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THE ECONOMIC ACCOUNTS OF THE EUROPEAN UNION

1996

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PREFACE

This publication on the Economic Accounts of the European Union is the result of cooperation between Eurostat and the Statistical Institutes of the Member States. It thus represents one of the first milestones on the road to collaborative development of the European Statistical System (ESS), which involves the National Statistical Institutes of the Member States and Eurostat.

The logo of the European Statistical System reproduced on the cover page should symbolize the common efforts of the National Institutes and Eurostat to provide the European Union with statistical information of a high quality.

Beyond the work on the production of data and on the development of the statistical standards, the cooperation between Eurostat and the National Statistical Institutes should, with this document, open a new era of a more active and visible partnership before a wider audience.

This report, which was issued for the first time in 1996, involves the collaboration of various National Statistical Institutes alternately. For this year's edition, Eurostat was joined by the statistical Institutes of Italy (ISTAT), the Netherlands (CBS) and the United Kingdom (ONS).

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.

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.

Any suggestions concerning improvement to the content or presentation of this publication will be most welcome and seriously taken into consideration.

Y. Franchet

Director general

Eurostat

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INTRODUCTION

Features of the report

As with similar publications produced by certain statistical institutes at national level, as for example in France, Italy, Luxembourg, the Netherlands and the United Kingdom, 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, its purpose is to draw a profile of the Union, comparing it, where possible, with its main trading partners.

In addition to the comments on the main economic variables, which will be a permanent feature, the report will contain a topical study which will vary from year to year. This year's subject concerns the treatment of Gross domestic product and unemployment in the regions of the European Union.

The present publication focuses on 1996, 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 - those used in the ESA (second edition, 1979);

— the data used have been largely obtained from the National Statistical Offices, the very bodies which, partly together with Eurostat, analyse them in this publication;

— 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.

It should also be mentioned that revisions of data by the National Institutes take place at different points in time; for this reason, the data available at the deadline for this report and used therein may not correspond to the latest data now available for certain countries.

Main results

Following the downturn in economic growth in the industrialised countries in 1995, **economic activity** worldwide recovered in 1996.

The European Union failed to match these rates, however, and growth slumped again from +2.4% in 1995 to only +1.7% in 1996. The Member States' growth rates range from +8.6% in Ireland to +0.7% in Italy.

The United States and Japan recorded, for 1996, high growth rates of +2.4% and +3.6% respectively as against +2.0% and a mere +0.9% in 1995.

As for **the components of the Union's GDP**, in the wake of the meagre increases of the last two years, private consumption increased by 2.0%, while gross fixed capital growth rate was falling to +1.1% and collective consumption remaind stable at +0.6%.

Imports rose by 3.7% and exports by 4.5%. The trade surplus thus grew from 1.6% of GDP in 1995 to 2.0% in 1996.

The Union's GDP was ECU 6 764,1 Mrd in 1996, approximately 13% more than United States' and nearly double Japan's. Among the Member States, German GDP of ECU 1 854.4 Mrd (27.4% of the Union's GDP) was the highest. The GDP of the eleven Candidate Countries, which have applied to join the Union, represented (in 1995) only 3.8% of the Union's GDP.

Per capita GDP in purchasing power standards (PPS) reveals substantial discrepancies between the countries, although these are considerably less than when the data are expressed in ECU.

At 30 520 PPS, Luxembourg's per capita GDP in purchasing power standards is highest, outstripping even the United States' (26 870 PPS). Of the potential future Member States, Slovenia, with 10 199 PPS, and the Czech Republic, with 9 857 PPS, can boast the best results.

Economic activity in the Union in 1996 was sustained by **external demand** from third countries, and the Union's trade surplus with the rest of the world rose to ECU 43.4 Mrd, from ECU 27.4 Mrd in 1995.

In 1996, the European Union considerably improved its trading position over its main partners, like the USA and Japan. On the other hand, the structural trade deficit with China increased again to reach 34.3% of the total trade flows with this country.

Of the Member States, Germany recorded the greatest extra-EU surplus (ECU 32.6 Mrd) followed by Italy (ECU 24.7 Mrd) and France (ECU 16.4 Mrd), while the Netherlands and the United Kingdom incurred the largest deficits (ECU 27.2 Mrd and ECU 17.4 Mrd respectively).

Intra-EU trade varies greatly from one Member State to another. Whereas the relatively small Member States show the highest percentages, Germany and the United Kingdom, more present on the world market, recorded the lowest rates of intra-EU trade.

Looking at the distribution of GDP, compensation of employees accounts for more than one-half of the Union's GDP, although this proportion has been waning since 1980. The net operating surplus represents roughly one-quarter of GDP.

Real gross value added of the Union grew by 2.5% in 1995. **By branch,** Market services recorded the highest figure (+3.2%), but the Non-market services had a lower rate (+0.6%) and the total growth in Services was only of +2.6%. Concerning employment by branch in the Union, Market services showed the highest growth rate (+1.6%), while Manufactured products activity decreased (-0.5%).

In 1995, Services represented the main branch in the economy (64.8% of total value added), followed by Manufactured products (22.4%). Over the last 10 years, Services increased their importance in the economy of the Union by 3 percentage points. Shifts toward Services came homogeneously from all branches.

Concerning productivity by branch, defined in terms of value added by occupied person, in 1995, Fuel and power products showed by far the highest figure, followed by Services. Comparison over 10 years period shows that only Services increased their productivity (+1.1 percentage point).

Within **private consumption of household,** Gross rent, fuel and power represented for the Union in 1995 the main function of households consumption with a share of 19.8% of total consumption, followed by Food, drinks and tobacco (18.2%). Over 10 years, Gross rent fuel and power, Health services, Transport and communication and Other goods and services increased their share, roughly in the same proportion of 1.5 percentage points, other functions shrank and especially Food, drinks and tobacco reduced sharply its importance by 4.1 percentage points.

Private consumption per head shows, with 17 103 PPS, the highest figure for Luxembourg in 1996. Considerable divergence persisted among Member States' figures, ranging from 34 points below the Union's average for Portugal to 52 percentage points above the Union's figure for Luxembourg, with a difference of some 87 percentage points.

Public expenditure ranges from 41% (Ireland and the United Kingdom) to 65% (Sweden) of GDP; this percentage has risen consistently in most Member States and for the Union since 1980. In 1995, consumption by general government in the Union represented 16.8% of GDP, although certain countries like Denmark (25.1%) and Sweden (25.8%) exceed this av-

erage by far. Current transfers to households represented nearly 46% of public spending in 1995 (as against 40.7% in 1990), and the trend was clearly upwards.

Government receipts from taxes and social security contributions for the Union as a whole rose by 0.4 point to 42.4% of GDP in 1996. Taxes accounted for 64% and social security contributions for around 36%. The levy rates which were far above this average were in Sweden (55.2%), Denmark (52.0%), Finland (48.8%) and Belgium (47.0% of GDP).

In 1996, every Member State except Luxembourg faced public sector deficits, ranging from 0.4% in Ireland to 7.6% in Greece, although the general trend was for these to decline. On the other hand, seven Member States' national debts in 1996 were up on the previous year. Belgium (126.9% of GDP, Italy (123.8%) and Greece (112.7%) recorded the greatest public debts, while Luxembourg's 6.6% of GDP was the lowest.

In 1996, the **labour market** in the Union recorded a modest growth in the number of people employed (+0.3%). The services sector still employed the majority of work force (64.5%). Since the beginning of 1990's employment in services increased its importance by more than 4 percentage points. Shifts came essentially from industry (-2.8 percentage points) while agriculture played a less important role (-1.5 percentage points).

After the good result in 1995 (-3.1%), unemployment in the Union rose again in 1996 by +2.1%. Within the Union, sharp increases took place especially in Germany, France, Austria and Sweden, with growth rates of more than 7%. The Union's unemployment rate rose from 10.8% to 10.9%, in 1996.

Even if the share of young people in total unemployment fell sharply since 1990, in 1996 more than a quarter of the unemployment in the Union consisted of young people between 15-24 years (26.3%). The proportion of women in the total number of jobless was of 48.6.

Substantial progress was made in holding down **consumer prices** in the Union, and inflation rates have slowed consistently since the early 1990s. In 1996, inflation, measured by harmonised consumer price indices, declined to +2.4%, as against +0.1% in Japan and +2.9% in the United States. This progress does, however, mask considerable discrepancies between Member States, with rates ranging from +0.8% for Sweden and +4.0% for Italy, Greece having a figure of +7.9%.

On the **exchange markets** in 1996, seven currencies rose against the ECU, by around 1% (the French franc, the Portuguese escudo and the Spanish peseta) and by as much as 7% (Swedish krona). All the other currencies depreciated, however, by 0.5% in the case of the Danish krone and by more than 2% for the Belgian/Luxembourg franc, German mark, Dutch guilder and the Austrian schilling.

Government bond prices reached peak levels in most Member States in January 1996. These good performances were sustained throughout the year, and a degree of convergence was observed in both short- and long-term interest rates.

Gross domestic product per head and unemployment rate in **the regions of the European Union** are crucial indicators for European structural policies. An analysis of these indicators shows that there are still substantial differences, both from one Member State to another and within some of the Member States.

In 1994, GDP at national level was relatively close to the Union's average for 11 of the 15 Member States, but, considering regional GDP per head, differences were much broader. Considering mean deviation as an indicator of the size of regional disparity from national figures, it is possible to distinguish two groups of countries. The Netherlands, Greece, Sweden and the United Kingdom with rather low values (between 9% and 12%), while the other countries have a mean deviation ranging from 16% (in Finland) to 22% (in Italy).

In 1996, regional unemployment rates varied from 3.2% in Luxembourg to 32.4% in Andalusia and mean deviation indicator shows remarkable differences among regions.

A comparison with the situation some ten years ago shows that changes have not been uni-

form over Member States and over regions.

Annual average growth rate of GDP per head was ranging in the large majority of the regions between 4% and 7%, during the period 1984-94, but large differences exist among regions. The same stands for unemployment over the period 1986-96. The total unemployment rate fell in roughly half of the regions and rose in the other half.

MAIN MACRO-ECONOMIC DATA OF THE EUROPEAN UNION

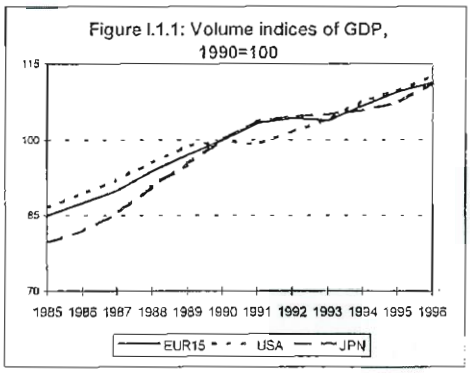
I.1. Economic growth in the international framework

Following the slowdown in growth, which marked the industrialised countries in 1995, the year 1996 is characterised by a recovery in the main international economic areas. Indeed, while all these areas recorded major drops in 1995, table I.1.1 shows an increase of GDP in volume of 2.5% for OECD, 2.3% for the BIG7 countries, 2.6% for NAFTA and 3.9% for OCEANIA.

This rise in growth rates is not borne out in the European Union; rates flagged compared to the two previous years (+2.9% in 1994, +2.4% in 1995 and only +1.7% in 1996).

The same trend is observed in Canada: +4.1% in 1994, +2.3% in 1995 and +1.4% in 1996.

Figure I.1.1: Volume indices of GDP, 1990=100



Source : Eurostat

Among the main economic partners of the Union, the United States which had a significant drop in 1995 (+2.0% compared to +4.1% in 1994), display a growth rate of 2.4% in 1996.

In Japan, the modest growth which began in 1992 and continued with a quasi-stagnation in 1993, returned to a slight recovery in 1995 (+0.9%). This trend is confirmed in 1996 by a high growth rate increase (+3.6%).

Furthermore, it should be pointed out that the high growth rates of groupings of countries such as NIC 1 (newly industrialised countries of the first wave of industrialisation) and NIC 2 (newly industrialised countries of the second wave of industrialisation), which were observed during the last few years (+7.7% and +8.0% respectively in 1994 and +7.4% and +8.1% respectively in 1995) slightly decreased. However, 1996 growth rates of +6.4% for NIC 1 and +6.8% for NIC 2 are still very high.

In China, a slowdown in growth may be also observed; it slipped from +13.5% in 1993 to +9.2% in 1996. The same trend is observed, although to a lesser extent, in India.

Finally, the spectacular reversal of trend in Mexico should be highlighted; rates rose from -6.2% in 1995 to +5.1% in 1996 (see table I.1.1).

Table I.1.1 International comparison of growth rates of GDP at constant prices, in %

	1990	1991	1992	1993	1994	1995	1996
EUR15 (1)	2.9	1.5	0.9	-0.5	2.9	2.4	1.7
OECD (1)	2.6	1.0	1.7	1.4	2.9	1.8	2.5
Canada	-0.3	-1.8	0.8	2.3	4.1	2.3	1.4
USA	1.2	-0.5	2.5	3.4	4.1	2.0	2.4
Japan	5.1	4.0	1.1	0.1	0.5	0.9	3.6
BIG7(1)	2.4	0.9	1.6	1.4	3.0	1.9	2.3
Mexico	4.5	3.6	2.8	0.6	3.5	-6.2	5.1
NAFTA	1.3	-0.3	2.4	3.1	4.0	1.4	2.6
OCEANIA	1.0	0.2	2.3	2.9	5.1	2.1	3.9
NIC1	8.0	5.5	5.9	6.3	7.7	7.4	6.4
NIC2	8.6	6.2	6.2	6.9	8.0	8.1	6.8
China	3.8	9.2	14.2	13.5	12.7	10.6	9.2
India	5.7	0.4	5.4	4.8	7.6	7.3	.

(1) new German Länder included starting from 1992
NAFTA : USA, Canada, Mexico
NIC 1 : Newly industrialised countries, (Singapore, Taiwan, Hong Kong, South Korea)
NIC 2 : Newly industrialised countries of the second wave of industrialisation (Philippines, Malaysia, Thailand)
OCEANIA : New Zealand, Australia
Sources : Eurostat, OECD and national sources

Among **Member States**, Ireland displayed the highest growth rate (+8.6%), as was the case in the last three years, followed by Luxembourg (+3.6%) and Finland (+3.3%). It should be noted that, in comparison to the previous year, Ireland and Finland faced a slowdown in their rate of growth, while Luxembourg increased slightly (see table I.1.2).

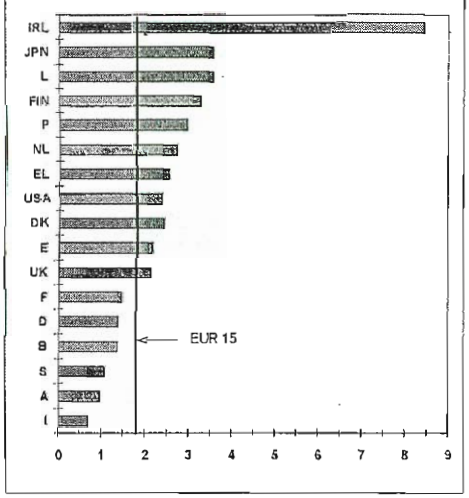
Compared to 1995, only four countries have recorded a rise in growth rates: Luxembourg, Portugal, the Netherlands and Greece. Italy recorded the lowest increase in gross domestic product with only +0.7% (see figure I.1.2).

Table I.1.2	Annual growth rates of GDP, constant prices of 1990, in %						
	1990	1991	1992	1993	1994	1995	1996
B	3.0	1.6	1.5	-1.5	2.4	2.1	1.5
DK	1.4	1.3	0.2	1.5	4.2	2.6	2.7
D	5.7	5.0	2.2	-1.1	2.9	1.9	1.4
EL	0.0	3.0	0.5	0.2	2.2	2.0	2.6
E	3.7	2.3	0.7	-1.2	2.1	2.8	2.2
F	2.5	0.8	1.2	-1.3	2.8	2.1	1.5
IRL	8.5	2.4	4.6	3.6	7.8	11.1	8.6
I	2.2	1.1	0.6	-1.2	2.2	2.9	0.7
L	2.2	6.1	4.5	8.7	4.2	3.8	3.6
NL	4.1	2.3	2.0	0.8	3.4	2.1	2.8
A	4.6	3.4	1.3	0.5	2.3	1.5	1.0
P	4.6	2.3	1.8	0.3	0.7	1.9	3.0
FIN	0.0	-7.1	-3.6	-1.2	4.5	5.1	3.3
S	1.4	-1.1	-1.4	-2.2	3.3	3.6	1.1
UK	0.4	-2.0	-0.5	2.1	3.9	2.5	2.1
EUR15(1)	2.9	1.5	0.9	-0.5	2.9	2.4	1.7

(1) new German Länder included starting from 1992
Source : Eurostat

Regarding the **Candidate Countries** for the accession to the European Union (CC), data for the year 1996 are not yet available. Thus, the following analysis will be restricted to the year 1995.

Figure I.1.2: Growth rates of GDP, 1996, in %



Source : Eurostat

Table I.1.3 shows that in 1995, the Candidate Countries have a fairly sustained economic growth at a higher level than that of the European Union for the third year running. However, the rates vary from country to country.

Table I.1.3	Annual GDP growth rates in the CC, prices of 1990, in %					
	1990	1991	1992	1993	1994	1995
Bulgaria	:	:	-7.3	-1.5	1.8	2.1
Czech Republic	-1.2	-11.5	-3.3	0.6	2.7	4.2
Cyprus	7.4	0.6	9.3	0.4	6.3	5.8
Estonia		-13.6	-14.2	-8.5	-1.8	4.3
Hungary	:	:	-3.1	-0.6	2.9	1.5
Latvia	-2.9	-10.4	-34.9	-14.9	0.6	-0.8
Lithuania	:	:	:	-30.4	1.0	3.0
Poland	:	-7.0	2.6	3.8	5.2	7.0
Romania	-5.8	-12.9	-8.8	1.5	3.9	7.1
Slovak Republic	:	-14.6	-6.5	-3.9	5.0	7.0
Slovenia	:	-8.9	-5.5	2.8	5.3	4.1
Total CC	:	:	:	1.0	4.0	5.2

Source : Eurostat

The large majority of Candidate Countries saw a growth rate for 1995 which was higher than that of the European Union (+2.4%).The only countries where the growth rate was below this average were Bulgaria, Hungary and Latvia, the last two also experienced a fall in growth compared with 1994. In addition, Latvia, where growth had resumed in 1994 to achieve the first positive rate since 1991, again showed a negative rate of -0.8%.

On the other hand, four Candidate Countries - Romania, The Slovak Republic, Poland and Cyprus - had a 1995 growth rate which was higher than the average for the Candidate Countries (+5.2 %).

In Lithuania, the Republic of Slovenia, the Czech Republic and Estonia, growth rates were between the averages for the two groups of countries under consideration, i.e. +2.4% for the European Union and +5.2% for the Candidate Countries.

I.2. Economy of the Union

I.2.1. Gross domestic product

GDP in absolute value

In 1996, the GDP of the Union as a whole worked out at 6 764.1 Mrd ECU compared with 5 966.6 Mrd ECU for the USA and 3 623.6 Mrd ECU for Japan.

The share of the GDP of the Union (in PPS) in the world-GDP, was in 1995 of 23.3% and the share of the USA 20.6%. The share of Japan was 7.7% while Canada held 1.8%, Mexico 2.1% and the Central Eastern European Countries 2.3%.

Within the Union, Germany had the highest GDP (1 854.4 Mrd ECU), representing 27.4% of the GDP of EUR 15.

Four EU-economies (Germany, France, Italy and the United Kingdom) accounted for nearly 73% of the total GDP of the Union, while at the other end of the scale the five countries (Greece, Ireland, Luxembourg, Portugal and Finland) contributed only about 5.1% to the total GDP of the Union.

Concerning the per capita data, it is Luxembourg which has in 1996 the highest level (33 280 ECU) while Portugal, with 8 270 ECU falls below the Union's average (18 070 ECU) (see table I.2.1 and I.2.2) (A more detailed analysis of GDP per head, in particular in PPS, is given in section I.7.3).

Table I.2.1	GDP at current prices and exchange rates, in Mrd ECU						
	1990	1991	1992	1993	1994	1995	1996
B	152.6	160.6	171.7	180.8	193.6	205.9	208.5
DK	101.7	104.7	109.6	115.1	122.7	132.1	137.3
D	1 182.2	1 391.5	1 522.3	1 630.9	1 725.3	1 845.2	1 954.4
EL	65.3	72.1	75.5	78.6	82.5	87.4	96.9
E	387.5	427.6	446.0	408.6	407.1	428.1	458.2
F	941.5	971.7	1 022.1	1 066.8	1 122.6	1 174.3	1 211.4
IRL	35.9	37.5	40.4	41.5	45.4	49.2	55.3
I	861.2	931.1	941.7	842.0	855.7	831.4	956.4
L	8.1	8.8	9.8	11.0	12.3	13.3	13.8
NL	223.4	234.9	248.9	267.3	284.0	302.5	309.3
A	124.7	133.5	144.0	155.9	167.1	178.4	179.8
P	53.1	61.8	71.1	69.9	71.3	77.1	82.2
FIN	108.2	98.1	82.1	72.0	82.5	95.6	97.7
S	180.8	193.5	191.8	158.5	167.1	176.3	197.1
UK	772.0	821.2	811.9	808.8	860.5	844.8	905.9
EUR15	5 196.3	5 648.4	5 888.6	5 907.9	6 199.8	6 441.5	6 764.1
USA	4 510.5	4 774.8	4 810.4	5 596.0	5 830.7	5 545.7	5 966.6
JPN	2 341.5	2 752.7	2 868.5	3 652.6	3 950.3	3 925.9	3 623.6

Source : Eurostat

Table I.2.2	GDP per head, in ECU						
	1990	1991	1992	1993	1994	1995	1996
B	15 320	16 060	17 100	17 930	19 140	20 310	20 500
DK	19 790	20 310	21 200	22 190	23 580	25 260	26 140
D	18 690	17 400	18 890	20 090	21 190	22 600	22 640
EL	6 420	7 030	7 330	7 570	7 910	8 360	9 210
E	9 970	10 990	11 430	10 450	10 400	10 920	11 670
F	16 590	17 030	17 810	18 500	19 390	20 200	20 780
IRL	10 240	10 630	11 380	11 650	12 720	13 740	15 350
I	14 930	16 110	16 270	14 490	14 690	14 250	16 360
L	21 340	22 790	24 850	27 580	30 450	32 370	33 280
NL	14 950	15 580	16 390	17 480	18 470	19 570	19 920
A	16 140	17 090	18 200	19 510	20 810	22 180	22 260
P	5 370	6 260	7 210	7 070	7 200	7 770	8 270
FIN	21 290	19 570	16 280	14 220	16 220	18 720	19 070
S	21 130	22 460	22 080	18 180	19 030	19 970	22 280
UK	13 410	14 210	14 000	13 900	14 740	14 410	15 400
EUR15	14 870	15 380	15 960	15 930	16 670	17 260	18 070
USA	18 050	18 900	18 830	21 670	22 340	21 030	22 420
JPN	18 950	22 210	23 080	29 310	31 640	31 340	28 890

Source : Eurostat

Main components of GDP — Evolution and structure

Values of the main aggregates of GDP are presented for the years 1990 to 1996 in table I.2.3.

Table I.2.4 shows, for the same period, the evolution of the main aggregates of the Union, the United States and Japan and also within the Union itself on the basis of the average annual growth rates.

The figures show that the GDP growth observed between 1990 and 1996 in the Union and Japan is mainly due to the vigorous expansion of **final consumption.**

Contrary to Japan and within the Union, where the levels of growth of private and public consumption expenditure are fairly close, the USA show a large contrast between these two figures, in excess of two percentage points.

Regarding the evolution of the **gross fixed capital formation** on the basis of the average annual growth rates, a weak growth may be discerned for the Union (+0.4%) and a modest

Table 1.2.3	Main components of GDP at current prices and exchange rates, in Mrd ECU																						
	Private Consumption							Collective Consumption							GFCF								
	1990	1991	1992	1993	1994	1995	1996	1990	1991	1992	1993	1994	1995	1996	1990	1991	1992	1993	1994	1995	1996		
B	95.8	102.1	108.4	113.7	121.3	128.3	130.2	21.5	23.3	24.5	26.7	28.5	30.4	30.6	31.2	30.4	32.3	32.1	33.6	36.2	36.8		
DK	52.8	54.4	57.2	60.5	66.1	70.9	73.9	25.8	26.7	28.1	30.3	31.6	33.3	34.5	17.7	17.3	17.1	17.3	17.9	20.7	22.8		
D	716.4	887.8	977.3	1 061.3	1 118.3	1 192.0	1 212.4	143.6	178.7	196.3	211.2	210.3	222.3	219.7	247.4	319.9	351.1	355.9	379.0	400.6	389.4		
EL	47.8	52.6	56.2	58.8	61.7	65.1	71.5	10.0	10.4	10.4	10.8	11.5	12.4	13.3	15.0	16.2	16.3	16.2	16.4	17.6	20.8		
E	241.9	268.7	281.3	268.0	255.9	265.2	284.0	60.4	69.1	76.2	71.8	69.0	71.1	74.3	94.7	101.7	97.3	81.1	80.3	88.4	91.5		
F	558.5	579.0	611.8	646.8	674.9	702.9	734.2	171.8	180.3	195.5	214.3	221.4	229.2	238.1	201.2	206.1	205.2	197.7	202.4	210.7	212.2		
IRL	21.2	22.3	24.1	23.8	26.3	27.0	30.2	5.3	5.8	6.4	6.6	7.0	7.2	7.6	8.4	8.1	8.3	5.9	6.6	7.4	8.6		
I	526.0	575.3	591.7	522.2	529.7	510.5	585.3	151.2	163.9	166.4	148.5	146.5	134.1	156.4	174.8	184.3	180.6	142.7	142.5	143.7	162.9		
L	5.1	5.6	5.8	6.3	6.7	7.1	7.3	1.1	1.2	1.3	1.4	1.5	1.7	1.8	2.0	2.3	2.2	2.6	2.5	2.8	2.8		
NL	131.1	139.5	149.9	161.7	171.1	181.3	186.2	32.5	34.0	36.5	39.6	40.5	43.3	43.2	46.7	47.8	49.8	51.3	53.1	58.7	61.5		
A	89.1	73.6	79.7	85.7	92.1	96.6	100.2	22.2	24.1	26.4	29.7	31.5	33.7	33.8	30.6	33.8	36.1	37.8	41.4	44.1	44.5		
P	33.8	40.0	46.3	44.8	45.5	48.1	50.9	8.4	10.9	12.6	12.8	13.0	14.3	15.5	14.4	15.9	17.4	16.3	17.2	18.8	20.8		
FIN	55.6	54.9	48.9	41.1	45.9	51.8	53.1	22.4	23.7	20.4	18.8	18.4	21.0	21.8	28.7	22.0	15.1	10.6	12.0	14.5	15.1		
S	92.1	103.1	103.2	87.3	91.1	92.3	104.0	49.5	52.7	53.4	44.5	45.4	45.6	51.0	38.9	37.5	32.6	22.6	22.8	25.6	29.3		
UK	486.6	521.3	519.9	521.0	550.7	538.6	560.9	158.2	177.0	178.8	176.7	185.0	179.8	188.7	150.7	139.4	126.9	120.9	127.9	127.6	135.6		
EUR15	3 136.0	3 478.4	3 659.5	3 694.0	3 855.9	3 979.9	4 204.2	883.6	981.8	1 032.9	1 041.6	1 061.3	1 079.2	1 130.4	1 100.6	1 180.7	1 186.4	1 111.2	1 155.6	1 217.7	1 254.6		
USA	3 014.9	3 207.9	3 250.7	3 803.7	3 951.9	3 785.2	4 057.0	767.0	827.5	812.5	922.1	926.8	866.8	923.8	778.3	757.8	764.6	906.2	981.3	955.8	1 051.3		
JPN	1 356.7	1 572.3	1 658.2	2 141.2	2 358.3	2 360.7	2 168.1	210.4	247.7	263.0	344.1	377.4	387.1	355.0	742.4	865.0	873.7	1 076.6	1 133.2	1 110.6	1 075.3		

Source : Eurostat

Table I.2.4	Yearly growth rates of the main aggregates of GDP, 1990-96 , at 1990 prices		
	Private consumption	Collective consumption	GFCF
B	1.4	1.2	-0.5
DK	2.7	1.3	0.6
D	4.5	3.3	4.0
EL	1.6	1.0	3.4
E	1.2	2.1	-0.6
F	1.3	2.0	-1.1
IRL	4.3	2.4	2.4
I	0.6	0.3	-1.1
L	2.3	2.8	1.6
NL	2.3	1.0	-1.9
A	2.1	2.1	2.8
P	1.6	2.9	2.9
FIN	-0.5	-0.2	-7.8
S	0.1	-0.1	-3.7
UK	1.3	1.1	-1.2
EUR15	2.0	1.5	0.4
USA	2.1	0.2	3.7
JPN	2.1	2.4	1.4

Source : Eurostat

one for Japan (+1.4%) while the USA recorded a considerable growth rate (+3.7%).

Within the Union, sizeable differences among Member States may be noted.

Indeed, between 1990 and 1996, six Member States (Luxembourg, Denmark, Ireland, Germany, Austria and the Netherlands) have growth rates for **private consumption expenditure** higher than the EU average (+2.0%). For eight countries, rates varied between +0.1% (Sweden) and +1.6% (Greece and Portugal). Finland is the only State which records a negative rate (-0.5%).

Differences between Member States also appear when comparing yearly growth rates for **collective consumption expenditure**. Two groups may be distinguished. The first contains Member States which have growth rates lower than the EU average (+1.5%), eight rates range between -0.2% (Finland) and +1.3% (Denmark). The second group is composed of seven Member States whose rates are higher than the EU average with rates varying between +2.0% (France) and +3.3% (Germany).

Comparison between rates of **gross fixed capital formation** within Member States during the same period also shows certain differences in evolution. Thus, seven Member States have negative rates lower than the EU average (+0.4%), ranging between -7.8% (Finland) and -0.5% (Belgium). The eight other countries recorded higher rates than this average, between +0.6% (Denmark) and +4.0% (Germany).

The main aggregates in percent of GDP

Table I.2.5 describes, through the main aggregates, the structure of GDP as it stood in 1986 and as it is in 1996.

In 1986 and 1996, **private consumption expenditure in percent of GDP** is higher in the USA than in the Union or Japan. In ten years, the share of household consumption of the Union has increased by 1.2 percentage points against 2.6 points for the USA.

Table I.2.5	Main aggregates, in % of GDP					
	Private Consumption		Collective Consumption		GFCF	
	1986	1996	1986	1996	1986	1996
B	64.4	62.5	16.8	14.7	15.6	17.7
DK	55.0	53.8	23.9	25.2	20.8	16.6
D	61.9	65.4	13.4	11.8	19.4	21.0
EL	70.8	73.9	14.0	13.8	23.0	21.4
E	63.2	62.0	14.7	16.2	19.5	20.0
F	60.2	60.6	19.2	19.7	19.3	17.5
IRL	61.7	54.6	18.0	14.2	17.4	15.5
I	61.1	61.2	16.4	16.4	19.8	17.0
L	62.8	52.8	12.8	13.1	19.6	20.3
NL	59.4	60.2	15.5	14.0	20.4	19.9
A	56.5	55.7	19.0	18.8	22.8	24.7
P	64.5	62.0	14.2	18.9	24.2	25.3
FIN	54.7	54.3	20.5	22.1	23.4	15.5
S	51.4	52.8	27.5	25.9	18.5	14.9
UK	62.8	64.1	21.0	20.8	16.9	15.0
EUR15	61.0	62.2	17.4	16.7	19.2	16.5
USA	65.4	68.0	17.5	15.5	19.8	17.6
JPN	58.6	59.8	9.7	9.3	27.3	29.7

Source : Eurostat

Among the Member States, it is interesting to note apparent changes in the structure of GDP. In 1986, for instance, Luxembourg had a share of household consumption of 62.8%. In 1996, this share had fallen to 52.8%, which is a decrease of ten percentage points. The same tendency may be observed for Ireland which lost seven percentage points (54.6% in 1996 against 61.7% in 1986).

By contrast, in 1996 Germany and Greece show higher shares than those prevailing in 1986, by +3.5 points and +3.1 points respectively.

Always in comparison with the structure prevailing in 1986, the number of Member States under the EU average had slightly increased by 1996, i.e. Denmark, France, Ireland, Luxembourg, the Netherlands, Austria, Finland and Sweden.

For the two years observed, it is the Union and the USA, which have alternately the highest share of **collective consumption** in GDP, while for Japan, this share does not reach 10%.

On the whole, it should be mentioned that the general tendency is downwards. The share of collective consumption in GDP loses ground, not only in the Union where it drops by 0.7 points (going from 17.4% in 1986 to 16.7% in 1996), but also in the USA where it falls by 2.0 points, dropping from 17.5% in 1986 to 15.5% in 1996. Only in Japan a slight increase of 0.1 points may be discerned.

Within the Union, the largest shares have been recorded in Sweden, both in 1986 and 1996, (27.5% and 25.9% respectively).

As far as the share of **the gross fixed capital formation in GDP** is concerned, it may be observed that the Union has both in 1986 and 1996 a structure closer to that of the USA than that of Japan.

Capital formation represented more than 27% of the GDP in Japan in 1986 and, in 1996, more than 29%. On the other hand, in the Union and USA, in 1986, it only exceeded 19% of GDP and in 1996 approximately 17-18% of GDP.

In 1996, nine Member States (Denmark, Greece, France, Ireland, Italy, the Netherlands, Finland, Sweden and the United Kingdom) experienced a drop compared to 1986 rates, while in six other Member States (Belgium, Germany, Spain, Luxembourg, Austria and Portugal), an increase in the share of capital formation is observed.

I.2.2. Economic cycle

Short-term trends in the Union, the United States and Japan in 1996: comparison with the period 1991-1995

For the **European Union** as a whole, the upturn in the cycle - which had started moving upwards after bottoming out in 1993 - had already shown some signs of easing off during 1995, thereby prompting a general decline in growth rates, which in most of the Member States economies was mainly concentrated in the second half of the year. Exports, although continuing to be the most vigorous component in demand, had began to ease up.

Measured in constant prices, GDP in 1996 grew by 1.7%, a further drop in relation to the average of +2.4% recorded in 1995.

However, the second half of the year saw a gradual recovery in production, led primarily by a solid export performance.

The annualised trend in the GDP figures in the Union as a whole moved steadily upwards, rising from 1.2% in the first quarter of the year to 2.0% in the last quarter. The short-term pattern was still patchy, however, with excellent figures in the third quarter of the year followed by another downturn in the final quarter, when some of the Member States were hit by particularly bad weather (see table I.2.6).

The rise in GDP in the Union as a whole was accompanied by an increase of +3.7% in imports, the lowest figure since 1993, when there had been a drop. Exports were also slowing down considerably after the performance in 1994 and 1995, but still managed to achieve a rate of +4.5%, ahead of the import figure.

With regard to domestic demand, private consumption was the most vigorous component (+2.1%), while both gross capital fixed formation (+1.1%) and collective consumption (+0.6%) grew at a slower rate (see table I.2.7).

There was a patchy performance during the year by almost all the components of GDP. A look at the trend pattern shows that the two middle quarters of 1996 were the weakest period, with both private consumption and imports affected.

After falling in the first quarter, investment subsequently recovered steadily. Exports rose significantly in the last two quarters of the year, and by the end of the year they generally matched the figures for the growth in real terms of world trade (see figure I.2.1 and I.2.2).

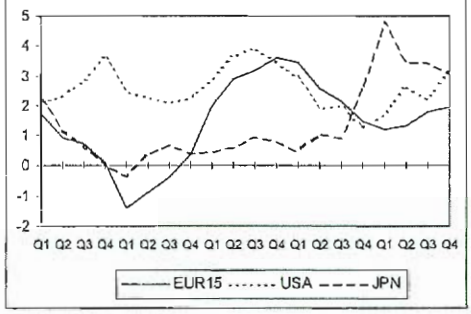
In the **United States,** the growth which began in the second quarter of 1996 continued at a rate which closely matched potential growth.

Table I.2.6: Quarterly variations of GDP aggregates for the European Union, the United States and Japan, in %, 1996

	Quarterly variations compared with the previous quarter				Quarterly variations compared with the same quarter of the previous year			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP								
EUR15	0.4	0.4	0.8	0.4	1.2	1.3	1.8	2.0
USA	0.5	1.2	0.5	0.9	1.7	2.7	2.2	3.1
JPN	2.1	-0.3	0.3	1.0	4.8	3.4	3.5	3.1
Private Consumption								
EUR15	1.3	-0.1	0.7	0.3	2.6	1.3	2.0	2.3
USA	0.9	0.8	0.1	0.8	2.5	2.6	2.1	2.7
JPN	2.0	-1.0	-0.2	1.2	4.7	3.1	1.8	2.0
Collective Consumption								
EUR15	-0.7	0.8	0.3	0.2	0.0	1.0	0.9	0.5
USA	-0.2	1.8	-0.1	-0.4	-1.1	0.8	0.9	1.3
JPN	0.8	0.1	1.3	0.6	2.1	1.8	2.4	2.9
GFCF								
EUR15	-1.0	1.3	0.8	0.4	-0.8	1.0	1.3	1.5
USA	2.6	1.8	2.0	0.9	4.1	6.0	6.8	7.5
JPN	3.4	2.4	0.3	-0.5	10.1	10.4	10.1	5.7
Export (including intra-EUR 15)								
EUR15	1.4	1.0	2.5	1.9	2.7	2.7	5.3	6.8
USA	0.5	1.4	-0.2	5.7	7.2	7.2	4.2	7.5
JPN	-0.7	0.1	1.6	4.3	2.3	-1.2	2.1	5.4
Imports (including intra-EUR 15)								
EUR15	1.8	-0.7	1.8	2.0	4.3	2.0	2.9	4.7
USA	2.6	2.4	2.2	0.8	4.1	5.4	7.8	8.3
JPN	2.0	-1.9	-0.3	1.1	15.5	13.4	8.4	4.7

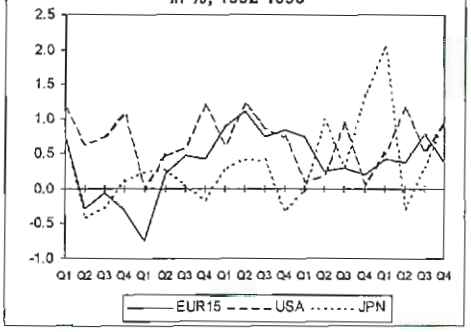
Source: Eurostat

Figure I.2.1: GDP growth rates compared with the same quarter of the previous year, in %, 1992-1996



Source : Eurostat

Figure I.2.2.: GDP growth rates compared with the previous quarter, in %, 1992-1996



Source : Eurostat

The figure for 1996 was +2.4%, compared with +2% a year earlier.

