Global Imbalances

EASTERN EUROPE

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Submitted to:

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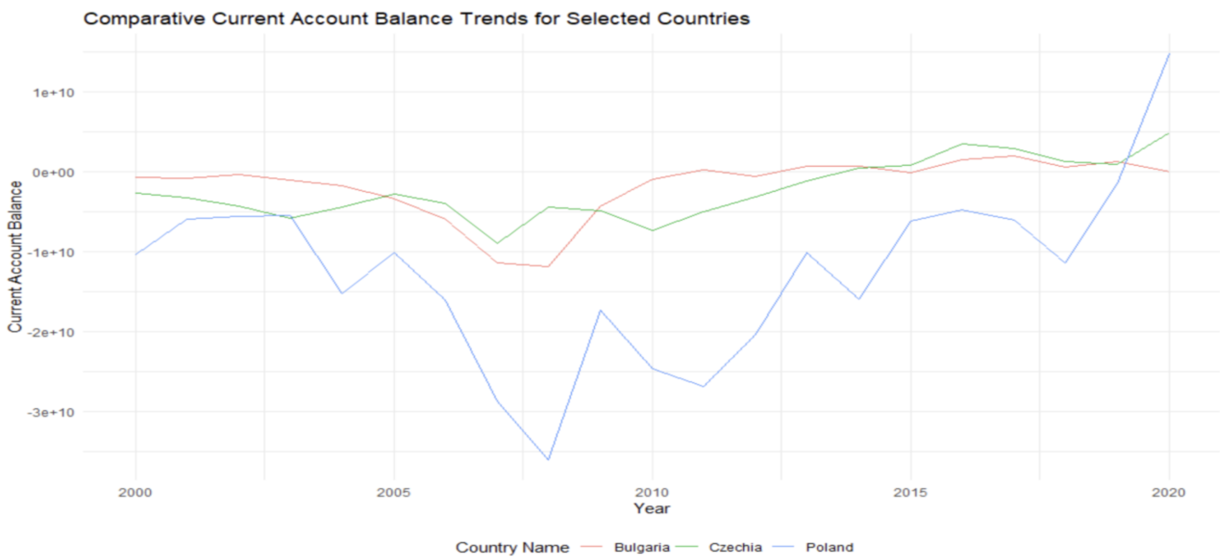
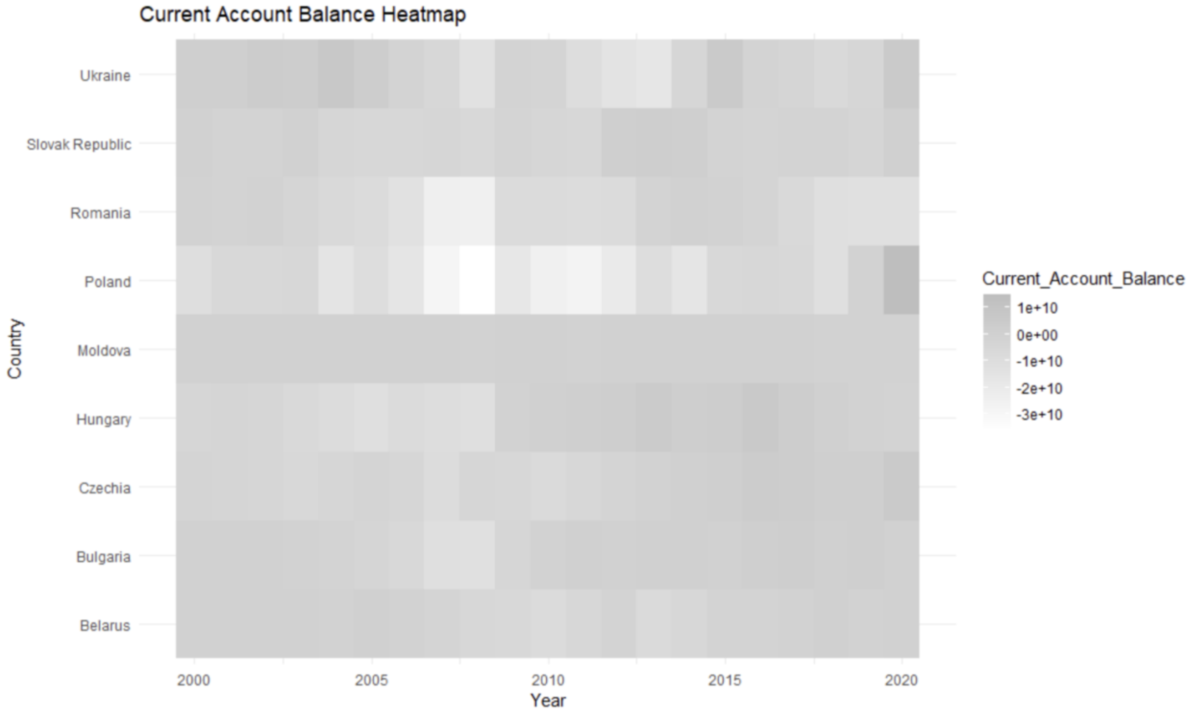
The economic performance and integration of the Eastern European countries have been of great interest and importance for the global community, especially after the collapse of the Soviet Union and the enlargement of the European Union. These countries have undergone significant political, social and institutional transformations, as well as faced various challenges and opportunities in their development paths. One way to assess and compare their economic progress and prospects is to analyse some key indicators that reflect their external positions, such as net portfolio investment, debt to GDP ratio, capital account balance, net trade in goods and services, current account balance and FDI net inflow. These indicators capture different aspects of the countries' interactions with the rest of the world, such as their attractiveness for foreign investors, their ability to service their external debt, their balance of payments situation, and their trade competitiveness.
Eastern Europe have been a subject of concern and study, particularly in the context of the Global imbalances occurring due to region's economic and political transformation after the fall of communism. Global imbalances refer to significant disparities in key economic indicators and financial flows among different countries or regions in the world. These imbalances often arise due to variations in savings and investment patterns, trade deficits or surpluses, and currency exchange rates.
This paper aims to provide a descriptive and comparative analysis of these six indicators for nine Eastern European countries: Bulgaria, Belarus, Czechia, Hungary, Moldova, Poland, Romania, Slovak Republic and Ukraine. The data source for this analysis is the World Bank database, which provides annual data for these indicators from 2000 to 2020. The paper will present the trends and patterns of these indicators for each country over the past two decades, as well as highlight some of the main factors and events that influenced them. The report will also discuss some of the implications and challenges that these indicators pose for the future economic development and integration of these countries.

