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THE ADVANTAGES OF AN INDEPENDENT CURRENCY FOR MITIGATING THE ECONOMIC IMPACT OF EXTERNAL SHOCKS USING THE EXAMPLE OF THE CORONAVIRUS PANDEMIC: A COMPARISON OF THE CZECH REPUBLIC AND SLOVAKIA

Abstract:

The content of the paper defines and characterizes five key arguments for why, given the absence of an optimal monetary area, it is advantageous for an economy to be able to dispose of its own currency during periods of crisis, such as the current coronavirus pandemic. The article bases its arguments on the optimal currency area theory and the Mundell-Fleming model. The analytical part of the article approaches the example of the Czech Republic and the Slovak Republic, a well-matched comparison given that they are both small open economies with a common history but also because they faced the coronavirus pandemic at the same time and were affected to a similar extent. Unlike its Czech neighbour, the Slovak Republic adopted a single currency, the Euro, in 2009 and therefore became a member of the eurozone. Therefore, the use of its own currency to mitigate the coronavirus pandemic effects can be approximated by comparing the two countries. The analysis in this article results in the identification of the following five arguments for the advantage of having an independent currency: 1) absence of an optimal monetary area in the eurozone, 2) an independent monetary policy, 3) foreign trade support, 4) mitigating the effects of the coronavirus pandemic on price level changes, 5) supporting domestic production and services. The coronavirus pandemic has deepened the already existing problems of the eurozone and has clearly demonstrated the benefits of maintaining an independent currency in the case of the Czech Republic.

Keywords:

Monetary union, Czech crown, Euro area, International trade, Czech Republic, Slovakia, COVID-19, pandemic crisis

JEL Classification: E42, E58, F40

Introduction

In this modern age of developing market-conforming relations, economic policy is connected to the existing valid legislative framework of individual economic areas and to the institutional arrangements specific to a given area. Economic policy measures and economic policy itself cannot be conceived in a modern context without these premises. The basic instruments of economic policy can be divided into two groups, through which we exert fiscal and monetary policy. A detailed and independent analysis of fiscal policy is not the aim of this article.

Primarily, we will examine monetary policy instrument application possibilities in the Czech Republic, which is not part of the eurozone and therefore has its own currency as well as the option of implementing an independent monetary policy. Not only can the Czech Republic react independently to the course of the economic cycle, but it can also react independently to any external shocks, including the global coronavirus pandemic.

Our research compares the use of monetary policy instruments in the Czech Republic with their use in the Slovak Republic, which, unlike its Czech neighbour, does not have the option of implementing an independent monetary policy and must accept the decisions of the European Central Bank.

The research aims to verify the hypothesis that a single currency is an advantage as concerns a nations response to external shocks. To the best of our knowledge, according to available and known sources as of early June 2020, no one has dealt with the functioning of the Mundell-Fleming model for the case of external shocks associated with the coronavirus pandemic in application to the Czech and Slovak economies.

1   Initial research conditions

The Czech government began to address the risk of spread of the COVID-19 pandemic to the Czech Republic in earnest at the beginning of February 2020, when the Ministry of Health issued a ban on commercial flights between the Czech Republic and the People's Republic of China (Ministry of Health of the Czech Republic, 2020). The first cases of infection were detected at the beginning of March 2020 and their number culminated in the second half of March through to early April 2020. At the peak of the pandemic, the daily increase in infected cases was around 300 people (Ministry of Health of the Czech Republic, 2020). As early as the 12th of March, the Government of the Czech Republic declared a state of emergency in reaction to the proven occurrence of coronavirus in the Czech Republic. With it came relatively severe business and trade restrictions that paralyzed many sectors of the Czech economy. The state of emergency lasted until the 17th of May 2020. It was the longest state of emergency in the entire history of the Czech Republic.

The increase in the number of people infected showed a significant decrease in the second half of April 2020, when it stabilized at between 40 and 70 new cases per day. The gradual easing of business restrictions began in late April 2020 (Government of the Czech Republic, 2020). A detailed breakdown and evaluation of the individual measures taken by the Czech government is available in a publication by Sevcik et al. (2020).

Regarding public safety, the impact of the coronavirus pandemic was lesser in Slovakia than in the Czech Republic. At the peak of the pandemic, the daily increase in new cases was

approximately three times lower in Slovakia. The epidemic culminated there with a delay of approximately two to three weeks, compared to the Czech Republic, and did not peak until the second half of April (Worldometers, 2020).

2   Related economic theories

To identify the benefits of having a single currency during the coronavirus pandemic, we built on the following basic economic theories.

