



# THE ECONOMIC ACCOUNTS OF THE EUROPEAN UNION

1995





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Y. Franchet  
Directeur général

# THE ECONOMIC ACCOUNTS OF THE EUROPEAN UNION

1995

Theme  
Economy and finance  
Series  
Yearbooks and yearly statistics



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

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

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# The Economic Accounts of the European Union 1995

## CONTENTS

<b>Preface</b>	<b>1</b>
<b>I Overview of the main macro-economic data of the European Union</b>	<b>2</b>
<b>I.1 Introduction and main conclusions</b>	<b>2</b>
<b>I.2 Economy of the Union</b>	<b>4</b>
I.2.1 Main results	4
I.2.2 Economic cycle	7
I.2.3 Global demand	10
I.2.4 External trade	13
I.2.5 Distribution of GDP, disposable income, savings and net lending/borrowing	17
<b>I.3 Economy by branch in the Union</b>	<b>20</b>
I.3.1 Gross value added	20
I.3.2 Employment and productivity	22
I.3.3 Compensation of employees	26
<b>I.4 Private households in the Union</b>	<b>29</b>
I.4.1 Private households as a consumer	29
I.4.2 Private households as a receiver of income	32
I.4.3 Private households as a saver	34

<b>I.5</b>	<b>General government in the Union</b>	<b>36</b>
I.5.1	General government revenues and expenditures	36
I.5.2	General government share in GDP	37
I.5.3	General government as a producer	37
I.5.4	General government as an employer	38
I.5.5	General government as a purchaser	38
I.5.6	General government as a redistributor	38
I.5.7	Financing of general government	39
<b>I.6</b>	<b>Labour market in the Union</b>	<b>41</b>
I.6.1	Population	41
I.6.2	Employment	42
I.6.3	Unemployment	44
<b>I.7</b>	<b>Prices, conversion rates and interest rates in the Union</b>	<b>46</b>
I.7.1	Consumer prices	46
I.7.2	Exchange rates and the ECU	48
I.7.3	Purchasing power parities	50
I.7.4	Interest rates	53
<b>II</b>	<b>Taxes and social contributions in the Union</b>	
	<b>Trends since 1980</b>	<b>55</b>
II.1	Volume of taxes and social contributions in the Union	55
II.2	Structure of social contributions by contributors	61
II.3	Structure of taxes by type of tax	62
II.4	Summary	64

## **SYMBOLS AND ABBREVIATIONS**

<b>EU</b>	European Union
<b>EUR 12</b>	European Union of 12 members
<b>EUR 15</b>	European Union of 15 members
<b>EFTA</b>	European Free Trade Association
<b>B</b>	Belgium
<b>DK</b>	Denmark
<b>D</b>	Germany (former FRG + West Berlin until 1990, Unified Germany since 1991)
<b>GR</b>	Greece
<b>E</b>	Spain
<b>F</b>	France
<b>IRL</b>	Ireland
<b>I</b>	Italy
<b>L</b>	Luxembourg
<b>NL</b>	Netherlands
<b>A</b>	Austria
<b>P</b>	Portugal
<b>FIN</b>	Finland
<b>S</b>	Sweden
<b>UK</b>	United Kingdom
<b>USA</b>	United States of America
<b>JAP</b>	Japan
<b>IS</b>	Island
<b>BFR</b>	Belgian franc
<b>DKR</b>	Danish crown
<b>DM</b>	German mark
<b>DRA</b>	Greek drachma
<b>PTA</b>	Spanish peseta
<b>FF</b>	French franc
<b>IRL</b>	Irish pound
<b>LIT</b>	Italian lira
<b>LFR</b>	Luxembourgish franc
<b>HFL</b>	Dutch guilder
<b>ÖS</b>	Austrian schilling
<b>ESC</b>	Portuguese escudo
<b>FMK</b>	Finnish mark
<b>SKR</b>	Swedish crown
<b>UKL</b>	Pound Sterling
<b>USD</b>	United States dollar
<b>YEN</b>	Japanese yen
<b>Mio</b>	million
<b>Mrd</b>	milliard (thousand million)
<b>:</b>	Data not available
<b>GDP</b>	Gross domestic product
<b>EMU</b>	Economical and Monetary Union
<b>ECU</b>	European monetary unit
<b>PPS</b>	Purchasing power standard (based on GDP and the ECU)





# PREFACE

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

For this initial project, Eurostat was joined by seven National Statistical Institutes. These are the Institutes of Germany, France, Italy, the Netherlands, Austria, Portugal and the United Kingdom. The ultimate aim is to involve other Member States in this report on the Accounts of the Union, which is to be a permanent product of the European Statistical System as a whole.

In order to distinguish this statistical document clearly from the economical analyses and forecasts made by DGII, this report does not provide any economical explanations of the statistical facts.

When preparing this publication, certain shortcomings in the statistical database became obvious. This underlines the necessity for further work in the development of a more consistent and complete European statistical system.

Despite these restrictions, Eurostat believes that by presenting and commenting in one single volume on the main macroeconomic data of the Union and the Member States, this report will render this data more familiar to users and will significantly contribute to the better understanding of the economic phenomena.

Y. Franchet  
Director general

# I Overview of the main macro-economic data of the European Union

## I.1 Introduction and main conclusions

### Features of the report

As with similar publications produced by certain statistical institutes at national level, as for example 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 taxes and social contributions in the Member States and the Union.

The present report focuses on 1995, 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 give certain advantages:

- they have been compiled on the basis of uniform definitions and methodologies - those used in the ESA (second edition, 1979);
- the data used have been largely obtained from the National Statistical Offices, the very bodies which, together with Eurostat, analyse them in this publication;
- 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 in June/July 1995. 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 Conclusions

The year 1995 was marked by a gradual slowdown in **real growth rates** in the industrialised countries,

particularly so in the second half of the year. Growth for the European Union as a whole slipped from 2.8% in 1994 to 2.4% in 1995. With a rate of 2.0%, the USA economy displayed an economic growth lower than that of the Union. Despite slight signs of improvement in the Japanese economy, its growth rate in 1995 still remained below 1%.

Expressed in terms of Purchasing Power Standards, the Union GDP continued to rise, reaching 6,437.1 Mrd in 1995. This figure stands approximately 4% below that of the USA and two and a half times that of Japan. Within the Union, the GDP per capita figures in real terms vary between 28,400 for Luxembourg and 10,870 for Greece.

Within the Union, **domestic demand** remained weak, while, despite consistent drawing on stocks, investment showed substantially positive growth rates mainly due to the equipment sector. Exterior demand, led by developing countries, supported economic activity. Trade surplus for the Union with the rest of the world rose to 24 Mrd ECU from 6 Mrd ECU in 1994, the industrialised countries still remaining the major suppliers and customers.

The structural analysis of **the economy by branch** shows for gross value added at market prices in the Union as a whole an annual average growth in the second half of the eighties of 3.1% per annum, a rate of more than the double as that seen between 1990 and 1994 and experienced by virtually every Member State.

Over the whole of the reference period, growth rates in both Japan and the USA were above the Union average, although both countries also saw faster rates in the second half of the eighties than in the nineties. Within the Union, this growth was accompanied by clearly visible structural changes. In 1994, just under two-thirds of nominal gross value added at factor cost in the Union came from the services branches as against only 60.8% in 1985.

Employment in the Union as a whole rose only by 0.5% per annum on average between 1985 and 1994. By contrast to the positive rates of increase in the second half of the eighties, employment fell by 0.3% per year in the nineties. Only six of the fifteen Member States showed rising employment figures in the nineties.

Productivity rose steadily, at a higher rate than in the USA but more slowly than Japan.

Compensation of employees in the Union saw strong rises, the annual rate of 4.7% matching that for the USA and overtaking that for Japan. The Union

countries with the lowest productivity levels showed the highest increases in earnings from paid employment.

The position of **private households** continued to vary widely from one Member State to another. In terms of per capita consumption in purchasing power parities, considerable deviations from the Union average persisted, ranging from Portugal with 71.7% of the average to Luxembourg with 151.3%. Although these countries came closer to the average, the gap between the lowest and highest narrowed only very slightly between 1985 and 1994.

However, the pattern of consumption changed substantially during this period. Consumption of food, drink, tobacco, and to a lesser extent clothing and footwear, fell. By contrast, housing, water, fuel and power, healthcare and medical expenditure and miscellaneous goods and services rose. Compensation of employees provided households with the largest part of their income, although the proportion has been consistently falling for the vast majority of Member States.

Savings ratios for households fell slightly between 1980 and 1990. After a peak in the early nineties, they once again returned to a period of reduction for most Member States, reaching a level four points below that of 1980.

**General governments** play an important role in the economy, their level of involvement, however, varies greatly from one Member State to another. General government expenditure ranges between 40% and 60% of GDP, a share which has steadily increased. Between 1980 and 1994, some 17% of GDP was dedicated to general government consumption. Purchases of goods and services accounted for around 20% of this expenditure and compensation of employees for about 25%. Current transfers by general government to private households stood at around 45% of public expenditure, with a moderate upward trend in recent years.

Every Member State except one experienced government deficit for the year 1995, rates varying between -1.5% and -9.2% of GDP. In 1995, only five Member States stood below the 60% limit for public debt in relation to GDP.

**The labour market** saw strong structural changes during the course of the decade, the level varying between Member States. In the Union, approximately two thirds of the workforce are employed in the services sector, while employment in agriculture has fallen to 5.3%. Employment in the industry sector also

shrunk, its level of 30.2% still represents a major employer at a slightly higher level than in the USA, but below Japan.

In 1995, unemployment in the Union decreased by 3.4%, representing a break with the trend of continuous growth in the past years. However, at 10.8% it remains at a high level, significantly above figures for the USA and Japan. Even though the percentage unemployment among young people has dropped since the beginning of the decade, the young still make up more than a quarter of the unemployed. The proportion of women unemployed is almost 50%.

Major progress has been made in the fight to counter rises in **consumer prices**. There has been a slowdown in annual inflation since the beginning of the nineties, dropping to 3.1% in 1995. This figure masks strong disparities among Member States with levels varying between 1.0% and 9.3%. Inflation in the Union's major trading partners was still significantly lower, being +2.8% for the USA and -0.1% for Japan.

Between 1980 and 1985 total taxation, comprising **taxes and social contributions**, as a percentage of GDP in the European Union showed an upward trend, rising from 38.7% to 40.6%. Between 1985 and 1990 the tax ratio declined slightly, rising again more sharply at the outset of the nineties, mainly due to growth in social contributions. In 1993 and 1995, the overall tax ratio saw its highest values, being 41.7% of GDP.

Within the Union there are considerable differences in the relative volume of payable taxes and social contributions. Since 1990, however, the maximum value of total taxes as a proportion of GDP moved closer to the minimum value among Member States. In 1995, total taxes per head of population averaged around 1,000 Ecu, being 20% higher than the figure for 1980. These total taxes were made up by approximately one third social contributions and two thirds taxes. Some 53% of social contributions were paid by employers, 35% by employees and 12% by the self-employed and non-employed.

Over the past 15 years the four main categories of tax, being current taxes on wealth, taxes linked to production and imports, non-deductible VAT and capital taxes have remained remarkably stable as a proportion of total tax revenue in the Union average. In general, around 50% of all taxes in the Union come from current taxes on income and wealth. Roughly a quarter comes from taxes linked to production and just under another quarter come from non-deductible VAT.

## 1.2 Economy of the Union

### 1.2.1 Main results

#### The economic growth in the international framework 1995

The year 1995 was marked by a gradual slowdown in real growth rates in most of the industrialised countries. In the second half of the year, the main indicators of economic activity began to betray signs of weakness.

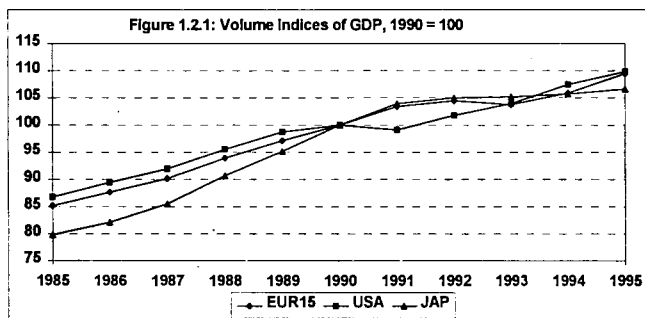
The slowdown affected the USA, Canada and the United Kingdom, where expansion had continued unchecked for some years, and the other industrialised countries, where growth rates flagged even more.

The annual figures for the main international economic areas show GDP growing by 1.9% in the OECD countries as well as in the BIG 7 countries.

Growth in the European part of the OECD was 2.8%, while growth for the Union as a whole slipped from 2.8% in 1994 to 2.4% in 1995.

Within the BIG 7 countries, growth was 2.3% in Canada, whereas in the United States, the dynamic growth of 1994 has been replaced in 1995, by a relatively more modest growth. Indeed, rates have dropped from +3.5% to +2.0% respectively. Thus the US economy, while returning to the levels of 1993, displays in 1995 an economic growth lower than that of the European Union.

In Japan, after the little growth in 1992 and extended by a quasi-stagnation in 1993, some faint signs of improvement in the economy may be observed since 1994, but, the growth rate still remains below 1% in 1995.



Source : Eurostat

In a **broader** international framework should be pointed out the high growth rates of groupings of countries like the NPI1 and NPI2 as well as India and especially China, whose growth rate of GDP has been higher than 10% since 1992 (10.3% in 1995).

Among the countries of Central and Eastern Europe mentioned in the table below, certain also show comparatively high growth rates. They are in particular Poland (+7.0%), Romania (+6.9%) and the Slovak Republic (+7.4%) (see table and figure 1.2.1).

Amongst the Member States of the Union, once more Ireland, like in 1994, has the highest rate of growth (+8.6%) followed by Finland (+4.2%). The GDP growth rates of all other Member States fall between +1.8% (Austria) and +3.2% (Luxembourg).

Table I.21	International comparison of growth rates of GDP at constant prices, in %					
	1990	1991	1992	1993	1994	1995
EUR15	3.0	3.4	1.0	-0.6	2.8	2.4
OECD	2.6	1.3	1.8	0.9	2.7	1.9
OECD Europe	3.2	2.9	1.2	-0.2	2.4	2.8
BIG7	2.6	1.8	1.7	0.8	2.7	1.9
APEC	2.8	1.2	2.4	2.0	3.1	2.0
NAFTA	1.4	-0.8	2.6	2.1	3.5	1.5
USA	1.3	-1.0	2.7	2.2	3.5	2.0
CANADA	-0.2	-1.8	0.8	2.2	4.1	2.3
JAPAN	5.1	4.0	1.1	0.1	0.5	0.9
CHINA	3.9	8.0	13.2	13.8	11.9	10.3 <sup>(1)</sup>
NIC1	7.3	7.9	5.8	6.5	7.6	7.5
NIC2	8.8	6.2	6.0	6.9	8.0	8.1
OCEANIA	1.1	0.3	2.1	2.8	5.2	3.1
INDIA	5.7	0.5	4.6	4.5	6.3	
CEEC of which:						
Bulgaria			-7.3	-1.5	1.8	-2.3
Czech Republic		-14.2	-6.4	-0.9	2.6	4.8
Hungary			-3.1	-0.6	2.9	1.5
Poland		-7.0	2.6	3.8	5.2	7.0
Romania		-12.9	-8.8	1.5	3.9	6.9
Slovak Republic		-14.6	-6.5	-3.7	4.9	7.4

APEC (Asia-Pacific Economic Cooperation): NIC 1, NIC 2, NAFTA, Oceania, Japan, Chile, China, Indonesia

NAFTA : USA, Canada, Mexico

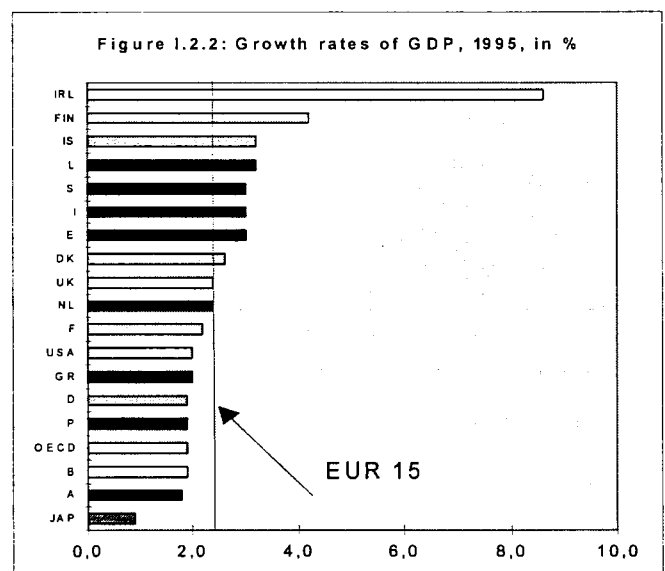
NIC 1 : Newly Industrialising Countries, (Singapore, Taiwan, Hong Kong, South Korea)

NIC 2 : Asian NIC in the second wave of industrialisation, Philippines, Malaysia, Thailand

OCEANIA : New Zealand, Australia

(1) estimation Eurostat

Sources : Eurostat, OECD and national sources



Source : Eurostat

The largest reduction in growth rate compared to last year, may be observed for Denmark. However, even if the rate fell by approximately half, (from +4.4% in 1994 to +2.6% in 1995), it still stands slightly higher than the average Union growth rate (see figure and table 1.2.2)

Table I.2.2	Annual growth rates of GDP, constant prices of 1990, in %					
	1990	1991	1992	1993	1994	1995
B	3.4	2.2	1.8	-1.6	2.2	1.9
DK	1.4	1.3	0.2	1.5	4.4	2.6
D(*)	5.7	/	2.2	-1.2	2.9	1.9
GR	-0.8	3.4	0.4	-0.9	1.5	2
E	3.7	2.3	0.7	-1.2	2.1	3
F	2.5	0.8	1.2	-1.3	2.8	2.2
IRL	7.8	2.2	3.9	3.1	6.7	8.6
I	2.2	1.1	0.6	-1.2	2.1	3
L	2.7	4.6	2.3	5.5	3.8	3.2
NL	4.1	2.3	2	0.2	2.7	2.4
A	4.2	2.8	2	0.4	3	1.8
P	4.1	2.1	1.1	-1.2	0.7	1.9
FIN	0	-7.1	-3.6	-1.2	4.4	4.2
S	1.4	-1.1	-1.4	-2.2	2.6	3
UK	0.4	-2	-0.5	2.3	3.8	2.4
EUR 15	3	3.4	1	-0.6	2.8	2.4

(\*) from 1991 figures include the new German Länder;

/: means that the growth rate is not available due to one break in the serie.

Source : Eurostat

In 1995, the GDP of the Union as a whole worked out at 6438.6 Mrd ECU compared with 5539.6 Mrd ECU for the USA and 3907.7 Mrd ECU for Japan.

The share of the GDP of the Union (in PPS) in the world-GDP, which was about 22% in 1990 fell to 20.8% in 1995 whereas the share of the USA (21.4% in 1995)

remained fairly stable. The share of Japan was about 8% in 1995.

Within the Union, Germany had the highest GDP (1846.3 Mrd. ECU), representing about 28.7% 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 4.9% to the total GDP of the Union.

Concerning per capita data, it is Luxembourg which has in 1995 the highest level (31860 ECU) while Greece and Portugal, with 8150 and 7800 ECU respectively fall below the Union's average (17260 ECU) (see table 1.2.3) (A more detailed analysis of GDP per head, in particular in PPS, is given in section 1.7.3).

### The main components of GDP - Evolution and structure

Values of the main aggregates of GDP are presented for the years 1990 to 1995 in table 1.2.4, while the table 1.2.5 shows for the same period, on one side the evolution of the main aggregates of the Union, the United-States and Japan and on the other side within the Union itself.

Table I.2.3	GDP at current prices and exchange rates, in ECU											
	Total in Mrd ECU						ECU per capita					
	1990	1991	1992	1993	1994	1995	1990	1991	1992	1993	1994	1995
B	151.2	159.5	170.7	179.6	192.3	205.6	15190	15950	16990	17810	18940	20240
DK	101.7	104.7	109.6	115.2	123.1	132.3	19790	20310	21200	22200	23650	25310
D(*)	1182.2	1391.5	1522.3	1629.3	1725.3	1846.3	18690	17400	18890	20070	21190	22630
GR	64.4	70.4	73.8	76.7	80.5	85.4	6340	6860	7160	7390	7720	8150
E	387.5	427.6	445.8	408.4	406.6	427.7	9950	10990	11430	10450	10390	10900
F	941.5	971.7	1022.0	1066.8	1122.6	1176.6	16590	17030	17810	18500	19390	20240
IRL	35.4	36.8	39.4	40.2	43.8	46.8	10100	10440	11100	11300	12250	13070
I	861.1	931.1	942.6	841.9	855.9	831.4	14950	16130	16280	14500	14710	14250
L	8.1	8.8	9.5	10.8	11.8	13.0	21330	22800	24400	27200	29270	31860
NL	223.4	234.8	248.9	266.2	281.9	302.4	14950	15590	16390	17410	18330	19560
A	124.7	133.5	144.0	155.9	167.1	178.4	16140	17090	18196	19510	20810	22140
P	53.1	61.7	71.1	69.9	71.2	77.0	5370	6260	7210	7080	7220	7800
FIN	106.2	98.1	82.1	72.0	82.2	96.4	21300	19580	16280	14220	16160	18860
S	180.8	193.5	191.4	158.5	166.5	175.2	21130	22460	22080	18180	18960	19780
UK	772.0	820.7	809.7	808.6	860.1	844.0	13436	14200	13960	13900	14750	14430
EUR 15	5193.8	5644.0	5882.0	5900.3	6190.7	6438.6	14870	15370	15940	15910	16640	17260
USA	4511.2	4774.4	4810.4	5593.7	5827.0	5539.6	18050	18900	18830	21660	22330	21030
JAP	2341.5	2756.7	2873.0	3653.0	3948.8	3907.7	18970	22250	23120	29320	31620	31210

(\*) from 1991, figures include the new German Länder

Source : Eurostat

Table 1.2.4	Main components of GDP, Mrd ECU at current prices and exchange rates																	
	Private consumption						Collective consumption						GFCF					
	1990	1991	1992	1993	1994	1995	1990	1991	1992	1993	1994	1995	1990	1991	1992	1993	1994	1995
B	94.5	100.2	106.7	112.3	119.5	126.6	21.7	23.6	24.9	27.0	28.8	30.6	30.7	31.0	32.6	32.0	33.5	36.1
DK	52.8	54.4	57.2	60.4	66.0	71.0	25.8	26.7	28.1	30.3	31.5	33.2	17.7	17.3	17.1	17.3	18.3	21.1
D(*)	716.4	887.2	977.2	1.061.3	1.112.3	1.187.7	143.6	178.8	196.7	212.2	212.0	225.2	247.4	319.9	351.1	355.9	379.1	400.8
GR	47.3	51.4	54.9	57.5	60.3	63.7	10.0	10.4	10.3	10.9	11.3	12.1	15.0	14.9	15.0	14.9	15.1	16.2
E	241.9	266.7	281.0	257.9	255.9	265.6	60.4	69.1	76.2	71.8	68.6	70.3	94.7	101.7	97.5	81.2	80.5	89.1
F	558.5	579.0	611.8	646.8	674.9	704.5	171.8	180.3	195.5	214.3	221.4	230.5	201.2	206.1	205.2	197.7	202.4	211.2
IRL	20.7	21.7	23.1	22.7	24.5	25.3	5.3	5.8	6.4	6.5	7.0	7.2	6.4	6.1	6.3	6.0	6.6	7.6
I	528.0	575.3	591.7	522.2	530.3	510.5	151.2	163.9	166.4	148.5	147.2	135.4	174.8	184.3	180.6	142.7	141.9	141.3
L	5.1	5.6	5.8	6.4	6.8	7.3	1.1	1.2	1.3	1.4	1.5	1.6	2.0	2.3	2.2	2.6	2.5	2.8
NL	131.1	139.5	149.9	161.8	170.5	180.8	32.5	34.0	36.5	38.9	40.1	42.4	46.7	47.8	49.8	51.4	54.4	59.5
A	69.1	73.6	79.7	86.7	92.1	98.6	22.2	24.1	26.4	29.7	31.5	33.7	30.6	33.8	36.1	37.8	41.4	44.1
P	33.8	40.0	46.3	44.8	45.5	48.1	8.4	10.9	12.6	12.8	13.0	14.3	14.4	15.9	17.4	16.3	17.2	18.8
FIN	55.6	54.9	46.9	41.1	45.9	52.4	22.4	23.7	20.4	16.8	18.4	20.7	28.7	22.0	15.1	10.6	12.0	14.8
S	92.1	103.1	103.2	87.3	90.3	91.5	49.5	52.7	53.4	44.5	45.6	45.3	38.9	37.5	32.5	22.6	22.6	25.5
UK	486.8	521.3	519.9	521.0	550.7	539.6	158.2	177.0	178.8	177.0	185.7	180.4	150.7	139.4	126.9	120.9	127.9	127.2
EUR 15	3133.7	3474.2	3655.4	3690.3	3845.5	3973.1	883.9	982.2	1.033.7	1.042.5	1.063.5	1.083.0	1.100.1	1.180.1	1.185.6	1.109.9	1.155.4	1.216.2
USA	3.014.9	3.207.9	3.250.7	3.803.7	3.950.1	3.764.8	767.0	827.5	812.5	921.7	926.8	868.9	778.3	757.8	764.6	906.2	981.3	955.8
JAP	1.357.3	1.572.9	1.658.1	2.141.4	2.355.6	2.350.7	211.3	248.4	263.4	344.0	377.6	380.6	743.0	864.9	874.0	1.079.0	1.132.5	1.112.6

(\*) from 1991, figures include the new German Länder

Source: Eurostat

On the basis of these figures, it may be noted that the GDP growth observed between 1990 and 1995 in the Union and Japan is mainly due to the vigorous expansion of **final consumption**. Regarding the evolution of the **gross fixed capital formation**, a slight trend in growth may be discerned for the Union (+1.0%) with a negative one for Japan (-0.5%), which strongly contrast with that recorded for the USA (+17.3%).

Contrary to Japan or within the Union, where the levels of growth of private and public consumption expenditure are fairly close, the USA has a large contrast between these two figures, exceeding 10 percentage points.

Table 1.2.5	Evolution of the main components of GDP 1990 - 1995, at constant prices of 1990, in %		
	Private consumption	Collective consumption	GFCF
	B	8.1	5.8
DK	15.1	5.0	-1.6
D(*)	7.2	2.0	3.4
GR	7.6	4.4	-4.1
E	5.5	13.1	-4.3
F	6.2	12.1	-5.5
IRL	14.9	13.9	6.6
I	2.7	2.7	-8.4
L	21.8	23.5	31.0
NL	11.2	4.9	5.5
A	11.3	12.8	16.2
P	8.1	16.5	10.5
FIN	-5.6	-3.2	-42.2
S	-2.4	0.1	-25.8
UK	5.4	5.4	-8.2
EUR 15	10.6	9.1	1.0
USA	10.8	0.7	17.3
JAP	9.5	11.0	-0.5

(\*) Due to the break arising from German reunification in series, average growth of the main aggregates of GDP for Germany have been only calculated for 1991-95 on the basis of the unified Germany.

Source: Eurostat

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

While between 1990 and 1995, the growth rates for **private consumption expenditure** were negative for Finland (-5.6%) and Sweden (-2.4%), six Member States (Luxembourg, Denmark, Ireland, Germany, Austria and Netherlands) show rates higher than the EUR 15 average. By contrast, in each of the other states, growth rates were comparatively modest and vary between +2.7% (Italy) and +8.1% (Belgium and Portugal).

Differences between Member States also appear when comparing growth rates for **collective consumption expenditure**. The majority of Member States have growth rates lower than the EUR 15 average. However, they occur at different levels. For instance, Finland which is the only State to record a negative rate (-3.2%), may be distinguished from Sweden whose rate is around zero or even from Italy whose rate is just under 3%. By contrast, Greece, Netherlands, Denmark, United Kingdom and Belgium show higher rates but do not exceed 6%.

Comparison between rates of **gross fixed capital formation** within Member States also shows during the same period certain differences in evolution.

In fact, while a clear withdrawal of investment from Finland may be observed (-42.2%), Luxembourg records a contrasting growth rate of +31.0%. It may also be noted that on the whole Member States have lower rates than the EUR 15 average, ranging between -8.4% for Italy and -1.6% for Denmark (excluding Finland and Sweden which showed considerably more negative rates).

## The main aggregates in percent of GDP

Table 1.2.6 describes, through the main aggregates, the structure of GDP as it stood in 1985 and as it is in 1995.

Table 1.2.6	Main aggregates, in % of GDP					
	Private consumption		Collective consumption		GFCF	
	1985	1995	1985	1995	1985	1995
B	65.4	61.6	17.2	14.9	15.6	17.5
DK	54.8	53.7	25.3	25.1	18.7	16.0
D(*)	63.4	64.3	13.6	12.2	19.5	21.7
GR	68.6	74.6	14.7	14.2	23.7	19.0
E	64.1	62.1	14.7	16.4	19.2	20.8
F	60.8	59.9	19.6	19.6	19.3	18.0
IRL	59.9	54.0	18.4	15.4	18.9	16.3
I	61.5	61.4	16.5	16.3	20.7	17.0
L	65.4	55.9	13.3	12.5	16.0	21.5
NL	59.4	59.8	15.8	14.0	19.7	19.7
A	57.5	55.2	18.9	18.9	22.6	24.7
P	70.7	62.4	15.9	18.5	21.8	24.4
FIN	54.5	54.4	20.2	21.5	23.9	15.4
S	51.2	52.2	27.9	25.9	19.3	14.5
UK	60.9	63.8	21.1	21.3	17.0	15.0
EUR 15	61.3	61.7	17.8	16.8	19.3	18.9
USA	64.7	68.0	17.3	15.7	20.1	17.3
JAP	58.9	60.1	9.6	9.7	27.5	28.5

(\*) from 1991, the figures include the new German Länder  
Source : Eurostat

In 1985 and 1995, **private consumption expenditure in percent of GDP** is higher in USA than in the Union or Japan. In ten years, the share of household consumption of the Union has virtually stagnated around 61% of GDP.

Among the Member States, it is interesting to note apparent changes in the structure of GDP. In 1985, for instance, Portugal was the only State which shows a share of household consumption higher than 70% of GDP. However in 1995, in recording a lower share by almost eight points, this country is now ranked after Greece which, with a rate of 74,6% became the State where private consumption is the most elevated.

In comparison with the structure which was prevailing in 1985, the number of Member States under the EUR 15 average has slightly increased in 1995. Moreover, it is Greece and the United Kingdom which have seen the strongest increases in private consumption expenditure (by +6 points and 2.9 points respectively).

By contrast, Luxembourg and, to a lesser extent Portugal, Ireland and Belgium have recorded a downward trend in growth ranging between 4 and 10 percentage points. In all other Member States, the share of private consumption in GDP has hardly varied (between -2 and 1 points).

In 1985 and 1995, it is the Union, closely followed by the USA, which has the highest share in GDP of **collective consumption**, while in Japan, this share does not reach 10% of GDP.

On the whole, it should be mentioned that the general tendency is downwards: indeed, the share of

collective consumption in GDP loses ground not only in the Union where it drops by one point in ten years (going from 17.8% in 1985 to 16.8% in 1995), but also in the USA where it falls by 1.6 points, dropping from 17.3% in 1985 to 15.7% in 1995. Only in Japan may a slight increase of 0.1 point be discerned.

The largest shares have been recorded in Sweden, both in 1985 and 1995, (27.9% 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 1985 and 1995 a structure closer to that of the USA than that of Japan. Capital formation represents approximately 28% of the GDP in Japan while in the Union and USA, it only just exceeds 19% and 20% of GDP respectively.

Within the Union, significant differences between countries may be distinguished. Thus, until 1995 eight countries (Denmark, Greece, France, Ireland, Italy, Finland, Sweden and the United Kingdom) experience a drop compared to 1985 rates, while in six other Member States (Belgium, Germany, Spain, Luxembourg, Austria and Portugal), an increase in the share of capital formation of GDP may be observed, of which the highest was recorded by Luxembourg (+5.5%).

## 1.2.2 Economic cycle

### Short-term trends for the Union, the USA and Japan in 1995 - in relation to the period 1990-1994

For **the European Union** as a whole, the growth of GDP in 1994 was mainly driven by rising exports followed by a fast upturn in investment; 1995 brought a general decline in growth rates, mainly concentrated in the second half of the year.

Private consumption remained relatively weak all through 1995 especially during the last two quarters. After rising in the first quarter (+3.1%), exports remained virtually stationary at 1994 levels.

Having peaked in the fourth quarter of 1994, investment showed substantially positive growth rates in the short term, although the overall trend was downwards, particularly in construction activity. Consistent drawing on stocks contributed to the braking of the short-term recovery recorded in 1994.

**In the United States**, the healthy increase in GDP observed for over four years continued at slightly more modest rates. The slowdown, augmented by the running down of stocks which pared 0.4% off the growth of GDP, was felt in both private consumption and investment. Particularly plant and equipment, ensured that investment continued to be the most dynamic component of demand.

The GDP grew by 0.1% at the second quarter 1995 also due to weak growth rates in the automobile and construction sector.

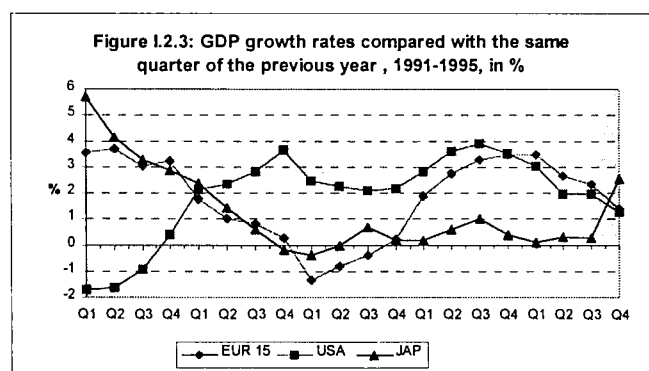
Table I.2.7	Quarterly variations in 1995 of GDP aggregates for the European Union, the United States and Japan, in %							
	Quarterly variations compared with the previous quarter				Quarterly variations compared with the same quarter of the previous year			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>GDP</b>								
EUR15 (1)	0.78	0.28	0.57	-0.24	3.47	2.65	2.34	1.40
USA	0.15	0.12	0.88	0.12	3.03	1.94	1.94	1.27
JAPAN	0.12	0.64	0.57	1.17	0.12	0.31	0.25	2.52
<b>Private Consumption</b>								
EUR15 (1)	0.44	0.85	0.05	0.24	1.55	2.30	1.63	1.60
USA	0.19	0.84	0.69	0.30	2.54	2.49	2.55	2.03
JAPAN	0.09	0.72	1.16	0.63	0.74	1.78	1.41	2.62
<b>Collective Consumption</b>								
EUR15 (1)	-0.56	0.63	0.40	0.21	0.30	0.34	1.17	0.68
USA	-0.44	0.00	-0.16	-0.76	0.42	0.63	-0.83	-1.36
JAPAN	4.18	-1.18	0.25	-0.38	3.48	0.50	0.88	2.82
<b>GFCF</b>								
EUR15 (1)	1.57	-0.13	0.20	-0.41	5.26	4.26	3.22	1.23
USA	1.83	-0.07	1.24	0.40	7.66	5.75	4.54	3.44
JAPAN	-0.52	1.17	1.05	4.47	-1.36	-2.26	-0.20	6.24
<b>Exports (including intra-EUR 15)</b>								
EUR15 (1)	3.12	0.63	0.06	0.47	10.25	7.88	5.93	4.31
USA	0.64	1.12	1.94	2.66	11.08	8.52	7.49	6.50
JAPAN	-0.04	4.21	-1.60	1.26	5.09	6.85	4.46	3.78
<b>Imports (including intra-EUR 15)</b>								
EUR15 (1)	0.80	1.01	0.86	0.34	7.31	7.18	6.08	3.04
USA	2.11	1.86	0.25	0.34	11.92	9.15	6.60	4.62
JAPAN	1.94	4.25	3.02	6.45	11.02	12.36	13.74	16.54

(1) Countries with quarterly national accounts (DK, D, E, NL, UK, A, FIN, S); for all other countries : Eurostat-estimation  
Source : Eurostat

Thereafter, in the third quarter, output was again borne up by increasing exports to Canada and Mexico.

