

THE EUROPEAN COMMUNITY'S CURRENT ACCOUNT BALANCE 1980-1989 GEOGRAPHICAL BREAKDOWN

The current account balance records all international transactions relating to trade in goods and services, capital and labour income, and unrequited transfers.

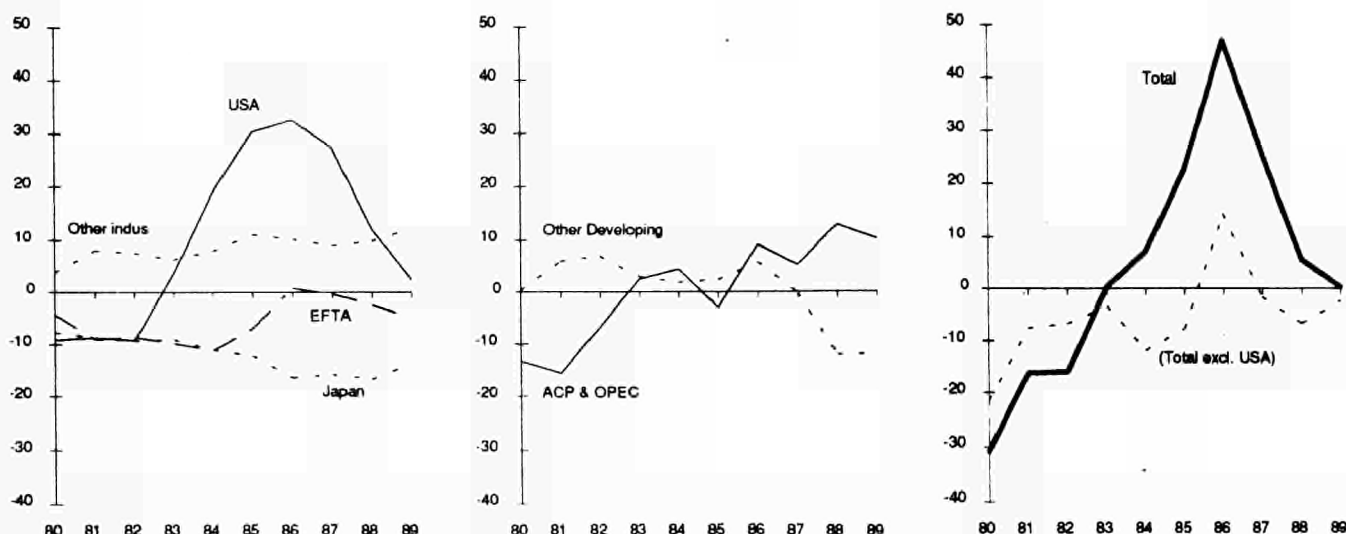
Eurostat has calculated the Community's current account balance with the rest of the world, broken down by partner region. The data are expressed in ecus at current prices.

Over the period 1980-1989 the European Community's current account flows were the largest in the world. In 1989, the average value of these flows (mean of credits and debits) was ECU 730 billion (bn = 1000 million), i.e. 23% of world current account transactions. The Community is thus ahead of the USA (574 bn, 18%) and Japan (350 bn, 11%).

The Community more or less broke even on its current account balance in 1989 (+ ECU 0.23 bn), while the USA had a deficit of 120 bn and Japan a surplus of 52 bn.

The Community's main trading partners are the USA (26% of current account flows in 1989) and the EFTA countries (23%). Together, the developing countries of Asia, South America and North Africa (zone referred to as "Other developing countries" in this document) account for 17% and Japan for 8%. The petroleum exporting countries' share of the Community's current account flows (6% in 1989) fell by more than half in ten years, mainly to the benefit of the EFTA countries and Japan. The value of flows with the former State-trading countries is relatively slight (6% in 1989).

Graph 1 : The Community's current account balance by trading partner (ECU bn)



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Goods account for more than half of current account flows. The proportion of investment income is increasing rapidly.

