Developments in the external economic relations of the EU accession countries in central and eastern Europe

The European Union's negotiations with the accession countries in central and eastern Europe are now well advanced. It is expected that eight of the ten candidates will join the EU as early as 2004. These countries would then be able to join the Eurosystem two to three years later at the earliest. However, this depends on their achieving a high degree of sustainable convergence by that time. The provisions laid down in Article 121 of the EC Treaty stipulate that, in assessing the sustainability of convergence, due consideration is to be given not only to the quantified convergence criteria in the stricter sense of the term but also to the "situation and development of the balances of payments on current account". This raises the question as to the sustainability and evaluation of these developments. In the light of this, the following article begins by describing the external position of the accession countries concerned[1] and the underlying macroeconomic savings and investment decisions. This is followed by an examination of the structure of the financial account and an analysis of developments in external debt as further indicators for assessing the current account situation in the various countries.

---

1 Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia.

Preliminary remarks

Current account deficits in the transformation process

Current account deficits tend to be the rule rather than the exception for countries in the process of transformation and are not to be judged *a priori* as a negative factor. Even so, the risks which can emanate from current account deficits in connection with currency and financial crises have frequently been evident in the past. For example, countries with current account deficits that are deemed to be unsustainable are more vulnerable to swings in financial market sentiment and therefore more prone to speculative attacks. Current account deficits may also be symptomatic of other external and internal economic imbalances such as a real overvaluation of the domestic currency, an inadequate saving ratio or an excessive state deficit. It is not least for that reason that current account deficits often prove to be an important leading indicator in currency crisis models. Finally, it should be noted that an abrupt reduction in an excessive current account deficit – triggered, for example, by a currency crisis – is generally associated with high real adjustment costs.

Sustainability of current account deficits

There are a number of theoretical and empirical approaches for determining the sustainability of current account deficits. The fact that the results of these have to be interpreted with caution means that their informative value is limited, however.[2] For example, models based on the intertemporal balance of payments theory generally show unrealistically large values for sustainable deficits. While the results do improve if credit restrictions and portfolio adjustment processes are taken into consideration, even minor changes in portfolio preferences lead to substantial changes in the sustainable deficit.[3] Furthermore, these models, on the whole, are very sensitive to the choice of parameters, and estimating the relevant coefficients is fraught with a high degree of uncertainty. Added to this is the – in some cases – problematical data provision with respect to the countries of central and eastern Europe, which makes it even more difficult to define these approaches empirically.

Consequently, another way of assessing a given country's external economic position has to be found below.[4] Given the major role that foreign trade and, in particular, the rapid growth in import demand play in the accession countries' current account deficits, a more precise examination will first be made of the development and structure of foreign trade and an account will be given of the relative significance of the remaining current account transactions. Light will then be shed on the decisions on saving and investment which ultimately constitute the domestic eco-

---

2 For an overview see, for example, S Edwards (2001), *Does the Current Account matter?,* NBER Working Paper No 8275.
3 See, for example, A Atkensons and V Rull (1996), *The Balance of Payments and Borrowing Constraints: An Alternative View of the Mexican Crisis,* Federal Reserve Bank of Minneapolis, Staff Report No 212 and P Bacchetta and E van Wincoop (2000), *Trade in Nominal Assets and Net International Capital Flows,* Journal of International Money and Finance, No 19 (1).
4 Regarding this procedure, see also G Milesi-Ferretti and A Razin (1996), *Sustainability of Persistent Current Account Deficits,* NBER Working Paper No 5467, D McGettigan (2000), *Current Account and External Sustainability in the Baltics, Russia and other Countries of the Former Soviet Union,* IMF Occasional Paper No 189, and N Roubini and P Wachtel (1999), *Current-Account Sustainability in Transition Economies,* in M Blejer and M Skreb (eds), Balance of Payments, Exchange Rates and Competitiveness in Transition Economies.

Aggregated balance of payments of the EU accession countries in central and eastern Europe

Balances as a percentage of GDP

Item	1994	1995	1996	1997	1998	1999	2000	2001 [1]
Current account	– 1.2	– 1.7	– 4.3	– 4.6	– 4.8	– 6.0	– 5.2	– 3.9
Foreign trade	– 2.8	– 3.8	– 6.8	– 7.0	– 7.3	– 7.3	– 6.8	– 5.8
Services	1.9	2.7	2.7	2.5	2.4	1.5	1.9	1.8
Factor income	– 1.6	– 1.4	– 1.1	– 1.3	– 1.4	– 1.5	– 1.6	– 1.4
Current transfers	1.3	0.8	1.0	1.2	1.5	1.3	1.3	1.5
Capital transfers	3.9	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Financial account (net capital exports: –)	– 0.3	8.9	4.5	5.0	6.9	6.6	6.3	4.2
Direct investment	1.9	3.7	2.7	3.2	4.3	5.1	5.7	4.3
Equity investment	0.3	0.4	0.5	0.7	1.0	0.1	– 0.2	0.1
Debt securities	0.8	1.1	– 0.2	0.1	0.4	0.4	0.7	0.9
Other investment [2]	– 3.2	3.7	1.3	1.0	1.2	1.1	0.0	– 1.2
Net errors and omissions	– 0.1	0.3	0.2	1.2	0.0	0.7	0.1	0.9
Foreign reserves [3]	– 2.3	– 7.7	– 0.5	– 1.6	– 2.2	– 1.4	– 1.4	– 1.3

Source: IMF and Bundesbank calculations. — **1** In 2001 partly national sources and Bundesbank calculations. — **2** Including financial derivatives. — **3** Increase: –.

Deutsche Bundesbank

nomic "counterpart" to the external economic position of an economy. Special importance is attached here to the government budget balance. In a subsequent step the most important features of these countries' financial transactions with non-residents (and thus the "financing side" of the current account deficit) as well as the structure of foreign debt will be examined as additional key indicators of sustainability.[5]

Development and structure of the current accounts

Large net imports in trade in goods

Since the mid-1990s the aggregate current account deficit of the accession countries in central and eastern Europe has been running at between 4% and 6% of gross domestic product (GDP) although some countries, on an individual basis, have at times been recording a significantly larger deficit. In the majority of cases the deficit is due to the large net imports of goods, which, on an aggregate basis, have amounted on average to just under 7% of GDP. The reason for this is the growth in the accession countries' import demand, which has been running at double-digit figures on average since the mid-1990s.