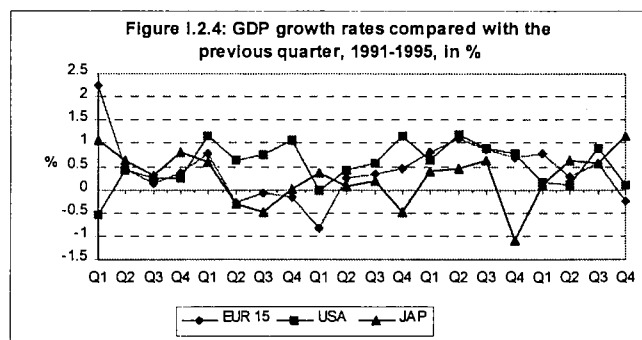
The end of the year brought another downturn. While GDP grew by 0.1% on the previous quarter, it was mainly hampered by poor demand from households and weak tertiary activity. Stagnant private consumption, growing a mere 0.3%, was offset by sudden export gains (+2.7%) and rising investment (+0.4%).

Apart from the excellent results achieved in the last quarter of the year, the upturn in the **Japanese economy** was precarious throughout 1995. The previous period of expansion, from the first half of 1987 to the end of 1991, was followed by a severe recession. The economy continued to stagnate in 1995, and suffered greatly in the first half of the year from external events.



Source : Eurostat

Private consumption barely grew in the first half of the year (+0.1% and +0.7% respectively in the first and second quarters) under the combined assault of rising unemployment, flagging confidence and increased saving. Private investment only revived in the latter half of 1995, and more particularly in the last three months of the year (+4.5%) (table I.2.7 and figures I.2.3 and I.2.4).



Source : Eurostat

## The economic situation in the Member States in 1995

The recovery from the recession of the early 1990s, which began back in the second half of 1993, faltered in 1995, and lower real growth rates were observed for the Union as a whole.

**In Germany**, sluggish investment, rising by only 1.5% before falling off in both equipment and construction in the second half of the year, was compounded by plummeting exports and dwindling market growth compared with 1994. Activity was depressed in the final quarter of the year by the effect of the fall in domestic demand.

**In France**, the slowing down of activity in the second half of the year (GDP grew by 0.1% in the third quarter and fell by 0.4% in the fourth quarter) was reflected by a decline in exports of 1.4% and 1.0% in the last two quarters of 1995. Both private consumption and investment dwindled in the last three months.

1995 was a good year for the **Italian economy**, although growth slowed decidedly in the last quarter. Companies reported an unwelcome growth in stocks of finished products in the latter half of the year, and efforts to dispose of these contributed to the contraction in GDP in the fourth quarter (-0.9% in the short term) and brought imports to a standstill.

While exports rose by 11.6% on average, the third and fourth quarters brought downturns. The trend in private consumption was to low-level growth of less than 2% for the whole year with a downturn in absolute terms in the last quarter (-0.1%).

Investment was the greatest spur to domestic demand, with most activity concentrated in machinery, while construction continued to suffer from uncertainties.

**In the United Kingdom**, the favourable cycle observed for over four years continued in 1995, albeit at less dynamic rates than those of past years because of reduced foreign demand, penalised by waning oil exports and reduced private consumption.

Short-term growth in GDP and private consumption were close to 0.5% for the whole of 1995 but investment showed marked cutbacks in the second and third quarters (-0.8% in the short term).



**The Spanish and Dutch** economies thrived in 1995. Both touched the bottom of the previous cycle in the second quarter of 1993, around three years after the previous peak. In both countries, expanding domestic demand kept imports high.

In 1994, growth was consistent, borne up by external demand, rising by 2.1% for Spain and by 2.7% for the Netherlands. The 1995 figures show increases of 3.0% and 2.4% respectively for these two countries.

**In Spain**, external demand held firm. The driving power behind internal demand, as consumption continued to stagnate, was investment, with clear increases in investment in construction, machinery and vehicles.

**In the Netherlands**, consumption rose throughout the year at more sustained rates close to or above the 2.0% trend. After a positive first quarter, investment fell (by -3.1% and -2.0% in short-term rates in the third and fourth quarters).

Having reached a peak in early 1986, the **Danish** economy experienced fairly measured real expansion in the whole period from 1987 to 1993. The lowest point came between the second and third quarters of 1992, around one year before most of the countries of the Union. Growth only began to consolidate from the third quarter of 1993. The results obtained in 1995 show growth at 2.6%, well below the 4.4% recorded in 1994.

The surge in exports petered out after a broadly positive first quarter. The trend in investment has been in double figures all year, particularly in plant and equipment; there was also comparatively strong growth in construction, at more than 8.0% on average.

**In Austria**, as in most economies of the Union, GDP contracted in the second half of 1995 (-0.4% and -0.1% in the short term on the third and fourth quarters), bringing overall growth for 1995 to levels of 1.8%, considerably lower than the 3% recorded for 1994.

Domestic demand, from consumers and investors, pushed growth rates into decline in the latter half of 1995, and investment in building declined most, with growth averaging only 0.2%. Private consumption in the second half of the year produced trend rates around one percentage point down on those for the first half. Exports also suffered, with short-term falls in the first and third quarters (-0.9% and -0.4% respectively).

**Finland and Sweden** recorded consistent real growth but, yet again, the last quarter brought reduced activity in the short term. **In Finland**, rising exports, which led the way out of the previous crisis, stayed in double figures in the first half of the year and then fell to 2.7% and 2.2% in the third and fourth quarters.

Private consumption increased, in manifest recovery from the second half of 1994 onwards, and grew by 4.2% in 1995 with trend rates in excess of 4.0% in the middle two quarters. The recovery was mainly investment driven, with growth rates in the first quarter

in excess of 15.2% settling for the rest of the year at 5.0%.

Strong growth in **Sweden** was for the greater part fuelled by exports, with consistent growth in the period from January to September stimulating industrial output. Investment rates rose gradually from 6.5% in the first quarter to 13.5% in the last, consumption staying low throughout the year.

**Belgium, Greece and Portugal** enjoyed real growth, which settled at levels of approximately 2.0%. In Belgium, expansion was hampered by low household consumption in real terms (up 1.4%) and investment, particularly in construction (+1.8%).

In Greece, real GDP improved on 1994, mainly on the strength of external demand. Private consumption suffered from scant growth in real incomes, but remained low (+1.6%) while investment increased by 6.3%.

In Portugal, where exports brought the end of the recession in 1994, expansion was mainly driven by investment, and finished up 3.6% overall.

**Ireland** sustained its dynamic performance from 1994. At 8.6%, GDP growth was the highest in the whole Union. In a departure from the past, when growth was sustained by net exports, investment flourished in 1995 (+12.2%), as did private consumption (+3.5%).

Lastly, the **Luxembourg** economy responded well to growing domestic demand and rising exports. Private consumption, stimulated by rising salaries, rose by 2.4%, and investment by 6.0%.

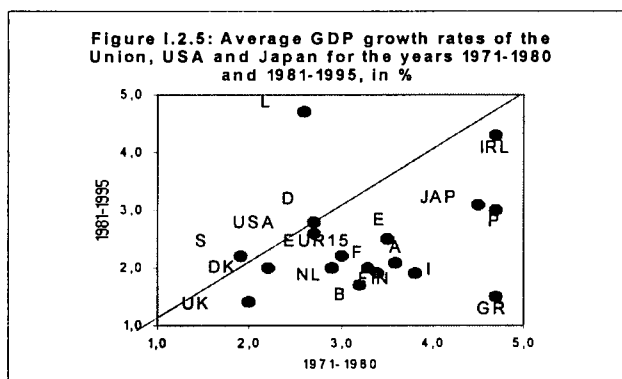
### **The growth trend and the cycle of the Union since 1980**

Although alternating periods of expansion and recession were more evident in the 1970s than subsequently, the average rate of growth in the European Union was relatively more marked in the period 1971-1980 (figure 1.2.5). The disparity in the dynamics of expansion between the two sub-periods was clear in all the countries of the Union except the United Kingdom, Luxembourg and, although less clearly so, Germany, but it was particularly evident for the economies characterised by lower initial levels of GDP, which became more close to the average of the Union.

In the last fifteen years, the cyclical development of the European Union was characterised by an initial process of decline to the trough reached in the second half of 1982. There followed a long period of expansion (1983-1987) beginning modestly, then becoming much more vigorous and dying out after approximately eight years, corresponding to the second half of 1990.

The more recent phases of economic problems lasted approximately three years, bottoming out in the second quarter of 1993. From the beginning of the downturn to the subsequent move out of recession, the process

took five quarters less than the cycle of the early 1980s, when the period of decline was less acute.



The horizontal and vertical axes represent the growth for periods 1971-1980 and 1981-1995 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 period, the line representing equal growth in both periods.

Source : Eurostat

### The interdependence of the Member States

The interdependence of the Union's economies, which developed partly as a result of a spontaneous trend towards the "internalisation" of trade between the Member states, intensified throughout the period from the early 1970s to the present time. Apart from making the economies more vulnerable to shocks from outside the domestic economy, it has contributed to a substantial degree of alignment between the medium and long term rates of development of the various economic systems. The cross-correlations of the growth rates of real GDP calculated in the 1971-1995 period reveal, however, the existence of blocs of countries which are more inter-related. The following groups in particular are apparent :

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

Until 1990, the short-to-medium-term performance of the Union was close to that of the United States, although it then diverged noticeably in the final four years. Japan, at least until late 1987, did not show any striking cyclical movements but it then followed a

growth path substantially similar to that of the Community average.

Within the Union, Italy, Germany and the United Kingdom reached the trough of the cycle in the second half of 1982, followed a few months later by the Netherlands and Spain, and preceded by approximately one year by the Danish economy.

France ran counter to the trend and had the advantage of a negative growth difference on its main European partners.

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

The subsequent contraction for Austria, where the cycle was largely synchronous with the average for the Union, came in 1992-1993, whereas Finland and Sweden went through this at least two years earlier.

In Finland, the contraction of economic activity followed immediately on the collapse of exports to the Soviet Union after 1989; in Sweden, the economy stagnated after heavy expansion in the period 1984-1989.

The economic situation from 1983 to the end of 1986 was heterogeneous. In Germany this period continued until mid-1989 when - in the wake of the process of unification - it was followed by an expansion, culminating in early 1991. In Denmark, the recovery gained ground over the three years 1984-1986.

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

## 1.2.3 Global demand

### The course of domestic demand

For the **Union** as a whole, a combination of factors accounted for the slackening of domestic demand in the wake of the period of strong expansion in 1994. The slowdown had its main roots in a physical process of drawing on stocks.

Following 2.5% growth in 1994, domestic demand in the Union rose by 2.1 % overall in 1995. In real terms, its contribution to the growth of GDP, net of changes in stocks, came to 1.9%; stocks contributed 0.1% (as opposed to 0.9% in 1994). Of the components of demand, private consumption grew by 1.8% in 1995, as against 1.6% in 1994; collective consumption rose by 0.6%.

Total investment rose by 3.4%; as in 1994, the greatest factors in this growth were equipment and transport (+6,3%), while construction contributed considerably less (+1.5%). In 1994, capital expenditure expanded by 2.5% in all.

**In the United States**, domestic demand grew by 2.1% in 1995, approximately two points less than the year before. The slowdown in activity, accentuated by heavy drawing on stocks, affected consumption (private consumption rose by 2.4%, as opposed to 3.0% in 1994 and collective consumption contracted by 0.3%) and investment, with growth rates close to those for the period 1992-1993. As in the Union as a whole, the most dynamic factor was also here investment in equipment and transport (+8.7%).

**Japan** saw the end of the period of stagnant domestic demand which had lasted since 1992. In 1995, growth was 1.6%, matching that in private consumption, while collective consumption rose by 2.0%.

After three consecutive years of contraction, investment recovered slightly (0.8%) by virtue of expansion in equipment and transport (2.9%) offsetting marked contraction in construction (-6.0%) (see table I.2.8).

Table I.2.8	Variation of domestic demand at constant prices 1990, in %			
	1992	1993	1994	1995
<b>EUR15</b>				
Domestic demand	1.0	-1.9	2.5	2.1
Private consumption	1.8	-0.3	1.6	1.8
Collective consumption	1.7	1.1	0.2	0.6
GFCF	-1.0	-6.8	2.5	3.4
- Construction	:	-2.7	2.8	1.5
- Equipment and transport	:	-10.3	3.0	6.3
<b>USA</b>				
Domestic demand	2.8	3.0	4.0	2.1
Private consumption	2.8	2.8	3.0	2.4
Collective consumption	-0.1	-0.1	0.2	-0.3
GFCF	5.2	5.1	7.9	5.3
- Construction	:	3.4	5.7	2.2
- Equipment and transport	:	7.0	10.3	8.7
<b>Japan</b>				
Domestic demand	0.4	0.1	0.8	1.6
Private consumption	2.1	1.2	1.8	1.6
Collective consumption	2.0	2.4	2.2	2.0
GFCF	-1.5	-2.0	-1.0	0.8
- Construction	:	2.4	9.1	-6.0
- Equipment and transport	:	-10.2	-6.0	2.9

Source : Eurostat and European Commission

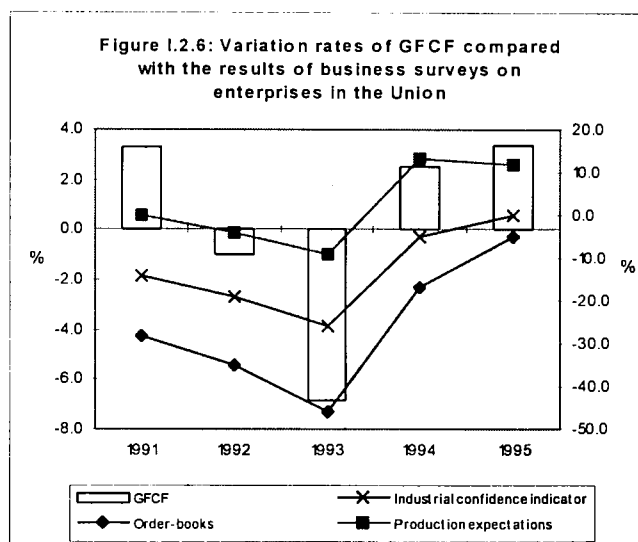
## Investment

As of early 1995, the indications from the monthly surveys of Community businesses began to show the reversal of 1994's strong growth trend (figure I.2.6).

The continuing upturn in the level of total orders and the consequent scaling-down of production plans did not, however, present average investment for the year outstripping 1994. In average terms for the year, however, the business survey pointed to expansion following contraction which proved more gradual than the previous period of expansion.

While the plant utilisation rate in the manufacturing sector fell in the second half of the year, it was more than three points up on 1994 (83.0% as against 79.6%) and more than one point up on the long-term average (81.9%). Labour productivity subsequently rose in

1995, while real unit labour costs fell further, for the fourth year in succession (table I.2.9).



Note: on the vertical axis, the left scale refers to the variation rates of GFCF while the right scale refers to the results of the business surveys.

Source : European Commission

Table I.2.9	Evolution of some determinants of GFCF - variation rates compared with the previous year EUR15, in %			
	Profits	Long-term interest rate (%)	Real unit labour costs	Labour productivity
1991	-0.8	10.2	0.0	1.4
1992	0.9	9.8	-0.2	2.4
1993	-1.3	8.0	-1	1.3
1994	8.1	8.2	-2.5	3.1
1995	2.6	8.4	-1.1	2.0

Source : European Commission

Table I.2.10	Changes in GFCF in the Member States - 1995, in %		
	Total	Construction	Equipment
B	2.7	1.8	4.0
DK	11.0	8.2	13.0
D	1.5	1.3	2.4
GR	6.3	2.1	11.5
E	8.4	7.0	11.0
F	2.8	0.3	6.5
IRL	12.2	13.6	10.0
I	5.9	0.5	11.5
L	6.0	5.1	7.3
NL	4.9	2.0	9.0
A	2.3	0.2	6.1
P	3.6	5.5	3.0
FIN	8.1	1.3	21.3
S	10.6	-3.1	28.5
UK	-0.7	-2.1	1.0

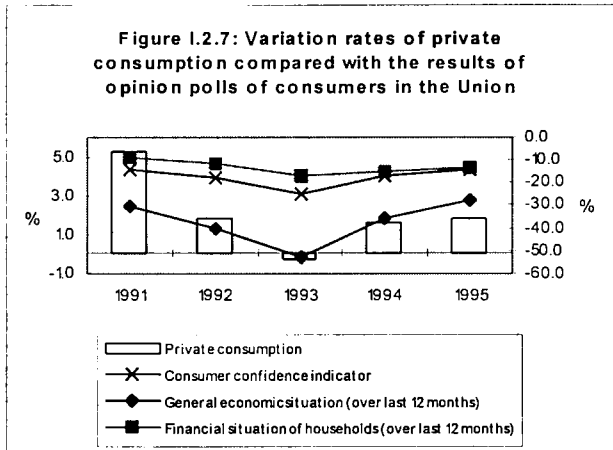
Source : Eurostat

In the face of modest growth or even contraction in overall investment in certain countries of the European Union (Belgium, Germany, France, Austria and the United Kingdom), fixed assets or capital expenditure made a comparatively strong contribution to the total growth of GDP in Denmark, Spain, Ireland, Finland and Sweden.

By contrast with 1994, growth was driven everywhere other than in Portugal and Ireland by the remarkable dynamism of equipment, while construction growth fell behind, some times more than five points.

## Private consumption

Private consumption also showed growth mirroring that of the main indicators of the short-term survey of households in the Union. The change in private consumption, while for the better, was still modest in virtually every Member State of the Union (see table I.2.11 and figure I.2.7).



Note: on the vertical axis, the left scale refers to the variation rates of private consumption while the right scale refers to the results of the opinion polls.

Source : European Commission

Table I.2.11	Changes in private and collective consumption in the Member States - 1995, in %	
	Private consumption	Collective consumption
B	1.4	0.6
DK	2.3	0.2
D	1.9	1.1
GR	1.6	1.4
E	1.8	0.9
F	1.8	0.9
IRL	3.5	3.0
I	1.2	-0.5
L	2.4	2.3
NL	2.1	0.5
A	1.9	2.1
P	1.0	2.4
FIN	4.2	1.1
S	0.3	-2.3
UK	2.3	0.9

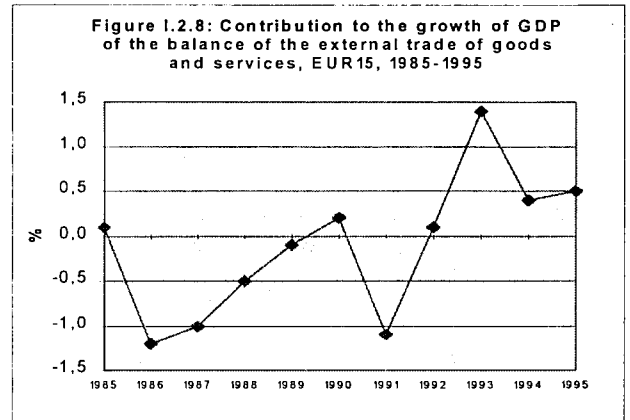
Source : Eurostat

Particularly in the countries where the growth in private consumption was below the average for the Union (Belgium, Greece, Italy and Sweden).

## External demand

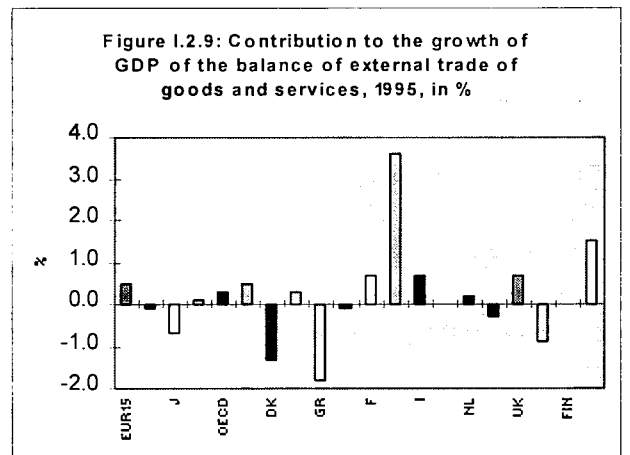
The rapid growth of exports helped most of the countries of the European Union to overcome the economic problems of the early 1990s.

As far back as 1993, exports of goods began to make gains, stimulated by increased output on traditional export markets (North America, South-east Asia, Japan, China and Latin America) as well as consistent increases in market shares.



Source : Eurostat

In 1995, demand from third countries continued to play an important role in sustaining the economic activity of the Union. The continuing growth in world trade (+8.8% in 1995 as against +9.2% in 1994) and a slight reduction of the terms of trade for the EU as a whole (-0.4%) boosted Community exports.



Source : Eurostat

The contribution of the balance of external trade to the growth of GDP was 0.5% for the Union as a whole (0.4% in 1994 and 1.4% in 1993), with solid performances from France, Ireland, Italy, the United Kingdom and Sweden. In the USA and Japan, on the other hand, this balance still made a negative contribution (see figures I.2.8 and I.2.9).

## The trend in intra-EU trade

Data on the trend in intra-Community trade in goods show a dip in 1993, followed by a marked upswing in trade patterns between Member States in the period 1994-1995. The value of exports for EUR 12 increased by 10.3%, as against 12.6% in 1994.

With the sole exception of Belgium/Luxembourg and the Netherlands for imports, every country in the Union increased the share of intra-Community imports and exports in its GDP in 1995.

For the Union as a whole, this share rose by around one half of a percentage point for both flows, contributing to growing production and improved business confidence, and full advantage was taken of the marked acceleration in foreign orders in 1994 and 1995.

## The intrastat-system

Statistics on trade between the Member States are based on Council Regulation (EC) No 3330/91 of 7 November 1991 and on the various implementation regulations which have supplemented it or laid down rules on methodology, thresholds and forms. The system set up for the collection of information on trade between the Member States as from 1 January 1993 is commonly known as Intrastat. Its main features are:

- monthly statistical declarations sent directly by businesses to the competent national authorities;
- a system of thresholds abolishing all statistical formalities for almost two thirds of businesses;
- a close link with the tax system.

With the introduction of this new system, the comparability of intra-EU results before and after 1 January 1993 is limited, owing to a degree of under-estimation of flows. This is because of some businesses' failure to respond and the introduction of thresholds which exclude the smallest businesses. To correct this under-estimation, which varies according to the Member State, some countries make adjustments at an aggregate level (in general by partner country). Arrivals, i.e. imports from other EU countries, are particularly under-estimated. Consequently, Eurostat considers dispatches now to be the most reliable gauge of intra-EU trade.

In the period 1993-1995 percentage imports increased, even if only gradually for France, the Netherlands and Spain, while Germany's contracted by one percentage point. Export shares remained virtually unchanged, increasing only for the Netherlands and decreasing only for Spain.

These shifts were accompanied by exchange rate movements, so that some of the countries with a traditional surplus in intra-EU trade - Belgium/Luxembourg, Germany, Ireland and the Netherlands - saw their trade surplus grow significantly.

Over the same three-year period there were considerable changes in the patterns of trade by type of product, as purchases of manufactured goods gained ground at the expense of trade in raw materials.

The contribution to the growth of nominal GDP provided by the intra-Community balance of trade in 1995 was positive for Belgium/Luxembourg, the Netherlands, the United Kingdom and Ireland, while it was negative, if modestly so, for France, Denmark and Spain.

## I.2.4 External trade

### Extra-EU trade

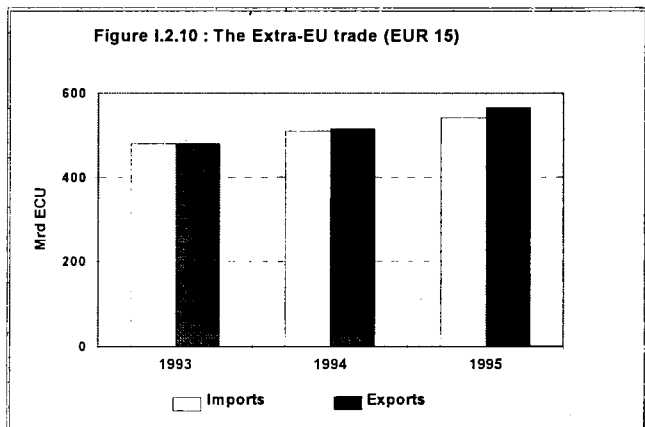
In 1995 the European Union's (EUR 15) trade surplus with the rest of the world amounted to ECU 24 Mrd, up from 6 Mrd in 1994. Export flows to Non-Member States totalled ECU 570 Mrd, up by 9.1% compared

with 1994, and import flows stood at ECU 546 Mrd, a rise of 5.7%.

The growth in these flows was below the levels recorded in 1994, which stood at 10.3% for exports and 9.2% for imports. In the case of imports, this is explained by a level of activity within the European Union in 1995 that was more subdued than in the previous year. The slowdown in exports of the Union can be explained by more contained growth in the United States, even though growth in Japan was rising (see table I.2.12 and figure I.2.10). This pattern was in line with the slowdown affecting world trade during the year (up by 8% in volume terms in 1995, compared with 9.5% in 1994, according to WTO figures).

Table I.2.12	Growth of GDP, 1990 prices		
	EUR 15	U.S.A.	Japan
1991	3.4	- 1.0	4.0
1992	1.0	2.7	1.1
1993	- 0.6	2.2	0.1
1994	2.8	3.5	0.5
1995	2.4	2.0	0.9

Source: Eurostat



Source : Eurostat

### External trade data

The data used in analysing external trade are derived from customs declarations for trade with non-member countries and from Intrastat declarations for trade between the Member States. The comments relate solely to trade between the European Union as a group and its partners outside the Union. It is assumed that the discrepancies in the trade statistics on intra-Community trade do not affect the statistical data relating to non-member countries.

The data used are slightly different from those used in the national accounts (e.g. goods for the provisioning of means of transport are not considered). However, these differences are of minor importance and do not affect the overall picture.

Figures are expressed CIF for imports and FOB for exports.

### Germany: leading exporter

The Member States' percentage shares of extra-Community trade in 1995 generally matched the figures for the previous year (see figure I.2.1). Germany remained by far the European Union's leading exporter to the rest of the world with 29.3% of dispatches, ahead of France (15.3%), Italy (13.9%) and the United Kingdom (12.8%). When imports are considered, the order is slightly changed, with Germany (25.7%) ahead of the United Kingdom (17%), France (13.4%) and Italy (11.3%).

The Member States running the largest trade surpluses with the rest of the world were Germany (ECU 26.7 Mrd), Italy (14.7 Mrd), France (14.3 Mrd) and Sweden (10.2 Mrd). The results for the United Kingdom and the Netherlands, on the other hand, showed clear deficits in their trade with Non-Member States, with figures of ECU 21 Mrd and 20 Mrd respectively. For every Member State, apart from the Netherlands, the trade balance with the rest of the world improved or remained practically unchanged in 1995.

In the case of products imported from third countries, which were cleared in a country (A) in a Member State and then reexported to another Member State (B), Eurostat is taking into account an import from A and an export from A to B. Concerning the Netherlands and Belgium, this will artificially increase the imports from the rest of the world and the exports to the European Union, which explains in part the size of their surplus vis à vis the Union and their deficits vis à vis the third countries.

### Trade by major partners

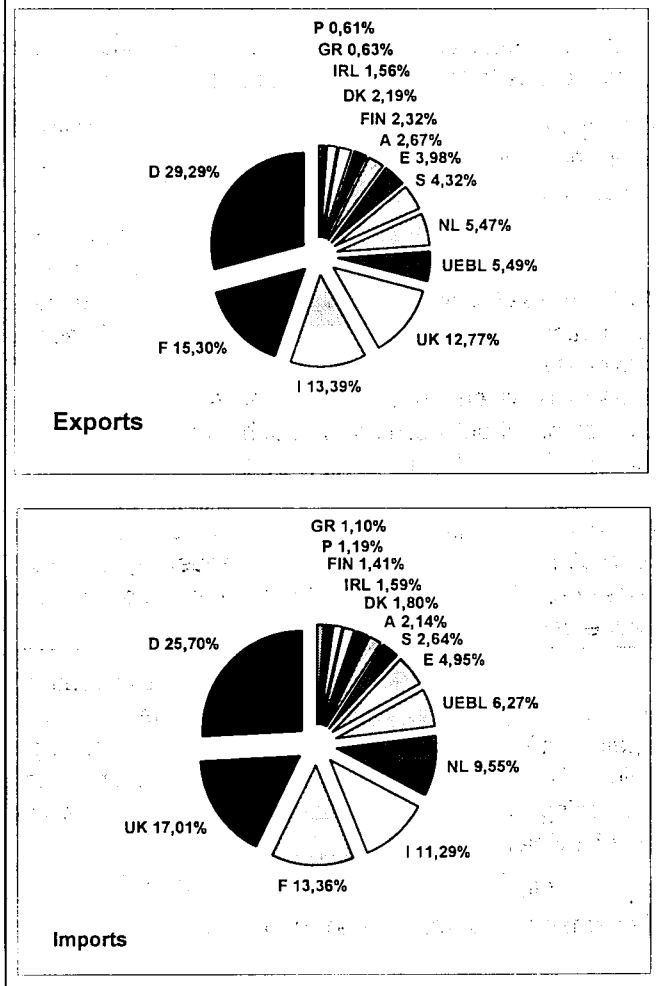
The data by partners treated hereinafter refer to the EUR 12 Member States only, without the three new Member States for which data were not available when this report was drafted.

The industrialised nations' share of the Union's exports continued to shrink in 1995, falling below 51% (see table I.2.13 and figure I.2.12). The United States is relatively less important than it was ten years ago, with its share falling from 22.6% to 15.8% over the period, and in absolute value terms the figure for 1995 was even down compared with 1994. At 5.1%, exports to Japan regained the levels they reached between 1989 and 1992, and in the case of the EFTA countries (22.5%) the figure was back at its 1985 level.

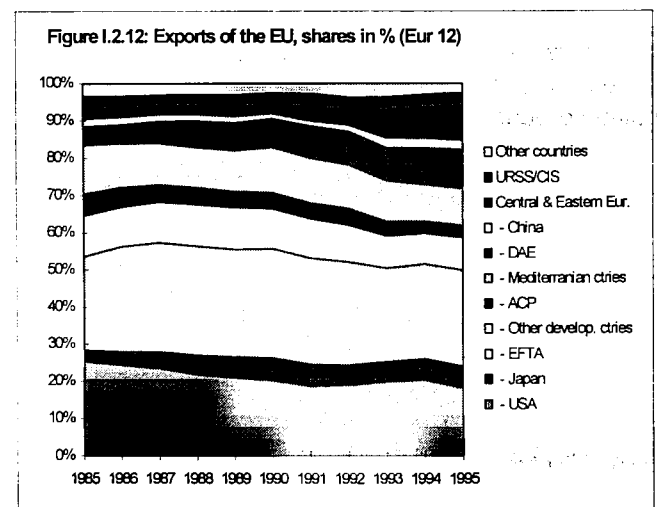
The developing countries took 35.8% of the Union's dispatches to the rest of the world in 1995, with steady progress shown by the dynamic Asian economies (DAEs), whose markets have doubled their share of EU exports in the last ten years, to the detriment of the ACP and Mediterranean countries, which have seen their share fall from 16.9% to 11.5%.

The exports of the Union to China (2.2%) and the CIS (3%) have stagnated for the last three years. As for the opportunities offered by the Central and Eastern European countries (CEECs), their share of EU exports has increased fourfold since 1988 to reach 8.1%.

Figure I.2.11: Share of the main Member States in the Extra-EU trade in 1995, in %



Source: Eurostat



Source: Eurostat

Table I.2.13	Exports of the European Union, shares in % (EUR 12)										
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Total extra-EU	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Industrialised countries	57.6	60.5	61.7	61.2	60.2	60.4	57.2	55.0	51.3	51.6	50.9
- USA	22.6	22.0	21.2	19.8	18.9	18.4	16.8	16.9	17.3	17.6	15.8
- Japan	2.8	3.3	4.0	4.7	5.1	5.5	5.2	4.7	4.6	4.9	5.1
- EFTA	22.4	25.5	26.6	26.6	26.1	26.8	25.7	24.7	21.8	22.0	22.5
- Other (1)	9.8	9.6	9.9	10.1	10.1	9.7	9.5	8.7	7.5	7.1	7.5
Developing countries	34.0	31.5	30.9	31.3	31.8	32.3	33.7	35.1	36.0	35.7	35.8
- ACP	5.2	4.8	4.1	4.2	3.9	4.0	3.8	4.0	3.4	2.8	2.9
- Mediterranean countries	11.7	10.6	10.1	9.8	9.9	11.0	10.8	10.4	9.4	8.5	8.6
- DAE (2)	4.4	4.5	5.3	6.4	6.7	7.0	7.7	7.9	7.6	8.4	9.0
- China	1.9	1.9	1.6	1.6	1.5	1.3	1.3	1.6	2.3	2.3	2.2
Central and Eastern Europe (3)	2.1	2.2	2.0	2.0	2.2	2.3	3.3	3.6	6.6	7.2	8.1
USSR/CIS	3.3	2.9	2.7	2.8	3.1	2.7	3.3	3.0	3.0	3.0	3.0
Other countries	3.0	3.0	2.8	2.7	2.7	2.3	2.4	3.3	3.1	2.5	2.2

Table I.2.14	Imports of the European Union, shares in % (EUR 12)										
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Total extra-EU	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Industrialised countries	52.2	59.0	59.2	61.6	60.6	59.9	59.4	59.1	55.0	54.4	53.9
- USA	17.0	16.9	16.5	17.6	18.7	18.5	18.6	17.8	17.1	17.1	17.0
- Japan	7.0	9.9	10.2	10.7	10.4	10.0	10.5	10.6	9.7	8.9	8.8
- EFTA	20.2	23.5	24.3	23.3	23.0	23.5	22.4	22.9	22.3	22.8	21.9
- Other (1)	8.0	8.6	8.2	9.9	8.6	7.9	7.9	7.8	6.0	5.7	6.1
Developing countries	38.4	32.2	32.0	30.1	30.7	31.1	30.4	29.8	30.3	30.5	30.3
- ACP	7.5	5.9	4.8	4.5	4.3	4.4	3.9	3.7	3.0	3.4	3.4
- Mediterranean countries	10.9	8.5	8.7	7.8	8.3	9.2	8.8	8.4	6.9	6.7	6.7
- DAE (2)	4.8	6.2	7.4	7.8	7.5	7.3	8.1	8.2	7.7	7.6	7.9
- China	1.0	1.3	1.5	1.8	2.0	2.3	3.0	3.4	4.0	4.2	4.3
Central and Eastern Europe (3)	2.3	2.4	2.3	2.1	2.2	2.2	2.5	2.8	5.1	5.9	6.9
USSR/CIS	5.1	3.9	3.9	3.4	3.4	3.5	3.7	3.4	3.6	3.9	4.0
Other countries	2.1	2.5	2.7	2.9	3.1	3.2	4.0	4.9	5.9	5.2	4.9

(1) Australia, New Zealand, Canada, South Africa, Andorra, Malta, Gibraltar, Vatican, San Marino, Turkey

(2) Singapore, Hong Kong, South Korea, Taiwan, Thailand, Malaysia

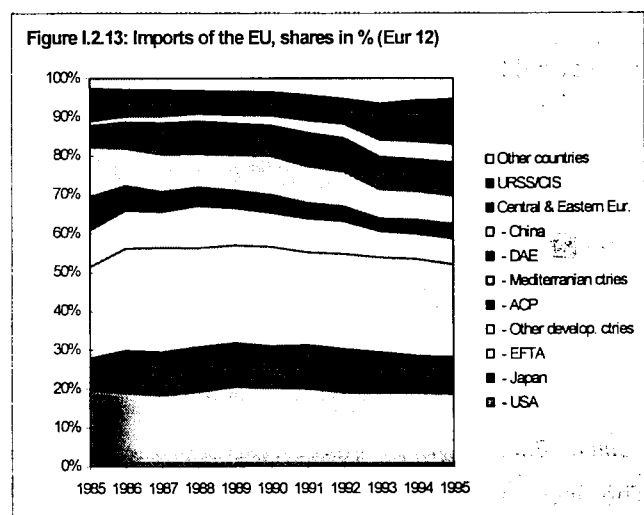
(3) Poland, Hungary, Czech Republic, Slovak Republic, Romania, Bulgaria, Albania, Serbia-Montenegro, Slovenia, Croatia, Ex-Yugoslavia, Bosnia-Herzegovina

Source: Eurostat

Concerning **imports**, the industrialised nations (53.9%) are falling back after a period of spectacular expansion, but they are again the European Union's leading suppliers, having retained the place they held in 1985 (see table I.2.14 and figure I.2.13). The CEECs have managed to channel their exports more towards the European market, with EU imports from this region tripling in five years to reach 6.9%.

