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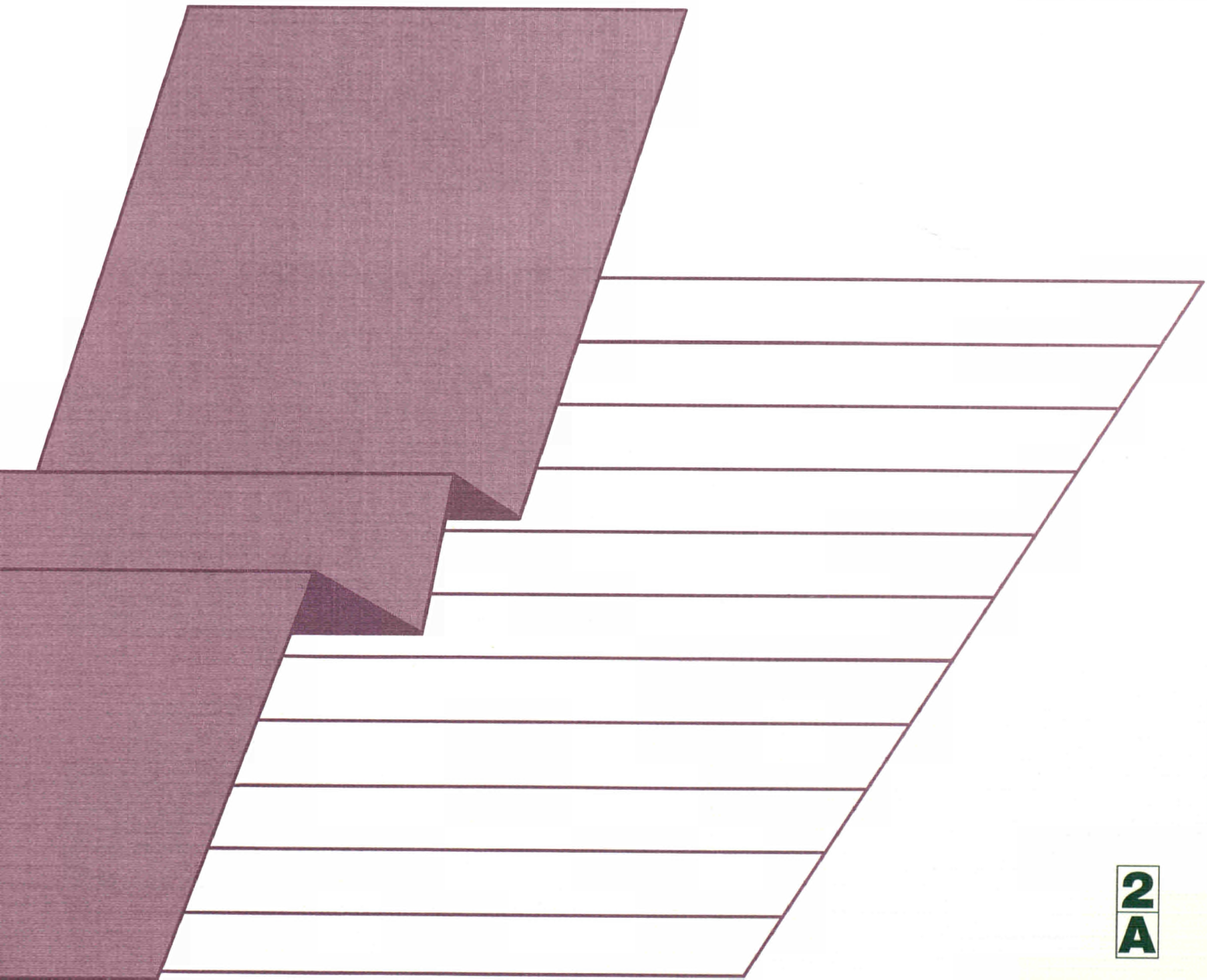
THE ECONOMIC ACCOUNTS OF THE EUROPEAN UNION

1994

0 edition



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Y. Franchet
Generaldirektor

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To ensure that the vast quantity of accessible data is made widely available, and to help each user make proper use of this information, Eurostat has set up two main categories of document: statistical documents and publications.

The statistical document is aimed at specialists and provides the most complete sets of data: reference data where the methodology is well-established, standardized, uniform and scientific. These data are presented in great detail. The statistical document is intended for experts who are capable of using their own means to seek out what they require. The information is provided on paper and/or on diskette, magnetic tape, CD-ROM. The white cover sheet bears a stylized motif which distinguishes the statistical document from other publications.

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To help the user focus his research, Eurostat has created 'themes', i.e. subject classifications. The statistical documents and publications are listed by series: e.g. yearbooks, short-term trends or methodology in order to facilitate access to the statistical data.

Y. Franchet
Director-General

Pour établir, évaluer ou apprécier les différentes politiques communautaires, la Commission européenne a besoin d'informations.

Eurostat a pour mission, à travers le système statistique européen, de répondre aux besoins de la Commission et de l'ensemble des personnes impliquées dans le développement du marché unique.

Pour mettre à la disposition de tous l'importante quantité de données accessibles et faire en sorte que chacun puisse s'orienter correctement dans cet ensemble, deux grandes catégories de documents ont été créées: les documents statistiques et les publications.

Le document statistique s'adresse aux spécialistes. Il fournit les données les plus complètes: données de référence où la méthodologie est bien connue, standardisée, normalisée et scientifique. Ces données sont présentées à un niveau très détaillé. Le document statistique est destiné aux experts capables de rechercher, par leurs propres moyens, les données requises. Les informations sont alors disponibles sur papier et/ou sur disquette, bande magnétique, CD-ROM. La couverture blanche ornée d'un graphisme stylisé démarque le document statistique des autres publications.

Les publications proprement dites peuvent, elles, être réalisées pour un public bien déterminé, ciblé, par exemple l'enseignement ou les décideurs politiques ou administratifs. Des informations sélectionnées, triées et commentées en fonction de ce public lui sont apportées. Eurostat joue, dès lors, le rôle de conseiller.

Dans le cas d'un public plus large, moins défini, Eurostat procure des éléments nécessaires à une première analyse, les annuaires et les périodiques, dans lesquels figurent les renseignements adéquats pour approfondir l'étude. Ces publications sont présentées sur papier ou dans des banques de données de type vidéotex.

Pour aider l'utilisateur à s'orienter dans ses recherches, Eurostat a créé les thèmes, c'est-à-dire une classification par sujet. Les documents statistiques et les publications sont répertoriés par série — par exemple, annuaire, conjoncture, méthodologie — afin de faciliter l'accès aux informations statistiques.

Y. Franchet
Directeur général

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The Economic Accounts of the European Union 1994

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SYMBOLS AND ABBREVIATIONS

EU	European Union
EUR12	European Union of 12 members
EUR15	European Union of 15 members
EFTA	European Free Trade Association
B	Belgium
DK	Denmark
D	Germany (former FRG + West Berlin until 1990, Unified Germany since 1991)
GR	Greece
E	Spain
F	France
IRL	Ireland
I	Italy
L	Luxembourg
NL	Netherlands
P	Portugal
UK	United Kingdom
A	Austria
FIN	Finland
S	Sweden
USA	United States of America
JAP	Japan
BFR	Belgian franc
DKR	Danish crown
DM	German mark
DRA	Greek drachma
PTA	Spanish peseta
FF	French franc
IRL	Irish pound
LIT	Italian lira
LFR	Luxembourgish franc
HFL	Dutch guilder
ESC	Portuguese escudo
UKL	Pound Sterling
ÖS	Austrian schilling
FMK	Finnish mark
SKR	Swedish crown
USD	United States dollar
YEN	Japanese yen
Mio	million
Mrd	milliard (thousand million)
GDP	Gross domestic product
EMU	Economical and Monetary Union
ECU	European monetary unit
PPS	Purchasing power standard (based on GDP and the ECU)

Preface

This new statistical document on the economic accounts of the European Union is the fruit of cooperation between Eurostat and the statistical institutes of the Member States. It represents one of the first milestones on the road to collaborative development of the European Statistical System. In addition to developmental work on statistical standards, cooperation between Eurostat and the national statistical institutes should, with this publication, open a new era of more active, high-profile partnership.

For this initial project, Eurostat was joined by five national statistical institutes. These consisted of the Netherlands Central Bureau of Statistics, the UK Central Statistical Office, the French National Institute of Statistics and Economic Studies, the German Federal Statistical Office and the Italian National Statistical Institute. The ultimate aim is to involve all the Member States in this report on the Accounts of the Union, which is to be a permanent product of the European Statistical System as a whole.

As with similar publications produced by certain statistical institutes at national level, as for example France and Italy, this document is designed to set out in a single volume wide-ranging macroeconomic data on the European Union and the Member States and to provide statistical analysis of those data. This is, too, a reponse of Eurostat to the mission which has been transmitted to this service by the Commission of the European Union. The mission is to provide to the European Union statistical information of high quality. Along with business cycle effects, study of structural differences between Member States and their developments will be made.

Although the statistical analysis makes reference to specific national situations, its purpose is to draw a profile of the Union, which is still the Union of 12 in 1994, comparing it, where possible, with its main trading partners. In addition to the analysis of the main economic variables, which will be a permanent feature, the Report will contain a study of a topical subject which obviously will vary from year to year. This year's Report looks at the enlargement, from EUR 12 to EUR 15, and how it will affect the Union's macroeconomic data.

The Report focuses on 1994, the most recent full calendar year, while also giving a broader view for retrospective series. In an age where up-to-the-minute information is crucial to our understanding of socio-economic phenomena and how they are translated into policies and strategies, it may seem not suitable to publish data relating to 1994 at the end of 1995.

However, these relatively old data give certain advantages:

- They have been compiled on the basis of uniform definitions and methodologies - those used in the ESA second edition (1979).

- The data used have been largely obtained from the National Statistical Offices, the very bodies which, together with Eurostat, analyse them in this publication. This ensures objectivity.

- A knowledge of recent trends helps to teach much about the present. In the various fields considered in this publication, the economic problems currently facing European societies are explained in broad terms, and current trends are brought into focus.

In order to distinguish this statistical document clearly form the economical analyses and forecasts made by DGII, this paper has been prepared without any economical explanations of the statistical facts.

The approach adopted by Eurostat for this new publication was to set up a Task Force comprising representatives of certain Member States, whose brief was confined to defining what the contents of the Report should be and how it should be compiled, and discussing and solving the numerous methodological and practical difficulties which a project of this type entailed.

One of the major problems arising in the course of this project concerned data availability. At the time of drafting the report (June/ July1995), Eurostat had not yet received all 1994 national accounts data. It should also be mentioned that revisions of data take place at different points in time for the Member States. This means that the quality and scope of data at any given moment in time is not the same for all countries. Also, for this reason the data available at the deadline for this report and used therein may not correspond to the latest data now available for certain countries.

It should also be added that some Member States do not supply any data for a large number of variables, or do so a year or several years after the reference year, or compile their data in accordance with national definitions.

For this reason, and despite certain estimates that could have been made across alternative sources, it has not always been possible to present and analyse data right up to the year 1994. This certainly represents a serious restriction for business cycle analyses, although less so for studies of structures. This actually unsatisfactory situation will improve with the ESA-1995 and with a legal instrument for governing its application and the transmission of data to Eurostat.

This statistical document is a pilot version. During its creation we benefited from a lot of comments from several Statistical Offices of the EU Member states, and from Directorates general of the Commission, which have been carefully taken into consideration.

I look for more comments to further improve this document, which will become an annual publication of Eurostat.

Y. Franchet
Director general

I ECONOMIC DEVELOPMENTS IN THE UNION 1994

I.1 An overview

I.1.1 The international picture in 1994

Economic growth

The year 1994 saw an extention to all western economies of the recovery in economic growth that began in late 1993; this followed a period of recession which started in early 1990 and continued and deepened during 1991 and 1992. The recovery has not, however, had a uniform impact throughout the world. The USA and certain developing countries, the "emerging economies" of Asia (China, India and the "Asian tigers") and of Latin America (Argentina, Brazil and Mexico), were the first to benefit from the recovery back in 1992/1993. Meantime, the Least Developed Countries (LDCs) have remained largely untouched by the recovery. The countries of the Community of independent states (CIS) and, to a lesser extent, the Central and Eastern European countries (CEEC) have also not seen a real benefit from the international recovery in world demand.

Table I.1.1	Economical growth of certain countries and regions				
	1980-90	1991	1992	1993	1994
	GDP growth rate				
EUR12	2,1	1,5	0,9	-0,7	2,7
OCDE	2,8	0,8	1,7	1,2	2,6
USA	2,7	-0,6	2,3	3,1	4,1
Japan	4,1	4,3	1,1	-0,2	0,5
DAEs*	-	-	5,8	6,4	6,9
Singapore	-	-	5,8	9,9	8,0
Thailand	-	-	7,4	7,8	8,2
Latin Am.	-	-	2,1	4,0	3,5
Argentina	-	-	8,6	6,5	5,3
Brasil	-	-	-0,9	5,0	3,3
	Production development				
Bulgaria	-	-	-7,1	-4,0	0,0
Hungaria	-	-	-5,0	-1,0	1,0
Poland	-0,1	-7,6	2,6	4,0	4,0
Russia	3,8	-0,5	-19,0	-12,0	-10,0

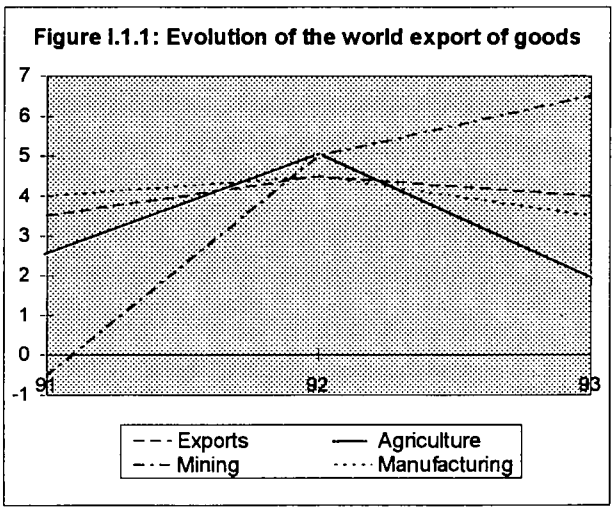
Source: Eurostat, OECD, United Nations
**DAE: Dynamic Asian Economies*

International trade

International trade again grew more rapidly than world production in 1994 (world exports rose by 9% compared with world production of 3.5%). This was the largest annual increase in world exports since 1976. On 15th April 1994, the Final Act of the Uruguay Round was signed in Marrakesh. After several years of tough negotiation, the international community finally managed to reach agreement on the 3 main issues: the problematic agricultural issue, the inclusion of the services sector in the agreement and the creation of the World Trade Organization (WTO), to replace the GATT.

Table I.1.2	Development of the production and export volume by product (%)				
	1985-90	1991	1992	1993	1994
Production	3,0	-1,0	-0,5	0,5	3,5
Agriculture	1,9	0,0	1,0	-1,0	"
Mines	3,0	-0,5	1,0	2,5	"
Manufact. ind.	3,2	-2,0	-1,5	-0,5	"
Exports	5,8	3,5	4,5	4,0	9,0
Agriculture	2,2	2,5	5,0	2,0	"
Mines	4,8	-0,5	5,0	6,5	"
Manufact. ind.	7,0	4,0	4,5	3,5	"

Source: Eurostat



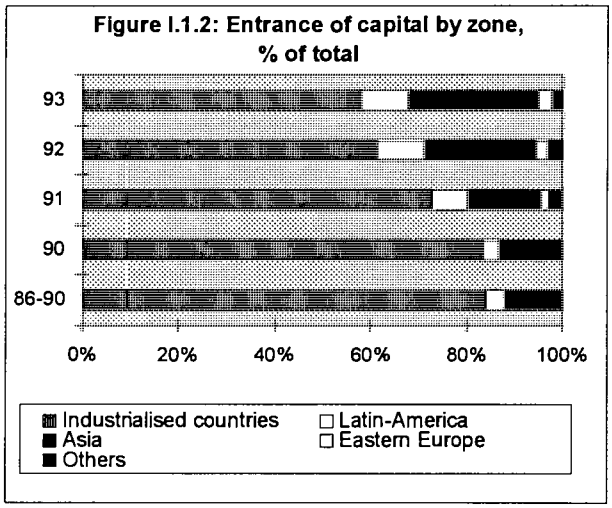
Source: GATT

In parallel with this, negotiations between Canada, USA (both already linked by a Free Trade Agreement (FTA) since 1989), and Mexico created the North American Free Trade Agreement (NAFTA) on the first of January 1994. The eco-

nomic area thus formed, embraces more than 360 million people, with a total GNP of the order of $ 7,000 Mrd., in 1993, with trade within the area amounting to more than $ 300 Mrd., in 1993. This new free trade area is on a scale very similar to that of the European Union, although internal trade is by no means so highly developed.

Capital movements and indebtedness

In 1993 there could be noticed the movement of capital, in the form of both portfolio and direct investment, to a number of more attractive developing countries, especially in eastern Asia (China but also India) and Latin America (Mexico and Argentina). Nineteen ninety four saw a slight slowdown in this trend, particularly in the case of portfolio investments, when interest rates began to rise again in the USA and, subsequently, Japan and Europe. Flows of private capital to the developing countries have grown very rapidly in recent years, a 400% increase between 1990 and 1994, at a time when public funding of development has remained largely stagnant. Therefore, private capital now accounts for almost three-quarters of flows of resources to developing countries.



Source: Bank of International Settlements

This trend has been of only limited benefit to the least developed countries (LDCs). Inequalities between the developing countries themselves, the LDCs on the one hand and the "more rapidly developing economies" on the other have become more marked, in terms of both the measurement of economic growth and other indicators of progress, for example in the areas of health and education and food security.

The level of indebtedness of the developing countries has swollen to reach $ 1,945 Mrd. in 1994 (compared with $ 1,812 Mrd. in 1993) - an increase of more than 7% over one year.

Poverty and instability

The recession of the early 1990s had a significant social impact on the world economy. It compounded inequalities, both between the North and South but also between the countries of the South. There were also increased instances of instability, more particularly in the LDCs but also in the countries in transition and the developed countries. This was apparent in employment, income and other factors which provide a secure existence (food, health, the environment and politics).

Table I.1.3	North-South and South-South discrepancys			
	Access to drinkable water	schooling	reel GDP per inhabitant	life expectancy
1960				
Ind. countr.	100	100	100	100
Dev. countr.	36	64	18	67
Poorest coun.	21	45	9	57
1992				
Ind. countr.	100	100	100	100
Dev. countr.	70	61	17	84
Poorest coun.	45	42	6	67

Source: UN Development Program

Unemployment rates in Europe are in fact almost twice as high as in the USA, four times higher than in Japan and far above the OECD average. Aside from the USA, where unemployment rates remain very stable, there has been a general deterioration in labour market conditions in the rest of the world (see table I.1.4).

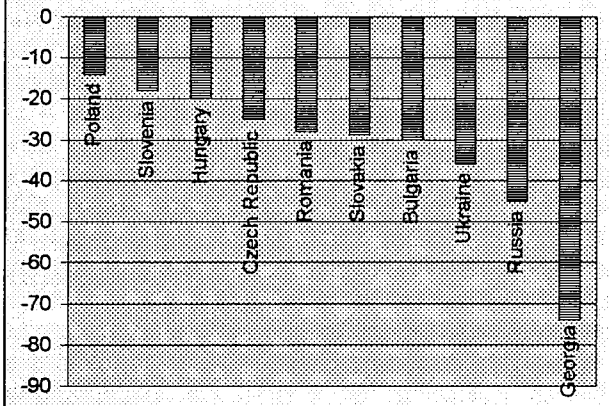
Table I.1.4	Unemployment ratios					
year	EU	OECD	USA	JAP	CAN	AUS
1975	4,3	5,2	8,3	1,9	6,9	4,8
1980	6,4	5,7	7,0	2,0	7,4	6,0
1985	10,9	7,8	7,1	2,6	10,4	8,2
1990	8,4	6,1	6,4	2,1	8,1	6,9
1991	8,7	6,8	6,6	2,1	10,2	9,5
1992	9,5	7,5	7,3	2,2	11,2	10,7
1993	10,6	7,8	6,7	2,5	11,1	10,8
1994	-	-	-	-	-	-

Source: OECD

Growth trends in the countries in transition

Since the late 1980s, the economies in transition have been in a period of deep recession characterized by a substantial decline in production, strong inflationary pressures and a rapid increase in unemployment. While the CEE are gradually moving towards a stable position, major uncertainty continues to surround the countries of the CIS.

Evolution of growth in transition countries
Evolution of GDP of some countries between 1989 and 1993, in %

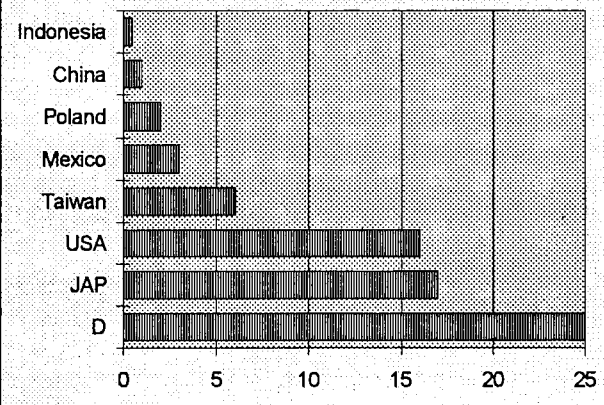


Source: Economic Commission for Europe

Unit labour costs in certain countries

The differences between unit costs in industry in the developed countries and the developing countries are very wide (1 to 50, for example, if we compare Indonesia and Germany). These are not, however, the sole factors to be taken into account in comparing industrial competitiveness. In the developing countries, non-wage costs (infrastructure, communications and transport) are considerably higher than those same costs in the developed countries. The cost differentials are in part offset by the higher productivity rates in the developed countries and by better access to innovation and greater product variety.

Unit Labour costs in some countries
Hourly unit costs in some countries - 1993, in USD



Source: Morgan Stanley

I.1.2 The main developments in the Union in 1994

Greece and then Germany held the EU presidency in 1994. They organised two European summits, the first on 24 and 25 June in Corfu and the second on 9 and 10 December in Essen.

The Institutions of the Union

The Institutions of the Union were extensively renewed in 1994. On 12 June, a new European Parliament (EP) was elected. As a result of those elections, the two largest political groups in the parliament are the Party of European Socialists (PSE) and the European People's Party (PPE) which account for 35% and 28% respectively of the 567 Members of the European Parliament. If representatives of the new Member states are included (21 for Austria, 16 for Finland and 22 for Sweden) there are now 626 MEPs. A German Social-Democrat, Klaus Hänsch, has been elected President of the new Parliament for the next two and a half years.

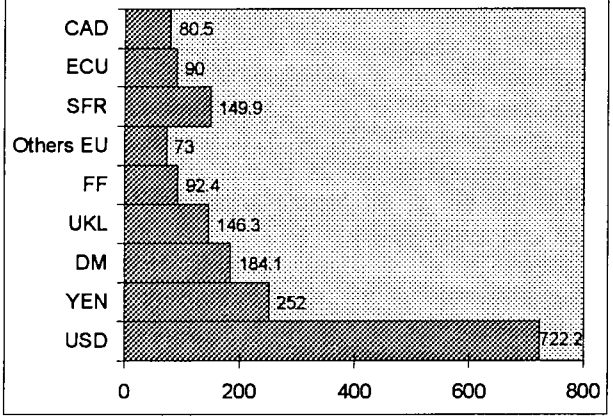
The discussions on the appointment of the new Commission began in June, in accordance with the new procedure set in place under the Union Treaty. After consulting the European Parliament at its July part-session, the representatives of the Member states held a special meeting of the European Council in Brussels, on 15 July, and nominated Jacques Santer for the post of President of the Commission as of January 1995. Appointed by the representatives of the Member states on 31st October, the Commission President and Commissioners attended hearings of the European Parliament's specialist committees. The EP subsequently approved their appointment in January 1995. Jacques Delors left office in January 1995, after 10 years at the head of the Commission.

The second stage of the Economical and Monetary Union (EMU)

On 1 January 1994, the Member states embarked upon the second stage of EMU, as provided for under the Union Treaty. The European Fund for Monetary Cooperation was dissolved and replaced by the European Monetary Institute (EMI). The Council of the EMI, comprising the governors of the national central banks, met for the first time on 15th November, in Frankfurt, under the presidency of Alexandre Lamfalussy. Its main task will be to achieve the conditions necessary for transition to the third stage of EMU.

The Member states continued to make the changes in legislation needed to move forward towards EMU, particularly those concerning certain restrictions on the financing of national deficits (Art. 104 EC Treaty) and the independence of the central banks (Art. 109 EC Treaty). In addition, an initial process of assessment of excessive deficits was set under way during the first half of 1994. The commission for this purpose improved statistical instruments (consumer price index, System of accounts), which are necessary for measuring the convergence of the Member states economies.

Figure I.1.3: Issues of international debitors - stocks 93, in Mrd. USD



Source: BIS

The criteria for convergence under the Union Treaty

1. ***Price stability:*** *the rate of inflation (consumer price index), observed over a period of one year before the examination, does not exceed by more than 1.5 percentage points that of, at most, the three best performing Member States in terms of price stability*
2. ***Government budgetary:*** *at the moment of the examination exists no excessive deficit (the government deficit to GDP at market prices is not more than 3% and the government debt to GDP at market prices is not more than 60%)*
3. ***Exchange rate stability:*** *national currencies must remain within the normal exchange-rate fluctuation margins provided for by the exchange rate mechanism on the European Monetary System for at least the last two years before the examination;*
4. ***Interest rates:*** *average nominal long-term interest rates does not exceed by more than 2 percentage points that of, at most, the three best performing Member States in terms of price stability.*

At the end of 1993, the ECU was the third most frequently used currency for the cross-border claims of the banks of the industrial countries (behind the US$ and the DM). In 1991, it was second only to the US$ as the most-widely used currency for bond issues on the international markets.

Accession negotiations with Austria, Finland, Norway and Sweden

The signing, on 2nd May 1992, of the Treaty of Oporto establishing the European Economic Area (EEA) had laid the foundations for greater integration of the markets of the European Union and those of the European Free Trade Association (EFTA) countries, and opened the way for the latter gradually to accede to the Union.

Political negotiations for the accession of Austria, Finland, Norway and Sweden were completed in March, following the conference on accession held in Brussels between 25th February and 1st March. The main problems involved the Common Agricultural Policy in respect of which Austria (mountain and hill farming) and Finland (fisheries) were granted 5 year transitional periods. Some specific issues were dealt with, such as fishing (Norway) and transit through the Alps (Austria).

On 19th April, the Commission gave a favourable opinion on the four applications for accession and, on 4th May, the European Parliament also gave its assent. Following the signing of the accession agreements (Corfu European Council of 24th and 25th June), a referendum held in Norway revealed that the Norwegian people did not wish to become part of the European Union. Following successful referendums, Austria, Finland and Sweden became the 13th, 14th and 15th Member states of the Union on 1st January 1995. The impact of this enlargement to the National Accounts statistics of the European Union is analysed in Chapter II of this publication.

Table I.1.5	Chronic of the joining of Austria Finland and Sweden			
	Candidature	Referendum		
	Date	Date	Result	Yes-votes
Austria	7/17/89	6/12/94	Yes	66,60%
Finland	3/18/92	10/16/94	Yes	56,90%
Norway	3/25/92	11/28/94	No	47,20%
Sweden	7/1/91	11/13/94	Yes	52,30%

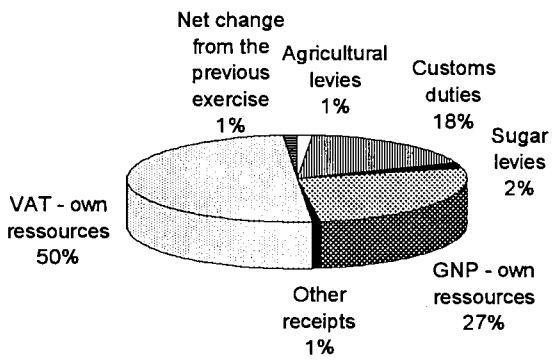
Source: Eurostat

The European Union budget in 1994

Expenditure under the European Union budget rose to ECU 72.4 Mrd. in 1994, or 1.28% of the Union's total GDP or a contribution of some 207 ECU for every citizen of the Union. In 1984, these same figures were ECU 27.3 Mrd., 0.98% of the Union's GDP or 100 ECU per citizen. Since 1988, the average rate of annual increase has been 10.5%. In 1994, however, expenditure by the European Union accounted for only 2.4% of public expenditure of the Member states of the Union. This percentage has only increased very slowly since 1970 when it stood at 1.9%.

The main source of European budget revenue (more than 50%) derives from a levy on the gross value added of every Member state, with other revenue coming from customs duties (on goods entering the Union and on agricultural products - approximately 20%), GNP contributions from the Member states (approximately 25%) and sugar and isoglucose levies (an incentive to limit excess production -2%).

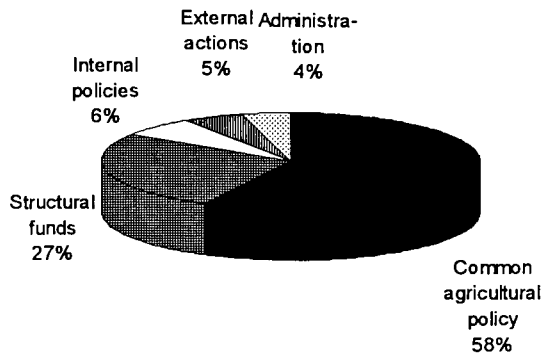
Figure I.1.4: Receipts 1994



Source: Eurostat

Support to the agricultural sector alone, through the Common Agricultural Policy, accounts for nearly two-thirds of the Union's expenditure. The other areas of expenditure are regional policy (the regional funds) and transport which accounts for 15%, the social policy (social fund) some 8%, development cooperation 4% and the research, energy and technology policy approximately 3.5%. In recent years, there has been little variation in that distribution between programmes. Finally, the European Union has approximately 23,000 employees, with running costs that absorb some 5% of the budget.

Figure I.1.5: Expenses 1994



Source: Eurostat

The White Paper

In December 1993, the Commission presented to the European Council the White Paper ("Growth, Competitiveness, Employment: The Challenges and Ways Forward into the 21st Century"). It was the subject of debate, particularly the financial aspects, throughout 1994. Substantial progress has been made in implementing the guidelines contained in the White Paper, mainly in relation to the integrated programme to assist Small and midium enterprices and the craft industry, employment and the development of human resources and the adoption of lists of priority infrastructure projects. At the Corfu and Essen summits, the European Council finally agreed to launch a programme of major works totalling ECU 20 Mrd. in areas of infrastructure, transport and energy, designed both to modernize communications networks within the Union and to stimulate job creation in those sectors within two years. The major projects include expansion of the high-speed train networks (North-South - Verona/ Munich, North - Paris/ Amsterdam, South - Madrid/ Montpellier and Lyon/ Trieste, East -Paris/ Mannheim and Metz/Luxembourg), plus extension to the conventional rail, motorway and airport networks. In the energy sector, the programme also provides for joint projects with Algeria and Morocco, on the one hand, and Russia, Belarus and Poland on the other for the operation of gas pipelines.

The European Investment Bank (EIB) has been asked to set in place a special facility making it easier to fund infrastructure projects of common interest and, in particular, the priority trans-European projects approved by the Essen European Council.

I.1.3 The Union in the World

An economic area on a world scale

The territory of the European Union of the 12 is almost as big as that of Algeria or Argentina but is equal to only one quarter of that of the United States.

Figure I.1.6: Distribution of the world population, 1992

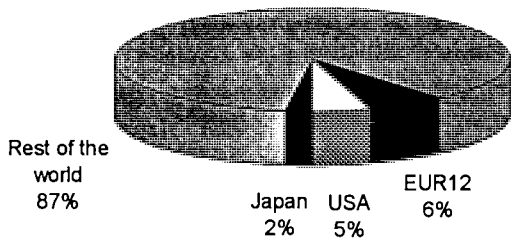


Figure I.1.7: Distribution of the world GDP, 1992

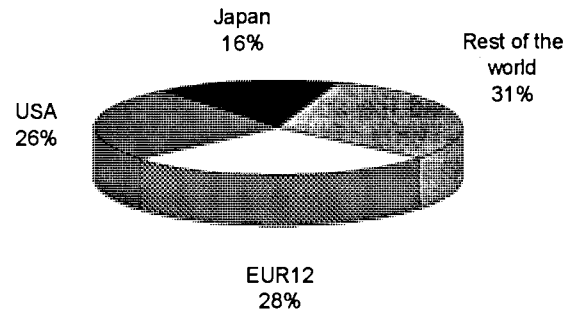
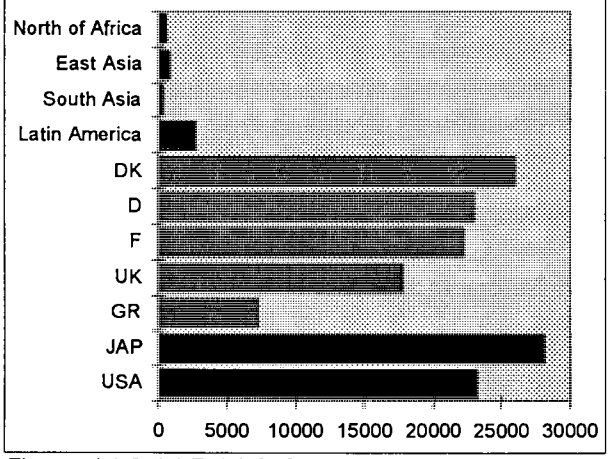


Figure I.1.8: Per capita GNP - 1992, in USD



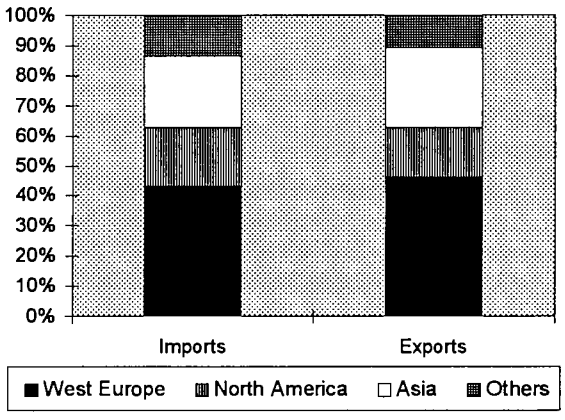
Figures I.1.6, I.1.7, I.1.8: Source: World Bank

The population of Europe in 1994 numbers about 348 million, that is 6.4% of the world population. That percentage is likely to decline in the future, falling to 5.8% in the year 2000 and 4.3% in 2025 (World Bank forecasts). However, the European Union generates 28% of world GDP, that is rather more than the USA (26%) and Japan (16%). Per capita GDP in the Union ranges from US$ 7,290 in Greece to US$ 26,000 in Denmark; the European average is slightly below that of the United States and Japan.

An important trading zone

The European Union of 12 accounts for 36.4% of world exports of goods and 34.7% of imports making it the world's premier trading zone, more than double the figures for USA. However, growth in trade in the Union, both exports and imports, slowed down in 1992 and 1993 as other areas, particularly Asia and Latin America increased their share of world trade.

Figure I.1.9: International trade of goods - 1993, by zone, in %



Source: GATT

The bulk of the European Union's trade, some 70% (imports as well as exports - 1993 data), is between countries within the Union and Western Europe as a whole: in comparison trade of Asia and, above all, North America is far more diversified (47% and 36% respectively was intra-regional trade in 1993). The volume of trade between Asia and North America is greater (amounting to some 25% of total trade) than the volume of either of their trade with Europe (20% of total trade in the case of North America and 18% for Asia).

Western Europe accounts for almost half of world exports in manufactured products, one quarter of

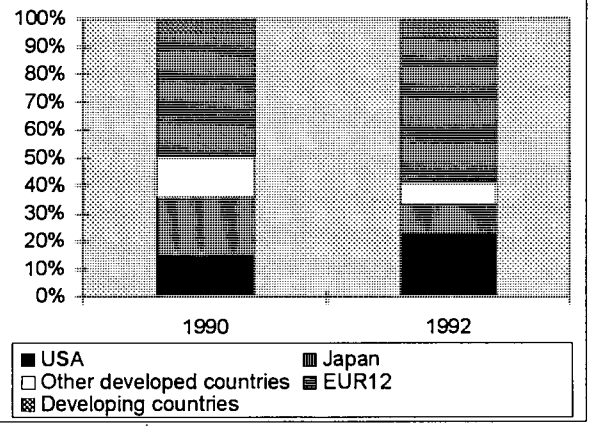
mining/mineral products and 45% of agricultural products. It far outstrips North America (with 17%, 10% and 20% respectively) and Asia (30%, 16% and 19%).

Since the early 1990s, Western Europe has substantially increased its trade with the countries of Central and Eastern Europe. In particular, the European Union share of those countries' imports has risen from 45% in 1990 to 61% in 1993, and its share of exports has also risen from 46% to 64%. EFTA has also benefited from this trend which was largely at the expense of intra-regional trade and trade with the traditional trading partners from the countries of CEE, particularly the countries of the former Soviet Union. Between 1990 and 1993, the former Soviet Union's share of imports of EFTA fell from 25% to 18% and its share of exports from 27% to 11%.

A financial and monetary heavyweight

The European Union continues to be the main destination and source of direct foreign investment (some 50% of both inward and outward investment) easily outstripping its main competitors, the USA and Japan. That trend has remained constant since the early 1990s and is gradually becoming more pronounced. However, the developing countries, with strong growth rates, are playing an increasing significant role.

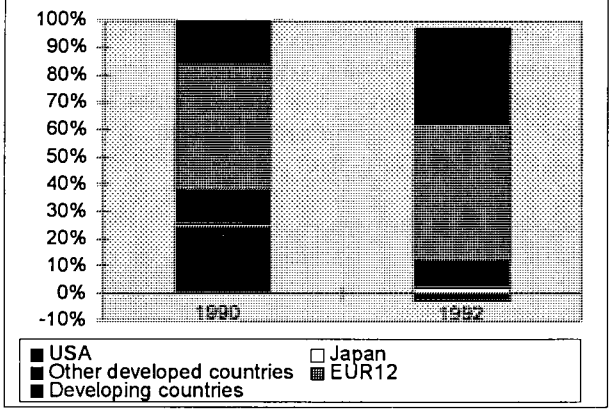
Figure I.1.10: Foreign direct investment - outflow, in % of total



Source: Bank for International Settlements

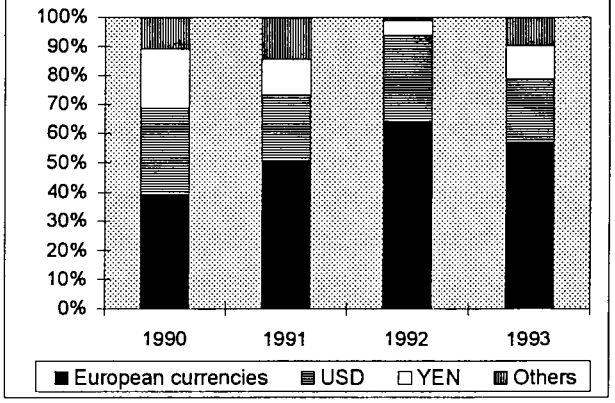
The financial standing of the Union is also apparent in relation to issues on the international bond markets where the European currencies (DM, FF, £UK, Lire, Florin, Peseta and ECU in particular) are used in more than 50% of transactions, compared with an average of 30% for the US$.

