

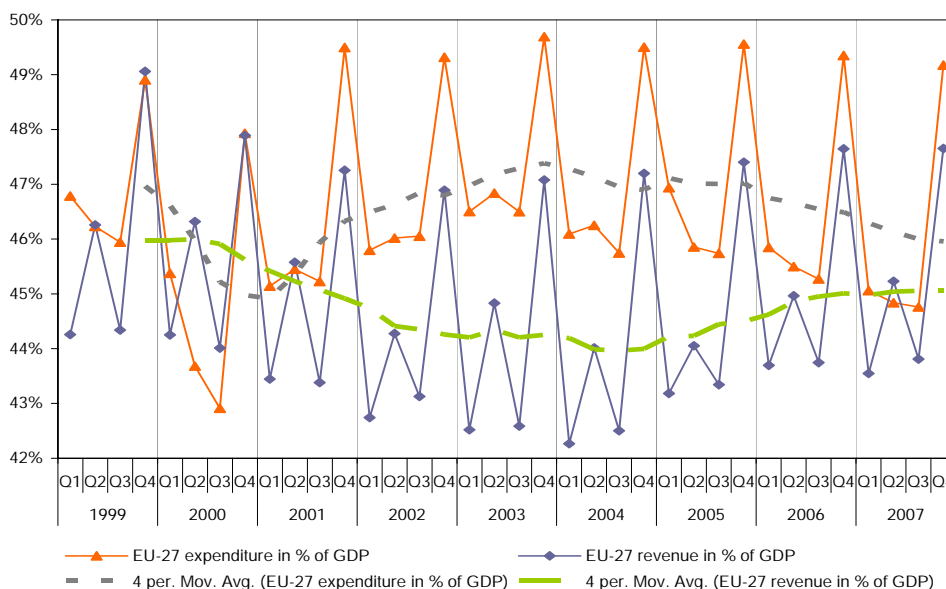
## Government quarterly expenditure and revenue in the EU, fourth quarter 2007

- **EU-27<sup>1</sup> government revenue and expenditure accounted for 47.7% and 49.2% of GDP respectively in the fourth quarter of 2007 (2007Q4);**
- **EU-27 government gross saving reached 3% of GDP in 2007Q4, the highest value for the fourth quarter since 2000;**
- **Taxes and social contributions accounted for around 90% of EU-27 general government; revenue throughout the reference period;**
- **Social welfare spending accounted for 41.8% of EU-27 government expenditure in the period 2007Q1-2007Q4.**

Government revenue, expenditure and deficit/surplus are concepts used to analyse fiscal policy. Government quarterly expenditure and revenue data are reported (in raw format, without seasonal adjustment) in the framework of Regulation (EC) No 1221/2002 of the European Parliament and Council on quarterly non-financial accounts for general government.

Eurostat releases quarterly financial and non-financial accounts for the general government sector, using an integrated structure, in the dedicated GFS section of the Eurostat web site. Eurostat is currently preparing a SiF on this issue.

Figure 1: Total EU-27 government revenue and expenditure in % of GDP and four-quarters moving average, from 1999 to 2007



Source: Eurostat, Economy and finance, Government statistics.

<sup>1</sup> In this publication, EU-27 or EU figures are obtained by aggregating the data of the 27 EU Member States, while excluding EU Institutions. A similar rule applies to the calculation of Euro area (EA-13) aggregates. For each quarter, the ratio figures (i.e. expressed as percentages of GDP) are calculated, using the quarterly GDP of the corresponding quarter

## Government revenue and expenditure

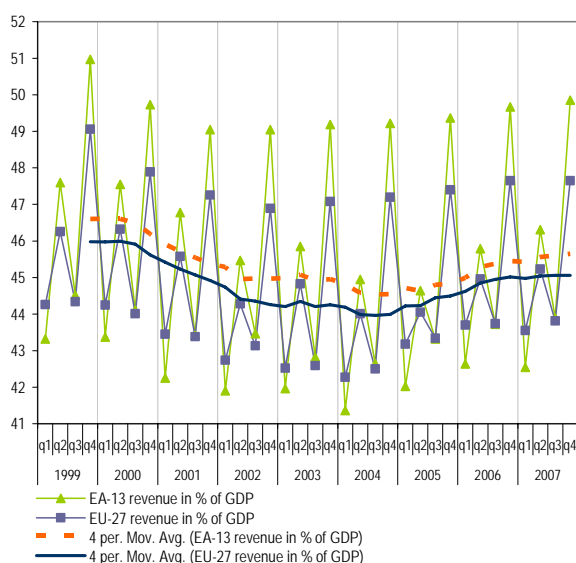
### EU-27 and euro area government revenue in 2007Q4 at 47.7% and 49.8% of GDP respectively