1) Current Account Balance: This is the sum of net trade in goods and services, net primary income (such as interest and dividends), and net secondary income (such as remittances and aid).

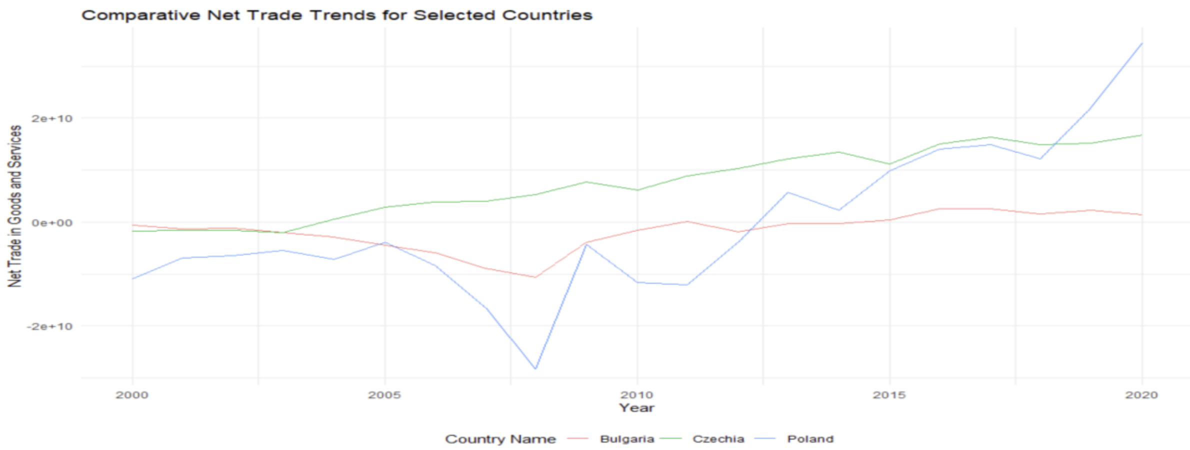


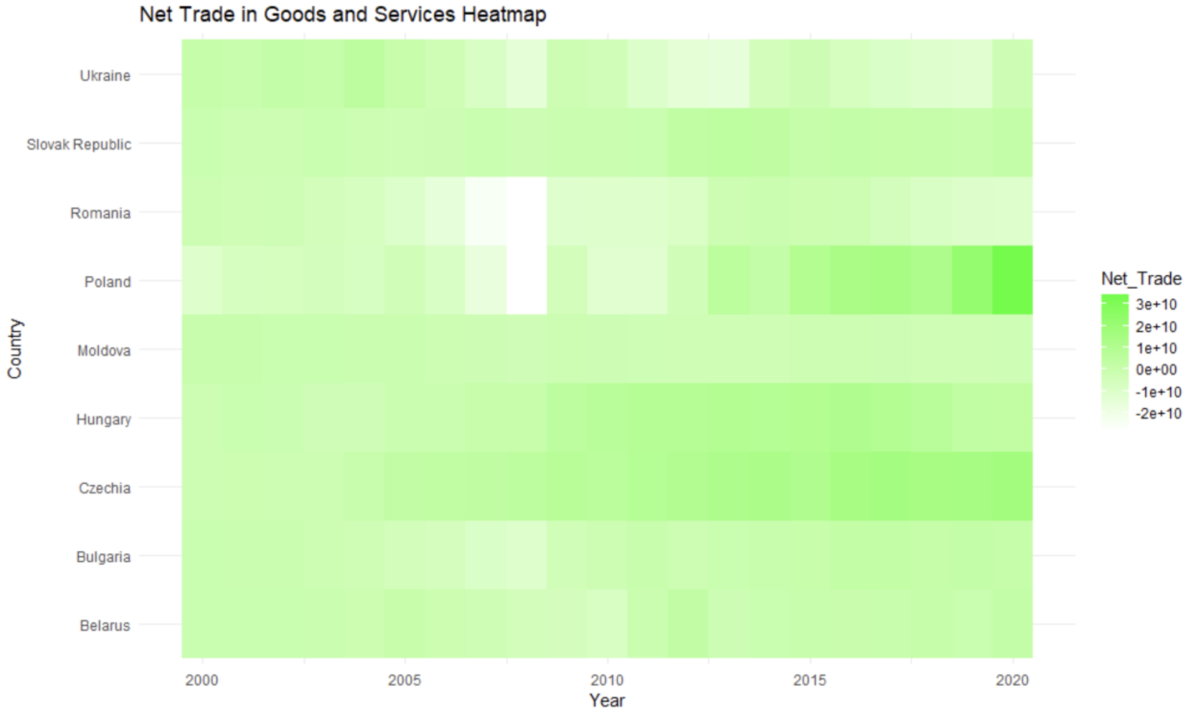


(Heatmap shows larger values in darker colour and smaller values in lighter colour)

The trend for this parameter shows that most of the countries had negative current account balance for most of the years until around 2013-2014, when they started to improve their external positions and reduce their current account deficits. The exceptions were Belarus and Moldova, which had positive current account balance for most of the years until around 2015-2016, when they started to deteriorate their external positions and increase their current account deficits. The highest value of current account balance was recorded by Czechia in 2020, with 6.6% of GDP, while the lowest value was recorded by Romania in 2007, with -13.4% of GDP.