Figure I.1.11: Foreign direct investment - entrance, in % of total



Source: Bank for International Settlements

Figure I.1.12: Issues of international debitors, in % of total



Source: Bank for International Settlements

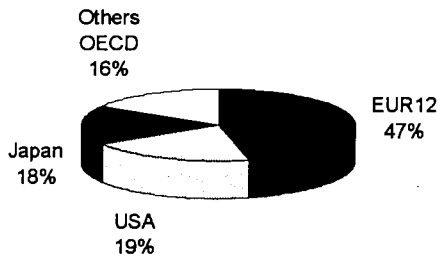
Internationally, the European Union holds, via its Member states, more than one quarter of the shares in the IMF and is the main shareholder in the IBRD and the EBRD. The European currencies make up 39% of the Special Drawing Rights currency basket, equivalent to the US$ (40%) and almost double that of the Japanese Yen (21%).

A function of openness and economic cooperation

The Union's foreign economic policy concerns in 1994 focused on the process of enlargement to include the EFTA applicant countries, with preparations for the accession of Austria, Finland and Sweden. At its meeting in Essen, the European Council confirmed that the next stage of enlargement would involve Cyprus and Malta. On 31st March and 5th April respectively, Hungary and Poland formally applied to accede to the European Union.

The aid and cooperation programmes with the CEE countries (PHARE) and the countries of the former Soviet Union (TACIS) continued to operate. In 1994, total funding of ECU 963.3 Mrd. was granted via the PHARE programme, and the total of contracts signed at the end of 1994 under the TACIS programme amounted to almost ECU 900 million. In addition, the deliveries of foodstuffs and medicinal products, provided under the 1991 special agreement with the countries of the former Soviet Union, reached ECU 950 million, and requests for emergency aid totalled almost ECU 350 million.

Figure I.1.13: Public development aid for the CAD-countries, 1991



Source: OECD

The Essen European Council also confirmed the status of the Mediterranean as a priority zone of strategic interest for the Union. The Commission put forward a general programme of assistance amounting to ECU 5.5 Mrd. for the period 1995-1999.

Technical and financial cooperation with the Asian countries stood at ECU 180 million, and economic cooperation ECU 59 million Aid granted to Latin America totalled ECU 470 million.

The financing decisions under Lomé IV reached nearly ECU 2 Mrd. in 1994. The mid-term review process was set under way and was due to be completed in February 1995.

Alongside the regional agreements, the European Union bolstered its cooperation with the developing countries *inter alia* through its support to the non-governmental organizations to ECU 145 million. Loans were granted to help the environment (ECU 20 million), the tropical forests (ECU 50 million), humanitarian aid (ECU 764 million) and food aid (ECU 590 million).

In the area of Official Development Assistance (ODA), the European Union provides some 40% of the funding of the Development Assistance Committee (DAC) to the developing countries, as compared with 15% for both the USA and Japan.

I.2 The total economy of the Union

I.2.1 The economic cycle

Main results of 1994

From the second half of 1993 there was a gradual realignment of growth rates of the main world economies. The consolidation of trends in production in the Anglo-Saxon countries (USA, Canada and the United Kingdom) coincided with the final emergence from the crisis of all the other main industrialised economies, for which real growths were higher than expected in 1994.

The annual accounts of the main international economic areas show a rise in GDP of 2.9% for the OECD countries as a whole (see figure I.2.1). That of the G7 was a little higher, at 3.0%. In the European OECD area there was a 2.4% increase, whereas in the Union as a whole, following the reduction of 0.7% in 1993, there was an increase of 2.7% in 1994. In the G7 countries there was an increase of 4.5% in Canada, 4.1% in the USA and 0.6% in Japan.

Within the Union the most dynamic economies were those of Ireland (6.0%), Denmark (4.4%), the United Kingdom (3.8%) and Germany (2.9%), while growth was lower than average in Portugal (1.2%), Greece (1.5%), Spain (2.0%) and Italy (2.2%).

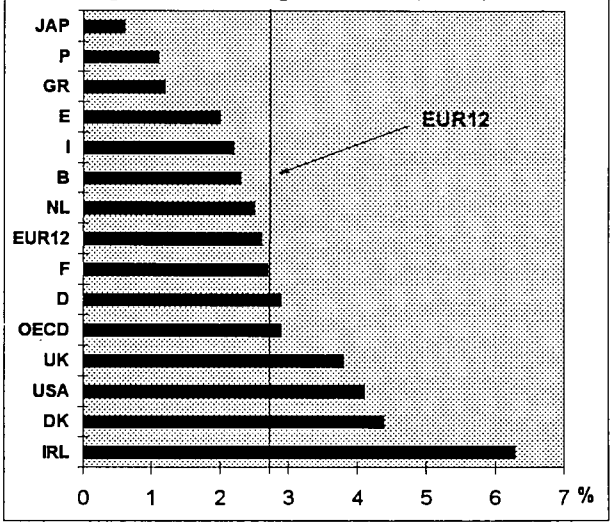
Recent developments in the Union, the USA and Japan

For the Union as a whole, the increase in production in 1994 was due mainly to the positive trend in exports to the rest of the world, followed by a rapid and unexpected rise in investment (see table I.2.1). At the same time, the rebuilding of stocks gained strength, following a net decrease in the most acute phases of the crisis.

Export trends, in real terms, were already showing very strong growth as early as the third quarter of 1993 has been dynamic. From the second quarter of 1994, the rise accelerated to around 9% compared with the same quarter a year ago.

The capital formation which had previously declined since the second quarter of 1992, grew again. The rebuilding of stocks wasmore dynamic, particularly from the second half of the year. The growth in production also stimulated imports, which from the beginning of 1994 recovered to the levels of the first few months of 1992.

Figure I.2.1: GDP growth rates, 1994, in %



Source: Eurostat

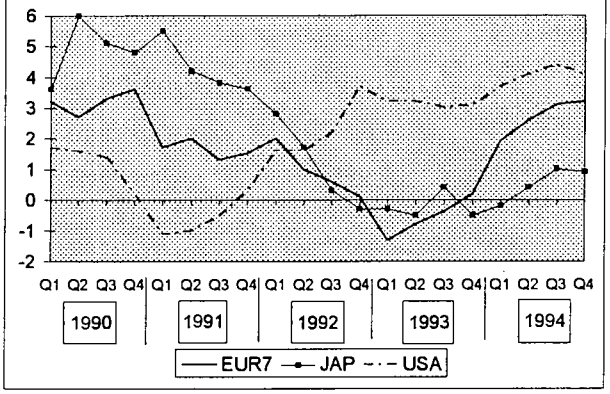
Table I.2.1	Quarterly changes 1994 (compared with the quarter of the previous year) of the main aggregates of GDP for EUR7, USA and Japan at constant prices, in %			
	Q1	Q2	Q3	Q4
BIP				
EUR7[1]	1,9	2,6	3,1	3,2
USA	3,7	4,1	4,4	4,1
JAP	-0,2	0,4	1,0	0,9
Private consumption				
EUR7[1]	1,7	1,7	1,6	1,4
USA	3,8	3,4	3,2	3,5
JAP	2,4	2,1	2,9	1,5
GFCF				
EUR7[1]	-1,7	1,3	1,6	4,3
USA	13,3	13,3	12,5	10,3
JAP	-3,6	-2,4	-2,1	-1,5
Imports including Intra-EUR7				
EUR7[1]	5,3	6,7	7,3	9,7
USA	11,9	12,8	15,0	13,8
JAP	5,7	7,7	8,9	10,9
Exports including Intra-EUR7				
EUR7[1]	6,9	9,2	8,5	8,8
USA	5,2	7,3	12,0	11,6
JAP	0,1	4,5	5,4	10,1

(1) countries with quarterly accounts (DK, D, E, F, I, NL, UK)
Source: Eurostat

Throughout 1994 there was strong growth in the United States, thus confirming the continuation of the period of expansion that began in the second half of 1991. The demand for capital goods rose by more than 10% for the year as a whole. The substantial increase in income and the shift away from saving contributed to an increase in house-

hold consumption, which rose by around 3.5% over the year.

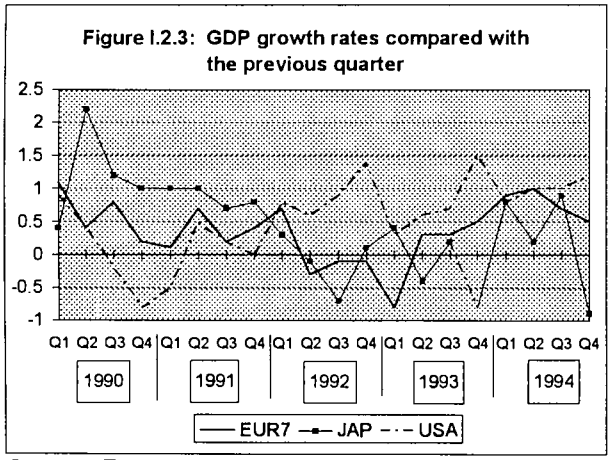
Figure I.2.2: GDP growth rates compared with the same quarter of the previous year



Source: Eurostat

The upturn in the Japanese economy remained fragile throughout 1994 (see figure I.2.2 and I.2.3). The previous phase of expansion, which began in the first half of 1987, lasted until the end of 1991 and was followed by a recession of exceptional gravity for Japan. Although the lowest point of the cycle has been estimated in the last quarter of 1993, the quarterly results of 1994 are as yet uncertain. In the fourth quarter of the year, GDP fell surprisingly sharply given the economic situation, by 0.9%.

Figure I.2.3: GDP growth rates compared with the previous quarter



Source: Eurostat

Compared with the previous quarter investments slowed down for the third consecutive year. External demand was seriously damaged by the increase in value of the yen, and this had a negative effect on GDP. The negative impact on GDP of the slowdown in external demand was 0.5%.

The economic situation in 1994 in the EU Member states

Apart from the United Kingdom, which entered the current period of expansion in the first few months of 1991, the Member states have consolidated their emergence, which began in the second half of 1993, from the profound recession.

Germany experienced a high level of growth in 1994, particularly in the first half of the year. Economic growth in the first quarter of the year amounted to 1.2%, then stabilised at 0.5%, compared in the previous quarter. The period investments in construction were particularly high. Private consumption, after a promising start, lost ground in the second half of the year.

In France the revival went on the whole year 1994. Compared with the previous quarter, the real growth rates have been 0.8%, 1.5%, 1% and 1%.

During the first three quarters the private consumption of manufactured goods got an acceleration benefiting from pricing measures by the government.

Investments in construction were particularly high from the third quarter of the year. Exports also rose rapidly in the first part of 1994.

After reaching its trough in the second quarter of 1993, the Italian economy began to show clear signs of revival from the end of 1993. The contribution of external demand, which was at first strong, was gradually offset by the considerable rise in imports from the first quarter of the year. The growth in exports of goods and services remained high throughout the year, with increases of around 10% against the same quarter of the previous year. Growth in private consumption, like the overall growth in internal demand, was concentrated in the first part of the year.

In the United Kingdom, the economic upturn began in the second quarter of 1991 and continued strongly throughout 1994. Again it was the strength of exports that was the decisive factor, particularly from the third quarter of 1993. Private consumption was especially high, with increases of over 3% from the final quarter of 1993, compared with the same quarter of the previous year. For Spain and the Netherlands, the lowest point of the recession was between the second and third quarters of 1993, three years after the peak in the previous cycle. In both countries the high growth of external demand played a decisive role.

After reaching a peak in growth in the first few months of 1986, the Danish economy recorded extremely limited growth rates throughout the 1987-1993 period (never higher than 1.5% against the same quarter of the previous year). It reached the trough of the cycle between the

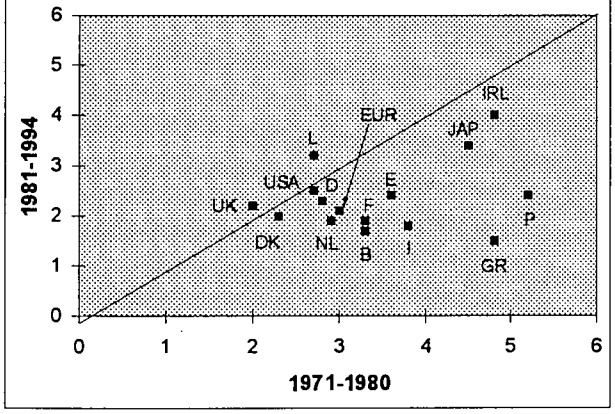
second and third quarters of 1992, which was around one year earlier than most of the other Member states. However, it was only from the third quarter of 1993 that growth began to be consolidated.

After reaching the lowest point of the cycle in 1993, the Belgian, Luxembourg and Portuguese economies showed significant improvements in the course of 1994 as a result of the strong performance of external demand. Internal demand continued to be weak, and was even down on 1993 in Portugal. The increase of internal demand, on the other hand, played a decisive role in Ireland and helped to strengthen the period of steady economic growth now in progress since 1987. Finally, in Greece the weak upturn in production was due to a slight increase in internal demand and a stronger increase in exports of goods and services.

Growth trends and the economic cycle in the European Union from 1980

Although the alternation between periods of growth and recession was more obvious in the 1970s than in the following period, the average relative growth rates of the Member states was more marked in the 1971-1980 period than in the following decade (see figure I.2.4). All the Member states, with the exception of the United Kingdom and Luxembourg, had different rates of development in these two periods, especially those economies with a low initial income level.

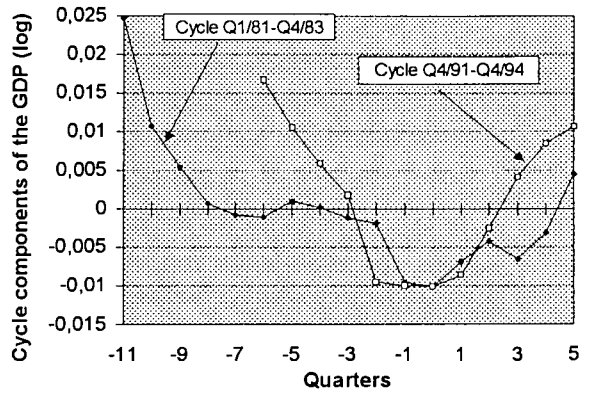
Figure I.2.4: Average annual GDP growth rates for the periods 1971-1980 and 1981-1994, in %



Source: Eurostat

The economic cycle of the Union in the last fifteen years began in recession and reached its trough point in the second half of 1982 (see figure I.2.5). This phase was followed by a long period of growth (1983-1990), at first moderate, and then stronger, which ended after about eight years, in the second half of 1990. The latest recession lasted around three years, with the trough occurring in the second quarter of 1993. The start of the downward side of the cycle and the subsequent emergence from the recession took place over five quarters, shorter than that of the cycle in the early 1980s, but, even with the shorter period of decline, the impact was more pronounced in the 1990's.

Figure 1.2.5: Comparison of the cyclical trends for EUR7 for the periods 1980-1993 and 1991-1994



Source: Eurostat

Until 1990, short and medium-term trends in the Union were close to those of the United States, but then differed appreciably in the next four years. Japan did not undergo significant cyclical fluctuations, at least until the end of 1987, but then began to follow a similar pattern of growth as the Community average.

In the Member states, the trough of the economic cycle was reached by Italy, Germany and the United Kingdom in the second half of 1982. It occurred a few months later in Spain and about one year earlier in Denmark and the Netherlands.

In the early 1980s, France had a greater growth, but an increase in the trade deficit. In subsequent years (84-86), this deficit could be lowered with respect to other European Union countries.

The period from 1983 to the end of 1986 was in general less clear as growth patterns varied. In Germany this phase lasted until the middle of 1989, then (following unification) ended in a period of strong growth which reached its peak in the first few months of 1991. In Denmark there was a steady upturn throughout the three-year period 1984 to 1986.

The subsequent growth phase reached its peak between the end of 1990 (the Netherlands and Spain) and the first half of 1991 (Italy, Spain and Germany). In the United Kingdom it occurred two years earlier.

Review of the interdependence of the Member states

The interdependence of the Union's economies, which developed partly as a result of a spontaneous trend towards the "internalization" of trade between the Member states, intensified throughout the period from the early 1970s to the present time. Apart from making the economies more vulnerable to shocks from outside the domestic economy, it has contributed to a substantial degree of alignment between the medium and long-term rates of development of the various economic systems. The cross-correlations of the growth rates of real GDP calculated in the 1971-1994 period reveal, however, the existence of blocs of countries which are more inter-related. The following groups in particular are apparent:

- *a first bloc of countries comprising the economies of Germany, the Netherlands, Belgium and Luxembourg, whose respective growth rates are strongly inter-related, with average cross-correlations of around 0.7.*
- *a second bloc comprising the economies of France, Italy and Germany, with cross correlations of an average value of just below 0.6;*
- *a third group consisting of Spain, Greece and Portugal, which are "moderately" inter-related with the other economies of the Union (with average cross- correlations with the other Member states of between 0.4 and 0.5) and with each other (0.4);*
- *a fourth group comprising Ireland, Denmark and the United Kingdom, are largely peripheral to the Union's growth in production, with correlations of frequently less than 0.3.*

I.2.2 Overall demand

Trends in internal demand

Bolstered by a rapid improvement in the climate of confidence among economic agents and the boost provided by growth in external markets, internal demand within the Community progressed steadily throughout 1994 compared with the most acute stages of the earlier recession.

According to the latest estimates, internal demand of the Union rose by 2.2% compared with 1993. In real terms, its contribution to the growth of GDP, excluding stock variations, amounted to 1.4%. Among the components of demand, private consumption rose by 1.6% in 1994, after remaining constant in 1993, while public consumption changed by 0.9%. Total capital formation showed an increase of 1.5%, after three years of reduction in real terms. This was as a result of a strong increase in machinery and transport equipment, by 2.3%, and to a lesser extent the increase in construction, by 0.9%. In 1993 the total reduction in fixed capital had been 6.5%.

In the United States internal demand grew by 4.2% in 1994. Unlike in the EU Member states, the main reason for the upturn was growth in capital formation, of 12.3%. In particular there was a steady increase in machinery and equipment, by 17.6% as a result of the favourable demand prospects and high levels of profitability. The growth in internal demand contributed 4.2% to the change in GDP.

In Japan, the slight upturn in internal demand, by 1.0%, which was largely due to the increase in private consumption, of 2.2%, accounted almost entirely for the overall change in GDP up 0.5%. Capital formation fell sharply, by 2.4% for the third consecutive year.

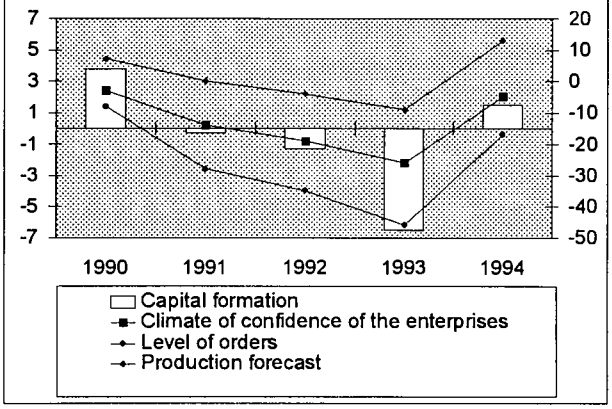
Table I.2.2	% growth of internal demand			
	1991	1992	1993	1994
	EUR12			
Domestic demand	2,4	1,9	0,3	2,2
Private consumption	2,3	1,6	0,0	1,6
Collective consumption	1,7	2,1	0,4	0,9
GFCF	-0,3	-1,3	-6,5	1,5
- Construction	-0,1	0,2	-3,2	0,9
- Equipment and transport	0,1	-3,3	-10,1	2,3
	USA			
Domestic demand	0,1	2,5	3,7	4,2
Private consumption	-0,4	2,8	3,3	3,5
Collective consumption	1,2	-0,7	-0,8	-0,8
GFCF	-7,6	5,5	11,3	12,2
- Construction	-	5,0	4,0	5,8
- Equipment and transport	-	6,0	18,0	17,5
	Japan			
Domestic demand	2,1	1,7	1,4	2,6
Private consumption	2,2	1,7	1,0	2,2
Collective consumption	1,6	2,7	1,7	2,9
GFCF	3,7	-1,2	-1,8	-2,4
- Construction	-	-	-	-
- Equipment and transport	-	-	-	-

Source: Eurostat, OECD

Capital formation

From the second half of 1993 there was a strong improvement in the climate of confidence of industrial firms in the EU. The results of the monthly surveys of Union firms confirm that the earlier recessionary period is over (see figure I.2.6).

Figure I.2.6: Variation rates of GFCF compared with the results of the business surveys to the enterprises in the Union



Source: Eurostat

After the sharp drop in the previous two years, the capacity utilisation rate in the manufacturing sector returned to its average long-term level, around 81.9% at the end of 1994, which it also reached in the second half of 1991. The improvements in production expectations and in the assessment of total and external orders created a favourable framework for the revival of the process of capital formation by EU firms. The marked improvement in international macro-economic performance and internal micro-economic performance has contributed towards the reversal in trend of the main indicators. The strong growth of production and world imports on the one hand combined with factors such as productivity gains, reductions in real unit labour costs and the strong recovery of profitability on the other, have all had an effect (see table I.2.3).

Table I.2.3	Evolution of some determinants of the investment - variation rates compared with the previous year, in % EUR12			
	Profits	Long-terms interest rate	Unit labour cost	Productivity
1990	-1,1	11,0	0,6	-
1991	-0,4	10,3	0,0	-
1992	-0,2	9,9	-0,2	1,6
1993	-1,7	8,1	-1,0	1,4
1994	6,4	8,2	-2,4	3,1

Source: European Commission

While overall capital formation remained essentially unchanged in some Member states (Belgium, Greece and Italy), fixed capital contributed considerably to the total increase in GDP in Germany, Ireland, Denmark and Portugal. The rise was due mainly to the considerable growth in the construction sector in the economies of northern Europe (Germany, the Netherlands and Denmark), which benefited from the various types of government intervention in the building of housing. In the other countries, growth in the machinery and transport equipment sector was in general steadier, as could be seen from the improving climate of confidence and the level of orders in some Member states (Italy, Greece, Portugal and Luxembourg), offsetting the effects of the recession in the building sector.

Table I.2.4	Changes in GFCF in the Member states - 1994, in %		
	Total	Construction	Equipment
B	-0,3	1,0	-1,9
DK	3,6	4,7	2,5
D	4,3	7,9	-1,1
GR	-0,1	-3,1	4,1
E	1,0	1,2	0,6
F	1,1	1,0	1,4
IRL	7,2	7,4	7,0
I	-0,1	-5,2	5,3
L	1,5	0,6	2,8
NL	2,4	3,7	0,9
P	3,5	1,2	5,3
UK	3,2	2,3	4,4

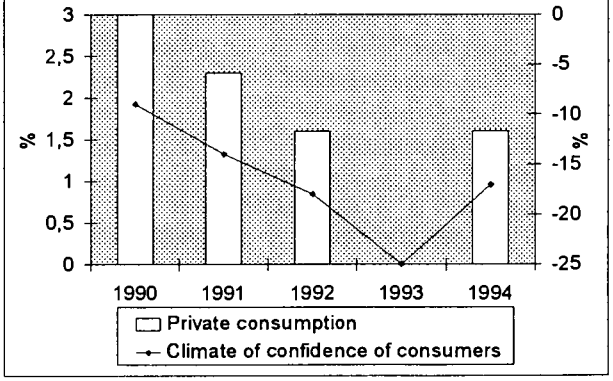
Source: European Commission

Consumption

Private consumption had a similar growth profile to that of the main indicators of the economic survey of Union households. Throughout the EU, the consumer confidence indicator rose in the early months of 1994 with the gradual improvement in the perception of the general economic situation (see figure I.2.7). This was despite the basic stagnation of indicators of the financial situation of households, in the presence of moderate but growing optimism about job prospects and inflation trends.

The increase in private consumption, although limited, also benefited from the reduction in the tendency towards households saving, which acted as a stimulus despite the fact that real disposable income remained essentially at the same level (see table I.2.5). Finally, the increase in private expenditure benefited from the increase in sales of durable goods, the purchase of which was supported by government intervention in certain Member states (France and Denmark), following slow growth in previous years.

Figure I.2.7: Variation rates of private consumption compared with the opinion polls to the consumers in the Union



Source: Eurostat

Table I.2.5	Changes in private and collective consumption - 1994, in %	
	Private consumption	Collective consumption
B	0,7	1,6
DK	7,1	0,6
D	1,3	1,2
GR	1,0	0,2
E	0,9	0,2
F	1,5	1,0
IRL	5,0	3,0
I	1,6	0,0
L	2,2	1,2
NL	1,5	1,0
P	0,4	1,5
UK	2,6	1,6

Source: European Commission

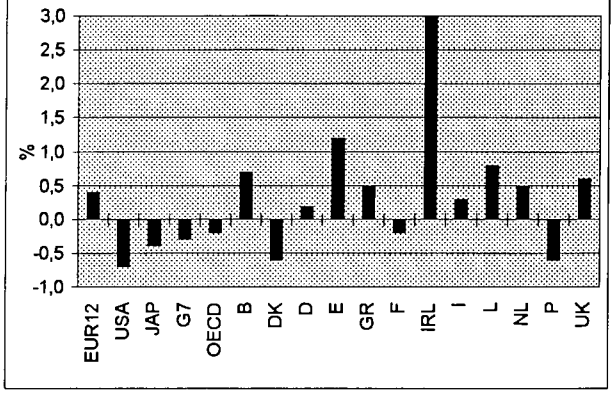
External demand

The rapid growth in exports was the main factor for the emergence from recession of most of the Member states in the early 1990s. In 1993 high rates of growth began to emerge in exports of goods, which were stimulated, on the one hand, by the growth in demand from the traditional Community markets (North America, South-East Asia, Japan, China and Latin America), and on the other by the steady increase in market shares due to the improvement in competitiveness.

Intra-Community trade trends

The data on intra-Community trade in goods show, after the downturn of 1993, a marked upturn in trade between the EU Member states in 1994. The growth of exports is expected to have amounted to around 7.5% in 1994. This development follows the marked downturn of 1993, by 6.3%. All the EU Member states, with the sole exception of Ireland, experienced an increase in the course of 1994 in the share of GDP accounted for by intra-Community imports and exports. Throughout the EU, this rate rose by around half a percentage point for both flows and significantly contributed to the growth of production and the improvement in the climate of confidence among businesses, which, in 1994, also benefited from the increase in orders from abroad. The contribution of the intra-EU balance of trade to the growth of nominal GDP was strong in Ireland, Portugal and Spain. In contrast it was negative in Greece, Denmark and France. Compared with 1993 it was significantly worse in Italy, Denmark, Belgium and Luxembourg.

Figure I.2.8: Contribution to the growth of GDP of the balance of external trade of goods and services, 1994



Source: Eurostat

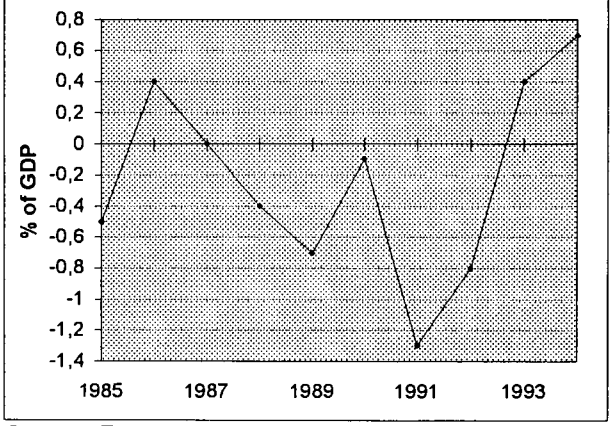
In value terms, there was an increase of 2.2% in EU exports of goods in 1993, and growth accelerated to 10.0% in 1994 (see figure I.2.9). At the same time imports of goods rose by 8.6%. The contribution of the extra-EU balance of trade to the growth of nominal GDP, after being negative throughout the 1988-1991 period, became positive again from 1992. In 1994 it stood at 0.7%.

In contrast, the balance of trade was still negative for the United States, Japan and, on average, for the OECD and G7 countries and thus had an adverse effect on GDP growth (see figure I.2.8).

Table I.2.6	Evolution of some determinants of the extra-EU		
	1992	1993	1994
World economic growth (excl. EU)	-	2,5	3,0
Evolution of world imports (excl. EU)	-	9,4	9,9
Evolution of world exports (excl. EU)	-	6,8	8,9
Evolution of exports into third world coun.	0,7	8,0	10,3
Evolution of imports from third world coun.	3,3	-0,5	7,9

Source: European Commission

Figure I.2.9: Contribution to the growth of GDP of the balance of the EU (EUR12) trade of goods, 1985-1994



Source: Eurostat

I.2.3 Extra and Intra - EU Trade

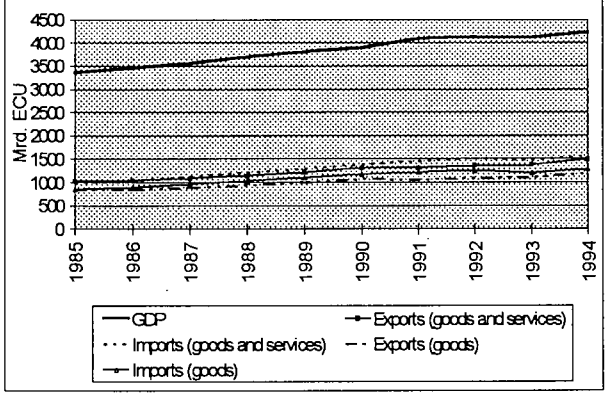
Table I.2.7	GDP, imports and exports of goods and services											
	Mrd. ECU										%	
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	94/93 *	94/85 *
	current prices											
GDP	3358,5	3567,3	3758,3	4081,2	4440,4	4780,5	5216,9	5463,5	5520,2	5762,5	4,4	6,2
Export total	1020,2	973,1	1000,9	1083,2	1234,7	1331,1	1333,8	1380,4	1412,6	1544,8	9,4	4,7
goods	834,5	791,1	812,7	883,9	1008,7	1087,5	1069,7	1105,7	1130,1	1243,6	10,0	4,5
services	185,7	182,0	188,2	199,3	226,0	243,6	264,1	274,7	282,5	301,3	6,6	5,5
Imports total	980,4	905,7	951,8	1053,0	1215,7	1291,7	1350,0	1387,8	1355,0	1470,2	8,5	4,6
goods	851,0	776,2	812,8	899,3	1040,6	1091,5	1139,4	1151,9	1109,7	1205,5	8,6	3,9
services	129,4	129,5	139,0	153,7	175,1	200,2	210,6	235,9	245,3	264,6	7,9	8,3
Balance total	1,2	1,9	1,3	0,7	0,4	0,8	-0,3	-0,1	1,0	1,3	-	-
as % goods	-0,5	0,4	0,0	-0,4	-0,7	-0,1	-1,3	-0,8	0,4	0,7	-	-
of GDP services	1,7	1,5	1,3	1,1	1,1	0,9	1,0	0,7	0,7	0,6	-	-
	1985 prices											
GDP	3358,5	3456,3	3553,0	3701,0	3805,1	3889,4	4084,6	4130,4	4117,5	4226,2	2,6	2,6
Exports total	1020,2	1035,2	1076,7	1135,8	1218,1	1302,8	1304,9	1354,5	1371,0	1482,5	8,1	4,2
goods	834,5	791,1	812,7	883,9	1008,7	1087,5	1069,7	1105,7	1130,1	1235,9	9,4	4,5
services	185,7	244,1	264,0	251,9	209,4	215,3	235,2	248,8	240,9	246,6	2,4	3,2
Imports total	980,4	1033,5	1122,2	1203,1	1291,6	1376,6	1441,1	1505,0	1463,4	1564,4	6,9	5,3
goods	851,0	885,7	958,4	1027,4	1105,6	1163,2	1216,3	1249,2	1198,5	1282,8	7,0	4,7
services	129,4	147,8	163,8	175,7	186,0	213,4	224,8	255,9	264,9	281,6	6,3	9,0

** As extra and intra trade flows are taken together, these percentage rates of change represent an average of the individual Member states Source : Eurostat*

GDP and external trade flows in goods and services

While in volume terms the yearly average percentage change of the EU GDP amounted to 2.6% during 1985 and 1994, total exports and imports of the Union increased by 4.2% and 5.3% respectively.

Figure I.2.10: GDP, Exports(*) and imports(*), 1985 prices



(*) Including extra and intra EU flows
Source: Eurostat

EU trade in services, which in 1994 accounted for nearly 19% of the total EU trade, registered a more significant growth than trade in goods. In 1985, this share amounted to less than 16%. In current prices, the external balance (goods +services) as a percentage of the GDP showed almost the same surplus in 1994 as in 1985 (over 1%). However, during this period the trend was not stable, with a deterioration in 1991-92 (slight deficit) and a recovery in the last two years. Between 1985 and 1994, the two components of the external balance showed a quite different evolution: the surplus in services worsened from 1.7% of the GDP to 0.6%, while the 1985 deficit in goods went up to a positive balance in 1994 (0.7% of the GDP).

Trade in goods

External trade data
The following analysis is based on the external trade figures (exports fob, imports cif) for goods collected by the Custom Authorities that, due to different methodologies, are not exactly comparable with the data used for the National Accounts. All the figures below are in value terms.

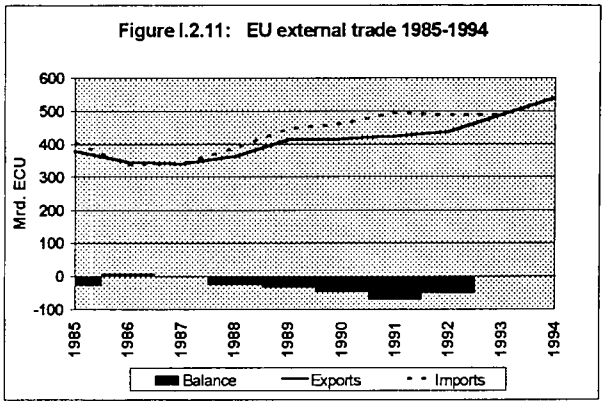
Total extra-EU trade flows

After two years of declining trade flows, the external trade of the Union moderately expanded from 1988 to 1992. However, In 1993 and 1994,

the EUR12 flows (in 1993 only on the exports' side) showed a significant upturn.

In 1994, the value of extra-EU exports registered a 10.6% percentage change over the previous year, while between 1985 and 1994, the annual average rate of growth amounted to a modest 4%.

Figure I.2.11: EU external trade 1985-1994



Source:Eurostat

Among the 12 Member states, Germany is the main extra-EU exporter, accounting for 33.8% of the total in 1994, followed by France and the United Kingdom with 15.3% and 14.5% respectively.

During the ten year period considered, the annual average growth rate for the extra-EU imports was 3.2%. After stagnating in 1993, the EU purchases from the third countries registered a sharp increase in 1994 (+10.8% over the previous year). Germany is the main outlet for the third countries' exports to the Union (29% of the total in 1994), followed by the United Kingdom (18.2%) and France (13.2%).

The EUR12 trade deficit, which amounted to ECU 28 Mrd in 1985, was almost cancelled out in the last two years. However, its development path registered remarkable deficits during 1988-92. Whilst the extra-EU trade flows were virtually in equilibrium in 1993 and 1994, the balances of some individual Member states were widely divergent.

Table I.2.8	Extra-EU exports of goods by Member states											
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	94/93 *	94/85 *
	EUR12 (Mrd. ECU)											
EUR12	378,7	344,6	339,5	362,8	413,0	415,4	423,4	436,1	487,1	538,8	10,6	4,0
	Share of the Member states (%)											
B/L	5,4	5,4	5,3	5,4	5,7	5,4	5,4	5,4	5,8	6,2	17,8	5,5
DK	3,3	3,4	3,4	3,2	3,1	3,2	3,2	3,3	3,0	3,0	13,3	3,0
D	31,8	35,2	35,4	34,4	33,7	34,2	35,2	34,8	33,4	33,8	11,9	4,7
GR	0,7	0,6	0,6	0,4	0,6	0,5	0,6	0,6	0,7	0,7	14,3	3,3
E	3,8	3,8	3,7	3,9	3,8	3,8	3,9	4,1	4,3	4,3	10,4	5,5
F	15,6	14,8	14,4	15,3	15,6	15,6	15,9	16,3	15,6	15,3	8,3	3,8
IRL	1,1	1,0	1,0	1,1	1,1	1,1	1,1	1,3	1,5	1,6	14,4	8,6
I	13,9	13,3	12,9	12,7	13,4	13,3	13,1	13,2	13,8	13,8	10,6	3,9
NL	5,9	5,8	5,9	6,1	6,0	5,9	5,9	6,0	6,3	6,2	9,6	4,5
P	0,7	0,7	0,7	0,7	0,8	0,8	0,7	0,8	0,7	0,7	8,1	3,0
UK	17,7	16,1	16,7	16,7	16,3	16,1	14,9	14,4	15,0	14,5	6,9	1,7

** percentage rate of change, Source: Eurostat*

Table I.2.9	Extra-EU imports of goods by Member states											
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	94/93 *	94/85 *
	EUR12, Mrd. ECU											
EUR12	406,3	336,8	340,5	387,5	446,7	461,6	494,1	487,1	487,2	539,8	10,8	3,2
	Share of the Member states, %											
B/L	5,7	6,2	5,9	6,1	6,4	6,2	6,1	5,9	6,3	6,3	10,8	4,5
DK	2,9	3,3	3,1	2,7	2,6	2,5	2,5	2,5	2,4	2,6	16,6	1,7
D	24,0	26,4	26,3	25,5	25,5	26,5	28,9	29,3	29,3	29,0	9,7	5,4
GR	1,7	1,4	1,4	1,0	1,2	1,2	1,4	1,4	1,5	1,2	-14,0	-0,8
E	5,5	5,5	5,3	5,4	6,0	5,9	5,9	6,1	5,2	5,1	8,9	2,2
F	14,1	13,7	13,7	14,1	14,2	14,5	14,4	13,9	13,7	13,3	7,4	2,5
IRL	0,9	0,9	1,0	1,0	1,0	1,0	1,0	0,9	1,3	1,4	23,0	8,8
I	15,4	13,4	13,8	12,8	13,4	13,1	12,5	12,1	11,5	11,4	9,7	-0,2
NL	9,8	9,4	9,4	8,8	9,1	9,3	9,2	9,5	8,7	10,3	30,3	3,7
P	1,3	1,2	1,2	1,2	1,2	1,3	1,2	1,3	1,2	1,2	6,7	1,5
UK	18,6	18,6	19,0	21,4	19,3	18,4	16,9	17,1	18,8	18,2	7,8	3,0

** percentage rate of change , Source: Eurostat*

Germany showed the biggest extra-EU surplus among the Member states (ECU 25.6 Mrd in 1994), while the Netherlands and the United Kingdom registered the highest deficits with ECU 22 Mrd and ECU 20.5 Mrd respectively in 1994.