After two years (2002-2003) of relative stability, EU-27 government revenue expressed in percentage of GDP steadily increased (see Figure 2 below). In the fourth quarter of 2007 (2007Q4), EU government revenue represented 47.7% of GDP (45.1% of GDP in average over the 4 quarters of 2007), the highest value for a fourth quarter, since 2001. The development for the euro area (EA-13) followed the same trend, but with a government revenue-to-GDP ratio slightly higher.

For both the EU-27 and EA-13, government revenue showed seasonal patterns (partly explained by the link with the seasonality of economic activity and by budgetary planning practices of national governments), and was generally highest in the fourth quarter. At the end of 2007, revenue for the euro area (EA-13) reached 49.8% of GDP, the highest value in seven years.

Across countries, government revenue-to-GDP ratios varied strongly (see Table 1 on page 6). In 2007Q4 government revenue in percentage of GDP was smallest in Bulgaria (33.0%), Latvia (36.4%), and Estonia (37.6%). The largest shares were recorded for Sweden (54.7%), Cyprus (54.2%) and Denmark (53.9%). A similar variability across countries is observed when comparing the average government revenue-to-GDP ratios over the 4-quarter period 2007Q1-2007Q4, instead of 2007Q4 alone.

Figure 2: EU-27 quarterly government revenue in % of GDP, and four quarters moving average, 1999 to 2007



Source: Eurostat, *Economy and finance, Government statistics*.

### EU government expenditure-to-GDP ratio in 2007Q4 at its lowest in five years

In the fourth quarter of 2007, EU government expenditure accounted for 49.2% of GDP, the lowest value (for a similar quarter) in five years (see Figure 3 below). The average government expenditure-to-GDP ratio for the period 2007Q1-2007Q4 reached 46.0%. The EA-13 experienced a similar trend, but with government expenditure-to-GDP slightly higher (50.6% of GDP in 2007Q4 and 46.4% on average in the period 2007Q1-2007Q4).

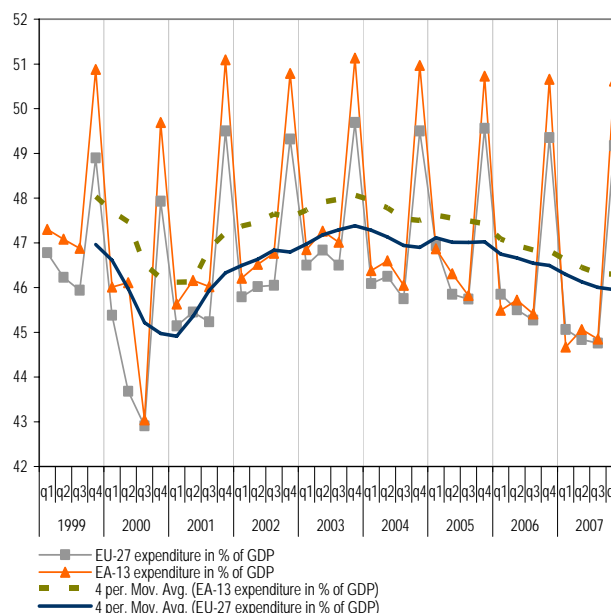
Government expenditure also presented seasonal movements, with the highest values in percentage of GDP being generally recorded in the fourth quarter of the year.

Like government revenue, government expenditure in percentage of GDP showed a significant variability across countries (see table 1).

The lowest ratios in 2007Q4 were observed for Estonia (36.7%), Slovakia (40.1%) and Poland (40.5%) and the highest for Sweden (54.6%), Cyprus (53.7%) and Hungary (52.5%).