The high rate of growth in imports is typical of countries in the process of transformation. This is a result of the real transfer of resources from the highly developed industrial coun-

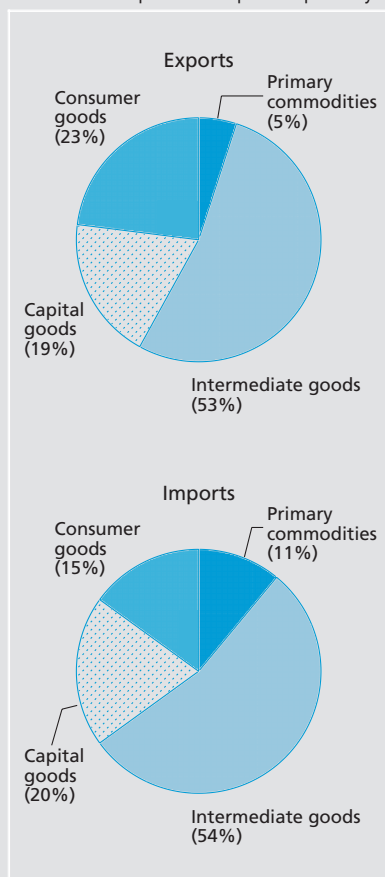*Structure of imported goods*

5 The real exchange rates were analysed in detail in the article entitled "Fundamental determinants of the real exchange movements in the central and east European accession countries" in the *Monthly Report* of October 2002.

Breakdown of goods in the foreign trade of the EU accession countries in central and eastern Europe in 2000*

Share of total exports and imports respectively

Exports

Consumer goods (23%)

Primary commodities (5%)

Capital goods (19%)

Intermediate goods (53%)

Imports

Consumer goods (15%)

Primary commodities (11%)

Capital goods (20%)

Intermediate goods (54%)

Source: UN Economic Commission for Europe and Bundesbank calculations. — * Excluding Bulgaria.

Deutsche Bundesbank

ported consumer goods – which can also underpin the transformation process if they release a greater amount of domestic resources for creating and modernising the relevant production capacity – has been on a similar scale. However, more than half of the accession countries' total imports are intermediate goods and primary commodities, which are further processed in the countries concerned and in many cases then re-exported. This is a very clear indication of the high degree of integration into the international value-added process already achieved by these young market economies during the past decade or so.

The energy and raw material imports of the central and east European accession countries recently averaged 14% of their total imports. However, the ratios vary fairly widely from one country to another as international trading in raw materials plays a major role in some of them, notably Bulgaria and Lithuania. For example, the share of imported energy commodities in 2000 amounted to 27% and 22% of total imports in Bulgaria and Lithuania respectively, and energy commodities also play an important role on the export side in those countries at 15% and 21% respectively.

Importance of foreign trade

Foreign trade relations have become a key driving force in the development and growth of most of the central and east European economies. Their export sectors are therefore of vital importance. For example, the ratio of exports to GDP in the majority of these countries is considerably above 50%; this ratio is actually much higher in the smaller countries

tries, notably those in western Europe, to the transition countries in central and eastern Europe. This transfer of resources promotes and accelerates the process of reconstruction in those countries. That much is obvious as long as these countries import capital goods to be used in building up a competitive capital stock. However, such goods have accounted for only about one-fifth of the total import turnover on average. The share of im-

in this group, at 60% to 90%. With ratios of approximately 30% and 34% respectively, only Poland and Romania exhibit a comparatively low degree of openness in this sense.
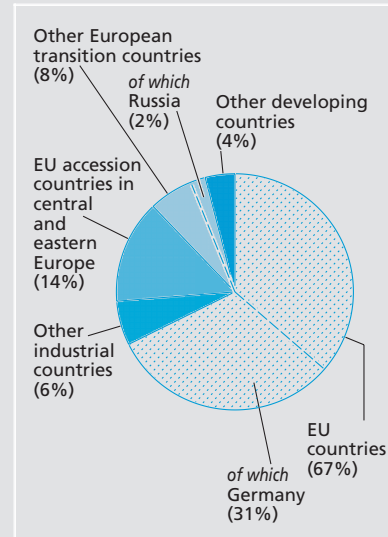
The impressive export success achieved by the majority of the accession countries therefore puts into perspective the heavy demand for foreign resources which is satisfied by the relatively high level of and rapid growth in imports. At all events, the exports of the central and east European accession countries have also been increasing strongly during the past few years, namely at an average of 11%. Consequently, they have increased their share of world trade from 1.8% (mid-1990s) to 2.4% recently.

Regional breakdown of exports

The high degree of openness, however, also increases their dependence on external factors and their susceptibility to exogenous disturbances. This is particularly true if a high degree of openness is accompanied by a concentration of exports on only a few export markets where the level of demand is perhaps also very volatile. In particular, a concentration of export business on the former Comecon countries (excluding EU accession countries) could harbour risks in this connection because most of these countries are not yet so far advanced in the transformation process and have still to overcome enormous imbalances. This is true of Russia, for example, whose economic growth is very much dependent on oil price movements and whose susceptibility to crises was evident in the financial crisis of 1998. However, Russia's share of the exports from the accession countries now amounts to no more than 2% on

Regional breakdown of the exports of the EU accession countries in central and eastern Europe in 2001

Share of total exports

Other European transition countries (8%)
of which Russia (2%)
Other developing countries (4%)
EU accession countries in central and eastern Europe (14%)
Other industrial countries (6%)
EU countries (67%)
of which Germany (31%)

Source: IMF and Bundesbank calculations.

Deutsche Bundesbank

average. Only Lithuania, which sends 11% of its exports to Russia, has a higher degree of dependence in this respect.

The central and east European accession countries' trade relationships with each other, which may represent a certain risk potential owing to possible contagion effects, are only of limited significance for each of the countries in this region. With the exception of the Slovak Republic (30%) and Lithuania (23%) the corresponding shares of exports are significantly below the 20% mark.

