Balance of Payments Report

2021

Czech National Bank ——— Balance of Payments Report ——— 2021

ČNB ČESKÁ NÁRODNÍ BANKA

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Contents

This publication offers an analysis of the evolution of the main items of the Czech Republic's balance of payments in the past year, supplemented with short academic articles focusing on the balance of payments and international trade. As we use preliminary balance of payments data subject to revision, the data from previous years may differ in different issues of this publication. The electronic version, including the previous issues, can be downloaded from the CNB website https://www.cnb.cz/en/monetary-policy/

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You will also find an article by Milan Nejman in this issue.

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I. EXTERNAL BALANCE OF THE CZECH ECONOMY

After the record surplus in 2020, the Czech economy's balance with other countries returned to roughly equilibrium. The surplus on the current and capital accounts for 2021, expressing the balance of trade and other transactions between residents and non-residents, was 0.7% of GDP. Despite the minor surplus, exchange rate movements and the revaluation of financial assets meant the economy's foreign indebtedness marginally increased. However, it fell in relation to the economy's size. The total negative investment position of Czech businesses, banks, the government and households in relation to non-residents was -15.6% of GDP at the end of 2021 (-16.3% at the end of 2020).

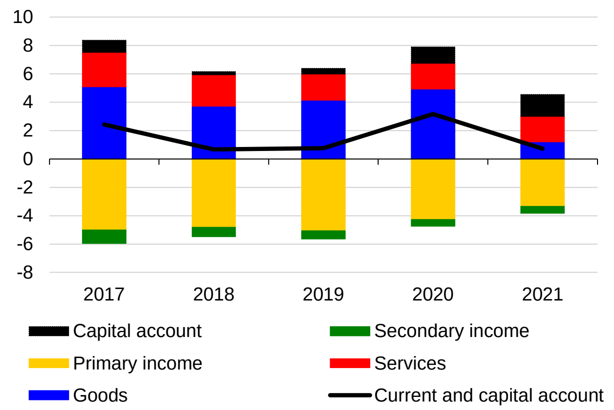
The Czech economy's balance with other economies – i.e. its external balance – is the sum of the goods and services balance with income balances (current account) and the capital account balance. These accounts cover all transactions between residents and non-residents related to international trade in goods and services, payments for capital and labour (primary income), unilateral transfers (secondary income) and transactions of other nature (capital account).

I.1 BALANCE OF PAYMENTS

For the first time after seven years of surpluses, the current account of the balance of payments ended 2021 with a deficit of 0.8% of GDP. The main cause was a sharp fall in the goods trade surplus (of 3.3% of GDP) related to increases in the prices of imported raw materials, in particular energy, on world markets, and disruptions in industrial supply chains in the second half of the year. The impact of the fall in the goods trade on the external balance of the Czech Republic was partially dampened by a year-on-year reduction in the returns of foreign investors from the domestic economy (of 0.9% of GDP). These investment returns are partially linked to the weaker export performance, as businesses owned by non-residents account for up to three quarters of total Czech goods exports. The total current account deficit was further slightly dampened by the traditional surplus in wages paid for cross-border work.

Chart 1: The Czech Republic's international balance was at roughly pre-pandemic levels

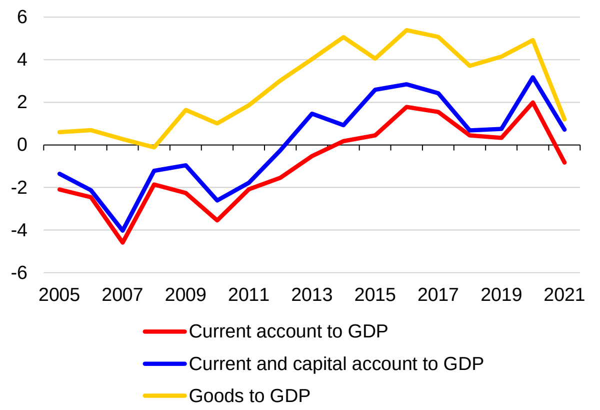
(individual external balances of the Czech economy as % of GDP)



Source: CNB, CZSO, CNB calculations

Chart 2: This is a departure from the long-term trend, in particular for trade in goods

(individual external balances of the Czech economy as % of GDP)



Source: CNB, CZSO, CNB calculations

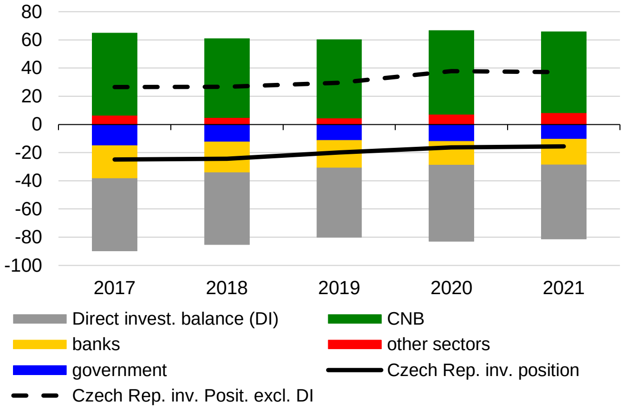
The Czech Republic's balance of payments remained positive thanks to high transfers from the EU. Net transfers from the EU budget exceeded even the high values from 2020 in particular due to new funds from the Recovery Plan for Europe (NGEU). The external balance was further slightly boosted by developments in emission allowance trading and the payment to domestic insurance companies from foreign reinsurance companies for damage caused by the tornado in South Moravia in June 2021. The capital account, which records most of these transactions, posted a surplus of 1.6% of GDP.

I.2 DEVELOPMENTS IN THE INTERNATIONAL INVESTMENT POSITION

The Czech Republic's net investment position vis-à-vis other countries was -15.6% of GDP at the end of 2021 (Chart 3).[1] The negative investment position continues to reflect the extensive ownership interests of foreign investors in the Czech economy, which are regarded as materially less risky from the macroeconomic vulnerability viewpoint than indebtedness related to debt instruments. Excluding direct investment, the Czech Republic has a significant net creditor position.

Chart 3: Excluding direct investment, the Czech Republic is a net creditor

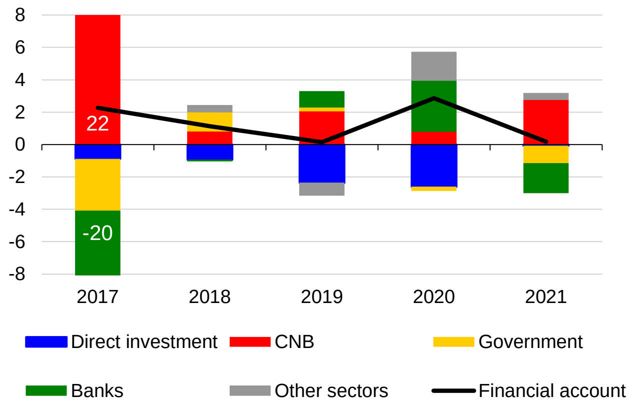
(the Czech Republic's investment position by debtor as % of GDP, end of period)



Source: CNB, CZSO, CNB calculations

Chart 4: The growth in CNB reserves, reflecting funds from EU, was balanced by the foreign borrowing of the government and banks

(financial account as % of GDP)



Note: A positive value expresses a net increase in foreign assets/reduction in liabilities (capital outflow), while a negative value expresses a reduction in assets/increase in liabilities (capital inflow), respectively their proportion of GDP.
Source: CNB, CZSO, CNB calculations

The slight deepening of the Czech Republic's debtor position in 2021 is not significant for the external balance. In relation to the size of the economy, the negative investment position even improved a little. This is a reflection of the more-or-less balanced current and capital accounts in 2021, which is in turn reflected in the financial account (i.e. the statement of financial transactions between residents and non-residents, Chart 4). The asset revaluation contribution was negative, but also only minor, so the Czech Republic's net international investment position did not change materially in 2021.

The balance of payments **accounts must always be balanced**. The current and capital account balance is always equal to the financial account balance. However, because they are based on different statistical sources, the values captured may differ due to the influence of exchange rate movements, price trends or for other reasons. The identity must thus be adjusted for errors and omissions: $CA + KA + E\&O = FA$.

However, there was a change in the trend during the year. The progressive improvement of the Czech Republic's negative investment position lasting from 2019 and related primarily to the relatively high

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1 Values of up to -35% of GDP are considered safe for the purposes of a MIP (Macroeconomic Imbalance Procedure) assessment.

current account surplus continued in the first quarter. From the second quarter, however, the investment position trend reversed and the negative position again started to deepen. This was primarily due to the banking sector, which imported capital from other countries to balance the disequilibrium on the foreign exchange market caused by deficits in the goods trade. Foreign debt-based capital also helped finance part of the government's record budget deficit.

The total balance of the Czech economy in a given year (measured by the balance on the financial account or the balance on the current and capital accounts, adjusted for measurement error) is reflected in the **changes in foreign assets and liabilities**. The international investment position is also influenced by changes to the exchange rate and the prices of financial assets and liabilities.

The revaluation of assets and liabilities was influenced, in particular, by the tightening of the CNB's monetary policy from the middle of 2021. A fall in the koruna value of direct investment abroad due to the strengthening of the koruna had a negative influence on the investment position. A reduction in the market value of previously-issued government bonds (with low interest rates) held by non-residents in response to interest rate increases in the second half of the year had the largest effect in the opposite direction. Overall, the exchange rate and revaluation influences outweighed the small surplus on the financial account (CZK 11 billion) and reduced the international investment position by CZK 24 billion.

II. INTERNATIONAL TRADE

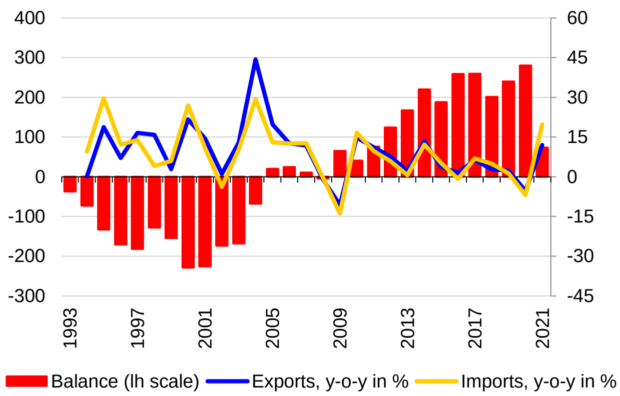
After the record surplus in 2020, in 2021 the balance of international trade in goods and services ended with the lowest surplus since 2011. The whole year-on-year fall was related to the trade in goods, the surplus of which fell markedly from 4.9% of GDP to 1.2% of GDP. The most important factors were higher year-on-year volumes and, primarily, prices of imported energy commodities, raw materials and metals. By contrast, the surplus in the services trade remained roughly stable at 1.8% of GDP.

II.1 GOODS

The combination of real and price influences reduced the goods trade surplus by three quarters year on year. Whereas in 2020 the outages in the automotive industry – of key importance for exports – were more than compensated for by lower and cheaper energy imports, in 2021 the production outages in automobile plants continued but in a situation of rapid growth in the prices of imported commodities. As a result, from around the middle of the year there was a marked decline in the balance of trade (Chart 6), further reinforced by the ongoing strong demand from domestic consumers for imports. Whereas exports rose year on year by 12% in 2021, imports rose by 20% (Chart 5).

Chart 5: Supply-chain problems and increases in commodity prices led to the lowest balance of trade since 2011

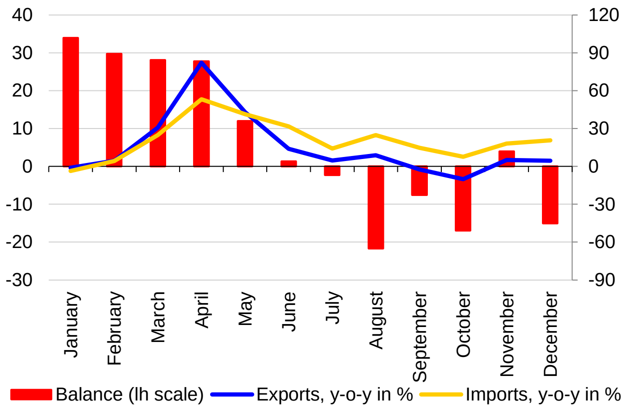
(trends in foreign trade in goods 1993-2021, in CZK billions and %)



Source: CNB

Chart 6: Production problems for exporters and price growth for imports started to have an effect from around the middle of the year

(monthly dynamics in trade in goods in 2021, in CZK billions and %)

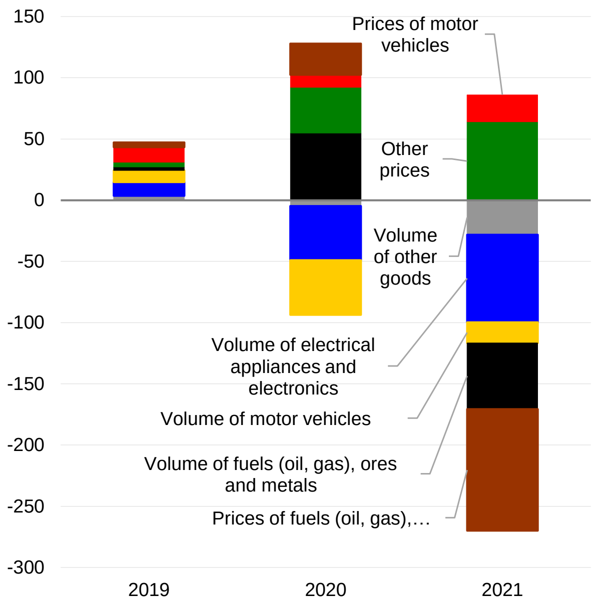


Source: CNB

The most important real influences on the balance of trade included the ongoing downturn in automotive exports. The year-on-year fall was, however, caused primarily by imported volumes of electrical appliances, electronics, chemicals and pharmaceutical products (including vaccines)**.** Chart 7 shows a breakdown of the year-on-year change in the balance of trade. Volume factors included the role of energy commodities and metals, but the growth in the imports of such items only represented a return to the pre-pandemic levels. The most important trend was a further fall in the balance of electrical devices and electronics, deepening the deficit from the pandemic's first year. Whereas the fall in the balance of chemicals and pharmaceutical products was related to the pandemic itself and is likely to fade together with it, consumer demand for imported appliances and electronics could represent a longer-term trend reducing the balance of trade.

Chart 7: The year-on-year fall in the balance of trade was driven by higher imports of fuels, metals, electrical appliances and electronics

(breakdown of the year-on-year change in the balance of international trade in goods in CZK billions)

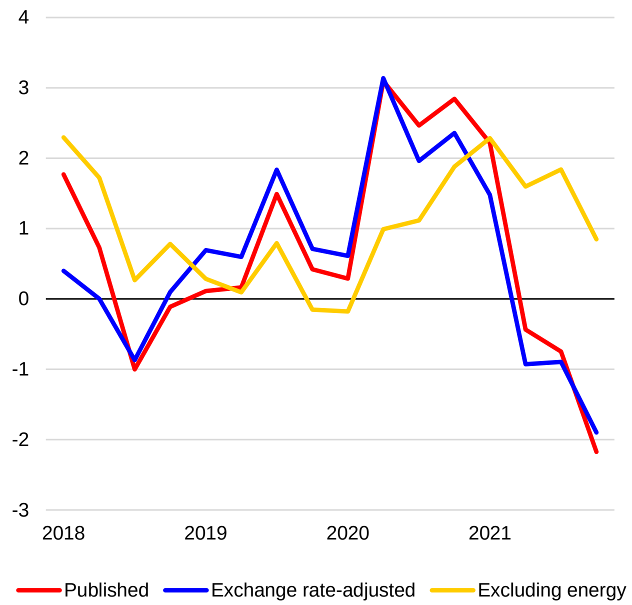


Note: The data are taken from CZSO statistics on international trade in goods and on import and export prices.

