Economy and finance

Authors: Irena KOSTADINOVA, Laura WAHRIG

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Statistics in focus
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# Government deficit improves in all quarters of 2011
## In 2011Q4 seasonally adjusted general government deficit stood at -4.5% and -3.8% of GDP in the EU-27 and EA-17 respectively

**In recent years Eurostat has significantly expanded the range of integrated quarterly data on government finances available, providing a timely and increasingly high quality picture of the evolution of government finances in the EU. The data presented in this publication reflect both non-financial and financial transactions and cover all European Union (EU-27) countries. This publication is based on data transmitted to Eurostat at the end of March 2012 and includes data coverage of all quarters of 2011.**

### Quarterly trends in government revenue and expenditure

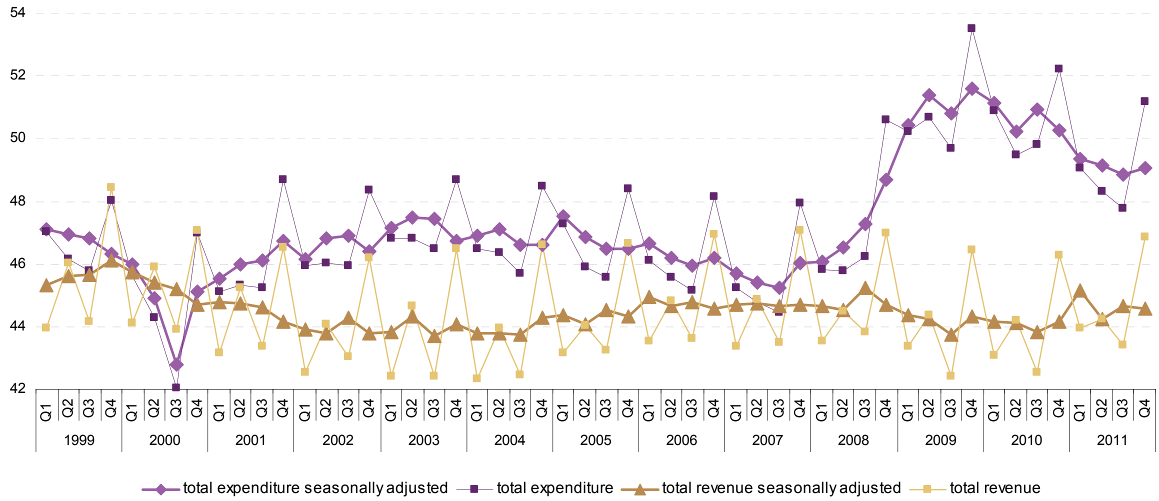
In 2011Q4, non-seasonally adjusted data indicated EU-27 total general government revenue amounting to 46.9% of GDP, while EA-17 general government total revenue amounted to 49.1% of GDP. An increase in total revenue expressed in percentage of GDP compared to 2010 is visible in all quarters of 2011, with the increase largest in the first quarter of 2011.

Looking at figures 1 and 2 we can see that both total revenue and expenditure exhibit a clear seasonality. In order to interpret trends for the most recent quarters, seasonally adjusted data is presented in addition to the raw data transmitted by EU Member States (see methodological note).

**EU-27 and EA-17 seasonally adjusted general government total revenue were equal to 44.6% and 45.4% of GDP respectively in 2011Q4.**

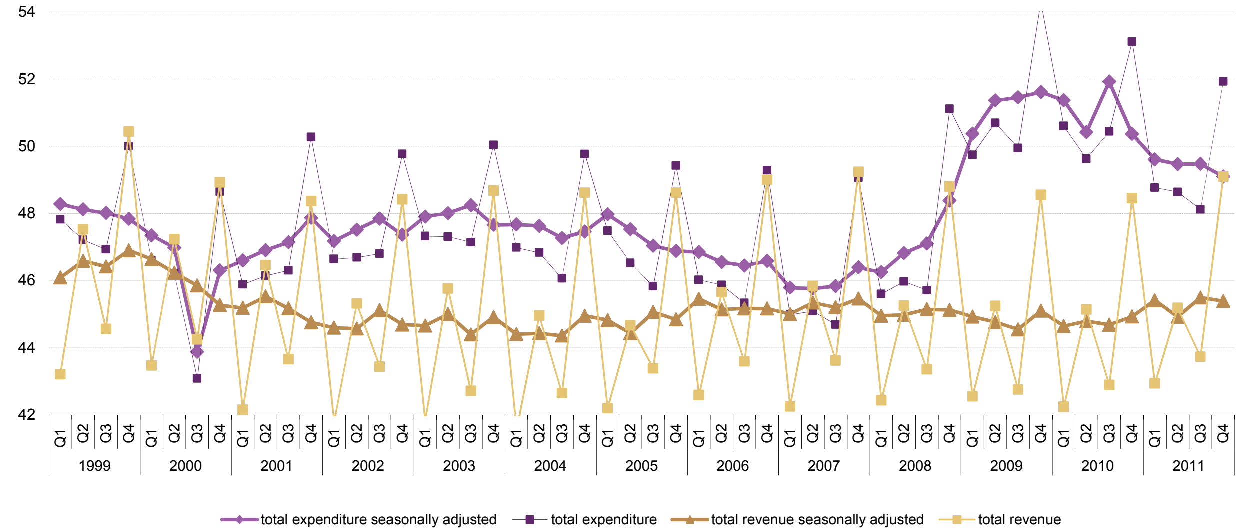
After reaching its last peak at 45.2% of GDP in 2008Q3, EU-27 seasonally adjusted general government total revenue slowly decreased in the subsequent quarters to reach a low point in 2009Q3 at 43.8% of GDP. There was no increase of the revenue-to-GDP ratio during 2010, but an increase of governments' abilities to raise revenue is apparent in all quarters of 2011, with a high point of 45.1% of GDP in 2011Q1.