2.1   Optimal currency area

In 1960, Robert Mundell, offered a detailed definition of an optimal currency area. He proposed that an optimal currency area consists of a territory where the use of one currency **maximizes the economic efficiency** of the countries located within it. The introduction of a common currency unit should be, and often is, one of the last stages of economic and even political integration. The territory in which the common currency is used may be larger than that of one independent state. Only a grouping in which **goods, services and production factors are highly mobile** can be considered an optimal currency area. Should the mobility, especially of production factors, be in any way limited, it is more advantageous for countries to retain their own currency. In comparison with own currency countries, the decline in aggregate demand in common currency countries leads to a relatively longer-lasting unemployment rate that is higher than the natural unemployment rate. According to Mundell (1960), four critical preconditions must be met to meet the criteria of an optimal currency area:

The first precondition is **the free movement of labour within the entire territory**. This requires the establishment of a common labour market, so that workers can move freely across countries to offer their production factor.

The second precondition consists of **the free movement of capital as well as flexibility of prices and wages throughout the region**. Within common currency states, a market-conforming environment distributes resources, goods, and services to where these are most effectively used (McKinnon, 1998).

The third precondition is a **joint risk-sharing system**, which can redistribute resources to sectors or sub-regions of the monetary area that find themselves in difficult political and economic situations. This system can take the form of, for example, the collection of taxes and their subsequent redistribution into the above mentioned sectors or sub-regions within the optimal monetary area. It must be noted that this type of fiscal policy is remarkably difficult to implement, as the richer sub-regions rarely wish to give up their revenues in favor of the comparably poorer areas (Beck, Prinz, 2012).

The fourth presumption required for an optimal monetary area is **harmonization of the economic cycle of the individual states within the given monetary area**. This condition allows the for the application of a single monetary policy throughout the monetary area by a common central bank. If the course of the economic cycle is not harmonized across the member states and countries of the monetary area, then it becomes more effective for members to use a separate monetary policy. Economic cycle asynchronization may have significant implications for

certain member states who may be disadvantaged by the common monetary policy of the whole monetary area.

2.2   The Mundell - Fleming model

The second theoretical concept relied on is the Mundell-Fleming model (named after the Canadian economist Robert Mundell and the English economist Marcus Fleming). This model is an **extension of the IS - LM model**, applied to **closed economy** cases. In contrast, the Mundell-Fleming model **examines the behavior of a small open economy** (Mundell, 1963).

The Mundell - Fleming model serves to illustrate the relationship between the development of the nominal exchange rate, the interest rate and gross domestic product over the course of the economic cycle in a small open economy, such as that of the Czech Republic. The Mundell - Fleming model demonstrates that **monetary policy effectiveness is impossible in a small economy with a fixed exchange rate regime and free international movement of capital**. If the central bank sets a fixed exchange rate regime in a country with a small open economy, only fiscal policy instruments can be used to influence short-term real economic variables. If, on the contrary, the central bank sets a free-floating exchange rate regime (as is currently applied, for example, in the Czech Republic), then fiscal stimulus of the economy seems ineffective, due to a displacement effect. However, when a floating exchange rate regime is applied in a small open economy, monetary policy is effective. The impossibility of simultaneously applying a fixed exchange rate regime, free movement of capital and an independent monetary policy has become a well-known principle in economics and is sometimes also referred to as the "Mundell-Fleming trilemma" (Fleming, 1962).

3   Advantages of the existence of a separate currency

Argument No. 1: Absence of an optimal currency zone

Under certain conditions, a free-floating exchange rate may have certain disadvantages (e.g., the inflow of foreign investment may decline due to exchange rate uncertainty), but the potential threats posed by membership of the eurozone are far more serious for the Czech Republic.

These threats are essentially twofold:

A) The eurozone is not an optimal monetary area,

B) Due to the size of its population, the Czech Republic is too small a country to be able to influence eurozone decision-making.

A) Why can't we consider the eurozone to be an optimal monetary area?

The setting of ECB interest rates and the common currency exchange rate development disadvantages some eurozone Member States, while favoring others. The countries of the southern wing of the eurozone have long had the advantage of lower interest rates, which do not reflect the riskiness of investments there. On the other hand, these same countries have long

been disadvantaged by the impossibility of, potentially, weakening the exchange rate to promote foreign trade with third countries. The richer eurozone countries, primarily Germany, have long benefited from the undervalued euro exchange rate. In the long run, the euro has proven to be a significantly weaker currency than any own German currency.

