1

Economy



Economic and social progress and constant improvements in living and working conditions are fundamental objectives for the EU. Over the last five decades policy makers have strived to improve economic integration (through removing barriers to the free movement of goods, services, money and people) with the goal of creating more jobs and economic growth. Much has been achieved: such as the customs union, then the single market and, more recently, economic and monetary union (EMU).

The chief objective of the Single European Act was to add new momentum to the process of the European construction so as to complete the internal market [22]. Since 1993 the European single market has strongly enhanced the possibilities for people, goods, services and money to move around Europe as freely as within a single country. These freedoms, foreseen from the outset of the EC in the Treaty establishing the European Economic Community of 1957 have been designed: to allow individuals the right to live, work, study or retire in another Member State; to increase competition leading to lower prices, a wider choice of things to buy and higher levels of protection for consumers; and to make it easier and cheaper for businesses to interact across borders.

(22) For more information: http://europa.eu/scadplus/treaties/singleact_en.htm.

EUROSTAT DATA IN THIS DOMAIN:
Economy and finance

- Main economic indicators
- National accounts (including GDP)
- Government statistics
- Financial accounts
- Exchange rates
- Interest rates
- Monetary and other financial statistics
- Prices
- Balance of payments – International transactions

It is now easier to travel across the EU's internal frontiers, in particular within the Schengen area, or to order a wide range of products that may be delivered from all over the EU. According to the European Commission, the single market has created 2.5 million new jobs since 1993 and generated more than EUR 800 000 million in extra wealth, through abolishing tariffs and quotas, as well as technical and administrative obstacles to free trade (23). The creation of the single market increased incentives to liberalise previously protected monopoly markets for utilities such as telecommunications, electricity, gas and water. As a result, many households and industries across Europe are increasingly able to choose who supplies them with related services. Nevertheless, there remain areas, for example in relation to financial services and transportation, where separate national markets still exist.

(23) For more information: http://europa.eu/pol/overview_en.htm.

The Council and Parliament of the EU adopted in 2005 the 'Integrated Guidelines Package' (24) which is a roadmap for spurring growth and creating jobs in a socially cohesive and environmentally responsible EU for the period 2005 to 2008. This package represents a comprehensive strategy of macro-economic, microeconomic and employment policies. Under the package, Member States draw up national reform programmes, using the tax and social welfare policy mix they think best suits national circumstances.

(24) For more information: http://eur-lex.europa.eu/LexUriServ/site/en/oj/2005/l_205/l_20520050806en00210027.pdf.

1.1 NATIONAL ACCOUNTS – ECONOMIC OUTPUT

INTRODUCTION

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.

GDP, and in particular GDP per capita, is one of the main indicators used for economic analysis, as well as spatial and/or temporal comparisons.

DEFINITIONS AND DATA AVAILABILITY

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.

These three different approaches are covered in the opening three sections of this chapter.

Data within the national accounts domain encompasses information on GDP and its components, employment, final consumption aggregates, income, and savings. Many of these annual variables are also calculated on quarterly basis. Breakdowns exist for certain variables by economic activity (industries, as defined by NACE), investment products, final consumption purpose (as defined by COICOP) and institutional sectors.

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. 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.

An analysis of the economy of different countries can be facilitated by studying GDP per capita, so removing the influence of the absolute size of the population. GDP per capita is a broad economic indicator of living standards, and a basic measure of the competitiveness of an economy. The volume index of GDP per capita in purchasing power standards (PPS) is expressed in relation to the EU average set to equal 100. If the index of a country is higher/lower than 100, this country's level of GDP per head is above/below the EU-27 average. Such comparisons of the wealth and competitiveness of countries should ideally be made using a PPS based series. To do this, measures of GDP in national currencies are converted into a common currency using purchasing power parities (PPPs) that reflect the purchasing power of each currency, rather than using market exchange rates. GDP per capita in purchasing power standards (the common currency), therefore eliminates

differences in price levels between countries and also allows a comparison between economies of different absolute sizes. Note that the index, calculated from PPS figures is intended for cross-country comparisons rather than for temporal comparisons.

The calculation of the annual growth rate of GDP at constant prices is intended to allow comparisons of the dynamics of economic development both over time and between economies of different sizes, irrespective of price levels.

A further set of national accounts data is used within the context of competitiveness analyses, namely indicators relating to the productivity of the workforce, such as labour productivity measures. GDP in PPS per person employed is intended to give an overall impression of the productivity of national economies. It should be kept in mind, though, that this measure depends on the structure of total employment and may, for instance, be lowered by a shift from full-time to part-time work. GDP in PPS per hour worked therefore gives a clearer picture of productivity, through the use of a more reliable measure of labour input.

The breakdown of the gross value added generated by particular industries is presented in terms of six NACE Rev. 1 headings, covering: agriculture, hunting and fishing; industry; construction; trade, transport and communication services; business activities and financial services, and; other services.

MAIN FINDINGS

EU-27 GDP was EUR 11 583 403 million in 2006, with the euro area accounting for 72.8 % of the total. The sum of the four largest EU economies (Germany, the United Kingdom, France and Italy) accounted for almost two thirds (64.7 %) of the EU-27's GDP in 2006. Cross-country comparisons should be made with caution and it is necessary to consider the effect of exchange rate fluctuations when analysing data. For example, the apparent fluctuation of GDP in the United States is, to a large degree, a reflection of a strong dollar between 2001 and 2003 and a subsequent reversal to a strong euro thereafter, rather than any inherent change in the level of GDP in dollar terms (which has continued to rise).

Having grown at an average rate of around 3 % per annum during the late 1990s, real GDP growth slowed considerably after the turn of the millennium, to just above 1 % per annum in both 2002 and 2003. The latest data available for 2006 showed a recovery, as the EU-27's economic output rose, once again, by around 3 % per annum.

In order to look at standards of living one of the most frequently cited statistics is that of GDP per capita. This indicator averaged EUR 23 500 in 2006 in the EU-27, with Luxembourg reporting by far the highest GDP per capita (EUR 71 600) across the Union. Even after accounting for the relatively high cost of living in Luxembourg, GDP per capita in PPS terms remained almost twice as high as in any other Member State. This is partly explained by the importance of cross-border workers in Luxembourg. The lowest levels of GDP per capita among the Member States were recorded in Bulgaria and Romania, where living standards (again in PPS terms) were approximately 40 % of the EU-27 average in 2006.

In recent years, labour productivity among those Member States that joined the EU since 2004, in particular the Czech Republic, Hungary, Slovakia and the Baltic Member States has been converging quickly towards the EU-27 average.

There has been a considerable 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 for most services was rising. This change is, at least in part, a result of phenomena such as technological change, the evolution of relative prices, and globalisation, often resulting in manufacturing bases being moved to lower labour-cost regions. More than one quarter (27.7 %) of the EU-27's gross value added was accounted for by business activities and financial services in 2006. There were three other branches that also contributed significant shares of just over one fifth of total value added, namely 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 %); trade, transport and communication services (21.3 %); and industry (20.3 %). The remainder of the economy was divided between construction (6.2 %) and agriculture, hunting and fishing (1.9 %).

As such, the three groups of services identified above accounted for 71.5 % of total gross value added in the EU-27 in 2006. The relative importance of services was particularly high in Luxembourg, France and the United Kingdom, as well as the holiday destinations of Cyprus and Malta. Services accounted for more than three quarters of total value added in each of these five countries.

SOURCES

Pocketbooks

EU economic data pocketbook – Quarterly

Methodologies and working papers

European system of accounts ESA 1995
Handbook on quarterly national accounts
Handbook on price and volume measures in national accounts
Eurostat-OECD Methodological manual on purchasing power parities
NACE Rev. 1 – Statistical classification of economic activities in the European Community

Dedicated sections on the Eurostat website

ESA 95 Input-Output Tables
EU Klems

Website data

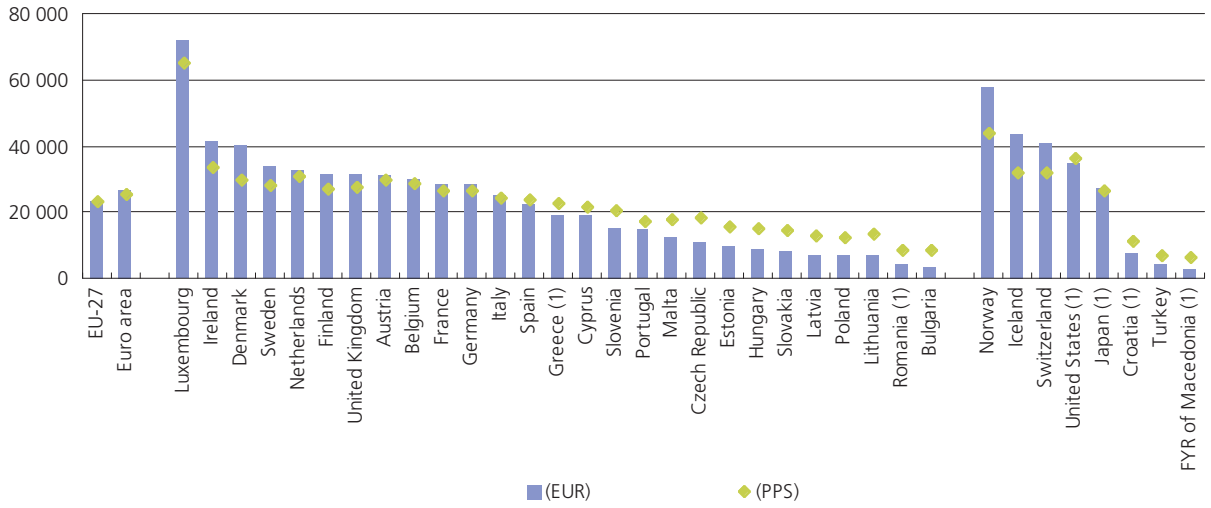
Main economic indicators

- Economy overview
- Economy – Structural Indicators
- Economy – Euro-Indicators

National accounts (including GDP)

- Annual national accounts
- Quarterly national accounts
- Supply, use and input-output tables

Figure 1.1: GDP per capita at current market prices, 2006



(1) Estimates.

Source: Eurostat (tec00001 and nama_gdp_c)

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. 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 1.1: GDP per capita at current market prices

(PPS, EU-27=100)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	GDP per capita, 2006 (PPS)	GDP per capita, 2006 (EUR)
EU-27	100	100	100	100	100	100	100	100	100	100	23 500	23 500
Euro area	115	115	114	114	114	113	112	111	111	110	25 800	26 600
Belgium	126	123	124	126	124	126	124	124	124	123	28 900	30 000
Bulgaria	27	27	27	28	29	31	33	34	35	37	8 700	3 300
Czech Republic	73	71	70	69	71	71	74	76	77	79	18 600	11 100
Denmark	134	133	131	132	128	129	125	124	126	127	29 700	40 500
Germany	125	123	123	119	117	116	117	116	115	114	26 700	28 200
Estonia	41	42	42	45	46	50	55	57	63	68	15 900	9 800
Ireland	115	122	127	131	133	139	141	142	144	143	33 500	41 100
Greece	85	84	83	84	88	91	92	93	95	97	22 700	19 300
Spain	94	96	97	98	99	101	101	101	103	102	24 000	22 300
France	115	116	115	116	116	116	112	112	114	113	26 500	28 400
Italy	120	120	118	117	118	112	111	108	105	104	24 300	25 100
Cyprus	86	87	88	89	91	90	89	92	94	93	21 900	18 900
Latvia	35	36	36	37	39	41	44	45	50	56	13 100	7 100
Lithuania	38	40	39	39	42	44	49	51	54	58	13 500	7 000
Luxembourg	216	218	238	245	235	241	248	253	263	279	65 400	71 600
Hungary	52	53	54	56	59	62	64	64	65	65	15 300	8 900
Malta	81	81	81	84	78	80	79	76	76	76	17 700	12 400
Netherlands	128	129	131	135	134	134	130	130	132	132	31 000	32 700
Austria	133	133	133	134	128	128	129	129	129	129	30 200	31 100
Poland	47	48	49	48	48	48	49	51	51	53	12 400	7 100
Portugal (1)	76	77	79	78	78	77	77	75	75	74	17 500	14 700
Romania	:	:	26	26	28	29	31	34	34	38	8 800	4 500
Slovenia	76	77	79	79	79	81	82	85	87	89	20 800	15 200
Slovakia	52	52	51	50	53	54	56	57	60	64	14 900	8 300
Finland	111	115	116	118	116	116	114	116	114	116	27 300	31 700
Sweden	123	122	124	125	120	119	120	120	119	120	28 200	33 700
United Kingdom	117	116	116	117	118	119	120	122	120	119	27 900	31 500
Croatia	43	44	42	43	44	46	48	49	50	50	11 700	7 700
FYR of Macedonia	27	27	27	27	25	25	26	26	27	28	6 500	2 500
Turkey	32	32	29	30	26	27	27	28	29	29	6 900	4 400
Iceland	138	141	140	132	133	130	126	131	135	136	31 900	43 500
Norway	148	139	146	166	162	155	157	165	179	187	44 000	57 500
Switzerland	151	150	147	145	140	140	136	136	135	136	31 900	40 900
Japan	127	121	118	117	115	112	112	113	114	114	26 700	27 200
United States	160	160	162	159	155	152	152	153	155	155	36 300	35 000

(1) Break in series, 2003.

Source: Eurostat (tsieb011)

Gross domestic product (GDP) is a measure for the economic activity. It is defined as the value of all goods and services produced less the value of any goods or services used in their creation. The volume index of GDP per capita in purchasing power standards (PPS) is expressed in relation to the European Union (EU-27) average set to equal 100. If the index of a country is higher than 100, this country's level of GDP per head 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 the index, calculated from PPS figures and expressed with respect to EU-27=100, is intended for cross-country comparisons rather than for temporal comparisons.

Table 1.2: GDP at current market prices

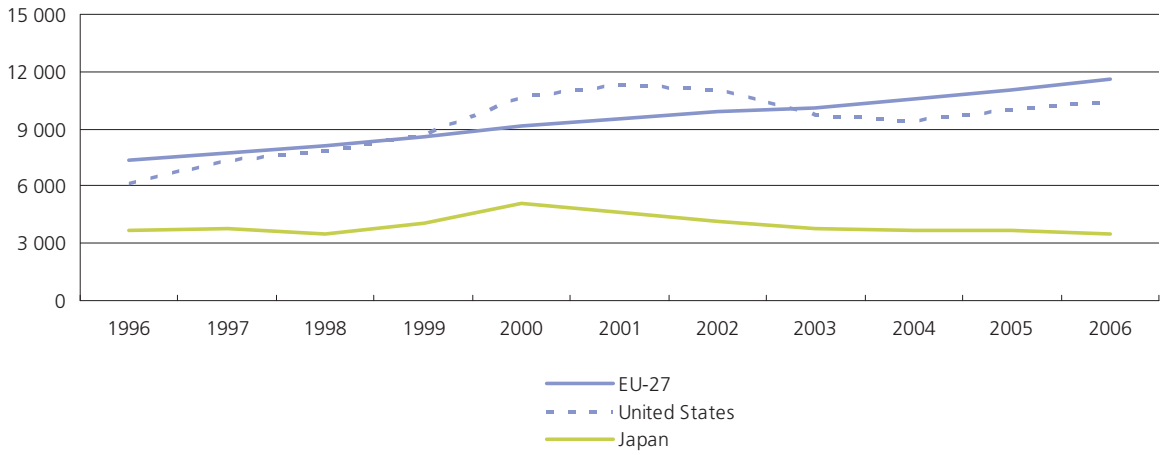
(EUR 1 000 million)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Share of EU-27 (%) 2006
EU-27	7 353	7 759	8 130	8 545	9 160	9 536	9 893	10 057	10 555	10 991	11 583	100.0
Euro area	5 762	5 891	6 119	6 400	6 733	7 026	7 271	7 485	7 787	8 054	8 433	72.8
Belgium	217	220	228	238	252	259	268	275	290	302	317	2.7
Bulgaria	8	9	11	12	14	15	17	18	20	22	25	0.2
Czech Republic	49	50	55	56	61	69	80	81	88	100	114	1.0
Denmark	145	150	155	163	174	179	185	189	196	208	220	1.9
Germany	1 922	1 907	1 952	2 012	2 063	2 113	2 143	2 164	2 211	2 245	2 322	20.0
Estonia	4	4	5	5	6	7	8	9	10	11	13	0.1
Ireland	58	72	79	91	105	117	130	139	149	161	175	1.5
Greece	110	120	122	132	138	147	158	171	185	199	214	1.8
Spain	490	505	537	580	630	681	729	783	841	908	981	8.5
France	1 240	1 257	1 315	1 368	1 441	1 497	1 549	1 595	1 660	1 718	1 792	15.5
Italy	992	1 053	1 087	1 127	1 191	1 249	1 295	1 335	1 391	1 423	1 475	12.7
Cyprus	7	8	9	9	10	11	11	12	13	14	15	0.1
Latvia	4	6	6	7	8	9	10	10	11	13	16	0.1
Lithuania	6	9	10	10	12	14	15	16	18	21	24	0.2
Luxembourg	16	16	17	20	22	23	24	26	27	30	34	0.3
Hungary	36	40	42	45	52	60	71	75	82	89	90	0.8
Malta	3	3	3	4	4	4	4	4	4	5	5	0.0
Netherlands	329	341	360	386	418	448	465	477	491	509	534	4.6
Austria	186	184	191	200	210	216	221	226	236	245	258	2.2
Poland	123	139	153	157	186	212	210	192	204	244	272	2.3
Portugal	93	99	106	114	122	129	135	139	144	149	155	1.3
Romania	:	:	37	33	40	45	48	53	61	80	97	0.8
Slovenia	16	17	19	20	21	22	24	25	27	28	30	0.3
Slovakia	17	19	20	19	22	24	26	29	34	38	45	0.4
Finland	101	109	116	123	132	140	144	146	152	157	167	1.4
Sweden	215	220	223	238	263	247	259	270	281	288	306	2.6
United Kingdom	945	1 179	1 280	1 384	1 573	1 613	1 679	1 616	1 745	1 805	1 910	16.5
Croatia	16	18	19	19	20	22	24	26	29	31	34	0.3
FYR of Macedonia		3	3	3	4	4	4	4	4	5	5	0.0
Turkey	143	168	178	173	217	162	193	212	242	291	319	2.8
Iceland	6	7	7	8	9	9	9	10	11	13	13	0.1
Liechtenstein	:	:	:	3	3	3	3	3	3	:	:	:
Norway	126	140	135	149	183	191	204	199	208	243	268	2.3
Switzerland	240	234	244	252	271	285	296	288	292	299	309	2.7
Japan	3 652	3 759	3 448	4 102	5 057	4 580	4 162	3 744	3 707	3 663	3 477	30.0
United States	6 156	7 323	7 802	8 696	10 629	11 309	11 072	9 690	9 395	9 994	10 509	90.7

Source: Eurostat (tec00001), Secrétariat de l'Etat à l'Economie, Economic and Social Research Institute, Bureau of Economic Analysis

Figure 1.2: GDP at current market prices

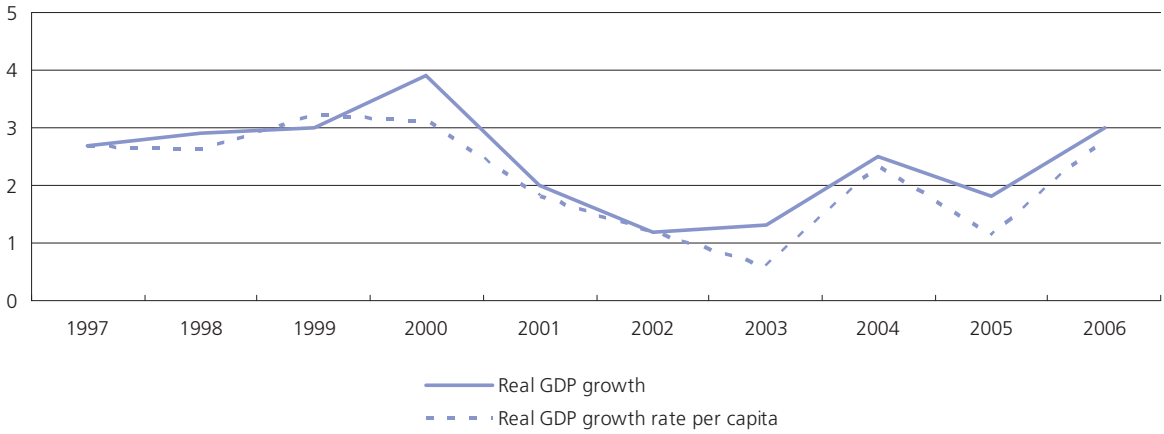
(EUR 1 000 million)



Source: Eurostat (tec00001)

Figure 1.3: Real GDP growth, EU-27

(% change compared with the previous year)



Source: Eurostat (tsieb012 and tsdec100)

Gross domestic product (GDP) is a measure of the results of economic activity. It is the value of all goods and services produced less the value of any goods or services used in producing them. 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 previous year's prices.

Table 1.3: Labour productivity

	Labour productivity per person employed (EU-27=100, based on a PPS series)						Labour productivity per hour worked (EU-15=100, based on a PPS series)					
	2001	2002	2003	2004	2005	2006	2000	2001	2002	2003	2004	2005
EU-27	100.0	100.0	100.0	100.0	100.0	100.0	:	:	:	:	:	:
Euro area	113.8	112.1	111.5	110.6	110.8	110.3	104.3	102.9	102.6	102.2	101.8	102.3
Belgium	134.5	136.2	134.4	135.6	135.2	134.9	*130.7*	*125.6*	*127.4*	*126.0*	*130.0*	*128.2*
Bulgaria	31.6	33.0	33.4	33.5	34.1	35.3	27.3	28.1	29.5	30.0	29.8	30.4
Czech Republic	63.6	62.9	66.5	68.6	69.3	71.2	44.3	47.7	47.8	50.4	52.1	52.2
Denmark	108.1	108.4	106.4	106.8	108.5	108.4	104.7	102.0	102.9	101.2	101.7	102.0
Germany	107.4	106.2	108.5	107.5	106.7	106.4	108.1	108.4	108.5	111.3	110.6	110.0
Estonia	48.0	50.8	54.4	56.9	61.5	63.7	34.5	35.7	37.8	40.4	42.3	45.2
Ireland	128.7	133.1	135.1	134.9	133.8	132.1	97.0	98.5	103.2	105.5	106.2	105.1
Greece	*110.4*	*114.5*	*114.6*	*112.8*	*114.9*	*116.9*	71.8	75.6	78.5	78.8	79.3	:
Spain	103.8	104.7	103.7	101.5	101.3	100.3	88.4	88.5	89.8	89.7	89.2	89.9
France	125.7	125.3	121.5	122.2	125.4	125.3	115.9	117.3	120.5	117.1	116.5	119.7
Italy	126.2	117.5	115.4	112.6	111.4	109.5	99.8	100.8	94.8	93.3	91.5	90.8
Cyprus	87.2	84.4	82.4	83.6	85.1	85.8	71.2	68.1	67.0	66.1	67.9	69.7
Latvia	41.6	43.0	44.2	45.5	49.4	52.9	30.4	31.6	32.9	33.5	35.7	:
Lithuania	47.1	47.9	51.8	53.7	55.2	58.6	34.1	37.9	39.2	42.8	44.1	43.6
Luxembourg	163.2	163.0	166.4	168.9	174.4	183.3	*158.3*	*146.0*	*147.8*	*152.5*	*158.4*	*164.6*
Hungary	68.4	70.8	71.7	72.7	73.9	74.8	46.3	49.9	51.6	53.0	54.0	54.9
Malta	90.4	91.9	90.2	88.4	87.9	88.2	78.5	75.8	76.7	75.9	73.4	:
Netherlands	113.9	113.1	110.7	112.7	114.7	114.4	*119.8*	117.8	118.6	116.1	119.7	:
Austria	118.6	118.8	120.0	120.2	119.9	121.1	101.6	97.9	98.3	99.0	99.5	99.2
Poland	*56.3*	*58.5*	*59.9*	*61.4*	*60.4*	*61.5*	*40.9*	*42.0*	*43.7*	*44.6*	*45.9*	*44.8*
Portugal	69.9	69.4	*69.8*	*67.3*	*68.1*	*67.9*	*61.4*	*58.2*	*58.0*	*59.2*	*56.6*	*57.5*
Romania	25.0	29.9	32.1	34.7	35.6	38.3	:	:	:	:	:	:
Slovenia	75.8	76.5	77.9	80.3	82.3	84.7	62.4	62.7	64.2	65.0	69.0	:
Slovakia	60.7	62.4	63.2	65.1	68.5	71.4	47.2	50.0	53.1	55.7	56.0	57.5
Finland	113.3	111.3	109.3	111.8	109.8	111.5	96.7	96.2	95.1	93.8	96.2	94.6
Sweden	107.5	106.4	108.3	109.6	109.0	110.1	102.4	98.8	99.4	102.3	102.6	101.5
United Kingdom	110.3	110.0	110.3	111.7	109.8	110.3	87.0	87.9	89.0	90.2	92.1	89.8
Croatia	*58.1*	*57.9*	*60.0*	*60.8*	*61.8*	*62.2*	:	:	:	:	:	:
Turkey	*36.6*	*38.7*	*39.2*	*40.1*	*40.8*	*42.6*	:	:	:	:	:	:
Iceland	104.2	104.1	101.2	106.9	109.0	108.3	80.4	83.1	84.8	82.6	87.7	89.9
Norway	137.3	131.4	134.8	141.8	154.2	160.0	140.5	141.5	137.2	142.2	148.5	160.5
Switzerland	107.5	107.2	105.4	105.7	105.8	106.2	101.7	100.6	101.8	100.0	:	:
United States	139.5	137.3	137.8	139.1	140.5	140.3	111.3	112.2	111.9	113.8	115.5	116.7

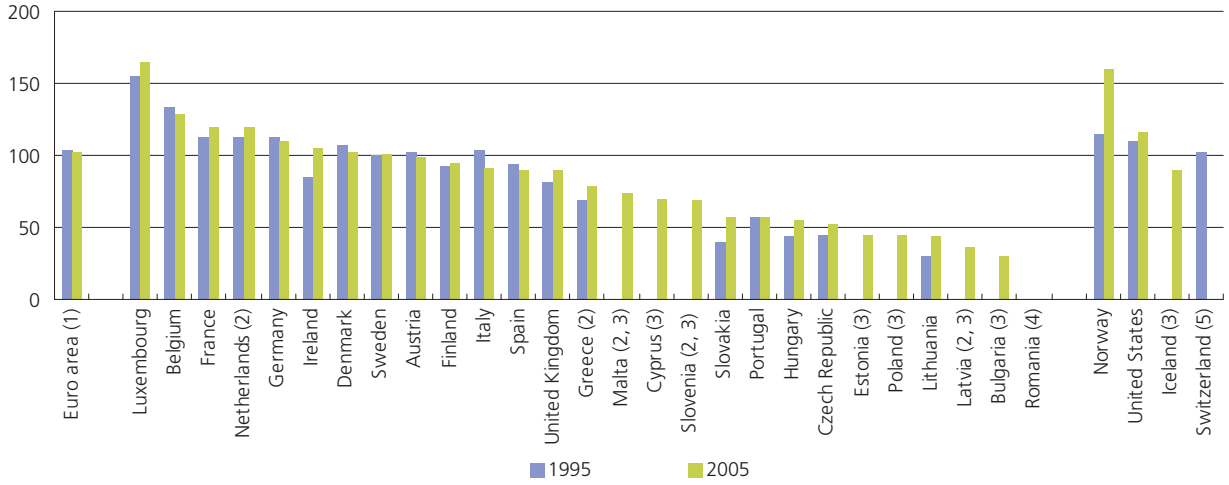
Source: Eurostat (tsieb021 and tsieb022), OECD

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-27) 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. If the index of a country is higher than 100, this country level of GDP per hour worked 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. Expressing productivity per hour worked will eliminate differences in the full-time/part-time composition of the workforce.

