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Abbreviations and symbols used

Member States

B	Belgium
DK	Denmark
D	Germany
EL	Greece
E	Spain
F	France
IRL	Ireland
I	Italy
L	Luxembourg
NL	The Netherlands
A	Austria
P	Portugal
FIN	Finland
S	Sweden
UK	United Kingdom
WD	West Germany

EU	European Union
EU-12–	European Community, 12 Member States excluding East Germany
EU-12+	European Community, 12 Member States including East Germany
EU-15	European Community, 15 Member States
EUR-11	Group of 11 Member States participating in monetary union (B, D, E, F, IRL, I, L, NL, A, P, FIN)

Currencies

ECU	European currency unit
EUR	Euro
ATS	Austrian schilling
BEF	Belgian franc
DEM	German mark (Deutschmark)
DKK	Danish krone
ESP	Spanish peseta
FIM	Finnish markka
FRF	French franc
GBP	Pound sterling
GRD	Greek drachma
IEP	Irish pound (punt)
ITL	Italian lira
LUF	Luxembourg franc
NLG	Dutch guilder
PTE	Portuguese escudo
SEK	Swedish krona
CAD	Canadian dollar
CHF	Swiss franc
JPY	Japanese yen
SUR	Russian rouble
USD	US dollar

Other abbreviations

CPI	Consumer price index
ECB	European Central Bank
ECSC	European Coal and Steel Community
EDF	European Development Fund
EIB	European Investment Bank
EMCF	European Monetary Cooperation Fund
EMS	European Monetary System
EMU	Economic and monetary union
ERM	Exchange rate mechanism
Euratom	European Atomic Energy Community
Eurostat	Statistical Office of the European Communities
FDI	Foreign direct investment
GDP (GNP)	Gross domestic (national) product
GFCF	Gross fixed capital formation
HICP	Harmonised index of consumer prices
ILO	International Labour Organisation
IMF	International Monetary Fund
LDCs	Less developed countries
Mio	Million
Mrd	1 000 million
NCI	New Community Instrument
OCTs	Overseas countries and territories
OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation of Petroleum Exporting Countries
PPS	Purchasing power standard
SMEs	Small and medium-sized enterprises
VAT	Value added tax
:	Not available
–	None

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Summary and main conclusions

Summary of the report

The aim of this report

Achieving and sustaining sound positions in public finances is essential to raise output and employment in Europe. Low public debt and deficits help maintain low interest rates, facilitate the task of monetary authorities in keeping inflation under control and create a stable environment which fosters investment and growth. Furthermore, high public savings will help countries prepare for the budgetary consequences of ageing populations. The Maastricht Treaty clearly recognises the need for enhanced fiscal discipline in economic and monetary union (EMU) to avoid overburdening the single monetary authority and prevent fiscal crises which would have negative consequences for other countries. Moreover, the loss of the exchange rate instrument implies the need to create room for fiscal policy to tackle adverse economic shocks and smooth the business cycle. The Stability and Growth Pact (SGP) is the concrete manifestation of the shared need for fiscal discipline.

Public confidence in EMU will to a large degree hinge on the tangible achievement of ambitious budgetary goals. First and foremost, all Member States must reach as soon as possible the target of the SGP, that is budget positions which are 'close to balance or in surplus'. However, the degree of ambition must go beyond achieving broadly balanced budgets and avoiding fiscal crises. Member States must now demonstrate a willingness to tackle deep-rooted structural budget problems, especially in the light of the opportunity provided by favourable growth prospects. The recent special European Council in Lisbon referred to these challenges as improving the quality and sustainability of public finances.

With these considerations in mind, the Directorate-General for Economic and Financial Affairs has prepared this report specifically dedicated to *Public finances in EMU*. It is an attempt to upgrade the Commission's analysis with a view to contribute to the policy debate on the fiscal challenges in EMU and to enhance the external scrutiny of Member States' budgetary performance. A further aim of the report is to encourage a broad public discussion on these fiscal policy challenges. Overall, the report strengthens the analytical basis of work on fiscal policy at EU level, especially in the implementation of the Stability and Growth Pact and the preparation of the broad economic policy guidelines. It is a contribution to the mandate of the special Lisbon European Council.

Part I is a retrospective examination of the successful fiscal consolidation in the 1990s. Part II reviews current fiscal developments and short-term budgetary prospects, as well as medium-term plans set down in the updated stability and convergence programmes. Part III assesses the working of the Stability and Growth Pact one year after its provisions came fully into force. Part IV explores an important aspect of the 'quality' of public finances, taxation. It compares the evolution of tax structures across Member States and describes recent reforms. Part V contains for each Member State a brief summary of budget developments and policy challenges.

Significant consolidation in the 1990s,
but debt levels and tax burden remain high

Part I of the report is a retrospective examination of the factors behind the successful fiscal consolidation of the 1990s. Over the past 30 years, the size of the public sector in the economy has increased by 50 %, largely driven by expanding social transfers and rising interest payments. Throughout this period, Member States' fiscal policies have suffered from two main weaknesses. First, high structural deficits led to an uncontrolled rise in the stock of public debt until the mid-1990s. Secondly, budgetary behaviour has tended to be pro-cyclical, amplifying the effects of cyclical swings rather than having the desired stabilising effect. Instead of reducing government deficits and debt ratios when economic growth was favourable, governments have tended to undertake a dis-

cretionary loosening of the budgetary stance. This necessitated budgetary tightening during downturns to prevent deficits and debt from spiralling out of control.

With budget positions on a clearly unsustainable path and also on account of the Maastricht convergence criteria, policy-makers enacted a strong budgetary adjustment as from 1992–93. The general government deficit for the euro area fell by 3.5 percentage points of GDP between 1993 and 1997. Viewed at Member State level, some spectacular turnarounds in fiscal performance were achieved such that no EU country has an ‘excessive deficit’ position as of 1999. The scale of the budgetary retrenchment is all the more impressive as it took place against an unfavourable economic background: nevertheless, it implied a cost in terms of lost output as fiscal policy was largely pro-cyclical during the 1990s. As to the composition of the budgetary adjustment for the euro area as a whole, it was essentially revenue-based during 1992 and 1993. Thereafter, expenditure retrenchment played a greater role in reducing deficits with primary expenditures falling by 2 percentage points of GDP between 1993 and 1997, although tax revenue continued to increase.

Two important lessons can be learned from the successful budgetary retrenchment in the 1990s. First, a rule-based approach to fiscal policy (convergence criteria and subsequently the SGP), backed up with a strong political commitment, can yield significant improvements in budget positions. Second, as the experience of some Member States shows, expenditure-based budgetary adjustments send a strong signal of a government’s commitment to fiscal consolidation and are likely to generate positive expectations.

While budget deficits have been substantially reduced, the process of fiscal consolidation is far from over. Some Member States still have some way to go to meet the SGP goal of budget positions which are close to balance or in surplus. In addition, there is an urgent need to reduce government debt levels which remained above 70 % of GDP in 1999 for the euro area. This level is high in historical terms (more than double the 1980 level), and three Member States still have debt ratios close to or above 100 % of GDP. Finally, the tax burden which amounted to 43 % of GDP in the euro area (some 14 and 16 percentage points higher than in the US and Japan) must be substantially reduced if the EU is to boost potential output and employment.

Better than expected budgetary outcome in 1999, but emerging risk of a pro-cyclical stance

Part II of the report presents current developments and short-term budgetary prospects based on the spring 2000 economic forecasts of the Commission services. Results for 1999 exceeded expectations despite growth being lower than initially projected in several Member States. The most recent data point to a general government deficit of 1.2 % of GDP for the euro area, down from 2.3 % in 1998. All Member States met the nominal budgetary targets fixed in the original 1998/99 stability and convergence programmes, and in some cases targets were surpassed by a wide margin.

As regards the composition of budgetary adjustment in 1999, the lowering of the deficit resulted from higher revenues rather than reduced spending. The revenue ratio in the euro area went up by around half a percentage point of GDP. However, several factors suggest that this rise was not a consequence of deliberate policy decisions. In particular, tax receipts were buoyant as the growth slowdown in the first part of the year was mainly due to a fall-off in external demand which had little impact on tax revenues. On the expenditure side, the ratio of total expenditures to GDP in the euro area decreased marginally but this was entirely due to lower interest payments, with primary spending (total expenditures net of interest payments) actually showing a slight increase.

The spring 2000 forecasts of the Commission anticipate a further, albeit small, decline in the deficit ratio for the euro area to 0.9 % of GDP in 2000 and 0.8 % in 2001. Again, however, this is mostly due to an acceleration in growth and a decline in interest expenditure on government debt. One reason behind this relatively slow progress is that attention is turning away from deficit reductions to other objectives, namely cutting taxes. After the increase in the revenue ratio in 1999, tax cuts will lower the euro area tax burden by a combined total 1.5 % of GDP in 2000 and 2001. In the euro area, the combined reduction in primary expenditure as a percentage will be 1.6 % of GDP over the same period. Government debt is projected to continue its downward path from over 72 % of GDP in 1999 to 68 % in 2001.

With the likelihood of economic growth above trend in 2000 and 2001, the Commission forecasts point to the risk of a pro-cyclical budgetary stance in some Member States, as indicated by a weakening in the cyclically adjusted primary balance. Particular care to avoid a pro-cyclical stance is required in countries where there are

risks of overheating. To this end, and as a general rule, Member States should allow fiscal stabilisers to operate fully during the upswings. This is the counterpart to allowing deficits to rise in downturns and is a necessary condition for budgets to be close to balance over the economic cycle.

Medium-term prospects are favourable, but countries should be more ambitious

Part II also contains an overview of the updated stability and convergence programmes that were submitted and evaluated in late 1999 and early 2000. The programmes provide for the deficit of the euro area to fall to 0.3 % of GDP in 2003 and to balance for the EU. By 2002 or 2003, eight of the Member States aim for a budget surplus and a further five expect a deficit of no more than 0.5 % of GDP. Hence, the medium-term goal of budget positions which are 'close to balance or in surplus' is now within reach, especially as these commitments were entered into on what now appear to be cautious assumptions about growth.

While progress towards the medium-term targets is welcome, the 'quality' of the budgetary adjustment is mixed. On the expenditure side, most of the reduction comes from lower interest payments, which is largely outside the discretionary control of governments. However, the decline in general government investment observed in recent years is finally halted and in some cases reversed. As regards the revenue side, most Member States are generally pursuing a budgetary strategy involving reductions in the overall tax burden, although at a rather slow pace considering the favourable growth environment. Overall, the updated programmes provide for only a small improvement in the underlying budget position, with the cyclically adjusted primary surplus showing no improvement between 2000 and 2003.

The updated stability and convergence programmes confirm a tendency on the part of some Member States to set actual deficit targets on the basis of cautious growth assumptions. Prudence is of course required when setting medium-term targets. However, overly cautious scenarios on economic developments complicate the assessment and discussion of programmes, as the adjustment effort actually needed to reach the targets becomes unclear. Over time, economic agents might disregard budgetary projections based on unrealistic assumptions, and this could undermine the public's confidence in the SGP.

Moreover, Member States must ensure that all important fiscal policy measures, actual or planned, are included and explained in their stability and convergence programmes. Otherwise, the process of peer review cannot work effectively. To build up mutual trust and sustain confidence, all participants must respect the spirit as well as the letter of the SGP.

The Stability and Growth Pact one year on

Part III assesses the working of the Stability and Growth Pact one year after its provisions came fully into force. It starts by recognising that the framework of the SGP is working effectively, and that it can help Member States avoid a repetition of past fiscal failures, namely high structural deficits and pro-cyclical budgetary behaviour. A number of conceptual issues which have arisen in the implementation of the SGP are then tackled.

Consideration is given to the factors that should be taken into account when setting the medium-term budget targets for each Member State. Setting the right target is important if Member States are consistently to respect the 3 % of GDP deficit reference value while letting automatic stabilisers work freely to smooth the business cycle. Calculations presented in the report suggest that the medium-term targets of most Member States should build in a safety margin of 2 percentage points of GDP to guard against the effects of the cycle. An additional safety margin to deal with unforeseen budgetary developments should also be established. This additional safety margin would cover unexpected tax shortfalls or spending overruns not due to cyclical fluctuations, and is estimated to be in the order of between 0.5 % and 1 % of GDP. All in all, broadly balanced budgets seem an adequate target for most Member States, but some should aim for a surplus. Adherence to ambitious medium-term targets will lower the stock of government debt over time and thereby reduce interest payments. This will partially offset the pressure on public finances arising from ageing populations.

Part III then turns to how budgetary surveillance of SGP targets can be improved. This monitoring role will become increasingly important as new policy challenges emerge in a situation when Member States approach balanced budget positions and in a high growth environment. To ensure confidence in the fiscal policy framework of EMU, it is important to apply a consistent and analytically sound approach to the emerging fiscal policy challenges, avoiding *ad hoc* solutions that create uncer-

tainty and provide scope for political bargaining. Two current 'monitoring' challenges warrant particular attention.

- With growth forecasts higher than what was assumed in the updated stability and convergence programmes, the budgetary targets — which are expressed in actual terms — become less stringent. This makes it difficult to assess the 'real' degree of budgetary ambition in the programmes. To overcome this risk, it is necessary for the commitment of Member States in the stability and convergence programmes to go beyond actual targets for budget balances: account must be taken of changing growth conditions which implies an examination of underlying or cyclically adjusted budget balances.

- There is now greater scope for cutting taxes and reforming tax systems, which could make an important contribution to raising potential output and improving employment incentives. Getting the right balance between cutting taxes and sustaining fiscal consolidation is vital. It would be counterproductive to make tax cuts now, only to find that they are not sustainable in the long run and have to be raised again during a future economic downturn.

Tax reform to raise output and employment without jeopardising fiscal discipline

Part IV explores an important aspect of the 'quality' of public finances, taxation, and is a contribution by request of the special European Council of Lisbon. It describes and compares the evolution of tax structures and effective tax rates across Member States. Major reforms of recent years are reviewed, in particular measures to reduce the tax burden on labour. This analysis presents evidence that the driving force behind high tax rates in the EU is high public expenditure: increased expenditure leads to increased taxation and not vice versa. This suggests that for tax cuts in EMU to be sustainable in the medium to long run, they need to be matched with primary expenditure reductions.

The results of a number of tax reform simulations using the Commission services' QUEST econometric model are presented to assess their long-run economic and employment effects. They show that reforms lowering the tax burden, especially on labour, are likely to have positive effects on investment, employment and output. However, tax cuts are not self-financing and would need to be compensated with spending cuts to prevent government deficits from rising. An across-the-board tax cut of 1 % of GDP matched by a reduction in current spending would increase employment by some three quarters of a million jobs. If the tax cut is targeted at reducing the burden on labour, the estimated effect on employment creation would double to 1 1/2 million jobs. A smaller increase in employment of about half a million would be achieved by shifting the tax burden from labour to other tax bases such as consumption, but leaving the overall tax burden unchanged.

While caution must be exercised when interpreting these illustrative results, they do confirm the strategy endorsed by the special European Council of Lisbon to reduce the tax burden in general and, especially, on labour. In addition, they support the case for framing tax cuts within a comprehensive reform package on account of the interactions of tax and welfare systems.

Main policy challenges

New fiscal challenges are coming to the fore

Based on the analysis in the report, it is possible to draw a number of conclusions on the main fiscal policy challenges in EMU. The report, of course, is not exhaustive. Important challenges such as the efficiency of public spending and the need for its substantial restructuring have not been addressed. The Commission plans further work in this field.

As broadly balanced budgets are approached and with a favourable economic outlook, new fiscal policy challenges are coming to the fore. The EU is approaching the end of a long phase of striving to place budget positions on a stable path, where the inevitable emphasis was on meeting strict targets for actual government deficits. The EU is now entering a new phase of budgetary reform, where the challenge is to sustain budget discipline and at the same time undertake restructuring which enhances the quality and long-term sustainability of public finances.

In sum, the EU is approaching a defining period in its long-term commitment to fiscal discipline. Having demonstrated a capacity to undertake fiscal consolidation in the run-up to EMU when the economic environment was less than favourable, Member States must now demonstrate their willingness to pursue responsible fiscal behaviour during 'good' times: in many ways this is an even more challenging goal.

The most immediate challenge is to avoid a pro-cyclical budgetary stance

High economic growth will ensure buoyant tax revenues and some fall in current spending, especially on transfers to the unemployed: overall the actual budget balance should improve. However, this can lead to pressure for large tax cuts and discretionary spending increases that would worsen the underlying budget balance.

To avoid such a pro-cyclical loosening of the budgetary stance, Member States must let the automatic fiscal stabilisers operate fully during the upswing and allow budget balances to improve. Government debt should be run down at a faster pace. To the extent that growth is higher than the assumptions contained in stability and convergence programmes, Member States should surpass the agreed targets for budget balances, which are expressed in actual terms, and in most cases move into budget surplus.

Need to get the right balance between further deficit reductions and tax cuts

As well as avoiding pro-cyclical behaviour, Member States must seize the opportunity of high growth to make the difficult structural reforms going beyond measures announced in the updated stability and convergence programmes that will lead to a lasting reduction in the tax burden. However, to ensure that tax cuts are permanent (and will not have to be reversed when the economy slows down), they need to be accompanied with matching cuts in spending. In sum, the only way to generate a real 'growth dividend' is by tackling head on the underlying reasons for the high tax burden, that is to introduce the necessary reforms to reduce and restructure public expenditure.

Reflecting the importance of getting the right balance between cutting taxes and pursuing deficit reductions, the Ecofin Council of 28 February 2000 broadly endorsed four criteria for assessing whether a Member State actually has the capacity to cut taxes safely without jeopardising the SGP commitments. They are: (1) uncompensated tax reductions can only be envisaged in Member States that meet the medium-term budget target of 'close to balance or in surplus'; (2) tax reductions must not be pro-cyclical; (3) account must be taken of the level of government debt and long-term budget sustainability; and (4) tax reductions should form part of a comprehensive reform package. The Commission intends to apply these criteria when assessing budgetary plans for 2001 and future updates to stability and convergence programmes.

The quality and sustainability of public finances must also be improved

At the same time as bringing down the debt and tax burden, the recent special European Council in Lisbon emphasised the need to improve the quality and sustainability of public finances. The term 'quality' of public finance is multidimensional, and covers both the expenditure and revenue sides of the budget. This report highlights the scope for improving 'quality' on the revenue side. In particular it shows that reforms of the tax system to lower the burden on labour can improve incentives for employment and investment without jeopardising fiscal discipline.

As regards long-term sustainability, the running-down of government debt can make an important contribution towards preparing for the budgetary impact of ageing populations. This is illustrated by calculations which show the reduction in the future interest burden that can be achieved by adhering to ambitious medium-term budgetary targets. However, it would be inappropriate to rely only on the consolidation of public finances to prepare for the budgetary impact of ageing populations. Adhering to a budget target (even an ambitious one) must not divert attention away from the need to make structural reforms to the features of tax and benefit systems which accentuate age-related budgetary pressures.

***

EU countries, after striving for several years to achieve fiscal discipline and stability, are entering a new phase of budgetary reform where the challenge is to sustain and further improve budget discipline, and at the same time to enhance the quality and sustainability of public finances. The current growth upswing should provide the opportunity to make significant progress towards these objectives which are essential for raising growth and employment in Europe and to ensure the long-term success of EMU.

Part I

An overview of fiscal consolidation in the 1990s

1. Introduction

The Maastricht Treaty recognises that maintaining sound public finances is critical to the success of EMU. It contains provisions which in the first instance aim at preventing large fiscal imbalances from emerging (via regular monitoring and surveillance of public finances at Member State level) but, where necessary, require countries to take corrective action to lower public deficits and debt (the so-called excessive deficit procedure).

The provisions in the Maastricht Treaty were reinforced by the Stability and Growth Pact (SGP), ensuring that the commitment to fiscal discipline is sustained in EMU and not simply viewed as an entry requirement (see Part III, Chapter 1 for a detailed description of the SGP). Essentially, the Treaty and the SGP establish a rule-based approach to fiscal policy with targets for public sector deficits, i.e. initially the 3 % of GDP reference value in the convergence criteria and subsequently the SGP goal of budget positions which are 'close to balance or in surplus'.

Such a strong emphasis on fiscal prudence and stability in the Maastricht Treaty derived from the belief that the deterioration of public finances was an important cause behind the poor economic performance of many EU countries since the early 1970s. The subsequent decades taught Europe a salutary lesson of how economic prosperity cannot be sustained in an unstable economic policy environment. Inappropriate fiscal policies frequently overburdened monetary policy leading to high interest rates. On the supply-side, generous welfare systems contributed to structural rigidities in EU economies and fuelled inappropriate wage behaviour. The net effect was a negative impact on business expectations and on investment, thus contributing to a slower rise in actual and potential output. As a result, employment stagnated.

This chapter begins with a brief exposition of the sources of growing budgetary imbalances during the 1970s and 1980s which prompted the considerable fiscal adjustments in the run-up to EMU. It considers the different strategies pursued by Member States, in particular the composition of the consolidation, i.e. revenue increases versus expenditure reductions, capital versus current expenditure cuts. The role played by the economic cycle and by the reduction in the interest burden on public debt is also considered, as well as the role of monetary policy in the adjustment effort. Finally, the struggle to reverse an increasing trend in the stock of public debt is outlined.

Overall, this part of the report aims to identify lessons from past successful budgetary adjustment efforts that could be applied to the fiscal policy challenges in EMU. In particular, there may be insights on how to recover room for manœuvre for automatic stabilisers and on what type of fiscal adjustment will need to be pursued in the years to come.

2. Growing budgetary imbalances: from the 1970s to the mid-1990s

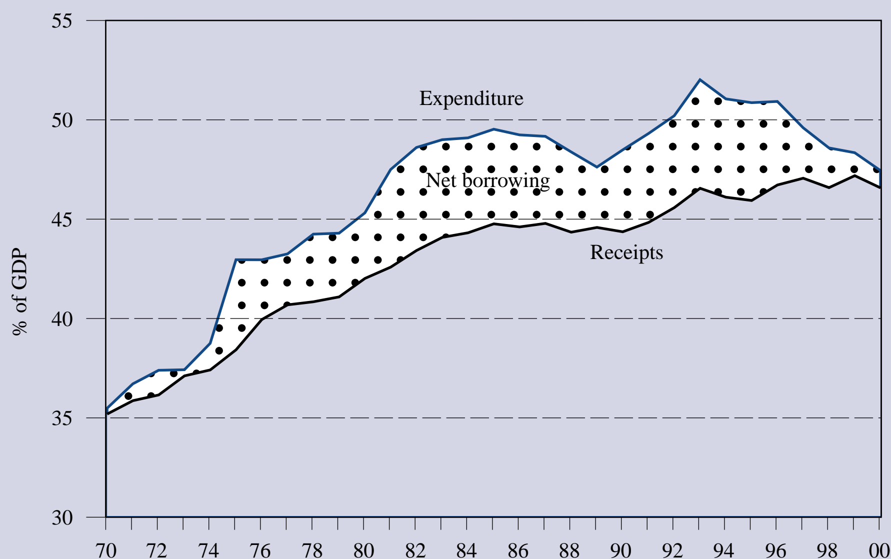
2.1. Rising debt and deficits

Beginning in the 1960s and through to the mid-1990s, the general government sector in the EU and the euro area has accounted for a rapidly rising share in the economy ([1]). From 36 % of GDP in 1970, total government expenditures in countries belonging to the euro area rose by over 16 percentage points to a peak of over 52 % of GDP in 1993 (see Graph 1). A breakdown of this increase of almost a half in the size of the share of public spending in the economy in less than 25 years is presented in Graph 2 and shows that it was largely the result of expanding social transfers and interest payments. Fiscal consolidation in the run-up to EMU has led to a fall in the expenditure ratio to approximately 48 % of GDP in 1999 and 47 % of GDP in 2000, but this only returns government spending as a share of GDP to just below its 1990 level. This ratio is very high compared with the US and Japan, where expenditure ratios in 1999 were 32 % and 40 % of GDP respectively.

Graph 1 illustrates that the ratio of revenues to GDP also increased steadily over the same period which, as documented in Part IV, was driven by the need to finance growing public expenditures. However, unlike expenditures which peaked in 1993, the revenue ratio is only expected to start falling from its historically high level of 46 % of GDP as of 1999.

([1]) To reflect the new framework for fiscal policy in EMU, this report generally refers to the budget position of the euro area. Where appropriate, figures for the EU as a whole are presented.

Graph 1: **Rising share of general government in the economy, euro area, 1970–2000**



Source: Commission services.

The growth in the size of the public sector occurred in tandem with the emergence and persistence of large government deficits. Almost without exception, the average general government deficit for the euro area countries was above 3 % of GDP from 1975 onwards. In the aftermath of German reunification and the strong recession of the beginning of the 1990s, the budget deficit for the euro area surged, attaining a historical high of 5.5 % in 1993.

High and persistent budget deficits in turn led to rapidly increasing government debt and a mounting interest burden. The ratio of government debt to GDP for the euro area increased from less than 30 % in the late 1970s to nearly 75 % in 1997.

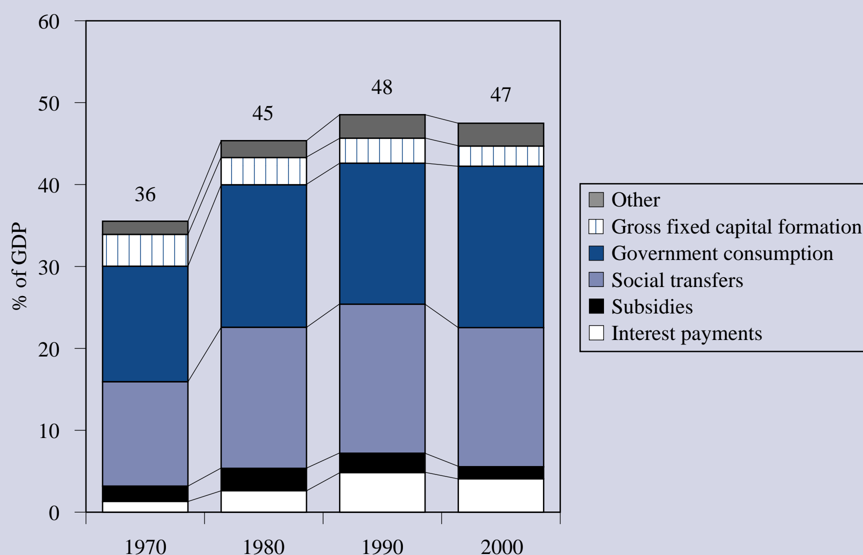
The sense of budgetary crisis that pervaded the EU can be gauged only by examining the situation at Member State level. Prolonged fiscal laxity meant that almost all EU countries faced serious fiscal imbalances by the early 1990s. In some cases public finances were on clearly unsustainable paths such that there was no alternative to radical consolidation in order to prevent an uncontrollable increase of public debt.

Denmark and Ireland already embarked on the consolidation path in the 1980s, the latter having run double-digit deficits from 1979 to 1986 and accumulating government debt amounting to 111 % of GDP in 1987. Italy and Greece ran very large deficits well into the 1990s leading to a very rapid rise in public debt levels to well over 100 % of GDP (124 % and 111 %, respectively, in peak years). Large and persistent deficits in Belgium pushed up the public debt ratio which reached a historical high of 135 % in 1993. Due to very severe recessions and bank failures in the beginning of the 1990s, budgetary crises erupted in Sweden and Finland. Both countries saw the surpluses of the 1980s disappear almost overnight to be replaced with very large deficits: Sweden recorded a deficit of some 12 % of GDP in 1993 after enjoying a surplus of over 4 % of GDP in 1990, a deterioration of some 16 percentage points in three years. Having fallen back during the second half of the 1980s, deficits in the UK rose rapidly during the economic downturn of the early 1990s and peaked at over 8 % of GDP in 1993.

2.2. Pro-cyclical fiscal polices since the early 1970s

Apart from the worsening budgetary positions, EU fiscal policies since the 1970s have suffered from an additional weakness, in that they have tended to be pro-cyclical.

Graph 2: **Growth in general government expenditure in the euro area**



Source: Commission services.

Box 1: **Fiscal policy indicators**

Several indicators, besides actual public debt and budget balances, are used in economic analysis to appraise the various aspects of fiscal policy. The cyclical adjustment of actual public finance data is important to analyse the underlying or structural budgetary positions, the fiscal stance and the demand impact of fiscal policy.

- **Adjusting for the economic cycle.** Fluctuations in economic activity influence government revenue and expenditure autonomously. During economic upturns, tax bases grow and unemployment goes down while the opposite happens during recessions. As a result, tax revenue and unemployment-related social security expenditures fluctuate according to the cycle and the budget balance responds automatically to cyclical movements in the economy. The size and volatility of the budget's cyclical component are determined by the size and volatility of cyclical fluctuations in output and by the sensitivity of government revenues and expenditures to the cycle. The cyclically adjusted budget balance measures what the budget balance would be in the absence of cyclical fluctuations, i.e. if economic activity were at its potential or trend level. Chapter 1 of Part VI presents the Commission method of cyclical adjustment.

- **Fiscal policy stance.** The fiscal stance measures the direction of fiscal policy by summarising the effect of various discretionary policy actions taken by fiscal authorities. Cuts in government expenditures other than changes in the interest burden, and/or increases in taxes improve the underlying/structural fiscal position and lead to a tightening of fiscal policy. Decisions to increase various expenditure items and/or cut taxes worsen the underlying/structural budgetary position and lead to a relaxation of fiscal policy compared with the previous period. Annual changes in discretionary policy are used to evaluate the vigorousness of consolidation efforts. In this report, the change in the cyclically adjusted primary balance is chosen as the main indicator on fiscal stance ([1]). A positive change indicates a policy tightening and a negative change a relaxation of fiscal policy. An advantage of using the cyclically adjusted primary balances is that these are not influenced by changes in interest expenditures, which are not under the direct control of the fiscal authorities and cannot be regarded as purely discretionary.

- **Demand impact of fiscal policy.** Because the various forms of government expenditures and taxation have different effects on aggregate demand, the impact of budgetary policy cannot be inferred simply from an examination of the cyclically adjusted budgetary position or any other simple policy indicator. In order to obtain a measure of the effect of fiscal policy on aggregate demand, one needs more detailed empirical models in which the interrelationships of various policy measures and economic behaviour are specified. The quantitative and qualitative results of model-based policy simulations are by definition model-dependent and, hence, subject to many uncertainties about the specification and parameterisation of the model. Measures on the demand effect of fiscal policy are thus conditional on the assumptions of how the economy works, as well as on the level of income, interest rates, and exchange rates ([2]). To evaluate the impact of fiscal policies on aggregate demand, Part II (Box 5) presents simulations based on the Commission services' QUEST model.

([1]) Other measures of the fiscal stance have been used in academic literature and policy debate. For a survey, see Blanchard (1990) and Alesina and Perotti (1995).
([2]) Buiter (1985) and Chouraqui et al. (1990).

Fiscal policy affects the economy both through discretionary changes and through automatic budget stabilisers. Positive output gaps characterise periods when actual output exceeds potential and buoyant revenues and lower social security transfers (especially unemployment benefits) tend to keep deficits low. The opposite occurs in periods of negative output gaps. The working of the automatic stabilisers helps smooth the cyclical fluctuations of the economy in booms and recessions ([1]).

([1]) Simulations with QUEST, the Commission services' econometric model, show that the working of the automatic stabilisers smooths output fluctuations by between 20 and 30 % in EU countries. This is broadly in line with results of other studies, surveyed in European Commission (1998). See also OECD (1999a).

The cyclically adjusted or structural budget balance measures what the budget balance would be in the absence of cyclical fluctuations, i.e. if economic activity were at its trend level. As such it removes the effect of economic growth conditions from the actual budget balance. The cyclically adjusted primary balance removes from the cyclically adjusted balance the impact of interest payments. Hence, a change in this variable indicates a movement in the structural or underlying budgetary position mainly due to discretionary policy actions but not due to fluctuations in economic activity or change in interest payments which are essentially outside the control of fiscal authorities. These indicators are explained in more detail in Box 1.

Graph 3 illustrates the pro-cyclical stance of fiscal policies in euro area countries since 1977 ([1]). Deficits did not fall as expected during periods of high economic growth, implying that countries offset the working of the automatic stabilisers via discretionary tax cuts or expenditure increases. As a consequence, public debt continued to rise. Such fiscal relaxation in good times in turn necessitated a tightening during economic downturns. Hence, instead of smoothing the business cycle, fiscal policies have contributed to amplifying the output swings.

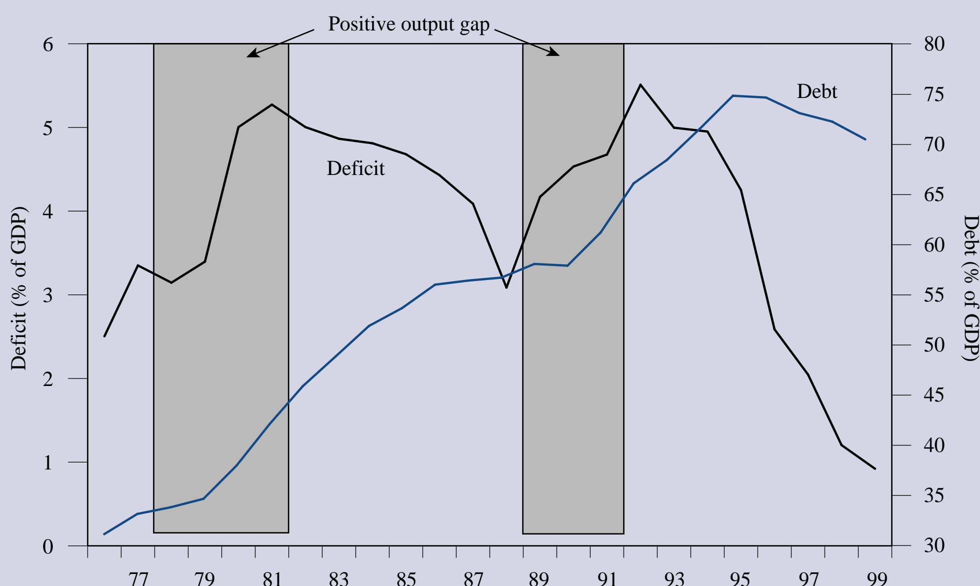
([1]) Data on public debt on a consolidated basis are not available before that date.

Deficits rose between 1976 and 1981 when there was a positive output gap, but were placed on a downward path afterwards when the economy was in a prolonged period of below trend GDP growth. Pro-cyclical behaviour continued into the 1990s when the inevitable reduction in deficits took place to return budget positions to a sustainable footing: this partly contributed to a period of subdued economic growth. This expansionary stance reflected the developments following German unification and took place in the wake of the strong recession hitting several EU countries at the beginning of the 1990s.

Whilst Graph 3 shows the behaviour of the euro area countries as a whole, individual countries behaved differently as not all countries ran pro-cyclical policies. This is shown in Graph 4 which pictures the total and the cyclically adjusted budget balances over the period 1970–90 against the estimated output gap. EU countries are split between high-debt and low-debt countries ([2]).

([2]) A country is classified as belonging to either the high-debt or low-debt group depending on whether its government debt was situated above or below the EU average during each year of the sample period. Germany, Spain, France, Luxembourg and Finland always belong to the low-debt group, while Belgium, Ireland, Italy and the Netherlands are always classified as high-debt countries. The other countries switch position during the period. See Buti et al. (1998).

Graph 3: **Rising budgetary imbalances in the euro area, 1976–2000**



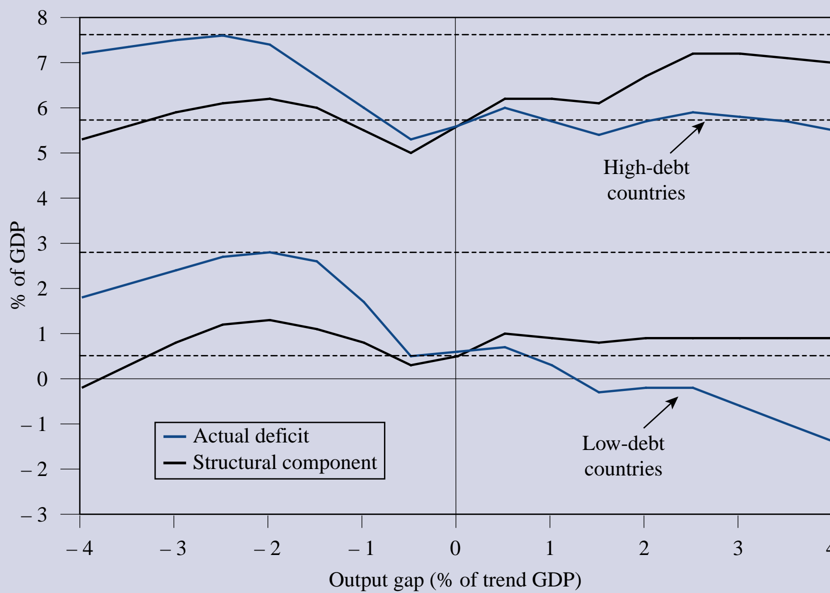
Source: Commission services.

The former group recorded much higher structural deficits, partly reflecting the higher interest burden. They also tended to pursue a pro-cyclical fiscal policy for all positive output gaps and for strongly negative output gaps. Thus they have tended to continue to accumulate public debt over the cycle.

On the other hand, lower debt countries let the automatic stabilisers function freely. In good times when there is a positive output gap, we observe a broadly neutral fiscal stance that allows the budget to move into surplus, thus running down the stock of debt which was accumulated in periods of recession. Finally, they did not allow their budgets to get out of hand during periods of economic slowdown, but instead capped their overall deficit at 3 % of GDP during such periods. Hence, low-debt countries behaved in the 1970s and 1980s very much *as if* the requirements of the Stability and Growth Pact were already in place (see Part III) ([1]).

([1]) Interestingly, low-debt countries used fiscal policy for stabilisation in periods of negative output gaps more than high-debt countries. This is shown in Graph 4 by the black curve showing the behaviour of the structural component of fiscal policy. On the positive interplay between budgetary discipline and stabilisation, see Box 1 in Part III.

Graph 4: **Output gap and budget deficit — high- and low-debt EU countries, 1970–90**



3. Budgetary adjustment in the 1990s

3.1. Deficit reductions despite an unfavourable economic climate

Faced with the inevitable need of putting public finances on a sounder footing and in some cases to come to grips with a looming unsustainability problem, policy-makers enacted a strong adjustment as of 1992–93 in spite of rapidly deteriorating economic conditions. Although the exact timing differed amongst Member States, Graph 3 above clearly shows a structural break in budgetary performance from 1993 onwards for the euro area, which marked the start of the second stage of EMU.

Under pressure from the Maastricht calendar for joining EMU, the unprecedented fiscal consolidation continued through 1996 and 1997 aided by lower interest rates. Between 1993 and 1997, the actual deficit fell by 3.5 percentage points in the euro area, and was brought back below the 3 % threshold. Since then, deficits have continued to fall and broadly balanced positions are expected to be reached by 2003.

Viewed from Member State level, some spectacular turnarounds in fiscal performance occurred. Italy and Greece managed to reduce their budget deficits by 12 and 8.5 percentage points of GDP respectively between 1990 and 1997. Finland and Sweden quickly regained control of their public finances after the crisis of the early 1990s. A strong improvement occurred also in the UK after the 1992 ERM crisis. On the contrary, countries such as Germany and France, traditional bastions of fiscal prudence, struggled to keep control of budget deficits which were fuelled, respectively, by the costs of unification and subdued economic performance.

The scale of the budgetary retrenchment is all the more impressive as it took place against an unfavourable economic background. Faced with serious budgetary situations, governments had little choice but to pursue consolidation even if that implied a continuation of pro-cyclical fiscal policies. This is confirmed by Graph 5, which shows the evolution of the fiscal stance against the cyclical developments during the 1990s. A positive value for the fiscal stance represents a tightening of discretionary fiscal policy. Indeed, despite strong growth, there was a discretionary relaxation of fiscal policy in the early 1990s, after a pro-cyclical expansionary stance in the second half of the 1980s. As from 1992, however, this trend was reversed as the need to put public finances in order took precedence over output stabilisation ([1]).

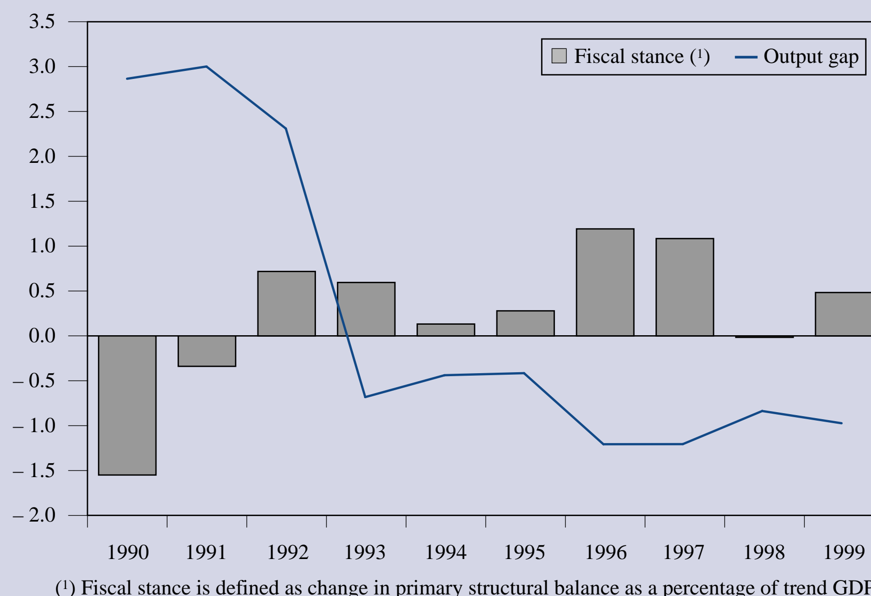
The fiscal retrenchment of the 1990s cannot be assessed without considering the broader picture of nominal convergence. This requires bringing monetary policy into the picture. While basically cautious because of the need to bring down inflation, monetary policy was broadly supportive of fiscal consolidation in that the tightening of the budgetary stance was matched by a relaxation of monetary conditions. This is illustrated in Graph 6 which summarises the average policy-mix in euro area countries during the 1990s.

Along the vertical axis, the graph depicts the fiscal stance, defined as the change in the cyclically adjusted primary balance as a share of GDP (CAPB). For monetary policy, along the horizontal axis, it gives the change in overall monetary conditions, as condensed in the variation of each country's monetary conditions index (MCI) ([2]). The upper-left and lower-right quadrants of Graph 6 characterise a policy-mix where monetary and

([1]) The counterfactual, however, is not evident as several EU countries had no choice but to tackle the deep-rooted public finance imbalances. As argued in a recent study on Italy's growth in the 1990s, failure to come to grips with the mounting debt and deficits could have led to an outright financial crisis taking an even bigger toll on output (European Commission, 1999a).

([2]) The monetary conditions index (MCI) is a weighted average of the real interest rate and the exchange rate. The concept was originally developed at the Bank of Canada and is currently used by international organisations, central banks and market analysts. The weights of the two variables should reflect their relative importance in affecting aggregate demand. The weights that have been used in the chart are 1 for the interest rate and 1/6 for the exchange rate.

Graph 5: **Fiscal policy and cyclical conditions in the euro area**



(1) Fiscal stance is defined as change in primary structural balance as a percentage of trend GDP

Source: Commission services.

fiscal policies move in opposite directions: a tightening of fiscal policy goes hand in hand with an easing of monetary conditions (upper-left), while an easing of fiscal policy is combined with monetary tightening (lower-right). The two policies move in the same direction in the lower-left quadrant, as both fiscal and monetary policy is relaxed, and in the upper-right quadrant where simultaneous tightening of both policies takes place. Although this characterisation of the policy-mix is highly simplified (1), the graph traces some well-known stylised developments in the past decade, e.g. the pro-cyclical loosening of the fiscal stance linked to the German reunification, and the tight monetary conditions in 1992, followed by a strong relaxation in monetary conditions in the subsequent years after the ERM crisis.

It emerges that in the Maastricht retrenchment period, with the exception of 1995 and 1998, the euro area falls in the top-left quadrant, i.e. where a fiscal tightening is accompanied by easier monetary conditions (partly in view of the poor growth conditions). It can therefore be concluded that monetary policy while remaining cautious, has on average played a supportive role in the public finance retrenchment of the 1990s (2). On average monetary policy seems to have facilitated fiscal adjustment, although this was not true for all countries. In particular, this may not have been the case in countries combining strong consolidation needs on the fiscal side and high inflation, such as Italy (see European Commission, 1999a).

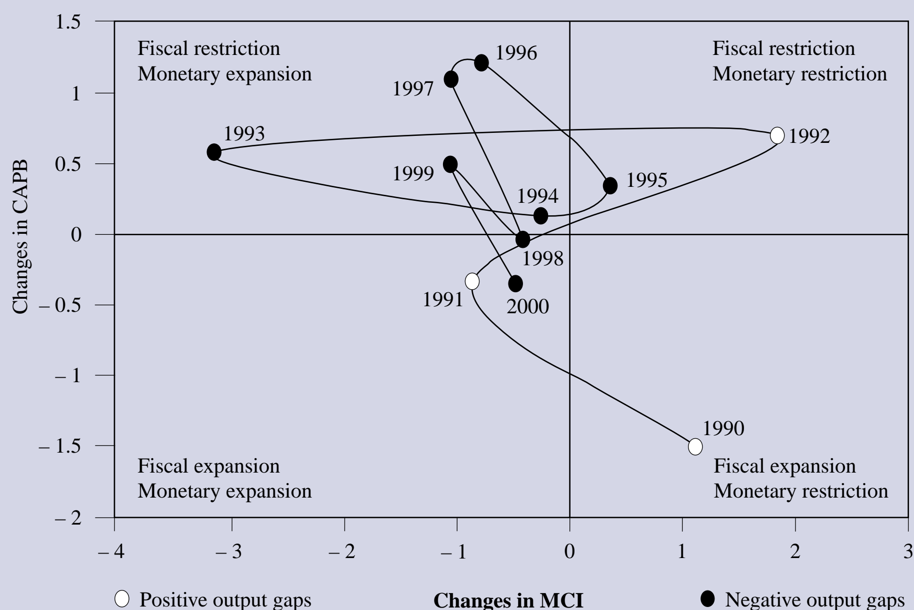
3.2. What type of consolidation?

The success of the consolidation process in reversing the 25-year deterioration in the public finances of EU countries warrants a closer examination with a view to identifying key contributory factors. Analysing the type of adjustment is crucial because, as recent literature has

(1) In particular, the 'retrospective' construction of an aggregate monetary stance and fiscal stance may be questionable. Other caveats concern the weights of the two variables, the level versus the changes in the index, etc. However, an in-depth analysis of these issues goes well beyond the scope of this report.

(2) Evidence of a coordinated behaviour of monetary and fiscal authorities is also found in other studies. Wyplosz (1999) finds that the policy-mix in EU countries since 1980 has tended to be of the 'substitutability' type: fiscal relaxation is accompanied by monetary tightening and vice-versa. These results correspond closely to those obtained by Mélitz (1997).

Graph 6: **Policy-mix in the euro area, 1990–2000**



Source: Commission services.

emphasised, the composition of retrenchment efforts is important, alongside the size of the consolidation, in determining their success and durability (see Box 2).

Table 1 highlights the 'quality' of the adjustment for the EU countries and the euro area as a whole. The table shows the change in the structural balance and the sources of the retrenchment (whether it comes from the revenue side or from various spending categories) ([1]). Although the timing and composition of budgetary adjustment differed between Member States, it is possible to discern two distinct sub-periods at the level of the euro area during the 'Maastricht years'. To begin with in 1992 and 1993, the consolidation was essentially revenue-based. Strong increases in structural revenue of over 3 percentage points of GDP more than offset continued rises in structural primary expenditures to achieve a reduction of 0.7 % of GDP in the overall structural balance. This tightening of the fiscal stance brought a halt to the increase in actual deficits, and may have yielded positive expectation effects by sending a strong signal that serious steps at last were being taken to shift budget polices back onto a sustainable path.

In the second phase from 1994 to 1997, budgetary adjustment was more expenditure-based. Primary structural expenditure fell by over 2 percentage points of GDP over that period, in contrast to almost a 2 percentage point increase between 1992 and 1993. Structural revenues continued to increase but at a slower pace compared with the first phase of the retrenchment process. As a result, the overall structural balance improved by 3.3 % of GDP. As described in Box 2, this expenditure based adjustment path signals a stronger commitment to the consolidation process by the government and, as such, is more likely to be successful and to trigger so-called 'non-Keynesian' effects.

At country level, France, Ireland and Portugal essentially pursued a revenue-based retrenchment. Rises in taxes prevailed also in Italy and Greece, although the sheer magnitude of their adjustment implied also reductions in structural primary expenditure. In contrast, Denmark, Finland, Sweden and the UK pursued a fully fledged expenditure-based retrenchment, with both Sweden and

([1]) The country-specific consolidation periods have been selected by looking at the years of virtually uninterrupted improvement in the cyclically adjusted primary balance.

Table 1

Composition of budgetary consolidation in the 1990s

(% of GDP)

		Consolidation period	Change in structural balance	Change in structural revenue	Change in structural primary expenditure	Of which: Change in capital spending	Change in current primary expenditure	Change in interest payments
Revenue-based retrenchment								
EL		1990–98	11.8	11.1	– 1.0	0.8	– 1.8	0.3
F		1995–97	3.3	2.6	– 0.9	– 0.1	– 0.8	0.2
IRL		1990–94	2.3	3.0	2.5	0.6	1.9	– 1.8
I		1991–97	9.4	6.4	– 3.1	– 1.0	– 2.1	0.0
P		1992–96	3.6	7.4	6.1	0.9	5.2	– 2.3
Expenditure-based retrenchment								
DK		1996–99	5.2	0.6	– 2.9	– 0.3	– 2.6	– 1.7
FIN		1993–99	4.0	– 4.6	– 9.5	– 0.7	– 8.8	1.0
S		1994–98	10.9	3.0	– 7.5	– 0.1	– 7.4	– 0.4
UK		1994–98	6.6	4.2	– 2.8	– 0.5	– 2.3	0.5
'Switching' strategy								
A	– 1st phase	1995–96	1.3	2.3	0.8	– 0.4	1.2	0.2
	– 2nd phase	1997	2.2	– 0.4	– 2.3	– 0.9	– 1.4	– 0.4
B	– 1st phase	1992–93	1.7	2.9	0.5	0.2	0.3	0.7
	– 2nd phase	1994–96	3.6	1.4	– 0.2	0.1	– 0.2	– 1.9
DK	– 1st phase	1992–93	1.4	3.3	1.3	0.1	1.1	0.6
	– 2nd phase	1994–97	1.7	1.5	– 0.7	– 0.8	0.0	0.4
NL	– 1st phase	1991–93	4.3	4.2	– 0.4	0.0	– 0.4	0.2
	– 2nd phase	1994–97	1.7	– 4.5	– 5.4	0.9	– 6.4	– 0.8
E	– 1st phase	1992–93	– 0.3	3.9	2.8	– 0.6	3.5	1.3
	– 2nd phase	1994–97	3.5	– 1.4	– 4.6	– 1.0	– 3.6	– 0.2
EUR-11	– 1st phase	1992–93	0.7	3.1	1.8	– 0.2	2.0	0.6
	– 2nd phase	1994–97	3.1	0.7	– 2.0	– 0.4	– 1.6	– 0.4

Source: Commission services.

Finland reducing the ratio of structural primary expenditures by some 10 percentage points of GDP. While these countries marginally trimmed public investment, the bulk of the adjustment effort came from the reduction in structural current primary spending.

As in the case of the euro area as whole, a kind of two-step 'switching' strategy (initially revenue-based switching to expenditure-based) is most striking in Belgium, Germany, the Netherlands and Spain. Interestingly, with the exception of the Netherlands, the improvement in the structural balance was much more pronounced in the second than in the first phase ([1]).

([1]) This has prompted some authors to conclude that no 'switching strategy' actually occurred, as claimed in European Commission (1998), but countries were forced to move to an expenditure-based retrenchment by the failure to reduce substantially the fiscal imbalances in the early phase of revenue-based retrenchment. See Von Hagen et al. (2000).

