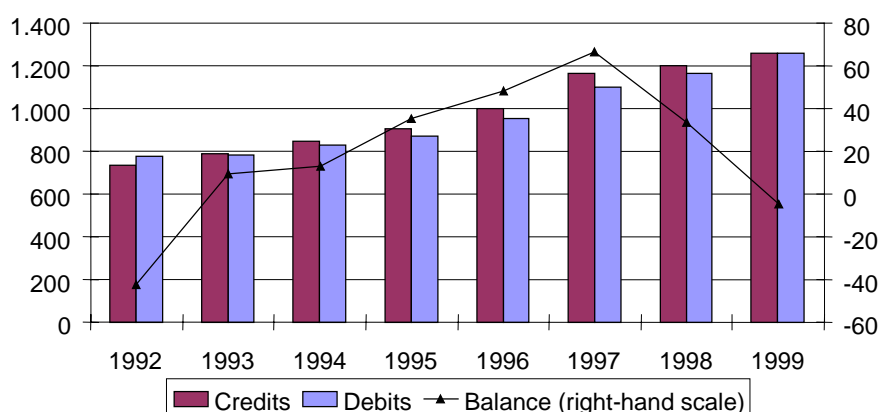


EU¹ external current balance in deficit of EUR -4.7 bn in 1999 after a surplus of ECU 33.5 bn in 1998

Nikos Chryssanthou

In 1999, the EU external current balance turned into a deficit of EUR -4.7 bn after being in surplus for six years in row. The EU total external transactions² continued to follow an upward trend and increased by 7% relative to 1998. The EU balance of services experienced a decrease of its surplus from ECU 11.7 bn in 1998 to EUR 6.9 bn in 1999, mainly due to the plunge of the travel deficit to EUR -4.3 bn. At the same time, the euro-zone's³ balance of services also deteriorated, reaching a deficit of EUR -10 bn. The EU current account with the USA showed a significant surplus of EUR 22.5 bn. The EU current deficit with Japan depreciated till EUR -25.6 bn in 1999. The USA remained the main external partner in trade in services for the EU.

Evolution of the EU current account with the rest of the world 1992-1999
Credits, debits and balance (bn EUR (bn ECU to end 1998))



EU current account in deficit with third countries in 1999

In 1999, the EU current account balance with the rest of the world (excluding intra-EU transactions) recorded the first deficit after being in surplus for six years in row, marking a deterioration of EUR 38.2 bn relative to 1998. In 1999, the EU current account debits (EUR 1261.4 bn) with the rest of the world (intra-EU flows are excluded) grew by 8% relative to 1998 and exceeded the EU current account credit flows (EUR 1256.8 bn) which grew by 5% relative to 1998. This led to an overall expansion of EU total current transactions by 7% and in a deficit of the current account balance amounting to EUR -4.7 bn.

¹ EU (EU-15) includes Belgium, Denmark, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal, Finland, Sweden, the United Kingdom and the European Union Institutions.

² Credits + debits excluding intra-EU transactions.

³ euro-zone (EUR-11) includes EU members except Denmark, Greece, Sweden, the United Kingdom and the European Union Institutions.

Statistics in focus

ECONOMY AND FINANCE

THEME 2 – 4/2001

BALANCE OF PAYMENTS

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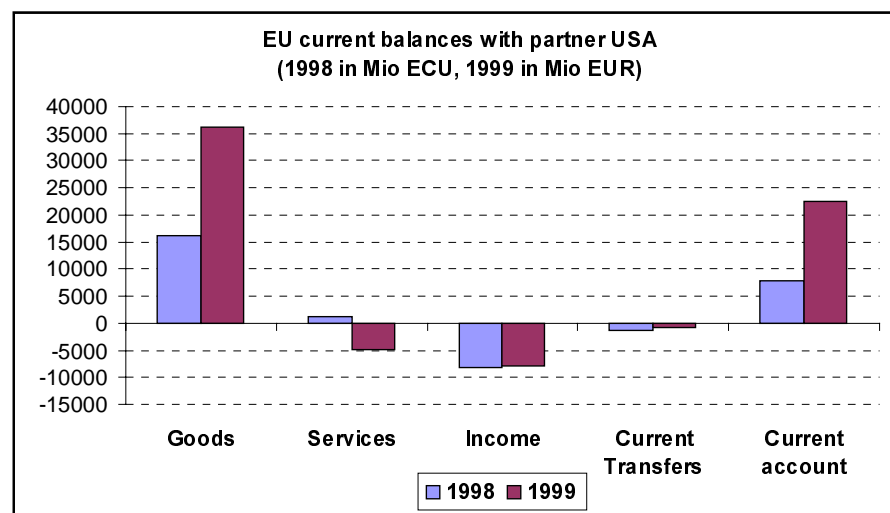
Looking at the main components of the current account, the largest deterioration was experienced by the balance of goods⁴ which fell from ECU 49.2 bn to EUR 19.4 bn (reduction of -60% compared to 1998). The surplus in services also decreased by -41% reaching EUR

