4. External Economic Relations

Balance of payment in the first half year without deficits – such a favourable result recorded last in year 2006

Economic relations of the Czech Republic with foreign countries in H1 2013 proceeded favourably, similarly to development in Q1 alone. Revenues exceeded expenditures both on the current account of balance of payments and on the capital and financial accounts. At the same time, surplus current account for a half year was lastly recorded in 2006. Current account surplus in H1 2013 arrived at 0.4 % of nominal GDP, the deficit in the same period of 2012 then -0.5 %. Behind the positive balance of the current account stood in total the improvement of the trade balance with goods as well as balance of services and mild improvement of the surplus of current transfers. In the opposite direction worked the result of the income balance, which year-on-year worsened. Half-year fall of the Czech economy thus did not influence its deviation from balance.

The growth of trade balance surplus, services balance as well as result of current transfers exceeded the deepening income balance deficit

Half year surplus on the current account arrived at 8.6 bn crowns against the deficit of 9.1 bn crowns in H1 2012. Trades with goods finished in surplus in the amount of 111.3 bn crowns, which was year-on-year higher by 25.4 bn crowns (half year positive trade balances grow continuously already fifth year in a row regardless the economic crisis in 2009 and recession in 2012). Exports and imports of services surplus rose by 6.8 bn to 32.9 bn crowns and the current transfers balance improved from the deficit of 2.6 bn crowns to a surplus in the same amount. Increase of these surpluses was in total significantly higher compared to the worsening of the income balance, whose deficit deepened to 138.2 bn crowns from 118.4 bn crowns in the same period of 2012.

Half year fall both of exports and imports of goods caused by its marked decrease already in Q1 2013…,

Both exports and imports of goods according to data in the national conception of foreign trade – better reflecting from the macroeconomic point of view the economic performance of a country – decreased for H1 2013 in current prices (-1.1 % and -3.2 % resp.), mostly by the influence of adverse development in Q1 (-4.5 % and -5.2 % resp.). In subsequent three months revived both the foreign demand and the interest of the domestic economy in imports.

…while the reduction of goods flows took place simultaneously with strengthening of the trade balance; surplus of the motor vehicle trade however decreased

Imports and exports of goods balance in H1 2013 improved – the surplus based on the statistics of foreign trade in the national conception and product classification[1] increased to 75.6 bn crowns from 52 bn crowns in the same period of 2012. Increase of the surplus was notable mostly for the trade with electrical appliances (to 36.9 bn crowns), metal-working products (31.2 bn crowns), furniture (11.5 bn crowns) or for an item machinery and appliances not elsewhere classified (57 bn crowns). Traditionally very high surplus of motor vehicle trade on the contrary fell to 141 bn crowns from 152 bn in half year of 2012. Improvement of deficits recorded mostly the trades with oil and natural gas and also with food.

Exports of food, chemicals and electrical appliances increased, exports of motor vehicles fell

More than double digit rate of growth displayed in H1 2013 year-on-year among commodities in the national conception of trade the exports of ores, beverages, mined wood, fishing or creative, artistic and entertainment products. Among the items significant by volume recorded year-on-year increase of exports e.g. food products (+7.7 %), chemicals (+4.9 %) and electrical appliances (+5.4 %). Exports of motor vehicles year-on-year decreased by 5.8 % to 283.2 bn crowns.

Surplus of imports and exports of services grew up

Services balance strengthened thanks to the higher dynamics of exports in the item of Other services compared to their imports, revenues from tourism however only stagnated (+0.3 %), while the travels from the CR increased outlays on tourism by 3.3 % (it was however according to the so far available data related mostly to private journeys, since the outlays on business trips fell at that time by 9.4 %).