Source: CZSO, CNB calculations

Chart 8: Import prices rose in the second half of the year faster than export prices; the stronger koruna did not cushion the impact on the balance of trade

(quarterly terms of trade, i.e. the ratio of export to import prices, year-on-year change in %)



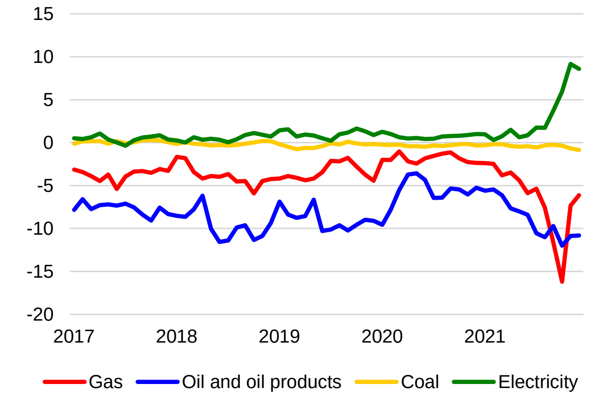
Source: CZSO, CNB calculations

Increases in the prices of imported fuels and metals predominated among the price influences adversely affecting the balance of trade. By contrast, the price trends in the other commodity groups had a positive influence on the trade balance. As shown in Chart 9, rising oil and gas prices appreciably compressed the balance of trade from roughly the middle of the year. This effect was partially mitigated by electricity, the pricing of which is linked to that of gas and of which the Czech Republic is a net exporter.[2] Another dampening factor was the long-term tendency of export prices to rise faster than import prices (i.e. improving terms of trade). Chart 8 shows that this trend continued in 2021 if energy prices are excluded. This effect is not driven by the strengthening exchange rate. In the Czech economy, the majority of import and export contracts are concluded in foreign currencies (in particular the euro). This means that a change in the exchange rate influences the koruna prices of exports and imports comparably, without a marked influence on the terms of trade (Chart 8). A third factor that mitigated the impact of rising energy prices was the long-term nature of the contracts and the financial and commodity derivatives used by many importers. Although the balance of trade records imports at market prices, the actual prices paid by importers were lower, previously contracted prices. The difference is visible on the financial account of the balance of payments, which records residents' revenues from derivative transactions with non-residents (Chart 10).

[2] Links between the electricity and gas prices are explained in Box 1 in the Monetary Policy Report (winter 2022).

Chart 9: The growth in prices of imported oil and gas was partially compensated for by higher prices of exported electricity

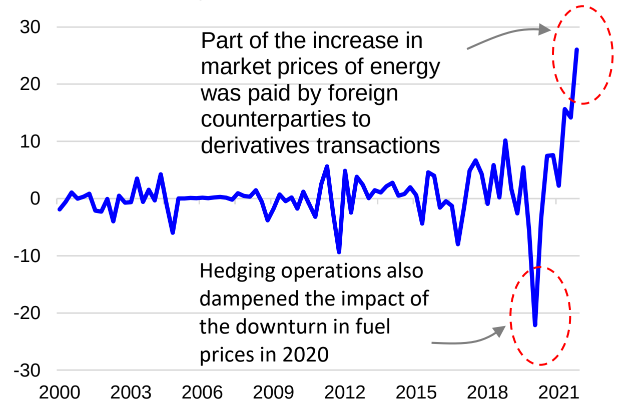
(monthly balance of trade for subgroups SITC-3, CZK billions)



Source: CZSO (cross-border goods movements)

Chart 10: The impact of higher energy prices was dampened by long-term contracts and by financial and commodity derivatives

(net quarterly revenues of residents from derivative operations with non-residents, CZK billions)

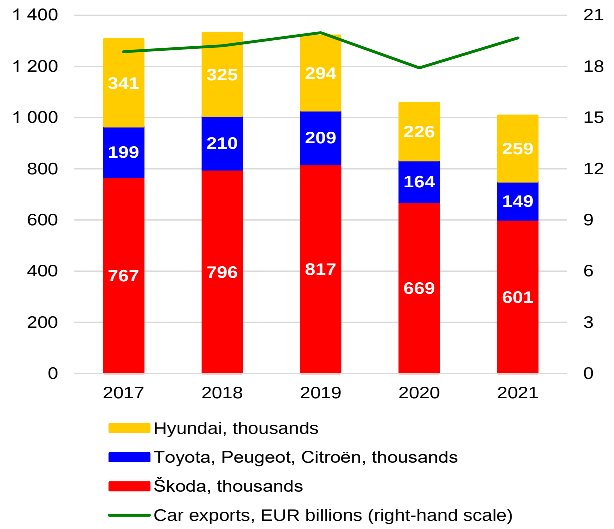


Source: CNB

The return of the Czech economy's export performance to pre-pandemic levels will significantly depend on trends in the automotive industry, which accounts for about a quarter of all exports. The number of cars exported fell markedly in 2020 as a consequence of production outages during the first wave of the pandemic. In 2021, production was hit hard by supply-chain problems, in particular a lack of chips and other components. Although domestic automakers were affected less than most of their foreign competitors (Chart 12) and partially managed to make up for the reduction in cars exported through higher prices (Chart 11), their positive contribution to the balance of trade fell from 8% of GDP in 2019 to 7% in 2021.

Chart 11: Domestic automakers made up for most of the fall in cars exported through higher prices

(car exports, in pcs and EUR billions)



Note: The value of cars exported corresponds to the product group HS 8703.
Source: Czech Automotive Industry Association, CZSO (cross-border movement of goods)

Chart 12: The pandemic and supply-chain outages weakened the Czech auto industry less than for most foreign counterparts

(car exports from the 16 largest global exporters, year-on-year change in %)

	BE	CA	CZ	FR	DE	HU	IT	JP
2017	8	-5	13	21	3	2	19	2
2018	0	-12	**7**	13	-2	1	-6	6
2019	12	-1	**-1**	-6	-7	11	-11	-1
2020	-10	-21	**-8**	-21	-15	-11	-4	-17
2021	-12	-9	**13**		14	6	11	6

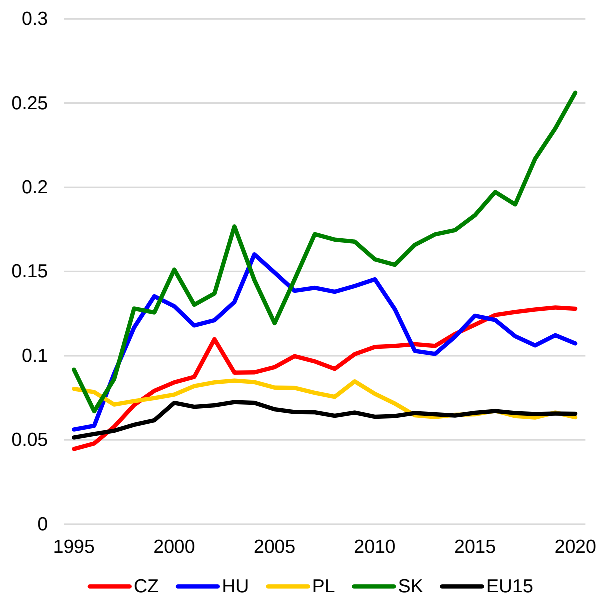
	MX	KO	SK	ES	SE	TR	US	UK
2017	33	4	7	-4	21	41	0	3
2018	18	-2	33	4	29	5	-4	0
2019	3	6	5	-4	2	-4	9	-8
2020	-21	-12	5	-8	-5	-20	-19	-31
2021	-1		10	8	11	-1	20	14

Note: 2021 data for FR and KO are not yet available. Cars are defined as group HS 8703. The year-on-year changes are calculated based on data in USD and may differ from data in the national currency. These are not balance of payments statistics.
Source: UN Comtrade, CNB calculations

Although Czech manufacturing remains internationally competitive, the long-term increase in the dependence of Czech exports on a relatively small quantity of products increases the economy's vulnerability. Chart 14 shows the export strength of manufacturing in the Czech Republic, which has fallen in some product groups since 2010, but has risen in others. However, it is precisely manufacturing that is behind the increase in product concentration in Czech exports. In 2020, it markedly exceeded not only the average of the 15 "original" EU Member States, but also the concentration of exports in Poland and Hungary (Chart 13).

Chart 13: The product concentration of Czech exports is rising over the long term and markedly exceeds that of the EU15

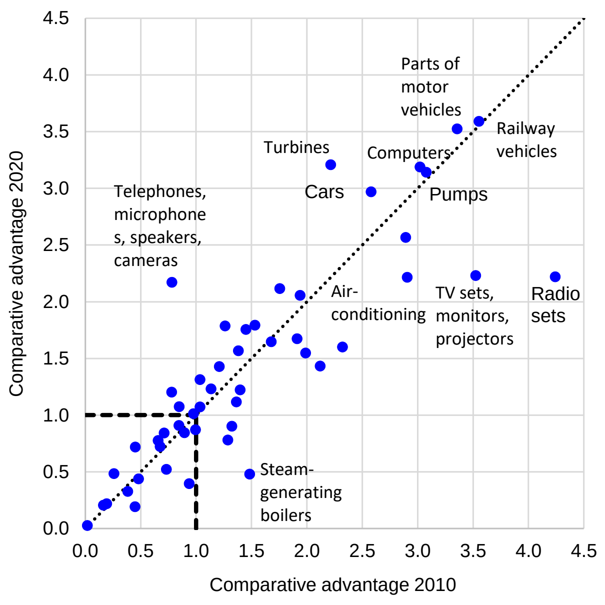
(annual Herfindahl-Hirschman market concentration index)



Note: An index value close to 1 means that exports are concentrated in a small quantity of product groups (at the 3-digit SITC level). Values close to 0 indicate exports of a relatively wide range spread over multiple groups.
Source: UNCTAD, own elaboration

Chart 14: The export strength of Czech manufacturing remains high

(index of revealed comparative advantage for Czech exports in the SITC-7 group)



Note: A country has a revealed comparative advantage (RCA) in a product if the RCA index is > 1. This means that the share of the relevant product in the country's total exports is higher than the product's share in global exports.
Source: UNCTAD, own elaboration

II.2 SERVICES

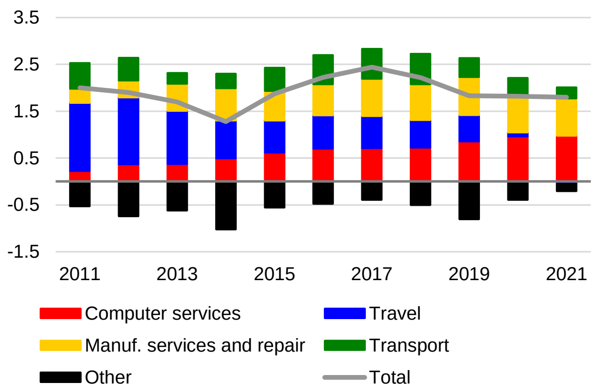
The surplus in services trade remained roughly stable and in 2021 accounted for three fifths of the total surplus in goods and services. The structure of the Czech Republic's foreign trade was therefore similar to the state prevailing in the first decade of the 21st century, when the international trade surplus primarily arose from the surplus in trade in services, whereas the trade in goods ended up relatively balanced or in deficit.

The share of IT services in the total surplus continued to grow, while the previously significant tourism balance showed a deficit for the first time in the history of the independent Czech Republic (Chart 15). The rapid growth in revenues from the cross-border provision of IT services, evident in the whole of the past decade, continued in 2021 and increased the total services surplus by 1% of GDP. It was evidently boosted by increased demand for IT services during the pandemic, which caused some economic activity to move to the online environment. On the contrary, tourism, where the traditional surplus disappeared during the tourism downturn in the first year of the pandemic, was not able to catch its breath and fell into a deficit in the second pandemic year. There were year-on-year falls in both outbound (-11%) and, in particular, inbound (-20%) tourism.[3]

The turnover of trade in services has not yet recovered from the pandemic. In comparison with 2019, service receipts were 8% lower, whereas debits were 10% lower. The downturn in tourism had the greatest influence, but production services and repairs, insurance and financial services were all under pre-pandemic levels.

Chart 15: The surplus in services is relatively stable over the long term, but the structure is changing

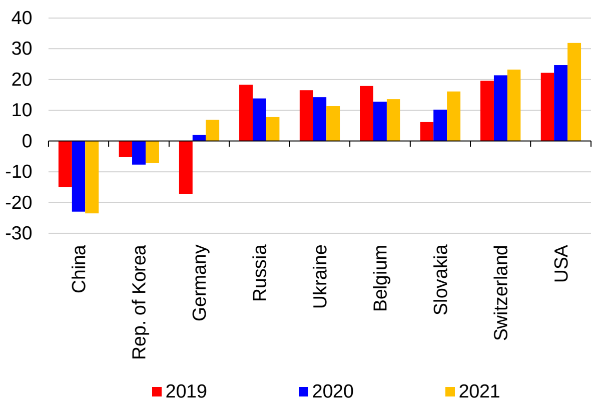
(trade in services by industry as % of GDP)



Source: CNB

Chart 16: Services trade with the largest partners by surplus/deficit

(CZK billions)



Source: CNB

[3] More details about tourism during the COVID-19 pandemic are provided by a thematic analysis in Chapter VI below.

III. OTHER REAL FLOWS

The slight year-on-year fall in dividend outflows partially dampened the impact of the fall in international trade on the Czech Republic's external balance. Whereas net exports exhibited a sharp year-on-year fall, most other items in the current and capital account rose.[4] The fall in the outflow of dividends from direct investment to other countries had the greatest influence. A contribution was also made by growth in net revenue from trading in emission allowances and, to a small extent, also higher net transfers from the EU. On the other hand, the net income of cross-border workers lagged slightly behind 2020.

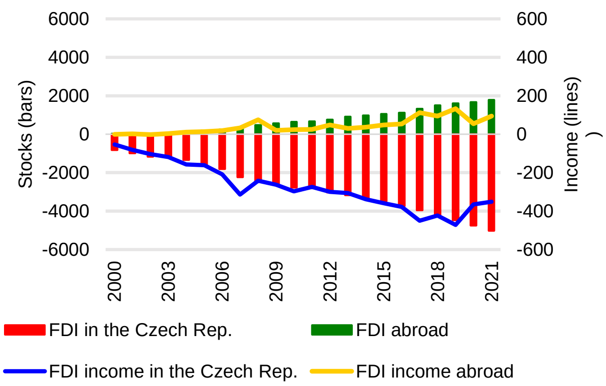
III.1 INVESTMENT INCOME

The profits of domestic companies belonging to foreign owners have long reduced the Czech economy's external balance. The negative balance of income from direct investment of around 6% of GDP in the pre-pandemic years was the consequence of the high share of foreign ownership in the domestic economy, markedly exceeding the volume of direct investment of Czech residents abroad (Chart 17). Before the pandemic, the Czech market was also more profitable, with foreign direct investors obtaining a yield of around 10% on their invested capital every year, whereas Czech direct investors abroad only approximately half of that (Chart 18).