**Figure 1: EU-27 quarterly government revenue and expenditure, as a percentage of quarterly GDP, seasonally adjusted and non-adjusted data, 1999Q1-2011Q4**




*Source*: Eurostat (online data code: gov_q_ggnfa, seasonally adjusted data: Eurostat estimates)

## Figure 2: EA-17 quarterly government revenue and expenditure, as a percentage of quarterly GDP, seasonally adjusted and non-adjusted data, 1999Q1-2011Q4

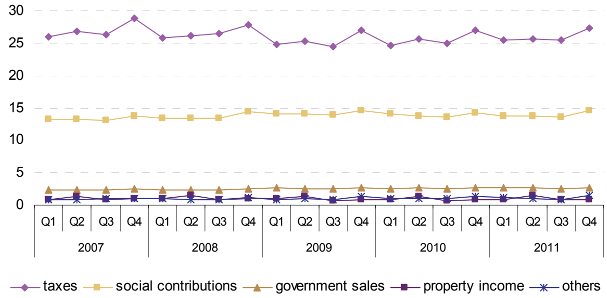



*Source*: Eurostat (online data code: gov_q_ggnfa, seasonally adjusted data: Eurostat estimates)

When looking at absolute numbers (see figure 5) we can see that EU-27 seasonally adjusted government revenue decreased in the last two quarters of 2008, before resuming growth. In 2011Q4 it reached 1 412 billion euro, which is slightly lower than the values recorded for 2011Q1 and Q3 (all seasonally adjusted). The value for 2011Q1 is influenced by one-off events in some countries. In the EA-17 absolute general government total revenue followed a similar trend.

**The most important component of general government revenue is taxes**, making up just over 58% of total revenue (not seasonally adjusted) in the most recent quarter available in the EU-27. During the crisis, taxes had decreased in absolute terms and in terms of GDP, thus playing their role as automatic stabilisers of the economy. We can see from figure 3 that taxes exhibit a clear seasonal pattern, peaking in the last quarter of each year (due to payment deadlines at the end of the fiscal year in many countries). This is followed in importance by social contributions, which made up 31% of total revenue, with government sales (mainly the services it provides) making up a further 5% or so.

## Figure 3: Main components of EU-27 general government total revenue, % of GDP, non-adjusted data, 2007Q1-2011Q4




*Source*: Eurostat (online data code gov_q_ggnfa)

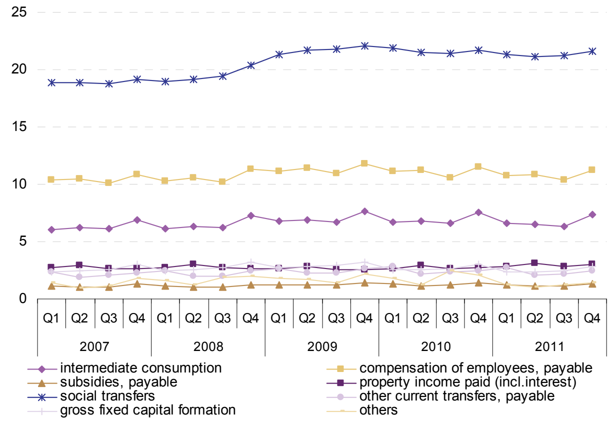
**The sharp increases in government expenditure-to-GDP ratios observed during the economic downturn are due both to increasing government expenditure at current prices and to shrinking or stagnating GDP figures.**

In absolute terms up to 2010 seasonally adjusted government expenditure continued to grow at a similar pace during the crisis than before the crisis up to 2010Q3, with a stronger increase in expenditure noted in 2010Q3 both in the EA-17 and the EU-27 (figure 5).