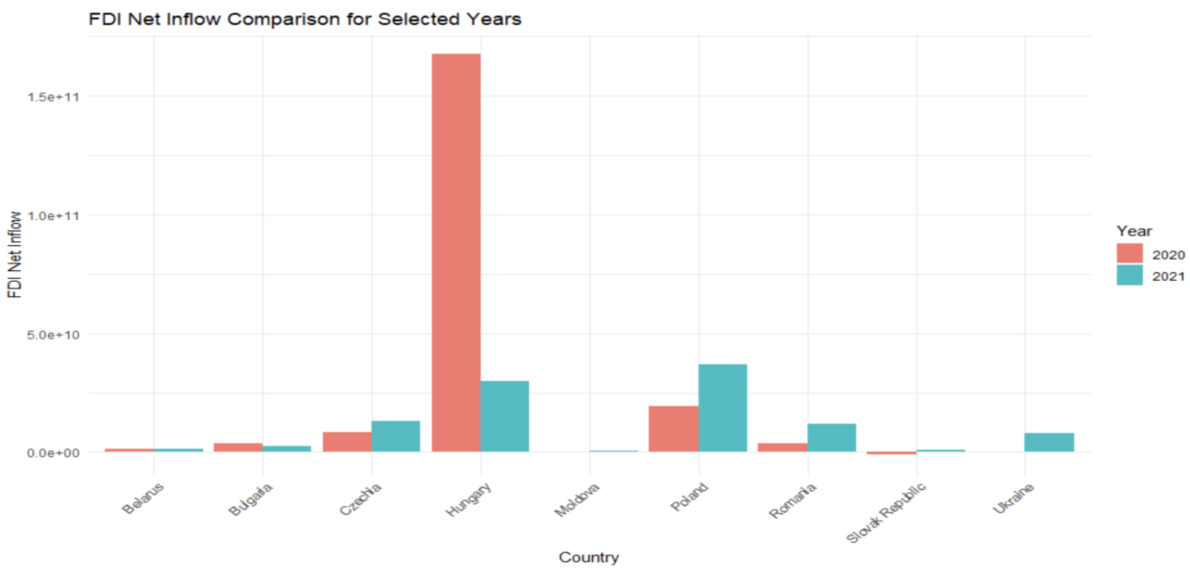
2) Net Trade in Goods and Services: This is the difference between exports and imports of goods and services.

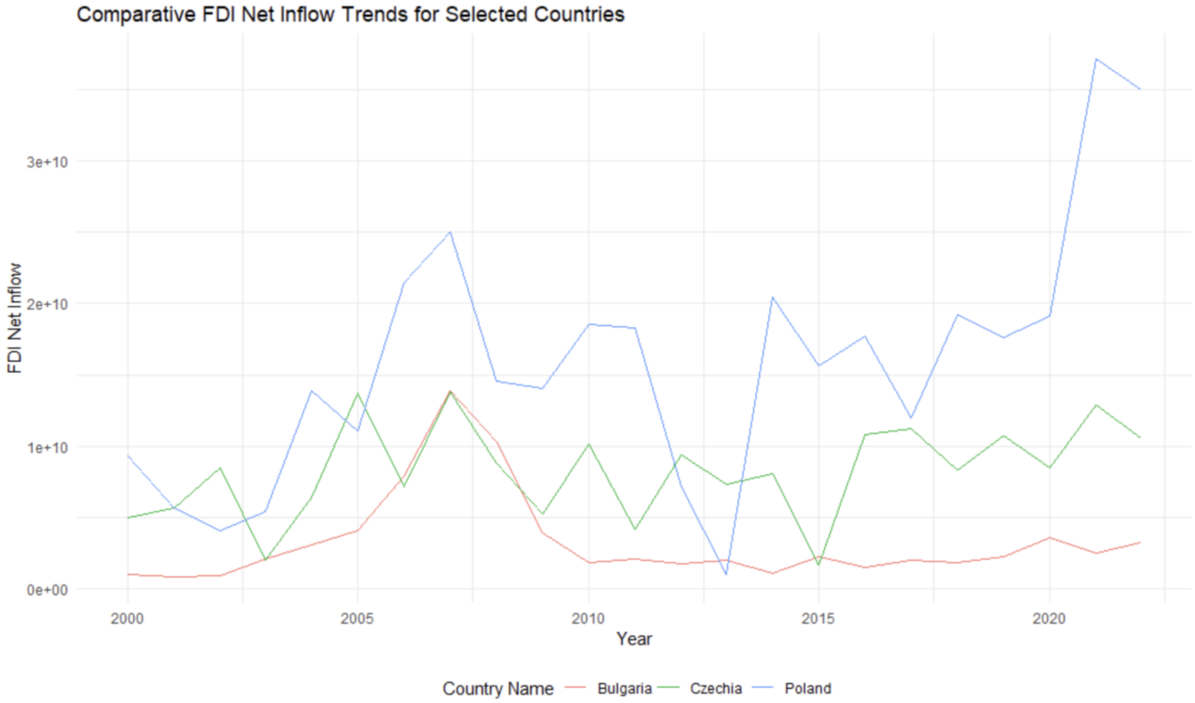




The trend for this parameter shows that most of the countries had negative net trade in goods and services for most of the years, meaning that they imported more than they exported. The exceptions were Czechia and Slovakia, which had positive net trade in goods and services for most of the years, meaning that they exported more than they imported. The highest value of net trade in goods and services was recorded by Czechia in 2016, with 6.8% of GDP, while the lowest value was recorded by Romania in 2007, with -13.5% of GDP.

