# External Economic Relations

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| Positive balance of trade with goods and services contributed to the achievement of the current account of the balance of payment surplus in year 2017. |  | Balance of the current account of the balance of payments ended in surplus also in year 2017[[1]](#footnote-1). It was in the amount of 54.2 CZK bn and it lowered by 20.1 bn. The positive balance of the trade with goods (240.9 CZK bn) contributed the most to the surplus. The trade with services also attained a surplus (122.0 bn.), which increased by 14.4 CZK bn year-on-year. In contrast the balance of both primary and secondary incomes worked in the direction of deficit. Deficit of the primary incomes was 260.8 CZK bn in 2017 and deepened by 9.1 bn year-on-year. It was the result of the year-on-year increase of the inflow of the primary incomes by 17.9 CZK bn. Secondary incomes ended in deficit of 45.0 bn in 2017. It is mainly the consequence of the marked fall of the inflow of secondary incomes from abroad. Surplus of the capital account arrived at 46.5 CZK bn.  |
| Primary incomes again worked in the direction of the balance of payments deficit.  |  | Deficit of primary incomes was caused by the net outflow of incomes from investment in the amount of 321.2 CZK bn. That is by 9.7 bn more than in year 2016 (the inflow of incomes from investment from abroad increased by 15.0 bn last year). At the same time the net outflow of incomes from direct investment reached 345.9 CZK bn last year, by 20.1 bn more than in year 2016. Deficit of incomes from the portfolio investment moderated to -14.9 bn in 2017. Compensations to employees mostly mitigated the deficit of the primary incomes. Their balance achieved surplus in the amount of 37.7 bn. 64.0 CZK bn poured in the form of compensations to employees from abroad into the CR (by 6.1 bn more than in year 2016).  |
|  |  | Chart 9 | **Current account of the balance of payments** (cumulation of Q1 to Q4 in CZK bn) |
|  |  | Source: CNB |
| Results of the financial account were markedly impacted by the development in Q1. |  | Financial account (FA) finished in surplus of 117.1 CZK bn in 2017. At the same time both asset and liability side of the financial account gained double the level from year 2016. Flows to the FA had the largest volume in Q1, when the investors reacted to the nearing termination of the forex intervention of the CNB. The increase of the reserve assets in the amount of 1 246.4 CZK bn (in that 1 119.2 bn in Q1) exclusively stood behind the resulting surplus, which the FA keeps achieving since year 2012. Net inflow of direct investment arrived at 135.3 CZK bn (profit reinvestments shared in that from 106.9 bn). Net inflow of portfolio investment was 268.3 CZK bn last year. Shares in investment funds nevertheless made net outflow in the size of 43.5 CZK bn. Investment into the debt securities presented the source of the deficit in the item portfolio investment. Their net inflow was 311.8 CZK bn for year 2017 (by 140.8 bn more than in 2016). Main focal point of this capital inflow was in Q1 and 2 of the year. Development of the proportion of domestic bonds in the hands of foreign holders[[2]](#footnote-2) illustrates it. It considerably increased during the year 2016 (from 23.67% in January 2016 to 38.66% in January 2017). It was 47.26% at the end of March and it peaked in September (51.35%). It gradually declines since then. It was 41.64% at the end of December 2017.  |
| Export grew relatively fast last year.  |  | Value of exports reached 3 489.1 CZK bn in year 2017[[3]](#footnote-3). It thus increased by 189.9 bn (5.8%) compared to year 2016. It represents the most significant increase since year 2014 (when the value of exports was notably impacted by the koruna foreign exchange depreciation). If we thus omit the year 2014, it is the largest increase since year 2012 (6.0%). Rate of growth of export was maintained relatively strong throughout the whole year 2017. The value of export grew the most year-on-year in Q1 (9.3%), subsequently the pace kept stable above the 4% boundary. The increase was 4.8% year-on-year in Q4.   |
| The EU countries remain as the main business partner of the Czech Republic. |  | The territorial structure of exports did not change significantly in 2017. The European Union remained the dominant destination for the Czech export (83.9% of export), the share of export into countries outside the EU stayed at 16%. Not even the higher dynamics of exports into countries outside the EU (6.2%) managed to change this structure. The largest proportion of exports (32.2%, 1 125.0 CZK bn) headed in year 2017 to Germany and the export into this destination rose by 6.1% year-on-year (64.5 CZK bn). Its dynamics however lost pace markedly during the year (from 9.9% in Q1 to 3.7% in Q4). The described slowdown however was common to majority of significant business partners. The value of exports to Poland (9.4%, +19.1 bn), Austria (9.9%, +13.7 bn) and France (7.9%, +13.0 bn) also recorded marked increase in 2017. The share of export into these countries also moderately (within the order of tenths of p.p.) increased. On the contrary, export to Slovakia observed a fall (-2.2%, -7.0 CZK bn). Export to the Great Britain also mildly declined (-0.7%) and its share on the total Czech exports fell below 5%. Exports to China recorded exceptionally high increase in 2017 (+5.7 bn, 16.0%). As a result, the proportion of China on the Czech exports increased to 1.2%. Similarly, also the exports to Russia grew (+5.9 bn, 9.4%). In the context of the long-term development however it depicted only a small correction, the value of exports still does not attain the level from years 2012–2014. |
