

Final Consumption of Households in the Accession Countries

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Statistics in focus

ECONOMY AND FINANCE

THEME 2 – 24/1999

NATIONAL ACCOUNTS

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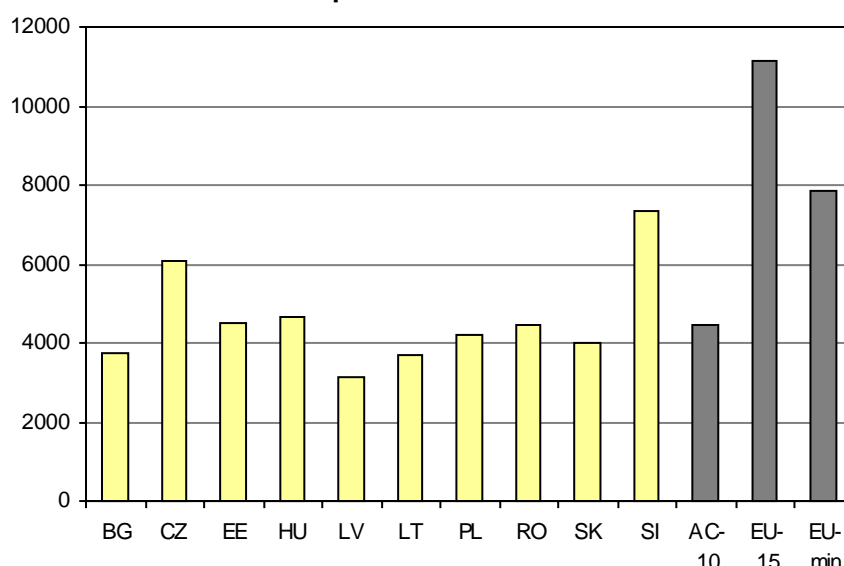
Eurostat is responsible for providing comparable and reliable macroeconomic data on the Member States of the European Union (EU-15) as well as on the Accession Countries (ACs) ⁽¹⁾ of Central and Eastern Europe and Cyprus.

This report analyses the pattern of Final Consumption of Households (FCH) in the ACs and makes comparisons with the European Union. FCH, generally making up around **two-thirds of GDP** in Europe, plays an important role as an indicator of both the economic situation and social and cultural behaviour.

FCH here is broken down into **eight** consumption functions (main purposes). Along with the individual ACs, three data sets are used for comparison: the AC-10 or AC-11 total, the EU-15 as a whole and the 'EU-minimum' country. **Portugal** has been used throughout this study to represent the EU-minimum, since it has the lowest total FCH per inhabitant in PPS in the EU-15.

Since a price comparison round has not yet been completed for Cyprus, it is not included in analyses where figures are expressed in Purchasing Power Standards (PPS).

Figure 1 : Final consumption of households in 1996, per inhabitant in PPS*



Source: Eurostat, New Cronos, Theme 2, Domain NA_MNAG

* At EU-15 level, 1 PPS=1 ECU, by definition

⁽¹⁾ There are currently eleven Accession countries: Bulgaria (BG), Cyprus (CY), Czech Republic (CZ), Estonia (EE), Hungary (HU), Latvia (LV), Lithuania (LT), Poland (PL), Romania (RO), Slovak Republic (SK), and Slovenia (SI). Together, they are labelled as "AC-10" without Cyprus and "AC-11" with Cyprus, depending on the availability of data for this country.



