

A STUDY OF THE DEVELOPEMENT OF TOURISM IN THE CZECH REPUBLIC – SELECTED ASPECTS

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ABSTRACT

The following paper analyses the declining contribution of tourism to the gross domestic product and the gross value added of the Czech economy as well as the tax revenues levied on the sector which, in the long-term, tend to follow a downward trend. An analysis of the possible causes of the situation shows that most of the reasons that are usually put forward are unfounded and fail to provide a satisfactory explanation for the aforementioned state of affairs. Based on a large set of different statistical data, the paper argues that the stagnation of the tourism sector in the Czech Republic in terms of its capacity to contribute to the GDP, gross value added and to state tax revenues is due to other factors. The Czech currency exchange rate to the euro and the US dollar is only one in a series of factors and, more importantly, it does not have a fundamental impact. The stagnation of the sector within the Czech domestic economy is attributable rather to a reduction of tourism activities of the residents. The drop or stagnation of tax revenues from the industry was related more to the increased share of shadow economy in the sector than to other factors.

INTRODUCTION

Tourism plays an important, although not essential, role in the Czech national economy. The sector accounts for approximately 3 percent of the domestic product, and is thus more significant than agriculture for example. On the other hand, in comparison to other sectors such as industry, mining or construction, its contribution is considerably lower. Moreover the tourism industry share in creating gross value added and gross domestic product has been consistently falling over the past few years. Although the decreasing importance of the sector remains marginal, it needs to be taken into account.

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
GDP	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 GDP	90 792	102 316	99 079	99 956	103 079	103 451	104 293
Tourism ratio on GDP (%)	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]

The afore-mentioned reduction of the tourism sector's contribution to the GDP leads to a reduction of tax revenues from the sector. In 2009, the year for which the most recent data on tax contribution of different sectors of the Czech economy are available (see Table 1), the tax revenue from the industry was comparable to 2006; however it was far below the 2004 and 2005 results, as well as 2008 and 2009 levels. The state revenues from the sector in 2009 were CZK 3 billion lower compared to the period when the tax amount levied was at its highest.

Even an elementary analysis of the available data shows that the reduction of the tourism industry share in the GDP was due to the simply fact, that the growth in the sector had been much slower than the overall GDP growth long before the crises erupted. In some years, the tourism related GDP even decreased despite the fact that from the global economic development perspective it was a successful period.

It can be argued, that the tourism industry within the Czech economy has been suffering a long-term stagnation. However, the causes of the situation have not been sufficiently analysed in the past years. One of the reasons which are regularly put forward is the relatively poor quality of some services provided in the Czech Republic and namely the downright bad reputation of the Czech taxi drivers, which is regularly reported on in influential foreign media. Gastronomy is another field where, according to reviewers, the quality of the services does not correspond to the prices charged for it. Public authorities often explain the stagnation of the tourism industry in the Czech Republic by the allegedly inadequate promotion of the sector abroad and by insufficient support of conference tourism. Some politicians and representatives of associations of tourism businesses put forward an interesting idea according to which the sector would benefit from a bigger promotion of film production in our country. They refer themselves to a number of cases where tourism industry's activity was boosted thanks to a popular film being shot on location in the country. A classic example is the shooting of the Lord of the Ring trilogy in New Zealand. They claim that in the past tourism in Prague largely benefited from the shooting of the Mission Impossible movie.

Notwithstanding the fact that these arguments are undoubtedly well-founded, they cannot explain the development of the tourism sector in the Czech Republic in the past ten years or so. To find the answers, a more thorough analysis is needed.

DEVELOPMENT OF THE TOURISM INDUSTRY IN THE CZECH REPUBLIC – THE ISSUE OF EXCHANGE RATE

A number of factors have considerable impact on the tourism industry within the domestic economical context. One of them is the exchange rate of the Czech crown to major foreign currencies. It had had a major impact on the situation of the sector especially in the second half of the past decade. The long-standing trend of appreciation of the Czech currency led to an increase in prices for foreign tourists visiting the country. [2], [3]

Tab. 2: Czech koruna exchange rate development compared to key world currencies

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
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	24.7
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	17.4

Source: Czech Statistical Office: Main indicators of the national economy and tourism in the Czech Republic in 2003–2009, Prague 2011, (2011 = 27. 10. 2011)

http://www.czso.cz/csu/redakce.nsf/i/tsa_hlavni_ukazatele_narodniho_hospodarstvi_a_cestovniho_ruchu_v_cr [1]

We can illustrate the trend as follows: *“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.”*[3]

As we can see, the appreciation of the Czech currency evolved very dynamically and inevitably impacted on the tourism in the country. The question is, however, to what extent the increase in

prices for foreign non-residents really contributed to the sector's activity results and whether it wasn't only a hypothesis based on established economic relations.