Figure 1.4: Labour productivity per hour worked

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

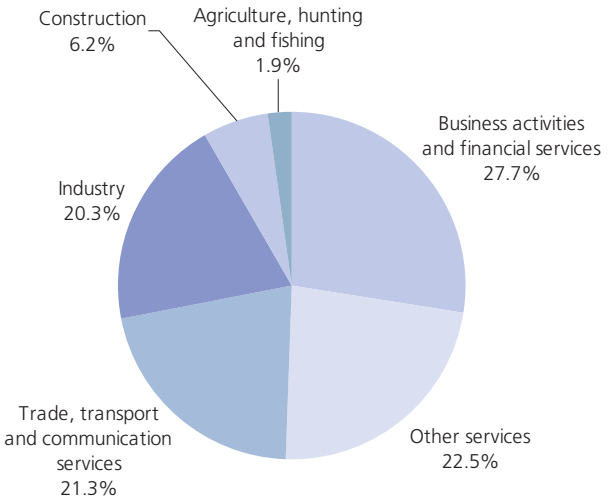


(1) EA-12.
(2) 2004 instead of 2005.
(3) Not available for 1995.
(4) Not available.
(5) Not available for 2005.

Source: Eurostat (tsieb022), OECD

Figure 1.5: Gross value added at basic prices, EU-27, 2006 (1)

(% share of total gross value added)



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

Source: Eurostat (tec00003, tec00004, tec00005, tec00006, tec00007 and tec00008)

Gross value added (GVA) 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 the NACE Rev. 1 is used.

Table 1.4: 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	
	2001	2006	2001	2006	2001	2006	2001	2006	2001	2006	2001	2006
EU-27	2.4	1.8	21.7	20.2	5.7	6.2	21.7	21.2	26.3	27.9	22.2	22.6
Euro area	2.5	1.8	21.7	20.2	5.7	6.4	21.3	20.8	26.5	27.9	22.2	22.8
Belgium	1.3	1.0	21.2	19.2	4.9	5.1	21.6	22.5	28.2	28.8	22.9	23.4
Bulgaria	13.4	8.5	25.0	25.6	4.6	5.9	22.2	24.2	19.8	20.7	14.9	15.1
Czech Republic (1)	3.9	2.9	31.5	31.5	6.3	6.8	25.6	24.7	16.5	17.0	16.1	17.0
Denmark	2.8	1.6	20.6	20.0	5.2	6.1	21.5	21.5	23.0	24.1	26.8	26.7
Germany	1.4	0.9	24.9	25.4	4.8	4.0	18.2	17.9	28.0	29.5	22.7	22.3
Estonia	4.7	3.2	22.7	21.1	5.6	8.0	28.3	28.8	22.0	23.3	16.7	15.6
Ireland (1)	3.0	2.1	34.2	26.1	7.8	10.0	17.3	17.2	21.7	25.2	16.0	19.5
Greece (1)	7.1	5.2	13.9	13.2	8.4	7.6	29.3	31.8	20.8	19.3	20.5	22.9
Spain	4.3	2.9	20.3	18.2	8.9	12.2	26.0	24.6	20.1	21.3	20.5	20.9
France	2.9	2.0	17.2	14.4	5.3	6.3	19.3	18.6	30.6	32.8	24.8	25.8
Italy	2.7	2.1	22.8	20.5	5.3	6.1	24.2	23.0	24.9	27.1	20.2	21.3
Cyprus	3.8	2.8	11.8	11.2	6.9	8.4	31.2	27.5	24.0	25.1	22.3	24.9
Latvia	4.5	3.7	17.5	14.6	5.6	6.8	34.0	35.7	18.4	21.0	20.0	18.2
Lithuania	7.1	5.5	24.7	26.3	6.0	8.6	31.1	31.1	12.3	13.1	18.8	15.4
Luxembourg	0.7	0.4	12.4	9.4	6.2	5.3	22.5	20.2	41.2	48.6	17.0	16.2
Hungary	5.2	4.3	25.6	26.0	5.0	4.7	21.5	20.2	20.6	22.0	22.1	22.7
Malta	2.8	2.6	20.8	17.6	3.7	3.9	30.5	27.1	19.0	21.6	23.2	27.2
Netherlands	2.6	2.2	18.9	18.6	5.7	5.5	22.8	21.9	27.4	27.7	22.6	24.1
Austria	2.1	1.7	22.8	23.0	7.5	7.7	24.6	23.6	22.2	23.4	20.8	20.7
Poland	5.1	4.4	22.5	25.1	7.0	6.6	27.9	27.6	18.3	17.6	19.2	18.7
Portugal	3.6	2.8	19.5	18.1	7.8	6.5	24.5	24.8	20.5	21.4	24.2	26.3
Romania (1)	14.7	9.6	30.5	27.3	5.9	7.2	23.4	25.4	14.2	16.7	11.3	13.8
Slovenia (1)	3.0	2.5	30.1	28.2	5.8	5.9	20.6	22.2	19.6	20.6	20.9	20.6
Slovakia	4.7	4.0	28.5	28.1	6.4	6.9	25.9	26.8	17.2	18.9	17.3	15.4
Finland	3.4	2.5	27.8	26.3	5.5	6.1	22.2	22.3	20.3	20.9	20.8	21.9
Sweden	1.9	1.4	23.5	24.0	4.4	5.0	19.5	19.5	24.2	22.9	26.5	27.2
United Kingdom	0.9	0.9	20.6	17.5	5.6	5.4	22.8	21.3	28.2	32.6	21.9	22.3
Croatia	9.0	7.1	24.3	23.5	4.9	6.8	24.8	25.9	15.3	18.3	21.6	18.4
Turkey	11.7	9.0	25.0	24.9	5.0	5.2	35.8	33.6	8.3	12.6	14.2	14.8
Iceland (1)	8.8	5.8	19.6	14.1	7.7	9.4	19.7	18.4	20.6	26.8	23.5	25.6
Norway	1.8	1.6	36.0	40.2	4.2	4.6	19.3	16.2	17.5	17.6	21.2	19.7
Switzerland	1.4	1.2	22.3	21.9	5.5	5.6	21.7	22.1	22.7	23.0	26.4	26.1
United States	1.2	:	18.1	:	4.9	:	19.7	:	32.2	:	24.0	:

(1) 2005 instead of 2006.

Source: Eurostat (tec00003, tec00004, tec00005, tec00006, tec00007 and tec00008)

1.2 NATIONAL ACCOUNTS – CONSUMPTION AND SPENDING

INTRODUCTION

The statistics 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.

DEFINITIONS AND DATA AVAILABILITY

In the system of national accounts, only households, non-profit institutions serving households (NPISH) and government have final consumption, whereas corporations have intermediate consumption. Private final consumption expenditure, or that performed by households and NPISH, is defined as expenditure on goods and services for the direct satisfaction of individual needs, whereas government consumption expenditure includes goods and services produced by government, as well as purchases of goods and services by government that are supplied to households as social transfers in kind.

National accounts aggregates from the expenditure approach are used by the European Central Bank (ECB) and European Commission services as important tools for 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 within financial markets.

The expenditure approach of GDP is defined as private final consumption expenditure + government final consumption expenditure + gross capital formation + exports - imports.

- Private final consumption expenditure includes final 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; such assets may be outputs from production processes or imports. Investment may be made by public or private institutions.
- 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.
- Gross capital formation is the sum of gross fixed capital formation and the change in inventories.
- External balance is the difference between exports minus imports of goods and services. Depending on the size of exports and imports, it can be positive (a surplus) or negative (a deficit).

MAIN FINDINGS

Overall EU-27 final consumption expenditure in volume rose by 27.4 % between 1995 and 2006. The evolution of this indicator followed the developments of GDP which rose by 29.3 % during the same period. Gross capital formation outstripped both, increasing by 40.6 %. Consumption expenditure rose at its most rapid pace in the Baltic Member States and Ireland, where expenditure in volume terms more than doubled between 1995 and 2006. The slowest increase in consumption expenditure over this period was registered in Germany, where the corresponding increase was slightly more than 10 %. Consumption by households and non-profit institutions serving households represented 57.8 % of the EU-27's GDP in 2006. This share has been relatively stable over time, although it has declined in recent years from a peak of 58.7% in 2001.

The share of total GDP that is devoted to investment in fixed assets is an important indicator of future economic growth – especially the level of investment in machinery and equipment and ICT products. Gross fixed capital formation represented 21.1 % of the EU-27's GDP in 2006. This marked the third successive year that the relative importance of gross fixed capital formation had risen, from a low of 19.6 % of GDP at the bottom of the last economic slowdown in 2003. There was a wide variation in investment intensity that may, in part, reflect the different economic structures of the Member States. Gross fixed capital formation as a share of GDP ranged from more than 30 % in Latvia, Estonia and Spain, to less than19 % of GDP in Luxembourg, Germany, the United Kingdom and Sweden. The external balance of goods and services has been in surplus during the last decade. Nonetheless, in the most recent years the relative size of the surplus has decreased, reaching 0.3 % of GDP in 2006.

SOURCES

Pocketbooks

EU economic data pocketbook – Quarterly

Methodologies and working papers

European system of accounts ESA 1995
Handbook on quarterly national accounts
Handbook on price and volume measures in national accounts
Eurostat-OECD Methodological manual on purchasing power parities
NACE Rev. 1 – Statistical classification of economic activities in the European Community

Dedicated sections on the Eurostat website

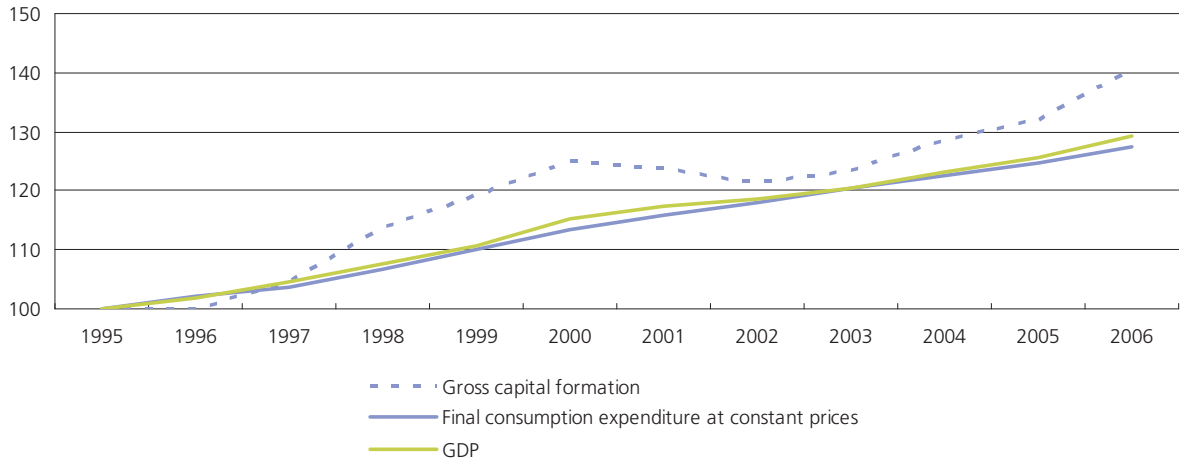
ESA 95 Input-Output Tables
EU Klems

Website data

Main economic indicators
- Economy overview
- Economy – Structural Indicators
- Economy – Euro-Indicators

National accounts (including GDP)
- Annual national accounts
- Quarterly national accounts
- Supply, use and input-output tables

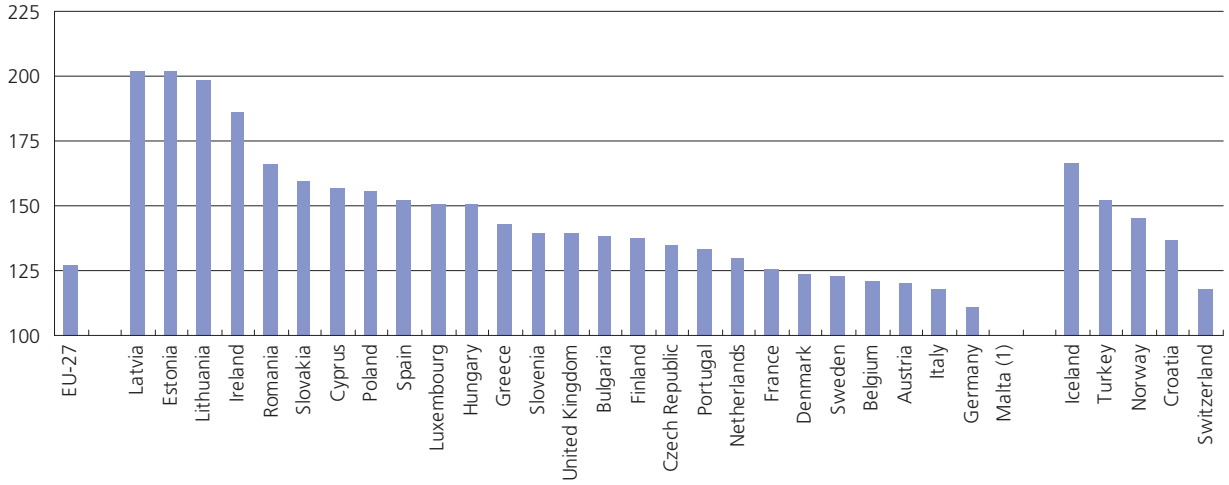
Figure 1.6: Consumption expenditure and gross capital formation at constant prices, EU-27
(1995=100)



Source: Eurostat (nama_gdp_k)

Figure 1.7: Consumption expenditure at constant prices, 2006

(1995=100)

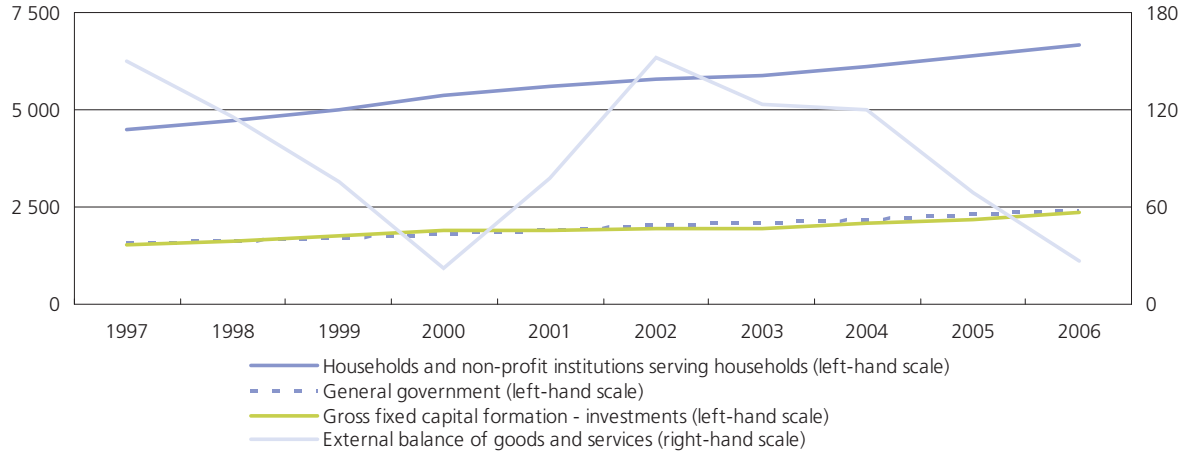


(1) Not available.

Source: Eurostat (nama_gdp_k)

Figure 1.8: Expenditure components of GDP, EU-27

(EUR 1 000 million)



Source: Eurostat (tec00009, tec00010, tec00011 and tec00012)

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, etc.).

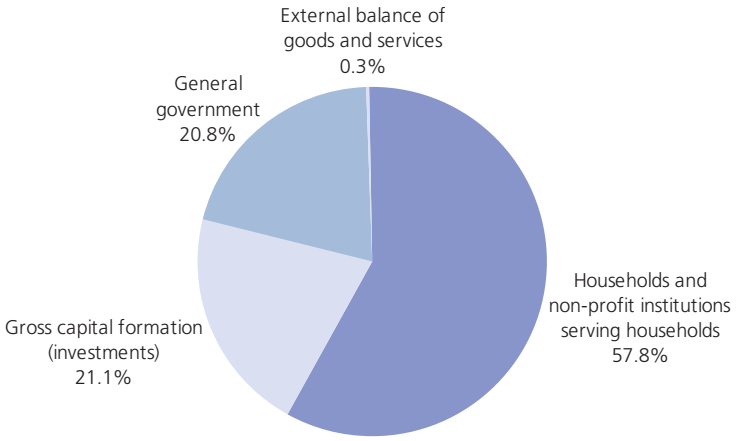
Final consumption expenditure by general government includes the value of goods and services purchased or produced by general government and directly supplied to private households for consumption purposes.

Gross fixed capital formation consists of resident producers' aquisitions, 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.

Figure 1.9: Expenditure components of GDP, EU-27, 2006

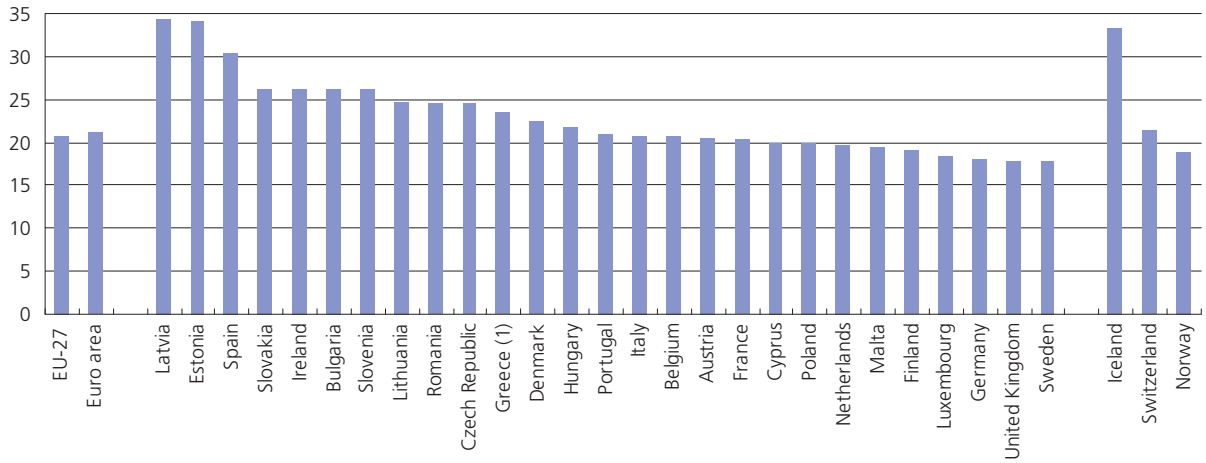
(% share of GDP)



Source: Eurostat (tec00009, tec00010, tec00011 and tec00012)

Figure 1.10: Gross fixed capital formation, 2006

(% share of GDP)



(1) Estimate.

Source: Eurostat (tsier070)

1.3 NATIONAL ACCOUNTS – INCOME FROM INPUT FACTORS

INTRODUCTION

Household saving rates vary considerably between countries because of institutional, demographic and socio-economic differences between countries. Government provisions for old-age pensions, the extent to which governments provide insurance against sickness and unemployment, and the demographic age structure of the population will all influence the rate at which a population saves – older persons tend to run down their financial assets during their retirement to the detriment of saving. Finally, the availability and price of credit, as well as attitudes towards debt may also influence choices made by individuals regarding expenditure and saving.

Aside from individuals' choices as to consumption and savings patterns, the Member States of the EU also need to have sound public finances, by balancing their choice of expenditure priorities in relation to the types and levels of taxes that they fix. The governments of the Member States retain responsibility for fixing their levels of direct taxation – i.e. tax on personal incomes and company profits, savings and capital gains. In the area of company tax, the EU has two goals: preventing harmful tax competition between Member States and supporting the principle of free movement of capital. Cross-border payments of interest, royalties and dividends to sister and parent companies have progressively been exempted from withholding tax in the country from which the payment is made and discussions are under way on having a common tax base for companies, i.e. the rules applying to each type of transaction would be the same across the EU in order to prevent unfair competition, while still leaving Member States free to set actual tax rates.

DEFINITIONS AND DATA AVAILABILITY

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.

Production requires 'input factors' such as the work of employees and capital; these input factors have to be paid for. The income-side approach shows how GDP is distributed among different participants in the production process, as the sum of:

- compensation of employees: 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.

Household saving is the main domestic source of funds to finance capital investment. Savings rates can be measured on either a gross or net basis. Net saving rates are measured after deducting consumption of fixed capital (depreciation). The system of accounts also provides for both disposable income and saving to be shown on a gross basis, in other words, with both aggregates including the consumption of fixed capital. In this respect, household savings may be estimated by subtracting consumption expenditure and the adjustment for the change in net equity of households in pension funds reserves from disposable income. The latter consists essentially of income from employment and from the operation of unincorporated enterprises, plus receipts of interest, dividends and social benefits minus payments of income taxes, interest and social security contributions.

MAIN FINDINGS

The higher the output of an economy, the more income can be redistributed to the factors that have provided for its creation. Between 1997 and 2006, the GDP of the EU-27 (measured at current prices) rose overall by 49.3 %. In comparison, the income of employees rose by 46.2 % in total over the same period. The fastest growth in income factors was recorded for taxes on production and imports less subsidies, resulting largely from a marked acceleration during periods of economic expansion (the late 1990s and again from 2004 onwards).

Within the EU-27 the breakdown of GDP by input factors in 2006 was dominated by the compensation of employees (48.7 %), while gross operating surplus and mixed income accounted for 38.9 % of GDP and taxes on production and imports less subsidies the remaining 12.4 %.

Different in wages, the proportion of employees in the labour force and taxes are some of the reasons that explain the variations in the distribution of income among the Member States. The compensation of employees ranged between 32.2 % in Bulgaria and 55.5 % in the United Kingdom. Conversely, the highest proportion of GDP accounted for by taxes less subsidies on production and imports was also recorded in Bulgaria (18.3 %), while the lowest shares were registered in the Czech Republic, Slovakia and Lithuania (all 10 % or less).

In some countries, gross national saving as a proportion of national disposable income fell considerably between 1997 and 2006. This was particularly the case in Portugal (down 6.5 points), Slovakia (down 3.9 points) and Italy (down 3.0 points). The highest national savings rates (between 27.7 % and 26.4 %) were recorded in Ireland, the Netherlands, Finland and Estonia.

In relation to gross household disposable income, gross household savings represented 11.4 % of GDP in 2006 for the EU-27. Germany, France and Italy reported a savings rate of around 15 % of their gross household disposable income. In contrast, Finland, the United Kingdom and the Czech Republic reported household savings rates of around 5 %. Estonia reported negative values during the last four years, indicating that households in this county were spending more money than they earned, and funded some of their expenditure through credit.

SOURCES

Statistical books

Taxation trends in the European Union – Main results
Taxation trends in the European Union – Data for the EU Member States and Norway
Structures of the taxation systems in the European Union – Data 1995-2004

Pocketbooks

EU economic data pocketbook – Quarterly

Methodologies and working papers

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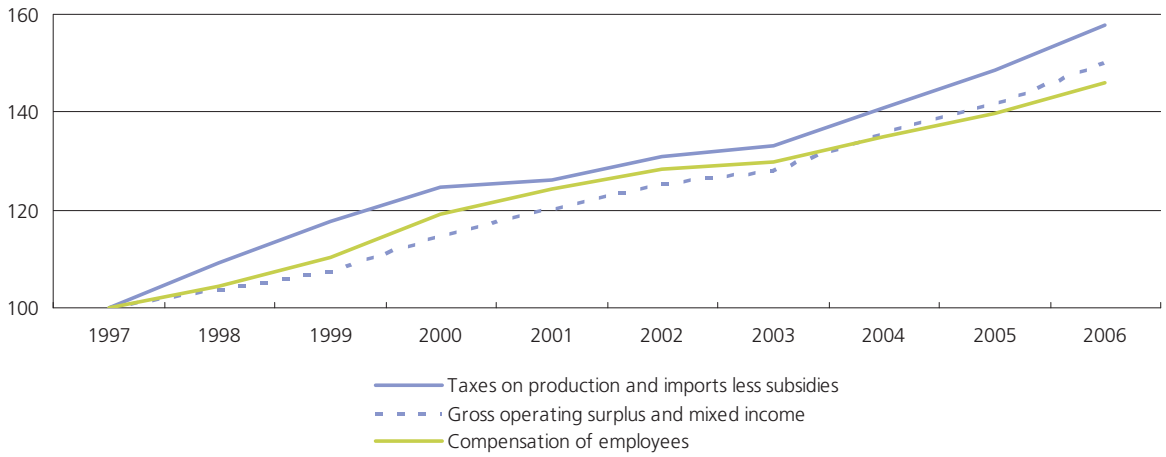
- Annual sector accounts
- Quarterly sector accounts
- Supply, use and input-output tables

Figure 1.11: Distribution of income, EU-27

(1997=100)



Source: Eurostat (tec00013, tec00015 and tec00016)

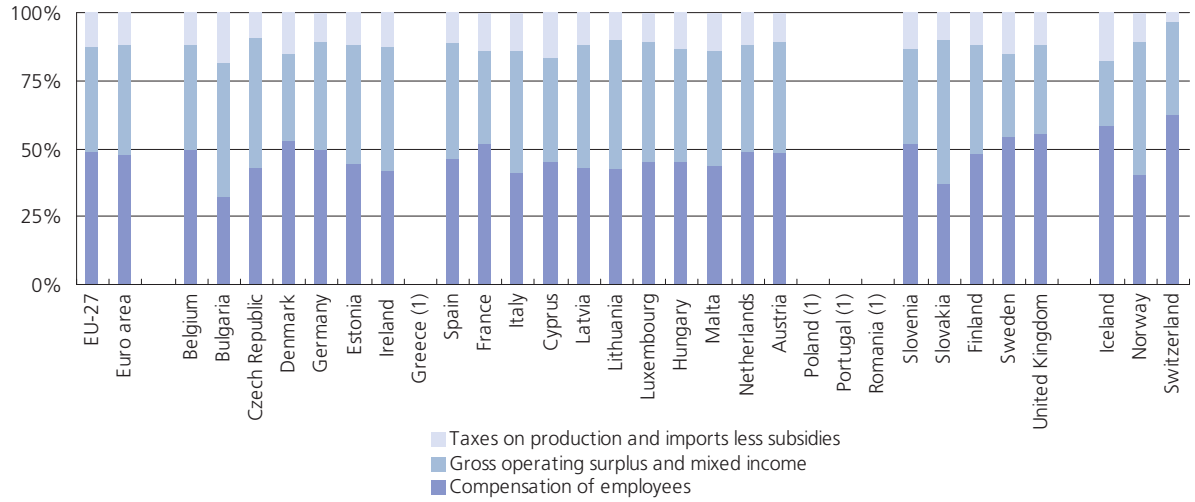
Compensation of employees is defined as the total remuneration, in cash or in kind, payable by an employer to an employee in return for work done by the latter. In particular, it also includes social contributions paid by the employer.

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 1.12: Distribution of income, 2006

(% share of GDP)

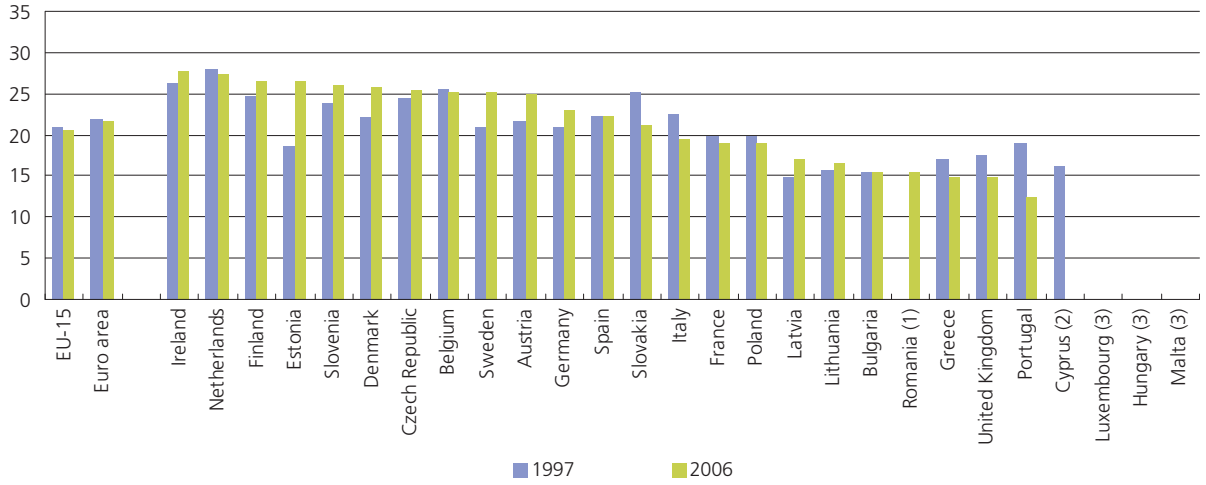


(1) Some or all components, not available.