As was already mentioned in the theoretical part of this work, one of the most important preconditions of an optimal monetary area is **the synchronization of economic cycles of Member States**. In the period between 1999 to 2007, i.e. in the pre-recession period, the economic cycles of eurozone members were largely truly synchronized. According to Belke, Domnick and Grose (2017), the synchronization of economic cycles between eurozone members decreased significantly or was even disrupted during the financial crisis, i.e. approximately from the first quarter of 2008 to the end of 2015. Cerqueira (2013) confirms this by stating that countries that joined the eurozone later do not have an economic cycle that is fully synchronized with that of the original founding states. At the same time, Cerquiera (2013) argues that the younger members of the eurozone are actually becoming less aligned with each other and that, unlike the founding states, there have been no changes related to economic cycle synchronization since the financial crisis. Belke, Domnick and Grose (2017) state that countries from the so-called "periphery" of the eurozone are cut off from the course of the core eurozone economic cycle and even have significantly different real interest rates during economic cycles. They believe that eurozone monetary policy faces several problems. The financial crisis that erupted in 2007 led to the economic cycle desynchronization amongst the eurozone countries. In addition, the economic cycles of eurozone countries differ in amplitude, so even countries with perfectly synchronized economic cycles would require different monetary policy instruments. A high degree of economic cycle synchronization can therefore not be the only condition needed to ensure the optimal functioning of a country within a monetary union. According to Bednar and Bechny (2020), the Czech Republic, as a potential future member of the eurozone, does not have a synchronized economic cycle with members of the eurozone for a period shorter than one year. According to these authors, some indicators of the Czech Republic, such as the HICP, can even develop in the opposite direction to eurozone Member States many times in a period shorter than 1 year.

According to Stephen (2004) and Sevcikova (2015), the introduction of a single monetary area in no way increased **workforce flexibility and mobility** in eurozone Member States. Stephens claims that those economists who tried to defend the eurozone at the turn of the century by citing the convergence of real labour incomes that would be achieved by labour flexibility were mistaken - after the introduction of the euro, eurozone wages did not converge and relative unit labour costs did not change. There are even examples of divergence and other deepening inequalities between, for example, the southern wing of the eurozone and countries such as Germany and Austria.

Even today, the eurozone does not meet the criterion of **labour mobility**. Differences in unemployment rates are still marked amongst both eurozone and EU countries. In 2019, the unemployment rate was several times higher in the countries of the southern wing than in the Czech Republic, whose unemployment rate was only 2%, according to Eurostat methodology. Specific examples are Greece with an unemployment rate of 17.3%, Spain with an unemployment rate of 14.1% or Italy with an unemployment rate of 10.0% (Eurostat, 2020). Over the long-term, unemployment rates have not been equalized across EU countries through the free movement of labour.

The legislative barriers created in some countries also mean that the condition of labour mobility cannot ticked off as fulfilled. An example is legislation valid since 2016 in France that requires the payment of a minimum wage for drivers from abroad, even though the French minimum wage is four times the Czech minimum wage (Eurostat, 2020).

According to Jonung and Drea (2010), the Economic and Monetary Union (EMU), **when compared to the USA, is far from being a well-functioning monetary area, partly because of the lack of effective common fiscal policies. This insufficiency stems not only from low labour mobility within the eurozone, restricted by language barriers and the already mentioned out-of-sync economic cycles, but also from weak and inefficient fiscal policies** and low fiscal transfers across Member States. The above arguments clearly show that the future of some eurozone countries is not overly optimistic.

B) Due to the size of its population, the Czech Republic is too a small country to be able to really influence political eurozone decision-making.

The coronavirus pandemic has strengthened the role of fiscal and monetary institutions. In the long-term and across all eurozone member states, the public sector has been growing at the expense of the private sector. European bureaucracy and its interventions in the competitive environment (for example subsidies) and in the free market are increasing in a disturbing way. It is certain that some EU Member States, especially the southern wing, will emerge from the coronavirus pandemic in much worse economic condition than other EU Member States. It is highly likely that there will be pressure within the eurozone to save the economies most affected by the coronavirus pandemic (especially Italy and Spain). On the top of that, countries of the southern wing (Greece, Spain, Portugal, Italy and France) had been in a debt trap even before the coronavirus pandemic (Bednar, 2018). If the Czech Republic were a participant in the eurozone, it would currently be obliged to subsidize countries that did not cope well with the coronavirus pandemic, for example due to a delayed local government response or through the failure to create prudent financial cushions during the years of economic growth preceding the coronavirus pandemic.

The Czech Republic will most likely emerge as one of the countries that best managed the medical and health implications of the coronavirus pandemic.

If the Czech Republic were a member of the eurozone, then the current preparation of various rescue packages is already making it clear that the Czech Republic would pay dearly for this membership.

Subsidization of the most affected economies is already taking place in real terms, through **quantitative easing** by the ECB. The probable **illegality** of these processes was pointed out by the German Constitutional Court. In May 2020, it ruled that the purchase of bonds through which the ECB aims to help the most indebted countries in the eurozone may not comply with the German constitution.