In 1989, goods accounted for 54% of the Community's current account flows with industrialized countries and 59% with developing countries, but they represent an even greater proportion of US and Japanese current account flows (65% and 60% respectively). During the 1980s, trade in goods caused considerable fluctuations in the current account. The appreciable worsening of the USA's deficit up to 1985 and the improvement since then gave rise to movements in the opposite direction in the balances of the Community and Japan. (Graph 2)

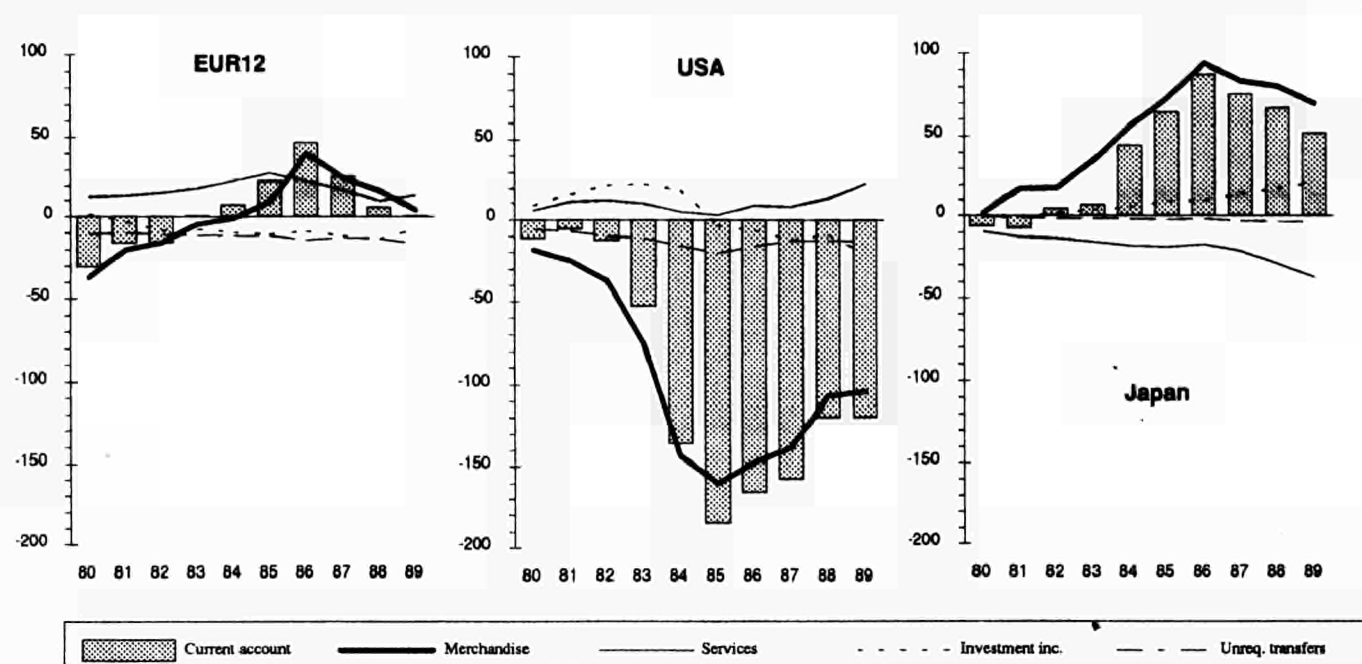
Community trade in services amounted to 18% of total flows in 1989 and was in surplus (+14 bn). Investment income, which is in deficit, has assumed considerable significance (21% in 1989 as against 15% in 1980) as a result of the growth in capital movements.

Unrequited transfers account for a relatively small proportion of transactions (3% in 1989) but are running a substantial deficit (16 bn in 1989).

