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Financial flows in the EU and the challenge of balanced growth

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GROWTH**

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Abstract

Στον πυρήνα της ΕΕ συνυπάρχουν χώρες πολύ διαφορετικές μεταξύ τους. Οι εν λόγω χώρες συνδέονται μέσω του εμπορίου. Με το άνοιγμα των συνόρων της ΕΕ, οι οικονομίες με συγκριτικά πλεονεκτήματα διευρύνουν τις αγορές τους, ενώ οι υπόλοιπες δεν μπορούν να αντεπεξέλθουν σε ένα τέτοιο περιβάλλον. Κατά συνέπεια, το ισοζύγιο πληρωμών τους έχει αλλάξει. Φυσικά τα κράτη μέλη είναι συνδεδεμένα και μέσω των κεφαλαίων και των επενδυτικών κινήσεων. Επιπλέον, η ΕΕ θέσπισε όργανα και οργανισμούς που είναι υπεύθυνα για τον ευρωπαϊκό δημοσιονομικό προγραμματισμό και τον ευρωπαϊκό προϋπολογισμό. Η ΕΕ χρηματοδοτεί τα κράτη μέλη σύμφωνα με τις ανάγκες του κάθε κράτους μέλους, προκειμένου να επιτευχθούν οι στόχοι που θέτει ΕΕ για κάθε προγραμματική περίοδο. Στις μέρες μας, υπάρχουν μεγάλες ανισότητες στον πυρήνα της ΕΕ. Ο στόχος της παρούσας εργασίας είναι να βρει τις οικονομικές ροές στο εσωτερικό της Ευρώπης και να εξετάσει τον ρόλο που παίζουν τους στην ευρωπαϊκή ολοκλήρωση.

In the core of EU co-exist countries very different to one another. Those countries are connected in aspect of trade. With the open borders in EU, economies with competitive advantages enlarge their markets while others could not cope in such an environment. Consequently, their balance of payments has changed. Of course Member States are connected in aspect of capital and investment movements. Moreover, EU has established institutions and bodies that are responsible for European financial programming and the European budget. EU funds Member States according to each Member State's need in order to achieve the objectives that EU sets for each programming period. In our days, great inequalities are present in the core of EU. The objective of this report is to find the cash flows within Europe and examine the role their playing in the European integration

Key words: Exports, imports, EU funds, lending, foreign direct investments, cohesion.

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INTRODUCTION

European Union is an economic and political union that consists of twenty eight countries. It has been established in 1992 with the treaty of Maastricht, based on the three communities existed at that time. The European community of coal and steel, European Economic Community and European community of atomic energy. The objective was to strengthen economic cooperation on the grounds that countries associated with commercial transactions will be economic interdependent, which minimizes the potential for conflict. So, a large single market was created, which is growing strongly. The reality nowadays though is far from what it was dreamed for Europe at that time. The balance of payments between member states has changed with ugly consequences to a large number of them.

With the open borders in European Union and the common currency, many countries are now in a bad situation economically. Member states are co depended in financial as well as geographical terms. This might be a reason why Europe is facing difficulties to achieve stability. It is even more difficult for the less developed countries to reach an equal level with the advanced ones. Especially since, there were countries that enter European Union in a time when they were not economically mature enough for their entry.

The European union comprises the following 28 sovereign member states: Austria with Vienna capital, Belgium with Brussels capital, Bulgaria with Sofia capital, Croatia with Zagreb capital, Cyprus with Nicosia capital, Czech republic with Prague capital, Denmark with Copenhagen capital, Estonia with Tallinn capital, Finland with Helsinki capital, France with Paris capital, Germany with berlin capital, Greece with Athens capital, Hungary with Budapest capital, Ireland with Dublin capital, Italy with Rome capital, Latvia with Riga capital, Lithuania with Vilnius capital, Luxembourg with Luxembourg capital, Malta with Valletta capital, Netherlands with Amsterdam capital, Poland with Warsaw capital, Portugal with Lisbon capital, Romania with Bucharest capital, Slovakia with Bratislava capital, Slovenia with Ljubljana capital, Spain with Madrid capital, Sweden with Stockholm capital, united kingdom with London capital.

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This is a research about financial flows that concentrates not only to developing countries or to advanced economies. A research that shows how each economy connects to all the others within Europe. How these transactions are take place? Are on an equal base for every actor? Which are the countries that benefit more of these transactions? Are dynamics noticed in trade relations forcing imbalances or in contrary helping to achieve balanced growth? And finally, is economic integration leads to balance among European countries?

To answer this questions is employed a theoretical framework focusing on each basic concept of financial flows among Member-States.

I am trying to examine all the financial flows between member states and the European efforts for growth. Finally I am trying to comprehend the mechanisms that European Union is using to achieve balanced growth and the reason or the reasons why European Union fails to achieve growth and development.

Between these countries there are transactions that this article aims to search and elaborate in order to comprehend how European Union works and how promotes the growth in its member states. Those financial growths that are going to be examined here are trade accounts, European Union position in world trade, investments, European union funds and European banking.

In the beginning of this dissertation there is an elaboration of the thesis dividing each section and explaining it separately. Then I develop the research that I have made to the issue, comparing it with existing bibliography and literature. Finally I present my conclusions and my point of view in the subject.

1. INTERNATIONALTRADE

According to A. Smith, one of the basic requirements for increasing the wealth of nations, it is the natural human tendency for exchange and seamless expansion of markets, and in particular international markets, which is international trade. The potential of penetrating in the international market is the dominant mechanism leading to economic growth and prevent stagnation. Countries doomed to remain

underdeveloped are distinguished by their inability to broaden their international economic relations, restricting the development at a lower level than they could achieve given the wealth of sources available. The perception of D. Ricardo enriches even further the theory of international trade. His contribution to the subject concerns the systematic presentation of the consequences of international trade, via typical analysis of absolute and comparative advantage. (Reppas, 2003).

The theory of comparative advantage suggests that countries endowed with different amounts of capital, labor and natural resources will benefit if specialize in fields that in which their relative production costs are low and if import goods from the sectors where the relative cost of production is high. He also states that, the larger the differences in productive resources and the differences between rich and poor countries are really great, the greater the benefits of trade are. Although, in some extreme cases, which actually exists in the real world, a country can possess a manufacturing resource or a factor of production, like land or perhaps oil, in such an abundance that can be proved difficult, if not impossible to secure an effective use of the whole resource or factor of production. In that case, the economy can export the surplus, which is what is not needed in the inside, to buy resources or goods needed that cannot be found or cannot be manufactured inside the country. Then, trade constitutes what is sometimes called “investment outlet of surplus”. (Gillis et.al, 2000).

In K. Marx's theory, international trade is considered to be one of the most important counterforces to the failing rate of profit. Even himself had no clear view on whether the penetration of capitalism through international trade and inexpensive prices, will have beneficial or not effect on nations which are under developed or even developing economies, given that in this way they enter the capitalistic mode of production and the so-called culture. Although, the effects on nations who undergo permeations, though vague and imprecise, considered to be positive from the classical of the imperialism. Capitalism and its expansion are considered to be modernizing forces, which through the international trade helps the underdeveloped or developing countries escape from the ways of production used prior to capitalism and enter the capitalist development process. In contrast to this thinking, most contemporary theories challenge the positive attitude of the classics having purely opposing views with regard to the consequences of

the exchanges between developed and least developed countries. The motive, the way and the mechanism, through which capitalist expansion and the conduct of international trade pursued, stimulates growth of developed economies and simultaneously becoming a major cause of underdevelopment of poor economies. (Reppas, et.al, 2003).

Of course, in order to have an idea of the volume of trade in which a country is involved, we should calculate the total imports and the total exports. Although in many cases the international trade improved the economic situation of countries, there are cases where it creates cost, especially in the short run. (Begg, 1998).

In real life, the size of the economy of a country is directly related to imports and exports. This is justified as follows: the largest economies can produce larger quantities of goods and services for export, increased exports provide citizens of the country more income, so they can buy larger quantities of imported products. Exports are essential for industrial development and further growth of the country, in addition, offer valuable currency for a country, which is necessary to make imports. Nevertheless, the currency requirements to finance growth of developing countries may not be possible to be obtained from their exports alone. The exports of poor countries consist mainly of farm products for which demand from developed countries is declining or growing at a decreasing rate. Thus, there was a limited absorption, resulting to not sufficient exchange inputs for financing machinery, which are essential for economic growth in poorer states. (Nurkse, 1953)(Bass, 2008)

A phenomenon observed is that the benefit from the development and progress of industrialized countries is not diffused also to the poor countries, after all. Conversely, profits from economic progress, whether it appears in either the developed or the developing economies, benefits mostly the industrialized economies over the poor ones, because they can switch trading conditions, as pleased, favoring themselves. Usually the developing countries are forced to resort to external borrowing to meet the needs in foreign exchange. The servicing of debt obligations created by these countries is based on the perspective that the development of their export sector will contribute to the influx of necessary transactions for repayment. The inability of repayment leads to an

additional charge and the constant increase of external debt, due to capitalization of interest or because of new loans to service the old ones. (Reppas, 2003).

International trade is part of everyday life. British people drink French wine, Americans drive Japanese cars, Russians use American wheat. Countries have developed trade between each other because it allows them to buy foreign goods at prices lower than the domestic cost of production of these goods. The core of international trade is specialization and exchange. What lead to differences in production costs and prices of goods internationally is differences in available raw materials and other factors of production. Through international trade, countries offer to the international economy goods produced relatively inexpensive and ask from the international economy goods that are produced relatively cheaper elsewhere. (Begg, 1998)

1.1 EU INTEGRATION

After the collapse of the Iron Curtain, many of the former CEE economies have started to eliminate the dubious structure of the trade links with Comecon. Quickly, in these economies started the reorientation of their international trade towards the European Community (EC) that in 1993 became the EU. One important step towards the process of EU integration was taken when all EU members accepted the Maastricht Treaty. The deepening of EU integration thus coincided with the process of economic and social transformation in the CEE countries. The transition period of changing CEE trade patterns was short and by 1995 to 1996 the international trade of the former command economies was redirected toward the EU. After embarking on the uneasy path of economic transformation, many CEE countries applied for EU membership in 1995 and from 1998 to 1999 underwent a lengthy and thorough screening process toward EU accession (Manning, 2004) (Hanouseck, 2014), some CEE countries followed at later dates.

The first round of CEE countries joined the EU in 2004, followed by a second round in 2007. The international trade between the old and new EU members even before actual enlargement has influenced EU integration. First, a positive and significant impact on

trade flows between transforming countries and EU countries were the association agreements signed in the early 1990s. Second, the new EU members quickly became an important part of the EU manufacturing and distribution network, and that happened despite the existing economic differences among countries. After all, lowering the fixed cost of trade during European integration leads to increase trade. And finally, new EU members experienced substantial inflows of foreign direct investment (FDI) from the EU that produced beneficial spillovers and affected trade. In 2004 and 2007, after the entering of the new EU members to the free trade area, there were no barriers in trade among each other. The establishment of the Schengen area in 1995 and its subsequent widening did not eliminate national borders in a political sense. However, the absence of national borders in terms of trade-related customs controls and ease of transportation helped to lower bilateral trade resistance. (Hanouseck, 2014)

1.2 TRADE

Since the early 1990s, trade between West and East flourished and its patterns are the subject of intense research. Geographical, cultural, and institutional factors impact European trade, but individual effects vary across types of goods and measures of trade. Jan Hanousek and Evzen Kocenda, in their research have shown evidence to support a negative effect of distance, a beneficial effect of market size and a common currency, no pressing need for a common language, and a limited effect of a common legal origin. According to their work infrastructure factors exhibit comparably larger effects than geographical, cultural, and institutional factors. In general, the factor of border and transport efficiency positively affects trade most, followed by the ICT factor. However, the effects of the infrastructure factors vary with the type of good. However, they argue that even in the well-functioning free-trade area of Europe, the key aspect of trade is how efficiently the goods are transferred across borders, along with the level of information and communication technology enabling transaction costs reduction. West to East and East to West directions are instrumental to European trade and both directions have comparable magnitudes. This result indicates the key importance of trade between old and new EU members. (Hanouseck, 2014)

The impact of distance in developing economies can be noticed in different aspects including trade, foreign investment, knowledge spillovers and technology diffusion, all of which are hampered by remoteness. Distance directly raises transport costs and thereby reduces trade in much the same way as a tax on exports or a tariff on imports, although without the benefits of tax receipts. Because of distance, domestic firms have a limited extent to which they can operate on an efficient scale and, more generally, exploit increasing returns to scale. Also, by providing a natural shelter from foreign competition, the pressure on domestic companies to be efficient and innovate is weakened. There is widespread evidence that a better access to markets contributes to raising income levels. The model developed by Redding and Venables (2004) has led to a workhorse methodology to assess the impact of proximity to markets on income levels. It has been tested in different contexts and all of the studies find a strong relationship. Redding and Venables apply their framework to a cross-country sample of 101 countries, while Breinlich (2006), highlighting that regional income levels in the European Union display a strong core-periphery gradient, tests the impact of market access using a panel of European regions over 1975 to 1997. Head and Mayer (2006) conduct a similar exercise based on European sectoral data over a shorter period. (Boulhol and De Serres, 2009)

The localization of industries at a country level is depended by several determinants. Agglomeration and dispersion forces are generated by trade in parts and components, comparative advantages, home market effect and forward & backward linkages. G. De Simone managed to identify quantitatively and qualitatively how each factor affects the distribution of industrial activities in the CEECs region, singling out the role played by trade in middle products. According to many observers, trade in parts and components has played a major role in determining the trade patterns of new members states of EU. De Simone (2007) finds that sectors, in which most of the exchanges in intermediates between EU-members are concentrated, have experienced an astonishing increase in their relative weight with respect to regional output. This has led to a significant geographical redistribution of activities. Among central and eastern European countries exist strong differences, such as the fact that some are experiencing despecialization while others are leading the process of acquisition of activities. In the wake of

international fragmentation of production, the flows between the middle products from one place to another could be generated by different kinds of relationships among firms. For example, they could happen because of the presence of subsidiaries of multinational corporations operating in that country, as well as because some firms wish to delocalize certain segments of the production process (offshoring), as well as because of independent firms developing an outsourcing contract with a foreign partner. . (Boulhol and De Serres, 2009)

1.2.1 *IMPORTS*

Importing refers to buying goods and services from foreign sources and bringing them back into the home country. Importing is also known as global sourcing. A significant proportion of consumption and investments of each country includes products imported from other countries. Imports are considered to be leakages to the total expenditure and are responsible of creating income in the countries of origin of products imported. The volume of imports depends on two major factors. The first is the volume of income in the country that imports and the second is the level of prices of goods in the importing country in relation to prices in other countries. Although, it is to be noted that part of imports is not affected by changes in income, such products are essential goods such as medicines, basic raw materials, etc. (Kiochos, 2008)

1.2.2 *EXPORTS*

The term export is used for goods and services that are produced domestically and sold abroad. Exporting is defined as the sale of products and services in foreign countries that are sourced or made in the home country. The trade balance is when from the total imports, total exports are removed and results the volume of net exports. (Kiochos, 2008) Economies ought to plan their export strategies, programming and promoting effectively exports, extremely carefully because it is a key factor for the economic development of a country. The importance of exports lies in the following reasons. In countries with small domestic market, exports are essential for industrial development

and further economic growth, just as for improving its standard of living. Especially important are exports because they offer valuable currency for a country, which is necessary for making import. Finally, they help significantly to service external debt. (Lianos, 1998)

The exports of a country are determined by the following factors:

- The prices of both domestic as well as imported products.
- Consumer preferences for both domestic as well as for
- Imported products.
- Prices of Exchange.
- The cost of promotion and transportation of products to various places.
- The policy pursued by the governments. (Kiochos, 2008)

Exporting is an effective entry strategy for companies that are just beginning to enter a new foreign market. It's a low-cost, low-risk option compared to the other strategies. These same reasons make exporting a good strategy for small and midsize companies that can't or won't make significant financial investment in the international market. (Lianos, 1998)

Exports are an easy way for companies to participate in global trade. It's a less costly investment than any other entry strategies, and it's much easier to simply stop exporting than it is to extricate oneself from any other entry modes. This process is facilitated by an export partner who can be either a distributor or an export management company. An export management company (EMC) is an independent company that performs the duties that a firm's own export department would execute. That way, the firm doesn't have to develop these internal capabilities, because all these functions are performed by the export management company. The EMC handles the necessary documentation, finds buyers for the export, and takes title of the goods for direct export. In return, the EMC charges a fee or commission for its services. (Anania and Scoppola, 2014)

The company benefits from exporting, firstly, because gains access to new markets, which brings added values. Secondly, not only the firm earns more revenue, but it has also gained access to foreign currency, which benefits companies located in certain

regions of the world. Lastly, the cost to manufacture a given unit decreased. The company is able to manufacture at higher volumes and buy source materials in higher volumes, thus benefitting from volume discounts. (Antille and Fontela, 2002)

Although, there are risks relying on the export option. If you merely export to a country, the distributor or buyer might switch to or at least threaten to switch to a cheaper supplier in order to get a better price. Or someone might start making the product locally and take the market from you. Also, local buyers sometimes believe that a company which only exports to them isn't very committed to providing long-term service and support once a sale is complete. Thus, they may prefer to buy from someone who's producing directly within the country. At this point, many companies begin to reconsider having a local presence, which moves them toward one of any other entry options.

Beyond contractual relationships, firms can also enter a foreign market through one of two investment strategies: a joint venture or a wholly owned subsidiary. An equity joint venture is a contractual, strategic partnership between two or more separate business entities to pursue a business opportunity together. The partners in an equity joint venture each contribute capital and resources in exchange for an equity stake and share in any resulting profits. (De Simone, 2008)

1.3 TRADE FLOWS

In the reality of EU, the relations of imports and exports between Member-States have major effects on all of them. The trade surplus or trade deficit of a country has serious consequences to the country's financial wealth just as to its people. In a large degree, the levels of prices and wages in the internal of the country are influenced by the balance of trade. Especially when the economy works with a common currency that, in cases of macro – economic imbalances there is no freedom for implementing the right policy to cope with, (policy, foreign exchange, political, monetary or commercial). The adjustment can be with changes in real size of GDP and employment.

Within the EU the differences between the countries of the North and the countries of the South, since the beginning of EU gave an important initiating advantage in the already developed countries of the North, dooming the South in collecting deficits and turning in a large degree, the surplus of the North and the deficit of the South into structural. The great distance that separates the countries within the EU is becoming obvious through the flows of trade. (Pantsios and Nikolakopoulos, 2010)

Since the period before the debt crisis, that now troubles a large piece of the EU ground, we would expect that the situation of Member – States would have change dramatically, with rich regions helping the poor to cope with and to become possible to witness a more balanced picture in the inside of EU. What we observe though is far from that. In my analysis, I use two dates in my effort to examine the differences before the debt crisis and in the middle of it. Before the big crisis, in 2007, we can observe that the country with the biggest total amount of exports is Luxemburg with 187.1% of GDP and total imports 154.7% of GDP. In 2013, it improves its position concerning trade, with total exports in the amount of 203.3% of GDP and total imports 168.1% of GDP. Countries that have increased their exports in relation to their exports during the crisis and present important trade surpluses are Ireland, Hungary, Netherlands, Czech Republic, Denmark, Germany, Slovenia, Sweden, Slovakia, Malta, and then Spain, Estonia, Poland, Cyprus and Italy. The countries that managed to increase their exports in relation to their imports in a smaller degree, but still present trade deficit are Bulgaria, Greece, Latvia, Romania and United Kingdom. Despite that, it is important to know the exact amounts that show these changes in trade relations in order to be able to come to proper conclusions. For instance, Greece in 2007, had export value of 22.5% while in 2013 30.2%. Greece increased the exports and decreased the imports. The rate of that decreasing of imports though, was very small in relation to the rate of increasing the exports. Despite that, it continues to show trade deficit in both periods. During the period before the crisis, the biggest deficit is observed in Bulgaria with 53.3% exports and 72.5% imports, while the biggest surplus was in Luxemburg with 154.7% imports and 187.1% exports as a percentage of GDP. During the time of crisis, the biggest deficit was in Greece with imports 33.2% of GDP and exports 30.2% of GDP, while Luxemburg keeps having the biggest surplus in relation to the other countries of EU,

with 168.1% imports and 200.3% exports. Although, if we notice these prices of import and exports separately we see that the country with the biggest percentage of GDP of exports is Luxemburg and then follow Malta, Belgium and Ireland. While in 2013 the smallest percentage of exports is in France with 28.2% of GDP. (Tables 1 – 2)

We observe important values of flows between countries that are connected also with bonds other than economic. For example Luxemburg, Belgium and Greece, Cyprus. Examining the flows of trade through the balance of trade between Member – States, (tables 3-4) we see that there are indeed favored and not favored countries. One notable example is that a big number of countries present deficit in their balance of trade to their exchanges with Germany. More specific, France, United Kingdom, Spain, Sweden, Denmark, Croatia Finland, Greece, Lithuania, Estonia and Austria have their biggest deficit in trade balance to their exchanges with Germany. While on the other side, Germany seems to be less favored concerning trade in its trade relations with Malta, in a small degree, Czech republic, Slovenia, Ireland, Slovakia, Hungary, Belgium and Netherlands. One also important note is that France seems to be the country with whom a number of other Member – States present their biggest surpluses in their balance of trade. Those countries that export more in France than what they import from it are Germany, Italy, Belgium, Spain, Bulgaria, Portugal and Austria. Compared to all the relations that we see in table 4, the higher value in the balance of trade is between Germany and Netherlands, which Netherlands have a surplus from Germany of 49.723.980 million Euros.

In the previous period (table 3) the image does not differ dramatically. Germany was the one with whom many countries showed the higher deficits. Italy, France, Poland, united kingdom, Spain, Sweden, Romania, Denmark, Croatia, Finland, Bulgaria, Greece, Lithuania, Estonia, Latvia, Austria. The biggest difference is between Germany and United Kingdom and Germany and France. Germany seemed to import more than what exports in France by 29.010.441 million Euros, while United Kingdom seemed to import more from Germany than what export in Germany by 29.325.819 million Euros.

2. INTERNATIONAL INVESTMENTS

A different way of foreign exchange to enter in a country is with foreign direct investment (FDI). Conducting FDI is directly related to the growth rate, as it provides the host country not speculative funds, for which there is neither repayment obligation nor cost to maintain them. Moreover, the diffusion of know-how usually FDI bring to host country, extroversion that create and the changes usually cause on competition, legislation, its institutions, and the way corporate governance, help to improve the economic efficiency of the host country. (De Simone, 2008)

According to IMF (International Monetary Fund) the definition of foreign direct investment is the following.

“The acquisition of at least ten percent of the ordinary shares or voting power in a public or private enterprise by non-resident investors. Direct investment involves a lasting interest in the management of an enterprise and includes reinvestment of profits.”

As we have already seen, there are two main categories of international investment, portfolio investment and foreign direct investment. Portfolio investment refers to the investment in a company's stocks, bonds, or assets, but not for the purpose of controlling or directing the firm's operations or management. The essence of this category of investment is the search for a financial rate of return as well as diversifying investment risk through multiple markets. On the other hand, foreign direct investment (FDI) refers to an investment in or the acquisition of foreign assets with the intent to control and manage them. There are several ways that a company can make an foreign direct investment (FDI). These are purchasing the assets of a foreign company, investing in the company or in new property, plants, or equipment, or participating in a joint venture with a foreign company, which typically involves an investment of capital or know-how. FDI is primarily a long-term strategy. Companies usually expect to benefit through access to local markets and resources, often in exchange for expertise, technical know-how, and capital. A country's FDI can be both inward and outward. As the terms would suggest, inward FDI refers to investments coming into the country and outward FDI are investments made by companies from that country into foreign

companies in other countries. The difference between inward and outward is called the net FDI inflow, which can be either positive or negative. (Chazakis, 2000)

Governments want to be able to control and regulate the flow of FDI so that local political and economic concerns are addressed. Global businesses are most interested in using FDI to benefit their companies. As a result, these two players—governments and companies—can at times be at odds. (Chazakis, 2000)

2.1 EFFECTS ON INVESTMENTS

Business's needs and overall strategy are factors that local market depends on, simply because the company's need of purchasing goods and services or deciding to invest in, are of fundamental value to the economy. Direct investment in a country occurs when a company chooses to set up facilities to produce or market their products, or seeks to partner with, invest in, or purchase a local company for control and access to the local market, production, or resources. Many considerations influence its decisions:

- Cost. Is it cheaper to produce in the local market than elsewhere?
- Logistics. Is it cheaper to produce locally if the transportation costs are significant?
- Market. Has the company identified a significant local market?
- Natural resources. Is the company interested in obtaining access to local resources or commodities?
- Know-how. Does the company want access to local technology or business process knowledge?
- Customers and competitors. Do the company's clients or competitors operate in the country?
- Policy. Are there local incentives (cash and noncash) for investing in one country versus another?
- Ease. Is it relatively straightforward to invest and/or set up operations in the country, or is there another country in which setup might be easier?

- Culture. Is the workforce or labour pool already skilled for the company's needs or will extensive training be required?
- Impact. How will this investment impact the company's revenue and profitability?
- Expatriation of funds. Can the company easily take profits out of the country, or are there local restrictions?
- Exit. Can the company easily and orderly exit from a local investment, or are local laws and regulations cumbersome and expensive?

These are just a few of the many factors that might influence a company's decision.