Non-residents' investment returns fell appreciably in 2021. The economic downturn in 2020 affected the profits of domestic foreign-owned companies, which responded with a marked reduction in dividends paid out.[5] In 2021, non-residents' estimated investment returns showed a further decline, resulting in a dividend outflow of approximately half the size observed in the period before the pandemic.[6] By contrast, revenues that foreign investors reinvest in the Czech Republic remained broadly steady during the pandemic and even exceeded the pre-pandemic level in 2021.

Chart 17: Foreign ownership of domestic companies markedly exceeds investment by residents abroad both in terms of volume...

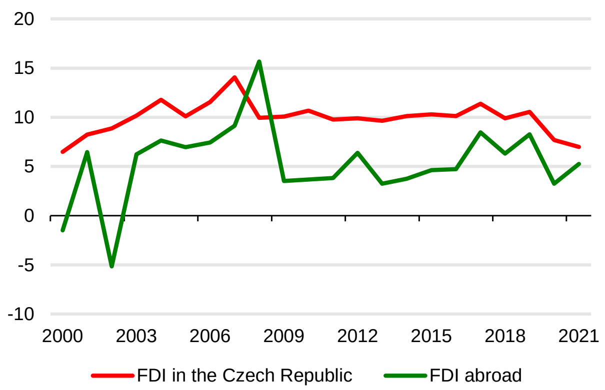
(direct investments and revenues in CZK billions)



Source: CNB, CNB calculations

Chart 18: … and in the average return on capital invested

(investment income as a share in total FDI)



Source: CNB, CNB calculations

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[4] These amounts include cross-border payments for capital and labour (primary income), unilateral transfers (secondary income) and transactions of other nature (capital account).

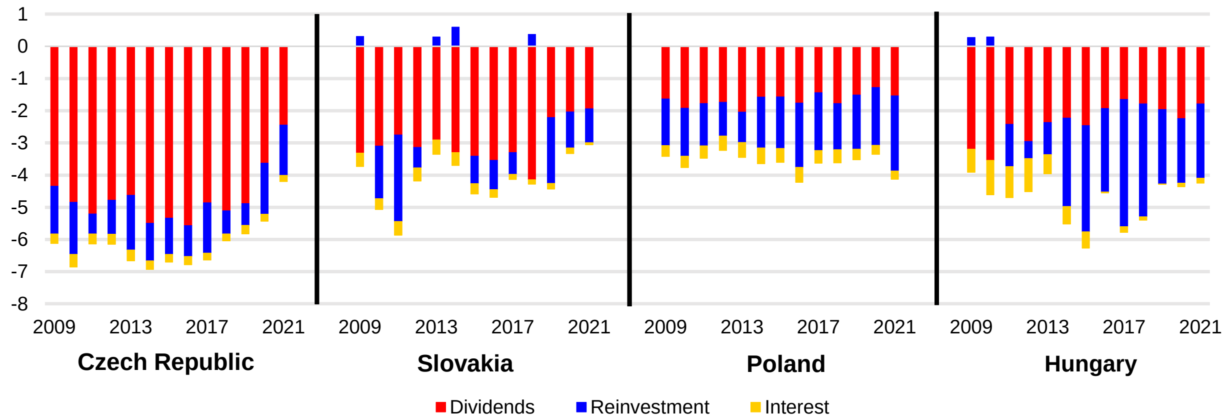
[5] See Balance of Payments Report 2020.

[6] However, a revision to primary income to be published next March, may significantly affect the growth in credits and debits as well as the total deficit, due mainly to the revision of direct investment income based on the CNB's regular annual survey of foreign direct investment in the Czech Republic.

Preliminary data indicate a growing share of reinvested profits in the investment income of non-residents in the Czech Republic, but this may only be temporary. The negative balance of income from foreign investment as a share of GDP has historically been higher in the Czech Republic than in Slovakia, Poland and Hungary (Chart 19). The share of dividends has also traditionally been high in the Czech Republic – in Poland and, in particular in Hungary, investors reinvest a larger part of the profit. The marked decrease in the net outflow of dividends in 2020 and 2021 meant the Czech Republic approached the other V4 countries, not only in terms of total net income from foreign investment, but also in the share of reinvestment.[7] Foreign investors' tendency to leave profits in the Czech Republic could reflect the ongoing attractiveness of real investment in some sectors of the domestic economy. However, as this is only preliminary data, to a certain extent it may also reflect retained earnings that will be paid out as dividends when the current economic uncertainty and other temporary influences (for example, the CNB recommendation to limit banks' dividend payouts) fade.

Chart 19: Net returns of foreign investors in the Czech Republic were the highest in the V4 and were concentrated in dividends, but the differences shrunk in the pandemic years

(breakdown of net revenues from direct investments in V4 countries, % of GDP)



Note: The chart shows net income, i.e. the difference between residents' income from direct investment abroad and non-residents' income from direct investment in the given country.
Source: CNB, MNB, NBP, NBS, Eurostat, CNB calculations

The information and communication sector accounted for the largest share in the outflow of dividends from the Czech Republic in 2021, whereas the share of the financial sector, which was previously most significant, continued to fall appreciably (Chart 20)**.** One explanatory factor was the CNB's recommendation to the banking sector to defer part of the payment of dividends from 2019 and 2020 profits. There was also a year-on-year fall in the share of the automotive sector. By territory, dividends paid on direct investment were largely channelled to EU Member States (more than 94%).[8]

The fall in non-residents' investment income was partially related to the decline in the net exports of goods. Domestic companies owned by non-residents make up as much as three quarters of total exports (Chart 21). Just as the Czech Republic's export success before the pandemic was linked to a significant outflow of profits to non-residents, last year's fall in net exports was reflected in lower investment returns of non-residents.

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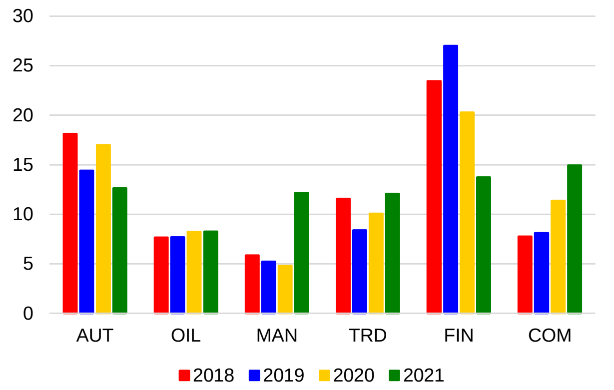
[7] This change may originate in the changes to the industry composition. A large part of the dividend outflow from the Czech Republic before the pandemic was due to the banking and insurance sector, but its importance declined in 2020 and 2021 (Chart 20).

[8] This, however, only concerns the immediate owner of a foreign investment, which often differs from the ultimate owner (see Thematic Analysis VI.2, below).

Chart 20: The outflow of dividends from the Czech Republic before the pandemic was powered by the financial sector, but the role of telecommunications is now growing

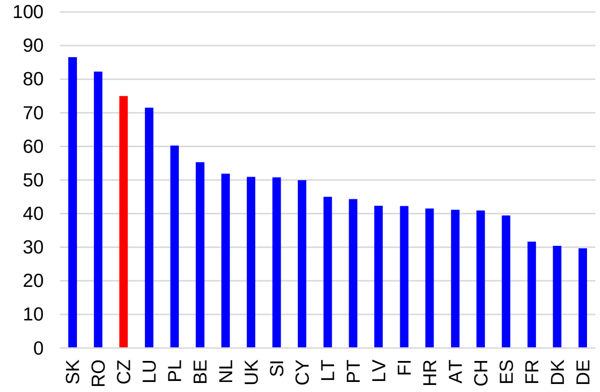
(the industry structure of dividends from foreign direct investment in the Czech Republic, share of the 6 most important NACE sectors in %)



Note: AUT = automotive production, OIL = oil, chemical, pharmaceutical, rubber and plastic products, MAN = other manufacturing, TRD = wholesale, retail trade, FIN = financial and insurance activities, COM = information and communication activities
Source: CNB, CNB calculations

Chart 21: The fall in net returns on FDI in the Czech Republic is related to the decline in net exports

(the share of goods exports by foreign-owned companies in %, 2019 or closest available year)



Source: Eurostat, CNB calculations

III.2 CROSS-BORDER WORK AND REMITTANCES

Net income from cross-border work contributed slightly to the year-on-year fall in the current account. As in past years, the surplus of compensation of employees including, in particular, wages of cross-border and posted workers, slightly moderated the primary income deficit (i.e. net income from the provision of labour and capital). However, there was a year-on-year fall in the surplus, which was partly due to a reduction in credits from residents' work in Germany and Austria[9], but especially due to an increase in debits related to the record income of Slovak residents from work in the Czech Republic. This fall in net credits was partially mitigated by a naturally linked secondary-income item (i.e. unilateral payments), which contains taxes and payments of cross-border employees in the host country (Chart 23).

Remittances sent to and from the Czech Republic are roughly balanced. The funds sent by long-term migrants back to their country of origin are a significant secondary-income item. In the case of the Czech Republic, however, these are not decisive amounts from the viewpoint of the external balance. Moreover, both the inflows and outflows are broadly balanced.

III.3 FINANCIAL RELATIONS WITH THE EUROPEAN UNION

Net transfers from the EU budget slightly exceeded even the high values from 2020. The net income from the EU ended with the highest surplus since 2015, the amount (nearly CZK 87 billion) representing approximately 1.4% of GDP (Chart 22). The most significant contributor was investment subsidies, which are recorded on the balance of payments capital account. These included new funds from the Recovery Plan for Europe (NGEU), the first tranche of which was paid out to the majority of Member States, including

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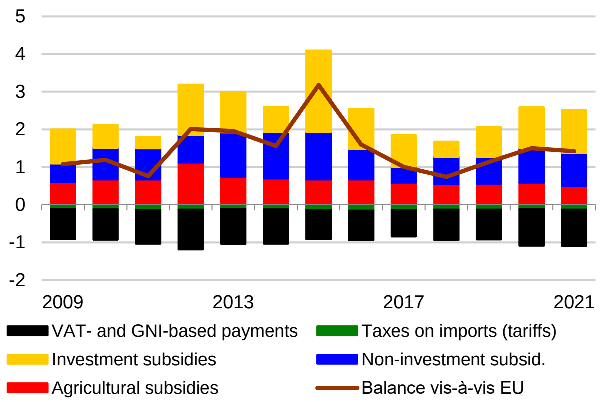
[9] More than three quarters of residents' credits from cross-border work comes from these countries.

the Czech Republic, in the autumn of 2021.[10] By contrast, the volume of non-investment subsidies from EU structural funds (part of secondary income) and subsidies to support agriculture and rural development (reported in primary income) did not change significantly. Payments to the EU budget based on VAT and GNP (gross national product) rose in connection with the economic convergence of the Czech Republic, the departure of the United Kingdom from the EU, and an increase in the European budget in the new seven-year financial framework 2021-2027.

In addition to the current flows, the Czech Republic also borrowed funds from the EU in 2021. This was a loan of EUR 2 billion (approx. 0.8% of GDP), drawn as a part of the European SURE instrument that sought to facilitate the financing of Member States' national programmes for sustaining employment during the pandemic. Due to its debt nature, however, this transaction belongs on the financial account of the balance of payments (see Chapter IV.2 below).

Chart 22: The influence of investment subsidies from the Recovery Plan for Europe meant that net transfers from the EU remain high

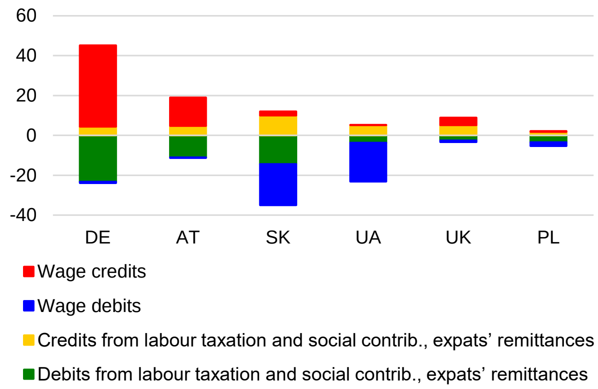
(current flows and capital transfers between the Czech Republic and EU institutions as % of GDP)



Source: CNB, CNB calculations

Chart 23: Residents working in Germany and Austria and non-residents from Slovakia and Ukraine are behind the vast majority of flows related to cross-border work

(payments to employees and secondary income in 2021, CZK billions)



Note: The yellow and green columns show all secondary income, which could, to a limited extent, include other transactions.
Source: CNB, CNB calculations

III.4 OTHER FLOWS

Emission allowances and payments to domestic insurance companies contributed slightly to the Czech economy's positive balance of payments. In recent years, the role of the non-produced non-financial assets associated mainly with emission allowance trading has increased significantly. This activity is recorded on the capital account in the balance of payments.[11] In 2018 and 2019, trading in emission allowances reduced the total surplus on the capital account. In 2020, however, there was a sharp fall in net payments for allowances, and this activity started, on the contrary, to marginally increase the capital account balance. In 2021, the influence of the higher price for allowances meant that both credits and debits roughly doubled. Overall, the net acquisition of allowances increased the capital account balance by 0.2% of GDP in 2021. Another almost 0.2% of GDP was contributed by payments to domestic insurance companies from foreign reinsurance companies for damage caused by natural disasters, primarily the tornado in South Moravia in June 2021.

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[10] More information about the Recovery Plan for Europe is provided by the Balance of Payments Report 2020 and the Global Economic Outlook, December 2021.

[11] In addition to investment subsidies from the EU, some one-off operations are also recorded on the capital account, such as the past write-off of external debt and payments ensuing from international arbitration decisions.

IV. FOREIGN INVESTMENT

The inflow of foreign direct investment to the Czech Republic reached roughly the same amount as the outflow to other countries. However, the structure differs substantially. Whereas reinvested profits from earlier investments by non-residents in the Czech Republic played a decisive role in inward investment, outward investment constituted mostly new investment by residents in other countries. The total flow was roughly CZK 160 billion (2.6% of GDP) in both directions, leading to a negligible net inflow (CZK 4.8 billion). Despite this, exchange rate movements[12] and the revaluation of assets meant that the difference between the volume of direct investment by non-residents in the Czech Republic and the volume of investment by Czech residents in other countries increased by almost CZK 150 billion (2.4% of GDP) to CZK 3.23 trillion (53% of GDP) in favour of non-residents.

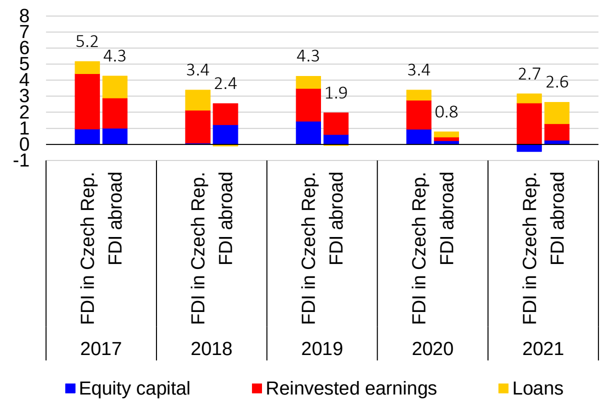
Trends in investment other than direct investment (excluding CNB operations) led to a net inflow of capital – i.e. loans from other countries – of approximately CZK 100 billion (1.7% of GDP). The total balance was the result of the countervailing effect of record investment by domestic households and companies in foreign shares on the one hand, and growth in the foreign indebtedness of the government and banks on the other. The revaluation of assets and the exchange rate, however, had a positive effect on the total balance of portfolio and other investments (excluding the CNB) and outweighed the new net borrowing by almost CZK 80 billion (1.3% of GDP).

