



# **THE ECONOMIC ACCOUNTS OF THE EUROPEAN UNION 1997**





**THE ECONOMIC ACCOUNTS  
OF THE EUROPEAN UNION  
1997**

A great deal of additional information on the European Union is available on the Internet. It can be accessed through the Europa server (<http://europa.eu.int>).

Cataloguing data can be found at the end of this publication.

Luxembourg: Office for Official Publications of the European Communities, 1998

ISBN 92-828-5031-5

© European Communities, 1998

Printed in Belgium

PRINTED ON WHITE CHLORINE-FREE PAPER



This publication on the economic accounts of the European Union for the year 1997 has been produced by **Unit B2 of Eurostat** «*Economic accounts and international markets: production and analysis*».

Concerning the macro-economic data outside the field of competence of unit B2, contributions have been prepared by the relevant units of Eurostat, i.e: «*International trade in services, direct investments, balance of payments*» for the section on direct investments, «*Regional indicators and accounts, population and geographical information system*» for the economic situation of the regions, «*Labour market*» for the analysis of the labour market in the Union, «*Price comparisons, correction coefficients*» for the consumer prices and «*Financial accounts and indicators, statistics for the excessive deficits procedure*» for the exchange rates, the ECU and the interest rates.

(Manuscript completed in August 1998)

For further **information** or any **suggestions**,  
please contact:

Marco De March, Head of the Unit  
«*Economic accounts and international  
markets: production and analysis*»

Bech Building, Office B3/399  
5, rue Alphonse Weicker  
L-2721 Luxembourg

Tel. (352) 4301-33207

Fax (352) 4301-33879

E-mail: marco.demarch@eurostat.cec.be

**All data requests** should be addressed to:

Eurostat  
Data Shop Luxembourg  
4, rue Alphonse Weicker  
L-2721 Luxembourg

(P.O. Box 453 L-2014 Luxembourg)

Tel. (352) 4335-2251

Fax (352) 4335-22221

E-mail: dslux@eurostat.datashop.lu



## PREFACE

As with similar publications produced by certain Statistical Institutes at national level, 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. Along with business cycle effects, a study of structural differences between Member States and their developments will be made.

Although the statistical analysis makes reference to specific national situations in the Member States, its purpose is to draw a profile of the Union, comparing it, where possible, with its main trading partners.

Following the decision of 2 May 1998 on the constitution of the Economic and Monetary Union, this document shows, besides of the data for the European Union with 15 Member States, also figures for the new economic entity which is the Euro zone.

In addition to the comments on the main economic variables, which will be a permanent feature, the report will contain also a topical study which will vary from year to year. This year's subject concerns the treatment of the economy of the Candidate Countries, which constitutes an interesting subject in the framework of the enlargement of the Union.

Compared with the economical analyses and forecasts made by other services of the European Commission, this report

provides a descriptive analysis of the facts only.

The present publication focuses on 1997, 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, it may seem inappropriate to publish and comment on relatively old data.

However, these data have certain advantages:

- they have been compiled on the basis of uniform definitions and methodologies, i.e. those used in the European System of Integrated Economic Accounts, second edition, 1979,
- the data used have been largely obtained from the National Statistical Institutes,
- a knowledge of recent trends helps to teach much about the present.

One of the major problems arising concerned data availability for all the countries at the time of drafting the report. Furthermore, for many variables, certain countries do not transmit any data, or this data is available with a delay of one or more years compared with the reference year.

Eurostat believes that by presenting and commenting in one single volume the main macroeconomic data of the Union and the Member States, this publication will render this data more accessible to users and will significantly contribute to a better understanding of the economic phenomena of our time.

**Y. Franchet**  
**Director general**  
**Eurostat**





# CONTENTS

<b>Review</b>	<b>9</b>
<b>I. Main macro-economic data of the European Union</b>	<b>13</b>
<b>I.1. Economic growth in the international framework</b>	<b>15</b>
<b>I.2. Economy of the Union</b>	<b>19</b>
I.2.1. GDP and its components	19
I.2.2. Short term analysis of gross domestic product	29
I.2.3. Distribution of GDP, disposable income, saving and net lending or borrowing	43
I.2.4. External trade	49
I.2.5. Foreign direct investment	63
I.2.6. The economic situation in the regions	71
<b>I.3 Economy by branch in the Union</b>	<b>75</b>
I.3.1. Gross value added	75
I.3.2. Gross fixed capital formation	81
I.3.3. Compensation of employees	86
<b>I.4. Private households in the Union</b>	<b>91</b>
I.4.1. Private households as income recipients	93
I.4.2. Private households as consumers	98
I.4.3. Private households as savers	102
<b>I.5. General government in the Union</b>	<b>105</b>
<b>Introduction</b>	<b>105</b>
I.5.1. General government expenditure	105
I.5.2. General government revenue	108
I.5.3. Government deficit and debt	112

<b>I.6.</b>	<b>Labour market in the Union</b>	<b>117</b>
I.6.1.	Population	117
I.6.2.	Employment	120
I.6.3.	Unemployment	124
<b>I.7.</b>	<b>Price, conversion rates and interest rates in the Union</b>	<b>127</b>
I.7.1.	Consumer prices	127
I.7.2.	Exchange rates, the ECU and EMU	133
I.7.3.	Purchasing power parities	137
I.7.4.	Interest rates	140
<b>II.</b>	<b>The Economic Accounts of the Candidate Countries in Eastern and Central Europe and Cyprus</b>	<b>145</b>
	<b>Introduction</b>	<b>145</b>
<b>II.1.</b>	<b>Gross Domestic Product of the Candidate Countries</b>	<b>149</b>
II.1.1.	GDP growth	149
II.1.2.	GDP and its main aggregates	150
II.1.3.	GDP in real terms	152
II.1.4.	Value added and capital formation by branch	154
II.1.5.	Exports and imports of goods and services	155
<b>II.2.</b>	<b>Trade in goods between the EU Member States and the Candidate Countries</b>	<b>161</b>
II.2.1.	Exports and imports of goods between the Member States and the CCs	161
II.2.2.	Trade structure between the EU and the CCs by product groups	162
II.2.3.	Trade in goods between the EU and the CCs by selected product groups	164
II.2.4.	EU imports of selected product groups	167
<b>II.3.</b>	<b>Monetary and financial indicators of the Candidate Countries</b>	<b>169</b>
II.3.1.	Exchange rates	169
II.3.2.	Official reserves, money supply and interest rates	

<b>II.4.</b>	<b>Prices and Purchasing Power Parities in the Candidate Countries</b>	<b>173</b>
II.4.1.	Consumer prices	173
II.4.2.	Purchasing Power Parities	174
<b>II.5.</b>	<b>Employment in the Candidate Countries</b>	<b>177</b>
II.5.1.	Total employment and its development	177
II.5.2.	Employment by branch	177
	<i>Symbols and abbreviations</i>	181



## REVIEW

*There follows a review of the main features of the European Union's economic performance in 1997. Because of the time lag in obtaining statistical data, some of the comments refer to 1996 data (branches, households) or even 1995 data (direct investment).*

### Growth

After the stuttering performance of the preceding years, the rate of growth in the European Union (EU-15) again moved upwards (+2.6%). The euro zone produced an almost identical performance (+2.5%). All the Member States showed the same trend. The growth rate in the United Kingdom was +3.4%, up by 1.2 percentage points compared with the previous year. There were similar improvements in France (+2.3%), Germany (+2.2%) and Italy (+1.5%), where the growth rate in the three countries was between 0.7 and 0.8 points higher than in 1996.

Growth was particularly strong in the United States, where at +3.8% it was a full point higher than the previous year. Japan experienced a sharp downturn, however, falling from +4.1% to +0.8%, while the newly industrialised countries in Asia were already showing early signs of the crisis that was going to hit them in 1998.

### GDP

The European Union's overall GDP amounted in 1997 to ECU 7 131 billion, 4% ahead of the United States (ECU 6 848 billion) and practically double the Japanese figure (ECU 3 712 billion). Among the Fifteen, Germany had the highest figure for GDP (ECU 1 854 billion), accounting for more than a quarter of the EU total.

Per capita GDP in purchasing power standards (PPS) shows considerable differences between countries, although these are much less marked than when the data are expressed in ecus. The 1997 figures for the Member States ranged from PPS 13 200 for Greece and 13 500 for Portugal to 21 800 for Denmark and 31 000 for Luxembourg. The EU average was PPS 19 000, compared with 27 600 for the United States and 22 500 for Japan.

The various components of GDP in the Union followed different patterns of development. At +1.9%, private consumption was slightly down on the previous year. There was a very marked slowdown in collective consumption, which just managed to record a positive growth figure (+0.4%). Gross fixed capital formation picked up, however, achieving growth of +2.5% in 1997 compared with only +0.8% in 1996. Exports and imports were up by +9.3% and +8.3% respectively.

Compensation of employees accounted for half of the Union's GDP in 1996, and net operating surplus for just over a quarter. The remaining quarter was divided almost equally between consumption of fixed capital and taxes less subsidies. Net national disposable income in the Union was 16% higher than in the United States and almost double the Japanese figure. The EU saving ratio was 8.4%, compared with 7% in the United States and 18% in Japan.

### External trade

The European Union's trade surplus with the rest of the world has been steadily rising since 1991, and in 1997 it amounted to ECU 50.5 billion.

The Union had a trade surplus with the Mediterranean countries (ECU 23.7 billion) and the countries in line for EU membership (ECU 23.3 billion). The same applied to the United States, albeit to a lesser extent (ECU 4.2 billion). With Japan and China, on the other hand, there were large trade deficits: ECU 23.2 billion and 20.9 billion respectively.

The Member State with the largest extra-EU surplus was Germany (ECU 40.7 billion), followed by Italy (23.1 billion) and France (15.3 billion). The biggest deficits were recorded by the Netherlands (ECU 30.7 billion) and the United Kingdom (15.4 billion).

Intra-EU trade as a proportion of total trade varied noticeably from one Member State to another. In the case of exports, the proportion was highest in Portugal, the Netherlands and the BLEU, and the lowest in Greece, Finland and Ireland. As for imports, the highest proportion occurred in Portugal, Austria and the BLEU, and the lowest in the United Kingdom, Germany and the Netherlands.

The balance of intra-EU trade in goods varied greatly from one Member State to another. The Netherlands achieved a record surplus of ECU 44.9 billion, way ahead of Germany. Deficits were recorded by Greece (ECU 9.9 billion), Austria (9.4 billion) and the United Kingdom (8.9 billion).

### **Direct investments**

At the end of 1995 the assets of foreign direct investments in the Union amounted to ECU 472 billion, while EU liabilities to non-member countries came to ECU 367 billion. This resulted in a net DIA surplus of ECU 105 billion. In terms of both assets and liabilities, the NAFTA area was by far the Union's major partner. Manufacturing (44%) was the main sector for investments by European firms outside the Community.

The same sector also accounted for the largest share (37%) of foreign investments in the Union.

### **EU regions**

Per capita GDP in 1995 ranged from PPS 7 400 in the Greek region of Epirus to 33 600 in the German Land of Hamburg. All the regions where per capita GDP is high are also relatively small.

Figures for 1997 (April) showed that Luxembourg was the EU region with the lowest unemployment rate (2.5%), while the region with the highest rate was Andalusia (32.0%).

### **Branches of production**

Gross value added, calculated by adding together the figures for the various branches of the economy, showed a year-on-year increase of 2% in volume terms in 1996. Services (+1.7%) accounted for most of the increase. They now account for two-thirds of the gross value added in the Union.

Services also accounted for more than half (+0.7%) of the total increase (+1.3%) of gross fixed capital formation in 1996.

Productivity by branch, expressed as gross value added per employee, amounted to ECU 38 000 in 1996. Fuel and power products produced the highest figures, well ahead of services and manufactured products.

Average compensation was highest for fuel and power products and lowest for agriculture, forestry and fishery products.

As for the cost of labour per unit produced, it was highest for building and construction, followed by agricultural, forestry and fishery products.

### **Households**

The Member State with the highest per capita final consumption of households in

in 1996 was Luxembourg, with a figure of PPS 13 063. There are considerable differences among the Member States, with figures ranging from 27 points below the EU average for Greece and Finland to 43 points above the average in the case of Luxembourg.

As for consumer expenditure in 1996, 18.8% went on food, beverages and tobacco products, 18.2% on housing, water, power and fuel products and 15.5% on transport and communications. There were often noticeable differences between countries. Food, beverages and tobacco products accounted for 37.7% of total expenditure in Greece, but only 14.8% in the Netherlands. Housing, water, power and fuel products are gradually becoming the major item of household expenditure in most of the Member States.

Gross household saving per capita amounted to ECU 1 808 in 1996. There was a considerable range in the figures: from ECU 2 710 in Italy and 2 438 in Belgium to only 701 in Denmark.

### General government

Public expenditure in 1996 ranged from 37.4 % of GDP in Ireland to 63.1 % in Sweden. There is a general downward trend in most of the Member States.

Government receipts varied between 35.7% of GDP in the United Kingdom and 60.3% in Sweden. Taxes and social security contributions accounted for 93% of these receipts. As a percentage of GDP, statutory levies in the fifteen Member States amounted to 42.6% in 1997, thus repeating the figure of the previous year. The highest rate was recorded in Sweden (54.1%) and the lowest in Ireland (34.1%).

In 1997 every Member State except Greece had a public sector deficit that was

equal to or less than the reference figure (3% of GDP) required by the Maastricht Treaty for participation in the single currency. However, there were only four countries - Luxembourg, the United Kingdom, Finland and France - where public debt was below the threshold fixed by the Treaty (60% of GDP). The figure ranged between 60% and 120% for all the others, apart from Italy (121.6 %) and Belgium (122.2 %). When compared with 1996, however, all the countries with a figure over 60% managed to lower their public debt/GDP ratio.

### Labour market

Throughout the Union there was a 1% drop in jobs between 1992 and 1997. The employment rate in 1997 was 60.1%, including 50.1% in full-time work. The shift towards a service-based society continued, with the percentage of employees in this sector climbing from 61% in 1992 to 66% in 1997.

The Union's overall unemployment rate was 10.7% at the end of 1997. Spain was the worst affected, with a rate of 20.8 %. Next came Finland (13.1%), France (12.4%) and Italy (12.1%). Unemployment affected women (12.4%) more than men (9.4%). Nearly half (49%) of the jobless had been out of work for more than a year.

### Prices

Since the start of the 1990s there has been substantial progress in the fight against rising consumer prices in the Union. The harmonised consumer price index (HCPI) shows that by the end of 1997 the inflation rate had fallen to 1.6% for the Fifteen and to 1.5% for the eleven Member States involved in the first phase of monetary union.



### Exchange rates

Three currencies appreciated against the ecu on the money markets during 1997: the lira (+1.5%), the punt (+6.1%) and the pound sterling (+17.5%). All the other currencies depreciated, with the markka recording the biggest fall at 3.2%. As for the dollar and the yen, they appreciated against the ecu by 12% and 0.9% respectively during 1997.

### Interest rates

Both short-term and long-term interest rates continued to fall throughout 1997 and reached record lows, as well as showing remarkable convergence. This downward trend was also apparent in the United States and Japan, the only blip being a slight hike in the prime rate by the US monetary authorities at the end of the first quarter of 1997.

### Candidate countries

Most the countries in line for membership of the European Union achieved growth rates above the EU average (+2.6%) in 1997. The only countries that fell below this average were Cyprus, the Czech Republic, Romania and Bulgaria. In the case of the latter two countries, the rate of growth was even below the 1996 figure. The eleven Candidate countries (CC) achieved an overall growth rate of 3.6%.

The Candidate countries' overall GDP at current prices and exchange rates amounted to ECU 303 billion, or 4.2% of the EU figure of 7 131 billion. The figures ranged from ECU 4.2 billion in Estonia to 119.7 billion in Poland.

Per capita GDP in the Candidate countries was PPS 7 500, compared with 19 000 for the European Union. Slovenia produced the highest figure (PPS 13 000), thus more or less matching the figure for Greece and Portugal. At the other end of the scale, Bulgaria (PPS 4 400), Latvia (5 100), Romania and Lithuania (both 5 800) were well below the EU average.

Throughout the 1990s inflation rates in all the Candidate countries — apart from Cyprus, where the rate has long matched those of the EU Member States — have often soared way above the levels recorded by the various countries in the European Union. In 1997 the rates for most of the Candidate countries fell between 6.1% (Slovakia) and 18.4% (Hungary). The only countries outside this range were Bulgaria and Romania.

In 1996 the eleven Candidate countries had 43.4 million people in employment or self-employed. This figure represented a quarter of total employment for the Member States and the Candidate countries together. Poland accounted for almost a third of all employment in the Candidate countries, while Romania accounted for a fifth.

**MAIN MACRO-ECONOMIC DATA  
OF THE EUROPEAN UNION**

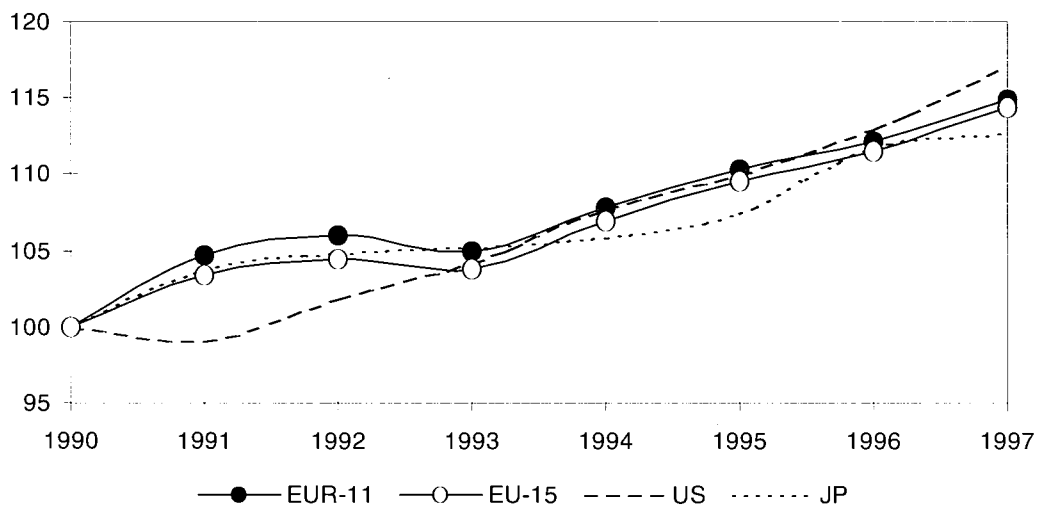


## I.1. Economic growth in the international framework

The main economic areas experienced positive growth in 1997. This did not apply to the

Asian countries however, which edged into the decline that then led to the 1998 crisis.

Fig. I.1.1. GDP volume growth, 1990 = 100



Source: Eurostat.

The non-Asian developed economies generally enjoyed positive results in 1997. The OECD countries recorded a growth in GDP of 3.1%, thus showing further improvement after the previous year's figure of 2.7%. The seven main developed countries (G7) generally performed less well, producing figures around 2.8%. However, this was still an improvement on the previous year's 2.5%.

Apart from the good results achieved by the **European Union (+2.6%)**, there was a particularly vigorous performance by the NAFTA countries (+3.9%), which improved their rate of growth by more than one percentage point. There was a downturn in GDP growth in Oceania, however, where the 1996 figure of 3.6% was followed by 3.2% in 1997. As

already indicated, the newly industrialised Asian countries started their decline in 1997, and the overall growth rate was down by two percentage points compared with the previous year. GDP growth, 6.5% in 1996, fell to 4.5% in 1997 (see table I.1.1.).

Among the developed countries, the **United States** in 1997 repeated the strong performance that had been a feature of the previous year. In 1996 GDP had recovered well from the 1995 fall, and the annual growth rate was 2.8%. In 1997 the figure was 3.8%, an increase of one point on the previous year. The main reason for this growth was the improved performance of private consumption (+3.3%), which is the main component of GDP in the United States. Investment achieved the best

**Tab. I.1.1. International comparison of GDP growth rates, 1990 prices, as a %**

	1990/97	1994	1995	1996	1997
<b>EU-15</b>	2.1	2.9	2.5	1.7	2.6
<b>EUR-11</b>	2.2	2.7	2.4	1.6	2.5
<b>NAFTA</b>	2.6	3.5	1.7	2.7	3.9
<b>USA</b>	2.2	3.5	2.0	2.8	3.8
<b>Canada</b>	1.6	3.9	2.2	1.2	3.7
<b>Mexico</b>	3.2	4.5	-6.2	5.2	7.0
<b>OECD</b>	2.2	2.8	2.0	2.7	3.1
<b>Japan</b>	2.2	0.7	1.4	4.1	0.8
<b>G7</b>	2.1	2.8	2.0	2.5	2.8
<b>Argentina</b>	5.3	8.5	-4.6	4.2	8.4
<b>Chile</b>	7.7	5.7	10.6	7.4	7.1
<b>Brasil</b>	2.0	6.0	4.3	3.0	3.7
<b>India</b>	5.2	6.9	7.4	6.9	5.6
<b>China</b>	10.1	12.6	9.0	9.7	8.8
<b>NIC<sup>(1)</sup></b>	7.1	8.6	6.9	6.5	4.5
<b>Hong Kong</b>	5.1	5.4	3.9	5.0	5.3
<b>Singapore</b>	8.3	10.5	8.6	6.9	7.8
<b>Thailand</b>	7.5	8.9	8.8	5.5	0.4
<b>South Korea</b>	7.4	8.6	8.9	7.1	5.5
<b>Indonesia</b>	7.6	7.5	8.2	8.0	4.6
<b>Israel</b>	5.3	6.8	7.1	4.5	1.9
<b>South Africa</b>	:	2.7	3.4	3.2	1.7
<b>OCEANIA</b>	2.8	5.6	3.8	3.6	3.2
<b>Australia</b>	2.9	5.5	3.5	3.7	3.3
<b>World</b>	3.2	3.9	3.6	4.1	4.1

(<sup>1</sup>) Newly Industrialized Countries NIC1 (Hong Kong,

Singapore, South Korea and Taiwan) and NIC2 (Malaysia, Philippines and Thailand).

Sources: Eurostat, Wefat Database, OECD, IMF.

performance among the components of GDP, increasing by 6.5% compared with the previous year (see table I.2.1.7.).

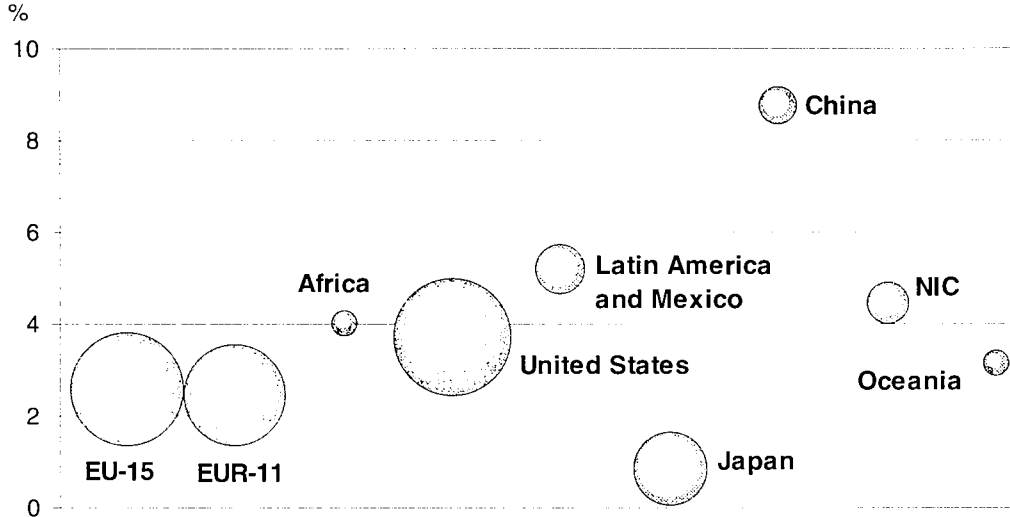
**Canada** put in a very solid performance in 1997 and achieved a growth rate of 3.7%, compared with 1.2% the previous year.

**Japan** was strongly affected by the adverse economic events in Asia. Tight fiscal measures were another factor that caused economic growth to hiccough in 1997 and result in an annual rate of only 0.8%. This performance was to a large extent the result of reductions in government consumption (-0.2%) and

investment (-3.7%) (see table I.2.1.7.). Economic growth in Japan has fluctuated tremendously since the start of the decade. In 1996 the growth rate was 4.1%, which contrasts sharply with the downturn that occurred in 1997. A similar slowdown in growth had previously occurred in 1994.

The countries of **Latin America** generally produced positive figures in 1997 and, in view of the crisis affecting the Asian tigers, seem to be emerging as the area that will achieve greatest economic growth in the near future. In 1997 GDP increased by 7.0% in Mexico, 8.4% in Argentina and 7.1% in Chile. In the case of Mexico and Argentina, these figures were a marked improvement in relation to the previous year and stemmed from a series of economic reforms. Similar to the current crisis in Asia, in 1995 Mexico and Argentina suffered an economic crisis that followed an economic boom — the "tequila effect". Although Chile's growth rate of 7.1% was less than before, it maintained the strong economic growth that has been a feature of the economy since the start of the decade. In Brazil, economic growth was more modest (+3.7%).

In 1997 the **newly industrialised Asian countries** were already showing signs of the economic crisis that was to come in 1998. The countries that were worst hit in 1997 were Thailand, which was the first to see its currency collapse and which barely managed to achieve a positive rate of growth (+0.4%), followed by Indonesia (+4.6%), where the figure was almost half the previous year's, and South Korea (+5.5%). Singapore (+7.8%) continued in 1997 to produce a steadily increasing growth rate and managed to escape the upheaval that was affecting other Asian countries. Hong Kong, on the other hand, was hit hard by the adverse economic events, and its growth rate of 5.3% was up by only 0.3 percentage points in comparison with the previous year.

**Fig. I.1.2. GDP and growth rates, 1997**


Note: The vertical axis shows GDP growth rates, the size of the circle indicates the level of GDP in PPS.  
Source: Eurostat, IMF.

In a similar manner, **China** (+8.8%) saw the rapid economic growth of the previous years start to slow down in 1997, when the rate of growth was almost one percentage point below the 1996 figure of 9.7%. The Chinese economy nevertheless maintained its high rate of growth and achieved the best performance of all the Asian economies. **India** was another country that saw its rate of growth fall by more than one percentage point, with the 1996 performance of 6.9% giving way to 5.6% in 1997.

In order to show how the GDP for individual countries compares with the figure for the world as a whole, we have to look at the figures in PPS. This shows that the European Union accounts (in 1997) for 19.8% of world GDP, while the figure for the euro zone in 15.4%. The United States (20.4%) accounts for a percentage that is very close to the EU figure, while Japan's

share of world GDP is 7.7%. (Source: IMF "World Economic Outlook", 1998).

Overall, the leading industrialised countries (G7) account for almost half of world GDP (44.3%). The developing countries produce 39.9%. Although the two figures seem fairly close, it has to be remembered that the industrialised countries have only 11.7% of the total world population, with the developing countries accounting for 77.3%.

A look at the various geographic areas of the world shows that Africa produces 3.3% of world GDP, Latin America 4.8%, Oceania 1.6% and Asia 23.1%.

The newly industrialised countries in Asia produce 3.4% of world GDP, and India accounts for 4.3%. On its own, China is responsible for more than 11% of world output.





## I.2. Economy of the Union

### I.2.1. GDP and its components

#### Economic growth in the Union

In 1997 the European Union as a whole increased its GDP by 2.6%, producing a solid recovery (+1.7%) after the previous year's downturn and repeating the levels of growth that had been achieved in the mid-1990s. In the Euro zone (see table I.2.1.1.), the rate of growth was slightly lower (+2.5%).

Among the Member States, Ireland (+10.7%) maintained the strong growth of the last four years and again had the highest growth rate of all the EU countries, ranking among the countries in the world with fastest growth, followed by China (+8.8%) and Argentina (+8.4%).

Tab. I.2.1.1. GDP growth rates, 1990 prices, as a %

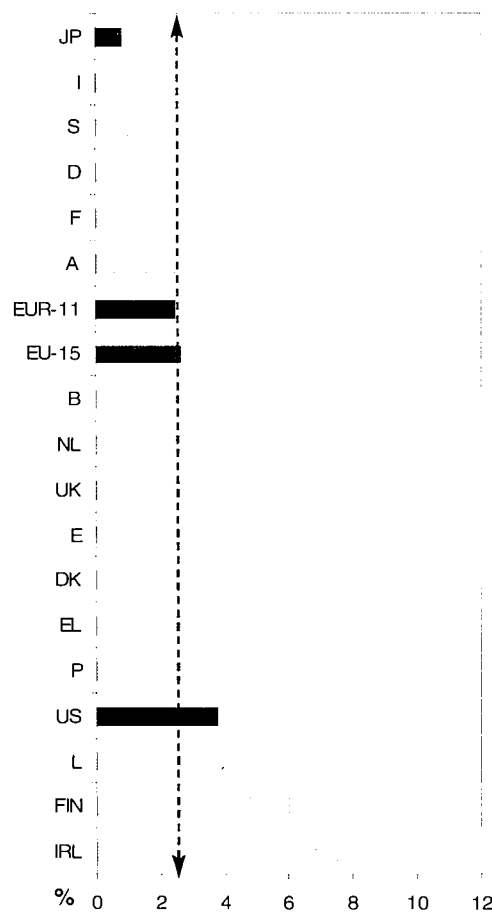
	1990/97	1994	1995	1996	1997
EU-15	1.9	2.9	2.5	1.7	2.6
EUR-11	2.0	2.7	2.4	1.6	2.5
B	1.5	2.4	1.8	1.2	2.9
DK	2.5	3.5	3.1	3.5	3.5
D	3.1	2.7	1.8	1.4	2.2
EL	2.2	2.0	2.1	2.7	3.5
E	1.8	2.2	2.7	2.3	3.4
F	1.3	2.8	2.1	1.6	2.3
IRL	7.1	8.1	11.8	8.3	10.7
I	1.1	2.2	2.9	0.7	1.5
L	5.1	4.6	3.7	3.5	4.8
NL	2.4	3.2	2.3	3.3	3.4
A	2.0	2.5	2.1	1.6	2.5
P	2.1	2.4	3.0	3.2	3.7
FIN	0.9	4.5	5.1	3.6	6.0
S	0.8	3.3	3.9	1.3	1.8
UK	1.7	4.3	2.7	2.2	3.4
US	2.3	3.5	2.0	2.8	3.8
JP	1.7	0.7	1.4	4.1	0.8

Source: Eurostat.

Next in the EU ranking came Finland (+6.0%) and Luxembourg (+4.8%), both of which achieved rates of growth that were well ahead of the EU average. The other Member States that achieved above-average growth were Portugal (+3.7%), Denmark and Greece (+3.5%), Spain, the Netherlands and the United Kingdom (all +3.4%) and Belgium (+2.9%).

The United Kingdom figure of +3.4% was an excellent result, especially when

Fig. I.2.1.1. GDP growth rates, 1997



Source: Eurostat.

compared with the previous year's figure of +2.2%. Germany (+2.2%) and France (+2.3%) also achieved encouraging results. In both cases the figure was the highest for three years and marked a return to the levels last achieved in 1994. Italy (+1.5%) achieved the lowest growth rate in the European Union for the second year in a row. Although it did not manage to recover fully to the level of previous years, the 1997 growth rate of 1.5% was still about twice as high as the 1996 figure (+0.7%).

### GDP in absolute value

In 1997 the GDP of the European Union totalled ECU 7 131 Bn. For the countries that have adopted the Euro, GDP amounted to ECU 5 549 Bn, or about 78% of the EU figure.

The GDP figures for the United States and Japan were ECU 6 848 Bn and 3 712 Bn respectively. Comparing the figures shows that the US total was 4% less than the EU figure, i.e. it stood at 96% of the EU figure,

while Japan's GDP was just over half (52%) of that of the European Union. If the Euro zone is compared with the two other major partners, the figures show that in 1997 the eleven countries comprising the zone achieved a GDP figure that was 19% less than the United States and 33% more than Japan (see table I.2.1.2.).

Among the Member States, Germany recorded the highest GDP, with a figure of ECU 1 854 Bn in 1997. Next came France (1 224 Bn), the United Kingdom (1 133 Bn) and Italy (1 011 Bn). Together, these four countries accounted for more than 73% of total Community GDP, with Germany accounting for 26%, France 17%, the United Kingdom 16% and Italy 14%. If the Euro zone is considered, these percentages increase, with Germany accounting for a third of the zone's total GDP, France 22% and Italy 18%.

The analysis in real terms, which is made possible using the purchasing power parities as conversion rate for the amounts expressed in national currencies gives a different picture of GDP levels (the

**Tab. I.2.1.2. GDP at current prices and exchange rates, in Bn ECU**

	1990	1993	1994	1995	1996	1997
<b>EU-15</b>	5 193	5 909	6 202	6 448	6 773	7 131
<b>EUR-11</b>	4 080	4 752	4 972	5 206	5 433	5 549
<b>B</b>	154	183	196	209	211	214
<b>DK</b>	100	113	120	129	135	140
<b>D</b>	1 182	1 634	1 729	1 846	1 855	1 854
<b>EL</b>	65	79	83	89	98	107
<b>E</b>	389	412	411	431	461	472
<b>F</b>	941	1 063	1 119	1 169	1 206	1 224
<b>IRL</b>	36	42	46	50	57	68
<b>I</b>	861	842	856	832	956	1 011
<b>L</b>	8	11	12	13	13	14
<b>NL</b>	222	266	281	302	310	316
<b>A</b>	126	156	165	177	180	182
<b>P</b>	54	71	74	81	86	89
<b>FIN</b>	106	72	83	96	99	105
<b>S</b>	182	159	168	178	199	202
<b>UK</b>	766	806	859	846	908	1 133
<b>US</b>	4 362	5 412	5 646	5 374	5 777	6 848
<b>JP</b>	2 341	3 653	3 949	3 918	3 623	3 712

Source: Eurostat.

explanations about the calculation method and the conversion rates of the parities are given in section I.7.3. of this publication).

With reference to the results given in table I.2.1.3., the GDP for EUR-11 in PPS amounts to 5 600 Bn compared to 7 382 Bn for the United States and 2 835 Bn for Japan. If the GDP of the United States is expressed in ECU, it exceeds that of the EUR-11 by 23%, expressed in PPS it is 33% higher. The GDP of Japan in ECU is 33% lower as that of the EUR-11, in real terms it is almost the half of the EUR-11-value.

Within the European Union, just as within the EUR-11 (see table I.2.1.3.), the distribution changes considerably if the results are expressed in PPS in comparison with the figures in ECU. In particular, it has to be mentioned that the GDP of Greece, Portugal and Spain is much higher measured in PPS

whilst the GDP of Denmark in PPS (115 Bn) is much lower than that one given in ECU (140 Bn).

### GDP per capita

GDP per head is one of the indicators most frequently used for the purpose of international comparisons.

The country with the highest GDP per capita in PPS in 1997 was Luxembourg (PPS 31 600), followed by Denmark (PPS 21 800). At the bottom of the list came Greece (PPS 13 200) and Portugal (PPS 13 500).

As well as for the total GDP, the same holds true for the per capita GDP. In certain cases the amounts change considerably given once on an ECU basis or expressed in PPS. Here are some examples: Denmark's

**Tab. I.2.1.3. GDP at current prices and purchasing power parities, in Bn PPS**

	1990	1993	1994	1995	1996	1997
<b>EU-15</b>	5 193	5 909	6 202	6 448	6 773	7 131
<b>EUR-11</b>	3 981	4 627	4 890	5 103	5 331	5 600
<b>B</b>	154	184	194	199	207	218
<b>DK</b>	77	90	97	102	108	115
<b>D</b>	1 078	1 394	1 496	1 558	1 640	1 712
<b>EL</b>	87	106	114	120	129	138
<b>E</b>	428	487	500	522	553	586
<b>F</b>	914	995	1 034	1 071	1 105	1 161
<b>IRL</b>	37	47	53	59	62	70
<b>I</b>	858	937	994	1 037	1 079	1 127
<b>L</b>	8	10	11	12	12	13
<b>NL</b>	221	251	266	285	293	310
<b>A</b>	120	142	150	154	164	173
<b>P</b>	88	107	115	121	126	133
<b>FIN</b>	75	73	77	85	89	96
<b>S</b>	136	137	144	155	160	165
<b>UK</b>	833	914	960	973	1 045	1 116
<b>US</b>	5 143	5 870	6 224	6 485	6 926	7 382
<b>JP</b>	2 038	2 405	2 459	2 536	2 731	2 835

Source: Eurostat.

PPS value is by 4 800 units much lower than the result in ECU while for Greece and Portugal the results in PPS lie much higher, with +3 000 and +4 500 respectively (see table I.2.1.4.).

The comparison between single countries is easier by using as index the per capita GDP expressed in PPS. This index is defined as the ratio between the per capita GDP of each single country to the average per capita GDP of the Union.

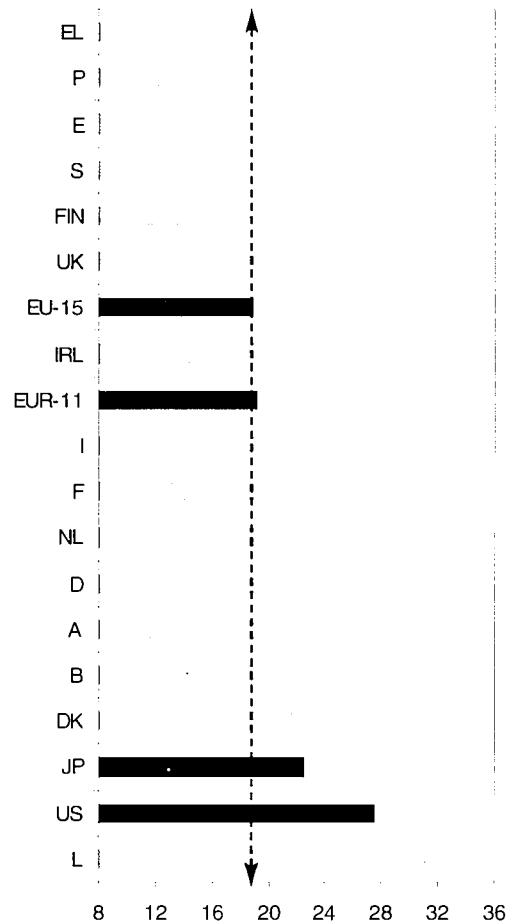
Tab. I.2.1.4. GDP per head

	1990		1997	
	ECU	PPS	ECU	PPS
<b>EU-15</b>	14 900	14 900	19 000	19 000
<b>EUR-11</b>	15 300	14 900	19 000	19 200
<b>B</b>	15 500	15 500	21 000	21 500
<b>DK</b>	19 400	15 000	26 600	21 800
<b>D</b>	18 700	17 100	22 600	20 900
<b>EL</b>	06 500	08 600	10 200	13 200
<b>E</b>	10 100	11 100	11 900	14 800
<b>F</b>	16 600	16 200	20 900	19 900
<b>IRL</b>	10 300	10 600	18 600	19 200
<b>I</b>	15 000	14 900	17 300	19 300
<b>L</b>	21 400	21 200	33 100	31 600
<b>NL</b>	14 900	14 800	20 300	19 900
<b>A</b>	16 300	15 500	22 600	21 400
<b>P</b>	05 500	09 000	09 000	13 500
<b>FIN</b>	21 300	15 100	20 500	18 800
<b>S</b>	21 300	15 900	22 800	18 700
<b>UK</b>	13 400	14 500	19 300	19 000
<b>US</b>	17 500	20 600	25 600	27 600
<b>JP</b>	19 000	16 600	29 500	22 500

Source: Eurostat.

These indicators (see table I.2.1.5.) remained relatively stable over time for most of the countries, with the exception of Greece (+12 points), Portugal (+11 points) and especially Ireland (+30 points), latter now reaching the average of the Union. It should be noted that among the countries lying above the average, this indicator rose for Luxemburg from 143 in 1990 to 166 in 1997.

Fig. I.2.1.2. GDP per head, 1997, in 1 000 PPS



Source: Eurostat.

The index for per capita GDP in PPS reaches 145 for the United States in comparison to the Union's average while Japan shows the value 118 after a clear rise since 1990 and a slight weakening in 1997.

The indices for the per capita GDP are given in figure I.2.1.3. for the values in ECU as well as in PPS showing for 1997 the situation of each country in comparison to the Union's average.

This figure clearly shows that the differences between the per capita GDP in certain cases are considerably reduced by the results in PPS. The difference between

Portugal and Luxemburg for example, measured in ECU was from 1 to 3.7 whilst in PPS it was brought down to 1 to 2.3. It is

also interesting to mention that, with the exception of Belgium, for all countries having a per capita GDP in ECU above the average of the EU-15, the result is lower when shifting to PPS. On the contrary, the GDP, when considering the amount in PPS, is higher for all the countries lying beneath the EU-15-average in ECU terms.

Tab. I.2.1.5. GDP per head, in PPS, EU-15 = 100

	1990	1995	1996	1997
EUR-11	100	102	101	101
B	104	114	113	113
DK	101	113	114	115
D	115	110	111	110
EL	57	67	68	69
E	74	77	77	78
F	108	107	105	104
IRL	71	95	96	101
I	100	103	102	101
L	143	168	163	166
NL	99	107	104	105
A	104	111	113	112
P	60	70	70	71
FIN	101	96	96	99
S	107	101	100	98
UK	97	96	98	100
US	138	143	144	145
JP	111	117	120	118

Source: Eurostat.

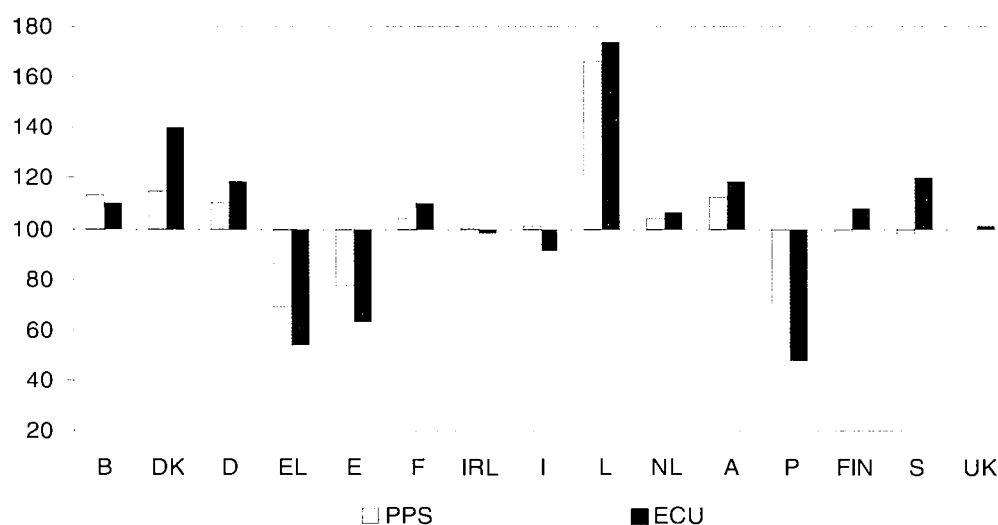
These considerations underline especially the importance of computing the GDP in real terms for the needs of economic analysis.

### Main components of GDP

Taking a closer look at GDP means breaking it down into its main components: private consumption, collective consumption and gross fixed capital formation. In addition, the trade balance also has to be considered in looking at the components of GDP.

Private consumption in the European Union in 1997 came to ECU 4 419 Bn, collective consumption accounted for ECU 1 199 Bn and gross fixed capital formation totalled ECU 1 294 Bn (see table I.2.1.6.).

Fig. I.2.1.3. GDP per head, 1997, EU-15 = 100



Source: Eurostat.

In the case of **private consumption**, the Euro zone figure of ECU 3 437 Bn was 78% of the EU total. The figure for the United States (ECU 4 648 Bn) was 5% more than the EU total. As for Japan, private consumption totalling ECU 2 246 Bn was just over half the EU figure. Among the Member States, Germany had the highest private consumption (ECU 1 202 Bn), accounting for about 27% of the EU total.

**Collective consumption** in the Euro zone came to ECU 860 Bn, 72% of the EU figure, while the US figure of ECU 942 Bn was 21% less than the EU total. Collective consumption in Japan amounted

to ECU 349 Bn, or about a third of the figure for the European Union. Among the Member States, France (ECU 237 Bn) and the United Kingdom (ECU 234 Bn) topped the list for government consumption, with each accounting for about 20% of the EU total.

**Gross fixed capital formation** in the Euro zone in 1997 was ECU 1 050 Bn, or 81% of the EU total. The US figure of ECU 1 103 Bn was about 15% below the EU figure, while Japan's figure of ECU 1 035 Bn was 80% of the EU total. Among the Member States, Germany again topped the list, its figure of ECU 372 Bn accounting for about a third of the EU total.

Tab. I.2.1.6. Main GDP components, in Bn ECU

	Private consumption			Collective consumption			Gross fixed capital formation		
	1990	1996	1997	1990	1996	1997	1990	1996	1997
EU-15	3 140	4 214	4 419	884	1 146	1 199	1 100	1 250	1 294
EUR-11	2 465	3 388	3 437	639	852	860	878	1 038	1 050
B	98	133	134	22	31	31	31	37	38
DK	51	71	74	26	35	36	18	23	24
D	716	1 210	1 202	144	229	223	247	382	372
EL	48	72	77	10	14	15	15	19	22
E	244	288	295	60	75	75	95	93	96
F	561	737	739	169	235	237	201	211	210
IRL	21	29	34	5	8	9	7	10	12
I	528	585	622	151	156	165	175	163	170
L	5	7	7	1	2	2	2	3	3
NL	131	186	190	32	44	45	47	61	65
A	70	102	101	23	36	35	29	43	44
P	34	55	57	8	16	17	15	21	23
FIN	56	54	56	22	22	22	29	16	18
S	92	104	105	51	54	54	39	29	25
UK	484	578	725	158	191	234	151	141	173
US	2 922	3 940	4 648	766	931	942	732	1 036	1 103
JP	1 357	2 162	2 246	211	350	349	743	1 074	1 035

Source: Eurostat.

### Growth of GDP components

A look at the breakdown of GDP reveals that in 1997 gross fixed capital formation was the component with the fastest growth in the European Union (+2.5%). Private consumption was up by 1.9%, but this was lower than the previous year. Government consumption showed virtually no change, with only a minimal increase (+0.4%). The figures for the Euro zone were similar, with GFCF up by 2.0%, private consumption by 1.4% and government consumption by 0.5% (see table I.2.1.7.).

As already indicated in the previous section, there was a surge in the growth rate

of GFCF in the United States (+6.5%), accompanied by excellent figures for both private consumption (+3.3%) and government consumption (+1.2%). In the case of Japan, however, only private consumption (+1.1%) was up — although the rate was lower than the average for the period — while GFCF in particular (-3.7%) and government consumption (-0.2%) both contracted.

The Member States that showed the highest rates of growth for private consumption in 1997 were Ireland (+6.3%), the United Kingdom (+4.6%) and Denmark (+3.6%). Rates faltered in France (+0.9%), Austria (+0.3%) and Germany (+0.1%).

Tab. I.2.1.7. Growth of main GDP components, 1990 prices, as a %

	Private consumption			Collective consumption			Gross fixed capital formation		
	90/97	1996	1997	90/97	1996	1997	90/97	1996	1997
EU-15	2.0	2.1	1.9	1.5	1.5	0.4	0.7	0.8	2.5
EUR-11	2.1	1.9	1.4	1.7	1.6	0.5	0.9	0.4	2.0
B	1.4	1.3	2.1	1.2	1.8	0.9	0.3	0.6	5.5
DK	3.1	2.7	3.6	1.9	2.4	2.2	3.4	6.1	8.1
D	3.9	1.6	0.1	3.0	2.1	-0.1	3.2	-1.2	0.2
EL	1.9	2.9	2.5	0.7	0.6	-0.1	3.3	4.1	10.6
E	1.5	1.9	3.1	2.0	0.1	0.7	0.2	0.9	4.7
F	1.3	2.0	0.9	2.1	2.6	1.2	-0.9	-0.5	0.4
IRL	4.5	6.1	6.3	2.8	1.5	4.8	4.8	13.6	10.9
I	0.9	1.2	2.4	0.1	0.2	-0.7	-0.9	0.4	0.6
L	2.2	1.9	2.2	2.7	3.4	3.0	2.9	-1.1	12.3
NL	2.4	3.0	3.1	1.3	1.2	2.2	2.5	6.1	6.2
A	2.3	4.8	0.3	2.3	2.8	0.9	2.8	0.5	3.6
P	2.7	2.5	2.9	3.0	1.8	2.4	3.8	5.7	11.3
FIN	0.2	3.5	3.3	0.1	3.4	0.7	-4.5	7.8	12.2
S	0.3	1.3	2.0	-0.1	-0.2	-2.1	-3.8	3.7	-4.8
UK	1.8	3.6	4.6	1.0	1.2	0.2	0.2	1.5	5.2
US	2.4	2.6	3.3	0.3	0.0	1.2	4.0	7.4	6.5
JP	2.0	2.9	1.1	1.9	1.5	-0.2	0.9	10.1	-3.7

Source: Eurostat.



Collective consumption contracted in four Member States in 1997: Sweden (-2.1%), Italy (-0.7%), Germany and Greece (both -0.1%). The rate was higher in Ireland (+4.8%), in Luxembourg (+3.0%), Denmark and the Netherlands (+2.2%).

There was a wide range of fluctuation in gross fixed capital formation, with two-digit growth in Luxembourg (+12.3%), Finland (+12.2%), Portugal (+11.3%), Ireland (+10.9%) and Greece (+10.6%). The only country where GFCF contracted was Sweden (-4.8%).

### GDP structure

In order to show the changing pattern of GDP, it is broken down into its main components (see table I.2.1.8. and figure I.2.1.4.).

In 1997 private consumption in the European Union accounted for 62% of GDP, collective consumption 16.8% and gross fixed capital formation 18.2%. The breakdown was very similar in the Euro zone, where the figure for private consumption was exactly the same (62%), very close in the case of GFCF (18.9%) and just over a percentage point lower for government consumption (15.5%).

A feature of the US performance in 1997 was that private consumption accounted for a larger percentage, almost 68% of GDP, while the other components were lower than the EU figures, with 13.8% for government consumption and 16.1% for GFCF. In the case of Japan, however, the figure for GFCF was much higher than in the European Union, accounting for nearly 28% of GDP in 1997. Private consumption came to 60.5%, and government consumption was only 9.4%.

As for the pattern of GDP throughout the 1990s, the trend was similar in the European Union, the Euro zone and the United States, with private consumption increasing its percentage share while

government consumption and GFCF went down. The difference between the three areas lies in the scale of the change. In the European Union and the Euro zone the contraction in the share of government consumption was slight (-0.2 and -0.1 percentage points respectively), whereas GFCF fell more noticeably (-3.0 and -2.6 points). In the United States government consumption as a percentage of GDP fell by as much as 3.8 points, dropping below the EU figure, while GFCF was down by only 0.7 points.

There were even greater fluctuations in Japan, where GFCF fell by 3.8 points and private consumption went up by 2.5 points. Government consumption also rose (+0.4%).

The Member State where **private consumption** accounted for the largest share of GDP in 1997 was Greece (72.4%), while the lowest percentages were recorded in Sweden (52.2%) and Ireland (52.1%). The biggest changes were in Ireland and Luxembourg, where the percentage fell by 6 and 9 points respectively. The other countries where private consumption fell as a share of GDP were Belgium (-1.0 points), Greece (-0.8 points), Spain (-0.4 points) and Austria (-0.1 points). The only increase of note was in Germany, where the figure went up by 4.3 points.

Sweden and Denmark had the highest figures for **collective consumption** as a share of GDP, recording 26.9% and 25.7% respectively in 1997. The Member State with the smallest share was Germany, where government consumption accounted for only 12.0% of GDP. There has been little change in this component's share of GDP in the last seven years, although the general trend has been downward. The biggest changes have been upwards in Portugal (+3.0 points) and France (+1.4 points), and downwards in Italy and Sweden (both -1.2 points).

Tab. I.2.1.8. Main aggregates, as a % of GDP

	Private consumption			Collective consumption			Gross fixed capital formation		
	1990	1997	change	1990	1997	change	1990	1997	change
EU-15	60.5	62.0	1.5	17.0	16.8	-0.2	21.2	18.2	-3.0
EUR-11	60.4	62.0	1.6	15.7	15.5	-0.1	21.5	18.9	-2.6
B	63.5	62.5	-1.0	14.0	14.5	0.4	20.3	17.6	-2.7
DK	51.1	53.0	1.9	25.8	25.7	-0.1	17.7	17.5	-0.2
D	60.6	64.9	4.3	12.1	12.0	-0.1	20.9	20.1	-0.9
EL	73.3	72.4	-0.8	15.3	14.2	-1.0	23.0	20.5	-2.5
E	62.8	62.4	-0.4	15.4	15.9	0.4	24.4	20.3	-4.1
F	59.6	60.3	0.7	18.0	19.4	1.4	21.4	17.1	-4.2
IRL	58.1	52.1	-6.0	14.8	14.1	-0.7	18.8	18.7	-0.1
I	61.3	61.5	0.2	17.6	16.3	-1.2	20.3	16.8	-3.5
L	62.1	53.1	-9.0	13.4	13.3	-0.1	24.1	22.4	-1.6
NL	59.0	60.1	1.1	14.6	14.1	-0.5	21.0	20.5	-0.6
A	55.9	55.7	-0.1	18.6	19.4	0.7	23.3	24.2	0.9
P	63.1	64.0	0.9	15.5	18.6	3.0	27.6	25.6	-2.0
FIN	52.3	53.0	0.6	21.1	20.7	-0.4	27.0	16.9	-10.1
S	50.7	52.2	1.6	28.1	26.9	-1.2	21.4	12.6	-8.8
UK	63.2	64.0	0.8	20.6	20.6	0.0	19.7	15.2	-4.4
US	67.0	67.9	0.9	17.6	13.8	-3.8	16.8	16.1	-0.7
JP	58.0	60.5	2.5	9.0	9.4	0.4	31.7	27.9	-3.8

Note: Change is the difference in percentage points between 1997 and 1990 shares.

Source: Eurostat.

As for **gross fixed capital formation**, the figures range from 25.6% in Portugal to 12.6% in Sweden. Since the start of the decade most of the Member States have seen GFCF decrease as a share of GDP, with the figure in Finland going down by 10.1 points and in Sweden by 8.8 points. The only increase was recorded in Austria (+0.9 points).

#### Contribution of the components to growth of GDP

The contribution of each component to GDP growth was calculated in order to get a

general picture of how GDP grew in overall terms in 1997 (see table I.2.1.9.).

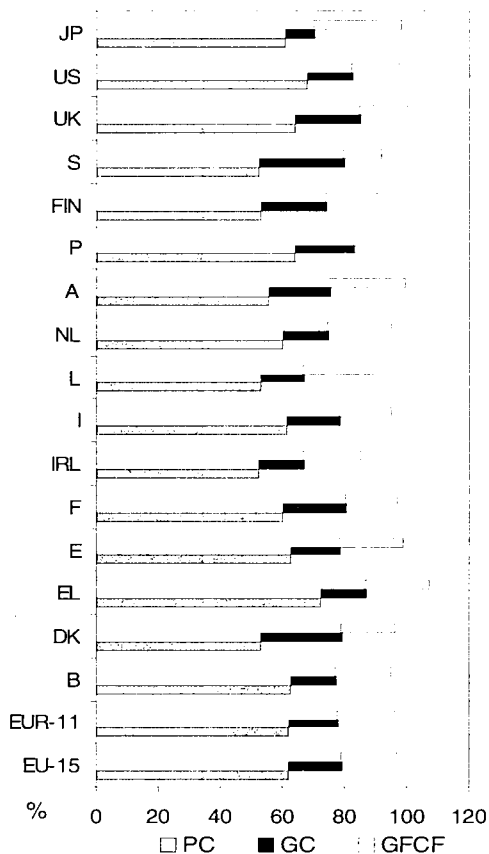
The European Union's 2.6% rise in GDP was mainly as a result of increased private consumption. In the euro zone, on the other hand, the trade balance was the main factor in the growth of GDP.

In the United States the effect of private consumption was even greater, prompting a sharp rise in GDP. In Japan the impetus for growth stemming from the trade balance was offset by the negative effect of gross fixed capital formation, and the rise in GDP was primarily the result of a modest increase in private consumption.

GDP grew in most of the Member States because of an increase in private consumption. This was true in Belgium,

Denmark, Spain, Ireland, Italy, the Netherlands and the United Kingdom. Gross fixed capital formation was the spur to GDP growth in Greece, Luxembourg and Portugal, while in the other Member States the trade balance was the primary factor in growth.

**Fig. I.2.1.4. GDP main components, 1997, as a %**



Source: Eurostat.

**Tab. I.2.1.9. Contribution of main components to GDP growth, 1997, as a %**

	Private cons.	Collec. cons.	GFCF	Trade bal.	GDP growth
EU-15	1.2	0.1	0.5	0.9	2.6
EUR-11	0.8	0.1	0.4	1.2	2.5
B	1.3	0.1	1.0	0.6	2.9
DK	1.8	0.5	1.6	-0.5	3.5
D	0.1	0.0	0.0	2.1	2.2
EL	1.7	0.0	2.4	-0.6	3.5
E	1.8	0.1	1.0	0.5	3.5
F	0.5	0.2	0.1	1.5	2.3
IRL	2.9	0.5	1.6	5.7	10.7
I	1.4	-0.1	0.1	0.1	1.5
L	1.1	0.3	2.3	1.1	4.8
NL	1.8	0.3	1.2	0.1	3.4
A	0.1	0.2	0.9	1.3	2.5
P	1.9	0.4	3.1	-1.7	3.7
FIN	1.6	0.1	2.0	2.3	6.0
S	1.0	-0.5	-0.8	2.1	1.8
UK	2.8	0.0	0.9	-0.3	3.4
US	2.1	0.2	1.2	0.3	3.8
JP	0.6	0.0	-1.2	1.3	0.8

Source: Eurostat.