From 2010Q4 onwards, a decrease in the level of the total expenditure-to-GDP ratio is visible, reflecting an absolute decrease in total expenditure as well as the effects of renewed growth in EU-27 and EA-17 GDP (all seasonally adjusted).

**In 2011Q4, the latest quarter available, total expenditure increased slightly in the EU-27 and decreased further in the EA-17 to reach 49.1% of GDP in both areas (seasonally adjusted).**

## Figure 4: Main components of EU-27 general government total expenditure, % of GDP, non-adjusted data, 2007Q1-2011Q4



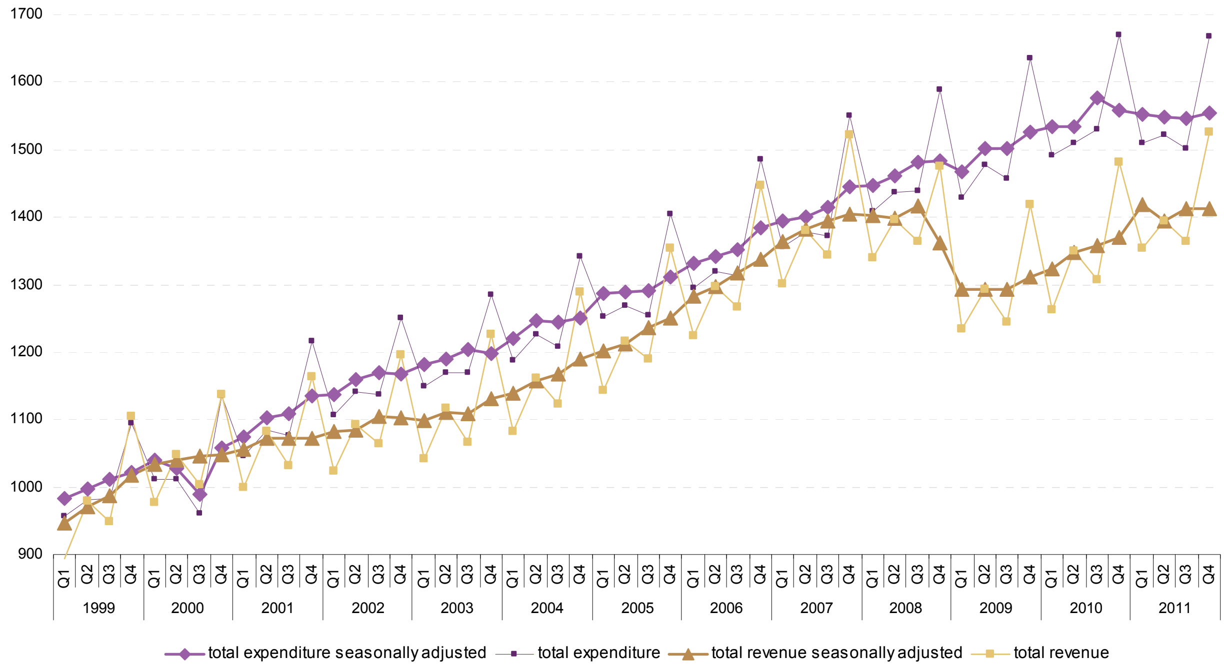

*Source*: Eurostat (online data code gov_q_ggnfa)

**Social welfare spending accounted for about 42% of EU-27 total government expenditure in 2011Q4,** which represents 21.6% of quarterly GDP. This category typically covers risks or needs such as sickness, disability, old age, family support and unemployment and – not surprisingly - was responsible for a large part of the increase of the expenditure-to-GDP ratio recorded during the crisis (figure 4).

In 2011Q4 in the EU-27, 'compensation of employees' represented 11.3% of GDP, 'intermediate consumption' 7.4%, 'property income, payable' (mainly interest payments) 3.0%, investments 2.8%, subsidies 1.3% and other categories 1.5%.

In 2011, we can see clear decreases in most of the main expenditure components except for 'property income, payable' – due to increased interest rates on bonds and an increasing debt. Finally, the breakdown of government expenditure and revenue by main categories shows significant variability across countries.

**Figure 5: EU-27 quarterly government revenue and expenditure, in billions of euro, sesaonally adjusted and non-adjusted data, 1999Q1-2011Q4**




*Source*: Eurostat (online data code: gov_q_ggnfa, seasonally adjusted data: Eurostat estimates)

## General government deficit

The difference between general government revenue and expenditure is known in ESA95 terminology as general government net lending (+)/ net borrowing (-) (ESA95 category B.9) and is usually referred to as government deficit (or surplus). This figure is an important indicator of the overall situation of government finances. It is usually expressed as a percentage of GDP.