Source: Eurostat (tec00013, tec00015 and tec00016)

Figure 1.13: Gross national savings

(% of gross national disposable income)



(1) 1997, not available.
(2) 2006, not available.
(3) Not available.

Source: Eurostat (nama_inc_c)

Table 1.5: Gross household savings (1)

(% of gross household disposable income)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
EU-27	:	:	:	12.3	11.7	12.5	12.4	12.3	11.9	11.8	11.4
Euro area	:	:	:	14.2	13.5	14.2	14.8	14.6	14.5	14.0	13.8
Belgium	18.5	17.7	17.0	17.2	15.4	16.4	15.8	14.7	13.3	12.2	12.5
Bulgaria	:	:	:	:	:	:	:	:	:	:	:
Czech Republic	11.2	11.0	9.2	8.5	8.5	7.4	8.1	7.4	4.9	5.8	4.9
Denmark	7.3	5.0	6.3	3.8	4.9	8.8	8.8	9.4	5.8	2.5	:
Germany	16.3	15.9	15.9	15.3	15.1	15.2	15.7	16.0	16.1	16.3	16.2
Estonia	7.8	6.7	8.1	8.3	4.1	3.1	0.5	-1.6	-1.0	-0.8	-0.7
Ireland	:	:	:	:	:	:	11.3	12.2	12.5	13.0	11.0
Greece	14.1	14.7	14.1	11.5	10.5	9.7	8.3	8.3	8.9	:	:
Spain	14.2	13.3	12.1	11.1	11.1	11.1	11.4	11.9	11.4	10.6	10.1
France	14.9	15.8	15.4	15.1	14.9	15.6	16.7	15.6	15.6	15.0	15.3
Italy	23.4	20.2	17.2	15.8	14.2	16.0	16.8	16.0	16.1	15.9	14.9
Cyprus	:	:	:	:	:	:	:	:	:	:	:
Latvia	-0.7	1.8	0.7	-0.5	2.9	-0.4	1.2	2.4	2.5	1.1	:
Lithuania	-1.3	3.4	7.2	4.5	4.1	3.7	1.8	0.9	0.4	1.5	:
Luxembourg	:	:	:	:	:	:	:	:	:	:	:
Hungary	:	:	:	:	:	:	:	:	11.3	11.0	:
Malta	:	:	:	:	:	:	:	:	:	:	:
Netherlands	17.4	17.9	16.9	14.0	12.1	14.7	13.9	13.1	13.0	12.1	12.5
Austria	12.9	11.8	12.6	13.1	12.8	12.0	12.1	13.2	13.3	13.7	14.1
Poland	14.2	14.1	14.4	12.9	10.7	12.1	8.4	7.8	7.2	7.7	:
Portugal	11.9	10.8	10.5	9.8	10.2	10.9	10.6	10.5	9.7	9.0	:
Romania	:	:	:	:	:	:	:	:	:	:	:
Slovenia	:	:	:	:	13.9	15.4	16.2	13.5	14.4	14.2	:
Slovakia	13.4	13.8	12.3	11.2	11.1	9.1	8.9	7.1	6.2	7.2	6.5
Finland	7.8	9.1	7.8	9.2	7.4	7.6	7.7	8.3	9.2	7.7	5.5
Sweden	10.1	7.9	7.1	7.0	8.2	12.7	13.4	13.2	12.4	11.6	:
United Kingdom	9.4	9.5	7.0	5.3	5.1	6.4	5.0	4.9	3.7	5.6	5.0
Norway	7.9	8.4	11.0	10.7	10.4	9.6	13.7	14.3	:	:	:

(1) Including net adjustment for the change in net equity of households in pension funds reserves.

Source: Eurostat (tsdec240)

The gross household saving rate measures the portion of disposable income that is not used by the household for the final consumption. It is measured by gross saving divided by gross disposable income adjusted for the change in the net equity in pension fund reserves

1.4 NATIONAL ACCOUNTS – GOVERNMENT FINANCES

INTRODUCTION

The disciplines of the Stability and Growth Pact (SGP) keep economic developments in the EU, and in the euro area countries in particular, broadly synchronised (25). They prevent Member States from taking policy measures which would unduly benefit their own economies at the expense of others. There are two key principles to the Pact: namely, that the deficit must not exceed 3 % of gross domestic product (GDP) and that the debt-to-GDP ratio should not be more than 60 %.

A revision in March 2005 based on the first five years of experience left these principles unchanged, but introduced greater flexibility in exceeding the deficit threshold in hard economic times or to finance investment in structural improvements. It also gave Member States a longer period to reverse their excessive deficits – although, if they do not bring their economies back into line, corrective measures, or even fines, can be imposed.

Each year, Member States provide the European Commission with detailed information on their economic policies and the state of their public finances. Euro area countries provide this information in the context of the 'stability programmes', while other Member States do so in the form of 'convergence programmes'. The European Commission assesses whether the policies are in line with agreed economic, social and environmental objectives and may choose to issue a warning if it believes a deficit is becoming abnormally high.

DEFINITIONS AND DATA AVAILABILITY

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.

(25) For more information: http://ec.europa.eu/economy_finance/about/activities/sgp/main_en.htm.

The data presented within this section correspond to the main revenue and expenditure items of the general government sector, which are compiled on a national accounts (ESA95) basis. The difference between total revenue and total expenditure – including capital expenditure (in particular, gross fixed capital formation) – equals net lending/net borrowing, which is also the balancing item of the non-financial accounts.

The main revenue of general government consists of taxes, social contributions, sales and property income. The main expenditure items consist of the compensation of civil servants, social benefits, interest on the public debt, subsidies and gross fixed capital formation.

The public balance is defined as general government net borrowing/net lending reported for the Excessive Deficit Procedure and is expressed in relation to GDP. General government comprises central, state and local government, as well as social security funds. Under the convergence criteria, the ratio of planned or actual government deficit (net borrowing) to GDP should be no more than 3 %.

General government consolidated gross debt is also expressed as a percentage of GDP. It refers to the consolidated stock of gross debt at nominal value at the end of the year. Under the convergence criteria, the ratio of general government consolidated gross debt to GDP should generally 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).

Compulsory levies correspond to revenues which are levied (in cash or in kind) by central, state and local governments, and social security funds. Compulsory levies (henceforth generally referred to as taxes) are organised into three main areas, covered by the following headings:

- taxes on income and wealth, including all compulsory payments levied periodically by general government on the income and wealth of enterprises and households;
- taxes on production and imports, including all compulsory payments levied by general government with respect to 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;
- social contributions, including all employers and employees social contributions, as well as imputed social contributions that represent the counterpart to social benefits paid directly by employers.

Data on public procurement are based on information contained in the calls for competition and contract award notices submitted for publication in the Official Journal of the European Communities (the S series). The indicator shown is based on the value of public procurement, which is openly advertised relative to GDP.

State aid is made up of sectoral State aid (given to specific activities such as agriculture, fisheries, manufacturing, mining, services), ad-hoc State aid (given to individual enterprises), and State aid for horizontal objectives such as research and development, safeguarding the environment, support to small and medium-sized enterprises, employment creation or training, including aid for regional development. The first two of these (sectoral and ad-hoc State aid) are considered potentially more distortive to competition.

MAIN FINDINGS

The public (general government) deficit of the EU-27, measured in terms of a percentage share of GDP, was at its lowest rate in four years gradually falling to 1.6 % by 2006. The pattern was similar in the euro area, where the deficit was steadily reduced from its highest value in 2003 (-3.1 %) to -1.5 % by 2006.

The deficit ratios for 22 of the EU Member States were below the reference value of 3 % in 2006, which can be compared with 16 for 2003. Out of the 22, almost half (ten) reported a surplus, by far the highest number in any of the most recent four years for which data are available. Hungary and Italy recorded the highest deficits in the EU-27 in 2006, with 9.2 % and 4.4 % respectively. Malta reduced its deficit strongly from 9.9 % to 2.5 % of GDP over the period 2003-2006. Both Turkey and Croatia recorded reductions in their deficits over the period considered (Turkey reported a small surplus in 2006), whilst Norway's surplus continued to grow, reaching 18 % of GDP by 2006.

General government gross debt in the EU-27 reached 61.4 % of GDP in 2006, compared with 61.8 % for 2003, with higher ratios in the intervening years. In the euro area, the decline was of the same order, from 69.1 % to 68.6 % of GDP.

Between 2003 and 2006, the number of Member States with a debt ratio below 60 % of GDP fell from 19 to 17. The highest debt ratio was recorded by Italy, at over 100 % for the period considered. Greece followed closely, but reduced its debt-to-GDP ratio from 97.9 % to 95.3 % during the same period. At the other end of the scale, Estonia and Luxembourg reported the lowest debt to GDP ratios, both below 7 % throughout the period considered. Romania and Bulgaria recorded decreasing debt-to-GDP ratios below 60 % of GDP over the whole period, reaching 12.4 % and 22.8 % respectively in 2006. Croatia's debt-to-GDP ratio was 40.8 % in 2006, while Turkey (despite a major reduction over the period) recorded a ratio of 60.7 % in 2006.

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-27, total government revenue in 2006 amounted to 45.2 % of GDP, and expenditure to 46.8 % of GDP. In the euro area, the equivalent figures were 45.7 % and 47.3 % respectively.

The level of general government expenditure and revenue varies considerably between the Members States. Those with the highest levels of combined government expenditure and revenue as a proportion of GDP in 2006 were Sweden, Denmark, France and Finland, for which the government sector represented over 100 % of GDP. Nine Member States reported relatively low combined revenue and expenditure to GDP ratios below 80 %. Out of these, the government sector was smallest for Romania, Lithuania and Estonia, where revenue plus expenditure accounted for less than 70 % of GDP in 2006.

The main types of government revenue are taxes on income and wealth, taxes on production and imports, and social contributions. These three sources of revenue accounted in 2006 for over 90 % of EU-27 revenue. The structure of taxes within the EU-27 in 2006 shows that receipts from the three main tax headings were roughly equal: social contributions accounted for 13.8 % of GDP, taxes on production and imports for 13.6 %, and current taxes on income and wealth for 13.3 %. In a similar way to the distribution of government expenditure, there was considerable variation in the structure of taxes across the Member States. As may be expected, those countries that reported relatively high levels of expenditure tended to be those that also raised more taxes (as a proportion of GDP). For example, the highest return from taxes was 50.5 % of GDP recorded in Sweden, with Denmark recording the next highest share. The proportion of GDP accounted for by taxes fell to less than 30 % in Lithuania, Romania and Slovakia, with the relative importance of current taxes on income and wealth particularly low in the latter two countries.

General government expenditure may be identified by function by using the classification of the functions of government – COFOG. The largest category of general government expenditure using this classification was social protection, which accounted for 18.8 % of the EU-27's GDP in 2004, while general public services, health and education all accounted for broadly similar shares of expenditure, between 6.5 % and 5.2 %. The variation across countries was strong in 2005, particularly for social protection, with Sweden, Denmark, France and Germany spending over 22 % of GDP and Latvia and Ireland less than 10 %.

The value of public procurement, which is openly advertised, expressed as a proportion of GDP, rose between 1995 and 2005 in each of the 15 Member States for which data are available, except in Denmark. Public procurement accounted for 2.9 % of GDP in the EU-25 in 2005, with a high of 9.8 % recorded in Latvia.

In total, EU State aid amounted to 0.6 % of GDP in 2005, which marked a reduction compared with its peak value of 0.7 % in 2002. This average masks significant disparities between Member States: the ratio of total State aid to GDP ranged from 0.4 % or less in Belgium, the Netherlands, the United Kingdom, Greece, and Luxembourg to 1.4 % or more in Cyprus, Finland, Hungary, Romania and Malta. The relatively high importance of State aid in some of the new Member States may be largely attributed to pre-accession measures that are either being phased out under transitional arrangements or are limited in time. In Finland, the relatively high importance of State aid may be explained by the large amount of aid to agriculture which represents more than 75 % of total aid in this country. Indeed, due to the particularities associated with aid to agriculture and fisheries, it is of interest to look at State aid figures that exclude these sectors. This second indicator produces a rather different ranking of Member States. For example, such aid in Finland represents 0.38 % of GDP, just below the EU average of 0.42 %. In absolute numbers, State aid by EU-25 Member States amounted to EUR 63 750 million in 2005.

SOURCES

Statistical books

Government finance statistics – Summary tables
Taxation trends in the European Union – Main results
Taxation trends in the European Union – Data for the EU Member States and Norway

Pocketbooks

EU economic data pocketbook – Quarterly

Methodologies and working papers

Manual on quarterly non-financial accounts for general government
Manual on sources and methods for the compilation of ESA95 financial accounts
ESA95 manual on government deficit and debt
Manual on compilation of taxes and social payments on a quarterly basis – First edition
Manual on sources and methods for the compilation of COFOG statistics

Dedicated sections on the Eurostat website

Government finance statistics

Website data

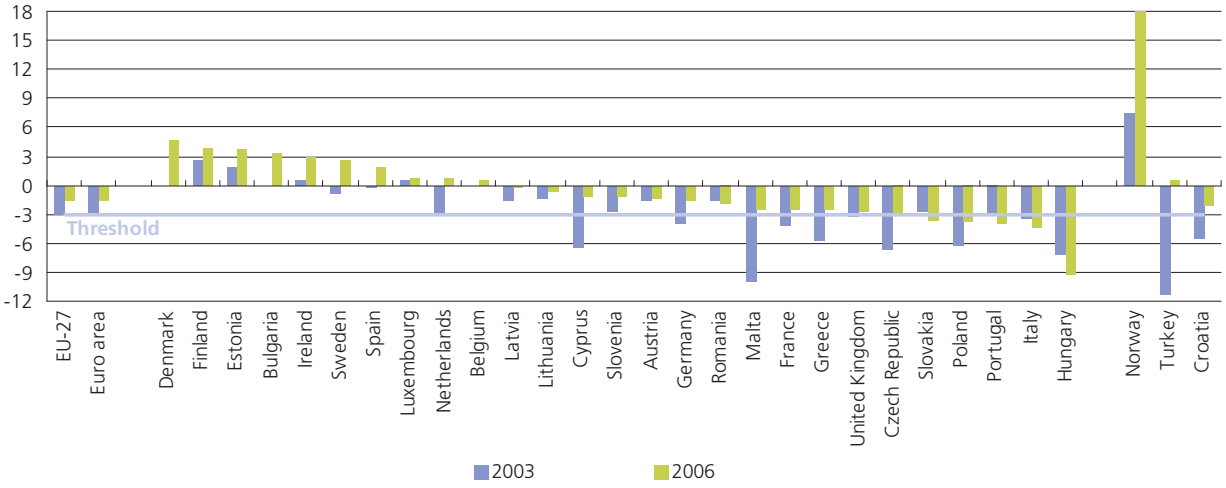
Government statistics

- Annual government finance statistics
- Government deficit and debt
- Quarterly government finance statistics
- Other government indicators

Financial accounts

Figure 1.14: Public balance

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



Source: Eurostat (tsieb060)

Net lending (+)/net borrowing (-) 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. GDP used as a denominator is the gross domestic product at current market prices.

Table 1.6: Public balance, general government debt

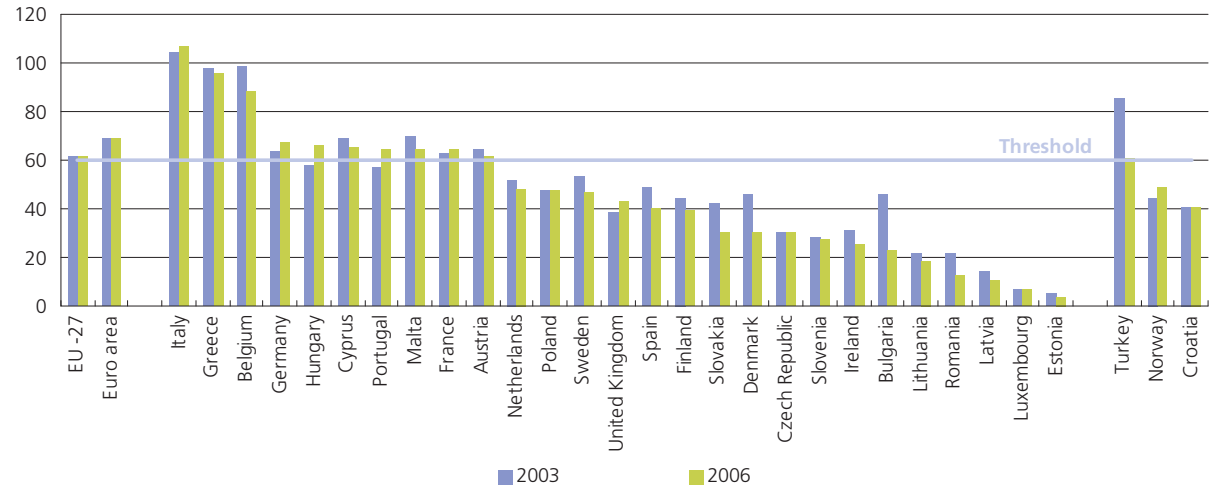
	Public balance (net borrowing/lending of consolidated general government sector, % of GDP)				General government debt (general government consolidated gross debt, % of GDP)			
	2003	2004	2005	2006	2003	2004	2005	2006
EU-27	-3.1	-2.8	-2.4	-1.6	61.8	62.1	62.7	61.4
Euro area	-3.1	-2.8	-2.5	-1.5	69.1	69.6	70.3	68.6
Belgium	0.0	0.0	-2.3	0.4	98.6	94.2	92.2	88.2
Bulgaria	0.0	2.3	2.0	3.2	45.9	37.9	29.2	22.8
Czech Republic	-6.6	-3.0	-3.5	-2.9	30.1	30.4	30.2	30.1
Denmark	-0.1	1.9	4.6	4.6	45.8	44.0	36.3	30.3
Germany	-4.0	-3.8	-3.4	-1.6	63.8	65.6	67.8	67.5
Estonia	1.8	1.8	1.9	3.6	5.5	5.1	4.4	4.0
Ireland	0.4	1.3	1.2	2.9	31.1	29.5	27.4	25.1
Greece	-5.6	-7.3	-5.1	-2.5	97.9	98.6	98.0	95.3
Spain	-0.2	-0.3	1.0	1.8	48.7	46.2	43.0	39.7
France	-4.1	-3.6	-2.9	-2.5	62.9	64.9	66.7	64.2
Italy	-3.5	-3.5	-4.2	-4.4	104.3	103.8	106.2	106.8
Cyprus	-6.5	-4.1	-2.4	-1.2	68.9	70.2	69.1	65.2
Latvia	-1.6	-1.0	-0.4	-0.3	14.4	14.5	12.5	10.6
Lithuania	-1.3	-1.5	-0.5	-0.6	21.2	19.4	18.6	18.2
Luxembourg	0.5	-1.2	-0.1	0.7	6.3	6.4	6.2	6.6
Hungary	-7.2	-6.5	-7.8	-9.2	58.0	59.4	61.6	65.6
Malta	-9.9	-4.9	-3.1	-2.5	69.3	72.7	70.8	64.7
Netherlands	-3.1	-1.7	-0.3	0.6	52.0	52.4	52.3	47.9
Austria	-1.6	-1.2	-1.6	-1.4	64.6	63.8	63.4	61.7
Poland	-6.3	-5.7	-4.3	-3.8	47.1	45.7	47.1	47.6
Portugal	-2.9	-3.4	-6.1	-3.9	56.9	58.3	63.7	64.8
Romania	-1.5	-1.5	-1.4	-1.9	21.5	18.8	15.8	12.4
Slovenia	-2.7	-2.3	-1.5	-1.2	27.9	27.6	27.4	27.1
Slovakia	-2.7	-2.4	-2.8	-3.7	42.4	41.4	34.2	30.4
Finland	2.5	2.3	2.7	3.8	44.3	44.1	41.4	39.2
Sweden	-0.9	0.8	2.4	2.5	53.5	52.4	52.2	47.0
United Kingdom	-3.3	-3.4	-3.3	-2.7	38.7	40.4	42.1	43.2
Croatia	-5.5	-4.1	-3.8	-2.2	41.0	43.2	43.7	40.8
Turkey	-11.3	-5.8	-0.3	0.4	85.1	76.9	69.6	60.7
Norway	7.3	11.1	15.2	18.0	44.3	45.6	43.8	48.9

Source: Eurostat (tsieb060 and tsieb070)

The general government sector comprises the subsectors of central government, state government, local government and social security funds. GDP used as a denominator is the gross domestic product at current market prices. 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 national data for the general government sector are consolidated between the sub-sectors. Basic data are expressed in national currency, converted into euro using end-year exchange rates for the euro provided by the European Central Bank.

Figure 1.15: General government debt

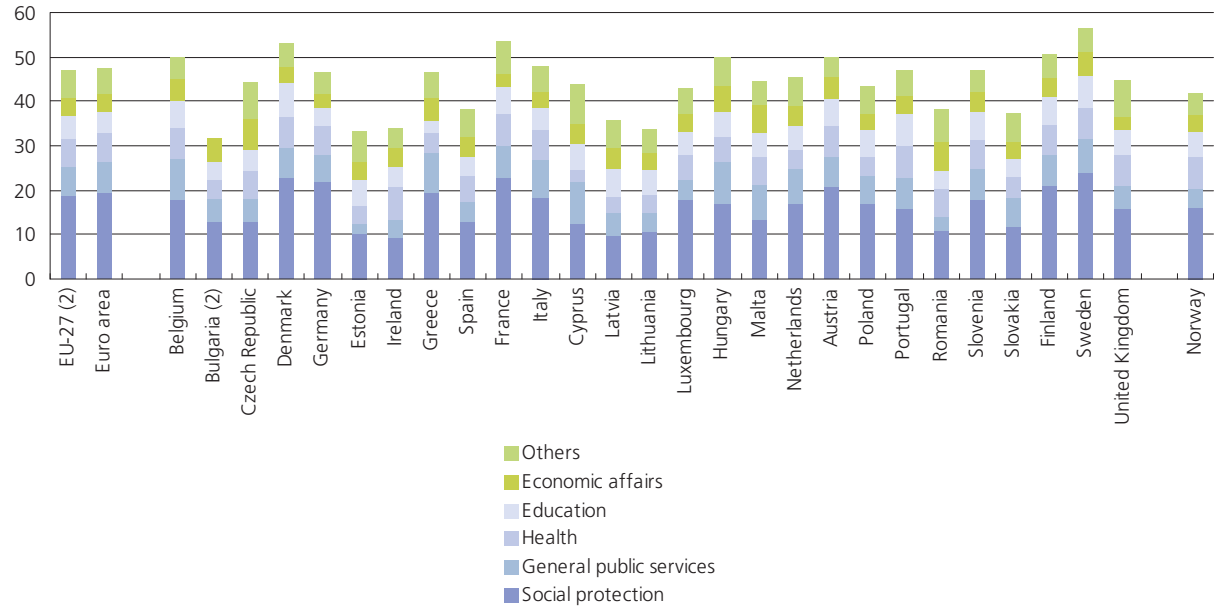
(general government consolidated gross debt, % of GDP)



Source: Eurostat (tsieb070)

Figure 1.16: General government expenditure by COFOG function, 2005 (1)

(% of GDP)

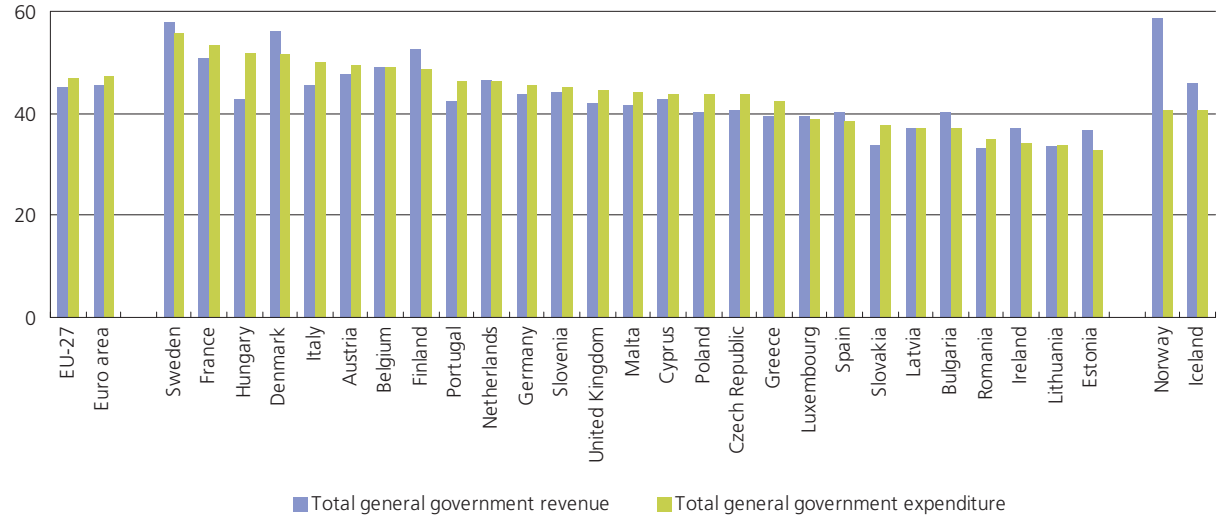


(1) COFOG: classification of the functions of government.
(2) 2004.

Source: Eurostat (gov_a_exp)

Figure 1.17: Government revenue and expenditure, 2006

(% of GDP)



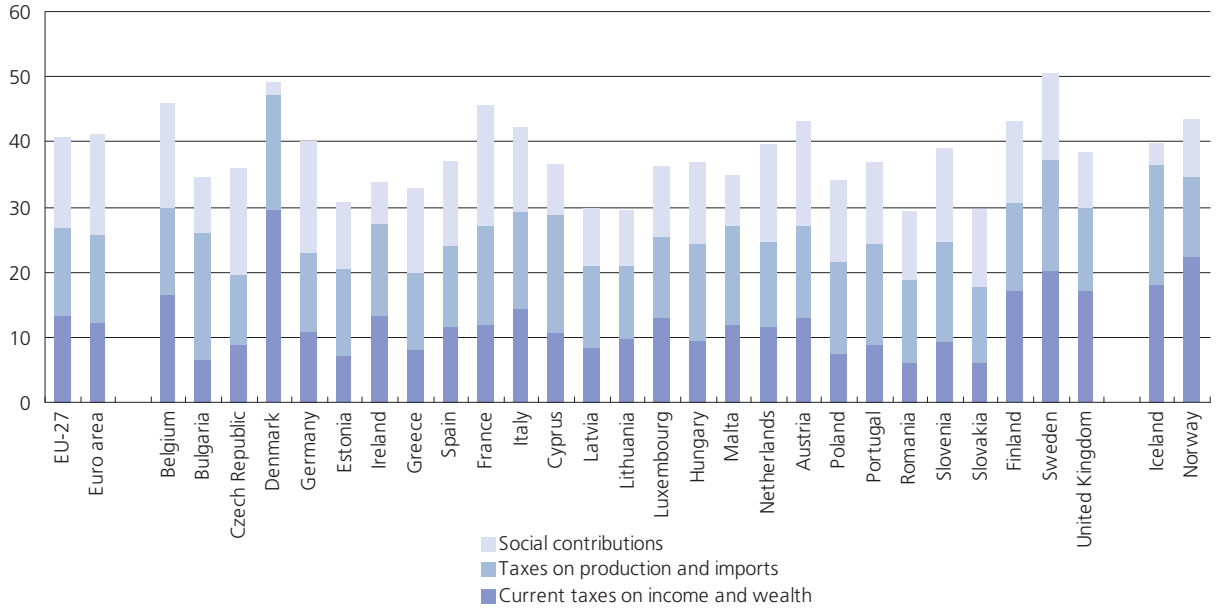
Source: Eurostat (tec00021 and tec00023)

Total general government revenue is defined in ESA-95 §8.99 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 in ESA-95 §8.99 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.