Fiscal consolidation affected the effective tax rates ([2]) of labour, capital and consumption in different ways. Although between 1992 and 1997 the cyclically adjusted tax rates on labour, capital and consumption increased by similar amounts (1.3, 0.9 and 1.2, respectively), the behaviour of the rates was very different in the two sub-periods 1992–93 and 1994–97: the rise in structural revenues in 1992 and 1993 was achieved — mainly through discretionary increases in labour taxes (mainly non-wage labour costs), while in the following years, with the shift to a more expenditure-based retrenchment, the burden of the adjustment was shared by the three tax bases. This trend continued through 1998 and 1999.

([2]) Effective tax indicators are explained and analysed in detail in Part IV.

Box 2: **Factors determining the success of a budgetary adjustment**

A growing body of literature has made it possible to single out the main factors affecting the success of fiscal retrenchments.

First, ***the size and persistence of budgetary adjustments matter***. Large and sustained budgetary adjustments which return public finances to a sustainable path can have a positive impact on demand, thereby offsetting the direct contractionary effect of the fiscal correction. A non-linear relationship between national saving and fiscal impulses had been identified as the main explanatory factor for these results. In situations of large fiscal imbalances, the perception that a fiscal correction prevents either a financial crisis or a bigger consolidation at a later stage may lead to anticipation of lower taxes in future, and hence boost private consumption. Risk premiums may fall leading to lower interest rates and an increase in the market value of stocks, bonds and housing. In addition, the behaviour of labour market participants may adjust to credible shifts in fiscal policy (Perotti, 1999, Giavazzi et al., 1998, Blanchard, 1990, Feldstein, 1982, and Drazen, 1990).

Secondly, ***the composition of budgetary adjustment is also important***. While the size of budgetary adjustment matters, there is growing evidence that its composition is the most important factor determining its success, both in terms of sustaining an improved budget balance and achieving a positive growth effect. Successful and lasting consolidations appear to occur when the bulk of the adjustment takes place on the expenditure side, and especially current transfers and public wage expenditures with limited or no increase in labour taxation. This is attributed to the supply-side impact of fiscal policy on labour costs, profitability, private investment and competitiveness (Alesina et al., 1999). The literature suggests that the behaviour of private investment explains a large share of the response of GDP growth to fiscal adjustments. Greater focus on the composition of public expenditure is warranted as very specific budget items are usually responsible for sharp deteriorations in budgetary performance (Perotti et al., 1998).

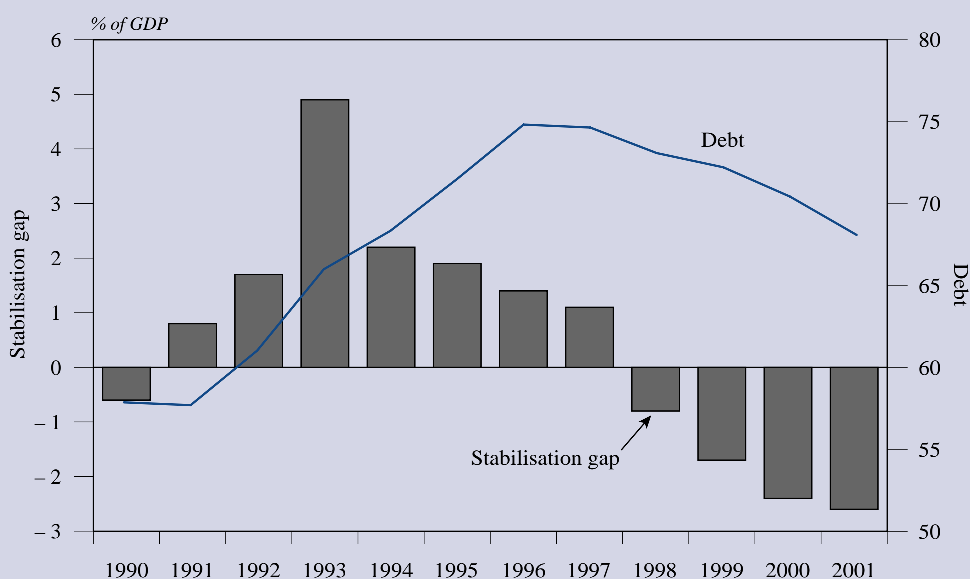
4. Lowering public debt: an uphill struggle

In spite of the strenuous effort to reduce budget deficits, the average public debt–GDP ratio in the euro area continued to rise until recent years. Going back to the 1970s and 1980s, it can be observed that the build-up of debt did not take place only during periods of economic slowdown — as prescribed by the 'tax smoothing' approach to fiscal policy — but continued during periods of positive output gaps when the economy was running at above its trend growth path (Graph 3 above and European Commission, 1998). As shown in Graph 7, the stock of public debt, having exceeded the 60 % Maastricht reference value in 1992, continued to climb until 1996–97 and in subsequent years only started to show a slow decline. The 'stabilisation gap' — defined as the difference between the actual and the debt-stabilising cyclically adjusted primary balance — turned negative only in 1998, but it is expected to improve further in the period 1999–2001.

To explain the time lag between the reduction in the deficit and the stabilisation and the subsequent lowering in the debt ratio, Table 2 breaks down the change in the debt ratio into its various components. It presents different approaches to the decomposition of the changes in the debt ratio ([1]).

([1]) The arithmetic of the relationship between budget deficit and debt is presented in Box 3.

Graph 7: **The stock of debt and the stabilisation gap in the euro area**



Source: Commission services.

The time lag between deficit and debt reduction is due mainly to the so-called 'snowball' effect on public debt accumulation which is shown in column 5 of Table 2. The snowball effect arises from the differential between the interest rate on public debt and the growth rate of GDP: if the interest rate is higher than the growth rate, the ratio of public debt to GDP tends to increase over time, unless the primary surplus is sufficiently high. This differential was positive throughout the 1990s, contributing to the upward pressure on public debt. In particular, the differential was very high during the 1993–97 years of subdued growth and relatively high real interest rates.

In the later years, the snowball effect decreased, not least under the influence of steadily falling real interest rates. Columns 6 and 7 highlight further the interplay between discretionary public finance adjustment (represented as the fiscal stance in column 6) and the impact of growth and nominal variables on public debt. Column 7 summarises the effect on debt accumulation due to the snowball effect together with the impact on the deficit of the cyclical conditions of the economy ([1]). Again, it emerges clearly that 'economic' conditions contributed to increasing the stock of debt and it was only as from 1998 that this variable, though remaining positive, started to fall, thereby allowing the historically high structural primary surpluses to feed into lower debt ratios. The final column gives a residual component, the so-called stock-flow adjustment which includes the accumulation of financial assets, changes in the value of the foreign debt due to exchange rate changes and remaining statistical adjustments. The stock-flow adjustment had a positive value for most of the period and it alone explains some 7 percentage points of GDP of the total rise in the debt ratio for the euro area in the 1990s. This component became negative in 1997–98, explaining why the stock of debt started declining before the 'stabilisation gap' itself turned negative (see Graph 7).

The difficulty in reducing the stock of debt in the 1990s is shown also by looking at country-specific developments. Table 3 presents the total change in the debt GDP ratio over the period 1990–2000, during periods of positive and negative output gaps. Some Member States — namely Ireland, the Netherlands, Portugal and Belgium — managed to reduce the debt throughout the period. In four EU countries, the debt that was accumulated in periods of recession was offset, at least partly, in periods of positive output gaps. This group includes, in particular,

([1]) Clearly, the two variables are not independent. The links, however, are not unequivocal. If the strong public finance and nominal adjustment in stage two of EMU contributed to the subdued growth of the euro area economy, it also created the conditions for lower interest rates and better growth prospects in the following years.

Table 2

Disentangling public debt accumulation, euro area

(% of GDP)

Year	Change public debt (1)	Budget deficit (2)	Nominal growth contribution (3)	Primary deficit (4)	'Snowball' effect (5)	Cyclically adjusted primary deficit (6)	'Economic' conditions (7)	Stock flow (8)
1990	1.4	4.2	– 4.7	– 0.7	0.1	0.7	– 1.3	1.9
1991	1.7	4.5	– 3.7	– 0.4	1.2	0.9	– 0.1	0.9
1992	3.3	4.7	– 3.0	– 0.8	2.5	0.2	1.5	1.6
1993	4.9	5.5	– 0.6	0.0	4.9	– 0.4	5.3	0.0
1994	2.3	5.0	– 2.8	– 0.3	2.5	– 0.5	2.7	0.1
1995	3.1	5.0	– 3.0	– 0.6	2.5	– 0.8	2.7	1.2
1996	3.3	4.3	– 2.9	– 1.4	2.8	– 2.0	3.4	1.9
1997	– 0.2	2.6	– 1.5	– 2.5	3.6	– 3.1	4.2	– 1.2
1998	– 1.5	2.0	– 2.8	– 2.7	1.9	– 3.1	2.3	– 0.8
1999	– 0.9	1.2	– 2.9	– 3.1	1.4	– 3.6	1.9	0.8
2000	– 1.8	0.9	– 3.3	– 3.1	0.8	– 3.2	0.8	0.6
2001	– 2.3	0.8	– 3.4	– 3.1	0.5	– 2.9	0.3	0.3

(1) = (2) + (3) + (8)
or (4) + (5) + (8)
or (6) + (7) + (8)

Source: Commission services.

Table 3

Business cycle and public debt accumulation, 1990–2000

	Change in debt/GDP (percentage points)		Peak year public debt	Public debt/GDP (%) at the end of 1999
	Positive output gap	Negative output gap		
Debt reduction throughout the period				
IRL	– 35.2	– 18.4	1993	52.4
NL	– 4.5	– 12.8	1993	63.6
Offsetting in non-recession periods				
DK	– 21.0	12.4	1993	52.5
FIN	– 11.9	39.8	1994	47.1
UK	– 10.5	15.2	1996	45.9
S	– 5.4	14.3	1994	65.5
Debt accumulation also in non-recession periods				
E	3.8	17.2	1996	63.5
F	4.7	19.6	1998	58.6
A	6.6	0.0	1996	64.5
I	12.0	3.8	1994	114.9
D	19.6	3.7	1999	61.0
EL	27.5	7.9	1996	104.4

Notes:
1. The output gap is defined as the difference between the actual and trend GDP measured as a share of trend GDP.
2. The build-up of debt in Finland and Sweden during the 1991–93 recession is partly attributable to financial operations and other factors not affecting the deficit (the so-called stock-flow adjustment). Similarly, the debt increase in Germany is due to the takeover by the government of unification related liabilities, amounting to around 10 % of GDP.

Source: Commission services.

Finland and Sweden where a build-up of debt took place during the severe recession of the early 1990s. These countries have managed to reduce debt in the subsequent years.

In the rest of the countries, however, the debt ratio increased, on average, both in periods of negative and positive output gaps, showing the difficulty that governments may have in tackling entrenched imbalances in public finances. Interestingly, the four countries where the debt increases in recessions have been offset during expansions are coincidental with the group of countries pursuing an expenditure-based retrenchment (Denmark, Finland, Sweden and the UK, see Table 1). In addition, in this group of countries, the level of the debt was below 60 % of GDP at the end of the 1990s.

Box 3: The arithmetic of public debt and deficits

The basic equation in the analysis of public debt accumulation is the so-called government budget constraint, which, as a share of GDP, can be written as follows:

$$(1) \qquad \dot{b} = d - (y + \pi)\, b + sf$$

where b is the stock of debt, d is the budget deficit, y is real GDP growth, π is the inflation rate and sf is the stock-flow adjustment. $\dot{b}$ stands for the change in b. The equation indicates that, beside 'pure' public finance variables, the behaviour of the stock of debt is influenced by nominal GDP growth, through a 'denominator' effect which reduces the real value of the existing stock of debt. For given long trend values of the deficit and nominal GDP growth (and assuming a zero value of sf in the long run), the debt tends to converge to the value of $d / (y + \pi)$. This has prompted observers to point out that the 3 % and 60 % reference values of the Maastricht Treaty can be reconciled to the extent that long-run nominal GDP growth is 5 %.

Note that identity (1) can be re-written as follows:

$$(2) \qquad \dot{b} = - s + (r - y)\, b + sf$$

where s is the primary balance and $(r - y)$ is the real interest rate/growth rate differential. The term $(r - y)\, b$ is the so-called 'snowball' effect. If such a term is positive, a high enough primary surplus is needed to keep the public debt from rising.

Finally, the primary balance can be broken down into a discretionary and a cyclical component. Hence (2) becomes:

$$(3) \qquad \dot{b} = - s_c + [\alpha G + (r - y)\, b] + sf$$

where s_c is the structural primary surplus, α is the sensitivity of the budget to the cycle and G is the output gap. The term in square brackets captures the effect on the debt of general 'economic' conditions. By setting $b = 0$ and leaving aside the stock-flow adjustment, we can solve for s_c^*, which is the debt-stabilising, cyclically adjusted primary balance.

$$(4) \qquad s_c^* = \alpha G + (r - y)\, b$$

The difference between the cyclically adjusted primary balance and s_c^* is the 'stabilisation gap' pictured in Graph 7.

Part II

The fiscal stance: current developments and prospects

1. Short-term fiscal developments and prospects

1.1. Budgetary outcome in 1999

In 1999, budgetary policy in the EU and euro area was conducted for the first time in the context of the single monetary policy and the fiscal rules laid down in the Stability and Growth Pact (SGP). In this new framework, Member States submit stability or convergence programmes every year in which they set out their adjustment strategy and medium-term budgetary targets. The first set of stability programmes was assessed by the Commission and Council in late 1998 and early 1999. The annual updated programmes were submitted by Member States towards the end of 1999 and have been assessed in the first months of 2000.

Fiscal policies must also be consistent with the broad economic policy guidelines (BEPG). The 1999 BEPG recommended Member States to (i) meet fully their 1999 budgetary targets; (ii) achieve budgetary positions close to balance or in surplus no later than by the end of 2002; and (iii) improve simultaneously the 'quality' and sustainability of public finances. These objectives have been reiterated in the 2000 BEPG.

Fiscal performance in 1999 turned out to be better than expected and budgetary targets were met or even overachieved, despite growth being lower than projected in several Member States. The overall budget deficit for the euro area as a whole decreased to 1.2 % of GDP in 1999, a reduction of 0.8 percentage points from 1998 (see Table 4). The improvement was especially strong in Spain, France, Italy ([1]), the Netherlands and Finland.

Outside the euro area, budget surpluses increased considerably in Denmark and the UK, while in Sweden the budget surplus remained at the 1998 level. In Greece the budget deficit fell by 1.5 percentage points of GDP to 1.6 %, enabling the Council to abrogate its decision on the existence of an 'excessive deficit' position ([2]). Therefore, by the end of 1999, budget balances in all 15 Member States were below the 3 % reference value set in the Maastricht Treaty and no country was deemed to have an excessive deficit position.

Overall, the better than expected fiscal performance in 1999 can be mainly attributed to higher revenues rather than reduced spending. The revenue ratio in the euro area went up by around a half percentage point of GDP to reach a new historical high. The tax burden increased most in France, Germany, Ireland, the Netherlands and Portugal. To a large extent the rise in the tax ratio was due to temporary factors. An element that played a role was the 'tax-friendly' composition of growth in 1999, as the deceleration in economic activity was mainly due to a fall in exports which is less 'tax intensive' than a fall in domestic demand ([3]). Moreover, on-going tax reforms may have led to unexpected short-run fluctuations in tax receipts in several Member States. Measures to improve the efficiency of tax administration have also contributed to higher tax revenue.

The ratio of total expenditures to GDP in the euro area decreased marginally in 1999. However, this was entirely due to lower interest payments, with primary spending (total expenditures net of interest payments) actually showing a slight increase. Interest expenditure fell most in Spain, Ireland and Italy. Of these three countries, Ireland and Italy did not use the lower interest expenditures to further deficit reduction but let their primary

([1]) The deficit projection for Italy was adjusted upward during 1999. However, not only did the expected deterioration not materialise, but the actual outcome turned out to be marginally better than the initial target.

([2]) Council Decision abrogating the decision on the existence of an excessive deficit in Greece, No 13630/99, 13.12.1999.

([3]) This effect is analysed thoroughly in section 5.2 in Part III. An accounting breakdown of the various factors explaining the better than expected 1999 budgetary out-turn is provided in Box 4.

Table 4

Budgetary developments in 1999

(% of GDP)

	Budget balance	Change in the balance from 1998	Of which change in: Revenue	Primary expenditure	Interest expenditure	Public debt	Change in debt
B	– 0.9	0.2	– 0.1	0.2	– 0.5	114.4	– 3.0
D	– 1.1	0.7	0.7	0.1	– 0.1	61.0	0.3
E	– 1.1	1.4	0.4	– 0.4	– 0.7	63.5	– 1.4
F	– 1.8	0.9	0.9	0.1	– 0.2	58.6	– 0.7
IRL	2.0	– 0.1	0.7	1.8	– 0.9	52.4	– 3.2
I	– 1.9	0.9	0.4	0.7	– 1.3	114.9	– 1.4
L	2.4	– 0.9	– 0.7	0.2	0.0	6.2	– 0.3
NL	0.5	1.3	1.1	0.2	– 0.4	63.6	– 3.3
A	– 2.0	0.4	– 0.3	– 0.5	– 0.2	64.5	1.1
P	– 2.0	0.1	2.9	2.9	– 0.2	56.7	0.2
FIN	2.3	1.0	– 0.3	– 1.1	– 0.2	47.1	– 1.9
EUR-11	– 1.2	0.8	0.6	0.2	– 0.4	72.1	– 0.9
DK	3.0	1.8	0.4	– 0.7	– 0.6	52.5	– 3.3
EL	– 1.6	1.5	1.5	0.3	– 0.4	104.4	– 1.0
S	1.9	0.0	– 0.2	0.5	– 0.7	65.5	– 6.8
UK	1.2	0.9	– 0.2	– 0.4	– 0.7	45.9	– 2.5
EU-15	– 0.6	0.9	0.4	0.1	– 0.5	67.6	– 1.4

Source: Commission services, spring 2000 forecast.

expenditures as a share of GDP rise quite substantially: in Ireland the increase was even larger than the decrease in interest expenditure. Developments in Portugal followed roughly the same pattern. One positive feature on the expenditure side, however, was that government investment as a share of GDP, after falling in most countries in recent years, did not decline further.

Despite the significant improvement in the government balances during recent years, the ratio of government debt to GDP has gone down at a relatively slow pace in the euro area. In 1999, the debt ratio was still above 72 % of GDP. The pace of the debt reduction has shown a significant variation across Member States, partly reflecting differences in the amount of privatisation proceeds used to repay debt. In 1999, the speed of debt reduction was fastest in Belgium, Ireland and the Netherlands, whereas in Germany, Austria and Portugal debt ratios actually went up marginally. In countries outside the euro area, the debt ratio went down, the reduction being particularly strong in Sweden.

1.2. Fiscal developments in 2000 and 2001

According to the spring 2000 forecasts of the Commission services, growth is expected to pick up noticeably in 2000 to 3.4 % in both the EU and the euro area. The government deficit in the euro area is expected to narrow to 0.9 % of GDP and to 0.4 % in the EU as a whole; see Table 6.

After the 1999 increase in the revenue ratio, tax cuts are planned to lower the tax burden by 0.6 percentage points of GDP. A lowering of the tax burden will take place in virtually all countries, the only exceptions being Portugal and Spain. Significant tax reductions (close to 1 percentage point of GDP or more) are set to take place in France, Ireland, the Netherlands, as well as in Denmark and Sweden. In the euro area, primary expenditure as a share of GDP is forecast to go down by 0.7 percentage points of GDP. As the ratio of interest payments to GDP will also continue on a declining path, the ratio of total expenditures to GDP is expected to fall by 0.9 percent-

Box 4: Why the better than expected budgetary outcome in 1999?

A number of factors contributed to the better than expected budgetary outcome in 1999, beside the buoyant tax receipts. The actual starting position in 1999 was better than had initially seemed, following revisions to the budgetary outcome for 1998. Moreover, interest expenditure on government debt in 1999 turned out to be lower than projected. In some cases, the changeover of the economic accounting system from ESA79 to ESA95 had a positive impact on the budget balance (see Chapter 1 in Part VI)

To appraise the relative importance of the factors behind the better than expected budget outcome in 1999, Table 5 compares the actual budget outcome for 1999 (Commission services' spring 2000 forecast) with what was expected in autumn 1998. In the autumn 1998 forecast, growth in the euro area was forecast to be 2.6 % in 1999, which is 0.4 percentage points higher than the out-turn. The actual deficit in 1999 turned out to be 0.7 % of GDP lower than forecast by the Commission services in autumn 1998. Of this better than expected performance, 0.3 percentage points of GDP were due to the better starting position for 1999 (which includes also the level effects from the changeover from ESA79 to ESA95), 0.1 percentage point was due to a lower than expected interest burden, while 0.3 percentage points were due to unexpectedly high tax revenue and other factors ([1]).

([1]) For an analysis of the implications of GDP composition on the cyclical sensitivity of the budget in 1999, see section 5.2 in Part III.

Table 5

Contributory factors to euro area budgetary outcome in 1999

(% of GDP)

	Expected deficit Autumn 1998 (1)	Deficit outcome Spring 2000 (2)	Difference (2) – (1)
Deficit for 1999	1.9	1.3	**– 0.7**
Contributory factors			
Starting position (1998 deficit) 1999	2.3	2.0	**– 0.3**
Interest burden in 1999	4.4	4.3	**– 0.1**
Unexpectedly high receipts and other factors			**– 0.3**

Source: Commission services.

age points in the euro area and the EU. Considerable progress in expenditure reduction will be made in France, the Netherlands, Finland and Sweden. The ratio of primary expenditures to GDP is expected to rise only in Portugal.

With favourable growth of 3.1 % expected in 2001, the Commission services forecast a further, albeit small, decline in the government deficit ratio for the euro area to 0.8 % of GDP (see Table 7). Both the primary expenditure and revenue ratios are expected to decrease further in 2001. Planned and already implemented tax cuts in several Member States should decrease the tax burden in the euro area by 1.5 percentage points of GDP in 2000–01. Total expenditures as a share of GDP are forecast to decline more, by 2 percentage points, of which 0.4 percentage points are due to lower interest expenditure. Outside the euro area, the budget balance is projected to improve further in all other countries except Denmark, reflecting lower tax revenue.

The government debt ratio in the euro area is forecast to decrease to 68 % by 2001, with the pace of debt reduction being fastest in Belgium, Ireland, Italy, the Netherlands and Finland. While 11 Member States will have debt ratios below the 60 % of GDP threshold in 2001, Belgium, Italy and Greece will still have debt ratios close to, or higher than, 100 % of GDP. On average, the debt reduction will proceed faster in Member States currently outside the euro area.

Table 6

Forecast budgetary developments in 2000

(% of GDP)

	Budget balance	Change in the balance from 1998	Of which change in: Revenue	Primary expenditure	Interest expenditur	Public debt	Change in debt
B	– 0.5	0.4	– 0.6	– 0.7	– 0.3	110.0	– 4.4
D	– 1.0	0.1	– 0.5	– 0.5	– 0.1	60.7	– 0.4
E	– 0.7	0.4	0.0	– 0.3	– 0.1	62.3	– 1.2
F	– 1.5	0.2	– 1.0	– 1.0	– 0.2	58.2	– 0.4
IRL	1.7	– 0.3	– 1.3	– 0.6	– 0.4	45.2	– 7.2
I	– 1.5	0.4	– 0.6	– 0.6	– 0.5	110.8	– 4.1
L	2.6	0.2	– 0.3	– 0.5	0.0	5.8	– 0.3
NL	1.0	0.5	– 0.8	– 0.9	– 0.4	58.7	– 5.0
A	– 1.7	0.3	– 0.5	– 0.7	– 0.1	64.0	– 0.6
P	– 1.5	0.4	0.9	0.5	– 0.1	56.9	0.2
FIN	4.1	1.9	– 0.3	– 1.9	– 0.2	42.6	– 4.5
EUR-11	– 0.9	0.3	– 0.6	– 0.7	– 0.2	70.3	– 1.8
DK	2.4	– 0.5	– 1.2	– 0.4	– 0.3	49.3	– 3.3
EL	– 1.3	0.2	– 0.2	– 0.1	– 0.3	103.7	– 0.6
S	2.4	0.5	– 1.9	– 1.7	– 0.8	61.3	– 4.2
UK	0.9	– 0.3	– 0.4	– 0.2	0.0	42.4	– 3.6
EU-15	– 0.4	0.2	– 0.7	– 0.7	– 0.2	65.1	– 2.4

Source: Commission services, spring 2000 forecast.

Table 7

Forecast budgetary developments in 2001

(% of GDP)

	Budget balance	Change in the balance from 1998	Of which change in: Revenue	Primary expenditure	Interest expenditur	Public debt	Change in debt
B	– 0.2	0.3	– 0.5	– 0.6	– 0.2	105.2	– 4.8
D	– 1.4	– 0.4	– 1.5	– 1.1	– 0.1	59.5	– 1.1
E	– 0.4	0.3	0.0	– 0.1	– 0.2	59.9	– 2.3
F	– 1.2	0.4	– 0.5	– 0.9	0.0	57.1	– 1.1
IRL	2.7	1.0	– 0.8	– 1.5	– 0.3	38.1	– 7.1
I	– 0.8	0.7	– 0.3	– 0.6	– 0.3	106.6	– 4.2
L	2.7	0.1	– 0.8	– 0.9	0.0	5.3	– 0.5
NL	0.4	– 0.6	– 2.2	– 1.2	– 0.4	54.4	– 4.2
A	– 2.0	– 0.2	– 0.9	– 0.6	– 0.1	63.6	– 0.4
P	– 1.5	0.0	0.4	0.4	0.0	55.1	– 1.8
FIN	5.0	0.9	– 0.7	– 1.3	– 0.3	38.0	– 4.6
EUR-11	– 0.8	0.1	– 0.9	– 0.9	– 0.2	68.0	– 2.3
DK	2.5	0.0	– 0.7	– 0.3	– 0.5	46.3	– 3.0
EL	– 0.6	0.7	– 0.3	– 0.4	– 0.6	99.7	– 4.0
S	2.9	0.5	– 0.9	– 0.8	– 0.6	55.4	– 5.9
UK	0.7	– 0.2	– 0.2	0.1	– 0.2	39.3	– 3.0
EU-15	– 0.3	0.1	– 0.7	– 0.7	– 0.2	62.5	– 2.6

Source: Commission services, spring 2000 forecast.

2. The fiscal stance and the policy-mix

2.1. Cyclically adjusted balances and the fiscal stance

Fiscal developments in the recent past as well as the short-term projections show a continuous improvement in the fiscal position of both the EU and the euro area. However, it is important to go beyond the examination of actual budget balances presented above when seeking to assess the underlying structural budget position of Member States. For this purpose, there is a need to disentangle changes in actual budget balances which are due to short-term cyclical factors and movements in interest rates from those which are due to discretionary measures taken by governments. This will allow the 'fiscal stance' to be examined, i.e. whether the policy measures taken imply a relaxation or tightening of budgetary policy (Box 1).

As stressed in Part I, while these indicators provide useful guidance to policy-makers, care needs to be exercised when interpreting results ([1]). The behaviour of the cyclically adjusted primary balance indicates that the pace of fiscal consolidation in the euro area has slowed down after the vigorous consolidation efforts that were made during the run-up to EMU (see Tables 8 and 9). Nevertheless, the stance of fiscal policy in the euro area continued to be restrictive in 1999 due to the already mentioned rise in the tax burden. Part of the tightening effect of the higher tax burden was, however, offset by the simultaneous increase in structural primary expenditures. Although the calculations imply that the area-wide cyclically adjusted primary balance improved by half a percentage point to GDP in 1999, it is quite likely that this was not a consequence of a deliberate policy decision: the change is related to special factors boosting tax receipts rather than discretionary fiscal consolidation efforts on the part of the governments ([2]).

For 2000 and 2001, the projected improvement in the actual budget balance can be almost entirely attributed to high economic growth and lower interest expenditure. This is evident when one considers the cyclically adjusted budget deficit for the euro area which is projected to worsen slightly from 0.7 % of GDP in 1999 to 1 % of GDP in 2001. Moreover, the cyclically adjusted primary surplus balance will deteriorate by 0.7 percentage points of GDP as the interest burden is expected to decline further by 0.4 percentage points of GDP.

The situation is, however, uneven across Member States, as a pronounced deterioration in the underlying budgetary position and pro-cyclical relaxation in the fiscal stance from 1999 to 2001 is projected to take place in Belgium, Germany and the Netherlands, whereas a considerable improvement in the cyclically adjusted primary balances and tightening of fiscal stance is projected for Ireland and Finland.

The forecast weakening of the structural budget position in the euro area for 2000 and 2001 can in part be explained by the fact that, as budget balances are substantially improved, the emphasis is moving away from deficit reductions as the exclusive focus of budgetary policy towards lowering historically high tax burdens. This new policy orientation becomes evident when revenues and primary expenditures are adjusted for cyclical developments. During 2000 and 2001, the cuts in structural tax revenue in the euro area are expected to be 0.7 percentage points of GDP larger than the cuts in primary spending, thereby resulting in a structural weakening of the primary balance.

([1]) Given the importance of the cyclically adjusted budget balance for monitoring budget performance in EMU, Chapter 5 of Part III explains the factors that should be taken into account when interpreting the results. The Commission services' method of cyclical adjustment is explained in Chapter 1 of Part VI.

([2]) It is also noteworthy, however, that the tightening in the euro area fiscal stance in 1999 took place in a situation of historically high structural primary surpluses (see Part I).

Table 8

Cyclically adjusted budgetary outlook

(% of GDP)

	Budget balance			Primary balance			Primary expenditure			Total resources		
	1999	2000	2001	1999	2000	2001	1999	2000	2001	1999	2000	2001
B	– 0.3	– 0.5	– 0.6	6.8	6.3	6.1	43.6	43.1	42.6	50.5	49.5	48.7
D	– 0.3	– 0.7	– 1.5	3.2	2.8	1.9	44.2	43.8	42.7	47.5	46.5	44.6
E	– 1.1	– 0.8	– 0.6	2.6	2.7	2.8	37.5	37.2	37.1	40.1	39.9	39.9
F	– 1.3	– 1.6	– 1.4	2.1	1.6	1.7	48.9	48.0	47.1	50.9	49.5	48.8
IRL	0.8	0.5	2.0	3.4	2.7	3.9	34.2	33.6	32.0	37.5	36.3	35.8
I	– 1.4	– 1.3	– 0.9	5.5	5.1	5.2	41.9	41.4	40.7	47.4	46.5	45.9
NL	0.7	0.6	– 0.2	5.1	4.7	3.5	41.7	41.1	40.0	46.8	45.8	43.5
A	– 1.7	– 1.7	– 2.0	1.9	1.9	1.5	47.5	46.8	46.2	49.4	48.6	47.6
P	– 1.8	– 1.5	– 1.6	1.6	1.8	1.7	44.4	45.0	45.4	46.0	46.8	47.1
FIN	1.9	3.3	4.2	5.4	6.6	7.3	46.4	44.6	43.3	51.8	51.2	50.5
EUR-11	– 0.7	– 0.9	– 1.0	3.6	3.2	2.9	44.0	43.4	42.6	47.6	46.6	45.5
DK	2.6	2.5	2.8	7.3	6.9	6.6	50.3	49.9	49.5	57.7	56.7	56.1
EL	– 1.6	– 1.7	– 1.3	5.8	5.5	5.3	35.7	35.6	35.2	41.6	41.1	40.5
S	2.0	1.7	1.9	7.5	6.4	6.0	53.0	51.5	50.9	60.5	57.9	56.9
UK	1.3	0.7	0.3	4.3	3.7	3.0	36.2	36.1	36.3	40.5	39.8	39.4
EU-15	– 0.2	– 0.5	– 0.6	3.9	3.5	3.1	43.0	42.4	41.8	46.9	45.9	44.9

Source: Commission services, spring 2000 forecast.

Whether this development poses a risk to plans to reduce public debt ratios depends on the future interest burden. If the interest burden continues to decline, as is forecast, then the level of primary surplus required to stabilise public debt will also decline ([1]). Continued vigilance is nonetheless needed as the level of public debt is still high. This increases the exposure of Member States to interest rate shocks and places governments in a weaker financial position to meet the budgetary consequences of ageing populations.

2.2. Policy-mix in 1999 and 2000

As argued above, fiscal policy tightened in 1999 and, as indicated in Box 5, this is estimated to have had a negative direct effect on demand and GDP in most EU countries. However, the fiscal policy stance cannot be fully assessed without considering the overall policy-mix in the euro area at Member State level. Indeed, as argued below, the continuation of fiscal consolidation may have been instrumental in facilitating a growth-friendly monetary stance.

The analysis of the policy-mix is important also because the objective of the single monetary policy is to maintain price stability in the euro area as a whole. Since, in this new framework, the resulting monetary conditions may not suit equally well the needs of all euro area countries, the stabilisation role of fiscal policy is clearly heightened.

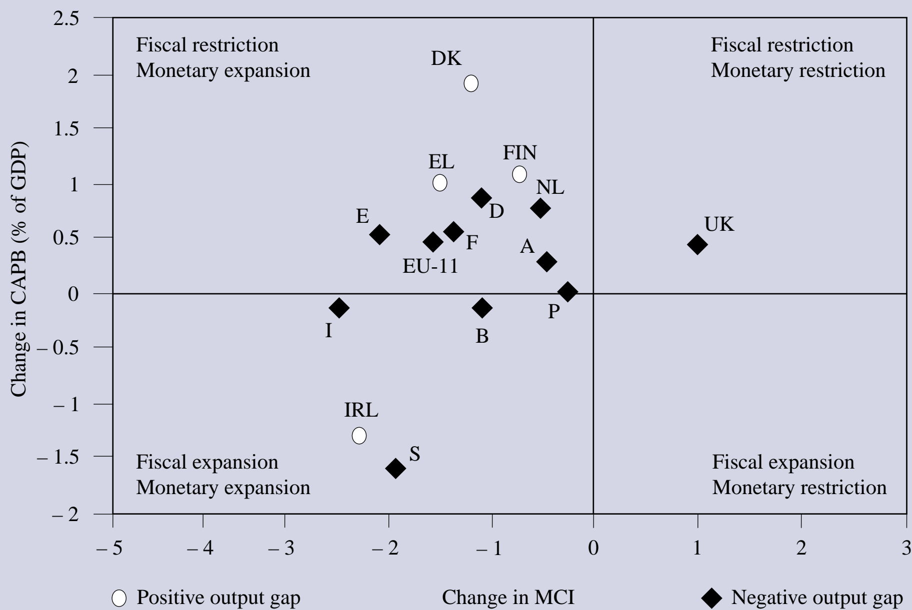
The fiscal and monetary policy-mix in the euro area and individual Member States in 1999 is summarised in Graph 8. As in Part I, the fiscal stance is measured by the change in the cyclically adjusted primary balance (CAPB) and the change in the monetary conditions by the variation in the monetary conditions index (MCI) ([2]). As already stressed in Part I, this kind of characterisation of the policy-mix is of course highly simplified and should be interpreted with caution.

The euro area and most Member States fall in the top-left quadrant, indicating that fiscal tightening was coupled with expansionary monetary conditions in 1999. Hence,

([1]) See Box 2 in Part I on debt and deficit arithmetic.

([2]) In the calculation of the Member States' MCI, weights of 1 and 1/3, respectively, have been used for the real interest rate and the real exchange rate. As in Part I, for the euro area weights of 1 and 1/6 have been used, reflecting its lower share of external trade.

Graph 8: **Policy-mix in EU countries, 1999**



Source: Commission services.

contrary to the fears of many observers during the policy controversies at the beginning of 1999, the cyclical downturn did not trigger a general move towards expansionary fiscal policies which could have implied a loss of credibility of the commitment to budgetary discipline. This contributed to the credibility of the whole EMU stability-oriented policy framework. As a result, monetary policy could be eased in the course of 1999 so as to support growth without jeopardising price stability in the euro area.

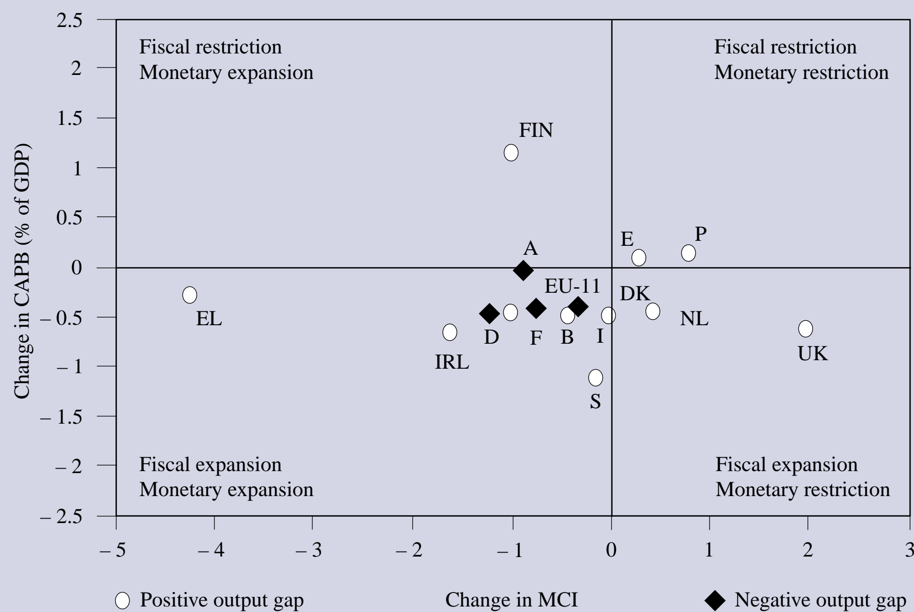
The mix of policies in 1999 suggest that, overall, EU multilateral surveillance exerted an effective constraint on fiscal policies. However, the degree of fiscal tightening and monetary easing as well as the cyclical position varied to a large extent across Member States. A relatively large dispersion in monetary conditions within the euro area can be attributed to the interest rate convergence during the transition to EMU, which in some countries implied a rapid fall in short-term interest rates, as well as to increasing inflation differentials during 1999.

Several countries with negative output gaps tightened their fiscal policies relatively vigorously (France, Germany and the Netherlands), even though the relaxation in monetary conditions was less than the euro area average. The fact that France and Germany ran pro-cyclical fiscal policies can be explained by their need to strengthen their budgetary positions which were still far from the SGP target (Part III). Of countries with a positive output gap and expansionary monetary conditions, only Finland tightened its fiscal stance to avoid the risk of overheating the economy. Ireland, on the contrary, had a strongly expansionary fiscal stance, although buoyant growth coupled with expansionary monetary conditions would have suggested a more prudent stance.

Outside the euro area, the overall policy-mix was restrictive in the UK. Denmark and Greece implemented strong fiscal tightening in the face of the significant monetary relaxation. In Sweden, the apparent relaxation in the fiscal stance in 1999 was, however, due to one-off measures in 1998, which improved the budget balance temporarily by 0.9 % of GDP. Taking this into account the fiscal stance in Sweden was broadly neutral.

In the Commission spring 2000 forecast, monetary conditions are assumed to remain favourable to growth in 2000, albeit less so than in 1999. Given the projected increase in growth, the output gaps in most Member States are

Graph 9: **Policy-mix in EU countries, 2000**



Source: Commission services; spring 2000 forecast.

estimated to turn positive and at the same time the fiscal stance is forecast to move from restrictive to expansionary. A majority of Member States will thus fall in the lower-left quadrant in Graph 9. This fiscal relaxation may turn out to be problematic especially in the event of a stronger cyclical recovery than currently expected. Of the countries featuring a positive output gap, only Finland is expected to compensate for the expected monetary relaxation through a decisive tightening of fiscal policy. Moreover, pro-cyclical fiscal easing may be risky for countries that still do not comply with the 'close to balance' rule of the Stability and Growth Pact. Outside the euro area, Greece is expected to show a slight deterioration in the cyclically adjusted primary balance which, coupled with the substantial easing in monetary conditions due to the interest rate convergence before euro area entry, will result in an strong expansionary policy stance.

Box 5: The demand impact of fiscal policy, 1998–2000

In order to evaluate the impact of discretionary changes in taxation and spending actually implemented in 1998–99 and those planned for 2000 on economic activity in Member States, simulations have been carried out using the Commission services' QUEST model. The results reported here should be regarded as illustrative since there is no simple and straightforward way to measure the impact of fiscal policy on economic activity. Because all measures are essentially 'model-dependent', different views on how the economy works may give rise to different results.

To assess the effect of implemented and planned tax and spending changes on economic activity in 1998–2000, one first has to simulate what the aggregate demand would have been had no further fiscal adjustment taken place since 1997. This was done by keeping the structural component of tax revenue and various expenditure categories as a percentage of GDP at their 1997 levels over the medium term. In order to gauge the 'pure' effect of fiscal policy, it was assumed that monetary policy, and hence short-term interest rates, follow the observed pattern, despite the change in fiscal policy. This is of course a simplifying assumption, because in reality the no-fiscal-adjustment scenario could have trigged higher interest rates which would have had a negative impact on economic activity. In other words, the favourable monetary conditions which prevailed in 1999 (Graph 8) would have not occurred had fiscal consolidation not continued. However, because the focus here is on 'pure' fiscal policy effects, monetary policy reactions were disregarded. The demand impact of implemented fiscal measures was computed by comparing the simulated no-fiscal-adjustment path for aggregate demand to the actual development.

Before appraising the simulation results, it is worthwhile summarising the main policy measures taken after 1997. On the revenue side, taxation was raised in several Member States in 1998–99. Measured by structural effective tax rates, most Member States appear to have raised the tax burden particularly on firms (see Part IV for further details). In some countries, notably Finland, the UK and France, the rise in corporate taxes has been substantial. Spain, Italy and the Netherlands have kept corporate taxation roughly at 1997 levels, while only in Ireland has there been a reduction in corporate taxes. Taxation on labour was reduced in the Netherlands, Ireland and Finland, and also in Italy, where the one-off tax hike of 1997 (the so-called 'euro-tax') was reversed. In other countries, however, taxes on labour income were raised further. The general trend towards higher taxation of consumption has continued in all Member States, with the exception of Finland and Sweden, which are the only two countries that saw a small reduction in indirect tax rates.

On the government expenditure side, the most notable trend has been a general reduction in transfer payments to households, in particular in 1998, with a partial reversal again in some countries in 1999. This reduction was strongest in Finland, Denmark and the Netherlands. Structural levels of government consumption as a percentage of GDP have generally fallen by less, although Finland and Ireland also saw a relatively large decline in this expenditure category.

Table 9 reports the GDP impact of measures taken between 1998 and 2000. According to the simulations, the direct demand impact of the fiscal adjustment in 1998–2000 has generally been negative, with the largest adverse impact falling on those countries which have seen the sharpest rise in corporate taxation, namely Finland and the UK. Ireland and the Netherlands are the only countries where fiscal policy has made a minor positive contribution to the GDP growth in 1999 and 2000. The positive impact in these countries is due to a shift from labour taxation (and, in the case of Ireland, also corporate taxation) to indirect taxation.

In general, the negative demand effects of the expenditure cuts (reductions in transfer payments to households and to a lesser extent also in government consumption) have been reinforced by the combined demand and supply effects of the tax increases. Where labour income tax was raised, this has reduced disposable income, but also had a negative effect on employment, while the opposite was true when income taxes were cut. The general increase in corporate taxes has reduced the expected future profitability of investment projects and so led to lower investment spending. As it was assumed that the tax increases were permanent, and this is fully anticipated by firms, the effect on investment expenditure is large and comes already through in the first year of the simulation. However, since part of these increases was due to temporary factors, the negative effect may be overstated in the simulations. The direct impact of an increase in indirect taxes is negative, as it reduces consumer spending, although a shift from more distortionary labour and corporate taxes to consumption taxes has a positive effect in the model in the medium term (see Part IV).

While these simulations illustrate the direct negative impact of fiscal policy on economic activity in 1998–2000, it is important to stress that it only gives a short-term and

Table 9

GDP effects of tax and expenditure changes in 1998–2000 (compared to the no-fiscal-adjustment scenario)

	1998	1999	2000
B	– 0.10	– 0.11	– 0.14
DK	– 0.11	– 0.12	– 0.08
D	– 0.26	– 0.10	– 0.17
EL	– 0.13	– 0.28	– 0.17
E	– 0.24	– 0.34	– 0.17
F	– 0.33	– 0.23	– 0.15
IRL	– 0.03	0.01	0.06
I	– 0.05	– 0.10	– 0.09
NL	– 0.10	0.05	0.16
A	– 0.06	– 0.13	– 0.19
P	– 0.06	– 0.02	– 0.12
FIN	– 0.45	– 0.68	– 0.31
S	– 0.04	– 0.05	– 0.09
UK	– 0.50	– 0.33	– 0.17

Source: Commission services.

partial analysis of the effects of fiscal policy. As stressed above, the absence of any further budgetary adjustment after 1997 would undoubtedly have had a negative effect on confidence and led to an increase in the interest rates, which could have hampered the improvements in the economic climate considerably. Positive effects of fiscal consolidation do not come through instantly, but only in the medium term, and the short-term cost of the fiscal adjustments in terms of lower GDP are small compared with the gains in the medium term.

3. Medium-term outlook: the stability and convergence programmes

Under the Stability and Growth Pact (SGP), EU countries have to present their medium-term budgetary outlook and consolidation strategies in so-called stability programmes, for those belonging to the euro area, and convergence programmes, for the other countries ([1]). The first set of programmes was submitted at the end of 1998, beginning of 1999 (see Box 6). At the end of 1999 and the beginning of 2000, Member States updated their programmes. The updates generally cover the 1999–2003 period, thus adding one projection year compared with the first set of programmes. As the 'close to balance' position is approached, the policy objectives in updated programmes are no longer solely focusing on budgetary consolidation: they also start to pay attention to other policy objectives such as lowering the tax burden and improving the quality and sustainability of public finances.

([1]) A description of how the SGP works is found in Part III, Chapter 2.

The medium-term growth projections given in the updates are generally on the prudent side: economic growth is projected to rise in 2000 with average yearly growth of 2.7–2.8 % a year over the 2000–03 period. These assumptions appear to be conservative in the light of the recent spring 2000 forecasts of the Commission services.

Box 6: **Summary of the first set of stability and convergence programmes**

Member States submitted the first set of stability and convergence programmes under the SGP rules in late 1998 and early 1999. Given that deficits in the euro area were on average above 2 % of GDP in 1998, the programmes focused on protecting budgetary consolidation in the face of the (partly) anticipated economic slowdown in 1999, and on ensuring progress towards the medium-term target of budget balances which, according to the SGP, should be close to balance or in surplus.

On the basis of average GDP growth of 2.7 % a year over the 1999–2002 period, the programmes established a target for the actual budget deficit of the euro area to fall to 0.8 % of GDP in 2002. This implied a projected improvement of 1.5 % of GDP between 1998 and 2002. About a third of this improvement was to be achieved through spending cuts scheduled to take place towards the end of the projection period, with reductions in interest payments and improving growth conditions accounting for the rest of the improvement.

In its assessments, the Council found that the 2002 budgetary targets for most Member States were based on realistic assumptions and included a safety margin large enough to allow automatic stabilisers to operate fully in the event of a cyclical slowdown without the risk of breaching the 3 % deficit ceiling. Some Member States were judged to fully respect the requirements of the Pact already. For example, Sweden, Finland, Denmark, Ireland and Luxembourg were found to fulfil the SGP requirements already in 1999 as they all posted budgetary surpluses. However, a number of countries (namely the Netherlands, Austria, Portugal, France and Germany) were urged to improve budgetary safety margins for 2002 when updating their programmes to help them withstand unforeseen budgetary developments and pre-empt, at least partly, the budgetary impact from the ageing of populations. Regarding government debt, the projected budget balances would keep the debt ratio on a downward path, allowing the EU average debt ratio to fall below 60 % of GDP in 2002.

On the basis of the targets presented by Member States in the updated programmes, deficits are expected to be reduced to 0.3 % of GDP in 2003 for the euro area and to an almost balanced position for the EU as a whole (see Table 10). Nine Member States are expected to feature balanced budgets or surpluses in 2002, and possibly two more Member States may do so by 2003. The cyclically adjusted budget deficit for the euro area is estimated to be reduced from 1 % of GDP in 1999 to 0.4 % of GDP in 2003.

A closer look at the sources of budgetary adjustment provided for in the updated programmes over 1999–2003 is presented in Table 11. It clearly shows that, over the period 2000 to 2003, there will be a further reduction in deficit amounting to 1.2 % of GDP for the euro area. However, the reduction will be brought about by a combined effect of a fall in the interest burden and improving growth conditions, while there will be no structural improvement in the budget positions over the period.

Over the period 2000 to 2003, the falling interest burden will contribute by 0.6 percentage points of GDP towards reducing the deficit in the euro area. Most of this contribution occurs in the early part of the assessment period, i.e. 2000 and 2001. This is because the period of interest rate reductions evident in the run-up to and the early years of EMU, especially for high-debt countries (the so-called ‘convergence dividend’) is coming to an end, and thereafter only declining debt ratios will contribute to lower interest payments. A quantitatively similar contribution (0.6 percentage points of GDP) to reducing deficits is expected to come from the upturn in economic growth which is particularly strong during the early years of the assessment period.

All in all, the targets for the actual budget balances are appreciably better than what was projected in the first round of programmes. However, the improvement is mostly due to a better starting position in 1999, while cyclically adjusted primary balances are set to deteriorate slightly compared with the initial programmes. This implies that given the current growth prospects, the updated targets can be met without any major additional effort.

Table 10

Projections in the updated stability and convergence programmes

	1998	1999	2000	2001	2002	2003
B	– 1.0	– 1.1	– 1.0	– 0.5	0.0	0.2
D	– 1.7	– 1.2	– 1.0	– 1.5	– 1.0	– 0.5
E	– 2.3	– 1.3	– 0.8	– 0.4	0.1	0.2
F (1)	– 2.7	– 2.1	– 1.7	– 1.3	– 0.9	– 0.5
IRL	2.1	1.4	1.2	2.5	2.6	
I	– 2.7	– 2.0	– 1.5	– 1.0	– 0.6	– 0.1
L	2.6	2.3	2.5	2.6	2.9	3.1
NL (2)	– 0.8	– 0.6	– 0.6	– 1.3	– 1.1	
A	– 2.5	– 2.0	– 1.7	– 1.5	– 1.4	– 1.3
P	– 2.1	– 2.0	– 1.5	– 1.1	– 0.7	– 0.3 (3)
FIN	1.4	3.1	4.7	4.2	4.6	4.7
EUR-11	**– 2.0**	**– 1.4**	**– 1.1**	**– 1.0**	**– 0.6**	**– 0.3**
DK	0.9	2.9	2.1	2.2	2.3	2.5 (4)
EL	– 2.5	– 1.5	– 1.2	– 0.2	0.2	
S	2.3	1.7	2.1	2.0	2.0	
UK (5)	0.5	0.4	0.2	0.2	0.0	– 0.3 (6)
EU-15	**– 1.4**	**– 0.9**	**– 0.7**	**– 0.7**	**– 0.4**	**– 0.1**

Notes:
(1) Prudent scenario. Deficits of 1.7 %, 1.2 % and 0.8 % of GDP over the period 2001– 03 in the favourable scenario. (2) Cautious scenario. Deficit of 1/4 % of GDP and surplus of 1/4 % in 2002 under middle and favourable scenarios respectively. (3) Balance is projected for 2004. (4) Surplus of 3.5 % of GDP projected for 2005. (5) The figures provided in the United Kingdom’s convergence programme are on a financial year basis. (6) Deficit of 0.5 % of GDP projected for the financial year 2004/2005.

The aggregate was calculated as follows: 1) the figures for the UK were converted on a calendar year basis; 2) a linear reduction towards the medium-term objective was assumed when the full adjustment path was not given; 3) the same figure as in the year 2001 was taken when a projection for the year 2002 was not provided in the programme; 4) the weights are based on harmonised GDP at current market prices.

Source: National stability and convergence programmes and Commission services.

