

External Economic Relations

- Further improvement of external imbalance of the Czech economy in 2012**

Year 2012 marked further improvement of external economic relations of the Czech Republic. Current account deficit of the balance of payments finished below the boundary of hundred billion (-94 bn crowns) compared to year 2011 (-103.9 bn) and 2010 (-146.6 bn crowns). The cause was mainly in the high positive trade balance, resulting from the higher decrease of the rate of growth of imports of goods (due to economic recession) than the rate of growth of its exports. Financial account surplus (+121.7 bn crowns) was adequate to cover the deficit current account of the balance of payments, whose deficit amounted to 2.4 % of nominal GDP. The result is again better in comparison to year 2011 (2.7 %) and significantly better than in 2010 (3.9 %).

- Markedly more favourable result of goods trades while worsening of the services balance**

It was the high surplus of the trades in goods balance that caused that the performance was the highest in history, in spite of the result of imports and exports of services (+49.8 bn crowns) year-on-year weekend and arrived at the lowest level since 2006. At the same time the revenues from services were more or less growing. Previous year-on-year losses of income from transportation and tourism (-0.3 bn crowns, resp. -0.2 bn crowns in 2011) in 2012 turned into growth – strengthened not only the transportation revenues (+3.9 bn to 100.8 bn crowns), but also the tourism (+2.1 bn to 137.8 bn crowns). The additional revenues from services (+22.3 bn to total 431.9 bn crowns) was however not adequate to their heightened imports, especially for so called other services and it resulted in worsened balance.

- Following the improvement in 2011 the income deficit again increased**

Income balance recorded a deficit of 288.7 bn crowns compared to 255.5 bn in 2011, when it improved for the first time. In connection to the influence of foreign direct investors in the CR there were 306,5 bn crowns transferred outside the country, which was by 36.8 bn crowns more than in 2011.

The result of current transfers had an adverse effect on the external relations, with a balance of -1 bn crowns, due to the lower income from abroad (81.7 bn against 85.6 bn crowns in 2011), already for the second year in a row. Effect also had a lower drawing of the European funds – only in Q4 however an improvement occurred in this direction (year-on-year +10.4 bn crowns), following the three quarters of deficit current transfers in the amount of 7.9 bn crowns. Transfers of funds out of the CR in 2012 were year-on-year stagnating (82.6 bn against 82.8 bn crowns in 2011).

- Domestic direct investment the highest for the last five years**

The inflow of foreign direct investment into the Czech Republic (207.4 bn crowns) was the highest in the last five years. Investors here increased mostly the reinvested profits, but also the equity of their companies by 181.8 bn crowns. In contrast in 2011 there were inflows into the CR of direct investment only in the amount of 41 bn, in that 18.8 bn crowns was directed to reinvested profits and investment into equity. On the contrary Czech firms invested abroad over 26 bn crowns, the most since the year 2009.

- Trades of portfolio investors strengthened the inflow of funds into the CR...**

It was the strong inflows of direct investment into the CR that resulted in a significant surplus on the financial account of the balance of payments (121.8 bn crowns). The account was also supported by the inflow of funds in the form of portfolio investment (net +42.6 bn crowns) due to the notably strengthened purchases of Czech bonds on the part of foreign portfolio investors (net 71.9 bn crowns).

- ...the development of other investment had however significant adverse effect, mostly short-term foreign operations of**

Different from the inflow of direct and portfolio investment into the Czech Republic, the funds of so called other investment went in the opposite direction, in net 110.6 bn crowns. It represented mostly the short-term foreign operations of commercial banks lasting the whole year. At the end they lead to the outflow of funds via active trades in the amount of 41.5 bn crowns, on the passive side then in the amount of 22.5 bn crowns. In total, these operations of commercial banks meant in 2012 an outflow of funds from the CR amounting to 64 bn crowns. Similar development, even though in the smaller range, eventuated also in the year 2009.

commercial banks

Balance of other sectors (apart from the government) meant in the short-term other investment also an outflow of funds from the CR (-22.4 bn crowns), but not as extensive as in the mentioned operations of commercial banks.

