Comparative Analysis Of Balances Of Payments Of Ukraine And Poland In The Post-crisis Economic Environment

Abstract

The condition of a country's balance of payments is a crucial factor for effective development in small open economies, such as Poland and Ukraine. Because of their dependence on the climate in international markets, Poland and Ukraine are especially vulnerable to fluctuations in the global situation. Thus it is essential for both national economies to develop effective instruments for adjusting their balance of payments accounts. This necessity in turn requires research into the main mechanisms used for making balance of payments adjustments for developing countries, since not all aspects have been yet explored. A comparative analysis of the balance of payments situations in these countries is conducted in this article, which aims to prove external similarities between both countries and explain why Poland has attained greater success in the process of overcoming the consequences of the global financial crisis. Such conclusions can be used as a roadmap for Ukraine on its way to adjustment of its balance of payments account. The main reason for such exploration is that Ukraine’s balance of payments is still operating in deficit conditions, which negatively affects the overall state of the national economy of the country.

Keywords: balance of payments, current account, capital account, small open economy, adjustment of balance of payments

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1. Introduction

The main economic challenge facing the world in recent years has been the global financial crisis. Disturbances in balances of payments constituted both one of the reasons and one of the consequences of the crisis. Almost every country in the world has suffered because of the decline in the global financial markets. However, the so-called ‘unstable economic systems’ have been among the biggest victims of the crisis, mainly because they are mostly small open economies and vulnerable to external disturbances.

All these factors have strengthened the need for research into the external equilibrium and balance of payments accounts in the unstable economic systems. This is because the external components of the majority of national economies of the world are still in negative conditions, which is reflected in their balance of payments. This in turn emphasizes the need to explore those processes that define the conditions of balance of payments, and to make practical recommendations for the purpose of affecting the current situation.

The subject under consideration has long been an object of discussion for representatives of almost every school in economics. Questions related to the problem of balance of payments adjustments have been among the central issues in the works of such famous economists as J. Keynes, R. Mundell, M. Obstfeld, K. Rogoff, A. Thirlwall, T. W. Swan, etc. Also, a lot of practical researches and reviews are devoted to the problem of balance of payments. The International Monetary Fund (IMF) uses the state of a country’s balance of payments as the main indicator for evaluation of its economic policy in the process of providing financial assistance to a country.

Despite the great number of articles that focus on this problem, there are some aspects that are still not sufficiently investigated and about which too little is known. Above all, this concerns research into the state of balance of payments accounts in the modern conditions of the global financial crisis. Secondly, there is a need to provide recommendations on how to improve the conditions of balance of payments in the changing environment of international finance. Another important aspect is detection of the main patterns in the area under consideration for the so-called unstable economies, among which Ukraine and Poland can be singled out. These patterns can be used to develop an effective strategy for influencing the external aspect of the countries.

The mission of this paper is to identify and explain similarities and differences in the dynamics and conditions of balance of payments accounts of Ukraine and Poland; to analyze their influence on the development of their national economies; and to analyze Poland’s experience in overcoming problems similar to those faced by Ukraine. For the purposes of this analysis it is
necessary, first of all, to evaluate the similarities or differences in the processes that define the conditions of balance of payments. In particular, special attention will be paid to the character of export-import operations in both countries and to the intensity of inflow of foreign investments into the respective national economies, since these issues undergird the major inflow of foreign currency in a country. Secondly, the dynamics in balance of payments of both countries for the last several years will be explored. Thirdly, the influence of balance of payments conditions on the state of a national economy will be considered. Finally, conclusions will be drawn concerning the extent to which Ukraine can draw on Poland’s lessons and experiences for its own purposes.

2. Methodology

Traditional methodological instruments have been used by the author to explore the problem and issues under consideration. The period for analysis has been chosen from the end of the twentieth century, when some vivid patterns and regularities in the balances of payments of both countries were formed. All the calculations and evaluations were based on official statistical information taken from national statistical bureaus, national banks and other regulatory bodies, and international organizations such as the IMF.

The research faced several methodological challenges. Probably the most difficult challenge was the definition and treatment of the concept “unstable economic system”. The term “unstable economic system” is a bit different from the traditional and usual term “transition economy”. In fact, it is possible to say that the transition period had already ended for the countries under consideration, but they are still characterized with unstable economic processes and features. Among the main features of an ‘unstable economic system’ the following may be pointed out:

1. Unstable economic systems are characterized by chaotic and dynamic fluctuations of the main economic indicators, such as GDP, inflation, unemployment, etc;

2. Unstable economic systems are vulnerable to fluctuations of the global economic situation. Usually the national economies of such countries are very open and their performance depends on the situation on the world’s markets;

3. Unstable economic systems are characterized by a low degree of self-sufficiency. This means that crisis events take on a long term and severe character in such economic systems, and these economies return to
equilibrium conditions only after a quite long period of time, with the help of governmental interference;

4. Unstable economic systems have not yet formed the correct institutional mechanisms of a market economy. Some of the main institutions are simply missing, while others function in an imperfect way. Also, many vestiges of the past are present in unstable economic systems;

5. Unstable economic systems, unlike developed market economies, do not have built-in mechanisms for automatic adaptation and adjustment following certain disturbances. Usually, post-crisis adjustment requires deep governmental interference and even the support of international financial organizations.