At present, the potential costs arising from the Czech Republic's participation in the eurozone clearly exceed any potential revenues. In the future, these revenues could prove to be only an illusion.

When looking at the case of the Slovak Republic, there was no real decrease in risk (which is often cited as a textbook example of the benefits of joining a monetary union). The Graph below illustrates that there was no risk decline after 2009, when the Slovak Republic joined

the eurozone. On the other hand, the Czech Republic has been steadily improving its rating over the long term when compared to Germany.

Graph 1 Ratings lag of the Czech Republic and Slovakia compared to Germany
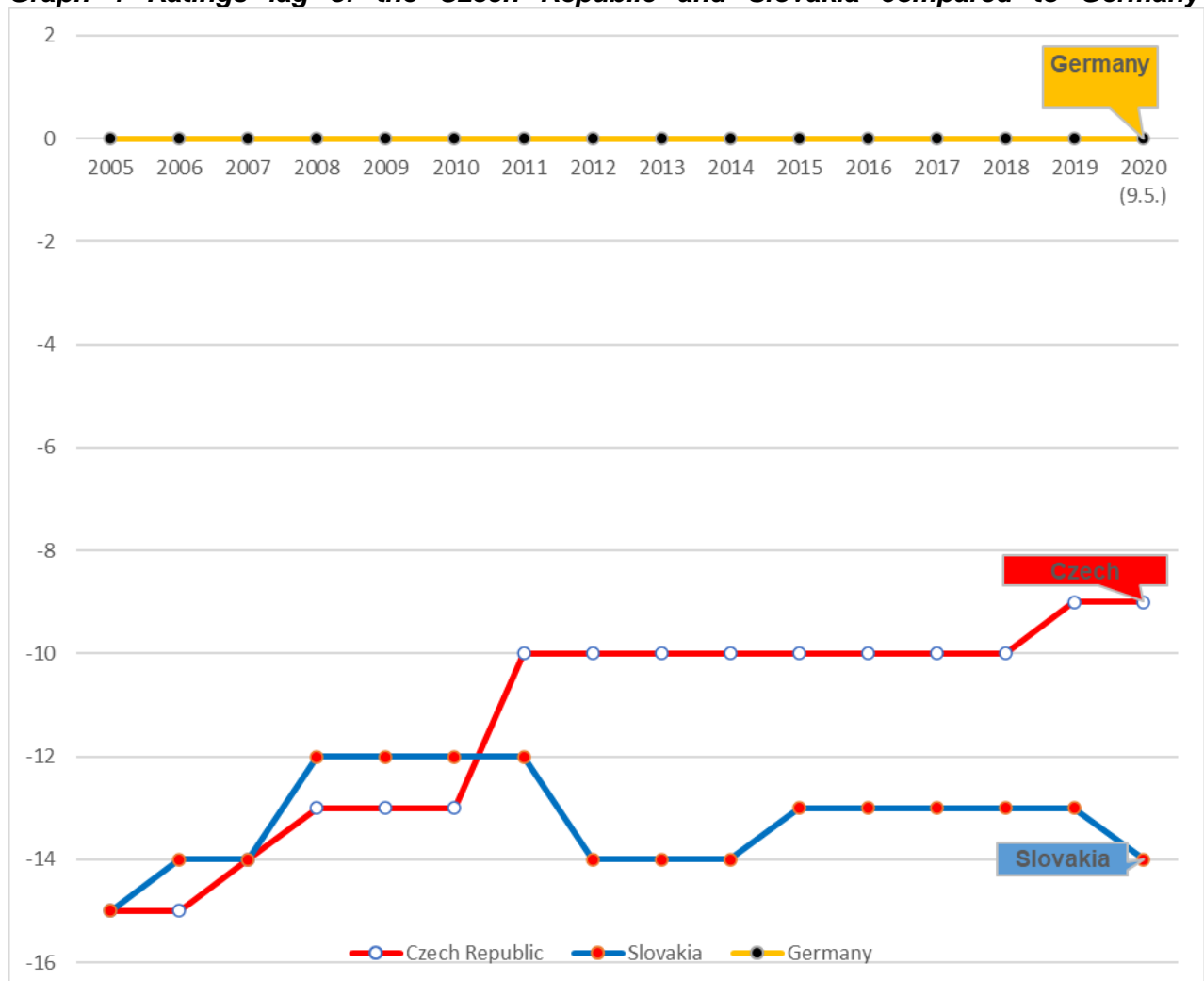
Source: Kovanda (2020) (Note: Graph shows how many levels the overall Czech and Slovak ratings lag behind the overall German ratings awarded by Moody's, Standard & Poor's and Fitch; data for whole years, except 2020)

The above Graph shows that the Slovak Republic had a better rating than the Czech Republic when it joined the eurozone. Since entry, the rating has stagnated or declined in relation to the Czech Republic. The pace of convergence has been faster in this area for the Czech Republic. This contrasts with the Slovak Republic, where divergence has occurred despite its membership of the eurozone.