Figure 1.18: Taxes, 2006

(% of GDP)



Source: Eurostat (tec00018, tec00020 and tec00019)

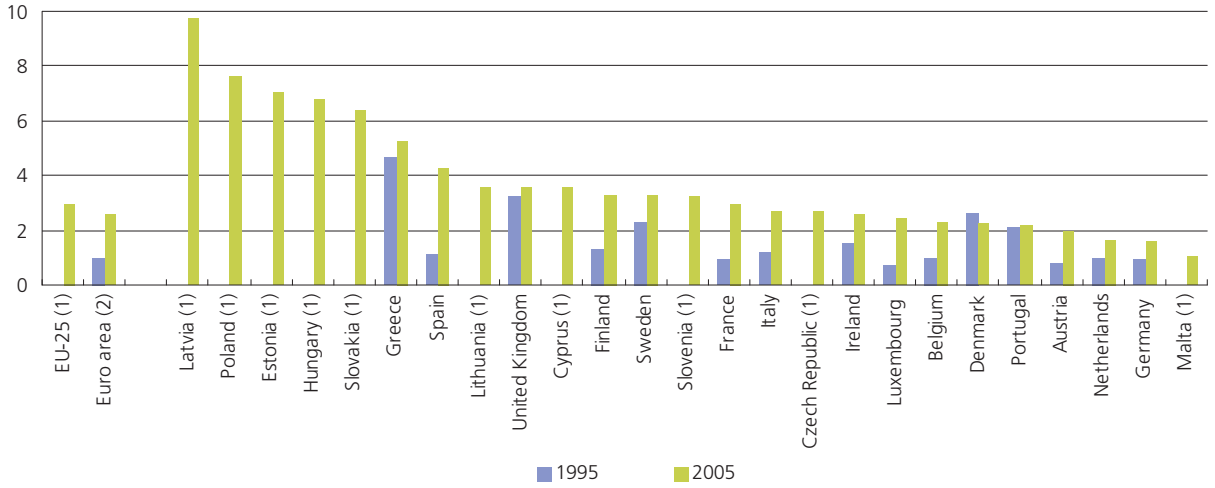
Current taxes on income, wealth, etc. (ESA95 code D.5) cover all compulsory, unrequited payments, in cash or in kind, levied periodically by general government and by the rest of the world on the income and wealth of institutional units, and some periodic taxes which are assessed neither on the income nor the wealth. In ESA95, current taxes on income, wealth, etc. are divided into taxes on income and other current taxes.

Taxes on production and imports (ESA95 code D.2) 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. In ESA95, taxes on production and imports comprise taxes on products and other taxes on production.

Social contributions (ESA95 code D.61) are divided into actual social contributions and imputed social contributions. Actual social contributions include employers' actual social contributions, employees' social contributions and social contributions by self-employed and non-employed persons. Imputed social contributions represent the counterpart to social benefits (less eventual employees' social contributions) paid directly by employers.

Figure 1.19: Public procurement

(value of public procurement which is openly advertised, as % of GDP)



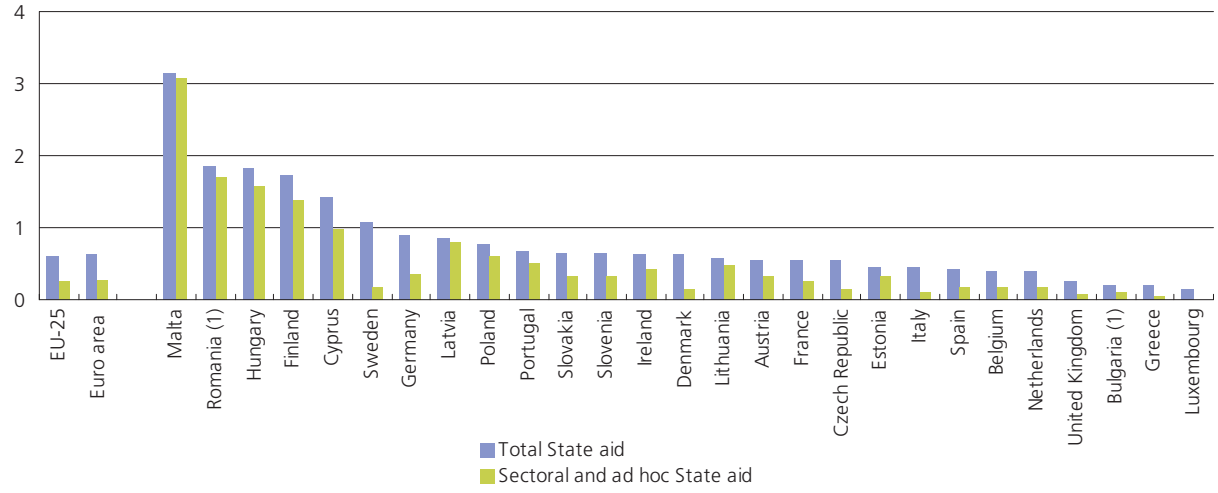
(1) Not available for 1995.
(2) EA-12.

Source: Eurostat (tsier040), Commission services

Data on public procurement are based on information contained in the calls for competition and contract award notices submitted for publication in the Official Journal of the European Communities (the S series). The nominator is the value of public procurement, which is openly advertised. For each of the sectors - works, supplies and services - the number of calls for competition published is multiplied by an average based, in general, on all the prices provided in the contract award notices published in the Official Journal during the relevant year. The denominator is GDP, gross domestic product.

Figure 1.20: State aid, 2005

(% of GDP)



(1) 2004.

Source: Eurostat (tsier051 and tsier052), Commission services

The numerator is the sum of all State aid granted to specific sectors (agriculture, fisheries, manufacturing, coal, transport except railways and other services), State aid given on an ad-hoc basis to individual companies e.g., for rescue and restructuring, and State aid for horizontal objectives such as research and development, safeguarding the environment, energy saving, support to small and medium-sized enterprises, employment creation, the promotion of training and aid for regional development. The denominator is GDP, gross domestic product

The numerator is the sum of all State aid granted to specific sectors (agriculture, fisheries, manufacturing, coal, transport except railways and other services) and State aid given on an ad-hoc basis to individual companies e.g., for rescue and restructuring. These types of aid are considered to be potentially more distortive to competition. The denominator is GDP, gross domestic product.

1.5 EXCHANGE AND INTEREST RATES

INTRODUCTION

On 1 January 2002, around 7 800 million notes and 40 400 million coins entered circulation, valued at EUR 144 000 million, as the euro became the common currency of 12 of the Member States; Slovenia subsequently joined the euro area at the start of 2007.

Economic and Monetary Union (EMU) consists of three stages coordinating economic policy and culminating with the adoption of the euro. At the time of writing thirteen of the Member States – Belgium, Germany, Ireland, Greece, Spain, France, Italy, Luxembourg, the Netherlands, Austria, Portugal, Slovenia, and Finland – had so far entered the third stage, adopting the euro as their common currency. Cyprus and Malta joined the euro area on 1 January 2008, bringing the number of Member States using the euro to 15.

All EMU members are eligible to adopt the euro, but Denmark and the United Kingdom have opted to remain outside the euro, while Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Sweden have no target date for joining. The entry criteria for the euro include two years of prior exchange rate stability via membership of the Exchange Rate Mechanism (ERM), as well as criteria relating to interest rates, budget deficits, inflation rates, and debt-to-GDP ratios.

Through using a common currency the countries of the euro area have removed exchange rates and therefore benefit from lower transaction costs. The size of the euro area market is also likely to promote investment and trade.

Those countries joining the euro area have agreed to allow the European Central Bank (ECB) to maintain price stability, through the definition and implementation of monetary policy. When the euro was launched in 1999, the ECB took over full responsibility for monetary policy throughout the euro area, including setting benchmark interest rates and managing the euro area's foreign exchange reserves. 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 section 1.7 for more details in relation to consumer prices). 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 also has the job of ensuring that payments move smoothly across EU financial markets. The ECB and the European Commission are working jointly on a Single Euro Payments Area (SEPA) – a system that aims to make virtually all forms of cross-border euro payment faster and no more expensive than domestic payments by 2010.

DEFINITIONS AND DATA AVAILABILITY

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

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.

An interest rate is defined as the cost or price of borrowing, or the gain from lending; interest rates are traditionally expressed in annual percentage terms. Interest rates are distinguished either by the period of lending/borrowing, or by the parties involved in the transaction (business, consumers, governments or interbank operations).

Central bank interest rates are key reference rates set by the ECB and national central banks (for those countries outside of the euro area). Central bank interest rates are also referred to as official interest rates; they are the main instrument of monetary policy for central banks.

Long-term interest rates are one of the convergence criteria (or Maastricht criteria) for European Economic and Monetary Union. The data are based upon central government bond yields on the secondary market, gross of tax, with a residual maturity of around 10 years.

Eurostat publish a number of short-term interest rates, with different maturities: overnight, 1 to 12-months. Day-to-day money rates refer to deposits or loans on the money market with a maturity of just one business day. The rates shown are reference rates and are generally interbank rates.

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.

MAIN FINDINGS

It is important to note that nearly all of the information presented in this publication has been converted into euro (EUR). As such, when making comparisons between countries it is necessary to bear in mind the possible affect of currency fluctuations on the evolution of particular series. The value of the euro against the yen or the dollar depreciated considerably in 1999 and 2000. However, the last few years have seen a marked appreciation in the value of the euro, such that it reached record highs against the yen in July 2007 (EUR 1 = JPY 166.76) and against the dollar in October 2007 (EUR 1 = USD 1.4227).

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 and 2006, after which the federal funds rate remained unchanged between June 2006 and September 2007, when it fell to 4.75 % on the back of fears for a slowdown in economic activity, in particular within the housing market with concerns over the subprime market. European interest rates followed this trend, and during the period from December 2005 to June 2007 there were 8 individual increases in interest rates, as the ECB tightened monetary policy, which thereafter remained unchanged through to September 2007.

SOURCES

Pocketbooks

EU economic data pocketbook – Quarterly

Website data

Exchange rates

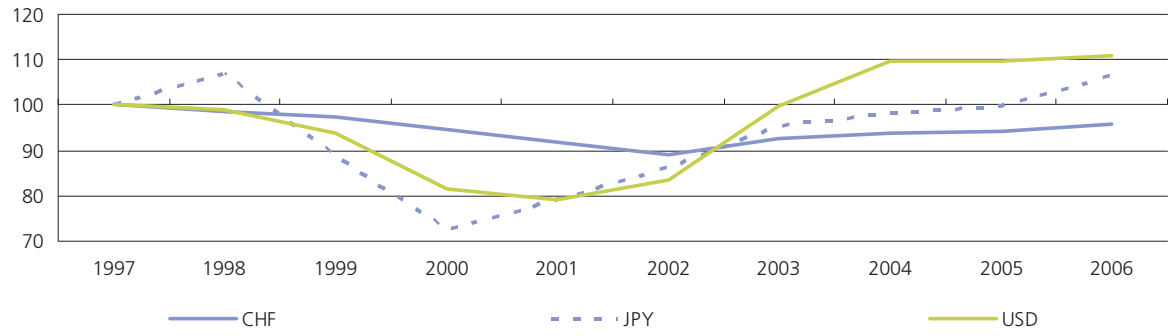
- Bilateral exchange rates
- ERM fluctuations
- Effective exchange rate indices
- Former euro area national currencies exchange rates

Interest rates

- Euro yield curves
- Long-term interest rates
- Central bank interest rates
- Short-term interest rates
- Retail bank interest rates
- Convergence of interest rates
- Interest rates: historical data

Figure 1.21: Exchange rates against the euro (1)

(1997=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.

Source: Eurostat (tec00033), ECB

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 1.7: Exchange rates against the euro (1)

(1 EUR =… national currency)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Belgium	40.5332	40.6207	40.340	-	-	-	-	-	-	-
Bulgaria	1.8910	1.96913	1.9558	1.9522	1.9482	1.9492	1.9490	1.9533	1.9558	1.9558
Czech Republic	35.930	36.0487	36.884	35.599	34.068	30.804	31.846	31.891	29.782	28.342
Denmark	7.4836	7.4993	7.4355	7.4538	7.4521	7.4305	7.4307	7.4399	7.4518	7.4591
Germany	1.96438	1.96913	1.95583	-	-	-	-	-	-	-
Estonia	15.713	15.7481	15.6466	15.6466	15.6466	15.6466	15.6466	15.6466	15.6466	15.6466
Ireland	0.74752	0.78625	0.78756	-	-	-	-	-	-	-
Greece	309.355	330.731	325.763	336.63	340.75	-	-	-	-	-
Spain	165.89	167.184	166.386	-	-	-	-	-	-	-
France	6.6126	6.6014	6.55957	-	-	-	-	-	-	-
Italy	1 929.3	1 943.6	1 936.3	-	-	-	-	-	-	-
Cyprus	0.58243	0.57934	0.57884	0.57392	0.57589	0.5753	0.58409	0.58185	0.57683	0.57578
Latvia	0.6594	0.66024	0.6256	0.5592	0.5601	0.5810	0.6407	0.6652	0.6962	0.6962
Lithuania	4.5362	4.4844	4.2641	3.6952	3.5823	3.4594	3.4527	3.4529	3.4528	3.4528
Luxembourg	40.5332	40.6207	40.340	-	-	-	-	-	-	-
Hungary	211.654	240.573	252.77	260.04	256.59	242.96	253.62	251.66	248.05	264.26
Malta	0.4375	0.4350	0.4258	0.4041	0.4030	0.4089	0.4261	0.4280	0.4299	0.4293
Netherlands	2.21081	2.21966	2.20371	-	-	-	-	-	-	-
Austria	13.824	13.8545	13.760	-	-	-	-	-	-	-
Poland	3.71545	3.91647	4.2274	4.0082	3.6721	3.8574	4.3996	4.5268	4.0230	3.8959
Portugal	198.589	201.70	200.482	-	-	-	-	-	-	-
Romania	0.81085	0.99849	1.6345	1.9922	2.6004	3.1270	3.7551	4.0510	3.6209	3.5258
Slovenia	180.986	185.948	194.473	206.613	217.98	225.977	233.849	239.087	239.568	239.60
Slovakia	38.1129	39.5407	44.123	42.602	43.300	42.694	41.489	40.022	38.599	37.234
Finland	5.88064	5.98251	5.94573	-	-	-	-	-	-	-
Sweden	8.65117	8.91593	8.8075	8.4452	9.2551	9.1611	9.1242	9.1243	9.2822	9.2544
United Kingdom	0.6923	0.67643	0.65874	0.60948	0.62187	0.62883	0.6920	0.67866	0.6838	0.68173
Croatia	:	:	7.58046	7.64316	7.4820	7.4130	7.5688	7.4967	7.4008	7.3247
FYR of Macedonia	56.526	60.961	60.618	60.725	60.913	60.979	61.262	61.323	61.309	61.189
Turkey	0.1718	0.2937	0.44724	0.57482	1.10242	1.43968	1.69485	1.77705	1.6771	1.8090
Iceland	80.4391	79.6976	77.180	72.580	87.420	86.180	86.650	87.140	78.230	87.760
Norway	8.01861	8.46587	8.3104	8.1129	8.0484	7.5086	8.0033	8.3697	8.0092	8.0472
Switzerland	1.6440	1.6220	1.6003	1.5579	1.5105	1.4670	1.5212	1.5438	1.5483	1.5729
Japan	137.076	146.415	121.32	99.47	108.68	118.06	130.97	134.44	136.85	146.02
United States	1.1340	1.12109	1.0658	0.9236	0.8956	0.9456	1.1312	1.2439	1.2441	1.2556

(1) The euro replaced the ecu on 1 January 1999; on 1 January 2002, it also replaced the notes and coins of 12 Community currencies with the introduction of the euro to the euro area (EA-12) members; on 1 January 2007, the euro came into circulation in Slovenia; on 1 January 2008, the euro came into circulation in Cyprus and Malta.

Source: Eurostat (tec00033), ECB

Table 1.8: Interest rates

(%)

	Central bank interest rates: official lending rates for loans		EMU convergence criterion bond yields (Maastricht criterion) (1)		Short-term interest rates: three-month interbank rates (annual average)		Short-term interest rates: day-to-day money rates (annual average)	
	2001	2006 (2)	2001	2006	2001	2006	2001	2006 (3)
EU-25	:	:	:	4.03	4.74	3.50	:	2.65
Euro area	4.25	4.50	5.00	3.84	4.26	3.08	4.38	2.84
Belgium	-	-	5.13	3.81	-	-	-	-
Bulgaria	:	:	:	4.18	5.06	3.69	3.64	2.79
Czech Republic	5.75	3.50	6.31	3.78	5.17	2.30	4.98	2.10
Denmark	3.60	3.75	5.08	3.81	4.70	3.18	4.69	2.68
Germany	-	-	4.80	3.76	-	-	-	-
Estonia	:	:	10.15	4.30	5.31	3.16	3.93	1.97
Ireland	-	-	5.01	3.76	-	-	-	-
Greece	-	-	5.30	4.07	-	-	-	-
Spain	-	-	5.12	3.78	-	-	-	-
France	-	-	4.94	3.80	-	-	-	-
Italy	-	-	5.19	4.05	-	-	-	-
Cyprus	5.50	4.50	7.63	4.13	5.93	3.37	5.16	2.92
Latvia	5.50	6.00	7.57	4.13	6.86	4.38	5.76	3.54
Lithuania	5.50	:	8.15	4.08	5.93	3.11	4.11	2.88
Luxembourg	-	-	4.86	3.92	-	-	-	-
Hungary	11.25	9.00	7.95	7.12	10.87	7.23	10.92	6.43
Malta	4.80	4.75	6.19	4.32	4.93	3.49	4.44	3.37
Netherlands	-	-	4.96	3.78	-	-	-	-
Austria	-	-	5.07	3.80	-	-	-	-
Poland	15.50	5.50	10.68	5.23	16.07	4.21	17.12	4.10
Portugal	-	-	5.16	3.91	-	-	-	-
Romania	35.00	8.75	:	7.23	41.28	8.09	37.84	7.04
Slovenia	12.00	5.00	:	3.85	10.87	3.58	:	3.37
Slovakia	9.00	6.25	8.04	4.41	7.77	4.33	7.35	3.83
Finland	-	-	5.04	3.78	-	-	-	-
Sweden	4.50	3.75	5.11	3.70	4.12	2.57	4.08	2.10
United Kingdom	4.00	5.00	5.01	4.37	5.04	4.85	5.09	4.73
Turkey	58.94	17.50	:	:	:	:	93.04	15.05
Japan	0.10	0.40	:	:	0.15	0.30	0.06	0.00
United States	1.75	5.25	:	:	3.77	5.20	3.88	3.22

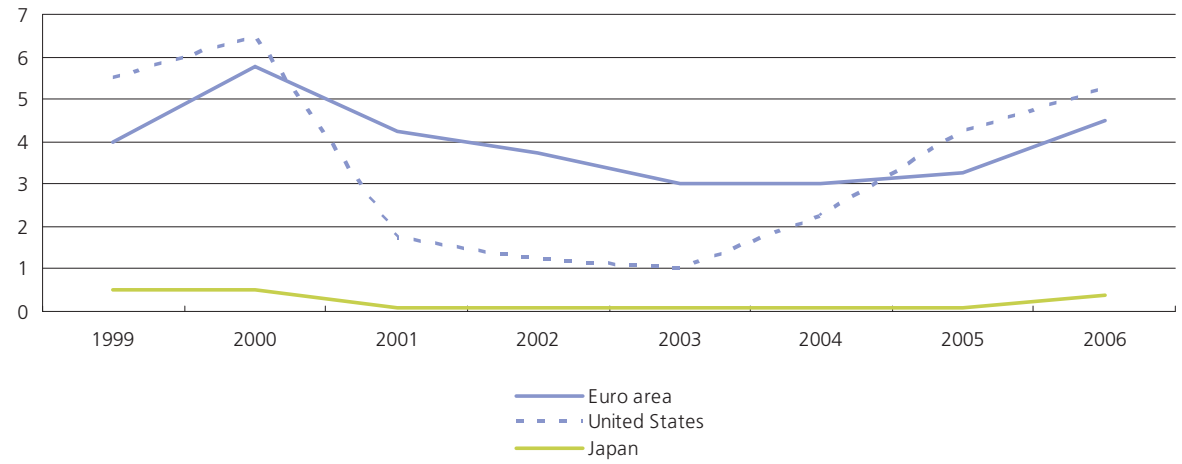
(1) The indicator for Estonia represents interest rates on new EEK-denominated loans to non-financial corporations and households with maturity over 5 years; however, a large part of the underlying claims are linked to variable interest rates. The indicator for Luxembourg is based on a basket of long-term bonds, which have an average residual maturity close to ten years; the bonds are issued by a private credit institution.
(2) Slovenia and Turkey, 2005.
(3) EU-25, Estonia, Turkey, Japan and the United States, 2005.

Source: Eurostat (irt_cb_a, irt_lt_mcby_a, tec00035 and tec00034), ECB, national central banks

An interest rate is the cost or price of borrowing, or the gain from lending, normally expressed as an annual percentage amount. Three-month interbank rates apply to deposits or loans between banks with an original maturity of three months. Day-to-day money refers to deposits or loans on the money market with a maturity of one business day.

Figure 1.22: Central bank interest rates: official lending rates for loans

(%)



Source: Eurostat (irt_cb_a), ECB, national central banks

1.6 WAGES AND LABOUR COSTS

INTRODUCTION

Globalisation, the behaviour of firms, employment-related policies and changes in the structure of markets may influence the way in which labour markets develop. The level and structure of labour costs are among some of the key macro-economic indicators used by policy-makers, employers and trade unions in assessing labour market supply and demand conditions.

Within the context of the renewed Lisbon strategy, as highlighted in the Integrated Guidelines for Growth and Employment there are two key guidelines, namely to ensure:

- 'that wage developments contribute to macro-economic stability and growth, and;
- employment-friendly labour cost developments and wage-setting mechanisms by encouraging social partners within their own responsibilities to set the right framework for wage-bargaining in order to reflect productivity and labour market challenges at all relevant levels and to avoid gender pay gaps, by reviewing the impact on employment of non-wage labour costs and where appropriate adjust their structure and level, especially to reduce the tax burden on the low-paid' (26).

Article 141(1) of the EC Treaty sets out the principle of equal pay for male and female workers for equal work or work of equal value, and Article 141(3) provides the legal basis for legislation on the equal treatment of men and women in employment matters. The gender pay gap is a multidimensional phenomenon that may be related to a number of effects, such as the composition of the labour force, remuneration and personnel selection effects. Gender differences are not restricted to pay, and the principle of equal treatment has been extended to cover a range of employment aspects, including equal access to self-employment, working conditions and vocational training. Policy measures within this area are designed to take account of differences in male and female labour market participation rates and career structures, wage structures, promotion policies, as well as the concentration of women in low pay sectors and occupations.

(26) For more information: http://europa.eu/scadplus/leg/en/cha/c11323.htm.

DEFINITIONS AND DATA AVAILABILITY

Labour costs refer to the expenditure incurred by employers in order to employ personnel. These labour cost components and their elements are defined in Commission Regulation (EC) 1737/2005 of 21 October 2005 amending Regulation (EC) No 1726/1999 as regards the definition and transmission of information on labour costs implementing Council Regulation (EC) No 530/1999 concerning structural statistics on earnings and labour costs. Data relate to three core indicators:

- average monthly labour costs, defined as total labour costs per month divided by the corresponding number of employees, expressed as full-time units;
- average hourly labour costs, defined as total labour costs divided by the corresponding number of hours worked;
- the structure of labour costs (wages and salaries; employers' social security contributions; other labour costs), expressed as a percentage of total labour costs.

Gross earnings are the most important part of labour costs - information is provided on average annual gross earnings. These 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. All bonuses, whether or not regularly paid, are included (13th or 14th month, holiday bonuses, profit-sharing, allowances for leave not taken, occasional commissions, etc.). The information is presented for full-time employees working in industry and services (as covered by NACE Sections C to K). The statistical unit is the enterprise or local unit. The population consists of all units having employees, although it is at present still confined to enterprises with at least 10 employees in most countries.

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.

The gender pay gap is given as the difference between average gross hourly earnings of male paid employees and of female paid employees, expressed as a percentage of average gross hourly earnings of male paid employees. The target population consists of all paid employees aged 16-64 that are at work for at least 15 hours per week.

Minimum wages are enforced by law and apply nationwide to the majority of full-time employees in each country. Minimum wages are expressed as gross amounts, that is, before the deduction of income tax and social security contributions. For most countries, the minimum wage is agreed in terms of an hourly or monthly rate, with the following exceptions for those countries where the minimum wage is fixed at an hourly rate:

- France: minimum wage per hour * 169 hours per month;
- Ireland and the United Kingdom: minimum wage per hour * 39 hours per week * 52/12.

In the case of Greece, Spain and Portugal, where 14 monthly minimum wages are paid per year, the minimum monthly wage is multiplied by 14/12.

The tax wedge on labour costs is defined as income tax on gross wage earnings plus the employee's and the employer's social security contributions, expressed as a percentage of the total labour costs of the earner. This indicator is available for single persons without children earning 67 % of the average earnings of an average worker in NACE Sections C to K (the business economy).

The unemployment trap measures the proportion of gross earnings which is taxed away by higher tax and social security contributions and the withdrawal of unemployment and other benefits when an unemployed person returns to employment; it is defined as the difference between gross earnings and the increase of the net income when moving from unemployment to employment, expressed as percentage of the gross earnings. The indicator is available for single persons without children earning 67 % of the average earnings of an average worker in NACE Sections C to K.

The low wage trap measures the proportion of gross earnings which is taxed away through the combined effects of income taxes, social security contributions, and any withdrawal of benefits when gross earnings increase from 33 % to 67 % of the average earnings of an average worker in NACE Sections C to K. This indicator is available for single persons without children and for one-earner couples with two children between 6 and 11 years old.

MAIN FINDINGS

Gross annual earnings of full-time employees in enterprises with 10 or more employees averaged EUR 29 247 in the EU-27 in 2005, ranging from a high of EUR 47 529 in Denmark to EUR 1 978 in Bulgaria. A more detailed analysis can be made for the EU-15 within industrial and service activities covered by NACE Sections C to K.

Despite some progress, there remains an important gap between the earnings of men and women in the EU. Women were paid 15 % less than their male counterparts within the EU-27 in 2006. The pay gap was below 10 % in Belgium, Ireland, Italy, Malta, Portugal and Slovenia, rising to more than 20 % in Germany, Estonia, Cyprus and Slovakia. Various effects may contribute to these gender pay gaps, such as: differences in labour force participation rates, differences in the occupations and activities that tend to be male or female dominated, differences in the degrees to which men and women work on a part-time basis, as well as the attitudes of personnel departments within private and public bodies towards career development and unpaid/maternity leave.

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 in 2007 being recorded in Luxembourg (EUR 1 570 per month) and the lowest in Bulgaria and Romania (EUR 92 and EUR 121 respectively). There was generally a relatively low share of employees in full-time employment who received the minimum wage – however, the latest figures available showed that this proportion rose to double digits in Bulgaria, France and Luxembourg.

There were quite large differences in the structure of labour costs within the Member States in 2005, as the relative importance of wages and salaries ranged from less than 70 % of total labour costs in Belgium, France, Italy (2002), Hungary and Sweden to more than 83 % in Denmark, Cyprus, Luxembourg and 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.

SOURCES

Pocketbooks

EU economic data pocketbook – Quarterly

Methodologies and working papers

Handbook on price and volume measures in national accounts

Website data

Main economic indicators

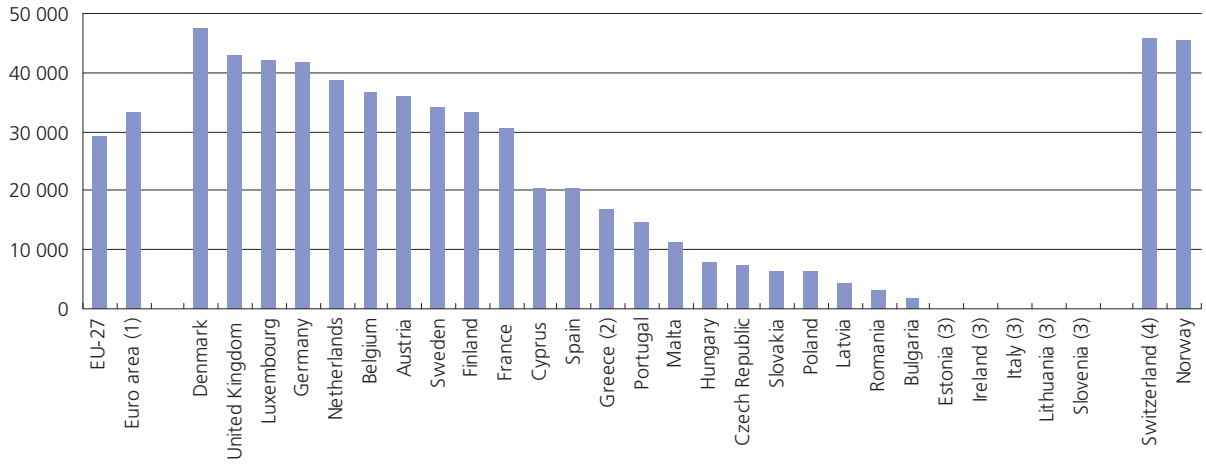
- Economy overview
- Economy – Structural Indicators
- Economy – Euro-Indicators

National accounts (including GDP)

- Annual national accounts
- Quarterly national accounts

Figure 1.23: Earnings in industry and services (average gross annual earnings of full-time employees in enterprises with 10 or more employees), 2005

(EUR)



(1) EA-12.
(2) 2004.
(3) Not available.
(4) 2003.