Tab. 3: Guests, overnight stays (non-residents by country, numbers, indices)^{*)}

		1Q 2011	2Q 2011	From the beginning of year	Index 2Q 2011 / 2Q 2010	Index from the beginning of year
Number of non-residents		1 169 846	1 941 511	3 111 357	113.5	111.0
of which						
1.	Germany	264 786	394 979	659 765	109.4	106.4
2.	Russia	112 895	158 033	270 928	150.9	147.1
3.	Poland	77 827	111 020	188 847	109.5	110.5
4.	USA	36 064	98 921	134 985	106.0	106.6
5.	Italy	68 288	94 523	162 811	107.3	100.6
6.	France	48 536	93 578	142 114	121.0	121.8
7.	Slovakia	65 849	92 477	158 326	111.8	113.0
8.	Great Britain	67 731	88 395	156 126	94.1	93.5
9.	Spain	29 267	60 311	89 578	120.1	111.7
10.	Austria	31 803	51 667	83 470	103.8	103.4
Number of overnight stays of non-residents		3 637 512	5 537 964	9 175 476	115.2	111.9
of which						
1.	Germany	978 041	1 269 091	2 247 132	106.1	103.1
2.	Russia	586 714	848 156	1 434 870	154.2	148.7
3.	Italy	203 249	268 900	472 149	109.7	99.0
4.	USA	94 299	262 264	356 563	106.6	107.9
5.	France	123 329	247 892	371 221	122.9	124.3
6.	Great Britain	170 427	218 187	388 614	94.1	93.5
7.	Poland	225 762	201 707	427 469	107.9	112.8
8.	Spain	80 242	180 797	261 039	120.9	112.0
9.	Slovakia	129 217	173 118	302 335	108.5	112.3
10.	Netherlands	140 719	142 861	283 580	104.8	108.4

^{*)} There are top 10 countries according to last quarter.

Source: Czech Statistical Office: Main indicators of the national economy and tourism in the Czech Republic in 2003-2009, Prague 2011, (2011 = 27. 10. 2011)

http://www.czso.cz/csu/redakce.nsf/i/tsa_hlavni_ukazatele_narodniho_hospodarstvi_a_cestovniho_ruchu_v_cr [1]

If we take for comparison the second quarter of 2006, we see that despite the strengthening of the Czech currency vis-à-vis the euro and the dollar, the difference in the the number of visitors remains quite insignificant. In the second quarter of 2011, the number of visitors amounted to 1.941 million; the number of overnight stays of foreign visitors amounted to 5.537 million. As for the second quarter of 2006 the statistical data of the Czech Statistical Office show that there were 1.808 million visitors and 5.396 overnight stays. The results are, with a little overstatement, essentially the same. A certain shift can be however identified in the composition of the visitors – tourists from Russia and Poland have overtaken, in terms of their numbers, visitors from Italy and Great Britain. Although this change might be interesting for tourism sector facilities as regards their strategies, it doesn't have any implications for the overall situation. We could of course argue that tourists from Russia or other countries do not suffer in such an extent from the appreciation of the Czech currency or that we saw a

significant decrease in the number of German tourists (from 459,000 tourists and 1.645 overnight stay in the second quarter of 2006 to 395,000 visitors and 1.269 overnight stays currently). However, if we compare the figures from the same period, we see that the number of tourists from the U.S., who were in a considerably less favourable situation in terms of exchange rate than the Germans, fell only by one thousand and the number of overnight stays by thirty thousand. Moreover, in the time period in question, visitors from France, for whom the impact of the evolution of the exchange rate was exactly the same, came in even larger numbers than before (77,868 in the second quarter of 2006 compared to 93,578 in the second quarter of 2011). As we can see, the exchange rate undoubtedly plays its role and it is possible to identify an important correlation between its fluctuation on the one hand and the evolution of the number of tourists as well as the number of overnight stays on the other hand [2]. However it does not explain the development in the tourism industry as a whole.