By main partners

During the last ten years, an important redeployment of the **extra-EU exports** occurred.

The share of the industrialised countries in total exports went down to 53% in 1994, from 57.6% registered in 1985. The USA and EFTA markets became relatively less important, while the share of the exports to Japan increased to 5% in 1994 (it was 2.8% ten years before).

In 1994, the export share of the developing countries remained relatively stable between 1985 and 1994 (around 34%) In fact, an increased share of the exports to the Dynamic Asian Economies and China compensated for the reduction in the importance of the ACP and Mediterranean countries markets.

The Central and Eastern European countries and the Commonwealth of Independent States together represented around 9% of the extra-EU exports in 1994, this is an increase of 3.4 percentage points as compared with 1985.

The industrialised countries are also by far the most important suppliers of the European Union. Their share of the **extra-EU imports** sharply increased between 1985 and 1988 by nearly 10 percentage points and, although it went down in the early 90's, it represented around 56% of the total in 1994.

Table I.2.10	Extra-EU trade balance by Member states, Mrd. ECU									
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
EUR12	-27,7	7,8	-1,0	-24,7	-33,7	-46,2	-70,7	-51,1	-0,1	-1,0
B/L	-2,6	-2,6	-2,0	-4,2	-5,4	-6,3	-7,2	-5,3	-2,7	-1,0
DK	0,6	0,7	1,2	1,3	1,0	1,6	1,2	2,2	2,6	2,5
D	23,0	32,5	30,5	26,0	25,0	19,7	6,1	8,8	20,0	25,6
GR	-4,2	-2,7	-2,8	-2,3	-3,2	-3,3	-4,4	-4,1	-4,3	-2,8
E	-8,2	-5,5	-5,7	-6,9	-10,8	-11,6	-12,5	-11,8	-4,3	-4,3
F	1,9	5,0	2,4	1,1	0,9	-2,0	-3,9	3,2	9,4	10,8
IRL	0,4	0,4	0,2	0,3	0,1	-0,1	-0,2	0,9	1,2	0,8
I	-10,2	0,6	-3,0	-3,3	-4,4	-5,0	-6,1	-1,4	11,0	12,7
NL	-17,4	-11,7	-11,9	-11,9	-15,7	-18,3	-20,6	-20,4	-12,1	-22,0
P	-2,7	-1,7	-2,0	-2,3	-2,3	-2,8	-2,8	-2,7	-2,6	-2,7
UK	-8,2	-7,2	-8,0	-22,4	-18,9	-18,0	-20,2	-20,3	-18,4	-20,5

Source: Eurostat

Table I.2.11	Extra-EU export, shares in %									
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
EUR12	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
Industrialised countries	57,6	60,5	61,7	61,2	60,2	60,4	57,2	55,0	53,0	53,3
-USA	22,6	22,0	21,2	19,8	18,9	18,4	16,8	16,9	17,5	17,6
-Japan	2,8	3,3	4,0	4,7	5,1	5,5	5,2	4,7	4,7	4,9
-EFTA	22,4	25,5	26,6	26,6	26,1	26,8	25,7	24,7	22,0	22,2
-Other	9,8	9,6	9,9	10,1	10,1	9,7	9,5	8,7	8,9	8,6
Developing countries	34,0	31,5	30,9	31,3	31,8	32,3	33,7	35,1	34,8	34,2
-ACP	5,2	4,8	4,1	4,2	3,9	4,0	3,8	4,0	3,4	2,8
-Mediterranean countries	11,7	10,6	10,1	9,8	9,9	11,0	10,8	10,4	11,0	10,2
-DAE *	4,4	4,5	5,3	6,4	6,7	7,0	7,7	7,9	8,9	9,8
-China	1,9	1,9	1,6	1,6	1,5	1,3	1,3	1,6	2,3	2,3
Central and eastern Europe	2,1	2,2	2,0	2,0	2,2	2,3	3,3	3,6	5,4	5,8
USSR/CIS	3,3	2,9	2,7	2,8	3,1	2,7	3,3	3,0	3,1	3,0
Other countries	3,0	3,0	2,8	2,7	2,7	2,3	2,4	3,3	3,8	3,7

** Singapore, Hong Kong, Taiwan, South Korea, Thailand, Malaysia , Source: Eurostat*

Table I.2.12	Extra-EU import, shares in %									
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
EUR12	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
Industrialised countries	52,2	59,0	59,2	61,6	60,6	59,9	59,4	59,1	56,4	56,1
-USA	17,0	16,9	16,5	17,6	18,7	18,5	18,6	17,8	17,2	17,3
-Japan	7,0	9,9	10,2	10,7	10,4	10,0	10,5	10,6	9,7	9,0
-EFTA	20,2	23,5	24,3	23,3	23,0	23,5	22,4	22,9	22,4	22,9
-Other	8,0	8,6	8,2	9,9	8,6	7,9	7,9	7,8	7,1	6,9
Developing countries	38,4	32,2	32,0	30,1	30,7	31,1	30,4	29,8	29,7	29,7
-ACP	7,5	5,9	4,8	4,5	4,3	4,4	3,9	3,7	3,1	3,4
-Mediterranean countries	10,9	8,5	8,7	7,8	8,3	9,2	8,8	8,4	8,1	7,9
-DAE *	4,8	6,2	7,4	7,8	7,5	7,3	8,1	8,2	8,8	8,8
-China	1,0	1,3	1,5	1,8	2,0	2,3	3,0	3,4	4,0	4,3
Central and eastern Europe	2,3	2,4	2,3	2,1	2,2	2,2	2,5	2,8	4,1	4,9
USSR/CIS	5,1	3,9	3,9	3,4	3,4	3,5	3,7	3,4	3,6	3,9
Other countries	2,1	2,5	2,7	2,9	3,1	3,2	4,0	4,9	6,1	5,4

** Singapore, Hong Kong, Taiwan, South Korea, Thailand, Malaysia*
Source: Eurostat

After the crisis that followed the Council for Mutual Economic Assistance's (CMEA) dissolution, the CEEC quickly redirected their trade towards the EU markets: in 1994, their share on the total extra-EU imports went up to 5% compared with 2.2% registered in 1990.

The EUR12 trade balance with the industrialised countries which was positive in 1985-87, turned into a huge deficit from 1988 until 1992. Nevertheless, in the last two years, considerable improvements have been recorded, mainly due to the sensible reduction of the bilateral deficits with Japan and the USA.

The European Union also registered important improvements in its trade positions with the developing countries: the deficit accounting for 21% of the exports to these countries in 1985, went up to a surplus of 13% in 1994.

By main products

The European Union is a traditional exporter of manufactures: in 1994, the share of the transformed products of the total **extra-EU exports** reached 86% compared to the 79% registered in 1985.

The corresponding reduction of the raw materials' share is mainly due to the declining importance of the extra-EU exports of fuel products (from 5% to 2.6% between 1985 and 1994), while the exports of agri-foodstuff industries remained reasonably stable at around 7%.

Among the manufactured products, the most important increase (+6.5%) in the last ten years was recorded for the machinery and transport equipment.

Table I.2.13	EU trade balance by partner, as a % of EU-exports									
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
EUR12	-7,3	2,2	-0,3	-6,8	-8,2	-11,1	-16,7	-11,7	0,0	-0,2
Industrialised countries	2,7	4,5	3,8	-7,5	-8,9	-10,2	-21,1	-20,0	-6,6	-5,4
-USA	19,4	24,6	21,9	4,8	-7,2	-11,3	-29,1	-17,6	1,6	2,0
-Japan	-172,9	-191,4	-155,3	-144,3	-119,3	-103,6	-133,9	-150,6	-107,5	-83,7
-EFTA	3,3	9,8	8,4	6,2	5,0	2,5	-1,7	-3,6	-2,1	-3,4
-Other	12,7	12,5	17,0	-4,1	7,9	9,6	2,9	-0,4	19,5	19,6
Developing countries	-21,0	-0,1	-3,9	-2,6	-4,5	-7,0	-5,4	5,3	14,7	12,9
-ACP	-55,4	-21,1	-18,2	-13,7	-18,9	-21,4	-20,0	-3,4	9,7	-24,5
-Mediterranean countries	-0,4	22,1	13,9	14,8	8,7	7,2	5,1	9,5	26,7	22,4
-DAE (*)	-16,6	-34,5	-41,5	-30,8	-20,9	-15,9	-23,3	-14,9	1,5	10,1
-China	45,2	35,4	5,4	-20,7	-43,6	-101,2	-167,2	-145,0	-73,2	-84,4
Central and Eastern Europe	-12,8	-9,2	-15,2	-15,1	-4,4	-8,8	12,7	13,2	23,1	16,5
USSR/CIS	-65,4	-33,6	-43,2	-28,4	-20,3	-44,0	-30,3	-28,2	-19,5	-32,8
Other countries	22,8	20,0	2,4	-11,5	-23,9	-55,8	-89,9	-66,2	-61,1	-47,0

** Singapore, Hong Kong, Taiwan, South Korea, Thailand, Malaysia*
Source: Eurostat

Table I.2.14	Extra-EU exports, shares in %									
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Extra-EU total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
Raw materials	15,1	12,4	12,2	11,8	12,1	12,1	12,0	12,3	12,8	11,9
- Food, etc.	7,5	7,2	7,1	7,1	7,5	7,3	7,3	7,7	7,5	7,2
- Crude materials	2,6	2,1	2,3	2,4	2,3	2,1	2,2	2,2	2,1	2,2
- Fuel products	5,0	3,1	2,8	2,3	2,3	2,7	2,5	2,4	3,2	2,6
Manufactured products	79,0	81,3	81,3	82,6	82,2	83,0	83,1	83,8	85,3	86,3
- Chemicals	11,2	10,9	11,2	12,3	11,6	11,6	12,0	12,4	13,0	13,3
- Machinery, transport	36,8	39,1	38,9	38,9	38,7	40,2	40,8	41,5	42,7	43,2
- Other manufactured	31,0	31,2	31,2	31,5	31,8	31,2	30,3	29,9	29,6	29,8
Not classified	5,8	6,3	6,5	5,6	5,7	4,9	4,8	3,9	1,9	1,8

Table I.2.15	Extra-EU imports, shares in %									
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Extra-EU total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
Raw materials	48,0	37,9	35,6	30,7	31,3	31,1	29,2	28,2	27,2	26,7
- Food, etc.	9,5	10,4	9,6	8,9	8,0	7,7	7,7	7,9	7,5	7,7
- Crude materials	10,1	9,8	9,5	9,6	9,5	8,2	7,0	7,0	6,5	7,3
- Fuel products	28,4	17,8	16,5	12,2	13,9	15,2	14,4	13,4	13,1	11,6
Manufactured products	46,3	55,5	58,4	62,1	63,3	63,8	65,7	66,9	69,3	70,3
- Chemicals	5,5	6,3	6,4	6,5	6,6	6,6	6,6	7,0	7,0	7,5
- Machinery, transport	19,5	23,6	25,2	27,5	28,0	28,6	30,0	30,0	31,0	31,3
- Other manufactured	21,3	25,6	26,9	28,1	28,8	28,7	29,1	30,0	31,3	31,6
Not classified	5,7	6,6	6,0	7,2	5,3	5,1	5,1	4,9	3,5	3,0

Table I.2.16	EU trade balance by products, as a % of EU-exports of each product									
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Extra-EU total	-7,3	2,3	-0,3	-6,8	-8,2	-11,1	-16,7	-11,7	0,0	-0,2
Raw materials	-240,6	-198,0	-193,2	-178,2	-179,7	-185,4	-183,2	-155,9	-111,3	-124,7
- Food, etc.	-35,2	-41,0	-35,9	-33,3	-15,3	-17,3	-22,6	-13,9	-0,4	-8,2
- Crude materials	-311,5	-351,0	-319,9	-325,4	-341,3	-330,9	-274,5	-256,9	-204,7	-236,6
- Fuel products	-514,4	-458,3	-486,5	-475,5	-550,8	-530,1	-575,5	-517,7	-308,6	-355,5
Manufactured products	37,0	33,3	28,1	19,7	16,7	14,6	7,9	10,8	19,2	18,4
- Chemicals	46,6	43,5	43,1	43,6	38,9	37,1	36,1	37,5	46,3	43,6
- Machinery, transport	43,0	41,1	35,2	24,4	21,8	21,0	14,3	19,2	27,7	27,5
- Other manufactured	26,4	19,8	13,8	4,5	2,3	-2,2	-11,8	-12,1	-5,1	-6,1
Not classified	-4,8	-2,7	8,1	-37,9	-1,8	-17,1	-23,1	-41,1	-85,9	-65,4

Table 14,15 and 16 Source: Eurostat

The evolution of the **extra-EU imports** clearly shows the growing role of manufactured products.

The commodities, still representing in 1985 a share of 48% of the total extra-EU imports, accounted for only 27% in 1994. During this decade, different factors (such as declining commodity prices, intra-industry trade) deeply modified the EU import structure and, in consequence, the share of manufactured imports increased from 46% in 1985, to 70% in 1994.

For exports, the product category that showed the most dynamic increase in the last ten years was machinery and transport equipment which, in 1994 represented over 31% of the total extra-EU imports, compared to less than 20% in 1985.

The European Union economy, based on the manufacturing industry, has a structural external trade deficit in the primary sector. However, this deficit improved in relative terms between 1985 and 1994, from 241% to 125% of the extra-EU exports of raw materials.

As far as the manufactured products are concerned, in the last ten years, the surplus went down from 37% to 18% of the total exports of manufactures, evidencing the growing importance of the intra-industry flows in EU external trade relations.

Share of the intra-EU trade in the total EU trade flows

Table I.2.17	EU trade balance by products Intra-EU exports as a % of the total exports by Member states									
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
EUR12	55,2	57,3	58,9	59,8	60,2	61,2	61,9	61,5	58,4	58,6
B/L	70,7	73,5	74,8	74,7	74,1	75,7	75,8	75,3	73,7	72,4
DK	44,8	46,8	48,7	49,8	50,7	52,1	54,2	54,6	54,1	53,3
D	49,9	50,9	52,7	54,2	54,9	54,4	53,9	54,2	49,8	48,9
GR	54,3	63,8	66,5	64,6	65,6	64,5	64,0	65,9	56,0	53,9
E	53,4	56,2	59,9	61,0	62,4	65,6	67,2	66,5	62,2	64,5
F	53,8	57,9	60,4	61,6	61,6	62,7	63,6	63,1	59,9	60,7
IRL	69,7	72,6	74,1	74,8	75,0	75,5	75,0	74,7	69,3	70,1
I	48,7	53,8	56,2	57,3	56,6	58,4	59,2	57,9	53,5	53,4
NL	75,8	76,4	76,0	75,2	76,3	77,1	76,7	75,9	74,5	74,8
P	63,3	68,6	71,4	72,5	72,1	74,2	75,9	75,7	75,2	75,8
UK	48,9	48,2	49,5	50,3	50,5	53,1	56,7	56,0	52,8	54,1

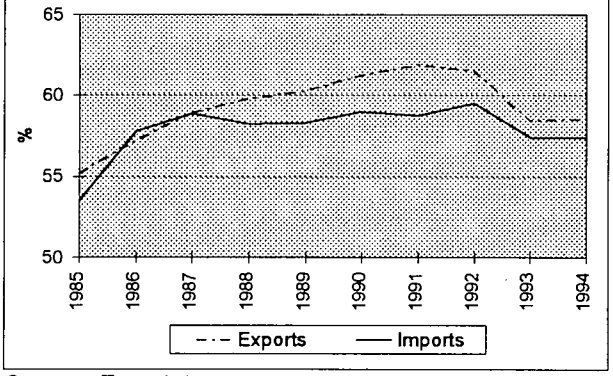
Table I.2.18	EU trade balance by products Intra-EU imports as a % of the total imports by Member states									
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
EUR12	53,5	57,8	58,9	58,2	58,3	59,0	58,7	59,5	57,4	57,4
B/L	68,8	70,1	72,4	70,5	69,1	70,8	70,6	71,7	70,0	68,9
DK	50,7	53,2	53,6	53,7	52,3	53,8	54,2	55,4	54,3	54,0
D	53,1	54,3	54,6	53,4	53,4	54,3	54,6	54,8	51,2	50,7
GR	48,1	58,3	59,4	62,5	62,3	64,2	60,3	63,4	60,1	64,2
E	37,9	49,6	55,0	56,5	56,8	58,8	59,8	60,4	62,0	63,5
F	59,5	64,6	65,8	65,2	65,1	65,0	64,4	65,9	64,0	65,0
IRL	72,2	73,4	71,8	71,7	70,4	71,4	69,6	72,4	65,1	63,6
I	47,3	55,6	56,6	57,6	56,9	57,6	58,0	59,2	55,5	56,2
NL	55,8	61,0	61,6	61,6	60,2	60,0	58,9	59,1	60,5	57,3
P	46,3	59,0	63,5	66,4	67,9	69,0	72,0	73,8	71,8	71,9
UK	47,3	50,6	51,4	49,5	51,4	51,4	50,5	51,1	49,2	50,1

Table 17 and 18, Source: Eurostat

Intra-EU trade

The Intrastat system was introduced on the 1st of January 1993, due to the abandonment of the customs formalities within the EU. Data is collected from this date directly from the firms. As the Intrastat organisation for collecting data is different from that of the former years, the transition from the year 1992 to 1993-94 data should be interpreted with caution.

Figure I.2.12: Intra-EU Trade as a % of the total trade



Source: Eurostat

The relative importance of the intra-EU trade in the total trade of the Union had been significantly increasing by about 6 percentage points between 1985 and 1994.

However, since 1993, when the Internal Market was introduced, the collection of the intra-EU trade data had to be reorganised. In consequence, a substantial downward break occurred in intra-EU statistics. Until now it has been difficult to assess whether or not this shift in 1993 and 1994 only represents a purely statistical phenomenon.

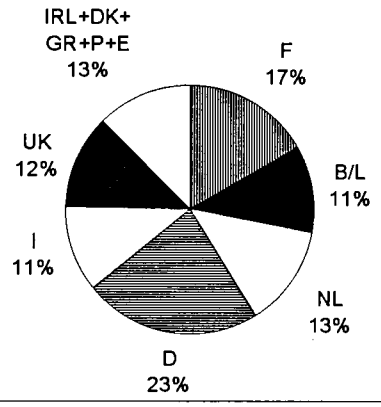
For individual Member states, the share of intra-EU trade is quite different: for relatively small countries such as Portugal, Belgium-Luxembourg and the Netherlands these shares are highest, while on the other hand, Germany and the United Kingdom (52%) had the lowest ratios.

Among the EU Member states in 1994, Germany registered the highest share of the intra-EU trade with around 24% of exports (i.e. "dispatches" which are thought to be more reliably recorded than the intra-EU imports, or "arrivals"). France

(with 17% of the total EU dispatches), the Netherlands (13%) and the United Kingdom (12%) follow afterwards.

By 1993-94, the share of intra-EU trade in total EU trade for raw materials and manufactured products converged to similar levels (around 57%), although from 1985 to 1992 the ratio for manufactured products was always significantly higher.

Figure I.2.13: Shares of the individual Member States in Intra-EU exports, 1994



Source: Eurostat

Within the group of raw materials, the intra ratios for food products were conspicuously higher (60-70%) than those for fuel products (around 40%). As for manufactured products, the intra-EU ratios for chemicals were significantly higher than those for machinery and transport equipment.

Intra-EU trade balances

Due to intra-EU statistical discrepancies, the sums of the intra-EU surpluses and deficits recorded by the Member states do not match, although in theory, they should approximately do so.

Recent analyses of these problems suggest that between 1990 and 1992, some countries didn't fully report the re-export flows to other Member states.

From 1993, with the change of the data collecting system (Intrastat System, see note above), other statistical problems occurred. It seems that imports (arrivals) are consistently under-recorded, mainly due to the effect of the reporting thresholds introduced, and to the institutional links between the statistical and fiscal declarations in some countries.

Table I.2.19	EU trade balance by products Share of the Intra-EU trade on the total EU trade(*) by products									
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Intra-EU total	51,8	57,6	58,9	59,0	59,2	60,1	60,2	60,5	56,8	57,6
- Food, etc.	60,7	66,5	68,2	68,6	68,6	69,5	70,6	70,9	69,5	69,5
- Crude materials	42,9	48,8	49,6	49,6	50,1	51,2	51,9	51,4	49,0	49,2
- Fuel products	41,8	44,8	42,3	40,1	37,6	37,5	38,1	37,3	37,3	39,0
Manufactured products	54,1	59,3	60,7	60,6	60,9	61,8	61,6	61,7	56,9	57,6
- Chemicals	60,5	64,5	65,4	65,4	65,5	66,3	65,7	65,3	62,5	63,6
- Machinery, transport	51,7	57,4	59,5	59,9	60,8	61,4	61,4	61,5	56,2	57,0
- Other manufactured	54,3	59,4	60,2	59,7	59,5	60,7	60,6	60,6	55,6	56,0
Not classified	40,8	42,7	43,8	41,8	45,1	45,7	45,9	44,8	54,1	59,4

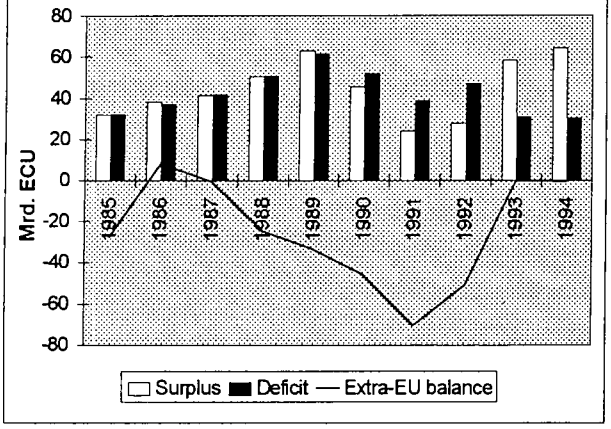
(*) Imports+Exports, Source:Eurostat

Table I.2.20	Intra-EU trade balance by products, in Mrd. ECU									
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Intra-EU total	-0,2	0,7	-0,5	-0,3	1,2	-6,9	-14,9	-19,4	27,5	34,2
B/L	-1,4	1,9	1,0	0,9	2,7	0,1	-0,6	-1,2	7,0	11,6
DK	-2,1	-2,2	-1,0	-0,4	0,2	0,8	1,4	2,2	3,0	2,4
D	9,4	20,3	26,2	34,7	38,6	23,9	2,6	6,5	12,0	13,0
GR	-3,2	-3,1	-3,1	-3,6	-4,7	-5,9	-6,0	-6,7	-7,3	-7,3
E	2,6	-1,5	-3,5	-5,3	-8,9	-8,9	-9,3	-10,0	-6,8	-5,7
F	-15,3	-14,0	-14,7	-13,1	-15,4	-14,9	-10,9	-9,5	-5,1	-5,5
IRL	-0,1	0,6	1,8	2,4	3,0	2,4	2,9	4,1	5,2	6,5
I	-6,4	-3,3	-4,8	-5,3	-6,8	-4,3	-4,3	-6,3	7,1	5,8
NL	19,9	15,5	12,4	12,4	18,5	18,0	17,1	14,8	24,0	25,0
P	0,0	-0,7	-1,7	-3,0	-3,4	-4,2	-5,4	-6,6	-4,9	-4,8
UK	-3,6	-12,7	-13,0	-20,1	-22,5	-14,0	-2,2	-6,7	-6,7	-6,8

Source: Eurostat

The sharply increased statistical discrepancy of intra-EU trade flows, makes it difficult to assess the development of intra-EU trade balances by Member states. This particularly applies to the transition from 1992 and 1993. However, admitting that the balances for 1993 and 1994 on average showed a strong bias towards a surplus, the following comments can be made.

Figure I.2.14: Sum of the Intra-EU surplus and deficits in absolute values

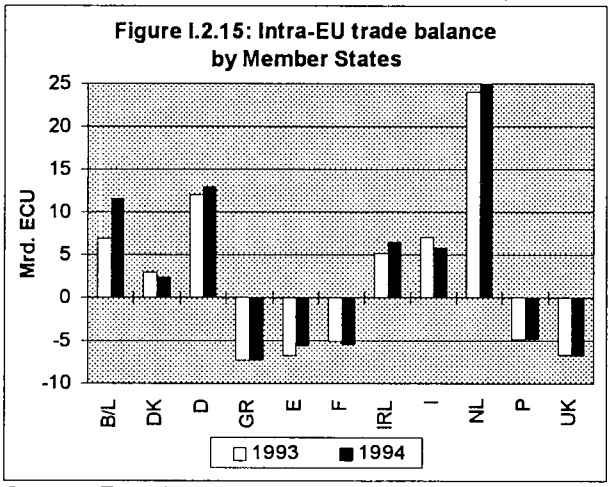


Source: Eurostat

The most significant intra-EU surplus in 1994 was registered by the Netherlands (ECU 24.8 Mrd), followed by Germany (ECU 13.0 Mrd) and Belgium-Luxembourg (ECU 11.6 Mrd). This structure does not change significatively when compared to 1993. The Netherlands is a particular case, in the sense that an important part of its trade is "in transit" (i.e coming from outside the EU and going to a different EU Member state). This result is consistent with its large extra-EU deficit.

Greece (ECU 7.3 Mrd), the United Kingdom (ECU 6.8 Mrd) and Spain (ECU 5.7 Mrd) have shown the largest intra-EU deficits among the EU countries both in 1993 and 1994.

Figure I.2.15: Intra-EU trade balance by Member States



Source: Eurostat

International trade in services

International trade in services
ITS statistics for the EU is compiled on the basis of the balance of payments of Member states. Balance of Payments statistics record transactions between the residents and the non-residents of a country or geographical region.

Up to 1993, the annual information transmitted by Member states should have been drawn up according to the IMF Manual (4th edition, 1977). Nevertheless, there were major discrepancies in details amongst Member states methodologies. Several operations had to be carried out in order to harmonise the different balances of payments and to produce a European Union balance as meaningful as possible.

International Trade in Services (ITS) has become of increasing importance in the last decades. Therefore, relevant statistical information on ITS concerning the European Union and its partners is necessary to assist and monitor a variety of events like Economic and Monetary Union or bilateral and multilateral negotiations such as the GATS agreement ("Uruguay Round").

ITS information provided here is recorded by Eurostat in the framework of Balance of Payments statistics. This information is available only up to 1993 and concerns the European Union with 12 Member states (situation before 1st January 1995).

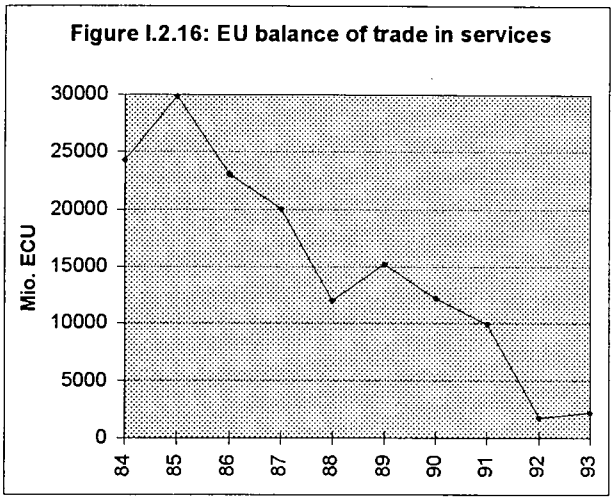
Main features of ITS for the European Union (period covered 1984-1993)

The European Union was the world's largest trader in services throughout the period 1988-1993 in comparison with USA and Japan. In 1993 the total volume of external trade in services of the EU represented 47% of the total volume of services traded by the three economies (EU, USA and Japan) with the rest of the world; the USA accounted for 34% and Japan for 19%. With a total volume of services traded of ECU 334 Mrd, the EU represents 1.4 times (ECU 239 Mrd) that of the USA and 2.5 times (ECU 135 Mrd) that of Japan's volumes. Nonetheless, the EU balance of services decreased from ECU 24 Mrd to ECU 2 Mrd.

The volume of services traded by the EU is continuously growing and seems to be almost equally partitioned between Intra-EU and Extra-

EU. From 1984 to 1993 the total volume of services between the EU and the world (Intra-EU and Extra-EU) almost doubled, passing from ECU 365 Mrd to ECU 670 Mrd. The part of Intra-EU trade in services, which represented 45% of the total EU trade in services in 1984 has grown almost regularly, reaching 50% in 1993.

Figure I.2.16: EU balance of trade in services

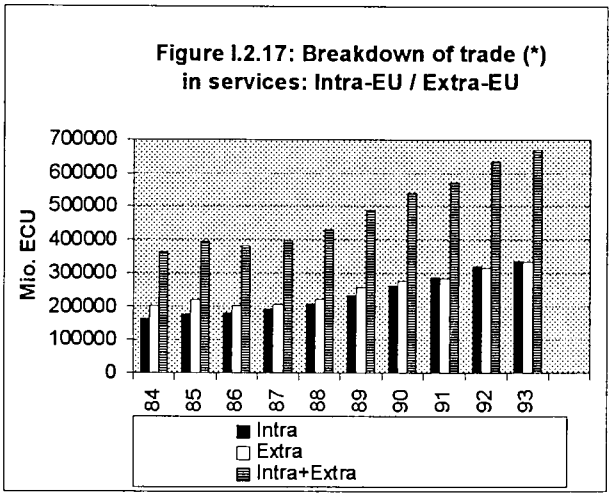


Source: Eurostat

France, Germany, Italy and the United Kingdom contributed more than 65% of the volume of services traded by the EU with the world. Throughout the reference period the contribution of MS to the EU total has remained fairly stable. Nonetheless, the UK accounted for 16% of the EU total in 1984 and has steadily decreased its contribution reaching 12% in 1993. On the other hand Italy's contribution increased from 11% in 1984 to 14% in 1993.

The EU carries out most of its external trade in services with Industrialised countries. In 1984 the Industrialised countries accounted for 63% of the EU external trade in services. This figure rose during the period, reaching 70% in 1993.

Figure I.2.17: Breakdown of trade (*) in services: Intra-EU / Extra-EU



Source: Eurostat

The USA and the EFTA countries are by far the EU most important partners, accounting respectively for 34% and 24% of EU external trade in services in 1993. On the other hand, Developing countries, traditionally another important EU partner in services, accounted for 22% in 1993.

"Other services" make the greatest contribution to the volume of EU trade in services vis-à-vis the world. This item comprises all trade in services other than Transport and Travel and covers such highly varied sectors as trade earnings, insurance, banking activities, business services, construction, communication, and property income (excluding capital income). This item increased its share in the total volume of services, passing from 38% in 1984 to 44% in 1993.

Table I.2.21	Trade in services EU-World (Intra+Extra EU) (*)									
	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
	in Mio. ECU									
Services	364590	395636	382736	398490	429375	488969	539077	572604	635025	670022
Transport	121992	128683	114359	116924	131307	150966	157061	167853	170195	178305
Travel	94909	104278	108316	118459	129330	141124	151990	161765	182218	189369
Other Services	139777	154111	151844	154292	158906	185999	219067	232211	271610	293693
Not allocated	7912	8565	8219	8814	9831	10878	10959	10773	11002	8654
	in %									
Services	100	100	100	100	100	100	100	100	100	100
Transport	33	33	30	29	31	31	29	29	27	27
Travel	26	26	28	30	30	29	28	28	29	28
Other Services	38	39	40	39	37	38	41	41	43	44
Not allocated	2	2	2	2	2	2	2	2	2	1

** Exports und Imports, Source: Eurostat**

Limits of existing BoP figures for ITS evaluation

Recording problems linked to the intangible nature of ITS; Availability of statistics in terms of current values only, without taking into account inflation or exchange rates; Figures include quite a number of corrections/estimates carried out by Eurostat to reduce asymmetries and fill confidential or missing information.

I.2.4 Distribution of GDP, disposable income, savings and net lending/ borrowing

Distribution of GDP

Compensation of employees absorbs more than half the Union's GDP (51.2% in 1994). This proportion has diminished steadily since 1980. The figures for the Member states are fairly close to this, excluding Greece, at less than 32% (1993), and Luxembourg, highest at over 56% (1993). Net operating surplus of the Union represents a quarter of GDP, 24.2% in 1993.

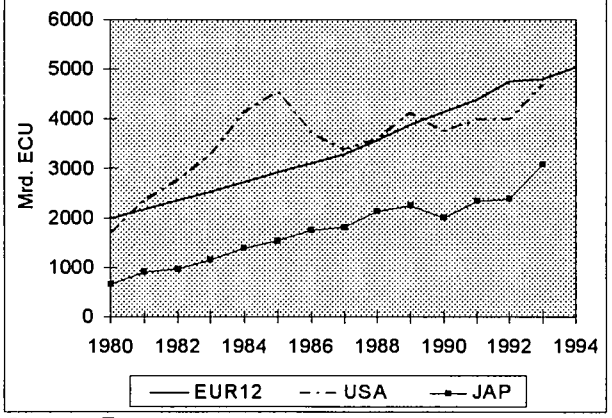
These percentages are very similar in the USA and Japan, where in 1993 they were 60.6% and 57.2% respectively for compensation of employees and 19.3% and 20.1 % for net operating surplus.

Table I.2.22	Distribution of the EUR12-GDP, in % of total		
	1980	1993	1994
Compensation of employees	55,8	52,5	51,2
Net operating surplus	22,2	24,2	37,5*
Consumption of fixed capital	11,5	12,2	
Taxes less subsidies	10,4	11,1	11,3
Total	100,0	100,0	100,0

** consumption of fixed capital included*

Source: Eurostat

Figure I.2.18: Evolution of the net disposable income, Mrd ECU



Source: Eurostat

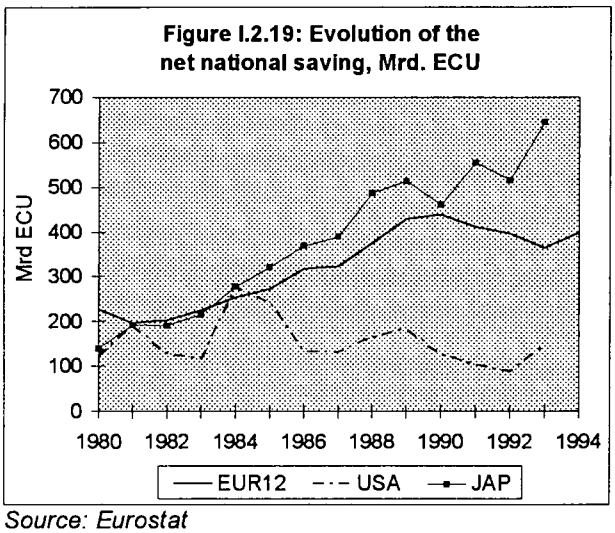
In 1993, the compensation of employees per capita was ECU 25300 in the Union compared with the higher rates of ECU 30700 in the USA and ECU 37900 in Japan.

Trends in disposable income

The net national disposable income of the European Union increased at an annual rate of 6.7% between 1980 and 1994 (in ECUs at current prices). In 1993, the Union's net national disposable income was ECU 5030 Mrd., equivalent to ECU 14200 per capita; in comparison, it was ECU 4700 Mrd. in the USA (ECU 18100 per capita, 1993) and ECU 3000 Mrd. in Japan (ECU 24600 per capita, 1993).

Savings and net lending/ borrowing

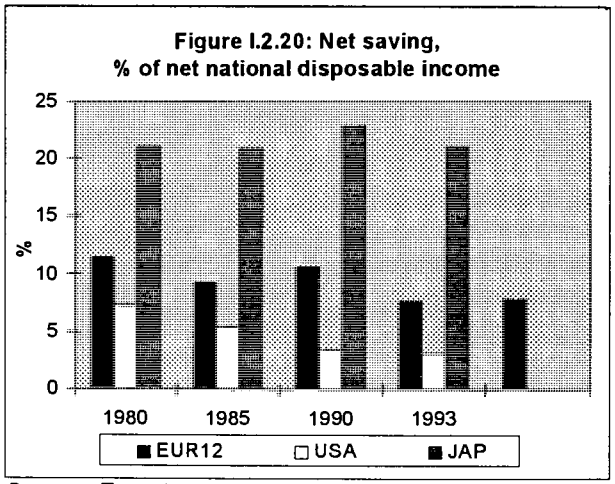
Figure I.2.19: Evolution of the net national saving, Mrd. ECU



Source: Eurostat

The Union's net national savings amounted to ECU 397 Mrd. in 1994 (current prices) and increased at a rate of 4% per year between 1980 and 1994.

Figure I.2.20: Net saving, % of net national disposable income

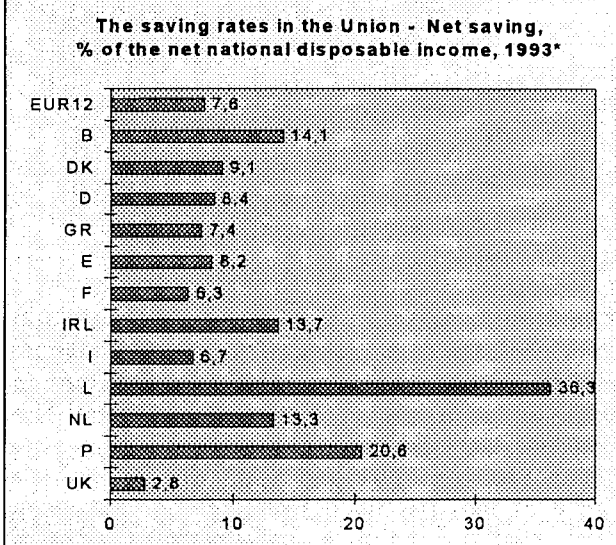


Source: Eurostat

In comparison, it was ECU 146 Mrd.(1993) in the USA, with an annual increase of 1.3%, and ECU 645 Mrd.(1993) in Japan, with an annual increase of 12.5% over the same period. In 1994, per capita national savings were ECU 1100 for EUR12, ECU 570 for the USA (1993)and ECU 5200 (1993) for Japan.

