

External Economic Relations

- **External economic relations worsened despite improved current account deficit of the balance of payments**

Balance of payments has worsened compared to 2010. CR received less foreign direct investment, inflow of portfolio investment was only a fraction of the volume in 2010 and markedly weaker was also the capital account surplus. Worsening eventuated despite the fact, that one of the measures of external balance developed favourably – current account deficit in 2011 improved thanks to the larger surplus in goods transactions and more favourable income balance. On the contrary, surpluses in export and import of services shrank compared to 2010 and the result of current transfers also worsened. In relation to nominal GDP the current account deficit experienced a positive change (2.9 % against 3.9 % in 2010).

Second measure of the sustainability of external relations, i.e. mutual compensation of deficits and surpluses inside the balance of payments however was not favourable in 2011. Financial account with its considerably smaller surplus compared to 2010 did not cover the current account deficit, even when adding the positive balance of the capital account.

- **Trade balance higher by three quarters than in 2010, income balance improved**

Current account deficit of the balance of payments in 2011 arrived at 109.1 bn crowns, by one quarter less than in 2010 (146.6 bn crowns), which represented significant improvement. Trade balance¹ in the amount of 94 bn crowns was year-on-year by 40.2 bn crowns higher with the largest year-on-year addition since the Czech foreign trade in goods achieves surpluses. Export grew nominally by 12.6 %, import by 11 %. Trade in goods thus contributed to the improvement of the current account the most.

Income balance improved from the record deficit in 2010 (-285 bn crowns) to 271.9 bn crowns by the effect of higher inflow of money into the country, as well as year-on-year diminishing of outflow of money in the form of income from the Czech republic (neither repatriated profits nor the cost of labour of foreigners in the CR did reach the level of 2010).

- **Surplus of services balance significantly weaker as well as the current transfers**

Continuous growth of the surplus in the import and export of services, notable in the last six years switched in 2011 to fierce year-on-year lowering by 9 bn to 66.3 bn crowns. Receipts and expenditure for the Other services item had a neutral effect on the balance of services (they grew roughly by 10 bn year-on-year in both directions). Unfavourable was however the development of tourism – receipts remained year-on-year approximately the same (resp. fell by one billion to 135 bn crowns due to the impact of private travels), expenditure in the form of departures of residents from the Czech republic on the contrary grew by 3 bn crowns (for business travels from the larger part).

The balance of transportation services also worsened. Receipts decreased (-0.4 bn to 96.7 bn crowns) with simultaneous growth of expenditure (+5.6 bn to 84.3 bn crowns). The reason can also be a high price of fuels in CR and fuelling of transit transporters in the larger extent abroad.

Balance of current transfers deteriorated due to the slump in the 4th quarter caused by the lower receipts and higher payments to the EU budget (more in the chapter related to state budget).

- **Strengthening of the weight of cars and spare parts on total export according to external statistics**

According to cross border statistics the weight of export of motor vehicles and their components on the total export from the CR in 2011 grew. While in 2010 the share of export of motor vehicles including components on its value arrived at 7.6 %, in 2011 it was already 8.6 %. The export eventuated in the value of nearly half a trillion crowns (461 bn crowns) and year-on-year the value of their export increased by 52.6 bn crowns which meant the second largest addition since 2000 (record occurred in 2010

¹ In the methodology of balance of payments (national approach), both export and import in FOB prices.

data

with +63.5 bn crowns, for the preceding two years the value of their export decreased). Growth of value arose despite export prices of motor vehicles falling year-on-year for the most part of the year and negligible additions eventuated only in 4th quarter. It shows the significant export business ability of motor vehicle exporters.

There were in value terms imported by 39.9 bn crowns, in 2010 by 41.9 bn crowns of crude petroleum and natural gas more. Price influence empowered by the development of the exchange rate of crown had a significant effect, since in the volume expression the import of both petroleum and gas went down year-on-year.

• **Lower share of EU 27 on total exports from CR**

Risk flowing from a very high focus on EU markets decreased in 2011. Their share on exports from CR fell to 83 % from 84 % in 2010, somewhat also the weight of Germany (to 32.1 % from 32.3 % in 2010). Despite the exports to Russia and China starting to grow markedly in the last quarter (by 40 %, resp. 30 %), their share in the export from CR is still very low – year-on-year growth of their shares has been so far only in the range of tenths of percentage (from 2.7 % to 3.2 % in case of Russia and from 0.9 % to 1 % in case of China).

Even though the rate of growth of imports from China decreased in 2011 by one fifth (for example the boom of technologies for construction of sustainable sources of energy ended), the proportion of goods imported from China in total import to CR grew from 12.3 % in 2010 to 12.5 %. The proportion of imports from EU 27 also increased by 0.4 p.p. up to 63.8 %.

• **Financial account notably weakened with the lower inflow of foreign direct investment...**

In 2010 the financial account of the balance of payments of the CR was so strong, that its surplus in the amount of 174.3 bn crowns exceeded the aggregate deficit of the current and capital account by more than 60 bn crowns. Nevertheless, in 2011 it halved and even though the aggregate deficit of current and capital account was considerably smaller (94.4 bn crowns) than in 2010 (114.1 bn), it was not compensated by the weaker surplus of the financial account.