Table 11

Budgetary adjustment in updated stability and convergence programmes

(% of GDP)

	1999	2000	2001	2002	2003	Cumulative change 2000–03
Euro area						
Government budget balance	– 1.4	– 1.1	– 1.0	– 0.6	– 0.3	
Change in budget balance	0.6	0.3	0.1	0.4	0.3	1.2
Due to: Cycle	– 0.1	0.3	0.2	0.1	0.0	0.6
Interest payments	0.4	0.2	0.1	0.1	0.1	0.6
Primary structural balance	0.3	– 0.1	– 0.3	0.2	0.2	0.0
European Union						
Government budget balance	– 0.9	– 0.7	– 0.7	– 0.4	– 0.1	
Change in budget balance	0.5	0.2	0.0	0.3	0.2	0.8
Due to: Cycle	– 0.1	0.2	0.1	0.1	0.0	0.4
Interest payments	0.4	0.2	0.2	0.1	0.1	0.6
Primary structural balance	0.2	– 0.1	– 0.2	0.1	0.1	– 0.2

Note:
Differences in totals are due to rounding. The information provided by the Member States in the stability and convergence programmes was not always complete or comparable and certain assumptions therefore had to be made to estimate the aggregates: 1) the same figure as in 2002 was taken when a projection for 2003 was not provided in the programme; 2) the Commission services' spring 2000 forecasts were taken when data were not provided in the programme; 3) the weights are based on harmonised GDP at current market prices. The information on interest payments is only indicative, as the programmes did not provide harmonised figures for this expenditure category. The cyclical component has been calculated on the basis of the Commission services' cyclical adjustment method.

Source: Commission services' estimates based on partial data provided in national stability and convergence programmes.

As to the composition of the budgetary adjustment, both total revenue and total expenditure ratios stabilise and start to decline, although remaining at very high levels. After 1999, when the adjustment was mainly the result of higher revenues, the bulk of the adjustment will be brought about by expenditure reductions. Table 12 shows that between 2000 and 2003, revenue in the euro area will decrease by 2 % of GDP and expenditures by just over 3 % (i.e. some 0.8 % of GDP per year).

On the expenditure side, as already pointed out above, the falling interest burden contributes significantly to this development. This is especially the case in Italy, France, Belgium and the Netherlands. As most Member States explicitly or implicitly build their budgetary strategy on control of primary expenditures, the reduction in interest payments will feed into lower overall spending. In some cases, rules have been put in place to limit the growth in spending to rates below the expected real GDP growth, thus putting the share of primary expenditures to GDP on a downward trend. Equally encouraging is the fact that the decline in general government investment expenditures of recent years has finally halted and even turned around in some Member States, e.g. Greece and the UK.

Most of the projected fall in the revenue ratio is scheduled for 2000 and 2001. This may be because specific tax proposals have not been decided for the later years, while expenditure plans are increasingly formulated in a medium-term context. The appropriateness of concentrating the tax cuts in those early years should be assessed both in terms of the credibility of the adjustment to the medium-term target and in cyclical terms, since risks of overheating may become an issue for a number of countries (see Chapter 4 in Part III).

According to the updated stability and convergence programmes the government debt/GDP ratio in the euro area is set to fall to 68 % in 2002 and 66 % in 2003 (Table 13). In the high-debt countries, Belgium and Italy, as well as in Finland, Sweden and Denmark, debt ratios are projected to fall by more than 10 percentage points of GDP over the period. In Germany and France, the debt ratios are set to edge down slowly below the 60 % level. The debt ratios continue on their downward trend thanks to

the high primary balances posted in all countries. However, while the so-called stock-flow adjustment has also contributed in the past to reducing debt levels, this is less characteristic of the trends set out in the updated programmes. This may partially be due to the technical difficulty of projecting the stock-flow effects. It could also be explained by the faster accumulation of assets in pension funds or simply by the prudent projections on privatisation receipts which leave a good chance that the debt targets will be overachieved.

Table 12

Budget composition in updated stability and convergence programmes

(% of GDP)

	1998	1999	2000	2001	2002	2003	Cumulative change 2000–03
Euro area							
Government budget balance	– 2.0	– 1.4	– 1.1	– 1.0	– 0.6	– 0.3	+ 1.2
Revenue	46.6	47.0	46.5	45.9	45.5	45.1	– 1.9
Expenditure	48.6	48.4	47.6	46.7	46.1	45.3	– 3.1
— Primary expenditure	43.9	44.1	43.5	42.7	42.2	41.6	– 2.5
— Interest payments	4.7	4.3	4.1	4.0	3.9	3.7	– 0.6
p.m. Investment expenditure	2.7	2.8	2.8	2.8	2.8	2.8	0.0
European Union							
Government budget balance	– 1.4	– 0.9	– 0.7	– 0.7	– 0.4	– 0.1	+ 0.8
Revenue	46.1	46.5	46.0	45.4	45.1	44.8	– 1.7
Expenditure	47.5	47.4	46.7	46.0	45.5	44.9	– 2.5
— Primary expenditure	42.9	43.2	42.7	42.2	41.8	41.3	– 1.9
— Interest payments	4.6	4.2	4.0	3.8	3.7	3.6	– 0.6
p.m. Investment expenditure	2.7	2.8	2.8	2.8	2.8	2.9	+ 0.1

Note:
Differences in totals are due to rounding. The information provided by the Member States in the stability and convergence programmes was not always complete or comparable and certain assumptions therefore had to be made to estimate the aggregates: 1) a linear reduction towards the figure given at the end of the projection period was assumed when the full adjustment path was not given; 2) the same figure as in 2002 was taken when a projection for 2003 was not provided in the programme; 3) the Commission services' spring 2000 forecasts were taken when data were not provided in the programme; 4) the weights are based on harmonised GDP at current market prices. The information on the budget components is only indicative, as the programmes did not provide complete and harmonised figures for these categories.

Source: Commission services' estimates based on partial data provided in national stability and convergence programmes.

Table 13

Decomposition of changes in government debt ratio

(% of GDP)

	1999	2000	2001	2002	2003	Cumulative change 2000–03
Euro area						
Government debt ratio	72.4	71.1	69.7	67.9	66.0	
Change in debt ratio	– 1.0	– 1.3	– 1.4	– 1.8	– 1.9	– 6.4
— Primary balance	– 3.0	– 3.1	– 3.1	– 3.4	– 3.6	– 13.2
— Interest and growth contribution	1.8	1.0	1.1	1.1	0.9	4.1
— Stock-flow adjustment	0.2	0.8	0.6	0.5	0.8	2.7
European Union						
Government debt ratio	67.8	65.9	64.2	62.4	60.7	
Change in debt ratio	– 1.7	– 1.9	– 1.7	– 1.8	– 1.7	– 7.1
— Primary balance	– 3.5	– 3.4	– 3.3	– 3.5	– 3.5	– 13.7
— Interest and growth contribution	1.5	1.0	1.1	1.2	1.0	4.3
— Stock-flow adjustment	0.3	0.5	0.5	0.5	0.8	2.3

Source: Commission services. Differences in totals are due to rounding.

Part III

The Stability and Growth Pact one year on

1. Introduction

Budgetary discipline is an essential ingredient in ensuring the success of EMU. However, the importance of sound public finances goes beyond the question of EMU. As recalled in European Commission (1998), low deficits and debt help in maintaining low interest rates and 'crowding in' private investment; foster low and stable inflationary expectations; by reducing the interest burden, help the restructuring of public spending and reduce taxation; allow an increase public saving to make room for the budgetary consequences of ageing populations; and, finally, create room for fiscal policy to cope with adverse economic disturbances.

The Stability and Growth Pact (SGP) is the concrete EU answer to the budgetary discipline concern. Adopted in 1997, the SGP strengthened the Treaty provisions on fiscal discipline in EMU, and the full provisions took effect when the euro was launched on 1 January 1999.

The principal concern of the SGP was enforcing fiscal discipline as a permanent feature of EMU. However, it was also implicitly recognised that the loss of the exchange rate instrument in EMU would imply a greater role for automatic fiscal stabilisers at national level to help economies adjust to asymmetric shocks. This is the rationale behind the core commitment of the SGP, i.e. to set the '… medium-term objective of budgetary positions close to balance or in surplus…' which '… will allow Member States to deal with the normal cyclical fluctuations while keeping the government deficit within the 3 % reference value'. This approach builds on a recent body of literature which stresses the complementarity between fiscal discipline and fiscal stabilisation. As summarised in Box 7 below, sound fiscal behaviour in 'good' times when economic conditions are favourable provides room for the effective use of automatic fiscal stabilisers in 'bad' times.

Formally, the SGP consists of three elements as follows:

- preventive elements which through regular surveillance aim at preventing budget deficits going above the 3 % reference value. To this end, Council Regulation 1466/97 reinforces the multilateral surveillance of budget positions and the coordination of economic policies;
- dissuasive elements which in the event of the 3 % reference value being breached, require Member States to take immediate corrective action and, if necessary, allow for the imposition of sanctions. These elements are contained in Council Regulation 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure;
- a political commitment by all parties involved in the SGP (Commission, Member States, Council) to the full and timely implementation of the budget surveillance process. These are contained in two resolutions agreed by the Amsterdam European Council of 17 June 1997. This political commitment ensures that effective peer pressure is exerted on a Member State failing to live up to its commitments.

After briefly reviewing the main provisions of the SGP, the next chapter examines how the Pact can help address past fiscal failure in the EU, namely high and persistent budget deficits, and the tendency to run pro-cyclical budgetary policies.

Chapter 3 analyses the various factors to be taken into account when setting the medium-term budget target for each Member State in the stability and convergence programme. It provides estimates for the safety margin required to cope with cyclical fluctuations in the economy; in addition, it analyses the need for an extra safety margin to cope with unexpected or 'erratic' fiscal developments; finally, consideration is given to the benefit of adhering to ambitious medium-term targets with a view to preparing for the budgetary impact of ageing populations.

Chapter 4 turns to the monitoring of Member States' budget performance, i.e. the early-warning system. This monitoring role will become increasingly important as

Member States approach budget positions of ‘close to balance or in surplus’ and the policy focus shifts away from attaining the medium-term targets towards sustaining these positions. Several aspects to the monitoring role of the Commission and the Council are addressed: first, how to assess compliance with nominal budget targets (set down in stability and convergence programmes) in a high growth environment; second, how to cut taxes without jeopardising fiscal discipline; and finally, how to assess whether a divergence from a budget target is ‘significant’ such that corrective measures are warranted.

Chapter 5 addresses a technical, but nonetheless vital issue, i.e. how to measure cyclically adjusted budget balances which is a key step in setting and identifying divergences from medium-term targets.

Box 7: **Fiscal discipline and fiscal flexibility: are they conflicting objectives?**

A number of economists have considered whether the Maastricht convergence criteria and the medium-term goal of the SGP hamper fiscal stabilisation. The theoretical literature as well as the empirical evidence suggest that sound budgetary positions in ‘normal’ times may be important for the effective use of fiscal policy for stabilisation purposes in periods of cyclical slowdown.

According to the recent literature, the traditional Keynesian effects of fiscal policies may be reversed when there are considerable imbalances in public finances. When public debt is high or growing rapidly, a fiscal expansion may generate fears of unsustainability and result in substantial interest rate risk premiums. This may crowd out private investment, thereby offsetting the direct effect of the budgetary expansion. On the consumption side, high and rising debt levels bring forward the likelihood of a stabilisation programme cutting spending and increasing taxes. In these situations, a budget deficit can have a contractionary effect on consumer spending (Sutherland, 1997). Empirical evidence in favour of non-Keynesian effects in the presence of high fiscal imbalances is found by Perotti (1999). Focusing on EU countries during 1971–93, Arreaza et al. (1998) find that low debt countries achieved more cyclical smoothing through the government deficit compared with high debt countries. However, this does not hold for the OECD group. Alesina and Ardagna (1998) and Giavazzi et al. (1998) find no strong evidence that high or increasing debt ratios are associated with non-Keynesian effects.

Other studies look at the behaviour of governments during periods of slowdown. Buti et al. (1997) show that low debt/deficits countries resorted to fiscal policy during economic slowdowns much more than countries with large budgetary imbalances. Evidence of a positive interplay between fiscal discipline and fiscal stabilisation is also found in Leeftink (2000).

2. How the SGP works

2.1. The preventive function

The preventive elements of the SGP provide an early-warning system so that a Member State experiencing a budgetary slippage can take corrective measures prior to breaching the 3 % reference value. To this end, countries participating in the euro area must submit stability programmes on an annual basis, whereas countries not participating in the euro area submit convergence programmes. In these multiannual programmes (usually covering a three-year period), Member States set their medium-term target, as well as the adjustment path towards the target. As outlined in Part II, the first set of programmes was presented at the end of 1998/beginning of 1999 and was updated one year later.

To enable a detailed assessment by the Commission and the Council, the SGP requires the programmes to explain the assumptions on which targets are based, i.e. expected economic developments, measures envisaged to reach these targets as well as provide sensitivity analyses. In addition to what is explicitly required in the SGP, Member States have agreed a code of conduct on the content and format of stability and convergence programmes ([1]). This requires Member States to provide information on the way they determined their medium-term budgetary objectives, on the status of implementation and nature of the measures announced in previous programmes, on the revenue and expenditure components of the budget as well as on institutional reforms in the budget process.

Moreover, countries must use harmonised data established in accordance with European accounting standards in their programmes. For the updated programmes submitted in late 1999, figures were provided on the impact of the changeover from ESA79 to ESA95 accounting standards (see Part VI, Chapter 2).

Each programme is assessed by the Commission, which then sends a recommendation to the Council. On the basis of the Commission recommendation, the Council examines and delivers an opinion on each programme. In its opinion, the Council can invite a Member State to adjust its programme if it considers that the objectives and contents of the programme need to be strengthened. The whole procedure is completed within two months of the submission of the programme by the Member State concerned.

The Council and the Commission regularly monitor whether the programmes are being fully implemented. In case the Council finds a 'significant divergence' from the targets set in the programmes, or from the adjustment path towards these targets, it must issue a recommendation under Article 99 (ex Article 103) of the Treaty. In this recommendation, the Council would urge the Member State concerned to take the necessary adjustment measures. In case of a continued worsening of the budgetary position, the Council can issue a further recommendation asking the country concerned to take prompt corrective measures. To increase pressure, the Council can also make its recommendations public.

As part of the continuous surveillance, updates of the programmes have to be submitted each year. The updates are assessed by the Commission and the Council, but a formal Commission recommendation and Council examination and opinion is not needed in all cases. Recourse to the full assessment procedure only occurs if there has been significant slippage from the previous programme, when there is a major shift in budgetary strategy or a change in government. The decision on the type of procedure to be followed is taken on an ad hoc basis. However, in order to establish the credibility of the SGP process in the first year of the euro, it was deemed appro-

([1]) Opinion of the Monetary Committee on the content and format of stability and convergence programmes, Document MC/II/482 final of 16 September 1998, endorsed by the Ecofin Council of 12 October 1998. This document was published as an annex to the conclusions of the Council.

priate to put the updated programmes on the agenda of the Council. Consequently, in late 1999 and early 2000, the Council adopted opinions (see Chapter 3 in Part VI) on all the updated programmes following the same procedure applied for the original programmes.

2.2. The dissuasive function

With the abrogation by the Council in December 1999 of the excessive deficit decision against Greece, no Member State is now judged to have an excessive deficit position ([1]). This means that the dissuasive elements of the SGP have not yet been used. The dissuasive arm of the SGP clarifies and speeds up the excessive deficit procedure as follows:

- a recession is considered 'exceptional' if there is an annual fall in real GDP of at least 2 %. A fall of GDP of less than 2 % could nevertheless be considered exceptional in the light of further supporting evidence, such as the abruptness of the downturn or the accumulated loss of output relative to past trends. In any event, there is agreement that Member States would not invoke the exceptionality clause for recessions involving a fall in GDP of less than 3/4 of a percentage point;
- the excess of the deficit over 3 % of GDP will be considered 'temporary', and thus allowed by the Pact, only insofar as the 'exceptional' conditions mentioned above persist;
- the SGP specifies the scale of sanctions in the event of persistent excessive deficits. Sanctions are applied only on members of the euro area. In the first year when sanctions are imposed, the Member State concerned must pay a non-interest bearing deposit composed of a fixed component equal to 0.2 % of GDP and a variable component equal to one tenth of the difference between the deficit and the 3 % reference value. A ceiling of 0.5 % of GDP is set. In each subsequent year until the excessive deficit decision is abrogated, only the variable component will be applied. As a rule, a deposit is to be converted into a fine after two years if the excessive deficit persists;
- to ensure that the excessive deficit procedure has real teeth, strict time limits are set for each step in the excessive deficit procedure. Tight deadlines are provided also for Member States to take corrective action so as to bring their deficits back below the reference value.

2.3. Can the SGP prevent a repetition of past fiscal failures?

There are a number of factors which suggest that the SGP has improved the monitoring and assessment of fiscal policy at the EU level compared with the multilateral surveillance procedures followed in stage two of EMU.

A positive development in stage three of EMU is that the SGP creates a forward looking framework where more emphasis is put on the distinction between cyclical and non-cyclical movements in the budget balance. In its analysis of stability and convergence programmes, the Commission and Council now examine cyclically adjusted budgetary balances in addition to the actual budget balance. Notwithstanding the difficulty and the uncertainty surrounding the best way to measure cyclically adjusted budget balances (see Chapter 5), this analysis improves policy evaluation by distinguishing between 'automatic' movements due to cyclical factors and discretionary measures.

An additional improvement compared with stage two is the setting of medium-term budgetary targets. As stated in the SGP, the medium-term target 'should take into account the relevant cyclical and structural characteristics of the economy of each Member State.' This allows budget targets for Member States to be tailored to reflect specific economic characteristics in the country concerned rather than relying on a uniform target ([2]).

([1]) According to Article 104 (ex Article 104c) of the Treaty, the deficit criterion is satisfied when the government deficit ratio remains below the 3 % of GDP reference value or has fallen substantially and continuously and comes close to that level. A temporary and limited excess over the 3 % of GDP threshold is permitted only under particular circumstances.

([2]) In the initial proposal for a 'Stability pact for Europe' of the German government, countries were called upon to set a medium-term goal of a deficit of 1 % of GDP, thereby providing a safety margin of 2 percentage points of GDP. During the subsequent negotiations, it emerged that a uniform safety margin was not appropriate given the different sensitivity of the budget balance to the economic cycle and the different cyclical behaviour across EU countries.

Ultimately, the success of the SGP will be judged on the basis of results over the medium to long term, and whether it can prevent the repetition of the EU's fiscal failures highlighted in Part I, i.e. persistent structural budget deficits and pro-cyclical budget policies. Graph 10 provides a stylised presentation of this challenge and presents the actual and the SGP compatible fiscal behaviour against the estimated output gaps. Only positive values of the output gap are pictured.

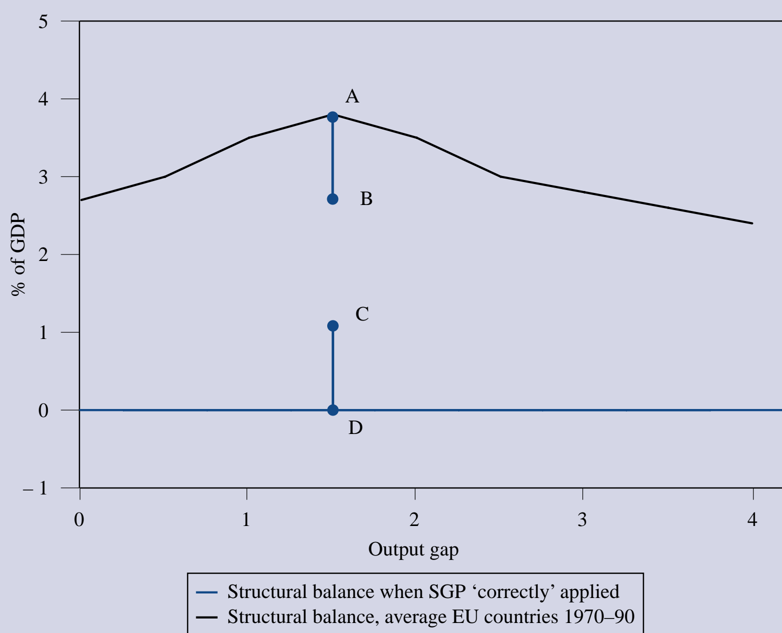
The blue line shows the behaviour of the structural budget balance assuming the SGP is 'correctly' implemented. It runs along the X-axis given that budget balances are supposed to be 'close to balance' over the economic cycle. The black line represents the aggregate fiscal outcome of EU countries between 1970 and 1990. In spite of the simplified presentation, it captures the typical budgetary behaviour of EU countries in the pre-Maastricht era (European Commission, 1998) ([1]).

([1]) See the discussion on the differentiated behaviour between high-debt and low-debt countries in Part I, section 2.2.

The SGP provision requiring Member States to set medium-term targets of 'close to balance' would eliminate high and persistent structural deficits: when the output gap is zero, actual budget balances should be close to balance and not at a deficit of about 3 % of GDP as in the past (indicated by the intersect of the black line with the Y-axis).

The monitoring provisions of the SGP require corrective measures to be taken when a 'significant divergence' from budget targets is identified, and this would tackle the traditional failing of pro-cyclical behaviour in good times. As shown in the graph, governments in the past 'spent' the benefits of growth. This is shown by an increase in the structural deficit from B to A when there is a positive output gap of 2 % of GDP. Equivalent behaviour in EMU would be deemed a 'significant divergence' from budget targets and the Member State concerned would be requested to take corrective actions. A Member State, having achieved a position of close to balance, is expected to maintain this position over the economic cycle, i.e. when there is a positive output gap, the budget should be in balance at point D and not at point C which indicates a structural deterioration.

Graph 10: **How the SGP could correct past fiscal failures**



Source: Commission services.

3. Setting the medium-term budget targets

Setting appropriate medium-term budgetary targets is an important policy choice, for several reasons. Firstly, maintaining medium-term fiscal positions of 'close to balance or in surplus' would ensure that there is no repeat of the past fiscal policy mistake of high and persistent structural deficits which contributed to the accumulation of public debt. Secondly, it would provide room to allow automatic fiscal stabilisers to operate fully during normal economic downturns, thereby helping economies to adjust to economic shocks in the absence of the exchange rate instrument. Thirdly, it would reinforce credibility in the commitment to fiscal discipline in EMU, as breaches of the 3 % reference value would be allowed only during very severe economic downturns or due to exceptional occurrences. Finally, it would help to create the room for manœuvre to pre-empt, at least partly, the long-term budgetary consequences of ageing.

However, no operational method is given in the SGP provisions on how to define a budget objective of 'close to balance or in surplus'. In the absence of a precise definition, the Commission services calculated so-called 'minimal benchmarks' for each Member State when assessing the first set of stability and convergence programmes (European Commission, 1999c). These benchmarks take into account only one factor needed for selecting country-specific targets, namely the influence of fluctuations in economic growth on the government's budget. One year into EMU, this chapter provides fresh evaluation on the appropriate level of medium-term targets. To this end:

- a closer look is taken at the method for estimating the cyclical safety margin, and new estimates are made which take into account the latest data;
- consideration is given as to whether medium-term budgetary targets should, in addition to a margin for cyclical developments, incorporate a margin for 'erratic' budgetary developments;
- consideration is also given as to whether Member States should take other objectives into account, namely preparing for the budgetary impact of ageing populations.

3.1. Estimating the cyclical safety margin

Table 14 presents the estimates of the cyclical safety margin for each Member State (column 2) which were prepared by the Commission for the first set of stability and convergence programmes. They were obtained by multiplying the budgetary sensitivity to the cycle (in column 1) with an output gap estimate which encapsulates the size and frequency of cyclical fluctuations in output for each Member State. Naturally, the higher the sensitivity of the budget to the cycle and the higher the volatility of the economy, the higher the estimated safety margin is.

Estimates of the budgetary sensitivity to the cycle are arrived at by measuring the impact of a rise/fall in GDP on public expenditures and revenues. For the euro area, it has been estimated that a 1 % fall in GDP relative to trend will increase the deficit by around 0.5 percentage points of GDP (see Chapter 1 in Part VI). As to the largest negative output gap which a Member State is likely to encounter, the Commission calculations took the mid-point of two worst output gaps of the following estimates: (a) the largest negative output gap recorded in each Member State between 1960 and 1997; (b) the unweighted average of the largest negative output gaps in EU Member States over the period 1960–97, which is estimated to be to 4 % of trend GDP; and (c) the average volatility of the output gap in each Member State, as measured by two times its standard deviation ([1]).

The difference between the 3 % reference value and the estimated cyclical safety margin is the so-called country's 'minimal benchmark'. Overall, these estimates of the cyclical safety margin show that Belgium, Denmark,

([1]) When output gaps are normally distributed, around 95 % of the observations fall within the range of two times the standard deviation around the mean. Thus, only 2.5 % of the observations fall outside this range in the case of negative output gaps.

Table 14

Estimates of the cyclical safety margins

	Former estimates		New estimates	
	Budgetary sensitivity 1997	Cyclical safety margin (% GDP)	Budgetary sensitivity 2000	Cyclical safety margin (% GDP)
B	0.60	2.0	0.65	2.2
D	0.50	1.9	0.50	1.9
E	0.65	2.6	0.40	1.6
F	0.55	1.5	0.45	1.4
IRL	0.55	2.1	0.40	1.8
I	0.50	1.8	0.40	1.4
L	0.60	3.0	0.60	2.9
NL	0.75	2.9	0.85	2.9
A	0.50	1.7	0.30	1.0
P	0.50	2.4	0.30	1.5
FIN	0.65	4.3	0.65	3.4
EUR-11	0.55	2.0	0.50	1.8
DK	0.70	2.3	0.85	3.2
EL	0.40	1.6	0.35	1.6
S	0.90	3.8	0.80	2.6
UK	0.70	2.9	0.45	1.9
EU-15	0.60	2.2	0.50	1.9

Source: Commission services.

Spain, Ireland, Luxembourg, the Netherlands, Portugal and the United Kingdom should aim for a structural deficit of between 0 % and 1 % of GDP. Germany, Greece, France, Italy and Austria could aim for a deficit target even slightly above 1 % of GDP. Sweden and Finland would have to aim for a surplus as their budgets have a high sensitivity to the cycle and their economies have in the past shown a high degree of volatility. These minimal benchmarks are largely in line with those computed in other studies (see Box 8).

As mentioned above, these calculations were originally performed in 1998–99. Two relevant developments have taken place since the estimates were first made.

- The introduction of ESA95 has changed the historical GDP time path (see Chapter 2 in Part VI). In general, GDP levels are higher, but the changes smoother. This does not have a major impact on the estimated maximum negative output gaps, with the exception of Greece where such a variable worsens somewhat.

- The cyclical sensitivity of the budget has been recalculated recently on the basis of new provisional OECD estimates (OECD, 1999a). The new budget sensitivities are shown in the third column of Table 14.

While the average euro area sensitivity does not change appreciably, there are some noticeable differences at country level. For instance, a substantial fall occurs for Austria, Spain, Portugal and the UK, and, to a minor extent, France, Italy, Ireland and Sweden. This reduction may reflect the reforms in the past decades which trimmed the generosity of the welfare state and lowered the progressivity of tax systems (Part IV). The only countries where the budget elasticity appears to have increased significantly are Denmark and the Netherlands.

New estimates of the cyclical safety margins are presented in the last column of Table 14 ([1]). The cyclical safety margin remains broadly unchanged in eight coun-

([1]) Given the provisional character of the new budgetary elasticities, these estimates are to be considered highly tentative at this stage. In addition to elements above, the estimates also take into account the fact that some of the largest negative output gaps in the original estimates have occurred in periods of severe recession, which, according to the SGP rules, could have triggered the application of the exceptionality clause allowing countries to exceed the 3 % limit (section 2.2). Adjusting the calculation for events where real GDP growth was lower than – 0.75 % has a non-negligible effect only in Finland and Sweden. This is of course not surprising given the economic downturn these countries experienced in 1992–93.

Box 8: **Estimates of the cyclical safety margin: other studies**

Using a similar approach to that presented above, IMF (1998) and OECD (1997a) find that a structural deficit in the range of 0.5 % to 1.5 % of GDP and below 1.5 % of GDP, respectively, would be enough to allow the automatic stabilisers to operate without breaching the 3 % of GDP deficit threshold even in periods of pronounced cyclical slowdown. Similar conclusions were obtained by applying more sophisticated methodologies. Dalsgaard and de Serres (1999), in the context of an estimated structural VAR (vector autoregressive model), show that for a majority of EU countries a structural deficit between 1 % and 1.5 % of GDP would help to avoid breaching the 3 % of GDP threshold with a 90 % certainty over a three-year horizon. If governments aimed for a structural position between zero and 1 % of GDP, the confidence horizon was extended to between five and seven years.

Stochastic simulations on the NiGEM model of the National Institute for Economic and Social Research show that, for the five large EU economies, the probability of breaching the 3 % of GDP threshold is still high at present for France and Italy, but drops significantly by 2002 (see Barrell et al., 1999). In a later paper, also based on stochastic simulation of the NiGEM model, Dury and Pina (2000) indicate very low probabilities of collision with the sanctions procedures of the Pact, a result that is robust to variation in assumptions about the monetary strategy pursued by the ECB. Similarly, Barrell and Pina (2000)'s estimates of the automatic stabilisers by applying methods of stochastic simulation are generally lower than normally assumed. Their study confirms that, if the countries adhere to the budgetary targets laid down in their stability and convergence programmes, the full working of built-in stabilisers and the respect of the 3 % deficit ceiling are expected to be compatible.

tries (Belgium, Germany, Greece, France, Ireland, Italy, Luxembourg and the Netherlands), while it goes up in Denmark. In all other countries, the cyclical safety margin is reduced somewhat reflecting a lower budgetary sensitivity and/or smoother cyclical fluctuations.

These estimates have to be treated with caution. In particular, factors influencing the cyclical fluctuations may change in the new EMU framework. A number of arguments point towards a higher synchronisation of business cycles in the future, thereby raising the stabilisation role of the single monetary policy ([1]). However, it is too soon to verify whether the pattern of cyclical fluctuations will change in EMU. If evidence of a changing cyclical pattern emerges in EMU, these estimates will need to be revised.

3.2. A safety margin for unforeseen budgetary developments

As pointed out above, the medium-term budget target should not only take account of cyclical factors, but also incorporate a safety margin for unforeseen fiscal developments not directly linked to the working of built-in stabilisers. This erratic component reflects sources of fiscal instability such as the risk of unexpected shortfalls in tax revenues or spending overruns. The budgetary impact of interest rate shocks may also be a problem for highly indebted countries (although this depends also on the maturity structure of their debt), a risk recognised by the Council in its opinions on the 1998–99 stability and convergence programmes.

Whilst several studies provide estimates of the cyclical component of the safety margin, empirical evidence on the erratic component in the budget is scant. A preliminary analysis of this issue is presented in Box 9. The approach tries to disentangle the erratic budgetary component by comparing budget deficit forecasts made in spring each year by the Commission services with actual out-turns for the same year. The overall error reflects the budgetary consequences of mistakes in growth forecasts. Once the estimated budgetary effects of forecast errors on GDP growth are netted out, what is left can be taken as an approximation of the 'pure' risk of erratic budgetary developments. A simple example can help clarify the reasoning. Assume that economic growth in a given country is 1 % lower than forecast and the country has a budgetary sensitivity for the cycle of 0.5: the deficit should be 0.5 percentage points of GDP higher than fore-

([1]) For a summary of the arguments, see European Commission (1998).

seen, i.e. 1 % times 0.5. If the actual deficit is 0.8 percentage points of GDP higher than forecast, then the 'pure' erratic component in the budget is 0.3 % of the GDP, i.e. 0.8 % – 0.5 %.

If EU countries want to be on the safe side and to avoid an excessive deficit, they should take into account this erratic component in setting their medium-term target. As shown in Box 9, an additional margin for 'pure' fiscal shocks of between 1/2 and 1 % of GDP would seem appropriate. High-debt countries, which are more exposed to the risk of interest rate shocks, would also need to incorporate in their medium-term objectives an additional safety margin close to the top of that range. The ensuing budgetary targets would secure a steady and rapid decline in their debt ratio, thereby reducing at source the risk of budgetary volatility linked to interest rate hikes.

3.3. Ambitious targets to prepare for ageing populations

Ageing populations in the EU will result in declining labour forces and substantial increases in old-age depen-

Box 9: **Capturing the erratic component in the budget**

The erratic component is captured by looking at the fiscal forecast errors not explained by the budgetary effects of errors in output growth projections. Clearly, the latter component has to be netted out in order to gauge the 'pure' fiscal forecasting error.

Estimates of the 'pure' erratic component of budget deficits are set out in Table 15, which is taken from Artis and Buti (2000). The data shown pertain to the period 1986–97. The first two columns show the overall mean of positive and negative deviations and variance of the 'pure' fiscal shock component. As can be seen, the overall mean is relatively small and around zero for the EU as a whole. A high variability is found in some Member States.

In order to highlight 'bad' risks — namely deviations leading to a rise in the deficit — the table shows the mean of the positive deviations. In view of the fact that the sample period includes years in which budget deficits were much higher and more variable than today, the mean of positive deviations is probably more representative than other 'extreme' measures in highlighting the current risks of erratic budgetary developments. As shown in the table, the mean exceeds 1/2 % of GDP in about half the EU countries and, for the large majority of countries, is below 1 % of GDP. Values outside the range are found only for Ireland and Luxembourg.

Table 15

Measuring 'erratic' budgetary developments

(% GDP)

	Mean of all deviations	Variance	Mean of positive deviations
B	0.1	0.58	0.3
DK	– 0.3	0.74	0.3
D	0.4	1.45	0.7
EL	– 0.2	6.10	0.9
E	– 0.1	2.75	0.6
F	– 0.1	0.72	0.3
IRL	1.6	3.16	1.9
I	0.1	0.46	0.4
L	0.6	5.09	1.2
NL	0.6	0.78	0.8
P	0.6	2.00	1.0
UK	– 0.0	1.30	0.4
EU	0.1	0.48	0.4

Note: The sample period is 1986–97.

Source: Artis and Buti (2000).

dency ratios after 2010 with the retirement of the baby-boom generation. On the basis of existing policies, age-related public expenditure will increase in most Member States and, according to Commission projections, reach a new plateau between 2020 and 2030 (Franco and Munzi, 1997). While the size and timing vary considerably, most Member States could see expenditures on public pensions increase by 3 to 5 percentage points of GDP between now and 2050. Over the same period, the OECD (1996) forecasts that the direct effects of ageing on public health care spending will amount to 3 percentage points of GDP in the EU and Japan and 2 % in the US. Although uncertainty exists on long-term projections, it is clear that unless appropriate steps are taken, deficits in the EU could start to rise.

Achieving and sustaining sound public finances has an important role to play in helping countries prepare for the budgetary consequences of ageing populations. Indeed, the fiscal consolidation resulting from the Maastricht convergence process and the SGP means that Member States are in a much stronger position today to meet the budgetary consequences of ageing populations compared with several years ago. Strict adherence to the SGP medium-term objective will lead to a fall in the stock of debt and interest payments, and go some way towards creating room to cope with the budgetary costs of ageing.

This conclusion is illustrated in Table 16 which presents projections of the stock of public debt and interest payment savings under two different scenarios. Under the first scenario, EU countries stick to the 'minimal benchmarks' computed by the Commission. Under the second scenario, Member States go beyond the 'minimal benchmarks' by 1 % point of GDP, which in most cases implies a balanced budget.

Obviously, long-term projections are very sensitive to the assumption underlying the calculations. Projections in Table 16 assume a real interest rate of about 3 % and a growth rate between 2 and 3 %, which corresponds to the steady state solution of the Commission's QUEST model (Roeger and In't Veld, 1997, and McMorrow and Roeger, 1999).

The table shows that sticking to the 'minimal benchmarks' would allow countries to reduce their stock of debt substantially and achieve a fall in the interest burden which would partly cover the extra budgetary costs of ageing. Interest savings depend on the initial level of debt. For high-debt countries such as Italy and Belgium, respect of their minimal benchmark would already bring about a fall in the interest burden by 2020 of around 2.5 % points of GDP. Countries with 'demanding' minimal benchmarks, such as Finland and Sweden, would

Table 16

Pre-empting ageing: reduction in interest burden

(% of GDP)

	'Minimal benchmark' (deficit: + surplus: –)	Minimal benchmark					Minimal benchmark – 1 %			
		Public debt 2000	Public debt 2010	Change in interest burden	Public debt 2020	Change in interest burden	Public debt 2010	Change in interest burden	Public debt 2020	Change in interest burden
B	1.0	112.4	88.1	– 1.2	65.9	– 2.3	82.0	– 1.5	53.8	– 2.9
DK	0.7	50.1	35.3	– 0.7	29.0	– 1.1	29.2	– 1.0	16.8	– 1.7
D	1.1	61.0	50.1	– 0.5	41.7	– 1.0	44.0	– 0.8	29.6	– 1.6
EL	1.4	103.3	75.9	– 1.4	58.0	– 2.3	69.3	– 1.7	46.0	– 2.9
E	0.4	62.8	42.7	– 1.0	30.1	– 1.6	36.7	– 1.3	18.3	– 2.2
F	1.5	59.4	51.7	– 0.4	45.8	– 0.7	45.7	– 0.7	33.8	– 1.3
IRL	0.9	46.0	30.9	– 0.8	26.7	– 1.0	24.2	– 1.1	14.5	– 1.6
I	1.2	111.7	81.1	– 1.5	62.3	– 2.5	75.1	– 1.8	50.3	– 3.1
NL	0.1	62.3	44.0	– 0.9	29.4	– 1.6	37.2	– 1.3	16.9	– 2.3
A	1.3	63.6	53.1	– 0.5	45.3	– 0.9	45.6	– 0.9	32.3	– 1.6
P	0.6	57.1	40.2	– 0.8	29.8	– 1.4	34.2	– 1.1	18.1	– 1.9
F	– 1.3	42.9	18.1	– 1.2	1.2	– 2.1	12.1	– 1.5	– 10.8	– 2.7
S	– 0.8	58.8	31.2	– 1.4	13.7	– 2.3	24.5	– 1.7	1.2	– 2.9
UK	0.1	43.6	29.3	– 0.7	19.8	– 1.2	23.2	– 1.0	7.8	– 1.8

Source: Commission services.

also enjoy interest savings above 2 percentage points of GDP by 2020.

As shown in the table, an adjustment by 1 % point of GDP over the minimal benchmarks would bring about an additional reduction in public debt of 6 % and 12 percentage points of GDP by 2010 and 2020, respectively. All countries would be below the 60 % Maastricht threshold and, in the case of Finland, the debt would be turned into an asset. The new debt levels imply an additional fall in the interest burden by 0.3 % of GDP by 2010 and 0.6 percentage points of GDP by 2020.

In its opinion on the first set of stability and convergence programmes, the Council invited Germany to prepare for the future burden on the budget of demographic developments. Spain and Finland were also advised to take measures to address the problem of population ageing. In the updated stability and convergence programmes, several Member States explicitly mention the need to pursue fiscal consolidation and reduce debt levels at a fast pace as a means of pre-empting the budget impact of ageing populations.

Whereas sticking to ambitious medium-term budget targets will help countries meet the budgetary impact of ageing populations, this should be accompanied with reforms that tackle growing imbalances in pension and health care systems. Focusing on a budget target (even an ambitious one) should not divert attention away from the need to make structural reforms to the underlying tax and benefit system.

4. Monitoring the implementation of the SGP

4.1. Growing importance of the monitoring function

Considerable importance is attached in the SGP to monitoring the implementation of stability and convergence programmes in order to provide for an effective early-warning system. Via regular monitoring, the Commission is required to identify and draw the Council's attention to possible 'significant divergences' of budgetary position from the medium-term budgetary target or the adjustment path towards it. In the event of a significant divergence being identified, the Council can request that the Member State concerned take corrective action.

This monitoring function is likely to become increasingly important in coming years for several reasons. As budget balances in Member States approach a position of 'close to balance or in surplus', the policy objective will move away from budgetary retrenchment aiming at attaining the medium-term targets, towards one of sustaining this position and monitoring possible slippages. More prominence will be attached to other budgetary objectives such as lowering the tax burden, reform of the tax system, and improving the long-term sustainability of public pensions and health care systems. An effective monitoring system is important to make sure that such reforms do not jeopardise the hard-earned fiscal discipline.

In brief, a new phase in the SGP framework is approaching. The first phase consisted of fixing and reaching medium-term targets, a goal which most Member States should achieve by, if not before, 2002/03. This will correct the past fiscal failure of persistently high structural deficits. The new phase is in some ways even more challenging: it requires tackling key structural budgetary problems while at the same time respecting the medium-term budget targets.

This chapter addresses three emerging and related challenges facing the Commission and the Council in the implementation of SGP:

a) how to asses the 'real' ambition of budget targets contained in stability and convergence programmes, especially in a high growth environment which may render nominal targets less stringent;

b) as budgets approach balanced positions, there will be more scope for cutting taxes. Consideration is given as to the guiding principles which could be used when assessing whether a Member State has the capacity to safely cut taxes without jeopardising the SGP commitments;

c) to successfully address the key policy challenges above, the Commission and Council need a consistent approach to remove uncertainty and scope for 'political bargaining'. Within the SGP, this would require developing an operational framework for identifying 'significant divergences' from budget targets agreed in stability and convergence programmes. This would allow any budgetary slippage, including a pro-cyclical loosening, to be rapidly detected.

4.2. Assessing budgetary ambition in a high growth environment

Stability and convergence programmes contain targets for actual government balances together with a description of the macroeconomic assumptions on which they are based. When looking at the actual targets submitted by Member States in their respective programmes, the Commission already takes into account its own growth forecasts in order to identify the underlying fiscal position. Similarly, when monitoring the implementation of programmes, the Commission looks at developments in structural balances and not just whether actual deficit targets have been attained.

Two specific challenges are currently arising in monitoring compliance with the SGP. First, growth forecasts are higher than what was assumed in the updated programmes, and consequently the targeted actual budget balances are becoming quickly outdated. For example, the

updated programmes project actual budget deficits of 1.1 % of GDP in 2000 and 1 % in 2001 for the euro area as a whole. These targets are based on a GDP growth assumption of 2.8 % in 2000 and 2.7 % in 2001. However, the recent Commission forecasts point to growth of 3.4 % in 2000 and 3.1 % in 2001. If this high growth scenario of the Commission actually materialises and Member States allow automatic stabilisers to operate fully, then the nominal budget targets should be surpassed by 0.2 or 0.3 % GDP for the euro area (assuming a budget sensitivity to growth of 0.5) ([1]).

Should Member States only meet the nominal deficit target contained in the stability and convergence programmes, *ceteris paribus* this would imply less budgetary consolidation occurs than what was agreed in the stability or convergence programme. In other words, the Member State would have 'spent' (via uncompensated tax cuts or discretionary spending) the budgetary gains of growth rather than pursuing deficit reductions (as recommended in the broad economic policy guidelines). To overcome this risk, it is necessary to acknowledge that the commitment of Member States in the stability and convergence programme goes beyond nominal targets for budget balances: account must be taken of growth conditions which implies an examination of cyclically adjusted budget balances.

Second, this emerging bias in the SGP targets due to better than expected growth is being compounded by a tendency on the part of some Member States to base their budget plans on overly cautious growth assumptions and/or budget projections. Caution is of course required when setting medium-term targets and indeed it may be politically expedient to play down the prospects of large budget surpluses. Similarly, embodying in the projections for interest payments, prudent assumptions on interest rates — thereby maintaining a safety margin for interest rate shocks — appears to be a sound principle of budgetary planning. However, overly cautious assumptions complicate the assessment and discussion of programmes as the real adjustment effort actually needed to reach the targets becomes unclear. Over time, this could undermine confidence in the SGP as an effective budgetary surveillance instrument.

([1]) As discussed in Chapter 5 below, the composition of GDP growth can affect its budgetary impact. However, as the expected growth acceleration stems mainly from higher domestic demand, the 'normal' budgetary impact may be expected.

4.3. Balancing tax cuts and deficit reductions

With budget positions approaching balance, the question increasingly arises whether to cut taxes or pursue further deficit reductions (or even a move to budget surpluses). The Commission firmly supports attempts to reduce the tax burden which is at historically high levels, and recognises that reducing the tax burden and reform of the tax system can make an important contribution to raising potential output and improving employment incentives.

Getting the right balance between pursuing the fiscal consolidation and cutting taxes is vital. While not representing a miracle cure for Europe's structural problems, reducing the tax burden may help shift the EU economy onto a path of higher potential output and employment (see Part IV). However, in order to produce favourable effects, the reduction in taxation needs to be perceived as permanent: a dash to reduce taxation now, only to discover in a few years' time that such cuts are not sustainable and should be reversed, would be counter-productive.

The challenge is therefore to assess in a rigorous and consistent manner whether and how tax cuts could be implemented without compromising fiscal prudence. Four criteria, which were broadly endorsed by the Ecofin Council of 28 February 2000, should guide policy decisions.

- First and foremost, Member States should abide by the close-to-balance rule. If the close-to-balance rule is not yet met in structural terms, tax cuts should be accompanied with compensatory cuts in expenditure, which not only offset any revenue losses but at the same time ensure that the medium-term budget target is achieved in accordance with the timetable in the stability or convergence programme.

- Tax cuts must not be pro-cyclical. During an upswing, a relaxation in taxation while keeping spending constant gives an expansionary fiscal boost to the economy, which may lead to overheating and increase inflationary pressure. This underlines the importance of matching tax cuts with expenditure cuts during periods of robust economic growth. This is the counterpart to allowing deficits to rise in recessions and is a necessary condition for budgets to remain close to balance over the economic cycle.

- Account must be taken of the level of public debt and long-term sustainability of public finances. As argued

in the previous section, countries with high levels of public debt or facing severe budgetary pressures from population ageing will need to set and maintain ambitious budgetary objectives. As discussed above, such targets may have to go beyond levels necessary to safeguard the 3 % ceiling during economic downturns. It would be inadvisable for such countries to have uncompensated tax cuts before they reached these medium-term targets.

- Tax reductions should form a part of a comprehensive reform package. Since interactions of tax and welfare systems play an important role in the functioning of labour markets, tax reforms should be implemented in connection with other structural reforms. As discussed in Part IV, only in this case would tax reductions boost substantially output and employment.

The role of this assessment does not stop at evaluating whether a Member State has scope to cut taxes or not. Once it has been determined that reducing the tax burden is an advisable policy option, other policy choices arise as to the type of measures envisaged (e.g. general versus targeted tax cuts, tax cuts versus selected increase in spending on infrastructure investment, R & D, education, etc. ([1])). The 2000 broad economic policy guidelines include recommendations in this direction.

4.4. Identifying 'significant divergences' from budgetary targets

The previous two sections emphasise that new fiscal policy challenges are emerging in EMU, namely the risk of pro-cyclical deterioration in a high growth environment and the challenge of ensuring the right balance between tax cuts and deficit reductions. To ensure continued public confidence in the SGP, it is important that there is strict monitoring of commitments which are entered into by Member States, and that budgetary questions are tackled in a sound and consistent manner.

The importance attached to respecting the budgetary targets in the SGP is found in the so-called 'significant divergence clause' ([2]). This clause requires the Commission to identify and draw the Council's attention to 'actual or expected **significant divergence** of the budgetary position from the medium-term budgetary objective, or the adjustment path towards it, as set in the programme for the government surplus/deficit'. In the event of a 'significant divergence' being identified, the Council can request the Member State concerned to take corrective action.

However, the SGP provides no operational guidance as to how a significant divergence should be defined. The starting point in devising an operational framework for measuring significant divergence from budget targets is listing the criteria on which a judgement could be based. In broad terms, the following elements need to be taken into account.

- The SGP provisions make it clear that the Commission and the Council are required to monitor divergences in budget balances from both the medium-term objective and the adjustment path, i.e. it is not only the end point of the programme which is of interest but also the intermediate years.

- The SGP refers to 'actual' or 'expected' significant divergences. First, this implies that both the *ex-post* budget out-turns and the *ex-ante,* planned budgetary positions are subject to monitoring. Also, to be effective, this provision entails that the monitoring takes place both at the very moment of the submission of updates, by comparing the updates with the previous programmes, and as an ongoing process, by comparing the actual/expected budgetary positions with those defined in the updates.

- The attention should be mainly concentrated on cyclically adjusted developments. Only to the extent that the 3 % reference value is threatened, should nominal divergences be taken into account. While deviations from targets due to the operation of automatic stabilisers are allowed under the SGP, structural deterioration in the budget balance should be avoided.

- Account should be taken of the closeness of the budgetary position to the medium-term target: slippage in countries at or near to their medium-term target poses less risk than those which still have some way to go.

- The size of the allowed deviation should be related to the distance between the 3 % ceiling and the close-to-balance target. Countries with wider safety margins may be allowed a relative larger deviation than countries with smaller safety margins.

([1]) Some of these options are examined in Part IV.
([2]) Articles 6 and 10 of Council Regulation (EC) No 1466/97, OJ L 209, 2.8.1997, p. 1.

Box 10: **An illustrative application of a scheme to identify a 'significant divergence'**

This box presents a tentative exemplification of the approach sketched out in the text for identifying 'significant divergences' of budget outcomes from the agreed targets. Three stylised cases are presented and the framework is summarised in Table 17. The discussion below does not take into account the statistical uncertainty in the budgetary figures used. Of course, nominal budget balances and specifically cyclically adjusted budget balances are surrounded with a degree of uncertainty. Therefore the application of this framework must also allow for a scrutiny based on the 'statistical significance' of the deviation.

A distinction is made between the cases when there is still an adjustment effort to be made to attain the close-to-balance target (case A and B below) and when the medium-term budget target is already achieved (case C below). When there is still an adjustment effort to be made, a further distinction is made according to the closeness to the medium-term target: case A, if the country is still far from the target; case B if it is close to it. It is tentatively suggested that whether a country is close or not to the medium-term target is decided by whether the distance is smaller or not than one quarter of the safety margin (that is, one quarter of the difference between the medium-term target and the 3 % deficit ceiling). This figure is obviously arbitrary and it is used here only for illustrative purposes.

Taking the example of a country with a medium-term target of balance (thus implying a safety margin of 3 %), this implies:

Case A is when the country is still far from the medium-term target, that is, it has a structural deficit above 0.75 % of GDP (i.e. more than one quarter of a 3 % safety margin). In this case, the risk of exceeding the 3 % deficit ceiling is still high. Hence any divergence in either nominal or structural balances would be deemed 'significant'.

Case B is when the country is close to meeting the medium-term target, that is, it has a structural budget deficit lower than 0.75 % of GDP but still positive. Then the country can afford some deviation in the actual balance due to the working of automatic stabilisers but not yet in the structural balance. Regarding deviations in the actual balance, only a 'sizeable' divergence will be considered as significant. For instance, a threshold for a 'sizeable' deviation could be set at 20 % of the safety margin. This implies that the country could be allowed a nominal deviation up to 0.6 % point of GDP (0.2 times 3 %). However, if the actual balance diverges less than 0.6 % but the structural balance worsens then it would still be a significant divergence. This is the case of a pro-cyclical relaxation in a high growth scenario.

Case C is when the country meets the medium-term target, thus it has a balanced budget position or a surplus in cyclically adjusted terms. In this case, deviations from targets would only be considered significant if there is a 'sizeable' deterioration in the structural balance.

Table 17

Significant divergence: an illustration

Limit for significant structural divergence	Limit for significant nominal divergence
Countries not close to medium-term target	
No divergence allowed for these countries	No divergence allowed for these countries
Countries close to the medium-term target	
No divergence allowed for these countries	No 'sizeable' nominal divergence allowed
Countries having achieved the medium-term target	
No 'sizeable' divergence allowed	Nominal balance can show a divergence but the deficit cannot exceed the 3 % ceiling

The upshot of such an approach would be to classify countries according to whether or not they already meet their medium-term target. An illustration of the approach to a stylised case is presented in Box 10, and it could be used when assessing future updates to stability and convergence programmes.

For countries that already meet or surpass their medium-term target, the monitoring of possible significant divergences essentially aims at preventing pro-cyclical behaviour. For countries that are close to meeting the medium-term target but do not do so already, some deviation from the target for the actual budget balance could be tolerated (without being considered significant) provided that it is not sizeable. However, no deviation should occur as regards the structural balance.

For countries that still have a long way to go to meet the medium-term target, the monitoring of possible significant divergences also aims at preventing pro-cyclical behaviour, but essentially occurs to ensure that the SGP goal is attained within the agreed deadline. To this end, any statistically relevant divergence of the actual or structural balance from the target agreed in stability programmes will be deemed 'significant'.

