6.
ECONOMY





6. ECONOMY

Economic and social progress and constant improvements in living and working conditions are fundamental objectives for the European Union. Experience over the last five decades shows that economic integration (removing barriers to the free movement of goods, services, money and people) gives Europe a better chance of creating jobs and economic growth. Much has been achieved: the customs union, then the single market and, most recently, economic and monetary union (EMU).

The single market was seen as a key to releasing large amounts of Europe's economic potential. In the 10 years between 1992 and 2002, the single market was estimated to have added 1.8 percentage points to GDP growth in the EU as a whole, generating nearly EUR 900 000 million in extra prosperity, according to a European Commission report [34].

[34] '*Choosing to grow: Knowledge, innovation and jobs in a cohesive society*', Report to the Spring European Council, 21 March 2003, on the Lisbon strategy of economic, social and environmental renewal (COM(2003) 5), p. 16 (available at http://ec.europa.eu/growthandjobs/pdf/5b_en.pdf).

Eurostat has a wide range of data within this area, including:

- gross domestic product (GDP);
- economic output, broken down by the different sectors of the economy;
- final consumption expenditure;
- gross fixed capital formation (investment);
- compensation of employees;
- gross operating surplus and mixed income;
- taxes on production and imports, income and wealth;
- disposable income and net savings;
- net lending/net borrowing of the economy;
- government surplus/deficit and debt;
- social benefits (other than social transfers in kind);
- international transactions of goods, services and income;
- direct investment flows and stocks (inward and outward);
- minimum wages;
- gross earnings;
- exchange rates;
- interest rates;
- harmonised indices of consumer prices (HICPs);
- price stability and price convergence.

However, there remain areas confined within national barriers, such as the provision of certain services. At the beginning of 2004, the European Commission proposed a directive to create a real internal market in services: following the vote at first reading in the European Parliament and discussions in the Council this proposal was amended by the European Commission in April 2006 [35]. The proposal requires Member States to cut administrative burdens and excessive red tape that can currently prevent enterprises from offering their services across borders or from opening premises in other Member States. In line with the European Parliament's amendments, the European Commission's amended proposal does not affect labour law or deal with the posting of workers. At the time of writing, the proposal excludes:

- activities that are already covered by sector-specific legislation (such as transport, telecommunications and financial services);
- activities connected with the exercise of official authority (including part of the work of notaries) and temporary work agencies and security services;
- healthcare and social services (for example, social housing, childcare and support of families and persons in need);
- some entertainment activities (for example, gambling (lotteries and betting) and audiovisual services).

[35] COM(2006) 160.

As such, the scope of the proposed directive remains very wide, covering the following activities in part or full:

- selected services of general economic interest, such as water supply and waste treatment;
- construction;
- distributive trades;
- hotels and restaurants;
- travel agencies;
- postal services;
- business services, such as computer services, legal, accounting and management services, architectural and technical testing services, advertising, or labour recruitment;
- real estate, renting and R & D;
- other entertainment activities (such as leisure services, sports centres and amusement parks) and other activities, for example, the organisation of trade fairs.

The objective of the proposal is to achieve a genuine internal market in services by removing legal and administrative barriers to the development of service activities between Member States, facilitating the provision and use of cross-border services in the EU. At the time of writing, it is expected that this directive will be adopted in the near future.

The most frequently used measure for the overall size of an economy is gross domestic product (GDP). It corresponds to the total monetary value of all production activity in a certain geographic area. GDP at market prices is the final result of the production activity of all producer units within a certain area (for example, a national territory), no matter whether the units are owned by nationals or foreigners residing in the area. GDP, and in particular GDP per capita, is one of the main indicators for economic analysis, as well as spatial and/or temporal comparisons. GDP can be defined and calculated in three ways:

- the output approach — as the sum of gross value added of the various institutional sectors or the various industries, plus taxes and less subsidies on products;
- the expenditure approach — as the sum of final uses of goods and services by resident institutional units (final consumption and gross capital formation), plus exports and minus imports of goods and services;
- the income approach — as the sum of the compensation of employees, net taxes on production and imports, gross operating surplus and mixed income.

NATIONAL ACCOUNTS — ECONOMIC OUTPUT

This first section presents information on GDP from the output approach. Gross value added is defined as the value of all newly generated goods and services less the value of all goods and services consumed in their creation; the depreciation of fixed assets is not included. Gross value added is compiled according to the industry that generates it.

When calculating value added, output is valued at basic prices and intermediate consumption at purchasers' prices. Taxes less subsidies on products have to be added to value added to obtain GDP at market prices.

In order to facilitate comparisons within the EU, the levels of GDP in national currency of each Member State outside the euro area are converted into euro (ecu up to and including 1998) by means of official exchange rates. However, the exchange rate does not necessarily reflect the actual purchasing power of each national currency. In order to remove price-level differences, purchasing power parities (PPPs) are calculated and used as a factor of conversion. The PPP can be regarded as an exchange rate to move from national currency to a common purchasing power standard (PPS), defined by a comparable basket of goods and services. These parities are obtained as a weighted average of relative price ratios regarding the homogeneous basket of goods and services, comparable and representative for each Member State. The '*comparable volumes*' of GDP obtained in this way are hence expressed in terms of PPS.

The EU-25's GDP per capita was PPS 23 400 in 2005. The range of values across the Member States showed that GDP per capita was highest in Luxembourg, at more than double the EU-25 average, while the lowest values were recorded for the Baltic States and Slovakia.

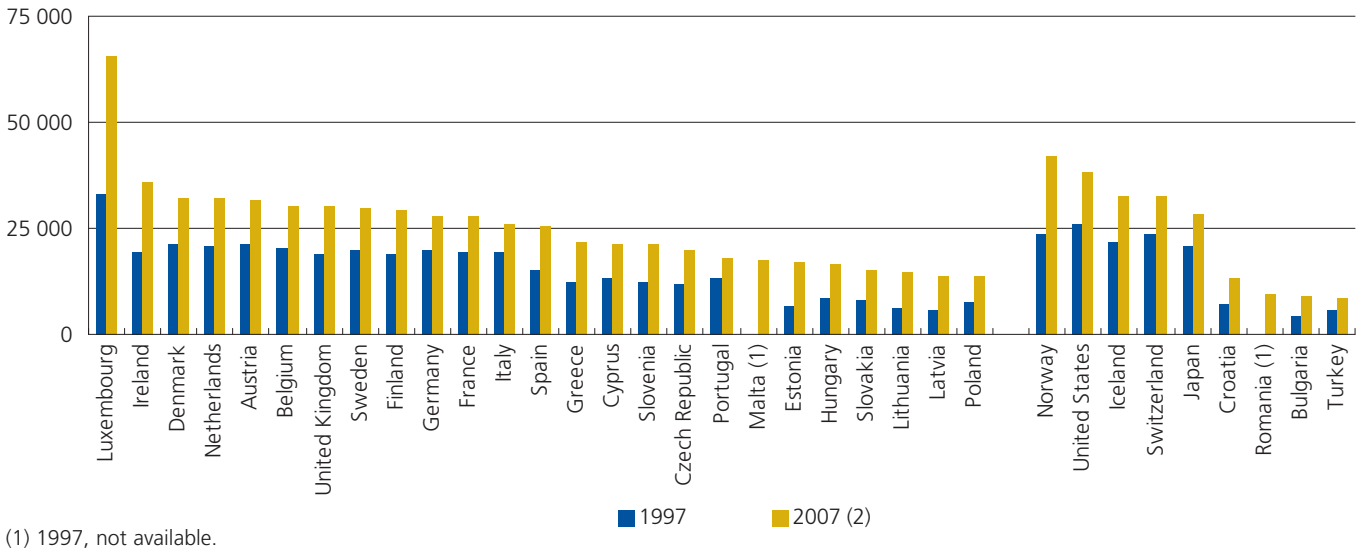
GDP at current prices stood at EUR 10 817 000 million in 2005 for the EU-25. Germany accounted for just over one fifth (20.8 %) of the EU-25's GDP. The four largest EU economies (Germany, the United Kingdom, France and Italy) accounted for two thirds of the EU-25's GDP.

Economic growth, measured as the growth rate of GDP in volume terms, remained subdued in the EU-25 after 2000 compared with its performance in the second half of the 1990s.

There has been a sizeable shift in the economic structure of the EU economy in the last few decades, with the proportion of gross value added accounted for by agriculture and industry falling, while that of most service sectors has risen. This change is at least in part a result of phenomena such as technological change, rationalisation, and globalisation, resulting in production bases often moving to lower labour cost regions. More than one quarter of the EU-25's gross value added was accounted for by business activities and financial services in 2005. There were three other sectors that also contributed significant shares of just over one fifth of total value added, namely trade, transport and communication services (21.7 %); industry (20.6 %); and other services, which is largely made up of public administrations, education and health systems, as well as other community, social and personal service activities (22.5 %). The remainder of the economy was divided between the construction sector (6.0 %) and agriculture, hunting and fishing (1.9 %).

Figure 6.1: GDP per capita at current market prices

(PPS)



(1) 1997, not available.
(2) Forecasts.
Gross domestic product (GDP) is an indicator for a nation's economic situation; it reflects the total value of all goods and services produced less the value of goods and services used for intermediate consumption in their production; expressing GDP in PPS (purchasing power standards) eliminates differences in price levels between countries, and calculations on a per head basis allows for the comparison of economies significantly different in absolute size.

Table 6.1: GDP per capita at current market prices

(PPS)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	(EU-25 = 100) 2005
EU-25	16 300	17 200	17 900	18 800	20 100	20 800	21 500	21 800	22 700	23 400	100.0
EU-15	17 900	18 800	19 600	20 700	22 100	22 800	23 500	23 700	24 700	25 400	108.6
Euro area	17 800	18 700	19 500	20 600	21 900	22 600	23 200	23 300	24 200	25 000	106.6
Belgium	19 200	20 100	20 800	21 700	23 500	24 400	25 300	25 700	26 800	27 600	117.7
Czech Republic	11 400	11 600	11 700	12 200	12 800	13 500	14 300	14 700	15 900	17 100	73.0
Denmark	20 200	21 300	22 100	23 800	25 400	26 000	26 100	26 300	27 600	29 100	124.2
Germany	19 200	19 900	20 500	21 400	22 500	22 900	23 400	23 600	24 600	25 700	109.8
Estonia	5 700	6 500	7 000	7 300	8 200	8 800	9 700	10 500	11 600	13 400	57.4
Greece	11 400	12 100	12 600	13 300	14 600	15 300	16 600	17 600	18 600	19 200	82.2
Spain	14 200	14 900	15 900	17 400	18 600	19 400	20 500	21 200	22 100	23 100	98.7
France	18 400	19 500	20 400	21 400	22 800	23 700	24 100	24 300	24 900	25 500	109.0
Ireland	16 700	19 200	20 800	23 000	25 400	26 900	28 600	29 100	31 000	32 100	137.1
Italy	18 800	19 500	20 500	21 400	22 800	23 300	23 700	23 400	24 000	24 100	102.8
Cyprus	13 000	13 400	14 200	15 100	16 300	17 300	17 700	17 400	18 800	19 500	83.5
Latvia	4 900	5 500	5 900	6 400	7 100	7 700	8 300	8 900	9 700	11 000	47.1
Lithuania	5 700	6 300	6 900	7 000	7 700	8 400	9 000	9 800	10 800	12 200	52.1
Luxembourg	32 000	32 800	34 700	41 000	44 700	44 700	47 400	50 800	54 000	58 000	247.8
Hungary	7 900	8 500	9 100	9 700	10 600	11 600	12 500	12 900	13 600	14 300	60.9
Malta	:	:	13 900	14 600	15 800	15 500	16 200	15 900	15 800	16 200	69.3
Netherlands	19 400	20 800	21 800	23 100	25 000	26 500	27 000	27 100	28 200	28 900	123.5
Austria	20 600	21 200	22 000	23 500	25 300	25 400	25 800	26 200	27 600	28 700	122.7
Poland	6 900	7 500	8 000	8 600	9 400	9 600	10 000	10 200	11 100	11 700	49.9
Portugal	12 200	13 100	14 000	15 100	16 200	16 600	17 100	15 800	16 400	16 700	71.4
Slovenia	11 200	12 100	12 800	13 900	14 600	15 400	16 000	16 500	17 900	18 700	80.0
Slovakia	7 400	7 900	8 400	8 800	9 500	10 100	11 000	11 300	12 000	12 900	55.1
Finland	16 900	18 700	20 100	20 900	22 700	23 500	24 200	24 200	25 400	26 200	112.1
Sweden	18 900	19 700	20 400	22 200	23 900	24 000	24 500	25 200	26 600	26 900	114.7
United Kingdom	17 800	19 100	20 000	21 000	22 500	23 600	25 000	25 400	26 600	27 300	116.8
Bulgaria	4 500	4 400	4 600	4 900	5 300	5 800	6 100	6 500	6 900	7 500	32.1
Croatia	6 400	7 000	7 400	7 500	8 200	8 600	9400	10 000	10 600	11 400	48.9
Romania	:	:	:	4 800	5 000	5 500	6 100	6 500	7 300	8 100	34.8
Turkey	5 000	5 500	5 700	5 500	6 000	5 300	5 600	5 800	6 500	7 200	30.8
Iceland	20 400	21 700	23 200	24 500	25 500	26 400	26 000	26 200	28 800	29 400	125.7
Norway	22 300	23 800	23 500	26 300	31 900	32 299	31 600	31 800	34 800	38 600	164.8
Switzerland	22 300	23 800	24 700	25 200	26 700	26 700	28 000	28 400	29 800	29 900	127.8
Japan	19 800	20 600	20 600	21 100	22 400	22 800	23 100	23 600	24 800	25 500	108.9
United States	24 600	26 100	27 400	29 100	30 600	30 900	31 300	32 100	34 100	35 000	149.5

GDP is an indicator for a nation's economic situation; it reflects the total value of all goods and services produced less the value of goods and services used for intermediate consumption in their production; expressing GDP in PPS (purchasing power standards) eliminates differences in price levels between countries, and calculations on a per head basis allows for the comparison of economies significantly different in absolute size.

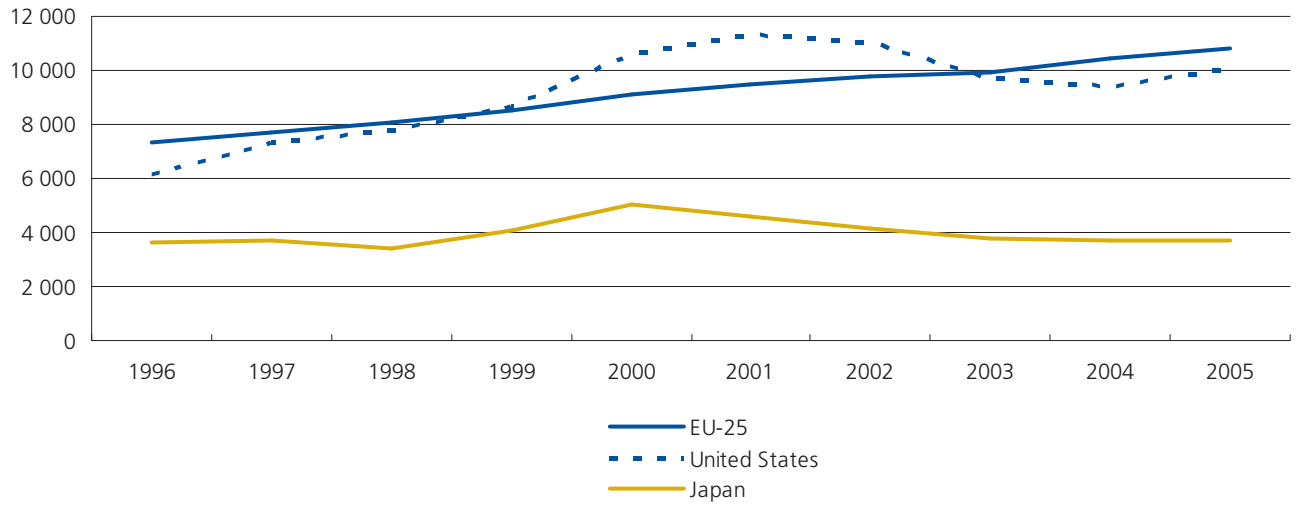
Table 6.2: GDP at current market prices

(EUR 1 000 million) TEC00001

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Share of EU-25 (%) 2005
EU-25	7 309	7 710	8 073	8 484	9 092	9 458	9 811	9 961	10 432	10 817	100.0
EU-15	7 044	7 416	7 751	8 152	8 711	9 029	9 357	9 511	9 946	10 264	94.9
Euro area	5 746	5 874	6 101	6 376	6 711	7 000	7 246	7 454	7 751	7 999	73.9
Belgium	217	220	228	238	252	259	268	275	288	298	2.8
Czech Republic	48	50	54	55	60	68	78	80	87	98	0.9
Denmark	145	150	155	163	174	179	185	190	197	208	1.9
Germany	1 922	1 907	1 952	2 012	2 063	2 113	2 145	2 163	2 216	2 247	20.8
Estonia	4	4	5	5	6	7	7	8	9	11	0.1
Greece	98	107	109	118	126	133	143	156	168	181	1.7
Spain	490	505	537	580	630	680	729	781	837	904	8.4
France	1 240	1 258	1 316	1 366	1 441	1 497	1 549	1 595	1 659	1 710	15.8
Ireland	58	72	79	91	104	117	131	139	149	160	1.5
Italy	992	1 053	1 087	1 127	1 191	1 249	1 295	1 335	1 389	1 417	13.1
Cyprus	7	8	8	9	10	11	11	12	12	13	0.1
Latvia	4	5	6	7	8	9	10	10	11	13	0.1
Lithuania	6	9	10	10	12	14	15	16	18	21	0.2
Luxembourg	16	16	17	20	22	23	24	26	27	29	0.3
Hungary	36	40	42	45	51	58	70	74	81	88	0.8
Malta	:	3	3	4	4	4	4	4	4	4	0.0
Netherlands	329	341	360	386	418	448	465	476	489	502	4.6
Austria	186	184	191	200	210	216	221	226	236	245	2.3
Poland	123	139	153	158	186	212	209	191	204	243	2.3
Portugal	93	99	106	114	122	129	135	138	143	147	1.4
Slovenia	16	17	19	20	21	22	24	25	26	27	0.3
Slovakia	16	19	20	19	22	24	26	29	34	38	0.4
Finland	101	109	117	121	131	136	141	144	150	155	1.4
Sweden	215	220	223	238	263	247	259	270	282	288	2.7
United Kingdom	940	1 172	1 273	1 376	1 564	1 603	1 668	1 604	1 734	1 791	16.6
Bulgaria	8	9	11	12	14	15	17	18	20	21	-
Croatia	16	18	19	19	20	22	24	26	28	31	-
Romania	:	:	37	33	40	45	48	53	61	79	-
Turkey	143	168	178	173	217	162	193	212	242	291	-
Iceland	6	7	7	8	9	9	9	10	11	13	-
Norway	125	139	134	148	181	190	202	197	205	238	-
Switzerland	239	232	241	249	267	280	293	286	289	295	-
Japan	3 640	3 737	3 435	4 082	5 037	4 571	4 147	3 745	3 690	3 672	-
United States	6 156	7 323	7 802	8 696	10 629	11 309	11 072	9 699	9 433	10 037	-

Figure 6.2: GDP at current market prices

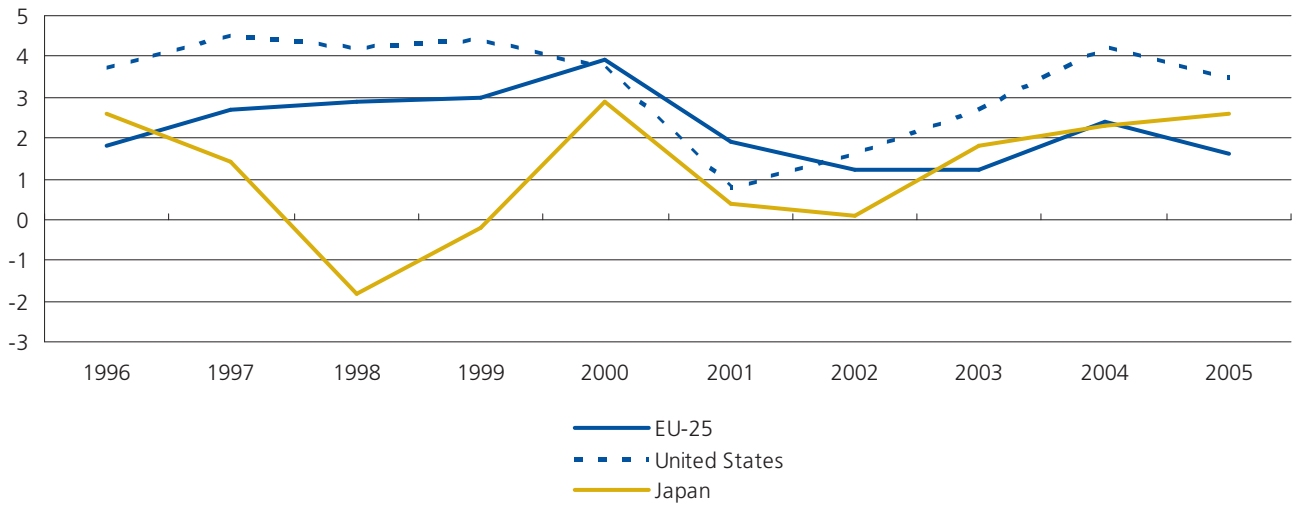
(EUR 1 000 million) TEC00001



GDP is an indicator for a nation's economic situation; it reflects the total value of all goods and services produced less the value of goods and services used for intermediate consumption in their production.

Figure 6.3: GDP volume, growth rates

(% change compared with previous year)



The calculation of the annual growth rate of GDP volume allows comparisons of economic development both over time and between economies of different sizes, irrespective of changes in prices; growth of GDP volume is calculated using data at the previous year's prices.