By far the biggest customers of exporters in the central and east European accession countries are the EU countries, which absorb between 48% (Lithuania) and 74% (Hungary) of the accession countries' exports and

Regional structure of the exports of the EU accession countries
in central and eastern Europe in 2001 *

%

Country	EU countries		Other industrial countries	Central and east European accession countries	Other European transition countries		Other developing countries
	Total	*of which* Germany			Total	*of which* Russia	
Bulgaria	55	10	8	5	25	2	6
Czech Republic	68	39	6	17	4	1	4
Estonia	64	6	7	13	13	9	4
Hungary	74	36	7	9	5	2	4
Latvia	61	17	6	17	10	6	5
Lithuania	48	13	6	23	21	11	1
Poland	69	34	6	12	8	3	5
Romania	68	16	5	7	10	1	10
Slovak Republic	60	27	3	30	4	1	2
Slovenia	63	26	5	8	21	3	3

Source: IMF and Bundesbank calculations. — * Share of
total exports.

Deutsche Bundesbank

whose relative importance as a market for accession country exports is growing continually. This level of absorption by the EU member countries actually exceeds the importance of intra-EU trade for the EU states themselves. Of the EU countries Germany is the most important trading partner for the majority of the accession countries. The outstanding role played by EU trade is a major stabilising element given the large extent to which the economies in central and eastern Europe are dependent on exports.

Structure of exported goods

Even so, countries with a large export ratio may also incur risks if the range of goods they have to offer is limited. For example, a very open economy with a one-sided export base or one that is dependent mainly on exports of raw materials is more vulnerable to shifts in the terms of trade and demand shocks involving specific goods. This applies, for example, to two of the Baltic states, large percentages of whose exports, as already mentioned, consist of raw materials (Latvia: 34%) and fuel (Lithuania: 21%). A large part of Lithuania's fuel exports evidently consists in transferring Russian energy commodities. Apart from exceptions of this kind, however, the breakdown of the central and east European accession countries' exports of goods does not display any clear indications of very obvious market risks arising from an insufficiently varied export structure.

A major factor determining the structure of goods in foreign trade – in addition to geographical location and natural supplies of raw materials – may, of course, be seen in the

relative cost advantages stemming from the fact that wages paid in central and eastern Europe are lower than those in the EU countries. For example, Romanian and Bulgarian exports consist of a large proportion of textiles and clothes. The exports of the other accession countries are marked by large percentages of mechanical engineering products and motor vehicles. These amount to between 34% for Poland and 60% for Hungary. In the case of Hungary, the figure is actually much higher than the EU average of 43%. These countries' growing integration into the world economy is also evident in the increasing significance of intra-industrial trade compared with inter-industrial trade.[6] This means that the accession countries have a broad and varied export base, which is undoubtedly an advantage for the countries concerned in terms of the sustainability of their foreign trade deficits.

Invisibles An increasing strain is being imposed on the foreign trade balances of the central and east European transition countries not only by the high level of net imports of goods but also by the rising interest payments on their growing external debt. The total deficit on factor income for this group of countries was latterly running at 1.4% of GDP. In some cases the net payments (as a ratio of GDP) were of an even greater magnitude. That is true, for example, of Estonia (5.2%), the Czech Republic (2.7%) and Hungary (2.9%).

By contrast, the central and east European accession countries have been running surpluses on their services accounts with non-residents in recent years. These surpluses

have amounted to an average of 2% of GDP and have been due mainly to foreign travel and transport. The external balance sheets of the accession countries have also been relieved by the receipt of current (unilateral) transfers amounting to about 1.4% of GDP over the past few years. Capital transfers, although not classified as current account transactions, were a factor only during the initial phase of the transformation process and then mainly in the form of debt forgiveness.

Savings and investment

By definition, the current account balance corresponds to the difference between domestic savings and investment. Thus, a surplus on current account means that national savings in the country concerned are greater than the simultaneous amount of investment. "Surplus" output, ie that part of output which is not consumed at home, is supplied to customers abroad. Conversely, a current account deficit is to be seen as a corresponding excess of domestic investment, which has been "made good" through recourse to foreign goods. A rise in the current account deficit which can be attributed to an increase in investment is generally regarded as less problematical than an increase in the deficit due to a reduction in saving. This is particularly true in the case of the accession countries, which are disadvantaged by a small and outdated capital stock. However, this applies only if investment is not being misdirected

