

Macroeconomic Development in the 1990s

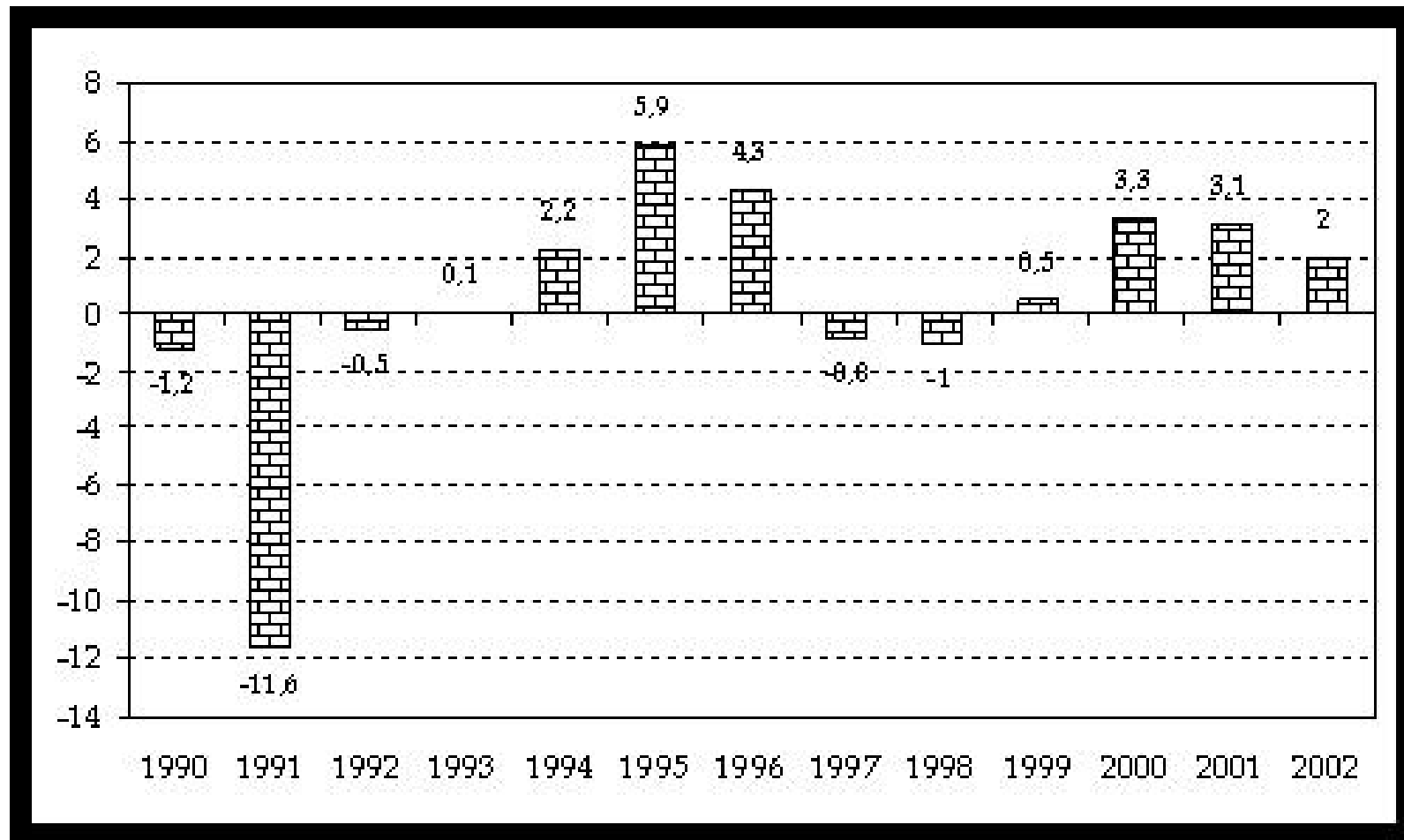
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Table of contents

- Output
 - 1990-1992 – transformation decline
 - 1993-1996 – recovery and boom
 - 1997-1999 – recession
 - 2000 – recovery
- Unemployment
- Inflation