6.9 bn (against ECU 11.7 bn in 1998). This was mainly due to the significant rise of the travel deficit that doubled from ECU -2.1 bn to EUR -4.3 bn. Moreover, the surpluses performed by transportation and other services⁵ decreased reaching EUR 2.3 bn and EUR 8.9 bn respec-

tively. At the same time, the deficits recorded by income⁶ and current transfers expanded to EUR -9.9 bn and EUR -21.1 bn, respectively, compared to ECU -8.6 bn and ECU -18.8 bn in 1998.

EU current surplus with United States: boosting in 1999

The EU current balance with the USA showed a strong surplus of EUR 22.5 bn representing an expansion of EUR 14.8 bn compared to 1998. This performance of the EU current balance with the USA stemmed more particularly from the goods surplus which rose from EUR 16.1 bn in 1998 to EUR 36.1 bn in 1999. Current transfers which reduced their deficit to EUR -0.8 bn in 1999 compared to ECU -1.4 bn in 1998 also had a positive repercussion on the current balance. The income deficit remained at the same level of 1998 (EUR -8 bn). On the other hand, the EU balance of services vis-à-vis the USA dropped to a deficit of EUR -4.8 bn after a surplus of ECU 1.2 bn in 1998. This deterioration was principally due to the reversal of the other services balance from a surplus of ECU

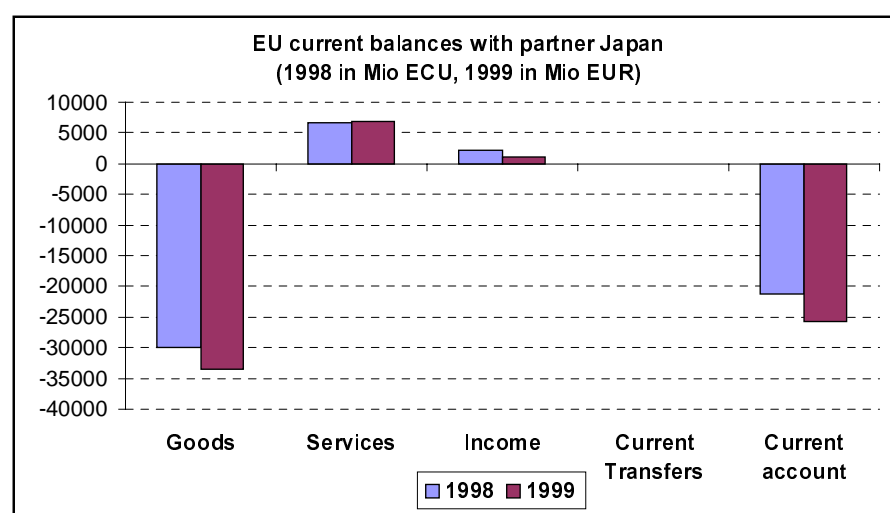


0.3 bn in 1998 to a deficit of EUR -7.4 bn in 1999. The contraction experienced by the royalties and licence fees balance on the one hand (from ECU -5.9 bn in 1998 to EUR -9.8 bn in 1999) and by the

other business services balance on the other hand (from ECU 1.1 bn to EUR -1.4 bn), pushed the services balance into the red.

Deterioration of the EU current deficit with partner Japan in 1999 at EUR -25.6 bn

The large EU current account deficit vis-à-vis Japan persisted also in 1999, deepening to EUR -25.6 bn, a deterioration of EUR 4.4 bn relative to 1998. Meanwhile, the EU total current transactions with partner Japan registered a growth of 11% compared to 1998. The widening of the current deficit was principally due to the deterioration of the goods deficit which continued to grow hollow from ECU -29.9 bn in 1998 to EUR -33.5 bn in 1999 (+12%). In addition, the income surplus narrowed at EUR 1.0 bn in 1999 compared to ECU 2.1 bn in 1998.