Table 1 : Structure of the Community's current account by item

	1980		1985		1989	
	C	D	C	D	C	D
Curr. account	100%	100%	100%	100%	100%	100%
Merchandise	59.4	64.3	57.9	59.2	55.5	56.7
Services	20.5	15.8	19.3	15.9	19.1	16.8
<i>Transport</i>	7.6	6.3	6.2	6.1	6.3	6.0
<i>Tourism</i>	3.8	3.3	4.6	3.0	4.7	3.9
<i>Other</i>	8.2	5.8	8.0	6.6	7.5	6.7
Investment inc.	15.9	14.4	18.4	19.9	21.0	21.1
Labour inc.	0.7	0.5	0.6	0.5	0.7	0.6
Government tr.	1.7	0.7	1.8	0.6	1.7	0.6
Unrequited tr.	1.9	4.2	2.0	3.8	2.1	4.3

Graph 2 : Breakdown of the current account balances of the Community, the USA and Japan (ECU bn)



TRADE BY ZONE (See Graph 3)

USA : influence of merchandise trade on the Community balance

Between 1982 and 1986 the Community's current account balance with the USA improved by more than ECU 40 bn, but subsequently fell back by 30 bn. The fluctuations in the value of the dollar and the substantial variations in the volumes of goods traded are the main reasons for these movements. In 1989, the USA accounted for 20% of the Community's merchandise trade. Its share of the Community's trade in services, investment income and government services (owing to the presence of military forces on the Community's territory) was in excess of 30% in 1989.

EFTA: the trading partners closest to home

As the Community's immediate neighbours, the EFTA countries are its leading partners in merchandise trade (27% of exports in 1989, mainly due to trade with Germany), and for tourism (36% of receipts in 1989).

During the 1980s the EFTA countries substantially increased their investments abroad, especially in the European Community. More than half of their stock of investments is in the Community. The Twelve's deficit on investment income (ECU 17.5 bn in 1989) weighs heavily on the Community's current balance with EFTA.

Japan : persistent imbalances

The volume of current account flows with Japan is much lower than with the USA and EFTA (in 1989, 8% of current account flows only, but 11% of imports of goods). Current account transactions have increased at a faster pace than with the other trading partners (growth rate of 18% a year over the period 1980-89, compared with 11% for the industrialized countries as a whole).

The merchandise trade deficit stood at ECU 26 bn in 1989 and is widening in value terms, but the cover ratio has been improving since 1986 (reaching 44.8% in 1989 from 32.7% in 1986). This deficit is partly offset by the surplus on services (4 bn in 1989) and especially on investment income (8 bn). This investment income surplus reflects to a large extent the short-term financing of Japanese operators on the London market, mainly via the Japanese banks that have set up there.

On the whole, the Community's current account deficit with Japan has stabilized since 1986, and even improved in 1989.

OPEC : downward trend

OPEC's share of the Community's current expenditure fell by two-thirds between 1980 and 1989 (from 20% to 6%). The changes in the price of oil between 1986 and 1989, together with a different pattern of supply as regards country of origin and products, led to a decline in the value of the OPEC countries' exports and consequently of their imports, which affected the Community's trade, especially exports of services.

ACP : markets remaining relatively insignificant

The share of the ACP countries (the majority of which are in Africa) in the Community's current transactions fell from 7% to 5% between 1980 and 1989. The decline in the value of the Community's imports was partly due to the slump in the prices of many commodities and also to the downturn in oil trade with the African oil-exporting countries (mainly Nigeria and Gabon). This zone also saw its purchasing power reduced.

DEFINITION OF GEOGRAPHICAL ZONES:

EFTA (European Free Trade Association) : Austria, Finland, Iceland, Norway, Sweden, Switzerland and Liechtenstein.

"Other indus." : Canada, Turkey, Australia, New Zealand, South Africa, Gibraltar, Malta, Yugoslavia.

