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INTERNATIONAL INVESTMENT POSITION
OF EUROPEAN COUNTRIES – CHOSEN ASPECTS

Abstract. The paper aims at assessing the changes in flows of selected forms of capital under deepening financial integration in the European Union. EU Member States are divided into two groups: members of the euro area and those outside of it. The analysis coincides with the establishing of the EU monetary union and covers the turn and early 21st century. We have reviewed major theoretical concepts providing grounds for further considerations. Together with the progressing financial integration of the EU Member States there is an increase in the overall value of financial flows measured with net IIP. Research method applied in this particular study includes the overview of theoretical concepts, literature review and a comparative analysis based on statistical data. Analyses of selected data revealed significant differences between developed and developing countries when it comes to various forms of net capital and its relation to the GDP based on the International Investment Position. The analysis of the degree of financial and trade integration of the Eurozone countries compared to the Member States outside of the euro area demonstrated that the two groups are at two opposite extremes.

Keywords: International Investment Position, capital flows, financial crisis, euro area, foreign direct investment, financial integration.

JEL: F210, F320

1. INTRODUCTION

The end of the 1990s was a period of dynamic increase in financial liquidity in the global economy. The development of financial markets, also capital markets and the banking sector, encouraged enterprises and public institutions to seek increasing amounts of capital in international markets. The development of the securities market favoured the reduction of the cost of raising capital. Initially, due to considerable liberalisation, capital flows among economies were mostly foreign direct investments or portfolio investments. The beginning of the 21st century was also the period of powerful and dynamic development of the banking sector in the EU Member States. The EU economy is largely based on the financial intermediation of banks. At the end of 2012 the assets of the banking sector accounted for ca. 350% of EU GDP. On top of that, securitisation

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of banks assets progressed, motivated by the development of capital markets, especially in the United States. In balance sheets bank loans gave way to securities. Progressing integration of the EU financial markets opened up opportunities to enterprises to raise investment capital in cross-border arrangements. The accompanying globalisation of financial markets, reflected in mutual links between financial institutions and non-financial operators, created conditions to maximise capital flows among countries. Authorities were interested in attracting foreign investors and their capital. Favourable conditions were created to invest and deposit savings. The structure of capital inflow into a given economy was mainly the resultant of the expected rate of return and risk bonus.

The paper tries to evaluate the changes in capital flows under the deepening financial and trade integration in the EU. The paper aims at assessing the changes in flows of selected forms of capital under deepening financial integration in the European Union. EU Member States are divided into two groups: members of the euro area and those outside of it. We analysed net International Investment Position of the EU countries. The countries were divided into two groups: members of the Eurozone and member states outside of it. The analysis coincides with the establishing of the monetary union in the EU and covers the period 1998–2011, and 2003–2013 for Poland. Moreover, we conducted comparative analysis of selected IIP values for Poland against the backdrop of countries of Central and Eastern Europe and the members of the euro area. We need to stress that the stream of payments resulting from increased trade among countries caused, inter alia, by increased GDP was largely directed not only to the real sector but increasingly to the financial sector. The two sectors: financial and real one started to grow apart. This specific asymmetry of trade flows and the flows of payments dictated changes in the balance of payments of individual economies. National financial systems became resistant to the controls and operations of monetary and fiscal authorities. Free inflow and outflow of capital, in particular loans, intensified financial intermediation. Increases in the volume of cross-border financial flows, combined with limited autonomy of domestic macroeconomic policy and monetary authorities of a deficit country getting quickly indebted abroad, revealed the inability to effectively counteract over-appreciation of domestic currency and significant reduction of domestic interest rates (Najlepszy, Sobański 2010). Besides, according to J. Bilski too deep a reduction of interest rates may largely reduce the inflow of portfolio capital and initiate depreciation, which may threaten the financing of current account deficit from foreign sources (Bilski 2006). Cross-border capital flows broke up when the crisis began in 2008, which was also reflected in global trade turnover (Sula, Willet 2009). Developed members of the Eurozone, especially those, who made their growth

dependent upon the inflow of foreign capital, suffered the most from the lack of capital. In some countries, specifically in peripheral ones, credit boom in the market of consumer and mortgage loans caused, inter alia, by low interest rates, contributed to the speculative bubble in the real estate market. As a result of rapid increase in the risk of investing in foreign financial markets, capital, in particular portfolio capital, was flowing out of individual countries. From the viewpoint of stability, the system is most sensitive to developments in global markets. The latest crisis of 2008–2011 revealed weaknesses of progressing financial integration of the banking system not only in the United States but also in the EU. Literature provides arguments that lay grounds for the stability of external balance of a country. Many studies on the instability of external balance demonstrate that global capital flows may be the critical variable that destabilizes external balance of a particular country. Capital flows offer possibilities and ways of balancing international trade turnover of states. Moreover, capital flows are influenced by balance of payment forecasts and thresholds specifying safe level of future macroeconomic equilibrium. Too quick and too wide, in relation to the expected, inflow of capital may deteriorate the net investment position[1] of a country and the terms of foreign debt servicing (Najlepszy, Sobański 2010).