The above are the main, but not all, features of an unstable economic system. It is believed that both Ukraine and Poland share these features. For instance, one of the main characteristics of an unstable economic system is imbalance in the external sector and significant fluctuations in the balance of payments. Also, unstable economic systems are affected by the so-called “Thirlwall’s law”. A. Thirlwall developed the well-known model of balance-of-payments-constrained growth. According to this model, a current account deficit and, respectively, balance of payments disequilibrium can be a serious restrictive factor for economic growth in unstable economic systems. The essence of this law can be described in the following quote:

“According to Thirlwall’s well-known model of balance-of-payments-constrained growth, output growth is demand-determined, provided demand is below supply capacity, which is normally the case in capitalist economies. However, the balance-of-payments situation can restrict the growth of aggregate demand because a country cannot persistently undergo an ever-increasing current account deficit” (Lopez et al., 2000, p. 477).

It is believed that Thirlwall’s law is especially inherent in Ukraine, where a strong correlation between the current account balance and pace of economic growth is observed. Generally, this is the result of the production specialization of the country, with its focus on raw materials. In the long term perspective, the effect of Thirlwall’s Law may lead to significant negative effects for a national economy, which has been proven by experience of countries in Latin America. These countries have a lot of common with Ukraine and Poland in the context of balance of payment adjustment and its influence on the national economy.

‘The econometric evidence regarding the validation of Thirlwall’s Law in Latin America suggests that even though there are different periods of external adjustment, it has not been possible to reject the main proposition of Thirlwall’s Law. In other words, no single economy is immune from its external sector constraint. Our approach suggests that Latin American economies need to
implement significant changes in their specialization of production if the goal is to achieve sustainable long-run growth rates, which requires an increase in the growth rates of exports together with lowering the income elasticity of the demand for imports” (Holland et al., 2004, p. 45).

3. Results

The first task of the research is to analyze the processes that define conditions of balance of payments. It is an obvious fact that export-import operations are probably the main driver of a balance of payments deficit or surplus. The dynamics of and correspondence between Poland’s export and import is illustrated in the following Figure. Numbers are provided in millions of USD.

Figure 1. Dynamics of Poland’s export and import

First of all, an interesting symmetry is seen between the country’s export and import operations. In fact, this means that the country’s balance of payments account is developing according to typical and traditional laws of balance of payments fluctuations. Secondly, the overall size of exports and imports has been constantly growing from the beginning of new century. The only exceptions were in 2008 and 2012. Such growth is compatible with the general growth of a national economy, since the role of external trade is significant in the country’s economy. The dynamics of Ukraine’s export and import is provided in the following Figure. Numbers are provided in millions of USD.
Figure 2. Dynamics of Ukraine’s export and import

As can be seen from the Figure above, Ukraine’s export-import operations are characterized by the same pattern and symmetry as Poland’s external trade. However, the last year was more successful for Ukraine than for Poland. And as it can be seen from the Table below, Ukraine’s external trade is characterized by a higher pace of change in the size of export-import operations.

Generally, this proves the fact that external trade plays a more important role in the national economy of Ukraine, despite the fact that Poland is a member of a large international union with a tremendous market. Ukraine’s access to such markets is limited. Even the main trade partner of Ukraine – Russia - continually puts forward challenges to Ukraine.

Table 1. Dynamics of export-import turnover in Ukraine and Poland

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
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<tbody>
<tr>
<td>Ukraine</td>
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<tr>
<td>Export</td>
<td>127.39%</td>
<td>133.77%</td>
<td>63.37%</td>
<td>127.65%</td>
<td>128.29%</td>
<td>101.04%</td>
</tr>
<tr>
<td>Import</td>
<td>135.35%</td>
<td>138.54%</td>
<td>56.23%</td>
<td>130.30%</td>
<td>133.48%</td>
<td>106.93%</td>
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<tr>
<td>Poland</td>
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<tr>
<td>Export</td>
<td>126%</td>
<td>123%</td>
<td>80%</td>
<td>116%</td>
<td>117%</td>
<td>97%</td>
</tr>
<tr>
<td>Import</td>
<td>130%</td>
<td>127%</td>
<td>73%</td>
<td>119%</td>
<td>116%</td>
<td>94%</td>
</tr>
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Note: Calculations are made by the author, basing on based on information from the National Bank of Poland and National Bank of Ukraine

Export and import operations should be analyzed not only in terms of absolute size or dynamics. Special attention should be paid to the commodity and geographical structure of these operations. In analyzing the commodity structure of Poland’s export-import flows for 2011 it is essential to note that Poland mostly imports the following groups of commodities: machinery and technical appliances (22.09%), mineral products (13.57%), transport equipment (9.97%), base metals and articles thereof (10.9%). According to the Governmental bureau of statistics of Ukraine, the main components of national imports for Ukraine for 2013 are the following: mineral products (27.6%), machinery and technical appliances (16.7%), chemical industry products (10.7%), base metals and articles thereof (6.3%), transport and vehicles (8.3%).