**EU-27 general government deficit (seasonally adjusted) decreased significantly over the last four quarters, to stand at -4.5% of GDP in 2011Q4.**

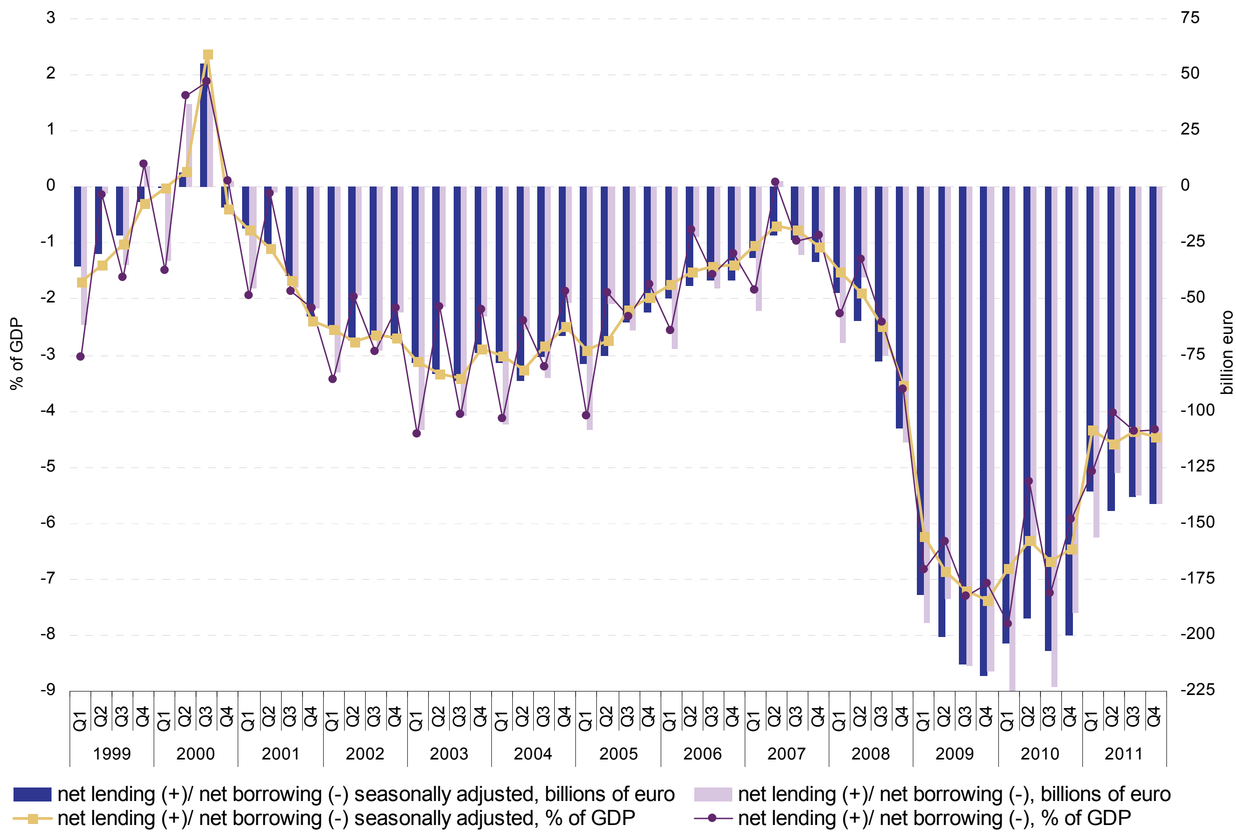
Due to the economic and financial crisis, which started in 2008, EU-27 government deficit steadily deteriorated and reached record levels of -7.2% and -7.4% of GDP (seasonally adjusted) in 2009Q3 and 2009Q4 respectively. The beginning of the consolidation of public finances which can be observed from 2011Q1 onwards is due to a reduction in government expenditure not only in terms of GDP but also in absolute terms as well as continued growth in absolute revenue (seasonally adjusted absolute numbers, see figure 5).

Throughout 2011 significant improvements in the public balance are visible– compared with the same quarter in the previous year -, with seasonally adjusted deficit ranging from -4.6% of GDP in 2011Q2 to -4.3% of GDP in 2011Q1 and Q3 in the EU-27. For the most recent quarter available – 2011Q4 - the seasonally adjusted deficit stood at -4.5% of GDP, while the non-seasonally adjusted figure amounted to -4.3% of GDP.