2. REVIEW OF SELECTED THEORETICAL AND EMPIRICAL CONCEPTS

Classical economy is considered to be the first strand in the theory of economics, which looks at processes that take place among economies in a comprehensive way. The theory of international trade developed by Ricardo – theory of comparative advantage – assumed relative absence of capital mobility among countries. The theory of neoclassical economy started in 1871 as a result of the publication of Jevons. Its main representative was Marshall (*Principles of Economics*, 1890), who developed the marginal productivity theory. He assumed perfect competition, which leads to immediate self-regulation in the market, i.e. in the case of the balance of payments, all divergences from the equilibrium are corrected. Neoclassical theory assumes benefits resulting from complete liberalisation of capital flows. Although the development of neoclassical theory took place under the system of gold currency, nowadays many authors still use its achievements to explain some

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[1] International Investment Position (IIP) is a statistical statement compiled at the end of a given period, which outlines foreign assets and liabilities of residents vis-a-vis non-residents. The difference between foreign assets and liabilities is the Net International Investment Position, which informs whether a country is a net creditor or net debtor vis-a-vis other countries.

economic phenomena. Gold currency system and its operating conditions contributed to the first wave of globalisation of financial markets (1871–1913) connected with increased capital flows. It was generally agreed that external, not internal, balance was the overriding economic goal of a given economy. The outbreak of World War I put an end to the system of golden currency. In 1936 Keynes laid down the grounds for new theory of economics. Differently from previous theories, his made references to the liberalisation of capital flows. According to him, financial markets should provide their participants with liquidity and the idea of financial investment is harmful. That coincided in time with the outbreak of the Great Depression in 1929. Keynes supported restrictions imposed on the free flows of capital among the countries, considering the flows one of the key destabilising factors. He was also the proponent of fixed exchange rates. His theory assumes that the selection of the degree of capital flows liberalisation depends on the exchange rate regime and economic policy.

From a theoretical point of view, an ideal situation is one where the balance of payment is zero. In modern times it is hard to find an example of economy where domestic savings equal pending investment projects. That is the case of a so called "closed economy". In open economies freely moving capital enables financing of investments when there is not enough capital in the home market. As a result, we have surpluses or shortages in the balance of payments. Moreover, under the absence of external balance it is hard to arrive at internal balance, both in the real and in the financial sectors. The model of general economic stability IS–LM supplements Keynes's theory (Hicks 1937). It describes the behaviour of the real and financial sectors in the internal market, for which it was vastly criticised. The IS–LM–BP model expanded by Mundell-Fleming shows balance achieved simultaneously in internal and external markets. In this approach when there is disequilibrium in the balance of payment, restrictions may be imposed upon such capital flows which threaten the stability of the balance of payments (Mundell 1968). Pursuant to the assumptions of the IS–LM–BP model, taking account of the assumptions of the Keynes's theory, the degree of liberalisation of capital flows (complete, partial or no liberalisation) with floating exchange rate enable effective monetary policy. On the other hand, if we adopt a fixed exchange rate regime, monetary policy is ineffective. If, however, for the fixed exchange rate model we pursue an expansive fiscal policy, its effectiveness will be the highest under partial liberalisation of capital flows. The dichotomy of using many solutions was applied in the idea of „Impossible Trinity". It means it is impossible to have all three of the following at the same time: stabilisation of the exchange rate, independent monetary policy, and full liberalisation of capital flows. Monetarism emerged after World War II. The main representative of the monetarist theory was Friedman (1957), who spoke in favour of economic

liberalism. He criticised theoretical assumptions of the far-reaching Keynes interventionism. After the collapse of the Bretton Woods system the volume of international flows increased. Individual countries started eliminating barriers to it. Additionally, in 1990 Lucas (Lucas 1990) published an article, in which he highlighted certain relationship that was termed the *Lucas paradox* in literature. He noticed that capital, contrary to theoretical assumptions, flows from poor to rich countries. Thus, he challenged conclusions of the neoclassical theory, according to which we expect capital to flow to poor countries from rich countries better equipped in capital.

Lane and Milesi-Ferretti (2000) reviewed literature concerning the essence and structure of external investment position of countries. Based on that they selected potential determinants of the financial structure of the balance of payments in developed and developing countries. One of the conclusion is that relatively bigger countries with a developed financial market and open to trade have externally diversified financial structure (*external diversification*). The group of developing countries is dominated by a diversified structure of liabilities. Both developed and developing countries from the group of high GDP per capita enjoy higher levels of assets and liabilities and are usually bigger creditors than smaller countries. Other researchers (Faria et al. 2006), as a result of horizontal and time-based analysis of economies, selected factors decisive in the structure of liabilities of IIP in high-income and other countries. The authors distinguished two periods: 1996 and 2004. From the group of studied variables they selected foreign liabilities to GDP ratio, the coefficient describing the share of equity in total liabilities as well as the FDI and equity to GDP ratio. Results of calculations for both studied periods are very close, which helps us draw common conclusions. Between the 1970s and mid-1980s in selected countries the share of total liabilities in GDP was very similar and represented ca. 25–30% up to ca. 50% GDP. From ca. mid-1980s on, the trajectory of liabilities owned by rich countries and other countries started to diverge. Rich countries have a much higher share of liabilities in the GDP (in 2004 they exceeded 140% share of liabilities in the GDP) compared to other countries, for which analysed ratio reached ca. 60% GDP over the same period. Moreover, the increased share of equity in total liabilities of the balance of payments positively correlates with the quality of institutional changes in researched countries. It was also observed that bigger countries have relatively smaller share of foreign liabilities and higher share of portfolio capital in total liabilities. Horizontal analysis for 2004 revealed positive correlation between equity and bigger openness to trade. Lane and Milesi-Ferretti (2006), conducted a synthetic analysis of data and results of calculations based on data originating from 145 countries from the period 1970–2004. Attention was paid to the structure of assets and liabilities of the IIP and to the attempt to identify trends in external financial structure of these countries. To this end, the authors used ratios that assess the level of international financial

