

## External economic relations

- ***Despite the record surplus of trade in goods and services the external balance measured by the deficit of the current account worsened, ...***

The deficit on the payment balance current account amounted to 60.4 billion CZK, the least favorable result in the past three years. The balance of trade, however, was highly positive (110.1 billion CZK) with a surplus by one fifth greater than in the first three quarters of 2007<sup>1</sup>. The surplus in the trade in services (65.6 billion CZK) represented more than half of the commodity balance, however it increased by more than one third year on year. The positive performance balance of 175.6 billion CZK was the best in the Czech Republic's history. Also a record result was achieved in the deficit of revenues balance (-231.9 billion CZK) with the year-on-year worsening by two fifths. In addition to improvement of the deficit of current transfers (-4.1 billion CZK) the development trends of the other components of the current account remained unchanged. The deficit was well covered by the surplus on the financial account (111.9 billion CZK).

- ***... however it was compensated by a surplus on the financial account***

The inflow of direct investments from abroad into the Czech Republic was 138.3 billion CZK, which increased the aggregate balance by one third (121.3 billion CZK) year on year to the highest level since 2005. Direct investments by Czech companies abroad, however, showed decreasing dynamics and their amount (17.0 billion CZK) was determined by profits left in the respective countries. In total the capital flows in form of portfolio investments resulted in an inflow of money into the Czech Republic, which started in the 2nd quarter (the last positive balance was reported in 2004). Foreign investors strengthened their positions in Czech debt securities.

- ***Trade in goods delivered better results again with a lower dynamics due to the slacking demand***

The export of goods from the Czech Republic for a major part of the period occurred in the environment when the exchange rate of the Czech crown strengthened. Despite that the trade balance further improved, although the import<sup>2</sup> and export slowed down to single digit levels, both with EU 27 countries (+26%) and major partners (Germany +18%, Slovakia +9%). The exchange relations had a very negative impact. The decrease of price competitiveness of the Czech economy<sup>3</sup> in the individual quarters of 2008 speeded up year on year.

---

<sup>1</sup> Calculation of data after the updating of the payment balance.

<sup>2</sup> Here and in other data on imports at CIF prices.

<sup>3</sup> Based on a change of the index of real effective exchange rate of the Czech crown deflated by the price level of GDP with foreign trade weights.