**For the EA-17 the seasonally adjusted deficit stood at -3.8% of GDP in 2011Q4.**

Using the non-seasonally adjusted data, this yields a year-on-year decrease of 1.6 percentage points of GDP for the EU-27.

**Figure 6: EU-27 quarterly net lending (+)/ net borrowing (-) in billions of euro and as a percentage of GDP, seasonally adjusted and non- adjusted data, 1999Q1-2011Q4**




*Source*: Eurostat (online data code: gov_q_ggnfa, seasonally adjusted data: Eurostat estimates)

## Quarterly financial accounts for general government

The government financial accounts notably allow an analysis of how governments finance their deficits or invest their surpluses. They include data on financial transactions (net acquisition of financial assets and the net incurrence of financial liabilities) and balance sheet items (stocks of financial assets and liabilities outstanding at the end of each quarter) for general government and its sub-sectors. Variations in stocks are explained both by the transactions and by other factors such as holding gains and losses and other changes in volume. The aim of this section is to present the main characteristics of the general government financial accounts.

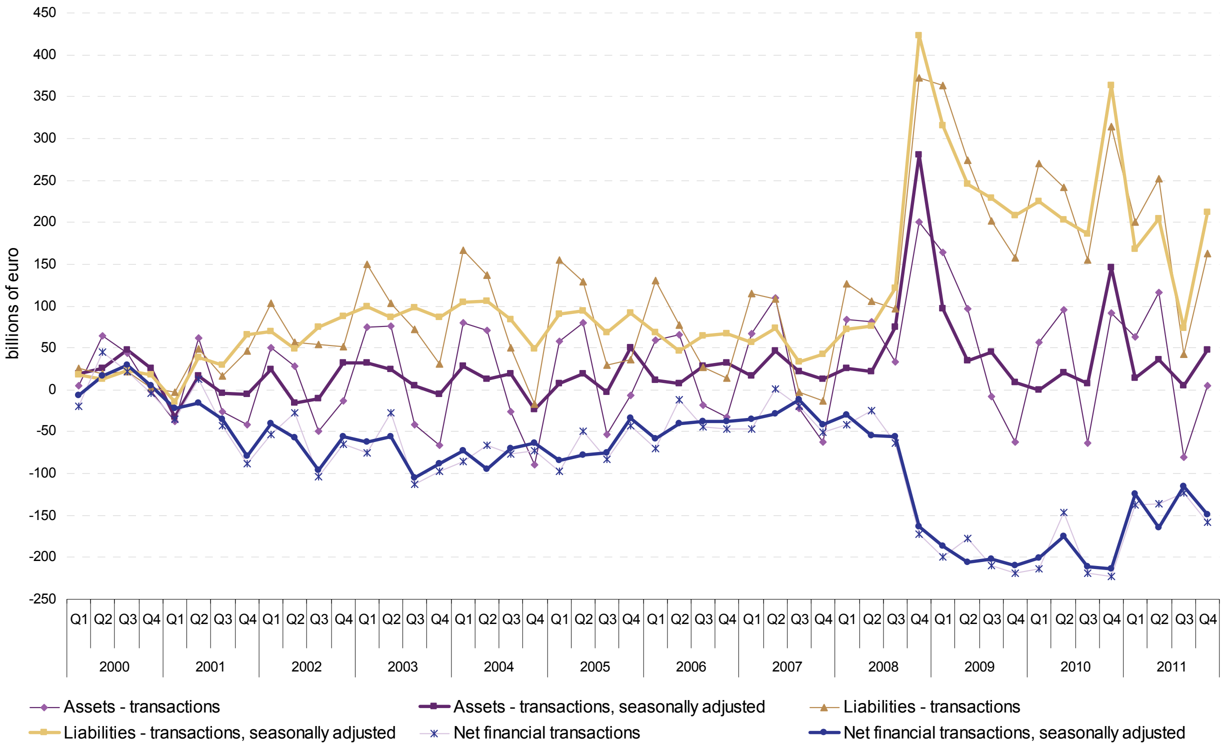
**The economic and financial crisis led to significant increases in the fluctuations of net incurrence of liabilities and net acquisition of financial assets.**

From the second quarter of 2008 onwards, the fluctuation of transactions in both assets and liabilities has increased sharply, with two peaks in both assets and liabilities visible in 2008Q4 and 2010Q4. In two level shifts in 2008Q4 and 2009Q1, the gap between the volume of transactions in assets and liabilities has widened sharply, giving rise to increasing negative figures in net financial transactions (B.9f), which is interpreted as the government deficit/ surplus derived from financial accounts.