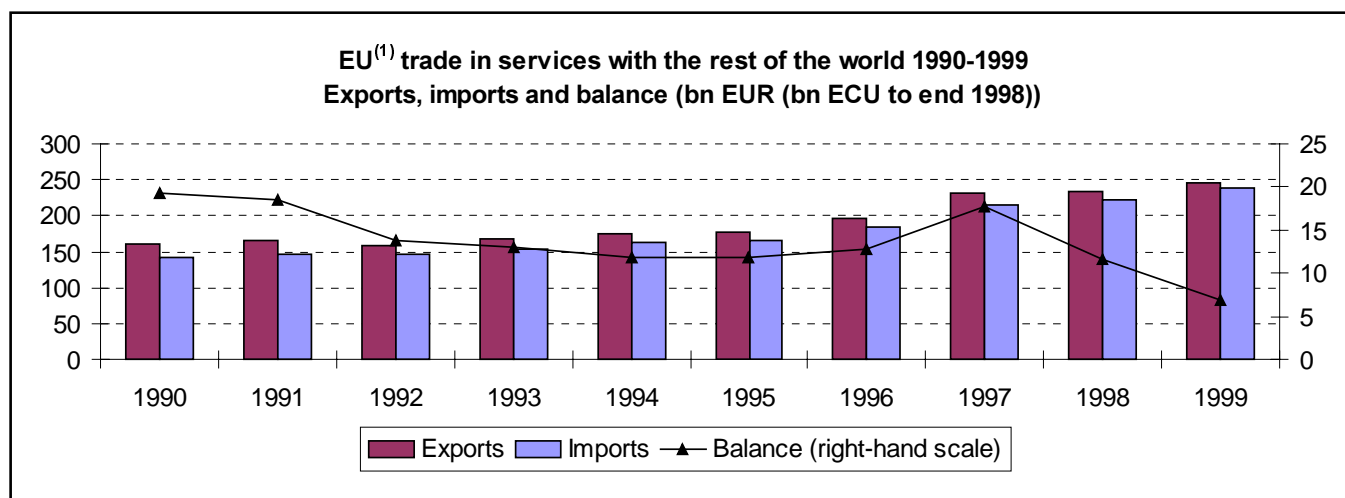
⁴ According to the Balance of Payments concept: (exports FOB - imports FOB).

⁵ The item "other services" covers services other than transportation and travel. It includes communications services, construction services, insurance services, financial services, computer & information services, royalties & license fees, other business services, personal, cultural & recreational services and government services n.i.e.

⁶ For the item investment income, see the methodological note at the end of this document.

In contrast, the EU services' surplus with Japan rose slightly from ECU 6.7 bn to EUR 6.9 bn thanks to the more pronounced growth registered for other services (+30%). The balance of current transfers remained stable at its 1998 level (EUR 0.1 bn).

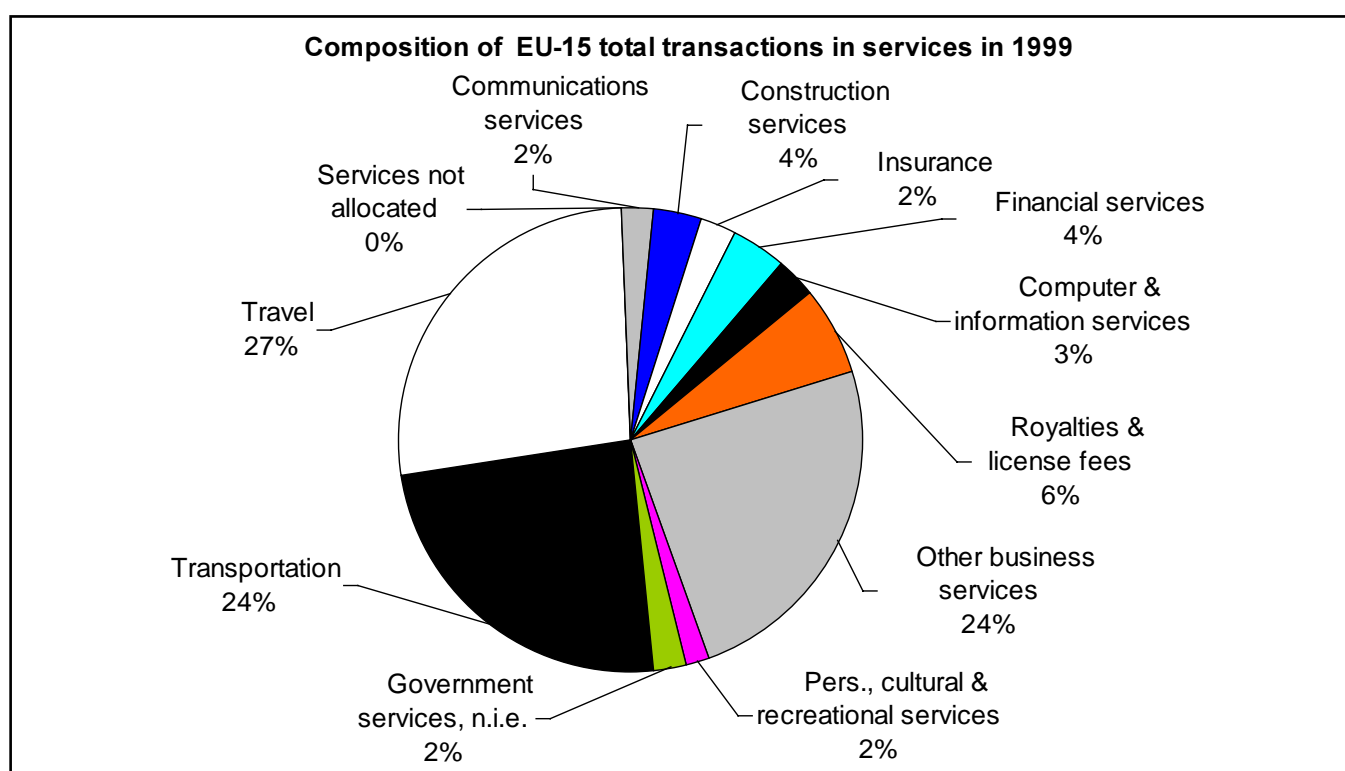
EU trade in services over the decade 1990-1999: strong decline in the last two years



