External Economic Balance of Visegrad Countries – Quantitative Analysis of Empirical Data

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10.1. INTRODUCTORY REMARKS

External balance belongs to the most important economic indicators, especially for most of small or medium sized open economies. As Mandel and Tomšík (2008a, p. 7) state:

> "In large closed economies, the external imbalance recorded in the balance of payments can affect domestic macroeconomic development very slowly and insignificantly. In small open economies, which include most transition economies, the external imbalance affects almost all macroeconomic figures very quickly and significantly."

Thus, the region of the Visegrad countries should be highly interested in it. But in terms of the overall scope of this book, we have to underline the connection between external balance and internalization of businesses. The link is relatively straightforward, since external balance is directly formed and shaped by international activities of companies. Any imports or exports of goods and services made by a company, and any cross-border capital transfers (profits, loans or investment) have implications on the size and structure of external balance of respective economy. Thus, inquiry into external balance data can provide a highly useful information about the scope of internalization of domestic economy.

Before going into any details, definitions of external balance (balance of trade respectively) are needed. According to Husted and Melvin (2010, p. 113), balance of payments:

> "records a country's trade in goods, services, and financial assets with the rest of the world.".

Black, Hashimzade and Myles (2009, p. 74) define external balance of an economy as:

> "a sustainable pattern of transactions with the rest of the world. With no capital movements, in a static economy external balance requires a zero balance of payments on current account, since otherwise foreign exchange reserves would become exhausted if there was a current account deficit, and would expand without limit if there was a current account surplus."

Because of the fact that there are capital movements, which can account for current account deficits, this requirement is to certain extant obsolete under the arrangement of current world financial and economic order. Small current account deficits up to 5% of GDP are still tolerated by many economists or financial institutions (the IMF for instance).

The aim of this chapter is to examine the external balance of the Visegrad countries. There is a statement to draw before an analytical process begins – most of the Visegrad countries are very open economies. The statement can be proved by Figure 10.1, which shows development of the share of foreign trade turnover in GDP. It is observable that with one exception (Poland) this share reaches far more than 100% of a country´s GDP.
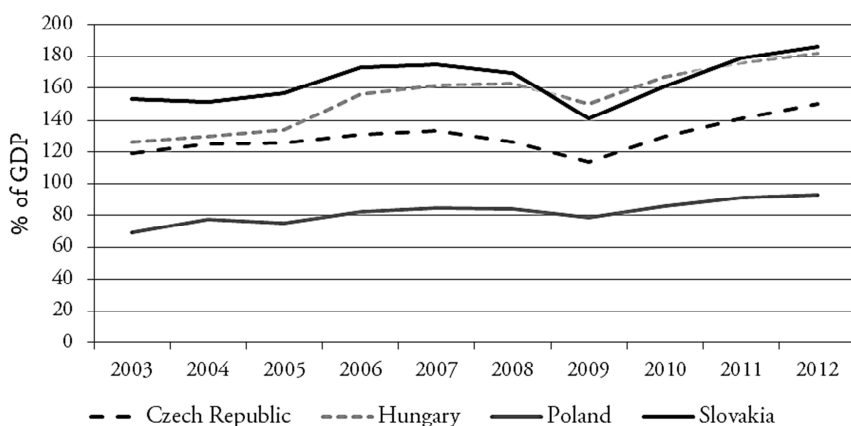

Figure 10.1. Turnover of foreign trade in goods and services in V4 countries
Source: Eurostat (2013a). Balance of payments by country.
Retrieved Sep. 16, 2013, from Eurostat database.

10.2. THEORETICAL BACKGROUND

Given this high level of openness of examined economies, the external balance is a highly important economic indicator with a lot of explanatory power. External balance belongs to the most important economic indicators and provides economist and analyst with information that enables them to assess economic position of a country, as well as long-term stability within international economic relations.

From the definition of external balance (balance of payments, respectively) it is obvious that the value of overall inflows must equal to the value of overall outflows in and from a country. If we put it differently, when there is an external balance in a country, the economic transactions between the domestic and foreign entities are in mutual balance. But a potential imbalance is the issue of interest and concerns, as noted by Appleyard and Field (2001, p. 416). Not in accounting terms (balance of payments must be balanced from definition), but from the individual accounts point of view. This means eventual surpluses or deficits on these accounts. In such cases we speak about an external imbalance, meaning the internal structure of external balance (balance of payments). The form and severity of this imbalance can lead to serious economic problems and is basically dependent on the size of the deficit, on the type of transactions as in goods, services, primary income, secondary income and capital and how this deficit can be solved (offset) within the current account, by direct investment, short-term capital or change in foreign exchange reserves.

When discussing external balance, we should mention one modern trend in analysing it in connection to transition economies. It is related to a search for dynamic balance of payments equilibrium, elaborated mainly by Ando and Modigliani (1963), and Modigliani (1986). This has a lot of importance especially towards transition economies. Mandel and Tomšík (2008a) distinguish four different stages of this type of economies based on form and extent of external imbalances: young transition economies, mature transition economies, post-transition economies, expanding advanced economies and long-term equilibrium economies. Form and extent of external imbalance is measured by the current account deficit, the balance of direct investments, the balance of goods and services and the primary income balance. Similar structure and logic can be found within the chapter.

10.3. MATERIAL AND METHODS

Data used in this chapter has its origin mainly in worldwide recognized databases, such as the statistical office of the European Union (Eurostat), the United Nations Conference on Trade and Development (UNCTAD) or the United Nations Statistics Division - Trade Statistics (UN ComTrade). The structure of the data is in a form of time series of relevant variables, which have an explanatory power in terms of external balance of a country. Examples of data used include national accounts information, detailed balance of payments data or commodity and territorial structure of trade in goods and services of the respective countries. All data and information within this part are based on the BPM6[1] rules and principles.

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[1] Sixth Edition of the IMF's Balance of Payments and International Investment Position Manual. For further reference, go to http://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm.

The purpose of usage of the above mentioned data is to capture and describe in a detailed way the external economic balance of Visegrad countries, which is provided sufficiently in the following text. Individual accounts of countries' balance of payments are analysed and conclusions are drawn. Recent trends, including the impact of financial and economic crisis, are discussed.

From a methodological point of view, this chapter relies on descriptive statistical methods to provide the reader with introductory information about Visegrad countries' external position.

10.4. RESULTS AND DISCUSSION

Current Account Analysis

Widely used indicator of external balance sustainability is a limit of 5%, which should not be exceeded as the share of current account deficit in GDP. Figure 10.2 depicts development of the value in countries under consideration. It is obvious that this criterion was at least once exceeded by each of the Visegrad countries. The period of ten previous years can be split into two:

1. 2003 – 2008   This period was marked by growing economies and large direct investment inflows. In Slovakia, Hungary and mainly Poland this had led to further trade balance deterioration, because of increased domestic demand (which resulted in increased imports, both in terms of final and production consumption). Large inflow of foreign investment (see the next part of this chapter) has generally positive inflow on trade balance improvement (most of the projects are export oriented) and significantly negative impact on primary income balance, since repatriated or reinvested profits are recorded here. This process is recognizable in all Visegrad countries (see Figure 10.4).

2. 2009 – 2012   With the beginning of global financial and economic crisis, current accounts of all four countries seemed to improve. As it is apparent from Figure 10.4, mainly trade balances experienced considerable improvements. This development was mainly determined by sharp decline in imports, which exceeded the one of exports. In Hungary and Slovakia, also primary income deficits declined, as foreign companies' profits deteriorated. In Poland and the Czech Republic this process of current account improvement has deceased, while in Slovakia and Hungary it still continues, bringing current account in 2010 (2012 for Slovakia) into surpluses for the first time in the new millennium.

Eventual external imbalances of individual economies should be analyzed in detail, since the only fact of their existence can't be perceived as sufficient information. The main question concerns the origin of the deficit: whether it is caused by negative trade balance, or by negative primary income balance. Figure 10.3 highlights

structure of the current account deficits in Visegrad countries in 2012. Detailed set of data is provided in Figure 10.4, which allows for general conclusions (as drawn below).
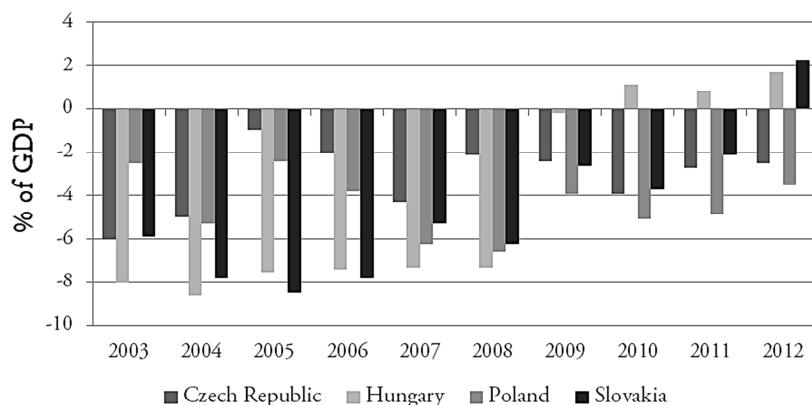

Figure 10.2. Share of the current account in GDP in V4 countries

Source: Own calculations based on Eurostat data, Eurostat (2013a). Balance of payments by country. Retrieved Sep. 16, 2013, from Eurostat database. Eurostat (2013b). Annual national accounts. Retrieved Sep. 18, 2013, from Eurostat database.
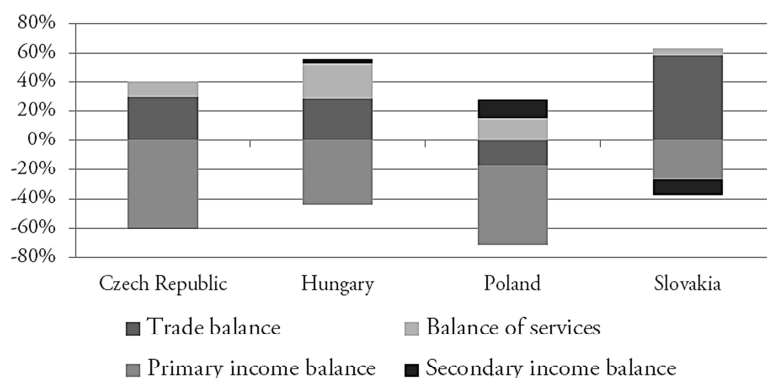

Figure 10.3. Components of current account (surplus or deficit) in V4 countries in 2012 (in %)

Source: Eurostat (2013a). Balance of payments by country. Retrieved Sep. 16, 2013, from Eurostat database.

