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ECONOMY AND FINANCE

BALANCE OF PAYMENTS

THEME 2 – 7/1999

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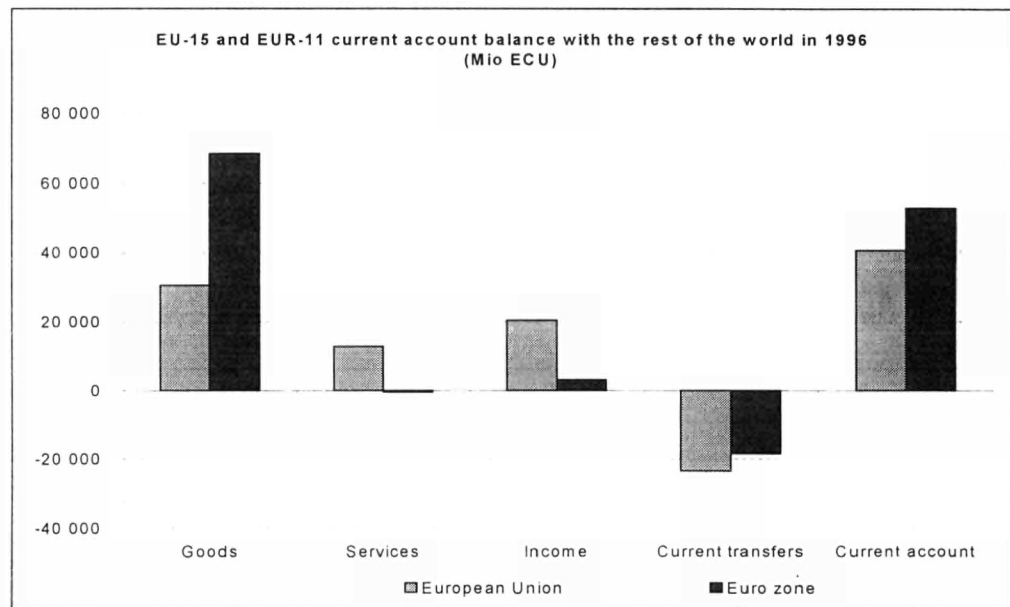
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EU-15 and EUR-11 current surplus: new growth in 1996

Maria Helena FIGUEIRA

In 1996 the EU external current surplus confirmed its expansion with a growth of 193% in relation to 1995, reaching ECU 40.5 bn (excluding intra-EU transactions). The euro-zone¹ also experienced a significant increase of its external current surplus (+82%), reaching ECU 52.8 bn. The EU-15 surplus in services (ECU 12.9 bn) contrasted with a deficit for the EUR-11 (ECU -0.5 bn), greatly explained by the role played by UK. Intra-EU trade still prevailed, and USA remained the main extra-EU partner. In 1996, the EU-15/EUR-11 current surplus with the USA (ECU 6.3 and 0.5 bn respectively) came together with the improvement of the current deficit with Japan (ECU -11.3 and -10.7 bn on each hand).



EU current account in 1996: surplus with the rest of the world up by 193%

In 1996, and for the third consecutive year, the EU current account balance with the rest of the world (i.e. excluding intra-EU transactions) showed a surplus, and was recorded at ECU 40.5 bn. This corresponds to a remarkable growth of 193% on 1995.

Among the main current account items, trade in goods registered a significant increase, with a surplus of ECU 30.5 bn, more than three times higher than the 1995 figure of ECU 10 bn. The services surplus improved slightly in relation to the previous year (+7%), reaching ECU 12.9 bn. The deterioration of the transportation balance, from a surplus of ECU 0.7 bn in 1995 to a deficit of ECU -1.6 bn in 1996 was the main reason for the weak expansion of the services surplus. Conversely, the other services surplus showed a growth of 61%. Travel remained almost unchanged at ECU 0.1 bn.

At the same time, the income surplus increased by 22%, reaching ECU 20.4 bn, whereas the structural current transfers' deficit remained almost unchanged at ECU -23.4 bn.



Manuscript completed on: 05.02.99
 ISSN 1024-4298
 Catalogue number: CA-NJ-99-007-EN-C
 Price per single copy in Luxembourg
 (excl. VAT): EUR 6

¹ Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal, Finland, and the European Union Institutions.

Euro-zone:

Current balance also in surplus (ECU 52.8 bn), but services in deficit (ECU -0.5 bn)

Like the EU, the current balance of the **euro-zone** with the rest of the world (i.e. excluding the transactions inside the euro-zone) showed growth in 1996 (82% higher than in 1995), reaching ECU 52.8 billion. The euro-zone accounted for around 80% of the EU total current transactions.