OUTPUT

- Changes in the GDP in the Czech Republic between 1990 and 2002



Transformation decline 1990-92

- in all countries of the Eastern block
- in Czechoslovakia the sharpest decline in 1991
 - cumulatively 15%
- since 1993 economic recovery

demand side factors

- decline of all components
- consumption
 - ↓ of real wages (price liberalization)
 - ↑ of uncertainty (unemployment)
- Changes in the GDP and consumption of households

	1990	1991	1992	1993	1994	1995	1996	1997	1998
GDP	-1,2	-11,5	-3,3	0,6	2,7	6,4	3,9	1	-2,7
Consumption of households	6,7	-28,5	-15,5	2,9	5,3	6,9	7	1,6	-2,4

- investment
 - ↑ of uncertainty – end of subventions, ownership, decline in demand, ...
- government expenditures
 - ↓ - new government = ↓ the role of state
- trade
 - disintegration of the COMECON
 - transformation recession in other countries
 - + lack after western production
 - start to pay in convertible currencies
 - poor quality and marketing of Czechoslovak production
 - unknowingness of functioning of markets

supply side

- troubles:
 - ↑ of price of inputs
 - devaluation of crown, shift to world prices
 - ↓ of government subventions
 - failure of management to adopt to new situation
- + restrictive monetary and fiscal policies
 - inflation worries

decline overstated?

- communists overstated its economic results.
- avoid taxing (the black economy accounted something between 10 – 20% of the GDP).
- the statistical office was not prepared
- official inflation was probably overstated

1993-1996: recovery and boom

- very positive period
- but at the beginning split of the country ⇒ costs
 - direct – new IDs, embassies, ...
 - indirect – trade
 - end of the fiscal transfers
 - OECD 7% of the Slovak's GDP

- 1995 near universal euphoria
 - high growth, low U and inflation, budgets balanced
 - CR – leader among the post-communist
 - Standard and Poor's rating „A“
 - membership in the OECD
- growth based on:
 - investment
 - positive expectations
 - banks willingness to lend
 - but targeting (?)
 - ↑ consumption

- 1996
 - \uparrow fixed investment by 34%! $\Leftrightarrow \uparrow \uparrow$
 - but more visible problems inside the economy:
 - \uparrow demand $>$ \uparrow production
 - \uparrow of wages $>$ \uparrow of productivity
 - inflation pressures
 - \uparrow of imports
 - $\Leftrightarrow \uparrow$ deficit of the CA
 - » trouble during the transformation ?
 - » + covered by inflow of capital
 - inflow of capital
 - positive expectations
 - interest rates differential (fixed exchange rate)
 - danger of overheating and inflation pressures \Leftrightarrow central bank
 - » „sterilization measures“
 - » monetary restrictions
 - restructuring ?
 - institutions ?
 - political situation (after the election in 1996)

1997-1999 recession

- 1997
 - impact of the monetary restriction
 - slow growth in Germany
 - fiscal restrictions
 - currency crises
 - floods
 - X positive impact of the trade due to depreciation of crown

- 1998 same
- 1999 recovery
- recession
 - ↓ in consumption and investment
 - uncertainty
 - monetary policy
 - unknowingness
 - undershooting targets
 - institutional and structural factors ?
- recovery since 2000
 - investment
 - growth in the EU

Unemployment

- extraordinary
- *The average unemployment rate in the Czech Republic*

Year		Year	
1990	0,8	1996	3,1
1991	2,6	1997	4,4
1992	3,1	1998	6,0
1993	3,0	1999	8,5
1994	3,3	2000	9,0
1995	3,0	2001	8,5

- low unemployment till 1996
 - retiring
 - geographical position
 - lack of employees in services
 - business spirit
 - transformation cushion
 - ⇒ slow restructuring?
 - + differences among the regions
 - anyway important political factor

- worsening with recession
 - unemployment among youths
 - long – term unemployment
- recovery
 - continuous increase in the rate of unemployment

Inflation

- upswing in 1991
 - price liberalization
- and 1993
 - tax reform
- 1994 – 1998
 - stable inflation around 10 %

The average growth of the price level in the Czech Republic in %

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
56,6	11,1	20,8	10,0	9,1	8,8	8,4	10,8	2,1	3,9	4,7