

## ECONOMY AND FINANCE

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# General government expenditure and revenue in the EU in 2003

In the framework of the ESA 95 transmission programme, European Union Member States have reported their provisional general government expenditure and revenue data for 2003<sup>1</sup>.

Total general government expenditure in the EU-15<sup>2</sup> increased in 2003 to 48.4% of GDP, compared with 47.6% in 2002. Meanwhile, revenue increased more slowly to 45.8%, from 45.6% in the previous year. The general government deficit (more precisely, net borrowing according to the ESA 95 classification) therefore widened to 2.6% of GDP, from 2.0% in 2002.

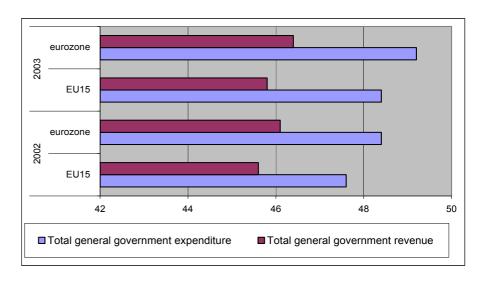


Figure 1: Total government revenue and expenditure (% of GDP)

For the euro-zone<sup>3</sup>, both government expenditure and to a lesser extent government revenue, are higher than in the EU-15. Government expenditure in the euro-zone reached 49.2% of GDP in 2003, up from 48.4% in 2002. Revenue, meanwhile, rose from 46.1% to 46.4%, so the deficit widened to 2.8% of GDP in 2003, from 2.3%.

<sup>&</sup>lt;sup>1</sup> Commission Regulation (EC) No 1500/2000 implementing Council Regulation (EC) No 2223/96. Reporting of European System of Accounts (ESA 95) transmission table 2 by Member States to Eurostat is at t+3 and t+8 months. The general government sector comprises the sub-sectors central government, state government, local government, and social security funds.

<sup>&</sup>lt;sup>2</sup> EU-15 comprises the euro-zone countries plus Denmark, Sweden, and the UK. EU-25 data are presently not available, as data for 2003 are missing for five of the new Member States (Hungary, Malta, Poland, Slovenia, Slovakia). The new Member States are under a legal obligation to report the data for the first time at the end of August 2004.

<sup>&</sup>lt;sup>3</sup> Euro-zone comprises Belgium, Germany, Greece (from 1.1.2001), Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal, and Finland.

#### Government revenue and expenditure totals by country

	Millions of euro, 2003		% of GDP, 2003		% of GDP, 2002	
	Total general	Total general	Total general	Total general	Total general	Total general
	government	government	government	government	government	government
	revenue	expenditure	revenue	expenditure	revenue	expenditure
EU15	4 250 692,9	4 495 970,5	45,8	48,4	45,6	47,6
eurozone	3 360 892,4	3 559 899,9	46,4	49,2	46,1	48,4
BE	138 285,4	137 451,0	51,7	51,4	50,5	50,5
CZ	38 854,8	49 155,3	51,3	65,0	45,6	52,3
DK	107 753,6	105 362,5	57,4	56,1	57,4	55,8
DE	959 180,0	1 041 280,0	45,0	48,9	45,0	48,5
EE	3 119,9	2 925,7	38,8	36,4	38,1	36,5
EL	67 108,0	72 069,0	44,0	47,2	45,3	46,8
ES	296 117,0	293 637,0	39,9	39,5	39,9	39,9
FR	784 934,0	849 509,0	50,4	54,6	50,2	53,5
ΙE	46 716,3	46 400,9	35,4	35,2	33,1	33,3
IT	604 712,0	637 186,0	46,5	49,0	45,6	48,0
CY	4 574,0	5 287,3	40,4	46,7	37,3	41,9
LV	3 326,8	3 491,6	33,7	35,4	32,9	35,4
LT	5 233,4	5 502,9	32,4	34,1	32,8	34,4
LU	10 861,1	10 894,0	46,3	46,4	46,7	44,0
NL	207 127,0	221 701,0	45,6	48,9	45,9	47,5
AT	111 536,5	114 727,2	49,7	51,2	50,9	51,3
PT	58 694,1	62 458,9	45,0	47,9	43,4	46,1
FI	75 621,0	72 586,0	52,7	50,6	54,4	50,1
SE	157 240,2	155 949,8	58,8	58,3	58,1	58,3
UK	624 806,7	674 758,3	39,3	42,5	40,0	41,5