The increase of the goods surplus was smaller for the euro-zone (+43%) but reached ECU 68.5 billion, compared to ECU 30.5 billion for the EU. The most striking difference was the services balance that was positive for EU-15 (in surplus by ECU 12.9 billion), and in deficit (by ECU -0.5 billion) for EUR-11. A similar

situation to that observed in 1995. Nevertheless the 1996 services' deficit represents a reduction of 78% in relation to the value observed in 1995 (ECU -2.2 billion).

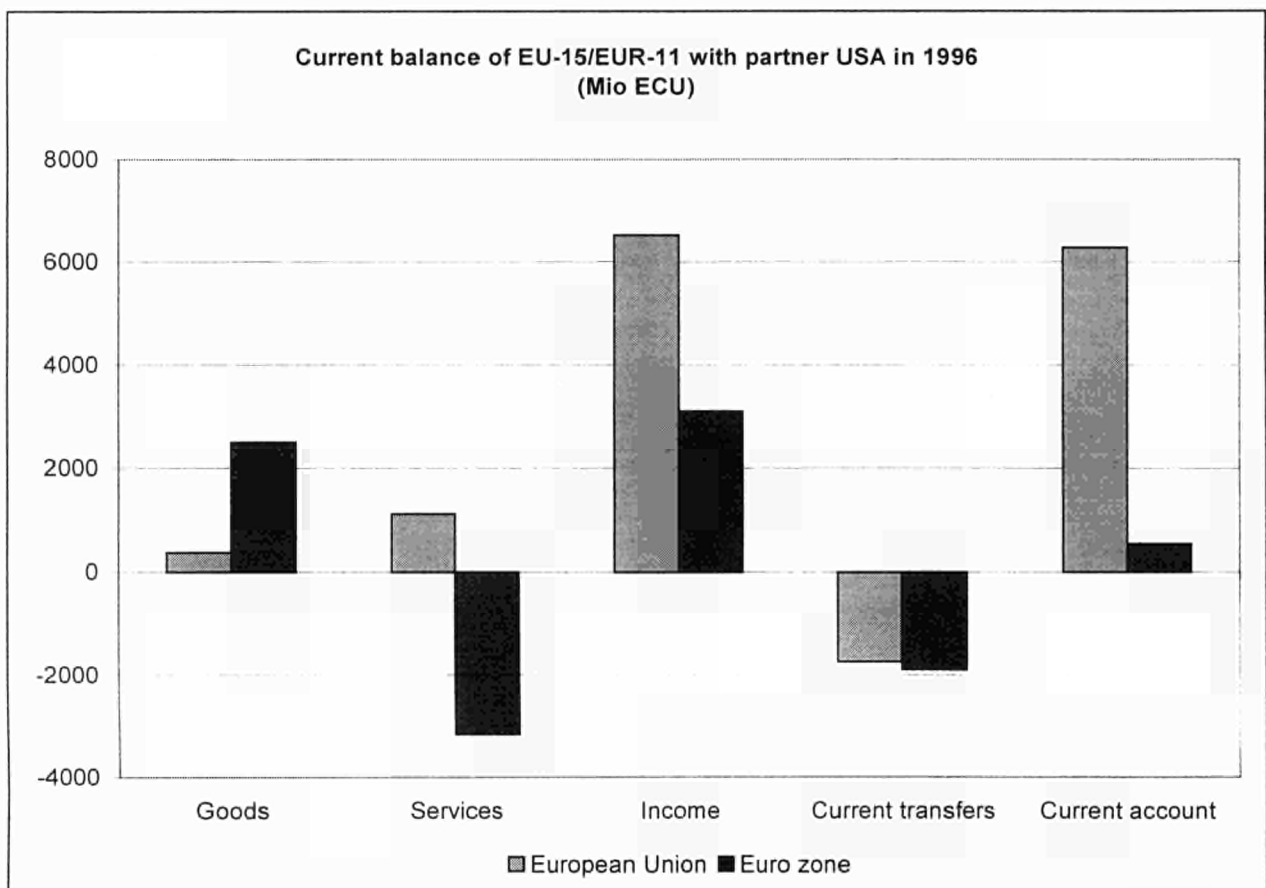
Between 1995 and 1996 the euro-zone income surplus rose strongly (+125%) compared to +22% for the EU, but in value terms the EUR-11 surplus (ECU 3.2 billion) remained far behind the surplus recorded by EU-15 (ECU 20.4 billion). Finally, the EU current transfers' deficit (ECU -23.4 billion) recorded a slight increase (+6%) and the euro-zone deficit (ECU -18.4 billion) remained almost unchanged (-2%).

Euro-zone current surplus with USA at ECU 0.5 billion against EU's 6.3 billion

The euro-zone current account balance with USA showed a much smaller surplus than the EU (ECU 6.3 bn compared to ECU 0.5 bn). In addition to the discrepancy already mentioned between EU-15 and EUR-11 balance for services, the EUR-11 surplus in goods with USA reached ECU 2.5 bn compared with ECU 0.4 bn for the EU.