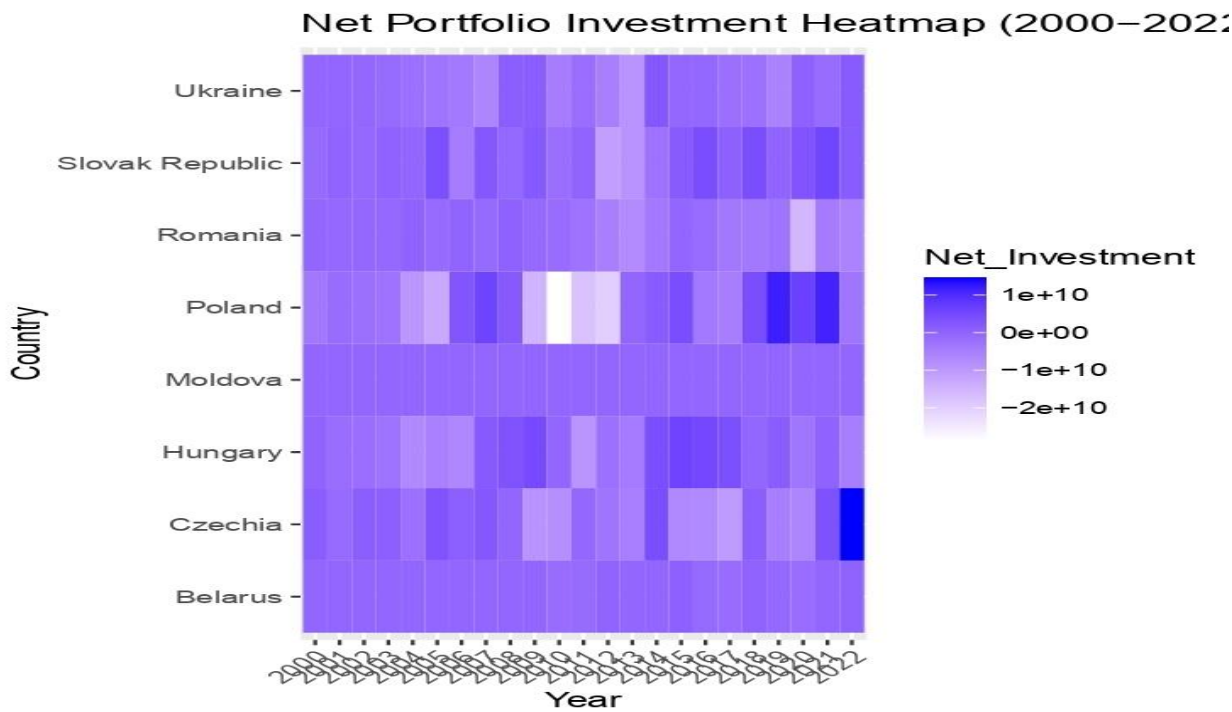
3) FDI Net Inflow: This is the net inflow of foreign direct investment (FDI) into a country from abroad. FDI is a form of long-term investment that involves establishing a lasting interest and control over an enterprise in another country.





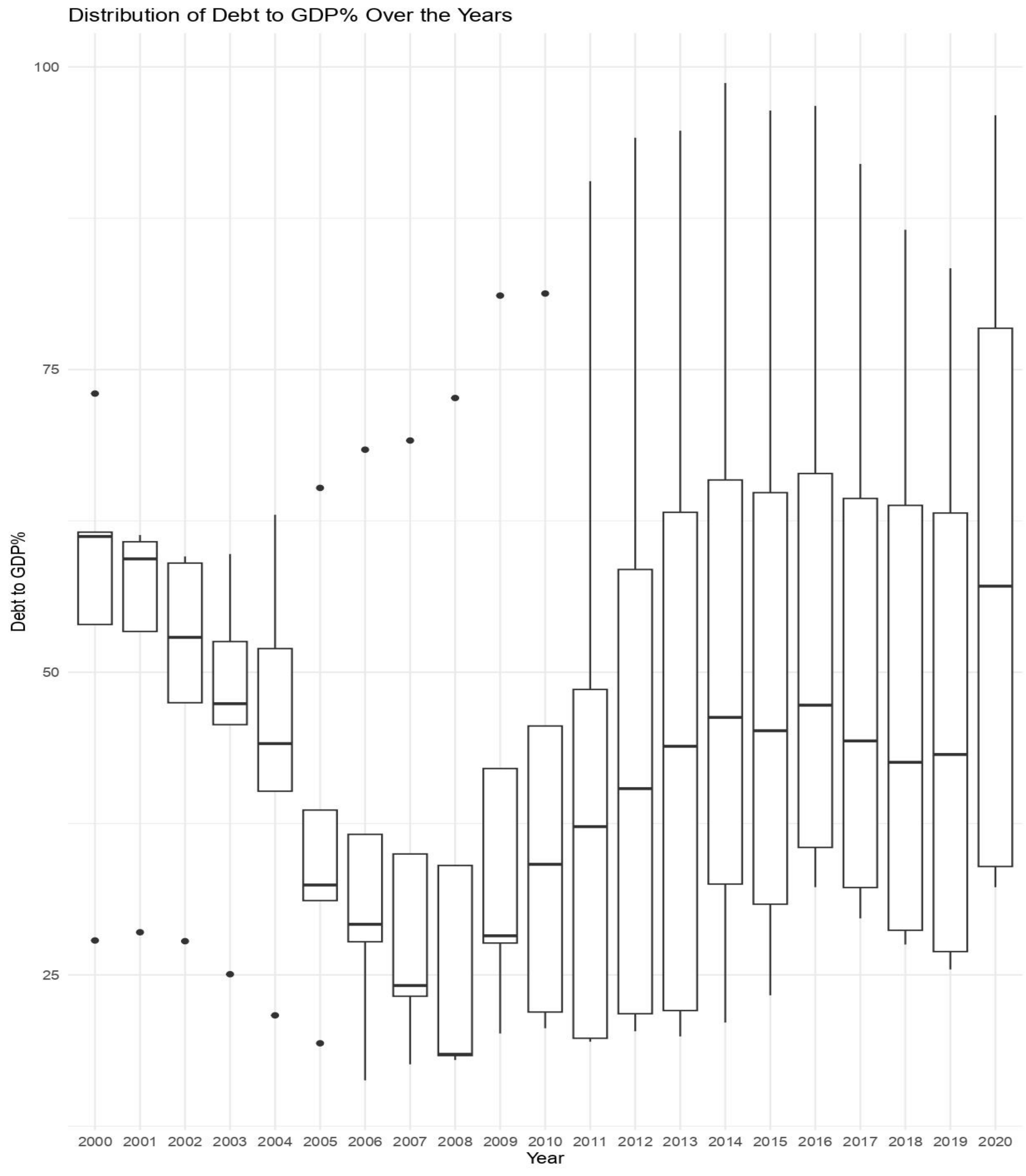
The trend for this parameter shows that most of the countries received positive FDI net inflow for most of the years, indicating that they attracted foreign investors who saw potential in their economies. However, some countries experienced a decline in FDI net inflow after the global financial crisis or other shocks that affected their stability and growth prospects. The highest value of FDI net inflow was recorded by Romania in 2008, with 11% of GDP, while the lowest value was recorded by Ukraine in 2015, with -0.2% of GDP.

