External Economic Relations

- ***Reduction of positive payment balance current account from CZK 17.6 billion to CZK 13.4 billion***

In Q1 2007 the surplus of the ratio of payment balance current account and GDP amounted to 1.6%. The financial account deficit amounted to 1.8% of GDP. Positive current account balance amounted to CZK 13.4 billion upon a significant improvement of the balance of trade and deterioration of results of the other elements. Exports exceeded imports by CZK 42.2 billion[2] (CZK 30 billion in Q1 2006). The surplus of the balance of services (CZK 5.3 billion compared to CZK 7.2 billion) was weakened by reduced revenues and growing expenditures. The deficit of the balance of revenues increased in year-on-year terms by one third (CZK 30.7 billion compared to 20.5 billion). However, the deficits were highly seasonal – in Q2 and Q3 the values are usually even three times higher that Q1 values due to dividend transfers abroad. Deterioration was also shown by the current transfers, where income from abroad increased by one quarter to CZK 25.9 billion but expenditures grew almost by one third to CZK 29.3 billion (balance of money transfers between the Czech Republic and the EU budget remained almost the same as in the corresponding period in 2006). Current transfers therefore showed a year-on-year deficit of CZK 3.4 billion compared to the settled balance (CZK -0.1 billion) in Q1 2006.

- ***Deficit of financial account deepened due to outflow of portfolio and other investments***

Similarly as in 2005 and 2006 the payment balance in Q1 recorded a surplus of the current account and a financial account deficit. The deterioration of the financial account deficit (CZK 14.5 billion) was caused by outflow of portfolio and other investments, on the other hand, the balance of direct investments improved after the foreign capital inflow had doubled. Net direct investments in the Czech Republic increased from CZK 15.5 billion in Q1 2006 to 30.3 billion mostly due to significantly higher aggregate capital inputs and re-invested profits (CZK 42.4 billion). The capital inputs alone represented approximately one half of profits re-invested by foreign investors into the Czech economy, according to estimates of the Czech National Bank.

Securities sales of foreign portfolio investors in Q1 2007 in the Czech Republic exceeded purchases (contrary to the situation in the same period of 2006), which together with residents' purchases of shares particularly from foreign capital markets increased the outflow of portfolio investments from the country to CZK 19.6 billion, compared to CZK 8.1 billion in Q1 2006. The deficit of "other investments" doubled (CZK 25.1 billion) due to increased deposits of Czech banks abroad and supplier credits provided by exporters.

- ***External trade with advanced economies further strengthened upon general improvement of trade balance – exports continued to accelerate***

The total turnover of external trade in merchandise compared to the same period of 2006 increased by 16.2%, in trade with EU states by 17.6%. This represented a year-on-year increase of the total turnover by CZK 162 billion, in which the exchange with advanced economies participated with CZK 142.7 billion. The highest growth rates were recorded by trade with China (44.9%) upon increase of imports by 47.3%. Imports from China (CZK 38.4 billion) for the first time significantly exceeded imports from Slovakia (CZK 29.4 billion). Total exports increased in year-on-year terms by CZK 85.5 billion to 598.6 billion (16.7%) and total imports by CZK 76.4 billion to 564.1 billion (15.7%). This improved the structure of the balance of trade[3] by stronger impact of the trade surplus in relation to EU (by 21 billion to CZK 111.9 billion) compared to the deteriorated results with trading territories showing deficits (negative balance with China further worsened by 10.9 billion to CZK 34.5 billion, on the other hand trade with Russia improved by 4.4 billion to CZK 17.2 billion).

- ***Increase of surplus of trade in machinery***

The surplus of the trade in machinery and transport equipment increased in year-on-year terms again (by CZK 8.5 billion to CZK 88 billion) after improvement of the balance with advanced countries (by CZK 14 billion to CZK 104.9 billion). The surplus with Germany increased from CZK 23.7 billion to CZK 30.4 billion). With China the Czech Republic records passive balance of trade in machinery and transport equipment, which in Q1 2007 worsened by CZK 5.8 billion to CZK 22.1 billion.

[2] After a change in methodology the external trade is stated at FOB prices in the revised payment balance.
[3] CZSO's data on external trade state similarly structured aggregate and itemized values of exports at FOB prices, import values at CIF prices.