A company doesn't have to sell in the local market, in order to be in position to decide whether or not this particular market is a good choice for direct investment. For example, there are companies set up manufacturing facilities in low-cost countries but export the products to other markets. (Bitzenis, 2009)

2.2 FDI

There are two forms of FDI—horizontal and vertical. Horizontal FDI occurs when a company is trying to open up a new market—a retailer, for example, that builds a store in a new country to sell to the local market. Vertical FDI is when a company invests internationally to provide input into its core operations—usually in its home country. A firm may invest in production facilities in another country. When a firm brings the goods or components back to its home country (i.e., acting as a supplier), this is referred to as backward vertical FDI. When a firm sells the goods into the local or regional market (i.e., acting as a distributor), this is termed forward vertical FDI. The largest global companies often engage in both backward and forward vertical FDI depending on their industry. (www.investopedia.com , 2015)

Many firms engage in backward vertical FDI. The auto, oil, and infrastructure (which includes industries related to enhancing the infrastructure of a country—that is, energy, communications, and transportation) industries are good examples of this. Firms from these industries invest in production or plant facilities in a country in order to supply

raw materials, parts, or finished products to their home country. In recent years, these same industries have also started to provide forward FDI by supplying raw materials, parts, or finished products to newly emerging local or regional markets. (www.investopedia.com, 2015)

There are different kinds of FDI, two of which—greenfield and brownfield—are increasingly applicable to global firms. Greenfield FDIs occur when multinational corporations enter into developing countries to build new factories or stores. These new facilities are built from scratch—usually in an area where no previous facilities existed. The name originates from the idea of building a facility on a green field, such as farmland or a forested area. In addition to building new facilities that best meet their needs, the firms also create new long-term jobs in the foreign country by hiring new employees. Countries often offer prospective companies tax breaks, subsidies, and other incentives to set up greenfield investments. (www.greenfieldgeography.wikispaces.com, 2015)

A brownfield FDI is when a company or government entity purchases or leases existing production facilities to launch a new production activity. One application of this strategy is where a commercial site used for an “unclean” business purpose, such as a steel mill or oil refinery, is cleaned up and used for a less polluting purpose, such as commercial office space or a residential area. Brownfield investment is usually less expensive and can be implemented faster; however, a company may have to deal with many challenges, including existing employees, outdated equipment, entrenched processes, and cultural differences. (www.greenfieldgeography.wikispaces.com, 2015)

2.2.1 GOVERNANCE AND ITS RELATION TO FDI

Many governments encourage FDI in their countries as a way to create jobs, expand local technical knowledge, and increase their overall economic standards. In contrast, for decades, many other countries restricted or controlled FDI in their countries by requiring extensive paperwork and bureaucratic approvals as well as local partners for

any new foreign business. These policies created disincentives for many global companies. (Bitzenis, 2009)

In most instances, governments seek to limit or control foreign direct investment to protect local industries and key resources (oil, minerals, etc.), preserve the national and local culture, protect segments of their domestic population, maintain political and economic independence, and manage or control economic growth. A government use various policies and rules:

- Ownership restrictions. Host governments can specify ownership restrictions if they want to keep the control of local markets or industries in their citizens' hands. Some countries, such as Malaysia, go even further and encourage that ownership be maintained by a person of Malay origin, known locally as bumiputra. Although the country's Foreign Investment Committee guidelines are being relaxed, most foreign businesses understand that having a bumiputra partner will improve their chances of obtaining favorable contracts in Malaysia.
- Tax rates and sanctions. A company's home government usually imposes these restrictions in an effort to persuade companies to invest in the domestic market rather than a foreign one.
- Generally, governments seek to promote FDI when they are eager to expand their domestic economy and attract new technologies, business know-how, and capital to their country. In these instances, many governments still try to manage and control the type, quantity, and even the nationality of the FDI to achieve their domestic, economic, political, and social goals.
- Financial incentives. Host countries offer businesses a combination of tax incentives and loans to invest. Home-country governments may also offer a combination of insurance, loans, and tax breaks in an effort to promote their companies' overseas investments. The opening case on China in Africa illustrated these types of incentives.
- Infrastructure. Host governments improve or enhance local infrastructure—in energy, transportation, and communications—to encourage specific industries to invest. This also serves to improve the local conditions for domestic firms.

- Administrative processes and regulatory environment. Host-country governments streamline the process of establishing offices or production in their countries. By reducing bureaucracy and regulatory environments, these countries appear more attractive to foreign firms.
- Invest in education. Countries seek to improve their workforce through education and job training. An educated and skilled workforce is an important investment criterion for many global businesses.
- Political, economic, and legal stability. Host-country governments seek to reassure businesses that the local operating conditions are stable, transparent (i.e., policies are clearly stated and in the public domain), and unlikely to change.

2.3 FDI FLOWS

From the flows of investment we can exclude very important conclusions and it is interesting to check whether or not these flows go with those of trade. For starters, it is interesting to examine the degree that each country concerned, participates in flows of FDI (table 5). The first thing we notice is Luxemburg that has flows with remarkable difference comparatively with the other countries of EU. Of course, that does not seem that peculiar because Luxemburg considered being one of the “tax havens”, according to the OECD list. And so it is the location of choice for many off-shore companies from around the globe. With a level of inward and outward FDI of 410.7 of GDP before the crisis and 605.2 of GDP during the European debt crisis, it stand out from all the other EU Member – States. Although, in EU there are other countries as well, with way smaller values though, that are perceived to be “tax havens”. Those are Ireland, with an inward and out ward FDI of GDP 15.6 before the crisis and 13.4 during, Netherlands, with 3.9 before and during the crisis and Cyprus with 3.1 before and 1.9 during the crisis. That decrease of Cyprus’ flows in FDI can partially be explained by the degradation of the economy in 2013 and the political and economic turbulence which led to cut of private deposits in 2013. Within the EU (table 6) things are not that different. Luxemburg is the one receiving the most FDI in relation to where Luxemburg invests. The biggest difference is between Belgium that reaches the amount of 45312

million Euros. Other countries with whom we see the same relationship are Malta, Netherlands and Portugal. The biggest differences in Luxemburg relations are observed with Hungary and Italy. From Hungary receives more FDI than what sends by 5981 million Euros, while in Italy sends more than what receives by 7570 million Euros. One last thing that we should pay attention to in this table, are the relations of Germany with the rest of Europe concerning FDI flows, as in trade it seemed to be favored in many occasions. We see positive relation with many countries. A good example is Luxemburg where seems to export more FDI than what it imports by 2943 million Euros. On the other side, there is a negative relation with Italy by 7715 million Euros and Finland by 2737 million Euros. The relation with the same countries in trade was positive favoring Germany. From that, we can conclude that Germany exports in a larger degree than of that that exports in those countries in goods but imports FDI in a larger degree than that that sends. In both cases Germany imports more capital than that it returns.

In the same manner, it is interesting seeing the relations of Luxemburg. Luxemburg receives more FDI from Denmark, Germany, Spain, Italy, Austria, Poland, Finland and Sweden. Concerning trade though, has more imports than exports from Germany and Italy, thus we can say that receives capital through FDI but returns it through imports from those countries. In the other cases that presents surplus in the trade of balance, there is import of capital in Luxemburg both by FDI and trade.

Greece on the other hand, imports more FDI than what gives from Bulgaria, Estonia, France, Croatia, Italy, Poland, Romania and United Kingdom. The trade relationships between Greece and these countries are with surplus for Greece opposite Romania, Bulgaria and Estonia. From these countries receives more capital than that that returns to them. Concerning Greece's relationship with the rest of them, one percentage of what receives as FDI, it returns it with the imports that makes from them. What is noticeable though is that the amount that returns through imports is considerably higher than that it receives as FDI. So Greece, despite the fact that receives capital in the form of FDI, exports more capital through the imports of these countries.

3. EU FUNDS

The single or "internal" market, which can circulate freely people, goods, capital and services, is the main driver of the European economy. One of the main objectives of the EU is to develop this vast resource wealth so that Europeans can draw most potential. The EU Budget is developed jointly by the Commission, Council and the Parliament. The Commission submit a draft for consideration by the Council and Parliament, who can make changes, but if they disagree, then they have to find a compromise. In the EU Budget of each year are mentioned exactly the amounts that have been agreed from before, according to a plan called the Multiannual Financial Framework. The Multiannual Financial Framework allows the EU to plan expenditure programs effectively several years ago. The current framework covers 2014-2020. (Europa.eu, 2015)

3.1 EUROPEAN REVENUES

The EU budget is funded from different sources, including a percentage of gross national income of each Member State. The budget is available for a variety of purposes, such as improving living standards in poorer regions and food security. The EU revenue derives from the contributions of the Member States but also from the duties imposed on products imported from third countries as well as a percentage of value added in tax collected by each country. Member States agree in advance about the size of the European budget and how it is financed for a period of several years. The EU budget supports growth and the creation of new jobs. Under cohesion policy, EU budget finance investments to bridge the economic differences between EU countries and its regions. It also helps in the development of Europe's rural areas. Annual expenditure must be completely covered by annual revenue. The EU's revenues are EU's own resources. There are different types of own resources and the method for calculating them are set out in a Council Decision on own resources. It also limits the maximum annual amounts of own resources that the EU may raise during a year to 1.23 % of the EU gross national income (GNI). More specific, there are three types of own resources. (Europa.eu, 2015)

The three main sources of revenue are:

1. Own resources based on GNI: each Member State transfers a standard percentage of its GNI to the EU. This is a small percentage (usually around 0.7%) of Gross National Income of each EU country. Although designed simply to cover the balance of total expenditure not covered by the other own resources, this is the biggest source of budget revenues. The calculation of the contribution of each EU Member State is based on solidarity and ability to pay. However, if the contribution is too difficult for few countries, it is possible to make adjustments.

2. Own resources based on value added tax (VAT): a uniform rate of 0.3 % is levied on the harmonised VAT base of each Member States. This consist a small percentage of the revenue from the harmonized value added tax in each country.

3. Traditional own resources: consist mainly of customs duties on imports from outside the EU and sugar levies. EU Member States keep 25 % of the amounts as collection costs. This consist a large percentage of import duties on products from third countries (the country collecting the duty retain as we see a small percentage). The EU also collects taxes and other deductions from EU staff remunerations bank interest, contributions, from third countries which participate to certain EU programs, interest on late payments and fines from companies that violate the rules and regulations of the EU. This other sources of revenue consist around 1 %.

However, after a while emerged the need to design correction mechanisms in order to correct excessive contribution by certain Member-States. The UK is reimbursed by 66 % of the difference between its contribution and what it receives back from the budget. The cost of the UK rebate is divided among EU Member States in proportion to the share they contribute to the EU's GNI. However, Germany, Netherlands, Austria and Sweden, who considered their relative contributions to the budget to be too high, pay only 25 % of their normal financing, share of the UK correction. Netherlands and Sweden benefit from gross reductions in their annual GNI contribution of EUR 605 million and EUR 150 million respectively. And finally there are reduced value added

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tax (VAT) call rates for Austria (0.225 %), Germany (0.15 %), the Netherlands and Sweden (0.1 %).

On 26 May 2014, the Council adopted a legislative package, including a new own resources decision, introducing some changes to the own resources system for the period 2014-20. However, the current system continues to apply until this new Council Decision is approved by every Member State (in most cases, ratified by their national parliaments). The new own resources rules will then apply retroactively as of 1 January 2014. (Europa.eu, 2015)

The following principles will apply to the 2014-20 MFF:

- Collection costs for traditional own resources will be lowered to 20 %
- The UK rebate will continue to apply
- Denmark, Netherlands and Sweden will benefit from gross reductions in their annual GNI contribution of EUR 130 million, EUR 695 million and EUR 185 million respectively. Austria will benefit from gross reduction in its annual GNI contribution of EUR 30 million in 2014, EUR 20 million in 2015 and EUR 10 million in 2016, reduced VAT call rates for Germany, Netherlands and Sweden will be fixed at 0.15 %.
- In addition, a high-level group is in charge of reviewing the own resources system. On the basis of the results of this work, the Commission will assess if a new reform of the own resources system is appropriate.

3.2 EUROPEAN EXPEDITURES

The EU budgets funds a wide range of activities, from rural development and environmental protection to protecting external borders and promote human rights. All institutions, meaning the Commission, the Council and the Parliament have a say in the size and in the making of the Budget. However, the responsibility for the allocation of funds is in the hands of the Commission and the EU countries. The Member States and the Commission share responsibility for some 80% of the budget. The Multiannual Financial Framework (MFF) defines the long-term EU spending priorities and restrictions on EU spending. (Europa.eu, 2015).

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The Commission has the ultimate responsibility for the disposal of the budget. However, 80% of EU funds managed by the EU Member States. In cases of undue payments, the Commission works with the Member States concerned to recover the money. To ensure transparency, organizations and businesses that receive funding from the EU are always going public.

Today the largest share is going to the creation of growth and jobs and to reduce economic disparities between the various EU regions. A significant proportion is also available for agriculture, rural development, fisheries and environmental protection. Other expenditures are related to the fight against terrorism, organized crime and illegal immigration. (Europa.eu, 2015)

The EU finances a wide range of projects and programs in various fields, such as:

1. Regional and urban development
2. Employment and social inclusion
3. Agriculture and rural development
4. Marine and fisheries policy
5. Research and Innovation
6. Humanitarian aid.
7. Management of funds

The management of financial funds is governed by strict rules ensuring that their disposal is monitored closely and is characterized by transparency and accountability. The 28 EU commissioners collectively have the ultimate political responsibility for the proper spending of EU funds. As the management of most funding is made by the beneficiary countries, the responsibility for inspection and annual checking lies with the national governments. More particularly, the management of more than 80% of the EU budget is carried out in cooperation with national and regional authorities through a

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system of "shared management", mainly through five big funds, structural and investment funds. Collectively, these funds help to implement the Europe 2020 strategy.

1. European Regional Development Fund (ERDF) – that is responsible of regional and urban development.
2. European Social Fund (ESF) - responsible of social inclusion and good governance.
3. Cohesion Fund (CF) - responsible of economic convergence of the less developed regions.
4. European Agricultural Fund for Rural Development (EAFRD).
5. European Maritime and Fisheries Fund (EMFF).

Some other funds that are managed by the EU directly are granted in the form of grants for specific projects that are included in EU policies, usually after public notice, known as a "call for proposals". A portion of this funding comes from the EU and one from other sources. The EU funds are in the form of grants, loans and guarantees. The grants are a direct aid, but there can be other forms of financing as well, which are through programs which are managed by the Member States. For example, most farmers in the EU are eligible for direct income payments. Around one third of that aid is given in return for the adoption of organic farming practices (maintenance of permanent pasture, crop diversification, etc.). Farmers also receive aid based on the amount of land they hold, again in exchange for the implementation of ecological farming methods that protect biodiversity and the quality of soil and water, and keep carbon emissions low. EU funding is also helping farmers to be trained in new techniques and upgrade or restructure their farms. Also, in a wider context, contribute to improving life in rural areas by creating jobs and ensuring basic services. Furthermore, in the context of rural development, young farmers can receive special support for establishing their own business and take advantage of the highest rates of aid provided for investment in their business. (Europa.eu, 2015)

3.3 STRUCTURAL FUNDS

The regional policy finds its origins in the Treaty of Rome. However, the first mention of a formal Regional Policy occurred in the Single European Act (1986). In three programme periods (1989 - 1993, 1994 - 1999 and 2000 - 2006), around 550 billion on promoting convergence and regional development at European and national levels have been spent by the EU. A further 308 billion (2004 prices) was programmed for the 2007 - 2013 period, with an increasing share going to the new Member States. The EU Regional Policy has always moved around the same objective, that is the reduction of regional asymmetries and the promotion of economic and social cohesion among territories. A thorough reform regarding the allocation of Funds was carried out in 1988, following the enlargement of the Community to three relatively poor countries: Greece (1981), Portugal and Spain (1986). An important step to this reform was the creation of a Single Market. Thus, the budget of EU reached a significant amount almost immediately after the Structural Funds were integrated into Cohesion policy. The focus turned to the poorest and most backward regions, in order to reduce the income gap and to promote cohesion among regions. With the involvement not only of supra-national and national agents, but also of regional and local partners the funds were attributed under a multi-annual programme to strategic investments. (Pinho et. al, 2014)

The Cohesion Fund and the Committee of the Regions as well as the principle of subsidiarity were introduced with the Maastricht Treaty, in 1993. In the period 1994 - 1999 the resources for the Structural and Cohesion Funds were doubled, reaching a third of the EU budget (ECU 168 billion). In 2000, the •Lisbon Strategy shifted the EU priorities towards growth, jobs and innovation, and the priorities of the Cohesion Policy were aligned to reflect this. The Cohesion Fund was created also to help poorer Members to deal with the creation of the Economic and Monetary Union. Emphasis was given on the monitoring of the efficiency of Funds for growth promotion and reduction of disparities among regions, thus the number objectives reduced to concentrate efforts on more specific areas. In 2004, 10 new countries joined the EU. The Budget reached E213 billion for the 15 existing members and E22 billion for the new member countries (2004 -2006). The funds allocated to this policy aim account for 35.7% of the EU budget during 2007 - 2013. For the next programming period (2014 -2020), Structural

Funds will focus upon innovation and smart growth specialization to meet the goals of the European 2020 Growth Strategy. Given the current constraints on national public funding, this orientation of Funds appears crucial to fill the gaps on national investments (without substituting them). The existing Cohesion policy, same way as the previous ones, is questioned by several Member States on whether or not is achieving its goals and represent a good value for money. Early, became clear that the focus should be in establishing a new strategic framework for cohesion based on

- Community strategic guidelines drawn up at EU level and national strategic reference frameworks prepared by each Member State. . (Pinho et. al, 2014)

As said before, with these changes greater levels of structural funds were spending on priorities such as R & D, innovation, ICT, and entrepreneurship. As programming periods passed, with reports of the returns came, became clear the wide differences in GDP per capita between countries and regions of the enlarged EU, and major differences in growth rates, especially among metropolitan centres and peripheries. Further, regional differentiation appears to be growing, especially between metropolitan and nonmetropolitan regions in the new Member States. There is a great volume in literature concerning the debate about reforming Cohesion policy. John Bachtler and Grzegor Garzelak argue that, cohesion should be understood in functional terms, and not as an effort to reach convergence. Convergence is an approximation of static states, whereas cohesion is dynamic by nature, being the opposite of entropy. Moreover, convergence is difficult to achieve, certainly with the limited resources available at EU level. Cohesion should be liberated from its equalization underpinnings and should be understood rather as harmony and collaboration (economy of flows), lack of destructive pressures and irresolvable conflicts, the possibility for co-existence and cooperation between individual components. Following this line of argument, an alternative understanding of the individual aspects of cohesion would involve a policy focus on three elements: economic cohesion, denoting the possibility for effective cooperation between economic agents, lowering transaction costs, and harmonising relationships between businesses and their institutional environment, social cohesion, eliminating barriers to horizontal and vertical mobility through helping to overcome differences in levels of education, career advancement and material status, and territorial cohesion,

removing constraints on spatial development which restrict the achievement of social and economic cohesion, such as eliminating barriers to transport, connecting the major nodes of European and national space, and developing research and business networks. (Bachtler and Garzelak, 2007) (Pinho et. al, 2014)

Indeed, it is now obvious that for EU strengthening economic, social and territorial cohesion by reducing disparities between regions is a central objective, together with the promotion of regional competitiveness. This is a reason that the European Regional Policy has increased in relevance along the years and has been progressively representing a higher share of the EU budget, reaching about 35.7% in the fourth programming period (2007 -2013). For the next programming period, the Structural Funds are perceived as extremely important for helping regions to achieve swift, sustainable and inclusive growth, as defined in the Agenda 2020. Although, even though growth promotion and regional disparities reduction, in order to guarantee cohesion in the European territory, are considered to be important goals of Regional Policy, it seems that in general terms, only richer regions with higher standards of education and innovation assist in a positive impact of financial aid over growth. . (Pinho et. al, 2014)

A research conducted by Carlos Pinho, Celeste Varum and Micaela Antunes shows in detail to what extent the EU Funds have become more effective in promoting growth and reducing the disparities between EU Member countries. More specifically, for the second programming period, the returns from European financial aid tend to be greater the higher the human capital level a region possesses. For the third programming period (2000 - 2006), the economic effects of European transfers are greater in more developed areas. Structural Funds affect growth positively only in more innovative regions. Low education levels prevent regions from improving their absorptive capacity and consequently from turning transfers into additional growth. Regarding Funds, they have a positive impact on growth and are well combined with income and human capital, revealing that the returns from financial aid are higher in richer regions with higher levels of education. Comparing these outcomes with those from the previous period, some of the regions that in 2000 - 2006 were behind the threshold that enabled a positive impact of Funds over growth remain in the same situation during the fourth

programming period. This fact calls attention to the way Funds are being allocated and raises efficiency issues: on the one hand, financial transfers affect growth positively in richer and high-educated regions and, on the other hand, some regions did not manage to improve their income and education standards to benefit from a positive impact of Funds over growth. For the fourth programming period, the impact of Funds over growth is positive in richer regions. From the combination of Funds with human capital they conclude that in this period the returns from Funds are higher in regions with higher levels of human capital. Their conclusions regarding the need to design policies intended to promote education levels and innovation in order to ensure the success of Regional Policy find support in the current programming period 2014 - 2020, which prioritizes the objectives defined in the Europe 2020 Growth Strategy: employment, R&D, climate change and environment, education, poverty and social exclusion. Moreover, the simplification of procedures, the decentralization of the process and a greater role for agents at the local level are the goals for 2014 - 2020, trying to overcome the critiques on the lack of democratization of the funding system and the modest role of agencies at the national and sub-national levels. The final aim is that Regional Policy can effectively and consistently contribute to a sustained and balanced growth among European regions. . (Pinho et. al, 2014)

3.3.1 *EUROPE 2020*

"Europe 2020" is the European Union's strategy for growth and jobs, launched in 2010 to 2020. In a changing world, it is aimed EU to become a smart, sustainable and inclusive economy. These three complementary priorities will help the EU and its Member States to achieve high levels of employment, productivity and social cohesion. In particular, the Union has set five ambitious objectives - on employment, innovation, education, social inclusion and climate / energy - to be achieved by 2020. Each Member State has adopted its own national targets in each of these areas. Concrete actions at EU and national level support this strategy. The objectives of this strategy is also supported by seven "flagship initiatives" on which the EU and national authorities of the Member States step up mutual efforts in areas relevant to the priorities of the 'Europe 2020', such

as innovation, the digital economy , employment, youth, industrial policy, poverty and the adequacy of resources. Other "levers" of the EU, such as the single market, the budget and the EU's external relations also contribute to the objectives of the 'Europe 2020'. The implementation and monitoring of the strategy "Europe 2020" also have joined the so-called European Semester, ie, the annual circle of coordination of economic and budgetary policies of the Member States. For the evaluation of the progress of the implementation of the EUROPE 2020 five targets have agreed for the whole EU. These targets at EU level then converted into national targets for each Member State, reflecting the different situations and circumstances of each country. The five targets at EU level for 2020: (Europa.eu, 2015)

1. Employment - employment of 75% of the age group 20-64
2. Research and development - 3% of EU GDP should be invested in Research and Development
3. Climate change and energy sustainability - reduce greenhouse gas emissions by 20% (or 30% if conditions permit) compared to 1990- ensure 20% of renewable energy- 20% increase in energy efficiency
4. Education - reducing early school leaving rates below 10% - completing tertiary studies at least 40% of the age group 30-34 years
5. Combating poverty and social exclusion - reduction of at least 20 million people at risk of falling or experiencing poverty and social exclusion

The 2020 headline targets are monitored by Eurostat with nine indicators:

Europe 2020 strategy headline indicators, EU28

	Headline indicator	Past situation	Current situation			2020 Target
		2008	2012	2013	2014	
Employment	Employment rate, total (% of the population aged 20-64)	70.3	68.4	68.4	69.2	75
R&D	Gross domestic expenditure on R&D (% of GDP)	1.85	2.01	2.02 ^e	:	3.00
Climate change & energy	Greenhouse gas emissions* (index 1990=100)	90.4	82.1	:	:	80
	Share of renewable energy in gross final energy consumption (%)	10.5	14.1	15.0	:	20
	Primary energy consumption (Million tonnes of oil equivalent)	1,686.6	1,583.9	1,566.5	:	1,483
	Final energy consumption (Million tonnes of oil equivalent)	1,173.3	1,102.4	1,104.6	:	1,086
Education	Early leavers from education & training, total (% of population aged 18-24)	14.6	12.6	11.9	11.1 ^b	<10.0
	Tertiary educational attainment, total (% of population aged 30-34)	31.2	36.0	37.1	37.9 ^b	≥40.0
Poverty or social exclusion**	People at risk of poverty or social exclusion (million)	116.6	122.7	121.6	:	96.6

Eurostat,2015

3.3.2 *INVESTING IN DEVELOPMENT*

As it has already been pointed out, the targets of Europe 2020 are achieving a smart, sustainable and with no exclusions development of EU's Member-States and their peripheries. Cohesion policy and structural funds, which are of their own very important subjects, constitute the basic functional mechanisms for achieving those goals. Financial, social and territorial cohesion will remain the core of the strategy Europe 2020 so that the initiation of all actions and capabilities for achieving the priorities of the strategy will be secured. The financial crisis had major effects on the ability of European enterprises and governments to finance investments and innovative projects. A regulatory environment to make capital markets affective and safe is necessary, in order for the goals of the strategy Europe 2020 to be materialized. So, Europe should pay more attention and be more careful for every possible effort that is happening for reclaiming the financial and economic means as a keystone to follow new paths, by combining private and public financing and by creating innovating means to finance the investments that are necessary, including private and public sector partnerships. European Investment Bank (EIB) and European Investment Fund (EIF) should be the ones, by working together to support a “virtuous circle” in which innovation and entrepreneurship could be advantageously financed, just as numerous privates’ initiatives and programs that are already functioning in national level. The multinational financial framework of the strategy Europe 2020 should also reflects on the long term developmental priorities. Not only the level of funding should be the subject here, but also how the multiple means of funding could be formed, such as structural funds, agricultural and rural development funds, the framework - program on research and the framework – program on competitiveness and innovation (CIP), so that the main targets of the strategy Europe 2020 could be achieved. And of course, that to be done in a way that maximizes the consequences and secures the effectiveness and the added value for the EU. It is important that the means of increasing the impact of the EU's budget to be found, which even though is small, can lead to amazingly catalyst outcomes, if carefully planned. The Committee suggests actions for developing innovative solutions in funding, aiming the support of the targets of the strategy Europe 2020. (Europa.eu, 2015)

These actions are:

1. Full reclamation of improvement possibilities of the efficiency and the effectiveness of the present budget of the EU, making clear which are the priorities and connecting more efficiently the costs of the EU with the targets of the strategy Europe 2020, in order to deal with the today loss of financial means of EU. An important issue, in that subject is the rethinking of the financial rules the full usage of the innovating financial means, and in the same time, securing a healthy financial management.
2. Development of new financial means, especially in cooperation between the European Investment Bank (EIB) / European Investment Fund (EIF) and the private sector which will cover the needs of the businesses that are not satisfied until today. As part of the future plan of the research and innovation area, the Committee will coordinate an initiative, with the European Investment Bank (EIB) and European Investment Fund (EIF) on the effort of finding new capitals for financing innovating and developing companies.
3. Implementation of an effective European market of business capital for strengthening this way, the immediate access of corporates in capital markets. This will also be achieved by studying the motives so that the capitals of private sector will be at the disposal of newly founded corporates.