## 1.2.2. Short term analysis of gross domestic product

### Short-term movements in the European Union, the Economic and Monetary Union, the United States and Japan

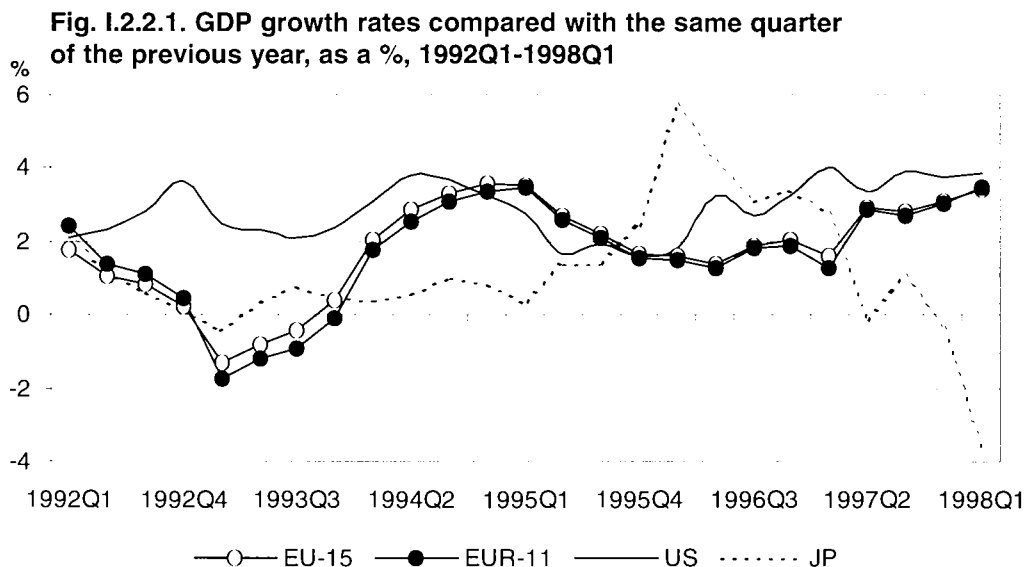
The upturn in the European economy that began in 1993 continued in 1997, with growth picking up again after the gradual slowdown that had characterised 1996. The noticeable slackening of activity in the second quarter of 1996, which had even led to stagnation or decline in some Member States, was followed by a more pronounced third-quarter recovery. This subsequently showed signs of weakening up to the first quarter of 1997, but gathered pace again in the second quarter.

In 1997, the economy of the European Union as a whole posted GDP growth, measured in constant prices, of +2.6% compared with 1996. The peak of the cycle was reached in the second quarter, with growth up 1.4% on the first three months of the year (see table I.2.2.2. and figure I.2.2.1.).

Domestic demand was the main driving force behind the cyclical fluctuations in the economy. Private consumption grew apace in the second quarter (+1.0% on a quarterly basis), slowed down in the third quarter (+0.2%) and rallied again in the fourth (+0.9%). After stagnating in the first quarter, investment recovered thanks to capital expenditure on construction (whose only period of growth over the year was the second quarter) and machinery and equipment. The decline in collective consumption continued, except in the third quarter.

The external balance remained in surplus by virtue of a dynamic performance on the export front, particularly in the second quarter (+5.2%). Exports tended to slow down in the last two quarters, however.

The cyclical pattern in the Economic and Monetary Union (EUR-11) mirrored that of the European Union as a whole (EU-15), albeit with, in general, more pronounced variations (see table I.2.2.1. and figure I.2.2.2.).



Source: Eurostat.

**Tab. I.2.2.1. Quarterly and yearly variations of GDP aggregates for the European Union, the Economic and Monetary Union, the United States and Japan, as a %**

	Quarterly variation compared with the same quarter of the previous year					Quarterly variation compared with the previous quarter				
	1997				1998	1997				1998
	Q1	Q2	Q3	Q4	Q1	Q1	Q2	Q3	Q4	Q1
<b>GDP</b>										
EU-15	1.6	2.9	2.8	3.1	3.4	0.3	1.4	0.7	0.7	0.6
EUR-11	1.3	2.9	2.7	3.0	3.5	0.2	1.5	0.7	0.6	0.7
US	4.0	3.4	3.9	3.7	3.9	1.2	0.8	0.8	0.9	1.3
JP	2.8	-0.2	1.0	-0.4	-3.7	2.0	-2.8	0.8	-0.4	-1.3
<b>Private Consumption</b>										
EU-15	1.2	2.4	1.8	2.4	2.8	0.3	1.0	0.2	0.9	0.7
EUR-11	0.7	1.8	1.1	1.8	2.4	0.2	0.7	0.2	0.7	0.7
US	3.2	2.5	3.8	3.6	3.8	1.3	0.2	1.4	0.6	1.5
JP	4.5	-0.4	1.1	-0.9	-4.5	4.0	-5.3	1.7	-1.0	0.1
<b>Collective Consumption</b>										
EU-15	0.9	0.3	0.5	-0.1	0.1	0.0	-0.1	0.4	-0.4	0.2
EUR-11	1.2	0.6	0.4	-0.2	-0.1	0.3	0.1	0.0	-0.6	0.4
US	1.6	0.7	1.1	1.5	0.6	0.2	0.7	0.3	0.3	-0.8
JP	0.0	-0.7	-0.2	0.2	0.6	-0.9	-0.9	0.7	1.4	-0.6
<b>GFCF</b>										
EU-15	2.1	2.7	2.4	3.1	5.7	0.0	1.7	0.4	0.9	2.5
EUR-11	1.8	2.2	1.9	2.5	4.8	-0.2	1.3	0.4	0.9	2.1
US	6.5	5.9	7.0	6.5	9.5	0.5	2.7	2.9	0.2	3.4
JP	-0.2	-5.3	-3.8	-5.4	-7.5	-1.1	-2.6	-0.7	-1.1	-3.3
<b>Exports (including intra EU-15 et intra EUR-11)</b>										
EU-15	4.8	10.3	11.4	10.5	10.4	0.2	5.2	3.4	1.3	0.2
EUR-11	4.2	10.6	11.7	11.2	12.1	-0.1	5.6	3.8	1.6	0.6
US	11.4	13.6	14.3	10.2	7.3	2.4	4.3	1.1	2.0	-0.3
JP	9.3	15.2	10.7	8.5	3.0	1.4	5.8	-1.5	2.7	-3.8
<b>Imports (including intra EU-15 et intra EUR-11)</b>										
EU-15	3.3	9.8	10.3	10.0	12.1	0.1	5.1	2.4	2.0	2.1
EUR-11	2.6	9.6	10.3	10.0	13.1	-0.4	5.2	2.8	2.1	2.5
US	12.9	14.5	14.8	14.4	14.2	4.2	4.8	3.5	1.3	4.0
JP	4.8	0.3	-1.0	-4.5	-6.2	0.5	-2.3	-1.1	-1.7	-1.4

Source: Eurostat.

After slowing down in the first quarter (+0.2% compared with the previous quarter), growth picked up sharply in the second (+1.5%). It weakened again in the second half of the year, however, in line with the cyclical change in private consumption and investment, despite the latter's revival after a first-quarter fall. Collective consumption gradually slowed down, stagnating in the third quarter and declining in the fourth (-0.6% compared with the previous quarter).

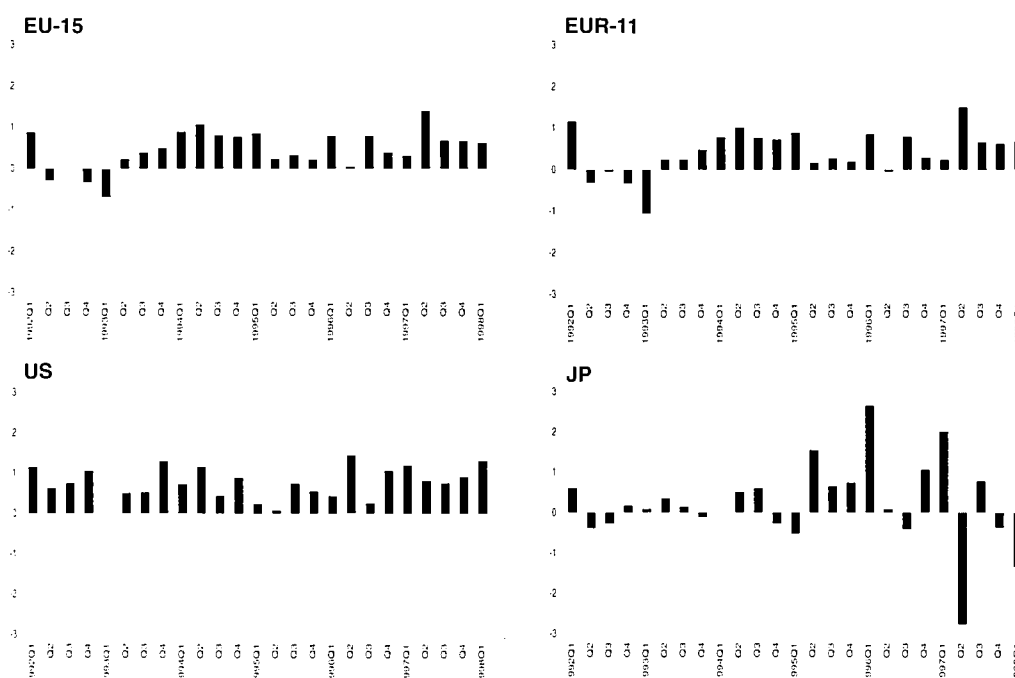
After falling in the first quarter, exports and imports staged a vigorous recovery in the second (+5.6% and +5.2%, respectively), and then slowed down over the rest of the year.

In the United States, economic growth went on gathering pace (GDP up 3.8% on the previous year), continuing the 1996 trend reversal that followed the slowdown in

1995. The key underlying factor was domestic demand, particularly on the private consumption and investment side (respectively +3.3% and +6.5% on an annual basis) (see table I.2.2.1. and figure I.2.2.2.).

Virtual stagnation in the second quarter of 1995 was followed by a gradual pick-up in economic activity. However, this recovery phase was interspersed with several slow-downs (especially during the third quarter of 1996: +0.3%). Private consumption displayed an uneven, but invariably upward trend. Consumption at the beginning of the year was 1.3% up on the previous quarter, but slowed down in the second to +0.2%, the lowest rate for the year. The pace picked up again in the third quarter (+1.4%), only to fall back during the last three months of the year (+0.6%).

**Fig. I.2.2.2. GDP growth rates compared with the previous quarter, as a %, 1992Q1-1998Q1**



Source: Eurostat.

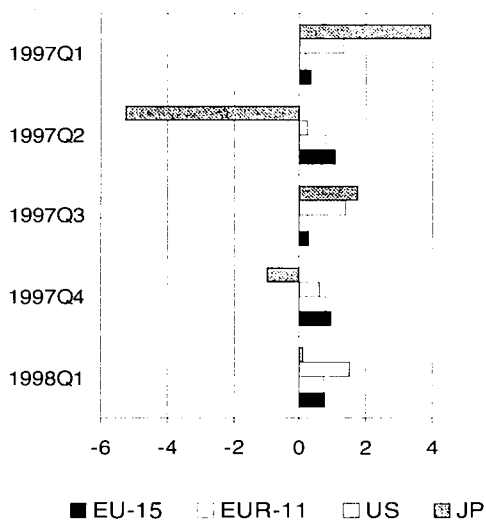
A gradual decline in investment growth since the second quarter of 1996 gave way to a cyclical upturn in the second and third quarters of 1997 (+2.7% and +2.9% respectively), followed by a marked fourth-quarter slowdown (+0.2%). This reflected dynamic investment in machinery and equipment in the second and third quarters and higher capital spending on construction during the third quarter.

On the international trade front, the US trade deficit continued to increase, especially during the last two quarters of the year. The reason lay in a sharp rise in imports in the first three quarters (+4.2%, +4.8% and +3.5% respectively) and a slowdown in export growth after a sound second-quarter performance.

Japan once again had to contend with a pronounced slowdown in economic growth (GDP +0.8%) in 1997 after a sharp rise in 1996. Investment fell substantially throughout the year, particularly in terms of machinery and equipment, with the second quarter bringing a distinctly negative outturn (-10.8%). On an annual basis, the decline in investment stood at -3.7%. This fall was accompanied by mixed changes in private consumption (including a major second-quarter decrease of 5.3% compared with the previous quarter) and a decline in collective consumption over the first quarter.

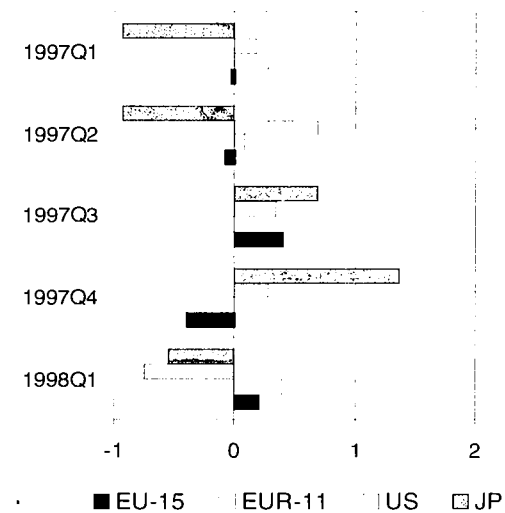
The upward trend in the trade surplus recorded as from the third quarter of 1996 continued in 1997, peaking in the fourth quarter (+2.3% of GDP).

**Fig. I.2.2.3. Private consumption growth rates compared with the previous quarter, as a %, 1997Q1-1998Q1**



Source: Eurostat.

**Fig. I.2.2.4. Collective consumption growth rates compared with the previous quarter, as a %, 1997Q1-1998Q1**



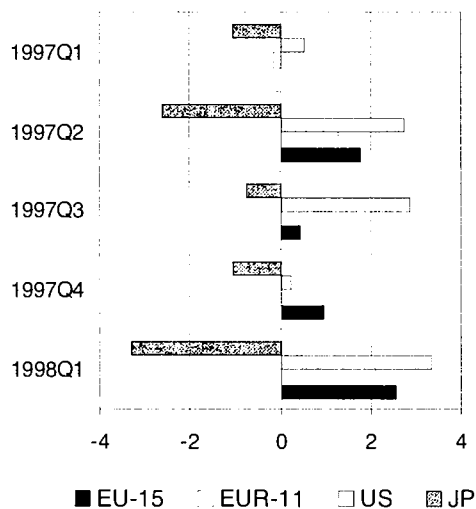
Source: Eurostat.

This is explained by rising exports in the second (+5.8%) and fourth (+2.7%) quarters and falling imports over the last three quarters of 1997 (the first decline since the beginning of 1993).

### The economic situation in the Member States in 1997

After the slowdown in economic growth registered by most Member States in 1996, the year under review brought a turnaround, with the growth rate rising in real terms. The prime mover was internal demand, which increased overall in spite of varying tendencies over the course of the year (see table I.2.2.2.).

**Fig. I.2.2.5. Gross Fixed Capital Formation growth rates compared with the previous quarter, as a %, 1997Q1-1998T1**



Source: Eurostat.

The **German economy** stagnated in the first quarter but then recorded second-quarter growth of +1.6%, which eased to +0.4% and +0.6% in the third and fourth quarters respectively. This improvement stemmed from a revival in almost all components of domestic demand (the exception being collective consumption, which gradually declined over the last three quarters). Growth in private consumption — albeit weak and erratic — and, above all, a vigorous rise in exports in the second quarter (+5.9%) generated a dynamic impetus which brought an annualised 2.2% increase in GDP compared with 1996.

Investment in construction was in decline over the entire year. Expenditure on machinery and equipment, on the other hand, revived in the second quarter and showed an increase in the fourth, bolstering a general recovery in gross fixed capital formation that was steadiest in the fourth quarter (+1.0%).

In **France**, the increased rate of growth registered in the second quarter (+1.1%) gradually diminished over the course of the year, mainly as a result of lower investment and a slowdown in export growth in the last two quarters.

After dipping in the final quarter of 1996 (-0.7%), French private consumption gradually picked up in 1997, the only slowdown being in the fourth quarter (+0.9%).

Imports fell in the first quarter (-0.1%), but staged a strong recovery in the second (+4.3%). The revival continued, in the third and fourth quarters.



**Tab. I.2.2.2. Quarterly and yearly variations of GDP for the European Union, the Economic and Monetary Union, the Member States, the United States and Japan, as a %**

	Yearly growth rates			Quarterly growth rates compared with the previous quarter								
	1995	1996	1997	1996				1997				1998
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
<b>EU-15</b>	2.5	1.7	2.6	0.8	0.1	0.8	0.4	0.3	1.4	0.7	0.7	0.6
<b>EUR-11</b>	2.4	1.6	2.5	0.9	-0.1	0.8	0.3	0.2	1.5	0.7	0.6	0.7
<b>B</b>	1.8	1.2	2.9	0.2	0.6	1.2	0.5	0.5	0.8	1.7	-0.1	1.2
<b>DK</b>	3.1	3.5	3.5	1.7	1.0	1.2	-0.7	1.2	1.8	0.5	1.3	-0.3
<b>D</b>	1.8	1.4	2.2	0.5	0.2	0.9	0.3	0.0	1.6	0.4	0.6	1.2
<b>EL</b>	2.1	2.7	3.5	:	:	:	:	:	:	:	:	:
<b>E</b>	2.7	2.3	3.4	0.5	0.6	0.8	0.8	0.9	0.9	1.0	0.9	0.9
<b>F</b>	2.1	1.6	2.3	1.4	-0.1	0.8	0.3	0.3	1.1	0.9	0.8	0.6
<b>IRL</b>	11.8	8.3	10.7	:	:	:	:	:	:	:	:	:
<b>I</b>	2.9	0.7	1.5	0.7	-1.0	0.4	-0.3	0.1	1.9	0.5	0.2	-0.1
<b>L</b>	3.7	3.5	4.8	:	:	:	:	:	:	:	:	:
<b>NL</b>	2.3	3.3	3.4	1.1	0.5	0.9	0.6	0.9	1.0	0.8	1.1	1.1
<b>A</b>	2.1	1.6	2.5	:	:	:	:	:	:	:	:	:
<b>P</b>	3.0	3.2	3.7	1.4	0.4	-0.4	1.3	1.3	1.0	0.5	1.9	:
<b>FIN</b>	5.1	3.6	6.0	1.7	0.1	2.5	1.4	0.2	2.9	1.7	1.2	0.7
<b>S</b>	3.9	1.3	1.8	0.3	0.4	0.8	0.5	0.0	0.4	0.9	2.1	-0.9
<b>UK</b>	2.7	2.2	3.4	0.5	0.4	0.7	1.2	0.7	1.0	0.8	0.6	0.8
<b>US</b>	2.0	2.8	3.8	0.4	1.5	0.3	1.1	1.2	0.8	0.8	0.9	1.3
<b>JP</b>	1.4	4.1	0.8	2.7	0.1	-0.4	1.1	2.0	-2.8	0.8	-0.4	-1.3

Source: Eurostat.

Following a year of declining growth in 1996, the **Italian economy** posted a rise in GDP of 1.5% on an annual basis thanks to an appreciable recovery in the second quarter (+1.9% compared with the previous quarter). Domestic demand reflected cyclical movements in private consumption and investment. The former went through a phase of expansion which started in the third quarter of 1996 and reached its peak

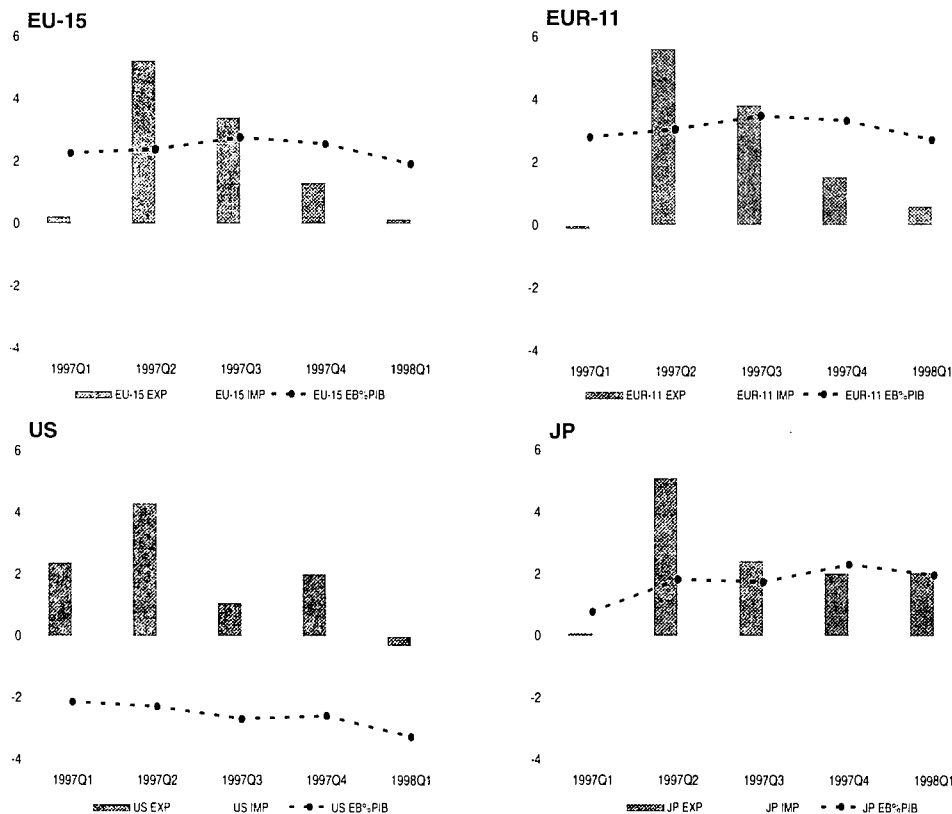
in the first quarter of 1997 (+0.8%). This was followed by a slowdown leading to a fall in the fourth quarter of 1997 (-0.1%). After the declines that characterised 1996 and the first quarter of 1997, investment staged a sharper upturn in the second (+1.2%) and fourth (+1.4%) quarters thanks respectively to an increase on the construction side and a steady level of investment in machinery and equipment.

The country's trade surplus, which had risen continuously since 1993, grew at a slower but still healthy rate in 1997 (+4.3% of GDP). After a fall of 4.2% in the first quarter, exports rose sharply in the second and third quarters (+8.8% and +6.2% respectively) before once again declining in the fourth (-1.2%). Imports well-nigh matched this trend, but showed a very pronounced rise in the second quarter (+12.8% on a quarterly basis).

Continuing to enjoy a phase of growth that had started in 1993, the **United Kingdom** achieved a higher growth rate (GDP +3.4%) than in 1996. The UK's economic

situation reflected that of the other Member States, with higher growth in the second quarter (+1.0%) giving way to a gradual slowdown in the second half of the year. Private consumption, which had been performing well since the fourth quarter of 1995, maintained its relatively high rate of growth over the whole year, particularly in the second and fourth quarters (+1.8% and +1.4% respectively). Collective consumption, by contrast, was in decline in every quarter except the third. The investment growth rate increased in the first and second quarters (+1.8% and +2.7% respectively) thanks to a sharp rise in machinery and equipment and a revival in construction.

**Fig. I.2.2.6. Exports and imports growth rates compared to the previous quarter, external balance, as a % of GDP, 1997Q1-1998Q1**



Source: Eurostat.

The trade deficit rose as a result of import growth (+9.2% on an annual basis) outstripping that of exports (+8.0%), especially in the second quarter (+4.8%). Exports fell slightly in the fourth quarter (-0.1%).

After slowing down in 1996, the **Spanish economy** recorded a steady increase in growth (GDP +3.4% on annual basis) during the four quarters of the year under review. Domestic demand maintained a high growth rate throughout the year, underpinned by private consumption — especially in the second quarter (+1.1%) — and increased investment in construction and machinery and equipment in the third and fourth quarter. A higher increase in exports than in imports led to a rise in the country's trade surplus.

Buoyed by an (annualised 3.1%) increase in private consumption that was particularly strong in the first quarter, the **Netherlands** economy posted a further rise in growth at a virtually constant rate spanning all four quarters (+3.4% on an annual basis). The good trend in investment (+6.2% in 1997), stemming from the results of the first and the fourth quarter, was accompanied by a recovery in exports, particularly during the third and fourth quarters.

**Belgium** recorded a rise in growth (GDP +2.9%) following a slight slowdown in 1996. The rate of growth in private consumption was higher than in 1996 (+2.1% in 1997), while investment (+5.5%) exports (+5.9%) and imports (+5.1%) considerably increased.

**Luxembourg** recorded a higher GDP growth rate than in 1996 (+4.8% on an annual basis, the second highest among the Member States) following slowdowns in previous years, especially 1994. Private consumption (+2.2%) and, above all, investment (+12.3%) increased appreciably.

**Austria** likewise posted a higher growth rate (GDP +2.5%), even though private consumption slowed down considerably (+0.3% against +4.8% in the previous year). By contrast, investment showed a substantial increase compared with the prior-year performance (+3.6%). Export growth slowed down markedly (+8.0% against +13.9% in 1996).

The **Finnish economy** achieved the highest growth over the period 1990 to 1997 (GDP +6.0%), thanks to a recovery (+2.9%) in the second quarter of 1997 that slowed down only slightly in the last two quarters. Investment rose sharply, especially in the second quarter, reflecting a robust pick-up on the machinery and equipment side (+16.8% compared with the previous quarter), while exports — which increased over the year as a whole (+12.9%) — edged down slightly in the fourth quarter (-0.3%).

**Sweden** recorded an economic upturn which began in the second quarter and peaked in the fourth (+2.1%). Private consumption, which rose over the year as a whole (+2.0%), showed mixed cyclical movements, picking up in the second quarter (+1.1%) and virtually stalling in the third. Marked decreases in construction investment in the first and third quarters and less pronounced falls in machinery and equipment spending meant that investment was down on an annual basis (-4.8%). Exports and imports displayed the same cyclical pattern: sharp rises in the second quarter (+8.2% and +7.6% respectively) followed by a gradual slowdown over the third and fourth quarters. The upshot was a rise in the country's trade surplus on an annual basis (+9.0% of GDP).

In **Denmark**, the recovery reached its peak in the second quarter of 1997 (GDP +1.8%),

reflecting higher growth rates for private consumption (+1.7%) and investment (+5.5%). The latter only began to slow down as from the fourth quarter, especially in terms of machinery and equipment. Private consumption also registered a decline, but only in the third quarter (-1.6%).

**Ireland** continued to enjoy the phase of robust economic expansion that had begun in 1994, recording an annualised growth rate of 10.7% in the year under review. All indicators underpinned this performance, once again the best achieved by any Member State, with private consumption (+6.3%), investment (+10.9%) and exports (+16.9%) all powering ahead.

**Portugal** recorded a further rise in its economic growth rate (GDP +3.7%), which had been increasing ever since the upturn in 1994. The recovery started during the fourth quarter 1996 continued in 1997 slowing down slightly only in the third quarter (+0.5%). This slow down occurred due to a similar behaviour of exports (+2.3%) and to the high increase in imports (+4.7%).

In **Greece**, growth was up for the fifth year in succession (GDP +3.5%) thanks to rising private consumption (+2.5%) and a vigorous increase in investment (+10.6%). Imports and exports picked up again after a decline in 1996.

### **The growth trend and the cycle since 1990**

The period 1990 to 1997 was characterised by common cyclical features in the EU, US and Japanese economies. At the beginning of the 1990s, the economic cycle was in a downward phase that bottomed out in the USA in 1991, and in Europe and Japan in 1993.

The US economy went through its cyclical downturn in the second half of 1990 and the first quarter of 1991. The European Union and Japan felt the impact of similar adverse cyclical conditions after a time lag (between the second quarter of 1992 and the first quarter of 1993).

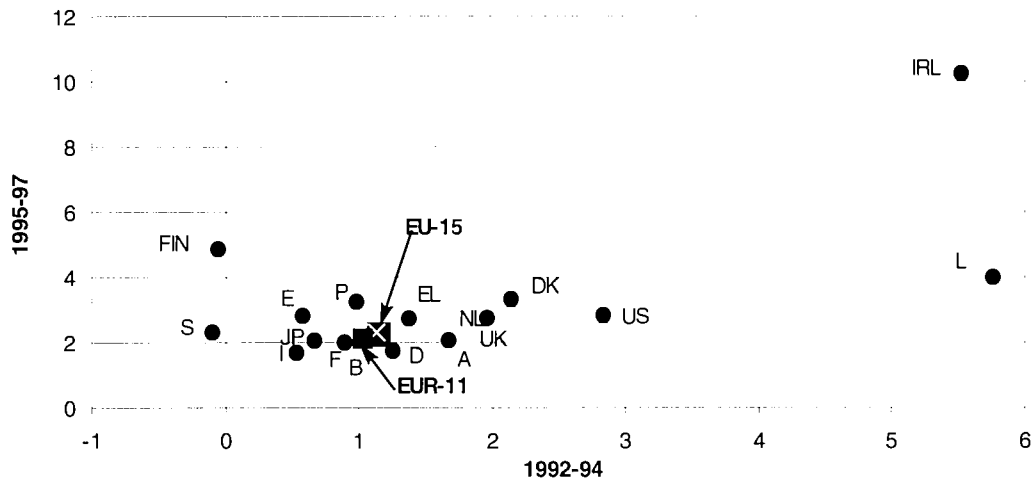
Among the EU Member States, however, the cyclical pattern varied during this period.

One group of countries — France, Italy, Spain, Austria and Belgium — both generated and followed the same trend as EU-15. The Scandinavian countries entered the recessionary phase earlier, in 1990, and stayed in recession almost two years longer (especially Finland because of the crisis on the Russian market). The Netherlands and Denmark observed a GDP decline in the second and third quarters of 1992. They appear to have been less affected by the unfavourable state of the cycle in late 1992 and early 1993 (the Dutch economy recorded a slowdown in the rate of growth, while the Danish economy posted a slight fall in the second quarter of 1992 only).

Still feeling the effects of unification, Germany experienced uneven cyclical movements during this period. Like most other Member States, it went through its downturn during late 1992 and early 1993.

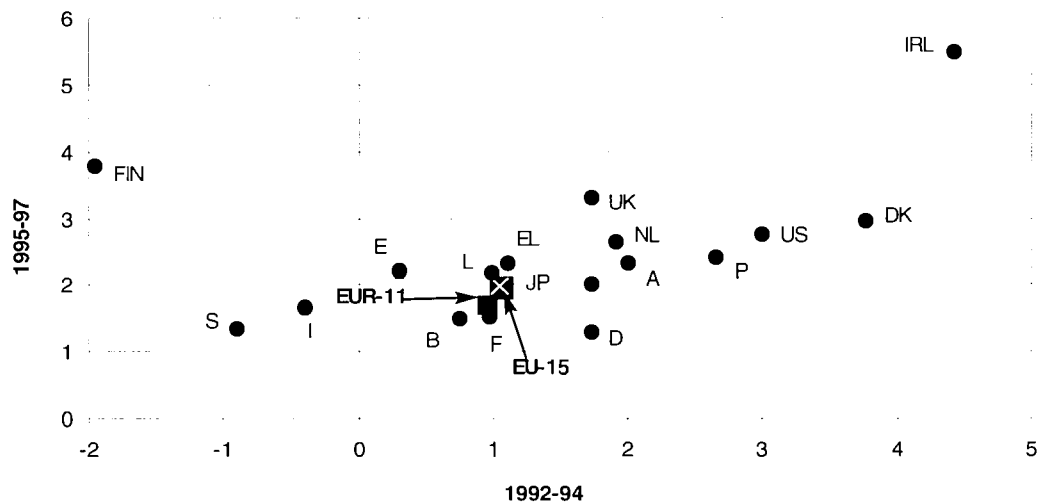
The United Kingdom economic cycle was ahead of the other European economies and more in line with the situation in the United States. The downturn lasted longer than in the USA, however, coming to an end in the second quarter of 1992.

**Fig. I.2.2.7. Average GDP growth rates for the years 1992/94 and 1995/97, as a %**



Source: Eurostat.

**Fig. I.2.2.8. Average Private Consumption growth rates for the years 1992/94 and 1995/97, as a %**



Source: Eurostat.

The international economic situation appears not to have had a too negative impact on the Greek economy, which merely slowed down in 1992. Only Luxembourg and Ireland seem to have been left virtually unscathed: apart from slowing down in 1992 and 1993 respectively, these two countries continued to show high rates of growth.

For reasons linked to economic developments in Europe and Japan, the recovery in the United States stalled in the first quarter of 1993, but got back on track immediately (peaking in the fourth quarter of 1993) and stayed on the rails until the second quarter of 1995. The US economy gathered pace again in late 1995 and early 1996 before slowing down in the third quarter of 1996. This was the last steady slowdown before the upswing that marked the beginning of the present phase of gradual growth-rate improvement.

The trend reversal which occurred in the USA as from the second quarter of 1993 strengthened the upswing in EU-15, which peaked in the second quarter of 1994. This period was followed by a gradual weakening of growth leading to stagnation in the second quarter of 1996. The fresh recovery that ensued slowed down in the fourth quarter of 1996 and the first quarter of 1997. It regained strength in the second quarter of 1997, but gradually faded over the second half of the year.

It was only in the second quarter of 1995 that the Japanese economy fully emerged from the long negative phase that had started in 1992. The second and third quarters of 1996 brought a further phase of stagnation and decline in economic activity. This was followed by an upswing that gave way to the mixed pattern of 1997.

Among certain Member States, the United Kingdom recorded growth throughout the second half of the period under consideration. The UK economic cycle peaked in the first quarter of 1994 and between the fourth quarter of 1996 and the second quarter of 1997. The most pronounced slowdown of that period occurred in the second quarter of 1996. However, the growth rate did not fall below +0.4%.

From 1994 onwards, Ireland enjoyed very strong growth, which — in spite of slowdowns in 1996 — was well above the European average (+11.8% in 1995). Luxembourg achieved the second-highest GDP growth rate over the period under review, with the only slowdown occurring in 1995 and 1996. Greece experienced gradual growth after 1992, whereas Portugal did so after 1993.

The internationalisation of the economy, especially in Europe, explains the similarities between the cyclical fluctuations in the other Member States. Germany, Italy, France, Belgium and to a certain extent Spain represent a core group of countries whose economies exhibit the highest degree of affinities. This group, which makes up the greater part of the Economic and Monetary Union, displayed the same cyclical development: an initial period of slower growth/decline between the second and fourth quarters of 1995 was followed by an upswing with a second negative phase from late 1996 to early 1997, which in turn gave way to recovery in the second quarter of 1997.

The Scandinavian countries, the Netherlands and Denmark generally followed the same pattern but showed a greater degree of independence, as they tended to stay ahead of the cycle or were able to cushion its most negative effects.

### **The cycle of private consumption and investment**

The cyclical development of the economy is measured by the quarterly GDP growth rate at constant prices. Cyclical analysis of private consumption and investment provides a means of detecting upstream movements and tendencies which shape the main thrust of economic development.

In the period under consideration (first quarter 1990 — first quarter 1998), private consumption was the least dynamic component of internal demand, and its variations tended to be less pronounced than those of GDP. At EU-15 level, there were two falls (in the first quarter of 1993 and between the second and fourth quarters of 1996) and several slowdowns interspersed between phases of recovery and faster growth.

The United States showed a similar pattern, but with the cyclical extremes occurring almost two years before their European equivalents: a marked decline in the fourth quarter of 1990 and the first quarter of 1991, and a slowdown in the first quarter of 1993, matching the cyclical movements of the European and Japanese economies.

In some Member States, variations in private consumption tended to be greater than the corresponding variations in GDP, especially during the negative phases. This phenomenon was particularly in evidence in France and Germany. In Italy, by contrast, movements on the consumption side did not appear to be especially linked to the changes in GDP.

Investment is traditionally a leading indicator for the start or end of a phase of economic growth or slowdown. During the period under review, investment generally showed more pronounced disparities and a much more flexible pattern than GDP. The degree of correspondence between GDP and investment varied from one country to the next, with investment tending to move ahead of cyclical phases.

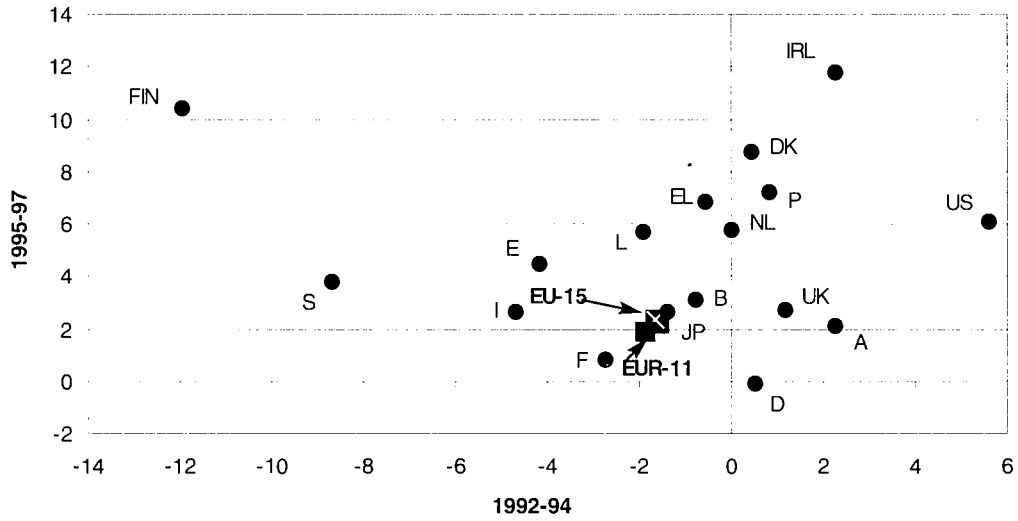
Investment thus fell in the United States in late 1990 and early 1991, and again in the first quarter of 1994 and second quarter of 1996. The most pronounced rises, on the other hand, occurred over the past two years.

Investment in EU-15 went through a negative phase between the second quarter of 1992 and the fourth quarter of 1993. It then staged a mixed recovery before slowing down in the second part of 1996 and gathering pace again in 1997.

Finland and Sweden saw investment fall continuously up to the end of 1993, accentuating the long phase of negative cyclical development characterising those two countries. In Ireland and Luxembourg, by contrast, dynamic investment bore witness to the phase of growth enjoyed by both Member States.

In Japan, finally, the vital spark consistently generated by investment activity throughout the country's recent economic history has failed to ignite over the past two years in particular. This, combined with the cyclical movements of the Asian markets, explains the difficult phase which the Japanese economy is currently experiencing.

**Fig. I.2.2.9. Average GFCF growth rates for the year 1992/94 and 1995/97, as a %**



Source: Eurostat.





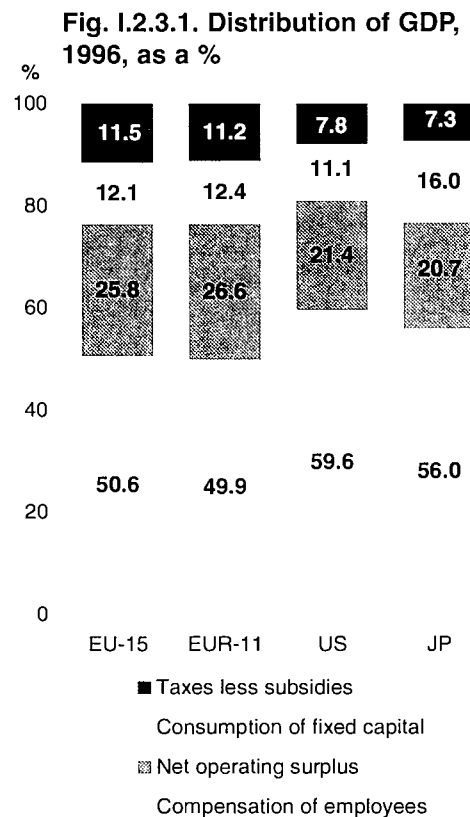
### I.2.3. Distribution of GDP, disposable income, saving and net lending or borrowing

#### Distribution of GDP

Gross domestic product was described in the preceding sections in terms of expenditure, i.e. in relation to main uses: private or collective consumption, gross fixed capital formation and the trade balance. But it is possible to look at GDP from other angles apart from expenditure. It can be analysed in terms of output, as the total value added produced by the various sectors of the economy (see section I.3.), or described in terms of income.

In the latter approach, a country's product is regarded as a kind of "income" that is distributed within the economy, since the resources that are produced are made available to those possessing the factors of production, i.e. labour or capital. GDP can thus be differentiated on the basis of the income generated by these factors of production: compensation of employees is the income derived from payment in respect of the "labour" factor, while payment in respect of the "capital" factor produces net operating surplus and consumption of fixed capital. The operating surplus is the income that units derive from the use of their production structures; and the consumption of fixed capital is the loss in value over time that affects goods comprising the fixed capital, i.e. depreciation. Taxes less subsidies are added to these income figures.

Compensation of employees absorbed just over half (50.6%) of the European Union's GDP in 1996. Net operating surplus accounted for more than a quarter (25.8%), while the figures for consumption of fixed capital and taxes less subsidies were 12.1% and 11.5% respectively. The breakdown was similar in the EURO zone, with compensation of employees absorbing 49.9% of GDP, while net operating surplus at 26.6% was nearly one percentage point



Source: Eurostat.

ahead of the EU figure. Consumption of fixed capital stood at 12.4%, with 11.2% for taxes less subsidies (see figure I.2.3.1.).

The figures for the United States and Japan show higher levels than the EU for compensation of employees (59.6% for the US and 56.0% for Japan in 1996), but the figures for operating surplus were below those of the EU (21.4% for the US and 20.7% for Japan). As for consumption of fixed capital, the Japanese figure (16%) was higher than in the EU, while the United States (11.1%) was one percentage point below the EU figure.

In the case of the Member States (see table I.2.3.1.), in 1996 **compensation of employees** ranged from a high of 58.9% of GDP in Sweden to a low of 33.9% in Greece. Compensation of employees accounts for the biggest share of GDP in every EU coun-

Tab. I.2.3.1. Distribution of GDP, as a %

	Compensation of employees		Net operating surplus		Consumption of fixed capital		Taxes less subsidies	
	1996	variation	1996	variation	1996	variation	1996	variation
EU-15	50.6	-1.5	25.8	0.8	12.1	0.1	11.5	0.5
EUR-11	49.9	-0.8	26.6	-0.2	12.4	0.3	11.2	0.7
B	51.1	-0.6	28.5	-0.4	9.9	-0.1	10.5	1.2
DK	54.3	-1.8	17.5	2.3	14.5	-1.2	13.7	0.7
D	53.7	-0.5	22.4	-0.4	13.0	0.5	10.8	0.4
EL	33.9	-1.4	46.7	0.6	8.5	-0.1	10.9	0.9
E	45.9	-1.6	34.3	1.4	11.3	0.3	8.5	-0.1
F	52.1	0.3	22.3	-0.2	12.7	0.0	12.9	-0.2
IRL	44.6	-2.6	35.8	2.8	9.7	0.2	9.9	-0.4
I	41.0	-4.2	36.1	1.7	12.4	0.6	10.5	1.9
L	56.6	0.0	14.9	-1.4	13.3	-0.9	15.2	2.3
NL	50.6	-1.2	26.5	-0.8	11.5	-0.1	11.4	2.1
A	51.4	-0.9	22.2	-0.4	13.4	1.4	13.0	0.0
P <sup>(1)</sup>	46.0	1.2	35.2	-3.4	4.4	0.6	14.4	1.7
FIN	51.4	-4.6	21.7	5.5	15.3	-0.2	11.6	-0.7
S	58.9	-3.7	15.8	4.9	12.3	-0.9	13.0	-0.4
UK	54.2	-3.3	22.3	3.8	10.5	-0.7	13.1	0.3
US <sup>(1)</sup>	59.6	-2.1	21.4	1.8	11.1	0.1	7.8	0.2
JP <sup>(1)</sup>	56.0	2.4	20.7	-4.0	16.0	1.4	7.3	0.2

<sup>(1)</sup> Eurostat estimates.

Note: The variation is given by the change of the proportion of 1996 and 1990.

Source: Eurostat.

try apart from Greece, where net operating surplus ranks first. Comparing the figures with those for 1990 shows that compensation of employees has declined in percentage terms in every Member State in the last seven years, especially in Finland (down by 4.6 percentage points), Italy (-4.2), Sweden (-3.7) and the United Kingdom (-3.3). Exceptions were France, where there was a very slight increase (+0.3), Portugal (+1.2) and Luxembourg, where the figure remained unchanged.

One of the features of Greece was its very high **net operating surplus** as a percentage of GDP (46.7%). This was the major component of GDP in the country and the highest figure in the EU. Behind Greece

came Italy (36.1%), Ireland (35.8%) and Portugal (35.2%). Compared with the situation in 1990, the Member States have differed greatly in the way in which net operating surplus has changed as a percentage of GDP. In about half the countries there has been only a slight reduction in the figure, with Portugal and Luxembourg recording the only sizeable fall (-3.4 and -1.4 points respectively), while there was an increase in the remaining countries. Among the latter, Finland (+5.5), Sweden (+4.9) and the United Kingdom (+3.8) stood out.

**Consumption of fixed capital** in 1996 ranged from 15.3% in Finland to only 4.4% in Portugal, and the figures have remained fairly stable in the EU countries throughout

the 1990s. Similarly, for **taxes less subsidies**, the only change of note occurred in the Netherlands and Luxembourg, where the figure went up by 2.1 and 2.3 points respectively. Throughout the EU, the figures ranged from 15.2% in Luxembourg to 8.5% in Spain.

### National disposable income

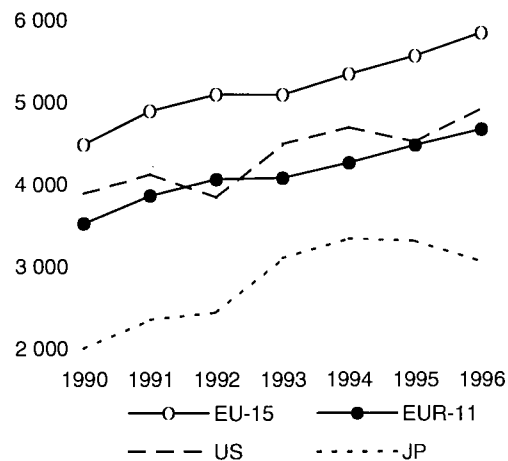
With regard to income, the total income received by resident units represents gross national income. By subtracting consumption of fixed capital and current transfers to non-resident units and adding transfers received from the rest of the world, we can calculate net national disposable income, i.e. the resources available to a country's residents over a specific period.

In 1996 the net national disposable income of the European Union amounted to ECU 5 849 Bn, compared with ECU 4 675 Bn for the Euro zone, ECU 4 926 Bn for the United States and ECU 3 061 Bn for Japan. In order to compare these figures, their position was calculated in relation to the European Union. The Euro zone thus had a net national disposable income figure that was 20% below the EU, while the figure for the United States was 16% below. In the case of Japan, net national disposable income was roughly half that of the EU (see figure I.2.3.2.).

A figure for net national disposable income per head was calculated so that the Member States could be compared. Luxembourg (ECU 29 840) was well ahead of the other Member States in 1996. Denmark came second (ECU 20 950), and at the other end of the ranking came Portugal (ECU 8 130) and Greece (ECU 9 010).

In order to show how the figures for the various countries differ in relation to the overall EU figure, table I.2.3.2. gives the figures for average disposable income per head for each country in relation to the European Union (EU-15=100). In 1996 the figure for Luxembourg was almost double the EU av-

**Fig. I.2.3.2. Net national disposable income, in Bn ECU**



Source: Eurostat.

**Tab. I.2.3.2. Net national disposable income per head, in ECU**

	in ECU		EU-15=100	
	1990	1996	1990	1996
<b>EU-15</b>	12 860	15 620	100	100
<b>EUR-11</b>	13 180	16 050	102	103
<b>B</b>	13 720	18 700	107	120
<b>DK</b>	15 360	20 950	119	134
<b>D</b>	15 920	19 160	124	123
<b>EL</b>	6 290	9 010	49	58
<b>E</b>	8 900	10 240	69	66
<b>F</b>	14 330	17 890	111	115
<b>IRL</b>	8 640	12 090	67	77
<b>I</b>	12 920	14 030	100	90
<b>L</b>	23 870	29 840	186	191
<b>NL</b>	13 080	17 660	102	113
<b>A</b>	14 200	19 190	110	123
<b>P</b>	5 450	8 130	42	52
<b>FIN</b>	17 280	15 530	134	99
<b>S</b>	17 500	18 490	136	118
<b>UK</b>	11 600	13 720	90	88
<b>US</b>	15 570	18 560	121	119
<b>JP</b>	16 300	24 330	127	156

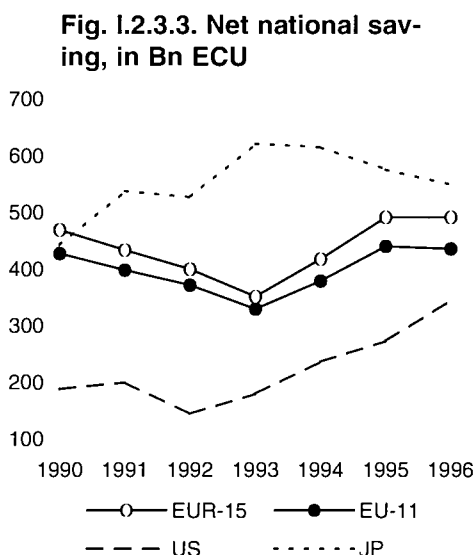
Source: Eurostat.

erage, and Denmark was 34% above the average. Greece was 42% below the average, while net national disposable income in Portugal was about half the EU figure.

There has been no change in the Member States' positions in relation to each other during the 1990s, but the gaps between the countries have increased.

### National saving

In 1996 net national saving in the European Union amounted to ECU 493 Bn, just 10% above the figure for the Euro zone (ECU 437 Bn) but 30% ahead of the US figure (ECU 347 Bn). It was 12% below the Japanese figure of ECU 550 Bn, however. In 1990 the figures for the European Union and Japan were similar, but Japan has pulled away during the 1990s, although the rate has slackened in the last two years. There has been an opposite trend in the United States, and although US saving is still below the EU level, an increase in net national saving in the last two years has brought the US figure closer to that of the European Union.



Source: Eurostat.

In order to assess saving in relation to available resources and to compare countries with differing levels, it is necessary to calculate saving ratios, i.e. net national saving as a percentage of net national disposable income (see table I.2.3.3.).

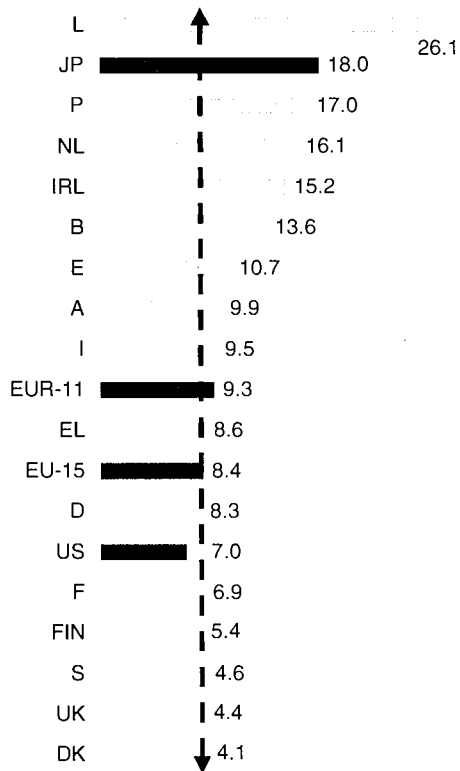
In 1996, in the European Union, 8.4% of net national disposable income was saved. The figure for the Euro zone was about one point higher (9.3%). Compared with 1990, the saving ratios were down by about two points in each case. As already indicated, the United States has a lower saving ratio (7.0%), although it has gone up by 2.1 points in the 1990s. At 18%, Japan's net saving ratio is more than double the EU figure, although since 1990 it has decreased by 4 points.

Tab. I.2.3.3. Net national saving

	in Bn ECU		Saving ratios <sup>(1)</sup> (as a %)	
	1990	1996	1990	1996
<b>EU-15</b>	470	493	10.5	8.4
<b>EUR-11</b>	429	437	12.1	9.3
<b>B</b>	17	26	12.3	13.6
<b>DK</b>	2	4	3.0	4.1
<b>D</b>	147	130	14.6	8.3
<b>EL</b>	6	8	9.6	8.6
<b>E</b>	41	43	11.9	10.7
<b>F</b>	83	72	10.2	6.9
<b>IRL</b>	4	7	13.7	15.2
<b>I</b>	66	78	8.8	9.5
<b>L</b>	3	3	32.5	26.1
<b>NL</b>	32	44	16.4	16.1
<b>A</b>	16	15	14.8	9.9
<b>P</b>	12	14	21.8	17.0
<b>FIN</b>	8	4	9.6	5.4
<b>S</b>	8	7	5.5	4.6
<b>UK</b>	25	36	3.8	4.4
<b>US</b>	189	347	4.9	7.0
<b>JP</b>	443	550	22.0	18.0

<sup>(1)</sup> Ratio between the net national saving and the net national disposable income.

Source: Eurostat.

**Fig. I.2.3.4. Net saving ratios, 1996**


Among the Member States, Luxembourg (26.1%) had the highest saving ratio in 1996, well ahead of Portugal (17.0%), the Netherlands (16.1%) and Ireland (15.2%). The lowest figures were recorded in Denmark (4.1%), the United Kingdom (4.4%) and Sweden (4.6%) (see figure I.2.3.4.).

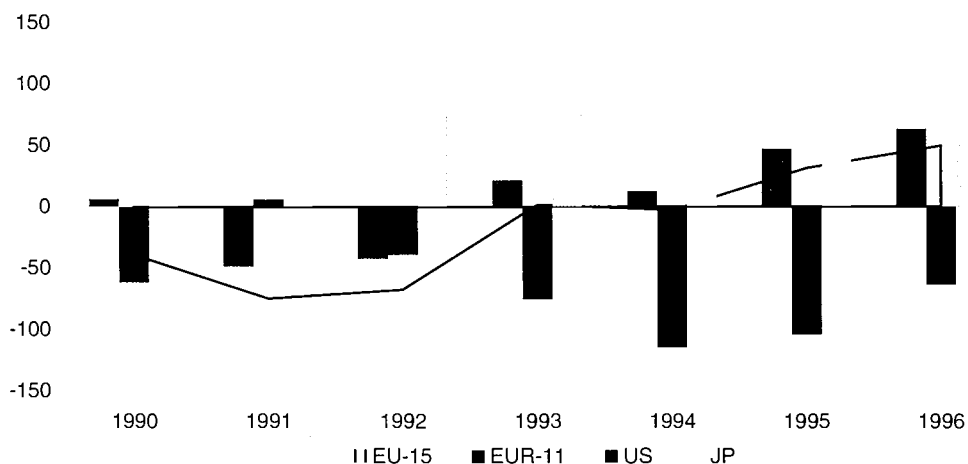
Most Member States have seen their net saving ratio fall during the current decade, with figures ranging from -6.4 points in Luxembourg to only -0.3 points in the Netherlands. The only countries where the saving ratio has increased are Ireland (+1.5 points), Belgium (+1.3), Denmark (+1.1), Italy (+0.7) and the United Kingdom (+0.6).

#### Net lending or borrowing

In 1996 the European Union (Portugal is not included) recorded a lending figure of ECU 49.8 Bn, while the figure for the euro zone was ECU 63.4 Bn. Since 1993 both the European Union and the euro zone have seen a reversal in the pattern, moving from net borrowing to net lending.

The United States was a net borrower throughout the period in question, and in

Source: Eurostat.

**Fig. I.2.3.5. Net lending/net borrowing of the economy, in Bn ECU**


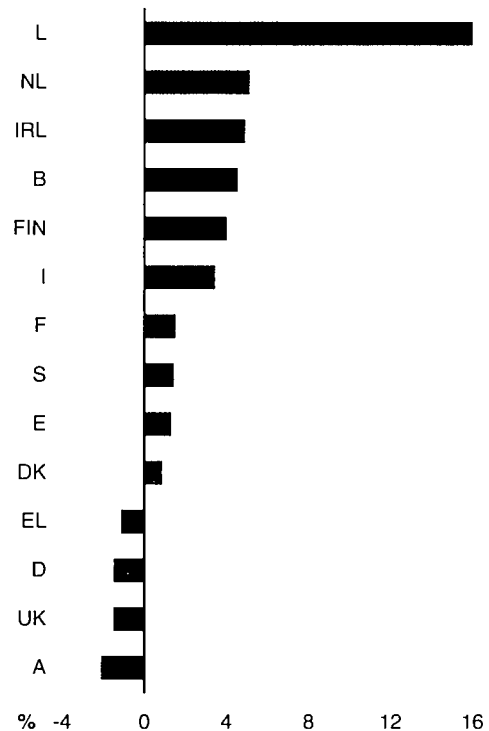
Note: Without Portugal. Data of 1996 for the United States and Japan are from the IMF.  
Source: Eurostat.

1996 its net borrowing amounted to ECU 63.5 Bn. The opposite applied in Japan, which was a net lender throughout the period and which in 1996 recorded a lending figure of ECU 50.7 Bn (see table I.2.3.5.).

For the purpose of comparing the Member States, figure I.2.3.6. shows lending or borrowing as a percentage of each country's total GDP.

In 1996 Luxembourg had the highest lending figure (16% of GDP), well ahead of the other Member States, where the figures ranged from 5.1% in the Netherlands to 0.9% in Denmark. The countries that were net borrowers were Austria (2.1% of GDP), the United Kingdom and Germany (both -1.5%) and Greece (-1.1%). Both the United Kingdom and Greece were net borrowers throughout the period in question (1990/96), whereas Germany became a net borrower after unification in 1991. Austria, too, became a net borrower in 1993. Belgium, Denmark, Ireland, Luxembourg and the Netherlands were all net lenders throughout the period.

**Fig. I.2.3.6. Net lending/net borrowing of the economy, 1996, as a % of GDP**



Note: Without Portugal.  
Source: Eurostat.

## 1.2.4. External trade

### *EU-15 GDP and extra-EU trade flows in goods and services*

At both current and constant prices (1990 prices), extra-EU exports and imports of goods and services have grown continuously since 1992. The growth rates of the various variables differ at current and constant prices reflecting divergent price developments. Over the period 1992 to 1997, the average annual growth rate for extra-EU exports of goods and services at constant prices was 7.6%. The corresponding growth rate for imports over the same period was distinctly lower, at 4.6%.

Extra-EU exports of goods at constant prices grew at a much faster rate (8.8%) than those of services (3.9%). A similar pattern is to be seen on the import side, with imports of goods from 1992 to 1997 showing a much higher growth rate (5.1%) than those of services (2.4%) (see table I.2.4.1.).

Growth in extra-EU exports and imports at constant prices (7.6% and 4.6% respectively) far outstripped that of GDP at constant prices (1.8%) over the period 1992 to 1997. This faster growth in extra-EU exports is reflected in their increasing share of gross domestic product. In 1997, extra-EU exports at constant prices made up 13.6% of GDP, against 10.3% in 1992 (see table I.2.4.1.).