Savings ratios in the Union

The average savings ratio in the Union in 1993 was 7.6% of net national disposable income. Luxembourg and Portugal were well above of this average, with 36.3% and 20.6% respectively. The lowest rate was in the United Kingdom, at 2.8%.



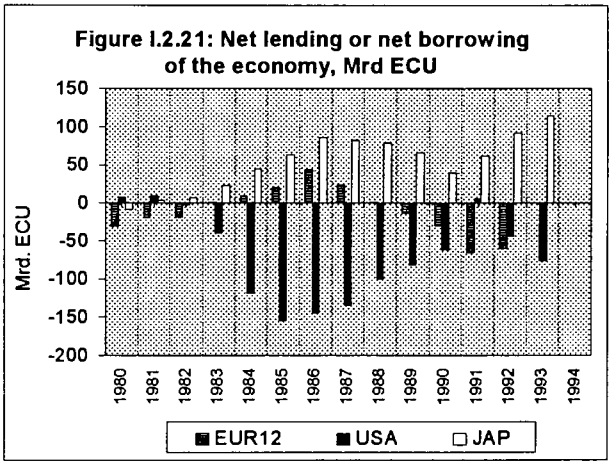
Portugal and Greece refer to 1992

Source: Eurostat

The net savings ratio is a good deal higher in Japan than in EUR12 and the USA: it was 21.0% in 1993, i.e. almost three times higher than the European figure, of 7.6%, and almost seven times higher than that of the USA , of 3.1%. In 1994 the ratio of the Union was about 7.8%.

In 1994 households of the Union contributed about ECU 529.2 Mrd to net savings., enterprises about ECU 708.7 Mrd. Compared with 1993, the net savings of households went down by 4.1%, those of enterprises climed by 15.2%.

The net lending of the European Union in 1993 was ECU 16 Mio., which represents the first net lending since 1988, albeit on a small scale. Comparable international data showed that the United States had a deficit of ECU 77 Mrd., or 1.5% of GDP, while that of Japan revealed a surplus of ECU 114 Mrd., or 3.2% of GDP in 1993.



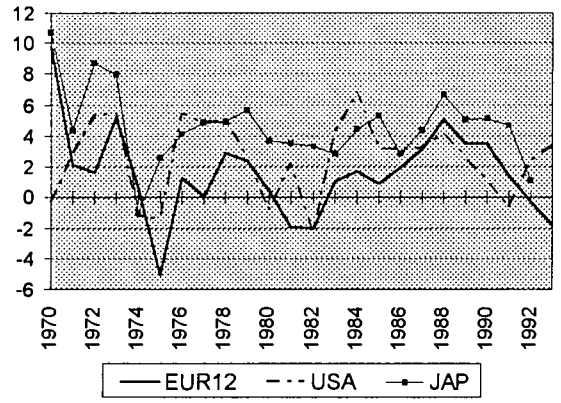
Source: Eurostat

I.3 The enterprises in the Union

I.3.1 The value added of enterprises

Between 1975 and 1987 the growth rate of value added in volume terms was lower for the Union than for the United States and Japan. At the end of the 1980s and the beginning of the 1990s, the relative situation of the Union and the United States was reversed, and the difference between growth rates increased from one point in 1988 to two points in 1991 -the lowest point in the last cycle in the United States. The upturn occurred sooner in the United States than in the Union and Japan.

Figure I.3.1: Value added in volume terms, growth rates



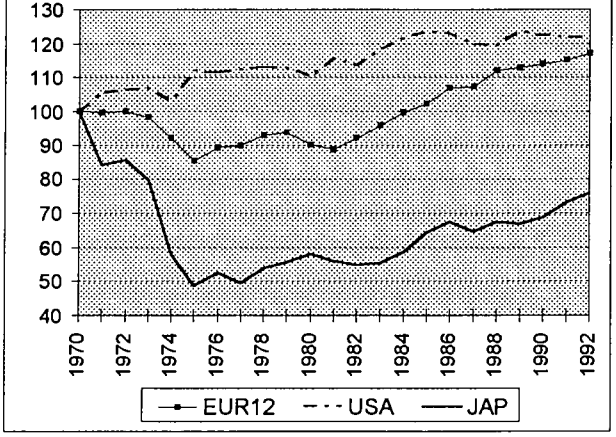
Source: Eurostat, OECD

The distribution of value added

The profit margin (ratio between operating surplus and value added) of enterprises was maintained during the last recession, in contrast to the two previous recessions (74-75 and 80-81). The situation in the United States is typified by a fairly stable distribution of value added from 84-85 onwards, while from the beginning of the 1980s the distribution of value added continued to shift in favour of enterprises in Japan and in the Union. The present level in the Union is now on a par with that in the United States.

Trends in the distribution of value added can be analysed on the basis of the relative fluctuations of the price of value added and the unit wage cost (ratio of nominal wages to the volume of value added). Thus the marked increase in the profit margin in the Union from 1982 was mainly due to a considerable slowdown in the rate of increase of the unit wage cost: in 1982 it increased by a rate of almost 10%, but in 1993 it fell. At the same time, the growth rate of the price of value added fell from about 10% to almost 2.5%.

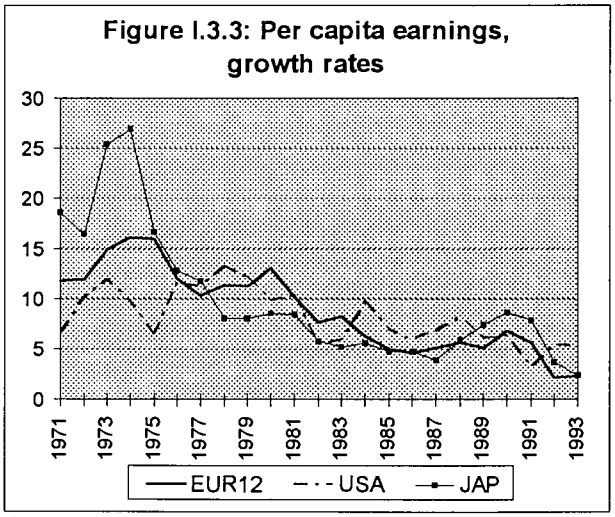
Figure I.3.2: Profit margin, index 100 in 1970



Source: Eurostat, OECD

The less marked increase in the profit margin in the United States between 1975 and 1992 may be due to a trend less favourable to enterprises in value added in relation to the unit wage cost. The considerable increase in the profit margin in the Union between 1991 and 1993 was mainly the result of the downward trend of the unit wage cost, itself due mainly to wage restraint, since in the Union the growth rate of per capita earnings fell from 7.5% in 1990 to 2.5% in 1993.

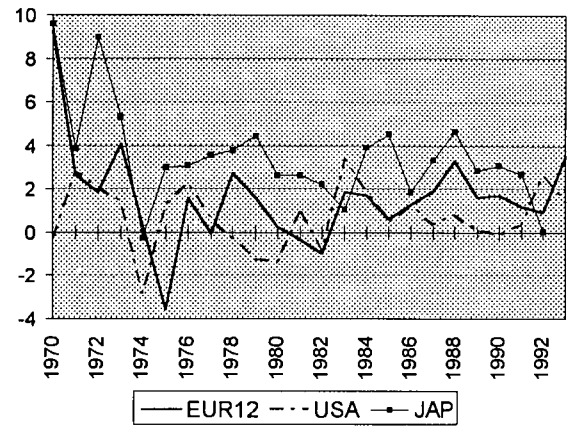
Figure I.3.3: Per capita earnings, growth rates



Source: Eurostat, OECD
Note: Earnings are expressed in national currency.

The trends in per capita earnings also reflect the fact that there is a time lag in the economic cycle between the United States on the one hand and the Union and Japan on the other, since the last economic cycle produced an earlier downturn in rate of increase of per capita wages in the United States but also an earlier upturn as early as 1991. In terms of productivity, the Union is in an intermediate position between Japan, where the trend is more pronounced, and the United States, where it is less pronounced. The increase in productivity in the Union in 1993 can be explained by the decrease in employment and by a recovery which had already got off the ground in certain countries (e.g. the United Kingdom).

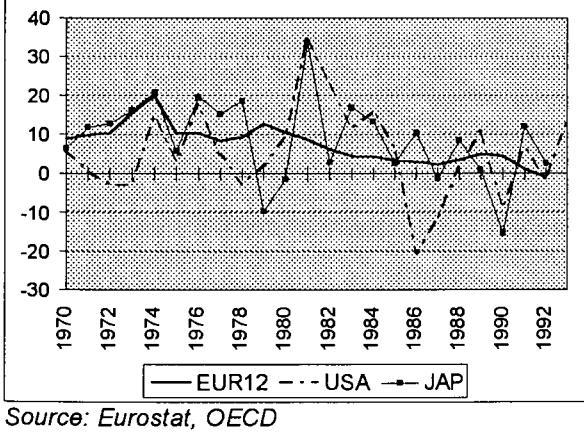
Figure I.3.4: Productivity evolution



Source: Eurostat, OECD

By comparing the fluctuations of per capita earnings with productivity, it can be seen quite clearly that the slowdown in per capita earnings and the increase in productivity produced a drop in the unit wage cost, expressed in national currency, in 1993.

Figure I.3.5: Unit wage cost, in current ecus



Source: Eurostat, OECD

Expressed in ecus, the unit wage cost provides an indication of the relative trend in the cost competitiveness of the various zones. The steep rise in the value of the dollar at the beginning of the 1980s led to a considerable increase in the unit wage cost in the United States, which in turn adversely affected competitiveness.

I.3.2 Investment and productivity

Investment effort

The average annual growth of investment in the Union (Table I.3.1) was very rapid during the 1960s (approximately 6%), then fell by five points at the beginning of the 1970s, after which it fluctuated between 1.4% and 2.1% during the subsequent sub-periods. There was a fairly similar pattern in both the United States and Japan. It is quite striking to note that over the entire period under consideration (1960-1993) the growth rate in investment was on average the same in the Union and the United States. Except in very few years, growth was more marked in Japan. The difference was very marked during the 1960s (approximately ten points per year) and less so (one to three points) thereafter. Over the entire period (1960-1993), growth in investment in Japan was on average over four points higher than that in the Union and the United States (7.5% compared with 3.1%).

Table I.3.1	Average annual growth rate of the volume of investment, in %		
	EU	USA	JAP
1960-1971	6,4	4,1	15,1
1972-1974	1,4	0,3	1,2
1975-1980	2,1	5,1	3,9
1981-1987	1,9	3,2	3,8
1988-1993	1,6	2,5	3,8
1960-1993	3,1	3,1	7,5

Source : Eurostat

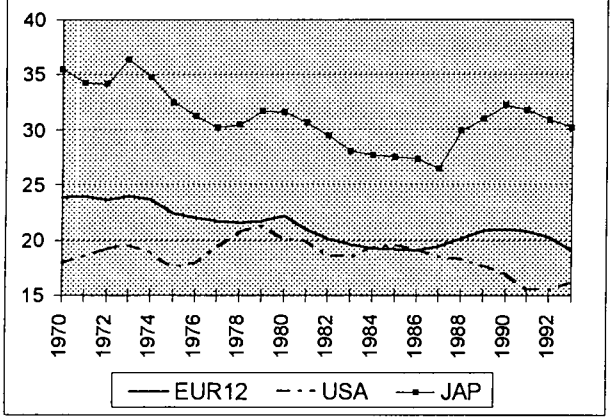
It is also important to stress that *the investment effort* in Japan was well above that in the Union and the United States: Japan's investment ratio was consistently ten or more points higher throughout the period (figure I.3.6 and table I.3.2). The difference between the Union and the United States was less marked. The cyclic trend in the investment ratio appears to have been more or less in phase between the Union and Japan,

although with wider fluctuations in the latter. Since the first half of the 1980s, the trend in the USA investment ratio seems to have been out of phase with the Union and Japan, particularly in the most recent period.

Table I.3.2	Average investment ratio in value terms, in %		
	EU	USA	JAP
1970-1974	23,8	18,8	35,0
1975-1980	21,9	19,5	31,2
1981-1987	19,7	19,1	28,4
1988-1993	20,4	16,7	31,0
1970-1993	21,3	18,7	31,1

Source : Eurostat

Figure I.3.6: Investment ratio in value terms



Source : Eurostat

The growth of capital

These trends in investment affect trends in capital stock and hence in production capacity. Trends in fixed capital stock are derived here by means of a perpetual inventory method for which the law of mortality was based on the average and simplistic assumptions of sudden death (i.e. all the plant and equipment of the same generation are decommissioned at the same time) and a fixed lifespan (i.e. not changing over time) of 12 years. The evaluation of capital stock carried out in this way is therefore based on a set of assumptions which are in line with those normally used for this purpose and, while simplifying to the extreme, are homogeneous for the three economic zones being compared.

The growth in capital stock changed slowly and reflected fairly smoothly the cyclical trends in investment. In the Union, four major phases stand out fairly clearly between 1972 and 1993 (Table I.3.3). Until the first oil crisis (1972-1974), there was a steep average annual increase in capital stock (approximately 5.3%). In the period following the first oil crisis (1975-1980), there was a considerable slowdown of over two points per year on average. This slowdown became even more marked in the period starting with the second oil crisis (1981-1987), with a fall of about two and a half points. The combined effect of these two decreases was considerable: it means, all other things being equal, that after the second oil crisis growth in production capacity was almost five points down on the sub-period preceding the first oil crisis. Lastly, in the period from 1988 to 1993, the growth in capital stock picked up by two points and stabilized at a rate which was still lower than that of the two sub-periods preceding the second oil crisis.

Table I.3.3	Average annual growth rate of the volume of fixed capital stock, in %		
	EU	USA	JAP
1972-1974	5,3	4,2	11,7
1975-1980	3,0	2,6	6,8
1981-1987	0,5	2,4	2,7
1988-1993	2,5	2,1	5,1
1972-1993	2,3	2,5	5,5

Source : Eurostat

For the United States, the only significant drop occurred after the first oil crisis, when the growth rate of capital stock fell from just over 4% to just over 2%. Thus over the entire period under consideration (1972-1993), the average growth in capital stock (2.5%) was hardly higher than in the Union (2.3%). In Japan the growth in capital stock followed the same pattern as in the Union: a decrease with each of the two oil crises and an increase at the end of the 1980s. However, in each of the sub-periods under consideration, this growth was between two and six points higher than the European rate. Thus, over the entire period, the growth in capital stock was an average of three points higher than the rate for the Union and the United States.

Apparent productivity of capital

There are fairly wide differences between the three economic areas as regards the productivity of capital (the ratio of GDP to capital stock) (figure I.3.7 and table I.3.4). In view of the large margins of uncertainty in the evaluation of capital, only relative trends have any meaning, and so the pattern is logically the reflection of that described

above for investment. the Union is situated between the United States (where the average figure is about 15% higher) and Japan (where the average figure is about 17% lower). These differences mean that the same level of domestic production requires a smaller stock of capital assets in the United States than in the Union and a smaller stock in the Union than in Japan.

Furthermore, there are also fairly considerable differences in the *pattern* of the productivity of capital in the three economic zones. In the United States, there were short-lived fluctuations around a level which is stable in the long term. In the Union, there was an overall downward trend during the first half of the period, followed by an upward trend. Thus the level at the end of the 1980s was the same as at the beginning of the 1970s, which prompts the assumption of very long-term stability of capital efficiency at an average level of about 15% lower than in the United States. In Japan, there are two distinct sub-periods.

From the beginning of the 1970s until the beginning of the 1980s, the productivity of capital fell very sharply (approximately 30%). During the following decade, it initially increased and then decreased, the level at the beginning of the 1990s being about the same as at the beginning of the 1980s, which also suggests, following the first sub-period of structural adjustment, a long-term stabilization at an average level of about 28% below that of the United States and 17% below that of the Union.

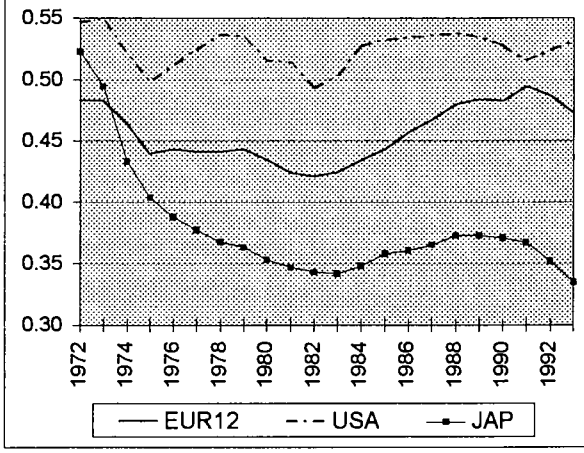
It should be stressed that such structural differences in the long-term levels of capital productivity in the three economic zones under consideration do not mean that there are identical differences in the combined performance of the various factors of production, since they may be a logical response to differences in the relative cost of the factors of production 'capital' and 'labour' and therefore be the result of different technical choices.

Table I.3.4	Average productivity of capital in volume terms		
	EU	USA	JAP
1972-1974	47,7	54.0	48,3
1975-1980	44.0	52.0	37,6
1981-1987	43,9	52.0	35,2
1988-1993	48,3	52,9	36,2
1972-1993	43,7	50,2	36,3

Source : Eurostat

Note : Productivity of capital is calculated here as the ratio of the volume of GDP to the volume of the productive capital at the end of the preceding period.

Figure I.3.7: Apparent productivity of capital by zone



Source : Eurostat

I.4 The private households in the Union

I.4.1 The private households as a consumer

The final consumption of households represents the purchases of goods and services. These items appear in Eurostat's Integrated Economic Accounts in highly detailed form, broken down by groups of goods.

In order to illustrate differences in the per capita consumption of households between the various Member States and in relation to the Union average, data at PPS has been used (see chapter I.7). This is the best way of taking account of changes in the relative prices of consumer goods.

This chapter looks at some of the key features of the changes in consumption structures in the Union and individual Member States.

If private consumption per inhabitant in PPS (Fig. I.4.1, Table I.41) is measured against the Union average, 1993 once again shows major variations, ranging from 72% of the average for Portugal to 139% for Luxembourg. On the other hand, the trend towards a reduction in differences in per capita consumption again clearly continued in 1993.

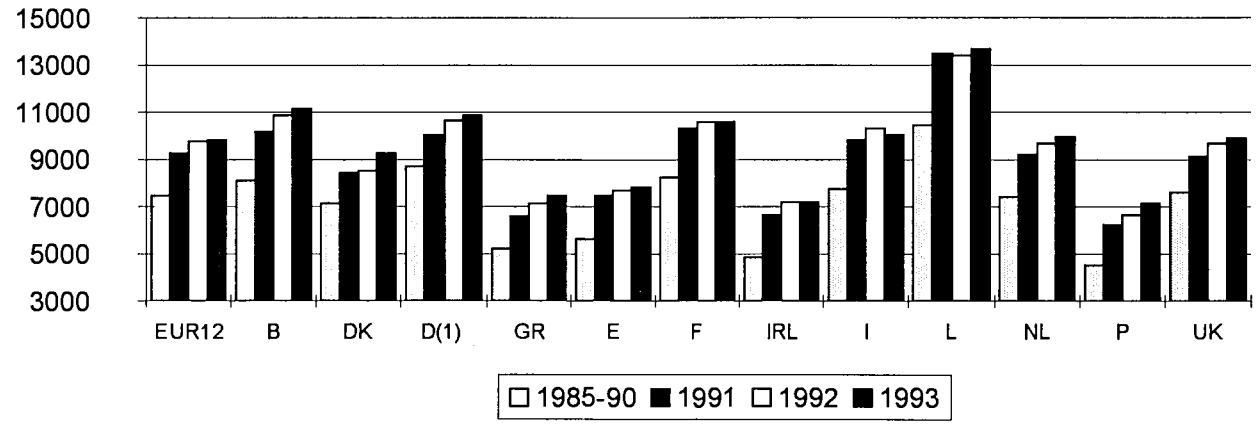
Portugal's position has improved considerably, from an average per capita consumption of 60% of the Union average in the second half of the eighties. This figure rose to 67% in 1991, 68% in 1992 and 72% in 1993, the latter figure representing an increase of 12 percentage points over the second half of the eighties and a year-on-year change of 4 percentage points.

Table I.4.1	Household consumption per inhabitant in PPS			
	1985-90	1991	1992	1993
EUR12	7510	9281	9752	9848
B	8086	10196	10828	11120
DK	7132	8453	8535	9248
D(1)	8716	10010	10682	10846
GR	5239	6594	7132	7474
E	5649	7481	7671	7797
F	8247	10290	10578	10576
IRL	4861	6652	7177	7176
I	7775	9810	10326	10002
L	10435	13457	13441	13660
NL	7442	9224	9716	9946
P	4542	6207	6686	7107
UK	7652	9126	9666	9901

(1) old Länder
Source: Eurostat

Similar headway was made in Ireland, where per capita consumption increased from 65% of the Community average in 1985-90 to 73% (in 1993). By contrast, less progress was made in Greece over the same period, the corresponding figures being 70% in the average for 1985-90 to 76% in 1993.

Figure I.4.1: Household consumption per inhabitant, in PPS



(1) old Länder, Source: Eurostat

The structure of the final consumption of households by main purpose

The eight main purposes provide a quick summary of the structural changes in the final consumption of households. These in turn are subdivided into individual purposes. In the following, however, only the main purposes are analysed.

Food, beverages and tobacco (Table I.4.2) still account for the bulk of the total consumption of households in the Union, the downward trend continued in 1993 together with rents and energy in 1993. For the Union as a whole, the proportion of consumption spent on food, beverages and tobacco was down some 2.1 points in 1993 on the average for the second half of the eighties.

In Luxembourg and Spain in 1993, the share of food, beverages and tobacco, fell more significantly than the European Union average compared with 1985-90; by 3.4% and 3.1% respectively.

Table I.4.2	Share of food, drink and tabacco as % of total consumption			
	1985-90	1991	1992	1993
EUR12	20,7	19,4	19,0	18,6
B	20,2	18,5	17,9	17,3
DK	22,1	21,1	21,3	20,7
D(1)	17,2	16,0	15,4	15,0
GR	38,6	37,4	36,3	36,4
E	23,2	21,0	20,3	20,1
F	19,5	18,9	18,4	18,3
IRL	36,8	35,5	35,6	34,8
I	22,6	20,2	19,9	20,1
L	21,2	18,6	18,2	17,8
NL	16,1	15,1	14,9	14,6
P	33,8	33,1	33,6	34,1
UK	22,6	21,6	21,4	20,7

(1) old Länder
Source: Eurostat

Against the overall trend, the share went up in by 0.3 percentage points (in Portugal).

Similar trends were recorded for expenditure on clothing and footwear (Table I.4.3). For the Union as a whole, the share accounted for by this component once again fell slightly in 1993 compared with the previous year (from 7.4 to 7.1). Although this confirms the downward trend, the pace is slower than for food, beverages and tobacco.

The structural shares accounted for by clothing and footwear were thus in line with the Union-wide trend in six of the twelve Member States, although the continued falls in Greece, France, Luxembourg and the United Kingdom were comparatively greater. Year-on-year comparisons show 1993 figures to be down in all Member States except Germany and Denmark, where they were stable, and Ireland where there was a rise.

Table I.4.3	Share of clothing and footware as % of total consumption			
	1985-90	1991	1992	1993
EUR12	7,8	7,6	7,4	7,1
B	7,7	8,0	7,8	7,6
DK	5,8	5,5	5,2	5,2
D(1)	7,5	7,4	7,2	7,2
GR	9,0	8,8	8,0	7,7
E	8,9	8,8	8,6	8,1
F	6,7	6,3	6,1	5,9
IRL	7,2	7,1	6,6	7,0
I	10,3	9,9	9,8	9,4
L	6,5	5,9	5,7	5,6
NL	7,2	7,2	6,9	6,7
P	9,8	9,5	9,5	9,4
UK	6,6	6,0	6,0	5,9

(1) old Länder
Source: Eurostat

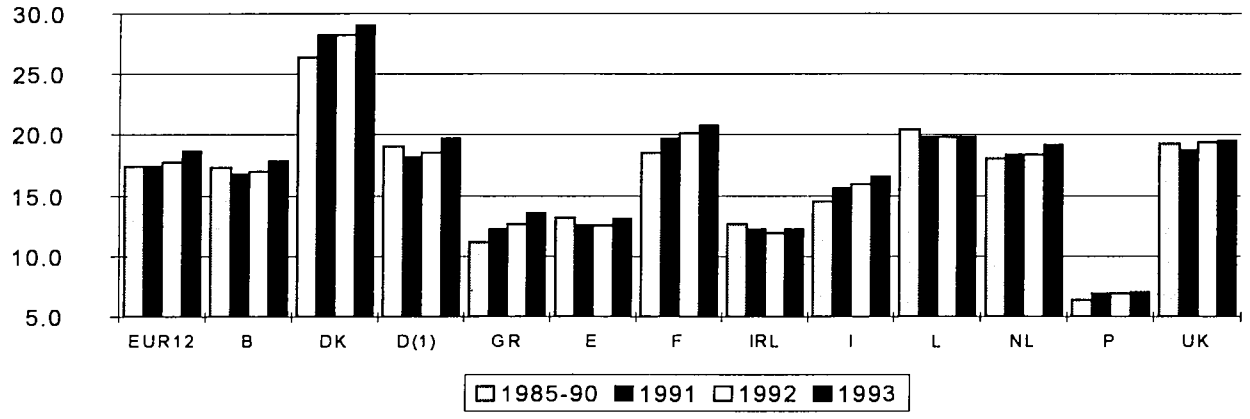
The year-on-year increase in the share of total consumption accounted for by gross rent, fuel and power (Table I.4.4, Fig. I.4.2) accelerated in 1993 in the Union after more moderate growth and stability in 1991 and 1992. At 18.6%, the 1993 figure is well up on the average for the second half of the eighties (17.5%).

Table I.4.4	Share of gross rent, fuel and power as % of total consumption			
	1985-90	1991	1992	1993
EUR12	17,5	17,5	17,8	18,6
B	17,3	16,8	17,0	17,9
DK	26,4	28,3	28,3	29,0
D(1)	19,1	18,2	18,5	19,7
GR	11,2	12,3	12,7	13,5
E	13,2	12,6	12,6	13,1
F	18,5	19,7	20,1	20,8
IRL	12,7	12,2	11,9	12,2
I	14,5	15,6	15,9	16,6
L	20,5	19,8	19,8	19,8
NL	18,1	18,4	18,4	19,2
P	6,4	7,0	7,0	7,1
UK	19,3	18,7	19,4	19,5

(1) old Länder
Source: Eurostat

Compared with the previous year, there was an above-average increase in the share of gross rent, fuel and power in 1993 in Germany and Belgium.

Figure I.4.2: Share of gross rent, fuel and power, as % of total consumption



(1) old Länder
Source: Eurostat

The only main purpose to have remained virtually unchanged throughout the Union as a proportion of total consumption is purchases of furniture and household articles (Table I.4.5).

Table I.4.5	Share of furniture and household articles, as % of total consumption			
	1985-90	1991	1992	1993
EUR12	7,9	8,0	7,9	7,8
B	10,5	10,9	10,7	10,4
DK	6,7	6,4	6,2	6,1
D[1]	8,1	8,4	8,5	8,5
GR	8,4	7,9	7,6	7,4
E	6,7	6,7	6,6	6,5
F	8,1	7,7	7,5	7,4
IRL	7,2	7,2	7,1	6,8
I	9,2	9,4	9,3	9,1
L	10,1	10,8	10,8	10,7
NL	7,0	7,2	7,0	6,9
P	8,6	8,6	8,6	8,6
UK	6,7	6,5	6,5	6,6

(1) old Länder
Source: Eurostat

Trends in this component do, however, differ markedly from one Member State to the next. Only in Greece, France and Denmark has there been a steady downward trend in this item. In Germany, the share are significantly higher than in the late 1980s which may reflect a need for household furnishings in the new Länder.

The Union-wide trend towards a structural increase in the share of consumption accounted for by health care (Table I.4.6) continued in 1993 - indeed, the pace accelerated. All countries showed increases in this component, the only exceptions being Germany, where there were slight falls, and in Denmark, where it remained constant.

Overall, the proportion of consumption accounted for by health care has also increased in the majority of countries, quite considerably in some cases, since the second half of the 1980s. There were particularly striking increases of more than 1 percentage point in Belgium, France and Italy. However, it was approximately stable in Luxembourg, and fell slightly in Portugal.

Table I.4.6	Share of health services in the as % of the total consumption			
	1985-90	1991	1992	1993
EUR12	8,0	8,4	8,7	9,1
B	10,9	11,5	11,9	12,3
DK	1,9	2,1	2,2	2,2
D[1]	14,5	14,5	15,0	14,9
GR	3,5	3,6	3,9	4,2
E	3,6	4,2	4,4	4,7
F	8,9	9,6	9,9	10,2
IRL	3,7	3,8	4,0	4,1
I	6,0	6,7	6,8	7,1
L	7,3	7,3	7,3	7,2
NL	12,7	12,9	13,0	13,1
P	4,9	4,8	4,7	4,6
UK	1,3	1,6	1,7	1,7

(1) old Länder
Source: Eurostat

Trends in the share of household consumption accounted for by transport and communications are much more varied (see Table I.4.7).

In the European Union as a whole, this item fluctuated around the 15% level, with the share in 1993 significantly lower on the year before and slightly lower on the second half of the 1980s.

In the majority of countries, this share rose in 1991 and 1992, but fell slightly in 1993.

Exceptions to this are: Luxembourg, where the share continued to rise in 1993; Denmark, where the share remained constant in 1993; and the United Kingdom, where it rose in 1993 compared with 1992. In Ireland, this share remained roughly constant over the period shown.

Table I.4.7	Share of transport and communication as % of total consumption			
	1985-90	1991	1992	1993
EUR12	15,0	15,2	15,2	14,8
B	12,5	13,1	13,3	12,9
DK	16,6	15,4	15,5	15,5
D(1)	14,9	16,5	16,2	15,5
GR	13,6	14,7	15,5	14,7
E	14,7	15,1	15,6	15,2
F	16,5	16,2	16,2	15,7
IRL	12,9	12,8	12,8	12,9
I	12,3	12,0	12,1	11,7
L	16,8	19,1	19,9	20,8
NL	12,6	12,6	13,0	12,7
P	15,3	14,4	13,6	12,9
UK	17,5	17,1	16,9	17,1

(1) old Länder
Source: Eurostat

In the European Union as a whole, the proportion of private household consumption accounted for by entertainment, recreation, education and culture (Table I.4.8) was almost unchanged in 1993 compared with the two previous years, and about 0.3 points higher than in the second half of the 1980s.

Table I.4.8	Share of recreation, entertainment, culture and education as % of total consumption			
	1985-90	1991	1992	1993
EUR12	8,4	8,6	8,6	8,7
B	6,5	6,5	6,3	6,3
DK	9,9	10,3	10,0	10,2
D(1)	9,1	9,2	9,3	9,2
GR	5,9	5,8	5,4	5,3
E	6,6	6,5	6,5	6,6
F	7,2	7,4	7,5	7,4
IRL	10,4	11,1	11,6	11,8
I	8,7	8,8	8,9	8,9
L	3,9	4,2	4,1	4,0
NL	10,2	10,5	10,2	10,2
P	5,9	6,8	7,1	7,5
UK	9,6	10,0	10,2	10,3

(1) old Länder
Source: Eurostat

The share of these items continued to grow in Ireland, Portugal and the United Kingdom. Falls occurred in Greece, while the values for other countries remained broadly stable.

The group 'Other goods and services' (Table I.4.9) comprises such disparate components as personal hygiene, hotels and restaurants, and package holidays.

Table I.4.9	Share of other goods and services as % of total consumption			
	1985-90	1991	1992	1993
EUR12	14,3	15,3	15,3	15,2
B	14,5	15,4	16,1	16,3
DK	10,6	11,0	11,2	11,1
D(1)	9,7	9,7	9,8	10,1
GR	9,8	9,9	10,5	10,9
E	23,2	25,1	25,4	25,8
F	13,5	14,1	14,3	14,2
IRL	9,1	10,4	10,5	10,3
I	16,4	17,3	17,2	17,3
L	13,7	14,3	14,2	14,1
NL	16,0	16,0	16,6	16,5
P	15,4	15,9	15,8	15,8
UK	16,4	18,5	18,1	18,2

(1) old Länder
Source: Eurostat

The share of this group in the EU tended to grow in the early 1990's compared with the late 1980's. This tendency was more marked in Spain and the United Kingdom. Compared with the previous year, the share was slightly lower in 1993 in Denmark, France, Ireland, Luxembourg and the Netherlands.

I.4.2 The private households as a saver

The savings habits of private households will be examined in this section using savings ratios. This form of measurement, namely the savings ratio, has the advantage that it is not influenced by exchange rate movements.

The savings ratio, calculated as the ratio of gross disposable income and gross savings, is shown in table I.4.10 for the nine countries for which data is available.

Savings ratios for the EU continued to fall, from 1980 to 1985, and from 1985 to 1990, so that it was 2 percentage points below that of 1980. However, the EU average recovered somewhat from its 1985 and 1990 values, but was still below the level in 1980. Within the EU average, there are significant differences between individual countries. Denmark had the lowest ratio in all the

years between 1980 and 1993. Between 1985 and 1987, this rate was even negative. This meant that expenditure was greater than income, thus needing to be financed from savings accumulated previously.

Table I.4.10	Saving ratios for the private households			
	1980	1985	1990	1993
EUR12	16,3	14,6	14,3	15,0
B	18,6	14,0	17,1	21,9
DK	7,0(1)	-1,0	5,8	10,0
D	11,9	10,6	12,8	12,3
E	11,1	11,3	10,6	12,6
F	17,7	14,2	12,7	14,4
I	26,9	26,0	24,8	22,8
NL	12,1	14,7	18,5	15,3
P	28,4	28,7	17,6	17,4(2)
UK	13,3	10,4	7,8	11,9

(1) 1981, (2) 1991
Source: Eurostat

Between 1980 and 1985, Portugal and Italy, alternated as the country with the highest saving ratio, out of the nine European countries shown above. However, from 1986, Italy consistently had the highest saving ratio.

In 1993, compared with 1980, savings ratios rose slightly in Belgium, Denmark, Germany, Spain and the Netherlands. This long term comparison shows that ratios edged higher in France and the United Kingdom in 1993 over 1980. The countries with the highest rates in the comparison, Italy and Portugal, had significant falls - from 26.9% in 1980 to 22.8% in 1993 for Italy, and from 28.4% in 1980 to 17.4% in 1991 for Portugal. Figures for Portugal only refers up to 1991, as data is unavailable after this year.

Between the years shown in the table, significant movements occurred in the savings ratios. Savings, which are the residual between income and consumption, can thus move substantially from year to year (both up and down).

I.5 General government in the Union

Definition of general government

The ESA states that "the general government sector includes all institutional units which are principally engaged in the production of non-market services intended for collective consumption and/or in the redistribution of national income and wealth. The principal resources of these units are derived directly or indirectly from compulsory payments made by units belonging to other sectors". It is divided into three sub-sectors: central government, local government and social security funds. Government institutions provide their services to the community free of charge or at a price (charge) which covers less than half of the production costs. Institutions are classified as public enterprises when they charge for their services at a rate which should normally cover more than half the costs. They are therefore not recorded in the sector general government but under corporate and quasi-corporate enterprises. The main difference between social security funds and insurance enterprises is that there is a statutory requirement for certain population groups to insure themselves with such funds against risks such as illness, old age or unemployment. In addition to the administration of social security funds, government institutions are typically responsible for areas such as public, administration, security and defence. However, its responsibility usually extends to education, public health, social welfare and sewage and waste water disposal if the revenue from sales (including charges) amounts to less than half of current revenue (as explained above). However, there may be considerable differences between the individual countries in the sectors to which these activities, particularly the last two, are allocated.

Valuation of general government

Since there are no market prices for the services general government usually provides free of charge, their value is determined, by agreement, on the basis of the production costs (compensation of employees, intermediate consumption, depreciation, and taxes on production), whereby it is assumed that neither profits nor losses are generated. If income from (incidental) sales (including user charges) and the value of own-account output of fixed capital goods are deducted from the production value, the result is general government consumption, the entire amount of which is, by agreement, entered under final consumption of gross domestic product, even though parts of public services are used by other producers and are actually intermediate consumption.

I.5.1 General governments revenues and expenditures

Within general government revenue and expenditure, a distinction is made between current and capital transactions. The latter results in a direct change in the assets of at least of one of the parties to the transaction (mostly the non-government sectors). Typical examples are inheritance tax or investment subsidies. It should also be noted that redistribution transactions between units of a sub-sector of general government have been consolidated, i.e. are not entered under either revenue or expenditure. However, this does not apply to taxes on production paid by government producers or to subsidies received by them. The EU's own resources are entered according to the ESA as direct payments to the rest of the world, and therefore the agricultural levies, the import duties and the VAT-own resources are not included under either revenue or expenditure of general government.

Taxes and social security contributions are the main sources of general government revenue. There are, however, others (as shown in table I.5.1).

Table I.5.1 General government revenue in the EU Member States in 1992 (excluding GR, L, P)

	Mrd ECU	%
Current taxes	1315	58,3
Actual social security contributions	751	33,3
Income from property and indemnity insurance payments	77	3,4
Other current transfers	69	3,1
Capital-forming revenue	44	1,9
Total revenue	2256	100,0

Source: Eurostat

Purely financial transactions, on the other hand, are not included as revenue in this sense. Examples of such transactions are income from borrowing, from issuing public loans or expenditure on repaying public loans.

The main item of general government expenditure is current transfers, such as payment of pensions and other assistance to private households, subsidies to producers, or development aid to the rest of the world. This is followed by compensation of employees working for general government (manual and non-manual workers, civil servants and military personnel). Imputed social security contributions (e.g. reserves for civil service pensions) are, in contrast to the usual practice elsewhere in national accounts, not included here. Purchases for intermediate consumption and in-

terest payments are also important (see table I.5.2 below):

Table I.5.2	General government expenditure in the EU Member States in 1992 (excluding GR, L, P, IRL)	
	Mrd EC	%
Current transfers	1 267	50,5
Compensation of employees	545	21,7
Income from property and net indemnity insurance premiums	276	11,0
Intermediate consumption	329	13,1
Gross fixed capital formation	154	6,1
Capital transfers	72	2,9
less: sales and own-account output of fixed capital goods	-136	-5,4
Total expenditure	2 507	100,0

Source: Eurostat

The difference between revenue and expenditure is the financial balance. If expenditure is greater, the financial deficit shows by how much the general government debt has increased over the period. The revenue and expenditure of general government as defined here refer primarily to actual payment transactions with other sectors. They differ from more comprehensive approaches in that:

- intra-sectoral transactions are consolidated
- no account is taken of depreciation
- no account is taken of imputed social security contributions.