3.4 EU FLOWS OF FINANCING AND FUNDS

The total amounts that a country receives from EU are presenting in table 7. What brought our attention in the first place is the three countries that the amounts received from EU are decreasing between the two periods, before and in the middle of crisis. These countries are Ireland, Greece and United Kingdom. Greece in 2007 received 8429.08 million Euros while in 2013 received 7214.55 million Euros. Ireland in 2007 received 2156.67 million Euros while in 2013 received 1874.29 million Euros. Finally United Kingdom in 2007 received 7422.94 million Euros while in 2013 received 6308.29 million Euros. In the rest Member – States the amounts received from EU are increased between the two periods of time. The country that took the lower amount in

both cases is Malta, 89.31 million Euros in 2007 and 173.7 million Euros in 2013 which represent the 2.58% of Malta's GNI (gross national income)(Europa.eu, 2015). Poland received twice as much in 2013, 16179.46 million Euros than that it took in 2007, which were 7786.11 million Euros. The amount of 2013 represents the 4.36% of Polish GNI.

More specific in tables 8 to 12 we can see which policy those money were given for. Few countries took funds for developing EU as a global partner in 2013, while in 2007 the countries that were funding for this policy were mostly those who entered the EU in the last integration in 2004. The policy for sustainable growth together with the preservation and management of natural resources are those with the biggest funding in all EU Member – States. In 2007 Cyprus took the lowest funding for sustainable growth while in 2013 Croatia took just 23.1 million Euros. The highest funding for that policy in 2007 was in Spain while in 2013 in Poland. For the policy of preservation and management of natural resources France had the higher funding while the lower had Bulgaria in 2007 and Croatia in 2013. For the rest policies the funds were given in Germany, which received important funding in relation with the rest countries in 2007 and in Italy in 2013. It is worth noted that the amounts EU spends in Germany reaches only the 0.47% of German GNI. On the same policy, freedom citizenship security and justice Latvia took the lower fund in 2013. For the administrations costs the higher amount was given in Belgium, while the total EU spending in Belgium reaches the 1.89% of its GNI, and the lower to Cyprus in 2007 and to Malta in 2013.

In tables 13 to 14, we see the amounts that each Member – State gives to EU. First with the biggest contribution is Germany, which in 2007 paid 18583.22 million Euros as national contribution and 21710.03 million Euros as own resources, while in 2013 paid even more, 26125.08 million Euros as national contribution and 29376.16 million Euros as own resources. This money represent about the 0.93% of German GNI. In the contrary, the smallest contribution is from Malta whose contribution represents the 1.15% of its GNI. Malta in 2007 paid 45.19 million Euros in national contribution and 57.031 million Euros in own resources, in 2013 paid 77.54 million Euros in national contribution and 86.42 million Euros in own resources. Some other countries that are interesting to examine are Greece and Luxemburg. Greece paid in EU in 2007 2790.29 million Euros as national contribution and 3019.93 as own resources, while in 2013 paid

less, 1794.16 million Euros and 1906.44 million Euros in own resources. These amounts represents the 0.99% of its GNI while the amounts that receives from the EU are in total for 2013 7214.55 and represents the 3.97% of its GNI. Also Luxemburg which contributes in EU with 310.49 million Euros as national contribution and 321.79 in own resources takes from the EU the amount of 1598.24 million Euros. That represents the 5.14% of Luxemburg GNI as the total EU spending in Luxemburg and 1% of its GNI as its contribution to EU revenues.

4. PRIVATE AND PUBLIC DEBT

When an individual or an entity needs money, resort to lending. A borrower owns money to a lender and his is usually obligated to repay them with some interest that is charged to the amount of lending. That is debt. As we have seen, there are private and public institutions, both of them take advantage of debt financing to fund their operations and growth. When a private institution borrows and takes a debt, it is required to assess its income and expenses to determine whether it can easily repay the funds. Public debt, on the other hand, is incurred by a small number of people on behalf of the public at large. Individuals, just as businesses use that debt in order to build their credit reputation in anticipation of large purchases in the future. Companies need to take debt, in order to fuel growth strategies designed to boost income and profit, which in a large degree, can make up for the extra interest expense. Finally, in order for a government to take debt needs to be in need, so that to finance emergency response initiatives or to provide needed public services that raise citizens' quality of life and increase their access to reliable jobs. (www.investopedia.com, 2015)

In lending and debt transactions, there is debt security. Debt security is any debt instrument that can be bought and sold between two parties. It is defined by notional amount, which is the initial amount borrowed, interest rate and maturity or renewal date. Debt securities include government bonds, corporate bonds, CDs, municipal bonds, preferred stock, collateralized securities (such as CDOs, CMOs, GNMA) and zero-coupon securities. The interest rate on a debt security is largely determined by the

perceived repayment ability of the borrower; higher risks of payment default almost always lead to higher interest rates to borrow capital. (www.investopedia.com, 2015)

4.1 TRADE LENDING

In a previous part of this paper it was mentioned and partially developed the importance of foreign capital in the developing effort of a country. Nevertheless, the form in which the foreign capital enters in the economy is importantly influencing the economy's potential of growth and development.

The net inflow of foreign capital can be analyzed in two parts. The official and the private. The official inflow concerns capital that is coming from governments of other countries, mainly if not exclusively developed countries and also from official international organizations, such as World Bank, United Nations Organization, International monetary Fund (IMF) and other regional development banks. In both cases, the official inflow of capital can be in the form of a grant or a loan. Grant is a free flow of capital or goods, as it has already been discussed earlier in this paper. Loans can be either favorable or not. In order for a loan to be favorable then, it should be given in terms that are more propitious than those that exist in the private capital market. While, in the other case they are given in terms that are almost similar with those existing in the private capital market and are conceived to be unfavorable. (Gillis et al., 1987)

The private inflow of foreign capital represents the export of capital of the private sector of the countries that the entering capital is coming from and takes the form of a loan, trade credit, direct investment or aid. The private lending and the trade credit are given to the public or private sector of the countries that are accepting that inflow usually in the form of banks and senior debts, just as in the form of export credits. So as it has been explained, the trade lending concerns loans coming from developed countries (government, private bodies) in terms and interest rates that copy with the international private capital market. These loans are usually portfolio investment, export credit and bank credit. (Gillis et al., 1987)

Portfolio investments are investments in foreign securities (bonds, shares) where the motive of the foreign investments is their effectiveness. The purchase of bonds constitutes the main category of the foreign securities. The international bonds market is mainly used by less developed countries with high product per capita. In this market, the less developed economies are borrowing in the long term (usually 5 to 25 years) by issuing bonds which usually are bought by investors from developed economies. This happens with the intermediation of brokers, such as Morgan Stanley (U.S.) and Rothschild group (French, G. Britain). (Gillis et al., 1987)

Export credits are the sales of capital goods, the payment for which will take place after some years after the delivery of the capital goods. The export credits are granted with fixed rates and last in an average of seven years. These credits have gotten special meaning especially post war, because they were used by the developed countries in order to expand their exports. For this purpose, they are committed to cover a large part of the dangers that these credits entail. Besides, the companies that the export goods in credit came from, according to their delivery contract, can address to any bank and take a loan. The granting of that kind of credit is significantly low, especially after 1981. This means that from that year on, the less developed countries pay larger amounts of money for interest and payments than those they take from new export credits. (Wagner et al., 1991) (Gillis et al., 1987)

It is important to clarify that those purchases and sales of a country's assets by official institutions in other countries are not considered to be official flows of the country that is examined. For example, purchases of US assets by Norway's sovereign wealth funds (SWFs) count as official outflows of Norway but private inflows for the United States. (Bayani et al., 2014)

International bank loans are loans coming from "Eurocurrency market" which is by deposits in banks that are located outside the borders of the country that issued the currency the deposit is denominated in. For example, a deposit denominated in Japanese Yen held in a Brazilian bank is a Eurocurrency deposit, likewise a deposit denominated in US dollars held in Singapore bank is Eurocurrency deposit, or more clearly a Eurodollar deposit. Also, International bank loans are loans that are granted straight

from banks that are using the same currency. Since 1970, the bank lending has taken huge proportions. The value of the total loans that have been granted in developed and less developed countries by 1985 was almost near 2.5 trillion dollars worldwide, from which 2 trillion were loans in Eurocurrency. The loans coming from the Eurocurrency market are granted mostly by groups of banks and not singularly banks. Their lasting duration is way smaller than that of the portfolio investments and of the official financial aid and reaches approximately 10 years, while its interest rates are variable and way higher than that of the other types of lending and official financial aid. (Argyris, 1997)

4.2 LENDING/BORROWING

In table 16 we see the relation of lending/ borrowing of each country. The biggest borrowing relation we see it in Slovakia in 2013 where it seems that Slovakia have borrowed 13.801% of GDP more of what have lend. It is notable mostly because in 2007 seemed to have lent by 0.258 more than what borrowed. Comparing it with the figures of table 20 that shows the amounts the governments borrowed, we see that indeed, increased the amounts of loans taken. Germany for instance seems to have lower the difference between what lends to what borrows. In table 18 we see that this is because while in 2007 the percentage was 0.2% of GDP in 2013 it is -0.6%. in table 20 we see the credit flows of the private sector of each EU country. What is impressing here is the big difference between most countries from one period to the other. Although in order to fully understand the lending conditions of each country, it is important to know which are the institutional sectors that are more active in lending/borrowing activity and in what way that is. For example in Czech Republic that received investments and so, with increase between the years 2007 and 2013, its corporations present an increase in lending, showing a positive corporate function, same as households and non-profit. Its general government though show an increase in borrowing activities. Italy which showed an inward flow of FDI, seems to be borrowing more than lending in corporate activities, same as general government but its households and non-profit seem to have a positive relation between lending and

borrowing. Those results can be related with the flows of portfolio equity. In table 19 we examine the net inflow of portfolio equity of each country. For instance, in Italy there is a positive inflow of portfolio equity which can explain the negative relation of lending/ borrowing in its corporations.

5. EUROPE IN CRISIS

The economic growth refers to the process by which the actual income per capita of a country is increased during a long period of time. Usually, as an indicator of economic development is used either the GDP per capita or real income per capita or national income or finally the living standards of a country. Economic growth implies several changes in economic and social structure of a country. Also, the economic growth is seen as the necessary condition for social development and prosperity. Social policy is an essential and important element of the social and economic development of a country. The main objective here should be to increase production and the gross domestic product, the growth in real income per capita and improve living standards. As essential factors for the development of a country are considered to be all natural resources and raw materials, the human factor, the existence of capital and technology goods (ie capital and technology) and finally the size of the market that determines the demand and the production of goods. (Kourliouros et al., 2010)

Today one of the biggest problems in the design and implementation of economic policy is the creation of public deficits usually due mainly to the decrease in production and the mismanagement of finances, the weakness of the tax administration and the increase of the underground economy and of tax evasion. The increase of public deficits leads to growing debts of a country and subsequently large debts often lead to partial or complete insolvency (bankruptcy). The inability of a country to pay debts leads to default on foreign debt, ie a country predetermines its payments to foreign debt holders and in some cases (as in Argentina, Mexico, Soviet Union) can lead to the repudiation of debt and stop payments, or alternatively to the redesign and renegotiation of the debt which means that talks with foreign creditors and negotiates the settlement of debts.

Usually, creditors are forced to accept a loss in some portion of the debt, known as a "haircut", while having a renegotiation of interest rates. (Kourliouros et al., 2010)

In our days, the Member States of the euro area are facing a serious sovereign debt crisis. Most member countries of the Eurozone (particularly in the South) are dealing with quite high and unacceptable level of public debt. More specifically, the three countries, Greece, Ireland, and Portugal have borrowed from other European countries and the IMF to avoid bankruptcy. With the largest public debt and one of the largest budget deficits in the Eurozone, Greece is the centre of the financial crisis. (Kourliouros et al., 2010)

First of all, the foundations of the crisis are rooted to unequal geographic / regional development, which characterizes the space-social structures of the European Union (EU). Public debt is not the cause of the current crisis, but only one of the fields where it manifest. Second, in the context of neoliberal hegemony, certain elites and regional hegemonic formations in some European countries (those six that once made up the original EU, most importantly by economic view Germany) took advantage of the inevitable social and spatial restructuring which resulted in the introduction of the single currency, in order to regain the political and social control not only of global capital markets, but also within the EU. In tables 21 and 22 we see the most recent data of each country for external debt.

5.1 SHORT "HISTORY" OF CRISIS

In the EU the crisis initially strikes three interrelated areas: banking, real estate and debt, public and private. The first signs of the crisis became particularly obvious in the Spanish real estate market (particularly in regions of the tourism real estate), in the former communist countries of Eastern Europe and in the Irish banking sector. Here, it might be necessary to add the over debt financial sector in Iceland, a country not in the EU but which maintains important economic ties with European banks. In November 2009 Greece becomes the new centre of the crisis of the capitalist world and becomes the headlines around the world. It should not be surprising that Greece, having in

October 2009 a huge budget deficit of 12.7% of GDP and an equally enormous debt of almost 113% of GDP, has entered for good " the mill of financial markets and international banks» (Golemis, 2010), since the latter are the main holders of Greek government bonds. At the same time start the aggressive moves of international financial speculators, which have the effect of increasing the cost of borrowing from international banks. (epaminternational.wordpress.com, 2013)

According to Lapavitsas et al. (2010) the composition of total debt differs significantly between the three countries of the NE. The ratio of foreign to domestic debt stands at 67% to 33% in Spain, compared with 51% to 49% in Portugal and 49% to 51% for Greece. For the authors, this suggests that Portugal and Greece are equally indebted abroad and at home, while Spain has a considerably smaller percentage of external debt, and note that:

"... The composition of the total debt differentiated even more by taking into account the public debt. In the case of Spain and Portugal, the ratio of private to public debt stands at about the same levels, with 87% to 13% for the former and 85% to 15% for the second. But the Greek state is more in debt: the ratio for Greece is 58% private to 42% public debt. "(Lapavitsas et al 2010)

Moreover, the Greek foreign debt is mainly based on long government bonds, while the vast majority of regional premiums (for governments and private banks) held by the European core countries, especially France and Germany resulting to "... the south to be indebted to the north-central Eurozone countries and the EU "(Lapavitsas et al. 2010).

The high intensity of the crisis has led to -in order to avoid disaster- the need for a massive bailout from State resources and the recapitalization of the financial system, as well as financial incentives that would attempt to restart economic growth and reduce unemployment. However, this short-term solution has contributed to even greater government borrowing and increased debt, which in turn, led to even greater financial deficit, creating this way a new debt trap and finally to the current fiscal crisis in the countries of Southern Europe. "(Lapavitsas et al. 2010).

5.2 REGIONAL DISPARITY

During the last 30 years, some regions of Southern Europe, supported by the help provided by the EU, managed to converge in terms of their GDP to the European average. But the uneven geographical development continues to be an essential matter. The convergence that have been achieved between the regions of EU-15 was significant until the mid-1990s, but then the process became slower, while since 2000 the inequalities increased again, reaching in 2007 the levels of 1987 (European Union-Regional Policy 2007). The European Commission recognizes two trends: convergence regions with a GDP higher than 75% of Europe 15 average and deviation for regions with a GDP below 75%, the majority of which are in southern Europe. Inequalities in Europe dramatically increased in the period following the entry of the former "socialist" countries of Eastern Europe. In 2002, 10% of the population in EU-27 Member States living in the most prosperous regions of North-Central Europe accounted for 19% of total GDP, while the corresponding 10% of the population living in the least prosperous regions in the east and in some regions of the South accounted for only 1.5% of GDP (European Union-Regional Policy 2007). Considering the price adjustments (based on purchasing power), the ratio between the upper and lower 10% of the population in terms of GDP was 5 to 1, while in real terms was 12.5 to 1. In 2008, 43 % of Europe's GDP is concentrated in just 14% of the total area of Europe and specifically in the area bounded by London, Hamburg, Munich, Milan and Paris, where lives and works only one third of the EU population. These figures would be even more unequal if there were no European assistance programs (Leonardi, 2006).

According to Todl (2000), during the 1989-1993 Structural Funds contributed 2.71% of annual GDP growth in Greece, 3.39% in Portugal, 0,71% in Spain and 0, 77 in the Italian Mezzogiorno. During 1994-1999, the contribution of the Funds in the annual positive growth rate of GDP was 2.82% in Greece, 3.26% in Portugal, 1,30% in Spain and 1.14% in the Mezzogiorno. Portugal and Greece seemed to benefit more, something that was obvious in the economic performance of these countries during the periods concerned. (Xatzimixalis, 2011)

In terms of regions, the Structural Funds have been very effective (based on comparison of GDP per capita in the period 1980 to 1994) in the Canary Islands, in Extremadura, in Aragon and Navarre, Spain, in the Algarve, the North and the Alentejo region of Portugal and North Aegean, Crete, the Ionian Islands and the Eastern Macedonia and Thrace in Greece.

When the unevenly developed southern-European regions have acquired the same hard currency in 2000, were very few those people in the Southern Europe and the European Commission that noticed the importance to existent uneven regional production systems and specialization, to different regional labor markets and to unequal access to markets (economic, institutional and geographical terms) than the "core" of the euro zone (Medelfart et al., 2003). Even fewer were those who paid attention to the diversification of space-social impact of the integration of unequally developed Southern Europe in a macroeconomic and financial environment that was designed especially for the north-central European economies, and in particular Germany. (Xatzimixalis, 2011)

6. EUROPEAN INTEGRATION

Integration can be perceived as the degree to which an economy does not restrict cross-border transactions. In economic theory there are two "grand theories" of European integration. Those are Neo-functionalism and Liberal intergovernmentalism. Neo-functionalism is based on the work of Ernst Haas, according to whom, "political integration in the following light: Political integration is the process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities toward a new centre, whose institutions possess or demand jurisdiction over the pre-existing national states. The end result of a process of political integration is a new political community, superimposed over the pre-existing ones." (Haas, 1968: 16) (Schweiger, 2010, p. 8). Neo-functionalism saw supranational integration as a gradual process beginning in "low politics" sector. Through a spill over mechanism integration expands to additional sectors. Problems generated by the intensification of interactions are expected to be solved through more integration.

Pushed also by supranational institutions, the spillover would eventually reach 'high politics' sectors. Patterns of political loyalty and conflict would also move to the supranational level, ultimately creating a truly European political system. (Tortola, 2015). Spill over is an essential concept of neo-functionalism. Schmitter (1969) based on an institutional understanding of integration define the dimensions of spill over as the process of reaching some collective goals that members of the integration plan agreed on. When they are unsatisfied with their attainment of these goals, they resort to expanding the scope of their mutual commitment or increasing the level of mutual commitment in that goal or both. (Schweiger,2010). While Neo-functionalists argue that in the process of integration the basic force is the pursuit of economic interest, they offered a vague understanding of precisely whose interests they are, how conflicts among them are resolved, by what means they are translated into policy, and when they require political integration. (Schweiger, 2010).

Andrew Moravcsik rejected the ideas of neo- functionalism and developed in the early 1990s the second theory of integration, liberal intergovernmentalism. Liberal intergovernmentalism focuses on the interaction between the national and supranational levels. The relationship between government and society is a principal- agent one. Governments aggregate he preferences of societal groups, with their respective interests and influences on domestic policies and bring them in the bargaining table of supranational negotiations. (Moravcsik, 1993) (Schweiger, 2010, p. 8).

The newest theoretical approach to European integration is post-functionalism. According to post-functionalism public attitudes and party politics in each Member-State can be an obstacle to governments in their effort of shaping the European integration. (Hooghe and Marks, 2005, 2009) (Tosum et al, 2014, p. 200)

In EU integration, all barriers in trade and movements are eliminated in order to improve competition and EU economic effectiveness. That concludes with the mainstream theory of economic integration which is in favour of market based process to integration. That happens by trade expansion and it is believed to add a positive sum game with net gains for all countries. In the EU territory, though many signs of the social model of integration are evident, this is a deeper integration that includes market

and policy. Markets generate positive but also adverse effects that need to be counterbalanced by policies. Although this process appears to have different consequences in economies with different development level. Regions with weak production are going to suffer from the openness of the economy, while economies that have managed to restructure their production will be more successful in adapting to the new international environment. As a result integration may be proven to be more beneficial to more advanced economies while less competitive ones might have the opposite results. (Petraikos et al, 2008). More specifically, geography is an important element in the process of integration of the EU. According to distance, accessibility and centrality different economies have different chances of further development and economic growth. Distant countries of the European centre, will be integrated more slowly and selectively while adjacent ones will experience sooner the benefits of an eastward directed dispersion of development. (Petraikos,2002, Petraikos, 2009).

In literature about economic theory of integration there are conflicting views concerning the growth effects of economic integration. According to some views, economic integration makes it easier to observe the sharing of risks from one economy to another and thereby enhances production specialization, capital allocation and economic growth. (Obstfeld, 1994, Acemoglu and Zilibotti, 1997) (Edison et al, 2002, p 749). Furthermore helps the flow of capital from rich countries with capital abundance to not so rich countries that lack of capital with positive output effects. Also, positive growth effects may be observed by the intensification of competition and the importation of financial services. (Klein and Olivei, 2000, Levine, 2001) (Edison et al, 2002, p. 750). Although, some theories predict that integration will promote growth only in countries with sound institutions and good policies. In countries with weak financial and legal systems, may induce a capital outflow from capital- scarce countries to capital abundant countries. (Boyd and Smith, 1992) (Edison et al, 2002, p. 750). Finally there are a small number of studies saying that financial integration is unrelated to economic growth. Edison et al (2002) for instance do not reject the null hypothesis that IFI is unrelated to economic growth even when allowing this relationship to vary with economic, financial, institutional, and macroeconomic characteristics. Although, there could be many factors

to influence capital flows which make it difficult to be sure in assessing the relationship between integration and growth and development. (Edison et al, 2002).

6.1 HAS EU SUCCEEDED IN REACHING BALANCED GROWTH?

In tables 23 and 24 we are making an effort to understand in which degree, has EU succeeded to reach balanced growth through integration. We try to make some conclusions in this subject by examine the sizes of trade, direct investment, EU funds and lending or borrowing. These sizes are presented here as balance of payments which is exports or outwards flows minus imports or inwards flows. They are in million Euros and the positive prices shows an inward flow of money to the domestic economy, while negative prices show an outward flow of money from the economy to EU through the transactions that we study. For that purpose we estimate the transactions of two years that mark the before crisis period in the EU and through the big crisis. The years are 2007 which is for the pro crisis period and 2013 which is for the period during the European crisis. It is important to note that in this analysis the size of its country's economy is not examined, as we take into consideration only the interactions that took place within the European territory and not internationally, but mostly the degree in which European countries tend to converge economically or not with each other.

What draught our attention, in the first place is the variation of the position of the European countries when we estimate in total for every country what gains or losses from its transactions with the rest. The coefficient of variation of European countries for 2007 is -8.17 which means that there is a great distance between EU economies concerning their profits or losses from interacting in the EU. For example Germany presents a total gain that equals the amount of 117985.61 million Euros while United Kingdom loses money that equals the amount of 194328.44 million Euros. Although even among the countries that present to have total gains from their transactions within EU the difference from one to another is really obvious. Taking for example Hungary who had total profits 3200.63 million Euros and Germany. With the price of coefficient of variation to be -8.17 for 2007 we can presume that EU was still far away from its goal for balanced growth. The countries in EU seemed to be extremely different from

one another and to have gained different results from European integration. As we can see from the table comparing to 2013 prices, the countries don't seem to converge in financial level since there are countries that appear to be far more favored than others.

In 2013 the balances in EU are a little differentiated. The price of coefficient of variation for the total of the values that we take into account is -4.67. That means that the imbalances have been reduced, comparing to the previous year that we calculated. Yet, -4.67 is by itself a number that shows that within EU great imbalances are still present. More specific, the country that seems to be more favored than the others in 2013 is Netherlands with total gains in the amount of 134130.52 million Euros while in the other side the country with the more loses is United Kingdom that totally lost 194187.61 million Euros. While the country with the least positive gain is still Hungary by 13682.51 million Euros. So, in 2013 converge in a larger degree between them in relation with 2007 but there are still great imbalances that EU has to overcome. There are countries that present much more profits than others while some have only large costs to deal with. In fact, in 2007 there were 12 countries that had positive balances of payments while in 2013 there were only 8 that gained more money than what they return in EU.

In order for a better understanding of the way that inequalities manage to balance within EU it is preferable to examine each year separately to be able to come to conclusions.