5. Budgetary indicators: the cyclically adjusted budget balance

When setting and monitoring targets, there is a need to take explicit account of the cyclical position of the economy and its effect on the budget. This is recognised in the provisions of the SGP according to which, in addition to fixing targets for actual budget balances, Member States must provide enough detailed information on GDP developments in their stability and convergence programmes to enable 'a proper analysis of the cyclical position of the economy' ([1]). Hence, while there is no formal requirement to supply figures on cyclically adjusted budget balances, the distinction between actual and structural budgetary positions is implicitly recognised. Some Member States actually provide cyclically adjusted figures. On the basis of information included in the programmes, the Commission applies its own method to single out fluctuations which are due to short-term cyclical developments from the underlying trend. However, since cyclical developments are unobservable, this type of calculation is always surrounded by a degree of uncertainty.

This chapter examines general issues on the methods used to estimate structural budget balances and compares the approach used by the Commission and other international institutions. In the second section, some sources of uncertainly in analysing cyclically adjusted balances on a year-by-year basis are outlined, and special reference is made to the case of the euro area's budgetary 1999 outturn.

5.1. Approaches to estimating structural balances

In an ideal world with sufficient information on all budgetary items and discretionary policy measures, it would be possible to adjust each budget item directly to reflect their 'true' structural position. In practice, information of such quality is not available. Consequently, indirect methods are used where the cyclical budgetary component is inferred from the co-variation of government revenues and expenditures with output fluctuations.

In estimating cyclically adjusted balances, the Commission uses the same method for all countries. This method is described in detail in Chapter 1 of Part VI. The cyclical budget component is inferred from the estimated cyclical position of the economy and estimates of the budget sensitivity parameters. Whereas there is a broad agreement on the magnitude of the estimated budgetary sensitivities, there is less agreement on the best approach for estimating potential output and output gaps. The issues of how to estimate the output gap and budget sensitivities are now addressed in turn.

Measuring the output gap

The output gap plays an important role in the calculation of cyclically adjusted budget balances. To compute the output gap, an estimate of the potential or trend output is needed. Because these are not directly observable, a number of assumptions must be made to disentangle trend and cycle in actual GDP developments.

The Commission services have so far used the so-called Hodrick-Prescott filter (hereafter, HP) to estimate trend output and related output gaps. This method is simple to use and the results can be easily reproduced. It also minimises the need for judgmental interventions and so allows a consistent treatment of Member States. Moreover, the method is parsimonious on data requirements and the calculations can be made on the basis of information provided in the stability and convergence programmes. The HP filter has also the advantage that the estimated output gaps, and hence the cyclical components of the budget balance, cancel out over the cycle. A clear disadvantage of the HP filter, however, is its lack of economic foun-

([1]) Opinion of the Monetary Committee on the content and format of stability and convergence programmes, document MC/II/482 final of 16 September 1998, endorsed by the Ecofin Council of 12 October 1998. This document was published as an annex to the conclusions of the Council.

dations which makes its results and underlying assumptions difficult to interpret economically.

Another commonly used method to compute potential output and output gaps involves estimating a production function. Under the production function approach, potential output estimates, beings based on theoretical grounds, can be interpreted from an economic standpoint. This allows the assessment of the underlying factors driving the results. On the other hand, the results depend strongly on assumptions on the functional form of the production technology, e.g. returns to scale, the trend growth of technical progress as well as on estimates of the structural unemployment rate. All these assumptions are subject to heated economic debate.

The Commission services use the production function from the QUEST model to check the robustness of the results obtained by the HP filter. Output gaps generated by the QUEST production function approach do not differ strongly from the output gap calculations based on the HP filter basically because the HP filter is used to estimate the structural unemployment. The correlation between the output gaps produced with the two methods are in the range between 0.8 and 0.9 for all EU countries. Such high correlation can also be observed when comparing HP filter gaps to the production function based gaps made by the OECD and the IMF, even if their specification is different from the QUEST production function.

While high correlations indicate that the estimated output gap changes produced by various methods are quite similar, in level terms the output gap estimates may still show considerable variation.

These differences are particularly evident in calculating potential output during the disinflation period of the 1980s and the 1990s. A production function approach usually establishes a direct link between growth and inflation by incorporating a Phillips curve capturing the short-term trade-off between output and inflation. The output loss needed to bring down inflation is considered to have little effect on the production potential of the economy. Hence, large negative output gaps emerge. A statistical filter, instead 'interprets' part of the subdued growth performance as a fall in potential output. Hence, the estimated output gaps are smaller.

This implies that unlike the HP filter trend method, a method based on production function does not necessarily produce symmetrical output gaps. In the context of budgetary surveillance, the question is how much of these accumulated negative output gaps will in the end be retrieved. If the accumulated output loss is not going to be recovered, the corresponding revenue will actually never materialise. However, with a more stable macroeconomic environment, the importance of this issue should be reduced in the future. The stability-oriented macroeconomic framework of EMU would itself contribute to smooth out these differences.

Budget sensitivity parameters

The budgetary sensitivity parameters used by the Commission services are based on tax and expenditure elasticities which have been recently calculated by the OECD (OECD, 1999a). The different tax elasticities (indirect taxes, personal income taxes, corporate taxes and social security contributions) are weighted using their relative shares in overall tax income over the 1985–99 period. The government expenditure sensitivity parameter refers to unemployment related expenditures.

This approach implies that the budget sensitivity parameters express the average cyclical response of the budget to the cycle and not the response in any one year [1]. Generally this poses no problem when considering budgetary trends in the longer term, but it can complicate the interpretation of results for an individual year for several reasons. Firstly, tax reforms at different points in time are not reflected in changes of the budget sensitivity parameters. Specifically, tax reforms after 1996 will only be reflected when the tax elasticities will be updated the next time. Secondly, as shown in the next section, in individual years different tax bases may react atypically to the cycle. A third issue is the lag in the collection of taxes, especially when there are abrupt cyclical swings; uncertainty concerns particularly corporate taxes, which are not only quite volatile but also collected with substantial lags.

An additional issue is the coverage of the budgetary items included in the measurement of the cyclical component. Other expenditure items besides unemployment benefits — for instance, social and health care expenditure — may fluctuate with the cycle. However, it has proven empirically difficult to find a consistent pattern. A related issue is how to deal with the different budgetary rules on expenditures and revenues that have been introduced in several Member States in the last few years. For example, the Dutch budget system includes

(1) In particular, on the revenue side the OECD tax elasticities are based on the 1996 tax codes.

specific budgetary rules which partially offset the budgetary impact of the automatic stabilisers, making it difficult to distinguish between automatic and discretionary changes.

More generally, it may be argued that governments tend to react systematically to the cycle and that this 'government reaction function' should be taken on board. A number of studies, as well as evidence provided in other parts of this report, have found that 'quasi-automatic' behaviour linked to systematic reactions by budgetary authorities is not symmetric over the cycle and, in general, tends to be pro-cyclical. Hence, 'actual' stabilisers may be smaller than 'purely automatic' stabilisers. However, the SGP is largely about breaking this traditional behaviour in order to let the automatic stabilisers play freely over the cycle. Thus, to the extent that the Pact's monitoring system works effectively, this kind of policy reaction should not characterise the future budgetary behaviour.

Comparing cyclically adjusted budget balances

The Commission, the OECD and the IMF all use the same overall framework to compute cyclically adjusted figures, that is, applying a set of budgetary sensitivity parameters to an estimated output gap. As signalled above, the differences that appear are mainly due to different methodologies in the estimation of the output gaps where the OECD and the IMF use a production function while the Commission services use a trend estimation method.

Table 18 below shows figures on cyclically adjusted budget balances computed by the Commission, the OECD and the IMF for all EU Member States for the 1997–99 period in their respective, most recent forecasts ([1]). For example, for 1997 the IMF indicates that the structural deficit in the euro area was 1.3 % of GDP while the Commission has a figure of 2.0 % of GDP, a substantial difference. On average, differences in levels are gradually reduced in 1998 and 1999, even if they remain sizeable for some countries, especially for the large economies.

5.2. Taking atypical circumstances into account

Approaches used by the Commission, the IMF and the OECD for calculating cyclically adjusted budget bal-

([1]) The Commission and IMF figures are from their respective spring 2000 forecasts while the figures from the OECD are from their autumn 1999 forecast.

Table 18

Structural budget balances of the Commission, OECD and IMF

(% of GDP)

	1997			1998			1999		
	Commission	OECD	IMF	Commission	OECD	IMF	Commission	OECD	IMF
B	– 1.6	– 0.7	– 0.7	– 0.7	– 0.3	0.0	– 0.3	– 0.2	0.0
D	– 2.0	– 1.8	– 1.1	– 1.2	– 1.1	– 0.3	– 0.3	– 0.8	0.6
E	– 2.6	– 2.7	– 1.8	– 2.3	– 2.4	– 1.8	– 1.1	– 1.5	– 1.0
F	– 2.1	– 1.9	– 1.0	– 2.1	– 2.2	– 1.5	– 1.3	– 1.8	– 0.8
IRL	0.3	– 0.3	0.3	1.2	1.0	1.1	0.8	1.8	1.9
I	– 2.5	– 1.9	– 1.6	– 2.5	– 1.6	– 1.6	– 1.3	– 0.7	– 0.5
NL	– 0.7	– 1.8	– 0.9	– 0.5	– 1.8	– 1.0	0.7	– 1.7	– 0.1
A	– 1.5	– 1.7	– 1.0	– 2.2	– 2.3	– 1.6	– 1.7	– 2.2	– 0.8
P	– 2.3	– 2.2	– 2.1	– 2.0	– 2.2	– 2.1	– 1.8	– 1.8	– 2.0
FIN	– 1.2	– 0.8	– 0.8	0.6	0.7	1.3	1.9	2.8	3.0
EUR-11	– 2.0	– 1.9	– 1.3	– 1.6	– 1.6	– 0.7	– 0.7	– 1.1	0.0
DK	– 0.9	– 0.7	– 0.2	– 0.3	– 0.2	0.3	2.4	2.9	2.1
EL	– 4.1	– 3.2	– 3.7	– 3.0	– 2.1	– 2.6	– 1.6	– 1.3	– 2.1
S	– 0.6	0.2	1.9	2.9	3.4	5.0	2.0	2.5	4.0
UK	– 2.3	– 2.6	– 1.8	0.2	– 0.5	– 0.1	1.3	– 0.3	0.1
EU-15	– 2.0	– 1.9	– 1.3	– 1.2	– 1.3	– 0.7	– 0.2	– 0.7	0.0

Source: Commission services, OECD, IMF.

ances (CABs) assume that developments in any one year are always of an 'average' nature. However, the annual conditions seldom correspond to the average conditions. Thus, CAB estimates for any one year risk being biased due to atypical conditions in that year.

A number of possible sources of bias when considering estimates of a CAB in any year should be considered. In particular, the approach does not take into account the composition of GDP growth. GDP growth which is largely due to private consumption tends to have a higher tax content than growth coming from external demand, investments or the building-up of stocks ([1]).

The analysis of the 1999 budgetary outcome of the euro area helps to illustrate this issue. As pointed out in Part II, the euro area 1999 real GDP growth was lower than what had been incorporated in the 1999 budgetary plans. Nevertheless, in spite of the fact that no significant additional budgetary measures were enacted, the actual budgetary targets were met or overachieved. How can these elements be reconciled? A crucial role appears to have been played by the growth composition in 1999 that was favourable from a budgetary point of view: private consumption (which is rich in tax revenues) held up strongly whereas growth fell due to sluggish export performance (which have little impact on the budget) ([2]). This element contributed to make the cyclical component of the budget balance and the cyclical budgetary sensitivity substantially lower than 'normal'. As shown in Box 11, rather than the normal value of 0.5 used in the Commission services and the OECD calculations, the *ex-post* 'adjusted' budget sensitivity seems to have been closer to zero in 1999.

In order to validate this result, the effect of growth composition on budget balances has been investigated by simulations with the QUEST model. Two types of shocks to the euro area economy were examined. The first shock was a sharp fall in exports to the rest of the world in combination with a reduction in private investment. The second shock was generated by a fall in private consumption. Both shocks were assumed to cause a temporary slowdown in real GDP growth by 1 percentage point compared with the baseline growth rate. Monetary policy was kept unchanged in both simulations. The actual growth profile in 1999 followed a similar pattern to the one sketched out in the first scenario, whereas the second scenario applies to situations where the shock is purely of domestic origin and thus is closer to the 'normal' GDP

([1]) Over a longer time horizon, shifts in the distribution of income between wages and profits can have a budgetary impact on CABs since wages are generally higher taxed than profits, especially at the margin.

([2]) A further element may have been the behaviour of corporate profits which were particularly high in 1998, as an important share of these was paid in the first half of 1999. Also, private consumption accelerated towards the end of the year. While this had a smaller effect on the 1999 average GDP growth, it nevertheless boosted substantially government tax revenues in some countries.

Table 19

Operation of automatic stabilisers under different shocks (*)

	Shock in external demand and investment	Shock in private consumption
Effects of the shock on the economy (% change)		
Real GDP growth rate:	– 1.0	– 1.0
— Export (**)	– 3.8	– 1.2
— Private investment	– 2.2	2.0
— Private consumption	0.3	– 3.2
Effects of the shock on the government budget (in % points of GDP)		
Government deficit:	0.2	0.6
— Expenditure	0.0	0.0
— Revenue	– 0.2	– 0.6
Government debt	1.1	1.4

(*) Difference from the baseline scenario for the euro area.
(**) Including intra-EU trade.

Source: Commission services.

composition assumed in computing standard budget classifications.

Table 19 presents simulation results for the euro area on the working of automatic stabilisers under different type of shocks. Compared with the baseline scenario, a sharp deceleration in growth by 1 percentage point generated by a fall in extra-EU exports and reduction in private investment increases the government deficit in the EU and euro area as a whole by only 0.2 percentage points of GDP, if budgetary stabilisers are allowed to work fully. If the slowdown were entirely due to a fall in private consumption, the deficit would increase by 0.6 percentage points of GDP, a value close to the estimated 'normal' budgetary reaction to the cycle (0.5). Overall, the simulation results confirm that in 1999, the cyclical sensitivity of the budget was considerably lower than the estimated average sensitivity.

Box 11: **What was the 'true' budgetary sensitivity to the cycle in 1999?**

The actual improvement in the 1999 euro area budget deficit can be written in terms of the actual deficit in 1998 (d_{98}), the change in the structural primary balance (Δs_{99}), the change in the cyclical component of the budget deficit, $\Delta(\alpha_t . OG_{99})$, where α_t is the sensitivity of the budget to the cycle and OG the output gap, and the change in the interest burden (ΔIB_{99}):

(1) $$d_{99} = d_{98} - \Delta s_{99} - \Delta(\alpha_t . OG_{99}) + \Delta IB_{99}$$

The corresponding breakdown in terms of expected budget deficit is given by:

(2) $$d^e_{99} = d^e_{98} - \Delta s^e_{99} - \Delta(\alpha^e_t . OG^e_{99}) + \Delta IB^e_{99}$$

The unexpected improvement in the 1999 budget deficit can be expressed as the difference between the actual outcome (1) and expected outcome (2). Defining $\alpha_t = \alpha^e_t + \Delta\alpha$, where α^e is the 'normal' budget sensitivity, then the better than expected outcome for the 1999 deficit can be written as:

(3) $$(d_{99} - d^e_{99}) = (d_{98} - d^e_{98}) - (\Delta s_{99} - \Delta s^e_{99}) - \left[\alpha^e_t . (\Delta OG_{99} - \Delta OG^e_{99})\right] - \Delta\alpha . OG_{99} + (\Delta IB_{99} - \Delta IB^e_{99})$$

Thus, the better than expected outcome in 1999 is explained in turn by a different starting position, additional structural measures, the budgetary impact from a different cyclical position and a change in the budgetary elasticity and a change in the interest burden. To solve here for the different components and the change in the cyclical sensitivity of the budget, $\Delta\alpha$, it is assumed that all the structural measures taken in 1999 were included in the 1999 budgets and were therefore incorporated in the expectations, i.e. the term $(\Delta s_{99} - \Delta s^e_{99})$ is zero. If the real trend GDP was not affected by the slowdown in growth, the difference in the expected and actual output gap can be measured by the difference between the actual and expected rate of GDP growth.

Then, the implied effect on the cyclical sensitivity of the budget from the growth composition and other factors can be computed as:

(4) $$\Delta\alpha = \left[(d_{98} - d^e_{98}) - (d_{99} - d^e_{99}) - \left(\alpha^e_t . (\Delta OG_{99} - \Delta OG^e_{99})\right) + (\Delta IB_{99} - \Delta IB^e_{99})\right] / OG_{99}$$

The inputs can found in bold in Table 20 below, where it is clear that the 1999 outcome was 0.7 % of GDP better than expected, 0.3 % can be referred to a better starting position and 0.1 % to a lower interest burden than expected. The expected change in the cyclical budget component with the normal budget sensitivity would have been an increase of 0.2 % of GDP. Bearing in mind that since the change in the cyclical sensitivity of the budget is derived as a residual, all computation errors are ascribed to it. Also, it is implicitly assumed that the normal budget sensitivity can correctly be applied to 1998. Then, with the inputs from the table below, the term $\Delta\alpha$ becomes — 0.5 and with a normal budget sensitivity of 0.5, the implied adjusted budget elasticity for 1999 thus becomes close to zero.

This figure, however, may be on the low side to the extent that measures aiming at improving tax collection have contributed to boost fiscal revenues in 1999. There is anecdotal evidence that this effect may have been important in a number of countries (e.g. Italy). This would imply that the term $(\Delta s_{99} - \Delta s^e_{99})$ is positive which would result in a positive, though small value of α. As shown in the text, this would be broadly in line with QUEST simulations of the 'type' of slowdown which affected GDP growth in 1999.

Table 20

Breakdown of 1999 budgetary outcome, euro area

	Autumn forecast 1998 (expected)	Spring forecast 2000 (outcome)	Difference
Deficit 1999, % of GDP	1.9	1.2	**– 0.7**
Deficit 1998, % of GDP	2.3	2.0	**– 0.3**
Interest burden 1998, % of GDP	4.7	4.7	0.0
Interest burden 1999, % of GDP	4.4	4.3	**– 0.1**
GDP growth 1999, %	2.6	2.2	– 0.4
Output gap 1999	(– 0.6)	– 1.0	– 0.4
'Normal' budget sensitivity (α^e)	0.5	0.5	
Ex-ante cyclical component	0.3	0.5	**+ 0.2**
Results			
Implied cyclical components	(0.3)	0.0	– 0.3
Implied budget sensitivity	(0.5)	**0.0**	**– 0.5**

Source: Commission services.

Part IV

Focus on taxation

1. Introduction

The main purpose of taxation is to finance the provision of public services. Normally, the benefits provided by the public sector are not in direct proportion to the payments of individual taxpayers, and hence taxation also plays a redistributive role. By influencing incentives to save, invest and work, taxes also affect the functioning of the real economy ([1]). These incentive effects vary according to the type of tax in question. Capital taxes reduce the rate of return on physical capital, thus lowering capital accumulation: analogously, they may create disincentives to save over the life-cycle. Labour taxes increase the cost of labour and so reduce employment and increase unemployment, especially when coupled with rigid labour markets and generous benefit systems.

In brief, tax systems are a key factor in determining the overall efficiency of the economy. Ensuring that tax systems provide the right incentives to save, work and invest is therefore an essential element in the EU's economic strategy to raise potential output and employment. Tax reform is a vital component of the 'quality' of public finances as stressed by the recent special European Council in Lisbon.

([1]) In addition to such financial, redistributive and allocative roles, taxes also have stabilising affects, which are not discussed in this part of the report.

To contribute to this debate, this part of the report assesses and compares the structure of tax systems across EU Member States. It considers the reasons behind the rapid increase in tax burdens, especially on labour income. In addition, the most important policy challenges which lie ahead in the field of taxation are discussed in the context of the new economic policy framework brought about by the start of EMU.

The next chapter provides an overview of the tax systems in EU Member States during the 1990s and compares developments with those in the US and Japan. It traces the evolution of and reasons behind changes in effective tax rates on labour, capital and consumption. Chapter 3 turns to factors which shape tax systems in the long run, and describes the link between the rise in public expenditures and the corresponding need to raise tax revenues; the role of tax competition in the shift of the tax burden from capital to labour is also examined. Chapter 4 analyses the effects of various tax reform strategies for employment, economic growth and public finances on the basis of analytical results from the QUEST model of the Commission services. Chapter 5 provides an overview of recent tax reforms in Member States, identifying common features and pointing out possible directions for reforms in the future. Chapter 6 concludes.

2. The structure of tax systems in the 1990s

2.1. Tax burden

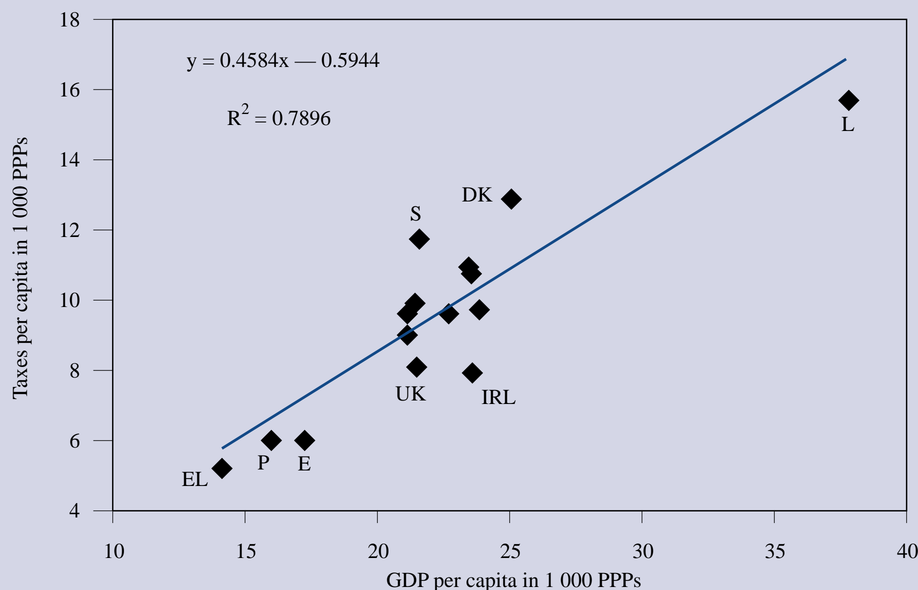
The tax burden in the euro area, defined as the ratio of government tax receipts to GDP, is very high by international standards. In 1999, it was 43 % of GDP, some 14 and 16 percentage points higher than in the US and Japan, respectively. The overall tax burden differs, however, significantly across Member States: it is relatively high in the Nordic countries, Belgium, France and Austria, whereas it is relatively low in Spain, Portugal, Ireland, Greece and the UK.

Differences in the tax burdens across Member States are mostly due to the weight of the public sector in the economy. There is a close relation between tax receipts and government expenditures as a percentage of GDP, the latter being to a large extent explained by the level of per capita income (Graph 11) ([1]). High-income Member States tend to spend more per capita than low-income ones, especially on welfare programmes: 65 % of the differences within the EU in transfers to households are related to differences in GDP per capita.

A further distinction of the euro area compared with its main trading partners is the structure of tax revenues. In the euro area, social security contributions accounted for 38 % of total tax receipts in 1999, with indirect and direct taxes representing 32 % and 30 %, respectively. The high share of social security contributions in the EU contrasts

([1]) The same kind of relationship is found when considering other years.

Graph 11: **Taxes and GDP per capita in 1999**



Source: Commission services.

with the US where direct taxes are the most important component of tax revenues. These differences in the tax structures between the US and the euro area are closely related to the comprehensiveness of public welfare systems which in the latter are mainly financed via social security contributions.

Although the structure of tax revenues is broadly similar across Member States, there are some notable differences: in Denmark and to a lesser extent also in Ireland and the UK, the contribution of social charges to tax receipts is low by EU standards ([1]).

2.2. Effective tax rates on production factors and consumption

It is not possible to obtain a full picture of where the tax burden actually falls by looking solely at the structure of social security contributions, direct taxes and indirect taxes. For example, direct taxes consist of income and property taxes paid by individuals and corporations: hence the burden falls on both labour and capital. To separate the incidence of the tax burden falling on each factor (labour, capital and consumption), it is necessary to look at so-called 'effective' tax rates. Effective tax rates on labour, capital and consumption are obtained by relating the broad categories of tax revenues to the corresponding tax bases: labour income (gross wage), capital income (gross operating surplus) and consumption expenditure. The method used to calculate effective tax rates is explained in Box 12.

In the euro area, the effective tax rate on labour amounts to 40 % of the wage bill, with 70 % of this accounted for by non-wage labour costs (social security contributions and other payroll taxes) and 30 % for personal income taxes (Table 21). In contrast, the effective tax rate on labour is just 24 % in the US, with non-wage labour costs representing only 12 % of the average gross wage.

([1]) In Denmark, the share of social security contributions in government receipts is negligible as most welfare spending is financed out of general taxation. Consequently, the contribution of direct taxes to the total tax burden is high compared with the EU average.

Table 21

Effective tax rates, 1999 (*)

	Non-wage labour costs	Personal income tax rate	Labour effective tax rate	Capital effective tax rate	Consumption effective tax rate
B	26.5	24.9	44.8	23.7	20.5
D	31.8	17.8	44.0	15.9	17.9
E	21.9	10.2	29.9	18.5	17.7
F	32.1	15.2	42.4	22.6	24.5
IRL	12.2	13.7	24.2	20.8	24.8
I	23.1	16.5	35.8	26.2	22.9
L	20.9	12.8	31.0	34.0	25.7
NL	28.3	12.0	36.9	25.1	19.5
A	26.2	19.5	40.6	18.8	23.4
P	19.9	9.8	27.8	24.6	22.7
FIN	23.6	25.9	43.3	24.1	24.5
EUR-11	28.1	16.2	39.8	20.9	20.9
DK	5.64	1.2	44.5	28.0	30.5
EL	22.9	8.3	29.3	19.5	20.0
S	25.4	34.7	51.3	27.9	28.0
UK	11.9	15.1	25.2	35.1	18.2
EU-15	24.8	17.0	37.6	23.6	20.8
US	11.6	13.9	23.9	22.7	9.3
JP	16.5	4.6	20.3	18.7	13.6

(*) Calculated on the basis of the 2000 spring forecast of the Commission services.

Source: Commission services and OECD.

Box 12: **Effective tax indicators**

'Effective' tax rates are used to analyse the sources of changes in tax systems (Mendoza et al., 1994). On an annual basis, the European Commission (1998a) publishes so-called 'implicit' tax rates for employed labour, other production factors and consumption. They are now available until 1997 for all EU Member States (European Commission, 1999b).

The effective tax rate indicators analysed in this report are obtained by adapting the concepts of implicit taxation to the analytical needs and data availability of DG ECFIN. While conceptually equivalent, effective tax indicators allow one to compute the tax burdens on labour, capital and consumption for EU and other OECD countries in correspondence with the regular Commission's spring and autumn forecasts. The available data cover the last three decades (from 1970 to 2001). A detailed explanation of the ECFIN databank on effective taxation can be found in Martinez-Mongay (2000). The OECD has also developed a similar databank (OECD, 1999b).

The indicators used here can be summarised as follows:

Effective tax rate of labour. There are two sources of tax revenue on labour income. First, social security contributions and other payroll taxes (also called non-wage labour costs) are levied on wages; the effective rate of non-wage labour costs is the ratio of total social security contributions (including those paid by the self-employed) to total labour costs. The rate includes social security contributions paid by employers and employees. Second, personal income taxes are levied on remaining income. Taxes on personal income are further decomposed into the personal income tax attributable to labour income, and the personal income tax attributable to capital income. The effective tax rate of labour is the ratio of the sum of non-wage labour costs and the personal labour income taxes to gross wages.

Effective tax rates on capital. Taxes on capital income include personal income taxes attributable to capital income, taxes on corporate income and property taxes. A proxy for the tax base is the adjusted gross operating surplus ([1]).

Effective tax rate on consumption. The effective tax rate on consumption can be calculated as the ratio of indirect tax revenues to the value of final (private and public) consumption, excluding wages paid by general government. Such an indicator conceptually coincides with the 'implicit' tax rate on consumption.

([1]) It is worth noting that both the European Commission (1999b) and the OECD (see Carey and Tchilinguirian, 2000) use the net operating surplus as the tax base of capital. A consequence of using the net operating surplus instead of the gross operating surplus is that the effective or implicit tax rates on capital income increase significantly, by more than 10 percentage points. A further consequence is that the rates are much more volatile, since capital consumption experiences large cyclical swings. However, similar conclusions can be drawn from both approaches as regards the evolution over time (see Chapter 3 below) and cross-country differences. Since the analysis in this chapter is concerned with long-run features and comparisons across countries rather than levels, the gross operating surplus is preferred here as it is more reliable in these respects.

Within the euro area, the effective tax rate on labour is significantly below average in Ireland and to a lesser extent in Portugal and Spain. It is also relatively low in the UK and Greece. The highest tax rates in the euro area are recorded in Belgium, Germany and Finland and, outside the euro area, in Denmark and Sweden.

The effective tax rate on capital income is similar in the euro area and the US, amounting to some 21–23 % of the gross operating surplus of the economy; in Japan it is around 19 %. In the euro area, the lowest effective tax rate on capital is recorded in Germany (16 %) and the highest in Luxembourg (34 %) ([1]).

([1]) Note that such a high effective tax rate of capital in Luxembourg refers to domestic capital income and contrasts with the special fiscal treatment of capital income of non-residents.

Indirect taxes account for 21 % of the prices paid by consumers in the euro area whereas the figure is only 9 % in the US and 14 % for Japan. In general, the common VAT system in the EU has resulted in lower differences between consumption tax rates within the euro area than internationally. However, despite VAT harmonisation, there are still marked differences in the effective tax rates on final consumption across Member States. Such divergences are largely due to differences in normal and reduced VAT rates, excise duties, as well as in energy and environmental taxes.

As shown in Graph 12, tax revenues from labour income in the euro area account for approximately half of total tax revenues, similar to the US and Japan. However, in Belgium, Germany and Austria, which all are high-tax

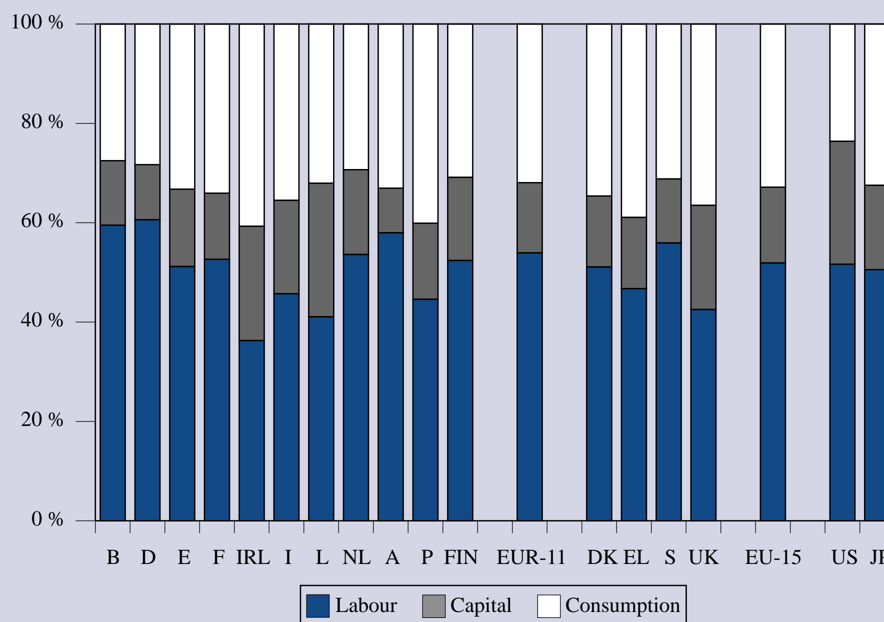
countries, the share of tax revenues from labour is noticeably larger than in the euro area as a whole. In low-tax countries like Ireland and the UK, as well as some low-income countries like Portugal and Greece, the share of tax revenues from labour income tends to be smaller than on average.

In the US, tax receipts from capital income represent 25 % of the total tax revenue, while the figure is only 15 % in the euro area. In Ireland, Luxembourg ([1]) and the UK, the share of tax revenue from capital income is close to that of the US, while the share of capital income is particularly small in Germany and Austria.

Consumption tax revenues account for one third of total tax revenues in the euro area and Japan, but only one quarter in the US. Tax receipts from consumption are particularly important in Greece, Ireland, Portugal and the UK, where the share of labour taxes is the lowest in the EU. Consumption taxes play a considerably lesser role in Belgium, Germany and the Netherlands.

([1]) See footnote above on the fiscal treatment of non-resident capital income in Luxembourg.

Graph 12: **The structure of tax revenues in 1999** (% of tax burdens)



Source: Commission services.

3. Factors shaping tax systems in the long run

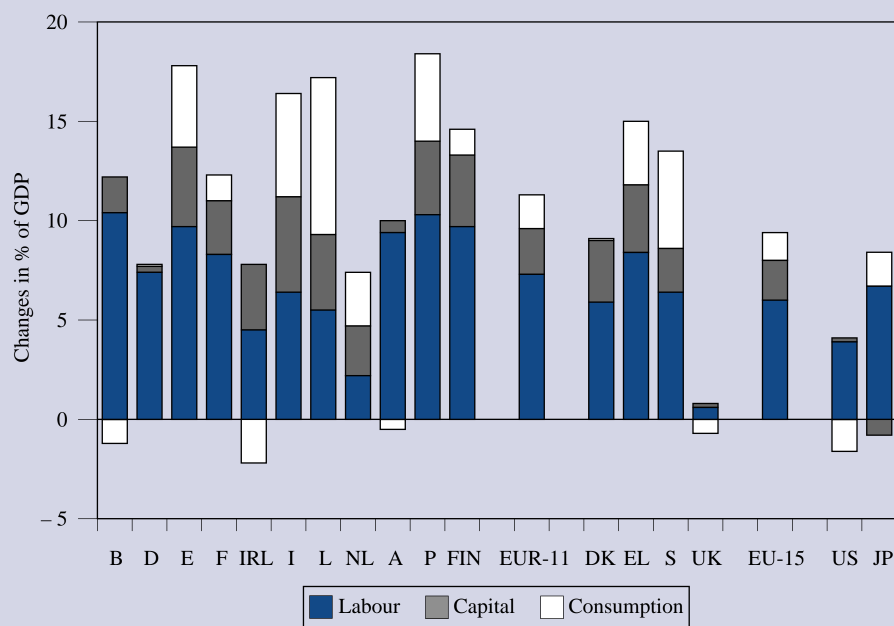
The overall tax burden has risen substantially during the past three decades and at the same time the tax structures in Member States have undergone major changes. The large increase in the tax burden in the euro area since 1970, more than 11 percentage points of GDP, contrasts with the small increase of 2.5 % of GDP recorded in the US (Graph 13) ([1]).

The most striking feature of these past developments has been the increasing tax burden on labour. In the euro area, taxes on labour increased by 7 percentage points of GDP compared with only 2 percentage points' increase in capital taxation and 1 percentage point increase in consumption taxation during the 1970–99 period. The marked decrease in the relative importance of indirect taxes can be partly explained by the progressive liberalisation of international trade, which has eliminated tariff revenues almost completely.

The long-run evolution of effective tax rates (Graph 14) shows that changes in tax revenues have not been driven by equivalent changes in the corresponding tax bases, but rather by changes in tax rates. All in all, there has been a substantial increase in the effective taxation on labour, a relatively moderate rise in the tax burden on

([1]) In Graph 13 the change in total tax revenues has been broken down into the changes of its three components. As a result, the height of the bars gives the change in the total tax burden for all the countries, except for Germany, Ireland, the US and Japan, where the reduction in consumption or capital tax revenues has not been deducted.

Graph 13: **Changes in labour, capital and consumption tax revenues, 1970–99**



Source: Commission services.

capital while the effective tax rates of consumption have remained relatively stable at the euro area and EU level. Already in 1970, the average effective tax rate on labour in euro area countries was higher than the rate on capital and consumption, Since then, the gap has continually increased. Overall, in the past three decades, the effective tax rate on labour increased by almost 14 percentage points of gross wages in the euro area (12 percentage points in EU-15), whereas the effective tax burden on capital increased only by 5 percentage points and that on consumption remained broadly constant.

The long-run increase in the overall tax burden is closely related to the growing share of the public sector in the economy. Between 1970 and 1999, almost 75 % of the changes in the tax burden in EU Member States, the US and Japan are related to changes in public expenditure. Indeed, there exists ample empirical evidence that spending 'leads' taxation. First, short-run causality analyses for the EU show that spending increases are matched by increases in tax receipts one year later ([1]). Secondly, empirical analyses suggest that the long-term trend in both tax revenues and current spending — especially welfare spending — is driven by the same demographic factors, namely dependency ratios ([2]).

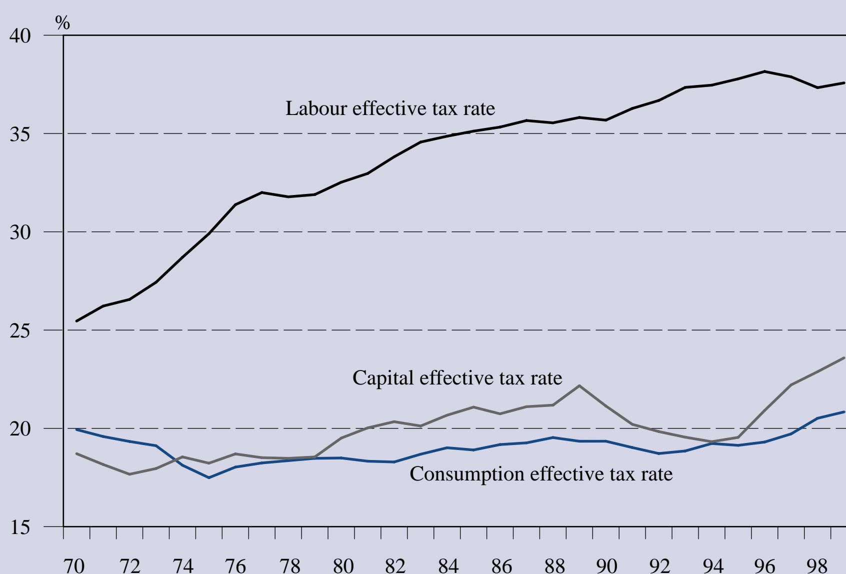
In other words, taxes are pulled up to finance increasing levels of spending and, in particular, labour taxes appear to have been steadily rising in industrial countries in order to finance welfare spending, especially pensions, health care and other social benefits. More than 40 % of the changes in the effective tax rate on labour are associated with changes in current spending and over 70 % of the across-country differences in the effective tax rate on labour correspond to differences in the ratio of current transfers to GDP.

This conclusion has important consequences for tax reforms. To be sustainable, tax reductions have to be matched with equivalent reductions in public expenditures. In particular, tax cuts on labour may not be sustainable in the long run unless welfare systems are adequately reformed.

([1]) See Martinez-Mongay and Fernandez (2000), where standard causality analyses have been applied to a variety of fiscal indicators including the tax burden, the spending ratio and the transfers ratio in the EU as a whole and in the US.

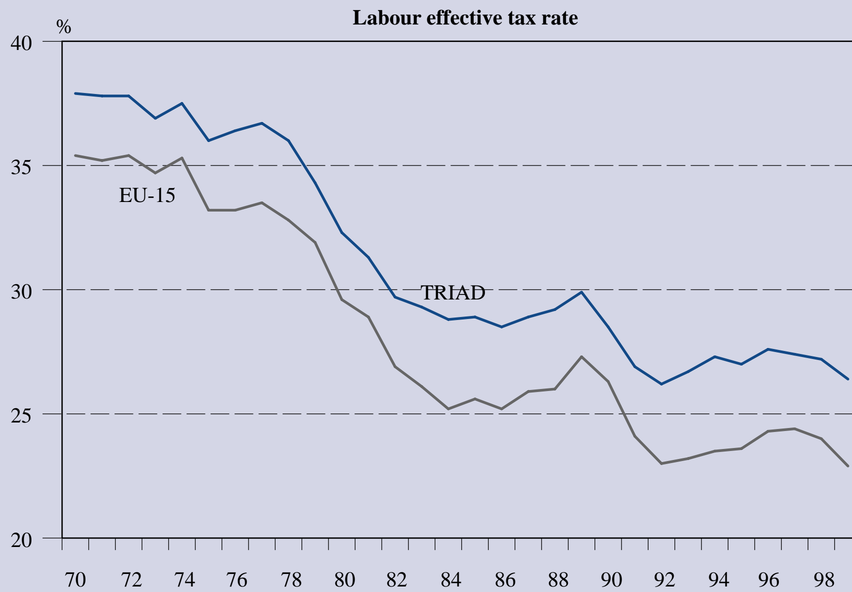
([2]) This is based on results shown in Martinez-Mongay (1999) using co-integration techniques applied to each Member State, as well as on the basis of pooled data for the Member States, the US and Japan over the period 1970–99.

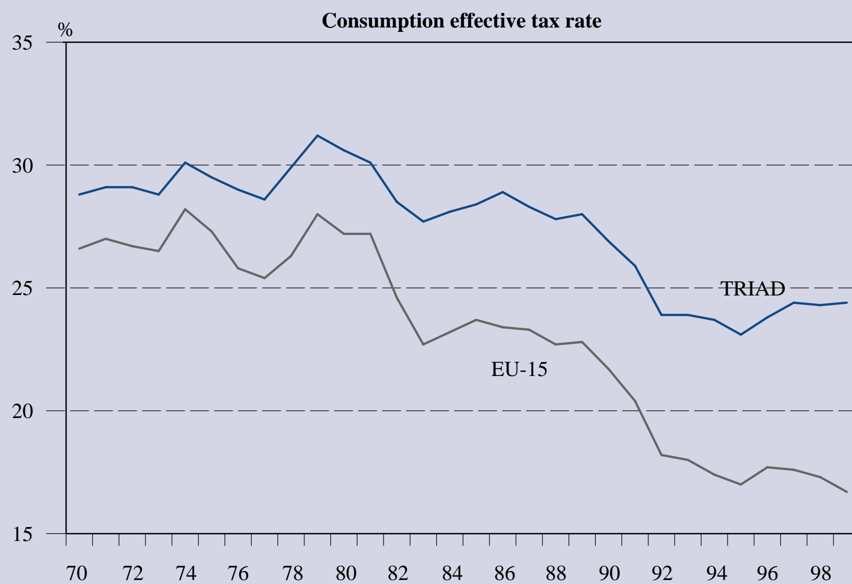
Graph 14: **Evolution of EU labour, capital and consumption tax rates, 1970–99**



Source: Commission services.

Graph 15: **Tax convergence (*) within the EU, and with the US and Japan, 1970–99**





(*) Convergence is measured as the ratio between standard deviation and mean in %.

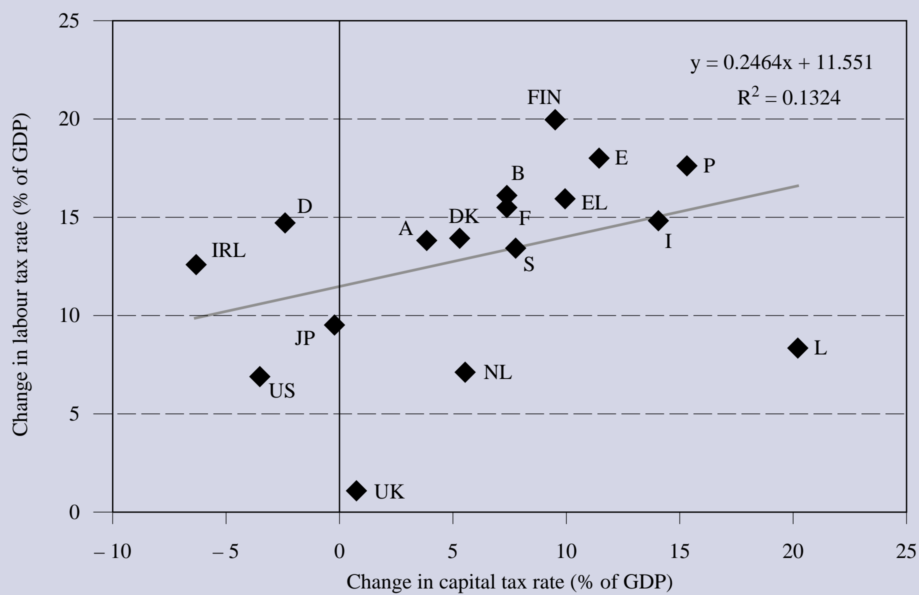
Source: Commission services.

Graph 15 (continued): **Tax convergence (*) within the EU, and with the US and Japan, 1970–99**

(*) Convergence is measured as the ratio between standard deviation and mean in %.

Source: Commission services.

Graph 16: **Changes in labour and capital rates, 1970–99**



Source: Commission services.

The increasing tax burden on labour to meet the mounting financing needs of the welfare state is also related to constraints faced by governments to increase the tax burden on mobile tax bases. Levying taxes on capital has become increasingly problematic because of the deepening economic integration and liberalisation of the capital flows. Hence, increased international tax competition may have contributed to the structural change in the tax systems and the growing gap between the tax burdens on labour and capital. If this is indeed the case, one may argue that tax competition has been one of the driving forces behind the convergence of the effective tax rates experienced in the past decades.

This development is shown in Graph 15 which pictures the convergence of tax systems within the EU, on the one hand, and between the EU as a whole, US and Japan, on the other ([1]).

While the growing financing needs of the welfare state and the intensification of tax competition may have both played a role in explaining the rise in labour taxes and the convergence of the tax systems within the EU and at the international level, a number of qualifications need to be made.

- Similarities in the tax burden on capital across Member States and with the US and Japan could already be observed in the early 1970s. Enhanced international capital mobility has increased the similarity of capital tax rates between EU countries and their main trade partners over the last 30 years.

- The bulk of the convergence in effective rates on labour took place in the late 1970s and the early 1980s when social protection systems in most countries reached maturity. However, tax rates on labour are much more similar within the EU compared with rates in the US and Japan.

- The largest differences between Member States and other industrial countries concern consumption taxes. In general, tax rates on consumption have tended to converge among EU Member States much more than between the US and Japan due to VAT harmonisation in the EU.

- There is no evidence that tax competition has reduced the tax burden on capital, which has remained broadly stable over the past three decades ([2]). Neither is there evidence that changes in labour tax rates keep pace with those of capital. As shown in Graph 16, there does not seem to be a close link between changes in the burdens on labour and capital in the long run.

([1]) As with any other empirical analysis, the evidence presented is not fully conclusive and should be assessed against alternative indicators. Convergence diagnoses depend on the country sample and the period, as well as on the particular convergence indicator applied. For instance, in European Commission (1999b), tax convergence within the EU is assessed by means of the average absolute distances between Member States' rates and EU averages over the period 1980–97. The findings point to a strong convergence process in taxes on other factors of production (capital plus self-employed labour), to significant convergence in consumption taxes and to a slight divergence in taxes on employed labour. In this latter case, average absolute deviations slightly increased in the 1980s and stabilised in the 1990s.

([2]) This concurs with OECD data (OECD, 1999b, and Carey and Tchilinguirian, 2000).

4. Lowering taxes: how can it be done?

As shown in Parts I and II of this report, fiscal consolidation during the 1990s has not reversed the long-run trend of ever increasing tax burdens, particularly on labour. With a few notable exceptions, budgetary consolidation may at best only have slowed down such trends. Even though increased tax revenues have been instrumental in bringing about compliance with the Maastricht convergence criteria, the distortions caused by high tax burdens and the current structure of taxes need to be addressed promptly. There is a growing recognition of the need to lower the overall tax burden, and, in particular, the tax burden on labour to boost employment creation.

Although the empirical evidence on efficiency and growth effects of taxes is somewhat ambiguous, the supply-side effects of tax cuts could be sizeable especially if framed within comprehensive economic reform programmes. To maximise their positive effects the interactions of tax and welfare systems need to be taken into account when designing tax reforms.

The BEPG have called for lowering the tax burden, especially on labour. However, as there is no unique way to implement tax reforms, the relative merits of alternative strategies — which range from a generalised tax cut to targeted reductions of labour taxes and tax shifts — need to be investigated. To illustrate the potential effects of various tax reforms on the economy, simulations based on the Commission services' QUEST model were performed. The results, shown in Table 22, are the average for the EU.

Clearly, the effects of tax cuts depend on whether or not they are accompanied by spending retrenchment. A tax cut, fully offset by a reduction in government consumption, is likely to have a positive economic impact in the longer run. Depending on the type of tax reform a reduction of taxes in the order of magnitude of 1 % of GDP could increase GDP between 0.5 and 0.8 % after 10 years. Employment could be increased by between 0.5 and 1 %.

The economic expansion would also lead to a reduction of government deficits of roughly 0.5 % of GDP after 10 years. A tax cut, without offsetting spending cuts, would entail a deterioration in the budget balance: according to the simulation results, a 1 % of GDP tax reduction without spending cuts would lead to an increase in the budget deficit (as % of GDP) of around 0.75 % points. That means that the degree in which tax reforms are self-financing is only about 25 %.

The impact on employment would be larger if the tax cut is targeted on labour. The long-run effects on employment of a reduction by 1 % of GDP in the tax burden on labour income offset by a reduction in government consumption amount to 1 % (1.5 million jobs). This contrasts with the 0.5 % increase obtained for general tax cuts ([1]).

A possible alternative to expenditure reductions is a tax shift from labour income to indirect taxes, such as taxes on consumption or energy (2). Consumption taxes are less distortionary than labour income tax because they fall on all production factors and not only on labour. The positive effects are not, however, straightforward since the impact of a tax shift from labour income to consumption depends very much on the benefit system and especially on the accompanying policies towards recipients of social transfers and unemployment benefits. A reduction of labour taxes by 1 % of GDP, coupled with an increase in value added taxes, would increase employment by almost 0.7 % in the long run if transfer recipients are not compensated for their income loss. However, if transfer recipients were fully compensated for the increase in value added taxes, the employment effect

([1]) That result must, however, be interpreted with caution; it depends strongly on the assumed reaction of welfare transfers (see explicative notes in Table 22).

([2]) Tax shifts away from labour towards energy are sometimes expected to generate a 'double dividend' by reducing simultaneously pollution and unemployment. Shifting taxes on consumption is expected to generate positive employment effects.

would be half that figure. Similarly, the reduction in non-wage labour costs for low-paid workers would have larger effects when financed by cutting spending than through tax shifting.

All in all, tax cuts can have sizeable effects on output, investment and employment. However, unless accompanied by offsetting spending retrenchments, the reduction of taxes may not be sustainable in the long run. This is particularly important in countries where social protection represents a large fraction of total spending and where the growth in government spending has been mainly driven by rising welfare expenditure such as pensions and social transfers to households. The need to frame tax reductions within comprehensive economic reforms is also important to enhance the beneficial effects of shifting the tax burden away from labour to other tax bases.

Table 22

Long-run effects of a 1% of GDP tax reform

(growth in %)

	GDP	Employment	Investment
(1) Reduction of labour, corporate and valve added taxes (*)	0.54	0.54	1.28
(2) Reduction of labour and corporate taxes only (*)	0.65	0.57	1.88
(3) Reduction of labour taxes only (*)	0.81	0.97	1.24
(4) Tax shift from labour to VAT without compensating transfer recipients (**)	0.66	0.82	0.73
(5) Tax shift from labour to VAT with compensating transfer recipients (***)	0.37	0.48	0.32

(*) The simulations in rows (1) to (3) are conducted under the assumption that unemployment benefits are kept constant in real consumption terms, i. e. the reservation wage is assumed to remain constant. In this case the labour tax reduction is partly shifted onto firms in the form of lower wage costs. Under the assumption that unemployment benefits are linked to net wages, the real output and employment effects of a labour tax reform would be less strong and could even be absent.

(**) The experiment reported in row (4) assumes that unemployed workers (and other transfer recipients) are not compensated for the increase in consumer prices, i. e. the reservation wage is assumed to fall by an amount equivalent to the rise in consumer prices.

(***) Unemployed workers (and other transfer recipients) are compensated for the increase in consumer prices.

Source: Commission services.