Tab. I.2.4.1. EU-15-GDP, imports and exports of goods and services

	1992	1993	1994	1995	1996	1997 <sup>(1)</sup>	Average annual growth rate 1992-1997, as a %
<b>At current prices, in Bn ECU</b>							
<b>GDP</b>	5 892	5 909	6 202	6 448	6 773	7 131	3.9
<b>Total exports</b>	563.9	620.4	676.3	720.9	784.2	873.6	9.1
<b>Goods (fob)</b>	403.8	448.4	496.4	541.2	591.2	656.7	10.2
<b>Services <sup>(2)</sup></b>	160.1	172.0	179.9	179.7	193.0	216.9	6.3
<b>Total imports</b>	597.6	615.0	667.0	706.4	729.8	808.6	6.2
<b>Goods (fob)</b>	450.6	456.4	498.7	534.6	551.5	610.6	6.3
<b>Services <sup>(2)</sup></b>	147.0	158.6	168.3	171.8	178.4	198.0	6.1
	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997 <sup>(1)</sup></b>	<b>Average annual growth rate 1992-1997, as a %</b>
<b>At constant prices <sup>(3)</sup>, in Bn ECU</b>							
<b>GDP</b>	5 423	5 390	5 547	5 685	5 780	5 932	1.8
<b>Total exports</b>	558.4	610.2	658.1	686.6	734.6	807.0	7.6
<b>Goods (fob)</b>	405.8	448.3	491.5	522.1	562.4	617.7	8.8
<b>Services <sup>(2)</sup></b>	151.3	158.5	161.4	160.3	167.6	183.5	3.9
<b>Total imports</b>	601.4	615.6	656.4	678.9	692.4	753.5	4.6
<b>Goods (fob)</b>	463.4	470.4	508.7	535.4	547.9	595.5	5.1
<b>Services <sup>(2)</sup></b>	136.7	139.0	144.6	140.0	141.1	153.6	2.4
<b>Exports/GDP in %</b>	10.3	11.3	11.9	12.1	12.7	13.6	

<sup>(1)</sup> Figures for 1997 are estimates. Exports and imports are estimated from annualised quarterly data.

<sup>(2)</sup> Figures for services are estimates from 1996 onwards.

<sup>(3)</sup> The implicit price indices for (extra- and intra-) EU exports and imports of goods and services are calculated from National Accounts. However, the price indices of total (extra- and intra-) EU exports and imports are not quite accurate for the extra-EU trade. As the structures of extra- and intra-EU trade differ, also the prices are expected to develop differently.

Source: Eurostat, New Cronos, National Accounts: "Aggregates" for GDP and "BOP statistics" for exports and imports. These data may diverge noticeably from those contained in the COMEXT database (see box entitled "External Trade Data").



### Extra-EU trade in goods

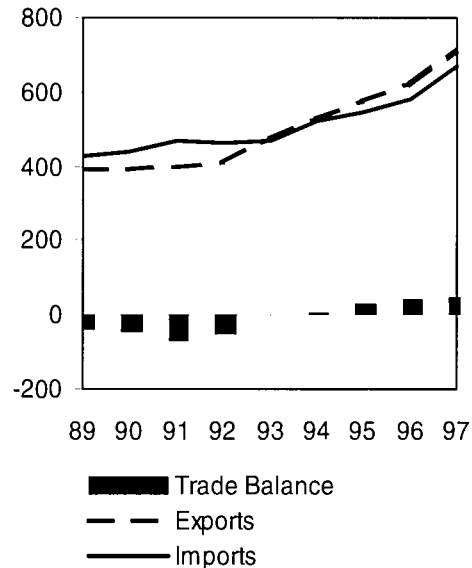
#### External trade data

Data on extra-EU trade are taken from Eurostat's "Comext" database, which contains information collected by the Member States from statistical copies of customs declarations. However, the trade figures (only goods) are not directly comparable with National Accounts data (goods and services) contained in the New Cronos database. This is because foreign trade data reflect physical movements (goods crossing borders), whereas National Accounts data are transaction-based. Further, harmonised data for the three new Member States (Sweden, Finland and Austria) are only available for 1995-97. The pre-1995 figures for these states were taken from international sources, and are therefore not fully comparable with the harmonised ones.

#### Extra-EU trade in goods by Member States

In 1997, **extra-EU exports of goods** amounted to ECU 717.9 Bn, up 14.8% on 1996. For the period 1989 to 1997, Germany was by far the EU's leading exporter, accounting for 28.0% of total extra-EU exports. Then came the United Kingdom, France and Italy with respective shares of 15.3%, 14.1% and 13.3%. Over the period 1989 to 1997, France saw its share of extra-EU exports decline slightly, while the proportion accounted for by Italy showed a slight increase. These four countries made up 70.7% of total extra-EU exports in 1997 (see table I.2.4.2.).

**Fig. I.2.4.1. EU-15 external trade, 1989-1997, in Bn ECU**



Source: Eurostat, COMEXT.

**Extra-EU imports of goods** in 1997 amounted to ECU 667.3 Bn, representing an increase of 14.8% compared with 1996. This rise fell well short of the surge in exports. On the import side, too, Germany leads the field, accounting for 24.0% of total extra-EU imports in 1997. Among the biggest importers in 1997 were the United Kingdom (with a share of 18.8%), France (12.8%), Italy (10.8%) and the Netherlands (10.1%). The proportions accounted for by France and Italy have decreased slightly since 1989, whereas the United Kingdom and the Netherlands have recorded increasing shares (see table I.2.4.3.).

**Tab. I.2.4.2. Extra-EU-15 exports of goods by Member State**

	1989	1990	1991	1992	1993	1994	1995	1996	1997	Increase 97/96, as a %
	<b>Bn ECU</b>									
<b>EU-15</b>	391.1	391.5	399.1	411.0	471.9	526.1	573.3	625.1	717.9	14.8
	<b>Shares as a %</b>									
<b>BLEU</b>	5.2	5.0	5.0	4.9	5.4	5.7	5.5	5.2	5.3	16.2
<b>DK</b>	2.2	2.2	2.3	2.4	2.2	2.3	2.3	2.2	2.0	7.6
<b>D</b>	28.0	28.8	30.0	29.6	28.5	28.7	29.2	28.2	28.0	14.2
<b>EL</b>	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	26.5
<b>E</b>	3.9	3.8	3.9	4.1	4.2	4.1	4.2	4.4	3.9	0.6
<b>F</b>	15.3	15.5	15.8	16.2	16.0	15.2	14.9	14.5	14.1	11.4
<b>IRL</b>	1.0	1.0	1.1	1.2	1.4	1.4	1.6	1.8	2.0	33.8
<b>I</b>	12.7	12.7	12.5	12.8	13.1	13.0	13.3	14.2	13.3	7.8
<b>NL</b>	5.3	5.2	5.3	5.4	5.7	5.6	5.4	5.0	5.1	19.0
<b>A</b>	2.5	2.7	2.7	2.7	2.5	2.5	2.6	2.6	2.8	20.6
<b>P</b>	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	7.5
<b>FIN</b>	2.3	2.1	1.6	1.5	1.8	2.1	2.3	2.4	2.4	15.8
<b>S</b>	4.6	4.4	4.2	4.0	3.7	4.4	4.3	4.6	4.5	13.0
<b>UK</b>	15.8	15.5	14.4	14.0	14.2	13.9	13.3	13.8	15.3	27.4

Source: Eurostat, COMEXT.

**Tab. I.2.4.3. Extra-EU-15 imports of goods by Member State**

	1989	1990	1991	1992	1993	1994	1995	1996	1997	Increase 97/96, as a %
	<b>Bn ECU</b>									
<b>EU-15</b>	429.0	440.4	470.5	461.8	470.7	518.9	545.3	581.5	667.3	14.8
	<b>Shares as a %</b>									
<b>BLEU</b>	6.0	5.8	5.6	5.5	5.9	5.7	6.3	6.1	5.9	11.3
<b>DK</b>	1.8	1.8	1.8	1.8	1.7	1.8	1.8	1.8	1.8	11.8
<b>D</b>	22.2	23.1	25.4	25.7	25.5	25.2	25.8	24.7	24.0	11.8
<b>EL</b>	1.1	1.1	1.3	1.3	1.5	1.1	1.1	1.4	1.2	2.86
<b>E</b>	5.8	5.7	5.7	5.9	4.9	4.8	5.0	5.0	5.1	15.1
<b>F</b>	13.6	13.8	13.9	13.4	14.4	13.7	12.8	12.8	12.8	15.2
<b>IRL</b>	1.0	1.0	1.0	0.9	1.3	1.4	1.6	1.6	1.7	26.4
<b>I</b>	12.5	12.3	11.8	11.5	10.9	10.8	11.3	11.0	10.8	13.3
<b>NL</b>	8.6	8.8	8.8	9.2	8.2	9.3	9.6	10.0	10.1	16.1
<b>A</b>	2.4	2.6	2.6	2.7	2.7	2.8	2.2	2.4	2.3	11.4
<b>P</b>	1.2	1.3	1.1	1.2	1.1	1.2	1.2	1.1	1.1	11.4
<b>FIN</b>	2.1	1.9	1.5	1.5	1.4	1.7	1.4	1.5	1.5	14.8
<b>S</b>	3.8	3.6	3.1	3.1	2.9	3.2	2.9	2.9	2.8	12.1
<b>UK</b>	17.9	17.3	16.1	16.4	17.7	17.2	17.0	17.8	18.8	21.1

Source: Eurostat, COMEXT.

The EU's **external trade balance** moved into the black in 1993 and went on rising steadily to reach ECU 50.5 Bn in 1997. Germany's surplus in 1997 amounted to ECU 40.7 Bn, making up 80.6% of the total extra-EU surplus. Only in 1991 did Germany record a negative balance, mainly as a result of reunification. Other countries posting appreciable surpluses in 1997 were Italy (ECU 23.1 Bn), France (ECU 15.3 Bn) and

Sweden (ECU 13.8 Bn). While Sweden enjoyed a positive trade balance throughout the period under review, Italy's figures have only been in the black since 1993. The biggest deficits in 1997 were recorded by the Netherlands and the United Kingdom, at ECU -30.7 Bn and ECU -15.4 Bn respectively. Both countries' figures were in the red over the whole of the period 1989 to 1997 (see table I.2.4.4.).

**Tab. I.2.4.4. Balance of extra-EU-15 trade in goods by Member State, in Bn ECU**

	1989	1990	1991	1992	1993	1994	1995	1996	1997
<b>EU-15</b>	-37.9	-49.0	-71.3	-50.8	1.2	7.2	28.0	43.6	50.5
<b>BLEU</b>	-5.2	-6.0	-6.5	-5.1	-2.4	0.1	-3.0	-3.1	-1.9
<b>DK</b>	0.8	1.0	0.8	1.9	2.5	2.7	3.1	3.0	2.8
<b>D</b>	14.2	11.0	-0.1	2.9	14.7	20.1	27.0	32.6	40.7
<b>EL</b>	-2.8	-3.0	-4.0	-3.8	-4.0	-2.4	-2.5	-3.7	-2.8
<b>E</b>	-9.9	-10.1	-11.2	-10.7	-3.5	-3.6	-3.4	-1.8	-6.0
<b>F</b>	1.8	-0.5	-2.4	4.7	8.1	8.9	15.4	16.3	15.3
<b>IRL</b>	-0.1	-0.3	-0.4	0.7	0.9	0.3	0.2	1.9	3.3
<b>I</b>	-4.1	-4.6	-5.7	-0.8	10.8	12.4	14.7	24.7	23.1
<b>NL</b>	-15.8	-18.2	-20.4	-20.0	-11.8	-19.1	-21.0	-27.2	-30.7
<b>A</b>	-0.6	-0.8	-1.6	-1.4	-0.9	-1.4	2.9	2.6	4.4
<b>P</b>	-2.6	-3.1	-3.1	-2.9	-2.6	-3.0	-3.0	-2.8	-3.3
<b>FIN</b>	-0.3	-0.1	-0.7	-0.3	1.9	1.9	5.3	6.1	7.2
<b>S</b>	1.5	1.3	2.1	2.0	3.8	6.5	9.3	12.1	13.8
<b>UK</b>	-14.8	-15.4	-18.0	-18.0	-16.5	-16.3	-16.9	-17.2	-15.4

Source: Eurostat, COMEXT.

### Extra-EU trade in goods by partners

In recent years, the extra-EU exports are orientating towards the eleven Candidate Countries as their share has risen from 7.9% in 1993 to 11.2% in 1997. The CEECs are likewise becoming an important export market for EU products, with their share rising over the 1993-97 period from 8.3% to 12.1%. Similarly, the Commonwealth of Independent States has increased its share of extra-EU exports from 2.1% in

1992 the year in which the CIS was created, to 4.6% in 1997. As a result, the EU's eastern neighbours (CEECs and CIS) accounted for 16.7% of extra-EU exports in 1997 (see table I.2.4.5.).

There has also been relatively strong growth in the share of extra-EU exports going to Latin America, China, the DAE and ASEAN countries. However, the current economic crisis in Asia took its toll in 1997, with the proportions of extra-EU exports

accounted for by ASEAN, DAE and Japan going into decline. The USA, traditionally the single most important market for EU exporters, saw its share fall from 21.7% in 1989 to 19.6% in 1997. The relative importance of the other NAFTA countries as export markets declined to a slightly greater extent. The proportions accounted for by the (12) Mediterranean countries and OPEC tended to remain constant over the period.

The share of extra-EU exports going to EFTA has been in decline since 1989, as has that taken by developing countries. The latter now hold a very low position in the ranking and are becoming less important trading partners in relative terms. This is reflected in the declining proportion of extra-EU exports accounted for by the ACP countries, Oceania and Africa (including South Africa): 12.3% in 1997 compared with 19.4% in 1989 (see table I.2.4.5.).

**Tab. I.2.4.5. Extra-EU-15 exports of goods by partners**

	1989	1990	1991	1992	1993	1994	1995	1996	1997
	<b>Bn ECU</b>								
<b>EU-15</b>	391.1	391.5	399.1	411.0	471.9	526.1	573.3	625.1	717.9
	<b>Shares as a %</b>								
<b>Candidate Countries</b>	:	:	:	:	7.9	8.6	9.6	10.5	11.2
<b>CEEC</b>	5.6	6.2	7.2	7.9	8.3	9.1	10.2	11.3	12.1
<b>CIS</b>	:	:	:	2.1	3.5	3.5	3.6	4.0	4.6
<b>- of which: Russia</b>	:	:	:	1.7	2.8	2.7	2.8	3.1	3.5
<b>EFTA</b>	14.7	15.2	14.7	13.9	12.2	12.1	12.2	11.6	10.9
<b>NAFTA</b>	25.7	24.9	23.1	23.0	22.7	23.0	20.6	20.8	22.6
<b>USA</b>	21.7	21.1	19.3	19.3	19.4	19.6	18.0	18.3	19.6
<b>Japan</b>	5.9	6.3	6.0	5.4	5.2	5.5	5.7	5.7	5.0
<b>Selected Asian countries/groupings</b>									
<b>- China</b>	1.7	1.5	1.6	1.8	2.6	2.7	2.6	2.4	2.3
<b>- Asean countries</b>	4.0	4.5	4.8	5.2	5.6	5.9	6.5	6.6	6.4
<b>- DAE</b>	7.6	7.9	8.7	9.0	9.8	10.6	11.4	11.2	10.8
<b>Mediterranean Countries</b>	8.1	9.0	9.2	9.3	9.6	8.7	8.8	9.1	9.0
<b>Latin America</b>	4.3	4.3	4.9	5.3	5.4	5.8	5.7	5.7	6.3
<b>OPEC</b>	9.5	9.6	10.6	10.8	9.2	7.5	7.0	6.9	7.3
<b>ACP</b>	4.5	4.8	4.2	4.4	3.7	2.9	3.1	3.0	2.8
<b>Africa</b>	11.9	11.9	11.6	11.2	9.8	9.0	9.0	8.6	7.2
<b>Oceania</b>	3.0	2.6	2.2	2.3	2.2	2.3	2.4	2.3	2.3

Source: Eurostat, COMEXT.

Tab. I.2.4.6. Extra-EU-15 imports of goods by partners

	1989	1990	1991	1992	1993	1994	1995	1996	1997
	<b>Bn ECU</b>								
<b>EU-15</b>	429	440.4	470.5	461.8	470.7	518.9	545.3	581.5	667.3
	<b>Shares as a %</b>								
<b>Candidate Countries</b>	:	:	:	:	6.1	7.1	8.3	8.2	8.5
<b>CEEC</b>	5.2	5.4	5.7	6.4	6.5	7.5	8.7	8.6	9.0
<b>CIS</b>	:	:	:	2.6	4.3	4.7	4.6	4.6	4.7
<b>- of which: Russia</b>	:	:	:	2.3	3.7	4.1	3.9	4.0	4.0
<b>EFTA</b>	12.7	13.4	12.7	12.8	12.8	12.8	12.8	12.8	12.0
<b>NAFTA</b>	24.1	23.8	23.8	22.8	21.6	21.7	21.7	21.9	22.9
<b>USA</b>	21.0	20.8	20.9	20.1	19.3	19.3	19.0	19.4	20.4
<b>Japan</b>	12.2	11.7	12.1	12.2	11.1	10.4	10.0	9.0	8.9
<b>Selected Asian countries/groupings</b>									
<b>- China</b>	2.3	2.6	3.4	3.9	4.5	4.7	4.8	5.2	5.6
<b>- Asean countries</b>	3.8	4.0	4.5	5.1	5.8	6.2	6.3	6.7	6.9
<b>- DAE</b>	8.4	8.2	9.0	9.2	9.6	9.6	10.0	9.9	10.1
<b>Mediterranean Countries</b>	5.8	6.3	6.1	6.3	6.1	6.1	5.9	6.1	6.2
<b>Latin America</b>	6.6	6.2	5.9	5.6	5.0	5.5	5.6	5.2	5.1
<b>OPEC</b>	9.8	10.6	10.3	9.6	9.1	8.3	7.3	8.0	7.9
<b>ACP</b>	4.7	5.1	4.2	4.0	3.3	3.7	3.6	3.8	3.4
<b>Africa</b>	11.1	11.6	11.1	10.8	9.6	9.2	8.6	9.0	8.4
<b>Oceania</b>	1.9	1.6	1.4	1.5	1.3	1.4	1.4	1.3	1.4

Source: Eurostat, COMEXT.

On the import side, too, the relative importance of the Candidate Countries has been increasing since 1993. However, their relative and absolute importance as a source of extra-EU imports in 1997 (8.5% share) fell well short of their ranking as an export market (11.2% share) (see tables I.2.4.5. and I.2.4.6.).

While imports from the USA and EFTA remained at a constantly high level over the 1989-1997 period, the relative position of Japan was in steady decline, with its share of extra-EU imports falling from 12.2% in 1989 to 8.9% in 1997. By contrast, the other Asian countries — China, ASEAN and DAE — became increasingly important sources as their share in extra-EU

imports rose from 14.5% in 1989 to 22.6% in 1997.

All the other groupings (the 12 Mediterranean countries, Latin America, OPEC, the ACP countries, Africa and Oceania) saw their relative importance decrease over the period. In spite of the high number of the countries under the Oceania and ACP headings, they account only for a very low share of extra-EU imports (see table I.2.4.6.).

The EU's balance of trade with the various partner countries presents a mixed picture. Constantly positive trade balances with the Candidate Countries, the CEECs, the Mediterranean Basin and Oceania contrast with negative figures in

relation to the ACP countries, Japan, China and EFTA. Although the EU's trade balance with the CIS was in the red until 1996, the 1997 figure was positive. Trade

balances with other important partners, such as the USA and ASEAN, show no clear pattern either way (see table I.2.4.7.).

**Tab. I.2.4.7. Extra-EU-15 trade balance by partners, in Bn ECU**

	1989	1990	1991	1992	1993	1994	1995	1996	1997
<b>Extra-EU-15</b>	-37.9	-49.0	-71.3	-50.8	1.2	7.2	28.0	43.6	50.5
<b>Candidate Countries</b>	:	:	:	:	8.4	8.6	10.1	17.9	23.3
<b>CEEC</b>	-0.4	0.5	1.6	2.8	8.4	9.1	11.6	20.8	26.8
<b>CIS</b>	:	:	:	-3.4	-3.3	-6.0	-4.1	-1.7	1.8
- of which: <b>Russia</b>	:	:	:	-3.7	-4.5	-7.0	-5.4	-4.2	-1.4
<b>EFTA</b>	2.9	0.8	-1.0	-2.3	-2.6	-2.7	-0.2	-2.2	-1.9
<b>NAFTA</b>	-2.8	-7.5	-19.5	-10.6	5.5	8.5	-0.4	2.8	9.5
<b>USA</b>	-5.2	-9.1	-21.3	-13.4	0.6	3.4	-0.4	1.6	4.2
- <b>Japan</b>	-29.5	-27.1	-33.0	-34.1	-27.5	-24.8	-21.4	-16.8	-23.2
<b>Selected Asian countries/groupings</b>									
- <b>China</b>	-3.0	-5.6	-9.7	-10.4	-8.8	-10.6	-11.7	-15.3	-20.9
- <b>Asean countries</b>	-0.7	0.0	-2.2	-2.3	-1.2	-1.3	2.4	2.4	-0.3
- <b>DAE</b>	-6.4	-5.1	-7.9	-5.5	0.9	6.2	11.2	12.6	10.1
<b>Mediterranean Countries</b>	6.9	7.5	8.0	9.1	16.6	14.2	18.5	21.4	23.7
<b>Latin America</b>	-11.4	-10.2	-8.1	-4.1	2.1	2.0	2.0	5.3	10.6
<b>OPEC</b>	-5.1	-9.1	-6.6	-0.1	0.5	-3.9	0.3	-3.2	0.0
<b>ACP</b>	-2.6	-3.5	-3.3	-0.7	1.7	-3.8	-2.3	-3.5	-2.4
<b>Africa</b>	-1.4	-4.4	-5.9	-4.0	1.4	-0.1	4.7	1.2	-4.6
<b>Oceania</b>	3.4	2.9	2.2	2.5	4.1	4.9	6.0	6.6	7.2

Source: Eurostat, COMEXT.

### Extra-EU trade by main products

The main focus of extra-EU exports is on manufactured products (SITC 5-8), whose share rose from 82.2% in 1989 to 87.3% in 1997 (see table I.2.4.8.). Machinery and transport equipment (SITC 7) make up the bulk of manufactured products, with a share of 45.9% in 1997. The relative importance of this product group has increased steadily since 1989. The second most important product group is miscellaneous manufactured goods (SITC 6+8). Its share, however, decreased from 32.0% in 1989 to 28.4% in 1997.

Chemical products (SITC 5) have gained in importance accounting for 13.0% in 1997 compared with 11.5% in 1989. The relative importance of raw materials has decreased, with their share falling from 12.4% in 1989 to 10.8% in 1997. The proportion of extra-EU exports accounted for by crude materials (SITC 2+4) and mineral fuels (SITC 3) remained quite stable over the period at just over 2.0% in 1997, while the share of food, beverages and tobacco (SITC 0+1) declined from 7.6% in 1989 to 6.4% in 1997.

Although manufactured products accounted for a significantly lower proportion

(71.1%) in extra-EU imports in comparison to that in extra-EU exports in 1997, their share in imports has been rising continuously since 1989 (see table I.2.4.9.). At 26.3% in 1997, raw materials still make up a significant proportion of extra-EU imports. Extra-EU imports of manufactured products over the period largely comprised machinery and transport equipment (SITC 7) and miscellaneous manufactured goods (SITC6+8). Both product groups have gained in relative importance, with their respective shares rising of extra-EU imports accounted

for by chemicals increased from 6.5% in 1989 to 7.7% in 1997.

The trade balances for product groups show considerably differing figures. The extra-EU trade balance for raw materials and all sub-groups was negative throughout the period. Trade in manufactured products, on the other hand, was in surplus, albeit with small deficits for miscellaneous manufactured goods from 1991 to 1993. The surplus for manufactured products was large enough to offset the trade deficit in raw materials (see table I.2.4.10.).

**Tab. I.2.4.8. Extra-EU exports by products**

	1989	1990	1991	1992	1993	1994	1995	1996	1997
	<b>Bn ECU</b>								
<b>TOTAL</b>	391.1	391.5	399.1	411.0	471.9	526.1	573.3	625.1	717.9
	<b>Shares as a %</b>								
<b>Raw materials (0-4)</b>	12.4	12.3	12.0	12.3	12.6	12.3	11.5	11.2	10.8
Food, beverage and tobacco (0+1)	7.6	7.5	7.4	7.8	7.4	7.1	6.8	6.6	6.4
Crude materials except fuels (2+4)	2.5	2.3	2.2	2.2	2.2	2.3	2.4	2.2	2.2
Mineral fuels (3)	2.2	2.5	2.4	2.3	3.0	2.9	2.3	2.5	2.3
<b>Manufactured products (5-8)</b>	82.2	83.1	83.3	84.0	85.8	86.2	86.7	87.5	87.3
Chemicals (5)	11.5	11.5	12.0	12.4	12.8	12.9	12.8	12.9	13.0
Machinery and transport equip. (7)	38.7	40.6	41.2	42.0	43.8	44.0	44.6	45.2	45.9
Misc. manufactured goods (6+8)	32.0	31.0	30.1	29.7	29.2	29.3	29.2	29.3	28.4
<b>Other not classified goods (9)</b>	5.5	4.6	4.7	3.7	1.6	1.5	1.8	1.3	1.9

Source: Eurostat, COMEXT.

**Tab. I.2.4.9. Extra-EU-15 imports by products**

	1989	1990	1991	1992	1993	1994	1995	1996	1997
	<b>Bn ECU</b>								
<b>TOTAL</b>	429.0	440.4	470.5	461.8	470.7	518.9	545.3	581.5	667.3
	<b>Shares as a %</b>								
<b>Raw materials (0-4)</b>	33.1	33.2	31.3	30.1	28.7	28.5	27.2	28.1	26.3
Food, beverage and tobacco (0+1)	8.8	8.4	8.5	8.5	8.1	8.4	7.9	7.9	7.2
Crude materials except fuels (2+4)	8.9	7.7	6.6	6.6	6.1	6.8	7.4	6.5	6.4
Mineral fuels (3)	15.4	17.1	16.1	14.9	14.5	13.3	11.9	13.8	12.7
<b>Manufactured products (5-8)</b>	61.5	61.5	63.6	65.0	67.8	68.7	69.9	69.2	71.1
Chemicals (5)	6.5	6.5	6.5	6.8	6.8	7.2	7.9	7.7	7.7
Machinery and transport equip. (7)	28.3	28.5	29.9	29.9	31.7	31.7	31.8	32.3	34.0
Misc. manufactured goods (6+8)	26.7	26.5	27.2	28.3	29.3	29.7	30.2	29.2	29.3
<b>Other not classified goods (9)</b>	5.4	5.3	5.1	4.9	3.4	2.8	2.9	2.7	2.6

Source: Eurostat, COMEXT.

**Tab. I.2.4.10. Extra-EU-15 trade balance by products, in Bn ECU**

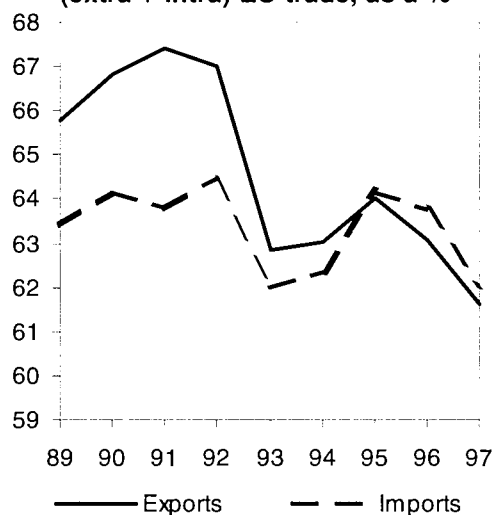
	1989	1990	1991	1992	1993	1994	1995	1996	1997
<b>TOTAL</b>	-37.9	-49.0	-71.3	-50.8	1.2	7.2	28.0	43.6	50.5
<b>Raw materials (0-4)</b>	-93.5	-98.1	-99.1	-88.5	-75.8	-83.4	-82.2	-93.3	-97.8
Food, beverage and tobacco (0+1)	-7.6	-7.8	-10.3	-7.4	-3.3	-6.2	-4.2	-4.3	-2.6
Crude materials except fuels (2+4)	-28.4	-25.0	-22.4	-21.6	-18.3	-23.4	-26.6	-24.1	-27.0
Mineral fuels (3)	-57.4	-65.3	-66.5	-59.5	-54.2	-53.7	-51.4	-64.9	-68.1
<b>Manufactured products (5-8)</b>	57.4	54.2	33.3	45.4	85.4	97.4	115.7	144.4	152.4
Chemicals (5)	16.9	16.1	17.3	19.4	28.1	30.6	30.4	36.0	41.8
Machinery and transport equip. (7)	29.8	33.5	23.7	34.5	57.6	66.8	82.6	94.9	102.5
Misc. manufactured goods (6+8)	10.7	4.6	-7.7	-8.5	-0.2	0.1	2.7	13.5	8.1
<b>Other not classified goods (9)</b>	-1.8	-5.0	-5.5	-7.7	-8.4	-6.8	-5.5	-7.5	-4.1

Source: Eurostat, COMEXT.



### Intra-EU trade in goods

**Fig. I.2.4.2. Intra-EU share of total (extra + intra) EU trade, as a %**



Source: Eurostat, COMEXT.

### Intra-EU trade

The Intrastat system was introduced on 1 January 1993 as the Single Market was completed and customs formalities were abolished within the EU. Since 1993 trade figures have no longer been derived from customs declarations. Rather, they are compiled from data provided directly by EU companies. Because of this change in the data collection system, data comparability between the two sub-periods and for the transition period 1992/1993 is severely impaired.

### Share of intra-EU trade in the total (extra + intra) EU trade flows

The share of intra-EU exports (dispatches) in total (extra + intra) EU exports increased over the period 1989-1992, reaching a peak value of 67.4% in 1991. The intra-EU share of total imports, by contrast, remained stable — in a range from 63.5% to 64.5% (see figure I.2.4.2.). The break in the figures in 1993 is caused by the changed data collection method. After 1993, the relative shares of intra-EU exports and intra-EU imports (arrivals) increased until 1995, decreasing again thereafter. Such variations also reflect different phases of economic activity outside the European Union which have an impact on extra-EU exports.

### Statistical discrepancies

Owing to intra-EU statistical discrepancies, the intra-EU surpluses and deficits recorded by the Member States do not balance out as — in principle — they approximately should.

Since the introduction of the Intrastat system in 1993, recorded intra-EU exports (dispatches) have been consistently higher than intra-EU imports (arrivals). This may reflect the fact that exports are exempt from value added tax.

### Intra-EU trade by products

Since 1993, external markets have accounted for a rising proportion of total (extra- and intra-) EU exports, and the intra-EU share, including that of almost all sub-groups, has decreased slightly. The only exception to this trend has been the increase recorded for mineral fuels (SITC 3). Over the course of the period under review, the overall share of intra-EU exports first increased slightly and then fell again (see table I.2.4.11.).

On the import side, the relative importance of external sources of goods remained fairly constant from 1993 to 1997. Only in the sub-groups machinery and transport equipment (SITC 7) and other non-classified products (SITC 9) did the share of intra-EU imports in total (extra- and intra-) EU imports increase over the period. The overall proportion of intra-EU imports showed no clear upward or downward trend between 1993 and 1997 (see table I.2.4.12.).

**Tab. I.2.4.11. Intra-EU-15 exports as a % of total exports (extra + intra), by product**

	1993	1994	1995	1996	1997
<b>TOTAL</b>	62.8	63.0	64.0	63.1	61.6
<b>Raw materials (0-4)</b>	70.8	71.4	72.2	72.1	70.6
Food, beverage and tobacco (0+1)	72.1	72.7	73.0	72.6	70.9
Crude materials except fuels (2+4)	72.1	73.6	73.1	72.3	71.3
Mineral fuels (3)	65.4	64.9	68.2	70.7	69.3
<b>Manufactured products (5-8)</b>	60.3	61.0	61.9	60.7	59.0
Chemicals (5)	61.1	62.3	63.7	62.2	60.6
Machinery and transport equip. (7)	57.2	58.3	59.2	58.7	57.0
Misc. manufactured goods (6+8)	63.8	64.0	64.7	63.0	61.3
<b>Other not classified goods (9)</b>	83.6	76.8	80.0	83.0	81.6

Source: Eurostat, COMEXT.

**Tab. I.2.4.12. Intra-EU-15 imports as a % of total imports (extra + intra), by product**

	1993	1994	1995	1996	1997
<b>TOTAL</b>	62.0	62.3	64.1	63.7	62.1
<b>Raw materials (0-4)</b>	51.3	51.7	53.2	52.1	50.9
Food, beverage and tobacco (0+1)	69.5	69.0	70.4	70.0	69.2
Crude materials except fuels (2+4)	49.5	49.5	48.7	48.9	47.3
Mineral fuels (3)	28.6	28.0	29.6	30.2	29.6
<b>Manufactured products (5-8)</b>	64.5	65.3	66.5	66.4	63.9
Chemicals (5)	74.7	74.9	74.7	74.4	73.1
Machinery and transport equip. (7)	63.7	64.9	66.6	66.9	64.2
Misc. manufactured goods (6+8)	61.8	62.3	63.1	62.8	60.0
<b>Other not classified goods (9)</b>	73.8	67.3	76.5	76.0	78.3

Source: Eurostat, COMEXT.

#### **Intra-EU trade by Member States**

The relative share of intra-EU trade in total (extra- and intra-) EU trade varies among the Member States. In 1997, Portugal was the country whose exports were most strongly focused on the internal market — with a share of around 80% that has stood since 1993 — followed by the Netherlands and the BLEU. Greek, Finnish and Irish exports, by contrast, were geared relatively strongly towards external markets (see table I.2.4.13.).

On the import side, too, Portugal leads the field in terms of relative reliance on internal rather than external import sources. Austria and the BLEU take second place. The United Kingdom, the Netherlands and Germany, on the other hand, rely to a relatively greater extent on external sources of imports, recording rather low intra-EU shares of 53.5%, 58.2% and 58.3% respectively. For individual countries, the focus of exports and imports on internal or external markets appears to remain relatively stable over prolonged periods (see table I.2.4.14.).

**Tab. I.2.4.13. Intra-EU-15 exports as a % of total exports (extra + intra), by Member State**

	1989	1990	1991	1992	1993	1994	1995	1996	1997
<b>EU-15</b>	63.4	64.2	63.8	67.0	62.8	63.0	64.0	63.1	61.6
<b>BLEU</b>	72.4	74.2	74.1	79.7	76.4	75.1	76.5	76.6	75.0
<b>DK</b>	68.4	69.4	68.8	68.1	66.4	65.5	66.6	66.6	66.7
<b>D</b>	61.1	62.1	62.1	63.3	58.5	58.0	58.2	57.4	55.5
<b>EL</b>	66.5	67.7	64.0	69.3	58.9	57.1	60.1	52.1	45.7
<b>E</b>	60.4	62.3	62.8	68.5	64.3	66.6	67.9	67.5	68.7
<b>F</b>	68.1	68.1	67.5	65.3	60.0	62.0	63.0	62.3	62.0
<b>IRL</b>	73.0	73.9	72.1	77.6	72.4	73.5	73.9	71.2	68.5
<b>I</b>	61.2	61.9	62.0	61.8	57.1	57.5	57.3	55.4	54.6
<b>NL</b>	63.9	63.7	62.6	80.9	77.7	78.3	79.9	80.6	78.9
<b>A</b>	70.4	70.7	70.2	68.1	65.5	64.8	65.8	64.1	62.1
<b>P</b>	71.0	72.0	74.9	81.4	79.9	80.0	80.1	80.6	80.2
<b>FIN</b>	59.5	60.5	59.3	65.5	57.3	56.8	57.5	54.5	53.1
<b>S</b>	63.2	63.4	63.4	62.3	59.0	55.5	59.6	57.1	55.5
<b>UK</b>	56.4	56.5	55.1	59.8	56.8	57.6	58.8	57.6	55.1

Source: Eurostat, New Cronos.

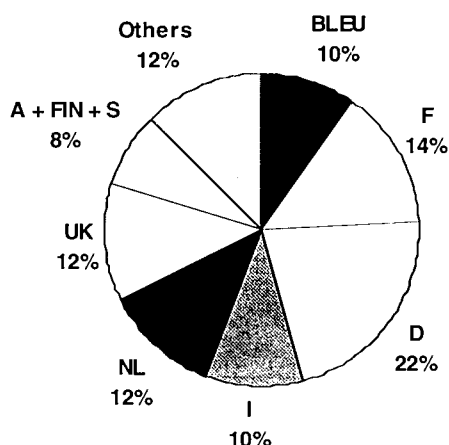
**Tab. I.2.4.14. Intra-EU-15 imports as a % of total imports (extra + intra), by Member State**

	1989	1990	1991	1992	1993	1994	1995	1996	1997
<b>EU-15</b>	65.8	66.8	67.4	64.5	62.0	62.3	64.1	63.7	62.1
<b>BLEU</b>	78.3	79.9	79.9	74.9	73.1	72.9	72.2	72.8	71.7
<b>DK</b>	66.6	68.4	68.9	69.8	68.8	69.0	71.8	70.6	70.6
<b>D</b>	64.7	64.0	63.2	62.3	59.0	59.2	60.4	60.3	58.3
<b>EL</b>	69.2	68.0	67.7	66.7	63.0	67.9	70.1	62.8	64.0
<b>E</b>	64.2	67.6	69.3	63.3	65.0	66.4	68.5	69.3	66.6
<b>F</b>	64.3	65.3	65.8	68.8	63.5	65.5	68.5	67.8	65.8
<b>IRL</b>	78.0	78.6	78.0	74.9	67.1	66.0	64.6	66.7	65.1
<b>I</b>	61.0	62.8	63.4	63.3	59.6	60.7	60.9	61.1	60.6
<b>NL</b>	79.9	81.4	81.9	62.7	64.3	61.6	63.2	61.2	58.2
<b>A</b>	66.7	67.2	68.1	70.4	69.3	68.4	75.9	74.4	73.1
<b>P</b>	78.7	81.2	82.4	76.6	74.5	73.5	73.9	76.3	75.3
<b>FIN</b>	59.4	62.2	66.3	58.9	56.9	54.7	65.0	65.3	64.1
<b>S</b>	61.9	62.3	62.3	62.9	62.5	62.2	68.6	68.5	67.7
<b>UK</b>	54.7	57.3	60.5	55.6	53.7	54.5	55.4	54.5	53.5

Source: Eurostat, New Cronos.

Within the EU, Germany is the biggest exporter to other Member States, accounting for 22% of intra-EU exports. Following some way behind in second place is France, with 14% (see figure I.2.4.3.).

**Fig. I.2.4.3. Shares of the Member States in intra-EU exports, 1997**

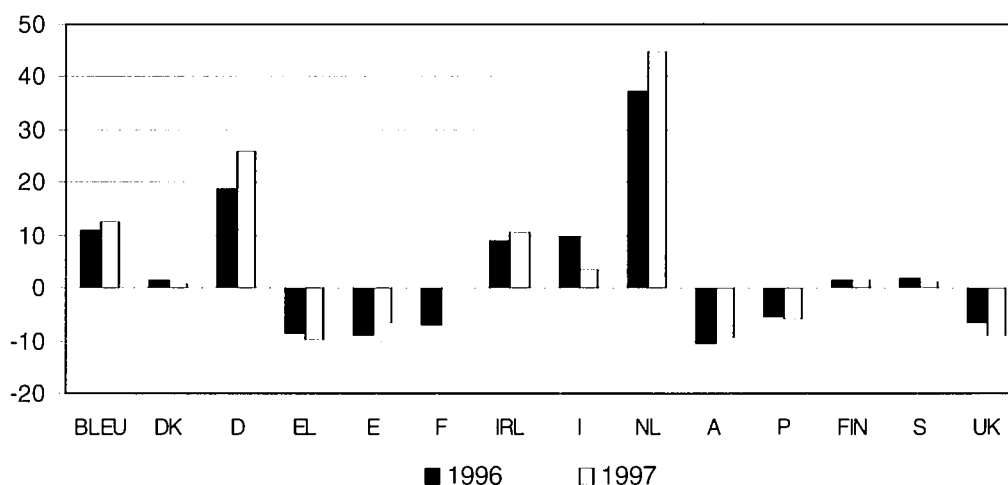


Source: Eurostat, COMEXT.

Intra-EU trade balances also vary considerably across Member States. The Netherlands, for example, has a huge surplus amounting to ECU 44.9 Bn, followed by Germany with ECU 25.9 Bn. The large positive trade balance achieved by the Dutch partly reflects transit flows of goods from outside the EU to other Member States (see figure I.2.4.4.).

Greece, Austria and the United Kingdom, on the other hand, import considerably more goods from the EU internal market than they export to it, compared with other Member States. Their intra-EU trade deficits amount to ECU 9.9 Bn, ECU 9.4 Bn and ECU 8.9 Bn respectively. The individual trade balances need to be interpreted with caution however, as the overall intra-EU balance, which should amount to approximately on zero, shows a surplus of around ECU 50 Bn. Individual trade balances may therefore be biased.

**Fig. I.2.4.4. Intra-EU trade balance by Member State, in Bn ECU**



Source: Eurostat, COMEXT.

## I.2.5. Foreign direct investment

Foreign direct investment (FDI) is one of the driving forces of economic globalisation. It reflects the intention to acquire a lasting interest in an enterprise operating in another economy. FDI is a supplement or an alternative to cross border trade in goods and services.

**In the frame of its Balance of Payments statistics**, Eurostat maintains a FDI data base that comprises harmonised and thus comparable data on inward and outward FDI flows and positions for the European Union, its Member States, the United States and Japan. It gives the geographical breakdown of the three FDI components: equity capital, other capital and reinvested earnings. Moreover, it provides also a detailed breakdown of FDI flows and positions by sector of economic activity.

**Foreign direct investment (FDI)** is the category of international investment that reflects the objective of obtaining a lasting interest by a resident entity in one economy in an enterprise resident in another economy. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise, and a significant degree of influence by the investor on the management of the enterprise. Formally defined, a direct investment enterprise is an unincorporated or incorporated enterprise in which a direct investor owns 10% or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise).

### FDI flows and positions

Through direct investment flows, an investor builds up a foreign direct investment position, that features on his balance sheet. This FDI position (sometimes called FDI stock) differs from the accumulated flows because of revaluation (changes in prices or exchange rates, and other adjustments like rescheduling or cancellation of loans, debt forgiveness or debt-equity swaps).

Such cross-border activities — current, financial and capital transactions — with third countries and economic or geographic regions are recorded in the European Union Balance of Payments (BoP).

#### *FDI positions*

#### **EU FDI position at the end of 1995: overview**

At the end of 1995, the European Union held foreign direct investment assets outside the Union worth ECU 472 Bn.

This was opposed by roughly ECU 367 Bn of FDI liabilities to countries from outside the EU resulting in a net foreign direct investment position (i.e. assets minus liabilities) of roughly ECU 105 Bn vis-à-vis the rest of the world. In comparison, the US managed ECU 546 Bn worth of FDI assets abroad while it recorded ECU 427 Bn of liabilities in 1995 (see US Department of Commerce: "Survey of Current Business").

For both the Union and the United States the major FDI destinations are to be found among the OECD countries. 68% of the EU assets were located in the OECD against 73% for the US.

The EU's net FDI exporter position (as declared by the EU Member States) was established through strong investment links with the United States, which accounted for almost half of foreign direct investment in the EU.

At the same time, the US hosted some 40% of the EU's investment assets, thereby allowing the EU to establish a marginally positive net FDI position vis-à-vis the US.

A strong investment relationship also prevailed with Switzerland, which attracted a quite remarkable 10% of the EU's investment assets and accounted for 20% of total Extra EU FDI liabilities of the Union.

However, the EU had its largest — when measured in terms of volume — net liability position (ECU 26.9 Bn) with Switzerland.

This was also the case for Japan, with whom the EU had its second largest net liability position in absolute terms (ECU 17.1 Bn).

Australia, Brazil and Canada all hosted between 3-4% of the EU's foreign direct investment assets in 1995. Conversely, Australia and Canada accounted each for roughly 3% of the FDI liabilities in the EU, while Brazil invested only negligible amounts in the EU up to 1995.

**Tab. I.2.5.1. EU-15 FDI positions with its seven major partner countries, in Bn ECU**

	Assets			Liabilities			Net positions		
	1994	1995	95/94 %	1994	1995	95/94 %	1994	1995	95/94 %
<b>Extra EU-15</b>	444.3	471.9	6.2	344.0	366.9	6.7	100.3	105.0	4.7
<b>OECD <sup>(1)</sup></b>	304.4	322.6	6.0	300.0	320.7	6.9	4.4	1.8	-58.2
<b>United States</b>	196.6	207.2	5.4	170.8	188.3	10.3	25.8	18.9	-26.8
<b>Switzerland</b>	42.3	45.4	7.3	68.4	72.4	5.8	-26.1	-26.9	3.2
<b>Australia</b>	19.9	21.0	5.2	11.4	9.9	-13.4	8.5	11.1	30.0
<b>Brazil</b>	16.7	17.1	2.2	0.8	0.9	4.2	15.9	16.2	2.0
<b>Canada</b>	15.6	17.0	8.8	12.0	11.1	-7.1	3.7	5.9	61.0
<b>Japan</b>	10.9	11.0	1.8	28.0	28.2	0.6	-17.1	-17.1	-0.2
<b>Singapore</b>	9.7	10.7	10.6	1.6	1.5	-3.0	8.1	9.2	13.2

<sup>(1)</sup> Excluding the Intra EU FDI positions.

Source: Eurostat.

Apart from these major partners, the EU had comparatively large FDI assets in Singapore, Hong Kong, Norway and Argentina (between roughly ECU 6 and 11 Bn). This was followed by Hungary, the Republic of South Africa, the Czech Republic and Malaysia (4 to ECU 5 Bn).

#### **Breakdown of the EU FDI position 1995 by geographic and economic zones**

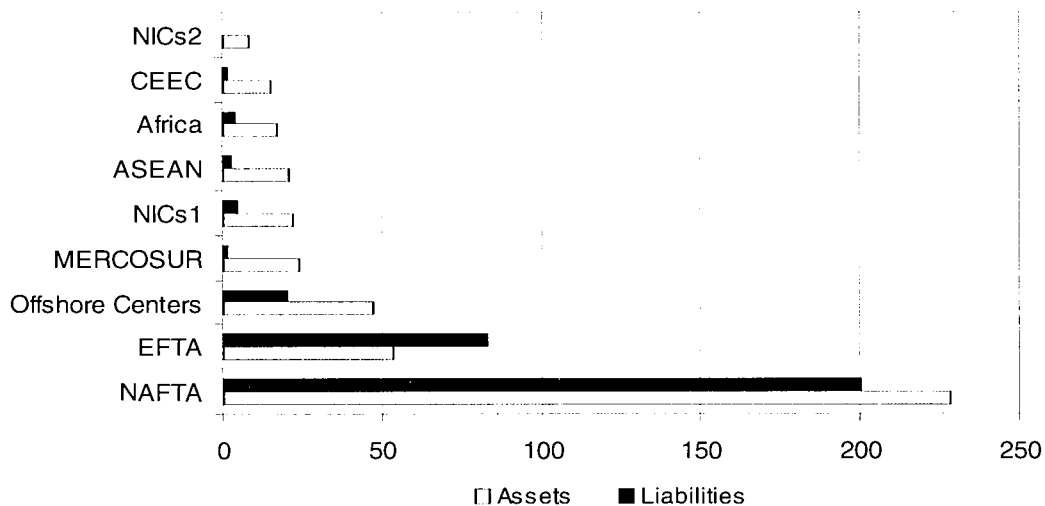
When analysing the EU's foreign direct investment relationship with some major geographic and economic zones, the NAFTA (Canada, USA and Mexico) certainly stands out. Both in terms of assets

and liabilities (with assets dominating liabilities by ECU 28 Bn) the NAFTA by far outstripped the EFTA (Switzerland, Liechtenstein, Iceland and Norway). However, whereas the NAFTA accommodated more FDI capital owned by EU investors than the EU did for NAFTA investors, the situation was different for the EFTA, where EU liabilities outnumbered assets to the tune of ECU 30 Bn (see figure I.2.5.1.).

The so-called Offshore financial centers proved also to be very attractive for FDI originating from the EU: up to 1995, they amassed almost the same amount of EU FDI assets than the EFTA.

Comparatively large net assets prevailed with the **MERCOSUR** (Argentina, Brazil, Paraguay and Uruguay), the first wave of Newly Industrialized Countries

**Fig. I.2.5.1. The EU's assets and liabilities at end of 1995 by zones, in Bn ECU**



Source: Eurostat.

**NICs1** (Hong Kong, Singapore, South Korea and Taiwan) and the **ASEAN** (Malaysia, Thailand, Philippine, Singapore, Indonesia, Brunei, Vietnam), which hosted EU investment assets worth between ECU 21 and 24 Bn. In contrast, FDI liabilities vis-à-vis these countries remained low, the NICs1 coming top with roughly ECU 4 Bn.

#### Major investment sectors

By far the largest share of the FDI capital held by EU enterprises in countries outside

the Union at end of 1995 was invested by the EU manufacturing industry, which accounted for almost half of the EU's total assets abroad.

Financial intermediation (including monetary intermediation, financial holding companies and insurance activities) also proved to be a focal point in the EU's FDI activities: around one fifth of total assets were due to investments from this sector.

Real estate and business activities (including real estate and computer activities, research and development business



and management consultancy and advertising) were the third most important owners of EU FDI assets abroad.

The mining and quarrying sector, which encompasses the extraction of coal and ores, petroleum and gases, had FDI stakes worth ECU 46.6 Bn (or 10%) placed outside the Union. Trade and repairs (including wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods) followed next with a share of around 8%.

A very similar investment pattern can be observed in the structure of the EU FDI liabilities. More precisely, the above

mentioned FDI assets were opposed by roughly ECU 367 Bn of FDI liabilities, of which 37% or around ECU 135.6 Bn were invested into the European Union's manufacturing sector.

This was followed by a 20% share of foreign owned investment in financial intermediation, thus striking percentage-wise a balance between EU FDI assets and liabilities. Investments into real estate and business activities amounted at the end of 1995 to around 17% of total EU FDI liabilities, which was marginally higher than the outward investment position in this sector. Trade and

**Tab. I.2.5.2. EU FDI position at end of 1995, in Bn ECU**

	Assets				Liabilities			
	Extra-EU	US	JP	EFTA	Extra-EU	US	JP	EFTA
<b>Agriculture and fishing</b>	1.0	0.4	0.0	0.0	0.4	0.2	0.0	0.1
<b>Mining and quarrying</b>	46.6	12.6	0.3	2.5	32.6	26.5	0.0	1.6
<b>Services <sup>(1)</sup></b>	205.6	92.1	5.1	30.7	192.5	84.7	23.3	54.2
<b>Manufacturing of which</b>	208.7	99.1	5.7	19.4	135.6	72.3	5.1	26.3
Food products	43.6	20.6	0.8	3.7	21.5	10.5	0.5	6.8
Textiles, wood activities	16.0	10.7	0.1	1.6	15.1	3.4	0.2	1.4
Petroleum, chemical, rubber, plastic products	78.7	36.8	3.3	5.8	43.7	25.0	0.8	10.3
Metal and mechanical products	21.2	8.8	0.8	3.3	17.1	8.8	0.9	3.8
Machinery, computers, RTV, communication	15.0	7.3	0.4	1.6	13.8	8.7	1.8	1.2
Vehicles, other transport equipment	12.0	3.3	0.2	2.3	10.4	7.4	0.6	0.9
<b>Electricity, gas and water</b>	5.7	1.4	0.0	0.3	4.6	3.8	-0.3	0.3
<b>Construction</b>	3.9	1.6	0.0	0.3	0.6	0.6	-0.1	0.2
<b>Trade and repairs</b>	35.5	11.8	3.1	5.1	50.6	18.3	11.4	9.6
<b>Hotels and restaurants</b>	4.7	2.2	0.0	0.2	3.5	0.8	-0.1	0.3
<b>Transports and communication</b>	3.5	-1.3	0.0	0.9	3.5	1.2	-0.1	1.8
Land, sea and air transport	3.6	1.2	0.0	0.5	1.3	0.5	-0.2	0.7
Telecommunications	-1.1	-1.3	0.1	0.2	1.6	0.5	0.0	0.4
<b>Financial intermediation</b>	95.7	36.2	1.4	12.9	72.1	22.7	11.0	20.9
Other financial intermediation + insurance	67.9	25.0	0.8	10.8	43.8	14.1	4.7	18.4
<b>Real estate &amp; business activities</b>	64.0	37.7	0.3	8.9	64.0	36.7	1.1	19.8
Computer, research, other business activities	53.9	31.9	0.2	7.5	58.1	34.0	1.0	18.3
<b>Other services</b>	2.2	5.6	0.3	2.7	-1.3	5.0	0.0	1.9
Not allocated	0.5	0.1	0.0	0.1	0.7	0.2	0.0	0.4
<b>TOTAL</b>	<b>471.9</b>	<b>207.2</b>	<b>11.1</b>	<b>53.3</b>	<b>366.9</b>	<b>188.3</b>	<b>28.2</b>	<b>82.9</b>

<sup>(1)</sup> Sum of trade and repairs, hotels and restaurants, transports and communication, financial intermediation, real estate and business activities, other  
Source: Eurostat.

repairs in the EU attracted a larger slice (14%) of FDI than it had invested outside the Union. The mining and quarrying industry more or less held its position when one compares its EU FDI assets and liabilities in proportional terms of the respective totals (10% vs. 9%).

### Negative FDI stocks

For some sectors, the EU recorded negative FDI stocks both for assets and for liabilities (see table I.2.5.2.).

How should this be interpreted, in particular how do negative FDI stocks come about? In practice, if an enterprise that is (partly) owned by foreign direct investment capital makes accumulated losses, than these losses will be deducted from the equity capital of the enterprise. Thus if these losses exceed the total capital of the enterprise, negative FDI stocks may be observed. In some of the cases, these losses are compensated by the parent company (i.e. the direct investor) through loans or fresh equity.

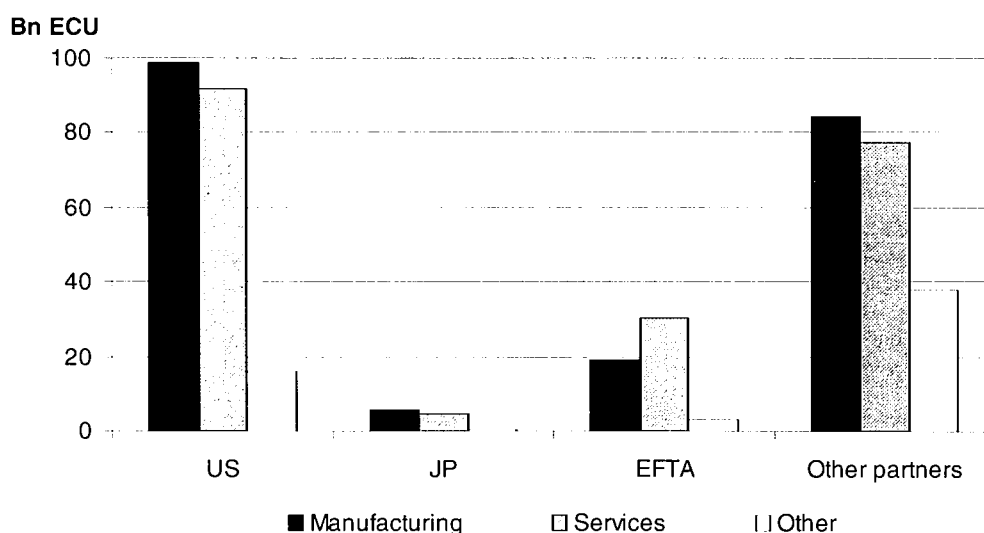
This situation may be observed in some of the sectors displayed here: the telecommunication sector recorded negative FDI assets worth around ECU 1 Bn at end-1995. This was mostly due to negative assets (amounting to roughly ECU 1.3 Bn) in the United States.

Some investment sectors in the EU shared a similar fate: other services with investors from outside the Union for example, or electricity, gas and water or the construction industry with FDI stemming from Japan.

### Sectoral preferences of EU FDI partners

The EU's FDI assets abroad were mostly invested by the manufacturing sector. Enterprises operating in this area had substantial stakes in the United States, which amounted to roughly ECU 100 Bn at the end of 1995. Almost the same was held in countries other than Japan and the EFTA (where manufacturing FDI assets

Fig. I.2.5.2. EU FDI assets with major partners, end of 1995



Source: Eurostat.

stood at ECU 5.7 Bn and 19.4 Bn respectively) (see figure I.2.5.2.). Japanese companies attracted roughly two percent of FDI capital provided by the EU manufacturing industries and the services sectors.

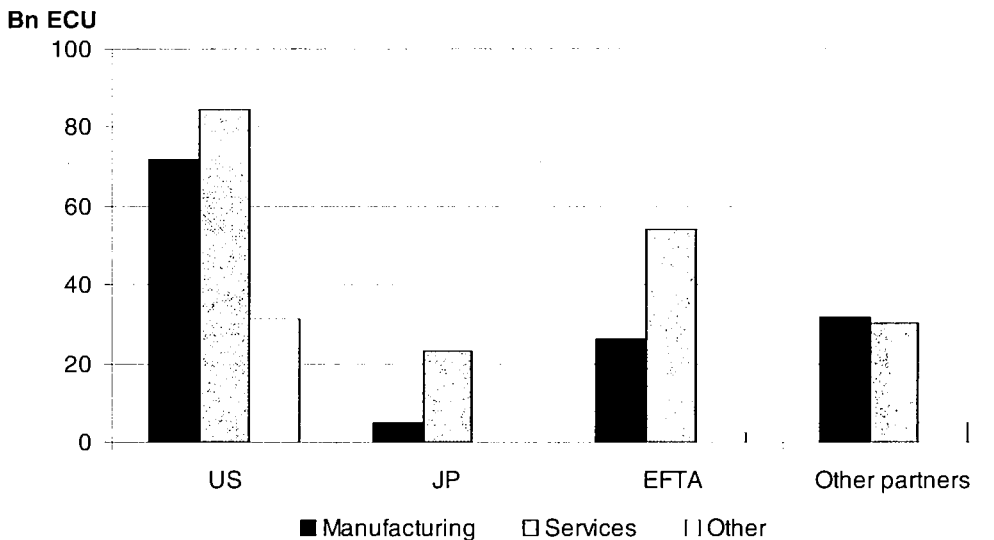
The EU service sector invested worldwide almost as much as the manufacturing sector did, in particular in the US. However, the slight dominance by the manufacturing sector did not prevail in the EFTA: here, services outspent manufacturing by more than ECU 10 Bn.