integration. One of them is the total external assets and liabilities to GDP ratio. In general terms, we may conclude that results obtained for developed and developing countries are close. There was a 7-fold increase in the ratio representing the level of international financial integration, from ca. 45% GDP in 1970 to over 300% GDP in 2004. Based on that, the researches distinguished two stages of progressing financial globalisation. The first one covers the period of the 1970s and 1980s when integration was increasing annually on average by several dozen per cent of the GDP to reach ca. 100% GDP in 1987. Clear acceleration of international financial integration took place in the 1990s when the ratio reached 200% GDP in 1998 and 300% GDP in 2004. Differences between the two groups of countries are clear when we include the ratio relating to international trade integration (total financial assets and liabilities/total exports and imports) into comparative analysis. In 2004 the difference between both studied groups was ca. 500% (developed countries – ca. 700% while developing countries ca. 200%). For developed countries we may distinguish three stages of the evolution of international financial integration. The first one lasted until 1985 when the ratio was rather stable. Between 1985–1995 it was systematically increasing. While after 1996 the changes were significant with the exception of the years 2001–2002, when equity flows decreased. In developing countries the 1990s were the years of strong integration in equity capital both in relation to GDP and to trade. Obtained results also demonstrated that at the turn of the centuries there were substantial changes in external investment position of analysed countries. Developed countries reported increases in both assets and liabilities in relation to GDP, in particular when it comes to net debtors (e.g., United States, Australia, Spain) and creditors (Japan, Switzerland). In summary, under progressing financial globalisation we observed significant changes in the structure of the balance of payments and international investment positions of analysed countries. Asian and Middle East countries recorded dynamic increase in financial surpluses. The rest of developing countries experienced considerable increase in the share of equity to total liabilities and strong accumulation of foreign exchange reserves.

3. TRENDS IN EXTERNAL CAPITAL STRUCTURE

At the turn of the 20th and 21st centuries significant changes took place in external investment position in the global economy. Developing countries in Asia and in the Middle East improved their external investment positions, while European developing countries experienced changes in capital structure. Countries regarded as developed strengthened their external investment position to GDP due to relatively higher share of liabilities in the IIP structure (Australia, Spain, United States) and relatively higher share of assets in IIP structure (Japan,

Switzerland). When it comes to financial integration of developing countries, we may say that its scale is smaller than in developed countries. That is especially true of low level of financial integration with respect to debt. Further liberalisation of capital flows in these countries and further advances in the development of national financial markets may impact progress in further international financial integration. Lane and Milesi-Ferretti (2006) conducted the analysis of statistical external capital structure of IIP liabilities in developed and developing countries. In the 1980s and 1990s both groups of countries exhibited clear increase of equity capital in total liabilities. Over the period 2000–2002 its share dropped in favour of debt. In 2004 in developed countries equity reached 36% of total liabilities. In developing countries its share was ca. 50% of total assets and ca. 75% accounted for foreign direct investment. Besides, in developing economies dynamic accumulation of official reserves was observed. The ratio indicating the share of official reserves in total liabilities (debt) increased from 29% in 1998 to 64% in 2004. Changes in the structure of external investment position of countries improved, also the investment position of developing countries, due to the increase in the share of equity and foreign exchange reserves in total liabilities. Lane and Milesi-Ferretti (2001) realised, based on horizontal and time studies of the sample of 67 countries over the period of 1970–1998, that GDP per capita, public debt and demographic variables have the biggest impact upon the directions in international trade in assets. Prices of assets traded worldwide are determined by foreign net investment position, which, in turn, exerts significant impact upon the performance of long-term real exchange rate. Gruic (2013) made an attempt to identify the determinants of the IIP of selected countries in the light of progressing financial globalisation. Quarterly data cover the period from the 4th quarter of 1997 until the 2nd quarter of 2004. Analyses were conducted for EU Member States, which do not belong to the euro area: the Czech Republic, Hungary, Poland, Slovakia, Slovenia, Bulgaria, Croatia, and Romania. He decomposed the net IIP for the group of countries covered by the analysis. From the end of 1997 the FDI/GDP (*Foreign Direct Investments/GDP*) ratio for selected countries decreased from –0.51 to –1.26 in July 2004, while the ratio of portfolio investments to GDP (*Portfolio Investments/GDP*) recorded –0.38 in 1997 and –0.54 in 2004. Other investments to GDP (*Other Investments/GDP*) ratio was –0.49 in 1997 and –0.62 in 2004. According to the author, the above data confirm foreign investors' positive assessment of economic situation in developing countries. Special attention should be paid to the long-run perspective of the return on investment reflected in the FDI. Moreover, the level of international financial integration was analysed for countries included in the study. Countries with higher levels of gross assets and liabilities to GDP represent higher level of financial integration (*IFI=(A+L)/GDP*). At the same time IFI and EQI evolution was shown (*Equity investments; EQI=(EQA+EQL)/GDP*)) over the