These differences have exactly the same impact on revenue and expenditure, so that the financial balance is not affected.

The following points about difficulties with the data should be borne in mind when interpreting the data in the tables below and in comparing them with other sources: the results for 1993/1994 are mainly Eurostat estimates which may be substantially revised from 1991 onwards. The data for Germany also include the new *Länder* and East Berlin. In order to take account of the territorial increase, the figures and growth rates from that year on have been recalculated on the basis of the 1991 situation. The pre-1985 data for the Netherlands are not fully comparable with the revised data from 1985 on. The revised data for Portugal from 1986 on also include the Azores and Madeira. In comparisons over time, no adjustments have been made for the breaks in the time series resulting from these territorial changes.

I.5.2 General governments share in GDP

In the individual Member States of the EU there are considerable differences in the form and extent of general government involvement in economic activity. This is usually measured by means of the "general government share", i.e. general government expenditure as a percentage of gross domestic product. This is an artificial share, since expenditure also includes payments which are not components of GDP, e.g. transfers.

In the EU, general government expenditure in 1994 accounted for between 60% (Denmark) and about 40% (Ireland, Portugal and the United Kingdom) of GDP. It has long been observed that this "general government share" increases over time. If this is correct, general government expenditure (in %) should increase more rapidly than GDP, and the elasticity of such expenditure would be greater than 1. As Table I.5.3 shows, in the 1990s this has been the case mainly in Germany, Greece and Portugal, while in Ireland and Luxembourg, general government expenditure has been increasing at a lower rate than GDP.

Table I.5.3	General government expenditures												
	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	EUR 12
	% of GDP												
1980	54,7	52,9	45,7	25,4	31,5	42,7	48,6	38,9	49,9	53,0	33,9	39,4	42,5
1990	51,4	55,2	42,8	40,9	41,8	46,4	40,6	49,2	39,3	53,2	34,9	38,3	44,8
1991	52,1	55,7	45,7	38,4	43,4	47,5	41,9	49,6	39,3	53,6	34,4	39,6	46,1
1992	52,6	57,3	46,5	38,4	44,3	48,9	42,2	51,2	38,6	54,5	34,2	41,3	47,3
1993	54,2	59,4	50,4	44,7	44,2	51,3	39,6	52,5	37,9	55,0	40,5	41,1	49,3
1994	54,1	59,9	50,0	46,9	43,5	51,6	38,8	49,7	37,3	52,4	40,1	40,3	48,5
	1980 = 100												
1994	222,0	294,0	324,0	425,0	370,0	282,0	253,0	340,0	264,0	220,0	428,0	227,0	292,0
	Elasticity of general government expenditures with respect to GDP												
1980/94	1,00	1,01	1,01	1,04	1,02	1,01	0,98	1,02	0,98	1,00	1,01	1,00	1,01
1990/94	1,01	1,02	1,04	1,04	1,03	1,03	0,99	1,01	0,99	1,00	1,04	1,01	1,02

Source: Eurostat

Table I.5.4	General government consumption in % of GDP												
	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	EUR 12
1980	17,8	26,6	14,0	13,6	12,7	18,1	19,7	14,7	16,7	17,6	12,8	21,6	16,8
1990	14,4	25,3	12,1	17,3	16,6	18,0	15,1	17,4	13,5	14,5	14,8	20,6	16,5
1994	15,2	25,4	13,0	16,0	17,0	19,5	16,3	17,5	14,1	14,2	17,3	21,6	17,0

Source: Eurostat

I.5.3 General government as producer

General government produces administration, security, health-care, education and similar services which are provided free of charge to the community. In national accounts the value of these services is measured on the basis of the production costs (minus purchases and gross fixed capital formation produced on own account) and recorded as general government consumption under uses of GDP.

In the EU, 17% of GDP was used for general government consumption in 1994 (see table I.5.4). Among the Member States, Denmark produced the largest share of public services from GDP, about 25%, while this figure was relatively low in Germany, 13%, Luxembourg, 14.1%, and the Netherlands, 14.2%. However, these differences are to some extent due to the way in which social health-care services are recorded.

In Denmark, the United Kingdom and Ireland these services are financed from the general public sector budget and are therefore included in general government consumption, while in the other countries it is the social security funds which finance the (imputed) expenditure of private households, so that these health-care services are recorded as private consumption.

I.5.4 General government as employer

In all economies, general government is one of the main employers. Many people earn their living as civil servants, as public-sector manual and non-manual workers or as military personnel (see table I.5.5).

In the European Union, 17% of all employed or self-employed persons work in the public sector. The percentage is particularly high in Denmark, at 32% and relatively small in Greece, just over 11%, and Luxembourg, just under 11%.

About a quarter of general government expenditure in the twelve EU countries was spent on wages and salaries, which also include actual contributions to social security funds. Table I.5.6 shows that this proportion has decreased somewhat over time, as transfers by general government have increased disproportionately.

I.5.5 General government as purchaser

In order to perform its functions, not only as producer of public services but also as provider of public infrastructure facilities (such as the road network), general government must use substantial quantities of goods and services as intermediate consumption or as capital goods, which it usually purchases in the market (see table 1.5.6).

In the ten EU countries with data on general government purchases of goods and services, such purchases accounted for just under 20% of general government expenditure in 1994. The figure is particularly high in the United Kingdom, at 35%. General government is therefore a significant customer of market producers, especially those in the construction branches.

Table I.5.5	Employees of general government												
	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	EUR 12
	% of total employment												
1980	18,9	28,4	14,6	7,8	10,9	20,0	14,4	14,6	10,8	14,9	9,1	21,3	16;5
1990	19,8	30,5	15,1	11,4	15,0	22,2	14,0	15,7	11,2	-	11,1	19,8	16,9
1991	19,4	30,0	15,9	11,7	15,5	22,3	14,1	15,7	10,8	-	11,3	19,9	17,0
1992	19,6	31,2	16,1	11,2	15,9	22,6	14,1	15,9	11,0	-	11,5	19,4	17,1
1993	19,9	32,0	16,1	11,3	16,5	23,0	14,2	16,4	10,8	-	12,0	17,2	17,0
	1980 = 100												
1993	104	116	107	155	162	116	97	114	129	-	137	80	111

Source: Eurostat

Table I.5.6	Selected expenditures of the general government, % of total expenditures of the general government												
	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	EUR 12
	Compensation of employees 1)												
1980	25,0	35,1	24,1	37,4	31,2	32,3	25,6	28,4	23,4	24,2	30,1	34,2	28,9
1990	21,8	33,3	22,7	29,7	26,6	28,5	24,9	25,9	24,3	18,4	32,6	32,5	26,4
1994	22,6	29,7	20,5	21,6	27,3	27,7	28,4	24,6	25,9	18,5	33,9	30,3	24,7
	Purchases of goods and services 2)												
1980	14,4	23,9	18,6	-	16,1	21,3	-	18,2	20,3	18,9	20,7	29,8	20,8
1990	8,8	19,1	16,4	-	22,3	20,5	-	16,5	16,9	24,1	20,2	30,5	20,0
1994	8,1	19,1	15,9	-	22,3	19,6	-	15,0	21,2	24,2	16,9	32,8	19,6
	Current transfers to private households												
1980	43,3	30,5	50,7	30,2	40,4	44,9	25,4	36,3	45,6	48,0	25,2	27,3	41,7
1990	44,5	31,6	50,5	31,0	34,5	45,8	34,4	37,0	46,4	48,5	28,1	29,3	41,3
1994	46,5	32,9	53,0	27,0	38,0	45,2	39,5	40,0	52,8	50,6	26,2	30,1	44,8

(1) withut imputed social contributions
(2) intermediate consumption and gross fixed capital fomation of the general government
Source: Eurostat

I.5.6 General government as redistributor

General government is unique in that it finances itself through compulsory payments (taxes and social security contributions) but, on the other hand, spends a large part of its revenue, without receiving anything specific in return, on those in need (the sick, the unemployed, etc.) or to recipients of old age pensions. This redistributive function of general government reflects its social function, particularly in relation to private households.

In 1994 current transfers by general government to private households in the Union accounted for about 45% of general government expenditure, with a moderate upward trend in recent years (see Table I.5.6). The proportion is highest in Germany, at 53%, and lowest in Portugal, at 26%, and Greece, at 27%. It is often not so much the need of the people concerned as the performance of the economy which determines the extent to which general government performs this social function. The low percentages for Denmark (33%) and the United Kingdom (36%) are connected with the above-mentioned recording of social health-care services.

I.5.7 Financing of general government

The general government in principal should not spend more than it receives. As Table I.5.7 shows, this requirement is not often met in the EU. In 1994, general government revenue from taxes, social security contributions, charges etc. covered only 91.2% of expenditure, the shortfall being made up by additional borrowing. Luxembourg is the only EU country where revenue is higher than expenditure.

The way in which government expenditure is financed is largely determined by the way in which social benefits are financed. In Denmark,

Table I.5.7	General government receipts												
	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	EUR 12
	% of the expenditures												
1980	83,0	93,9	93,7	99,8	58,6	100,0	77,4	78,1	99,3	92,6	114,3	92,0	92,1
1990	88,5	97,3	95,2	70,5	90,2	96,7	94,7	77,8	110,6	90,4	95,5	96,5	91,1
1994	93,2	97,3	95,0	76,3	94,6	88,7	98,6	83,8	116,3	98,7	83,3	90,2	91,2
	Tax receipts, % of the General government receipts												
1980	66,3	88,5	58,7	62,0	47,9	54,5	75,0	60,6	64,2	54,5	46,9	79,8	61,6
1990	62,4	86,3	55,9	65,1	58,8	52,5	76,4	65,9	66,9	55,9	64,9	76,1	61,4
1994	60,5	79,3	51,6	59,1	54,8	53,3	81,2	64,8	69,1	52,2	69,0	76,7	58,7
	Social contributions, % of the General government receipts												
1980	29,8	1,7	36,5	29,5	41,4	41,7	13,7	37,8	27,4	36,3	19,8	17,6	33,5
1990	33,9	2,9	38,7	30,1	32,3	43,0	14,4	33,7	26,5	35,4	26,7	18,0	33,5
1994	31,5	5,7	40,5	36,2	31,6	42,6	13,9	31,7	26,0	39,7	26,9	17,3	34,5

Source: Eurostat

Table I.5.8	Selected taxes, % of the total tax receipts of general government, 1993												
	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	EUR 12
Value added tax	22,4	19,5	26,4	-	-	28,2	22,1	17,7	-	21,8	-	25,1	-
Other taxes linked to production	17,5	15,7	24,5	-	-	30,6	27,5	23,7	-	19,1	-	26,7	-
Current taxes on income and wealth	58,9	64,1	48,7	-	-	39,2	50,0	56,1	-	58,4	-	47,4	-

Source: Eurostat

Ireland and the United Kingdom, they are largely financed from tax revenue, so that the share of social security contributions in revenue is correspondingly small (5.7%, 13.9% and 17.3% respectively in 1994), and tax revenue accounts for a correspondingly higher proportion. In 1994 just under 60% of general government revenue in the EU came from taxes, except in the three above-mentioned countries, where the figures were higher.

Within the EU, however, there are also considerable differences in the form of taxation. Although the main tax source in all Member States is direct taxes on income and property, the differences are considerable, ranging from only 39.2% of total tax revenue in France in 1993 to 64.1% in Denmark (see Table I.5.8).

Value added tax is the main indirect tax, accounting for just under 20% of total tax revenue in Italy and Denmark in 1992 and for considerably higher proportions in France (28.7%), Germany (26.4%) and the United Kingdom (25.1%).It should be noted that other forms of EU own revenue, are not included in either the revenue or expenditure of general government.

The burden placed on the economy by payments to general government is illustrated by the ratio of general government revenue to GDP (see table I.5.9). In 1993 it was 44.2% in the EU. Denmark (54.9%) and the Netherlands (51.7%) were above this average, while Portugal (31.5%), Greece (34.7%) and the United Kingdom (36.0%) werebelow it. The differences were even more marked in the absolute per capita figures. In 1993, general government received about ECU 7 000 per capita in the European Union. The figure was relatively low in Portugal (ECU 2 300 per capita) and extremely high in Denmark (ECU 12 200).

Table I.5.7 shows the extent to which government expenditure is covered by "normal" revenue (excluding erratic contributions such as privatisation proceeds). A further indicator of the burden placed on an economy by public net borrowing is the financial balance of general government as a percentage of GDP.

Table I.5.10 shows the considerable differences within the Union. The data shown in the table are for the sector accounts. They have been taken from the Protocol on excessive deficit procedures (article 109j of the Treaty establishing the European Community, prepared following the Council regulation no. 3605/93).

This data show that Luxembourg enjoys the most favourable situation, in that it has constantly achieved a net surplus, which in the period 1990-1994 was on average 2.5% of the country's GDP. Greece and Italy are at the other end of the scale with deficits of 12.1% and 9.8%, respectively, of GDP in the same period.

Table I.5.9	General government receipts												
	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	EUR 12
	% of GDP												
1980	45,4	49,6	42,8	25,4	28,8	42,7	37,6	30,3	49,2	49,1	38,8	36,2	39,2
1990	45,5	53,7	40,8	28,9	37,7	44,8	38,5	38,3	43,6	48,0	33,4	37,0	40,8
1993	49,4	54,9	47,1	34,7	41,8	45,5	38,7	43,0	44,3	51,7	31,5	36,0	44,2
	in ECU per inhabitant												
1980	3900	4600	4100	900	1200	3800	1500	1800	4500	4300	800	2500	2800
1990	6900	10600	7600	1800	3800	7500	3900	5700	9500	7200	1800	5000	5900
1993	8800	12200	9500	2600	4400	8500	4400	6300	11900	8900	2300	5000	7000

Source: Eurostat

Table I.5.10	Government deficit and debt											
	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK
	Government deficit (-) /surplus (+), % of the GDP											
1990	-5,4	-1,5	-2,1	-13,8	-4,1	-1,6	-2,2	-10,9	5,8	-5,1	-5,3	-1,5
1991	-6,7	-2,1	-3,3	-11,4	-4,9	-2,2	-2,2	-10,2	1,9	-2,9	-6,4	-2,6
1992	-7,1	-2,9	-2,9	-11,7	-4,1	-4,0	-2,4	-9,5	0,8	-3,9	-3,3	-6,3
1993	-6,7	-4,5	-3,3	-12,1	-7,4	-6,1	-2,4	-9,6	1,8	-3,2	-7,1	-7,8
1994	-5,3	-3,8	-2,5	-11,4	-6,6	-6,0	-2,1	-9,0	2,2	-3,2	-5,8	-6,8
1990/94 1)	-6,2	-3,0	-2,8	-12,1	-5,4	-4,0	-2,3	-9,8	2,5	-3,7	-5,6	-5,0
	Government debt, % of the GDP 2)											
1990	131,0	-	43,8	82,6	45,1	35,4	96,8	97,9	5,4	78,8	67,7	35,4
1991	130,3	64,6	41,5	85,4	45,8	35,8	97,5	101,3	4,1	78,8	70,2	35,7
1992	131,1	69,0	44,1	91,6	48,4	39,6	95,0	108,4	5,1	79,6	62,4	41,9
1993	137,5	80,3	48,2	114,5	60,4	45,3	98,0	119,4	6,3	81,3	67,2	48,5
1994	135,0	75,6	50,2	113,0	63,0	48,4	91,7	125,4	6,1	78,0	69,4	50,3

1) Average of the period 2) Debt held by non-public institutions at the end of the year
Source: Eurostat

On average only Luxembourg, Ireland, Germany and Denmark have been below or at the 3% limit over the last five years. However, Denmark exceeded the limit in 1993 and 1994.

Table I.5.10 shows general government debt at the end of the year as a percentage of GDP. Debts between government institutions are not included. With 135% in 1994, Belgium has the highest government debt. This means that the total GDP of a particular year would, in accounting terms, be insufficient to pay off the government debt in full.

The government debt is also high in Italy (125.4% of GDP) and Greece (113%). It is not surprising, given the positive financial balances, that the most favourable situation is in Luxembourg. In 1994 only Luxembourg, the United Kingdom, France and Germany were below the 60% limit of general government debt in relation to GDP.

I.6 The labour market in the Union

I.6.1 Population

Table I.6.1	Population change (cumulated growth rates)														
	B	DK	D[1]	GR	E	F	IRL	I	L	NL	P	UK	EUR12	USA	JAP
70/75	1,5	2,7	0,6	2,9	4,8	3,8	7,7	3,3	6,2	4,8	4,6	1,0	2,6	5,3	7,5
75/80	0,5	1,3	-0,5	6,6	5,3	2,2	7,1	1,8	1,1	3,5	7,4	0,2	1,8	5,5	4,7
80/85	0,1	-0,2	-0,8	3,0	3,0	2,4	4,1	1,3	0,5	2,4	1,4	0,5	1,1	5,1	3,4
85/90	1,1	0,5	2,4	1,6	1,2	2,8	-0,1	-0,7	3,5	3,2	-1,0	1,4	1,5	4,4	2,3
90/93	1,3	1,1	2,2	3,0	0,5	1,9	1,9	0,7	5,5	2,6	0,7	1,5	1,6	4,3	1,0
70/93	4,7	5,4	4,1	18,2	15,6	13,8	21,1	6,5	17,9	17,7	13,5	4,8	8,8	27,1	20,3

(1)German Democratic Republic included *Source: Eurostat, OECD, Council of Europe*

At the beginning of 1994, the population of the 12 Member States of the EU amounted to 348.6 million. This is about 90% of the combined populations of the US (260.6 million) and Japan (124.8 million). Of the EU Member States, Germany had the largest number of inhabitants (81.3 million) followed by the UK, France and Italy (all three just below 60 million).

In 1993, the population of the EU increased by 0.37%. A comparison of this figure with those of Japan (0.12%) and the US (1.18%) reveals the difference in growth. Table I.6.1 shows the cumulated growth rates for the period 1970-1993. While the relative increase in the US fell only slightly during those 23 years, the growth rate in Japan declined dramatically. In the EU the growth rates used to be relatively low, but started to rise again in the mid-eighties, due to increasing immigration.

Within the EU, the population has grown by 8.8% in the last two-and-a half decades. The increase was less than 5% in Germany, Belgium and the UK. In Ireland however, a population growth of more than 20% was recorded.

The relative weight of the elements contributing to population growth differed between the three economic areas in 1992 (see table I.6.2). The US had a high rate of natural increase (births minus deaths). In Japan and the EU this rate was much lower. In both the EU and the US, net migration (immigration minus emigration) was an important factor. In the EU it caused no less than 70% of the total population growth in 1992. In Japan almost 90% of the population growth in 1992 was caused by natural increase; thus net migration is of little importance.

Within the EU Germany had the highest level of net migration in 1992, amounting to almost two-thirds of the total EU-figure of 1216 thousand net migrants.

Table I.6.2	Components of population change 1992, %		
	EUR12	USA	JAP
Natural increase	0,150	0,746	0,283
+ Net migration	0,352	0,310	0,039
= Population change	0,502	1,057	0,323

Source: Eurostat, OECD

When we relate the number of inhabitants to the surface of the three economic areas (see table I.6.3), Japan appears to be the most densely populated. Its surface (377.8 thousand km²) is much smaller than that of the EU (2362.8) and the US (9363.5).

Table I.6.3	Population density, 1994 (inhabitants/km²)
B	331
DK	121
D	228
GR	79
E	78
F	106
IRL	51
I	190
L	155
NL	376
P	107
UK	239
EUR12	148
USA	28
JAP	330

Source: Eurostat

Within the EU there is a wide variation in population density. The Netherlands and Belgium have the highest densities. It is to note that the most sparsely populated EU-country, Ireland, is still inhabited by twice as many people per km² as the US.

In table I.6.4 the population is split into several age-groups. In all three areas the proportion of young persons (0-14) has declined in the last 20 years. During that period the share of this group has remained much higher in the US than in the EU or Japan.

Table I.6.4	Population by major age-groups, %									
	0 - 14		15-64		65+		65+/15-64		65+ and 0-14/15-64	
	1972	1993	1972	1993	1972	1993	1972	1993	1972	1993
EUR12[1]	24,7	17,7	63,6	67,2	11,7	15,0	18,4	22,3	57,2	48,7
USA	27,2	21,9	62,8	65,5	10,0	12,6	15,9	19,2	59,2	52,7
JAP	24,0	17,3	68,6	69,7	7,4	13,0	10,8	18,7	45,8	43,4

(1) German Democratic Republic included *Source: Eurostat, OECD*

In the EU, Ireland has the highest proportion of children (32% in 1972 and 26% in 1993). The proportion of elderly people (65+) increased considerably, especially in Japan. The ageing index (65+/15-64) was higher in the EU than in Japan and the US. Of the EU Member States the highest index was recorded for the UK (24.2% in 1993).

The dependency ratio is difficult to calculate for the Union as the age of entry and exit from the labour market varies by country. For this comparison the ages used are 0 to 14 and 65 plus, with the working population aged between 15-64. The dependency ratio of all three areas dropped in the last twenty years, with the EU being most affected. In Japan the fall in the share of children in the population was almost offset by a rise in that of the elderly.

The share of women in the total population shows little difference between the three areas (see table I.6.5). In total, and particularly among the elderly, there are more women than men. In the youngest age-group men are in the majority, as they are at birth.

Table I.6.5	Population by sex, 1992 (females as % of the total population)			
	0-14	15-64	65+	Total
EUR12[1]	48,7	49,7	61,0	51,2
USA	48,8	50,2	59,7	51,1
JAP	48,7	49,9	59,4	50,9

(1)German Democratic Republic included
Source: Eurostat, OECD

I.6.2 Employment

In this sub-section, employment will be discussed in terms of persons in employment. This includes employers, the self-employed, relations working in family firms and employees.

In 1994, for the third consecutive year, the number of people employed in the Union fell. Table 1.1.6 shows that in the United States there was a fairly significant improvement in employment, up 3.1%, whereas the situation in Japan was stable. Since 1990, the greatest increase in employment has been in Japan, up 5.4%, while in the United States the number of jobs has risen by 4.1%. In the EU, however, employment declined by 0.3%.

The five-year trend, however, shows that the situation in the Union has improved since 1992: the drop in employment is slowing down. In Japan, the growth in employment of the early nineties has ended; compared with 1993 no additional people were at work in 1994. Employment trends in the United States are even better. After a decrease in 1991, employment levels have steadily risen. This reflects, in-part, the stage of the economic cycle in the US, Japan and the EU.

There were major differences among the EU-countries in 1994 (see table I.6.7); employment growth was highest in Greece, at almost 2%, while the largest fall was in Italy, at 1.5%.

Table I.6.6	Annual employment growth rates		
	EUR12	USA	JAP
1990	2,5	0,4	2,0
1991	0,2	-1,4	1,9
1992	-1,5	0,6	1,1
1993	-1,3	1,4	0,2
1994	-0,4	3,1	0,0

Note: The figures for Germany refer to Germany after Unification from 1991. For 1994 there were no figures available for Luxembourg, Ireland and Denmark.
Source: Eurostat, OECD

In the majority of the Member States, recent trends have been similar to that of the EU as a whole: the relatively high employment growth in 1990 was followed by a decrease in 1992, which has decelerated in recent years. Exceptions are France, the Netherlands and Denmark. Denmark's most pronounced decrease in employment was in 1993. (The 1994 figures for Denmark are not yet available).

Another exception to the general trend is the employment situation in the Netherlands. Here trends have been consistently positive and above the EU-average. This may be partly due to the increase of part-time employment.

Table I.6.7	Annual employment growth rates - EU-Member states												
	B	DK	D[1]	GR	E	F	IRL	I	L	NL	P	UK	EUR12
1990	1,1	1,0	5,8	1,3	2,9	0,6	3,6	2,0	2,4	4,1	1,8	0,9	2,5
1991	2,6	-0,8	0,8	-2,3	0,6	1,1	-0,1	1,4	3,3	2,3	4,1	-2,1	0,2
1992	1,4	0,1	-1,3	1,3	-1,3	-0,4	1,3	-4,2	1,5	3,0	-6,8	-1,7	-1,5
1993	-0,7	-2,6	-1,1	1,0	-4,7	-0,5	0,5	-1,4	0,0	0,4	-1,0	-1,1	-1,3
1994	0,1	-	-0,8	1,9	-1,2	-0,9	-	-1,5	-	1,0	-0,5	0,7	-0,4
1989-1994[2]	4,5	-2,4	3,3	3,1	-3,8	-0,1	5,3	-3,8	7,2	11,2	-2,8	-3,4	-0,3

(1) The figures for Germany refer to Germany after the unification, except for the 1989 and 1990 figures.
(2) For 1994 there were no figures available for Luxembourg, Ireland and Denmark. For these countries the 1989-1993 changes are shown. Source: Eurostat

Employment by activity

As regards the proportion of people working in agriculture, industry and services, the employment structures in Japan and the EU appears to be very similar (see table I.6.8). In both economies 5-6% of the economically active work in agriculture, while almost a third have a job in industry. The majority of the workforce (over 60%) work in the services sector. Services provide substantially more work in the United States than in the other two economies. Almost three quarters of the workforce are employed in the services sector. Thus, industry and agriculture have a relatively small role.

Table I.6.8	Employment by activity					
	Shares in 1994			Percentage changes 1989 - 1994		
	EUR12	USA	JAP	EUR12	USA	JAP
Agriculture	5,4	2,9	5,8	-23,3	6,2	-19,2
Industry	30,7	23,7	34,0	-9,1	-5,6	4,7
Services	63,6	73,4	60,2	7,3	7,6	8,8
Total	100,0	100,0	100,0	-0,3	4,1	5,3

Notes: The figures for Germany refer to Germany after unification, from 1991. For 1994 there were no figures available for Luxembourg, Ireland and Denmark.
Source: Eurostat, OECD

Employment in agriculture fell by an annual average of 5% in the EU and 4% in Japan. Rather surprisingly the number of persons employed in agriculture in the United States rose significantly up 6% between 1989-1994. This is not in line with the trend in other economies. This increase took place entirely in 1994.

In all three economies, there were more people working in the services sector in 1994 than in 1989. The 1994 changes were in line with the trend of a fairly steady growth in employment in services apparent over the last five years.

The most notable difference between the Union and Japan concerns the trend in the number of jobs. Between 1989 and 1994 the number fell by more than 9% in the European Union, while it continued to increase by almost 5% in Japan. However, the figures for 1993 and 1994 show that the role of industry in Japan as a job creator ended. Between 1992 and 1994 the number of persons employed in industry fell by more than 1%.

To illustrate the enormous variety among EU-countries regarding employment structure, table I.6.9 shows the employment shares of the three main sectors of activity. For instance, in the United Kingdom one out of every 48 workers is employed in agriculture, while the proportion is ten times higher in Greece. Agriculture still accounts for a substantial number of jobs in the southern Member States and Ireland in particular.

The countries with the largest and smallest share of employment in manufacturing are Germany, at 38%, and its neighbour the Netherlands, at 23%.

Table I.6.9	Employment by activity, Shares in 1994												
	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	EUR12
Agriculture	2,9	5,1	3,5	20,8	9,9	5,2	13,1	7,7	3,2	3,9	11,8	2,1	5,4
Industry	28,9	26,0	37,9	23,6	30,1	26,8	27,1	32,1	26,3	22,8	32,5	27,6	30,7
Services	68,2	68,5	58,6	55,6	60,0	67,9	59,5	60,2	70,0	71,2	55,7	69,7	63,7
not specified	-	0,4	-	-	-	0,1	0,3	-	0,5	2,1	-	0,6	0,2
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
	Employment by activity, Percentage changes 1989-1994												
Agriculture	-9,4	-11,9	-26,8	-15,3	-27,5	-25,0	-10,6	-18,9	-9,5	-8,4	-40,7	-10,0	-23,3
Industry	-3,9	-6,6	-5,3	-5,4	-11,4	-11,0	-0,5	-3,5	-3,5	-4,4	-8,8	-17,7	-9,1
Services	9,3	0,5	12,0	17,2	6,5	8,7	12,9	-1,6	12,1	15,9	17,9	4,1	7,3
Total	4,5	-2,4	3,3	3,1	-3,8	-0,1	5,3	-3,8	7,2	11,2	-2,8	-3,4	-0,3

Notes: The figures for Germany refer to Germany after unification, since 1991. For 1994 there were no figures available for Luxembourg, Ireland and Denmark. For these countries the 1993 shares and the 1989-1993 changes are shown.
Source: Eurostat

In the Netherlands no less than 71% of the working population are employed in the services sector. It should be noted however that this is less than in the United States. In Greece and Portugal, services only account for just over half of the jobs.

The general trend in the past five years concerning employment was practical the same across the European Union. Since 1989, the number of persons employed in agriculture and industry fell in all countries. In contrast, the number of persons employed in the services sector rose in all EU-countries except Italy.

The speed of change in the division of labour varied considerably from country to country. The decline in agricultural employment was more than 25% in Germany, Spain and France. At the same time, industrial employment also fell significantly, by 11%, in Spain and France. However, the largest fall in industrial employment took place in the United Kingdom, almost 4% per year. As regards employment in the services sector, it should be noted that the countries where services are relatively least important, Greece and Portugal, showed by far the fastest growth in the 1989-1994 period. At the same time, third place regarding growth in employment in the services sector was the country with the highest share of employment in this activity, the Netherlands (see table I.6.10).

I.6.3 Unemployment

In 1994, unemployment in the European Union increased by 8.5%. This growth rate was lower than in 1993, at 15%. In Japan, unemployment growth remained quite high, albeit from a much lower level. In the US, unemployment decreased by 8.4%. There, the number of jobless has been falling since 1993, after sharp rises in 1991 and 1992 (see table I.6.10).

Within the Union, developments differed quite a lot among the Member States. The unemployment level in the United Kingdom fell by more than 6% in 1994. In most other countries the level increased more than the average. Unemployment rose fastest, by over 20%, in Belgium and Portugal.

Spain and Germany accounted for two fifths of EU unemployment in 1994. The share of France in total unemployment was just below 18%, while both Italy and the UK accounted for some 15% of the EU's unemployed. Almost 90% of all the unemployed in the EU lived in one of these five countries (compared with 84% of all persons).

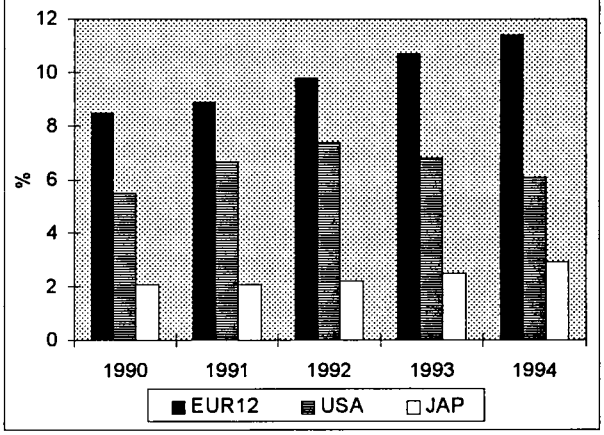
Table I.6.10	Annual growth rate of the number of unemployed, %		
	EUR12	USA	JAP
1991	8,9	22,6	1,3
1992	6,7	11,4	4,6
1993	15,1	-6,9	16,5
1994	8,5	-8,4	15,9

Source: Eurostat, OECD

Although the growth of unemployment in the Union slowed down, the number of unemployed still increased faster than the total labour force. Therefore, the unemployment rate in the EU continued to rise, reaching no less than 11.4% in 1994 (see graph I.6.1). Unemployment in Japan remained relatively low, despite recent increases. The US rate fell to 6.1% in 1994. In each region, the 1994 rates exceeded those of 1990.

Within the Union, unemployment rates only fell in Denmark, Ireland and the United Kingdom in 1994. The Spanish, French and Irish unemployment rates were above the European average, the Spanish rate being more than twice the average. Luxembourg had the lowest unemployment rate in the Union, at 3.5%.

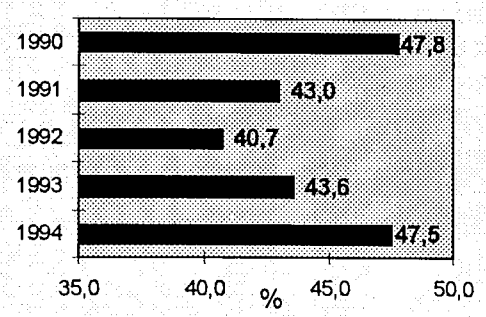
Figure I.6.1: Unemployment, % of total labour force



Source: Eurostat, OECD

Long-term unemployment in the EU

Unemployment lasting over a year as percentage of total unemployment



Source: Eurostat

From 1990 through 1992 the growth of the unemployment rate in the Union coincided with a relative fall in long-term unemployment. This growth in unemployment resulted in a rise in 1993 of the proportion of the unemployed who had not worked for over a year, reversing the earlier trend.

In 1994, more than a quarter of the total number of unemployed in the Union consisted of young peopie between 16 and 24 years of age (see table I.6.11). This proportion was slightly higher than in Japan, but lower than in the US.

Table I.6.11	Youth unemployment (16-24 years) as percentage of total unemployment		
	EUR12	USA	JAP[1]
1990	34,2	34,5	26,9
1991	32,6	32,8	28,7
1992	30,4	30,9	27,5
1993	29,4	31,1	27,7
1994	27,6	33,7	25,5

(1) for Japan: 15-24 years
Source: Eurostat, OECD

In the EU, this share has fallen steadily since 1990, so that in 1994 it was 20% lower than in 1990. In the US, it fell in 1991 and 1992, but increased in 1993 and 1994, so that the 1994 proportion of young people almost equalled the 1990 figure. In 1994, Japan, like the EU, showed a decrease in the proportion of young people in total unemployment. But the level in 1994 was not much lower than that of 1990.

The decline of the share of young people in total unemployment in Europe and Japan was not caused by a decrease in youth unemployment itself: the youth unemployment rate increased in Europe and Japan. The falling share was mainly due to the fact that unemployment rose fastest amongst people aged 25 years and over. The US showed the opposite development. The youth unemployment rate went down, but the share of young people in the total number of jobless increased. Here the reduction in unemployment was fastest among adults.

The share of young people in the total number of unemployed was highest in Italy and Greece (almost 40%) and lowest in Germany (13%).

Unemployment in the EU by occupation

last occupation of unemployed persons in the EU in 1993 as percentage of total EU-unemployment

Occupation	%
Armed forces	0,1
Legislators, senior officials and managers	2,1
Professionals	2,5
Technicians and associate professionals	4,2
Clerks	6,5
Service workers and shop and market sales workers	8,3
Skilled agricultural and fishery workers	1,7
Craft and related trades workers	12,4
Plant and machine operators and assemblers	6,2
Elementary occupations	12,6
None	43,4

Source: Eurostat

Four out of ten unemployed in the Union in 1993 did not have any previous working experience. 40% of those who did have a job before, consisted of craft and related trades workers and people with elementary occupations. As these occupations account for about 25% of the total number of jobs, the chances of these people returning to their professions are less than the average.

In the Union, the proportion of women in the total number of jobless was close to 50% in 1994. Table I.6.12 shows that this share was lower in the US and Japan. In the EU, the share has fallen markedly since 1990, whereas in the US and Japan the 1994 proportion was more or less comparable to that of 1990.

A comparison of the number of unemployed women with the total number of women in the labour force shows the opposite picture. The unemployed rate of women increased in the European Union and Japan, whereas it decreased in the US. This can be explained by the fact that in the EU and Japan unemployment rose faster for men than for women. In the US, male unemployment benefited more from the decrease in the unemployment level.

Greece had the highest share of women amongst its unemployed: 50% in 1994. This share was smallest in the UK (34%) and Ireland (37%).

To conclude, both the level and the rate of unemployment in the Union increased in 1994. This concerned adults and men in particular. In the US unemployment fell, while in Japan it rose even faster than in the EU. The unemployment rate of the Union remained by far the highest of the three main OECD-regions.

Table I.6.12	Female unemployment as percentage of total unemployment		
	EUR12	USA	JAP
1990	52,7	44,7	42,4
1991	51,3	42,8	43,2
1992	50,0	42,7	42,3
1993	47,6	43,5	42,8
1994	47,7	45,4	41,5

Source: Eurostat, OECD

I.7 Prices, conversion rates and interest rates in the Union

I.7.1 Consumer prices

Table I.7.1	The cost of living price index - 1985 = 100											
	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	94/93(%)
B	71,2	100,0	101,3	102,9	104,1	107,3	111,0	114,6	117,4	120,6	123,5	2,4
DK	68,3	100,0	103,7	107,8	112,7	118,1	121,2	124,1	126,7	128,3	130,9	2,0
D	82,6	100,0	99,9	100,1	101,4	104,2	107,0	110,7	115,1	119,9	123,5	3,0
GR	39,1	100,0	123,1	143,2	162,6	184,9	222,6	266,0	308,1	352,6	391,1	10,9
E	56,7	100,0	108,8	114,5	120,0	128,2	136,8	145,0	153,5	160,6	168,1	4,7
F	63,3	100,0	102,7	105,9	108,7	112,7	116,5	120,2	123,0	125,6	127,8	1,7
IRL	56,1	100,0	103,8	107,1	109,4	113,9	117,6	121,3	125,1	126,9	129,8	2,3
I	52,5	100,0	105,9	110,9	116,5	123,8	131,8	140,0	147,3	153,8	160,0	4,0
L	70,3	100,0	100,3	100,2	101,7	105,1	109,0	112,4	115,9	120,1	122,7	2,2
NL	81,8	100,0	100,2	99,8	100,7	101,7	104,2	108,3	111,7	114,6	117,8	2,8
P	35,2	100,0	111,7	122,2	133,9	151,0	170,9	189,6	206,7	220,0	231,5	5,2
UK	70,7	100,0	103,4	107,7	113,0	121,8	133,3	141,1	146,4	148,7	152,4	2,5
EUR12	65,3	100,0	103,5	106,9	110,7	116,3	122,9	129,1	134,5	139,1	143,5	3,2
USA	76,6	100,0	101,9	105,7	110,0	115,3	121,5	126,6	130,5	134,3	137,8	2,6
JAP	87,3	100,0	100,7	100,7	101,4	103,7	106,9	110,4	112,3	113,8	114,6	0,7

Source: Eurostat

For both the European Union and the Member States, the fight against inflation is currently one of the main concerns of economic policy.