US investors, on the other hand, preferred to invest into the EU's service enterprises (to the tune of ECU 84.7 Bn). This stood

against ECU 72.3 Bn worth of US owned capital in manufacturing.

While this was a more or less balanced relationship, investments from Japan and the EFTA were dominated by FDI links with the service sector. Japanese investors had roughly five times more FDI capital tugged away in services than in manufacturing. In particular investments into trade and repairs and financial intermediation did more than to offset the modest negative stocks mentioned earlier on (see also table I.2.5.2.). EFTA investors also sought their fortune more in services than manufacturing: a quite remarkable ECU 54.2 Bn had found its way into this particular sector in the EU by end of 1995.

**Fig. I.2.5.3. EU FDI liabilities with major partners, end of 1995**



Source: Eurostat.

**FDI flows**
**EU FDI flows 1996/1997: overview**

The year 1997 brought a strong increase in FDI activity for the Union, both on the outward and the inward side. The EU total outward flows (see table I.2.5.3.) rose 46% to ECU 172 Bn between 1996 and 1997. They outpaced the inflows both in absolute terms and in growth, the latter increasing by 38% to 99 Bn.

The 1997 strong upturns were fuelled by broad-based trends across Member States.

The total outward flows increased in all Member States, Belgium/Luxembourg making the exception. On the inward side only Belgium/Luxembourg, Spain and Austria saw a decrease. Both for 1997 inward and outward flows the United Kingdom stood out with strongest absolute increases and by far highest amounts.

Germany and France came next on the outward side, showing quite similar values and growth rates. However, while France recorded second strongest inward flows there were disinvestments in Germany, albeit shrinking in 1997.

**Tab. I.2.5.3. European Union outward and inward FDI flows <sup>(1)</sup>, in Mio ECU**

	Outward flows			Inward flows			Net flows	
	1996	1997	Change	1996	1997	Change	1996	1997
<b>EU-15</b>	117 897	172 272	46%	71 826	99 164	38%	24 322	48 894
<b>BLEU</b>	6 940	5 919	-15%	11 577	11 076	-4%	-4 637	-5 158
<b>DK</b>	1 985	3 712	87%	605	2 470	308%	1 380	1 242
<b>D</b>	23 287	29 276	26%	-2 144	-166	-92%	25 431	29 442
<b>EL</b>	:	:	:	:	:	:	:	:
<b>E</b>	4 113	8 953	118%	5 094	4 890	-4%	-981	4 063
<b>F</b>	23 967	28 139	17%	17 302	20 204	17%	6 665	7 935
<b>IRL</b>	:	:	:	:	:	:	:	:
<b>I</b>	5 092	9 373	84%	2 784	3 263	17%	2 308	6 109
<b>NL</b>	16 559	18 120	9%	5 256	7 717	47%	11 303	10 403
<b>A</b>	1 129	1 280	13%	3 026	1 534	-49%	-1 897	-254
<b>P</b>	607	1 462	141%	557	1 525	174%	50	-63
<b>FIN</b>	2 834	3 891	37%	874	1 362	56%	1 960	2 529
<b>S</b>	3 674	10 039	173%	3 998	8 524	113%	-324	1 515
<b>UK</b>	27 051	51 507	90%	19 764	31 546	60%	7 287	19 961

<sup>(1)</sup> Total FDI flows (equity capital, other capital, reinvested earnings); figures for BLEU, Denmark, Spain, Italy, the Netherlands and Portugal do not include RIE. BoP sign convention is not applied. A minus sign means disinvestment.

Figures shown for Austria comprise only equity capital. For the EU totals other capital component was estimated.

1997 data for BLEU, France, the Netherlands, Finland and the United Kingdom are provisional.

1997 data for Italy, Austria and Spain are semi-final.

Figures for Greece and Ireland were estimated and included in the EU totals.

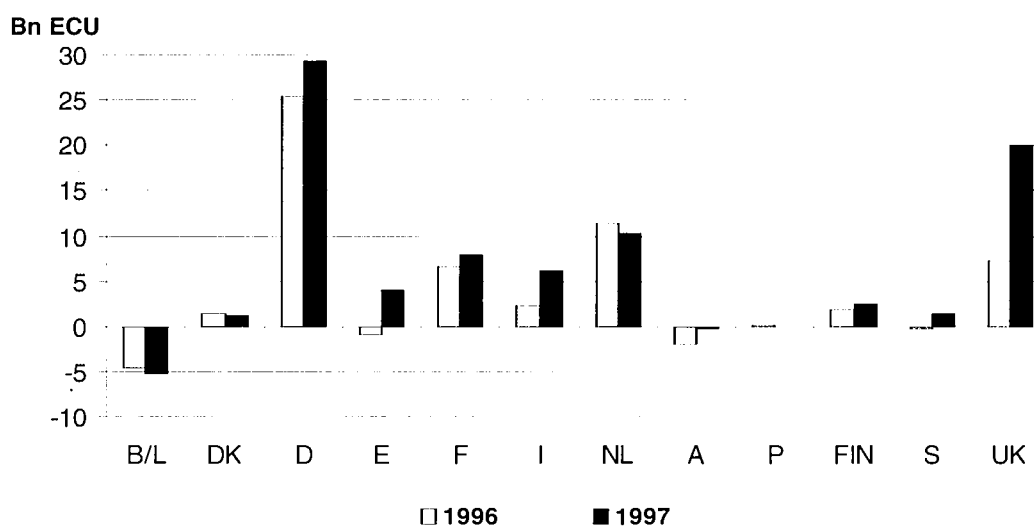
Source: Eurostat.

### EU doubles net FDI capital export in 1997

Net FDI flows (outward flows minus inward flows) show an increase by 101% of the net FDI exports of the Union. The 1997 Extra EU outward flows (ECU 91 Bn) exceeded the inward flows from non EU investors by 49 Bn. Germany continued to be the biggest net exporter of FDI capital, with a 1997 net value close to ECU 29 Bn (net FDI by Member State includes Intra EU FDI flows). Next was the United Kingdom with 20 Bn, catching up by nearly tripling the 1996 value. Also Denmark, the Netherlands, France, Italy, and Finland kept being net exporters of FDI in 1997, like

they were in 1996. The latter three saw net FDI increasing. Spain and Sweden switched from net importer to net exporter, whereas the reverse happened in Portugal. Austria remained the second biggest net importer of FDI in 1997 (only equity capital), but saw values decreasing from 1.9 Bn to 0.3 Bn. Belgium/Luxembourg continued to be net importer, crossing the 5 Bn mark by an increase of 11% in net FDI capital import between 1996 and 1997. Whereas four Member States were FDI net importers in 1996 there were only three in 1997, and for two of them the recorded values were fairly close to balance. Thus, being a net exporter of FDI capital was a very common feature across Member States in 1997.

Fig. I.2.5.4. Net FDI flows



Source: Eurostat.

## I.2.6. The economic situation in the regions

### Per capita GDP of the EU regions in 1995

Per capita gross domestic product at market prices, one of the key indicators for the structural and regional policies of the EU, varied in 1995 between 7 400 PPS in the Greek region of Ipeiros and 33 600 PPS in the German land of Hamburg <sup>(1)</sup>. The figures thus ranged from 47% to 195% of the overall EU average (PPS 17 300).

**Tab. I.2.6.1. The regions of the EU <sup>(1)</sup> with the highest/lowest per capita GDP in PPS in 1995, EU-15 = 100**

Region	Per capita GDP	
	1994	1995
Hamburg	194	195
Rég. Bruxelles Cap.	176	172
Luxembourg	168	168
Wien	165	165
Ile de France	166	165
Bremen	153	153
Hessen	149	150
<b>EU-15</b>	<b>100</b>	<b>100</b>
Peloponnisos	58	57
Andalucia	57	57
Alentejo	57	57
Dytiki Ellada	56	56
Extremadura	55	54
Madeira	52	52
Voreio Aigaio	49	50
Acores	50	50
Ipeiros	43	43

<sup>(1)</sup> Without French overseas departments.  
Source: Eurostat.

Table I.2.6.1. shows that, in 1995, these two regions differed markedly from the other regions with high and low per capita GDP values. The figure for the Brussels Capital Region, the region with the second highest value, was more than 20 percentage points below the figure for Hamburg. The other regions with relatively high values also lie more or less in the centre of the EU. The situation is quite different for the regions with the lowest per capita GDP figures. They are all in the Mediterranean area — four of them in Greece, three in Portugal and two in Spain.

It is striking that all regions with high per capita GDP values in PPS are relatively small. A key underlying factor here is net commuter inflow, which takes regional production activity beyond the level possible with working residents alone.

Table I.2.6.1. additionally gives the per capita GDP values (as a percentage of the EU average) for 1994. These show that — except in the Brussels Capital Region — no major relative changes in production activity took place between 1994 and 1995. This is particularly true of the regions with low per capita GDP figures, i.e. their production activity on a per capita basis did not differ fundamentally from the average trend at EU level.

### Comparison between 1985 and 1995 per capita GDP values

A comparison of the situations in 1985 and 1995 highlights distinct shifts between the regions of the European Union. In 43 out of 128 regions for which basically comparable data are available, per capita GDP as a percentage of the EU average fell over the period 1985 to 1995. The figure remained constant in 5 regions and rose in as many as 80.

<sup>(1)</sup> The analysis is based on a total of 156 regions at NUTS levels 1 (Germany, United Kingdom) and 2 (all other Member States excluding the French overseas departments). For details on regional breakdown and further technical details, cf. chapter II of the publication "The Economic Accounts of the European Union 1996".

This pattern is somewhat distorted, however, by German unification.

The sharpest relative rise in the reference period occurred in Luxembourg, where per capita GDP rose over the 10 years by 38 percentage points from 130% to 168% of the EU average. Table I.2.6.2. shows further regions which recorded particularly sharp increases or decreases in per capita GDP in PPS. A striking feature here is that the regions experiencing particularly strong rises are spread over quite a number of Member States (Luxembourg, the Netherlands, Portugal, Germany, Belgium and Italy), whereas those with marked decreases are concentrated in France and Sweden. However, the relative

changes reflect not only developments on the production-activity front but also changes in the size and structure of the population and in purchasing power parities.

### Regional unemployment in 1997

In April 1997, the unemployment rate — i.e. the ratio of unemployed persons to the labour force — varied across the regions under consideration from 2.5% in Luxembourg to 32.0% in the Spanish region of Andalucía. Related in each case to 100 members of the labour force, Andalucía thus had around 13 times more jobless people than Luxembourg.

Of the 156 regions taken into account, as many as 19 achieved an unemployment rate in April 1997 of less than 5 % — lower than half the EU average. These 19 NUTS 2 regions were spread over 8 Member States. In Germany, Spain, France, Sweden and the United Kingdom, no region at this level had

**Tab. I.2.6.2. The regions of the EU <sup>(1)</sup> the highest relative increase with and decrease of the per capita GDP in PPS from 1985 to 1995, in percentage points**

Region	Relative increase and decrease
Luxembourg	+ 38
Utrecht	+ 22
Algarve	+ 20
Hessen	+ 19
Norte (P)	+ 17
Limburg (B)	+ 16
West-Vlaanderen	+ 16
Friuli-Venezia	+ 16
<b>EU-15</b>	<b>0</b>
Champagne-Ardenne	- 11
Mellersta Norrland	- 11
Picardie	- 11
Drenthe	- 11
Aquitaine	- 12
Oestra Mellansverige	- 12
Vaestsverige	- 12
Sydsverige	- 13
Oevre Norrland	- 15

<sup>(1)</sup> Without French overseas departments, the new German Bundesländer and West-Berlin, Ireland, the Dutch regions Groningen, Overijssel, Gelderland, and Flevoland, Austria, Finland and the portuguese regions Açores und Madeira.  
Source: Eurostat.

**Tab. I.2.6.3. The regions of the EU <sup>(1)</sup> with the highest/lowest unemployment rates in April 1997, as a %**

Region	Unemployment rate
Luxembourg	2.5
Oberösterreich	3.0
Berkeshire. Buckinghamshire	3.2
Niederösterreich	3.4
Centro (P)	3.4
Trentino-Alto Adige	3.8
Burgenland	3.8
Salzburg	3.9
Sicilia	24.0
Calabria	24.9
Campania	26.1
Ceuta y Melilla	26.4
Extremadura	29.5
Andalucía	32.0

<sup>(1)</sup> Without French overseas departments.  
Source: Eurostat.

an unemployment rate below 5%. At the other end of the scale were 6 regions in Spain and Italy where the rate stood at more than 22% and was thus at least half as high again as the overall European Union average. Table I.2.6.3. lists the regions with the lowest and the highest unemployment rates in April 1997.

#### Change in unemployment rate from 1992 to 1997

From April 1992 to April 1997, the unemployment rate at EU level rose by 1.8 percentage points. Most, though not all, of the 147 regions under consideration (no data are available for the Austrian Bundesländer) recorded an increase over this period. As many as 30 regions enjoyed an, in some cases, marked decrease — of up to 5.2 percentage points in Ireland and Northern Ireland. In three regions — Poitou-Charentes, Zuid-Holland and Limburg (NL) — the unemployment rates in April 1997 were the same as those in April 1992.

Table I.2.6.4. shows that, of the 7 regions in which the unemployment rate fell by at least 3 percentage points between April 1992 and April 1997, as many as 4 are in the United Kingdom. The other 3 are Canarias (Spain) and the two Member States Ireland and Denmark. Moreover, all the other UK regions taken into account likewise recorded a fall in the rate of unemployment over the period under review.

In a total of 10 regions, the unemployment rate rose by at least 6 percentage points between April 1992 and April 1997. Sweden and Italy each account for 4 of these 10 regions, the remaining 2 being in Finland and Greece. The three regions posting the sharpest increase are all in the southern half of Italy.

**Tab. I.2.6.4. The regions of the EU <sup>(1)</sup> with the highest increase and decrease of unemployment rate from 1992 to 1995, in percentage points**

Region	Decrease/Increase
Ireland	- 5.2
Northern Ireland	- 5.2
Canarias	- 3.8
West-Midlands	- 3.6
Danmark	- 3.5
South-West (UK)	- 3.4
North-West (UK)	- 3.2
<b>EU-15</b>	<b>+ 1.8</b>
Itae-Suomi	+ 6.4
Dytiki Makedonia	+ 6.4
Norra Mellansverige	+ 6.4
Mellersta Norrland	+ 6.7
Sicilia	+ 6.9
Oevre Norrland	+ 7.0
Sydsverige	+ 7.4
Calabria	+ 8.1
Campania	+10.1
Molise	+10.2

<sup>(1)</sup> Without French overseas departments and Austria.  
Source: Eurostat.





## I.3. Economy by branch in the Union

### I.3.1. Gross value added

As indicated earlier, GDP can also be analysed in terms of output expressed as the total value added produced by the various sectors of the economy, with the addition of taxes linked to exports and the subtraction of deductible VAT. Value added is thus the value produced by each unit and indicates the production process of a country.

The institutional units, defined as producers, are involved in various activities. When they are grouped according to similarity of productive activity, they form branches of activity. In the analysis that follows, the output of the EU Member States is broken down by branch.

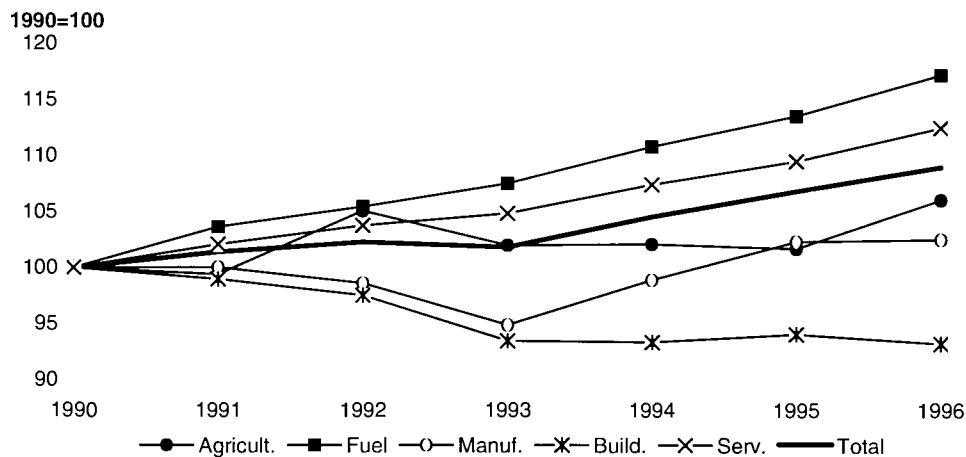
In 1996 the European Union's gross value added (GVA) amounted to ECU 5 477 Bn, while the Euro zone accounted for ECU 4 298 Bn. When the figures are compared in terms of real growth, using 1990 as the

base year (i.e. 1990=100), the European Union as a whole and the Euro zone followed very similar patterns, and in 1996 both groups of countries achieved a gross value added figure that was 9% up on the reference year.

Figure I.3.1.1. shows growth in GVA by branch. Compared with 1990, fuel and power products produced the biggest increase (+17% in 1996), followed by services (+12%). More modest increase were recorded by agricultural, forestry and fishery products (+6%) and manufactured products (+3%). Only building and construction were down in comparison with the reference year, and this continued a trend that had been a feature of the whole period.

As for the individual Member States, the countries that showed the biggest rates of growth in GVA compared with 1990 were Ireland (+57% in 1996), Luxembourg (+38%) and Portugal (+20%). The United Kingdom's GVA in 1996 was 11% above the benchmark figure, while Germany recorded

Fig. I.3.1.1 Gross value added at constant market prices in the Union



Source: Eurostat.

an increase of 10%, Italy 7% and France 6% <sup>(1)</sup> (see table I.3.1.1.).

If we take a closer look at gross value added by branch, we find that in 1996 the European Union's GVA of **agricultural, forestry and fishery products** was below the 1990 figure in the case of Austria, Finland, Sweden, the United Kingdom and Spain. For **fuel and power products**, GVA in 1996 was higher than the reference year in every Member State, and especially in Denmark (+62%). GVA of **manufactured products** was up on 1990 for all the Member States apart from Germany, where the figure was 6% below the reference year. In the case of France, the increase was barely 1%. As for **building and construction**, the 1996 figures for GVA showed increases in only five Member States (Luxembourg, Austria, Portugal, Belgium and Denmark), while they were down in the other nine <sup>(2)</sup>. With regard to

**services** (market and non-market), most of the Member States produced figures that were up on 1990, the sole exception being Finland, where GVA was 1% below the 1990 level. The figure for Spain was identical, but in the opposite direction, and indicated a rise of 1% compared with the reference year (see table I.3.1.1.).

In order to highlight the role of the branches in the growth of total gross value added, the contribution that each branch made to growth between 1995 and 1996 was calculated. With average annual growth in Europe running at 2%, services (+1.7%) accounted for no less than 87% of the increase. Services were also the main source of growth in the Euro zone as well, recording an increase of 1.5% compared with an overall figure of 1.8% and thus achieving a percentage share (85%) that was only just below the EU figure

Tab. I.3.1.1. Value added at market prices in 1996, 1990=100

	Agricul., forestry and fishery	Fuel and power products	Manufact. products	Building and const.	Services	Total
EU-15	106	117	103	93	112	109
EUR-11	107	113	102	94	112	109
B	110	115	103	101	112	109
DK	111	162	110	101	111	111
D	102	107	94	93	120	110
EL	122	136	108	97	123	119
E	96	112	106	97	101	102
F	107	111	101	87	109	106
IRL	:	:	:	:	:	157
I	113	111	106	93	108	107
L	129	134	132	139	140	138
NL	114	121	106	95	106	115
A	93	123	103	124	117	113
P	110	139	109	117	124	120
FIN	93	122	122	69	99	102
S	95	104	120	82	110	110
UK	95	134	103	91	114	111

Source: Eurostat.

<sup>(1)</sup> Germany, France, Italy and the United Kingdom accounted for 72% of the European Union's GVA in 1996.

<sup>(2)</sup> No data are available for Ireland.

(see table I.3.1.2.). Throughout the Union, market services provided the main impetus to growth.

Fuel and power products also provided a positive contribution to growth in all the Member States. In Finland, Belgium and Sweden, however, there was a negative impact, tending to curb the growth of GVA, in the case of agricultural, forestry and fishery products. Building and construction had the same effect in Belgium, Germany, Spain and France, while manufactured products had a slowing effect on total GVA only in Italy.

If we look at the structure of gross value added in the European Union and the changes that have occurred in the last seven years, the branch that accounts for the largest share of GVA is the service sector (65% in 1996), followed by manufactured

products (22%). Since 1990 services have increased their share of the total economy by two percentage points, while manufactured products have moved in the opposite direction, losing 1.4 points (see table I.3.1.3.).

The Member State where **agricultural, forestry and fishery products** account for the largest share of GVA is Greece (14.9% in 1996), while in the other EU countries the percentage ranges from 5.9% in Portugal to 1.3% in the United Kingdom. **Fuel and power products** account for the largest share of GVA in the United Kingdom (7% in 1996), and the lowest in Luxembourg (1.7%).

The percentage of GVA generated by **manufactured products** in 1996 ranged from 27.6% in Finland to 14.9% in Greece.

Tab. I.3.1.2 Contribution to GVA growth in 1996, as a %

	Agricul., forestry and fishery	Fuel and power products	Manufact. products	Building and const.	Services	Total growth ate 96/95
EU-15	0.1	0.2	0.0	0.0	1.7	2.0
EUR-11	0.1	0.1	0.1	-0.1	1.5	1.8
B	-0.1	0.1	0.0	-0.1	1.9	1.8
DK	0.0	0.6	0.0	0.2	1.3	2.1
D	0.0	0.1	0.0	-0.2	1.9	1.8
EL	1.9	0.6	1.9	0.8	7.5	12.8
E	0.8	0.3	0.0	-0.2	1.4	2.3
F	0.2	0.1	0.0	-0.1	1.2	1.3
IRL	:	:	:	:	:	9.8
I	0.1	0.0	-0.2	0.1	0.7	0.8
L	0.0	0.0	0.5	0.2	1.8	2.6
NL	0.0	0.4	0.7	0.0	2.1	3.3
A	0.1	0.0	0.3	0.2	1.1	1.7
P	0.3	0.2	1.3	0.3	3.5	5.7
FIN	-0.2	0.2	0.9	0.3	2.0	3.4
S	-0.1	0.0	0.5	0.0	1.6	2.0
UK	0.0	0.3	0.1	0.1	3.9	4.3

Source: Eurostat.

A comparison with the situation in 1990 shows that most of the Member States have seen manufactured products decline as a percentage of total GVA, the exceptions being Finland (+4.5 percentage points), Sweden (+1.9 points) and Spain (+0.9 points). There has been a sharp decline in the contribution by manufactured products to total GVA in Germany (-4.4 points), with similar but less marked falls in Austria and Portugal (both -2.2 points).

Among the Member States, Spain was the country where **building and construction** accounted for the largest share of GVA (8.5% in 1996), and France was the lowest (4.4%). This sector's contribution to total GVA has fallen in almost every Member State in the last seven years, the sole exception being Austria (+0.6 percentage points).

The branch that accounts for the biggest share of total GVA in every Member State is **services**. The highest figures in 1996 were recorded in Luxembourg (68.6%) and Denmark (68.4%), while Finland had the lowest figure (57.9%).

A close look at the detailed series available to Eurostat shows that market services account for the major part of services in every Member State. When the distinction is made between market and non-market services, it is interesting to note that in 1996 market services accounted for the largest contribution to total GVA in Belgium (57.3%) and Luxembourg (55.8%), whereas in the case of non-market services the leading countries were Sweden (25.4%) and Denmark (22.3%). For both the European Union as a whole and the Euro zone, market services accounted for 50% of total GVA in 1996, with non-market services accounting for 15% (see table I.3.1.3.).

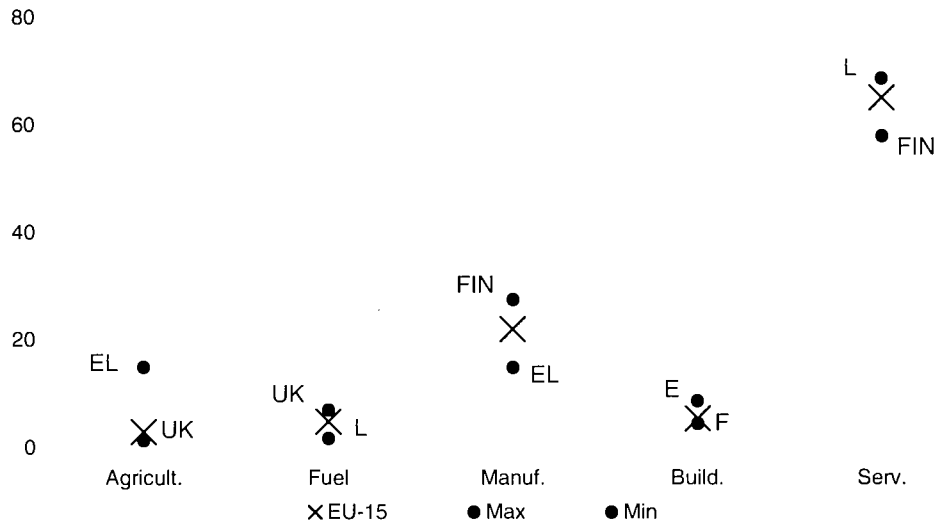
Labour and capital are the primary factors in output. If we look at GVA in relation to the total number of persons in employment, we can calculate a country's output per unit of

**Tab. I.3.1.3. Gross value added at market prices structure 1996, as a %, and change over 1990/96, in % points**

	Agric. forest. fishery	Fuel and power	Manuf. prod.	Build. and const.	Serv.
<b>EU-15</b>	2.9 -0.1	4.8 0.3	22.0 -1.4	5.3 -0.9	65.0 2.0
<b>EUR-1</b>	3.0 -0.1	4.8 0.2	22.0 -1.5	5.3 -0.8	65.0 2.2
<b>B</b>	1.9 0.0	4.3 0.2	20.5 -1.3	5.2 -0.4	68.1 1.6
<b>DK</b>	4.3 0.0	4.1 1.3	18.1 -0.3	5.2 -0.5	68.4 -0.4
<b>D</b>	1.4 -0.1	3.8 -0.1	25.4 -4.4	4.6 -0.9	64.8 5.4
<b>EL</b>	14.9 0.4	4.9 0.6	14.9 -1.5	6.0 -1.3	59.4 1.9
<b>E</b>	4.3 -0.3	5.7 0.5	21.2 0.9	8.5 -0.5	60.2 -0.6
<b>F</b>	3.6 0.0	4.1 0.2	20.0 -1.1	4.4 -1.0	68.0 1.9
<b>I</b>	3.4 0.2	5.4 0.2	22.6 -0.2	5.2 -0.8	63.4 0.6
<b>L</b>	1.6 -0.1	1.7 -0.1	20.9 -0.9	7.2 0.0	68.6 1.0
<b>NL</b>	4.3 0.3	4.9 0.6	18.1 -0.1	4.7 -0.6	68.0 -0.2
<b>A</b>	2.7 -0.6	4.2 0.3	20.9 -2.2	7.2 0.6	64.9 1.8
<b>P</b>	5.9 -0.5	4.0 0.6	23.3 -2.2	5.8 -0.1	60.9 2.3
<b>FIN</b>	5.7 -0.5	2.4 0.4	27.6 4.5	6.3 -3.0	57.9 -1.4
<b>S</b>	2.4 -0.4	3.2 -0.2	22.6 1.9	5.5 -1.8	66.3 0.4
<b>UK</b>	1.3 -0.2	7.0 1.2	20.6 -1.6	5.7 -1.2	65.5 1.9

Source: Eurostat.

**Fig. I.3.1.2. Gross value added at market prices in 1996, by main branches, as % of total GVA**



Source: Eurostat.

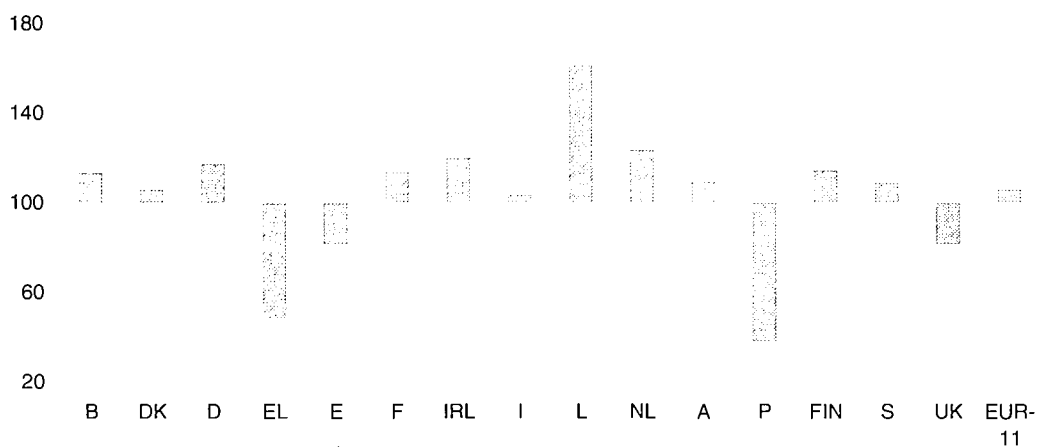
labour, i.e. how much each employee produces in terms of value added, this being a basic indicator of labour productivity.

Productivity in the European Union, expressed as gross value added per unit of labour, amounted to ECU 38 000 in 1996,

while the figure for the Euro zone was slightly higher (ECU 40 000).

Luxembourg headed the ranking of Member States, with a GVA per head 61% above the EU average. Next came the Netherlands (+24%) and Ireland (+20%).

**Fig. I.3.1.3. Product per unit of work, 1996, EU-15=100**



Source: Eurostat.

Tab. I.3.1.4. Product per unit of work, in 1996

	Agricul., forestry and fishery	Fuel and power products	Manufact. products	Building and const.	Services	Total
<b>EU-15=100</b>						
<b>EUR-11</b>	100	106	103	100	109	106
<b>B</b>	196	134	120	119	106	114
<b>DK</b>	185	158	98	113	104	106
<b>D</b>	108	73	100	108	127	118
<b>EL</b>	71	53	41	66	53	48
<b>E</b>	71	110	82	99	83	81
<b>F</b>	162	114	114	91	114	114
<b>IRL</b>	:	:	:	:	:	120
<b>I</b>	83	172	109	103	104	104
<b>L</b>	183	85	176	150	162	161
<b>NL</b>	236	171	136	102	116	124
<b>A</b>	98	89	99	137	113	109
<b>P</b>	28	41	36	35	46	38
<b>FIN</b>	161	60	153	106	101	114
<b>S</b>	157	113	123	123	102	109
<b>UK</b>	111	86	91	101	73	81
<b>ECU 1 000</b>						
<b>EU-15</b>	17	144	37	28	39	38

Source: Eurostat.

Of the Union's biggest countries, Germany (+18%) and France (+14%) were above the EU average, Italy was closer to the average but still 4% above it, while the United Kingdom lagged 19% below the EU mark (see figure I.3.1.3.).

A closer look at productivity by branch in the European Union shows that fuel and power products easily top the list, followed by services and manufactured products (see table I.3.1.4.).

With regard to agricultural, forestry and fishery products, 1996 saw the Netherlands 136% above the EU average while Portugal fell 72% below the average. Both figures were way ahead of those of the next countries. Italy and the Netherlands returned the highest figures for fuel and power products: 72% and 71% respectively above the EU average. The highest figures for building and

construction were recorded in Luxembourg and Austria, where the results were 50% and 37% above the EU average.

In the case of manufactured products, the highest figures were attained in Luxembourg (76% above the EU average) and Finland (+53%). Countries that fell below the EU average were Portugal (-64%), Greece (-59%) and Spain (-18%), followed by three countries that were just below the average: the United Kingdom (-9%), Denmark (-2%) and Austria (-1%).

As for productivity in the case of services, 1996 again saw Luxembourg leading the way, with a figure that was 62% above the EU average. In second place came Germany (+27%). As for manufactured products, the countries that fell below the EU average were Portugal (-54%), Greece (-47%), the United Kingdom (-27%) and Spain (-17%).

### I.3.2. Gross fixed capital formation

Gross fixed capital formation (GFCF) consists of acquisitions, less disposals, of fixed assets during a given period. Fixed assets are tangible or intangible assets used in the process of production for more than one year.

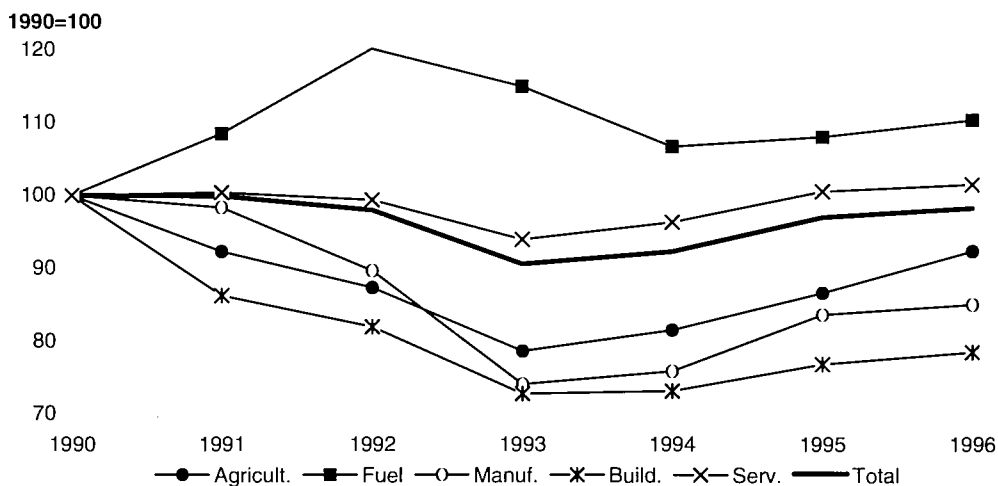
Although capital, and more generally investments, refer to and are conditioned by a broad series of factors (with finance playing an important role), gross fixed capital formation provides a good indication of changes in capital stock, i.e. investments during a given period.

In order to analyse the pattern of investments during the period from 1990 to 1996, the former year was taken as the reference year, i.e. 1990=100. Total investments in the European Union in 1996 were 2% lower than those recorded in the reference year, and this was a feature of the entire period under review. When the figures are broken

down by branch, fuel and power products were 10% up on 1990, and services too were above the 1990 figure, albeit by only 1%. In the other branches GFCF has declined in the last seven years: building and construction were 22% below the 1990 figure, while the figures for manufactured products and agricultural, forestry and fishery products were -15% and -8% respectively (see figure I.3.2.1.).

Among the Member States which have data broken down by branch<sup>(1)</sup>, investments for **agricultural, forestry and fishery products** increased during the period under review only in Luxembourg (+17%), Italy (+6%) and Ireland (+3%). In the case of **fuel and power products**, however, the 1996 figures were ahead of those for the reference year in every Member State apart from Sweden (-21%), Finland (-16%), the United Kingdom (-12%) and Denmark (-2%). In France, the only branch where the 1996 figure exceeded that of the reference year was fuel and power products, and in all the other branches GFCF declined (see table I.3.2.1.).

Fig. I.3.2.1. Gross fixed capital formation in the Union



Source: Eurostat.

(<sup>1</sup>) No data are available for Greece, Spain, Austria and Portugal.



Investments for **manufactured products** declined in most of the Member States. In 1996 the countries that were above the 1990 figure were Sweden (+34%), Luxembourg (+14%), Denmark (+10%) and Ireland (+5%). In the case of Germany there was a sharp decline in GFCF, which in 1996 was 33% below the figure for 1990.

GFCF for **building and construction** was also down in most Member States, with the biggest decline being recorded in Finland, where the 1996 figure was 65% below that of the reference year.

As for investments for **services** during the 1990s, the biggest changes were in Ireland, Luxembourg and the Netherlands, which recorded increases of 31%, 21% and 14% respectively. GFCF in the other Member States remained more or less stable, apart from Finland and Sweden, where

the figures for 1996 were 40% and 29% down in comparison with 1990 (see table I.3.2.1.).

When the contribution of each branch to the growth in investments is analysed, it turns out that the main impetus for the European Union's total overall growth of 1.3% in 1996 came from services. With a growth rate of 0.7%, services accounted for more than half of overall growth.

In the Euro zone, however, fuel and power products and manufactured products accounted together in equal proportion for more than 60% of the growth figure of 0.9%. The reason for the difference stems mainly from the surge in GFCF for services in the United Kingdom. In 1996 the impetus for growth provided by services was curbed by reductions in the branches of fuel and power products and manufactured products (see table I.3.2.2.).

Tab. I.3.2.1. Gross fixed capital formation, 1990=100

	Agricul., forestry and fishery	Fuel and power products	Manufact. products	Building and const.	Services	Total
EU-15	92	110	85	78	101	98
EUR-11	95	121	81	91	102	99
B	61	120	84	80	102	97
DK	89	98	110	96	105	104
D	75	116	67	115	100	94
EL	:	:	:	:	:	105
E	:	:	:	:	:	121
F	94	101	71	68	98	93
IRL	103	159	105	97	131	123
I	106	108	93	88	92	94
L	117	119	114	118	121	120
NL	71	193	85	101	114	111
A	:	:	:	:	:	117
P	:	:	:	:	:	158
FIN	63	84	86	35	60	65
S	79	79	134	48	71	88
UK	72	88	91	102	99	97

Source: Eurostat.

Services were also the main component in GFCF growth in Denmark, Ireland and the Netherlands. Manufactured products provided the main contribution in Belgium, Italy and Sweden. In Germany, France and Luxembourg, however, there was a fall in overall investments, caused primarily by the reduction in the services branch.

Investments are an important factor in assessing an economy's productivity and output, since they are a decisive factor for future output. The ratio between GFCF and value added shows how much of the value produced by a branch is reinvested.

A look at the structure of GFCF in 1996 shows that services accounted for the major share (74.2%), followed by manufactured products (15.2%), while the other branches together accounted for 10.6%. A comparison

of these figures with those for 1990 shows that services have increased their percentage share by 2.4 points, exactly mirroring the decrease of 2.4 points by manufactured products.

Among the Member States, the share of **agricultural, forestry and fishery products** in investments was largest in Ireland (9.3%), Italy (6.3%) and Denmark (5.2%). The significance of agricultural, forestry and fishery products in total GFCF has declined throughout the European Union, with the exception of Italy (+0.7 points).

**Fuel and power products** achieved their highest percentage figures for investments in the Netherlands (7.9%), the United Kingdom (7.8%) and Denmark (7.7%). There was a strong increase in the percentage share in investments of fuel and power

Tab. I.3.2.2. Contribution to GFCF growth in 1996

	Agricul., forestry and fishery	Fuel and power products	Manufact. products	Building and const.	Services	Total growth rate 96/95
EU-15	0.2	0.1	0.3	0.0	0.7	1.3
EUR-11	0.2	0.3	0.3	0.0	0.1	0.9
B	0.1	0.3	1.8	-0.1	-1.6	0.6
DK	0.4	0.6	1.2	0.2	5.2	7.5
D	0.0	-0.1	-0.2	0.0	-0.9	-1.2
EL	:	:	:	:	:	9.3
E	:	:	:	:	:	3.1
F	0.1	0.8	-0.2	-0.2	-1.3	-0.8
IRL	1.6	0.4	2.5	0.5	11.0	15.9
I	0.6	0.2	0.6	0.1	-0.2	1.2
L	0.0	0.0	-0.2	0.0	-0.9	-1.1
NL	-0.1	0.4	0.5	0.1	3.6	4.4
A	:	:	:	:	:	:
P	:	:	:	:	:	7.4
FIN	0.7	-0.1	1.9	0.2	5.7	8.3
S	0.2	-0.2	3.3	0.0	0.1	3.3
UK	0.1	-0.7	-0.8	0.3	2.8	1.8

Source: Eurostat.

products in the Netherlands during the 1990s (+3.4 points), in contrast with the slight reductions that occurred in the United Kingdom (-0.8 points) and Denmark (-0.5 points).

The share in investments of **manufactured products** ranged from 28.3% in Sweden to 11.4% in the Netherlands. There was a sharp increase in this branch's share of GFCF in Sweden (+11 points), and Finland (+5.2 points) and Denmark (+0.8 points) were the only other Member States to record increases. The biggest reduction was in Germany, where the percentage share fell by 5.6 points.

Investments in **building and construction** accounted for a fairly small part of overall GFCF, with figures ranging from 2.6% in Denmark to barely 1% in the United Kingdom.

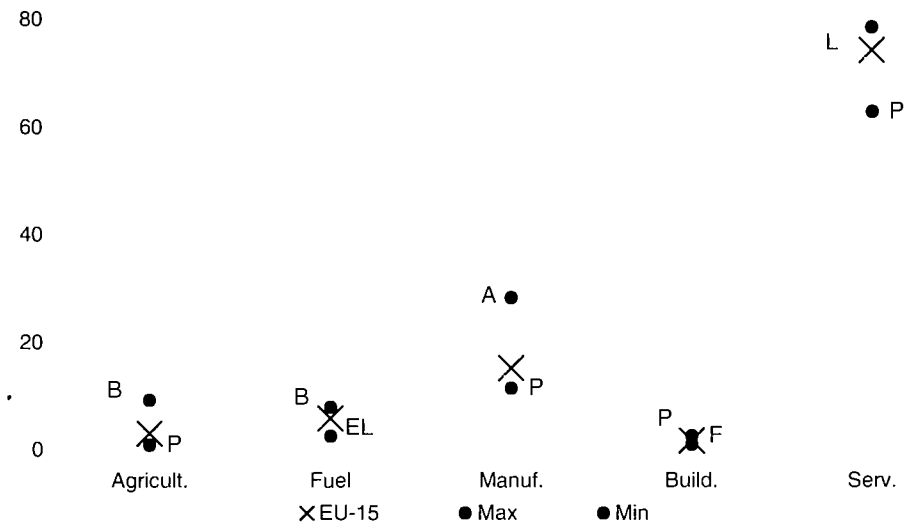
Investments in the **services** branch account for the major share in every Member State. The highest figure in 1996 was recorded in Luxembourg (78.5%), followed by the United Kingdom and France (both 78.3%). Most of the Member States have seen the share of services in overall investments increase during the 1990s, with the biggest increases occurring in Germany (+4.9 points) and Ireland (+4.2 points). The only countries where services reduced their share of total GFCF were Sweden (-9.6 points) and Finland (-5.3 points).

**Tab. I.3.2.3. GFCF at market prices structure, as a %, and change over 1990/96, in % points**

	Agric. Forest. Fishery	Fuel and power	Manuf. prod.	Build. and const.	Serv.
<b>EU-15</b>	3.1 -0.2	5.8 0.6	15.2 -2.4	1.7 -0.4	74.2 2.4
<b>EUR-1</b>	3.5 -1.0	5.4 -13.1	15.2 13.2	1.9 -69.4	74.0 -26.0
<b>B</b>	1.2 -0.7	5.5 1.1	23.3 -3.6	1.9 -0.4	68.1 3.5
<b>DK</b>	5.2 -0.9	7.7 -0.5	15.4 0.8	2.6 -0.2	69.2 0.8
<b>D</b>	1.9 -0.5	5.8 1.1	14.6 -5.9	1.8 0.3	76.0 4.9
<b>F</b>	3.0 0.0	4.5 0.4	12.4 -3.7	1.7 -0.6	78.3 3.9
<b>IRL</b>	9.3 -1.8	3.9 0.9	16.0 -2.7	2.0 -0.6	68.8 4.2
<b>I</b>	6.3 0.7	5.4 0.7	18.4 -0.2	2.3 -0.1	67.6 -1.0
<b>L</b>	2.3 -0.1	2.6 0.0	14.5 -0.8	2.0 0.0	78.5 0.9
<b>NL</b>	3.2 -1.8	7.9 3.4	11.4 -3.5	1.7 -0.2	75.8 2.1
<b>FIN</b>	5.0 -0.1	5.1 1.2	21.1 5.2	1.1 -0.9	67.8 -5.3
<b>S</b>	2.7 -0.1	4.7 -0.1	28.3 11.0	1.6 -1.1	62.8 -9.6
<b>UK</b>	0.9 -0.3	7.8 -0.8	12.0 -0.7	1.0 0.1	78.3 1.8

Source: Eurostat.

**Fig. I.3.2.2. Gross fixed capital formation by main branches in 1996, as % of total GFCF**



Source: Eurostat.

### I.3.3. Compensation of employees

Compensation of employees is defined as the remuneration payable by an employer to an employee in return for work done by the latter. It represents the cost of the labour factor and the rate of compensation for labour is the amount that each employee receives.

The rate of remuneration in the European Union was ECU 27 800 in 1996, and ECU 29 500 in the Euro zone. The highest per capita remuneration was paid in the fuel and power branch (ECU 49 700), with the lowest applying to agricultural, forestry and fishery products (ECU 16 000) (see table I.3.3.1.).

For the economy as a whole, the Member States where the highest remuneration was

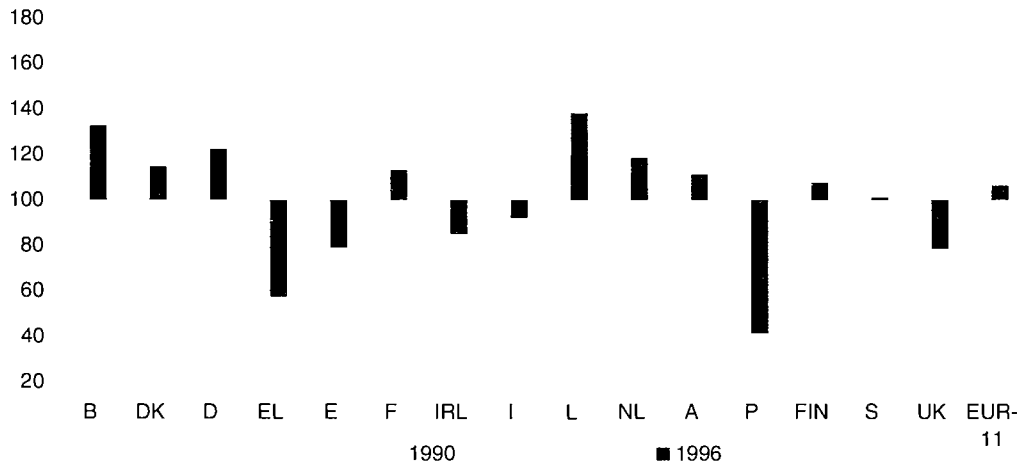
paid in 1996 were Luxembourg (ECU 38 400), Belgium (ECU 36 900) and Germany (ECU 34 100). At the bottom of the list came Portugal (ECU 11 500).

Using the European Union as the term of reference (EU-15=100), we can see the differences between the Member States and the trend during the 1990s (see figure I.3.3.1.). In 1996 Luxembourg was 38% above the EU average, while Portugal was lagging 59% below the average. The gap between these two extremes came to 97 percentage points. A look at the situation in 1990 shows that the gap was 96 points, which means that the difference between the two figures has stayed virtually the same. What has changed during these seven years is that country with the highest rate of remuneration in 1990 was Finland, where the figure in 1990 was 28% above the EU average. In 1996, however, it was

Tab. I.3.3.1. Rate of remuneration of labour, ECU 1 000

	Agricul., forestry and fishery	Fuel and power products	Manufact. products	Building and const.	Services	Total
<b>EU-15</b>	16.0	49.7	32.6	27.0	26.3	27.8
<b>EUR-11</b>	15.9	50.1	34.0	27.8	28.1	29.5
<b>B</b>	26.4	75.4	38.4	30.3	36.6	36.9
<b>DK</b>	22.5	40.0	30.8	34.5	32.1	31.9
<b>D</b>	21.0	53.1	40.5	31.0	31.2	34.1
<b>EL</b>	19.6	21.3	15.5	10.6	16.6	16.0
<b>E</b>	13.2	37.8	21.9	24.5	21.7	21.9
<b>F</b>	23.4	55.1	39.0	35.6	28.9	31.5
<b>IRL</b>	10.0	26.7	22.1	23.9	24.6	23.6
<b>I</b>	12.5	46.5	26.8	18.9	26.2	25.6
<b>L</b>	23.6	48.6	41.5	26.6	39.6	38.4
<b>NL</b>	22.9	43.8	36.4	31.5	32.4	33.0
<b>A</b>	20.9	71.5	52.4	25.5	23.9	30.9
<b>P</b>	6.6	25.4	9.2	8.0	13.2	11.5
<b>FIN</b>	22.0	36.2	32.5	33.2	28.9	29.9
<b>S</b>	16.0	24.7	23.1	28.0	29.7	28.1
<b>UK</b>	15.8	60.6	28.6	23.7	19.9	21.8

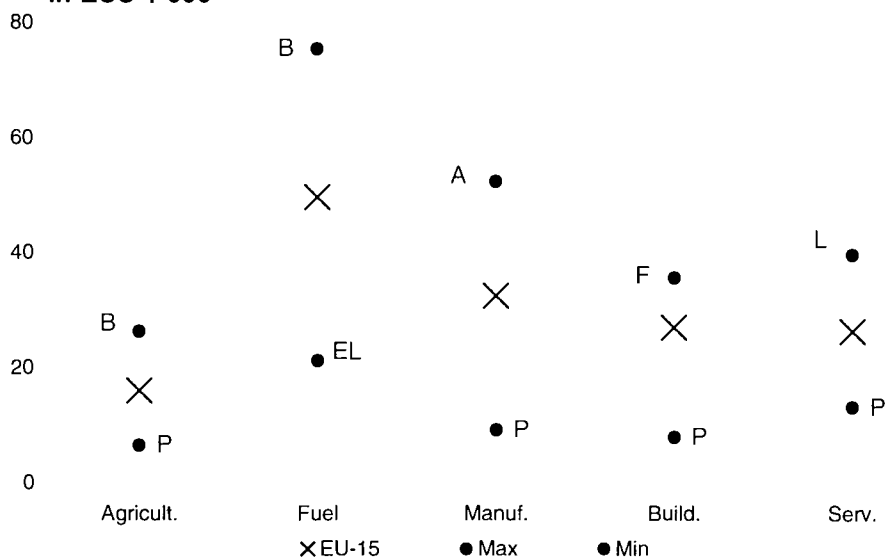
Source: Eurostat.

**Fig. I.3.3.1. Rate of remuneration of labour, EU-15=100**


Source: Eurostat.

just above the average (+7%). Sweden experienced a similar change. Italy was the only country that slipped below the average during the 1990s. In 1996 the country's rate of remuneration was 8% below the EU average.

A look at remuneration by branch shows that for **agricultural, forestry and fishery products** Belgium (ECU 26 400) had the highest figure in 1996, while the lowest was in Portugal.

**Fig. I.3.3.2. Rate of remuneration of labour by main branches in 1996, in ECU 1 000**


Source: Eurostat.

The latter country had the lowest figure in every branch, apart from fuel and power products, where it came ahead of Greece (see table I.3.3.1.).

The highest figures in the other branches were recorded again by Belgium for **fuel and power products** (ECU 75 400) and by Austria for **manufactured products** (ECU 52 400), France for **building and constructions** (ECU 35 600) and Luxembourg for **services** (ECU 39 600) (see figure I.3.3.2.).

Paragraph I.3.1. looked at labour productivity, defined as the value added produced by each employee. When labour cost per employee is combined with productivity per employee, we can calculate the cost of labour per unit of product (CLUP), i.e. the cost of labour input for each ECU produced<sup>(1)</sup>.

The branches in the European Union which in 1996 recorded the highest figures for CLUP were building and construction

(ECU 965) and agricultural, forestry and fishery products (ECU 957) (see table I.3.3.2.).

If we look at the figures by branch for CLUP during the 1990s (with 1990=100), the unit cost per product in building and construction recorded the greatest increase, with a figure in 1996 that was 19% ahead of the 1990 level. In the case of services, the figure showed an increase of 12%, while it was 11% for both fuel and power products and manufactured products. The only branch where the CLUP figure fell was agricultural, forestry and fishery products (-8%). Overall, the CLUP figure in 1996 was 10% higher than in 1990 (see figure I.3.3.2.).

When the Member States' figures for CLUP are seen in relation to the figure for the European Union as a whole (EU-15=100), it is possible to compare the various countries. In 1996, for every unit produced in agricultural, forestry and fishery products, Greece

**Tab. I.3.3.2. Labour cost per unit of product, EU-15=100**

	<b>Agricul., forestry and fishery</b>	<b>Fuel and power products</b>	<b>Manufact. products</b>	<b>Building and const.</b>	<b>Services</b>	<b>Total</b>
<b>EUR-11</b>	99	95	102	103	98	100
<b>B</b>	84	113	98	94	131	117
<b>DK</b>	76	51	97	113	117	108
<b>D</b>	121	147	125	107	93	104
<b>EL</b>	173	81	117	59	119	119
<b>E</b>	115	69	82	91	100	97
<b>F</b>	90	98	105	145	97	99
<b>IRL</b>	:	:	:	:	:	71
<b>I</b>	94	54	75	68	95	89
<b>L</b>	80	115	73	66	93	86
<b>NL</b>	60	52	82	114	106	96
<b>A</b>	133	163	163	69	80	102
<b>P</b>	144	123	78	84	108	109
<b>FIN</b>	85	121	65	116	109	94
<b>S</b>	64	44	58	84	111	93
<b>UK</b>	89	142	97	87	103	96
	<b>in ECU</b>					
<b>EU-15</b>	957	345	890	965	673	740

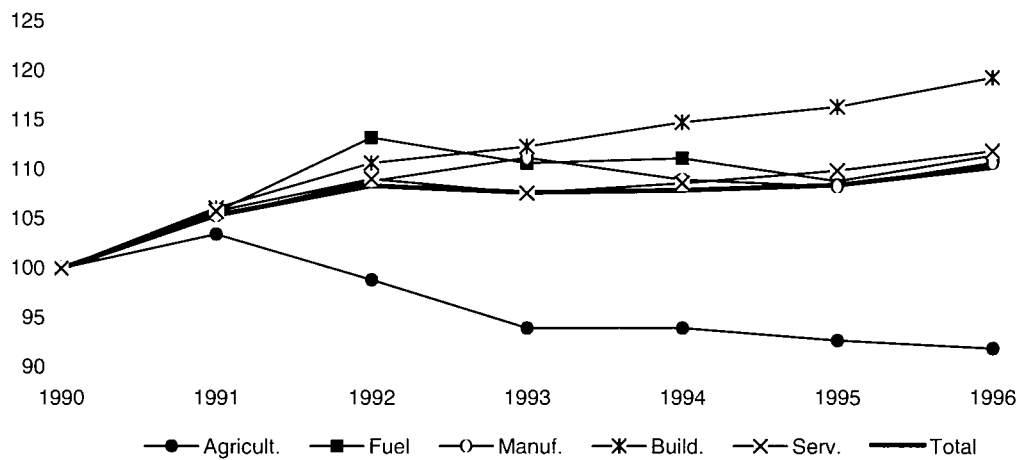
Source: Eurostat.

<sup>(1)</sup> Labour means total employment for the purpose of calculating labour productivity (GVA/L) whereas only paid employment is considered for the purpose of calculating compensation of employees.

had the highest labour cost: 73% above the EU average. In Germany and the United Kingdom, on the other hand, fuel and power products were the most expensive in labour terms, with figures of 47% and 42% respectively above the EU average. In the case of

manufactured products, the labour cost per unit was highest in Austria (+63%), while for building and construction it was France (+45%) that most exceeded the EU average. As for services, the cost per unit was highest in Greece (+19%) (see table I.3.3.2).

**Fig. I.3.3.3. Labour cost per unit of product growth in the Union, 1990=100**



Source: Eurostat.





## I.4. Private households in the Union

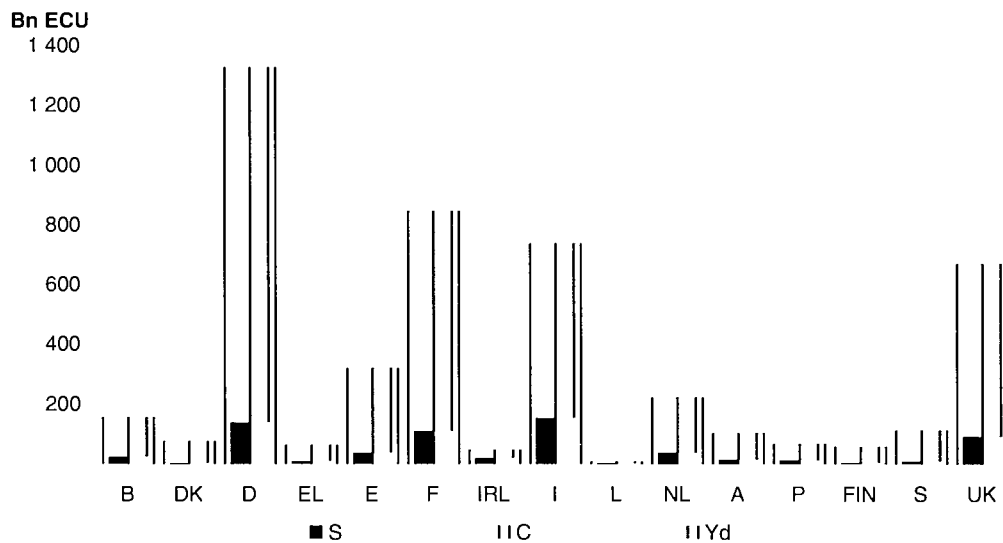
The households sector covers individuals or groups of individuals as consumers and possibly also as entrepreneurs producing goods and services. Households as consumers may be defined as small groups of persons who share the same living accommodation, who pool some, or all, of their income and wealth and who consume certain types of goods and services collectively, mainly housing and food.

In the European Union in 1996, households contributed 71.2% to the formation of national income, enterprises 11.8%, general government 15.6%, and the rest of the world 1.4%.

Households' resources derive from various sources of income, to which are added social benefits from general government and net current transfers to households from abroad. This disposable income may be consumed, i.e. used to purchase goods and services, or it may go towards the formation of savings.

An initial indicator providing an overview of the distribution of disposable income is the average propensity to consume, which indicates how much of every ECU of gross national disposable income goes on consumption and, correspondingly, how much is applied to savings.