Generally we can state that the overall state of current accounts of Visegrad countries has improved. A significant role has been played by financial and economic crisis, which has changed both investment and consumption patterns inside and outside the economies. In case of the Czech Republic this improvement is least

apparent. The level of primary income deficit remains very stable, which is mainly determined by the fact that foreign companies mostly operate in export oriented industries or in very profitable ones (telecommunication, banks or utilities). The only source of improvement is then trade balance and balance of services. But both surpluses combined can't reach the value of primary income deficit. In Slovakia and Hungary, the value of this deficit has reduced the most during the post crisis period. At the same time, trade balances of both countries have experienced the largest positive change. Together, these two processes result in current account surpluses (with consequences for financial account, see below). Polish current account saw slight improvement during the past years, but the economy still has to cope with highest level of deficit among Visegrad countries, reaching close to 4% of GDP.
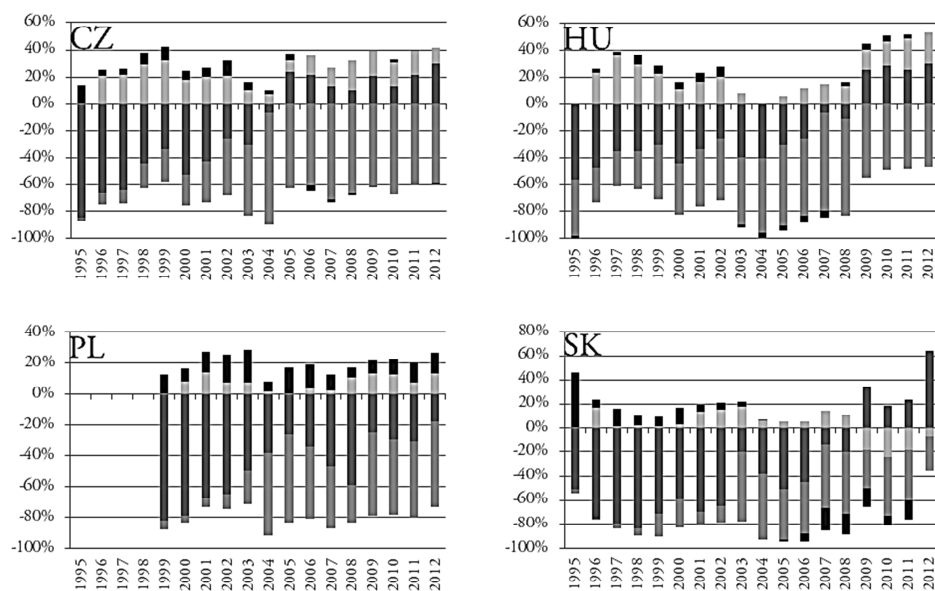

Figure 10.4. Current account structure development in V4 countries (in %)[2]
Source: Eurostat (2013a). Balance of payments by country.
Retrieved Sep. 16, 2013, from Eurostat database.

The described structure of the current account deficit is typical for countries evolving to developed economies. In early 2000s, the deficit originated mainly in negative trade balance, as balance of income was generally of much lower importance. This situation, however, changed significantly during the first years of the new millennium because of increased levels of direct investment inflow. Since then primary income balance has become more significant.

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[2] Consistent data for Poland was available from 1999. Remarks are the same as in Figure 10.3.

Financing of Current Account Deficits

Question that logically arises, concerns the way how to finance the current account deficit (or specifically primary income deficit). Trade balance surpluses are not large enough and capital accounts have positive balance, but are typically of relatively low size. In long-term the only sustainable solution is a financial account surplus. Out of this account, direct investment is perceived as the best form of capital inflow, because of its stability (compared to portfolio investment or other investment) and non-debt character.

The external balance equation corresponds to the country's balance of payments and depends on the type of country. For small open market economies like the Czech Republic, Slovakia or Hungary, which are dependent on foreign direct investment inflows and which have a limited borrowing capacity, Mandel (2000) and Mandel and Tomšík (2001 and 2008b) propose the so-called *"non-debt financing of current account deficits"* balance, ND:

$$ND = NX + FDI = 0, \quad NX = EX - IM \tag{1}$$

where:

NX - net exports of goods and services.

FDI – net foreign direct investment.

As was discussed above, the Visegrad economies have experienced growing primary income balance deficits since the beginning of the new millennium, as a result of foreign direct investment inflow and, less significantly, from immigration. Therefore, it is necessary to extend the external balance equation to:

$$ND^* = EX - IM + PIB + FDI = 0 \tag{2}$$

where:

PIB is the primary income balance.

Table 10.1 illustrates whether this modified equation holds or not for the Visegrad countries. To get a comparable measure, the value of the modified external balance equation is calculated as a share in national GDP[3] (e.g. a positive number of 2% refers to a positive modified external balance in the size of 2% of national GDP).

Data in the table confirms that Polish ability to finance part of the current account deficit (not taking into account secondary income balance) is the lowest, with 4% deficit as a share in GDP. Situation of other three countries is somewhat better. Position of Hungary has improved considerably (mentioned role of trade and services balance). Slovakia is relatively stable, the 2009-2010 decline was a result of

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[3] In the same manner, we could change the equation to $ND^* = EX - IM + PIB + FDI = 0\%$ GDP.

large decline in direct investment inflow (see below). The large 2012 surplus was caused as a combination of increased direct investment inflow and positive trade and services balance. Situation of the Czech Republic was to large extent determined mainly by investment inflow, because within the period 2008-2011, it reached relatively low levels, compared to previous numbers or to 2012 value.

Table 10.1. Financing of external balance deficit in V4 countries in the years 2003-2012 (in %)

Country	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Czech Republic	-5	-2	8	1	1	-1	-1	-2	-2	2
Hungary	-8	-5	-2	-4	-7	-4	-1	1	1	3
Poland	-2	-1	-1	-2	-3	-5	-3	-4	-4	-4
Slovakia	-1	-1	-4	0	-1	0	-3	-2	0	6

Source: Own calculations based on Eurostat data, Eurostat (2013a). Balance of payments by country. Retrieved Sep. 16, 2013, from Eurostat database. Eurostat (2013b). Annual national accounts. Retrieved Sep. 18, 2013, from Eurostat database.

To include a complete current account with secondary income balance, we have to change the modified external balance equation to:

$$ND^* = EX - IM + PIB + SIB + FDI = 0 \qquad (3)$$

where:

SIB is the secondary income balance.

Under this arrangement, we are able to account for the specifics of Poland, which has a relatively higher share of this subaccount compared with other Visegrad countries. It is mainly given by large GROUPS of Polish people working in foreign countries, having already local residency[4], and lately also large capital inflows from EU funds (see below). The net inflow in Poland amounts to 1% of GDP on average[5]. For the

Table 10.2. Financing of external balance deficit in V4 countries in the yeas 2003-2012 (in %)

Country	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Czech Republic	-4	-2	8	1	1	-1	-1	-1	-1	2
Hungary	-7	-6	-3	-5	-7	-5	0	1	1	3
Poland	-1	-1	0	-1	-2	-5	-2	-4	-3	-3
Slovakia	0	-1	-4	0	-1	-2	-4	-3	-1	5

Source: Own calculations based on Eurostat data, Eurostat (2013a). Balance of payments by country. Retrieved Sep. 16, 2013, from Eurostat database. Eurostat (2013b). Annual national accounts. Retrieved Sep. 18, 2013, from Eurostat database.

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[4] If they send some amount of money back to their families, such a transfer appears as a secondary income in a form of workers' remittance.

[5] Authors' calculation.

Czech economy, this source is very limited, the same for Hungary (slightly higher numbers up to 0.5% of GDP). In case of Slovakia, the net impact would be negative (approximately 1% of GDP). Values are reflected in Table 10.2.

The presented long-term solution also has at least one drawback. Additional investment inflow causes future outflow of profits, and thus further deterioration of primary income balance and current account. A true long-term solution to eventual current account deficits should thus be found within the current account – either in form of an additional goods and services balance improvement or in larger investment outflow that would help to improve primary income balance (profits achieved by domestic companies in foreign economies).

Development of Trade Balance

All Visegrad countries have seen a positive development in terms of international exchange of goods – a steady increase during the last 13 years with an exception of 2009. The largest exporter and also importer is, given its size, Poland, but its lower level of openness determines relatively small difference to the other Visegrad economies. Each of them will be examined separately to provide enough country specific details.

The Czech Republic

Czech exports climbed more than twice in value between 2000 and 2012, as it is obvious in Figure 10.5. But among Visegrad countries this was the lowest increase, by 2.3 times.

Hungarian exports rose 2.7 times, Polish 4 times and Slovakian 3.4 times[6]. The increase had been supported by competitiveness improvement, access to internal market since 2004 and mainly by large inflow of export oriented investment. Because of these factors, exports increased more than imports (these only 2 times, again lowest increase in comparison – in Hungary 2.3 times and in Poland and Slovakia 3 times[7]), turning country's trade balance into surplus.

