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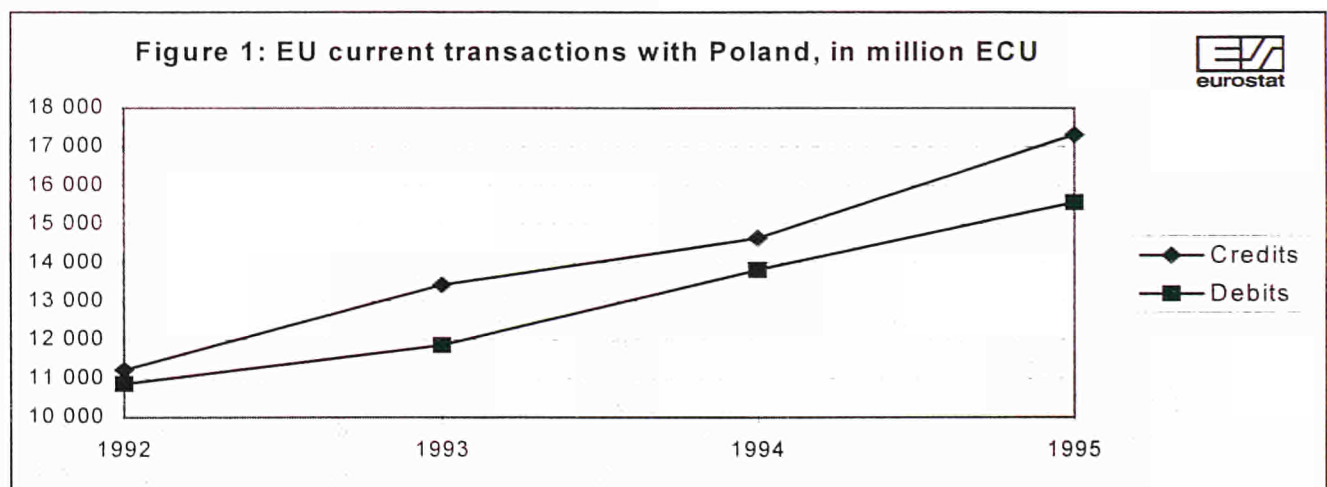
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European Union current and direct investment transactions with Poland

European Union Balance of Payments (BoP) statistics allow for the characterisation of the cross-border activities with third countries and economic or geographic regions. In this integrated framework Eurostat records the current transactions in goods, services, income and transfers as well as the foreign direct investment flows and positions. The BoP of the European Union (see Box 1 on page 7) therefore provides information on all cross-border flows. BoP is a unique tool for assessing the state and development of global economic relations with third countries.

The total EU current transactions (goods, services, income and transfers) with Poland (Figure 1, Table 1) rose relentlessly between 1992 and 1995, both for credits (flows from Poland to EU) and debits (flows from the EU to Poland).

With both starting at about ECU 11 bn in 1992 the credits expanded slightly faster and thus the net flows from Poland to the Union stood at 1.7 bn in 1995.



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Table 1: EU total current and FDI transactions with Poland

EU total current transactions with Poland (million ECU)					
	1992	1993	1994	1995	1996
Credits	11221	13426	14635	17309	:
Debits	10863	11863	13814	15562	:
Net	357	1562	822	1747	:
EU FDI* transactions (equity and other capital) with Poland (million ECU)					
Outward flows	230	758	616	1131	1995
Inward flows	15	6	177	26	5
Net	215	752	439	1105	1990
EU net flows with Poland, ratio FDI / current transactions (in %)					
	60	48	53	63	

*) figures for Ireland and Greece 1992-1995 are estimated. The other capital component for Austria 1992-1995 is estimated.

Figures for 1996 do not yet include flows for Greece, Ireland and the United Kingdom and for other capital flows of Austria.

In contrast to the more balanced and comparatively moderate growing current transactions the foreign direct investment (FDI) flows (Figure 2, Table 1) show a vigorous growth of EU FDI in Poland and a flat development of Polish FDI in the EU. While current transactions grew by about half the 1992 value up to 1995 the EU FDI in Poland increased almost fivefold. Between 1995 and 1996 FDI doubled again, although the country coverage is not yet complete, touching the ECU 2 bn mark. However, with 1.1 bn FDI flows from the Union to Poland in 1995 FDI represented only about one tenth of the current transactions.