Current account balance and savings surplus or deficit

6 See also UN Economic Commission for Europe (2002), *Economic Survey of Europe,* No 1, p 137 ff.

Investment*, savings and current account balance
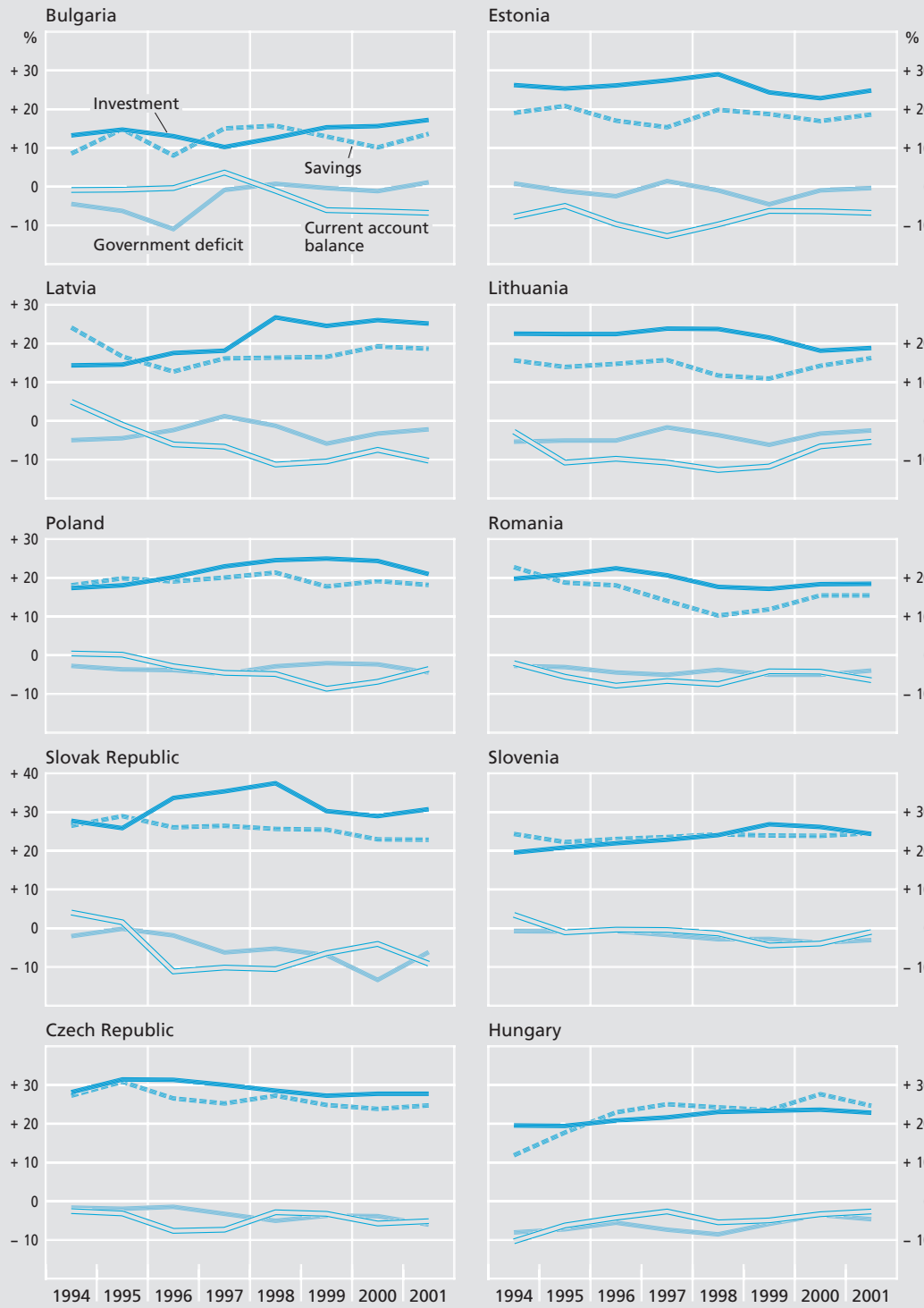
Source: IMF, European Commission, EBRD and Bundesbank calculations. Government deficit up to 1996 from the EBRD; thereafter from the EU Commission. All data expressed as a percentage of GDP. — * Investment excluding inventory investment.
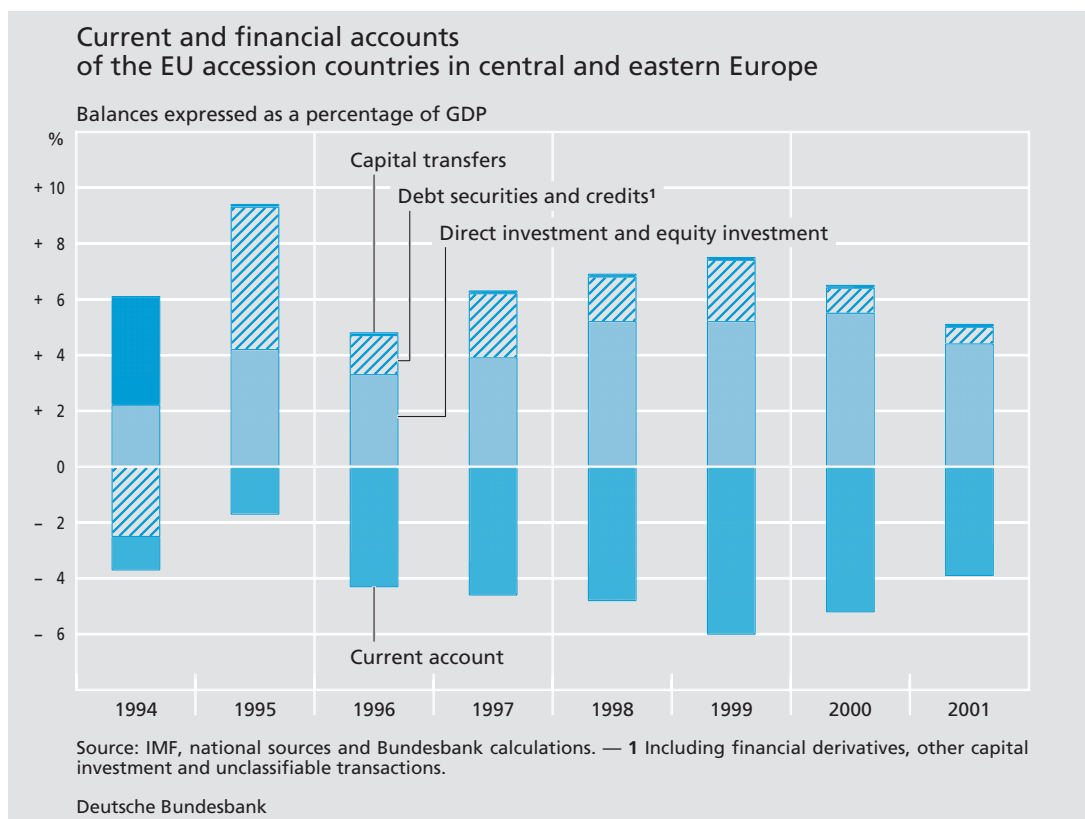
Deutsche Bundesbank

Current and financial accounts
of the EU accession countries in central and eastern Europe

Balances expressed as a percentage of GDP

Source: IMF, national sources and Bundesbank calculations. — **1** Including financial derivatives, other capital investment and unclassifiable transactions.

Deutsche Bundesbank

Fall in saving ratio…

through government intervention, distorted incentive schemes, false expectations and other market imperfections. The manner in which the reform process continues is therefore of paramount importance.

In the light of this, developments in investment and saving in the central and east European accession countries in the past may be judged as rather unfavourable in several cases. For example, there was a pronounced decline in the saving ratio in Romania up to 1998 and in Bulgaria and Lithuania in the second half of the 1990s. Although their overall savings level was higher, the saving ratio also declined in the Slovak and Czech republics. The propensity to save also declined in Poland last year.