(1) Until 1991 data refer to EU-12 and from 1992 onwards data refer to EU-15. Intra-EU transactions are excluded.

Over the last ten years, the performance of the EU trade in services (excluding intra-EU transactions) was characterised by an overall growth of exports and imports. From 1990 to 1995 imports grew more steadily than exports (except in 1992). This resulted in a progressive reduction of the services surplus from ECU 19.3 bn in 1990 to ECU 11.9 bn in 1995. From 1995 to 1997, trade in services rose rapidly reaching ECU 17.8 bn in 1997. Afterwards, the balance of services deteriorated sharply reaching the amount of EUR 6.9 bn in 1999, a worsening of EUR 10.9 bn compared to 1997: similarly to what has been described for the current account the rise registered by services' exports (+1% in 1998, +5% in 1999) could not offset the performance shown by imports (+4% in 1998, +7% in 1999).

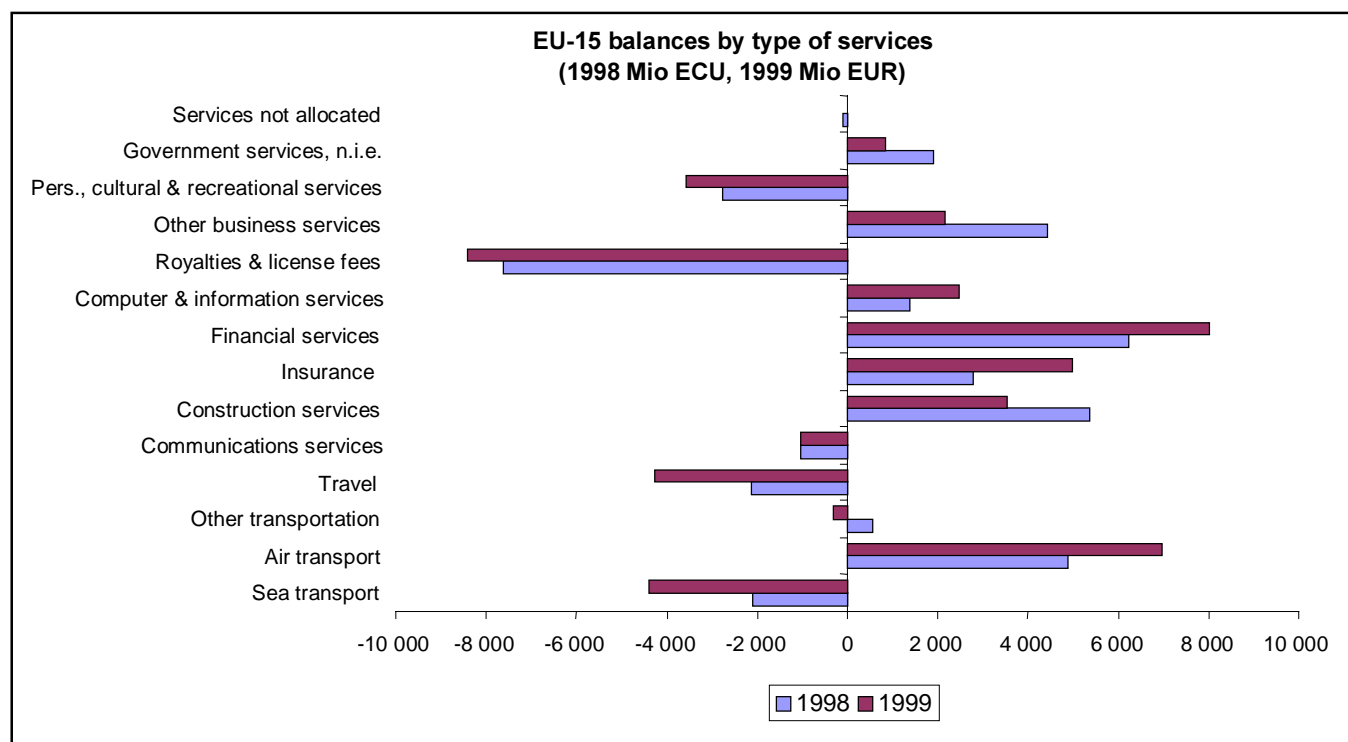
The breakdown of the EU services: enlargement of the travel deficit, contraction of transportation and other services surpluses