**In both the EU-27 and the EA-17 for all quarters of 2011 – as in non-financial accounts – a reduction in negative figures for net financial transactions is visible.**

The increase and peaks in transactions in financial assets can be explained by governments having acquired assets to support financial institutions.

**Figure 7: EU-27 quarterly general government financial transactions (assets, liabilities and net financial transactions) in billions of euro, seasonally adjusted and non-adjusted, 2000Q1-2011Q4**




*Source*: Eurostat(online data code: gov_q_ggfa, seasonally adjusted data: Eurostat estimates)

## Government financial balance sheet

**A significant rise in the stocks of liabilities is observed since the end of 2008 with an increase in assets less pronounced.**

At the end of 2011Q4, the EU-27 stocks of general government financial assets reached 4 486 billion euro, while liabilities amounted to 11 341 billion euro. The resulting financial net worth was negative at -6 855 billion euro. In the euro area, the stock of financial assets amounted to 3 233 billion euro while the stock of liabilities stood at 8 744 billion euro, leaving net financial worth at -5 511 billion euro in 2011Q4 (figure 8).

The stocks of financial assets had previously been quite stable, but from 2009Q1 onwards increases are observed for this indicator.

However, in the EU-27 between 2011Q1 and 2011Q4 an increase of 122 billion euro is noted. In the same period financial liabilities also continued to grow.

When looking at the stocks of financial liabilities expressed as a percentage of GDP, a decreasing trend can be observed up to 2008Q2, followed by sharp increases culminating at a level equal to 88.9% of GDP in 2011Q3. In the latest quarter available – 2011Q4 – a slight easing to 88.8% of GDP is noted for the EU-27.

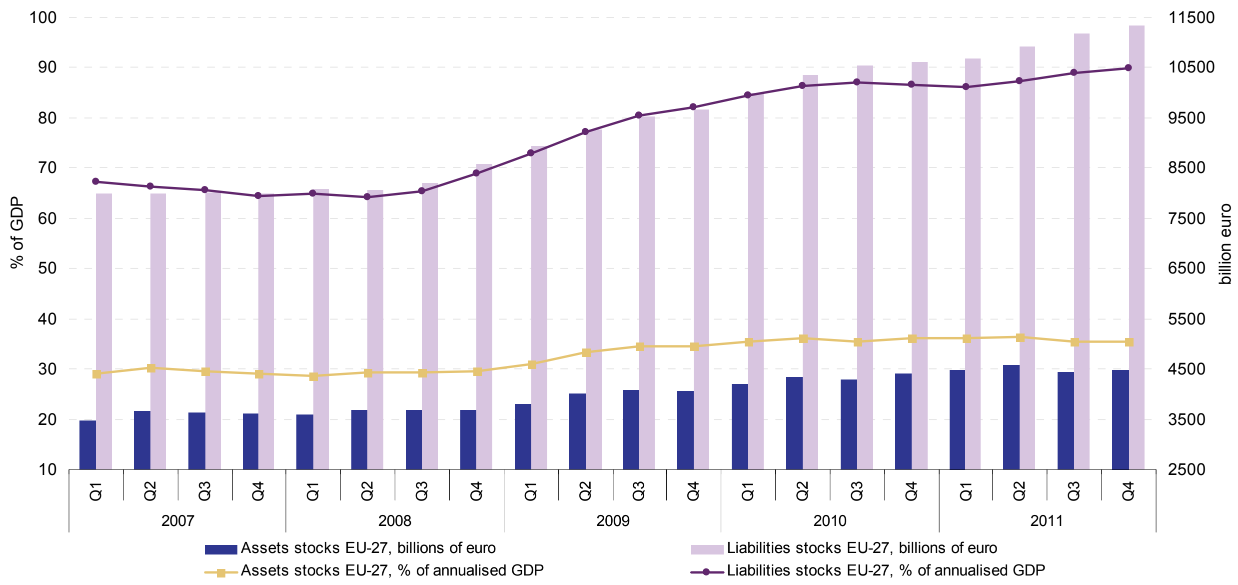
In the euro area, the stock of financial liabilities stood at 69.8% of annualised quarterly GDP in 2011Q3 and decreased to 69.2% of annualised quarterly GDP (i.e. quarterly GDP summed over the previous four quarters) in 2011Q4.

Figure 9 below shows the main components of EU-27 government financial assets.

**The most important component of government financial assets is 'shares and other equity', which was equivalent to 14.8% of annualised quarterly GDP in 2011Q4.**

This corresponds predominantly to the acquisition of equity in financial institutions by governments. Unsurprisingly, the stock of assets classified as shares and other equity has increased during the economic and financial crisis, but has shown a decrease compared to the same quarter of the previous year in all quarters of 2011.