5. Tax reform in Member States

5.1. Reforms are under way

In the 1999 updates of the stability and convergence programmes, Member States indicated plans to reform their tax systems. The reforms vary in coverage and depth, but most of them provide for reducing the tax burden on labour, especially at the lower end of the wage scale and for enhancing incentives for venture and risk capital. Reforms of indirect taxes as well as proposals for tax shifts are more diverse in nature ([1]). The announced reforms are summarised in Table 23 and described hereafter.

Social security contributions: in line with the 1999 BEPG, several Member States refer to measures aiming at reducing social security contributions. A number of Member States (Germany, Austria and Finland) envisage general reductions in non-wage labour costs. In Germany, social security contributions to finance pension systems will be reduced by 0.8 percentage points, while in Austria the new government is planning to reduce social security contributions by 0.4 % of GDP. Some Member States (Belgium, France, Italy, the Netherlands and the UK) put forward targeted reductions of non-wage labour costs at the low end of the wage scale, while others target creating new jobs (Greece, Italy) or favouring the shift to permanent labour contracts (Spain). In Portugal, the reform aims at harmonising social security contributions paid by the employed with those paid by the self-employed, which are usually lower. In Denmark, the 'Whitsun package' makes permanent a temporary contribution to supplementary pension systems. In real terms, this does not entail an increase in non-wage labour costs, since the contribution already existed.

Personal income tax: a majority of Member States mention reform of personal income tax codes. They mainly consist of lowering marginal tax rates at the lower end of the income distribution, as well as raising the minimum level of tax exempted income and a number of family allowances. In Germany, Spain, Ireland, Finland and Sweden the measures have a more general character. In Germany, the minimum marginal rate will be reduced from 25.9 to 19.9 %, while rates at the top will fall from 53 to 48.5 %, Similarly, in Ireland top and standard rates will be reduced by 2 percentage points. The top rate will go down from 46 to 44 %, and the standard rate from 24 to 22 %. In Spain, marginal rates at the top have been reduced by 8 percentage points. In Finland, personal income tax rates have been cut by 1.7 percentage points since 1997 and new cuts are planned between 2001 and 2003. A general lowering of personal income taxes will take place in Sweden in 2000–01.

Indirect taxation: no Member State envisages fundamental reforms in indirect taxation. Where VAT is concerned, most Member States (Belgium, Greece, Spain, France, Italy, Luxembourg, the Netherlands, Portugal and the United Kingdom ([2])) plan to apply reduced VAT rates to labour-intensive service sectors. In addition, Ireland and Austria will increase some excise duties (tobacco), while the Netherlands plans to increase VAT rates by 1.5 percentage points in 2001. On the other hand, in a number of Member States such as Denmark, Germany, France, Italy, Austria, Finland and the UK, energy and/or environmental taxes are expected to increase. In Germany and the UK, eco-taxes are meant to finance reductions in non-wage labour costs. In France, the same category of tax increases will finance the reduction in working time.

Taxes on capital income: a major goal of reforms of capital and corporate taxes is the improvement of the functioning of capital markets (Denmark, Germany, Spain, Italy). Another aim is to create incentives for risk,

([1]) Measures not announced in the programmes (viz. recent budgetary measures in France) are not discussed here. Some measures described in Table 23 were already applied in 1999.

([2]) Only in the Isle of Man.

Table 23

Tax reforms in EU countries

	Social security contributions	Personal income taxes	Corporate and capital taxes	Consumption taxes	Others (energy, environment)
B	Lowering of SSC, specially for the low paid.			Lowering of VAT on labour-intensive services.	
DK ([1])	The temporary contribution to the supplementary pension systems is made permanent.	Reduction of marginal tax rates for low incomes.	Simplification of tax rules on shareholdings for individuals. A 5 % tax on stock-return to pension funds has been introduced.		Increased energy taxes.
D ([2])	Reduction of SSC to the pension system by 0.8 pps.	Across-the board reduction of income taxes: minimum marginal rate from 25.9 to 19.9 %; maximum from 53 to 48.5 %. Minimum exempted income will be raised.	Corporate tax rate cut to 25 % (from 40 % and 30 % for non-distributed and distributed profits, respectively). No taxes on capital gains when holdings are sold between companies.		Ecological taxes were introduced in 1999 and will gradually increase to finance reductions in SSC.
EL	Reduction of employers' SSC (50 %) on new staff.	Tax cuts for low incomes.	Tax relief for venture capital.	Lowering of VAT on labour-intensive services.	
E	Targeted SSC cuts for permanent contracts (0.2 pps employers, 0.05 employees in 2000).	Reduction (8 pps) of marginal rates at the top. Increasing of exempted income (1999).	No withholding tax on securities. Tax incentives for venture capital.	Lowering of VAT on labour-intensive services.	
F ([3])	Employers' SSC cuts at the lower end of the wage scale.		Tax incentives for young innovative companies.	Reduced VAT rates on household repairs and services.	
IRL		Reduction of the top rate (46 to 44 %) and of the standard rate (24 to 22 %). Increase of the minimum exempted income.	Tax relief and reduced rates for capital gains for venture capital.	Increase in indirect taxes on tobacco.	
I	SSC rebates for new jobs, as well as at the lower end of the wage scale.	Tax rate of the second band down 1 pp (from 27 to 26 %).	More incentives to capitalisation of profits. Incentives for risk capital.	Reduced VAT rates on labour-intensive services.	Some excise duties have been re-classified as CO_2 taxes.
L				Reduced VAT rates on some labour-intensive services.	
NL ([4])	Reduction of SSC at the lower end of the wage scale.	Increasing the minimum exempted income. Reduction of direct taxes on labour income (2001).		Reduced VAT rates on some labour-intensive services. Increase of VAT (1.5 pps in 2001).	
P	Harmonisation of SSC for the self-employed and the employed.			Lowering of VAT on labour-intensive services.	

	Social security contributions	Personal income taxes	Corporate and capital taxes	Consumption taxes	Others (energy, environment)
A		Increase of family allowances. Reduction of rates at the bottom and the middle.			
FIN [5]	Reduction in SSC.	Rates reduced by 1.7 pps since 1997. New reductions planned by 2001–03.	Rates increased from 28 to 29 %.		Increase of energy and environmental taxes.
S		Lowering of income tax (2000–01).			
UK	Reduction of SSC at the bottom. Reduction of employers' SSC by 0.3 % (2001).	Increasing the minimum exempted income when working and guaranteeing a minimum income (Working Families Tax Credit).		Lowering of VAT on labour-intensive services (only in the Isle of Man).	Climate change levy to finance SSC cuts.

(1) This refers to the 1998 tax reform, named the 'Whitsun package', which was adopted in June 1998 and is being gradually implemented between 1999–2002.
(2) Tax Relief Act 1999/2000/2002.
(3) The reforms displayed in the table do not refer to the recent budgetary measures' reforms not included in the update of the French stability programme.
(4) The Dutch stability programme (update 1999) foresees the review of the tax system by 2001.
(5) The reductions in SSC and personal income taxes are meant to be partially financed by higher capital, corporate, energy and environmental taxes. Income tax cuts will be applied in 2001-03, but Finnish authorities do not exclude the possibility of applying the tax cuts already late this year.

Source: Commission services.

venture and intangible capital (Greece, Spain, France, Italy, Ireland). Germany plans to reduce the corporate income tax to 25 %, which represents a fall of 15 percentage points for non-distributed profits and of 5 percentage points for distributed profits. Finland raised the corporate tax rate by 1 percentage point (from 28 % to 29 %) as of 2000.

5.2. Need for comprehensive and coordinated tax reforms

Based on the measured change in the effective tax rates (Graph 17) [1], the recent reductions of social security contributions have been substantial in Belgium, Germany, Ireland and the Netherlands. In other countries, developments in non-wage labour costs suggest that the reduction of social security contributions have had a negligible impact on the corresponding effective rates. This is not surprising since most of the measures are targeted (new jobs, low end of the wage scale) and affect only a relatively small fraction of the tax base.

The reduction in personal income effective tax rates is expected to be particularly important in Germany, Denmark, the Netherlands, Austria and Sweden. As a result, the effective tax rate on personal income is expected to fall by more than 1 % in both the euro area and the EU as a whole. Such reductions in personal income taxes are the major factor driving the fall of the effective tax burden on labour which is projected to be particularly significant in Belgium, Denmark, Germany, Ireland, the Netherlands and Austria. Only in Portugal is a positive change in the effective tax rate of labour predicted for the period 1999–2001. The reduction in personal income taxes observed in Sweden largely offsets the increase in social security contributions. In addition, the combination of buoyant growth and the progressivity of personal income tax is inducing cyclical swings in the tax rate in Spain which offsets the expected fall driven by the reform introduced in 1999.

The effective tax rate on capital is projected to decrease by more than 1 percentage point in Germany, Greece, France,

(1) While the description of tax reforms has been taken from the stability and convergence programmes, the figures represented in the chart are the changes between 1999 and 2001 calculated on the basis of the Commission services' 2000 spring forecast. Since the programmes go well beyond 2001, the effects of tax reforms planned or lasting after that year may not show up in the figure. By the same token, measures announced after the elaboration of the spring forecast cannot be included in our calculations. In addition, when interpreting the figures, it should be borne in mind that they refer to forecasts without disentangling cyclical and structural evolution. In other words, part of the changes displayed in the figure could be of a purely cyclical nature and only partially reflect discretionary changes.

Ireland, Italy, the Netherlands, Austria and the UK. Again, Portugal is the only country where an increase of the tax burden on capital is anticipated. Finally, the expected changes in consumption taxes are relatively small in most Member States. An important exception is Sweden, where the consumption tax rate could fall by almost 4 percentage points.

Although making tax systems more employment-friendly is a major goal of tax policy in Member States, enhancing their efficiency is also behind certain tax measures. Reforms of personal income taxes may improve transparency, while reducing distortions. In some countries, the reform of the personal income tax has consisted of an across-the-board reduction of marginal tax rates. Lower marginal personal income taxes have positive effects on income and employment. In addition, targeted policies will reduce distortionary effects of taxes, especially at the lower end of the wage scale (viz., unemployment traps).

Where taxes on capital are concerned, some progress has been made recently. For instance, a Code of Conduct to combat harmful tax competition in corporate taxation has been agreed by the Council ([1]). However, further coordination efforts are needed, namely regarding the fiscal treatment of interest income.

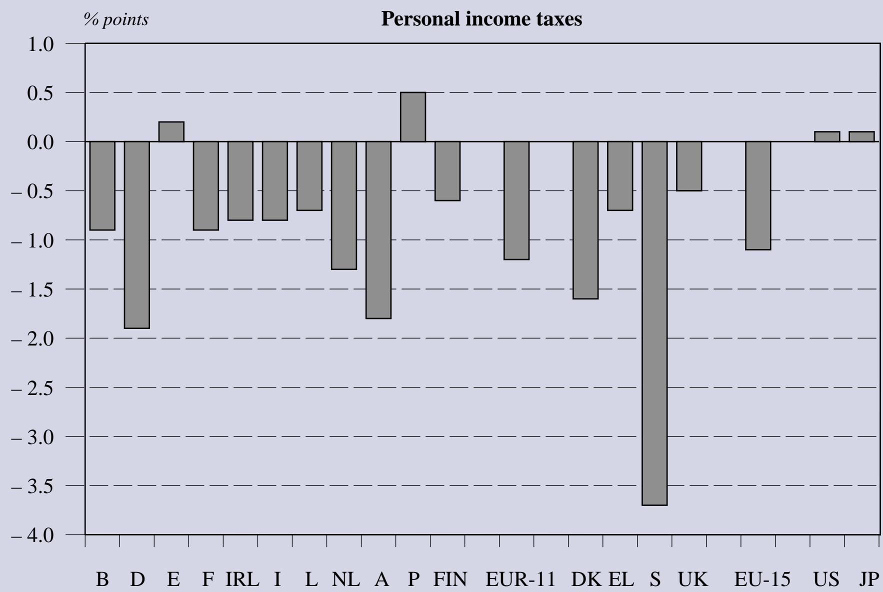
Finally, indirect taxation is the field where the EU has progressed most, especially in the late 1980s. In 1999, the possibility of applying reduced VAT rates for labour-intensive service sectors was agreed by the Council. However, further progress is needed. Where statutory and effective VAT rates are concerned, large differences still exist across Member States, not to mention differences in tax exemptions and special treatment of goods and services. In addition, technology is changing the nature of consumption taxes. E-commerce has an impact on the operation of tax systems, especially in the EU, where one third of government receipts come from indirect taxes. Electronic transactions make final consumption highly mobile and expose VAT to potential tax avoidance. They can also radically change basic concepts of tax administration and enforcement. These challenges call for renewed and enhanced coordination in VAT and other indirect taxes.

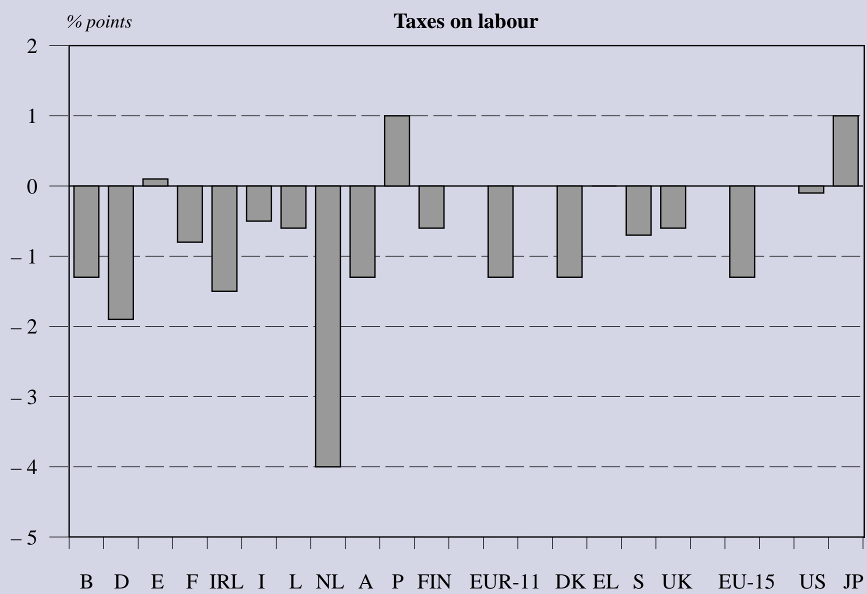
([1]) The Code of Conduct Group, set up by the Council, has identified the list of practices potentially harmful in each Member State.

Graph 17: **Changes in effective tax rates, 1999–2001**

Source: Commission services; calculations based on spring 2000 forecast.

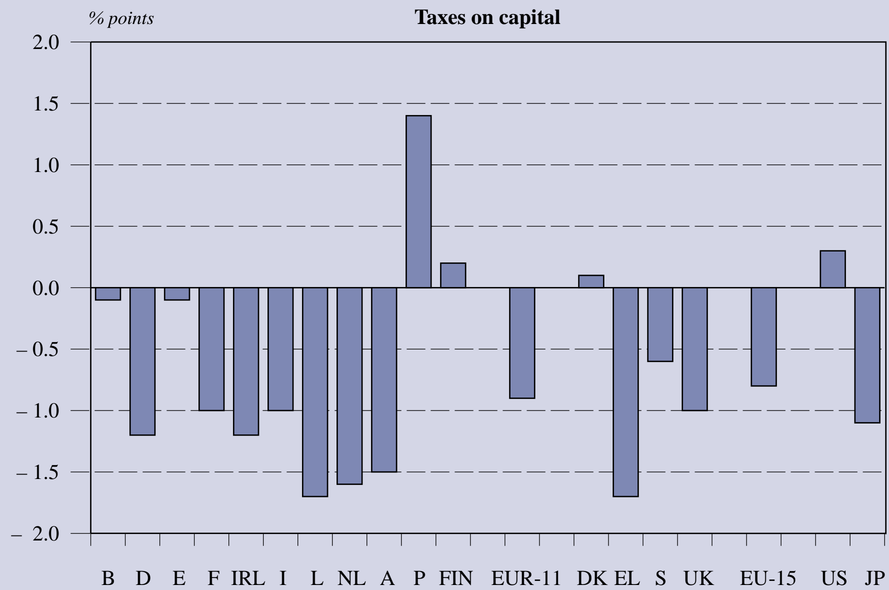
Graph 17 (continued): **Changes in effective tax rates, 1999–2001**

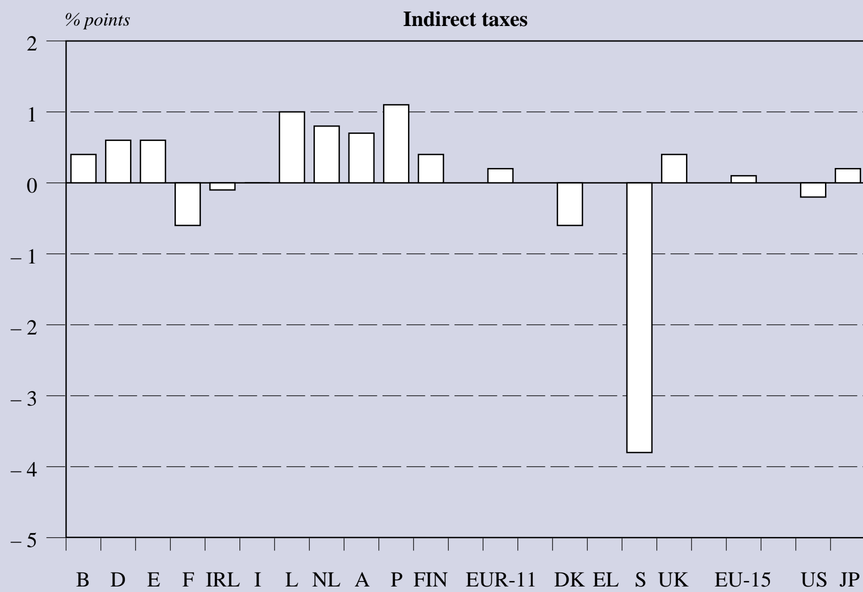




Source: Commission services; calculations based on spring 2000 forecast.

Graph 17 (continued): **Changes in effective tax rates, 1999–2001**





Source: Commission services; calculations based on spring 2000 forecast.

6. Conclusions

The tax burden in the EU is very high by international standards, some 15 percentage points of GDP above that in the US and Japan. The tax burden has continued to go up in recent years, reflecting the consolidation efforts in the run-up to EMU, although its rate of change has been slowed down in most Member States.

The structure of tax systems differs also considerably from other industrialised countries with the EU featuring a much higher tax burden on labour and consumption. However, within the EU, there is a considerable degree of variety in tax structures across Member States. The largest differences relate to taxes on labour, with the bulk of the differences explained by the level of social transfers. There is less disparity in the effective tax rates on consumption, reflecting the higher degree of harmonisation in indirect taxes resulting from the single market programme. Tax rates on capital are similar across Member States, and indeed are on a par with other industrialised countries, on account of the highly mobile nature of the tax base.

Overall, the cross-country examination of tax systems and tax rates clearly shows that high tax burdens in Europe result from high levels of public spending. This suggests that, in order to bring about the stated policy objective of reducing overall tax burdens in the EU on a sustainable basis, tax cuts will need to be matched with corresponding reductions in public expenditures (especially current transfers). As tax cuts are not self-financing, expenditure retrenchment is also crucial to preserve fiscal discipline.

Tax reforms lowering the tax burden, especially on labour, will have a favourable impact on investment, output and employment. Such positive effects will be enhanced if tax cuts are framed within consistent economic reform programmes. In particular, the benefits will be higher if tax cuts are accompanied by cuts in current transfers. Where reductions in spending are unfeasible, shifting the tax burden away from labour to other tax bases, such as consumption or energy, may lead to positive employment effects if tight control of transfers and social benefits is established.

Reductions in the tax burden are envisaged in many countries in the coming years. These reductions are brought about by tax reforms lowering tax rates and broadening and ‘cleaning up’ tax bases. Reforms focus primarily on reducing the tax burden on labour, especially at the lower end of the wage scale. They also widen the reform agenda to capital and corporate taxes with a view to improving the functioning of financial markets. The ongoing and planned changes will improve the efficiency and effectiveness of tax systems across the EU. However, measures tend to be scattered and, in most cases, are not framed within a comprehensive reform package, a feature which is crucial to enhance their positive effects on output and employment.

Part V

Member State developments

1. Belgium

Recent developments

Data for 1999 point to a deficit of 0.9 % of GDP, which is substantially lower than the 1.3 % projected in the initial stability programme. A decline in the cyclically adjusted deficit for 1999 to 0.3 % of GDP underlines the continuation of the fiscal consolidation process under way since 1992. The debt ratio is estimated to have fallen to 114.4 % of GDP at the end of 1999, implying a fall of 8.6 percentage points in the last two years and a decline of 17.4 percentage points of GDP in four years. The primary surplus, which reached 6.6 % of GDP in 1998, fell by 0.3 percentage points of GDP in 1999, but nonetheless remained above the 6 % target.

The favourable 1999 budgetary outcome was the result of several opposing influences. The 1999 starting position was better than expected due to a downward revision of the 1997 and 1998 outcomes for social security and local authorities, but this was partly offset by the adverse influence of the economic slowdown in 1999 and the dioxin crisis. However, tax revenues were surprisingly buoyant in 1999, partly because the economic slowdown resulted from slackening exports rather than tax-rich domestic demand. Primary expenditure, which had been slowly declining as a percentage of GDP since 1996, increased marginally in 1999.

During the last three years, some three quarters of the improvement in the general government budgetary position is attributable to the federal government and the social security system, where primary expenditure as a percentage of GDP declined by 0.6 percentage points. In regions, communities and local authorities, primary expenditures remained practically unchanged as a percentage of GDP and the growing primary surplus resulted from increases in revenue.

The budget for 2000, adopted on 24 December 1999, incorporated a number of measures which will reduce revenues, e.g. additional reductions in social security contributions (effective from 1 April 2000), reintroduction of full indexation of tax brackets, gradual phasing-out of the additional crisis levy, reduction in VAT on labour-intensive services and more generous tax deductions for spending on child-minding services. The budgetary cost of these measures for 2000 was estimated at 0.6 % of GDP.

The 2000 budget, together with the updated stability programme, projects a general government deficit of 1 % of GDP. However, this projection was based on a cautious growth assumption of 2.5 %. According to the spring forecasts of the European Commission, growth in 2000 will be 3.5 % and consequently the deficit is expected to fall to 0.5 % of GDP in 2000. In contrast, the cyclically adjusted balance would rise somewhat to – 0.5 % of GDP. This suggest that Belgium should use the favourable growth prospects to exceed the targets for nominal deficits contained in the updated stability programme, and so avoid a pro-cyclically loosening of the budgetary stance.

Medium-term budgetary strategy and policy initiatives

Medium-term budgetary policy in Belgium is driven by the overriding need to reduce the high level of public debt. A central element of budgetary adjustment and debt reduction is the commitment to maintain high primary surpluses of 6 % of GDP per year, a strategy which has proved successful in the past. High primary surpluses are to be maintained through the control of primary expenditures: according to the updated stability programme, growth of real primary expenditures will be limited to a maximum of 1.5 % per year over the period of the programme.

The updated stability programme presented on 24 December 1999, covering the period 2000–03, provides for a balanced budget for the general government in 2002 and a small surplus of 0.2 % of GDP in 2003. Government debt is projected to fall to a level close to 100 % of GDP

Table 24

Composition and balances of general government, Belgium (*)

(% of GDP)

	1998	1999	2000	2001
Government balance	– 1.0	– 0.9	– 0.5	– 0.2
Total receipts	50.2	50.1	49.5	48.9
Of which: — taxes	30.5	30.4	30.5	30.2
— social contributions	16.6	16.5	15.9	15.6
Total expenditure	51.3	51.0	50.0	49.2
Of which: — collective consumption	7.1	7.1	7.0	6.9
— social transfers	29.9	29.8	29.5	29.1
— interest expenditure	7.7	7.2	6.9	6.6
— gross fixed capital formation	1.6	1.7	1.7	1.7
Primary balance	6.6	6.3	6.4	6.4
Pm Tax burden	46.5	46.3	45.7	45.2
Government debt	117.4	114.4	110.1	105.2
Pm Cyclically adjusted balance	– 0.7	– 0.3	– 0.5	– 0.6
Pm Cyclically adjusted primary balance	7.0	6.8	6.3	6.1

(*) Spring 2000 economic forecasts.

Source: Commission services.

in 2003. These targets imply an acceleration in the pace of budgetary adjustment from 2001 onwards compared with the initial 1998 stability programme. However, as mentioned above, these targets are based on what now appear to be rather low estimates for economic growth, and they should be surpassed in the light of more favourable growth prospects.

A positive development in the updated stability programme is the commitment to twin objectives: quantitative targets are set for both the primary surplus and the government deficit. In the initial stability programme, the government deficit was a consequence of having high primary surpluses. Setting a twin commitment has potentially important implications, since under certain conditions it would be necessary to run larger primary surpluses to ensure that the government deficit target is reached.

The updated stability programme also emphasises the 'quality' of public finances, in that it refers to the need to ensure financial stability of the social security system (without raising taxes to this end), and the need to initiate a continuous decrease in the fiscal and parafiscal pressure during the current legislative period.

The government aims to reduce the tax and para–fiscal burden to levels applying in neighbouring countries. Over the period 2000–03, total revenue as a percentage of GDP is projected to fall by 0.6 percentage points of GDP. Primary expenditures are projected to decline steadily by a cumulative 1 percentage point of GDP over the period and interest payments are also expected to fall by 1 percentage point of GDP.

The policy of reducing taxes on labour, already applied to workers receiving the minimum wage, will be strengthened: social security contributions should be reduced by approximately 0.5 % of GDP in 2000 and the reforms will take complete effect in 2001. A general reform of the personal income tax system will be introduced during the life-time of this Parliament. No details about the content and exact timing of the reform were announced as yet. In addition to reducing the tax and para-fiscal burden, changes of emphasis within the tax system will be also introduced in order to make it more employment-conducive and environmentally friendly.

Since the beginning of the 1980s, the pension system has been reformed on several occasions. In 1995, global management of the social security system was introduced by which contributions were no longer linked to a specific social security scheme. The 1996 reform raised the legal retirement age for women from 60 to 65 in order to respond to the legal obligation to treat men and women equally.

2. Denmark

Recent developments

On a steady consolidation path since 1993, the budget balance turned into surplus in 1997 facilitated by several years of strong economic growth. By 1998, the general government surplus amounted to 1.2 % of GDP and the ratio of general government debt to GDP had been reduced to 55.6 %.

A fiscal retrenchment package (the so-called 'Whitsun package'), adopted in June 1998, started to be phased in during 1999 and will continue until 2002. The main elements of this reform are a lowering of marginal tax rates especially for low income earners, and a rise of energy taxes. In addition, the mortgage interest relief is being reduced and there are tax changes related primarily to pension savings with a view to making the tax system more neutral between different types of savings. Moreover, the originally temporary contribution to the supplementary pension system (ATP) is being made permanent.

Overall, the Whitsun package implied a restrictive budgetary stance during 1999 in line with the Danish government's explicit intention to dampen domestic demand and avoid overheating the economy. The general government surplus in 1999 reached 3 % of GDP, higher than the 2.5 % expected at the time of the adoption of the budget bill. The main reasons behind this better than expected performance are lower primary expenditure (especially unemployment transfers), buoyant tax revenue, and an upward revision of the actual surplus in 1998. In cyclically adjusted terms, the general government balance improved from – 0.3 % of GDP in 1998 to 2.4 % of GDP in 1999, implying a strong tightening of the budgetary stance.

Budgetary consolidation during the period 1993 to 1998 predominantly relied on reductions in primary expenditure, which declined by around 6 percentage points of GDP, whereas current revenue as a percentage of GDP remained almost unchanged. Under the impact of the Whitsun package, the revenue ratio to GDP rose in 1999, and in particular the tax burden increased by slightly above 1 percentage point of GDP. Primary expenditure as a percentage of GDP continued its decline by approximately 0.5 percentage points.

In 2000, the general government budget surplus is forecast by the Commission services to decline to 2.4 % of GDP. Government debt is forecast to continue its downward path to 49.3 % of GDP in 2000 and 46.3 % in 2001.

Medium-term budgetary strategy and policy initiatives

The updated Danish convergence programme is based on the government's multiannual structural and welfare policy programme which lays down the targets for economic policy up to 2005. As regards public finances, the main targets are to maintain the government surplus above 2 % of GDP and to reduce gross debt as a percentage of GDP to below 36 % by the end of 2005. The Danish government attaches a high priority to reducing gross debt with the specific aim of preparing for the forthcoming budgetary challenge of an ageing population.

Compared with earlier years when the budgetary consolidation strategy mainly relied on a reduction in primary expenditure, lower interest payments will play a more prominent role in sustaining government surpluses above 2 % of GDP. The Commission services forecast (see table below) the primary expenditure ratio to GDP to fall slightly by 0.6 percentage points between 1999 and 2001. The ratio of total revenue to GDP is forecast to decline from 57.9 % of GDP in 1999 to 56 % in 2001 (largely due to the lower tax burden envisaged in the Whitsun package). Overall, the primary surplus is expected to decline from 7.7 % of GDP in 1999 to 6.4 % in 2001, and should continue to fall thereafter.

Table 25

Composition and balances of general government, Denmark (*)

(% of GDP)

	1998	1999	2000	2001
Government balance	1.2	3.0	2.4	2.5
Total receipts	57.3	57.9	56.7	56.0
Of which: — taxes	47.7	48.1	47.0	46.5
— social contributions	2.6	3.3	3.5	3.5
Total expenditure	56.1	54.9	54.3	53.5
Of which: — collective consumption	8.1	8.2	8.1	8.1
— social transfers	35.7	35.4	34.9	34.7
— interest expenditure	5.3	4.7	4.4	3.9
— gross fixed capital formation	1.7	1.5	1.6	1.6
Primary balance	6.5	7.7	6.8	6.4
Pm Tax burden	49.3	50.4	49.5	49.1
Government debt	55.6	52.6	49.3	46.3
Pm Cyclically adjusted balance	– 0.3	2.4	2.3	2.6
Pm Cyclically adjusted primary balance	5.0	7.1	6.6	6.4

(*) Spring 2000 economic forecasts.

Source: Commission services.

As regards pensions, the Danish pension system is currently undergoing a transformation whereby funded labour market pension schemes and other supplementary schemes complement the public old-age pension system. The Danish authorities published in January 2000 a report on pensions and ageing and their impact on public finances (*Et bæredygtigt pensionssystem, Regeringen*). According to this report the old-age-dependency ratio would increase from 22 % in 1998 to 36 % in 2035. Using an assumption of unchanged policies, the impact on public finances would imply a financing gap of approximately 2 % of GDP.

3. Germany

Recent developments

Government finances in Germany have improved significantly since the mid-1990s, with the general government deficit ratio falling to 1.7 % of GDP in 1998. The unexpectedly favourable result for 1998 is largely attributed to a strong improvement in local government finances, with the statistical changeover from ESA79 to ESA95 shaving a further 0.2 percentage points of GDP off the deficit ratio. The ratio of the consolidated gross government debt to GDP amounted to 60.7 % at the end of 1998.

On taking office at the end of 1998, the new government adopted a number of reforms in the area of taxes and social security which took effect in 1999. Marginal tax rates for lower income brackets were reduced, and a new energy tax was introduced, the proceeds of which were earmarked to finance a cut in social security contributions.

Overall, these reforms were expected to generate a mildly expansionary budgetary policy stance in 1999. However, the general government deficit for 1999 came in at 1.1 % of GDP. Given that growth was below potential during 1999, the cyclically adjusted primary balance was 0.9 % of GDP, thus indicating a restrictive budgetary policy stance.

This improvement was mainly due to tax revenues being higher than expected (especially corporate and income taxes, the latter also due to the phasing-out of tax allowances for construction investment in the new *Länder*). On the expenditure side, primary expenditure as a percentage of GDP increased slightly, whereas interest payments declined marginally. The debt ratio inched upwards, mainly due to the slow nominal GDP growth of 2.5 %.

For 2000, the Federal budget provides for a decline in nominal expenditures of 1 % to be attained via tight controls on government sector wages (combined with an ongoing reduction in public sector employment) and on social transfers, including public pension benefits. Although these savings should ensure that the deficit ratio remains on a downward trajectory, it is unlikely to fall significantly below 1 % of GDP in 2000: this is because expenditure cuts will be partly offset by further reductions in marginal income tax rates (the second phase of income tax reform), and because the outcome of regional governments and the security sector are likely to deteriorate compared with 1999 ([1]).

Medium-term budgetary strategy and policy initiatives

Since the mid-1990s, the approach to reducing deficits has been based on expenditure restraint, especially cuts in government consumption and investment, whereas transfers to households have increased as a percentage of GDP. The strategy for deficit reduction as laid down in the 'Programme for the future' ('Zunkunftsprogramm 2000' presented by Federal Finance Minister Eichel to the Bundestag on 24 June 1999) continues to emphasise expenditure restraint, but is extended to include social transfers. More specifically, it aims at cutting expenditure in nominal terms at the Federal level in 2000 and restricting any rise in government outlays in following years to a rate which is clearly below the expected annual average growth of nominal GDP. Moderate increases in government sector salaries and a further decline in public sector employment should contribute to a continuing low growth rise of government consumption, and transfers to households will be contained by setting tight limits on rises in pension benefits and other social benefits in 2000 and 2001.

In addition to expenditure restraint, reform of the tax system is a key feature of the budgetary strategy. There are three elements in the tax reform package put forward by the Federal government: introduction of an ecological tax, and reform of income and corporate taxation.

([1]) However, the forecast for 2000 may be too pessimistic if the planned auctioning of UMTS licenses generate much higher revenues than expected (DEM 15 billion).

Table 26

Composition and balances of general government, Germany (*)

(% of GDP)

	1998	1999	2000	2001
Government balance	– 1.7	– 1.1	– 1.0	– 1.4
Total receipts	46.0	46.7	46.3	44.7
Of which: — taxes	23.1	24.2	24.3	23.5
— social contributions	19.2	18.9	18.5	18.0
Total expenditure	47.7	47.8	47.2	46.1
Of which: — collective consumption	7.9	7.8	7.7	7.5
— social transfers	30.0	30.1	29.8	29.1
— interest expenditure	3.6	3.5	3.5	3.4
— gross fixed capital formation	1.8	1.8	1.7	1.7
Primary balance	1.9	2.5	2.5	2.0
Pm Tax burden	42.0	43.0	42.7	41.3
Government debt	60.7	61.1	60.7	59.6
Pm Cyclically adjusted balance	– 1.2	– 0.3	– 0.7	– 1.5
Pm Cyclically adjusted primary balance	2.4	3.2	2.8	1.9

(*) Spring 2000 economic forecasts.

Source: Commission services.

- A so-called ecological tax was introduced on 1 April 1999, with a view to stabilising or even reducing contributions to the public pension system which will come under increasing strain due to the ageing population. This tax will gradually rise at the beginning of each year (implying an annual rise in petrol taxes of DEM 0.06).
- A three-step income tax reform commenced in 1999 which aims at improving employment incentives at lower income levels, thereby reducing the dependence on social security benefits. The first two steps have already taken effect and reduced tax rates across the whole range of incomes: the starting tax rate has fallen from 25.9 % to 22.9 % and the highest from 53 % to 51 %; simultaneously, tax-free allowance were increased. In addition, children allowances were raised in both 1999 and 2000. The third step of the reform was originally planned to take effect in 2002, but shall be brought forward to 2001. It provides for a further reduction in income tax rates (the lowest tax rate will fall to 19.9 % and the highest rate to 48.5 %) and the tax-free income will be further raised. The overall tax relief provided in this third step will be slightly above EUR 8 billion (0.4 % of GDP).
- A reform of company taxation will take effect in 2001 to enhance the attractiveness of Germany as a location for foreign direct investment. The proposed law, parts of which are subject to approval by the Bundesrat, envisages a cut in the corporate tax rate for incorporated companies to 25 %; currently, it is 40 % for non-distributed profits and 30 % for distributed profits. Including the locally-levied trade tax ('Gewerbesteuer'), effective company taxes should be reduced to some 38 % in 2001. Unincorporated companies in Germany may also benefit from the reform by opting to be taxed as incorporated companies. Taking into account various counter-financing measures, the reform of corporate taxation will afford companies a net relief of at least EUR 4.5 billion in 2001.

The updated stability programme takes account of these measures, and sets a goal of reducing the general government deficit ratio to 0.5 % of GDP by 2003 and to balance the federal deficit by 2006. However, projections clearly point to a temporary deterioration in the deficit ratio for 2001 on account of the announced reforms to corporate and income taxation.

Government debt is forecast in the updated stability programme to edge down from 61 % of GDP in 1999 to 58.5 % of GDP in 2003, largely driven by the primary surplus which should increase from around 2.5 % of GDP in 1999 to approximately 3 % in 2003. While the updated stability programme forecasts a decrease in privatisation proceeds in the current year, more recent information indicates that these revenues should at least reach the level attained in previous years (about 1 % of GDP). Therefore, the debt ratio should fall below the 60 % of GDP reference value faster than is projected in the updated stability programme.

4. Greece

Recent developments

Greece has made significant progress in correcting fiscal imbalances in recent years. Having peaked at 13.8 % of GDP in 1993, the general government deficit fell to 3.1 % in 1998. The debt ratio peaked at 111.3 % of GDP in 1996 and decreased by almost 6 percentage points in the two subsequent years to 105.4 % of GDP in 1998.

For 1999, the government decided to tighten further the stance of fiscal policy in an effort to contain inflationary pressures stemming from the exchange rate adjustment of the drachma entering the ERM in March 1998. Despite a temporary deceleration in real output growth, the general government deficit was reduced to 1.6 % of GDP in 1999 while the debt ratio continued to decline for a third consecutive year. The improvement in the budgetary position in 1999 was mostly the result of budget revenues while the decline in debt servicing costs was partly offset by larger general government investment. On the basis of these achievements, the Council abrogated its decision on the existence of an excessive deficit in Greece in November 1999.

The primary surplus reached 5.8 % of GDP, the highest level ever achieved in the current consolidation phase. Indirect taxes and taxes on capital transactions were the main contributors, reflecting further progress achieved in combating tax evasion and strong activity in the Athens Stock Exchange. Furthermore, social contributions increased significantly, implying the effectiveness of the 1998/99 first phase reform of the social security system, which *inter alia* addressed the legalisation of a large number of foreign workers and the combating of contribution evasion.

On the basis of Commission forecasts, the budget for 2000 will result in a deficit of 1.3 % of GDP for the general government whereby lower debt servicing costs are partly offset by lower revenues. The primary surplus is projected to remain high. The fact that budgetary adjustment in 2000 will be modest compared with earlier years stems from a tax and benefit package adopted in September 1999. Revenues are expected to fall as a result of an increase in income tax allowances and tax credits for children, as well as a reduction of the tax rate for general and limited partnerships from 35 % to 25 % in 2000; moreover, employers' social security contributions for each new employee are reduced by 50 %. However, the budgetary cost of the above measures will be partly offset by the increase in the tax rate on stock exchange transactions from 0.3 % to 0.6 %.

On the primary expenditure side, the impact of the package will proceed from the increase in the unemployment benefit of 10 % and in farmers' pensions by 30 %; the increase in the supplementary assistance for pensioners receiving the minimum pension; and the increase in low pensions in the public sector above the rate planned for public sector employees. Finally, the civil servants wage bill in 2000 is set to increase roughly at the same rate as in 1999, implying no reduction in real terms.

Medium-term budgetary strategy and policy initiatives

The 1999 update of the Greek convergence programme restates the economic strategy with a view to the smooth entry for Greece into the euro-zone in 2001. The programme projects the government balance to turn into a surplus of 0.2 % of GDP in 2002, while the level of the government debt should fall to below 100 % of GDP in 2001. However, the cyclically adjusted budgetary balance suggests that medium-term budgetary adjustment will primarily proceed from the rapid reduction in interest payments, i.e. no additional discretionary adjustment is provided.

This points to the need to tackle structural challenges if the debt ratio is to decline at a faster pace. Firstly, the size of the public sector needs to be addressed, as reflected in

Table 27

Composition and balances of general government, Greece (*)

(% of GDP)

	1998	1999	2000	2001
Government balance	– 3.1	– 1.6	– 1.3	– 0.6
Total receipts	43.6	44.7	44.6	44.3
Of which: — taxes	23.9	23.8	23.5	23.3
— social contributions	13.2	13.7	13.8	13.8
Total expenditure	46.0	46.3	45.9	44.8
Of which: — collective consumption	9.1	8.8	8.5	8.4
— social transfers	21.8	21.8	21.8	21.8
— interest expenditure	7.8	7.4	7.2	6.6
— gross fixed capital formation	3.7	4.2	4.3	4.3
Primary balance	4.7	5.8	5.8	5.9
Pm Tax burden	36.4	36.8	36.6	36.5
Government debt	105.4	104.4	103.7	99.7
Pm Cyclically adjusted balance	– 3.0	– 1.6	– 1.7	– 1.3
Pm Cyclically adjusted primary balance	4.8	5.8	5.5	5.3

(*) Spring 2000 economic forecasts.

Source: Commission services.

the still high primary expenditure ratio which has not yet started to decline. Current primary expenditure is characterised by rather inflexible wages and grants, despite some progress made in improving their control with the implementation of laws adopted since 1997. The wage bill for civil servants is projected to decline by 0.3 percentage points of GDP per annum, in 2000 and 2001.

Privatisation as a means to reduce the size of the public sector started only in recent years. A list of public enterprises that have or will be privatised in the coming two years is annexed to the 1999 updated convergence programme, and includes electricity and fixed telephony sectors as from 2001. However, although the government debt ratio is now on a clearly declining trend and is expected to fall below 100 % of GDP in 2001, the projected speed of decline is much slower than would normally be implied by the successful implementation of budgetary policy.

Reform of pension systems is also on the agenda. The pension system in Greece is characterised by the co-existence of several large funds granting primary pensions, and a large number of supplementary funds: while the former are in deficit and receive considerable grants from the central government, the latter are immature as regards pensions and for the time being record large surpluses. In the absence of reform, the situation will progressively deteriorate with ageing populations, and place a considerable burden on Greece’s medium-term budgetary position.

5. Spain

Recent developments

Substantial fiscal consolidation was achieved between 1995 and 1998, with the public deficit ratio falling from 6.6 % to 2.6 % of GDP. The ratio of the general government debt has been placed on a steadily decreasing path and amounted to 64.9 % of GDP at the end of 1998.

Fiscal consolidation continued in 1999, and indeed results have turned out to be better than expected: a general government deficit of 1.1 % of GDP was achieved, and the primary surplus reached 2.5 % of GDP. The fiscal policy stance could be considered restrictive as the cyclically adjusted primary surplus increased from 2.0 % of GDP in 1998 to 2.6 % in 1999.

The deficit reduction has relied more on expenditure restraint than on increased revenue. Total receipts have increased by 0.4 percentage points (p.p.) of GDP in 1999, whereas total expenditures went down by 1.1 p.p. This latter reduction is based on lower interest payments (0.7 p.p.) and a reduction on primary current expenditure (0.6 p.p.). In contrast, gross fixed capital formation increased by 0.1 p.p. as a percentage of GDP. As for the debt/GDP ratio, it is now expected to have decreased to 63.5 % of GDP in 1999.

The budgetary outcome was influenced by a new income tax law that came into force in 1999, which according to official estimates reduced revenues by 0.6 % of GDP. *Inter alia,* active labour policies were enhanced through social contribution rebates, and the State assumed full responsibility for financing health care as part of the process of rationalisation of social security.

For 2000, the Commission services forecast a deficit of 0.7 % of GDP and a decline in public debt ratio to 62.3 %. The fiscal policy stance seems to be restrictive, although to a lesser extent than in 1999, judging by cyclically adjusted balances.

The budget aims at continuing current expenditure constraint, while reinforcing public investment and pursuing an active labour market policy. Pensions and civil service salaries will rise in line with the official inflation forecast and pensioners will be compensated for the excess of actual over forecast inflation in 1999. Social contributions will be cut by 0.25 percentage points for permanent contracts, and the long-term unemployed over 45 with dependent relatives will receive a subsidy linked to an active search for job. From 2000, the State will finance also the complete cost of non-contributory social benefits, leaving social contributions to finance only the contributory social benefits. This makes room for the creation of a social security reserve fund, starting with EUR 600 million or 0.1 % of GDP in 2000, to address the problem of the ageing population.

Medium-term budgetary strategy and policy initiatives

The updated stability programme for the period 1999–2003 reaffirms the existing strategy, and aims at reaching a general government deficit surplus of 0.1 % and 0.2 % of GDP in 2002 and 2003 respectively. The debt/GDP ratio is expected to fall below 60 % in 2001 (according to Commission forecasts) and reach a figure of 55.8 % in 2003.

The quality of the budgetary adjustment is favourable as it will mainly be achieved through a primary current expenditure cut. Whereas the total revenue/GDP ratio is expected to decrease slightly by 0.3 p.p. between 2001 and 2003, the programme provides for a steady reduction of the total expenditure/GDP ratio to 39.5 % in 2003. Current expenditure ratio would fall by 2.2 p.p. over the life-time of the programme, while capital expenditure would rise by 0.3 p.p.

The fact that the programme is based on cautious macroeconomic assumptions suggests there may be room for

Table 28

Composition and balances of general government, Spain (*)

(% of GDP)

	1998	1999	2000	2001
Government balance	– 2.6	– 1.1	– 0.7	– 0.4
Total receipts	39.6	40.0	40.0	40.0
Of which: — taxes	21.4	22.0	22.2	22.4
— social contributions	13.2	13.2	13.1	13.0
Total expenditure	42.2	41.1	40.7	40.5
Of which: — collective consumption	7.6	7.5	7.7	7.8
— social transfers	22.8	22.2	21.6	21.2
— interest expenditure	4.4	3.7	3.5	3.4
— gross fixed capital formation	3.2	3.3	3.4	3.5
Primary balance	1.8	2.5	2.8	2.9
Pm Tax burden	34.7	35.4	35.5	35.6
Government debt	64.9	63.5	62.3	59.9
Pm Cyclically adjusted balance	– 2.3	– 1.1	– 0.8	– 0.6
Pm Cyclically adjusted primary balance	2.0	2.6	2.7	2.8

(*) Spring 2000 economic forecasts.

Source: Commission services.

an even faster reduction in the deficit level or tax cuts. However, the choice needs to take into consideration the importance of counterbalancing overheating risks in the economy given the high economic growth rate. Following the victory of the Popular Party in the general election of 12 March 2000, the Prime Minister announced recently that Spain will speed up plans for eliminating its budget deficit, bringing public finances into balance in 2001, one year earlier than scheduled.

A medium-term budgetary policy challenge facing Spain is the need to prepare for the impact of ageing populations. Although the updated stability programme does not provide pension payment projections, there is a commitment to increase further the social security reserve fund created in 2000. This should be implemented along with new reforms in the framework of the '1995 Pacto de Toledo' and with further developments of complementary social coverage.

The current Spanish public pension scheme, based on the pay-as-you-go system, is expected to be in surplus in the next years due to the positive performance in the labour market (social security contributors are growing at more than 5 %) and the decelerating number of retirees. Nevertheless, in the long term, the financial viability of the public pension system could be negatively affected by the ageing population.

Negotiations on the rationalisation of the current pay-as-you-go system are due to take place in 2000 to address demographic and labour market changes. They will need to consider a set of possible measures: *inter alia,* to increase the retirement age gradually and discourage early retirement, to change contribution requirements, to align special regimes (self-employed, agricultural workers, etc.) with the 'general regime' (wage earners), and incentives to promote private pensions schemes.

6. France

Recent developments

French public finances improved clearly in 1999, with the deficit falling from 2.7 % of GDP in 1998 to 1.8 % of GDP. The improvement was largely due to buoyant tax receipts, especially direct taxes. The evolution of tax receipts is only partially attributable to economic developments during 1999 or to tax measures, as a large share of direct taxes is levied on incomes accrued one year prior to collection. However, indirect taxes and social contributions, which are collected with shorter lags, also performed quite well.

The favourable evolution of tax revenues allowed the government to cut taxes, notably VAT, when it presented its budget for 2000 in September 1999. These tax cuts took immediate effect, and already had a significant impact in 1999. Buoyant tax receipts, however, have meant that the tax burden increased to reach an unprecedented level of 45.6 % of GDP, in spite of successive government pledges to reduce the tax burden.

State spending was kept under tight control, but social security expenditure, and in particular health care, again recorded some slippage vis-à-vis targets. However, most of the spending in excess of initial targets was due to spillover effects of spending in 1998. A falling government debt ratio, and a decline in the implicit interest rate on the government debt allowed interest expenditure to decline in 1999 by 0.3 percentage points of GDP to 3.3 % of GDP. The cyclically adjusted government deficit, as estimated by the Commission services, also improved; it declined from 2.1 % in 1998 to 1.3 % of GDP. This illustrates the tightness of the budgetary stance in 1999.

The ratio of the general government gross debt amounted to 58.6 % of GDP by the end of 1999, compared with 59.3 % in 1998. This was the first decline in the debt ratio for almost 20 years, which continuously increased from 1980 when it was around 20 % of GDP.

According to the updated stability programme, the government deficit would decline to 1.7 % of GDP in 2000. However, as this target was prepared when the estimate for the 1999 deficit was still 2.1 % of GDP (against the current more precise estimate of 1.8 %), it is clearly outdated. According to the Commission services' forecasts, the deficit ratio for 2000 will be 1.5 % of GDP.

This new reduction in the deficit ratio would come mainly from the favourable economic circumstances, although the continuing restraint in government spending would also play a role. State spending is planned to remain constant in real terms, while social security spending should grow by 1.3 %.

The budget for 2000, which was unveiled in September 1999, contained tax cuts worth 0.4 % of GDP. Such cuts mainly concerned VAT on housing maintenance and corporate taxes. Moreover, in March 2000, the government announced a new reduction of VAT (the normal rate was cut by one percentage point to 19.6 %, effective from April), plus a reduction of the income tax (in particular for low income households) and of the regional tax on accommodation (*taxe d'habitation*). Altogether, the tax cuts announced since September 1999 amount to 0.8 % of GDP.

The above described measures and the reduction of employers' social contributions, which form part of the scheme to switchover to the 35-hour working week, will lead to a fall in the tax burden by almost one percentage point of GDP and absorb a major part of the growth dividend. Therefore the cyclically adjusted deficit would deteriorate by 0.3 percentage points to 1.3 %. The debt ratio should decline further to 58.2 % at the end of 2000.

Medium-term budgetary strategy and policy initiatives

The updated stability programme presented in January 2000 restated the budgetary strategy pursued by the gov-

Table 29

Composition and balances of general government, France (*)

(% of GDP)

	1998	1999	2000	2001
Government balance	– 2.7	– 1.8	– 1.5	– 1.2
Total receipts	49.7	50.6	49.5	49.0
Of which: — taxes	27.5	28.1	27.4	27.1
— social contributions	18.3	18.6	18.4	18.2
Total expenditure	52.4	52.3	51.1	50.2
Of which: — collective consumption	9.5	9.4	9.3	9.1
— social transfers	32.6	32.6	32.0	31.3
— interest expenditure	3.6	3.3	3.1	3.2
— gross fixed capital formation	2.9	2.9	2.9	2.9
Primary balance	0.9	1.6	1.6	2.0
Pm Tax burden	44.9	45.6	44.7	44.3
Government debt	59.3	58.6	58.2	57.1
Pm Cyclically adjusted balance	– 2.1	– 1.3	– 1.6	– 1.4
Pm Cyclically adjusted primary balance	1.5	2.1	1.6	1.7

(*) Spring 2000 economic forecasts.

Source: Commission services.

ernment since 1998. By maintaining the real growth of government expenditure below GDP growth, the share of GDP absorbed or redistributed by the public authorities will fall to between 50.4 % and 51.1 % of GDP in 2003, down from 53.9 % in 1999 ([1]). To this end, the stability programme established limits for government expenditure growth, including limits for government sub-sectors, and in some cases for certain categories of expenditure.

According to the stability programme, the deficit will be reduced by 0.4 or 0.5 percentage points of GDP per year. In 2003, the deficit should fall within the range 0.3–0.5 % of GDP and the government debt ratio is expected to be between 57.2 % and 57.7 % of GDP.

