

External economic relations

- ***The external balance of the Czech economy measured by the deficit of the current account of the payment balance worsened***

The result of the current account of the payment balance was the least favourable since 2004 at the end of the 1st half of 2008. The deficit amounting to 32.2 billion CZK (-2.5% of the nominal GDP as compared to -2.2% in the same period of 2007)¹ results from the highly negative balance of revenues, the deficit of which amounting to 161 billion CZK was even higher than for three quarters of 2007. On the other hand, the other components of the current account reported an annual improvement - by 36 billion CZK altogether. However, the worsening of the revenue deficit was twice as high as these positive effects of the performance balance and current transfers.

Another aspect of the external balance showed comfortable coverage of the current account deficit by the surplus of the financial account (66.4 billion CZK), mainly thanks to a strong inflow of capital investment.

- ***The balance of services improved more than the trade balance***

The balance of foreign goods trade achieved the same result in the 2nd quarter as in the 1st quarter, which led to the semi-annual surplus of 83.2 billion CZK (in FOB prices). Thus, the trade balance was annually better by 10.3 billion CZK. However, the balance of services grew by 13.1 billion CZK in the annual terms, making its surplus grow to 42.9 billion CZK - historically the best semi-annual result - mainly thanks to increased revenues from the other services. So the performance balance created the aggregate surplus of nearly 126 billion CZK.

- ***The foreign goods trade was affected by unfavourable exchange rate relations***

In spite of the historically highest semi-annual surplus of the trade balance the foreign trade can be characterized by reduced dynamism (exports annually +5.2%, imports annually in CIF prices +4.8%) – caused by an economic slowdown in the key export destinations and a lower industrial growth rate. As regards financial influences, exchange rate relations had negative impacts, the exports were negatively influenced by extreme reinforcing of the Czech Crown as compared to the Euro and USD (expressed in Euro, the import and export rate continued having two figures, in USD expression the increases represented more than one third). The trade in machines and means of transport further increased its share in total sales to 54.3% while its share in imports slightly dropped to 41.9%. The predominance of the EC 27 states in the sphere of exports remains extremely high (85.7% of the total exports as compared to 85.8% in the same period of 2007), in the sphere of imports it slightly decreased (to 68.5% from 71.8% of the total imports) – the dynamism of trade with Germany and Slovakia was lower than the aggregate import and export rates.

The decrease of price competitiveness of the Czech economy - according to the change of the index of the real effective exchange rate of CZK - was more significant in annual terms than in the 1st quarter of 2008.

- ***In portfolio investment the return of capital to the country was decisive***

The inflow of direct investment from abroad was reinforced to 90 billion of CZK, which was the highest figure since 2005. Portfolio investment further increased the surplus of the financial account with the balance of +26.3 billion CZK while the other investments (-39.7 billion CZK) decreased it. While in the 1st half of 2007 portfolio investment showed outflow of capital from the country, the same period of 2008 saw an inflow of capital, in the annual comparison nearly 52 billion CZK. The capital return was most significant in net trades of residents (improvement to 17.4 billion CZK from -43.1 billion CZK at the end of the 1st half of 2007). As regards net trades of non-residents, purchases of Czech bonds were predominant.

¹ From a calculation in the basis of annual sliding aggregates.