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Current account transactions of Candidate Countries: annual data 1998-2001

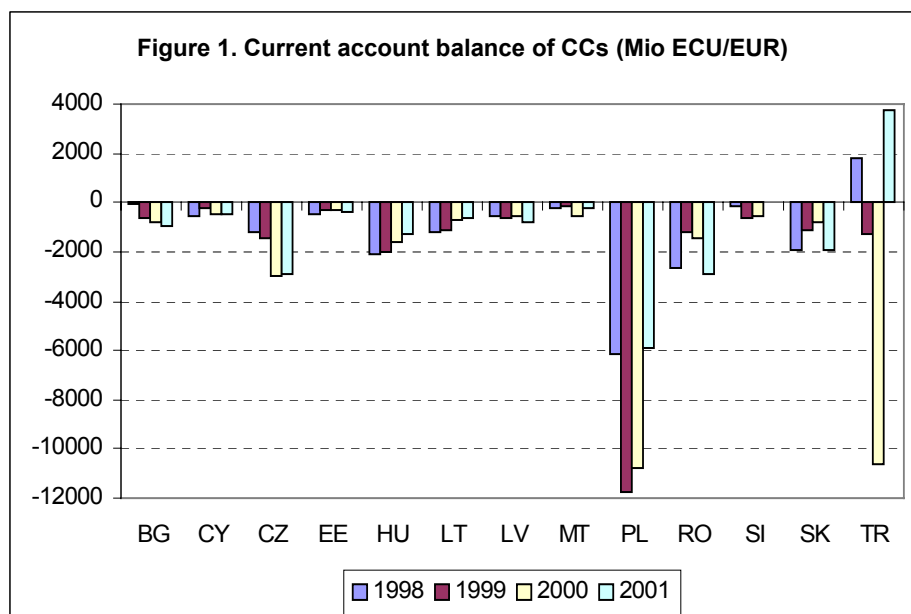
Stelios Pantazidis

The Candidate Countries (CCs)¹ - except Turkey, in 1998 and 2001, and Slovenia in 2001 - recorded deficits in their current account balances mainly due to deficits in goods balances. However on average the current account to GDP ratio showed a falling trend over the 1998-2001 period. Most of the Candidate Countries are relatively open economies exhibiting an increasing exposure to both export and import markets. Travel services on the export side and other services on the import side are in general the most important components of the international services transactions of the group.

Current Account developments: With the exception of Turkey and Slovenia all Candidate Countries showed current account deficits due to negative balances in goods and income transactions.

Candidate Countries recorded deficits in their current account transactions throughout the period 1998-2001. In 2001 the current account deficit deteriorated in only five countries (Bulgaria, Estonia, Latvia, Romania, and Slovakia) while in the rest the deficit remained unchanged or was even substantially reduced (Malta, Poland). Two countries (Slovenia and Turkey) registered surpluses in their current account balances.

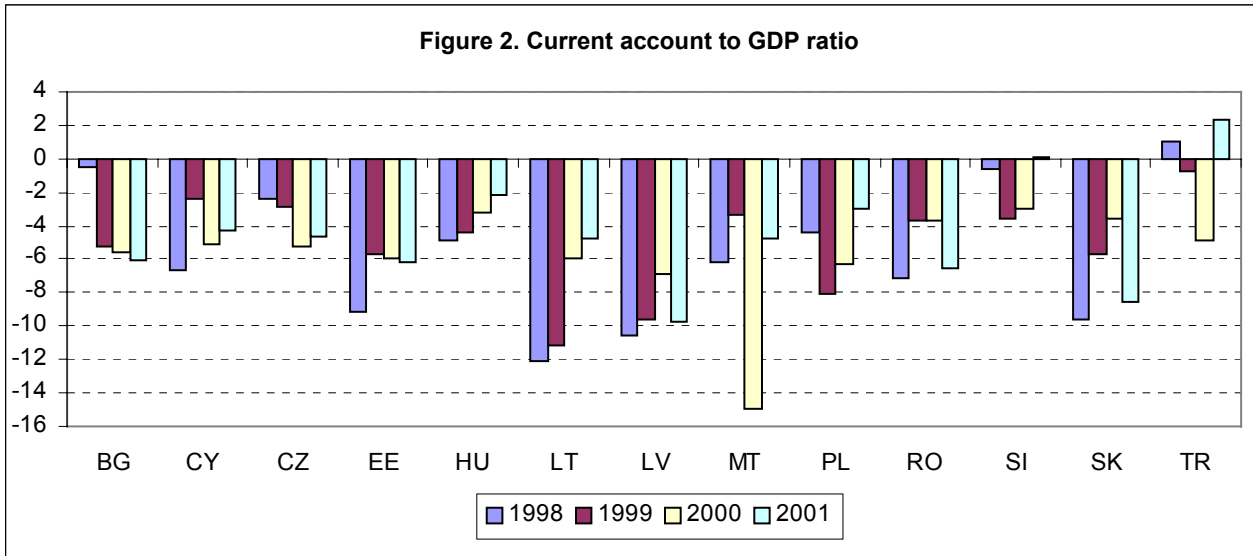
Figure 1. Current account balance of CCs (Mio ECU/EUR)