As we can see from the above analysis the commodity patterns of import of both countries are quite similar. The main difference is in the great share of mineral products in Ukraine’s import, which indirectly reflects the lower level of energy efficiency of the national economy and the low degree of national oil and gas management. In fact, Ukraine’s dependence on the import of gas from Russia is among the leading factors deterring development of the Ukrainian national economy. The price of Russian gas is about $430 for Ukraine per thousand cubic meters, while Poland pays about $460 per thousand cubic meters. While the price for Poland is higher, it should be noted it is located almost 1,500 km further from the Russian border than Ukraine. In fact the price of gas is always an instrument in the different geopolitical and economic discussions between Russia and Ukraine, and one which seriously defines the direction and pace of development of the Ukrainian economy.

The fact that the greatest share in Poland’s import is occupied by machinery and technical appliances is noteworthy. Poland imports equipment that is going to boost further development of production in the country and guarantee economic development. Hence its deficit in its current account can be characterized as self-sufficient, since it is going to be covered via further growth of production in the country. Unfortunately, Ukraine’s import has mainly a raw materials character, and cannot be characterized as self-sufficient. As a result, the Ukrainian government and National Bank are forced to use so-called ‘policies of adaptation and accommodation’ to manage the deficit in the current account. It is quite difficult to evaluate the final value of the social and economic expenditures needed to manage such fluctuations in the current account. However, it can be noted that they seriously harm Ukraine’s pace of economic development.

The commodity pattern of Poland’s export is the following: machinery and technical appliances (23.52%), transport equipment (15.97%), base metals and articles thereof (11.87%). The commodity structure of Ukraine’s export is the following: base metals and articles thereof (27.7%), mineral products
(12.9%), machinery and technical appliances (10.1%), chemical industry products (7.8%), and vehicles and transport (7.2%).

The commodity structure of Ukraine’s export also has a strong raw materials character. The country exports mainly commodities with a low value added. Such commodities are characterized by unstable demand and prices on international markets. As a result, the country is very vulnerable to fluctuations in international trade. For instance, the export of grain has always played an important role in Ukrainian economy. In general, both the conditions of Ukraine’s balance of payments and its national economy depend significantly on weather conditions. This is not the right path for a country with such resources as Ukraine.

On the other hand, Poland exports mainly machinery, transport equipment, etc., which allows the country to get higher profits on international markets. Moreover, these profits are quite stable and less dependent on international market fluctuations. A brief description of the commodity structure of both countries’ export-import operations is provided in Table 2 below.

Table 2. Commodity structure of Poland’s and Ukraine’s export-import turnover

<table>
<thead>
<tr>
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<th>Poland’s export</th>
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<tr>
<td></td>
<td>2008</td>
<td>2009</td>
<td>2010</td>
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<td>2012</td>
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<tr>
<td>Base metals and articles thereof</td>
<td>12.82%</td>
<td>10.37%</td>
<td>11.58%</td>
<td>12.12%</td>
<td>11.87%</td>
</tr>
<tr>
<td>Machinery and mechanical appliances</td>
<td>21.74%</td>
<td>20.66%</td>
<td>21.61%</td>
<td>20.61%</td>
<td>23.52%</td>
</tr>
<tr>
<td>Transport equipment</td>
<td>19.28%</td>
<td>20.43%</td>
<td>18.41%</td>
<td>18.60%</td>
<td>15.97%</td>
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<td>2008</td>
<td>2009</td>
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<td>2012</td>
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<tr>
<td>Mineral products</td>
<td>11.56%</td>
<td>9.35%</td>
<td>11.49%</td>
<td>13.85%</td>
<td>13.57%</td>
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<tr>
<td>Machinery and mechanical appliances</td>
<td>22.45%</td>
<td>23.52%</td>
<td>22.92%</td>
<td>20.64%</td>
<td>22.09%</td>
</tr>
<tr>
<td>Transport equipment</td>
<td>13.05%</td>
<td>11.50%</td>
<td>12.36%</td>
<td>11.38%</td>
<td>12.60%</td>
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<td>2008</td>
<td>2009</td>
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<td>2012</td>
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<tr>
<td>Mineral products</td>
<td>10.36%</td>
<td>8.14%</td>
<td>10.79%</td>
<td>12.43%</td>
<td>12.90%</td>
</tr>
<tr>
<td>Base metals and articles thereof</td>
<td>36.49%</td>
<td>28.47%</td>
<td>29.42%</td>
<td>27.66%</td>
<td>27.70%</td>
</tr>
<tr>
<td>Machinery and mechanical appliances</td>
<td>11.69%</td>
<td>14.52%</td>
<td>12.55%</td>
<td>11.37%</td>
<td>10.10%</td>
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<th>Ukraine’s import</th>
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<td>2008</td>
<td>2009</td>
<td>2010</td>
<td>2011</td>
<td>2012</td>
</tr>
<tr>
<td>Mineral products</td>
<td>26.00%</td>
<td>32.46%</td>
<td>32.34%</td>
<td>32.49%</td>
<td>27.60%</td>
</tr>
<tr>
<td>Products of chemical industry</td>
<td>8.99%</td>
<td>12.67%</td>
<td>11.67%</td>
<td>10.90%</td>
<td>10.70%</td>
</tr>
<tr>
<td>Machinery and mechanical appliances</td>
<td>16.56%</td>
<td>14.49%</td>
<td>13.72%</td>
<td>15.93%</td>
<td>16.70%</td>
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Note. Calculations are based on information from the Ministry of Economy of Poland and Ukraine’s Governmental Statistics Bureau.