There were two drops of trade. The first one, less apparent, happened in 2002, and the second one in 2009, following global recession. Because value of imports dropped more than that of exports (14.5% compared to 11.5%), it contributed to trade balance improvement.

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[6] Authors' calculations based on Eurostat data.
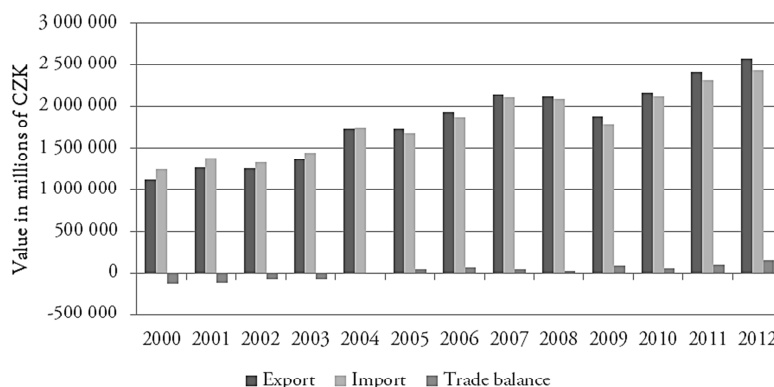[7] Authors' calculations based on Eurostat data.

Figure 10.5. Development of trade in goods in the Czech Republic in the years 2000-2012
Source: Eurostat (2013c). Balance of payments by country.
Retrieved Oct. 1, 2013, from Eurostat database.

Table 10.3. Commodity structure of trade by SITC[8] groups in the Czech Republic in the year 2012 (in millions of USD)

EXPORTS			IMPORTS		
SITC	2012	2012 share	SITC	2012	2012 share
Total	156 026.6	100.0	Total	139 130.7	100.0
0+1	6 501.8	4.2	0+1	7 928.2	5.7
2+4	4 869.4	3.1	2+4	4 254.3	3.1
3	5 893.9	3.8	3	14 174.0	10.2
5	9 295.6	6.0	5	15 508.1	11.1
6	26 979.1	17.3	6	25 036.2	18.0
7	85 091.3	54.5	7	58 382.5	42.0
8	17 123.5	11.0	8	13 493.2	9.7
9	272.1	0.2	9	354.3	0.3

Source: United Nations (2013a). International merchandise trade statistics: the Czech Republic.
Retrieved Oct. 2, 2013, from UN ComTrade database.

When examining patterns of trade, analysis of commodity and territorial structure must not be omitted. Table 10.3 depicts commodity structure of trade, from which it is apparent that machinery and transport equipment (SITC 7) leads both exports and imports. Negative trade balance is then recorded in SITC 3 (Mineral fuels, lubricants and related materials) and 5 (Chemicals and related products).

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[8] SITC refers to Standard International Trade Classification, more at:
http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=14

Table 10.4. Top 10 export commodities in 2012 in the Czech Republic (in millions of USD)

No.	Commodity	Value	SITC
1	Motor cars and other motor vehicles principally designed for the transport	15 153.5	781
2	Parts and accessories of the motor vehicles of headings	10 127.6	784
3	Automatic data processing machines and units thereof	10 228.7	752
4	Electrical apparatus for line telephony or line telegraphy	3 551.8	764
5	Reception apparatus for television	2 570.5	761
6	Insulated (including enamelled or anodised) wire, cable	2 662.3	773
7	New pneumatic tyres, of rubber	2 346.6	625
8	Electrical energy	2 321.7	351
9	Electrical apparatus for switching or protecting electrical circuits	1 986.6	772
10	Seats	1 792.7	821

Source: United Nations (2013a). International merchandise trade statistics: the Czech Republic. Retrieved Oct. 2, 2013, from UN ComTrade database.

Table 10.5. Exports by principal countries and SITC sections in 2012 in the Czech Republic percentages of country total (in millions of USD)

Country	Total	0+1	2+4	3	5	6	7	8	9
World	156 026.6	4.2	3.1	3.8	6.0	17.3	54.5	11.0	0.2
Germany	48 937.3	2.5	2.8	3.5	4.1	17.3	57.7	11.8	0.2
Slovakia	13 973.2	12.6	4.0	14.1	7.8	18.5	31.7	10.9	0.5
Poland	9 483.1	6.7	7.3	4.2	11.4	27.7	34.8	8.0	0.1
France	7 901.1	2.3	1.4	0.2	3.5	13.2	68.8	10.7	0.0
United Kingdom	7 581.1	2.8	0.4	2.4	2.3	11.9	67.5	12.5	0.1
Austria	7 212.3	4.5	9.2	13.1	5.5	17.5	37.8	12.3	0.2
Russian Federation	6 162.4	1.6	0.4	0.3	7.8	9.2	72.7	8.0	0.0
Italy	5 516.6	8.9	6.2	0.2	5.6	23.8	45.7	9.6	0.0
Netherlands	5 070.6	2.2	1.3	0.6	3.4	13.8	67.8	10.8	0.1
Belgium	3 721.4	3.1	1.5	0.2	6.0	18.3	57.7	13.1	0.1

Source: United Nations (2013a). International merchandise trade statistics: the Czech Republic. Retrieved Oct. 2, 2013, from UN ComTrade database.

Top ten export commodities are captured in Table 10.4. Most of them are from SITC 7, led by automotive industry and telecommunication and consumer electronics.

Table 10.5 shows a more detailed view, when combining commodity structure with a territorial one. Ten countries receiving the most of Czech exports are included. Again, categories SITC 6, 7 and 8 prevail, though some specifics exist (e.g. Austria).

Hungary

As stated above Hungarian exports (in terms of value) rose 2.7 times between 2000 and 2012, while imports 2.3 times, taking country's trade balance into surplus (see Figure 10.6).

Compared to the Czech Republic, there was only one drop of trade, in 2009, following global recession. Because value of imports dropped more than that of exports (16.2% compared to 11.2%), it contributed to trade balance improvement.
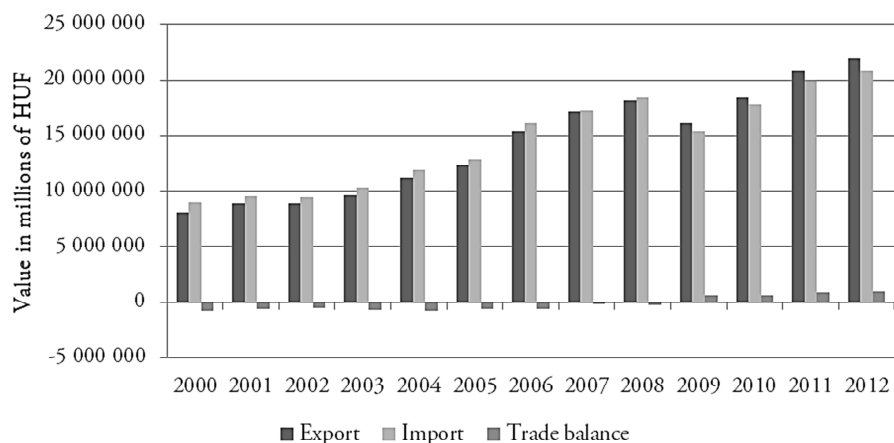

Figure 10.6. Development of trade in goods in Hungary in the years 2010-2012
Source: Eurostat (2013c). Balance of payments by country.
Retrieved Oct. 1, 2013, from Eurostat database.

Table 10.6. Commodity structure of trade by SITC groups in Hungary (in millions of USD)

EXPORTS			IMPORTS		
SITC	2012	2012 share	SITC	2012	2012 share
Total	103 006.0	100.0	Total	94 266.2	100.0
0+1	7 749.5	7.5	0+1	4 295.2	4.6
2+4	3 197.8	3.1	2+4	2 067.2	2.2
3	4 052.6	3.9	3	11 954.6	12.7
5	10 236.8	9.9	5	10 238.9	10.9
6	10 664.6	10.4	6	12 056.9	12.8
7	53 140.7	51.6	7	39 184.7	41.6
8	8 992.6	8.7	8	5 551.1	5.9
9	4 971.5	4.8	9	8 917.6	9.5

Source: United Nations (2013b). International merchandise trade statistics: Hungary. Retrieved Oct. 5, 2013, from UN ComTrade database.

Table 10.6 depicts commodity structure of trade, from which it is apparent that machinery and transport equipment (SITC 7) leads both exports and imports, as in

the case of Czech Republic. Negative trade balance is then recorded in SITC 3 (Mineral fuels, lubricants and related materials) and 6 (Manufactured goods classified chiefly by material).

Top ten export commodities are included in Table 10.7. Eight of them are from SITC 7, led by automotive industry and telecommunication and consumer electronics.

Table 10.7. Top 10 export commodities in 2012 in Hungary (in millions of USD)

No.	Commodity	Value	SITC
1	Electrical apparatus for line telephony or line telegraphy	7 029.6	764
2	Motor cars and other motor vehicles principally designed for the transport	5 093.6	781
3	Commodities not specified according to kind	4 783.4	931
4	Reception apparatus for television	3 830.3	761
5	Parts and accessories of the motor vehicles	3 855.3	784
6	Medicaments	3 648.3	542
7	Spark-ignition reciprocating or rotary internal combustion piston engines	3 659.1	713
8	Automatic data processing machines and units thereof	2 928.8	752
9	Compression-ignition internal combustion piston engines	2 244.0	713
10	Insulated (including enamelled or anodised) wire, cable	1 930.3	773

Source: United Nations (2013b). International merchandise trade statistics: Hungary. Retrieved Oct. 5, 2013, from UN ComTrade database.