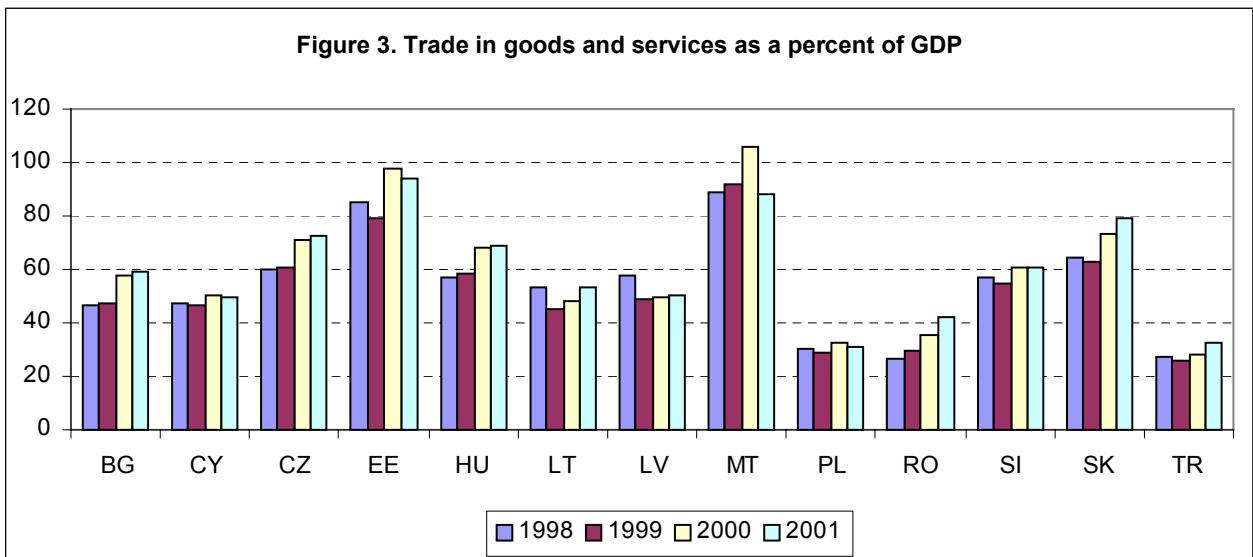
¹ Candidate Countries: BG=Bulgaria, CY=Cyprus, CZ=Czech Republic, EE=Estonia, HU=Hungary, LT=Lithuania, LV=Latvia, MT=Malta, PL=Poland, RO=Romania, SI=Slovenia, SK=Slovakia, TR=Turkey.

Current account deficit in percent of GDP: Overall improvement in the current account to GDP ratio over the period 1998-2001

The average current account to GDP ratio for the whole group of CCs improved from -5.6% in 1998 to -4.5% in 2001. In the 1998-2001 period, Turkey showed the lowest average ratio (-0.6%) whereas the average current account deficit ratios of Latvia and Lithuania were the highest of the group (-9.2% and -8.5% respectively). Cyprus, Hungary, Lithuania, Malta, and Poland exhibited a considerable progress in reducing their current account deficits as a percent of GDP while the ratio of Bulgaria continued to deteriorate. The ratios of Estonia, Latvia and Slovakia have remained more or less stable but well above the average ratio of the group.