The comparison of the net current flows between the Union and Poland with the net FDI (Figure 3, Table 1) reveals that between half and two third of the EU current account surplus found its way back to Poland in the form of direct investment. In 1995 the ratio stood at 63%. The accelerated increase of EU FDI in Poland between 1995 and 1996 lead to a rise in net investment of ECU 885 million to close to 2 bn. Assuming that nothing dramatic has happened with the as yet unknown EU current account balance the percentage of flows back to Poland in the form of FDI should at least be kept in 1996.

Figure 2: EU FDI with Poland (equity and other capital), in million ECU

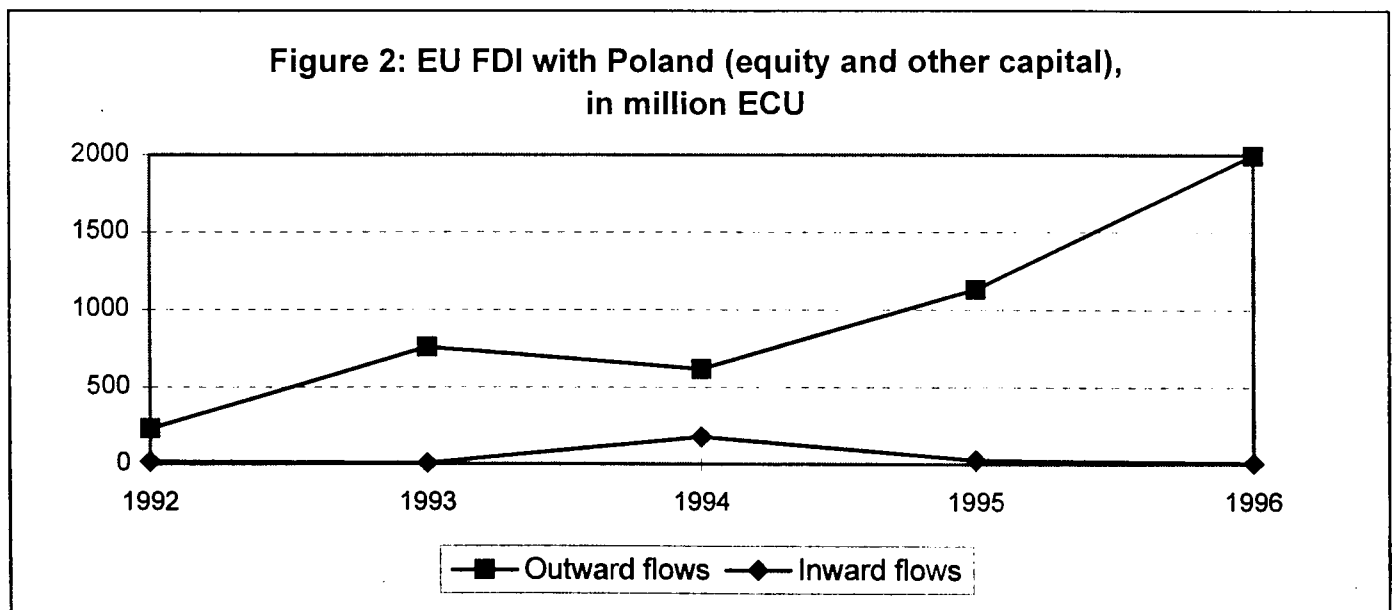


Figure 3: Net current and net FDI (equity and other capital) flows with Poland, in million ECU