The upturn involved both private consumption and investment. When the current period of expansion is compared with the previous economic recovery in the 1980s, when there was a surge in investment in construction, it can be seen that the current recovery, although more moderate, reveals stronger investment in equipment. In 1996, in particular, the rise of 4.6% in investment in construction was outstripped by a figure of +7.6% for investment in equipment and means of transport.

A look at the US figures for 1996 also shows that there was a sharp rise in growth towards the end of the year. In the last quarter, especially, there was an increase of 0.9% in GDP, fuelled not only by investment but also by private consumption and net exports. This resulted in an annualised figure of +3.1%, the highest since the end of 1994.

In comparison, GDP growth in the first quarter of 1996 had produced figures of +0.5% and +1.7% respectively. In spite of fears that the economy could overheat, based on faster growth during the year, prices were kept in check, thanks mainly to strong gains in productivity and greater efficiency of plant installed during the current phase, together with an expansion of production capacity and moderate increases in labour costs.

After four years of relative stagnation in **Japan**, GDP grew by +3.6% for 1996 as a whole. The primary reason was the sharp upturn (+2.1%) in the first quarter. In the middle quarters of the year, private consumption slipped for two successive quarters and investment began to slow down, eventually recording a negative performance (-0.5%) in the final quarter of the year.

The economic situation in the Member States in 1996

The recovery from the recession of the early 1990s, which had begun back in the second half of 1993, faltered in the two-year period 1995-1996, which meant that real growth rates for the Union as a whole were lower.

In **Germany**, the slowdown in growth stemmed mainly from declining investment. The latter was down by 0.8% as a result of a drop of -2.7% in investment in construction which offset a rise of +2.4% in equipment.

Exports, in particular, produced a performance in the second quarter that indicated a healthy cyclical and long-term recovery, as they became more competitive because of a weaker deutschmark and greater world demand. In spite of this, the economy flagged in the final quarter of the year, with GDP falling by -0.1%, mainly because of the adverse weather conditions that above all affected the building sector.

In **France**, the downturn in GDP recorded in the second quarter (-0.2%) reflected declining exports and weak domestic demand, caused both by a decrease in consumption (-1.0%) and by a decline in investment, especially in the construction sector (-2.1%). GDP started growing again in the third quarter (+0.8%) but again weakened towards the end of the year (+0.2%). Although exports performed erratically, the second quarter of the year saw them moving ahead strongly in terms of the overall trend.

The economy in **Italy** slowed considerably in 1996 in relation to the two previous years, and the performance over the year was patchy. Imports were down on average by +2.3% in 1996 but started to pick up from the third quarter, while exports of goods and services (down

by -0.3% over the year) recovered in the second and third quarters, only to suffer a further downturn in the final three months of the year.

Private consumption (+1.1% over the year) produced a fairly steady performance in each quarter, although there were signs that spending on consumer durables was rising in the second half of the year. After the sharp rise in investment in 1995 (+6.9%), gross fixed capital formation rose by 1.2% in 1996.

The buoyant cycle that the **United Kingdom** has been enjoying for more than five years now continued during 1996, with growth registering +2.1%. Exports were boosted by the earlier depreciation of the pound sterling, which lost 14.3% of its value between September 1992 and the end of 1995. The subsequent hardening of the pound failed to curb the growth rate of exports.

Investment performance was rather patchy, with a sharp downturn in the third quarter followed by a recovery in the fourth. Private consumption was more buoyant than among the UK's main partners and the general trend was upwards in the second half of the year.

On the whole, 1996 was a good year for the economy in **Spain**. The previous cycle had bottomed out in the second quarter of 1993, about three years after the previous cycle had peaked. There was solid growth in 1994, which was led by foreign demand, encouraged in part by the devaluation of the peseta. Foreign demand remained strong in 1995 and was accompanied by a clear increase in productive investment.

GDP growth in 1996 amounted to +2.2% (compared with +2.8% in 1995), with a quarterly figure of +0.6% in the first three quarters of the year, followed by a slightly better figure of +0.8% in the final quarter. The trend in gross fixed capital formation was reversed, with slight downturns in the short-term trend from the second quarter and in the annual trend from the third.

In the **Netherlands** as well, after the trough in the previous cycle at the end of 1993, the export-led recovery continued at a good rate, with every component contributing. Unlike most of the Member States, GDP growth accelerated in 1996, producing a figure of +2.8%. The most buoyant component during the year was investment in machinery and equipment.

GDP growth in **Belgium** was +1.5% in 1996, more or less in line with growth in Germany. Private consumption edged slightly upwards, while collective consumption continued to expand at the same rate as in 1995. There was an increase of 2.4% in gross fixed capital formation. In **Luxembourg**, GDP growth registered +3.6%.

In **Austria**, the slowdown that had started during 1995 stemmed mainly from the adverse effects on exports of the appreciation of the schilling and the cyclical decline of demand in the construction sector. The economy continued to slow down in 1996, when GDP growth was only +1.0%.

The economies of the Scandinavian countries showed different patterns of development. Growth in real terms was most pronounced in **Finland** (+3.3%), although the figure was down on the average achieved in 1995 (+5.1%). The quarterly figures revealed an improving situation in the second half of 1996. This trend is even clearer in the annual figures, which show a steady rise in GDP growth from +1.5% in the first quarter to +5.8% in the final quarter of the year. In conjunction with a solid consumption record and a lessening rate of investment in machinery and equipment during the year, the better performance in the second six months was prompted by strong growth, both in exports and in construction investment. The year-on-year figures for both these components were negative in the first quarter of 1996 but reached double figures by the last quarter of the year.

In **Sweden**, on the other hand, there was a fairly steady slackening of the economy, bringing GDP growth in real terms down from +3.6% in 1995 to +1.1% in 1996, in spite of the positive contribution from the net export performance. Private consumption performed reasonably well during the year, but gross fixed capital formation fell away sharply, declining from an annual rate of increase of 8.9% in the first

quarter to a downturn of -0.6% in the last three months of the year.

After peaking in the first few months of 1986, the economy in **Denmark** made fairly modest progress in real terms throughout the period between 1987 and 1993. The cycle reached its lowest point between the second and third quarters of 1992, about a year ahead of most of the Member States. Growth began to pick up only from the third quarter of 1993 and reached +4.2% in 1994. In the next two years there was a further easing back, and GDP growth changed from +2.6% in 1995 to +2.7% in 1996. The quarterly pattern reveals gradual consolidation, borne out by the annualised figures for GDP growth that moved from +1.0% in the first quarter of 1996 to +3.3% in the final quarter of the year.

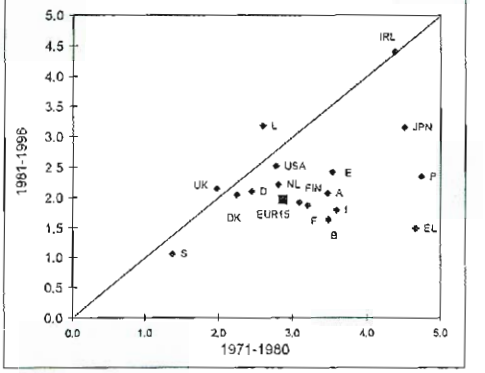
Ireland maintained the performance that it has been showing since 1994. After growing by +11.1% in 1995, GDP in 1996 was up by +8.6%, easily the highest figure of any member of the Union. Growth was sustained by net exports, but also by strong domestic demand and vigorous gross fixed capital formation (up by 15.9%).

Unlike most of the Member States, Portugal and Greece boosted their growth rates, which rose between 1995 and 1996 from +2.0% to +2.6% in Portugal and from +1.9% to +3.0% in Greece. **Portugal** had emerged from the recession in 1994 thanks to its export performance, but over the next two years the economy was fuelled mainly by investment (up by 7.4% in 1996). Exports were stationary in **Greece**, but private consumption grew by +2.2% and gross fixed capital formation by +11.8%.

The growth trend and the cycle of the Union since 1980

Although alternating periods of expansion and recession were more evident in the 1970s than subsequently, the average rate of growth among the members of the Union was relatively more marked in the period 1971-1980 (see figure I.2.3). The disparity in the pattern of expansion between the two sub-periods affected every Member State except Luxembourg, the United Kingdom, Ireland and - to a lesser extent - Germany and Denmark. It was particularly evident, however, in the economies where initial GDP levels had been lower but which then moved closer to the EU average.

Figure I.2.3: Average GDP growth rates of the Union, USA and Japan for the years 1971-1980 and 1981-1996, in %



Note : The horizontal and vertical axes represent the growth over the periods 1971-1980 and 1981-1996 respectively. A country in the upper area had a stronger growth in the second period while a country in the lower area had a stronger growth in the first one.
Source : Eurostat

A feature of the cyclical development of the European Union in the last 16 years was an initial process of decline to the trough reached in the second half of 1982, followed by a long period of expansion (1983-1987), which increased in pace after a slow start but then died out after about eight years, in the second half of 1990.

The latest period of recession lasted three years, reaching its lowest point in the second quarter of 1993. The start of the downturn and the subsequent move out of recession occurred over a period which was roughly 15 months shorter than the corresponding period at the beginning of the 1980s, when the slip into recession had been less sudden.

Until 1990 the short- to medium-term performance of the Union was close to that of the United States, but in the last five years it has differed considerably. Japan, at least until late 1987, did not show any marked cyclical fluctuations, but it then entered a phase of structural adjustment which led to an irregular pattern of growth.

Among the Member States, Italy, Germany and the United Kingdom reached the bottom of the recession in the second half of 1982, about a year after Denmark and a few months ahead of the Netherlands and Spain.

France ran counter to the trend, benefiting from a negative growth differential in relation to its main European partners.

In Austria, Finland and Sweden the cycle bottomed out in 1981. The recession was particularly marked in Austria and Sweden, whereas the Finnish economy continued to record positive growth rates in spite of the dip.

The subsequent contraction of the economy affected Austria, where the cycle was more in line with the EU trend, in 1992 and 1993, whereas it had affected Finland and Sweden at least two years earlier.

In Finland the contraction of economic activity came immediately after the collapse of exports to the Soviet Union in 1989. In Sweden the economy stagnated after the strong period of expansion between 1984 and 1989.

The period from 1983 to the end of 1986 was marked, in general, by a trend pattern that was not always clear and uniform. This phase continued in Germany until 1989 when — in the wake of unification — it was followed by a period of vigorous expansion that culminated in early 1991. In Denmark, the recovery was steady throughout the 1984-1986 period.

The subsequent period of expansion reached its zenith between the end of 1990 (the Netherlands and Spain) and the first half of 1991 (Italy and Germany). The United Kingdom had reached that point two years earlier.

The interdependence of the Member States

The interdependence of the European Union's economies, which developed partly as a result of the spontaneous trend towards the "internalisation" of trade between the Member States, has intensified throughout the period from the early 1970s until now. Apart from making the economies more vulnerable to external events, it has contributed to a substantial degree of alignment between the medium- and long-term rates of development of the various economic systems. The cross-correlations of the growth rates of GDP in real terms between 1971 and 1995 reveal the existence of groups of countries which are more interrelated, especially where short- and medium-term fluctuations are concerned. There are four groups of countries:

- a first group comprising the economies of the Netherlands, Belgium, Luxembourg and Austria, whose growth rates are strongly interrelated, with average cross-correlations around 0.7;
- a second group consisting of France, Italy and Germany, with average cross-correlations just below 0.6;
- a third group comprising the economies of Spain, Greece and Portugal, which are "moderately" interrelated with the other economies of the Union (cross-correlations between 0.4 and 0.5) and with each other (0.4);
- a fourth group consisting of Ireland, Denmark and the United Kingdom, together with Finland and Sweden, which are largely peripheral to the general pattern of GDP growth in the Union, with correlations often below 0.3.

I.2.3. Global demand

The pattern of domestic demand

For the **European Union** as a whole, a combination of factors accounted for the slackening of domestic demand that started in 1995 and got worse in 1996. The slowdown was due partly to a physical reduction in stocks and partly to a significant easing in the growth of gross fixed capital formation, only partly offset by a slight increase in private consumption.

After growing by +2.1% in 1995, total domestic demand rose by 1.4% overall in 1996. Of the components of demand, private consumption grew by +2.0% in 1996 (compared with +1.7% in 1995), while collective consumption in 1996 repeated the previous year's figure of +0.6%.

Total investment rose by 1.1%, compared with +3.6% in 1995. Although investment in equipment and means of transport continued to be the main factor in the growth of total investment, it slackened considerably and, according to Commission estimates, fell from the 1995 figure of +6.5% to +2.7% in 1996. In the construction sector, investment was down by -0.1% after a rise of 1.6% in 1995.

In the **United States**, overall domestic demand grew by +2.5% in 1996, half a point higher than in the previous year. The increased economic activity, boosted by a slight rise in stocks, affected both consumption - with private consumption up by +2.5% compared with +2.4% in 1995, and collective consumption up by +0.5% after falling by -0.3% the year before - and particularly investment, which saw an increase in real terms of more than 6%. The most telling factor was again investment in equipment and transport.

In **Japan**, the period of stagnant domestic demand that had been a feature of 1992 and 1993 had given way to a period of steady rise, with a growth rate of +4.6% in 1996. Both private and collective consumption rose: by +2.8% and +2.3% respectively. After three years of contraction between 1992 and 1994 and the slight recovery in 1995, total investment surged ahead in 1996 (+9%), thanks to greater investment in construction (+12.5%) and equipment and transport (+6.7%) (see table I.2.7).

Table I.2.7	Growth rates of domestic demand, at constant prices 1990, in %			
	1993	1994	1995	1996
EUR15				
Domestic demand	-1.9	2.5	2.1	1.4
Private consumption	-0.4	1.6	1.7	2.0
Collective consumption	1.1	0.5	0.6	0.6
GFCF	-6.8	2.4	3.6	1.1
- Construction	:	0.9	1.6	-0.1
- Equipment and transport	:	4.0	6.5	2.7
USA				
Domestic demand	3.0	4.0	2.0	2.5
Private consumption	2.8	3.1	2.4	2.5
Collective consumption	0.0	0.2	-0.3	0.5
GFCF	5.1	7.9	5.2	6.1
- Construction	3.4	5.7	2.2	4.6
- Equipment and transport	7.0	10.2	8.6	7.6
JPN				
Domestic demand	0.1	0.9	2.2	4.6
Private consumption	1.2	1.9	2.0	2.8
Collective consumption	2.3	2.4	3.5	2.3
GFCF	-1.9	-0.7	1.1	9.0
- Construction	:	:	:	12.5
- Equipment and transport	:	:	:	6.7

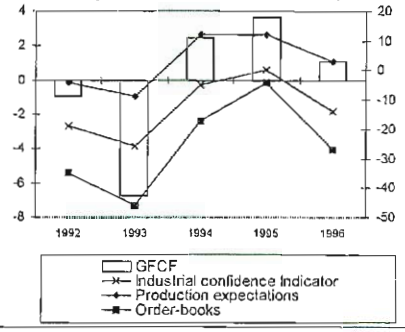
Source: Eurostat and European Commission

Investment

Starting in early 1995, the confidence indicator based on monthly surveys of businesses in the European Union steadily deteriorated until July 1996. The average figure for 1996 was thus well below the 1995 level. Views concerning the size of orders in hand and the ideas of business on how production was likely to develop also showed signs of pessimism. This reflected a slowdown in investment that was affecting the entire Union. In August 1996, however, the trend began to turn and led to an improvement in the climate of business opinion in the last two quarters of the year. This greater optimism also applied to orders in hand and the outlook for production (see figure I.2.4).

The level of use of manufacturing plant rose slightly in the final quarter of the year, but the figure for 1996 as a whole was down by -1.7 points — from 82.9% to 81.2% — compared with the previous year. This put it just below the 81.9% average for the ten years from 1987 to 1996. Labour productivity rose again in 1996, but the rate of increase failed to match the figures for 1995 and, especially, 1994. Unit labour costs fell for the fourth year in a row (see table I.2.8).

Figure I.2.4: Growth rates of GFCF compared with the results of business surveys on enterprises in the Union, in %



Note: on the vertical axis, the left scale refers to the growth rates of GFCF while the right scale refers to the results of the business survey.
Source : European Commission

Table I.2.8	Growth rates of some determinants of GFCF in the European Union, as a % of the previous year			
	Profits	Long-term interest rate (%)	Real unit labour costs	Labour productivity
1992	0.4	9.8	0.0	2.4
1993	-1.4	8.0	-0.9	1.5
1994	8.3	8.2	-2.4	3.2
1995	3.0	8.4	-1.6	1.8
1996	3.1	7.1	-0.7	1.5

Source: European Commission

In conjunction with a slight downturn in overall investment in Germany and France, coupled with a modest rise in the United Kingdom and Italy, fixed assets made a big contribution to total GDP growth in Greece, Ireland, Denmark and Portugal.

Growth was driven in most countries by the relatively more buoyant performance of the machinery and equipment sector. Investment in construction, on the other hand, led the way in Denmark, Greece, Ireland, Luxembourg and the United Kingdom (see table I.2.9).

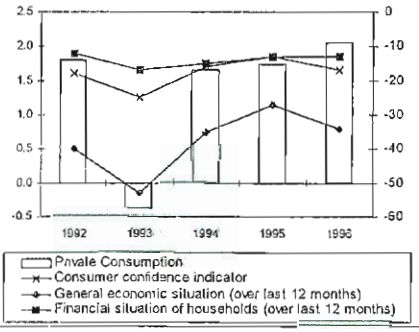
Table I.2.9	Gross rates of GFCF in %, 1996		
	Total	Construction	Equipment
B	0,6	1,6	3,3
DK	7,5	12,1	3,7
D	-0,8	-2,7	2,4
EL	11,8	13,2	10,2
E	0,7	-2,3	6,1
F	-0,5	-1,3	0,7
IRL	15,9	18,4	11,8
I	1,2	1,1	1,3
L	0,0	:	:
NL	4,9	1,5	9,4
A	1,4	-0,5	4,0
P	7,4	6,7	7,9
FIN	8,3	6,2	11,6
S	4,7	2,8	6,5
UK	1,0	1,4	0,5

Source : Eurostat and European Commission

Private consumption

Private consumption also showed growth matching the main indicators compiled from the short-term household surveys in the Union. The variation in household consumption, while edging upwards, nevertheless remained fairly modest in most Member States, apart from Ireland (+6.3%), Finland (+3.2%), the United Kingdom (+2.9%) and the Netherlands (+2.8%) (see table I.2.5).

Figure I.2.5: Growth rates of private consumption compared with the results of opinion polls of consumers in the Union, in %



Note: on the vertical axis, the left scale refers to the growth rates of private consumption while the right scale refers to the results of the opinion polls of consumers
Source : European Commission

External demand

The rapid growth of exports was the major factor helping countries out of the recession of 1992-93. After surging ahead in 1994 and 1995, however, exports from the European Union slackened considerably in 1996, mainly as a result of the sluggish performance of the industrialised countries' purchases.

Table I.2.10	Collective consumption, in %, 1996	
	Private consumption	Collective consumption
B	1.4	1.0
DK	2.5	2.0
D	1.8	0.2
EL	2.2	1.4
E	1.9	-0.1
F	2.1	1.3
IRL	6.3	1.8
I	1.1	0.4
L	2.4	4.2
NL	2.8	0.5
A	1.5	0.3
P	2.5	1.8
FIN	3.2	2.9
S	1.5	-1.8
UK	2.9	0.8

Source: Eurostat

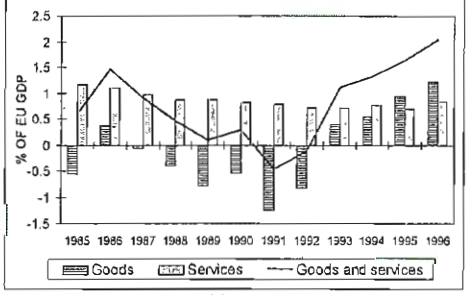
In spite of the downturn in the mid-year figure, EU exports performed well in the second half of 1996, when they benefited, not only from the steady recovery of world trade but also from increased competitiveness resulting from a stronger dollar, which made Europe's exports cheaper.

I.2.4. External trade

GDP and external trade flows in goods and services

In current prices, the external balance (goods and services) as a percentage of GDP showed a surplus of 2% in 1996 compared with +1.6% 1995. During this period, the trend was not stable registering a deterioration in 1986-91 (slight deficits for 1991and 1992) followed by a recovery for the next five years (see figure I.2.6).

Figure I.2.6: EU Trade balance(1) in goods and services, 1985-1996 (current prices)



(1) Including extra- and intra- EU flows
Source: Eurostat, National accounts data

Between 1988 and 1996 these two components of the external balance showed different evolutions: the surplus in services remained almost stable at around 1%, while the deficit recorded during the 1990's in goods went up to a positive balance from 1993, totalling 1.2% of GDP in 1996.

The dynamic evolution of EU trade (both intra-EU and extra-EU flows included) has been an important factor behind the growth of EU GDP in current prices between 1988 and 1996. While the yearly average percentage change of EU GDP amounted to 5.4% during this period, EU total exports and imports increased by 6.7% and 6% respectively (see table I.2.11).

EU trade in services, which in 1996 accounted for 13.5% of the total (goods and services) EU trade, registered a faster growth than trade in goods. Their share on the total (goods and services) went up from 11.8% in 1988 to a maximum of 14.3% in 1993. In the last three years the share slightly reduced to values around 13%.

Table I.2.11	GDP, Imports and exports of goods and services of the Union, in Mrd ECU										
	1988	1989	1990	1991	1992	1993	1994	1995	1996	96/95	96/88
	current prices									%	%
GDP	4 430.4	4 831.4	5 196.3	5 348.4	5 388.6	5 907.9	6 199.8	6 441.5	6 764.1	5.1	5.4
Exports total	1 120.4	1 277.4	1 356.5	1 375.7	1 416.3	1 449.8	1 604.0	1 767.4	1 885.2	6.7	6.7
goods	970.7	1 106.7	1 168.6	1 177.6	1 204.5	1 226.3	1 365.6	1 519.1	1 612.5	6.1	6.6
services	149.7	170.7	187.8	198.1	211.8	223.5	238.5	248.2	272.7	9.9	7.8
Imports total	1 099.4	1 273.2	1 341.4	1 402.2	1 423.6	1 383.9	1 522.4	1 681.7	1 746.6	5.1	6.0
goods	987.9	1 144.2	1 196.3	1 243.2	1 253.4	1 202.5	1 331.5	1 458.4	1 530.1	4.9	5.6
services	111.5	128.9	145.1	154.0	169.6	181.3	190.9	203.3	216.5	6.5	8.7
Balance total	0.5	0.1	0.3	-0.5	-0.1	1.1	1.3	1.8	2.0	-	-
as % goods	-0.4	-0.8	-0.5	-1.3	-0.8	0.4	0.5	0.9	1.2	-	-
of GDP services	0.9	0.9	0.8	0.8	0.7	0.7	0.8	0.7	0.8	-	-
	constant prices 1990										
GDP	4 875.5	5 042.7	5 192.7	5 367.8	5 417.4	5 389.6	5 544.6	5 681.5	5 773.5	1.7	1.9
Exports total	1 163.8	1 278.8	1 356.5	1 369.1	1 410.7	1 407.6	1 538.5	1 664.0	:	:	:
goods	1 023.1	1 104.8	1 168.0	1 171.2	1 210.6	1 226.2	1 351.9	1 466.2	1 531.8	4.5	4.6
services	160.7	173.8	187.8	198.9	200.1	181.5	186.6	197.8	:	:	:
Imports total	1 158.9	1 262.7	1 341.4	1 393.6	1 440.8	1 382.9	1 491.5	1 596.0	:	:	:
goods	1 038.8	1 131.5	1 196.3	1 246.1	1 283.2	1 235.6	1 343.5	1 436.8	1 489.7	3.7	4.1
services	120.1	132.2	145.1	147.5	157.7	147.3	148.0	159.1	:	:	:

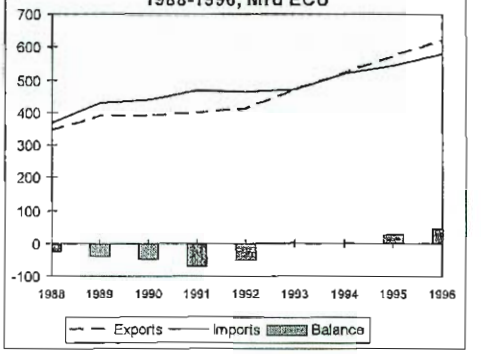
Source: Eurostat, National accounts data

Extra-EU trade in goods

The external trade data

The following analysis is based on the external trade figures of goods collected by the Custom Authorities. However due to the use of different methodologies, figures are not exactly comparable with the data used in National Accounts. In addition harmonized data for the three new Member States (Sweden, Finland and Austria) which joined the EU in 1995 were only available for 1995-96. Therefore, figures for these states before 1995 have been deduced from international sources, and for this reason are not fully comparable with the harmonized ones.

Figure I.2.7: EU external trade 1988-1996, Mrd ECU



Source: COMEXT (Custom data) and IMF-DOTS

Total extra-EU trade flows

After the negative results registered between 1988 and 1992, the EU trade balance showed a significant upturn from 1993 onwards (see figure I.2.7).

In 1996, the value of extra-EU exports registered almost 9% change over the previous year, while, between 1988 and 1996, the annual average rate of growth amounted to 7.7% (see table I.2.12).

Among the Member States, Germany is the main extra-EU exporter, accounting for 28.3% of the total in 1996. France, Italy and the United Kingdom followed with some 14% each.

During the nine year period considered, the annual average growth rate for the extra-EU imports was 5.8%. After a stagnation in 1990, the EU purchases from third countries registered consistent increases the next years. Lastly in 1996, extra-EU imports recorded an increase of +6.4% over the previous year (see table I.2.13).

Table I.2.12	Extra-EU exports of goods by Member State										
	1988	1989	1990	1991	1992	1993	1994	1995	1996	96/95	96/88
	EUR15, in Mrd ECU									%	
EUR15	344.2	390.4	390.6	398.4	411.4	471.4	521.8	572.2	622.9	8.9	7.7
	Share of the Member States, in %										
BLEU	5.0	5.2	5.0	5.0	4.9	5.4	5.7	5.5	5.2	4.0	8.4
DK	2.4	2.2	2.3	2.3	2.4	2.2	2.3	2.2	2.1	3.6	5.9
D	28.6	28.0	28.8	30.0	29.6	28.6	28.9	29.2	28.3	5.5	7.6
EL	0.4	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	26.4	14.2
E	3.9	3.8	3.8	3.9	4.1	4.2	4.1	4.2	4.3	12.2	9.0
F	15.0	15.4	15.5	15.9	16.2	16.1	15.3	14.9	14.5	5.7	7.2
IRL	1.0	1.0	1.0	1.1	1.2	1.5	1.5	1.6	1.8	23.1	15.4
I	12.0	12.7	12.7	12.5	12.7	13.1	13.1	13.3	14.2	16.0	10.0
NL	5.5	5.3	5.2	5.3	5.4	5.7	5.6	5.4	5.0	-0.3	6.5
A	2.5	2.5	2.7	2.7	2.6	2.5	2.6	2.6	2.5	5.1	7.8
P	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	8.6	8.8
FIN	2.2	2.2	2.0	1.6	1.7	1.7	2.0	2.3	2.4	11.9	8.9
S	4.8	4.5	4.3	4.2	3.9	3.7	4.0	4.3	4.6	15.6	7.0
UK	16.1	15.9	15.6	14.5	14.0	14.2	13.7	13.3	13.9	13.7	5.7

Source: COMEXT and IMF-DOTS

Table I.2.13	Extra-EU imports of goods by Member State										
	1988	1989	1990	1991	1992	1993	1994	1995	1996	96/95	96/88
	EUR15, in Mrd ECU									%	
EUR15	369.8	429.0	439.4	468.6	462.8	470.2	518.6	544.8	579.5	6.4	5.8
	Share of the Member States, in %										
BLEU	5.6	6.0	5.8	5.6	5.5	5.9	5.7	6.3	6.1	3.9	7.0
DK	1.8	1.8	1.8	1.8	1.7	1.7	1.8	1.8	1.8	4.5	5.5
D	22.2	22.2	23.2	25.4	25.7	25.5	25.2	25.7	24.8	2.4	7.2
EL	1.0	1.1	1.1	1.3	1.3	1.5	1.1	1.1	1.3	32.1	10.4
E	5.2	5.7	5.7	5.7	5.9	4.9	4.8	5.0	5.0	5.3	5.1
F	13.4	13.6	13.9	13.8	13.4	14.4	13.7	12.8	12.7	5.6	5.0
IRL	0.9	1.0	1.0	1.0	0.9	1.3	1.4	1.6	1.6	3.2	13.3
I	12.0	12.5	12.3	11.9	11.5	10.9	10.8	11.3	11.0	3.6	4.6
NL	8.4	8.5	8.8	8.8	9.1	8.2	9.4	9.6	10.0	11.7	8.3
A	2.4	2.4	2.6	2.6	2.7	2.7	2.8	2.2	2.3	9.2	5.3
P	1.2	1.2	1.2	1.1	1.2	1.1	1.2	1.2	1.1	0.9	4.9
FIN	2.0	2.1	1.9	1.5	1.7	1.4	1.7	1.4	1.5	9.0	1.7
S	3.7	3.8	3.5	3.1	3.0	2.8	3.1	2.9	2.8	5.5	2.5
UK	20.1	18.2	17.3	16.1	16.3	17.8	17.3	17.0	17.9	11.6	4.3

Source: COMEXT and IMF-DOTS

Germany is the main buyer of products from the third countries (24.8% of the total in 1996), followed by the United Kingdom (17.9%) and France (12.7%).

The EU trade deficit, which amounted to ECU 70.2 Mrd in 1991, was almost cancelled out in 1993-94. However, its path showed a complete recovery in 1995 and 1996 when the EU trade recorded huge surpluses of 27.4 Mrd ECU and 43.4 Mrd ECU respectively (see table I.2.14).

Germany showed the biggest extra-EU surplus among the Member States (ECU 32.6 Mrd in 1996), followed by Italy (24.7 Mrd ECU), and France (16.4 Mrd ECU). Meanwhile, the Netherlands and the United Kingdom registered the highest deficits with ECU 27.2 Mrd and ECU 17.4 Mrd respectively.

Trade by main partners

During the last nine years, an important redeployment of the extra-EU exports occurred. The share of the "old" industrialized countries became relatively less important to benefit the "new" emerging markets.

Although remaining the first outlet for EU products, the US share dropped from 22.6% in 1988 to 18.3% in 1996, while in the case of

Table I.2.14	Extra-EU trade balance by Member State, in Mrd ECU								
	1988	1989	1990	1991	1992	1993	1994	1995	1996
EUR15	-25.6	-38.6	-48.9	-70.2	-51.4	1.2	3.3	27.4	43.4
BLEU	-3.7	-5.2	-6.0	-6.5	-5.1	-2.4	0.1	-3.0	-3.1
DK	1.5	0.9	1.0	0.8	1.9	2.5	2.7	2.8	2.8
D	16.1	14.3	10.9	0.3	2.9	14.7	20.1	26.7	32.6
EL	-2.1	-2.8	-3.0	-4.0	-3.8	-4.0	-2.4	-2.5	-3.6
E	-6.0	-9.4	-10.2	-11.4	-10.7	-3.5	-3.6	-3.5	-2.0
F	2.0	1.8	-0.5	-1.6	4.7	8.1	8.9	15.4	16.4
IRL	0.2	-0.1	-0.3	-0.4	0.7	0.9	0.3	0.2	1.9
I	-3.1	-4.1	-4.6	-5.8	-0.8	10.8	12.4	14.7	24.7
NL	-12.1	-15.8	-16.4	-20.4	-20.0	-11.8	-19.1	-21.0	-27.2
A	-0.1	-0.6	-0.7	-1.6	-1.5	-0.8	-1.4	2.9	2.6
P	-2.6	-2.6	-3.0	-3.1	-2.9	-2.6	-3.0	-3.0	-2.8
FIN	-0.1	-0.4	-0.5	-0.9	-1.0	1.6	1.6	5.3	6.1
S	3.1	1.6	1.5	2.2	2.1	4.0	4.8	9.3	12.3
UK	-18.8	-16.1	-15.2	-17.9	-18.0	-16.5	-18.1	-16.9	-17.4

Source: COMEXT and IMF-DOTS

EFTA the share decreased by almost four points during the same period. Meanwhile, the share of the exports to Japan varied slightly between 5 and 6% during the nine year period (see table I.2.15).

The Central and Eastern European Countries registered the highest growth actually going from 5.2% in 1988 to 11.3% in 1996. The share of the former USSR/Commonwealth of Independent States (CIS) remained unchanged at 4 percentage points during the same period, in spite the dropping recorded in 1992.

The ASEAN countries almost doubled their exports shares during the 1988-96 period, while China's share increased by only 0.6 percentage points in the same period. Increases were also displayed by the Mediterranean and Latin American countries while the ACP's and OPEC's shares dropped by 1.7 and 2.7 percentage points respectively.

Within the industrialized countries, only Japan showed a decrease (3.6 percentage points) in the share of extra-EU imports between 1988 and 1996. The USA being the most important individual supplier of the Union displayed a share of around 21% during the 1988-1996 period (see table I.2.16). The share of the EFTA countries as well remained stable during the same period at around 13%.

After the crisis that followed the Council for Mutual Economic Assistance's (CMEA) dissolution, the CEEC quickly redirected their trade towards the EU markets: in 1996, their share on the total extra-EU imports went up to 8.6% compared with 5.1% registered in 1988.

The shares of the ASEAN and China increased more than three percentage points each; while Latin America and the ACP registered drops of 1.6 points and one point respectively.

The EU trade balances with the main industrialized partners showed quite different trends. The EU-US balance showed considerable deficits in the early 90's; however, from 1993 onwards, it made some improvements in its position reaching a slight surplus in 1996 (see table I.2.17).

The EU consistently recorded a bilateral trade deficit with Japan over the past nine years. In relative terms it improved from 43.6% of the total EU-Japan trade in 1988 to less than 20% in 1996.

Table I.2.15	Extra-EU exports, shares in %								
	1988	1989	1990	1991	1992	1993	1994	1995	1996
Extra-EU, Mrd ECU	344.2	390.4	390.6	398.4	411.4	471.4	521.8	572.2	622.9
USA	22.6	21.7	21.2	19.3	19.3	19.4	19.6	17.8	18.3
Japan	5.3	5.9	6.3	6.0	5.4	5.2	5.6	5.7	5.7
EFTA	15.4	14.7	15.3	14.7	13.9	12.3	12.3	12.2	11.6
CEEC	5.2	5.6	6.2	7.2	7.8	8.2	8.4	10.3	11.3
CIS	4.0	4.3	3.8	4.0	2.0	3.4	3.5	3.6	4.0
Africa	12.2	11.9	11.9	11.6	11.2	9.8	9.1	9.0	8.6
Latin America	4.3	4.3	4.3	4.9	5.3	5.4	5.9	5.7	5.7
DAE	7.1	7.5	7.9	8.7	8.9	9.8	10.8	11.5	11.2
China	1.8	1.7	1.5	1.6	1.8	2.6	2.7	2.6	2.4
Other Asia	11.8	11.9	11.5	12.6	13.2	12.2	11.4	10.8	11.1
Oceania	2.7	3.0	2.6	2.2	2.3	2.2	2.3	2.4	2.3
ACP	4.7	4.5	4.5	4.2	4.4	3.7	2.9	3.1	3.0
Mediterranean countries	9.1	9.1	10.0	10.3	10.7	12.0	11.0	11.3	11.6
Asean countries	3.4	3.9	4.5	4.8	5.1	5.6	5.9	6.4	6.5
OPEC	9.6	9.4	9.5	10.4	10.7	9.1	7.4	6.9	6.9
NAFTA	26.6	25.8	24.9	23.1	23.0	22.7	23.0	20.4	20.9

Source: COMEXT and IMF-DOTS

On the contrary, the trade surplus with the EFTA countries turned into a small deficit since the early 1990's. The European Union also registered important improvements in its trade positions with other areas.

The small deficit with the CEEC in 1988-89 went to a growing surplus from the early 1990's, reaching almost 17% of the total trade with these countries in 1996. Latin America's 1988 deficit of 26% in relative terms turned into a surplus of 8% in 1996.

The structural deficit in the China's trade expanded to almost 34.3% of the total EU-China trade flows in 1996, while the balance with ASEAN countries went from a small deficit in 1988 to a small surplus in 1996.

Trade by main products

The European Union is a traditional exporter of manufactured products. In 1996, the share of the transformed products of the total extra-EU exports reached 87.5% compared to the 82.8% registered in 1988 (see table I.2.18).