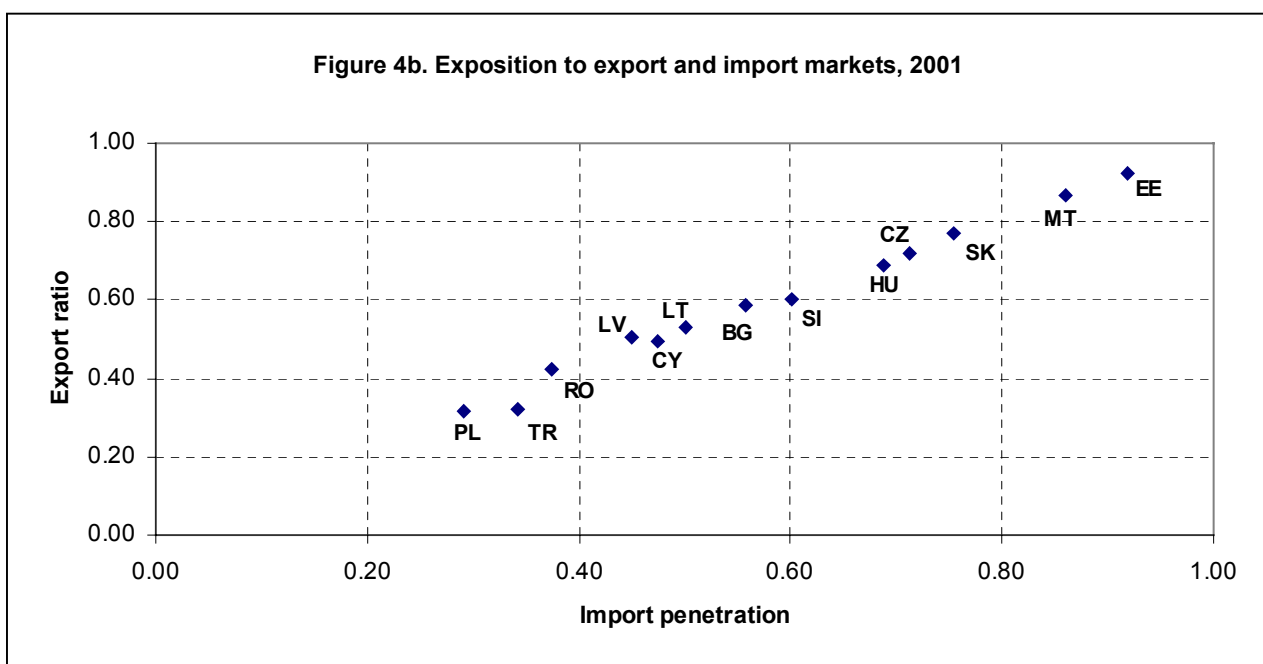
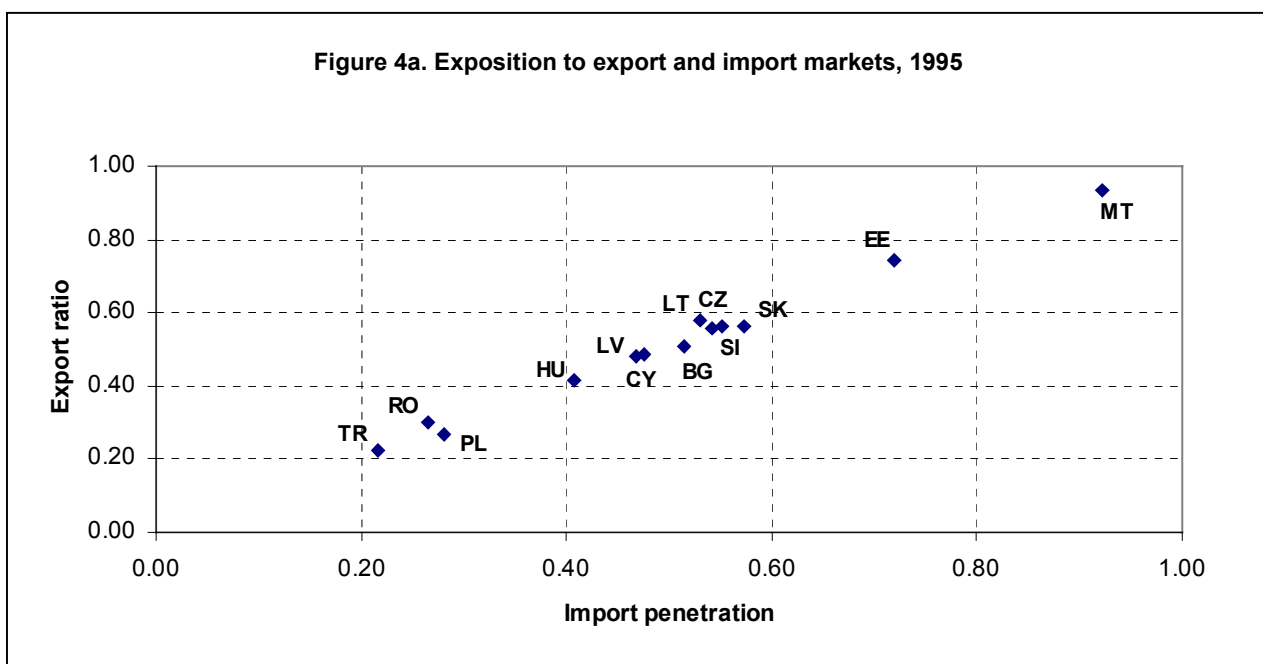
Trade openness and exposure to export and import markets²: most CCs showed strong outward orientation with increasing exposure to competition in export and import markets