Trends in the overall index

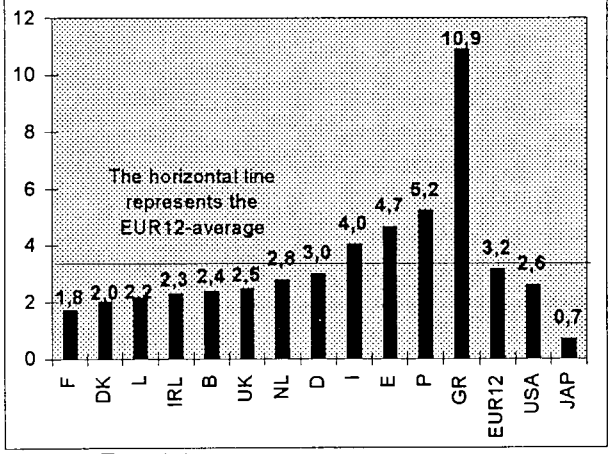
For the Union as a whole, the objective of price stability, which is one of the convergence criteria referred to in the UnionTreaty, has to some extent been achieved in recent years. As the data in Table I.7.1 on the consumer price index show, since the beginning of the 1990s there has even been a slowdown in annual inflation for EUR12 (5.0% in 1991; 4.2% in 1992; 3.4% in 1993; 3.2% in 1994).

The characteristic of the EUR12 index

The indices shown here are the national indices calculated according to the national methodologies. This means that there are differences with regard to coverage, index formula, base year and treatment of seasonal variations. In order to calculate the overall index, the national indices for the different product groups have been aggregated according to the ESA classification for the functions of consumption of households. The weighting used to obtain the EUR12 index corresponds to each country's share in the Union's final consumption of households expressed in purchasing power parities.

However, the good result for the Union as a whole conceal great differences between the Member States, ranging from a change of 1.7% for France to 10.9% for Greece between 1993 and 1994. It must also be pointed out that in 1994 the inflation rates of the Union's major economic partners, i.e. the United States and Japan, were lower than that of the Union, with 2.6% for the United States and, especially, only 0.7% for Japan. The differences in inflation in 1994 are illustrated in Figure I.7.1, in which the countries are classified according to the size of their inflation rate.

Figure I.7.1: Yearly inflation rates, 1994



Source: Eurostat

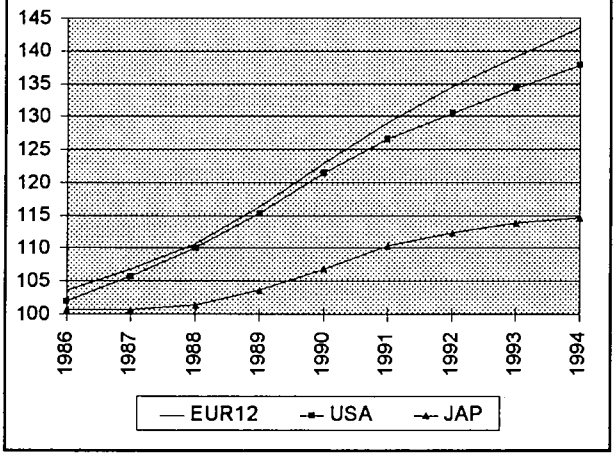
Over the past ten years, it is Japan which has had the lowest inflation rate (rose by 14.6 percentage points between 1985 and 1994), with the Netherlands achieving the best result (17.8 percentage points) among the EU countries. Japan's better performance on prices than that of the United States and the Union is illustrated for the period 1985-1994 in Figure I.7.2. During that period price trends in the Union and the United States were fairly similar.

Table I.7.2	Evolution of prices by purpose of consumption between 1990 and 1994, in %													
	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	EUR12	USA
General index	**11,3**	**8,0**	**15,4**	**75,7**	**22,9**	**9,7**	**10,4**	**21,4**	**12,6**	**13,1**	**35,5**	**14,3**	**16,8**	**13,4**
Food	2,2	5,1	7,9	74,1	12,4	4,4	5,2	22,3	4,8	6,9	21,3	10,5	13,5	9,0
Beverages and tobacco	15,7	2,4	12,4	107,8	34,1	24,5	17,7	23,5	20,7	17,8	39,0	35,8	28,0	17,5
Clothing and footwear	11,4	6,0	9,8	62,2	30,8	6,8	5,6	18,8	13,1	-1,9	40,6	4,7	14,8	7,5
Gross rent, fuel and power	14,4	11,1	18,2	89,8	34,4	20,7	8,2	25,9	15,8	18,1	43,3	-1,2	22,6	12,7
Furniture, furnishings and household equipment	9,3	6,2	12,2	56,0	19,2	7,9	9,4	19,5	13,7	6,2	48,1	12,8	14,3	6,9
Transports and communic.	10,9	9,4	18,5	80,4	26,7	11,3	4,7	22,9	14,9	14,1	44,9	22,5	20,2	11,4
Recreation, entertainment, education and culture	6,9	8,7	11,3	78,8	20,4	6,9	15,4	18,8	7,8	6,2	33,5	17,8	14,7	13,3
Miscellaneous goods and services	16,2	7,8	25,1	71,4	12,0	14,2	17,1	25,3	16,8	12,4	38,9	28,7	21,7	24,9

Source: Eurostat

Over the same period the rise in prices was relatively moderate (between approximately 21 percentage points and 23 percentage points) for a good number of Member States except the United Kingdom, Italy and Spain, whose rates ranged between 52 percentage points and 68 percentage points, and particularly in Portugal (131.50 percentage points) and Greece (291.1 percentage points). However, the relatively small weight of these two countries in the EUR12 index does not have too dramatic an effect on the result for the Union as a whole, where there was an increase of 43.5 percentage points between 1985 and 1994.

Figure I.7.2: Prices indices 1986-1994 (1985=100)



Source: Eurostat

The main functions of consumption

The differences between the Member States in the rate of increase of the overall index are even greater if we analyse the main functions of consumption, for which Table I.7.2 shows the trends between 1990 and 1994.

In most countries, for instance, the price increase for food was moderate and lower than that of the overall index (approximately 5% for Denmark, France, Ireland and Luxembourg and only 2.2% for Belgium over a four-year period). It is only in Greece and Italy that the trends in the overall index and the food index were approximately the same.

On the other hand, the index for beverages and tobacco rose more than the overall index everywhere except Denmark and Germany, and especially in Greece (which rose by 107.8%). Another index which rose more rapidly than the overall index is that of rents and fuel, except in Ireland and the United Kingdom (where there was even a decrease of 1.2%).

In addition to comparing these indices from country to country, it is interesting to see how the prices for the various categories of products varied within a country. This analysis shows that the price trends in most of the countries were very heterogeneous, and the same also applies to EUR12.

The structure of consumption

The effect of the price trends for the various functions of consumption on the overall index is illustrated by the share of the various functions in the total consumption of households. The weightings used to calculate the overall index (see Table I.7.3), which differ sometimes from the expenditure data coming from the National accounts, reveal great differences between the Member States in the structure of consumption. Food, for example, represents 39.2% of total consumption in Portugal, 29.0% in Greece and only 13.2% in the United Kingdom. Housing accounts for 28.5% of the Danish index, but only 7.6% of the Italian index; expenditure on health care accounts for 9.1% of the French index compared with only 0.6% of the Netherlands index. These figures, which should reflect consumption habits in the various countries, are nevertheless influenced by the differences in the prices of the various product groups (since they are based on expenditure values) and by the institutional differences in the provision of certain services in the Member States. This last remark applies particularly to health-care services.

Table I.7.3	Share of the purposes of consumption in the general index											
	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK
Reference year	87/88	1991	1985	1988	1991	1993	1989	89/90	1987	1985	89/90	1993
Food	16,5	14,5	17,8	29,0	26,2	17,5	21,2	19,6	18,4	14,9	39,2	13,2
Beverages and tobacco	3,6	6,6	5,2	3,9	3,2	4,6	16,0	3,2(1)	2,1(2)	3,1	4,1	7,2
Clothing and footwear	8,6	5,7	7,0	14,3	11,5	7,4	6,8	10,8	13,1	7,2	9,4	5,8
Gross rent, fuel and power	19,4	28,5	25,0	11,4	10,3	10,9	13,1	7,6	13,7	26,1	11,8	20,3
Furniture, furnishings and household equipment	7,9	6,5	7,2	8,0	6,7	8,4	6,2	10,6	10,1	8,0	7,7	7,7
Medical care and health expenses	4,9	1,8	4,1	7,8	3,1	9,1	2,6	6,7	8,2	0,6	3,0	1,8
Transports and communication	16,5	17,1	14,4	13,7	16,5	19,3	15,2	13,5	14,9	14,4	16,1	17,9
Recreation, entertainment, education and culture	8,3	9,5	8,4	9,4	7,3	8,2	6,0	10,0	8,0	10,7	3,9	9,0
Miscellaneous goods and services	14,3	9,8	10,9	2,5	15,3	14,6	12,8	18,0	11,5	15,0	4,9	17,1

(1) without tobacco (2) without alcoholic beverages and tobacco

Source: Eurostat

I.7.2 Exchange rates and the ECU

The Exchange Mechanism

The Exchange Rate Mechanism (ERM) of the European Monetary System is aimed at achieving greater exchange rate stability. The ERM is based on a grid of central parities between individual currencies and between each currency and the ECU.

Table I.7.4	ECU Central and notional rates
(in use since 02/08/1993)	
B/LFR	40,2123
DKR	7,4368
DM	1,9496
PTA	154,2500
FF	6,5388
IRL	0,8086
HFL	2,1967
ESC	192,8540
DRA	265,5130
LIT	1793,1900
UKL	0,7867

Source: Commission of the EU

Since 2nd August 1993 the exchange rates of the currencies participating in the ERM (all EU currencies except the Greek drachma, British pound and the Italian lira for which "notional ECU central rates" have been set up) could not diverge more than ±15% from the bilateral central rates in the grid (ECU central and notional rates are shown in table 1.7.4). In principle intervention is compulsory when the intervention points defined by the fluctuation margins are reached. In addition, when a currency crosses its "threshold of divergence", i.e. 75% of the maximum spread of divergence for each currency, consultations results, as well as a presumption that the authorities concerned will correct this situation by adequate measures; namely

- diversified currency intervention,
- domestic monetary policy,
- other economic policy measures,
- changes in central rates

The ECU is an important component of the European Monetary System (EMS). It is valued in terms of a basket which is defined by specific amounts of the currencies of 12 Member States of the European Union.

Table I.7.5	Composition of the ECU basket
since 21/09/1989	
DM	0,62420
FF	1,33200
DG	0,21980
BFR	3,30100
LFR	0,13000
ITL	151,80000
DKR	0,19760
IRP	0,00855
UKP	0,08784
DR	1,44000
PTA	6,88500
ESC	1,39300
=	1 ECU

Source: Commission of the EU

The official exchange rate of the ECU *vis-à-vis* its constituent currencies and some 10 other currencies is calculated daily on the basis of the composition of the ECU basket (see table 1.7.5) and the dollar exchange rates of the constituent currencies. The following method of calculation is used by the EU Commission. The central banks of the member states inform the National Bank of Belgium of their dollar exchange rate which prevails on their foreign exchange market. This information is channeled to the Commission which calculates an ECU equivalent first in US dollars and then in the currencies of the Member states.

Table I.7.6 shows the yearly averages of the exchange rates for the ECU against the national currencies of the Member States of the Community, the USD and the YEN (the amount of each currency per unit of ECU).

Table I.7.6	ECU exchange rates - yearly averages												
	B/LFR	DKR	DM	PTA	FF	IRP	DG	ESC	DRA	ITL	UKP	USD	YEN
1979	40,165	7,208	2,511	91,973	5,830	0,669	2,749	67,014	50,757	1138,430	0,646	1,274	267,083
1980	40,598	7,827	2,524	99,702	5,869	0,676	2,760	69,552	59,418	1189,206	0,598	1,370	300,461
1981	41,295	7,923	2,514	102,676	6,040	0,691	2,775	68,495	61,623	1263,181	0,553	1,392	315,044
1982	44,712	8,157	2,376	107,558	6,431	0,690	2,614	78,007	65,342	1323,782	0,560	1,116	245,379
1983	45,438	8,132	2,271	127,503	6,771	0,715	2,537	98,689	78,088	1349,925	0,587	0,980	243,546
1984	45,442	8,146	2,238	126,569	6,872	0,726	2,523	115,680	88,415	1381,382	0,591	0,890	211,354
1985	44,914	8,019	2,226	129,135	6,795	0,715	2,511	130,252	105,739	1447,988	0,589	0,763	180,559
1986	43,798	7,936	2,128	137,456	6,800	0,734	2,401	147,088	137,425	1461,875	0,672	0,984	164,997
1987	43,041	7,885	2,072	142,165	6,929	0,775	2,334	162,616	156,268	1494,907	0,705	1,154	166,598
1988	43,429	7,952	2,074	137,601	7,036	0,776	2,335	170,059	167,576	1537,334	0,664	1,182	151,459
1989	43,381	8,049	2,070	130,406	7,024	0,777	2,335	173,413	178,840	1510,469	0,673	1,102	151,938
1990	42,426	7,857	2,052	129,411	6,914	0,768	2,312	181,109	201,412	1521,983	0,714	1,273	183,660
1991	42,223	7,909	2,051	128,469	6,973	0,768	2,311	178,614	225,216	1533,235	0,701	1,239	166,493
1992	41,593	7,809	2,020	132,526	6,848	0,761	2,275	174,714	247,026	1595,515	0,738	1,298	164,223
1993	40,471	7,594	1,936	149,124	6,634	0,800	2,175	188,370	268,568	1841,229	0,780	1,171	130,147
1994	39,656	7,543	1,925	158,918	6,583	0,794	2,158	196,896	288,026	1915,059	0,776	1,190	121,322

Source: Eurostat

Table I.7.7 contains the annual average exchange rates of the currencies participating in the EMS as well as the exchange rates of the USD and the YEN in terms of an index. This shows the amount of ECU per unit of national currency with a base year of 1980.

This table illustrates that in the 15 years to 1994, four ERM currencies have appreciated vis-à-vis the ECU, of which the biggest rise was the DM by 31%. The USD also appreciated by 17% and the YEN rose by 158%. Another important conclusion drawn from the above table is the relative stability of the ERM currencies during the period 1988 - 1991 in comparison to the period 1980 - 1987.

Graph I.7.3 and table I.7.8 illustrate the evolution of the ERM exchange rates in comparison with the exchange rates of UKP and ITL as well as with those of the USD and YEN during 1994. The graph shows the monthly percentage deviations of each currency from its 1994 average rate. These exchange rates are expressed in terms of the index which shows the amount of ECU per unit of national currency. Downwards (upwards) sloping curves indicate an depreciation (appreciation) of a respective currency vis-à-vis the ECU, (data calculated by Eurostat).

The graph portrays the coherence of the ERM currencies during 1994. With the exceptions of the BLF and the IRP in January 1994 and the ESC and the IRP in June and August 1994 respectively, the ERM currencies moved within a band of about 2 % during the whole period considered. The EMS currencies which do not participate in the ERM were characterized by more volatility, as their monthly exchange rates deviated from their annual averages by more than that observed among the ERM currencies.

Table I.7.7	ECU exchange rate index (1 unit of national currency=...ECU, Base 1980=100), annual averages												
	B/LFR	DKR	DM	PTA	FF	IRP	DG	ESC	DRA	ITL	UKP	USD	YEN
1980	100	100	100	100	100	100	100	100	100	100	100	100	100
1981	98,313	98,802	100,439	97,010	97,182	97,823	99,503	101,550	96,238	94,159	108,173	125,199	127,787
1982	90,869	95,969	106,258	92,715	91,335	98,022	105,631	89,643	90,831	89,816	106,641	142,259	128,692
1983	89,352	96,259	111,168	78,145	86,720	94,583	108,792	70,964	76,034	88,084	101,898	156,605	148,548
1984	89,340	96,087	112,775	78,689	85,406	93,118	109,389	60,156	67,140	86,066	101,176	176,849	167,576
1985	90,389	97,615	113,376	77,225	86,372	94,517	109,931	53,503	56,981	82,194	101,535	183,612	173,633
1986	92,697	98,637	118,630	72,455	86,322	92,264	114,994	47,323	43,191	81,334	89,253	141,679	190,142
1987	94,319	99,279	121,843	70,083	84,700	87,170	118,254	42,769	37,976	79,540	84,835	120,650	188,128
1988	93,478	98,439	121,674	72,378	83,408	87,145	118,224	40,886	35,397	77,336	89,955	117,839	207,013
1989	93,584	97,247	121,931	76,368	83,558	87,017	118,205	40,099	33,176	78,716	88,864	126,362	206,572
1990	95,687	99,629	123,000	76,963	84,882	88,042	119,384	38,391	29,475	78,122	83,737	109,505	170,792
1991	96,146	98,972	123,078	77,518	84,161	88,037	119,441	38,932	26,342	77,541	85,226	112,643	188,570
1992	97,634	100,266	124,973	75,243	85,721	88,873	121,381	39,801	24,033	74,701	81,229	107,386	191,112
1993	100,320	103,109	130,357	66,949	88,475	84,548	126,906	36,980	22,091	64,605	76,642	118,869	242,007
1994	102,374	103,766	131,153	62,665	89,157	85,181	127,895	35,314	20,597	62,109	77,022	117,126	258,272

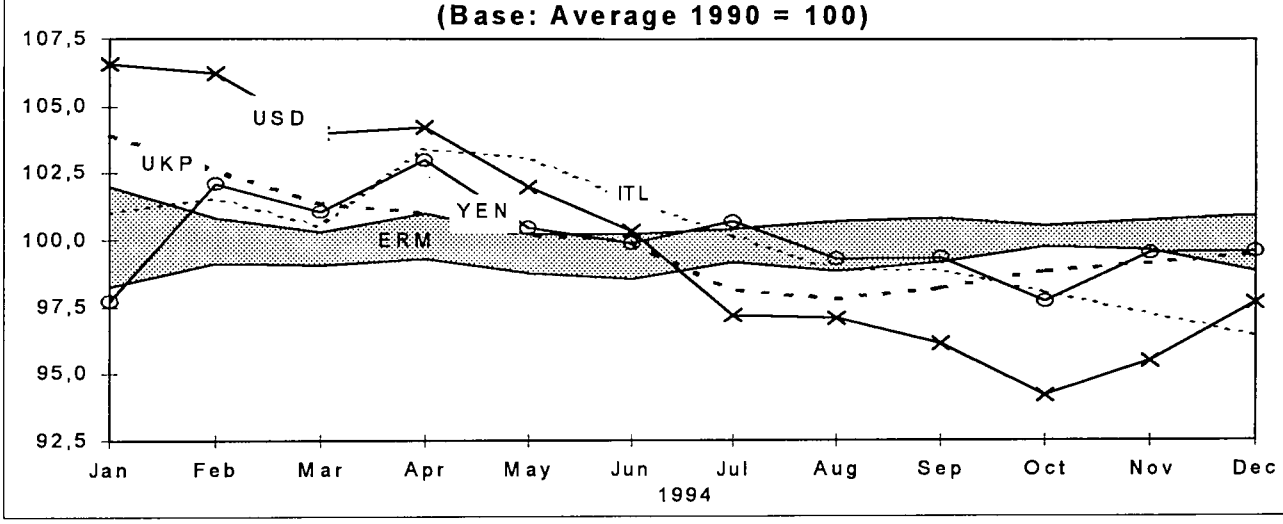
Source: Eurostat

Table I.7.8	Deviations from the ECU exchange rates level (Base 1994=100)												
	ERM								Non-ERM			Other	
	B/LF	DKR	DM	PTA	FF	IRP	DG	ESC	DRA	ITL	UKP	USD	YEN
Jan-94	-1,7	0,0	-0,9	-0,3	-0,2	2,0	-0,7	0,3	3,3	1,1	3,9	6,6	-2,3
Dec-94	0,9	0,7	0,7	-1,2	0,0	0,2	0,8	0,5	-2,5	-3,6	-0,6	-2,3	-0,4
Difference	2,7	0,7	1,6	-0,8	0,2	-1,8	1,6	0,1	-5,8	-4,6	-4,5	-8,9	1,9
Min 94	-1,7	-0,6	-0,9	-1,2	-0,7	-1,2	-0,8	-1,5	-2,5	-3,6	-2,2	-5,8	-2,3
Max 94	0,9	0,7	0,7	1,0	0,4	2,0	0,8	0,8	3,3	3,4	3,9	6,6	3,0

Source: Eurostat

In particular the deviation in exchange rates and of the UK pound and Italian Lira were stronger than the ECU. For the UK pound it rose by 3.9% in January 1994, but by 22% in August 1994. The Italian lira followed a similar pattern as it rose by 3.4% in April 1994 and fell by 3.6% in December 1994. Table I.7.8 shows also that the above currencies depreciated against the ECU by 4.5% and by 4.6% respectively over the 12 months to December 1994. The USD seems to be the most volatile currency as it shows the largest upward and downward deviations from its annual average in comparison with the respective deviations of the rest currencies in the sample. It is also shown that from January to December 1994 the USD depreciated against the ECU by 8.9% while the YEN appreciated by 1.9%.

Figure I.7.3: ECU Exchange Rate Index
(Base: Average 1990 = 100)



Source: Eurostat

I.7.3 Purchasing power parities

Since its creation in 1978, the ECU has continually grown in importance, becoming the reference currency in the European Monetary System and the currency in which a large number of financial operations are denominated. However, as a means of comparing the value of national currencies, its use remains limited.

Exchange rates and purchasing power parities

The reason that the ECU is not so useful as a denominator is that official exchange rates, which are based on conversions into and out of ECU, do not necessarily reflect the real purchasing power of a currency in its national territory and therefore do not always give a good indication of the volume of goods and services which make up GDP. Exchange rates are in fact mainly determined by, on the one hand, the supply of and demand for currencies necessary to effect commercial flows and, on the other, by factors such as capital flows, speculation, and a country's political and economic situation.

It is interesting to observe the changes in PPSs shown in Table I.7.9, which shows the figures from 1970 to 1994 and, in particular, to compare them with the exchange rates of the ECU, which are shown in Table I.7.4. For example, on the basis of the official exchange rate, an ECU was worth ITL 1915 in 1994, whereas on the basis of purchasing power parities, ITL 1685 was sufficient to purchase the volume of goods and services corresponding to one PPS. In 1994, therefore, the real purchasing power of the Italian lira compared with the Community average was much higher, (+14%) than a comparison based on the official exchange rate would suggest.

Table I.7.9	The purchasing power parities of GDP, 1 PPS = ... nat. currency								
	1970	1975	1980	1985	1990	1991	1992	1993	1994
B	57,27	54,60	46,25	44,13	42,45	41,61	40,87	40,25	40,36
DK	9,51	9,88	9,75	10,17	10,16	9,75	9,89	9,49	9,49
D	4,22	3,61	2,85	2,41	2,25	2,22	2,23	2,27	2,28
GR	32,49	35,87	47,68	86,97	151,48	171,25	183,95	198,91	216,41
E	48,50	54,00	80,20	99,90	117,70	117,30	124,13	126,19	128,94
F	6,16	6,08	6,44	7,22	7,12	6,92	6,94	7,09	7,07
IRL	0,44	0,51	0,65	0,78	0,74	0,71	0,69	0,71	0,72
I	579,00	655,00	942,00	1328,00	1527,00	1554,00	1577,71	1655,00	1684,64
L	52,14	48,60	44,45	44,70	42,71	41,95	42,06	42,75	43,26
NL	3,74	3,64	3,17	2,70	2,33	2,32	2,31	2,30	2,31
P	20,10	21,90	36,00	69,80	111,60	116,80	125,00	126,17	130,41
UK	0,40	0,47	0,60	0,61	0,66	0,68	0,67	0,69	0,69
USA	1,81	1,55	1,31	1,14	1,08	1,07	1,05	1,08	1,08
JAP	456,00	456,00	342,00	252,00	211,00	205,00	199,00	197,71	194,76

Source: Eurostat

In periods of major exchange-rate fluctuations, therefore, there are clear advantages to using purchasing power parities for comparison, since they are hardly affected by such fluctuations, if at all.

How to establish the parities?

The disadvantages of conversion using exchange rates can, however, be eliminated or, at least, greatly reduced by using purchasing power parities as conversion rates. These parities represent the relationship between the amounts of national currencies needed to purchase a comparable, representative basket of goods in the countries concerned. The ratio between the prices of individual products is then aggregated in accordance with carefully defined criteria, so as to obtain a higher parity for the aggregates and, finally, the global parity of GDP itself. These parities are expressed relative to the value for the Union as a whole, and the unit in which the values are expressed is known as the "Purchasing Power Standard" (PPS), which is, in fact, the ECU in real terms.

Price level index

The ratio between the value of a PPS and the ECU allows us to calculate a price level index for each country, which measures the difference between price levels in a given country and the Community average (EUR12 = 100) and permits direct comparison between price levels in one country and another.

Table I.7.10 shows that in 1994 Portugal had the lowest prices in EUR12 (about 34 percentage points below the Community average) and Denmark the highest (nearly 26 percentage points above the average). The United States comes out at 9 percentage points below the EU average, while Japan exceeds it by nearly 61 percentage points. Another way of interpreting Table 2 is to say that in 1994 a given basket of goods could be purchased for ECU 66 in Portugal and ECU 126, nearly twice as much, in Denmark. (In 1990, in fact, prices in Denmark were more than twice those in Portugal).

Table I.7.10	Prices level indices				
	1990	1991	1992	1993	1994
B	100,1	98,5	98,3	99,5	101,8
DK	129,3	123,3	126,7	124,9	125,8
D	109,6	108,3	110,6	117,2	118,2
GR	75,2	76,0	74,5	74,1	75,2
E	91,0	91,3	93,7	84,6	81,2
F	103,0	99,2	101,4	106,9	107,3
IRL	96,8	92,2	90,7	88,3	90,2
I	100,3	101,4	98,9	89,9	88,0
L	100,7	99,4	101,1	105,6	109,1
NL	100,8	100,4	101,5	105,9	106,9
P	61,6	65,4	71,6	67,0	66,2
UK	92,0	96,3	90,3	88,2	88,7
EUR12	100,0	100,0	100,0	100,0	100,0
USA	84,8	86,3	80,9	92,2	91,1
JAP	114,9	123,1	121,2	151,9	160,7

Source: Eurostat

The index also gives some indication of the extent to which a currency is over- or undervalued. For example, the relationship between the indices in Germany and Italy show that the lira was

undervalued against the mark by the order of 34 percentage points in 1994, which considerably benefited Italian exports to Germany and the rest of the Single Market. In 1991 and 1992, the lira's undervaluation vis-à-vis the mark was just 12 percentage points.

Real per capita GDP

Tables I.7.11 and I.7.12 (overleaf) show the values of national GDP in ECUs and PPSs. Measured in current PPSs, the GDP of the European Union was 5772.1 billion, about 8% smaller than that of the United States and 2.4 times bigger than that of Japan.

Of the EU Member States, Germany had the biggest GDP (1459.3 billion PPS; about 25.3% of the total for EUR12). The four biggest economies in the EU (Germany, France, Italy and the UK) together accounted for some 77% of its GDP. At the other end of the scale, five Member States (Denmark, Greece, Ireland, Luxembourg and Portugal) together accounted for just 6.5% of EUR12 GDP.

It is also interesting to note how each country's share of the European Union's GDP varies depending on whether it is calculated in ECUs or PPSs. For example, Germany's share in 1994, which was (30% when measured in ECUs) falls to 25.3% when measured in PPSs. In some other countries, the share is higher in PPSs than in ECUs, for example, 16.8% and 14.8% respectively in the case of Italy, this difference being mainly due to the devaluation of the lira in 1993 and 1994.

Despite the numerous misgivings which one might have, per capita GDP is one of the indicators most frequently used for purposes of international comparisons. It is expressed as the ratio between GDP per head of population in each country and average per capita GDP in the Union (the latter being ECU 16500 as of 1994). Again, this index for a given country varies depending on whether it is based on ECU- or PPS-denominated values. However, speaking about per head data it should be taken into consideration that the population data used for calculating this data is based on National accounts statistics. They can differ from the population data coming from the Population statistics.

In Denmark, for example, per capita GDP is ECU 23660 but only 18810 PPSs. This gives per capita index figure of 143.3 in nominal terms, compared with 114.0 in volume terms.

As a general rule, the higher the nominal index figure is, the lower the volume index figure is relative to it, although this not quite true of Luxembourg, where the two index figures are fairly similar. The PPS index figure for Luxembourg is 58.4% higher than the corresponding figure for EUR12, putting it well ahead of all the other Member States and indeed nearly 9.3% ahead of the United States.

Table I.7.11	GDP at current prices and exchange rates									
	total - Mrd. ECU					per head - ECU				
	1990	1991	1992	1993	1994	1990	1991	1992	1993	1994
B	151,4	159,7	170,7	180,0	191,0	15200,0	15970,0	17000,0	17850,0	18870,0
DK	101,7	104,7	109,0	115,0	123,2	19790,0	20310,0	21080,0	22160,0	23660,0
D	1182,2	1391,5	1522,3	1631,4	1725,7	18690,0	17400,0	18890,0	20100,0	21150,0
GR	64,4	70,4	73,8	76,7	79,5	6340,0	6880,0	7159,9	7410,0	7630,0
E	387,8	427,3	445,3	408,4	407,0	9950,0	10950,0	11390,0	10430,0	10380,0
F	941,5	971,7	1023,6	1067,7	1121,2	16690,0	17140,0	17950,0	18630,0	19460,0
IRL	35,3	36,7	39,4	40,4	44,4	10070,0	10410,0	11110,0	11330,0	12440,0
I	862,1	932,3	942,8	841,9	856,9	14950,0	16130,0	16284,0	14490,0	14750,0
L	8,3	8,9	9,8	10,7	11,5	21769,6	23099,7	24860,0	26860,0	28520,0
NL	223,3	234,6	247,5	264,0	278,5	14940,0	15570,0	16300,0	17270,0	18070,0
P	52,9	62,6	73,4	72,3	73,5	5350,4	6350,0	7450,0	7324,0	7430,0
UK	772,0	820,7	809,6	808,7	861,0	13450,0	14240,0	14000,0	13930,0	14780,0
EUR12	4782,9	5221,2	5467,2	5517,4	5773,3	14588,0	15104,0	15746,0	15836,0	16506,0
USA	4356,0	4619,9	4637,8	5417,0	5664,8	17430,0	18280,0	18150,0	20970,0	21720,0
JAP	2309,3	2709,3	2819,7	3580,3	3868,2	18690,0	21860,0	22680,0	28720,0	30950,0

Source: Eurostat

Table I.7.12	GDP at current prices and PPS									
	total - Mrd. PPS					per head - PPS				
	1990	1991	1992	1993	1994	1990	1991	1992	1993	1994
B	151,3	162,1	173,8	181,0	187,7	15190,0	16210,0	17300,0	17950,0	18540,0
DK	78,7	84,9	86,1	92,1	97,9	15300,0	16480,0	16650,0	17740,0	18810,0
D	1078,2	1285,4	1376,5	1392,0	1459,3	17050,0	16070,0	17079,7	17150,0	17890,0
GR	85,6	92,5	99,1	103,6	105,8	8430,0	9040,0	9610,0	10000,0	10160,1
E	426,0	468,0	475,3	482,6	501,6	10940,0	11990,0	12160,0	12330,4	12790,0
F	914,3	979,2	1009,9	998,6	1044,3	16200,0	17270,0	17710,0	17420,0	18120,0
IRL	36,5	39,8	43,5	45,7	49,2	10400,0	11290,0	12250,0	12830,0	13790,0
I	859,2	919,9	953,3	936,6	974,2	14900,0	15920,0	16470,0	16120,0	16770,0
L	8,3	9,0	9,7	10,1	10,5	21620,0	23250,2	24580,0	25420,0	26140,0
NL	221,6	233,7	243,8	249,3	260,5	14820,0	15510,0	16060,0	16310,0	16900,0
P	85,9	95,8	102,6	108,0	111,0	8680,0	9710,0	10410,0	10940,0	11220,0
UK	838,8	852,3	896,5	917,2	970,2	14610,0	14790,0	15500,0	15800,0	16660,0
EUR12	4784,4	5222,6	5470,1	5516,9	5772,1	14592,0	15108,0	15753,0	15835,0	16503,0
USA	5135,3	5350,3	5733,6	5876,3	6232,5	20550,0	21180,0	22440,0	22750,0	23890,0
JAP	2010,3	2200,4	2326,8	2356,8	2409,6	16270,0	17760,0	18720,0	18900,0	19278,0

Source: Eurostat

Table I.7.13	Volume of GDP index per head			
	1980	1985	1992	1994
B	106,8	104,3	109,8	112,3
DK	105,5	113,3	105,7	114,0
D	118,3	118,8	108,4	108,4
GR	62,8	61,3	61,0	61,6
E	71,3	70,3	77,2	77,5
F	114,1	113,1	112,4	109,8
IRL	60,4	62,0	77,8	83,6
I	102,8	102,3	104,6	101,6
L	115,8	130,5	156,0	158,4
NL	107,9	104,2	101,9	102,4
P	56,7	54,9	66,1	68,0
UK	96,0	99,3	98,4	101,0
EUR12	100,0	100,0	100,0	100,0
USA	128,0	141,5	142,4	144,8
JAP	84,8	100,9	118,8	116,8

Source: Eurostat

As can be seen from Table I.7.13, the volume index per head of population in most Member States has remained broadly stable over time. Of the countries situated well below the EU average (Greece, Spain, Ireland and Portugal), only Ireland managed to close the gap significantly between 1980 and 1994 (up 23.2 percentage points), although Portugal also succeeded in closing the gap by a more modest 12.4 percentage points over the same period.

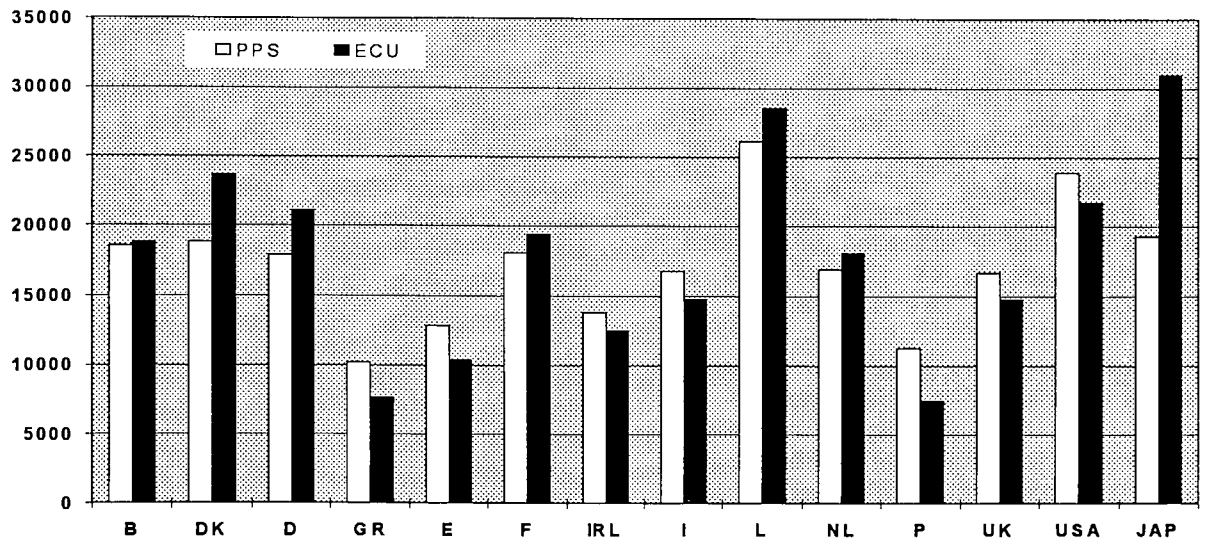
By contrast, the volume index figure for Japan made a dramatic leap, from 84.8% in 1980 to 116.8% in 1994, overtaking countries such as Denmark and Germany.

Because of the falling value of the lira, per capita GDP in Italy recorded steep declines in 1993 and 1994 when calculated in ECUs (from ECU 16284 in 1992 to ECU 14750 in 1994), whereas, in terms of real purchasing power in the Italian economic territory, the figure actually increased slightly, from 16470 PPSs in 1992 to 16770 in 1994.

Given the monetary turmoil of recent years, the nominal values for other Member States (Greece, Spain and Portugal) and Japan should also be treated with caution. To take the example of Japan: the yen has appreciated significantly, and this is likely to have caused an overestimate of nominal GDP. The discrepancies between per capita GDP measured in ECUs and in PPSs are illustrated in figure I.7.4 below.

Finally, it is worth repeating that differences between countries' GDP are much smaller when measured in PPSs than when measured in ECUs. In 1994, the ratio between per capita GDP in Luxembourg which, as we have seen, is the highest in the European Union, and the lowest was 1:4 when measured in ECUs but only 1:2.6 in terms of PPSs, which again underlines the importance of basing comparisons on real values.

Figure I.7.4: GDP per head, 1994



Source: Eurostat

I.7.4 Interest rates

Indicators for the interest rates

Government bond yields are a good indicator of long-term interest rates throughout an economy, as the government securities market normally accounts for a large part of the capital market. They are also a good reflection of the government's financial position, and of inflation expectations in an economy. The significance of government bond yields as a measure of economic and monetary convergence is recognised in the European Union Treaty, where it forms one of the criteria for moving to stage three of monetary union.

The table shows ten-year government bond yields (unless otherwise stated): Between 1991 and the end of 1993 there was a general decline in government bond yields, which was largely a reflection of monetary easing in response to economic recession and a decline in inflationary pressures. US government bond yields (of 10 years or more) dipped below 6% in late 1993, but that represented the peak of the market, as concerns grew in 1994 of an upturn in inflation and a capital shortage on the basis of a stronger than expected recovery in global economic activity. By late 1994, the yield had moved above 8% for the first time since mid-1991.