• Slowing down of exports mostly in the second half of the year; exports to markets outside the EU form already nearly one quarter of the union exports

Exports from the Czech republic in the national conception rose in 2012 in nominal terms compared to year 2011 by 7.2 % displaying a decreasing trend during the year (+11.6 % in Q1 to +2.5 % in Q4). Given the main destinations, this average rate of growth (also approximately by quarters) was sustained for Czech exporters by the Slovakian market, on the contrary the exports to Germany rose in a year only by 4.6 %, even though in the last quarter it already fell year-on-year. It occurred even for in relation to value much weaker exports to China (from +34 % in Q1 to ending -1.1 %, for the whole year 2012 then by +11.3%). On the other hand, the rates of growth of exports to Russia remained strong, with Czech exports placing to this territory by 31.9 % more goods than in the year 2011 (in Q1 more by one half).

This territorial diversification lead to the growth of exports outside the EU markets (+20.6 %), whose value approximated one quarter of exports to the union. The dynamics of exports to the EU remained in 2012 below average (+4.4 %) given the weakened exports to the euro area (+3.5 %).

• Slower rate of growth of exports of machinery and transportation vehicles, faster for food and industrial consumption goods; exports of motor vehicles year-on-year slumped in the last quarter

There were in 2012 exported machinery and transportation vehicles in the value of 1.234 trillion, i.e. 48 % of the aggregate value of exports. Year-on-year increase of 6.5 % (in Q4 only by 0.5 %) was however lower compared to the rate of growth of total exports (+7.2 %). Above average exports was achieved by the exporters of industrial consumption goods (+10.2 %) and other commodities (23.1 %). The exports of food grew strongly (+18.1 %) – in traditionally strong exports of grain in years of favourable harvest - , but also beverages (+15.2 %). Food exports inc. beverages however form only 5 % of the total exports from the CR.

Exports of motor vehicles were hit hard by the weakened mostly western European demand and subsequently also the domestic industrial production – while in Q1 there were year-on-year in total by 17.6 % of motor vehicles exported more, in the last quarter their export was by 2.6 % lower. Year-on-year the exports of motor vehicles increased by 7.1 %.

Chart 9 Long-term development of selected components of the balance of payments (in mil CZK)

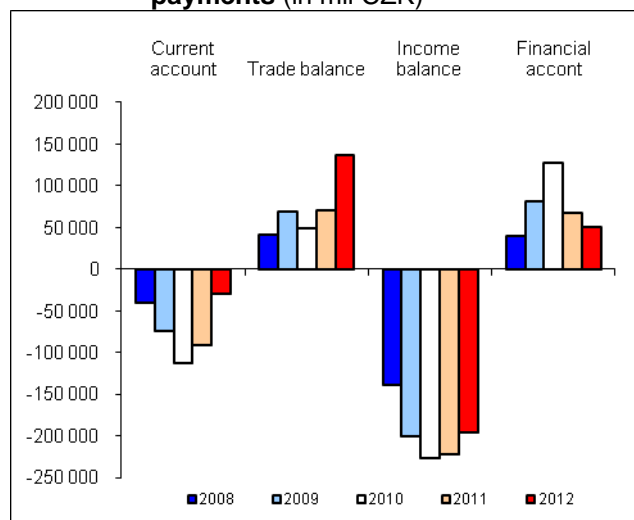
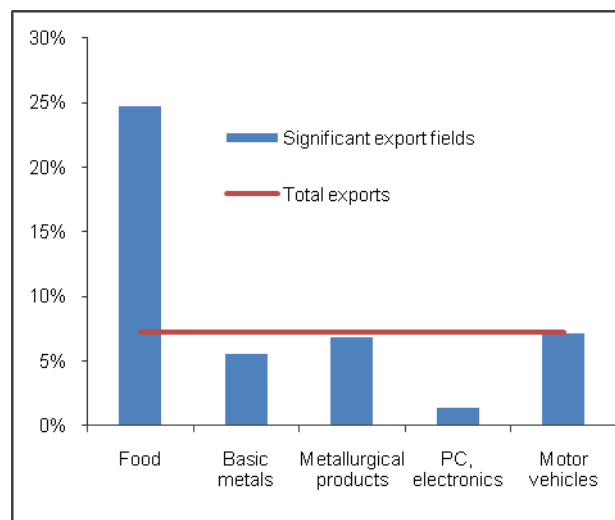


Chart 10 Rate of growth of largest export commodities (2012, y/y, in %)



Source: CNB