Table 1 : Final Consumption of Households in the Accession Countries in 1996, by consumption function, in millions of ECU

	BG	CY	CZ	EE	HU	LV	LT	PO	RO	SK	SI	AC-11	EU	EU-min
Food, beverages and tobacco	2 014	1 391	7 876	941	5 370	1 279	1 919	24 750	8 923	3 377	2 381	60 221	727 441	15 480
Clothing and footwear	379	466	1 844	140	1 037	207	271	3 660	851	685	582	10 123	269 761	4 854
Gross rent, fuel and power	1 566	420	3 990	480	3 973	359	663	13 996	1 417	950	1 552	29 365	846 816	6 111
Furniture, furnishings etc.	242	574	1 277	132	1 215	82	189	2 661	1 044	362	473	8 252	312 552	4 272
Medical care and health expenses	81	254	264	35	482	106	122	2 697	534	62	203	4 841	394 052	2 996
Transport and communication	717	728	3 021	254	2 456	269	374	7 844	2 573	598	1 666	20 500	645 307	9 330
Recreation, education and culture	249	524	2 421	177	1 692	127	168	5 279	1 356	524	946	13 465	364 521	4 765
Miscellaneous goods and services	806	1 222	2 431	225	2 996	295	379	8 954	2 557	707	1 197	21 769	616 001	9 452
Final consumption of households	6 054	5 580	23 123	2 385	19 221	2 724	4 086	69 842	19 254	7 265	9 001	168 536	4 173 338	57 259

Source: Eurostat, New Cronos, Theme 2, Domain NA_MNAG

Table 2 : Final Consumption of Households in the Accession Countries in 1996, by consumption function, per inhabitant, in PPS

	BG	CY*	CZ	EE	HU	LV	LT	PO	RO	SK	SI	AC-10	EU	EU-min
Food, beverages and tobacco	825	:	2 073	1 103	1 296	841	1 071	1 035	1 145	1 869	1 497	1 218	1 944	2 115
Clothing and footwear	184	:	485	187	250	140	150	140	173	379	359	213	721	663
Gross rent, fuel and power	1 324	:	1 050	1 675	959	1 186	1 087	1 934	1 051	526	1 721	1 387	2 263	835
Furniture, furnishings etc.	86	:	336	166	293	59	94	95	114	200	308	151	835	584
Medical care and health expenses	76	:	70	97	116	245	219	203	218	34	202	166	1 053	409
Transport and communication	294	:	795	379	593	192	277	353	429	331	1 348	443	1 725	1 275
Recreation, education and culture	319	:	637	523	408	225	240	538	446	290	751	471	974	651
Miscellaneous goods and services	552	:	640	323	723	236	247	357	516	391	921	475	1 646	1 292
Final consumption of households	3 751	:	6 087	4 483	4 640	3 155	3 702	4 227	4 449	4 020	7 333	4 467	11 153	7 825

Source: Eurostat, New Cronos, Theme 2, Domain NA_MNAG

* Figures in PPS are currently unavailable for Cyprus.

Slovenia close to EU-minimum

Figure 1 shows a comparison between FCH per inhabitant in PPS for the ACs, the EU-15 average and the Member State with the lowest FCH - Portugal.

These data give an indication of **standard of living** that GDP alone cannot show. Since only household consumption is considered, the figures provide us with a picture focused on society itself rather than the whole economy which includes the activity of businesses and large corporations.

From Figure 1 we see that Slovenia leads the ACs with per capita consumption which almost reaches the level of the EU-minimum. The Czech Republic follows in second place with most of the other ACs grouped around the 4000 PPS level.