The corresponding reduction of the raw materials' share is mainly due to the declining importance of the extra-EU exports of

Table I.2.16	Extra-EU imports, shares in %								
	1988	1989	1990	1991	1992	1993	1994	1995	1996
Extra-EU, Mrd ECU	369.8	429.0	439.4	468.6	462.8	470.2	518.6	544.8	579.5
USA	19.8	21.3	20.8	20.7	20.0	19.3	19.3	19.0	19.4
Japan	12.7	12.2	11.7	12.1	12.2	11.1	10.4	10.0	9.1
EFTA	13.0	12.7	13.3	12.7	12.8	12.8	12.8	12.6	12.8
CEEC	5.1	5.2	5.4	5.7	6.3	6.5	7.0	8.7	8.6
CIS	4.4	4.4	4.5	4.4	2.6	4.1	4.7	4.6	4.5
Africa	12.4	11.0	11.6	11.1	10.8	9.6	9.2	8.6	9.0
Latin America	6.8	6.6	6.2	5.9	5.6	5.0	5.5	5.6	5.2
DAE	8.7	8.3	8.2	9.0	9.1	9.6	9.5	10.0	9.9
China	2.0	2.3	2.6	3.4	3.9	4.5	4.7	4.8	5.2
Other Asia	7.9	8.7	8.9	8.7	8.7	9.3	8.9	8.5	9.1
Oceania	2.0	1.9	1.6	1.4	1.5	1.3	1.4	1.4	1.4
ACP	4.8	4.7	4.8	4.3	4.0	3.3	3.7	3.7	3.8
Mediterranean countries	6.8	7.3	8.2	7.9	8.4	8.7	8.4	8.3	8.5
Asean countries	3.5	3.8	4.0	4.5	5.1	5.8	6.2	6.3	6.6
OPEC	8.8	9.7	10.5	10.3	9.5	9.0	8.2	7.2	7.8
NAFTA	22.9	24.4	23.8	23.6	22.8	21.6	21.7	21.8	22.9

Source: COMEXT and IMF-DOTS

Table I.2.17	Extra-EU trade balance by partners, as a % of the EU trade with each partner								
	1988	1989	1990	1991	1992	1993	1994	1995	1996
Extra-EU	-3.6	-4.7	-5.9	-8.1	-5.9	0.1	0.3	2.5	3.6
USA	3.0	-3.8	-5.0	-11.5	-7.8	0.5	1.2	-0.8	0.1
Japan	-43.6	-39.1	-35.5	-40.8	-43.4	-35.8	-29.8	-24.6	-19.1
EFTA	4.9	2.5	0.9	-0.9	-1.9	-2.1	-1.8	-0.2	-1.5
CEEC	-3.4	-0.9	1.0	3.0	4.7	12.0	9.5	10.9	17.1
CIS	-8.4	-5.9	-13.9	-13.6	-17.4	-9.1	-14.4	-9.0	-2.7
Africa	-4.2	-0.8	-4.6	-6.1	-4.2	1.5	0.0	4.9	1.2
Latin America	-25.7	-25.3	-23.0	-17.3	-8.6	4.4	3.6	2.1	8.0
DAE	-13.8	-9.7	-7.8	-9.7	-6.7	1.5	6.7	9.3	9.8
China	-9.1	-18.2	-32.4	-43.7	-40.7	-26.2	-27.5	-28.6	-34.3
Other Asia	16.5	10.7	6.9	10.0	15.0	13.7	12.6	14.3	13.3
Oceania	9.9	17.3	16.7	11.9	15.0	24.6	28.0	28.8	29.7
ACP	-5.1	-7.1	-9.1	-9.1	-4.9	5.1	-10.9	-6.2	-8.2
Mediterranean countries	11.1	6.3	3.9	4.8	6.5	16.2	13.2	17.8	18.9
Asean countries	-5.1	-2.3	-0.9	-5.2	-5.9	-2.2	-1.9	3.3	2.8
OPEC	0.6	-6.5	-10.9	-1.3	0.0	0.7	-4.4	0.6	-2.9
NAFTA	3.9	-2.0	-3.5	-9.0	-5.3	2.7	3.2	-0.8	1.1

Source: COMEXT and IMF-DOTS

agri-foodstuff industries (from 7.1% to 6.6% between 1988 and 1996), while the exports of fuel products were rather stable between 2 and 3%.

Among the manufactured products, the most important increases were recorded by the machinery and transport equipment: its share increased more than 6 percentage points of in the last nine years. Chemicals and Othermanufactured goods shares remained almost stable during the same period.The evolution of the extra-EU imports clearly shows the growing role of manufactured products.

The raw materials commodities, still representing in 1988 a share of 33% of the total extra-EU imports, accounted for only 28% in 1996. During this decade, different factors (such as declining commodity prices and the development of the intra-industry trade) deeply modified the EU import structure and, in consequence, the share of manufactured imports increased from 60% in 1988 to almost 70% in 1996 (see table I.2.19).

Machinery and transport equipment and Other manufactured products showed the most dynamic increases in the last nine years and, in 1996, they covered 32.3% and 29.3% of the total extra-EU imports (respectively +4.5 and +3.5 percentage points over 1988).

The European Union economy, based on the manufacturing industry, has a structural external trade deficit in the primary sector (see table I.2.20). However, this deficit improved in relative terms between 1988 and 1996, from more than 49.4% to almost 40% of the extra-EU trade of raw materials.

As far as the transformed products are concerned, in the last nine years, the surplus went up from 12.4% to 15.1% of the total trade of manufactures.

Again, the Machinery and transport equipment section, evidenced the best performance during the period analyzed, improving its surplus in relative terms from 13.3% to 20.1%.

Table I.2.18	Extra-EU exports, shares by product, in %								
	1988	1989	1990	1991	1992	1993	1994	1995	1996
Extra-EU, in Mrd ECU	344.2	390.4	390.6	398.4	411.4	471.4	521.8	572.2	622.9
Raw materials	11.9	12.3	12.3	12.0	12.2	12.6	12.0	11.5	11.2
- Food, etc.	7.1	7.6	7.5	7.4	7.8	7.4	7.1	6.8	6.6
- Crude materials	2.6	2.5	2.3	2.2	2.2	2.2	2.3	2.4	2.2
- Fuel Products	2.2	2.2	2.5	2.4	2.3	3.0	2.6	2.3	2.4
Manufactured products	82.8	82.4	83.3	83.4	84.0	85.9	87.0	86.8	87.5
- Chemicals	12.1	11.5	11.5	12.0	12.4	12.8	13.1	12.8	12.9
- Machinery, transport	39.0	38.8	40.7	41.2	41.9	43.9	44.4	44.7	45.2
- Other manufactured	31.8	32.0	31.1	30.2	29.7	29.2	29.5	29.2	29.4
Not classified	5.2	5.3	4.4	4.6	3.8	1.5	1.0	1.7	1.3

Source: COMEXT and UN-COMTRADE

Table I.2.19	Extra-EU imports, shares by product, in %								
	1988	1989	1990	1991	1992	1993	1994	1995	1996
Extra-EU, in Mrd ECU	369.8	429.0	439.4	468.6	462.8	470.2	518.6	544.8	579.5
Raw materials	32.8	33.2	33.4	31.5	30.0	28.8	28.5	27.2	28.0
- Food, etc.	9.8	8.7	8.5	8.5	8.5	8.1	8.4	7.9	7.9
- Crude materials	9.1	8.9	7.7	6.7	6.6	6.1	6.8	7.4	6.4
- Fuel Products	13.9	15.5	17.2	16.3	14.9	14.6	13.3	11.9	13.7
Manufactured products	60.1	61.7	61.7	63.6	64.8	67.9	68.7	70.0	69.3
- Chemicals	6.5	6.5	6.5	6.5	6.8	6.8	7.2	7.9	7.7
- Machinery, transport	27.6	28.6	28.6	29.6	29.8	31.7	31.9	31.8	32.3
- Other manufactured	25.8	26.5	26.6	27.3	28.2	29.4	29.7	30.2	29.3
Not classified	7.1	5.2	4.9	4.9	5.1	3.3	2.7	2.8	2.7

Source: COMEXT and UN-COMTRADE

Intra-EU trade in goods

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

The relative importance of the intra-EU trade in the total trade of the Union had decreased by about 1 percentage point between 1988 and 1996.

The ratio showed an increase between 1988 and 1992 peaking at 65.7%. However, since 1993, when the Internal Market was introduced and the collection of the intra-EU trade data was reorganised, a significant break occurred in intra-EU statistics (see box). From 1993 onwards, a recovery occurred reaching its peak in 1995 with 64%. In 1996, the ratio went down to 63.1% (see table I.2.21 and figure I.2.8).

By 1996 the share of intra-EU trade in total EU trade for raw materials and manufactured products converged to similar levels (around 60%), although from 1988 until 1995 the ratio for Manufactured products was always higher. In 1996, within the group of Raw materials the intra ratios for food products were conspicuously higher (70.1%) than those for fuel products (42.8%).

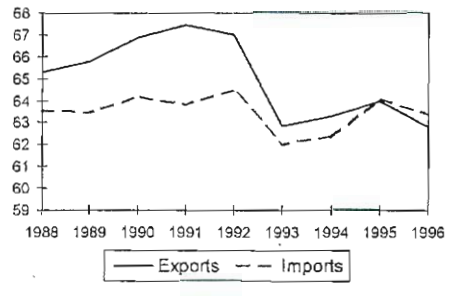
As for Manufactured products, the intra-EU ratios for Chemicals were significantly higher than those for Machinery and transport equipment.

For individual Member States the weight of intra-EU trade is quite different.

For relatively small economies (Portugal, Denmark, BLEU, the Netherlands and Austria) these shares are the highest; while on the other hand, the economies more oriented toward third markets or in specific geographic conditions (such as Greece, Finland and Sweden), had the lowest ratios (see tables I.2.22 and I.2.23).

Among the EU Member States in 1996, Germany registered the highest share of the intra-EU trade with around 23% of exports (i.e. "dispatches" which are thought to be more reliably recorded than the intra-EU imports, or "arrivals"). France (with 14% of the total EU dispatches), the Netherlands (12%) and the United Kingdom (11%) followed afterwards (see figure I.2.9).

Figure I.2.8: Intra-EU trade as a share of the total trade, in %



Source: COMEXT (Custom and Intrastat data) and IMF-DOTS

Table I.2.20	Extra-EU trade balance by product, as % of the total trade								
	1988	1989	1990	1991	1992	1993	1994	1995	1996
TOTAL	-3.6	-4.7	-5.9	-8.1	-5.9	0.1	0.3	2.5	3.6
Raw materials	-49.4	-49.5	-50.6	-51.0	-46.8	-38.9	-40.5	-38.4	-39.8
- Food, etc.	-19.3	-11.7	-12.1	-14.9	-10.3	-4.5	-7.7	-5.2	-5.2
- Crude materials	-58.3	-59.6	-58.4	-55.7	-54.6	-46.9	-49.5	-49.3	-47.1
- Fuel Products	-73.9	-76.8	-76.8	-78.0	-76.0	-65.5	-67.3	-65.8	-67.7
Manufactured products	12.4	9.7	9.0	5.4	7.0	11.8	12.0	13.1	15.1
- Chemicals	26.8	23.2	22.0	22.2	23.5	30.4	28.9	26.1	28.5
- Machinery, transport	13.3	10.4	11.6	8.1	11.1	16.2	16.8	19.2	20.1
- Other manufactured	6.8	4.7	1.9	-3.1	-3.4	-0.1	0.0	0.8	3.7
Not classified	-18.9	-3.1	-10.8	-11.9	-21.2	-37.2	-45.3	-22.1	-30.5

Source: COMEXT and UN-COMTRADE

Intra-EU trade

The Intrastat system was introduced on the 1st of January 1993, as a result of the abandonment of the customs formalities within the EU. From this date onwards, instead of being derived from custom declarations, trade figures are compiled from data provided directly by EU companies. As the Intrastat procedure for collection data is different from that of the former years, data from the transition period 1992 to 1993, and for 1994 should be interpreted with caution.

The statistical discrepancies

Due to intra-EU statistical discrepancies, the sums of the intra-EU surpluses and deficits recorded by the Member States do not match as, in principle, they approximately should do.

From 1990 to 1992 this was due essentially to the fact that certain Member States (such as The Netherlands) did not report re-export flows within the European Union.

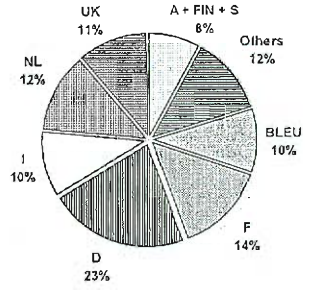
From 1993, after the change to the data collection system (Intrastat System), other statistical problems occurred, mainly due to the threshold system introduced: arrivals (imports) flows are in principle less concentrated than dispatches (exports) and this may partly explain the underestimation of these flows. In fact only a few Member States produce corrected figures which take into account this threshold effect.

Intra-EU trade balances

The sharply increased statistical discrepancy of intra-EU trade flows makes it difficult to asses the development of intra-EU trade balances by Member States. This applies particularly to the transition period from 1992 and 1993 (so figures I.2.10 and I.2.11 as well as table I.2.24 should be carefuly interpreted.

The Netherlands are a particular case, in the sense that an important part of its trade is "in transit" (i.e. coming from outside the EU and going to a different EU Member State). This result is consistent with its large extra-EU deficit.

Figure I.2.9: Shares of the Member States in intra-EU dispatches, 1996

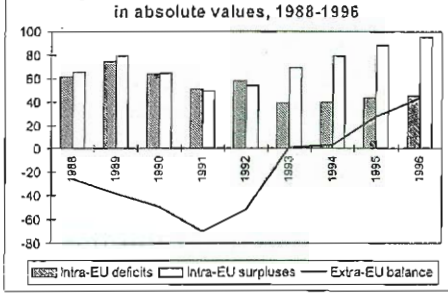


Source: COMEXT

Table I.2.21	Intra-EU shares of the total trade (intra + extra) by product (imp. + exp.), in %								
	1988	1989	1990	1991	1992	1993	1994	1995	1996
TOTAL	64.4	64.6	65.5	65.6	65.7	62.4	62.8	64.0	63.1
Raw materials	59.8	58.8	58.9	60.1	61.1	59.5	60.2	61.2	60.0
- Food, etc.	69.4	69.4	70.3	71.5	72.0	70.8	70.8	71.7	70.7
- Crude materials	58.8	59.3	60.4	60.9	60.6	58.4	58.9	58.2	57.3
- Fuel Products	41.8	39.7	39.7	40.3	40.1	39.7	40.0	41.7	42.8
Manufactured products	66.6	66.7	67.6	67.3	67.2	62.3	63.0	63.9	62.7
- Chemicals	69.7	69.8	70.6	70.0	69.7	67.3	68.0	68.7	67.3
- Machinery, transport	65.3	65.9	66.6	66.4	66.4	60.2	61.3	62.4	61.8
- Other manufactured	66.9	66.6	67.9	67.5	67.3	62.8	63.2	63.8	62.1
Not classified	47.4	52.2	55.2	58.4	57.2	78.8	75.2	79.1	82.7

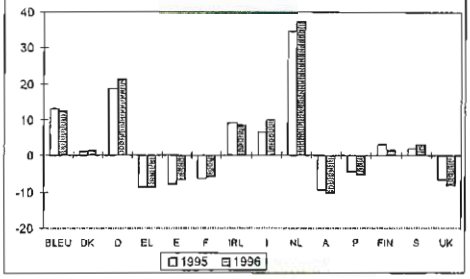
Source: COMEXT

Figure I.2.10: Intra-EU surplus and deficits in absolute values, 1988-1996



Source: COMEXT (Custom and Intrastat data) and IMF-DOTS

Figure I.2.11: Intra-EU trade balance by Member State, in Mrd ECU, 1995-1996



Source: COMEXT - Intrastat data

Table I.2.22	Intra-EU exports, as a % of the total exports by Member State								
	1988	1989	1990	1991	1992	1993	1994	1995	1996
EUR15	65.3	65.8	66.8	67.4	67.0	62.9	63.3	64.0	62.8
BLEU	78.7	78.3	79.9	79.9	79.7	76.4	75.1	76.5	76.6
DK	64.7	66.6	68.4	68.9	68.1	66.4	65.5	66.7	67.4
D	63.9	64.7	64.0	63.2	63.3	58.5	58.0	58.2	56.4
EL	68.2	69.2	68.0	67.7	69.3	58.9	57.1	60.1	52.0
E	62.9	64.2	67.6	69.3	68.5	64.3	66.6	67.3	66.8
F	64.2	64.3	65.3	65.8	65.3	60.0	62.0	63.0	62.2
IRL	77.7	78.0	78.6	78.0	77.6	72.4	73.5	73.8	71.1
I	61.8	61.0	62.8	63.4	61.8	57.1	57.5	57.3	55.2
NL	79.0	79.9	81.4	81.9	80.9	77.7	78.3	79.9	80.6
A	66.8	66.7	67.2	68.1	68.2	65.3	64.8	65.8	64.9
P	79.0	78.7	81.2	82.4	81.4	79.9	80.0	80.1	80.0
FIN	59.6	59.4	62.2	66.3	64.6	59.4	58.5	57.5	54.5
S	60.3	61.9	62.3	62.3	62.5	59.2	59.3	59.3	57.2
UK	54.5	54.7	57.3	60.5	59.8	56.8	58.2	58.8	57.8

Source: COMEXT (Custom and Intrastat data) and IWF-DOTS

Table I.2.23	Intra-EU imports, as a % of the total imports by Member State								
	1988	1989	1990	1991	1992	1993	1994	1995	1996
EUR15	63.5	63.4	64.2	63.8	64.4	62.0	62.4	64.1	63.4
BLEU	74.0	72.4	74.2	74.1	74.9	73.1	72.9	72.2	72.5
DK	70.1	68.4	69.4	68.6	69.8	68.8	69.0	71.0	71.4
D	61.2	61.1	62.1	62.1	62.3	59.0	59.2	60.4	59.0
EL	66.1	66.5	67.7	64.0	66.7	63.0	67.9	70.1	63.0
E	59.9	60.4	62.3	62.8	63.3	65.0	66.4	67.6	67.9
F	68.2	68.1	68.1	67.5	68.8	63.5	65.5	68.5	67.6
IRL	74.4	73.0	73.9	72.1	74.9	67.1	65.7	64.4	67.2
I	61.9	61.2	61.9	62.0	63.3	59.6	60.7	60.9	60.9
NL	65.2	63.9	63.7	62.6	62.7	64.3	61.6	63.2	61.2
A	70.6	70.4	70.7	70.2	70.4	69.4	68.4	75.9	74.8
P	70.3	71.0	72.0	74.9	76.6	74.5	73.5	73.9	75.6
FIN	57.9	59.5	60.5	59.3	55.6	57.7	55.1	65.0	65.3
S	64.4	63.2	63.4	63.4	63.1	62.9	62.7	68.6	68.2
UK	54.9	56.4	56.5	55.1	55.6	53.7	54.7	55.3	54.9

Source: COMEXT (Custom and Intrastat data) and IMF-DOTS

Table I.2.24	Intra-EU trade balance by Member State, in Mrd ECU								
	1988	1989	1990	1991	1992	1993	1994	1995	1996
Intra-EU	3.7	5.4	0.7	-1.4	-4.3	30.1	39.7	44.7	50.3
BLEU	3.8	6.3	4.2	3.7	4.0	6.7	10.5	12.9	12.4
DK	-0.6	0.4	1.4	1.8	2.5	3.1	2.2	1.2	1.4
D	44.5	50.6	33.9	10.3	13.7	17.3	18.2	18.6	21.2
EL	-3.8	-5.0	-6.3	-6.4	-7.0	-7.6	-7.8	-8.8	-8.7
E	-6.3	-10.3	-10.4	-10.4	-11.0	-7.6	-6.6	-8.0	-6.9
F	-14.0	-16.3	-16.2	-13.2	-11.1	-4.1	-4.4	-6.4	-5.7
IRL	2.5	3.1	2.6	3.0	4.3	5.8	7.0	9.2	8.4
I	-5.5	-7.2	-4.6	-4.7	-7.0	7.2	6.3	6.5	10.0
NL	12.8	18.0	20.7	25.7	23.3	23.7	28.0	34.7	37.3
A	-3.7	-5.2	-5.5	-6.2	-6.1	-6.4	-7.3	-9.4	-10.2
P	-3.4	-3.2	-3.6	-5.2	-6.5	-4.9	-4.6	-4.5	-5.3
FIN	0.6	-0.6	0.2	1.9	2.6	2.9	3.8	3.1	1.5
S	0.8	1.1	1.2	2.5	2.9	2.5	3.3	2.1	3.1
UK	-24.0	-26.3	-16.9	-4.3	-9.0	-8.6	-8.8	-6.6	-8.2

Source: COMEXT (Custom and Intrastat data) and IMF-DOTS

I.2.5 Distribution of GDP, disposable income, saving and net lending/ borrowing

Distribution of GDP

Compensation of employees absorbs half of the Union's GDP (50.8% in 1995). This proportion has diminished steadily since 1980. The 1995 figures for the Member States are fairly close to this, excluding Greece (32.2%) and Sweden (56.9%).

Table	Distribution of GDP in the Union , in % of total					
I.2.25	1980	1985	1990	1993	1994	1995
Compensation of employees	56.0	53.0	51.9	52.5	51.3	50.8
Net operating surplus	21.9	24.1	25.1	24.1	25.1	25.6
Consumption of fixed capital	11.7	12.3	12.0	12.4	12.2	12.2
Taxes less subsidies	10.4	10.6	11.0	11.1	11.4	11.3
Total	100	100	100	100	100	100

Source : Eurostat

Net operating surplus of the Union represents more than a quarter of GDP (25.6%), the consumption of fixed capital 12.2% and taxes less subsidies 11.3% (see table I.2.25).

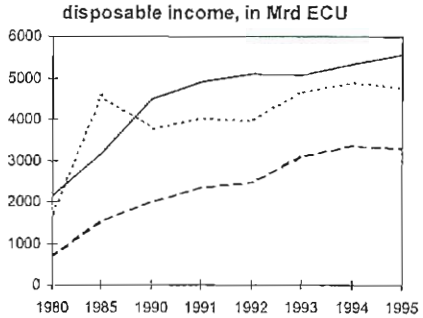
These percentages are very similar in the USA and Japan, where they were 59.8% and 54.8% respectively for compensation of employees and 19.1% and 20.1% for net operating surplus.

In 1995, the compensation of employees per capita was ECU 8 758 in the Union compared with the higher rates of ECU 12 852 in the USA and ECU 17 146 in Japan.

Disposable income

The net national disposable income (e. g. the GDP corrected by consumption of fixed capital and the net current distributive transactions with the rest of the world) of the European Union, in ECUs and at current prices, increased at an annual rate of 6.6% between 1980 and 1995. The Union's net national disposable income was in 1995 ECU 5 561 Mrd, equivalent to ECU 14 902 per head (see figure I.2.12).

Figure I.2.12 : Evolution of the net disposable income, in Mrd ECU



Source : Eurostat

By comparison, it was ECU 4 790 Mrd in the USA (ECU 18 164 per head) and ECU 3 317 Mrd in Japan (ECU 26 499 per head).

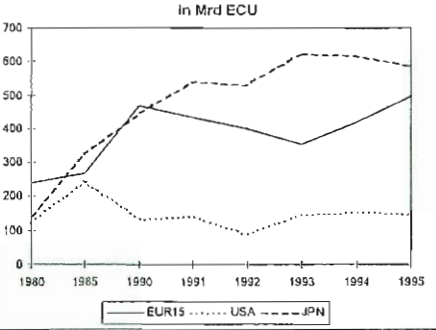
Saving and net lending/net borrowing

The Union's net national saving, in ECU and current prices, amounted to 496 Mrd in 1995 (241 Mrd in 1980); it increased at a rate of 4.9% per year between 1980 and 1995.

In comparison, it was ECU 149 Mrd in the USA (124 Mrd in 1980), with an annual increase of 1.3% and ECU 586 Mrd in Japan (140 in 1980), with an annual increase of 10.0% over the same period.

In 1995, per head national saving were ECU 1 328 for the Union, ECU 566 for the USA and ECU 4 681 for Japan (see also figures I.2.14 and I.2.15).

Figure I.2.13 : Evolution of the net national saving, in Mrd ECU

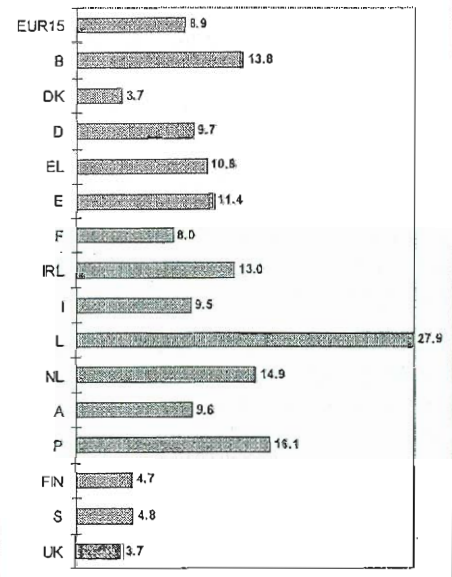


Source : Eurostat

Saving ratios in the Union

The average saving ratio in the Union in 1995 was 8.9% of net national disposable income. Luxembourg and Portugal were well above this average, with 27.9% and 16.1% respectively. The lowest rate was recorded for Denmark and the United Kingdom with 3.7%.

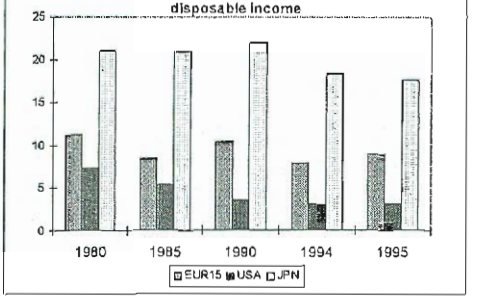
Net saving, in % of the net national disposable income, 1995



Source : Eurostat

The net saving ratio is a good deal higher in Japan than in the Union and the USA : it was 17.7% in 1995, i.e. almost two times the European figure (8.9%) and almost six times that of the USA (3.1%).

Figure I.2.14: Net saving, in % of the net national disposable income

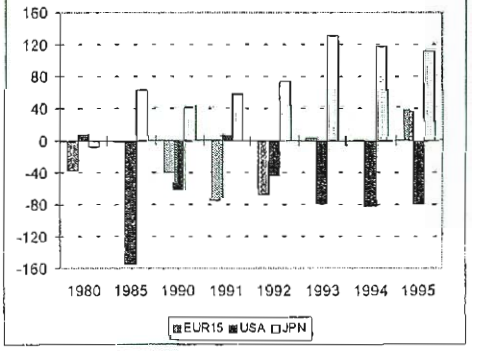


Source : Eurostat

The net lending of the European Union in 1995 was ECU 36.6 Mrd, which represents a net lending since two years.

Comparable international data showed that the United States had a deficit of ECU 80.7 Mrd (or 1.5% of GDP) while that of Japan revealed a surplus of ECU 111.8 Mrd (or 2.9% of GDP) (see figure I.2.15).

Figure I.2.15: Net lending or net borrowing of the economy, in Mrd ECU



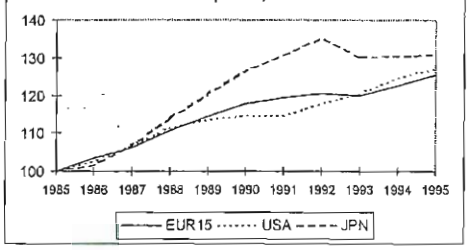
Source : Eurostat

I.3. Economy by branch in the Union

I.3.1. Gross value added and productivity

In 1995, gross value added at constant market prices in the European Union grew by 2.5% in comparison with the previous year. All the Member States recorded positive figures, with the biggest increase in Ireland at +8.5%. The United States grew by 2% and Japan by 0.2% (see figure I.3.1).

Figure I.3.1: Gross value added at constant and market prices, 1985=100



Source: Eurostat estimations; OECD

A comparison of the average annualised rates over the first four years of 1990s (1990/1994) with the same period at the end of 1980s (1985/1989) shows that growth in the European Union was much faster during the second half of 1980s (+3.4%) than in the following period (+1.0%). In most Member States, growth was more sluggish during the 1990s, and in the case of Spain (-0.7%) and Finland (-1.5%), the figures were negative. Ireland was the only country where the growth rate increased over both periods: +4.0% yearly in 1985/89 and +4.6% in 1990/94 (see figure I.3.2).

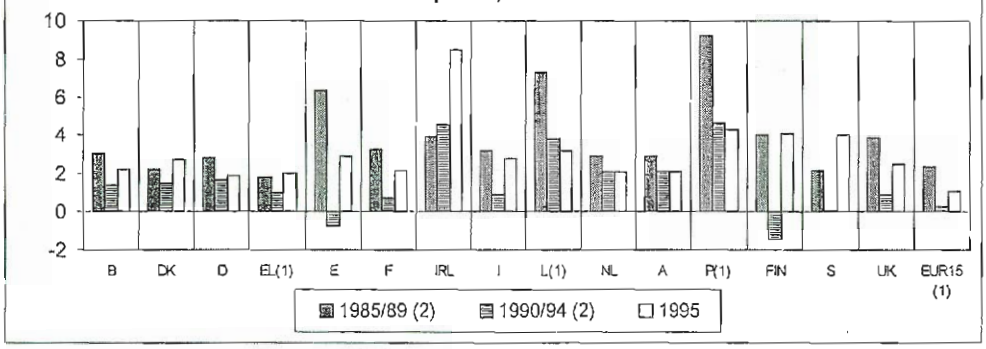
An analysis of the trend of gross value added (GVA) at constant and market prices in the six branches, in the **European Union** as a whole, shows that Services had the highest growth during the whole reference period, respectively of 3.8% in the second half of 1980's and of 1.7% in the following five years.

At the beginning of 1990s GVA growth rates decreased sharply in almost all industries: there was negative growth in Building and Construction (-1.8%) and Manufactured Products (-0.4%).

On the other hand, Fuel and Power Products recovered from the previous slow growth (0.6% yearly in 1985/89) and grew by 2.5% yearly.

The overall decline of the EU economy in the 1990s in comparison with the second half of 1980s is due mainly to the decrease in the GVA of Manufactured Products that, together with decline in Building and Construction and Agriculture, practically offset the expansion of Services (see table I.3.1).

Figure I.3.2: Growth rates of gross value added at constant and market prices, in %



(1) Eurostat estimations
(2) Annualised average growth rate
Source: Eurostat

Table I.3.1		Gross value added at constant and market prices by branch, growth rates [2]															
		B	DK	D	EL [1]	E	F	IRL	I	L	NL	A	P [1]	FIN	S	UK	EUR15 [1]
Agriculture, forestry and fishery products	1985/89	1.3	2.5	2.5	0.6	-0.5	1.4	:	0.3	1.0	3.9	1.1	1.8	-0.3	0.9	0.4	1.0
	1990/94	3.6	0.8	0.0	2.9	-3.1	0.3	:	2.3	0.8	3.7	-1.3	2.4	0.2	-2.0	-0.5	0.5
	1995	2.7	6.8	1.1	-3.9	-13.2	3.1	:	0.3	3.2	3.7	-5.4	-6.7	-2.6	7.7	0.6	-0.3
Fuel and power products	1985/89	3.3	13.7	-1.1	4.5	3.6	-0.1	:	2.6	2.8	-2.0	6.1	22.0	2.6	2.1	-1.5	0.6
	1990/94	1.7	8.4	0.6	4.5	1.4	1.4	:	1.7	-1.3	3.9	4.1	5.2	3.1	0.0	5.3	2.5
	1995	3.9	5.9	2.7	0.9	-0.2	2.2	:	0.5	3.2	2.0	6.1	14.1	-2.7	1.8	4.3	2.5
Manufactured products	1985/89	2.9	0.0	2.1	0.6	4.6	2.5	:	4.4	5.9	2.9	2.0	9.3	4.0	1.7	4.5	3.2
	1990/94	0.0	1.4	-1.7	-1.5	0.5	-0.8	:	0.2	4.1	0.9	0.3	3.6	1.8	1.1	-0.2	-0.4
	1995	2.9	2.5	0.2	1.4	6.0	3.0	:	5.7	3.2	2.1	-0.7	-0.3	9.6	10.1	2.2	3.0
Building and constructions	1985/89	5.4	2.2	1.3	2.7	9.4	3.9	:	2.0	11.1	4.0	2.0	7.4	6.5	3.8	7.5	4.1
	1990/94	0.9	-3.1	-0.1	-3.4	-1.6	-2.7	:	-2.3	5.3	-1.4	4.6	3.7	-10.9	-4.8	-2.5	-1.8
	1995	0.7	7.2	-2.5	-1.0	6.7	-1.5	:	1.0	3.2	-0.2	1.2	6.1	3.7	-2.4	-1.0	0.3
Services	1985/89	2.9	2.5	3.6	2.2	7.7	3.7	:	3.1	7.8	3.3	3.2	9.4	4.5	2.1	3.9	3.8
	1990/94	1.8	1.5	3.4	1.3	-1.1	1.4	:	1.3	3.6	2.4	2.5	5.3	-1.9	0.3	1.1	1.7
	1995	2.0	2.1	2.8	3.1	2.7	2.1	:	2.2	3.2	2.2	3.2	6.4	2.4	2.6	2.9	2.6
Market services	1985/89	3.6	3.2	4.3	2.1	8.3	4.5	:	3.6	9.1	3.7	4.0	9.3	5.7	3.6	5.3	4.6
	1990/94	1.8	1.6	3.9	2.1	2.0	1.0	:	1.5	2.7	2.7	2.5	5.4	-2.2	1.0	2.9	2.0
	1995	2.2	2.1	3.5	7.4	2.9	2.1	:	2.7	3.2	2.6	4.0	4.9	3.0	3.7	4.4	3.2
Non-market services	1985/89	0.4	1.3	1.4	2.4	5.5	1.6	:	1.3	3.2	1.5	1.0	9.6	2.3	0.1	-0.1	1.4
	1990/94	1.7	1.3	1.7	0.5	2.2	2.5	:	0.5	3.2	0.9	2.4	5.1	-1.4	-0.6	-5.5	0.5
	1995	1.0	1.9	0.5	-7.7	2.1	2.0	:	0.0	3.2	0.0	0.7	11.2	1.2	0.7	-3.5	0.6
Total	1985/89	3.0	2.2	2.8	1.8	6.3	3.2	4.0	3.2	7.3	2.9	2.9	9.2	4.0	2.1	3.9	3.4
	1990/94	1.4	1.5	1.6	1.0	0.7	0.7	4.6	0.9	3.6	2.1	2.1	4.6	-1.5	0.0	0.9	1.0
	1995	2.2	2.7	1.9	2.0	2.9	2.1	8.5	2.7	3.2	2.1	2.1	4.3	4.1	4.0	2.5	2.5

(1) Eurostat estimations
(2) Annualised average growth rates for 1985/89 and 1991/94
Source: Eurostat

Shifts between branches of the economy were much more varied from one Member State to an other than in the EU as a whole. In the case of **Agriculture, Forestry and Fishery Products**, the Netherlands had the biggest growth over both periods (+3.9% yearly in 1985/89 and +3.7% in 1990/94), while Spain recorded the sharpest decrease (-0.5% yearly in 1985/89 and -3.1% in 1990/94).

GVA of **Fuel and Power Products** had the highest increase in Portugal and Denmark during both periods, while the United Kingdom and the Netherlands turned round the negative figures in the last years of 1980s (1.5% and 2% respectively) to record strong positive growth in the first half of the 1990s (+5.3% and +3.9%).

Growth in GVA of **Manufactured Products** had very dissimilar trends among the Member States during the periods under review. In 1985/89 Portugal (+9.3%), Luxembourg (+5.9%), Spain (+4.6%), the United Kingdom (+4.5%) and Italy (+4.4%) achieved remarkable growth rates, but in the next four years only Luxembourg (+4.1%) and Portugal (+3.6%) managed to repeat such figures, while Spain (+0.5%) and Italy (+0.5%) faltered and the United Kingdom declined (0.2%). Over the same periods Germany and France turned from positive to negative figures, which mainly led to the slowdown in GVA growth in the EU economy as a whole at the beginning of the 1990s.

All the Member States increased the GVA growth rate for **Building and Construction** during the second half of 1980s. In the first half of the 1990s, the figures were negative everywhere, apart from Luxembourg, Belgium, Austria and Portugal.

Gross value added of **Services** showed the highest increase in the last ten years. In the last four years of the 1980s Portugal registered the highest increase (+9.4%), followed by Luxembourg (+7.8%) and Spain (+7.7%). In the next four years growth slowed in all the Member States. Portugal and Luxembourg still had the highest figures, while Spain and Finland were the only countries with negative figures.

When the structure of gross value added at constant and market prices in branches is considered as a percentage of the total GVA, Services is the sector that underwent the main change in the last ten years. The service sector's share of the total GVA in the EU increased by nearly 3 percentage points, while all the other branches decreased their significance in the total economy by a roughly

Table I.3.2		Gross value added at market prices by branch, in % of total GVA														
		B	DK	D	EL	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EUR15
Agriculture, forestry and fishery	1985	2.2	4.3	1.6	17.1	6.1	3.8	9.4	3.0	2.3	3.9	3.6	7.9	7.9	2.8	1.7	3.4
	1995	2.1	4.3	1.4	14.9	3.5	3.5	7.5	3.4	1.5	4.8	2.7	5.1	6.3	2.6	1.4	2.9
Fuel and power products	1985	4.2	1.8	4.8	3.5	6.0	4.5	5.1	5.2	2.1	7.6	3.6	2.2	2.2	3.3	7.2	5.1
	1995	4.3	3.7	3.8	4.9	5.5	4.0	2.8	5.3	1.4	6.7	4.4	4.0	2.3	3.3	7.0	4.8
Manufactured products	1985	22.2	20.5	30.4	17.5	22.2	21.7	27.3	21.8	24.1	18.9	24.1	27.1	23.5	21.4	21.9	23.7
	1995	21.1	18.3	25.6	14.9	22.0	20.1	26.4	22.8	22.1	18.0	21.3	24.4	27.7	22.8	21.2	22.3
Building and constructions	1985	4.9	6.1	6.0	6.6	7.6	5.2	5.8	6.2	6.1	5.5	6.9	5.9	8.8	7.0	5.9	6.1
	1995	5.5	5.0	4.9	6.0	9.0	4.5	5.0	5.1	7.6	4.7	7.3	5.2	6.3	5.7	5.8	5.5
Services	1985	66.5	67.4	57.1	55.3	58.1	64.6	52.4	62.9	65.5	64.2	61.8	57.0	58.2	65.5	63.3	61.7
	1995	67.0	68.7	64.3	59.4	59.9	67.9	58.3	63.4	67.4	66.0	64.3	61.3	57.4	65.7	64.6	64.6
Market services	1985	51.8	43.7	42.6	37.9	45.1	47.4	35.0	47.6	50.4	52.2	44.7	42.6	37.2	37.7	45.5	45.3
	1995	54.0	46.5	51.1	44.0	45.6	50.5	41.9	49.9	52.6	55.8	48.8	45.4	38.3	41.9	53.6	50.2
Non-market services	1985	14.7	23.6	14.5	17.4	13.0	17.4	17.3	15.3	15.1	11.9	17.1	14.4	20.9	27.8	17.9	16.4
	1995	13.0	22.2	13.1	15.4	14.3	17.4	16.3	13.5	14.8	10.3	15.5	15.9	19.2	23.8	11.0	14.4

Source: Eurostat (National accounts)

equal amount (about 1 percentage point) (see table I.3.2).