period 1997–2004. Data analysis resulted in the conclusion that at the level of portfolio capital financial integration EQI increased more than twofold from 0.6 to 1.36, while financial integration measured with IFI increased from 3.22 to 4.90. Against this backdrop, the relationship between financial and trade integration was examined. For Romania, Bulgaria, and Hungary the results demonstrated that trade integration is not the pre-condition for closer financial integration of economies. For the rest of the studied countries, trade integration played a crucial role in progressing financial integration. In conclusion Gruic (2013) states that assets and liabilities depend on both domestic and foreign factors, which include: openness to trade, size of the country, capital market development, and degree of financial liberalisation. On top of that, deeper integration measured with the equity (*EQI*) over the studied period can be explained by relatively high share of State-owned enterprises privatised step by step, which encouraged foreign investors to invest in equity within the framework of both FDI and portfolio capital. Catao and Milesi-Ferretti (2013) attempted to identify the determinants of financial crises paying special attention to the role of foreign liabilities and their structure. The period of the study covers the years 1970–2011 and the study concerns 70 countries including 41 developing ones. The authors noticed that the risk of crisis in a given economy rapidly increases when net foreign liabilities exceed 50% of GDP (*NFL/GDP*) oscillating between 50–60% GDP and when the NFL/GDP ratio increases by 20 p.p. above the historic average level for a given country. As a result of the study they noticed that the likelihood of financial crisis increases when the debt to equity ratio in external liabilities of the country relatively increases. The scenario is especially realistic in countries where the share of net debt in liabilities exceeds ca. 35% GDP. The risk of crisis is lower when the share of net FDI in the capital structure (*FDI/TL*) increases. The observation is in line with the results of studies conducted by Hausmann and Fernandez-Arias (2001), and Borensztein, De Gregorio and Lee (1998), which demonstrated positive impact of relatively increasing share of FDI in IIP liabilities of a given country. The higher it is, the more stable and safe the country in the eyes of potential investors. Literature describes it as „*good cholesterol*". The case of foreign exchange reserves is similar. If their share in foreign assets is relatively high, their importance as a preventive measure protecting against the risk of crisis is higher. When it comes to the impact of portfolio equity upon the risk of crisis, results of studies are inconclusive. Current account deficit oscillating around 4% of GDP is the variable playing a major role in the prediction of crisis in most studied specifications. In general terms, as demonstrated by the decomposition of external net investment position of analysed countries into net equity and net debt, net debt liabilities is the most relevant determinant of net external investment position, which importantly affects the risk of crisis.

4. RELATIONS BETWEEN FINANCIAL INTEGRATION AND TRADE INTEGRATION

Obstfeld and Taylor (2002) and Milessi-Ferretti (2003) constructed a simple measure used to estimate the degree of international investment integration of a given country ($IFI=(FA+FL)/GDP$). Results obtained from calculations enabled them to initially assess the degree of integration. Generally speaking, the higher the ratio, the deeper international financial integration of a given country. EQI ratio ($EQI=(EQA+EQL)/GDP$) helps evaluate financial integration against equity of a given country with the rest of the world. Like the previous ratio, the higher it is, the deeper financial integration measured with the equity to GDP ratio. By analogy, comparisons were made using the trade integration ratio (total exports and imports/GDP).

Below we present statistical analysis of data and try to assess the relationships between international financial integration and financial openness of Poland and selected Central and East European Countries (CEECs). Among the CEECs we focused on: Bulgaria, Croatia, the Czech Republic, Lithuania, Poland, Romania, and Hungary. We analysed integration between two groups of countries: members of the euro area (EA) and EU Member States outside of the Eurozone (nEA). Euro area consists of 18 economies. The United Kingdom, Denmark and Sweden were not included in the analysis. Below, we can see the average for the above mentioned countries for the period 2004–2011. OX axis gives average openness to trade over the period 2004–2011 while OY axis represents average financial integration.
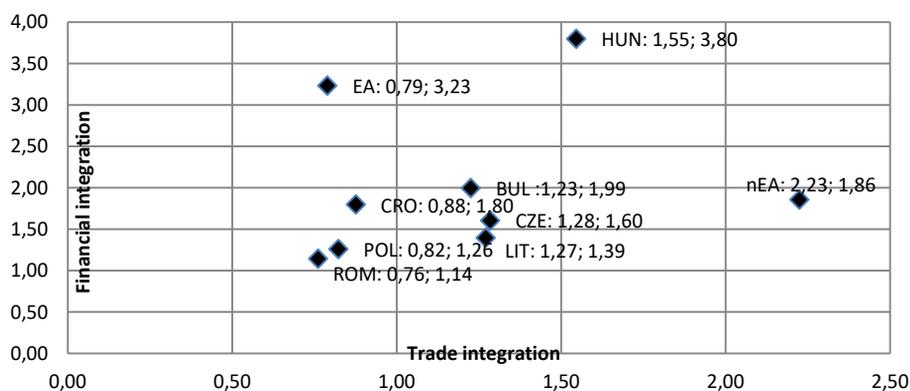

Figure 1. International financial integration and trade integration of the EU

Source: Author's estimates based on the NBP (National Bank of Poland), Eurostat, and IMF data.