OPEC (Organization of Petroleum Exporting Countries) : Algeria, Libya, Nigeria, Gabon, Venezuela, Ecuador, Iran, Iraq, Saudi Arabia, Kuwait, Qatar, United Arab Emirates, Indonesia.

ACP : countries of Africa (all except South Africa and the five Mediterranean countries), the Caribbean and the Pacific that have signed the Lomé Convention.

"Other developing countries" : by elimination, virtually all the countries of Latin America, central and eastern Asia, and the northern fringe of Africa.

"Former State-trading countries" : USSR, Poland, GDR, Czechoslovakia, Hungary, Bulgaria, Romania, Cuba, Vietnam, Mongolia, China, Albania, North Korea.

"Other developing countries" : worsening of the Community's merchandise trade balance

The emergence of "newly industrialized countries" in eastern Asia over the last ten years and their performance in the export of manufactured products have changed the Community's trade relations with the "Other developing countries" zone. This group of countries accounts for an increasing proportion of the Community's imports of goods (17% in 1989 compared with 15% in 1980) but a declining proportion of its exports (16% in 1989 compared with 18% in 1980). From a surplus in 1980, the Community's merchandise trade balance with the "Other developing countries" went into deficit in 1988 and stood at ECU -10.5 bn in 1989. The other current account items are also important (between 15 and 20% of the flows in question), with a substantial deficit on unrequited transfers, a worsening services balance and a surplus on investment income.

Former State-trading countries : transactions still marginal

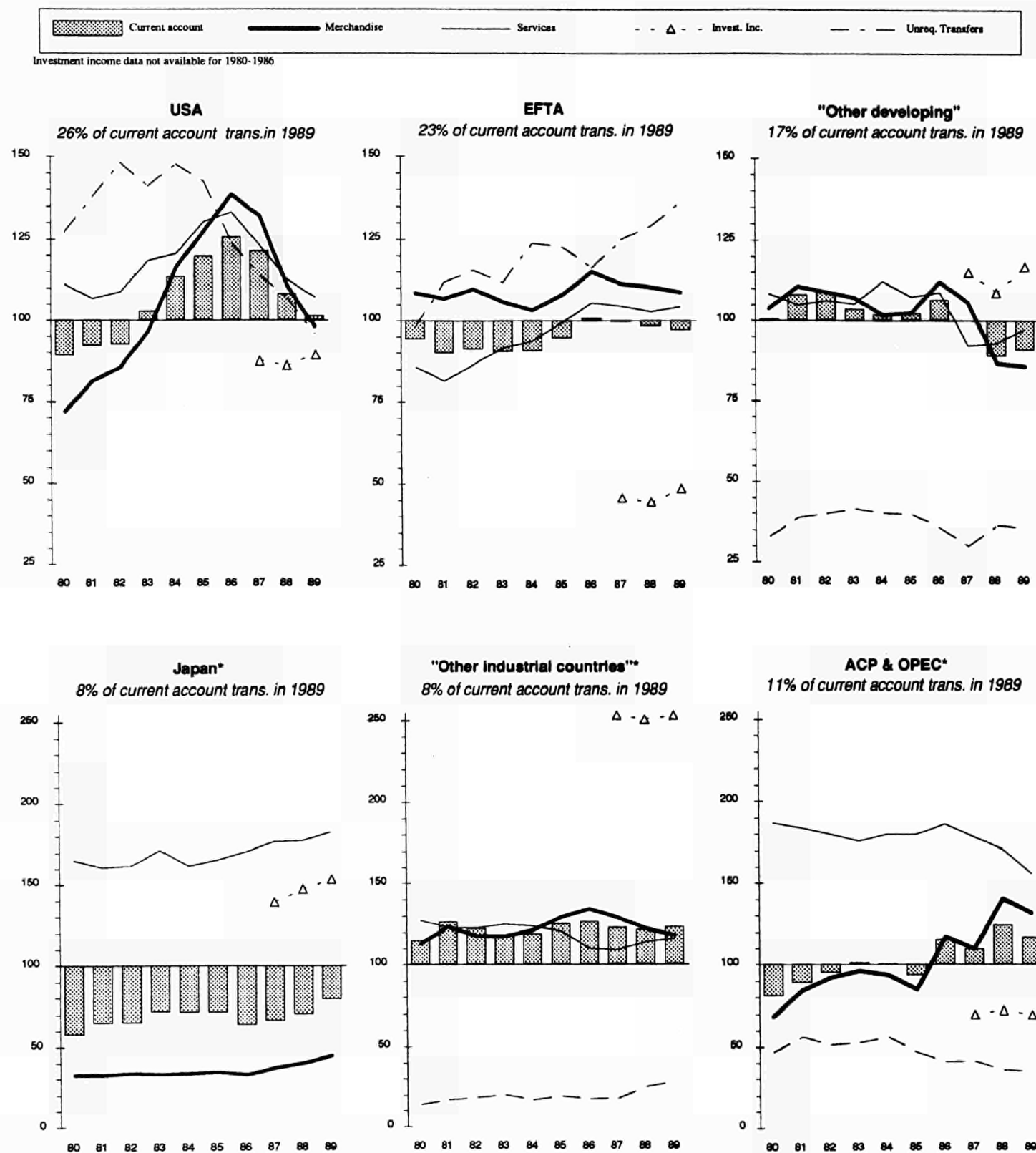
During the 1980s, current account transactions with the State-trading countries were not very important (about 7% of the total), virtually all of them being merchandise trade. The 1989 data for these countries are, however, difficult to interpret because the statistics on this zone are not yet very reliable.