The share of **Agriculture, Forestry and Fishery Products** in the GVA of the total economy decreased in almost every Member State, the exception being the Netherlands (3.9% in 1985 to 4.6% in 1995). During the last ten years, Greece showed the largest percentage dedicated to this branch (14.9% in 1995), followed by Ireland (7.5% in 1995) and Portugal (5.1% in 1995). This branch shows the largest differences among the Member States.

Considering **Fuel and power products**, in 1995 the United Kingdom showed the largest part of G.V.A coming from this branch (7%), followed by the Netherlands (6.7%); in comparison to 1985 figure, the same countries recorded the largest shares, but the Netherlands had the highest share in EU. During the last ten years, shifts in the part of GVA of Fuel and power products had a very dissimilar trend between Member States, ranging from an increase of nearly 2 percentage points in Denmark to a decline of 2.3 points in Ireland.

Among the EU countries, Finland (27.7%) had the largest share of GVA of **Manufactured products** in 1995, followed by Ireland (26.4%) and Germany (25.6%). The first two countries had overtaken Germany since 1985. All Member States decreased their part of GVA of Manufactured Products in the last ten years.

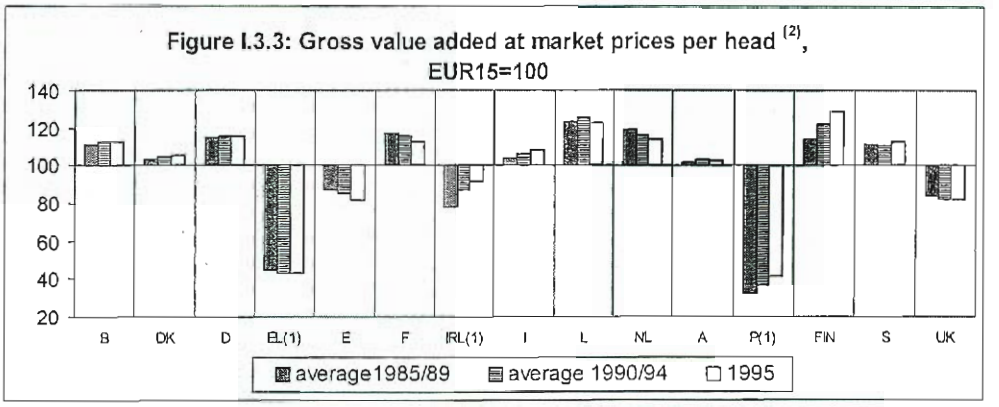
In every Member State, **Services** represent the main branch in total gross value added. The Member States had a very similar structure in 1995, ranging from a share of 68.7% in Denmark to 57.4% in Finland. In comparison with the 1985 figures, Germany registered the sharpest increase, with a +7 percentage points change, followed by Ireland (+6 points).

The structure of branches of economic activity shows the pattern of economic development and the shift among different economic activities. In order to underline productivity and make a comparison among the Member States, we consider the gross value added at constant and market prices per person in employment (total employment) and we express it as a percentage of the Union's total GVA per head (see figure I.3.3).

In 1995, Finland showed the highest GVA per head with 28 percentage points over the EU figure, followed by Luxembourg, Germany and the Netherlands. Below EU figure, Portugal showed the largest difference (58 percentage points), followed by Greece (57 percentage points), Spain (19 points), the United Kingdom (18 points) and Ireland (8 points).

Comparing average figures over four year periods, Luxembourg, Belgium, Germany and Denmark had a continuous positive growth over EU figure.

Trends among the different branches were quite uniform in the Member States. For the Union as a whole, Fuel and Power easily had the highest GVA per head in 1995 and the



(1) Eurostat estimations
(2) of total employment
Source: Eurostat

same branch showed the fastest increase over the last ten years. Services also increased GVA per head, while other industries showed slower growth rates (see table I.3.3).

Among the Member States, Finland, Sweden and the United Kingdom showed the most remarkable growth in GVA per head in Building and Construction. In Services, on the other hand, Ireland and Portugal had the fastest expansion rates.

In 1995, the Netherlands had the highest GVA per head in Agriculture. The Netherlands was in the same position for Fuel and Power, Austria had the highest figure for Manufactured Products, Finland for Building and Construction and Luxembourg for Services.

Table I.3.3 — Gross value added per head by branch (1), 1 000 Ecu

		B	DK	D	EL(2)	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EUR15
Agriculture, forestry and fishery	1985	26.3	20.2	12.8	17.5	9.7	18.4	14.5	11.0	20.0	26.6	13.6	3.0	21.6	20.8	18.1	13.4
	1995	38.3	35.9	22.3	15.7	12.9	31.9	19.8	16.7	26.5	43.0	19.2	5.6	37.1	31.0	21.0	20.4
Fuel and power products	1985	98.6	84.7	95.5	62.5	109.6	129.9	82.8	195.9	84.5	221.5	74.3	21.2	59.8	134.4	85.5	110.0
	1995	207.7	208.5	117.6	90.8	178.9	170.8	74.8	280.2	82.2	268.8	134.9	77.1	99.8	181.3	110.0	150.2
Manufactured products	1985	36.7	32.5	35.8	10.9	26.4	35.9	34.7	31.5	38.2	38.2	30.3	11.4	35.4	34.0	23.1	30.7
	1995	36.5	30.9	39.7	20.6	20.5	37.6	21.5	23.6	40.4	35.5	50.5	9.4	31.6	21.6	27.4	31.4
Building and constructions	1985	28.6	29.9	30.5	11.7	28.8	26.6	18.8	27.4	25.5	28.3	28.5	5.9	38.9	39.5	32.3	28.0
	1995	32.4	29.5	30.3	10.9	31.1	29.2	26.3	29.1	32.1	28.2	33.9	9.9	47.9	46.8	44.7	30.8
Services	1985	34.5	34.0	37.7	15.1	28.7	38.1	23.0	35.1	38.9	36.6	35.1	13.2	35.9	35.8	24.2	32.4
	1995	39.9	42.4	45.1	16.8	29.6	41.4	35.9	40.8	44.5	40.0	38.7	18.0	43.3	38.6	27.0	36.7
Market services	1985	40.7	41.8	43.5	16.8	32.6	46.6	26.7	38.4	39.4	39.4	35.9	16.4	38.5	41.3	25.5	36.5
	1995	46.1	50.7	53.0	20.2	33.5	51.5	45.5	46.2	44.3	41.5	41.3	21.7	51.8	48.7	27.8	41.6
Non-market services	1985	22.4	25.2	27.1	12.4	20.3	25.5	17.9	27.8	37.2	28.6	33.0	8.4	31.9	30.3	21.5	24.7
	1995	25.6	31.6	28.5	11.3	21.5	26.6	23.2	28.5	45.3	33.3	32.3	12.2	32.6	28.3	23.6	26.1
Total	1985	35.3	32.8	36.6	17.8	26.4	36.5	24.5	32.4	37.2	38.3	32.1	9.5	34.9	35.8	26.1	31.5
	1995	42.3	39.7	43.6	19.8	30.7	42.5	34.5	40.8	46.2	43.0	38.5	15.7	48.4	42.3	31.1	37.6

(1) of total employment
(2) Eurostat estimations
Source: Eurostat

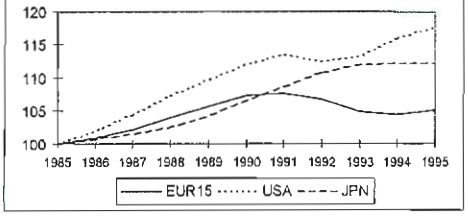
I.3.2. Employment

Employment figures refer to National Accounts data. Thus total employment figures can differ from those in chapter I.6.2, that are supplied by Social Statistics.

In 1995, employment in the Union as a whole increased by 0.6% on the previous year. The United States had growth of 1.5% in total employment and Japan recorded only 0.1% growth.

In the European Union, in contrast with the positive rates recorded in the second half of the 1980s (+1.4% per year), employment declined in the early 1990s (0.7% per year) and recovery was still quite slow in 1995 (see figure I.3.4).

Figure I.3.4: Total employment, 1985=100



Source: Eurostat estimations; OECD

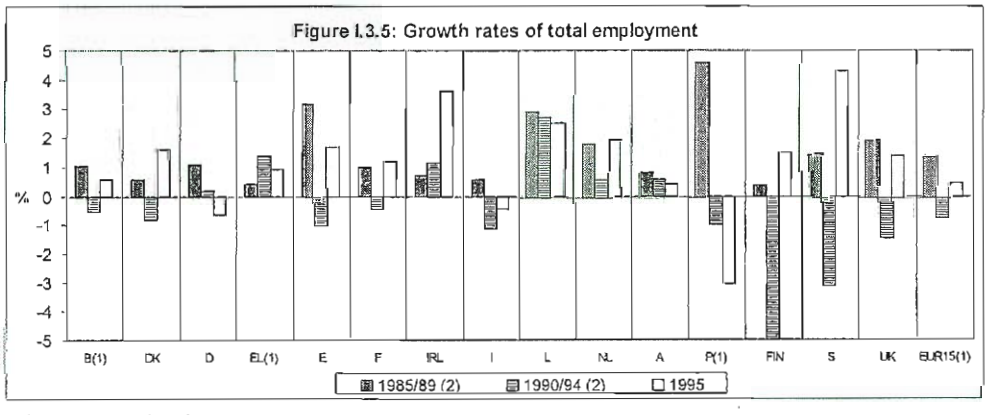
Employment increased in 1995 in most of the Member States, with the exception of Portugal (3%), Germany (0.6%) and Italy (0.4%). Sweden (+4.3%), Ireland (+3.6%) and Luxembourg (+2.5%) had the highest growth rates. If the two reference periods (1985/89 and 1990/94) are compared, employment had a general positive trend towards the end of the 1980s, but in the following four years fell in most Member States, apart from Greece (+1.4% per year in 1990/94), Ireland (+1.2%), Luxembourg (+2.7%) and, with firm rates, Netherlands (0.6%) and Austria (+0.6%) (see figure I.3.5).

An analysis of total employment by branch in Europe for 1995 shows that employment increased in Services (+1.1%), and especially in Market Services (+1.6%), and to some extent also in Building and Construction (+0.3%), while all the other branches recorded negative figures. When the two four-year periods (1985/89 and 1990/94) are compared, Services was the only branch with increasing levels of employment over both periods.

In line with the trend in production, during the last years of the 1980s employment increased in Manufacturing (+1.6% per year) and Building and Construction (+2.5% per year), while both declined in the following period, respectively by 2.2% and 2.7% per year. Employment in Agriculture declined over both periods and, even if not to the same extent, the figures for Fuel and Power also fell.

The overall employment trend in the Union by branch more or less applies to each Member State. The exceptions are Finland and Sweden, where employment at the beginning

Figure I.3.5: Growth rates of total employment



(1) Eurostat estimations
(2) Annualised average rate
Source: Eurostat (National Accounts)

Table I.3.4		Growth rate (2) of total employment by branch															
		B (1)	DK	D	EL (1)	E	F	IRL	I	L	NL	A	P (1)	FIN	S	UK	EUR15 (1)
Agriculture, forestry and fishery products	1985/89	-2.3	-4.1	-3.7	:	-5.0	-4.6	-0.8	-3.1	-2.8	-0.5	-3.6	-1.9	-5.4	-4.8	-0.7	-3.3
	1990/94	-2.3	-3.7	-4.2	:	-6.4	-4.2	-2.0	-4.1	-1.0	-0.6	-4.9	-6.2	-4.9	-2.1	-1.0	-3.9
	1995	0.6	-0.5	-4.7	:	-3.8	-3.5	3.6	-3.5	0.4	-1.6	1.1	-3.0	-6.5	-3.3	-4.8	-3.5
Fuel and power products	1985/89	-7.1	1.9	-1.4	:	-1.8	-2.5	-1.9	0.5	0.7	0.0	-1.0	3.9	-0.9	-0.8	-3.6	-1.9
	1990/94	-2.6	-0.9	-2.2	:	-3.8	-1.6	0.2	-2.5	1.3	-0.8	-1.1	-5.2	-5.4	-3.0	1.6	-1.2
	1995	0.6	1.6	-4.3	:	-2.0	-0.5	3.6	-4.7	4.3	-1.7	-4.4	-3.0	-1.8	-1.2	1.4	-1.7
Manufactured products	1985/89	-0.6	-0.3	0.8	:	2.6	-0.8	2.2	0.2	-0.4	1.2	-0.5	7.4	-2.3	-0.2	-2.4	1.6
	1990/94	-2.3	-2.0	-2.9	:	-2.9	-3.1	0.3	-2.8	-2.0	-2.0	-2.4	-2.6	-5.8	-5.3	0.8	-2.2
	1995	0.6	1.6	-2.2	:	1.2	0.1	3.6	-1.2	-1.9	-1.1	-0.6	-3.0	5.5	3.6	1.4	-0.5
Building and constructions	1985/89	2.5	0.9	-0.7	:	10.1	2.0	-3.8	-0.8	6.1	2.5	0.5	1.5	2.7	2.2	8.3	2.5
	1990/94	1.7	-0.8	1.1	:	-3.4	-3.0	1.3	-0.4	4.2	0.1	2.2	-1.3	-13.3	-8.0	-11.6	-2.7
	1995	0.6	4.0	-0.5	:	6.1	-0.4	3.6	-1.3	1.1	0.5	0.0	-3.0	4.6	0.3	1.4	0.3
Services	1985/89	1.7	1.3	1.9	:	4.7	2.2	1.3	1.5	4.0	2.2	2.0	7.2	2.2	2.4	2.6	2.3
	1990/94	0.2	0.3	1.9	:	1.0	0.9	0.9	0.2	4.0	1.5	2.0	1.6	-3.7	-2.1	-0.3	0.5
	1995	0.6	-4.7	0.3	:	2.1	2.0	3.6	0.4	3.8	3.1	0.8	-3.0	1.2	5.3	1.9	1.1
Market services	1985/89	2.5	1.6	2.2	:	4.5	2.8	1.1	1.7	4.5	2.7	2.2	6.5	2.2	2.5	3.9	2.8
	1990/94	0.3	0.4	2.5	:	0.8	0.1	0.7	0.4	4.0	2.1	1.9	2.1	-5.2	-1.6	2.1	1.1
	1995	0.6	2.2	0.6	:	2.1	2.1	3.6	0.7	4.0	4.4	1.0	-3.0	0.8	2.6	3.3	1.6
Non-market services	1985/89	0.0	0.9	1.4	:	5.2	1.2	1.4	1.1	2.3	0.3	1.6	8.2	2.1	2.3	-0.3	1.4
	1990/94	1.2	0.1	0.8	:	1.3	2.2	1.0	0.2	3.6	-0.8	2.5	0.8	-1.7	-2.7	-7.5	-0.1
	1995	0.6	-12.5	-0.2	:	2.0	1.8	3.6	-0.4	3.2	-2.2	0.5	-3.0	1.7	8.1	-3.7	-1.8
Total	1985/89	1.0	0.6	1.1	0.4	3.2	1.0	0.7	0.6	2.9	1.8	0.8	4.6	0.4	1.5	1.9	1.4
	1990/94	-0.5	-0.8	0.2	1.4	-1.0	-0.5	1.2	-1.2	2.7	0.6	0.6	-1.0	-5.0	-3.1	-1.5	-0.7
	1995	0.6	1.6	-0.6	-5.9	1.7	1.2	3.6	-0.4	2.5	1.9	0.4	-3.0	1.5	4.3	1.4	0.4

(1) Eurostat estimation
(2) Annualised average rate
Source: Eurostat (National Accounts)

of the 1990s declined in Services as well as in every other branch. While all the other Member States registered sharp negative figures, only in Ireland and the United Kingdom did employment in Manufacturing increase during the beginning of the 1990's, albeit at a slower rate than during the last years of the 1980s. The main differences emerged in the trend of Building and Construction employment (see table I.3.4).

A look at the structure of employment in branches over ten years in the EU, as a percentage of total employment, shows that the main change occurred in Services, with an increase of 6 percentage points in the share of total employment. Among the Member States, Austria and Portugal experienced the most remarkable changes, with the service sector increasing its share of employment by about 10 percentage points.

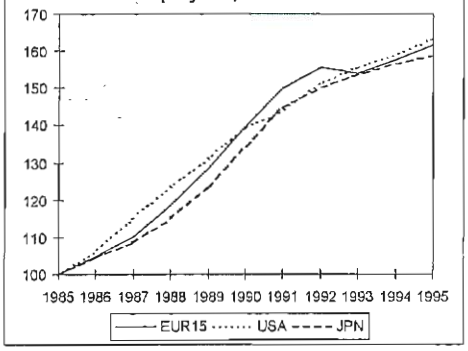
Manufacturing reduced its share of employment in most Member States, with the exception of Germany, Ireland and Portugal. The share of employment in Agriculture declined in every EU country, while that of Fuel and Power increased. Dissimilar changes took place in the share of employment in Building and Construction (see table I.3.5).

I.3.3. Compensation of employees

In 1995, compensation of employees in the European Union grew by 2.6%, while in the United States it increased by 2.7% and in Japan by 1.3%. Over the last ten years, the compensation of employees showed a very similar trend in the EU, the United States and Japan: annualised average growth rates were high between the end of the 1980s and the beginning of the 1990s and came to a halt after 1992 (see figure I.3.6).

In order to compare Member States, we consider the compensation of employees per person in paid employment and express it as a percentage of the Union's total compensation of employees per head (see figure I.3.7). In 1995, compensation of employees per head showed the same structure as for GVA per head: Luxembourg had the highest figure, followed by Belgium, Germany and the Netherlands. Portugal, Greece, Spain, Italy, Ireland and the United Kingdom were below the EU average (see table I.3.6).

Figure I.3.6: Compensation of employees, 1985=100



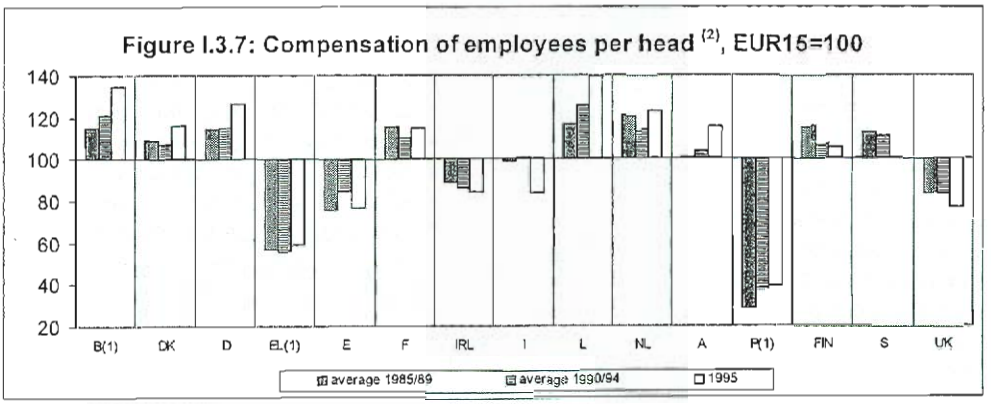
Source: Eurostat estimations; OECD

A look at the four-year averages for the Member States shows that the EU countries with the lowest figures registered the highest increase in earning from paid employment. Portugal and Spain, in particular, reduced their gap with the Union average by 10 and 6 percentage points respectively (see figure I.3.7).

Table I.3.6 — Compensation of employees per head by branch[1], 1 000 Ecu

		B	DK	D	EL	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EUR15
Agriculture, forestry and fishery	1985	11.2	13.4	12.7	20.8	7.1	14.6	8.2	9.6	13.6	15.4	8.9	5.3	14.6	10.2	10.4	10.3
	1995	25.6	21.9	20.5	38.5	12.3	23.5	11.4	11.0	22.8	21.4	21.0	5.1	18.7	14.3	15.2	15.3
Fuel and power products	1985	33.7	23.5	29.7	14.6	21.2	35.6	19.6	26.5	27.3	27.2	29.6	6.8	22.5	16.2	22.0	26.5
	1995	67.8	39.0	53.0	19.3	35.9	53.4	25.8	40.3	47.3	43.0	68.4	21.8	34.8	23.4	51.9	47.1
Manufactured products	1985	22.0	18.2	21.4	13.5	13.1	21.1	17.5	17.6	20.4	22.3	22.2	4.4	19.4	15.3	19.4	19.0
	1995	36.5	30.9	39.7	20.6	20.5	37.6	21.5	23.6	40.4	35.5	50.5	8.4	31.6	21.6	27.4	31.4
Building and constructions	1985	17.0	21.3	17.4	15.0	13.9	20.2	15.9	13.4	14.8	20.2	15.7	3.5	22.0	19.5	15.5	16.3
	1995	31.6	33.9	31.2	24.4	22.8	33.7	20.9	17.4	25.8	31.8	27.0	5.1	32.9	27.0	21.6	26.3
Services	1985	19.6	18.7	19.6	11.4	13.1	21.0	16.4	16.8	19.8	21.4	17.0	4.9	19.7	19.9	15.4	17.6
	1995	35.7	31.1	33.8	15.8	20.6	30.8	22.5	22.4	37.3	32.8	31.0	10.5	28.2	26.9	20.5	26.8
Market services	1985	20.5	19.3	17.3	10.6	13.7	21.2	16.8	17.0	19.3	20.3	12.1	5.4	18.6	14.8	13.1	16.4
	1995	37.3	32.0	29.3	14.4	20.5	30.5	25.6	22.1	36.3	30.5	20.0	11.3	27.3	19.9	16.6	24.0
Non-market services	1985	18.3	18.2	20.2	8.2	13.3	19.5	15.7	17.3	22.6	24.1	19.4	5.6	20.9	28.1	15.4	18.1
	1995	33.2	30.5	34.3	10.3	20.3	25.9	21.2	23.9	46.0	39.4	32.8	15.1	26.4	36.4	25.3	27.4
Total	1985	20.3	18.7	19.6	11.4	13.1	21.0	16.4	16.8	19.8	21.4	17.0	4.9	19.7	19.9	15.4	17.6
	1995	36.0	31.1	33.8	15.8	20.6	30.8	22.5	22.4	37.3	32.8	31.0	10.5	28.2	26.9	20.5	26.8

(1) of paid employment
Source: Eurostat estimations; OECD



(1) Eurostat estimations
(2) of paid employment
Source: Eurostat (National accounts)

I.4. Private households in the Union

I.4.1. Private households as consumers

In 1996, private consumption in the European Union increased by 2% in volume terms. This rate was higher than in the previous two years (+1.7% in 1995 and +1.6% in 1994) and represented a substantial growth in comparison with the negative figure recorded in 1993 (-0.4%). Private consumption increased in the United States by 2.4% and in Japan by 2.8%, which is a significant improvement over 1995 (+1.9%).

Since the beginning of the 1990s the EU has experienced a slowdown in the growth rate of private consumption: during the first five years of the decade (1991-96), the European Union recorded an annualised average rate of +1.4%, whereas from 1985 to 1990 private consumption had increased annually at a rate of 3.6% (see figure I.4.1).

Of the Member States, Ireland showed the highest increase in private consumption (+6.3%), while Italy recorded the lowest (+1.1%). In comparison with the average growth rate during the period 1985-90, almost all countries slowed. Denmark was the only exception: during the first half of the 1990s, private consumption increased in this country by 3.1% per annum after rising by only 0.5% during the previous period (1985-90). Portugal had the sharpest decrease over these periods, followed by Spain, Italy, Finland and Luxembourg (see Table I.4.1).

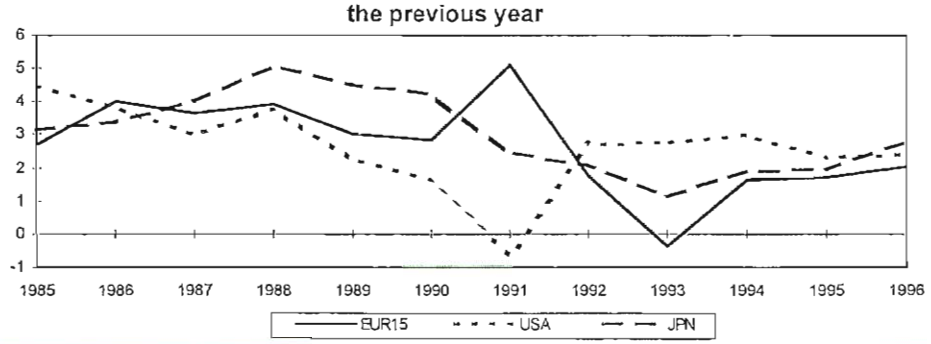
In 1996, the share of gross domestic product dedicated to private consumption in the European Union was 62.5%, in between the figures for the United States (68%) and Japan (59.8%). Of the Member States, Greece had the largest share of GDP for private consumption (73.9%); Germany (65.4%) and the United Kingdom (64.1%) were the other countries above the Union's figure. Portugal dedicated the highest percentage of GDP to private consumption in 1985, but fell below the Union's figure in 1996. The situation was similar in Luxembourg, which recorded the lowest percentage in 1996 (see figure I.4.2).

In order to illustrate the differences between countries and in relation to the European Union, per head figures have been converted using the specific Purchasing Power Standards (PPS) for household consumption. The figures in PPS reduce the discrepancies between countries, since data are expressed in a representing the relationship between the amounts of national currency needed to purchase a comparable and representative basket of goods and services.

The data are expressed in relation to the price levels of goods and services directly linked to the aggregate concerned, not in relation to the general level of prices. (See also section I.7.3 on Purchasing Power Standards).

In 1996, Luxembourg had by far the highest level of per head consumption (17 103 PPS),

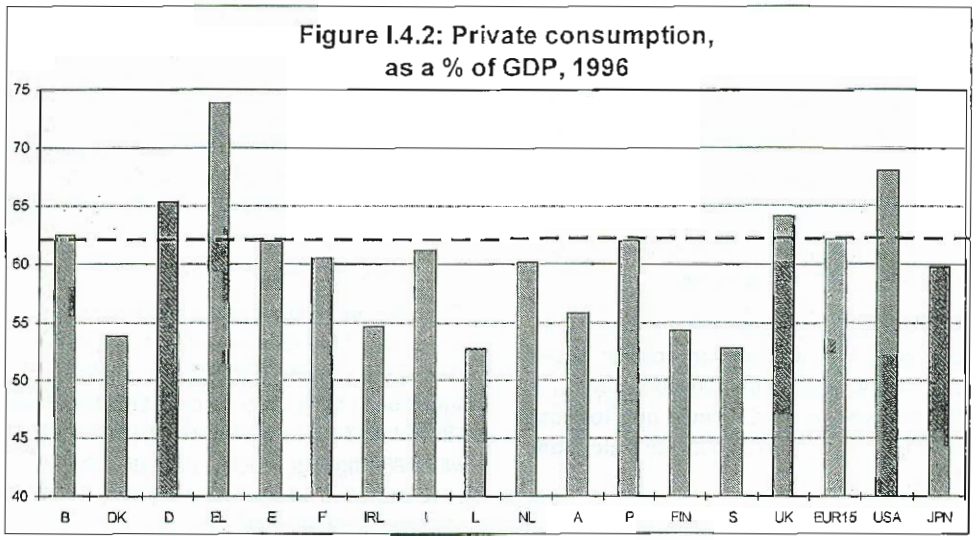
Figure I.4.1: Private consumption, growth rate in volume, as a % of the previous year



Source : Eurostat

Table I.4.1	Private consumption, growth rate in volume														
	B	DK	D	EL	E	F	IRL	I	L	NL	A	P	FIN	S	UK
1985-90	2.8	0.5	3.4	2.9	4.7	3.2	5.2	3.8	5.0	2.8	3.0	7.0	3.7	2.4	4.7
1990	2.6	0.0	5.1	2.5	3.5	2.6	2.1	2.4	5.6	4.1	3.2	5.4	0.0	-0.4	0.6
1991	2.8	1.2	/	2.7	2.8	1.3	2.3	2.6	5.8	3.0	2.8	3.9	-3.7	0.9	-2.2
1992	2.3	1.8	3.6	1.8	2.2	1.3	4.2	1.3	-0.4	2.5	2.7	3.2	-5.1	-1.4	-0.1
1993	-0.9	2.2	0.2	0.1	-2.3	0.2	1.6	-3.5	1.1	1.0	0.7	-2.0	-3.0	-3.2	2.4
1994	1.3	6.2	1.4	1.4	0.9	1.4	6.4	0.8	2.1	2.2	2.5	0.9	1.9	1.8	2.5
1995	1.2	2.1	1.9	1.6	1.5	1.6	3.6	1.3	2.3	2.0	1.9	0.9	3.6	0.8	1.9
1996	1.4	2.5	1.8	2.2	1.9	2.1	6.3	1.1	2.4	2.8	1.5	2.5	3.2	1.5	2.9

/ means that the growth rate is not available due to one break in the serie
Note : for 1985-90 annualised average growth rate
Source : Eurostat



Source : Eurostat

followed by Italy (12 698 PPS), Belgium (11 904PPS), the United Kingdom (11 509 PPS) and Germany (11 429 PPS). All other countries are below the Union's figure.

When average figures are compared over five years, Luxembourg shows the highest figures over both periods, followed by Germany and, in different orders, by Belgium, Italy and France. Over these two periods, the United Kingdom showed the biggest change compared with the Union's figure, recording lower per head consumption during the period 1985-90 but higher consumption during the first half of the 1990s (see table I.4.2).

For purposes of comparison, we can express the per head private consumption of each Member State as a percentage of the Union's figure.

In 1996, Luxembourg and Portugal diverged most from the Union's figure: Luxembourg was 52 percentage points above the Union's per head consumption figure, and Portugal 34 percentage points below it — a difference of some 87 points between the two countries.

If the average per head consumption figures in two five-year periods (1985-1990 and 1991-1996) are compared, it is seen that the differences between Member States increased. Furthermore, of countries with lower figures, only Ireland and Portugal came closer to the Union's figure, Ireland reducing its gap by more than 10 percentage points and Portugal by 2 points (see figure I.4.3).

In order to underline the change in the pattern of final consumption of households, the eight main functions of consumption that make up

Table I.4.2	Private consumption per head, in PPS		
	1985-1990(2)	1991-1996(2)	1996
B	7 991	11 136	11 904
DK	6 956	9 261	10 379
D	9 022	11 528	11 429
EL	6 273	7 468	8 037
E	5 916	8 026	9 545
F	8 038	10 535	11 025
IRL	5 081	7 902	9 178
I	7 788	10 812	12 698
L	11 278	16 205	17 103
NL	7 640	10 230	10 581
A	7 060	10 055	10 881
P(1)	4 700	6 539	7 372
FIN	6 310	7 750	8 293
S	7 152	8 497	8 965
UK	7 364	10 282	11 509
EUR15	7 649	10 270	11 240

(1) Estimate
(2) average over the period
Source : Eurostat

the total consumption of households are broken down in percentage terms.

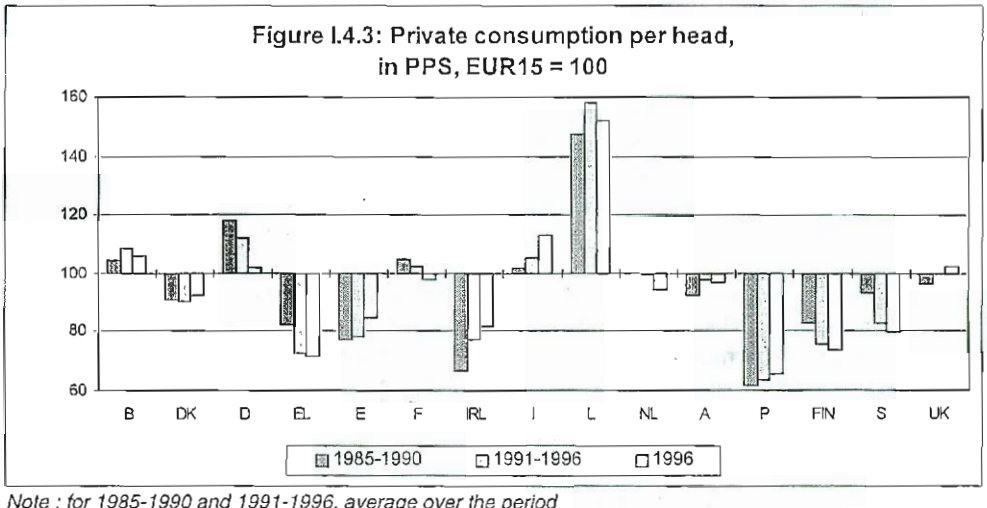
Considering the European Union as a whole, **gross rent, fuel and power** took the largest share of household consumption (19.8%) in 1995, followed by **food, drinks and tobacco** (18.2%) and **transport and communications** (15.4%).

Compared with the 1985 figures, the top positions have changed: food, drinks and tobacco recorded a sharp decrease of 4.1 percentage points, while gross rent, fuel and power increased by 1.4 percentage point. **Health services** recorded the highest increase in the EU (+1.4 percentage point), amounting to 8.9% of total consumption (see figure I.4.3).

Over the past ten years, **food, drinks and tobacco** have showed a downward trend in all EU Member States. In 1995 Greece recorded the largest share of total consumption in this category (36.6%), followed by Ireland (33.3%) and Portugal (28%), while the Netherlands had the smallest share (14.3%). In comparison with 1985, the share of food, drinks and tobacco expenditure in total consumption fell sharply in Portugal and Ireland (by 10 and 7 percentage points respectively), while Greece saw its share fall by only by 2.7 percentage points. Although there are still substantial disparities between Member States in food, drinks and tobacco consumption, the gaps have diminished over the past ten years.

Clothing and footwear also showed a downturn in all EU Member States. In 1995, Italy and Portugal showed the largest share of total consumption in this category, both at 9.1%, while Finland had the smallest (4.8%). Compared with 1985 figures, Austria recorded the sharpest decrease in spending for this purpose (-2.7 percentage points), but still maintained a large percentage of consumption dedicated to clothing and footwear (7.9% in 1995).

Figure I.4.3: Private consumption per head, in PPS, EUR15 = 100



Note : for 1985-1990 and 1991-1996, average over the period
Source : Eurostat

Between 1985 and 1995, spending on **gross rent, fuel and power** showed an upward trend in most EU countries; with the exception of Luxembourg (-1.2 percentage point) and Spain (-1.3 percentage point). In 1995, North European countries spent most for this purpose in percentage terms. Sweden had the highest share, at 32.6%, followed by Denmark (27.1%) and Finland (24.7%). Gross rent, fuel and power accounted for the largest slice of family spending in most Member States, with the exception of Greece, Spain, Ireland, Italy and Portugal, where food, drinks and tobacco were the main component of total household consumption.

Spending on **furniture and household articles** generally held firm over the last ten years, ranging from +1.7 percentage points of change for Luxembourg to -2.4 points for Denmark. In 1995, Luxembourg showed the highest share (10.8%), followed by Belgium (9.8%) and Italy (9.2%).

Spending on **health services** grew in all Member States, ranging from a growth of + 2 percentage points in Belgium to + 0.2 points in Netherlands. In 1995, Germany (14.5%), the Netherlands (12.9%), Belgium (12.3%) and France (10.4%) showed much larger shares of consumption for this purpose, while the United Kingdom showed the smallest (1.6%). Expenditure on health services, together with food, drinks and tobacco and gross rent, fuel and power, showed the largest disparities between Member States.

Transport and communications have remained fairly stable over the past ten years. The main changes were observed in Luxembourg, which increased its share of total consumption for this purpose by 3.1 percentage points, recording the highest share of all the Member States in 1995 (20%). At the other end of the scale, Finland recorded a sharp decline (-1.6 percentage point), falling below the Union's figure.

Spending on recreation, **entertainment, education and culture** has remained essentially unchanged over the past ten years. Of the Member States, Ireland (11.9%), the United Kingdom (10.8%) and Denmark (10.6)% show the highest shares.

Table I.4.3 — Structure of final consumption of households, as a % of total consumption

		B	DK	D	EL	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EUR15
Food, drinks	1985	21.2	23.3	17.8	39.3	24.9	20.5	40.1	24.9	23.3	16.8	22.3	38.0	26.2	24.1	24.9	22.3
and tobacco	1995	16.4	20.0	15.2	36.6	19.7	18.2	33.3	19.3	18.0	14.3	17.7	28.0	20.5	19.5	19.9	18.2
Clothing and	1985	7.4	5.9	7.6	6.6	8.6	6.9	7.2	10.2	6.6	7.3	10.6	9.4	5.5	7.4	7.0	7.8
footwear	1995	7.2	5.2	6.3	6.4	7.6	5.4	5.9	9.1	5.7	6.0	7.9	9.1	4.8	5.5	5.9	6.6
Gross rent,	1985	19.5	25.2	20.0	10.9	14.5	18.9	11.7	14.4	21.0	19.0	18.3	5.0	18.9	26.4	20.2	18.4
fuel and power	1995	18.9	27.1	20.7	14.0	13.2	21.8	15.0	17.5	19.8	20.2	19.8	7.7	24.7	32.6	20.1	19.8
Furniture and	1985	9.7	6.9	7.6	8.4	6.7	6.3	6.8	9.0	9.2	6.5	7.4	8.7	7.0	7.1	6.6	7.7
household art.	1995	9.8	4.5	8.2	7.4	6.3	7.3	6.3	9.2	10.8	6.5	8.4	7.9	5.9	6.6	6.4	7.6
Health	1985	10.3	1.8	14.1	3.6	3.5	8.5	3.6	5.5	6.7	12.7	3.4	4.6	3.9	1.7	1.3	7.4
services	1995	12.3	2.1	14.5	4.9	5.1	10.4	3.9	6.5	7.3	12.9	5.0	5.0	5.4	2.5	1.6	8.9
Transport and	1985	12.6	17.6	14.1	13.9	13.5	16.7	13.0	12.4	16.9	12.5	15.7	14.9	17.0	15.7	17.0	14.8
communications	1995	12.4	18.0	15.9	13.5	15.4	16.2	13.4	12.2	20.0	13.1	15.7	16.2	15.3	16.5	17.2	15.4
Recreation, ent.,	1985	6.0	9.7	8.8	5.9	6.6	7.0	9.5	8.2	3.4	9.7	6.2	5.8	9.2	9.8	9.4	8.2
educ. and culture	1995	6.3	10.6	9.0	5.4	6.6	7.5	11.9	8.7	4.1	9.9	8.3	7.8	9.8	9.4	10.8	8.7
Other goods and	1985	13.3	9.6	9.3	9.4	21.6	13.1	8.1	15.4	12.9	15.5	16.1	13.4	12.3	7.8	13.6	13.1
services	1995	16.2	11.1	10.1	11.8	26.1	13.2	10.4	17.6	14.3	17.2	17.3	18.3	13.5	7.5	16.1	14.7

Source : Eurostat

I.4.2. Private households as receivers of income

This section assesses the different contributions made by components of income received by the households, deductions and the resulting net income.