The analysis of the different services components in 1999 showed that the pattern of repartition of each services component remained generally unchanged compared to the previous year. Travel (with a share of 27%), transportation (24%) and other business services⁷ (24%)

accounted for three-quarters of the EU total external transactions in services. Far behind these three sub-components, shares fell to 6% for royalties & license fees and 4% for both financial and construction services. Computer & information services accounted for 3% (gaining

1 point compared to 1998) whereas each of the remaining components amounted to 2% of the total. Nevertheless, the EU external surplus in services deteriorated by -41% in comparison with 1998. This decline was the result of different factors.



On the one hand, some items improved their surpluses. This was the case for insurance, financial, computer & information services that experienced significant growths of 80%, 29% and 79% respectively. Moreover, the surplus performed by air transport increased by 43% expanding from ECU 4.9 bn to EUR 7 bn. On the other hand, the fall of the sea transport deficit to EUR -4.4 bn and the reversal of the other transportation balance to a deficit of EUR -0.3 bn led to a reduction of the total transportation surplus by -32%, at EUR 2.3 bn. In addition, the contraction of the surpluses experienced by construction (-34%), other business services (-52%) and government services (-57%) as well as the expansion of the deficits in royalties and licence fees (10%) and personal, cultural and recreational services (29%) offset the positive balances of the other services' sub-items. As a consequence, the surplus of other services as a whole deteriorated from ECU 10.6 bn to EUR 8.9 bn (-16%). The results performed by transportation and other services, added to the outstanding and decisive increase of the travel deficit to EUR -4.3 bn, brought the services balance down to EUR 6.9 bn.

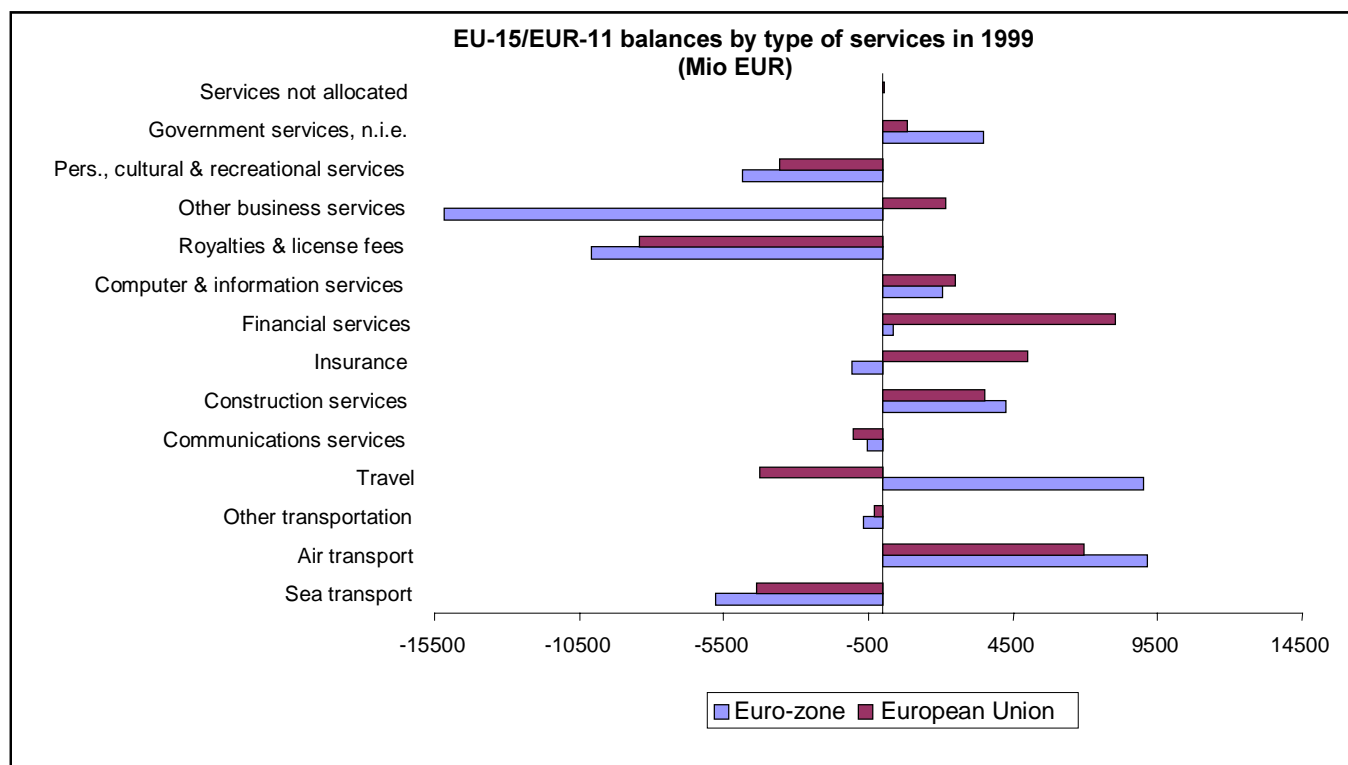
Drop of the euro-zone services' deficit to EUR -10 bn