In analyzing this structure and its dynamics for recent years, it becomes obvious that the overall pattern has not changed significantly. This is especially true for Ukraine. Poland has obtained some bonuses from its entry into the European Union, but the whole potential in this respect has not yet been realized over this quite short period of time. Also, the crisis has played a negative role, and in fact last year was quite difficult for Poland’s foreign trade.

An important addition to the structural analysis includes such an indicator as the concentration of export-import operations of both countries, i.e. the so-called commodity and geographical concentration. The following indicator is used for the analysis – G-4 ratio, which is calculated as the overall share of four leading regions or commodity groups in the structure of exports and imports, together with characterization of the intensity of their concentration. This indicator will be calculated for commodity groups according to CN (Combined Nomenclature) classifications. Simply speaking, Combined Nomenclature is a form of classification that is used by EU to classify all goods that are the objects of foreign trade. “All goods imported into or exported from the EU must be classified for Customs purposes. Each separate product is assigned a particular classification code. The Combined Nomenclature (CN) sets out the general rules for the classification of goods to an eight-digit level and is updated on a yearly basis” (Classification of Goods).

The G-4 for Polish exports and imports in commodity terms was 58.12% (overall share) and 56.54% (intensity of concentration) in 2011. Ukraine is characterized by the following values of the mentioned indicators in commodity terms in 2013: G-4 – 62.9% and 63.3% accordingly. Firstly, it is obvious that Ukraine is characterized by a quite high degree of concentration of commodity export, where the main role is played by commodities with low value added and low competitiveness on international markets, namely by base metals and articles thereof. Such a concentration increases the national economy’s dependence on fluctuations in the international commodities markets. In fact, this was proven by the recent global financial crisis. The decline in prices of steel industry products was among the key drivers of crisis in Ukraine in 2008-2009.

Poland is characterized by a lower degree of concentration of commodities export. In fact, it may be said that such a situation totally responds to popular laws of international specialization of countries. Yet Poland’s specialization can be considered as more competitive in the modern conditions. Ukraine will be forced to change its specialization in the near future in order to avoid further fluctuations in its balance of payments and increase the overall competitiveness of its national economy.

With respect to the geographical concentration of exports-imports of both countries, the leading trade partners of Poland in 2011 were the following: exports –
Germany (26.12%), France (6.12%), Italy (5.34%), Great Britain (6.45%) and Czech Republic (6.25%); imports – Germany (22.4%), Russia (12.03%), China (8.66%), Italy (5.41%) and France (4.18%). Ukraine’s share in Poland’s exports is 2.46%.

It is important to mention that Germany has been the leading trade partner for Poland for the last 18 years. Russia plays an important role mainly in Poland’s imports, primarily due to imports of gas. However, this share has been consistently declining in recent years.

Russia is Ukraine’s leading trade partner according to the Governmental Bureau of Statistics for 2013. Russia accounts for 23.02% of Ukraine’s exports. Among the other trade partners in exports are the following: Kazakhstan (3.47%), Poland (3.89%), Germany (2.43%), Turkey (5.91%), Italy (4.18%) and China (4.49%). Russia accounts for 29.31% of Ukrainian imports, with other importers being: Belorussia (4.72%), France (2.67%), Italy (2.51%), Germany (8.55%), Poland (4.94%), Turkey (2.4%) and China (11.75%). As can be seen, Poland’s share in Ukrainian imports is 4.94%, and in exports 3.89%. Trade relations are in favor of Poland.