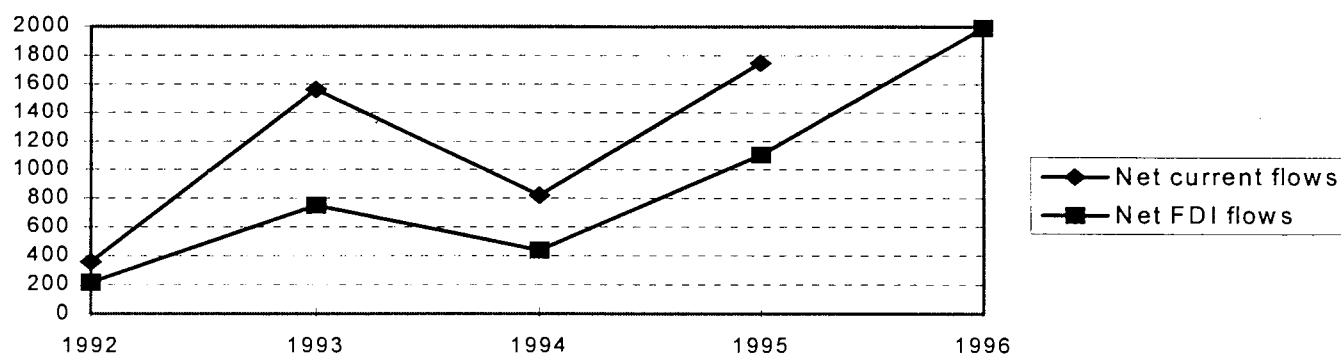
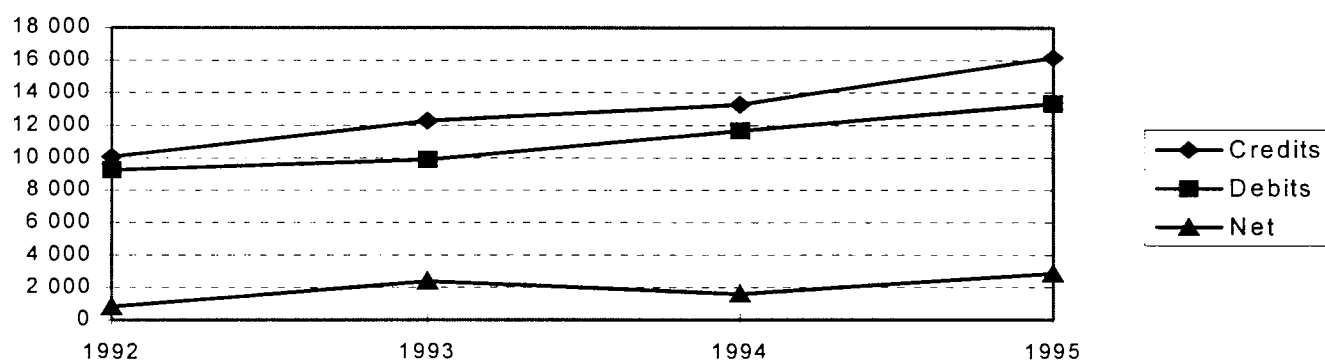


Figure 4: EU trade in goods and in services with Poland, in million ECU



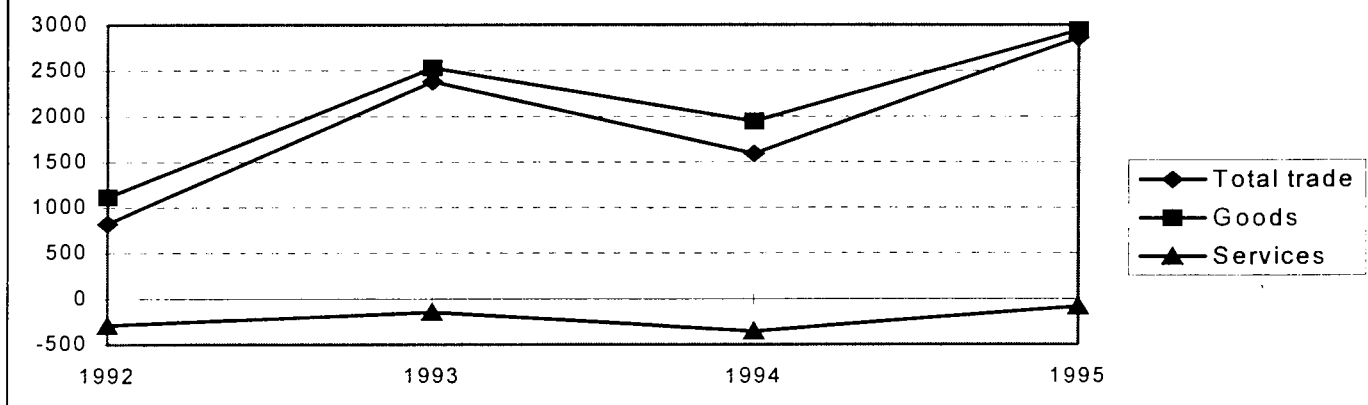
A closer look at the major part of the current account between the Union and Poland, that is the trade in goods and services (Figure 4, Table