The margins created by control of government spending will also allow a reduction in the tax burden, which reached a historical high in 1999, some two percentage points above the 1995 ratio. The update of the stability programme suggests that the tax burden might decline by up to 1.6 percentage points of GDP over the period 2000–03.

Demographic projections show that the ratio of pensioners to employed persons will drastically increase from 52 % in 1997 to more than 80 % in 2040 putting enormous strain on the public pension system which is financed on a pay-as-you-go basis. A public debate on the reform of the pension system had begun in July 1999 on the basis of several reports (of which, *L'avenir de nos retraites*, or Charpin report, by the Commissariat général du Plan, is the more prominent).

In March 2000, the French government announced its intentions on the reform of the pension system. According to the government, the French pension system will not shift to a funded scheme, but remains pay-as-you-go based. However, the reserve fund set up in 1998 should be enhanced and is expected to have FRF 1 000 billion (EUR 152 billion) by 2020 ([2]). Moreover, the seniority required for civil servants to receive a full pension would be put at the same level of the private sector (i.e. it would increase by 2 $\frac{1}{2}$ years). However, this was not presented as a final decision, but only as a guideline for new discussion with social partners. The special pension schemes (for railway workers, miners, sailors, etc.), which had been specifically evoked by the Charpin report, remain

([1]) The definition of total government expenditure in use by the Commission services is not, for the time being, the same as the French stability programme. Therefore, figures quoted from the stability programme are not entirely comparable with data shown in the table. However, the technical reasons behind such a discrepancy have no impact on the balances.

([2]) This is 50 times the assets currently managed by the fund.

unchanged. The general scheme for the private sector also remains, in essence, unchanged, although the algorithm for the calculation of pensions is also to be adjusted to achieve a better actuarial balance, especially for people retiring before reaching the statutory age.

The government is also continuing the process of reducing the tax burden on labour at the lower end of the productivity scale. The first step was a total exemption of family contributions paid by employers (at the rate of 5.4 %) for employees earning 1.1 minimum wages (SMIC) or less, and a semi-exemption for wages between 1.1 and 1.2 SMIC. In 1996, this measure was integrated inside a widened scheme aiming at lowering overall social contributions paid by employers. In 1998, the measure was limited to wages under 1.3 SMIC, and the social contribution reduction concerning part-time workers became proportional to the working time.

In 2000, alongside the implementation of the working-time reduction, the relief and the ceiling have been increased. For firms signing a working-time reduction agreement, the social contribution reduction amounts to some EUR 3 300 per year and per employee at the SMIC level. The total cost of the scheme is estimated to be EUR 1 billion (i.e. 0.7 % of GDP).

7. Ireland

Recent developments

With GDP estimated to have grown by over 8 % and the shift toward domestic sources in the composition of growth, budgetary targets for 1999 were surpassed. The general government balance recorded a surplus of 2 % of GDP, almost the same as in 1998. However, had it not been for special factors depressing the surplus, it would have been much greater and well over 3 % of GDP. This relates essentially to a one-off capital transfer relating to a decision to discharge Exchequer liabilities in respect of employees' pensions in the privatised telephone company (Telecom Eireann). The favourable out-turn in 1999 resulted from greater than expected buoyancy in tax receipts. The underlying primary surplus is estimated to have been 4.6 % of GDP (compared with a projected 5.1 % by the authorities).

The cyclically adjusted general government surplus is estimated to have been 0.8 %. At first sight, this suggests some loosening in the fiscal stance: however, a fiscal tightening may have taken place when the special factors described above are taken in account. Lower service costs on the debt in 1999 compared with 1998 represent a significant proportion of this tightening.

With respect to government debt, the debt/GDP ratio fell to 52.4 % in 1999. The debt ratio would have been substantially lower (about 46 %), except for the one-off capital transfer and the impact of a securities exchange programme to retire expensive debt. In 1999 general government expenditure was estimated to have been 36.4 % of GDP, of which some 3 % was fixed investment. With receipts at 38.4 % of GDP, the tax and government expenditure as a share of GDP is among the lowest in the EU.

The budget for 2000 provides for income tax reform at a gross cost of 1.4 % of GDP in a full year mainly comprising a reduction in the standard tax rate to 22 % from 24 % and a reduction in the top rate to 44 % from 46 %. This will be partly offset by increases in indirect taxes on tobacco and increases in expenditure on health and social welfare equivalent to 0.7 % of GDP in a full year. Overall, the budget was expansionary with the gross cost estimated at 2 % of GDP in a full year: nonetheless, the general government finances are expected to remain in strong surplus. A cyclically adjusted primary surplus of 2.7 % of GDP is expected in 2000 as the economy continues to grow rapidly. However, the actual surplus is likely to be rather lower at around 1.7 % of GDP since the government have chosen to pre-fund State pension liabilities with respect to public sector employees to the tune of EUR 2.8 billion in 2000. Gross debt is expect to fall to around 45 % of GDP by the end of 2000.

Medium-term budgetary strategy and policy initiatives

The overarching policy of the government with respect to public finances is to maintain macroeconomic stability and at the same time secure employment growth. In particular, tax reform has been, and is being, used to boost the supply-side of the economy while at the same time maintaining sound public finances. The economic strategy has been implemented via a series of consensus-based agreements involving the government and social partners, and the core element has been wage moderation facilitated by reductions in personal income taxation. This was exemplified in last December's budget. These supply-side measures are a rational medium-term response in an economy that is possibly operating at or above capacity. It should also be noted that the government has already announced structural measures in, for example, the National Development Plan that complement the supply-side measures of the budget on the investment side.

Nevertheless, policy-making faces a dilemma. Symptoms of overheating are evident and the challenge for the authorities is to achieve a soft landing in the context of

Table 30

Composition and balances of general government, Ireland (*)

(% of GDP)

	1998	1999	2000	2001
Government balance	2.1	2.0	1.7	2.7
Total receipts	37.7	38.4	37.1	36.4
Of which: — taxes	27.2	27.7	27.2	26.8
— social contributions	5.8	6.2	5.7	5.6
Total expenditure	35.5	36.4	35.4	33.6
Of which: — collective consumption	5.5	5.2	5.1	5.0
— social transfers	19.5	18.8	18.6	18.1
— interest expenditure	3.5	2.6	2.2	1.9
— gross fixed capital formation	2.7	3.1	3.1	3.2
Primary balance	5.6	4.6	3.9	4.7
Pm Tax burden	32.6	33.4	32.4	31.9
Government debt	55.6	52.4	45.2	38.1
Pm Cyclically adjusted balance	1.2	0.8	0.5	2.0
Pm Cyclically adjusted primary balance	4.6	3.4	2.7	3.9

(*) Spring 2000 economic forecasts.

Source: Commission services.

EMU where monetary conditions are determined for the euro area as a whole. It seems that the monetary conditions applying in the euro area are probably inappropriate for an economy so advanced in the cycle as Ireland. That heightens the inflation risk and fiscal policy, therefore, has a potential role in stabilising the economy.

The dilemma is between using budgetary policy to promote supply-side measures or to use it for fiscal restraint. Supply-side measures could ease some of the constraints being felt, especially on the labour side, but other things being equal, they also ease the budgetary stance. Demand restraint via fiscal tightening is likely to alleviate inflationary pressures sooner but would mean deferral of the supply-side reforms and could be difficult to justify to the public given the strong public finances and the desire to maintain the social consensus.

It remains to be seen how the budgetary measures will work out, but given the extent of overheating that already exists, it might have been appropriate and prudent to have deferred the tax cuts in the budget and so tighten the fiscal stance; after all, there have been substantial reductions in tax pressure over the past 15 years. A postponement may not, therefore, have been seen as a weakening of the authorities' resolve to lower tax pressure in the medium term.

The proportion of the population over 65 will increase dramatically this century. The government has started to provide resources on a planned basis for the pensions of a rapidly ageing population. Beginning in 1999, 1 % of GNP is being set aside annually to pre-fund part of the prospective costs associated with population ageing, and in addition some of the proceeds from the sale of Telecom Eireann in 1999 and 2000 will be used to pre-fund future pension liabilities.

Two funds have been established in 2000 as part of this initiative. The first is a Social Welfare Reserve Fund which will be inside the general government sector. It will receive two thirds of all contributions. The second fund will be a Public Service Pensions Fund which, according to ESA95 conventions, will fall outside the government sector and will receive one third of all contributions. The impact of these transactions on the government finances, as described in the updated stability programme, is shown in Table 31 ([1]).

([1]) Note that the bottom line in this table showing the general government surplus as presented by Irish authorities in the stability programme differs from that in Table 31 on the structural aspects of public finance which presents the Commission services spring 2000 forecast.

Table 31

Effect on the general government balance of pensions pre-funding, Ireland

(% of GDP)

	2000	2001	2002
General government surplus (excluding pre-funding)	3.3	2.8	2.9
Impact of pre-funding	– 2.2	– 0.3	– 0.3
General government surplus after pre-funding	1.2	2.5	2.6

Source: Ireland — Stability Programme, December 1999 update.

8. Italy

Recent developments

Italian public finances improved significantly in 1999, with the general government deficit falling to 1.9 % of GDP, down from 2.8 % in 1998. This outcome was markedly better than expected by the Italian authorities who had officially revised the projection upwards from 2 % to 2.4 % of GDP in May 1999, in the light of evidence of a cyclical slowdown. However, a primary surplus of 4.9 % of GDP in 1999 was distinctly lower than the 5.5 % target indicated in the initial stability programme of December 1998.

The improvement in the Italian budgetary position between 1998 and 1999 was due to substantially lower interest payments (as a result of historically low interest rates and skilful debt management) and to higher revenues, particularly from direct taxes. These developments more than offset an 0.5 % of GDP rise in primary current expenditure, reflecting an increase in social transfers and other intermediate government consumption. The dynamism of tax receipts in spite of low growth can be largely attributed to the 1997 tax reform. Thanks to the merging of declarations on income taxes, VAT and social contributions, and also to the unification of the deadline for the related payments, tax collection improved and the tax base widened. Overall, the tax and contribution burden edged up to reach 43.4 % of GDP, whereas total government expenditure decreased significantly.

For 2000, the government deficit is expected to continue to decline to 1.5 % of GDP due to lower expenditure, a further small reduction in interest payments and an 0.5 percentage point reduction in primary current expenditure. This should provide sufficient margins to allow more resources to be devoted to economic development, namely by supporting public fixed investment and reducing taxation. In particular, the budget for 2000 provides for a lowering of income tax rates, tax breaks in favour of low-income households, a reduction of housing taxes and the extension of the dual income tax. The latter is intended to favour the capitalisation of companies by providing a tax incentive to invest and retain capital.

The ratio of the general government gross debt amounted to 114.9 % of GDP by the end of 1999, down from over 116 % in 1998. This reduction was aided by large privatisation receipts, which partly offset the impact of lower growth and of the depreciation of the euro on foreign currency-denominated debt. The debt ratio should decline further to 110.8 % at the end of 2000.

Medium-term budgetary strategy and policy initiatives

The update of the Italian stability programme projects a sustained reduction in the government deficit to 0.1 % of GDP in 2003. This is to be achieved through savings in interest payments of 0.4 percentage points of GDP each year, while the primary surplus would edge up by 0.1 percentage points between 1999 and 2000 to reach 5.2 % of GDP in 2003.

The authorities have reiterated the budgetary strategy announced in 1998, based on a moderate decrease in current primary expenditure to allow more room for a reduction in the tax and contribution burden. A cumulative decline of 1.8 percentage points in the ratio of current primary expenditure to GDP between 1999 and 2003 will go alongside cumulated projected savings in interest payments of 1.5 percentage points of GDP. Capital expenditure as a percentage of GDP would decrease between 2000 and 2003, although it is not possible to assess to what extent this reflects greater efficiency. Current revenues are planned to decline cumulatively as a percentage of GDP by 1.8 points in the period to 2003. Through the sale of State-owned real estate, capital receipts should rise by 0.3 percentage points this year, but are projected to decelerate thereafter.

The capacity to monitor and control current expenditure is key to the success of Italy's medium-term budgetary

Table 32

Composition and balances of general government, Italy (*)

(% of GDP)

	1998	1999	2000	2001
Government balance	– 2.8	– 1.9	– 1.5	– 0.8
Total receipts	46.6	46.9	46.3	46.0
Of which: — taxes	29.8	30.4	29.9	29.8
— social contributions	12.9	12.7	12.6	12.5
Total expenditure	49.4	48.8	47.8	46.8
Of which: — collective consumption	7.6	7.7	7.6	7.5
— social transfers	27.4	27.8	27.4	27.1
— interest expenditure	8.1	6.8	6.4	6.0
— gross fixed capital formation	2.4	2.6	2.6	2.5
Primary balance	5.3	4.9	4.9	5.3
Pm Tax burden	43.2	43.4	42.8	42.5
Government debt	116.3	114.9	110.8	106.6
Pm Cyclically adjusted balance	– 2.5	– 1.3	– 1.3	– 0.9
Pm Cyclically adjusted primary balance	5.6	5.5	5.1	5.2

(*) Spring 2000 economic forecasts.

Source: Commission services.

strategy. In this context, the implementation of the domestic stability pact, which defines budgetary targets for the decentralised administrations, is of particular relevance. The domestic stability pact relies on a lagged and rather loose constraint, which establishes that action vis-à-vis the local administrations would be taken only in the event of an infringement of the Stability and Growth Pact provisions by Italy. Furthermore, stricter control of public expenditure can also be achieved in the context of the 1997 reform of the State budget, which has set in place a framework allowing a better evaluation of the efficiency of public policies and administrative action.

Pension and other age-related budgetary expenditures pose important medium-term challenges to Italian public finances. The two pension reforms of 1992 and 1995, adjusted in 1997, have contributed to stabilising the ratio of pension expenditure to GDP in the medium term at a lower level than previously projected. The ratio of pension expenditure is now projected by the Treasury to increase from 14.2 % of GDP in 1998 to 15.6 % in 2015, and thereafter to remain broadly stable until 2031, before falling to 14.2 % of GDP in 2045. The increase in the ratio of pension outlays to GDP will be fastest between 1998 to 2015, due to demographic and labour market factors and to the slow phasing-in of pension reforms.

In the absence of corrective measures, ageing populations could put strong pressure on the budget deficit. Increases in general taxation or in social security contribution rates would be at odds with the government's objective to reduce the tax and contributions burden, and given the fact that the cost of servicing the debt will remain significant in the years to come, the estimated trends in pension outlays imply a strong constraint on current primary non-pension expenditure.

Further adjustments to the pension system are therefore necessary. A reassessment of the parameters of the system is scheduled for 2001, and should not be delayed as uncertainty may encourage early retirement. The required changes, which should include further steps to promote funded pension provisions, would allow a broader overhaul of the Italian welfare system. No decisions have been announced in this respect, although there is a widely shared view that a major rebalancing needs to be undertaken.

9. Luxembourg

Recent developments

The Luxembourg general government has almost continuously recorded budget surpluses in the last decades, generally ranging between 2 % and 3.5 % of GDP. Preliminary estimates indicate that the general government surplus slightly decreased to 2.4 % of GDP in 1999, down from 3.2 % of GDP in 1998. Like previous years, the bulk of the surpluses was to be found in the social security sector.

Gross public debt rose slightly as a percentage of GDP to 6.4 % at the end of 1998 and then declined to 6.2 % in 1999. It should decline further in coming years as the Luxembourg authorities do not envisage new borrowing as long as the cost of servicing new debt remains higher than the yield on investment of government funds. Moreover, it should be noted that the reserves of the social security sector amounted to 23.2 % of GDP in 1999 and should increase in coming years.

Thanks to fast economic growth and buoyant public revenues, the general government surplus should stay around 2.5 % of GDP in 2000 and 2001.

Medium-term budgetary strategy and policy initiatives

A new government was constituted on 7 August 1999 after the general election in June. In its programme, the government emphasised the importance of pursuing a prudent budgetary strategy based on the following principles: the general government balance should continue to be in a net-lending position, the central government budgetary balance should remain in equilibrium, its current expenditure should increase less than the overall budget, total expenditure should not grow faster than a norm based on the expected GDP growth plus the forecast increase in the average of the wage indexation thresholds.

Moreover, budgetary policy will be implemented within the framework of medium-term programmes. In this respect, it was decided to present every year to Parliament a five-year programme for capital spending by the central government. Within this medium-term programme, annual compliance with the budgetary norm will be checked. Furthermore, the government will issue a study on the financing of pensions in the light of population ageing.

The 2000 update to the stability programme projects the general government surplus to increase in coming years, particularly in the social security sector but also in the central government. Due to fast GDP growth, receipts are expected to remain buoyant, despite the announcement of some tax cuts: the effective rate of corporate tax should be lowered from 37.5 % below 35 %. Similarly, taxes paid by households and individual enterprises should be significantly lowered. At the same time, current expenditure, especially government consumption, will be monitored closely. Overall, central government expenditure is planned to decrease by 2 percentage points of GDP between 2000 and 2003.

Table 33

Composition and balances of general government, Luxembourg (*)

(% of GDP)

	1998	1999	2000	2001
Government balance	3.2	2.4	2.6	2.7
Total receipts	47.2	46.5	46.2	45.4
Of which: — taxes	:	:	:	:
— social contributions	11.6	11.5	11.5	11.3
Total expenditure	43.9	44.1	43.6	42.7
Of which: — collective consumption	8.0	7.8	7.7	7.5
— social transfers	24.8	24.8	24.4	23.9
— interest expenditure	0.4	0.4	0.3	0.3
— gross fixed capital formation	4.6	4.9	5.1	5.2
Primary balance	3.6	2.8	2.9	3.0
Pm Tax burden	41.9	:	:	:
Government debt	6.4	6.2	5.8	5.3
Pm Cyclically adjusted balance	3.4	2.6	2.5	2.3
Pm Cyclically adjusted primary balance	3.7	3.0	2.8	2.6

(*) Spring 2000 economic forecasts.

Source: Commission services.

10. The Netherlands

Recent developments

Considerable fiscal consolidation has been achieved in recent years with the general government deficit falling from 4.2 % of GDP in 1995 to 0.8 % in 1998. Moreover, the 'quality' of the consolidation was favourable as it took place largely on the expenditure side. Public expenditure decreased by about 4.6 percentage points of GDP between 1995 and 1999. The bulk of the reduction in public expenditure came from transfers to households, which decreased by about 3 percentage points of GDP from 1995 to 1998 thanks to falling unemployment and a series of reforms in the field of social security.

Important reforms were also undertaken on the revenue side: direct taxes paid by households were cut significantly from 9.1 % of GDP in 1995 to 7.6 % in 1998. Social security contributions were also reduced, albeit to a lesser extent. However, the overall tax burden decreased only marginally as the reduction in direct taxes was compensated by the gradual and discretionary increase of indirect taxes, and also by a significant rise in company tax receipts due to higher profits.

The process of fiscal consolidation continued in 1999 when a surplus of 0.5 % of GDP was recorded. This outcome was much better than expected and was largely due to much faster than expected growth: buoyant internal demand as well as dynamic job creation boosted revenues. Preliminary estimates indicate that receipts of the central government and social security (including health care) turned out to be some 1.2 % of GDP higher than forecast in the 1999 budget ([1]). As a result, the tax burden increased by more than 1 percentage point of GDP. Meanwhile, expenditure by the central government and social security was about 0.3 % of GDP lower than forecast in the budget. As a whole, total general government expenditure is estimated to have decreased by 0.3 percentage points of GDP in 1999.

([1]) *Voorlopige rekening 1999*, February 2000.

The debt ratio continued its downward path, falling more than 3 percentage points of GDP in 1999. It should fall below the 60 % threshold in 2000.

Medium-term budgetary strategy and policy initiatives

The updated stability programme continues the strategy of reducing the share of public expenditure in GDP via the imposition of ceilings on spending. It provides for a balanced reduction of the tax burden and public debt levels with a view to preparing for the impact of ageing populations.

The programme presents a specific formula for allocation of so-called budgetary growth dividends (positive or negative) between tax cuts and deficit reductions; this formula was established in the 1998 coalition agreement, the main features being:

- three quarters of any structural revenue upturns are to be used for deficit reduction and the remaining quarter will be used for reducing the tax burden (including social security contributions). If the general government deficit falls below 0.75 % of GDP, the ratio changes to 50:50;
- three quarters of any downturn in revenue are to be reflected in the deficit and one quarter to be clawed back by reducing tax relief. However, if the general government deficit rises to more than 1.75 % of GDP, the distribution would be changed to 50:50, provided there is no conflict with the requirements of the Treaty of Maastricht.

The application of this formula increases the priority given to tax reductions when the government deficit falls and implies a progressive reduction of the impact of automatic stabilisers when the macroeconomic situation improves. However, as the rise in revenues in 1999 was

Table 34

Composition and balances of general government, the Netherlands (*)

(% of GDP)

	1998	1999	2000	2001
Government balance	– 0.8	0.5	1.0	0.4
Total receipts	45.7	46.8	46.0	43.8
Of which: — taxes	23.8	24.5	24.0	24.1
— social contributions	16.4	17.1	16.9	14.8
Total expenditure	46.5	46.2	45.0	43.4
Of which: — collective consumption	11.0	11.1	10.8	10.5
— social transfers	24.9	24.7	24.1	23.3
— interest expenditure	4.9	4.4	4.0	3.6
— gross fixed capital formation	2.8	3.1	3.2	3.1
Primary balance	4.1	5.0	5.1	4.1
Pm Tax burden	40.4	41.6	40.9	38.9
Government debt	67.0	63.8	58.8	54.6
Pm Cyclically adjusted balance	– 0.5	0.7	0.6	– 0.2
Pm Cyclically adjusted primary balance	4.3	5.1	4.7	3.5

(*) Spring 2000 economic forecasts.

Source: Commission services.

largely unexpected, the outcome did not match the formula described above in that the tax burden increased and the general government balance improved substantially more than was planned.

The principle of a tax reform was decided in the 1998 coalition agreement and should be implemented in 2001. A proposal was submitted to Parliament in September 1999 and was adopted by the lower house in February 2000. Its main features are:

- a rise in indirect taxes: the standard VAT rate will be raised from 17.5 % to 19 % and environmental levies will be increased. These measures should yield some 1 % of GDP;
- a substantial decrease in households' income taxes and social security contributions, which would cost about 2 % of GDP. The current employed person's allowances will be replaced by an earned income tax credit, in order to raise the net after-tax income from labour and to increase incentives to look for a job;
- a reform of the taxation of wealth: the current wealth tax will be replaced by a tax on an imputed income from wealth. A 4 % yield imputed on all assets will be taxed at a rate of 30 %, which implies a 1.2 % tax rate on the total wealth. This measure should generate additional revenues of 0.4 % of GDP.

The total *ex ante* budgetary cost of this tax would be 0.6 % of GDP. As a result, the general government surplus should decline to about 0.4 % of GDP in 2001 after a rise to 1 % in 2000. This decrease should be even more pronounced in cyclically adjusted figures, from a surplus of 0.6 % of GDP in 2000 to a deficit of about 0.2 % in 2001.

The main challenge faced by the Dutch economy at the moment is the acceleration in price inflation and mostly in wages and labour costs after six years of fast GDP growth and five years of strong increase in employment. One of the goals of the tax reform is to convince wage-earners to moderate their wage claims by offering them a significant increase in after-tax income. Taking into account the traditional moderation of Dutch trade unions, this objective does not seem beyond reach.

11. Austria

Recent developments

Government finances improved strongly in the run-up to EMU with the general government deficit falling from 5 % of GDP in 1995 to 1.9 % in 1997. However, a substantial part of the 1996–97 budget consolidation was due to one-off measures, and a failure to pursue fiscal consolidation in 1998 resulted in the general government deficit rising by 0.6 percentage points to 2.5 % of GDP. In cyclically adjusted terms, the deficit jumped from 1.2 % of GDP in 1997 to 2.1 %.

For 1999, provisional results point to some improvement in general government finances with the deficit falling to 2 % of GDP, the target set in the stability programme of November 1998. However, the public debt ratio rose sharply in 1999 by 1.4 percentage points to 64.9 %, as opposed to a reduction of 0.9 percentage points planned in the stability programme; it should nonetheless be noted that the increase was mainly due to a revaluation of yen-denominated debt.

The challenge of returning to the path of fiscal consolidation in 2000 has been compounded by a general tax reform agreed by the former government in March 1999, which became effective on 1 January 2000. Overall, it is estimated that the reform will increase the government deficit by EUR 2 300 million or 1.2 % of GDP, 0.9 percentage points of which fall due in 2000. The reform consists of:

- an increase in family allowances amounting to EUR 900 million or 0.45 % of GDP;
- reduced income tax rates from 1 January 2000 on, especially for low and middle income earners, estimated to diminish tax revenues by EUR 1 250 million or 0.6 % of GDP;
- a number of other tax allowances worth 0.1 % of GDP.

Whereas a reduction in the tax burden was a move in the right direction, in particular for low and middle income earners, the reform package suffers from a number of shortcomings. In particular, no provisions were made to meet the budgetary cost of the reform, e.g. compensating expenditure reductions. Secondly, it lacks elements of genuine structural reform (such as a reduction of non-wage labour costs), with only limited incentives for investment in R & D and human capital. Thirdly, with the reform providing a fiscal stimulus at a time of a strong acceleration of economic activity (which was foreseeable in autumn 1999), its timing was hardly appropriate.

For 2000, the budget has not yet been formally adopted owing to delays in forming a new government after the general election of October 1999. The Council of Ministers passed the draft budget on 20 March 2000, and the parliamentary debate started the day after. Due to the obligatory legal delays, the budget for 2000 will probably be adopted towards the end of May 2000.

The consolidation measures outlined in the draft budget for 2000 are substantial and amount to EUR 2 200 million or some 1.1 % of GDP. They are expected to bring the general government deficit down to some 1.7 % of GDP. However, a substantial part of the measures are one-off and more than half of them are on the revenue side (increases in excise duties, sale of licences and real estate property). Consequently, budgetary difficulties will ease temporarily in 2000, but are bound to re-emerge in 2001. Significant structural budgetary reforms are thus required to keep the deficit on a sustained downward path.

Medium-term budgetary strategy and policy initiatives

The Austrian government submitted an updated stability programme in March 2000, and it reflects some of the major budget policy initiatives outlined in the political programme of the new government. In particular, sav-

Table 35

Composition and balances of general government, Austria (*)

(% of GDP)

	1998	1999	2000	2001
Government balance	– 2.5	– 2.0	– 1.7	– 2.0
Total receipts	49.3	49.0	48.5	47.6
Of which: — taxes	28.7	28.6	28.1	27.8
— social contributions	17.2	17.1	16.9	16.7
Total expenditure	51.8	51.1	50.3	49.6
Of which: — collective consumption	7.5	7.5	7.4	7.1
— social transfers	30.7	30.7	30.6	30.4
— interest expenditure	3.8	3.6	3.5	3.4
— gross fixed capital formation	1.9	1.8	1.6	1.6
Primary balance	1.3	1.6	1.8	1.5
Pm Tax burden	44.8	44.7	44.0	43.5
Government debt	63.5	64.9	62.6	62.1
Pm Cyclically adjusted balance	– 2.2	– 1.7	– 1.7	– 2.0
Pm Cyclically adjusted primary balance	1.6	1.9	1.9	1.5

(*) Spring 2000 economic forecasts.

Source: Commission services.

ings shall be realised in the health care and pension sectors. Public sector reform should pave the way for significant reductions in the number of government employees. The government also plans a further tax reform to reduce the tax burden and to simplify the tax code, with a view to rendering Austria more attractive as a location for enterprises. An expert group is currently elaborating the details; results are due by the end of this year.

Incentives are being introduced to render the utilisation of health care services more efficient, e.g. higher direct contributions by consumers of health services. A pension reform concerning the statutory and the public sector regime was passed by the Council of Ministers at the beginning of April. Starting in October 2000, the minimum age for early retirement will be increased by 18 months in several steps. In addition, a new 'bonus-malus' system will financially discourage early retirement and reward later retirement. Moreover, the calculation of the annual pension adjustment will be modified temporarily to contain its rapid rise. Nevertheless, a permanent methodological change in annual pension adjustments needs to be embarked upon which reflects demographic developments.

The updated stability programme provides for the general government deficit to fall to 1.3 % of GDP in 2003 and to 1 % of GDP in 2005. The debt ratio, which rose sharply in 1999 is projected to decrease to 61.2 % of GDP in 2003, and should reach the 60 % reference value by 2005. The ratio of current revenue to GDP should decline from 51.7 % in 1999 to 49.1 % in 2003, while the ratio of current primary expenditure is expected to fall from 46.3 % in 1999 to 43.7 % in 2003. This significant reduction in both ratios is a positive feature of the envisaged medium-term consolidation path.

However, the quantitative targets of the programme lack ambition, a fact that emerges from the stated objective of the programme which is to reach a balanced federal budget in the 'long run' rather than a position of 'close to balance or in surplus' in the medium term. Overall, the targets for the deficit and debt ratio are not in line with the Council recommendation on the original stability programme which called for a faster decline in both ratios ([1]). Between 2000 and 2002, the cyclically adjusted deficit is projected to remain constant at 1.6 % of GDP. The total improvement of the cyclically adjusted deficit from 1999 to 2003 is only 0.4 percentage points in the updated stability programme.

([1]) In fact, the cyclical safety margin (see Part II, Chapter 2) which would allow automatic fiscal stabilisers to operate safely during normal economic downturns without the 3 % reference value being breached would be met only in 2003, the last year of the period covered by the programme.

Moreover, achieving these targets relies heavily on one-off measures, in particular the sale of real estate property (see table below). When corrected for these real-estate sales, the cyclically adjusted deficit increases substantially in 2000, remaining at 1.9 % of GDP until 2002, and falls to 1.6 % of GDP in 2003: this corresponds to a total reduction of only 0.1 percentage points from 1999 to 2003.

Furthermore, the targets provide no additional safety margin for non-cyclical factors. This is a risky strategy as the targets rely on an uncertain annual surplus of 0.5 % of GDP from the *Länder* and social insurance institutions (the health insurance sector, for instance, risks posting a significant and rising deficit).

The stability programme enumerates a number of additional planned measures which would have an expansionary effect on public finances: e.g. prolonging parental leave, increasing respective transfers and, in addition, disconnecting it from previous employment, raising subsidies to the agricultural sector and lowering non-wage labour costs. Given the inadequate targets of the stability programme, it is vital that any additional spending or reduced revenue resulting from these measures is made contingent on appropriate counter-financing.

Table 36

General government finances according to updated stability programme, Austria

(ESA95 basis, % of GDP)

	1999	2000	2001	2002	2003
Government balance	– 2.0	– 1.7	– 1.5	– 1.4	– 1.3
Cycl. adj. gov. balance	– 1.7	– 1.6	– 1.6	– 1.6	– 1.3
Cycl. adj. gov. balance (net of one-off measures)	– 1.7	– 1.9	– 1.9	– 1.9	– 1.6
Cycl. adj. primary balance (net of one-off measures)	2.0	1.7	1.7	1.6	1.9
Consolidated gross debt	64.9	64.1	62.7	61.9	61.2

12. Portugal

Recent developments

Fiscal consolidation has been under way in Portugal for some years with the government budget deficit falling from 4.6 % of GDP in 1995 to an estimated 2 % in 1999. The consolidation results from a sharp increase in the total revenue/GDP ratio from 40.5 % in 1995 to 45.9 % in 1999, together with an accumulated fall in interest expenditure of 2.9 percentage points (p.p.) of GDP. These two developments more than offset the rapid rise in current primary expenditure that increased from 33.5 % of GDP in 1995 to 37.5 % in 1999.

A deficit of 2.0 % in 1999 indicates that little or no consolidation was achieved compared with 1998 when the deficit was 2.1 % of GDP, i.e. a reduction of 0.1 percentage points. In fact, the cyclically adjusted primary surplus remained in 1999 at the value of 1.6 % of GDP attained in 1998. The fact that little progress was made on fiscal consolidation was due to the rapid growth in primary current expenditure, which increased by 11.1 % in 1999.

Average tax rates were kept largely unchanged in both 1998 and 1999, although a number of measures were adopted to reinforce the fight against tax evasion and fraud. Tax revenues were stronger than foreseen due to a growth pattern biased towards domestic demand and, in particular, private consumption. On the other hand, current primary expenditure overshot significantly its target value due largely to overspending in the health sector and a faster than expected rise in the government sector wage bill. The major components of current primary expenditure that increased most rapidly were government consumption and current transfers (to households), both of which in nominal terms rose over 10 % in 1999. The debt/GDP ratio declined from 60.3 % in 1997 to 56.8 % in 1999.

In 2000, the budget projects a reduction in the government deficit to 1.5 % of GDP, which is also the Commission's spring 2000 forecast. However, there is cause for concern about a possible tax shortfall, especially as domestic demand may account for a smaller share of economic growth in 2000. Moreover, the budget for 2000 relies heavily on expected gains in the efficiency of tax administration: tax revenue is expected to rise by about 10 %; whereas, nominal GDP is projected to rise by only 6 %. The budget projects an increase in primary expenditure of around 9 %, although a significant fraction of budgeted expenditure is frozen, requiring the explicit consent of the government to be used.

Medium-term budgetary strategy and policy initiatives

In the updated stability programme, the Portuguese government plans to reduce the deficit ratio to a balanced position in 2004. The consolidation strategy is based on further increases in the revenue/GDP ratio of some 2 p.p. between 1999 and 2004, whereas current expenditure in terms of GDP would be kept roughly unchanged. The revenue/GDP ratio is expected to stabilise at about 48 % after 2000 and current primary expenditure is projected to decline by approximately 1 p.p. to about 38 % in 2004. Interest expenditure is expected to decline by about 0.5 p.p. of GDP between 1999 and 2004. Capital expenditure is projected to fall by 0.25 p.p. of GDP in the period 1999–2004, attaining 6.8 % in 2004.

This revenue based consolidation runs counter to the broad economic policy guidelines. Moreover, the burden of the adjustment is concentrated on later years which calls into question the credibility of the consolidation process. In addition, there is a risk that the deficit target of 1.5 % GDP is not met in 2000 given fairly optimistic assumptions on tax revenue, with possible knock-on effects for the remainder of the programme period.

The government debt level is forecast to decline from 56.8 % of GDP in 1999 to 48.4 % of GDP in 2004 due to primary surpluses and economic growth. Nevertheless, the debt/GDP ratio is expected to rise to 57.0 % of GDP

Table 37

Composition and balances of general government, Portugal (*)

(% of GDP)

	1998	1999	2000	2001
Government balance	– 2.1	– 2.0	– 1.5	– 1.5
Total receipts	43.0	45.9	46.8	47.2
Of which: — taxes	24.9	26.1	26.8	27.3
— social contributions	10.8	12.3	12.6	12.7
Total expenditure	45.1	47.8	48.3	48.7
Of which: — collective consumption	7.7	8.0	8.1	8.1
— social transfers	25.3	25.7	26.2	26.5
— interest expenditure	3.6	3.4	3.3	3.3
— gross fixed capital formation	4.4	4.6	4.6	4.7
Primary balance	1.5	1.4	1.8	1.8
Pm Tax burden	35.8	37.6	38.5	39.0
Government debt	56.5	56.8	57.0	55.2
Pm Cyclically adjusted balance	– 2.0	– 1.8	– 1.5	– 1.6
Pm Cyclically adjusted primary balance	1.6	1.6	1.8	1.7

(*) Spring 2000 economic forecasts.

Source: Commission services.

at the end of 2000 despite significant revenue from the sale of public assets; this appears to reflect capital increases in government-owned enterprises and debt assumptions not explained by the development of the deficit.

A number of important reforms have been announced by the government but have yet to be implemented. Among the most urgent reforms is the introduction of a new basic law for the budget, and a new social security pensions law. Also, measures announced in the area of health care to improve expenditure control and efficiency are urgently needed to underpin the process of fiscal consolidation. A rapid and determined implementation of these reforms would strengthen the sustainability of economic policy of the Portuguese government.

Given an adjustment strategy that relies primarily on an increase in the revenue/GDP ratio, there is little room to implement any ambitious tax reforms. In fact, the tax reforms planned in the programme update are limited in scope in comparison with the more comprehensive reforms being implemented in other Member States. The major aim of announced tax measures, which will be implemented during the current term of Parliament (1999–2003), will be to increase fairness and improve business competitiveness. These objectives will be pursued by broadening the tax base and improving the efficiency of tax administration with the adoption of further measures to combat tax evasion and fraud.

13. Finland

Recent developments

Due to buoyant economic growth and tight fiscal policies, the deep general government deficits of the early 1990s were converted into a surplus of 1.3 % of GDP in 1998. Fiscal consolidation has been achieved essentially through tight expenditure control while leaving the share in GDP of total receipts relatively unchanged. The expenditure share in GDP has thus fallen from 59 % in 1993 to an estimated level of just under 50 % in 1999, while the share of receipts has remained fairly stable at around 52 %. However, while the general government balance has turned to surplus, this reflects a large surplus of the social security sector, and the central government still posted a deficit of 1.5 % of GDP in 1998.

Unlike in other Member States, the budgetary outcome for 1999, a general government surplus of 2.3 % of GDP, was lower than had been expected. Although the out-turn was close to the 2.4 % of GDP featured in the September 1998 stability programme (on an ESA79 basis), it was substantially below the projection of 3.1 % of GDP in the September 1999 updated programme. The lower out-turn can largely be attributed to the central government which eventually emerged with a deficit of 0.6 % of GDP.

General government debt in 1999 rose marginally in nominal terms, declining as a percentage of GDP from 49.0 % at the end of 1998 to 47.1 % at the end of the year. Central government debt was reduced by EUR 1.7 billion to EUR 69.0 billion, approximately 58 % of GDP. Although the surplus and privatisation proceeds were used to reduce debt, this was offset by the effect of currency fluctuations. In addition, managers of the social security funds changed their investment policies to reduce their government bond acquisitions, tending to slow the reduction in gross debt.

The new government elected in April 1999 committed itself to limit central government expenditures in real terms for its period of office (1999 to 2003) to the level of the original 1999 budget (EUR 31.6 billion, excluding the redemption of net debt). Subsequent medium-term expenditure ceilings adopted in May 1999 based on this commitment nevertheless appeared to imply a slightly looser stance. They included a front-weighted real increase for 2000 of about 1 % on the previous year's expenditure level, and an average annual expenditure level for the 2000–03 period about 0.5 % higher than the 1999 level in real terms. The government is currently developing a new system to involve Parliament more closely in the framework budget process with the aim of improving respect for expenditure limits.

The budget for 2000 approved by Parliament includes expenditure of EUR 32.6 billion compared with the original government proposal of EUR 32.4 billion. (Also included in the budget, but not in the totals just mentioned, are planned net debt repayments of EUR 1 billion.) The year 2000 should thus see a significant reduction in the nominal level of outstanding central government debt, with a planned central government surplus of 0.6 % of GDP. It should be noted that the public sector wage settlements concluded in early 2000 providing for an earnings increase in 2000 of 3.1 % were not included in the budget. Partly on this account, a supplementary budget may be required with final expenditure likely to exceed the original budget by approximately EUR 0.2 billion.

On the budget's revenue side, in January the government decided upon modest cuts in labour taxes equivalent to 0.2 % of GDP, to be implemented from mid-2000. Marginal income tax rates will decrease by 0.5 percentage points in all income brackets. The cuts are a first instalment of a medium-term commitment to further reduce the burden on labour of income tax and social security contributions. The move this year was partly to encourage moderate wage increases, though without any guarantee that moderate settlements would be concluded. Capital income tax rates have been increased in the budget from 28 % to 29 %, and the tax base widened to include interest income from all bank accounts.

Table 38

Composition and balances of general government, Finland (*)

(% of GDP)

	1998	1999	2000	2001
Government balance	1.3	2.3	4.1	5.0
Total receipts	52.4	52.1	51.8	51.1
Of which: — taxes	33.0	32.9	32.8	32.5
— social contributions	13.1	13.1	13.0	13.0
Total expenditure	51.1	49.8	47.7	46.1
Of which: — collective consumption	8.1	7.9	7.5	7.2
— social transfers	32.2	31.4	30.2	29.4
— interest expenditure	3.7	3.6	3.3	3.1
— gross fixed capital formation	2.9	2.8	2.7	2.6
Primary balance	5.0	5.8	7.5	8.1
Pm Tax burden	46.8	47.0	46.7	46.4
Government debt	49.0	47.1	42.6	38.0
Pm Cyclically adjusted balance	0.6	1.9	3.3	4.2
Pm Cyclically adjusted primary balance	4.4	5.4	6.6	7.3

(*) Spring 2000 economic forecasts.

Source: Commission services.

Overall in 2000, Commission forecasts predict a general government surplus of 4.1 % of GDP. According to calculations of the Commission services, the fiscal stance is set to continue to tighten progressively during the forecast period, with the cyclically adjusted primary balance rising from around 5 $\frac{1}{2}$% of GDP in 1999 to over 6 $\frac{1}{2}$% in 2000 (and over 7 % in 2001).

Medium-term budgetary strategy and policy initiatives

In the updated stability programme submitted in September 1999 the Finnish government is committed to reduce further the general government debt ratio, consistent with its aim of reducing central government debt to below 50 % of GDP by 2003. The government's medium-term strategy is centred on continued tight expenditure restraint. There is no specific aim regarding the tax/GDP ratio, but a commitment to reduce the burden of tax and social security charges on labour by 1 $\frac{1}{2}$% of GDP by 2003 is conditional on at least partly-compensating revenue increases elsewhere. This strategy thus leads to a structural central (and general) government surplus that increases within the programme period. A main justification for these surpluses is the need to prepare for severe budgetary effects expected from the ageing of the population.

In the September 1999 updated programme, general government expenditure relative to GDP was projected to continue to decline from 49.8 % in 1998 to 44.6 % in 2003. The revenue to GDP ratio was also expected to decline, from 51.2 % in 1998 to 49.3 % by 2003, mainly as a result of reductions in labour income taxes. A general government surplus of 4.7 % of GDP was projected for 2003. General government gross debt was projected to fall steadily from just under 50 % of GDP at end-1998 to reach 35 % by 2003 ([1]).

In March 2000, prospects for expenditure control were tightened in the new medium-term central government expenditure guidelines announced by the government for 2001–04. At 2001 prices, these foresee annual growth in expenditure ceilings of 0.2 % and 0.3 % for 2002 and 2003 respectively followed by a reduction of 0.9 % in

([1]) Note that the updated stability programme's baseline data for 1998 have since been revised and there are also some differences of aggregation between these figures and those of the table. Revisions to the stability programme projection period figures and their extension to 2004 were published on 16 March 2000 in the 'Government report to Parliament on budgetary appropriation guidelines'. The government surplus for 2001 to 2004 was projected at 4.7 %, 4.7 %, 4.5 % and 4.7 % of GDP respectively, while the corresponding figures for the gross general government debt/GDP ratio were 42 %, 39 %, 37 % and 35 % respectively.

2001. For 2001, however, the volume expenditure ceiling represents a real reduction of over $1\frac{1}{4}$% compared with the 2000 budget as passed by Parliament, and announcement of the guidelines was accompanied by an estimate that a projected central government surplus of 0.6 % of GDP in 2000 would grow to 1.4 % in 2001.

Because of the probability of more extensive privatisation measures than assumed in the updated stability programme, with proceeds directed towards debt reduction, debt levels could fall more rapidly than expectations in the programme. Sales of shares in the Sonera telecommunications utility effected in October 1999 and March 2000 for about EUR 3.4 billion (3 % of GDP) and EUR 2.0 billion ($1\frac{1}{2}$ % of GDP) respectively, with proceeds directed largely towards debt redemption, were thus both significantly additional to levels assumed in the programme ([1]).

As regards fiscal structural reform, the new government in its 1999 programme underlined the need to reform income and corporate taxation, and made the commitment noted above to cut the tax and social security contribution burden on labour by EUR 1.7–1.9 billion (around $1\frac{1}{2}$ % of GDP) during its term of office (1999 to 2003). The latter commitment was made conditional on continued economic growth, wage moderation and enhanced tax structures. Tax and contribution cuts will most probably be phased in, although beyond the initial measures included in the 2000 budget no firm timetable has yet been decided. Both local and central government labour taxes are likely to be fine-tuned by increasing selected tax deductions, easing the tax burden in lower income brackets. However, these labour income tax cuts will not necessarily lead to lower income tax receipts, since the effects of high marginal tax rates on sizeable stock option and profit-sharing incomes may exceed receipt losses by the tax cuts. In addition, compensating revenues from other taxes are also probable.

Among indirect taxes, excise duties on alcohol and motor vehicles face the prospect of pressure for greater alignment with practice elsewhere in the EU; an EU derogation limiting the amount of alcohol tourists are allowed to bring from another Member State runs out in 2004.

Reform proposals also cover the partly funded social security system. There have been a number of proposals to increase these funds substantially. In February 2000, the State Audit Office published a report on the central government civil servants' pension funds. According to the report, the funds have been used to cover expenditures in the central government budget, such that the level is insufficient to cover future pension expenditures. The report recommends administrative changes and accumulation of funds from the current level of EUR 2.9 billion to EUR 8.4 billion within the next 10 years. Present indications are that the recommendations will be taken account of in future budgets.

([1]) However, levels of general government debt are currently reduced by the intra-sectoral holdings of the social security funds (with a value of around 15 % of GDP). The funds are likely to diversify their investment portfolios to seek better yields and thus to invest less in government bonds. The revised investment policy will tend to raise the level of gross general government debt compared with what it would otherwise have been.

14. Sweden

Recent developments

Having peaked at 11.9 % of GDP in 1993, the general government deficit had been converted to a surplus of 1.9 % of GDP by 1998. It should, however, be borne in mind that the sale of real estate owned by pension funds contributed some 0.9 percentage points to the surplus, indicating that the ‘actual’ surplus was 1 % of GDP when this extraordinary transfer is taken into account.

The very fast consolidation during the 1990s was achieved mainly through a substantial consolidation programme for government finances and a continuation of tight expenditure control by means of expenditure ceilings on the central government budget. The reform of the budgetary process has also contributed to avoid slippage in the budget. The ratio of the general government consolidated debt amounted to 72.4 % of GDP by the end of 1998.

Government finances continued to show a large surplus of 1.9 % of GDP in 1999, above the ‘adjusted’ 1 % surplus achieved in 1998. Despite the continued tax reduction directed towards low-income households, tax revenues were better than expected due to the positive developments in the economy and in particular the strong increase in employment. On the expenditure side, transfers to households were higher than expected, partly due to higher payments within the health insurance.

Although the surplus improved, the budgetary stance was expansionary as indicated by the reduction in the cyclically adjusted primary balance between 1998 and 1999, from 8.2 % (again excluding the special factor of pension fund real estate) to 7.5 % of GDP. Furthermore, partly due to rapid growth in nominal GDP, the debt/GDP ratio fell to 65.5 % of GDP in 1999.

In 2000, an increase of the surplus is foreseen to 2.4 % of GDP. Calculations made by the Swedish authorities and the Commission services suggest an expansionary fiscal policy stance in 2000 with the cyclically adjusted primary balance falling from 7.5 % in 1999 to 6.4 % of GDP in 2000. This is mostly due to the lowering of the tax burden in 2000.

In the spring budget bill presented on 13 April by the government, the government balance for 2000 was revised upwards to 2.8 % of GDP and the debt/GDP ratio was revised downwards to 57.6 %. These improvements are in part due to better growth prospects and in part due to the planned flotation of shares in Telia (major publicly owned telecommunications company). A large part of the proceeds shall be used to amortise gross debt, and will through lower interest payments increase the surplus. Government surpluses of 2 % of GDP in each year between 2001 and 2003 are foreseen in the budget. The budgetary strategy as laid out in the spring budget bill is broadly in line with the updated convergence programme.

Medium-term budgetary strategy and policy initiatives

The overriding goal of fiscal policy as set down in its updated convergence programme of November 1999 is to lower the tax burden, while maintaining sound government finances via tight expenditure control to achieve a surplus of around 2 % of GDP over the period 2000–02. This strategy is to a large extent influenced by the fact that Sweden continues to have the highest revenue/GDP ratio in the Community (60.4 % in 1999), and similarly the highest expenditure/GDP ratio (58.5 % in 1999). There is a clear commitment to reduce the tax burden over time, but tax reductions are conditional on the fulfilment of these budgetary targets and continued wage restraint.

The cyclically adjusted balance will show surpluses of at least 1.5 % of GDP over the programme period. This is because the economy is forecast to grow above or at trend during this period.

Table 39

Composition and balances of general government, Sweden (*)

(% of GDP)

	1998	1999	2000	2001
Government balance	1.9	1.9	2.4	2.9
Total receipts	60.6	60.4	58.5	57.6
Of which: — taxes	38.1	39.4	36.1	35.3
— social contributions	16.1	15.1	16.6	16.7
Total expenditure	58.7	58.5	56.0	54.7
Of which: — collective consumption	:	:	:	:
— social transfers	:	:	:	:
— interest expenditure	6.2	5.5	4.7	4.1
— gross fixed capital formation	2.7	2.8	2.5	2.5
Primary balance	8.0	7.4	7.1	7.0
Pm Tax burden	53.4	53.5	51.9	51.2
Government debt	72.4	65.5	61.3	55.4
Pm Cyclically adjusted balance	2.9	2.0	1.7	1.9
Pm Cyclically adjusted primary balance	9.1	7.5	6.4	6.0

(*) Spring 2000 economic forecasts.

Source: Commission services.

This process of tax reductions conditional on expenditure restraint is clearly evident in the updated convergence programme targets. The expenditure ratio is projected to fall from 56.2 % of GDP in 2000 to 53.6 % of GDP in 2002. Rolling three-year expenditure ceilings for central government are decided by the Parliament annually and will aid the achievement of this target. The nominally fixed expenditure ceilings for central government, which include the old-age pension system, amount to 39 % of GDP in 1999 and to 37 % of GDP in each year for the period 2000–02.

The updated programme also projects the revenue ratio to decline from 58.3 % of GDP in 2000 to 56.5 % of GDP in 2002. The tax cuts in 2000, totalling 0.7 % of GDP, consist mostly of lower income tax. Further conditional tax cuts have been announced of around 0.9 % of GDP in both 2001 and 2002.

In the updated programme, the government debt level is projected to fall from 58.8 % of GDP in 2000 to 52.0 % of GDP in 2002.

From 2000 onwards, an obligation has been imposed on local governments to balance their budgets. If, in a given year, the outcome shows that expenditure exceeds revenue, the deficit must be eliminated within two years. This balanced budget constraint replaces the ‘freezing of tax rates’ previously imposed on local governments. While the local government sector as a whole is expected to fulfil the balanced budget constraint comfortably, it is not clear how the constraint will be enforced for those municipalities that face difficulties.

The Parliament passed the bill on pension reform in 1998 which is designed to be able to cope with both variations in the business-cycle and demographic changes by means of a closer match between the contributions to and payments from the system. It differs from the old system in that the benefits are based on earnings during the full working career, in contrast to a relatively short reference period in the old system, which was the 15 years with highest earnings of a required total of 30 years. Furthermore, the age at which a ‘full’ pension will be paid is subject to the change in life expectancy.

The new pension system is a compulsory national scheme with two components: a minimum protection part and an earnings related part. The latter consists of a thoroughly reformed pay-as-you-go system and a new fully-funded scheme.

The new pension system will be phased in over a long period and pensions will be calculated partly under the new system from 2001 onwards and only in 2014 will some persons have their pensions entirely based on the new system.

15. United Kingdom

Recent developments

Government finances in the United Kingdom have improved dramatically since 1993. In that year the general government deficit peaked at around 8 % of GDP. Action was then taken to consolidate the public finances in the form of direct and indirect tax increases and tight restraint on government expenditure both current and capital. As a result of those measures, the deficit fell to 2 % of GDP in 1997. The present government, when it came to power in 1997, took measures to consolidate the finances further. It introduced further tax measures, continued the policy of over-indexing some excise duties and maintained, temporarily, the expenditure ceiling set by the previous government.

As a result of the budget measures taken and strong growth in those sectors of the economy that yield relatively large amounts of tax (e.g. household expenditure), the government deficit has continued to fall. A third factor has helped — consolidation has brought down gross debt relative to GDP and consequently the ratio of interest payments to GDP. The government finances are now in surplus. In 1999 this was 1.2 % of GDP, well up from the 0.3 % surplus of 1998. This is appreciably higher than expected for 1999–2000 by the authorities and has resulted from better than expected economic growth in 1999 and higher tax revenues after allowing for growth. Further, expenditure plans have been rigorously adhered to. These public expenditure plans now allow for real growth on planned expenditure at around trend growth of GDP — put at 2.25 % a year for the public finance projections. These public expenditure plans are now framed over a three-year horizon starting in 1999–2000.

