

СОЦІАЛЬНІ МОДЕЛІ В ЄС

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**INTEGRATIONAL DIMENSION OF THE INTERNATIONAL
CAPITAL FLOWS TO CEE COUNTRIES**

Summary. Cross-countries capital flows are driven by the number of factors and have various implications. European integration could be considered as one of the factors of the capital flows to CEE countries. The study is to assess the integration dimension of capital flows to CEE countries as well as the global trends implications.

Key words: international capital flows, Eurozone, CEE countries, FDI flows, portfolio flows, capital inflows.

International capital flows are major driving force of globalization as well as regional economic and financial integration. At the same time international financial integration and capital flows became the global crisis rapid spillover in 2008-2009. International capital flows patterns have been changed after crisis due to two-speed growth in developed and emerging economies.

Now the European economies are in situation of post-crisis re-balancing, sovereign debt and budget crises, commodities and asset prices volatility. Central and Eastern European (CEE) countries have higher rates of economic growth and relative financial stability. This requires to study the European dimension and structural changes of international capital flows to CEE countries.

The research aim is to study the inter-EU linkages of international capital flows to CEE countries in order to assess an effect of European financial integration on domestic capital markets of new member countries.

The research methodology is based on the international economics approaches in line with structural comparative analysis. A study is focused on the factors and structural changes of international capital flows between EU and CEE countries.

International capital flows have a complex structure and include two major forms as foreign direct investments (FDI) and portfolio flows, as well as other private flows (like long-term debt and bonds) and sovereign financial flows. Cross-countries flows are under influence of systemic, each form of flows specific and country-specific factors. Therefore a structure and impact of international capital flows within the EU and in each EU member country would be resulting from the interrelation of various factor, international financial and currency markets fluctuations.

Capital flows, exchange rates, financial assets value and monetary policy stays as key drivers of the international and domestic financial markets. For example, known as «Trilemma» argued by Obstfeld and Taylor is focused on co-relations between exchange rates regimes, capital flows and monetary policy [6]. Capital flows reversals during the economic and financial crises has been named as «sudden stop» — unpredicted switch of foreign capital inflows to their outflows [2]. Global financial crisis of 2008-2009 and Eurozone debt crisis of 2011 has shown that capital flows through contagion were created large cross-countries financial exposures.

European economic and financial integration is a systemic factor of capital flows to EU members. The CEE countries have joined EU in with follow up Bulgaria and Romania. That period was a time of rapid increase of international capital flows especially to transitional and emerging economies.

Joining to EU for CEE countries became a systemic transformation of the national economic and financial systems to be directed to economic convergence and financial integration. Influence of such systemic transformation could be considered as integration dimension of the international capital movements. Integration dimension could be assessed as a share of the EU-originated capital inflows to CEE countries.

Overview of the integration-linked structural features of capital inflows trends to CEE countries to be conducted based on the comparable data. A shares of the Eurozone countries investments into CEE countries would represent an integration dimension of the capital flows. More detailed structural issues would be addressed with parallel estimations of the share of FDI and portfolio investments from Eurozone to CEE countries.

Table 1.

EUROZONE COUNTRIES' INVESTMENTS SHARE
IN INTERNATIONAL INVESTMENTS TO CEE COUNTRIES, %.