Table 3. Geographical structure of Poland’s and Ukraine’s export-import turnover

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
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<tbody>
<tr>
<td>Poland’s export</td>
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<td></td>
</tr>
<tr>
<td>Germany</td>
<td>28.35%</td>
<td>29.02%</td>
<td>25.18%</td>
<td>26.25%</td>
<td>26.12%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>7.44%</td>
<td>7.12%</td>
<td>6.98%</td>
<td>6.65%</td>
<td>6.45%</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>5.89%</td>
<td>6.02%</td>
<td>5.94%</td>
<td>6.03%</td>
<td>6.25%</td>
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<tr>
<td>Poland’s import</td>
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<td></td>
</tr>
<tr>
<td>Germany</td>
<td>20.18%</td>
<td>21.65%</td>
<td>22.00%</td>
<td>22.12%</td>
<td>22.34%</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>10.89%</td>
<td>11.65%</td>
<td>11.59%</td>
<td>11.88%</td>
<td>12.03%</td>
</tr>
<tr>
<td>China</td>
<td>7.80%</td>
<td>8.32%</td>
<td>7.96%</td>
<td>8.54%</td>
<td>8.66%</td>
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<tr>
<td>Ukraine’s export</td>
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<td></td>
</tr>
<tr>
<td>Russian Federation</td>
<td>24.02%</td>
<td>23.65%</td>
<td>22.84%</td>
<td>22.96%</td>
<td>23.02%</td>
</tr>
<tr>
<td>Turkey</td>
<td>6.32%</td>
<td>5.85%</td>
<td>4.96%</td>
<td>5.62%</td>
<td>5.91%</td>
</tr>
<tr>
<td>China</td>
<td>5.02%</td>
<td>4.85%</td>
<td>5.32%</td>
<td>4.56%</td>
<td>4.49%</td>
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<td>Ukraine’s import</td>
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</tr>
<tr>
<td>Russian Federation</td>
<td>30.02%</td>
<td>32.56%</td>
<td>30.56%</td>
<td>30.82%</td>
<td>29.31%</td>
</tr>
<tr>
<td>China</td>
<td>12.04%</td>
<td>13.45%</td>
<td>11.96%</td>
<td>12.00%</td>
<td>11.75%</td>
</tr>
<tr>
<td>Germany</td>
<td>9.03%</td>
<td>8.85%</td>
<td>7.96%</td>
<td>8.45%</td>
<td>8.55%</td>
</tr>
</tbody>
</table>

*Note.* Calculations are based on information from the Ministry of Economy of Poland and Ukraine’s Governmental Statistics Bureau

Source: http://www.mg.gov.pl/files/upload/9143/RoHZ%202012_20121008_en_druk.pdf,
http://ukrstat.gov.ua
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Looking at the commodity and geographical structure of both countries, it can be seen that these structures have not changed significantly in recent years. However, this is a good sign in the case of Poland, while Ukraine’s export-import operations show that the structure of its national economy remains underdeveloped.

A quite interesting fact is that both countries have a similar pattern of imports in the terms of trade partners. There are two main features which should be noted here. First of all, the import of oil and gas plays an important role in the trade relations of both countries. Secondly, the largest regional neighbor has the role of leading trade partner for both Ukraine (Russia) and Poland (Germany).

The G-4 ratio in geographical terms of Ukrainian exports and imports is 37.6% and 54.55% respectively. Poland’s G-4 ratio in geographical terms is 44.93% (exports) and 48.43% (imports). Therefore, Poland is characterized by a slightly higher degree of geographical concentration of its export-import operations. This is particularly visible in exports, where 26.12% of exports involve trade relations with Germany.

It is also important to mention the reliance of both countries on their biggest and most economically powerful neighbors, i.e. Russia (for Ukraine) and Germany (for Poland). In fact, these countries are the centers of commercial gravity in their respective areas – Western and Eastern Europe.

An important task is to evaluate the role which is played by export-import operations in their respective national economies. The export quota for Ukraine was 50.92% in 2012, and its import quota was 51.22% for the same year. Poland’s export and import quotas were 46.17% and 46.31% respectively in 2012. Thus it may be concluded that the national economy of Poland is less open and, correspondingly, less vulnerable in the modern conditions of globalization, which is an important conclusion for further research. Also, both countries can be considered as small open economies. Countries with a small open economy are considered as the so-called ‘price takers’ in international trade, i.e. they are not able to affect prices in international trade but rather accept the existing trade terms. Such countries, including Poland and Ukraine, are especially vulnerable to fluctuations in international conditions. In addition, international relations play an important role in the development of their national economies.

Another indicator that characterizes the external operations of both countries is the dynamics of foreign direct investment (FDI). Since gaining its independence Ukraine has mustered almost $54.5 billion FDI. Mostly Ukraine gets foreign direct investments from Cyprus (31.7%), Germany (11.6%), Netherlands (9.5%) and Russia (7%). Ukrainian investors invest their money mainly in Cyprus (89.2%) and Russia (5%). The overall amount of Ukraine’s investments abroad for the period of its independence is only $6.5 billion.
Generally, we can say that Ukraine’s native citizens (economic agents) do not invest abroad. Almost all the existing FDI amounts are the result of seeking schemes for optimization and maximization of financial flows. In fact, this money is financial resources of native businessmen, in the end. It is a great methodological and theoretical challenge to evaluate the real amount of foreign direct investment in Ukraine.