For 2007 what we observe is that in trade exist more inequalities than in any other form of interactions between European countries. In trade balance the coefficient of variation is 8.54 which shows that trade is a variable that emphasizes the inequalities within EU. It helps make them more severe. The countries that seems to gain from trade with the rest of EU are 10 while the other 18 countries lose money through trade. Germany has earned 169559.25 million Euros while United Kingdom gave 68042.39 million Euros in the rest EU. What is impressive is that the coefficient of variation of trade balance is 8.54 and the coefficient of variation of the total interactions is -8.17. the spreading out of the values of each country in trade is indicative of the distance that separates the countries in the interior of EU. As it concerns the investment flows though we see something different. The value of coefficient of variation of direct investment is -3.58

and is significantly lower than that of trade or total. That off course does not mean that this is satisfactory. We notice once more, a huge dispersion of European countries and of the money that each one of them receives as investments. Nevertheless there are many countries that appear to be receiving more money as investments as those that returns to the rest of Europe. As we can see from the table, 20 countries have positive flows from the total 28 countries which mean that in these economies entered more investment than the investments that have been made abroad. The country with the highest amount of investments entering minus investments exiting from the economy is Belgium by 17737 million Euros. On the contrary, United Kingdom is an economy that exports more investment than those that imports by 44555 million Euros. What we can say is that investment is a variable that, in a small degree, tends to balance the inequalities within EU, mostly in comparison to trade. Something similar to that we can say about EU funds. In 2007 EU financed the 27 by that time European countries for the targets of the programming period of the time. These funds were distributed according to the needs of each country and the size of each economy in order to aim balance in EU. This way is guaranteed the justice in sharing of European budget. As we can see in the table the countries that received more money than those they gave in EU were 10, Poland, Greece, Portugal, Hungary, Slovakia, Luxemburg, Bulgaria, Lithuania, Latvia and Estonia. The rest European countries paid more in EU than what has returned to them. The coefficient of variation of the flows of EU funds is -2.09, which means that the dispersion of the values is not as big as in any other transaction. The purpose of that money is to eliminate the differences between EU and the way that each country uses them is what helps European convergence. A sector for which we cannot see in certainty if it helps decrease or increase the imbalances in European area is the flows of lending and borrowing. The value of coefficient of variation of lending/borrowing is -4.76. Comparing it to the total coefficient of variation in EU, it is lower so it should help in converging. Although it is a high value which shows that EU is far from convergence since European countries are divided in concern of what they lend and what they borrow. The countries that lent more from what they borrowed from other European countries and European bodies are 12 and from them Spain is the one that lent more by 21620 million Euros than what borrowed. On the other hand United Kingdom borrowed more by 64953.10 million Euros. Finally what is of major importance is that

even though in the 3 flows the value of Coefficient of variation is lower than that of the total, even if the countries seemed to tend to converge this is not a positive thing after all. Because they tend to converge not in development paths but in a point where the domestic market and the economy loses more money than what it gains.

In 2013 we see that things start to change a bit, especially when it comes to lending. More specific, we observe that the value of the total coefficient of variation is -4.67. That shows that the countries have started to converge in a larger degree than the previous period that we stated. Although, -4.67 shows that still exists huge imbalances within EU. What we see now, is that the balance in EU has changed in a degree. Of course, it is the year that EU has entered deep in the crisis and that becomes obvious by looking at the total flows of each country. Now, there 8 countries that remain positive in their total balance of payments as we examine it in table 24, while the rest seem to send abroad more money than those that entered their economy. Netherlands is for 2013, the country that noted more profits in relation to what it returned to the rest European countries through the interactions that we study. On the other hand, United Kingdom remains the one that returns more than what receives by 194187.61 million Euros.

For what concerns trade, we can see that it is an activity through which the imbalances in the EU become more intense. Coefficient of variation of trade is 6.94 which make the imbalances within EU more obvious. It is higher a value than that of total coefficient of variation which means that trade deteriorate the inequalities and imbalances inside EU. We can see for example Netherlands where 151143.15 million Euros more entered through trade than what see sends to the rest EU or Slovenia where it accepts more inflows in trade by 459.02 million Euros. On the other hand, United Kingdom and France export more money than what import by 85737.78 million Euros and 41831.08 million Euros respectively. Something similar to that we can conclude by investment flows of this year in which the coefficient of variation is 6.53. This is also a value that shows that the investment flows help increase the imbalances within EU and does not help at all the European goal for balanced growth. With the value of coefficient of variation in 6.53 it becomes more transparent the great gap between European countries and the long way that still have to go in their effort to converge. Germany is the country that that imports fewer investments than those that makes abroad by 57587 million

Euros while United Kingdom imports more investments than those it sends abroad by 32603 million Euros. Other countries with high levels of positive investment flows are Belgium, Ireland and Luxembourg. As for the flows of EU funds we do not see important differences than the previous period. It is the flows in which European countries present small divergence. Here Germany is the country that gives more money in EU than what receives from EU by 42445.08 million Euros while Poland takes 8134.37 million Euros more than what gives in EU. EU funding is the flow that seems to tend to balance the inequalities within EU, just as what we see in lending where the coefficient of variation is -1.86. For 2013, in lending we see the lower value of coefficient of variation which can be presumed as the transaction with the smallest divergence. Of course what is of major importance is that this convergence constitutes a convergence in the wrong direction since all European countries besides 2, Germany and Luxembourg, borrowed more money than what they lend in other European countries, EU and other European bodies. The only two European countries that lend more than what they borrow are Germany and Luxembourg by 4172 million Euros and 388 million Euros respectively. While all the other European countries borrow money in a large degree with United Kingdom be first by 115783.20 million Euros. What is interesting to see here is that Greece borrows by 22498 million Euros more than what lends and is the fifth in the row country that borrows more than what lends in EU right after United Kingdom, France, Spain and Italy.

Finally what we conclude from the observations above is that despite the fact that in relation to 2007 European countries seem to converge in a larger degree in 2013 we still cannot talk about balanced growth in the EU since great inequalities are still present. Even the small convergence that can be observed in some flows cannot be considerate desirable. Mostly because the flows that this convergence is observed is EU funds which makes EU countries dependent in EU funding and lending in which most countries are in need of loans in order to cope with their liabilities.

7. CONCLUSION

EU integration and EMU had a large impact on financial flows within the European area. After the crisis in EU we see the differences between the core countries of EU and the peripheral to enlarge. Despite the efforts made for EU balanced growth, we still observed countries to be in fate of financial institutions. Before the crisis there was a substantial amount of flows between core EU countries and the periphery. The centres (core) send capital to the periphery with the result of inflating both sides of the balance sheet of the large financial institutions in the core. These gross positions largely took the form of debt instruments, often issued and held by banks.

The big current account deficits of peripheral euro area countries reflected an accumulation of problems that have led to instability in the euro area. In my thesis, I try to understand the flows of capital among European Member States and examine the reasons that Europe has entered this crisis and the obstacles in European balanced growth.

In the first section, I examine the balance of trade within EU trying to understand the trade relationships between countries in their effort to develop their economy. In section two, I analyze the capital relationship between European countries, trying to see the investments flow. In third section, I search about EU funding and which country or group of countries can considered to be more favored or not, or if that kind of relation exists at all. Next, I examined the lending conditions of each country and the degree of debt that they are collecting. After a close look of the data presented, it is safe to assume that EU has a long way of achieving balanced growth.

One interesting result of my research is that in EU of 2013 efforts are made for growth but still not in the right direction. Big imbalances are still observed between core countries in EU and the periphery. Although, it might seem that the position of most countries became better in account to trade, the truth though is that are depended of other European finances rather than became self-sufficient to do so. For example, Greece spends for imports and liabilities most capital entering. Greece has imports of

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33.5 of its GDP and has a value of government lending 4.9% of its GDP while its net government debt, according to IMF data reached 155.37% of GDP in 2012.

In my opinion, EU policies and strategies of growth and development would be ideal in a stable economy with even small imbalances in its interior. Nevertheless, in reality in the core of EU exists very different economies with very different needs. Treating all of them as equals with harmonized financial regulations , only creates greater imbalances and moreover makes the financial sectors of related countries more financial fragile.

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TABLE 1. Total exports

country/date	2007	2013
Belgium	77,5	82,8
Bulgaria	53,3	68,4
Czech Republic	66,6	77,2
Denmark	51,3	54,3
Germany	43,1	45,6
Estonia	63,2	86,1
Ireland	77,5	105,3
Greece	22,5	30,2
Spain	25,7	31,6
France	27,1	28,2
Croatia	39	42,9
Italy	27,4	28,8
Cyprus	53,8	50,8
Latvia	38,5	59,4
Lithuania	50,4	84,1
Luxembourg	187,1	203,3
Hungary	78,6	88,8
Malta	129,5	155,4
Netherlands	71	82,9
Austria	52,5	53,5
Poland	38,8	46,1
Portugal	31	39,6
Romania	29,1	39,7
Slovenia	67,6	74,7
Slovakia	83,5	93
Finland	44	38,4
Sweden	48,3	44
United Kingdom	25,6	30,1

TABLE 2. Total imports

country/date	2007	2013
Belgium	73,7	81,4
Bulgaria	72,5	69
Czech Republic	64,1	71,4
Denmark	48,5	48,5
Germany	36,4	39,8
Estonia	72,1	84,6
Ireland	68,6	84,5
Greece	34,9	33,2
Spain	31,7	28,1
France	28,4	29,7
Croatia	46,3	42,5
Italy	27,8	26,5
Cyprus	58,6	48,3
Latvia	57,6	62,3
Lithuania	63,5	82,8
Luxembourg	154,7	168,1
Hungary	77,9	81,2
Malta	129	150
Netherlands	62,4	72,6
Austria	48,3	49,9
Poland	42,1	44,2
Portugal	38,6	38,7
Romania	43,4	40,4
Slovenia	68,9	68,7
Slovakia	84,7	88,4
Finland	39,2	39,3
Sweden	41,3	38,9
United Kingdom	28,4	32,1

SOURCE: Eurostat, 2014

This indicator is the value of imports and exports of goods and services divided by the GDP in current prices. (in million Euros)

TABLE 5. Average of inward and outward Foreign Direct Investment (FDI)

geo/year	2010	2013
Belgium	5,3	-2,8
Bulgaria	1,8	1,5
Czech Republic	1,8	2,1
Denmark	-1,9	1,8
Germany	2,7	1,2
Estonia	4,6	2,7
Ireland	15,6	13,4
Greece	0,3	0,4
Spain	2,8	2,4
France	1,9	-0,1
Croatia	0,2	0,3
Italy	1	1,2
Cyprus	3,1	1,9
Latvia	0,8	1,9
Lithuania	1,1	0,7
Luxembourg	410,7	605,2
Hungary	1,3	2,1
Malta	6,2	-11
Netherlands	3,9	3,9
Austria	1,4	3
Poland	2,2	-1,1
Portugal	-1,1	1
Romania	0,9	1
Slovenia	0,2	-0,7
Slovakia	1,6	0,1
Finland	3,5	0,6
Sweden	2,2	3,7
United Kingdom	1,9	1,1

Organisation for Economic Co-operation and Development (OECD), Eurostat

The index measures the intensity of investment integration within the international economy.

Divided by gross domestic product (GDP).

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TABLE 6. EU direct investment flows 2013 (in million Euros)

PAR/COUNTRY	Belgium	Bulgaria	Czech Rep.	Denmark	Germany	Estonia	Ireland	Greece	Spain	France	Croatia	Italy	Cyprus	Latvia	Lithuania	Luxembourg	Hungary	Malta	Netherlands	Austria	Poland	Portugal	Romania	Slovenia	Slovakia	Finland	Sweden	United Kingdom
Belgium			-325	-568	2601	-1	1934	715	2485	10838	5	1536	168		-58	4945	-735	53	2357	2235	-567	1332	-39	0	-275	-5109	10130	2590
Bulgaria	46		36	0	102	0	-22	-86	4	98	1	50	99		13	379	47	-15	230	-116	15	3	8	-4	8	3	28	-61
Czech Rep.	632		0	81	1275	0	7	2	-229	303	3	96	-11		10	20	74	129	3555	1073	97	16	25	2	38	-7	79	153
Denmark	92		29	0	638	12	276	6	48	-1448		-26	-199		10	-1752	28	1	2773	113	46	10	-2	3	15	-157	623	-90
Germany	-9165		43	-2615		-5	2135	-15	1879	4282	-162	1112	520		3	-1274	262	-36	3020	954	158	-28	59	-7	269	-143	65	-5883
Estonia	-13		1	5	13	0	-43	-1	-2	-49	1	-1	52		242	30	1	-2	28	35	-6	0	0	0	1	206	207	-4
Ireland	-702		104	297	918		0	3	684	2256		878	136		-11	863	-100		10859		27	82				-31	-557	4293
Greece	195				304	2	20		23	1073	0	-13				86		0	-159	-47		139	1	19	0	-7	7	132
Spain	-772		83		-792		-1164			2241		3977	76			-1070	204	84	6561	59	162	521			113			-274
France	11455		107	-215	2902	89	-739	-28	-655		1	-2101	294		3	263	-58		1580	-56	-218	-109	121	17	-49	-181	-302	-2731
Croatia	9		8	7	-194	3	-6	-9	13	-1	0	42	5		0	209	-7	14	56	793	7	0	1	-14	11	6	-25	7
Italy	-1029		-113	-350	-7715	-39	-28	-68	-47	-2249	29	0	-146		1	-7570	668	653	6057	2444	-55	-29	-31	10	-10	-140	-650	1598
Cyprus					19		-1	215		-3	0	-1	0			-15		-9	144	-17	2	0			0	0	-35	46
Latvia	10		3	16	20	23	0	0	-1	17	0	7	159		40	26	0	37	83	16	1	0	0	0	0	-4	174	52
Lithuania	48		2	66	83	105	2	3	-9	9	0	-1	124		0	23	1	3	23	26	0	2	2	0	2	-34	162	24
Luxembourg	-45312		136	9939	9243	-31	5944	51	1220	1980	10	14	2194		9		243	-172	-4137	1773	251	-312	51	10	71	190	20378	49604
Hungary	-187		1	-18	508	0	-1290	1	9	-8	-40	3751	-145		0	5981	0	53	-2412	1161	16	67	-24	-31	33	2	-48	1185
Malta	6			7	47		0	2	5	8		33	4			18	0		-93	-5		-2					95	-33
Netherlands	2760		-36	999	7817	5	-2423	26	190	-2588	0	74	81			1294	-158			100	54	15	25	1	-4	35	-159	-3290
Austria	-32		12	147	2246	0	190	42	205	16	74	358	48		0	-1134	335	-18	787		76	-5	-2	6	125	-8	-259	58
Poland	320		42	84	3494	18	192	-355	344	3133	-6	300	514		10	-3223	183	-136	-1708	648	0	129	1	-25	69	134	-902	843
Portugal	0		1		75	1	0	0	1868	16		-147			0	3195	7	50	1288	2221	1		0	0	0	5	-24	-124
Romania	92		212	-1	304	0	32	-42	105	108		-101	-223		9	41	164	-7	411	605	46	-40	0	-1	-1	-50	-13	99
Slovenia	51		-1	-20	92	0	-2	0	0	-9	-9	-3	0		0	-16	-7	5	29	-179	2	1	0	0	-2	-3	3	-46
Slovakia	56		582	3	461		38	-3		4		133	185			110			-37	78	-110	-2	16	15	0		56	10
Finland	115		7	550	-2737	-54	-180		48	-215		-49	14		5	-247	-25	34	2271	-20	107	-6		-2	-5		905	572
Sweden	-5831		6	547	-655	-13	628			-350		259			-12	-3685	-10		10786	-104		-5		-2	-11	1854		-1633
United Kingdom	11872			571	2564		-218	-41	-366	1713		972	220			985			2628	-129		105				62		0

Eurostat, 2014

TABLE 7. Total expenditure of EU funds (in million Euros)

COUNTRY/TIME	TOTAL EXPENDITURE 2013	TOTAL EXPENDITURE 2007
Belgium	7209,47	5678,77
Bulgaria	1976,86	591,48
Czech Republic	4893,12	1721,01
Denmark	1434,76	1449,17
Germany	13056,16	12483,61
Estonia	973,33	376,93
Ireland	1874,29	2156,67
Greece	7214,55	8429,08
Spain	13752,18	12795,93
France	14239,32	13897,24
Croatia	289,96	0,00
Italy	12554,26	11315,26
Cyprus	227,07	126,80
Latvia	1063,21	674,96
Lithuania	1881,21	1043,76
Luxembourg	1598,24	1255,90
Hungary	5909,83	2427,57
Malta	173,70	89,31
Netherlands	2264,07	1916,43
Austria	1861,96	1598,44
Poland	16179,46	7786,41
Portugal	6162,78	3904,37
Romania	5560,58	1602,38
Slovenia	813,60	390,09
Slovakia	2026,08	1082,56
Finland	1496,78	1423,45
Sweden	1661,00	1658,97
United Kingdom	6308,29	7422,94

Europa.eu / Eurostat, 2015

TABLE 8. EU expenditure by policy – Sustainable growth (in million Euros)

country/time	2007	2013
Belgium	1.014,4	1.566,0
Bulgaria	162,2	986,4
Czech Republic	955,8	3.652,8
Denmark	224,3	323,8
Germany	5.177,4	6.134,5
Estonia	229,5	707,5
Ireland	345,1	291,0
Greece	4.736,4	4.476,9
Spain	5.728,1	6.636,1
France	3.168,1	4.112,1
Croatia		23,1
Italy	5.089,2	6.517,7
Cyprus	43,4	128,6
Latvia	450,4	695,9
Lithuania	508,4	1.221,1
Luxembourg	88,2	182,2
Hungary	1.357,6	4.086,8
Malta	54,3	120,7
Netherlands	590,7	1.054,0
Austria	423,0	531,5
Poland	4.331,3	10.848,4
Portugal	2.563,0	4.568,3
Romania	451,0	3.022,2
Slovenia	186,4	580,3
Slovakia	669,0	1.439,2
Finland	416,7	548,4
Sweden	486,2	630,7
United Kingdom	3.006,2	2.106,9

Europa.eu / Eurostat 2015

TABLE 9. . EU expenditure by policy – Preservation and management of natural resources (in million Euros)

country/time	2007	2013
Belgium	879,9	736,8
Bulgaria	6,6	943,2
Czech Republic	717,1	1.211,1
Denmark	1.168,8	1.046,7
Germany	6.905,7	6.636,0
Estonia	121,2	236,8
Ireland	1.762,7	1.529,1
Greece	3.644,4	2.651,1
Spain	6.973,4	6.901,6
France	10.360,1	9.619,4
Croatia		2,4
Italy	5.913,3	5.600,0
Cyprus	61,0	77,2
Latvia	186,2	351,2
Lithuania	483,0	621,7
Luxembourg	55,2	51,4
Hungary	956,2	1.778,3
Malta	8,7	17,4
Netherlands	1.211,3	954,1
Austria	1.130,0	1.262,8
Poland	3.114,3	5.157,2
Portugal	1.299,7	1.532,9
Romania	23,9	2.459,1
Slovenia	179,5	194,8
Slovakia	380,5	566,0
Finland	972,8	893,7
Sweden	1.104,8	906,7
United Kingdom	4.233,7	3.958,2

Europa.eu / Eurostat 2015

Table 10. EU expenditure by policy – Citizenship, freedom, security and justice (in million Euros)

country/time	2007	2013
Belgium	90,3	172,0
Bulgaria	3,1	15,2
Czech Republic	17,8	13,2
Denmark	8,5	14,5
Germany	233,3	92,1
Estonia	9,3	21,5
Ireland	7,2	12,5
Greece	19,1	45,5
Spain	26,7	119,5
France	98,4	168,2
Croatia		43,1
Italy	83,4	179,6
Cyprus	8,9	8,3
Latvia	10,0	7,8
Lithuania	15,8	28,7
Luxembourg	10,4	14,2
Hungary	36,9	22,3
Malta	11,4	29,1
Netherlands	36,8	163,5
Austria	25,4	46,6
Poland	86,5	124,5
Portugal	16,9	30,6
Romania	4,3	27,8
Slovenia	9,2	27,3
Slovakia	13,7	11,0
Finland	10,9	29,2
Sweden	44,0	91,9
United Kingdom	42,4	115,1

Europa.eu / Eurostat 2015

TABLE 11. EU expenditure by policy - The EU as a global partner (in million Euros)

country/time	2007	
Belgium	0,0	2013
Bulgaria	278,2	0,0
Czech Republic	15,2	16,2
Denmark	0,0	0,0
Germany	0,0	0,0
Estonia	8,3	0,0
Ireland	0,0	0,0
Greece	0,0	0,0
Spain	0,0	0,0
France	0,0	0,0
Croatia		0,0
Italy	0,0	137,6
Cyprus	7,7	0,0
Latvia	20,7	0,0
Lithuania	25,4	0,0
Luxembourg	0,0	0,0
Hungary	61,6	0,0
Malta	1,7	7,1
Netherlands	0,0	0,0
Austria	0,0	0,0
Poland	227,1	0,0
Portugal	0,0	20,1
Romania	789,1	0,0
Slovenia	7,5	32,1
Slovakia	9,9	2,9
Finland	0,0	0,0
Sweden	0,0	0,0
United Kingdom	0,0	0,0

Europa.eu / Eurostat 2015

TABLE 12. The EU expenditure – Administration (in million Euros)

country/time	2007	2013
Belgium	3.694,1	4.734,7
Bulgaria	12,2	15,9
Czech Republic	15,1	15,9
Denmark	47,6	49,8
Germany	167,2	193,5
Estonia	8,6	7,6
Ireland	41,7	41,8
Greece	29,2	41,1
Spain	67,8	94,9
France	270,6	339,7
Croatia		8,7
Italy	229,4	257,0
Cyprus	5,7	13,0
Latvia	7,7	8,3
Lithuania	11,1	9,8
Luxembourg	1.102,1	1.350,4
Hungary	15,4	15,3
Malta	13,2	6,5
Netherlands	77,7	92,5
Austria	20,0	21,0
Poland	27,2	29,2
Portugal	24,8	31,0
Romania	18,8	19,3
Slovenia	7,5	8,3
Slovakia	9,6	9,9
Finland	23,1	25,5
Sweden	24,0	31,7
United Kingdom	140,5	128,1

Europa.eu / Eurostat 2015

TABLE 13. Total revenue – National contribution (in million Euros)

country/time	2007	2013
Belgium	2686,796	3931,261
Bulgaria	230,0025	422,828
Czech Republic	988,1518	1444,979
Denmark	1889,209	2606,003
Germany	18583,22	26125,08
Estonia	133,8326	190,271
Ireland	1368,329	1520,642
Greece	2790,298	1794,165
Spain	8548,018	10375,64
France	15656,36	21874,43
Croatia		226,7672
Italy	12336,91	15748,14
Cyprus	123,8651	170,0237
Latvia	168,1247	248,2935
Lithuania	225,5257	349,4303
Luxembourg	276,5818	310,4972
Hungary	759,3572	920,2324
Malta	45,19892	77,54428
Netherlands	4429,321	4744,554
Austria	2016,975	3027,542
Poland	2470,119	3830,65
Portugal	1323,331	1678,946
Romania	930,2814	1368,95
Slovenia	276,8262	368,1108
Slovakia	428,6831	713,4091
Finland	1480,465	2031,504
Sweden	2476,733	3768,891
United Kingdom	10771,94	14509,55

Europa.eu / Eurostat 2015

TABLE 14. Total revenue – Own resources (in million Euros)

country/time	2007	2013
Belgium	4371,86	5290,764
Bulgaria	290,7753	477,5582
Czech Republic	1166,981	1616,634
Denmark	2219	2899,351
Germany	21710,03	29376,16
Estonia	176,6773	211,947
Ireland	1586,373	1731,225
Greece	3019,936	1906,444
Spain	9838,151	11368,72
France	16988,88	23291,6
Croatia		238,2431
Italy	14024,16	17167,92
Cyprus	170,2889	184,8337
Latvia	198,9892	269,0101
Lithuania	270,9678	404,7698
Luxembourg	295,7725	321,7996
Hungary	870,2313	1011,092
Malta	57,03106	86,42299
Netherlands	6302,785	6552,143
Austria	2218,081	3191,418
Poland	2808,566	4214,444
Portugal	1460,417	1792,958
Romania	1089,437	1474,294
Slovenia	359,3727	425,6228
Slovakia	519,1864	799,349
Finland	1629,395	2159,085
Sweden	2915,157	4211,479
United Kingdom	13428,95	17068,37

Europa.eu/Eurostat 2015

TABLE 15. Gross national income (GNI) (in billion Euros)

countries	2013	2007
Belgium	380,8	339,2
Bulgaria	39,1	28,5
Czech Republic	139,6	122,5
Denmark	258,8	230,0
Germany	2.804,6	2.470,3
Estonia	17,8	15,0
Ireland	138,9	163,4
Greece	181,9	216,8
Spain	1.014,9	1.028,6
France	2.097,2	1.919,7
Croatia	42,2	
Italy	1.550,6	1.553,3
Cyprus	16,2	15,0
Latvia	23,3	20,3
Lithuania	33,4	27,7
Luxembourg	31,1	30,2
Hungary	92,9	92,5
Malta	6,7	5,4
Netherlands	599,9	581,3
Austria	310,7	270,7
Poland	371,4	299,9
Portugal	162,2	163,9
Romania	138,7	120,3
Slovenia	35,1	33,9
Slovakia	70,4	53,1
Finland	194,6	179,9
Sweden	431,7	345,6
United Kingdom	1.876,3	2.088,7

Europa.eu/Eurostat 2015

TABLE 16. Total Government Net Lending/ Borrowing (% of GDP)

COUNTRY/TIME	2007	2013
Belgium	0.096	-2.67
Bulgaria	3.256	-1.856
Czech Republic	-0.729	-1.452
Denmark	4799	0.852
Germany	0.228	0.191
Estonia	2.361	0.18
Ireland	0.153	-6.738
Greece	-6.808	-3.168
Spain	1.97	-7.095
France	-2.544	-4.233
Croatia	-0.964	-5.472
Italy	-1.59	-3.033
Cyprus	3.51	-4.883
Latvia	0.644	-1.146
Lithuania	-1.009	-2.201
Luxembourg	3.681	0.056
Hungary	-5.078	-2.365
Malta	-2.302	-2.806
Netherlands	0.153	-2.296
Austria	-0.994	-1.516
Poland	-1.881	-4.319
Portugal	-3.212	-4.974
Romania	-3.117	-2.509
Slovenia	0.258	-13.801
Slovakia	-1.815	-2.762
Finland	5.145	-2.272
Sweden	3.55	-1.339
United Kingdom	-2.885	-5.841