In the majority of the cases under review the adverse development in national savings is closely linked to the simultaneous deterioration in public finances. Half the accession countries in central and eastern Europe (the Czech Republic, Hungary, Poland, Romania and the Slovak Republic) had government debt ratios (government budget deficit/GDP) of more than 3% last year; the Czech and Slovak deficits actually amounted to more than 5% of GDP.[7] On the one hand, resources have had to be found, in the course of the transformation process, to fund exceptional expenditure on, for example, the re-

…and rise in government deficits

---

7 The budget deficits are not always comparable owing to differences in recording methods and definitions and are therefore to be interpreted with caution. See also the Economic Commission for Europe (2002), *Economic Survey of Europe,* No 1, Box 3.1.1. "Why are fiscal deficits not measured accurately?".

structuring of the banking and corporate sectors, the modernisation of infrastructure and the reform of the social security systems; on the other hand, there have been substantial amounts of proceeds from privatisation even if this income is available only for a limited period and its availability does not always coincide with corresponding outgoings. The creation of a sufficiently broad tax base and the avoidance of expenditure commitments that are unsustainable over the long term therefore remain a key task for many of the accession countries.

Development and structure of the financial account

Composition of financial flows

The type and composition of cross-border financial transactions, which are ultimately used to finance the deficits on current account, are of paramount importance for the sustainability of current account deficits. Foreign direct investment is generally regarded as the most favourable and, above all, most reliable form of funding whereas capital inflows through short-term portfolio and credit transactions are regarded as more volatile. This is particularly true if direct investment involves not only financial participation in enterprises but is also associated with real investment for the purposes of creating and modernising the productive capital stock of the host country. It thereby contributes to potential growth and in many cases facilitates the transfer of technological and managerial expertise.

However, it is often very difficult to distinguish between such direct investment and portfolio investment. First, it is not always possible to make a distinction between the – sometimes only temporary – acquisition of participating interests and a long-term financial investment; for the purpose of analysis it is therefore prudent to combine direct investment and equity investment. Second, changes in the cross-border financial operations between affiliated enterprises are frequently of a fairly short-term nature and correspondingly volatile.

Problems of definition and interpretation

Despite these qualifications with respect to the informative value of data, the high ratio of direct investment (including equity investment) to the total capital inflows into the central and east European accession countries is striking. On an average of the past eight years, cross-border corporate participating interests and lending to affiliated enterprises have accounted for more than two-thirds of these countries' net capital imports. Of the accession countries, the Czech Republic has recorded the largest inflows of direct investment (in relation to GDP) followed, albeit at some distance, by Hungary and Poland. Direct investment also plays a relatively important role in the Baltic states whereas the Slovak Republic did not begin to record significant capital inflows of this kind until 1999. With the exception of Slovenia, which has attracted little foreign capital so far owing to delays in privatisation, those transition countries which have made most progress in the process of reform appear to have attracted most of the direct investment. Extensive privatisation measures and the liberalisation of

Large inflows through direct investment ...

cross-border financial transactions have been particularly instrumental in promoting this development. However, the geographic proximity to the single European market has also made economic and financial integration easier.

...and relatively limited increase in external debt

Owing to the large share of direct investment in the total capital imports of the central and east European accession countries, their external debt has increased relatively little despite the large current account deficits. For example, these countries' total external liabilities, ie including the foreign financial claims arising from direct investment and shareholding, increased from an average of 54% of GDP in 1997 to 72% in 2000. However, external debt in the stricter sense of the term – ie the sum of securitised and non-securitised credit liabilities excluding the liabilities arising from the ownership of participating interests and equities – increased much less rapidly and, at an average of 41%, was no more than just over half as large at the end of 2000. The fact that it is mainly the countries with relatively extensive inflows of direct investment capital that have comparatively low levels of external debt is consistent with this picture. For example, the relevant figure for the Czech Republic was no more than 33% whereas countries such as Bulgaria and Latvia, which likewise enjoy comparatively large inflows of capital but whose direct investment ratio is much lower, have debt ratios that are approximately twice as high. On the other hand, there are also central and east European accession countries which have a level of external debt (in relation to GDP) that tends to be below average be-

cause, overall, they have received much smaller capital inflows than other countries. In relation to their exports of goods and services the external debt level of this group of countries, at 93%, was not very high either when compared with the corresponding figures for other transition and developing countries.

Short-term liabilities, which may lead very quickly to undesirable capital outflows in times of crisis and therefore deserve particular attention with respect to sustainability, account for only about 22% of the average level of external debt of the group of countries under review; the ratio was actually below 15% for most of these countries. Only the Baltic states and the Czech Republic have higher ratios with Latvia and the Czech Republic, at 38% and 42% respectively, having the highest ratios of all, and these are tending to rise even further.

Cost of debt servicing

The features of the accession countries' external debt mentioned above are also reflected in a relatively favourable cost of debt servicing. According to the World Bank definition, countries whose present level of debt service is between 132% and 220% of the value of their exports of goods and services and between 48% and 80% of gross national income are moderately indebted. Countries with larger debt coefficients are deemed to be severely indebted. On the basis of this classification, none of the central and east European countries is to be regarded as severely indebted. Bulgaria, Estonia and Hungary, however, are classified as moderately indebted by the World Bank.

International investment position of the EU accession countries in central and eastern Europe in 2001

as a percentage of GDP

Country	Assets		Liabilities			Memo item
	Total	*of which* Foreign reserves	Total	Direct investment and equity investment	External debt [4]	Short-term external debt [5]
Bulgaria [1]	73	26	100	20	80	4
Czech Republic	75	26	87	53	33	42
Estonia	54	15	111	66	45	28
Hungary	48	21	105	49	55	14
Latvia	54	16	95	32	63	38
Lithuania	26	14	61	23	38	23
Poland [2]	28	17	63	25	38	11
Romania	31	12	54	24	30	4
Slovak Republic [2]	51	22	73	24	49	12
Slovenia	52	23	60	18	42	–
Total [3]	40	19	72	31	41	22

Source: IMF, World Bank and Bundesbank calculations. —
1 1999. — **2** 2000. — **3** 2000. Excluding Bulgaria. Short-term external debt does not include that of Slovenia either. — **4** External debt = sum of the external liabilities less foreign investment in equities and direct investment. — **5** With an original maturity of one year or less. In 2000 expressed as a percentage of total external debt.

Deutsche Bundesbank

External assets…

In some cases the external debt of the transition countries in central and eastern Europe is partly offset by not insignificant external assets. In net terms, therefore, the total external debt of this group of countries was only just under half as large as in gross terms (32% compared with 72% of GDP).