2), shows that it expanded relentlessly in both directions between 1992 and 1995. After being comparatively close together in 1992 the Union

Table 2: EU trade with Poland

	(million ECU)			
	1992	1993	1994	1995
Total trade				
Credits	10076	12264	13271	16187
Debits	9254	9882	11678	13327
Net	822	2382	1593	2861
Trade in goods				
Credits	8708	10703	11619	14368
Debits	7596	8175	9672	11425
Net	1112	2528	1947	2943
Trade in services				
Credits	1368	1561	1652	1819
Debits	1658	1707	2006	1902
Net	-290	-146	-354	-82

Figure 5: EU trade net flows with Poland, in million ECU

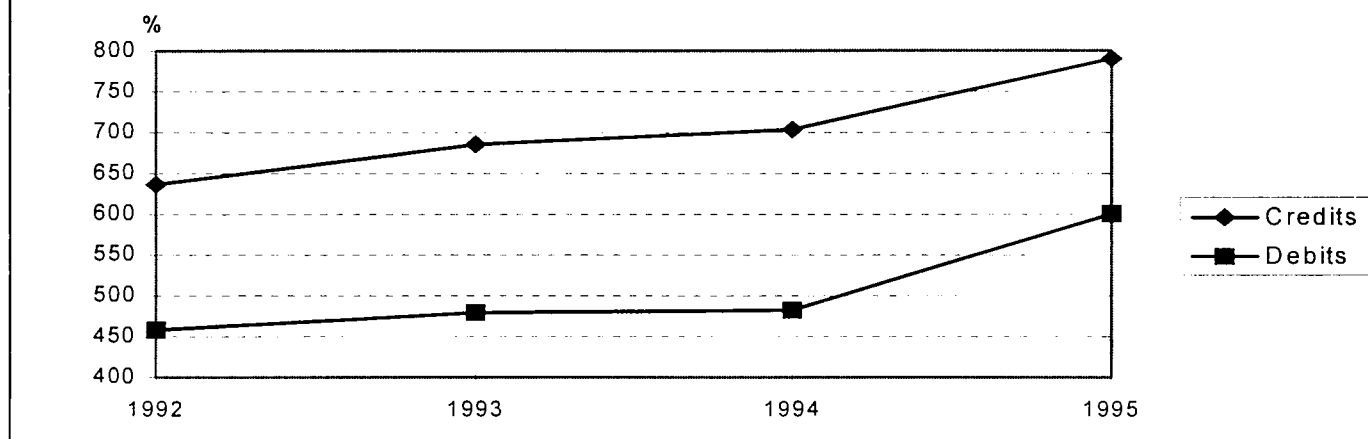


exports (credits) expanded faster gradually than the imports (debits), resulting in a trade balance surplus of ECU 2.9 bn in 1995.

The breakdown of the EU trade with Poland into goods and services (*Figure 5, Table 2*) points out that the EU trade surplus is due to the exchange of goods, while the services balance is

negative. Whereas trade in goods expanded vigorously in both directions the development of imports and exports of services was less dynamic. The trend of expanding EU net export of goods with Poland faced a more heterogeneous development in net cross-border services. In 1995 the Union trade in services deficit with Poland narrowed substantially and with ECU 82 million it came close to balancing.

Figure 6: EU trade with Poland, ratio between goods and services



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In order to shed some light on the driving force of the development in trade the ratio between goods and services (*Figure 6*) reveals that

goods have progressively gained in structural weight between 1992 and 1995. The weight of goods is by far stronger on the export than on the import side. In 1995, for each ECU earned by EU exporters in services, eight ECU were turned over by goods exporters. However, the Polish exporters to the EU also saw a stronger

increase in goods than for services, with the ratio climbing to 6 : 1 in 1995. The major reason why the EU current account surplus with Poland is much lower than the trade surplus is to be found on the income side. The cross-border income flows (*Table 3*) from the EU to Poland were much stronger than in the opposite direction. After being close to balancing in 1992 the net income stream to Poland stood at around ECU 0.5 billion in 1993 and 1994 before doubling in 1995.

