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THE BUSINESS CYCLE IN THE CZECH REPUBLIC: TRENDS, CONTEXT AND ECONOMIC POLICY IMPLICATIONS

Abstract: *The goal of this analysis of the current business cycle in the Czech Republic is to identify the causes and consequences of fluctuations in economic activity in the period 2000–2009. The paper deals with the 2000–2007 expansion phase and the 2008–2009 contraction phase of the business cycle. A description of the links between changes in the economic environment, the nature of the demand and supply side of the economy and the character of the external and internal balance provides the economic framework for the analysis. Segmentation of supply and demand into its components enables us to identify their sensitivity to the business cycle. Special emphasis is put on the indicators of internal and external balance, which signal in advance the possibility of an economic slowdown or a drop in economic activity. The objective of this analysis is also to identify the position of the Czech Republic in international comparison as regards macroeconomic indicators connected with the monitoring of the business cycle. A macroeconomic forecast and economic policy implications form the last part of this article.*

Keywords: *economic cycle, financial crisis, recession, gross domestic product, demand components, supply components, sources of growth, monetary policy, fiscal policy, employment policy, economic outlook*

JEL: E 21, E 23, O 11

Introduction

Since the mid-80s, business cycles have tended to become smaller in amplitude and longer during expansionary phase with fewer recessions. Some changes in the nature of the business cycle can be seen within the global financial and economic crisis 2007–2009. In the period leading up to the crisis, cycles became more synchronized, while asset crises became more volatile. The banking sector has become more pro-cyclical due to a number of factors which can make the cycle more volatile. Shocks originating in the financial sector could spread rapidly abroad. Macroeconomic policies helped to reduce volatility, but vulnerabilities emerged.