…and foreign reserves

In some cases, however, the value of the corresponding external assets should not be exaggerated, especially if these assets stem from the Comecon era. Even so, about half of the assets held are in the form of foreign reserves. All of these countries built up foreign reserves during the 1990s, in some cases on a considerable scale.

Summary and conclusions

In view of the sizeable ratio of direct investment to total capital imports and the, on the whole, not excessively high level of net external debt, the large current account deficits of the accession countries may be regarded as less problematical than they may initially appear. However, as privatisation is already well advanced in some countries and a smaller amount of direct investment may be expected from this source in future than in the past, ensuring a favourable environment for investment will be even more important than before. To this end the planned reforms should be pursued with determination and the competitiveness of these young market economies should be safeguarded by a stability-oriented monetary policy and sound govern-

ment finances. Furthermore, the creation of an efficient financial sector for the smooth

funding of the adjustment process will become increasingly important.

The tables accompanying this article appear on the following pages.

Balances of payments of the EU accession countries in central and eastern Europe

as a percentage of GDP

Item	1994	1995	1996	1997	1998	1999	2000	2001
Bulgaria [1]								
Current account	− 0.3	− 0.2	0.2	4.2	− 0.5	− 5.5	− 5.8	− 6.2
Foreign trade	− 0.2	1.0	1.9	3.7	− 3.1	− 8.7	− 9.8	− 11.6
Services	0.1	1.2	1.2	1.6	3.0	2.5	4.2	4.0
Factor income	− 1.8	− 3.4	− 4.1	− 3.5	− 2.3	− 1.8	− 2.7	− 2.2
Current transfers	1.6	1.0	1.1	2.3	1.9	2.4	2.4	3.7
Capital transfers	7.3	0.0	0.7	0.0	0.0	0.0	0.2	0.0
Financial account (net capital exports: –)	− 9.7	2.6	− 7.4	4.6	2.2	6.3	7.4	7.4
Direct investment	1.0	0.8	1.4	5.0	4.4	6.4	8.4	5.0
Equity investment	0.0	0.1	− 0.1	0.4	0.1	0.0	0.0	− 0.3
Debt securities	− 2.2	− 0.6	− 1.3	0.9	− 2.0	− 1.6	− 1.4	0.9
Other investment [2]	− 8.5	2.3	− 7.4	− 1.7	− 0.2	1.5	0.5	1.8
Net errors and omissions	0.7	1.1	− 1.1	2.5	− 2.4	0.0	− 0.6	1.5
Foreign reserves [3]	2.1	− 3.5	7.6	− 11.3	0.8	− 0.8	− 1.1	− 2.7
Czech Republic								
Current account	− 2.0	− 2.6	− 7.1	− 6.8	− 2.3	− 2.7	− 5.2	− 4.6
Foreign trade	− 3.4	− 7.1	− 9.9	− 9.3	− 4.6	− 3.5	− 6.0	− 5.4
Services	1.2	3.5	3.3	3.3	3.4	2.2	2.7	2.7
Factor income	− 0.1	− 0.2	− 1.3	− 1.5	− 1.9	− 2.5	− 2.7	− 2.7
Current transfers	0.3	1.1	0.7	0.7	0.9	1.1	0.7	0.8
Capital transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account (net capital exports: –)	11.0	15.8	7.3	2.1	5.1	5.6	7.5	7.2
Direct investment	1.9	4.9	2.2	2.4	6.3	11.3	9.6	8.5
Equity investment	1.1	1.7	1.0	0.7	2.1	− 2.3	− 1.1	1.5
Debt securities	1.0	0.9	0.3	1.2	− 0.2	− 0.2	− 2.3	0.1
Other investment [2]	7.0	8.3	3.8	− 2.1	− 3.1	− 3.2	1.3	− 3.0
Net errors and omissions	− 0.5	1.1	− 1.6	1.4	0.5	0.0	− 0.6	0.7
Foreign reserves [3]	− 8.5	− 14.3	1.4	3.3	− 3.3	− 3.0	− 1.6	− 3.2

Source: IMF and Bundesbank calculations. — **1** In 2001 national sources and Bundesbank calculations. — **2** Including financial derivatives. — **3** Increase: –.

Deutsche Bundesbank

Balances of payments of the EU accession countries in central and eastern Europe (cont'd)

as a percentage of GDP

Item	1994	1995	1996	1997	1998	1999	2000	2001
Estonia								
Current account	− 7.2	− 4.4	− 9.1	− 12.2	− 9.2	− 5.7	− 5.8	− 6.2
Foreign trade	− 15.5	− 18.7	− 23.4	− 24.4	− 21.3	− 16.9	− 15.3	− 14.5
Services	4.6	10.6	11.9	12.8	10.9	11.0	11.2	10.7
Factor income	− 1.3	0.1	0.0	− 3.2	− 1.5	− 2.0	− 4.1	− 5.2
Current transfers	5.0	3.5	2.3	2.5	2.8	2.2	2.3	2.8
Capital transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.1
Financial account (net capital exports: –)	7.3	6.5	12.4	17.4	9.7	8.0	8.1	5.6
Direct investment	9.2	5.6	2.5	2.8	11.0	4.3	6.4	6.3
Equity investment	− 0.3	0.4	3.6	0.9	1.2	4.8	− 0.5	0.8
Debt securities	− 0.3	− 1.0	− 0.3	4.8	− 1.4	− 4.4	2.8	0.9
Other investment [2]	− 1.3	1.6	6.5	8.9	− 1.1	3.4	− 0.6	− 2.4
Net errors and omissions	0.8	0.2	− 0.8	− 0.5	0.1	− 0.1	0.0	− 0.2
Foreign reserves [3]	− 0.8	− 2.3	− 2.4	− 4.7	− 0.7	− 2.3	− 2.5	0.7
Hungary								
Current account	− 9.8	− 5.7	− 3.7	− 2.1	− 4.9	− 4.4	− 2.8	− 2.1
Foreign trade	− 9.0	− 5.4	− 5.9	− 4.3	− 5.0	− 4.6	− 3.8	− 3.9
Services	0.4	3.5	5.5	5.0	3.8	2.9	3.8	4.2
Factor income	− 3.4	− 4.0	− 3.2	− 3.1	− 4.0	− 3.4	− 3.4	− 2.9
Current transfers	2.2	0.3	− 0.1	0.3	0.3	0.7	0.5	0.5
Capital transfers	0.0	0.1	0.3	0.3	0.4	0.1	0.6	0.6
Financial account (net capital exports: –)	8.1	15.9	− 1.5	1.4	6.4	9.8	4.8	1.2
Direct investment	2.6	10.0	5.0	3.8	3.3	3.6	2.4	4.0
Equity investment	0.5	0.0	0.8	2.1	1.1	2.5	− 1.2	0.2
Debt securities	5.4	5.0	− 1.7	− 4.4	2.8	1.6	0.2	2.5
Other investment [2]	− 0.5	0.9	− 5.6	− 0.1	− 0.8	2.0	3.4	− 5.5
Net errors and omissions	0.5	1.8	2.2	0.1	0.1	− 0.6	− 0.2	0.2
Foreign reserves [3]	1.1	− 12.1	2.8	0.4	− 2.0	− 4.9	− 2.3	0.2

