OBSTACLES TO THE DEVELOPMENT OF TOURISM IN THE CZECH REPUBLIC

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ABSTRACT

Czech Republic is a country that shows substantial potential in the field of tourism; nevertheless, statistical data for the past decade are a convincing proof that this potential has not been used to the fullest. Some aspects are clearly visible that have had a long-term negative effect on this segment and that can be blamed for the stagnating or even slightly shrinking contribution of the segment to the gross domestic product of the Czech Republic. Given the complexity of tourism as an industry and the number of factors at play, it is far from easy to discriminate the individual aspects of the situation and define their contribution to the general development. Therefore, this paper aims to analyse the impacts of the development of the national currency's exchange rate to key global currencies, the effects of the economic cycle in the countries with the highest number of incoming and outgoing tourists on the results of tourism as a segment, and the relationship between the development of Czech economy and the development of tourism, with the authors interpreting some changes as effects of the increasing share of shadow economy in tourism.

Key Words: tourism, gross domestic product, exchange rate, cyclic economic development, shadow economy.

THE DIFFICULTY OF TOURISM STATISTICS

Tourism and tourism-based industry rank among "developed" and "modern" fields of economy, alongside financial services or high added-value services, for instance. The ability of a national economy to make good use of its tourist potential is often deemed to signal a certain level of economic, social or even safety level of the given state. Nevertheless, tourism does not belong to industries that would define the trends of the Czech national economy.

In specific numbers, tourism accounted for 2.9 percent of the total gross domestic product of the Czech Republic in 2009; table 1 shows that this share has been falling continuously since 2004, when tourism accounted for 3.6 percent of the GDP (Czech Statistical Office, 2011).

Nevertheless, we must admit that that the data on tourism's contribution to the GDP is not one of the statistics impervious to doubt whether it captures the reality adequately and without distortion. In addition, there is a serious methodological issue here: the problem of finding the true effect of tourism on the overall development of the economic standard, and of identifying what parts of the added value created can still be labelled as a contribution of tourism, and what parts cannot. An approach too narrow, characteristic for the standardised statistical methodology of Tourism Satellite Accounts (TSAs), disproportionately reduces the importance of tourism in the economy as a whole; in addition, we face a great risk of distortion, as many activities, including some direct effects of tourism, cannot be reflected in these statistics.

Thanks to the activity and authority of the World Travel & Tourism Council, a methodology has been created in the English-speaking world that discriminates three levels of the contributions of tourism to the development of the GDP – "direct", "indirect" and "induced" contributions. This is a much more beneficial approach than that of the Tourism Satellite Accounts. Nevertheless, even here the problems of statistics are well known, and we cannot deem the WTTC figures to constitute standard statistical output: "Over the past 20 years, WTTC has continually reviewed and enhanced its methodology, developing a system for producing estimates for the economic contribution of Travel & Tourism to 181 countries, 20 regions and the world overall. These are not strictly Tourism Satellite Accounts (TSAs) – and are not intended to replace country TSAs – but the estimates are derived from official national TSA statistics, where available, as well as other published data, and are complemented by economic modelling, which allows for cross-country benchmarking. For those countries for which no relevant statistics are available, the importance of this research is that it provides a starting point for understanding the direct and indirect economic impact of Travel & Tourism and, ultimately, for better long-term planning. A major strength of the research, in addition, is that it allows for timely comparisons across countries on a likefor- like basis, and notably for those countries that do not yet have the available resources to undertake full TSAs, which WTTC continues to endorse and encourage." (WTTC, 2011: 4).

Table 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 GVA (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 GVA (%)	**3.4**	**3.3**	**3.0**	**2.9**	**2.7**	**2.6**	**2.7**
Tourism GVA (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, Prague 2011, http://www.czso.cz/csu/redakce.nsf/i/tsa_hlavni_ukazatele_narodniho_hospodarstvi_a_cestovniho_ruchu_v_cr

As we can see, we have a serious problem measuring the contribution of tourism to the national economy, and the Czech Republic is just as uncertain environment in this respect as any other country. Tourism does not form a separate industry of the national economy – the data must be extracted from other aggregate data, including, but not limited to, data for accommodation and other services, transport etc. It is no wonder that popular texts, and even some specialist publications, often confuse statistical data based on the Tourism Satellite Accounts (TSAs) with various recalculations or indirect and induced contributions of tourism to the development of the gross domestic product. For instance, it would be a fatal mistake to compare the aforementioned statistic of tourism's contribution to the creation of the GDP (amounting to 2.9 percent in the Czech Republic) to the WTTC data, which estimate tourism's contribution to the creation of the gross domestic product using the methods described above. The 2010 WTTC global results estimate this contribution at about nine percent, with a 12 to 13 percent estimate for the European Union. In this comparison, the Czech Republic would, of course, seem entirely lacking. Nevertheless, direct contribution of tourism to the global GDP is estimated at about 3.5 percent, which is much closer to the Czech Republic data.