International Monetary Fund (IMF), 2015

TABLE 17. Net lending/net borrowing by institutional sector (as % GDP)

	corporations		general government		households and non profit	
	2007	2010	2007	2010	2007	2010
Belgium	0,52	4	-0,24	-3,9	3,2	2,8
Bulgaria						
Czech Republic	-2,27	0,2	-0,59	-4,8	0,92	1,4
Denmark	0,3	8,8	4,45	-2,7	-4,02	-0,5
Germany	2,14	4,3	0,19	-4,1	5,61	6
Estonia		7,1		0,2		-0,7
Ireland	3,38	28,8	0,65	-30,9	-7,49	3,6
Greece		8,1		-10,8		-8,4
Spain	-9,14	2	2,21	-9,7	-2,7	3,9
France	-2,6	0,5	-2,73	-7,1	3,14	4,6
Croatia						
Italy	-3,46	-0,9	-1,48	-4,3	3,28	1,6
Cyprus						
Latvia						
Lithuania						
Luxembourg	..		3,7	-0,8	..	
Hungary	-0,54	4,7	-4,89	-4,5	1,41	2,7
Malta						
Netherlands	9,92	10,1	0,33	-5	-0,74	-0,6
Austria		4,1		-4,5		3,9
Poland	-3,42	4,9	-1,98	-7,9	1,12	0,7
Portugal	-6,51	-3,1	-2,65	-9,8	0,68	4,5
Romania						
Slovenia		0,6		-5,7		4,8
Slovakia	-1,89	4,1	-2,16	-7,7	-0,6	2,7
Finland	1,71	5,3	5,24	-2,8	-2,83	-0,8
Sweden	1,98	3,8	3,79	0	3	2,8
United Kingdom	4,19	6,5	-2,64	-10,2	-4,07	1,2

OECD data, 2015

TABLE 18. Government net lending, as a percentage of GDP

COUNTRY/TIM E	2007	2013
Belgium	-0,1	-2,2
Bulgaria		
Czech Republic	-0,7	-2,2
Denmark	4,8	-2
Germany	0,2	-0,6
Estonia	2,4	-0,3
Ireland	0,1	-7,6
Greece	-6,8	-4,9
Spain	1,9	-3,3
France	-2,7	-3
Croatia		
Italy	-1,6	-0,6
Cyprus		
Latvia		
Lithuania		
Luxembourg	3,7	-1,1
Hungary	-5,1	-2,9
Malta		
Netherlands	0,2	-3
Austria	-1	-2,3
Poland	-1,9	-2,2
Portugal	-3,2	-3,5
Romania		
Slovenia	0	-3
Slovakia	-1,8	-2,9
Finland	5,3	0
Sweden	3,6	0,3
United Kingdom	-2,8	-6,6

OECD-stat, 2015

TABLE 19. Portfolio equity, net inflows (in million Euros)

COUNTRY/TIM E	2007	2013
Belgium	3359986598	12632972254
Bulgaria	88560349,97	-19107384,23
Czech Republic	-268431949	110038056,2
Denmark	2607320500	5799928946
Germany	76962310358	15344509167
Estonia	289401325,4	53287075,05
Ireland	1,38387E+11	1,09126E+11
Greece	10865115709	3135450276
Spain	15594710921	9649207271
France	-10370814606	35018648835
Croatia	471387937,5	-98252509,8
Italy	-14873030780	17454326702
Cyprus	1488252,677	-2355846,389
Latvia	-12300000	40500000
Lithuania	-166272263,2	-18387765
Luxembourg	2,79314E+11	2,25929E+11
Hungary	-5009829398	24979155,65
Malta	-92875,04943	178905,6351
Netherlands	-1,00035E+11	14174438083
Austria	3624519648	2347603484
Poland	-470000000	2602000000
Portugal	291609951,3	583859395,3
Romania	746000000	1053000000
Slovenia	274517520,8	154210489
Slovakia	232064975,3	85634050,16
Finland	5278788822	2447115128
Sweden	4489053578	5099789695
United Kingdom	34457722550	27517027026

OECD:data, 2015

TABLE 20. Private sector credit flow, consolidated - % GDP (debt securities and loans)

COUNTRY/TIM E	2007	2013
Belgium	16,9	2,3
Bulgaria	41,9	6,4
Czech Republic	9,2	3,1
Denmark	17,1	-0,4
Germany	2	1,3
Estonia	12,3	5,4
Ireland	24,9	-5,7
Greece	16,2	-1,1
Spain	26	-10,7
France	11,2	1,8
Croatia	16,9	-0,6
Italy	11,9	-3,1
Cyprus	29,3	-11,2
Latvia	29,6	0,8
Lithuania	22,8	-0,2
Luxembourg	:	27,7
Hungary	16,1	-1
Malta	8,8	2,3
Netherlands	13,1	2,1
Austria	7,3	0,4
Poland	12	2,9
Portugal	18,2	-3,6
Romania	20,3	-1,5
Slovenia	21,5	-4
Slovakia	9,7	5,4
Finland	13	0,7
Sweden	21,3	3,8
United Kingdom	15,8	1

OECD: data, 2015

TABLE 21. Public debt (as a % of GDP)

country	2013
Belgium	101,9
Bulgaria	22,9
Czech Republic	43,5
Denmark	44,3
Germany	74,7
Estonia	9,9
Ireland	118,9
Greece	174,5
Spain	97,6
France	95,5
Croatia	70,3
Italy	134,1
Cyprus	119,4
Latvia	36,5
Lithuania	38,7
Luxembourg	23,2
Hungary	78,2
Malta	75,2
Netherlands	69,4
Austria	80,2
Poland	45,6
Portugal	131
Romania	39,4
Slovenia	59,8
Slovakia	58,5
Finland	59,6
Sweden	40,2
United Kingdom	86,6

CIA: The World fact book, 2015

TABLE 21. Central government debt, total (as a % of GDP)

COUNTRY/TIME	2007	2012
E		
Belgium	80,21176	89,43571
Bulgaria		17,52433
Czech Republic	23,12474	40,76232
Denmark	24,14119	47,23109
Germany	39,43449	55,18233
Estonia	4,761993	10,3602
Ireland	27,63389	120,4581
Greece	120,3925	163,5575
Spain	29,43654	65,91501
France	65,37671	100,854
Croatia		
Italy	100,6185	126,1644
Cyprus	96,73564	130,9712
Latvia		41,08188
Lithuania	19,76765	49,4321
Luxembourg	4,78731	20,03722
Hungary	69,5759	84,65846
Malta	170,9141	85,93551
Netherlands	40,58374	67,88622
Austria	59,00875	78,46015
Poland		
Portugal	65,14442	122,7633
Romania		
Slovenia		
Slovakia	31,20292	53,4836
Finland	36,01381	51,00292
Sweden	38,63738	35,28976
United Kingdom	44,77608	97,1667

CIA: The World fact book

TABLE 22. Latest known external debt (in million Euros)

COUNTRY/TIM E	2012	2013	2014
Belgium	1.281.151.440.000,00		
Bulgaria			48.618.977.400,00
Czech Republic			104.453.428.500,00
Denmark	527.845.189.500,00		
Germany			
Estonia			20.503.821.150,00
Ireland	1.946.918.340.000,00		
Greece		511.650.859.500,00	
Spain	2.049.482.430.000,00		
France	4.832.208.135.000,00		
Croatia			54.916.772.400,00
Italy		2.342.779.740.000,00	
Cyprus		85.721.986.800,00	
Latvia			34.673.859.900,00
Lithuania			
Luxembourg	2.640.575.475.000,00		
Hungary			148.268.088.000,00
Malta		45.955.909.800,00	
Netherlands		2.111.560.695.000,00	
Austria	730.544.220.000,00		
Poland			355.555.512.000,00
Portugal	457.309.885.500,00		
Romania			114.439.932.000,00
Slovenia		47.260.453.050,00	
Slovakia	61.574.441.400,00		
Finland	528.025.126.500,00		
Sweden	934.772.715.000,00		
United Kingdom		8.616.283.244.999,52	

IMF: International Monetary Fund, 2015

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TABLE 23. Net flows of trade, direct investment, EU funds and lending for 2007 (in million Euros)

	trade balance	Direct investment flows	EU funds	Net lending (+) /net borrowi	Sum
Germany	169.559,25	-31.542,00	-27.809,64	7.778,00	117.985,61
France	-18.728,00	-37.989,00	-18.748,00	-49.491,70	-124.956,70
United Kir	-68.042,39	-44.555,00	-16.777,95	-64.953,10	-194.328,44
Italy	9.427,32	-38.158,00	-15.045,81	-24.571,00	-68.347,49
Spain	-41.535,80	-27.698,00	-5.590,24	21.620,00	-53.204,03
Netherlan	89.165,80		-8.815,67	1.075,00	81.425,12
Sweden	-4.865,38	13.712,00	-3.732,92	11.897,20	17.010,89
Belgium	27.334,94	17.737,00	-1.379,88	156,30	43.848,35
Poland	3.291,23	12.239,00	2.507,72	-5.807,00	12.230,95
Austria	-1.376,03	7.417,00	-2.636,62	-3.717,10	-312,75
Denmark	-5.551,46	1.017,00	-2.659,04	11.716,90	4.523,40
Finland	4.122,16	3.994,00	-1.686,41	9.570,00	15.999,74
Greece	-20.832,33	262,00	2.618,85		-17.951,48
Ireland	17.872,89	-6.855,00	-798,03	535,80	10.755,67
Portugal	-14.240,81	-139,00	1.120,63	-5.279,40	-18.538,58
Czech Rep	15.085,58	5.009,00	-434,12	-958,10	18.702,36
Romania	-15.121,85	6.466,00	-417,34	-3.632,50	-12.705,69
Hungary	7.102,05	446,00	797,99	-5.145,40	3.200,63
Slovakia	11.878,08	1.632,00	134,69	-1.077,80	12.566,97
Croatia	-6.768,17	3.022,00	0,00	-1.053,90	-4.800,07
Luxembou	-4.134,12	-27.953,00	683,54	1.517,00	-29.886,57
Bulgaria	-3.240,07	7.606,00	70,70	357,20	4.793,82
Slovenia	-526,31	662,00	-246,11	-31,10	-141,52
Lithuania	-4.088,05	696,00	547,26	-236,80	-3.081,59
Latvia	-4.259,34	1.353,00	307,85	-137,20	-2.735,69
Cyprus	-3.762,97	379,00	-167,36	566,00	-2.985,33
Estonia	-1.741,71	924,00	66,42	408,00	-343,29
Malta	-1.484,81	472,00	-12,92	-129,80	-1.155,53
Sum	134.539,69	-129.844,00	-98.102,42	-99.024,50	-192.431,23
st deviat	41.011,45	17.226,52	7.322,49	17.464,22	56.165,67
average	4.804,99	-4.809,04	-3.503,66	-3.667,57	-6.872,54
CV	8,54	-3,58	-2,09	-4,76	-8,17
max	169.559,25	17.737,00	2.618,85	21.620,00	117.985,61
min	-68.042,39	-44.555,00	-27.809,64	-64.953,10	-194.328,44

Market Analysis and Research, International Trade Centre (ITC), 2015

The Organisation for Economic Co-operation and Development (OECD), 2015

European Commission/Eurostat, 2015

European Union, europa.eu, 2015

TABLE 24 . . Net flows of trade, direct investment, EU funds and lending for 2013 (in million Euros)

	trade balance	Direct investment flows	EU funds	Net lending (+) /net	Sum
Germany	49.721,28	-57.587,00	-42.445,08	4.172,00	-46.138,79
France	-41.831,08	-6.390,00	-30.926,71	-86.397,00	-165.544,78
United Kingdom	-85.737,78	32.603,00	-25.269,63	-115.783,20	-194.187,61
Italy	10.218,49	8.015,00	-20.361,79	-47.455,00	-49.583,30
Spain	17.172,35	7.102,00	-7.992,17	-71.291,00	-55.008,82
Netherlands	151.143,15	6.649,00	-9.032,63	-14.629,00	134.130,52
Sweden	-13.010,83	-9.569,00	-6.319,37	-5.989,80	-34.889,00
Belgium	22.609,45	23.453,00	-2.012,55	-11.534,20	32.515,70
Poland	24.829,17	3.444,00	8.134,37	-15.898,70	20.508,83
Austria	-13.006,96	-616,00	-4.357,00	-4.144,30	-22.124,25
Denmark	-2.981,67	-3.625,00	-4.070,59	-2.684,90	-13.362,16
Finland	-1.936,51	-5.256,00	-2.693,81	-5.122,00	-15.008,32
Greece	-8.928,91	1.918,00	3.513,95	-22.498,00	-25.994,97
Ireland	18.632,77	22.947,00	-1.377,58	-10.152,40	30.049,79
Portugal	-2.901,41	7.147,00	2.690,88	-8.180,90	-1.244,43
Czech Republic	27.931,92	5.152,00	1.831,51	-1.817,00	33.098,43
Romania	-7.338,96	1.833,00	2.717,33	-3.146,80	-5.935,43
Hungary	9.307,51	2.868,00	3.978,50	-2.471,50	13.682,51
Slovakia	20.176,38		513,32	-1.902,40	18.787,30
Croatia	-6.245,56	1.919,00	-175,05	-2.331,90	-6.833,51
Luxembourg	-5.080,02	18.418,00	965,94	388,00	14.691,92
Bulgaria	-2.077,89	43,00	1.076,48	-355,00	-1.313,41
Slovenia	459,02	-9,00	19,86	-5.379,70	-4.909,82
Lithuania	-2.243,32	341,00	1.127,00	-916,90	-1.692,21
Latvia	-3.011,58	573,00	545,91	-172,40	-2.065,08
Cyprus	-2.648,72	182,00	-127,79	-890,70	-3.485,21
Estonia	-1.153,81	-187,00	571,11	-40,00	-809,70
Malta	-2.007,82	1.927,00	9,73	-194,40	-265,49
Sum	150.058,67	63.295,00	-129.465,86	-436.819,10	-352.931,30
1st deviation	37.193,22	15.306,81	11.488,09	29.077,84	58.820,99
average	5.359,24	2.344,26	-4.623,78	-15.600,68	-12.604,69
CV	6,94	6,53	-2,48	-1,86	-4,67
max	151.143,15	32.603,00	8.134,37	4.172,00	134.130,52
min	-85.737,78	-57.587,00	-42.445,08	-115.783,20	-194.187,61

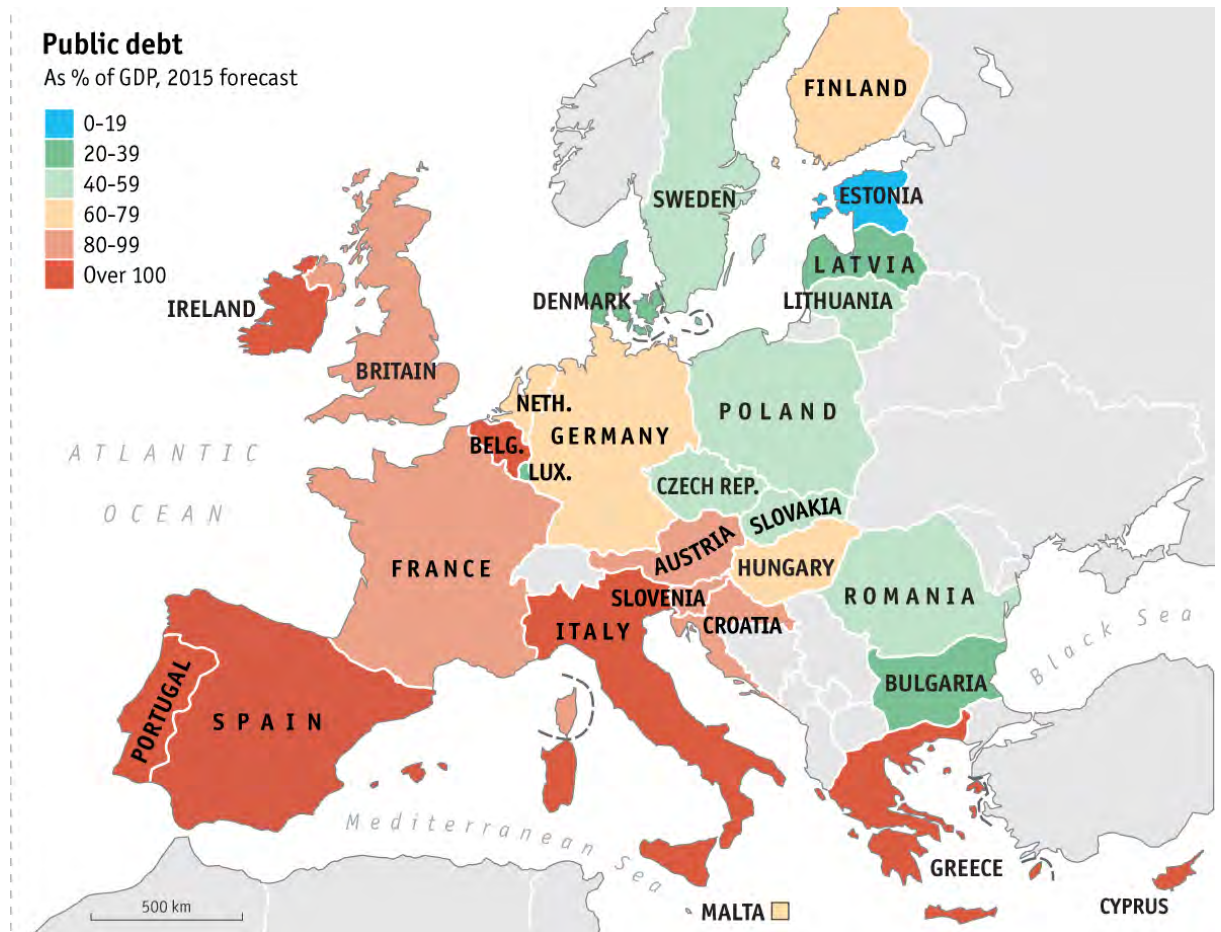
Market Analysis and Research, International Trade Centre (ITC), 2015

The Organisation for Economic Co-operation and Development (OECD), 2015

European Commission/Eurostat, 2015

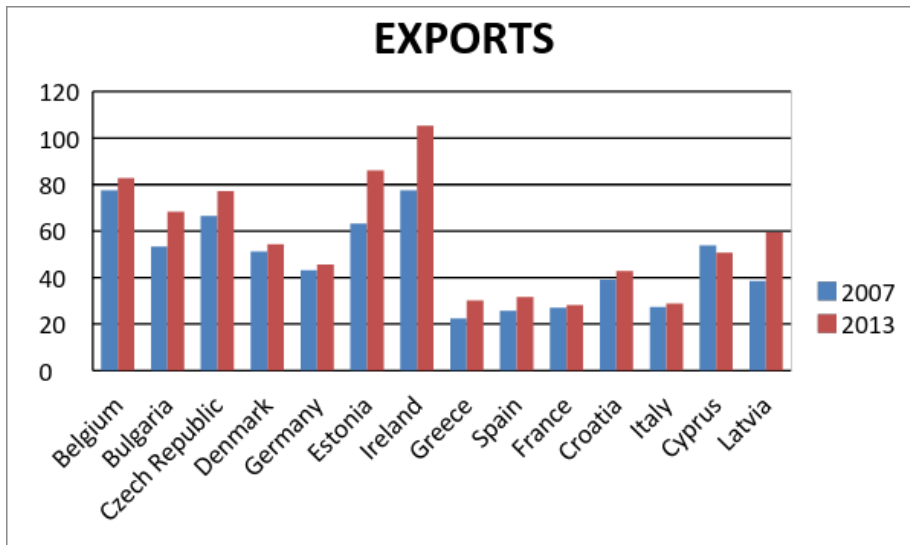
European Union, europa.eu, 2015

1. MAP OF DEBT OF EUROPE. FORECAST FOR 2015



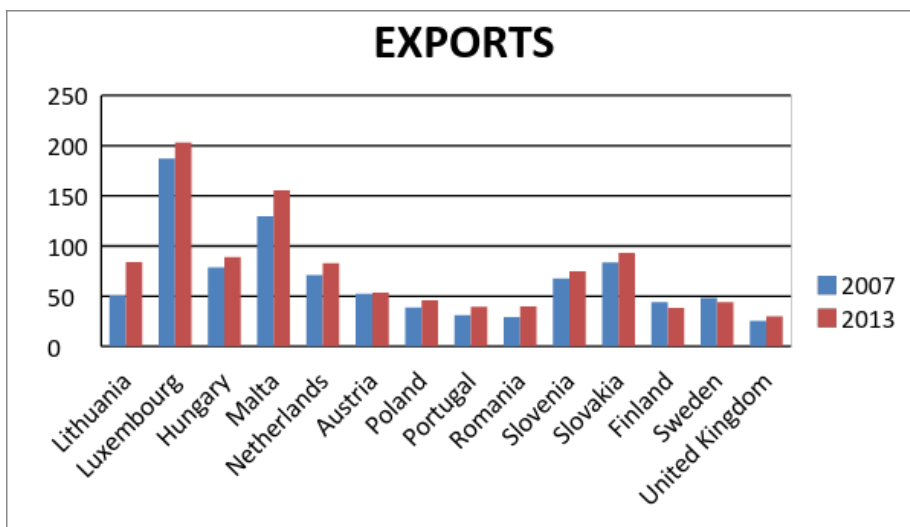
The economist, 2015

FIGURE 1 exports of goods and services divided by the GDP in current prices.



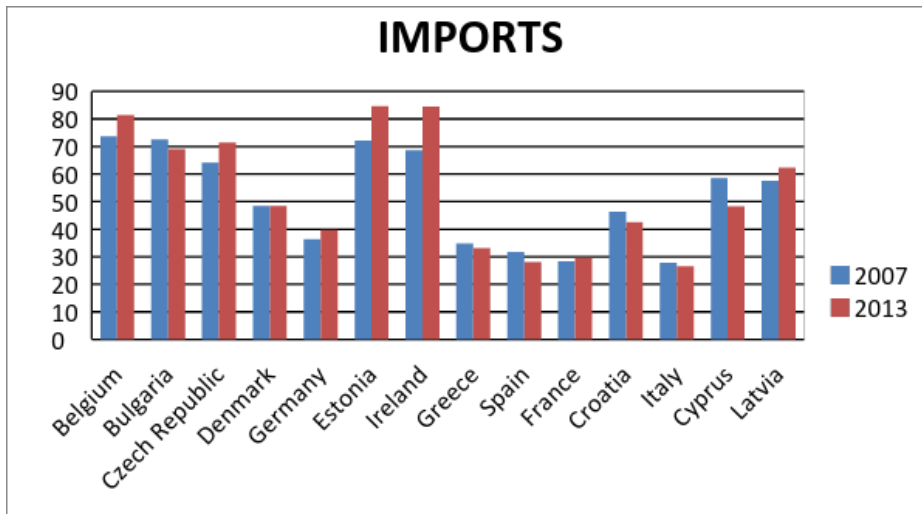
Eurostat, 2014

FIGURE 1 CONTINUE exports of goods and services divided by the GDP in current prices.



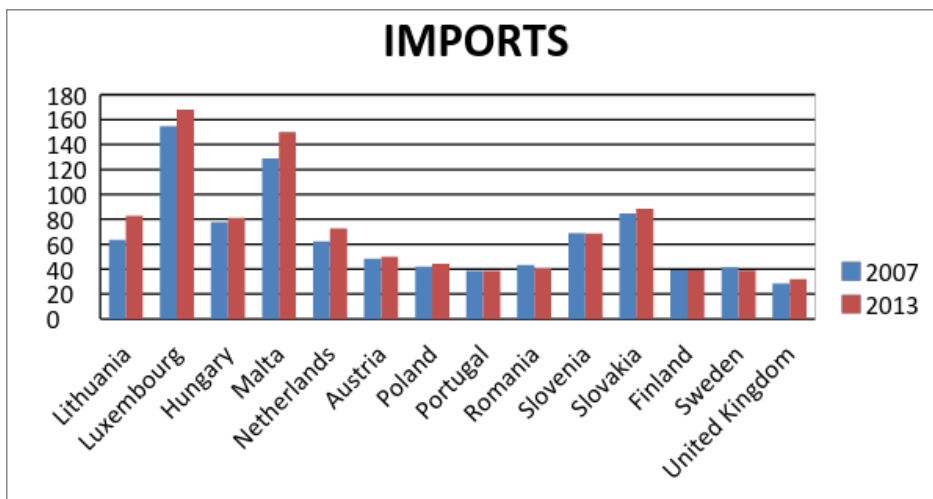
Eurostat, 2014

FIGURE 2 imports of goods and services divided by the GDP in current prices.



