Impacts of the Global Economic Crisis on Tourism in the Czech Republic

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Abstract: - While the significance of tourism for the Czech Republic's economy is relatively high, it is far from being the dominant industry. Despite the recent substantial investments in this particular field of economic activity, the share of tourism in gross value added has been steadily declining, similarly to the ratio of tourism revenue to gross domestic product. The year 2008 saw these values hitting bottom as a result of the overall stagnation of tourism in the European Union, with the mild growth in 2009 being mostly attributable to the overall economy going through the recession; in this respect, the mild increase in tourism revenue to GDP did not come as a surprise. In terms of the development of the entire industry, the real impacts of the crisis on tourism within the Czech economy needs examining, although this particular influence should also be distinguished from other aspects such as the steady decrease in the share of tourism in gross value added and in the ratio of tourism revenue to GDP. This will enable us to exactly define the key reasons for tourism within the Czech economy not posting the results that the same industry has generated in comparable countries. The present work formulates, and using a host of statistical data and their analysis also proves, the thesis that contrary to popular belief, the Czech tourism industry had been experiencing a downturn even before the economic recession set in.

Key-Words: - tourism, recession, gross domestic product,

1 Importance of tourism for the Czech economy

Generating approximately three percent of GDP, tourism is not the key Czech industry. As much as 65% of the industry's output originates in the capital city of Prague. The explanation is simple: Prague offers a quite unique collection of historically and artistically significant structures that have been to a large degree preserved in their original appearance, while also having been saved from extreme destruction or modern renovations. Incoming tourism from rich developed countries, which generates the most significant part of the industry's output, targets almost exclusively Prague. Besides the capital city, the Czech Republic offers a number of other destinations that are undoubtedly interesting from the tourist perspective but whose importance is significantly lower, e.g. the spa town of Karlovy Vary (Carlsbad), the architectonic gem of Český Krumlov, the unique chateau complex of Lednice and Valtice as well as other castles and chateaux (e.g. Karlštejn just outside Prague). The country has a longstanding tradition of hiking with a unique and elaborate system of marked paths and facilities for biking have been developed as well; however, taking a critical stance it is fair to say that the Czech Republic does not offer much in terms of exclusive natural wonders that would set it apart from other areas.

Economically speaking, tourism presents a relatively important economic component (see Table 1) as it contributes approximately 3 percent to the country's GDP (although the value continues decreasing). In this respect, it is more important than agriculture or fishing. Over the recent years, the contribution of individual industries to total GDP has become approximately stabilized as follows:

- industrial production: 33 percent,
- trade and hospitality (including tourism): 24 percent
- other services: 17 percent,
- financial and commercial services: 17 percent,
- construction industry: 6 percent,
- agriculture, forestry, fishing: 3 percent.

Tab 1: Main indicators of the national economy and tourism in the Czech Republic in 2003-2009

Indicator	**2003[1)]**	**2004[1)]**	**2005[1)]**	**2006[1)]**	**2007[1)]**	**2008[2)]**	**2009[3)]**
Total output (bp)	6 392 815	7 052 693	7 441 528	8 323 461	9 238 420	9 677 283	8 786 554
Total intermediate consumption (pp)	4 032 970	4 517 567	4 763 005	5 412 466	6 056 936	6 352 285	5 524 956
Total gross value added (bc)	2 359 845	2 535 126	2 678 523	2 910 995	3 181 484	3 324 998	3 261 598
Taxes less subsidies	236 249	279 033	308 602	314 709	357 449	367 624	367 913
Gross domestic product	2 596 094	2 814 159	2 987 125	3 225 704	3 538 933	3 692 622	3 629 511
Tourism output (bc)	216 773	232 994	226 932	241 595	250 407	251 543	238 257
Tourism intermediate consumption (pp)	136 753	149 243	145 250	157 101	164 173	165 116	149 815
Tourism ratio on gross value added (%)	**3.4**	**3.3**	**3.0**	**2.9**	**2.7**	**2.6**	**2.7**
Tourism gross value added (bc)	80 020	83 751	81 683	84 494	86 234	86 427	88 442
TGVA - Characteristic industries	56 379	58 459	55 386	58 581	61 086	61 117	63 940
TGVA - Connected industries	19 941	21 706	23 290	23 230	21 844	22 257	21 395
TGVA - Non specific industries	3 700	3 585	3 007	2 683	3 304	3 054	3 107
TGVA - Characteristic industries (%)	70.5	69.8	67.8	69.3	70.8	70.7	72.3
TGVA - Connected industries (%)	24.9	25.9	28.5	27.5	25.3	25.8	24.2
TGVA - Non specific industries (%)	4.6	4.3	3.7	3.2	3.8	3.5	3.5
Tourism taxes	10 772	18 565	17 396	15 462	16 845	17 024	15 851
Tourism gross domestic product	90 792	102 316	99 079	99 956	103 079	103 451	104 293
Tourism ratio on gross domestic product (%)	**3.5**	**3.6**	**3.3**	**3.1**	**2.9**	**2.8**	**2.9**