What is important, however, is the fact that the contribution of tourism to the creation of the gross domestic product in the Czech Republic is well below average even in this comparison, with its continuous decline in the past years being a crucial characteristic.

MAIN PROBLEMS OF TOURISM IN THE CZECH REPUBLIC

The shrinking contribution of tourism to the gross domestic product does not have to seem a problem – especially when the figures based on the Tourism Satellite Accounts (TSAs) are taken as the reference point. However, as already mentioned, this data is confusing in a sense. If we say about an industry that its direct contribution to the creation of the country's GDP does not reach three percent, we inevitably hint that the segment is a marginal part of the entire economy. However, if we were to work with the data based on the WTTC methodology, i.e. some 12 to 13 percent in the European context, which could mean about ten to eleven percent contribution to GDP creation in the Czech Republic, the impacts of this segment's decline compared to the performance of the entire economy gains much more important. For instance, we could say that if the Czech tourism industry in 2008 and 2009 had been better at coping with the industry's general depression, the impact of the crisis on the Czech economy would not have been as substantial.

Looking at the situation of the Czechs in the past years, it is hard to find an explanation for the fact that the contribution of tourism to GDP creation has been declining continuously. What is at play here is a number of essentially contradicting phenomena that must be first analysed in their mutual relations; only then will it be possible to create a theory that will explain the performance problem witnessed by the Czech tourism industry.

First of all, we must acknowledge that the Czech Republic is a land-locked country and that its location does not provide opportunities for developing the summer leisure tourism typical for Greece or Croatia. Czech mountains lack the qualities required to compete with Switzerland, Italy or France in winters. However, the Czech Republic has a competitive edge in the extraordinary abundance of historical monuments, especially in locations such as Prague, Český Krumlov, Kutná hora, the Lednice-Valtice area and others. The spa industry, especially Carlsbad, a destination popular primarily among Russian tourists, is also important. Compared to other sporting or typical summer leisure resorts, the Czech Republic is disadvantaged in that reaching "recyclability" is harder. While many people keep visiting the same seaside or ski resort for years, tourists can be hardly expected to visit Prague repeatedly just to have a stroll on the Charles Bridge. That is why the position of the Czech Republic is weaker compared to other destinations; therefore, one may ask whether the whole region has lost its lustre and its potential has been exhausted.

However, this proposed explanation does not seem likely. The number of accommodated guests, and especially overnight stays in accommodation facilities, has not shown a drastic decline in the past years, and the 2011 figures can be expected to witness a rise (once we have all the numbers) compared to 2009 and 2010, and even seem likely to match the 2008 results.

Table 2
Number of Overnight stays

Year	Total	Hotels and similar establishments	Hotels *****	Hotels ****	Other Hotels	Boarding Houses	Other n.e.c.
2000	44,199,616	25,574,407	1,108,619	3,673,568	15,843,248	4,948,972	12,973,604
2001	39,122,187	23,773,753	1,106,823	3,837,242	14,467,012	4,362,676	9,423,684
2002	37,109,835	23,802,943	1,009,818	3,413,579	14,700,027	4,679,519	9,292,500
2003	39,343,250	23,466,769	1,249,106	3,636,335	13,890,772	4,690,556	10,013,219
2004	40,780,708	24,931,462	1,605,470	5,231,998	13,969,072	4,124,922	9,609,309
2005	40,320,477	25,208,716	1,595,422	6,254,780	13,297,904	4,060,610	9,583,708
2006	41,447,797	25,888,702	1,828,455	6,594,562	13,475,406	3,990,279	10,011,317
2007	40,831,072	27,043,558	1,937,043	7,351,349	13,724,881	4,030,285	9,138,887
2008	39,283,474	27,426,840	1,891,638	8,636,826	13,413,461	3,484,915	7,801,837
2009	36,662,192	25,340,559	1,790,499	8,809,782	11,777,456	2,962,822	7,330,388
2010	36,908,811	26,358,475	2,070,185	9,842,084	11,633,819	2,812,387	7,014,448

Source: Czech Statistical Office: Occupancy in collective accommodation establishments by category of accommodation establishment in the Czech Republic, Prague 2011, http://www.czso.cz/csu/redakce.nsf/i/cru_cr