We may note that the euro area countries compared to non-euro countries remain at opposite extremes. While in the single currency countries (EA) financial integration was on average 3.23 over the years 2004–11, in CEECs (nEA) the ratio amounted to 1.86. Hungary was the only exception, as their financial integration was on average 3.80 with openness to trade ratio of 1.55. The degree of financial integration of the rest of EU Member States outside of the euro area ranged between 1.0 and 2.0. Interestingly, the openness ratio for Croatia was 0.88, for Poland 0.82, and for Romania 0.76.

Many interesting conclusions can be drawn from the analysis of IIP structure of the eurozone countries and the CEECs outside of the euro area. Changes that took place over recent 14 years concern individual components of IIP liabilities. Based on statistical data for net foreign assets of selected CEECs (nEA) and Eurozone members we may conclude that between 1998 and 2011 negative IIP to GDP balance more than doubled. In 1998 NFA amounted to –0.28 GDP while in 2011 –0.67 GDP, reaching its maximum of –0.82 GDP in 2009. By analogy, in the euro area countries in 2009 NFA/GDP was almost 4 times lower and accounted for –0.21 GDP, which is presented on the figure below.
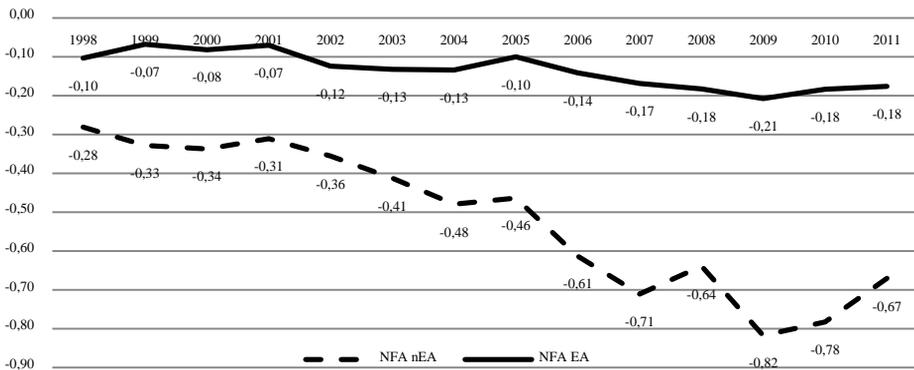

Figure 2. NFA to GDP in euro area (EA) and in the non-euro area countries (nEA)
in the period 1998–2011

Source: Author's estimates based on IMF data.

It is worth stressing that FDIs account for the biggest share of negative NFA balance in developing countries. In developed countries the FDI/GDP balance showed positive values in each year covered by the study and amounted from 0.01 GDP in 1998 to 0.12 GDP in 2011. Balance totals of net portfolio capital to GDP in both groups of countries were close from 1998 (nEA: –0.11 GDP; EA:

–0.10 GDP) to 2006 (EA: –0.17 GDP; EA: –0.2 GDP). Since 2007 we have observed the divergence of the trajectories for both groups of countries and the dispersion of net balance of PI/GDP across the countries of the euro area (EA: –0.23 GDP) and the CEECs (nEA; –0.15 GDP), which was increasing year after year to reach respectively: EA: –0.28 GDP; nEA: –0.16 GDP in 2011.
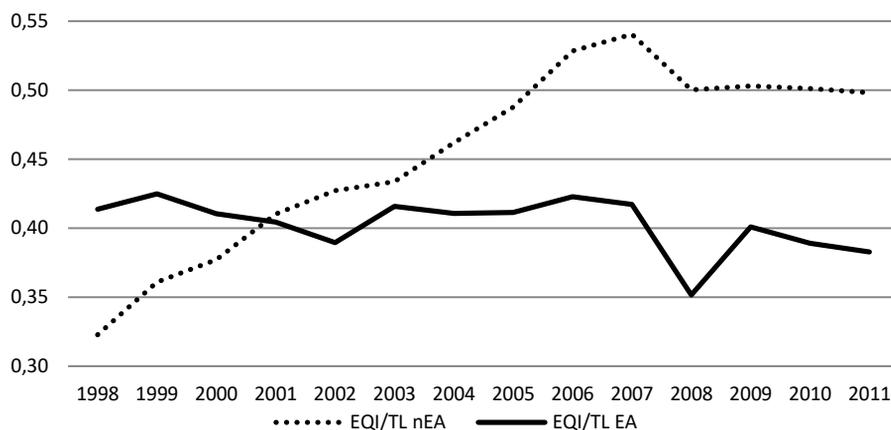

Figure 3. Equity in IIP liabilities (EQI/TL) in the euro area and in the CEECs between 1998 and 2011

Source: Author's estimates based on IMF data.