For the Member States treated hereinafter, **compensation of employees** provided households with the largest share of their income. Italy had the lowest proportion of household income provided by compensation to employees, at 37% (in 1995), while Denmark had the highest, at 63% (in 1994). In all countries other than Italy it provides 45% or above.

Between 1980 and 1995, compensation of employees has been falling as a proportion of household income in all countries. Compensation of employees used to provide over half of household income in seven of the eleven countries, but now does so in only five countries.

The proportions of household income accounted for by gross wages and salaries has fallen in every country. The proportions fell by 5 percentage points or more in every Member State except Denmark, Germany and Portugal (see table I.4.4 and figure I.4.4).

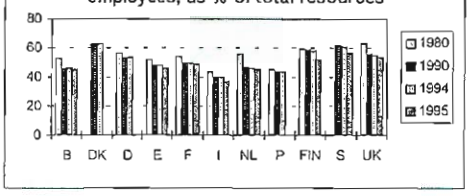
Table I.4.4	Share of compensation of employees received, as % of total resources			
	1980	1990	1994	1995
B	52	46	46	45
DK	:	63	63	:
D	56	53	53	:
E	52	48	48	46
F	54	50	50	49
I	44	40	40	37
NL	55	46	46	45
P	45	44	44	:
FIN	59	58	58	52
S	:	61	61	56
UK	63	55	55	53

Source: Eurostat

Gross operating surplus contributed over 10% of income for all countries for which data was available. The contributions varied from over 32% in Italy to 13% in the Netherlands and Sweden (see table I.4.5).

Between 1980 and 1995 there were sizeable changes in Finland, where the proportion contributed fell by five percentage points and the

Figure I.4.4: Share of compensation of employees, as % of total resources



Source : Eurostat

UK, where the rate rose by four percentage points. In the other Member States the proportion remained relatively stable.

Table I.4.5	Share of gross operating surplus, as % of total resources			
	1980	1990	1994	1995
B	17	17	17	17
DK	:	18	18	:
D	:	:	:	:
E	26	25	26	27
F	17	17	17	17
I	32	30	31	32
NL	:	13	13	13
P	24	25	:	:
FIN	21	16	16	16
S	:	11	13	13
UK	12	16	16	16

Source: Eurostat

Property and entrepreneurial income received (see table I.4.6) contributed less than gross operating surplus in all countries. There were significant differences between countries, with the highest contribution in Germany at 21% (in 1990) and the lowest contribution in Finland, at 4% (in 1980, 1994 and in 1995). The most significant fall was in the Netherlands where the rate fell by four percentage points while the most significant increase was in Belgium where the contribution rose by five percentage points.

Table I.4.6	Share of property and entrepreneurial income, received as % of total resources			
	1980	1990	1994	1995
B	8	13	13	13
DK	:	:	:	:
D	19	21	:	:
E	5	8	6	7
F	6	7	7	7
I	8	10	10	11
NL	15	11	11	11
P	10	10	:	:
FIN	4	5	4	4
S	:	6	5	5
UK	9	13	9	10

Source: Eurostat

Unrequited current transfers received accounted for over a fifth of household income in all countries except Spain and Italy. The country with the highest proportion received were the Netherlands with 28% while the countries with the lowest proportion was Italy and Spain at 19%. Between 1980 and 1995, unrequited current transfers rose in all countries except the Netherlands (1995), Germany, and Portugal (up to 1990). In Finland the proportion rose by 11 percentage points (see table I.4.7).

Table I.4.7	Share of unrequited current transfers received, as % of total resources			
	1980	1990	1994	1995
B	23	23	24	24
DK	:	23	26	:
D	24	23	:	:
E	17	18	20	19
F	22	24	26	26
I	15	16	20	19
NL	29	29	29	28
P	21	20	:	:
FIN	16	20	28	27
S	:	21	26	25
UK	16	16	21	20

Source: Eurostat

Total deductions (see table I.4.8) consist of property and entrepreneurial income paid and of unrequited current transfers paid (mainly taxes and social contributions). As a proportion of households' gross disposable income, total deductions ranged from under 23% in Portugal (in 1990) to over 40% in Sweden (in 1995). Sweden remains well above other countries despite a fall of five percentage points. Four countries - Portugal (up to 1990), Finland, Spain and Italy had increase of four percentage points or over.

Table I.4.8	Total deductions, as % of total resources			
	1980	1990	1994	1995
B	33	34	34	35
DK	:	37	38	:
D	31	30	:	:
E	25	30	30	29
F	31	33	33	33
I	25	29	29	29
NL	37	34	36	35
P	18	23	:	:
FIN	32	39	39	38
S	:	47	41	42
UK	30	33	28	28

Source: Eurostat

Unrequited current transfers paid accounted for over a quarter of households' total uses in all countries except Portugal (in 1990) and the United Kingdom. The largest deduction were in Scandinavian Member States were they accounted for between 34% (in Finland) to 38% (in Denmark in 1994) of uses of resources (see table I.4.9).

Table I.4.9	Share of unrequited current transfers paid, as % of total resources			
	1980	1990	1994	1995
B	30	31	32	32
DK	:	37	38	:
D	30	29	:	:
E	22	26	27	26
F	28	29	30	30
I	23	27	27	27
NL	37	30	32	31
P	14	19	:	:
FIN	29	34	35	34
S	:	39	35	36
UK	26	24	23	23

Source: Eurostat

Deductions of income through **property and entrepreneurial income paid** (see table I.4.10) were under 5% in all countries except Sweden and the United Kingdom.

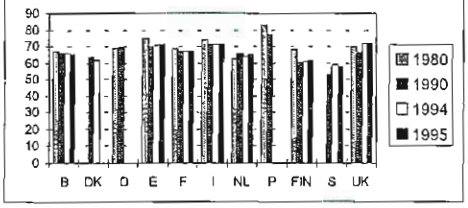
Table I.4.10	Share of property and entrepreneurial income paid, as % of total resources			
	1980	1990	1994	1995
B	3	3	2	2
DK	:	:	:	:
D	1	1	:	:
E	3	4	3	3
F	3	4	3	3
I	3	2	2	2
NL	1	4	4	4
P	4	4	:	:
FIN	3	6	4	4
S	:	9	6	6
UK	5	10	6	6

Source: Eurostat

Property and entrepreneurial income was a net provider of income to households in all countries other than Sweden. There have been substantial movements with the contribution provided in the Netherlands dramatically reduced while in Belgium there has been a significant increase.

Gross disposable income as a proportion of total resources varied from 77% in Portugal (in 1990) to 58% in Sweden (see table I.4.11 and figure I.4.5). The majority of Member States saw a fall in the proportion of uses available as gross disposable income between 1980 and 1995. The most significant falls were in Finland and Portugal. The Member States where gross disposable income rose as proportion of uses were Sweden, the Netherlands, the United Kingdom and Germany (up to 1990).

Figure I.4.5: Gross disposable income as % of total resources



Source : Eurostat

Table I.4.11	Gross disposable income, as % of total resources			
	1980	1990	1994	1995
B	67	66	66	65
DK	:	63	62	:
D	69	70	:	:
E	75	70	70	71
F	69	67	67	67
I	75	71	71	71
NL	63	66	64	65
P	82	77	:	:
FIN	68	61	61	62
S	:	53	59	58
UK	70	67	72	72

Source : Eurostat

I.4.3. Private households as savers

The savings habits of private households willbe examined using savings ratios. This form of measurement, has the advantage that it is not influenced by inflation at national level.

Saving ratios of households

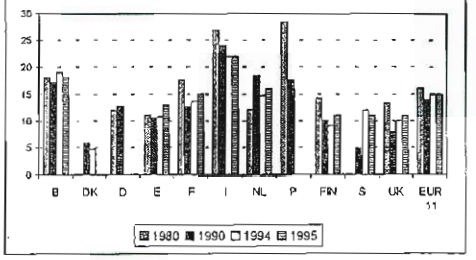
The savings ratio, calculated as the ratio of gross saving and gross disposable income is shown in table I.4.12 and figure I.4.6 for the eleven Member States for which data is available.

Table I.4.12	Savings ratios for private households			
	1980	1990	1994	1995
B	18	17	19	18
DK	.	6	5	.
D	12	13	.	.
E	11	11	11	13
F	18	13	14	15
I	27	24	22	22
NL	12	18	15	16
P	28	18	.	.
FIN	14	10	9	11
S	.	5	12	11
UK	13	8	10	11
EUR 11	16	14	15	15

Source : Eurostat

Savings ratios for the Union (EUR 11) fell between 1980 and 1994, so that it was a little under 2 percentage points below that of 1980. The savings ratio were 15% in 1995; one percentage point lower than in 1980. The lower ratios in the UK, Finland and Denmark were offset by increases in the Netherlands and Sweden.

Figure I.4.6: Savings ratios for private households



Source : Eurostat

There are significant differences between individual countries. Denmark had the lowest savings ratio in 1994 (5%), 17 percentage points below the highest saving ratio recorded in Italy in 1995.

Between 1980 and 1990, Portugal and Italy alternated as the country with the highest savings ratio, out of the eleven Member States shown in the table.

In 1995, compared with 1980, savings ratios fell in four of the seven Member States (Finland, France, Italy and the United Kingdom). However they rose in Spain and the Netherlands. The ratio has remained relatively stable in Belgium, varying by 1 percentage point above and below 18%.

Between the years shown in the tables, significant movements occurred. Savings can thus move substantially from year to year; both up and down.

I.5. General government in the Union

I.5.1. General government revenues and expenditures

Within general government revenue and expenditure, a distinction is made between current and capital transactions. The latter results in a direct change in the assets of at least of one of the parties to the transaction (mostly the nongovernment sectors).

Typical examples are inheritance tax or investment subsidies. It should also be noted that redistribution transactions between units of a sub-sector of general government have been consolidated, i.e. are not entered under either revenue or expenditure. However, this does not apply to taxes on production paid by government producers or to subsidies received by them. The EU's own resources are entered according to the ESA as direct payments to the rest of the world, and therefore the agricultural levies, import duties and VAT-own resources are not included under either revenue or expenditure of general government.

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

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

The main item of general government expenditure is current transfers, such as payment of pensions and other assistance to private households, subsidies to producers, or development aid to the rest of the world.

This is followed by compensation of employees working for general government (manual and non-manual workers, civil servants and

Table I.5.1	General government revenues in the Union [1], 1995	
	Mrd ECU	%
Current taxes	1 394	58.6
Actual social security contributions	826	34.7
Income from property and indemnity insurance payments	65	2.7
Other current transfers	62	2.6
Capital-forming revenue	32	1.3
Total revenue	2 378	100.0

(1) without Greece, Ireland, Luxembourg, Portugal, Sweden, Spain and Finland
Source: Eurostat

Definition of general government

The ESA states that "the general government sector includes all institutional units which are principally engaged in the production of non-market services intended for collective consumption and/or in the re-distribution of national income and wealth. The principal resources of these units are derived directly or indirectly from compulsory payments made by units belonging to other sectors". It is divided into three sub-sectors: central government, local government and social security funds.

Government institutions provide their services to the community free of charge or at a price (charge) which covers less than half of the production costs. Institutions are classified as public enterprises when they charge for their services at a rate which should normally cover more than half the costs. They are therefore not recorded in the sector general government but under corporate and quasi-corporate enterprises. The main difference between social security funds and insurance enterprises is that there is a statutory requirement for certain population groups to insure themselves with such funds against risks such as illness, old age or unemployment. In addition to the administration of social security funds, government institutions are typically responsible for areas such as public, administration, security and defence. However, its responsibility usually extends to education, public health, social welfare and sewage and waste water disposal if the revenue from sales (including charges) amounts to less than half of current revenue (as explained above). However, there may be considerable differences between the individual countries in the sectors to which these activities, particularly the last two, are allocated.

military personnel). Imputed social security contributions (e.g. reserves for civil service pensions) are, not included here. Purchases for intermediate consumption and interest payments are also important (see table I.5.2 below).

Table I.5.2 General government expenditures in the Union[(1)], 1995		
	Mrd ECU	%
Current transfers	1 411	50.7
Compensation of employees	535	19.2
Income from property and net indemnity insurance premiums	295	10.6
Intermediate consumption	359	12.9
Gross fixed capital formation	136	4.9
Capital transfers	209	7.5
less: sales and own-account output of fixed capital goods	- 161	-5.8
Total expenditure	2 783	100.0

(1)without Greece, Ireland, Luxembourg, Portugal, Sweden, Spain and Finland
Source: Eurostat

The difference between expenditure and revenue is the financial balance. It shows by how much the general government debt has increased over the period.

The revenue and expenditure of general governent as defined here refer primarily to actual payment transactions with other sectors. They differ from more comprehensive approaches in that:

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

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

The following points about difficulties with the data should be borne in mind when interpreting the data in the tables below and in comparing them with other sources: for 1996 only some highly aggregated main indicators have been available; the 1995 results for the Union are mainly Eurostat estimates which may be revised. The data for Germany after 1990 also include the new *Länder* and East Berlin. In order to take account of the territorial increase, the figures and growth rates from that year on have been recalculated on the basis of the 1991 situation. The pre-1985 data for the Netherlands are not fully comparable with the revised data from 1985 on. The revised data for Portugal from 1986 also include the Azores and Madeira. In comparisons over time, no adjustments have been made for the breaks in the time series resulting from these territorial changes.

Valuation of general government production

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

General government share in GDP

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

In the EU, general government expenditure accounted for between 65% (Sweden) and about 41% (Ireland and the United Kingdom) of GDP. Three countries (Denmark, the Netherlands and Finland) are situated between 56% and 58%. Since 1980 this share

increased in most Member States (i.e Denmark, Spain,France, Austria and Sweden) with a change in trend for the most of these countries after 1994. It decreased in Belgium and Ireland.

From 1980 to 1995, in the most Member States, general government expenditure, in %, have increased more rapidly than GDP, which is expressed by an elasticity of expenditure greater than one, (see table I.5.3).

Table I.5.3	General government expenditures															
	B	DK	D	EL	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EUR 15 (1)
	% of GDP															
1980	53.9	52.9	45.7	:	31.5	42.7	48.6	39.1	49.9	53.3	44.9	33.5	36.8	:	39.4	42.8
1990	50.1	55.2	42.9	:	41.8	46.4	40.5	49.3	:	53.1	45.5	41.1	44.8	58.3	38.2	45.3
1992	51.9	57.3	46.5	:	44.3	49.1	41.9	51.4	:	54.1	47.3	45.1	59.1	66.4	41.0	48.3
1993	52.9	59.7	47.5	:	47.5	51.3	41.9	53.1	:	54.3	50.1	46.1	60.3	70.1	41.6	49.7
1994	51.8	59.8	46.9	:	46.0	51.0	40.9	49.9	:	52.2	49.6	:	58.7	67.3	41.3	48.7
1995	50.6	58.2	54.3	:	:	50.5	:	48.2	:	56.3	50.7	:	56.8	65.1	41.2	51.1
	1980 = 100 (2)															
1995	120	149	178	:	:	155	:	163	:	146	154	:	202	:	144	:
	Elasticity of general government expenditures with respect to GDP															
1980/95	1.00	1.01	1.01	:	:	1.01	:	1.01	:	1.00	1.01	:	1.03	:	1.00	:
1990/95	1.00	1.01	1.05	:	:	1.02	:	1.00	:	1.01	1.02	:	1.05	1.02	1.02	:

(1) Estimate
(2) In national currency, deflated with the GDP deflator
Source: Eurostat

I.5.2. Functions of general government

Production

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

In the EU, in the shown period, about 17% of GDP was used for general government consumption (see table I.5.4). Among the Member States, the general government consumption was particularly high in Denmark (about 25% of GDP), while this figure was relatively low in Germany (12.1%), Luxembourg (1990: 13.8%) and the Netherlands (14.3%).

However, these differences are to some extent due to the way in which social healthcare services are recorded.

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

Table I.5.4	General government consumption, in % of GDP																
	B	DK	D	EL	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EUR 15 (1)
1980	17.7	26.7	14.0	13.4	12.7	18.1	19.7	15.0	16.7	17.6	18.0	12.6	18.0	:	21.6	16.9
1990	14.1	25.3	12.1	17.1	15.6	18.0	14.8	17.6	13.8	14.5	17.9	15.7	21.1	27.4	20.6	17.0
1995	14.8	25.1	12.1	:	16.6	19.3	14.7	16.3	:	14.3	19.5	:	21.9	25.8	21.3	16.8

(1) Estimate
Source : Eurostat

Employment

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

In the European Union, 16.8% of all employed or self-employed persons work in 1995 in the public sector. The percentage is particularly high in Denmark, at 30.5% and relatively small in Luxembourg, just 12.1%.

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

Consumption

In order to perform its functions, not only as producer of public services but also as provider

Table I.5.5	Employees of general government															
	B	DK	D	EL	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EUR 15 (1)
	% of total employment															
1980	18.9	28.5	14.6	:	:	20.0	14.4	14.7	:	14.6	:	:	17.9	30.7	:	11.2
1990	19.8	30.4	15.1	:	15.0	22.8	13.7	15.7	11.8	14.3	:	15.0	21.9	31.6	19.8	17.5
1992	19.3	30.6	16.1	:	15.9	23.6	14.2	15.9	11.5	13.8	:	15.3	24.5	32.0	19.4	17.7
1993	19.4	31.4	16.0	:	16.4	24.5	14.0	16.2	11.8	13.8	:	15.3	24.8	32.6	17.3	17.6
1994	19.0	31.0	15.6	:	16.4	24.8	13.3	16.3	12.0	13.8	:	15.2	25.1	32.0	15.3	17.2
1995	18.7	30.5	15.6	:	16.4	24.8	:	16.3	12.1	13.4	:	15.5	25.2	31.1	14.6	16.9
	1980 = 100															
1995	99	111	138	:	:	126	:	112	:	101	:	:	121	98	:	161

(1) Estimates
Source : Eurostat

of public infrastructure facilities (such as the road network), general government must use substantial quantities of goods and services as intermediate consumption or as capital goods, which it usually purchases in the market (see table I.5.6).

In the EU, purchases of goods and services by the government accounted in 1995 for 18.7% of general government expenditure. The figure is particularly high in the United Kingdom, at 35.4%. General government is therefore a significant customer of market producers, especially those in the construction branches.

Redistribution

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

This redistributive function of general government reflects its social function, particularly in relation to private households.In 1995 current transfers by general government to private households in the Union accounted for about 46% of general government expenditure, with a moderate upward trend in recent years (see Table I.5.6).

The proportion is highest in Germany, at 55.2%, and lowest in Portugal, at 26.1% (1990). The low percentages for Denmark (34.7%), the United Kingdom (35.6%) and Sweden (27.9%) are connected with the above-mentioned recording of social healthcare services.

Table I.5.6	Selected expenditures of general government, as % of total expenditure of general government															
	B	DK	D	EL	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EUR15[1]
	Compensation of employees [2]															
1980	20.9	33.2	21.4	:	27.4	28.1	21.9	21.5	19.7	20.4	19.8	28.6	:	:	29.2	24.6
1990	17.5	31.4	20.1	:	24.5	24.9	21.9	18.8		15.6	19.3	28.6	:	:	27.7	22.2
1995	18.5	28.9	19.3	:	:	24.8	:	16.5	:	15.9	19.1	:	:	:	19.8	20.2
	Purchases of goods and services [3]															
1980	14.2	23.9	18.6	:	:	21.3	:	18.2	20.3	15.5	28.2	20.7	:	:	29.8	20.8
1990	8.0	19.1	16.4	:	22.7	20.5	20.0	16.5	:	17.1	25.9	16.6	:	:	30.5	19.7
1995	7.6	19.6	15.0	:	:	18.5	:	14.7	:	17.6	25.5	:	:	:	35.4	18.7
	Current transfers to private households [4]															
1980	43.6	30.5	50.7	:	40.4	44.9	25.4	36.3	45.6	48.0	39.8	25.2	32.3	:	27.3	41.6
1990	45.8	31.7	50.5	:	34.5	45.8	33.9	37.0	:	48.5	41.7	26.1	35.2	28.0	28.9	40.7
1995	48.0	34.7	55.2	:	:	46.0	:	39.2	:	49.0	41.7	:	41.7	27.9	35.6	45.6

(1) Estimate
(2) without imputed social contributions
(3) intermediate consumption and gross fixed capital formation of the general government
(4) only social benefits
Source: Eurostat

I.5.3. Financing of general government

In 1995, general government revenue from taxes, social security contributions, charges etc. covered only 90% of expenditure, the shortfall being made up by additional borrowing.

The way in which government expenditure is financed is largely determined by the way in which social benefits are financed. In Denmark, Ireland and the United Kingdom, they are largely financed from tax revenue, so that the share of social security contributions in revenue is correspondingly small (2.9%, 14.1% and 18.8% respectively in 1995), and tax revenue accounts for a correspondingly higher pro-portion. In 1995 just under 60% of general government revenue in the EU came from taxes, except in the three abovementioned countries, where the figures were higher (see table I.5.7).

Table I.5.7	General government receipts															
	B	DK	D	EL	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EUR 15[1]
	% of the expenditures															
1980	83.8	93.9	93.7	99.8	91.6	100.0	77.4	78.1	99.3	92.6	96.2	114.3	109.2	:	92.0	92.4
1990	88.8	97.3	95.2	70.5	91.0	96.7	94.5	77.8	110.6	90.4	95.2	86.3	112.0	107.2	96.7	92.6
1995	91.8	96.7	92.6	76.3[2]	86.2[2]	89.6	95.9[2]	85.3	116.3[2]	92.1	88.3	83.3[2]	91.0	87.9	86.7	89.9
	Tax receipts, as % of general government receipts															
1980	66.2	88.6	58.6	62.0	47.9	54.5	75.0	60.6	65.0	54.7	66.5	46.9	70.2	:	79.8	61.9
1990	63.2	88.3	55.9	65.1	58.3	52.5	75.4	65.9	66.9	55.9	64.9	62.9	67.5	65.2	76.2	61.8
1995	64.5	86.9	53.0	59.1[2]	55.3[2]	53.9	76.6[2]	66.1	69.1[2]	53.3	60.8	69.0[2]	60.0	63.2	76.0	59.9
	Social contributions, as % of general government receipts															
1980	29.6	1.7	36.5	29.5	41.4	41.7	13.7	37.8	27.2	36.3	30.5	19.8	21.6	:	17.6	33.3
1990	34.3	2.9	38.7	30.1	32.9	43.0	14.2	33.7	26.5	35.4	31.8	27.9	23.1	24.2	18.0	32.8
1995	33.8	2.9	41.4	36.2[2]	34.4[2]	42.6	14.1[2]	31.6	26.0[2]	40.8	35.4	26.9[2]	28.5	24.6	18.8	35.1

(1) Estimates
(2) 1994
Source : Eurostat

Taxes and social contributions

The EU average ratio of taxes and social contributions (which will be treated in detail hereafter), in per cent of gross domestic product, increased in 1996 by 0.4 percentage points and reached 42.4% of GDP. This value is higher than the previous peaks of 1993 and 1995 which amounted to around 42% of GDP. Taking a longer term view reveals that during the years 1980 1996, the ratio rose by more than three percentage points from 38.7 to 42.4% of GDP (see figure I.5.1, table I.5.8).

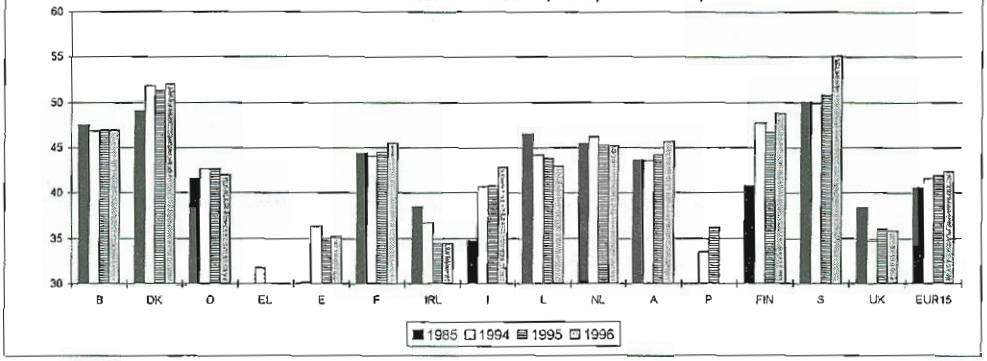
In 1996, seven of the thirteen Member States, for which data are already available, showed an increase in the tax and social contribution ratio in GDP (see table I.5.9). The strongest rise (+4.3 points) was registered for Sweden, whose tax and social contribution ratio became the highest in the EU. Below-average increases were registered in Spain (+0.2 points), whereas values for Belgium and Ireland remained stable.

Germany and Luxembourg recorded the largest decreases in the tax and social contribution ratio, falling by 0.6 and 0.8 percentage points

Table I.5.8	GDP-proportions of taxes and social contributions in the Union, 1980-1996, in %		
	Taxes	Social contributions	Total
1980	25.5	13.2	38.7
1981	26.0	13.3	39.2
1982	26.2	13.6	39.8
1983	26.5	13.9	40.3
1984	26.8	13.7	40.5
1985	26.8	13.7	40.6
1986	26.7	13.8	40.5
1987	27.0	13.9	41.0
1988	27.0	13.7	40.8
1989	27.3	13.6	40.9
1990	27.0	13.7	40.7
1991	27.0	14.1	41.1
1992	27.1	14.5	41.6
1993	27.0	14.9	41.9
1994	26.8	14.8	41.6
1995	27.0	15.0	42.0
1996	27.2	15.3	42.4

Source: Eurostat

Figure I.5.1: GDP-proportions of taxes and social contributions in the Member States of the Union, 1985, 1994 - 1996, in %



Source : Eurostat

respectively to 42% and 43% of GDP; the Netherlands and United Kingdom saw lower ratios by 0.1 and 0.2 points respectively.

A comparison of the components of the tax and social contribution ratio shows a lower tax ratio in GDP in Germany, Luxembourg and the United Kingdom. The steepest increases were in Finland (+2.5 points) and Sweden (+3.1 points) (see tables I.5.10 and I.5.11).

A reduction in the share of social contributions in GDP was recorded in Belgium, Ireland, Luxembourg, the Netherlands, Finland and the United Kingdom.

In the other seven EU countries providing 1996 data the social contribution ratio went up, Italy (+1.7 points) and Sweden (+1.2 points) showing the strongest increases.

As can be seen in table I.5.9, the level of taxes and social contributions also varies considerably. Two Member States (Denmark with 52.0% and Sweden with 55.2%) have taxes and social contributions of over 50% of GDP. Between 42% and 49% lie Belgium, Germany, France, Italy, Luxembourg, the Netherlands, Austria and Finland. All other Member States levy taxes and social contributions between 32% and 36% of GDP. An interpretation of these figures, however, should be performed with care (see box).

Table I.5.10 gives information on the evolution of the most important taxes in the EU-Member States, expressed in per cent of GDP.

Table I.5.9	Taxes and social contributions in the Member States of the Union, in % of GDP																
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
B	44.4	44.9	46.5	46.4	47.4	47.5	46.9	47.3	45.9	44.4	44.7	44.8	45.0	45.7	46.3	47.0	47.0
DK	45.6	45.5	44.8	46.5	47.7	49.1	50.9	51.6	51.6	50.6	48.7	48.9	49.2	50.3	51.8	51.3	52.0
D	41.6	41.4	41.5	41.0	41.3	41.6	40.9	41.1	40.8	41.3	39.5	41.2	41.9	42.4	42.7	42.6	42.0
EL										28.5		29.4	30.3	30.8	31.8		
E	25.8	26.8	26.7	29.7	29.1	30.2	31.1	33.2	33.5	35.4	35.4	35.7	37.5	36.7	36.4	35.0	35.2
F	41.7	41.9	42.8	43.6	44.6	44.5	44.0	44.5	43.8	43.7	43.7	43.9	43.7	43.9	44.1	44.5	45.5
IRL	34.4	35.5	37.0	38.6	39.5	38.6	38.1	38.3	38.9	35.8	35.4	35.8	36.0	36.0	36.7	34.5	34.5
I	30.7	31.7	34.1	35.9	35.0	34.8	35.3	36.1	36.6	38.3	38.8	39.9	42.1	43.5	40.7	40.9	42.9
L	46.3	47.8	49.2	51.8	50.1	46.6	43.9	44.4	42.9	42.0	43.2	42.5	41.7	43.8	44.2	43.8	43.0
NL	46.0	45.4	46.3	47.2	45.7	45.5	45.9	48.2	48.4	45.4	45.1	47.5	47.4	48.4	46.2	45.3	45.2
A	41.9	42.9	41.9	41.0	42.7	43.6	43.4	43.0	43.0	41.9	41.9	42.4	43.8	44.7	43.6	44.2	45.7
P	25.6	27.1	28.6	30.3	30.0	29.3	30.9	30.1	31.9	32.4	33.1	34.5	36.9	35.4	33.5	36.2	
FIN	36.9	38.9	37.9	37.6	39.2	40.9	42.2	40.3	43.3	43.4	45.4	46.8	46.8	45.5	47.7	46.8	48.8
S	49.1	50.0	49.2	50.4	50.2	50.0	51.8	54.6	54.6	56.3	55.8	52.8	51.2	50.3	49.9	50.9	55.2
UK	36.1	38.2	38.7	38.4	38.8	38.5	37.8	37.1	36.9	36.7	37.0	36.4	35.1	34.1	34.8	36.1	35.9
EUR 15	38.7	39.2	39.8	40.3	40.5	40.6	40.5	41.0	40.8	40.9	40.7	41.1	41.6	41.9	41.6	42.0	42.4

Source: Eurostat

Table I.5.10	Structure of tax receipts in the Member States of the Union, in % of GDP															
	Current Taxes on income and wealth				Taxes linked to production and imports excl. VAT				VAT on products				Total			
	1985	1994	1995	1996	1985	1994	1995	1996	1985	1994	1995	1996	1985	1994	1995	1996
B	19.6	17.8	18.3	18.2	4.2	5.2	5.0	5.4	6.8	6.5	6.4	6.5	32.0	31.1	31.2	31.6
DK	28.6	31.7	31.4	31.6	8.2	7.9	7.9	8.1	9.2	9.5	9.4	9.7	47.2	50.1	49.7	50.4
D	12.6	11.1	11.3	10.4	5.8	6.0	5.9	5.8	5.9	6.4	6.1	6.1	25.3	24.5	24.3	23.3
EL	5.4	6.8	:	:	14.2	7.9	:	:	0.0	6.2	:	:	20.6	22.1	:	:
E	8.5	11.5	11.4	11.5	9.5	5.1	4.9	4.8	0.0	5.1	5.1	5.2	18.2	22.7	22.4	22.4
F	9.1	9.4	9.5	10.0	6.9	7.4	7.4	7.6	8.1	6.7	6.8	7.2	25.2	24.9	25.2	26.0
IRL	14.3	15.5	14.0	14.6	9.6	7.7	7.4	7.3	7.3	6.6	6.5	6.5	32.6	31.2	29.3	29.7
I	13.1	15.1	14.9	15.3	4.2	6.6	6.6	6.8	4.8	5.1	5.2	5.1	22.8	27.7	27.8	28.1
L	18.3	15.4	15.2	14.7	9.9	10.8	10.5	10.3	5.0	5.2	5.4	5.9	34.5	32.5	32.2	31.7
NL	12.7	14.0	13.1	13.5	4.2	5.6	5.6	5.8	6.8	6.2	6.1	6.5	25.0	27.2	26.2	27.1
A	13.0	11.7	12.5	13.6	7.4	7.8	7.5	7.3	9.3	8.5	7.5	8.0	29.8	28.0	28.3	29.7
P	7.7	8.6	9.4	10.5	13.2	7.0	7.1	:	0.0	6.2	7.2	:	21.1	23.1	24.7	:
FIN	17.2	17.7	17.8	19.7	14.4	14.6	6.3	6.2	0.0	0.0	7.6	8.4	31.7	32.5	32.1	34.6
S	21.0	21.2	21.6	22.5	9.5	6.8	7.3	8.6	7.0	8.1	7.1	8.1	37.5	36.2	36.8	39.9
UK	15.5	13.7	14.6	14.6	9.7	7.2	7.6	7.5	5.3	6.6	6.5	6.6	31.7	28.4	29.7	29.6
EUR 15	13.1	12.8	13.0	13.1	7.1	6.7	6.5	6.6	5.7	6.3	6.3	6.4	26.8	26.8	27.0	27.2

Source : Eurostat

In 1996, changes of one percent or more in GDP occured in four cases: more than one percentage point rise in 'taxes on income and wealth' in Austria, Portugal and Finland and in 'taxes linked to production and imports' in Sweden. Taxes on income and wealth fell by almost one percentage point in Germany.

The development of the structure of social contributions is summarized in table I.5.11 for the years 1985 and 1994 1996. The average ratio of the social contributions to the GDP for those 13 countries with detailed data increased in 1996 to 15.3% of GDP. Within this ratio the structure has changed with an increasing share by 'Employers' and a stable share by 'Employees' and 'Others'.

The largest increase occured in Italy (higher employer contributions amounting to 1.6 point), the strongest drop for Dutch 'Employees' social contributions (-0.9 point).

Borrowing of the government

Besides financing of the government expenses through taxes and social contributions (see table I.5.7), the government borrowing has also

Table I.5.11	Social contributions in the Member States of the Union, in % of GDP															
	Employers				Employees				Others				Total			
	1985	1994	1995	1996	1985	1994	1995	1996	1985	1994	1995	1996	1985	1994	1995	1996
B	9.0	9.4	9.5	9.2	5.2	4.8	4.7	4.6	1.3	1.6	1.6	1.6	15.5	15.8	15.8	15.4
DK	0.9	0.3	0.3	0.3	1.0	1.3	1.3	1.3	0.1	0.0	0.1	0.1	1.9	1.7	1.6	1.7
D	7.5	8.1	8.1	8.2	6.4	7.1	7.1	7.2	2.4	3.0	3.1	3.4	16.3	18.2	18.3	18.7
E	8.5	9.3	8.7	9.0	2.0	2.3	2.1	2.2	1.5	2.0	1.7	1.7	12.0	13.6	12.6	12.8
F	12.5	11.8	11.9	11.9	5.2	5.8	5.8	5.9	1.6	1.5	1.5	1.6	19.3	19.1	19.3	19.5
IRL	3.6	3.1	3.0	2.9	2.4	2.2	2.0	1.7	0.0	0.3	0.2	0.2	6.0	5.5	5.2	4.9
I	8.6	8.7	8.6	10.2	2.3	2.8	2.8	2.9	1.1	1.6	1.7	1.7	12.0	13.0	13.1	14.8
L	6.0	5.5	5.4	5.3	4.4	4.5	4.6	4.5	1.7	1.7	1.6	1.6	12.2	11.7	11.7	11.3
NL	7.9	3.2	3.5	3.8	8.8	12.1	12.0	11.1	3.8	3.8	3.5	3.3	20.5	19.0	19.0	18.1
A	6.8	7.5	7.7	7.8	5.8	6.8	6.8	6.8	1.2	1.3	1.3	1.4	13.8	15.6	15.9	16.0
FIN	7.0	10.2	10.3	10.0	1.5	3.3	3.1	3.1	0.7	1.7	1.4	1.2	9.2	15.3	14.7	14.3
S	11.9	12.5	12.0	12.7	0.0	0.9	1.6	2.2	0.6	0.3	0.4	0.4	12.5	13.7	14.1	15.3
UK	3.4	3.5	3.5	3.4	3.2	2.6	2.7	2.6	0.2	0.2	0.2	0.2	6.8	6.3	6.4	6.3
EUR 15	8.0	8.1	8.1	8.3	4.3	5.1	5.1	5.1	1.4	1.8	1.9	1.9	13.8	14.9	15.0	15.3

Source : Eurostat

The significance of the ratio of taxes and social contributions

The ratio of taxes and social contributions against the GDP (ratio) is often seen in public discussion as an indicator for government activity or for the individual tax burden on citizens or enterprises. This conclusion, however, only holds to a limited extent as important economic variables do not enter into this ratio. For example, the financing of government expenditure through an increase in public debt instead of taxes, lowers the ratio in the short run. With an assumed repayment of the debts, however, this increase in the ratio is only postponed.

A high ratio need not necessarily indicate a high (net) burden on enterprises or taxpayers. Statements concerning this can only be made if public expenditure is also taken into account. For the taxpayer, for example, it makes no financial difference whether support for families is granted through child benefit or through tax allowances. The tax ratio, however, is affected. In the latter case it would be lower than in the first mentioned case of child benefit. A similar reasoning applies to enterprises which either pay low taxes or receive subsidies in connection with the payment of high taxes.

Finally it is not justified to derive statements on government activity from tax ratios, because government intervention in the economic sphere need not necessarily be accountable in the budget.

to be taken into consideration. A further burden on the economy by public net borrowing is the financial balance of general government as a percentage of GDP.