Table 1: Government revenue and expenditure totals by country

Table 1 shows the size of the general government sector in each country in terms of its revenue and expenditure. Relative to GDP, using a combined measure (adding together the revenue and expenditure of each country), Sweden has the largest government sector among the 20 EU countries shown, followed by the Czech Republic and Denmark. However, the Czech data are distorted by the recording of interest, current transfers and capital transfers on a non-consolidated basis. The government sector is smallest in Lithuania, followed by Latvia and then Ireland.

Apart from the Czech Republic, the largest increases in government revenue and expenditure in 2003 compared with 2002, relative to GDP, occurred in Cyprus, followed by Ireland. Two countries experienced a decrease in both revenue and expenditure in 2003 in terms of their GDP, Lithuania and Austria. The sharpest fall in revenue in 2003 was in Finland (down by 1.7% of GDP), but despite an increase in expenditure the government balance remained in surplus.

#### Main components of government expenditure

ESA 95 transmission programme table 2 ('Main aggregates of general government') includes a breakdown of transactions in expenditure and revenue according to the ESA 95 classification. The relative importance of general government expenditure items varies considerably according to the country.

Nevertheless, it can be seen in figure 2 that welfare spending is very significant in all countries. 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). Other major expenditure items include 'compensation of employees' (D.1), comprising wages and salaries and employers' social contributions (actual and imputed). 'Intermediate consumption' (P.2) refers to the value of goods and services consumed as inputs by a process of production, excluding fixed assets. Figure 2 also shows 'interest' (D.41) payable on government debt, and 'gross fixed capital formation' (P.51), which essentially refers to the net acquisition of fixed assets. The 'other' category of expenditure consists mainly of 'subsidies' (D.3), 'other current transfers' (D.7), and 'capital transfers' (D.9).



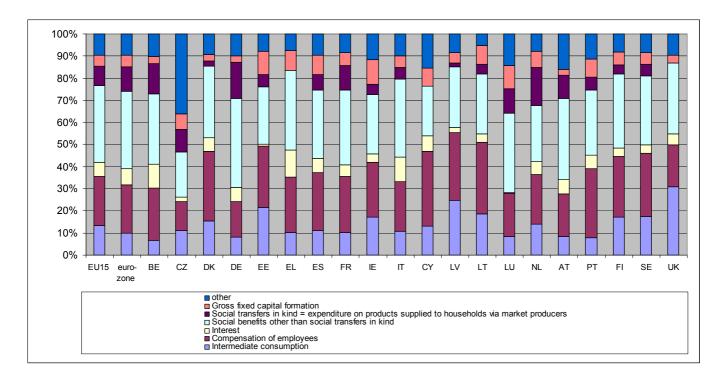


Figure 2: Main expenditure components for 2003 as a percentage of total expenditure

It should be noted that the data reported by countries for categories D.41, D.7, D.92 and D.99 are consolidated. In other words, transactions that take place within the government sector are excluded from the figures. However, data for the Czech Republic are nonconsolidated, and for Denmark and Sweden D.41 has not been consolidated.

In the EU-15, in 2003 the most important category of general government expenditure was 'social benefits other than social transfers in kind', accounting for 34.4% to total spending. This was followed by 'compensation of employees' (21.9%), then 'intermediate consumption' (13.5%).

For the euro-zone, however, the third most important category of expenditure was 'social transfers in kind related to expenditure on products supplied to households via market producers'. The difference between the EU-15 and euro-zone aggregates in this respect is mainly 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 have been classified under 'intermediate consumption'.