Table 10.8. Exports by principal countries and SITC sections in 2012 in Hungary percentages of country total, (in millions of USD)

Country	Total	0+1	2+4	3	5	6	7	8	9
World	103 006.0	7.5	3.1	3.9	9.9	10.4	51.6	8.7	4.8
Germany	25 719.3	3.7	1.9	0.7	4.2	11.2	63.5	14.4	0.4
Romania	6 194.4	16.7	4.7	18.0	17.9	9.9	27.0	5.5	0.1
Slovakia	6 052.2	12.6	7.4	3.2	10.2	13.2	47.6	5.3	0.5
Austria	5 951.0	12.3	7.6	13.2	5.8	15.0	33.7	11.4	0.9
Italy	4 780.8	16.2	9.8	0.5	13.9	11.4	39.5	8.5	0.3
France	4 772.5	4.5	1.0	0.4	11.5	12.7	58.8	11.1	0.0
United Kingdom	4 272.7	5.0	1.2	0.2	5.4	9.2	69.9	9.1	0.0
Czech Republic	3 988.5	7.8	2.0	1.6	16.3	15.9	47.3	8.9	0.2
Poland	3 920.8	9.8	2.0	1.4	21.5	15.9	43.0	6.2	0.1
Russian Federation	3 288.7	7.8	1.0	0.3	27.1	10.0	50.0	3.8	0.0

Source: : United Nations (2013b). International merchandise trade statistics: Hungary. Retrieved Oct. 5, 2013, from UN ComTrade database.

Table 10.8 shows a more detailed view, when combining commodity structure with a territorial one. Ten countries receiving the most of Hungarian exports are

included. Categories SITC 5, 6, and 7 prevail, though some specifics exist (e.g. Romania or Austria).

Poland

Polish exports (in terms of value) rose 4 times between 2000 and 2012, while imports 3 times, as it is obvious in Figure 10.7. But in this case the difference is that the trade balance still remains in deficit. This is determined by the fact that the share of export oriented investment is lower than in the case of other three economies and also given by large import increases as accompanying economic growth.
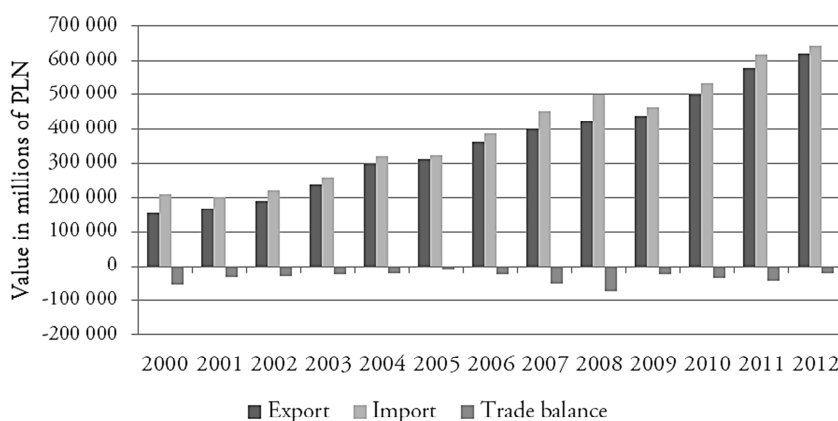

Figure 10.7. Development of trade in goods in Poland in the years 2000-2012
Source: Eurostat (2013c). Balance of payments by country.
Retrieved Oct. 1, 2013, from Eurostat database.

Table 10.9. Commodity structure of trade by SITC groups in Poland (in millions of USD)

EXPORTS			IMPORTS		
SITC	2012	2012 share	SITC	2012	2012 share
Total	103 006.0	100.0	Total	94 266.2	100.0
0+1	20 960.3	11.7	0+1	14 485.3	7.6
2+4	4 550.8	2.5	2+4	7 498.6	3.9
3	8 978.5	5.0	3	26 135.1	13.7
5	16 339.0	9.1	5	26 502.0	13.8
6	37 779.3	21.0	6	32 877.2	17.2
7	67 855.6	37.8	7	61 195.8	32.0
8	22 327.6	12.4	8	17 040.4	8.9
9	812.5	0.5	9	5 695.7	3.0

Source: United Nations (2013c). International merchandise trade statistics: Poland. Retrieved Oct. 11, 2013, from UN ComTrade database.

Similar to the Hungarian economy, there was only the 2009 drop of trade, following global recession. Because value of imports dropped (by 6.8%), but the value of exports rose by 3%, this had positive impact on the trade balance, which improved considerably, but still remained in deficit.

Table 10.10. Top 10 export commodities in 2012 in Poland (in millions of USD)

No.	Commodity	Value	SITC
1	Parts and accessories of the motor vehicles	8 363.4	784
2	Motor cars and other motor vehicles principally designed for the transport	6 786.6	781
3	Reception apparatus for television	4 891.6	761
4	Seats	4 525.0	821
5	Petroleum oils, other than crude	4 390.3	334
6	Other furniture and parts thereof	3 154.3	821
7	Automatic data processing machines and units thereof	2 963.5	752
8	Compression-ignition internal combustion piston engines	2 708.3	713
9	Cruise ships, excursion boats, ferry-boats, cargo ships, barges	3 003.4	793
10	Refined copper and copper alloys, unwrought	2 670.1	682

Source: United Nations (2013c). International merchandise trade statistics: Poland. Retrieved Oct. 11, 2013, from UN ComTrade database.

Table 10.11. Exports by principal countries and SITC sections in 2012 in Poland percentages of country total (in millions of USD)

Country	Total	0+1	2+4	3	5	6	7	8	9
World	179 603.6	11.7	2.5	5.0	9.1	21.0	37.8	12.4	0.5
Germany	44 741.1	10.0	3.5	3.4	7.7	22.6	35.5	17.1	0.3
United Kingdom	12 159.7	12.9	0.7	3.5	7.4	22.2	42.9	10.4	0.0
Czech Republic	11 140.7	11.1	3.8	11.5	8.9	27.7	26.5	10.4	0.0
France	10 464.7	12.3	1.8	1.3	7.9	19.2	45.1	12.4	0.0
Russian Federation	9 898.3	13.2	0.8	1.5	14.4	18.4	38.9	12.8	0.0
Italy	8 790.5	12.2	2.1	0.3	8.0	17.7	46.3	7.9	5.5
Netherlands	7 969.9	14.4	1.5	13.3	5.6	13.6	38.4	13.3	0.0
Ukraine	5 279.6	11.1	1.8	8.7	14.0	25.6	28.0	10.8	0.0
Sweden	4 716.9	7.3	1.6	8.0	5.6	20.9	41.4	15.1	0.0
Slovakia	4 528.0	14.3	4.2	8.3	8.1	26.1	26.2	12.8	0.0

Source: : United Nations (2013c). International merchandise trade statistics: Poland. Retrieved Oct. 11, 2013, from UN ComTrade database.

Table 10.9 characterizes commodity structure of trade. It is obvious that Machinery and transport equipment (SITC 7) does not play such an important role as in case of the other three economies. Large proportion of trade is conducted within categories 0 (Food and live animals), 1 (Beverages and tobacco) and 6 (Manufactured goods classified chiefly by material), which reflects higher share of

agriculture in Polish economy and society. Negative trade balance is again recorded in SITC 3 (Mineral fuels, lubricants and related materials) and 5 (Chemicals and related products).

Top ten export commodities are captured in Table 10.10. As in the previous cases, products of SITC 7 category prevail, but an important role is also played by furniture, oils or ships.

Table 10.11 shows a more detailed view, when combining commodity structure with a territorial one. Ten countries receiving the most of exports from Poland are included. Categories SITC 1, 6, and 7 prevail.

Slovakia

Slovakian exports (in terms of value) rose 3.4 times between 2000 and 2012, while imports 3 times, taking country's trade balance into surplus (see Figure 10.8). Similar to the Hungarian or Polish economy, there was only the 2009 drop of trade, following global recession, but of considerable significance. The value of imports dropped more than the value of exports (25.8% compared to 22.8%), which had positive impact on the trade balance that improved considerably. There might be a discussion about the reasons for such dramatic declines in international trade. One of them deals with the single European currency introduction.
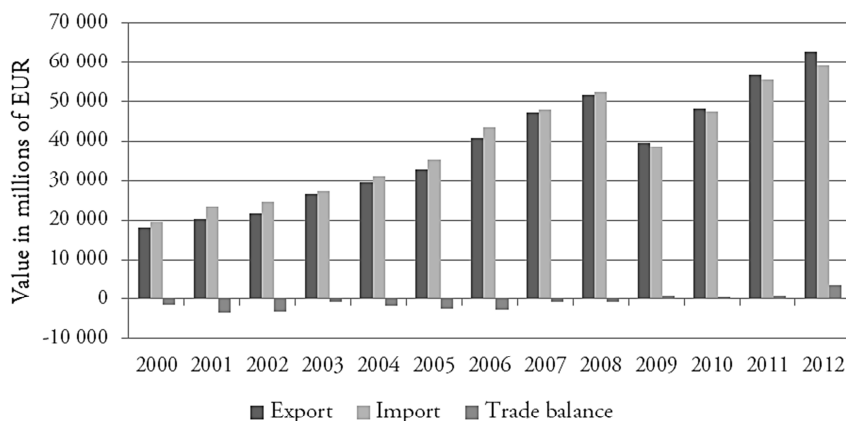

Figure 10.8. Development of trade in goods in Slovakia in the years 2000-2012
Source: Eurostat (2013c). Balance of payments by country.
Retrieved Oct. 1, 2013, from Eurostat database.

While national currencies of other Visegrad countries had been experiencing sharp declines in their values because of financial crisis and following increase in investors distrust in CEE countries at 2008/2009 turn, Slovakia pegged its currency at a relatively strong value in the middle of 2008 to euro, in order to become a member

of euro area (see Fidrmuc (2013)). Depreciation (that did not happen in Slovakia) had advantaged (in terms of prices) exports from the Czech, Hungarian or Polish economy and disadvantaged imports into these countries. In short term, euro introduction had had negative impact on Slovakia.

