

## 4. External Economic Relations

Surplus of the current account of the balance of payments arrived at 107 CZK bn in H1 2016...

Balance of the current account of the balance of payments reaches a surplus in Q1 regularly since the year 2005 and the same situation occurred also in January to July. The surplus reached an amount of 107 CZK bn for the first half-year. Surplus of the capital account fell by 44 bn to 39 CZK bn year-on-year at the end of the first half-year, as a result of a shrinking volume of resources drawn from the EU funds. The financial account recorded an inflow of financial resources in the amount of 32.8 CZK bn in the second quarter, which reduced the outflow of the first quarter (109.1 CZK bn) to 76.3 CZK bn at the end of the first half-year. Investments of the foreign investors into the domestic government bonds stand behind this development.

... thanks to the year-on-year growth of the goods and services balance and lowering of the primary income deficits

Surplus of the current account expanded in the year-on-year comparison by 44.7 CZK bn in H1 of this year. The surplus of the goods and services balance year-on-year by nearly 40 CZK bn shared to the largest extent on its improvement. A weaker outflow of income from the direct investment caused the reduction of the negative balance in the component of primary incomes to -99 CZK bn from the last year's -120 CZK bn. In contrast, the secondary income account experienced a worsening of the balance (-4.7 bn) by 16 CZK bn in comparison to the half-year of 2015.

Especially the growing reserve activity linked to the intervention regime of the CNB was the source of the financial account deficit

Inflow of the direct investment into the Czech economy increased its pace year-on-year from 9.7 bn to 67 CZK bn in H1 2016. While the domestic investors lowered the value of their foreign direct investment (further also "FDI") by 1 bn, 66 CZK bn flew into the Czech economy from abroad in the form of FDI. Debt securities also recorded a marked year-on-year increase (from 17 bn to 133.6 CZK bn). The main source of the financial account deficit, i.e. the outflow of funds abroad, was the development in the component of the reserve assets especially due to the continuing interventions of the CNB. Net transactions with reserve assets arrived at 220 CZK bn in H1, which represents a year-on-year increase of nearly 100 CZK bn.

Interest of the foreign investors in the domestic government bonds is growing – they purchased these in the amount of 114.2 CZK bn during the first three months of this year

Inflow of portfolio investment in the amount of 140.9 CZK bn eventuated during H1 2016. It markedly contrasted with the portfolio investment of the residents abroad (19.5 CZK bn). Massive purchases of the government bonds kept occurring, the foreign institutions invested 114.2 CZK bn, i.e. much more than in the same period of 2015 (39.4 CZK bn). The demand of foreign investors flows for once from the good position of the Czech government bonds (i.e. relatively lower level of government indebtedness, lower credit risk of the CR), but also the anticipated future appreciation of Koruna after the completion of the exchange rate interventions of the CNB. High demand and expectations of investors simultaneously manifested in the development of yields of the government bonds, when the investors especially with the bonds with maturity within two years accepted even a negative yield (-0.05%). Low yields however prevailed also for bonds with a remaining maturity up to 5 years (0.05%) and 10 years (0.45%). As a result of this development, the share of possession of government bonds by non-residents increased by nearly 9 p.p. (to 26.12%).

Year-on-year rate of growth of exports declined to 3.1% in H1 2016 from 4.9% in the same period of 2015

Based on the data related to the foreign trade with goods in the national conception, a mild revival of exports to 4.3% occurred in Q2 2016 following a lowered addition in Q1, which increased by 1.8% in comparison to the same period of the preceding year. Subsequently the rate of growth of exports of the Czech economy slowed down year-on-year to 3.1% in H1 2016 from 4.9% in H1 2015. Exports grew by 15.4% in H1 2014. Exports grew in nominal terms by 50.5 CZK bn year-on-year in H1 2016 (by 14.8 bn in Q1 a by 35.7 CZK bn in Q2), which was by 26.1 CZK bn less compared to the same period of the preceding year.

Motor vehicles and metal products recorded the highest year-on-year additions to exports

The highest year-on-year addition to exports (by 53.8 CZK bn) was recorded for motor vehicles in the first two quarters, which have a dominant position in the commodity structure of the Czech exports in the long-term. Their share on the total Czech exports rose by 2.4 p.p. to 27.3% year-on-year in H1. Exports of motor

vehicles rose by above average 13.2% in the given period, similarly as in H1 2015. Among other commodities with a strong representation on the Czech exports, metal products (by 14.3 CZK bn) and machinery and equipment (by 8.2 CZK bn) registered the highest year-on-year additions. On the contrary, the largest decrease was apparent for exports of basic metals (by 14.3 CZK bn), oil and natural gas (by 9.9 CZK bn) and chemicals and chemical products (by 8.0 CZK bn).

Rate of growth of exports into the EU countries slowed down

The rate of growth of exports into the EU countries slowed down to 4.2% in the first six months of the year 2016 from 5.6% in the same period of the preceding year. The reason is the slower growing exports to Germany (increase by 2.6% compared to 4.9%), France, Great Britain or Slovakia, but also the deepening fall of exports to Poland. Exports into the three most important export destinations of the Czech Republic, involving Germany, Slovakia and Poland, reached 827.6 CZK bn in H1 of this year. In the year-on-year comparison, the exports into these countries grew by 2.8%. The proportion of exports into Germany, Slovakia and Poland on the total exports lowered to 48.1% in H1 2016 from 48.2% in H1 2015. The value of goods bound for the countries outside the Europe twenty-eight fell by 2.4% year-on-year (6.4 CZK bn). In that exports to Russia, hit by restrictions and recession of local economy, plunged by 14.6%. Exports to China declined by 5.1%.