Variability across countries is also evident when comparing the moving averages of government expenditure-to-GDP ratios over 4 consecutive quarters, instead of quarterly figures.

Figure 3: EU-27 quarterly government expenditure in % of GDP, and four quarters moving average, 1999 to 2007



Source: Eurostat, *Economy and finance, Government statistics*.

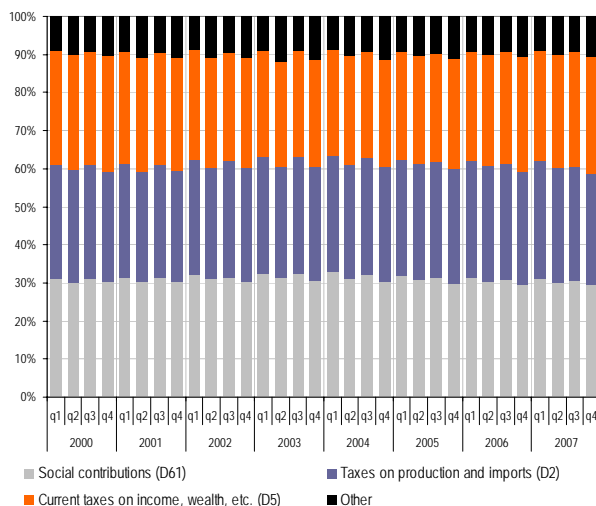
## Government revenue by main components

### Taxes and social contributions accounted for around 90% of EU general government revenue

Taxes and social contributions accounted for some 90% of general government revenue in the EU-27 throughout the period analysed. This share was generally slightly lower for the fourth quarter. In Figure 4 below, government revenue is split into the following ESA 95 categories: 'taxes on production and imports' (D.2), 'current taxes on income, wealth, etc.' (D.5), 'social contributions' (D.61), and other which is made up of the remaining revenue categories (D91, P11, P12, and P131, etc...).

In average 'Social contributions' accounted for 31.0% of total government revenue in the EU-27, followed by 'taxes on production and imports' (30.0%), and 'current taxes on income, wealth, etc.' (29.4%). The quarterly variation was relatively small for all components. 'Social contributions' cover actual amounts receivable from employers and employees, and also imputed amounts (see ESA 95 paragraphs 4.98 - 4.102 for an explanation of imputed social contributions).

Figure 4: Government revenue for the EU-27 by main components as % of total revenue, from 2000 to 2007



Source: Eurostat, *Economy and finance, Government statistics*.

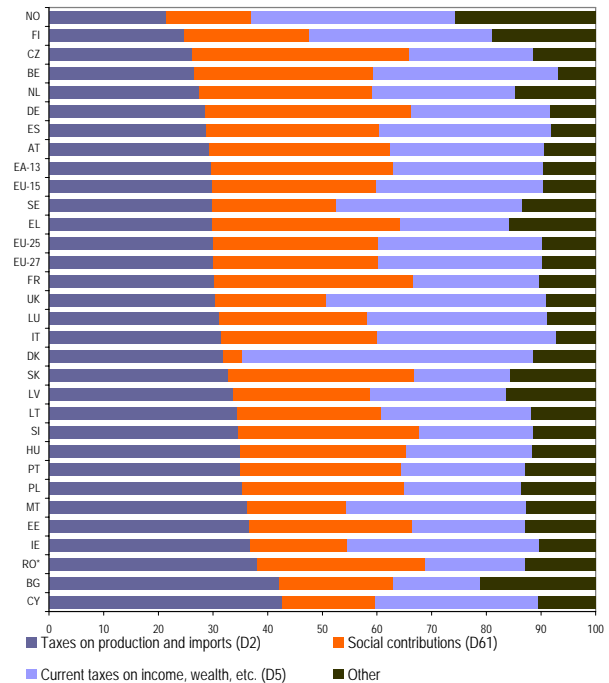
### Importance of revenue components varies across countries

While taxes and social contributions accounted for over 90% of the EU-27 general government revenue in the period 2007Q1-2007Q4, this was not the case for all countries (see figure 5). In particular, Finland received a larger share (nearly one fifth) of revenue from sources other than taxes and social contributions.