Like the EU, the euro-zone registered a decrease of its balance of services with the rest of the world which declined from ECU -0.1 bn in 1998 to EUR -10 bn in 1999. Nevertheless, a significant difference regarding the pattern of the EU and euro-zone balance of services has to be noticed. The first discrepancy between both was caused by other business services, which registered a deficit of EUR -15.2 bn for the euro-zone compared to a surplus of EUR 2.1 bn for the EU. Secondly, the remarkable financial services surplus of EUR 8 bn in addition to the insurance services surplus of EUR 5 bn for the EU contrasted with a surplus of only EUR 0.3 bn and a deficit of EUR -1.1 bn respectively for the euro-zone. Even the EUR-11's significant surpluses in air transport (EUR 9.1 bn compared to EUR 7 bn for the EU), travel (EUR 9 bn compared to a deficit of EUR -4.3 bn for the EU) and govern-

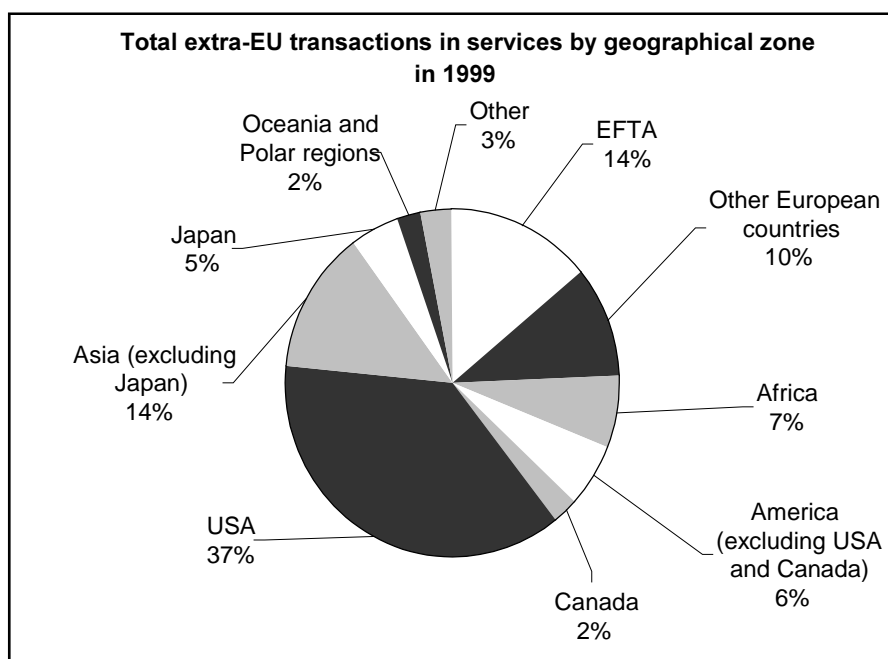
⁷ The item "other business services" includes merchandising and other trade-related services; operational leasing; legal, accounting, management consultancy and public relations services; advertising, market research and public opinion polling services; research and development services; architectural, engineering and other technical services; agricultural, mining and on-site processing; other; services between affiliated enterprises, n. i. e.

ment services (EUR 3.5 bn compared to EUR 0.8 bn for the EU) could not offset the negative contributions of the other services' sub-items to the euro-zone balance.

The results showed by the EU and euro-zone respectively regarding their balance of services highlighted the relative importance of the non-euro-zone members (Denmark, Greece, Sweden, the United Kingdom and the European Union Institutions) and above all of the United Kingdom. In fact, this country alone accounted for 21% of EU total external transactions in services and 68% of the non-euro-zone members. Moreover, the significant discrepancies recorded between the EU and euro-zone for certain services were the result of a crucial contribution of the United Kingdom. This was the case for insurance services, financial services and other business services where the UK registered a share of 63%, 50%, and 26% respectively of EU external exports.