| Main export articles – motor vehicles, machinery and equipment and electrical appliances supported the growth the most. |  | Year 2017 did not alter anything on the position of motor vehicles as a key product in the structure of the Czech exports. Total value of exports of motor vehicles only tightly did not hit 1 000 CZK bn (995.1 bn) and increased year-on-year by 71.4 bn (7.7%). Motor vehicles formed 28.5% of export last year. Exporters of machinery and equipment also experienced a favourable year (growth of 27.3 CZK bn, 7.5%) and electrical appliances (+21.8 bn, 8.0%). The value of export of computers, electrical and optical equipment (+10.8 CZK bn, 3.6%) also grew mildly in comparison to year 2016, the value of export of these goods (309.2 CZK bn) however did not exceed year 2015. The value of chemical substances and products again rose following two years of decreases (+18.8 CZK bn, 13.4%). Following the enforced outage, this branch thus gradually recovers (export reached the value of 159.7 CZK bn, which is more than in years 2015 and 2016, year 2014 has not been exceeded yet). |
| Price shifts also affected the import dynamics.  |  | The value of imports into the CR also grew in 2017. It arrived at 343.8 CZK bn and increased by 208.3 bn (6.6%). Import thus grew faster than export last year. Raised prices of some materials presented a significant factor (oil and natural gas, basic metals). The Czech Republic more imports than exports these materials, thus the price shifts led to a higher growth of import. Similarly, to export, the year-on-year growth rate of imports attained the highest values in the first half of the year. In Q4, the year-on-year increase of imports was 4.9%. |
| Imports from countries outside the EU sharply increased.  |  | A more detailed view of the import structure further illustrates especially the price changes, that occurred in 2017. The increase of imports from countries outside the EU reached 11.1% (104.3 CZK bn) and it nearly became equal to the absolute additions to the imports from the EU (4.9%, 105.4 bn). The rise of prices of oil and natural gas is the most apparent on the trade with Russia. Imports from this destination increased by 36.8% in 2017 (30.9 CZK bn). In 2016, the import generally stagnated and the last year changed it. The growth of imports from both Germany (+42.6 CZK bn, 5.0%) and Austria (+7.7 CZK bn, 8.0%) fastened its pace. The import from the United States also increased by 11.2 bn (15.3%). |
| The value of oil and natural gas import markedly increased.  |  | Strong domestic demand supported the year-on-year rise of motor vehicle imports in 2017, reaching 40.3 CZK bn (7.9%). The imports of electrical appliances also grew significantly (+20.0 bn, 8.5%). Raised prices were reflected in the jump increase of the value of import of basic metals (+39.7 bn, 17.7%). The higher demand on the part of the Czech chemical industry joined the price factor as well for the import of oil and natural gas. It resulted in the increased value of imports by 32.2 CZK bn (36.1%). |
| Foreign trade balance was positive, but the surplus fell year-on-year.  |  | Balance of the foreign trade with goods achieved a surplus in the amount of 145.3 CZK bn in 2017. The positive balance thus year-on-year decreased by 18.4 bn. The drop can be connected to the above-mentioned year-on-year increase of prices of materials, which raised the value of imports. Also, for this reason, the deficit of trade with countries outside the EU markedly deepened (by 71.7 bn), while the surplus of the trade with the EU increased by 51.3 bn in 2017. The positive balance of trade with Germany was growing the most (by 21.9 bn). The CR achieved trade surplus with the Netherlands (in the amount of 7.0 bn) following the five years of deficits. Positive trade balance with France rose by 7.5 CZK bn. Deficit with Poland, growing in the recent years, moderated by 17.6 CZK bn in 2017. Deficit with Russia more than doubled in 2017 (deeper by 24.9 CZK bn), trade deficit with China mildly increased (by 8.0 bn.). |
| Deficit of the trade with the countries outside the EU deepened.  |  | From the view of the individual divisions of the classification of production, motor vehicles (447.1 CZK bn), machinery and equipment (76.8 CZK bn) and metal products (59.5 CZK bn) contributed the most to the resulting surplus of the trade balance in 2017. First two divisions also experienced a considerable enlargement of the surplus (by 31.1 bn for the motor vehicles, 13.4 bn for the machinery and equipment). Basic metals (deficit in the size of 125.0 bn), oil and natural gas (-117.8 bn) and chemical substances and products (-108.3 bn) had the highest effect in the direction of the negative balance of the foreign trade in 2017. Because of the changes in prices, the deficit of trade with basic metals deepened by 29.2 CZK bn and the deficit with oil and natural gas by 40.1 bn. Already mentioned revival of the Czech chemical industry was apparent in the moderation of the deficit of trade with the chemical substances and products by 11.2 CZK bn. |
|  |  | Chart 10 | **Balance of foreign trade\* in foreign trade statistics** (accumulation Q1 to Q4, in CZK bn, selected divisions of the CZ-CPA classification)  |
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|  |  | \*in the national conception | Source: CZSO |

1. Data from the ARAD database of the Czech National Bank. [↑](#footnote-ref-1)
2. Based on the data from the Ministry of Finance of the CR. State bonds according to the type of holder. [↑](#footnote-ref-2)
3. Statistical data of the foreign trade in the national conception in the nominal terms including only the trade with goods. The value of exports is captured in the FOB prices, i.e. including the costs connected with the transport to the CR boundaries. Import depicted lower in this chapter is in CIF prices, i.e. including costs associated with the transportation abroad, up all the way to the CR boundaries. Data valid as of 9. 3. 2018. [↑](#footnote-ref-3)