This difference was linked again with the role played by United Kingdom, as this country registered a deficit of ECU -2.8 billion for goods with USA.

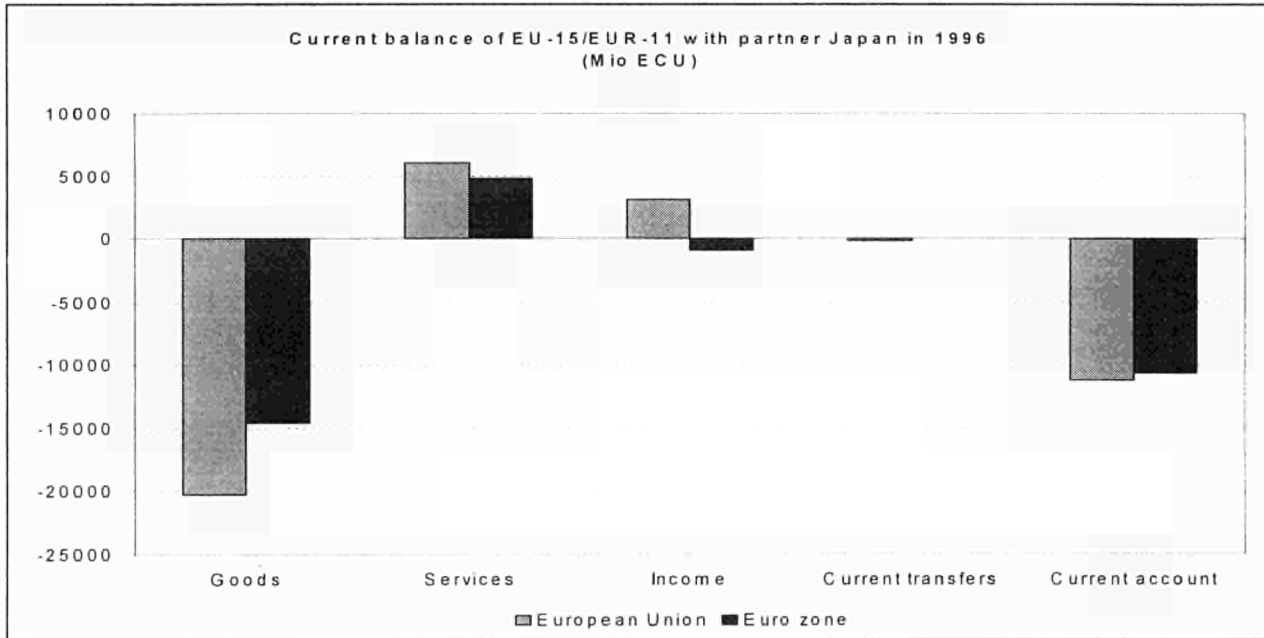
On the contrary, the euro-zone income account showed a surplus of ECU 3.1 billion only (it was of ECU 6.5 billion for the EU) because UK itself recorded a surplus of ECU 4.7 billion.



Deficit with partner Japan: ECU -10.7 billion for the euro-zone and ECU -11.3 billion for the EU

With regards to Japan, the EU and euro-zone current account balances were closer to each other. Also, both EU-15 (ECU 6.1 billion) and EUR-11 (ECU 4.8 billion) services balances were positive. A discrepancy appeared in the income balance, with a

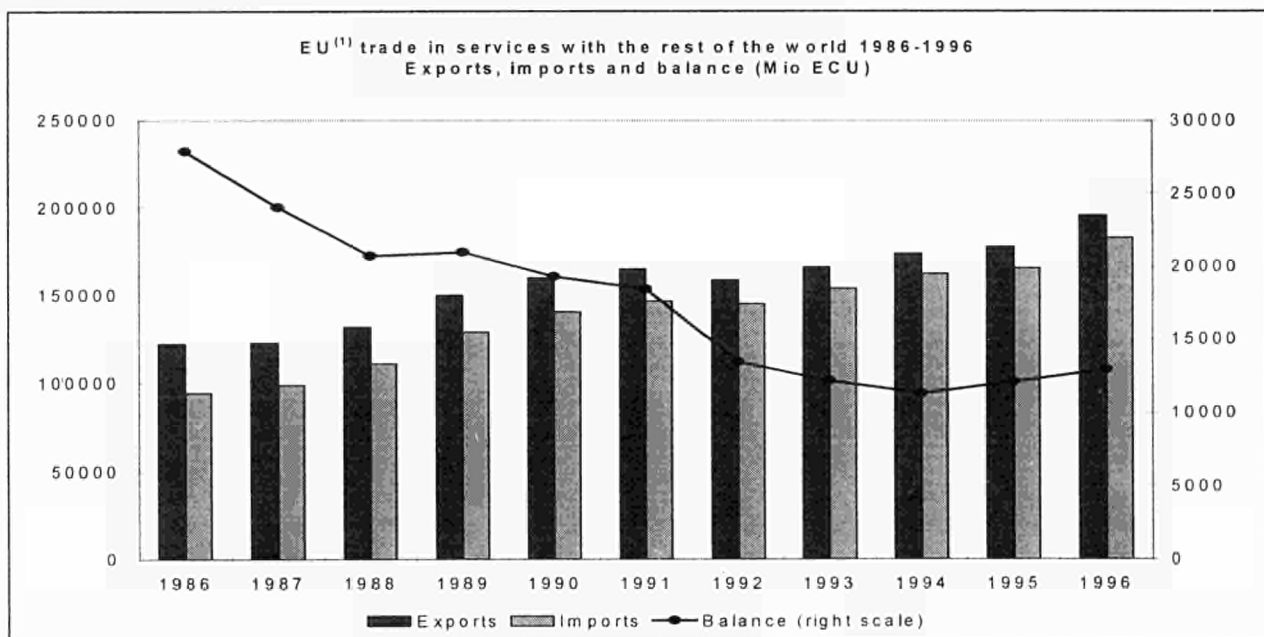
surplus of ECU 3.1 billion for the EU and a deficit of ECU -0.9 billion for the euro-zone. This was explained again by the relative weight of the UK, which recorded a surplus of ECU 5.2 billion in its income balance with Japan.