Table 10.12. Commodity structure of trade by SITC groups in Slovakia (in millions of USD)

	EXPORTS			IMPORTS	
SITC	2012	2012 share	SITC	2012	2012 share
Total	80 752.0	100.0	Total	77 695.2	100.0
0+1	3 611.9	4.5	0+1	4 609.1	5.9
2+4	2 742.2	3.4	2+4	3 297.2	4.2
3	4 771.2	5.9	3	10 144.9	13.1
5	3 470.4	4.3	5	6 488.0	8.4
6	14 544.3	18.0	6	11 744.4	15.1
7	44 221.4	54.8	7	31 956.5	41.1
8	7 238.6	9.0	8	9 243.7	11.9
9	151.9	0.2	9	211.4	0.3

Source: United Nations (2013d). International merchandise trade statistics: Slovakia. Retrieved Oct. 15, 2013, from UN ComTrade database.

Table 10.12 characterizes commodity structure of trade. It is it is apparent that machinery and transport equipment (SITC 7) leads both exports and imports, as in the case of Czech Republic or Hungary. Negative trade balance is then recorded in SITC 3 (Mineral fuels, lubricants and related materials), 6 (Manufactured goods classified chiefly by material) or 8 (Miscellaneous manufactured articles).

Table 10.13. Top 10 export commodities in 2012 in Slovakia (in millions of USD)

No.	Commodity	Value	SITC
1	Motor cars and other motor vehicles principally designed for the transport	13 262.8	781
2	Reception apparatus for television	6 587.9	761
3	Petroleum oils, other than crude	3 737.3	334
4	Parts and accessories of the motor vehicles	2 897.8	784
5	Electrical apparatus for line telephony or line telegraphy	2 949.5	764
6	Bodies (including cabs), for the motor vehicles	2 208.6	784
7	Insulated (including enamelled or anodised) wire, cable	1 363.2	773
8	New pneumatic tyres, of rubber	1 461.4	625
9	Parts suitable for use with the apparatus	1 251.3	764
10	Flat-rolled products of iron or non-alloy steel	1 089.6	673

Source: United Nations (2013d). International merchandise trade statistics: Slovakia. Retrieved Oct. 15, 2013, from UN ComTrade database.

Top ten export commodities are captured in Table 10.13. As in the previous cases, products of SITC 7 category prevail, especially motor cars, car parts or consumer electronics.

Table 10.14 shows a more detailed view, when combining commodity structure with a territorial one. Ten countries receiving the most of exports from Slovakia are included. Categories SITC 3, 6, and 7 prevail, but again with some regional exceptions (Austria, Hungary or Czech Republic).

Table 10.14. Exports by principal countries and SITC sections in 2012 in Slovakia percentages of country total (in millions of USD)

Country	Total	0+1	2+4	3	5	6	7	8	9
World	80752.0	4.5	3.4	5.9	4.3	18.0	54.8	9.0	0.2
Germany	17178.3	0.9	1.1	3.2	3.1	16.0	65.1	10.5	0.1
Czech Republic	11361.2	8.1	6.7	11.9	7.3	26.7	30.6	8.2	0.5
Poland	6515.3	5.9	4.8	7.4	5.9	28.5	37.6	9.6	0.3
Hungary	5814.1	19.9	12.2	11.5	6.7	17.0	23.7	8.5	0.3
Austria	5394.2	5.3	4.8	24.4	2.5	20.4	34.6	7.8	0.2
France	4335.6	0.7	0.5	1.3	3.5	13.3	70.3	10.4	0.0
Italy	3758.5	4.0	3.7	2.5	4.6	24.4	53.5	7.2	0.2
Russian Federation	3368.0	1.1	0.4	0.0	2.7	5.3	83.1	7.4	0.0
United Kingdom	3183.1	1.6	0.4	4.3	1.5	7.7	74.9	9.6	0.0
Netherlands	1823.3	3.2	0.4	0.2	2.2	12.5	74.2	7.2	0.0

Source: : United Nations (2013d). International merchandise trade statistics: Slovakia. Retrieved Oct. 15, 2013, from UN ComTrade database.

Development of Balance of Services

As was already presented within general current account analysis, most of the countries under examination do not suffer from balance of services deficits. The only exception is Slovakia (reasons will be discussed below).

Table 10.15. Net balance of services in V4 countries as a percentage of national GDP

Country	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Czech Republic	0.5	0.6	1.2	1.5	1.6	1.9	2.0	2.0	1.5	1.3
Hungary	0.1	0.6	1.3	1.6	1.3	1.4	2.2	3.0	3.2	3.5
Poland	0.1	0.0	0.2	0.2	1.1	1.0	1.1	0.7	1.1	1.2
Slovakia	0.7	0.6	0.7	1.4	0.7	-0.8	-1.6	-1.1	-0.5	0.4

Source: Own calculations based on Eurostat data Eurostat (2013a). Balance of payments by country. Retrieved Sep. 16, 2013, from Eurostat database. Eurostat (2013b). Annual national accounts. Retrieved Sep. 18, 2013, from Eurostat database.

Table 10.15 depicts the development of balance of services surplus (or deficit). The measure (% of national GDP) illustrates relative significance for external balance

(current account) stability in the respective economy. Czech Republic, Hungary and Poland have enjoyed positive balances from the beginning of the new millennium, while Slovakia had suffered from deficits between 2008 and 2011.

Table 10.16. Individual items of balance of services in V4 countries as a percentage of net balance of services surplus/deficit

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Transportation	Czech Republic	203	135	46	38	36	28	34	24	21	31
	Hungary	-622	-40	-6	9	15	17	22	15	21	19
	Poland	709	12923	291	379	77	73	72	85	73	69
	Slovakia	216	185	122	95	77	-67	-9	10	-5	28
Travel	Czech Republic	347	295	152	144	114	74	75	78	94	108
	Hungary	2410	250	123	131	119	129	106	78	71	66
	Poland	411	10386	97	0	60	39	35	31	39	36
	Slovakia	123	58	113	61	92	-63	-17	-29	-48	40
Other services	Czech Republic	-449	-329	-99	-82	-51	-1	-9	-2	-16	-39
	Hungary	-1689	-110	-17	-40	-34	-46	-28	8	8	15
	Poland	-1020	-23209	-289	-280	-36	-13	-7	-16	-13	-5
	Slovakia	-244	-137	135	55	-67	214	119	115	139	54
Commercial services	Czech Republic	109	106	105	102	102	102	102	101	102	102
	Hungary	180	112	103	105	106	106	103	102	101	102
	Poland	149	1629	122	149	106	107	106	104	102	102
	Slovakia	107	111	111	105	108	95	96	98	96	115

Source: Own calculations based on Eurostat data, Eurostat (2013a). Balance of payments by country. Retrieved Sep. 16, 2013, from Eurostat database.

Detailed analysis of balance of services surplus/deficit is provided in Table 10.16. Values indicate a percentage, to which individual subpart of balance of services is responsible for the overall balance of services surplus/deficit. The main three subparts are following: transportation, travel and other services. By analysing the data it is obvious that transportation and travel contribute in a positive way. On the other hand, other services have played mainly negative role (mainly because of insurance services, financial services and royalties and license fees). This development was responsible for the overall deficit in Slovakia, which can be seen from the last part of the table, commercial services that represented between 2008 and 2011 almost 100% of it (compare with Table 10.15).

Development of Primary Income Balance

The negative development of primary income balances and its consequences was already discussed in previous text. To illustrate again its significance, Table 10.17 depicts net primary income balance as a percentage of national GDP. Largest shares are accounted in the Czech Republic and Hungary. Situation in Slovakia is not stable, but there is an upward trend in Poland, determined by increase in outgoing investment income.

Table 10.17. Net primary income balance as a percentage of national GDP in V4 countries

Country	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Czech Republic	4.5	5.3	4.1	4.9	7.0	4.5	6.6	7.5	6.7	7.5
Hungary	5.0	5.2	5.7	5.9	7.4	7.1	5.4	5.7	6.5	6.6
Poland	1.1	3.3	2.2	2.8	3.8	2.4	3.8	4.1	4.5	4.6
Slovakia	5.5	5.2	4.2	4.4	4.2	2.9	1.4	3.1	4.2	2.3

Source: Own calculations based on Eurostat data, Eurostat (2013a). Balance of payments by country. Retrieved Sep. 16, 2013, from Eurostat database. Eurostat (2013b). Annual national accounts. Retrieved Sep. 18, 2013, from Eurostat database.

This part's aim is to provide details about specific origins of this account's deficits. Figures 10.9-10.12 illustrate that these deficits are very closely linked to the inflow of direct investment, since in 2012 from 70% (Hungary) to 182% (Slovakia) of the total deficit value originated this way. 39% (Poland) to 124% (Slovakia) in 2012 is then the calculated value of dividends.