Table 6.3: Labour productivity

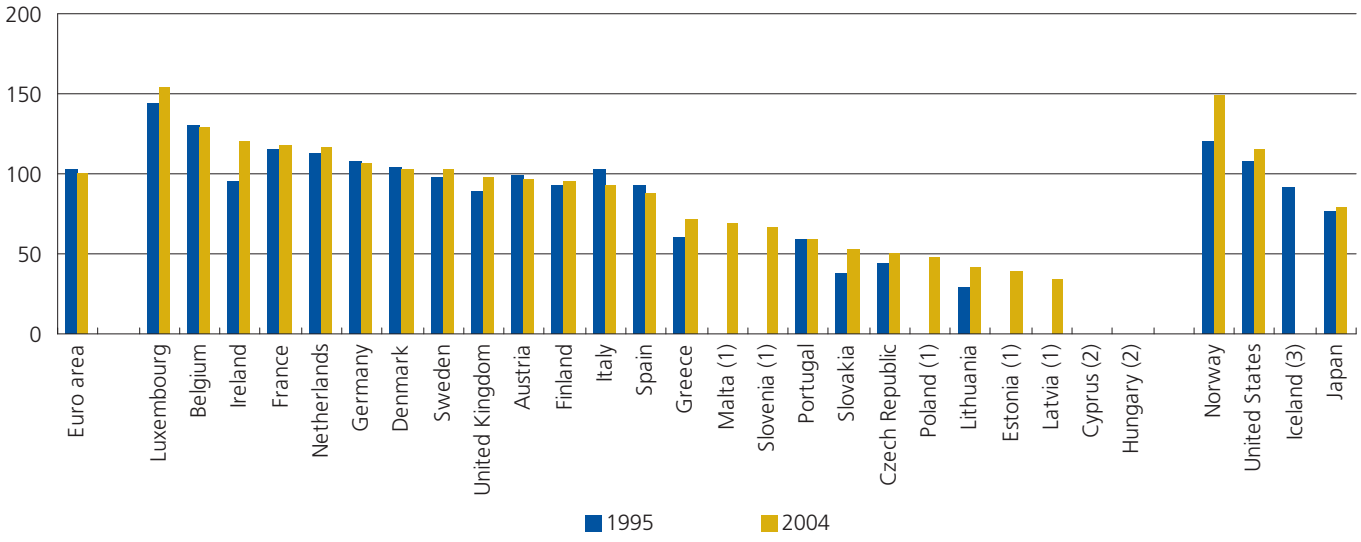
	Labour productivity per person employed (EU-25 = 100, based on a PPS series)						Labour productivity per hour worked (EU-15 = 100, based on a PPS series)				
	2000	2001	2002	2003	2004	2005	2000	2001	2002	2003	2004
EU-25	100.0	100.0	100.0	100.0	100.0	100.0	:	:	:	:	:
EU-15	107.5	107.1	106.8	106.6	106.3	106.3	100.0	100.0	100.0	100.0	100.0
Euro area	108.5	107.8	107.0	106.7	106.2	106.3	101.4	101.3	100.8	100.6	100.4
Belgium	125.9	126.3	127.5	128.4	128.5	128.1	124.6	124.8	125.1	126.1	128.5
Czech Republic	58.5	59.6	59.9	62.0	64.2	68.4	43.9	46.7	47.3	48.2	49.9
Denmark	105.0	104.5	102.0	103.0	103.8	106.1	103.4	102.3	99.6	100.4	102.5
Germany	101.2	100.2	99.7	100.3	100.1	102.0	105.5	105.4	105.2	105.8	105.8
Estonia	42.4	43.5	45.7	47.9	50.9	55.9	32.6	33.6	35.0	36.5	38.8
Greece	:	:	:	:	:	:	64.0	65.2	68.4	70.8	71.0
Spain	97.6	97.3	98.6	99.8	99.1	98.9	86.2	86.3	87.0	87.9	87.7
France	122.0	122.2	120.3	120.5	119.0	119.2	117.4	118.6	119.0	119.3	117.7
Ireland	121.6	123.7	127.6	128.1	129.1	126.7	110.2	112.7	116.3	117.7	119.6
Italy	121.2	118.6	115.0	111.7	110.2	108.2	99.1	97.2	94.8	92.8	92.0
Cyprus	79.3	78.7	77.3	73.7	75.3	75.7	:	:	:	:	:
Latvia	38.3	39.4	40.2	41.3	42.6	46.2	30.1	31.1	31.7	32.1	34.2
Lithuania	41.0	44.8	44.8	47.1	49.5	52.5	34.1	37.2	37.6	39.8	41.6
Luxembourg	159.2	148.0	149.3	156.6	157.3	160.8	148.6	139.6	140.6	148.8	153.8
Hungary	60.6	64.2	66.6	66.8	68.1	69.1	:	:	:	:	:
Malta	90.2	85.5	86.5	83.8	81.1	80.2	76.0	74.5	74.2	72.3	69.0
Netherlands	105.0	107.0	105.8	106.2	107.8	108.2	114.1	115.0	114.1	114.1	116.5
Austria	:	:	:	:	:	:	98.7	96.6	94.9	94.6	96.4
Poland	51.3	50.3	51.5	59.5	62.0	62.2	39.5	39.0	39.5	45.4	47.6
Portugal	72.0	71.4	71.3	65.9	65.9	65.6	65.1	64.4	63.8	59.5	59.1
Slovenia	69.8	71.2	70.9	72.4	75.0	75.8	60.1	61.1	61.2	61.9	66.0
Slovakia	54.5	55.9	59.0	58.8	60.3	62.2	46.0	47.5	51.3	52.5	52.8
Finland	109.4	108.8	107.6	106.7	107.7	106.7	95.6	96.0	94.6	93.9	95.3
Sweden	106.7	102.6	101.4	103.9	106.3	104.5	100.4	97.9	97.5	100.7	102.0
United Kingdom	103.4	104.9	107.3	107.0	107.1	106.7	93.0	94.2	96.8	96.9	97.6
Bulgaria	31.3	32.5	32.5	31.9	31.9	32.9	:	:	:	:	:
Croatia	49.8	54.5	55.2	57.7	57.8	60.2	:	:	:	:	:
Romania	27.9	29.8	32.0	34.0	36.3	39.2	:	:	:	:	:
Turkey	39.5	35.2	37.0	38.5	40.8	43.9	:	:	:	:	:
Iceland	110.3	110.7	107.9	97.0	103.6	100.2	89.5	91.7	90.5	81.0	:
Norway	133.4	131.8	125.2	126.6	133.3	143.9	147.8	148.0	141.4	143.2	149.3
Japan	91.6	91.4	90.9	92.5	93.1	92.6	76.9	77.3	76.8	77.7	79.1
United States	132.1	131.5	131.6	134.9	137.2	136.1	109.8	110.6	110.2	113.0	115.4

GDP per person employed is intended to give an overall impression of the productivity of national economies expressed in relation to the European Union (EU-25) average; if the index of a country is higher than 100, this country's level of GDP per person employed is higher than the EU average and vice versa; basic figures are expressed in PPS, i.e. a common currency that eliminates the differences in price levels between countries allowing meaningful volume comparisons of GDP between countries, please note that persons employed does not distinguish between full-time and part-time employment.

GDP per hour worked is intended to give a picture of the productivity of national economies expressed in relation to the European Union (EU-15) average; expressing productivity per hour worked will eliminate differences in the full-time/part-time composition of the workforce.

Figure 6.4: Labour productivity per hour worked

(EU-15=100, based on a PPS series)

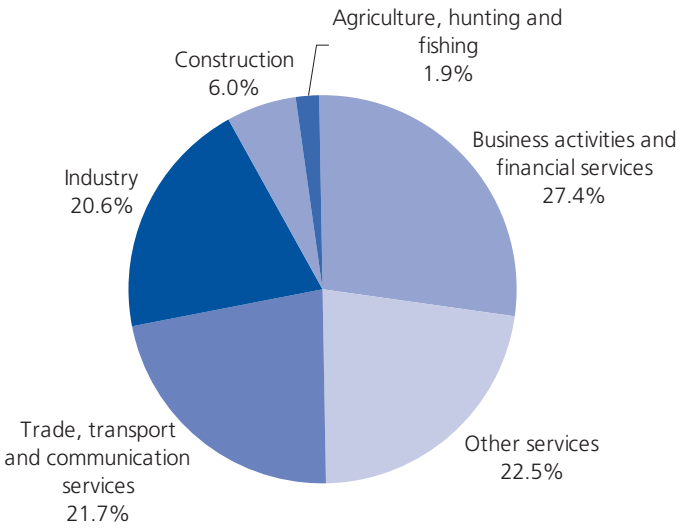


(1) 1995, not available.
(2) Not available.
(3) 2004, not available.

GDP (gross domestic product) is an indicator for a nation's economic situation; it reflects the total value of all goods and services produced less the value of goods and services used for intermediate consumption in their production; GDP per person employed is intended to give an overall impression of the productivity of national economies expressed in relation to the European Union (EU-25) average; if the index of a country is higher than 100, this country's level of GDP per person employed is higher than the EU average and vice versa; basic figures are expressed in PPS, i.e. a common currency that eliminates the differences in price levels between countries allowing meaningful volume comparisons of GDP between countries, please note that persons employed does not distinguish between full-time and part-time employment.

Figure 6.5: Gross value added at basic prices, EU-25, 2005 (1)

(% share of total gross value added)



(1) Figures do not sum to 100 % due to rounding.

Gross value added is defined as the value of all newly generated goods and services less the value of all goods and services consumed as intermediate consumption; the depreciation of fixed assets is not taken into account; gross value added is compiled according to the industry that created it; here, the A6 breakdown derived from NACE Rev. 1 is used.

Table 6.4: Gross value added at basic prices

(% share of total gross value added)

	Agriculture, hunting and fishing		Industry		Construction		Trade, transport and communi-cation services		Business activities and financial services		Other services	
	2000	2005	2000	2005	2000	2005	2000	2005	2000	2005	2000	2005
EU-25	2.3	1.9	22.3	20.6	5.6	6.0	21.6	21.7	26.0	27.4	22.1	22.5
EU-15	2.2	1.8	22.2	20.3	5.5	6.0	21.4	21.4	26.3	27.8	22.3	22.7
Euro area	2.5	2.0	22.2	20.5	5.7	6.1	21.1	21.3	26.3	27.4	22.2	22.7
Belgium	1.4	1.0	22.0	19.2	5.0	4.8	21.1	23.1	27.8	28.1	22.6	23.7
Czech Republic	3.9	3.0	31.7	31.1	6.8	6.6	25.1	25.4	16.9	16.6	15.6	17.3
Denmark	2.6	1.8	21.3	19.0	5.5	5.6	21.8	22.2	22.3	24.0	26.4	27.4
Germany	1.3	0.9	25.1	25.8	5.2	3.8	18.2	18.1	27.5	29.1	22.8	22.3
Estonia	5.5	4.0	20.8	22.3	5.7	7.1	29.1	28.5	20.8	20.4	18.2	17.7
Greece	7.3	5.2	13.9	13.2	7.4	7.6	28.8	31.8	22.3	19.3	20.2	22.9
Spain	4.4	3.3	20.9	17.9	8.3	11.6	26.1	26.0	19.5	20.6	20.8	20.6
France	2.8	2.2	17.7	15.1	5.2	5.8	18.9	19.3	30.7	32.0	24.7	25.6
Ireland	3.4	:	34.8	:	7.7	:	17.6	:	20.6	:	15.8	:
Italy	2.8	2.3	23.4	20.8	5.0	6.0	23.9	23.2	24.7	26.9	20.1	20.8
Cyprus	3.6	3.0	12.6	11.7	6.9	8.6	31.4	27.9	23.5	24.5	22.0	24.3
Latvia	4.6	3.8	17.4	16.1	6.2	6.3	32.0	37.2	18.9	17.9	20.9	18.6
Lithuania	7.8	5.7	23.7	26.0	5.9	7.5	30.0	32.1	12.4	12.6	20.1	16.1
Luxembourg	0.7	0.4	12.6	10.5	5.7	5.8	21.8	20.8	43.8	45.1	15.4	17.4
Hungary	4.3	:	27.9	:	5.2	:	21.0	:	20.4	:	21.1	:
Malta	2.3	2.4	24.9	18.6	3.9	4.8	30.5	28.9	17.0	17.8	21.4	27.4
Netherlands	2.6	2.1	19.3	18.7	5.6	5.7	23.1	21.9	27.3	27.1	22.1	24.5
Austria	2.1	1.6	23.0	22.1	7.9	7.6	24.4	24.4	21.7	23.4	20.9	20.8
Poland	5.0	4.8	24.0	24.8	7.7	5.8	27.3	27.3	18.1	17.7	18.0	19.6
Portugal	3.8	2.9	20.0	18.3	7.6	6.3	24.1	24.7	20.6	20.8	24.0	27.0
Slovenia	3.2	:	30.0	:	6.3	:	20.3	:	19.8	:	20.4	:
Slovakia	4.5	3.8	29.2	27.7	7.1	6.5	25.1	26.6	17.1	19.5	17.0	15.8
Finland	3.8	2.9	28.2	23.9	5.6	5.7	22.0	23.0	19.4	21.5	21.2	23.0
Sweden	1.9	1.1	24.6	23.5	4.0	4.7	19.7	19.6	24.0	23.7	25.8	27.3
United Kingdom	1.0	:	22.1	:	5.2	:	23.1	:	27.1	:	21.6	:
Bulgaria	13.9	9.3	24.5	25.0	4.6	5.7	21.8	24.6	19.9	20.3	15.2	15.8
Croatia	8.8	6.7	24.7	23.2	4.6	6.4	23.3	27.1	14.8	17.4	23.8	19.3
Romania	12.4	10.1	30.5	27.7	5.5	7.3	25.2	:	13.0	:	13.5	:
Turkey	14.2	10.5	23.5	25.9	5.2	4.5	34.4	35.9	8.5	9.2	14.2	14.2
Iceland	8.2	:	16.4	:	8.0	:	21.1	:	20.0	:	23.2	:
Norway	2.1	1.6	37.7	37.9	4.1	4.4	18.7	17.2	17.5	18.3	19.9	20.7
Switzerland	1.5	1.0	21.5	20.8	5.3	5.6	21.2	21.5	25.2	24.2	25.2	26.9
Japan	1.3	:	24.5	:	7.0	:	:	:	18.6	:	29.1	:

CONSUMPTION AND SPENDING

National accounts aggregates from the expenditure approach are used by the European Central Bank (ECB) and European Commission services as important tools for structural economic analysis and policy decisions. The quarterly series are central to business-cycle analysis and subsequent policy decisions. These series are also widely employed for supporting business decisions in the private sector, in particular on financial markets.

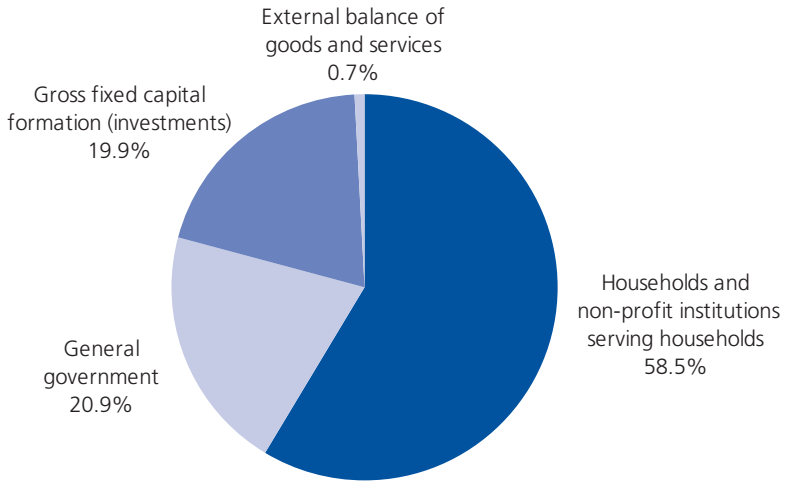
Following the expenditure approach, the tables in this section show by broad category what GDP has been used for. The main domestic expenditure categories are consumption on the one hand, and investment on the other; domestically produced goods and services may also be exported. The counterparts to exports are imports, which can be consumed or invested without being the result of domestic production activity. The value of exports minus imports, in other words the external balance, shows the net contribution of external trade to GDP.

- Private final consumption expenditure includes expenditure of households and non-profit institutions serving households (NPISH), in other words, expenditure on goods or services that are used for the direct satisfaction of individual needs. NPISHs are private, non-market producers which are separate legal entities. Their principal resources, apart from those derived from occasional sales, are derived from voluntary contributions in cash or in kind from households in their capacity as consumers, from payments made by general governments and from property income. Examples of NPISHs are churches, trade unions and political parties.
- Government final consumption expenditure includes two categories of expenditure: the value of goods and services produced by general government itself other than own-account capital formation and sales, and purchases by general government of goods and services produced by market producers that are supplied to households — without any transformation — as social transfers in kind.
- Gross fixed capital formation consists of resident producers' acquisitions, less disposals, of fixed assets plus certain additions to the value of non-produced assets realised by productive activity. Fixed assets are tangible or intangible assets produced as outputs from processes of production that are themselves used repeatedly, or continuously, in processes of production for more than one year.
- Changes in inventories are measured by the value of the entries into inventories less the value of withdrawals and the value of any recurrent losses of goods held in inventories.
- External balance: imports of goods and services are recorded with a negative sign while exports of goods and services are recorded with a positive sign. The difference between exports and imports is called the external balance of goods and services.

Figure 6.6: Expenditure components of GDP, EU-25, 2005

(% share of GDP)

TEC00009 TEC00010 TEC00011 TEC00012



Final consumption expenditure of households and non-profit institutions serving households: private consumption expenditure consists of expenditure incurred for the direct satisfaction of individual or collective needs by private households or non-profit institutions serving households (such as religious societies, sports and other clubs, political parties).
Final consumption expenditure by general government includes the value of goods and services purchased or produced by general government and directly supplied to private households for consumption purposes.
Gross fixed capital formation consists of resident producers' acquisitions, less disposals, of fixed tangible or intangible assets; this covers in particular machinery and equipment, vehicles, dwellings and other buildings.
The external balance is defined as the difference between exports and imports, which in turn measure the value of exchanges of goods and services between residents and non-residents.

In 2005, 58.5 % of the EU-25's GDP was spent on consumption by households and NPISHs. This share was relatively stable over time and reached a peak in 2000 when it represented 59.0 % of GDP.

Gross fixed capital formation represented 19.9 % of EU-25 GDP in 2005, which marked the second successive year that this share had risen, following the slowdown in economic activity in 2001 and 2002, when investments saw their share of GDP decline.

The external balance of goods and services of the EU-25 has been traditionally positive. In 2005, it amounted to 0.7 % of GDP. This marked the third consecutive decline from a high of 1.5 % of GDP in 2002.

Figure 6.7: Expenditure components of GDP, EU-25

(EUR 1 000 million) TEC00009 TEC00010 TEC00011 TEC00012

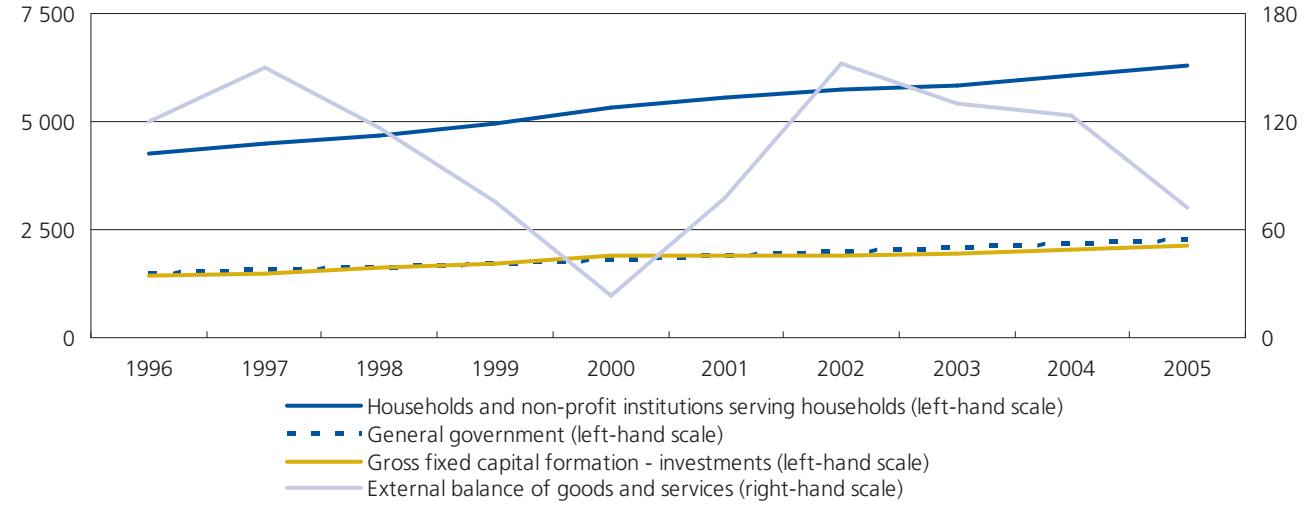


Figure 6.8: Gross fixed capital formation, 2005

(% share of GDP) TEC00011

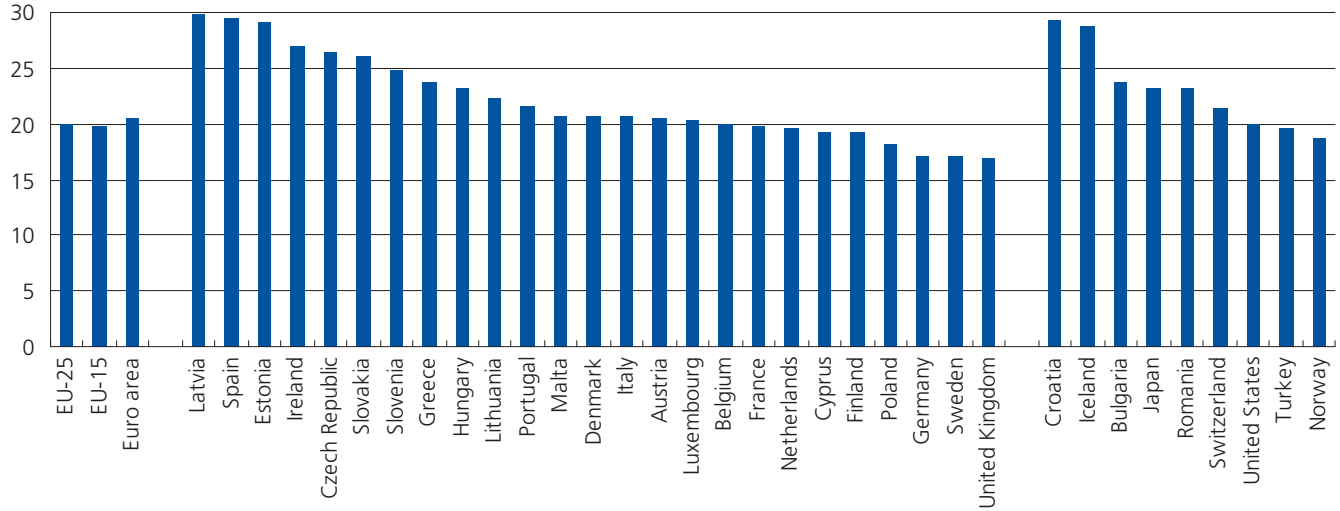
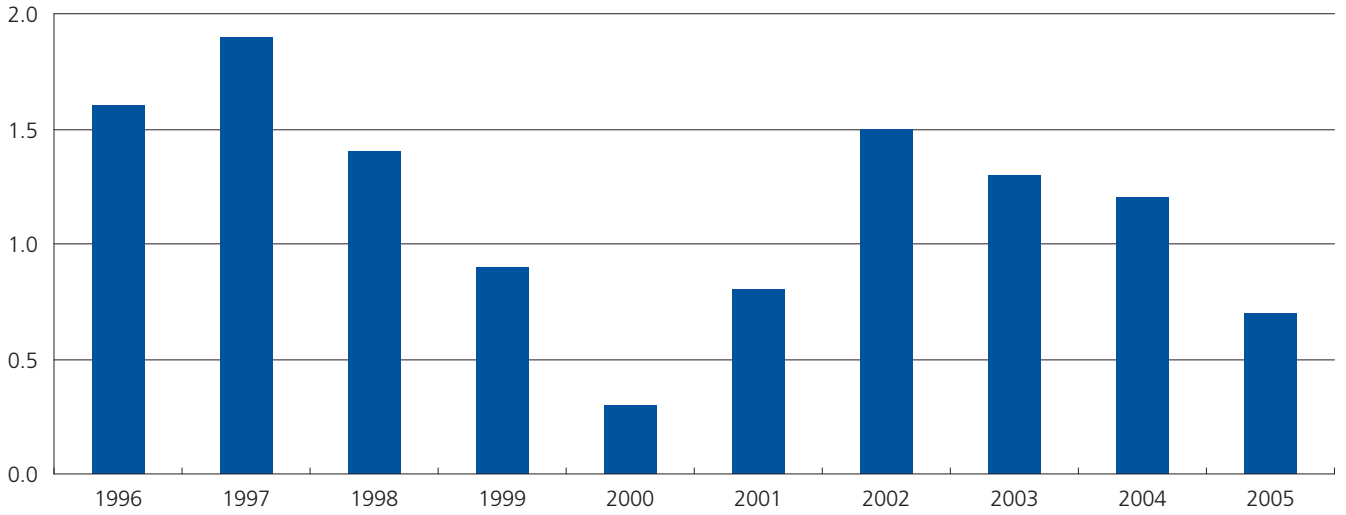


Figure 6.9: External balance of goods and services, EU-25

(% share of GDP) TEC00012



The external balance is defined as the difference between exports and imports, which in turn measure the value of exchanges of goods and services between residents and non-residents.