DOMESTIC TOURISM

Domestic consumption, i.e. tourism activity fuelled by Czech residents, has a major impact on the tourism industry in the Czech Republic and is one of its biggest concerns. This indicator follows a consistent downward trend, as illustrated in the table below.

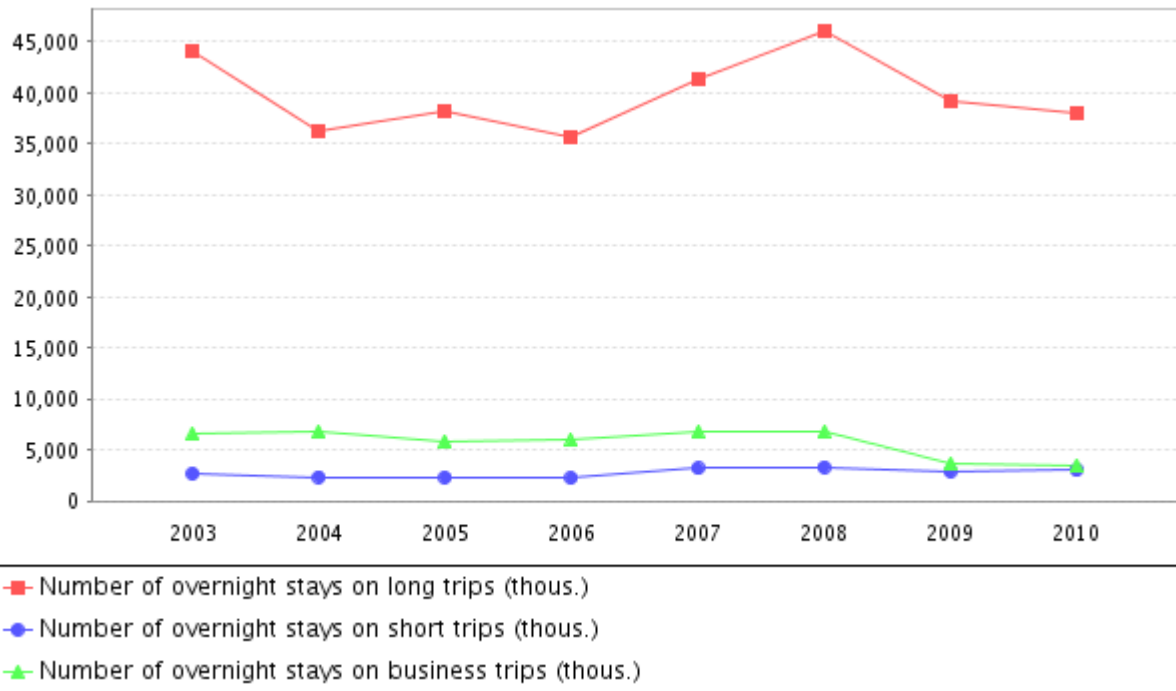
Tab. 4: Number of Overnight Stays

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 as of 10 February 2011, http://www.czso.cz/csu/redakce.nsf/i/cru_cr [4]

The decrease in tourism activity by residents over the past ten years has had a fundamental and determining impact on the development of the sector. It is often claimed that with the rising living standards and thanks to the exchange-rate driven fall in the prices of vacations abroad, citizens of the Czech Republic ever more often prefer foreign destinations to national ones. In fact, this assumption is also more of a fantasy or a wish and is statistically unfounded. Such an argument would mean that while the number of domestic overnight stays in the tourism facilities falls down, the demand for foreign destinations should rise. It is, however, not the case.