The declining number of overnight stays that is visible from 2007 and that climaxed in 2009 and 2010 was important; on the other hand, it did not exceed ten percent. Compared to the fact that in 2009, some industrial production segments witnessed a decline by 30 percent and more, and that orders in some smaller segments fell by even 70 or 80 percent, the decline in the demand for the key service in tourism (accommodation) is actually marginal. On top of that, a closer look at the data will reveal an important and significant fact: the decline in demand for accommodation facilities of the highest quality, i.e. five-star and four-star hotels, was truly a short-term phenomenon, with these facilities showing record numbers of overnight stays in 2010. These accommodation facilities boast the highest added value, which should mitigate the impact of the crisis on the creation of the gross domestic product – tourists accommodated in similar facilities are more likely to consume much more than tourists in cheaper facilities. This means that their contribution to GDP creation is much higher.

Therefore, two conclusions can be made. It is unlikely that the Czech Republic is becoming a less attractive tourist destination – this conclusion is not reflected in a declining number of stays. The number of overnight stays in accommodation facilities did fall; however, this was a result of the general crisis, with the market consolidating in 2011 and the number of overnight stays rising again. The second conclusion is that the contribution of tourism to the GDP creation in 2010 and 2011, measured using the Tourism Satellite Accounts (TSAs) method, seems to be stagnating on the Czech market, amounting to somewhere between 2.8 and 3.0 percent. This means that the total contribution to Czech GDP creation amounts to some 10 or 11 percent, which hints at only a week industry development, given the measurements of this method.

The exchange rate of the Czech crown, as the Czech legal tender, to the euro and US dollar, as the key currencies for non-resident tourism, undoubtedly plays some role in this development. To understand the exact meaning of the exchange rate, we must look at the development of tourism in terms of tourism by residents and non-residents.

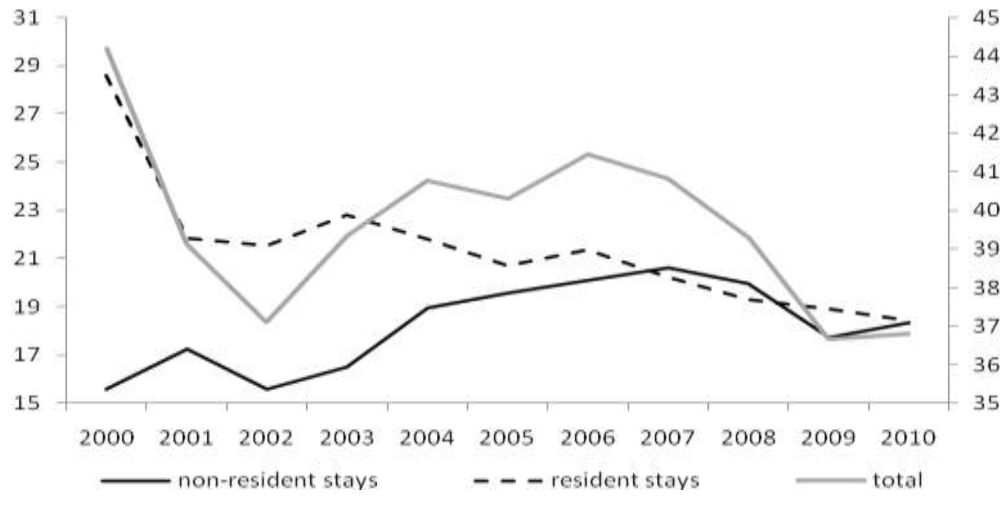
Table 5
Number of overnight stays

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. (2011, February 10). *Tourism – number of overnight stays in the Czech Republic* [Online]. Available: http://www.czso.cz/csu/redakce.nsf/i/cru_cr

Transposing this data into an easy chart, we get the following:

Figure 1
Number of overnight stays for residents and non-residents (million)