Malta and Estonia are the countries with the strongest outward orientation followed by Slovakia and the Czech Republic whose economies continued to open up to international economy with a trade openness ratio exceeding 70%. Poland, Romania and Turkey are at the other end of the spectrum with the lowest ratios (around 30% on average). However, in the last years, the trade openness ratios of Romania and Turkey showed an upward trend. The ratios of the other CCs ranged on average between 50% (Lithuania) and 63% (Hungary) with Cyprus having a surprisingly low ratio for the size of its economy (only 49%).

² Trade openness is measured as half the sum of exports and imports of goods and services over GDP. Exposure to exports markets is measured by the export ratio ($\text{Total exports}/\text{GDP}$) and Exposure to imports markets is measured by the import penetration ratio ($\text{Imports}/\text{GDP-Exports + Imports}$).

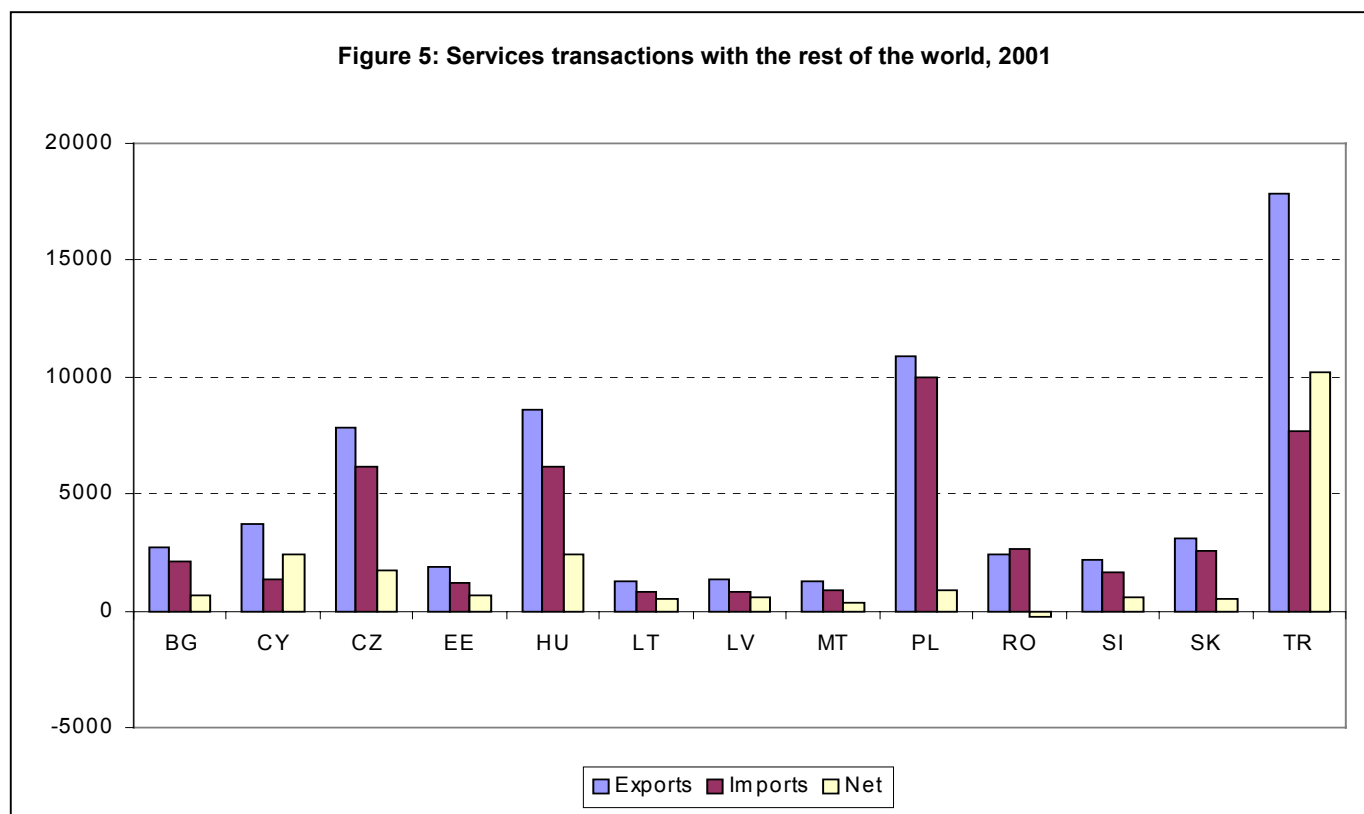
Export ratio and import penetration ratio measure the degree to which an economy is exposed to foreign competition. In total, both export and import penetration ratios have increased (from 36.7% in 1998 to 44.3% in 2001 for the former and from 38.8% in 1998 to 45.5% in 2001 for the latter) indicating an increasing exposure of the CCs to foreign competition both in export and import markets. The Czech Republic, Estonia, Lithuania, Malta, Slovenia and the Slovak Republic have had the highest ratios. The ratios of Bulgaria and Romania showed an increasing trend whereas Latvia's ratios have fallen. As is shown in the following graphs 4a and 4b, where the export and import penetration ratios are presented for the years 1995 and 2001, almost all Candidate Countries have moved upwards to the right, a fact indicating that the economies of these countries have become over that period more exposed to international competition.