Gross debt is estimated to have fallen to 46 % of GDP at the end of 1999. The economy is now estimated to be operating around productive potential. The 1.2 % surplus for 1999 is therefore close to the cyclically adjusted surplus, estimated to be 1.4 % of GDP.

For 2000, strong economic growth is expected and revenues should benefit from this though there may be some slowing down of growth of corporation tax receipts. However, this year's budget was moderately expansionary, largely due to a boost in health expenditure, and the surplus is expected to fall to 0.9 % of GDP. In cyclically adjusted terms the surplus would be 0.7 %.

As consolidation has occurred, current receipts as a share of GDP have risen, but remain well below the EU average at close to 40 % of GDP. Current expenditure has fallen and, again, remains well below the EU average. Public sector capital expenditure, in net terms after depreciation, has fallen to very low levels over the past several years amounting to little over 1/2 % of GDP but is planned to rise greatly over the next two years.

Medium-term budgetary strategy and policy initiatives

The government's fiscal strategy forms part of an overarching framework intended to redress the many years of relative cyclical volatility that the United Kingdom economy has experienced. Accordingly on coming to power in 1997, it set out two fiscal rules to which the public finances were to conform. They are the golden rule by which, over the economic cycle, the government will borrow only to invest and not to fund current spending; and the sustainable investment rule where public sector net debt, as a proportion of GDP, will be held over the economic cycle at a stable and prudent level. Consistent with these rules, over the short term, fiscal policy is intended to support monetary policy by letting the automatic stabilisers play their part and, where prudent, provide further support to monetary policy through changes in the fiscal stance.

The fiscal policy framework itself is based on the five principles of transparency, stability, responsibility, fairness (including between generations) and efficiency

Table 40

Composition and balances of general government, United Kingdom (*)

(% of GDP)

	1998	1999	2000	2001
Government balance	0.3	1.2	0.9	0.7
Total receipts	40.8	40.7	40.2	40.0
Of which: — taxes	30.0	30.2	29.9	29.8
— social contributions	7.7	7.6	7.5	7.5
Total expenditure	40.5	39.5	39.3	39.3
Of which: — collective consumption	7.5	7.5	7.4	7.5
— social transfers	24.5	24.2	24.0	24.2
— interest expenditure	3.6	2.9	3.0	2.7
— gross fixed capital formation	1.3	1.2	1.4	1.6
Primary balance	3.9	4.1	3.9	3.5
Pm Tax burden	37.9	38.0	37.7	37.4
Government debt	48.4	46.0	42.4	39.4
Pm Cyclically adjusted balance	0.2	1.4	0.7	0.3
Pm Cyclically adjusted primary balance	3.8	4.3	3.7	3.1

(*) Spring 2000 economic forecasts.

Source: Commission services.

called the Code for Fiscal Stability, introduced in 1998, into which the two fiscal rules have been incorporated. More generally, the whole approach to projecting and monitoring public sector finances is one of caution where prudent assumptions are adopted to project the public finance outlook and so frame budgetary decisions; for example, in the medium term, GDP is projected to have a trend growth of just 2.25 % whereas the central estimate is 2.5 %. Expenditure plans for departments are covered by the comprehensive spending review; this allows departments the flexibility of allocating expenditure between years and at the same time gives a surer outlook to expenditure over the medium term. As mentioned above, planned expenditure is estimated to grow at around trend GDP growth to 2001–02, save for a budgetary boost to health expenditure, thus locking the consolidation that has been achieved on the expenditure side.

The government presented medium-term projections of the public finances in its 1999 convergence programme. However, these have now been superseded by the 2000 budget announced on 21 March 2000. These show surpluses of 0.6 % of GDP in 2000–01 and 0.3 % in 2001–02 but then the finances move into deficit that, on the basis of current policies, rises to 1.2 % of GDP in 2004–05. However, the budget on current account remains in strong surplus so the government continues to meet its own fiscal rules.

Looking towards the longer term, the government has made some illustrative projections of the public finances over the next 30 years, to 2028–29, based on unchanged policies and demographic projections. While the government stresses caution with respect to such projections, they show that government current consumption can grow at around $2\frac{1}{2}$% a year in real terms and still the fiscal rules will be respected. The reason for this long-term sustainability in the public finances is because social security benefits will fall relative to GDP. This results from the fact that most such benefits are indexed by prices (not wage earnings). They remain constant in terms of purchasing power but fall relative to GDP. This trend is augmented by a falling ratio of interest payments to GDP in its beneficial effect on the public finances. In summary, ageing, on the basis of these projections, is not a problem for the public finances in the long term.

The government has, since 1997, chosen to use specific fiscal measures to address economic and socioeconomic shortcomings of the UK under some broad theme headings while, at the same time, adhering to the fiscal rules. These themes include raising productivity, delivering fairness for families and communities and protecting the environment. One of the most important themes has been to increase employment opportunity for all, despite the UK having a lower than average unemployment rate and higher than average employment and participation rates

compared with other Member States. Despite relatively low unemployment the UK still has some disturbing features — a high proportion of workless households for example, so unemployment is concentrated. The government is using tax and expenditure measures to redress such features.

The first main strand to this policy is 'Welfare to work' which is meant to increase employment opportunities — the 'New deal'. This is aimed at specific groups such as unemployed youth and the long-term unemployed adult. It includes a wide range of measures to help secure work for such groups such as job search, career advice and guidance. For those who do not find unsubsidised employment there are options of subsidised employment, full-time education and training, work on an environmental task force or with the voluntary sector. This is intended to improve job prospects. However, this new deal also contains initiatives to create employment opportunities for older people (50+), lone parents, disabled people and partners of the unemployed. The 'Welfare to work' programme is estimated to cost around GBP 4 500 million over the period 1997–98 to 2001–02. However, it has been funded completely by a one-off windfall tax, in 1997–98 and 1998–99, on the excess profits of the privatised utilities.

The second strand is entitled 'Making work pay'. This is meant to increase the attractiveness of work by improving the financial incentives to work. There are several measures that the government has introduced, largely on the taxation side. It has introduced a new, lower, rate of tax of 10 % and lowered the basic rate to 22 % from 23 %. It has raised the starting-point for employee national insurance contributions. It has introduced a working families tax credit, payable through the pay packet. This, for example, raises the minimum take-home income for a family with someone in full-time work to GBP 200 a week. The effect of this, in conjunction with other policies, is to reduce by half a million the number of families who face marginal deduction rates, on their incomes, of 70 % or more — thus reducing the poverty trap for low-earning families.

Part VI

Resource section

1. Cyclically adjusted budget balances — the Commission's method

The cyclically adjustment method used by the Commission's Economic and Financial Affairs DG is a simple and transparent method which provides a uniform framework for the calculation of cyclically adjusted budget balances for each Member State of the European Union. As the adjusted balance estimates are calculated mechanically, they do not require judgmental fine-tuning and can therefore be easily replicated. The Economic and Financial Affairs DG method involves three main steps. In the first step, the output gap is computed as the difference between actual output and an estimated output trend. In the second step, the budget sensitivity to the output gap is computed. This allows the computation of the cyclical component of the budget. Finally, the cyclically adjusted budget balance is obtained by deducting the cyclical component from the actual government budget balance.

First step: estimating trend GDP and output gaps

To obtain estimates for the output trend, the Economic and Financial Affairs DG cyclical adjustment method applies the Hodrick-Prescott (HP) filter to the actual output series. The HP filter minimises the sum of squared deviations of actual output around its trend subject to a constraint on the variation of the growth rate of trend output. The filter applies weighted moving averages to the actual output series to obtain trend GDP estimates.

The HP filter calculates the trend as the solution to the following minimisation problem:

$$(1) \quad \underset{\{y_t^T\}}{Min} \sum_{t=1}^{T} \left[(y_t - y_t^T)^2 + \lambda [(y_{t+1}^T - y_t^T) - (y_t^T - y_{t-1}^T)]^2 \right]$$

where the trend values y_t^T are chosen for each period such as to minimise (1) for a given value of the smoothing parameter λ. The second part of the expression in square brackets determines the smoothness of the resulting trend component which depends on the value of λ. The minimisation problem yields smoother trends as λ increases. For $\lambda \rightarrow \infty$ a linear trend would result. For $\lambda = 0$, the trend line would coincide with the actual series. There is no commonly agreed value for the smoothness parameter. A lower limit for λ is usually 10, which implies that only cycles up to eight years would be retained fully in the cyclical component. The Commission services set a value for λ equal to 100 which is the 'industry standard'. This choice implies that cycles up to 15 years are passed and only cycles with a period larger than 20 years are fully eliminated. However, the HP filter — as all moving-average-based methods — is sensitive to the lack of information at the extremes of the series to be analysed. When the extremes of the series are approached, the filter becomes asymmetric as no observations are available at one side of the reference year. This is the so-called 'end-point bias' ([1]). Thus the HP filter underestimates the length of the cycle close to the end point, if no corrective measures are taken. Since this phenomenon especially occurs for the last three or four observations, one possibility to correct for this bias is to extend the data set by adding GDP forecasts over a range of three to five years.

The Economic and Financial Affairs DG tackles the end-point bias problem by adding GDP forecasts and mechanical time series projections of GDP. This ensures a symmetric filtering of the trend at the end of the series. This solution is consistent with the overall methodological approach followed by the Economic and Financial Affairs DG as this univariate statistical procedure is mechanical, simple, can be easily reproduced and is applied with minimal judgmental intervention.

The output gap is calculated as the difference between the actual level of GDP in volume and that of trend GDP, expressed as a percentage of trend GDP.

([1]) Baxter and King (1995) show that close to the end points the HP filter has a tendency to already dampen the influence of cycles with a period larger than four years.

Second step: estimation of revenue and expenditure sensitivities

In order to estimate the cyclical component of the budget, the value of the budget sensitivity of revenue and expenditure to the output gap is required. The sensitivity of tax revenue is obtained by multiplying the output gap with the marginal change of receipts with respect to GDP. The overall revenue elasticity is a weighted average of four revenue elasticities (personal income taxes, corporate taxes, social security contributions and indirect taxes), whereby the different components are weighted by the relative share of each category in total revenue over the period from 1980 to 1998. Elasticities for these specific tax categories, and also government unemployment expenditures, are those calculated and recently updated in OECD (1999a). A similar approach is followed in the case of government expenditure. Government transfers to households to cover costs related to unemployment are the only expenditure category which is assumed to react 'automatically' to cyclical fluctuations.

The total budget sensitivity to the output gap, which is given by the sum of the revenue and expenditure sensitivities, is around 0.5 in the euro area and the EU as a whole (Table 41). This implies that if the output gap changes by 1 % point, the budget balance changes by 0.5 % of GDP. As shown in the table, the major determinant of the size of the budget sensitivity is the overall size of the government sector in the economy (which is around 50 % of GDP in the EU). The revenue sensitivity is more important than the expenditure sensitivity because most tax revenue fluctuates with growth while only unemployment expenditure, which forms only a small part of overall government expenditures, is assumed to respond to cyclical fluctuations. This implies that in this approach, automatic stabilisers predominantly work on the revenue side.

Third step: calculation of cyclically adjusted budget balances

The application of the marginal sensitivity of revenue and expenditure (ε_{rev} and ε_{exp}, respectively) to the output gap (*OG*) allows for the determination of the cyclical component of the budget balance (*cc*). The cyclically adjusted budget balance is obtained by subtracting the cyclical component from the actual budget balance (*def*):

$$(2) \quad CAB_t = def_t - cc_t = def_t - (\varepsilon_{rev} + \varepsilon_{exp})*OG_t$$

In view of the simplifying assumption and usual estimation problems, the method produces only an approximate decomposition of the budget balance into a cyclical component and a structural component. Its results must therefore be interpreted with the necessary caution.

Table 41

Budget sensitivities used by the Commission services

	Budget revenue sensitivity to the output gap	Budget expenditure sensitivity to the output gap	Total budget sensitivity to the output gap
B	0.5	0.2	0.7
D	0.4	0.0	0.5
E	0.3	0.0	0.4
F	0.3	0.1	0.4
IRL	0.3	0.1	0.4
I	0.4	0.0	0.4
NL	0.4	0.4	0.8
A	0.3	0.0	0.3
P	0.3	0.1	0.3
FIN	0.5	0.2	0.7
EUR-11	0.4	0.1	0.5
DK	0.5	0.3	0.9
EL	0.3	0.0	0.3
S	0.5	0.3	0.8
UK	0.4	0.1	0.5
EU-15	0.4	0.1	0.5

Source: Commission services.

2. The move to ESA95

In 1999, a revised version of the European system of integrated economic accounts, the ESA95 economic accounts, was introduced in the EU. This is an important step forward, as full sets of government accounts compiled under the same methodology will now be available on a cross-country basis. The introduction of ESA95 also implies that the methodological framework for fiscal surveillance has changed. Up to the end of 1999, budgetary figures reported under the excessive deficit procedure and the Stability and Growth Pact have been reported under the previous ESA version, ESA79. However, as from 2000, reported budget figures will now be on an ESA95 basis instead.

A number of factors explain why ESA95 budget balances may be somewhat different from the corresponding ESA79 figures. First and foremost, ESA95 applies a 'full accruals' principle to the time of recording, implying that transactions are recorded when the underlying economic event takes place rather than when the payment is made (cash-based time of recording principle). This is particularly important for the recording of interest payments. Secondly, the sector classification criterion placing units inside or outside the general government has been changed somewhat. This implies that some units that before were considered to be inside the general government are now classified outside and vice versa. Furthermore, apart from methodological differences, historical figures may also be revised because, with implementation of ESA95, raw data sources and compilation methods have generally been improved. Of course, the size of revisions varies among countries and depends on the methods previously used.

Table 42 indicates the magnitude of any ESA95/ESA79 differences in Member States' deficits over the period 1997–99 measured in percentage points of GDP. The figures are based on information in the updated stability and convergence programme where budget figures on both accounting standards were provided (these are marked by * in the table). In other cases, information from the Commission services' autumn 1999 forecast has been used instead as, in that exercise, budget figures on both accounting bases were calculated. As shown in the table, differences are relatively minor and do not generally change qualitative judgments. However, for specific years larger differences occasionally occur which are generally due to one-off factors.

It should be noted that the government gross debt concept retained in the excessive deficit procedure is in principle defined outside the ESA as the aggregation of the nominal values of a number of financial debt instruments (defined in Council Regulation 3605/93 on the excessive deficit procedure as amended by Council Regulation 475/2000). Thus, while the Maastricht gross debt will not be widely affected by the changeover, the gross debt/GDP ratio will, however, be slightly affected as ESA95 nominal GDP levels are generally higher than the corresponding ESA79 levels (this is because GDP coverage has increased). This will accordingly contribute to reducing the debt ratios. However, the path of the debt ratio will not be affected (this is of course also true for the deficit to GDP ratios but the impact here is more marginal as deficits are much smaller than debts).

Table 42

Difference between ESA95 and ESA79 budget balance ([1])

(% of GDP) ([2])

	1997	1998	1999
B	+ 0.2(*)	+ 0.1(*)	– 0.1(*)
D	– 0.1(*)	– 0.3(*)	– 0.3
E	+ 0.7	+ 0.6	+ 0.1
F	+ 0.0(*)	– 0.2(*)	+ 0.1(*)
IRL	+ 0.3(*)	+ 0.3(*)	+ 0.3(*)
I	+ 0.2	0.0	– 0.5
NL	+ 0.2	+ 0.1(*)	+ 0.1(*)
A	+ 0.0(*)	+ 0.3(*)	+ 0.2
P	+ 0.1(*)	– 0.1(*)	+ 0.1(*)
FIN	+ 0.4	– 0.5	– 0.4
DK	+ 0.3	+ 0.1(*)	+ 0.2(*)
EL	0.0	0.0	0.0
S	+ 1.3	– 1.0(*)	– 0.4(*)
UK	+ 0.1	+ 0.4(*)	+ 0.2(*)

(*) Information from the updated stability and convergence programmes. Other figures from Commission autumn 1999 forecast.
([1]) A positive sign implies that the ESA95 budget balance is worse than the corresponding ESA79 figure, that is, that the ESA95 deficit is higher or a surplus smaller.
([2]) ESA79 GDP and ESA95 GDP respectively.

Source: Commission services.

3. Council opinions on updated stability and convergence programmes

Council opinion on the updated stability programme of **Belgium** for the period 2000 to 2003 ([1])

On 28 February 2000 the Council examined the 1999 update of the stability programme of Belgium which covers the period 2000 to 2003. The Council notes with satisfaction that the general government deficit for 1998 was substantially lower than that estimated in the initial stability programme and that budgetary adjustment continued in 1999 despite a slowdown in economic activity and extra expenditure related to unforeseen events; the debt ratio was reduced by 6.3 percentage points during the last two years to an estimated 114.9 % of gross domestic product (GDP) at the end of 1999. The Council considers that the updated programme is consistent with the broad economic policy guidelines.

The budgetary projections of the updated stability programme are based on a prudent macroeconomic scenario assuming real GDP growth of 2.5 % per year for 2000 and 2001 and a trend GDP growth rate of 2.3 % for the following years. The Council considers that the GDP growth projections of the updated programme are likely to correspond to the lower limit of a range of probable macroeconomic projections; as a consequence, the Council expects that, in the event of stronger growth, the budgetary outcomes will be better than projected in the updated programme, particularly in 2000.

The Council notes the intention of the Belgian government to advance, compared with the initial programme, the target of balanced government accounts to 2002, and to achieve a budget surplus in 2003; it commends the commitment of the Belgian authorities to seek better budgetary results in 2000 than those projected in the updated programme. Such a development would facilitate achieving a debt ratio close to 100 % of GDP in 2003, as projected in the programme. The Council considers that the underlying budgetary position of the general government since 1999 provides a safety margin against breaching the 3 % of GDP deficit threshold in normal circumstances, thus fulfilling the Stability and Growth Pact requirements; however, the Council takes the view that the improvement of the fiscal position envisaged in the programme is necessary in order to allow a steady decline of the still high debt ratio and to create room for the announced reform of income taxation.

The Council welcomes the renewed commitment in the 1999 update to maintain high primary surpluses as a central element of the fiscal consolidation strategy in Belgium; this strategy has proved its crucial role in advancing budgetary adjustments in the recent past and is considered essential in consolidating progress made in this area and ensuring a continued reduction of the debt ratio. The Council considers that a growth in primary expenditure of 1.5 % per year, in real terms, is appropriate in order to achieve the targeted primary surplus and encourages the Belgian government to implement it with rigour.

The Council notes that a key objective of the updated programme is to achieve a substantial increase in the employment rate in Belgium and to enhance economic efficiency by means of a package of reforms and policy measures; in this context, the Council welcomes the decision of the government to strengthen the effort towards reducing the overall tax burden, in particular on labour. In the vein of its opinion on the initial stability programme ([2]), the Council encourages the Belgian government, within the expenditure limits fixed by the programme, to give priority to government investment in order to improve infrastructure and the productive potential of the economy; it invites the government to provide, in future updates of its stability programme, projections on main categories of government expenditure, notably government investment.

([1]) OJ C 98, 6.4.2000, p. 3.

([2]) OJ C 124, 5.5.1999, p. 4.

The Council welcomes the cooperation agreement under which budgetary objectives, within a medium-term time horizon, will be fixed for all levels of government in Belgium as an important element enhancing transparency and credibility of the updated stability programme.

Council Opinion on the updated convergence programme of **Denmark** for the period 1999 to 2005 ([1])

On 28 February 2000 the Council examined Denmark's updated convergence programme, which covers the period 1999 to 2005. The updated convergence programme envisages budgetary surpluses of above 2 % of GDP over the entire programme period and projects the gross debt to be further reduced to 36 % of GDP in 2005.

The updated programme is based upon a macroeconomic scenario which assumes that, following a slowdown in 1999 to 2000, the Danish economy will grow at an average rate of about 2 % per year between 2001 and 2005. The Council notes that, while such a growth scenario appears realistic, it is based on an ambitious target for employment growth while the assumed gains in labour productivity seem moderate. Moderate productivity increases as assumed in the programme combined with relatively high wage rises could lead to a further erosion of cost competitiveness of Denmark vis-à-vis its trading partners, in particular in the euro area, on top of those experienced already in the recent past.

Despite a considerable increase in consumer prices in the course of 1999, due mainly to strong wage increases and a rise in energy taxes, Denmark continued to fulfil the convergence criterion on inflation. The updated convergence programme notes, however, that there is a risk that inflation temporarily exceeds the reference value by a small margin in the first half of 2000. Although inflationary pressures should ease in the course of 2000 as the slowdown in domestic demand feeds through, the Council encourages the Danish government to monitor inflation closely and reiterates its recommendation to take further action if needed ([2]). Moderate wage developments are of utmost importance in this regard and this year's wage negotiations at company level might prove challenging.

The Council notes with satisfaction that Denmark continues to fulfil the convergence criterion on the long-term interest rate and that the exchange rate has been stable vis-à-vis the euro. This indicates that Denmark's participation in the ERM II has further strengthened the credibility of its monetary policy.

The Council welcomes the Danish government's strategy of continued budgetary surpluses of above 2 % of GDP over the entire programme period. Denmark should thus — with a comfortable margin — continue to fulfil the requirement of the Stability and Growth Pact of a government position of 'close to balance or in surplus'. In view of the healthy situation of Danish government finances the Council also welcomes the lower weight of public finances in the economy in the forthcoming years as this would increase economic incentives and contribute to a more favourable medium-term outlook for growth and employment.

The Council notes that the government gross debt ratio in Denmark is expected to be further reduced over the programme period and considers this priority commendable in facing the future budgetary challenges arising from the ageing population.

The Council encourages the Danish authorities to keep up the momentum with their comprehensive structural reforms. In particular, the recent reforms regarding the tax system and the labour market, which are in line with the broad economic policy guidelines, are essential stepping stones in the achievement of the policy aims of the updated convergence programme. However, given that Denmark is currently experiencing its lowest level of unemployment since the 1970s, the reforms already undertaken in the labour market may need to be complemented by further measures to reach the ambitious target on employment growth set in the programme. Finally, in view of the future budgetary challenges deriving from the ageing population in Denmark, further structural labour market reforms may prove necessary in the medium term to keep public finances on a sustainable path.

Council opinion on the updated stability programme of **Germany** for the period 1999 to 2003 ([3])

On 28 February 2000 the Council examined the updated stability programme of Germany which covers the period 1999 to 2003. The Council notes with satisfaction that the deficit outcomes both for 1998 and 1999 were clearly better than expected in the initial programme. This

([1]) OJ C 98, 6.4.2000, p. 6.
([2]) OJ C 3, 6.1.1999, p. 1.
([3]) OJ C 98, 6.4.2000, p. 1.

achievement in conditions of lower than expected economic growth has significantly advanced the objective of attaining a medium-term budgetary position of close to balance or in surplus, as required by the Stability and Growth Pact. The Council notes, however, that the better results in 1998 were almost exclusively due to the difficult-to-predict development of regional and local government finances. These developments, therefore, tend to underline the importance of an efficient cooperation on government finances at national level to facilitate the planning and monitoring of the budgetary consolidation process.

The Council notes that the information provided in the updated stability programme, as was the case for the previous programme, does not in all respects comply with the code of conduct on the content and format of stability and convergence programmes. In particular, the programme lacks detailed information on the components of government revenue and expenditure and on the factors determining the debt ratio. The Council, therefore, repeats the request made in its opinion on the previous stability programme ([1]) that the German authorities provide this additional information, at the latest, in the next update of the stability programme.

The macroeconomic scenario of the updated programme ([2]) assumes that the German economy will enjoy average annual growth of some 2.5 % over the programme period. The Council considers this scenario realistic, provided that wage moderation and structural reforms on product and labour markets continue.

The updated programme foresees a decline in the general government deficit to 0.5 % of GDP by 2003, while the gross debt ratio is expected to decrease to 58.5 % of GDP over the same period. The Council considers it appropriate that the budgetary consolidation envisaged in the programme is achieved by a decrease in the expenditure ratio which is only partially offset by a decline in the revenue ratio. The Council commends, in particular, the envisaged approach of controlling government expenditure by limiting its overall nominal increase to less than the expected nominal GDP growth. The Council recognises that the planned expenditure savings will create some room for tax relief in the framework of the reforms of income and corporate taxation which are welcome as they will lead to a desirable reduction in the high overall tax burden in Germany. The Council recommends, however, that the reforms be implemented with greatest caution so as to minimise the risk of a lasting deterioration of the structural government deficit.

([1]) OJ C 124, 5.5.1999, p. 3.

([2]) In its revised version as of 1 February 2000, i.e. including the addendum to the updated stability programme.

The Council considers that the envisaged medium-term deficit objective of 0.5 % of GDP in 2003 is in conformity with the provisions of the Stability and Growth Pact, as is the objective for 2002. Moreover, Germany’s budget balance will remain close to the minimum benchmark position, which allows the automatic stabilisers to work without risk of the deficit breaching the 3 % of GDP reference value, already from 1999 on. The Council recommends, however, that in the event of higher growth than expected the fiscal gains be used to reduce the deficit below the targeted level with a view to widening the safety margin and creating additional room for the desirable further tax reductions planned beyond the programme’s horizon. Furthermore, available privatisation opportunities should be used at all levels of government in order to make sure that the debt ratio is firmly kept on a downward trend.

The Council notes that, despite the programme’s intentions of a restructuring of the budget in favour of government investment, the federal government plans to reduce investment spending in nominal terms from its current level. The Council reiterates its recommendation that the German government review its investment plans without, however, jeopardising the budgetary targets of the programme.

The Council welcomes the reform measures announced in the programme, in particular in the domains of the pension and health systems and in public administration, which are key to sustainable public finances and employment growth. A determined implementation of the reforms, in combination with measures aimed at increasing the flexibility of product and labour markets, as recommended by the broad economic policy guidelines and envisaged in the German structural progress report for the Cardiff process, would be conducive to the achievement of the objectives of the stability programme.

Council opinion on the updated convergence programme of **Greece**, for the period 1999 to 2002 ([3])

On 31 January 2000 the Council examined the 1999 update of the convergence programme of Greece which

([3]) OJ C 60, 2.3.2000, p. 4.

covers the period 1999 to 2002. The Council notes that the 1999 update maintains as a central objective the compliance with the convergence criteria which will allow Greece to participate in monetary union from January 2001. The budgetary and structural policies outlined in the programme are in compliance with the 1999 broad economic policy guidelines.

The Council notes with satisfaction the significant improvement in public finances in recent years. Developments over the past year indicate that the budgetary target set in the 1998 convergence programme has been met: the general government deficit is estimated at 1.5 % at the end of 1999, 0.6 % of GDP lower than projected in the 1998 programme; the debt ratio was reduced by 1.2 percentage points to 104.2 % of GDP.

The updated programme is based on macroeconomic projections showing strong investment-led growth and medium-term price stability. The 1999 update, building on the budgetary consolidation achieved so far and on good prospects for GDP growth, is projecting the general government deficit to turn to a surplus of 0.2 % of GDP in 2002. The debt ratio is projected to fall to 98.0 % of GDP in 2002. The Council considers that the underlying budgetary position of the general government provides an adequate safety margin in the course of the programme to prevent the deficit from breaching the 3 % of GDP threshold in normal circumstances. In this sense, the updated convergence programme complies with the requirements of the Stability and Growth Pact.

Considerable progress has been made over the past year in reducing price inflation; the deflator of private consumption exceeded marginally the projection of the 1998 programme in 1998, while no deviation is estimated for 1999 from the projected average rate of increase of 2.5 %. However, the increase in oil prices is slowing down the process of disinflation at present.

The Council considers that within the high growth environment projected in the convergence programme, particular effort must be made by Greece to ensure that the progress made towards disinflation acquires a lasting character; such an effort seems to be all the more necessary in view of the convergence of monetary conditions in Greece to those prevailing in the euro zone and the potential implications of such a development on demand and prices; in this context, the Council welcomes the revaluation of the central rate of the Greek drachma as from 17 January 2000 which will support the authorities in their efforts to reduce inflation further in Greece. The Council invites the Greek government to reinforce the anti-inflationary stance of the policy instruments at its disposal, including budgetary and incomes policies; the wage agreements in 2000 in both public and private sectors and the cooperation of all social partners are essential to secure an environment of low inflation. As regards budgetary policy, the budgetary targets set in the programme are considered by the Council as a minimum and the Greek authorities are invited to do their best to achieve better outcomes than planned; in addition, the Council considers that the Greek authorities must be ready to tighten fiscal policy further from 2001 if inflation pressures emerge.

The Council acknowledges that considerable progress has been made recently in Greece in introducing structural reforms, namely in the functioning of the wider public sector; it invites the Greek government to continue decisively in this direction by accelerating the pace of the necessary reforms with a view to enhancing competitive conditions and the good operation of labour, goods and capital markets. Such reforms are necessary both in order to enhance the productive potential of the economy and to reduce inflationary pressures.

Council opinion on the updated stability programme of **France** for the period 2000 to 2003 [1]

On 13 March 2000, the Council examined the update of the stability programme of France, which covers the period up to 2003. From a formal point of view, the Council notes that the French authorities presented the *Programme pluriannuel de finances publics, 2001–03,* as the update of its stability programme, but regrets, particularly in view of the Council's declaration of 15 March 1999, that such a programme does not publicly and specifically identify itself as a stability programme and calls on France to entitle its document 'stability programme'.

The Council notes with satisfaction that the French general government deficit for 1999 was lower than projected in the initial stability programme. This outcome was mainly the result of buoyant tax revenue. However, the Council also notes that the norms for the evolution of government expenditure in real terms, which had been established in the initial programme, have not been fully met. This was partially the result of lower than estimated

(1) OJ C 111, 18.4.2000, p. 1.

prices, but also of higher than projected expenditure, at current prices, in the health insurance and local authorities' sectors.

The updated stability programme assumes a real GDP growth of at least 3 % in 2000. For the period 2001 to 2003, macroeconomic projections are presented for two scenarios (cautious and favourable), according to which growth is expected to be within the band 2.5 % to 3 %. The Council notes that the lower end of the range presents a GDP projection close to growth potential; however, it considers that given the latest developments and short-term perspectives, the higher growth scenario may be seen as a realistic basis for economic policy.

In line with its opinion ([1]) on the initial stability programme, the Council considers as appropriate the budgetary strategy based on control of expenditure in real terms allowing a reduction of government expenditure relative to GDP; in particular this approach addresses the problem of relatively high government expenditure in France and the impact it may have on economic efficiency. However, practical management of such a strategy may become difficult in circumstances of price developments below expectations or if expenditure targets are overshot in specific sectors, as was the case in 1999. The Council considers that the effectiveness of the strategy of the programme is highly dependent on prompt corrective measures in the event of any significant slippage from targets in specific sectors. The Council recommends that, whenever possible, such corrective measures should be implemented within the same year, or at the latest in the following year.

The Council notes that the French economy is currently in a favourable cyclical position. The Council also notes that the programme update already includes a tax reduction programme. The Council considers that in case of a wider budgetary room for manœuvre, either as a result of higher growth or for other reasons, including a 1999 deficit ratio lower than the estimate of 2.1 % of GDP mentioned in the programme, the opportunity should be taken to reduce the deficit more quickly. This would allow government accounts to be in balance in 2003 and the fulfilment of the Stability and Growth Pact maybe even this year, or in 2001 with a more comfortable margin.

The Council considers that the underlying budgetary position which corresponds to the targeted deficit ratios from 2001 would provide a sufficient safety margin to prevent the deficit from breaching the 3 % of GDP threshold under normal cyclical conditions; the medium-term target for the government finances of the updated stability programme is therefore in conformity with the provisions of the Stability and Growth Pact. Furthermore, the Council considers that the updated stability programme is consistent with the broad economic policy guidelines.

([1]) OJ C 124, 5.5.1999, p. 2.

Council opinion on the updated stability programme of **Spain** for the period 1999 to 2003 ([2])

On 28 February 2000 the Council examined Spain's updated stability programme which covers the 1999 to 2003 period. The Council notes with satisfaction that the programme reaffirms the strategy adopted in the 1998 stability programme: promoting healthy economic growth through fiscal consolidation and structural reforms. The programme's objectives are to turn the estimated 1999 general government deficit of 1.3 % of GDP into a surplus of 0.2 % of GDP in 2003, while the gross debt ratio will decrease to 55.8 % of GDP. Moreover, the programme builds on the continuation of the budgetary consolidation based on expenditure containment.

The Council welcomes the record of implementation of the 1998 stability programme, where GDP has grown briskly along with strong job creation. As regards public finances, general government balance and debt targets seem to have been exceeded. However, price developments since the second half of 1999 have been worse than expected.

The macroeconomic scenario in the updated programme assumes output growth to decelerate from its present high rate (3.7 % in 1999) towards close to trend over the period 2000 to 2003 (3.3 % on average). The Council notes that this macroeconomic scenario appears realistic. Following its opinion on the initial stability programme ([3]) the Council considers that a continuation of the strategy adopted, based on structural reforms along with the stable monetary framework under EMU and sound budgetary consolidation, should allow the Spanish economy to develop in line with the medium-term macroeconomic scenario.

The Council notes with satisfaction that the update continues with the budgetary strategy, which relies on the

([2]) OJ C 98, 6.4.2000, p. 4.
([3]) OJ C 124, 5.5.1999, p. 1.

restraint of primary current expenditure, and allows for a reinforcement of government investment and for a reduction in tax burden. As the reduction of the government deficit is based on the expenditure side, the implementation of the still-pending reform of the national budget law to reinforce the control of public spending would be welcome.

The underlying budgetary position corresponding to the targeted surplus of 0.1 % of GDP in 2002 would provide a sufficient safety margin to prevent the deficit from breaching the 3 % of GDP threshold during a normal cyclical downturn and would also allow for an additional margin in case of unforeseen developments; the safety margin will increase further in 2003. The Council therefore considers that the medium-term budgetary target of the updated stability programme is in conformity with the provisions of the Stability and Growth Pact. The Council considers the envisaged widening of the safety margin is justified in order to cope with the budgetary consequences of ageing. In this respect, the Council welcomes the commitment made to increase further the social security reserve fund created in 2000.

The Council notes with satisfaction that the budgetary adjustment is to be shared by all sub-sectors of government, in particular the fact that the territorial governments, in the framework of the existing internal stability pact, are targeted to be in balance from 2001 on. The Council stresses that the increasing role of territorial governments in various categories of expenditure requires the continued functioning of the present intergovernmental coordination mechanisms.

In the light of recent developments on prices, the Council considers essential that wage developments in Spain must continue to be geared towards price stability. Additionally, the Council considers that fiscal policy should be ready to tighten further to counteract any possible overheating risk.

The Council considers that the programme is consistent with the broad economic policy guidelines. The Council notes with approval that the update acknowledges the increasing role of structural policies and fiscal consolidation in the EMU. Structural reforms have indeed played an important role in increasing the potential output of the Spanish economy, keeping a positive growth differential with respect to the EU area along with strong job creation. The Council, therefore, encourages the Spanish government to continue implementing the pending structural reforms.

Council opinion on the updated stability programme of **Ireland** for the period 2000 to 2002 [1]

On 31 January 2000, the Council examined Ireland's updated stability programme, which covers the period 2000 to 2002 [2]. The Council welcomes the record of implementation of the programme in 1999. The Irish economy continued to expand rapidly, with real GDP rising by 8.4 % and employment increasing by about 4.75 %. In the context of this very favourable economic performance, the projections made for the improvement in the budgetary situation were exceeded by a significant margin. The Council notes with satisfaction that the Irish general government balance remained in substantial surplus in 1999 and that there was another sharp decline in the government debt/GDP ratio.

Ireland already fulfilled its obligations under the Stability and Growth Pact in 1999. This will continue to be the case in the period 2000 to 2002. The Council notes that the projected surplus on the general government balance, even after taking account of significant pre-funding of State pension liabilities, is clearly sufficient in each year to provide a safety margin against breaching the 3 % of GDP reference value of the Treaty in the event of normal cyclical fluctuations. The Council notes also that the government debt/GDP ratio will decline steadily over the programme period.

The Council considers the macroeconomic scenario presented in the updated stability programme to be realistic. However, the economy is now at an advanced stage of the cycle and there is a need to use available domestic policy instruments to address the risk of inflation pressures. In this context, the Council recalls the recommendations to Ireland provided in the 1999 broad economic policy guidelines and urges the national authorities to be ready to use budgetary policy to ensure economic stability. Given the extent of overheating in the economy, the Council considers such action to be warranted in implementing the budget for 2000 and in planning beyond, while acknowledging the supply-side objectives of Ireland's medium-term budgetary strategy.

The Council welcomes the fact that the updated programme addresses the issue of structural reforms. In par-

[1] OJ C 60, 2.3.2000, p. 2.
[2] The stability programme for Ireland 1999–2001 was the subject of a Council opinion of 18 January 1999 (OJ C 42, 17.2.1999, p. 4).

ticular, the publication of the National Development Plan 2000 to 2006 responds to the suggestion of the Council for a detailed plan to meet the physical and human capital needs of the still rapidly expanding economy, while taking account of an expected reduction in transfers from the Structural Funds.

Council opinion on the updated stability programme of **Italy** for the period 1999 to 2003 ([1])

On 28 February 2000 the Council examined Italy's updated stability programme, which covers the period 1999 to 2003. The Council notes with satisfaction that despite the cyclical slowdown, the initial programme's objective of a budget deficit of 2.0 % of GDP in 1999 appears to have been attained, as recommended in the broad economic policy guidelines. Lower than expected interest payments and higher than expected revenues, namely from improved tax collection, have contributed to this outcome. The decrease in the gross government debt/GDP ratio kept pace in 1999, as large privatisation receipts offset the negative impact of lower growth. The Council notes the confirmation of the objectives for the net borrowing of the general government in 2000 and 2001 (respectively, 1.5 % and 1.0 % of GDP). It welcomes the commitment to further budgetary consolidation, which would support a decline by over three percentage points per year in the debt/GDP ratio, to reach 100 % in 2003. The Council considers that the updated programme is consistent with the broad economic policy guidelines.

The macroeconomic projections in the updated stability programme assume a gradual acceleration in GDP growth, from an annual rate of 1.3 % in 1999 to nearly 3 % in 2002 to 2003. The Council notes that such an acceleration constitutes a realistic scenario and that the cyclical upswing in 2000 and 2001 could turn out stronger than assumed in the updated programme; on the other hand, the new assumptions on interest rates could be too optimistic in the light of recent developments in financial markets.

The Council notes the continuation of the budgetary strategy outlined in the initial programme, aiming at pursuing the stabilisation of public finances and promoting growth and an equitable distribution of income. The strategy is based on keeping the primary surplus at a high level and on reducing current expenditure as a percentage of GDP, in parallel with some easing of the still heavy tax burden and an expansion of public investment, particularly in the south. The Council notes that the deficit targets are maintained even though the primary surplus is now planned to stabilise at the level of 5 % of GDP lower than in the initial programme. The Council notes the commitment of the Italian authorities to reduce non-interest current expenditures as a percentage of GDP from 37.9 % of GDP in 1999 to 36.2 % of GDP in 2003.

The Council considers that the underlying budgetary position in 2000 should be sufficient to provide a safety margin against breaching the 3 % of GDP deficit threshold in normal cyclical fluctuations; the proposed path of budgetary consolidation would widen such a safety margin, implying that Italy would continue to satisfy the requirements of the Stability and Growth Pact up to 2003. However, the Council reaffirms that Italy must secure a steady decline in its still high government debt ratio, and it considers that the budgetary objectives in the updated programme should be fulfilled in order to respect the commitment on the part of the Italian government to reduce the debt/GDP ratio to below 100 % by 2003. Should growth turn out stronger than projected in the updated programme, the Council expects Italy to achieve better budgetary outcomes than planned and thus accelerate the reduction in the debt/GDP ratio towards the 60 % reference value.

Following its opinion ([2]) on the original stability programme, the Council urges the Italian government to address with determination the medium-term structural challenges to public finances from pension and other age-related budgetary expenditures. Recent government proposals to promote the expansion of funded pension provisions go in the right direction but would not eliminate the need to re-examine the parameters of the present system. A timely reassessment of the parameters of the pension system would allow the expected increase in the ratio of pension expenditures to GDP to be contained. The Council further encourages the Italian government to pursue with vigour its privatisation programme and to enhance the structural reforms of labour and product markets and of the public administration, which are all needed in order to foster competition and efficiency and revitalise the Italian economy.

([1]) OJ C 98, 6.4.2000, p. 2.

([2]) OJ C 68, 11.3.1999, p. 1.

Council opinion on the updated stability programme of **the Netherlands** for the period 1999 to 2002 [1]

On 31 January 2000 the Council examined the 1999 update of the stability programme of the Netherlands which covers the period 1999 to 2002. The Council notes with satisfaction that the Dutch general government deficit for 1998 and that estimated for 1999 are lower than those projected in the initial 1998 stability programme; in fact the budgetary outcome for 1999 is estimated to be in small surplus instead of a planned deficit of 1.3 % of GDP. The general government debt ratio was also lower than projected in both 1998 and 1999. Economic growth in 1999 also exceeded the projection of the initial programme. The Council considers that the updated programme is consistent with the broad economic policy guidelines.

The 1999 update maintains the approach of the initial 1998 stability programme identifying three macroeconomic scenarios as a basis for the fiscal projections to 2002; the update is based on actual forecasts for 2000 and uses the cautious scenario as the basic framework of assumptions for 2001 and 2002. Under this scenario annual growth would be 2.0 % in 2001/02 and the general government deficit would reach 1.1 % of GDP in 2002. The 1999 update also takes into account the fiscal reform to be implemented in 2001 the budgetary cost of which is estimated at about 0.6 % of GDP.

As in this opinion on the initial programme [2] the Council acknowledges that the adoption of the cautious macroeconomic scenario as basis for the fiscal strategy of the government was made on grounds of prudence; the Council notes, however, that recent economic developments render unlikely the average GDP growth rates underlying the budgetary projections of the cautious scenario. Moreover, recent economic forecasts of GDP growth for the Netherlands, including the Commission autumn 1999 forecasts, point to real GDP growth rates for 2001 being substantially higher than that assumed in the cautious scenario.

The Council considers that the Dutch method of using cautious growth assumptions and expenditure targeting and control has been instrumental in achieving the good results registered until now. However, this method also tends to make it more difficult to assess whether the medium-term outcome of the deficit is compatible with the requirements of the Stability and Growth Pact. Based on the information now available, the Council considers that the middle and favourable scenarios provide a range of more plausible macroeconomic assumptions and therefore a more relevant framework in assessing the public finance projections of the updated stability programme than the cautious scenario. The underlying budgetary position of the general government in 2002 would broadly provide an adequate safety margin to prevent the deficit from breaching the 3 % of GDP threshold in normal circumstances, thus fulfilling the Stability and Growth Pact requirements.

The Council notes that tax reductions in recent years have contributed to wage moderation and improvement in employment; in this context the Council welcomes the tax reform planned to be implemented in 2001 which aims at reducing the tax burden on earned income. Taking into account the government surplus already achieved in 1999, current strong economic growth and possible inflationary pressures, the Council recommends to the Dutch authorities to strengthen the envisaged budgetary position in 2000 and the following years, unless a significant deceleration in activity materialises. Such strengthening of the budgetary position would be fully consistent with the recommendations of the broad economic policy guidelines. The Council welcomes the intention of the Dutch government to submit future updates of its stability programme shortly after the presentation of its annual budget memorandum which will reflect the most recent forecasts for the economy.

Council opinion on the updated stability programme of **Luxembourg** for the period 1999 to 2003 [3]

On 13 March 2000 the Council examined the 1999 update of the stability programme of Luxembourg which covers the period 1999 to 2003. The Council notes with satisfaction that the situation of public finances improved further in the last two years and the budgetary targets set in the initial stability programme of Luxembourg have been exceeded. The general government surplus for 1999 is now estimated at 2.3 % of GDP compared with 1.2 % initially projected, while the general government gross debt was reduced further to about 4.3 %

(1) OJ C 60, 2.3.2000, p. 1.
(2) OJ C 3, 6.1.1999, p. 2.
(3) OJ C 111, 18.4.2000, p. 2.

of GDP. The Council considers that the updated stability programme is consistent with the broad economic policy guidelines.

The Council notes that continuing commitment to sound economic policies, in particular budgetary policies, enabled Luxembourg to achieve high GDP growth rates and created the conditions for improved growth prospects in the years ahead; real GDP growth is estimated to have reached 4.9 % in 1999, while forecasts for 2000 and 2001 point to growth rates clearly above 5 %.

The Council notes that the updated programme, based on better budgetary outcomes in the last two years and improved economic prospects, is projecting more ambitious budgetary outcomes than the initial programme; the general government surplus is projected to rise to 2.5 % of GDP in 2000 and to 3.1 % in 2003. The Council considers that the underlying financial position of the general government corresponding to the projected surpluses over the period of the programme to 2003 provides an adequate safety margin against breaching the 3 % of GDP deficit threshold, under normal circumstances.

The Council acknowledges that policies aimed at enhancing the capacity of a small open economy such as Luxembourg to face unfavourable external influences are appropriate; it commends in this regard the measures aimed at strengthening the reserve funds; it also commends building sufficient reserves in the area of pension provision and social security in general; it encourages the government to continue combining such prudential measures with policies and reforms aimed at enhancing the potential of the economy; it welcomes the increased resources allocated to government investment.

The Council notes the commitment, included in the initial stability programme, to limit the increase in central government expenditure. The Council acknowledges, that the public finance projections of the updated programme show a decline in total expenditure-to-GDP ratio by almost two percentage points at central government level, between 2000 and 2003, a development which would allow the reduction in the revenue-to-GDP ratio in the same period; it encourages the Luxembourg government to pursue these expenditure targets.

The Council encourages the government to be ready to tighten the stance of fiscal policy in the event of risks of inflationary pressure, notably in view of the current and prospective high rates of economic growth.

Council opinion on the updated convergence programme of **Austria** for the period 2000 to 2003 ([1])

On 8 May 2000 the Council examined the updated stability programme for Austria which covers the period 2000–03. The Council notes with satisfaction that the new Austrian government was able, despite the relatively short time available, to present a programme update which is based on the draft budget for 2000 and gives detailed information on the expected developments of macroeconomic and budgetary aggregates up to the programme’s horizon. The Council welcomes the fact that the deficit targets agreed in the original stability programme were met in 1998 and 1999. However, growth was above trend in the period 1998 to 1999, even though somewhat below what was anticipated in the original stability programme. Therefore, the Council regrets that no further headway in budgetary consolidation was made during this period. The Council notes, moreover, that the debt ratio, which is still above the 60 % reference value, increased in 1999.

The updated programme envisages a decline in the general government budget deficit from 2.0 % of GDP in 1999 to 1.3 % of GDP by 2003, while the gross debt ratio is expected to decrease from 64.9 % of GDP to 61.2 % over the same period. These projections are based on a macroeconomic scenario expecting output growth to fall gradually from its current cyclical peak of 2.8 % to 1.9 % by 2003, amounting to annual average growth of 2.5 %, i.e. slightly above trend. In view of the presently good supply and demand conditions in the Austrian economy and the favourable external environment, the Council considers that such a growth outlook appears feasible without igniting inflationary pressures, as assumed in the programme.

The Council notes that the new Austrian government has maintained the targets for the general government balance as set out in the original programme until 2002. The Council regrets, however, that the goal of attaining the 60 % of GDP reference value for the gross consolidated debt has been postponed by three years to 2005. The Council recalls that in its opinion on the original programme ([2]) it recommended that a more ambitious consolidation of government finances be pursued. The Council acknowledges that, owing to the former govern-

([1]) OJ C 162, 10.6.2000, p. 1.
([2]) OJ C 42, 17.2.1999, p. 5.

ment's decision on a substantial reform of income taxes and family benefits taking effect in 2000, budgetary consolidation has been made more challenging. The Council notes, however, that, to meet the cost of this reform, the updated programme resorts heavily to one-off measures in each of the years covered by the programme. The Council emphasises that the necessary sustainable reduction in the government deficit cannot be achieved on a lasting basis by these measures. In addition, the Council considers that, net of these measures, the envisaged medium-term government deficit in the updated stability programme is not fully in line with the requirements of the Stability and Growth Pact, as it does not give a large enough safety margin to prevent the deficit from breaching the 3 % of GDP reference value in the event of cyclical downturn.

The Council, therefore, urges the Austrian government to reduce the deficit targets in the next update of the programme. In addition, the Council invites the Austrian government to revert to its original goal for the government debt ratio to attain the 60 % of GDP reference value by 2002. To prepare the ground for such a revision, the Austrian government should aim at a better deficit outcome than projected in 2000, especially if growth should turn out higher than expected. All levels of government are called upon to achieve better budgetary outcomes than planned. Special attention must be given to the budget for 2001. Most notably, the one-off revenue measures, on which the attainment of the deficit targets relies, should be replaced by permanent measures, prioritising expenditure savings, from 2001 onwards. In this context, the Council notes that the statistical treatment of real estate sales is still under consideration by Eurostat. Furthermore, any additional spending or further revenue reductions, including those envisaged in the programme in the years 2001 and beyond, should be made contingent on expenditure savings in other areas.

The Council considers that, to achieve the aim of a sustained consolidation of government finances, wide-ranging structural reforms, as outlined in the programme, are essential. In particular, the public sector reform as well as reforms in the transfer and benefit systems should be pursued with determination. Moreover, in the framework of the upcoming negotiations on the financial equalisation scheme between the federal government and the regions, efforts should be undertaken to better align the competencies for taxing and spending.

The Council considers the planned structural reform measures outlined in the programme to be key measures for the required improvement in the functioning of product and labour markets. The general thrust of these reforms appears appropriate and in keeping with the broad guidelines for the economic policies of the Member States and the Community. The Council encourages the Austrian government to implement these reforms with determination.

Council opinion on the updated stability programme of **Portugal** for the period 2000 to 2004 ([1])

On 13 March 2000 the Council examined the updated stability programme of Portugal which covers the period 2000 to 2004. The Council notes with satisfaction that the Portuguese economy has been growing at rates above the EU average, to which the implemented structural reforms have contributed. The Council also notes with satisfaction that the deficit targets for 1998 and 1999 set in the original stability programme were met despite somewhat lower than expected economic growth. The updated programme envisages a gradual decline in the general government deficit from 2.0 % of GDP in 1999 to a balanced position in 2004.

The macroeconomic scenario of the updated programme assumes that the Portuguese economy will grow at an annual average of 3.5 % over the period 2000 to 2004, a quarter of a percentage point above the original programme's assumption and mainly driven by domestic demand, while the contribution of net exports remains negative, thus widening further the already high external imbalances. While considering that an average growth rate of 3.5 % cannot be considered as over-ambitious for a catching-up country like Portugal, the Council considers that the growth pattern assumed in the programme relies mainly on domestic demand with investment being its most dynamic component; the Council, therefore, encourages the Portuguese government to monitor closely macroeconomic developments and to take corrective action if needed. This might require, in addition to reinforcing competitiveness through, *inter alia,* a moderation of wage increases and structural measures, and a tightening of budgetary policy with a view to dampening domestic demand.

As regards government finances the Council notes that the deficit out-turn in 1999 (and 1998) was made possible mainly because higher than projected revenue, thanks

([1]) OJ C 111, 18.4.2000, p. 3.

mainly to domestic-demand driven growth, was able to offset significant overruns of current primary expenditure, due chiefly to overspending in the health sector and a strong rise in the government's wage bill. Government revenue and primary expenditure are planned to continue to increase strongly in 2000, and only after that year are they projected to decline marginally. The Council considers that the implementation of this adjustment strategy should be in keeping with the broad economic policy guidelines, as already noted in its opinion ([1]) on the original programme. Moreover, the Council considers that the reduction of the ratio of current primary expenditure to GDP after 2000 should be achieved by enlarging the scope for expenditure restraint in a more efficient and sustainable way.