Source: IMF and Bundesbank calculations. — **1** In 2001 national sources and Bundesbank calculations. — **2** Including financial derivatives. — **3** Increase: –.

Deutsche Bundesbank

Balances of payments of the EU accession countries in central and eastern Europe (cont'd)

as a percentage of GDP

Item	1994	1995	1996	1997	1998	1999	2000	2001
Latvia								
Current account	5.5	– 0.4	– 5.5	– 6.1	– 10.7	– 9.9	– 6.9	– 9.7
Foreign trade	– 8.2	– 13.2	– 15.6	– 15.0	– 18.6	– 15.6	– 14.8	– 17.9
Services	9.9	10.8	7.5	6.6	5.0	5.1	6.2	6.5
Factor income	0.2	0.4	0.8	1.0	0.9	– 0.8	0.3	0.6
Current transfers	3.6	1.6	1.8	1.4	2.0	1.4	1.4	1.0
Capital transfers	0.0	0.0	0.0	0.2	0.2	0.2	0.4	0.6
Financial account (net capital exports: –)	10.0	14.5	10.5	6.2	9.9	11.7	7.3	12.7
Direct investment	7.7	5.6	7.4	9.1	5.0	5.0	5.6	2.3
Equity investment	– 0.3	– 0.1	0.2	– 1.9	0.6	1.3	– 0.7	0.2
Debt securities	– 0.3	– 0.7	– 3.0	– 8.3	– 0.7	2.9	– 3.8	1.6
Other investment [1]	2.9	9.7	5.9	7.2	5.0	2.5	6.2	8.7
Net errors and omissions	– 13.9	– 14.8	– 0.9	1.5	1.6	0.6	– 0.4	0.6
Foreign reserves [2]	– 1.6	0.8	– 4.1	– 1.8	– 1.0	– 2.5	– 0.4	– 4.2
Lithuania								
Current account	– 2.2	– 10.2	– 9.2	– 10.2	– 12.1	– 11.2	– 6.0	– 4.8
Foreign trade	– 4.8	– 11.6	– 11.4	– 12.0	– 14.1	– 13.2	– 9.8	– 9.2
Services	– 1.3	– 0.2	1.5	1.4	2.2	2.9	3.4	3.8
Factor income	0.2	– 0.2	– 1.2	– 2.1	– 2.4	– 2.4	– 1.7	– 1.5
Current transfers	3.7	1.8	1.8	2.4	2.2	1.5	2.1	2.1
Capital transfers	0.3	– 0.6	0.1	0.0	0.0	0.0	0.0	0.0
Financial account (net capital exports: –)	5.7	8.9	8.2	10.5	13.4	9.9	6.2	6.5
Direct investment	0.7	1.2	1.9	3.4	8.6	4.5	3.3	3.7
Equity investment	0.1	0.1	0.2	0.3	0.1	0.1	1.1	– 0.1
Debt securities	0.0	0.2	0.6	1.6	– 0.6	4.7	1.3	2.3
Other investment [1]	4.8	7.4	5.5	5.1	5.4	0.7	0.6	0.6
Net errors and omissions	– 1.1	4.8	0.8	2.0	2.6	– 0.4	1.1	1.3
Foreign reserves [2]	– 2.7	– 2.8	0.1	– 2.3	– 4.0	1.7	– 1.4	– 3.0

Source: IMF and Bundesbank calculations. — **1** Including financial derivatives. — **2** Increase: –.

Deutsche Bundesbank

Balances of payments of the EU accession countries in central and eastern Europe (cont'd)

as a percentage of GDP

Item	1994	1995	1996	1997	1998	1999	2000	2001
Poland [1]								
Current account	1.0	0.7	− 2.3	− 4.0	− 4.3	− 8.1	− 6.3	− 3.0
Foreign trade	− 0.6	− 1.3	− 5.1	− 6.8	− 8.1	− 9.7	− 7.8	− 4.3
Services	2.9	2.8	2.4	2.2	2.7	0.9	0.9	0.5
Factor income	− 2.6	− 1.6	− 0.7	− 0.8	− 0.7	− 0.7	− 0.9	− 0.8
Current transfers	1.3	0.8	1.2	1.4	1.8	1.4	1.5	1.6
Capital transfers	9.3	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Financial account (net capital exports: –)	− 9.1	7.3	4.6	5.1	8.3	6.8	6.5	1.8
Direct investment	1.9	2.8	3.1	3.4	3.8	4.7	5.9	3.3
Equity investment	0.0	0.3	0.5	0.5	1.1	− 0.1	0.3	− 0.2
Debt securities	− 0.6	0.7	− 0.3	1.0	0.0	0.2	1.8	0.8
Other investment [2]	− 10.4	3.5	1.3	0.3	3.5	2.0	− 1.6	− 2.1
Net errors and omissions	− 0.1	− 0.4	0.2	0.9	− 0.3	1.4	0.3	0.9
Foreign reserves [3]	− 1.0	− 7.7	− 2.7	− 2.1	− 3.7	− 0.1	− 0.4	0.2
Romania [1]								
Current account	− 1.5	− 5.0	− 7.3	− 6.1	− 6.9	− 3.6	− 3.7	− 5.8
Foreign trade	− 1.4	− 4.4	− 7.0	− 5.6	− 6.2	− 3.1	− 4.6	− 7.5
Services	− 0.6	− 0.9	− 1.1	− 1.2	− 1.6	− 1.2	− 0.7	− 0.5
Factor income	− 0.4	− 0.7	− 0.9	− 0.9	− 0.9	− 1.2	− 0.8	− 0.7
Current transfers	0.9	1.0	1.7	1.6	1.8	1.8	2.3	2.9
Capital transfers	0.0	0.1	0.4	0.1	0.1	0.1	0.1	0.2
Financial account (net capital exports: –)	1.8	2.3	4.2	7.0	4.8	2.0	5.3	7.4
Direct investment	1.1	1.2	0.7	3.5	4.8	2.9	2.8	3.0
Equity investment	0.0	0.0	0.0	0.5	0.2	0.2	0.2	0.0
Debt securities	0.2	0.1	0.5	1.0	0.1	− 2.2	0.0	1.4
Other investment [2]	0.4	1.0	2.9	2.0	− 0.3	1.1	2.2	3.0
Net errors and omissions	0.3	1.3	1.0	3.1	0.5	2.2	0.8	2.1
Foreign reserves [3]	− 0.6	1.4	1.6	− 4.1	1.5	− 0.7	− 2.5	− 3.9