Argument No. 2: Independent monetary policy

The Czech Republic's absence from eurozone means that the Czech National Bank (CNB) remains an independent institution and, as such, it was able to apply monetary policy instruments in order to mitigate the effects of the coronavirus pandemic as well as the effects of the related restrictive measures. An overview of interest rates set since the beginning of 2020 is provided in Table 1. We view the CNB's February 2020 decision to increase the 2-weeks repo rate by 25 basis points, as a negative step. At this time, the vast majority of indicators were showing signs of a slowdown in economic growth (the industrial production index had been falling for the fifth consecutive month, the construction production index had been also fluctuating and some other secondary economic indicators were signaling negative development, such as declining car sales, etc.). Due to the transmission delay of monetary policy (some authors state around 12 to 18 months), this restrictive intervention could have dampened the economy at a time when, on the contrary, a positive monetary policy impulse would be desirable. The CNB partially corrected its mistake in mid-March 2020, when it began lowering key interest rates. This continued with further measures on the 26th of March and the 7th of May 2020. **An independent monetary policy enabled the Czech Republic to respond to the coronavirus pandemic and to support the economy by gradually reducing key interest rates set by the CNB.**

Table 1 CNB interest rate settings in 2020

Date of decision	2-week repo rate	Discount rate	Lombard rate
6. 2. 2020	2.25 % (+ 25 p.p.)	1.25 % (+ 25 p.p.)	3.25 % (+ 25 p.p.)
16. 3. 2020	1.75 %	0.75 %	2.75 %
26. 3. 2020	1.00 %	0.05 %	2.00 %
7. 5. 2020	0.25 %	0.05 %	1.00 %

Source: Czech National Bank (2020)

The National Bank of Slovakia (NBS) could not initiate an independent monetary policy, as monetary policy decisions are made by the ECB on its behalf. So far, the Governing Council of the ECB has met three times in 2020. The NBS had to accept the decisions taken at these meetings. We present the key outputs from each meeting in Table 2. On the 11th of June 2014, the ECB announced negative interest rates (for one-day sterilization operations) and therefore did not have the option of stimulating the economy in response to the coronavirus pandemic by lowering interest rates, as the CNB could. When the coronavirus pandemic arrived, the Czech economy was not in a so-called liquidity trap and was therefore better able to respond to this external shock.

Table 2 Key monetary policy decisions of the ECB in 2020

Interest rates set from 18th September 2019			
Date	**One-day refinancing operations**	**Main refinancing operations**	**One-day sterilization operations**
	0.25 %	0.00 %	-0.50 %
	Interest rates	**Asset purchase program**	**Others**
23rd January 2020	Unchanged	Continue at 20 billion EUR per month.	-
12th March 2020	Unchanged	Temporarily increased by 120 billion EUR per month.	Launch of temporary longer-term refinancing operations, easing of TLTRO III conditions.
30th April 2020	Unchanged	Continue with the same volume (20 billion EUR per month).	Further easing of TLTRO III. conditions, launch of pandemic emergency longer-term refinancing operations.

Source: European Central Bank (2020)

Argument No. 3: Reducing the negative effects of external shock on foreign trade by weakening the currency

The Czech Koruna weakened against the Euro in response to the coronavirus pandemic, but also in response to measures taken by the CNB. The CZK/EUR exchange rate reached its strongest value since October 2012 on the 17th of February 2020 (24.795 CZK/EUR). Following the adoption of CNB measures, it gradually depreciated to CZK/EUR 27.81 on the 24th of March 2020, which meant a 12% depreciation. The coronavirus pandemic effectively froze global trade but the effects of this regarding foreign trade were buffered by the exchange rate depreciation (see Graph 2). The weakening of the Koruna against the Dollar and the Euro was also caused by the **declining interest rate differential** between the Czech Republic, the USA and the eurozone.