INCOME FROM INPUT FACTORS

Eurostat data on income from input factors are crucial to economic analysis in a number of contexts inside and outside the European Commission. Typical examples are studies of competitiveness, of income distribution inequalities and of long-term economic developments. Users outside the European Commission include, in particular, academia and financial institutions.

Producing the GDP requires '*input factors*' such as the work of employees and capital. These income factors have to be paid for. The income-side approach shows how GDP is distributed among different participants in the production process. It is therefore represented as the sum of:

- compensation of employees: this is defined as the total remuneration, in cash or in kind, payable by an employer to an employee in return for work done by the latter during the accounting period; the compensation of employees is broken down into: wages and salaries (in cash and in kind); employers' social contributions (employers' actual social contributions and employers' imputed social contributions);
- gross operating surplus: this is the surplus (or deficit) on production activities before account has been taken of the interest, rents or charges paid or received for the use of assets;
- mixed income: this is the remuneration for the work carried out by the owner (or by members of his/her family) of an unincorporated enterprise; this is referred to as '*mixed income*' since it cannot be distinguished from the entrepreneurial profit of the owner;
- taxes on production and imports less subsidies: these consist of compulsory (in the case of taxes) unrequited payments to or from general government or institutions of the EU, in respect of the production or import of goods and services, the employment of labour, and the ownership or use of land, buildings or other assets used in production.

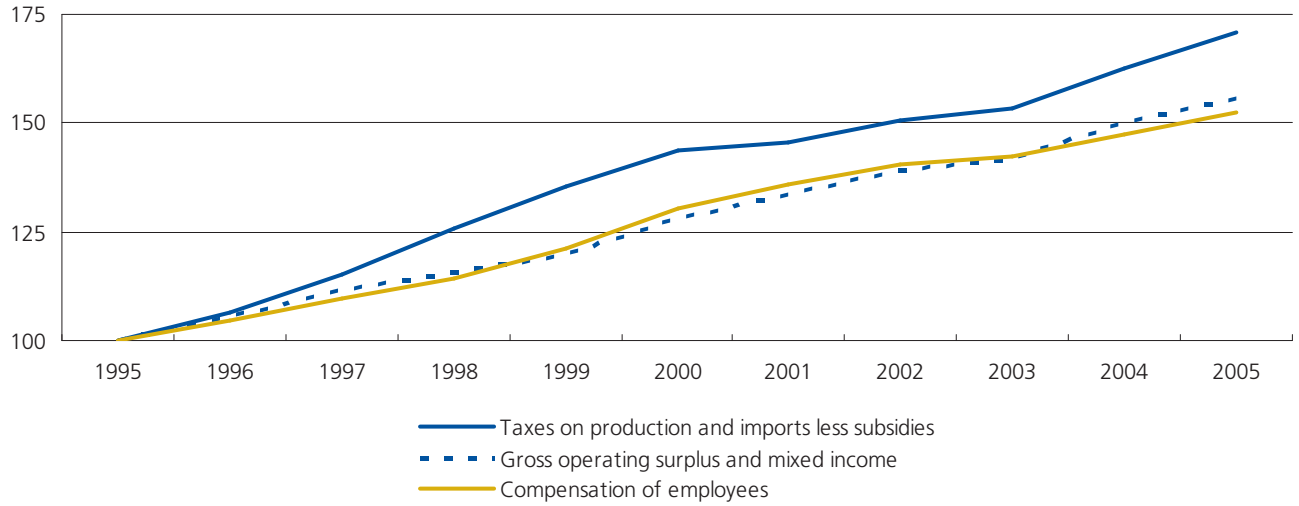
The higher the output of an economy, the more income can be distributed to the factors that have provided for its creation. Between 1995 and 2005, the GDP of the EU-25 (measured at current prices) rose by 56.0 %. The overall income of employees registered the slowest growth among input factors during the same period (52.5 %), while the growth recorded for the gross operating surplus and mixed income was similar to that for GDP (55.5 %); taxes on production and imports less subsidies grew by 71.0 % during the period 1995 to 2005, recording the fastest expansion.

At the level of the Member States, some differences are observed when looking at the shares in 2005 of the three components in GDP. For compensation of employees, the shares ranged between 34.1 % in Greece and 56.0 % in the United Kingdom, while for the EU-25 it was 49.2 %. The proportion of GDP accounted for by the gross operating surplus and mixed income ranged from 28.8 % in Sweden to 54.8 % in Greece, with an EU-25 average of 38.5 %. Finally, for taxes less subsidies on production and imports, shares varied between 9.6 % of GDP in the Czech Republic and 16.3 % in Cyprus, while the EU-25 average stood at 12.3 %.

Figure 6.10: Distribution of income, EU-25 (1)

(1995=100)

TEC00013 TEC00015 TEC00016



(1) Data extracted on 27.10.2006.

Compensation of employees is defined as the total remuneration, in cash or in kind, payable by an employer to an employee in return for work done by the latter; in particular, it also includes social contributions paid by the employer.

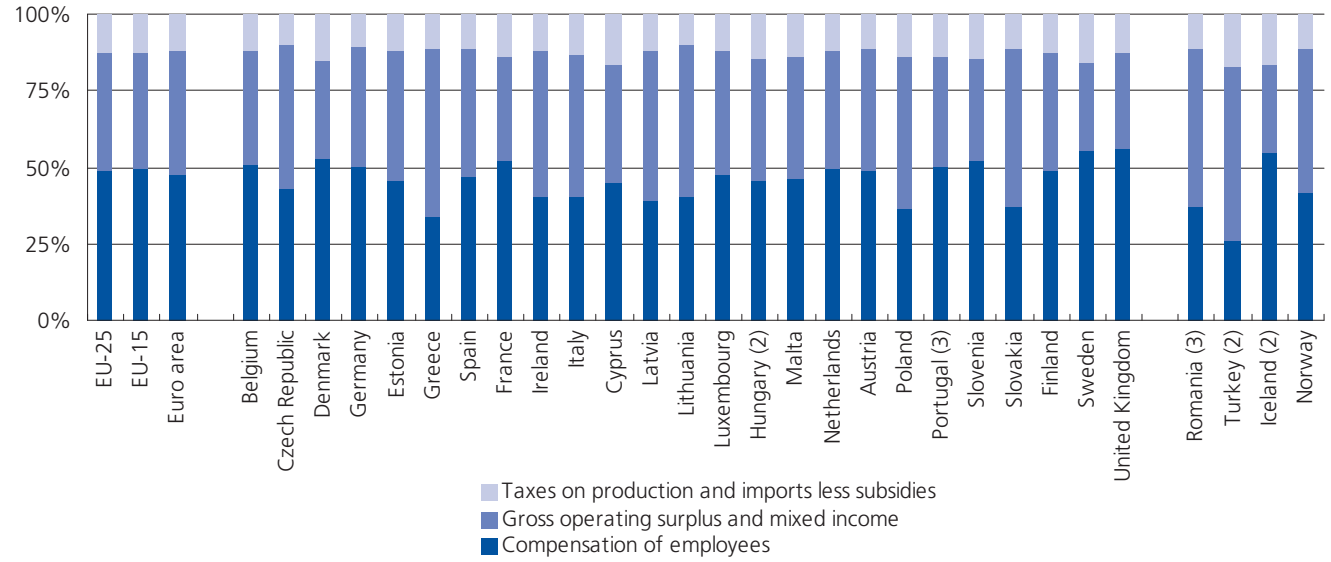
Operating surplus is the surplus (or deficit) on production activities before account has been taken of the interest, rents or charges paid or received for the use of assets; mixed income is the remuneration for the work carried out by the owner (or by members of his family) of an unincorporated enterprise; this is referred to as 'mixed income' since it cannot be distinguished from the entrepreneurial profit of the owner.

Taxes and subsidies on products are current unrequited payments to or from general government or the institutions of the European Union that are payable per unit of some good or service produced or transacted; the tax or subsidy may be a specific amount of money per unit of quantity of a good or service, or it may be calculated ad valorem as a specified percentage of the price per unit or value of the goods and services produced or transacted.

Figure 6.11: Distribution of income, 2005 (1)

(% share of GDP)

TEC00013 TEC00015 TEC00016



(1) Data extracted on 27.10.2006.
(2) 2004.
(3) 2003.

GOVERNMENT FINANCES

Member States acknowledge the need for solid and sustainable government finances. Under the rules on budgetary discipline within the EU Stability and Growth Pact (Amsterdam, 1997), Member States are to avoid situations of '*excessive government deficits*': their ratio of planned or actual government deficit to GDP should be no more than 3 %, and their ratio of government debt to GDP should be no more than 60 % (unless the excess over the reference value is only exceptional or temporary, or unless the ratios have declined substantially and continuously).

The Member States should, by law, notify their government deficit and debt statistics to the European Commission before 1 April and 1 October of each year under the '*excessive deficit procedure*'. Eurostat collects the data and ensures that Member States comply with the relevant regulations. The main aggregates of general government are provided by the Member States to Eurostat twice a year, according to the ESA 95 transmission programme.

The public (general government) deficit of the EU-25, measured in terms of GDP, was at the same level in 2002 and 2005 at 2.3 %, with a higher deficit in the intervening years. The pattern was similar in the euro area, where the deficit rose slightly in 2005 to 2.3 % of GDP, from 2.2 % three years earlier, but with higher deficits in 2003 and 2004.

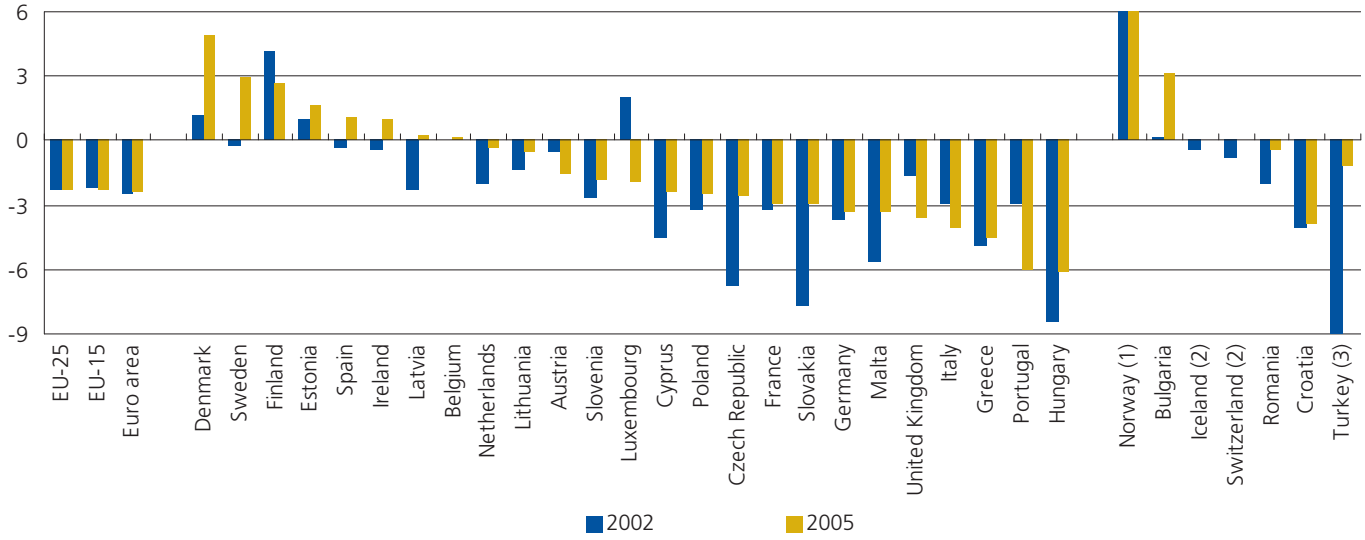
In 2005, 18 of the EU Member States reported deficit ratios below the reference value of 3 %, which can be compared with 16 in 2002. Hungary and Portugal recorded the highest deficits in the EU, around 6 % in 2005. The acceding countries of Romania and Bulgaria both reported deficits below the threshold value for the entire period. Turkey reduced its deficit strongly from 12.9 % to 1.2 % of GDP over the period, while Croatia recorded a deficit of 3.9 % of GDP in 2005.

General government gross debt in the EU-25 reached 63.4 % of GDP in 2005, compared with 60.5 % in 2002. In the euro area, the rise was of the same order, from 68.1 % to 70.8 % of GDP. Between 2002 and 2005 the number of Member States with a debt ratio below 60 % of GDP fell from 18 to 16. The highest debt ratios were recorded by Greece and Italy, both above 100 % for the entire reference period considered. At the other end of the scale, Estonia and Luxembourg reported the lowest debt to GDP ratios, both below 7 % for the same period. The acceding countries Romania and Bulgaria recorded decreasing debt-to-GDP ratios below 60 % of GDP over the whole period, reaching 15.2 % and 29.9 % respectively in 2005. Croatia's debt-to-GDP ratio was 44.2 % in 2005, while Turkey (despite a major reduction over the period) recorded a ratio of 69.6 % in 2005.

The importance of the general government sector in the economy may be measured in terms of total government revenue and expenditure as a percentage of GDP. In the EU-25, total government revenue in 2005 amounted to 45.0 % of GDP, and expenditure to 47.3 % of GDP. In the euro area, the equivalent figures were 45.1 % and 47.5 % respectively. The Member States with the highest levels of both government expenditure and revenue as a proportion of GDP in 2005 were Denmark and Sweden. Six Member States reported relatively low revenue and expenditure to GDP ratios below 40 %. Out of these, government revenue was smallest for Slovakia and Lithuania, where it accounted for less than 35 % of GDP.

Figure 6.12: Public balance

(net borrowing/lending of consolidated general government sector, % of GDP)



(1) Broken y-axis, 9.3 % for 2002 and 16.2 % for 2005.
(2) Not available for 2005.
(3) Broken y-axis, -12.9 % for 2002.
Public balance: net borrowing (+)/net lending (-) of general government is the difference between the revenue and the expenditure of the general government sector; the general government sector comprises the following subsectors: central government, state government, local government, and social security funds.
The data were extracted from the Eurostat database during late June 2006. They do not reflect the revised data provided by countries in the latest transmission of data in the context of the Excessive Deficit Procedure, where there were some changes to debt and deficit data, notably for 2005. Please see the Eurostat Press Release of 23 October 2006 and the Eurostat database for the latest data.

The main types of government revenue are taxes on income and wealth, taxes on production and imports, and social contributions. The importance of each form of revenue varies considerably among countries. In 2005, taxes on production and imports accounted for 13.6 % of the EU-25's GDP. The revenue from taxes on income and wealth was almost as important and accounted for 12.8 % of GDP. The relative importance of taxes on income and wealth was highest in Denmark where it represented over 30 % of GDP. For Slovakia and Estonia, the equivalent figures were 5.7 % and 7.4 % respectively. Social contributions make up the majority of remaining revenue, accounting for around 14 % of GDP in the EU-25.

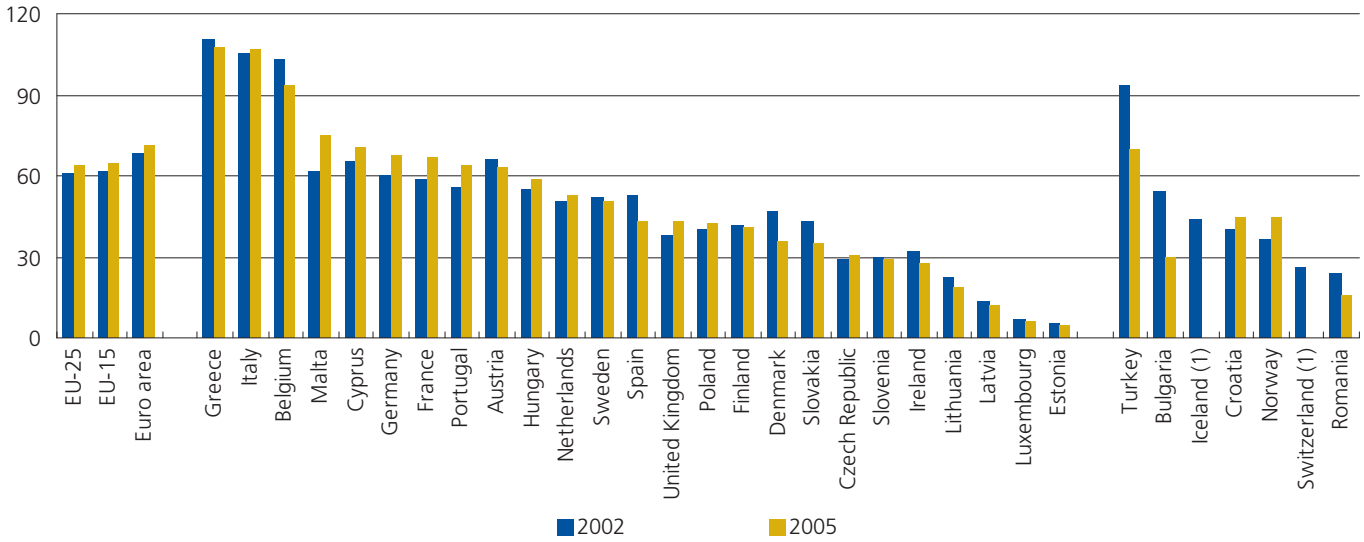
Table 6.5: Public balance, general government debt

	Public balance (net borrowing/lending of consolidated general government sector, % of GDP)				General government debt (general government consolidated gross debt, % of GDP)			
	2002	2003	2004	2005	2002	2003	2004	2005
EU-25	-2.3	-3.0	-2.6	-2.3	60.5	62.0	62.4	63.4
EU-15	-2.2	-2.9	-2.6	-2.3	61.5	63.1	63.4	64.6
Euro area	-2.5	-3.0	-2.8	-2.4	68.1	69.3	69.8	70.8
Belgium	0.0	0.1	0.0	0.1	103.2	98.5	94.7	93.3
Czech Republic	-6.8	-6.6	-2.9	-2.6	28.8	30.0	30.6	30.5
Denmark	1.2	1.0	2.7	4.9	46.8	44.4	42.6	35.8
Germany	-3.7	-4.0	-3.7	-3.3	60.3	63.8	65.5	67.7
Estonia	1.0	2.4	1.5	1.6	5.5	6.0	5.4	4.8
Greece	-4.9	-5.8	-6.9	-4.5	110.7	107.8	108.5	107.5
Spain	-0.3	0.0	-0.1	1.1	52.5	48.9	46.4	43.2
France	-3.2	-4.2	-3.7	-2.9	58.2	62.4	64.4	66.8
Ireland	-0.4	0.2	1.5	1.0	32.1	31.1	29.4	27.6
Italy	-2.9	-3.4	-3.4	-4.1	105.5	104.2	103.8	106.4
Cyprus	-4.5	-6.3	-4.1	-2.4	65.2	69.7	71.7	70.3
Latvia	-2.3	-1.2	-0.9	0.2	13.5	14.4	14.6	11.9
Lithuania	-1.4	-1.2	-1.5	-0.5	22.3	21.2	19.5	18.7
Luxembourg	2.0	0.2	-1.1	-1.9	6.5	6.3	6.6	6.2
Hungary	-8.4	-6.4	-5.4	-6.1	55.0	56.7	57.1	58.4
Malta	-5.6	-10.2	-5.1	-3.3	61.2	71.3	76.2	74.7
Netherlands	-2.0	-3.1	-1.9	-0.3	50.5	51.9	52.6	52.9
Austria	-0.5	-1.5	-1.1	-1.5	66.0	64.4	63.6	62.9
Poland	-3.2	-4.7	-3.9	-2.5	39.8	43.9	41.9	42.5
Portugal	-2.9	-2.9	-3.2	-6.0	55.5	57.0	58.7	63.9
Slovenia	-2.7	-2.8	-2.3	-1.8	29.7	29.1	29.5	29.1
Slovakia	-7.7	-3.7	-3.0	-2.9	43.3	42.7	41.6	34.5
Finland	4.1	2.5	2.3	2.6	41.3	44.3	44.3	41.1
Sweden	-0.2	0.1	1.8	2.9	52.0	51.8	50.5	50.3
United Kingdom	-1.6	-3.3	-3.3	-3.6	37.6	39.0	40.8	42.8
Bulgaria	0.1	0.3	1.9	3.1	54.0	46.1	38.6	29.9
Croatia	-4.1	-4.5	-5.0	-3.9	40.0	40.9	43.7	44.2
Romania	-2.0	-1.7	-1.3	-0.4	23.8	20.7	18.0	15.2
Turkey	-12.9	-11.3	-5.7	-1.2	93.0	85.1	76.9	69.6
Iceland	-0.4	-1.6	0.1	:	43.6	41.4	36.8	:
Norway	9.3	7.5	11.4	16.2	36.1	44.8	46.3	44.7
Switzerland	-0.8	:	:	:	25.7	:	:	:

General government debt: the general government sector comprises the subsectors of central government, state government, local government and social security funds; debt is valued at nominal (face) value, and foreign currency debt is converted into national currency using end-year market exchange rates (though special rules apply to contracts).
The data were extracted from the Eurostat database during late June 2006. They do not reflect the revised data provided by countries in the latest transmission of data in the context of the Excessive Deficit Procedure, where there were some changes to debt and deficit data, notably for 2005. Please see the Eurostat Press Release of 23 October 2006 and the Eurostat database for the latest data.

Figure 6.13: General government debt

(general government consolidated gross debt, % of GDP)



(1) Not available for 2005.

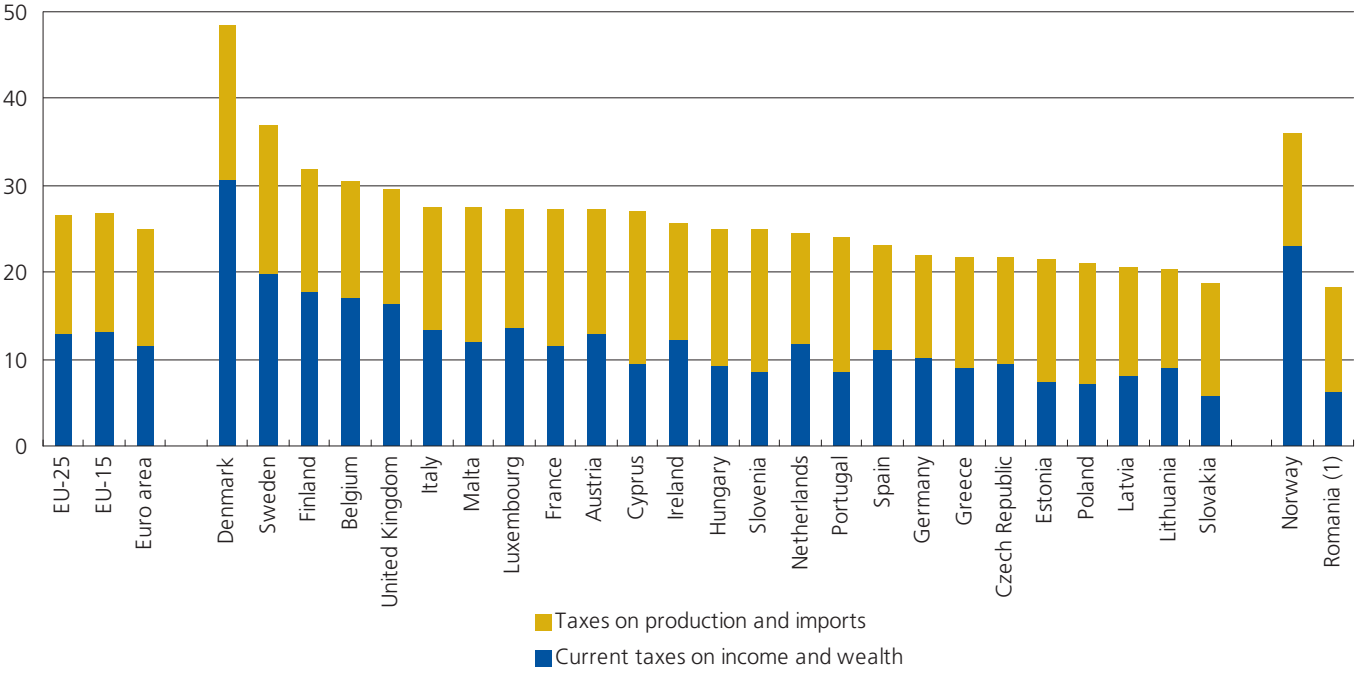
General government debt: the general government sector comprises the subsectors of central government, state government, local government and social security funds; debt is valued at nominal (face) value, and foreign currency debt is converted into national currency using end-year market exchange rates (though special rules apply to contracts).