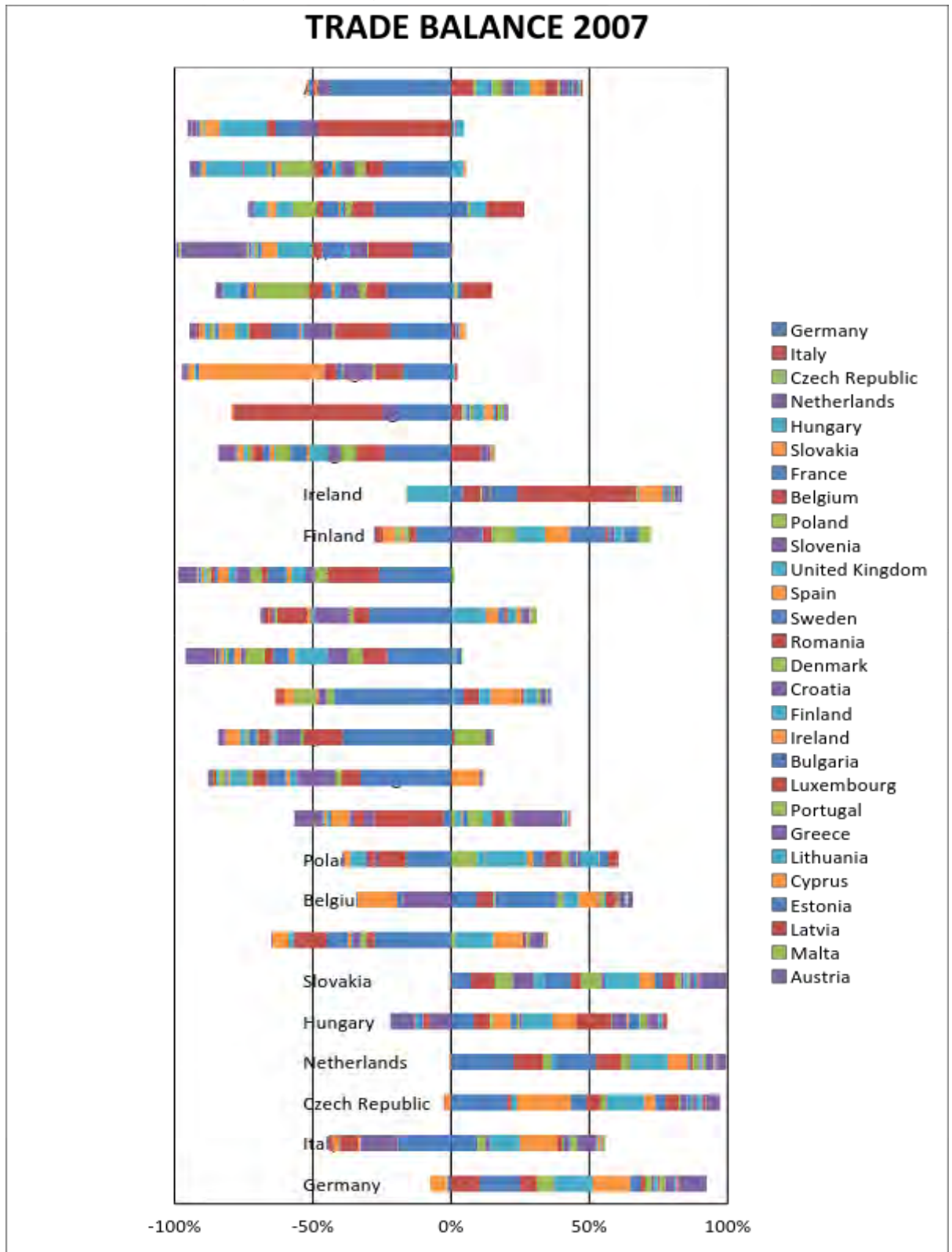
Eurostat, 2014

FIGURE 2 CONTINUE imports of goods and services divided by the GDP in current prices.



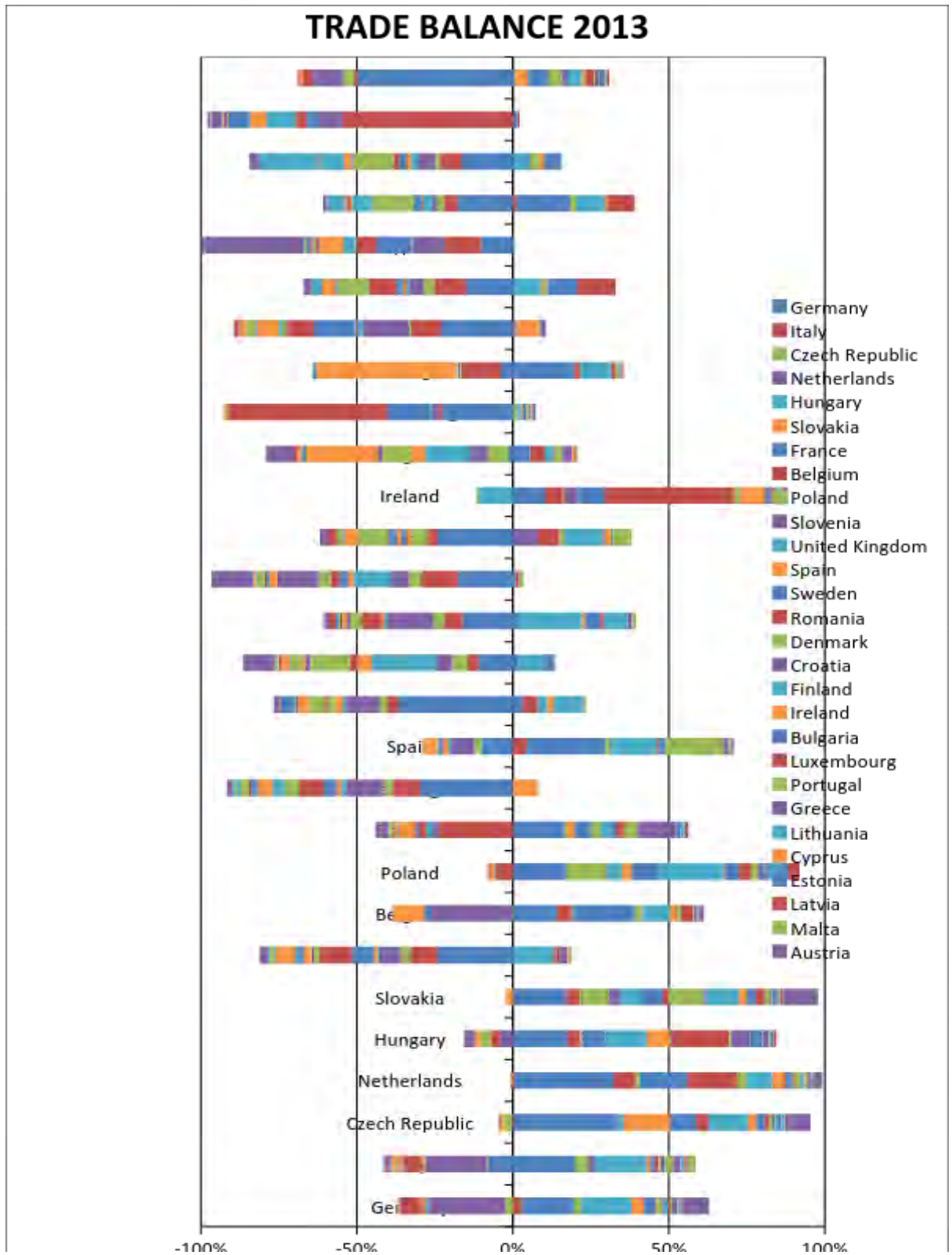
Eurostat, 2014

FIGURE 3 trade balance (Million Euros)



ITC. International Trade Centre 2015

FIGURE 4 trade balance (Million Euros)



ITC. International Trade Centre 2015

FIGURE 5 Investment flows in 2013 (Million Euros)

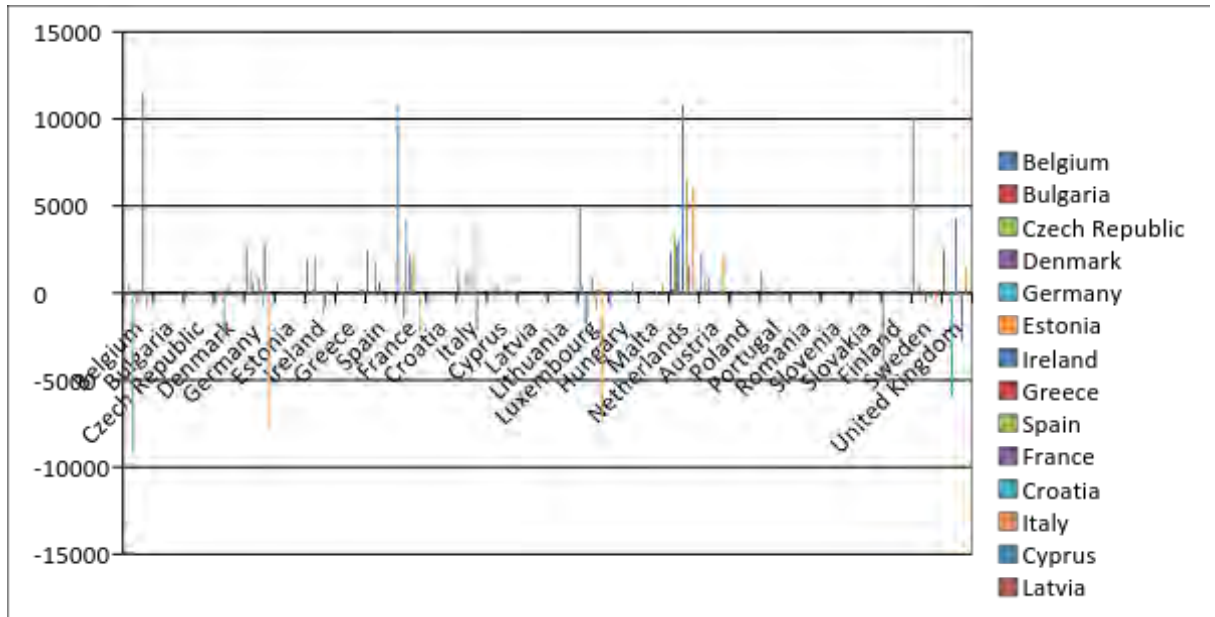
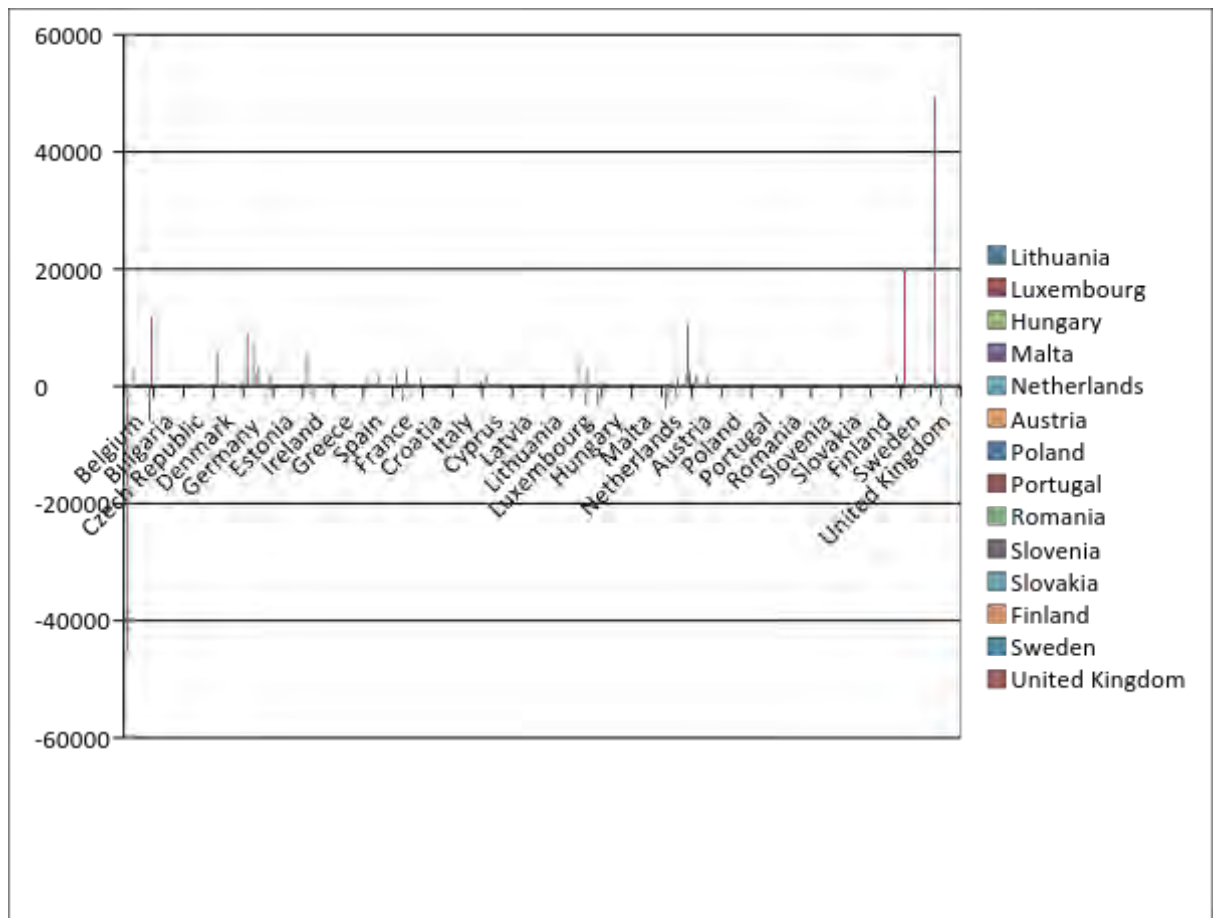
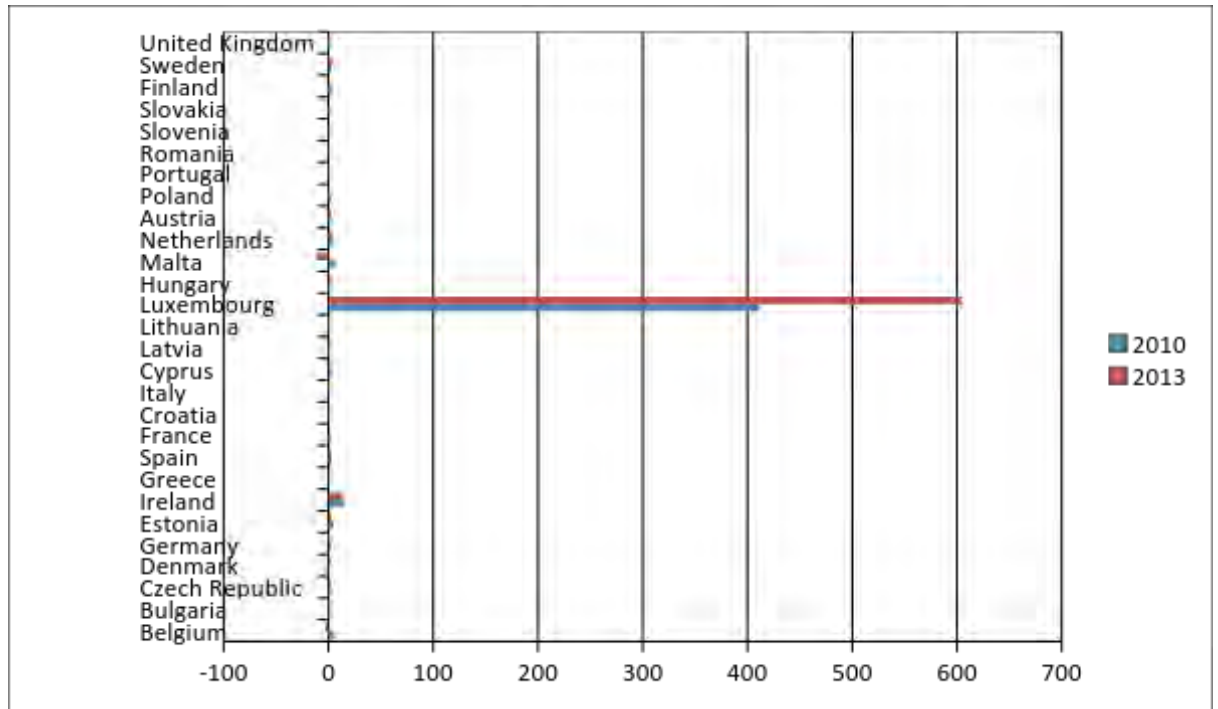


FIGURE 5 CONTINUE



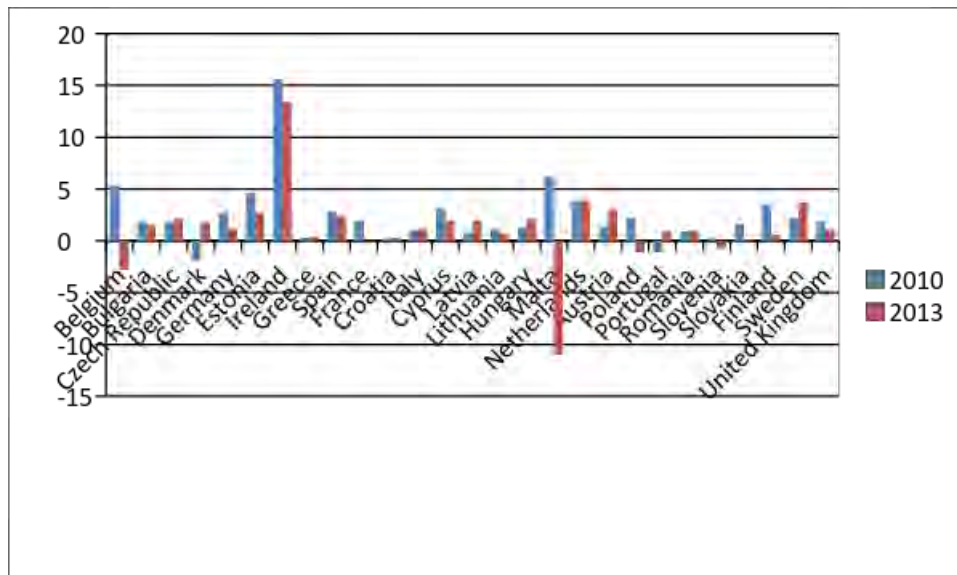
Europa.eu / Eurostat 2014

FIGURE 6 Average of inward and outward Foreign Direct Investment (FDI) flows divided by gross domestic product (GDP)



Europa.eu / Eurostat 2014

FIGURE 7 Average of inward and outward Foreign Direct Investment (FDI) flows divided by gross domestic product (GDP), except from Luxemburg



Europa.eu / Eurostat 2014

FIGURE 8 Official development assistance (ODA) is defined here as net bilateral and imputed multilateral disbursements at market prices for ODA (Million Euros)

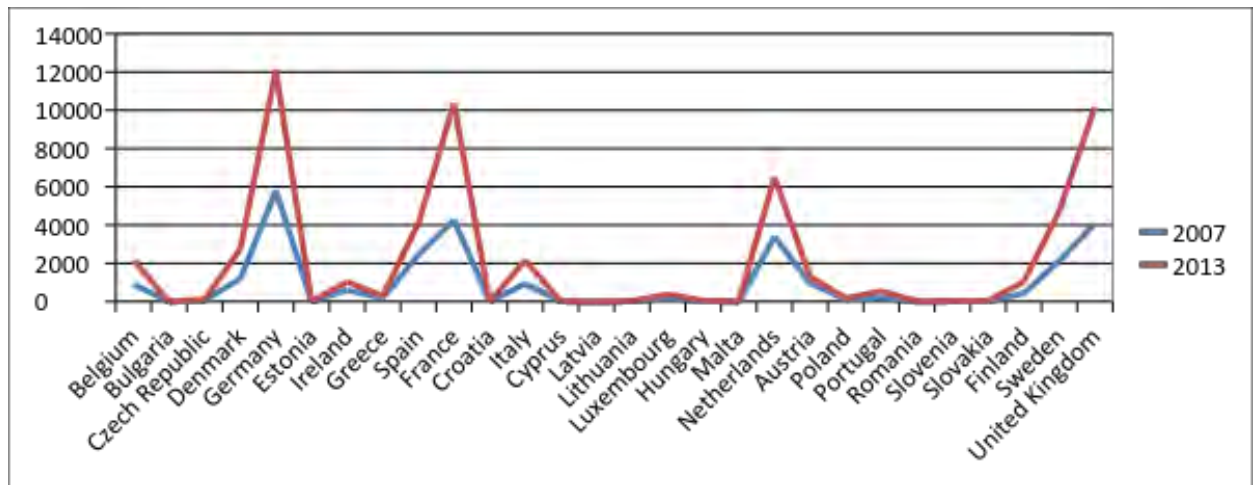
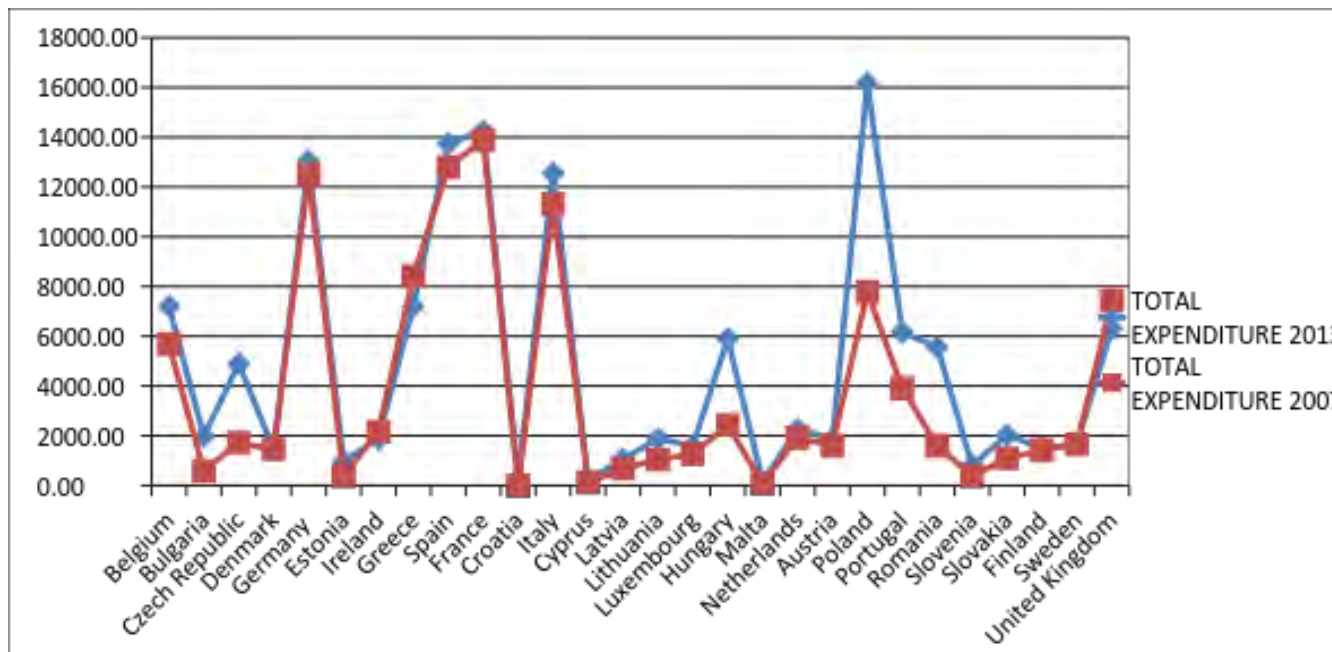
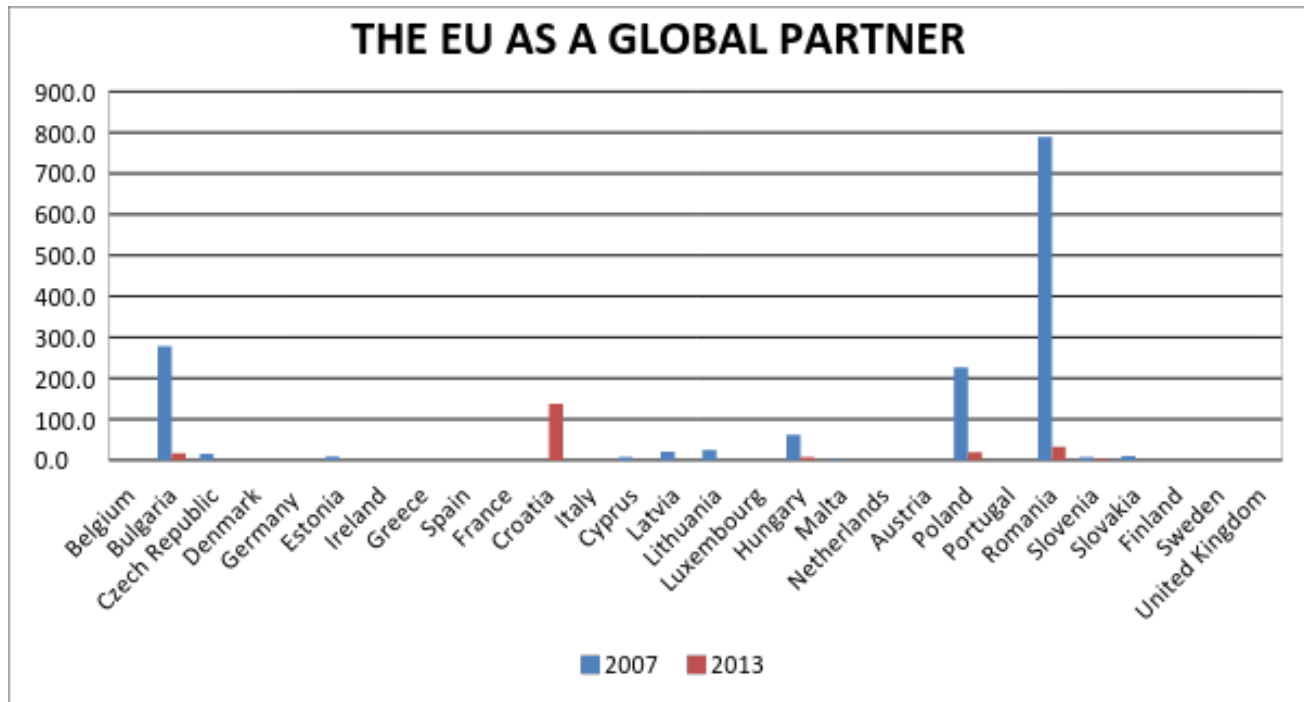


FIGURE 9 total EU expenditure for financing EU Member States (Million Euros)