**Figure 8: EU-27 quarterly general government stocks of financial assets and liabilities in billions of euro and as a percentage of annualised quarterly GDP, 2007Q1-2011Q4**

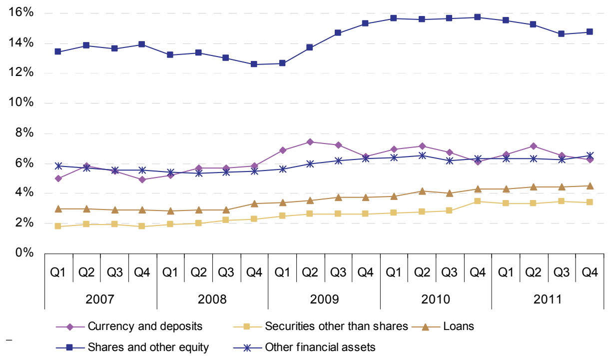



*Source*: Eurostat (online data code: gov_q_ggfa)

The second largest category of EU-27 government financial assets is 'currency and deposits', equivalent to 6.2% of GDP in 2011Q4. This component shows a seasonal pattern, explained by bank accounts of government units and pensions guaranteed and notably of treasuries maintaining abundant liquid assets that can fluctuate very quickly and by large amounts. It is evident that governments had acquired greater assets in currency and deposits during 2009 and to a lesser extent in 2010 due to an increase in liquidity.

In the EU-27 'other financial assets' were equal to 6.5% of GDP in 2011Q4.

**Figure 9: EU-27 quarterly general government stocks of financial assets by financial instrument as a percentage of annualised quarterly GDP, 2007Q1-2011Q4**

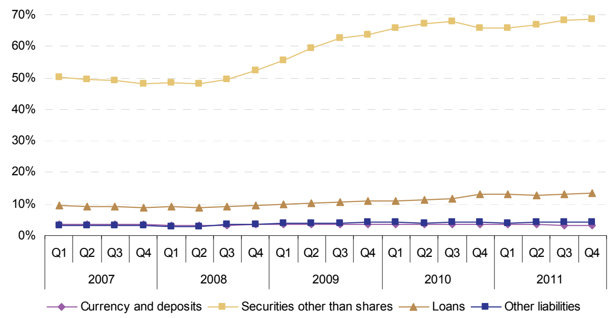



*Source*: Eurostat (online data code: gov_q_ggfa)

Finally, for 'loans' (4.5% of GDP; this instrument contains both short-term and long-term loans) and 'securities other than shares' (3.4% of GDP) lower amounts were recorded in 2011Q4. The percentage share of these components has been fairly stable over the years, which is explained by the asset investment strategies. Nevertheless, during the recent crisis, the GDP shares of both instruments have increased, reflecting loans to other sectors of the economy.

**The main component of EU-27 financial liabilities is 'securities other than shares', which made up around 68.5% of the total stock of liabilities in 2011Q4** – this in turn is mainly government bonds and bills (figure 10). This category is also mostly responsible for the increase of total liabilities. It increased from 50.3% of annualised quarterly GDP in 2007Q4 to 68.5% in 2011Q4 as governments financed their deficits by issuing securities. The three other components of liabilities – 'currency and deposits', 'loans' and 'other liabilities' – have proven to be fairly stable over time.

**Figure 10: EU-27 quarterly general government stocks of financial liabilities by financial instrument as a percentage of annualised quarterly GDP 2007Q1-2011Q4**




*Source*: Eurostat (online data code: gov_q_ggfa)

# METHODOLOGICAL NOTES

**Quarterly accounts of general government**

Eurostat releases quarterly flow and stock data for the general government sector, using an integrated structure which combines the data from quarterly non-financial accounts for general government (QNFAGG), quarterly financial accounts for general government (QFAGG) and quarterly government debt (QGD). An integrated publication combining data from all three tables is released quarterly on the dedicated Government Finance Statistics (GFS) section of the Eurostat web site.. The regulations on these three data flows are available on the Eurostat web site in the section dedicated to government statistics.

**ESA95**

Fiscal non-financial and financial accounts data are compiled in accordance with national accounts rules, as laid down in the 1995 European System of Accounts (ESA95) adopted in the form of a Council and Parliament Regulation (EC) of 25 June 1996, No 2223/96. The full text of ESA95 is available on the Eurostat web site.

**Quarterly non-financial accounts for general government (QNFAGG)**

The aim of QNFAGG is to compile, report and present quarterly government expenditure, revenue and their components. Government revenue and expenditure are concepts used to analyse fiscal policy. Total revenue and total expenditure are defined in ways such that the ESA95 government net lending (+)/ net borrowing (-) (ESA95 B.9), is equal to the difference between the former and the latter.