Table 3: EU net income with Poland

	(million ECU)			
	1992	1993	1994	1995
Total income	-44	-544	-410	-1046
Compensation of employees	-465	-891	-907	-1240
Investment income	421	347	496	194

Thereby the Union always recorded a surplus in investment income while running the opposite for compensation of employees (Figure 7). EU net investment income (Table 4), which covers

income on direct, portfolio and other investment, stood between 1992 and 1994 above ECU one third bn, but dropped below 200 million in 1995. A closer look on gross figures shows that the

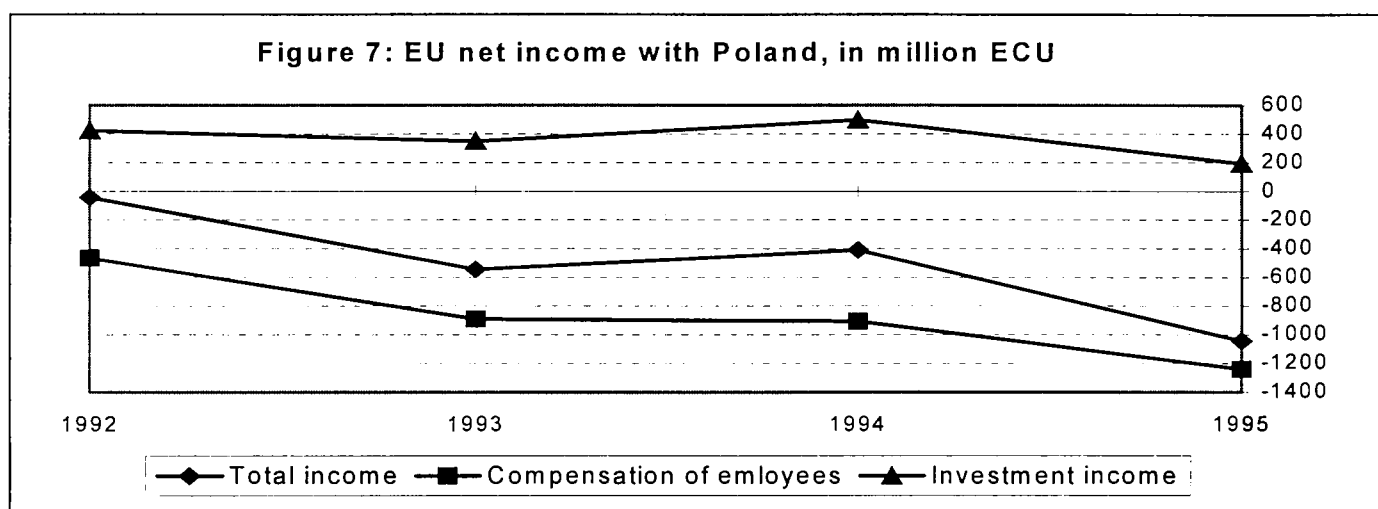
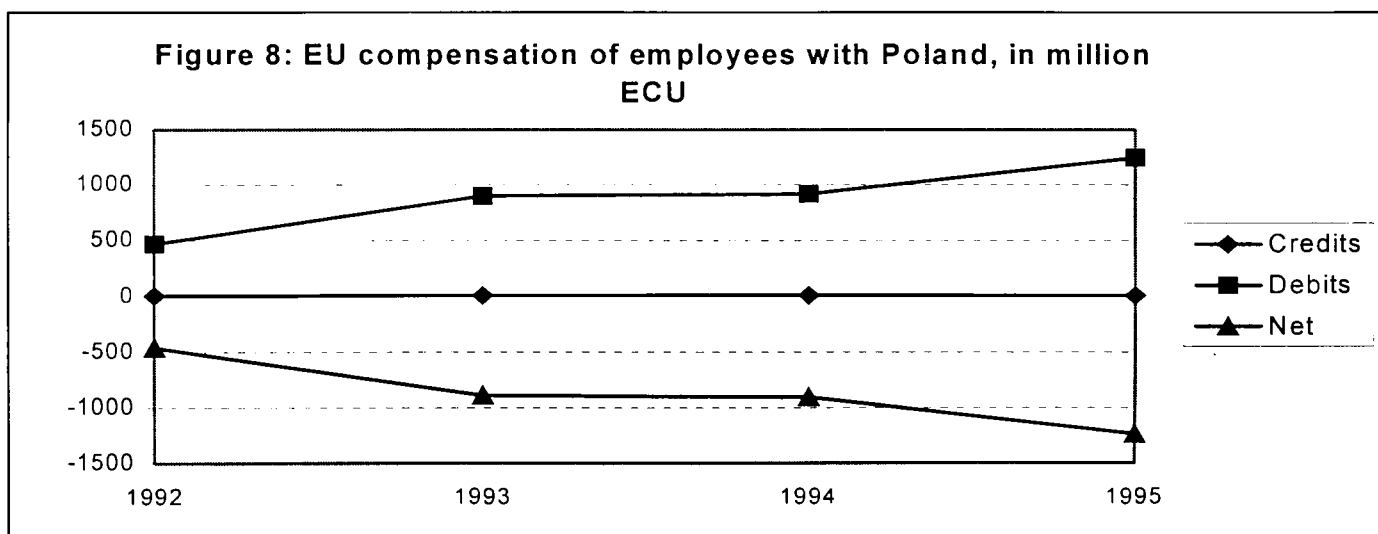