CZK mil. / %
1) Revised data
2) Semi-definitive data
3) Preliminary data
(bp) Basic prices
(pp) Purchaser prices
Source: Czech Statistical Office: Main indicators of the national economy and tourism in the Czech Republic in 2003-2009, Praha 2011, http://www.czso.cz/csu/redakce.nsf/i/tsa_hlavni_ukazatele_narodniho_hospodarstvi_a_cestovniho_ruchu_v_cr [1]

With industrial production and the construction industry making up to 40 percent of gross domestic product, the Czech Republic belongs among countries with significant influence of production industries. While the importance of tourism is not negligible, it is far from taking a dominant share. In terms of the influence of tourism on the overall economy, the mostly negative development of individual indicators over the recent years is worth noting. For example, the parameter "number of overnight stays" posted a mild y-o-y growth only in 2010, after having gone through several years of decline.

2 Czech tourism was not affected by the economic crisis; it had already been in decline when the recession hit

It is popular belief that the Czech tourism industry suffered as a result of the economic crisis and the global reduction in demand for travel products. As the statistical data reveal, however, tourism in the Czech Republic had been for a while among industries that had been unable to keep the pace of the dynamic development, lagging behind the overall economy as the time progressed. What is even more important, however, is that with the exception of 2004 the only years where tourism posted better results than the rest of the national economy were the years of stagnation or recession (2009 and 2010). On average, GDP (expressed in current prices) grew 3 percentage points faster than GDP generated by tourism.

Table 2: Comparison of gross domestic product of the Czech Republic and tourism industry output (indices, current prices)

Index	GDP	Tourism-generated GDP	Correlation 2)
2004/2003	109.2	112.7	1.032
2005/2004	106.0	96.8	0.913
2006/2005	108.0	100.9	0.934
2007/2006	109.7	103.1	0.940
2008/2007	104.4	100.4	0.962
2009/2008	98.3	100.8	1.025
2010/2009	101.2	102.8 1)	1.016
Average	**105.3**	**102.5**	**0.973**

1) Author's estimate based on the number of hotel nights and 2010 sales; Czech Statistical Office: In 2010, the decline in the number of foreign visitors to the Czech Republic ended, 10 February 2011, available at http://www.czso.cz/csu/csu.nsf/informace/ccru021011.doc
2) An index expressed as the tourism-generated GDP index to the GDP index, showing the mutual relationship between the two latter indicators for individual years.
Source: Czech Statistical Office: Main indicators of the national economy and tourism in the Czech Republic in 2003-2009, Prague 2011, http://www.czso.cz/csu/redakce.nsf/i/tsa_hlavni_ukazatele_narodniho_hospodarstvi_a_cestovniho_ruchu_v_cr [1], Czech Statistical Office: Main macroeconomic indicators, 19 April 2011, http://www.czso.cz/csu/redakce.nsf/i/home [2], author's calculations