The data were extracted from the Eurostat database during late June 2006. They do not reflect the revised data provided by countries in the latest transmission of data in the context of the Excessive Deficit Procedure, where there were some changes to debt and deficit data, notably for 2005. Please see the Eurostat Press Release of 23 October 2006 and the Eurostat database for the latest data.

Figure 6.14: Taxes, 2005

(% of GDP)

TEC00018 TEC00020



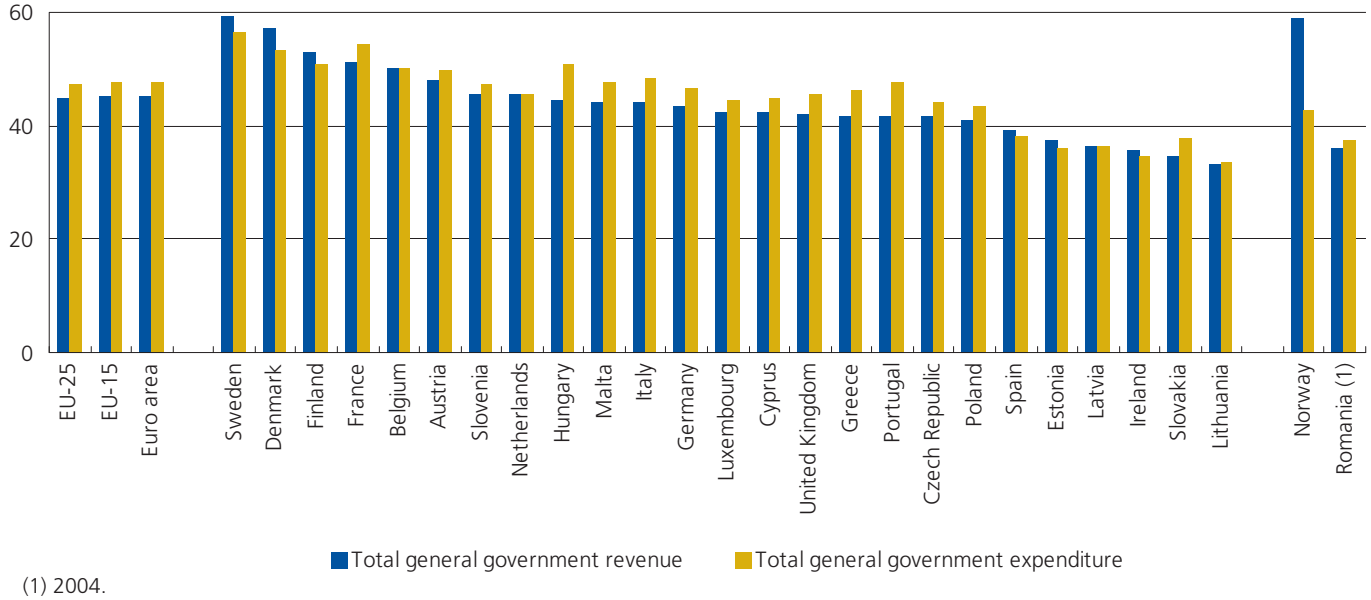
(1) 2004.

Current taxes on income, wealth, etc. cover all compulsory, unrequited payments, in cash or in kind, levied periodically by general government and by the rest of the world on the income and wealth of institutional units, and some periodic taxes which are assessed neither on the income nor the wealth.

Taxes on production and imports consist of compulsory, unrequited payments, in cash or in kind which are levied by general government, or by EU institutions, in respect of the production and importation of goods and services, the employment of labour, the ownership or use of land, buildings or other assets used in production.

Figure 6.15: Government revenue and expenditure, 2005

(% of GDP) TEC00021 TEC00023



(1) 2004.

Total general government revenue is defined by reference to a list of categories: market output, output for own final use, payments for the other non-market output, taxes on production and imports, other subsidies on production, receivable property income, current taxes on income, wealth, etc., social contributions, other current transfers and capital transfers.

Total general government expenditure is defined by reference to a list of categories: intermediate consumption, gross capital formation, compensation of employees, other taxes on production, subsidies, payable property income, current taxes on income, wealth, etc., social benefits, some social transfers, other current transfers, some adjustments, capital transfers and transactions on non-produced assets.

EXCHANGE AND INTEREST RATES

History was made on 1 January 1999 when 11 European Union countries (later to become 12) irrevocably established the conversion rates between their respective national currencies and the euro and created a monetary union. These countries were: Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland. On 20 June 2000, EU Heads of State or Government reached a decision that Greece had also met the membership criteria and that as of 1 January 2001 would also become a member of the euro area. On 1 January 2002, around 7 800 million notes and 40 400 million coins entered circulation, valued at EUR 144 000 million.

A Member State's entry into the euro area is conditional upon the Member State meeting a set of convergence criteria. The degree to which the different countries have met the formal requirements allowing them to adopt the euro are evaluated by the European Commission and the European Central Bank in regular convergence reports. While Denmark and the United Kingdom have a special '*opt-out*' status, the remaining 11 countries are Member States with derogations, and are expected to adopt the euro once the necessary conditions are fulfilled.

In addition to fulfilling the entry criteria, the introduction of the euro requires careful planning and extensive practical preparations, in which the public and the private sector as well as the public at large need to participate. The Commission has committed itself to report on a regular basis, and at least once a year, on the state of these preparations. The first and the second reports on practical preparations for the future enlargement of the euro area were adopted in November 2004 and 2005, respectively. The '*Third report on the practical preparations for the future enlargement of the euro area*' [36] was issued in June 2006 and paid special attention to the ongoing preparations for the accession of Slovenia to the euro area on 1 January 2007.

Eurostat's database contains a number of different data sets concerning exchange rates. Three main areas that are distinguished:

- data on bilateral exchange rates between currencies, including some special conversion factors for the countries that have adopted the euro;
- data on fluctuations in the exchange rate mechanism (ERM and ERM II) of the European Union (EU);
- data on effective exchange rate indices.

Bilateral exchange rates are available with reference to the euro; before 1999, exchange rates were given in relation to the ecu (European currency unit). The ecu ceased to exist on 1 January 1999, when it was replaced by the euro at an exchange rate of 1:1. From that date, the currencies of the euro area became subdivisions of the euro at irrevocably fixed rates of conversion. Historical series, pre-1999, are available for the national currencies of the euro area countries.

[36] Communication from the European Commission to the Council, the European Parliament, the European Economic and Social Committee, the Committee of the Regions and the European Central Bank COM(2006) 322 final of 22 June 2006 (http://ec.europa.eu/economy_finance/publications/euro_related/2006/comm2006_322final_en.pdf).

Daily exchange rates are available from 1974 onwards against a large number of currencies. These daily values are used to construct monthly and annual averages, which are based on business day rates. Alternatively, month-end and year-end rates are also provided for the daily rate of the last business day of the month/year.

The primary objective of the European Central Bank's (ECB) monetary policy is to maintain price stability. Monetary policy operates by steering short-term interest rates. The ECB has defined price stability as a year-on-year increase in the harmonised index of consumer prices (HICP) for the euro area close to but below 2 % over the medium term (see page 187 for more details in relation to consumer prices). In the pursuit of price stability, the ECB aims at maintaining inflation rates below, but close to 2 % over the medium-term. Monetary policy decisions are taken by the ECB's governing council which meets every month to analyse and assess economic developments and the risks to price stability and to decide on the appropriate level of interest rates. The ECB's monetary policy strategy provides a comprehensive framework within which decisions on the appropriate level of short-term interest rates are taken.

Eurostat publish statistics on interest rates under several headings:

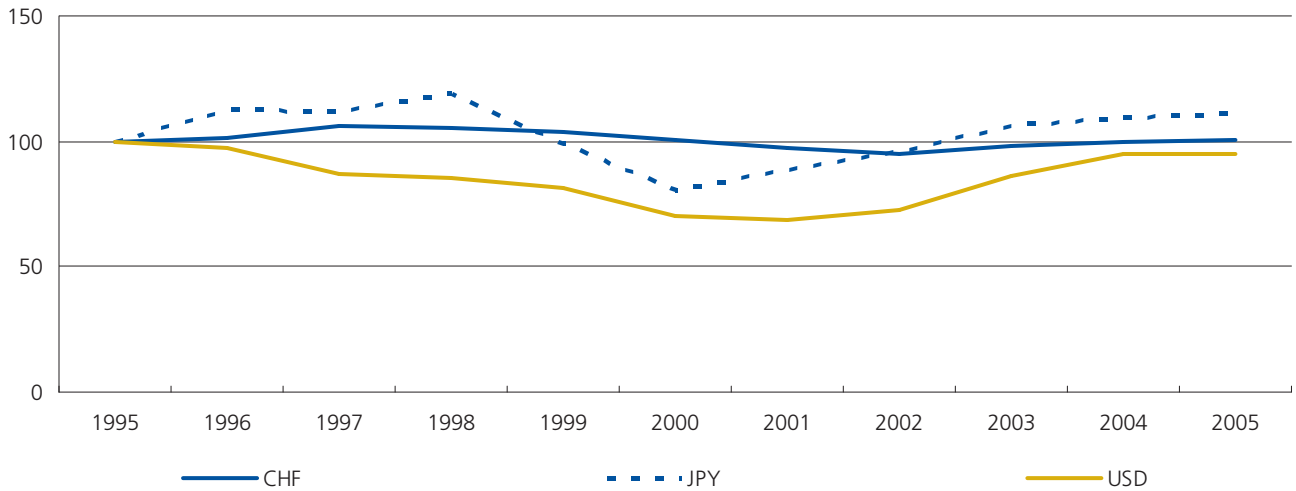
- long-term interest rates: government bond yields with a 10 years' maturity and interest rates used for the Maastricht criterion on long-term interest rates;
- central bank interest rates: different rates that central banks fix to conduct the monetary policy (reference rates);
- short-term interest rates: rates on money markets for different maturities (overnight, 1 to 12 months);
- retail bank interest rates: lending and deposit interest rates of commercial banks (non-harmonised and historical series), and harmonised MFI interest rates (monetary financial institutions interest rates);
- convergence of interest rates: the standard deviation and the coefficient of variation for: loans to households for house purchases; loans to non-financial corporations over one year; loans to non-financial corporations up to one year;
- interest rates: historical data for series for central bank interest rates, short- and long-term rates and ecu interest rates.

At the end of the last period of rapid economic growth, global interest rates started to fall, with the most sizeable reductions in 2001. This pattern continued within the euro area (and to a lesser degree the United States) during 2002 and 2003, such that official lending rates of central banks reached historic lows — nowhere was this more evident than in Japan (where deflationary pressures resulted in an interest rate close to zero).

With signs of an economic recovery, there were several rate rises in the United States during 2004, which were confirmed in 2005 by further increases. European interest rates followed this trend in 2005 and 2006.

Figure 6.16: Exchange rates against the euro (1)

(1995 = 100)



(1) CHF, Swiss franc; JPY, Japanese yen; USD, United States dollar; a reduction in the value of the index shows an appreciation in the value of the foreign currency and a depreciation in the value of the euro.

Exchange rates are the price or value of one country's currency in relation to another; here the exchange rates are those for the euro published by the European Central Bank; before 1999 the exchange rates are those of the ecu, as published by the European Commission.

Table 6.6: Exchange rates against the euro (1)

(1 EUR = ... national currency)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Belgium	38.552	39.299	40.533	40.621	40.340	40.340	40.340	40.340	40.340	40.340	40.340
Czech Republic	34.696	34.457	35.93	36.049	36.884	35.599	34.068	30.804	31.846	31.891	29.782
Denmark	7.3280	7.3593	7.4836	7.4993	7.4355	7.4538	7.4521	7.4305	7.4307	7.4399	7.4518
Germany	1.8738	1.9095	1.9644	1.9691	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558
Estonia	14.984	15.273	15.713	15.748	15.647	15.647	15.647	15.647	15.647	15.647	15.647
Greece	302.99	305.55	309.36	330.73	325.76	336.63	340.75	340.75	340.75	340.75	340.75
Spain	163.00	160.75	165.89	167.18	166.39	166.39	166.39	166.39	166.39	166.39	166.39
France	6.5251	6.4930	6.6126	6.6014	6.5596	6.5596	6.5596	6.5596	6.5596	6.5596	6.5596
Ireland	0.8155	0.7934	0.7475	0.7862	0.7876	0.7876	0.7876	0.7876	0.7876	0.7876	0.7876
Italy	2 130.1	1 959.0	1 929.3	1 943.6	1 936.3	1 936.3	1 936.3	1 936.3	1 936.3	1936.3	1936.3
Cyprus	0.5916	0.5919	0.5824	0.5793	0.5788	0.5739	0.5759	0.5753	0.5841	0.5819	0.5768
Latvia	0.6895	0.6996	0.6594	0.6602	0.6256	0.5592	0.5601	0.5810	0.6407	0.6652	0.6962
Lithuania	5.232	5.079	4.5362	4.4844	4.2641	3.6952	3.5823	3.4594	3.4527	3.4529	3.4528
Luxembourg	38.552	39.299	40.533	40.621	40.340	40.340	40.340	40.340	40.340	40.340	40.340
Hungary	164.55	193.76	211.65	240.57	252.77	260.04	256.59	242.96	253.62	251.66	248.05
Malta	0.4614	0.4577	0.4375	0.4350	0.4258	0.4041	0.4030	0.4089	0.4261	0.4280	0.4299
Netherlands	2.0989	2.1397	2.2108	2.2197	2.2037	2.2037	2.2037	2.2037	2.2037	2.2037	2.2037
Austria	13.182	13.435	13.824	13.855	13.760	13.760	13.760	13.760	13.760	13.76	13.76
Poland	3.1705	3.4223	3.7155	3.9165	4.2274	4.0082	3.6721	3.8574	4.3996	4.5268	4.0230
Portugal	196.11	195.76	198.59	201.70	200.48	200.48	200.48	200.48	200.48	200.48	200.48
Slovenia	154.88	171.78	180.99	185.95	194.47	206.61	217.98	225.98	233.85	239.09	239.57
Slovakia	38.865	38.923	38.113	39.541	44.123	42.602	43.300	42.694	41.489	40.022	38.599
Finland	5.7086	5.8282	5.8806	5.9825	5.9457	5.9457	5.9457	5.9457	5.9457	5.9457	5.9457
Sweden	9.3319	8.5147	8.6512	8.9159	8.8075	8.4452	9.2551	9.1611	9.1242	9.1243	9.2822
United Kingdom	0.8288	0.8138	0.6923	0.6764	0.6587	0.6095	0.6219	0.6288	0.6920	0.6787	0.6838
Bulgaria	0.0879	0.2251	1.9016	1.9691	1.9558	1.9522	1.9482	1.9492	1.9490	1.9533	1.9558
Croatia	:	:	:	:	7.5805	7.6432	7.4820	7.4130	7.5688	7.4967	7.4008
FYR of Macedonia	49.732	50.760	56.526	60.961	60.618	60.725	60.913	60.979	61.262	61.323	61.309
Romania	0.2662	0.3922	0.8112	0.9985	1.6345	1.9922	2.6004	3.1270	3.7551	4.0510	3.6209
Turkey	0.0599	0.1032	0.1718	0.2937	0.4472	0.5748	1.1024	1.4397	1.6949	1.7771	1.6771
Iceland	84.685	84.656	80.439	79.698	77.180	72.580	87.420	86.180	86.650	87.140	78.230
Norway	8.2858	8.1966	8.0186	8.4659	8.3104	8.1129	8.0484	7.5086	8.0033	8.3697	8.0092
Switzerland	1.5457	1.5679	1.6440	1.6220	1.6003	1.5579	1.5105	1.4670	1.5212	1.5438	1.5483
Japan	123.01	138.08	137.08	146.42	121.32	99.470	108.68	118.06	130.97	134.44	136.85
United States	1.3080	1.2698	1.1340	1.1211	1.0658	0.9236	0.8956	0.9456	1.1312	1.2439	1.2441

(1) The euro is the official currency of Belgium, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal, Slovenia and Finland; the euro replaced former national currencies in 12 of these euro area member countries from 1 January 2002 onwards, and will come into circulation in Slovenia from 1 January 2007.

Table 6.7: Interest rates

(%)

	Central bank interest rates: official lending rates for loans		EMU convergence criterion bond yields (Maastricht criterion)		Short-term interest rates: three-month interbank rates (annual average)		Short-term interest rates: day-to-day money rates (annual average)	
	2004	2005	2004	2005	2004	2005	2004	2005
EU-25	:	:	4.44	3.70	2.69	2.72	2.62	2.66
EU-15	:	:	4.27	3.59	2.56	2.63	2.48	2.56
Euro area	3.00	3.25	4.12	3.42	2.11	2.19	2.05	2.09
Belgium	:	:	4.15	3.43	-	-	-	-
Czech Republic	3.50	3.00	4.75	3.51	2.36	2.01	2.19	1.95
Denmark	2.15	2.40	4.30	3.40	2.20	2.22	2.16	2.15
Germany	:	:	4.04	3.35	-	-	-	-
Estonia	-	-	4.39	3.98	2.50	2.38	2.00	1.97
Greece	:	:	4.26	3.59	-	-	-	-
Spain	:	:	4.10	3.39	-	-	-	-
France	:	:	4.10	3.41	-	-	-	-
Ireland	:	:	4.08	3.33	-	-	-	-
Italy	:	:	4.26	3.56	-	-	-	-
Cyprus	5.50	4.25	5.80	5.16	4.74	4.25	4.21	3.62
Latvia	5.00	5.00	4.86	3.88	4.23	3.07	3.66	2.76
Lithuania	:	:	4.50	3.70	2.68	2.43	1.88	2.13
Luxembourg	:	:	4.18	3.37	-	-	-	-
Hungary	10.50	7.00	8.19	6.60	11.53	6.70	11.50	7.06
Malta	4.50	4.25	4.69	4.56	2.94	3.18	2.92	3.11
Netherlands	:	:	4.10	3.37	-	-	-	-
Austria	:	:	4.15	3.39	-	-	-	-
Poland	8.00	6.00	6.90	5.22	6.20	5.28	5.67	5.33
Portugal	:	:	4.14	3.44	-	-	-	-
Slovenia	5.00	5.00	4.68	3.81	4.66	4.03	4.37	3.71
Slovakia	5.50	4.00	5.03	3.52	4.68	2.93	4.48	2.74
Finland	:	:	4.11	3.35	-	-	-	-
Sweden	2.75	2.25	4.42	3.38	2.31	1.89	2.28	2.10
United Kingdom	4.75	4.50	4.93	4.46	4.64	4.76	4.42	4.73
Bulgaria	:	:	:	:	3.32	2.94	1.92	2.02
Romania	17.96	7.50	:	:	19.14	8.35	18.81	6.24
Turkey	22.00	17.50	:	:	:	:	21.95	15.05
Canada	:	:	:	:	:	:	2.25	2.66
Japan	0.10	0.10	:	:	0.05	0.06	0.00	0.00
United States	2.25	4.25	:	:	1.62	3.56	1.35	3.22

An interest rate is the cost or price of borrowing, or the gain from lending, normally expressed as an annual percentage amount.
Central bank interest rates: key reference rates set by the European Central Bank and national central banks; the central bank interest rates also called 'official interest rates' are the main instrument of the monetary policy of a central bank; the aim of the monetary policy is to achieve its primary objective of maintaining price stability.
Maastricht criterion bond yields (mcby): definition used for the convergence criterion for (Economic and Monetary Union) for long-term interest rates (central government bond yields on the secondary market, gross of tax, with around 10 years' residual maturity).
Money market rates: are reference rates for short-term interest rates on the financial market for loans or deposits; most of the series shown are interbank rates.
Day-to-day money market rates: these refer to deposits or loans on the money market with a maturity of one business day.

Figure 6.17: Central bank interest rates: official lending rates for loans

(%)

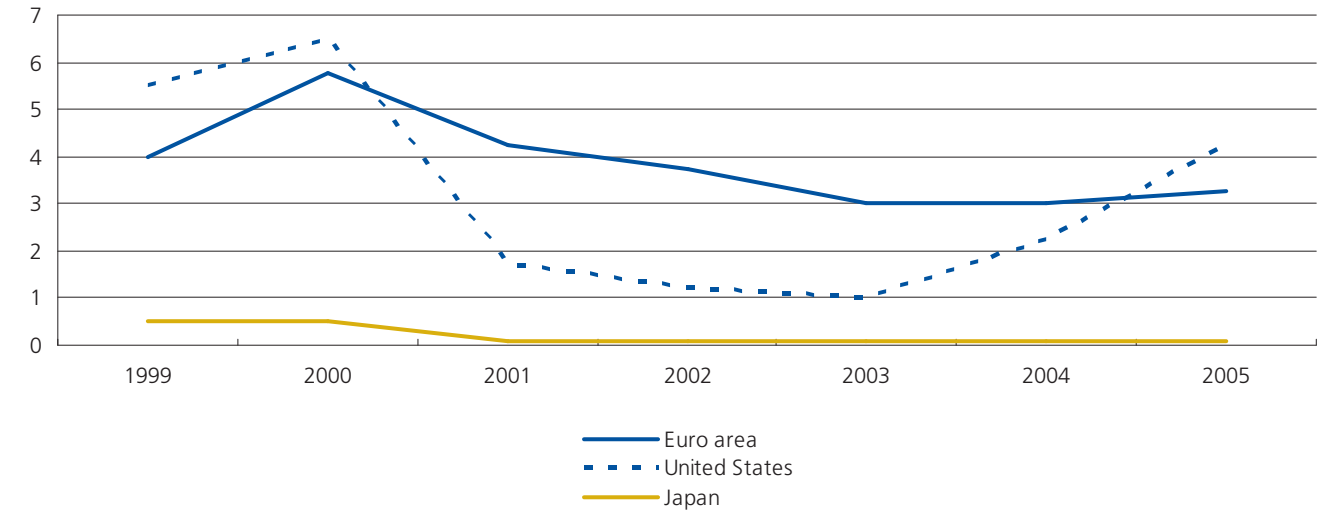
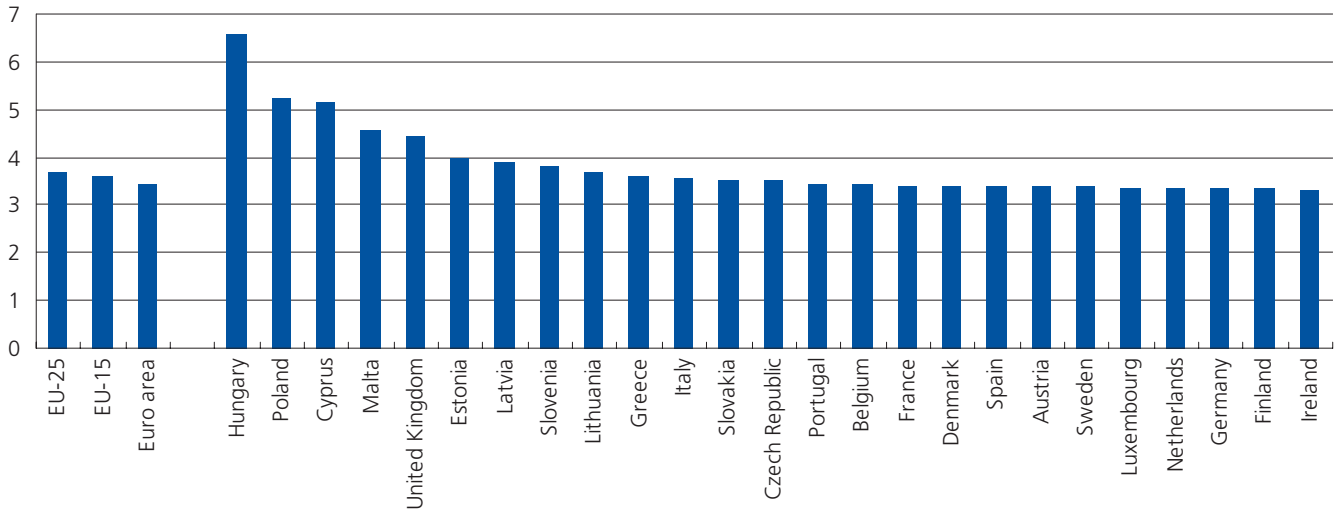


Figure 6.18: EMU convergence criterion bond yields (Maastricht criterion), 2005

(%)



BALANCE OF PAYMENTS - CURRENT ACCOUNT

The current account gauges a country's economic position in the world, it covers all transactions (other than those recorded in the capital and financial account) occurring between resident and non-resident entities. Within the current account, four main types of transactions are separately identified.