Graph 2: Development of the nominal CZK / EUR exchange rate, 2020
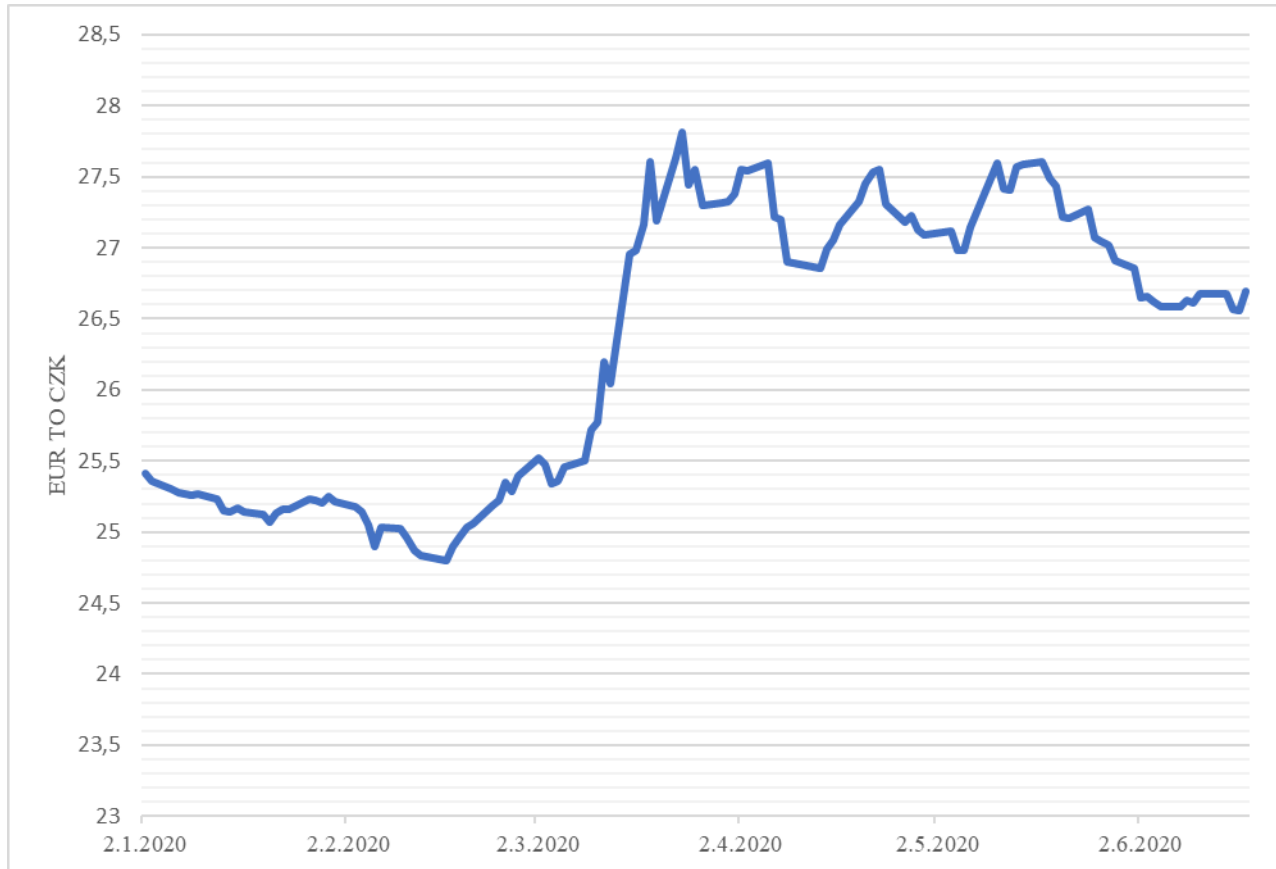
Source: Czech National Bank (2020), own construction

The lack of own currency meant that the Slovak Republic could not go through the process of depreciation. As approximately half of Slovak exports goes to other eurozone countries, depreciation could not support the competitiveness of the Slovak Republic in relation to half of the partner countries regarding the volume of exports. Roughly one tenth of exports from the Slovak Republic head to the Czech Republic, against which the Slovak Republic has weakened its competitiveness due to the appreciation of the Euro against the Czech Koruna. Tables 3 and 4 illustrate that this is not just a theoretical conclusion, but a reality during the coronavirus pandemic.

In the first month of the coronavirus pandemic, i.e. in March 2020, exports from the Czech Republic fell by 11.7% and exports from the Slovak Republic fell by 18.5%. Net exports from the Czech Republic fell by about 87% month-on-month in March 2020 but remained positive. Slovak net exports fell to negative values. The coronavirus pandemic hit both countries even more sharply in terms of foreign trade in April 2020, when **exports from the Czech Republic fell by 40% year-on-year and net exports fell to negative values (with a year-on-year decline of 368%)**. However, **both exports and net exports from the Slovak Republic recorded a more significant decline in both of these values (exports -43%, net exports - 574%).** One of the factors that could have mitigated the decline in the Czech Republic's foreign trade may have been the weakened domestic currency. Considering the J-curve concept, it should be possible to expect the restart of net exports of the Czech Republic in the coming months.