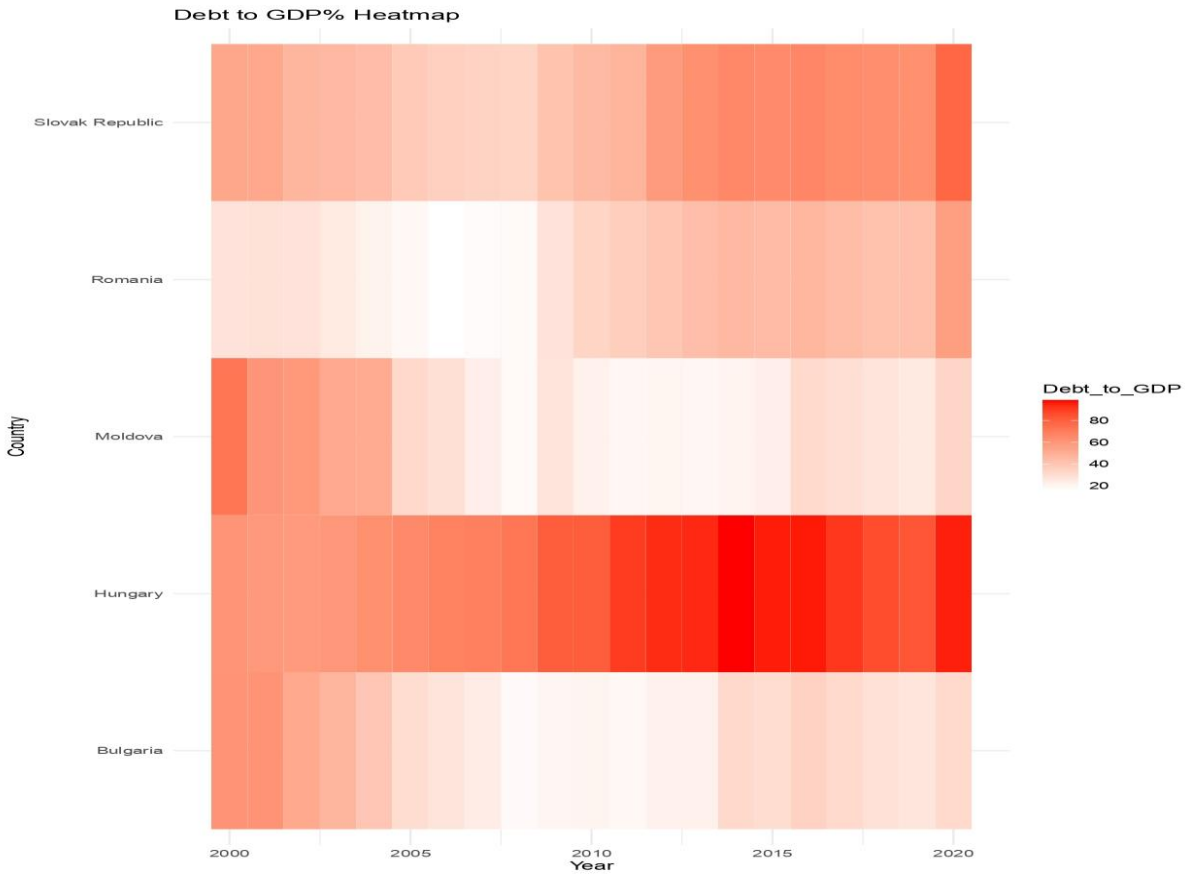
4) Net Portfolio Investment: This is the net inflow of funds from foreign investors into domestic securities such as stocks and bonds.