The analysis of data describing the relation of total FDI and short-term capital to TL shows that the changes in their percentage share in the countries of single currency are relatively uniform, with the exception of 2008 when it dropped by 7 p.p. compared to 2007. In selected CEECs countries over the decade from 1998 to 2007 this category of capital increased by 20 p.p., which may evidence positive perception of political and economic perspectives of this group of countries. Since 2004 the difference to the countries from the Eurozone has been ca. 10 p.p. on average. The collapse in 2008 in this group of countries was 4 p.p.. We should stress that the FDI represents the biggest share of this financial position in total liabilities with the average share in the CEECs of 47.0% compared to 21.0% in the Eurozone over the period 2004–2011. When analysing data concerning the share of FDI in the capital structure (*FDI/EQI*) we may note that between 2004 and 2011 the ratio was almost 90% in the group of selected CEECs while in the Eurozone economies it was ca. 52% of total equity (*EQI/TL*). This is illustrated in the figure below.
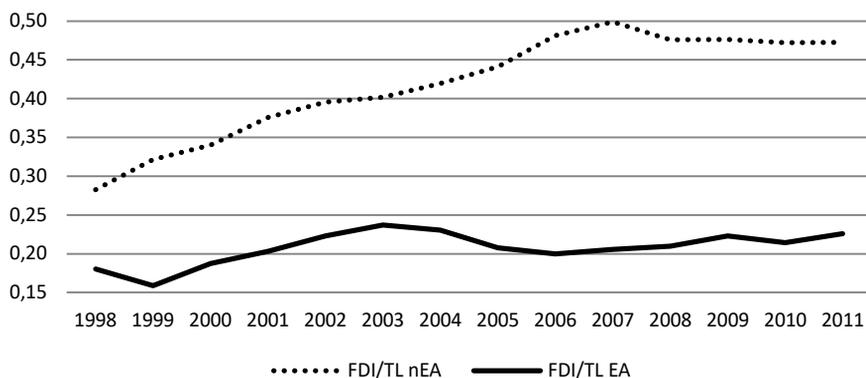
Figure 4. Share of FDI in equity in the euro area countries and in CEECs in the years 1998–2011

Source: Author's estimates based on IMF data.

The analysis of the structure of IIP liabilities in countries included in the study can be supplemented with the identification of debt to total liabilities ratio (*DEBT/TL*). As we can see from the data presented below, average share of debt in total liabilities in the CEECs systematically decreases from 68% in 1998 to 46% in 2007 to finally stabilise in the following years around 49%. We need to stress that in the times of crisis of 2007–2010 financial markets reported shift from equity investment towards less risky debt securities.
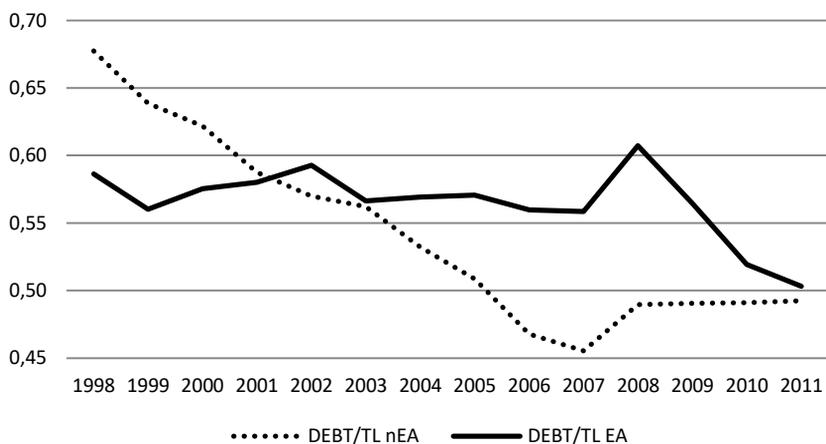

Figure 5. Share of debt capital in liabilities in euro area countries and in the CEECs
in the years 1998–2011 (%)

Source: Author's estimates based on IMF data.

Over the period 1998–2011 both the euro area countries and the countries which are not its members recorded significant changes in IIP structure. Characteristically, the turning point for the present IIP structure in analysed countries was 2000. While in the case of equity, until 2011, we could clearly see its systematically increasing share in the countries from outside of the euro area, the pattern for debt was reverse. As of 2008 the share of debt in liabilities dynamically decreased from 61.0% in the member countries of the monetary union and approached the share of debt in countries from outside of the Eurozone, reaching 50.0% in 2011.

5. INTERNATIONAL INVESTMENT POSITION OF POLAND – STATISTICAL ANALYSIS

The analysis of Poland's net international investment position and its net components in relation to GDP produces interesting observations. Every year Poland's net IIP to GDP decreases. In 2003 IIP the balance was –41.7% GDP, while in 2013 it reached –69.3% GDP. It means the balance of Poland's financial debt to foreign countries was annually, on average –54.7% in the period covered by the study. Total liabilities exceeded GDP in 2010 reaching 104.5% GDP while in 2013 liabilities represented 109.7% GDP. This may confirm that Poland is perceived as a financially and economically stable country, more and more attractive to foreign investors wishing to invest their long-term capital as net FDIs (–36.9% GDP in 2013 compared to –27.0% GDP in 2004) and net portfolio capital (respectively: –29.1% GDP and –16,1% GDP).