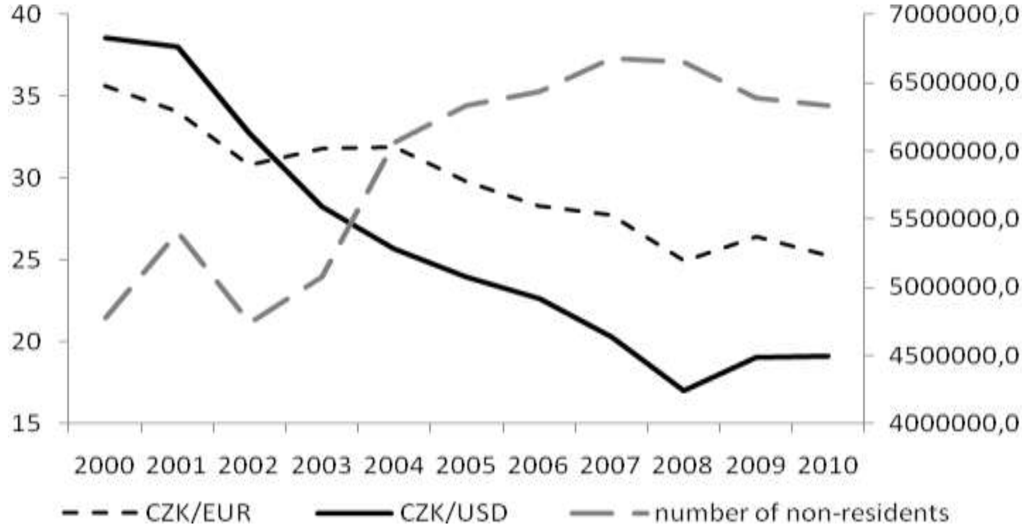


Source: Czech Statistical Office. (2011, February 10). *Tourism – number of overnight stays in the Czech Republic* [Online]. Available: http://www.czso.cz/csu/redakce.nsf/i/cru_cr

As we can see, the share and importance of tourism in the Czech Republic by residents is following a path of steady decline, while the share of non-residents in tourism has been growing substantially, in the given case measured by the use of accommodation facilities. When looking at the development of the number of overnight stays by non-residents, we can observe two important milestones. The first milestone dates back to 2002 and may seem inexplicable at first sight, but is in reality extremely banal. In that year, Prague, the Czech capital, was hit by extensive and destructive floods that virtually put an end to all tourist activities for at least than two months. The impact of these floods, which also hit other important tourist destinations, including Český Krumlov and others, was truly overwhelming. The other substantial decline of 2009 is clearly related to the global economic crisis. In comparison, the continuous and essentially uninterrupted decline in the residents' interest in accommodation in Czech tourist facilities is strikingly clear and easily apparent.

However, this also means that the exchange rate of the Czech crown has an increasing influence on the overall results of tourism, which can be easily illustrated 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." (Smrčka, Arltová, Schönfeld 2011, 1121) In that paper, the authors proved a pronounced dependency between the exchange rate and the non-residents' tourism in the Czech Republic, discovering a strong correlation between the costs spent by non-residents, especially US dollar-paying non-residents, and the number of incoming tourists. What is interesting is that the correlation between the exchange rate and the number of overnight stays is much weaker. There really is just one possible interpretation: higher dependency of the number of foreign visitors on the exchange rate development and, at the same time, the substantially lower dependency between the exchange rate and the number of overnight stays, show that the structure of non-resident visitors has been undergoing a process of change. We could come to the same conclusion if we looked at the fact that hotels that charged the relatively highest prices, i.e. higher-starred hotels, faced the smallest problems in the crisis years.

Figure 2
Share of residents to non-residents for overnight stays



Source: Czech Statistical Office. (2011, April 19). *Main macroeconomic indicators* [Online]. Available: http://www.czso.cz/csu/redakce.nsf/i/home and Czech Statistical Office. (2011, February 10). *Tourism – number of overnight stays in the Czech Republic* [Online]. Available: http://www.czso.cz/csu/redakce.nsf/i/cru_cr

A third conclusion is at hand: Czech tourism is bound to face pressures from the appreciating Czech crown in the years to come. The conversion value of the Czech legal tender has witnessed a long-term rise on the monetary markets. Of course, this cannot be taken literally, with the koruna undergoing turbulent developments just as any other currency under the negative or positive influence of numerous aspects, e.g. the development of the debt crisis or the problematic development of other currencies (with the Hungarian forint as a prime example).

OUTLOOKS OF CZECH TOURISM

As already hinted, Czech tourism industry will inevitably face added pressure for the appreciation of the domestic currency's exchange rate to the main global currencies, primarily the euro and US dollar. The long-term trend has shown that the Czech crown has witnessed continuous appreciation (disregarding the short-term fluctuations in the opposite direction), and there is no reason to assume that this trend should be reversed in the upcoming years. The Czech currency really lost value compared to the main global currencies only in the second half of 2011, and this depreciation was directly related to occurrences that had nothing to do with the Czech crown itself, including, without limitation, the forint crisis that destabilised the entire region.