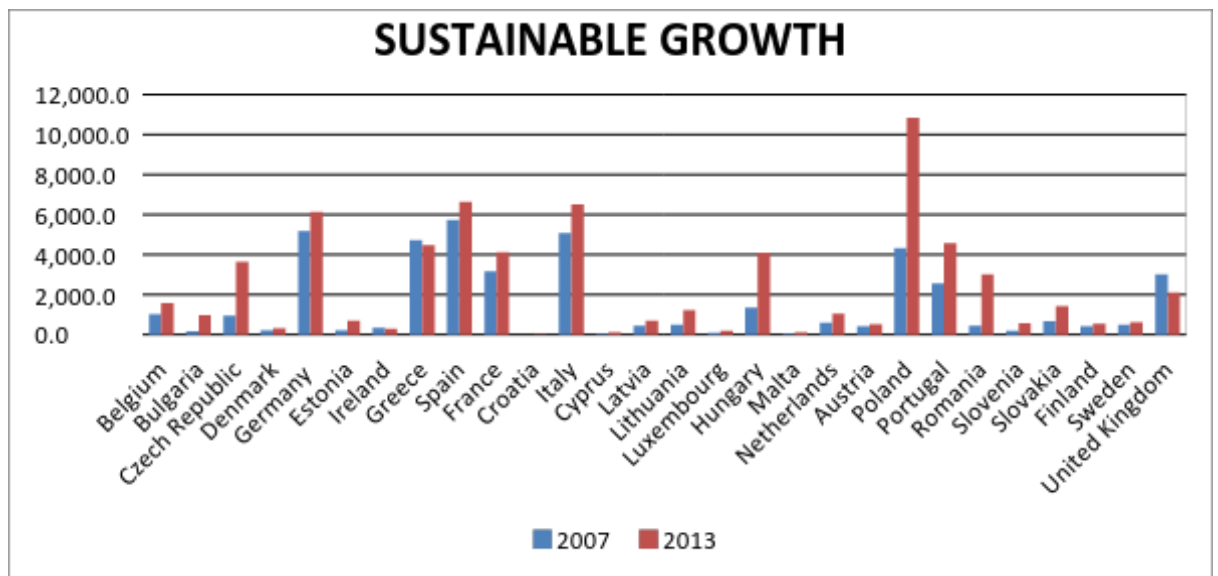
Europa.eu / Eurostat 2015

FIGURE 10 EU expenditure by policy (Million Euros)



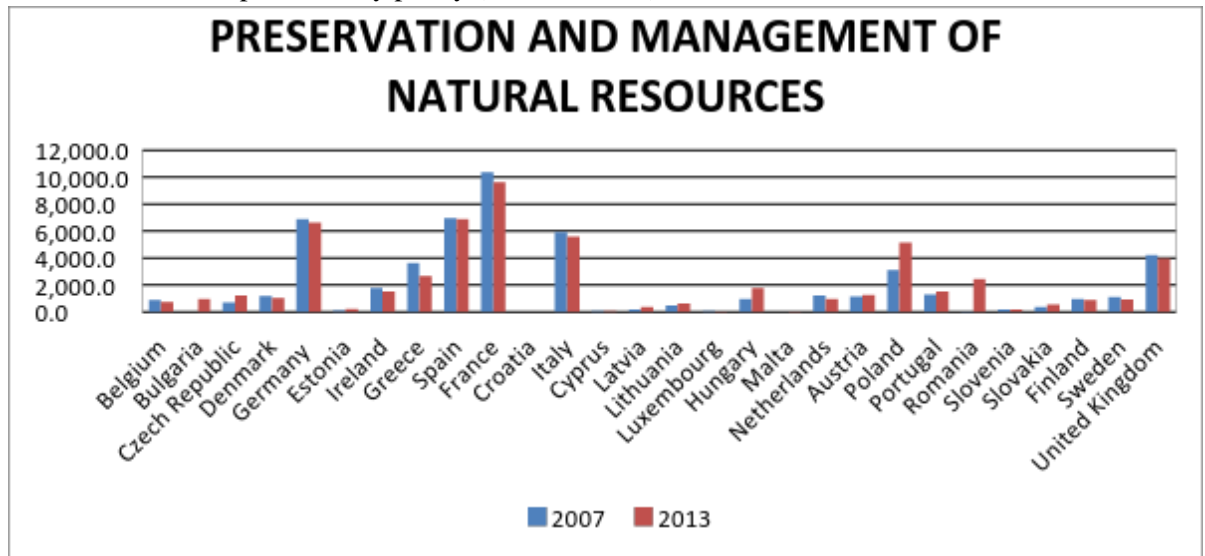
Europa.eu / Eurostat 2015

FIGURE 11 EU expenditure by policy (Million Euros)



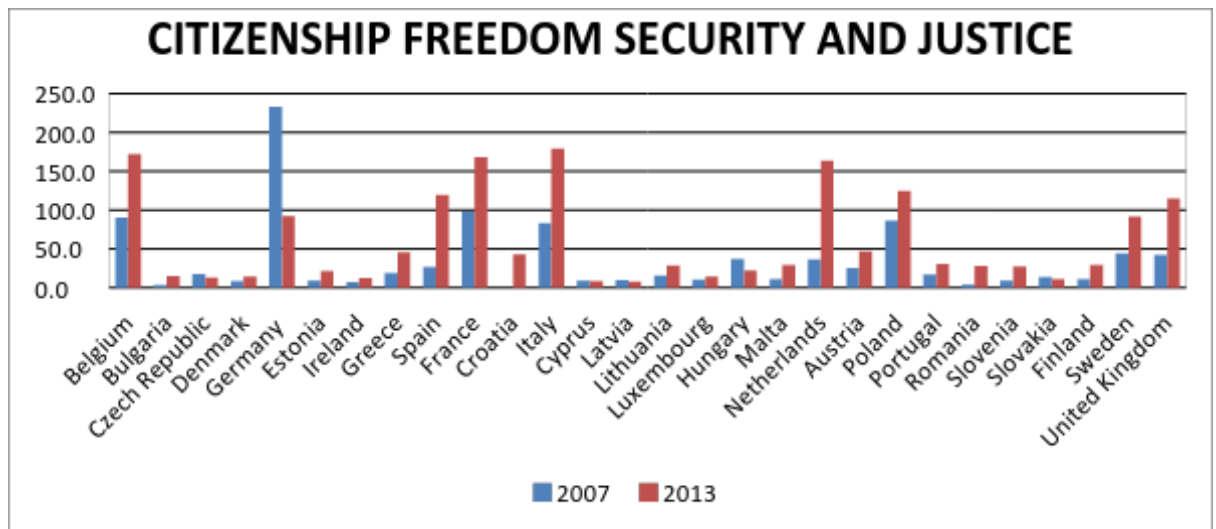
Europa.eu / Eurostat 2015

FIGURE 12. EU expenditure by policy (Million Euros)



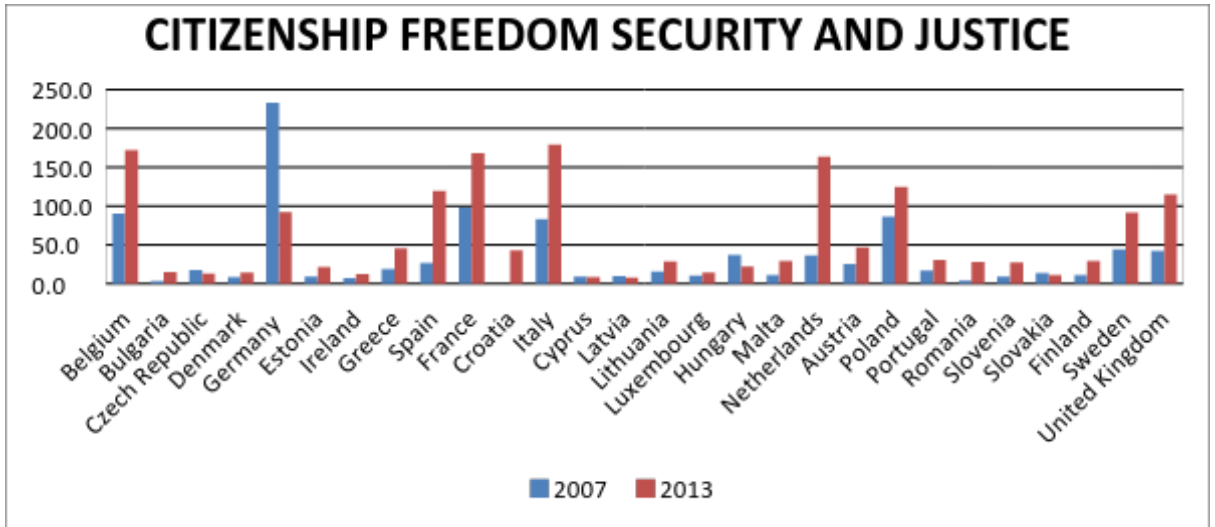
Europa.eu / Eurostat 2015

FIGURE 13 EU expenditure by policy (Million Euros)



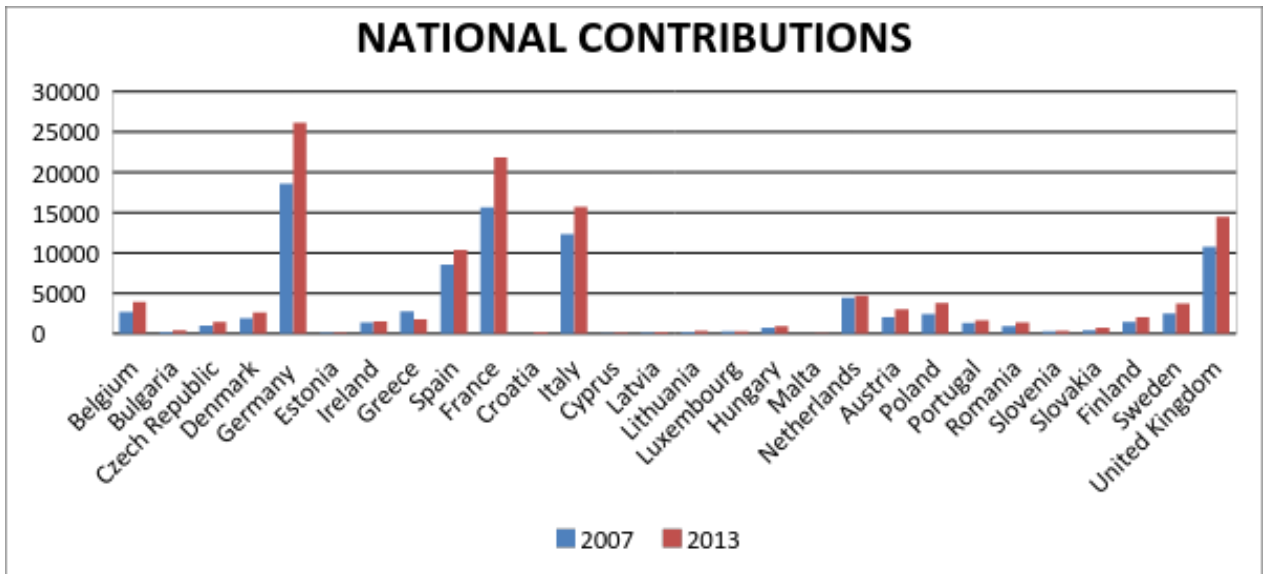
Europa.eu / Eurostat 2015

FIGURE 14 EU expenditure by policy (Million Euros)



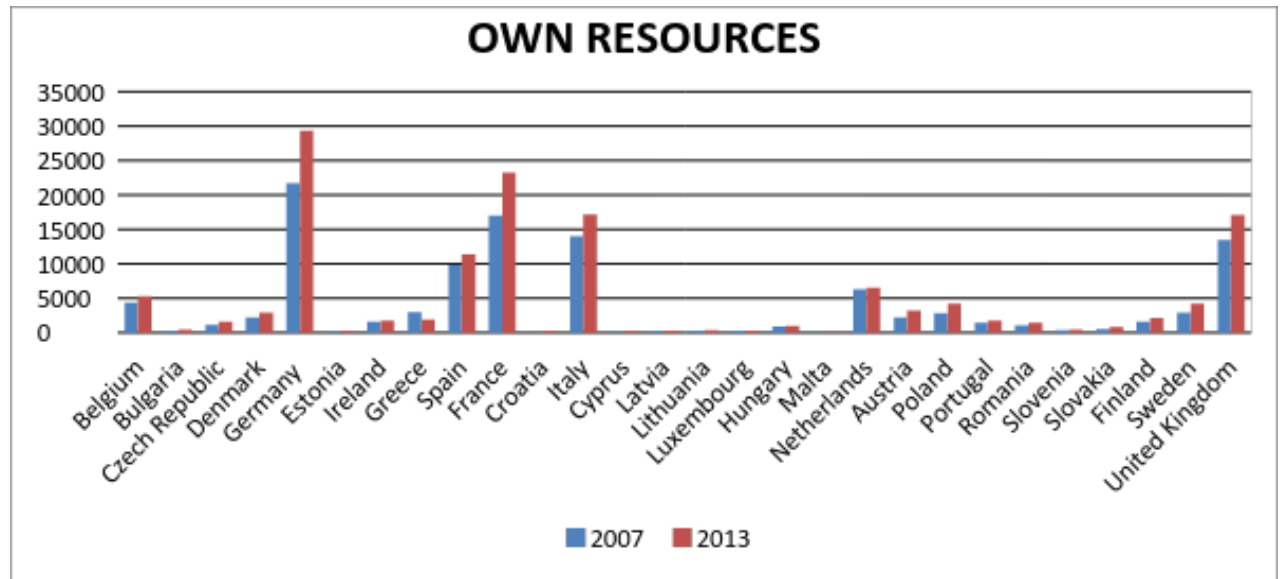
Europa.eu / Eurostat 2015

FIGURE 15 EU revenues (Million Euros)



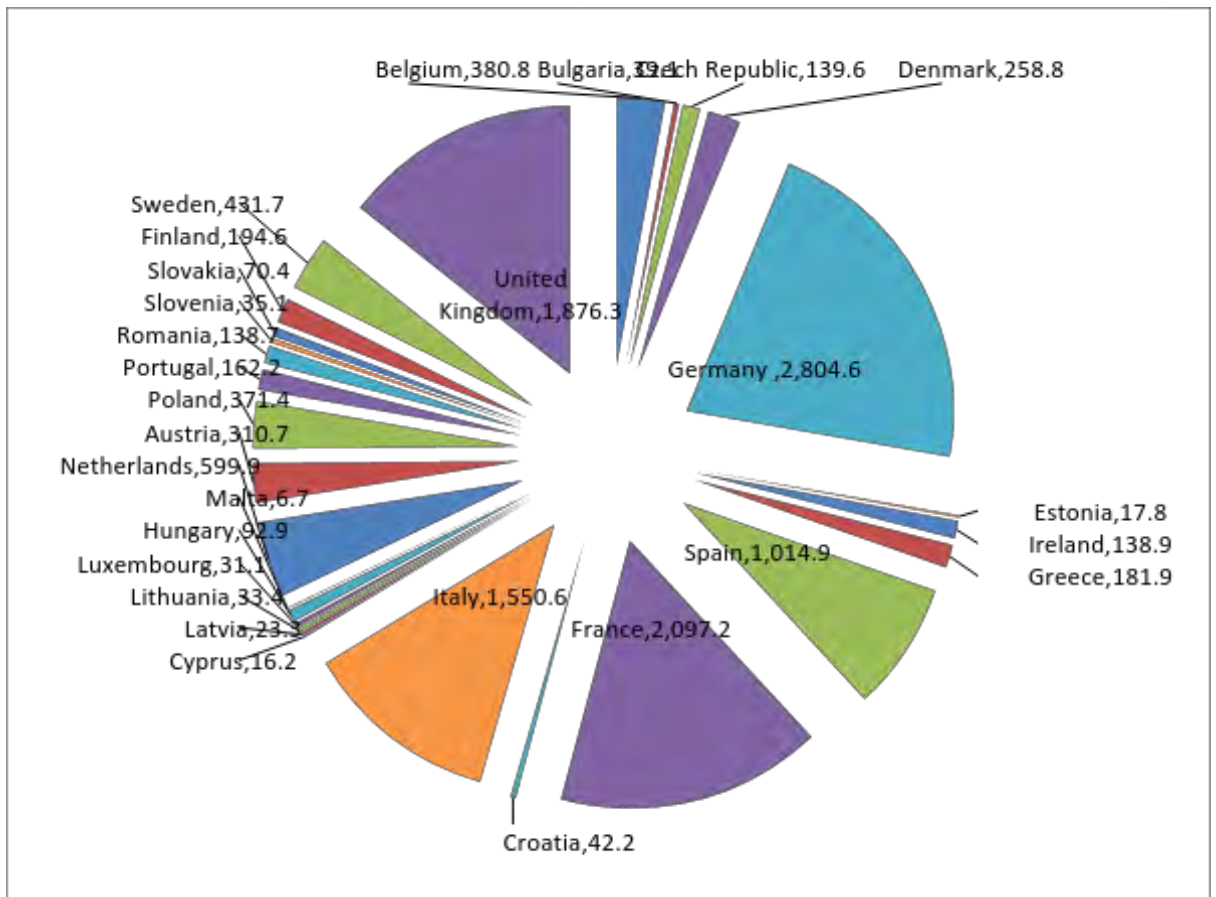
Europa.eu / Eurostat 2015

FIGURE 16 EU revenues (Million Euros)



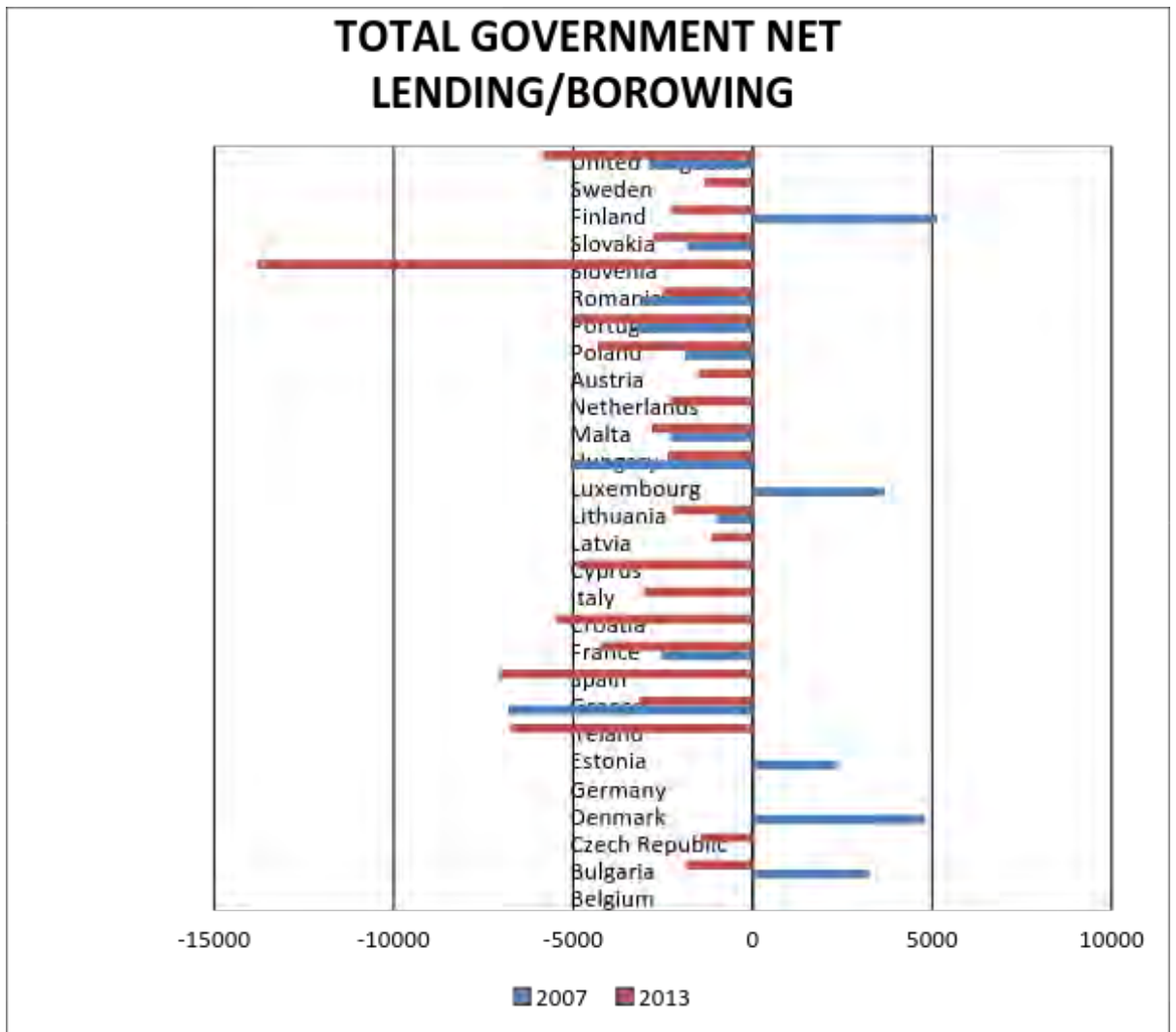
Europa.eu / Eurostat 2015

FIGURE 17 Gross national income (GNI) (in billion Euros)



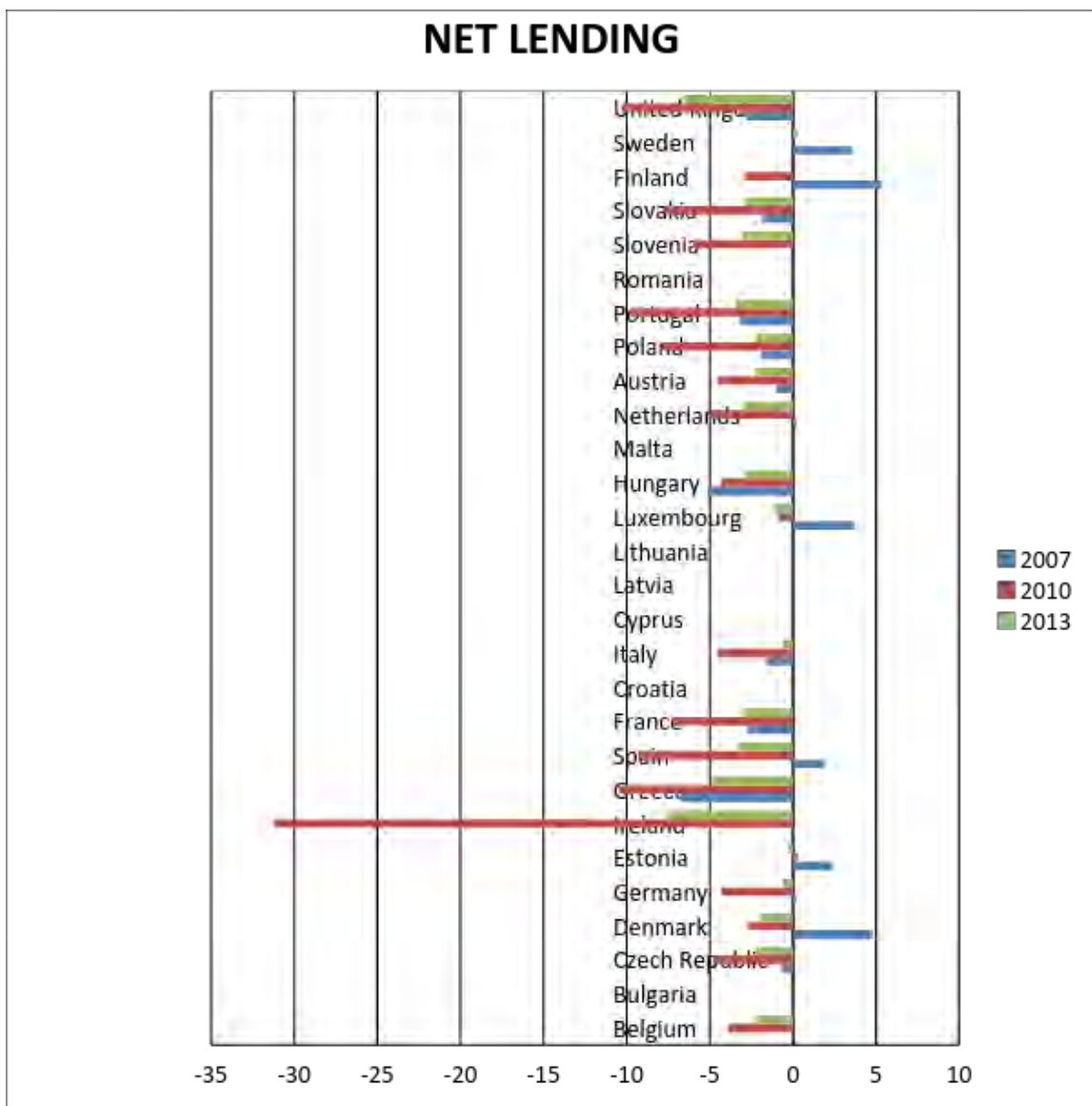
Europa.eu / Eurostat 2015

FIGURE 18 Total Government Net Lending/ Borrowing (% of GDP)



International Monetary Fund (IMF), 2015

FIGURE 19 Government net lending, (% of GDP)



OECD data, 2015

Negative net lending may also be described as net borrowing.