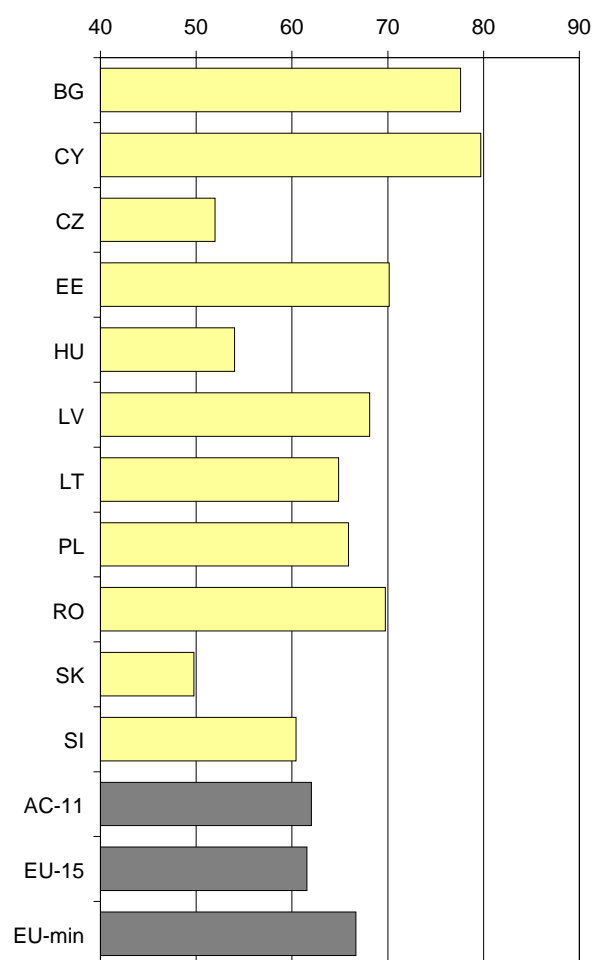
The EU-15 average stands high above all of the ACs and 2½ times the AC-10 average. Figures for Cyprus are not yet available because of the absence of PPP data.

Consumption as a share of GDP

Figure 2 shows that there is a great deal of variety amongst the ACs in terms of the fraction of their GDP represented by the Final Consumption of Households. The AC-11 average stands at around 62%, but individual countries range from the Slovak Republic's share of 50% to Bulgaria and Cyprus consuming almost 80% of their GDP.

The EU-15 average is close to that of the ACs, with the EU-minimum country slightly higher, using 67% of its GDP for the Final Consumption of Households.