A breakdown of government expenditure by reporting EU Member State is shown in table 2. Another specific difference observed between countries is the unusually large 'other' category for the Czech Republic. This reflects not only non-consolidation of the data, but also exceptional capital and current transfers to other sectors of the economy<sup>4</sup>.

The 'other' government expenditure category reported by the UK for 2003 is understated by around 0.1% of GDP because of non-compliance with Eurostat's decision on UMTS (mobile phone) licences<sup>5</sup>.

<sup>&</sup>lt;sup>5</sup> Eurostat decision No 81/2000: sales of UMTS licences should be recorded as disposals of non-financial non-produced assets (K.2 in the ESA 95 classification).



<sup>&</sup>lt;sup>4</sup> For example, capital transfer to financial and non-financial corporation sectors from the Czech Consolidation Agency of CZK 37.9bn in 2003, to cover the purchase of assets at a price substantially higher than market value.

	Intermediate consumption	Compensation of employees	Interest	Social benefits other than social transfers in kind	Social transfers in kind = expenditure on products supplied to households via market producers	Gross fixed capital formation	other
EU15	13,5	21,9	6,6	34,4	9,0	4,9	9,5
eurozone	10,0	21,9	7,1	35,1	11,1	5,2	9,6
BE	6,6	23,8	10,7	31,9	13,8	3,1	10,2
CZ	10,9	13,4	2,0	20,3	10,1	7,0	36,2
DK	15,4	31,5	6,1	32,3	2,5	2,9	9,3
DE	8,1	16,2	6,4	40,3	16,2	3,0	9,9
EE	21,4	27,9	0,7	26,2	5,5	10,5	7,8
GR	10,3	25,0	12,1	36,0	0,0	8,9	7,6
ES	11,1	26,2	6,4	31,0	7,0	8,8	9,6
FR	10,1	25,4	5,4	33,8	11,0	6,0	8,4
IE	17,2	24,8	3,9	26,8	4,6	11,1	11,7
IT	10,8	22,5	11,0	35,2	5,2	5,4	9,8
CY	13,2	33,7	7,1	22,5	0,0	8,1	15,5
LV	24,7	30,6	2,3	27,4	2,0	4,5	8,5
LT	18,7	32,4	3,7	27,2	4,2	8,4	5,4
LU	8,5	19,4	0,5	35,9	11,0	10,5	14,3
NL	14,1	22,3	6,0	25,3	17,2	7,1	8,0
AT	8,5	19,2	6,4	36,8	10,6	2,4	16,2
PT	7,9	31,1	6,2	29,6	5,8	8,2	11,3
FI	17,3	27,2	4,0	33,5	3,9	5,9	8,2
SE	17,5	28,4	3,7	31,3	5,4	5,3	8,3
UK	30,9	19,1	4,9	32,1	0,0	3,6	9,5

Table 2: Main expenditure components for 2003 as a percentage of total expenditure

#### Main components of government revenue

Compulsory levies in the form of taxes and social contributions account for around 90% of general government revenue in the EU. In figure 3, compulsory levies are split into the following ESA 95 categories: 'taxes on production and imports' (D.2), 'current taxes on income, wealth, etc.' (D.5), 'capital taxes' (D.91), and 'social contributions' (D.61). 'Taxes on production and imports' refers mainly to value-added tax, import and excise duties, taxes on financial and capital

transactions, on land and buildings, on payroll, and other taxes on products and production. 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

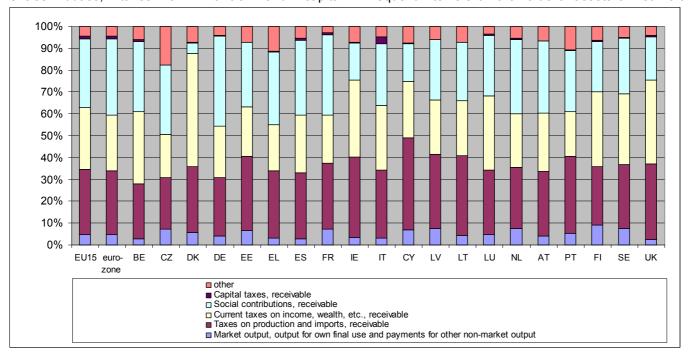


Figure 3: Main revenue components for 2003 as a percentage of total revenue



owned, or transferred in the form of legacies or gifts. '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).