Source: Eurostat (tec00030)

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.

Table 1.9: Earnings in industry and services (average gross annual earnings of full time employees in enterprises with 10 or more employees)

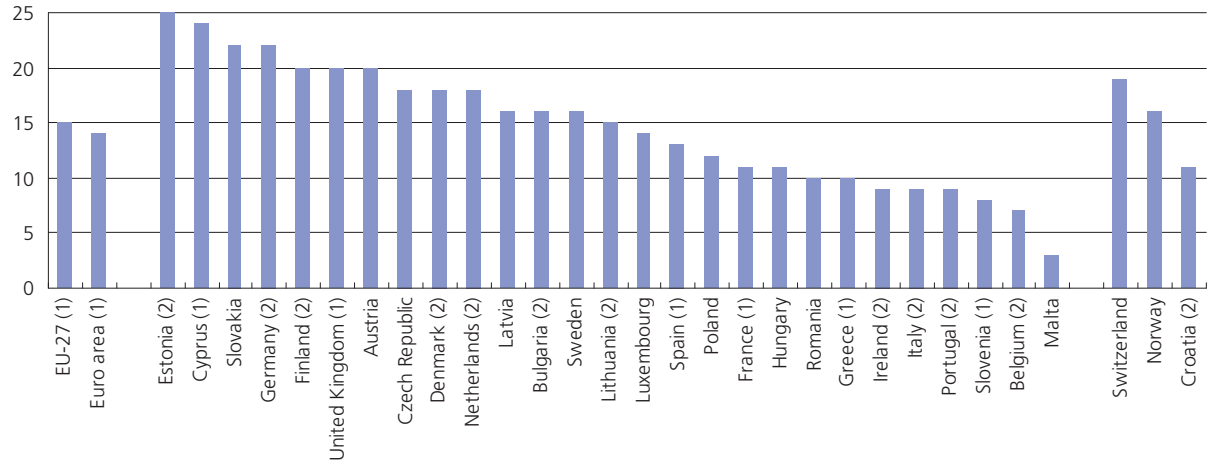
(EUR)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
EU-27	:	:	:	:	:	27 948	30 142	30 349	28 454	29 247	:
Euro area	:	:	:	:	28 786	29 588	30 379	31 089	32 481	33 176	:
Belgium	29 131	28 901	29 616	30 701	31 644	33 109	34 330	34 643	35 704	36 673	37 674
Bulgaria	:	896	1 216	1 330	1 436	1 518	1 588	1 678	1 784	1 978	:
Czech Republic	:	:	:	:	:	:	6 016	6 137	6 569	7 405	8 284
Denmark	36 376	36 235	37 209	39 515	40 962	41 661	43 577	44 692	46 122	47 529	:
Germany	35 254	35 093	35 432	36 228	37 319	38 204	39 153	40 056	40 954	41 694	42 382
Estonia	:	:	:	:	:	:	:	:	:	:	:
Ireland	:	:	:	:	:	:	:	:	:	:	:
Greece	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	20 439	21 150
France	25 089	25 545	25 777	26 339	26 712	27 418	28 185	28 847	29 608	30 521	:
Italy	:	:	:	:	:	:	:	:	:	:	:
Cyprus	12 980	14 021	14 709	15 161	16 335	16 948	17 740	18 406	19 290	20 549	21 310
Latvia	:	:	:	:	:	:	:	:	3 806	4 246	5 211
Lithuania	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	42 135	43 621
Hungary	3 158	3 543	3 686	3 770	4 172	4 898	5 846	6 196	7 099	7 798	7 840
Malta	9 287	10 114	10 713	11 581	12 553	13 320	13 460	13 603	11 926	11 180	:
Netherlands	28 140	28 061	29 189	30 426	31 901	33 900	35 200	36 600	37 900	38 700	:
Austria	:	:	:	:	:	:	:	:	34 995	36 032	:
Poland	3 076	:	4 156	5 310	:	7 509	:	:	6 230	6 270	:
Portugal	:	:	:	:	12 620	13 338	13 322	13 871	14 253	14 715	:
Romania	:	:	:	:	:	:	:	:	2 414	3 155	3 713
Slovenia	:	:	:	:	:	:	:	:	:	:	:
Slovakia	:	3 179	3 292	3 125	3 583	3 837	4 582	4 944	5 706	6 374	7 040
Finland	23 883	24 005	24 944	25 739	27 398	28 555	29 916	*30 978*	31 988	33 290	34 081
Sweden	:	:	:	:	31 621	30 467	31 164	32 177	33 620	34 049	35 084
United Kingdom	:	:	29 370	32 269	37 677	39 233	40 553	38 792	41 253	42 866	:
Iceland	:	:	:	32 311	37 638	34 101	36 764	:	:	:	:
Norway	:	:	31 456	33 741	36 202	38 604	43 736	42 882	42 224	45 485	47 221
Switzerland	42 194	:	40 727	:	43 683	:	48 498	:	45 760	:	:

Source: Eurostat (tec00030)

Figure 1.24: Gender pay gap – female earnings lower than male earnings, 2006

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



(1) Estimate.
(2) 2005.

Source: Eurostat (tsiem030)

The 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 16-64 that are at work 15+ hours per week.

Table 1.10: Minimum wage and proportion of employees earning the minimum wage

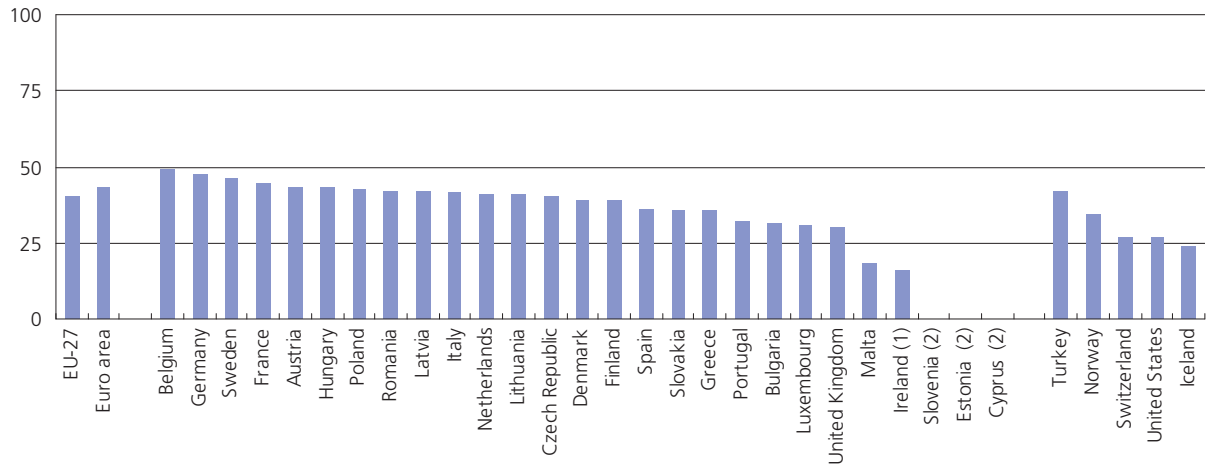
	Minimum wage (EUR/month)						Proportion of full-time employees earning the minimum wage (%)					
	2002	2003	2004	2005	2006	2007	2002	2003	2004	2005	2006	2007
Belgium	1 163	1 163	1 186	1 210	1 234	1 259	:	:	:	:	:	:
Bulgaria	51	56	61	77	82	92	5.1	:	:	16.0	14.6	:
Czech Republic	:	199	207	235	261	280	2.0	2.0	2.0	2.0	2.3	:
Denmark	:	:	:	:	:	:	:	:	:	:	:	:
Germany	:	:	:	:	:	:	:	:	:	:	:	:
Estonia	118	138	159	172	192	230	6.9	6.4	5.7	4.8	:	:
Ireland	1 009	1 073	1 073	1 183	1 293	1 462	2.1	3.1	*3.1*	3.3	3.3	:
Greece	552	605	631	668	668	658	:	:	:	:	:	:
Spain	516	526	537	599	631	666	0.8	0.9	0.8	0.8	1.0	:
France	1 126	1 154	1 173	1 197	1 218	1 280	14.0	13.4	15.6	16.8	15.1	:
Italy	:	:	:	:	:	:	:	:	:	:	:	:
Cyprus	:	:	:	:	:	:	:	:	:	:	:	:
Latvia	107	116	121	116	129	172	15.4	13.6	13.6	12.0	8.9	:
Lithuania	120	125	125	145	159	203	8.8	10.2	12.1	10.3	8.5	:
Luxembourg	1 290	1 369	1 403	1 467	1 503	1 570	15.1	16.9	18.0	11.0	11.0	10.9
Hungary	202	212	189	232	247	262	11.4	8.1	8.0	8.0	7.8	:
Malta	552	534	542	557	580	585	3.5	1.1	1.5	1.5	1.5	1.5
Netherlands	1 207	1 249	1 265	1 265	1 273	1 317	2.3	2.2	2.1	2.2	:	:
Austria	:	:	:	:	:	:	:	:	:	:	:	:
Poland	212	201	177	205	234	246	4.0	:	4.5	2.9	2.3	:
Portugal	406	416	426	437	450	470	4.0	5.7	5.3	4.7	4.2	:
Romania	62	73	69	72	90	121	8.9	12.2	12.0	9.7	8.2	:
Slovenia	:	451	471	490	512	522	2.6	2.7	2.0	2.8	2.5	:
Slovakia	114	133	148	167	183	217	0.1	0.4	1.9	1.7	1.9	:
Finland	:	:	:	:	:	:	:	:	:	:	:	:
Sweden	:	:	:	:	:	:	:	:	:	:	:	:
United Kingdom	1 118	1 106	1 083	1 197	1 269	1 356	1.8	1.2	1.4	1.8	1.9	:
Turkey	:	189	240	240	331	330	:	:	:	:	:	:
United States	1 001	877	727	666	753	665	1.5	1.4	1.4	1.3	1.1	:

Source: Eurostat (tps00155 and tps00156)

Minimum wages are enforced by law and apply nationwide to the majority of full-time employees in each country. Minimum wages are gross amounts, that is, before the deduction of income tax and social security contributions. Such deductions vary from country to country. For most countries, the minimum wage is agreed in terms of a monthly rate.

Figure 1.25: Tax rate on low wage earners: tax wedge on labour cost, 2006

(%)



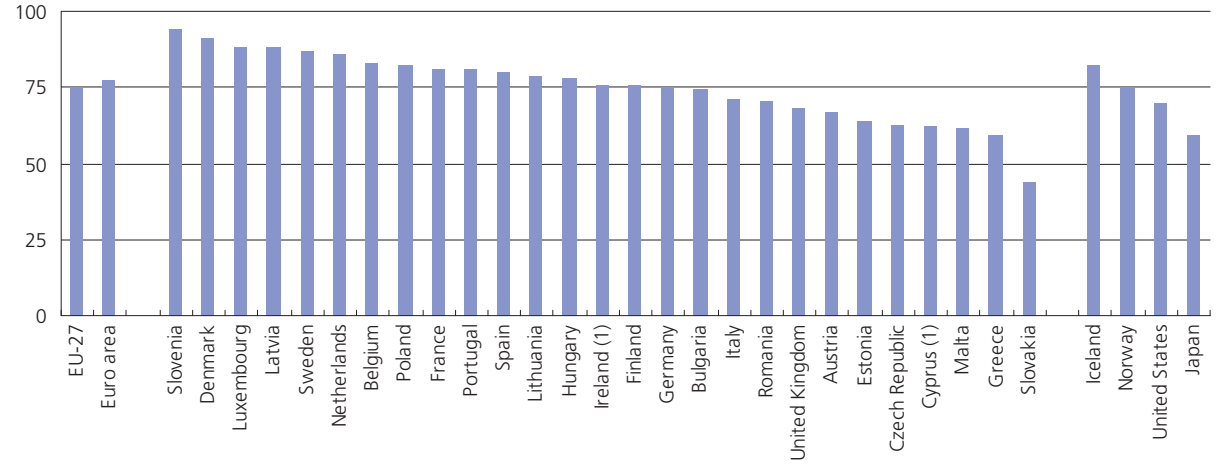
(1) Available only on an average production worker (APW) basis instead of average worker (AW) basis.
(2) Not available.

Source: Eurostat (tsiem041), OECD, Commission services

The tax wedge on the labour cost measures the relative tax burden for an employed person with low earnings.

Figure 1.26: Tax rate on low wage earners: unemployment trap, 2006

(%)



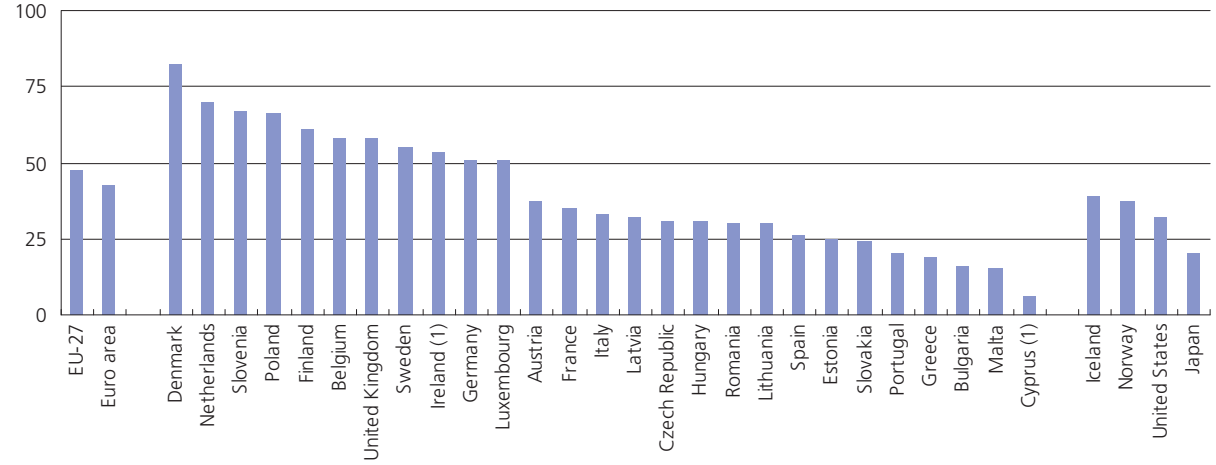
(1) Available only on an average production worker (APW) basis instead of average worker (AW) basis.

Source: Eurostat (tsiem042), OECD, Commission services

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, when in work, 67 % of the average earnings.

Figure 1.27: Tax rate on low wage earners: low wage trap – single person without children, 2006

(%)



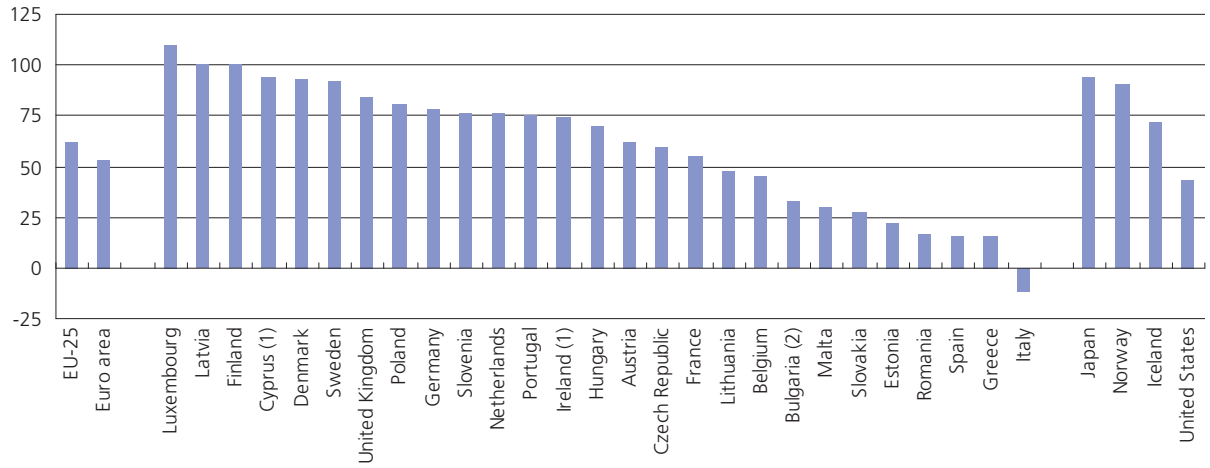
(1) Available only on an average production worker (APW) basis instead of average worker (AW) basis.

Source: Eurostat (tsiem042), OECD, Commission services

The low wage trap measures what percentage of the gross earnings is taxed away by the combined effects of higher taxes and reduced or lost benefits, when an employed single person moves from 33 % to 67 % of the average earnings.

Figure 1.28: Tax rate on low wage earners: low wage trap – one earner couple with two children, 2006

(%)



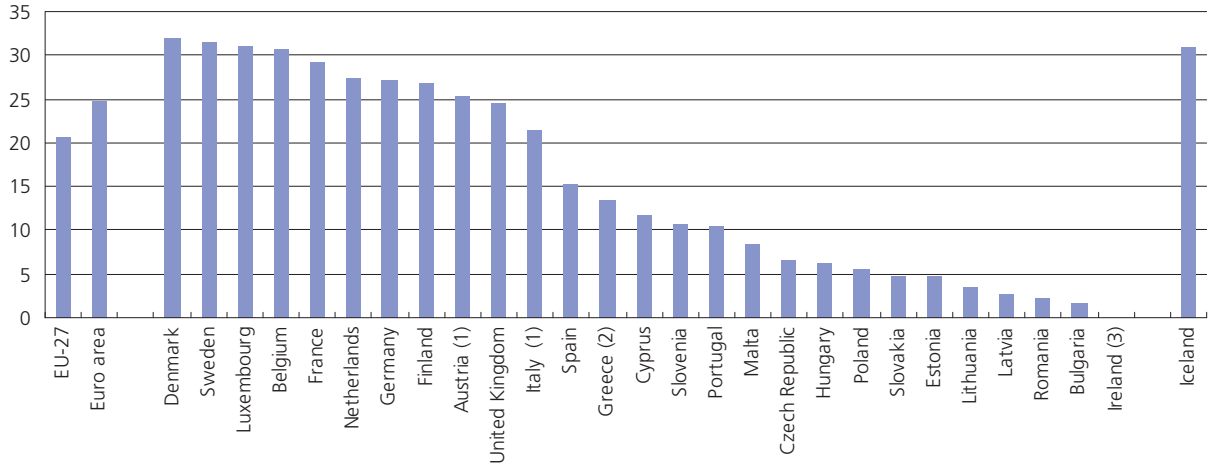
(1) Available only on an average production worker (APW) basis instead of average worker (AW) basis.
(2) 2005.

Source: Eurostat (tsiem044), OECD, Commission services

The low wage trap measures what percentage of the gross earnings is taxed away by the combined effects of higher taxes and reduced or lost benefits, when the earner in a one-earner couple with two children (in the age of 4 and 6) moves from 33 % to 67 % of the average earnings.

Figure 1.29: Labour costs (average hourly labour costs in industry and services of full-time employees in enterprises with 10 or more employees), 2005

(EUR)



(1) 2004.
(2) 2003.
(3) Not available.

Source: Eurostat (tec00028)

Average hourly labour costs, defined as total labour costs divided by the corresponding number of hours worked.

Table 1.11: Labour costs (average hourly labour costs in industry and services of full-time employees in enterprises with 10 or more employees) (1)

(EUR)

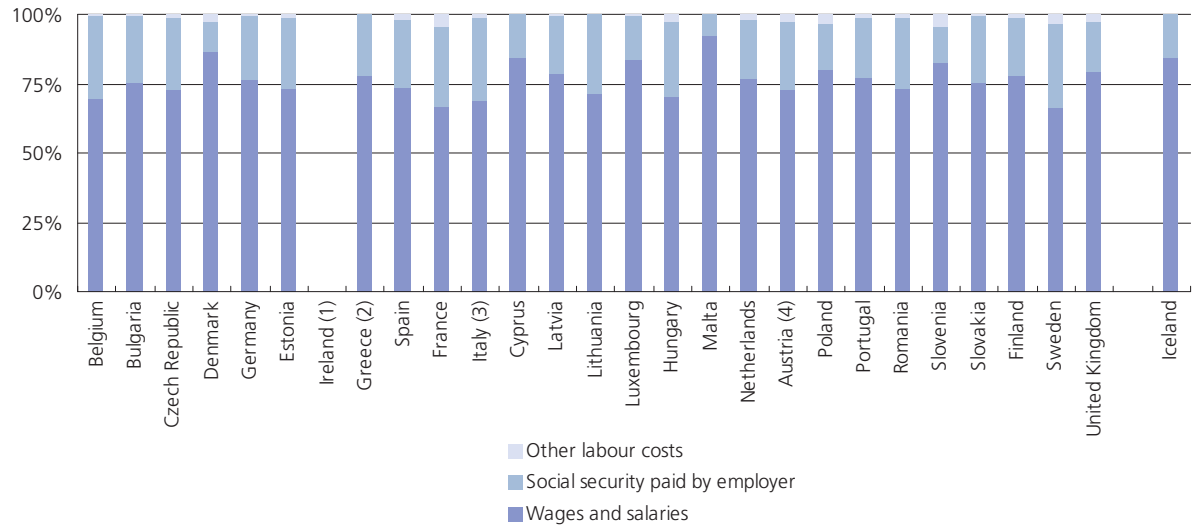
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
EU-27	16.17	16.99	17.09	17.80	18.32	18.76	19.44	19.66	20.39	20.53	:
Euro area	19.39	19.74	19.86	20.31	21.18	21.69	22.42	22.96	23.77	24.71	:
Belgium	:	:	:	:	26.61	27.89	29.17	29.58	30.29	30.73	:
Bulgaria	:	:	*1.11*	*1.22*	1.23	1.29	1.32	1.39	1.45	1.55	:
Czech Republic	2.80	2.97	3.23	3.41	3.86	4.64	5.39	5.47	5.85	6.63	7.14
Denmark	:	23.40	24.63	25.92	26.53	28.54	29.06	30.30	30.70	31.98	:
Germany	22.90	23.30	23.60	24.00	25.00	25.60	26.20	26.80	26.90	27.20	27.70
Estonia	1.85	2.13	2.42	2.60	2.85	3.22	3.67	4.01	4.24	4.67	5.49
Ireland	:	:	:	:	:	:	:	:	:	:	:
Greece	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	*14.76*	15.22	15.77
France	22.09	22.52	22.94	23.57	24.84	26.00	27.04	27.68	28.46	29.29	30.31
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	11.65	11.98
Latvia	:	1.59	1.71	1.85	2.22	2.29	2.39	2.37	2.52	2.77	3.41
Lithuania	1.32	1.68	1.95	2.16	2.63	2.76	2.90	3.10	3.22	3.56	4.21
Luxembourg	21.38	21.26	21.56	22.52	24.48	25.39	26.21	27.02	29.97	31.10	31.98
Hungary	2.86	3.15	3.02	3.14	3.63	4.04	4.91	5.10	*5.54*	6.14	6.34
Malta	:	:	:	:	:	:	7.59	7.77	7.77	8.35	:
Netherlands	20.39	19.13	20.18	21.14	22.31	23.88	25.19	26.45	27.23	27.41	:
Austria	21.96	21.90	22.38	23.21	22.87	23.88	24.93	:	25.32	:	:
Poland	2.95	3.38	3.73	4.05	4.48	5.30	5.27	4.70	4.74	5.55	6.03
Portugal	7.18	7.40	7.60	7.99	8.13	8.60	9.10	9.60	10.20	10.60	10.97
Romania	:	:	:	:	1.41	1.55	1.67	1.60	1.76	2.33	2.68
Slovenia	7.35	7.90	8.51	8.94	8.98	9.58	9.70	10.54	10.41	10.76	:
Slovakia	2.16	2.61	2.91	2.76	3.07	3.26	3.59	4.02	4.41	4.80	5.33
Finland	20.25	20.30	20.40	21.37	22.10	23.59	23.82	24.78	25.34	26.70	27.39
Sweden	23.12	23.79	23.99	25.43	28.56	27.41	28.73	30.43	31.08	31.55	32.16
United Kingdom	14.22	17.69	19.16	20.84	23.71	24.51	25.24	23.56	24.71	24.47	:
Iceland	:	:	:	:	:	:	21.95	23.76	25.22	30.82	32.37
Switzerland	:	:	:	:	30.59	:	34.16	:	32.82	:	:

(1) Break in series: the Netherlands, 1997; Lithuania, 2000; Spain, 2001; Malta, 2003.

Source: Eurostat (tec00028)

Figure 1.30: Breakdown of labour costs, business economy, 2005

(% share of total labour costs)



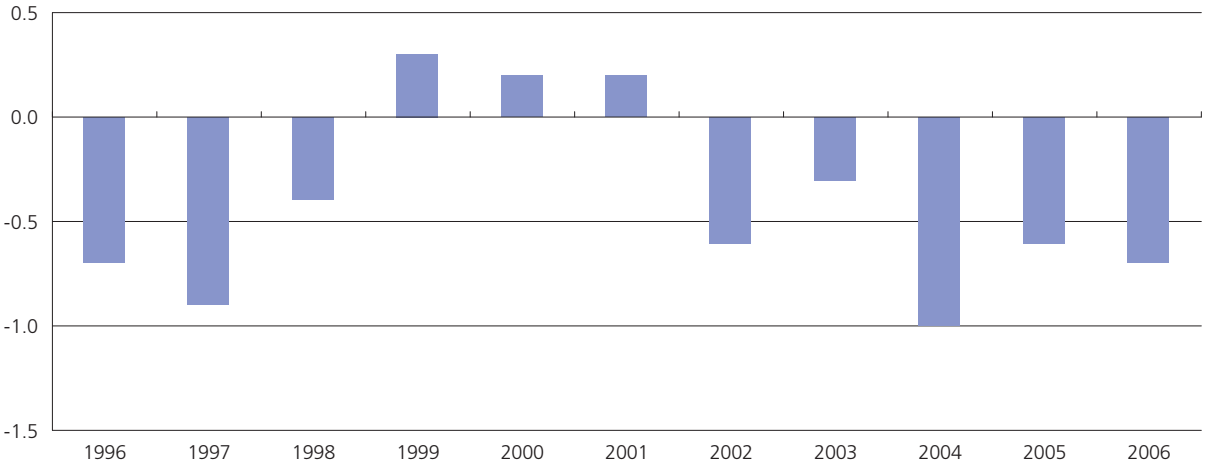
(1) Not available.
(2) 2003.
(3) 2002.
(4) 2004.

Source: Eurostat (tps00113, tps00114 and tps00115)

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

Figure 1.31: Labour cost growth (real unit labour cost growth: compensation per employee in current prices divided by GDP in current prices per total employment), EU-27

(% change compared with previous year)



Source: Eurostat (tsieb050)

This derived indicator compares remuneration (compensation per employee) and productivity (gross domestic product (GDP) per employment) 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 self-employed.

1.7 CONSUMER PRICES

INTRODUCTION

Changes in the price of consumer goods and services are usually referred to as the inflation rate. They measure the loss of living standards due to price inflation and are some of the most well-known economic statistics by the general public.

