

Early warning



You probably won't read it in the Wall Street Journal, Financial Times or Hospodářské noviny, but the fundamental cause of the subprime-mortgage crisis is the fractional-reserve banking system. Banks are allowed to lend out far more than they have on hand, which is all fine and dandy as long as lending is prudent and confidence remains high. But when financiers dream up more and more fancy-sounding credit derivatives, lenders start believing the illusion that risk can be eliminated, and the balancing act becomes impossible to maintain. We heard the chief economist of a major global bank say in Prague earlier this year that the world economy will collapse, but that it won't be this year. He's probably right on both counts. Czech-based investors should look at the fundamentals and not be fooled by claims that the Czech market is immune to what is going on. Its time will come too.

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