For the first time since 1986 the **trade balance** of the EU was positive in 1995.

The European Union's trade balance with the industrialised nations continues to improve, primarily because of the drop in the deficit with Japan, while the renewed deficit with the United States was offset to a large extent by the surplus with the EFTA countries achieved in 1995 (see table I.2.15).



Source: Eurostat

Table I.2.15	Trade balance of the EU by partner, in % (EUR 12)										
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
<b>Total extra-EU</b>	-7.3	2.3	-0.3	-6.8	-8.2	-11.1	-16.7	-11.7	-0.4	-0.2	2.4
<b>Industrialised countries</b>	2.7	4.5	3.8	-7.5	-8.9	-10.2	-21.1	-20.0	-7.6	-5.7	-3.3
- USA	19.4	24.6	21.9	4.8	-7.2	-11.3	-29.1	-17.6	0.8	2.6	-5.0
- Japan	-172.9	-191.4	-155.3	-144.3	-119.3	-103.6	-133.9	-150.6	-109.4	-82.1	-69.1
- EFTA	3.3	9.8	8.4	6.2	5.0	2.5	-1.7	-3.6	-2.5	-3.6	5.0
- Other (1)	12.7	12.5	17.0	-4.1	7.9	9.6	2.9	-0.4	20.8	20.4	19.9
<b>Developing countries</b>	-21.0	-0.1	-3.9	-2.6	-4.5	-7.0	-5.4	5.3	15.4	14.2	17.3
- ACP	-55.4	-21.1	-18.2	-13.7	-18.9	-21.4	-20.0	-3.4	9.9	-24.0	-14.1
- Mediterranean countries	-0.4	22.1	13.9	14.8	8.7	7.2	5.1	9.5	26.1	20.6	24.7
- DAE (2)	-16.6	-34.5	-41.5	-30.8	-20.9	-15.9	-23.3	-14.9	-2.1	9.9	13.9
- China	45.2	35.4	5.4	-20.7	-43.6	-101.2	-167.2	-145.0	-73.2	-81.4	-89.8
<b>Central and Eastern Europe (3)</b>	-12.8	-9.2	-15.2	-15.1	-4.4	-8.8	12.7	13.2	21.5	17.3	16.8
USSR/CIS	-65.4	-33.6	-43.2	-28.4	-20.3	-44.0	-30.3	-28.2	-19.7	-32.9	-29.7
<b>Other countries</b>	22.8	20.0	2.4	-11.5	-23.9	-55.8	-89.9	-66.2	-94.7	-105.0	-115.2

(1) Australia, New Zealand, Canada, South Africa, Andorra, Malta, Gibraltar, Vatican, San Marino, Turkey

(2) Singapore, Hong Kong, South Korea, Taiwan, Thailand, Malaysia

(3) Poland, Hungary, Czech Republic, Slovak Republic, Romania, Bulgaria, Albania, Serbia-Montenegro, Slovenia, Croatia, Ex-Yugoslavia, Bosnia-Herzegovina

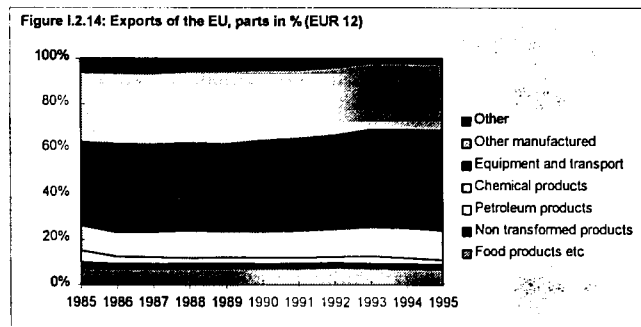
Source: Eurostat

The elimination of the deficit (30-40% of exports between 1986 and 1989) with the DAEs meant that, in spite of the increasing deficit with China, there was a clear improvement in the trade picture with developing countries.

### Trade by principal products

The data by principal products commented on hereinafter refer to the EUR 12 Member States only (as for the trade by major partners commented on above).

Concerning **exports**, the European Union is first and foremost an exporter of manufactured goods (86.7% in 1995). The raw materials that are exported are primarily agricultural food products (just over 7% for the last ten years), while exports of petroleum products (1.8%) are now marginal (see table I.2.16 and figure I.2.14).

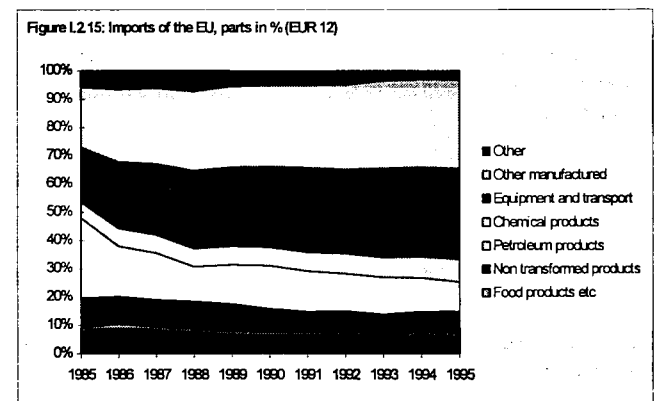


Source: Eurostat

The increase in the percentage of manufactured goods, which stood at 79% in 1985, reflects the

increased exports of machinery and transport equipment (up from 36.8% to 44.2%).

Primary goods accounted for nearly half of the Union's **imports** ten years ago but were down to only a quarter in 1995. Two factors have contributed to this structural change: the drop in raw material prices and the development of intra-branch trade (see table I.2.17 and figure I.2.15). Here again, machinery and transport equipment have become increasingly significant in the last ten years, with the percentage figure rising from 19.5% to 32.2%.



Source: Eurostat

The **structural deficit** of external trade in the primary sector decreased in relative terms between 1985 and 1995, falling from 241% to 124% of extra-Community exports. As for the surplus on manufactured goods, this fell dramatically in 1988 (from 28.1% to 19.7% of exports) and has stayed around that level ever since (see table I.2.18).



Table I.2.16	Exports of the European Union in % (EUR 12)										
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Total extra-EU	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Raw materials	15.1	12.4	12.2	11.8	12.1	12.1	12.0	12.3	12.7	12.0	11.1
- Food products etc	7.5	7.2	7.1	7.1	7.5	7.3	7.3	7.7	7.4	7.1	7.0
- Non transformed products	2.6	2.1	2.3	2.4	2.3	2.1	2.2	2.2	2.1	2.2	2.2
- Petroleum products	5.0	3.1	2.8	2.3	2.3	2.7	2.5	2.4	3.2	2.6	1.8
Manufactured products	79.0	81.3	81.3	82.6	82.2	83.0	83.1	83.8	85.4	86.3	86.7
- Chemical products	11.2	10.9	11.2	12.3	11.6	11.6	12.0	12.4	12.9	13.2	13.1
- Equipment and transport	36.8	39.1	38.9	38.9	38.7	40.2	40.8	41.5	43.1	43.5	44.2
- Other	31.0	31.2	31.2	31.5	31.8	31.2	30.3	29.9	29.4	29.6	29.4
Miscellaneous	5.8	6.3	6.5	5.6	5.7	4.9	4.8	3.9	1.9	1.8	2.2

Source: Eurostat

Table I.2.17	Imports of the European Union in % (EUR 12)										
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Total extra-EU	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Raw materials	48.0	37.9	35.6	30.7	31.3	31.1	29.2	28.2	27.0	26.8	25.4
- Food products etc	9.5	10.4	9.6	8.9	8.0	7.7	7.7	7.9	7.4	7.6	7.4
- Non transformed products	10.1	9.8	9.5	9.6	9.5	8.2	7.0	7.0	6.4	7.2	7.5
- Petroleum products	28.4	17.8	16.5	12.2	13.9	15.2	14.4	13.4	13.1	12.0	10.5
Manufactured products	46.3	55.5	58.4	62.1	63.3	63.8	65.7	66.9	69.5	70.3	71.5
- Chemical products	5.5	6.3	6.4	6.5	6.6	6.6	6.6	7.0	7.0	7.4	7.9
- Equipment and transport	19.5	23.6	25.2	27.5	28.0	28.6	30.0	30.0	31.7	31.8	32.2
- Other	21.3	25.6	26.9	28.1	28.8	28.7	29.1	30.0	30.8	31.2	31.4
Miscellaneous	5.7	6.6	6.0	7.2	5.3	5.1	5.1	4.9	3.5	2.9	3.1

Source: Eurostat

Table I.2.18	Trade balance of the European Union by product in % (EUR 12)										
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Total extra-EU	-7.3	2.3	-0.3	-6.8	-8.2	-11.1	-16.7	-11.7	-0.4	-0.2	2.4
Raw materials	-240.6	-198.0	-193.2	-178.2	-179.7	-185.4	-183.2	-155.9	-113.3	-124.4	-124.1
- Food products etc	-35.2	-41.0	-35.9	-33.3	-15.3	-17.3	-22.6	-13.9	-0.5	-7.0	-3.3
- Non transformed product	-311.5	-351.0	-319.9	-325.4	-341.3	-330.9	-274.5	-256.9	-204.1	-227.5	-229.2
- Petroleum products	-514.4	-458.3	-486.5	-475.5	-550.8	-530.1	-575.5	-517.7	-315.8	-354.1	-456.8
Manufactured products	37.0	33.3	28.1	19.7	16.7	14.6	7.9	10.8	18.2	18.3	19.5
- Chemical products	46.6	43.5	43.1	43.6	38.9	37.1	36.1	37.5	45.8	43.9	41.4
- Equipment and transport	43.0	41.1	35.2	24.4	21.8	21.0	14.3	19.2	26.1	26.7	28.9
- Other	26.4	19.8	13.8	4.5	2.3	-2.2	-11.8	-12.1	-5.5	-5.5	-4.4
Miscellaneous	-4.8	-2.7	8.1	-37.9	-1.8	-17.1	-23.1	-41.1	-84.5	-64.2	-35.9

Source: Eurostat

## 1.2.5 Distribution of GDP, disposable income, savings and net lending/borrowing

### The distribution of GDP

Compensation of employees absorbs nearly half the Union's GDP (48.5% in 1994). This proportion has diminished steadily since 1980. The 1994 figures for the Member States are fairly close to this, excluding Greece (32%) and Sweden (59%).

Net operating surplus of the Union represents more than a quarter of GDP (29.2%), the consumption of fixed capital 11.6% and taxes and social contributions 10.8%.

These percentages are very similar in the USA and Japan, where they were 59.8% and 55.2% respectively for compensation of employees and 19.0% and 17.7% for net operating surplus (see also table I.2.19).

Table I.2.19	Distribution of the EUR15 GDP, in % of total					
	1980	1985	1990	1992	1993	1994
Compensation of employees	56.0	53.0	51.9	52.8	52.5	48.5
Net operating surplus	21.9	24.1	25.1	24.1	24.1	29.2
Consumption of fixed capital	11.7	12.3	12.0	12.1	12.4	11.6
Taxes less subsidies	10.4	10.6	11.0	11.0	11.1	10.8
Total	100.0	100.0	100.0	100.0	100.0	100.0

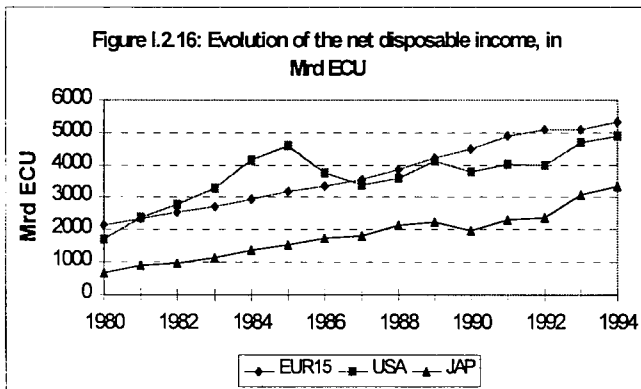
Source : Eurostat

In 1994, the compensation of employees per capita was ECU 8 513 in the Union compared with the higher rates of ECU 12549 in the USA and ECU 16210 in Japan.

### Disposable income

The net national disposable income of the European Union, in ECUs and at current prices, increased at an annual rate of 8% between 1980 and 1994. In 1994 the Union's net national disposable income was ECU 5335 Mrd, equivalent to ECU 14344 per capita.

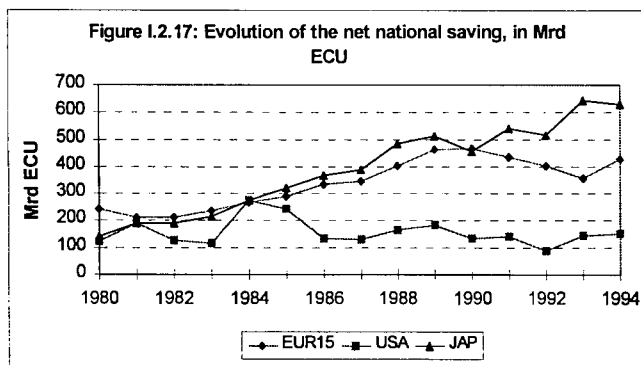
By comparison, it was ECU 4903 Mrd in the USA (ECU 18789 per capita) and ECU 3365 Mrd in Japan (ECU 24943 per capita) (see also figure I.2.16).



Source : Eurostat

### Savings and net lending/net borrowing

The Union's net national savings, in ECU and current prices, amounted to ECU 429 Mrd in 1994; it increased at a rate of 4.7% per year between 1980 and 1994.

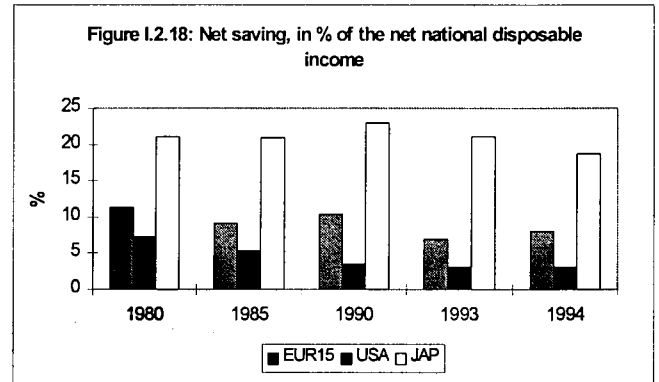


Source : Eurostat

In comparison, it was ECU 153 Mrd in the USA, with an annual increase of 10.0% and ECU 630 Mrd in Japan, with an annual increase of 12.2% over the same period. In 1994, per capita national savings

were ECU 1154 for the Union, ECU 585 for the USA and ECU 5043 for Japan (see also figures I.2.7 and I.2.18).

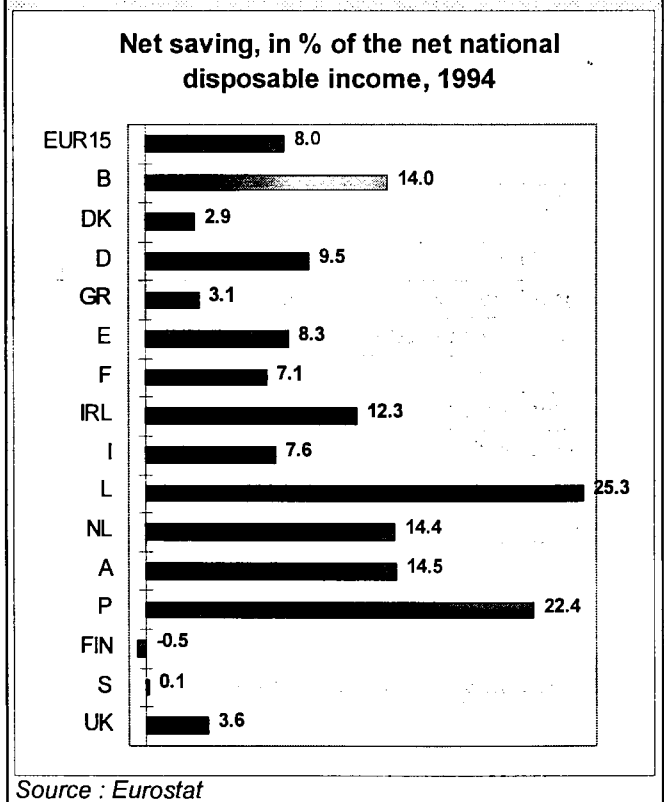
The net savings ratio is a good deal higher in Japan than in the Union and the USA : it was 18.7% in 1994, i.e. more than two times the European figure (8.0%) and six times that of the USA (3.1%).



Source : Eurostat

### Savings ratios in the Union

The average savings ratio in the Union in 1994 was 8.0% of net national disposable income. Luxembourg and Portugal were well above this average, with 25.3% and 22.4% respectively. The lowest rate was recorded for Finland, with -0.5%.

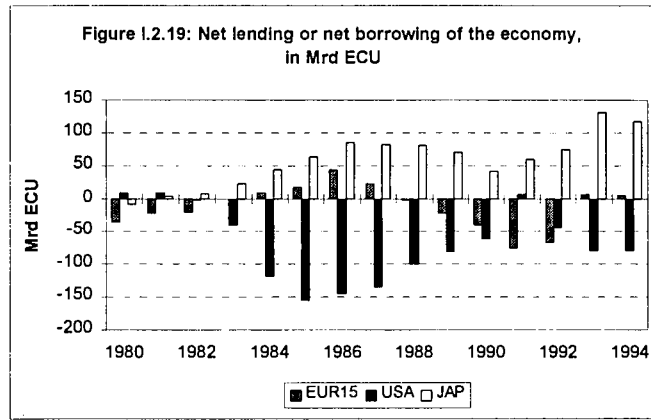


Source : Eurostat

The net lending of the European Union in 1994 was ECU 6 Mrd, which represents a net lending as it also exists in 1993.

Comparable international data showed that the United States had a deficit of about ECU 77 Mrd (or 1.3% of

GDP) while that of Japan revealed a surplus of ECU 117.7 Mrd (or 3.0% of GDP) (see figure I.2.19).



Source : Eurostat

## I.3 Economy by branch in the Union

### Preliminary comments

This section discusses changes in the structure of branches of economic activity in the EU Member States during the past ten years. The structural aspect - longer-term shifts between the branches in the Union and the individual Member States - rather than the cyclical aspect will therefore be to the fore.

#### Limits of the analysis

It should be borne in mind that, since short-term movements do not always run in parallel in the different Union countries, cyclical movements influence perceptions of structure.

Despite these theoretical provisos, the same period - 1985 to 1994 - will be analysed in all Member States. Wherever the necessary data are available, changes in the European Union will be compared with developments in Japan and the United States of America.

The analysis is further simplified by the sole use of national accounts data. Unfortunately, not all Member States are able to supply national accounts data by detailed branch, and thus the figures in this publication will be presented at the level of six branches or groups of branches. The branches are described in terms of the following variables: value added, employment, compensation of employees.

For reasons of comparability, data for the Federal Republic of Germany refer only to the country in its territorial boundaries prior to 3 October 1990. Constant-price data refer to the base year 1990. Not all the source data were equally up-to-date, and thus in a few cases figures have had to be estimated or extrapolated. Union totals and/or averages do not always include all 15 Union countries, since in some cases insufficient data are available.

A further problem has been that in most cases Union comparisons have to be made in a single currency. Whereas the data for the individual Member States are shown in national currency unless otherwise stated, Union totals and averages are calculated in ECUs. Exchange-rate fluctuations (national currencies against the ECU) have a not inconsiderable effect on the analysis, comparing Member States.

#### I.3.1 Gross value added

In the second half of the 1980s, real gross value added (GVA) at market prices grew more than twice as fast in the European Union as a whole in terms of annual averages (3.1% per annum) as in the years

1990-1994 (cf. Table I.3.1). In almost all Member States, growth was more sluggish in the 1990s, with growth rates staying at approximately the same level only in Germany, Ireland, Luxembourg, and Austria. Ireland and Luxembourg, along with Portugal, showed the highest growth rates.

Table I.3.1	GVA at constant market prices		
	Average annual variation rates, %		
	1985-1989	1990-1994	1985-1994
B	2.7	1.8	2.3
DK	2.3	1.4	1.8
D	2.7	2.6	2.6
GR	2.3	1.0	1.6
E	4.1	1.6	2.8
F	2.9	0.6	1.8
IRL	4.0	4.9	4.5
I	3.2	1.2	2.2
L	5.6	5.2	5.4
NL	2.9	2.2	2.5
A	2.6	2.6	2.6
P	8.1	3.6	5.8
FIN	3.8	-1.1	1.4
S	2.2	-0.1	1.1
UK	3.8	0.8	2.3
EUR 15	3.1	1.4	2.3
USA	3.2	2.1	2.7
JAP	4.8	1.8	3.3

Source: Eurostat

Over the whole of the reference period, growth rates in both Japan and the USA were above the Union average, although in those two countries as well the economy grew much faster in the second half of the 1980s than in the first half of the 1990s.

In the early 1990s, most Member States experienced not only a slower growth but in some cases even negative variation rates (cf. Table I.3.2), in particular Finland and Sweden (1991-1993) and the United Kingdom (1991-1992). In Belgium, Germany, Greece, Spain, France and Italy, too, real gross value added declined in 1993, and growth in the other Member States could not make up for the fall in total value added in the Union. Not until 1994 did the Union countries climb out of the economic difficulties they had suffered at the beginning of the 1990s.

Following a sharp rise in value added in 1991, which marked the end of the expansion phase which had begun in 1987, recession set in Japan as well. The situation was the reverse in the USA, whose economy had stagnated at the beginning of the 1990s but surged ahead in the last few years with growth rates of 3.1% and 4.1%.

Table I.3.2	GVA at constant market prices				
	Annual variation rates, %				
	1990	1991	1992	1993	1994
B	2.1	2.7	2.5	-0.9	2.5
DK	1.4	0.1	0.0	2.0	3.6
D	5.5	4.8	1.7	-1.5	2.3
GR	-1.0	3.4	1.0	-0.1	1.5
E	3.8	2.2	0.6	-0.9	2.2
F	2.1	0.7	1.0	-1.3	0.5
IRL	8.1	2.7	3.9	3.1	6.7
I	2.2	1.2	1.2	-0.5	1.9
L	4.9	2.2	2.9	9.8	6.4
NL	3.9	2.3	1.8	0.5	2.5
A	4.4	2.9	2.0	0.4	3.1
P	4.9	4.1	1.1	6.7	1.1
FIN	0.7	-6.9	-3.1	-0.4	4.4
S	1.4	-1.3	-1.0	-2.3	2.6
UK	0.7	-2.2	-0.4	2.1	3.8
EUR 15	2.9	1.4	0.9	-0.4	2.2
USA	1.0	0.0	2.3	3.1	4.1
JAP	5.3	3.3	0.4	-0.8	0.5

Source: Eurostat

A comparison of trends in the volume of GVA at market prices in the six branches of the Union economy referred to here illustrates the dominant position of market services since 1985. Over the reference period as a whole, they have expanded at a much above average annual rate of 3.4% (the overall growth rate was 2.3% - cf. Table I.3.3).

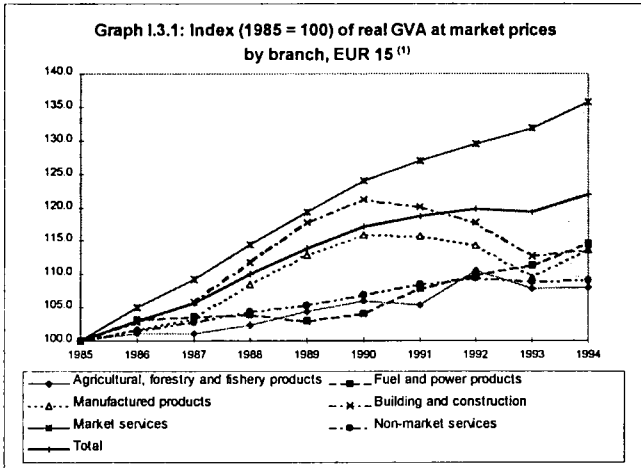
Furthermore, over time the gap between market services and the rest of the economy has tended to widen. The volume of output of market services was one-third higher in real terms in 1994 than in 1985 (cf. Figure I.3.1). Over the same period, value added grew by only 22% in the economy as a whole. Together with non-market services, which grew by only a moderate 1.0% per annum, the services sector has been much the most dynamic area of the economy.

The lowest growth rates were in agriculture and forestry, followed by building and construction, manufacturing and fuel and power production. Whereas rates in both manufacturing and building and construction in the second half of the 1980s followed the pattern of the economy as a whole, manufacturing stagnated in the 1990s and building and construction even contracted. The decline in the growth of the economy overall in the 1990s compared with the second half of the 1980s is due predominantly to the very slight or even negative expansion in the GVA of manufactured products and/or building and construction. Market services were outstanding both over the reference period as a whole and in each country of the Union: average growth rates were 0.2 to 2.2 percentage points above the expansion path for the economy overall (EUR 15: +1.1 percentage points).

Table I.3.3	GVA by branch at constant market prices																
	B	DK	D	GR	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EUR 15 <sup>(1)</sup>	
	Average annual variation rates, %, 1985 - 1989																
Agricultural, forestry and fishery products	0.9	1.9	0.7	1.0	0.4	1.6	:	0.9	-0.3	2.7	-0.1	3.9	-0.2	0.5	-0.7	0.8	
Fuel and power products	2.1	16.6	-0.2	4.9	3.1	-0.8	:	2.3	2.5	-0.4	2.8	23.5	3.8	3.8	1.8	1.3	
Manufactured products	2.6	0.4	2.2	1.2	4.2	2.1	:	4.2	4.9	3.0	3.0	8.1	4.0	1.8	4.1	3.0	
Building and construction	4.5	3.2	-0.1	2.9	8.0	2.9	:	1.6	7.0	3.3	2.2	4.9	5.5	3.2	6.1	3.1	
Services	2.8	2.4	3.4	2.7	4.1	3.5	:	3.1	5.7	3.3	3.1	8.1	4.4	2.3	4.2	3.5	
Market services	3.4	3.0	4.1	2.7	3.8	4.2	:	3.6	7.0	3.6	4.0	7.9	5.5	3.7	6.1	4.3	
Non-market services	0.7	1.2	1.5	2.7	5.2	1.7	:	1.3	1.6	1.7	1.0	8.5	2.5	0.3	-0.6	1.3	
Total	2.7	2.3	2.7	2.3	4.1	2.9	4.0	3.2	5.6	2.9	2.6	8.1	3.8	2.2	3.8	3.1	
	Average annual variation rates, %, 1990 - 1994																
Agricultural, forestry and fishery products	2.0	0.9	1.6	0.1	-1.0	0.5	:	1.0	3.3	4.3	-0.6	2.6	0.0	0.6	1.3	0.7	
Fuel and power products	1.4	7.7	0.1	2.4	2.0	1.4	:	2.4	4.4	2.9	2.3	5.1	2.9	0.5	4.1	2.1	
Manufactured products	0.8	0.8	0.0	-1.3	0.5	-0.4	:	1.0	3.4	1.0	1.8	2.1	1.4	-0.9	-0.2	0.2	
Building and construction	2.2	-2.6	0.9	0.0	0.7	-2.1	:	-1.5	5.9	-0.5	5.1	1.9	-9.4	-1.7	-1.4	-0.7	
Services	2.2	1.7	4.1	1.8	2.4	1.6	:	1.4	5.9	2.5	2.8	4.4	-1.3	0.3	1.3	2.1	
Market services	2.4	2.1	4.7	2.5	2.2	1.4	:	1.7	6.1	2.9	3.1	4.6	-1.5	0.7	2.8	2.6	
Non-market services	1.4	0.9	1.8	0.1	3.1	2.3	:	0.5	5.1	0.9	2.1	3.9	-0.8	-0.5	-4.1	0.7	
Total	1.8	1.4	2.6	1.0	1.6	0.6	4.9	1.2	5.2	2.2	2.6	3.6	-1.1	-0.1	0.8	1.4	
	Average annual variation rates, %, 1985 - 1994																
Agricultural, forestry and fishery products	1.4	1.4	1.2	0.5	-0.3	1.0	:	0.9	1.5	3.5	-0.3	3.3	-0.1	0.5	0.3	0.8	
Fuel and power products	1.7	12.2	-0.1	3.7	2.5	0.3	:	2.4	3.4	1.3	2.6	14.3	3.4	2.1	3.0	1.7	
Manufactured products	1.7	0.6	1.1	-0.1	2.4	0.9	:	2.6	4.2	2.0	2.4	5.1	2.7	0.4	2.0	1.6	
Building and construction	3.4	0.3	0.4	1.4	4.4	0.4	:	0.1	6.5	1.4	3.6	3.4	-2.0	0.8	2.4	1.2	
Services	2.5	2.0	3.8	2.2	3.2	2.6	:	2.3	5.8	2.9	3.0	6.3	1.6	1.3	2.8	2.8	
Market services	2.9	2.6	4.4	2.6	3.0	2.8	:	2.7	6.5	3.2	3.5	6.3	2.0	2.2	4.5	3.4	
Non-market services	1.1	1.0	1.7	1.4	4.2	2.0	:	0.9	3.4	1.3	1.5	6.2	0.8	-0.1	-2.4	1.0	
Total	2.3	1.8	2.6	1.6	2.8	1.8	4.5	2.2	5.4	2.5	2.6	5.8	1.4	1.1	2.3	2.3	

(1) EUR 15 without Ireland

Source: Eurostat



(1) Without Ireland  
Source: Eurostat

Movements in the other branches of the economy were much more varied from one Union country to another: the highest growth rates in agriculture, forestry and fisheries were in the Netherlands (+3.5% per annum) and Portugal (+3.3% per annum), with growth in this branch in the Netherlands one percentage point higher than the growth of the national economy overall.

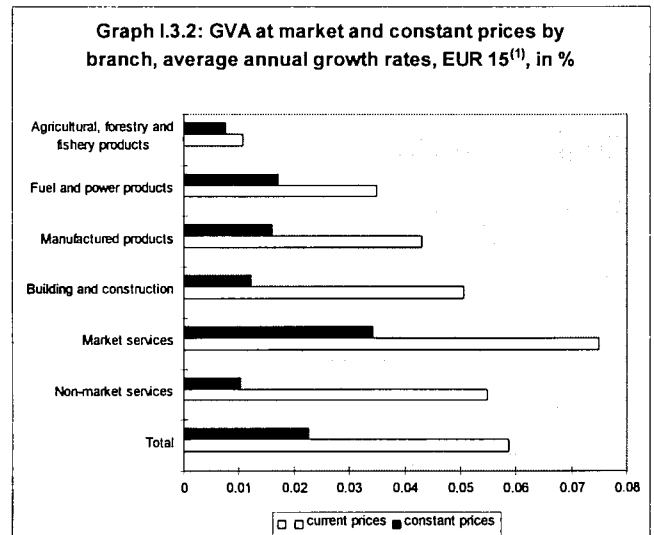
With the exception of Italy and Finland, average growth rates in manufacturing in the individual Member States were below the expansion rates for their economies as a whole. The same two exceptions apply to building and construction, which expanded at a faster rate than the economy as a whole in Belgium, Spain, Luxembourg and Austria in particular, while Italy and Finland showed very slow or negative growth.

With such different growth rates in the different branches of the economy, there were very obvious structural shifts: the shares of services increased, whereas the shares of manufacturing, fuel and power production and building and construction declined or stagnated. In 1994, just under two-thirds of nominal gross value added at factor cost in the Union came from the services branches as against only 60.8% in 1985. The whole of this percentage increase is attributable to market services (cf. Table I.3.4).

The percentage shares of the services sector in 1994 were above the Union average in Belgium, Denmark, France, Italy, Luxembourg, the Netherlands, Sweden and the United Kingdom. Only Belgium, Italy, the Netherlands and the United Kingdom had above EU average figures for market services, whilst France and Luxembourg were just under the Union average. In all Union countries, the services sector increased its share of the economy between 1985 and 1994: the lowest increase was in Luxembourg (+1.3 percentage points) and the highest in the United Kingdom (+9.3 percentage points).

The services sector increased its percentage share of nominal GVA at factor cost as a result to some

extent, of course, of the above-average increase in implicit prices: over the reference period 1985 to 1994 as a whole, prices rose by 3.5% per annum overall (GVA deflator at market prices), but in the services sector they rose by 4.0% per annum. By contrast, the GVA deflators for fuel and power and manufacturing were +1.8% per annum and +2.6% per annum respectively, markedly below the overall price trend (cf. Figure I.3.2).



(1) Without Ireland  
Source: Eurostat

### I.3.2 Employment and productivity

Employment in the Union as a whole rose by only 0.5% on average per annum during the reference period. By contrast to the positive rates of increase in the second half of the 1980s, employment declined by 0.3% a year in the 1990s. Only six of the fifteen Member States showed rising employment figures (on average) in the 1990s (cf. Tables I.3.5 and I.3.6).

Employment declined most in Finland and Sweden, but the figures fell three years in succession in other countries, too (Belgium, Spain, Italy, Portugal and the United Kingdom). Denmark, Finland and Sweden show declining employment in all years between 1990 and 1994. In Japan and the USA, however, trends were much more positive.

During the reference period 1985 to 1994 as a whole, market and non-market services were the only branches of the Union economy (at the level of the six branch groups dealt with here) which had increasing levels of employment (cf. Table I.3.7). In 1994, the level of employment in market services was 20% higher and in non-market services 4.5% higher than in 1985 (cf. Figure I.3.3).