Poland, as of the third quarter of 2012, has received more than $183 billion of foreign direct investments. Germany, Luxemburg and Spain are among the main investors in Poland’s national economy, according to the National Bank of Poland. Here it would be appropriate to say a few words about the so-called ‘built-in stabilizer’ of Poland’s national economy, which allows for effectively influencing the conditions of external equilibrium. In particular this refers to the free economic zones, stated as follows:

“According to the National bank of Poland foreign direct investments for 6 months of 2009 were 962 mln Euro. In choosing the place of realization of an investment project, foreign investors prefer the so-called free economic zones. Despite the fact that the privileges that exist in such zones were significantly limited from 2001 to meet requirements of the EU, interest in realizing some projects on their areas has not decreased. Thus, Poland’s experience shows that free economic zones can effectively exist in the EU and be a powerful instrument for attracting foreign investments” (Ukrexport).

Free economic zones play the role of peculiar autonomous instruments involved in foreign investments, which positively influences the conditions of external balance. Free economic zones were used by Ukraine in the past, but their efficiency was low, since they were mainly used as an instrument for optimization of tax advantages once again. For this reason they were cancelled by the relevant regulatory bodies.

Summarizing what has been presented with respect to the similarities of the external relations of both countries, one may point out the following main features and similarities:

1. Ukraine and Poland are both small open economies, which are vulnerable to fluctuations in international markets. Moreover, they are the so-called ‘price takers’ on the international business arena;

2. The international arena and international trade relations play a crucial role in the development of the national economies of both countries;

3. Poland and Ukraine have a quite similar geographical and commodity structure of their export and import operations;

4. Both countries can be called net creditors, based on the conditions of their current accounts over the last several years;
5. The global financial crisis has significantly damaged the conditions of the national economies of Poland and Ukraine. The most severe consequences have been depreciation of the national currency, decline in GDP, and the negative state of balance of payments;

6. Taking into account all the above-mentioned, it is possible to state that there are a lot of similar factors that define the conditions of balance of payments of both countries. It is possible to suppose that the balance of payments of both countries may be characterized by similar features. Finally, it seems reasonable to study the experience of both countries to find some effective and common instruments to manage balance of payments fluctuations and their impact on the national economy.

According to the definition of the International Monetary Fund, “Balance of payments is a statistical report, which systematically summarizes for some particular period of time the economic operations of a national economy with the rest of the world.”

Thus, technically balance of payments is an accounting report which reflects transactions of a country’s residents with nonresidents. Balance of payments reflects the character and orientation of external performance of a country, the degree of its integration into the international economy, and the external balance or imbalance of the national economy. In addition, by assessing the conditions of balance of payments accounts, it is possible to judge the overall state of a national economy.

Ukraine experienced a surplus in balance of payments from 2000 to 2007. The biggest surplus was in 2005 (22.43% of GDP), because of the record inflow of foreign direct investments, in the amount of $7.5 billion. A deficit in balance of payments was brought about by the global financial crisis in 2008 and 2009. The biggest deficit was in the third quarter of 2009 - $12,173 million, or 19.47% of GDP.

In discussing the relationship between the current account and capital account, it’s essential to mention that, starting from 2005, the capital account has been making a larger contribution in the inflow of foreign currency to Ukraine, since balance of export-import operations has been negative in Ukraine during that period. This has happened mainly because of the increase in the dynamics of inflow of foreign investments into Ukraine after the political and economic successes of 2004-2005.

The current account has been negative since 2006, which is caused by the prevalence of imports over exports. This can be explained by the rise in prices of oil and gas, which are imported by Ukraine, and also by liberalization of imports over the last several years. However, it had been possible, prior to the financial crisis, to maintain a positive balance of payments thanks to the inflow of foreign
capital, which has become impossible in the conditions of the global financial crisis. It is more reasonable to talk about the outflow of foreign investors from a national market. Additionally, the conditions in international markets have been not favorable for Ukraine’s export after the global financial crisis. The dynamics and correspondence between Ukraine’s current and capital accounts are provided in the following Figure. Numbers are provided in millions of USD.