Table 4: EU net investment income with Poland, breakdown by credits and debits

	(million ECU)			
	1992	1993	1994	1995
Credits	880	761	954	598
Debits	460	414	458	404
Net	421	347	496	194



development of EU investment income with Poland is largely determined by fluctuations of income receipts from Poland (credits), whereas the development of the Polish investment income from the EU is quite stable. Between 1992 and 1994, the investment income stream from Poland to the EU was roughly twice that of the opposite direction. In 1995 the flows came closer to balancing, with a credit:debit ratio of 1.5 : 1.

The development of EU compensation of employees (wages, salaries and other benefits,

about one per cent of the debits. In 1995 this ratio fell to 0.6%.

The Polish receipts in compensation of employees from the Union grew continuously between 1992 and 1995, markedly in 1993 (+ 91%) and 1995 (+ 36%). The Polish surplus in compensation of employees is thus the second major item beneath direct investment counter-balancing the EU trade surplus. It covered 56% of the trade deficit in 1992 and 1994, 37% in 1993 and 43% in 1995.

Table 5: EU compensation of employees with Poland

	(million ECU)			
	1992	1993	1994	1995
Credits	6	9	10	8
Debits	471	899	917	1247
Net	-465	-891	-907	-1240

including those of border, seasonal and other non resident workers) with Poland (*Figure 8, Table 5*) gives a clear picture. The net income flows in this category is nearly entirely determined by the flows from the Union to Poland.

With values from ECU 6 million to 10 million between 1992 and 1994 the EU credits in compensation of employees stood at a fraction of

The current transfers, see definition in Box 2 on page 7, between the Union and Poland represent the third item with a comparatively strong surplus for Poland (*Figure 9, Table 6*). However, this only holds true for 1992 to 1994, as in 1995 the credits and debits converged close to balance. Whereas in 1992 the net current transfers from the EU to Poland represented 51% of the Union trade surplus it dropped sharply to 2% in 1995.