If we applied GDP deflators, which the Czech Statistical Office used to measure nominal gross domestic product in order to net it of price variations, to the individual years we would arrive at the conclusion that throughout the post-2005 period, the performance of tourism has been actually declining. Some real growth may be apparent in the 2010 results once they become available (the data for 2010 are a calculation based on the estimated level of GDP generated in tourism). The deflators for the respective years have been set as follows:

Tab 3: Gross domestic product deflator

Year	2004	2005	2006	2007	2008	2009	2010
Deflator 1)	4.5	-0.3	1.1	3.4	1.8	2.5	-1.1
Real GDP 2)	8.3	-2.8	-0.3	-0.4	-1.5	-2.7	2.9

1) A value provided by the Czech Statistical Office; however, for the purposes of calculating real GDP generated by tourism, a slightly adjusted parameter has been used that has been modified to reflect the development of prices in areas related to tourism in order to provide a more accurate picture of the industry; however the differences are negligible.
2) Tourism-generated GDP
Source: Czech Statistical Office: Main indicators of the national economy and tourism in the Czech Republic in 2003-2009, Prague 2011, http://www.czso.cz/csu/redakce.nsf/i/tsa_hlavni_ukazatele_narodniho_hospodarstvi_a_cestovniho_ruchu_v_cr [1], author's calculations.

As far as the Czech Republic is concerned, the situation in the tourism industry has not been due to the global economic crisis but, rather, has been the result of a chronic condition prevalent within the Czech economy for a number of years, one that is unlikely to change substantially in the near future.

2.1 Probable causes of stagnation

Looking for causes of the long-term stagnation or decline of tourism in the Czech Republic, we may attempt to identify potential issues in several following areas:

1) security
2) environment
3) legislation
4) economy (and prices)
5) consumer psychology
6) service standards

As far as the situation in the Czech Republic is concerned, there are currently no security reasons behind the stagnation or decline of tourism in the Czech Republic. The country is free from war conflicts, is not prime target for terrorists, so far there have been no terrorist attacks within the country or against the country's property abroad (e.g. embassies). While the crime rate is relatively high for petty theft, its levels do not surpass those in other European countries. The Czech Republic has recently enjoyed a period without any major natural disasters. The last major one took place in 2002 when Prague and extensive areas in the western part of the country were affected by unprecedented flooding. By the way, the rather significant growth in tourism in 2003 and 2004 was due to the fact that the 2002 levels had been adversely affected by the natural disaster. The country no longer suffers from the impacts of the "Balkans events", following a period in the early and mid 1990s where many people were unable to make a distinction among the countries of Central Europe and the Balkans (e.g. due to the closeness of the names such as Slovenia and Slovakia), with the situation thus harming tourism in both the Czech Republic and Slovakia.

In terms of environment, the Czech Republic is on par with the majority of European countries. There is no campaign against the country targeting its environmental policy nor is the country "scolded" by influential environmental organizations. One event had a marginal impact on tourism in the Czech Republic: the disputes between the Czech government and Austria (and the regional government of Upper Austria in particular) concerning the use of atomic energy and the operation of the Temelín nuclear power plant; however, this issue was of strictly local importance and had no global implications.

In terms of legislative obstacles, these are almost non-existent and there are definitely no limitations affecting tourism itself. The Czech Republic is a part of the Schengen Area and citizens of other developed countries are only rarely subjected to visa requirements. While there are some restrictions imposed on visitors from Eastern Europe, tourist visas are granted almost automatically.

In terms of economic limits to the development of tourism, the situation becomes somewhat more interesting. In this respect the issues of pricing and competitiveness come to the fore, with the situation of the Czech Republic being rather complicated. The Czech koruna (CZK) exchange rate is undoubtedly the main source of trouble. As the Czech Republic is not part of the euro area, the strengthening of the local currency affects incoming tourism. Since the local provision of services and sale of goods to foreign nationals equals to export of these items, the strengthening of the currency has the same effects on tourism as on any other type of export.