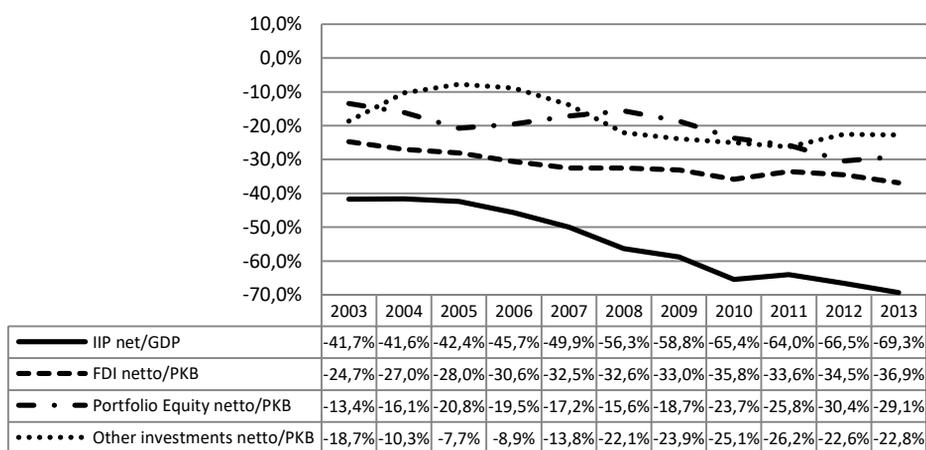|	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
—— IIP net/GDP	-41,7%	-41,6%	-42,4%	-45,7%	-49,9%	-56,3%	-58,8%	-65,4%	-64,0%	-66,5%	-69,3%
- - - FDI netto/PKB	-24,7%	-27,0%	-28,0%	-30,6%	-32,5%	-32,6%	-33,0%	-35,8%	-33,6%	-34,5%	-36,9%
– · – Portfolio Equity netto/PKB	-13,4%	-16,1%	-20,8%	-19,5%	-17,2%	-15,6%	-18,7%	-23,7%	-25,8%	-30,4%	-29,1%
······ Other investments netto/PKB	-18,7%	-10,3%	-7,7%	-8,9%	-13,8%	-22,1%	-23,9%	-25,1%	-26,2%	-22,6%	-22,8%

Figure 6. International components of Poland's net IIP to GDP over the years 2003–2013 (%)
Source: Author's estimates based on NBP data.

Data presented in Figure 6 inform us that in Poland net balance of short-term capital might have been on the negative side in 2007–2010. Portfolio capital was inflowing into Poland during the latest financial crisis. It means investors decided that financial market in Poland was stable and relatively profitable. In 2008 portfolio capital rapidly flown out of Poland. Over the same period the share of other net foreign investments in GDP increased by 8.3 p.p. compared to 2007. Levels of international, financial and trade integration for Poland are presented in the Figure below.

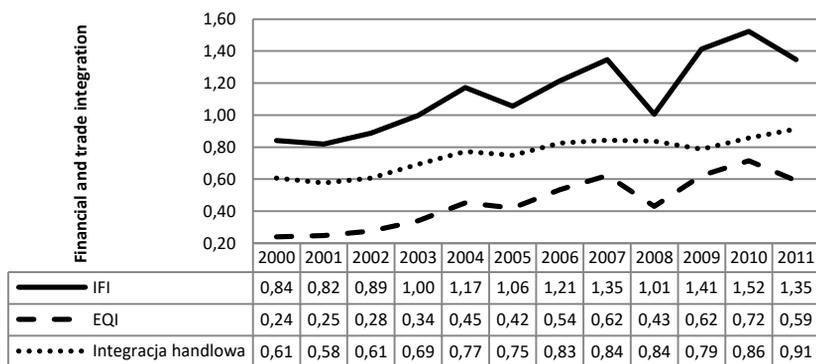| Financial and trade integration	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
IFI	0,84	0,82	0,89	1,00	1,17	1,06	1,21	1,35	1,01	1,41	1,52	1,35
EQI	0,24	0,25	0,28	0,34	0,45	0,42	0,54	0,62	0,43	0,62	0,72	0,59
Integracja handlowa	0,61	0,58	0,61	0,69	0,77	0,75	0,83	0,84	0,84	0,79	0,86	0,91

Figure 7. Poland's international financial integration and trade integration over the years 2000–11

Source: Author's estimates based on NBP and GUS (Central Statistical Office of Poland) data.

Calculations allow us to conclude that the period 2000–2011 witnessed strong financial integration of Poland with international market. That was true of both financial integration IFI and equity integration EQI. In 2000 IFI amounted to 0.84 and was dynamically increasing until 2004 (1.17); between 2005 and 2007 the dynamics of change was high, 25.9% for two years (from 1.06 to 1.35). Financial crisis diminished international financial integration in both categories IFI and EQI. In 2008 IFI dropped to 1.01 (down by 25.3% compared to the previous year), while EQI decreased from 0.62 to 0.43 (by 31%) over the same period. The analysis of Poland's financial integration confronted with openness to trade lets us conclude that financial markets are more sensitive to changes in real economy. Till the moment of Poland's EU accession in 2004 both financial integration and openness to trade were increasing reaching respectively: 1.17 and 0.77. Next stage of Poland's financial integration lasted from 2005 to 2007 when it increased from 1.06 to 1.35 (by 27.5%). At the same time Poland's openness to trade remained at a relatively stable level (0.75 in 2005 and 0.83 in 2007). The crisis of 2007 weakened further financial integration of Poland with

international market. In 2008 integration dropped from 1.35 to 1.01 (by over 25%). Subsequent increase in integration continued until 2010 and reached 1.52 (increase by 51%) in 2010.