Total employment in both the primary and secondary sectors declined: in agriculture, forestry and fisheries by -3.3% per annum, in fuel and power by -0.6% per annum and in manufacturing by -0.3% per annum. In 1994, employment in building and construction was

Table I.3.4	Share of GVA at current prices and factor costs by branch in total GVA, %											
	B			DK			D			GR		
	1985	1990	1994	1985	1990	1994	1985	1990	1994	1985	1990	1994
Agricultural, forestry and fishery products	2.4	2.2	1.9	5.6	4.3	3.7	2.0	1.8	1.3	17.3	14.5	13.7
Fuel and power products	3.9	3.0	2.7	2.4	2.8	2.7	3.8	3.1	2.8	4.4	4.3	3.9
Manufactured products	22.3	22.1	19.7	19.5	18.3	19.1	29.2	29.3	27.1	18.5	16.4	15.3
Building and construction	5.4	5.7	5.5	5.8	5.7	5.2	5.6	5.6	5.7	6.4	7.3	6.6
Services	65.9	67.0	70.1	66.7	68.9	69.3	59.4	60.2	63.0	53.5	57.5	60.5
Market services	50.7	53.7	55.9	44.6	46.4	46.9	44.8	46.6	48.9	37.3	39.6	44.8
Non-market services	15.2	13.3	14.2	22.1	22.5	22.4	14.5	13.7	14.1	16.2	17.8	15.7
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
	E			F			IRL			I		
	1985	1990	1994	1985	1990	1994	1985	1990	1994	1985	1990	1994
Agricultural, forestry and fishery products	6.6	5.4	4.6	4.3	3.8	3.4	10.2	9.4	8.5	4.9	3.7	3.4
Fuel and power products	4.6	4.3	4.2	3.6	2.7	2.8	4.0	1.7	2.0	2.9	2.4	3.0
Manufactured products	24.6	22.0	18.5	22.0	21.6	20.9	26.8	28.1	28.4	24.5	23.0	21.2
Building and construction	6.8	9.7	8.3	5.5	5.5	5.6	5.8	5.2	4.8	6.5	6.1	5.4
Services	57.4	58.7	64.3	64.5	66.5	67.2	53.3	55.7	56.3	61.2	64.9	67.0
Market services	44.0	44.6	49.4	46.4	49.7	50.2	36.4	40.8	40.6	48.2	50.5	53.0
Non-market services	13.4	14.1	14.9	18.2	16.8	17.0	16.9	14.9	15.7	13.0	14.3	14.0
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
	L			NL			A			P		
	1985	1990	1994	1985	1990	1994	1985	1990	1994	1985	1990	1994
Agricultural, forestry and fishery products	2.4	2.1	1.7	4.0	4.2	3.6	3.8	3.6	2.7	8.7	6.8	5.7
Fuel and power products	2.0	1.7	1.7	11.0	5.3	4.7	4.8	4.5	4.6	4.0	3.7	4.2
Manufactured products	25.7	25.4	22.4	17.5	18.8	16.7	26.6	24.7	22.1	28.0	27.3	25.6
Building and construction	4.7	7.2	7.8	4.9	5.6	5.6	7.1	7.3	8.3	5.8	5.6	5.4
Services	65.1	63.5	66.4	62.6	66.1	69.4	57.8	60.0	62.3	53.4	56.7	59.1
Market services	53.4	49.3	50.8	50.4	55.2	58.5	42.1	45.3	47.0	40.0	41.2	42.4
Non-market services	11.7	14.2	15.6	12.1	11.0	10.9	15.7	14.6	15.3	13.4	15.5	16.7
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
	FIN			S <sup>(2)</sup>			UK			EUR 15 <sup>(1)</sup>		
	1985	1990	1994	1986	1990	1993	1985	1990	1994	1985	1990	1994
Agricultural, forestry and fishery products	8.7	7.1	6.1	3.4	3.0	2.3	1.9	1.8	1.9	3.9	3.3	2.9
Fuel and power products	2.8	2.0	2.6	4.1	3.5	3.7	9.7	4.5	4.6	5.0	3.3	3.4
Manufactured products	25.4	23.0	24.8	23.2	21.0	19.3	22.8	21.2	19.3	24.4	23.6	22.1
Building and construction	7.6	9.2	5.1	6.0	7.3	5.9	6.0	7.2	5.3	5.9	6.3	5.8
Services	55.5	58.7	61.4	63.4	65.2	68.7	59.6	65.4	68.9	60.8	63.4	65.9
Market services	37.0	39.3	40.5	40.4	42.0	45.9	43.6	49.8	55.4	45.5	48.4	51.1
Non-market services	18.5	19.5	20.9	23.0	23.2	22.8	15.9	15.6	13.5	15.3	14.9	14.8
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

(1) without Sweden

(2) for Sweden different years

Source: Eurostat

only slightly higher than at the start of the reference period. In line with the trend in production, there was an increase in employment in manufacturing and in building and construction in the second half of the 1980s, and over the same period employment in services expanded much more rapidly than in the subsequent period. In agriculture, forestry and fisheries, employment declined in both the second half of the 1980s and at the start of the 1990s, by -3.3% and -3.4% respectively, and in fuel and power the figures dropped as well, although not to the same extent.

The overall picture of employment trends in the Union by branch applies roughly speaking to the individual Member States as well. With the exception of Finland and Sweden, where employment declined in almost all of the branches dealt with here, and Portugal and the United Kingdom, where employment increased in fuel and power production and manufacturing, employment trends in the individual Member States mirrored those of the Union as a whole. There was one exception, however: building and construction, where employment increased in roughly half of the Union countries and declined in the other half.

Table I.3.5	Total employment <sup>(2)</sup>		
	Average annual variation rates, %		
	1985-1989	1990-1994	1985-1994
B	1.0	-0.1	0.4
DK	1.0	-0.9	0.0
D	1.0	0.7	0.9
GR	0.5	1.2	0.8
E	2.9	-0.2	1.3
F	0.7	-0.1	0.3
IRL	-0.3	1.6	0.7
I	0.6	-0.7	0.0
L	2.6	3.0	2.8
NL	2.3	0.9	1.6
A	0.4	0.8	0.6
P	3.7	-0.2	1.8
FIN	0.3	-4.1	-1.9
S	1.4	-2.6	-0.6
UK	1.8	-1.0	0.4
EUR 15	1.3	-0.3	0.5
USA <sup>(1)</sup>	2.4	0.4	1.5
JAP <sup>(1)</sup>	1.2	1.4	1.3

(1) Growth rates only to 1993

(2) National Accounts data

Source: Eurostat

Trends in labour productivity in the Union economy - measured in terms of real GVA at market prices per person in employment (total employment) - rose steadily over the whole of the reference period (1985-1994: +1.8% per annum, cf. Tables I.3.8 and I.3.9). Member States annual average productivity increases

range from +0.8% in Greece to +4.0% in Portugal. National productivity was above the Union average in seven Member States (Belgium, Denmark, Germany, France, Luxembourg, the Netherlands and Austria). The lowest level of GVA per head was in Greece and Portugal. Productivity grew faster in the Union than in the USA (+1.0% per annum) but more slowly than in Japan (+2.3% per annum).

Table I.3.6	Total employment <sup>(1)</sup>				
	Annual variation rates, %				
	1990	1991	1992	1993	1994
B	1.4	0.1	-0.4	-1.2	-0.6
DK	-1.0	-1.5	-0.6	-1.0	-0.6
D	3.0	2.5	0.9	-1.5	-1.2
GR	0.2	0.1	2.1	2.2	1.2
E	3.6	1.0	-1.5	-3.7	-0.6
F	1.0	0.1	-0.7	-1.1	0.1
IRL	4.2	0.0	0.4	0.6	2.6
I	0.9	0.8	-1.0	-2.6	-1.6
L	4.4	4.2	2.0	1.8	2.5
NL	2.3	1.3	0.9	-0.1	0.1
A	1.9	1.7	0.5	-0.4	0.1
P	1.7	2.7	-2.6	-2.8	-0.2
FIN	-0.6	-5.2	-7.0	-6.5	-1.3
S	-0.7	-1.5	-4.4	-5.6	-1.0
UK	1.1	-3.0	-2.0	-1.5	0.5
EUR 15	1.6	0.2	-0.8	-1.8	-0.5
USA	0.8	-1.0	-0.2	1.8	:
JAP	2.1	2.1	1.1	0.4	:

(1) National Accounts data

Source: Eurostat

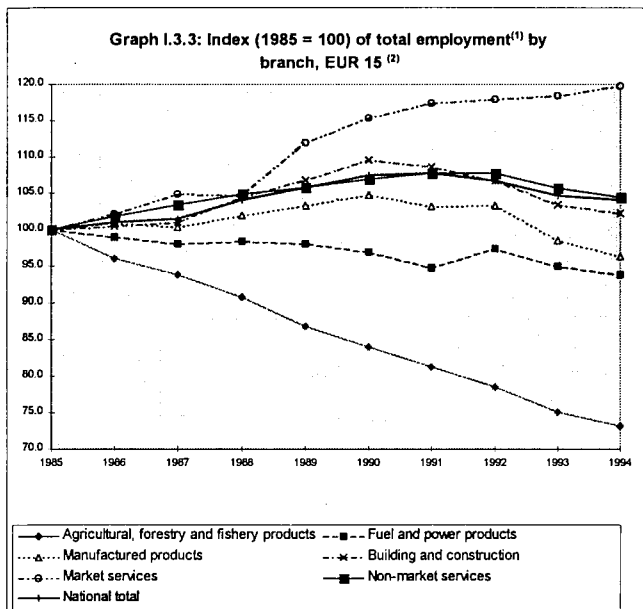
Table I.3.7	Total employment <sup>(1)</sup> by branch																
	B	DK	D	GR	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EUR15 <sup>(2)</sup>	
Average annual variation rates, %, 1985 - 1989																	
Agricultural, forestry and fishery products	-2.2	-3.8	-3.6	-2.4	-4.1	-4.3	-2.0	-3.2	-2.9	-0.8	-3.5	-0.7	-5.4	-4.3	-1.3	-3.3	
Fuel and power products	-6.3	1.9	-1.4	:	-1.0	-2.4	-1.3	0.7	0.0	-0.3	-0.9	3.5	-0.5	-0.1	1.8	-0.4	
Manufactured products	-0.8	0.9	0.9	:	2.6	-1.3	0.7	-0.1	-1.0	1.6	-0.8	6.1	-2.0	-0.1	1.8	0.7	
Building and construction	2.0	1.5	-1.5	:	7.8	0.6	-4.5	-0.9	4.0	3.4	0.2	0.3	1.8	1.8	1.8	0.9	
Services	1.7	1.4	1.8	:	4.3	2.0	0.6	1.8	4.2	2.8	1.7	5.9	2.1	2.2	2.8	2.3	
Market services	2.3	1.9	2.0	:	2.1	2.3	0.7	2.1	4.7	3.7	1.9	5.4	2.1	2.3	4.3	2.6	
Non-market services	0.3	0.9	1.5	:	10.9	1.6	0.5	1.3	2.6	-0.3	1.3	6.7	2.2	2.0	-0.2	1.8	
Total	1.0	1.0	1.0	0.5	2.9	0.7	-0.3	0.6	2.6	2.3	0.4	3.7	0.3	1.4	1.8	1.3	
Average annual variation rates, %, 1990 - 1994																	
Agricultural, forestry and fishery products	-1.8	-3.9	-4.0	:	-5.1	-4.4	-0.4	-3.5	1.0	-0.1	-3.3	-1.4	-5.1	-1.8	-0.1	-3.4	
Fuel and power products	-3.9	-1.1	-2.4	:	-3.3	-2.0	0.7	-1.9	1.0	-0.6	-0.9	3.3	-4.6	-2.6	2.5	-0.8	
Manufactured products	-0.7	-1.6	-1.7	:	-2.5	-2.3	1.5	-2.2	0.4	-0.5	-2.0	-0.2	-5.0	-4.8	1.9	-1.4	
Building and construction	1.1	-1.4	1.6	:	-1.1	-2.2	2.7	0.2	3.1	-0.2	2.3	0.1	-10.3	-6.2	-2.6	-0.9	
Services	0.0	-0.4	2.2	:	1.7	1.2	1.6	0.2	4.0	1.5	2.1	0.3	-2.9	-1.7	0.2	0.8	
Market services	0.3	-0.6	2.8	:	1.5	0.7	1.4	0.1	4.2	2.0	2.0	0.4	-4.1	-1.0	2.3	1.4	
Non-market services	-0.7	-0.3	1.1	:	2.0	1.9	1.9	0.4	3.3	-0.5	2.4	0.1	-1.2	-2.4	-5.9	-0.2	
Total	-0.1	-0.9	0.7	1.2	-0.2	-0.1	1.6	-0.7	3.0	0.9	0.8	-0.2	-4.1	-2.6	-1.0	-0.3	
Average annual variation rates, %, 1985 - 1994																	
Agricultural, forestry and fishery products	-2.0	-3.8	-3.8	:	-4.6	-4.3	-1.2	-3.4	-1.0	-0.5	-3.4	-1.1	-5.2	-3.0	-0.7	-3.3	
Fuel and power products	-5.1	0.4	-1.9	:	-2.1	-2.2	-0.3	-0.6	0.5	-0.4	-0.9	3.4	-2.5	-1.3	2.2	-0.6	
Manufactured products	-0.7	-0.3	-0.4	:	0.1	-1.8	1.1	-1.1	-0.3	0.6	-1.4	2.9	-3.5	-2.5	1.9	-0.3	
Building and construction	1.5	0.1	0.1	:	3.4	-0.8	-0.9	-0.4	3.6	1.6	1.2	0.2	-4.2	-2.2	-0.4	0.0	
Services	0.8	0.5	2.0	:	3.0	1.6	1.1	1.0	4.1	2.1	1.9	3.1	-0.4	0.2	1.5	1.6	
Market services	1.3	0.7	2.4	:	1.8	1.5	1.0	1.1	4.5	2.9	1.9	2.9	-1.0	0.7	3.3	2.0	
Non-market services	-0.2	0.3	1.3	:	6.5	1.8	1.2	0.9	2.9	-0.4	1.9	3.4	0.5	-0.2	-3.0	0.8	
Total	0.4	0.0	0.9	0.8	1.3	0.3	0.7	0.0	2.8	1.6	0.6	1.8	-1.9	-0.6	0.4	0.5	

(1) National Accounts data.

(2) Without Greece

Source: Eurostat





(1) National Accounts data

(2) Without Greece

Source: Eurostat

Table I.3.8	GVA per head (of total employment)		
	Average annual variation rates, %		
	1985-1989	1990-1994	1985-1994
B	1.8	1.9	1.9
DK	1.3	2.4	1.8
D	1.6	1.8	1.7
GR	1.7	-0.2	0.8
E	1.2	1.9	1.5
F	2.2	0.7	1.5
IRL	4.3	3.3	3.8
I	2.5	1.9	2.2
L	2.9	2.2	2.6
NL	0.6	1.3	0.9
A	2.2	1.8	2.0
P	4.1	3.9	4.0
FIN	3.5	3.2	3.4
S	0.9	2.6	1.7
UK	2.0	1.8	1.9
EUR 15	1.8	1.7	1.8
USA <sup>(1)</sup>	0.8	1.2	1.0
JAP <sup>(1)</sup>	3.6	0.6	2.3

(1) Variation rates only to 1993

Source: Eurostat

The highest productivity increases were in agriculture, forestry and fisheries, where the 1994 productivity level was just under 50% higher than at the start of the reference period. Fuel and power production and manufacturing showed the next strongest increases, but were trailing well behind (cf. Table I.3.10). For the services sector, relatively low productivity increases might have been expected, and yet market services proved to be surprisingly dynamic: their +1.4% per annum rise was, admittedly, a good way behind corresponding growth rates in fuel and power production (+2.4% per annum) and manufacturing (+2.0% per annum) but higher than productivity gains in building and construction. Productivity rose only very moderately in non-market services, at +0.3% per

annum, but in this area account must be taken of the enormous problems arising from the methodology of real-term calculations.

Table I.3.9	GVA per head (of total employment)				
	Annual variation rates, %				
	1990	1991	1992	1993	1994
B	0.7	2.6	3.0	0.3	3.2
DK	2.4	1.6	0.7	3.0	4.2
D	2.5	2.3	0.8	0.0	3.5
GR	-1.2	3.3	-1.0	-2.2	0.3
E	0.2	1.2	2.1	2.9	2.8
F	1.0	0.6	1.8	-0.2	0.4
IRL	3.7	2.7	3.4	2.5	4.0
I	1.3	0.4	2.2	2.2	3.5
L	0.5	-2.0	0.8	7.9	3.8
NL	1.5	0.9	0.9	0.6	2.4
A	2.5	1.1	1.5	0.9	2.9
P	3.1	1.3	3.8	9.8	1.3
FIN	1.3	-1.8	4.2	6.6	5.7
S	2.1	0.2	3.6	3.5	3.6
UK	-0.4	0.8	1.7	3.6	3.3
EUR 15	1.3	1.2	1.8	1.5	2.7
USA	0.3	1.0	2.5	1.3	:
JAP	3.2	1.3	-0.7	-1.2	:

Source: Eurostat

The nominal productivity level in the individual branches varies considerably, as might be expected (cf. Table I.3.11): it is lowest in agriculture, forestry and fisheries (1994: ECU 17 000) and highest in fuel and power production (1994: ECU 156 000) which, by its very nature, is highly capital-intensive. In market services alone was the average productivity level (ECU 47 000) above that of the total economy as a whole (ECU 41 000).

#### Limits of the analysis of productivity

Comparisons of productivity across branches and countries should, however, be interpreted with great care. The data in the tables are based on (nominal) GVA at market prices. Comparisons of productivity levels should, however, be based on GVA at factor cost, and this is not possible here because for some Union countries the required data are not available. There are also problems arising from the conversion to ECUs.

Finally, owing to the varying shares of part-time employment, the most appropriate reference parameter would have been full-time equivalents. It should also be remembered that data for Germany applied to the territorial boundaries of the Federal Republic prior to 3 October 1990.

The level in manufacturing was roughly average in 1994. In almost all the Union countries, the productivity level for market services was above the level for manufacturing. There was no Union country in which the productivity level in agriculture, forestry and fisheries was anywhere near as high as in the economy as a whole.

Table I.3.10	GVA per head (of total employment) by branch																
	B	DK	D	GR	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EUR15 <sup>(1)</sup>	
	Average annual variation rates, %, 1985 - 1989																
Agricultural, forestry and fishery products	3.1	5.9	4.5	3.4	4.7	6.1	4.3	3.0	3.5	3.6	5.0	5.5	5.0	0.6	4.2		
Fuel and power products	9.3	14.5	1.3		4.1	1.7		1.6	2.5	-0.1	3.8	18.3	4.3	3.9	0.2	1.7	
Manufactured products	3.4	-0.4	1.2		1.5	3.4		4.3	6.1	1.3	3.9	2.3	6.2	1.9	2.3	2.3	
Building and construction	2.5	1.4	1.4		0.3	2.2		2.6	3.0	0.0	2.0	4.6	3.6	1.3	4.3	2.1	
Services	0.8	0.8	1.3		-1.1	1.2		0.9	0.5	0.8	1.0	2.3	2.0	0.1	1.3	0.8	
Market services	1.0	1.1	2.0		1.8	1.8		1.5	2.2	-0.1	2.0	2.6	3.3	1.3	3.0	1.7	
Non-market services	0.4	0.3	0.0		-4.2	0.1		0.0	-0.9	2.0	-0.3	1.7	0.3	-1.6	-0.4	-0.4	
Total	1.8	1.3	1.6	1.7	1.2	2.2	4.3	2.5	2.9	0.6	2.2	4.1	3.5	0.9	2.0	1.8	
	Average annual variation rates, %, 1990 - 1994																
Agricultural, forestry and fishery products	3.9	5.2	5.9		4.5	5.1		4.7	2.3	4.4	2.8	4.5	5.4	2.4	1.5	4.3	
Fuel and power products	5.6	9.0	2.6		5.5	3.5		4.4	3.3	3.6	3.3	2.4	8.0	3.1	2.0	3.1	
Manufactured products	1.4	2.5	1.8		3.2	2.0		3.3	3.0	1.5	3.8	2.3	6.7	4.2	-1.7	1.6	
Building and construction	1.1	-1.2	-0.7		1.9	0.2		-1.7	2.8	-0.2	2.8	2.0	1.1	5.0	1.2	0.2	
Services	2.1	2.1	1.5		0.8	0.6		1.0	1.8	1.1	0.5	4.3	1.8	1.9	1.1	1.1	
Market services	2.0	2.7	1.9		0.7	0.7		1.7	1.8	0.8	1.1	4.7	2.8	1.8	0.5	1.2	
Non-market services	2.1	1.2	0.7		1.1	0.4		0.1	1.8	1.4	-0.4	3.8	0.3	2.1	1.9	1.0	
Total	1.9	2.4	1.8	-0.2	1.9	0.7	3.3	1.9	2.2	1.3	1.8	3.9	3.2	2.6	1.8	1.7	
	Average annual variation rates, %, 1985 - 1994																
Agricultural, forestry and fishery products	3.5	5.5	5.2		4.6	5.6		4.5	2.7	4.0	3.2	4.8	5.5	3.7	1.1	4.3	
Fuel and power products	7.4	11.7	1.9		4.8	2.6		3.0	2.9	1.7	3.5	10.4	6.1	3.5	1.1	2.4	
Manufactured products	2.4	1.0	1.5		2.4	2.7		3.8	4.5	1.4	3.8	2.3	6.5	3.0	0.3	2.0	
Building and construction	1.8	0.1	0.4		1.1	1.2		0.4	2.9	-0.1	2.4	3.3	2.4	3.2	2.8	1.1	
Services	1.4	1.5	1.4		-0.1	0.9		1.0	1.2	0.9	0.8	3.3	1.9	1.0	1.2	1.0	
Market services	1.5	1.9	2.0		1.2	1.3		1.6	2.0	0.4	1.6	3.6	3.0	1.6	1.8	1.4	
Non-market services	1.3	0.8	0.4		-1.6	0.2		0.1	0.4	1.7	-0.3	2.8	0.3	0.2	0.8	0.3	
Total	1.9	1.8	1.7	0.8	1.5	1.5	3.8	2.2	2.6	0.9	2.0	4.0	3.4	1.7	1.9	1.8	

(1) Without Greece and Ireland

Source: Eurostat

### I.3.3 Compensation of employees

This variable showed marked growth rates in the Union over the whole of the reference period when expressed per employee (cf. Tables I.3.12 and I.3.13): it rose by +4.7% per annum, matching the United States figure and overtaking Japan (+3.3% per annum). The increase in per capita compensation of employees was 0.6 percentage points per annum, below the average growth in nominal per capita value added.

As a result of the upsurge in the economies of the Member States during the second half of the 1980s, per capita compensation of employees grew at a higher rate than in the following period in two-thirds of the Member States. The Union countries with the lowest productivity levels showed the highest increases in earnings from paid employment, although only in Portugal did productivity rates increase equally rapidly. Nominal per capita value added in Greece and Portugal rose by around 16% per annum over the reference period as a whole, however.

Table I.3.11	GVA per head (of total employment) by branch 1994, 1000 ECU																
	B	DK	D	GR	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EUR15 <sup>(1)</sup>	
Agricultural, forestry and fishery products	35	34	18		12	26	19	13	24	37	19	5	23	22	24	17	
Fuel and power products	243	174	141		185	199	83	281	133	268	174	60	88	169	91	156	
Manufactured products	50	45	47		30	50	51	39	60	49	52	16	49	40	28	40	
Building and construction	40	36	42		30	35	25	27	37	39	51	10	33	44	30	34	
Services	49	46	55		31	49	34	39	48	49	42	22	37	38	30	42	
Market services	56	58	64		36	61	44	45	47	52	47	28	44	47	30	47	
Non-market services	32	32	34		22	31	22	26	51	39	32	14	29	29	28	30	
Total	50	45	52	15	31	49	34	38	49	50	45	17	37	39	33	41	
	GVA per head (of total employment) by branch 1994, EUR 15 = 100																
Agricultural, forestry and fishery products	201	198	106		71	148	108	75	139	213	111	27	133	125	137	100	
Fuel and power products	156	112	91		119	128	54	181	86	172	112	38	57	109	59	100	
Manufactured products	125	112	117		75	124	127	97	149	123	129	40	122	101	70	100	
Building and construction	118	107	126		90	103	75	81	109	115	153	30	97	131	88	100	
Services	117	110	131		75	118	82	94	115	118	101	53	90	92	72	100	
Market services	119	123	136		75	129	92	95	99	109	100	59	93	99	64	100	
Non-market services	108	107	116		75	106	75	90	174	131	110	47	97	99	96	100	
Total	120	109	125	37	74	117	81	92	117	121	108	41	90	95	79	100	

(1) Without Greece

Source: Eurostat

Table I.3.12	Compensation of employees per employee		
	Average annual variation rates, %		
	1985-1989	1990-1994	1985-1994
B	3.4	5.8	4.6
DK	5.1	3.6	4.4
D	3.1	4.4	3.8
GR	18.4	13.6	16.0
E	7.5	7.3	7.4
F	4.1	3.6	3.9
IRL	6.5	4.8	5.7
I	8.6	6.4	7.5
L	4.5	5.3	4.9
NL	0.7	3.6	2.2
A	4.5	5.0	4.8
P	18.8	12.9	15.9
FIN	9.0	4.3	6.6
S	8.5	6.2	7.4
UK	8.0	6.0	7.0
EUR 15	5.1	4.4	4.7
USA <sup>(1)</sup>	4.3	4.9	4.6
JAP <sup>(1)</sup>	3.6	3.0	3.3

(1) Growth rates only to 1993

Source: Eurostat

Trends among the different branches were much more uniform than from one Member State to another. For the Union as a whole, the range across the different branches was 2.9 percentage points. The highest rates of increase were for employees in fuel and power production (+6.8% per annum) and

the lowest for those in non-market services (+3.9% per annum). Trends were most uniform in Denmark, where growth rates remained within a range of only 0.7 percentage points. In contrast, employees in fuel and power production in the United Kingdom achieved increases almost twice those of employees in the country as a whole.

Table I.3.13	Compensation of employees per employee				
	Annual variation rates, %				
	1990	1991	1992	1993	1994
B	5.9	8.0	6.2	3.8	4.7
DK	4.6	4.3	3.8	1.6	3.6
D	4.7	5.9	5.9	2.7	2.8
GR	20.7	12.8	11.3	10.6	12.8
E	8.7	8.6	9.7	6.5	3.1
F	5.0	4.3	4.3	2.2	2.1
IRL	5.0	4.3	6.7	5.5	2.5
I	10.7	8.5	5.8	3.6	3.4
L	7.5	4.0	6.2	5.2	3.4
NL	3.2	4.5	4.9	3.2	2.3
A	5.1	6.4	5.9	4.6	3.1
P	19.3	18.2	3.7	20.3	3.3
FIN	9.4	5.7	2.4	1.4	2.7
S	10.8	6.8	3.9	3.7	6.0
UK	9.0	8.6	5.3	4.3	2.9
EUR 15	6.4	6.8	4.2	1.1	3.3
USA	5.5	4.5	5.1	4.2	:
JAP	5.3	4.5	1.5	0.7	:

Source: Eurostat

Table I.3.14	Compensation of employees per employee by branch																
	B	DK	D	GR	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EUR15 <sup>(1)</sup>	
	Average annual variation rates, %, 1985 - 1989																
Agricultural, forestry and fishery products	8.1	4.9	2.3	:	7.0	5.1	8.3	7.5	6.7	3.6	:	18.3	8.0	10.9	10.3	5.4	
Fuel and power products	6.8	4.7	3.6	:	9.5	4.3	11.8	9.0	5.6	2.3	:	16.4	8.3	7.7	16.4	7.2	
Manufactured products	4.5	4.5	4.0	:	7.7	5.4	7.6	8.6	5.6	1.4	:	15.7	8.9	8.4	8.4	5.6	
Building and construction	4.2	5.6	2.7	:	6.4	3.6	6.9	9.3	3.6	0.5	:	24.1	10.9	10.4	8.8	5.3	
Services	3.1	5.2	2.9	:	6.7	4.0	6.0	9.2	5.2	1.3	:	19.3	8.7	8.6	7.9	5.1	
Market services	3.4	5.8	2.7	:	9.5	4.6	7.2	7.9	4.3	0.3	:	22.5	8.9	5.9	8.4	5.1	
Non-market services	2.8	5.4	2.5	:	3.9	3.3	4.9	9.2	4.8	1.3	:	17.4	8.0	8.0	7.1	4.4	
Total	3.4	5.1	3.1	18.4	7.5	4.1	6.5	8.6	4.5	0.7	4.5	18.8	9.0	8.5	8.0	5.0	
	Average annual variation rates, %, 1990 - 1994																
Agricultural, forestry and fishery products	6.8	3.2	4.0	:	8.7	4.4	1.4	5.3	-3.2	2.7	:	13.1	2.3	3.9	4.1	3.5	
Fuel and power products	6.9	3.7	5.3	:	8.7	4.8	3.1	7.4	6.1	4.1	:	15.2	5.4	7.2	11.0	6.3	
Manufactured products	4.4	3.6	4.8	:	7.7	5.8	3.4	6.7	3.7	3.2	:	13.0	5.3	7.1	7.2	5.2	
Building and construction	5.6	2.8	5.4	:	8.0	6.1	3.0	5.8	6.1	3.5	:	6.0	3.0	6.1	5.9	4.7	
Services	6.3	3.6	4.5	:	6.8	2.6	5.7	6.3	6.3	4.1	:	13.7	4.4	5.9	5.4	3.9	
Market services	6.1	3.6	4.6	:	6.3	3.3	5.5	6.0	5.0	3.7	:	11.1	4.2	5.6	7.3	4.4	
Non-market services	6.6	3.6	4.4	:	7.4	1.8	5.9	6.7	7.1	4.4	:	16.3	4.6	6.1	4.0	3.5	
Total	5.8	3.6	4.4	13.6	7.3	3.6	4.8	6.4	5.3	3.6	5.0	12.9	4.3	6.2	6.0	4.3	
	Average annual variation rates, %, 1985 - 1994																
Agricultural, forestry and fishery products	7.4	4.0	3.1	:	7.9	4.7	4.8	6.4	1.7	3.2	:	15.7	5.2	7.4	7.2	4.5	
Fuel and power products	6.9	4.2	4.4	:	9.1	4.5	7.5	8.2	5.9	3.2	:	15.8	6.8	7.4	13.7	6.8	
Manufactured products	4.5	4.1	4.4	:	7.7	5.6	5.5	7.7	4.7	2.3	:	14.4	7.1	7.7	7.8	5.4	
Building and construction	4.9	4.2	4.1	:	7.2	4.9	4.9	7.5	4.9	2.0	:	15.0	7.0	8.2	7.3	5.0	
Services	4.7	4.5	3.5	:	6.6	3.3	5.9	7.4	5.4	2.4	:	16.6	6.4	7.1	6.6	4.4	
Market services	4.7	4.7	3.6	:	7.9	3.9	6.4	7.0	4.6	2.0	:	16.8	6.5	5.8	7.9	4.7	
Non-market services	4.7	4.5	3.5	:	5.6	2.6	5.4	7.9	6.0	2.9	:	16.8	6.3	7.0	5.5	3.9	
Total	4.6	4.4	3.8	16.0	7.4	3.9	5.7	7.5	4.9	2.2	4.8	15.9	6.6	7.4	7.0	4.7	

(1) Without Greece and Austria

Source: Eurostat

Table I.3.15	Compensation of employees per employee by branch 1994, 1000 ECU															
	B	DK	D	GR	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EUR15 <sup>(1)</sup>
Agricultural, forestry and fishery products	24	20	19	:	12	23	11	12	17	21	:	6	17	14	14	15
Fuel and power products	69	36	50	:	36	52	34	42	70	41	:	22	30	22	41	45
Manufactured products	36	28	37	:	19	37	24	25	35	32	:	9	27	21	28	30
Building and construction	30	32	31	:	21	33	22	19	26	31	:	5	29	27	23	26
Services	34	29	29	:	20	28	25	24	36	31	:	12	25	27	19	25
Market services	36	30	28	:	20	30	27	23	32	30	:	11	24	17	19	25
Non-market services	31	29	32	:	20	26	22	26	49	36	:	14	26	37	20	26
Total	35	29	32	12	20	30	24	24	34	31	29	10	26	27	21	26
	Compensation of employees per employee by branch 1994, EUR 15 = 100															
Agricultural, forestry and fishery products	162	140	133	:	80	157	79	82	114	147	:	44	116	94	97	100
Fuel and power products	154	81	112	:	80	117	77	95	156	93	:	49	67	50	92	100
Manufactured products	121	92	122	:	64	122	79	83	116	108	:	30	89	70	94	100
Building and construction	117	122	118	:	83	127	85	72	102	118	:	19	113	106	87	100
Services	135	116	116	:	79	112	98	96	141	124	:	48	100	108	77	100
Market services	145	122	113	:	80	123	109	94	130	121	:	44	99	68	78	100
Non-market services	120	110	122	:	77	98	85	98	185	137	:	53	100	142	77	100
Total	131	110	120	46	75	115	91	90	130	118	112	39	97	101	81	100

(1) Without Greece and Austria

Source: Eurostat

In 1994, the average compensation of employees in the Union was ECU 26 000 (cf. Table I.3.15). The lowest average earnings were for employees in agriculture, forestry and fisheries (45% below the EU average), and the highest in fuel and power production, where compensation levels were 69% above the average. Average earnings in manufacturing were 14% higher and in market services 7% higher than average, and per capita earnings in building and

construction were roughly the average. Finally, a reminder: In general, figures can be used only for analyses of functional income distribution. Per capita values do not take into account the varying shares of part-time employment. They refer to gross compensation of employees, and the shares of employer contributions to social security which are included vary considerably from one Union country to another.

## I.4 Private households in the Union

### I.4.1 Private households as a consumer

#### The final consumption of households

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

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

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

Per-capita consumption in purchasing power parities (Fig. I.4.1. Table I.4.1) shows that considerable deviations from the average for the Union persisted in 1995, ranging from Portugal (71.7% of the Union average) to Luxembourg (151.3%). It also emerges that the countries with the lowest per-capita consumption (Portugal and Greece) came closer to the average for the Union between 1985 and 1994, although Portugal again lost some ground between 1994 and 1995.