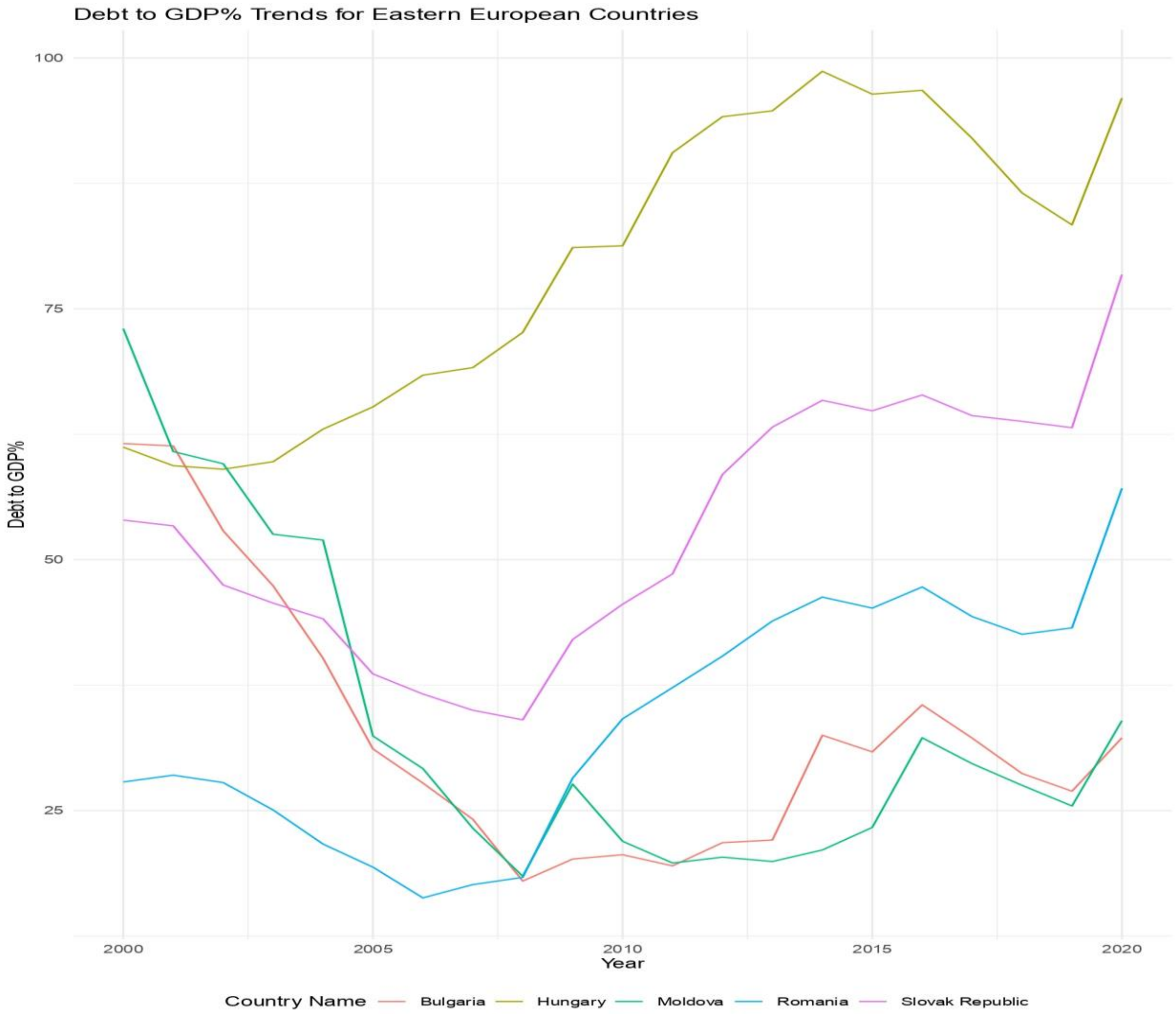
The trend for this parameter shows a lot of volatility and variation among the countries. Some countries, such as Czechia, Hungary, Poland and Romania, experienced positive net portfolio investment for most of the years, while others, such as Belarus, Bulgaria, Moldova and Ukraine, had negative net portfolio investment for most of the years. Slovakia had a mixed trend, with some years of positive and some years of negative net portfolio investment. The highest value of net portfolio investment was recorded by Czechia in 2019, with 7.6% of GDP, while the lowest value was recorded by Ukraine in 2014, with -9.8% of GDP.

5) Debt to GDP%: This is the ratio of total public and private debt owed to non-residents to the gross domestic product (GDP) of the country.





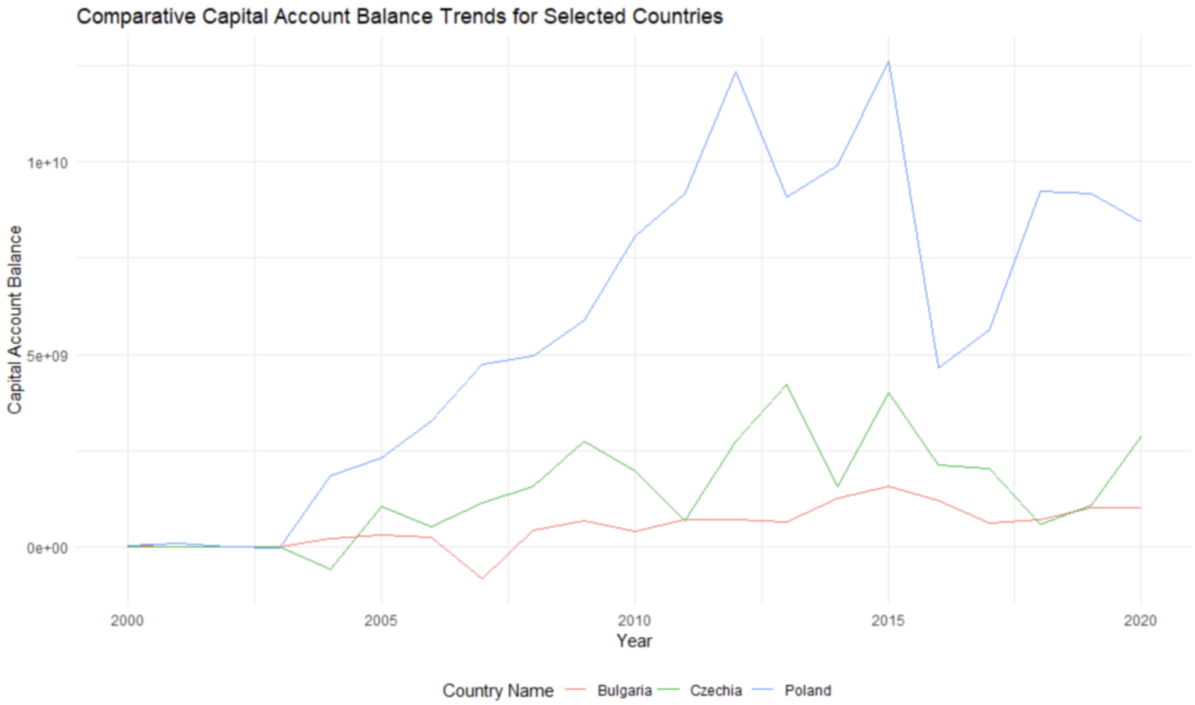
Debt to GDP% Heatmap
Slovak Republic
Romania
Moldova
Hungary
Bulgaria
Country
2000
2005
2010
2015
2020
Year
Debt_to_GDP
80
60
40
20