Figure 2 : FCH as % of GDP in 1996



Source: Eurostat, New Cronos, Theme 2, Domain NA_MNAG

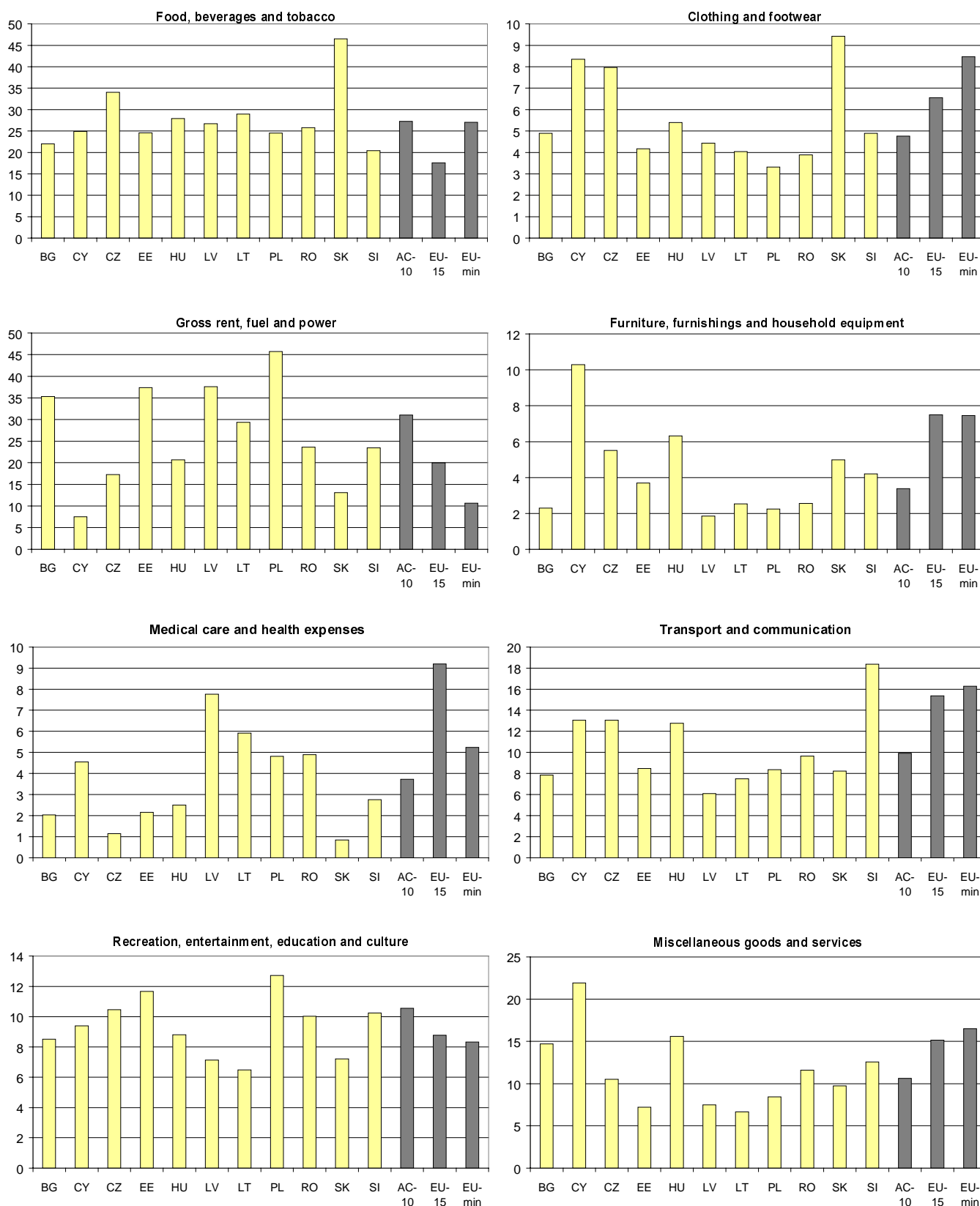
FCH by consumption function

The eight charts in Figure 3 (page 4) show the importance that the **eight consumption functions** hold as a share of each country's total FCH. These vary quite strongly between different ACs and provide us with information about the concentration of household spending in these countries, the impact of state intervention, and the priorities households attach to certain types of consumption. It should be remembered that the 'EU-minimum' shown in this publication is always the figure for Portugal, with the lowest **total** FCH, and not necessarily the lowest share in each consumption function.

Food, beverages and tobacco

On the whole, this is one of the most dominant areas of FCH in the ACs, accounting for 27% of total AC-10 FCH. There is relatively little variation in the percentages across the ACs, with most countries appearing in the **25-30%** range. Exceptions are the Czech and Slovak Republics, who display a higher share in this consumption function, and a smaller one for *Medical care and health expenses*. All ACs are above the EU-15 average of 18%, but most display figures comparable with the 'EU-minimum'.

Figure 3 : FCH by consumption function as a percentage of total consumption in 1996*



Source: Eurostat, New Cronos, Theme 2, Domain NA_MNAG

* The EU-15 minimum is represented by the data of **Portugal**, the Member State of the EU-15 with the lowest total FCH per inhabitant in PPS.

Cyprus is not included in the AC-10 totals.

Clothing and footwear

This is one of the smaller categories of consumption. Three countries, Cyprus, the Czech Republic and the Slovak Republic stand out with higher shares than the other ACs and even the EU-15, who allocate more of their consumption for this function than the ACs as a group.

Gross rent, fuel and power

There is enormous range of consumption shares in this category, with Cyprus recording the lowest figure of 8%. This may be related to its particularly high share for *Furniture, furnishings etc.* Poland has the highest share, with 46% of consumption in this function. This could be due to the ways in which **imputed rents** for owner-occupied properties are calculated in the different countries, along with varying **costs of fuel** and **climate**.