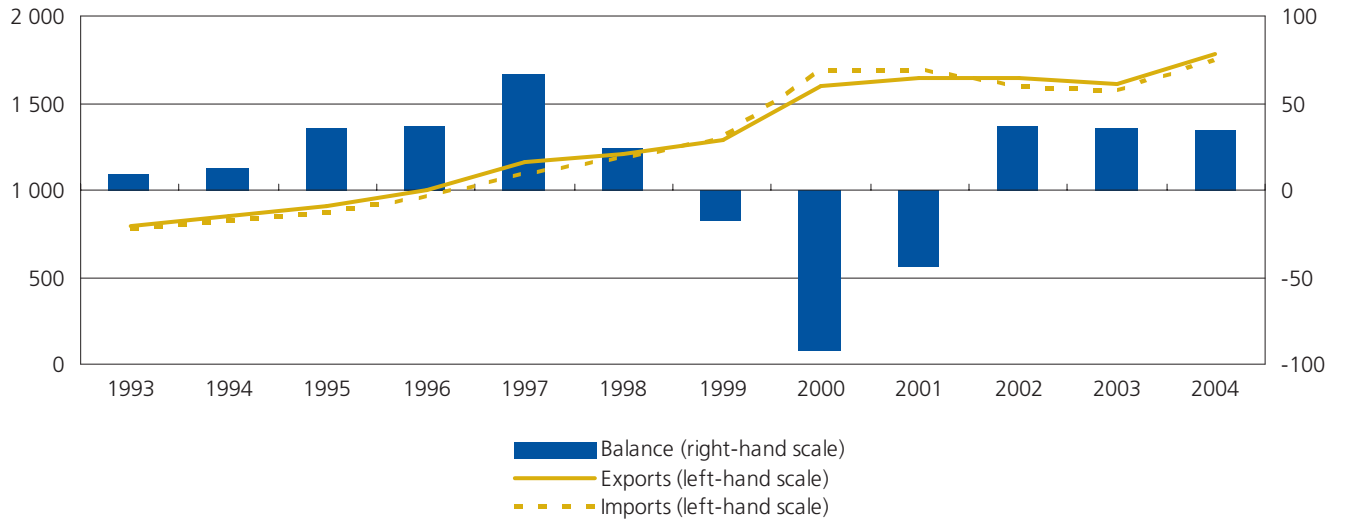
- The goods account covers general merchandise, goods for processing, repairs on goods, goods procured in ports by carriers, and non-monetary gold. Exports and imports of goods are recorded on a fob/fob basis, i.e. at market value at the customs frontiers of exporting economies, including charges for insurance and transport services up to the frontier of the exporting country.
- The services account consists of the following items: **transportation services** performed by EU residents for non-EU residents, or vice versa, involving the carriage of passengers, the movement of goods, rentals of carriers with crew and related supporting and auxiliary services; **travel**, which includes primarily the goods and services EU travellers acquire from non-EU residents, or vice versa; and **other services**, which include communication services, construction services, insurance services, financial services, computer and information services, royalties and licence fees, other business services (which comprise merchanting and other trade-related services, operational leasing services and miscellaneous business, professional and technical services), personal, cultural and recreational services and government services not included elsewhere.
- The income account covers two types of transactions: compensation of employees paid to non-resident workers or received from non-resident employers, and investment income accrued on external financial assets and liabilities.
- The current transfers account includes general government current transfers, for example transfers related to international cooperation between governments, payments of current taxes on income and wealth, etc., and other current transfers, for example workers' remittances, insurance premiums — less service charges — and claims on non-life insurance companies.

In 2005, the current account deficit of the EU-25 was EUR 87 900 million. This was mainly the result of a deficit for trade in goods (EUR -85 300 million), in current transfers (EUR -46 400 million) and in the income account (EUR-9 400 million) and a surplus for trade in services (EUR 53 200 million).

Trade integration of goods and services is a measure showing the relative importance of trade in goods and services in relation to GDP. This ratio stood at 10.1 % of GDP in 2005 for goods and 3.5 % for services in the EU-25.

Figure 6.19: Current account transactions, EU-15

(EUR 1 000 million) TEC00038



The balance of payments is a record of a country's international transactions with the rest of the world; it is composed of the current account and the capital and financial account; the current account is itself subdivided into goods, services, income and current transfers; it registers the value of exports (credits) and imports (debits).

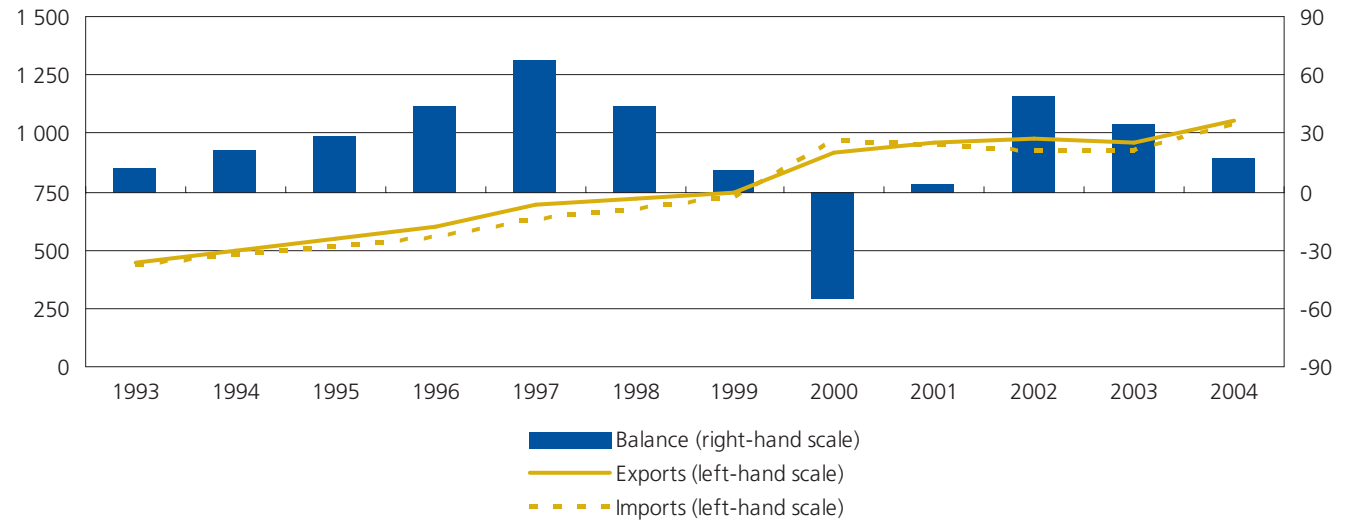
Table 6.8: Current account, 2004

TEC00038

	Total trade (EUR 1 000 million)		Balance (% of GDP)				
	Exports	Imports	Total	Goods	Services	Income	Current transfers
EU-25	953.7	983.0	-0.1	-0.3	0.4	0.1	-0.4
EU-15	1 050.6	1 033.6	0.4	0.2	0.4	0.3	-0.5
Euro area	1 128.2	1 022.9	0.6	1.4	0.4	-0.4	-0.7
Belgium	197.4	189.6	3.4	2.7	1.0	1.6	-1.9
Czech Republic	54.1	54.9	-6.1	-1.0	0.4	-5.7	0.2
Denmark	60.2	52.8	2.3	3.7	1.2	-0.9	-1.7
Germany	725.1	573.9	3.7	6.8	-1.9	0.0	-1.3
Estonia	4.8	6.4	-12.7	-17.5	9.7	-6.3	1.5
Greece	12.7	38.1	-6.2	-15.1	9.2	-2.4	2.2
Spain	149.0	202.6	-5.3	-6.4	2.6	-1.4	0.0
France	338.7	345.0	-0.4	-0.4	0.6	0.4	-1.1
Ireland	80.5	49.1	-0.6	21.3	-6.9	-15.2	0.3
Italy	283.3	274.5	-0.9	0.6	0.1	-1.1	-0.6
Cyprus	0.9	4.2	-5.7	-26.2	23.2	-3.9	1.2
Latvia	3.4	5.7	-13.0	-20.3	4.4	-2.0	4.9
Lithuania	7.5	9.4	-7.7	-10.6	3.6	-2.7	2.0
Luxembourg	11.0	13.8	10.5	-10.2	37.0	-12.3	-3.9
Hungary	45.1	47.5	-8.6	-3.0	0.2	-6.0	0.3
Malta	2.1	2.8	-9.5	-15.8	8.9	-1.2	-1.4
Netherlands	253.4	218.8	8.9	7.1	0.7	2.4	-1.3
Austria	90.1	87.6	0.2	1.1	0.8	-0.8	-1.0
Poland	65.9	70.5	-4.2	-2.2	0.4	-4.6	2.2
Portugal	29.9	44.9	-7.3	-10.5	2.9	-1.7	2.0
Slovenia	12.9	13.9	-2.1	-3.9	2.6	-0.9	0.1
Slovakia	22.4	23.6	-3.4	-3.5	0.6	-1.0	0.4
Finland	49.1	38.9	5.0	6.7	-1.3	0.1	-0.6
Sweden	99.2	80.4	6.8	6.6	1.7	-0.1	-1.3
United Kingdom	281.2	371.0	-1.7	-5.2	2.2	2.3	-0.9
Bulgaria	8.0	11.0	-5.8	-15.1	3.5	1.2	4.6
Romania	18.9	24.3	-8.4	-8.8	-0.4	-4.2	4.9
Turkey	53.9	73.1	-5.2	-7.9	4.3	-1.9	0.4
Norway	66.7	39.7	13.8	13.2	1.1	0.6	-1.1

Figure 6.20: Current account transactions for goods, EU-15

(EUR 1 000 million) TEC00039



6

The balance of payments is a record of a country's international transactions with the rest of the world; it is composed of the current account and the capital and financial account; the current account is itself subdivided into goods, services, income and current transfers; it registers the value of exports (credits) and imports (debits).

Figure 6.21: Current account transactions for services, EU-15

(EUR 1 000 million) TEC00040

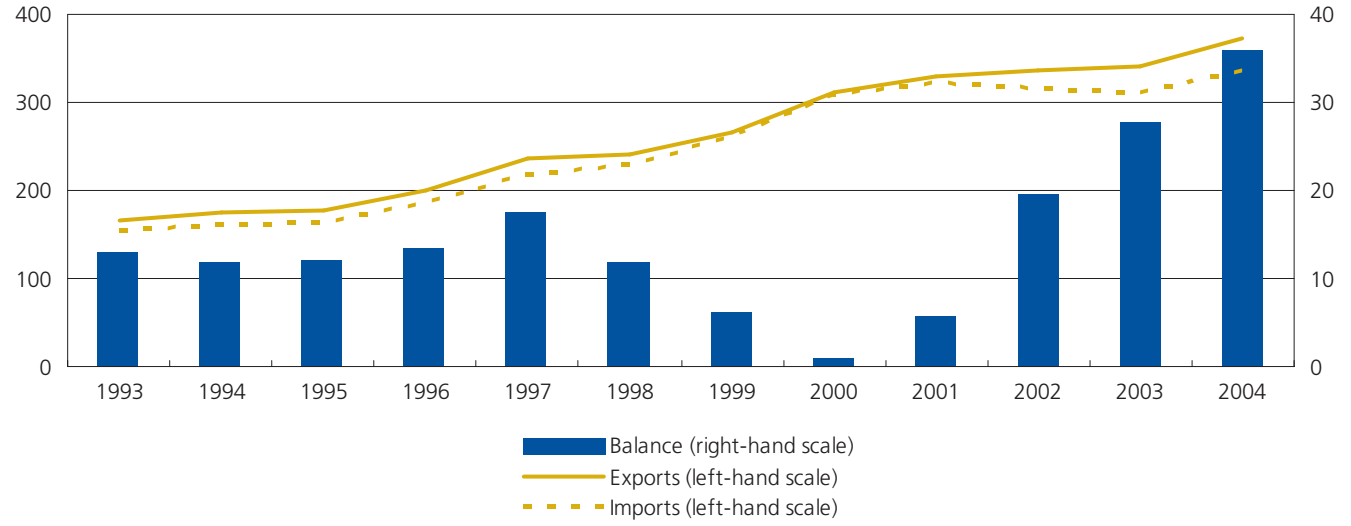


Figure 6.22: Current account transactions for income, EU-15

(EUR 1 000 million) TEC00041

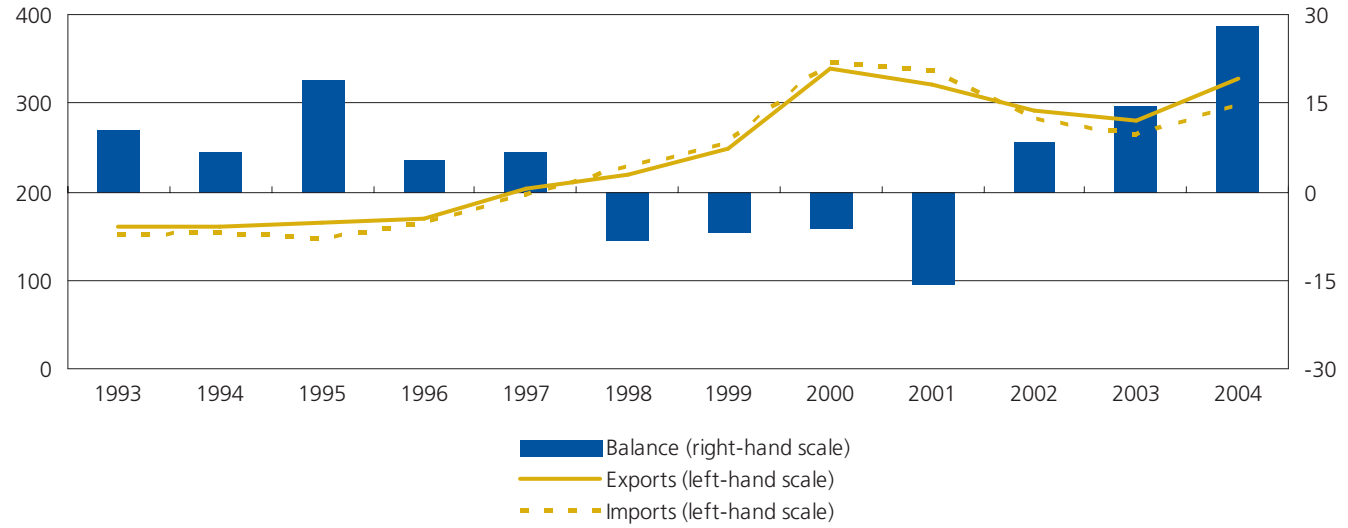


Figure 6.23: Current account transactions for current transfers, EU-15

(EUR 1 000 million) TEC00042

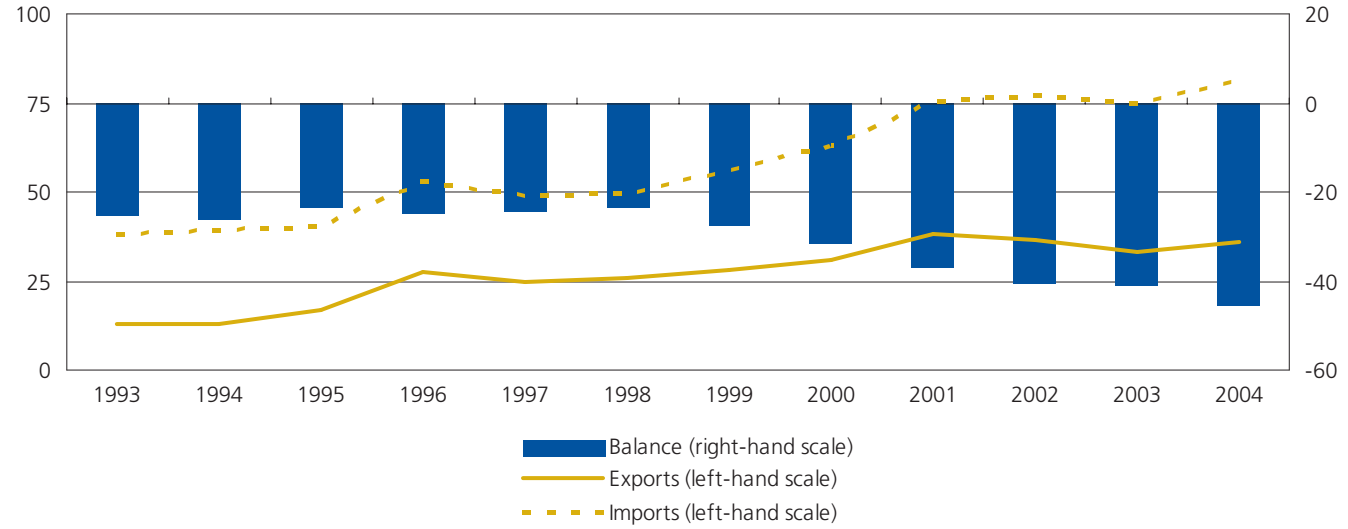
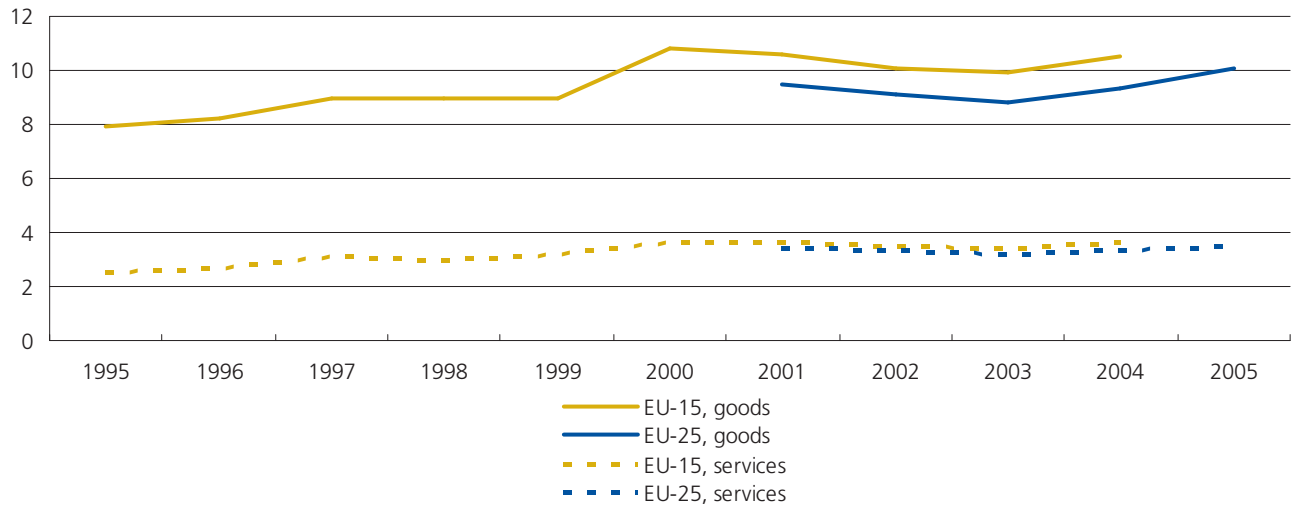


Figure 6.24: Trade integration of goods and services (1)

(% of GDP)

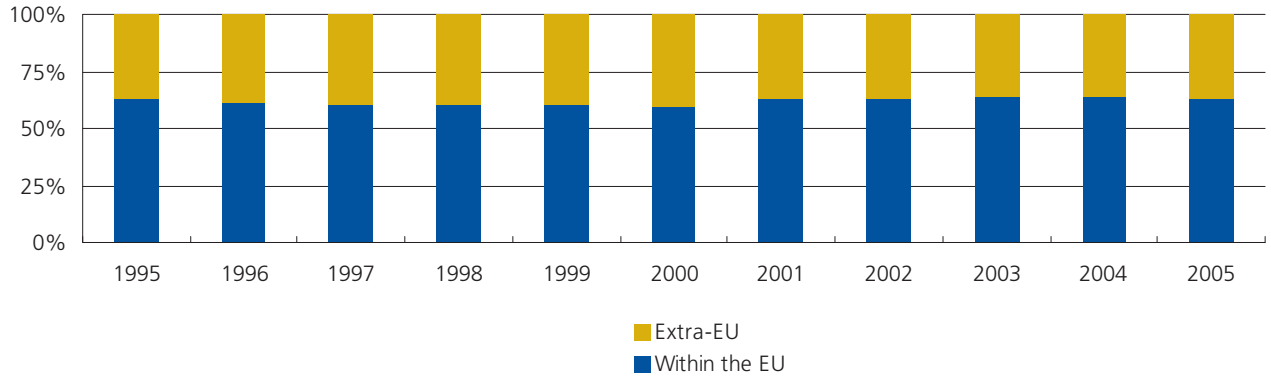


(1) EU-25, not available for 1995–2000; EU-15, not available for 2005.

Trade integration of goods as a percentage of GDP (gross domestic product); average of imports and exports of the balance of payments divided by GDP; if the index increases over time it means that the country/zone is becoming more integrated within the international economy.

Figure 6.25: Current account credits, EU (1)

(% share of total EU credits) TEC00072

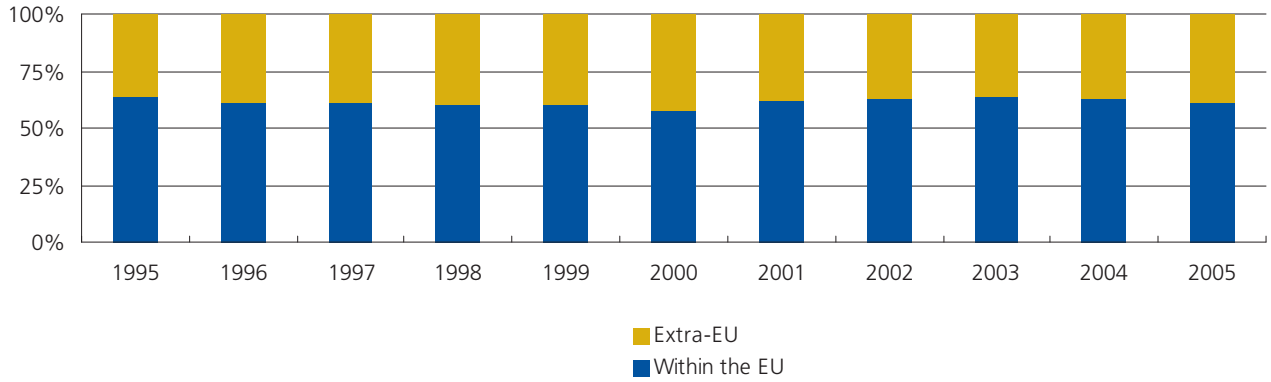


(1) Data are for EU-15 until 2000 and for EU-25 from 2001.