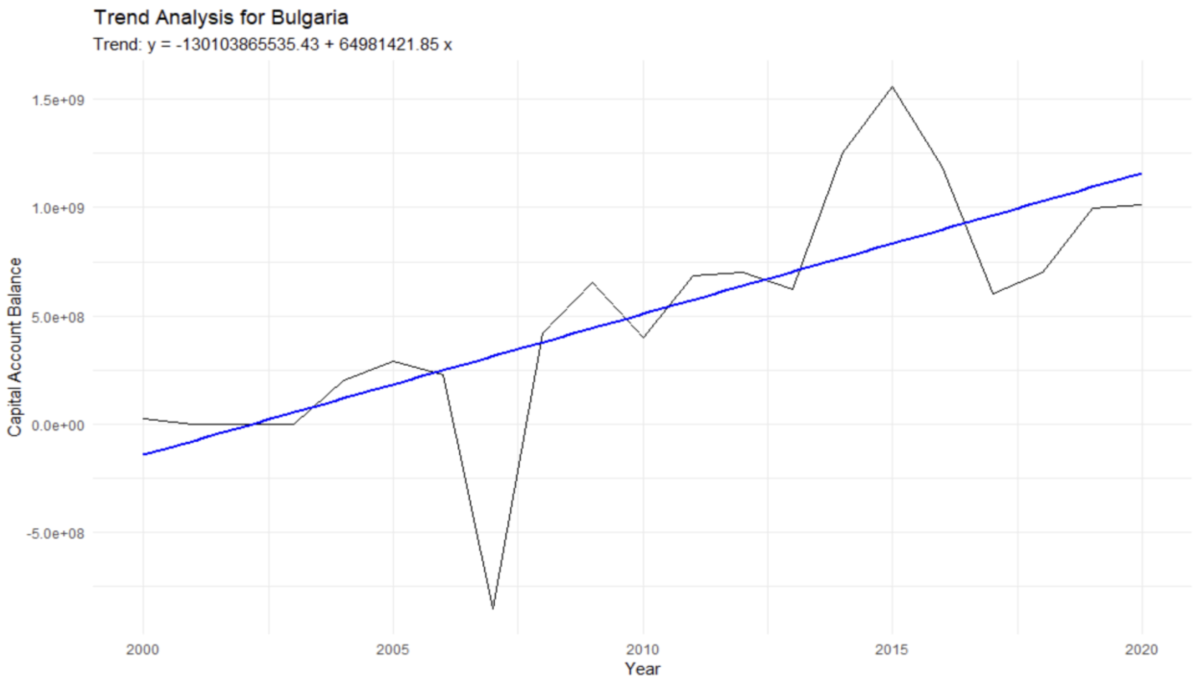


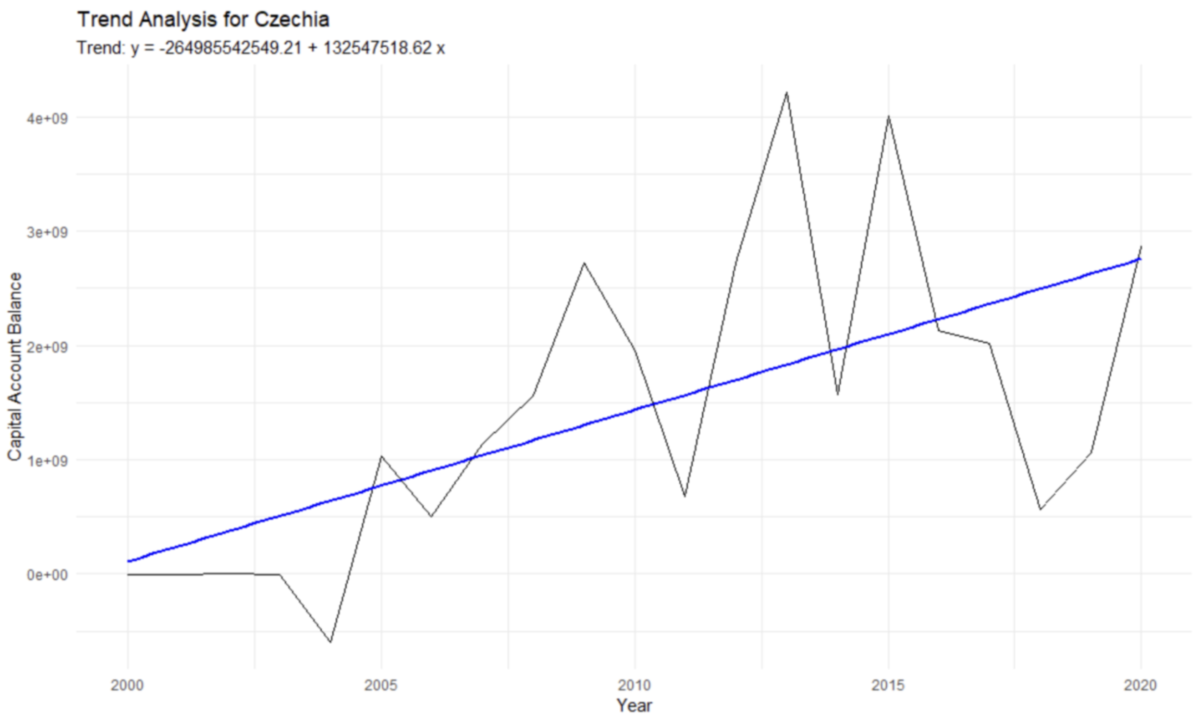
Debt to GDP% Trends for Eastern European Countries
100
75
50
25
Debt to GDP%
2000
2005
2010
2015
2020
Year
Country Name
Bulgaria
Hungary
Moldova
Romania
Slovak Republic