The remainder of government revenue shown in figure 3 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), and 'other' revenue, the main components of which are 'property income' (D.4), 'other current transfers' (D.7), and 'other capital transfers and investment grants' (D.92+D.99).

As previously mentioned, the data reported by countries for categories D.41, D.7, D.92 and D.99 are consolidated, with the exception of Czech Republic and

(concerning D.41) of Denmark and Sweden. contributions' form the largest single category of government revenue in the EU (31.6% of the total), followed by 'taxes on production and imports' (29.8%), and 'current taxes on income, wealth, etc.' (28.3%). The importance of 'social contributions' is even greater in the euro-zone (34.9% of total revenue), partly explained by Germany where this category accounts for 41.2% of revenue. At the other extreme is Denmark, where 'social contributions' account for just 4.7% of government revenue, as the social security system is mostly funded by income tax (the category 'current taxes on income, wealth, etc.' is correspondingly the highest in the EU, at 52% of total revenue). A breakdown of government revenue by reporting EU Member State is shown in table 3.

	Market output, output for own final use and payments for other non-market output	Taxes on production and imports	Current taxes on income, w ealth, etc.	Social contributions	Capital taxes	other
EU15	4,6	29,8	28,3	31,6	1,0	4,6
euro-zone	4,9	29,0	25,5	34,9	1,2	4,5
BE	2,8	25,1	33,1	32,1	1,0	5,9
CZ	7,3	23,5	19,9	31,6	0,1	17,7
DK	5,6	30,2	52,0	4,7	0,3	7,2
DE	4,2	26,6	23,7	41,2	0,4	3,9
EE	6,6	33,8	22,6	29,7	0,0	7,2
EL	3,2	30,6	21,1	33,3	0,4	11,3
ES	2,9	30,0	26,6	34,2	1,0	5,3
FR	7,4	30,0	22,2	36,6	1,1	2,7
IE	3,5	36,9	35,1	16,8	0,5	7,2
IT	3,0	31,2	29,5	28,3	3,3	4,7
CY	6,8	42,2	25,9	17,3	0,1	7,7
LV	7,5	34,0	24,9	27,6	:	6,0
LT	4,3	36,6	25,1	26,9	0,0	7,1
LU	4,7	29,6	34,0	27,7	0,4	3,6
NL	7,4	28,0	24,5	34,0	0,7	5,4
AT	4,0	29,6	26,6	33,1	0,1	6,5
PT	5,4	35,1	20,4	28,2	0,2	10,7
FI	9,2	26,7	34,2	23,0	0,5	6,4
SE	7,6	29,2	32,4	25,7	0,2	5,0
UK	2,6	34,4	38,5	19,8	0,6	4,1

Table 3: Main revenue components for 2003 as a percentage of total revenue



#### Government deficit and net saving

As mentioned on page one, the difference between general government expenditure and revenue results in a surplus or deficit, known in the ESA 95 methodology as 'general government net lending /net borrowing' (ESA 95 category B.9). It can be seen in figure 4 that the net borrowing of EU-15 and euro-zone increased in 2003 to 2.6% and 2.8% of GDP respectively.