Table 3: Czech koruna exchange rate development compared to key world currencies

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010

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CZK/Euro	36.9	35.6	34.1	30.8	31.8	31.9	29.9	28.3	27.8	24.9	26.4	25.3
CZK/USD	34.6	38.6	38.0	32.7	28.2	25.7	23.9	22.6	20.3	17.0	19.1	19.1

Source: Czech Statistical Office: Main indicators of the national economy and tourism in the Czech Republic in 2003-2009, Prague 2011, http://www.czso.cz/csu/redakce.nsf/i/tsa_hlavni_ukazatele_narodniho_hospodarstvi_a_cestovniho_ruchu_v_cr [1]

For example, tourists from Germany who visited the Czech Republic in 2004 for the first time found their purchasing power reduced by almost 26% in 2010 and all this disregarding inflation that had somewhat increased prices in the meantime. Visitors using dollars found their purchasing power reduced even more significantly. Compared to the year 2000, the current purchasing power of the USD is approximately 50 percent lower (although this is in part due to the precarious position of the USD, not the strengthening of the CZK alone). However, from the perspective of incoming visitors their stay in the Czech Republic becomes increasingly more expensive due to the strengthening of the CZK exchange rate, even though this happens in a somewhat unpredictable and erratic way.
Yet foreign visitors represent a share of clients as substantial for Czech tourism as the local ones. Looking at the accommodation statistics, we see that the importance of non-residents for tourism has been increasing.

Table 4: Number of resident and non-resident guests in accommodation facilities in the Czech Republic (thousand)

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Residents	6,091	5,878	5,672	6,271	6,158	6,026	6,289	6,281	6,186	5,593	5,873
Non-residents	4,773	5,405	4,743	5,076	6,061	6,336	6,435	6,680	6,649	6,392	6,336
Total	10,864	11,283	10,415	11,346	12,220	12,362	12,725	12,961	12,836	11,985	12,209

Source: Czech Statistical Office: Main indicators of the national economy and tourism in the Czech Republic in 2003-2009, Prague 2011, http://www.czso.cz/csu/redakce.nsf/i/tsa_hlavni_ukazatele_narodniho_hospodarstvi_a_cestovniho_ruchu_v_cr [1],

In 2000, 43.9 percent of tourists have been recruited from among non-residents, while in 2010 the number was up at 51.9 percent. Both groups spent an average of three nights, with the indicator steadily decreasing or stagnating, at best. The total number of overnight stays decreased from 44.2 million in 2000 to 39.3 million in 2008, with further decrease to 36.7 million in 2009. A mild growing trend occurred in 2010 with 36.8 million overnight stays. While the share of both residents and non-residents stood at fifty percent (2010), the profitability associated with non-residents was higher given their higher standard requirements.

Table 5: Number of Overnight stays

Year	Total	Non-residents	Residents
2000	44,199,616	15,597,087	28,602,529
2001	39,122,187	17,254,881	21,867,306
2002	37,109,835	15,569,156	21,540,679
2003	39,343,250	16,510,618	22,832,632
2004	40,780,708	18,980,462	21,800,246
2005	40,320,477	19,595,035	20,725,442
2006	41,447,797	20,090,348	21,357,449
2007	40,831,072	20,610,186	20,220,886
2008	39,283,474	19,987,022	19,296,452
2009	36,662,192	17,746,893	18,915,299
2010	36,807,958	18,363,817	18,444,141

Source: Czech Statistical Office: Tourism, Number of overnight stays in public accommodation facilities in the Czech Republic of 10 February 2011, http://www.czso.cz/csu/redakce.nsf/i/cru_cr [3]