The EU/euro-zone partners in trade in services



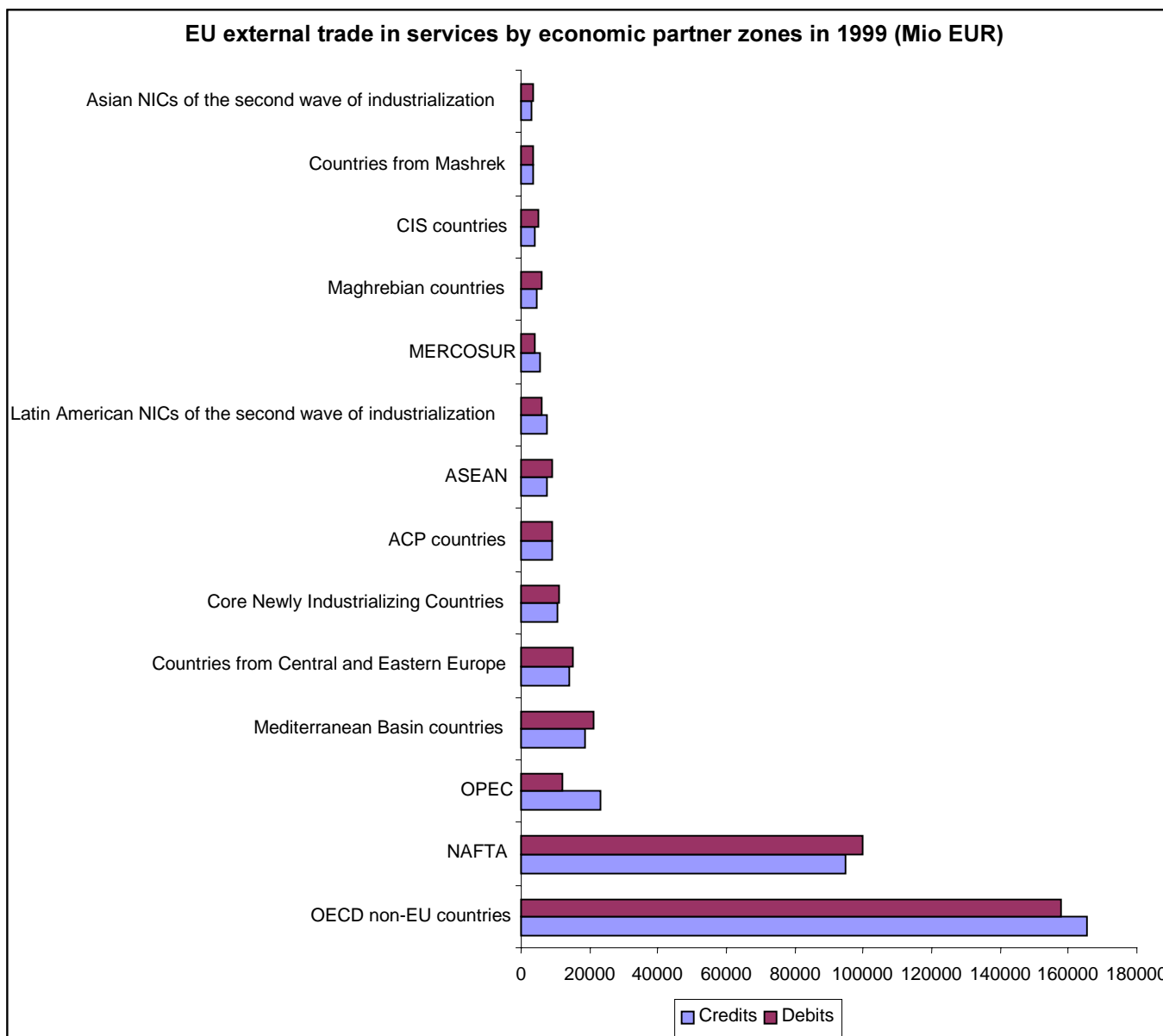
The EU total trade in services (including intra-EU flows) was characterised by a share of 55% within the EU, which remained unchanged, compared to 1998. Regarding total trade in services outside the EU the main partner was America with a share of 45% and of 37% for the USA alone. Asia (excluding Japan) and EFTA countries⁸ were in second position with an identical share of 14%, followed by Other European countries⁹ (10%), Africa (7%) and Japan (5%).

⁸ EFTA (European Free Trade Association) includes Iceland, Liechtenstein, Norway and Switzerland.

⁹ Other European countries are European countries other than EU and EFTA countries.

Regarding total trade in services outside the EUR-11, America represented 32% of the euro-zone external trade in services (the USA alone accounting for 26%), while the shares of EFTA countries, Asia (excluding Japan) and Africa amounted to 11%, 9% and 5% respectively. These shares were lower compared to the EU.

Concerning the economic partner zones¹⁰ of extra-EU trade in services, the OECD (excluding EU member countries) and the North American Free Trade Association (NAFTA) were by far the biggest traders with Europe representing 67% and 40% respectively of total extra EU transactions. Nevertheless, these results should be considered in the light of the fact that the USA belongs to both partner zones and performed 37% of the EU external trade in services. EU total external transactions in services with the majority of the partner zones fluctuated by +/- 9% in comparison to 1998. In addition, partners NAFTA, Countries from Mashrek and ACP countries registered significant growths of 13%, 15% and 25% respectively.



