

External Economic Relations

- **Slowdown of the foreign exchange demand and supply growth**

The foreign exchange demand and supply weakened in the 1Q of 2006, the development of assets and liabilities of the balance of payment financial account being the main cause. Foreign exchange demand grew less (2.4%) than supply (3.8%) and their growth slowed down. The total balance and the composition of three main accounts point to distinct changes between current and capital flows, which was reflected in low increase of foreign exchange reserves. Current account surplus was at minimal level and lower by CZK 18.6 bn on year-to-year base, as a consequence of smaller growth of liabilities than debts. Financial account deficit (CZK 1.5 bn) was, thanks to considerable assets increase and liabilities decrease, higher on y-o-y base. Foreign exchange reserves change (CZK 0.7 bn) was lower by CZK 2.6 bn. The volume of foreign exchange (CZK 702.6 bn) at the end of 1.Q 2006 was higher in comparison with the previous year and was enough to cover imports of goods for 4.35 months, i.e. inter-annually less by 0.31 month and 6.7% respectively.
- **Lower outflow of other investments**

Other investments influenced mostly the financial account balance and its inter-annual change; their outflow was incomparably smaller than a year ago. Direct investment balance (Czech investments abroad and foreign investments in CR) at the level of CZK 18.9 bn. Was inter-annually lower by CZK 13.1 bn, the main cause being the basic capital and reinvested profit at the liability side. Property securities and shares influenced the lower outflow of portfolio investments (CZK 5.5 bill) more than debt securities.
- **Negative influence of balance of services**

Balance of services and one-side transfers, whose positive balance decreased from CZK 3.5 bill in 1Q 2005 to CZK 0.8 bn in 1Q 2006, influenced the lower surplus of current account (CZK 0.2 bn). The deficit of balance of returns increased from CZK 22.7 bn to CZK 26.5 bn. Operations with goods exhibited a positive influence on the balance change, even when the growth of exports of goods was lower (by 17.5%) than the growth of imports of goods (by 18.5%). Similar tendencies follow also from seasonally leveled data suggesting a certain change in trend, i.e. slight slowdown of export boom as the imports of goods started to exceed their exports and the level of trade assets slowed down inter-quarterly as well as inter-annually. Comparing 1Q 2006 to 1Q 2006, seasonally leveled data show that the import growth (6.2%) was substantially higher than export growth (2.5%) and surplus (CZK 6.4 bn) was lower by CZK 16.4 bn; imports grew inter-annually faster (18.0%) than exports (15.0%) and surplus was lower by CZK 10,2 bn.
- **Small increase in surplus of goods operations**

In the 1Q 2006, the excess of exports over imports (CZK 25.5 bn in current prices) was inter-annually higher by CZK 1.3 bn. Opposing motion of goods transactions in particular commodities influenced this small increase. The contribution of the trade with machinery and transport means was traditionally highly positive, although the growth of imports (23.5%) got closer to growth of exports (26.6%), surplus (CZK 80.7 bn) inter-annually greater by CZK 20.8 bn. Trade with mineral fuel, lubricants and similar materials acted upon in an opposite direction; their imports increased considerably (by 50,8%). Deficit (CZK 36.1 bn) was inter-annually higher by CZK 15.5 bn.