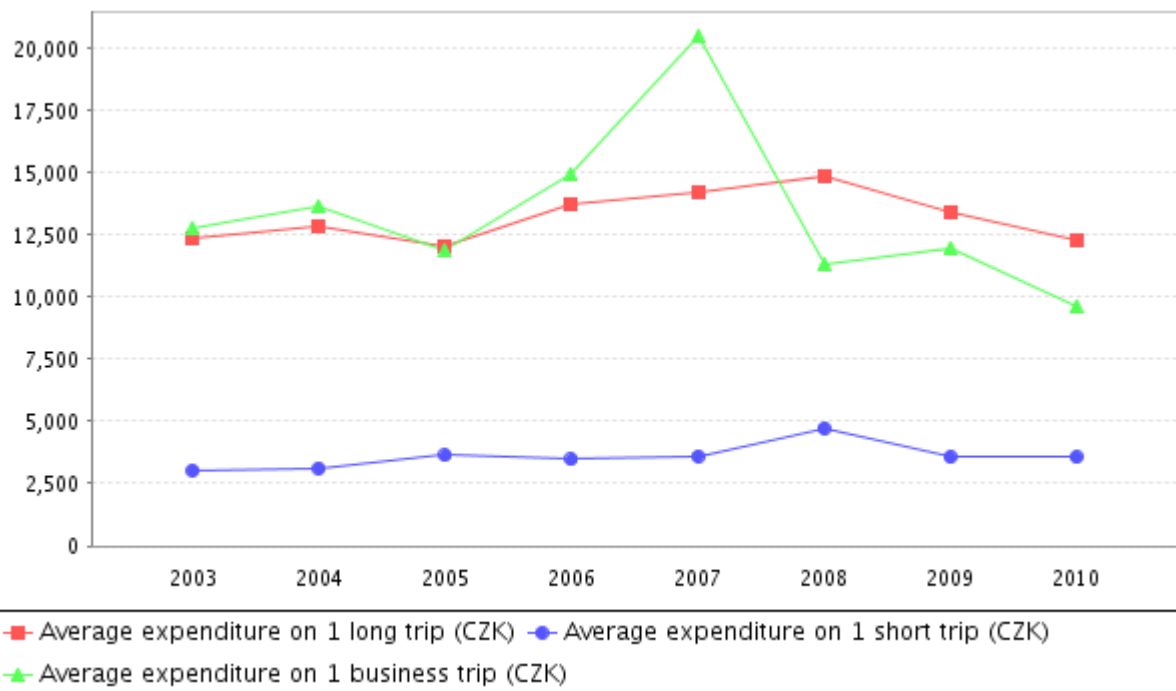
Graph 1: Number of overnight stays of residents on outbound trips (2003-2009)



Source: Czech Statistical Office: Domestic and Outbound Tourism, 2011, http://vdb.czso.cz/vdbvo/en/tabparam.jsp?voa=tabulka&cislatab=CRU0060CU&&kapitola_id=39 [5]

The available statistical data show that the number of overnight stays of Czech tourists, or Czech residents on foreign business trips, does not, by no means, follow an upward trend, or at least not consistently. The dynamic growth in the period 2006 to 2008 was cut short quite brutally by the crises. And as we can see from the comparison with the data on domestic tourism, there was no sign of a recovery of the residents' demand for domestic accommodation facilities between 2008 and 2009.

Graph 2: Average expenditure of Czech residents on outbound trips (2003-2009)



Source: Czech Statistical Office: Domestic and Outbound Tourism, 2011, http://vdb.czso.cz/vdbvo/en/tabparam.jsp?voa=tabulka&cislatab=CRU0060CU&&kapitola_id=39 [5]

Similarly there is no indication suggesting an increase in expenditures of Czech tourists on foreign trips, therefore we can hardly talk about any sort of substitution effect. On the contrary, we can argue that Czech consumers are generally less interested in travelling, within the country or abroad, and we can furthermore assume that this is due to number of macroeconomic factors and also to the downward trend as regards the indebtedness of Czech households. The rise in the foreign travel expenditures of Czech households between 2005 and 2007 corresponds exactly to the period of a significant growth in the indebtedness, including by taking out consumer credits. These funds were partly used, however absurd it may seem from the economic perspective, to pay for foreign trips.

The decline of the number of Czech residents opting for domestic vacation shows that tourism was one of the first items to be sacrificed by the consumers on the altar of the economic crises.

IMPACT OF THE SHADOW ECONOMY ON OFFICIAL DATA

If we adopt a comprehensive approach to the situation in the Czech tourism industry, we see that none of the aforementioned factors, i.e. exchange rate fluctuation, decrease in visits from abroad, economic crises and decline in the domestic tourism demand, suffices to explain the trends of the past few years regarding tax revenues levied on the tourism sector and the ever smaller contribution of the industry to the gross domestic product. The drop in the number of visitors and overnight stays within the whole industry in the past years was, in fact, partly offset by the increase in prices and by the rising share of the conference tourism in the Czech Republic. This form of tourism is traditionally much more interesting for the sector businesses in terms of expenditures than other forms of tourism.

The number of overnight stays in tourism facilities between the year 2000 and 2010 fluctuated within a 10 percent range up and down from the median at approximately 40 million overnight stays per year. That means that no sudden decrease of more than 10 percent occurred; most of the time the year-to-year difference remained lower and less significant.