Trade in services with the rest of the world in 2001: positive balances in international services transactions due mainly to travel and transport services

In 2001 all CCs (except Romania) had surpluses in their services accounts. Turkey, Cyprus and Hungary recorded the highest surpluses mainly due to travel and other services transactions. All CCs (except Latvia and Romania) are net exporters of travel services whereas most countries (except Bulgaria, Cyprus, Latvia and Turkey) had negative balances in other services transactions. On the other hand, only three CCs (Bulgaria, Cyprus and Malta) had deficits in their Transport balances.

Figure 5: Services transactions with the rest of the world, 2001



Structure of services: travel services on the export side and other services on the import side are the main components of international services transactions of CCs

The structure of **exports of services** (Figure 6) shows that travel services is the most important component of total services exports for Cyprus, Malta, Hungary, Slovenia, Bulgaria and Turkey. Exports of *transport services* is the other major component of total services exports. In Latvia the exports of transport services accounted for 65% of the country's total services exports. The share of this item in total services exports is also high in Estonia (48%), Lithuania (46%), Romania (38%) and Slovakia (36%).

The share of *other services* exports in total exports was equal to 43% in Romania, 41% in Hungary, 35% in Czech Republic and 32% in Turkey.

On the side of **imports of services** (Figure 7), in Bulgaria and Cyprus, *transportation and travel services* covered the major part of services imports. In Czech Republic and Hungary, *other services* represented the bulk of total services imported (60% and 66% respectively). In Lithuania and Latvia total imports of services are evenly distributed among the three major categories of services. Import of *transport services* represented almost 50% of Malta's total imports of services whereas imports of *other services* was the major component of total services imports in the other Candidate Countries with a share ranging from 43% (Poland) to 52% (Slovakia)³.

³ For more detailed information on the international services transactions of CCs see *New Cronos/Theme2/bop/bopcca* or *bopccq* for quarterly data.