The balance of payments is a record of a country's international transactions with the rest of the world; it is composed of the current account and the capital and financial account; the current account is itself subdivided into goods, services, income and current transfers; it registers the value of exports (credits) and imports (debits).

Figure 6.26: Current account debits, EU (1)

(% share of total EU debits) TEC00073



(1) Data are for EU-15 until 2000 and for EU-25 from 2001.

FOREIGN DIRECT INVESTMENT

The financial account of the balance of payments (BoP) records all financial transactions; it includes foreign direct investment, portfolio investment, other investment and reserve asset flows. A firm wishing to sell overseas can choose between a variety of methods: exporting, licensing and using agents are some examples, with straightforward exporting up to now being the most common. FDI (producing and selling directly in the chosen country) is increasingly being adopted. There are two kinds of FDI:

- the creation of productive assets by foreigners (greenfield investment);
- the purchase of existing assets by foreigners (acquisitions, mergers, takeovers, etc.).

FDI differs from portfolio investments because it is made with the purpose of having control or an effective voice in management and a lasting interest in the enterprise. Direct investment not only includes the initial acquisition of equity capital, but also subsequent capital transactions between the foreign investor and domestic and affiliated enterprises.

Annual EU foreign direct investment statistics give a detailed presentation of foreign direct investment (FDI) flows and stocks, showing which Member State invests in which countries and in which sectors. Eurostat collects FDI statistics for quarterly and annual flows as well as for stocks at the end of the year. FDI stocks (assets and liabilities) are a part of the international investment position of an economy at the end of the year.

The sign convention adopted for the data shown in this section, for both flows and stocks, is that investment is always recorded with a positive sign, and a disinvestment with a negative sign.

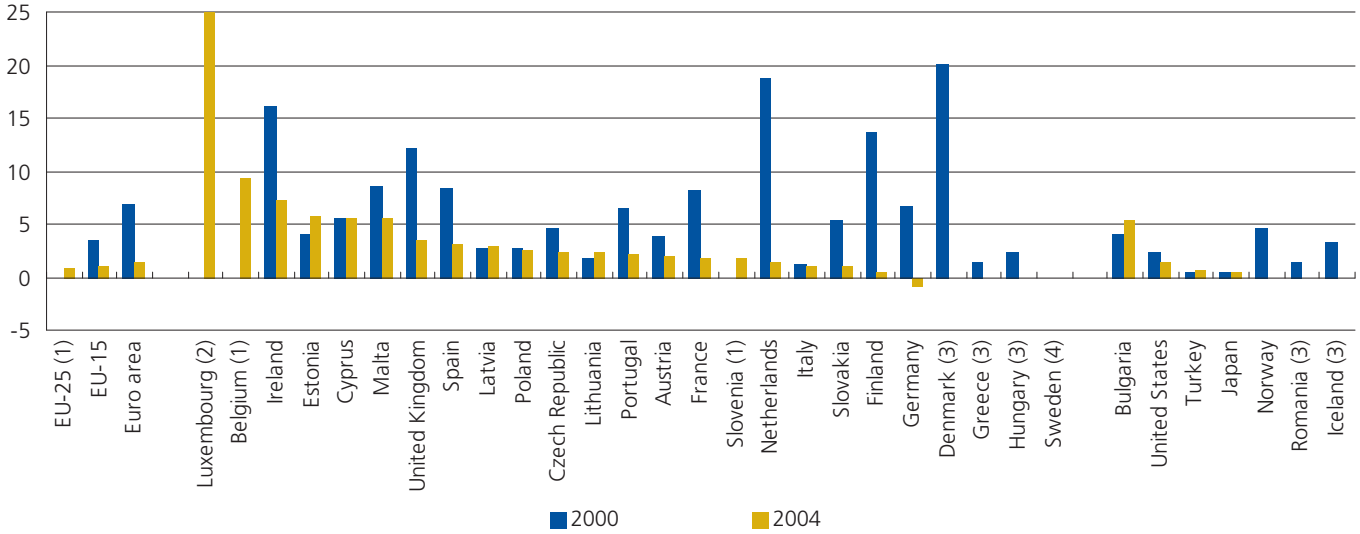
The intensity of FDI flows may be measured by comparing the average value of inflows and outflows with GDP. This ratio stood at 0.9 % for the EU-25 in 2004. Total inflows of FDI from non-member countries into the EU-25 were valued at EUR 152 541 million in 2005, while outward FDI to non-member countries was valued at EUR 69 789 million.

Flows of FDI may fluctuate considerably from one year to the next. Stocks of FDI show a more stable picture of the FDI position within an economy. Inward FDI stocks for the EU-25 accounted for 15.3 % of GDP in 2003, while outward FDI stocks were valued at 19.8 % of GDP.

Stocks of EU-25 FDI abroad were largely concentrated in North America, which accounted for 41.2 % of the total in 2003. North America was an even more important partner in terms of stocks of FDI within the EU-25, accounting for 55.6 % of all FDI made by non-member countries.

Figure 6.27: Foreign direct investment intensity

(average value of inward and outward flows, % of GDP)



(1) Not available for 2000.
(2) Not available for 2000; broken y-axis, 249.3 %.
(3) Not available for 2004.
(4) Not available.

Average of inward and outward foreign direct investment (FDI) flows divided by gross domestic product (GDP); the index measures the intensity of investment integration within the international economy; direct investment refers to the international investment made by a resident entity (direct investor) to acquire a lasting interest in an entity operating in an economy other than that of the investor (direct investment enterprise); direct investment involves both the initial transactions between the two entities and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated; data are expressed as percentage of GDP to remove the effect of differences in the size of the economies of the reporting countries.

Table 6.9: Foreign direct investment (1)

TEC00046 TEC00047

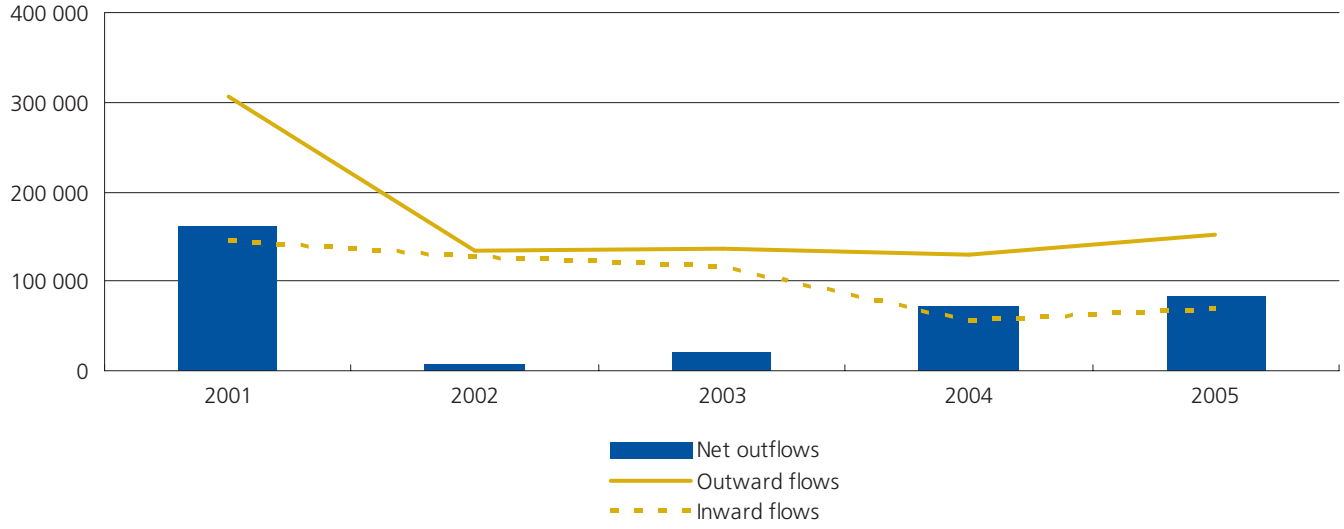
	FDI flows, 2005 (EUR million)			FDI flows, 2004 (% of GDP) (2)			FDI stocks, 2004 (% of GDP) (3)		
	Inward	Outward	Net outflows	Inward	Outward	Net outflows	Inward	Outward	Net FDI assets
EU-25	69 789	152 541	82 752	0.5	1.2	0.7	15.3	19.8	-4.5
EU-15	81 115	171 943	90 828	0.6	1.4	0.8	15.8	22.1	-6.3
Euro area	:	:	:	1.1	1.7	0.6	28.8	29.2	-0.4
Belgium	22 449	21 379	-1 070	11.8	9.4	-2.4	:	:	:
Czech Republic	8 805	693	-8 112	4.6	0.9	-3.7	47.7	3.4	44.3
Denmark	4 026	6 338	2 312	-1.2	-0.3	0.9	37.1	38.3	-1.2
Germany	26 265	36 695	10 430	-0.5	0.1	0.6	24.5	27.2	-2.7
Estonia	2 232	488	-1 744	9.3	2.4	-6.9	81.6	11.5	70.1
Greece	-201	779	980	0.6	0.3	-0.3	11.4	6.3	5.1
Spain	18 485	31 177	12 692	2.4	5.8	3.4	33.4	32.0	1.4
France	40 038	79 853	39 815	1.2	2.3	1.1	25.9	36.1	-10.2
Ireland	-25 034	10 910	35 944	-5.8	9.8	15.6	115.6	51.9	63.7
Italy	15 718	33 448	17 730	1.0	1.1	0.1	11.7	14.8	-3.1
Cyprus	941	348	-593	7.0	4.0	-3.0	50.3	-17.2	67.5
Latvia	507	109	-398	5.1	0.8	-4.3	30.4	1.5	28.9
Lithuania	807	267	-540	3.4	1.2	-2.2	25.9	1.7	24.2
Luxembourg (4)	56 801	64 895	8 094	229.8	243.1	13.3	128.7	53.6	75.1
Hungary	5 218	1 028	-4 190	4.6	1.1	-3.5	55.7	5.3	50.4
Malta	562	-21	-583	9.6	1.5	-8.1	68.6	17.2	51.4
Netherlands (5)	35 604	97 162	61 558	0.1	2.8	2.7	73.4	90.8	-17.4
Austria	7 171	7 472	301	1.3	2.5	1.2	18.8	19.5	-0.7
Poland	6 573	1 236	-5 337	5.1	0.3	-4.8	30.7	1.2	29.5
Portugal	2 504	922	-1 582	1.3	4.5	3.2	33.5	22.9	10.6
Slovenia	422	454	32	2.2	1.3	-0.9	21.3	8.5	12.8
Slovakia	1 685	126	-1 559	2.0	0.0	-2.0	34.2	1.2	33.0
Finland	3 666	2 177	-1 489	1.9	-0.6	-2.5	26.8	39.5	-12.7
Sweden	10 995	21 054	10 059	3.6	6.0	2.4	:	:	:
United Kingdom	132 335	81 316	-51 019	2.6	4.4	1.8	30.3	54.3	-24.0

(1) EU-25 and EU-15, excluding intra-EU and intra-euro area flows respectively; the partner for the Member States is the rest of the world.
(2) Denmark, 2003.
(3) EU-25, EU-15, Denmark, Germany, Greece, Luxembourg and Austria, 2003.
(4) Including Special Purpose Entities for FDI flows.
(5) Excluding Special Purpose Entities for FDI flows.

Foreign direct investment (FDI) is the category of international investment made by a resident entity (direct investor) to acquire a lasting interest in an entity operating in an economy other than that of the investor (direct investment enterprise); the lasting interest is deemed to exist if the investor acquires at least 10 % of the equity capital of the enterprise; FDI flows are the new investment made during the period; FDI stocks are the value of FDI assets (for outward FDI stocks) and of FDI liabilities (for inward FDI stocks) at the end of the reference period; data are expressed as a percentage of GDP to remove the effect of differences in the size of the economies of the reporting countries.

Figure 6.28: Foreign direct investment flows, EU-25 (1)

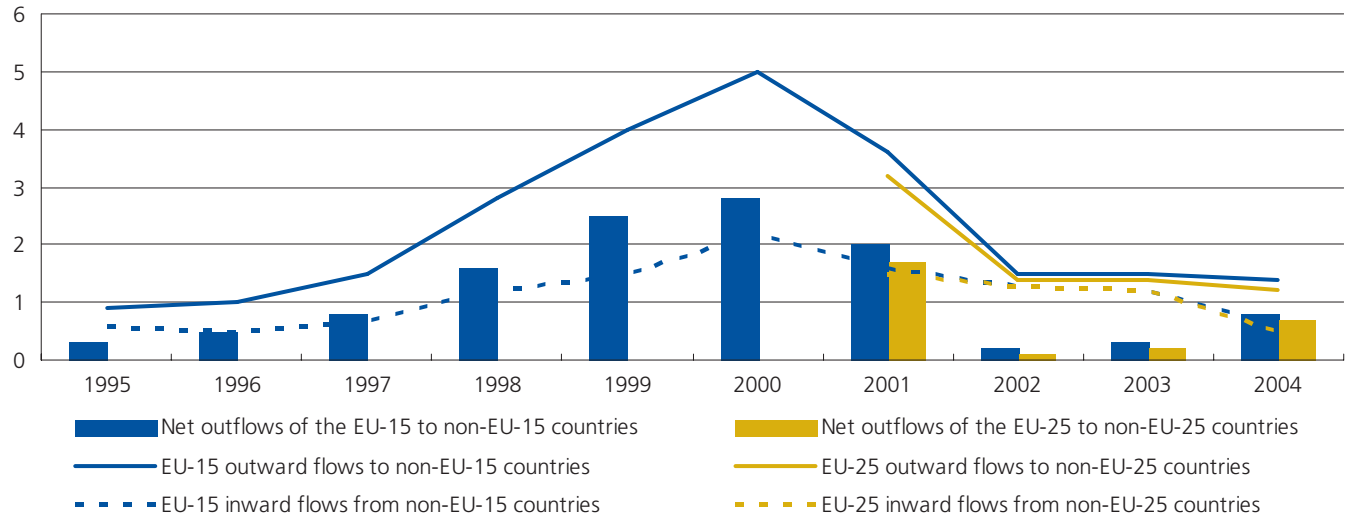
(EUR million)



(1) Extra-EU flows.

Figure 6.29: Foreign direct investment flows (1)

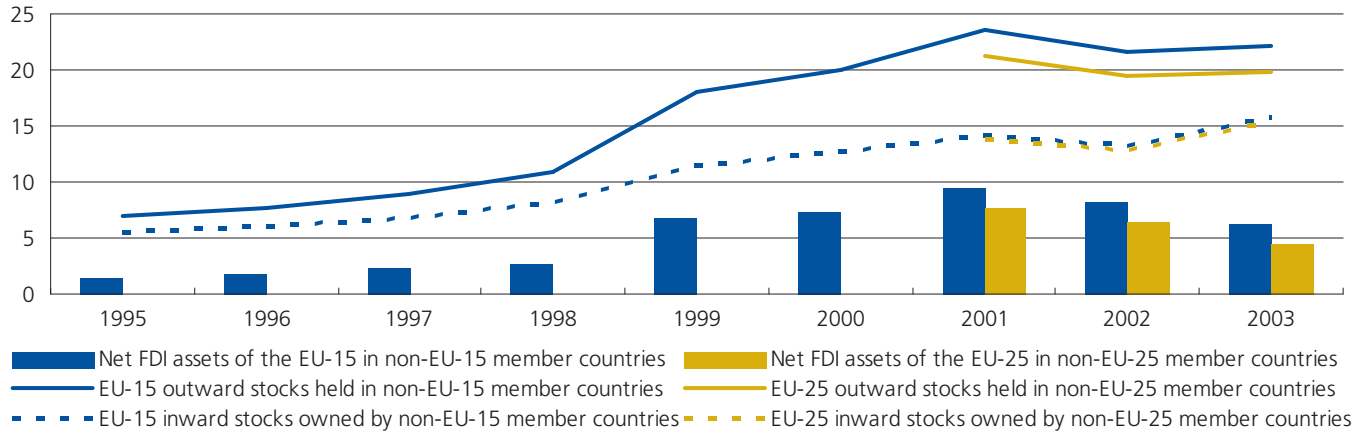
(% of GDP)



(1) EU-25 not available for 1995–2000.

Figure 6.30: Foreign direct investment stocks (1)

(% of GDP)



(1) EU-25 not available for 1995–2000.

Foreign direct investment (FDI) is the category of international investment made by a resident entity (direct investor) to acquire a lasting interest in an entity operating in an economy other than that of the investor (direct investment enterprise); the lasting interest is deemed to exist if the investor acquires at least 10 % of the equity capital of the enterprise; FDI stocks are the value of FDI assets (for outward FDI stocks) and of FDI liabilities (for inward FDI stocks) at the end of the reference period.

Figure 6.31: Stocks of foreign direct investment abroad, EU-25, 2003

(% of extra EU-25 FDI) TEC00094

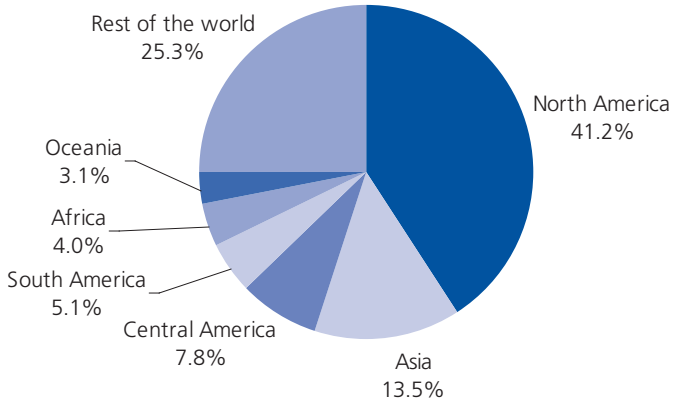
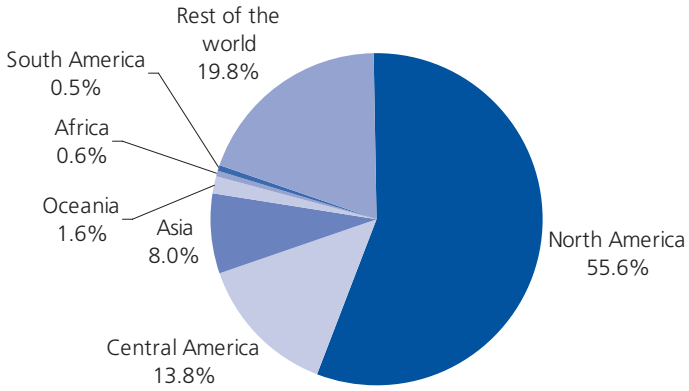


Figure 6.32: Stocks of foreign direct investment in the EU-25, 2003 (1)

(% of extra EU-25 FDI) TEC00095



(1) Figures do not sum to 100 % due to rounding.

Table 6.10: Foreign direct investment stocks for selected partner countries, 2004

(EUR 1 000 million)

	Outward				Inward				Net assets abroad			
	EU-25	EU-15	JP	US	EU-25	EU-15	JP	US	EU-25	EU-15	JP	US
Euro area	:	:	55.9	486.6	:	:	59.8	550.2	:	:	-4.0	-63.5
Belgium	:	:	:	:	:	:	:	:	:	:	:	:
Czech Republic	2.1	1.0	0.0	0.0	36.4	35.3	0.6	2.3	-34.3	-34.3	-0.6	-2.2
Denmark (1)	40.0	36.5	0.4	8.6	39.0	38.8	0.6	16.4	1.0	-2.3	-0.2	-7.8
Germany (1)	358.7	329.1	7.4	139.5	387.5	386.8	10.3	81.0	-28.8	-57.7	-2.9	58.5
Estonia	1.0	0.1	0.0	0.0	6.3	6.2	0.0	0.4	-5.3	-6.1	0.0	-0.4
Greece (1)	5.5	2.4	0.0	0.9	14.6	14.2	0.0	1.1	-9.1	-11.9	0.0	-0.2
Spain	139.5	134.6	1.8	20.9	201.1	200.7	2.0	49.3	-61.6	-66.1	-0.2	-28.3
France	374.1	360.8	10.5	112.0	318.9	318.1	8.0	58.7	55.3	42.7	2.5	53.4
Ireland	46.6	43.5	:	11.6	122.8	122.5	0.9	25.8	-76.1	-79.0	:	-14.2
Italy	154.4	150.9	1.0	15.3	116.9	116.5	2.7	16.9	37.5	34.5	-1.7	-1.6
Cyprus	-1.5	-1.3	0.0	0.0	3.2	2.8	0.0	0.1	-4.7	-4.1	0.0	-0.1
Latvia	0.1	0.0	0.0	0.0	2.2	1.9	0.0	0.2	-2.2	-1.9	0.0	-0.2
Lithuania	0.2	0.0	0.0	0.0	3.6	3.0	0.0	0.3	-3.4	-3.0	0.0	-0.3
Luxembourg (1) (2)	:	10.6	0.0	0.3	:	:	0.4	5.8	:	:	-0.4	-5.5
Hungary	2.6	0.5	0.0	0.0	31.1	30.9	0.6	1.7	-28.5	-30.4	-0.6	-1.7
Malta	:	:	:	:	:	:	:	:	:	:	:	:
Netherlands (2)	241.7	229.5	1.3	79.6	213.9	213.4	13.4	67.7	27.8	16.1	-12.0	11.9
Austria (1)	27.9	15.3	0.0	2.0	30.9	30.8	1.0	4.4	-3.0	-15.5	-1.0	-2.4
Poland	1.3	1.1	0.0	0.1	53.5	52.2	0.4	4.6	-52.2	-51.1	-0.4	-4.5
Portugal (1)	17.4	16.9	0.0	0.4	:	:	:	:	:	:	:	:
Slovenia	0.7	0.5	0.0	0.1	4.1	3.9	0.0	0.1	-3.4	-3.4	0.0	0.0
Slovakia	0.3	0.0	0.0	0.0	10.4	8.7	0.0	0.6	-10.1	-8.8	0.0	-0.6
Finland	43.0	40.7	0.0	4.3	36.3	36.2	0.2	1.1	6.7	4.5	-0.1	3.2
Sweden	:	:	:	:	:	:	:	:	:	:	:	:
United Kingdom	494.0	488.6	8.3	212.6	236.3	236.2	17.4	172.2	257.7	252.4	-9.1	40.4

(1) 2003.
(2) Excluding Special Purpose Entities.

PRICES AND WAGES - WAGES AND LABOUR COSTS

Information on labour costs is of major importance for analysts and decision makers in relation to economic policy, employers and trade unions and other users who are interested in the level and structure of labour costs. The term '*labour costs*' refers to the expenditure necessarily incurred by employers in order to employ personnel, and covers wages and salaries, employers' social contributions, vocational training costs, other expenditure and taxes minus subsidies (labour cost or employment related). Gross earnings are the most important part of labour costs. They cover remuneration in cash paid directly by the employer, before tax deductions and social security contributions payable by wage earners and retained by the employer. Net earnings are derived from gross earnings and represent the part of remuneration that employees can actually spend. Compared with gross earnings, net earnings do not include social security contributions and taxes, but do include family allowances.