Inflow of the direct investment in the amount of 95.6 bn was year-on-year by one fifth lower and considerably weaker than the average in the last seven years (147 bn crowns), which can be caused by the cautiousness of the foreign capital anxious about the global slowdown. Domestic companies invested abroad 20.4 bn crowns mostly in the form of reinvested profits.

• **... and notably lower net inflow of portfolio investment reaching 6 bn crowns in 2010**

While in 2010 the development of portfolio investment was significantly determined by the inflow of capital into the country, i.e. mostly by the purchases of bonds by foreign investors, this phenomenon was not repeated in 2011. While in 2010 the foreign portfolio investors bought debt securities (mostly Czech government bonds) in net worth 143 bn crowns, in 2011 worth only 19.8 bn. Their trades with shares were from the view of resulting net balance negligible. Domestic subjects bought foreign bonds worth in net expression 14.3 bn crowns and selling shares.

Aggregate inflow of portfolio investment to CR amounted to 5.9 bn crowns; in 2010 it was 150.4 bn crowns. Given the issue of government bonds in 2011 it seems that their buyers were mostly subjects in the CR.

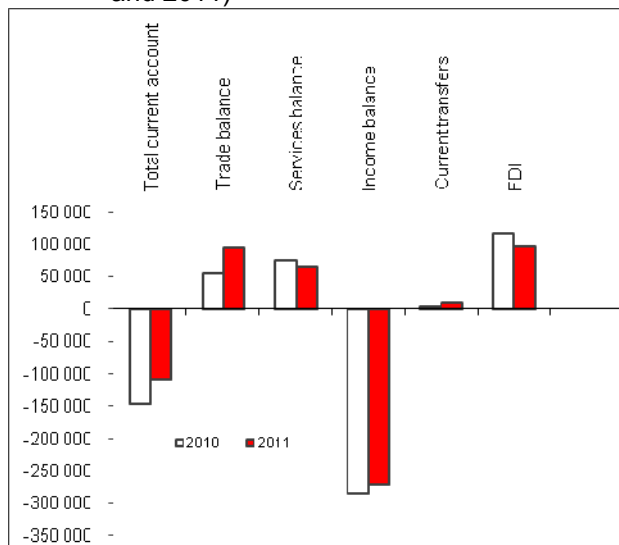
• **Czech currency appreciated**

Czech currency was appreciating in the long term. It is notable out of the development of the exchange rate of crown towards main currencies, that the rate was a significant factor in the convergence of CR to the average level of the European currency union (with the exception of 2009 characterised by depreciation of average yearly rate against euro and 2009-2010 period with depreciation against the us dollar). For the 2004 to 2011 period the crown appreciated against euro by 22.9 % and against dollar even by 31.2 %. In 2011 the crown was traded on the currency exchange market at an average rate of CZK/EUR 24.586 and CZK/USD 17.688, which represented against the year 2010 appreciation by 2.8 %, resp. 7.4 %.

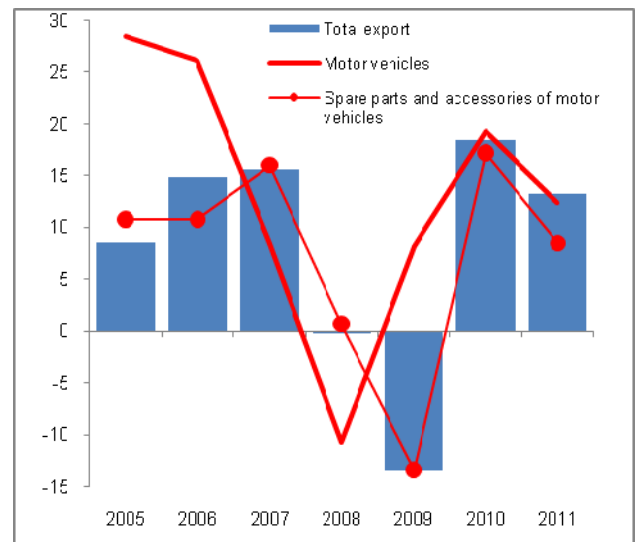
Price competitiveness of CR worsened

Cost competitiveness of Czech Republic in 2011 according to the change in real effective exchange rate of crown² in comparison to 2010 worsened due to the development in the 1st half of the year, on the contrary it grew in the remaining part of the year. The year after crisis 2010 on the contrary witnessed mild improvement, in 2009 stagnation. Generally it can be noted that the worsening of cost competitiveness will logically occur by the impact of further increasement of the development of the Czech economy.

Graf 9 Selected items of the balance of payments (balances, in mil crowns, 2010 and 2011)



Graf 10 Export of motor vehicles, parts and total export from CR (y-o-y in %)



Source: ČNB

² Using GDP deflator and weights of total foreign trade turnover.