Figure 6. Structure of exports of services in 2001

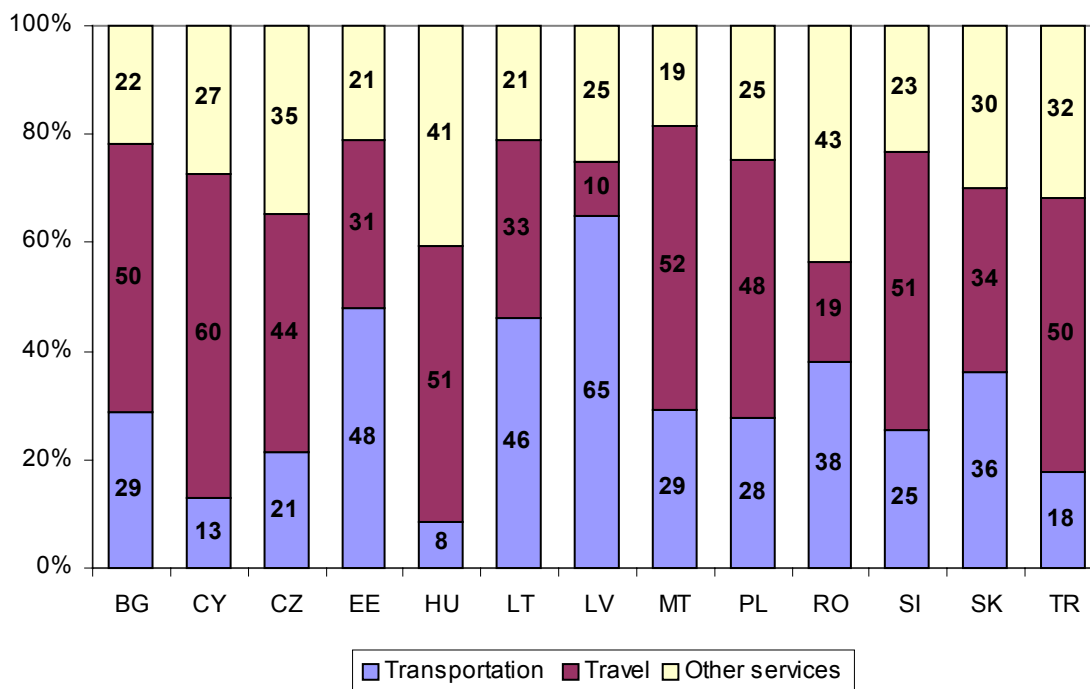
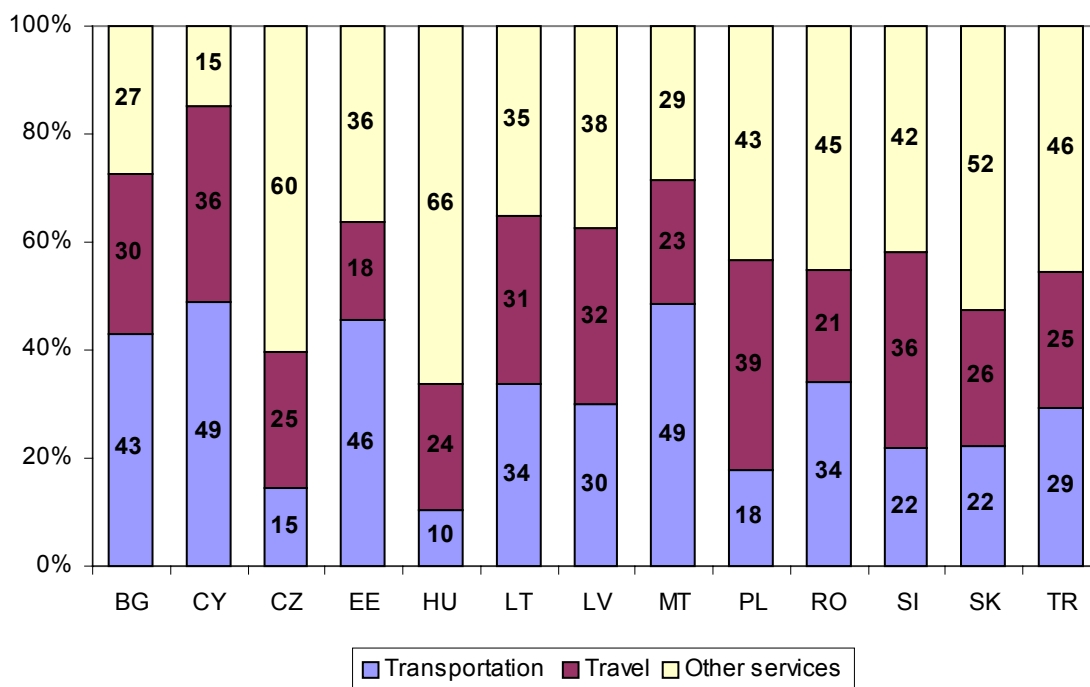