'Social contributions' accounts for 30.2% of total government revenue in the EU-27, but the importance of this category is even greater in the euro area (33.4% of total revenue), partly explained by Germany and France, where 37.7% and 36.3% respectively of total government revenue is included this category. Again, the relative

importance of this revenue component varied strongly across countries. In Denmark social contributions represented 3.4% of total revenue, the lowest share among the countries covered.

Figure 5: Government revenue by main components as % of total revenue, 1<sup>st</sup> quarter 2007 to 4<sup>th</sup> quarter 2007



Source: Eurostat, *Economy and finance, Government statistics*. (\*) 2006Q1-2006Q4 data were used for Romania.

Taxes on production and imports represented 30.1% of EU-27 government revenue (as above, averages of last four quarters). This category refers mainly to value-added tax (VAT), import and excise duties, taxes on financial and capital transactions, on land and buildings, on payroll, and other taxes on products and production. Out of the three main categories of revenue, this was the one displaying the lowest variability across countries.

Taxes on income, wealth etc., accounted for 29.9% of EU-27 government revenue. In the category 'current taxes on income, wealth, etc.' are taxes on income and on holding gains of households and corporations, current taxes on capital, taxes on international transactions, and payments for licences. The term 'capital taxes' is used in ESA 95 in the restricted sense of taxes levied at irregular and infrequent intervals on the value of assets or net worth owned, or transferred in the form of legacies or gifts.

The remainder of government revenue shown in figure 5 is in the form of 'market output, output for own final use and payments for other non-market output' (P.11+P.12+P.131), 'capital taxes' (D.91) and other remaining revenue categories.

## Government expenditure by main components

### Social welfare spending accounted for 40.2% of EU government expenditure, with small quarterly variations

Social welfare spending accounted, on average, for 40.2% of total EU-27 government expenditure between 2000Q1 and 2007Q4. These are classified under 'social benefits other than social transfers in kind' (ESA 95 category D.62) and 'social transfers in kind related to expenditure on products supplied to households via market producers' (D.6311+D.63121+D.63131). Typically these payments cover risks or needs such as sickness, disability, old age and unemployment.

Quarterly variations were relatively small for all components. The variation of interest expenditure (D41) was the largest, in relation to its size.

Figure 6: Government expenditure for the EU-27 by main components as % of total expenditure, from 2000Q1 to 2007Q4



Source: Eurostat, *Economy and finance, Government statistics*.

### The importance of expenditure components varies across countries

Though social welfare spending accounted for 41.8% of EU-27 government spending in the period 2007Q1-2007Q4, the importance of this category varied strongly across countries, with highest values being recorded for Germany (56.2%), Austria (47.6%) and Luxembourg (47.2%).

After social welfare spending, 'compensation of employees' was the second largest expenditure item for the EU-27. This component represented over a fifth (22.7%) of the total government expenditure in the EU-27 for the period 2007Q1-2007Q4.

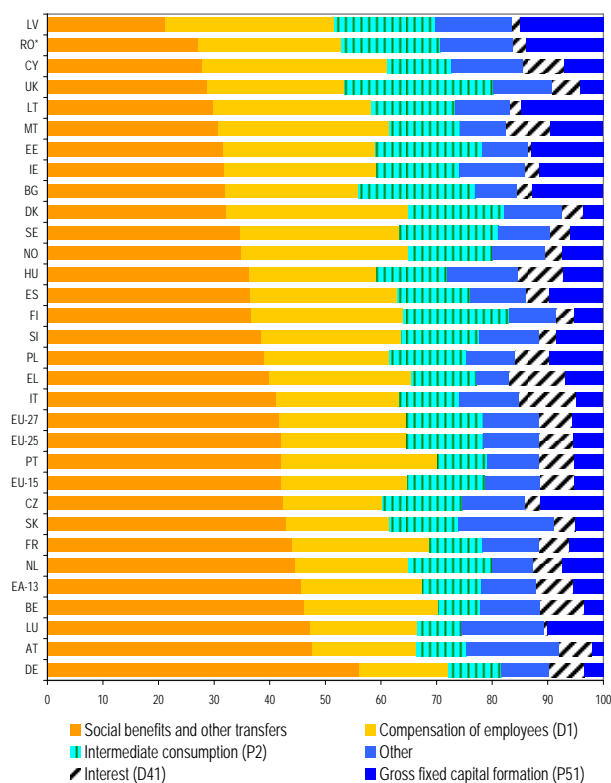
'Compensation of employees' (D.1), comprises wages and salaries and employers' social contributions (actual and imputed). Again, the relative importance of the expenditure component varied

across countries. It represented the highest share of government expenditure in Cyprus (33.2%) and the lowest in Germany (15.8%).