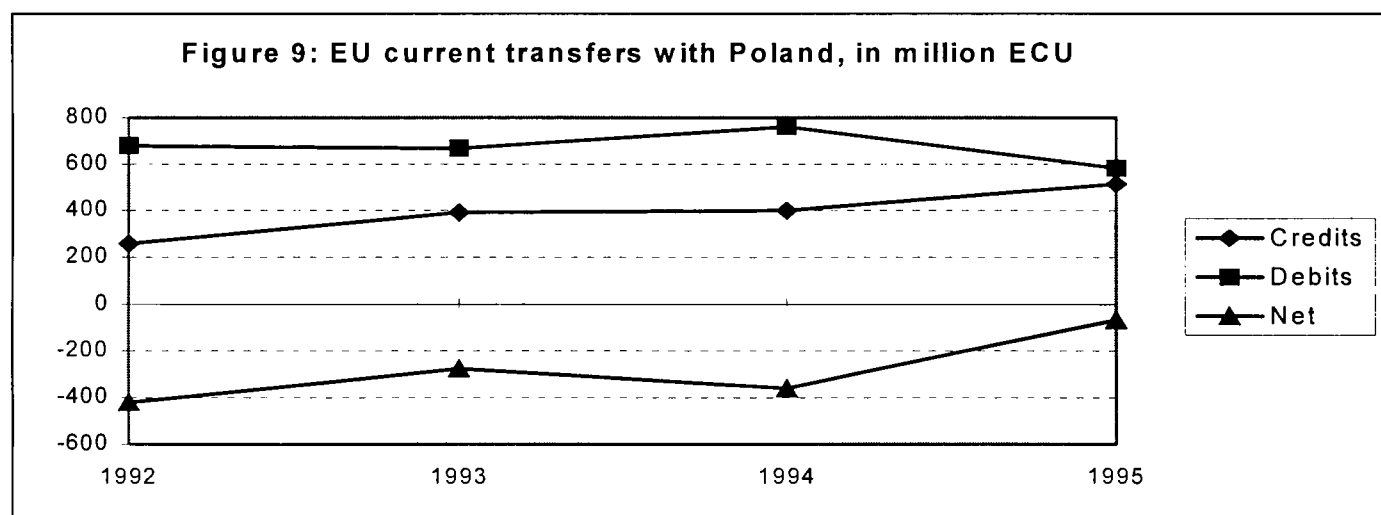


Table 6: EU current transfers with Poland

	(million ECU)			
	1992	1993	1994	1995
Credits	258	392	400	516
Debits	679	668	761	583
Net	-420	-276	-361	-68

BOX 1: Main BoP components

1. Current account

- 1.A. Goods and Services
 - 1.A.a. Goods
 - 1.A.b. Services
- 1.B. Income
 - 1.B.1. Compensation of employees
 - 1.B.2. Investment income
- 1.C. Current transfers

2. Capital and financial account

- 2.A. Capital account
- 2.B. Financial account
 - 2.B.1. Direct investment
 - 2.B.2. Portfolio investment
 - 2.B.3. Other Investment
 - 2.B.4. Reserve assets

BOX 2: Definition of current and capital transfers

Current transfers consist of all transfers that are not transfers of capital. Current transfers directly affect the level of disposable income and should influence the consumption of goods or services. That is, current transfers reduce (increase) the income and consumption possibilities of the donor (recipient).

A capital transfer in kind consists of the transfer of ownership of a fixed asset or the forgiveness of a liability by a creditor when no counterpart is received in return. A transfer in cash is a capital transfer when it is linked to, or conditional on the acquisition or disposal of a fixed asset (for example an investment grant) by one or both parties to the transaction.

Current transfers are included in the current account; capital transfers are included in the capital account component of the capital and financial account.

Examples for current transfers performed between governments are payments for relief efforts in goods or regular contributions to international organisations. Examples for current transfers between governments and individuals or among individuals are worker's remittances by migrants assumed to stay in their new economy or transfers in cash or in kind like food, clothing, medical goods to relieve hardships such as natural disasters, etc.

Source for the definitions: International Monetary Fund, Balance of Payments Manual, 5th ed.; Washington, DC 1993, pp. 74-76.

We would like to express our appreciation to Mrs. Chantal Bouster for doing the DTP of this document.

For further information on the EU cross-border current and direct investment transactions Eurostat provides the following publications:

Geographical breakdown of the current account - EU, 1992-1995, Luxembourg: Office for Official Publications of the European Communities, 1997, 445 pp., ISBN 92-828-2127-7, Catalog Number: CA-06-97-602-EN-C.

European Union direct investment yearbook 1997, Luxembourg: Office for Official Publications of the European Communities, 1998, 383 pp., ISBN 92-828-1631-1, Catalog Number: CA-07-97-515-EN-C.

Statistics in focus, External trade, 3/1998, European Union trade and investment with central and eastern European countries, 8 pp., ISSN 1024-6878, Catalog Number CA-NO-98-003-EN-C.

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