Government quarterly revenue and expenditure, and their components are reported in the framework of the *European Parliament and Council Regulation (EC) No 1221/2002* on quarterly non-financial accounts for general government (QNFAGG).

**Quarterly financial accounts for general government (QFAGG)**

Quarterly financial accounts for general government include data on financial transactions and balance sheet items for general government (consolidated and non-consolidated) and its sub-sectors. The primary classification of financial instruments comprises: Monetary gold and special drawing rights (AF.1), Currency and deposits (AF.2), Securities other than shares (AF.3), Loans (AF.4), Shares and other equity (AF.5), Insurance technical reserves (AF.6), and Other accounts receivable/ payable (AF.7). The reliability of data reported by Member States has been assessed and reported to the European Parliament and the Council. The most recent reports are available on the Eurostat web site in the section dedicated to government finance statistics.

**Quarterly Government Debt (QGD)**

Quarterly government debt is constituted by the liabilities of general government in the following categories: AF.2 (currency and deposits), AF.33 (securities other than shares, excluding financial derivatives) and AF.4 (loans). QGD must comply with ESA95 regulations concerning the classification of institutional units, consolidation rules, classification of financial liabilities and recording time. However, the valuation rules are different from those of ESA95. While in ESA95 assets and liabilities must generally be recorded at their market value at the end of the accounting period, QGD is recorded at nominal value. The market value is the price of a security as determined dynamically by buyers and sellers in an open market while the nominal value is considered equivalent to the face value of liabilities for securities. It is therefore equal to the amount (contractually agreed) that the government will have to refund to creditors at maturity. Moreover, in the definition of Maastricht debt, interest accrued on liabilities is not accounted for in the nominal valuation, unless explicitly credited.

QGD data is the subject of a dedicated press release and is thus not subject of this publication.

**General government**

QNFAGG and QFAGG statistics cover data for 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".

**Seasonal adjustment of selected data series**

Quarterly government finance statistics are reported to Eurostat in the form of non-seasonally adjusted (raw) figures. However, a certain number of the reported series contain seasonal patterns (partly explained by the link with the seasonality of economic activity and by the budgetary planning and accounting practices of national governments), which make it difficult to carry out a direct meaningful cross-country and time series analysis. The same is true for GDP, which reflects the seasonal pattern of all economic activities in the economy.

To overcome this difficulty and thus to gain a better understanding of trends in addition to the non-seasonally adjusted data, seasonally adjusted data is presented for the EU-27 in this publication. The seasonal adjustment aims to remove the seasonality linked to this quarterly data. The seasonal adjustment is done using a direct procedure (Tramo-Seats in Demetra+). As concerns GDP, no independent estimate is derived. The results of the seasonal adjustment are subject to further tests and might be revised in the future.

**Revision policies/ country notes**

The differing revision policies of EU Member States and EFTA countries reporting quarterly GFS data can be viewed in the QNFAGG and QFAGG manuals as well as in the respective metadata files on Eurobase. Revisions are generally accepted by Eurostat.

The majority of countries revise quarterly QNFAGG and QFAGG data once more detailed sources used for the compilation of annual general government accounts become available; that is with the provision of quarterly data for the fourth quarter.

Ireland: In July 2011 a total of €13.5bn was injected into 3 Irish banks. Of this €7.8bn is provisionally classified as acquisition of equity and the remaining €5.8bn is classified as a capital transfer. Eurostat has expressed a reservation on the latest data reported by Ireland under the Excessive Deficit Procedure, for more information, please consult the latest EDP press release.

**Gross domestic product**

Throughout this publication, gross domestic product (GDP) at current prices (nominal) is used, either using the non-seasonally adjusted or the seasonally and working-day adjusted forms as appropriate.

**Abbreviations**

EA-17: euro area including Belgium, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Cyprus, Luxembourg, Malta, Netherlands, Austria, Portugal, Slovenia, Slovakia and Finland.

EU-27: European Union of 27 Member States including euro area Member States as well as Bulgaria, the Czech Republic, Denmark, Latvia, Lithuania, Hungary, Poland, Romania, Sweden and the United Kingdom.

**More information/ acknowledgments**

The authors can be contacted at ESTAT-STPFS@ec.europa.eu.

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# Further information

Eurostat Website: http://ec.europa.eu/eurostat

Data on “Government finance statistics”
http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/data/database

Further information about “Government finance statististics”
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**European Statistical Data Support:**

With the members of the ‘European statistical system’, Eurostat has set up a network of support centres in nearly every Member State and in some EFTA countries.

Their role is to provide help and guidance to Internet users of European statistics.

Contact details for this support network can be found on the Eurostat website at: http://ec.europa.eu/eurostat/.

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