EU-27 spending on 'Intermediate consumption' accounted for around 13.9% of total government expenditure in the period 2001Q1-2007Q4, making it the third largest expenditure category. For the EA-13, it was also the third most important category of expenditure but represented a smaller share (10.7%). The difference between the EU-27 and EA-13 aggregates in this respect is partly explained by the treatment of social transfers in kind in the figures of the UK. In fact, for Greece and Cyprus as well as for the UK, the category 'social transfers in kind related to expenditure on products supplied to households via market producers' does not appear because the amounts are classified under 'intermediate consumption' (P2).

Interest payments (D.41) represented 6.0% of total EU-27 government expenditure. Figure 7 also shows 'gross fixed capital formation' (P.51), which essentially refers to the net acquisition of fixed assets. The 'other' category of expenditure mainly consists of 'subsidies' (D.3), 'other current transfers' (D.7) and 'capital transfers' (D.9).

Figure 7: Government expenditure by main components as % of total expenditure, 2007Q1-2007Q4

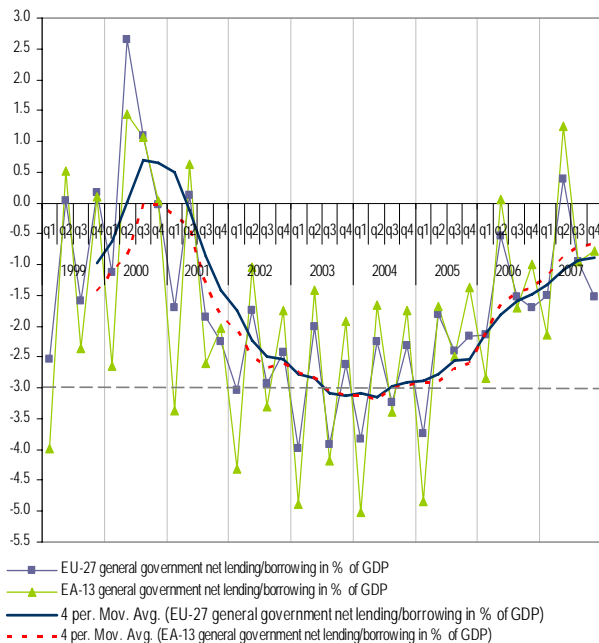


Source: Eurostat, *Economy and finance, Government statistics*. (\*) 2006Q1-2006Q4 data were used for Romania.

## Government quarterly deficit/surplus and gross saving

### EU-27 and EA-13 government deficits on decreasing trend since the second quarter of 2004 (2004Q2)

Figure 8: Quarterly government deficit/surplus in % of GDP and four-quarter moving average, for the EU-27 and EA-13, from 1999 to 2007



Source: Eurostat, *Economy and finance, Government statistics*.

The difference between general government revenue and expenditure is known in the ESA 95 terminology as 'general government net lending/net borrowing' (ESA 95 category B.9). This figure is seen as an important indicator of the overall situation of public finances, particularly when expressed in percentage of GDP. Government deficit is defined as the opposite of the government net lending/net borrowing.

Government net lending/net borrowing of the EU-27 and the EA-13 gradually improved from 2004 (see Figure 8).

This trend was confirmed in recent quarters, with the EU-27 government deficit being reduced from 2.2% of GDP in 2005Q4 to 1.7% in 2006Q4 and 1.5% in 2007Q4. The corresponding figures for the EA-13 were 1.4% in 2005Q4, 1.0% in 2006Q4 and 0.8% in 2007Q4.

An analysis of the 4 consecutive quarters moving averages of EU-27 and EA-13 government deficits shows a decreasing trend since the second quarter of 2004 (2004Q2). The 4-quarter moving averages of

government deficit reached 0.9% of GDP for the EU-27 and 0.6% of GDP for the EA-13 over the period 2007Q1-2007Q4, which represent an improvement, in one year of 0.6% for the EU-27 and 0.7% for the EA-13.