As can be seen, the significance of the mentioned problem increases in time, especially in Poland. Direct investment inflow is one of the ways how to finance incurring current account deficits, but this process raises this deficit internally, when incoming investors achieve profits and repatriate them.
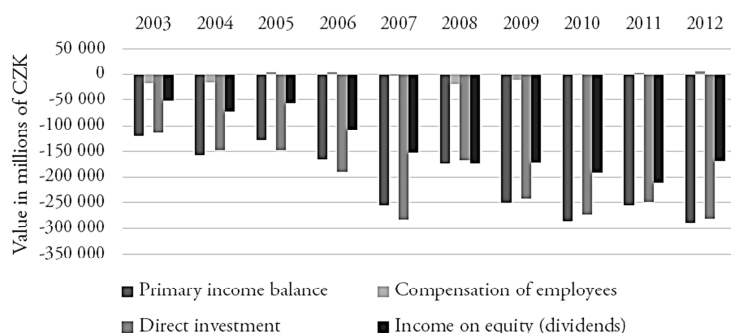
Figure 10.9. Primary income balance and its structure in the Czech Republic
Source: Eurostat (2013c). Balance of payments by country.
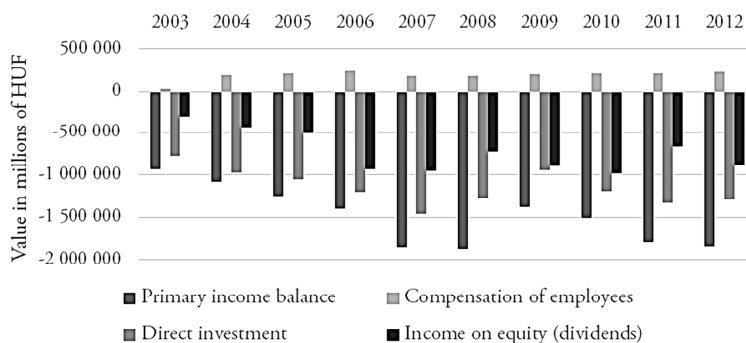Retrieved Oct. 1, 2013, from Eurostat database.

Figure 10.10. Primary income balance and its structure in Hungary
Source: Eurostat (2013c). Balance of payments by country.
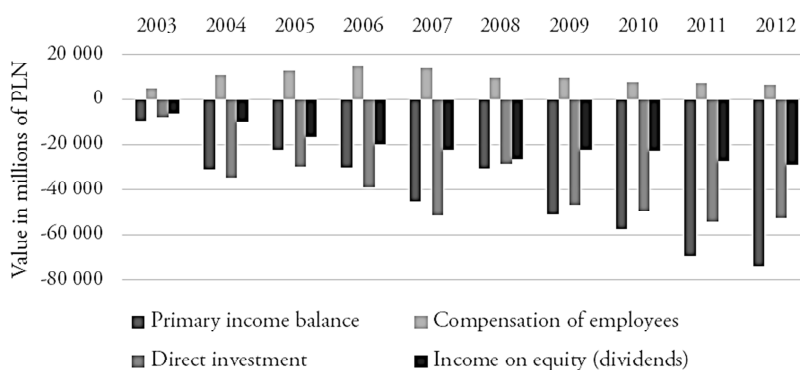Retrieved Oct. 1, 2013, from Eurostat database.

Figure 10.11. Primary income balance and its structure in Poland
Source: Eurostat (2013c). Balance of payments by country.
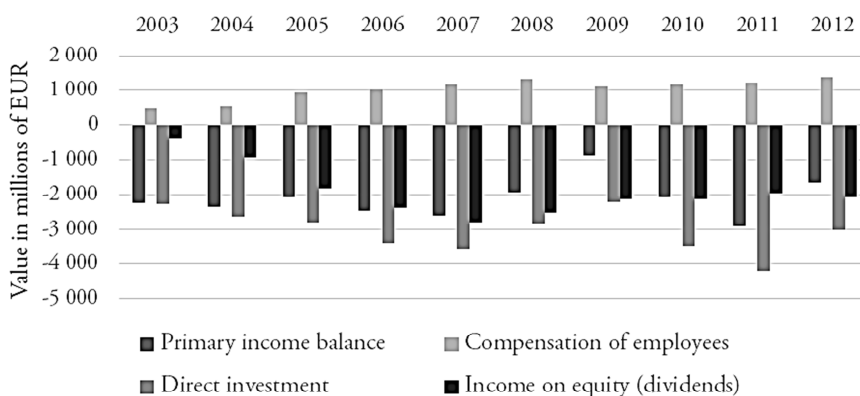Retrieved Oct. 1, 2013, from Eurostat database.

Figure 10.12. Primary income balance and its structure in Slovakia
Source: Eurostat (2013c). Balance of payments by country.
Retrieved Oct. 1, 2013, from Eurostat database.

The Czech economy is the only one out of Visegrad countries with very low significance of compensation of employees for primary income balance. This fact has two explanations:

1. relatively lower international labour mobility compared to Hungary and mainly Poland and Slovakia,
2. high number of non-residents working in the Czech Republic. Then the net value of this item is close to balance.

Development of Secondary Income Balance

Although the importance of secondary income balance is relatively low (net surplus/deficit accounts for 1% or less of GDP in all Visegrad countries), its analysis is worth (see Figures 10.13-10.16). It consists of two main parts, general government (it covers contributions to the budget of the European Union institutions, cash transfers and gifts to/from other governments; flows from the European Union institutions are the biggest sub-category of the general government transfers) and other sectors (include workers' remittances, residents' contributions to foreign social security schemes, etc.)

As was mentioned above, Polish current account relies on secondary income surplus, which is a result of positive development of both main parts. In the Czech Republic the position toward EU is positive, other sectors then negative.

Slovakia has to cope, as the only Visegrad economy, with large secondary income deficits, given by balanced EU capital flows and negative other sectors. Hungary, on the other hand, has negative EU capital flows, but positive other sectors.
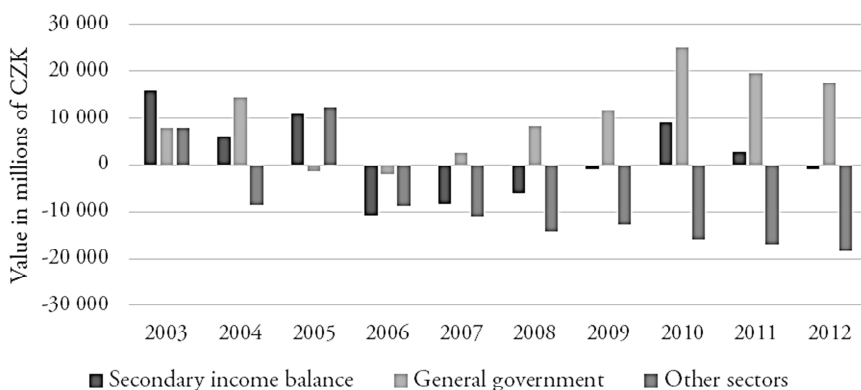

Figure 10.13. Secondary income balance and its structure in the Czech Republic
Source: Eurostat (2013c). Balance of payments by country.
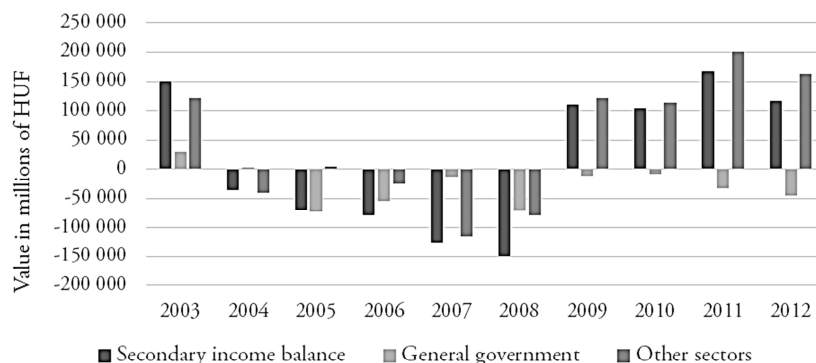Retrieved Oct. 1, 2013, from Eurostat database.

Figure 10.14. Secondary income balance and its structure in Hungary
Source: Eurostat (2013c). Balance of payments by country.
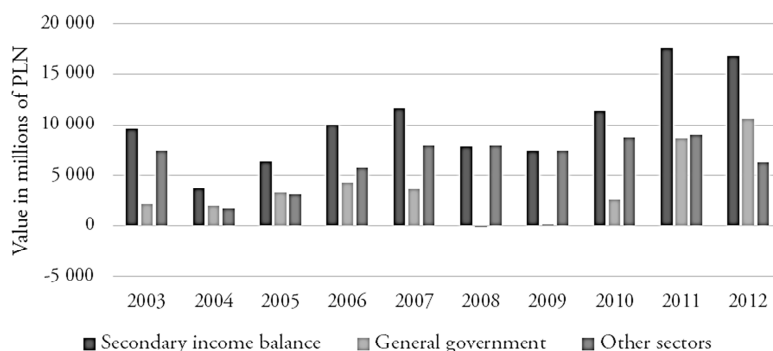Retrieved Oct. 1, 2013, from Eurostat database.

Figure 10.15. Secondary income balance and its structure in Poland
Source: Eurostat (2013c). Balance of payments by country.
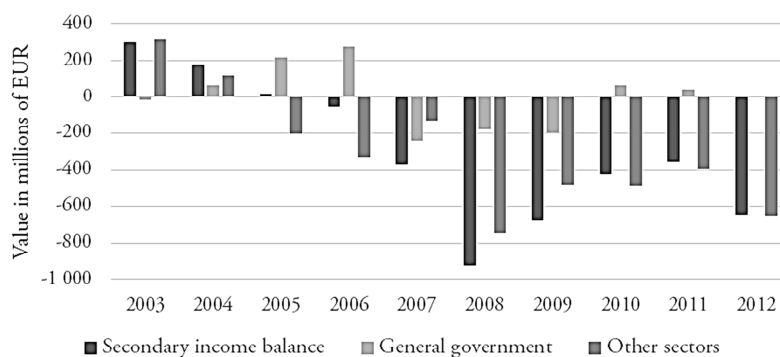Retrieved Oct. 1, 2013, from Eurostat database.

Figure 10.15. Secondary income balance and its structure in Slovakia
Source: Eurostat (2013c). Balance of payments by country.
Retrieved Oct. 1, 2013, from Eurostat database.

But as was already several time stated, the significance of secondary income balance is limited.

Financial Account (Direct Investment Specifically)

Previous analyses have identified financial account as the main source how to offset current account deficits (if they exist). Table 10.18 summarizes the values of financial account balances as a percentage of national GDP. It is obvious that there is potential to stand that role. A detailed look at the numbers shows that situation in Hungary is somewhat different. Relatively large deficits result from investment abroad (see below).