Fig. I.4.1. Disposable income and its uses, 1996



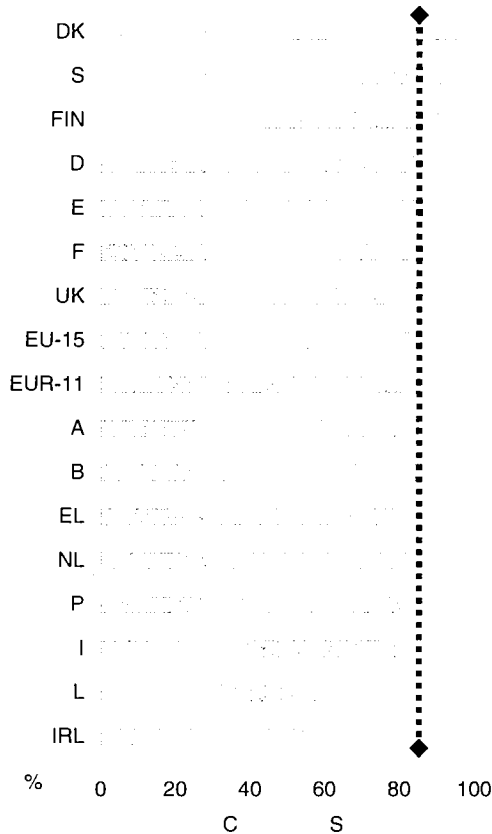
Source: Eurostat.

In 1996, the households of the European Union applied 85.9% of every disposable ECU to consumption and saved the remaining 14.1%. In the Euro zone, the proportions were roughly the same, with shares of 85.5% for the purchase of goods and services and 14.5% in savings (see figure I.4.2.).

The EU Member States in northern Europe demonstrated the most marked average propensity to consume, committing some 90% of their disposable income to consumption: Denmark leads the field at 95.2%, followed by Sweden at 91.1% and Finland at 90.4%.

The countries in which households show the greatest propensity to save are Ireland (40.5%), Luxembourg (37.7%) and Italy (21.0%).

**Fig. I.4.2. Average propensity to consume and to save, 1996**



Source: Eurostat.

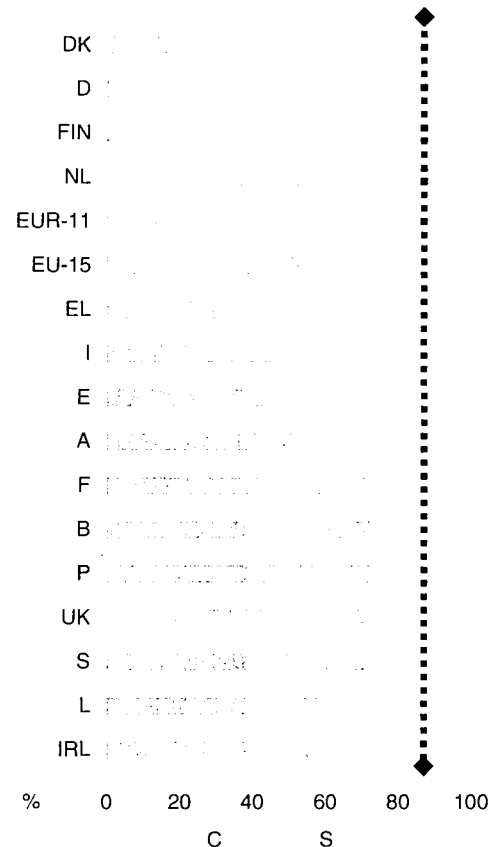
In order to analyse changes over time, the marginal propensity to consume and to save were calculated, i.e. how much of the increase in gross disposable income was reflected in an increase in consumption or saving.

Since the beginning of this decade (1990-1996), 85.7% of the increase in the disposable income of households in the European Union was channelled into increased consumption; correspondingly,

the increase in disposable income influenced saving growth by 14.3% (see figure I.4.3.).

In most Member States, 80% of the increase in disposable income went on consumption and 20% went into savings. In Ireland and Luxembourg, the ratio was 60/40, and in Sweden and the United Kingdom it was 70/30. In the Netherlands, Finland and Germany, the marginal propensity to consume far outweighed the propensity to save, at shares of 90/10. Lastly, Denmark represents the extreme, in that the increase in disposable income was completely absorbed by increased consumption.

**Fig. I.4.3. Marginal propensity to consume and to save, 1990/96**



Source: Eurostat.

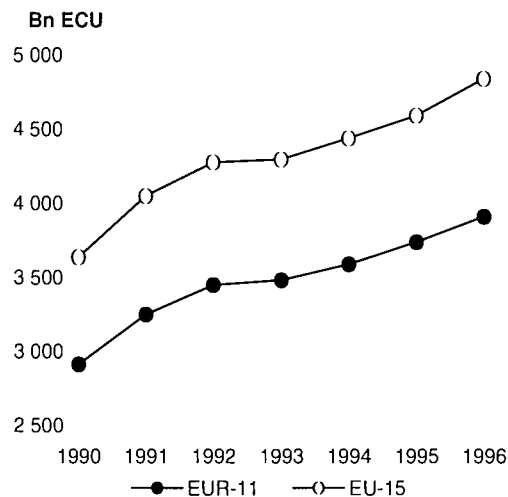
### 1.4.1. Private households as income recipients

Households' resources comes from the compensation of employees, property income, transfers from other sectors and from receipts from the disposal of products.

Income from the compensation of employees is defined as the overall compensation paid by an employer to an employee for work done. Property income is earned by the owners of financial assets or tangible non-produced assets in return for putting these at the disposal of another unit.

In 1996, disposable income in the European Union amounted to ECU 4 845 Bn, and in the group of countries which have agreed to adopt the Euro it was ECU 3 916 Bn, or approximately 80% of the European Union total. In both the areas under consideration, disposable income has increased by an annual average of 5% since the beginning of the decade (see figure 1.4.1.1.).

**Fig. 1.4.1.1. Gross disposable income of households (¹)**



(¹) Households and private institutions.  
Source: Eurostat.

The per capita values for gross disposable income in the different Member States were compared, and are set out in relation to the European average in table 1.4.1.1. (EU-15 = 100). This shows that the highest per capita gross disposable income in 1996 was recorded in Belgium (ECU 15 627), some 21% above the European average, and the second-highest in Germany (ECU 15 037) at 16% above the value for the European Union (see table 1.4.1.1.).

**Tab. 1.4.1.1. Gross disposable income of households, per head**

	in ECU	EU-15=100	
	1996	1990	1996
<b>EU-15</b>	12 934	100	100
<b>EUR-11</b>	13 446	104	104
<b>B</b>	15 627	113	121
<b>DK</b>	14 743	103	114
<b>D</b>	15 037	125	116
<b>EL</b>	:	:	:
<b>E</b>	8 126	67	63
<b>F</b>	14 541	109	112
<b>IRL</b>	:	:	:
<b>I</b>	12 668	114	98
<b>L</b>	:	:	:
<b>NL</b>	14 435	105	112
<b>A</b>	:	:	:
<b>P</b>	6 971	40	54
<b>FIN</b>	11 604	119	90
<b>S</b>	12 905	109	100
<b>UK</b>	11 426	88	88

Source: Eurostat.

The lowest per capita gross disposable incomes in 1996 were recorded in Portugal (ECU 6 971) and Spain (ECU 8 126), rates of 46% and 37% below the European average respectively.

The other Member States which reported per capita values below the Union average were the United Kingdom, Finland and, on

a smaller scale, Italy. During the 1990s, the latter two countries, in particular, experienced reversals to the extent that while both recorded above-average gross disposable incomes for the Union in 1990, by 1996 Finland was 10% below the average and Italy 2%.

Considering gross disposable income as a percentage of total resources, and therefore the proportion of resources available for households, in 1996, the highest percentage was recorded in Portugal (74.9%), the second-highest in the United Kingdom (72.4%) and the third-highest in Spain (70.1%). Sweden recorded the lowest share (56.5%).

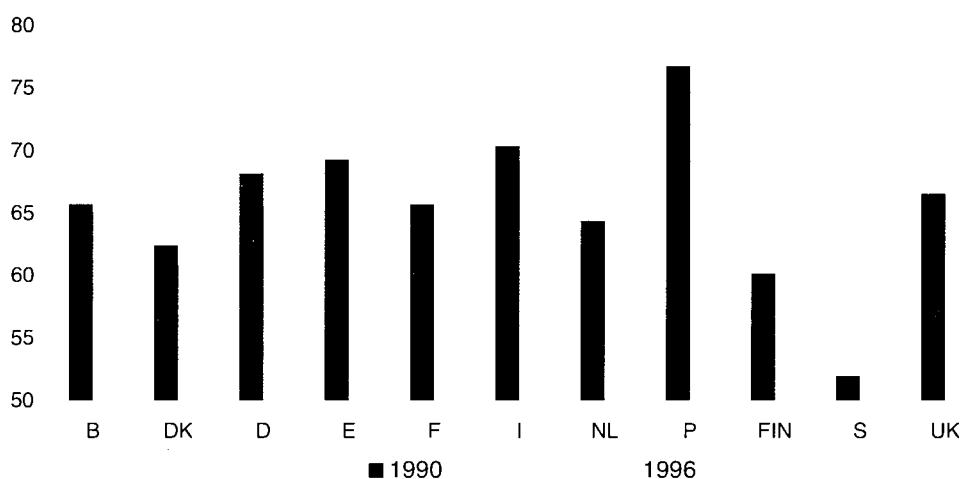
Comparing these values with those for 1990 indicates the structural changes in uses and resources in the various Member States. The most marked reduction in gross disposable income as a part of total resources was in Germany (-2.8 percent-

age points). On the other hand, the countries in which gross disposable income expanded within total resources were Spain (+0.8 points), the Netherlands (+0.1 points), Finland (+2.2 points) and, much more strikingly, Sweden (+4.5 points) and the United Kingdom (+5.8 points) (see figure I.4.1.2.).

Table I.4.1.2. shows the two principal components of disposable income and their corresponding shares therein. The total deductions heading, on the other hand, shows all expenditure against resources which constitute disposable income (costs incurred on property, insurance and transfers).

Uniform data are not available for the entire EU, and comparisons are therefore only made for certain Member States<sup>(1)</sup>. Likewise, it was not possible to estimate the values of some components at European Union level.

**Fig. I.4.1.2. Gross disposable income, as a % of total resources <sup>(1)</sup>**



<sup>(1)</sup> The latest data available for Denmark and Portugal refer to 1994, those for Finland to 1993.  
Source : Eurostat.

<sup>(1)</sup> The comparison takes not account of Greece, Ireland, Luxembourg and Austria, for which no data are available. Germany is also excluded in some cases because its data are available only partially.

**Tab. I.4.1.2. Generation of disposable income - structure 1996,  
as a %, and change over 1990/96 period, in % points**

	Gross operating surplus	Compen- sation of employees	Property entrepren. income	Accident insurance transfers	Unrequited current transfers	Total deduc- tions <sup>(1)</sup>
<b>B</b>	26.7 -0.4	69.7 0.1	18.3 -0.7	1.4 -0.2	37.5 2.8	-53.6 -1.5
<b>DK</b>	29.3 -0.3	95.0 -6.1	-4.9 3.9	2.2 0.2	42.9 6.6	-64.5 -4.4
<b>D</b>	0.3 0.0	80.8 2.7	25.7 -5.3	3.6 0.5	42.6 8.3	-52.9 -6.3
<b>E</b>	38.7 2.0	65.7 -3.2	9.4 -2.0	1.7 0.3	27.1 1.3	-42.6 1.6
<b>F</b>	25.5 -1.1	74.4 -1.4	10.4 0.1	2.9 0.2	39.2 2.5	-52.4 -0.2
<b>I</b>	46.6 3.4	53.0 -3.8	14.9 0.7	1.7 0.2	28.4 2.1	-44.6 -2.5
<b>NL</b>	20.4 0.8	70.5 -0.3	17.2 -0.2	3.4 0.7	43.5 -1.3	-55.0 0.2
<b>P</b>	31.8 0.0	59.9 2.2	11.8 -1.4	1.1 0.2	28.9 2.4	-33.6 -3.3
<b>FIN</b>	25.0 -2.2	81.4 -15.1	8.5 0.0	1.1 0.0	44.4 11.5	-60.3 5.7
<b>S</b>	22.2 0.3	102.1 -14.6	7.5 -3.5	1.5 0.0	43.5 2.4	-76.8 15.4
<b>UK</b>	22.0 -2.2	73.2 -9.9	15.9 -3.0	0.0 0.0	27.0 2.9	-38.0 12.1

<sup>(1)</sup> Total deductions is the sum of expenditure on property and entrepreneurial income, accident insurance, transfers and unrequited current transfers.

Source: Eurostat.

Of the countries for which data are available, in 1996, Italy (46.6%) and Spain (38.7%) recorded by far the greatest contributions to disposable income from **gross operating surplus**. In the period 1990/96, Italy (+3.4 percentage points) and Spain (+2.0 points) also recorded the greatest increases in gross operating surplus as a component of income. The United Kingdom and Finland (both with -2.2 points) and, less dramatically, France (-1.1

points) experienced the greatest declines in gross operating surplus as a component of disposable income.

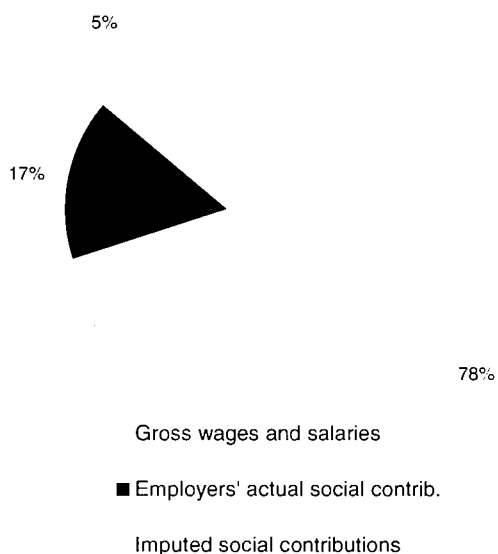
For **compensation of employees**, the extremes of the range are in Sweden (102.1%)<sup>(2)</sup>, with the greatest part of disposable income coming from earned income, and Italy at the other, with the lowest percentage (53.0%). The last seven years have seen marked reductions

<sup>(2)</sup> The value for Sweden is more than 100 because it is not considered net of total deductions.

in Finland (-15.1 percentage points), Sweden (-14.6 points) and the United Kingdom (-9.9 points).

Looking at the composition of earned income in the European Union, in 1996 the bulk of earned income obviously came from gross wages and salaries (78.1%), while employers' social contributions accounted for some 16.6% of the total compensation of employees, and employees' social contributions for 5.4% (see figure I.4.1.3.).

**Fig. I.4.1.3. Structure of compensation of employees in the Union, 1996**



Source: Eurostat.

The analysis of the detailed tables available at Eurostat, shows that the structures are very similar across the EU Member States. Denmark recorded the greatest share of earned income in the form of gross wages and salaries (97.6%) although this does not include employers' contributions. The United Kingdom (86.8%), the Netherlands (84.3%) and Germany (80.2%) follow.

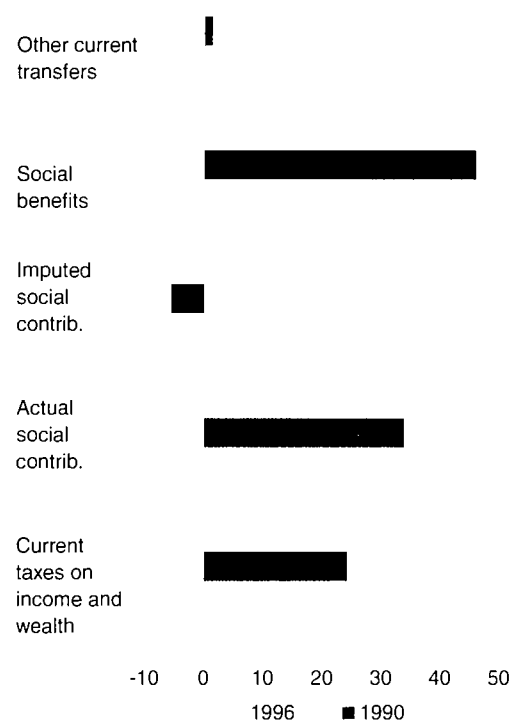
The Member States where employers' social contributions are highest are Sweden

(23.9%), France (22.9%) and Finland (20.8%). Lastly, Italy (10.9%) and Belgium (7.1%) stand out by virtue of the shares of social contributions paid by employees.

**Income from property** is not one of the principal components of disposable income; in 1996, this contributed between 18.3% in Belgium and 7.5% in Sweden. The sole exception of Germany where it represented a share of 25.7%.

**Unrequited current transfers**, on the other hand, make a substantial contribution to disposable income, particularly in the Nordic countries: Finland records the highest share (44.4%), followed by Sweden and

**Fig. I.4.1.4. Structure of unrequited current transfers (\*) in the Union, as a %**



(\*) Unrequited current transfers are considered net, and the percentage can therefore be negative if uses exceed resources.

Source: Eurostat.

the Netherlands (both 43.5%), Denmark (42.9%) and Germany (42.6%). Almost one-half of total unrequited current transfers in the European Union is accounted for by **social benefits** (49.1%), a further

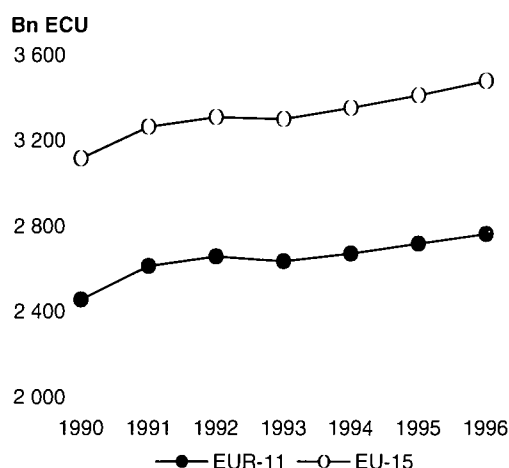
third by **actual social contributions** (33.8%) and 21.2% consists of **taxes on income and wealth**. Of course, social contributions paid by households reduce the total by 4.7% (see figure I.4.1.4.).



## I.4.2. Private households as consumers

In 1996, the final consumption of households in the European Union came to ECU 3 481 Bn, and in the Euro zone to ECU 2 766 Bn. Year on year, EU consumption increased by 2%, but has averaged 1.6% since the beginning of the decade (1990/96). Within the Euro zone, annual growth has consistently matched the average for the last seven years: 1.7%.

**Fig.I.4.2.1. Final consumption of households**



Source: Eurostat.

Purchasing power parity (PPP) rates are calculated to compare per capita consumption rates between Member States. PPPs have the advantage that they eliminate the influence of the exchange rate and instead consider the purchasing power of each country. Each Member State's values are then set against the European Union average (EU-15=100) (see table I.4.2.1.).

In 1996, per capita consumption was highest in Luxembourg (13 063 PPS), second-highest in Belgium (9 973 PPS) and third-highest in France (9 812 PPS). It was lowest in Greece (6 649 PPS), second-lowest

in Finland (6 658 PPS) and third-lowest in Portugal (6 776 PPS).

Luxembourg showed the greatest disparity in relation to the European average, with a value 43% above the average, while there was little between Belgium and France, which recorded values 9% and 7% above the EU average. The other extremes were recorded in Greece and Finland, which were 27% below the average, while Portugal was 26% below it.

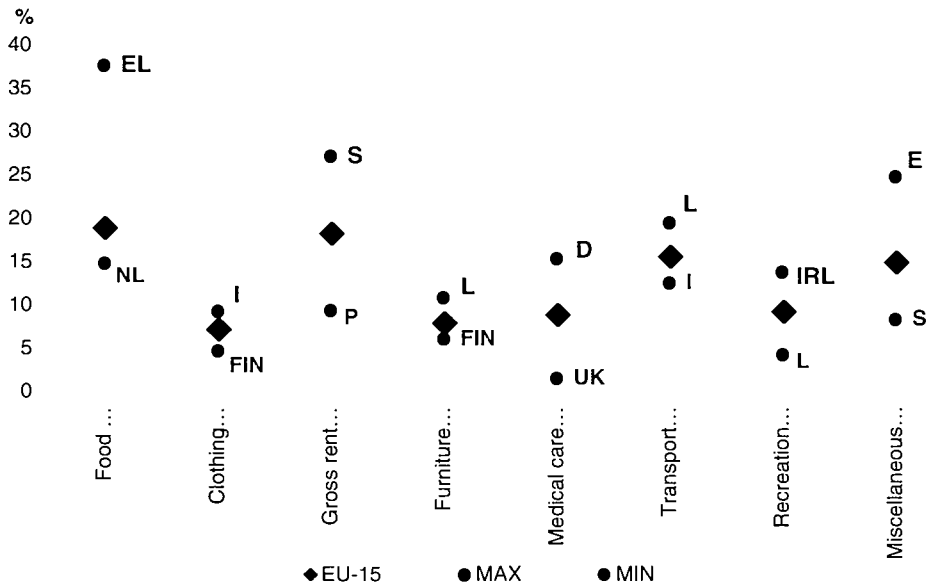
**Tab. I.4.2.1. Final consumption of households, per head**

	in PPS	EU-15=100	
	1996	1990	1996
<b>EU-15</b>	9 162	100	100
<b>EUR-11</b>	9 206	100	100
<b>B</b>	9 973	108	109
<b>DK</b>	8 540	87	93
<b>D</b>	9 653	110	105
<b>EL</b>	6 649	72	73
<b>E</b>	7 527	80	82
<b>F</b>	9 812	107	107
<b>IRL</b>	7 640	71	83
<b>I</b>	9 627	106	105
<b>L</b>	13 063	122	143
<b>NL</b>	9 469	96	103
<b>A</b>	9 133	98	100
<b>P</b>	6 776	66	74
<b>FIN</b>	6 658	80	73
<b>S</b>	7 277	87	79
<b>UK</b>	9 730	106	106

Source: Eurostat.

In 1996, **food, beverages and tobacco** accounted for 18.8% of the total consumption of households in the European Union, and for 18.1% in the Euro zone. This proportion was by far the greatest in Greece (37.7%), and the lowest in the Netherlands (14.8%). Consumption of food, beverages and tobacco is the function which presents the most marked differences from one Member State to another.

**Fig. I.4.2.2. Final consumption of households by main purposes in 1996, as a % of total consumption**



Source: Eurostat.

In terms of the structure recorded in 1990, this function has declined as a share of total consumption virtually everywhere, with the sole exception of Sweden where it has risen by one percentage point. The greatest relative reduction in food, beverages and tobacco was recorded in Ireland (-3.8 points).

In 1996, consumption of food, beverages and tobacco was the largest component of households' consumption in Greece (37.7%), Portugal (29.9%), Ireland (29.5%), Finland (22.9%), the United Kingdom (19.8%) and Italy (19.5%). Elsewhere, the largest individual component was gross rent, fuel and power, with the exception of Spain where the largest component was the miscellaneous item goods and services.

In 1996, consumption of **clothing and footwear** accounted for the lowest share of consumption across the European Union and the Euro zone, at 7.1% in both. Bearing out one of the European stereotypes, purchases of clothing and footwear were recorded the highest share for Italian

households consumption (9.2%). By comparison with 1990, this function of consumption has declined everywhere other than in the United Kingdom (+1.1 percentage points) and Ireland (+0.7 points).

**Gross rent, fuel and power** ranks second as a function of household consumption in the European Union. In 1996 it accounted for 18.2% of the total consumption of households; and slightly less, 17.9%, in the Euro zone. Of all the Member States, gross rent, fuel and power was the largest component of consumption in Sweden (27.1%) and the smallest component in Portuguese households (9.3%). This function of consumption has increased in every EU Member State other than Denmark (-2.4 points) and, to a lesser extent, Ireland (-0.8 points), Portugal and the United Kingdom (both -0.2 points). In 1990, Denmark was the country in which this function was greatest.

Gross rent, fuel and power is the leading function of consumption by households in Sweden (27.1%), Denmark (25.5%), France

Tab. I.4.2.2. Final consumption of households - structure 1996, as a %, and change over 1990/96 period, in % points

	Food, beverages, tobacco	Clothing and footwear	Gross rent, fuel and power	Furniture, furnish., hous. eq.	Medical care and health exp.	Transport and commun.	Recreation, entert., ed. cult. serv.	Misc. goods and services
EU-15	18.8	7.1	18.2	7.8	8.8	15.5	9.1	14.7
	-1.2	-0.5	0.8	-0.1	0.9	0.0	0.4	-0.2
EUR-11	18.1	7.1	17.9	8.1	10.5	15.1	8.7	14.5
	-1.2	-0.8	1.0	-0.2	1.0	0.1	0.2	-0.1
B	17.7	6.9	19.6	9.9	11.0	12.7	7.1	15.1
	-0.6	-0.8	1.1	-0.5	0.3	-0.2	0.4	0.3
DK	20.4	5.5	25.5	6.2	2.3	17.9	11.5	10.7
	-0.9	0.0	-2.4	-0.3	0.0	2.5	1.3	-0.4
D	15.7	6.8	19.2	8.3	15.3	16.0	9.1	9.6
	-1.1	-0.6	0.9	-0.1	1.1	0.1	-0.2	-0.2
EL	37.7	8.3	11.5	7.9	4.4	13.1	6.5	10.5
	-0.4	-0.6	0.0	-0.3	1.0	-1.0	0.8	0.5
E	20.5	8.0	12.8	6.5	5.5	14.9	7.0	24.7
	-1.2	-0.9	0.3	-0.1	1.6	-0.3	0.5	0.2
F	18.5	5.5	20.9	7.4	10.5	16.8	7.7	12.6
	-0.8	-1.1	1.9	-0.5	1.0	-0.2	0.1	-0.5
IRL	29.5	7.0	14.8	6.3	3.5	14.1	13.7	10.9
	-3.8	0.7	-0.8	-0.2	-0.2	0.9	2.5	1.0
I	19.5	9.2	15.0	9.3	7.0	12.4	9.3	18.2
	-1.3	-0.8	0.4	-0.1	0.3	0.1	0.3	1.1
L	18.3	5.8	20.0	10.8	7.3	19.4	4.1	14.3
	-1.1	-0.3	0.2	-0.1	-0.2	1.9	-0.2	-0.2
NL	14.8	6.8	18.3	7.0	12.8	13.3	10.6	16.4
	-0.7	-0.4	0.4	-0.3	0.1	0.6	0.1	0.2
A	18.3	7.6	18.6	8.5	4.8	16.7	8.1	17.5
	-1.1	-1.9	1.6	0.3	0.4	1.1	0.0	-0.4
P	29.9	8.7	9.3	8.0	4.5	15.9	7.5	16.0
	-1.1	-0.1	-0.2	-0.1	0.1	0.6	1.1	-0.3
FIN	22.9	4.6	22.1	6.0	5.0	15.7	9.9	13.7
	-0.4	-1.1	3.4	-0.8	0.4	-1.5	0.2	-0.3
S	22.8	6.0	27.1	6.6	2.3	16.9	10.1	8.2
	1.0	-1.2	1.4	-1.0	0.5	-0.3	-0.2	-0.3
UK	19.8	7.2	17.8	7.0	1.5	17.4	11.4	17.9
	-1.5	1.1	-0.2	0.5	0.0	-0.4	1.3	-0.8

Source: Eurostat.

(20.9%), Luxembourg (20.0%), Belgium (19.6%), Germany (19.2%), Austria (18.6%) and the Netherlands (18.3%).

A share of 7.8% on total expenditure by European Union households was on **furniture, furnishings and household equipment**, and the proportion was slightly greater

in the Euro zone (8.1%). Luxembourg recorded the highest share (10.8%) of all EU Member States, and Finland the lowest (6.0%). By comparison with 1990, this function of consumption has lost ground everywhere in Europe outside the United Kingdom (+0.5 points) and Austria (+0.3 points).

**Medical care and health services** show marked structural differences between Member States, and expenditure is largely determined by each country's health system. In the Union as a whole, this function accounted for 8.8% of total consumption in 1996. The EU differs from the Euro zone, where the share was 10.5%. In the EU Member States, the shares range from a maximum of 15.3% in Germany to a mere 1.5% in the United Kingdom.

**Transport and communications** accounted for some 15% of the total consumption of households in both the European Union as a whole (15.5%) and the Euro zone (15.1%). The highest share was in Luxembourg (19.4%), and the lowest in Italy (12.4%). The changes over the last decade have varied greatly from one country to another, with the greatest relative increase in this function in Denmark (+2.5 percentage points).

In 1996, **recreation, entertainment, education and cultural services** represented 9.1% of the total consumption of households in the European Union, somewhat

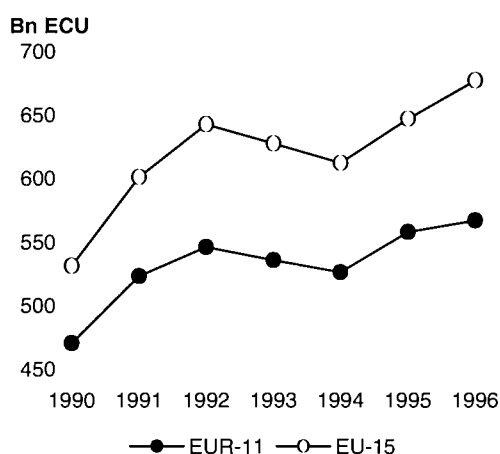
more than the value for the Euro zone (8.7%). This function has remained fairly stable within total consumption in the 1990s, with the exception of Ireland where households' relative expenditure on recreation, entertainment, education and cultural services has increased dramatically (+2.5 percentage points), outstripping similar changes in the United Kingdom and Denmark (both +1.3 points) and Portugal (+1.1 points).

In terms of consumption of items belonging to the **miscellaneous** heading of **goods and services**, Spain stands out with by far the highest share (24.7%) of any EU country and as the sole country where this function is the largest component of the consumption of households. In Spain, in particular, expenditure is concentrated essentially in restaurants, cafes and hotels. In relation to the structure recorded in 1990, households' expenditure on miscellaneous of goods and services has remained stable in relative terms everywhere other than Ireland and Italy, where it has increased by approximately one percentage point.

### I.4.3. Private households as savers

Gross saving is the (positive or negative) amount resulting from current transactions which establishes the link with accumulation. If saving is positive, unspent income is used for the acquisition of assets or for paying off liabilities. If saving is negative, certain assets are liquidated or certain liabilities increase. In practice, saving is the balancing item of the use of income account, calculated by subtracting consumption from disposable income.

**Fig. I.4.3.1. Gross savings of households (\*)**



(\*) Households and private institutions.  
Source: Eurostat.

In 1996, gross saving amounted to ECU 677 Bn in the European Union, and to ECU 568 Bn in the Euro zone, a share of approximately 84% of the total for the Union.

Per capita values for 1996 were calculated for comparison between Member States<sup>(3)</sup>: saving in the European Union amounted to ECU 1 808, and in the Euro zone it came to a higher value of ECU 1 948. Of all the Member States, households in Italy show

the highest per capita savings (ECU 2 710), 50% higher than the EU average. Belgium comes second (ECU 2 438), and the Netherlands (ECU 2 256) third, with values 35% and 25% higher than the European average respectively (see table I.4.3.1.).

**Tab. I.4.3.1. Gross saving of households, per head**

	in ECU	EU-15=100	
	1996	1990	1996
<b>EU-15</b>	1 808	100	100
<b>EUR-11</b>	1 948	115	108
<b>B</b>	2 438	130	135
<b>DK</b>	701	41	39
<b>D</b>	1 710	109	95
<b>EL</b>	:	:	:
<b>E</b>	993	50	55
<b>F</b>	1 910	94	106
<b>IRL</b>	:	:	:
<b>I</b>	2 710	185	150
<b>L</b>	:	:	:
<b>NL</b>	2 256	133	125
<b>A</b>	:	:	:
<b>P</b>	1 373	46	76
<b>FIN</b>	1 118	81	62
<b>S</b>	1 148	70	63
<b>UK</b>	1 456	47	81

Source: Eurostat.

By comparison with 1990, Italy and the Netherlands have lost some ground on the European average, whereas Belgium has gained ground. France has turned around over the last seven years, in that the per capita saving of French households was below the European average in 1990 but had risen to some 6% above the average by 1996.

In order to provide an overview of the relation between gross saving and disposable income in the different countries, per capita values were calculated and the connection has been made in figure I.4.3.2.

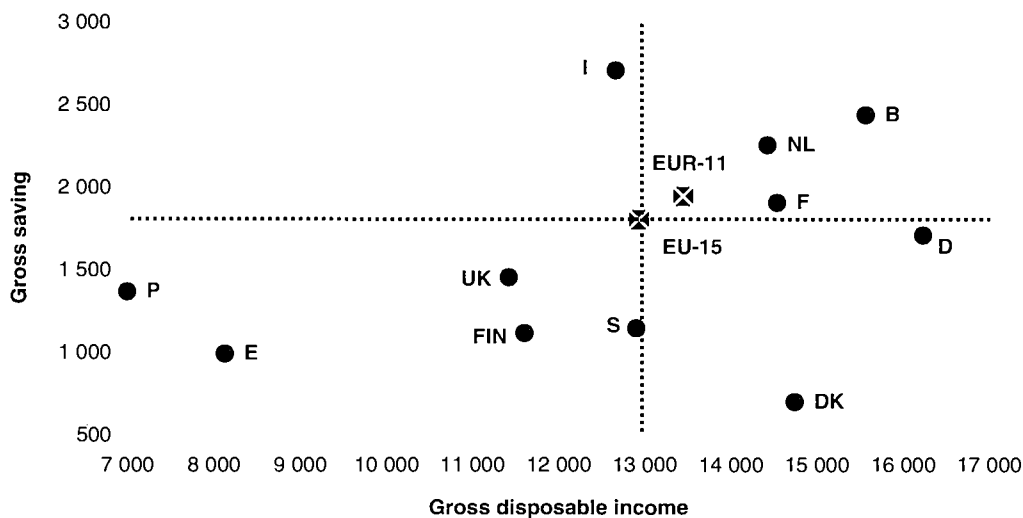
(3) The comparison takes no account of Greece, Ireland, Luxembourg and Austria, for which no data are available.

The X-axis shows gross disposable income, and the Y saving. The dotted lines show the value for the Union as a whole. Thus, the countries in the top right-hand quadrant are those which recorded gross disposable incomes and saving in excess of the European average in 1996,

i.e. the Netherlands, Belgium, France and the Euro zone.

The countries in the opposite quadrant (Portugal, Spain, the United Kingdom and Finland) recorded gross disposable incomes and saving below the average for the Union.

**Fig. I.4.3.2. Gross saving and disposable income in 1996, in ECU per head**



Source: Eurostat.

This figure dramatically highlights the position of Italian households, which save more than the European average although their disposable income is slightly less than the European average. Germany and Denmark are in the diametrically opposite position, because although households in these countries have gross disposable incomes above the European average, their per capita savings are below the EU average.

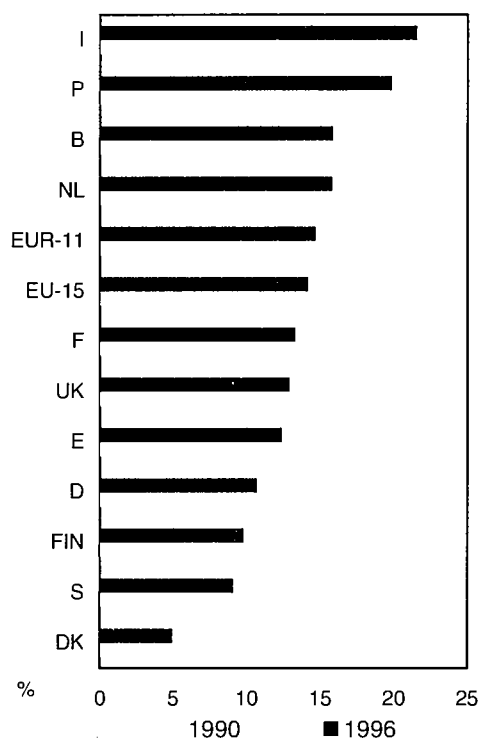
Saving ratios, calculated as the percentage represented by saving against gross disposable income, were used for comparison between the Member States. In addition to permitting comparisons between countries with markedly different levels, saving ratios have the advantage of eliminating the influence of inflation.

In 1996, Italy had the highest saving ratio (21.4%) in the European Union, followed by Portugal (19.7%), Belgium (15.7%) and the Netherlands (15.6%). Denmark (4.8%) and Sweden (8.9%) had the lowest ratios (see figure I.4.3.3.).

Saving is an aggregate which can change considerably from one year to another and to a large extent over several years. The growth rates are therefore extremely changeable, and are of little economic significance. To track changes, therefore, it was decided to compare saving ratios over time.

By comparison with the data recorded in the early 1990s, the positions show little change, although the trends do. The most marked contraction was recorded in the Netherlands, where the saving ratio

**Fig.I.4.3.3. Gross saving, as a % of gross disposable income**



Source: Eurostat.

contracted by the order of 2.8 points. In Italy and Germany the saving ratios declined by 2.3 percentage points, and saving in relation to gross disposable income also declined in Belgium (-1.4 points), Denmark (-1.0 point) and much less dramatically in Sweden (-0.5 points) and Finland (-0.3 points).

The United Kingdom recorded the greatest increase in saving ratios (+5.0 percentage points), followed by Portugal (+2.9 points), Spain (+1.3 points) and France (+0.4 points).

In 1996, households in the European Union as a whole saved 14% of their gross disposable incomes, while the share for the Euro zone was 14.5%. By comparison with the values for 1990, saving ratios for the European Union declined slightly (-0.6 points), but the reduction in the euro zone was considerably more pronounced, in that the saving ratio declined by 1.7 percentage points.

## I.5. General government in the Union

### Introduction

This section outlines the size and structure of the public sector in the various Member States (see box entitled "Definition of general government") by examining the level and allocation of **expenditure** approved by

public administrations, the **revenue** needed to finance that expenditure (essentially taxes and social contributions) and the difference between the two, which represents government **deficit**. This deficit has to be covered by borrowing, which in turn fuels government **debt**.

### Definition of general government

The European System of Integrated Economic Accounts (ESA 79) states that "the sector general government 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". General government is divided into three sub-sectors: central government, local government and social security funds.

### I.5.1. General government expenditure

#### Overview

The average level of general government expenditure within the European Union stands at around 50% of GDP. The ratios of the individual Member States cover a relatively wide range, from 37.4% of GDP in Ireland to 63.1% in Sweden. The other two Nordic countries — Denmark and Finland — likewise post high percentages (see table I.5.1.1.). The general trend is downward, with nine of the eleven countries for which 1996 data are available reporting expenditure down on the previous year, while the other two experienced either no change (Italy) or an increase (France).

The main expenditure category (see table I.5.1.2.) comprises operating subsidies and other unrequited current transfer payments (approximately 50% of GDP) covering, for example, pensions, various allowances paid to private households, subsidies to producers and aid to developing countries. Then come compensation of general government employees (over 18%), intermediate consumption (13%) and property income and net accident insurance premiums (slightly less than 11%). The last major item is gross fixed capital formation, which accounts for just over 5% of Member States' total general government expenditure. These proportions have remained relatively constant from one year to the next, while the overall level of expenditure has tended to decrease slightly.



Tab. I.5.1.1. Total general government expenditure in EU Member States, as a % of GDP

	1980	1990	1991	1992	1993	1994	1995	1996
<b>EU-15</b>	40.6	44.8	46.2	47.6	49.0	48.0	49.8	48.1
<b>B</b>	53.9	50.1	51.1	51.9	52.9	51.8	50.6	:
<b>DK</b>	52.9	55.2	55.7	57.3	59.7	59.8	58.4	:
<b>D</b>	45.7	42.8	45.7	46.4	47.4	46.9	54.3	47.0
<b>EL</b>	:	:	:	:	:	:	:	:
<b>E</b>	31.4	41.8	43.4	44.3	47.5	45.9	45.2	43.8
<b>F</b>	42.7	46.4	47.4	49.1	51.3	51.0	50.6	51.2
<b>IRL</b>	49.1	40.5	42.0	42.0	41.9	40.8	38.8	37.4
<b>I</b>	38.8	49.4	49.5	51.4	53.5	50.6	48.4	48.4
<b>L</b>	49.9	46.3	:	:	:	:	47.5	:
<b>NL</b>	54.1	53.1	53.6	54.1	54.3	52.0	55.7	48.9
<b>A</b>	45.9	47.4	48.4	49.1	52.0	51.4	52.0	51.9
<b>P</b>	38.5	39.7	42.6	43.3	44.6	43.1	43.7	:
<b>FIN</b>	36.8	44.8	53.9	59.1	60.3	58.6	56.4	55.8
<b>S</b>	:	58.3	60.6	66.4	70.1	67.3	64.2	63.1
<b>UK</b>	39.4	38.2	39.3	41.0	41.6	41.3	41.2	39.9

Source: Eurostat.

Tab. I.5.1.2. Major categories of EU general government expenditure, as a % of the total

	1993	1994	1995	1996
Intermediate consumption	12.5	12.8	11.9	13.1
Compensation of employees	20.0	19.6	18.2	18.4
Property income and net accident insurance premiums	10.8	10.7	10.5	10.8
Subsidies and other unrequited current transfers	51.1	51.9	49.3	51.7
GFCF	5.7	5.7	5.1	5.4
Other capital transfers	3.1	2.5	6.8	2.1
Other items	2.0	2.0	3.1	4.0
less: Sales and own-account output of fixed capital goods	-5.2	-5.2	-5.0	-5.5
Total expenditure	100.0	100.0	100.0	100.0

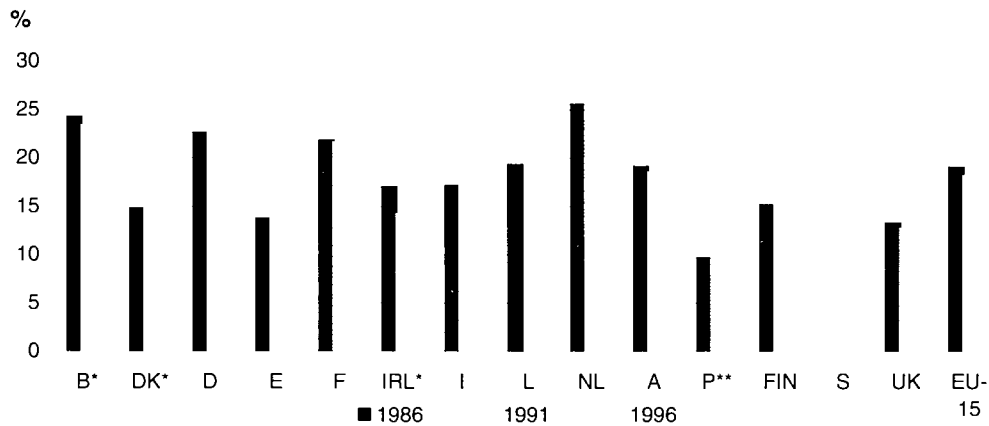
Source: Eurostat.

### By function

Among the main function-specific expenditure allocations, two deserve special mention: social benefits and interest payments.

Accounting for nearly one-fifth of the European Union's overall GDP in 1996, **social benefits** (see figure I.5.1.1.) represent by far the largest expenditure item.

Depending on the particular Member State, their share of GDP ranges from 14% to 27%. The countries at the top end of this scale are Germany, Belgium, the Netherlands, France and Finland, with the lowest proportions being recorded by Spain, the United Kingdom, Ireland and Portugal.

**Fig. I.5.1.1. Social benefits in EU Member States as a % of GDP**


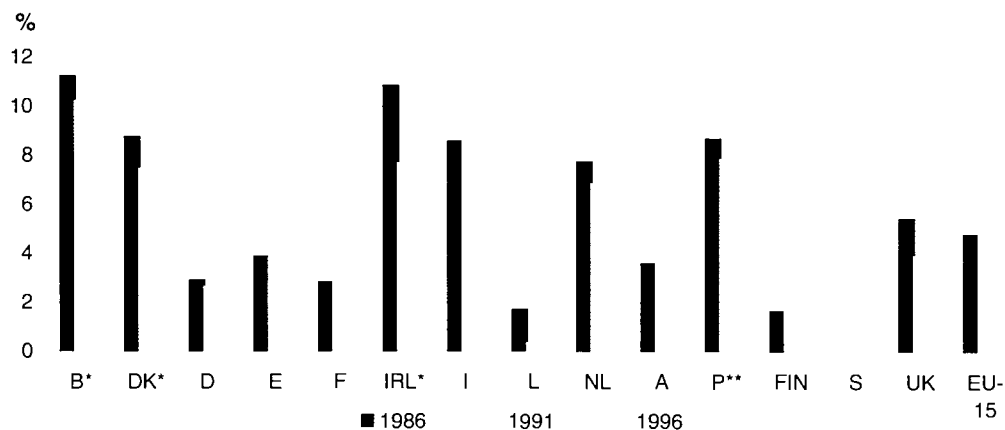
\* Last year: 1995

\*\* Last year: 1994

Source: Eurostat.

For some ten years, general government **interest payments** in the European Union have averaged around 5% of GDP (see figure I.5.1.2.). However, there are wide variations among Member States. The two most heavily indebted countries — Belgium and Italy (see also table I.5.3.2.) — are logically obliged to devote higher proportions

of expenditure (9.2% and 11.0% of GDP respectively) to repaying their creditors, which reduces their room for manoeuvre in other areas. Appreciably lower interest burdens, by contrast, are borne by France (4.1% of GDP), Germany (3.7%) and Luxembourg (0.3%), the last-named country being quite atypical in this respect.

**Fig. I.5.1.2. Interest payments in EU Member States as a % of GDP**


\* Last year: 1995

\*\* Last year: 1994

Source: Eurostat.

## I.5.2. General government revenue

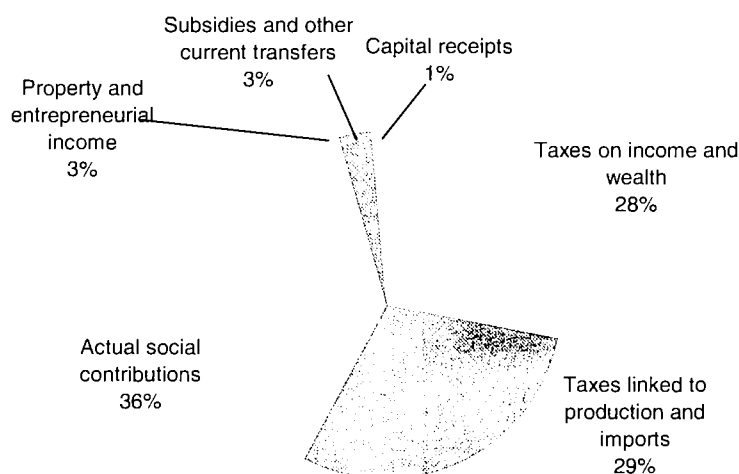
### Overview

In the European Union, taxes and social contributions make up some 93% of general government revenue. Other revenue (property income, other current transfers, capital receipts) account only for a small proportion (see figure I.5.2.1.). The EU's own resources (agricultural levies, import duties, VAT own resources) are entered

according to the ESA as direct payments to the rest of the world and are, therefore, not part of either revenue or expenditure of general government.

At EU level, general government revenue as a percentage of GDP appears to have stabilised (see table I.5.2.1.). In national terms, the figures range from some 35.7% of GDP in the United Kingdom to 60.3% in Sweden. Analysis of the most recent years under consideration highlights a general, albeit limited downward trend.

**Fig. I.5.2.1. Major categories of EU general government revenue as a % of GDP of 1996**



Source: Eurostat.

### Taxes and social contributions

In 1997, the ratio of compulsory levies — i.e. total taxes and social contributions — to gross domestic product (see box entitled "Significance of the ratio of taxes and social contributions") stabilised for the European Union as a whole at 42.6% of GDP. The slight rise in taxes compared with 1996 was

offset by a matching decrease in social contributions (see tables I.5.2.2. and I.5.2.3. as well as figure I.5.2.2.).

The euro zone, by contrast, recorded a year-on-year increase of 0.4 points in the overall ratio of taxes and social contributions, which now stands at 43.2% of GDP.

**Tab. I.5.2.1. Total general government revenue in EU Member States, as a % of GDP**

	1980	1990	1991	1992	1993	1994	1995	1996
<b>EU-15</b>	39.1	41.6	39.5	41.9	43.6	41.0	41.4	41.7
<b>B</b>	44.7	44.0	44.0	44.2	44.9	46.2	45.8	:
<b>DK</b>	49.6	54.8	54.7	55.5	56.9	57.9	57.6	:
<b>D</b>	42.8	40.8	42.4	43.6	43.9	44.3	44.2	43.5
<b>EL</b>	:	:	:	:	:	:	:	:
<b>E</b>	28.6	37.8	38.7	40.4	40.4	39.3	38.4	:
<b>F</b>	42.7	44.9	45.3	45.1	45.4	45.2	45.5	46.9
<b>IRL</b>	38.0	38.3	39.7	39.6	39.6	39.3	37.0	37.0
<b>I</b>	30.5	38.3	39.4	41.9	43.6	40.9	41.4	41.7
<b>L</b>	49.5	:	:	:	:	:	:	:
<b>NL</b>	49.3	48.0	50.7	50.2	51.1	48.3	46.6	46.6
<b>A</b>	43.3	44.2	44.7	46.3	46.9	45.6	45.5	46.1
<b>P</b>	38.3	34.6	36.6	40.3	38.5	37.1	:	:
<b>FIN</b>	40.2	50.1	52.4	53.2	52.2	52.4	51.2	52.6
<b>S</b>	:	62.1	59.3	58.4	57.7	56.8	56.0	60.3
<b>UK</b>	36.2	36.9	36.9	34.9	33.8	34.5	35.5	35.7

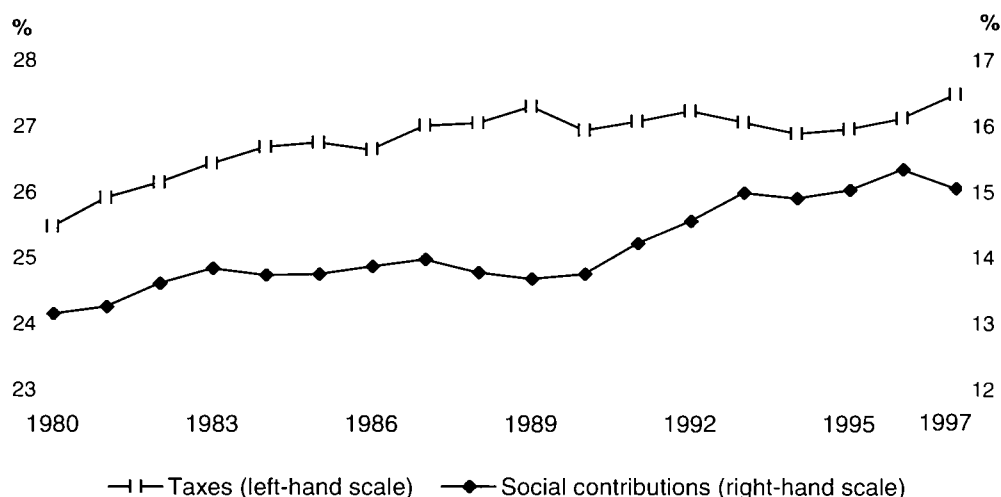
Source: Eurostat.

**Tab. I.5.2.2. Compulsory levies in EU Member States, as a % of GDP**

	1980	1990	1991	1992	1993	1994	1995	1996	1997
<b>EU-15</b>	38.6	40.8	41.4	41.9	42.1	41.9	42.1	42.6	42.6
<b>EUR-11</b>	38.5	40.5	41.4	42.2	42.8	42.4	42.4	42.8	43.2
<b>B</b>	44.2	44.3	44.3	44.5	45.2	46.3	46.1	46.2	46.6
<b>DK</b>	45.6	49.7	49.9	50.2	51.3	53.1	52.7	53.5	53.1
<b>D</b>	41.6	39.5	41.2	41.9	42.3	42.6	42.7	42.0	41.6
<b>EL</b>	:	:	:	:	33.0	33.7	34.1	33.9	:
<b>E</b>	25.6	35.2	35.5	37.2	36.4	36.1	35.0	35.6	36.2
<b>F</b>	41.7	43.7	44.0	43.7	44.1	44.2	44.7	46.0	46.3
<b>IRL</b>	34.7	35.5	35.9	36.1	36.0	36.7	34.4	34.3	34.1
<b>I</b>	30.6	38.8	39.8	42.1	43.5	40.7	40.9	42.8	44.5
<b>L</b>	46.3	43.4	42.7	41.8	43.9	44.3	44.1	44.7	45.6
<b>NL</b>	46.0	45.1	47.5	47.4	48.2	46.1	45.1	44.9	45.9
<b>A</b>	41.0	41.3	41.8	43.1	44.0	42.8	43.0	44.2	44.9
<b>P</b>	25.5	32.3	33.6	35.9	34.7	35.1	35.9	37.1	37.9
<b>FIN</b>	36.9	45.4	46.8	46.8	45.5	47.6	46.3	48.2	47.5
<b>S</b>	49.1	55.6	52.6	51.0	50.1	49.7	49.8	53.9	54.1
<b>UK</b>	36.1	37.5	37.4	36.4	35.3	35.8	36.8	36.7	35.9

Source: Eurostat.

**Fig. I.5.2.2. Share of taxes and social contributions in the Union GDP**



Source: Eurostat.

The ratios recorded for the 15 Member States (EU-15) and for the euro zone (EUR-11) are the two highest values observed since the beginning of the 1980s. Since 1990, the EU-15 and EUR-11 ratios

have increased by 1.8 points and 2.7 points respectively. Up to 1991, the EUR-11 ratio was consistently lower than that of EU-15. Since then, however, it has always been higher.

### Significance of the ratio of taxes and social contributions

In the discussion of general government's role in the economy, the ratio of compulsory levies (total taxes and social contributions) to GDP is often seen as an indicator of public-sector economic activity or of the tax burden on private individuals and businesses. The validity of such conclusions is questionable, however, as the ratio of taxes and social contributions does not take all economic parameters into account.

For example, the ratio of compulsory levies can be lowered if government expenditure is financed through an increase in borrowing rather than higher taxes. This merely postpones an increase in the ratio, however, as the debts incurred will at all events have to be repaid in later periods.

Moreover, a high ratio does not necessarily indicate a high (net) burden on taxpayers or businesses. Also to be taken into account are the amount and intended use of general government expenditure. For example, it makes no financial difference to the taxpayer concerned whether support for families is granted through child benefit or through tax allowances. This certainly affects the tax ratio, however, which will be lower in the second case. The same line of argument applies to businesses, as companies may pay lower taxes or receive subsidies to ease the burden of high taxation.

Finally, it would appear unjustified to draw conclusions about the involvement of general government in the economy on the basis of the compulsory levies ratio alone, as the budget is not the sole indicator of such involvement.

In 1997, the share of taxes rose by 0.4 point in both EU-15 and the euro zone to reach 27.5% and 26.1% respectively — an all-time high in both cases. The share of social contributions decreased by 0.3 point in EU-15 and 0.1 point in EUR-11. The respective ratios thus stood at 15.1% and 17.1%, which — after 15.4% and 17.2% in 1996 — were the second highest levels recorded over the period.

The levels of compulsory levies vary appreciably from one Member State to the next (see table I.5.2.2.). Two countries — Sweden and Denmark — post values well in excess of 50% of GDP, at 54.1% and 53.1% respectively. In the 50-40% bracket, in descending order, are Finland, Belgium, France, the Netherlands, Luxembourg, Austria, Italy and Germany. Four countries, finally, lie below the 40% mark: Portugal (37.9%), Spain (36.2%), the United Kingdom (35.9%) and Ireland (34.1%). However, these figures need to be interpreted with great caution (see box entitled "Significance of the ratio of taxes and social contributions").

The breakdown into taxes and social contributions likewise shows wide divergences (see table I.5.2.3.). The share of taxes is in every case much higher than that of social contributions. The extreme case in this respect is Denmark, where taxes correspond to more than half of GDP, giving by far the highest ratio in the EU (51.4%). In contrast, Denmark also holds the record for the lowest share of social contributions in GDP (1.7%). As regards the tax ratio, the Nordic countries, Luxembourg, Belgium, Austria, Ireland, Italy and the United Kingdom lie

**Tab. I.5.2.3. Taxes and social contributions in EU Member States as a % of GDP**

	Taxes		Social contributions	
	1996	1997	1996	1997
<b>EU-15</b>	27.1	27.5	15.4	15.1
<b>EUR-11</b>	25.7	26.1	17.2	17.1
<b>B</b>	31.0	31.6	15.1	15.0
<b>DK</b>	51.8	51.4	1.7	1.7
<b>D</b>	23.2	22.7	18.8	19.0
<b>EL</b>	24.1	:	:	:
<b>E</b>	22.6	23.2	12.9	13.0
<b>F</b>	26.1	27.1	19.8	19.3
<b>IRL</b>	29.4	29.5	4.8	4.6
<b>I</b>	28.0	29.4	14.8	15.1
<b>L</b>	32.8	33.9	11.9	11.8
<b>NL</b>	26.9	27.0	18.0	18.9
<b>A</b>	28.7	29.6	15.5	15.3
<b>P</b>	25.4	25.9	11.7	12.0
<b>FIN</b>	34.2	34.2	14.0	13.2
<b>S</b>	38.8	38.9	15.1	15.1
<b>UK</b>	29.6	29.3	7.1	6.7

Source: Eurostat.

above the EU average (27.5%). On the social contributions side, France posts the highest ratio (19.3%), followed by Germany (19.0%) and the Netherlands (18.9%). Three other Member States — Austria, Italy and Sweden — have ratios equal to or greater than the EU average (15.1%). Apart from Denmark, two countries — the United Kingdom (6.7%) and Ireland (4.6%) are well below the 10% mark.

### I.5.3. Government deficit and debt

Depending on whether general government has sufficient revenue to cover expenditure, it has a budget surplus or deficit. Where there is a revenue shortfall, governments have to resort to borrowing. Expressed as a percentage of GDP, their annual and cumulated borrowing requirements (deficit and debt, respectively) are key indicators of the burden imposed on the national economy by government borrowing. What is more, these two criteria are applied under the Maastricht Treaty to evaluate whether, in terms of public finances, a Member State qualifies for participation in the single currency (see the boxes entitled "The convergence criteria" and "2 May 1998").