Country	Investment Type	2002	2003	2004	2005	2006	2007	2008	2009
Bulgaria	FDI	69,6	68,0	69,0	70,5	68,9	67,7	67,2	69,1
	Portfolio	32,4	41,9	54,4	77,5	67,1	79,8	85,4	n/a
Estonia	FDI	36,1	38,6	34,2	34,6	39,1	41,2	40,0	41,7
	Portfolio	52,0	46,2	51,2	58,3	54,5	49,9	40,3	n/a
Latvia	FDI	29,2	30,7	33,9	31,2	31,0	33,1	32,8	34,1
	Portfolio	62,7	67,8	87,7	81,4	75,5	61,8	55,4	n/a
Lithuania	FDI	22,7	27,4	31,7	26,8	26,9	25,8	33,5	33,4
	Portfolio	63,7	77,5	87,4	95,2	85,7	80,2	72,4	n/a
Hungary	FDI	62,4	67,2	66,8	62,6	77,1	63,7	58,9	53,2
	Portfolio	63,0	73,8	71,6	76,4	69,6	66,4	57,6	n/a
Poland	FDI	73,1	73,6	74,9	74,3	74,2	74,3	74,7	74,0
	Portfolio	41,6	51,0	51,7	58,1	57,1	53,9	47,6	n/a
Romania	FDI	n/a	70,4	71,0	76,3	80,9	80,8	82,7	82,2
	Portfolio	53,2	52,3	66,7	71,3	70,5	81,2	65,0	n/a
Czech Republic	FDI	84,0	81,3	81,8	82,6	82,8	81,7	83,3	84,3
	Portfolio	30,5	44,7	53,1	59,2	51,0	52,8	54,1	n/a

Source: compiled on the base of Convergence Report [Electronic source]// European Central Bank. — 2010. — 272 p. — Mode of access: <http://www.ecb.int/pub/pdf/conrep/cr201005en.pdf>

The following assessments could be recovered from the overview of the Eurozone linked FDI and portfolio investments to CEE economies in pre- and post EU membership time:

1. Poland, Czech Republic and Hungary keeping position of the largest recipients of foreign investments in CEE region in nominal and relative terms. It could be explained by more effective economic reforms, capital markets liberalization and viable exchange rates policies.

2. FDI still continue to be the relatively stable form of capital movement in terms of volumes and structure with concentration on mergers and acquisitions, innovation and export,

3. Eurozone linked share to CEE remains prevailing form of foreign investments, relatively stable and does not demonstrate clear changes since EU membership. Although in some cases like Hungary the Eurozone linked FDI share even steady decreased from 62,4 % in 2002 to 53,2 % in 2009.

4. Czech Republic has a largest Eurozone linked FDI share due to the country's economic stability and competitiveness.

5. Baltic states — Estonia, Latvia and Lithuania — have maintained the Eurozone linked FDI share less then 40 % as result of prevailing inflow of capital from Scandinavian countries due to regional economic relations and socio-cultural linkages.

6. Share of Eurozone linked portfolio flows have increased notably in all countries since 2002 except unstable movements in Estonia and Latvia. Overall trend could be explained by rapid development of the domestic capital markets, stock exchanges and IPO activity of the CEE companies.

7. Portfolio investment have demonstrated pro-cyclical nature, which will be marked most clearly in case of Baltic states while Latvia and Lithuania had a largest decrease of GDP during crisis in 2008-2009 and together with Estonia were experienced a substantial fluctuation of the Eurozone linked portfolio investments share.

Structural changes of the international capital flows to CEE countries might be considered both in terms of the Eurozone debt crisis and global trends of shifting financial linkages towards emerging economies.

Macroeconomic impact for CEE economies could be assessed with the net capital flows dynamics, balance of payments, international investment position changes, exchange rates movements, financial stability,

Microeconomic impact for CEE economies could be considered with the changing foreign investment patterns, access conditions to international financial markets, foreign owned banks market position, structural changes of FDI and portfolio flows, FDI input into capital formation.

The global financial instability continues, the economic recovery in developed countries continues to be weak, the sovereign debt crisis in the USA and Europe remains hard to manage, central banks regulatory and monetary policies are bringing limited results. It may influence on the global structural changes of the capital flows and

challenge for CEE countries economic policies in terms of investment competitiveness.

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РОЛЬ БІЗНЕСУ У РОЗБУДОВІ СОЦІАЛЬНОЇ ДЕРЖАВИ

Ключовими ознаками соціальної держави є соціальна справедливість, високий рівень життя громадян, згладжування соціальної нерівності, допомога бідним тощо. Країни Західної Європи у процесі розбудови соціальної держави ставили за мету не тільки зростання добробуту її громадян, але й досягнення рівноваги між економічним зростанням і соціальною справедливістю.

Розбудова соціальної держави відбувається на двох рівнях: національному (рівні держави) та корпоративному (рівні бізнесу).