EU trade in services: permanent surplus since 1986

Between 1986 and 1996, trade in services recorded a consistent surplus during the entire period. Since 1991, services' exports grew by 19%, while imports increased by 25% (these growth rates are 40% and 44%

respectively if intra-EU transactions are included). Nevertheless services' balance registered a progressive decline from ECU 27.9 billion in 1986 to ECU 12.9 billion in 1996.



⁽¹⁾ From 1986 to 1991 data refer to EU-12 and from 1992 onwards data refer to EU-15. Intra-EU transactions are excluded.

The different types of services: deficit for transport, continuous expansion for other business services

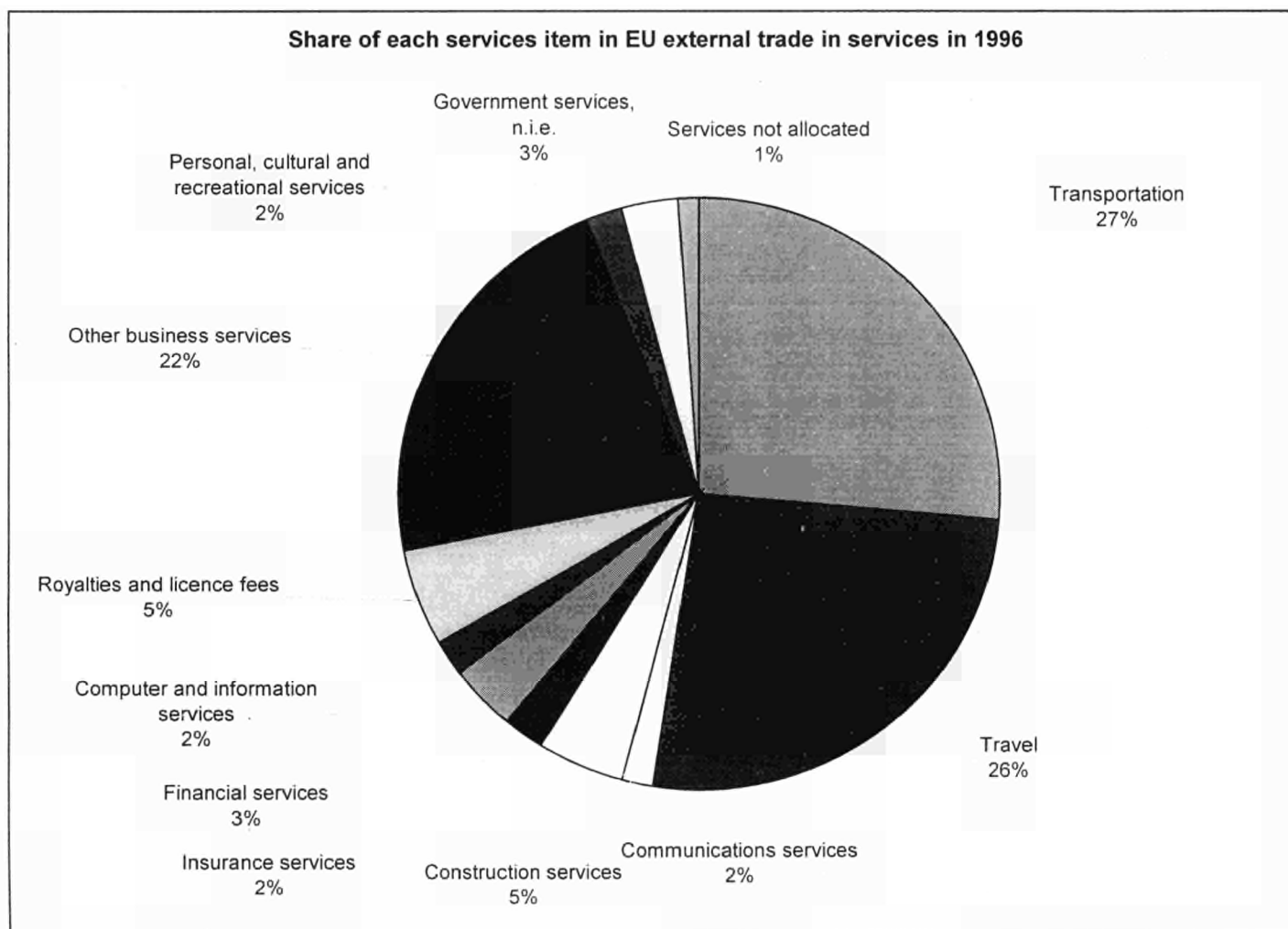
The slight improvement (+7%) in the services' surplus in 1996 reflected two contradictory movements.

