

External Economic Relations

- **External balance of Czech economy considerably deteriorated, compared to 2004 and 2005 ...**

In the balance of payments the surplus of the financial account amounting to CZK 111.6 bn. diminished by CZK 43.2 year-on-year and it did not cover the increased deficit of current account, where except for the balance of trade all the remaining key elements recorded adverse developments. The current account deficit reached CZK 133.8 bn. (77.1 bn. in the preceding year), which represented 4.2 % of nominal GDP (2.6 % in the preceding year). The deterioration of external imbalance was influenced particularly by the worsening balance of revenues, while the contribution of external trade was positive. The output balance compared to GDP at current prices amounted to 1.8 %.

- **...due to all elements of balance of payment current account except for external trade in merchandise**

Impact of the individual current account elements on the increase of the current account deficit differed – external balance was strengthened only by the balance of trade but weakened by the income balance, current transfers and partly also by the balance of services. For the first time ever current transfers recorded an excess of expenditures over income (annually CZK -7.2 bn.). The first excess occurred in Q2, in Q4 it amounted to CZK -2.8 bn., while in the same period of 2005 the balance of transfers was highly positive (CZK 5.5 bn.). The deficit grows due to private transfers abroad, paid taxes, charges and contributions of the Czech Republic to the EU budget included to the current account of the balance of payment. In 2006 transfers to the Czech Republic fell approximately by CZK 11.5 bn., transfers from the Czech Republic increased by CZK 15.4 bn.

The balance of revenues remains the key element pushing with an increasing intensity the Czech economy into an external imbalance (-183.4 bn. compared to -155.7 in 2005). In this balance expenditures are influenced by the outflow of a certain portion of profits achieved by direct investors in the Czech Republic though their entry on the Czech market.

- **Again higher surplus of trade balance due to trade in machinery**

The successful result of external trade was supported also by the gradual improvement of exchange relations (in Q4 they reached year-on-year positive values). The trade balance surplus amounted to CZK 44.4 bn. and compared to 2005 it increased by CZK 5.8 bn. Exports and imports recorded equal dynamics (+14.7 %). The surplus of exports over imports was influenced by the increase of trade in machinery and transport equipment by CZK 62.1 bn. The appreciation of *koruna* could not eliminate impacts of price changes on the oil market, therefore the deficit of trade in mineral fuels increased (by CZK 28.8 bn.). The trend of scissors opening between the “surplus territory” and deficits territory” continued – the active balance with EU increased by CZK 56.0 bn., the passive balance with China and Russia by CZK 44.5 bn.

- **Decrease of direct investments in the Czech Republic upon mild increase of re-invested profits**

Direct foreign investments in the Czech Republic were lower by CZK 144.5 bn. year-on-year (i.e. by 52 %); capital inputs into Czech enterprises dropped by CZK 148.8 bn. However foreign investors re-invested in the Czech economy their profits amounting to CZK 82.1 bn., which represented a volume higher by CZK 4 bn. than in 2005. In Q4 the direct investment balance of the financial account of the balance of payment amounted to CZK 29.5 bn., i.e. less than in the same period of 2005 (CZK 54 bn.).

Portfolio investments indicate a change of capital flows for the benefit of the Czech Republic. Reduction of the negative balance to CZK 26.9 bn. from 81.2 bn. in 2005 resulted from a revived interest of foreign investors in Czech securities, particularly in Q4, when even a net inflow amounting to CZK 29.8 bn. was recorded. The aggregate outflow of portfolio investments in 2006 amounted to CZK 68.4 bn., the inflow reached CZK 41.5 bn. - in 2005 the active part was stronger (CZK -81.2 bn.), with an almost negligible inflow on the passive part (CZK 0.9 bn.).