Although these countries came closer to the average for the Union, the gap between the country with the lowest per-capita consumption and that with the highest narrowed only very slightly between 1985 and

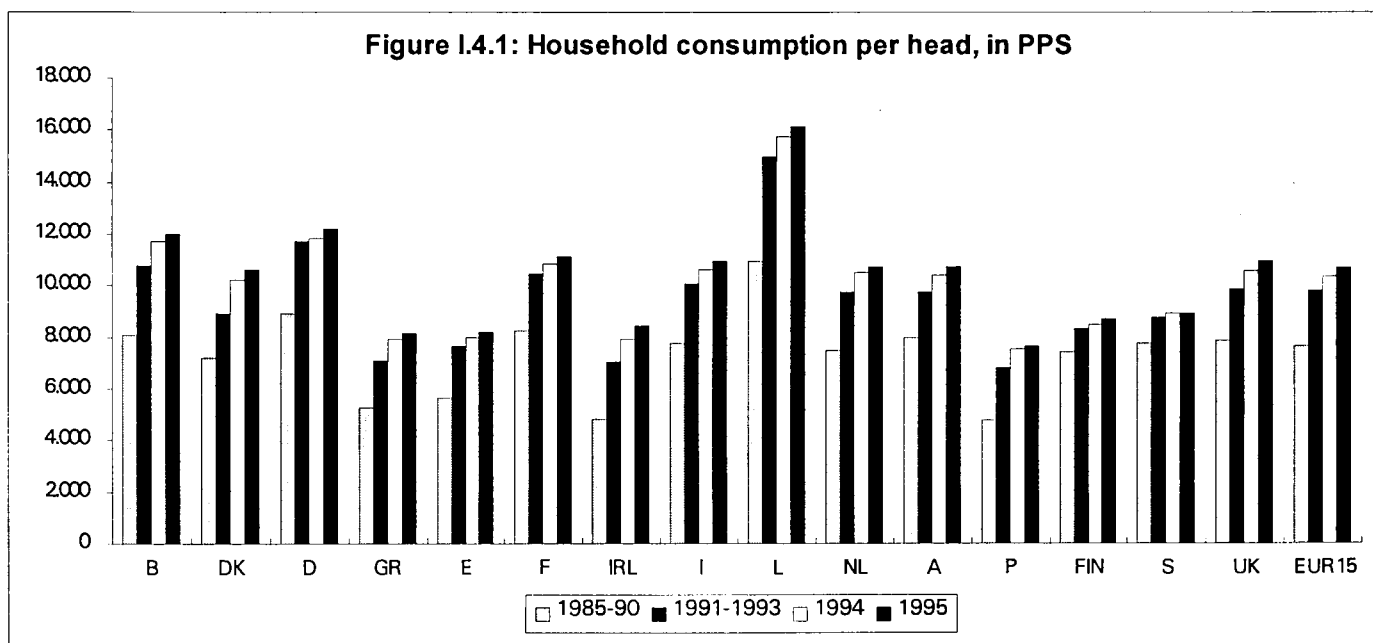
1995. Thus, between 1985 and 1990, per-capita consumption in Portugal was around 62.4% of the average for the Union, while in Luxembourg it was 142.8%, a difference of some 80.4 percentage points, and in 1995 Portugal recorded 71.7% and Luxembourg 151.3%, a difference of 79.6 percentage points.

Table I.4.1	Household consumption per head, in PPS			
	1985-90	1991-93	1994	1995
B	8.098	10.772	11.724	11.982
DK	7.212	8.903	10.243	10.611
D	8.944	11.747	11.849	12.197
GR	5.259	7.122	7.931	8.158
E	5.664	7.674	7.975	8.211
F	8.257	10.469	10.819	11.135
IRL	4.869	7.057	7.944	8.430
I	7.784	10.077	10.603	10.949
L	10.927	14.947	15.747	16.128
NL	7.487	9.720	10.538	10.743
A	7.963	9.750	10.428	10.752
P	4.773	6.850	7.529	7.647
FIN	7.423	8.319	8.481	8.703
S	7.760	8.743	8.920	8.907
UK	7.871	9.829	10.570	10.969
EUR15	7.651	9.775	10.345	10.661

Source: Eurostat

Of the countries with the lowest per-capita consumption, Ireland moved most towards the average for the Union between 1985 and 1995. In 1995, per-capita consumption in Ireland was 79.1% of the Union average. Between 1985 and 1990, per-capita consumption in Ireland was only 63.6%, and between 1991 and 1993 it rose to 72.2%.

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



Source: Eurostat

Table I.4.2	Consumption structure					
	1985-90			1994		
	EUR15	USA	JAPAN	EUR15	USA	JAPAN
Food, drink and tobacco	20.9	12.8	21.3	18.5	11.4	19.9
Clothing and footwear	7.8	6.2	6.6	7.0	5.9	5.8
Gross rent, fuel and power	17.8	18.8	19.0	19.2	18.1	20.8
Furniture and household articles	7.9	6.2	6.2	7.8	5.8	5.9
Health services	7.7	15.1	10.8	8.9	17.8	11.3
Transport and communication	15.2	15.3	9.9	14.9	14.0	9.7
Recreation, education	8.5	9.6	10.0	8.6	10.3	10.7
Other goods and services	14.3	16.0	16.2	15.3	16.5	16.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Eurostat

### The pattern of final consumption of households

The changing pattern of consumption is mainly analysed by taking the average values from 1985 to 1990 and from 1994, the last available year, as reference periods. This reveals a downward trend in the Union in food, drink and tobacco and, to a lesser extent, in clothing and footwear. By contrast, housing, water, fuel and power, healthcare and medical expenditure and the miscellaneous goods and services component increased (table I.4.2).

By comparison with the USA in the period 1985-1990, two main differences emerge. In the Union, spending on food, drink and tobacco was 8.1% higher, while spending on healthcare was 7.4 % lower. Although the gap for food narrowed slightly in 1994, this did not occur in expenditure on healthcare. By comparison with Japan, one major difference, which showed no significant change between 1985-90 and 1994, was in transport and communications, spending on which was 5.3% higher in the Union. Spending on healthcare was also lower in EUR 15, although the difference was less pronounced in 1994.

The declining share of **food, drink and tobacco** is very clear and common to all the countries of the Union. While this kind of spending represented nearly 21% of the total in 1985-90, by 1994 it fell to just under 18%. In doing so, it also lost first place in consumer spending. There are still significant disparities between countries, however. In Germany, France and the Netherlands, less than 20% of consumer budgets went on this kind of expenditure, and the downward trend continued in the more recent period. In countries like Greece, Ireland and Portugal, on the other hand, food, drink and tobacco accounted for about 30% of total spending. While the trend in these countries is also downward, the more recent data still show such spending as a significant portion of households' budgets (table I.4.3).

**Clothing and footwear** (table I.4.4) also showed a downturn common to all the countries of the Union. Between 1985-90 and 1994, spending for this purpose contracted by one percentage point in the Union. The absolute disparities are not as marked as for the previous function, although the extreme cases are noteworthy. In Italy, such spending was 2.5 and 2.3

percentage points above the level for the Union in 1985-90 and 1994 respectively. Denmark recorded 2% and 1.5% less and Finland 2% and 2.3 % less than the average for the same periods.

Table I.4.3	Share of food, drink and tobacco, as % of total consumption			
	1985-90	1991-92	1993	1994
B	20.2	18.2	17.3	16.8
DK	22.1	21.2	20.8	20.0
D	17.2	15.8	15.1	14.7
GR	38.6	36.9	36.4	:
E	23.2	19.6	20.0	20.0
F	19.7	18.6	18.3	18.0
IRL	36.7	35.4	35.2	34.6
I	22.6	20.1	20.2	19.6
L	21.2	18.4	:	:
NL	16.1	15.1	14.8	14.6
A	21.2	19.6	19.0	18.3
P	33.3	30.0	:	:
FIN	24.8	23.8	23.0	22.4
S	22.7	20.2	19.9	:
UK	22.6	21.5	20.6	20.3
EUR15	20.9	19.2	18.5	17.9

Source: Eurostat

Table I.4.4	Share of clothing and footwear, as % of total consumption			
	1985-90	1991-92	1993	1994
B	7.7	7.8	7.7	7.2
DK	5.8	5.3	5.2	5.3
D	7.5	7.3	7.1	6.7
GR	9.0	8.4	7.7	:
E	8.9	8.3	8.1	7.8
F	6.8	6.2	5.9	5.6
IRL	7.1	6.8	6.8	6.6
I	10.3	9.8	9.1	9.1
L	6.5	5.8	:	:
NL	7.2	7.0	6.8	6.3
A	9.9	9.0	8.5	8.1
P	9.6	9.3	:	:
FIN	5.8	5.2	4.6	4.5
S	7.5	6.7	5.8	:
UK	6.6	6.0	5.9	5.9
EUR15	7.8	7.4	7.0	6.8

Source: Eurostat

In the sector **gross rent, water, fuel and power**, the trend is upward, and Union wide spending for this purpose took the lead in 1994. Unlike the previous two

cases, however, the trajectory was not common to all the countries of the Union. Thus, in Ireland, in Luxembourg, in Spain and in the United Kingdom its relative weight declined. In France, Austria and Finland, however, in 1994 this component represented the largest slice of family budgets, as had already been the case in Germany, the Netherlands, Sweden and Denmark since 1985-90 (table I.4.5).

Table I.4.5	Share of gross rent, fuel and power, as% of total consumption			
	1985-90	1991-92	1993	1994
B	17.3	16.9	17.8	18.0
DK	26.4	28.3	28.8	27.5
D	19.1	18.3	19.6	20.4
GR	11.2	12.5	13.5	:
E	13.2	11.9	13.0	13.1
F	18.7	19.9	20.8	21.0
IRL	12.7	12.4	12.3	12.0
I	14.5	15.8	16.9	17.5
L	20.5	19.8	:	:
NL	18.1	18.4	19.0	19.5
A	18.1	17.9	18.5	18.8
P	6.3	7.0	:	:
FIN	18.2	21.7	24.8	25.0
S	25.3	30.2	32.9	:
UK	19.3	19.1	19.5	19.6
EUR15	17.8	17.9	19.2	19.3

Source: Eurostat

Spending on **furniture and household articles** held firm, with slight downward trend everywhere. The most pronounced structural change was in Finland, where it fell by 1.3 points between 1985-90 and 1994 to the lowest figure of the Union. Spending in this area was highest in Belgium, as it was in the initial period (table I.4.6).

Table I.4.6	Share of furniture and household articles, as % of total consumption			
	1985-90	1991-92	1993	1994
B	10.5	10.8	10.3	10.0
DK	6.7	6.3	6.1	6.1
D	8.1	8.5	8.5	8.3
GR	8.4	7.7	7.4	:
E	6.7	6.3	6.5	6.2
F	8.2	7.6	7.4	7.4
IRL	7.2	7.0	6.9	6.5
I	9.2	9.4	9.1	9.2
L	10.1	10.8	:	:
NL	7.0	7.1	6.9	6.6
A	7.3	7.6	7.8	7.9
P	8.4	8.3	:	:
FIN	7.1	6.3	5.8	5.8
S	7.4	7.0	6.6	:
UK	6.7	6.5	6.6	6.6
EUR15	7.9	7.9	7.8	7.7

Source: Eurostat

Spending on **healthcare and medical services** rose in every country of the Union (table I.4.7), reflected by an 1.5 percentage points increase to just over 9% in 1994 in the entire Union. There are still significant disparities between countries, however. In 1994, in Belgium, Germany and the Netherlands, this spending

represented a share of 12% to 15%. In Denmark, Sweden and the United Kingdom, however, it represented just 2% of households' total spending.

Table I.4.7	Share of health services, as % of total consumption			
	1985-90	1991-92	1993	1994
B	10.9	11.7	12.3	12.3
DK	1.9	2.1	2.2	2.1
D	14.5	14.8	15.1	15.6
GR	3.5	3.7	4.2	:
E	3.6	4.1	4.7	4.7
F	9.0	9.7	10.1	10.1
IRL	3.7	3.9	4.1	4.1
I	6.0	6.8	7.1	6.9
L	7.3	7.3	:	:
NL	12.7	13.0	13.1	12.9
A	5.0	5.5	6.0	6.7
P	4.7	4.5	:	:
FIN	4.2	5.1	5.3	5.4
S	1.7	2.0	2.3	:
UK	1.3	1.6	1.7	1.7
EUR15	7.7	8.2	8.9	9.2

Source: Eurostat

**Transport and communications** remained more or less unchanged bearing in mind the values attained at the end points. There were, however, significant variations between these two periods, which seemed to point to an increase in the relative share of transport and communications. The data for 1993 and 1994, however, show spending in this area declining in most of the Member States compared with 91-92 (table I.4.8).

Table I.4.8	Share of transport and communication, as % of total consumption			
	1985-90	1991-92	1993	1994
B	12.5	13.2	12.7	13.0
DK	16.6	15.3	15.4	17.7
D	14.9	16.3	15.3	15.2
GR	13.6	15.1	14.7	:
E	14.7	19.8	15.3	15.7
F	16.7	16.2	15.7	16.2
IRL	12.9	13.0	13.1	13.6
I	12.3	12.1	11.6	11.9
L	16.8	19.5	:	:
NL	12.6	12.7	12.6	12.9
A	15.8	16.6	16.1	15.9
P	15.2	15.3	:	:
FIN	17.2	14.9	14.4	14.9
S	17.0	16.4	15.7	:
UK	17.5	17.0	17.1	17.4
EUR15	15.2	15.7	14.9	15.1

Source: Eurostat

The item **recreation, entertainment, education and culture** was one of the most stable, at a little more than 8.5% of consumer spending. Some disparities from one country to another are still to be observed. In the period from 1985 to 1990, spending to this end was greatest in Denmark, Ireland, the Netherlands, Sweden and the United Kingdom, at around 10% of total spending. Of these countries, only Sweden showed a downturn. On the other hand, of the countries where this spending was less significant, such as Belgium,

Greece, Spain, Luxembourg, Austria and Portugal, only the latter two reported an increase (table I.4.9).

Table I.4.9	Share of recreation, entertainment, education and culture as % of total consumption			
	1985-90	1991-92	1993	1994
	B	6.5	6.4	6.2
DK	9.9	10.3	10.4	10.3
D	9.1	9.2	9.2	9.0
GR	5.9	5.6	5.3	:
E	6.6	6.2	6.6	6.5
F	7.3	7.5	7.4	7.3
IRL	10.7	11.5	11.9	11.7
I	8.7	8.8	8.8	8.8
L	3.9	4.1	:	:
NL	10.2	10.4	10.2	10.0
A	6.7	7.5	7.5	7.7
P	5.9	7.2	:	:
FIN	9.5	9.6	9.6	9.7
S	10.1	9.8	9.5	:
UK	9.6	10.1	10.2	10.2
EUR 15	8.5	8.6	8.6	8.6

Source: Eurostat

**Other goods and services** showed a virtually universal increase. In the Union between 1985-90 and 1994, the growth was 1.3 percentage points, to 15.6% this year. This increase was most significant in Spain and the United Kingdom. In this group, Spain stood out with this component at around 23% of total consumer spending in 1985-90 and rising to almost 26% in 1994.

Of the group of countries in which the miscellaneous goods and services group was least relevant, such as Germany, Greece and Sweden, only Sweden recorded a fall between 1985-90 and 1993. Finland also recorded a decline in this item (table I.4.10).

## I.4.2 Private households as a receiver of income

This section assesses the different contributions of components to income received by the households, deductions and the resultant 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 38% (in 1993), while Denmark had the highest, at 59% (in 1994). In all countries other than Italy it provides 45% or above.

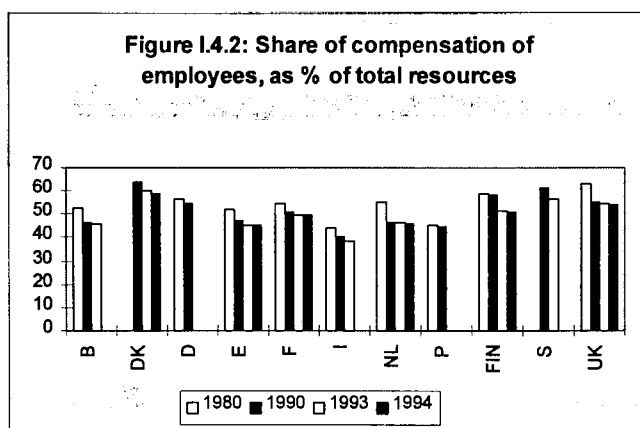
Between 1980 and 1994, compensation of employees has been falling as a proportion of household income in all countries other than Portugal (up to 1990). Compensation of employees used to provide over half of household income in nine of the eleven countries, but now does so in only four of six (1994). This is partly accounted for by the reduced reliance on gross wages and salaries (see table I.4.11).

Table I.4.10	Share of other goods and services, as % of total consumption			
	1985-90	1991-92	1993	1994
B	14.6	15.8	16.1	16.3
DK	10.6	11.1	11.1	11.1
D	9.7	9.8	10.1	10.1
GR	9.8	10.2	10.9	:
E	23.2	23.9	25.8	25.9
F	14.0	15.6	15.7	15.6
IRL	9.0	10.1	9.8	11.0
I	16.4	17.3	17.2	17.1
L	13.7	14.3	:	:
NL	16.0	16.3	16.6	17.3
A	16.0	16.3	16.6	16.5
P	16.6	18.4	:	:
FIN	13.2	13.5	12.5	12.3
S	8.2	7.7	7.2	:
UK	16.3	18.3	18.3	18.3
EUR15	14.3	15.3	15.3	15.6

Source: Eurostat

Table I.4.11	Share of compensation of employees received, as % of total resources			
	1980	1990	1993	1994
B	52	47	46	:
DK	:	64	60	59
D	57	54	:	:
E	52	47	45	45
F	55	51	50	50
I	44	40	38	:
NL	55	46	46	46
P	45	45	:	:
FIN	59	58	51	51
S	:	61	56	:
UK	63	55	54	54

Source: Eurostat



Source: Eurostat

The proportions of household income accounted for by gross wages and salaries has fallen in every country. The proportions fell by over 5 percentage points in Finland, Belgium, the United Kingdom and Spain. In most countries the proportion of household income received from employers' social security contributions has also fallen. However the proportions have risen in Portugal, Sweden and Germany (see table I.4.11 and figure I.4.2).



**Gross operating surplus** (see table I.4.12) contributed over 10% of income for all countries for which data was available. The contributions varied from over 30% in Italy to 13% in the Netherlands and Sweden.

Between 1980 and 1994 there were sizeable changes in Finland, where the proportion fell by five percentage points and the UK, where the rate rose by four percentage points.

Table I.4.12	Share of gross operating surplus, as % of total resources			
	1980	1990	1993	1994
B	16	17	16	:
DK	:	19	18	18
D	:	:	:	:
E	26	27	27	28
F	18	18	17	17
I	33	31	30	:
NL	:	13	13	13
P	24	25	:	:
FIN	21	16	16	16
S	:	11	13	:
UK	12	16	15	16

Source: Eurostat

**Property and entrepreneurial income received** (table I.4.13) contributed less than gross operating surplus in all countries. There were significant differences between countries, with the highest contribution in Germany at 22% (in 1990) and the lowest contribution in Finland, at 4% (in 1980 and in 1994). The most significant fall was in the Netherlands where the rate fell by five percentage points while the most significant increase was in Belgium where the contribution rose by six percentage points (to 1993).

Table I.4.13	Share of property and entrepreneurial income received, as % of total resources			
	1980	1990	1993	1994
B	8	13	14	:
DK	:	:	:	:
D	19	22	:	:
E	5	8	8	7
F	6	7	7	7
I	8	11	12	:
NL	16	11	11	11
P	10	10	:	:
FIN	4	5	5	4
S	:	6	5	:
UK	9	13	9	9

Source: Eurostat

**Unrequited current transfers received** accounted for over a fifth of household income in all countries except Italy. The country with the highest proportion received were the Netherlands with 30% (in 1993) while the country with the lowest proportion was Italy on 19% (in 1993). Unrequited current transfers rose in all countries

except Germany (up to 1990). In Finland the proportion rose by 13 percentage points between 1980 and 1994. Within transfers, social benefits rose rapidly in the United Kingdom and Denmark (see table I.4.14).

Table I.4.14	Share of unrequited current transfers received, as % of total resources			
	1980	1990	1993	1994
B	23	23	24	:
DK	:	23	25	26
D	24	24	:	:
E	17	18	20	20
F	22	25	26	26
I	15	18	19	:
NL	29	29	30	29
P	21	21	:	:
FIN	16	20	28	29
S	:	22	26	:
UK	16	16	21	21

Source: Eurostat

**Total deductions** (table I.4.15), as a proportion of gross household disposable income, ranged from under 20% in Portugal (in 1980) to over 40% in Sweden (in 1993). Sweden remains well above other countries despite a fall of six percentage points (between 1990 and 1993). Four countries - Portugal (up to 1990), Finland, Spain and Italy (up to 1993) had increases of five percentage points or over.

Table I.4.15	Total deductions, as % of total resources			
	1980	1990	1993	1994
B	33	34	34	:
DK	:	37	37	38
D	31	30	:	:
E	25	30	31	30
F	31	34	34	33
I	25	28	30	:
NL	37	34	37	36
P	18	23	:	:
FIN	32	39	37	38
S	:	47	41	:
UK	30	33	28	28

Source: Eurostat

**Unrequited current transfers paid** accounted for over a quarter of households' gross disposable income in all countries except Portugal (in 1991) and the United Kingdom. The largest deduction was in Denmark with over 38% netted off gross income. Within unrequited current transfers there were significant differences between current taxes with Denmark highest at 32% and France lowest with 7%. Contributions for social benefits also varied considerably from 20% in the Netherlands to 5% in Denmark (see table I.4.16).

Deductions of income through **property and entrepreneurial income paid** (table I.4.17) were under 5% in all countries except Sweden and the

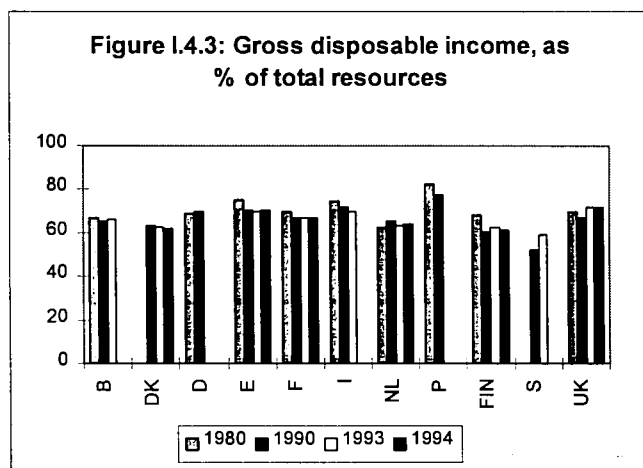
United Kingdom. The main element of this is interest paid. Deductions varied from 7% in Sweden (up to 1993) to 1% in Germany (up to 1990).

Table I.4.16	Share of unrequited current transfers paid, as % of total resources			
	1980	1990	1993	1994
B	31	32	31	:
DK	:	37	37	38
D	30	29	:	:
E	22	25	27	27
F	28	29	30	30
I	23	26	28	:
NL	37	30	32	32
P	14	19	:	:
FIN	29	34	32	34
S	:	39	34	:
UK	26	24	23	23

Source: Eurostat

Table I.4.17	Share of property and entrepreneurial income paid, as % of total resources			
	1980	1990	1993	1994
B	3	3	3	:
DK	:	:	:	:
D	1	1	:	:
E	3	4	4	3
F	3	4	4	3
I	3	2	2	:
NL	1	4	4	4
P	4	4	:	:
FIN	3	6	5	4
S	:	8	7	:
UK	5	10	6	6

Source: Eurostat



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.

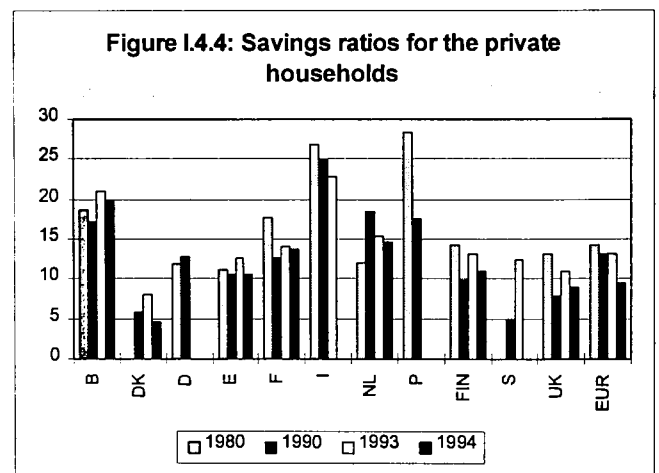
**Gross disposable income** as a proportion of total resources varied in 1994 from 62% in Denmark and Finland to 72% in Sweden. France and Spain have seen significant falls in the proportion of gross domestic income to total resources while Sweden and the United Kingdom have seen the largest increases (see table I.4.18 and figure I.4.3)

Table I.4.18	Gross disposable income, as % of total resources			
	1980	1990	1993	1994
B	67	66	66	:
DK	:	63	63	62
D	69	70	:	:
E	76	70	69	70
F	70	67	67	67
I	75	72	70	:
NL	63	66	63	64
P	82	77	:	:
FIN	68	61	63	62
S	:	52	59	:
UK	70	67	72	72

Source: Eurostat

### I.4.3 Private households as a saver

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



Source: Eurostat

The savings ratio, calculated as the ratio of gross disposable income and gross saving is shown in table I.4.19 and figure I.4.4 for the eleven Member States for which data is available.

Savings ratio for the Union (EUR 11) fell between 1980 and 1994.

The savings ratio recovered in the early 1990s but then fell back to 10% in 1994 by over four percentage points. This was mainly due to lower ratios in the United Kingdom, Finland, the Netherlands and Denmark.

There are significant differences between individual countries. Denmark had the lowest savings ratio in all the years observed.

Between 1980 and 1985, Portugal and Italy alternated as the country with the highest savings ratio, out of the eleven Member States shown in the table. However, from 1986, Italy consistently had the highest savings ratio.

In 1994, compared with 1980, savings ratios fell in the majority of the Member States. However they rose in Belgium and the Netherlands. Rates fell in the United Kingdom, Finland and France.

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

Table I.4.19	Savings ratios for the private households			
	1980	1990	1993	1994
B	19	17	21	20
DK	:	6	8	5
D	12	13	:	:
E	11	11	13	11
F	18	13	14	14
I	27	25	23	:
NL	12	18	15	15
P	28	18	:	:
FIN	14	10	13	11
S	:	5	12	:
UK	13	8	11	9
EUR 11	14	13	13	10

Source: Eurostat

## I.5 General government in the Union

### Definition of general government

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

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

Table I.5.1	General government revenue in the EU Member States in 1994, EUR 15 <sup>(1)</sup>	
	Mrd ECU	%
Current taxes	1461	58.6
Actual social security contributions	854	34.2
Income from property and indemnity insurance payments	80	3.2
Other current transfers	72	2.9
Capital-forming revenue	27	1.1
<b>Total revenue</b>	<b>2494</b>	<b>100.0</b>

(1) without GR, IRL, L, P, S; E and FIN: partial estimates

Source: Eurostat

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

The main item of general government expenditure is current transfers, such as payment of pensions and other assistance to private households, subsidies to producers, or development aid to the rest of the world. This is followed by compensation of employees working for general government (manual and non-manual workers, civil servants and military personnel). Imputed social security contributions (e.g. reserves for civil service pensions) are, not included here. Purchases for intermediate consumption and interest payments are also important (see table I.5.2 below):

### Valuation of general government

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

The difference between revenue and expenditure is more or less the financial balance. If expenditure is greater, the financial deficit shows by how much the general government debt has increased over the period.

Table I.5.2	General government expenditure in the EU Member States, EUR 15 <sup>(1)</sup> in 1994		
		Mrd ECU	%
Current transfers	1470	52.2	
Compensation of employees	575	20.4	
Income from property and net indemnity insurance premiums	299	10.6	
Intermediate consumption	389	13.8	
Gross fixed capital formation	166	5.9	
Capital transfers	77	2.7	
less: sales and own-account output of fixed capital goods	-159	-5.6	
Total expenditure	2817	100.0	

(1) without GR, IRL, L, P, S; E and FIN: partial estimates

Source: Eurostat

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

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

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

The following points about difficulties with the data should be borne in mind when interpreting the data in the tables below and in comparing them with other sources: for 1995 only some highly aggregated main indicators have been available; the 1994 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.

## I.5.2 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 60% (Denmark) and about 40% (Ireland, Portugal and the United Kingdom) of GDP. Since 1980 this share increased in some countries (Denmark, Spain, France and Sweden) while it decreased in some others.

From 1980 to 1994, 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, as it is shown in table I.5.3.

## I.5.3 General government as a producer

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

In the EU in the shown period, about 17% of GDP was used for general government consumption (see table I.5.4). Among the Member States, Denmark produced the largest share of public services from GDP, about 25%, while this figure was relatively low in Germany (about 12%), Luxembourg (1990 over 13%), and the Netherlands (14.4%). However, these differences are to some extent due to the way in which social health-care services are recorded.

Table I.5.3	General government expenditures															
	B	DK	D	GR	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EUR 15 <sup>(1)</sup>
	% of GDP															
1980	54.4	52.9	45.7	:	31.5	42.7	48.6	38.9	49.9	53.0	44.9	33.7	36.8	:	39.4	42.9
1990	50.9	55.2	42.8	:	41.8	46.4	40.7	49.2	:	53.2	45.1	41.1	44.8	58.3	38.2	45.4
1991	51.7	55.7	45.7	:	43.4	47.5	42.0	49.6	:	53.6	46.2	44.2	53.9	60.6	39.4	46.9
1992	52.2	57.4	46.5	:	44.4	49.0	42.4	51.3	:	54.4	46.9	44.2	59.1	66.4	41.2	48.4
1993	53.0	59.6	47.5	:	47.5	51.3	42.3	52.7	:	54.9	49.5	:	60.7	70.3	41.7	49.7
1994	52.8	59.6	47.1	:	:	51.3	:	49.8	:	53.0	48.6	:	58.0	:	41.2	48.7
	1980 = 100															
1994	218	291	305	:	:	281	:	337	:	223	325	:	353	:	233	288
	Elasticity of general government expenditures with respect to GDP															
1980/94	1,00	1,01	1,00	:	1,03	1,01	0,99	1,02	:	1,00	1,01	:	1,03	:	1,00	1,01
1990/94	1,01	1,02	1,02	:	1,03	1,03	0,99	1,00	:	1,00	1,02	:	1,07	:	1,02	1,02

(1) Estimate

Table I.5.4	General government consumption in % of GDP															
	B	DK	D	GR	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EUR 15 <sup>(1)</sup>
1980	17,8	26,6	14,0	13,6	12,7	18,1	19,7	14,7	16,7	17,6	18,0	12,8	18,0	:	21,6	16,9
1990	14,4	25,3	12,1	17,3	15,6	18,0	15,1	17,4	13,5	14,5	17,8	15,6	21,1	27,4	20,6	17,0
1994	15,1	25,5	12,4	:	16,9	19,6	15,8	17,1	:	14,4	19,0	:	22,2	:	21,6	16,9

(1) Estimate

Source: Eurostat

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

### I.5.4 General government as a employer

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

In the European Union, over 15% of all employed or self-employed persons work in the public sector (15.5% in 1994). The percentage is particularly high in Denmark, at more than 30% and relatively small in Greece, just over 11%, and Luxembourg, just under 11%.

About a quarter 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 by general government have increased disproportionately.

### I.5.5 General government as a purchaser

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

structure facilities (such as the road network), general government must use substantial quantities of goods and services as intermediate consumption or as capital goods, which it usually purchases in the market (see table 1.5.6).

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

### I.5.6 General government as a redistributor

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

In 1994 current transfers by general government to private households in the Union accounted for about 45% of general government expenditure, with a moderate upward trend in recent years (see Table I.5.6). The proportion is highest in Germany, at 55%, and lowest in Portugal, at 26%, and Greece, at 27%. The low percentages for Denmark (35%) and the United Kingdom (36%) are connected with the above-mentioned recording of social health-care services.

Table I.5.5	Employees of general government															
	B	DK	D	GR	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EUR 15 <sup>(1)</sup>
% of total employment																
1980	18,9	28,3	14,6	7,8	:	20,0	14,4	14,7	10,8	14,6	:	:	:	:	21,3	12,1
1990	19,8	30,4	15,1	11,4	15,0	22,8	14,0	15,7	11,2	14,3	:	14,4	:	:	19,8	14,8
1991	19,4	30,7	15,9	11,7	15,4	23,0	14,1	15,6	10,8	14,0	:	15,0	:	:	19,9	15,2
1992	19,3	30,8	16,1	11,2	15,9	23,6	14,3	15,9	11,0	13,8	:	15,3	:	:	19,4	15,4
1993	19,4	31,8	16,1	11,3	16,4	24,5	14,4	16,2	10,8	13,7	:	15,4	:	:	17,2	15,7
1994	19,0	31,4	16,1	11,3	16,3	24,8	:	16,4	10,7	13,8	:	15,2	:	:	17,3	15,5
1980 = 100																
1994	100	113	107	155	:	125	:	113	128	102	:	:	:	:	80	138

(1) Estimate

Source: Eurostat

Table I.5.6	Selected expenditures of general government, as % of total expenditure of general government															
	B	DK	D	GR	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EUR 15 <sup>(1)</sup>
	<b>Compensation of employees<sup>(2)</sup></b>															
1980	25.1	35.2	24.1	37.4	31.2	32.3	25.6	28.4	23.5	24.2	26.8	30.1	:	:	34.2	28.8
1990	22.3	33.3	22.7	29.7	26.6	28.5	24.9	25.9	24.3	18.4	26.9	30.6	:	:	32.5	27.5
1994	23.2	30.2	22.1	21.6	27.3	28.1	28.4	24.1	25.9	18.7	26.4	33.9	:	:	25.2	24.4
	<b>Purchases of goods and services<sup>(3)</sup></b>															
1980	14.1	23.9	18.6	:	16.1	21.3	:	18.2	20.3	15.5	28.2	20.7	:	:	29.8	20.3
1990	8.5	19.1	16.4	:	22.3	20.6	:	16.5	16.9	17.1	25.9	16.5	:	:	30.5	20.2
1994	8.2	19.3	16.1	:	22.3	19.4	:	14.9	21.2	17.2	25.8	16.9	:	:	35.0	19.8
	<b>Current transfers to private households</b>															
1980	43.4	30.5	50.6	30.2	40.4	44.9	25.4	36.3	45.6	48.0	39.8	25.2	:	:	27.3	41.6
1990	45.1	31.7	50.5	31.0	34.5	45.8	34.4	37.0	46.4	48.5	41.7	26.2	:	28.0	28.9	41.3
1994	46.2	35.1	54.9	27.0	38.0	45.4	39.5	39.1	52.8	48.7	42.5	26.2	:	:	36.1	45.8

(1) Estimate

(2) without imputed social contributions

(3) intermediate consumption and gross fixed capital formation of the general government

Source: Eurostat

## I.5.7 Financing of general government

In 1994, general government revenue from taxes, social security contributions, charges etc. covered only 90% of expenditure, the shortfall being made up by additional borrowing. Luxembourg is the only EU country where revenue is higher than expenditure.

The way in which government expenditure is financed is largely determined by the way in which social benefits are financed. In Denmark, 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 (3.0%, 13.9% and 19.2% respectively in 1994), and tax revenue accounts for a correspondingly higher proportion. In 1994 just under 60% of general government revenue in the EU came from taxes,

except in the three above-mentioned countries, where the figures were higher.

Within the EU, however, there are also considerable differences in the form of taxation. Although the main tax source in all Member States is direct taxes on income and property, the differences are considerable, ranging from only 38.9% of total tax revenue in France in 1995 to 64.6% in Denmark (see Table I.5.8).

Value added tax is the main indirect tax, accounting for just under 20% of total tax revenue in Italy and Denmark (in Luxembourg it has been even just 17.5%) and for considerably higher proportions in Greece (28.6%), in France (28.1%), in Austria (26.3%) and in Germany (26.1%). It should be noted that the EU own resources are not included in either the revenue or expenditure of general government.