IV.1 DIRECT INVESTMENT

The sharp fall in the net inflow of direct investment to the Czech Republic compared with 2020 was a consequence of a marked outflow of residents' debt capital to other countries and a withdrawal of non-residents' funds from the Czech Republic. The inflow of non-residents' capital fell year on year in 2021, and its structure markedly changed. The decisive part on the capital inflows side continued to be non-residents' reinvested profits reflecting past investment (Chart 24).

Chart 24: New inward investment to the Czech Republic froze but domestic investment abroad recovered after the downturn in 2020

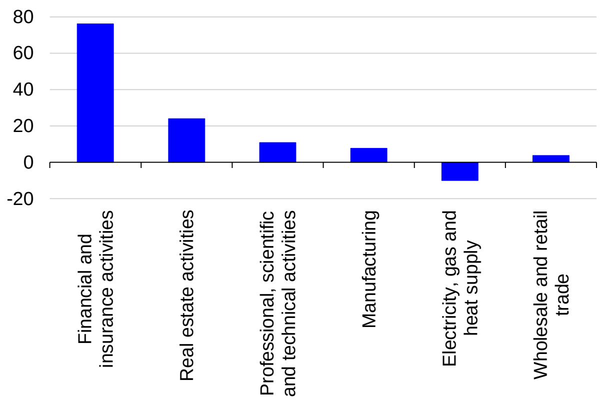
(direct investment structure, as % of the Czech Republic's GDP)



Source: CNB, CZSO, CNB calculations

Chart 25: As in previous years, most direct investment by residents abroad went to the financial sector

(direct investment abroad by sector in 2021, CZK billions)



Source: CNB

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[12] The slight strengthening of the koruna against foreign currencies (in particular the euro) reduced the koruna value of assets abroad.

Meanwhile, new inward foreign investment in the Czech Republic basically froze. The remaining part was only debt capital. The ownership interests of non-residents in the Czech Republic even fell, with the net outflow amounting to CZK 27 billion (0.4% of GDP).

The Czech Republic's low attractiveness for new direct investment is an increasingly evident problem. It is due to a combination of several negative factors that reduce the Czech Republic's chances of obtaining foreign investment: the availability of labour, the level of wages in comparison with potential competitors from V4 countries, the size of the domestic market (in comparison with Germany and Poland), and the public investment incentives in comparison with the other V4 countries. The data on direct investment for 2021 were also significantly influenced by financial transactions reducing the volume of share capital in the Czech Republic and the transfer of such funds to other countries in magnitudes of several tens of billions of koruna.

Investment by residents abroad increased almost fourfold year on year, while more than half of this was accounted for by loans provided to subsidiaries abroad. The outflow of debt capital occurred despite the relatively fast increase in interest rates in the Czech Republic and their stagnation abroad. It could have been partially related to large acquisitions that residents made in the last two years abroad through foreign affiliated companies. The volume of reinvestment abroad also markedly rose year on year, but this trend can be explained as a return to normal values after the previous temporary slump during the first year of the pandemic. Investment in share capital rose slightly year on year. However, their share in residents' total investment abroad fell to less than 10% of total investment due to the sharp growth in the two other items.

Domestic and foreign direct investors continue to use special purpose entities established in Luxembourg, the Netherlands and Cyprus to channel their investment. These countries remain dominant in the territorial structure of direct investment in terms of immediate investor and destination countries. The immediate investor, however, often differs from the ultimate investor. A thematic analysis in Chapter VI below explores this topic in more detail.

IV.2 PORTFOLIO AND OTHER INVESTMENT

For investment that is not direct, the defining trend was a contrasting direction in the flows of equity and debt investment (Chart 26). Whereas domestic households and businesses purchased a record volume of foreign equity the government and banks increased their foreign debt for various reasons. The government used foreign debt capital to finance a part of the extraordinary increase in its indebtedness in the second year of the pandemic. Banks used the foreign capital to finance the goods trade deficit in the second half of the year, and accepted additional short-term koruna deposits from non-residents who were attracted by the interest-rate differential.

Chart 26: Whereas the Czech Republic exported equity capital in 2021, it imported debt capital

(portfolio and other investment balance by sector as % of GDP)

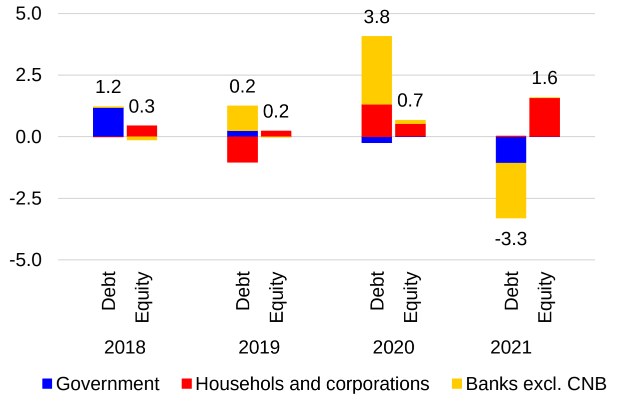
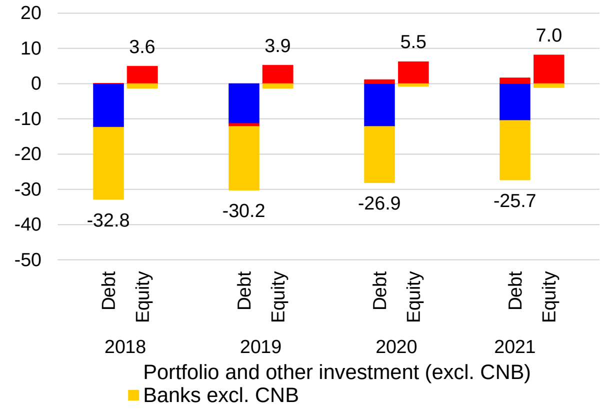


Chart 27: The revaluation of current debt meant a slight fall in the government's net foreign indebtedness, despite new borrowing

(portfolio and other investment state by sector as % of GDP)



Note: Here, debt capital includes debt securities, deposits, loans and credits. Equity capital includes interests and units in investment funds (equity securities).

Source: CNB, CZSO, CNB calculations

Czech households and companies posted record increases in their holdings of foreign securities, in particular shares. The direction of flows for equity securities has for long indicated an outflow of capital (i.e. net growth in foreign assets). This is primarily due to the excess of liquidity in the Czech Republic and the shallowness of the domestic capital market.[13] Last year, the trends were further influenced by low interest rates increasing the attractiveness of investing in shares, often through mutual funds (Chart 28). As a result of these influences and, in general, the fact that it is progressively harder to find an appropriate type of investment whose yield can beat inflation, there was a record volume of equity investment by residents abroad totalling CZK 96 billion (approx. 1.6% of GDP). By contrast, non-residents did not markedly change their holdings of domestic equities. The domestic equity market continues to be relatively insignificant, with a very small group of companies suitable for investing in.

The steep growth in government indebtedness was primarily financed by domestic investors. Foreign indebtedness increased mainly by loans from the EU. The increase in government debt of more than CZK 400 billion (6.8% of GDP) in 2021 was related to the COVID-19 pandemic and the pre-election stage of the political cycle. The debt growth was reflected in the government's foreign indebtedness, but foreign investors only financed around a sixth of the new debt. The majority was a favourable loan from the European Commission as a part of the SURE programme helping Member States to finance expenditure related to maintaining employment during the pandemic.[14] Non-residents' share in the holding of Czech government bonds therefore fell for the third year in a row (Chart 29). Overall, all transactions between residents and non-residents increased government foreign debt by more than 1.1%

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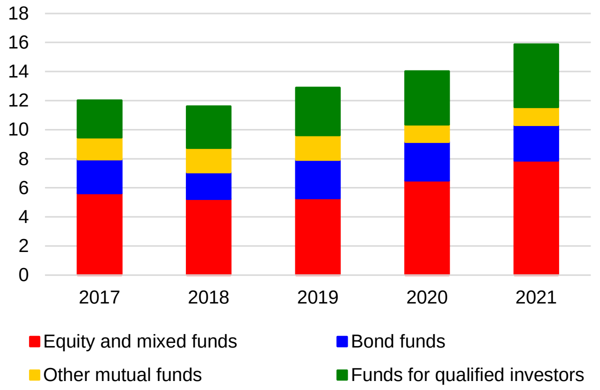
[13] This is related, among other things, to the option of listing the shares of domestic companies directly on larger stock exchanges abroad.

[14] According to European Commission estimates (2021), the Czech Republic will save a total of EUR 40 million on interest costs (1.9% of the amount borrowed) compared with a situation in which it borrowed the same EUR 2 billion through an issue of its own government bonds.

of GDP. The influence of the revaluation of previously issued bonds[15], however, meant that the government's total foreign indebtedness fell year on year by 0.9% of GDP to 10.3% of GDP.

Chart 28: Residents' assets in collective investment funds has risen faster than the economy since 2019

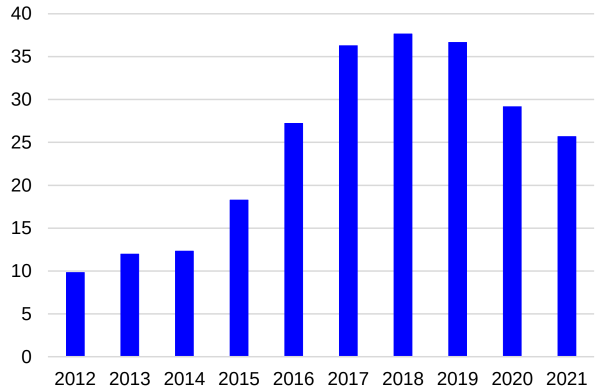
(household and company assets in collective investment funds as % of GDP)



Source: Czech Capital Market Association, CZSO, CNB calculations

Chart 29: Non-residents' interest in Czech government bonds rapidly rose during the CNB's exchange rate commitment but has been declining since 2019

(non-residents' share in holdings of Czech government bonds)



Source: MoF CR

Banks financed the external imbalance using foreign deposits looking for higher interest rates. A significant part of banking sector operations in 2021 were influenced by a fundamental change in the Czech Republic's external imbalance. In the course of 2021, the Czech economy started to need foreign debt financing, in particular due to the sharp reduction in the balance of trade surplus. The total imbalance slightly exceeded CZK 130 billion (2.1% of GDP) and was concentrated in the third quarter. The steep growth in the interest-rate differential in favour of the koruna meant that the banking sector did not have to finance this imbalance through bond issues or more loans, and the decisive form of financing was short-term koruna deposits by non-residents at domestic banks. The volume of such deposits increased by more than CZK 300 billion (5% of GDP). The banking sector's total indebtedness rose more sharply (than required to equalise the external imbalance) by 2.7% of GDP to 18% of GDP due to the influence of exchange-rate trends and the revaluation of assets and liabilities.

The usually negligible influence of financial and commodity derivatives increased extraordinarily in 2021. The net inflow of capital to the Czech Republic was almost 1% of GDP. Profitable financial operations, usually by large companies in the power industry related to earlier raw materials purchases before their actual delivery, accounted for a decisive part of this.[16]

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[15] Growth in interest rates meant there was a reduction in the market value of previously issued bonds with lower yields. However, a change to the market value only influences transactions on the secondary market and in no way influences the principal or interest revenues that the Ministry of Finance of the Czech Republic has to pay its creditors as an issuer/debtor.

[16] They purchased some raw materials, usually for the power industry, before the significant price increases. See Chapter II International trade above.

V. CNB RESERVES

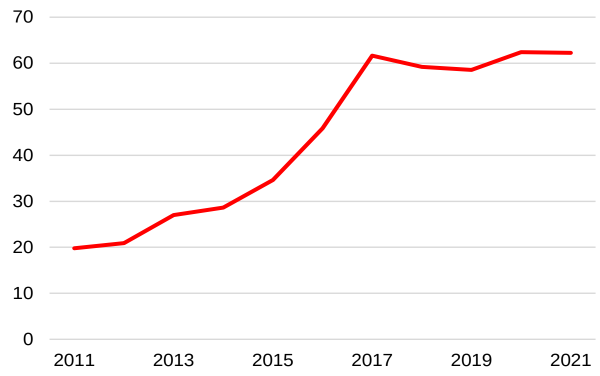
The growth in reserve assets reflected the net transfers from the EU, a new allocation of special drawing rights from the International Monetary Fund (IMF), and investment returns on reserves. Euro-denominated receipts from the EU budget are purchased by the CNB into its reserves based on an earlier agreement with the government of the Czech Republic with the aim of not influencing the koruna exchange rate.[17] New resources from the IMF increased foreign exchange reserves, but have a counterpart among the CNB's liabilities. They therefore do not influence the central bank's overall international investment position.

Interest and dividend income from foreign exchange reserves had only a minor influence on reserve growth. Changes to the market prices of assets held and exchange-rate influences played a larger role, as a consequence of which the amount of reserves fell. Investment returns from reserves largely reflect trends in the interest rates of reserve currencies in accordance with their share in CNB reserves.[18] In 2021, the average yield of foreign exchange reserves in their own currency was 2.1%, mostly due to the equity component, whereas the bond component – the most significant in volume terms – recorded a loss. The loss was based, in particular, on last year's low level of interest rates in developed countries and a reduction in the market value of bonds as yield curves rose in the second half of the year. In koruna terms, the average yield on reserves was -0.3% because the koruna strengthened against most reserve currencies year on year.

After taking into consideration the revaluation of assets and the change to the exchange rate, reserve assets rose year on year by CZK 258 billion (4.2% of GDP) to CZK 3.8 trillion (62% of GDP) as of the end of 2021. This continues to be a very high volume of foreign exchange reserves in an international comparison with (Chart 31) and according to all prudential indicators for reserve adequacy.[19] After adjusting for foreign liabilities, the CNB's net creditor position vis-à-vis other countries only increased by CZK 142 billion (2.3% of GDP) to CZK 3.5 trillion (58% of GDP).

Chart 30: Reserves rapidly increased during the CNB's exchange rate commitment from 2013 to 2017

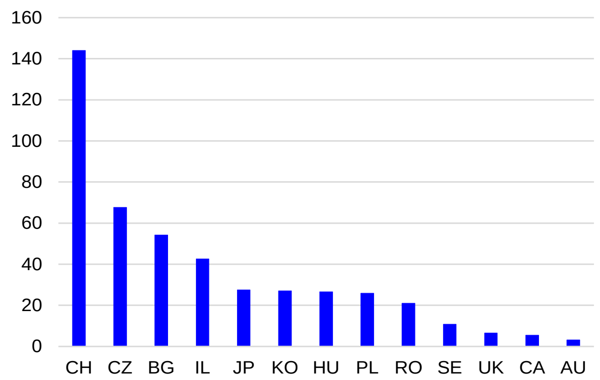
(CNB reserve assets, end of year as % of GDP)



Source: CNB, CZSO, CNB calculations

Chart 31: The CNB reserves are among the highest in an international comparison

(reserve assets of selected central banks as % of GDP, end of 2020)



Source: World Bank, CNB calculations

[17] Leaving these credits on the market would generate appreciation pressures on the koruna, possibly pushing it above the level appropriate to the Czech economy's competitiveness. In the past, these operations were used, for example, to offset government revenues from sales of state assets to non-residents. As regards the balance on operations vis-à-vis the EU, this is a temporary subsidy to the Czech economy, which is less developed than the EU average, by the richer EU Member States. As a result of the real convergence of the Czech economy, these net subsidies are gradually falling over time and will come to a complete halt in the future.