Price stability is one of the primary objectives of the European Central Bank (ECB), with the inflation rate used as a prime indicator for monetary policy management in the euro area. The ECB has defined price stability as an annual increase in the harmonised index of consumer prices (HICP) for the euro area of close to but below 2 % (over the medium-term).

HICPs are economic indicators constructed to measure the changes over time in the prices of consumer goods and services acquired by households. HICPs give comparable measures of inflation in the euro area, the EU, the European Economic Area, as well as for individual countries. They are calculated according to a harmonised approach and a single set of definitions, providing an official measure of consumer price inflation for the purposes of monetary policy and assessing inflation convergence as required under the Maastricht criteria.

DEFINITIONS AND DATA AVAILABILITY

HICPs are presented with a common reference year, which is currently 2005=100. Normally the indices are used to create percentage changes that show price increases/decreases for the period in question. Although the rates of change shown in this publication are annual averages, the basic indices are compiled on a monthly basis and are published at this frequency by Eurostat. Eurostat publishes HICPs some 14 to 16 days after the end of the reporting month, with these series starting in the mid-1990s.

HICPs cover practically every good and service that may be purchased by households in the form of final monetary consumption expenditure. Owner occupied housing is, however, not yet reflected in the HICPs. The different goods and services are classified according to an international classification of individual consumption by purpose, known as COICOP/HICP. At its most disaggregated level, Eurostat publishes around 100 sub-indices, which can be aggregated to broad categories of goods and services.

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. Note that these aggregates reflect changes over time in their country composition through the use of a chain index formula – for example, the MUICP includes Slovenia only from 2007 onwards, while the EICP index only includes Bulgaria and Romania from 2007 onwards.

HICP methodology allows country weights to change each year: with a country's weight being set as its share of household final monetary consumption expenditure in the geographical aggregate under consideration. For the EICP and the EEAICP, expenditure in national currencies is converted using purchasing power parities.

MAIN FINDINGS

Compared with historical trends, consumer price indices have risen only at a moderate pace during the last two decades. The EU inflation decreased during the 1990s, reaching 1.2 % by 1999, after which the pace of price increases settled at around 2 % per annum during the period 2000 to 2006. This pattern was quite similar to the evolution of inflation in the United States, while Japan has been characterised by exceptionally low inflation – often deflation (in other words falling prices) during the last decade.

In 2006, the highest price inflation among the then 25 EU Member States was recorded in Latvia and Slovakia (6.6 % and 4.3 % respectively). Of the two countries that joined the EU in 2007, Bulgaria recorded even higher inflation with 7.4 % and Romania was at 6.6 % in 2006. In general, inflation was often somewhat higher than the EU average among the ten Member States that joined the EU in 2004.

The overall inflation rate can be broken down to look at its constituent consumer price indices for different goods and services. Some of the most volatile prices are recorded for housing and energy-related items. The rapid increase in the price of oil and gas and generally buoyant housing markets were apparent in the most recent annual price changes, as in 2006 there was a relatively rapid increase in the price of housing, water, electricity, gas and other fuels (5.4 %), education (4.0 %) and transport (3.0 %). Other items tend to record falling prices and 2006 confirmed this trend for clothing and footwear (-0.6 %) and communications (-2.5 %) – the former being increasingly reliant on imports, while technology gains and increased competition have forced down prices within the communications sector.

SOURCES

Pocketbooks

EU economic data pocketbook – Quarterly

Methodologies and working papers

Harmonised indices of consumer prices (HICPs) – A short guide for users

Compendium of HICP reference documents

Dedicated sections on the Eurostat website

Harmonised indices of consumer prices

Website data

Main economic indicators

Economy – Structural Indicators

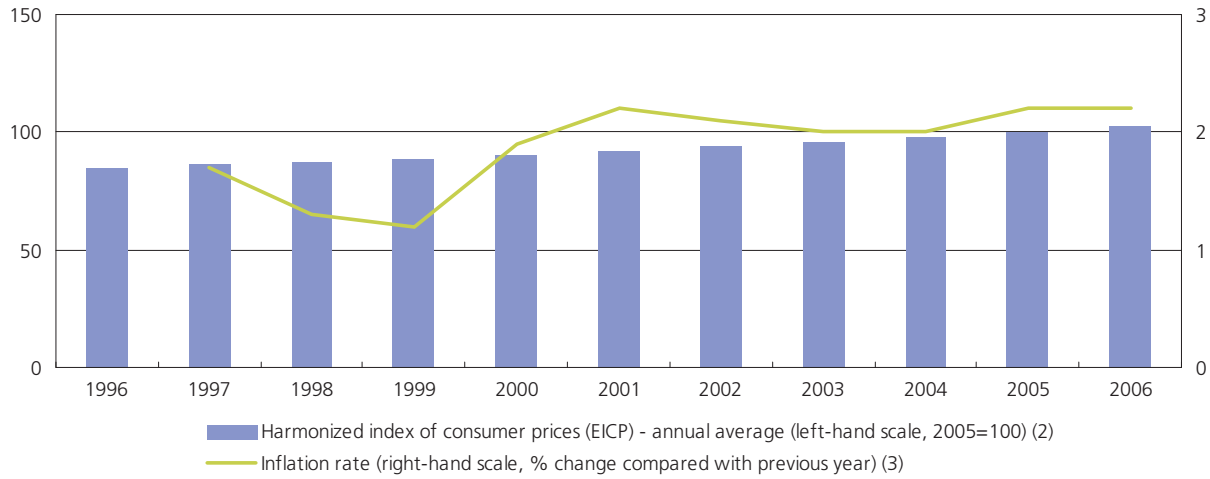
Economy – Euro-Indicators

Prices

Harmonised indices of consumer prices (HICP)

Consumer price indices, 1985=100

Figure 1.32: Consumer price index and inflation rate, EU (1)



(1) The data refer to the official EU aggregate, its country coverage changes in line with the addition of new EU Member States and integrates them using a chain index formula.
(2) 1996-1998, estimates.
(3) 1996, not available; 1997-1999, estimates.

Source: Eurostat (tec00027 and tsieb040)

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 of 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 1.12: Inflation rate

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

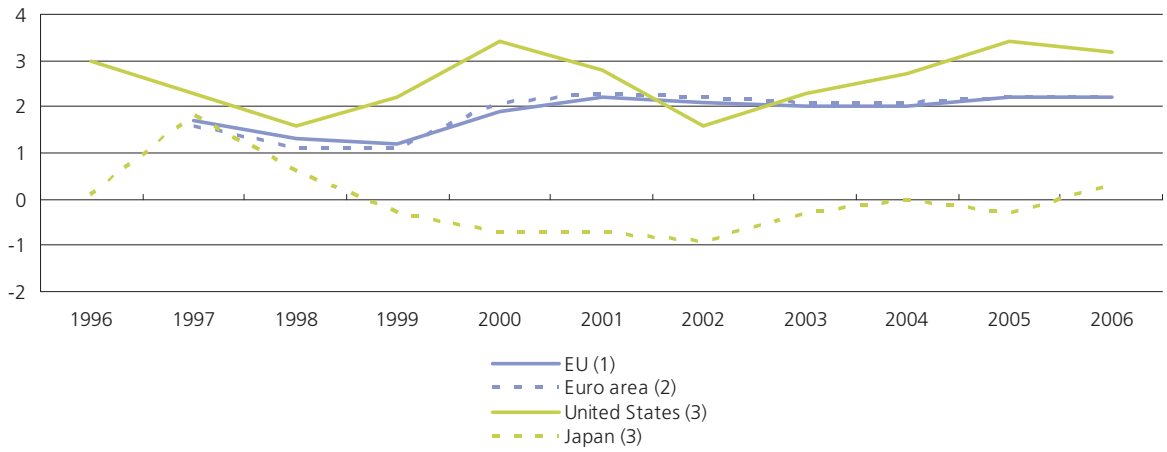
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
EU (1)	:	*1.7*	*1.3*	*1.2*	1.9	2.2	2.1	2.0	2.0	2.2	2.2
Euro area (2)	:	*1.6*	1.1	1.1	2.1	2.3	2.2	2.1	2.1	2.2	2.2
Belgium	:	1.5	0.9	1.1	2.7	2.4	1.6	1.5	1.9	2.5	2.3
Bulgaria	:	:	18.7	2.6	10.3	7.4	5.8	2.3	6.1	6.0	7.4
Czech Republic	:	8.0	9.7	1.8	3.9	4.5	1.4	-0.1	2.6	1.6	2.1
Denmark	:	2.0	1.3	2.1	2.7	2.3	2.4	2.0	0.9	1.7	1.9
Germany	:	1.5	0.6	0.6	1.4	1.9	1.4	1.0	1.8	1.9	1.8
Estonia	:	9.3	8.8	3.1	3.9	5.6	3.6	1.4	3.0	4.1	4.4
Ireland	:	*1.3*	2.1	2.5	5.3	4.0	4.7	4.0	2.3	2.2	2.7
Greece	:	5.4	4.5	2.1	2.9	3.7	3.9	3.4	3.0	3.5	3.3
Spain	:	1.9	1.8	2.2	3.5	2.8	3.6	3.1	3.1	3.4	3.6
France	:	1.3	0.7	0.6	1.8	1.8	1.9	2.2	2.3	1.9	1.9
Italy	:	1.9	2.0	1.7	2.6	2.3	2.6	2.8	2.3	2.2	2.2
Cyprus	:	3.3	2.3	1.1	4.9	2.0	2.8	4.0	1.9	2.0	2.2
Latvia	:	8.1	4.3	2.1	2.6	2.5	2.0	2.9	6.2	6.9	6.6
Lithuania	:	10.3	5.4	1.5	1.1	1.6	0.3	-1.1	1.2	2.7	3.8
Luxembourg	:	1.4	1.0	1.0	3.8	2.4	2.1	2.5	3.2	3.8	3.0
Hungary	:	18.5	14.2	10.0	10.0	9.1	5.2	4.7	6.8	3.5	4.0
Malta	:	3.9	3.7	2.3	3.0	2.5	2.6	1.9	2.7	2.5	2.6
Netherlands	:	1.9	1.8	2.0	2.3	5.1	3.9	2.2	1.4	1.5	1.7
Austria	:	1.2	0.8	0.5	2.0	2.3	1.7	1.3	2.0	2.1	1.7
Poland	:	*15.0*	*11.8*	*7.2*	10.1	5.3	1.9	0.7	3.6	2.2	1.3
Portugal	:	1.9	2.2	2.2	2.8	4.4	3.7	3.3	2.5	2.1	3.0
Romania	:	154.8	59.1	45.8	45.7	34.5	22.5	15.3	11.9	9.1	6.6
Slovenia	:	8.3	7.9	6.1	8.9	8.6	7.5	5.7	3.7	2.5	2.5
Slovakia	:	6.0	6.7	10.4	12.2	7.2	3.5	8.4	7.5	2.8	4.3
Finland	:	1.2	1.3	1.3	2.9	2.7	2.0	1.3	0.1	0.8	1.3
Sweden	:	1.8	1.0	0.5	1.3	2.7	1.9	2.3	1.0	0.8	1.5
United Kingdom	:	1.8	1.6	1.3	0.8	1.2	1.3	1.4	1.3	2.1	2.3
Turkey	:	85.6	82.1	61.4	53.2	56.8	47.0	25.3	10.1	8.1	9.3
Iceland	:	1.8	1.3	2.1	4.4	6.6	5.3	1.4	2.3	1.4	4.6
Norway	:	2.6	2.0	2.1	3.0	2.7	0.8	2.0	0.6	1.5	2.5
Japan (3)	0.1	1.8	0.6	-0.3	-0.7	-0.7	-0.9	-0.3	0.0	-0.3	0.3
United States (3)	3.0	2.3	1.6	2.2	3.4	2.8	1.6	2.3	2.7	3.4	3.2

(1) The data refer to the official EU aggregate, its country coverage changes in line with the addition of new EU Member States and integrates them using a chain index formula.
(2) The data refer to the official euro area aggregate, its country coverage changes in line with the addition of new EU Member States and integrates them using a chain index formula.
(3) National CPI: not strictly comparable with the HICP.

Source: Eurostat (tsieb040)

Figure 1.33: Inflation rate

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

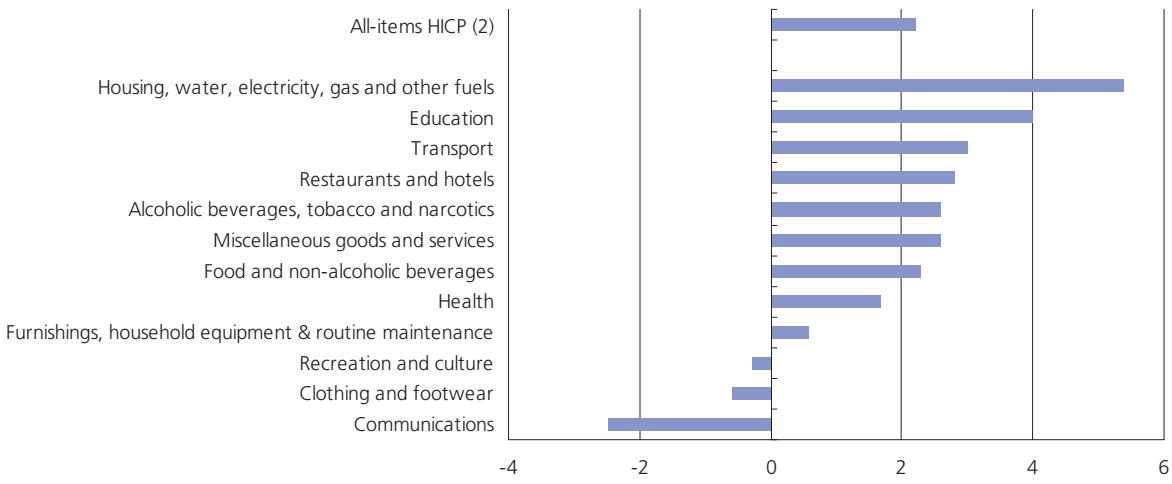


(1) The data refer to the official EU aggregate, its country coverage changes in line with the addition of new EU Member States and integrates them using a chain index formula; 1996, not available; 1997-1999, estimates.
(2) The data refer to the official euro area aggregate, its country coverage changes in line with the addition of new EU Member States and integrates them using a chain index formula.; 1996, not available; 1997, estimate.
(3) National CPI: not strictly comparable with the HICP; 2006, not available.

Source: Eurostat (tsieb040)

Figure 1.34: Harmonized indices of consumer prices, annual rate of change, EU, 2006 (1)

(%)



(1) The data refer to the official EU aggregate, its country coverage changes in line with the addition of new EU Member States and integrates them using a chain index formula.
(2) More commonly referred to as the inflation rate.

Source: Eurostat (prc_hicp_aind and tsieb040)

1.8 PRICE CONVERGENCE

INTRODUCTION

A comparison of price changes between countries depends not only on movements in price levels, but also exchange rates – together these two forces impact upon price and cost competitiveness of individual Member States.

With the introduction of the euro, prices within those Member States that share a common currency are said to be more transparent, as it is relatively simple for consumers to compare the price of items across borders. Such comparisons that provide an economic case for purchasing a good or service from another country have led to an increase in cross-border trade. From an economic point of view, the price of a given good within the single market should not differ significantly depending on geographic location, beyond differences that may be explained by transport costs or tax differences. However, not all goods and services converge at the same pace. For example, price convergence in housing does not necessarily follow the same pace as for tradable goods. Indeed, even within individual countries there are large (and perhaps growing) discrepancies in the price of housing for rent or for sale between regions.

DEFINITIONS AND DATA AVAILABILITY

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 price comparisons over 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 real effective exchange rate is deflated by nominal unit labour costs. This relative price and cost indicator aims to assess a country's competitiveness relative to its principal competitors in international markets, with changes in cost and price competitiveness depending not only on exchange rate movements but also on price trends. Double export weights are used to calculate the index, reflecting not only competition in the home markets of the various competitors, but also competition in export markets elsewhere. A rise in the index means a loss of competitiveness.

MAIN FINDINGS

The relative price levels of private household consumption vary significantly between the Member States. With the average for the EU-27 being defined as 100, comparative price levels within the Member States ranged in 2006 from 44.1 in Bulgaria to 139.4 in Denmark.

Price levels have converged in the EU-27 over the last decade. The pace at which price convergence was taking place slowed somewhat from 2000, but accelerated again after 2003. Price levels in the country with the highest prices were almost five times as high as for the country with the lowest price levels in 1996 – by 2006 this ratio had been reduced to 3.2 times as high. A more reliable measure for looking at the convergence of prices is to study the coefficient of variation of comparative price levels. This indicator shows a reduction from 40.9 % in 1996 to 28.5 % by 2006.

SOURCES

Pocketbooks

EU economic data pocketbook – Quarterly

Methodologies and working papers

Eurostat-OECD Methodological manual on purchasing power parities

Website data

Main economic indicators

- Economy – Structural Indicators
- Economy – Euro-Indicators

Prices

- Correction coefficients
- Purchasing power parities

Monetary and other financial statistics

- Index of purchasing power of the euro/ECU

Table 1.13: Comparative price levels

(final consumption by private households including indirect taxes, EU-27=100)

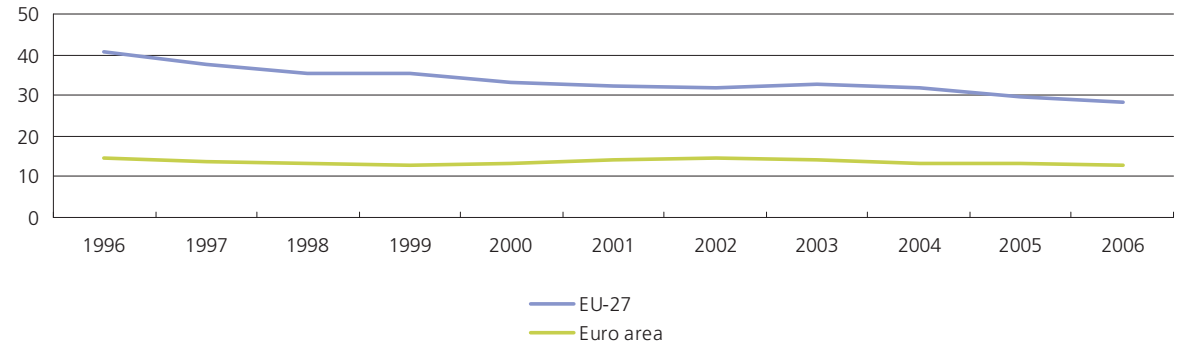
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
EU-27	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Euro area	107.2	104.0	102.8	102.2	100.5	101.0	101.1	103.5	103.7	102.7	102.6
Belgium	109.9	105.8	107.5	106.8	102.0	103.2	101.5	106.5	105.7	105.1	105.2
Bulgaria	27.3	34.0	37.5	37.9	38.7	41.0	40.8	40.7	41.7	42.4	44.1
Czech Republic	43.8	44.4	47.4	46.4	48.1	50.0	57.1	54.5	54.9	58.1	60.7
Denmark	135.8	131.6	129.4	131.5	130.3	135.2	133.8	141.1	139.6	140.1	139.4
Germany	114.0	109.6	108.7	107.3	106.6	107.0	106.6	106.1	104.7	103.8	103.3
Estonia	49.6	50.8	54.1	56.9	57.3	61.1	60.8	62.0	62.8	64.3	67.0
Ireland	103.3	113.0	108.1	111.6	114.9	119.3	125.2	126.4	125.6	124.9	125.4
Greece	85.8	87.6	85.7	88.3	84.8	82.3	80.2	85.9	87.3	88.3	89.2
Spain	90.7	86.9	85.5	86.0	85.0	85.4	84.6	88.3	90.9	92.0	93.2
France	117.1	112.0	110.7	109.3	105.9	104.1	103.5	110.0	110.5	107.6	107.1
Italy	99.2	99.7	97.9	98.2	97.5	99.7	102.7	103.6	105.2	104.4	104.4
Cyprus	86.2	86.6	87.1	87.4	88.1	88.9	89.1	90.9	90.6	89.1	89.5
Latvia	42.8	47.8	49.2	52.3	58.8	59.0	57.0	54.4	55.5	56.3	58.8
Lithuania	36.4	43.2	45.6	46.8	52.7	54.1	54.2	52.3	53.1	54.6	56.4
Luxembourg	108.9	106.6	104.2	102.9	101.5	103.5	102.1	103.2	105.1	104.6	105.1
Hungary	44.3	46.4	45.7	47.1	49.2	52.9	57.4	58.2	61.6	63.2	60.0
Malta	67.0	68.7	69.4	70.5	73.3	74.8	74.6	72.0	72.8	72.8	73.5
Netherlands	107.3	103.4	102.1	102.7	100.0	103.0	102.9	107.8	106.0	104.6	104.2
Austria	111.7	107.1	105.3	104.9	101.9	104.8	103.4	103.3	103.1	101.9	101.3
Poland	50.6	51.8	53.5	51.9	57.9	64.8	61.2	54.4	53.2	61.7	62.9
Portugal	83.0	82.5	84.0	83.4	83.0	84.4	86.3	86.0	86.7	85.0	85.5
Romania	30.0	34.7	43.2	37.9	42.5	41.7	43.0	43.4	44.3	55.5	58.5
Slovenia	72.5	72.4	74.1	74.1	72.9	73.9	74.4	76.2	75.4	75.6	75.8
Slovakia	40.3	41.6	41.9	40.5	44.4	43.4	44.8	50.7	54.9	55.8	58.2
Finland	127.9	125.0	123.0	122.3	120.9	124.8	123.9	126.6	123.8	123.5	122.5
Sweden	134.7	131.6	127.0	126.4	127.6	119.9	121.7	123.5	121.8	118.5	117.9
United Kingdom	92.6	107.6	112.2	115.6	120.0	116.8	117.1	107.8	107.9	109.2	110.2
Croatia	:	:	:	:	:	:	:	64.8	65.9	68.3	71.4
FYR of Macedonia	:	:	:	:	:	:	:	43.9	44.1	43.9	43.9
Turkey	:	:	:	56.0	62.5	47.7	51.6	57.2	59.0	68.1	68.0
Iceland	117.9	120.8	124.7	126.7	144.0	127.9	134.6	138.4	138.0	153.4	141.8
Norway	133.0	136.6	131.0	134.3	137.7	141.8	151.2	142.1	134.9	140.8	140.5
Switzerland	146.5	135.8	136.4	139.7	142.6	146.3	146.7	143.8	139.9	137.0	133.3

Source: Eurostat (tsier011)

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-27=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 1.35: Price convergence between EU Member States

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



Source: Eurostat (tsier012)

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.

Table 1.14: International price competitiveness (real effective exchange rate)

(1999=100)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
EU-27	112.7	106.9	108.0	100.0	89.3	91.4	97.1	109.1	115.7	114.1	114.8
Euro area	119.5	107.7	105.0	100.0	89.3	90.2	93.6	103.8	106.7	104.2	103.3
Belgium (1)	107.0	101.3	101.4	100.0	95.0	97.3	98.4	101.3	101.1	101.9	101.5
Bulgaria	66.5	73.2	102.4	100.0	85.8	94.1	93.5	97.2	97.2	96.2	98.8
Czech Republic	91.8	95.1	100.5	100.0	101.6	110.0	127.7	129.7	131.4	137.9	143.6
Denmark	101.3	98.2	100.6	100.0	94.0	97.0	99.8	105.1	106.3	105.4	107.0
Germany	112.7	104.1	102.9	100.0	93.7	92.2	92.5	96.7	97.1	93.8	91.4
Estonia	86.3	87.8	93.8	100.0	93.8	94.6	96.1	104.0	108.5	109.0	114.0
Ireland	109.4	108.3	105.1	100.0	94.8	97.5	99.0	106.9	114.2	116.9	119.4
Greece	97.5	101.7	98.9	100.0	93.0	90.6	95.5	98.3	102.1	103.5	105.0
Spain	105.5	101.0	101.2	100.0	97.4	98.4	100.2	105.2	107.8	108.0	109.6
France	109.2	103.4	102.4	100.0	94.6	94.9	97.3	101.9	103.3	103.3	104.8
Italy	105.6	106.9	102.4	100.0	94.1	95.3	98.7	106.7	110.0	110.7	112.0
Cyprus	106.7	106.3	102.5	100.0	97.3	97.7	101.8	113.6	114.5	114.3	115.0
Latvia	87.2	96.8	95.7	100.0	102.5	98.2	92.7	90.3	92.3	99.7	111.6
Lithuania	73.3	90.9	96.6	100.0	100.6	98.1	102.8	106.3	109.9	110.5	116.1
Luxembourg (2)	:	:	:	:	:	:	:	:	:	:	:
Hungary	103.1	107.8	103.5	100.0	103.4	114.9	129.9	133.9	142.5	145.0	136.6
Malta	101.0	100.1	102.2	100.0	95.1	102.2	103.2	112.2	115.0	112.8	111.4
Netherlands	103.4	99.4	100.9	100.0	98.0	101.2	105.2	110.2	110.5	108.4	106.5
Austria	107.0	102.4	101.8	100.0	95.2	93.9	93.6	96.1	95.8	94.9	94.6
Poland	99.0	102.6	106.6	100.0	106.1	121.0	110.7	94.3	89.4	99.9	104.8
Portugal	100.1	99.7	100.3	100.0	100.0	102.9	105.4	110.2	110.4	110.3	109.9
Romania	79.1	78.5	124.2	100.0	137.9	141.4	135.2	131.7	132.0	165.6	186.6
Slovenia	103.5	102.1	103.3	100.0	98.8	99.9	101.1	101.8	103.0	102.2	102.0
Slovakia	98.2	106.3	109.6	100.0	108.8	107.0	110.8	121.3	130.0	132.8	138.8
Finland	110.6	104.0	102.7	100.0	94.3	96.3	97.2	101.7	102.7	103.2	101.6
Sweden	113.0	108.1	104.4	100.0	103.0	97.0	98.6	103.9	104.1	100.7	99.1
United Kingdom	79.1	93.1	98.9	100.0	103.8	103.3	104.3	101.4	107.1	108.1	109.8
Turkey	72.6	77.9	79.3	100.0	96.0	78.0	73.9	76.2	80.5	88.3	90.3
Norway	97.7	97.7	97.9	100.0	97.2	100.2	110.4	108.8	105.0	110.6	113.8
Switzerland	111.3	102.2	101.9	100.0	96.9	103.0	109.0	109.4	107.1	106.4	104.5

(1) Value covers Belgium and Luxembourg.
(2) See footnote (1)

Source: Eurostat (ert_eff_ic_a)

1.9 BALANCE OF PAYMENTS – CURRENT ACCOUNT

INTRODUCTION

The balance of payments is a statistical statement that summarises the transactions of an economy with the rest of the world. Transactions are organized in two different accounts, the current account and the capital and financial account, whose sum, in principle, should be zero, as for each credit transaction there is a corresponding one on the debit side. Thus, the current account balance determines the exposure of an economy vis-à-vis the rest of the world, whereas the capital and financial account explains how it is financed.

DEFINITIONS AND DATA AVAILABILITY

The current account gauges a country's economic position in the world, covering all transactions that occur between resident and non-resident entities and refer to trade in goods and services, income and current transfers. More specifically, the four main components of the current account are defined as follows:

- Trade in goods 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.
- Trade in services 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.
- Income 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.
- Current transfers include 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.

Under the balance of payment conventions, transactions which represent an inflow or real resources, an increase in assets or a decrease in liabilities (such as, for instance exports of goods) are recorded as credits, and transactions representing an outflow of real resources, a decrease in assets or an increase in liabilities (such as, for instance imports of goods) are recorded as debits.

MAIN FINDINGS

In 2006, the current account deficit of the EU-27 was -0.8 % of GDP, that is EUR 76 171 million, resulting from a deficit in the current account for goods (-1.5 % of GDP) and for current transfers (-0.5 %), while there were positive balances for the income account (0.5 %) and for services (0.6 %).

Most of the EU-27's current account transactions took place with the United States (28.1 % of credits and 22.5 % of debits), while all other partners recorded shares of less than 10 %. The second most important country was Switzerland (8.8 % credits, 8.1 % debits), followed by China (3.7 % and 8.7 %, respectively), the Russian Federation (4.7 % and 6.7 %) and Japan (4.0 % and 5.0 %).

Accordingly, in 2006 the EU-27 recorded a surplus of just over EUR 100 000 million vis-à-vis the United States, and a deficit with China (EUR 117 700 million), the Russian Federation (EUR 50 200 million) and Japan (EUR 25 400 million).