Table 3 Development of foreign trade in the Czech Republic at current prices, 2020

		January	February	March	April
Total import to CR	mil. CZK	286 632	275 839	287 470	218 336
	year-on-year index	99.7	97.4	92.1	72.98
Total export from CR	mil. CZK	304 109	297 193	289 536	191 441
	year-on-year index	99.8	99.4	88.3	60.7
Net export from CR	mil. CZK	17 477	20 767	3 072	-26 895
	year-on-year index	*101.7*	*134.5*	*13.19*	*-268.1*

Source: Czech Statistical Office (2020), own calculations

Table 4 Development of foreign trade in the Slovak Republic at current prices, 2020

|		January	February	March	April
Total import to SR	mil. EUR	6587.3	6542.5	6324.3	4241.0
	year-on-year index	100.0	102.4	89.9	63.4
Total export from SR	mil. EUR	6599.8	6636.0	5933.9	3748.9
	year-on-year index	98.0	99.4	81.5	57.0
Net export from SR	mil. EUR	6.4	102.4	-331.7	-390.3
	year-on-year index	8.32	33.2	-254.5	-473.6

Source: Statistical Office of the Slovak Republic (2020), own calculations

Argument 4: Mitigating the pandemics effect on price level

The global negative demand shock caused by the coronavirus pandemic could have led to a fall in the price level in the Czech Republic and posed the threat of a deflationary spiral. **However, the depreciation of the Czech Koruna led to an increase in the prices of imported goods**, which pushed up the price level (see Graph 3). Given that imports of goods into the Czech Republic accounted for about 63% (of GDP) last year (2019), the impact of imports on the price level was significant. The relative growth of prices of imported goods pushing up the growth of the domestic price level most likely had a real effect on the development of prices in the domestic economy. It was in the second half of March 2020 that the most restrictive measures aimed at stemming the pandemic were implemented in the Czech Republic. Although the inflation rate expressed by the consumer price index began to decline slightly, its value of 3.4% in March 2020 still ranked the Czech Republic among the countries with the highest inflation in the entire European Union. The inflation rate expressed by the year-on-year consumer price index in the Czech Republic fell by 0.2 p.p. in April 2020 compared to March 2020, therefore decreasing to 3.2%. It is, however, highly likely that the negative demand shocks have become more pronounced and this will only become apparent in the coming months.

Graph 3: Inflation rate development comparison of the Czech Republic and Slovakia, conveyed by year-on-year consumer price index
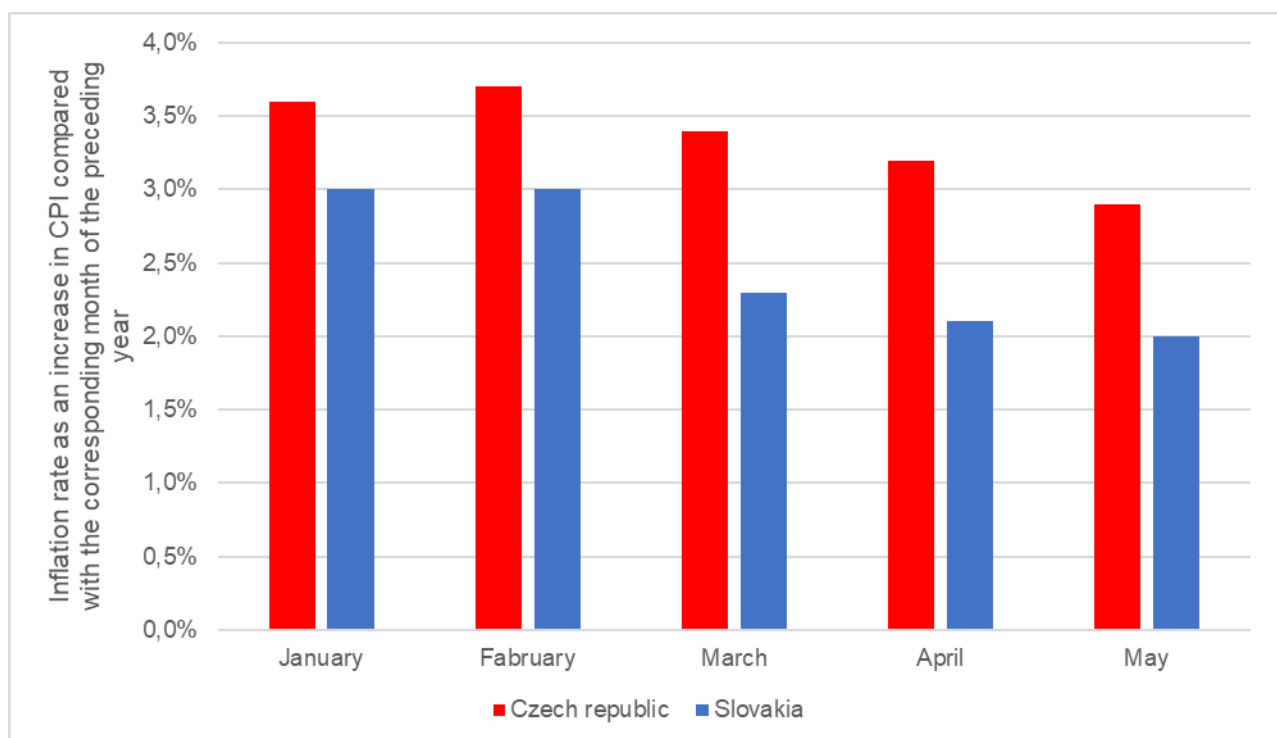
Source: Czech Statistical Office (2020), Statistical Office of the Slovak Republic (2020), own construction