#### Government deficit

Within the meaning of the Maastricht Treaty, government deficit (see table I.5.3.1.) is net borrowing as defined in the

European System of Integrated Economic Accounts. In 1997, three countries recorded a budget surplus ("net lending"): Denmark (0.7%), Ireland (0.9%) and Luxembourg (1.7%). While all the other countries posted a deficit, only one — Greece (-4.0%) — exceeded the set limit of 3%. Fourteen of the fifteen Member States thus meet the deficit criterion, which represents an appreciable improvement compared with the years 1993 to 1996. During that period, only three or four countries succeeded each year in staying below the 3% mark.

The general trend over the above-mentioned period was downward, with all countries performing better in 1997 than in 1993. However, while some Member States saw their situations improve steadily from year to year (Belgium, Italy, Portugal and Finland, for example), others had a less regular progression in particular (Germany, Austria and the Netherlands).

Tab. I.5.3.1. Government deficit in EU Member States, as a % of GDP

	1993	1994	1995	1996	1997
EU-15	-6.1	-5.4	-5.0	-4.2	<b>-2.4</b>
EUR-11	-5.5	-5.0	-4.8	-4.1	<b>-2.5</b>
B	-7.1	-4.9	-3.9	-3.2	<b>-2.1</b>
DK	<b>-2.8</b>	<b>-2.8</b>	<b>-2.4</b>	<b>-0.7</b>	<b>0.7</b>
D	-3.2	<b>-2.4</b>	-3.3	-3.4	<b>-2.7</b>
EL	-13.8	-10.0	-10.3	-7.5	-4.0
E	-6.9	-6.3	-7.3	-4.6	<b>-2.6</b>
F	-5.8	-5.8	-4.9	-4.1	<b>-3.0</b>
IRL	<b>-2.7</b>	<b>-1.7</b>	<b>-2.2</b>	<b>-0.4</b>	<b>0.9</b>
I	-9.5	-9.2	-7.7	-6.7	<b>-2.7</b>
L	<b>1.7</b>	<b>2.8</b>	<b>1.9</b>	<b>2.5</b>	<b>1.7</b>
NL	-3.2	-3.8	-4.0	<b>-2.3</b>	<b>-1.4</b>
A	-4.2	-5.0	-5.2	-4.0	<b>-2.5</b>
P	-6.1	-6.0	-5.7	-3.2	<b>-2.5</b>
FIN	-8.0	-6.4	-4.7	-3.3	<b>-0.9</b>
S	-12.2	-10.3	-6.9	-3.5	<b>-0.8</b>
UK	-7.9	-6.8	-5.5	-4.8	<b>-1.9</b>

Note: The figures in bold are those below the reference value (3%).

Source: European Commission.

The biggest decreases between 1993 and 1997 were achieved by Sweden (-11.4 percentage points), Greece (-9.8), Finland (-7.1) and Italy (-6.8). The lowest were recorded by the three countries with a track record of ups and downs: the Netherlands (-1.8 points), Austria (-1.7) and Germany (-0.5).

Over the five years under consideration, three Member States stayed within the 3% limit: Denmark, Ireland and Luxembourg, the last-named country being constantly in surplus.

As regards the average EU-15 and EUR-11 deficits, both were in continuous decline over the period and stood at -2.4% and -2.5% respectively in 1997.

#### Government debt

Government debt (see table I.5.3.2.) is defined in the Maastricht Treaty as total

gross debt at nominal value outstanding at the end of the year and consolidated between and within the sectors of general government.

At the end of 1997, only four countries had a level of government debt below the 60% threshold. These were, in ascending order, Luxembourg (6.7%), the United Kingdom (53.4%), Finland (55.8%) and France (58%). The other Member States spanned a range from 60% to 120% — except for Italy and Belgium, whose figures were 121.6% and 122.2% respectively.

With the exception of Germany, all the countries exceeding the 60% limit in 1996 recorded an improvement in their government debt to GDP ratio in 1997. In the countries with a debt ratio below the reference value there were contrasting trends: Finland and the United Kingdom saw their situations improve further (by -1.8 and -1.3 percentage points respectively), whereas

Tab. I.5.3.2. Government debt in EU Member States, as a % of GDP

	1993	1994	1995	1996	1997
EU-15	65.3	67.4	71.4	73.4	72.0
EUR-11	66.5	69.1	73.3	74.9	74.7
B	135.2	133.5	131.3	126.9	122.2
DK	81.6	78.1	73.3	70.6	65.1
D	<b>48.0</b>	<b>50.2</b>	<b>58.0</b>	60.4	61.3
EL	111.6	109.3	110.1	111.6	108.7
E	60.0	62.6	65.5	70.1	68.8
F	<b>45.3</b>	<b>48.5</b>	<b>52.7</b>	<b>55.7</b>	<b>58.0</b>
IRL	96.3	89.1	82.3	72.7	66.3
I	119.1	124.9	124.2	124.0	121.6
L	<b>6.1</b>	<b>5.7</b>	<b>5.9</b>	<b>6.6</b>	<b>6.7</b>
NL	81.2	77.9	79.1	77.2	72.1
A	62.7	65.4	69.2	69.5	66.1
P	63.1	63.8	65.9	65.0	62.0
FIN	<b>58.0</b>	<b>59.6</b>	<b>58.1</b>	<b>57.6</b>	<b>55.8</b>
S	75.8	79.0	77.6	76.7	76.6
UK	<b>48.5</b>	<b>50.5</b>	<b>53.9</b>	<b>54.7</b>	<b>53.4</b>

Note: The figures in bold are those below the reference value (60%).  
Source: European Commission.



### The convergence criteria

Article 109j of the Maastricht Treaty stipulates that, for adoption of the single currency, each Member State must have achieved a "high degree of sustainable convergence". Evaluation is based on several criteria, including "the sustainability of the government financial position: this will be apparent from having achieved a government budgetary position without a deficit that is excessive as determined in accordance with Article 104c(6)". Member States are, therefore, required to avoid

France (+2.3) and — to a negligible extent — Luxembourg (+0.1) recorded a deterioration.

Belgium and Italy, the two countries with the highest indebtedness in 1997, have achieved a steady reduction in their government debt over recent years, with the former recording a 13 percentage points decrease from a high of 135.2% in 1993 and the latter shaving 3.3 points off its peak value of 124.9% in 1994. In the period 1993

### 2 May 1998

In its convergence report published on 25 March 1998, the European Commission recommended, on the basis of statistical data validated by Eurostat, that nine countries be regarded as no longer having an excessive deficit within the meaning of Article 104c: Austria, Belgium, France, Germany, Italy, Portugal, Spain, Sweden and the United Kingdom. With five other countries — Denmark, Finland, Ireland, Luxembourg and the Netherlands — having already cleared the excessive deficit hurdle at the previous examination, a total of fourteen Member States now meet the criterion of sustainable government finances. However, as Denmark and the

excessive government deficits. To this end, they must fulfil two conditions. Firstly, the ratio of government deficit to gross domestic product must not exceed a reference value (3%), unless the ratio has declined substantially and continuously and reached a level that comes close to the reference value. Secondly, the ratio of government debt to gross domestic product must not exceed a reference value (60%), unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace.

to 1997, three countries saw their indebtedness fall sharply: Ireland (-30 points), Denmark (-16.5) and the Netherlands (-9.1). Since 1994, Sweden's government debt has declined steadily, from 79.0% to 76.6%. In 1997, the government debt to GDP ratio fell for the second year in succession in Portugal, while Greece, Spain and Austria enjoyed their first positive trend since 1993. In the period under review, Germany was the only country whose situation deteriorated each year. In 1997 its government

United Kingdom had exercised their right under the Treaty not to join Economic and Monetary Union (EMU) with other Member States, and with Sweden deemed not to have fulfilled the necessary conditions, the Commission concluded that eleven countries had achieved a high degree of sustainable economic convergence.

Meeting in Brussels on 2 May 1998, European Union heads of state and government confirmed the list of countries meeting the necessary conditions for the adoption of the single currency starting on 1 January 1999: Austria, Belgium, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain and Finland.

debt was slightly above the reference value for the second year running (60.4% and 61.3%).

At the end of 1997, the average debt ratio for the fifteen EU Member States was 72.0%, with that of the euro zone standing at 74.7%.



## I.6. Labour market in the Union

### I.6.1. Population

Having 374 Mio inhabitants on the 1st of January 1997, the European Union is the third most populous economic power after China (1 216 Bn) and India (958 Mio). Indeed, its population is almost as large as those of the United States (266 Mio) and Japan (126 Mio) together.

Table I.6.1.1. shows that the population of the EU increased in 1996 by 0.28%, a rate faster than that of Japan (+0.20%), but much slower than that of the USA (+0.93%).

**Tab. I.6.1.1. Components of population change 1996, as a %**

	EU-15 <sup>(1)</sup>	USA	Japan <sup>(1)</sup>
<b>Natural increase</b>	0.08	0.60	0.25
<b>+ Net migration</b>	0.20	0.33	-0.04
<b>= Population change</b>	0.28	0.93	0.20

<sup>(1)</sup> Provisional data.

Source: Eurostat.

Net migration is the single most important source of population growth in the Union. In the US, net migration is also important but the natural increase is the major driving force of the strong population growth. Japan faces a situation of negative net migration, with emigration levels exceeding immigration.

Population growth in the EU slowed in 1970's and 1980's but accelerated in early 1990's. This was due to a temporary increase in immigration, a phenomenon which has

begun to decline again. The long-term trend points to a decline in the growth rate. The US population has grown steadily since the 1970's. In Japan, numbers declined during the same period.

The present extent of the European Union covers nearly 72% of the population of the whole of Europe (excluding most of the former Soviet Union, and Turkey). The 12 Central and Eastern European countries <sup>(1)</sup> contain a total population of about 110 Mio people. Poland is the largest of those countries with a population of 38.6 Mio. Romania (22.7 Mio), Czech Republic and Hungary, both with populations of 10 Mio rank in the medium-size group of countries and the remainder have less than 10 Mio inhabitants.

Six largest EU countries by area (France, Spain, Sweden, Germany, Finland and Italy) occupy nearly 80% of the total territory. The five countries with the highest populations, i.e. Germany, United Kingdom, France, Italy and Spain, represent 80% of the whole population of the Union. Population density ranges from just 15 per square km in Finland to nearly 400 in Netherlands. The population is most dense in a belt running from northern Italy through South and West Germany and the Benelux countries to southern England. Border regions in all areas tend to be less densely populated. In 1991, more than half of the population of the EU countries lived in urban settlements (defined as compact areas with population density at least 500 persons per square km). This percentage ranges however from a low of 21% in Sweden to a high of 77% in the United Kingdom.

<sup>(1)</sup> Albania, Bulgaria, Czech Republic, Former Yugoslav Republic of Macedonia, Estonia, Hungary, Latvia, Poland, Romania, Slovakia and Slovenia.

The European Union has witnessed a slow growth in the share of the non-national population during recent decades. The total number of non-nationals has increased from almost 13 Mio in 1980 to almost 18 Mio in 1995. In 1995 about 2/5 of the non-nationals were from other EU countries and 3/5 from outside the Union. The share of the non-EU nationals has been growing because the present 15 EU Member States have experienced a rise in net migration since the early 1980's.

Non-EU citizens account for a greater share of the total population in Austria (8%) and Germany (6%) than in any of the other Member States where the equivalent figures range from 1% and 4%. As a proportion of the total population, EU nationals in other Member States are most significant in Luxembourg (29%) and Belgium (5%), the figures in other countries of the Union varying between 0% to 2%.

In 1995, 47% of immigrants to EU countries were citizens of some EU country. They were either returning to their own country or moving to another EU country. Some 31% of immigrants are nationals of European countries that are not members of the EU and 22% are non-Europeans.

The age structure of the EU population has been changing, not only through fewer births but also through the increasing life span.

Since 1945, life expectancy at birth in the EU has increased almost continuously. Following an interruption in 1995, the upward trend was resumed in 1996. For the Union as a whole, and based on mortality rates measured in 1996, it is estimated that life-expectancy is now at an all-time high: at birth, girls can now expect to live an average of 80.5 years and boys 74.0 years, 10 years more than in 1945.

The corresponding figures for the United States were 72.7 for men and 79.4 for women and for Japan 77.0 and 83.3. In most other developed countries, average life spans are shorter than in the EU: the most extreme case appears to be the Russian Federation, where the average man now lives 14 years less than his EU counterpart.

In table I.6.1.2. the population is split into several age groups. In all three areas the proportion of young persons (0-14) has declined in the last 25 years. However, in the USA the share of this group remains much higher than in the Union or Japan. Within the European Union the southern Member States Spain, Italy and Portugal have experienced the greatest fall in share of young people and this trend is expected to continue. In all three economic areas and especially in Japan, the proportion of elderly people (65+) increased considerably.

Tab. I.6.1.2. Population by major age-groups, as a %

	EU-15 <sup>(1)</sup>		USA		Japan	
	1970	1996	1970	1996	1970	1996
<b>0-14</b>	24.7	17.3	28.3	22.1	24.0	16.0
<b>15-64</b>	63.1	67.0	61.9	65.2	69.0	69.6
<b>65+</b>	12.2	15.7	9.8	12.7	7.0	14.4
<b>65+/15-64</b>	19.3	23.5	15.8	19.5	10.1	20.7
<b>65+ and 0-14/15-64</b>	58.5	49.2	61.2	53.4	44.9	43.7

<sup>(1)</sup> New German Länder included.

Source: Eurostat.

The population of 15-64 year-olds is a good indicator of the actual and potential labour force. In the European Union and USA, this age-group accounted for a substantially higher percentage of the population in 1996 than in 1970. In Japan, although there was virtually no change in over the same period, the 15-64 cohort remained a larger component of the Japanese population than that in the EU or USA.

The old age dependency ratio (65+/15-64) increased in all three areas with a doubling

in Japan. However, the ratio is highest in the EU.

The total age dependency ratio (the number of people aged 0-14 and 65 and over related to the number of people aged 15-64), has dropped since 1970 in all three economic area with the EU being most affected. In Japan, a fall in the proportion of young people was offset to all intents and purposes by a rise in that of the elderly.

## I.6.2. Employment

### 12 Mio fewer jobs in 1997 compared to 1992

Employment has decreased in the Union as a whole by almost 1% to 138 Mio 1997 compared to 150 Mio 1992. Germany, Sweden and Italy had a decrease of employment corresponding to a loss of 9.5%, 6.8% and 6.6%.

In Ireland where economic growth was relatively high during the period, employment grew by as much as 19%. Luxembourg (+9.5%), Greece (+4.7%) and the Netherlands (+4.6%) also experienced a significant rise in their employed population, the latter largely due to the increase in part-time opportunities for women.

Tab. I.6.2.1. Benchmark figures on employment

	in 1000		1997/92	
	1992	1997	in 1000	%
<b>EU-15</b>	150 147	138 059	-12 088	-0.9
<b>EUR-11</b>	113 866	111 728	-2 138	-0.2
<b>B</b>	3 770	3 838	68	1.8
<b>DK</b>	2 626	2 720	94	3.6
<b>D</b>	35 842	33 928	-1 914	-9.5
<b>EL</b>	3 680	3 853	173	4.7
<b>E</b>	12 366	12 765	399	3.2
<b>F</b>	22 288	22 306	18	0.1
<b>IRL</b>	1 149	1 373	224	19.5
<b>I</b>	21 459	20 044	-1 415	-6.6
<b>L</b>	200	219 <sup>(1)</sup>	19	9.5
<b>NL</b>	6 542	6 846 <sup>(1)</sup>	304	4.6
<b>A</b>	3 547	3 710 <sup>(1)</sup>	2 163	4.5
<b>P</b>	4 529	4 529	- 1	0.0
<b>FIN</b>	2 174	2 170	- 4	0.0
<b>S</b>	4 209	3 922	- 287	-6.8
<b>UK</b>	25 766	26 612	846	1.0

<sup>(1)</sup> 1996 for A, NL and L.

Source : Eurostat benchmark employment series.

B:	Community LFS
DK:	Register based labour force statistics
D:	National accounts (annual average)
EL:	Community LFS
E:	Labour Force Survey (annual average based on quarterly results, 1990-1992:OECD; 1993 - 1996 Eurostat)
F:	National accounts (annual average)
IRL:	Community LFS
I:	1990 -1992 annual averages of the national LFS; 1993 -1997 Labour Force Survey (annual average based on quarterly results). Break between 1992 and 1993
L:	National accounts
NL:	Labour accounts
A:	Mikrozensus; until 1993 not according to international standards, annual averages (collective households included)
P:	Labour Force Survey (1990 - 1996 annual average based on quarterly results)
FIN:	Labour Force Survey (annual average); break between 1996 and 1997
S:	Labour Force Survey (annual average)
UK:	Community LFS

### Development of new working arrangements

New working arrangements which reflect the search for employment flexibility are developing throughout the Union. One can observe the increase in part-time employment which has played a significant role in the creation of jobs, the growth in fixed-term contracts and the wide range of working hours, etc. This process, which began in the early 80s in countries such as the Netherlands and the United Kingdom, is now evident in all fifteen Member States.

In such circumstances, a full-time and permanent job has become much less the "norm", particularly among the young, women and the low-qualified. Furthermore, the term "employment" now covers wide variations in working status and working time.

Overall, 60% of the population aged 15-64 is in employment. The employment rate in

Denmark is by far the highest in the Union at 75%, with relatively high levels of both full-time and part-time employment. The same pattern can be seen in Sweden and the United Kingdom, albeit at somewhat lower levels. In contrast, the Netherlands has a very high part-time employment rate alongside the lowest level of full-time employment in the European Union.

### Jobs are more and more concentrated in the service sector

The trend towards a service oriented society has continued over the past five years: for the EU as a whole, the proportion of persons employed in the service sector has risen from 61% in 1992 to 66% in 1997. In Luxembourg, the Netherlands, Sweden and the United Kingdom, over 70% of those in employment are now working in services. The concentration of jobs in the tertiary sector can be observed for both men and women. However, while men have a much more marked tendency than women to work in transport and communication, women are much more likely to work in education and in health and social services. These gender differences in the service sector are particularly marked in Finland, Sweden and the United Kingdom.

Three factors are at the root of these changes. Firstly, productivity growth has increased at a relatively faster rate in industry and agriculture. Secondly, industries such as the textiles sector have, in a number of cases, relocated in developing countries. Lastly, in the face of a deceleration in growth, certain industries have begun to externalise their own non-industrial functions such as cleaning, wages and accounting and maintenance. These jobs that were formerly counted as part of industry are now regarded as part of the service sector. The changes should therefore be seen partly as a shift from industry to services rather than as a pure increase in services.

**Tab. I.6.2.2. Employment rates (15-64 years) by full-time/part-time, 1997, as a %**

	Total	Full-time	Part-time
<b>EU-15</b>	60.1	50.1	10.0
<b>EUR-11</b>	58.0	49.4	8.6
<b>B</b>	57.0	48.6	8.3
<b>DK</b>	75.4	58.7	16.6
<b>D</b>	63.6	52.7	10.9
<b>EL</b>	54.8	52.5	2.3
<b>E</b>	48.0	44.0	3.9
<b>F</b>	59.4	49.5	9.9
<b>IRL</b>	56.4	49.4	6.9
<b>I</b>	50.5	47.0	3.5
<b>L</b>	59.9	55.0	4.9
<b>NL</b>	67.5	42.0	25.4
<b>A</b>	67.2	57.4	9.8
<b>P</b>	63.4	58.4	5.0
<b>FIN</b>	61.9	54.9	6.8
<b>S</b>	68.3	50.7	16.0
<b>UK</b>	69.7	52.8	16.8

Source: Eurostat-European LFS.



**Tab. I.6.2.3. Distribution of employed persons by economic activity, as a %**

	Agriculture		Industry		Services	
	1992	1997	1992	1997	1992	1997
<b>EU-15</b>	6 <sup>(1)</sup>	5	33 <sup>(1)</sup>	29	61 <sup>(1)</sup>	66
<b>EUR-11</b>	:	5	:	31	:	64
<b>B</b>	3	3	31	28	66	70
<b>DK</b>	5	4	27	26	68	70
<b>D</b>	4	3	39	35	57	62
<b>EL</b>	22	20	25	22	53	58
<b>E</b>	10	8	33	30	57	62
<b>F</b>	6	5	30	27	65	69
<b>IRL</b>	14	11	28	29	58	61
<b>I</b>	9	7	33	32	58	62
<b>L</b>	6	2	29	23	65	74
<b>NL</b>	4	4	25	23	71	73
<b>A</b>	:	7	:	30	:	63
<b>P</b>	11	13	33	31	56	56
<b>FIN</b>	:	8	:	27	:	65
<b>S</b>	:	3	:	26	:	71
<b>UK</b>	2	2	33	27	68	71

<sup>(1)</sup> Eurostat estimations.

Source: Eurostat-European Labour Force Survey EU-12 for 1992.

### Most part-timers are women

Today, in most of the EU Member States, the patterns of change have become quite similar. Limited employment growth can largely be attributed to the increase in part-time employment, for both men and women.

With the exception of Denmark, the percentage of part-time workers has risen noticeably in all countries since 1992. In the United Kingdom and Sweden, one in four employees are now working part-time while in the Netherlands the figure is as high as 38%. There are particularly low rates of part-time employment (below 10%) in the southern Member States and Luxembourg. Only 5.5% of male employees are working part-time compared with 33% of female employees. This phenomenon can be observed in all fifteen Member States. As many as two-thirds of female employees in the Netherlands are working part-time.

### Involuntary part-time work, a problem

In Luxembourg and the Netherlands, the extent of part-time working appears to be well in line with the wishes of those concerned. On the other hand, more than 40% of employees working part-time in Portugal, France, Finland and Italy would rather have a full-time job and in Greece, this is the case for 73%. In all EU countries, the percentage of involuntary part-time workers among young people is higher than among people aged 30 and older.

### Working time

Over the last five years, the usual weekly working time of full-time employees has not changed very much.

On average, 44% of EU-15 employees usually work for 40 hours or more per week. This proportion varies substantially between Member States. While in

Denmark, Belgium and France less than one in four employees work 40 hours or more, more or than 60% of employees in Greece, Spain, Luxembourg, Portugal. The United Kingdom stands out when it comes to the percentage of

employees working very long hours: 20% of UK employees work 48 hours or more per week, whereas in the vast majority of the other Member States fewer than 10% work as long and in the Netherlands only 1% do so.

### I.6.3. Unemployment

#### Unemployment rate 10.7 in 1997

Between 1992 and 1997, unemployment rates increased in a majority of the Member States. Young people, women and the low-qualified were particularly affected. The share of the long-term unemployed increased or remained stable in all countries with the exception of Denmark and Ireland. Research shows that qualifications improve the chances of finding a job.

#### Unemployment rose by 2.6 Mio in the Union between 1992 and 1997

The total number of unemployed in the Europe of Fifteen stood at 15.3 Mio in 1992, representing 9.2% of the labour force. By 1997, it had climbed to 17.9 Mio or 10.7% of the active population. The increase in unemployment, which affected

all Member States at the beginning of the 1990s, was largely due to recession. Since 1994, the situation has improved in Denmark, Ireland, Finland and the United Kingdom. Over the period 1992-1997, the largest changes occurred in Finland and Sweden where unemployment rates increased by a factor of two and three respectively.

At present, the countries most severely hit by unemployment are Spain (20.8%). In contrast, rates in Luxembourg, Austria, the Netherlands, Denmark, United Kingdom and Portugal are less than 8%.

#### Large regional differences

National unemployment rates often mask important regional disparities within Member States, particularly in Germany (between west and east), Italy (between north and south) and the United Kingdom (also between north and south).

#### Definition of unemployment

For a comparable measure of unemployment in the EU, Eurostat applies the recommendation of the International Labour office (ILO), according to which the unemployed comprise persons aged 15 and over who:

- Are without work
- Are currently available for work, i.e can start a job within two weeks and
- Have been actively seeking work.

The unemployment rate is the percentage of the active population which is unemployed.

The statistics used in the Member States showing persons registered with job centres are not suitable inter-country comparisons since they are influenced by the provisions of the national labour market administrations.

Tab. I.6.3.1. Unemployment rates <sup>(1)</sup>,  
yearly average, as a %

	1992	1997
<b>EU-15</b>	9.2	10.7
<b>EUR-11</b>	9.2	11.7
<b>B</b>	7.3	9.2
<b>DK</b>	9.2	6.7
<b>D</b>	6.6	11.9
<b>EL</b>	7.9	9.6
<b>E</b>	18.5	20.8
<b>F</b>	10.4	12.4
<b>IRL</b>	15.4	10.1
<b>I</b>	9.0	12.1
<b>L</b>	2.1	2.6
<b>NL</b>	5.6	5.2
<b>A</b>	:	4.4
<b>P</b>	4.2	6.8
<b>FIN</b>	12.3	13.1
<b>S</b>	5.6	9.9
<b>UK</b>	10.1	7.0

(<sup>1</sup>) Harmonised unemployment rates.

Source: Eurostat: Unemployment. Monthly Bulletin 3/1998.

In Germany, the unemployment rate in 1996 <sup>(1)</sup> ranged from less than half the national average of 8.8% in Oberbayern (4.3%) to more than twice it in Sachsen-Anhalt (17.8%). Similarly, in Italy, while the region of Trentino-Alto Adige was largely unaffected by unemployment (3.4%), around 25% of the workforce in the southern regions of Campania and Calabria was unemployed. Other regions in the Union where unemployment rates are considerably higher than the national average include Hainaut in Belgium, Dytiki Makedonia in Greece, Corsica and the overseas departments in France, Groningen in the Netherlands and Alentejo in Portugal. In Spain the lowest unemployment rate can be found in the region of Lleida, 9.5% compared to the region of Cadiz where the unemployment rate 1996 was 38.7%.

### Long-term unemployment remains high

During the Special European Council on employment in Luxembourg in November 1997, the EU Member States agreed on two basic objectives: limiting the duration of unemployment and promoting the re-employment of the long-term unemployed <sup>(2)</sup>. This is to be achieved by offering the young and adult unemployed training and retraining measures in addition to work experience before reaching 6 and 12 months of unemployment, respectively.

In 1997, 49% of the unemployed had already been jobless for more than one year and, by international statistical agreement, are counted as long-term unemployed. In Denmark (27%), Finland (30%), Austria (26%), the proportion of long-term unemployed was well below the EU average in 1997. Belgium (61%) and Italy (66%) are the countries most affected by long-term

**Tab. I.6.3.2. Long-term unemployment, as a % of all unemployed**

	1992	1997
EU-15	41	49
EUR-11	:	51
B	59	61
DK	27	27
D	33	50
EL	50	56
E	44	52
F	35	40
IRL	59	57
I	57	66
L	:	40
NL	44	49
A	:	29
P	31	56
FIN	:	30
S	:	34
UK	36	39

Note: EU-15 92 refers to EU-12.

D-92 refers to West Germany.

Source: Eurostat-European Labour Force survey.

**Tab. I.6.3.3. Unemployment rates by sex <sup>(1)</sup>, yearly average 1997, as a %**

	Males	Females
EU-15	9.4	12.4
EUR-11	9.9	14.1
B	7.2	11.9
DK	4.6	6.6
D	9.3	10.8
EL	6.2	14.9
E	16.1	28.3
F	10.7	14.4
IRL	10.0	10.3
I	9.3	16.6
L	1.8	3.8
NL	3.9	6.9
A	3.6	5.3
P	6.0	7.8
FIN	12.6	13.7
S	10.2	9.5
UK	7.8	6.0

<sup>(1)</sup> Harmonised unemployment rates, yearly average.

Source: Eurostat.

<sup>(1)</sup> No data for 1997 available.

<sup>(2)</sup> The long-term unemployed are considered to be those persons who have been unemployed for more than a year.

unemployment, the situation has remained stable in most countries but worsened significantly in Greece, Germany, the Netherlands, Portugal and the United Kingdom. Denmark and Ireland stands out as the only Member State where there has been a slight improvement or no increase.

### **Higher unemployment among women**

For the Union as a whole, the unemployment rate is higher for women (12.4%) than for men (9.4%). This pattern can be seen in 13 of the Member States. In Belgium, Spain, Italy, and the Netherlands, the female rate is remarkable higher than that of men. Women in Greece are more than two times as likely to be unemployed as men. The situation is more favourable for women only in Sweden and the United Kingdom.

### **Qualifications improve the chances of finding a job**

In general, the chances of finding a job rise with the level of education attained.

In 1997, for the Europe of Fifteen, the unemployment rate of persons with a higher education qualification was 6%, against 10% for persons who had completed upper secondary level and 14% for those whose educational level is that of compulsory schooling at best.

Higher education qualifications seem to reduce, albeit to differing degrees, the chances of unemployment in all Member States. With the exception of Greece and Spain, the least-qualified in all countries are more than twice as likely to be unemployed as university graduates. The most significant differences are found in Ireland and Belgium. The picture in Greece is rather unusual in that unemployment seems to affect more those whose highest level is upper secondary education than persons who have not gone beyond compulsory schooling. In Spain there is no appreciable difference between the unemployment rates for those who have completed upper secondary and the highest qualified.

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

### I.7.1. Consumer prices

The Consumer Price Index (CPI) is frequently used as an indicator of inflation. However, methodological and other differences between CPIs do not allow accurate international comparisons to be made. In order to improve the possibilities for such comparisons within the EU/EEA and Euro currency area, a common index methodology has been adopted, requiring a Harmonized Index of Consumer Prices (HICP) for each country to be produced and published monthly from January 1997.

Monthly index numbers according to the new harmonized methodology are, however, available only from January 1995. Long term comparisons based on HICPs cannot therefore be made. National CPIs are available in long time series which may be used as measures of consumer inflation in a national context but do not offer a basis for accurate comparisons with the corresponding (non-harmonized) CPIs in other countries.

#### Trends in consumer price inflation according to national CPIs

As demonstrated in table I.7.1.1., the average annual rate of change dropped considerably in each of the present 15 Member States between the periods January 1980 — January 1985 and January 1985 — January 1990. The relative reduction of these rates were especially large for Germany (from 4.3 to 1.3%), France (from 10.3 to 3.3%), the Netherlands (from 4.6 to 0.8%), Belgium (from 7.1 to 2.3%) and Luxembourg (from 7.4 to 2.0%). The downward trend in the

average annual rate of change was less pronounced between the periods January 1985 — January 1990 and January 1990 — January 1995. Considerable decreases were noted for Denmark (from 4.0 to 2.0%) and Finland (from 5.0 to 2.6%) while relatively large increases were noted for Germany (from 1.3 to 3.2%) and the Netherlands (from 0.8 to 3.0%).

#### Characteristics of the national CPIs

The indices presented in this section are CPIs calculated according to national methodologies. Most national CPIs have been calculated since shortly after World War II, at which time they often replaced one or more cost of living price indices based on the consumption patterns of various categories of households. The calculations of such cost of living indices were in most cases introduced during or shortly after World War I.

In practice, most national CPIs are designed to be used for different purposes, and the different methodologies used affect the comparability of the indices. Table I.7.1.1. should therefore be interpreted with caution.

The EU-15 index is an average of the national CPIs for the present 15 Member States, based on each country's share of the total consumption expenditure for households within the EU converted into the same currency using purchasing power standards (PPS). A major advantage with the national CPI series is that they are available historically for very long periods of time.

The downturn in the average annual rates of change gained renewed momentum between the periods January 1990 — January 1995 and January 1995 — January 1998. Only one Member State, Denmark, registered an unchanged average annual rate of change for the two periods while all other Member States registered reduced rates. The relative decreases were especially large for Sweden

(from 4.8 to 0.7%), Portugal (from 8.1 to 2.6%), Finland (from 2.6 to 1.0%) and Greece (from 15.3 to 6.5%).

Figure I.7.1.1. shows that the average CPI increase between 1985 and December 1997 was approx. 55%.

The corresponding CPI increases for USA and Japan were approx. 50% and 18% respectively.

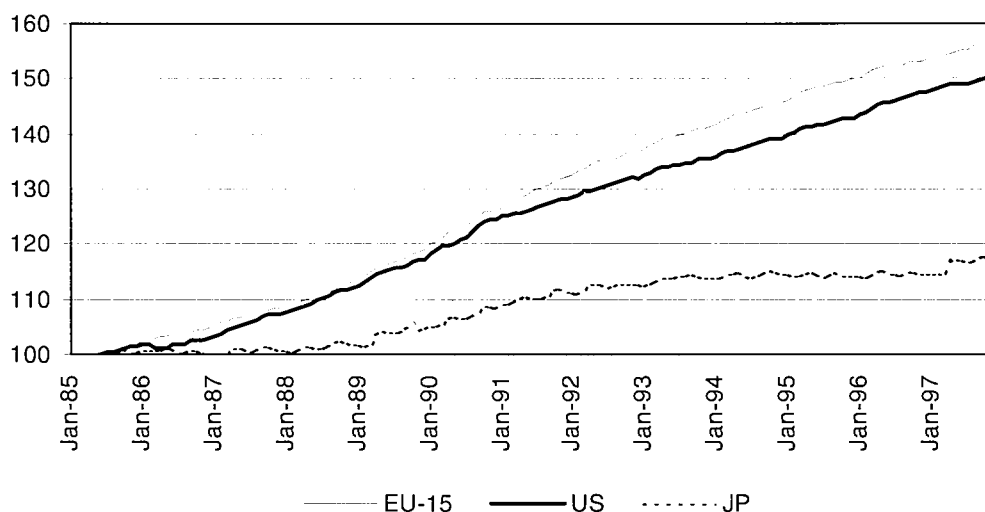
Tab. I.7.1.1. The Consumer Price Index (CPI), 1985=100

	Annual average index numbers						Annual rate of change			
	1992	1993	1994	1995	1996	1997	Jan 80- Jan 85	Jan 85- Jan 90	Jan 90- Jan 95	Jan 95- Jan 98
<b>EU-15</b>	135	140	144	148	152	155	:	4.3	4.0	2.3
<b>B</b>	117	121	123	125	128	130	7.1	2.3	2.7	1.6
<b>DK</b>	127	128	131	134	136	139	8.6	4.0	2.0	2.0
<b>D</b>	115	119	123	125	127	129	4.3	1.3	3.2	1.5
<b>EL</b>	308	353	391	427	464	489	20.9	16.8	15.3	6.5
<b>E</b>	154	161	168	176	182	186	12.7	6.6	5.4	2.9
<b>F</b>	123	126	128	130	133	134	10.3	3.3	2.3	1.4
<b>IRL</b>	125	127	130	133	135	137	:	:	2.5	1.6
<b>I</b>	147	154	160	168	175	179	14.6	5.9	5.0	3.4
<b>L</b>	116	120	123	125	127	129	7.4	2.0	2.9	1.3
<b>NL</b>	112	115	118	120	123	125	4.6	0.8	3.0	2.0
<b>A</b>	120	124	128	131	133	135	5.2	2.0	3.4	1.6
<b>P</b>	207	220	231	241	249	253	23.1	11.3	8.1	2.6
<b>FIN</b>	137	140	141	143	144	145	:	5.0	2.6	1.0
<b>S</b>	151	158	162	166	167	167	9.4	5.9	4.8	0.7
<b>UK</b>	146	149	152	158	161	167	8.0	5.6	4.1	3.0
<b>US</b>	130	134	138	142	146	149	6.3	3.8	3.4	2.4
<b>JP</b>	112	114	115	114	115	117	3.4	1.1	1.8	0.6

Source: Eurostat.

**Fig. I.7.1.1. The development 1985-1997 of CPI for EU, USA and Japan**

1985=100



Source: Eurostat.

### Comparison of consumer price inflation according to the Harmonized Indices of Consumer Prices (HICPs)

#### Characteristics of the HICPs

The HICPs have been developed in order to be used as measures of consumer price inflation in the macroeconomic context. The harmonized methodology allows for the HICPs to be used for direct comparisons of inflation performance between the EU Member States concerned. HICP results are available from January 1995 and were used in the convergence assessments leading up to the May 1998 Council decisions concerning first-wave participants in Stage III of Monetary Union. HICPs are to be central indicators of inflation by the European Central Bank (ECB) in its future management of the joint monetary policy.

The European Index of Consumer Prices (EICP) is calculated as a weighted average of the HICPs of the 15 EU Member States. The index is computed as an annual chain index and the weight of a Member State is equal to its PPS-adjusted proportion of final consumption expenditure of households in the EU total.

The Monetary Union Index of Consumer Prices (MUICP) was introduced in May 1998 and is calculated as a weighted average of the HICPs for the 11 participating countries in Stage III of Monetary Union. The index is an annual chain index and the country weights are based on values in national currencies after conversion into the same currency according to the bilateral conversion rates as announced at the beginning of May 1998.



**Tab. I.7.1.2. Harmonized Index of Consumer Prices (HICP),  
annual rate of change (%) in year/month**

	1997							1998		
	Jan	Mar	May	Jul	Sep	Nov	Dec	Jan	Feb	Mar
<b>MUIP</b>	2.0	1.5	1.4	1.4	1.7	1.6	1.5	1.1	1.2	1.2
<b>EICP</b>	2.2	1.7	1.5	1.6	1.8	1.7	1.6	1.3	1.4	1.3
<b>B</b>	2.1	1.3	1.4	1.9	1.6	1.3	0.9	0.5	0.8	1.0
<b>DK</b>	2.3	1.8	2.2	2.0	1.9	1.6	1.6	1.7	1.7	1.6
<b>D</b>	1.7	1.3	1.4	1.5	1.6	1.4	1.4	0.8	0.8	0.6
<b>EL</b>	6.6	5.9	5.4	5.2	4.9	5.0	4.5	4.3	4.1	4.3
<b>E</b>	2.8	2.2	1.3	1.5	1.9	1.9	1.9	1.9	1.7	1.7
<b>F</b>	1.8	1.1	0.9	1.1	1.5	1.4	1.2	0.6	0.7	0.8
<b>IRL</b>	1.8	1.3	1.4	1.5	0.6	1.1	1.0	1.2	1.1	1.5
<b>I</b>	2.6	2.2	1.8	1.7	1.6	1.8	1.8	1.9	2.1	2.1
<b>L</b>	1.3	1.3	1.1	1.3	1.7	1.5	1.5	1.5	1.1	1.3
<b>NL</b>	1.7	1.2	1.6	1.9	2.5	2.5	2.2	1.6	2.1	2.2
<b>A</b>	1.2	1.2	1.3	0.9	1.2	1.1	1.0	1.2	1.0	1.0
<b>P</b>	2.8	2.3	1.9	1.4	1.5	1.9	2.1	1.6	1.3	1.5
<b>FIN</b>	0.9	0.7	0.9	1.1	1.6	1.8	1.6	1.8	1.7	1.6
<b>S</b>	1.3	1.0	1.3	1.7	2.6	2.7	2.7	2.1	2.0	1.7
<b>UK</b>	2.1	1.7	1.6	2.0	1.8	1.9	1.8	1.5	1.5	1.6

Source: Eurostat.

Table I.7.1.2 shows the 12-month rates of change for the harmonized indices ("inflation rates") for the period January 1997 — March 1998. The annual average rates of change between 1996 and 1997 are given for the harmonized indices in figure I.7.1.2.

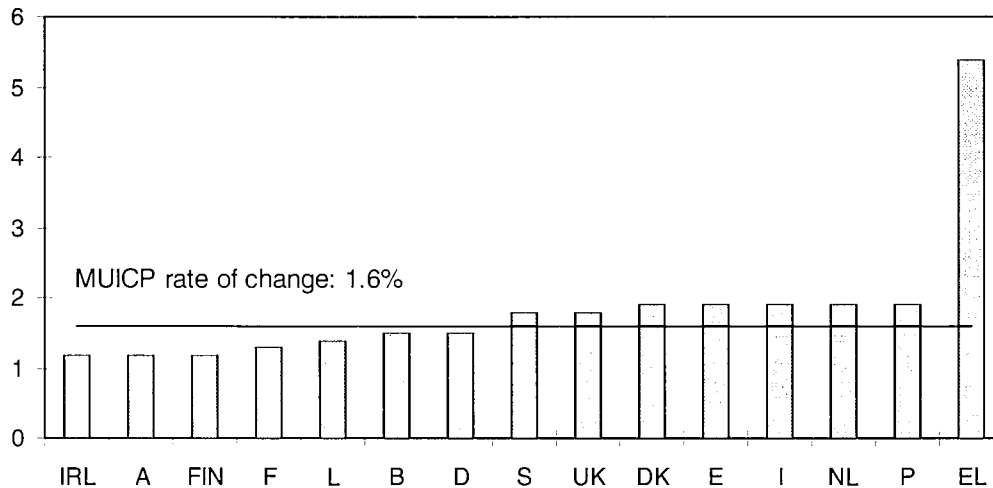
The information in table I.7.1.2. shows that the inflation rates from January to December 1997 decreased in eleven EU Member States and increased in four (Sweden, Finland, the Netherlands and Luxembourg). The EICP inflation rate (the average 12-month rate of change for all EU Member States) fell from 2.2% in January 1997 to 1.6% in December 1997 while the MUICP inflation rate (the average rate of

change for the 11 first-wave participants in Stage III of Monetary Union) went down from 2.0% to 1.5%.

Table I.7.1.2. further shows that the majority of the EU Member States had further falls in their 12-month rates of change during the first quarter of 1998. In March 1998 the EICP rate of change was 1.3% while the corresponding MUICP rate of change was 1.2%.

Figure I.7.1.2. shows that the average rate of HICP increase between 1996 and 1997 was quite similar between nearly all EU Member States (1.2 — 1.9%), except Greece (5.4%). The corresponding MUICP rate of increase was 1.6%.

**Fig. I.7.1.2. Annual average rates of change between 1996 and 1997 according to HICPs**



Source: Eurostat.

### The structure of consumption

The consumption pattern of the households concerned determines the relative importance ("weight") that is to be attached to each of the different categories of goods and services included in the HICPs. The impact on the all-items index of any price change is proportional to the size of the corresponding weight.

The structure of weights may vary considerably between the HICPs for individual Member States as well as between the HICP for an individual Member State and the average weighting structure according to the EICP or to the MUICP. Similar price movements for identical products may therefore affect the all-items HICP quite differently in individual Member States.

Table I.7.1.3. gives the different sets of weights for EICP, MUICP and the HICPs.

According to the weighting patterns for both EICP and MUICP, the main categories "food" and "transport" are the two main categories with the largest weights when calculated as averages for the country groupings concerned. In both indices a weight of approximately 18% is attached to "food" and one of approximately 16% to "transport". In individual HICPs the weight for "food" varies between 14-16% (Austria, Germany, the United Kingdom, Luxembourg and the Netherlands) and 23-29% (Greece and Portugal). The corresponding variation for "transport" is much less pronounced and ranges from 13-15% (Greece, Italy, Ireland, Belgium, the Netherlands, Spain and Austria) to 18-19% (Sweden, Denmark, Portugal and France).

**Tab. I.7.1.3. Weights (°/oo) for the 12 main categories according to HICPs for 1997**

	EICP	MUICP	B	DK	D	EL	E	F	IRL
Food	183	186	202	173	152	231	274	194	208
Alcoholic beverages and tobacco	48	45	39	59	52	38	33	46	86
Clothing & footwear	88	90	87	61	84	127	115	73	75
Housing, gas and other fuels	151	155	157	196	205	136	113	142	80
Furnishing, household equipment	83	82	91	66	79	91	65	74	55
Health	9	9	9	7	9	12	8	5	7
Transports	159	162	136	179	173	123	146	191	127
Communications	20	19	25	23	19	22	16	20	23
Recreation and culture	101	98	125	99	109	50	69	87	123
Education	6	5	:	3	5	14	1	4	7
Hotels, cafes and restaurants	94	90	71	67	68	92	118	91	170
Miscellaneous goods and services	58	60	59	66	47	65	43	74	41

Source: Eurostat.

**Tab. I.7.1.3. (cont.) Weights (°/oo) for the 12 main categories according to HICPs for 1997**

	I	L	NL	A	P	FIN	S	UK
Food	196	161	164	141	293	188	175	152
Alcoholic beverages and tobacco	30	29	50	39	46	78	58	71
Clothing & footwear	118	117	78	82	104	58	72	68
Housing, gas and other fuels	100	135	192	140	73	169	214	133
Furnishing, household equipment	100	120	100	98	79	58	60	91
Health	16	3	7	4	6	16	12	7
Transports	127	161	143	149	179	165	177	155
Communications	18	17	25	22	12	26	31	21
Recreation and culture	86	137	137	112	39	121	108	130
Education	9	3	5	4	1	2	2	11
Hotels, cafes and restaurants	117	64	52	158	122	81	54	112
Miscellaneous goods and services	84	53	47	50	47	38	37	49

Source: Eurostat.

## I.7.2. Exchange rates, the ECU and EMU

Up to the beginning of the third phase of EMU in January 1999, the exchange rate mechanism (ERM) of the European Monetary System (EMS) will continue to ensure exchange rate stability. The ERM is based on a grid of central parities between the various participating currencies and between each of those currencies and the ECU.

As from 1 January 1999, the launch date for the Euro, the current ERM will be replaced by a new exchange rate mechanism (ERM2) designed to link to the Euro the currencies of the Member States not in the Euro zone from the outset.

Since 2 August 1993, the exchange rates of the currencies participating in the ERM (now all the currencies of the Member States except the pound sterling, for which a "notional" central rate has been fixed, and

the Swedish krona), have had to stay within fluctuation bands of 15% above or below their bilateral central rates (table I.7.2.1. shows the central and notional exchange rates of the ECU). On 16 March 1998, when the Greek drachma joined the ERM, there was a final central rate adjustment, which included a 3% revaluation of the Irish punt.

### The third phase of Economic and Monetary Union (EMU)

At the beginning of May 1998, several months before the launch of the third phase of EMU, the European Council announced the 11 countries (Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain) which will form the euro-zone from the outset. Following that decision, the indicative bilateral parities between the currencies participating in the Euro as from 1 January 1999 were fixed. The heads of state and government chose the EMS central rates as the basis on which the bilateral parities would be fixed at the end of 1998. On 26 May 1998, the European Central Bank (ECB) was established, with Mr Wim Duisenberg as its first president. It replaces the European Monetary Institute, which was created at the beginning of the second phase of EMU. The ECB's priority objective will be to maintain price stability.

As from 1 January 1999, the exchange rates of the euro-zone currencies against the Euro will be fixed irrevocably. The ECU/Euro exchange rate will be 1:1. Euro notes and coins will be introduced on 1 January 2002.

The current ERM will be replaced by ERM2 (for further explanations, see "The Economic Accounts of the European Union 1996").

Tab. I.7.2.1. Central and notional exchange rates

Since 16 March 1998

BEF/LUF	40.7844
DKK	7.54257
DEM	1.97738
GRD	357.000
ESP	168.220
FRF	6.63186
IEP	0.796244
ITL	1957.61
NLG	2.22799
ATS	13.9119
PTE	202.692
FIM	6.01125
GBP <sup>(1)</sup>	0.653644

<sup>(1)</sup> Notional rate.

Source: European Commission.

### Intervention under the ERM

In theory, each Member State is required to intervene as soon as its currency moves beyond the authorised fluctuation margins ( $\pm 15\%$ ). Moreover, when a currency crosses its "divergence threshold", i.e. 75% of its maximum divergence spread, the government concerned must consult its partners and take the necessary steps to correct the situation. There are several possible approaches, ranging from intervention on the foreign exchange market through a change in monetary policy or adoption of different economic policy measures to the last resort of adjusting central exchange rates.

**Tab. I.7.2.2. Composition of the ECU basket**

**since 21 September 1989**

DEM	0.62420
FRF	1.33200
NLG	0.21980
BEF	3.30100
LUF	0.13000
ITL	151.80000
DKK	0.19760
IEP	0.00855
GBP	0.08784
GRD	1.44000
ESP	6.88500
PTE	1.39300
=	<b>1 ECU</b>

Source: European Commission.

### The ECU

The EMS was built around the ECU, a basket of currencies defined by the specific values of the currencies of each of twelve (initially nine) Member States of the

European Union. The composition of the ECU was frozen on 1 November 1993, as required under the Maastricht Treaty. That's why the currencies of Austria, Finland and Sweden, which acceded to the EU on 1 January 1995, are not included.

### Exchange rates

The official exchange rates of the ECU against its component currencies and against other currencies have been calculated daily on the basis of the make-up of the ECU basket (see table I.7.2.2.).

The European Commission calculates the value of the ECU in US dollars and in the various currencies of the Member States from information provided by the National Bank of Belgium, to which the central banks of the other Member States submit the exchange rates of their currencies against the US dollar.

Table I.7.2.3. sets out the (annual average) exchange rates of the ECU against the national currencies of the EU Member States, the US dollar and the yen since 1980 (the amounts express the value of one ECU in the respective national currency).

Table I.7.2.4. shows the annual indices of the average exchange rates of the EU currencies, the US dollar and the yen against the ECU. The figures represent the ECU equivalent of a national currency unit, the base year being 1990.

A comparison of the 1997 figures with those for base year 1990 shows that eight of the currencies participating in the ERM rose in value against the ECU, the increases ranging between roughly 3% and 5%. The other four ERM currencies lost between 9% and 22% of their value in ECU terms.

**Tab. I.7.2.3. ECU exchange rates, annual averages**

	1990	1991	1992	1993	1994	1995	1996	1997
<b>BEF/LUF</b>	42.4257	42.2233	41.5932	40.4713	39.6565	38.5519	39.2986	40.5332
<b>DKK</b>	7.85652	7.90859	7.80925	7.59359	7.54328	7.32804	7.35934	7.48361
<b>DEM</b>	2.05209	2.05076	2.02031	1.93639	1.92453	1.87375	1.90954	1.96438
<b>GRD</b>	201.412	225.216	247.026	268.568	288.026	302.989	305.546	309.355
<b>ESP</b>	129.411	128.469	132.526	149.124	158.918	163.000	160.748	165.887
<b>FRF</b>	6.91412	6.97332	6.84839	6.63368	6.58262	6.52506	6.49300	6.61260
<b>IEP</b>	0.767768	0.767809	0.760718	0.799952	0.793618	0.815525	0.793448	0.747516
<b>ITL</b>	1521.98	1533.24	1595.52	1841.23	1915.06	2130.14	1958.96	1929.30
<b>NLG</b>	2.31212	2.31098	2.27482	2.17521	2.15827	2.09891	2.13973	2.21081
<b>ATS</b>	14.4399	14.4309	14.2169	13.6238	13.5396	13.1824	13.4345	13.8240
<b>PTE</b>	181.109	178.614	174.714	188.370	196.896	196.105	195.761	198.589
<b>FIM</b>	4.85496	5.00211	5.80703	6.69628	6.19077	5.70855	5.82817	5.88064
<b>SEK</b>	7.52051	7.47927	7.53295	9.12151	9.16308	9.33192	8.51472	8.65117
<b>GBP</b>	0.713851	0.701012	0.737650	0.779988	0.775903	0.828789	0.813798	0.692304
<b>USD</b>	1.27343	1.23916	1.29810	1.17100	1.18952	1.30801	1.26975	1.13404
<b>JPY</b>	183.660	166.493	164.223	130.148	121.322	123.012	138.084	137.077

Source: Eurostat.

Generally speaking, the currencies which have been in the ERM for several years, have been relatively stable and currencies have displayed ever-closer convergence. The US dollar and the yen have appreciated by 12% and 34% respectively. (Note: As a result of the change in base year from 1985 in the previous issue of this publication, currency appreciation and depreciation values are lower.)

The following fluctuations vis-à-vis the ECU were observed over the 12 months of 1997:

- the punt (IEP), the lira (ITL) and the pound sterling (GBP) rose in value by 6.1%, 1.5% et 17.5% respectively;
- the guilder (NLG), the Belgian/Luxembourg franc (BEF/LUF), the German mark (DEM), the schilling (ATS),

the Danish krone (DKK), the French franc (FRF), the peseta (ESP), the escudo (PTE), the Swedish krona (SEK), the drachma (GRD) and the Finnish markka (FIM) fell by less than 3.2%;

- the US dollar (USD) and the (JPY) appreciated by 12% and 0.9% respectively.

The strong rise in the value of the pound sterling, whose share of the ECU's composition has stood at over 11% and over 13% since 16 March 1998, is one of the principal reasons for the depreciation of the other EU currencies against the ECU.

In 1997, the yen in particular showed considerable volatility (<sup>1</sup>). The US dollar and the pound sterling were also quite volatile, but to a lesser extent than the yen. The low volatility of the ERM currencies bears witness to the mechanism's great stability.

(<sup>1</sup>) Measured by standard deviation.

**Tab. I.7.2.4. Annual ECU exchange rate indices, annual averages, 1990 = 100**

	1991	1992	1993	1994	1995	1996	1997
<b>BEF/LUF</b>	100.5	102.0	104.8	107.0	110.1	108.0	104.7
<b>DKK</b>	99.3	100.6	103.5	104.2	107.2	106.8	105.0
<b>DEM</b>	100.1	101.6	106.0	106.6	109.5	107.5	104.5
<b>GRD</b>	89.4	81.5	75.0	69.9	66.4	65.9	65.0
<b>ESP</b>	100.7	97.8	87.0	81.4	79.4	80.5	78.0
<b>FRF</b>	99.2	101.0	104.2	105.0	106.0	106.5	104.6
<b>IEP</b>	100.0	100.9	96.0	96.8	94.2	96.8	102.7
<b>ITL</b>	99.3	95.6	82.7	79.5	71.6	77.7	78.9
<b>NLG</b>	100.1	101.7	106.3	107.1	110.2	108.1	104.6
<b>ATS</b>	100.1	101.6	106.0	106.7	109.5	107.5	104.5
<b>PTE</b>	101.4	103.7	96.3	92.0	92.4	92.5	91.2
<b>FIM</b>	97.2	83.9	72.6	78.5	85.1	83.3	82.6
<b>SEK</b>	100.6	100.0	82.5	82.1	80.7	88.3	86.9
<b>GBP</b>	101.8	97.0	91.5	92.0	86.1	87.8	103.2
<b>USD</b>	102.9	98.1	108.6	107.0	97.2	100.0	112.1
<b>JPY</b>	110.4	111.9	141.7	151.2	149.7	132.9	134.1

Source: Eurostat.

### I.7.3. Purchasing power parities

For some international comparisons, as it has been shown in section I.2.1. for GDP, it is useful to consider purchasing power parities instead of exchange rates for the conversion.

The reason for the ECU not being used as a conversion rate is that official exchange rates are mainly determined by the supply of and demand for currencies necessary to effect commercial flows, capital flows, speculation and other factors such as a country's perceived political and economic situation.

In other words they do not necessarily reflect price level differences. Consequently, their use for conversion of economic aggregates expressed in nominal

values does not allow real comparison of the volume of goods and services produced and consumed.

The disadvantages of conversion using exchange rates may be eliminated, or at least greatly reduced, by using purchasing power parities as conversion rates.

#### Exchange rates and purchasing power parities

Table I.7.3.1. gives the PPS figures established every year by Eurostat. The comparison of these figures with the exchange rates of the ECU shown in table I.7.2.3., provides an interesting information. For example, on the basis of the official exchange rate, an ECU was worth PTE 199 in 1997, whereas on the basis of purchasing power parities, PTE 133 was sufficient

Tab. I.7.3.1. The purchasing power parities of GDP, 1 PPS=... units of national currency

	1990	1994	1995	1996	1997
B	42.5	40.1	40.5	40.1	39.7
DK	10.2	9.4	9.3	9.2	9.1
D	2.3	2.2	2.2	2.2	2.1
EL	151.5	211.0	223.8	231.5	238.8
E	117.7	130.5	134.5	134.0	133.6
F	7.1	7.1	7.1	7.1	7.0
IRL	0.7	0.7	0.7	0.7	0.7
I	1 527.0	1 649.0	1 708.2	1 735.0	1 731.2
L	42.7	43.0	42.8	42.9	42.5
NL	2.3	2.3	2.2	2.3	2.3
A	15.2	15.0	15.1	14.7	14.6
P	111.6	127.0	131.2	133.6	133.2
FIN	6.9	6.6	6.5	6.5	6.4
S	10.1	10.7	10.7	10.6	10.5
UK	0.7	0.7	0.7	0.7	0.7
US	1.1	1.1	1.1	1.1	1.1
JP	211.0	194.8	190.1	183.2	179.5

Note: For the year 1997, the PPS have been calculated on the basis of the "Economic Forecasts" of DG II.

Source: Eurostat.



to purchase the volume of goods and services corresponding to one PPS.

In 1997 therefore, the real purchasing power of the PTE was much higher (+ 49%) than a comparison based on the official exchange rate would suggest.

### How are parities calculated?

The parities represent the relationship between the amounts of national currency needed to purchase a comparable, representative basket of goods in the countries concerned. The ratio between the prices of the individual products is aggregated in accordance with well defined criteria, so as to obtain a parity for the main aggregates and, 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 term.

### Price level index

The ratio between the value of a PPS and the ECU allows us to calculate the price level index, which measures the difference between the general price level in a given country and the Community average (EU-15 = 100) and also permits direct comparisons between one country and another.

Table I.7.3.2. shows that in 1997 Portugal had the lowest prices in the Union (33 percentage

Tab. I.7.3.2. Price level indices, EU-15=100

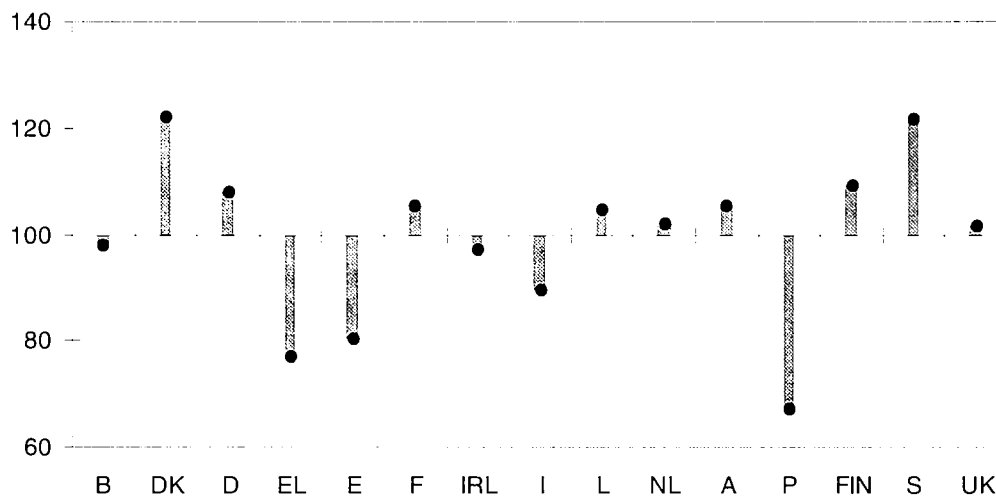
	1990	1995	1996	1997
<b>EUR-11</b>	100	100	100	100
<b>B</b>	101	105	102	98
<b>DK</b>	124	127	124	122
<b>D</b>	116	119	113	108
<b>EL</b>	73	74	76	77
<b>E</b>	82	83	83	81
<b>F</b>	108	109	109	105
<b>IRL</b>	87	86	91	97
<b>I</b>	86	80	89	90
<b>L</b>	108	111	109	105
<b>NL</b>	106	106	106	102
<b>A</b>	111	115	110	106
<b>P</b>	65	67	68	67
<b>FIN</b>	107	113	111	109
<b>S</b>	116	115	124	122
<b>UK</b>	89	87	87	102
<b>US</b>	91	83	83	93
<b>JP</b>	161	155	133	131

Source: Eurostat.

points below the Community average) and Denmark the highest (22 percentage points above this average). The United States comes out at 7 percentage points below the EU average, while Japan exceeds it by 31 percentage points.