Also shown in figure 4 is the concept of 'net saving' (ESA 95 category B.8n). This is defined as the (positive or negative) amount resulting from current transactions

Table 4 shows, for each reporting country, its net saving and net lending /net borrowing position. Net lending /net borrowing is not only a key balancing item in the system of national accounts, but also an important measure of government finances. It is used, for example, as the definition of government deficit /surplus for the reporting of EU Member States under the Excessive Deficit Procedure (EDP)<sup>6.</sup>

Net saving also provides useful information. In 2003, excluding capital transactions, the general government

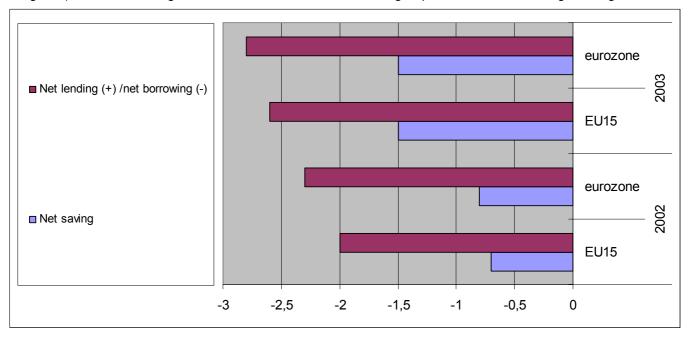


Figure 4: General government deficit and net saving (% of GDP)

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). Negative net saving (or 'dissaving') increased in 2003 in the EU-15 and euro-zone to 1.5% of GDP. A negative net saving balance requires governments to borrow and /or to sell assets.

financial position in the Czech Republic is much closer to balance (-3.7% instead of -13.6 % of GDP). The same is the case for Cyprus, while the financial position of Greece and Luxembourg turns positive. In only three countries, Belgium and to a lesser extent Denmark and Portugal, is the government financial position stronger when measured by net lending /net borrowing rather than by net saving.

<sup>&</sup>lt;sup>6</sup>Figures presented here may differ from those reported under the EDP because of differences in time of reporting (EDP data are notified at t+2 months and t+8 months). Also, accounting treatment of swaps and forward rate agreements differs under the EDP.



	Millions of euro, 2003		% of (	GDP, 2003	% of GDP, 2002	
	Net saving	Net lending (+) /net borrowing (-)	Net saving	Net lending (+) /net borrowing (-)	Net saving	Net lending (+) /net borrowing (-)
EU15	-137 043,4	-245 232,8	-1,5	-2,6	-0,7	-2,0
eurozone	-111 108,5	-199 007,5	-1,5	-2,8	-0,8	-2,3
BE	-2 328,5	834,4	-0,9	0,3	0,5	0,1
CZ	-2 769,7	-10 300,5	-3,7	-13,6	-3,0	-6,7
DK	1 551,1	2 391,2	0,8	1,3	1,0	1,6
DE	-58 360,0	-82 100,0	-2,7	-3,9	-2,3	-3,5
EE	431,9	194,2	5,4	2,4	5,6	1,6
EL	1 388,0	-4 961,0	0,9	-3,3	2,2	-1,5
ES	20 301,0	2 480,0	2,7	0,3	2,6	-0,1
FR	-45 879,0	-64 575,0	-2,9	-4,1	-1,9	-3,3
IE	3 837,3	315,4	2,9	0,2	2,9	-0,1
IT	-21 121,0	-32 474,0	-1,6	-2,5	-0,7	-2,4
CY	-298,8	-713,3	-2,6	-6,3	-1,5	-4,6
LV	-32,6	-164,8	-0,3	-1,7	-0,6	-2,5
LT	19,9	-269,5		-1,7	-0,1	-1,5
LU	945,6	-32,9	4,0	-0,1	6,2	2,7
NL	-10 733,0		-2,4	-3,2	-0,8	-1,6
AT	1 060,9	-3 190,7	0,5	-1,4	1,5	-0,4
PT	-4 064,9			-2,9	-2,2	-2,7
FI	3 845,0	3 035,0	2,7	2,1	4,6	4,3
SE	3 137,3		1,2	0,5	0,5	-0,3
UK	-30 623,3	-49 906,8	-1,9	-3,1	-0,8	-1,5

Table 4: General government surplus (+)/deficit (-) and net saving by country



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