External Economic Relations

- ***Payment position of the CR improved***

At the beginning of 2005 external payment position of the CR resulting from outcomes of foreign economic operations markedly enhanced. Supply of foreign currency grew faster than demand on this mainly due to movements of non-debt capital. The Q1 2005 current account of balance of payments ended in a surplus. Balance of performance, especially operations with goods took place. Financial account of balance of payments ended in a deficit owing to drain of portfolio investments. Account balance at three basic accounts shows noticeable proportional changes in current rates and capital rates even also among separate account items and changes in assets comprising part of foreign assets stipulating position of the CR abroad. The Q1 2004 deficit amounted to CZK 8.1 bln turned over to surplus of CZK 1.1 bln in Q1 2005, at the y-o-y change of CZK 9.2 bln. Financial account deficit caused lower y-o-y gain of foreign exchange reserves.

- ***Current account surplus because of trade balance***

Faster growing collections than payments resulted in the Q1 2005 current account surplus amounted to CZK 14.6 bln and a substantial y-o-y positive change (CZK 28.3 bln). Coverage of outlays by means of incomes rose markedly. The surplus of 2.1% in proportion to GDP presented 4.2 p. p. y-o-y. Foreign trade of goods had the most favourable effect on current account as well as on its changes. This state of affairs when consolidation of the Czech *koruna* encourages import of goods and concurrently has an adverse effect on exports of goods, exports arrived at CZK 438.9 bln and exports CZK 419.6 bln was more by 16.6% or 11.8% y-o-y, respectively. The y-o-y surplus amounted to 19.3 bln was by CZK 18.1 bln higher. Trade of machinery and transport means contributed most when exports rate outstripped rate of imports (resulting in a surplus of CZK 57.4 bln). The second great surplus (CZK 10.6 bin) was reached in a group of products sorted by material. On the other hand trade of mineral fuel and chemicals ended in an extensive deficit (CZK 20.8 bln and CZK 20.5 bln). In spite of growing export of goods and living animals (by 37.5%) the third large deficit in this group was recorded. Balance of services ended in surplus (CZK 1.7 bln) but was lower y-o-y as a result of growing outlays for other services. Balance of revenues ended in approx. equal deficit like last year, balance of current transfers certainly contributed to current account as well as to its y-o-y change.

- ***Portfolio investment drain***

Financial account deficit of CZK 14.9 bn in Q1 2005 came about as a result of a considerable portfolio investment drain, debt securities in particular (CZK 20.5 bn). This represents a change of CZK 46.1 bln compared to their large inflow previous year. The ratio of deficit to GDP amounted to 2.2 %, i.e. 3.0 p. p. more year-on-year. Net foreign direct investment inflow (CZK 28.6 bn) remained roughly equal to the same period previous year. Reinvested profit form a larger part of total foreign investment inflow than equity. The outflow of other investment was notably lower compared to the previous year.

- ***Strong CZK exchange rate appreciation***

Exchange rate reached on average in Q1 2005 CZK 30.02 against EUR and CZK 22.90 against USD, posting a year-on-year appreciation of Czech koruna on the exchange rate market of 9.4 % and 14.7 % respectively, which had an impact on the growing current account surplus. Nominal effective exchange rate index of CZK advanced year-on-year by 8.4 % - slightly slower than the rate against EUR and USD due to the other currencies used in foreign trade. Real effective exchange rate index of CZK climbed year-on-year by 11.0 % when based on the industrial producer prices index and by 7.3 % when measured using consumer prices. CZK exchange rate appreciation was a decisive factor in this growth; nevertheless growing price differential also played an important role. As an implication this index signals a tendency for a decreasing competitiveness of the Czech economy.