Table 2 : Structure of Community transactions by trading partner in 1989

	Curr account *		Merchandise		Services		Investment income		Unrequited transfers	
	Structure	CR**	Structure	CR**	Structure	CR**	Structure	CR**	Structure	CR**
Extra-EUR12	100%		100%		100%		100%		100%	
Indus countries	64.6	99.2	62.5	95.2	66.2	111.4	70.8	93.6	50.3	80.7
USA	25.6	101.4	19.9	98.1	30.9	107.2	35.5	89.2	17.4	95.9
Japan	8.2	79.4	8.2	44.8	4.8	182.8	12.6	153.3	1.1	146.9
EFTA	22.7	97.1	25.8	108.8	22.2	104.4	16.4	48.5	17.7	136.1
Other indus	8.2	106.2	8.6	103.7	8.3	109.0	6.3	103.5	14.1	58.3
Dev'g countries	27.7	100.1	29.0	102.5	26.8	117.2	24.3	100.8	36.1	35.0
ACP	5.0	122.4	5.1	148.0	5.2	133.7	3.5	121.7	11.9	15.6
OPEC	6.8	114.5	8.1	118.3	6.6	186.5	4.0	51.0	5.1	118.7
Other developing	16.9	90.8	17.0	85.9	16.0	97.2	17.5	116.5	20.1	35.3
former State-trad'g	5.6	98.3	8.0	95.4	3.7	86.7	2.0	205.3	2.0	28.0
Other	2.0	64.5	0.6	13.7	3.4	136.8	2.8	128.5	11.5	3.5

* Current account also includes government services and the income of seasonal and frontier workers. The mean of credits and debits is used to calculate the structure. ** Cover ratio (100 x exports/imports).

Graph 3 : Cover ratios of the Community with its trading partners by main item of the current account (%)



* NB: The data given here are Eurostat estimates based on the Community Member States' balances of payments. As the geographical breakdown is to be treated with caution and the net figures are extremely tenuous, only cover ratios are given. However, it must be borne in mind that they can give a distorted picture: the smaller the volume of transactions and the more imbalanced it is, the more the ratios will deviate from 100.

Out shortly : **"Geographical Breakdown of the Current Account, EUR12, 1980-1989"**
" International Trade in Services, EUR12, 1980-1989"

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