# External Economic Relations

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| Historically the best result of external economic relations in several aspects – with a current account of balance of payments surplus, only second for the last 22 years…  |  | External balance of the Czech economy was improving already for the fourth year in a row in 2014. Flows of funds with abroad ended in accumulation of every quarter in surplus on the current account of balance of payments. The whole-year balance was thus also positive (CZK 26.1 bn, the best result in the CR history (surplus of CZK 13.3 bn in 1993). The capital account also ended in the surplus of revenues over expenditure (CZK 32.2 bn), despite year-on-year deterioration (CZK 82.4 bn in 2013). Lower net revenues from the EU budget mostly affected the thinner surplus in 2014. On the contrary, the financial account was in deficit already third year in a row (last year mostly due to the impact of the portfolio trades) – however its deficit was covered by the current and capital account surpluses. The balance of secondary income[[1]](#footnote-1) was also negative (current transfers) with CZK -9.7 bn and only a negligible year-on-year improvement (CZK -10.1 bn in 2013) – the monetary transfers increased identically to income (i.e. by CZK 4-5 bn). Higher income occurred only in Q2. |
| …... thanks to record surplus of the foreign trade with goods and services… |  | A successful year 2014 in the view of the external balance was influenced mainly by the result of the trade with goods as well as services – the record performance balance was based on the CNB data in surplus of CZK 294.8 bn[[2]](#footnote-2) (the surplus of the services balance formed on fifth). Exports as well as imports of services recorded double-digit values year-on-year (+11.2 %, resp. +16.8 %), which sharply contrasted with the „recession“ year 2013 (-1 %, resp. +0.6 %). The significant domestic recovery and favourable foreign demand for services had a positive effect. Both revenues and expenditure increased roughly by one tenth in transportation services year-on-year. Expenditure grew considerably in the tourist industry (+17.6 %), but revenues went up only little (+2.9 %). The rates of growth were double-digit for agents with insurance services, revenues from telecommunication services (+16.6 %), they even grew by one third for leasing of intellectual property (+32.4 %).The artificial depreciation of koruna following the monetary intervention of the CNB initiated in November 2013 also participated on this favourable nominal result of the foreign trade. The rates of growth of export prices exceeded the rates for the import prices nearly the whole last year, which pushed up the trade surpluses.  |
| … despite the historically also highest outflow of funds in the form of dividends from the CR to parent companies of foreign owners of firms in the CR  |  | It was just these large trade surpluses which balanced out the traditionally deep deficits in primary incomes given by strong ownership interest of foreign companies in the CR economy. These withdrew on dividends CZK 219.3 bn last year, the most in history. They left CZK 94.2 bn to be reinvested here, which was the second largest volume of reinvested profits since 1993. Nevertheless, it is important to remember, that the size of both the repatriated and reinvested profits was connected to the large incomes given by the weaker koruna, which put some dynamics into the sales as well as profits of especially the exporting companies (but also to their domestic suppliers in trades in euros).  |
| Much more money arrived on salaries into the CR compared to their outflow - „salary balance“ favourable for the CR already for the third time since 2012  |  | The positive „salary balance“, i.e. the difference between the volume of salaries, resp. compensations to employees, of the CR workers abroad (39.3 bn) and foreigners working in the CR (CZK 7 bn represented the next record from the view of external relations in 2014. The surplus in the amount of CZK 22.2 bn was given especially by the size of wages (compensations) of residents abroad. The proportions are impacted by the economic cycle, since the immigration has the nature of labour migration here – that is why the largest outflow of funds in the form of wages (CZK 44.1 bn) occurred during the boom with the resulting balance of CZK -24.8 bn in 2008 (residents brought CZK 19.2 bn from abroad at that time).  |