SOURCES

Pocketbooks

EU economic data pocketbook – Quarterly

Methodologies and working papers

Asymmetries in EU current account data

Differences between Balance of Payments and Foreign Trade Statistics

IMF Balance of payments manual, fifth edition

Website data

Main economic indicators

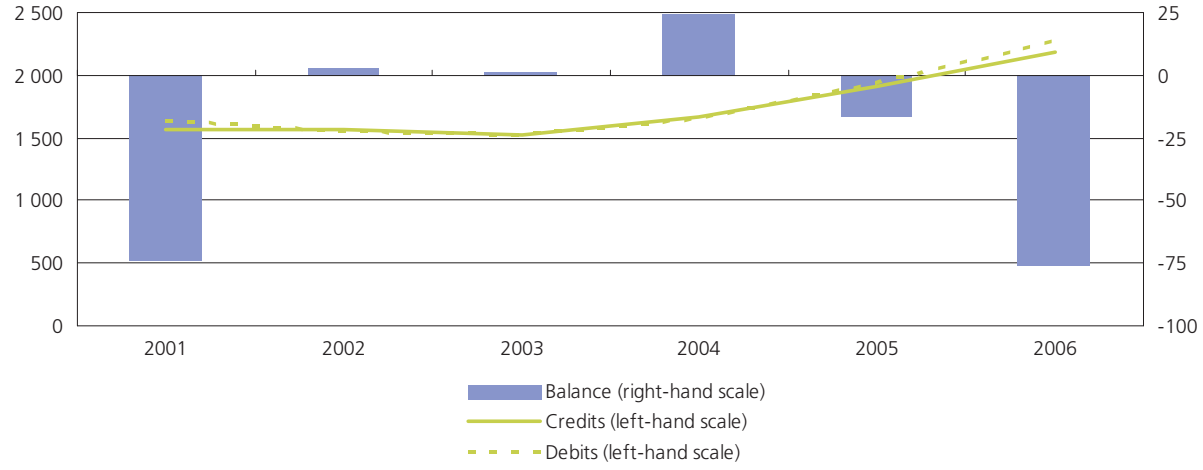
- Main economic indicators
- Economy overview
- Economy – Structural Indicators
- Economy – Euro-Indicators

Balance of payments – International transactions

- Balance of payments statistics
- International trade in services, geographical breakdown
- Balance of payments of the EU institutions

Figure 1.36: Current account transactions, EU-27 (1)

(EUR 1 000 million)



(1) EU-25: for 2001-2003.

Source: Eurostat (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 1.15: Current account balance for EU Member States with the rest of the world

(EUR million)

	2002	2003	2004	2005	2006
EU-27 (1)	2 875	1 008	24 186	-16 943	-76 171
Euro area (2)	56 854	33 592	63 790	10 091	-10 760
Belgium	7 688	5 617	10 168	7 854	8 552
Bulgaria	-928	-1 504	-1 310	-2 621	-3 935
Czech Republic	-4 442	-5 028	-4 744	-1 801	-3 749
Denmark	4 590	6 500	5 939	9 149	5 822
Germany	42 976	40 931	94 899	103 053	117 178
Estonia	-760	-986	-1 176	-1 117	-2 052
Ireland	-1 616	-2	-867	-5 690	-7 276
Greece	-10 300	-11 040	-10 456	-14 029	:
Spain	-23 764	-27 477	-44 164	-66 859	-84 736
France	15 353	7 013	8 470	-15 702	-22 454
Italy	-10 041	-17 337	-13 036	-23 401	-37 882
Cyprus	-418	-266	-635	-765	-860
Latvia	-653	-814	-1 439	-1 626	-3 603
Lithuania	-772	-1 116	-1 393	-1 482	-2 551
Luxembourg	2 806	2 046	3 178	3 274	3 495
Hungary	-4 923	-5 936	-6 911	-6 010	-5 915
Malta	108	-138	-270	-415	-338
Netherlands	11 582	26 151	36 917	36 566	44 496
Austria	747	-478	1 076	2 816	7 109
Poland	-5 396	-4 112	-8 677	-3 869	-8 792
Portugal	-10 961	-8 457	-11 114	-14 484	-14 600
Romania	-1 618	-2 877	-5 102	-6 876	-10 091
Slovenia	250	-195	-717	-560	-858
Slovakia	-2 052	-249	-1 156	-3 242	-3 636
Finland	14 598	9 408	11 803	7 693	8 649
Sweden	13 140	19 801	19 240	20 260	22 651
United Kingdom	-26 275	-21 289	-28 707	-44 510	-61 614

(1) EU-25: for 2002-2003; EU vis-à-vis extra-EU.
(2) EA-12; euro area vis-à-vis extra euro area.

Source: Eurostat (tec00038)

Table 1.16: Current account, balance by components, 2006

(% of GDP)

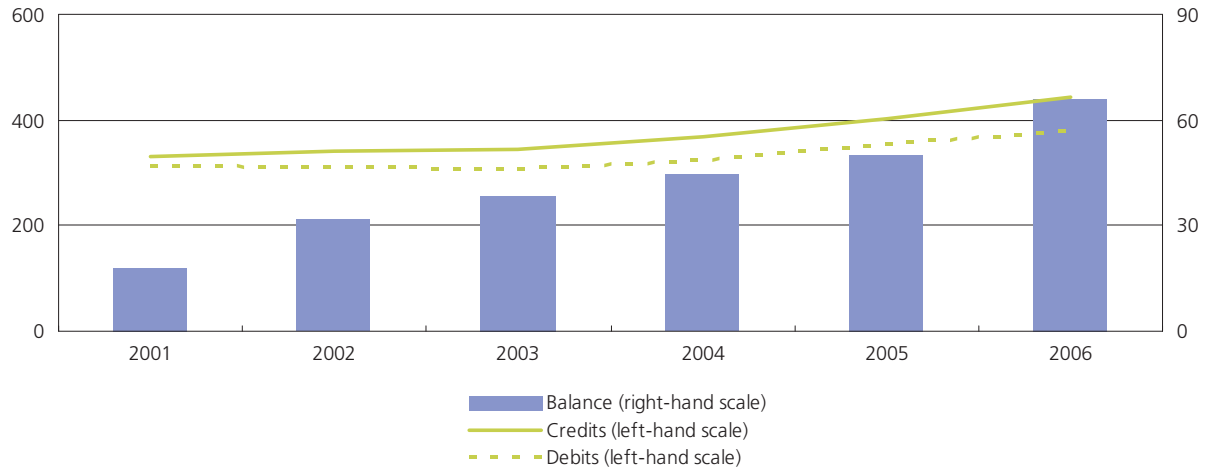
	Current account	Goods	Services	Income	Current transfers
EU-27	-0.8	-1.5	0.6	0.5	-0.5
Euro area (1)	-0.1	0.3	0.4	0.1	-0.9
Belgium	2.7	0.8	1.6	1.9	-1.7
Bulgaria	-15.7	-22.2	3.9	0.0	2.6
Czech Republic	-3.3	1.9	1.1	-5.7	-0.6
Denmark	2.6	1.0	2.4	0.9	-1.6
Germany	5.0	6.8	-1.5	1.0	-1.2
Estonia	-15.5	-17.7	6.1	-4.5	0.7
Ireland	-4.2	14.5	-4.2	-14.2	-0.3
Greece	:	:	:	:	:
Spain	-8.6	-8.2	2.3	-2.1	-0.6
France	-1.3	-1.7	0.5	1.2	-1.2
Italy	-2.6	-0.6	-0.1	-0.9	-0.9
Cyprus	-5.9	-27.5	23.4	-2.8	1.1
Latvia	-22.3	-25.4	3.3	-2.6	2.4
Lithuania	-10.8	-14.1	3.6	-2.8	2.4
Luxembourg	10.3	-10.4	48.9	-24.4	-3.8
Hungary	-6.6	-1.0	1.4	-7.4	0.4
Malta	-6.7	-18.9	15.0	-2.7	-0.1
Netherlands	8.3	6.7	0.4	3.0	-1.9
Austria	2.8	0.1	4.3	-1.2	-0.4
Poland	-3.2	-2.0	0.6	-4.2	2.4
Portugal	-9.4	-10.7	3.2	-3.5	1.6
Romania	-10.4	-12.2	0.0	-3.2	4.9
Slovenia	-2.8	-3.8	2.8	-1.3	-0.6
Slovakia	-8.3	-5.6	1.2	-3.8	-0.1
Finland	5.2	5.3	0.2	0.4	-0.8
Sweden	7.4	5.6	2.8	0.3	-1.2
United Kingdom	-3.2	-6.0	2.2	1.4	-0.9

(1) EA-12.

Source: Eurostat (tec00038, tec00039, tec00040, tec00041, tec00042 and tec00001)

Figure 1.37: International trade for services, EU-27 (1)

(EUR 1 000 million)

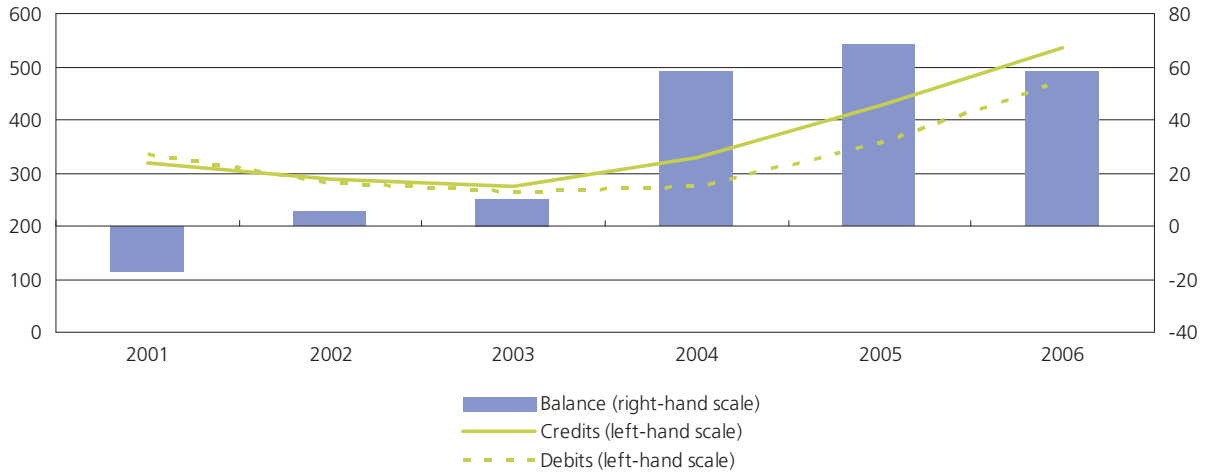


(1) EU-25: for 2001-2003.

Source: Eurostat (tec00040)

Figure 1.38: Income, EU-27 (1)

(EUR 1 000 million)

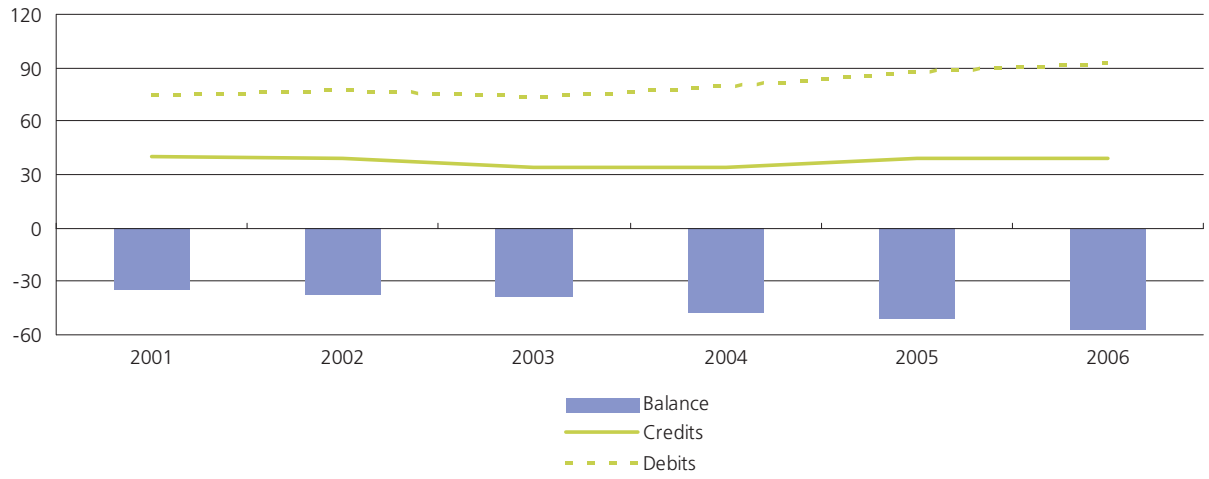


(1) EU-25: for 2001-2003.

Source: Eurostat (tec00041)

Figure 1.39: Current transfers, EU-27 (1)

(EUR 1 000 million)

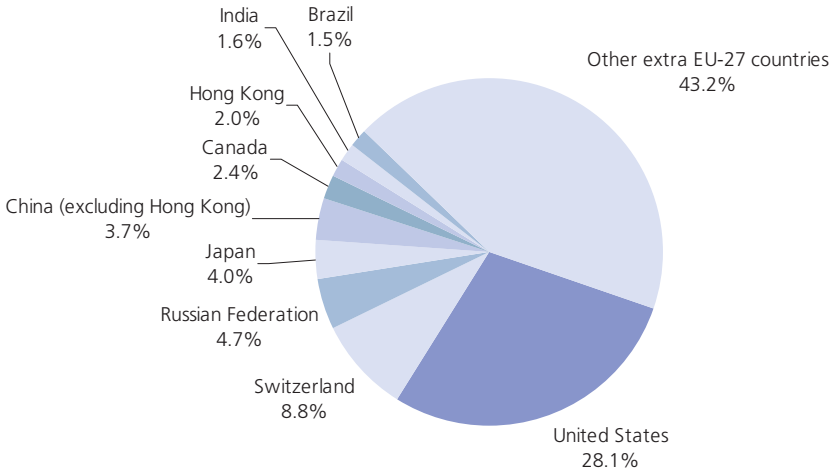


(1) EU-25: for 2001-2003.

Source: Eurostat (tec00042)

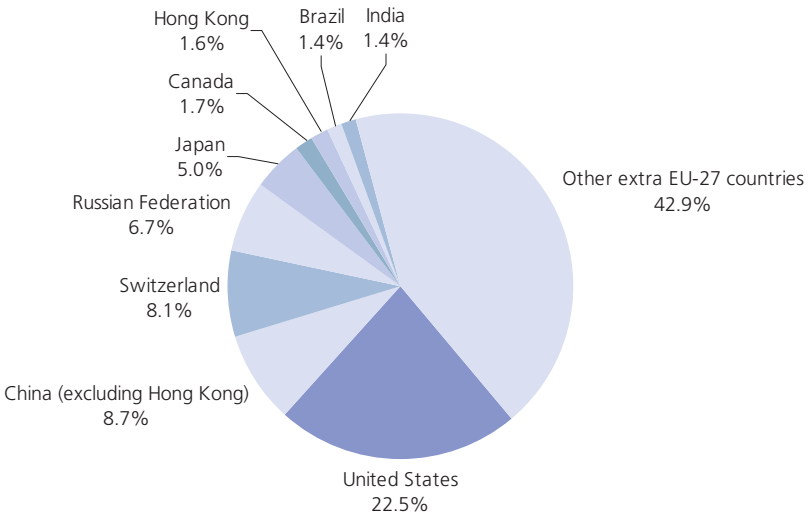
Figure 1.40: Current account, credit by partner country, EU-27, 2006

(% of total credits)



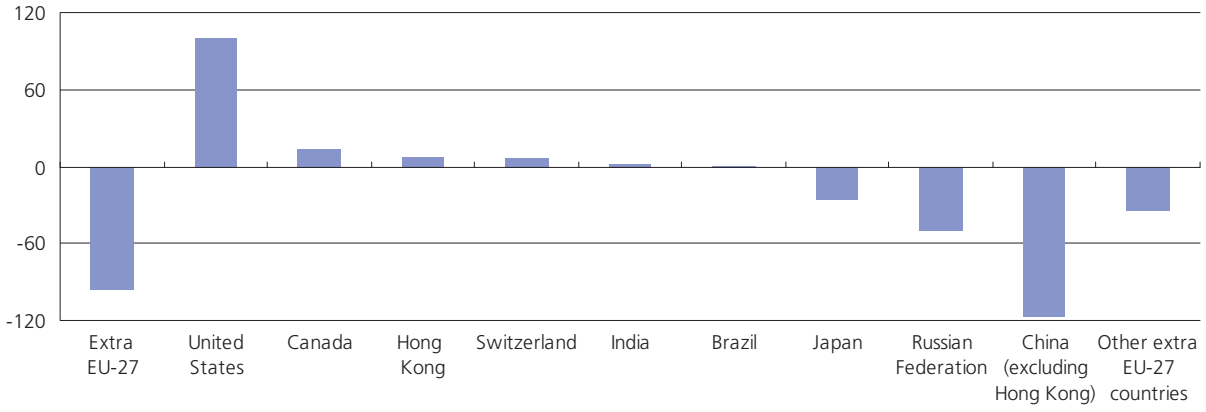
Source: Eurostat (bop_q_eu)

Figure 1.41: Current account, debit by partner country, EU-27, 2006
(% of total debits)



Source: Eurostat (bop_q_eu)

Figure 1.42: Current account balance with selected partners, EU-27, 2006
(EUR 1 000 million)



Source: Eurostat (bop_q_eu)

1.10 BALANCE OF PAYMENTS – FOREIGN DIRECT INVESTMENT

INTRODUCTION

In a world of increasing globalisation, where political, economic and technological barriers are rapidly disappearing, the ability of a country to participate in global activity is an important indicator of its performance and competitiveness.

In order to remain competitive, modern day business relationships extend well beyond the traditional foreign exchange of goods and services, as witnessed by the increasing reliance of firms on mergers, partnerships, joint ventures, licensing agreements, and other forms of business cooperation.

External trade may be complemented or substituted by producing (and often selling) goods and services in countries other than where an enterprise was first established: this approach is known as foreign direct investment (FDI), whereby the enterprise concerned either invests to establish a new plant/office, or alternatively, purchases existing assets of a foreign enterprise. FDI is a type of international investment where an entity that is resident in one economy (the direct investor) acquires a lasting interest (at least 10 % of the voting power) in an enterprise operating in another economy.

Conventional trade is less important for services than for goods and while trade in services has been growing, the share of services in total intra-EU trade has changed little during the last decade. However, FDI is expanding more rapidly for services than for goods, as FDI in services has increased at a more rapid pace than conventional trade in services. As a result, the share of services in total FDI flows and positions has increased substantially, with European services becoming increasingly international.

DEFINITIONS AND DATA AVAILABILITY

Annual EU foreign direct investment statistics give a detailed presentation of 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.

Outward flows and stocks of FDI (or FDI abroad) report investment by entities resident in the reporting economy in an affiliated enterprise abroad. Inward flows and stocks of FDI report investment by foreigners in enterprises resident in the reporting economy. FDI flows are new investment made during the reference period, whereas FDI stocks provide information on the position, in terms of value, of all previous investments at the end of the reference period. The intensity of FDI can be measured by averaging the value of inward and outward flows during a particular reference period and expressing this in relation to GDP.

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. 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.

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.

MAIN FINDINGS

Flows of FDI fluctuate considerably from one year to the next – partly as a function of economic fortunes, with FDI flows generally increasing during times of rapid growth, while disinvestment is more likely during periods of recession as companies focus on core activities in their domestic market. Inflows of FDI from non-Community countries into the EU-25 were valued at EUR 145 022 million in 2006, which was 54 % more than in 2005. Outward flows of FDI from the EU-25 to non-Community countries were valued at EUR 202 223 million. Despite the rapid increase in inward flows of FDI, the EU-25 remained a net investor abroad with net outflows of EUR 57 201 million in 2006 (down from EUR 91 810 in 2005).

Stocks of FDI show the value of all previous investments at the end of the reference period. Inward FDI stocks for the EU-25 accounted for 16.1 % of GDP in 2005, while outward FDI stocks were valued at 21.9 % of GDP. Stocks of EU-25 FDI abroad were largely concentrated in North America, which accounted for 39.1 % of the total in 2004. North America was an even more important partner in terms of stocks of FDI within the EU-25, accounting for 51.7 % of all FDI made by non-member countries. The share of Asian countries in outward stocks rose from 14.7 % to 15.4 % and inward stocks of FDI rose from 9.0 % to 9.4 % between 2003 and 2004.

It should be noted that the relatively high importance of FDI in Luxembourg should be interpreted with caution, and results mainly from the role of Luxembourg-based holding companies.

SOURCES

Pocketbooks

European Union foreign direct investment yearbook 2007 – Data 2001-2005

Methodologies and working papers

OECD Benchmark Definition of Foreign Direct Investment

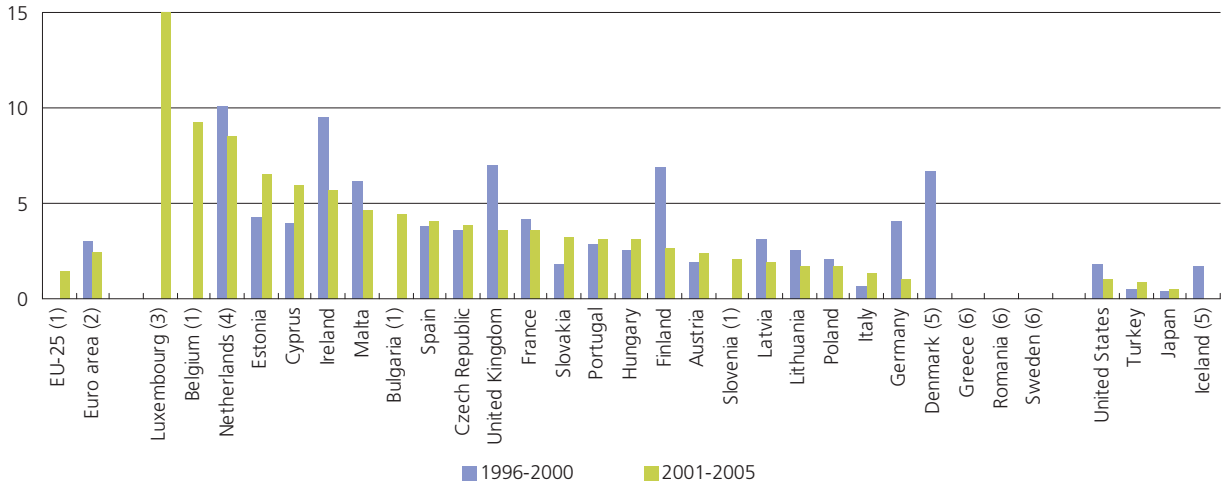
Website data

Balance of payments – International transactions

European Union direct investments

Figure 1.43: Foreign direct investment intensity

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



(1) Not available for 1996-2000.
(2) EA-11: for 1996-2000; EA-12: for 2001-2005.
(3) Not available for 1996-2000; broken y-axis for 2001-2005, 353.2 %.
(4) Excluding special purpose entities.
(5) Not available for 2001-2005.
(6) Not available.

Source: Eurostat (tsier066), Bank of Japan, Bureau of Economic Analysis

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. The 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 1.17: Foreign direct investment (1)

	FDI flows, 2006 (EUR million) (2)			FDI flows, 2006 (% of GDP) (3)			FDI stocks, 2005 (% of GDP) (4)		
	Inward	Outward	Net outflows	Inward	Outward	Net outflows	Inward	Outward	Net FDI assets
EU-25	*145 022*	*202 223*	*57 201*	1.3	1.8	0.5	16.1	21.9	-5.8
Euro area (5)	91 712	294 007	202 295	1.1	3.7	2.6	29.8	33.9	-4.1
Belgium	*56 975*	*49 860*	*-7 115*	18.1	15.9	-2.2	:	:	:
Bulgaria	*4 105*	*122*	*-3 983*	16.4	0.5	-15.9	88.4	1.4	87.0
Czech Republic	*4 760*	*1 073*	*-3 687*	9.4	0.0	-9.4	52.9	3.1	49.8
Denmark	*5 602*	*6 513*	*911*	2.6	3.0	0.4	46.9	51.5	-4.6
Germany	*34 173*	*63 311*	*29 138*	1.5	2.7	1.2	25.0	30.3	-5.3
Estonia	*1 282*	*823*	*-459*	9.8	6.3	-3.5	97.2	15.1	82.1
Ireland	*10 212*	*17 618*	*7 406*	-15.5	6.8	22.3	87.4	54.1	33.3
Greece	*:*	:	:	:	:	:	11.4	6.3	5.1
Spain	*15 954*	*71 486*	*55 532*	1.6	7.3	5.7	34.4	34.9	-0.5
France	*57 972*	*86 664*	*28 692*	3.0	5.4	2.4	31.1	44.2	-13.1
Italy	*29 934*	*32 967*	*3 033*	2.0	2.2	0.2	13.1	17.5	-4.4
Cyprus	*1 189*	*583*	*-606*	8.2	4.0	-4.2	53.9	20.2	33.7
Latvia	*1 316*	*116*	*-1 200*	8.1	0.7	-7.4	32.7	1.9	30.8
Lithuania	*1 426*	*221*	*-1 205*	6.0	0.9	-5.1	33.6	2.9	30.7
Luxembourg (6)	*77 290*	*64 973*	*-12 317*	233.8	196.6	-37.2	150.8	79.8	71.0
Hungary	*8 352*	*5 930*	*-2 422*	9.4	6.7	-2.7	58.3	7.0	51.3
Malta	*1 336*	*-4*	*-1 340*	27.3	-0.1	-27.4	74.0	17.2	56.8
Netherlands (7)	*3 484*	*18 089*	*14 605*	0.7	3.4	2.7	75.0	105.6	-30.6
Austria	*198*	*3 258*	*3 060*	0.1	1.3	1.2	18.8	19.6	-0.8
Poland	*11 091*	*3 318*	*-7 773*	4.1	1.2	-2.9	31.0	2.2	28.8
Portugal	*5 875*	*2 796*	*-3 079*	3.8	1.8	-2.0	36.7	25.3	11.4
Romania	*9 158*	*31*	*-9 127*	9.4	0.0	-9.4	27.5	0.3	27.2
Slovenia	*301*	*590*	*289*	1.0	2.0	1.0	21.6	10.7	10.9
Slovakia	*3 311*	*292*	*-3 019*	7.5	0.7	-6.8	35.0	2.2	32.8
Finland	*2 954*	*7*	*-2 947*	1.8	0.0	-1.8	28.0	43.5	-15.5
Sweden	*22 094*	*19 179*	*-2 915*	7.2	6.3	-0.9	50.5	61.3	-10.8
United Kingdom	*110 893*	*63 640*	*-47 253*	5.9	3.4	-2.5	39.3	58.1	-18.8
Croatia	1 396	183	-1 213	4.5	0.6	-3.9	38.5	5.6	32.9
Turkey	7 880	866	-7 014	2.7	0.3	-2.4	18.8	2.4	16.4
Switzerland	-1 018	-43 677	-42 659	-0.3	-14.8	-14.5	48.5	122.4	-73.9
Japan	2 235	36 872	34 637	0.1	1.0	0.9	2.3	9.0	-6.7
United States	79 932	-10 219	-90 151	0.8	-0.1	-0.9	13.8	17.5	-3.7

(1) EU-25, FDI with extra EU-25 partners; all other countries, FDI with the rest of the world.
(2) Euro area, Croatia, Turkey, Switzerland, Japan and the United States, 2005.
(3) Euro area, the Czech Republic, Ireland and France, Croatia, Turkey, Switzerland, Japan and the United States, 2005.
(4) Greece and Austria, 2003.
(5) EA-12.
(6) Special purpose entities excluded from FDI stocks.
(7) Excluding special purpose entities.