Another way of interpreting table I.7.3.2. is to say that in 1997 a given basket of goods and services could be purchased for ECU 67 in Portugal and ECU 122, nearly twice as much, in Denmark (the difference of price levels between countries is also shown in figure I.7.3.1.).

Fig. I.7.3.1. Price level indices, 1997, EU-15=100



Source: Eurostat.

### 1.7.4. Interest rates

The yield on government bonds is a reliable indicator of long-term interest rates, as the government securities market absorbs a good proportion of capital available for investment. Government bond yields also provide a fairly accurate reflection of a country's financial situation and expectations on the economic policy front.

The appropriateness of using government bond yields as an indicator of economic and monetary convergence is recognised in the Treaty on European Union, with these yields featuring among the criteria chosen for the transition to the third phase of European Union starting on 1 January 1999.

Table I.7.4.1. sets out 10-year government bond yields as defined in the Maastricht Treaty.

In 1994, yields increased in the majority of European Union countries compared with 1993 levels.

This upward movement in 1994 stemmed mainly from a recovery in economic growth. With inflation under control, central banks continued to lower their official interest rates during 1995. As a result, government bond yields fell in most EU countries, the exceptions being Spain, Portugal, Italy and Sweden.

Yields in these four countries continued to rise, peaking at the end of the first quarter of 1995 and then starting to fall again. However, the rate differential compared with the other countries remained large.

The first few months of 1996 saw a slightly upward tendency in bond yields in many EU countries. In the second half of that year, however, the tide began to turn, and

Tab. I.7.4.1. Long-term interest rates, monthly averages, as a %

	Jan 93	Jan 94	Jan 95	Jan 96	Jan 97	Feb 97	Mar 97	Apr 97	May 97	Jun 97	Jul 97	Aug 97	Sep 97	Oct 97	Nov 97	Dec 97
<b>B</b>	7.6	6.5	8.5	6.4	5.9	5.7	5.9	6.0	5.9	5.8	5.6	5.8	5.7	5.7	5.7	5.5
<b>DK</b>	8.7	6.0	9.1	7.0	6.5	6.3	6.5	6.6	6.5	6.4	6.1	6.2	6.2	6.0	6.0	5.8
<b>D</b>	7.2	5.8	7.6	5.9	5.8	5.6	5.7	5.9	5.8	5.7	5.6	5.7	5.6	5.6	5.6	5.3
<b>EL</b>	24.5	22.0	19.0	12.3	10.9	9.5	9.4	8.9	9.2	9.4	9.6	9.4	9.3	10.8	10.5	
<b>E</b>	12.2	8.0	11.9	9.5	6.8	6.8	7.0	7.0	6.6	6.5	6.2	6.3	6.1	6.0	6.0	5.6
<b>F</b>	7.9	5.7	8.2	6.4	5.7	5.5	5.7	5.8	5.7	5.7	5.5	5.6	5.5	5.6	5.6	5.3
<b>IRL</b>	9.9	6.2	8.8	7.2	6.6	6.3	6.6	6.7	6.5	6.5	6.3	6.3	6.1	6.0	6.0	5.6
<b>I</b>	13.4	8.7	12.4	10.4	7.4	7.4	7.9	7.7	7.3	7.1	6.5	6.7	6.4	6.2	6.2	5.7
<b>L</b>	7.3	6.3	7.8	6.4	5.7	5.5	5.6	5.7	5.5	5.7	5.6	5.6	5.6	5.6	5.6	5.4
<b>NL</b>	7.1	5.6	7.7	5.9	5.7	5.5	5.7	5.8	5.7	5.6	5.5	5.6	5.6	5.6	5.5	5.3
<b>A</b>	7.2	5.8	7.7	6.2	5.8	5.6	5.7	5.9	5.8	5.8	5.6	5.7	5.6	5.6	5.6	5.4
<b>P</b>	13.3	8.9	11.8	9.4	6.7	6.7	6.9	6.8	6.5	6.4	6.3	6.4	6.1	6.0	6.0	5.7
<b>FIN</b>	10.9	6.5	10.2	7.0	6.1	5.9	6.1	6.4	6.2	6.1	5.9	5.9	5.8	5.8	5.8	5.6
<b>S</b>	10.1	7.0	11.0	8.2	6.7	6.7	7.1	7.2	7.0	6.8	6.4	6.5	6.4	6.2	6.3	6.0
<b>UK</b>	8.5	6.3	8.8	7.6	7.7	7.3	7.6	7.7	7.3	7.2	7.1	7.2	6.9	6.6	6.8	6.4
<b>ECU</b>	8.3	5.9	8.4	6.9	6.1	5.9	6.2	6.3	6.1	6.1	5.9	6.0	5.9	5.8	5.8	5.6
<b>US</b>	7.1	6.2	7.9	6.1	6.9	6.8	7.0	7.2	7.0	6.8	6.6	6.6	6.5	6.4	6.2	6.1
<b>JP</b>	4.6	4.5	4.6	3.1	2.6	2.6	2.5	2.5	2.8	2.6	2.4	2.3	2.1	1.9	2.0	1.9

Note: 10-year government bond yields except for the United States (10 years or more). Yields on ECU bonds include private issues.

Source: Eurostat.

yields went into decline until the end of 1997, reaching historically low levels as well as remarkable degree of convergence.

The yield gap between the 10-year German Federal Government bonds and the Belgian State linear bonds (OLO) of the same maturity decreased from 63 bp at end-1995 to no more than 12 bp at the end of 1997.

This downward trend was also observed in the USA and Japan.

Yields in countries such as Spain, Italy and Sweden, which had still been high in 1995, also fell sharply in the ensuing period, reaching levels very close to those of the other EU countries. In March 1998, the interest-rate differential on 10-year treasury bonds between these three countries and Germany was 19 bp, 30 bp and 45 bp respectively, compared with 388 bp, 510 bp and 253 bp at the end of 1995.

Two countries are an exception to this pattern: the United Kingdom and Greece.

In the former case, this stems partly from the fact that the British economy is not in the same position on the business cycle as the rest of the EU. As far as Greece is concerned, a major effort has been mounted in recent years to reduce inflation. Nevertheless, the current yields on Greek bonds are still markedly higher than those in other European countries.

Yields in the ECU market have been very similar to those on bonds at national level, i.e. they have been in steady decline since the second half of 1996, reaching 5.56% at the end of 1997.

Like long-term rates, short-term rates within the European Union have shown a trend towards convergence over recent years (see table I.7.4.2.).

Short-term interest rates in the EU Member States decreased across the board during the first half of 1994 and then stabilised.

At the end of March 1995, Germany, Belgium, the Netherlands and Austria lowered their official interest rates.

Other countries, by contrast, notably the United Kingdom, Denmark, Ireland, Italy and Spain, decided to raise their rates during the first few months of 1995.

Towards the end of 1995 and in 1996, the general interest rate trend in the European Union was once again downward.

Germany's discount rate thus reached a record low of 2.5% in April 1996. The German repo rate was gradually lowered, reaching 3.0% in August 1996. Interest rates in Belgium, Denmark, France, the Netherlands, Austria and Finland followed the same trend as in Germany.

In the other countries where interest rates were relatively high (Spain, Portugal, Greece, Italy and Sweden), there was also an across-the-board fall in short-term interest rates throughout 1996.

During 1997, short-term interest rates continued to converge towards very low levels, except in the United Kingdom, where economic growth was higher than in the other Member States.

In October 1997, the Bundesbank raised its repo rate to 3.3%, and Belgium, Denmark, France, the Netherlands and Austria followed suit.

The Bank of Finland had already raised its rates in September, and Sweden did so in December.

Italy, Spain and Portugal, by contrast, went on lowering their rates over the course of 1997, which greatly reduced the interest-rate differential between EU Member States.

After a period of increase in 1994, short-term interest rates in the United States were lowered several times over the course of 1995 and at the beginning of 1996, when economic growth showed signs of stalling. The upturn in the second half of 1996

prompted the US monetary authorities to raise their key rate at the end of the first quarter of 1997.

Over the rest of 1997 and during the first few months of 1998, there were no further rate changes in the USA.

Given the weak state of the Japanese economy, that country's discount rate has been fixed at an all-time low of 0.5% since September 1995.

With the situation little changed since then, the Bank of Japan had still not changed its monetary policy stance by the end of the first quarter 1998.

**Tab. I.7.4.2. Short-term interest rates, monthly averages, as a %**

	Jan 96	Jan 97	Feb 97	Mar 97	Apr 97	May 97	Jun 97	Jul 97	Aug 97	Sep 97	Oct 97	Nov 97	Dec 97
<b>B</b>	3.67	3.02	3.20	3.35	3.10	3.15	3.29	3.64	3.40	3.46	3.82	3.43	3.43
<b>DK</b>	4.53	3.62	3.61	3.67	3.66	3.62	3.62	3.61	3.65	3.66	3.92	3.92	4.01
<b>D</b>	3.61	3.12	3.13	3.15	3.08	3.01	3.07	3.09	3.16	3.10	3.40	3.46	3.44
<b>EL</b>	13.90	12.40	12.10	11.70	10.80	10.60	11.70	11.70	11.60	11.00	16.90	23.70	11.00
<b>E</b>	9.02	6.11	6.15	5.83	5.60	5.47	5.34	5.34	5.49	5.31	5.12	5.18	4.89
<b>F</b>	4.53	3.28	3.20	3.19	3.19	3.19	3.19	3.19	3.19	3.19	3.32	3.38	3.38
<b>IRL</b>	5.00	5.50	5.54	5.58	6.28	5.91	6.10	6.08	6.17	6.20	6.25	6.34	7.00
<b>I</b>	10.20	7.68	7.51	7.45	7.27	6.99	6.99	6.99	6.84	6.80	6.88	6.61	6.26
<b>L</b>	:	:	:	:	:	:	:	:	:	:	:	:	:
<b>NL</b>	3.33	2.68	2.93	3.03	2.96	3.11	3.04	3.12	3.19	3.10	3.19	3.32	3.14
<b>A</b>	3.67	3.15	3.12	3.20	3.28	3.23	3.23	3.26	3.24	3.28	3.37	3.39	3.46
<b>P</b>	8.11	6.42	6.90	6.23	6.06	5.88	5.98	5.71	5.54	5.45	5.48	5.21	5.13
<b>FIN</b>	4.30	2.68	2.85	2.51	3.24	2.51	2.76	2.85	3.02	3.06	2.75	2.90	3.20
<b>S</b>	8.76	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.29
<b>UK</b>	6.33	5.92	6.01	5.97	5.97	6.23	6.24	6.58	6.95	7.00	7.12	7.24	7.18
<b>ECU</b>	4.83	4.01	4.04	4.12	4.05	4.01	4.02	4.09	4.20	4.16	4.27	4.38	4.27
<b>US</b>	5.56	5.25	5.19	5.39	5.51	5.50	5.56	5.52	5.54	5.54	5.50	5.52	5.50
<b>JP</b>	0.47	0.48	0.50	0.51	0.50	0.49	0.50	0.49	0.49	0.50	0.48	0.49	0.39

Notes: These are overnight rates, in Ireland's case end-month. ECU rates relate to one-month deposits.

Source: Eurostat.

**THE ECONOMIC ACCOUNTS OF THE CANDIDATE  
COUNTRIES IN EASTERN AND CENTRAL EUROPE  
AND CYPRUS**



## II. The Economic Accounts of the Candidate Countries in Eastern and Central Europe and Cyprus

### Introduction

#### General background

The 1993 Copenhagen European Council opened up the perspective of enlargement towards the Candidate Countries in Eastern and Central Europe and Cyprus<sup>(1)</sup>. Subsequently, an ambitious strategy of pre-accession was launched at Essen.

The Madrid European Council in December 1995 reaffirmed the decisions for launching the accession negotiations with the countries applying for European Union membership. It called on the Commission to submit the opinions on the individual applications and to embark on the preparation of a composite paper on enlargement.

Eurostat plays an important role in the accession preparations. It has to provide the Commission services with comparable and reliable macro-economic data on the eleven Candidate Countries (CCs), underlying the Commission's opinion on each application for accession.

To this end, Eurostat set about establishing close working relations, from mid-1996 onwards, with the National Accounts (NA) departments of the CCs' Statistical Offices. This co-operation, however, is aimed not only at meeting the Commission's data requirements but also at assessing the quality of macroeconomic data and of the underlying basic data and calculation methods. Assessment is strictly geared to the "European System of Accounts 1995" (ESA 95), which is the legal framework for National Accounts in the EU.

#### Eurostat's activities relating to the CCs' National Accounts

Under the work plan defined with the Candidate Countries, data collection was initiated and the first steps taken towards improving data quality in terms of reliability, exhaustiveness and compliance with the ESA.

In line with the results of the initial assessments of the CC's National Accounts, projects have been launched in 1997 that address the following areas of weakness:

1. Estimation methods at constant prices
2. General government and NPISH
3. Private household consumption
4. Banking and insurance, FISIM
5. Exhaustiveness of the National Accounts
6. Use of registers for National Accounts purposes
7. Dwelling services

Most of these projects will be continued during the subsequent years. In addition, the following new projects will start from 1998:

1. Pilot project on exhaustiveness, including illegal activities,
2. Pilot project on Government Finance Statistics,
3. Pilot project on prices,
4. Pilot project on Foreign Direct Investment,
5. Calculation of capital stock and consumption of fixed capital at replacement costs,
6. Estimates for shuttle trade and tourist expenditure,

<sup>(1)</sup> For the purpose of this publication, the term "Candidate Countries (CC)" is used to describe the ten Eastern and Central European Countries (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia) and Cyprus, who are involved in the accession process launched on 30 March 1998.



7. Development/improvement of estimates for holding gains,
8. Calculation of a small IOT (for CCs with no previous IOT),
9. Development of an NA database using EDI for data transmission (GESMES),
10. Borderline between intermediate consumption and final uses and
11. Exports, imports and the transition between GDP and GNP.

Besides the multi-country project work, country-specific projects will be defined in order to tackle particular problems of individual CCs.

#### **Data sources and methodological remarks**

The non-financial National Accounts data presented in sections II.1. and II.5. of the publication were supplied by the CCs' National Statistical Institutes on the basis of a Eurostat questionnaire completed in April/May 1998, and in some cases updated in June 1998. This was the second data delivery under the established regular reporting system.

With each data delivery, gradual changes in calculation methods and improvements to data quality will be incorporated in the data sets. For the time being, however, statistics from the CCs must still be treated with some caution. As mentioned above, they are derived from national sources which do not yet fully conform to EU standards. Moreover, comparability with the respective EU statistics cannot be guaranteed.

Major data-quality and comparability problems relate to:

1. country-specific adaptation of theoretical National Accounts knowledge to the complicated practical situations of economies in transition;
2. exhaustiveness of the accounts;
3. lack of basic data;

4. reliability of basic data; a high degree of "believing in figures" is evident; it is often the case that figures emanating from very different sources are regarded as "correct" without any checks being made on reliability, completeness, definitions etc;
5. consistency between the different parts of the National Accounts;
6. failure to exhaust all scope for cross-checking and validating results;
7. quality of the Purchasing Power Parities (PPP) needed to express data in real terms (Purchasing Power Standards — PPS).

In future, therefore, the CCs' National Accounts data can be expected to undergo significant changes. However, there is no systematic bias in the data; gaps and shortcomings occur in both directions, leading to over- and underestimation of GDP. It is currently very difficult to estimate the net effect of all these tendencies on the level of GDP, but a certain underestimation of the CCs' GDP values is more likely.

The **export and import data** in section II.2. of this publication are the ones provided by Eurostat's customs based foreign trade statistics (COMEXT). These cover only the trade in goods and are methodologically not fully comparable with the National Accounts data for exports and imports in part II.1. (see box "External trade data" in section I.2.4.).

The **monetary and financial indicators** relating to Candidate Countries which are included in section II.3. are, broadly speaking, compiled in accordance with recognised methodology. One particular area of difficulty is the measurement of money supply: in some countries, foreign currencies may form a significant share of the stock of notes and coins, which may not be captured accurately (if included at all) in the monetary data.

Sources for interest rate, money supply, and official reserves information are national authorities and the IMF. The exchange rate data are from national authorities and the European Commission.

Statistics on **public deficit and debt** have not been covered in this chapter, because of the lack of comparability of data caused by incomplete information and differences in methodology used. Most countries are presently unable to provide, on a sufficiently reliable basis, data for the general government net borrowing / lending as defined by national accounts.

When it comes to **prices** in section II.4. of this publication, the current EU Member States have recently defined a new consumer price index in order to meet the obligations in the Maastricht Treaty and as a part of the preparations for the single currency.

The aim was to make an index that would be comparable between Member States.

The main task was to harmonise methodology and coverage, and the result was the Harmonised Index of Consumer Prices (HICP).

The same exercise has now been started with the Candidate Countries. In their case it is equally important that their economic status is measured using indices that are comparable. Some progress has already been made in the preparations for the adaptations of new rules. However, it will still take some years before genuine HICPs are available from Candidate Countries, and it must be emphasised that the figures reported in table II.4.1.1. (incl. EU-15 figures) are all based on national CPIs which are not fully comparable.

Concerning **Purchasing Power Parities** (PPP), the preliminary results of the 1996 European Comparison Programme are now available. The 1993 to 1996 GDP values in real terms have been revised, and 1997 has been extrapolated on a significantly more comparable and reliable basis.



## II.1. Gross Domestic Product of the Candidate Countries

This section sets out the main macroeconomic data of the CCs, describing the development of GDP, the main aggregates and per capita figures in comparison with those of the European Union. For the first time, some data are now broken down by branch and a more detailed analysis of the exports and imports according to the National Accounts and the foreign trade statistics can be given.

### II.1.1. GDP growth

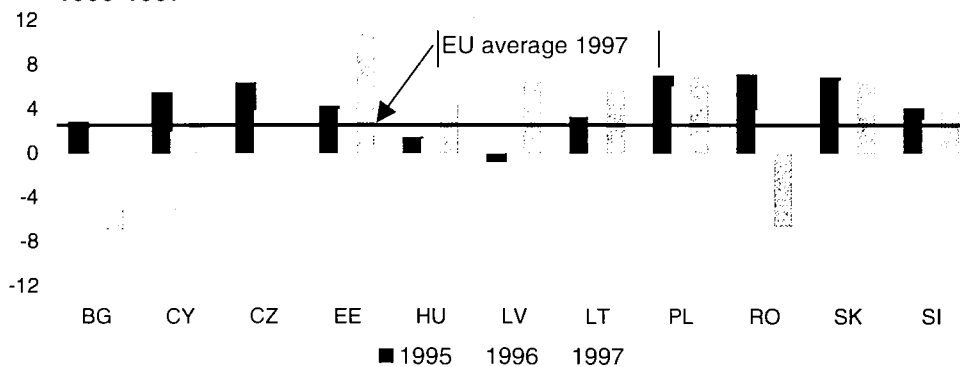
As shown by the annual GDP growth rates in table II.1.1.1., the CCs have achieved fairly sustained economic growth outstripping that of the European Union over five consecutive years. Their overall growth rate is edging nearer to the EU's, however, and the individual rates vary markedly. As can be seen from figure II.1.1.1., the large

Tab. II.1.1.1. Annual GDP growth rates, as a %

	1991	1992	1993	1994	1995	1996	1997
Bulgaria (BG)	:	-7.3	-1.5	1.8	2.9	-10.1	-6.9
Cyprus (CY)	0.7	9.4	0.7	5.8	5.5	2.0	2.4
Czech Republic (CZ)	-11.5	-3.3	0.6	2.7	6.4	3.9	1.0
Estonia (EE)	-13.6	-14.2	-9.0	-2.0	4.3	4.0	11.4
Hungary (HU)	-11.9	-3.1	-0.6	2.9	1.5	1.3	4.4
Latvia (LV)	-10.4	-34.9	-14.9	0.6	-0.8	3.3	6.5
Lithuania (LT)	-5.7	-21.3	-16.2	-9.8	3.3	4.7	5.7
Poland (PL)	-7.0	2.6	3.8	5.2	7.0	6.1	6.9
Romania (RO)	-12.9	-8.8	1.5	3.9	7.1	3.9	-6.6
Slovakia (SK)	:	:	-3.7	4.9	6.9	6.6	6.5
Slovenia (SI)	-8.9	-5.5	2.8	5.3	4.1	3.1	3.8
<b>Total (CC-11)</b>	:	:	1.1	3.8	5.6	4.1	3.6
<b>EU-15</b>	3.4	0.9	-0.6	2.9	2.5	1.7	2.6

Source: Eurostat.

Fig. II.1.1.1. Average annual growth of GDP in the CCs and the EU, 1995-1997



Source: Eurostat.

majority of CCs recorded a growth rate for 1997 that was higher than the European Union average (+2.6%). The only countries to fall short of this average were Cyprus, the Czech Republic, Romania and Bulgaria, with the last two experiencing a fall in growth rate compared with 1996.

In Bulgaria, GDP decreased for the second year in succession, but the 1997 fall (-6.9%) was at least lower than the one in 1996 (-10.1%).

On the other hand, seven CCs — Estonia, Hungary, Latvia, Lithuania, Slovakia, Slovenia and Poland — had a 1997 growth rate which was higher than the CCs average (3.6%). Estonia even reached two-digit figures.

## II.1.2. GDP and its main aggregates

### GDP in current prices and ECU

In 1997, the GDP of all the CCs in terms of current prices and exchange rates was

ECU 303 Bn compared with ECU 7 131 Bn for the EU, or 4.2% of the EU's GDP (4.0% in 1996). As in the European Union, there is a very wide spread of GDP figures among the CCs (see table II.1.2.1.).

In 1997, GDP ranged from ECU 4.2 Bn in Estonia to ECU 119.7 Bn in Poland.

Poland accounts for almost 40% of the CCs' total GDP, with a higher figure in absolute terms than Greece (ECU 106.7 Bn) and Finland (ECU 105.1 Bn) (see table I.2.1.2.).

Five of the CCs (the three Baltic States, Cyprus and Bulgaria) had a GDP of less than ECU 10 Bn each. Together, they represent just over 11% of the total for the CCs, equivalent to barely 0.5% of the EU's total GDP.

### Main aggregates

In 1997, the share of GDP accounted for by **final consumption of households and NPISH** varied among the CCs from 50.0% in the Slovak Republic to 75.4% in Romania.

Tab. II.1.2.1. GDP at current prices and exchange rates, in Bn ECU

	1990	1991	1992	1993	1994	1995	1996	1997
<b>BG</b>	:	6.5	6.6	9.2	8.1	11.0	7.8	9.0
<b>CY</b>	4.4	4.7	5.3	5.6	6.2	6.7	7.0	7.5
<b>CZ</b>	:	:	:	29.4	33.5	38.8	44.5	45.9
<b>EE</b>	:	:	:	1.4	1.9	2.7	3.4	4.2
<b>HU</b>	:	27.0	28.7	33.0	34.9	34.1	35.6	39.6
<b>LV</b>	:	:	:	1.9	3.1	3.4	4.0	4.9
<b>LT</b>	:	:	1.5	2.3	3.6	4.6	6.2	8.4
<b>PL</b>	46.3	61.7	65.0	73.4	77.8	91.0	106.0	119.7
<b>RO</b>	30.0	23.3	15.1	22.5	25.3	27.1	27.6	30.6
<b>SK</b>	:	:	:	10.2	11.6	13.3	14.8	17.2
<b>SI</b>	:	:	9.6	10.8	12.1	14.3	14.9	16.1
<b>CC-11</b>	:	:	:	<b>199.7</b>	<b>218.2</b>	<b>247.2</b>	<b>271.9</b>	<b>303.0</b>
<b>% of EU-15</b>	:	:	:	<b>3.4</b>	<b>3.5</b>	<b>3.8</b>	<b>4.0</b>	<b>4.2</b>

Source: Eurostat.

**Tab. II.1.2.2. GDP per capita at current prices and exchange rates**

	in Bn ECU					EU-15=100				
	1993	1994	1995	1996	1997	1993	1994	1995	1996	1997
BG	1 100	1 000	1 300	900	1 100	7	6	8	5	6
CY	8 900	9 800	10 400	10 700	11 400	56	59	60	59	60
CZ	2 800	3 200	3 800	4 300	4 500	18	19	22	24	23
EE	900	1 300	1 800	2 300	2 800	6	8	11	13	15
HU	3 200	3 400	3 300	3 500	3 900	20	20	19	19	21
LV	700	1 200	1 400	1 600	2 000	4	7	8	9	10
LT	600	1 000	1 200	1 700	2 300	4	6	7	9	12
PL	1 900	2 000	2 400	2 700	3 100	12	12	14	15	16
RO	1 000	1 100	1 200	1 200	1 400	6	7	7	7	7
SK	1 900	2 200	2 500	2 800	3 200	12	13	14	15	17
SI	5 400	6 100	7 200	7 500	8 100	34	36	42	41	43
CC-11	<b>1 900</b>	<b>2 100</b>	<b>2 300</b>	<b>2 600</b>	<b>2 900</b>	<b>12</b>	<b>12</b>	<b>14</b>	<b>14</b>	<b>15</b>

Note: For the calculation of per capita GDP, the data for the total population is taken from the national accounts; it may be different from that obtained via demographic statistics.

Source: Eurostat.

This matches the situation among the EU Member States: Ireland accounts for the lowest share, at 52.1%, and Greece the highest, at 72.4%. Among the CCs, as among the EU Member States, the countries at the lower end of the economic performance scale are the ones where the highest share of GDP is accounted for by household and NPISH final consumption. This is because a larger proportion of the limited GDP is needed to satisfy the population's basic needs (see table II.1.2.3.).

With regard to **final consumption of general government**, there was a gap of over 12 percentage points in 1997 between the lowest share of GDP, in Romania (10.1%), and the highest, in Estonia (22.9%). This is a slightly narrower range than among the EU Member States, of which Germany (12.0%) has the lowest share of government consumption and Sweden the highest (26.9%). Interestingly, the proportion has now stabilised in the Baltic States between 19.6% (Lithuania) and 22.9%

(Estonia), following a jump in this figure in 1992 due to the establishment of a governmental infrastructure after independence (see "Statistic in Focus" 29/1997).

In terms of **gross fixed capital formation** in 1997, two countries stand out: in Bulgaria this component accounted for a very low share of GDP (11.3%), which comes as no great surprise given the current economic situation in that country.

The Slovak Republic, on the other hand, recorded a very high level of investment as a proportion of GDP for the second consecutive year (1996: 36.9%, 1997: 38.6%), and the figure is now approaching 40%. By way of comparison, the highest share of GFCF in GDP among the Member States is 25.6% in Portugal.

The CCs also exhibit major differences with regard to their **foreign trade activities**. In 1997, Estonia exported the equivalent of 72.9% of its GDP and imported the equivalent of 85.2%.

Tab. II.1.2.3. Main GDP aggregates, as a %

	Final consumption						GFCF			Exports			Imports		
	of households and NPISH			of general government			95	96	97	95	96	97	95	96	97
	95	96	97	95	96	97									
<b>BG</b>	70.7	76.6	71.8	15.3	11.9	12.4	15.3	13.6	11.3	44.7	62.9	61.3	46.3	59.8	55.7
<b>CY</b>	59.8	61.5	62.2	16.5	18.0	18.8	19.4	19.5	18.2	46.6	46.8	46.1	50.3	53.3	51.9
<b>CZ</b>	49.5	50.4	51.4	20.9	21.1	20.2	32.8	33.0	30.7	56.0	53.4	57.6	60.5	60.4	63.0
<b>EE</b>	61.2	60.7	57.3	25.4	24.1	22.9	26.0	26.7	26.5	72.3	66.6	72.9	80.4	78.7	85.2
<b>HU</b>	53.8	52.2	51.2	23.6	22.0	21.4	20.0	21.4	22.3	37.3	38.9	46.4	38.5	39.9	46.9
<b>LV</b>	62.6	66.8	65.2	22.2	21.9	21.3	17.6	18.1	18.7	46.9	54.5	56.2	49.3	61.3	61.4
<b>LT</b>	67.4	66.5	67.1	19.7	18.9	19.6	23.0	23.0	22.0	53.0	53.4	54.6	64.8	63.2	64.8
<b>PL</b>	63.1	65.1	65.5	17.6	17.5	17.6	16.9	19.0	20.8	25.9	24.8	26.4	24.6	27.6	31.5
<b>RO</b>	67.6	72.1	75.4	13.7	11.6	10.1	21.4	23.1	19.2	27.6	28.4	29.7	33.2	36.7	36.7
<b>SK</b>	49.6	50.3	50.0	20.3	22.4	21.7	27.4	36.9	38.6	63.0	58.0	56.4	61.2	70.0	63.5
<b>SI</b>	57.9	57.3	:	20.2	20.1	:	21.2	22.5	:	54.2	54.3	:	55.5	55.2	:

Source: Eurostat.

At the other end of the scale, the value of Poland's exports amounted to 26.4% of GDP, and that of its imports to 31.5%. Nine of the ten countries for which 1997 data are available had a negative trade balance, importing more goods and services than they exported. The only exception is Bulgaria.

### II.1.3. GDP in real terms

GDP, particularly as expressed per inhabitant, is one of the main indicators used for economic analyses involving comparisons over time and/or between regions. For international comparisons, a country's GDP expressed in a common currency does not always give a good indication of the actual volume of component goods and services. In order to resolve this problem, the GDP for each country is expressed in an artificial currency known as the "Purchasing Power Standard" (PPS), which eliminates the effects of different price levels from one

country to another (concerning the availability and reliability of PPPs, please refer to section II.4.)<sup>(1)</sup>.

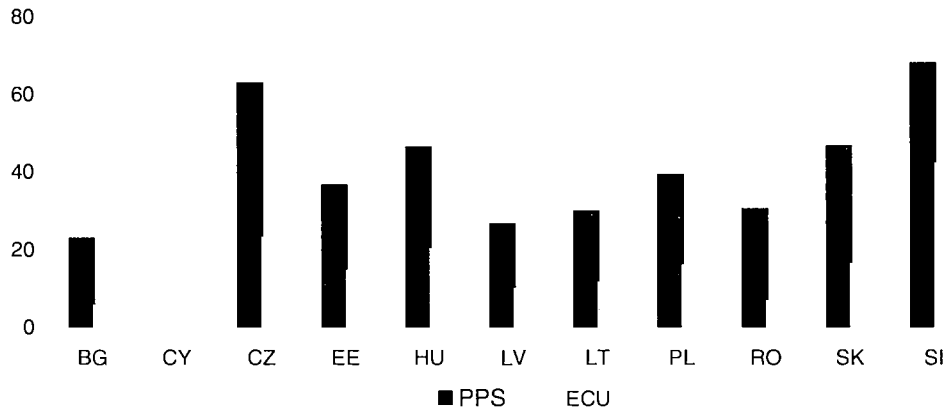
Tab. II.1.3.1. GDP at current prices and purchasing power standards, in Bn PPS

	1993	1994	1995	1996	1997
<b>BG</b>	37.6	39.3	40.9	38.5	36.7
<b>CZ</b>	:	102.7	111.4	119.8	123.8
<b>EE</b>	7.8	7.8	8.3	9.0	10.3
<b>HU</b>	73.3	77.5	79.5	84.5	90.3
<b>LV</b>	10.3	10.7	10.7	11.6	12.7
<b>LT</b>	:	:	17.9	19.7	21.3
<b>PL</b>	204.7	221.2	239.2	266.0	291.2
<b>RO</b>	109.5	116.8	126.5	137.9	131.8
<b>SK</b>	34.0	36.6	39.5	44.2	48.2
<b>SI</b>	19.7	21.3	22.4	24.3	25.8
<b>CC-10<sup>(1)</sup></b>	:	:	<b>696.3</b>	<b>755.4</b>	<b>792.0</b>

<sup>(1)</sup> Without Cyprus.

Source: Eurostat, OECD, OSTAT.

<sup>(1)</sup> An interesting example illustrating the impact of different price levels on per capita GDP is Poland. In ecu terms, this country has in 1997 a per capita GDP (ECU 3 100) around seven times smaller than its neighbour Germany. In real (PPS) terms, the difference is far smaller, with the Polish figure of PPS 7 500 around three times lower than Germany's PPS 20 900 (see tables II.1.2.2., II.1.3.2. and I.2.1.4.).

**Fig. II.1.3.1. Per capita GDP in ECU and in PPS, 1997 (EU-15 = 100)**


Source : Eurostat, OECD, ÖSTAT.

Tables II.1.3.1. and II.1.3.2. show the total and per capita GDP figures, in PPSs, for the CCs (without Cyprus) and the EU. In 1997, the total GDP of the CCs stood at PPS 792.0 Bn, or around 11.1% of the EU's total GDP (compared with only 4.1% in ECUs).

Of the CCs, it was Poland that achieved the highest GDP in 1997, at PPS 291.2 Bn, or around 37% of the total GDP of the CCs. On the other hand, four countries (Estonia, Latvia, Lithuania and Slovenia) contributed only 8.8%.

**Tab. II.1.3.2. GDP per capita at current prices and purchasing power standards**

	in Bn PPS					EU-15=100				
	1993	1994	1995	1996	1997	1993	1994	1995	1996	1997
<b>BG</b>	4 400	4 700	4 900	4 600	4 400	28	28	28	25	23
<b>CZ</b>	:	9 900	10 800	11 600	12 000	:	60	62	64	63
<b>EE</b>	5 100	5 200	5 600	6 100	7 000	32	31	32	34	37
<b>HU</b>	7 100	7 600	7 800	8 300	8 900	45	45	45	46	47
<b>LV</b>	4 000	4 200	4 300	4 700	5 100	25	25	25	26	27
<b>LT</b>	:	:	4 800	5 300	5 800	:	:	28	29	30
<b>PL</b>	5 300	5 700	6 200	6 900	7 500	33	34	36	38	40
<b>RO</b>	4 800	5 100	5 600	6 100	5 800	30	31	32	34	31
<b>SK</b>	6 400	6 800	7 400	8 200	8 900	40	41	43	45	47
<b>SI</b>	9 900	10 700	11 300	12 200	13 000	62	64	65	67	68
<b>CC-10<sup>(1)</sup></b>	:	:	<b>6 600</b>	<b>7 200</b>	<b>7 500</b>	:	:	<b>38</b>	<b>40</b>	<b>40</b>

Note: For the calculation of per capita GDP, the data for the total population is taken from the national accounts; it may be different from that obtained via demographic statistics.

(<sup>1</sup>) Without Cyprus.

Source: Eurostat, OECD, ÖSTAT.



### Per capita GDP in real terms

The average per capita GDP of the Candidate Countries, expressed in current PPSs, was PPS 7 500 in 1997 compared with PPS 19 000 for the EU, or the equivalent of 40% of the EU average, compared with 38% in 1995.

Slovenia was the CC with the highest *per capita* GDP in 1997, at PPS 13 000. This almost matched the level of Greece, the Member State with the lowest per capita GDP, and equalled 97% of the level of Portugal, the EU Member State ranking just above Greece. Bulgaria, with a per capita GDP of PPS 4 400, had the lowest GDP of all the Candidate Countries, corresponding to only 34% of the lowest per capita GDP, in PPS terms, in the EU.

In PPS terms, the CCs' average per capita GDP (on the basis EU-15 = 100) tended to

rise slightly between 1995 and 1997 (+2 percentage points) while still remaining well below the EU average. However, this increase did not take place at the same rate in all countries. Poland, Slovakia and Estonia are catching up more quickly (+4 to +5 percentage points). The increase was somewhat less pronounced in Hungary, Latvia, Slovenia and Lithuania (+2 to +3 percentage points), while two other countries (Romania and Bulgaria) fell short of the EU average, the latter by 5 percentage points (see table II.1.3.2.).

### II.1.4. Value added and capital formation by branch

For the first time, some of the CCs provided figures broken down by branch. Table II.1.4.1. shows GVA by branch, Table II.1.4.2. branch-specific GFCF.

The branch structures of the CCs and the EU differ most noticeably in agriculture and

Tab. II.1.4.1. Gross value added by branch, as a % of total, 1995

	Agricult., fishing... AYA+AYB	Industry, includ. energy AYC_AYE	Construction AYF	Service activities <sup>(1)</sup> AYG_AYQ
BG <sup>(2)</sup>	15.4	25.9	4.3	54.5
CY	5.4	15.1	9.0	70.5
CZ	4.6	33.6	8.1	53.7
EE	7.9	23.1	5.9	63.1
HU	6.7	26.3	4.6	62.4
LV	10.8	28.1	5.1	56.0
LT	11.7	26.1	7.1	55.0
PL	7.5	33.8	6.0	52.7
RO	20.7	34.5	6.9	37.9
SK	6.0	28.0	4.7	61.3
SI	4.4	32.0	5.6	58.0
CC-11	8.7	31.2	6.2	53.8
EU-15	2.3	25.8	5.4	66.5
EU min country	D	L	S	IRL
EU max country	EL	IRL	E	L

<sup>(1)</sup> Statistical discrepancy included.

<sup>(2)</sup> Data for Bulgaria refer to 1996.

Source: Eurostat.

service activities. On average, the CCs generate 8.7% of their total GVA in agriculture, compared with an average figure for the Member States of only 2.3%. In each individual CCs, the share of total GVA accounted for by agriculture is higher than the EU average. Bulgaria (15.4%) and Romania (20.7%) have the largest shares, exceeding that of Greece (14.2%), the EU Member State with the largest agricultural component in total GVA.

The average share of service activities in the GVA of Member States (66.5%) is 12.7 percentage points higher than in the CCs (53.8%). Among the latter, Romania recorded the lowest share, at 37.9%, while only one other country (Poland) posted a value below the lowest percentage in the EU, that of Ireland (53.2%).

With service activities accounting for 70.5% of total GVA, however, Cyprus comes close to the EU's maximum figure of 75.3% recorded by Luxembourg.

Data on the branch breakdown of GFCF are only available for the countries featured

in Table II.1.4.2. For these countries the branch-specific shares in total GFCF largely match the contributions of the respective branches to total GVA.

In Cyprus, for example, 70.5% of total Gross Value Added is generated by service activities and the lion's share of GFCF (81.5%) also originates in this branch.

### II.1.5. Exports and imports of goods and services

Section II.1.2. dealt with overall exports and imports of goods and services as major GDP aggregates. This section provides a more detailed analysis of exports and imports in terms of development over time and breakdown. In both sections, exports and imports are defined in accordance with the National Accounts (see box "External trade data" in section I.2.4.).

#### Development over time

Tables II.1.5.1. and II.1.5.2. show the growth rates of exports and imports for the CCs (where figures are available) and EU-15.

Tab. II.1.4.2. Gross fixed capital formation by branch, as a % of total, 1995

	Agricult., fishing...	Industry, includ. energy	Construction	Service activities <sup>(1)</sup>
	AYA+AYB	AYC_AYE	AYF	AYG_AYQ
CY	4.2	12.1	2.2	81.5
EE	6.0	25.2	4.5	64.3
HU	2.7	29.1	1.6	66.6
LT	5.9	28.6	5.4	60.1
PL	3.2	38.2	4.4	54.2
SK	4.2	32.9	8.6	54.3
SI	0.9	38.6	3.0	57.5
<b>EU-15</b>	<b>3.0</b>	<b>20.9</b>	<b>1.8</b>	<b>74.4</b>
<b>EU min</b>	<b>0.9</b>	<b>16.4</b>	<b>0.8</b>	<b>63.5</b>
<b>country</b>	<b>UK</b>	<b>F</b>	<b>UK</b>	<b>S</b>
<b>EU max</b>	<b>9.1</b>	<b>31.6</b>	<b>6.1</b>	<b>78.7</b>
<b>country</b>	<b>IRL</b>	<b>S</b>	<b>P</b>	<b>L</b>

(<sup>1</sup>) Statistical discrepancy included.

Source: Eurostat.

Since 1994, the European Union has continually recorded high average growth rates for exports and imports, though they dipped somewhat in 1994. Annual export growth outstripped that of imports throughout the period.

For the CCs, the figures from 1993 onwards generally indicate quite turbulent developments on the foreign-trade front, with the rates of increase/decrease often running into two digits. The 1997 figures, however, point to a calmer trend in the countries for which data are available, as rates moved closer to the EU average.

**Tab. II.1.5.1. Total exports,  
annual growth rates, in %**

	1993	1994	1995	1996	1997
BG	:	:	:	:	:
CY	-1.7	8.0	4.2	3.5	-2.5
CZ	:	:	16.1	5.4	10.3
EE	:	:	:	:	:
HU	-10.1	13.7	13.4	7.4	:
LV	-22.4	-8.4	4.3	20.2	9.9
LT	:	:	:	:	:
PL	3.2	13.1	23.6	12.5	:
RO	11.1	19.0	17.0	0.2	2.1
SK	-0.5	14.2	3.1	-0.3	6.1
SI	0.6	10.5	1.0	:	:
<b>EU-15</b>	<b>1.4</b>	<b>9.0</b>	<b>8.0</b>	<b>4.7</b>	<b>9.0</b>

Source: Eurostat, National Accounts.

Clearly, 1993 was a poor year for CCs' foreign trade. Of the seven countries providing figures, four saw their exports fall, while three posted lower imports.

Since 1994, all CCs for which data are available have enjoyed a positive export trend, except for Latvia in 1994, Slovakia in 1996 and Cyprus in 1997.

The volume of imports also grew over the same period for most CCs, though decline was recorded by Latvia and Slovakia in

**Tab. II.1.5.2. Total imports,  
annual growth rates, in %**

	1993	1994	1995	1996	1997
BG	:	:	:	:	:
CY	-18.5	8.7	11.5	6.4	2.3
CZ	:	:	22.0	12.9	6.7
EE	:	:	:	:	:
HU	20.2	8.8	-0.7	5.7	:
LV	-39.8	-0.7	1.4	28.5	6.8
LT	:	:	:	:	:
PL	13.2	11.3	24.3	28.0	:
RO	4.4	2.8	16.3	5.2	-4.7
SK	-0.8	-3.6	9.6	20.3	-2.3
SI	17.6	10.7	11.6	:	:
<b>EU-15</b>	<b>-3.2</b>	<b>7.8</b>	<b>6.9</b>	<b>3.8</b>	<b>8.0</b>

Source: Eurostat, National Accounts.

1994, Hungary in 1995 and Romania and Slovakia in 1997.

A notable feature of the CCs' figures for the years before 1997 is that exports often rose more slowly or fell more rapidly than imports.

The data available indicate that 1997 saw a turn-around in this trend for all CCs apart from Cyprus.

#### Total exports and imports

Tables II.1.5.3. and II.1.5.4. show total exports and imports at current prices for the CCs and EU-15.

Although it has to be borne in mind that data are not available for all CCs, the ratio of total CCs exports and imports to the respective EU-15 totals clearly improved from year to year. However, the volume of CCs foreign trade is still very low compared with that of the EU.

Including an estimate for Estonia, total CCs exports in 1993 amounted to 4.4% of the EU-15 figure; in 1996, including an estimate for Slovakia, the ratio was 5.2%.

**Tab. II.1.5.3. Total exports at current prices and exchange rates, in Bn ECU**

	1993	1994	1995	1996	1997
<b>BG</b>	3.5	3.7	4.9	4.9	5.5
<b>CY</b>	2.7	3.0	3.1	3.2	3.3
<b>CZ</b>	15.3	17.8	21.8	23.8	26.4
<b>EE</b>	:	:	2.0	2.3	:
<b>HU</b>	8.7	10.1	12.7	13.8	:
<b>LV</b>	1.4	1.4	1.6	2.1	2.5
<b>LT</b>	1.9	2.0	2.4	3.3	4.6
<b>PL</b>	16.8	18.7	23.6	26.3	:
<b>RO</b>	5.2	6.3	7.5	7.8	9.1
<b>SK</b>	6.3	7.5	8.4	:	:
<b>SI</b>	6.4	7.1	7.8	8.1	:
<b>CC-11<sup>(1)</sup></b>	68.2	77.5	95.7	95.6	:
<b>EU-15</b>	1560.9	1719.6	1897.2	2018.8	2232.5

<sup>(1)</sup> Countries available.

Source: Eurostat, National Accounts.

The respective figures for total imports were 4.9% in 1993 and 6.2% in 1996.

These ratios naturally give no indication as to the importance of individual CCs as

**Tab. II.1.5.4. Total imports at current prices and exchange rates, in Bn ECU**

	1993	1994	1995	1996	1997
<b>BG</b>	4.2	3.7	5.1	4.7	5.0
<b>CY</b>	2.7	3.0	3.4	3.7	3.7
<b>CZ</b>	15.0	18.5	23.5	26.9	29.0
<b>EE</b>	:	:	2.2	2.7	:
<b>HU</b>	11.4	12.4	13.1	14.2	:
<b>LV</b>	1.1	1.4	1.7	2.4	3.0
<b>LT</b>	2.1	2.2	3.0	3.9	5.5
<b>PL</b>	16.1	17.9	22.4	29.3	:
<b>RO</b>	6.3	6.8	9.0	10.2	11.2
<b>SK</b>	6.9	6.9	8.1	:	:
<b>SI</b>	6.2	6.8	8.0	8.2	:
<b>CC-11<sup>(1)</sup></b>	72.0	79.6	99.4	106.2	:
<b>EU-15</b>	1477.2	1619.9	1773.9	1865.5	2051.8

<sup>(1)</sup> Countries available.

Source: Eurostat, National Accounts.

foreign trade partners of individual EU Member States, and vice versa.

Section II.2. provides, on the basis of figures taken from foreign trade statistics, a country-by-country analysis for foreign trade in goods and for selected product groups.

### Trade in goods and services

Tables II.1.5.5. and II.1.5.6. give a breakdown of total exports and imports into goods and services for the CCs and EU-15.

In the European Union, goods account on average for around four-fifths of total exports, with services making up the remainder. Interestingly, the same breakdown applies for total imports.

The structure of Romanian, Slovenian and Lithuanian exports closely matches the average EU pattern.

Two CCs deviate appreciably from the EU average, however: Latvian exports display a roughly fifty-fifty pattern, while Cyprus has a breakdown of about 30% goods and 70% services.

**Tab. II.1.5.5. Share of goods and services in total exports, as a %**

	1993		1996	
	Goods	Serv.	Goods	Serv.
<b>BG</b>	90	10	78	22
<b>CY</b>	25	75	31	69
<b>CZ</b>	74	26	72	28
<b>EE</b>	:	:	62	38
<b>HU</b>	74	26	74	26
<b>LV</b>	66	34	57	43
<b>LT</b>	91	9	81	19
<b>PL</b>	84	16	79	21
<b>RO</b>	82	18	81	19
<b>SK</b>	74	26	:	:
<b>SI</b>	82	18	81	19
<b>EU-15</b>	78	22	80	20

Source: Eurostat, National Accounts.

**Tab. II.1.5.6. Share of goods and services in total imports, as a %**

	1993		1996	
	Goods	Serv.	Goods	Serv.
BG	89	11	79	21
CY	76	24	75	25
CZ	79	21	81	19
EE	:	:	83	17
HU	85	15	82	18
LV	84	16	75	25
LT	90	10	86	14
PL	88	12	90	10
RO	91	9	90	10
SK	79	21	:	:
SI	85	15	87	13
EU-15	81	19	80	20

Source: Eurostat, National Accounts.

Regarding the CCs' import structure, the range of deviations from the EU average is much narrower. Polish and Romanian imports comprise 90% goods and only 10% services. At the other end of the scale, three-quarters of imports into Latvia and Cyprus comprise goods, one quarter services. The ratio for Cyprus is particularly

striking, as it represents a virtual mirror image of the country's export structure.

#### Trade balance

From table II.1.5.7., which gives a separate trade balance for goods and services, it can be seen which CCs are net exporters or net importers.

In 1993, four of the ten CCs providing figures were net exporters: the Czech Republic, Latvia, Poland and Slovenia. For Cyprus, trade was in equilibrium. The biggest net importer in volume terms was Hungary, whose trade balance stood at ECU -2.7 Bn, followed by Romania with ECU -1.1 Bn. Interestingly, all CCs apart from Bulgaria recorded a trade surplus for services in 1993.

The picture was slightly different in 1996. Ten of the eleven applicant countries for which data are available had a negative overall trade balance ranging from around 1% of GDP in Slovenia to around 12% in Estonia. The other two Baltic States and Romania also recorded a relatively high ratio of negative trade balance, at around 7 to 10% of GDP.

No data being available for Slovakia, the only exception to this pattern was Bulgaria,

**Tab. II.1.5.7. Trade balance at current prices and exchange rates, in Bn ECU**

	Total	1993		Total	1996	
		Goods	Services		Goods	Services
BG	-0.7	-0.6	-0.1	0.2	0.1	0.1
CY	0.0	-1.4	1.3	-0.5	-1.8	1.3
CZ	0.4	-0.5	0.9	-3.1	-4.6	1.5
EE	:	:	:	-0.4	-0.8	0.4
HU	-2.7	-3.2	0.5	-0.4	-1.5	1.1
LV	0.3	0.0	0.3	-0.3	-0.6	0.3
LT	-0.2	-0.1	0.0	-0.6	-0.7	0.1
PL	0.7	0.0	0.7	-3.0	-5.7	2.8
RO	-1.1	-1.5	0.4	-2.3	-2.7	0.4
SK	-0.6	-0.8	0.2	:	:	:
SI	0.1	-0.1	0.2	-0.1	-0.6	0.4

Source: Eurostat, National Accounts.

with a positive trade balance equivalent to approximately 3% of GDP. The 1996 trade balance breakdown into goods and services is similar to that for 1993. All CCs had a positive balance of trade in services.

The overall figures would thus have been even more negative had the countries not been able to partly offset high net imports of goods with net exports of services.



## II.2. Trade in goods between the EU Member States and the Candidate Countries

### II.2.1. Exports and imports of goods between the Member States and the CCs

EU exports and imports of goods with the Candidate Countries are concentrated in few Member States. The main trader is clearly Germany which exports ECU 33.1 Bn to and imports ECU 26.6 Bn from the Candidate Countries. This made up 41.2% of the EU exports to and 46.6% of the EU imports from the Candidate Countries in 1997. Germany is followed — by some distance — by Italy and Austria. Italy made up 13.6% and Austria 8.9% of the EU exports to the Candidate Countries. The respective figures in the EU imports were Italy with a share of 12.3% and Austria with 8.9%. The smallest EU traders with the Candidate Countries, in terms of volume, are Portugal, Ireland and Greece,

which in 1997 together made up 2.1% of EU exports to the Candidate Countries and 2.1% of the EU imports from the Candidate Countries. The trade balances of the EU total with the Candidate Countries and of the individual Member States are positive whereby Germany alone makes up 27.7% of the total EU surplus.

The importance of individual Candidate Countries as trading partners of individual Member States varies strongly. Geographical proximity seems to be an important determinant of the intensity of the trading relations. For example, Germany's neighbouring countries, Poland and the Czech Republic, make up 57.2% of its exports to and 53.4% of its imports from the Candidate Countries. When Hungary and Slovakia are also considered, all these countries account for 82.2% of the German exports to and 81.6% of the German imports from the CCs.

Tab. II.2.1.1. EU exports of goods to the CCs, in Mio ECU, 1997

	BG	CY	CZ	EE	HU	LV	LT	PL	RO	SK	SI	CC-11
<b>EU-15</b>	1 837	1 931	15 836	2 378	13 560	1 532	2 144	25 020	5 007	4 799	6 303	80 347
<b>BLEU</b>	71	61	586	59	608	84	94	1 240	179	142	145	3 269
<b>DK</b>	28	21	158	91	101	85	211	780	41	41	45	1 600
<b>D</b>	561	287	8 398	335	5 935	452	843	10 519	1 601	2 323	1 819	33 071
<b>EL</b>	280	366	44	1	50	5	18	81	155	12	16	1 028
<b>E</b>	22	148	370	25	247	21	46	700	60	89	167	1 896
<b>F</b>	146	179	1 066	59	821	78	127	2 064	542	337	883	6 302
<b>IRL</b>	5	39	114	12	75	9	15	180	18	20	16	503
<b>I</b>	330	290	1 333	88	1 469	91	171	3 289	1 507	591	1 749	10 908
<b>NL</b>	84	75	656	84	581	102	128	1 522	182	209	189	3 812
<b>A</b>	129	18	1 527	24	2 588	19	34	859	281	701	946	7 127
<b>P</b>	10	12	20	3	58	2	5	41	5	9	5	169
<b>FIN</b>	25	13	253	1 148	177	245	146	640	22	55	31	2 754
<b>S</b>	35	44	315	360	234	219	156	1 170	113	82	89	2 817
<b>UK</b>	110	379	997	90	615	121	150	1 932	303	188	205	5 090

Source: Eurostat, COMEXT.



The situation is similar for Austria. Its neighbours, Czech Republic, Hungary, Slovenia and Slovakia, make up 80.8% of Austria's exports to and 85.4% of its imports from the Candidate Countries. Also the nearest neighbour country Estonia is the most important export market for Finland (41.7%) and the most important import source (39.6%) among the Candidate Countries. Finally, in Greece's trade, Bulgaria, Romania and Cyprus make up 77.9% of its exports to and 66.3% of its imports from the Candidate Countries.

Likewise, the individual Candidate Countries differ in their roles as export markets and import sources of the EU. Poland is the most important export market amongst the Candidate Countries with ECU 25.0 Bn and the most important import source with ECU 14.2 Bn. Both the EU exports and imports are concentrated on three Candidate Countries — Poland,

Czech Republic and Hungary — who make up shares of 67.7% and 65.7% respectively. Cyprus, on the other hand, makes up only 2.4% of the EU exports to and 0.7% of the EU imports from the Candidate Countries. The small Baltic Countries, Estonia, Lithuania and Latvia command a share of 7.5% of the EU exports to and 7.1% of the EU imports from the CCs.

### II.2.2. Trade structure between the EU and the CCs by product groups

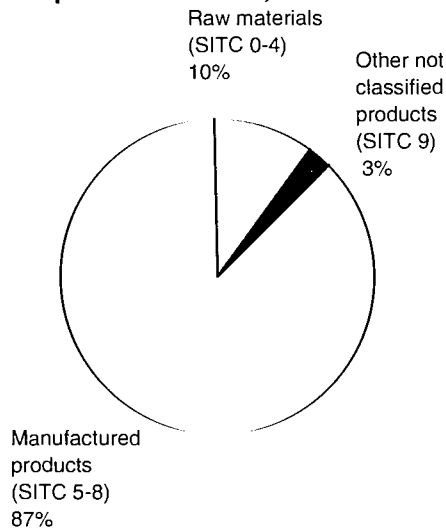
In 1997, the manufactured products (SITC 5-8)(<sup>1</sup>) account to 87.4% of the EU exports to the Candidate Countries and 83.4% of the EU imports from the Candidate Countries. Therefore, only a minor part of the exports (10.0%) and of the imports (15.1%) concern raw materials.

Tab. II.2.1.2. EU imports of goods from the CCs, in Mio ECU, 1997

	BG	CY	CZ	EE	HU	LV	LT	PL	RO	SK	SI	CC-11
<b>EU-15</b>	2 080	373	11 737	1 492	11 576	1 275	1 307	14 163	4 410	3 977	4 660	57 048
<b>BLEU</b>	96	14	374	55	385	60	69	478	141	116	91	1 878
<b>DK</b>	23	3	122	63	73	80	105	663	16	20	49	1 218
<b>D</b>	447	35	6 993	226	5 407	332	447	7 208	1 342	2 116	2 055	26 607
<b>EL</b>	364	48	87	1	78	1	2	76	174	32	21	885
<b>E</b>	127	5	158	16	266	11	56	254	89	60	47	1 090
<b>F</b>	144	56	558	29	676	36	123	1 029	420	170	410	3 650
<b>IRL</b>	2	4	40	4	25	15	2	67	4	6	4	174
<b>I</b>	536	18	755	20	1 151	18	69	1 350	1 500	521	1 068	7 006
<b>NL</b>	92	11	359	189	673	259	114	844	182	129	109	2 961
<b>A</b>	71	4	1 287	5	1 888	6	21	449	184	594	582	5 092
<b>P</b>	17	1	34	4	11	2	10	29	13	9	11	140
<b>FIN</b>	7	3	90	383	73	30	25	297	6	36	17	966
<b>S</b>	19	4	207	351	165	151	78	548	46	44	56	1 671
<b>UK</b>	135	168	673	146	705	274	185	870	293	122	140	3 711

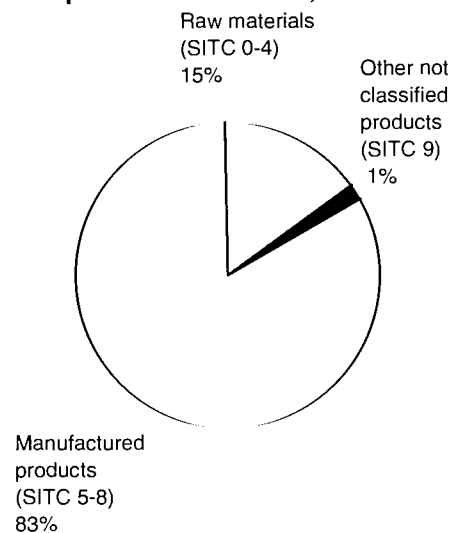
Source: Eurostat, COMEXT.

(<sup>1</sup>) The Standard International Trade Classification (SITC) is a trade nomenclature introduced by the United Nations for the purposes of economic analysis. In this document, the third revision of the nomenclature (SITC Rev. 3), introduced in 1988, is used.

**Fig. II.2.2.1. Product structure of the EU exports to the CCs, 1997**


Source: Eurostat, COMEXT.

Within the manufactured products, both the exports and imports between the EU and the Candidate Countries mainly involve machinery and transport equipment (SITC 7) with ECU 34.0 Bn of exports and with ECU 18.1 Bn of imports. They make up 48.5% of the EU manufactured exports and 42.4% of total EU exports to the Candidate Countries. On the other side,

**Fig. II.2.2.2. Product structure of the EU imports from the CCs, 1997**


Source: Eurostat, COMEXT.

the EU imports of machinery and transport equipment make up 38.1% of the EU manufactured imports and 31.7% of total EU imports from the Candidate Countries.