The price of tourism-related services rose by approximately 15 to 20 percent over this period of time. However, the evolution of price levels is very difficult to measure because, at the same time, we saw a significant increase in the quality of the services and of the equipment available in the facilities and well as rising standards of the services and expectations from the visitors, both residents and non-residents. Despite that, there was an undisputed increase in revenues coming from the tourism-related services.

Having said that, there are no reasons explaining why the share of the industry in the GDP and in the gross value added as well as the tax revenue generated by the sector fell down in a situation where other sectors were not rising significantly or were even in a downturn. A more detailed look at the table number 1 shows, that the gross value added of the whole sector has been stagnating. Even in periods where, in light of the number of visitors, overnight stays and other factors, it should have been rising.

Other analysis and thorough research will have to be carried out to shed some light on the situation; however there is one obvious logical explanation, which could elucidate the inconsistency between physical statistical data (numbers of visitors, number of overnight stays) and financial statistics based on virtual calculations. This discrepancy may be due to an increased share of grey economy in the tourism industry.

It is extremely difficult to estimate the share of the shadow economy in the actual economic performance of a country. Usually it is maintained that in the EU countries underground economy accounts for more than 10 percent. The share of untaxed economy varies from 10 percent for the most advanced economies, up to 15 percent. Nevertheless one can assume that there will be considerable differences in terms of the size of the shadow economy even between the EU countries. The level will very probably be different in Germany or Scandinavian countries, and in France; it will possibly be higher in Italy or Greece.

It is widely assumed that the potential size of the shadow economy is proportional to the share in the GDP of a particular country or region of sectors such as tourism and market services, especially food services. Construction sector has similar impact on the size of the shadow economy.

The share of the shadow economy in the Czech Republic is estimated to approximately 17 percent of the GDP, i.e. some 500 billion crowns, [6] Slovakia and Belgium are in a similar situation according to a study called *The Shadow Economy in Europe*. The proportion in Spain and Portugal is slightly higher, in Italy the level exceeds 20 percent, in Greece and Cyprus the shadow economy is worth 25 percent of the GDP. The authors of the study warn against further increase of the size of shadow economies: *“If we first look at the average of the 27 European Union countries we see, that the shadow economy in the year 2003 was 22.3% (of official GDP), decreased to 19.3% in 2008 and increased to 20.0% in 2010. If we compare the average of 31 European countries in 2003 the average size was 22.4%, decreased to 19.4% in 2008, and increased to 20.1% in 2010. If we consider the last 2 years (2009 and 2010) and compare them with the year 2008, we realize that in all countries we had again a slight increase of the size and development of the shadow economy. This is due to the fact of the world wide economic and financial crises.”*[7]

The shadow economy logic and the pattern of its growth in certain periods of time can be found in other contexts, too: *“The official economic sector may move from the competition that is characterized by flexible prices and efficiency of productivity. In the underground economy there are no state interventions and this gives freedom to the consumer and to flexible prices. Consequently, one may say that underground economy has the “ideal” conditions for an optimum allocation of resources, being the cheapest alternative for small companies in developing and transition countries.”*[8]

CONCLUSION

One of the impacts of the 2008–2010 economic crises was an increase in the share of the shadow economy in developed countries. In the Czech Republic this phenomenon probably had the very same effect as in other countries. Based on a series of statistical data we can argue that the consequences have been especially visible in the tourism industry. The falling contribution of this sector to the generation of the country’s GDP between 2003 and 2009 (as documented in Table 1) might not be due only to a long-standing stagnation of the industry and to the decline in the number of tourists (residents and non-residents). Similarly the cutback in the amount of taxes levied on the sector as a whole does not mean that the industry has plunged into long-term crises. In fact, a considerable and probably determining role in this development is attributable to the increasing importance of the shadow economy in tourism – this would also explain the existing discrepancies between physical data (number of inbound trips, number of overnight stays) and financial statistics (added value, levied taxes). In the upcoming years, nothing better than stagnation of the share of tourism on the generation of GDP can be expected. It is because the ongoing economic crisis, together with monetary and debt crises,

will put pressure on household consumption and thus on the willingness of economic subjects to spend their resources in such a way. This trend is going to prevail at least during 2012 and 2013, when we can also expect further development of the shadow economy. It is a reaction of businesses to the worsening economic conditions and their attempt at maximizing their financial effectiveness, even if achieved by breaking existing regulations.

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