimulus, life expectancy, environment, and other social and economic indicators.

* = estimate

** = prognosis.

Literature

BRD: Export – Import, IFO, München, 2009.

Ekonom. 2009 no 1-8, Prague.

Czech Statistical Office, Prague 2009.

Master Card Study, Prague 2009.

ŚWIATOWY KRYZYS I JEGO WPŁYW NA ROZWÓJ REGIONALNY

Streszczenie: Kryzys finansowy, który rozpoczął się jesienią 2008 r. i rozprzestrzenił na całym świecie, spowodował poważne jakościowe i ilościowe ograniczenia w rozwoju regionalnym. Opracowanie odnosi się do wybranych następstw kryzysu w przypadku Republiki Czeskiej. Polityka regionalna w ostatnim czasie została osłabiona z powodu braku środków finansowych. W zaistniałej sytuacji uwaga rządzących skupia się na kanałach dystrybucji unijnych środków.