On the one hand, several items increased their surplus: Air transport first, with a remarkable growth of 56%, miscellaneous business services (+48%) and to a lesser extent, insurance services (+21%).

Moreover, communications services reduced its deficit by 18%, whereas computer and information services and merchanting and other trade-related services that were always in the deficit in the previous years registered a surplus of ECU 232 and 1947 million respectively.

On the other hand, the negative balance of certain items deteriorated in 1996. Even the significant growth of air transport could not offset the continuous deficit in sea transport, leading the whole of transport services to a deficit of ECU -1649 million. Finally royalties and licence fees increased their deficit by 28%.

Like in previous years transport, travel and other business services accounted for three quarters of the EU total transactions in services - their respective shares are 27%, 26% and 22%. Construction and royalties & licence fees were somewhat lower with shares of 5% each. In general the share of each services item is of the same extent for exports and imports.

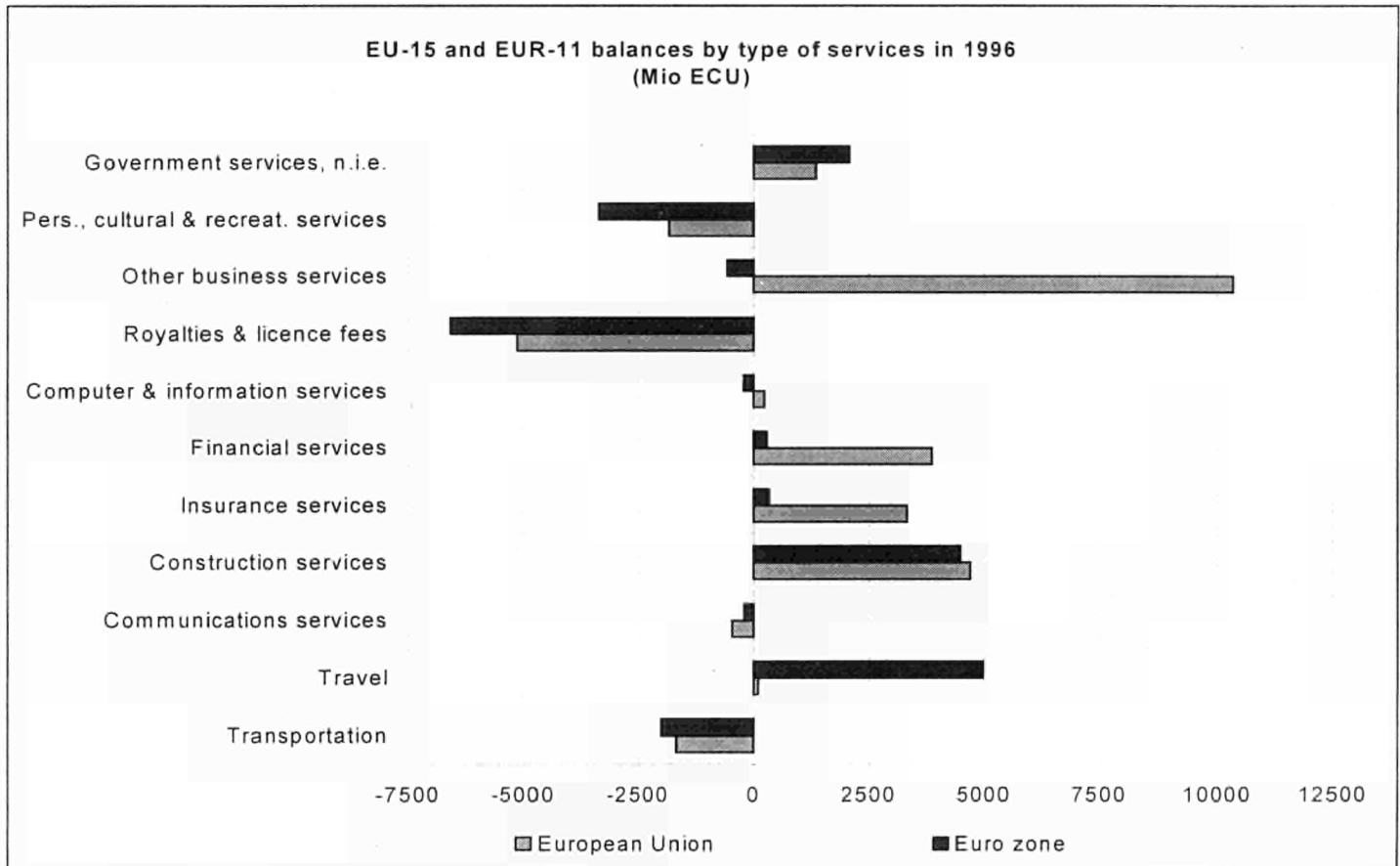


EUR-11 services' balance in deficit whereas surplus for the EU: UK made the difference

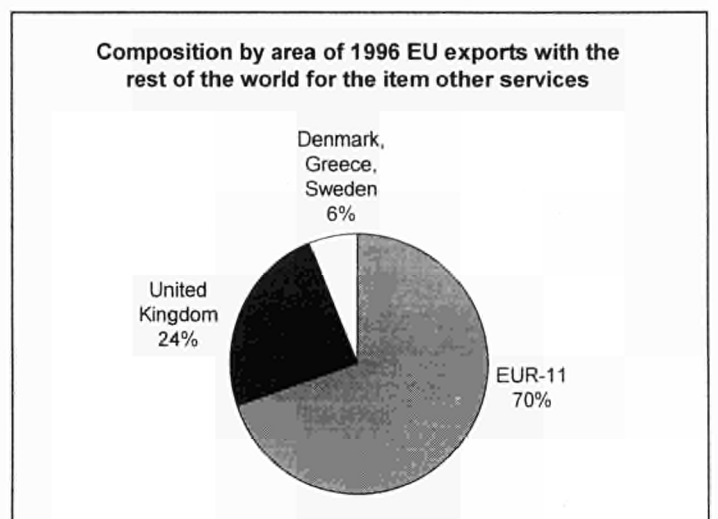
The euro-zone also registered a deterioration in the transportation balance, bringing the deficit down by 55% (from ECU -1.3 billion in 1995 to ECU -2 billion in 1996). The improvement of the travel surplus (+37%) was more significant than for the EU. Nevertheless the euro-zone balance in services was in deficit whereas the EU

recorded a surplus.

This discrepancy was generated by the item other services and more particularly by the sub-item other business services - which registered a surplus of ECU 10.4 billion for EU-15 and a deficit of ECU -0.6 billion for EUR-11.



These results were clearly linked to the relative importance of the United Kingdom: the balance of this country with extra-EU showed a surplus of ECU 7.2 bn for the item other business services. The UK accounted for 19% of EU total services transactions with the rest of the World and 75% of the non-euro-zone members (Denmark, Greece, Sweden and United Kingdom). Moreover for certain services and especially on the credit side (exports), the UK represented a larger part of EU trade. This was the case namely for insurance, where this country accounted for 36% of EU exports, financial services (40%), royalties & licence fees (38%), and personal, cultural & recreational services (59%). This led to reduce considerably the balance of EUR-11 for the items concerned (compared to the balance of EU-15) and in some cases, to record a deficit whereas the EU registered a surplus.