Table I.7.14	Long-term interest rates (monthly averages)														
	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	ECU	USA	JAP
Jan-90	10,2	11,1	7,9	-	-	9,6	-	-	8,5	8,2	-	10,9	-	8,4	6,6
Jan-91	9,7	10,0	9,0	-	-	9,8	9,6	-	8,4	9,2	-	10,6	-	8,3	6,8
Jan-92	8,8	8,3	8,0	-	10,9	8,5	8,9	12,7	7,7	8,4	-	9,5	-	7,5	5,4
Jan-93	7,5	8,5	7,1	24,5	12,2	7,9	9,8	13,4	7,3	7,1	-	8,3	8,3	7,2	4,6
Jan-94	6,5	6,0	5,8	21,8	8,0	5,7	6,1	8,8	6,4	5,6	8,7	6,2	6,0	6,2	4,5
Feb-94	6,7	6,6	6,1	21,0	8,1	6,0	6,7	9,0	6,3	5,9	8,4	6,7	6,2	6,4	4,8
Mar-94	7,1	7,0	6,4	20,0	8,8	6,4	7,3	9,6	6,4	6,3	8,9	7,4	6,8	6,9	4,3
Apr-94	7,2	7,1	6,6	20,0	9,1	6,7	7,7	9,3	6,4	6,5	9,2	7,9	7,0	7,3	4,1
May-94	7,4	8,0	6,8	-	9,5	7,0	8,5	9,6	6,3	6,8	9,9	8,4	7,3	7,5	3,8
Jun-94	7,9	8,2	7,1	-	10,3	7,5	8,6	10,5	6,4	7,1	11,0	8,8	7,8	7,4	4,4
Jul-94	7,9	8,0	7,0	21,5	10,6	7,4	8,4	10,7	6,4	6,9	11,3	8,6	7,8	7,6	4,6
Aug-94	8,1	8,8	7,2	21,5	10,7	7,6	8,4	11,5	6,5	7,1	11,3	8,7	8,0	7,6	4,9
Sep-94	8,5	9,0	7,6	21,5	11,2	8,1	8,9	11,9	6,7	7,5	11,7	9,0	8,5	7,8	4,6
Oct-94	8,4	8,9	7,6	-	11,1	8,2	8,6	11,9	6,5	7,6	11,6	8,9	8,5	8,0	4,7
Nov-94	8,3	8,6	7,6	-	11,2	8,1	8,4	11,9	6,4	7,5	11,4	8,7	8,4	8,2	4,7
Dec-94	8,3	9,1	7,5	19,0	11,4	8,0	8,8	12,1	6,2	7,6	11,6	8,7	8,2	8,0	4,5

Notes: rates are 10-year government bond yields, except for Belgium (6 to 12 years), Germany (7 to 14 years), Greece (5 years), Italy (9 to 10 years), Luxembourg (all maturities), USA (10 years or more).
ECU bond yields include non-government issues. Source: Central Bank

European bond markets peaked later than in the US, at the beginning of 1994. The trend during 1994 was, however, similar to that of the US market. Between January and September 1994, German government bond yields (7 to 14 years) rose by just under two percentage points. During periods when bond yields are rising, the differential between German yields and those of other EU members tends to increase, as can be seen from the table. Thus French government bond yields, which had in fact fallen below those of Germany in January 1994, were half a percentage point higher at the end of the year.

There are numerous factors, however, which may influence the differential in government bond yields between countries, including the evaluation by bond market participants of national budgetary positions, or of economic growth and inflation prospects. Changes in short-term interest rates and political factors are also significant. In the case of EU members, an additional factor is the prospect of monetary union and market perceptions of which countries are likely to be involved.

Prospects for monetary union take on a special significance with regard to the ECU bond market. In 1991, in the run-up to the Union treaty, the market was exceptionally buoyant: the volume of ECU bond issues reached a record level (a figure not surpassed in the years 1992-94), and ECU bond yields fell well below their theoretical level (that is, the yield derived from the weighted average of the ECU basket's component currencies).

In 1992-93, the ECU market performed less well, though the trend in yields remained downwards, reflecting the general decline in EU bond yields. Throughout most of 1994 the market weakened and yields rose, again a reflection of the general trend.

By the end of 1994 the US and Japanese bond markets had entered a new phase, and yields began to fall, followed by a decline in European bond yields in the first months of 1995.

As with long-term interest rates, short-term rates in the EU have tended to converge in recent years. This has been particularly the case for those countries whose currencies have been part of the exchange rate mechanism of the EMS, since the risk of large exchange rate fluctuations are in principle lower for these currencies.

Short-term money market interest rate movements closely reflect changes in official interest rates, and therefore the stance of monetary policy. In 1992-93 interest rates in the EU declined in response to economic recession and a decline in inflation pressures. During the second half of the year 1994, the short-term interest rates remained nearly stable. The main exception was the UK.

The US, which is further ahead in the economic cycle, started tightening policy in early 1994, and short-term interest rates rose steadily throughout the year, and into early 1995. Japan, meanwhile, held its official discount rate at 1.75% throughout 1994. However, economic activity remained weak, partly as a result of the strong yen, and a further discount rate cut was made in April 1995.

In Germany, against a background of Deutschmark strength and inflation weakness, the Bundesbank cut its discount rate to 4% at the end of March 1995. This was followed by rate cuts in Belgium, the Netherlands and Austria. In other EU countries, however, the trend in official interest rates was upwards in early 1995, including the UK, Denmark, Ireland, Italy, and Spain.

II FROM EUR12 TO EUR15

II.0 Introduction

The first of January 1995 will be remembered as a milestone in the history of the European Union. The accession of Austria, Sweden and Finland was the fourth enlargement of the EU, after 1973, 1981 and 1986, and was a further step in the political and economic integration of Western Europe.

Nineteen ninety-four was an exciting year for Europe - it was the culmination of years of preparation for the accession of the three new Member states and Norway. In the autumn of 1994, referendums in all four countries established that the people of Austria, Sweden and Finland were in favour of joining the EU. As in 1972, however, the people of Norway voted against membership (see table I.1.5).

Part II of this report seeks to shed light on how the enlargement of the EU from "the Europe of Twelve" to "the Europe of Fifteen" has affected important economic, geographical and demographic data. This analysis includes information on the generation and use of GDP, foreign trade, income and savings, the labour market, the financial situation of the economy, and exchange rates and interest rates.

The aim is to demonstrate, by means of the figures for 1994 and the previous years, how the accession of the three countries has influenced absolute and average values for the Union as a whole. Where it is not possible or meaningful to calculate averages for the EU, we try to compare the new Member States with the countries of the Union of Twelve. An assessment is also made as to where on the path to Monetary Union the new Member states currently stand.

The comments made in the introduction on the figures for this report and on the quality of the data also apply to Part II. Furthermore, there are additional problems for the data of the new Member States. The data provided by them do not always fully correspond to the current ESA. There are minor theoretical differences, but the main difficulties arise from the use of different classifications. In this respect, Finland is ahead of EUR12, in that it already uses NACE Rev.1, which in due course will be binding for all the Member States. Austria uses the ISIC, while Sweden uses a national classification of industries. Eurostat has endeavoured to eliminate most of these differences by converting the classifications. There are also major difficulties arising from comparisons made in ECU. The influence of wavering of exchange rates of national currencies against the ECU cannot be ignored for these analysis. This is expecially relevant for the years 1992 and 1993 in Finland, and 1993 in Sweden, where the corresponding currencies were subject to significant devaluations.

II.1 Area, population and GDP

The accession of the three countries to the Union resulted in a 37% increase in the **geographical area** covered by the Internal Market. Compared with the 2 363 000 km^2 of EUR12, the area now covered by EUR15 is 3 235 000 km^2 (see table II.1.1).

Table II.1.1	Population 1000 pers.	Area 1000 km^2	GDP Mrd. ECU
EUR12 (1986)	322430	2363	3447
EUR12 (1990)	327640	2363	4783
EUR12 (1994)	348676	2363	5773
EUR15 (1994)	370452	3235	6187

Source: Eurostat

In the enlarged Union, France remains the country with the greatest area, followed by Spain, Sweden, Germany, Finland and Italy. Austria is one of the smaller Member States, approximately on a level with Portugal.

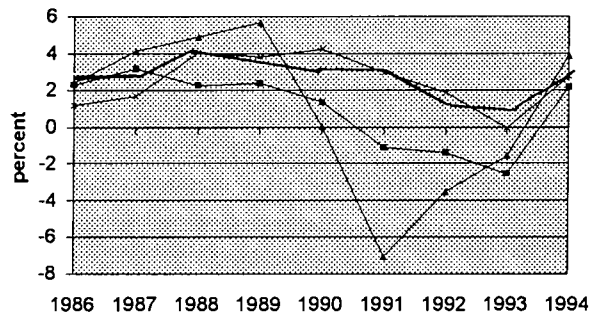
In contrast, the **resident population** of the Union increased by only 6.2% as a result of enlargement. The reason for this is that the two Nordic countries are sparely populated. In the enlarged Union, Germany retains its place as the country with the largest population, followed by Italy, the United Kingdom and France.The three new Member States are all among the countries with the smallest populations in the Union. Following their accession, about 43% more people live in the Union than in the USA and almost three times as many as in Japan.

Gross domestic product of the Union of Fifteen is 7.2% higher, expressed in ECUs, than the Union of Twelve. This increase, which is disproportionate in relation to the population, means that the Union's average per capita GDP is also higher.

While the GDP of the United States and that of EUR12 were about the same in 1994, the enlarged Union has a GDP which exceeds that of the USA by about 10% and is one and a half times higher than that of Japan.

It is also interesting to compare trends in GDP of the three new Member States, in real terms, with the average for EUR12. Between 1986 and 1994, growth in Member States of the Union of Twelve averaged +1% to +4% per annum (see Figure II.1.1).

Figure. II.1.1: GDP growth rates, price basis 1985



Source: Eurostat

Austria's growth rate was nearest the EUR12 average, in real terms, as it varied between zero and just over 4%.

Sweden, whose relative GDP growth was below the EUR12 average from 1988 on, was further away from the pattern observed for the Union, and between 1991 and 1993 Swedish GDP even full.

However, Finland had the greatest fluctuations in GDP. Between 1987 and 1989 the growth rate of Finland's GDP in real terms was considerably higher then the EU average, but from 1990, measured in terms of GDP, the country entered a deep crisis. The worst year was 1991, when Finland's GDP fell by over 7%.

An important factor for the future trend in the Union's GDP following the accession of the three countries is that during 1994, crises which had occurred between 1991 and 1993, were overcome both in the new Member States and in many countries of EUR12. In 1994, for instance, Austria and Finland were above the EUR12 average while Sweden was only just below it. On the whole, therefore, the accession of the three countries has had a positive impact on the Union's GDP in real terms.

Enlargement has had a similarly positive overall impact on the Union's average **per capita GDP**.

In 1994 per capita GDP, expressed in purchasing power standards, rose by about 3.4% (see table II.1.2). Austria, which was about 16 percentage points above the EU average in 1994, and Sweden, which was about one percentage point above the EU average, more than compensated for the lower level of Finland, which was 5 percentage points lower than the EUR12 average.

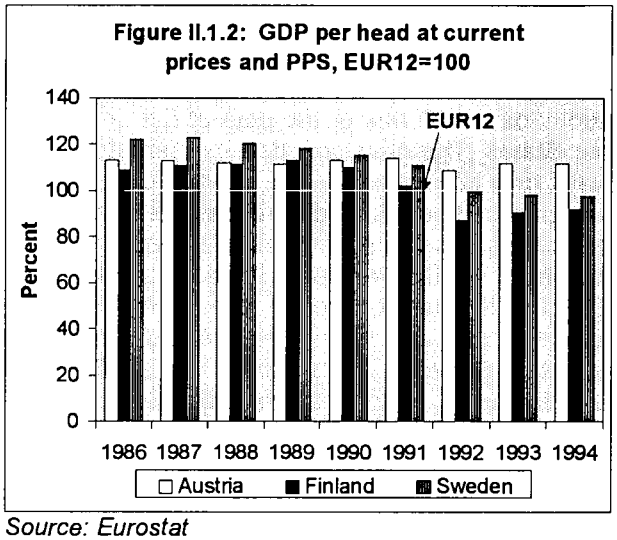
Table II.1.2	GDP per capita at current prices and purchasing power standards (PPS)				
	EUR12	EUR 15	A	FIN	S
1986	11072	11186	12667	12193	13652
1987	11632	11758	13263	13051	14476
1988	12589	12716	14285	14187	15309
1989	13642	13772	15382	15597	16252
1990	14592	14720	16647	16203	17011
1991	15108	15204	17381	15540	16881
1992	15753	15753	17102	13754	15696
1993	15830	15850	17718	14387	15590
1994	15980	16520	18480	15210	16140

Source: Eurostat

It can be seen from Figure II.1.2 that between 1986 and 1994 Austria's per capita GDP remained constantly within a range of 9 to 16 percentage points above the EUR12 average.

Between 1986 and 1991, Sweden was well ahead of the EU average, by 24 to 12 percentage points. However, the difficult economic situation which began in 1991 caused Sweden's per capita GDP to fall to 2 percentage points below the EU average in 1993.

Figure II.1.2: GDP per head at current prices and PPS, EUR12=100



Source: Eurostat

Finland's per capita GDP was also well above the Union's average between 1986 and 1990, by 9 to 13 percentage points. The deep recession at the beginning of the 1990s, however, led to a steep reduction, especially in 1992, when per capita GDP was only 87% of the EU average. In the following two years this figure improved somewhat, so that in 1994 Finland was only 8 percentage points below the EU average.

If the above-mentioned recent trends in the growth of the new Member States' GDP in real terms continue in the coming years, as the Commission currently forecasts, the overall positive influence of the three countries on the Union's average per capita GDP will become even more pronounced.

II.2 Generation of GDP

The following section looks into the contribution of the aggregated economic branches to the gross value added of the new Member States compared with the Union average and also deals with productivity (gross value added per capita of occupied population) and the income per capita of population occupied in each branch.

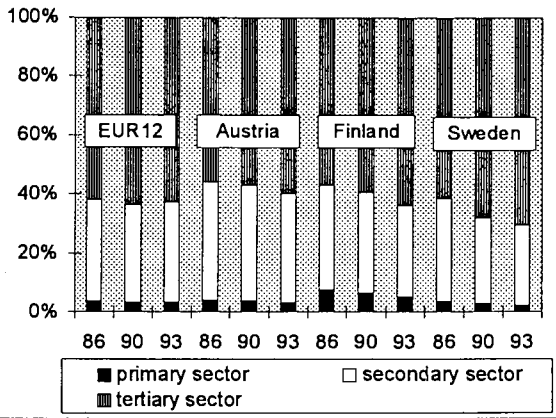
II.2.1 Gross value added by branch

Table II.2.1 shows the gross value added at factor costs of the branches in ECUs for EUR12 and in national currency for the new Member States. The second part of the table gives the shares of the branches in the gross value added of the economy.

Grouping the branches into primary, secondary and tertiary sectors reveals major structural differences between the countries and the Union and significant changes in the structure of production over time.

The primary sector in this analysis comprises only agriculture, forestry and fisheries for reasons of data availability. The secondary sector is made up of the raw materials and energy branches, manufacturing industry and building and construction. Services are grouped in the tertiary sector.

Figure II.2.1: Share of GVA per sector in total



Source: Eurostat

Figure II.2.1 shows the share of the three sectors thus defined in the gross value added of industry as a whole. It illustrates that the **structural shifts** in production in the three new Member States between 1986 and 1993 moved in the same direction as the EU average until 1990. The share of both the primary and the secondary sectors in total gross value added fell, while there was a correspondingly marked rise in the contribution of services. In the seven years under consideration, the share of the tertiary sector increased by 4.1 percentage points for Austria, 8.8 percentage points for Sweden and 6.8 percentage points for Finland.

In 1993, however, the EUR12 average did not continue this trend, since the share of services, particularly market services, in the gross value added of the economy fell slightly, while manufacturing industry increased its share slightly.

In 1993, as a result of the marked increase in the share of services in Sweden, almost 69% of the country's gross value added was generated by services, while the figure for the Union average was not quite 63%. The data available show that in Sweden the growth in services is due to market services, even if the absolute level of the share of non-market services is higher than the Union average; this last remark stays also for Finland. Within the **services sector** in Austria, it is also market services such as banks, insurance, consultancies and other professions whose contributions are on the increase, while the share of non-market services such as public administration, education, defence, welfare and the like was almost the same in 1986 and 1983. In Finland, on the other hand, both branches of services increased their share of the gross value added of the economy by about 3 percentage points.

Manufacturing industry is the most important branch in the **secondary sector.** However, except for 1993 in Finland, the share of manufacturing industry in gross value added in all three new Member States fell, particularly in Sweden, where it decreased from 23.2% in 1986 to 19.3% in 1993.

The share of agriculture, forestry and fisheries in the gross value added of the economy is, in absolute terms, not very great in Sweden and Austria, which is close to the Union average. However, this sector is more important in Finland, where in 1993 it contributed 6.3% of gross value added, almost double the EUR12 average. This is mainly due to the forestry branch, which is more highly developed in Finland than on average in the Union.

On the whole, the structure of gross value added shows that the economies of all three new Member States are clearly based on industry and services, as is the case for the EUR12 average.

II.2.2 Productivity by branch

Gross value added per capita of occupied population for all branches together is a measurement of **economic productivity.** Table II.2.2 gives the comparative figures for the three new Member States and EUR12 in absolute terms and in relation to EUR12 = 100.

The figure for Austria was slightly below the EU average in both 1986 and 1990, with services at the root of this lower performance in relation to the EU. In 1993 however, Austria's economic productivity was 11 percentage points above the EUR12 average, mainly as a result of improved performance in the manufacturing and construction industries and particularly in services.

The seriousness of Finland's economic problems in the early 1990s is again reflected in its economic productivity, which in 1986 was 4 percentage points above the EU average. In 1990, the last year of an economic boom in Finland, productivity was 21 percentage points above the EUR12 average. In 1993, the last year of the deep 1991-1993 crisis, the productivity of Finland's economy was 9 percentage points below the EU average, the negative influences coming mainly from services and also from building and construction, although this only has a small share (4.6% in the gross value added of the economy). When considering the 1993 figures, it must be borne in mind, however, that without the exchange rate effect the Finnish figures would have been about 16% higher.

Sweden's economic productivity was above the EUR12 average throughout the period, even in 1993, when the Krona lost 20% of its value against the ECU. All the branches contributed to this result except "non-market services". In this connection, the concept "productivity of the non-market services branch" must be used with caution. Since these services are provided to the population by general government and private non-profit organizations mainly free of charge, the value added of the branch is calculated by adding the "costs", which are made up mainly of the wages and salaries of those employed in the branch, the net production taxes paid by the branch and its depreciation. Therefore, high productivity in the non-market services branch principally means that those employed in it have a high per capita income, while low productivity indicates a correspondingly low income. Besides of these general theoretical considerations another element makes the per head productivity of non-market services in Sweden rather low compared with the EU-average; this is the fact that the proportion of part-time jobs in this field is rather high.

If the three countries had joined the Union in 1993, economic productivity with the change from EUR12 to EUR15 would have increased by an average of about 3%, since the performance of Austria and Sweden easily outweighs the influence of Finland. In the light of the above-mentioned positive trends in the gross domestic product of the three countries, particularly Sweden and Finland, even higher figures can be expected for 1994.

The most marked differences in trends in productivity over time are in the branch **"agricultural, forestry and fishery products"**. It must be borne in mind here that the value added of this branch is highly dependent on the weather. Poor harvests and "harvests of the century" often cause value added (and hence productivity) to fluctuate wildly from year to year.

In the **energy branch** the high productivity in Austria and Sweden in relation to the Union is striking. This is due to the fact that both countries have a relatively large number of hydro-electric power stations, which can be operated with a small number of staff. Value added per capita of occupied population is correspondingly high.

Table II.2.2	GVA per person of total employment and branch, ECU											
	EUR12			Austria			Finland			Sweden		
	1986	1990	1993	1986	1990	1993	1986	1990	1993	1986	1990	1993
Agricultural, forestry and fishery products	12042	16124	20110	13033	19151	21288	20043	33052	22790	20933	29658	22486
Fuel and power products	63169	72264	82992	102944	117943	162285	66241	71186	68782	132094	160816	167967
Manufactured products	24172	30446	34667	25948	33360	40003	30781	46216	41500	29427	37249	38933
Building an construction	23262	30284	33691	27304	35165	46175	26861	42982	22984	27196	40621	37218
Services	28366	35029	37295	25073	31352	38390	26343	37258	31704	27119	35270	36330
Market services	29983	37282	39447	26838	34472	42019	28899	40570	35946	34737	44098	46929
Non-market services	24279	29164	31566	21699	25256	31358	22626	32413	26291	19585	25880	24985
Total of all branches	26233	32866	36072	25627	32488	39936	27158	39619	32697	28268	36840	37410
	GVA per person of total employment and branch, EUR12 = 100											
Agricultural, forestry and fishery products	100	100	100	108	119	106	166	205	113	174	184	112
Fuel and power products	100	100	100	163	163	196	105	99	83	209	223	202
Manufactured products	100	100	100	107	110	115	127	152	120	122	122	112
Building an construction	100	100	100	117	116	137	115	142	68	117	134	110
Services	100	100	100	88	90	103	93	106	85	96	101	97
Market services	100	100	100	90	92	107	96	109	91	116	118	119
Non-market services	100	100	100	89	87	99	93	111	83	81	89	79
Total of all branches	100	100	100	98	99	111	104	121	91	108	112	104

Source: Eurostat

As regards **manufactured products**, all three new Member States are above the EU average for productivity, sometimes considerably so. Without the exchange rate effect, the figures for the two Scandinavian countries would have been even higher. When detailed data are supplied, it will be interesting to examine in exactly which branches of industry the new Member States have specific production advantages.

The above remarks on manufactured products also apply on the whole to **building and construction.** The relatively low figure for Finland in 1993 shows that, as a branch which is sensitive to cyclical influences, building and construction was particularly badly hit by the country's economic difficulties. As a result of the exchange rate effect and of the fact that the value added of the branch fell even more than employment, the productivity of the Finnish building and construction industry decreased dramatically in 1993 to only 68% of the EUR12 average, which it had exceeded by 42 percentage points in 1990.

II.2.3 Compensation of employees by branch

With regard to the compensation of employees, two main points are interesting for analytical purposes: the per capita figure and the ratio of income to productivity.

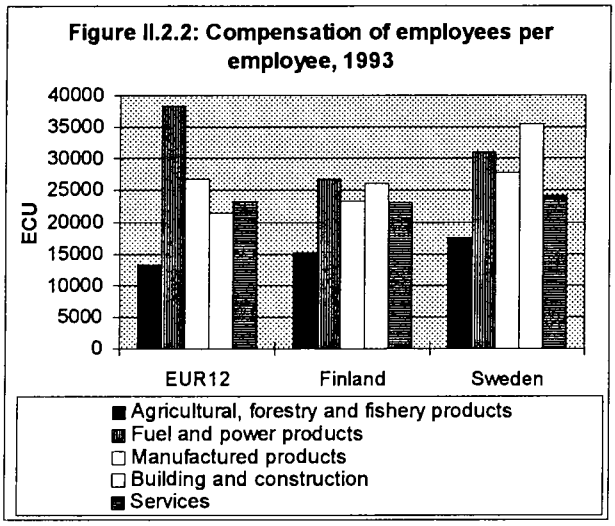
Table II.2.3 shows **per capita compensation of employees** in absolute figures and in relation to EUR12=100.

As the table shows, analysis must be confined to EUR12, Finland and Sweden, since Austria does not yet calculate compensation of employees in its national accounts. In addition, no data are yet available for 1994.

Table II.2.3	Compensation of employees per capita and branch, ECU								
	EUR12			Finland			Sweden		
	1986	1990	1993	1986	1990	1993	1986	1990	1993
Agricultural, forestry and fishery products	8849	11428	13332	14762	20237	15229	15179	20139	17625
Fuel and power products	26846	34719	38371	23122	33324	26843	22471	32504	31109
Manufactured products	19740	24486	26832	19748	28942	23301	21407	28343	27761
Building an construction	16600	20119	21539	21994	34970	26064	26342	38868	35526
Services	16303	20012	23260	19733	28530	23187	19132	25417	24222
Market services	15108	18184	20475	18716	27574	22263	20023	26699	24917
Non-market services	18317	23261	29406	21002	29753	24207	18342	24195	23571
Total of all branches	18047	22178	24048	19967	29049	23243	20046	26865	25482
	Compensation of employees per capita and branch , EUR12=100								
Agricultural, forestry and fishery products	100	100	100	167	177	114	172	176	132
Fuel and power products	100	100	100	86	96	70	84	94	81
Manufactured products	100	100	100	100	118	87	108	116	103
Building an construction	100	100	100	132	174	121	159	193	165
Services	100	100	100	121	143	100	117	127	104
Market services	100	100	100	124	152	109	133	147	122
Non-market services	100	100	100	115	128	82	100	104	80
Total of all branches	100	100	100	111	131	97	111	121	106

Source: Eurostat

Figure II.2.2 portrays per capita compensation of employees for 1993 by branch.



Source: Eurostat

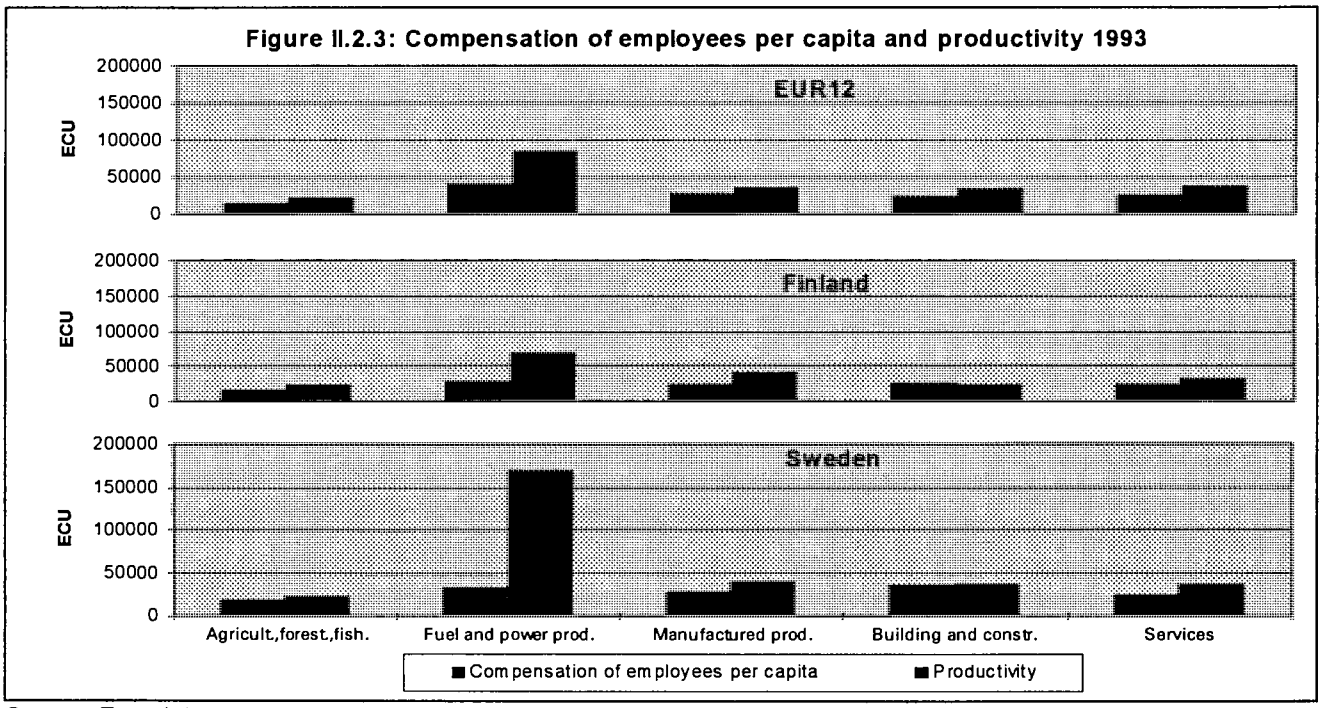
It can be seen from the fact that the 1993 figures for Finland and Sweden are very low as a result of exchange rates influences that the average gross per capita compensation of employees in the two Scandinavian countries was above the EU average in all the years under consideration. One reason is that the employers' social security contributions contained in the compensation of employees are higher per capita in both countries than the EU average. The relative isolation from the international labour market probably also has the effect of increasing the average amounts employers have to pay their employees.

However, higher per capita compensation of employees is not a feature of all the branches, as is very clearly illustrated in Figure II.2.2.

It is noticeably that the per capita figures in the fuel and power products branch is below the EU average in both Scandinavian countries, in the case of Finland by 30 percentage points. One of the reasons for this is that both Finland and Sweden have no offshore drilling platforms, while in other Member States of the Union, oil rig personnel earn extremely high wages which push up the EU average.

The opposite can be said of the per capita compensation of employees in Finland's and Sweden's building and construction industries. In 1993 they were still higher than the EU average (21 points for Finland and 65 for Sweden) after having been even higher during the preceding boom. One of the main reasons for this is that more skilled (and thus more highly paid) personnel are employed in the construction industries of both countries than on average in the Union. A probable further factor is that in both countries, employees, especially those in the construction industries, are recruited in the domestic labour market to a much greater extent than in other Member States of the Union. There is also the fact that moonlighting, which drives the level of wages down, is not so widespread.

Figure II.2.3 compares per capita compensation of employees and productivity by branch.



Source: Eurostat

Finland's and Sweden's building and construction branch and Sweden's fuel and power products branch show striking differences from the EU average in the gap between the two figures, this gap being a measurement of the entrepreneurial profits plus depreciation in a given branch. Particularly Finland's building and construction industry again highlights the 1993 crisis which led to entrepreneurial losses. The substantial gap between per capita compensation of employees and per capita gross value added in Sweden's fuel and power products branch is the result of several factors working in opposite directions. On the one hand, there is the low - relative to the EU average - per capita compensation of employees in the fuel and power products branches of the two Scandinavian countries, mainly as a result of the above-mentioned absence of well-paid jobs on oil rigs. On the other hand, the productivity of this branch is particularly high compared with the EU average, since Sweden has many hydroelectric power stations. This has a double impact on the figures: not only can they be operated with a small number of staff, as mentioned above, but also such power stations have relatively high deprecation, which is also a component of gross value added at factor cost.

II.3 Final consumption and capital formation

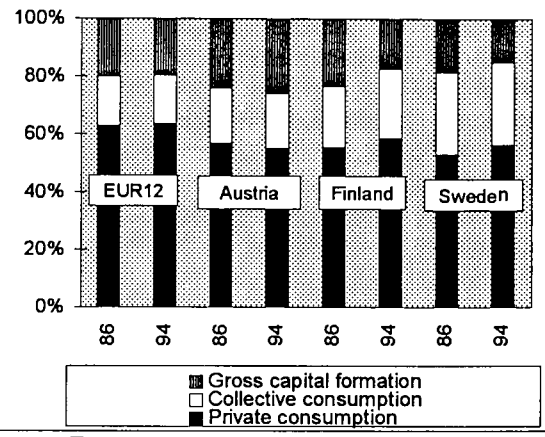
II.3.1 The structure of final domestic use of products

An analysis of the structure of **final domestic use** shows that there are sometimes considerable differences between the figures for the three new Member States and the EUR12 average (see tables II.3.1 - II.3.3).

Strikingly, in the year prior to accession to the EU, Austria had a high share of gross capital formation at the expense of private consumption. It is typical for Sweden and Finland that general government consumption represents a large proportion of final domestic use. In both countries this is mostly at the expense of the share of gross capital formation (see Figure II.3.1).

Table II.3.1 shows that in the three new Member States **the share of private consumption** is considerably lower than the EUR12 average.

Figure II.3.1: Share in the final domestic uses



Source: Eurostat

The figures for Austria moved further away from the average between 1986 and 1994, resulting in a difference of 13 percentage points.

Table II.3.1	Share of private final consumption in the final domestic uses			
	ECU - current prices			
	EUR12	A	FIN	S
1986	62,9	57,1	55,8	53,1
1990	61,7	56,2	51,8	51,1
1993	63,7	55,8	60,1	57,0
1994	63,7	55,2	58,9	56,5
	EUR12=100			
1986	100	91	89	84
1990	100	91	84	83
1993	100	88	94	89
1994	100	87	93	89

Source: Eurostat

The figures for Finland and Sweden moved in the opposite direction, becoming closer to the EU average since 1990 and ending up in 1994 with differences of 7 (Finland) and 11 (Sweden) percentage points.

Table II.3.2	Share of general government consumption in the final domest. uses			
	ECU - current prices			
	EUR12	A	FIN	S
1986	17,2	19,2	21,0	28,4
1990	16,6	18,0	20,9	27,5
1993	17,3	19,4	24,8	29,0
1994	17,0	19,1	23,9	28,5
	EUR12=100			
1986	100	112	122	165
1990	100	108	126	165
1993	100	112	143	168
1994	100	113	141	168

Source: Eurostat

The share of general government consumption in final domestic use is considerably higher than the EUR12 average for all three new Member States. This applies particularly to Sweden, where the figure is almost 70 percentage points above the EU average, but also to Finland, which in the past two years has had figures over 40 percentage points higher than the average. In 1993 and 1994 the share of general government consumption in Austria was over 10 percentage points above the EUR12 average (see table II.3.2).

The large share of general government consumption in the two Nordic countries is mainly a reflection of a more highly developed welfare system than those of EUR12.

The share of gross capital formation in final domestic use varies considerably for the three new Member States as regards both the trend and the absolute level (see table II.3.3).

Table II.3.3	Share of gross capital formation in the final domestic uses			
	ECU - current prices			
	EUR12	A	FIN	S
1986	19,9	23,7	23,2	18,5
1990	21,7	25,9	27,3	21,4
1993	19,0	24,8	15,1	14,0
1994	19,4	25,7	17,2	15,1
	EUR12=100			
1986	100	119	117	93
1990	100	119	126	99
1993	100	131	80	74
1994	100	132	89	78

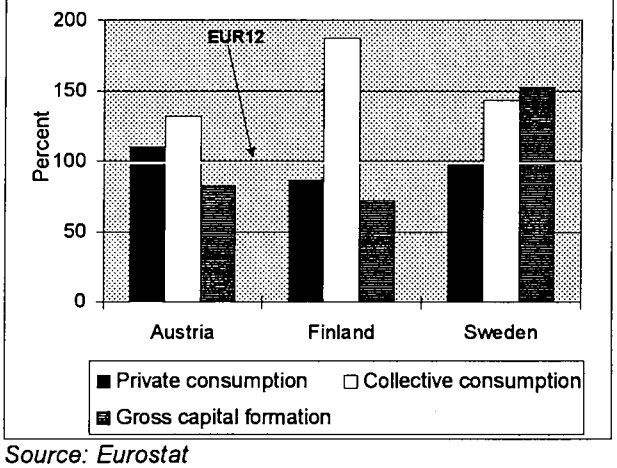
Source: Eurostat

Austria was above the EUR12 average in all the years considered (and in the last two by over 30 percentage points). Sweden's share is below the average in all the years, the 1994 figure being about 22 percentage points below the EU average. In 1990 the figure for Finland was 26 percentage points above the EUR12 average, but it subsequently fell to 80% of the average in 1993 before recovering by 9 percentage points in 1994.

II.3.2 Final consumption and capital formation per capita

A comparison of the aggregates of final domestic use **per capita or per capita of occupied population** shows that in the three new Member States these figures also vary to some extent quite considerably from the EU average. Figure II.3.2 shows these differences for 1994, in which the average for the Union of Twelve is 100.

Fig. II.3.2: Aggregates per capita, EUR12=100, 1994



Source: Eurostat

Figure II.3.2 demonstrates that Austria was above the EUR12 average in 1994 as regards private consumption, general government consumption per capita and gross fixed capital formation per capita of occupied population. Finland and Sweden had higher general government consumption per capita than the EUR12 average, but gross fixed capital formation per capita of occupied population was lower. For private consumption per capita, Finland and Sweden were below the EU average, although only slightly below in the case of Sweden.

Since the general government consumption per capita of all three Member States is considerably higher than the average for the Union of Twelve, the transition from EUR12 to EUR15 will result in a noticeable increase of 3.4% in this average in relation to the 1994 figures. For private consumption per capita, the upward effects on the EU average caused by Austria offset the downward effects of the Finnish figure. Since the figure for Sweden is about the same as the EU average, the transition from EUR12 to EUR15 will not produce a noticable change. The effects of the accession of the three countries on the EU average for gross fixed capital formation per capita of occupied population are also marginal. Austria's above-average figure more than offsets the downward influences of Finland and Sweden, so that the EUR15 average is about 0.2% above that of EUR12 in 1994.

It has been shown above, on the basis of 1994, that the absolute level of per capita values of the aggregates of final domestic use in the three new Member States vary to some extent considerably from the EUR12 average. However, it is not only the absolute values that are different: changes in the per capita data over time in some cases show directly opposing trends in the three countries.

Private consumption

Table II.3.4 shows the per capita private consumption of the population. Austria, which in 1986 was 4 percentage points above the EU average and in 1990 was on a par with it, managed to increase this lead in the last two years to 8 (1993) and 10 (1994) percentage points. The trend in Finland and Sweden was the opposite.

Table II.3.4	Private consumption per head			
	ECU - current prices			
	EUR12	A	FIN	S
1986	6817,0	7084,2	7921,7	8322,7
1990	8913,5	8952,6	11143,8	10761,5
1993	9970,2	10731,1	8003,9	9959,4
1994	10325,1	11367,3	8934,9	10195,3
	EUR12=100			
1986	100	104	116	122
1990	100	100	125	121
1993	100	108	80	100
1994	100	110	87	99

Source: Eurostat

In both countries private consumption was originally higher than the EU average - in 1990 still by 25 (Finland) and 21 (Sweden) percentage points. Then, in 1993, the figure for Sweden fell to the EU average and in 1994 to slightly below it. The figure for Finland plummeted in 1993, both in absolute terms and in comparison with the EU, to 20 percentage points below the EU average and, despite a slight recovery, was still 13 percentage points below it in 1994. Of course this is again influenced by exchange rate fluctuations, but even without these effects, the private consumption per head would have dropped substantially in 1993 in Finland.

Structure of private consumption

There are considerable differences between the new Member States and the EU average not only in the absolute level of private consumption but also in the **structure of the private consumption of households by purpose**. Table II.3.5 shows the shares of the individual purposes. The comparison was based on 1993, since this was the last year for which reliable data are available, although they do not include Luxembourg and Portugal. These data show that Austria is relatively close to the EU average for all the headings. The differences between Sweden, Finland and the EUR12 average are illustrated in the chart in Figure II.3.3.

As table II.3.5 and Figure II.3.3 show, the differences are greatest for the headings "Gross rent, fuel and power", "Food, beverages and tobacco" and "Medical care and health expenses", if we disregard "Miscellaneous goods and services" because of its heterogeneous structure.