Table 10.18. Financial account balance in V4 countries as a percentage of national GDP

Country	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Czech Republic	5.4	5.8	2.2	2.9	3.0	1.4	2.2	3.5	2.0	1.1
Hungary	7.8	10.6	9.1	8.8	6.6	8.5	-0.6	-1.3	-1.1	-5.0
Poland	3.5	3.1	2.3	3.1	5.9	7.9	4.5	5.5	4.9	2.3
Slovakia	4.6	7.3	7.8	7.4	4.4	9.3	4.2	3.9	4.9	-0.5

Source: Own calculations based on Eurostat data, Eurostat (2013a). Balance of payments by country. Retrieved Sep. 16, 2013, from Eurostat database. Eurostat (2013b). Annual national accounts. Retrieved Sep. 18, 2013, from Eurostat database.

This part will not analyze all subaccounts of a financial account, but only the most important, which is flow of direct investment. Table 10.19 illustrates the share of net direct investment on financial account balance

Figure 10.17 then depicts the development of net direct investment flow as a share of national GDP. It is apparent that with the beginning of financial and economic crisis the net inflow slowed down in all Visegrad economies. Since the values have been very often dependent on large privatization projects in individual countries, it would be difficult to draw a trend line or to state which Visegrad country enjoys the most positive development of net direct investment inflow.

Table 10.19. Net direct investment flow in V4 countries as a percentage of financial account balance

Country	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Czech Republic	37	60	417	92	163	70	46	72	61	438
Hungary	8	29	55	30	4	31	-14	-65	-76	-42
Poland	57	154	98	101	73	25	42	26	49	47
Slovakia	125	99	61	101	91	48	-25	24	59	-694

Source: Own calculations based on Eurostat data, Source: Eurostat (2013a). Balance of payments by country. Retrieved Sep. 16, 2013, from Eurostat database.

Figures 10.18-10.21 illustrate direct investment outflow from reporting economies. Comparing the values with those of investment inflow, it is apparent that there is still a considerable gap, given by two factors:

1. lower capital endowment of companies in comparison with traditional developed economies,
2. large proportion of investment abroad is conducted by "local" companies with other residency (typically the Netherlands, Cyprus, or Lichtenstein).
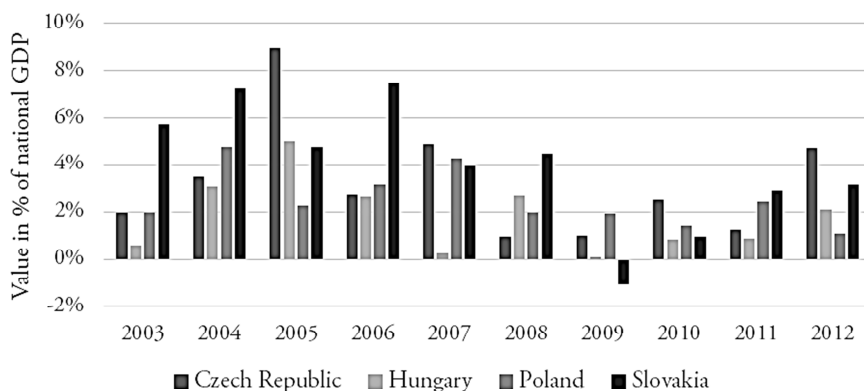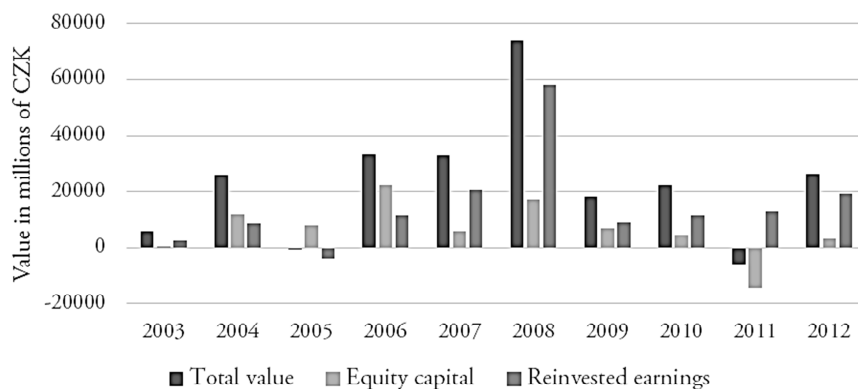

Figure 10.17. Net direct investment flow in V4 countries as a percentage of national GDP
Source: Own calculations based on Eurostat data, Eurostat (2013a). Balance of payments by country. Retrieved Sep. 16, 2013, from Eurostat database. Eurostat (2013b). Annual national accounts. Retrieved Sep. 18, 2013, from Eurostat database.

Figure 10.18. Value of direct investment outflow in the Czech Republic
Source: Eurostat (2013c). Balance of payments by country. Retrieved Oct. 1, 2013, from Eurostat database.

Remarkable is the recent development in Hungary, namely an investment in chemical (crude oil processing) industry in 2012, which turned the whole financial account into deficit. In Slovakia and mainly in the Czech Republic there is a trend observable, specifically higher share of reinvested earnings than in Poland or Hungary. This reflects previous capital outflows that have started to generate profits, which are reinvested. In 2011 the Czech economy experienced negative outflow, a divestment.
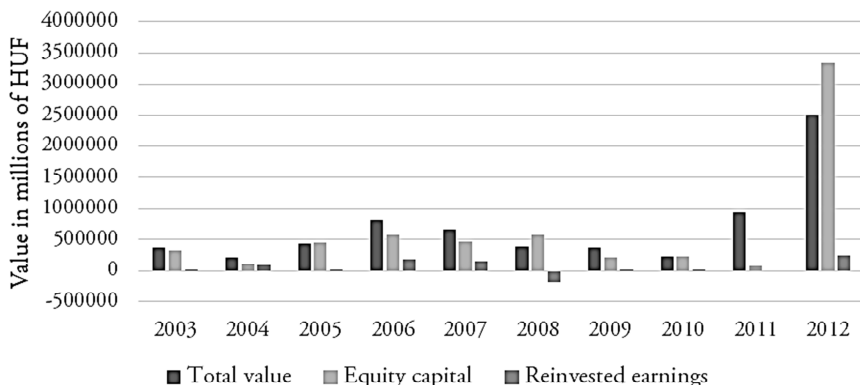
Figure 10.19. Value of direct investment outflow in Hungary
Source: Eurostat (2013c). Balance of payments by country. Retrieved Oct. 1, 2013, from Eurostat database.
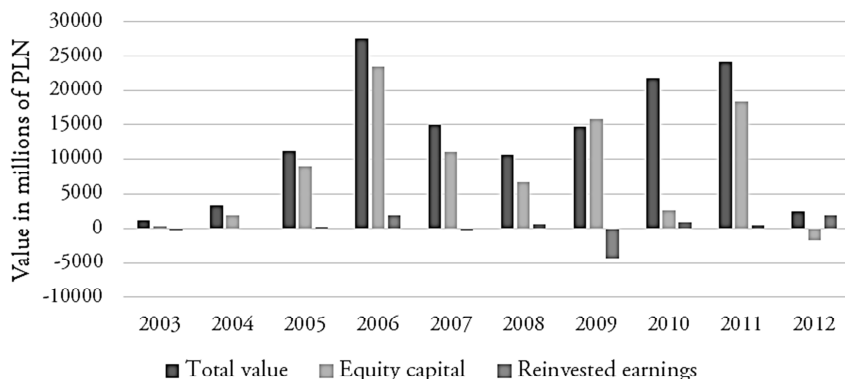
Figure 10.20. Value of direct investment outflow in Poland
Source: Eurostat (2013c). Balance of payments by country. Retrieved Oct. 1, 2013, from Eurostat database.

Direct investment inflow is depicted in Figures 10.22-10.25. Financial and economic crisis had caused decrease in its value during 2009-2011. The decline in FDI is caused according to UNCTAD (2009) by three main factors. The first factor is the ability of companies to invest, which was limited by the reduction of access to finance both internal (decline in profits) and external (increased finance costs). The second factor is represented by negative economic forecasts. These two factors are accompanied by a third one, increased level of risk perception, which forced companies to reduce costs and the investment plans. Internationalization strategies have been replaced by measures that increase efficiency and by savings, which would lead to a higher resistance against possible future deterioration.
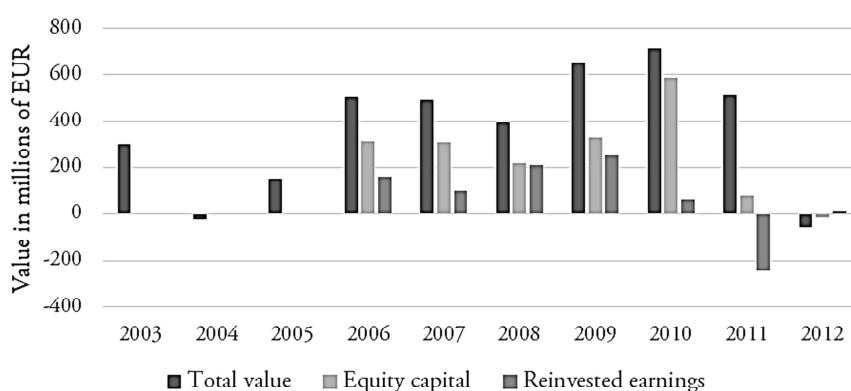

Figure 10.21. Value of direct investment outflow in Slovakia
Source: Eurostat (2013c). Balance of payments by country.
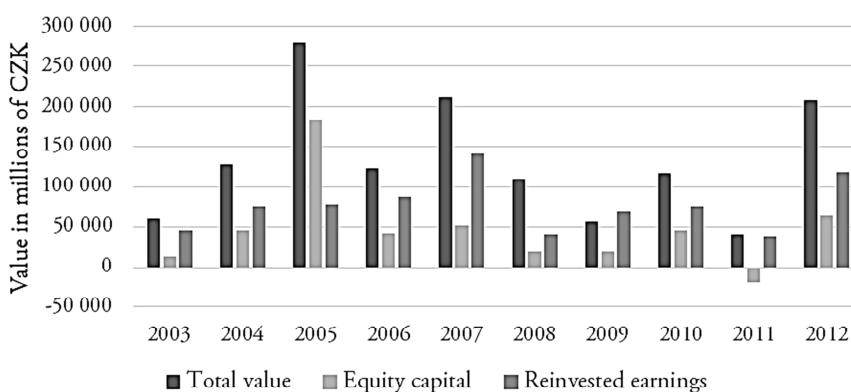Retrieved Oct. 1, 2013, from Eurostat database.