Table I.5.7	General government receipts															
	B	DK	D	GR	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EUR 15 <sup>(1)</sup>
	<b>% of the expenditures</b>															
1980	83.7	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	88.5	97.3	95.2	70.5	90.2	96.7	94.7	77.8	110.6	90.4	95.2	86.7	112.0	107.2	96.7	89.3
1994	90.0	94.2	94.5	76.3	94.6	88.3	98.6	82.0	116.3	93.8	90.8	83.3	90.0	:	83.6	89.2
	<b>Tax receipts, as % of general government receipts</b>															
1980	66.1	88.5	58.7	62.0	47.9	54.5	75.0	60.6	64.2	54.5	66.5	46.9	69.5	:	79.8	61.8
1990	62.9	86.3	56.0	65.1	58.8	52.5	76.3	65.9	66.9	55.9	64.9	62.9	66.4	65.2	76.2	61.8
1994	63.5	87.4	53.0	59.1	54.8	53.3	81.2	65.8	69.1	53.4	63.1	69.0	61.0	:	75.9	59.8
	<b>Social contributions, as % of general government receipts</b>															
1980	29.5	1.7	36.5	29.5	41.4	41.7	13.7	37.8	27.4	36.3	30.5	19.8	23.6	:	17.6	33.3
1990	34.1	2.9	38.7	30.1	32.3	43.0	14.4	33.7	26.5	35.4	31.8	27.9	24.5	24.2	18.0	32.8
1994	33.4	3.0	40.8	36.2	31.6	42.5	13.9	32.2	26.0	39.9	34.4	26.9	29.3	:	19.2	35.4

Source: Eurostat

Table I.5.8	Selected taxes, as % of the total tax receipts of general government, 1995															
	B	DK	D	GR	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EUR 15
Value added tax	21.2	19.1	26.1	28.6	23.5	28.1	23.2	19.3	17.5	24.5	26.3	27.7	23.9	19.6	22.7	24.1
Other taxes linked to production	16.4	15.8	25.1	36.0	22.8	30.4	26.4	24.2	31.3	22.4	27.9	30.7	19.1	20.2	27.1	25.2
Current taxes on income and wealth	61.1	64.6	48.4	33.6	52.5	38.9	49.9	54.7	50.8	52.0	45.6	41.3	56.4	60.0	49.5	49.6

Source: Eurostat

Table I.5.9	Government deficit and debt														
	B	DK	D	GR	E	F	IRL	I	L	NL	A	P	FIN	S	UK
	Government deficit (-) /surplus (+), as % of GDP														
1990	-5.4	-1.5	-2.1	-13.8	-4.1	-1.6	-2.2	-10.9	5.8	-5.1	-2.2	-5.3	5.4	4.2	-1.5
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	-7.1	-2.9	-2.8	-12.3	-4.1	-3.9	-2.4	-9.5	0.8	-3.9	-1.9	-3.6	-5.9	-7.8	-6.3
1993	-6.7	-3.9	-3.5	-14.2	-7.4	-5.9	-2.2	-9.6	1.7	-3.2	-4.1	-6.9	-8.0	-12.3	-7.8
1994	-5.3	-3.5	-2.6	-12.1	-6.2	-5.8	-2.0	-9.0	2.2	-3.2	-4.5	-5.7	-6.3	-10.8	-6.9
1995	-4.5	-1.5	-3.6	-9.2	-5.8	-5.0	-1.9	-7.2	1.1	-3.7	-6.1	-5.2	-5.6	-7.8	-4.7
1990/95 <sup>(1)</sup>	-6.0	-2.6	-3.0	-12.2	-5.4	-4.1	-2.2	-9.4	2.3	-3.7	-3.6	-5.5	-3.7	-5.9	-5.0
	Government debt, as % of GDP <sup>(2)</sup>														
1990	131.0	-	43.8	82.6	45.1	35.4	96.8	97.9	5.4	78.8	58.4	67.7	14.5	43.8	35.4
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	131.5	68.7	44.1	89.4	48.0	39.7	95.0	108.4	5.2	79.4	58.3	63.7	41.5	67.1	41.9
1993	137.9	80.1	48.2	111.8	60.1	45.4	98.0	119.4	6.2	81.1	62.8	67.7	57.3	76.0	48.5
1994	135.5	76.0	50.4	110.4	62.6	48.4	91.7	125.4	5.7	77.6	65.0	70.0	59.5	79.3	50.3
1995	133.8	72.1	58.1	111.7	65.2	52.2	85.4	124.9	5.8	78.7	69.2	71.4	59.4	79.6	53.0

(1) Average of the period

(2) Debt held by non-public institutions at the end of the year

Source: Eurostat, Notification of March 1996

Details about the state's revenue from taxes and social contributions are covered by chapter II of this publication. There, 1995 data are also given for the main categories of taxes and social contributions.

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

Table I.5.9 shows the 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 (notification of March 1996),

These data show that Luxembourg enjoys the most favourable situation, in that it has constantly achieved a net surplus, which in the period 1990-1995 was on

average 2.3% of the country's GDP. Greece and Italy are at the other end of the scale with deficits of 12.2% and 9.4%, respectively, of GDP in the same period.

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

Table I.5.9 also shows general government debt at the end of the year as a percentage of GDP. Debts between government institutions are not included. With 133.8% in 1995, 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 (124.9% of GDP) and Greece (111.7%). The most favourable situation is in Luxembourg (5.8%).

In 1995 only Luxembourg, the United Kingdom, France, Germany and Finland were below the 60% limit of general government debt in relation to GDP.



## I.6 Labour market in the Union

### I.6.1 Population

Table I.6.1	Cumulated variation rates of annual average population <sup>(1)</sup> , in %																		
	B	DK	D <sup>(2)</sup>	GR	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EUR 15	USA	JAP	
1970-1975	1.6	2.7	1.2	2.9	5.1	3.8	7.7	3.0	5.8	4.8	1.5	4.8	2.3	1.9	1.1	2.7	5.1	6.0	
1975-1980	0.5	1.2	-0.5	6.6	5.3	2.2	7.0	1.8	1.4	3.5	-0.4	7.4	1.4	1.4	0.2	1.7	5.5	5.5	
1980-1985	0.1	-0.2	-0.8	3.0	2.7	2.6	4.1	0.3	0.7	2.4	0.4	2.5	2.6	0.5	0.6	1.0	4.5	3.4	
1985-1990	1.1	0.5	2.2	2.3	1.1	2.6	-1.0	0.2	4.1	3.2	2.0	-1.1	1.7	2.5	1.5	1.6	4.8	2.1	
1990-1994	1.5	1.3	2.6	2.6	0.8	2.1	1.8	0.9	5.7	2.9	3.9	0.1	2.0	2.6	1.4	1.8	4.4	1.2	
1970-1994	5.0	5.6	4.8	18.6	15.9	14.0	21.0	6.3	19.0	18.0	7.5	14.1	10.5	9.2	5.0	9.0	26.7	19.5	

(1) For Japan population on 1. October, for other countries on 1. January

(2) Former German Democratic Republic included

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

At the beginning of 1995, the population of the European Union amounted to 371.6 Mio. This is about 96.1% of the combined populations of the US (261.6 Mio) and Japan (125.0 Mio). Of the EU Member States, Germany had the largest number of inhabitants (81.6 Mio) followed by the UK, France and Italy (all three just below 60 Mio).

In 1994, the population of the Union increased by 0.31%. A comparison of this figure with those of Japan (+0.22%) and the US (+0.95%) reveals the difference in growth in the three economic areas. Table I.6.1 shows the cumulated growth rates for the period 1970 up to including 1994. While the relative increase in the US fell only slightly during those years, the growth rate in Japan declined dramatically.

In the Union the growth rates used to be relatively low, but started to rise again in the mid-eighties, due to increasing immigration.

Within the Union, the population has grown by 9.0% in the last two-and-a half decades. The increase was only about 5% in Germany, Belgium and the UK. On the other hand, a population growth of about 20% was recorded in Greece, Ireland, Luxembourg and the Netherlands.

Table I.6.2	Components of population change 1994, in %		
	EUR 15	USA	JAP
Natural increase	0.11	0.65	0.29
+ Net migration	0.21	0.30	-0.07
= Population change	0.31	0.95	0.22

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

The relative weight of the elements contributing to population growth differed between the three economic areas (see table I.6.2). The US had a high rate of natural increase (births minus deaths). In Japan and the EU this rate was much lower. In both the EU and the US, net migration (immigration minus

emigration) was an important factor. In the EU it caused two-thirds of the total population growth in 1994. In Japan natural increase exceeded the population growth in 1994; net migration was negative.

Within the Union, Germany had the highest level of net migration in 1994, amounting to 40.7% of the total EU-figure of 775.2 thousand net migrants.

Tab. I.6.3	Populations-density 1995 (Inhabitants/km <sup>2</sup> )
A	96
B	332
DK	121
D	228
GR	79
E	78
FIN	15
F	107
IRL	52
I	190
L	157
NL	376
P	108
S	20
UK	242
EUR 15	115
USA	28
JAP	331

Source: Eurostat (demographic statistics); Bureau of the Census, Population Division, USA; Ministry of health and welfare, Japan

When we relate the number of inhabitants to the surface of the three economic areas (see table I.6.3), Japan appears to be the most densely populated. Its surface (377.8 thousand km<sup>2</sup>) is much smaller than that of the EU (3235.0) and the US (9363.5).

Within the Union there is a wide variation in population density. The Netherlands and Belgium have the highest densities. It should be noted that only the two most sparsely populated EU-countries, Finland and Sweden are inhabited by less people per km<sup>2</sup> than the US.

In table I.6.4 the population is split into several age-groups. In all three areas the proportion of young persons (0-14) has declined in the last 25 years. During that period the share of this group has remained much higher in the US than in the EU or Japan. In the EU, Ireland has the highest proportion of children (31.2% in 1970 and 24.7% in 1995).

Table I.6.4	Population by major age-groups, in %									
	0 - 14		15-64		65+		65+/15-64		65+ and 0-14/15-64	
	1970	1995	1970	1995	1970	1995	1970	1995	1970	1995
EUR 15 <sup>(1)</sup>	24.7	17.6	63.1	67.0	12.2	15.4	19.3	22.9	58.5	49.2
USA	28.3	21.9	61.9	65.5	9.8	12.6	15.8	19.2	61.6	52.7
JAP	24.0	16.2	69.0	69.6	7.0	14.2	10.1	20.4	44.9	43.7

(1) Former German Democratic Republic included

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

The proportion of elderly people (65+) increased considerably, especially in Japan. The ageing index (65+/15-64) was higher in the EU than in Japan and the US. Of the EU Member States the highest index was recorded for Sweden (27.3% in 1995).

The dependency ratio is difficult to calculate for the Union as the age of entry into and exit from the labour market varies by country. For this comparison the ages used are "0 - 14 and 65+", with the working population aged between 15-64.

The dependency ratio of all three areas dropped in the last twenty years, with the EU and the US being most affected. In Japan the fall in the share of children in the population was almost offset by a rise in that of the elderly.

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

Table I.6.5	Population by sex (females as % of the total population)			
	0-14	15-64	65+	Total
	EUR 15 (1995)	48.7	49.7	60.5
USA (1993)	48.8	50.4	59.5	51.2
JAP (1995)	48.7	49.8	58.8	51.0

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 will be discussed in terms of persons in employment. This includes employers, self-employed, relatives working in family firms and employees.

In 1995, for the first time since 1991, the number of people employed in the Union rose. Table 1.6.6 shows that in the past three years there was a fairly significant improvement in employment in the United States, whereas the employment growth in Japan was only marginal. From 1990 onwards, in the US as

well as Japan, employment increased by approximately five and a half percent. In the Union on the other hand employment remained the same.

The trend, however, shows that the situation in the Union has improved since 1992: first the drop in employment slowed down and in 1995 employment rose. In Japan, the growth in employment of the early nineties has ended; compared with 1992 hardly any additional people were at work in 1995. Employment trends in the United States are better. After a decrease in 1991, employment has steadily risen (see table I.6.6).

There were major differences among the Member States in 1995 (see table I.6.7). Employment growth was highest in Ireland (4.6%). Also in Spain, Denmark and Finland a considerable employment growth was recorded (over 2%), while the largest fall was in Luxembourg, at 1.6%.

Table I.6.6	Annual variation rate in employment, in %		
	EUR 15 <sup>(1)</sup>	USA <sup>(2)</sup>	JAP
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

(1) Figures for unified Germany only from 1992 onwards

(2) The figures for the USA contain a break in the series as of January 1994.

Sources: Eurostat, Labour Force Survey (LFS); OECD; national LFS for USA and Japan

Recent trends are also quite different among the Member States: in the Netherlands employment has risen continuously since 1990, while in Finland and Sweden the employment situation deteriorated significantly in the nineties, especially in 1992 and 1993.

The general trend in the employment situation in the Netherlands is quite remarkable. Here the change in employment has not only been consistently positive but also above the EU-average. This may be partly due to the increase of part-time employment.

Table I.6.7	Annual variation rate in employment in the Member states, in %															
	B	DK	D <sup>(1)</sup>	GR	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EUR 15
1990	1.1	1.0	5.8	1.3	2.9	0.6	3.6	2.0	2.4	4.1	2.1	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	2.1	4.1	-5.2	-1.8	-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	1.8	-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	0.6	-1.0	-6.1	-5.5	-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	:	-0.5	-0.7	-1.0	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	:	-0.5	2.2	1.8	1.1	0.8
1989-1995	5.8	-1.1	6.0	4.1	-1.4	1.4	15.2	-4.2	5.5	12.5	:	-3.3	-16.3	-10.5	-2.3	0.6

(1) Figures for unified Germany only from 1992 onwards

Sources: Eurostat, Labour Force Survey

## Employment by activity

As regards the proportion of people working in agriculture, industry and services, the employment structures in Japan and the European Union appear to be very similar (see table I.6.8). In both economies 5-6% of the economically active work in agriculture, while about a third have jobs 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 are employed in the services sector. Thus, industry and agriculture have a relatively small role.

Table I.6.8	Employment by activity					
	Shares in 1995			Percentage changes 1989 - 1995		
	EUR 15	USA	JAP	EUR 15 <sup>(1)</sup>	USA <sup>(2)</sup>	JAP
Agriculture	5.3	2.9	5.7	-22.6	6.3	-20.6
Industry	30.2	24.0	33.6	-7.9	-4.2	3.2
Services	64.5	73.1	60.7	8.2	10.5	10.0
Total	100.0	100.0	100.0	0.6	6.4	5.4

(1) The percentage changes for EUR 15 do not include the former German Democratic Republic.

(2) The figures for the USA contain a break in the series as of January 1994.

Sources: Eurostat, Labour Force Survey; OECD, national LFS for USA and Japan

On average, in the period 1989-1995 employment in agriculture fell by 4.2% per year in the EU and by 3.8% in Japan. Rather surprisingly the number of persons employed in agriculture in the United States

rose significantly, 6.3% between 1989-1995. This is mainly due to the effect of the revision of US employment data in 1994.

In all three economies, more people were working in the services sector in 1995 than in 1989. The 1995 changes were in line with the trend of a fairly steady growth in employment in services apparent over the last five years.

The most notable difference between the Union and Japan concerns the trend in the number of industrial jobs. Between 1989 and 1995 the number fell by 7.9% in the European Union, while it continued to increase by more than 3% in Japan. However, the figures from 1993 onwards show that the role of industry in Japan as a job creator ended. Between 1992 and 1995 in Japan the number of persons employed in industry fell by 2.7%.

To illustrate the enormous variety among the Member States regarding employment structure, table I.6.9 shows the employment shares of the three main sectors of activity. For instance, in the United Kingdom only about one out of every 50 workers is employed in agriculture, while the proportion is ten times higher in Greece. Agriculture still accounts for a substantial number of jobs in the southern Member States and Ireland in particular.

The country with the largest share of employment in industry is Germany, at 36%, while in Greece and the Netherlands the share of industry is smallest, at 23%.

Table I.6.9	Employment by activity in the Member States, shares in 1995															
	B	DK	D <sup>(2)</sup>	GR	E	F	IRL	I	L	NL	A <sup>(1)</sup>	P	FIN	S	UK	EUR 15 <sup>(2)</sup>
Agriculture	2.7	4.4	3.2	20.4	9.3	4.9	12.0	7.5	3.9	3.7	7.3	11.5	7.7	3.1	2.1	5.3
Industry	28.3	27.1	36.0	23.2	30.2	27.0	27.8	32.1	25.3	22.8	33.5	32.2	27.9	25.9	27.4	30.2
Services	69.0	68.5	60.8	56.4	60.5	68.1	60.2	60.4	70.9	73.5	59.2	56.3	64.4	71.0	70.5	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 changes 1989-1995															
Agriculture	-15.0	-23.5	-16.9	-16.1	-30.3	-28.1	-12.5	-22.1	-10.6	-14.9	:	-42.5	-27.5	-22.0	-10.1	-22.6
Industry	-4.9	-1.6	-4.8	-6.2	-8.9	-9.3	7.9	-3.8	-1.5	-6.3	:	-10.0	-24.8	-21.4	-17.7	-7.9
Services	12.0	1.8	15.3	20.0	10.2	10.6	20.1	-1.5	11.2	17.8	:	18.6	-10.3	-5.4	5.9	8.2
Total	5.8	-1.1	6.0	4.1	-1.4	1.4	15.2	-4.2	5.5	12.5	:	-3.3	-16.3	-10.5	-2.3	0.6

(1) The data for Austria refer to the year 1994.

(2) The percentage changes for Germany and EUR 15 do not include the former German Democratic Republic.

Source: Eurostat, Labour Force Survey

In the Netherlands almost three-quarters of the working population are employed in the services sector; also Luxembourg, Sweden and the UK have a relatively high share. In these countries the part of the workforce working in the services sector is comparable to that of the United States. In Greece and Portugal, services only account for 56% of the jobs.

The general trend in the past years concerning employment was practically the same across the European Union. Since 1989, the number of persons employed in agriculture and industry fell in all countries; except for Ireland, where industrial employment increased by 7.9%. In contrast, the number of persons employed in the services sector rose in most Member States.

The speed of change in the division of labour varied considerably from country to country. The decline in agricultural employment was more than 25% in Finland, France, Portugal and Spain. At the same time, industrial employment also fell significantly, by almost 18%, in the United Kingdom. However, the largest fall in industrial employment took place in Sweden at almost 4% per year and in Finland at 4.6% per year.

As regards employment in the services sector, Germany, Greece, Ireland, the Netherlands and Portugal all showed a growth rate of more than 15% in the 1989-1995 period. This is in particular surprising for the Netherlands as this country had the highest share of employment in this activity. In the other countries services had relatively low shares. (see table I.6.9).

### I.6.3 Unemployment

In 1995, unemployment in the European Union decreased by 3.4%. This was a break with the trend in the past years of continuous unemployment growth. In the US, unemployment decreased by 7.4%. There, the number of jobless has been falling from 1993 onwards, after sharp rises in 1991 and 1992. In Japan, unemployment growth remained quite high, albeit from a much lower level (see table I.6.10).

Table I.6.10	Annual variation rates of the number of unemployed, in %		
	EUR 15 <sup>(1)</sup>	USA <sup>(2)</sup>	JAP
1991	5.6	22.6	1.3
1992	12.6	11.4	4.6
1993	16.0	-6.9	16.5
1994	4.0	-8.4	15.9
1995	-3.4	-7.4	9.3

(1) Figures for unified Germany only from 1992 onwards

(2) The figures for the USA contain a break in the series as of January 1994.

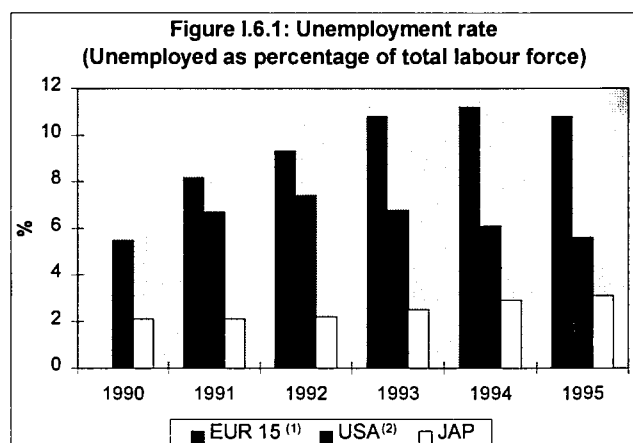
Sources: Eurostat, estimates based on LFS; OECD for USA and Japan

Within the Union, developments differed quite a lot among the Member States. The number of unemployed in Denmark fell by more than 18% in 1995. Unemployment rose fastest, by 3.8% in Italy and by 2.5% in Portugal.

Spain and Germany accounted for 38% of the Union's unemployment in 1995. The share of France in total unemployment was 16%, while Italy and the UK together accounted for some 29% of the EU's unemployed. 83% of all the unemployed in the Union lived in one of these five countries (compared with 79.2% of all persons).

Since there were less people unemployed in the Union, in 1995 the unemployment rate in the EU fell for the first time in the nineties, reaching 10.8% (see figure I.6.1). Despite recent increases, unemployment in Japan remained relatively low, at 3.1%. The US rate fell to 5.6% in 1995. In each region, the 1995 rates exceeded those of 1990.

Within the European Union, unemployment rates only rose in Greece, Italy, the Netherlands and Portugal in 1995. The Spanish, French, Italian, Finnish and Irish unemployment rates were above the Union average, the Spanish rate being more than twice the average. Luxembourg had the lowest unemployment rate in the Union, at 2.9%.



(1) Figures for unified Germany only from 1991 onwards.

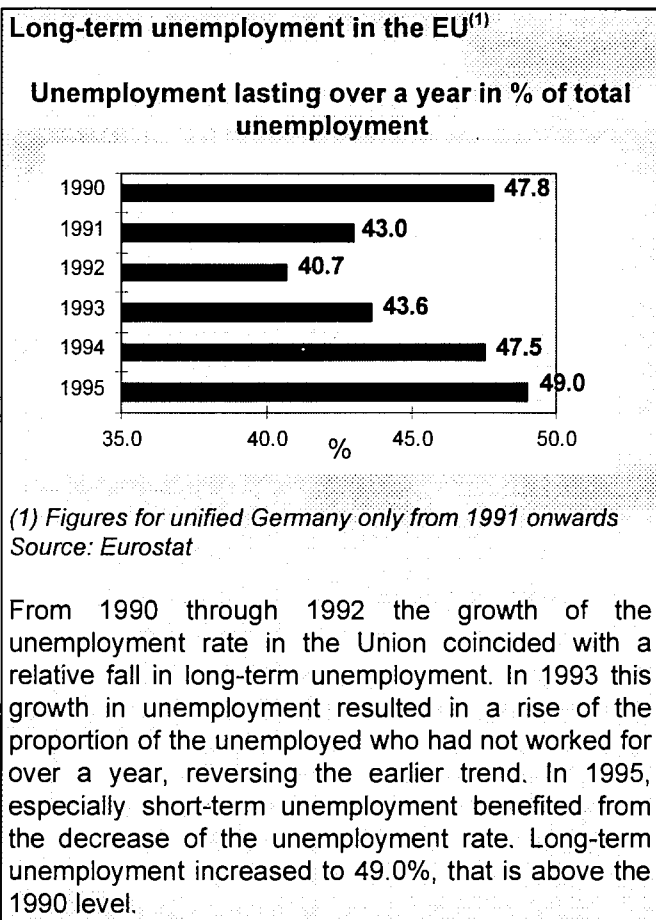
(2) The figures for the USA contain a break in the series as of January 1994.

Sources: Eurostat estimates based on the Labour force statistics; USA, Japan: national Labour force statistics

In 1995, more than a quarter of the total number of unemployed in the Union consisted of young people between 15 and 24 years of age (see table I.6.11). This proportion was slightly higher than in Japan, but lower than in the US.

In the EU, the share of young unemployed in total unemployment has fallen steadily since 1990, so that in 1995 it was 6.8 percentage points lower than in 1990. In the US, it fell in 1991 and 1992, but increased from 1993 onwards, so that the 1995 proportion of young people exceeded the 1990 figure. In 1995, Japan, like the US, showed an increase in

the proportion of young people in total unemployment. However, the 1995 level in Japan was 1.2 percentage points lower than that of 1990.



**Table I.6.11**

**Youth unemployment (15-24 years), as percentage of the total unemployment**

	Youth unemployment (15-24 years), as percentage of the total unemployment		
	EUR 15 <sup>(1)</sup>	USA <sup>(2)</sup>	JAP
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	27.6	35.0	25.7

(1) Figures for unified Germany only from 1991 onwards  
(2) The figures for the USA contain a break in the series as of January 1994.  
Source: Eurostat, estimates based on LFS; OECD for USA and Japan

Among the Member States the share of young people in the total number of unemployed was highest in Italy (40.1%) and lowest in Germany (12.3%).

In the Union the proportion of women in the total number of jobless was close to 50% in 1995. Table 1.6.12 shows that this share was lower in the US and Japan. In the EU, the share in 1993 was markedly lower than in 1990, but it has risen since. In all three

regions, the 1995 proportion was more or less comparable to that of 1990.

**Unemployment by occupation in the EU**

Last occupation of unemployed persons in the EU in 1994 as percentage of total EU-unemployment

Occupation	%
Armed forces	0.1
Legislators, senior officials and managers	2.2
Professionals	2.6
Technicians and associate professionals	4.3
Clerks	5.9
Service workers and shop and market sales workers	8.4
Skilled agricultural and fishery workers	1.2
Craft and related trades workers	12.2
Plant and machine operators and assemblers	5.9
Elementary occupation	12.6
No previous work	19.6
No answer / not applicable	25.0

Source: Eurostat

Two out of ten unemployed in the Union in 1994 did not have any previous working experience. 45% of those who did have a job before consisted of craft and related trades workers and people with elementary occupations. As these occupations account for 24.8% of the total number of jobs, the chances of these people returning to their professions are less than the average.

Among the Member States Greece had the highest share of women amongst its unemployed: 57.5% in 1995. This share was smallest in the UK (35.1%) and in Ireland (39.4%).

**Table I.6.12**

**Female unemployment as percentage of total unemployment**

	Female unemployment as percentage of total unemployment		
	EUR 15 <sup>(1)</sup>	USA <sup>(2)</sup>	JAP
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	49.1	46.2	41.4

(1) Figures for unified Germany only from 1991 onwards  
(2) The figures for the USA contain a break in the series as of January 1994.  
Source: EUR15: Eurostat estimates based on the Labour force statistics; USA, Japan: national Labour force statistics

To conclude, the rate of unemployment in the Union decreased in 1995. In the US unemployment fell as well, while in Japan it continued to rise. Compared with the US and Japan, however, the unemployment rate of the Union remained by far the highest.

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

### I.7.1 Consumer prices

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

#### Trends in the overall index

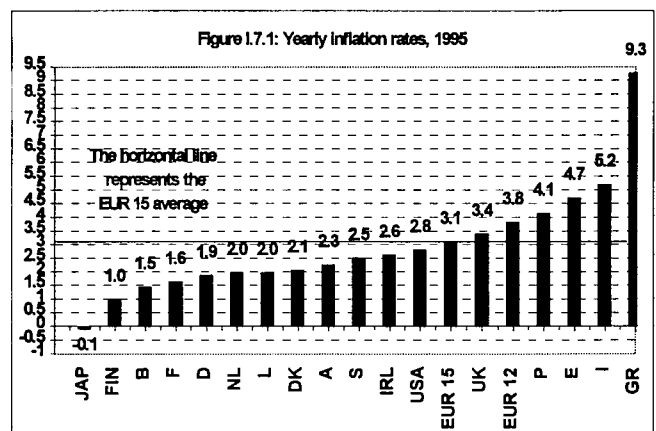
For the Union as a whole, a certain price stability has to some extent been achieved in recent years. As the data in table I.7.1 on the consumer price index show, since the beginning of the 1990s there has even been a slowdown in annual inflation for the Union (5.2% in 1991; 4.2% in 1992; 3.4% in 1993;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

However, the good results for the Union as a whole conceal great differences between the Member States, ranging from a change of 1.0% for Finland to 9.3% for Greece between 1994 and 1995.

It must also be pointed out that in 1995 the inflation rates of the Union's major economic partners, i.e. the United States and Japan, were lower than that of the Union, with 2.8% for the United States and, especially, -0.1% for Japan. The differences in inflation in 1995 are illustrated in figure I.7.1, in which the countries are classified according to the size of their inflation rate.

#### The characteristic of the EUR 15 index

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



Source: Eurostat

Table	The cost of living price index - 1985 = 100															95/94 (%)
	1980	1981	1982	1983	1984	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	
I.7.1																
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	1.5
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	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	1.9
GR	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	9.3
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	4.7
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	1.6
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	2.6
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	5.2
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	2.0
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	2.0
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	2.3
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	4.1
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	1.0
S	65.0	72.9	79.2	86.2	93.1	104.2	108.6	114.9	122.3	135.1	147.8	151.1	158.2	161.6	165.7	2.5
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	3.4
EUR 12	65.3	73.3	81.1	88.0	94.3	103.5	106.9	110.7	116.3	122.9	129.1	134.6	139.0	143.3	148.8	3.8
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	3.1
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	2.8
JAP	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	-0.1

Source: Eurostat

Over the past ten years, it is Japan which has had the lowest inflation rate (up by 14.5 percentage points between 1985 and 1995), with the Netherlands achieving the best result (20.1 percentage points) among the EU countries.

Japan's better performance on prices than that of the United States and the Union is illustrated for the period 1990-1995 in figure I.7.2.

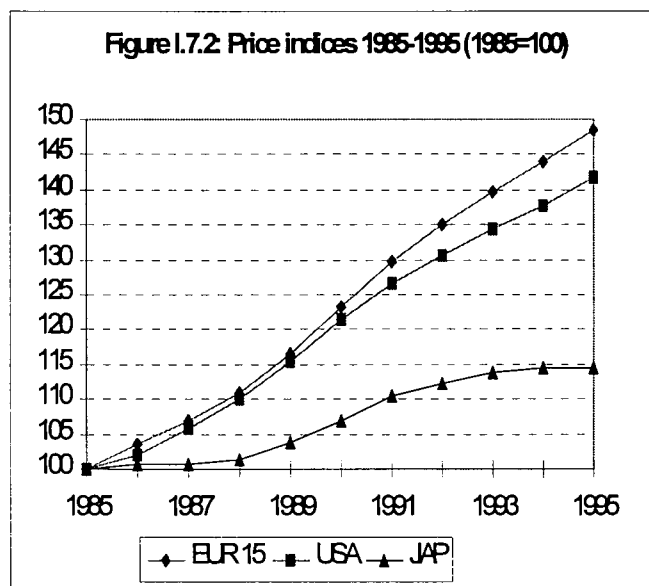
During that period price trends in the Union and the United States were fairly similar.

Table I.7.2	Evolution of prices by purpose of consumption between 1990 and 1995, in %															
	B	DK	D	GR	E	F	IRL	I	L	NL	A	P	FIN	S	UK	
General index	12.9	10.2	16.8	92.0	28.7	11.5	13.3	27.7	14.8	15.3	17.3	41.1	11.9	22.6	18.2	
Food	3.8	8.3	9.0	90.2	18.1	5.0	8.3	29.9	7.5	7.3	12.8	24.5	-5.2	3.0	14.7	
Beverages and tobacco	16.4	4.2	13.8	121.3	44.2	29.6	21.8	29.9	21.3	18.4	:	49.0	20.5	27.9	42.4	
Clothing and footwear	12.9	5.9	10.9	78.3	34.3	7.2	4.5	23.6	14.2	-4.3	:	43.3	15.9	5.8	4.8	
Gross rent, fuel and power	16.7	13.1	21.2	108.2	42.0	24.5	9.6	32.8	19.7	23.3	23.3	46.6	0.6	40.8	4.5	
Furniture, furnishings and household equipment	10.2	8.4	13.6	69.2	23.1	9.2	11.7	25.3	15.1	6.7	14.6	55.3	13.9	12.8	16.9	
Transport and communication	11.8	4.1	19.3	93.9	33.3	14.0	6.6	32.0	16.7	16.6	15.1	51.9	24.4	28.8	24.2	
Recreation, entertainment, education and culture	8.5	11.3	12.4	102.9	25.1	23.0	17.7	23.0	9.1	6.3	17.3	41.8	17.6	14.7	20.0	
Miscellaneous goods and services	17.7	9.9	29.8	87.5	17.3	16.3	21.0	31.9	19.6	14.6	:	46.2	15.3	25.5	32.8	

Source: Eurostat

Over the same period the rise in prices was relatively moderate (between approximately +25 percentage points and +48 percentage points) for a good number of Member States except the United Kingdom, Sweden, Italy and Spain, whose rates ranged between +57 percentage points and +76 percentage points, and particularly in Portugal (+141 percentage points) and Greece (+327 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 48.5 percentage points between 1985 and 1995.



Source: Eurostat

#### The interim indices of consumer prices

In February 1996 Eurostat published for the period February 1996 - February 1995, interim indices of consumer prices. These indices have been constructed primarily to assess the convergence of EU Member States' economies preparatory to Economic and Monetary Union. According to the Treaty on European Union, price stability is one of the four convergence criteria.

The interim indices are based largely on the national Consumer Price Indices presented here above. In order to improve comparability certain categories of expenditure of the national indices have been excluded, whereas others have been introduced.

These interim indices do not yet ensure a perfect comparability. However, taken together with other information they provide a better basis for assessing convergence than the national indices. In 1997 they will however be replaced by Harmonised Indices of Consumer Prices which will be established on the basis of the regulation of the Council (EC) n°2494/95 from 23/10/95. These indices will then provide a better basis for comparison.

It should be noticed that the interim indices and the Harmonised Indices of Consumer Prices are designed expressly and only for international comparisons. They will not replace national Consumer Price Indices (CPIs), which will remain the chosen measure for domestic purposes for as long as countries themselves wish.

## The main functions of consumption

The differences between the Member States in the rate of increase of the overall index are even greater if we analyse the main functions of consumption, for which table I.7.2 shows the trends between 1990 and 1995.

In most countries, for instance, the price increase for food was moderate and lower than that of the overall index (approximately between 5% and 9% for France, the Netherlands, Ireland, Luxembourg, Germany and Denmark and only 3.0% for Sweden over a five-year period). It is only in Greece and Italy that the trends in the overall index and the food index were approximately the same.

On the other hand, the index for beverages and tobacco rose more than the overall index everywhere except Denmark and Germany, and especially in Greece (which rose by 121.3% against 92.0%). Another index which rose more rapidly than the overall index is that of rents and fuel, except in Ireland and the United Kingdom.

In addition to comparing these indices from country to country, it is interesting to see how the prices for the various categories of products varied within a country. This analysis shows that the price trends in most of the countries were very heterogeneous, and the same also applies to EUR 15.

## 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). Food, for example, represents 39.2% of total consumption in Portugal, 29.0% in Greece and only 13.2% in the United Kingdom. Housing accounts for 28.5% of the Danish index, but only 7.6% of the Italian index; expenditure on health care accounts for 9.1% of the French index compared with only 0.6% of the Netherlands index.

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

## I.7.2 Exchange rates and ECU

### The Exchange Rate Mechanism

The Exchange Rate Mechanism (ERM) of the European Monetary System is aimed at achieving greater exchange rate stability. The ERM is based on

a grid of central parities between each pair of individual currencies and between each currency and the ECU.

Table I.7.3	ECU central and notional rates
(in use since 06/03/95)	
B/LFR	39.3960
DKR	7.28580
DM	1.91007
DR	292.867
PTA	162.493
FF	6.40608
IRL	0.792214
LIT	2106.15
HFL	2.15214
ESC	195.792
UKL	0.786652

Source: European Commission

Since 2 August 1993, the exchange rates of the currencies participating in the ERM (all EU currencies except the Greek drachma, British pound and the Italian lira for which "notional" central rates have been set up, and the currencies of the three new Member States) could not diverge by 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, high-level meetings 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.

Table I.7.4	Composition of the ECU basket
since 21/09/1989	
DM	0.62420
FF	1.33200
HFL	0.21980
BFR	3.30100
LFR	0.13000
LIT	151.80000
DKR	0.19760
IRL	0.00855
UKL	0.00855
DRA	1.44000
PTA	6.88500
ESC	1.39300
=	1 ECU

Source: European Commission



The ECU is an important 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 some ten other 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.