As the numbers of overnight stays reveal, the phenomenon that has been referred to in the Czech Republic as the tourism crisis is a long-term event caused by internal, as opposed to external, events. While the number of overnight stays of foreign visitors somewhat decreased as a result of the global economic crisis, it had generally showed a growing trend throughout the first decade of the 2000s –

despite the fact that due to the CZK exchange rate development, their stays had become increasingly more expensive. On the other hand, the number of resident visitors had decreased steadily over the period.
This development is undoubtedly in part due to the last two areas presenting potential issues: consumer psychology and service standards. While it is impossible to exactly identify all psychological implications, it seems that only a limited number of visitors come back to the Czech Republic repeatedly, perceiving it as a suitable holiday destination. In this respect, the Czech Republic has lagged behind Austria, Switzerland, Italy or France (and, to a certain extent, Germany) or other countries that offer a greater variety of natural and historical sights and leisure activities, which makes them a more interesting target in the eyes of the discerning traveller. We may equally only assume that the average standard of services in the Czech Republic, which has been below that prevalent in major travel destinations, has played its part as well. To a certain degree, visitors from developed and traditional democracies expect their stay in the Czech Republic to be "adventurous" (not in a positive sense, but more in a sense that they think that, with a high likelihood, they might be taken advantage of by a taxi driver who "drives them around", they expect to be overcharged in a restaurant etc.).

2.2 Potential for changes in the tourism industry in the Czech Republic

An analysis of the potential reasons behind the unsatisfactory development of the tourism industry in the Czech Republic marked with stagnation and long-term issues, leads us to the following conclusions:

1) The long-term stagnation of the industry is mostly attributable to the fact that resident travellers choose foreign destinations as opposed to taking advantage of the local offering. This is in part due to the growing standard of living in the country as well as a greater abundance of foreign travel opportunities.
2) At the same time, the number of foreign visitors has not grown as fast, partly because of the growing CZK exchange rate which makes stays in the Czech Republic more costly and partly because the resulting increase in price has not been offset with an increased attractiveness of offering nor with an improved service quality.

As far as the future development is concerned, it is likely that thanks to EU operational programmes for the tourism industry, which have been implemented for a number of years now although their results are only becoming apparent, the service offering as well as the service quality may be expected to be improved. In this respect, a number of regions in the Czech Republic have attempted to transpose the experience from German, Austrian or other regions in attracting visitors. The average quality of accommodation and restaurant services and leisure activities has been undoubtedly increasing.
Other areas within the hospitality industry may equally be expected to improve, as seen from the significant focus on the organization of conferences and other international events. While in 2006, there were 3,230 events organized at public accommodation facilities, with a total attendance of 655.2 thousand people, in 2010 there were 10,093 events attended by 1.29 million participants. This particular hospitality segment did not stop growing even at the times when the depression was at its worst and it also appears a viable direction that the Czech travel industry may pursue in order to offset the lower number of natural and historical sights compared to some other destinations within the EU.
It is probable (provided the natural hazards do not change the course of events similarly to 2002) that tourism in the Czech Republic will post satisfactory growth rates and, by 2014, the limit of 40 million overnight stays in public accommodation facilities (including hotels, bed and breakfasts, campgrounds, hostels and other similar establishment such as holiday apartments rented via travel agencies) will have been re-conquered. This estimate is based on the assumption that in 2011 and following years the number of overnight stays by non-residents in accommodation facilities will grow at the rate of approximately seven percent p.a., while the number of overnight stays by residents continues stagnating or shows mild decrease. The data that have already become available for the 2010/2011 winter season seem to confirm this assumption as well grounded.

3 Conclusion

It seems likely that the future of the Czech tourism industry will depended primarily on its ability to take advantage of the Czech Republic's strategic position in the centre of Europe, which makes it a suitable destination for conferences and other events, and on its ability to improve the standard of services without this having further adverse effects on the price development, i.e. how the Czech Republic will compete against the neighbouring countries while being immune to the strengthening of the local currency. There has been a substantial debate in the Czech political and business circles on how the government should step into this process by e.g. promoting the Czech Republic in international media or via authorized support of the travel industry (incentives for agrotourism and other modern travel concepts). In this respect, environmentalists and business owners have been debating the extent to which natural resources could be exploited for the sake of tourism, for example whether to extend or restrict areas available for the development of new ski slopes etc.
There are nevertheless obvious signs that the Czech tourism industry is likely to get out of the vicious circle in which it has been turning over the last decade, thus overcoming its current limitations.

Note:

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