

## External Economic Relations

- ***Worsening of external imbalance***

Foreign economic transactions made in Q1-Q3 2006 led to a significant worsening of the Czech external payment position; in the balance of payments the deficit of current account was more than two times higher and the surplus of the financial account markedly lower, change in foreign exchange reserves came close to zero. The rate of financing the deficit of current account by the surplus of the financial account dropped almost by three quarters year-on-year. The structure of balances on the three balance of payments basic accounts changed substantially; assets turned into liabilities, which was an effect of the above stated operations. The external imbalance, measured by collections and payments, mutual share of account balance or their share to GDP increased markedly. The demand for foreign exchange increased significantly faster than supply.
- ***Marked increase of current account balance***

Current account deficit of CZK 97.5 billion in Q1-Q3 2006 was higher by CZK 56.5 billion year-on-year and was a result of slowly growing incomes (by 11.4%) compared to expenditures (by 14.4%). The deficit in relation to GDP was by 2.2 p.p. higher than last year (-1.9%, respectively -4.1%). The coverage of expenses by incomes reached 95.1% and dropped by 2.6 p.p. year-on-year. The balance of current account was positively affected by the active trade balance of CZK 39.7 billion and active balance of services of CZK 10.5 billion. The trade with machinery and transport equipment (this year's surplus of CZK 211.6 billion was by CZK 55.1 billion higher than last year) contributed almost exclusively to the total surplus of exports over imports. Year-on-year, the surplus of trade in semi-finished products and materials of CZK 16.7 billion was lower by CZK 10.7 billion and deficit of trade in mineral fuels, lubricants of CZK 108.3 billion was higher by 33.5 CZK billion. Balance of revenues was deeply in deficit (CZK 142.7 billion) and the deficit was year-on-year higher by CZK 29.0 billion even though incomes grew faster than expenditures. Current transfer balance reached a deficit of CZK 5.0 billion; a year ago it was a surplus of CZK 15.7 billion.
- ***Marked decrease of financial account surplus***

The surplus of financial account CZK 77.1 billion in Q1-Q3 2005 was lower by CZK 46.0 billion year-on-year, which was a result of decreased transactions in liabilities. In relation to GDP, the mentioned surplus reached 3.3 %, which was by 2.3 p.p. less than a year ago. The net inflow of direct foreign investments (CZK 84.4 billion) was markedly lower than a year ago (by CZK 124.8 billion), when the value of foreign investments of CZK 110.4 billion was less than half of the last years level. This basically decided about the total result of transactions in assets and liabilities. A slight year-on-year change in portfolio investments (CZK 1.6 billion) is a rarity in a situation when interest rates are not a source of an extraordinary profit. The difference between last year's outflow (CZK 30.5 billion) and the year's inflow (CZK 45.9 billion) of other investments contributed significantly to the total year-on-year change of financial account balance.

The foreign exchange turn (their minimal growth of CZK 2.1 billion) was by CZK 87.5 billion lower year-on-year; in relation to GDP it was insignificant (0.1%).