The above observations are complemented with the analysis of decomposed Poland's IIP liability positions both in terms of their structure and dynamics over the period 2004–2013. The figure below shows the structure of gross liabilities of net international investment position.
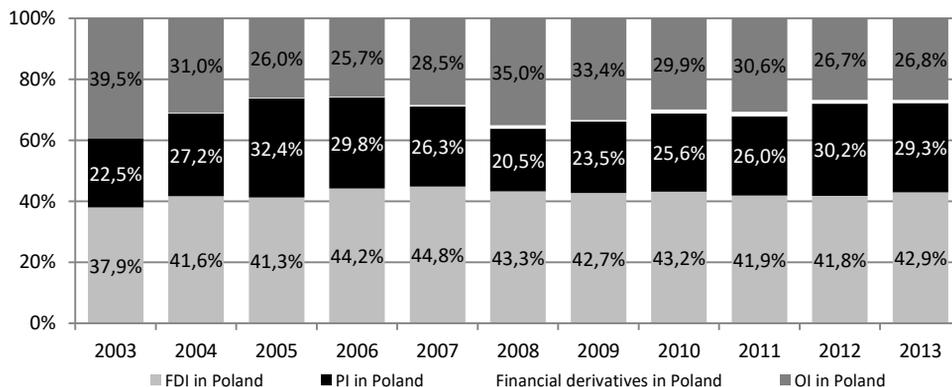

Figure 8. Structure of Poland's IIP liabilities in the years 2003–2013 (%)

Source: Author's estimates based on NBP and IMF data.

In the years 2003–2013 the structure of liabilities of Poland's IIP showed relatively stable share of its individual components over the period covered by the study. Foreign direct inward investment represented the biggest share and on average accounted for 42.3%. Another significant financial item were portfolio investments (PI), which represented on average ca. 26.7% in the analysed period. Since 2003 we can observe their systematic increase with the exception of 2008 (20.5%) when they rapidly shifted away from Poland to reach 29.3% in total liabilities, i.e. PLN 525,533 m at the end of 2013. Attention should also be paid to the analysis of data concerning other foreign investments. Their average annual share in IIP liabilities was 30.3% (it was the highest in 2003 – 39.3% and the lowest in 2006 – 25.7%). Other foreign investments (OI) included granted commercial loans, financial borrowings, cash in current accounts and deposits made in Poland and not included in other categories. The moment Poland joined the European Union, the share of OI was relatively high (over 30%). Then it decreased in favour of portfolio investments and FDI.

6. CONCLUSIONS

The paper is an overview of basic concepts of economic theories addressing international capital movements. At present, as a result of dynamic changes in the global economy we witness important changes in international capital flows. By taking various forms, these flows reflect the structure of international investment position of individual countries. By analysing the ratios calculated based on collected statistical data we may conclude that there are substantial differences in capital flows and in the structure of IIP between developed and developing countries. The analysis of financial and trade integration of Eurozone countries compared to the EU Member States from outside of the single currency area demonstrated that the two groups are at opposite extremes. Over the period 2004–2011, financial integration in countries using the single currency (EA) was on average twice as high compared to the CEECs (nEA). Moreover, in the period 1998–2011, both Eurozone members and countries outside of the single currency area reported considerable changes in the structure of IIP. Portfolio investments of the member countries of the monetary union targeting countries from the outside of the area were increasing in importance. The crisis which began in 2008 changed the trends in equity – debt relationship. While in the countries outside of the Eurozone the share of debt increased, it decreased for monetary union members. FDIs represented a substantial proportion of equity. In general terms, the value of IIP assets and liabilities increased. Negative balance of financial flows of international investment position to GDP deepened in analysed countries, in particular in the CEECs, which are EU Member States outside of the euro area. Increasing openness to trade, financial development and financial and trade integration are reflected in capital movements among countries. We need to stress that between 2000 and 2011 Poland got strongly integrated with international market in terms of both financial integration and international integration with respect to equity EQI.

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MIĘDZYNARODOWA POZYCJA INWESTYCYJNA KRAJÓW UNII EUROPEJSKIEJ – WYBRANE ASPEKTY

Streszczenie. Celem pracy jest ocena zmian w przepływach wybranych form kapitału w procesie integracji finansowej w Unii Europejskiej. Państwa członkowskie UE podzielono na dwie grupy: kraje strefy euro oraz kraje spoza niej należąc do UE. Analiza zbiega się z ustanowieniem unii monetarnej w UE i obejmuje okres z początku XXI wieku. Dokonano przeglądu najważniejszych koncepcji teoretycznych. Wraz z postępującą integracją finansową państw członkowskich UE następuje wzrost ogólnej wartości przepływów finansowych netto mierzonej MPI. Metoda badawcza stosowana w tym studium zawiera przegląd koncepcji teoretycznych, przegląd literatury oraz dokonano analizy porównawczej wybranych wielkości. Wyniki badania wykazały istotne różnice pomiędzy krajami rozwiniętymi i rozwijającymi jeśli chodzi o różnice w przepływach netto różnych form kapitału oraz jego relacje względem PKB wykorzystując do tego międzynarodową pozycję inwestycyjną. Analiza stopnia integracji finansowej i handlowej krajów strefy euro w porównaniu z państwami członkowskimi pokazała, że obie grupy leżą na dwóch przeciwstawnych biegunach.

Słowa kluczowe: Międzynarodowa Pozycja Inwestycyjna, przepływy kapitału, kryzys finansowy, strefa euro, bezpośrednie inwestycje zagraniczne, integracja finansowa

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