¹⁰ OECD: Organisation for Economic Co-operation & Development, NAFTA: North American Free Trade Association, OPEC: Organisation of Petroleum Exporting Countries, ACP countries: African, Caribbean and Pacific countries which signed the Lome' agreement, ASEAN: Association of South-East Asian Nations, CIS: Community of Independent States, MERCOSUR: Countries of the South Cone common market.

The EU current account balance by partner in 1999 (Mio EUR)

	Extra EU-15	European Free Trade Association	Other European countries	Africa	United States of America	America (1)	Japan	Asia (2)	Australia, Oceania and other territories	Other
Current account	-4 650	-3 127	12 368	-1 106	22 548	27 917	-25 604	-36 431	10 017	-11 232
Goods	19 437	2 806	21 536	3 108	36 099	17 601	-33 504	-35 824	6 960	655
Services	6 916	5 269	-3 611	-58	-4 757	-95	6 949	2 379	917	-77
Transportation	2 258	1 420	-2 453	-1 261	3 141	374	1 237	-595	288	108
Travel	-4 263	4 608	-3 368	-2 598	-470	-2 440	3 321	-1 720	-258	-1 338
Other services	8 911	-754	2 213	3 799	-7 431	1 977	2 395	4 691	888	1 134
Communications services	-1 043	-84	-441	-177	192	-282	-4	-215	-38	7
Construction services	3 522	-198	416	1 256	550	596	-47	933	-15	31
Insurance services	4 981	323	256	211	2 636	278	322	803	145	8
Financial services	8 016	368	781	523	2 938	857	914	1 320	297	19
Computer and information services	2 473	1 275	216	186	-595	364	136	336	95	460
Royalties and license fees	-8 421	-432	269	225	-9 829	234	178	692	174	66
Other business services	2 150	-1 636	1 156	1 862	-1 434	326	860	978	240	-202
Personal, cultural and recreational services	-3 580	-311	-199	-53	-2 918	-142	82	-28	-4	-6
Government services, n.i.e.	817	-59	-241	-232	1 031	-253	-48	-124	-3	746
Services not allocated	10	-4	-3	2	3	-5	-3	2	-1	19
Income	-9 928	-12 626	608	2 297	-7 955	11 880	1 029	-228	2 120	-7 053
Current transfers	-21 072	1 421	-6 166	-6 453	-836	-1 474	-76	-2 760	20	-4 748

(1) America excluding USA

(2) Asia excluding Japan

➤ ESSENTIAL INFORMATION – METHODOLOGICAL NOTES

The methodological framework used is that of the fifth edition of the International Monetary Fund (IMF) Balance of Payments manual.

The EU balance of payments is compiled by Eurostat in accordance with a methodology agreed with the European Central Bank (ECB) based on extra-EU transactions, i.e. by aggregating cross border transactions of EU residents vis-à-vis non-EU residents as reported by the 15 participating Member States. The balance of payments of the EU institutions is added to the EU aggregate. The ECB compiles the euro-zone aggregate following the same agreed methodology excluding cross-border transactions within the euro-zone. The EU institutions are treated as non-resident of the euro-zone.

Published data for the euro-zone, which include detail on services only, have been validated by the ECB. In fact, annual detailed breakdowns of the item services for the euro-zone transactions are made available by the Member States only to Eurostat. They do not match up exactly with those released by the ECB because of different “cut-off” dates for receiving Member States’ data for processing (revisions could take place between these “cut-off” dates) and different treatments of some (minor) not allocated flows.

Geographical breakdown of goods imports

This year, most EU Member States supplied imports of goods data allocated geographically according to the “principle of consignment”, thus conforming to the international standards. This methodology consists of reporting intra-EU imports of goods according to country of consignment (community concept) rather than origin (national concept). For the calculation of the EU aggregate, country data have been harmonised in order to create one single methodological break in 1998.

Methodological difference between Eurostat and the ECB for the compilation of investment income flows

The EU-15 current account data are not fully comparable to the euro-zone figures released by the ECB. Indeed, a new methodology has been implemented by the ECB for the geographical allocation of portfolio investment income, which has consequences on investment income, income and the current account. In fact, it has been decided that receipts on portfolio investment income would be allocated geographically according to the residency of the security issuer rather than that of the immediate counterpart. On the basis of intra-EU receipts, payments on portfolio investment income should be allocated consistently between intra and extra-EU according to the residency of the end-investor. Due to a shortage of data, this methodological change could not be implemented for the compilation of the EU-15 aggregate.

Both institutions and the European Union Member States are currently working in order to minimise these discrepancies in the future.

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