[18] In the currency structure of the actively managed part of the reserves (94% of all reserves), the majority is accounted for by the euro (57%), US dollar (25%), Canadian dollar (6.9%), Australian dollar (3.6%), and British pound (3.2%). See the CNB Annual Report for 2021.

[19] These indicators include, for example, full coverage of short-term foreign debt, the ability to pay for three months of imports, coverage of a fifth of a wide money aggregate, and others.

VI. THEMATIC ANALYSES

VI.1 WHY HAS CZECH TOURISM NOT RECOVERED FROM THE COVID-19 PANDEMIC? [20] [21]

The Czech Republic was not one of the worst-hit countries due to a lower share of tourism in GDP and employment. Despite this, the drop in income from inbound tourism was significant, at approximately 50%. From the employment point of view, the tightness of the domestic labour market meant that it had practically no effect. From the balance of payments point of view, the Czech Republic lost considerable surpluses it had enjoyed for a long time.

Inbound tourism was much more visibly affected than outbound, primarily due to its different structure (i.e. a higher share of sightseeing tourism, a higher share of remote and non-European destinations, and a higher share of air transport) compared with outbound tourism.

Based on the information available, a faster recovery to pre-pandemic levels for outbound tourism seems much more probable than for inbound tourism. The pandemic's negative impact on the tourism balance will evidently be a much longer-term phenomenon, while longer-term negative influences will also be evident in the related air passenger transport.

CZECH TOURISM IS WEAKENING IN THE CONTEXT OF GLOBAL DEVELOPMENTS

Growth in global tourism credits had long been resistant to recessions and epidemics, with rapid recoveries after short-term downturns (chart VI-1.1). Czech tourism usually responded to adverse events with a reduction in inbound tourism, yet profited for a long time from accession to and the expansion of the EU and, later, joining the Schengen Area.

After the COVID-19 pandemic broke out, the years of robust growth in global tourism gave way to an unprecedented fall. The outbreak of the COVID-19 pandemic led to a short-term, almost immediate halt of the majority of direct international personal contacts, in particular private tourism and, to a lesser extent, business trips. Meanwhile, there was only a limited and short-lived shutdown of the production of goods and the provision of contactless services, primarily where there were problems with the spread of the infection among employees or a lack of necessary parts or materials. In contrast to previous economic crises, the pandemic affected different sectors of economic activity very unevenly. In terms of international relations, it primarily impacted tourism and some types of public passenger transport (in particular aviation)[22]. The restrictions not only directly affected private tourism, but there was also a marked downturn in business trips, international congresses with in-person attendance were cancelled, and business trips by cross-border workers to neighbouring countries were restricted for a certain time, as

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20 Authors: Oxana Babecká Kucharčuková and Vladimír Žďárský (both CNB). The views presented here are those of the authors and do not necessarily reflect the official position of the Czech National Bank.

[21] This analysis focuses on tourism in the Czech Republic, in particular through the lens of the balance of payments. In other words, we leave out domestic tourism and focus solely on resident - non-resident relations, i.e. inbound foreign nationals to the Czech Republic and outbound Czech residents for a purpose other than permanent residence. The "Tourism" item in the balance of payments is much wider than the travelling and recreation usually linked to the term. The balance of payments item includes private trips for treatment and recreation, visits to relatives, studying (including school fees and scholarships), cognitive tourism and holidays by the sea, short-term business trips (including congress tourism), and trips undertaken by seasonal and cross-border workers. Debits by Czech residents abroad are charged to the balance of payments on the debits side. Debits by non-residents staying in the Czech Republic for short-term work are tourism credits and are assembled using data provided by hotels, bank and non-bank exchange offices, and data about payment card transactions. Administrative sources, such as about the number of foreign students and foreign workers, are also used.

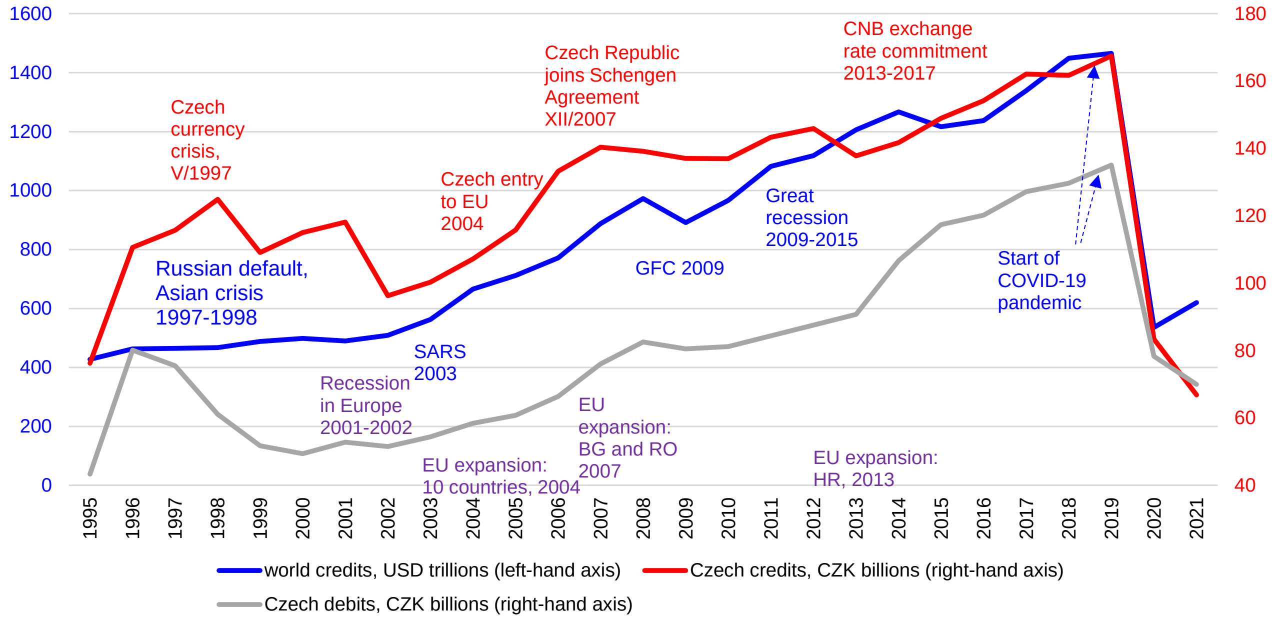
[22] After a significant delay (approx. one-and-a-quarter years) there has been a deepening of problems with technologically-complicated production due to the serious interference with complicated supply chains, in particular in the automotive industry, which is of key importance for the Czech Republic.

were study stays abroad[23]. Apart from accommodation and food services, there was also a downturn in other related sales of services and, to a limited extent, goods linked to tourism.

Chart V-1.1: Czech tourism boasted robust growth between the country's accession to the EU and the outbreak of the pandemic

(Czech tourism credits and debits in CZK billions and global tourism credits in USD billions)

World, USD billions billions Czech Republic, CZK



Note: It is necessary to consider that nominal amount results are distorted by inflation. For example, global tourism measured by tourist numbers was slightly more sensitive, for example, to the SARS epidemic than tourism measured by credits. Yet the difference is not dramatic.

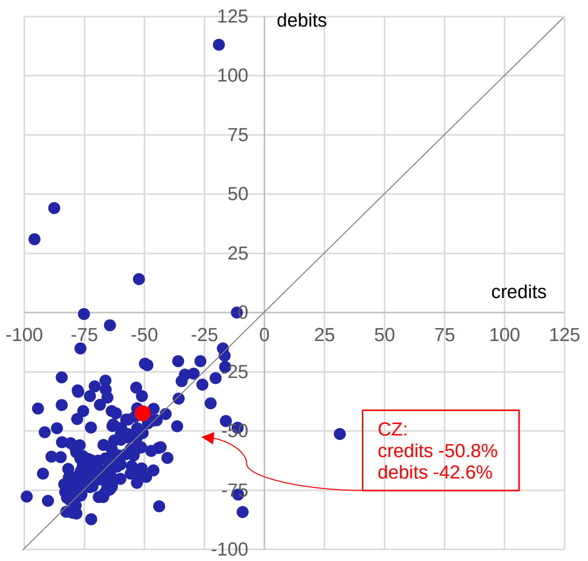
Source: UN WTO and Refinitiv, CNB

Global tourism fell by practically half due to the COVID-19 pandemic. According to the World Travel and Tourism Council (WTTC), in 2019 the two industries contributed 10.4% of GDP, with every 10th employee around the globe working in them, a total of 334 m jobs. The first year of the pandemic cut the GDP contribution from transport and tourism by almost half to 5.5%, with an overall fall of 49.1%. Last year saw a "light at the end of the tunnel" thanks to approximately 20% growth in these industries. Nevertheless, the level remained markedly below the 2019 average, with a GDP share of only 6.1%.

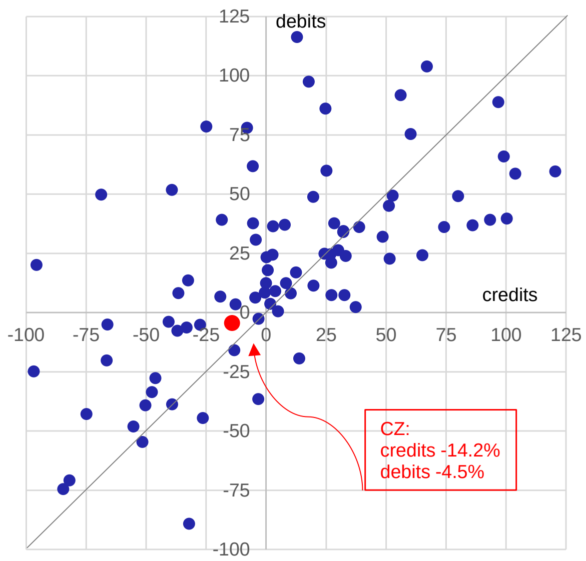
[23] Falls in other segments concerning the movement of persons (excluding tourism), however, were much shorter and the impacts markedly milder.

Chart VI-1.2: Although the Czech Republic was among the less-affected countries in the first pandemic year, it proved unable to recover its position in inbound or outbound tourism the following year

(The development of tourism credits and debits in 173 countries in 2020 measured in USD, year on year in %)



(Preliminary data on the development in tourism credits and debits in 97 countries in 2021 measured in USD, year on year in %)



Note: the calculations are based on data in USD, so the development in the domestic currency will be influenced by exchange-rate effects. In the Czech Republic's case, the falls in credits and debits in koruna in 2021 were -19.8% and -10.7%, respectively. The distance from the diagonal shows the difference between the development of credits and debits. Countries where the tempo of growth in credits exceeds that in debits are on the right of the diagonal, in the upper right quadrant. On the other hand, countries where the fall in credits was larger than that in debits are on the left of the diagonal in the left lower quadrant. The data for 2021 are for the EU26 (excluding Cyprus) and other significant economies and are preliminary.

Source: IMF BoP database, authors' calculations

The situation was even less favourable in the case of Czech tourism. In the first pandemic year, the halving of tourism credits (-50.2%) was comparable with the global decline, and the fall in debits was even below-average (-42.0%). However, in both cases it was a much larger fall in comparison with the 5% decline in Czech GDP. The Czech Republic evidently remained one of the less affected countries (chart VI-1.2, left-hand chart). However, in the following year, when a number of countries managed to return tourism to a growth trajectory, Czech tourism only managed to slow down its fall, and the decline in inbound tourism was again markedly higher (-19.8%) than in outbound tourism (-10.7%). (Chart VI-1.2, right-hand chart and the note). Czech GDP grew both in nominal and real terms.

Due to permanently higher credits than debits, tourism had always been a relatively important item for the Czech external balance. Although it was not the most sizeable, it was a stable and relatively significant net credit item that, in the years before the pandemic, reached CZK 30 to 35 billion (i.e. approx. 0.6% to 0.7% of GDP). In addition, with the exceptions of 2016 and 2017, net credits from tourism exceeded the total current account surplus. Developments in the past two years dramatically reversed this trend and the considerable surplus that tourism contributed to the current account balance "evaporated"[24]. Despite this, tourism remains an important sector for GDP. According to the CZSO satellite tourism account for 2019, the contribution from tourism, including domestic tourism, to gross domestic

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[24] The annual tourism surplus for 2020 of CZK 4.8 billion approximately corresponded to the surplus generated in the first quarter of 2020, i.e. before the development of the COVID-19 pandemic in Europe.

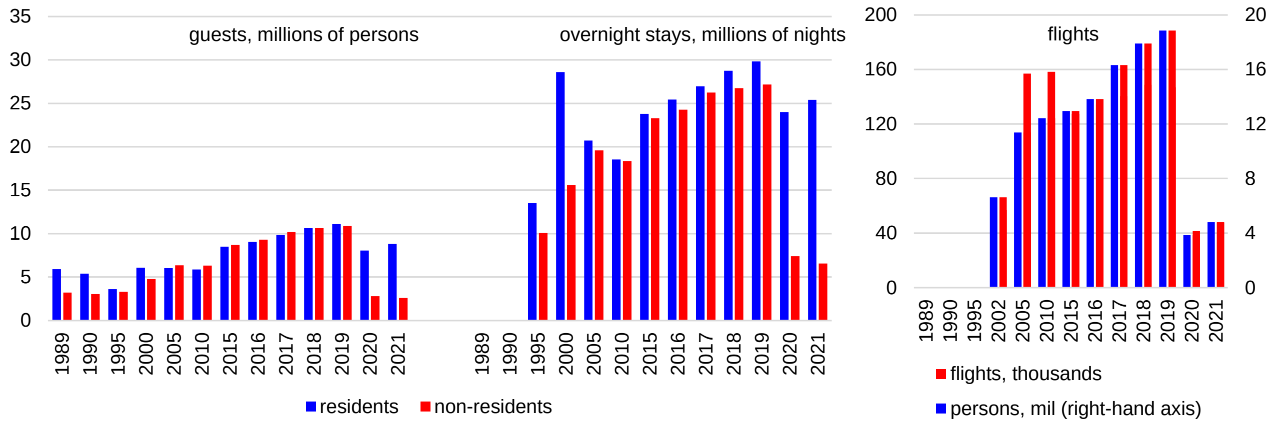
product was 2.9% of GDP (CZK 165 billion). It employed 240,000 people, thus accounting for roughly 4.5% of total employment. Due to the pandemic, tourism collapsed to 1.5% of GDP in 2020, yet employment in the industry only fell to 4.2%.

OTHER TOURISM INDICATORS REVEAL INTERESTING STRUCTURAL CHANGES DURING THE PANDEMIC

According to CZSO data, total arrivals by non-residents to the Czech Republic fell to the lowest-ever level and the number of overnight stays fell to a similar extent. In 2020, the number of foreign tourists in the Czech Republic even declined below the 1989 level, and continued to fall slightly in 2021 to less than one quarter of the 2019 level, in terms of both the number of tourists and the number of overnight stays (chart VI-1.3).