Figure 10.22. Value of direct investment inflow in the Czech Republic
Source: Eurostat (2013c). Balance of payments by country.
Retrieved Oct. 1, 2013, from Eurostat database.

One should bear in mind that high values are very often connected to large privatization projects. Most countries had to cope with a divestment in recent years, similar to investment outflow. On the other hand, the role of reinvested earnings is more significant.
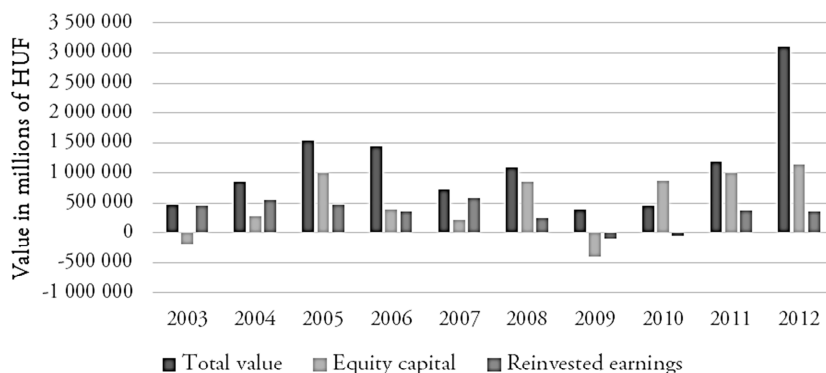

Figure 10.23. Value of direct investment inflow in Hungary
Source: Eurostat (2013c). Balance of payments by country.
Retrieved Oct. 1, 2013, from Eurostat database.

Investment appetite decrease can be also observed in the volume and number of mergers and acquisitions and green-field investments. Both these forms recorded a significant decline during the crisis due to lack of funds, decline in stock markets and poor economic prospects. Countries of Visegrad did not provide any exception.
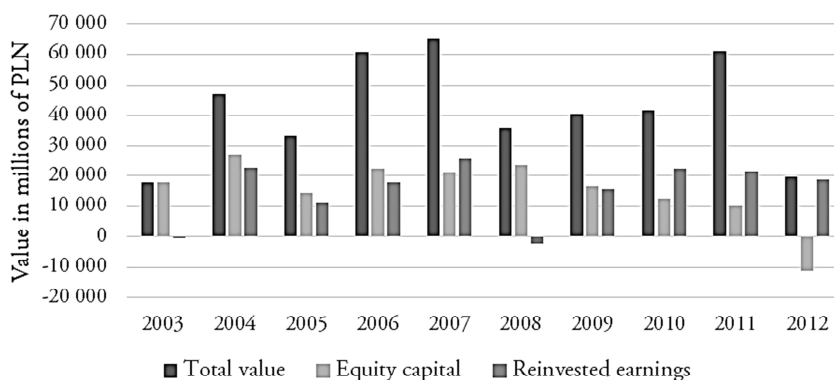

Figure 10.24. Value of direct investment inflow in Poland
Source: Eurostat (2013c). Balance of payments by country.
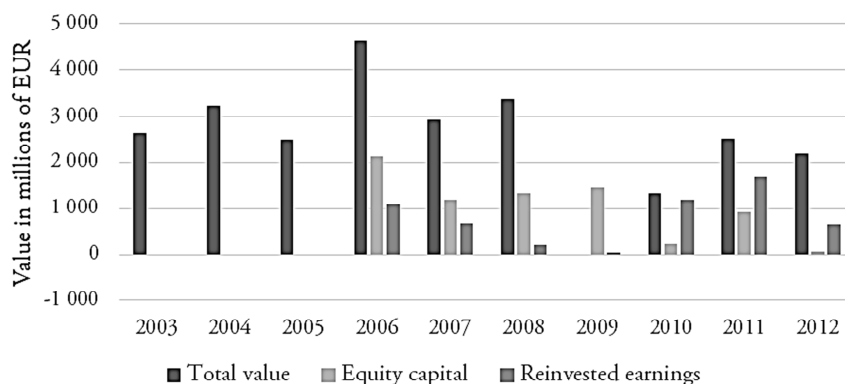Retrieved Oct. 1, 2013, from Eurostat database.

Figure 10.25. Value of direct investment inflow in Slovakia
Source: Eurostat (2013c). Balance of payments by country.
Retrieved Oct. 1, 2013, from Eurostat database.

Table 10.20 displays the number of international sales and purchases of companies. The largest decreases in sales were recorded in Czech Republic, Hungary and Slovakia. For purchases a significant decline occurred mainly in Hungary and Poland.

Table 10.21 shows the development of greenfield investments. Number of investment projects in the Visegrad economies reached its maximum in 2006 and had been declining in subsequent years during the crisis. Number of outgoing projects initiated abroad by countries under examination experienced a drop, but smaller compared to the incoming projects.

Table 10.20. Number of cross-border M&As in V4 countries in the years 2006–2012

Country	net sales							net purchases						
	2006	2007	2008	2009	2010	2011	2012	2006	2007	2008	2009	2010	2011	2012
Czech Republic	53	54	72	29	24	62	18	14	12	10	6	11	14	11
Hungary	46	27	26	8	19	15	11	13	14	10	5	2	-	1
Poland	49	55	43	48	58	46	35	8	30	28	3	21	16	5
Slovakia	12	15	14	6	6	6	3	2	1	7	2	5	3	-

Note: Cross-border M&A sales are calculated on a net basis as follows: Sales of companies in the host economy to foreign TNCs (-) Sales of foreign affiliates in the host economy. The data cover only those deals that involved an acquisition of an equity stake of more than 10%. Data refer to the net sales by the region/economy of the immediate acquired company.
Source: UNCTAD (2013). FDI Statistics. Retrieved Oct. 21, 2013, from UNCTAD database.

Table 10.21. Number of greenfield FDI projects in V4 countries in the years 2006–2012

Country	incoming							outgoing						
	2006	2007	2008	2009	2010	2011	2012	2006	2007	2008	2009	2010	2011	2012
Czech Republic	189	155	152	129	187	166	116	44	33	55	14	40	42	58
Hungary	251	222	159	113	154	151	97	22	30	30	23	21	25	11
Poland	347	358	404	242	312	300	296	41	52	47	40	45	37	46
Slovakia	119	109	89	63	103	91	64	4	2	7	2	7	5	9

Source: UNCTAD (2013). FDI Statistics. Retrieved Oct. 21, 2013, from UNCTAD database.

10.5. CONCLUSIONS

External balance is generally perceived as one of the most important economic indicators, especially when assessing small open economies such as the Visegrad countries. The logic stays in connection of external and internal economic environment. Generally, domestic macroeconomic environment in large countries tends not to be as much affected by external economic imbalances as the macroeconomic environment of small and open economies.

In terms of current account analysis, period 2003 – 2008 was marked by growing economies and large direct investment inflows, which had led to further trade balance deterioration, because of increased domestic demand. Large inflow of foreign investment has generally positive inflow on trade balance improvement (most of the projects are export oriented) and significantly negative impact on primary income balance. With the beginning of global financial and economic crisis (period 2009 – 2012), current accounts of all four countries seemed to improve, mainly trade balances experienced considerable improvements. This development was mainly determined by sharp decline in imports and primary income deficits declines, as foreign companies' profits deteriorated. In terms of the ways how to finance the current account deficit (or specifically primary income deficit), financial account surpluses seems to be a good solution. Out of this account, direct investment is perceived as the best form of capital inflow, because of its and non-debt character. Data confirms that Polish ability to finance part of the current account deficit is the lowest, with 4% deficit as a share in GDP. Situation of other three countries is somewhat better. Position of Hungary has improved considerably. Slovakia is relatively stable, while situation of the Czech Republic was to large extent determined mainly by investment inflow. The main problem of this solution is that additional investment inflow causes future outflow of profits, and thus further deterioration of primary income balance and current account.

As far as the trade balance concerns, the Czech economy has traditionally experienced surpluses. The same development is apparent (with some time delays) in

Hungary and lately also in Slovakia. Polish situation is different (the economy experiences long-term deficits), since its export is less connected to inflow of export oriented direct investment. Commodity and territorial structure does not provide considerable differences among Visegrad countries. Exports are mostly placed in category SITC 7, while imports involve important share of mineral fuels. Orientation on the markets of the EU is consistently remarkable. Most of the countries under examination do not suffer from balance of services deficits, the only exception is Slovakia.

As it is analyzed in the text, the main problem that is causing current account deficits, remains the negative development of primary balances in all four Visegrad countries. This is caused to large extent by profits outflow. As far as the net investment flow concerns, data shows that with the beginning of financial and economic crisis the net inflow slowed down in all Visegrad economies, but remains still positive. The gap is determined by two main factors: lower capital endowment of companies in comparison with traditional developed economies, and large proportion of investment abroad is conducted by "local" companies with other residency.

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