

External Economic Relations

- **The rate of external disequilibrium decreased**

2005 foreign economic transactions improved the external payment position of CR. Compared to 2004, financial account surplus in 3Qs 2005 was higher, the current account deficit was substantially lower and it was covered more than before by operations in foreign exchange reserves and on financial account. The composition of the sum of balances of the three basic Balance of payment accounts, which increased extraordinarily, changed considerably. The external equilibrium measured by mutual account balances or by their ratio to GDP was lowered extensively and it were first of all the good operation results which contributed to this development. Foreign exchange supply grew faster than its demand.

- **Increased cover of expenditure by current account revenue**

Current account deficit of balance of payment at the level of 44.9 bln CZK was in 3Qs 2005 smaller by CZK 62.3 bln on year-on-year and was caused by higher growth of revenue than outlays. The expenditure cover by revenue reached 97.4 % and was improved by 4.0 p.p. on year-on-year. In ratio to GDP the above-mentioned deficit represented 2.1 % and decreased by 3.1 p.p. compared 2004. The foreign trade with goods had the most positive influence on current account and its change. By strengthening CZK exchange rate, although at lower level, the export of goods accomplished CZK 1 379.2 bln and the import of goods CZK 1 337.0 bln, which was year-on-year more by 9.9 % and 5.3 % respectively. The export-import surplus at the level of CZK 42.2 bln was comparing to the last year deficit greater by CZK 56.9 bln. Trade with machinery and transport means, whose surplus at the level of CZK 161.7 bln was higher by CZK 60.0 bln than a year ago, was the greatest contributor to this development. The surplus in the group of market products sorted out mainly according material increased from CZK 16.9 bln to CZK 29.8 bln. The substantial improvement (by CZK 7.7 bln) - from higher to lower deficit - occurred in the group of chemicals and similar products. Although the service balance was in surplus of CZK 12.3 bln, this surplus was only moderately higher than a year ago. The balance of returns was deeply in deficit (CZK 114.9 bln); this deficit being year-on-year higher by CZK 5.7 bln. The balance of current transactions contributed positively to current account balances and to its change. The year-on-year change of performance balance was positive at the level of CZK 58.0 bln.

- **FDI decided growing financial account surplus**

The surplus of balance of payment financial account at the level of CZK 122.7 bln for 3 Qs 2005 was higher by CZK 18.0 bln interannually and was caused by increased transactions on liabilities by CZK 91.4 bln and on assets by CZK 73.4 bln. In relation to GDP, this surplus reached 5.6 % that was more by 0.5 p.p. than a year ago. The net FDI inflow (CZK 211.9 bln) was by huge CZK 123.7 bln larger than a year ago and decided actually the total result in assets-liabilities transactions. The interannual portfolio investment decrease (CZK 116.1 bln) was significant in a situation when interest rates are not a source of an extraordinary profit.

- **Foreign exchange reserves in relation to GDP 4,1 %**

The change in foreign exchange reserves (growth by CZK 89.6 bln) was greater by CZK 83.3 bln interannually and relative to GDP reached 4.1 %, i.e. by 3.8 p.p. more than a year ago.

The stock of foreign exchange reserves (CZK 733.9 bln at the end of Q3 2005) would be enough to cover imports of goods and services for 4.4 months, which is by 2.6 % mote than a year ago. The interannual appreciation of CZK to EUR by 7.1 % and to USD by 3.9 % contributed to this development, too.