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 YEN (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 YEN, 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 11 years to 1995, six ERM currencies have appreciated against the ECU,

of which the highest rise was the HFL by almost 20%. Over the same period, the USD lost 42% of its ECU value and reached its lowest level in the period, whereas the YEN appreciated by 47%. 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.

In 1995, the following evolutions were observed:

- The B/LFR, DKR, DM, HFL, and ÖS appreciated by more than 3% against the ECU.
- The FF appreciated by some 1%.
- The PTA and the ESC devalued by 7% and 3.5% respectively on 6 March 1995. However, the average value of the PTA in terms of ECU fell only 2.5% between 1994 and 1995, whereas the ESC rose slightly.
- The UKL, after stabilising its value in 1994, fell 6.4% in 1995. The IRL depreciated by 2.8%.
- The DR depreciated by 5.2%, the smallest depreciation in the last 15 years.
- The Italian lira depreciated by 11% against the ECU, the highest fall of all EMS currencies.
- The SKR, after stabilising in 1994, depreciated by 1.7%, whereas the FMK rose sharply against the ECU (+8.4%).
- After a 4-year rise, the YEN receded slightly (-1%). The USD went sharply down with a year-on-year depreciation of 10% against the ECU.

Table I.7.5	ECU exchange rates - yearly averages															
	B/LFR	DKR	DM	DR	PTA	FF	IRL	LIT	HFL	ÖS	ESC	FMK	SKR	UKL	USD	YEN
1980	40.5980	7.8274	2.5242	59.4180	99.7020	5.8690	0.6760	1189.2100	2.7603	17.9686	69.5520	5.1722	5.8810	0.5985	1.3923	315.0440
1981	41.2947	7.9226	2.5139	61.6230	102.6760	6.0399	0.6910	1263.1800	2.7751	17.7151	68.4950	4.7930	5.6347	0.5531	1.1165	245.3790
1982	44.7116	8.1569	2.3760	65.3420	107.5580	6.4312	0.6896	1323.7800	2.6139	16.6991	78.0070	4.7072	6.1434	0.5605	0.9797	243.5460
1983	45.4380	8.1319	2.2705	78.0880	127.5030	6.7708	0.7150	1349.9200	2.5372	15.9689	98.6890	4.9482	6.8212	0.5870	0.8902	211.3540
1984	45.4421	8.1465	2.2381	88.4150	126.5690	6.8717	0.7259	1381.3800	2.5234	15.7349	115.6800	4.7241	6.5110	0.5906	0.7890	187.0890
1985	44.9137	8.0188	2.2263	105.7390	129.1350	6.7950	0.7152	1447.9900	2.5110	15.6428	130.2510	4.6942	6.5213	0.5890	0.7631	180.5590
1986	43.7979	7.9357	2.1282	137.4250	137.4560	6.7998	0.7335	1461.8800	2.4009	14.9643	147.0880	4.9797	6.9957	0.6715	0.9842	164.9970
1987	43.0410	7.8847	2.0715	156.2680	142.1650	6.9291	0.7754	1494.9100	2.3342	14.5710	162.6160	5.0652	7.3100	0.7046	1.1544	166.5980
1988	43.4285	7.9515	2.0744	167.5760	137.6010	7.0364	0.7757	1537.3300	2.3348	14.5861	170.0590	4.9436	7.2419	0.6644	1.1825	151.4590
1989	43.3806	8.0493	2.0702	178.8400	130.4060	7.0239	0.7768	1510.4700	2.3353	14.5695	173.4130	4.7230	7.0994	0.6733	1.1018	151.9380
1990	42.4257	7.8565	2.0521	201.4120	129.4110	6.9141	0.7678	1521.9800	2.3121	14.4399	181.1090	4.8550	7.5205	0.7139	1.2734	183.6600
1991	42.2233	7.9086	2.0508	225.2160	128.4690	6.9733	0.7678	1533.2400	2.3110	14.4309	178.6140	5.0021	7.4793	0.7010	1.2392	166.4930
1992	41.5932	7.8093	2.0203	247.0260	132.5260	6.8484	0.7607	1595.5100	2.2748	14.2169	174.7140	5.8070	7.5330	0.7377	1.2981	164.2230
1993	40.4713	7.5936	1.9364	268.5680	149.1240	6.6337	0.8000	1841.2300	2.1752	13.6238	188.3700	6.6963	9.1215	0.7800	1.1710	130.1470
1994	39.6565	7.5433	1.9245	288.0260	158.9180	6.5826	0.7936	1915.0600	2.1583	13.5395	196.8960	6.1908	9.1631	0.7759	1.1895	121.3220
1995	38.5519	7.3280	1.8738	302.9890	163.0000	6.5251	0.8155	2130.1400	2.0989	13.1824	196.1050	5.7086	9.3319	0.8288	1.3080	123.0120

Source: Eurostat

Table I.7.6	ECU exchange rate index (1 unit of national currency = ... ECU, Base 1985 = 100), annual averages															
	BLFR	DKR	DM	DR	PTA	FF	IRL	LIT	HFL	OS	ESC	FMK	SMR	UKL	USD	YEN
1980	110.63	102.44	88.20	175.50	129.49	115.78	105.80	121.66	90.97	87.06	186.90	90.78	110.87	98.49	54.46	57.59
1981	108.77	101.22	88.59	168.90	125.62	112.52	103.50	114.56	90.51	88.34	188.80	97.97	115.95	106.54	68.19	73.60
1982	100.53	98.31	93.72	159.41	120.06	105.75	103.71	109.27	96.09	93.69	167.55	99.91	106.61	105.03	77.48	74.12
1983	98.85	98.61	98.05	133.44	101.19	100.40	100.07	107.17	98.96	97.96	132.63	94.90	95.61	100.36	85.29	85.55
1984	98.84	98.43	99.47	117.83	101.90	98.88	98.52	104.71	99.51	99.41	112.43	99.37	100.15	99.65	96.32	96.51
1985	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
1986	102.55	101.05	104.63	75.80	93.82	99.94	97.62	98.95	104.61	104.56	88.45	94.29	93.22	87.90	77.16	109.51
1987	104.35	101.71	107.47	66.65	90.75	98.06	92.23	96.77	107.57	107.35	79.94	92.67	89.19	83.55	66.71	108.35
1988	103.42	100.84	107.32	62.12	93.72	95.57	92.20	94.09	107.54	107.24	76.42	94.95	90.03	88.60	64.18	119.22
1989	103.54	99.62	107.54	58.22	98.89	96.74	92.06	95.77	107.53	107.37	74.95	99.40	91.84	87.52	68.82	118.97
1990	105.86	102.06	108.49	51.73	99.66	98.27	93.15	95.05	108.60	108.33	71.75	96.68	86.70	82.47	59.64	98.36
1991	106.37	101.39	108.56	46.23	100.38	97.44	93.14	94.34	108.65	108.39	72.77	93.98	87.17	83.94	61.35	108.60
1992	108.02	102.72	110.23	42.18	97.43	99.25	94.03	90.88	110.42	110.06	74.39	81.08	86.70	80.00	58.48	110.07
1993	110.99	105.63	114.98	38.77	86.69	102.43	89.45	78.60	115.44	114.82	69.12	70.14	71.52	75.48	64.74	139.38
1994	113.26	106.30	115.68	36.15	81.15	103.22	90.12	75.56	116.34	115.53	66.00	75.89	71.17	75.86	63.79	148.75
1995	116.51	109.43	118.82	34.36	79.13	104.14	87.70	68.00	119.64	118.67	66.27	82.24	69.97	71.03	57.95	147.29

Source: Eurostat

### I.7.3 Purchasing power parities

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

The reason for the ECU not being used as a denominator is that official exchange rates, which are based on conversions into and out of ECU, do not necessarily reflect the real purchasing power of a currency in its national territory and therefore do not always give a good indication of the volume of goods and services which make up GDP. Exchange rates are in fact mainly determined by 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 1970 to 1995 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 2130 in 1995, whereas on the basis of purchasing power parities, LIT 1705 was sufficient to purchase the volume of goods and services corresponding to one PPS. In 1995, therefore, the real purchasing power of the Italian lira compared with the Community average was much higher (+25%) than a comparison based on the official exchange rate would suggest.

Table I.7.7	The purchasing power parities of GDP, 1PPS = ... nat. currency									
	1970	1975	1980	1985	1990	1991	1992	1993	1994	1995
B	57.2	54.6	46.2	44.1	42.6	41.6	40.9	40.3	40.1	40.3
DK	9.44	9.81	9.70	10.12	10.14	9.75	9.90	9.49	9.37	9.39
D	4.21	3.62	2.86	2.42	2.25	2.22	2.24	2.27	2.23	2.24
GR	32.5	35.3	47.0	85.8	152	171	184	199	211	227
E	48.5	54	80.4	100	118	117	124	126	131	135
F	6.25	6.13	6.51	7.29	7.14	6.92	6.95	7.09	7.12	7.13
IRL	0.427	0.495	0.635	0.770	0.745	0.708	0.690	0.710	0.687	0.685
I	582	658	944	1330	1533	1554	1579	1655	1649	1705
L	49.6	46	42.1	42.3	42.8	42.0	42.1	42.8	43.0	43.2
NL	3.78	3.69	3.21	2.71	2.34	2.32	2.31	2.30	2.28	2.30
A	23.0	20.8	17.3	15.9	15.2	15.1	15.1	15.0	15.0	15.1
P	20.7	22.2	37.4	72.5	112	117	125	126	127	132
FIN	4.80	5.56	5.82	6.33	6.89	6.88	6.88	6.57	6.61	6.76
S	7.86	7.60	8.04	8.69	10.1	10.6	10.6	10.6	10.7	10.9
UK	0.396	0.458	0.594	0.600	0.650	0.675	0.666	0.688	0.694	0.700
USA	1.39	1.24	1.16	1.09	1.08	1.08	1.08	1.08	1.07	1.08
JAP	348	357	299	240	211	206	202	198	194	191

Source: Eurostat

### 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.

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

### 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 1995 Portugal had the lowest prices in the Union (about 33 percentage points below the Community average) and Denmark the highest (nearly 28 percentage points above the average). The United States comes out at 17 percentage points below the EU average, while Japan exceeds it by 55.6 percentage points.

Table I.7.8	Price level indices, EUR 15 = 100					
	1990	1991	1992	1993	1994	1995
B	100.4	98.5	98.3	99.5	101.1	104.5
DK	129.1	123.3	126.8	125.0	124.2	128.1
D	109.8	108.4	110.7	117.2	115.6	119.5
GR	75.5	76.1	74.5	74.1	73.3	75.0
E	91.3	91.3	93.7	84.6	82.1	82.6
F	103.3	99.2	101.4	106.9	108.2	109.3
IRL	97.0	92.2	90.8	88.7	86.5	83.9
I	100.7	101.4	99.0	89.9	86.2	80.0
L	100.9	99.4	101.2	105.6	108.5	112.2
NL	101.0	100.4	101.6	105.9	105.8	109.4
A	104.9	104.4	106.4	109.8	110.6	114.2
P	61.8	65.4	71.6	67.0	64.5	67.1
FIN	141.9	137.4	118.4	98.1	106.8	118.4
S	134.0	141.3	140.7	116.3	116.3	116.9
UK	91.1	96.2	90.4	88.2	89.5	84.4
EUR 15	100	100	100	100	100	100
USA	84.7	87.0	83.1	92.1	90.5	82.8
JAP	114.8	123.8	123.0	151.9	160.3	155.6

Source: Eurostat

Another way of interpreting table 1.7.8 is to say that in 1995 a given basket of goods could be purchased for ECU 67 in Portugal and ECU 128, nearly twice as

much, in Denmark. (In 1990, the price level in Denmark was more than twice that in Portugal).

The price level index also gives some indication of the extent to which a currency is over or undervalued. For example, the relationship between the indices in Germany and Italy show that the Lira was highly undervalued against the Mark in 1995, which considerably benefited Italian exports to Germany and the rest of the Single Market. In 1990 and 1991, the lira's undervaluation vis-à-vis the Mark was just under 9%.

### 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.

In 1995, measured in current PPS, the GDP of the European Union was 6437.1 billion, about 4% 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 (1544.5 billion 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 7.5% 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 1995, which was 29% 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, 16.1% and 12.9% respectively in the case of Italy, this difference being mainly due to the devaluation of the Lira since 1993.

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 table 1.2.2).

In Denmark, for example, per capita GDP is ECU 25310 but only 19750 PPS. This gives per capita index figure in nominal terms of 46.6% above the average, compared with only +14.4% in volume terms.

Table I.7.9	GDP at current prices and PPS											
	Total - Mrd PPS						Per head - PPS					
	1990	1991	1992	1993	1994	1995	1990	1991	1992	1993	1994	1995
B	150.7	161.8	173.6	180.6	190.2	196.8	15130	16180	17280	17910	18800	19380
DK	78.8	84.9	86.5	92.2	99.1	103.2	15330	16470	16730	17770	19040	19750
D	1076.8	1283.1	1375.5	1390.4	1492.3	1544.5	17020	16040	17070	17130	18330	18930
GR	85.4	92.5	99.1	103.6	109.9	113.9	8400	9020	9500	9990	10550	10870
E	424.6	468.3	475.7	482.6	495.1	517.6	10900	12030	12200	12350	12650	13200
F	911.8	979.7	1007.7	997.9	1037.4	1076.6	16070	17170	17560	17310	17920	18520
IRL	36.5	39.9	43.4	45.3	50.6	55.6	10410	11320	12230	12720	14160	15570
I	855.9	919.9	952.5	936.6	995.2	1038.7	14840	15920	16450	16120	17060	17800
L	8.1	8.9	9.5	10.2	10.9	11.6	21140	22940	24110	25740	26980	28400
NL	221.1	233.9	245.0	251.4	266.4	276.5	14800	15520	16140	16440	17320	17890
A	118.9	127.9	135.3	142.0	151.2	156.3	15380	16370	17100	17770	18830	19390
P	86.0	94.4	99.3	104.3	110.5	115.0	8690	9570	10070	10570	11190	11630
FIN	74.8	71.4	69.3	73.5	77.0	81.4	15000	14240	13750	14500	15140	15930
S	134.9	136.9	136.0	136.3	143.2	149.9	15760	15890	15690	15640	16310	16920
UK	847.7	852.7	896.2	917.1	962.0	999.3	14750	14750	15450	15760	16480	17090
EUR 15	5193.8	5644.0	5882.0	5900.3	6188.7	6437.1	14870	15370	15940	15910	16640	17260
USA	5323.3	5488.6	5787.2	6070.7	6453.8	6692.3	21300	21720	22650	23500	24730	25410
JAP	2040.0	2226.9	2335.6	2404.8	2465.6	2519.4	16530	17980	18800	19300	19740	20120

Source: Eurostat

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 Luxembourg is 65% higher than the corresponding figure for EUR 15, putting it well ahead of all the other Member States and indeed about 18 percentage points ahead of the United States.

the gap significantly between 1990 and 1995 (up 20 percentage points), although Portugal also succeeded in closing the gap by a more modest +9 percentage points over the same period.

The volume index figure for Japan had a constant increase, (from 111 in 1990 to 117 in 1995), overtaking countries such as Denmark and Germany.

Table I.7.10	Volume index of GDP per head					
	1990	1991	1992	1993	1994	1995
B	102	105	108	113	113	112
DK	103	107	105	112	114	114
D	114	104	107	108	110	110
GR	56	59	60	63	63	63
E	73	78	77	78	76	76
F	108	112	110	109	108	107
IRL	70	74	77	80	85	90
I	100	104	103	101	103	103
L	142	149	151	162	162	165
NL	100	101	101	103	104	104
A	103	107	107	112	113	112
P	58	62	63	66	67	67
FIN	101	93	86	91	91	92
S	106	103	98	98	98	98
UK	99	96	97	99	99	99
EUR 15	100	100	100	100	100	100
USA	143	141	142	148	149	147
JAP	111	117	118	121	119	117

Source: Eurostat

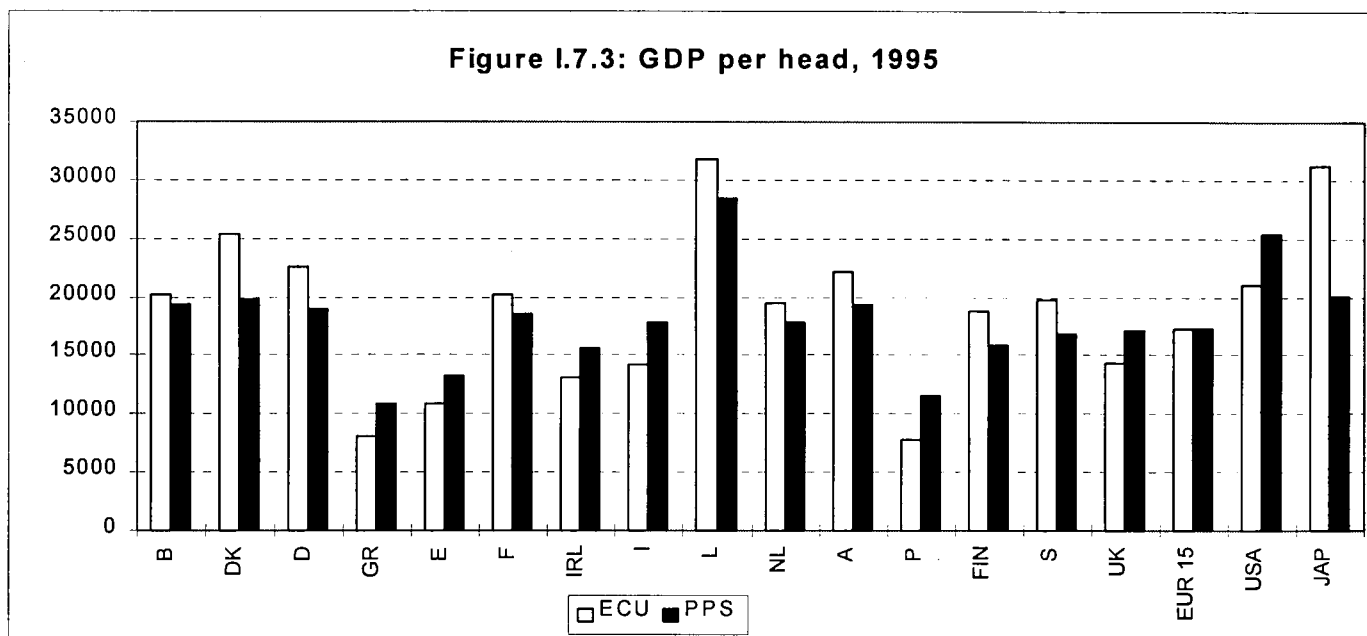
As can be seen from table I.7.10, the volume index per head of population in most Member States has remained broadly stable over time. Of the countries situated well below the EU average (Greece, Spain, Ireland and Portugal), only Ireland managed to close

Because of the falling value of the Lira, per capita GDP in Italy recorded steep declines from 1993 when calculated in ECU (ECU 16280 in 1992, ECU 14500 in 1993, ECU 14250 in 1995), whereas, in terms of real purchasing power in the Italian economic territory, the figure actually increased from 16120 PPS in 1993 to 17800 in 1995.

Given the monetary turmoil of recent years, the nominal values for certain Member States (Greece, Spain and Portugal) and Japan should also be treated with caution. To take the example of Japan; the Yen has appreciated significantly, and this is likely to have caused an overestimate of nominal GDP. The discrepancies between per capita GDP measured in 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 1995, 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 1.2:6 in terms of PPS, which again underlines the importance of basing comparisons on real values.

Figure I.7.3: GDP per head, 1995



Source: Eurostat

### I.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.7.11	Long-term interest rates (monthly averages)														
	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	ECU	USA	JAP
Jan-90	9.8	11.1	7.6	.	.	9.6	.	.	8.5	8.2	.	10.7	.	8.4	6.6
Jan-91	9.9	10.0	8.9	.	.	9.8	9.6	.	8.4	9.2	.	10.6	.	8.3	6.8
Jan-92	8.7	8.3	8.0	.	10.9	8.5	8.9	12.7	7.7	8.4	.	9.5	.	7.5	5.4
Jan-93	7.6	8.5	7.2	24.5	12.2	7.9	9.8	13.4	7.3	7.1	.	8.3	8.3	7.2	4.6
Jan-94	6.5	6.0	5.8	21.8	8.0	5.7	6.1	8.8	6.4	5.6	8.9	6.2	6.0	6.2	4.5
Jan-95	8.5	9.0	7.6	19.0	11.9	8.2	8.8	12.4	6.1	7.7	11.8	8.8	8.4	7.9	4.6
Feb-95	8.3	8.8	7.4	19.0	11.6	8.0	8.7	12.4	6.1	7.5	11.7	8.8	8.2	7.7	4.3
Mar-95	8.2	8.9	7.3	18.5	12.3	8.0	8.8	13.4	6.1	7.4	12.0	8.7	8.4	7.5	3.8
Apr-95	7.9	8.7	7.1	18.2	12.1	7.8	8.7	13.4	6.2	7.2	12.2	8.6	8.2	7.4	3.5
May-95	7.6	8.1	6.9	18.0	11.4	7.5	8.3	12.3	6.2	6.9	11.9	8.3	7.9	7.0	3.1
Jun-95	7.3	8.7	6.8	17.5	11.5	7.5	8.3	12.4	6.1	6.8	11.9	8.2	7.8	6.6	2.8
Jul-95	7.3	8.4	6.9	17.3	11.3	7.4	8.4	12.2	6.2	6.9	11.7	8.4	7.7	6.7	3.0
Aug-95	7.2	8.2	6.7	17.2	11.0	7.3	8.2	11.7	6.2	6.7	11.3	8.3	7.6	6.9	3.3
Sep-95	7.0	8.1	6.6	16.3	10.8	7.4	8.0	11.6	6.0	6.6	11.1	8.1	7.6	6.6	2.9
Oct-95	7.1	7.9	6.6	15.8	10.9	7.5	8.0	12.0	5.9	6.6	11.2	8.2	7.8	6.4	3.0
Nov-95	6.8	7.4	6.3	.	10.5	7.0	7.4	11.7	5.7	6.4	10.7	7.9	7.4	6.3	3.0
Dec-95	6.7	7.2	6.1	.	10.0	6.8	7.3	11.2	5.9	6.1	10.0	7.6	7.1	6.1	3.2

Notes: rates are yields on government bonds of around 10 years to maturity, except Greece (5 years), Luxembourg (all maturities), USA (10 years or more). ECU bond yields include non-government issues.

Source: Eurostat

The table I.7.11 shows ten-year government bond yields (unless otherwise stated). Between 1991 and the end of 1993 there was a general decline in government bond yields, which was largely a reflection of economic recession and a decline in inflationary pressures. US government bond yields (of 10 years or more) dipped below 6% in late 1993, but that represented the bottom point of the market, as concerns grew of an upturn in inflation and a capital shortage on the basis of a stronger than expected recovery in global economic activity. By late 1994, the

yield had moved above 8% for the first time since mid-1991.

European bond markets bottomed later than in the US, at the beginning of 1994. The trend during 1994 was, however, similar to that of the US market. Between January and September 1994, German government bond yields rose by about 1.7 percentage points. During periods when bond yields are rising, the differential between German yields and those of other EU members has tended to increase.

Thus French government bond yields, which had in fact fallen below those of Germany in January 1994, were half a percentage point higher at the end of the year.

By the end of 1994 the US and Japanese bond markets had entered a new phase, and yields began to fall, followed by a decline in European bond yields. The market recovery continued throughout 1995, with yields falling towards levels not seen since early 1994. One reason was a re-evaluation of economic growth and inflation prospects: with signs that the pace of economic growth was slowing in many countries, the risk of any significant rise in inflation largely receded. Bond yields fell to exceptionally low levels in Japan during 1995, as a result of the prolonged recession there.

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

Prospects for monetary union take on a special significance with regard to the ECU bond market. In 1991, in the run-up to the Union treaty, the market was exceptionally buoyant: the volume of ECU bond issues reached a record level (a figure not surpassed in the years 1992-95), and ECU bond yields fell well below their theoretical level (that is, the yield derived from the weighted average of the ECU basket's component currencies). In 1992-93 the ECU market performed less spectacularly, the continued fall in yields reflecting the general trend in EU bond yields. Throughout most of 1994 the market weakened and yields rose, but the trend was reversed in 1995, again largely a reflection of the general trend in the EU. Nevertheless, by the end of 1995 ECU yields were still over one percentage point higher than at the beginning of 1994.

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

Short-term money market interest rate movements closely reflect changes in official interest rates, and therefore the stance of monetary policy. In 1992-93 interest rates in the EU declined in response to economic recession and a decline in inflation pressures. During 1994, when economic recovery was evident, the trend in short-term interest rates remained downwards in the first half year, but then tended to stabilize. One exception was the UK, where official interest rates were increased in the second half of 1994.

The US, further ahead in the economic cycle, started tightening policy in early 1994, and short-term interest rates rose steadily throughout the year, and into early 1995. In the second half of 1995, however, 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, partly as a result of the strong yen, and further policy easing took place during 1995, the discount rate falling to a historical low of 0.5% in September.

In Germany, against a background of Deutschmark strength and inflation weakness, the Bundesbank cut its discount rate to 4% in March 1995, followed by rate cuts in Belgium, the Netherlands and Austria. In other EU countries, however, official interest rates moved upwards in early 1995, including the UK, Denmark, Ireland, Italy, and Spain. In late 1995, with the inflation outlook staying favourable and economic activity proving less buoyant than expected, the general interest rate trend throughout the EU was downwards. The German discount rate fell to 3% by end of the year, while UK banks' base rate stood at 6.5%, and the French auction rate at 4.45%.

## II Taxes and social contributions in the European Union Trends since 1980

### Preliminary remarks

This section intends to make a closer examination of the long-term trends of taxes and social contributions in the EU since 1980. The analysis focuses firstly on the trend over time and secondly on comparing the level of taxation and social contributions between Member States and the EU average.

Taxes and social contributions first are put into perspective by relating them as a percentage of GDP. Next, the analysis concentrates on the structure of social contributions according to who is charged and the trend in the structure by type of tax.

International comparisons of taxes and social contributions are often associated with problems regarding data availability and the comparability of the data between countries.

To achieve a high level of comparability, data used in this chapter are consistently based on the statistics on taxes and social contributions composed by the method of the European System of Integrated Economic Accounts (ESA) and the data available from Eurostat within this framework. No other sources have been used.

Information on tax and social contribution statistics are available from 1970 onwards, but only for nine EU Member States and only at very highly aggregated levels. The following analysis therefore covers only the period 1980-1995.

From 1980 onwards, data are available for the combined social contribution categories for all

Member States of the Union except Greece. Greek social contribution figures are not included before 1989. As far as the aggregate tax is concerned, no figures are available for Greece before 1984. When the EU averages are calculated, the universe of Member States included in the average therefore changes. This is reasonable because inclusion/exclusion of Greece in the EU average in the mid to late 1980s has a maximum influence of 0.1 percentage points.

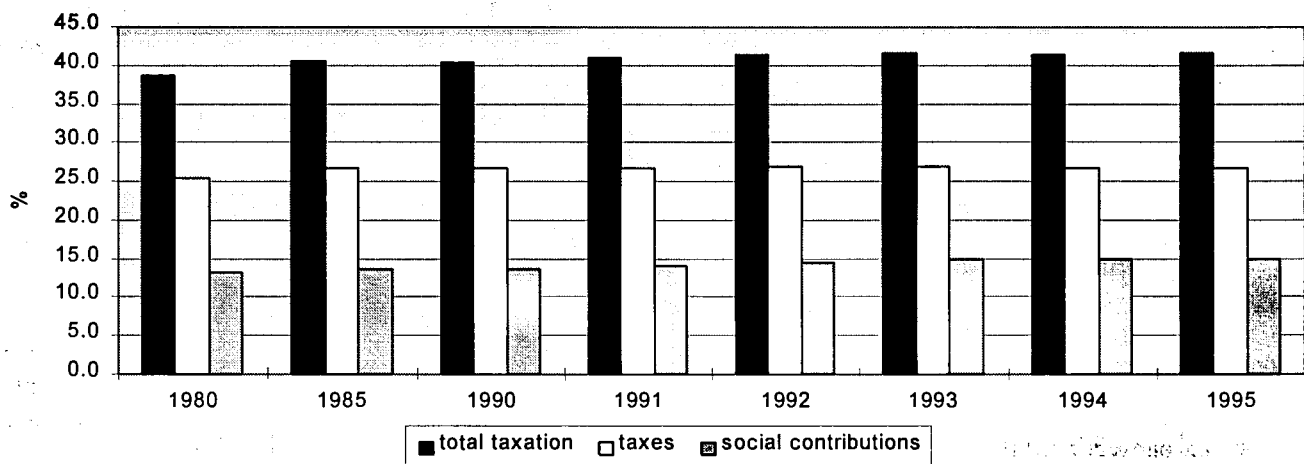
For 1995 the aggregate tax and social contribution categories for Greece and Portugal had to be estimated.

### II.1 Volume of taxes and social contributions in the Union

#### The overall tax ratio in the Union

Between 1980 and 1985 total taxation (taxes and social contributions) as a percentage of GDP in the European Union showed an upward trend, rising from 38.7% to 40.6%. Between 1985 and 1990 the tax ratio declined slightly by 0.1 percentage points, rising again more sharply at the beginning of the 1990s. In the years 1993 and 1995 total taxation reached its highest point since 1980 at 41.7% of GDP. This trend was interrupted briefly only in 1994, when the ratio declined slightly by 0.2 percentage points.

Figure II.1.1: Taxes and social contributions as a percentage of GDP in the EU



Source: Eurostat

Table II.1.1	Taxes and social contributions as a proportion of GDP in the Union			
	Taxes	Social contributions	Total taxation	Mean deviation from the EU average
	%			percentage points
1980	25.5	13.2	38.7	16.7
1985	26.8	13.8	40.6	13.4
1990	26.8	13.7	40.5	13.0
1991	26.8	14.1	40.9	12.5
1992	26.9	14.5	41.4	11.4
1993	26.8	14.9	41.7	12.5
1994	26.7	14.8	41.5	12.4
1995	26.7	14.9	41.7	11.8

Source: Eurostat

While changes in the tax ratio and the social contributions ratio were on average more or less equal in their effects on the total tax ratio in the Union in 1980-1985 and 1985-1990, that altered considerably at the beginning of the 1990s.

From 1991 to 1993 it was mainly the sharp increase in the social contributions ratio which pushed up the total ratio (cf figure II.1.2).

The declining total ratio for the Union in 1994 (down 0.2 percentage points) was due to a 0.1 percentage point fall each in the tax ratio and the social contribution ratio. Finally, in 1994 and 1995 the rates of change in the tax and social contributions ratio and hence the overall ratio are once again very similar (cf figure II.1.2).

### Interpreting the tax ratios

Tax ratios are a politically sensitive subject in the debate on the "slim" state, especially if journalists use them to draw up "hit-lists" concerning tax burdens in the Member States, or if they are read as indicators of state activity, or the individual burden on citizens and enterprises. However, certain reservations have to be made.

**Point 1:** Tax ratios are useful for revealing trends in comparisons over time, but when it comes to comparing one Member State with another, the services which the State provides must be taken into account as well as the taxes which it collects.

To give just one example, the high level of taxes and social contributions in relation to GDP in Sweden, compared with other states, must be considered in the light of the fact that the Swedish state pays almost all the costs of health and education. One should also consider the structure of the particular states expenditure on consumption and production.

In addition, the comparison between Member States becomes even more difficult because important economic variables are not reflected by tax ratios. Thus, for example, financing the state's expenses by indebtedness instead of taxes leads to a short-term decline in the tax ratio. With the repayment of these debts later on, the increase in the tax ratio is merely shifted.

**Point 2:** A high tax ratio is not necessarily an indicator for a high (net) burden on the tax payers or enterprises. Conclusions concerning the burden can only be made if the state's expenditures are also considered.

If family support is financed by child allowance or by higher tax allowances, this is relevant for the tax

ratio. In the latter mentioned case it is lower than in the case of child allowance. Likewise this is true for enterprises which either pay lower taxes or receive subsidies while paying higher taxes.

**Point 3:** It is not valid to derive statements about the intensity of a state's activities using the tax ratios. State influence on the economy is not always reflected in the budget.

**Point 4:** The calculation of a country's tax ratios often includes contributions which are not necessarily paid by residents of that country and/or are not statistically recorded as a borderline crossing transaction.

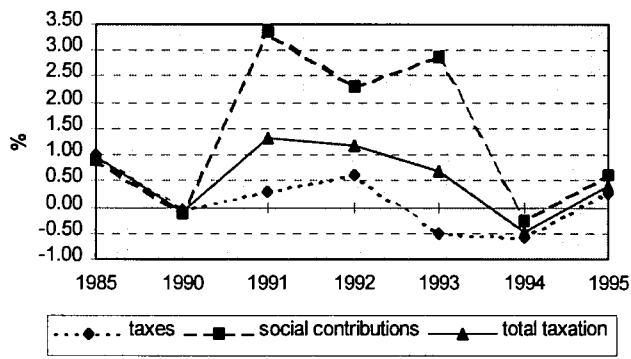
This particularly concerns Luxembourg in the case of comparisons at EU level. For many people living in neighbouring countries, Luxembourg is a) the place to buy luxuries and fuel; and b) the place where they are employed. The taxes charged on these products and on the incomes of commuters accrue to the Luxembourg state and make the tax ratio for Luxembourg look very high in comparison with other Member States.

**Point 5:** The level of the tax and social contribution ratios viewed separately is quite clearly dependent on how the social system of a country is financed. For instance, in Denmark, Ireland and the United Kingdom the social contributions are relatively low, because the social system is largely financed out of taxes. In these countries the social contributions are correspondingly low and the tax ratio is correspondingly high.

Arguments 1-5 also apply to the interpretation of per capita data on taxes and social contributions. Their comparison is also influenced by fluctuations in the exchange rate of national currencies in relation to the ECU.



**Figure II.1.2: Variation rates in taxation as a percentage of GDP in the EU**



Source: Eurostat

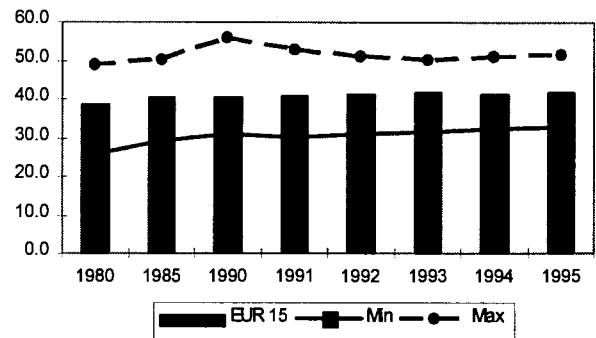
### The total tax ratio in the Member States

Within the Union there are considerable differences in the relative volume of payable taxes and social contributions. As figure II.1.3 reveals, the maximum value of total taxes as a proportion of GDP moved closer to the minimum value in the Union after 1990. In 1995, the total taxes and social contributions ratios in the United Kingdom (34.9%), in Spain (34.8%) and in Greece (32.8%) were only around two-thirds of those in Sweden and Denmark (51.5% and 51.3% respectively).

The mean deviation of the total tax ratio from the Union average shows that the average differences between Member States in 1980 (16.7 points) were significantly higher than in 1985 (13.4 points). With 13.0 points in 1990 they were only slightly lower than in 1985 (cf Table II.1.1).

This homogenisation continued in the early 1990s, reducing the mean deviation of the total tax ratio from the Union average to 11.4 percentage point in 1992. However, in 1993 this increased again to

**Figure II.1.3: Taxes and social contributions as a percentage of GDP, EU average and maximum and minimum value in the EU**



Source: Eurostat

12.5 points. Starting in 1994 the mean deviation of the Member States from the Union average became smaller again, being 11.8 points in 1995.