Chart VI-1.3: Incoming tourism to the Czech Republic is at its lowest level since the Velvet Revolution for the second year running

(the number of non-residents in accommodation facilities, the number of overnight stays by non-residents, and the number of arrivals by air, in billions of people or nights; in millions for flights)



Source: CZSO, Eurostat

The visible differences in 2020 between the fall in credits (by approx. 50%) and the decline in the number of persons and overnight stays (approx. 75%) seemingly indicate much higher (almost double) spending by foreign nationals in the Czech Republic during the pandemic (table VI-1.1). Under ordinary conditions, this could be seen as an increase in the competitiveness of Czech inbound tourism. During the pandemic, however, it could be due to a change to the composition of other items. The balance of payments includes credits from other segments of the international movement of persons, for example short-term trips without accommodation, foreign workers, students, etc., where the restrictions were much more modest and shorter. It is also possible that some tourist stays were not reported during the pandemic for tax or regulatory reasons.

Table VI-1.1: Tourism measured by the movement of persons showed a markedly greater fall compared to the fall in credits from inbound tourism recorded in the balance of payments

(in % or CZK thousands)

	year-on-year growth tempo, in %						tourism credits per unit, CZK thousands			
	accommodation of non-residents	overnight stays by non-residents	number of flights	transported passengers	tourism credits	tourism debits	1 accommodated non-resident	1 overnight stay by non-resident	1 flight	passenger in aircraft
2016	7.1	4.2	5.3	6.7	3.5	2.4	16.5	6.4	1.1	11.1
2017	9.0	8.2	4.6	18.1	5.1	5.8	16.0	6.2	1.2	9.9
2018	4.4	1.9	5.9	9.6	-0.2	1.9	15.2	6.0	1.1	9.0
2019	2.6	1.6	-1.2	5.4	3.6	4.2	15.4	6.2	1.1	8.9
2020	-74.4	-72.8	-71.8	-79.7	-50.2	-42.0	29.9	11.3	2.0	21.7
2021	-7.6	-11.4	15.1	25.1	-19.8	-10.7	26.0	10.2	1.4	13.9
2021 vs 2019	-76.4	-75.9	-67.5	-74.6	-60.1	-48.2	-	-	-	-

Source: CZSO, Eurostat, authors' calculations

The situation is further complicated by the evident discrepancies in the quality of data for inbound and outbound tourism. Whereas arrivals were statistically reported in the standard way (extent of information, dates) even in the pandemic period, the situation was claerly more complicated with departures. Information is only provided based on selective research over the long term[25].

THE TOURISM BALANCE WORSENED DUE TO THE DIFFERENT STRUCTURE OF INCOMING AND OUTBOUND TOURISM

It is clear that the impacts on the different tourism segments were of different strengths, and some even profited from the pandemic. Primarily, there was an increase in domestic tourism at the expense of foreign tourism. The countries that benefitted most from this were those where outbound tourism usually significantly exceeded inbound tourism (in Europe, for example, Germany, Russia and Great Britain), while the countries whose GDP was most impacted were those that were net "recipients" of tourists (e.g. southern Europe, but also the Czech Republic). Different trends in different segments could be observed in individual countries. In the Czech Republic, mountain areas benefitted, receiving more domestic tourists than usual, while the most badly-hit was Prague, which had most profited from its global tourism fame (and the most from "intercontinental" tourism) in previous years. The return of sightseeing tourism from distant countries will clearly not be so rapid as the change due to the pandemic was in 2020.

The different orientation of Czech inbound (sightseeing) and outbound tourism (with a very high share of seaside and mountain holidays) was the cause of the different intensities of impact on tourism credits and debits. The Czech historical and cultural heritage meant the share of tourists from very remote destinations was traditionally higher in credits than in debits (table VI-1.2). This market segment, however, was far more impacted by the pandemic than continental tourism, partly due to aviation restrictions. By contrast, outbound continental tourism by Czechs to Croatia, Slovenia, Italy and other countries was enabled by the use of alternative transport methods (cars), reducing the impact of the drastic reduction in aviation (see the box below). As a result, tourism credits fell more than debits, which reduced the tourism balance.

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[25] During the pandemic, there was a marked reduction in the extent of information published. The differing international data and an increase in the share of trips not statistically captured evidently played a role in this. In 2019, as part of a survey the CZSO reported 5.1 million trips (of over four days) and 1.67 million shorter trips. The total number of related overnight stays was 40.5 million (for trips of over four days). In 2020, there was a fall in the number of trips to 1.6 million (for longer trips) and 0.6 million for shorter trips. There are differences when comparisons are made with other data sources. For example, according to the Statista server, the fall in tourism to the Czech Republic compared to 2019 was 81.1%, making it the largest in Europe. According to the CZSO, the fall was 76.4%, ranking the Czech Republic fifth worst, right next to Slovakia. The worst-hit country would then be Finland, followed by Latvia and Estonia. The least hit country was Luxembourg, where the number of tourists fell by 36.3%.

The high share of sightseeing tourism in the Czech Republic, the recovery of which is visibly slower across the globe, could dampen the revival of inbound tourism to the Czech Republic. Last year, the largest growth in tourism credits in Europe was mainly in countries that are traditionally popular destinations for summer seaside holidays. Further factors limiting Czech inbound tourism include the asynchronous trends in the COVID-19 epidemic in the Czech Republic in comparison with the global average (see, for example, the Ritchie et al. database, 2022) and the high infection rates in comparison with neighbouring countries, primarily Germany, the world number one in outbound tourism and the largest source of Czech tourism credits.

Table VI-1.2: Whereas the interest and possibility of non-European tourists to visit the Czech Republic fell by 60% and more, Czechs' interest in holidaying in Europe slightly rose compared to 2019

(in %)

	Structure of tourism credits, in %							change compared to 2019, in %	
	2015	2016	2017	2018	2019	2020	2021	2020	2021
Europe	78.1	78.2	77.6	77.4	77.2	86.9	87.7	12.5	13.5
of which: EU-27	55.8	56.4	53.8	53.1	52.3	58.1	63.3	11.2	21.2
Asia	8.5	9.3	10.3	10.7	11.1	7.3	7.2	-34.3	-35.7
America	6.8	6.5	6.4	6.4	6.3	2.4	2.4	-61.2	-62.1
Australia and Oceania	0.9	0.8	0.7	0.7	0.7	0.2	0.1	-65.6	-82.7
Africa	0.3	0.3	0.3	0.3	0.4	0.6	0.7	67.9	99.8

	Structure of tourism debits, in %							change compared to 2019, in %	
	2015	2016	2017	2018	2019	2020	2021	2020	2021
Europe	90.0	90.4	90.7	90.8	90.7	93.2	96.4	2.7	6.2
of which: EU-27	82.4	83.1	83.2	83.6	83.3	86.8	91.8	4.2	10.2
Asia	6.1	5.8	5.6	5.5	5.6	3.6	1.4	-35.6	-75.0
America	0.5	0.5	0.5	0.5	0.5	0.6	0.8	32.7	64.2
Australia and Oceania	0.2	0.1	0.1	0.1	0.1	0.1	0.1	-29.6	-18.2
Africa	2.7	0.0	0.0	0.0	0.0	0.0	0.0	-27.1	-26.7

Source: CNB

The recovery of Czech inbound tourism has also been slowed by the links between tourism and aviation. When the pandemic broke out, extensive restrictions were placed on aviation (it was and still is subject to much greater restrictions than rail and bus transport). Private transport was least affected, as the risk of infection is minimal and it is relatively popular with Czechs. Around half of the ten most popular destinations for Czech tourists are easily reachable by road (within one day's drive).

BOX VI-1.1: THE IMPORTANCE OF AVIATION FOR CZECH TOURISM

There are marked differences between how the various modes of transport were affected by the pandemic. In the Czech case, this can be documented most visibly in aviation. Traffic at Prague airport, which handled more than 17 million passengers in 2019, practically ceased at the start of the second quarter of 2020 (there were only two relatively unimportant lines to Minsk and Sofia). After it became clear that the COVID-19 pandemic problem would last for a long time, but that there would be relatively long periods of locally-restricted occurrence, international connections were renewed. Despite this, the overall year-on-year fall was approx. 80% (to 3.6 million people) in 2020[26]. There were marked

[26] The greatest decline of all the main European airports. There was then a slight increase to approximately 25% of the level before the pandemic in 2021.

differences between the various aviation segments. Long-haul aviation (using larger and significantly more expensive wide-body aircraft) was visibly much more affected, being completely absent from Prague for a year and a half. The city lost a total of 12 lines to East Asia and North America. In scheduled transport, the role of the domestic flag carrier CSA become completely marginal. It reduced the number of aircraft it operated to two and the number of lines fluctuated between two and six depending on trends in the pandemic [27]. The marked collapse of CSA and other smaller national carriers led to an increase in the importance of low-cost foreign airlines (Ryanair, Wizzair and Eurowings) and their share in total air traffic to and from the Czech Republic rose. There was also a marked reduction in the share of economically important European countries, including Germany, France and Great Britain, in aviation due to the influence of the deep fall in business trips and sightseeing tourism. On the other hand, there was an increase in the share of flights to seaside resorts.

Table BOX-1: Trends in passenger numbers at Prague Airport

(in millions of persons or %)

	number of passengers	change 2021/2020	change 2021/2019
number of persons	4.39 m	19.7%	-75.4%
number of take-offs and landings	61.2 th	13.0%	-60.5%
of which: most important			
Spain	431 th	74.2%	-64.5%
Greece	400 th	115.8%	-45.8%
Italy	388 th	41.5%	-73.5%
Egypt	311 th	646.1%	-32.3%

Source: Prague Airport

In charter transport, or specifically transport for seaside holidays, the domestic company Smartwings defended its position as the decisive carrier, despite a significant decline. The trends in the numbers of tourists to the most important air travel holiday destinations are shown in the lower part of the above table. With the exception of Italy, these are destinations where aviation is completely key and where Czech tourists have a dominant share. The increased willingness of Czech tourists to travel abroad was primarily behind a certain increase in air travel in 2021. For the first time in history, winter catalogues for 2021/2022 included direct charter flights in long-haul, wide-body aircraft (to the Dominican Republic, Zanzibar and, for a short time, the Maldives). Despite certain positive changes, however, it was clear that aviation was a long way from returning to normal at the start of 2022. This was true despite the announced return of scheduled long-haul flights to New York and a planned increase in the number of seaside destinations to which Czechs will be able to fly directly.

The marked decline in credits from navigation fees through lower flight activity impacted Air Navigation Services of the Czech Republic. The number of aircraft "movements" across the Czech Republic or to Czech airports fell significantly (to slightly over 40% of the 2019 level in both years), and was a long way under the EU average (56%) due to the absence of domestic transport.

There was also a marked fall for other types of international transport (rail and bus), but the overall fall was less important given the significantly prevailing domestic transport. In bus transport, the fall was probably concentrated on transport arranged by travel agents which, given the distances, is particularly focused on Croatia and northern Italy. In the case of rail transport, the only long-distance direct line (Prague – Minsk – Moscow) was terminated. The remainder of international transport, which was oriented almost solely only on neighbouring countries and Hungary, was halted for a short period but then renewed, even if to a slightly limited extent due to lower demand. The most

[27] It will continue with limited activities after the forced restructuring at the start of 2021.

important links to Germany, Austria and Slovakia are almost at their standard pre-pandemic levels, although with probably lower usage. In addition, a direct seasonal train line between Prague and the Croatian coast was revived after some time, having been cancelled by Czech Railways several years ago for economic reasons. The private company Regiojet successfully introduced a line between Prague and Rijeka, later extended to Split.

The collapse in tourism, heightened by the increase in the share of domestic recreation at the expense of foreign trips and a reduction in the share of aviation understandably had an effect on companies handling "organised" tourism. Whereas approx. 2.1 million clients used travel agents' services in 2019, only 400,000 people did so in 2020. In 2021, the number of people using travel agents' services increased to approx. 750,000 (many people, however, were only using vouchers from the previous year). The number of travel agents active on the Czech market, which lost a large proportion of its clients when the pandemic broke out, fell from approx. 1,100 to approx. 600 (at the end of 2021/beginning of 2022), and the fall will quite certainly continue in 2022. It is primarily small and large (Firotour) domestic travel agents that are going bust, whereas the three largest ones, with foreign ownership (Fischer, Eximtours and Čedok), actually strengthened their position as trip organisers (dominantly in the case of air tours) despite a significant fall in client numbers. The risk of trip cancellation due to the pandemic and problems with refunds from financially weakened travel agents led to an increase in the share of trips paid for at the last minute and an increase in the share of trips to other countries without the use of travel agents' services.

CONCLUSION AND OUTLOOK FOR THE FUTURE OF CZECH INBOUND AND OUTBOUND TOURISM

The latest studies and forecasts by leading international institutions[28] show that the recovery of the tourism industry is and will be much slower than was expected a year ago. It is not yet clear when the pandemic will end, or whether additional, more dangerous mutations will appear. Nevertheless, it is probable that there will be growth in outbound tourism from the Czech Republic in 2022. After a two-year gap, or rather very marked restrictions on travelling, there are visible signals of a revival.

On the inbound tourism side, there are positive signals from aviation indicating the possible return of tourists from more remote European countries to the Czech Republic. It is expected that aviation routes to almost all European destinations, with the exception of Russia, Belarus and Ukraine, will be revived[29]. In particular in the case of Great Britain, after two years there is room for the full return of British tourists, who do not need a visa to visit the Czech Republic even after Brexit. In addition, there is a fairly marked expansion of air links to countries on the Arabian peninsula.

The range of direct air flights from a number of formerly key sources of Czech inbound tourism will either disappear, or it will be deeply restricted under the 2019 level (Russia, China, the USA and South Korea). In long-haul aviation, the currently available information is that one of the original six long-haul services to North America will be renewed, but only from the end of May to the start of September. This could help start the process for the progressive return of North American tourists but it will certainly take several years. It is highly probable that there will be no air services to the Far East (there were originally six, and a seventh was about to be launched). In the case of services to China, there is a high probability that direct services will not be renewed at all due to political developments in mutual relations.

In contrast, no more significant restrictions are visible on the outbound tourism side (with the exception of the still ongoing pandemic, the war in Ukraine and the related economic impacts). During the

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[28] Škare et al. (2021), IMF (2022), World bank (2022)

[29] As a consequence of the war in Ukraine. This is obviously conditional on COVID-19 pandemic trends being under control.

pandemic, conditions were created to expand travel to the most popular destination, Croatia (a direct train service in the summer season from Regiojet). There was the “historic first” of direct air services to remote destinations using long-haul aircraft in the winter season. “First minute” tour sales are growing significantly compared to the same period last year according to information from the most important travel agents. For Czech tourists, the range of seaside destinations reachable by air in 2022 is similar or even slightly wider than before the pandemic. Based on available information, it seems that the return of private outbound tourism to normal pre-pandemic levels will be much faster than that of inbound tourism. On the contrary, here it seems that a return to original levels will be very difficult and will certainly take a number of years. In addition, in both cases we cannot assume that there will be significant tourism “accelerators” in the sense of the expansion of the EU and Schengen Area in previous decades.