Furniture, furnishings and household equipment

Apart from Cyprus, all ACs display shares below the EU-15 average of almost 8% of total FCH, and the EU-minimum which is registered at the same level.

Medical care and health expenses

This is where we see a very marked difference between the ACs and the EU-15. All of the ACs are below the EU-15 average of 9%, with Bulgaria, Czech Republic, Estonia, Hungary, the Slovak Republic and Slovenia all attributing less than 3% of FCH to this category. However, Latvia and Lithuania display higher shares than the EU-minimum. This category can be heavily affected by the **administration of medical services** in a country. Where **private** healthcare is more common as an alternative to a state-provided health service, FCH on this category will rise.

Transport and communication

Only Slovenia exceeds both the EU-15 average and EU-minimum, with 18% of its FCH being allocated to this function. The other ACs are dispersed around the AC-10 average of **10%**.

Recreation, entertainment, education and culture

This category is a diverse one, encompassing many types of spending. The AC figures are distributed either side of the EU-15 average, with Poland, the largest economy, pushing the AC-10 figure **above 10%**.

Miscellaneous goods and services

This category's primary functions include restaurants, hotels, financial services etc. The share of consumption in this area is clearly highest in Cyprus, with Bulgaria and Hungary matching the EU-15 figure. In contrast, the Baltic states of Estonia, Latvia and Lithuania record figures around the 7% level.

Summary

Cyprus stands out from the other ACs as having a markedly different pattern of consumption, particularly in its distribution between spending on *Gross rent, fuel and power* and *Furniture, furnishings and household equipment*.

The **Czech and Slovak Republics** are also unusual in their high allocation to *Food, beverages and tobacco* and *Clothing and footwear*, while a small fraction of their consumption is apportioned to *Medical care and health services*.

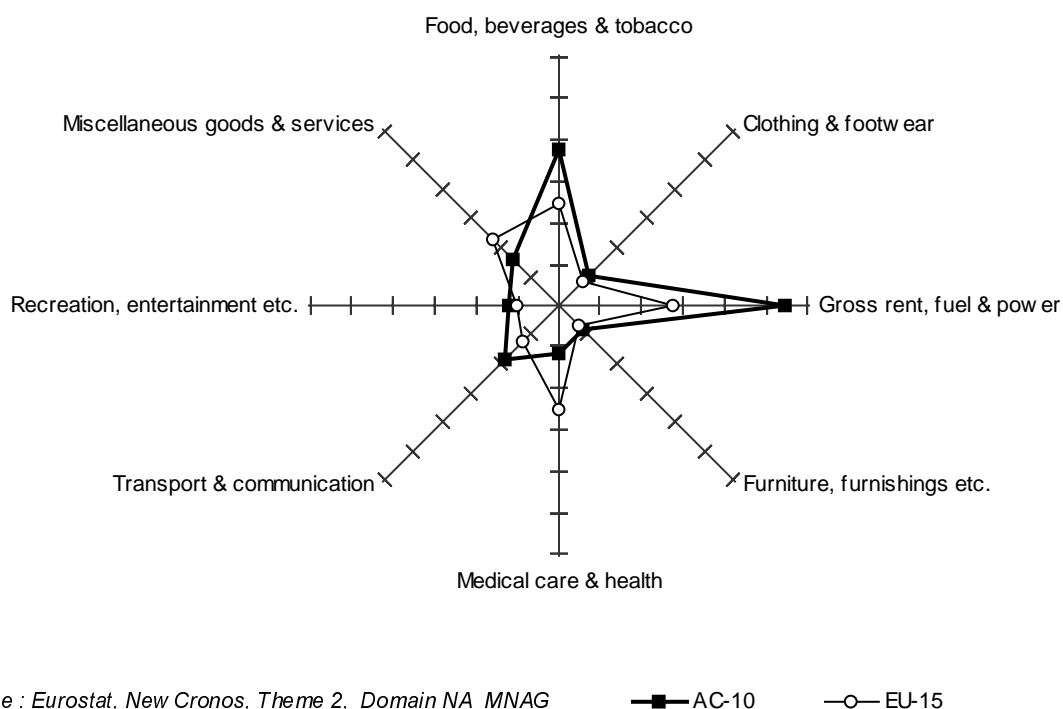
Accession Countries are as varied as the EU-15 Member States