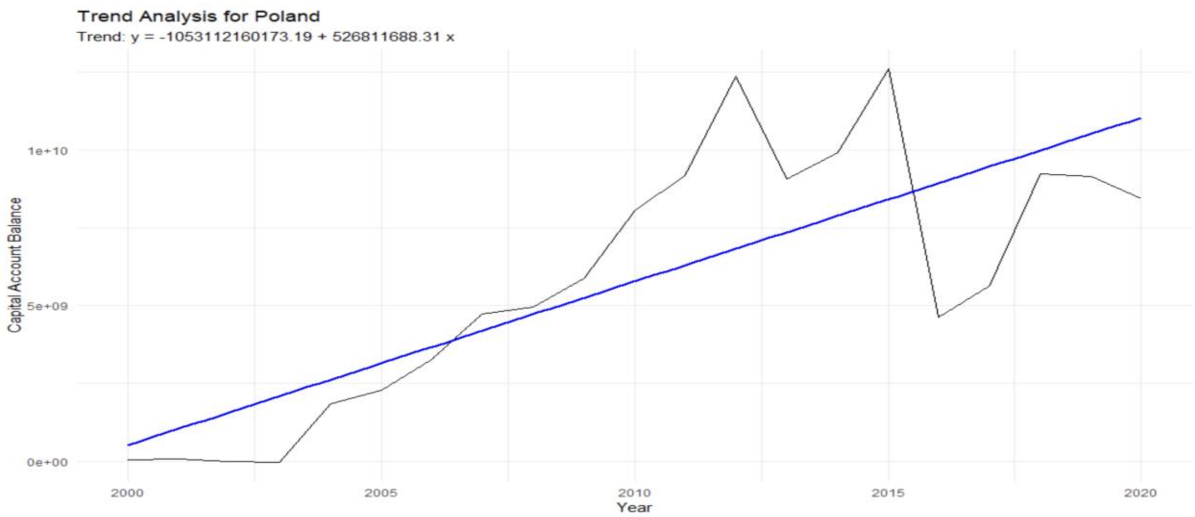
The trend for this parameter shows a general increase in the debt to GDP ratio for most of the countries over the years, especially after the global financial crisis of 2008-2009. The highest value of debt to GDP ratio was recorded by Hungary in 2020, with 97.3%, while the lowest value was recorded by Belarus in 2000, with 12.4%.

6) Capital Account Balance: This is the net flow of funds into or out of a country due to transactions involving capital transfers or acquisition or disposal of non-produced, nonfinancial assets.









The trend for this parameter shows a lot of fluctuations and variation among the countries. Some countries, such as Belarus, Bulgaria, Czechia and Romania, had positive capital account balance for most of the years, while others, such as Hungary, Moldova, Poland, Slovakia and Ukraine, had negative capital account balance for most of the years. The highest value of capital account balance was recorded by Belarus in 2017, with 3.1% of GDP, while the lowest value was recorded by Poland in 2015, with -1.6% of GDP.

The analysis of these six indicators of net portfolio investment, debt to GDP%, capital account balance, net trade in goods and services, current account balance and FDI net inflow has revealed some interesting and diverse patterns and dynamics of the external positions of these countries over the past two decades. These indicators reflect the different aspects and dimensions of the global imbalances that these countries have experienced or contributed to, such as the imbalances in capital flows, debt accumulation, trade performance, and income transfers. The global imbalances have been influenced by various factors and events, such as the global financial crisis, the European debt crisis, the geopolitical tensions, the commodity price shocks, the institutional reforms, and the policy responses.

The main findings of the analysis can be summarized as follows:

Most of the countries had negative net portfolio investment for most of the years, indicating that they were net borrowers from foreign investors who invested in their domestic securities. However, some countries, such as Czechia, Hungary, Poland and Romania, had positive net portfolio investment for most of the years, indicating that they were net lenders to foreign investors who invested in their foreign securities.

Most of the countries had an increasing trend in their debt to GDP ratio over the years, especially after the global financial crisis. This indicates that they accumulated more external debt than their economic growth could support. However, some countries, such as Belarus and Moldova, had a decreasing trend in their debt to GDP ratio over the years, indicating that they reduced their external debt relative to their economic growth. Even if the current account balance is improving, a country's debt-to-GDP ratio can increase if its economy is growing slowly or experiencing recession. Slower GDP growth means that the denominator (GDP) is not increasing as rapidly as the numerator (debt), resulting in a rising ratio. As we can see in the case of Bulgaria CA Balance has not changed over the period drastically but there is a significant dip in the Debt to GDP ratio over the same period.

Most of the countries had negative capital account balance for most of the years, indicating that they had net outflows of funds due to transactions involving capital transfers or acquisition or disposal of non-produced, nonfinancial assets. However, some countries, such as Belarus, Bulgaria, Czechia and Romania, had positive capital account balance for most of the years, indicating that they had net inflows of funds due to these transactions.

Most of the countries had negative net trade in goods and services for most of the years, indicating that they imported more than they exported. This implies that they had trade deficits that contributed to their current account deficits. However, some countries, such as Czechia and Slovakia, had positive net trade in goods and services for most of the years, indicating that they exported more than they imported. This implies that they had trade surpluses that contributed to their current account surpluses.

Most of the countries had negative current account balance for most of the years until around 2013-2014, when they started to improve their external positions and reduce their current account deficits. This indicates that they had net outflows of funds due to transactions involving trade in goods and services, primary income and secondary income. However, some countries, such as Belarus and Moldova, had positive current account balance for most of the years until around 2015-2016, when they started to deteriorate their external positions and increase their current account deficits. This indicates that they had net inflows of funds due to these transactions.

Most of the countries received positive FDI net inflow for most of the years, indicating that they attracted foreign direct investors who established a lasting interest and control over enterprises in their countries. This implies that they benefited from FDI in terms of technology transfer, employment creation, market access and competitiveness. However, some countries experienced a decline in FDI net inflow after the global financial crisis or other shocks that affected their stability and growth prospects.

These findings suggest that these countries have faced different challenges and opportunities in their external positions over the past two decades. They also imply that these countries have different roles and responsibilities in addressing the global imbalances that affect them and others.