| Financial account finished in deficit despite the inflow of foreign direct investment both on the asset and liability side into the country… |  | In contrast to both current and capital account surpluses, the financial account recorded an outflow of funds from the country already for a third year in a row (in the amount of CZK 48 bn in 2014). The foreign direct investment balance was as usual positive (CZK 133.6 bn) with the inflow of direct investment worth CZK 101.4 bn. However, the outflow in the form of investment of domestic entities abroad did not take place – on the contrary, they were withdrawing their investments (CZK -32.2 bn in net). The direct investment into the Czech economy slightly above the hundred billion boundary was lower compared to the previous two years of recession. They have not overcame the three year, resp. ten year average either (CZK 135 bn, resp. CZK 159 bn), most likely due to the rediscovered attractivity of other markets, especially European, where the foreign direct investors started to again return.  |
| … however with considerable outflow of funds in the form of portfolio investment, since the low issues of Czech bonds led to weaker purchases by foreign investors and withdrawing of funds back to their countries; the other investment deficit also adversely affected the financial account result  |  | The flows of portfolio investment followed a completely different scenario year-on-year. CZK 90.3 bn worth left in net the CR in 2014 (CZK 92.8 bn in net expression on the contrary flew in in 2013). The high last year's purchases of foreign bonds and shares by domestic entities were behind this fact (worth CZK 76.6. bn in net). A very positive development of stock markets, mainly those overseas, enticed to investing. The foreign portfolio investors also caused the outflow of portfolio investment from the CR simultaneously – they rather liquidated their positions in the CR (the sales of domestic securities exceeded the purchases, in net by CZK 13.7 bn). It is thus evident, that the lower need to finance the state budget deficit by the bond issues was also reflected in this area. The reverse net outflow of funds amounting to CZK 18.9 bn out of the CR was the result of trades with bonds themselves.  |
| Trade balance in the national conception (FOB/CIF prices) rose nearly by one half to 155.2 bn crowns thanks to exports of motor vehicles and imports of crude petroleum and gas  |  | Commodity balance[[3]](#footnote-3) improved the most in trade with motor vehicles (+65 bn to 354 bn crowns) and trades with the crude petroleum and natural gas (deficit shrank by 32 bn to 161 bn crowns). These two improvements were key for the growth of the trade balance in the national conception (CZK +48.7 bn to CZK 155.2 bn). The balance worsened for 16 items out of 40 product classification (CZ-CPA[[4]](#footnote-4)) items – the most for machinery and equipment n.e.c. (CZK -20 bn), basic metals (CZK -14 bn) or e.g. in shops with PCs and electronics (CZK -8 bn). |
| Motor vehicle exports rose by 22 % year-on-year, medicine by 38 % - six largest items comprising nearly two thirds of exports from the CR grew in total slightly more (+13.8 %) than total exports (+13.1 %) year-on-year  |  | Exports of goods from the CR were again very successful. Despite the restoration of growth in the Czech economy, with higher domestic demand and thus also the import requirements, the exports (+13.1 %) outpaced the imports (+11.8 %) compared to 2013. Six key export commodities of the engineering nature (motor vehicles, metals and metalwork products, PCs and electronics together with electrical appliances and other machinery) comprised 63 % of total exports from the CR and their dynamics was in the aggregate of a double-digit value (+13.8 %), i.e. somewhat above the average rate of growth for the overall exports.  |
| The share of both Germany and the Russian Federation on total exports from the Czech Republic fell  |  | The weight of the EU as the target destination of the exports from the CR increased (+1.3 p. p. to 83 %). The exports rose by an above average pace to Germany (+15.8 %), resulting also in increase of the share of this main partner on total exports (+0.7 p. p. to 32.1 %). The sanction policy restricted the exports to the Russian Federation (-4.6 %), and thus its proportion of total exports from the CR fell from 3.7 % to 3.1 %.  |
| Chart 9 | **Trade balance** (in CZK mil., national concept.; exports/imports in FOB/ CIF prices) | Chart 10 | **Main Balance of payments components** (in CZK mil., stock as of 31.12.) |
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Source: CZSO, CNB

1. With respect to the terminology, this chapter respects the shift to BPM6 in the part of the balance of payments. BPM6 is the sixth manual for the balance of payments and the CNB published the results according to it in December 2014 for the first time. [↑](#footnote-ref-1)
2. Both imports and exports of goods in FOB prices. [↑](#footnote-ref-2)
3. Balance of goods based on the CZ-CPA in the national conception. Exports in FOB prices, imports in CIF prices. [↑](#footnote-ref-3)
4. CPA – Classification of products. [↑](#footnote-ref-4)