Growth of exports into the CZ markedly slowed down in H1 2016

Higher year-on-year growth of imports against exports, characteristic for H1 2015 (by 5.9% compared to 4.9%) was substituted by a marked slowdown in H1 2016, when the imports grew only by 0.4%. Mostly the imports of motor vehicles (by 26.3 CZK bn year-on-year) and metalworking products (by 12.2 CZK bn) were higher year-on-year. The imports of oil and natural gas (by 33.9 CZK bn), computers, electronic and optical appliances (by 15.9 CZK bn) and basic metals (by 15.5 CZK bn) lowered. Imports from the EU grew by 2.5% year-on-year (26.9 CZK bn). The relative addition to imports from Germany and Poland slowed down, imports from Slovenia and Austria decreased. Imports from the countries outside the EU were lower by 4.7% (22.7 CZK bn), mostly affected by the plunge of imports from Russia (by more than 20 CZK bn year-on-year).

Trade balance surplus nearly the same in Q1 and Q2 2016

Trade balance of the foreign trade with goods in the national conception ended in surplus of 133.5 CZK bn in H1 2016, which was by 44.8 CZK bn higher year-on-year. The balance contributed to the positive final value by nearly the same share in Q1 and Q2 2016.

Lower negative balance of trade with oil and natural gas

In the view of the Classifications of Products (CZ-CPA), the slump of the trade deficit with oil and natural gas (by 24.0 CZK bn) and the traditional growth of the trade surplus with the motor vehicles (by 27.5 CZK bn) had a favourable impact on the total balance. Deficit in the trade with the chemicals and chemical products deepened by 16.1 CZK bn in comparison to the last year, the surplus of the balance of trade with machinery and equipment on the contrary increased by 14.9 CZK bn and the trade with the metalworking products grew slightly by 2.1 CZK bn.

Trade balance improved due to the lowering of the deficit with the countries outside the EU year-on-year

The higher positive foreign trade balance compared to the last year was affected by lowering of the foreign trade deficit with the countries outside the EU by 16.3 CZK bn to 199.7 CZK bn.. At the same time the deficit reduced nearly by 15 CZK bn in trade with Russia, further then with Azerbaijan and Kazakhstan (by 4.5 bn and 4.8 CZK bn). Half-yearly surplus of the CR trade with the Union states recorded an increase of 30.6 CZK bn to 344.1 CZK bn despite the increase of the passive balance with Poland by 11.9 CZK bn. Constant positive balance with Germany rose by 10.9 CZK bn and attained the value of 115.2 CZK bn. The active balance with the neighbouring Slovakia improved by 11.2 CZK bn



Chart 9 **Current account of balance of payments**  
(in CZK bn)

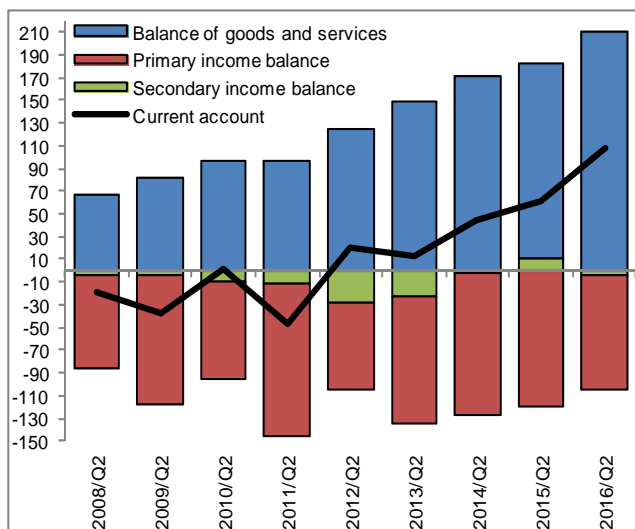
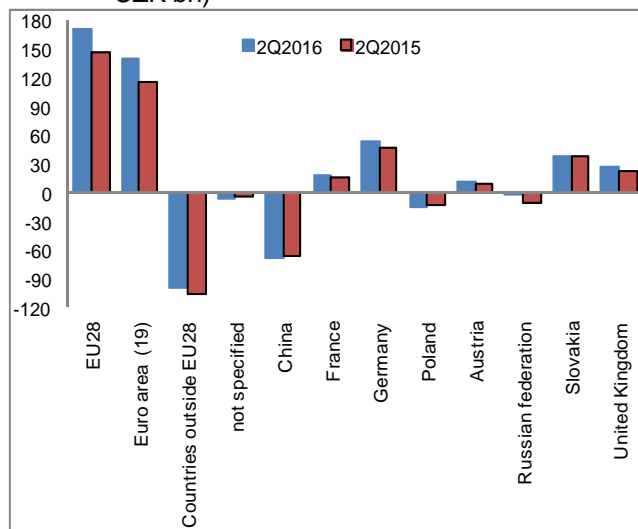


Chart 10 **Balance of foreign trade with goods in national conception in Q2 2016 (y-y in CZK bn)**



Source: CZSO, CNB