Table I.5.12 shows considerable differences within the Union. The data shown in the table are revised values compared with the sector accounts. They have been taken from the Protocol on excessive deficit procedures following article 104c of the Treaty establishing the European Community (September 1997 notification; March 1997 for France).

These data show that Luxembourg enjoys the most favourable situation, in that it has constantly achieved a net surplus, in the period 1990-1996.

In 1996, all Member States reduced their Government deficit, with the exception of Germany. The convergence among Member States started years ago and has now been nearly achieved.

Table I.5.12 also shows general government debt at the end of the year as a percentage of GDP. (Debts between government institutions are not included.)

Table I.5.12 — Government deficit and debt

	B	DK	D	EL	E	F	IRL	I	L	NL	A	P	FIN	S	UK
	Government deficit (-) /surplus (+), as % of GDP														
1991	-6.7	-2.1	-3.3	-11.4	-4.9	-2.2	-2.2	-10.2	1.9	-2.9	-2.6	-6.4	-1.5	-1.1	-2.6
1992	-7.2	-2.1	-2.8	-12.3	-3.5	-3.8	-2.5	-9.7	0.8	-3.9	-1.9	-5.5	-5.9	-7.8	-6.3
1993	-7.1	-2.7	-3.2	-13.8	-6.7	-5.6	-2.4	-9.6	1.7	-3.2	-4.2	-6.1	-8.0	-12.3	-7.9
1994	-4.9	-2.6	-2.4	-10.4	-6.3	-5.6	-1.7	-9.3	2.6	-3.8	-4.9	-6.0	-6.1	-10.3	-6.8
1995	-3.9	-2.4	-3.3	-9.8	-6.4	-4.8	-2.1	-8.0	2.0	-4.0	-5.1	-5.8	-5.0	-7.1	-5.5
1996	-3.2	-0.8	-3.4	-7.6	-4.4	-4.1	-0.4	-6.8	2.6	-2.3	-4.0	-3.1	-3.1	-3.7	-4.9
	Government debt, as % of GDP (1)														
1991	130.3	64.6	41.5	85.4	45.8	35.8	97.5	101.3	4.2	78.8	58.6	70.2	23.0	53.0	35.7
1992	130.6	70.3	44.1	89.4	48.0	39.6	92.0	108.7	5.2	79.6	58.3	63.8	41.5	67.1	41.8
1993	135.1	82.1	48.0	111.8	60.0	45.6	96.3	119.1	6.1	81.2	62.7	63.1	58.0	76.0	48.5
1994	133.5	78.4	50.2	110.4	62.6	48.4	89.1	124.9	5.7	77.9	65.3	63.8	59.6	79.3	50.4
1995	131.2	73.8	58.0	111.8	65.3	52.8	82.2	124.4	5.9	79.1	69.5	66.5	58.1	78.2	53.8
1996	128.9	71.6	60.4	112.7	70.0	56.3	72.7	123.8	6.6	77.2	70.2	65.6	58.0	77.8	54.4

(1) Debt held by non-public institutions at the end of the year
Source: Eurostat, Notification of September 1997 (France: March 1997)

With 126.9% in 1996, Belgium has the highest government debt. This means that the total GDP of a particular year would, in accounting terms, be insufficient to pay off the government debt in full.

The government debt is also high in Italy (123.8% of GDP) and Greece (112.7%). The most favourable situation is in Luxembourg (6.6%).

I.6. Labour market in the Union

I.6.1. Population

At the beginning of 1996, more than 372 million people lived in the European Union. This is almost as much as the combined populations of the United States (264 Mio) and Japan (126 Mio). Regarding population, Germany is the largest EU Member State: one out of every five inhabitants of the Union is German. The United Kingdom, France and Italy are also large nations, each of them accounting for just over 15% of the total EU population. More than two-thirds of all inhabitants live in these four Member States alone. With 0.1% of the total EU population, Luxembourg is the smallest Member State, followed by Ireland with 1.0%.

Table I.6.1	Components of population change 1995, in %		
	EUR 15	USA	JPN
Natural increase	0.08	0.57	0.24
+ Net migration	0.20	0.31	-0.04
= Population change	0.28	0.88	0.20

Sources: Eurostat, demographic statistics; Bureau of the Census, Population Division (USA); Ministry of Health and welfare (Japan).

In 1995, the population of the EU increased by 0.28%. The EU population thus grew faster than that of Japan (+0.20%), but much slower than the US population (+0.88%). Table I.6.1 shows that net migration is the most important cause of population growth in the Union. Net migration is also important in the US, but natural increase is the major cause of the strong population growth there. In Japan, net migration was negative, meaning that more people emigrated than immigrated.

Table I.6.2 shows the cumulated growth rates per 5-year period between 1970 and 1995. Population growth in the European Union has speeded up in recent years, after slowing down in the 1970s and early 1980s. In the first half of the 1990s, the EU population grew almost twice as fast as in the first five years of the previous decade. This was mainly due to increasing immigration. In the US, population growth remained at a quite high rate, while in Japan, it slowed down substantially during this entire period.

In the first half of 1990s, Luxembourg had the biggest population increase (+7.3%) in the Union. This was mainly caused by immigration. Other Member States with high population increases were Austria, the Netherlands and Sweden. In Austria and Sweden, net migration was the most important growth factor, while in the Netherlands natural growth was the main cause. In Portugal the number of inhabitants increased by only 0.2%. Here, net migration was very low.

Population density reflects the ratio between number of inhabitants and surface area (see table I.6.3). Japan is almost three times as densely populated as the EU, while the United States is about four times less densely populated than the Union.

Within the EU there is a wide variation in population density. On the one hand, the Netherlands and Belgium are even more crowded than Japan. On the other hand, the Finns and Swedes have even more space per inhabitant than citizens of the US.

Table I.6.2	Cumulated variation rates of annual average population, in %																	
	B	DK	D(1)	EL	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EUR 15	USA	JPN(2)
1971-1975	1.3	3.0	0.8	2.3	5.2	4.1	7.5	3.0	5.6	5.0	1.8	2.1	1.9	2.2	1.2	2.6	5.3	7.5
1976-1980	0.7	1.3	-0.9	6.7	5.4	2.2	7.2	2.0	1.7	3.6	-0.6	9.4	1.5	1.5	0.1	1.7	5.5	4.7
1981-1985	0.0	-0.2	-0.6	3.5	3.0	2.7	4.5	0.4	0.8	2.6	0.4	3.0	2.6	0.5	0.6	1.1	5.1	3.4
1986-1990	1.1	0.5	2.3	2.3	1.1	2.6	-0.6	0.2	4.1	3.2	2.0	1.1	1.7	2.5	1.6	1.6	4.8	2.0
1991-1995	1.7	1.8	2.8	2.9	0.9	2.5	2.6	1.0	7.3	3.4	4.1	0.2	2.4	3.1	1.8	2.1	5.4	1.2

(1) New German Länder included
(2) For Japan, 1991-1994
Sources: Eurostat (demographic statistics); Bureau of the Census, Population Division (USA); Ministry of Health and welfare (Japan).

In table I.6.4 the population is split into several age-groups. In all three areas the proportion of young persons (0-14) has declined in the last 25 years. However, in the USA the share of this group remains much higher than in the Union or Japan. This is partly due to the stronger natural growth in the United States. Within the European Union, Spain, Italy and Portugal were the Member States in which the share of young people declined the most. In all three economic areas but especially in Japan, the proportion of elderly people (65+) increased considerably.

The share of 15-64 year-olds can be seen as an indicator for the potential labour force. In the European Union and in the USA this proportion was several percentage points higher in 1995 than in 1970, while in Japan it was practically the same in both years. However, in 1995 Japan's share was still higher than that of the Union and the USA.

The ageing index (65+/15-64) increased in all three areas. In Japan it even doubled in 25 years. In the EU it nevertheless remained higher than in Japan and the US.

The actual dependency ratio is difficult to calculate for the Union as a whole, because the age of entry into and exit from the labour market varies by country. For this comparison, the ages used are 0 to 14 and 65 plus, with the working population aged between 15-64. This proxy dependency ratio of all three areas has dropped in the last 25 years, with the EU being most affected. In Japan the fall in the share of children was almost offset by a rise in that of the elderly.

Table I.6.3	Population-density 1996 (Inhabitants/km^2)
B	332
DK	122
D(1)	229
EL	80
E	78
F	107
IRL	53
I	190
L	160
NL	378
A	96
P	108
FIN	15
S	22
UK	243
EUR 15	117
USA	28
JPN	332

(1) New German Länder included
Sources: Eurostat (demographic statistics); Bureau of the Census, Population Division (USA); Ministry of Health and welfare (Japan).

Table I.6.4	Population by major age-groups, %									
	0 - 14		15-64		65+		65+/15-64		65+ and 0-14/15-64	
	1970	1995	1970	1995	1970	1995	1970	1995	1970	1995
EUR15(1)	24.7	17.6	63.1	67.0	12.2	15.4	19.3	23.0	58.5	49.2
USA	28.3	22.0	61.9	65.3	9.8	12.8	15.8	19.6	61.2	53.3
JPN	24.0	16.2	69.0	69.6	7.0	14.2	10.1	20.4	44.9	43.7

(1) New German Länder included
Sources: Eurostat, (demographic statistics); Bureau of the Census, Population Division (USA); Ministry of Health and welfare (Japan).

I.6.2. Employment

In this sub-section, employment includes employers, the self-employed, unpaid family workers and employees.

In 1996, the number of people employed in the Union slightly increased. As table 1.6.5 shows, the modest 0.3% growth in the Union was lower than employment growth in the United States or Japan. Clearly, the difference in employment growth between the three economic areas in the 1990s reflects their somewhat divergent business cycles.

Table I.6.5	Annual variation in employment, in %		
	EUR15	USA	JPN
1990	2.3	0.4	2.0
1991	0.4	-0.9	1.9
1992	-1.6	0.6	1.1
1993	-1.4	1.5	0.2
1994	-0.4	2.3	0.0
1995	0.8	1.5	0.1
1996	0.3	1.4	0.5

Source Eurostat, OECD

After three years of decreasing employment, the European labour market seemed to take a turn for the better in 1995. The small increase in the number of jobs in 1996 shows, however, that this upswing did not have much impetus. The prolonged growth in the number of jobs in the United States illustrates on the other hand that the recovery from the recession in the early 1990s is remarkably strong. The employment increase in Japan - modest as it is - indicates that Japan is overcoming its problems of the past few years.

There were major differences among the EU-countries in 1996 (see table I.6.6). In most countries employment increased, in Ireland even by as much as 3.6%. Austria, Belgium and Sweden, on the other hand, experienced a drop in the number of employed persons, in Sweden by more than 3%.

The underlying trends also differ among the Member States. The Netherlands is the only country where employment has risen continuously since 1990, in total by almost

Part-time employment in the EU

Part-time employment, as a % of total employment			
	1996	1990	1996/1990
NL	38.1	31.8	120
UK	24.6	21.7	113
S	24.5	:	:
DK	21.5	23.3	92
EUR15	16.3	13.5	121
F	16.0	11.9	134
A	14.9	:	:
B	14.0	10.9	128
FIN	11.6	:	:
IRL	11.6	8.1	142
P	8.7	6.0	145
S	8.0	4.9	162
L	7.7	6.9	111
I	6.6	4.9	135
EL	5.3	4.1	129

Note: For Germany, no figures are available
Source: Eurostat, OECD

The share of part-time jobs varies widely between Member states. Part-time work is most important in the Netherlands, the UK, Sweden and Denmark, where more than one in every five employed persons works part-time. In Luxembourg and several of the Mediterranean countries, on the other hand, fewer than one in ten workers is a part-timer.

Part-time work is especially prevalent among women. Almost four-fifths of all part-time workers are female, whereas only about one-third of all full-timers is female.

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In practically all the Member states, the share of part-time work is increasing; this rise is fastest in Spain, Portugal and Ireland.

Table I.6.6	Annual variations rate in employment in the Member States, in %															
	B	DK	D (2)	EL	E	F	IRL	I (1)	L	NL	A (1)	P (1)	FIN	S	UK	EUR15
1990	1.1	1.0	5.8	1.3	2.9	0.6	3.6	2.0	2.4	4.1	2.2	1.8	-0.1	0.0	0.9	2.3
1991	2.6	-0.8	0.8	-2.3	0.6	1.1	-0.1	1.4	3.3	2.3	1.2	4.1	-5.2	-2.0	-2.1	0.3
1992	1.4	0.1	-1.3	1.3	-1.3	-0.4	1.3	-4.2	1.5	3.0	2.3	-6.8	-7.2	-4.3	-1.7	-1.6
1993	-0.7	-2.6	-1.1	1.0	-4.7	-0.5	0.5	-1.4	0.0	0.4	0.9	-1.0	-6.1	-5.8	-1.1	-1.4
1994	0.1	-1.2	-0.8	1.9	-1.2	-0.9	4.5	-1.5	-0.1	1.0	5.2	-0.5	-0.7	-0.9	0.7	-0.3
1995	1.2	2.5	-0.2	0.9	2.6	1.6	4.6	-0.4	-1.6	1.2	-1.8	-0.5	2.2	5.3	1.1	0.8
1996	-0.1	0.8	-1.2	1.3	2.6	0.6	3.6	0.4	2.0	2.2	-1.6	0.3	2.4	-3.5	0.9	0.3
1989-1996	5.7	-0.3	1.8	5.4	1.2	2.1	19.4	-3.8	7.6	14.9	8.5	-3.0	.	-11.1	-1.4	0.3

(1) The series contains breaks for Austria (1994-1995) , Portugal (1991-1992) and Italy (1991-1992).
(2) The figures for Germany refer to Germany after the unification, except for the 1989 and 1990 figures.
Source: Eurostat

15%. But in spite of a minor setback in 1991, employment growth was strongest over this period in Ireland (almost 20%). In both the Netherlands and Ireland, the strong growth is partly due to the increasing importance of part-time employment. In Denmark, the UK and especially Italy, Finland and Sweden the employment situation deteriorated in the 1990s.

Table I.6.7	Employment by activity					
	Shares in 1996			Percentage point changes 1990 - 1996 (1)		
	EUR15	USA	JPN	EUR15	USA	JPN
Agriculture	5.2	2.8	5.5	-1.5	0.0	-1.7
Industry	30.3	23.9	33.3	-2.8	-2.4	-0.8
Services	64.5	73.3	61.2	4.3	2.4	2.5
Total	100.0	100.0	100.0	0.0	0.0	0.0

(1) For Germany, no comparable figures available
Source: Eurostat, OECD

Employment by activity

As regards the proportion of people working in agriculture, industry and services, the employment structures in Japan and the EU appear to be fairly similar (see table I.6.7). In both economies 5-6% of the economically active population works in agriculture, while about one-third has a job in industry. The majority of the workforce (over 60%) works in the services sector. Services provide substantially more work in the United States than in the other two economies. Almost three-quarters of the workforce is employed in the services sector. Thus, industry and agriculture play a relatively smaller role in the USA.

All three economies show a gradual shift in employment towards services. In the European Union in the 1990s, the employment shift was mainly from industry towards services (see table I.6.8), with transfers from agriculture playing a much less important role. Within the Union, the shift towards the services sector was particularly strong in Austria, Portugal, Luxembourg and Spain. In contrast with the general picture, employment in Portugal shifted mainly from agriculture to services.

Table I.6.8 illustrates the variations in employment structure among EU-countries. Clearly, Greece still has the most agricultural economy, with one in every five workers employed in agriculture. The same holds to a lesser extent for Ireland and Portugal, where the share of agriculture is more than 10%. Since 1990 however, the share of the labour

Table I.6.8	Employment by activity in the Member States, shares in 1996															
	B	DK	D	EL	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EUR15
Agriculture	2.7	3.9	3.3	20.9	8.6	4.9	11.2	6.7	2.6	3.8	7.4	12.2	7.9	3.3	2.0	5.2
Industry	27.6	26.4	37.5	22.9	29.4	26.5	27.3	32.2	22.9	23.2	30.3	31.3	27.1	25.9	27.4	30.3
Services	69.7	69.7	59.1	56.8	62.0	68.7	61.5	61.1	74.5	73.0	62.3	56.5	65.0	70.8	70.6	64.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Employment by activity in the Member States, percentage point changes 1990-1996															
Agriculture	-0.5	-1.7	-0.4	-3.6	-3.3	-1.6	-4.1	-2.4	-1.1	-1.0	-0.5	-5.9	-0.2	-0.2	-0.2	-1.5
Industry	-3.1	-1.0	-2.5	-3.0	-4.1	-3.9	-1.4	-0.2	-6.5	-3.2	-6.7	-2.8	-3.6	-3.4	-4.9	-2.8
Services	3.6	2.7	2.9	6.6	7.4	5.5	5.5	2.6	7.5	4.2	7.2	8.7	3.8	3.8	5.1	4.3
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Eurostat

force engaged in agriculture has dropped by more than the average in these three countries, so that the differences between Member States have narrowed. At the other end of the scale, in Belgium, Luxembourg and the United Kingdom agriculture is least important as a provider of jobs, accounting for less than 3% of total employment. Even in these countries, however, the shrinkage in the agricultural workforce continues.

Germany, Italy, Portugal, Austria and Spain have the highest shares of industrial employment. In these countries, around one-third of the workforce is employed in industry. Greece, Luxembourg and the Netherlands have the least industrial economies. Just over one-fifth of the work force is employed in industry in these countries.

The share of services in employment is highest, at almost three-quarters, in the Netherlands and Luxembourg, with Sweden and the UK following close behind. In these Member States, the share of the workforce employed in the services sector is comparable to that of the United States. Services claim the lowest share in Greece and Portugal, although even there they still account for some 57% of jobs.

Across the Union, there is a trend towards greater homogeneity in the employment structure by country. In both Greece and Portugal, for instance, the increase in the share of services since 1990 has been above the EU-average.

I.6.3. Unemployment

The decrease in the number of unemployed in the Union in 1995 was short-lived. In 1996 unemployment in the EU rose by 2.1%, thus continuing the overall 1990s trend of increasing numbers of unemployed. In the US, unemployment fell for the fourth year running, although at a slower pace than in previous years. In Japan, unemployment growth remained quite high, albeit from a much lower level (see table I.6.9 and figure I.6.1).

Table I.6.9	Annual variation rates of the number of unemployed, in %		
	EUR15	USA	JPN
1992	12.6	11.4	4.6
1993	16.0	-6.9	16.5
1994	3.9	-8.4	15.9
1995	-3.1	-7.4	9.3
1996	2.1	-2.3	7.2

Source: Eurostat, OECD

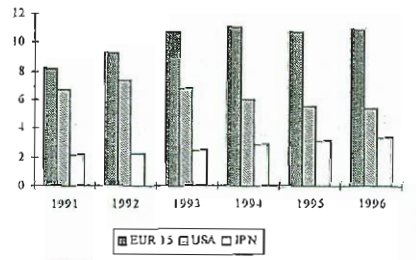
Within the Union, unemployment rose especially sharply in Germany, France, Austria and Sweden, with increases of more than 7%. In some other Member States unemployment fell, most markedly in the Netherlands, the United Kingdom and Finland.

Spain and Germany each accounted for almost one-fifth of total EU unemployment in 1996. France's share in total unemployment was almost 18% and Italy's some 15%. Almost 75% of all unemployed persons in the EU lived in one of these four countries (compared with 64% of all persons).

The increase in the number of unemployed persons caused a rise in the EU's unemployment rate in from 10.8% to 10.9% (see figure I.6.1). The unemployment rate in Japan also increased, but remains at a relatively low level. The US rate continued its downward trend, which started in 1993.

The rising unemployment rate in the EU stems from increasing rates in Germany, France, Luxembourg, Austria, Sweden and, to a lesser extent, Italy. In Spain, Finland, the Netherlands and the UK, the unemployment rate clearly fell.

Figure I.6.1: Unemployment rate (as a percentage of total labour force)



Source: Eurostat, OECD

The rates in Ireland, Finland and above all Spain remain well above the EU-average.

In 1996, more than a quarter of the total number of unemployed in the Union consisted of people between 15 and 24 years of age (see table I.6.10). This proportion was slightly higher than in Japan, but much lower than in the US.

Table I.6.10	Youth unemployment (15-24 years), as a percentage of the total unemployment		
	EUR15	USA	JPN
1990	34.4	34.5	26.9
1991	32.4	32.8	28.7
1992	30.6	30.9	27.5
1993	29.6	31.1	27.7
1994	28.2	33.7	25.5
1995	27.0	35.0	25.8
1996	26.3	35.2	25.6

Source: Eurostat, OECD

In the EU, the share of youth unemployment has fallen steadily since 1990, so that in 1996 it was some eight percentage points lower than in 1990.

In the US, it fell in 1991 and 1992, but increased from 1993 onwards, so that the 1996 proportion of young unemployed exceeded the 1990 figure.

In 1996, Japan, like the US, showed an increase in the proportion of young people in total unemployment. The level in 1996 was slightly lower than that of 1990.

The decline of the share of young people in total unemployment in Europe was not caused

by a decrease in youth unemployment itself: the youth unemployment rate in Europe increased further. The falling share was mainly due to the fact that unemployment rose fastest amongst people aged 25 years and over. The US showed the opposite development. The youth unemployment rate went down, but the share of young people in the total number of jobless increased. Here the reduction in unemployment was fastest among adults.

The share of young people in the total number of unemployed was highest in Italy and Greece (more than 38%) and lowest in Austria (less than 20%).

In the Union, the proportion of women in the total number of jobless was close to 50% in 1996. Table I.6.11 shows that this share was lower in the US and Japan. In the EU, this has declined a few percentage points since 1990, contrary to the United States.

Greece had the highest share of women amongst its unemployed: over 60% in 1996. This share was smallest in Ireland and the United Kingdom, where it was less than 40%.

Table I.6.11	Female unemployment as a percentage of total unemployment		
	EUR15	USA	JPN
1990	52.0	44.7	42.4
1991	50.4	42.8	43.2
1992	49.1	42.7	42.3
1993	47.5	43.5	42.8
1994	48.0	45.4	41.5
1995	49.0	46.2	41.4
1996	48.6	46.4	40.6

Source: Eurostat, OECD

Unemployment in the EU by occupation

Last occupation of unemployed persons in the EU as a percentage of total EU-unemployment

Occupations (ISCO)	%	
	1991	1995
Armed forces	0.1	0.2
Legislators, senior officials and managers	2.5	2.8
Professionals	2.8	3.3
Technicians and associate professionals	3.7	4.8
Clerks	6.9	8.3
Service workers and shop and market sales workers	11.0	10.5
Skilled agricultural and fishery workers	1.1	1.7
Craft and related trades workers	11.7	15.1
Plant and machine operators and assemblers	5.9	7.4
Elementary occupation	15.5	16.3
No previous work	:	:
No answer/not applicable	:	:

Source: Eurostat, OECD

Two out of ten unemployment in the Union in 1995 did not have any previous working experience. Some 31% of the unemployment consisted of craft and related trades workers and people with elementary occupations. In comparison with 1991, especially the share of craft and related trades workers and of plant and machine operators and assemblers has risen. On the other hand, the share of unemployed services and sales workers fell slightly.

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

I.7.1. Consumer prices

For a long time, inflation has been considered as a major concern for the European economies. Nowadays, it seems to be curbed but still remains one of the main topics in the economic policy. Indeed, one of the criteria to be in at the third stage of the EMU is based on progress made by the Member States in the field of price stability.

Trends in the overall index according to national indices

To some extent, the Union as a whole curbed price growth in recent years. As the data in table I.7.1 on the consumer price index show, since the beginning of the 1990s there has even been a slowdown in annual inflation for the Union (5.2% in 1991; 4.2% in 1992; 3.4% in 1993; 3.1% in 1994; 3.1% in 1995; +2,5% in 1996).

Over the past eleven years, it is Japan which has had the lowest inflation rate (up by 14.7 percentage points between 1985 and 1996), with the Netherlands achieving the best result (+22.6 percentage points) among the EU countries.

Japan's better performance on prices than that of the United States and the Union is illustrated

The characteristic of the national indices

The indices shown here are the national indices calculated according to the national methodologies. This means that there are differences with regard to coverage, index formula, base year and treatment of seasonal variations. In order to calculate the overall index, the national indices for the different product groups have been aggregated according to the ESA classification for the functions of consumption of households. The weighting used to obtain the EUR 15 index corresponds to each country's share in the Union's final consumption of households expressed in purchasing power parities. These national indices are the only one we have got at the moment as longitudinal series.

Table I.7.1	The cost of living price index, 1985 =100																96/95
	1980	1981	1982	1983	1984	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	(%)
B	71.2	76.6	83.3	89.7	95.4	101.3	102.9	104.1	107.3	111.0	114.6	117.4	120.6	123.5	125.3	127.8	2.0
DK	68.3	76.3	84.0	89.9	95.5	103.7	107.8	112.7	118.1	121.2	124.1	126.7	128.3	130.9	133.6	136.4	2.1
D	82.6	87.8	92.5	95.5	97.8	99.9	100.1	101.4	104.2	107.0	110.9	115.3	119.5	122.7	125.0	126.8	1.4
EL	39.1	48.7	58.9	70.8	83.8	123.1	143.2	162.6	184.9	222.6	266.0	308.1	352.6	391.1	427.4	463.7	8.5
E	56.7	65.0	74.3	83.4	92.7	108.8	114.5	120.0	128.2	136.8	145.0	153.5	160.6	168.1	176.0	182.3	3.6
F	63.3	71.8	80.3	88.0	94.4	102.7	105.9	108.7	112.7	116.5	120.2	123.0	125.6	127.8	129.9	132.6	2.0
IRL	56.1	67.5	79.1	87.3	94.9	103.8	107.1	109.4	113.9	117.6	121.3	125.1	126.9	129.8	133.2	135.4	1.7
I	52.5	61.9	72.1	82.7	91.6	105.9	110.9	116.5	123.8	131.8	140.0	147.3	153.8	160.0	168.3	174.8	3.9
L	70.3	76.0	83.1	90.3	96.1	100.3	100.2	101.7	105.1	109.0	112.4	115.9	120.1	122.7	125.1	126.8	1.4
NL	81.8	87.2	92.2	94.8	97.8	100.2	99.8	100.7	101.7	104.2	108.3	111.7	114.6	117.8	120.1	122.6	2.1
A	78.8	84.2	88.8	91.7	96.9	101.7	103.1	105.1	107.8	111.3	115.1	119.7	124.0	127.7	130.6	133.0	1.9
P	35.2	42.2	51.7	64.8	83.8	111.7	122.2	133.9	151.0	170.9	189.6	206.7	220.0	231.5	241.1	248.6	3.1
FIN	66.5	74.4	81.5	88.2	94.5	103.6	107.2	112.6	120.0	127.4	132.8	136.7	139.7	141.2	142.6	143.5	0.6
S	65.0	72.9	79.2	86.2	93.1	104.2	108.6	114.9	122.3	135.1	147.8	151.3	158.2	161.6	165.7	166.5	0.5
UK	70.7	79.1	85.8	89.8	94.3	103.4	107.7	113.0	121.8	133.3	141.1	146.4	148.7	152.4	157.6	161.4	2.4
EUR 15	:	:	81.2	87.9	94.2	103.6	107.0	110.9	116.6	123.3	129.7	135.1	139.7	144.0	148.5	152.2	2.5
USA	76.6	84.5	89.7	92.6	96.6	101.9	105.7	110.0	115.3	121.5	126.6	130.5	134.3	137.8	141.7	145.9	3.0
JPN	87.3	91.5	94.1	95.8	98.0	100.7	100.7	101.4	103.7	106.9	110.4	112.3	113.8	114.6	114.5	114.7	0.2

Source: Eurostat

The harmonised indices of consumer prices (HICP)

The national indices as they were described here above are for different reasons not always suited to compare the evolution of prices between the Member States. Particularly, concerning sustainable price stability as required under the Treaty (this requirement says that the annual average rate of inflation does not exceed by more than 1.5 percentage points that of, at most, the three best-performing Member States in terms of price stability).

For this reason, Eurostat is calculating, according to the Protocol of the convergence criteria mentioned in article 109j of the Treaty, harmonised indices of consumer prices starting from January 1995.

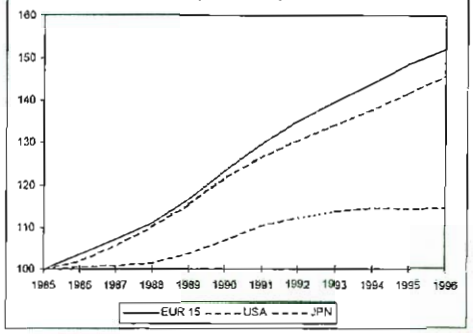
These HICPs make it possible to measure the inflation on a comparable basis. They will be used by the Commission and the European Monetary Institute (and the future European Central Bank) for the inflation convergence reports and will subsequently form the basis for the Monetary Union Index of Consumer Prices.

Furthermore, they are also designed to facilitate the international price comparison because they are harmonised not only on coverage but also concerning several methodological aspects. Although the Member States are encouraged to apply these new indices also for domestic uses, these indices are nevertheless not intended to replace the actual national indices which may still be used for national purposes such as wage negotiations.

for the period 1985-1996 in figure I.7.1. During that period price trends in the Union and the United States were fairly similar.

Over the same period the rise in prices was relatively moderate (between approximately +22 percentage points and +43 percentage points) for a good number of Member States except the United Kingdom, Sweden, Italy and Spain, whose rates ranged between +61 percentage points and +82 percentage points, and particularly in Portugal (+149 percentage points) and Greece (+364 percentage points). However, the relatively small weight of these two countries in the EUR 15 index does not have too dramatic an effect on the result for the Union as a whole, where there was an increase of 52.2 percentage points between 1985 and 1996.

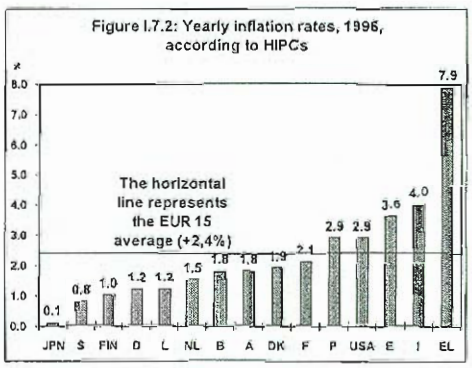
Figure I.7.1: Price indices, 1985-1996 (1985=100)



Source: Eurostat

Price evolution for 1996 on the basis of harmonised indices for the Union, the United States and Japan are presented in the figure I.7.2.

Figure I.7.2: Yearly inflation rates, 1996, according to HIPCs



Note: No data available for Irland and the United-Kingdom
Source: Eurostat

Although within the Union, the differences in inflation based on new harmonised indices are still high in 1996 (+0.8% in Sweden, +1.2% in Germany and Luxembourg against 7.9% in Greece), they are reduced compared to the last years (see data on national indices).

Most of the Member States have rates which are below the EU average (+2.4%); only four Member States are above the EU average (Portugal, Spain, Italy and Greece), with inflation rates going from +2.9% to 7.9%.

Regarding Japan and the United States, prices rised in 1996, according to the HICP, by respectively +0.1% and +2.9%.

It must be pointed that data on the HICP are slightly different compared to that one obtained on basis of national indices. However, they are the official data and they will be definitely used to evaluate the criteria of price stability.

The differences between the Member States in the rate of increase of the overall index would be even greater if one would analyse the main functions of consumption. However; data related to the harmonised consumer prices indices broken down by the main functions of consumption are at the moment limited, due to the fact that the data collection has begun only in 1995 (see box on HICPs). So, it would not make sense to introduce them in this chapter at this stage.

The structure of consumption

The effect of the price trends for the various functions of consumption on the overall index is illustrated by the share of the various functions in the total consumption of households. The weightings used to calculate the overall index reveal great differences between the Member States in the structure of consumption (It should be mentioned that these data differ in some cases from those of the national accounts).

Table I.7.2 shows for the new harmonised index the weights for the different functions of consumption in the general index.

Food, for example, represents nearly 30% of total consumption in Portugal, 28% in Spain, 23% in Greece and only 15% in the United Kingdom. Housing accounts for 21% of the Swedish index, but only 7% of the Portuguese index; expenditure on recreation for 14% in the Luxembourg and Danish indices but only 4% in the Portuguese index.

These figures, which should reflect consumption habits in the various countries, are nevertheless influenced by the differences in the prices of the various product groups (since they are based on expenditure values) and by the institutional differences in the provision of certain services in the Member States. This last remark applies particularly to health-care services and education.

Table I.7.2 — Weights of the big functions of consumption in 1996 for the HICPs

	B	DK	D	EL	E	F	I	L	NL	A	P	FIN	S	UK
Foods	204.5	173.7	153.7	231.7	275.4	192.7	197.4	162.0	170.5	143.3	295.0	164.0	179.8	149.0
Alcoholic beverages and tabacco	37.9	59.4	50.8	39.3	31.8	46.1	30.2	29.1	35.2	39.2	45.3	92.2	62.2	69.0
Clothing and footwear	87.3	60.0	83.6	121.7	114.4	74.7	117.5	117.3	75.4	82.4	103.6	77.4	69.0	66.0
Housing, gas and other fuels	156.1	194.6	202.2	140.4	112.0	138.7	99.5	132.7	187.4	137.6	73.1	135.2	208.9	131.0
Furnishings, household equipment	91.7	65.8	78.7	89.3	64.7	74.1	99.8	120.3	96.0	98.5	78.8	64.7	64.0	89.0
Health	8.7	7.4	11.1	11.9	8.4	4.8	16.0	2.8	7.6	4.1	5.6	11.2	12.1	7.0
Transports	135.1	179.7	172.6	125.6	145.6	191.4	126.8	160.9	159.3	148.0	178.1	192.8	177.3	152.0
Communications	23.7	23.1	19.4	22.3	15.8	20.2	17.8	17.0	24.6	22.4	12.0	16.9	29.1	21.0
Recreation and culture	124.8	100.1	108.4	49.5	69.3	88.2	82.8	137.6	139.3	113.0	38.8	123.5	108.2	130.0
Education	0.0	3.3	4.6	13.7	1.2	3.7	8.6	3.4	3.0	3.9	0.8	1.3	1.7	11.0
Hotels, cafes and restaurants	70.6	66.9	68.3	90.4	117.8	91.2	119.5	63.6	48.6	157.4	121.7	80.4	47.7	127.0
Miscellaneous goods and services	59.5	66.0	46.8	64.3	43.5	74.2	84.1	53.3	53.1	50.2	47.2	40.5	40.0	46.0

Source: Eurostat

1.7.2. Exchange rates and the ECU

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

The Amsterdam European Council, on 16 June 1997, agreed that a new exchange rate mechanism should replace the present ERM as from 1 January 1999, the scheduled date for the introduction of the euro. It will also link to the euro the currencies of those Member States not beeing included in the euro-area.

The new Exchange Rate Mechanism (ERM 2)

The new Exchange Rate Mechanism (ERM 2) will be based on central rates, defined vis-à-vis the euro which will be the centre of the system. The standard fluctuation band will be relatively wide, like the present one. Through the implementation of stability-oriented economic and monetary policies, the central rates will remain the focus for the participating Member States. Intervention at the margins will in principle be automatic and unlimited, with very short-term financing available. Anyway, the European Central Bank (ECB) and the Central Bank of the participating countries could stop the intervention if this were to conflict with the primary objective of maintaining price stability. It should be ensured that any adjustment of central rates is conducted in a timely fashion so as to avoid significant misalignments. ERM 2, just as ERM 1, will require co-ordination of economic and monetary policies.

Since 2 August 1993, the exchange rates of the currencies participating in the ERM (all EU currencies except the Greek drachma and the British pound for which "notional" central rates have been set, and the Swedish krona) could not diverge more than 15% from the bilateral central rates in the grid (ECU central and notional rates are shown in table I.7.3).

In principle, intervention is compulsory when the intervention points defined by the fluctuation margins are reached. In addition, when a currency crosses its "threshold of divergence", i.e. 75% of the maximum spread of divergence for each currency, consultations result, as well as a presumption that the authorities concerned will correct this situation by adequate measures, namely:

- diversified currency intervention,
- domestic monetary policy (interest rate action),
- other economic policy measures,
- changes in central rates, if necessary.

Table I.7.3	ECU central and notional rates
	(since 25/11/96)
BEF/LUF	39.7191
DKK	7.34555
DEM	1.92573
GRD	292.867*
ESP	163.826
FRF	6.45863
IEP	0.798709
ITL	1906.48
NLG	2.16979
ATS	13.5485
PTE	197.398
FIM	5.85424
GBP	0.793103*

** Notional rates*
Source: European Commission

The ECU is a key component of the European Monetary System. It is valued in terms of a basket which is defined by specific amounts of the currencies of 12 Member States of the European Union. It is worth noting that the currencies of the Member States who joined the EU on 1 January 1995, namely Austria, Finland and Sweden, are not included in the ECU basket.

The official exchange rate of the ECU vis-à-vis its constituent currencies and other third currencies, is calculated daily on the basis of the composition of the ECU basket (see table

I.7.4) and the USD exchange rate of the constituent currencies.

Table I.7.4	Composition of the ECU basket
	since 21/09/1989
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
=	1 ECU

Source: European Commission

The following method of calculation is used by the EU Commission:

The Central Banks of the Member States inform the National Bank of Belgium of their USD exchange rate which is prevailing on their foreign exchange market. This information is channelled to the EU Commission which calculates an ECU equivalent, first in USD and then in the currencies of the Member States.

Table I.7.5 shows the yearly averages of the exchange rates for the ECU against the national currencies of the Member States of the EU, and against the USD and the JPY (amount of each currency per ECU).

Table I.7.6 contains the annual average exchange rates of the EU currencies, plus the USD and the JPY, against the ECU, in terms of an index. This shows the amount of ECU per unit of national currency with a base year of 1985.

This table illustrates that, in the 12 years up to 1996, six ERM currencies have appreciated against the ECU, of which the biggest rise was the NLG by close to 18%. Over the same period, the USD lost 40% of its ECU value , whereas the JPY appreciated by 31%. Another important conclusion drawn from the above table is the relative stability of the ERM currencies during the period 1988-1991, in comparison with the period 1980-1987.