There are quite large differences in the structure of labour costs within industry and services (NACE Sections C to K) for the Member States with wages and salaries accounting for between 68.0 % of total labour costs in France and 92.2 % in Malta. When social security and other non-salary costs account for a relatively high share of labour costs then this is likely to deter employers from hiring until they are absolutely sure that they require new labour.

Average hourly labour costs in industry and services stood at about EUR 21.00 per hour in 2004, ranging from a high of nearly EUR 31.00 in Denmark to EUR 2.37 in Latvia (2003).

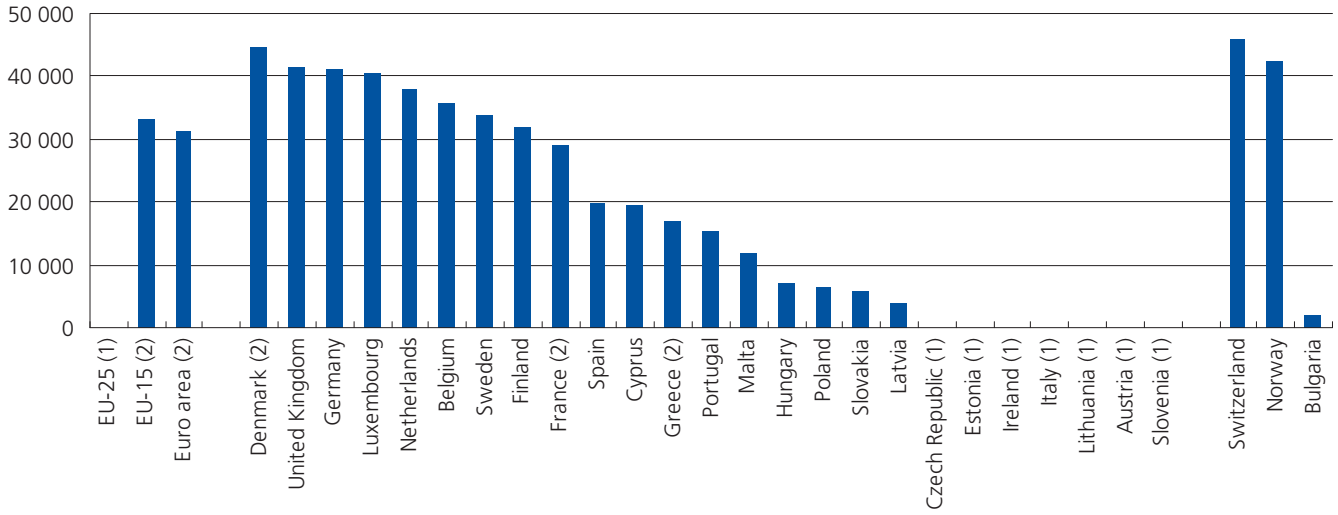
The gender pay gap, as defined by the difference between average gross hourly earnings of male and female employees, as a percentage of male earnings, stood at 15 % in the EU-25 in 2004. This rate has been slowly reduced for the EU-25 from a high of 17 % in 1998.

Statutory minimum wages also vary considerably between Member States, and reflect to some degree the price levels in each economy, with the highest minimum wage being recorded in Luxembourg (EUR 1 467 per month) and the lowest in the Baltic States. There was generally a relatively low share of persons in work receiving the minimum wage — however, the proportion rose to double digits for France, Latvia, Lithuania and Luxembourg (the latest year available varies between 2004 and 2005).

In connection with low pay, a set of indicators has been developed to describe the relative tax burden for an employed person with low earnings (the '*tax wedge on labour cost*') and '*trap indicators*' measuring what percentage of gross earnings is '*taxed away*' when moving from unemployment to employment (the '*unemployment trap*'), or when increasing the work effort (the '*low-wage trap*'). The tax rate on low-wage earners for the EU-25 was 75.5 % in 2005.

Figure 6.33: Earnings in industry and services (average gross annual earnings of full-time employees in enterprises with 10 or more employees), 2004

(EUR)



(1) Not available.
(2) 2003.
Gross earnings are remuneration (wages and salaries) in cash paid directly to the employee, before any deductions for income tax and social security contributions paid by the employee; data is presented for full-time employees in industry and services (NACE Sections C to K).

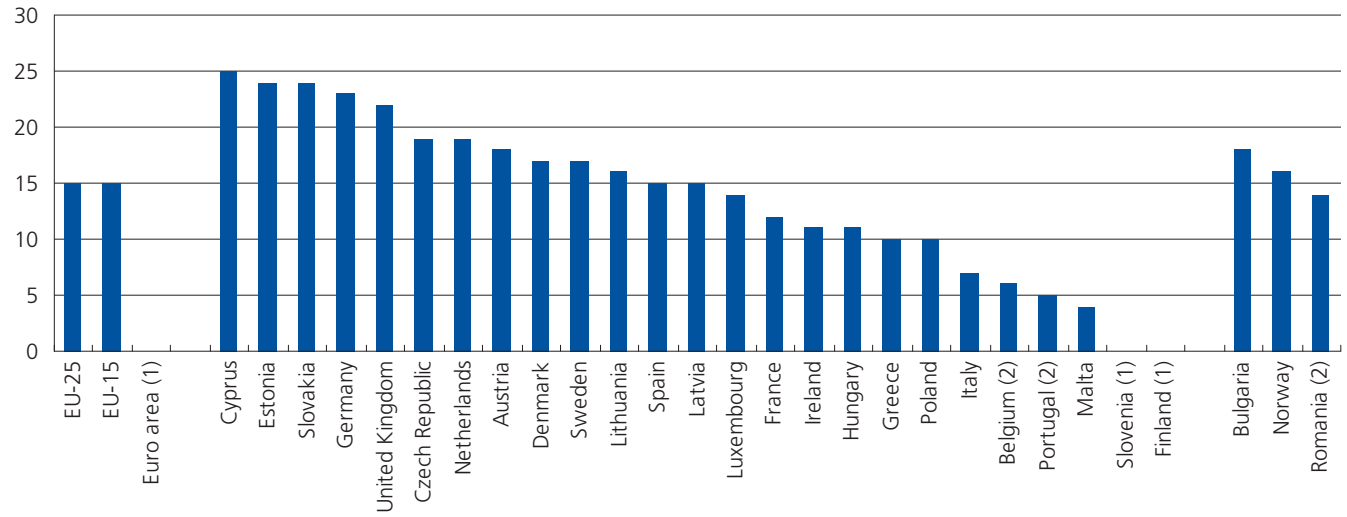
Table 6.11: Earnings in industry and services (average gross annual earnings of full-time employees in enterprises with 10 or more employees)

(EUR)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
EU-25	:	:	:	:	:	:	28 619	:	:	:
EU-15	:	:	:	28 609	29 845	31 011	31 917	32 852	33 089	:
Euro area	:	:	27 797	28 128	28 829	28 810	29 635	30 448	31 183	:
Belgium	28 945	29 131	28 901	29 616	30 701	31 644	33 109	34 330	34 643	35 704
Czech Republic	:	:	:	:	:	:	:	:	:	:
Denmark	:	36 376	36 235	37 209	39 515	40 962	41 661	43 577	44 692	:
Germany	34 584	35 254	35 093	35 432	36 228	37 319	38 204	39 153	40 056	40 954
Estonia	:	:	:	:	:	:	:	:	:	:
Greece	11 291	11 917	12 605	13 210	13 926	14 721	15 431	16 278	16 739	:
Spain	:	16 043	16 192	16 528	17 038	17 432	17 768	18 462	19 220	19 828
France	24 693	25 089	25 545	25 777	26 339	26 712	27 418	28 185	28 847	:
Ireland	:	:	:	:	:	:	:	:	:	:
Italy	:	:	:	:	:	:	:	:	:	:
Cyprus	:	12 980	14 021	14 709	15 161	16 335	16 948	17 740	18 406	19 290
Latvia	:	:	:	:	:	:	:	:	:	3 806
Lithuania	1 385	1 597	2 286	2 799	3 017	:	:	:	:	:
Luxembourg	:	:	32 600	33 337	34 462	35 875	37 745	38 442	39 587	40 575
Hungary	3 062	3 158	3 543	3 686	3 770	4 173	4 898	5 846	6 196	7 100
Malta	8 747	9 287	10 114	10 713	11 581	12 553	13 320	13 460	13 603	11 926
Netherlands	27 966	28 140	28 061	29 189	30 426	31 901	33 900	35 200	36 600	37 900
Austria	:	:	:	:	:	:	:	:	:	:
Poland	:	3 076	:	4 156	5 310	:	7 510	:	:	6 230
Portugal	:	:	:	:	:	12 620	13 338	13 322	13 871	15 196
Slovenia	:	:	:	:	:	:	:	:	:	:
Slovakia	:	:	3 179	3 292	3 125	3 583	3 837	4 582	4 945	5 706
Finland	23 584	23 883	24 005	24 944	25 739	27 398	28 555	29 916	30 978	31 988
Sweden	:	:	:	:	:	31 621	30 467	31 164	32 177	33 620
United Kingdom	:	:	:	29 370	32 269	37 677	39 233	40 553	38 793	41 253
Bulgaria	:	:	896	1 216	1 330	1 436	1 518	1 588	1 678	1 784
Iceland	:	:	:	:	32 311	37 639	34 101	36 764	:	:
Norway	:	:	:	31 456	33 741	36 202	38 604	43 736	42 882	42 224
Switzerland	:	42 194	:	40 727	:	43 683	:	48 498	:	45 760

Figure 6.34: Gender pay gap, 2004

(% difference between average gross hourly earnings of male and female employees, as % of male gross earnings, unadjusted form)



(1) Not available.
(2) Break in series.
Gender pay gap is given as the difference between average gross hourly earnings of male paid employees and of female paid employees as a percentage of average gross hourly earnings of male paid employees; the population consists of all paid employees aged 16 to 64 that are at work 15+ hours per week.

Figure 6.35: Gender pay gap, EU-25

(% difference between average gross hourly earnings of male and female employees, as % of male gross earnings, unadjusted form)

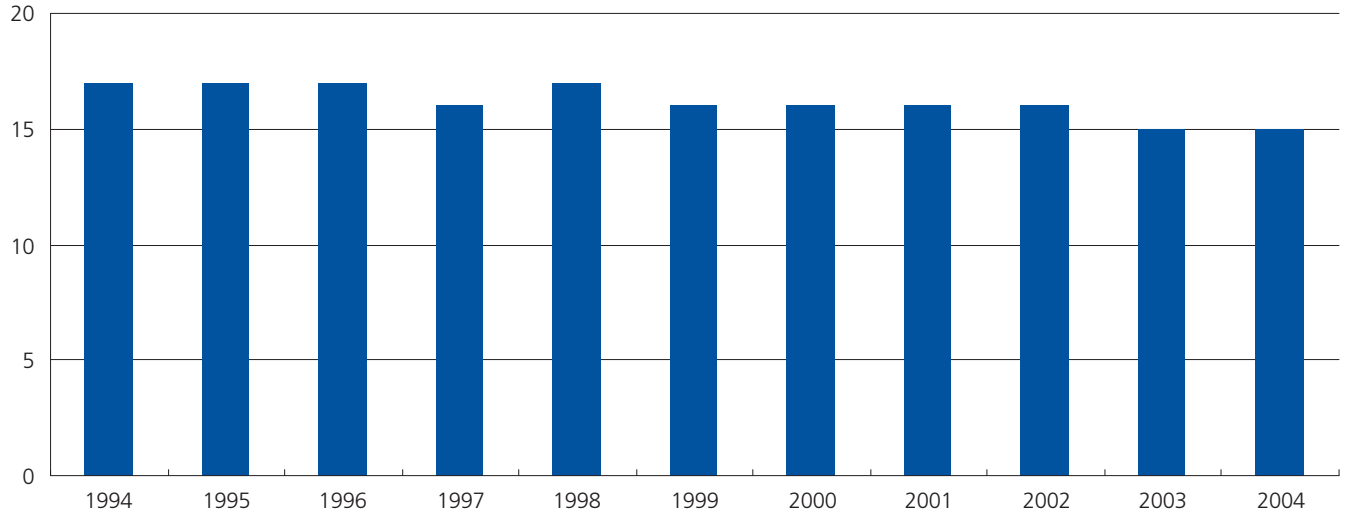


Table 6.12: Minimum wage and employees on the minimum wage

TPS00155 TPS00156

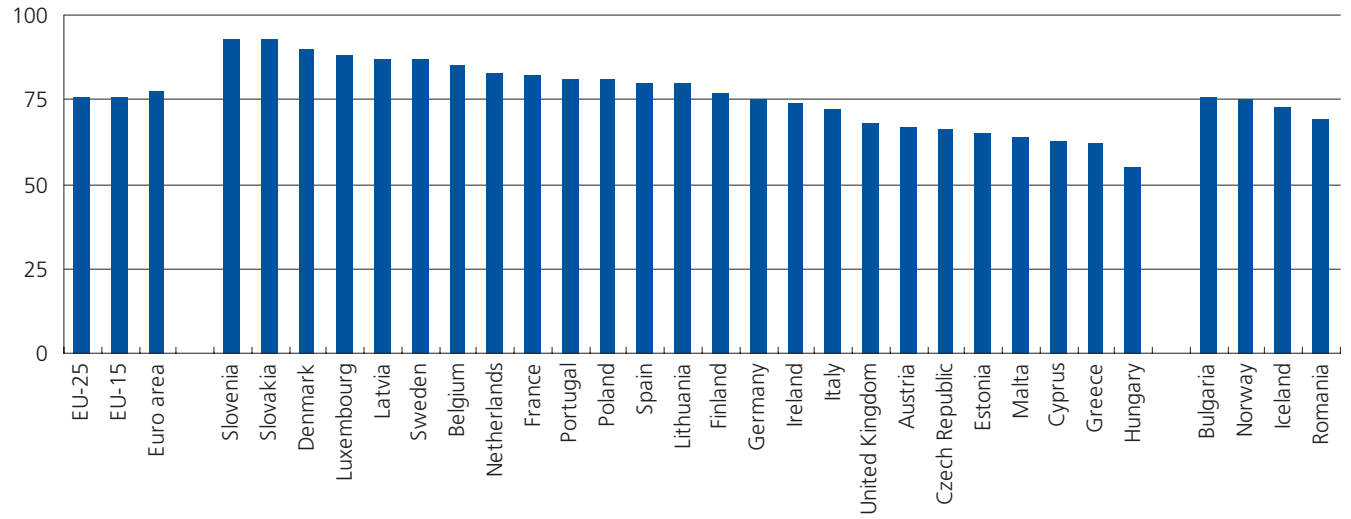
	Minimum wage (EUR/month) (1)							Proportion of full-time employees with earnings on the minimum wage (%)						
	1999	2000	2001	2002	2003	2004	2005	1999	2000	2001	2002	2003	2004	2005
Belgium	1 085	1 107	1 129	1 163	1 175	1 186	1 210	:	:	:	:	:	:	:
Czech Republic	:	:	:	:	198	210	237	:	1.6	1.7	2.0	2.0	2.0	:
Denmark	:	:	:	:	:	:	:	:	:	:	:	:	:	:
Germany	:	:	:	:	:	:	:	:	:	:	:	:	:	:
Estonia	:	:	:	118	138	159	172	:	6.5	7.4	6.9	6.4	5.7	:
Greece	505	530	548	567	605	605	668	:	:	:	:	:	:	:
Spain	416	425	433	516	526	555	599	2.6	1.4	0.9	0.8	0.9	0.8	:
France	1 043	1 066	1 105	1 140	1 164	1 185	1 208	12.8	13.6	13.9	14.0	13.4	15.6	:
Ireland	:	945	977	1 009	1 073	1 128	1 238	13.7	:	2.2	2.1	3.1	3.1	:
Italy	:	:	:	:	:	:	:	:	:	:	:	:	:	:
Cyprus	:	:	:	:	:	:	:	:	:	:	:	:	:	:
Latvia	:	:	:	105	112	122	115	:	13.9	16.7	15.4	13.6	:	12.0
Lithuania	:	:	123	123	125	135	152	:	8.2	7.8	8.8	10.2	12.1	:
Luxembourg	1 177	1 206	1 275	1 306	1 369	1 403	1 467	16.8	16.2	15.5	15.1	16.9	18.0	11.0
Hungary	:	:	:	204	202	199	231	:	3.9	8.4	11.4	8.1	8.0	8.0
Malta	:	:	:	545	536	546	560	:	3.4	4.7	3.5	1.1	1.5	:
Netherlands	1 064	1 092	1 167	1 220	1 257	1 265	1 265	2.2	2.1	2.2	2.3	2.2	2.1	:
Austria	:	:	:	:	:	:	:	:	:	:	:	:	:	:
Poland	:	:	210	205	191	179	206	:	:	2.9	4.0	:	4.5	:
Portugal	357	371	390	406	416	426	437	7.5	6.2	4.0	4.0	5.7	5.5	:
Slovenia	:	:	:	:	448	469	491	:	2.0	2.6	2.6	2.7	2.0	:
Slovakia	:	:	:	120	134	150	168	:	:	0.2	0.1	0.4	1.9	:
Finland	:	:	:	:	:	:	:	:	:	:	:	:	:	:
Sweden	:	:	:	:	:	:	:	:	:	:	:	:	:	:
United Kingdom	901	982	1 134	1 097	1 059	1 115	1 221	2.5	1.4	1.0	1.8	1.2	1.4	1.8
Bulgaria	33	38	44	51	56	61	77	:	:	:	5.1	:	:	:
Romania	:	:	:	58	70	69	79	:	6.5	6.1	8.9	12.2	12.0	:
Turkey	:	:	:	:	187	243	256	:	:	:	:	:	:	:

(1) Data are provided for semesters; an average of the two values for each reference year was taken.

Refers to minimum wages set by national legislation and applicable to the majority of full-time salaried workers in each country; other minimum wages may exist for certain categories within the country, e.g. based on age, physical or mental capacities, or economic state of the business; the minimum wages given refer to a gross amount, i.e. before deduction of taxes and social security contributions, which vary from one country to another; in most countries the minimum wage is fixed at a monthly rate, but in a few cases it is set at an hourly, daily or weekly rate; in these cases, a conversion to a monthly rate has been made; where the minimum wage is paid more than 12 times a year (for example, in Spain and Greece it is paid 14 times a year), the figures are adjusted to take these additional payments into account.

Figure 6.36: Tax rate on low-wage earners: unemployment trap, 2005

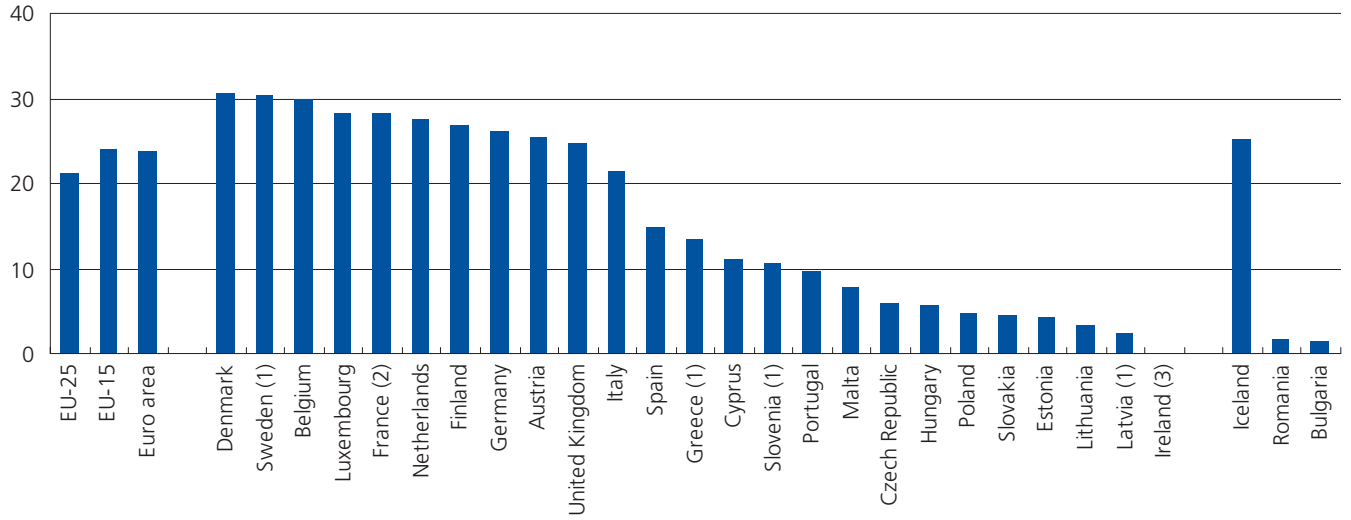
(%)



The unemployment trap measures the percentage of gross earnings which is taxed away through higher tax and social security contributions and the withdrawal of unemployment and other benefits when an unemployed person returns to employment; this structural indicator covers single persons without children earning, who, when in work, earn 67 % of the average wage (AW) of an employee.

Figure 6.37: Labour costs (average hourly labour costs in industry and services of full-time employees in enterprises with 10 or more employees), 2004

(EUR per hour)



(1) 2003.
(2) Unreliable.
(3) Not available.
Average hourly labour costs, defined as total labour costs divided by the corresponding number of hours worked (NACE Sections C to K).