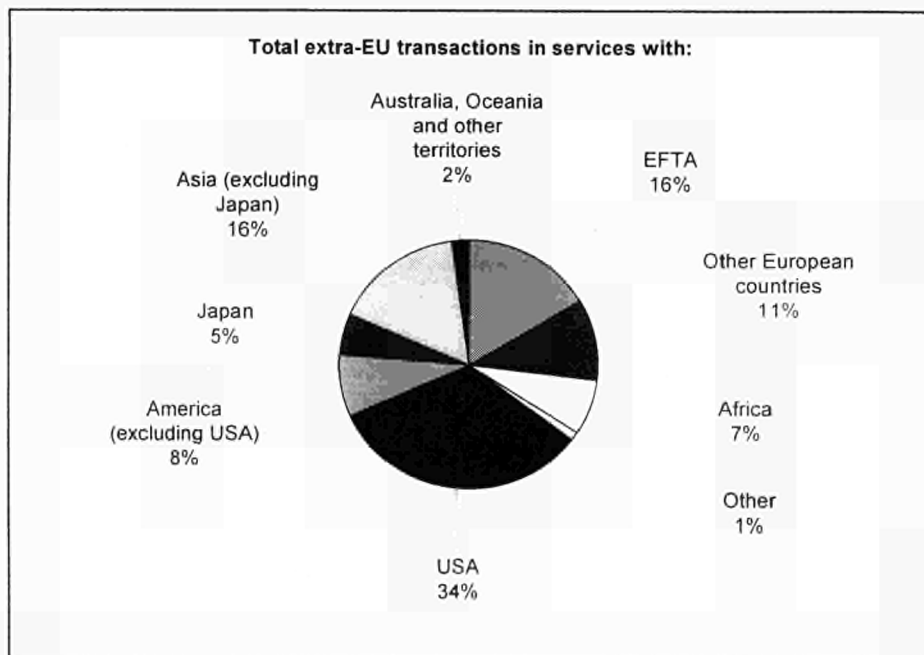


Note: The item other services comprises communications services, construction services, insurance services, financial services, computer & information services, royalties & licence fees, other business services, personal, cultural & recreational services and government services.

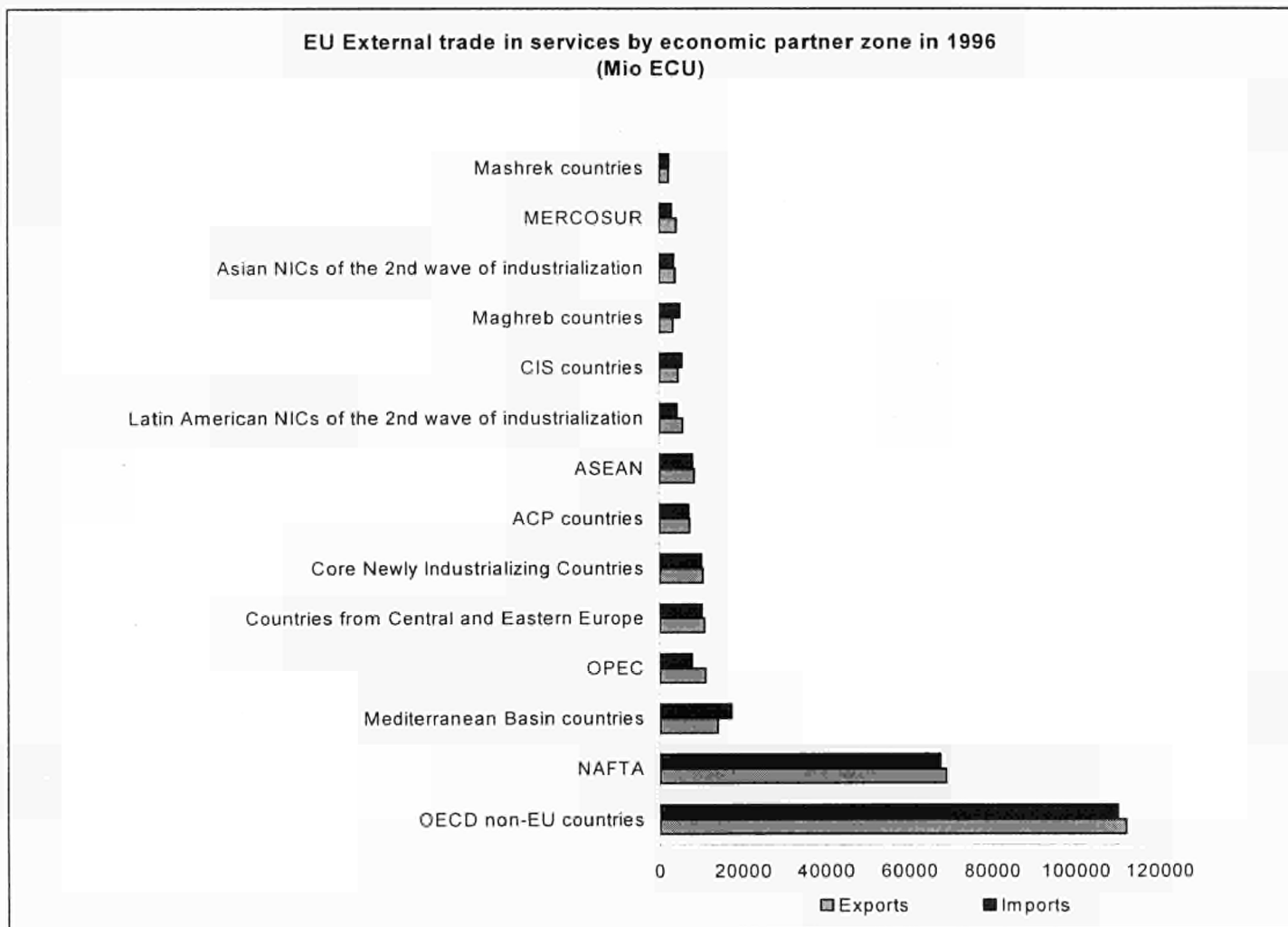
The EU partners in trade in services: intra-EU trade still prevailing, USA main extra-EU partner

The bulk of EU trade in services took place inside the EU with a share of 56% - the same proportion as in 1995. America was confirmed as the main extra-EU partner accounting for 42% of EU total transactions in services, with the share of the USA alone exceeding 34%. Asia was in second position with a share of almost 24% (5% only for Japan), followed by EFTA (16%) and Other European countries (11%).