Table I.7.5	ECU exchange rates – yearly averages															
	BEF/LUF	DKK	DEM	GRD	ESP	FRF	IEP	ITL	NLG	ATS	PTE	FIM	SEK	GBP	USD	JPY
1980	40.598	7.827	2.524	59.42	99.7	5.869	0.676	1189	2.76	17.97	69.55	5.172	5.881	0.598	1.392	315.0
1981	41.2947	7.923	2.514	61.62	102.7	6.04	0.691	1263	2.775	17.72	68.5	4.793	5.635	0.553	1.116	245.4
1982	44.7116	8.157	2.376	65.34	107.6	6.431	0.69	1324	2.614	16.7	79.01	4.707	6.149	0.56	0.99	243.5
1983	45.438	8.132	2.271	76.09	127.5	6.771	0.715	1350	2.537	15.97	98.69	4.948	6.821	0.587	0.89	211.4
1984	45.4421	8.146	2.238	88.42	126.6	6.872	0.726	1361	2.523	15.73	115.7	4.724	6.511	0.591	0.789	187.1
1985	44.9137	8.019	2.226	105.7	129.1	6.795	0.715	1448	2.511	15.64	130.3	4.694	6.521	0.589	0.763	180.6
1986	43.7979	7.936	2.128	137.4	137.5	6.8	0.734	1462	2.401	14.96	147.1	4.98	6.996	0.672	0.984	185.0
1987	43.041	7.885	2.072	156.3	142.2	6.929	0.775	1495	2.334	14.57	162.6	5.065	7.31	0.705	1.154	166.6
1988	43.4289	7.952	2.074	167.6	137.6	7.036	0.776	1537	2.335	14.59	170.1	4.944	7.242	0.664	1.182	151.5
1989	43.3806	8.049	2.07	178.8	130.4	7.024	0.777	1510	2.335	14.57	173.4	4.721	7.099	0.678	1.102	151.9
1990	42.4257	7.857	2.052	201.4	129.4	6.914	0.768	1522	2.312	14.44	181.1	4.855	7.521	0.714	1.273	193.7
1991	42.2233	7.909	2.051	225.2	128.5	6.973	0.768	1533	2.311	14.43	178.6	5.002	7.479	0.701	1.239	166.5
1992	41.5932	7.809	2.02	247	132.5	6.848	0.761	1596	2.275	14.22	174.7	5.807	7.533	0.738	1.298	164.2
1993	40.4713	7.594	1.936	268.6	149.1	6.634	0.8	1841	2.175	13.62	188.4	6.696	9.122	0.78	1.171	130.1
1994	39.6565	7.543	1.925	288	158.9	6.583	0.794	1915	2.158	13.54	196.9	6.191	9.163	0.776	1.19	121.3
1995	38.5519	7.328	1.874	303	163	6.525	0.816	2130	2.099	13.18	196.1	5.709	9.232	0.829	1.308	123.0
1996	39.2986	7.359	1.91	305.5	160.7	6.493	0.793	1959	2.14	13.43	195.8	5.928	8.515	0.814	1.27	138.1

Source: Eurostat

In the 12 months to 1996, the following evolutions were observed:

- the BEF/LUF, DEM, NLG, and ATS depreciated by close to 2% against the ECU;
- the FIM depreciated by 1.5%, while the GRD and DKK depreciated by less than 0.5 %;
- the FRF and the PTE have very slightly appreciated against the ECU, whereas the ESP rose by close to 1 %;
- the GBP and the IEP appreciated by 1.2% and 2.6 % against the ECU respectively;
- the ITL and SEK appreciated by 6 % and 7 % against the ECU respectively, the highest rise of all EMS currencies;
- the USD appreciated against the ECU by 1.7 % while the JPY went sharply down with a year-on-year depreciation of 17% against the ECU.

Table 1.7.6	ECU exchange rate index (1 unit of national currency = ... ECU, Base 1985 = 100), annual averages															
	BEF/LUF	DKK	DEM	GRD	ESP	FRF	IEP	ITL	NLG	ATS	PTE	FIM	SEK	GBP	USD	JPY
1980	110.6	102.4	88.2	175.5	129.5	115.8	105.8	121.7	91.0	87.1	186.9	90.8	110.9	98.5	54.5	57.6
1981	108.8	101.2	88.6	168.9	125.6	112.5	103.5	114.6	90.5	88.3	189.8	98.0	116.0	106.5	68.2	73.6
1982	100.5	98.3	93.7	159.4	120.1	105.8	103.7	109.3	96.1	93.7	167.6	99.9	106.6	105.0	77.5	74.1
1983	98.9	98.6	98.1	133.4	101.2	100.4	100.1	107.2	99.0	98.0	132.6	94.9	95.6	100.4	85.3	85.6
1984	98.8	98.4	99.5	117.9	101.9	99.9	99.5	104.7	99.5	99.4	112.4	99.4	100.2	99.7	96.3	96.5
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	102.6	101.1	104.6	75.8	93.8	99.9	97.6	99.0	104.6	104.6	88.5	94.3	93.2	87.9	77.2	109.5
1987	104.4	101.7	107.5	66.7	90.8	98.1	92.2	96.8	107.6	107.4	79.9	92.7	89.2	83.6	65.7	108.4
1988	103.4	100.8	107.3	62.1	93.7	96.6	92.2	94.1	107.5	107.2	76.4	95.0	90.0	88.6	64.2	119.2
1989	103.5	99.6	107.5	58.2	98.9	96.7	92.1	95.8	107.5	107.4	75.0	99.4	91.8	87.5	68.8	119.0
1990	105.9	102.1	108.5	51.7	99.7	98.3	93.2	95.1	108.6	108.3	71.8	96.7	86.7	82.5	59.6	98.4
1991	106.4	101.4	108.6	46.2	100.4	97.4	93.1	94.3	108.7	108.4	72.8	94.0	87.2	83.9	61.4	108.6
1992	108.0	102.7	110.2	42.2	97.4	99.3	94.0	90.9	110.4	110.1	74.4	81.1	86.7	80.0	58.5	110.1
1993	111.0	105.6	115.0	38.8	88.7	102.4	89.5	78.6	115.4	114.8	69.1	70.1	71.5	75.5	64.7	139.4
1994	113.3	106.3	115.7	36.2	81.2	103.2	90.1	75.6	116.3	115.5	66.0	75.9	71.2	75.9	63.8	148.8
1995	116.5	109.4	118.8	34.4	79.1	104.1	87.7	68.0	119.6	118.7	66.3	82.2	70.0	71.0	58.0	147.3
1996	114.3	109.0	116.6	34.1	80.2	104.7	90.2	73.9	117.4	116.4	66.4	80.6	76.6	72.4	59.7	130.7

Source: Eurostat

I.7.3. Purchasing power parities

As a mean of comparing GDP among countries, it is useful to consider purchasing power parities instead of exchange rates.

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

Exchange rates and purchasing power parities

It is interesting to observe the changes in PPS shown in table I.7.7, which gives the figures from 1980 to 1996 and, in particular, compares them with the exchange rates of the ECU, which are shown in Table I.7.5. For example, on the basis of the official exchange rate, an ECU was worth LIT 1 959 in 1996, whereas on the basis of purchasing power parities, LIT 1 735 was sufficient to purchase the volume of goods and services corresponding to one PPS. In 1996, therefore, the real purchasing power

How are parities calculated?

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

Table I.7.7	The purchasing power parities of GDP, 1PPS = ... units of national currency								
	1980	1985	1990	1991	1992	1993	1994	1995	1996
B	46.11	44.43	42.58	41.61	40.89	40.24	40.09	40.48	39.87
DK	9.70	10.12	10.14	9.75	9.90	9.48	9.36	9.27	9.14
D	2.86	2.42	2.25	2.22	2.24	2.27	2.22	2.24	2.20
EL	47.05	85.79	151.98	171.25	184.04	198.86	210.97	223.76	235.56
E	80.42	100.06	118.14	117.30	124.19	126.16	130.44	134.51	135.70
F	6.51	7.29	7.14	6.92	6.95	7.09	7.12	7.12	6.99
IRL	0.64	0.77	0.74	0.71	0.69	0.71	0.69	0.70	0.68
I	941.26	1326.26	1533.50	1554.11	1578.49	1654.59	1648.78	1708.18	1734.92
L	44.20	44.43	42.82	41.95	42.08	42.74	43.01	42.83	42.85
NL	3.21	2.71	2.34	2.32	2.31	2.30	2.28	2.23	2.19
A	17.68	16.18	15.15	15.06	15.13	14.95	14.97	15.13	14.88
P	37.35	72.40	111.92	116.81	125.06	126.14	126.99	131.20	131.06
FIN	5.82	6.33	6.89	6.87	6.88	6.57	6.61	6.46	6.31
S	8.04	8.69	10.08	10.57	10.60	10.61	10.64	10.72	10.46
UK	0.59	0.60	0.65	0.67	0.67	0.69	0.69	0.72	0.72
USA	1.16	1.09	1.08	1.08	1.08	1.08	1.07	1.08	1.06
JPN	291.74	238.09	210.81	206.10	201.97	197.66	194.28	190.53	184.09

Source: Eurostat

of the Italian lira compared with the Community average was much higher (+13%) than a comparison based on the official exchange rate would suggest.

Price level index

The ratio between the value of a PPS and the ECU allows us to calculate a price level index for each country, which measures the difference between price levels in a given country and the Community average (EUR 15 = 100) and permits direct comparison between price levels in one country and another.

Table I.7.8 shows that in 1996 Portugal had the lowest prices in the Union (about 33 percentage points below the Community average) and Denmark the highest (nearly 24 percentage points above the average). The United States comes out at 17 percentage points below the EU average, while Japan exceeds it by 33 percentage points.

Another way of interpreting table I.7.8 is to say that in 1996 a given basket of goods could be purchased for ECU 67 in Portugal and ECU 124, nearly twice as much, in Denmark. (In 1990, the price level in Denmark was more than twice that in Portugal).

Real per capita GDP

Table I.7.9 shows the values of GDP in ECU and PPS. However, it should be taken into consideration that the population data used for calculating these data are based on National accounts statistics. These can differ from the population data given by Population statistics.

Table I.7.8	Price level indices, EUR 15 = 100						
	1990	1991	1992	1993	1994	1995	1996
B	100	99	98	99	101	105	101
DK	129	123	127	125	124	126	124
D	110	108	111	117	116	120	115
EL	75	76	75	74	73	74	77
E	91	91	94	85	82	83	84
F	103	99	101	107	108	109	108
IRL	96	92	91	89	87	85	86
I	101	101	99	90	86	80	89
L	101	99	101	106	108	111	109
NL	101	100	102	106	106	106	102
A	105	104	106	110	111	115	111
P	62	65	72	67	64	67	67
FIN	142	137	118	98	107	113	108
S	134	141	141	116	116	115	123
UK	92	96	91	88	88	87	89
EUR15	100	100	100	100	100	100	100
USA	85	87	83	92	90	82	83
JPN	115	124	123	152	160	155	133

Source: Eurostat

In 1996, measured in current PPS, the GDP of the European Union was 6 765 Mrd, about 5.7% smaller than that of the United States and 2.5 times bigger than that of Japan. Of the Member States, Germany had the largest GDP (1 632.2 Mrd PPS, about 24% of the total for EUR 15). The four largest economies in the EU (Germany, France, Italy and the UK) together accounted for some 72% of its GDP. At the other end of the scale, six Member States (Denmark, Greece, Ireland, Luxembourg, Portugal and Finland) together accounted for just 7.8% of EUR 15 GDP in PPS.

It is also interesting to note how each country's share of the European Union's GDP varies depending on whether it is calculated in ECU or PPS. For example, Germany's share in 1996, which was 27% when measured in ECU, falls to 24% when measured in PPS. In some other countries, the share is higher in PPS than in ECU, for example, 16% and 14% respectively in the case of Italy.

Despite the numerous misgivings which one might have, per capita GDP is one of the indicators most frequently used for purposes of international comparisons. The index of per capita GDP is expressed as the ratio between GDP per head of population in each country and average per capita GDP in the Union. Again, this index for a given country varies depending on whether it is based on ECU- or PPS-denominated values (concerning the data in ECU, see tables I.2.1 and I.2.2).

In Denmark, for example, per capita GDP is ECU 26 136 but only 21 050 PPS. This gives per capita index figure in nominal terms of 46.6% above the Union's average, compared with only +16.5% in volume terms.

As a general rule, the higher the nominal index figure the lower the volume index figure is relative to it, although this is not quite true for Luxembourg, where the two index figures are fairly similar. The PPS index figure for

Table I.7.9	GDP at current prices and PPS													
	Mrd PPS							PPS per head						
	1990	1991	1992	1993	1994	1995	1996	1990	1991	1992	1993	1994	1995	1996
B	152.1	163.0	174.7	181.8	191.5	196.0	205.5	15 260	16 290	17 390	18 030	18 930	19 340	20 200
DK	78.8	84.9	86.5	92.2	98.8	104.4	110.6	15 330	16 470	16 730	17 770	18 990	19 960	21 050
D	1 076.5	1 283.0	1 375.9	1 391.9	1 492.3	1 556.8	1 632.2	17 020	16 040	17 070	17 150	18 330	19 060	19 930
EL	86.5	94.8	101.5	106.1	112.6	118.4	125.6	8 510	9 250	9 830	10 230	10 800	11 320	11 950
E	424.4	468.3	475.9	483.0	496.0	518.8	542.8	10 920	12 030	12 200	12 360	12 670	13 230	13 820
F	911.8	979.7	1 007.9	998.1	1 037.7	1 076.5	1 126.5	16 070	17 170	17 570	17 310	17 920	18 510	19 300
IRL	37.0	40.7	44.5	46.8	52.5	57.4	64.4	10 560	11 530	12 540	13 140	14 710	16 020	17 870
I	854.7	918.6	951.9	937.0	993.9	1 036.8	1 079.9	14 820	15 890	16 440	16 130	17 060	17 760	18 470
L	8.1	8.9	9.6	10.4	11.3	11.9	12.7	21 140	22 940	24 560	26 110	28 080	29 130	30 520
NL	221.1	233.9	245.0	252.5	268.4	284.3	302.4	14 790	15 520	16 130	16 510	17 450	18 390	19 470
A	118.9	128.0	135.3	142.0	151.2	155.5	162.3	15 380	16 380	17 100	17 770	18 830	19 320	20 090
P	86.0	94.4	99.4	104.4	110.5	115.2	122.7	8 680	9 570	10 070	10 560	11 160	11 620	12 360
FIN	74.8	71.4	69.3	73.5	77.3	84.5	90.3	15 000	14 240	13 750	14 500	15 200	16 540	17 620
S	135.0	137.0	136.0	136.3	143.9	153.5	160.5	15 770	15 900	15 690	15 640	16 380	17 390	18 140
UK	847.7	853.4	898.7	917.5	961.9	971.7	1 026.6	14 730	14 760	15 490	15 770	16 470	16 580	17 450
EUR15	5 113.4	5 559.8	5 812.1	5 873.6	6 199.9	6 441.5	6 765.0	14 640	15 140	15 750	15 840	16 670	17 260	18 070
USA	5 321.3	5 488.1	5 785.1	6 072.0	6 461.5	6 747.7	7 151.3	21 290	21 720	22 640	23 510	24 760	25 590	26 870
JPN	2 038.1	2 222.6	2 331.8	2 404.5	2 467.8	2 551.3	2 732.5	16 510	17 940	18 760	19 300	19 760	20 380	21 770

Source: Eurostat

Luxembourg is 69% higher than the corresponding figure for EUR 15, putting it well ahead of all the other Member States and indeed about 20 percentage points ahead of the United States.

As can be seen from table I.7.10, the volume index per head of population in most Member States has remained broadly stable over time. Of the countries situated well below the EU average (Greece, Spain, Ireland and Portugal), only Ireland managed to close the gap significantly between 1990 and 1996 (up 27 percentage points), although Portugal and Greece also to a lesser extent, succeeded in closing the gap by a more modest +9 and +8 percentage points respectively over the same period.

Table I.7.10	Volume index of GDP per head, EUR15=100						
	1990	1991	1992	1993	1994	1995	1996
B	104	108	110	114	114	112	112
DK	105	109	106	112	114	116	116
D	116	106	108	108	110	110	110
EL	58	61	62	65	65	66	66
E	75	79	77	78	76	77	76
F	110	113	112	109	107	107	107
IRL	72	76	80	83	88	93	99
I	101	105	104	102	102	103	102
L	144	152	156	165	168	169	169
NL	101	103	102	104	105	107	108
A	105	108	109	112	113	112	111
P	59	63	64	67	67	67	68
FIN	102	94	87	92	91	96	98
S	108	105	100	99	98	101	100
UK	101	97	98	100	99	96	97
EUR15	100	100	100	100	100	100	100
USA	145	143	144	148	149	148	149
JPN	113	118	119	122	119	118	120

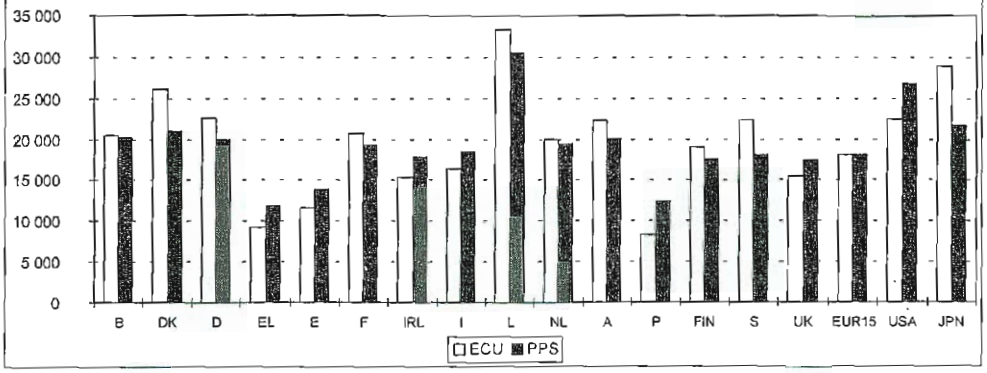
Source: Eurostat

Given the monetary turmoil of recent years, the nominal values for certain Member States (Italy, Greece, Spain and Portugal) and Japan should also be treated with caution. To take the example of Japan; the Yen has appreciated significantly, and this is likely to have caused an overestimate of nominal GDP. The discrepancies between per capita GDP measured in ECU and in PPS are illustrated in figure I.7.3.

Finally, it is worth repeating that differences between countries' GDP are much smaller when measured in PPS than when measured in ECU. In 1996, the ratio between per capita GDP in Luxembourg which, as we have seen, is the highest in the European Union, and the lowest was 1:4 when measured in ECU but only 1:2.5 in terms of PPS, which again underlines the importance of basing comparisons on real values.

The volume index figure for Japan had a constant increase, (from 113 in 1990 to 120 in 1996), overtaking countries such as Denmark and Germany.

Figure I.7.3: GDP per head, 1996



Source: Eurostat

GDP of Candidate Countries in PPS

In order to complete the presentation given in section I.1 on growth rates of the Candidate Countries, an analysis of their GDP in real terms is proposed below.

Table I.7.11 shows that in 1995, the GDP of the Candidate Countries was PPS 578.8 Mrd, or around 9% of the GDP of the European Union (compared with a mere 3.8% in ECU).

Of the Candidate Countries, Poland had the highest GDP in 1995, with PPS 205.2 Mrd, or around 35% of the total GDP of the Candidate countries. On the other hand, four countries (Estonia, Latvia, Lithuania and the Republic of Slovenia) contributed only 8.4%.

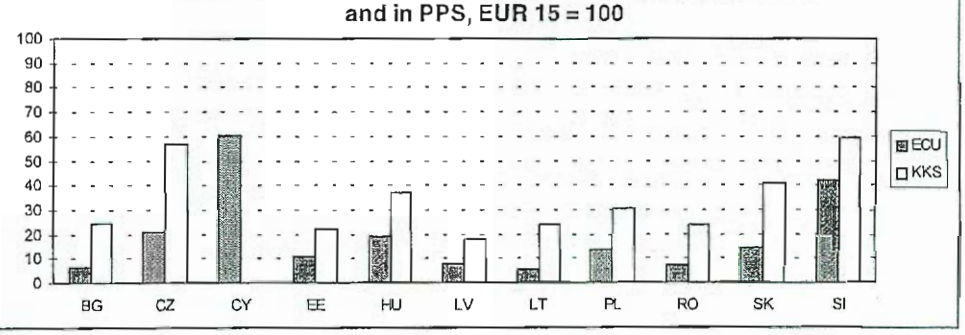
The real per capita GDP of the Candidate Countries, expressed in current PPS was PPS 5 561 in 1995 compared with PPS 17 264 for the EU, or the equivalent of 32% of the average for the EU, compared with 30% in 1993.

An interesting example illustrating the effects of differences in level on the values of per capita GDP expressed either in ECU or PPS is Poland, which is the country with the largest

Table I.7.11	GDP of Candidate Countries at current prices and purchasing power standards								
	Mrd PPS			Per head					
				PPS			EUR 15 =100		
	1993	1994	1995	1993	1994	1995	1993	1994	1995
Bulgaria (BG)	32.9	33.4	35.4	3 887	3 960	4 210	25	24	24
Czech Republic (CZ)	88.8	94.8	101.8	8 596	9 179	9 857	54	55	57
Cyprus (CY)	:	:	:	:	:	:	:	:	:
Estonia (EE)	5.3	5.4	5.8	3 509	3 612	3 876	22	22	22
Hungary (HU)	57.1	61.1	65.4	5 544	5 954	6 390	35	36	37
Latvia (LV)	7.4	7.7	7.9	2 867	3 045	3 144	18	18	18
Lithuania (LT)	12.7	13.4	15.3	3 412	3 592	4 129	22	22	24
Poland (PL)	166.6	182.2	205.2	4 331	4 728	5 318	27	28	31
Romania (RO)	78.0	84.3	94.3	3 428	3 707	4 159	22	22	24
Slovak Republic (SK)	31.0	33.9	37.8	5 813	6 323	7 036	37	38	41
Slovenia (SI)	17.0	18.7	20.3	8 559	9 386	10 199	54	56	59
Total (10)	496.8	534.8	589.1	4 684	5 044	5 561	30	30	32

Note: For the calculation of the GDP per head, the figures for the total population come from the national accounts. For certain countries, there may be differences between these data and those calculated for the Population Statistics.
Source: Eurostat

Figure I.7.4: Per capita GDP of the Candidate Countries in ECU and in PPS, EUR 15 = 100



Source: Eurostat

population but which, at ECU 2 359, has a per capita GDP around ten times smaller than its neighbour Germany. In real terms, this difference is far smaller (around four times lower) since Poland has a per capita GDP of PPS 5 318 compared with PPS 19 066 in Germany.

Of the Candidate Countries, the Republic of Slovenia has the highest per capita GDP in PPS (10 199). This is almost 90% of the 1995 level for Greece, the Member State with the lowest per capita GDP (PPS 11 324).

Latvia, with a per capita GDP of PPS 3 144, has the lowest GDP of all the Candidate Countries, corresponding to only 28% of the lowest per capita GDP in PPS in the EU.

Compared with the average for the EU, the development in per capita GDP in PPS in the Candidate Countries tended to rise slightly between 1993 and 1995 (+2 percentage points) while remaining very far from the Union average.

However, this did not take place at the same rate in all the countries. Poland, the Slovak Republic and the Republic of Slovenia are catching up most quickly (with 4 to 5 points).

Reliability and availability of the PPPs for the Candidate Countries

Concerning the GDP calculations in real terms, it has to be said that they are affected by two main error sources, the one coming from the uncertainties of the data at current prices and the other due to the weaknesses of the PPPs themselves. The PPP calculations are based on large price surveys for comparable and representative goods and services. These requirements make it difficult to calculate reliable PPPs in economies in transition.
The data in PPS presented here are based on price surveys for the year 1993 and they have been extrapolated to the years 1994 and 1995 using the relative deflator of GDP. For 1996 Eurostat will again compile PPPs based on new surveys; the results will be available at the earliest in 1998.

The increase was somewhat less in Hungary, the Czech Republic, Lithuania and Romania (with +2 to +3 points) while two other countries (Estonia and Latvia) stayed at the 1993 level. Only Bulgaria (-1point) went away from the EU-average (see table I.7.11 and figure I.7.4).

1.7.4. Interest rates

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

Table I.7.12 shows ten years government bonds yields (unless otherwise stated).

Between 1991 and January 1993 there was a general decline in government bond yields,which was largely a reflection of monetary easing in response to economic recession and a decline in inflationary pressures. However, in late 1993 concerns grew of an upturn in inflation and a capital shortage on the basis of a stronger than expected recovery in global economic activity. The trend in yields was therefore upwards during 1994.

By the end of 1994 the US and Japanese bond markets had entered a new phase, and yields began to fall, followed by a decline in European yields. The market recovery continued throughout 1995, with yields falling towards levels not seen since early 1994. Bond yields fell to exceptionally low levels in Japan during 1995, as a result of the prolonged recession there.

The market peak (that is, the lowpoint in yields) for US and most EU government bonds was in December 1996. Yields tended to rise during the first half of 1996, with the notable exception of the relatively high-yielding bonds of Spain, Italy, and Portugal.

Because of the relatively strong performance of the higher-yielding bonds throughout the year, EU yields tended to converge during 1996. By the end of the year the differential in yields narrowed to just 2 percentage points.

Prospects for monetary union take on a special significance with regard to the ECU bond

Table	Long-term interest rates (monthly averages)																	
I.7.12	B	DK	D	EL	E	F	IRL	I	L	NL	A	P	FIN	S	UK	ECU	USA	JPN
Jan-90	9.8	11.1	7.6	:	:	9.6	:	:	:	8.2	:	:	:	12.9	10.2	:	8.3	6.6
Jan-91	9.9	10.0	8.9	:	:	9.8	9.6	:	:	9.2	:	:	:	11.9	10.2	:	8.3	6.8
Jan-92	8.7	8.3	8.0	:	10.9	8.5	8.9	12.7	:	8.4	:	:	11.8	9.5	9.3	:	7.4	5.4
Jan-93	7.6	8.7	7.2	24.5	12.2	7.9	9.9	13.4	7.3	7.1	7.2	13.3	10.9	10.1	8.5	8.3	7.1	4.6
Jan-94	6.5	6.0	5.8	22.0	8.0	5.7	6.2	8.7	6.3	5.6	5.8	8.9	6.5	7.0	6.3	5.9	6.2	4.5
Jan-95	8.5	9.1	7.6	19.0	11.9	8.2	8.8	12.4	7.8	7.7	7.7	11.8	10.2	11.0	8.8	8.4	7.9	4.6
Jan-96	6.4	7.0	5.9	:	9.5	6.4	7.2	10.4	6.4	5.9	6.2	9.4	7.0	8.2	7.6	6.9	6.1	3.1
Feb-96	6.6	7.4	6.2	14.8	9.7	6.6	7.5	10.5	6.4	6.2	6.4	9.5	7.7	8.8	7.9	7.2	6.3	3.5
Mar-96	6.8	7.6	6.4	:	9.9	6.8	7.8	10.7	6.7	6.4	6.5	9.5	7.7	8.8	8.2	7.3	6.7	3.3
Apr-96	6.7	7.3	6.4	:	9.3	6.5	7.6	10.3	6.6	6.3	6.4	9.1	7.5	8.3	8.2	7.1	6.9	3.5
May-96	6.7	7.4	6.5	:	9.2	6.5	7.5	9.7	6.5	6.3	6.5	9.0	7.4	8.4	8.2	7.0	7.1	3.3
Jun-96	6.8	7.5	6.6	:	9.1	6.6	7.6	9.6	6.5	6.5	6.6	8.9	7.2	8.3	8.2	7.1	7.2	3.3
Jul-96	6.8	7.4	6.5	:	8.8	6.4	7.5	9.4	6.5	6.4	6.6	8.7	7.1	8.3	8.1	7.0	7.1	3.3
Aug-96	6.6	7.3	6.3	:	8.9	6.3	7.4	9.5	6.4	6.2	6.4	8.7	7.2	8.1	8.0	6.9	6.9	3.0
Sep-96	6.5	7.2	6.2	:	8.4	6.2	7.2	9.2	6.3	6.1	6.3	8.3	6.9	7.8	8.0	6.7	7.1	2.9
Oct-96	6.1	6.8	6.0	:	7.8	6.0	6.8	8.2	5.9	5.9	6.1	7.6	6.5	7.2	7.6	6.4	6.9	2.6
Nov-96	6.0	6.8	5.9	:	7.3	5.8	6.7	7.7	5.9	5.8	6.0	7.2	6.5	7.3	7.7	6.3	6.6	2.6
Dec-96	5.9	6.6	5.8	:	7.0	5.7	6.6	7.6	5.8	5.7	5.9	7.0	6.3	6.9	7.7	6.2	6.6	2.7

Note: rates are yields on government bonds of around 10 years to maturity, except Greece (5 years) and the USA (10 years or more). ECU bond yields include non-government issues.
Source: Eurostat

market. In 1991, in the run-up to the Union treaty, the market was exceptionally buoyant: the volume of ECU bond issues reached a record level (a figure not surpassed in the years 1992-1996), and ECU bond yields fell well below their theoretical level (that is, the yield derived from the weighted average of the ECU basket's component currencies).

The performance of the ECU bond market was fairly similar to the national EU bond markets in 1991-96. The yield reached a record low (5.9%) in January 1994, before rising throughout most of the rest of the year. The trend was reversed in 1995 and, after a pause,in the first half of 1996, the yield continued falling in the second half. Nevertheless, the yield in December 1996 was around 0.3 percentage points higher than the lowpoint of January 1994.

As with long-term interest rates, short-term rates in the EU have tended to converge in recent years (see table I.7.13).

In 1992-93 short-term interest rates in the EU declined and the trend remained downwards in the first half of 1994, but then tended to stabilise. One exception was the UK, where official interest rates were increased in the second half of 1994.

In Germany, the Bundesbank cut its discount rate to 4% in March 1995, followed by rate cuts in Belgium, the Netherlands and Austria. In some other EU countries, however, official interest rates moved upwards in early 1995, including the UK, Denmark, Ireland, Italy, and Spain.

In late 1995 and in 1996, the general interest rate trend through out the EU was again downwards. The German discount rate fell to 3% by end 1995, then to 2.5% in April 1996, where it stayed for the rest of the year, while Germany's 'repo' rate continue to ease to 3% in August 1996.

Interest rates in Belgium, Denmark, France, the Netherlands, Austria and Finland, similar trend to Germany. In other countries, whose interest rates are relatively high — Spain, Portugal, Greece, Italy, and Sweden — rates continued falling throughout 1996.

As with long-term interest rates, therefore, short-term rates also tended to converge. The

Table I.7.13	Short-term interest rates (monthly averages)																
	B	DK	D	EL	E	F	IRL	I	L	NL	A	P	FIN	S	UK	ECU	US	JPN
Jan-90	8.5	12.1	7.6	23.9	15.1	10.7	12.5	13.1	:	8.6	8.6	15.0	11.8	11.6	14.9	10.9	8.2	6.4
Jan-91		9.9	8.5	26.5	14.6	10.0	11.3	13.2	:	8.7	9.2	10.6	15.1	13.9	14.0	10.1	6.9	8.0
Jan-92	8.8	10.1	9.5	22.7	12.7	10.1	10.6	12.3	:	9.4	9.6	17.4	11.4	13.4	10.6	10.3	4.0	5.5
Jan-93	8.5	13.7	8.7	26.1	14.4	12.0	96.9	12.7	:	8.4	8.5	13.4	10.2	10.9	6.9	10.0	3.0	3.9
Jan-94	7.2	6.3	6.2	19.5	9.0	6.5	5.9	8.7	:	5.5	5.5	10.6	5.6	7.9	5.5	6.5	3.1	2.3
Jan-95	5.0	6.1	5.0	16.9	8.0	5.4	5.1	8.4	:	5.0	4.8	8.8	4.4	7.6	5.6	5.8	5.3	2.3
Jan-96	3.7	4.5	3.6	13.9	9.0	4.5	5.0	10.2	:	3.3	3.7	8.1	4.3	8.8	6.3	4.8	5.6	0.5
Feb-96	3.3	4.5	3.3	13.8	9.0	4.2	5.2	10.1	:	3.1	3.0	8.0	4.1	8.4	6.2	4.6	5.2	0.5
Mar-96	3.3	4.2	3.4	13.8	8.5	4.0	5.1	10.0	:	3.1	3.2	7.9	3.9	7.9	6.0	4.6	5.3	0.5
Apr-96	3.3	3.9	3.4	13.6	7.8	3.9	5.0	9.8	:	2.9	2.9	7.5	3.9	7.2	5.8	4.4	5.2	0.5
May-96	3.3	3.9	3.3	13.4	7.7	3.8	5.1	9.4	:	2.7	3.0	7.2	4.0	6.7	6.0	4.3	5.2	0.5
Jun-96	3.2	4.0	3.3	13.6	7.3	3.7	5.2	9.2	:	2.7	3.2	7.4	3.4	6.3	5.6	4.4	5.3	0.5
Jul-96	3.2	3.9	3.3	13.3	7.4	3.6	5.3	9.1	:	2.8	3.4	7.5	3.5	5.9	5.8	4.3	5.4	0.5
Aug-96	3.2	4.2	3.3	12.8	7.4	3.5	5.5	8.7	:	2.8	3.3	7.3	3.9	5.5	5.7	4.3	5.2	0.4
Sep-96	3.0	3.8	3.1	12.6	7.3	3.5	5.4	8.5	:	2.7	3.1	7.1	3.2	5.2	5.7	4.1	5.3	0.5
Oct-96	3.0	3.7	3.1	12.8	6.9	3.4	5.5	8.3	:	2.8	3.1	7.0	3.1	4.9	5.6	4.0	5.2	0.5
Nov-96	3.0	3.7	3.1	13.3	6.9	3.3	5.5	8.0	:	2.8	3.2	6.9	3.3	4.6	5.9	4.1	5.3	0.5
Dec-96	3.0	3.6	3.1	12.8	6.6	3.3	5.0	7.6	:	2.9	3.2	6.7	3.1	4.4	5.8	4.1	5.3	0.5

Note: These are overnight rates, except for Irland (end-of-the-month rates). ECU-rates are for one-month deposits.
Source: Eurostat

main exception to the general downward trend in short-term rates was in the UK, where the banks' base rate was raised in October 1996 to 6%.

The US, started tightening policy in early 1994, and short-term interest rates rose. However, in the second half of 1995 and in early 1996, amid signs that economic growth was losing momentum, the US Federal Reserve lowered interest rates.

Japan, meanwhile, held its official discount rate at 1.75% throughout 1994. Economic activity remained weak, however, and further policy easing took place during 1995, the discount rate falling to a historical low of 0.5% in September. It stayed at that level throughout 1996.

GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT RATES IN THE REGIONS OF THE EUROPEAN UNION

II.1. GDP and unemployment rates as structural policy indicators

Key elements of the European Union's structural policies

These policies currently concentrate on a total of seven objectives, of which the first four listed below have a regional dimension:

- Objective 1 promotes the structural adjustment of regions whose development is lagging behind;
- Objective 2 refers to the conversion of regions seriously affected by industrial decline;
- Objective 5b is concerned with the structu-ral adjustment of rural areas in difficulty;
- Objective 6 was set up to promote the adjustment of regions with an extremely low population density;
- Objective 3 is aimed at combating long-term unemployment and the unemployment of young people;
- Objective 4 facilitates the adaptation of workers to industrial changes;
- Objective 5a aims to speed up the adjustment of agricultural and fisheries structures.

In all, five important financial instruments are available to meet these objectives: the European Regional Developpment Fund, the Social Fund, the European Agricultural Fund section Guidance, the Financial Instrument for Fisheries Guidance, the European Cohesion Fund. The European Investment Bank, through loans to regions in difficulty, is also giving its contribution.

The available funds, in the form of programms over a number of years, are used primarily for infrastructure projects (for transport, telecommunications, energy and water supplies and environmental protection), human resources (education and training) and productive investments (investment grants).

Structural policies, an essential feature of overall European policy, were introduced to improve the economic and social cohesion of the Member States and their regions. Currently, around one-third of total Community funding is spent in this area.

By far the most important of them is the structural adjustment of regions whose development is lagging behind (the "Objective 1 regions"), on which some 70% of structural policy funds are spent at present. A further important objective is the conversion of regions seriously affected by industrial decline ("Objective 2 regions"), which account for 11% of structural funds. Thus over 80% of funds are used for these two objectives alone.

The definitions of the Objective 1 and Objective 2 regions (and, incidentally, Objective 5b and Objective 6 regions) depend on statistical indicators (see Council Regulation (EEC) No. 2081/93 of 20 July 1993, OJ No L 193 of 31 July 1993).

The indicator for defining Objective 1 regions is per capita regional gross domestic product at market prices (see Article 8 of the Regulation).

Objective 2 regions are defined particularly in terms of unemployment rates, the percentage share of industrial employment in total employment and changes in such employment over time (for details, see Article 9 of the Regulation).

Thus GDP and regional-level unemployment rates are extremely important for the implementation of European structural policies.

The definitions of (per capita) GDP and the unemployment rate at regional level are not different from the corresponding national-level definitions. When total GDP and per capita GDP are being computed, it must be borne in mind that GDP measures the result of the production activity of resident producer units. For regional GDP, therefore, the relevant units are those which have their centre of economic interest in the region in question.

Problems may arise here, most of them in cases where producer units such as enterprises have places of production in more than one region, and some appropriate way has to be found of dividing up the results of production activity among the regions concerned.

Estimates of regional GDP values

Estimates of regional GDP and per capita GDP values are based on national GDP estimates. The national values are divided up among the regions in line with the regional shares of national gross value added. In most cases, the structure of gross value added at factor cost is used for this breakdown, but in some Member States, for reasons of data availability, the reference figure is currently gross value added at market prices. If no structural data are available for certain calendar years, the most up-to-date gross value added structures are assumed to be constant over a short period.

With unemployment rates, a further differentiation of the total rate seems called for. For this reason, the rates below will be divided up into male and female and long-term rates.

For the regional analyses, the Member States of the European Union have to be divided into regions, and for this the Nomenclature of Territorial Units for Statistics (NUTS) is used, which is based largely on administrative units.

Estimates of regional unemployment rates

These are based on the national totals for the unemployed and the active population (labour force) for the April of the calendar year in question, as derived from EU Labour Force Survey figures. The national figures are divided up among the regions in line with the regional structures of unemployment/active population and the regional rates are calculated from these figures.