Twice as higher outflow of dividends compared to the same period of the previous year

Half-year result of the income balance (-138.2 bn crowns) was worse in comparison to the average for the last six years (-122 bn crowns), which can reflect the shift in the cycle of foreign direct investment into the phase of prevailing profit repatriation. According to the so far available data was in Q1 2013 the

[1] Classification of Products (CZ-CPA)

outflow of funds in the form of dividends of foreign owners of firms in the CR (50.3 bn) nearly twice as high as in the same period of 2012 (27.1 bn crowns). Part of profit intended for reinvestment in the CR on the contrary fell to 20 bn from 28.8 bn crowns in Q1 2012 (data for Q2 2013 are not yet available).

Persisted high inflow of foreign direct investment, significantly above the average of preceding five years

In the form of foreign direct investment there were in H1 2013 78 bn crowns coming into the CR, which was less than in the same period of 2012 (90 bn crowns), which was however their largest half year volume in the last seven years. The total inflow was impacted by 87.8 bn by direct capital inflows and reinvested profits, item other capital recorded outflow of funds from the CR in the amount of 9.9 bn crowns.

Portfolio investment also strengthened due to the effect of significant purchases of Czech bonds by foreign investors

Notably higher was year-on-year also the inflow of funds into the Czech Republic in the form of portfolio investment (66.4 bn crowns). Foreign portfolio investors purchased Czech bonds in net for 62.3 bn crowns, but liquidated their positions in shares (in net by -0.6 bn crowns). On the contrary resident subjects invested significantly abroad on capital markets into shares, given the outflow of money from the country amounted by the end of July 2013 to net 11.5 bn crowns. Result of their trade with bonds with an excess of sales was opposed to this an inflow of funds back into the CR in the value of 16.2 bn crowns.

Chart 9 **Balances of items of current account of the balance of payments** (in mil crowns, half years)

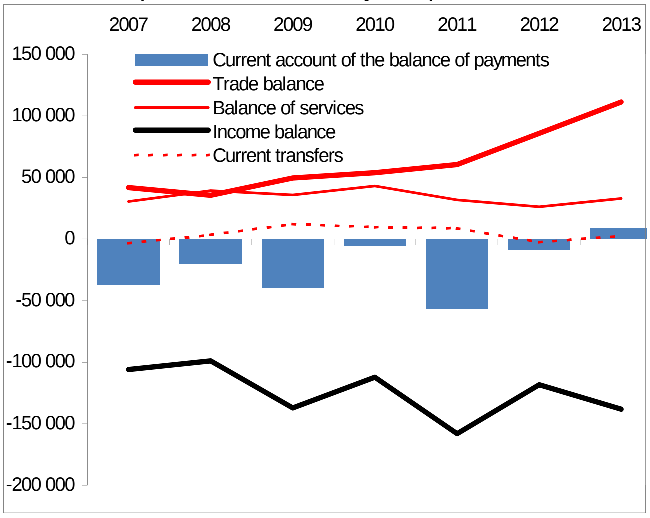
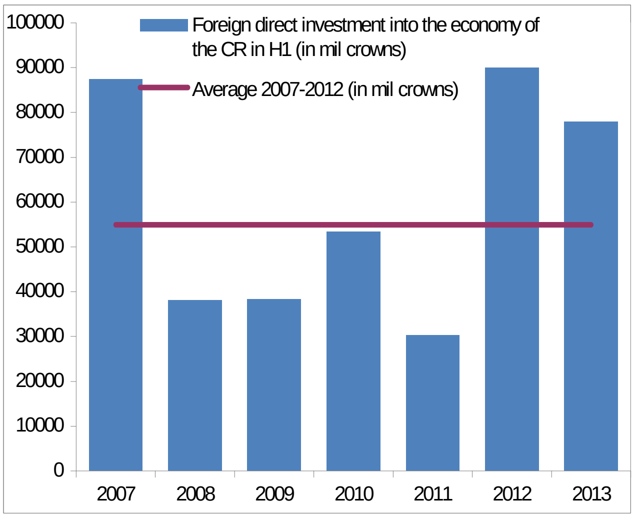


Chart 10 **Inflow of foreign direct investment into the CR** (in mil crowns)



Source: CNB, own calculations