Figure 7. Structure of imports of services in 2001



Summary table of the current account and its main components for the candidate countries (Mio ECU)

2001 data		BG	CY	CZ	EE	HU	LT	LV	MT	PL	RO	SI	SK	TR
Current account	Exports	9538	5519	48632	5987	41820	7273	4375	4602	64449	18944	13549	18151	63666
	Imports	10456	5960	51562	6365	43058	7913	5201	4792	70365	21830	13517	20101	59874
	Net	-918	-441	-2930	-378	-1239	-640	-825	-190	-5916	-2886	32	-1950	3792
Goods	Exports	5729	1090	37267	3748	31331	5459	2485	2235	46458	14194	10412	14118	38385
	Imports	7500	3939	40692	4630	33581	6696	4001	2782	54979	17895	11098	16491	43451
	Net	-1771	-2848	-3425	-882	-2250	-1237	-1516	-547	-8521	-3701	-686	-2373	-5066
Services	Exports	2737	3744	7875	1845	8594	1292	1334	1238	10889	2417	2188	3115	17896
	Imports	2106	1324	6173	1196	6181	782	777	884	9987	2675	1630	2579	7702
	Net	632	2421	1702	649	2413	510	557	354	902	-258	558	535	10194
Transport	Exports	785	482	1688	887	724	594	865	362	2996	915	558	1130	3187
	Imports	901	648	897	546	630	264	233	429	1761	911	355	568	2257
	Net	-115	-166	790	341	95	330	632	-67	1236	4	203	561	930
Travel	Exports	1359	2240	3468	569	4372	428	134	647	5190	451	1118	1051	9033
	Imports	631	478	1550	214	1457	244	251	202	3904	560	593	658	1941
	Net	728	1762	1918	354	2915	184	-117	445	1286	-108	525	393	7092
Other services	Exports	279	339	2720	389	3498	270	334	229	2702	1051	513	881	5676
	Imports	214	166	3726	435	4094	274	292	253	4322	1204	682	1307	3258
	Net	65	173	-1006	-46	-596	-4	43	-24	-1620	-153	-169	-426	2418
Income	Exports	395	630	2421	191	1238	230	312	915	2925	567	514	359	3074
	Imports	737	667	4150	506	2913	430	263	922	4454	919	497	708	8656
	Net	-343	-38	-1729	-315	-1675	-201	49	-6	-1529	-352	17	-349	-5583
Current transfers	Exports	677	55	1069	203	657	292	248	213	4177	1767	435	558	4311
	Imports	112	31	547	33	384	5	160	204	945	342	292	322	65
	Net	564	24	522	170	273	288	88	9	3232	1425	143	237	4246

➤ ESSENTIAL INFORMATION – METHODOLOGICAL NOTES

According to the 5th edition of the IMF's Balance of Payments manual, balance of payments consists of two accounts: the *current account* and the *financial and capital account*.

The current account records all transactions on *goods, services, income and current transfers*.

Goods cover general merchandise, non monetary gold, goods for processing, repairs on goods and goods procured in ports by carriers. The most important component, general merchandise, includes all movable goods whose ownership is transferred from a resident to a non-resident and vice versa.

The services account consists of three major categories of transactions: *Transportation, Travel, and Other Services*.

Transportation covers all transportation (sea, air, and other –including land, internal waterway, space and pipeline) services that are provided by residents of an economy to non-residents involving the carriage of passengers, the movement of goods (freight), rentals (charters) of carriers with crew, and related supporting and auxiliary services.

Travel covers primarily the goods and services acquired from an economy by travellers during visits of less than one year in that economy. Excluded is the international carriage of travellers, which is covered in passenger services under transportation.

Other Services item includes communication, construction, insurance, financial services, computer and information services, royalties and licence fees, other business services, personal, cultural and recreational services and government services not included elsewhere.

Income consists of two main items: *compensation of employees* (including wages, salaries and other benefits, in cash or in kind earned by individuals for work performed for non resident economic units) and *investment income* (recording interest and dividends on direct, portfolio and other investment).

Current Transfers include international transactions in which goods, services or financial items are transferred between the residents and non residents of an economy without something of economic value being received in return.

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➤ Databases

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