Although the negative balance for private trips will deepen, the overall tourism balance could be positive in the balance of payments. As mentioned at the start, tourism credits include debits by foreign workers (non-residents). The debits of Ukrainian citizens who left their homeland because of the war and obtained special visas with work permits for the Czech Republic[30] will probably be included in tourism credits as they are non-residents with short-term residence. If there is no special methodological alteration in connection with this situation, business trips will have a large share in the structure of the tourism balance. Before the pandemic, business trips accounted for roughly half the total balance (see chart A1 in the annex). Ukraine was a large contributor to this, because already before the pandemic it was the second largest source of Czech tourism credits (chart A2 in the annex). The overall influence of the war in Ukraine on the Czech Republic’s balance of payments will, however, be negative (setting aside price influences and other factors) because of the payment of salaries to Ukrainians[31] and humanitarian assistance to Ukraine, which will be reflected in debit items in the balance of payments current account.

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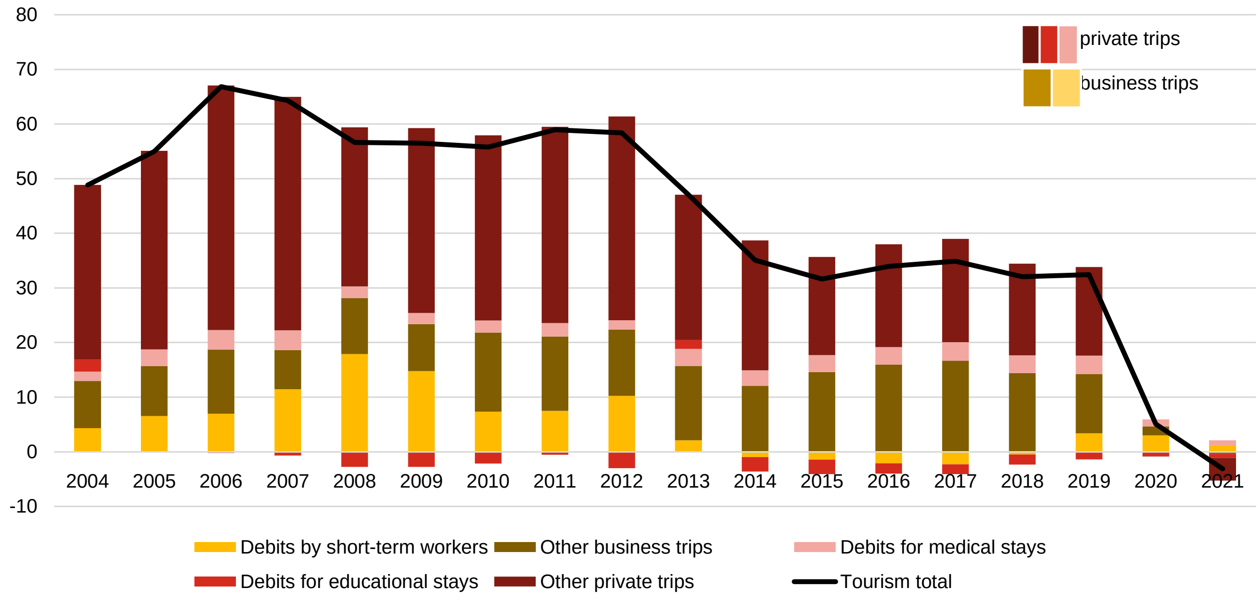
[30] As of the middle of May, 340,000 people, of which 200,000 are staying in the Czech Republic.

[31] For more details about Ukrainian citizens on the Czech labour market, see Ruschka (2022).

ANNEX

Chart A1 : Business trips accounted for approximately half of the tourism balance in the five years before the pandemic

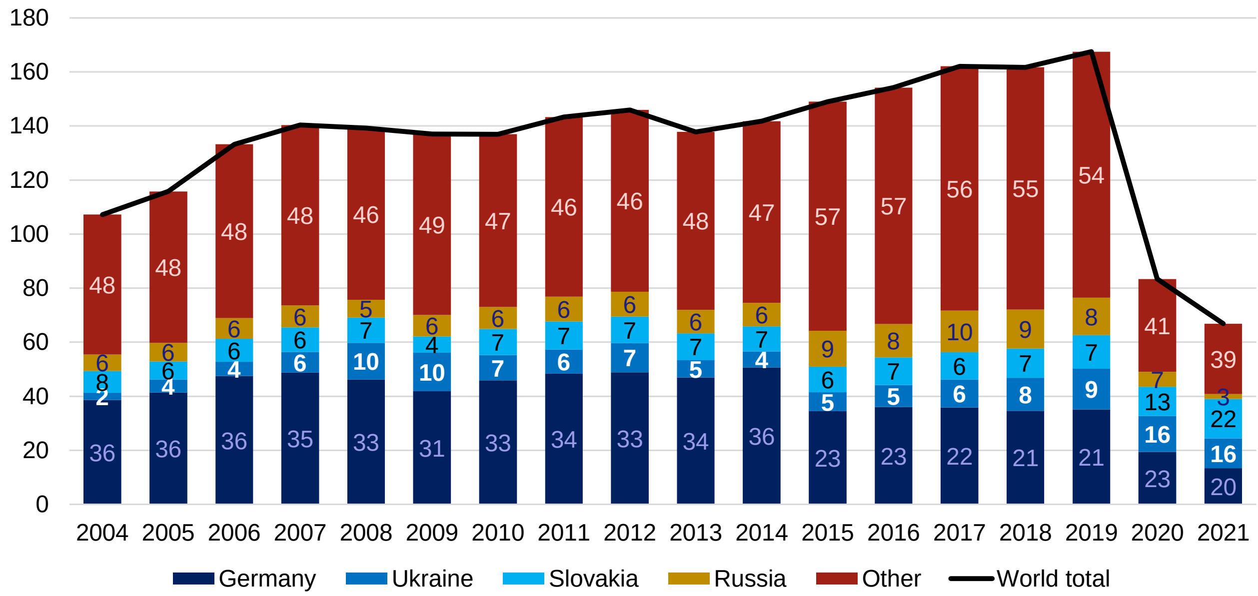
(in CZK billions)



Source: CNB, authors' calculations

Chart A2: The share of credits from Czech tourism in Germany fell dramatically, whereas the contributions from Ukraine and Slovakia rose during the pandemic

(in CZK billions)



Source: CNB, authors' calculations

VI.2 DISENTANGLING FINANCIAL GLOBALISATION: WHO ARE THE ULTIMATE OWNERS OF FOREIGN INVESTMENT IN THE CZECH REPUBLIC? [32]

Using the traditional national approach, economic statistics cannot satisfactorily describe the globalised world, so the analytical understanding of global business and capital links remains behind the understanding of national economies. This article describes Czech and international attempts to capture globalisation more credibly in statistics. One example is experimental[33] statistics on the ultimate (final) owners of foreign direct investment in the Czech Republic. In contrast to the traditional approach to foreign investment focusing on the immediate investor, these new statistics show that up to 15% of capital from other countries actually originates in the Czech Republic. In addition, this share is the highest among the 18 OECD countries that publish these data. Investors most commonly channel capital through holding companies in Luxembourg and the Netherlands. In addition to efficient corporate structure, possible reasons include tax optimisation, reducing regulatory obligations, hiding the identity of the final owner, and investment protection under international treaties. Alongside domestic investors, investors from Germany and the USA often make use of this system of "intermediated" investment.

THE CONFLICT BETWEEN GLOBALISATION AND THE NATIONAL APPROACH TO STATISTICS

How we think about the economy influences what we measure in it, and how. But it also works the other way round. Our thinking about the economy is influenced by the availability and precision of statistical data. Using the traditional national approach, statistics cannot satisfactorily describe the globalised world, so the analytical understanding of global business and financial links remains behind the understanding of national economies. External economic relations – shown in the balance of payments and the international investment position statistics– provide a good example.

The balance of payments shows all the transactions between residents and non-residents of a country or territory. However, globalisation markedly complicates such sorting. A single product can travel through multiple countries in complicated supply chains.[34] The providers of some information and telecommunications services don't even notice borders, while the free movement of persons between countries blurs the distinction between residents and non-residents. The problem of capital globalisation is even more acute. Multinational companies, offshore financial centres[35] and tax havens make any sensible categorisation of economic flows in terms of resident/non-resident relations almost impossible. Inside multinational corporations there are, for example, hard-to-measure transactions like the provision of services related to intellectual property, product coordination using internal prices, or intra-group liquidity management.

A deeper understanding is further complicated by financial innovation and special-purpose legal structures. Although the IMF and the OECD have set statistical definitions for foreign direct investment, national statistical offices and central banks still do not have a uniform system for identifying and classifying special-purpose entities (SPEs) that are used for the temporary movement, placement or

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32 Authors: Martin Kábrt and Milan Nejman (both CNB). The views expressed in this article are those of the authors and do not necessarily reflect the official position of the Czech National Bank.

33 Experimental statistics are newly developed statistics whose methodology is still under discussion at the international level, that are voluntarily published, and that are progressively being refined using additional data sources.

34 Movement of goods across borders does not always entail a change of ownership between a resident and a non-resident. Therefore, the Czech Statistical Office does not include physical flows of goods through the Czech Republic carried out by non-residents when compiling international trade statistics (CZSO, 2020). However, the free movement of goods in the single European market makes such collection of statistical data harder.

35 Such centres are states or jurisdictions that provide non-residents with financial services on a scale that is incommensurate with the size and the financing of the domestic economy.

hiding of capital. Complicated capital ownership networks involving natural persons and legal persons across many countries, including tax havens, make it impossible for authorities – limited by national powers – to satisfactorily disentangle such structures.

Statisticians regularly update their procedures and manuals to be able to describe the ever-more-complicated and harder-to-measure flows, and capture and sort them as best they can. However, there are problems with subsequent interpretation. The import of goods that are then re-exported only with a slight contribution from domestic inputs can lead to high statistical foreign trade turnover.[36] Economically, however, these data are not that informative because the value added in the domestic economy can be relatively insignificant. The frequently used indicator of the ratio of exports to GDP is therefore a misleading indicator of the weight of exports in an economy's performance. Another example is trade in services, which is recorded in the balance of payments if a service is provided across borders. When, however, it is offered through a commercial presence in the destination country,[37] an economically very similar activity statistically transforms from an external to a domestic transaction. Data about cross-border investment can also be misleading because, for example, they regard a transaction where a domestic entity invests in the domestic economy through a special-purpose company established abroad as an (inward) foreign investment.[38] In other words, even if the relevant national statistics successfully capture and classify real and financial flows into the balance of payments statistics, the resident/non-resident principle does not always provide an analytically useful summary of the economic basis of globalised flows.

HOW TO CORRECTLY CAPTURE AND DISENTANGLE GLOBALISED FINANCIAL FLOWS?

It is necessary to respond to both challenges – i.e. the reliability of the statistics and their analytical utility – at both the national and international levels. National statistical offices and central banks regularly assess the importance of a new economic or financial phenomenon and subsequently update their data sources – whether accounting, supervisory or administrative. New methodological standards are being established at international fora to respond to transformations in the global economy, and to improve the international comparability of statistics.[39] New contributions that have recently or will soon expand the statistical coverage of external relations include, for example, international trade by enterprise characteristics. Since 2022, statistical offices of EU Member States have had to link international trade data to business registers which, *inter alia*, enable the determination of the role of small enterprises and multinational groups in goods and services trade. From 2023, statistical offices should also gather data about trade in services according to the method of provision, which will include, in addition to cross-border trade, services offered through a branch or subsidiary in the destination country. The collection of data on foreign direct investment broken down into greenfield investment and mergers and acquisitions has also started in the EU on a voluntary basis.

In addition to the development and coordination of methodological procedures, there are also initiatives enabling national authorities to share and compare individual statistical data with each other. One example is the FDI Network, a joint project operated by Eurostat, the ECB and, on a voluntary basis, EU Member States. The purpose is the regular comparison of individual "mirror" foreign direct

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[36] This applies assuming that imports and exports result in a change of ownership. The flow of goods across the Czech Republic without a change of ownership is only recorded in statistics covering the movement of goods across borders, not in the international trade statistics (see footnote 34).

37 This is known as mode 3 of international trade in services according to the WTO.

[38] Similarly, if a domestic entity uses such a special-purpose company (also known as shell company, shelf company, brass plate company) for investment in other countries, it is not regarded as (outward) Czech foreign investment.

[39] The main methodological standards governing the compilation and breakdown of foreign investment data are the Balance of Payments and International Investment Position, 6th Edition, the OECD Benchmark Definition of Foreign Direct Investment - 4th Edition, and the IMF/BIS/ECB Handbook on Securities Statistics. The IMF methodological instructions for SPEs are available at https://www.imf.org/external/pubs/ft/bop/2020/pdf/20-26.pdf

investment data. This is because every investment should be captured both in the country of origin and in the destination country. For example, while an investment from Germany to the Czech Republic is recorded as an *inflow* of capital from the Czech viewpoint, in German statistics the same investment must be captured in the same value and classified as an *outflow* of capital. The FDI Network initiative enables secure transfers of individual statistical data, as well as the provision of methodological support for explaining and correcting any differences. The result should be better and mutually consistent statistical data.

However, the probably more important tool to understand globalisation are new international databases and registers with contributions from national authorities. Whereas statistical offices and central banks are limited by their national field of operation, together their detailed insights into the balance sheets of individual financial institutions and non-financial corporations enable statistical aggregation at higher levels. Authorities can therefore fill each other's "blank spaces" in national statistics. For example, the Czech National Bank contributes to the CSDB securities database administered by the ECB by sharing data about securities issued by Czech entities. In exchange, it obtains information from the ECB and other central banks on the issuance of securities by their residents. This detail enables the CNB to obtain precise information about the characteristics of securities issued by non-residents and held by domestic owners.

Provided that enough countries contribute to such databases, they can provide consistent data about cross-border financial links at the international level. Alongside CSDB, the most important include the exposures of banks consolidated on a global basis by the Bank for International Settlements (BIS) and data about the balances of direct and portfolio investment (CDIS, CPIS) drawn from national sources by the IMF. In most such initiatives, however, there is no sharing of data from the balance sheets of individual entities that would – in contrast to data aggregated by sector – enable an almost complete disentanglement of financial globalisation.[40]

"INDIRECT" FOREIGN DIRECT INVESTMENT

One of the most advanced initiatives for revealing financial globalisation is the classification of foreign investment by the ultimate owner's country.[41] Standard methodological instructions for determining the geographical origin of foreign direct investment (FDI) are based on the principle of the *immediate* investor, i.e. the first legal foreign owner of the relevant enterprise. But the immediate owner could be a special-purpose company set up to create an effective corporate structure, optimise taxes, reduce regulatory obligations, hide the identity of the final owner, or benefit from investment protection under international investment protection treaties. Such an "intermediate" company often does not perform significant economic activity in relation to the size of its balance sheet and has hardly any employees.

The ultimate owner differs from the immediate owner in that it is at the top of the ownership chain, directly or indirectly controls the direct investment enterprise, and is not controlled by any other legal or natural person. Where there is no direct or indirect control of the relevant enterprise by a foreign investor, the country exercising control is regarded as being the Czech Republic. Statistics according to the ultimate owner have more analytical and informational value because they enable users to look through the chain of ownership relations between the investor and the investment.