On top of that, Czech tourism industry will have to face other factors that will have a substantial, and likely a destabilising, influence. These factors include the likelihood of further decline of domestic demand for accommodation facilities. This trend has been apparent for a long time, and we see no reasons why it should come to an end in the near future. If the koruna keeps appreciating, and foreign stays thus essentially keep getting cheaper from the perspective of Czech residents, the likelihood of them returning to Czech destinations is not high. The extreme number of Czech tourists and overnight stays recorded in the nineties cannot be repeated, as the demand of Czech customers has spread between Czech accommodation facilities on one side and seaside resorts in the summer or the ski resorts of Austria, Italy and France in the winter on the other. In addition, any increase of active consumers in the Czech Republic is thwarted by the demographic curve: the number of citizens in the active age will drop and the number of retired citizens will rise in the upcoming decade, just like in all other European countries. Moreover, retiring under the Czech pension system is accompanied by a substantial loss of purchasing power, which means that the domestic demand for vacations, and thus tourism services, does not have much space for further growth and expansion.

Faced with these rather pessimistic outlooks, finding space for growth of tourism's contribution to the gross domestic product creation seems very difficult regardless of the methodology used. Of course, congress tourism, an area witnessing very dynamic growth in the Czech Republic, offers some opportunities. Various programmes, usually supported from the EU development funds, that create new tourism opportunities, are also a great contribution. Nevertheless, one can assume in general that the pressure of external circumstances that will exert influence over the Czech tourism industry will be too powerful and will prevent any increase of tourism's contribution to the creation of the gross domestic product.

Table 6 and Figure 3
Comparison of gross domestic product of the Czech Republic and tourism industry output (indices, current prices)

Index	GDP	Tourism-generated GDP
2004/2003	109.2	112.7
2005/2004	106.0	96.8
2006/2005	108.0	100.9
2007/2006	109.7	103.1
2008/2007	104.4	100.4
2009/2008	98.3	100.8
2010/2009	101.2	102.2
Average	105.3	102.5

Source: Czech Statistical Office. (2011, April 19). *Main macroeconomic indicators* [Online]. Available: http://www.czso.cz/csu/redakce.nsf/i/home and Czech Statistical Office. (2011, February 10). *Tourism – number of overnight stays in the Czech Republic* [Online]. Available: http://www.czso.cz/csu/redakce.nsf/i/cru_cr and

As apparent from table 5 and chart 3, the role of tourism in the creation of the gross domestic product is decreasing traditionally in periods that can be characterised as periods of dynamic growth of the economy as a whole. By contract, the contribution of tourism is higher during recession: surprisingly, tourism as a segment of Czech economy seems to be anti-cyclical. This is probably due to a number of specific circumstances, e.g. the gradual rollout of facilities whose development was launched in times of economic growth. These facilities allowed primarily for dynamic growth where the market is not as dependent on a specific stage of the economic cycle, i.e. in the segment of high-quality and expensive accommodation. It is impossible to make responsible assumptions at this point whether the anti-cyclical character of Czech tourism will survive in the future; nevertheless, there is no reason to assume that the current situation should witness dramatic changes in the upcoming years.

So far, one circumstance has not been mentioned that may be crucial for the statistical results in the area of tourism – transfer of activities from taxed economy to shadow economy. The assumptions of shadow economy development in the Czech Republic are as uncertain as they commonly are in other developed countries. According to various estimates, shadow economy in the Czech Republic accounts for some CZK 500 billion, which means about 17 percent of the gross domestic product. Although the usual assumption is that the volume of shadow economy is in decline in the long term primarily as the number of electronic transactions increases and the cap on cash transactions decreases; on the other hand, there are impulses that stimulate the contribution of shadow economy, including increasing labour costs, general effects of the recession, rising indirect taxes etc. Traditionally, the fields with the highest share of shadow economy in sales include areas of importance to tourism – transport, small services, restaurants, casinos and entertainment venues, accommodation facilities and the like. Of course, prostitution, distribution of drugs and narcotics or smuggling, play an important role, too. That is why it can be assumed that the stagnating contribution of tourism to the creation of the gross domestic product in the Czech Republic is caused, to some degree, by the increasing share of shadow economy in this segment.

CONCLUSION

The character of the post-2000 development of tourism in the Czech economy was anti-cyclical, its growth in the years of general growth lagging substantially behind the growth of the entire economy. This process stopped during the recession that started in 2009, which was due to the fact that the performance of tourism witnessed a slower decline than other industries. We must expect several parallel phenomena to occur in the upcoming years – first of all, the appreciating Czech crown will create pressure that will play against any growth of tourism by non-residents; residents will not renew their former demand, and the process of removing shadow economy from tourism will be very slow, too. Therefore, we cannot expect that the contribution of tourism to the creation of the gross domestic product of the Czech Republic might actually increase in the years to come.

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