Table 6.13: Labour costs (average hourly labour costs in industry and services of full-time employees in enterprises with 10 or more employees) (1)

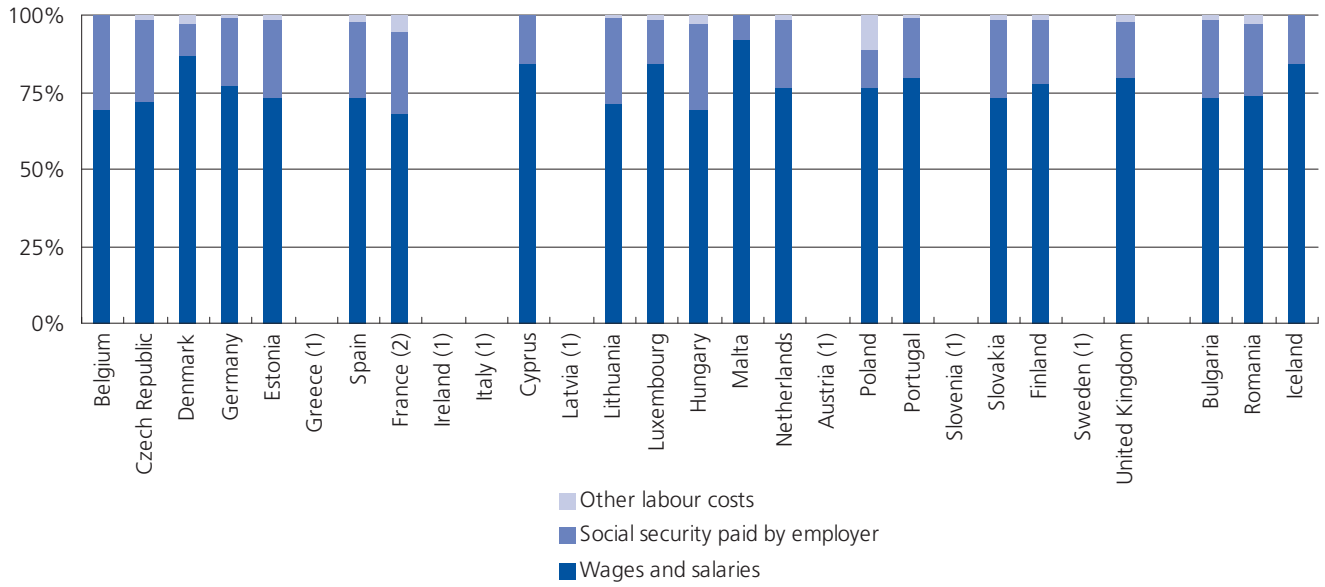
(EUR)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
EU-25	:	15.96	16.84	17.22	17.96	19.15	19.72	20.42	20.52	21.22
EU-15	:	18.51	19.55	19.93	20.68	21.89	22.41	23.15	23.32	24.02
Euro area	:	19.36	19.76	19.87	20.36	21.16	21.65	22.38	22.88	23.71
Belgium	:	:	:	:	:	26.61	27.89	29.17	29.58	29.96
Czech Republic	:	2.80	2.97	3.23	3.41	3.86	4.64	5.39	5.47	5.85
Denmark	:	:	23.40	24.63	25.92	26.53	28.54	29.06	30.30	30.70
Germany	:	22.39	22.76	23.03	23.45	24.33	24.92	25.46	26.05	26.22
Estonia	:	1.85	2.13	2.42	2.60	2.85	3.22	3.67	4.01	4.24
Greece	8.75	9.26	9.77	9.77	10.60	10.98	11.62	12.46	13.37	:
Spain	:	14.43	14.19	14.13	14.22	14.22	13.07	13.63	14.21	14.75
France (2)	:	22.30	22.80	23.30	24.00	25.00	26.00	27.00	27.50	28.20
Ireland	:	:	:	:	:	:	:	:	:	:
Italy	:	17.59	18.92	18.30	18.68	18.99	19.27	19.99	20.64	21.39
Cyprus	:	7.25	7.83	8.19	8.41	9.10	9.43	9.91	10.68	11.10
Latvia	:	:	1.59	1.71	1.85	2.22	2.29	2.39	2.37	:
Lithuania	:	1.32	1.68	1.95	2.16	2.63	2.76	2.90	3.10	3.22
Luxembourg	:	21.38	21.26	21.56	22.52	24.48	25.39	26.21	27.02	28.33
Hungary	:	2.86	3.15	3.02	3.14	3.63	4.04	4.91	5.10	5.54
Malta	:	:	:	:	:	:	:	7.59	7.77	7.77
Netherlands	:	20.39	19.71	20.79	21.78	22.99	24.44	25.64	26.77	27.44
Austria	:	21.96	21.90	22.38	23.21	22.87	23.88	24.93	:	25.30
Poland	:	2.95	3.38	3.73	4.05	4.48	5.30	5.27	4.70	4.74
Portugal	:	7.18	7.40	7.60	7.99	8.13	8.54	8.98	9.21	9.56
Slovenia	7.13	7.35	7.90	8.51	8.94	8.98	9.58	9.70	10.54	:
Slovakia	:	2.16	2.61	2.91	2.76	3.07	3.26	3.59	4.02	4.41
Finland	:	20.25	20.30	20.40	21.37	22.10	23.59	24.73	25.73	26.83
Sweden	:	23.12	23.79	23.99	25.43	28.56	27.41	28.73	30.43	:
United Kingdom	:	14.22	17.69	19.16	20.84	23.71	24.51	25.24	23.56	24.71
Bulgaria	:	:	:	1.11	1.22	1.23	1.29	1.32	1.39	1.45
Romania	:	:	:	:	:	1.41	1.55	1.67	1.60	1.76
Iceland	:	:	:	:	:	:	:	21.95	23.76	25.22

(1) Breaks in series: the Netherlands, 1997; Lithuania, 2000; Spain, 2001; Malta, 2003.
(2) Unreliable for 2002–04.

Figure 6.38: Breakdown of labour costs for the business economy, 2004

(% share of total labour costs) TPS00113 TPS00114 TPS00115

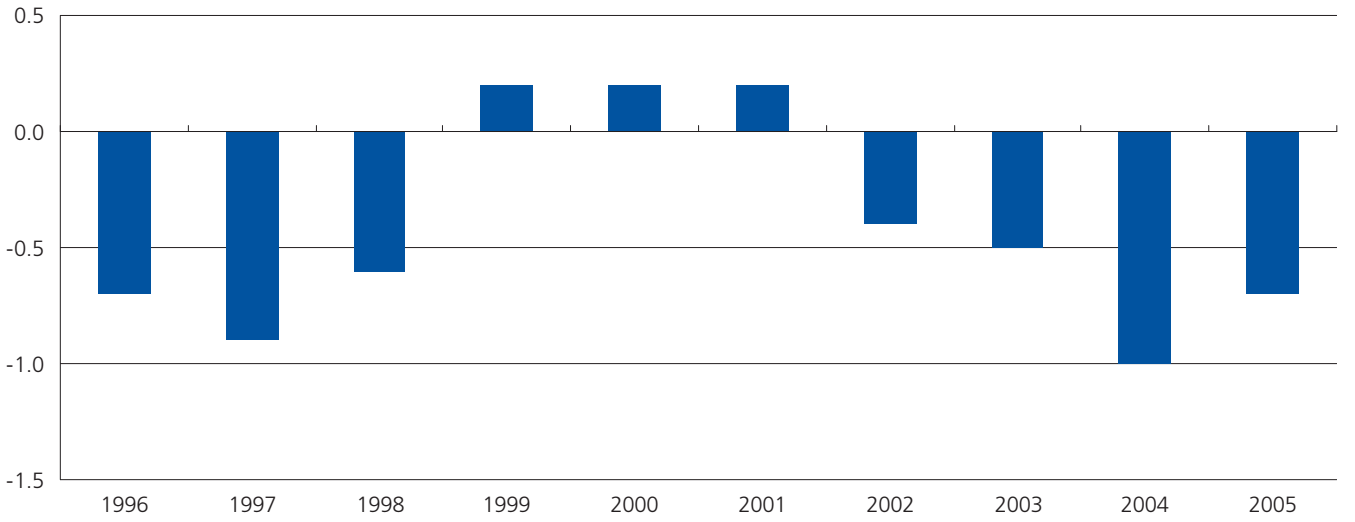


(1) Not available.
(2) Unreliable.

Labour costs are the total expenditure borne by employers for the purpose of employing staff (NACE Sections C to K); they include employee compensation, with wages and salaries in cash and in kind, employers' social security contributions; vocational training costs, other expenditure such as recruitment costs and spending on working clothes and employment taxes regarded as labour costs minus any subsidies received.

Figure 6.39: Labour cost growth (real unit labour cost growth: compensation per employee in current prices divided by GDP in current prices per total employment), EU-25

(% change compared with previous year)



This derived indicator compares remuneration (compensation per employee) and productivity (gross domestic product (GDP) per person employed) to show how the remuneration of employees is related to the productivity of their labour; it is the relationship between how much each worker is paid and the value he/she produces by their work; its growth rate is intended to give an impression of the dynamics of the participation of the production factor labour in output value created; please note that the variables used in the numerator (compensation, employees) refer to employed labour only, while those in the denominator (GDP, employment) refer to all labour, including the self-employed.

CONSUMER PRICES

As noted in the section on exchange rates and interest rates (see page 166), harmonised indices of consumer prices (HICP) are used for monitoring inflation. Indeed, the European Central Bank (ECB) uses this index as a prime indicator for monetary policy management within the euro area. The ECB has defined price stability as a year-on-year increase in the HICP for the euro area of close to but below 2 % over the medium term.

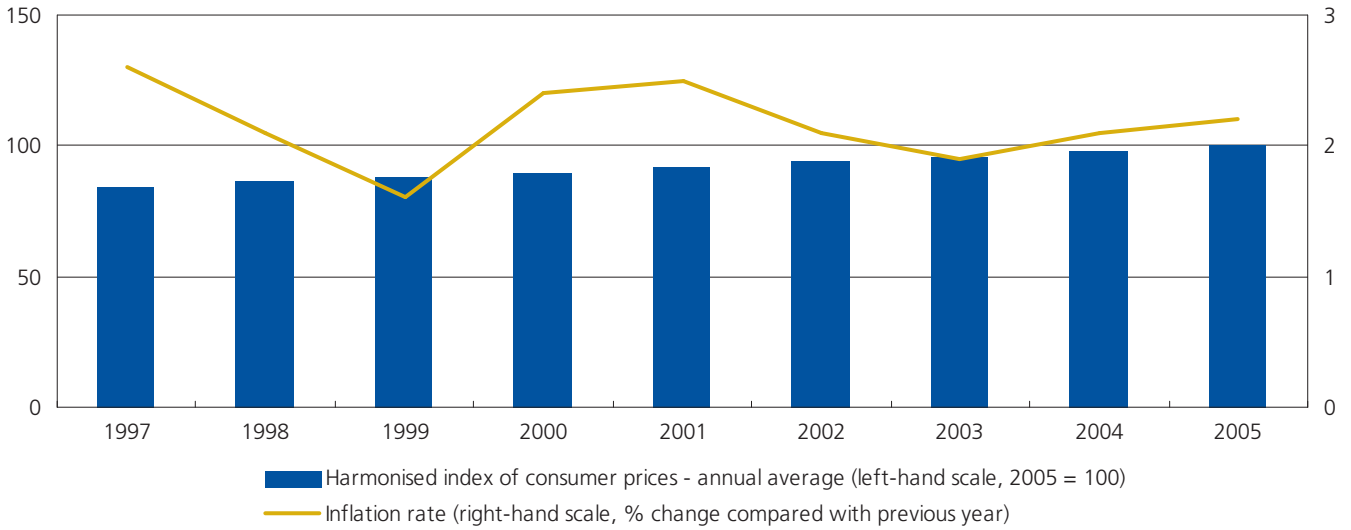
Eurostat publishes HICPs monthly, some 15 to 17 days after the end of the reporting month. The HICP series start in the mid-1990s and are presented with a common reference year: 2005 = 100. HICPs cover virtually all forms of household expenditure on goods and services, and are classified according to the international classification of individual consumption by purpose (Coicop), adapted to the needs of HICPs.

There are three key HICP aggregate indices: the monetary union index of consumer prices (MUICP) for the euro area; the European index of consumer prices (EICP) covering all Member States; and the European Economic Area index of consumer prices (EEAICP), which additionally covers Iceland and Norway.

HICP methodology allows country weights to change each year: for the MUICP, a Member State's weight is its share of household final monetary consumption expenditure (HFMCE) in the euro area total; for the EICP and the EEAICP, a Member State's weight is its share of HFMCE expressed in the EU and EEA totals. For the latter two indices, expenditure in national currencies is converted using purchasing power parities. The HICP is computed as an annual chain index.

Compared with historical trends, inflation rates in Europe have been kept largely under control in recent years. EU-25 inflation decreased during the 1990s, reaching 1.6 % by 1999, after which there was a temporary increase in the pace at which prices were rising, before inflation settled at just over 2 % during most of the period 2002 to 2005.

Figure 6.40: Consumer price index and inflation rate, EU-25



Please be aware that this indicator has been rescaled, i.e. data is expressed in relation to reference period 2005 = 100; thus, it is not comparable with previous releases based on reference period 1996 = 100; harmonised indices of consumer prices (HICPs) are designed for international comparisons of consumer price inflation; HICP is used for example by the European Central Bank for monitoring inflation in the economic and monetary Union and for the assessment of inflation convergence as required under Article 121 of the Treaty of Amsterdam.

Table 6.14: Inflation rate

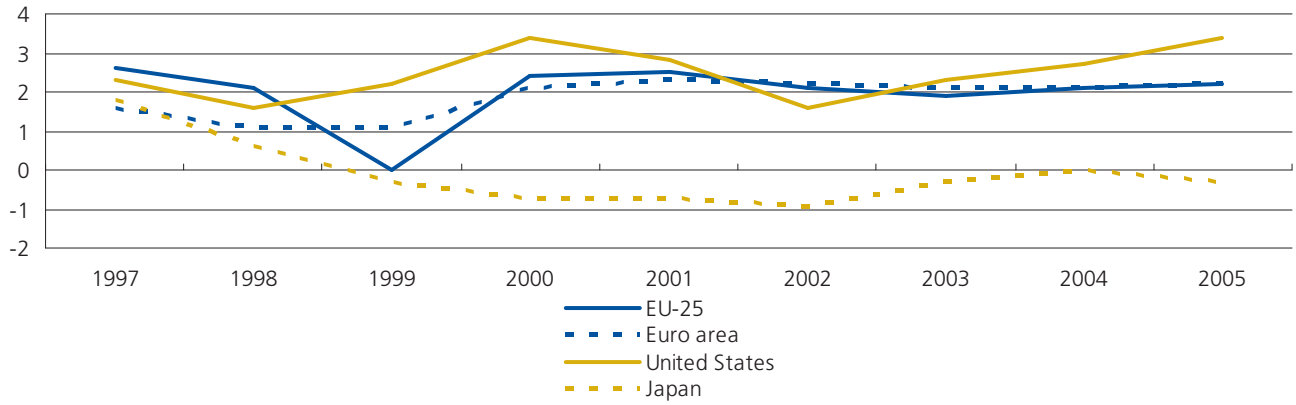
(% change compared with previous year, based on the harmonised index of consumer prices (HICP))

	1997	1998	1999	2000	2001	2002	2003	2004	2005
EU-25	2.6	2.1	1.6	2.4	2.5	2.1	1.9	2.1	2.2
EU-15	1.7	1.3	1.2	1.9	2.2	2.1	2.0	2.0	2.1
Euro area	1.6	1.1	1.1	2.1	2.3	2.2	2.1	2.1	2.2
Belgium	1.5	0.9	1.1	2.7	2.4	1.6	1.5	1.9	2.5
Czech Republic	8.0	9.7	1.8	3.9	4.5	1.4	-0.1	2.6	1.6
Denmark	2.0	1.3	2.1	2.7	2.3	2.4	2.0	0.9	1.7
Germany	1.5	0.6	0.6	1.4	1.9	1.4	1.0	1.8	1.9
Estonia	9.3	8.8	3.1	3.9	5.6	3.6	1.4	3.0	4.1
Greece	5.4	4.5	2.1	2.9	3.7	3.9	3.4	3.0	3.5
Spain	1.9	1.8	2.2	3.5	2.8	3.6	3.1	3.1	3.4
France	1.3	0.7	0.6	1.8	1.8	1.9	2.2	2.3	1.9
Ireland	1.3	2.1	2.5	5.3	4.0	4.7	4.0	2.3	2.2
Italy	1.9	2.0	1.7	2.6	2.3	2.6	2.8	2.3	2.2
Cyprus	3.3	2.3	1.1	4.9	2.0	2.8	4.0	1.9	2.0
Latvia	8.1	4.3	2.1	2.6	2.5	2.0	2.9	6.2	6.9
Lithuania	10.3	5.4	1.5	1.1	1.6	0.3	-1.1	1.2	2.7
Luxembourg	1.4	1.0	1.0	3.8	2.4	2.1	2.5	3.2	3.8
Hungary	18.5	14.2	10.0	10.0	9.1	5.2	4.7	6.8	3.5
Malta	3.9	3.7	2.3	3.0	2.5	2.6	1.9	2.7	2.5
Netherlands	1.9	1.8	2.0	2.3	5.1	3.9	2.2	1.4	1.5
Austria	1.2	0.8	0.5	2.0	2.3	1.7	1.3	2.0	2.1
Poland	15.0	11.8	7.2	10.1	5.3	1.9	0.7	3.6	2.2
Portugal	1.9	2.2	2.2	2.8	4.4	3.7	3.3	2.5	2.1
Slovenia	8.3	7.9	6.1	8.9	8.6	7.5	5.7	3.7	2.5
Slovakia	6.0	6.7	10.4	12.2	7.2	3.5	8.4	7.5	2.8
Finland	1.2	1.3	1.3	2.9	2.7	2.0	1.3	0.1	0.8
Sweden	1.8	1.0	0.5	1.3	2.7	1.9	2.3	1.0	0.8
United Kingdom	1.8	1.6	1.3	0.8	1.2	1.3	1.4	1.3	2.1
Bulgaria	:	18.7	2.6	10.3	7.4	5.8	2.3	6.1	5.0
Romania	154.8	59.1	45.8	45.7	34.5	22.5	15.3	11.9	9.1
Turkey	85.6	82.1	61.4	53.2	56.8	47.0	25.3	10.1	8.1
Iceland	1.8	1.3	2.1	4.4	6.6	5.3	1.4	2.3	1.4
Norway	2.6	2.0	2.1	3.0	2.7	0.8	2.0	0.6	1.5
Japan	1.8	0.6	-0.3	-0.7	-0.7	-0.9	-0.3	0.0	-0.3
United States	2.3	1.6	2.2	3.4	2.8	1.6	2.3	2.7	3.4

Please be aware that this indicator has been rescaled, i.e. data is expressed in relation to reference period 2005 = 100; thus, it is not comparable with previous releases based on reference period 1996 = 100; harmonised indices of consumer prices (HICPs) are designed for international comparisons of consumer price inflation; HICP is used for example by the European Central Bank for monitoring inflation in the economic and monetary union and for the assessment of inflation convergence as required under Article 121 of the Treaty of Amsterdam.

Figure 6.41: Inflation rate

(% change compared with previous year, based on the harmonised index of consumer prices (HICP))



PURCHASING POWER PARITIES

Purchasing power parities (PPPs) estimate price-level differences between countries. They make it possible to produce meaningful volume or price-level indicators required for cross-country comparisons. PPPs are aggregated price ratios calculated from detailed price comparisons of a large number of goods and services. PPPs are employed either:

- as currency converters to generate volume measures with which to compare levels of economic performance, total consumption, investment, overall productivity and selected private household expenditures; or
- as price measures with which to compare relative price levels, price convergence and competitiveness.

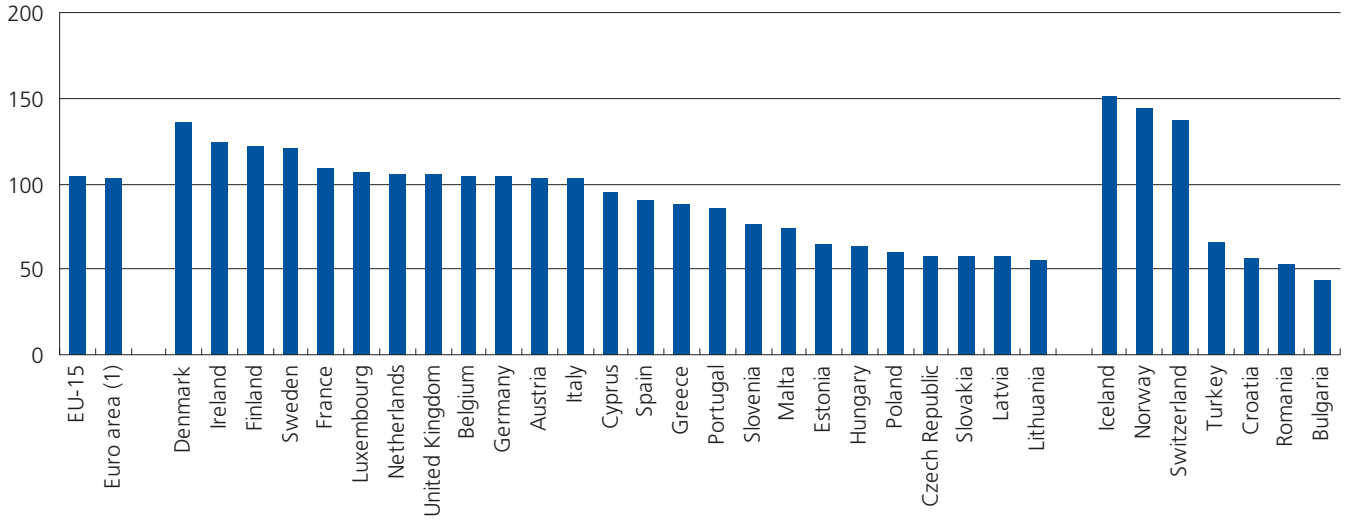
Eurostat produces three sets of data using PPPs:

- levels and indices of real final expenditure — these are measures of volume; they indicate the relative magnitudes of the product groups or aggregates being compared; at the level of GDP, they are used to compare the economic size of countries;
- levels and indices of real final expenditure per head — these are standardised measures of volume; they indicate the relative levels of the product groups or aggregates being compared after adjusting for differences in the size of populations between countries; at the level of GDP, they are often used to compare the economic well-being of populations;
- comparative price levels — these are the ratios of PPPs to exchange rates; these indices provide a comparison of the countries' price levels with respect to the EU average — if the price level index is higher than 100, the country concerned is relatively expensive compared with the EU average and vice versa; at the level of GDP, they provide a measure of the differences in the general price levels of countries; the coefficient of variation of comparative price levels is applied as an indicator of convergence among EU Member States.

The relative price levels of private household consumption vary significantly between the Member States. The average for the EU-25 being defined as 100, comparative price levels within the 25 Member States ranged in 2005 from 54.7 in Lithuania to 135.8 in Denmark. Price levels have converged in the EU-25 over the last decade — however, the pace at which price convergence was taking place slowed somewhat from 2000.

Figure 6.42: Comparative price levels, 2005

(final consumption by private households including indirect taxes, EU-25 = 100)

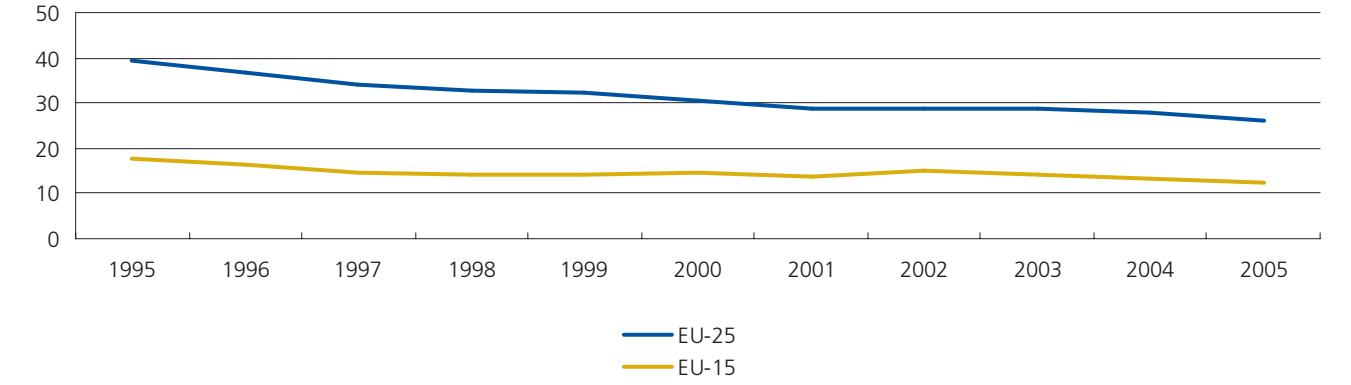


(1) 2004.

Comparative price levels are the ratio between purchasing power parities (PPPs) and market exchange rate for each country; PPPs are currency conversion rates that convert economic indicators expressed in national currencies to a common currency, called purchasing power standard (PPS), which equalises the purchasing power of different national currencies and thus allows meaningful comparison; the ratio is shown in relation to the EU average (EU-25 = 100); if the index of the comparative price levels shown for a country is higher/ lower than 100, the country concerned is relatively expensive/cheap as compared with the EU average.

Figure 6.43: Price convergence between EU Member States

(%, coefficient of variation of comparative price levels of final consumption by private households including indirect taxes)



Comparative price levels are the ratio between purchasing power parities (PPPs) and market exchange rate for each country; PPPs are currency conversion rates that convert economic indicators expressed in national currencies to a common currency, called purchasing power standard (PPS), which equalises the purchasing power of different national currencies and thus allows meaningful comparison; if the coefficient of variation of the comparative price levels for the EU decreases/increases over time, the national price levels in the Member States are converging/diverging.