FIGURE 20 Public debt, (as a % of GDP)

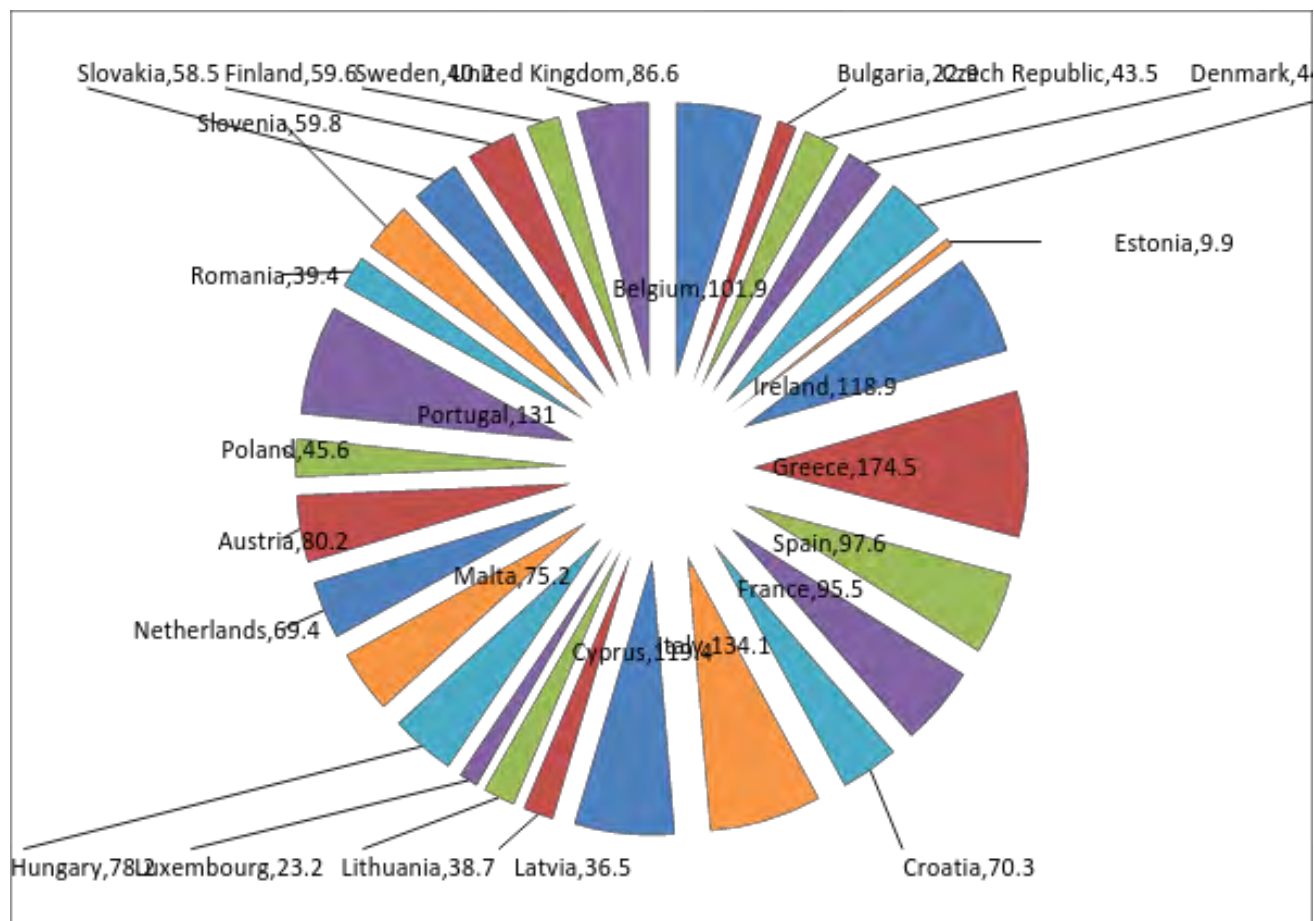
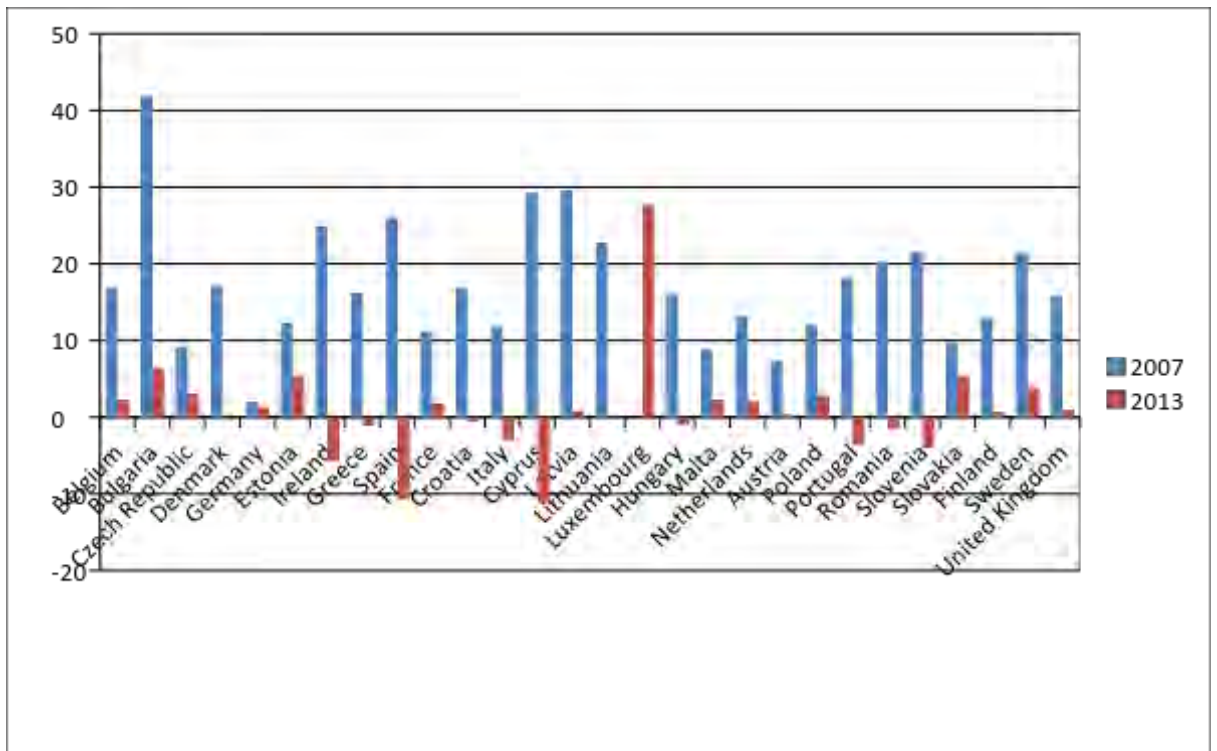


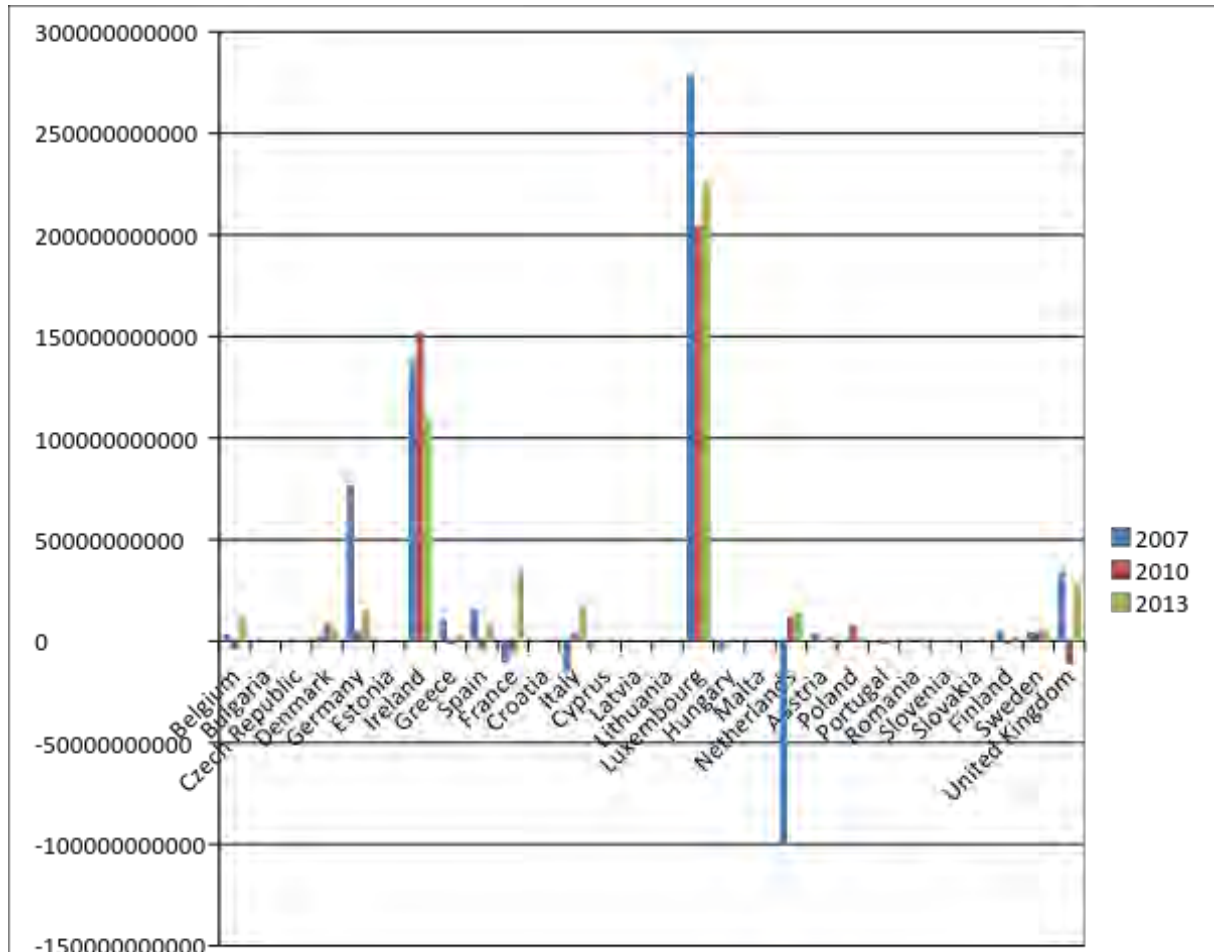
FIGURE 21 private credit (debt securities and loans) (as a % of GDP)

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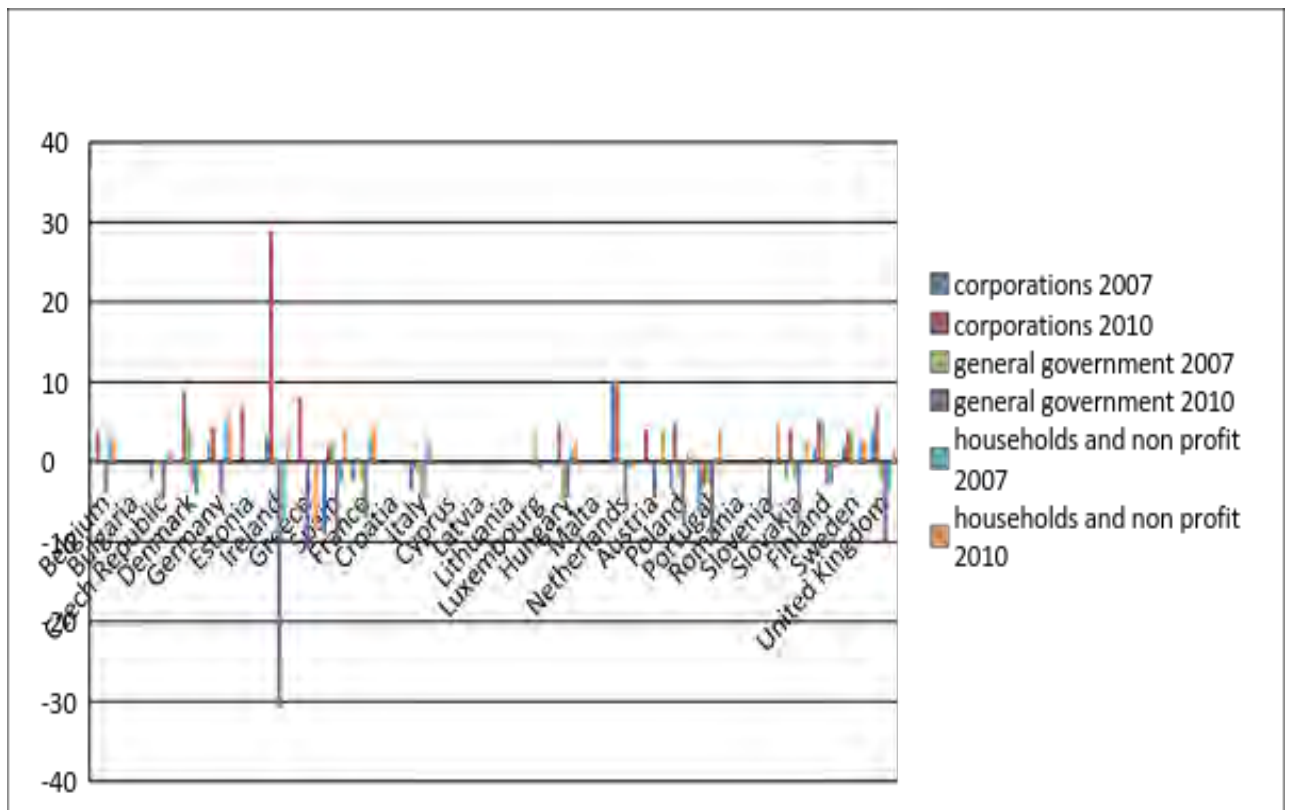
OECD data, 2015

FIGURE 22 portfolio equity, net inflows, (Million Euros)



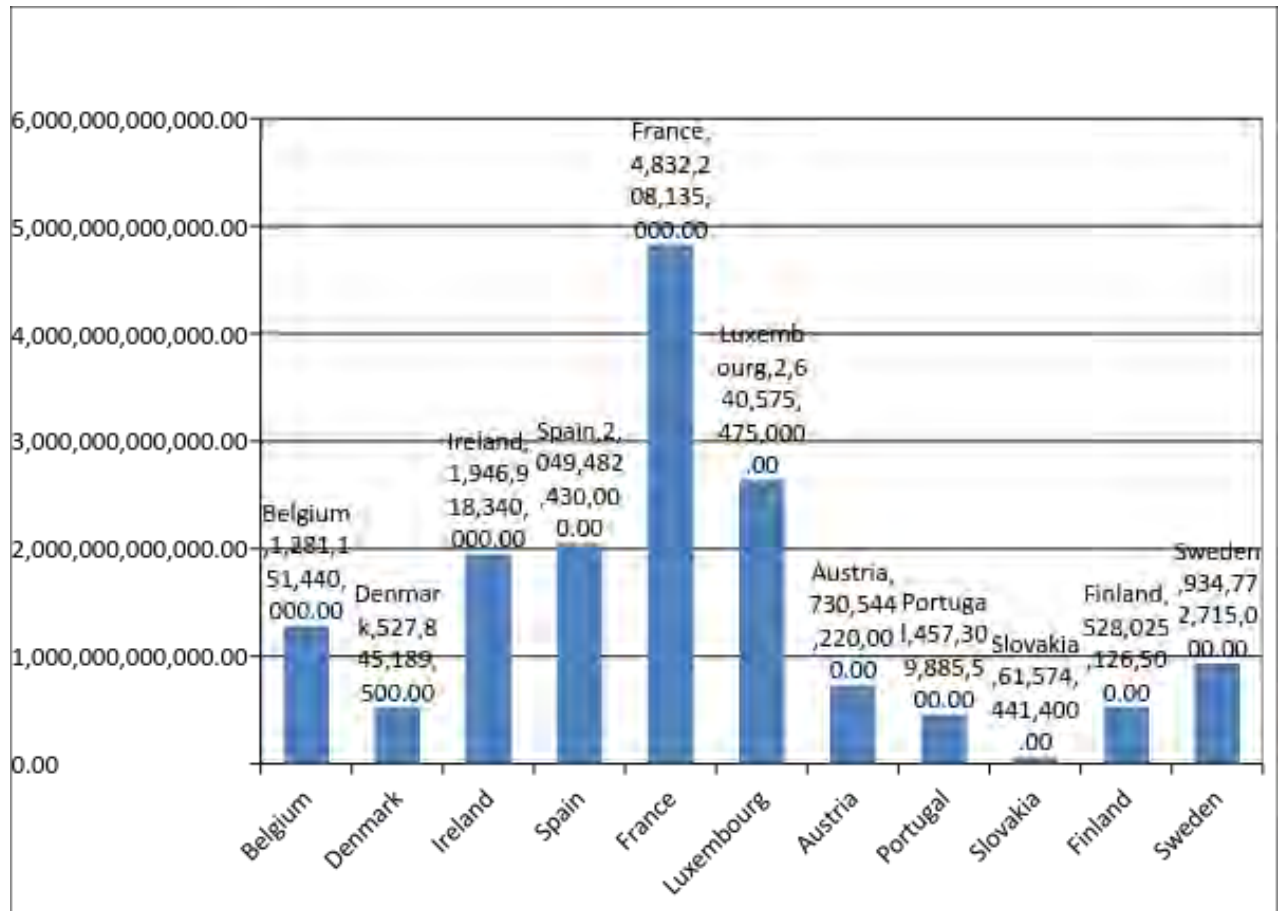
OECD data, 2015

FIGURE 23 Net lending/net borrowing by institutional sector (as % GDP)



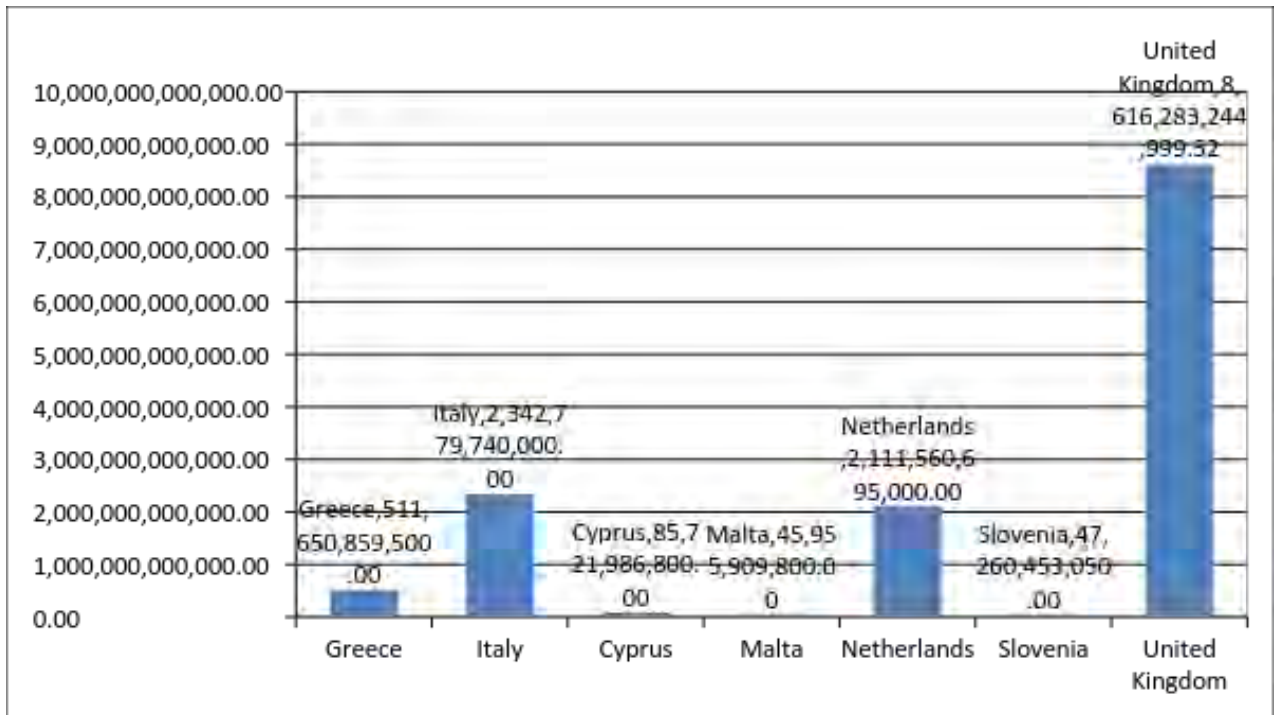
OECD data, 2015

FIGURE 24 external debts 2012 in million Euros



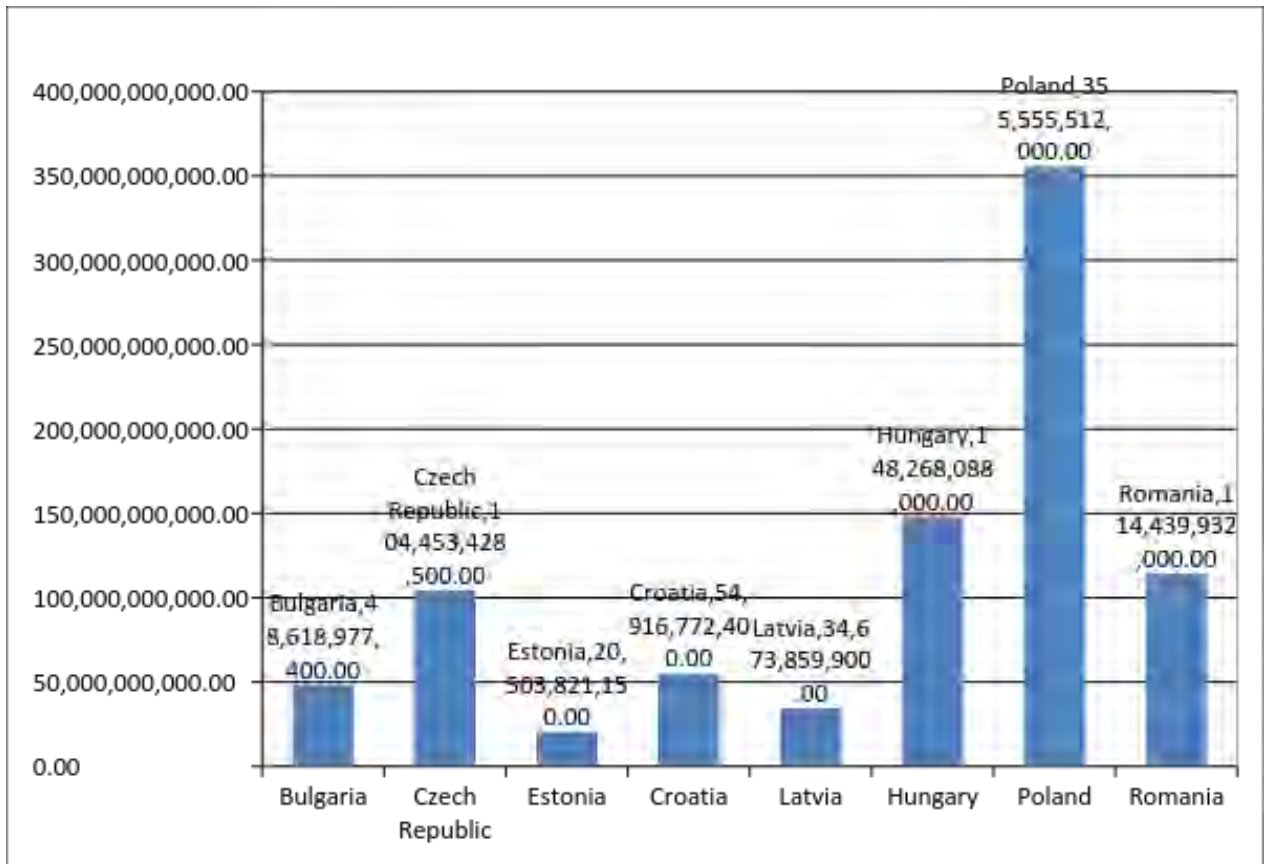
IMF: International Monetary Fund, 2015

FIGURE 25 external debts 2013 in million Euros



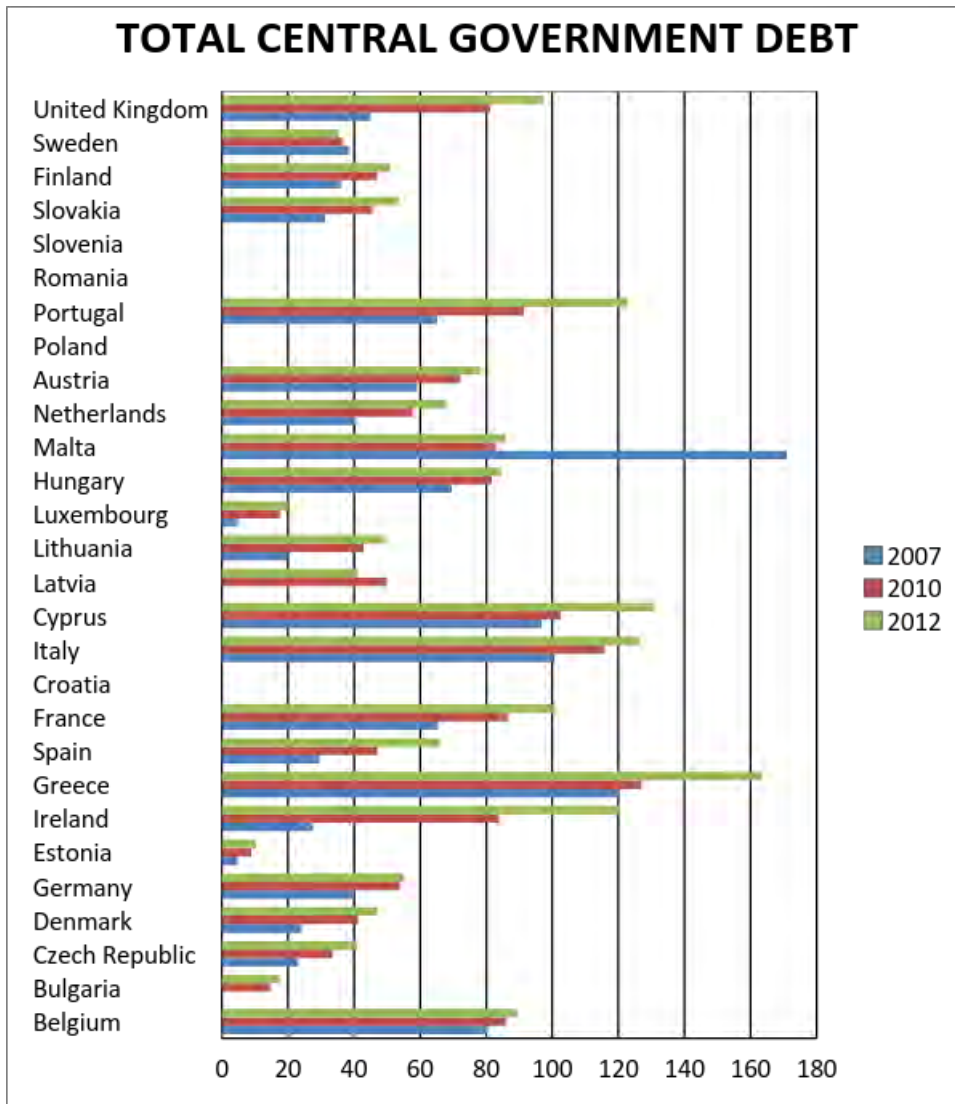
IMF: International Monetary Fund, 2015

FIGURE 26 external debts 2014 in million Euros



IMF: International Monetary Fund, 2015

FIGURE 27 Central government debt, total (as % GDP)



CIA: The World fact book, 2015