Figure 3. Dynamics and correspondence between Ukraine’s current and capital balance of payments accounts


Poland, with the exception of 2001 and 2008, has experienced a stable balance of payments surplus. The biggest surplus was in 2007 (2.99% of GDP) and the biggest deficit was in 2008 (0.78% of GDP). The balance of the current account is negative. It is possible to conclude that both countries are net importers in commodity terms. A more time significant inflow of foreign currency in the countries is guaranteed by foreign investments and external borrowings. The dynamics and correspondence between Poland’s current and capital accounts are provided in the following Figure. Numbers are provided in millions of USD.
In analyzing the dynamics of Poland’s balance of payments it is impossible to overlook the fact that positive changes in the capital account have taken place after 2004, when Poland became a member of European Union. Foreign direct investments have doubled since 2004. Thus, entry into an integrated market like the EU not only presents a lot of challenges to a national economy, but also provides instruments of financial management and management of a real sector. This should become an additional argument for Ukraine on its path towards the European community.

Ukraine’s and Poland’s balance’s of payments dynamics are quite similar. The fluctuations in the balance of payments of both countries are practically identical, the only vivid differences being noted in 2009. Nonetheless Poland has probably managed to enter the path of stabilization of its external relations sooner than Ukraine. There are a few reasons for such a situation.

As can be noted from the discussion above, a crucial role in the negative condition of balance of payments has been played by the current account. There are two opposite approaches to the relationship between the state of the current account and the state budget. One claims that state budget deficits will, in the end, lead to increasing the deficit of the current account.

“A variety of models predict a positive relationship between government budget balances and current accounts over the medium term. Overlapping generations models suggest that government budget deficits tend to induce current account deficits by redistributing income from future to present generations (see Obstfeld and Rogoff, 1998). Furthermore, in the absence of a full Ricardian offset via private saving, an increase in the government budget balance could
lead to an increase in national saving. In developing economies, where more agents may be liquidity constrained, this relationship might be expected to be stronger" (Chinn et al. 2003, p. 50).

Generally, negative conditions in the current balance of payments account mean that both countries use this deficit to finance growing consumption. According to Atish (1995), a deficit in the current account can be used as one of the instruments to smooth consumption over the long run, especially in the conditions where there is a lack of internal financial resources, which are intrinsic in unstable economic systems.

Moreover, as it has been mentioned above, Ukraine’s specialization in international trade is mainly based on goods with low value added. Markets for such goods are characterized by a high degree of fluctuation. This is why Ukraine is more vulnerable to changes in the international trade climate than Poland. Also, such a deficit in the current account cannot be seen as self-sufficient. Ukraine is forced to borrow a lot in order to finance the growing pace of consumption. This leads to significant levels of governmental and overall debt in the country.

Ukraine, unlike Poland, is characterized by a more problematic correspondence between external debt and GDP. However, there is no need to discuss the possibility of default at the moment. The actions of the last three years have proven the ability of Ukrainian companies and financial and governmental institutions to negotiate with their creditors. This makes it possible to forecast an improvement of the situation with respect to Ukraine’s external debt if the situation on international markets improves.

However, it may be more difficult for Ukraine to regain investors’ trust, since the country is characterized by a worse institutional and investment climate than Poland. For instance, issues such as corruption, the low degree of development of the financial infrastructure, and political instability are typical features of the Ukrainian business environment.

Generally, the expenditures related to balance of payments’ adjustment are higher in Ukraine. The reduction of official reserve assets provides good evidence for this argument. The decline of official reserves in Poland was only 5.423% in 2008, and Poland’s official reserves grew by 29% in 2009. Ukraine has experienced a decline of 16.83% over the last two years. Therefore, it is possible to assume that Poland has broader reserves in order to balance fluctuations in the external area while Ukraine, on the other hand, is forced to apply to international financial institutions, for example the IMF, for assistance. This in turn puts forward new challenges to the national economy of the country. According to its latest agreements with the IMF, Ukraine is supposed to reform its pension system and adjust utility rates in accordance with market conditions.
Looking at Polish statistics, it becomes obvious that its entrance into EU was a factor that provided a significant boost for its national economy. The size of export and investments has grown significantly since Poland became an EU Member State. This is probably among the main factors that have helped Poland to overcome the crisis faster and in a more effective manner than Ukraine. In turn, Ukraine is currently facing a lot of obstacles from the Russian Federation, which is trying to convince Ukraine that its entrance into the EU is not necessary or in its interests.

Ukrainian exporters bring the largest share of foreign currency into the country. Taking into account the high degree of openness of its national economy, this means Ukraine is highly dependent on conditions prevailing in the international commodity and financial markets. Poland, having a lower exports quota, is characterized by a lower dependence on the earnings of exporters, which creates better conditions for stabilization following the global financial crisis.

It is important to mention that Poland actively uses such items for financing its own needs as external loans and bonds issued by the public and corporate sectors. This is possible due to the higher level of institutional attractiveness of Poland’s national economy and its lower credit risks as a borrower on international financial markets. Unfortunately the political, institutional and economic hazards associated with Ukraine do not allow it to count on such trust of the international community, which also diminishes the possibilities for the government to influence the external balance. According to Bird (1997), countries that have free access to international financial markets have broader instruments with which to influence balance of payments adjustment.