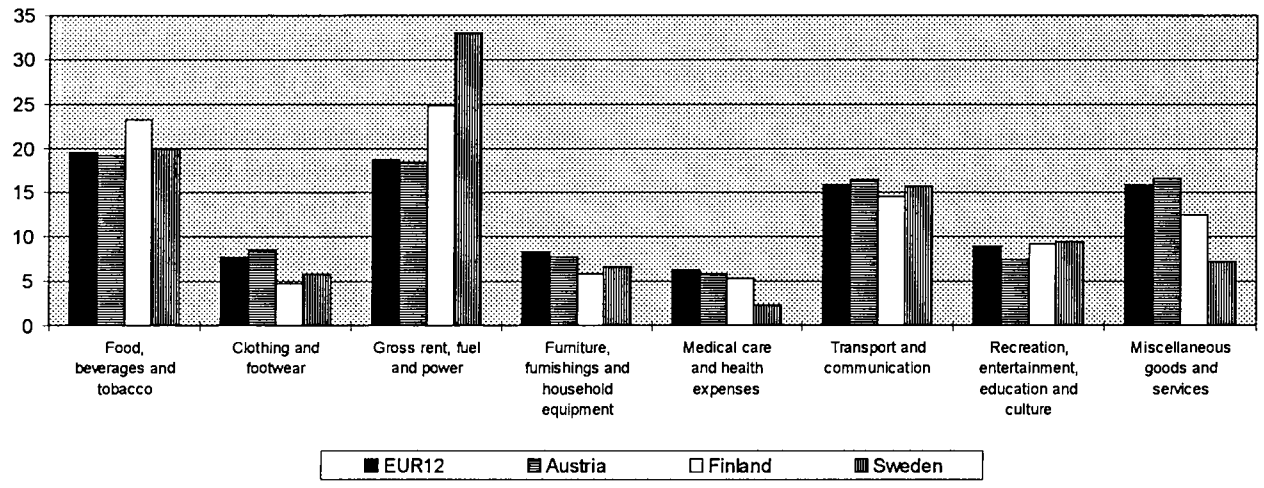
There are major differences for "gross rent and water charges". While they account for just under 15% of the EUR12 average for private consumption of households, the figure is 26.6% for Sweden. Austria is very close to the EU average, and Finland is 3.3 percentage points above it. The elevated value for Sweden is mainly due to the comparatively high rents in that country. In both Nordic countries the large costs of construction, determined by the climate, also have an impact.

Table II.3.5	Final consumption of the households on the economic territory, by purpose, 1993, share in total in %			
	EUR12*	A	FIN	S
Food, beverages and tobacco	19,6	19,1	23,2	19,9
Clothing and footware	7,7	8,5	4,7	5,8
Gross rent, fuel and power	18,4	18,5	24,8	32,9
gross rent and water charges	15,0	14,5	20,0	27,6
fuel and power	3,7	4,0	4,8	5,3
Furniture, furnishings and household equipment	8,3	7,8	5,8	6,6
Medical care and health expenses	6,2	5,8	5,3	2,3
Transport and communication	15,9	16,4	14,5	15,7
Recreation, entertainment, education and culture	9,0	7,5	9,2	9,5
Miscellaneous goods and services	15,9	16,5	12,5	7,2
Sum	100,0	100,0	100,0	100,0

*EUR12: without Luxembourg and Portugal

Source: Eurostat

Figure II.3.3: Share of consumption by purposes in total final consumption of households, 1993



Source: Eurostat

The share of the purpose "Food, beverages and tobacco" in the final consumption of households is striking in that Sweden, Austria and the EUR12 average are very close (19.1% - 19.9%), while Finland, with 23.2%, is 3.6 percentage points above the EU average. The important share of this purpose within Finland is to a large extent caused by the high relative prices of these goods. High consumption of drinks and tobacco also reinforce this effect.

Moving on from food, Sweden has a strikingly low figure for "Medical care and health expenses". However, this does not mean that the Swedes make less use of medical and health services or consume fewer health-care products. The concept "private consumption of private households" is somewhat confusing here, since the data relate by definition not to the actual consumption of households but to the **purchases** of private households for the particular purpose or total private consumption. In the case of Sweden and "Medical care and health expenses", this only means, therefore, that the Swedes make proportionally fewer purchases than the EUR12 average and also than the Finns and Austrians. They obviously receive a good deal more of such products and services free of charge or heavily subsidized by the State than is the case in the other countries.

The relevant expenditure is then recorded in the national accounts as consumption of general government, which is in line with the disproportionately high share of Swedish general government consumption in final domestic uses, which has already been discussed above. The above average shares of the purposes "Transport" and "Miscellaneous goods and services" in Austria are caused by the significant number of tourists visiting the country. The above average share of the purpose "Clothing and footwear" is due to tourist purchases and, also, the high relative prices of these goods.

General government consumption

Table II.3.6	General government consumption per head			
	ECU - current prices			
	EUR12	A	FIN	S
1986	1865,7	2383,6	2974,6	4443,2
1990	2401,8	2866,2	4483,8	5781,5
1993	2705,5	3725,6	3300,2	5073,6
1994	2749,4	3935,2	3621,4	5139,8
	EUR12=100			
1986	100	128	159	238
1990	100	119	187	241
1993	100	138	122	188
1994	100	143	132	187

Source: Eurostat

Table II.3.6 shows general government consumption per capita. The figures illustrate that the trends in the three new Member States again vary greatly. The main feature shown above, is that all of them were still considerably above the EU average in 1994. Austria is currently moving further away from it. While in 1990 it was 20 percentage points above the EUR12 average, in 1994 this figure rose to 43%. Sweden has moved in the opposite direction: general government consumption per capita was almost two and half times higher than the EU average in 1990. The figure then dropped both in relation to the Union and in absolute terms, but in 1994 it was still 87 percentage points above the EUR12 average. In 1990 Finland's general government consumption per capita was 87 percentage points above the EU average, but it fell to 22 percentage points above in 1993 and then rose again to 32 percentage points above in 1994. The significant fall in the

general government consumption for both Nordic countries was mainly caused by exchange rate movements. However, faced with economic difficulties, there are also efforts by the states to reduce government expenditure on social security services, which are no longer possible to finance. Differences in the organisation of social systems in both countries, which lead to the National Accounts of Sweden and Finland having a higher general government consumption and a lower private consumption compared with the Union average, will continue to exist.

Gross fixed capital formation

Table II.3.7	Gross fixed capital formation per occupied person			
	ECU - current prices			
	EUR12	A	FIN	S
1986	5356,1	6726,3	7176,3	5769,8
1990	7398,9	9205,5	12191,0	8549,2
1993	7612,8	11080,0	5483,8	5577,4
1994	7850,1	11971,4	6496,9	5673,4
	EUR12=100			
1986	100	126	134	108
1990	100	124	165	116
1993	100	146	72	73
1994	100	152	83	72

Source: Eurostat

Table II.3.7 shows the data available on gross fixed capital formation per capita of occupied population. It illustrates that the same trends are discernible as for private consumption per capita, except that in Sweden's case they are even more pronounced. In 1990, Austria was 24 percentage points above the EU average and this further increased this difference, so that in 1994 about one and a half times more than the EUR12 average was invested per capita of population in fixed capital goods. In 1990, Sweden was 16 percentage points above the EU average, but as a result of the country's economic difficulties, particularly at the beginning of the 1990s, gross fixed capital formation fell to 72% of the EUR12 average in 1994. The crisis of the early 1990s affected Finland even more drastically in this area. After having been 65 percentage points above the EU average for gross fixed capital formation in 1990, it fell to 28 percentage points below the average in 1993 and, after recovering somewhat, was 17 percentage points below it in 1994. These breakdowns would have existed even without the effects of exchange rates. It shows that investments are particularly sensitive to critical economic developments.

It is interesting to compare the three new Member States with EUR12 not only as regards the level of gross fixed capital formation but also as regards its **breakdown by equipment and buildings.**

Table II.3.8	Share of equipment in gross fixed capital formation			
	ECU - current prices			
	EUR12	A	FIN	S
1986	43,8	43,2	39,0	45,2
1990	44,6	42,2	36,7	42,9
1992	42,6	36,4	37,0	39,4
1993	-	36,2	39,8	39,9
	EUR12=100			
1986	100	99	89	103
1990	100	95	82	96
1992	100	85	87	92

Source: Eurostat

Table II.3.8 shows the share of equipment in gross fixed capital formation in Finland, Sweden and Austria and the EUR12 average. The 1986 figure for Austria was about the same as that for EUR12, but by 1992, the last year for which comparative data for EUR12 are available, it had dropped to 15 percentage points below the EU average. In absolute terms, between 1986 and 1992 it dropped by 6.8 percentage points from 43.2% to 36.4%, while the EUR12 average fell by only 1.2 percentage points over the same period. The trend is similar for Sweden, where the share of equipment fell from 45.2% in 1986 to 39.4% in 1992. After being 1.4 percentage points above the EU average in 1986, it fell to 3.2 percentage points below it in 1992. The reasons for the decline in the share of equipment in gross fixed capital formation are quite different for Sweden and Austria. In Sweden, there is a relationship between this decline and the reduction in the share of gross capital formation in final domestic use and the fall in gross fixed capital formation per head. In Austria, this share and the per head gross fixed capital formation rose considerably compared with the Union average. This means that the construction share of capital formation grew much faster in Austria than the Union average. Further analysis shows that this results mainly from the state investment in housing. In absolute terms, the share of equipment in gross fixed capital formation initially fell in Finland also, but in contrast to the other two countries, rose again in 1993 to 0.8 percentage points above the 1986 level.

II.4 External trade

Austria and Sweden are among the countries which managed to achieve a positive **external trade balance** in the first four years of the 1990s. This means that they succeeded in exporting more goods and services than they imported. The external trade balances of all the countries of EUR15 for 1990-1993 are shown in table II.4.1. The table also shows that Finland, which in 1990 and 1991 had a negative external trade balance, managed to reverse this trend in 1992 and 1993 with increasing success, certainly supported by

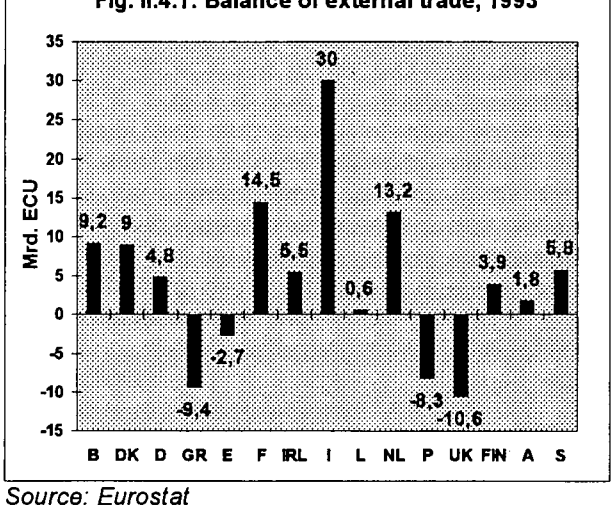
Table II.4.1	Balance of external trade ECU - current prices			
	1990	1991	1992	1993
B	4,1	4,5	6,1	9,2
DK	5,5	6,8	8,4	9,0
D	-	-0,9	-3,0	4,8
GR	-9,2	-9,3	-8,8	-9,4
E	-13,1	-13,5	-12,4	-2,7
F	-6,5	-3,9	5,2	14,5
IRL	2,1	2,4	3,9	5,5
I	1,0	2,0	1,7	30,0
L	0,5	0,2	0,7	0,6
NL	10,3	11,1	11,0	13,2
P	-4,3	-7,6	-8,8	-8,3
UK	-21,0	-9,2	-12,1	-10,6
FIN	-1,6	-0,6	1,1	3,9
A	1,5	1,2	1,9	1,8
S	0,7	3,0	3,2	5,8

Source: Eurostat

the devaluation of the Finmark. The only countries of EUR12 which managed to reverse the trend in this way are France and - after certain difficulties in the wake of unification - Germany.

Figure II.4.1 shows the external trade balances for goods and services of all 15 countries in 1993.

Fig. II.4.1: Balance of external trade, 1993



Source: Eurostat

It illustrates that in 1993 Italy had the largest export surplus (approximately ECU 30 billion), but this was mainly due to the devaluation of the Italian lire. The United Kingdom, Greece and Portugal had the largest import surpluses.

While the external trade balance tells us whether there is any imbalance in a country's external trade relations, **per capita exports and imports** provide a picture of the intensity of an economy's foreign trade.

These per capita figures for the three new Member States and for the EU average are given in tables II.4.2 and II.4.3. Both tables show very clearly that the economies of the new Member States are far more active in external trade than the EU average. This applies particularly to Austria, which in 1986 was already above the EU average, by 53 percentage points for per capita exports and, by 60 percentage points for per capita

Table II.4.2	Exports per head ECU - current prices			
	EUR12	A	FIN	S
1986	3016,7	4605,7	3905,0	5313,6
1990	4061,9	6489,8	4908,9	6320,6
1993	4052,5	7379,3	4694,2	5948,5
1994	**4418,5**	**7847,5**	**5748,2**	**6920,2**
	EUR12=100			
1986	100	153	129	176
1990	100	160	121	156
1993	100	182	116	147
1994	100	178	130	157

Source: Eurostat

imports. Between 1986 and 1994 Austria consistently increased its lead. Tourism was especially decisive in these high export-values. The high import-intensity of the Austrian economy is connected with the fact that Austria's imports a large part of its investment goods, particularly from Germany. In 1986 Sweden was the highest above the EU average but then fell towards the EU average until 1993 before moving up again in 1994 to still achieve 57 percentage points above the EUR12 average for per capita exports and 46 percentage points for per capita imports. The same trend is also discernible for Finland, although the level of its per capita exports and imports is the closest to the EU average.

Similar information on the intensity of an economy's foreign trade can also be obtained by comparing the percentages of domestically produced goods and services which are exported (**share of exports in GDP** - disregarding re-exports) or the **ratio of volume of imports to GDP**. Tables II.4.4 and II.4.5 show the results of both calculations.

Table II.4.3	Imports per head			
	ECU - current prices			
	EUR12	A	FIN	S
1986	2807,7	4489,6	3670,8	4799,5
1990	3941,8	6289,6	5230,0	6242,4
1993	3887,4	7158,9	3915,1	5287,2
1994	4205,2	7787,7	4739,4	6119,2
	EUR12=100			
1986	100	160	131	171
1990	100	160	133	158
1993	100	184	101	136
1994	100	185	113	146

Source: Eurostat

Table II.4.4	Share of exports in GDP			
	ECU - current prices			
	EUR12	A	FIN	S
1986	27,3	36,8	26,9	32,8
1990	27,8	40,2	23,1	29,9
1993	25,6	37,9	33,3	32,8
1994	26,8	38,0	35,5	36,7

Source: Eurostat

Table II.4.5	Share of imports in GDP			
	ECU - current prices			
	EUR12	A	FIN	S
1986	25,4	35,8	25,3	29,7
1990	27,0	39,0	24,6	29,5
1993	24,5	36,8	27,7	29,2
1994	25,5	37,7	29,3	32,5

Source: Eurostat

It can be seen that, for the EU average, the share of exports in GDP is slightly higher than that of imports, as is the case for the new Member States. However, the figures for the EU average show that exports and imports only account for just over a quarter of GDP, while the new Member States export between 35.5% (Finland) and 38% (Austria) of GDP and import goods and services to the value of between just under 30% (Finland) and almost 38% (Austria) of GDP.

The **breakdown of the external trade** of the new Member States by **intra- and extra-EU** exports and imports also provides valuable information. Table II.4.6 shows the intra-EU shares in the exports and imports of Austria, Finland and Sweden.

When interpreting these figures, it should be borne in mind that the shares have been calculated on the basis of absolute figures obtained from external trade statistics. The definitions and concepts used in external trade statistics, however, do not always correspond exactly to those used in national accounts. The main difference is

Table II.4.6	Foreign trade EU - new Member states					
	Share of intra-EU exports in total exports			Share of intra-EU imports in total imports		
	ECU - current prices					
	A	FIN	S	A	FIN	S
1988	66,5	59,3	-	71,6	58,1	-
1989	66,3	59,5	62,4	71,3	59,2	63,1
1990	67,5	61,8	62,5	72,0	60,2	63,3
1991	67,9	66,4	62,9	71,1	59,4	63,3
1992	68,1	67,3	62,7	70,4	60,1	63,1
1993	67,8	59,3	59,8	71,8	58,1	62,9

Source: Eurostat

that external trade statistics record only exports and imports of goods but not of services.

Table II.4.6 shows that there are minor imbalances in all three countries' trade with the Union. In 1993, for example, 67.8% of Austria's exports of goods went to the Union, while 71.8% of its imports came from it. The situation is similar for Sweden, except that the figures for both exports and imports of goods are about 10% lower than Austria's. The opposite applies to Finland. In all the years under consideration, the percentage of total Finnish exports of goods which went to the Union is higher than the percentage of its imports of goods coming from the Union.

If we regard the situation from the point of view of the Union's exports and imports to and from the new Member States, these findings are confirmed: Table II.4.7 shows what percentage of its exports the Union as a whole sends to the new Member States and the percentage of its imports which come from them.

Table II.4.7	Share of imports from the new Member states and shares of exports to the new Member states in total imports and exports of the Union					
	ECU - current prices					
	Exports			Imports		
	A	FIN	S	A	FIN	S
1988	3,5	1,7	-	2,4	1,8	-
1989	3,3	1,8	3,7	2,3	1,7	3,6
1990	3,5	1,6	3,4	2,4	1,7	3,4
1991	3,5	1,3	3,1	2,4	1,5	3,2
1992	3,5	1,2	2,9	2,9	1,5	3,1
1993	3,9	1,2	3,1	2,7	1,6	3,1

Source: Eurostat

It is again apparent that the percentage of the Union's total exports of goods which goes to Austria (3.9%) is higher than the percentage of its total imports which comes from Austria (2.7%). For Sweden the percentages are almost in balance, while Finland, in contrast to Austria, receives only 1.2% of the Union's total exports but is the source of 1.6% of the Union's imports. The imbalance for Austria, shown in table II.4.6 and II.4.7 is partly caused by the comparatively large

volume of exports into East European countries. This leads to relatively smaller export volumes to Member states of the EU. It is also connected with the fact that foreign trade statistics exlude services. This has particular consequences for Austria, where exports of services are quite important due to the high level of tourism.

II.5 Disposable income, savings of the economy and the financial situation of general government

Disposable income and savings

The net disposable income of the economy is a variable which records what income is available to the sectors of the economy as a whole for financing final consumption and net investment and for saving. The savings rate used here indicates the share of the net savings in the net disposable income of the economy. In this context, "net" means excluding depreciation. Both variables are given in tables II.5.1 and II.5.2 for the EUR12 average and for the three new Member States.

Table II.5.1	Net disposable income per head, in ECU			
	EUR12	A	FIN	S
1986	9668	10893	11981	13678
1990	12664	14100	17234	17501
1993	14105	16655	10727	14717
	EUR12=100			
1986	100	113	124	141
1990	100	111	136	138
1993	100	118	76	104

Source: Eurostat

Table II.5.2	Saving ratio, %			
	EUR12	A	FIN	S
1986	10,2	13,1	9,1	6,7
1990	10,7	16,2	9,3	5,5
1993	2,4	13,2	(5,4)	(2,1)

( ) = negative
Source: Eurostat

Table II.5.1 shows that in 1986 and 1990 the three new Member States had levels of per capita net disposable income well above the EUR12 average, particularly Finland and Sweden. A different picture emerged in 1993. While Austria, with 18 percentage points above the EU average, increased its lead, the economic difficulties in Finland and Sweden in the early 1990s had repercussions on disposable income.
This was particularly the case for Finland, which in 1990 was 36 percentage points above the average EU per capita disposable income but fell in 1993 to 24% points below it. This was of course partly due to the devaluation of the Finnish mark against the ECU, but even without this effect Finland would still have been far short of the average EU per capita disposable income in 1993.

The drop in the Swedish figure, although considerable, was not quite so drastic. In 1990 Sweden's per capita disposable income was 38 percentage points above the EU average while in 1993 it was only 4 percentage points. Without the exchange rate effect, this figure would have been 25% above the EU average. The decrease in the disposable income of the sectors as a whole in Finland and Sweden in the early 1990s also left very little scope for savings. This is reflected in the savings rates of both countries. Although the rates were lower than the EUR12 average in 1986 and 1990 (quite considerably lower in the case of Sweden), they were positive, i.e. the sectors as a whole contributed to reserves. In 1993, on the other hand, both Finland and Sweden had negative savings rates, i.e. the sectors as a whole had to dip into reserves and/or take up loans abroad in order to finance final use and investments (no account is taken of capital transfers here).

In all the years under consideration, Austria had a very high savings rate, particularly in 1993, when it was furthest away from the EU average, which had fallen by over 8 percentage points compared with 1990. The traditionally high savings rate in Austria is due mainly to high savings by private households and also, in individual years, to high undistributed profits of corporate enterprises.

Financial balance and liabilities of general government

The following section looks into the financial situation of general government in the three new member States. It can among other indicators be portrayed by the general government debt and the financial balance. For the purposes of which is important but its ratio to the gross domestic product of the country in question.

Table II.5.3 shows the general government debt of the three countries as a ratio of GDP.

Table II.5.3	Share of public debt in GDP, %		
	A	FIN	S
1990	58,4	14,5	43,8
1991	58,7	23,0	53,0
1992	58,4	41,5	67,1
1993	62,8	57,1	76,2
1994	65,7	59,8	79,7

Source: Eurostat

Since 1990 there has been a trend in all three new Member States towards an increase in the ratio of general government debt to GDP. Austria, which started at the highest level of all three in 1990, had the smallest increase - approximately 7 percentage points - over the period to 1994. In Sweden the percentage almost doubled over this five-year period and in Finland it more than quadrupled. Two interrelated trends combined to exert upward pressure on the ratio of general government debt to GDP: a) the fall in GDP in absolute terms between 1991 and 1993 and b) the accelerated accumulation of liabilities through steadily increasing financial deficits. The renewed growth in GDP in Sweden and Finland in 1994 and a lower financial deficit than in the previous year caused the upward trend in this ratio to slow down. This is also true for Austria.

Table II.5.4	Share of public deficit in GDP, %		
	A	FIN	S
1990	2,2	(5,4)	(4,2)
1991	2,6	1,5	1,1
1992	2,1	5,9	7,8
1993	4,3	8,0	13,4
1994	4,5	5,8	10,4

() = negative
Source: Eurostat

Table II.5.4 shows the general government financial balance as a percentage of GDP. Figures without brackets represent a financial deficit, figures in brackets a financial surplus.

As mentioned above, in 1990 Finland and Sweden had a financial surplus. In 1991 these became deficits, albeit small in relation to GDP. By 1993, the general government financial deficit had grown to 8.0% of GDP in Finland and to 13.4% of GDP in Sweden. In 1994 this trend was arrested, and the deficit was reduced to 5.8% of GDP in Finland and to 10.4% in Sweden. In Austria, the general government financial balance, as a percentage of GDP, grew from 2.2% in 1990 to 2.6% in 1991, falling again to 2.1% in 1992. In 1993 and 1994 it reached twice its 1992 level but, as a percentage of GDP (4.3% respectively 4.5%), was lower than in the two other new Member states.

The purposes for which general government took up loans are of some importance for interpreting the financial deficit. There are loans to cover payments by general government of interest on its liabilities. These are the result of general government spending policy **in the past** and can hardly be influenced by present measures. Table II.5.5 shows, for the three new Member States, interest payments by general government as a percentage of GDP.

Table II.5.5	Share of interests paid by general government in GDP, %		
	A	FIN	S
1991	4,2	1,9	5,1
1992	4,3	2,6	5,4
1993	4,4	4,6	6,4
1994	4,2	5,1	6,9

Source: Eurostat

The gross fixed capital formation of general government may be regarded as investment in the **future growth** of the economies. Table II.5.6 shows it for the three countries as a percentage of GDP.

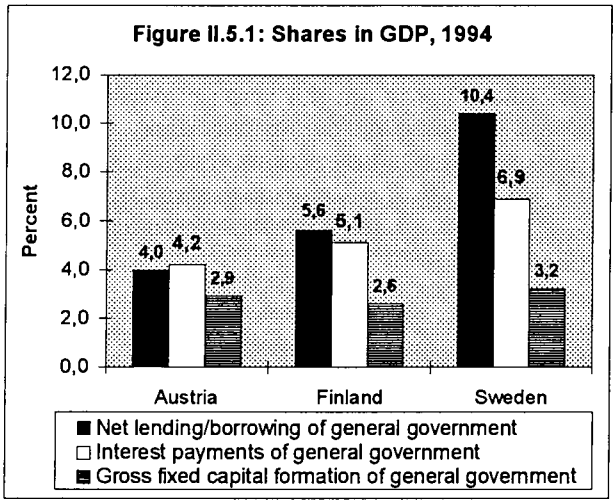
Table II.5.6	Share of government GFCF in GDP, %		
	A	FIN	S
1991	3,3	3,7	3,0
1992	3,3	3,5	2,9
1993	3,1	2,8	3,1
1994	2,9	2,6	3,2

Source: Eurostat

A third category of general government expenditure may be likened to current expenditure on consumption. This is expenditure on administration, security, health, education, social welfare services, etc.

Trends in the general government financial deficit often provide an insufficient indication of whether measures taken by general government to consolidate its finances are beginning to take effect. The reason for this is the interest payments by general government, which, depending on the general government debt, move only very slowly (assuming that interest rates are constant). For the purposes of analysis we therefore use the "primary deficit" of general government, which is calculated as general government revenue less expenditure excluding interest payments. If this figure is zero or even represents a "primary sur-

plus", it means that general government does not have to take up new loans in order to cover its current and capital expenditure.



Source: Eurostat

Figure II.5.1 shows, for the three new Member States, net lending/net borrowing, interest payments and gross fixed capital formation of general government as a percentage of GDP in 1994.

The figure illustrates that in 1994 Austria had a primary surplus, since its interest payments as a percentage of GDP were lower than the corresponding percentage for the financial deficit. Finland had a small, and Sweden a very considerable, primary deficit.

By comparing tables II.5.4 and II.5.5 we can see how the primary deficit/surplus of the three countries has moved over time since 1991. During the whole period Austria has had a primary surplus which has become smaller. In 1991 Finland and Sweden had primary surpluses which became deficits from 1992 onwards. For both countries, primary deficits were smaller than in the previous year for the first time in 1994.

II.6 Employment and unemployment

Employment

Tables II.6.1 and II.6.2 show the total employment of the economic territories of the three new Member States by branch, in absolute figures, as shares per branch in total employment and these shares in relation to EUR12 = 100. The branches correspond to the SNA definitions.

Table II.6.2 illustrates that there are sometimes fairly marked differences between the EU average and the three new Member States as regards the structure of employment by branch.

Employment structure in Austria is the closest to the EU average, whereby the most striking feature is that, in relation to the EUR12 average, the share of employment is lower in the branch

"Fuel and power products" and considerably higher in "Non-market services". The most likely reason for the former is that the extractive industry is less developed in Austria because there are so few deposits of energy-producing raw materials. The fact that the share of employment in "Non-market services" is about 25% higher than the European average indicates that Austria has a more highly developed public sector.

Table II.6.1	Total employment per branch, 1000 Persons											
	EUR12			Austria			Finland			Sweden		
	1986	1990	1993	1986	1990	1993	1986	1990	1993	1986	1990	1993
Agricultural, forestry and fishery products	10120	8856	7995	253	217	187	262	207	174	201	168	154
Fuel and power products	2228	2023	1976	46	44	42	29	28	24	38	36	33
Manufactured products	33641	34370	33860	857	853	792	517	480	378	976	937	742
Building and construction	8332	9145	9221	223	238	251	187	208	128	273	299	239
Services	72828	81088	85432	1840	1976	2115	1326	1429	1237	2898	3063	2825
Market services	52184	58579	62103	1206	1307	1395	786	849	694	1441	1579	1460
Non-market services	20644	22510	23329	632	669	720	541	580	544	1457	1484	1364
Total of all branches	127149	135482	138484	3219	3328	3387	2320	2351	1942	4367	4504	3992

Source: Eurostat

Table II.6.2	Share of total employment per branch in total employment of all branches (%)											
	EUR12			Austria			Finland			Sweden		
	1986	1990	1993	1986	1990	1993	1986	1990	1993	1986	1990	1993
Agricultural, forestry and fishery products	8,0	6,5	5,8	7,9	6,5	5,5	11,3	8,8	9,0	4,6	3,7	3,9
Fuel and power products	1,8	1,5	1,4	1,4	1,3	1,2	1,2	1,2	1,2	0,9	0,8	0,8
Manufactured products	26,5	25,4	24,5	26,6	25,6	23,4	22,3	20,4	19,5	22,3	20,8	18,6
Building and constructionion	6,6	6,7	6,7	6,9	7,2	7,4	8,1	8,8	6,6	6,2	6,6	6,0
Services	57,3	59,9	61,7	57,2	59,4	62,4	57,2	60,8	63,7	66,1	68,0	70,8
Market services	41,0	43,2	44,8	37,5	39,3	41,2	33,9	36,1	35,7	32,8	35,1	36,6
Non-market services	16,2	16,6	16,8	19,6	20,1	21,3	23,3	24,7	28,0	33,2	33,0	34,2
Total of all branches	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
	EUR12=100											
Agricultural, forestry and fishery products	100	100	100	99	100	96	142	135	155	58	57	67
Fuel and power products	100	100	100	82	89	87	71	78	87	50	54	57
Manufactured products	100	100	100	101	101	96	84	80	80	84	82	76
Building and constructionion	100	100	100	106	106	111	123	131	99	95	98	90
Services	100	100	100	100	99	101	100	102	103	115	114	115
Market services	100	100	100	91	91	92	83	84	80	80	81	82
Non-market services	100	100	100	121	121	126	143	149	166	205	198	203

Source: Eurostat

As regards Finland, a striking feature is the high share of "Agricultural, forestry and fishery products" in total employment in comparison with the EU average. This is mainly due to a highly developped forestry industry. The higher share (in 1993 by 66 percentage points) of "Non-market services" in total employment also stands out. This share also increased in relation to 1986 and 1990 because fewer jobs were lost in this branch than in others such as building and construction and manufacturing. On the other hand, however, the fact that the social system is more highly developed than the EU average, as described above, is reflected in the employment numbers in the public sector. This feature is even more pronounced in Sweden, where the share of "Non-market services" in total employment is even more than double the EUR12 average. In other words, 34% of all those employed in Sweden are employed in this sector, while the EU average is only just under 17%. As already mentioned above, one should point out again that the proportion of part-time jobs in general government is relatively high in Sweden, what has an increasing impact on this data.

The high share of "Non-market services" in total employment in Sweden also means that the shares of other branches are comparatively small. It is nevertheless striking that the share of employment in "Agricultural, forestry and fishery products" and "Fuel and power products" in total employment is very small in relation to the EU average.

In the case of "Agricultural, forestry and fishery products" this is due to the fact that farms are quite large and highly mechanized, while the relatively low share of "Fuel and power products" in employment is due to the fact that there are many hydro-electric power stations in Sweden as previously mentioned. Although their construction requires massive capital investment, once they are complete, they can be operated with a very small number of staff.

Table II.6.3 shows the average annual changes in employment between 1990 and 1993.

Table II.6.3	Total employment per branch: average annual growth rate 1990/93 in %			
	EUR12	A	FIN	S
Agricultural, forestry and fishery products	-3,4	-4,8	-5,6	-2,7
Fuel and power products	-0,8	-1,5	-4,3	-3,0
Manufactured products	-0,5	-2,4	-7,6	-7,5
Building and constructionion	0,3	1,8	-14,9	-7,3
Services	1,8	2,3	-4,7	-2,6
Market services	2,0	2,2	-6,5	-2,6
Non-market services	1,2	2,5	-2,1	-2,6
Total of all branches	0,7	0,6	-6,2	-3,9

Source: Eurostat

During this period there was a slight increase each year in average employment on the economic territory for EUR12 and in Austria. In the branches "Agricultural, forestry and fisheries products", "Fuel and power products" and "Manufactured products", however, the average fell each year, especially in the first of these three branches.

In Sweden and Finland the employment figures clearly reflect the crisis in the early 1990s. There are average annual decreases in the economy as a whole and in each individual branch, particularly in building and construction, a branch which is highly susceptible to cyclical influences (-14.9% for Finland and -7.3% for Sweden), and in manufactured products.

Unemployment

For Finland and Sweden, the trends in employment are also reflected in the unemployment rates, which are given in table II.6.4.

Table II.6.4	Unemployment rates			
	EUR15	A	FIN	S
	total			
1990	-	5,4	3,4	1,8
1991	-	5,8	7,6	3,3
1992	9,3	5,9	13,1	5,8
1993	10,8	6,8	17,9	9,5
1994	11,2	6,5	18,4	9,8
	under 25 years			
1990	-	5,2	6,7	4,5
1991	-	5,5	14,5	7,8
1992	18,2	5,3	25,2	13,6
1993	21,2	6,2	33,3	22,6
1994	21,6	5,8	33,6	22,6

Source: Eurostat

The data for calculating these figures were taken from the labour force survey and are therefore not in line with the SNA from a methodological point of view and they refer to EUR15. They show that the unemployment rate in Finland, starting from a very low level in 1990 (3.4%), increased by a factor of more than five to 18.4% by 1994, so that in that year Finland's unemployment rate was almost seven percentage points above the EUR15 average. The unemployment rate in Sweden in 1994 was 9.8%, still somewhat below the EUR15 average (11.2%) but a fivefold increase since 1990. In both countries, just as in the EU average, young people under 25 are particularly affected by unemployment. While in EUR15 and Sweden, about a fifth of this age group is unemployed, in Finland it is more than a third.

In Austria the unemployment rate rose from 5.4% in 1990 to 6.8% in 1993 and then fell slightly in 1994 to 6.5%. In that year it was only just over half the EUR15 average. Also the data on youth unemployment for Austria was much better than the average of EUR15. These values are less than one third of the EUR15 values.

II.7 Exchange rates and interest rates

Two further criteria for assessing the "readiness" of the Union for a common currency are the stability of the exchange rates of the national currencies against the ECU and the convergence (±2%) of the Member states' long-term interest rates to the long term interest rates of those countries, which have the lowest inflation rates.

Exchange rates

Tables II.7.1 and II.7.2 show the exchange rates and annual changes in the exchange rates of the currencies of the three new Member States against the ECU. A "-" preceding a figure in II.7.2 indicates an average appreciation of the national currency in relation to the ECU, and "+" indicates an average depreciation from one year to the next.

Table II.7.1	Exchange rates (1 ECU = ... nat. currency)		
	A	FIN	S
1980	17,97	5,17	5,88
1981	17,72	4,79	5,63
1982	16,70	4,71	6,15
1983	15,97	4,95	6,82
1984	15,73	4,72	6,51
1985	15,64	4,69	6,52
1986	14,96	4,98	7,00
1987	14,55	5,07	7,31
1988	14,59	4,94	7,24
1989	14,57	4,72	7,10
1990	14,44	4,85	7,52
1991	14,43	5,00	7,48
1992	14,22	5,81	7,53
1993	13,62	6,70	9,12
1994	13,55	6,25	9,17

Source: Eurostat

Table II.7.2	Exchange rate variation rate		
	A	FIN	S
1980	-	-	-
1981	-1,4	-7,3	-4,2
1982	-5,7	-1,7	9,1
1983	-4,4	5,1	11,0
1984	-1,5	-4,5	-4,5
1985	-0,6	-0,6	0,2
1986	-4,3	6,1	7,3
1987	-2,8	1,7	4,5
1988	0,3	-2,4	-1,0
1989	-0,1	-4,5	-2,0
1990	-0,9	2,8	5,9
1991	-0,1	3,0	-0,5
1992	-1,5	16,1	0,7
1993	-4,2	15,3	21,1
1994	-0,5	-6,6	0,5

Source: Eurostat

Table II.7.3	Long-term interest rates														
	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	FIN	S	A
	12-months average														
1990	10,1	10,7	8,8	-	-	9,9	-	-	8,6	8,9	-	11,8	-	13,2	8,7
1991	9,3	9,3	8,5	-	-	9,0	9,3	-	8,2	8,7	-	10,1	11,3	10,8	8,6
1992	8,7	8,9	7,9	24,1	11,7	8,6	9,3	13,3	7,9	8,1	-	9,1	12,0	10,0	8,3
1993	7,2	7,2	6,5	23,2	10,2	6,8	7,6	11,3	6,9	6,4	9,5	7,5	8,8	8,6	6,6
1994	7,7	7,9	6,9	20,8	10,0	7,2	8,0	10,6	6,4	6,9	10,4	8,2	9,0	9,5	6,7
	Yearly average														
Mar-95	8,1	8,5	7,3	19,9	10,9	7,7	8,6	11,5	6,3	7,3	11,2	8,7	9,9	10,5	7,0
Apr-95	8,1	8,7	7,3	19,7	11,2	7,8	-	11,8	6,3	7,3	-	8,7	10,0	10,7	7,1

Source: Eurostat

It can be seen from table II.7.2 that, except in 1988, there was a constant appreciation of the Austrian schilling against the ECU. It should be borne in mind in this context that the Austrian schilling is linked to the German mark, so that the ECU-schilling exchange rate basically follows trends in the ECU-DM exchange rate.

Movements in the ECU exchange rates for the Swedish and Finnish currencies are much more erratic, with alternating appreciations and depreciations. The deep economic crisis in both countries in the early 1990s, which has already been referred to a number of times, is very clearly reflected in the exchange rates. Between 1990 and 1993, for example, the Finnish mark consistently depreciated, in 1992 by as much as 16.1% and again in 1993 by 15.3%. In 1994 thecurrency recovered in line with the economy and appreciated by 6.6%. There are similar trends in Sweden's currency, for which the most critical year was 1993, when the krona lost more than a fifth of its value against the ECU. Nineteen ninety-four then saw a marked slowdown in depreciation, with the currency almost on a level with 1993.

Long-term interest rates

Table II.7.3 shows the long-term interest rates of the new Member States as annual averages for the years 1990 to 1994 and as sliding 12-month averages for the last two months for which data are available.

Luxembourg, with 6.4% (1994 annual average), has the lowest interest on long-term loans and Greece, with 20.8% (1994 annual average), has the highest as shown in chapter I. In both countries interest rates have steadily decreased since 1990. On the basis of the 12-month averages, this trend is set to continue in 1995 for Greece and Luxembourg. However, the interest rate for long-term loans in Greece is still two to three times higher than in the other Member States.

Austria comes fairly low down in the ranking between Luxembourg and Greece. With 6.7% in 1994, its interest rate is very similar to that of Germany and the Netherlands (both 6.9% in 1994), countries which have low inflation rates (see 1.7.1).

In the majority of Member states, and in the three new Member states, rates fell between 1990 and 1993 before moving up again in 1994. The 12-month averages would seem to indicate that this general trend will continue in 1995.

II.8 Conclusion

The entry of the three new Member states has already made a positive impact on important economic data of the Union. Calculations using 1994 data show that the population grew by 6.2%, but GDP rose by more, 7.2%. This causes a considerable increase in GDP per capita, by 3.4%. The Gross Value Added per employee, an indicator of productivity of the national economy also increased the Union average, by 3.0%.

It is safe to assume that in the following years the impact of the three new Member states on all production data of the Union will improve further, as the data for growth rates of GDP in 1994 already indicate that the recession of the early 90's has ended.

In the use side of GDP, average state consumption per capita increased by 3.4%. Concerning this, a return to the Union average before the entry of the three states can be expected in the near future, as governments try to reduce state expenses, particularly in Sweden and Finland.

The impact of Austria outweighs that of the other two new Member states for two further important economic indicators. The net effect of the entry of the three new Member states is a small increase in average national savings ratios and a slight fall in the unemployment rate for the European Union.

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