Source: IMF and Bundesbank calculations. — **1** In 2001 national sources and Bundesbank calculations. — **2** Including financial derivatives. — **3** Increase: –.

Deutsche Bundesbank

Balances of payments of the EU accession countries in central and eastern Europe (cont'd)

as a percentage of GDP

Item	1994	1995	1996	1997	1998	1999	2000	2001
Slovak Republic [1]								
Current account	4.6	2.1	− 10.6	− 9.6	− 10.0	− 5.9	− 3.5	− 8.6
Foreign trade	0.4	− 1.2	− 11.5	− 10.2	− 11.0	− 5.6	− 4.5	− 10.4
Services	4.5	2.9	0.2	0.4	0.1	0.3	2.2	2.3
Factor income	− 0.8	− 0.1	− 0.2	− 0.6	− 0.7	− 1.5	− 1.8	− 1.5
Current transfers	0.5	0.5	1.0	0.8	1.7	1.0	0.6	1.0
Capital transfers	0.6	0.2	0.2	0.0	0.3	0.8	0.5	0.4
Financial account (net capital exports: –)	0.5	6.6	11.5	8.7	9.0	9.1	7.5	8.0
Direct investment	1.8	1.2	1.5	0.4	2.0	3.7	10.3	7.1
Equity investment	0.6	0.9	0.5	0.9	0.0	0.2	− 0.2	0.0
Debt securities	1.3	0.3	− 0.4	− 0.9	3.7	3.1	4.4	− 1.1
Other investment [2]	− 3.2	4.2	9.9	8.3	3.3	2.1	− 7.0	2.0
Net errors and omissions	2.6	0.8	0.8	1.4	− 1.6	− 0.1	0.3	0.9
Foreign reserves [3]	− 8.3	− 9.7	− 1.9	− 0.5	2.2	− 3.9	− 4.7	− 0.7
Slovenia								
Current account	4.0	− 0.5	0.2	0.1	− 0.8	− 3.9	− 3.4	− 0.4
Foreign trade	− 2.3	− 5.1	− 4.4	− 4.3	− 4.0	− 6.2	− 6.3	− 3.3
Services	4.5	3.1	3.4	3.5	2.5	1.8	2.4	2.7
Factor income	1.2	1.0	0.7	0.2	0.1	− 0.1	− 0.1	− 0.4
Current transfers	0.7	0.5	0.5	0.6	0.6	0.6	0.6	0.7
Capital transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account (net capital exports: –)	1.0	2.9	3.0	6.6	1.2	3.4	4.1	7.0
Direct investment	0.9	1.0	1.0	1.9	1.3	0.7	0.6	1.8
Equity investment	0.0	0.0	0.0	0.3	0.0	0.0	0.0	− 0.1
Debt securities	− 0.2	− 0.1	3.4	1.0	0.4	1.8	1.0	0.6
Other investment [2]	0.3	2.0	− 1.4	3.4	− 0.5	0.9	2.5	4.7
Net errors and omissions	− 0.5	− 1.0	0.0	0.4	0.3	0.1	0.2	0.2
Foreign reserves [3]	− 4.5	− 1.3	− 3.1	− 7.1	− 0.8	0.4	− 1.0	− 6.8

Source: IMF and Bundesbank calculations. — **1** In 2001 national sources and Bundesbank calculations. — **2** Including financial derivatives. — **3** Increase: –.

Deutsche Bundesbank

Structure of exports and imports of the EU accession countries in central and eastern Europe in 2000 *

%

Country	Food, beverages and tobacco; animal and vegetable oils, fats and waxes (SITC 0+1+4)	Crude materials, inedible, except fuels (SITC 2)	Mineral fuels, lubricants and related materials (SITC 3)	Chemicals and related products (SITC 5)	Manufactured goods (SITC 6)	Machinery and transport equipment (SITC 7)	Miscellaneous manufactured articles (SITC 8)
Exports							
Bulgaria	9	6	15	12	26	10	21
Czech Republic	4	4	3	7	25	45	13
Estonia	8	13	5	6	18	36	15
Hungary	7	2	2	6	11	60	12
Latvia	6	34	3	6	26	7	18
Lithuania	11	7	21	10	14	17	20
Poland	8	3	5	7	25	34	18
Romania	3	9	7	6	19	19	37
Slovak Republic	3	3	7	8	27	40	12
Slovenia	4	2	1	11	27	36	19
Imports							
Bulgaria	5	6	27	9	19	25	8
Czech Republic	5	3	10	11	21	40	10
Estonia	10	5	7	9	18	41	10
Hungary	3	2	5	9	17	51	10
Latvia	12	4	12	13	19	28	13
Lithuania	10	5	22	12	17	24	8
Poland	6	3	11	14	20	37	9
Romania	7	4	12	10	27	29	11
Slovak Republic	6	4	18	11	18	36	9
Slovenia	6	5	9	12	22	34	11

Source: Eurostat and Bundesbank calculations. — * Each country's share of total exports and total imports respectively.

Deutsche Bundesbank