Any analysis of balance of payments without consideration of its influence on other sectors of a national economy is pointless. It is essential to evaluate the influence of balance of payments on the exchange rate of the national currencies of both countries. There is a negative correlation between balance of payments and the exchange rate of Poland’s national currency. Devaluation of the zloty reached 67.1% during the peak period of the global financial crisis. The exchange rate has begun to strengthen under the conditions of improvement in Poland’s balance of payments. Ukraine is also characterized by a negative correlation between the exchange rate and the conditions of its balance of payments. Devaluation of UAH was 65.6% in the peak period of the crisis. Ukraine’s positive balance had previously allowed it to keep a stable exchange rate for its national currency for years. It is not surprising that the exchange rate has been affected by the declining inflow of foreign currency from export operations during the global financial crisis.
It is a well-known fact that the exchange rate is probably the main indicator of performance for national economic agents. This is why its fluctuations destroy all their guides for making effective decisions, which creates negative long term consequences for the national economy.

The continuing stable deficit of the current account forces the Ukrainian government to look for financial support on the international arena. The country’s debt burden is constantly growing. This siphons money away from the development of national production and the realization of social initiatives.

Finally, the negative international financial climate leads to a decline in production by Ukrainian manufacturers, which brings about growing unemployment and budgetary problems. It is not surprising that the pace of growth of the country’s GDP has been very modest in recent years.

4. Conclusions

The following conclusions can be made, based on the research. First of all, Ukraine and Poland are countries which are quite similar in the terms of the character of their external operations, dynamics of balance of payments, etc. The countries have quite similar commodity and geographical structures of their export-import operations. Both countries tend to rely on their direct and economically powerful neighbors. Both countries are net importers in commodity terms. The financial account plays an important role in balance of payments. Also, both countries are characterized by a negative correlation between the conditions of balance of payments and the exchange rate of their national currencies. These are the reasons for the similar dynamics in their balance of payments. Moreover, both countries can be classified as unstable economic systems, as has been explained above.

Also, both countries are characterized by quite similar geographical and commodity structures of their export-import operations. In addition, this structure has remained stable for the last five years. This reflects the stable structure of the national economies of both countries.

However, the two countries have different possibilities to influence their balance of payments. Poland has better instruments, and, as a result, better possibilities to embark on the path of stabilization following the global financial crisis. This is why it is very important for Ukraine to study Poland’s experience with the aim of making usage of it for the stabilization process in Ukraine.
Owing to the existence of certain stabilization factors (built-in stabilizers), Poland has managed to enter the path of restoration of its external balance. Among these factors the following may be pointed out: lower degree of openness of the national economy, membership in a large and powerful integrated market, a higher credit rating for the country and its financial institutions on international markets, lower correspondence between external debt and GDP, etc. In turn, Ukraine is characterized by an orientation toward raw materials in exports, a higher degree of dependence on international markets, low quality of its business environment, etc. Hence the overall conclusion can be made that Ukraine has to rebuild the foundations of its national economy in order to attain balance in the external sector. Generally it may be said that the external imbalance has internal origins.

References


Streszczenie

ANALIZA PORÓWNAWCZA BILANSA PŁATNICZEGO W POLSCE I NA UKRAINIE PO KRYZYSIE ŚRODOWISKA GOSPODARCZEGO

Stan bilansu płatniczego kraju stanowi jeden podstawowy miernik efektywnego rozwoju w małych otwartych gospodarkach takich jak Polska i Ukraina. Z powodu ich zależności od klimatu biznesowego na rynkach międzynarodowych, Polska i Ukraina są szczególnie wrażliwe na fluktuacje mające miejsce w skali globalnej. Tak więc dla obu gospodarek narodowych istotny jest rozwój efektywnych instrumentów dla dostosowania ich bilansu rachunków płatniczych. Wymaga to więc prowadzenia badań podstawowych. Konieczność ta wymaga z kolei prowadzenia badań podstawowych głównych mechanizmów wykorzystywanych do dokonania korekty bilansu płatniczego w krajach rozwijających się, ponieważ nie wszystkie aspekty z tym związane zostały już dotychczas dostatecznie zbadane. W niniejszym artykule została przeprowadzona analiza porównawcza sytuacji bilansu płatniczego w badanych obu krajach, która ma na celu wykazanie zewnętrznych podobieństw między nimi w tym zakresie oraz wyjaśnienie, dlaczego Polska osiągnęła większy sukces w procesie przezwyciężania skutków światowego kryzysu finansowego. Wnioski płynące z tej analizy mogą stanowić rodzaj mapy drogowej dla Ukrainy na drodze do korekty bilansu rachunków płatniczych. Głównym powodem podjęcia takich badań jest obserwacja że bilans płatniczy Ukrainy funkcjonuje w warunkach deficytu, co z kolei negatywnie wpływa na ogólny stan gospodarki narodowej tego kraju.