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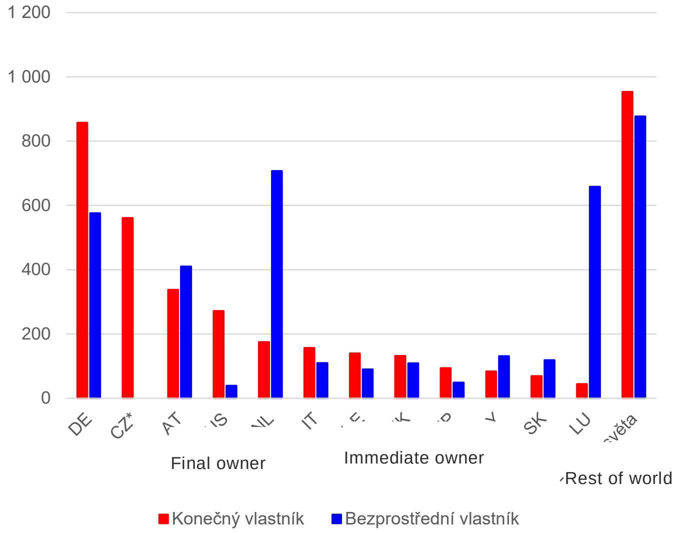
[40] Nevertheless, there is a growing number of initiatives that include the sharing of statistical microdata, particularly in the EU. For example, the international EuroGroups Register provides information about multinationals active in EU Member States.

[41] Detailed data on foreign direct investment in the Czech Republic are collected annually, covering approximately five thousand companies with an immediate foreign owner. The valuation of investment is based on the accounts of the reporting enterprise. Entities listed on the stock exchange are re-valued at their market price. In addition, there are further calculations and estimates, for example to account for companies that do not participate in the survey. A survey respondent is asked not only about the country of its immediate owner, but also about the country of its ultimate owner. An international statistical register of European multinational enterprise groups (EuroGroups Register, administered by Eurostat) is used as an additional source.

Chart VI-2.1 shows that the *ultimate* owners of foreign investment in the Czech Republic do not come from the Netherlands and Luxembourg (the most important *immediate* investors), but rather from Germany, Austria and the USA. The Benelux countries are, to a considerable extent, used only for the legal registration of holding companies through which the ultimate owners control their investment in the Czech Republic. One publicly-known example is ŠKODA AUTO a.s. which, according to the business register, has its immediate owner in Luxembourg (Volkswagen Finance Luxembourg) and ultimate owner, according to the company's annual report, in Germany (the Volkswagen Group). Investors from Cyprus, Slovakia and Austria are of less importance from the viewpoint of final ownership than immediate ownership. On the other hand, greater importance from the final ownership viewpoint should be attributed, in addition to Germany and the USA, also to Italy, Belgium, the United Kingdom and Japan.

Chart VI-2.1: Germans and Austrians, not the Benelux countries, invest the most in the Czech Republic

(Foreign direct investment in the Czech Republic by country of ultimate and immediate owner, end-of-period stock in 2019, CZK '000,000,000)



(*)The ultimate owner is either an entity from the Czech Republic or no foreign investor has majority control.

Source: CNB, authors' calculations

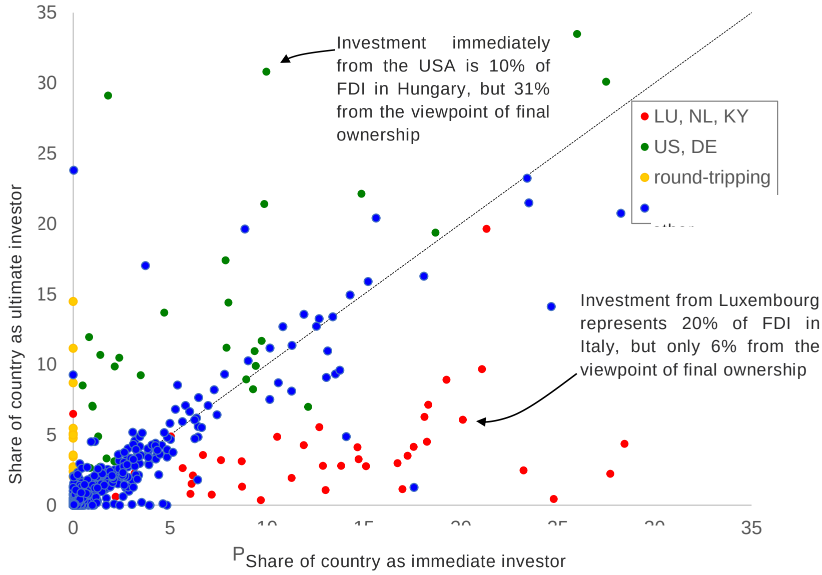
This pattern of "indirect" cross-border investment in the Czech Republic reflects global trends. Up to an estimated 30% of global foreign direct investment flows are indirect (Aykut, Sangi, Kosmidou, 2017). Statistics on foreign direct investment by the immediate and ultimate investor principle are currently collected and published by 18 countries in the OECD. Geographical breakdown of their data also correspond to the Czech experience. Each dot in Chart VI-2.2 corresponds to the bilateral stock of inward FDI by country of immediate (horizontal axis) and ultimate (vertical axis) investor. The vast majority of more than 1,400 observations with a non-zero value are close to the 45° line, meaning the importance of a country as an ultimate investor reflects its importance as an immediate investor. Dots a long way from the 45° line almost all fall into one of three categories. Investment from Luxembourg, the Netherlands and, to a lesser extent, the Cayman Islands (red dots in the chart) has a markedly higher share of FDI according to the *immediate* principle. On the contrary, investment from Germany and the USA (green dots) has a markedly higher share according to the *ultimate* principle. It is therefore clear that German and American investors in particular make use of the Benelux countries for intermediation of their foreign investment not only in the Czech Republic, but across the OECD. This practice is also widespread among domestic investors (yellow dots). This is known as "round-tripping", and is worth closer attention.

NEITHER DIRECT NOR FOREIGN FDI

In contrast to the immediate owner, the ultimate investor can come from the domestic economy.[42] Up to 15% of foreign direct investment in the Czech Republic can be traced to Czech ultimate owners.[43] Publicly-known examples are the financial group PPF a.s. and O2 Czech Republic a.s. which are, according to the annual reports, majority owned by the family of Czech entrepreneur Petr Kellner through an immediate owner in the Netherlands, PPF Group N.V. Another publicly-known example is Seznam a.s., owned by the Czech businessman Ivo Lukačovič through a Cyprus-based company.

Chart VI-2.2: FDI from the USA, Germany and the domestic economy is directed through holding companies in Luxembourg and the Netherlands

(inward FDI stocks in 18 OECD countries by country of immediate and ultimate investor in 2019 as % of total incoming FDI)



Note: The data include 1,431 pairs of bilateral investment. All data items represent the share of the total stock of foreign direct investment in the reporting country.

Source: OECD Stat, authors' calculations

Round-tripping is more widespread in the Czech Republic than in any other OECD country that collects and publishes statistics on foreign investment by the country of the ultimate owner (Chart VI-2.3). After Germany, the Czech Republic is the second-most-important source of "foreign" capital in the Czech Republic (Chart VI-2.1). The share of "foreign" direct investment whose actual origin is in the domestic economy exceeds 10% only in Italy. In Germany, Lithuania, Switzerland and Poland this share exceeds 5%. This de facto classification of domestic investment as foreign is not beneficial to the domestic economy. It could entail a loss of tax revenues, lower efficiency of domestic regulation, a risk of international investment disputes or, for example, risks related to lower financial flow transparency, including money laundering and other illegal activities. In addition, "foreign" investment with a domestic origin does not bring the traditional benefits of FDI, where new technology and managerial approaches enter the domestic economy with foreign capital. It is these benefits that often motivate countries to create attractive investment incentives for FDI.

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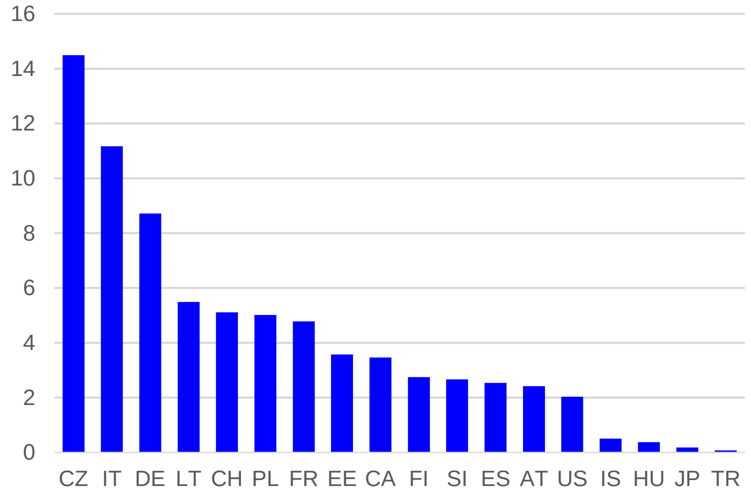
[42] In the case of immediate ownership of an enterprise with foreign direct investment, the investor has to be from another country, according to the definition.

[43] Where there is no direct or indirect control (i.e. majority ownership) of the relevant enterprise by a foreign investor, the country exercising control is statistically regarded as being the Czech Republic. Such cases cannot be described as "round-tripping", i.e. Czech natural persons or legal persons controlling their companies in the Czech Republic indirectly through special-purpose foreign companies. According to the authors' estimates based on the underlying microdata, however, this distortion is in the low single percentage points. Based on the information in Chart VI-2.3, it is therefore still possible to regard the Czech Republic as a country with one of the highest shares of foreign investment with a domestic final owner.

The statistical breakdown of FDI by the country of the ultimate investor illustrates the benefits of an improved understanding of globalisation.

Data about the actual origin of incoming capital enable a more thorough understanding of the factors that influence FDI flows. For example, Ferto and Sass (2020) show that the use of data broken down by the country of the ultimate investor lead to more precise estimates of the strengths of various influences on bilateral FDI flows. Wacker (2020) emphasises the role of such new data in explaining tax optimisation and regulatory arbitrage by multinational companies. Another benefit could be the ability to better target investment policy, including calibration of incentives for FDI and estimates of its development benefits.

Chart VI-2.3: The Czech Republic has the highest share of foreign investment with a domestic ultimate owner among all countries that publish such data



(share of FDI with an ultimate investor in the domestic economy in 2019 as %)

Source: OECD Stat, authors' calculations

CONCLUSION

Financial globalisation is currently the focus of attention of many international political fora. In 2021, 130 countries signed up for a plan for the radical reform of taxation of multinational companies, according to which taxes are paid in the same jurisdiction in which profits are made. Pressure is also increasing to halt international flows of "dirty money" and close tax havens – for example, the EU has a blacklist of countries that do not cooperate on tax issues and on which Member States impose various transactional limitations and penalties.

Just as at the national level, successful policymaking at the international level requires a thorough analytical understanding of the current state. Disentangling financial globalisation is a necessary condition for informed governance. The new statistical initiatives described in this article could help countries more successfully jointly respond to developments in the globalised economy.

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VII. STATISTICAL ANNEX: BALANCE OF PAYMENTS 2017–2021

CZK billions	2017	2018	2019	2020	prel. 2021
A. Current account	79.1	24.1	19.2	113.7	-51.1
Goods	259.3	200.9	239.8	280.3	73.3
Exports	3402.0	3497.4	3579.1	3388.7	3795.5
Imports	3142.7	3296.5	3339.2	3108.4	3722.2
Services	124.6	120.0	106.0	103.5	110.1
Manufacturing and repair services	40.7	41.3	47.3	45.7	48.6
Transport	32.6	34.8	23.3	20.2	14.2
Travel	34.9	32.1	32.4	5.0	-3.1
Other services	16.5	11.8	3.0	32.5	50.5
Total credits	636.4	665.5	698.3	603.5	643.4
Total debits	511.8	545.6	592.3	499.9	533.3
Primary income	-255.3	-260.2	-292.2	-242.2	-203.8
Compensation of employees	37.2	30.5	16.3	24.1	13.0
Investment income	-315.2	-313.3	-333.6	-292.8	-239.6
Other primary income	22.7	22.6	25.1	26.5	22.8
Total credits	271.7	258.8	304.9	231.1	270.4
Total debits	527.0	519.0	597.1	473.4	474.2
Secondary income	-49.5	-36.6	-34.4	-28.0	-30.6
Credits	60.4	81.0	91.4	108.4	115.2
Debits	109.9	117.6	125.8	136.4	145.9
B. Capital account	44.9	12.7	24.5	66.8	95.0
Credits	61.7	61.5	104.3	165.6	300.0
Debits	16.8	48.9	79.8	98.8	204.9
C. Financial account	115.6	60.8	8.4	163.3	10.9
Direct investment	-45.9	-51.0	-137.1	-149.1	-4.8
of which: net reinvested earnings	-80.2	-38.9	-39.4	-89.8	-95.5
abroad	218.0	132.3	109.0	44.2	160.8
in the Czech Republic	263.8	183.3	246.2	193.2	165.7
Portfolio investment	-268.3	30.1	-104.7	-135.7	75.2
Assets	67.5	-9.8	-4.1	50.8	107.1
Equity and IF shares (equity securities)	63.8	19.3	10.2	41.1	95.6
Debt securities	3.6	-29.1	-14.3	9.7	11.5
Liabilities	335.7	-40.0	100.6	186.5	31.9
Equity and IF shares (equity securities)	20.3	2.4	-2.4	3.0	-1.5
Debt securities	315.4	-42.4	103.0	183.5	33.4
Financial derivatives	-14.2	-15.3	1.0	10.8	-58.0
Other investment	-802.5	47.0	138.9	389.4	-297.4
of which: government	7.7	-31.2	34.6	19.8	-58.4
corporations	-138.1	36.5	-3.8	55.0	-41.3
banks	-672.0	41.6	108.2	314.6	-197.8
Reserve assets	1246.4	50.0	110.2	47.8	296.1
D. Balance from current and capital account	124.0	36.8	43.6	180.5	44.0
Balance from fin. acc. (+ lending / - borrowing)	115.6	60.8	8.4	163.3	10.9
Errors and omissions	-8.4	24.0	-35.3	-17.2	-33.1

ABBREVIATIONS

AUD	Australian dollar
tr	trillion = a million million (10^{12})
BPM6	Balance of Payments Manual, 6th edition
CAD	Canadian dollar
CZ-CPA	classification of products
CNB	Czech National Bank
CR	Czech Republic
CZSO	Czech Statistical Office
VAT	value added tax
ECB	European Central Bank
EIB	European Investment Bank
EU	European Union
EUR	euro
GDP	gross domestic product
GNP	gross national product
IFO	Leibniz Institute for Economic Research, University of Munich
JPY	Japanese yen
CZK	Czech koruna
MIP	Macroeconomic Imbalance Procedure
mil	million (10^6)
bn	billion = a thousand million (10^9)
NACE	classification of economic activities
DI	direct investment
p.p.	percentage point(s)
p.o.	preliminary outcome
SEK	Swedish krona
SITC	Standard International Trade Classification
USA	United States of America
USD	US dollar
V4	Czech Republic, Hungary, Poland and Slovakia

AT	Austria
AU	Australia
BE	Belgium
BG	Bulgaria
CA	Canada
CY	Cyprus
CZ	The Czech Republic
DE	Germany
DK	Denmark
EE	Estonia
ES	Spain
FI	Finland
FR	France
HR	Croatia
HU	Hungary
CH	Switzerland
IL	Israel
IS	Iceland
IT	Italy
JP	Japan
KO	Republic of Korea
KY	Cayman Islands
LT	Lithuania
LU	Luxembourg
LV	Latvia
MX	Mexico
NL	The Netherlands
PL	Poland
PT	Portugal
RO	Romania
SE	Sweden
SI	Slovenia
SK	Slovakia
TR	Turkey
UK	The United Kingdom
US	USA