Twelve of the available fourteen Member States produced similar upward trends in the total tax ratio in 1985 compared to 1980. The only exceptions were the Netherlands and Germany. In the Netherlands the taxes and social contributions ratio declined by 0.2 % in the average for the years 1980-1985; in Germany it remained at the level of 1980 (cf table II.1.2. and figure II.1.4.).

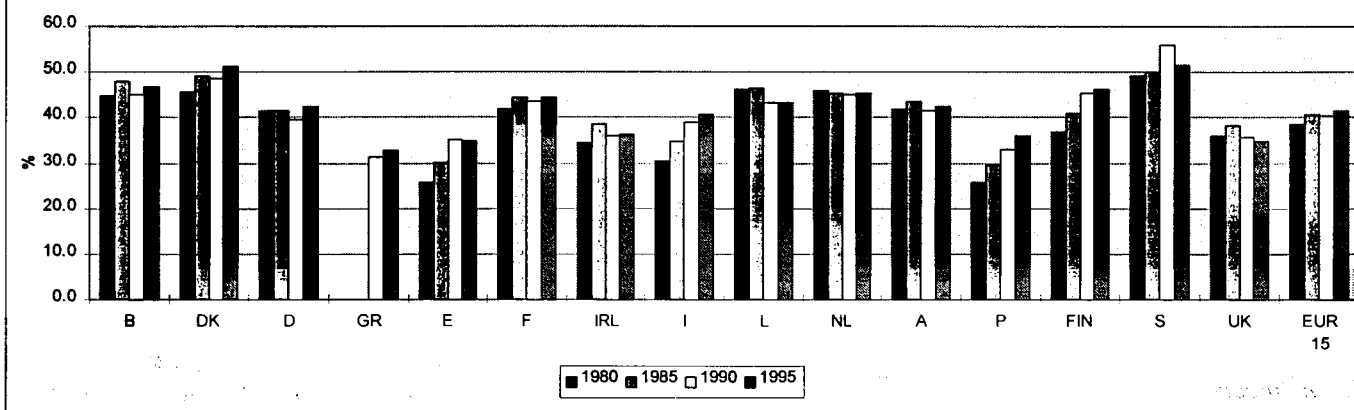
The average annual growth rate of the total tax ratio between 1980 and 1985 showed very large variations in the twelve Member States where it could be observed. It ranged from 0.1% in Luxembourg to 3.1% in Spain.

The total tax ratio in the Union, in 1990 compared to 1985 was lower in nine of the fourteen available countries. In Spain, Italy, Portugal, Finland and Sweden, however, the rise in the total tax ratio continued during this period.

Table II.1.2	Taxes and social contributions in the Member States, as a percentage of GDP							
	1980	1985	1990	1991	1992	1993	1994	1995
B	44.7	47.9	45.1	45.1	45.2	45.8	47.1	46.8
DK	45.6	49.1	48.7	48.8	49.5	50.4	51.3	51.3
D	41.6	41.6	39.5	41.2	41.9	42.4	42.7	42.6
GR	:	:	30.2	30.1	31.0	31.6	32.6	32.8
E	25.8	30.0	35.1	35.3	37.0	36.0	35.8	34.8
F	41.7	44.5	43.7	43.9	43.6	43.9	44.1	44.6
IRL	34.4	38.6	35.9	36.4	36.9	37.1	38.1	36.3
I	30.5	34.7	38.8	39.8	42.0	43.5	40.7	40.7
L	46.3	46.5	43.2	42.5	42.5	44.4	45.3	43.3
NL	46.0	45.5	45.1	47.5	47.4	48.6	47.0	45.4
A	41.9	43.6	41.6	42.2	43.3	43.9	42.8	42.3
P	25.7	29.4	33.1	34.5	36.2	34.6	35.7	36.1
FIN	36.9	40.8	45.4	46.8	46.8	45.5	47.9	46.3
S	49.1	50.0	55.8	52.8	51.2	50.4	50.4	51.5
UK	36.1	38.2	35.7	35.3	34.2	33.1	33.7	34.9
EUR 15	38.7	40.6	40.5	40.9	41.4	41.7	41.5	41.7

Source: Eurostat

Figure II.1.4: Taxes and social contributions in the Member States as a percentage of GDP



Source: Eurostat

Between 1991 and 1993 there was a tendency for taxes and social contributions to increase in proportion to GDP in the Union. The ratio in Sweden and the United Kingdom behaved totally contrary to this tendency.

In Sweden it declined year on year from 1990, although starting from a comparatively low figure in 1990 (55.8%). Even the figure of 50.4% reached in Sweden after four years of decline still represents one of the highest figures in the Union for that year, together with Denmark (51.3%).

For the United Kingdom a decline in the total tax ratio to 1993, may also be observed, however, contrary to Sweden, starting out from a level in 1990 (35.7%) which belongs to the lower end of the EU scale.

Apart from Sweden and the United Kingdom, Luxembourg and Greece also contradicted the Union tendency in 1991, as did France, the Netherlands and Luxembourg in 1992 and Spain, Portugal and Finland in 1993.

Finally, the fact that the Union trend for 1991-1993 was reversed in 1994, producing a slight decline in the total tax ratio as a percentage of GDP, was mainly due to a sharp decline in the ratio in Italy, the Netherlands and Austria.

In 1995 there was a slight rise in the average total tax ratio in relation to GDP in the Union up to the level of 1993. This trend is noticeable in seven out of fifteen Member States.

#### Taxes and social contributions per head in the Union

On average, the taxes and social contributions per head in the Union at constant 1990 prices were

about 1000 ECU or 20% higher in 1995 than in 1980. About one third of this taxation consists of social contributions and two thirds of taxes.

Year	Taxes	Social contributions	Total taxation	Mean deviation of total taxation from the EU-average	Taxes as a proportion of total taxation
	ECU			%	
1980	3 351	1 732	5 083	31.2	65.9
1985	3 612	1 822	5 434	34.6	66.5
1990	3 970	2 034	6 003	39.7	66.1
1991	3 912	2 073	5 985	38.7	65.4
1992	3 920	2 112	6 033	37.7	65.0
1993	3 769	2 097	5 866	41.2	64.2
1994	3 825	2 137	5 962	44.2	64.2
1995	3 875	2 175	6 049	46.8	64.1

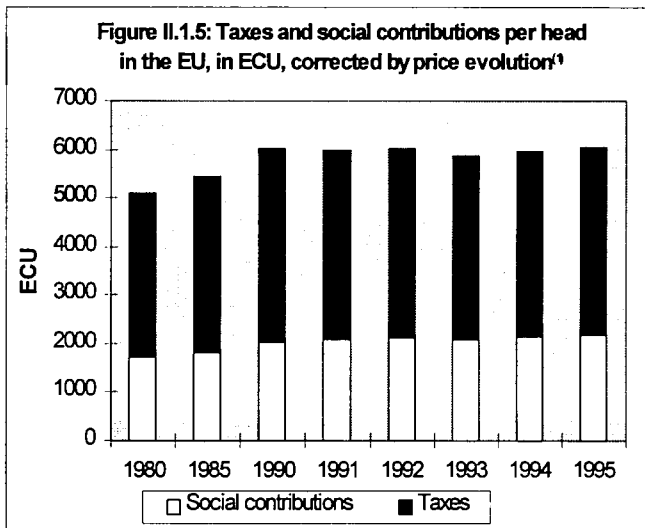
(1) the GDP price index (1990=100) has been used

Source: Eurostat

The average breakdown of total taxation between taxes and social contributions has been remarkably constant since 1980 in the EU. Over 15 years the proportion of taxes in total taxation declined by only 1.8 points from 65.9% to 64.1%.

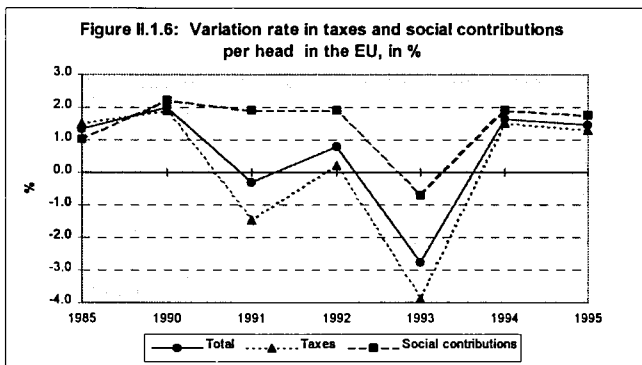
As we can see from figure II.1.5., there was a marked increase of the taxes and social contributions per head in the EU-average from 1980 to 1985 and up to 1990. This consistent increase in the per head total taxation did not persist in the first half of the nineties. Although, after slight fluctuations, in 1995 it reached again the level of 1990.

The growth of both taxes and social contributions per head of population strengthened, on average, in the EU during the latter half of the 1980s in comparison with the first half of that decade. Moreover, the average annual growth rate in taxes per head and social contributions per head were very similar.



(1) the GDP price index (1990 = 100) has been used  
Source: Eurostat

Between 1991 and 1993 the growth rates for taxes and social contributions per head deviate. The tendency in total taxation per head is largely accounted for by taxes, due to their higher weight in the total. In 1994 and 1995 average taxes and social contributions per head of population in the EU again increased more rapidly, though without attaining the growth rates of 1990. Again, both growth rates are similar (see figure II.1.6).



Source: Eurostat

### Taxes and social contributions per head in the Member States

The considerable differences between the economies of Union Member States already discussed in connection with the ratios are also apparent as regards taxes and social contributions per head of population. These differences are already very marked for total taxes and social contributions, but become even greater if we look at the two tax categories separately (see tables II.1.4 and II.1.5; figure II.1.7).

However, taxes and social contributions per head of population will not be analysed individually in more detail in this publication, since the differences between Member States as far as the isolated values are concerned are largely dominated by the way in which a country's social system is financed.

	1980	1985	1990	1991	1992	1993	1994	1995
B	5 952	5 978	6 841	7 001	7 218	7 378	7 873	8 181
DK	7 429	8 910	9 640	9 708	10 000	10 604	11 303	11 908
D	5 195	6 290	7 382	6 897	7 220	7 489	7 770	8 098
GR	:	:	1 979	1 749	1 639	1 513	1 472	1 432
E	2 576	2 429	3 494	3 620	3 697	3 150	3 001	2 922
F	6 911	6 638	7 253	7 240	7 363	7 507	7 772	8 061
IRL	2 767	3 195	3 624	3 740	3 949	3 876	4 275	4 287
I	4 781	4 745	5 801	5 960	6 091	5 378	4 926	4 556
L	6 628	7 462	9 221	9 408	9 631	10 762	11 474	11 469
NL	4 897	5 544	6 738	7 212	7 397	7 892	7 849	7 951
A	4 496	5 725	6 706	6 934	7 276	7 654	7 686	7 918
P	2 705	1 701	1 778	1 926	2 093	1 861	1 858	1 930
FIN	5 657	7 747	9 665	8 943	7 385	6 124	7 229	7 850
S	11 202	11 166	11 798	11 026	10 389	8 185	8 266	8 473
UK	4 531	5 336	4 782	4 695	4 280	4 001	4 228	4 193
EUR 15	5 083	5 434	6 003	5 985	6 033	5 866	5 962	6 049

(1) the GDP price index (1990 = 100) has been used  
Source: Eurostat

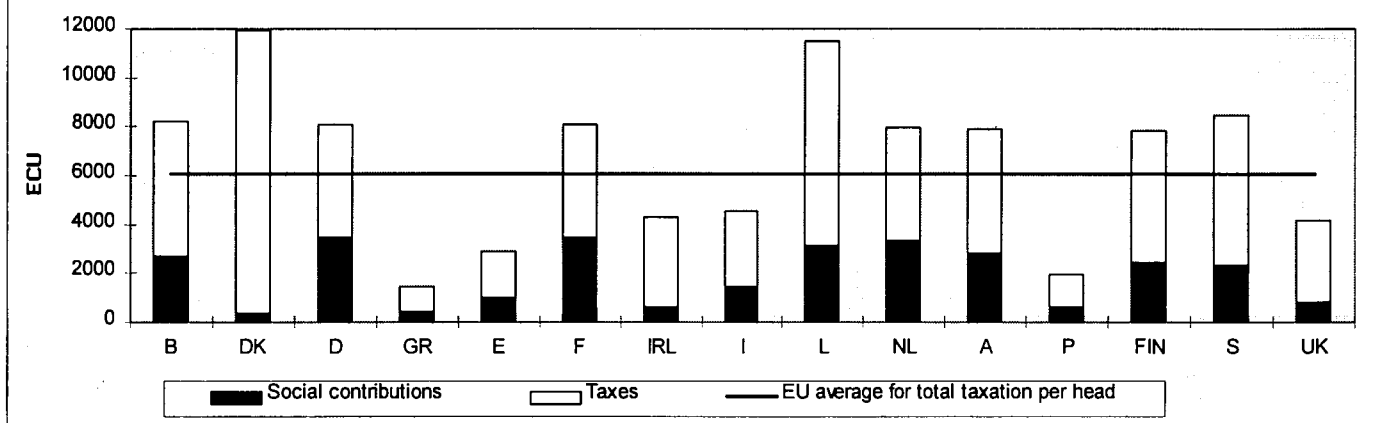
	1980	1985	1990	1991	1992	1993	1994	1995
B	117	110	114	117	120	126	132	135
DK	146	164	161	162	166	181	190	197
D	102	116	123	115	120	128	130	134
GR	:	:	33	29	27	26	25	24
E	51	45	58	60	61	54	50	48
F	136	122	121	121	122	128	130	133
IRL	54	59	60	62	65	66	72	71
I	94	87	97	100	101	92	83	75
L	130	137	154	157	160	183	192	190
NL	96	102	112	121	123	135	132	131
A	88	105	112	116	121	130	129	131
P	53	31	30	32	35	32	31	32
FIN	111	143	161	149	122	104	121	130
S	220	205	197	184	172	140	139	140
UK	89	98	80	78	71	68	71	69
EUR 15	100	100	100	100	100	100	100	100

Source: Eurostat

	1980	1985	1990	1991	1992	1993	1994	1995
B	70	67	66	65	64	64	66	66
DK	98	96	97	97	97	97	97	97
D	62	61	60	59	59	58	57	57
GR	:	:	73	70	71	68	69	69
E	54	61	65	65	65	63	63	65
F	57	57	56	56	55	55	57	57
IRL	85	85	85	84	84	84	85	85
I	62	66	67	67	68	68	68	68
L	71	74	73	72	71	72	73	73
NL	61	55	62	62	61	62	58	58
A	69	68	67	67	67	66	65	64
P	70	72	70	70	71	69	69	68
FIN	76	78	75	72	70	68	68	68
S	71	75	73	71	72	73	73	72
UK	82	81	81	81	81	80	80	81
EUR 15	66	66	66	65	65	64	64	64

Source: Eurostat

**Figure II.1.7: Taxes and social contributions per head in the Member States, 1995, in ECU**



Source: Eurostat

Table II.1.6 illustrates this point. It shows clearly that the proportion of taxes in relation to total taxation is significantly higher than the EU average in countries where much of the social system is financed out of taxes rather than social contributions (Denmark, Ireland and the United Kingdom).

Let us return to total taxation. As regards the burden of taxes and social contributions per head, six of the 15 countries were below the EU average in 1995 and nine were above (see figure II.1.7).

For the period from 1980, the average absolute deviation of total taxation per head from the EU average for the Member States showed a divergent trend (see table II.1.3). While the mean national deviation from the EU average was only 31.2% of the average in 1980, in 1995 it was 46.8%, i.e. 1.5 times as high.

In 1980, Spain had the lowest per capita value of tax and social contributions in the EU, in 1985 and in 1990 it was Portugal. Since 1991 this position has been held by Greece. In 1995 the taxes and social contributions per head of Greece were only about 12% the level in Denmark (see table II.1.4).

The greatest upward deviation from the EU average was found in Sweden before 1992. In 1980 and in 1985 the per capita value of taxes and social contributions in Sweden was almost twice the Union average; in 1992 it was still nearly 75% higher. In 1993-1995 this country achieved a noticeable narrowing of the gap with the Union average.

Thus, since 1993 Denmark and Luxembourg have had the highest taxes and social contributions per head in relation to the Union average. In 1995 they were almost double the Union average (cf table II.1.5). However, the comments in the box "Interpreting tax ratios" should be taken into account in interpreting this figure.

With regard to the growth of taxes and social contributions per head, eight Member States of the Union conformed to the Union's tendency towards acceleration (see table II.1.7), on average, in the second half of the 1980s as opposed to the first half.

	1985	1990	1995
B	2.1	1.6	1.7
DK	4.2	1.2	2.9
D	1.3	1.6	0.0
GR	:	:	1.7
E	4.1	7.6	1.1
F	2.1	2.1	1.0
IRL	4.1	4.0	4.7
I	3.9	5.1	1.9
L	4.5	3.1	2.5
NL	0.6	2.3	1.4
A	2.1	1.6	1.5
P	3.3	7.8	3.3
FIN	4.4	5.2	-0.9
S	2.0	4.0	-2.3
UK	3.0	1.7	0.4
EUR 15	1.3	2.0	0.2

Source: Eurostat

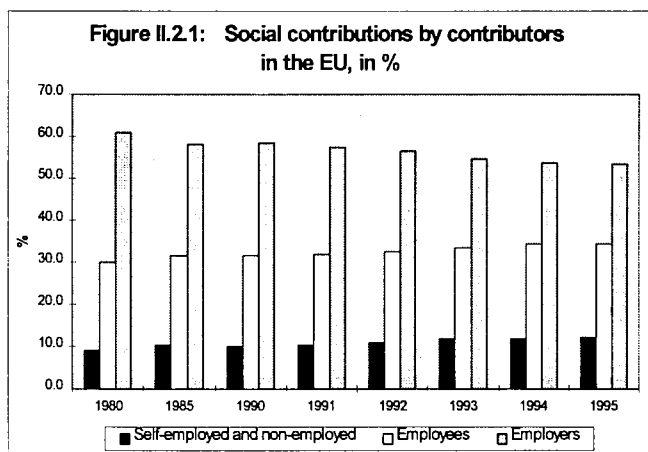
In the first half of the 1990s, on average, there was a very marked deceleration in the growth of total taxation per head of population in the Union (0.2% against 2.0% in the second half of the 1980s). This trend occurred in all Member States except Belgium, Denmark and Ireland. For Sweden and Finland a decline in the total taxation per head may even be observed.

## II.2 Structure of social contributions by contributors

In the European Union in 1995, on average, some 53% of the social contributions were paid to the state by employers, 35% by employees and 12% by the self-employed and the non-employed. Since 1980 there has been a continuous trend towards a reduction in the employer's share of social contributions; for example in 1980 employers still paid just under 61% of all social contributions. The proportion of social contributions which must be paid by employees, the self-employed and the non-employed has increased accordingly (cf table and figure II.2.1).

Year	Percentage of total social contributions		
	Employers	Employees	Self-employed and non-employed
1980	60.9	30.0	9.1
1985	58.1	31.5	10.4
1990	58.4	31.6	10.0
1991	57.6	32.0	10.4
1992	56.6	32.5	10.9
1993	54.7	33.4	12.0
1994	53.8	34.4	11.8
1995	53.4	34.5	12.1

Source: Eurostat



Source: Eurostat

The average trend in the Union towards an increase in the proportion of social contributions paid by employees and the self-employed over the past 15 years is evident in all Member States (see tables II.2.2 to II.2.4.).

Without exception, the proportion of social contributions paid by employers in the EU countries was lower in 1995 than in 1980. In two Member States there were very marked falls in the proportion paid by employers: in Denmark it dropped

	1980	1985	1990	1995
B	63.5	58.3	61.8	59.5
DK	38.8	47.4	21.9	19.3
D	46.7	46.1	46.0	44.4
GR	:	:	54.9	47.8
E	78.5	70.3	71.9	69.0
F	66.6	64.7	61.8	61.6
IRL	61.3	60.0	57.4	58.1
I	74.6	71.4	71.7	66.2
L	54.9	49.6	49.3	46.5
NL	44.9	38.4	21.3	19.3
A	48.7	49.4	49.0	48.0
P	68.9	69.3	64.5	66.5
FIN	80.5	76.2	81.1	69.9
S	95.9	95.5	95.6	85.4
UK	55.7	48.1	54.9	51.7
EUR 15	60.9	58.1	58.4	53.4

Source: Eurostat

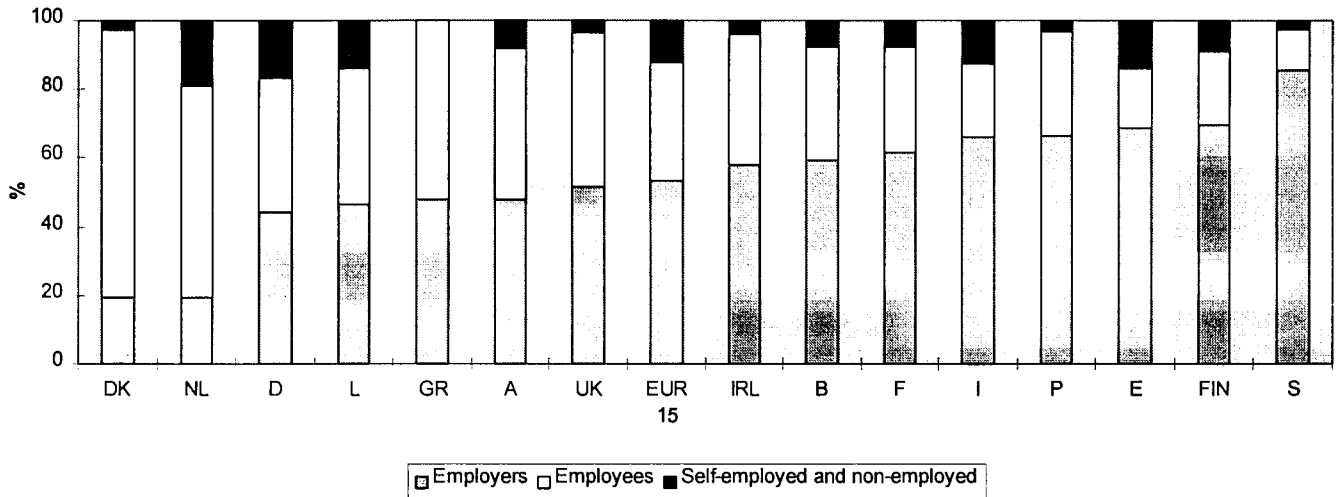
	1980	1985	1990	1995
B	28.6	33.5	32.1	32.8
DK	56.5	49.9	75.0	77.9
D	39.3	39.2	39.7	38.7
GR	:	:	45.1	52.2
E	16.0	17.1	16.3	16.9
F	26.0	27.2	30.0	30.7
IRL	38.7	40.0	39.2	37.8
I	18.2	19.5	19.2	21.0
L	39.4	36.2	37.5	39.3
NL	40.3	43.1	60.5	61.6
A	41.4	41.9	42.7	43.7
P	29.3	28.8	32.5	30.2
FIN	14.1	16.5	11.5	21.1
S	0.0	0.0	0.0	11.7
UK	42.1	49.0	41.9	44.8
EUR 15	30.0	31.5	31.6	34.5

Source: Eurostat

	1980	1985	1990	1995
B	7.8	8.2	6.1	7.7
DK	4.7	2.7	3.1	2.8
D	13.9	14.7	14.3	16.9
GR	:	:	0.0	0.0
E	5.5	12.6	11.9	14.1
F	7.4	8.0	8.2	7.7
IRL	0.0	0.0	3.5	4.1
I	7.2	9.2	9.1	12.8
L	5.7	14.1	13.2	14.1
NL	14.8	18.5	18.2	19.0
A	9.8	8.7	8.3	8.3
P	1.8	1.9	3.0	3.3
FIN	5.5	7.3	7.4	9.0
S	4.1	4.5	4.4	2.9
UK	2.2	2.9	3.2	3.4
EUR 15	9.1	10.4	10.0	12.1

Source: Eurostat

Figure II.2.2: Social contributions by contributors in the Member States, 1995, in %



Source: Eurostat

to half the initial level found in 1980 and in the Netherlands<sup>1</sup> it actually declined to 43% of that figure.

However, there remain substantial variations in the Union as regards the share of social contributions paid by employers, employees and the self-employed/ non-employed (cf figure II.2.2).

These variations are due partly to differences in the proportion of employees and self-employed persons in the active population. They are also due to the wide variations between individual countries in the regulations on compulsory contributions and the allocation of the burden of contributions between employers and employees.

For example, in Sweden employees pay a relatively small share of the social contributions (11.7% in 1995). It is only since 1993 that employees in that country have had to pay any contributions at all. At the other end of the scale are Denmark and the Netherlands, where employees pay three quarters and two thirds of all social contributions respectively.

### II.3 Structure of taxes by type of tax

Over the past 15 years the four types of tax: "current taxes on income and wealth", "taxes linked to production and imports", "non-deductible VAT" and "capital taxes" have remained remarkably

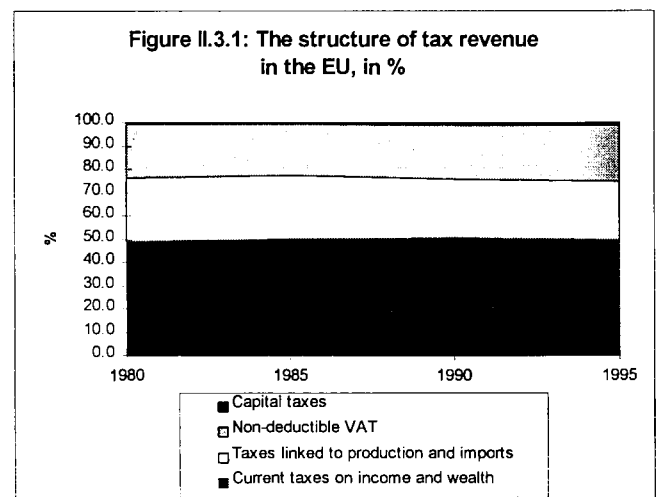
<sup>1</sup> In the Netherlands one factor could be responsible for this trend: in 1990 this country made it compulsory for recipients of welfare benefits to pay a contribution (the gross contributions were increased at the same time). Before that, no social contributions were charged on unemployment pay, social assistance or other social benefits.

stable as a proportion of total tax revenue in the Union average (cf table II.3.1 and figure II.3.1).

Type of tax	1980	1985	1990	1995
Current taxes on income and wealth	49.2	50.3	50.9	49.6
Taxes linked to production and imports	27.0	27.0	25.0	25.2
Non-deductible VAT	23.2	22.0	23.3	24.1
Capital taxes	0.6	0.7	0.8	1.1
Total tax revenue	100.0	100.0	100.0	100.0

Source: Eurostat

Therefore, apart from minor variations, on average about 50% of all taxes in the Union come from current taxes on income and wealth. Roughly a quarter comes from taxes linked to production and



Source: Eurostat

imports and just under a quarter come from non-deductible VAT. By contrast the share in total state revenue represented by capital taxes has almost doubled since 1980; however, at around 1% they remain being a very small fraction.

For individual Member States of the Union one can observe wide variations in the share of individual types of tax in the total revenue in individual years and countries, plus quite considerable differences which remain relatively constant over time. These variations and differences are due to changes and differences in the structure of the tax systems of individual countries.

For example, VAT was introduced in Spain and Portugal in 1986, in Greece in 1987 and in Finland in 1994. In those years this produced marked shifts in the structure of tax revenue by type of tax (cf table II.3.2).

At the same time, the proportion of current taxes on income and wealth and capital taxes remained relatively unaffected in all the countries mentioned, while there was a corresponding decline in the proportion of taxes linked to production and imports.

As regards current taxes on income and wealth, their share of the total tax revenue is much higher than the Union average in three Member States (Belgium, Denmark and Sweden). In Greece, Portugal and France, on the other hand, this type of tax makes a far smaller contribution to state revenue than the Union average.

In 1995, Denmark had the highest proportion of current taxes on income and wealth at 64.6%, while Greece had the lowest at 33.6% (cf figure II.3.2). For these countries, the share in total tax revenue represented by taxes linked to production and imports and non-deductible VAT is the exact opposite.

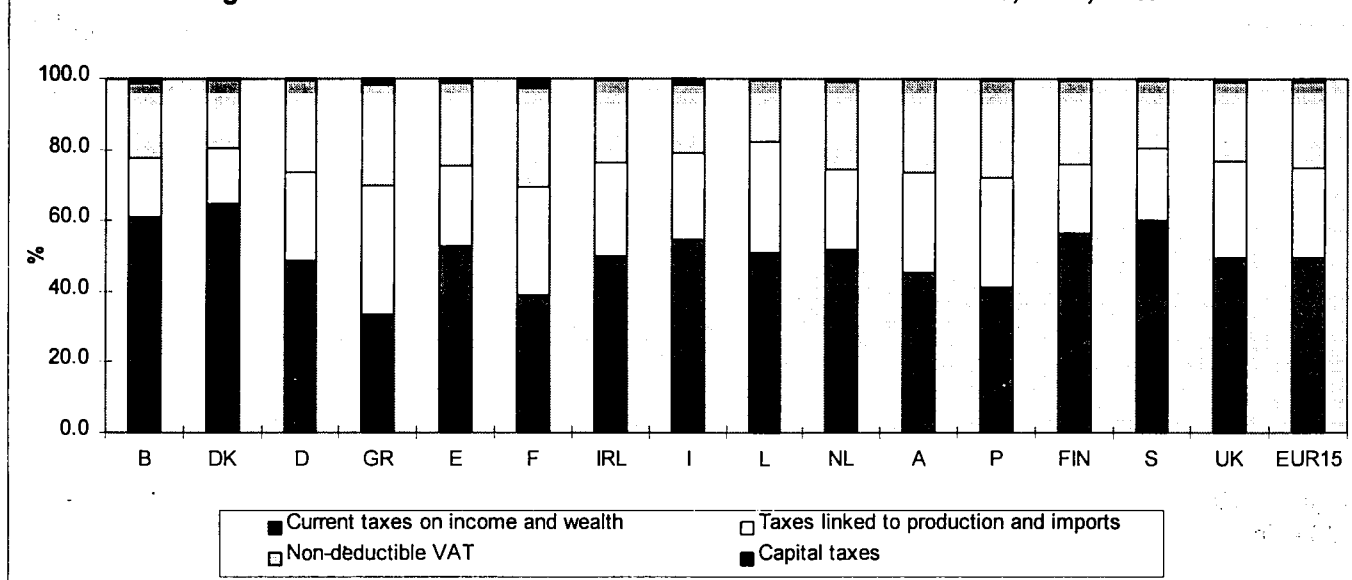
Furthermore, in the taxes collected by the state in Luxembourg, in comparison with the Union average, the proportion of taxes linked to production and imports (31.3% in 1995) is noticeably high and the proportion of non-deductible VAT (17.5% in 1995) is correspondingly low.

In line with the Union average, capital taxes are also tending to play a smaller role in total state tax revenue in each individual Member state of the EU. In relative terms, France has the highest proportion (2.5% in 1995); on the other hand, in all the years considered the figure was 0.5% or less in Germany, Luxembourg, Ireland, Austria and Sweden.

Table II.3.2	The structure of state tax revenue in the Member States %			
	1980	1985	1990	1995
<b>Current taxes on income and wealth</b>				
B	61.6	63.6	60.3	61.1
DK	58.7	61.9	63.0	64.6
D	50.8	51.7	49.0	48.4
GR	.	27.2	28.6	33.6
E	50.5	46.8	54.2	52.5
F	36.2	37.4	38.0	38.9
IRL	44.4	45.6	47.4	49.9
I	52.5	59.0	57.4	54.7
L	57.1	54.8	50.6	50.8
NL	58.3	53.2	57.7	52.0
A	42.7	43.5	42.5	45.6
P	31.6	36.6	37.6	41.3
FIN	52.3	54.3	54.8	56.4
S	61.3	55.8	57.6	60.0
UK	48.5	50.9	52.7	49.5
EUR 15	49.2	50.3	50.9	49.6
<b>Taxes linked to production and imports</b>				
B	14.2	13.5	15.6	16.4
DK	18.6	17.6	18.1	15.8
D	24.4	23.8	25.0	25.1
GR	.	71.4	36.0	36.0
E	48.1	52.1	22.4	22.8
F	27.4	28.3	29.3	30.4
IRL	39.1	30.6	29.5	26.4
I	22.8	18.7	21.5	24.2
L	28.5	29.7	32.3	31.3
NL	15.9	17.7	17.2	22.4
A	27.7	25.5	26.6	27.9
P	68.1	62.4	36.4	30.7
FIN	47.4	45.3	44.7	19.1
S	19.8	25.2	21.9	20.2
UK	34.3	30.3	26.8	27.1
EUR 15	27.0	27.0	25.0	25.2
<b>Non-deductible VAT</b>				
B	23.1	22.0	23.0	21.2
DK	22.2	20.0	18.4	19.1
D	24.5	24.1	25.5	26.1
GR	.	0.0	33.6	28.6
E	0.0	0.0	22.4	23.5
F	35.4	33.1	31.0	28.1
IRL	16.2	23.4	22.6	23.2
I	24.3	21.8	20.7	19.3
L	14.0	15.1	16.7	17.5
NL	25.1	28.3	24.2	24.5
A	29.4	30.7	30.8	26.3
P	0.0	0.0	25.3	27.7
FIN	0.0	0.0	0.0	23.9
S	18.6	18.6	20.3	19.6
UK	16.5	18.0	19.6	22.7
EUR 15	23.2	22.0	23.3	24.1
<b>Capital taxes</b>				
B	1.2	0.9	1.1	1.3
DK	0.6	0.5	0.6	0.5
D	0.3	0.3	0.5	0.4
GR	.	1.4	1.8	1.7
E	1.3	1.1	1.1	1.2
F	1.0	1.1	1.7	2.5
IRL	0.4	0.4	0.5	0.5
I	0.4	0.5	0.4	1.8
L	0.5	0.4	0.4	0.4
NL	0.8	0.8	0.8	1.1
A	0.2	0.2	0.2	0.2
P	0.3	1.1	0.7	0.3
FIN	0.3	0.3	0.5	0.6
S	0.3	0.4	0.3	0.3
UK	0.7	0.8	0.9	0.8
EUR 15	0.6	0.7	0.8	1.1

Source: Eurostat

**Figure II.3.2: The structure of tax revenue in the Member States, 1995, in %**



Source: Eurostat

## II.4 Summary

In the European Union it has been apparent over the past 15 years that taxes and social contributions are tending to increase in terms of GDP.

In 1995, the average amount raised per head of population in the EU from taxes and social contributions at constant 1990 prices was around 20% higher than the 1980 figure. Throughout this period, social contributions represented around one third of this yield and taxes two thirds.

However, for the first half of the 1990s, we can say that the growth of the yield from taxes and social contributions per head is slowing down.

There are wide variations between Member States as regards rates of taxes and social contributions as a proportion of GDP and per capita values. In particular, these differences are becoming increa-

singly large when expressed per head of population; in 1995, measured against the mean deviation from the Union average, they were 1.5 times as great as in 1980.

As regards the structure of social contributions by contributor, the share of the total paid by employers is declining in relation to that paid by employees and the self-employed. This trend is apparent in all Member States and quite marked in Denmark and the Netherlands.

The structure of taxes by type of tax has hardly changed on average in the EU over the past 15 years. About half of the tax revenue comes from current taxes on income and wealth, one quarter from taxes linked to production and imports, just under a quarter from non-deductible VAT and about 1% from capital taxes.







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