Pursuant to the Mundell-Fleming model with a fixed exchange rate economy, the Slovak Republic could not benefit from the weakening of the exchange rate. Import prices could not perform as a

price level growth incentive, and the Slovak Republic therefore faces the threat of deflationary processes due to the decline in aggregate supply. The data analysis shown in Graph 3 has not yet confirmed this deflationary process risk, but it covers only a short time series. At the time of the coronavirus outbreak, the fall in prices was more pronounced in Slovakia than in the Czech Republic but inflation remained relatively high. In February 2020, the year-on-year consumer price index in Slovakia was 3% and inflation therefore showed no change compared to the previous month. In March, the month of the coronavirus pandemic outbreak in Slovakia, inflation expressed by this indicator fell by 0.7 p.p. A slight decline in the year-on-year consumer price index continued in April 2020 but the pace of disinflation had already slowed markedly. Two months after the outbreak of the coronavirus crisis in Slovakia, year-on-year inflation was still relatively high and, at present, the deflationary spiral threat appears to have passed. One reason for why there was no significant disinflation, or even deflation, in the Czech Republic or Slovakia could be the fact that the decline in aggregate demand pushing down the price level offset the short-term aggregate supply induced by the restrictive measures that was, on the contrary, pushing the price level upwards. At times when aggregate demand and short-term aggregate supply change in the same direction, their final effect on the price level depends on both the magnitude of the changes and the elasticity of the aggregate demand and short-term aggregate supply. A sharp fall in prices will also be counteracted by a sharp rise in prices for some commodities, especially agricultural products and mainly imports (fruit, vegetables). Fuel prices may rise again in the coming months.

Argument No. 5: Supporting domestic production and services

Weakening of a domestic currency leads to a related change in the price of domestic and foreign goods. At present, the existence of an independent currency, is a tool that can be used to support demand for products and services of domestic entities, which are currently relatively cheaper due to the undervalued exchange rate. For instance, we may expect a significant weakening of Czech interest in foreign tourism, not only because of the coronavirus pandemic itself, but also because of the relative increase in foreign holiday prices due to the weakening of the Czech Koruna. This could encourage the purchase of services within the Czech Republic, in the most affected sectors - domestic tourism. In addition to this direct support, there may also be an increase in demand for goods that households would otherwise buy during their holidays abroad (food, etc).

Conclusion

The above arguments demonstrate, in a broader context, that the existence of an independent currency for economic territories that are not part of an optimal currency zone allows for a significantly more varied response, not only during the standard course of the economic cycle but also in reaction to external shocks.

It is obvious that the decision-making sphere will have to react in both the short and medium term to specific developments in economic and political indicators. In our opinion, it would not be appropriate to implement an overly loose monetary policy responsive to the political-economic demands of the political establishment and operational proposals from executive powers.

In the long run, it would be dangerous for the Czech economy to pursue the political, rather than economical, short-term positives offered by an overly expansive monetary

policy and to implement it. The long-term effects of such a policy would entail extremely high costs for most economic subjects.

It is also necessary to consider any other measures that deepen public budget deficit. It is appropriate to reject proposals to increase the Czech state budget deficit for 2020, which would amount to practically a third of annual state budget expenditure. Allowing these measures would create a "soft environment" which would enable the survival of businesses that would have otherwise disappeared from the economic area, even without the external shock caused by the coronavirus pandemic. But that is another topic.

It is necessary to keep in mind the words of President Václav Klaus: *"The current crisis must not be misused to silently promote certain socio-engineering practices, which are difficult to reverse and threaten human freedom. Nowadays, the enormous power of the modern state is shown. Practically from day to day, it is able to paralyze economic and social life not only within one state, but on the entire planet. Like us, people all over the world ask these questions. Is there any hope of using this pandemic in a positive direction? Or are people unteachable? The crossroad we stand at has been the most serious threat to society and the market economy since the height of the Cold War. Let's try to avoid the giant social regression we've just embarked on. Not all is lost yet. Every day, even in the official media, it can be seen that more and more people are aware of this and that they do not want to accept it. " (2020, p. 67).*

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