The second largest product group is manufactured goods classified by material (SITC 6) which includes, amongst other things, textile products.

**Tab. II.2.2.1. EU exports to and imports from the CCs by product groups (SITC), in Mio ECU, 1997**

	Exports	Imports	Trade Balance
<b>Raw materials</b>	<b>8 064.4</b>	<b>8 606.9</b>	<b>- 542.4</b>
Food and live animals (0)	3 786.4	2 570.0	1 216.4
Beverages and tobacco (1)	566.0	246.6	319.4
Crude materials, inedible, exc. fuels (2)	1 548.8	3 270.0	-1 721.1
Mineral fuels (3)	1 882.8	2 480.3	- 597.5
Animal and veg. oils, fats and waxes (4)	280.3	40.0	240.4
<b>Manufactured products (5-8)</b>	<b>70 227.2</b>	<b>47 586.3</b>	<b>22 640.9</b>
Chemicals (5)	9 531.4	3 259.4	6 271.9
Manuf. goods class. by material (6)	17 061.0	13 185.9	3 875.2
Machinery and transport equip. (7)	34 037.8	18 110.8	15 927.0
Misc. manufactures articles (8)	9 596.9	13 030.1	-3 433.2
<b>Other not classified goods (9)</b>	<b>2 055.8</b>	<b>854.8</b>	<b>1 200.9</b>
<b>TOTAL</b>	<b>80 347.4</b>	<b>57 048.0</b>	<b>23 299.4</b>

Source: Eurostat, COMEXT.

This group makes up 24.3% of the EU exports in manufactured products to and 27.7% of the manufactured imports from the Candidate Countries. Another important product group of manufactured products is miscellaneous manufactured articles (SITC 8) with shares of 13.7% of manufactured exports to and even 27.4% of the manufactured imports from the CCs. Miscellaneous manufactured articles include, for example, products such as clothing. The EU only has a negative trade balance for miscellaneous manufactured articles (SITC 8), crude materials (SITC2) and mineral fuels (SITC3).

### II.2.3. Trade in goods between the EU and the CCs by selected product groups

#### Machinery and transport equipment

EU exports to the Candidate Countries are concentrated in machinery and transport equipment (SITC 7) which amount to ECU 34.0 Bn in 1997. These exports come main-

ly from Germany with a share of 45.7% of EU machinery and transport equipment exports, followed by Italy (12.5%), Austria (8.8%) and France (8.7%). These four countries contribute 75.7% of the EU machinery and transport equipment exports to the Candidate Countries. On the other hand, other Member States such as Portugal, Greece and Ireland make up less than 1% each of the EU exports to the Candidate Countries (1.3% together). Furthermore, the machinery and transport equipment exports of the EU firms to the CCs are concentrated in few countries: Poland, Hungary and the Czech Republic make up 30.1%, 20.2% and 20.9% respectively of the EU exports to the Candidate Countries. Other Candidate Countries such as Bulgaria, Latvia and Cyprus play a rather minor quantitative role in the EU machinery and transport equipment exports (1.5%, 1.5% and 2.0% respectively).

Again, not only is Germany the largest EU exporter of machinery and transport equipment to the Candidate Countries (45.7%),

Tab. II.2.3.1. EU exports of machinery and transport equipment to the CCs, in Mio ECU, 1997

	BG	CY	CZ	EE	HU	LV	LT	PL	RO	SK	SI	CC-11
EU-15	524	683	7 130	931	6 873	511	779	10 257	1 613	2 363	2 374	34 038
BLEU	17	12	173	10	267	17	18	350	40	36	30	970
DK	5	6	59	27	25	17	56	210	19	10	12	446
D	215	168	3 965	160	3 385	185	328	4 416	641	1 355	738	15 554
EL	31	68	2	0	7	0	10	3	27	0	2	150
E	6	81	174	11	159	2	18	360	24	50	106	990
F	36	86	543	17	358	33	64	885	218	184	553	2 978
IRL	1	7	60	4	31	4	4	66	4	8	5	193
I	95	100	609	33	514	36	64	1 791	293	212	492	4 240
NL	14	15	193	25	165	19	39	377	42	63	35	986
A	46	5	512	8	1 423	5	8	353	114	251	258	2 982
P	0	2	7	0	46	0	1	19	1	8	0	85
FIN	8	6	178	467	93	94	64	271	13	23	12	1 230
S	16	16	126	144	105	63	56	441	77	43	43	1 130
UK	35	111	529	26	294	36	50	716	100	120	88	2 105

Source: Eurostat, COMEXT.

but Germany's neighbours Poland and the Czech Republic are its main export markets. They record respective shares of 28.4% and 25.5% of Germany's exports to the Candidate Countries. Similarly, Austria's machinery and transport equipment exports are concentrated on its neighbour Hungary, importing 47.7%, and the Czech Republic taking 17.2%. Although Estonia does not play an important role in the EU machinery and transport equipment exports, it is Finland's most important export market for machinery and transport equipment (37.9%) among the Candidate Countries.

The EU imports of machinery and transport equipment amount to ECU 18.1 Bn and make up 31.7% of EU imports from the Candidate Countries. The main importers of machinery and transport equipment are Germany, Italy, France and Austria with a share of 77.0% of EU machinery and transport equipment imports from the Candidate Countries.

As in the export situation, Ireland, Portugal and Greece play a minor role as they toge-

ther make up only 1.5% of the EU imports of machinery and transport equipment. The main EU importer of machinery and transport equipment, Germany, imports predominantly from Hungary (33.5%) followed by the Czech Republic (28.3%). Just as in total imports, Austria's and Finland's imports of machinery and transport equipment come mainly from their neighbour countries, Hungary and Estonia.

On the other side, for the EU the most important sources of the machinery and transport equipment imports from the Candidate Countries are Hungary (32.8%), the Czech Republic (24.0%) and Poland (19.0%). The machinery and transport equipment imports from these three countries went mainly to Germany.

#### Miscellaneous manufactured goods

Miscellaneous manufactured goods (SITC (6+8)) comprise 33.2% of the EU exports to the Candidate Countries. The group of miscellaneous manufactured goods contain such products as clothing and textiles.

**Tab. II.2.3.2. EU imports of machinery and transport equipment from the CCs, in Mio ECU, 1997**

	BG	CY	CZ	EE	HU	LV	LT	PL	RO	SK	SI	CC-11
<b>EU-15</b>	165	119	4 343	259	5 944	46	138	3 449	472	1 414	1 761	18 111
<b>BLEU</b>	3	0	137	1	250	0	2	112	20	53	10	590
<b>DK</b>	2	0	62	2	19	1	7	69	3	2	17	184
<b>D</b>	65	4	2 617	11	3 091	24	33	1 408	192	1 001	794	9 240
<b>EL</b>	13	10	32	0	32	0	0	47	10	3	10	156
<b>E</b>	6	0	50	1	172	0	18	111	11	16	8	393
<b>F</b>	13	40	296	1	337	1	39	287	60	46	281	1 402
<b>IRL</b>	0	2	29	0	20	0	0	18	0	1	1	72
<b>I</b>	31	8	247	0	182	1	16	733	104	88	369	1 778
<b>NL</b>	8	2	114	1	415	1	3	199	24	28	34	829
<b>A</b>	12	0	298	1	845	0	0	51	19	127	167	1 521
<b>P</b>	1	0	17	0	5	0	8	9	1	1	7	48
<b>FIN</b>	1	1	37	132	31	4	1	20	2	11	6	246
<b>S</b>	3	1	106	107	77	5	4	130	7	12	16	467
<b>UK</b>	7	51	301	3	469	9	6	253	19	26	40	1 184

Source: Eurostat, COMEXT.

These exports to the CCs derive mainly from Germany (41.2%), Italy (18.4%) and Austria (8.8%). Also in this product group the importance of individual Candidate Countries as export markets vary considerably across the Member States. For Germany, the main export markets are Poland (33.1%) and the Czech Republic (25.3%). For Italy, they are Poland (22.6%) and Romania (20.3%) and finally, for Austria, they are Hungary (32.8%) and the Czech Republic (22.8%). The smaller Candidate Countries, Cyprus and the three Baltic Countries, and also Bulgaria, play a quantitatively minor role in the EU exports of miscellaneous manufactured goods to the CCs. However, Estonia is a very important export market of miscellaneous manufactured goods for Finland, taking a 41.4% share of its exports of miscellaneous manufactured goods to the Candidate Countries. In addition, Cyprus makes up 9.3% of the UK's exports to the Candidate Countries. The imports of miscellaneous manufactured goods are the most important product group, amounting to 46.0% of total imports from the Candidate Countries.

Compared to the exports, the imports of miscellaneous manufactured goods are even more highly concentrated on certain Member States. Germany is the main importer of miscellaneous manufactured goods with a share of 49.1% of total EU imports from the CCs. Far behind, Italy follows with a share of 13.8%, Austria with 7.4% and France with 6.2%. Finally, Cyprus contributes a very low share of EU imports from the Candidate Countries with 0.5%, as does Latvia with 1.3%. The sources of the EU imports of the miscellaneous manufactured goods from the Candidate Countries are mainly Poland (27.4%), the Czech Republic (19.3%) and Romania (13.1%). Moreover, the sources of the miscellaneous manufactured goods imports also vary considerably by Member State. The main sources of imports to Germany are Poland, Czech Republic and Hungary, contributing 70.4% of its imports. For Italy, the main sources are Romania (34.4%), Slovenia (14.3%) and Hungary (13.1%). Bulgaria is a very important importer for Greece (45.7%) and Estonia for Finland (50.8%).

**Tab. II.2.3.3. EU exports of miscellaneous manufactured goods to the CCs, in Mio ECU, 1997**

	BG	CY	CZ	EE	HU	LV	LT	PL	RO	SK	SI	CC-11
<b>EU-15</b>	787	661	5 002	779	4 195	443	707	7 946	2 352	1 407	2 380	26 658
<b>BLEU</b>	13	19	184	15	136	13	35	413	72	44	45	989
<b>DK</b>	8	5	39	26	24	30	73	262	4	10	11	492
<b>D</b>	227	49	2 782	81	1 755	131	263	3 634	726	615	721	10 984
<b>EL</b>	138	182	11	0	13	0	3	24	32	4	1	409
<b>E</b>	9	42	77	6	51	9	16	194	17	10	23	455
<b>F</b>	60	44	211	19	216	13	30	543	202	66	228	1 632
<b>IRL</b>	2	2	37	1	30	2	2	60	7	8	7	158
<b>I</b>	200	144	496	44	717	42	57	1 105	994	266	834	4 900
<b>NL</b>	28	13	150	17	149	12	36	365	55	51	62	939
<b>A</b>	44	7	536	6	770	6	10	296	81	242	352	2 348
<b>P</b>	10	6	10	2	11	2	3	14	4	1	3	65
<b>FIN</b>	13	5	50	394	63	70	53	255	7	25	15	950
<b>S</b>	8	14	127	138	87	78	63	363	22	24	23	946
<b>UK</b>	27	130	291	30	171	33	65	419	130	41	55	1 393

Source: Eurostat, COMEXT.

**Tab. II.2.3.4. EU imports of miscellaneous manufactured goods from the CCs, in Mio ECU, 1997**

	BG	CY	CZ	EE	HU	LV	LT	PL	RO	SK	SI	CC-11
<b>EU-15</b>	1 243	134	5 057	553	3 346	349	546	7 191	3 432	1 887	2 478	26 216
<b>BLEU</b>	57	3	191	15	82	8	30	238	98	46	77	844
<b>DK</b>	15	1	44	32	29	44	69	328	8	12	20	601
<b>D</b>	282	16	3 176	95	1 576	131	217	4 314	1 038	873	1 154	12 872
<b>EL</b>	191	24	33	1	21	1	0	26	98	15	9	419
<b>E</b>	86	1	69	2	37	3	9	58	51	34	36	389
<b>F</b>	78	9	187	11	206	9	20	548	333	104	117	1 622
<b>IRL</b>	0	2	10	0	4	0	0	11	3	5	3	38
<b>I</b>	360	3	287	15	472	14	32	342	1 243	330	517	3 614
<b>NL</b>	49	3	159	32	159	44	29	385	140	70	67	1 137
<b>A</b>	26	1	491	3	531	4	16	159	119	258	334	1 942
<b>P</b>	13	0	13	3	3	1	1	13	9	9	4	70
<b>FIN</b>	4	0	34	193	25	15	19	55	3	22	10	379
<b>S</b>	10	0	80	125	49	40	47	272	38	28	37	727
<b>UK</b>	72	70	284	26	152	35	58	440	251	83	92	1 563

Source: Eurostat, COMEXT.

Although the trade balance of the EU with the CCs in the miscellaneous manufactured goods is positive, it is negative for Germany, Denmark, Netherlands, Greece, Portugal and the UK.

## II.2.4. EU imports of selected product groups

### Food and beverages

The EU imports of food and beverage (SITC(0+1)) amount to ECU 2.8 Bn and make up 4.9% of total EU imports from the Candidate Countries. The main importers of the food and beverage products are Germany with ECU 1.2 Bn (43.0%) followed by Italy with ECU 0.4 Bn (15.1%) and Austria with ECU 0.3 Bn (9.1%). Germany's main providers of food and beverage products were Poland and Hungary, contributing 71.8% of Germany's food and beverage products imports from the Candidate Countries.

The main exporters to the EU from the Candidate Countries are Poland (35.3%), Hungary (30.5%) and the Czech Republic

(8.7%). In this product group, Bulgaria is also important with a share of 7.3%. Poland was the most important exporter of food and beverage products not only for Germany, but also for BLEU, Denmark, Netherlands, Portugal, Finland, Sweden and the UK. As EU exports of food and beverage amount to ECU 4.4 Bn, the EU and also all individual Member States have a positive trade balance in these products with the CCs.

### Crude materials

The imports of crude materials (SITC(2-4)) amount to ECU 5.8 Bn and make up 10.1% of total EU imports from the Candidate Countries. The overall trade balance for the EU is negative but Greece, France, Sweden and the UK have a positive trade balance. The main EU importers are Germany (30.5%), Austria (17.9%), the Netherlands (9.2%) and Italy (9.2%). The main sources of the crude materials are Poland and the Czech Republic who provide 25.6% and 19.1% of total imports of crude materials. The Baltic Countries, Latvia (14.0%) and Estonia (10.1%), are also important sources of crude materials.

Tab. II.2.4.1. EU imports of food and beverages from the CCs, in Mio ECU, 1997

	BG	CY	CZ	EE	HU	LV	LT	PL	RO	SK	SI	CC-11
<b>EU-15</b>	206	84	246	57	858	22	78	995	140	68	63	2 817
<b>BLEU</b>	10	6	5	1	19	0	4	22	1	3	1	72
<b>DK</b>	5	1	2	4	4	4	6	53	4	3	0	86
<b>D</b>	49	12	155	10	352	8	34	517	35	21	17	1 210
<b>EL</b>	23	6	5	0	15	0	0	2	12	2	0	66
<b>E</b>	4	1	3	0	18	0	0	4	2	0	1	34
<b>F</b>	17	6	8	1	64	1	3	58	5	2	1	165
<b>IRL</b>	0	0	0	0	0	1	1	8	1	0	0	11
<b>I</b>	21	4	7	0	152	0	5	142	49	17	27	424
<b>NL</b>	17	2	13	24	22	6	20	68	5	7	4	188
<b>A</b>	16	4	27	0	146	0	0	31	14	10	7	256
<b>P</b>	0	0	1	0	0	0	1	2	0	0	0	4
<b>FIN</b>	1	2	2	5	10	0	2	12	1	0	0	35
<b>S</b>	4	3	5	5	20	2	2	29	1	1	2	74
<b>UK</b>	38	37	12	7	35	0	0	48	9	1	3	191

Source: Eurostat, COMEXT.

Tab. II.2.4.2. EU imports of crude materials from the CCs, in Mio ECU, 1997

	BG	CY	CZ	EE	HU	LV	LT	PL	RO	SK	SI	CC-11
<b>EU-15</b>	190	24	1 106	584	657	812	375	1 482	160	272	130	5 790
<b>BLEU</b>	10	4	12	35	13	41	24	48	13	8	1	207
<b>DK</b>	1	0	2	22	3	22	8	46	0	1	0	105
<b>D</b>	28	0	496	104	149	159	118	616	29	51	15	1 765
<b>EL</b>	77	5	13	0	3	0	2	1	33	11	1	146
<b>E</b>	6	2	13	11	5	7	20	37	4	3	0	108
<b>F</b>	5	0	21	12	8	25	21	62	17	6	1	177
<b>IRL</b>	0	0	0	4	0	14	1	30	0	0	0	49
<b>I</b>	39	2	76	4	167	4	16	56	38	38	91	532
<b>NL</b>	9	2	15	127	19	200	59	93	4	7	0	535
<b>A</b>	6	0	397	0	271	1	4	178	20	139	20	1 038
<b>P</b>	0	0	1	0	0	1	0	1	0	0	0	3
<b>FIN</b>	1	0	12	48	3	11	1	195	0	0	0	273
<b>S</b>	1	0	9	112	10	101	17	75	0	2	0	329
<b>UK</b>	6	7	38	103	6	227	84	43	2	6	0	522

Source: Eurostat, COMEXT.

## II.3. Monetary and financial indicators of the Candidate Countries

### II.3.1. Exchange rates

In some Candidate Countries, such as Latvia, Lithuania, Estonia and Slovenia, the history of exchange rate policy began only in the very recent past. Other countries can look back on a longer tradition which took on fresh impetus at the beginning of the decade. The three Baltic States and Slovenia introduced new currencies after gaining independence. When the Slovak Republic and the Czech Republic separated at the beginning of 1993, the old currency was replaced by two new ones. They initially had a one-to-one exchange rate, but have since developed independently.

Notwithstanding their varied monetary history, all the Candidate Countries are tending to achieve sustained currency stability while maintaining a credible monetary policy aimed at attracting foreign capital. What is more, since 1989 these countries have opened up to the Western economy. They have accordingly established more or less restrictive foreign exchange rules, their exchange rates being

linked, more often than not, to the European currencies.

#### The exchange rate systems

The various systems adopted by the Candidate Countries fall into five major categories ranging from the most lax to the most restrictive.

**The floating exchange rate:** this is the system adopted by Romania under which the exchange rate is calculated in relation to the US dollar. However, Romania has announced its intention to adopt a more fixed exchange rate.

A variant on the floating rate of exchange is **the semi-floating exchange rate** adopted by Slovenia and the Czech Republic. Upon gaining independence, Slovenia was obliged to pursue a flexible exchange rate policy on account of its low foreign exchange reserves. However, the currency is so astutely managed that it gives the appearance of being pegged to the German mark. In keeping with its long tradition of stability, the Czech Republic adopted in February 96

Tab. II.3.1.1. ECU exchange rates, annual averages  
1 ECU=...national currency units

	1993	1994	1995	1996	1997
BG	32.3899	64.5315	80.0110	223.2474	1 901.2181
CY	0.5829	0.5839	0.5916	0.5919	0.5826
CZ	34.1382	34.2403	34.7727	34.4572	35.9304
EE	15.4841	15.4531	14.9963	15.2802	15.7427
HU	107.6535	135.6060	164.5450	193.7410	211.6450
LV	0.7929	0.6641	0.6896	0.6996	0.6595
LT	5.0870	4.7313	5.2320	5.0790	4.5362
PL	2.1213	2.7029	3.1719	3.4234	3.9108
RO	890.0186	1 968.7627	2 947.1200	3 922.1900	8 111.5000
SK	36.0317	38.1182	38.8649	39.3801	38.1061
SI	132.6040	155.2450	154.8800	171.7780	180.9960

Source: Eurostat.



a fixed exchange rate for the koruna against a basket of currencies (65% DEM and 35% USD). In May 1997, however, market pressures forced the central bank to sever this link and allow its currency to be devalued.

A **crawling peg** system is used by two countries: Poland and Hungary. In Poland, since the end of 1991 the zloty is tied to a basket comprising 45% USD, 35% DEM, 10% GBP, 5% FRF and 5% CHF. Over time its fixed devaluation rate has been reduced to 0.8% per month; at the same time, its fluctuation band has been widened from plus or minus 7% to plus or minus 10%. The reference basket for the Hungarian forint is made up of 70% DEM and 30% USD. Its pre-established devaluation rate is presently fixed at 1.2% per month.

Slovakia, Latvia and Cyprus opted for a more restrictive system: the **peg**. The Slovak koruna is tied 60% to the DEM and 40% to the USD, the fluctuation margin being 7%. Despite trading difficulties following devaluation in the Czech Republic, the Slovak koruna's fixed exchange rate remained unchanged in 1997. Latvia chose to link its currency to the SDR (1 SDR = 0.7997 LVL), with intervention margins of plus or minus 1%. Cyprus, however, links its currency to the ECU (1 ECU = 0.5853 CYP); the Cyprus pound has a fluctuation band of 2.25%.

Bulgaria, Lithuania and Estonia adopted a very stringent exchange rate system: **the currency board<sup>(1)</sup>**. Bulgaria adopted this system in 1997 in the wake of a severe crisis. The Bulgarian lev is linked to the DEM (BGL 1 000 = DEM 1). The Estonian kroon is also tied to the DEM (EEK 1 = DEM 8). Lithuania, by contrast, decided to peg its currency to the USD, the exchange rate being 4 litas to the dollar. This arrangement is currently under review, however.

### Exchange rate movements between 1993 and 1997

In Bulgaria, the value of the lev fell sharply between 1993 and June 1997, from BGL 32 to almost BGL 2 000 to the ECU. After the introduction of the currency board, the Bulgarian currency stabilised against the DEM.

Cyprus is enjoying a period of sustained monetary stability, with its currency remaining well within the fixed fluctuation band against the ECU.

In the Czech Republic, the value of the currency remained very stable until May 1997, when market pressures forced the central bank to end linkage and allow the koruna to depreciate. It then lost 4% of its value.

The Estonian currency remained stable over the reference period thanks to Draconian measures imposed by the currency board. The fluctuation margin vis-à-vis the ECU is less than 5%.

In Hungary, the central bank allowed the currency to depreciate in a controlled manner in line with the crawling peg regime. The forint nevertheless lost almost 50% of its value during the period under review.

Latvia saw its currency appreciate by some 20% between 1993 and 1997.

The Lithuanian currency rose in value by around 12% over the period by virtue of the US dollar's appreciation against the ECU.

In Poland, the central bank allowed controlled depreciation of the zloty, which lost almost 46% of its value between 1993 and 1997.

Having eschewed a restrictive exchange rate policy, Romania saw the value of its currency plummet from 890 leus to the ECU in 1993 to more than 8 000:1 in 1997.

(<sup>1</sup>) The currency board is an exchange rate system whereby a country undertakes to convert its currency at a fixed exchange rate. To ensure the credibility of this commitment, the currency board holds foreign exchange or gold reserves in an amount equivalent to at least 100% of the national currency issued. Unlike a conventional central bank, the currency board introduces coins and notes into circulation only in return for an equivalent amount of foreign exchange reserves.

In the Slovak Republic, the koruna depreciated slightly following its introduction in 1993. From 1994 to 1997, it remained very stable, withstanding the market pressures caused by devaluation in the Czech Republic.

In Slovenia, the tolar lost 27% of its value over the whole of the period under review. Since 1997, however, the central bank has succeeded in keeping its currency within a fluctuation band of less than 5% against the DEM.

### II.3.2. Official reserves, money supply and interest rates

#### Official reserves

All Candidate Countries increased their foreign official reserves substantially during the 1993-97 period, helped by net inflows of capital from abroad. Poland had the highest level of reserves at the end of the period, having risen by 415% in ECU terms between 1993 and 1997, a rate of growth surpassed only by the Slovak Republic (702%). The slowest rate of growth in reserves between 1993 and 1997 was recorded by Hungary (29%), which nevertheless had the third-highest level of reserves

among the 11 countries at the end of 1997. The Czech Republic had the second largest reserves, despite the outflow of capital which occurred at the time of currency instability during the second quarter of 1997.

To give an idea of the level of foreign official reserves (excluding gold) in the Candidate Countries relative to the EU, at the end of 1997 reserves in the EU ranged from ECU 5.9 Bn in Ireland to ECU 70.3 Bn in Germany.

#### Money Supply

On the basis of the narrow monetary aggregate M1, money supply grew fastest in Bulgaria and Romania during 1993-97. There is often an observable link between strong monetary growth and inflation: Bulgaria and Romania were also the countries which tended to have the fastest rate of growth in prices. In some countries there has been a clear downward trend in M1 growth during the period, notably in the Czech Republic, in Slovakia and in Slovenia.

As an intermediate policy target, Slovenia sets a growth rate for the broad monetary measure M3. In 1997 M3 grew by 22.9%

Tab. II.3.2.1. Foreign reserves excluding gold, in Mio ECU

	1993	1994	1995	1996	1997
BG	587	814	941	386	1 986
CY	983	1 191	850	1 231	1 260
CZ	3 396	4 996	10 533	9 858	8 815
EE	346	360	441	508	686
HU	6 069	5 536	9 170	7 817	7 676
LV	387	443	385	522	638
LT	314	427	576	616	915
PL	3 668	4 749	11 242	14 241	18 481
RO	892	1 696	1 201	1 678	3 444
SK	373	1 375	2 560	2 729	2 925
SI	706	1 219	1 385	1 834	3 002

Source: Eurostat.

(measured in the year to the fourth quarter), slightly above its target range of 18-22%. The target range for 1998 is 18-26%.

**Tab. II.3.2.2. M1 growth, as a %**

	1994	1995	1996	1997
<b>BG</b>	55.5	43.6	119.3	867.9
<b>CY</b>	4.9	6.2	6.7	7.7
<b>CZ</b>	50.2	6.7	4.7	-7.3
<b>EE</b>	20.6	29.1	30.9	22.6
<b>HU</b>	8.0	6.4	19.4	22.7
<b>LV</b>	62.6	-1.1	21.4	35.7
<b>LT</b>	41.7	40.8	3.5	41.0
<b>PL</b>	39.7	36.4	31.6	46.5
<b>RO</b>	107.8	64.9	57.7	67.6
<b>SK</b>	6.2	20.9	15.8	-4.2
<b>SI</b>	46.6	24.8	18.4	17.1

Source: Eurostat.

### Interest rates

As with money supply growth, the link between inflation and interest rates is apparent, with interest rates tending to be higher in those countries with higher inflation (notably Bulgaria, Romania).

Rates were on a downward trend throughout the period 1993-97 in Latvia, Lithuania, Slovak Republic, and Slovenia. In Bulgaria, interest rates fell sharply following the establishment of the currency board in July 1997.

The Czech Republic raised interest rates in 1996 in response to strong economic growth and pressure on the currency peg. Monetary policy remained tight after devaluation of the Czech currency in May 1997, in order to keep to the low inflation objective. High interest rates (relative to inflation) were also maintained by the Slovak central bank in 1997, partly as a counterweight to the expansive stance of fiscal policy, partly to support the currency which came under speculative pressure.

In Estonia, the restrictive measures taken in the second half of 1997 in response to growing economic disequilibria (related to strong economic growth) included a tightening of monetary policy. In early 1998, upward pressure on the Polish zloty was a contributory factor behind the Polish authorities' decision to lower interest rates.

**Tab. II.3.2.3. Interest rates, as a %**

			1993	1994	1995	1996	1997
<b>BG</b>	interbank	average	:	97.5	69.9	286.4	136.8
<b>CY</b>	discount	end year	6.5	6.5	6.5	7.5	7.0
<b>CZ</b>	discount	end year	8.0	8.5	9.5	10.5	13.0
<b>EE</b>	interbank	average	:	5.7	4.9	3.5	6.4
<b>HU</b>	interbank	average	15.4	25.6	31.3	23.8	20.8
<b>LV</b>	interbank	average	51.4	37.2	22.4	13.1	3.7
<b>LT</b>	interbank	average	:	69.5	26.8	20.3	11.0
<b>PL</b>	money market	average	24.5	23.3	25.8	20.6	22.4
<b>RO</b>	discount	end year	70.0	58.0	35.0	35.0	40.0
<b>SK</b>	discount	end year	12.0	12.0	9.8	8.8	8.8
<b>SI</b>	interbank	end year	34.7	24.7	15.9	10.2	9.8

Source: Eurostat.

## II.4. Prices and Purchasing Power Parities in the Candidate Countries

### II.4.1. Consumer prices

The development of consumer price indices in the Candidate Countries clearly shows that the economies in all the former Eastern Block countries have undergone dramatic changes. For example, the yearly inflation rate of consumer prices was more than 1 200 percent in Slovenia in 1989, and it peaked around 1 000 percent (i.e. approximately a 10-fold increase of prices over just one year) for the three Baltic States, Estonia, Latvia, and Lithuania, in 1992.

This level is far above the inflation rates found amongst the EU Member States during the same period. Likewise, the inflation rate peaked with an inflation rate above 500 in Poland (1990), 300 in Bulgaria (1991), and 250 in Romania (1993). In the Czech Republic

and in Slovakia, the inflation rates have developed in parallel with a peak just above 50 percent in 1991.

The only Candidate Countries that did not follow this pattern were Hungary and Cyprus. The rate of inflation for Hungary peaked at 35 percent in 1991 but this peak is only slightly above the inflation rates in the rest of the period. In Cyprus, which since long belongs to the market economies, the inflation rate was fairly stable around or below the 5 percent mark.

Since the initial peak, the inflation rates have been decreasing in most of the Candidate Countries. Estonia, Latvia, Lithuania, and Poland are with the latest inflation figures down to or slightly below the level where Hungary has been for the whole period.

Tab. II.4.1.1. Consumer prices growth, as a % <sup>(1)</sup>

	1990	1991	1992	1993	1994	1995	1996	1997
<b>BG</b>	23.8	338.5	79.4	56	87.1	62.1	123	1082.3
<b>CY</b>	4.5	5.04	6.5	4.89	4.7	2.61	2.98	:
<b>CZ</b>	9.7	56.5	11.1	20.8	10	9.1	8.8	8.6
<b>EE</b>	:	:	1 076.0	89.8	47.7	29	23.1	11.2
<b>HU</b>	28.9	35	23	22.5	18.8	28.2	23.6	18.4
<b>LV</b>	10.5	172.2	951.2	109.2	35.9	25	17.6	8.4
<b>LT</b>	9.1	216.4	1020.8	410.2	72.2	39.6	24.6	8.9
<b>PL</b>	585.8	70.3	43	35.3	32.2	27.8	19.9	15
<b>RO</b>	5.1	170.2	210.4	256.1	136.7	32.3	38,8	154.8
<b>SK</b>	10.4	61.2	10	23.2	13.4	9.9	5.8	6.1
<b>SI</b>	551.6	115	207.3	31.7	21	13.5	9.9	7.4 <sup>(2)</sup>
<b>- RPI <sup>(3)</sup></b>	549.7	117.7	201.3	32.3	19.8	12.6	9.7	5.0 <sup>(2)</sup>
<b>EU-15 CPI Average</b>	5.8	5.1	4.2	3.4	3.1	3.1	2.5	2
<b>min</b>	2.5	2.4	2.1	1.3	1.1	1	0.5	0.5
<b>max</b>	20.4	19.5	15.9	14.4	10.9	9.3	8.5	5.5

<sup>(1)</sup> Percentage change of yearly average over the previous year - all items index (data is based on national CPIs which are not strictly comparable).

<sup>(2)</sup> Provisional data.

<sup>(3)</sup> Retail price index (official indicator of inflation rate in Slovenia).

Source: Eurostat.

This means that the inflation for this group of countries is between 15 and 25 per cent. The Czech and Slovak Republics have inflation rates that approach more and more the same level as the EU Member State with the highest inflation rate (Greece). The same is also the case with Slovenia. The 1996 and 1997 levels for these three countries are around 5-8 percentage points.

In Romania, the inflation peaked later than in most of the other Candidate Countries and the rate of inflation has not yet decreased to the same level as in the other countries undergoing the same development. The 1996 figure is still 1.5 times higher than in the typical inflation rate for the Candidate Countries.

Bulgaria is the exception to the general decrease in inflation rates. The peak in 1991 was followed by a sharp decrease in the two following years. However, since then the inflation increased and it rose to a level just above 120 in 1996.

Bulgaria is the only Candidate Country experiencing such a development in consumer prices. Finally, the development of the consumer prices in Cyprus is fairly stable and for the most part within the range experienced by the current EU Member States.

#### II.4.2. Purchasing Power Parities

Calculations of GDP in real terms are affected by two main sources of error: the uncertainties inherent in GDP data at current prices and the limitations of the PPP used to translate GDP into real volume terms.

PPP calculations are based on major price surveys covering a basket of goods and services which are both comparable and representative for the countries included in the comparison. These two requirements make it particularly difficult to establish reliable PPPs for economies in transition. In

1993, the ten Eastern European countries covered by this publication (no PPPs are currently available for Cyprus) participated in the European Comparison Programme (ECP) for the first time. In 1996 they were involved for a second time. The ECP comprises various groups of countries. The first, coordinated by Eurostat, includes the EU-15 countries and Poland. The second, coordinated by the Austrian Statistical Office (ÖSTAT), includes Bulgaria, Estonia, Latvia, Lithuania, Romania and Slovenia. The Czech Republic, Hungary, Slovakia and Slovenia take part in a wider comparison with all OECD countries. The figures for Poland, the Czech Republic, Hungary, Slovakia and Slovenia presented in this report come from the OECD. The figures for Bulgaria, Estonia, Latvia, Lithuania and Romania come from the Austrian Statistical office.

Preliminary results of the 1996 exercise are now available. They show some significant differences compared with the PPPs extrapolated for 1996 on the basis of the 1993 results. The principal reasons for this divergence are as follows:

1. PPPs represent spatial comparisons that can be thought of as snapshots of a particular moment in time: they are not intended to be used for creating time series — and are subject to limitations when so used. Between periodic PPP calculations methodology and practice are often changed significantly in an attempt to ensure the best snapshot.
2. The 1993 PPPs for the CCs were calculated as individual bilateral (i.e. non-transitive) comparisons with Austria. Comparison with other EU countries was done via Austria, which also participated in the 1993 multilateral EU comparison. The 1996 calculations were genuine multilateral comparisons involving Austria and all the CCs; Austria was still used as the bridge for comparisons with other EU countries.

**Tab. II.4.2.1. GDP-parities (PPP)**  
**1 PPS=...national currency units**

	1993	1994	1995	1996	1997
<b>BG</b>	7.9468	13.3614	21.5351	45.4002	466.1003
<b>CZ</b>	:	11.1795	12.1118	12.7944	13.3230
<b>EE</b>	2.7742	3.7778	4.9263	5.8202	6.3726
<b>HU</b>	48.3811	56.2932	70.6105	81.6025	92.6919
<b>LV</b>	0.1418	0.1910	0.2192	0.2436	0.2535
<b>LT</b>	:	:	1.3433	1.6025	1.7920
<b>PL</b>	0.7610	0.9514	1.2070	1.3640	1.5286
<b>RO</b>	183.0153	425.9660	570.2970	786.2634	1 894.8221
<b>SK</b>	10.8708	12.0423	13.0790	13.0377	13.5779
<b>SI</b>	72.7359	86.8255	98.9570	105.2190	112.7891

Source: Eurostat, OECD, ÖSTAT.

3. The baskets of goods and services used for the surveys in 1993 and 1996 were completely different, in recognition of the market developments which had taken place over the intervening period in the countries participating in the comparison.
4. Compared with 1993, goods measuring up to Western European standards were more widely available in 1996. Expenditure patterns are also thought to have displayed greater similarity in 1996.
5. In 1996, unlike in 1993, no productivity adjustments were made when calculating the PPPs for government final consumption in CCs. This is consistent with the treatment in the multilateral EU comparison. It is also justifiable in relation to the changes which are believed to have

occurred in the public sector administrations of the CCs between 1993 and 1996.

In general, the 1996 PPP figures are considered to be of higher quality than those resulting from the 1993 exercise. Consequently, Eurostat decided to reinterpolate the PPPs for 1995, 1994 and 1993 on the basis of the 1996 results. This methodological approach makes an implicit assumption that the 1996 expenditure pattern is also applicable for these other years. It also assumes a degree of spatio-temporal price consistency which may not exist in practice.

As a result of this methodological change, the level of 1993 to 1996 GDP in real terms has increased for each of the CCs — but dispersion of per capita GDP has not been affected.



## II.5. Employment in the Candidate Countries

### II.5.1. Total employment and its development

In all eleven CCs in 1996 there were about 43.4 Mio people employed or self-employed (see table II.5.1.1.). This represents just under one quarter of the combined total employment of the EU Member States and the CCs.

More than one-third of the total employment of the CCs is in Poland, followed by about 21 percent from Romania, 11 percent from the Czech Republic and 9 percent from Hungary. Altogether, more than three quarters of the total CCs employment is concentrated in these four countries.

The number of people employed in the EU has changed very little since 1993. In some of the CCs, however, employment has changed more dramatically (see table II.5.1.2.). In six of the eleven CCs, total employment fell between 1995 and 1996.

The biggest drop in this year was seen in Latvia (-2.1%), after it had experienced even

greater falls, of -3.5% in 1995 and -10.1% in 1994. The figures for Latvia in 1997 are more positive, however, with an increase in employment of 1.9%.

The largest increase in employment in 1996 was seen in the Slovak Republic, but was followed by a fall of 1.1% in 1997. In Romania total employment went down between 1994 and 1996 — the value for 1997 is not yet available. In 1997, Poland reported growth in employment for the third subsequent year.

### II.5.2. Employment by branch

Table II.5.2.1. shows the total employment broken down by branch for the year 1995. This is the first time that such branch data has been able to be presented. The table shows that the CCs in total (without Bulgaria) have more employment allocated to agriculture and industry than the EU average. Subsequently, the share of services in the total employment of the CCs is considerably lower than for the EU-15 (by 21.8 percentage points).

Tab. II.5.1.1. Total employment, 1 000 persons

	1993	1994	1995	1996	1997
BG	3 222	3 242	3 282	3 280	:
CY	265	273	282	285	:
CZ	5 039	5 094	5 096	5 057	:
EE	:	:	656	646	:
HU	4 136	4 045	3 974	3 975	:
LV	1 205	1 083	1 046	1 018	1 037
LT	1 778	1 675	1 644	1 659	:
PL	14 894	14 658	14 791	14 968	15 177
RO	10 062	10 012	9 493	9 379	:
SK	:	2 103	2 147	2 218	2 194
SI	845	851	882	878	898
CC-11	:	:	43 293	43 361	:
EU-15	148 157	147 641	148 555	148 520	149 164

Source: Eurostat, National accounts.



**Tab. II.5.1.2. Total employment, annual growth, as a %**

	1994	1995	1996	1997
BG	0.6	1.3	-0.1	:
CY	2.8	3.4	1.0	:
CZ	1.1	0.0	-0.8	:
EE	:	:	-1.6	:
HU	-2.2	-1.8	0.0	:
LV	-10.1	-3.5	-2.7	1.9
LT	-5.8	-1.9	0.9	:
PL	-1.6	0.9	1.2	1.4
RO	-0.5	-5.2	-1.2	:
SK	:	2.1	3.3	-1.1
SI	0.7	3.6	-0.5	2.3
<b>CC-11</b>	:	:	0.2	:
<b>EU-15</b>	-0.3	0.6	0.0	0.4

Source: Eurostat.

For the CCs, the branch percentage-shares of employment almost coincide with the branch shares of GVA for industry and construction (see table II.1.4.1.). In agriculture and fishing the Member States use an average of 5.4 percent of the employment to produce 2.3 percent of GVA. The respective figures for the CCs are 21.8% employment share and 8.7% share in GVA.

This indicates that, on average, and particularly in the sector of agriculture, fishing, forestry, productivity in the CCs is much lower than in the Member States.

The distribution of employment across branches varies considerably amongst the CCs, as it does for the Member States. All CCs have more employment in agriculture and fishing than the minimum value of the EU, 2.1 percent in the UK.

**Tab. II.5.2.1. Employment by branch, as a % of total, 1995**

	Agricult., fishing...	Industry, includ. energy	Construction	Service activities <sup>(1)</sup>
	AYA+AYB	AYC_AYE	AYF	AYG_AYQ
CY	10.8	16.3	9.1	63.8
CZ	6.6	33.0	9.0	51.4
EE	10.5	28.6	5.4	55.4
HU	8.0	26.7	5.9	59.4
LV	18.5	20.4	5.4	55.7
LT	23.8	21.2	7.0	48.0
PL	26.1	25.5	5.7	42.7
RO	34.4	28.6	5.0	32.0
SK	9.2	30.3	8.6	51.9
SI	6.4	36.6	6.2	50.8
<b>CC-10<sup>(2)</sup></b>	21.8	27.5	6.2	44.5
<b>EU-15</b>	5.4	21.5	6.7	66.3
<b>EU-min country</b>	2.1	16.4	4.7	53.3
	<b>UK</b>	<b>L</b>	<b>UK</b>	<b>P</b>
<b>EU-max country</b>	19.9	28.1	10.9	74.6
	<b>EL</b>	<b>D</b>	<b>L</b>	<b>UK</b>

<sup>(1)</sup> Statistical discrepancy included.

<sup>(2)</sup> Without Bulgaria.

Source: Eurostat.

In the absence of data for Bulgaria, the most agriculturally-orientated CCs are Romania (34.4%) of employment, Poland (26.1%), Lithuania (23.8%) and Latvia (18.5%). With the exception of Latvia they far exceed the maximum value of a branch share in employment in the EU which is 19.9% in Greece.

Regarding the service activities branch, Romania employs the smallest proportion of its workforce in this sector, 32% of total Romanian employment. Lithuania's share is also low (48%) and no CCs employs as much of its workforce in this branch as much as the EU average of 66.3%. Cyprus almost reaches this figure, with 63.8% of employment in the service activities branch.



## Symbols and abbreviations

<b>EU</b>	European Union
<b>EUR-11</b>	Euro Zone (Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, Netherlands, Austria, Portugal and Finland)
<b>EU-15</b>	European Union of 15 Member States
<b>B</b>	Belgium
<b>DK</b>	Denmark
<b>D</b>	Germany (former FRG + West Berlin until 1990, Unified Germany since 1991)
<b>EL</b>	Greece
<b>E</b>	Spain
<b>F</b>	France
<b>IRL</b>	Ireland
<b>I</b>	Italy
<b>L</b>	Luxembourg
<b>NL</b>	Netherlands
<b>A</b>	Austria
<b>P</b>	Portugal
<b>FIN</b>	Finland
<b>S</b>	Sweden
<b>UK</b>	United Kingdom
<b>US</b>	United States of America
<b>JP</b>	Japan
<b>BEF</b>	Belgian franc
<b>DKK</b>	Danish crown
<b>DEM</b>	German mark
<b>GRD</b>	Greek drachma
<b>ESP</b>	Spanish peseta
<b>FRF</b>	French franc
<b>IEP</b>	Irish pound
<b>ITL</b>	Italian lira
<b>LUF</b>	Luxembourgish franc
<b>NLG</b>	Dutch guilder
<b>ATS</b>	Austrian schilling
<b>PTE</b>	Portuguese escudo
<b>FIM</b>	Finnish mark
<b>SEK</b>	Swedish crown
<b>GBP</b>	Pound Sterling
<b>USD</b>	United States dollar
<b>YEN</b>	Japanese yen
<b>Mio</b>	million
<b>Bn</b>	billion (thousand million)
<b>:</b>	Data non available







European Commission

**The economic accounts of the European Union 1997**

Luxembourg: Office for Official Publications of the European Communities

1998 — 181 pp. — 17.5 x 25 cm

ISBN 92-828-5031-5

Price (excluding VAT) in Luxembourg: ECU 11

This publication is designed to set out in a single volume wide-ranging macroeconomic data on the European Union and its Member States and to provide an analysis of those data. Along with business cycle effects, studies of structural differences between Member States and their developments are made. Although the analysis makes reference to specific national situations, its purpose is to draw a profile of the Union comparing it, where possible, with its main trading partners. In addition to the analysis of the main economic variables, the report contains a study of a topical subject, namely 'The economic accounts of the candidate countries in eastern and central Europe and Cyprus'.





## Venta • Saig • Verkauf • Πωλήσεις • Sales • Vente • Vendita • Verkoop • Venda • Myynti • Försäljning

### BELGIQUE/BELGIE

**Jean De Lannoy**  
Avenue du Roi 202/Koningslaan 202  
B-1190 Bruxelles/Brussel  
Tel. (32-2) 538 43 08  
Fax (32-2) 538 08 41  
E-mail: jean.de.lannoy@infoboard.be  
URL: <http://www.jean-de-lannoy.be>

### La librairie européenne/De Europese Boekhandel

Rue de la Loi 244/Welstraat 244  
B-1040 Bruxelles/Brussel  
Tel. (32-2) 295 26 39  
Fax (32-2) 735 08 60  
E-mail: mail@libeurop.be  
URL: <http://www.libeurop.be>

**Moniteur belge/Belgisch Staatsblad**  
Rue de Louvain 40-42/Leuvenseweg 40-42  
B-1000 Bruxelles/Brussel  
Tel. (32-2) 552 22 11  
Fax (32-2) 511 01 84

### DANMARK

#### J. H. Schultz Information A/S

Herstedvang 10-12  
DK-2620 Albertslund  
Tlf. (45) 43 63 23 00  
Fax (45) 43 63 19 69  
E-mail: schultz@schultz.dk  
URL: <http://www.schultz.dk>

### DEUTSCHLAND

#### Bundesanzeiger Verlag GmbH

Vertriebsabteilung  
Amsterdamer Straße 192  
D-50795 Köln  
Tel. (49-221) 97 66 80  
Fax (49-221) 97 66 82 78  
E-mail: Vertrieb@bundesanzeiger.de  
URL: <http://www.bundesanzeiger.de>

### ΕΛΛΑΔΑ/GREECE

#### G. C. Eleftheroudakis SA

International Bookstore  
Panepistimiou 17  
GR-10564 Athina  
Tel. (30-1) 331 41 80/112/3/4/5  
Fax (30-1) 323 98 21  
E-mail: elebooks@netor.gr

### ESPAÑA

#### Boletín Oficial del Estado

Trafalgar, 27  
E-28017 Madrid  
Tel. (34) 915 38 21 11 (Libros),  
913 84 17 15 (Suscrip.)  
Fax (34) 915 38 21 21 (Libros),  
913 84 17 14 (Suscrip.)  
E-mail: clientes@com.boe.es  
URL: <http://www.boe.es>

#### Mundi Prensa Libros, SA

Castelló, 37  
E-28001 Madrid  
Tel. (34) 914 36 37 00  
Fax (34) 915 75 39 98  
E-mail: libreria@mundiprensa.es  
URL: <http://www.mundiprensa.com>

### FRANCE

#### Journal officiel

Service des publications des CE  
26, rue Desaix  
F-75727 Paris Cedex 15  
Tel. (33) 140 58 77 31  
Fax (33) 140 58 77 00

### IRELAND

#### Government Supplies Agency

Publications Section  
4-5 Harcourt Road  
Dublin 2  
Tel. (353-1) 661 31 11  
Fax (353-1) 475 27 60  
E-mail: opw@iol.ie

### ITALIA

#### Licosa SpA

Via Duca di Calabria, 1/1  
Casella postale 552  
I-50125 Firenze  
Tel. (39-55) 064 54 15  
Fax (39-55) 064 12 57  
E-mail: licosa@tbcc.it  
URL: <http://www.tbcc.it/licosa>

### LUXEMBOURG

#### Messageries du livre S.A.R.L.

5, rue Raiffeisen  
L-2411 Luxembourg  
Tel. (352) 40 10 20  
Fax (352) 49 06 61  
E-mail: mdl@pt.lu  
URL: <http://www.mdl.lu>

#### Abonnements:

#### Messageries Paul Krsus

11, rue Christophe Plantin  
L-2339 Luxembourg  
Tel. (352) 49 98 88-8  
Fax (352) 49 98 88-444  
E-mail: mpk@pt.lu  
URL: <http://www.mpk.lu>

### NEDERLAND

#### SDU Servicecentrum Uitgevers

Christoffel Plantijnstraat 2  
Postbus 20014  
2500 EA Den Haag  
Tel. (31-70) 378 96 80  
Fax (31-70) 378 97 83  
E-mail: sdu@sdu.nl  
URL: <http://www.sdu.nl>

### ÖSTERREICH

#### Manz'sche Verlags- und

#### Universitätsbuchhandlung GmbH

Kohlmarkt 16  
A-1014 Wien  
Tel. (43-1) 53 16 11 00  
Fax (43-1) 53 16 11 67  
E-Mail: bestellen@manz.co.at  
URL: <http://www.austria.EU.net:81/manz>

### PORTUGAL

#### Distribuidora de Livros Bertrand L.d.

Grupo Bertrand, SA  
Rua das Terras dos Vales, 4-A  
Apartado 60037  
P-2700 Amadora  
Tel. (351-1) 495 90 50  
Fax (351-1) 496 02 55

#### Imprensa Nacional-Casa da Moeda, EP

Rua Marquês Sá da Bandeira, 16-A  
P-1050 Lisboa Codex  
Tel. (351-1) 353 03 99  
Fax (351-1) 353 02 94  
E-mail: del.incm@mail.telepac.pt  
URL: <http://www.incm.pt>

### SUOMI/FINLAND

#### Akateeminen Kirjakauppa/Akademiska

#### Bokhandeln

Keskuskatu 1/Centralgatan 1  
PL/PB 128  
FIN-00101 Helsinki/Helsingfors  
P.oin (358-9) 121 44 18  
F.fax (358-9) 121 44 35  
Sähköposti: akatilaus@akateeminen.com  
URL: <http://www.akateeminen.com>

### SVERIGE

#### BTJ AB

Traktorvägen 11  
S-221 82 Lund  
Tfn (46-46) 18 00 00  
Fax (46-46) 30 79 47  
E-post: btjeu-pub@btj.se  
URL: <http://www.btj.se>

### UNITED KINGDOM

#### The Stationery Office Ltd

International Sales Agency  
51 Nine Elms Lane  
London SW8 5DR  
Tel. (44-171) 873 90 90  
Fax (44-171) 873 84 63  
E-mail: ipa.enquiries@theso.co.uk  
URL: <http://www.theso.co.uk>

### ISLAND

#### Bokabud Larusar Blöndal

Skólavörðustíg, 2  
IS-101 Reykjavík  
Tel. (354) 551 56 50  
Fax (354) 552 55 60

### NORGE

#### Swets Norge AS

Ostenjoveien 18  
Boks 6512 Etterstad  
N-0606 Oslo  
Tel. (47-22) 97 45 00  
Fax (47-22) 97 45 45

### SCHWEIZ/SUISSE/SVIZZERA

#### Euro Info Center Schweiz

c/o OSEC  
Stampfenbachstraße 85  
PF 492  
CH-8035 Zürich  
Tel. (41-1) 365 53 15  
Fax (41-1) 365 54 11  
E-mail: eics@osec.ch  
URL: <http://www.osec.ch/eics>

### BĂLGARIA

#### Europress Euromedia Ltd

59, Blvd Vitoshka  
BG-1000 Sofia  
Tel. (359-2) 980 37 66  
Fax (359-2) 980 42 30  
E-mail: Milena@mbox.cit.bg

### ČESKÁ REPUBLIKA

#### ÚSIS

NIS-prodejna  
Havlovkova 22  
CZ-130 00 Praha 3  
Tel. (420-2) 24 23 14 86  
Fax (420-2) 24 23 11 14  
E-mail: nkposp@dec.nic.cz  
URL: <http://usis.cz>

### CYPRUS

#### Cyprus Chamber of Commerce and Industry

PO Box 1455  
CY-1508 Nicosia  
Tel. (357-2) 66 95 00  
Fax (357-2) 66 10 44  
E-mail: info@ccci.org.cy

### EESTI

#### Eesti Kaubandus-Tööstuskoda (Estonian

#### Chamber of Commerce and Industry)

Toom-Kooli 17  
EE-0001 Tallinn  
Tel. (372) 646 02 44  
Fax (372) 646 02 45  
E-mail: einfo@koda.ee  
URL: <http://www.koda.ee>

### HRVATSKA

#### Mediatrade Ltd

Pavla Hatza 1  
HR-10000 Zagreb  
Tel. (385-1) 43 03 92  
Fax (385-1) 43 03 92

### MAGYARORSZÁG

#### Euro Info Service

Europa Ház  
Margitsziget  
PO Box 475  
H-1396 Budapest 62  
Tel. (36-1) 350 80 25  
Fax (36-1) 350 90 32  
E-mail: euroinfo@mail.matax.hu  
URL: <http://www.euroinfo.hu/index.htm>

### MALTA

#### Miller Distributors Ltd

Malta International Airport  
PO Box 25  
Luqa, LQA 05  
Tel. (356) 66 44 88  
Fax (356) 67 67 99  
E-mail: gwirth@usa.net

### POLSKA

#### Ars Polona

Krakowskie Przedmiescie 7  
Skr. pocztowa 1001  
PL-00-950 Warszawa  
Tel. (48-22) 826 12 01  
Fax (48-22) 826 62 40  
E-mail: ars\_pol@bevy.hsn.com.pl

### ROMÂNIA

#### Euromedia

Str. G-ral Berthelot Nr 41  
RO-70749 Bucuresti  
Tel. (40-1) 315 44 03  
Fax (40-1) 315 44 03

### RUSSIA

#### CCEC

60-Ieliya Oktyabriya Av. 9  
117312 Moscow  
Tel. (7-095) 135 52 27  
Fax (7-095) 135 52 27

### SLOVAKIA

#### Centrum VTI SR

Nám. Slobody, 19  
SK-81223 Bratislava  
Tel. (421-7) 531 83 64  
Fax (421-7) 531 83 64  
E-mail: europ@tb01.silk.stuba.sk  
URL: <http://www.silk.stuba.sk>

### SLOVENIA

#### Gospodarski Vestnik

Dunajska cesta 5  
SLO-1000 Ljubljana  
Tel. (386) 611 33 03 54  
Fax (386) 611 33 91 28  
E-mail: europ@gvestnik.si  
URL: <http://www.gvestnik.si>

### TÜRKIYE

#### Dünya Infotel AS

100, Yil Mahallesi 34440  
TR-80050 Bagcilar-Istanbul  
Tel. (90-212) 629 46 89  
Fax (90-212) 629 46 27  
E-mail: infotel@dunya-gazete.com.tr

### AUSTRALIA

#### Hunter Publications

PO Box 404  
3067 Abbotstord, Victoria  
Tel. (61-3) 94 17 53 61  
Fax (61-3) 94 19 71 54  
E-mail: jpdavies@ozemail.com.au

### CANADA

#### Les éditions La Liberté Inc.

3020, chemin Sainte-Foy  
G1X 3V Sainte-Foy, Québec  
Tel. (1-418) 658 37 63  
Fax (1-800) 567 54 49  
E-mail: liberte@mediom.qc.ca

#### Renouf Publishing Co. Ltd

5369 Chemin Canotek Road Unit 1  
K1J 9J3 Ottawa, Ontario  
Tel. (1-613) 745 26 65  
Fax (1-613) 745 76 60  
E-mail: order.dept@renoufbooks.com  
URL: <http://www.renoufbooks.com>

### EGYPT

#### The Middle East Observer

41 Sherif Street  
Cairo  
Tel. (20-2) 393 97 32  
Fax (20-2) 393 97 32  
E-mail: order\_book@meobserver.com.eg  
URL: <http://www.meobserver.com.eg>

### INDIA

#### EBIC India

3rd Floor, Y. B. Chavan Centre  
Gen. J. Bhosale Marg,  
400 021 Mumbai  
Tel. (91-22) 282 60 64  
Fax (91-22) 285 45 64  
E-mail: ebic@giasbm01.vsnl.net.in  
URL: <http://www.ebicindia.com>

### ISRAEL

#### ROY International

41, Mishmar Hayarden Street  
PO Box 13056  
61130 Tel Aviv  
Tel. (972-3) 649 94 69  
Fax (972-3) 648 60 39  
E-mail: royil@netvision.net.il

Sub-agent for the Palestinian Authority:

#### Index Information Services

PO Box 19502  
Jerusalem  
Tel. (972-2) 627 16 34  
Fax (972-2) 627 12 19

### JAPAN

#### PSI-Japan

Asahi Sanbancho Plaza #206  
7-1 Sanbancho, Chiyoda-ku  
Tokyo 102  
Tel. (81-3) 32 34 89 21  
Fax (81-3) 32 34 69 15  
E-mail: books@psi-japan.co.jp  
URL: <http://www.psi-japan.com>

### MALAYSIA

#### EBIC Malaysia

Level 7, Wisma Hong Leong  
18 Jalan Perak  
50450 Kuala Lumpur  
Tel. (60-3) 262 62 98  
Fax (60-3) 262 61 98  
E-mail: ebic-kl@mol.net.my

### PHILIPPINES

#### EBIC Philippines

19th Floor, PS Bank Tower  
Sen. Gil J. Puyat Ave. cor. Tindalo St.  
Makati City  
Metro Manila  
Tel. (63-2) 759 66 80  
Fax (63-2) 759 66 90  
E-mail: eccpcom@globe.com.ph  
URL: <http://www.eccp.com>

### SOUTH KOREA

#### Information Centre for Europe (ICE)

204 Woo Sol Parktel  
395-185 Seogyo Dong, Mapo Ku  
121-210 Seoul  
Tel. (82-2) 322 53 03  
Fax (82-2) 322 53 14  
E-mail: euroinfo@shinbiro.com

### THAILAND

#### EBIC Thailand

29 Vanissa Building, 8th Floor  
Soi Chidlom  
Ploenchit  
10330 Bangkok  
Tel. (66-2) 655 06 27  
Fax (66-2) 655 06 28  
E-mail: ebicbkk@ksc15.th.com  
URL: <http://www.ebicbkk.org>

### UNITED STATES OF AMERICA

#### Bernan Associates

4611-F Assembly Drive  
Lanham MD20706  
Tel. (1-800) 274 44 47 (toll free telephone)  
Fax (1-800) 865 34 50 (toll free fax)  
E-mail: query@bernan.com  
URL: <http://www.bernan.com>

#### ANDERE LĀNDER/OTHER COUNTRIES/ AUTRES PAYS

Bitte wenden Sie sich an ein Büro Ihrer  
Wahl / Please contact the sales office  
of your choice / Veuillez vous adresser  
au bureau de vente de votre choix



17  
10  
11

CA-16-98-578-EN-C

Price (excluding VAT) in Luxembourg: ECU 11



OFFICE FOR OFFICIAL PUBLICATIONS  
OF THE EUROPEAN COMMUNITIES

L-2985 Luxembourg

ISBN 92-828-5031-5



9 789282 850312 >