The harmonisation of potential Member States of the European Union is a matter of great relevance to the enlargement process. It is useful to compare how **homogenous** the Accession Countries are as a group compared to the existing Member States. This can be done by calculating the **standard deviation** from the mean for the group. The calculation is made by comparing the shares of FCH discussed earlier with the share for the total ACs combined. Figure 4 shows us how similar the ACs are to each other in each of the eight consumption functions. The same calculation is

performed for the EU-15 Member States.

We can see that on the whole, the ACs appear to be a **slightly more disparate** group than the EU Member States. However, this is mainly caused by the category *Gross Rent, fuel and power*. Figure 3 supports this, with its share in total FCH varying from 13% to 46% for different ACs. The share allocated to *Food, beverages and alcohol* is also more varied than in the EU-15, but consumption of *Medical care and Health* is more consistent in the ACs than across the EU-15.

Figure 4 : Standard deviation of consumption, by consumption function, in 1996



How similar are the Accession Countries to the EU-15 Member States?

The consumption per inhabitant of most of the ACs is well **below** that of the EU-15, and even the EU-minimum. However, this is mainly due to their lower level of GDP, since the proportion of this which households consume is similar, at just above 60%. As the ACs' GDP is increasing at a faster rate than in the EU-15, we can expect Final Consumption of Households to slowly catch up.

This is not to say that the behaviour of the Accession Countries is uniform. In addition to the share of GDP being consumed differing markedly across the ACs, the pattern of consumption is also quite varied from country to country. **Diversity amongst the ACs is at least as pronounced as in the EU-15.**

METHODOLOGICAL NOTES

The data presented in this publication are supplied by the ACs on the basis of a Eurostat questionnaire completed quarterly under an established regular reporting system. With each data delivery, gradual changes in calculation methods and improvements are being incorporated into the data.

For the time being, however, statistics from the ACs must be treated with some caution. They are derived from national sources which do not yet fully conform to EU standards, so full comparability with the EU statistics cannot be guaranteed.

Final Consumption of Households

Total Final Consumption represents the value of the goods and services used for the **direct satisfaction of human needs**, whether individual or collective. This includes the collective consumption of General Government and private non-profit institutions serving households.

This report, however, is concerned only with the Final Consumption of **Households (FCH)**.

Purchasing Power

The international comparison of countries' aggregates (GDP, FCH...) expressed in a common currency (ECU, USD...) does not always provide an accurate indication of the real **volume** of goods and services which make up these aggregates.

This is because the exchange rate of a country's national currency is affected by the currency's supply, by demand and by other external factors.

This can be offset by expressing the aggregate of each and every country in an **artificial currency** called the **"Purchasing Power Standard" (PPS)**, which cancels the impact of differences in price **levels** among countries, therefore showing **correct volume relationships** between countries.

To do this, one converts each aggregate expressed in national currency into PPS by applying a special conversion rate called the **"Purchasing Power Parity" (PPP)**, obtained from the **transitive** price ratios between countries for a basket of comparable and representative goods and services making up the aggregate.

The use of PPS often reveals **large differences** compared with the data expressed in ECU, USD etc. In summary, relatively wealthy countries are often shown to be less rich than they appear, because of their higher price levels, and vice versa for relatively poor countries.

There are PPP (and hence figures in PPS) for various aggregates. The PPP of the GDP is generally available, though not yet for Cyprus. Consumption-specific PPP are not available for the Czech Republic, Hungary or the Slovak Republic so their PPP of GDP have been used instead as a proxy.

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