The NUTS is a hierarchical classification with a breakdown into three regional (NUTS 1-3) and two further local (NUTS 4-5) levels.

The present totals are 77 NUTS 1, 206 NUTS 2 and over 1 000 NUTS 3 regions in the Member States of the European Union. For the analysis in this publication, the NUTS 2 level would in general seem the most appropriate, but in Germany and the United Kingdom analysis is restricted to the NUTS 1 level, which in Germany corresponds to the *Länder* and in the United Kingdom to the *Standard Regions*. This has reduced the number of regions in question to 160 (since there are few data for the French overseas departments, the analysis will refer to a maximum of 156 regions).

Table II.2.1 lists all the Member States with the NUTS levels selected, their designations and the range of values for the areas and populations of the regions in question.

Table II.1.1 The different regions of the Member States of the Union and their characteristics

	NUTS-level	Name	Number of regions	Area (1 000 km²)			Population 01.01.92 (1 000)		
				min.	average	max.	min.	average	max.
B	2	Provinces	11	2.4	3.4	4.4	236	1 116	2 258
DK	0	—	1	43.1	43.1	43.1	5 171	5 171	5 171
D	1	Länder	16	0.4	22.3	70.6	684	5 039	17 595
EL	2	Development regions	13	2.3	10.2	19.1	195	793	3 540
E	2	Comunidades autonomas + Ceuta y Melilla	18	0.6	28	94.2	127	2 171	6 984
F	2	Régions +DOM	26	1.1	24.4	83.9	134	2 266	10 862
IRL	0	—	1	68.9	68.9	68.9	3 549	3 549	3 549
I	2	Regioni	20	3.3	15.1	25.7	117	2 843	8 868
L	0	—	1	2.6	2.6	2.6	393	393	393
NL	2	Provincies	12	1.4	3.4	5.7	238	1 265	3 284
A	2	Bundesländer	9	0.4	9.3	19.2	273	879	1 570
P	2	Commissaoes de coordenaçao regional + Regioes auton.	7	0.8	13.1	27	238	1 409	3 479
FIN	2	Suuralueet	6	1.6	56.4	136.1	25	842	1 787
S	2	Riksområden	8	6.5	51.4	154.3	397	1 084	1 728
UK	1	Standard regions	11	7.3	22	77.1	2 089	5 273	17 703
EUR 15	—	—	160	0.0	—	154.3	25	—	17 703

Source: Eurostat (Regional statistics)

II.2. Current situation in the regions of the Union

All figures and tables of this section concern at the maximum the 156 regions which have been chosen. Their very first goal is to give an idea of the level and the distribution of the studied indicators among the regions and not to give a detailed description of each of them. For this, one could refer to the publication of the European Commission called "First report on Economic and Social Cohesion" published in 1996 in Luxembourg.

GDP in the regions of the European Union

In 1994, the latest calendar year for which estimates are available, GDP in the regions in question varied from 347 898 Mio PPS in the south-east of the United Kingdom and 527 Mio PPS in the Finnish region of Ahvenanmaa/Åland (computed as at January 1997).

Owing to the varying sizes of the regions, there is little point in a comparison of absolute GDP values. One way in which the effect of size can be ruled out is to calculate GDP per head of the population.

Figure II.2.1 shows this indicator (1994 figures) for the 156 regions taken into account. It appears that in 1994, the per capita GDP values were more evenly spread than absolute values, even though the highest value (32 687 PPS in the Hamburg region of Germany) was still around 4.6 times higher than the lowest value (7 112 PPS in the Greek region of Ipeiros).

Table II.2.1 shows the range of regional per head GDP values in the regions of the Member States (in PPS and in relation to the EU average) and key figures indicating the size of regional disparities in output per capita.

In Belgium, for example, the per head GDP values of the NUTS 2 regions in 1994 ranged from 13 659 PPS (Brabant-Wallon region) to 30 525 PPS (Bruxelles/Brussel) against an average of 18 928 PPS for Belgium as a whole.

The relative mean deviation was 19%, i.e. on average, over all the regions taken into account, the absolute deviation between the given regional and the national per head GDP value was 19% of the average value of 18 928 PPS.

At national level, 1994 per head GDP values were relatively close to the EU average in 11 of the 15 Member States. Only Greece, Spain, Portugal and Luxembourg showed sizeable deviations. In 1994 not a single Greek, Spanish or Portuguese region came up to the EU average.

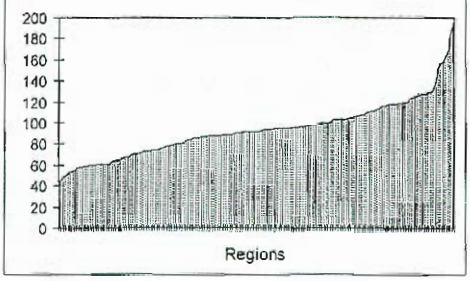
In that same year, the range of regional per head GDP values was particularly broad.

In some cases, at least, the reason was one particular region such as Bruxelles/Brussel,

Availability of regional GDP data

Regional GDP estimates in ECU and PPS are in most cases available as both absolute and per capita values for all regions down to the NUTS 3 level in all Member States from 1977 to 1994, but the times series for the new Member States — Austria, Finland and Sweden — and for Ireland are much shorter, covering only the last few years (for Sweden only 1992 to 1994 and for the other countries a somewhat longer period). In Italy, Austria and Portugal, there are no values at NUTS 3 level, i.e. there are data available at present only for the NUTS 1 and NUTS 2 regions.

Figure II.2.1: GDP per capita in the regions of the Union*, in PPS, EUR15=100, 1994



see table II.2.1
Source : Eurostat (Regional statistics)

Definition and interpretation of the (relative) mean deviation

The mean deviation measures the difference between the values of a distribution (measure of dispersion). It is defined as the average of the absolute figures — weighted or otherwise — representing the difference between each of these values and an appropriate mean value, in this analysis the arithmetic mean. The smaller the value of the mean deviation, the smaller the average difference between the values observed and their arithmetic mean, i.e. the more uniform the distribution. In order to cancel out the effect of differing mean values, it is advisable to divide the mean deviation by the mean value. The result is then the relative mean deviation. If all values are identical, the (relative) mean deviation is 0.

Hamburg, the Ile de France or Vienna, in which the level of production could only be achieved with the help of large numbers of commuters (numbers exceeding those living in but working outside the region).

Thus the production activity of these regions tends to be overstated if per head GDP is used and underestimated in those regions in which the commuters live. Further examples are the *Länder* of Lower Saxony (Niedersachsen) and Schleswig-Holstein in Germany and the province of Lower Austria (Niederösterreich).

Closer examination of the relative mean deviations shows that in 1994 countries fell into two comparatively uniform groups.

In the first (values between 9% and 12%) were Greece, the Netherlands, Sweden and the United Kingdom, which had rather low values for this measure of dispersion, i.e. in these countries there was on average relatively little difference in per head GDP from one region to another.

In contrast, the values in the other group were roughly twice as high (ranging from 16% in Finland to 22% in Italy). In these countries, therefore, the regional production disparities were more marked than in the countries in the first group. As well as Finland and Italy, the second group includes Belgium, Germany, Spain, France, Austria and Portugal (The values for Germany and the United Kingdom

Table II.2.1 — GDP per head in the regions of the Union, in PPS, 1994

	GDP per head, in PPS						Relative average deviation
	Minimum		Average		Maximum		
	abs.	EUR 15=100	abs.	EUR 15=100	abs.	EUR 15=100	in %
B	13 659	82	18 928	114	30 525	183	19
DK	---	---	19 049	114	---	---	---
D	9 461	57	18 325	110	32 687	196	19
EL	7 112	43	10 799	65	12 227	73	10
E	8 916	54	12 668	76	16 236	98	18
F(1)	12 675	76	17 920	108	26 875	161	19
IRL	---	---	14 705	88	---	---	---
I	10 177	61	17 059	102	21 779	131	22
L	---	---	28 069	169	---	---	---
NL	12 899	77	17 448	105	21 171	127	9
A	11 695	70	18 293	110	26 269	158	19
P	7 956	48	11 198	67	14 525	87	21
FIN	12 028	72	15 161	91	20 979	126	16
S	14 602	88	16 373	98	20 751	125	10
UK	12 399	74	16 406	99	24 519	147	12

(1) without the French overseas departments
Source : Eurostat (Regional statistics)

might be underestimated, since only NUTS 1 regions are considered and no account is taken of variability within those regions.)

Table II.2.2 The regions of the Union[1] with the highest/lowest GDP per capita, in PPS, 1994

Region	GDP per capita EUR15=100
Hamburg	196
Bruxelles/Brussel	183
Luxembourg	169
Ile de France	161
Wien	158
Bremen	156
Hessen	152
Greater London	147
Antwerpen	139
Lombardia	131
.	.
.	.
.	.
EUR 15	100
.	.
.	.
.	.
Peloponnisos	57
Andalucia	57
Mecklenburg-Vorpommern	57
Dytiki Ellada	56
Centro (P)	55
Extremadura	54
Alentejo	53
Madeira	52
Voreio Aigaio	49
Açores	48
Ipeiros	43

(1) without the French overseas departments
Source : Eurostat (Regional statistics)

Table I.2.2 shows which of the 156 regions of the European Union considered had particularly high or low per capita GDP values in 1994.

Three of the ten regions with the highest values were German *Länder*, two of them were in Belgium and one each in France, Austria, the United Kingdom and Italy. The tenth region is Luxembourg (the country as a whole, not divided into regions). In 1994, the regions with the lowest values were all in Greece, Spain or Portugal - with one exception, namely the German *Land* of Mecklenburg Western Pomerania (Mecklenburg-Vorpommern).

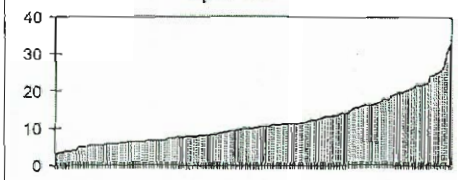
Unemployment in the regions of the European Union

In contrast to GDP, the most up-to-date regional unemployment rates refer to 1996 (reference month April).

Figure II.2.2 shows that in that month the regional rates varied from 3.2% (Luxembourg) to 32.4% (Andalusia).

Figure II.2.2 also shows that these two regions were in no way isolated cases. In April 1996 there were many more regions with almost as low or high employment rates.

Figure II.2.2: Total unemployment rate in the regions of the Union*, in %, April 1996



** without the French overseas departments and the Greek regions*
Source: Eurostat (Regional statistics)

It is not only at European level that there are marked inter-regional variations. There are differences, albeit smaller, within the Member States as well.

Availability of regional unemployment rates

Most of the currently available time series of total unemployment rates begin in 1983 and end in 1996. In principle, values exist down to the NUTS 3 level. For some Member States, particularly the new ones, and for the new *Länder* of Germany, the time series are shorter. The situation is roughly similar as regards differentiation by sex. On the other hand, most long-term unemployment rates are available only to the NUTS 2 level and only from 1987 onwards. There are, once again, exceptions to this, particularly in the new Member States.

Table II.2.3 gives information on the average national level of unemployment and regional differences in April 1996. In addition to Luxembourg, there were two Member States — Austria and, some way behind, the Netherlands — in which overall unemployment rates were relatively low in that month.

Tabelle II.2.3	Gesamtarbeitslosenquote in den Regionen der Union, in %, im April 1996			
	Gesamtarbeitslosenquote			Rel. durchschnittliche Abweichung
	Min.	Durchschnitt	Max.	In %
B	5,1	9,6	15,8	10,0
DK	—	7,4	—	—
D	5,3	9,0	17,7	34,0
EL[1]	4,1	9,1	13,2	22,0
E	11,0	22,3	32,4	18,0
F[2]	7,7	12,0	21,0	8,0
IRL	—	12,4	—	—
I	3,4	12,1	25,5	54,0
L	—	3,2	—	—
NL	5,0	6,2	10,1	10,0
A	3,3	4,5	6,1	22,0
P	4,0	7,4	13,2	23,0
FIN	4,9	16,0	19,6	12,0
S	7,8	10,0	12,2	11,0
UK	5,8	9,6	11,3	22,0

(1) 1995
(2) without the French overseas departments
Source: Eurostat (Regional statistics)

Furthermore, in these two countries there were no noticeable differences between the regions, as evidenced by both the narrow ranges, i.e. the differences between the largest and the smallest regional unemployment values, and the values — by no means high — of the relative mean deviations: 10% and 22% respectively of the national values.

Spain and Finland had the highest total unemployment rates, but in both of these countries there was a comparatively low mean deviation. Thus the regional differences in the total unemployment rate were on average slight, with the exception of "outliers" such as the Finnish region of Ahvenanmaa/Åland.

Instead, there were also Member States with marked regional differences in unemployment, especially Italy. Although the April 1996 national value of 12.1% was middle-of-the-road for the Member States as a whole, the mean deviation of 54% was the highest of any Member State. This value shows that, as an average over all the regions in Italy, the total unemployment rate deviated by six percentage points upwards or downwards from the national figure.

In Belgium and Germany, as well, there were relatively marked regional differences in rates, although the situation in Germany could be underestimated since only NUTS 1 regions were taken into account and fluctuations within the *Länder* were ignored.

These figures showing regional differences within the Member States are borne out by a closer examination of the regions with the lowest and highest total unemployment rates, as shown in Table II.2.4. In April 1996, five of the eight regions with the lowest values were in Austria.

One of the remaining regions was Trentino-Alto Adige, in Italy. At the same time, however, three of the eight regions with the highest unemployment rates were in Italy, an indication of the marked differences in that country. The other five regions with particularly high values were all in Spain, but at the same time there was no Spanish region with a particularly low value, i.e. there are slight fluctuations around a high level.

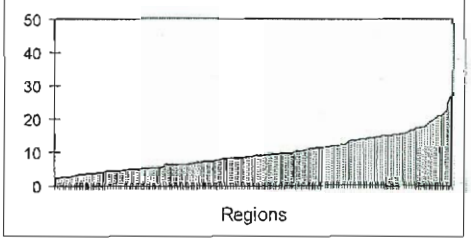
Unemployment and the indicators used to measure it may be further differentiated - for example by sex, an important breakdown showing how unemployment is different for men and for women.

Figures II.2.3 and II.2.4 show unemployment rate distributions in the regions in question in April 1996, divided into male and female. At first glance, the distributions appear very much the same, and also very similar to the distribution of total rates. There seems to be roughly the same size of regional differences in both male and female unemployment. Closer examination shows, however, that in that month the level of unemployment for women was much higher over all the regions than for men.

Table II.2.4	The regions of the Union[1] with the highest/lowest total unemployment rate, in %, April 1996
Region	Total unemployment rate
Luxembourg	3.2
Oberösterreich	3.3
Trentino-Alto Adige	3.4
Niederösterreich	3.6
Salzburg	3.6
Burgenland	3.7
Centro (P)	4.0
Vorarlberg	4.1
.	.
.	.
.	.
Sicilia	24.0
Murcia	24.3
Cantabria	24.6
Calabria	25.0
Campania	25.5
Ceuta y Melilla	27.0
Extremadura	30.2
Andalucia	32.4

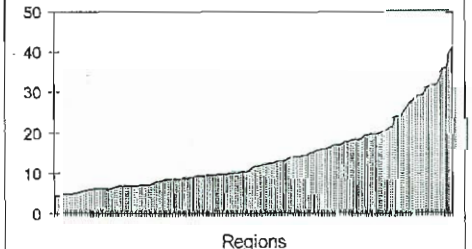
(1) without the French overseas departments
Source : Eurostat (Regional statistics)

Figure II.2.3: Male unemployment rate in the regions of the Union*, in %, April 1996



** without Corse, the French overseas departments and the Greek regions*
Source : Eurostat (Regional statistics)

Figure II.2.4: Female unemployment rate in the regions of the Union*, in %, April 1996



** without Corse, the French overseas departments and the Greek regions*
Source : Eurostat (Regional statistics)

The situation of the long-term unemployed is of particular importance for current labour market discussions.

Figure II.2.5 shows the distribution of long-term unemployment rates, i.e. the ratio of long-term unemployed to the active population in the regions in question in April 1995. In April 1995 many regions, regardless of total rates, had relatively low values for long-term unemployment, i.e. below 5%.

Tables II.2.5 and II.2.6 contain additional information on the situation and differences in long-term unemployment rates between and within the Member States in April 1995.

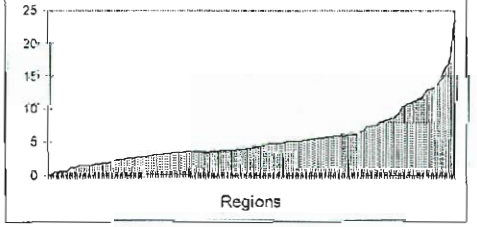
A comparatively large number of countries, notably Austria, Sweden, the Netherlands, Germany (only the former GFR), Portugal and the United Kingdom, had fairly low values in that month, as well as little variation between regions. Spain had by far the highest long-term unemployment rates, along with very small regional differences.

Four of the seven regions with the highest values, including the region with by far the highest unemployment rate (Ceuta and Melilla) were in Spain.

Italy, as well, had high values, and also quite large differences between regions.

In April 1995, it was primarily Austrian regions which came at the lower end of the league table. Of the eight regions with the lowest long-term unemployment rates, six were in Austria, the other two being a Finnish region and Luxembourg.

Figure II.2.5: Long-term unemployment rate in the regions of the Union*, in %, April 1995



** without the French overseas departments and the Greek regions*
Source : Eurostat (Regional statistics)

Table II.2.5	Long-term unemployment rate in the regions of the Union, April 1995			
	Long-term unemployment rate, in %			Relative average deviation
	Min.	Average	Max.	in %
B	2.8	5.8	10.6	38
DK	---	1.9	---	---
D(1)	1.5	3.0	6.1	46
EL	1.6	4.6	7.0	24
E	6.4	12.4	23.3	17
F(2)	2.2	4.6	7.1	17
IRL	---	7.2	---	---
I	1.2	7.4	18.9	61
L	---	0.7	---	---
NL	2.1	3.1	4.9	10
A	0.1	1.2	2.2	50
P	1.6	3.4	4.7	25
FIN	0.7	5.5	7.3	13
S	1.3	1.7	1.9	12
UK	2.4	3.8	8.6	11

(1) ex-FRG only
(2) without the French overseas departments
Source : Eurostat (Regional statistics)

Table II.2.6	The regions of the Union(1) with the highest/lowest long-term unemployment rate, in %, April 1995
Region	Long-term unemployment rate
Salzburg	0.1
Tirol	0.2
Burgenland	0.6
Vorarlberg	0.6
Luxembourg	0.7
Kärnten	0.7
Ahvenamaa/Åland	0.7
Oberösterreich	0.8
.	.
.	.
.	.
.	.
.	.
Extremadura	14.0
Pais Vasco	14.4
Sicilia	15.4
Calabria	16.5
Andalucia	16.8
Campania	18.9
Ceuta y Melilla	23.3

(1) ex-FRG only
(2) without the French overseas departments
Source : Eurostat (Regional statistics)

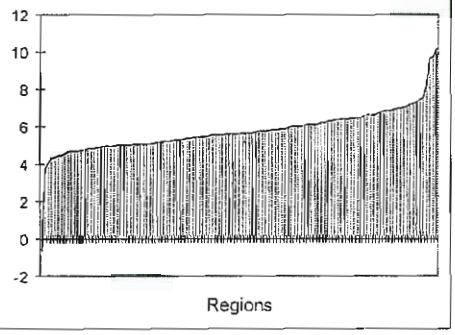
II.3. Changes over time in the regions of the Union

Changes in GDP in the regions of the European Union

Along with the current level of indicators such as per capita GDP, the way in which these indicators change over time is of particular interest.

Figure II.3.1 shows these rates of per head GDP between 1984 and 1994 in the regions taken into account and Figures II.3.2 and II.3.3 the corresponding distribution for the periods 1984 to 1989 and 1989 to 1994.

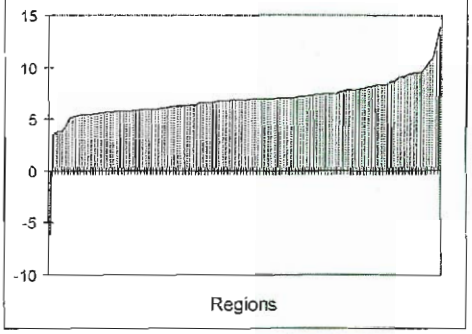
Figure II.3.1: Average annualised growth rate of GDP per capita (in PPS) in the regions of the Union*, in %, 1984 - 1994



*see table II.3.1; without Ireland
Source : Eurostat (Regional statistics)

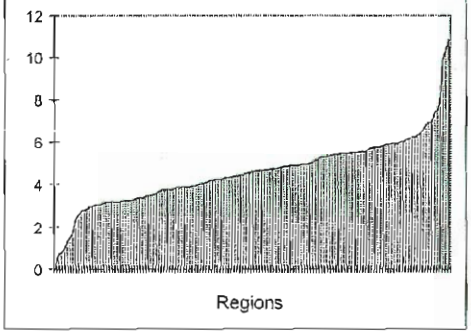
Comparing these figures, it is striking that, in both cases, the vast majority of growth rates are concentrated within a relatively narrow range. But it is precisely the value of this range that illustrates the basic difference between the distributions. Whereas the annual average per head GDP growth rate in a large majority of regions was between 4% and 7% during the period 1984 to 1994, it was for example one percentage point lower in the second half of this period. In other words, average changes in per capita GDP followed roughly the same pattern in all regions between 1984 and 1989 but at a higher level than in the following five years.

Figure II.3.2: Average annualised growth rate of GDP per head (in PPS), in the regions* of the European Union, 1984-1989, in %



* without the French overseas departments, the new German Länder, Ireland, Overijssel, Gelderland and Flevoland (The Netherlands), the Azores and Madeira (Portugal), as well as the Austrian, Finnish and Swedish regions
Source : Eurostat (regional statistics)

Figure II.3.3: Average annualised growth rate of GDP per capita (in PPS) in the regions of the Union*, in %, 1989 - 1994



* without the French overseas departments, the new German Länder, the Azores and Madeira (Portugal) as well as the Swedish regions
Source : Eurostat (Regional statistics)

Table II.3.1 gives further details on the regional differences in annual average growth rates of per capita GDP between 1984 and 1994. The national growth rates are shown, together with the lowest and highest values at regional level.

At national level, the rate in the majority of countries was between 5% and 7%, excep-

Table II.3.1	Average annualised growth rate of GDP per capita (in PPS) in the regions of the Union, in %, 1984 - 1994		
	Min.	Average	Max.
B	5.6	6.2	6.9
DK	---	5.8	---
D(1)	4.9	5.8	7.0
EL	3.8	6.1	8.3
E	5.0	6.3	9.6
F(2)	4.1	4.9	5.2
IRL	---	9.5	---
I	4.7	5.6	6.2
L	---	9.8	---
NL(3)	- 0.1	5.6	7.1
A(4)	---	5.7	---
P(5)	6.9	7.3	10.2
FIN(4)	---	4.3	---
S(4,6)	---	3.9	---
UK	5.0	5.5	6.0

(1) without the new German Länder
(2) without the French overseas departments
(3) without the regions of Overijssel, Gelderland and Flevoland
(4) no data available for 1984
(5) without the Azores and Madeira
(6) estimates for 1984
Source : Eurostat (Regional statistics)

tions being Sweden and Finland with values of 4%, and Luxembourg and Ireland with values of over 9%.

It is also noticeable that growth rates in countries with a relatively low level (Greece, Spain and Portugal) averaged over 6%.

Of those Member States for which regional as well as national growth rates can be calculated over the whole period, Greece, Spain, the Netherlands and Portugal, in particular, show marked regional fluctuations.

Definition and interpretation of annual average growth rates

These rates are based on the geometric mean of time-related index numbers, defined as the n^{th} root of the ratio of the value of a variable/indicator on a particular date and the corresponding value n years previously. By deducting 1 from this geometric mean, the annual average growth factor, we obtain the annual average growth rate, which is then multiplied by 100% to give the percentage by which the value of the variables/indicator in question has risen each year on average during the period under consideration.

Comparability of per capita GDP values over time

When per capita GDP figures, and thus annual average growth rates, are compared over time, it must be remembered that the figures do not reflect nominal changes in GDP alone. The indicator is also strongly influenced by changes in (national) purchasing power parities and (regional) population sizes and structures.

Greece may be taken as an example. The region with the highest annual average growth rate in the ten years under consideration was Crete, with 8.3%. At the other end of the scale was Sterea Ellada, with only 3.8%.

The only region in Europe with a negative growth rate was Groningen in the Netherlands. Other than in this region, the value range in the Netherlands is fairly narrow.

Table II.3.2 gives a brief overview of regions with particularly high or low annual average growth rates (per capita GDP) between 1984 and 1994.

In relative terms, the wide spread between the highest and the lowest values is immediately

Table II.3.2	The regions of the Union(1) with the highest/lowest average annualised growth rates of GDP per head (in PPS), in %, 1984 - 1994
Region	Average annualised growth rate
Algarve	10.2
Luxembourg	9.8
Ceuta y Melilla	9.6
Kriti	8.3
Centro (P)	7.5
Norte	7.4
.	
.	
.	
.	
.	
Drenthe	4.3
Aquitaine	4.1
Sterea Ellada	3.8
Groningen	- 0.1

** without the French overseas departments and the new German Länder*
Source : Eurostat (Regional statistics)

apparent. Even disregarding the special case of Groningen, the spread is 6.4 percentage points.

Interestingly, five of the six regions with the highest growth rates are in Portugal, Greece and Spain. In contrast, only one of the four regions with the lowest values is in one of these countries (Sterea Ellada in Greece).

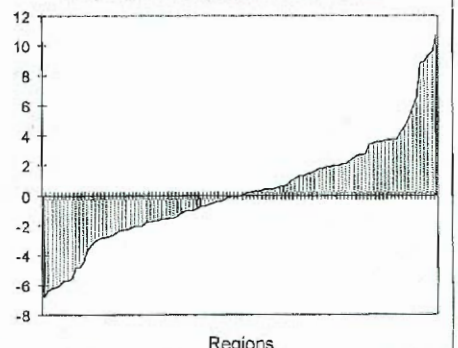
Changes in unemployment rates in the regions of the European Union

Differences in rates in different years provide an indication of changes in unemployment over time.

Figure II.3.4 shows the distribution of differences in total rates between 1986 and 1996 and Figures II.3.5 and II.3.6 the corresponding distribution for the periods 1986 to 1991 and 1991 and 1996.

It is apparent that the total unemployment rates in the two five-year periods by no means follow the same pattern. Whereas most of the regions taken into account between 1986 and 1991 the unemployment rate decreased, between 1991 and 1996 the rate went up in the vast majority of regions. Between 1991 and 1996, there was a fall in the unemployment rate in only about one-seventh of the regions considered.

Figure II.3.4: Change in total unemployment rate in the regions of the Union*, in percentage points, 1986 - 1996



** without the French overseas departments, the new German Länder, Ceuta and Melilla (Spain), Algarve (Portugal), as well as the Greek, Dutch, Austrian, Finnish and Swedish regions*
Source : Eurostat (Regional statistics)

This less favourable evolution can be mainly explained by the weak, and even negative growth rates of the European economy during the first half of the nineties.

Over the whole reference period (1986-96) the number of regions recording increasing unemployment rate is nearly the same as the number of those showing decreasing rate.

Table II.3.3 gives additional information on the regional distribution of increases and decreases in total unemployment rates.

Table II.3.3: Change in total unemployment rate in the regions of the Union, in percentage points, 1986 - 1996 (April each year)

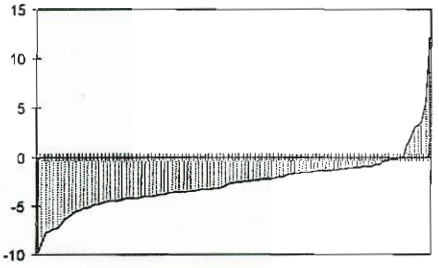
	Change from 1986 to 1996			Change from 1991 to 1996		
	Min.	Average	Max.	Min.	Average	Max.
B	- 4.5	- 1.6	0.3	1.7	3.5	6.3
DK	---	1.9	---	---	- 1.1	---
D(1)	- 2.4	0.7	1.8	2.0	3.0	3.4
EL(2, 3)	---	1.7	---	- 3.0	2.2	6.0
E(4)	- 6.8	0.9	6.6	- 2.8	6.3	9.2
F(5)	- 1.0	2.0	9.3	- 2.8	3.0	5.2
IRL	---	- 5.7	---	---	- 2.2	---
I	2.7	1.6	10.7	0.4	3.4	7.7
L	---	0.5	---	---	1.7	---
NL	---	---	---	0.2	1.2	2.1
A(3, 6)	---	---	---	---	---	---
P(7)	- 2.6	- 1.2	4.3	1.7	3.8	6.1
FIN(3)	---	---	---	3.7	9.4	10.4
S	---	---	---	5.8	7.2	8.4
UK	- 6.4	- 3.2	- 1.5	- 4.7	- 0.3	- 0.2

(1) ex-FRG only
(2) comparison until 1995
(3) no (regional) data available for 1986
(4) comparison 1986-1996 without Ceuta and Melilla
(5) without the French overseas departments
(6) no data available for 1991
(7) comparison 1986-1996 without Algarve
Source : Eurostat (Regional statistics)

A comparison of 1986 and 1996 shows that there was a fall in the total rate in at least one region in each of the Member States considered which had a regional breakdown at NUTS 1 or NUTS 2 level. In the United Kingdom, there was even a drop in all the regions.

A comparison of 1991 and 1996 also shows some figures on the decline, but only in regions of Greece, Spain, France, the Netherlands and the United Kingdom. In all the other countries with NUTS 1 and NUTS 2 regions, the total unemployment rate rose in every case. Once again, the United Kingdom is the only Member State where there was a drop in the total unemployment rate in all the regions.

Figure II.3.5: Change in total unemployment rate in the regions* of the European Union, 1986-1991 (April each year), in percentage points



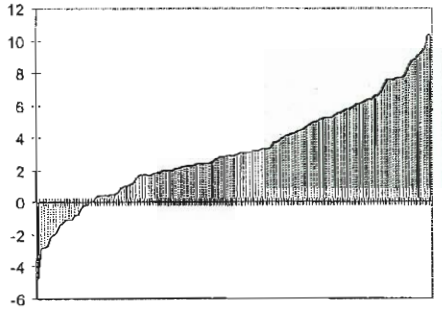
*without the French overseas departments, the new German Länder, Ceuta and Melilla (Spain), Algarve (Portugal,) as well as the Greek , Dutch, Austrian, Finnish and Swedish regions
Source : Eurostat (statistics regions)

In contrast, Finland and Sweden stand out as being the two Member States with increases - in some cases sharp increases - in total unemployment rates in all the regions considered between 1991 and 1996.

The situation in Finland is particularly striking. Of the eight regions with the steepest rises in total unemployment rates in the European Union between 1991 and 1996, six are in Finland and the other two (Cantabria and Madrid) in Spain (see table II.3.4).

At the other end of the scale (regions with the sharpest falls between 1991 and 1996), there

Figure II.3.6: Change in total unemployment rate in the regions of the Union*, in percentage points, 1991 - 1996 (April each year)



* without the French overseas departments, the new German Länder and the Greek and Austrian regions.
Source : Eurostat (Regional statistics)

Table II.3.4 The regions of the Union[1] with the highest increase/decrease of total unemployment rate, in percentage points, 1991 - 1996 (April each year)

Region	Change
Northern Ireland	- 4.7
Voreio Aigaio	- 3.0
Ceuta y Melilla	- 2.8
Corse	- 2.8
Canarias	- 2.7
Madrid	8.8
Väli-Suomi	8.8
Etelä-Suomi	9.1
Cantabria	9.2
Uusimaa	9.5
Pohjois-Suomi	10.3
Itä-Suomi	10.4

* without the French overseas departments, the new German Länder and the Austrian regions. Data for Greece are for the period 1986-1995.
Source : Eurostat (Regional statistics)

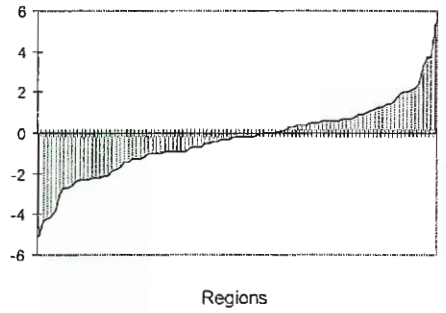
is, surprisingly, no concentration in one or two Member States. The five regions with the sharpest declines in total rates between 1991 and 1996 are spread over four countries (United Kingdom, Greece, France and Spain).

The key statements about changes in total unemployment rates between 1986 and 1996 or 1991 and 1996 hold true for changes in long-term rates during the periods 1987 to 1995 or 1991 to 1995, shortened for reasons of data availability.

Figures II.3.7 and II.3.8 show that in this case, too, the figures for increases and decreases between 1987 and 1995 more or less cancel each other out, whereas a comparison of the situation in 1991 and in 1995 shows that, for the same reason as for total unemployment, the rates increased in the vast majority of cases.

Table II.3.5 gives an impression of changes in the long-term unemployment rate in individual Member States. A comparison with Table II.3.3 shows no radical differences, despite some countries which bucked the trend.

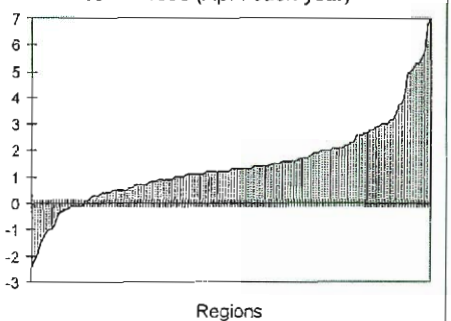
Figure II.3.7: Change in long-term unemployment rate in the regions of the Union*, in percentage points, 1987 - 1995 (April each year)



** without the French overseas departments, the new German Länder, Brabant flamand and Brabant wallon (Belgium), Ceuta and Melilla (Spain), Algarve (Portugal), as well as the Greek, Dutch, Austrian, Finnish and Swedish regions*
Source : Eurostat (Regional statistics)

In Sweden, for instance, the long-term rates in all regions rose much more slowly than the total rate, and in the United Kingdom there were regions where the long-term rate, unlike the total rate, rose between 1991 and 1995.

Figure II.3.8: Change in long-term unemployment rate in the regions of the Union*, in percentage points, 1991 - 1995 (April each year)



** without the French overseas departments, the new German Länder as well as the Greek and the Austrian regions*
Source : Eurostat (Regional statistics)

The steepest rises in the long-term rate during the period under consideration, as in the total rate, were in regions in Finland and Spain, while there were falls in these rates in several Member States (for details, see table II.3.6).

Table II.3.5 Change in long-term unemployment rate in the regions of the Union, in percentage points, 1987 - 1991 -1995 (April each year)

	Change from 1987 to 1995			Change from 1991 to 1995		
	Min.	Average	Max.	Min.	Average	Max.
B[1]	- 5.1	- 2.4	- 0.8	0.8	1.5	2.6
DK	---	0.5	---	---	- 1.0	---
D[2]	- 2.6	- 0.2	1.3	0.4	1.1	2.9
EL[3]	---	1.4	---	- 2.1	1.0	2.8
E[4]	- 4.2	0.0	2.4	- 0.3	4.2	6.8
F[5]	- 1.4	0.1	1.0	- 1.9	1.3	2.1
IRL	---	- 4.3	---	---	- 2.4	---
I	- 1.3	0.5	5.4	- 1.5	0.9	2.8
L	---	- 0.1	---	---	0.3	---
NL[3]	---	- 1.1	---	- 1.0	0.2	3.2
A[6]	---	---	---	---	---	---
P[7]	- 1.4	- 0.6	3.3	0.5	1.9	3.0
FIN[3]	---	---	---	0.6	5.4	7.0
S[3]	---	---	---	1.1	1.5	1.6
UK	- 3.0	- 1.1	- 0.2	- 0.5	1.4	2.2

(1) comparison 1987-1995 without Brabant flamand and Brabant wallon
(2) ex-FRG only
(3) no (regional) data available for 1987
(4) comparison 1987-1995 without Ceuta and Melilla
(5) without the French overseas departments
(6) no data available
(7) comparison 1987-1995 without Algarve
Source : Eurostat (Regional statistics)

Table II.3.6 The regions of the Union[1] with the highest increase/decrease of long-term unemployment rate, in percentage points, 1991 - 1995 (April each year)

Region	Change
Ireland	-2.4
Voreio Aigaio	-2.1
Corse	-1.9
Basilicata	-1.5
Ipeiros	-1.3
Puglia	-1.1
Danmark	-1.0
Overijssel	-1.0
Umbria	-0.8
Murcia	4.9
Cataluna	5.0
Rioja	5.1
Andalucia	5.3
Väli-Suomi	5.3
Uusimaa	5.5
Etelä-Suomi	5.7
Madrid	6.8
Itä-Suomi	7.0

(1) without the French overseas departments, the new German Länder and the Austrian regions
Source : Eurostat (Regional statistics)

Symbols and abbreviations

EU	European Union
EUR 12	European Union of 12 members
EUR 15	European Union of 15 members
B	Belgium
DK	Denmark
D	Germany (former FRG + West Berlin until 1990, Unified Germany since 1991)
EL	Greece
E	Spain
F	France
IRL	Ireland
I	Italy
L	Luxembourg
NL	Netherlands
A	Austria
P	Portugal
FIN	Finland
S	Sweden
UK	United Kingdom
USA	United States of America
JPN	Japan
BEF	Belgian franc
DKK	Danish crown
DEM	German mark
GRD	Greek drachma
ESP	Spanish peseta
FRF	French franc
IEP	Irish pound
ITL	Italian lira
LUF	Luxembourgish franc
NLG	Dutch guilder
ATS	Austrian schilling
PTE	Portuguese escudo
FIM	Finnish mark
SEK	Swedish crown
GBP	Pound Sterling
USD	United States dollar
YEN	Japanese yen
Mio	million
Mrd	milliard (thousand million)
:	Data not available

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