The euro-zone also traded mainly with itself but to a lesser extent, the share of the transactions between its Member States reaching 51%. Partners USA and Japan had shares of 17% and 5% respectively in EUR-11 external trade.



Among the main economic partner zones of the EU, the OECD (excluding countries that are also EU members) and the North American Free Trade Association are by far the biggest traders with the EU. However their shares of 59% and 36% respectively of total extra-EU transactions are explained by the fact that the USA, which belongs to both economic zones, accounted on its own for 34% of EU external trade in services.



The EU current balance by partner in 1996 (Mio ECU)

	Total Extra-EU	EFTA	Other Europe	Africa	USA	America (1)	Japan	Asia (2)	Australia Oceania	Other
Current account	40 481	-15 396	22 356	-6 654	6 279	16 143	-11 267	22 133	9 086	-2 198
Goods	30 519	-2 485	29 061	-2 625	379	7 574	-20 330	14 016	5 537	-610
Services	12 918	2 586	-2 437	-640	1 127	-211	6 082	3 734	1 576	1 101
Transportation	-1 650	-483	-2 430	-1 144	232	512	1 003	-806	509	959
Travel	101	5 862	-2 760	-2 716	-870	-1 943	3 813	-1 716	216	214
Other services	16 399	-2 678	3 177	3 207	1 991	1 799	1 225	6 477	826	376
Communications services	-457	17	-202	-94	132	-101	-35	-185	7	3
Construction services	4 698	-14	558	1 317	961	329	70	1 408	72	-3
Insurance services	3 325	-880	501	191	2 698	188	280	186	91	70
Financial services	3 849	392	-30	95	1 783	651	372	409	106	71
Computer & information serv.	232	74	212	36	-781	395	30	223	40	4
Royalties and licence fees	-5 117	-1 225	81	99	-4 799	144	125	403	137	-82
Other business services	10 351	-339	2 340	1 817	1 397	659	405	3 709	454	-91
Pers., cult. & recreational serv.	-1 811	-544	-5	77	-1 190	-156	10	397	-56	-344
Government services, n.i.e.	1 330	-158	-277	-332	1 788	-310	-32	-73	-25	749
Services not allocated	-1 933	-116	-424	13	-226	-578	41	-221	25	-448
Income	20 450	-17 291	1 450	2 820	6 515	11 136	3 131	7 844	2 916	1 931
Current transfers	-23 406	1 794	-5 719	-6 209	-1 742	-2 356	-150	-3 462	-943	-4 621

(1) America excluding USA

(2) Asia excluding Japan

➤ ESSENTIAL INFORMATION – METHODOLOGICAL NOTES

The balance of payments (BOP) of the European Union (and of the euro-zone) is compiled as the sum of harmonised balance of payments accounts of the fifteen (respectively eleven) Member States. Added to the European Union (and to the euro-zone) aggregate is the balance of payments of the European Union Institutions. The methodological framework is that of the fifth edition of the *International Monetary Fund (IMF) Balance of Payments Manual*. Despite the harmonisation work carried out, some methodological inconsistencies remain. The discrepancies can arise due to the Member States' misclassification of certain items, incorrect geographical allocation or the non-recording of certain items.

One of the consequences of these methodological inconsistencies is that although *in theory* the balance (credit minus debit) vis-à-vis the World should equal the balance with extra for both EU-15 and the euro-zone, this is not the case *in practice*, and indeed shows large discrepancies. This is due to "intra-asymmetries" observed in bilateral transactions within the zone. Currently, work is carried out by the ECB (European Central Bank) and the Commission (Eurostat) in full co-operation with Member States, involving BOP statisticians, external trade statisticians and national accountants, to solve the intra-asymmetries. In order (i) to obtain relevant gross (credits, debits) and net flows and (ii) to avoid inputting the intra-asymmetries to the aggregate, it has been concluded that the most suitable way to compile the EU-15 and EUR-11 aggregates is to use the transactions vis-à-vis countries extra-EU-15/EUR-11. The data that will be published from now onwards by Eurostat and the ECB will conform to this new methodology.

The consequence of the new approach is that the aggregates previously published differ from those herewith published based on the new compilation procedure and are simply not comparable. The resulting figures show a lower surplus on the BOP current account for the recent years.

Further information:

➤ Reference publications

Title "EU/euro-zone current international transactions – Edition 1998" - Eurostat

➤ Data bases

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