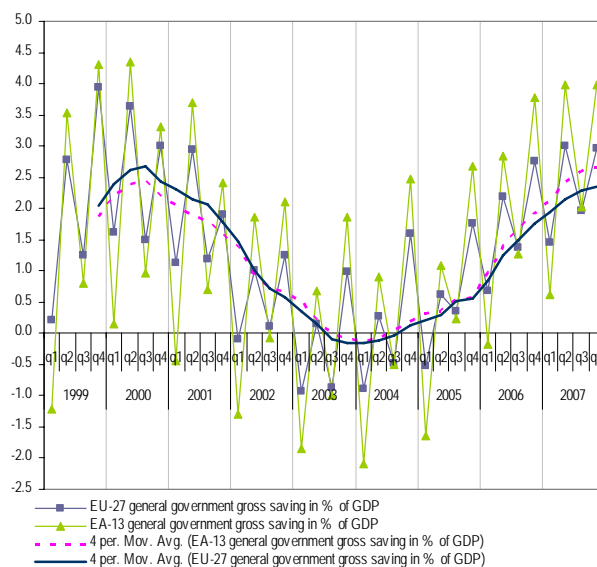
It can finally be drawn from figure 8 that both EU-27 and EA-13 government deficit-to-GDP ratios contain seasonal movements, with the highest and lowest values being generally observed in the first and second quarters respectively, while intermediate values are generally recorded in the third and fourth quarters of the year.

### Gradually increasing EU-27 government gross saving reached 3.0% of GDP in 2007Q4, the highest value for a similar quarter since 2000.

Figure 9 provides information on 'gross saving' (ESA 95 category B.8g). This is defined as the (positive or negative) amount resulting from current transactions which establishes the link with accumulation. In the ESA 95 sequence of accounts, it is the balance in current transactions before taking into account capital transactions (capital transfers and net acquisitions of non-financial assets).

EU-27 government gross saving reached 3.0% of GDP in the fourth quarter of 2007 (2007Q4) and 2.4% of GDP on average in the period 2001Q1-2007Q4, which is the highest value since 2000. The corresponding figures for the EA-13 were 4.0% of GDP in 2007Q4 and 2.7% of GDP on average in the period 2007Q1-2007Q4.

Figure 9: Quarterly government gross saving in % of GDP, for the EU-27 and EA-13, from 1999 to 2007



Source: Eurostat, *Economy and finance, Government statistics*.



## METHODOLOGICAL NOTES

This box gives some background explanation on general government expenditure and revenue. More exhaustive information and data can be found on [Eurostat's homepage](#) in the section dedicated to [Government finance statistics](#).

### GOVERNMENT REVENUE AND EXPENDITURE, DATA TRANSMISSION

Government revenue and expenditure are concepts used to analyse fiscal policy. They appear often in international comparisons. The initial ESA 95 manual did not define government revenue or expenditure. However, a Commission Regulation<sup>1</sup> extended the ESA 95 in relation to these concepts, ensuring that a common definition is used in the EU. In the Regulation, revenue and expenditure are defined with reference to ESA 95 categories and thus follow the principles laid down in the ESA 95 for the delimitation of general government, as well as the principles for the valuation and time of recording.

### MAASTRICHT DEBT AND DEFICIT

The application of the Protocol on the excessive deficit procedure are made operational by [Council Regulation \(EC\) No 3605/93](#), as amended by [Council Regulation \(EC\) No 475/2000](#) and by [Commission Regulation \(EC\) No 351/2002](#). The protocol on the Excessive Deficit Procedure, annexed to the treaty, defines two criteria and reference values for compliance. These are a government deficit to Gross Domestic Product (GDP) ratio of 3 per cent, and a government debt to GDP ratio of 60 per cent.

### GOVERNMENT REVENUE, EXPENDITURE AND ITS LINK TO DEFICIT/SURPLUS

As mentioned above, government revenue and expenditure are concepts used to analyse fiscal policy. Total revenue and total expenditure are defined in ways such that the ESA 95 government deficit (ESA 95 B.9, net lending (+)/net borrowing (-)) is equal to the difference between them. Note that a deficit is shown as a negative number, and a surplus as a positive number.