Source: Eurostat (tec00053, tec00049, tec00046 and tec00047), Bank of Japan, Bureau of Economic Analysis

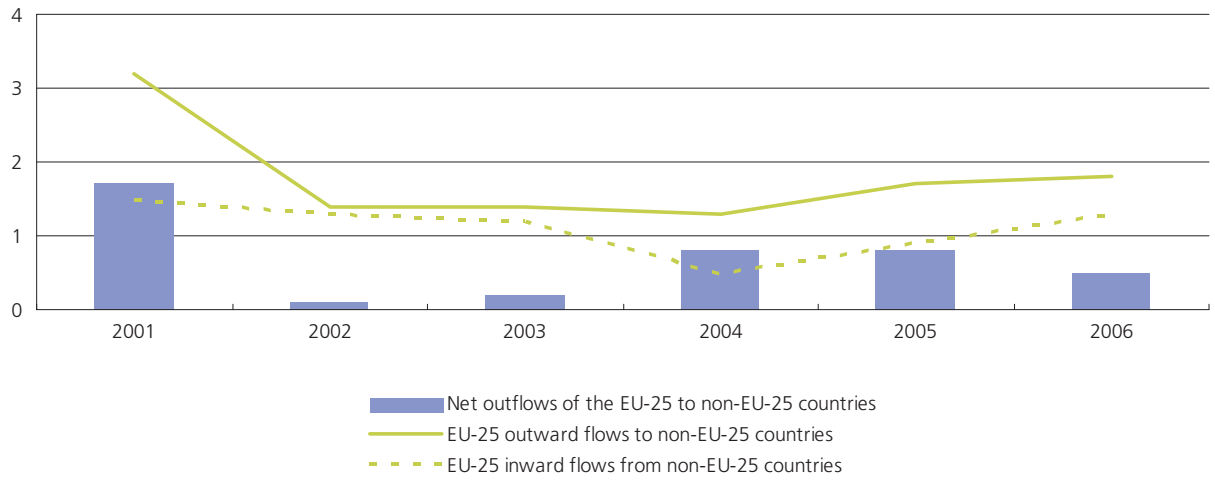
For all reporters, outward FDI flows are broken down by main destination of the investment. Destination countries or zones are highlighted in grey. Foreign direct investment (FDI) is the category of international investment made by a resident entity (direct investor) to acquire a lasting interest in 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.

For all reporters, inward FDI flows are broken down by main origin of the investment. 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.

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. Data are expressed as percentage of GDP to remove the effect of differences in the size of the economies of the reporting countries.

Figure 1.44: Foreign direct investment flows, EU-25

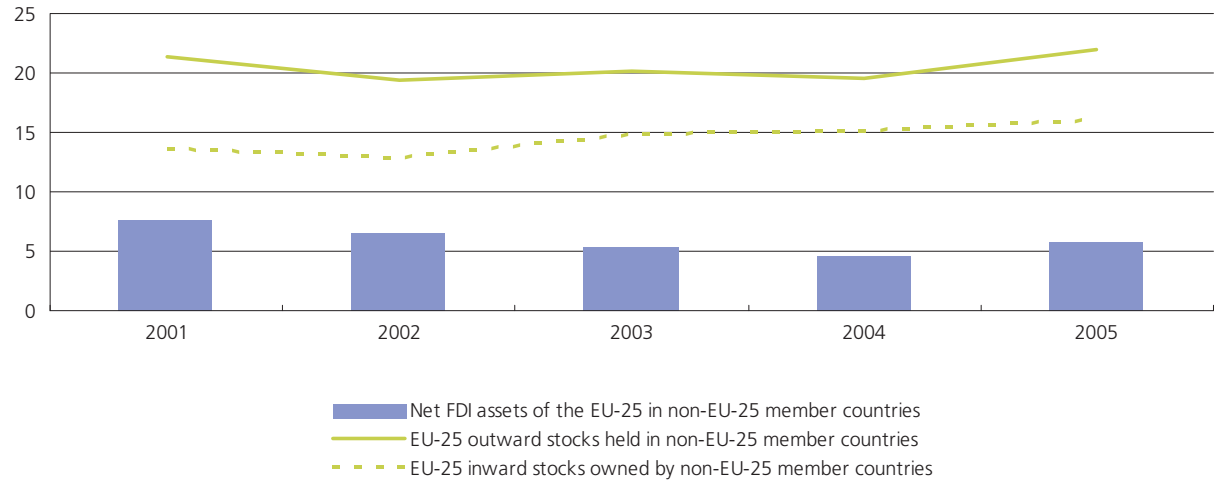
(% of GDP)



Source: Eurostat (tec00046)

Figure 1.45: Foreign direct investment stocks, EU-25

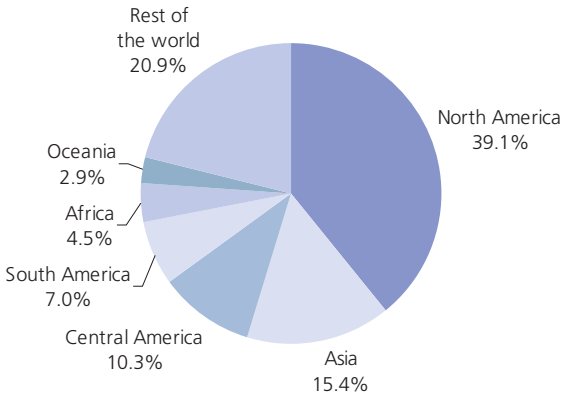
(% of GDP)



Source: Eurostat (tec00047)

Figure 1.46: Stocks of foreign direct investment abroad, EU-25, 2004 (1)

(% of extra EU-25 FDI)

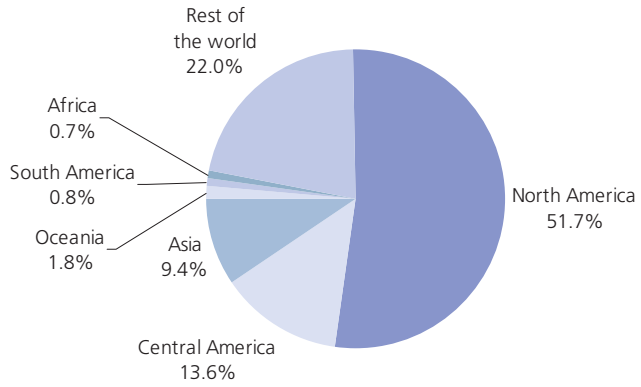


(1) Figures do not sum to 100 % due to rounding.

Source: Eurostat (tec00094)

Figure 1.47: Stocks of foreign direct investment in the EU-25, 2004 (1)

(% of extra EU-25 FDI)



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

Source: Eurostat (tec00095)

Table 1.18: Foreign direct investment stocks for selected partner countries, 2005 (1)

(EUR 1 000 million)

	Outward				Inward				Net assets abroad (2)			
	Total	EU-25	JP	US	Total	EU-25	JP	US	Total	EU-25	JP	US
EU-25	6 259	3 879	79	856	5 487	3 742	90	769	772	:	-11	86
Euro area (3)	:	:	69	558	:	:	64	560	:	:	5	-2
Belgium	:	:	:	:	:	:	:	:	:	:	:	:
Bulgaria	0	0	:	0	19	9	0	0	-19	-9	:	0
Czech Republic	3	2	0	0	53	47	1	3	-50	-45	-1	-3
Denmark	107	68	1	11	98	65	0	10	9	4	1	2
Germany	679	404	6	156	560	407	11	83	119	-3	-5	73
Estonia	2	1	0	0	11	10	0	0	-9	-8	0	0
Ireland	87	57	:	7	141	108	3	12	-54	-51	:	-5
Greece (4)	10	5	0	1	18	15	0	1	-8	-9	0	0
Spain	316	170	2	21	312	229	2	52	4	-60	0	-30
France	756	465	26	143	531	386	11	69	225	79	15	74
Italy	249	187	1	18	186	138	3	18	62	49	-2	0
Cyprus	3	2	0	0	7	4	0	0	-5	-2	0	0
Latvia	0	0	0	0	4	3	0	0	-4	-3	0	0
Lithuania	1	0	0	0	7	5	0	0	-6	-4	0	0
Luxembourg (5)	23	:	:	:	44	29	:	:	-21	:	:	:
Hungary	6	4	0	0	52	35	1	2	-46	-32	-1	-2
Malta	1	0	:	:	3	3	:	0	-3	-2	:	:
Netherlands (5)	534	327	1	78	379	229	10	69	155	97	-9	9
Austria (4)	44	28	0	2	43	31	1	4	2	-3	-1	-2
Poland	5	2	0	0	76	64	1	6	-70	-62	-1	-6
Portugal (6)	35	11	0	0	52	15	0	2	-17	-4	0	-2
Romania	0	0	0	0	22	18	0	1	-22	-18	0	-1
Slovenia	3	1	0	0	6	4	0	0	-3	-4	0	0
Slovakia	1	1	0	0	13	12	0	1	-13	-11	0	-1
Finland	68	52	0	6	44	41	0	1	24	12	0	5
Sweden	176	114	0	27	145	97	2	26	31	17	-1	1
United Kingdom	1 041	539	9	239	705	349	20	218	336	190	-11	21
Croatia	2	1	:	0	12	10	:	1	-10	-10	:	0
Turkey	7	4	0	0	55	40	1	4	-48	-36	-1	-4
Switzerland	360	152	6	72	143	97	1	39	217	55	5	33
Japan	328	78	-	127	86	30	-	37	243	48	-	90
United States	1 755	804	64	-	1 386	:	161	-	368	:	-97	-

(1) EU-25: FDI stocks in extra-EU-25 partners; all other countries: FDI stocks in the rest of the world.
(2) Outward stocks - inward stocks.
(3) EA-12.
(4) 2003.
(5) Excluding special purpose entities.
(6) 2004.

Source: Eurostat (tec00052 and tec00051)

1.11 DEVELOPMENT AID

INTRODUCTION

More than half the money spent throughout the world on helping developing countries comes from the EU and its Member States. The ultimate objective of the EU is to give disadvantaged people in the third world control over their own development, through attacking the main sources of their vulnerability, such as access to food, clean water, education, health, employment, land and social services.

The EU's development strategy focuses on financial and technical assistance to improve basic physical and social infrastructures and the productive potential of poor nations, including their administrative and institutional capacities. This support has the potential to help third world countries benefit from international trade opportunities and secure more inward investment to broaden their economic bases.

The EU's activities also extend to trade policy, which is used to drive development through the opening-up of markets. Since the 1970s, the EU has reduced or removed tariffs and eliminated quotas on imports from developing countries, a policy that was further extended in 2001 to cover the complete removal of tariffs on all exports (except arms) from the 49 least-developed countries (LDCs) of the world.

The EU promotes self-help and poverty eradication through policies that focus on consolidating the democratic process, expanding social programmes, strengthening institutional frameworks, and reinforcing the respect for human rights, including equality between men and women. Indeed, all trade or cooperation agreements with the third world include a human rights clause as a matter of routine, and failure to comply with these entails automatic penalties, frozen or cancelled aid.

Aside from long-term strategic development aid, the EU also plays an important role in rapidly alleviating human suffering – as a result of natural disaster or military conflict. Such relief operations have included the Asian tsunami in December 2004 or the effects of hurricane Katrina in August 2005, and at the time of writing stretch from Afghanistan and Iraq, to the northern Caucasus (especially Chechnya), Kashmir and Nepal, or from the Western Sahara to Colombia. Most of this EU aid is in the form of non-repayable grants.

The EU's relief activities are global and have, since 1992, been handled by ECHO, its humanitarian aid office. It has an annual budget of more than EUR 600 million each year, with around three quarters of this destined for Africa and Asia. ECHO considers its first duty to be towards the victims of disaster, through the emergency provision of supplies including: tents, blankets, food, medicines, water purification systems and fuel.

DEFINITIONS AND DATA AVAILABILITY

Official development assistance (ODA) consists of grants or loans that are undertaken by the official sector with the promotion of economic development and welfare in the recipient countries as the main objective. In addition to ODA, total financing for development refers to net disbursements, other official flows, and private flows. Other official flows are transactions which do not meet the conditions for eligibility as ODA (or official aid), either because they are not primarily aimed at development, or because they have a grant element of less than 25 %. Private flows include private export credits, direct investment and financing to multilateral institutions. Foreign direct investment includes significant investments by foreign companies of production facilities or ownership stakes taken in the national companies.

Commitments include both bilateral commitments and commitments to regional banks. Bilateral commitments are recorded as the full amount of the expected transfer, irrespective of the time required for the completion of disbursements. Disbursements are the release of funds to, or the purchase of goods or services for a recipient. Disbursements record the actual international transfer of financial resources, or of goods or services valued at the cost of the donor.

DAC (Development Assistance Committee) countries refer to 'developing countries and territories' within Part I of the OECD DAC List of Aid Recipients.

MAIN FINDINGS

The EU-15 Member States paid almost EUR 45 000 million in official development assistance to DAC countries in 2005. There was a considerable disparity in official development assistance and foreign direct investment (FDI) between countries from different income groups. Official development assistance was relatively high among the least developed countries and other low income countries, whereas a relatively higher proportion of FDI was destined for low middle income countries.

There is a long-standing United Nations target of reaching a level of aid equivalent to 0.7 % of donors' gross national income (GNI). While EU members, like other industrialised countries, have accepted this 0.7 % target for spending, currently only Denmark, Luxembourg, the Netherlands and Sweden have reached this goal. EU ministers agreed in May 2005 to set a collective target of 0.56 % of GNI for 2010, rising to 0.7 % by 2015.

An alternative measure for studying the relative contributions of Member States is official development assistance per capita. Between 1996 and 2006 the average for the EU-15 almost doubled, reaching EUR 120.08 per inhabitant. Luxembourg reported ODA per capita (EUR 503.86) that was almost 4.2 times as high as the EU-15 average, followed by Sweden and Denmark – the only other countries to record ODA per capita above the threshold of EUR 300.

For more information on the activities of the Development Assistance Committee, refer to the OECD website at: http://www.oecd.org/dac.

SOURCES

Statistical books

Measuring progress towards a more sustainable Europe: 2007 monitoring report on the EU sustainable development strategy

Website data

Key indicators on EU policy (predefined tables)

Sustainable Development Indicators

Global partnership

Table 1.19: Official development assistance

(% of gross national income)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Belgium	0.34	0.31	0.35	0.30	0.36	0.37	0.43	0.60	0.41	0.53	0.50
Bulgaria	:	:	:	:	:	:	:	:	:	:	:
Czech Republic	:	:	0.03	0.03	0.03	0.05	0.07	0.11	0.11	0.11	0.12
Denmark	1.04	0.97	0.99	1.01	1.06	1.03	0.96	0.84	0.85	0.81	0.80
Germany	0.32	0.28	0.26	0.26	0.27	0.27	0.27	0.28	0.28	0.36	0.36
Estonia	:	:	:	:	:	:	:	:	:	:	:
Ireland	0.31	0.31	0.30	0.31	0.29	0.33	0.40	0.39	0.39	0.42	0.53
Greece	0.15	0.14	0.15	0.15	0.20	0.17	0.21	0.21	0.16	0.17	0.16
Spain	0.22	0.24	0.24	0.23	0.22	0.30	0.26	0.23	0.24	0.27	0.32
France	0.48	0.44	0.38	0.38	0.30	0.31	0.37	0.40	0.41	0.47	0.47
Italy	0.20	0.11	0.20	0.15	0.13	0.15	0.20	0.17	0.15	0.29	0.20
Cyprus	:	:	:	:	:	:	:	:	:	:	:
Latvia	:	:	:	:	:	:	:	:	:	:	:
Lithuania	:	:	:	:	:	:	:	:	:	:	:
Luxembourg	0.44	0.55	0.65	0.66	0.71	0.76	0.77	0.81	0.83	0.82	0.89
Hungary	:	:	:	:	:	:	:	0.03	0.07	0.11	0.11
Malta	:	:	:	:	:	:	:	:	:	:	:
Netherlands	0.81	0.81	0.80	0.79	0.84	0.82	0.81	0.80	0.73	0.82	0.81
Austria	0.23	0.24	0.22	0.24	0.23	0.34	0.26	0.20	0.23	0.52	0.48
Poland	:	:	0.01	0.01	0.02	0.02	:	0.01	0.05	0.07	0.09
Portugal	0.21	0.25	0.24	0.26	0.26	0.25	0.27	0.22	0.63	0.21	0.21
Romania	:	:	:	:	:	:	:	:	:	:	:
Slovenia	:	:	:	:	:	:	:	:	:	:	:
Slovakia	:	:	:	0.04	0.03	0.04	:	0.05	0.07	0.12	0.10
Finland	0.33	0.32	0.31	0.33	0.31	0.32	0.35	0.35	0.37	0.46	0.39
Sweden	0.84	0.79	0.72	0.70	0.80	0.77	0.84	0.79	0.78	0.94	1.03
United Kingdom	0.27	0.26	0.27	0.24	0.32	0.32	0.31	0.34	0.36	0.47	0.52
Turkey	0.05	0.04	0.03	0.06	0.04	0.04	0.04	0.04	0.11	0.17	:
Iceland	:	:	:	0.09	0.10	0.13	0.15	0.17	0.18	0.18	:
Norway	0.83	0.84	0.89	0.88	0.76	0.80	0.89	0.92	0.87	0.94	:
Switzerland	0.34	0.34	0.32	0.35	0.34	0.34	0.32	0.39	0.41	0.44	:

Source: Eurostat (tsdgp100), OECD (DAC database)

Official development assistance (ODA) consists of grants or loans that are undertaken by the official sector with promotion of economic development and welfare in the recipient countries as the main objective. Disbursements are the release of funds to, or the purchase of goods or services for a recipient; by extension, the amount thus spent. Disbursements record the actual international transfer of financial resources, or of goods or services valued at the cost of the donor. DAC (Development Assistance Committee) countries refer to developing countries and territories on Part I of the OECD DAC List of Aid Recipients for which there is a long-standing United Nations target of 0.7 % of donors' gross national product. GNI (gross national income) at market prices equals GDP minus primary income payable by resident units to non-resident units, plus primary income receivable by resident units from the rest of the world.

Table 1.20: Bilateral official development assistance, EU-15

(EUR million)

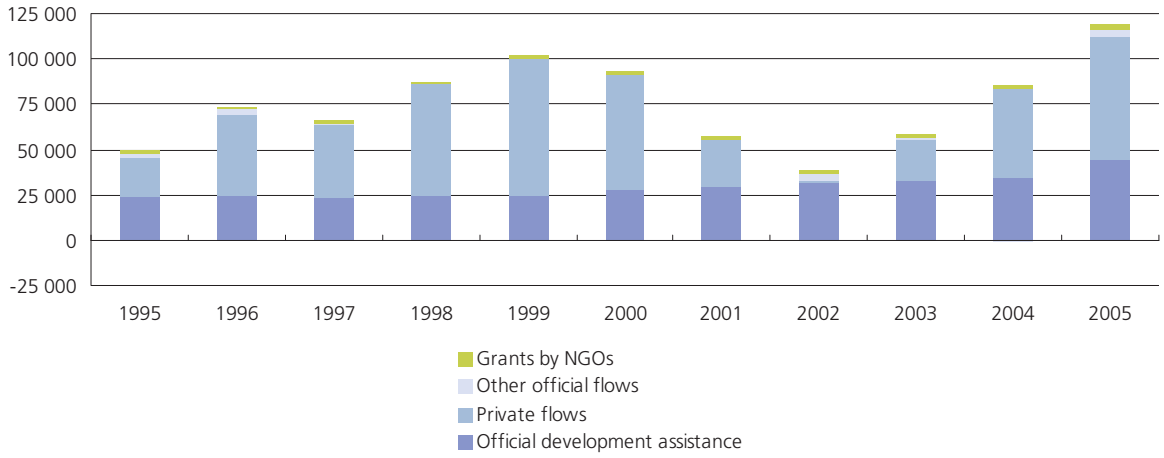
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
TOTAL	17 906	18 132	16 905	17 637	17 508	18 829	19 448	25 331	25 057	25 240	35 040
Social infrastructure	6 298	6 500	6 038	6 067	6 321	6 253	6 663	8 316	8 316	9 379	9 108
Education services	2 724	2 904	2 891	2 880	2 876	2 333	2 498	2 865	3 128	3 497	2 937
Health services	854	1 052	799	731	886	840	804	1 273	1 147	1 175	1 241
Population programmes	139	86	128	181	180	266	223	345	331	455	562
Water supply and sanitation	857	988	848	833	797	814	886	766	814	1 004	995
Government and civil society	627	632	479	655	733	1 033	1 251	1 910	1 838	2 324	2 526
Other	1 095	837	894	788	848	967	999	1 157	1 057	925	847
Economic infrastructure	2 466	2 943	2 109	1 636	1 986	1 479	1 905	1 858	2 053	2 681	2 878
Production sectors	1 756	1 843	1 583	1 542	1 181	1 375	1 296	1 245	989	1 253	1 340
Multisector / crosscutting	1 155	1 289	1 583	1 460	1 324	1 542	1 735	1 664	1 677	1 955	2 946
Administrative costs of donors	800	844	829	904	952	992	1 117	1 171	1 482	1 344	1 181
Commodity aid / general program assistance	1 197	904	464	517	613	1 060	919	629	473	679	727
Action relating to debt	2 109	1 479	2 279	3 141	2 204	2 046	2 490	5 036	5 904	4 206	12 377
Emergency assistance	1 190	1 066	904	931	1 541	1 781	1 462	1 804	1 891	2 097	2 741
Support to NGO's	88	67	411	456	546	1 022	1 018	2 362	1 066	739	662
Unallocated / unspecified	847	1 197	705	984	841	1 279	842	1 245	1 205	907	1 080

Source: Eurostat (tsdgp350), OECD (DAC database)

Official development assistance (ODA) consists of grants or loans that are undertaken by the official sector with promotion of economic development and welfare in the recipient countries as the main objective. Untied ODA is ODA for which the associated goods and services may be fully and freely procured in substantially all countries. DAC (Development Assistance Committee) countries refer to developing countries and territories on Part I of the OECD DAC List of Aid Recipients for which there is a long-standing United Nations target of 0.7 % of donors' gross national product. The shares of untied ODA are calculated based on total bilateral ODA figures that vary from those presented in the table on bilateral ODA by category.

Figure 1.48: Total financing for developing countries, EU-15

(EUR million)

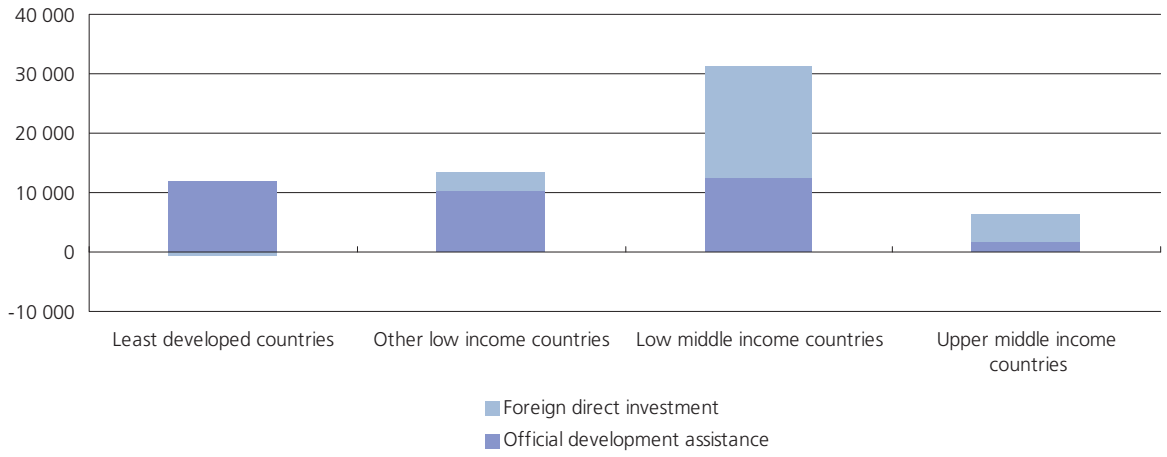


Source: Eurostat (tsdgp310), OECD (DAC database)

Total financing for development refers to net disbursements of official development assistance (ODA), other official flows (OOF) and private flows (mainly foreign direct investment, or FDI). ODA consists of grants or loans that are undertaken by the official sector with promotion of economic development and welfare in the recipient countries as the main objective. Private flows include private export credits, direct investment and financing to multilateral institutions. OOF are transactions which do not meet the conditions for eligibility as ODA (or official aid), either because they are not primarily aimed at development, or because they have a grant element of less than 25 %. Disbursements are the release of funds to, or the purchase of goods or services for a recipient; by extension, the amount thus spent. Disbursements record the actual international transfer of financial resources, or of goods or services valued at the cost of the donor. DAC (Development Assistance Committee) countries refer to developing countries and territories on Part I of the OECD DAC List of Aid Recipients for which there is a long-standing United Nations target of 0.7 % of donors' gross national product.

Figure 1.49: Official development assistance and direct investment, EU-15, 2005

(EUR million)



Source: Eurostat (tsdgp320), OECD

Official development assistance (ODA) consists of grants or loans to countries and territories on Part I of the DAC List of Aid Recipients (developing countries) that are undertaken by the official sector with promotion of economic development and welfare in the recipient countries as the main objective. Foreign direct investment (FDI) includes significant investments by foreign companies of production facilities or ownership stakes taken in the national companies. DAC (Development Assistance Committee) countries refer to developing countries and territories on Part I of the OECD DAC List of Aid Recipients for which there is a long-standing United Nations target of 0.7 % of donors' gross national product. The EU-15 average for FDI excludes Ireland and Luxembourg.

Table 1.21: Official development assistance per capita

(EUR)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
EU-15	66.46	63.14	65.93	67.04	72.83	78.08	83.48	85.99	89.17	116.21	120.08
Belgium	70.72	66.16	77.19	69.68	86.58	94.20	109.81	158.00	113.11	151.31	148.68
Bulgaria	:	:	:	:	:	:	:	:	:	:	:
Czech Republic	:	:	1.40	1.40	1.70	2.90	4.70	7.80	:	:	:
Denmark	265.38	273.33	286.83	305.70	337.42	340.47	323.01	286.19	302.72	312.18	326.46
Germany	73.09	62.94	60.68	63.04	66.25	67.68	68.25	72.69	73.43	98.24	100.08
Estonia	:	:	:	:	:	:	:	:	:	:	:
Ireland	38.74	45.09	47.75	61.39	66.85	83.32	108.41	111.29	122.08	144.47	187.31
Greece	13.80	14.50	15.23	17.28	22.41	20.53	26.67	29.05	23.36	27.85	27.53
Spain	25.10	27.68	31.17	32.28	32.40	48.16	43.97	40.59	45.35	56.15	67.71
France	100.52	94.88	87.70	90.26	75.47	79.19	97.61	107.28	109.86	132.68	131.25
Italy	33.47	19.60	35.63	29.68	26.06	31.68	42.58	37.42	34.39	69.91	49.70
Cyprus	:	:	:	:	:	:	:	:	:	:	:
Latvia	:	:	:	:	:	:	0.70	0.30	:	:	:
Lithuania	:	:	:	:	:	0.60	:	0.50	:	:	:
Luxembourg	154.32	198.43	231.90	258.92	302.60	352.58	352.73	380.78	420.88	457.97	503.86
Hungary	:	:	:	:	:	:	:	1.90	:	:	:
Malta	:	:	:	:	:	:	:	:	:	:	:
Netherlands	164.73	166.46	172.70	185.99	213.06	221.53	218.71	216.09	207.46	251.60	265.39
Austria	51.46	54.07	50.68	57.09	58.70	86.95	68.50	55.43	66.92	153.66	145.50
Poland	:	:	0.40	0.50	0.80	1.00	0.40	0.60	:	:	:
Portugal	17.28	22.18	23.13	25.39	28.56	28.99	32.99	27.32	80.16	29.32	30.12
Romania	:	:	:	:	:	:	:	:	:	:	:
Slovenia	:	:	:	:	:	:	:	:	:	:	:
Slovakia	:	:	:	1.30	1.20	1.70	1.30	2.50	:	:	:
Finland	62.66	65.00	68.65	75.59	77.51	83.53	93.82	94.76	104.31	137.83	125.08
Sweden	178.09	172.43	158.51	172.60	219.59	208.96	237.95	236.27	242.87	298.57	346.84
United Kingdom	42.84	51.30	58.17	54.91	83.08	86.97	88.29	93.81	105.62	144.24	166.79
Turkey	1.10	1.10	0.90	1.70	1.30	1.00	1.10	:	:	:	:
Iceland	0.00	25.40	23.30	25.60	33.20	38.10	46.50	53.90	:	:	:
Norway	235.70	261.45	266.00	288.04	304.63	332.94	395.24	395.48	384.93	484.38	:

Source: Eurostat (tsdgp520), OECD (DAC database)