

External economic relations

- ***Despite strong economic growth a moderate worsening of external imbalance coming from deepening of current account deficit occurred***

Balance of payment current account deficit reached CZK 73.9 billion. Result of external economic relations of the CR measured by this indicator deteriorated, y-o-y, due to higher deficit by CZK 19.4 billion which caused – despite a very strong y-o-y economic growth – a slight deterioration of external imbalance from -2.3 % to -2.8 % of nominal GDP.

The result was favourably affected by performance balance and mainly external trade, unfavourable effect was assigned to the balance of revenues whose high deficit came mainly from direct foreign investment. Deterioration of current transfers continued. Financial account surplus (CZK 58.9 billion) was not enough to cover the current account deficit.
- ***Excellent external trade in goods***

Trade balance in FOB prices increased by two thirds to CZK 90.7 billion, y-o-y, and recorded the best result in the history of the economy of the CR. Positive balance of services increased as well (CZK 37.7 billion) and reached the highest level since 2001. However, if these two items were to compensate the deficit in the balance of revenues (CZK -186.5 billion) their aggregate surplus would have been by 50% higher. At the same time, the external trade was continuously favourably affected by the terms of trade development showing for the whole reported period positive values – also due to faster strengthening of CZK against USD (from January to September by 6.5%) compared with EUR (by 1.1 %). Although the effect of terms of trade weakened in Q3, imports and exports grew most rapidly since 2004. In the period from January to September 2007 the CR showed, as the only one from new EU countries, positive trade balance with the y-o-y dynamics of imports of about 2.5times higher the EU 27 average. The contribution of exports of machinery to the total exports of goods further strengthened (53.4 %).
- ***On-going unfavourable effect of the balance of revenues***

Outflow of money from the country in form of dividends for shareholders of direct foreign investors companies in the CR accounted for CZK 35.7 billion in Q3, i.e. about the same amount as the re-invested profit (CZK 33.8 billion). For the period of three quarters still prevails the volume of re-invested profit (CZK 101.3 billion) compared to the volume of paid-out dividends (CZK 80.1 billion). In total, the balance of revenues for the above period was deteriorated by unfavourable balance in the sphere of direct investment by a record sum of CZK 176.8 billion and also by bigger difference between costs of wages of foreigners in the CR and income from work in abroad (CZK 36.1 billion).
- ***Net outflow of portfolio investment***

Portfolio investment on financial account recorded for three quarters also an outflow of money from the country. Widening of their negative balance to CZK 65.9 billion came from vast foreign securities purchase made by residents in Q3. Non-residents, in contrast, were selling their securities in the CR.