### ESA95

Fiscal data are compiled in accordance with national accounts rules, as laid down in the European System of Accounts (ESA 1995) adopted in the form of a Council Regulation (EC) [No 2223/96](#). The full text of [ESA95](#) is available on the Eurostat internet site. The compilation of General government revenue and expenditure data complies with ESA95 rules, especially concerning the sector classification of institutional units, the consolidation rules, the classification of financial transactions and of financial assets and liabilities, and the time of recording but not valuation rules.

### GENERAL GOVERNMENT

According to ESA95, paragraph 2.68 "the sector general government (S.13) includes all institutional units which are other non-market producers [institutional units whose sales do not cover more than the 50% of the production

costs, see ESA95 paragraph 3.26] whose output is intended for individual and collective consumption, and mainly financed by compulsory payments made by units belonging to other sectors and/or all institutional units principally engaged in the redistribution of national income and wealth".

### EXPENDITURE, MAIN COMPONENTS

P.2, Intermediate consumption;

D.1, Compensation of employees;

D.41, Interest;

D.62, Social payments;

D.6311, D.63121, D.63131, Social transfers in kind via market producers;

P.51, Gross fixed capital formation;

### REVENUE, MAIN COMPONENTS

P.11, P.12, P.131, Market output;

D.2, Taxes on production and imports;

D.5, Current taxes on income, wealth, etc.,

D.61, Actual social contributions;

D.91, Capital taxes;

### ABBREVIATIONS

Euro area 13: BE (Belgium), DE (Germany), IE (Ireland), EL (Greece), ES (Spain), FR (France), IT (Italy), LU (Luxembourg), NL (the Netherlands), AT (Austria), PT (Portugal), SI (Slovenia) and FI (Finland). While Cyprus and Malta joined the area in 2008, the data included in this publication cover the composition until 2007Q4.

EU or EU-27 (European Union of 27 Member States): Euro area countries plus BG (Bulgaria), CZ (Czech Republic), DK (Denmark), EE (Estonia), CY (Cyprus), LV (Latvia), LT (Lithuania), HU (Hungary), MT (Malta), PL (Poland), RO (Romania), SK (Slovakia), SE (Sweden), and UK (United Kingdom).

### PREVIOUS RELEASES

Statistics in focus 24/2005, Economy and finance, General government expenditure and revenue in the EU in 2004, KS-NJ-05-024-EN-N;

Statistics in focus 41/2004, Economy and finance, General government expenditure and revenue in the EU in 2003, KS-NJ-04-041-EN-N;

Statistics in focus 4/2004, Economy and finance, General government expenditure and revenue of EU Member States in 2004, KS-NJ-04-004-EN-N;

### MORE DATA

Data used in this report is Eurostat data, collected from the Member States. More data can be found on Eurostat's homepage under the theme [Economy and finance](#).

## Further information

---

Data: [Eurostat Website: http://ec.europa.eu/eurostat](http://ec.europa.eu/eurostat)

Select your theme on the left side of the homepage and then 'Data' from the menu.

**Data : [Eurostat Website/government finance/government finance statistics/data](http://ec.europa.eu/eurostat/government_finance/government_finance_statistics/data)**

---

### Journalists can contact the media support service:

Bech Building Office A4/125 L - 2920 Luxembourg  
Tel. (352) 4301 33408 Fax (352) 4301 35349  
E-mail: [eurostat-mediasupport@ec.europa.eu](mailto:eurostat-mediasupport@ec.europa.eu)

---

### European Statistical Data Support:

Eurostat set up with the members of the 'European statistical system' a network of support centres, which will exist in nearly all Member States as well as in some EFTA countries.

Their mission is to provide help and guidance to Internet users of European statistical data.

Contact details for this support network can be found on our Internet site:

<http://ec.europa.eu/eurostat/>

---

A list of worldwide sales outlets is available at the:

### Office for Official Publications of the European Communities.

2, rue Mercier  
L - 2985 Luxembourg

URL: <http://publications.europa.eu>  
E-mail: [info@publications.europa.eu](mailto:info@publications.europa.eu)

Text written in collaboration with Sverre Dommersnes

---