The Council considers that the budgetary position underlying the medium-term deficit target of the Portuguese stability programme update is in line with the requirements of the Stability and Growth Pact. However, as the government balance is projected to reach the required minimum position only from 2002, the Council reiterates the recommendation in its opinion on the original programme that a faster decline in the deficit ratio should be achieved with a view to increasing the necessary safety margin allowing Portugal to let the automatic stabilisers work in the event of a cyclical downturn. The Portuguese authorities should do their best to achieve better than planned results. Moreover, the Council urges the Portuguese government to adhere firmly to the deficit target for 2000 by tightly controlling expenditure; the Council welcomes the *ex-ante* freezing of some expenditures in the budget for 2000 and considers that, if necessary for achieving the target, they should not be used.

The Council welcomes the planned budgetary and structural reform measures that are outlined in the programme which are broadly in line with the recommendations on the broad economic policy guidelines. Among those, the most urgent are the implementation of a new basic law for the budget, and a new law on social security pensions. The measures announced in the area of health care to improve expenditure control and efficiency are also needed to underpin the process of budgetary consolidation. A rapid and determined implementation of these reforms, some of which were already announced in the original programme, would therefore be necessary in order to strengthen the effectiveness of the economic policy strategy.

([1]) OJ C 68, 11.3.1999, p. 2.

Council opinion on the updated stability programme of **Finland** for the period 1999 to 2003 ([1])

On 31 January 2000 the Council examined Finland's updated stability programme, which covers the period 1999 to 2003. The Council notes with satisfaction that the Finnish general government balance turned into a surplus in 1998 and, after an expected out-turn of just over 3 % of GDP in 1999, is projected to register surpluses above 4 % of GDP throughout the period 2000 to 2003, while the general government debt/GDP ratio is projected to continue to decline. Moreover, the Council considers that the programme is consistent with the broad economic policy guidelines.

The Council welcomes the record of implementation of the 1998 programme ([2]), where the projections then made for the improvement of the budget balance and the reduction in government debt have been exceeded.

The macroeconomic scenario presented in the updated stability programme appears realistic for 1999 and 2000, but it carries the risk that the economy may overheat and threaten price stability if wage moderation weakens. It is therefore important that wage moderation is sustained.

The Council commends the fiscal strategy of the updated stability programme. This builds on the previous programme and aims at reaching surpluses above 4 % of GDP through a reduction in government expenditure in relation to GDP but at the same time reduces the tax burden.

The Council notes with satisfaction that the debt reduction could now actually exceed the expectations in the updated programme due to more extensive privatisation measures — with proceeds directed towards debt reduction — than assumed in the programme.

Finland has already fulfilled the requirements of the Stability and Growth Pact in 1999. This will continue to be the case during the updated programme period as the surplus target of 4.7 % of GDP in 2003 is clearly sufficient to provide a safety margin against breaching the 3 % of GDP deficit threshold in normal cyclical fluctuations. Moreover, the Council considers that the continued fiscal consolidation effort embodied in the updated programme is also justified in view of the future effects of population ageing.

([1]) OJ C 60, 2.3.2000, p. 3.
([2]) The first stability programme of Finland, 1998 to 2002, was the subject of a Council opinion of 12 October 1998 (OJ C 372, 2.12.1998, p. 1).

The Council welcomes the fact that the updated programme addresses the issue of structural reforms. Fiscal and labour market reform is needed to reduce the current heavy overall taxation and social contribution burden on labour. Regarding public expenditure, it is opportune to review benefit entitlements and the structure of the pension system. The reductions in government expenditure and revenue relative to GDP foreseen in the programme are themselves consistent with increasing employment, which the government identifies as its main economic objective. Further structural reforms in market services and in the labour market would also support employment creation. The Council recommends that such reforms be applied with energy and consistency.

Council opinion on the updated convergence programme of **Sweden** for the period 1999 to 2002 [1]

On 31 January 2000 the Council examined Sweden's updated convergence programme, which covers the period 1999 to 2002. The Council notes with satisfaction that the updated programme envisages continued government surpluses throughout the period to 2002 as the authorities make further progress towards their medium-term objective of a budget surplus of 2 % of GDP over the cycle. The Council considers this target appropriate and welcomes the emphasis given by the programme on macroeconomic stability. The Council further notes with satisfaction that the debt ratio is expected to fall over the programme period, reaching 52 % of GDP in 2002.

The improvement of government finances in Sweden has been impressive: from a deficit of about 12 % of GDP in 1993 the budgetary position turned to a surplus of more than 2 % of GDP by 1998. This budgetary consolidation process, together with the adjustment from a high to a low inflation environment, has laid the ground for solid economic growth, which will be harvested during the period covered by the programme. The updated programme's cautious assumptions on economic growth, particularly towards the end of the period, augment the probability of achieving the objectives set for government finances. The surpluses targeted in the updated programme provide a large enough safety margin for the general government not to breach the 3 % of GDP reference value in normal circumstances. The Council thus considers that Sweden continues to comply with the requirements of the Stability and Growth Pact.

[1] OJ C 60, 2.3.2000, p. 5.

Inflation has been low since 1996 and Sweden continues to fulfil comfortably the convergence criterion. However, while actual output is widely judged to have been below or close to potential for a number of years, this will change in future and efforts need to be maintained to keep inflation under control. Continued wage moderation is of utmost importance, perhaps particularly so in Sweden, and the wage negotiations for 2001 will prove challenging in an environment of recent high economic growth. In this context, the Council notes that the fiscal policy stance followed since 1999 could become too expansionary in the current high-growth environment.

Trends in Swedish long-term interest rates in recent years clearly reflect the favourable development of economic fundamentals, which is expected to continue in the future. The spread of Swedish long-term interest rates against euro rates has remained fairly stable during 1999, with Sweden fulfilling the interest rate criterion. Regarding the exchange rate, although the krona has displayed less volatility in recent years, the Council reiterates that Sweden needs to demonstrate its ability to stay in line with an appropriate parity between the krona and the euro over a sufficient period of time without severe tensions. To this end, the Council, as stated in its opinion of the 1998 convergence programme [2], expects Sweden to decide to join the ERM II in due course.

In order to obtain sustainable economic growth, structural measures are being undertaken with a view to enhancing the supply-side of the economy. In this context, the Council notes with satisfaction that the strategy adopted in the updated programme is consistent with the broad economic policy guidelines, particularly the efforts to lower the very high tax burden. To this end, both the benefit and taxation systems have been scrutinised and efforts to reform the 'welfare' state have been taken. The Council welcomes these efforts and encourages the Swedish government to continue these initiatives with determination.

Council opinion on the updated convergence programme for the **United Kingdom** for the period 1998–99 to 2004–05 [3]

On 28 February 2000 the Council examined the updated convergence programme of the United Kingdom which

[2] Council opinion of 8 February 1999 on the convergence programme of Sweden, 1998 to 2001 (OJ C 68, 11.3.1999, p. 4).

[3] OJ C 98, 6.4.2000, p. 5.

covers the period 1998–99 to 2004–05. The programme envisages a government surplus of 0.3 % of GDP in 1999–2000, small surpluses in the two following years to 2001–02 and small deficits in the years 2002–03 to 2004–05. The Council commends the clear presentation of the convergence programme update that facilitates the analysis of the United Kingdom's current and prospective macroeconomic and fiscal developments. The Council considers it appropriate that the programme stresses the securing of macroeconomic stability supported by a sound budgetary position and continued structural reform. Moreover, the Council considers that the programme is fully in line with the broad economic policy guidelines.

The programme is built upon a macroeconomic framework showing a recovery in GDP growth from 1 3/4 % in 1999 to growth close to trend — put at 2 1/2 % — which the Council considers to be realistic. Moreover, the projections in the programme for the public finances are, for reasons of caution, based on a lower assumption for trend growth — namely 2 1/4 % — which the Council considers to be appropriate.With respect to inflation and interest rates, the United Kingdom continues to fulfil the convergence criterion with some margin. The Council notes that the monetary framework of inflation targeting, with operational responsibility for interest rate changes given to the Bank of England, has been an important condition for securing low inflation expectations. The Council notes that under the current policy framework, the programme projects the United Kingdom inflation target to be achieved over the programme period; it further notes that such an out-turn is likely to be consistent with the EMU's definition of price stability.

The United Kingdom has fulfilled the convergence criterion on the long-term interest rate for some time. This helps confirm the credibility given to the United Kingdom's stability oriented framework for macroeconomic policy. It notes that while there are signs of reduced exchange rate volatility, it cannot yet be concluded that this policy framework has delivered a stable exchange rate. Therefore, as in the opinion on the previous convergence programme ([1]), the Council recommends that the United Kingdom continue with the stability oriented policies with a view to securing exchange rate stability which, in turn, should help re-enforce a stable economic environment.

The Council notes with approval that over the programme period — to 2004–05 — the general government finances are projected to be close to balance in underlying terms thus fulfilling the requirements of the Stability and Growth Pact. The Council nevertheless notes and welcomes the raising of government investment as a share of GDP within the expenditure totals. It also notes that the move to three-year allocations of departmental expenditure has placed the government finances on a more stable footing and the mechanism should help ensure that the tight budgetary position is locked in over the economic cycle.

The Council notes that the government gross debt ratio in the United Kingdom remains below 60 % of GDP and is expected to fall to 45 % in 1999–2000. The Council welcomes the envisaged further reduction of the gross debt ratio to below 40 % of GDP by 2004–05.

The Council welcomes the structural reforms included in the programme. It notes, with approval, that the progress on economic reforms should help provide the flexibility required to improve the underlying performance of the economy and ensure that divergences in economic cycles between the United Kingdom and its European partners are minimised.

([1]) Council opinion of 8 February 1999 on the convergence programme of the United Kingdom, 1997/98 to 2003/04 (OJ C 68, 11.3.1999, p. 5).

4. Glossary

Adjustment path The profile of projected budgetary adjustment over the medium term. As defined in the *Stability and Growth Pact* it refers to the planned development in the *budget balance*, which has been set out in a national *stability* or *convergence programme*.

Automatic stabilisers Various features of the tax and spending regime which react to the economic cycle and reduce its fluctuations. As a result, the *budget balance* tends to improve in years of high growth, and deteriorate during economic slowdowns.

Broad economic policy guidelines (BEPG) Annual guidelines for the economic and budgetary policies of the Member States. They are prepared by the Commission and adopted by the Council of Ministers responsible for Economic and Financial Affairs (Ecofin).

Budget balance The balance between total public expenditure and revenue in a specific year, with a positive balance indicating a surplus and a negative balance indicating a deficit. For the monitoring of Member State budgetary positions, the EU uses *general government* aggregates. See also *structural budget balance*, *primary budget balance*, and *primary structural budget balance*.

Close-to-balance rule A rule contained in the *Stability and Growth Pact*, according to which Member States should, over the medium term, achieve an overall *budget balance* close to balance or in surplus.

Consumption taxes See *indirect taxation*.

Convergence programmes Medium-term budgetary and monetary strategies presented by each of those Member States that have not yet adopted the euro. They are updated annually, according to the provisions of the *Stability and Growth Pact*. Prior to the third phase of EMU, convergence programmes were issued on a voluntary basis and used by the Commission in its assessment of the progress made in preparing for the euro. See also *stability programmes*.

Cyclical component of fiscal policy That part of the change in the *budget balance* that follows automatically from the cyclical conditions of the economy, due to the reaction of public revenue and expenditure to changes in the *output gap*. See *automatic stabilisers*, *tax smoothing* and *structural budget balance*.

Cyclically adjusted budget balance See *structural budget balance*.

Dependency ratio A measure of the ratio of people who receive government transfers, especially pensions, relative to those who are available to provide the revenue to pay for those transfers.

Direct taxes Taxes which, in contrast to *indirect taxation* and *social security contributions*, are levied directly on personal or corporate incomes and property.

Discretionary component of fiscal policy See *fiscal stance*.

Economic and Financial Committee Formerly the Monetary Committee, renamed the Economic and Financial Committee as from January 1999. Its main task is to prepare and discuss Council decisions with regard to economic and financial matters.

Effective tax rate The ratio of broad categories of tax revenue (labour income, capital income, consumption) to their respective tax bases.

ESA95/ESA79 European accounting standards for the reporting of economic data by the Member States to the EU. As from 2000, ESA95 has replaced the earlier ESA79 standard with regard to the comparison and analysis of national public finance data.

Excessive deficit procedure (EDP) A procedure according to which the Commission and the Council monitor the development of national *budget balances* and *public*

debt in order to assess the risk of an excessive deficit in each Member State. Its application has been further clarified in the *Stability and Growth Pact*. See also *stability programmes* and *Stability and Growth Pact*.

Fiscal stance A measure of the discretionary fiscal policy component. In this report, it is defined as the change in the *primary structural budget balance* relative to the preceding period. When the change is positive (negative) the fiscal stance is said to be expansionary (restrictive).

General government As used by the EU in its process of budgetary surveillance under the *Stability and Growth Pact* and the *excessive deficit procedure*, the general government sector covers national government, regional and local government, as well as social security funds. Public enterprises are excluded, as are transfers to and from the EU budget.

Government budget constraint A basic condition applying to the public finances, according to which total public expenditure in any one year must be financed by taxation, government borrowing, or changes in the monetary base. In the context of EMU, the ability of governments to finance spending through money issuance is prohibited. See also *stock-flow adjustment*.

Indirect taxation Taxes that are levied during the production stage, and not on the income and property arising from economic production processes. Prominent examples of indirect taxation are value added tax (VAT), excise duties, import levies, energy and other environmental taxes.

Interest burden *General government* interest payments on public debt as a share of GDP.

Maastricht reference values for public debt and deficits Respectively, a 60 % *general government* debt/GDP ratio and a 3 % *general government* deficit/GDP ratio. These thresholds are defined in a protocol to the Maastricht Treaty on European Union. See also *Excessive deficit procedure*.

Maturity structure of public debt The profile of total debt in terms of when it is due to be paid back. Interest rate changes affect the budget balance directly to the extent that the *general government* sector has debt with a relatively short maturity structure. Long maturities reduce the sensitivity of the *budget balance* to changes in the prevailing interest rate. See also *public debt*.

Minimal benchmarks Medium-term reference values for the *budget balances* providing sufficient safety margins for the *automatic stabilisers* to operate freely during economic slowdowns without leading to excessive deficits. The benchmarks have been estimated individually for the various Member States by the European Commission (1999).

Monetary conditions index An overall measure of the monetary policy conditions, based on a weighted average of the real interest rate and the real exchange rate. The weights attributed to these variables correspond to the relative importance of their changes on output.

Non-wage labour costs See *social security contributions*.

Output gap The difference between actual output and estimated potential output at any particular point in time. See also *cyclical component of fiscal policy*.

Peer review A process of mutual surveillance among independent authorities, using argument and persuasion in order to ensure compliance with agreed goals. This form of coordination is for example characteristic of the multilateral surveillance of national budgetary policies under the *Stability and Growth Pact*.

Policy-mix The overall stance of fiscal and monetary policy. The policy-mix may consist of various combinations of expansionary and restrictive policies, with a given *fiscal stance* being either supported or offset by monetary policy.

Price stability A situation characterised by low average inflation. The European Central Bank has defined price stability as an annual increase in prices of less than 2 %.

Primary budget balance The *budget balance* net of interest payments on *general government* debt.

Primary structural budget balance The *structural (*or *cyclically adjusted) budget balance* net of interest payments.

Pro-cyclical fiscal policy A *fiscal stance* which amplifies the economic cycle by increasing the structural primary deficit during an economic upturn, or by decreasing it in a downturn. It can be contrasted with (discretionary) counter-cyclical policy which has the opposite effect. A neutral fiscal policy keeps the cyclically adjusted budget balance unchanged over the economic cycle but lets the automatic stabilisers work. See also *tax smoothing*.

Public debt Consolidated gross debt for the *general government* sector. It includes the total nominal value of all debt owed by public institutions in the Member State, except that part of the debt which is owed to other public institutions in the same Member State.

QUEST The macroeconometric model of Commission services. It has been used in this report to carry out policy simulations.

Reservation wage The minimum net wage below which an individual is expected to refuse a job offer.

Sensitivity analysis An econometric or statistical simulation designed to test the robustness of an estimated economic relationship or projection, given various changes in the underlying assumptions.

'**Significant divergence'** A concept derived from the *Stability and Growth Pact.* According to the SGP, the Council can require a Member State to correct any 'significant divergence' from the objectives that have been defined in its *stability* or *convergence programme* with regard to the *budget balance* and the planned *adjustment path* towards a sustainable medium-term budgetary position. It is an important clause in addressing a pro-cyclical fiscal policy in periods of high growth.

'**Snowball' effect** The self-reinforcing effect of public debt accumulation or decumulation arising from a positive or negative differential between the interest rate paid on public debt and the growth rate of the national economy. See also *government budget constraint*.

Social security contributions (SSC) Mandatory contributions paid by employers and employees to a social insurance scheme to cover for pension, health care and other welfare provisions.

'**Stabilisation gap'** Difference between the actual *primary structural budget balance* and the value that would be required to ensure a stable debt ratio over the medium term. See also '*snowball' effect*.

Stability and Growth Pact (SGP) Approved in 1997, the SGP clarifies the provisions of the Maastricht Treaty regarding the surveillance of Member State budgetary policies and the monitoring of budget deficits during the third phase of EMU. The SGP consists of two Council regulations setting out legally binding provisions to be followed by the European institutions and the Member States and two resolutions of the European Council in Amsterdam (June 1997). See also *excessive deficit procedure*.

Stability programmes Medium-term budgetary strategies presented by those Member States that have already adopted the euro. They are updated annually, according to the provisions of the *Stability and Growth Pact*. See also *convergence programmes*.

Stock-flow adjustment The stock-flow adjustment (also known as the debt-deficit adjustment) ensures consistency between the net borrowing (flow) and the variation in the stock of gross debt. It includes the accumulation of financial assets, changes in the value of debt denominated in foreign currency, and remaining statistical adjustments.

Structural budget balance The actual *budget balance* adjusted for its *cyclical component of fiscal policy*. The structural balance gives a measure of the underlying trend in the budget balance, when taking into account the automatic effect on the budget of the economic cycle. It is referred to also as the *cyclically adjusted budget balance*. See also *primary structural budget balance*.

Tax base That sector or activity within an economy on which a certain tax is imposed. If a tax base is expanding while the tax rate is kept constant, tax revenue from that source will automatically increase.

Tax competition A situation where national tax regimes are competing against each other to attract a particular tax base to their respective territories.

Tax smoothing The idea that tax rates should be kept stable in order to minimise the distortionary effects of taxation, while leaving it for the *automatic stabilisers* to smooth the economic cycle. See also *cyclical component of fiscal policy*.

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6. Useful Internet links

European Commission

European Commission	http://europa.eu.int/comm
Directorate-General for Economic and Financial Affairs	http://europa.eu.int/comm/dgs/economy_finance

Economic and Finance Ministries

Belgium	http://treasury.fgov.be/interthes	Trésorerie — Ministère des Finances Belge Thesaurie — Belgisch Ministerie van Financen
Denmark	http://www.fm.dk	Ministry of Finance
Germany	http://www.bundesfinanzministerium.de	Bundesministerium der Finanzen
Spain	http://www.meh.es	Ministerio de Economía y Hacienda
France	http://www.finances.gouv.fr	Ministère de l'Économie, des Finances et de l'Industrie — République Française
Ireland	http://www.irlgov.ie/finance	Department of Finance
Italy	http://www.finanze.it	Ministero delle Finanze
Luxembourg	http://www.etat.lu/FI	Ministère des Finances
Netherlands	http://www.minfin.nl	Ministerie van Financien
Austria	http://www.bmf.gv.at	Bundesministerium für Finanzen
Portugal	http://www.min-financas.pt	Ministério das Finanças
Finland	http://www.vn.fi/vm	Ministry of Finance
Sweden	http://finans.regeringen.se	Finansdepartementet
United Kingdom	http://www.hm-treasury.gov.uk	Her Majesty's Treasury
Japan	http://www.mof.go.jp	Ministry of Finance
United States of America	http://www.ustreas.gov	Department of the Treasury

Central banks

European Union	http://www.ecb.int	European Central Bank
Belgium	http://www.nbb.be	Banque Nationale de Belgique /Nationale Bank van België
Denmark	http://www.nationalbanken.dk	Danmarks Nationalbank
Germany	http://www.bundesbank.de	Deutsche Bundesbank
Greece	http://www.bankofgreece.gr	Bank of Greece
Spain	http://www.bde.es	Banco de España
France	http://www.banque-france.fr	Banque de France
Ireland	http://www.centralbank.ie	Central Bank of Ireland
Italy	http://www.bancaditalia.it	Banca d'Italia
Luxembourg	http://www.bcl.lu	Banque centrale du Luxembourg
Netherlands	http://www.dnb.nl	De Nederlandsche Bank
Austria	http://www.oenb.co.at	Österreichische Nationalbank
Portugal	http://www.bportugal.pt	Banco de Portugal
Finland	http://www.bof.fi	Suomen Pankki
Sweden	http://www.riksbank.com	Sveriges Riksbank
United Kingdom	http://www.bankofengland.co.uk	Bank of England
Japan	http://www.boj.or.jp	Bank of Japan
United States of America	http://www.bog.frb.fed.us http://www.ny.frb.org	Board of Governors of the Federal Reserve System Federal Reserve Bank of New York

Statistical offices

European Union	http://europa.eu.int/comm/eurostat	Eurostat
Belgium	http://statbel.fgov.be	Institut national de Statistique/ Nationaal Instituut voor de Statistiek
Denmark	http://www.dst.dk	Danmarks Statistik
Germany	http://www.statistik-bund.de	Statistisches Bundesamt Deutschland
Greece	http://www.statistics.gr	National Statistical Service of Greece
Spain	http://www.ine.es	Instituto Nacional de Estadística
France	http://www.insee.fr	Institut National de la Statistique et des Etudes Economiques

Ireland	http://www.cso.ie	Central Statistics Office
Italy	http://petra.istat.it	Istituto nazionale di statistica
Luxembourg	http://statec.gouvernement.lu	Service Central de la Statistique et des Etudes Economiques
Netherlands	http://www.cbs.nl	Centraal Bureau voor de Statistiek
Austria	http://www.oestat.gv.at	Österreichisches Statistisches Zentralamt
Portugal	http://www.ine.pt	Instituto Nacional de Estatística
Finland	http://www.stat.fi	Tilastokeskus/Statistics Finland
Sweden	http://www.scb.se	Statistiska Centralbyrån/Statistics Sweden
United Kingdom	http://www.ons.gov.uk	Office for National Statistics
Japan	http://www.stat.go.jp	Statistics Bureau / Statistics Center

International organisations

Bank for International Settlements	http://www.bis.org
ERBD	http://www.ebrd.com
IMF	http://www.imf.org
OECD	http://www.oecd.org
United Nations	http://www.un.org
World Bank	http://www.worldbank.org
World Trade Organisation	http://www.wto.org

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Table A.1.1

Resources and expenditure of general government, Belgium

(% of GDP)

		Former definitions					
		1980	1985	1989	1990	1991	1992
1.	Taxes on production and imports	12.3	12.1	12.0	12.2	12.1	12.1
2.	Current taxes on income and wealth	18.1	19.3	16.4	16.7	16.3	16.2
3.	Social contributions	15.0	17.2	16.6	16.8	17.4	17.7
4.	Of which actual social contributions	:	:	:	:	:	:
5.	Other current resourses	2.6	2.3	1.7	1.8	1.9	1.8
6.	Total current resources	47.9	50.9	46.8	47.4	47.7	47.7
7.	Government consumption expenditure	17.4	16.8	14.2	13.9	14.3	14.1
8.	Of which compensation of employees	13.5	13.1	11.3	11.2	11.5	11.5
9.	Collective consumption	:	:	:	:	:	:
10.	Social benefits in kind	:	:	:	:	:	:
11.	Social transfers other than in kind	23.8	25.1	23.1	23.1	24.0	24.3
12.	Interest payments	5.9	10.4	10.1	10.4	10.0	10.6
13.	Subsidies	3.7	3.7	2.5	2.8	2.9	2.6
14.	Other current expenditure	:	:	:	:	:	:
15.	Total current expenditure	51.7	56.8	51.0	51.1	52.1	52.7
16.	Gross savings	– 3.7	– 5.8	– 4.3	– 3.6	– 4.4	– 5.0
17.	Capital transfers received	:	:	:	:	:	:
18.	Total resources	47.9	50.9	46.8	47.4	47.7	47.7
19.	Gross fixed capital formation	4.4	2.6	1.4	1.3	1.3	1.4
20.	Other capital expenditure	:	:	:	:	:	:
21.	Total expenditure	56.6	60.0	52.8	52.8	53.9	54.6
22.	Tax burden	46.5	49.8	46.1	46.8	46.8	47.0
23.	Net lending (+) or net borrowing (–)	– 8.6	– 9.0	– 6.1	– 5.4	– 6.2	– 6.9

([1]) The table is based on ESA95 definitions which do not necessarily correspond to the former definitions:
the totals are obtained in ESA95 as follows:
Line 6 = line 1 + line 2 + line 3 + line 5.
Line 7 = line 9 + line 10.
Line 15 = total of lines 9 to 14.
Line 16 = line 6 – line 15.
Line 18 = line 6 + line 17.
Line 21 = line 15 + line 19 + line 20.
Line 23 = line 18 – line 21.

Source: Commission services.

(% of GDP)

Former definitions			ESA95 definitions [1]						
1993	**1994**	**1995**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
12.4	12.7	12.2	12.2	12.8	12.9	12.9	12.9	13.0	12.9
16.3	17.5	17.9	16.7	16.7	17.2	17.6	17.5	17.5	17.3
18.2	17.7	17.4	16.8	16.8	16.8	16.6	16.5	15.9	15.6
:	:	:	14.8	14.7	14.7	14.5	14.5	13.9	13.6
1.8	1.5	1.5	3.0	3.1	2.7	2.7	2.7	2.7	2.7
48.6	49.4	49.0	48.8	49.5	49.6	49.8	49.6	49.0	48.4
14.6	14.6	14.5	21.5	21.8	21.2	21.1	21.0	20.8	20.5
12.0	12.1	12.1	12.0	12.0	11.9	11.7	11.7	11.5	11.4
:	:	:	7.4	7.3	7.2	7.1	7.1	7.0	6.9
:	:	:	14.1	14.5	14.1	13.9	13.9	13.8	13.6
24.7	24.3	24.3	16.6	16.7	16.3	16.0	15.9	15.7	15.5
10.7	10.0	8.8	9.1	8.7	7.9	7.7	7.2	6.9	6.6
2.6	2.4	2.4	1.5	1.6	1.5	1.5	1.5	1.5	1.5
:	:	:	2.0	2.1	2.2	2.2	2.2	2.2	2.2
53.7	52.4	51.0	50.7	51.0	49.1	48.4	48.0	47.0	46.3
– 5.1	– 3.0	– 2.0	– 1.9	– 1.5	0.4	1.4	1.7	2.0	2.1
:	:	:	0.4	0.5	0.6	0.5	0.5	0.5	0.5
48.6	49.4	49.0	49.3	49.9	50.2	50.2	50.1	49.5	48.9
1.6	1.6	1.4	1.8	1.6	1.6	1.6	1.7	1.7	1.7
:	:	:	1.0	1.1	1.4	1.3	1.3	1.2	1.2
55.7	54.2	52.9	53.4	53.6	52.2	51.3	51.0	50.0	49.2
47.9	49.0	48.6	46.9	47.4	47.9	48.1	47.9	47.3	46.7
– 7.2	– 4.8	– 3.9	– 4.2	– 3.7	– 2.0	– 1.0	– 0.9	– 0.5	– 0.2

Table A.1.2

Resources and expenditure of general government, Denmark

(% of GDP)

		Former definitions					
		1980	1985	1989	1990	1991	1992
1.	Taxes on production and imports	18.2	17.9	17.7	17.0	16.7	16.6
2.	Current taxes on income and wealth	25.3	28.0	30.0	28.3	28.5	29.0
3.	Social contributions	1.6	2.6	2.2	2.3	2.3	2.4
4.	Of which actual social contributions	:	:	:	:	:	:
5.	Other current resourses	6.1	7.2	7.5	7.5	7.2	8.0
6.	Total current resources	51.3	55.7	57.3	55.1	54.7	56.0
7.	Government consumption expenditure	27.2	25.8	25.9	25.6	25.7	25.8
8.	Of which compensation of employees	18.2	17.5	18.0	17.7	17.7	17.8
9.	Collective consumption	:	:	:	:	:	:
10.	Social benefits in kind	:	:	:	:	:	:
11.	Social transfers other than in kind	16.4	16.1	18.0	18.0	18.7	19.2
12.	Interest payments	3.8	9.4	7.2	7.3	7.3	6.6
13.	Subsidies	3.0	2.9	3.3	3.3	3.2	3.8
14.	Other current expenditure	:	:	:	:	:	:
15.	Total current expenditure	50.5	54.8	55.4	54.9	55.7	56.3
16.	Gross savings	0.7	0.9	1.9	0.2	– 1.0	– 0.4
17.	Capital transfers received	:	:	:	:	:	:
18.	Total resources	51.3	55.7	57.3	55.1	54.7	56.0
19.	Gross fixed capital formation	3.4	2.2	1.7	1.6	1.5	1.9
20.	Other capital expenditure	:	:	:	:	:	:
21.	Total expenditure	53.7	56.8	57.0	56.1	57.1	58.2
22.	Tax burden	44.8	48.3	49.5	47.3	47.2	47.7
23.	Net lending (+) or net borrowing (–)	– 3.2	– 2.0	0.3	– 1.0	– 2.4	– 2.2

([1]) The table is based on ESA95 definitions which do not necessarily correspond to the former definitions:
the totals are obtained in ESA95 as follows:
Line 6 = line 1 + line 2 + line 3 + line 5.
Line 7 = line 9 + line 10.
Line 15 = total of lines 9 to 14.
Line 16 = line 6 – line 15.
Line 18 = line 6 + line 17.
Line 21 = line 15 + line 19 + line 20.
Line 23 = line 18 – line 21.

Source: Commission services.

(% of GDP)

Former definitions			ESA95 definitions (1)						
1993	1994	1995	1995	1996	1997	1998	1999	2000	2001
16.9	17.3	17.2	16.9	17.3	17.5	18.1	17.8	17.3	17.1
30.1	30.6	30.3	30.4	30.6	30.4	29.6	30.3	29.7	29.4
2.5	2.8	2.6	2.6	2.6	2.6	2.6	3.3	3.5	3.5
:	:	:	1.6	1.6	1.6	1.6	2.3	2.4	2.5
8.4	7.5	6.8	6.8	7.1	6.7	6.6	6.0	5.8	5.4
57.9	58.1	56.9	56.8	57.6	57.2	56.8	57.4	56.3	55.5
26.8	25.9	25.7	25.8	25.8	25.5	25.7	25.8	25.6	25.6
18.1	17.5	17.3	17.3	17.3	17.2	17.3	17.4	17.4	17.4
:	:	:	8.4	8.3	8.2	8.1	8.2	8.1	8.1
:	:	:	17.4	17.4	17.4	17.6	17.6	17.5	17.5
20.3	21.7	20.8	20.4	19.8	18.9	18.1	17.8	17.4	17.2
7.3	6.7	6.4	6.4	6.1	5.7	5.3	4.7	4.4	3.9
3.9	3.7	3.6	2.5	2.6	2.5	2.3	2.4	2.3	2.3
:	:	:	2.2	2.4	2.4	2.5	2.5	2.5	2.5
58.9	58.8	57.4	57.3	56.7	55.0	53.9	53.0	52.2	51.5
– 1.0	– 0.7	– 0.5	– 0.5	0.9	2.3	2.8	4.4	4.0	4.1
:	:	:	0.5	0.4	0.5	0.5	0.5	0.5	0.4
57.9	58.1	56.9	57.3	58.0	57.7	57.3	57.9	56.7	56.0
1.8	1.8	1.8	1.8	2.0	1.9	1.7	1.5	1.6	1.6
:	:	:	0.5	0.3	0.4	0.4	0.4	0.4	0.4
60.7	60.7	59.2	59.6	59.0	57.2	56.1	54.9	54.3	53.5
49.3	50.4	49.9	49.9	50.5	50.6	50.1	51.3	50.4	50.0
– 2.8	– 2.6	– 2.2	– 2.3	– 1.0	0.5	1.2	3.0	2.4	2.5

Table A.1.3

Resources and expenditure of general government, Germany ([1])

(% of GDP)

		Former definitions					
		1980	1985	1989	1990	1991	1992
1.	Taxes on production and imports	13.1	12.6	12.5	12.5	12.2	12.4
2.	Current taxes on income and wealth	12.8	12.6	12.7	11.2	11.3	11.6
3.	Social contributions	16.9	17.6	17.2	16.9	17.5	17.8
4.	Of which actual social contributions	:	:	:	:	:	:
5.	Other current resourses	2.3	3.2	2.7	2.7	2.6	3.1
6.	Total current resources	45.1	46.0	45.1	43.3	43.5	44.9
7.	Government consumption expenditure	20.2	20.1	18.8	18.3	18.9	19.5
8.	Of which compensation of employees	11.0	10.6	10.0	9.7	10.1	10.4
9.	Collective consumption	:	:	:	:	:	:
10.	Social benefits in kind	:	:	:	:	:	:
11.	Social transfers other than in kind	17.2	16.8	16.4	15.8	16.6	17.3
12.	Interest payments	1.9	3.0	2.7	2.6	2.6	3.2
13.	Subsidies	2.3	2.3	2.3	2.2	2.4	2.1
14.	Other current expenditure	:	:	:	:	:	:
15.	Total current expenditure	42.7	43.4	41.6	42.0	42.3	43.4
16.	Gross savings	2.4	2.6	3.6	1.3	1.2	1.4
17.	Capital transfers received	:	:	:	:	:	:
18.	Total resources	45.1	46.0	45.1	43.3	43.5	44.9
19.	Gross fixed capital formation	3.6	2.4	2.4	2.3	2.6	2.8
20.	Other capital expenditure	:	:	:	:	:	:
21.	Total expenditure	48.0	47.2	45.0	45.3	46.8	47.6
22.	Tax burden	42.8	42.8	42.4	40.5	40.4	41.1
23.	Net lending (+) or net borrowing (–)	– 2.9	– 1.2	0.1	– 2.1	– 3.2	– 2.8

([1]) From 1991 including former East Germany.
([2]) The table is based on ESA95 definitions which do not necessarily correspond to the former definitions:
the totals are obtained in ESA95 as follows:
Line 6 = line 1 + line 2 + line 3 + line 5.
Line 7 = line 9 + line 10.
Line 15 = total of lines 9 to 14.
Line 16 = line 6 – line 15.
Line 18 = line 6 + line 17.
Line 21 = line 15 + line 19 + line 20.
Line 23 = line 18 – line 21.

Source: Commission services.

(% of GDP)

	Former definitions			ESA95 definitions (2)						
	1993	1994	1995	1995	1996	1997	1998	1999	2000	2001
	12.7	13.1	12.7	11.4	11.4	11.4	11.6	12.2	12.3	12.6
	11.2	10.8	11.1	11.2	11.5	11.2	11.5	12.0	12.0	10.9
	18.4	18.9	19.1	18.8	19.4	19.6	19.2	18.9	18.5	18.0
	:	:	:	17.7	18.3	18.5	18.1	17.9	17.4	17.0
	3.0	3.0	2.7	3.6	3.5	3.3	3.3	3.2	3.0	2.9
	45.3	45.9	45.6	45.0	45.7	45.5	45.6	46.3	45.8	44.3
	19.6	19.4	19.5	19.8	20.0	19.5	19.0	19.0	18.7	18.3
	10.6	10.3	10.2	9.0	8.9	8.7	8.4	8.4	8.1	7.9
	:	:	:	8.4	8.4	8.1	7.9	7.8	7.7	7.5
	:	:	:	11.4	11.6	11.4	11.2	11.2	11.0	10.8
	18.4	18.6	19.0	18.1	19.2	19.2	18.8	18.9	18.8	18.3
	3.2	3.3	3.7	3.7	3.7	3.7	3.6	3.5	3.5	3.4
	2.1	2.1	2.1	2.1	2.0	1.8	1.8	1.8	1.7	1.7
	:	:	:	1.2	1.3	1.3	1.4	1.5	1.6	1.6
	44.8	44.9	45.6	44.9	46.2	45.5	44.6	44.7	44.3	43.3
	0.5	1.0	0.0	0.1	– 0.5	0.0	1.0	1.5	1.5	1.1
	:	:	:	0.5	0.4	0.4	0.4	0.5	0.4	0.4
	45.3	45.9	45.6	45.5	46.2	45.9	46.0	46.7	46.3	44.7
	2.7	2.5	2.3	2.3	2.1	1.9	1.8	1.8	1.7	1.7
	:	:	:	8.1	1.2	1.2	1.3	1.3	1.2	1.2
	48.8	48.4	49.0	48.8	49.6	48.6	47.7	47.8	47.2	46.1
	41.7	42.1	42.1	41.9	42.7	43.0	42.9	43.9	43.6	42.2
	– 3.5	– 2.6	– 3.4	– 3.3	– 3.4	– 2.6	– 1.7	– 1.1	– 1.0	– 1.4

Table A.1.4

Resources and expenditure of general government, Greece

(% of GDP)

		Former definitions					
		1980	1985	1989	1990	1991	1992
1.	Taxes on production and imports	10.4	12.5	12.2	13.9	14.6	15.3
2.	Current taxes on income and wealth	4.5	4.6	4.5	5.4	5.5	5.4
3.	Social contributions	9.3	11.6	11.2	11.5	11.1	11.0
4.	Of which actual social contributions	:	:	:	:	:	:
5.	Other current resourses	1.9	1.7	1.6	1.7	2.2	2.5
6.	Total current resources	26.2	30.3	29.6	32.5	33.4	34.2
7.	Government consumption expenditure	13.4	16.1	15.0	15.1	14.2	13.7
8.	Of which compensation of employees	9.3	11.4	12.1	12.5	11.5	10.9
9.	Collective consumption	:	:	:	:	:	:
10.	Social benefits in kind	:	:	:	:	:	:
11.	Social transfers other than in kind	9.3	14.1	15.1	15.0	14.9	14.8
12.	Interest payments	2.0	4.9	7.5	10.0	9.3	11.5
13.	Subsidies	2.2	5.2	4.1	4.0	3.5	3.6
14.	Other current expenditure	:	:	:	:	:	:
15.	Total current expenditure	26.2	37.7	39.8	41.9	39.8	41.2
16.	Gross savings	– 0.1	– 7.4	– 10.1	– 9.4	– 6.4	– 7.0
17.	Capital transfers received	:	:	:	:	:	:
18.	Total resources	26.2	30.3	29.6	32.5	33.4	34.2
19.	Gross fixed capital formation	2.1	3.6	2.9	2.8	3.1	3.5
20.	Other capital expenditure	:	:	:	:	:	:
21.	Total expenditure	28.8	41.9	43.9	48.4	44.7	46.8
22.	Tax burden	24.4	28.8	28.2	31.0	31.4	31.9
23.	Net lending (+) or net borrowing (–)	– 2.6	– 11.6	– 14.2	– 15.9	– 11.4	– 12.6

(1) The table is based on ESA95 definitions which do not necessarily correspond to the former definitions:
the totals are obtained in ESA95 as follows:
Line 6 = line 1 + line 2 + line 3 + line 5.
Line 7 = line 9 + line 10.
Line 15 = total of lines 9 to 14.
Line 16 = line 6 – line 15.
Line 18 = line 6 + line 17.
Line 21 = line 15 + line 19 + line 20.
Line 23 = line 18 – line 21.

Source: Commission services.

(% of GDP)

Former definitions			ESA95 definitions [1]						
1993	**1994**	**1995**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
14.7	14.3	14.2	13.5	14.0	14.2	14.3	14.6	14.8	14.8
5.7	6.8	7.2	7.4	7.1	7.9	9.6	9.2	8.7	8.5
11.9	12.1	12.4	12.6	12.9	13.1	13.2	13.7	13.8	13.8
:	:	:	10.5	10.8	11.0	11.1	11.6	11.8	11.9
3.1	3.8	4.2	2.9	2.9	3.6	2.9	4.1	4.1	4.1
35.4	36.9	38.0	36.4	36.9	38.9	40.1	41.6	41.4	41.1
14.3	13.8	15.3	15.3	14.5	15.1	15.4	14.9	14.6	14.5
10.9	10.6	11.3	11.3	10.7	11.6	11.7	11.5	11.5	11.4
:	:	:	9.4	8.5	8.8	9.1	8.8	8.5	8.4
:	:	:	5.9	6.0	6.3	6.2	6.1	6.1	6.1
15.1	15.2	15.5	15.1	15.4	15.6	15.6	15.7	15.7	15.7
12.6	13.9	12.7	11.1	10.5	8.3	7.8	7.4	7.2	6.6
3.9	3.6	3.3	0.4	0.5	0.2	0.1	0.2	0.2	0.2
:	:	:	1.3	1.2	1.1	1.3	1.3	1.3	1.3
43.4	44.0	45.1	43.3	42.2	40.2	40.1	39.5	39.1	38.2
– 7.9	– 7.1	– 7.1	– 6.8	– 5.2	– 1.3	0.0	2.0	2.3	3.0
:	:	:	0.0	0.0	0.0	0.0	0.0	:	:
35.4	36.9	38.0	36.4	36.9	38.9	40.1	41.6	41.4	41.1
3.3	3.1	3.3	3.2	3.2	3.5	3.7	4.2	4.3	4.3
:	:	:	0.1	– 0.7	– 0.3	– 0.6	– 0.6	– 0.6	– 0.7
49.0	46.8	48.5	46.6	44.7	43.5	43.2	43.2	42.8	41.8
32.6	33.4	34.0	34.4	34.8	35.9	38.2	38.5	38.3	38.1
– 13.6	– 9.9	– 10.5	– 10.2	– 7.8	– 4.6	– 3.1	– 1.6	– 1.3	– 0.6

Table A.1.5

Resources and expenditure of general government, Spain

(% of GDP)

		Former definitions					
		1980	1985	1989	1990	1991	1992
1.	Taxes on production and imports	6.3	9.1	10.4	10.2	10.3	10.8
2.	Current taxes on income and wealth	6.7	8.1	11.5	11.5	11.5	11.9
3.	Social contributions	12.8	12.6	12.5	12.8	13.1	14.0
4.	Of which actual social contributions	:	:	:	:	:	:
5.	Other current resourses	3.9	4.1	3.3	3.6	4.1	4.0
6.	Total current resources	29.7	34.0	37.8	38.2	38.9	40.7
7.	Government consumption expenditure	12.9	14.1	14.5	14.9	15.5	16.4
8.	Of which compensation of employees	9.4	10.1	10.2	10.6	11.0	11.7
9.	Collective consumption	:	:	:	:	:	:
10.	Social benefits in kind	:	:	:	:	:	:
11.	Social transfers other than in kind	11.8	13.7	13.3	13.8	14.6	15.4
12.	Interest payments	0.4	1.9	3.9	3.9	3.7	4.2
13.	Subsidies	1.9	2.3	2.4	2.4	2.5	2.5
14.	Other current expenditure	:	:	:	:	:	:
15.	Total current expenditure	27.8	33.7	35.6	36.5	37.7	40.0
16.	Gross savings	0.5	0.3	2.2	1.7	1.2	0.7
17.	Capital transfers received	:	:	:	:	:	:
18.	Total resources	29.7	34.0	37.8	38.2	38.9	40.7
19.	Gross fixed capital formation	1.8	3.5	4.2	4.8	4.7	4.0
20.	Other capital expenditure	:	:	:	:	:	:
21.	Total expenditure	31.7	40.1	41.3	42.3	43.2	44.6
22.	Tax burden	26.2	30.3	35.1	35.1	35.5	37.3
23.	Net lending (+) or net borrowing (–)	– 2.5	– 6.1	– 3.5	– 4.1	– 4.3	– 4.0

([1]) The table is based on ESA95 definitions which do not necessarily correspond to the former definitions: the totals are obtained in ESA95 as follows:
Line 6 = line 1 + line 2 + line 3 + line 5.
Line 7 = line 9 + line 10.
Line 15 = total of lines 9 to 14.
Line 16 = line 6 – line 15.
Line 18 = line 6 + line 17.
Line 21 = line 15 + line 19 + line 20.
Line 23 = line 18 – line 21.

Source: Commission services.

(% of GDP)

Former definitions			ESA95 definitions [1]						
1993	**1994**	**1995**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
10.1	10.6	10.3	10.2	10.2	10.5	11.1	11.7	11.9	12.0
11.4	11.0	11.0	10.1	10.3	10.5	10.3	10.3	10.3	10.4
14.3	14.0	13.1	13.0	13.2	13.2	13.2	13.2	13.1	13.0
:	:	:	12.0	12.2	12.3	12.3	12.3	12.2	12.2
5.0	4.2	3.6	3.8	4.2	4.0	3.7	3.6	3.5	3.4
40.8	39.7	38.0	37.0	37.9	38.2	38.3	38.8	38.8	38.8
16.8	16.2	16.0	18.1	18.0	17.6	17.4	17.1	16.8	16.6
11.8	11.3	11.2	11.3	11.3	10.9	10.7	10.5	10.3	10.2
:	:	:	8.0	7.8	7.7	7.6	7.5	7.7	7.8
:	:	:	10.1	10.2	9.9	9.8	9.6	9.1	8.8
16.2	15.8	15.1	13.9	13.8	13.4	13.0	12.6	12.5	12.4
5.0	4.7	5.3	5.2	5.4	4.8	4.4	3.7	3.5	3.4
3.1	2.9	3.0	1.1	1.0	0.9	1.2	1.2	1.2	1.2
:	:	:	0.9	1.0	1.1	1.2	1.3	1.3	1.4
42.5	41.2	40.3	39.2	39.1	37.8	37.1	35.8	35.4	35.0
– 1.6	– 1.5	– 2.3	– 2.1	– 1.2	0.4	1.2	3.0	3.4	3.8
:	:	:	1.4	1.4	1.3	1.3	1.3	1.3	1.2
40.8	39.7	38.0	38.4	39.3	39.6	39.6	40.0	40.0	40.0
4.1	3.9	3.7	3.7	3.1	3.1	3.2	3.3	3.4	3.5
:	:	:	2.5	2.0	1.9	1.9	2.1	2.0	2.0
47.6	45.8	45.0	45.4	44.3	42.7	42.2	41.1	40.7	40.5
36.4	36.0	35.0	34.0	34.4	34.9	35.2	35.8	35.9	36.0
– 6.7	– 6.1	– 7.0	– 6.9	– 5.0	– 3.2	– 2.6	– 1.1	– 0.7	– 0.4

Table A.1.6

Resources and expenditure of general government, France

(% of GDP)

	Former definitions					
	1980	1985	1989	1990	1991	1992
1. Taxes on production and imports	14.6	15.5	14.9	14.9	14.5	14.3
2. Current taxes on income and wealth	8.0	8.9	8.8	8.7	9.2	8.8
3. Social contributions	18.8	20.7	20.5	20.6	20.7	20.9
4. Of which actual social contributions	:	:	:	:	:	:
5. Other current resourses	3.2	3.8	3.6	4.0	3.9	4.1
6. Total current resources	44.7	48.8	47.9	48.2	48.2	48.0
7. Government consumption expenditure	17.4	18.9	17.7	17.7	17.9	18.5
8. Of which compensation of employees	13.2	14.3	13.1	13.0	13.1	13.4
9. Collective consumption	:	:	:	:	:	:
10. Social benefits in kind	:	:	:	:	:	:
11. Social transfers other than in kind	18.3	21.5	20.7	20.9	21.4	22.0
12. Interest payments	1.4	2.8	2.7	2.9	2.9	3.2
13. Subsidies	2.4	3.0	2.2	2.1	2.2	2.2
14. Other current expenditure	:	:	:	:	:	:
15. Total current expenditure	41.1	48.3	45.5	45.7	46.7	48.4
16. Gross savings	3.6	0.5	2.4	2.4	1.4	– 0.4
17. Capital transfers received	:	:	:	:	:	:
18. Total resources	44.7	48.8	47.9	48.2	48.2	48.0
19. Gross fixed capital formation	3.2	3.2	3.3	3.5	3.5	3.5
20. Other capital expenditure	:	:	:	:	:	:
21. Total expenditure	44.7	51.6	49.1	49.7	50.1	51.8
22. Tax burden	42.6	46.1	45.4	45.3	45.3	45.0
23. Net lending (+) or net borrowing (–)	0.0	– 2.8	– 1.2	– 1.5	– 2.0	– 3.9

([1]) The table is based on ESA95 definitions which do not necessarily correspond to the former definitions:
the totals are obtained in ESA95 as follows:
Line 6 = line 1 + line 2 + line 3 + line 5.
Line 7 = line 9 + line 10.
Line 15 = total of lines 9 to 14.
Line 16 = line 6 – line 15.
Line 18 = line 6 + line 17.
Line 21 = line 15 + line 19 + line 20.
Line 23 = line 18 – line 21.

Source: Commission services.

(% of GDP)

Former definitions			ESA95 definitions (1)						
1993	**1994**	**1995**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
14.3	14.7	14.9	15.4	16.1	16.1	16.0	15.9	15.5	15.3
9.0	9.2	9.4	8.5	8.9	9.5	11.5	12.2	11.9	11.8
21.1	20.7	21.0	20.5	20.7	20.2	18.3	18.6	18.4	18.2
:	:	:	18.7	18.9	18.3	16.4	16.7	16.5	16.4
4.1	3.7	3.8	3.7	4.0	3.9	3.8	3.6	3.7	3.6
48.4	48.3	49.0	48.0	49.7	49.6	49.6	50.4	49.5	48.9
19.4	19.2	19.0	23.9	24.2	24.0	23.6	23.6	23.1	22.7
14.0	14.0	14.1	13.7	13.9	13.8	13.7	13.7	13.5	13.3
:	:	:	9.8	9.9	9.9	9.5	9.4	9.3	9.1
:	:	:	14.1	14.2	14.1	14.1	14.1	13.9	13.6
23.1	22.9	23.0	18.5	18.7	18.8	18.5	18.5	18.1	17.7
3.3	3.5	3.7	3.8	3.9	3.7	3.6	3.3	3.1	3.2
2.4	2.3	2.3	1.5	1.5	1.5	1.4	1.4	1.3	1.3
:	:	:	1.6	1.7	1.7	1.8	1.8	1.8	1.8
50.7	50.4	50.4	49.2	50.0	49.7	48.8	48.6	47.4	46.6
– 2.2	– 2.1	– 1.4	– 1.2	– 0.3	– 0.1	0.8	1.8	2.0	2.3
:	:	:	0.4	0.3	0.8	0.1	0.2	0.1	0.1
48.4	48.3	49.0	48.4	50.1	50.4	49.7	50.6	49.5	49.0
3.1	3.1	3.2	3.3	3.2	3.0	2.9	2.9	2.9	2.9
:	:	:	1.5	1.0	0.8	0.8	0.9	0.8	0.7
54.1	54.0	53.8	54.0	54.2	53.4	52.4	52.3	51.1	50.2
45.6	45.9	46.6	45.1	46.4	46.4	46.5	47.4	46.5	46.0
– 5.6	– 5.6	– 4.8	– 5.5	– 4.2	– 3.0	– 2.7	– 1.8	– 1.5	– 1.2

Table A.1.7

Resources and expenditure of general government, Ireland

(% of GDP)

	Former definitions					
	1980	1985	1989	1990	1991	1992
1. Taxes on production and imports	15.4	16.8	16.5	15.6	15.2	15.2
2. Current taxes on income and wealth	11.5	13.1	12.6	13.1	13.8	14.1
3. Social contributions	4.5	5.2	4.9	5.0	5.2	5.3
4. Of which actual social contributions	:	:	:	:	:	:
5. Other current resourses	3.3	3.9	2.3	2.3	2.5	2.5
6. Total current resources	34.6	38.9	36.3	36.0	36.7	37.1
7. Government consumption expenditure	18.2	16.9	13.8	14.3	15.1	15.4
8. Of which compensation of employees	11.8	11.5	9.8	9.9	10.5	10.7
9. Collective consumption	:	:	:	:	:	:
10. Social benefits in kind	:	:	:	:	:	:
11. Social transfers other than in kind	11.6	15.2	13.6	13.4	14.1	14.7
12. Interest payments	6.0	9.4	7.4	7.5	7.3	6.7
13. Subsidies	7.2	7.5	4.4	5.6	5.6	4.7
14. Other current expenditure	:	:	:	:	:	:
15. Total current expenditure	39.6	45.2	36.4	36.8	37.9	38.3
16. Gross savings	– 4.9	– 6.3	– 0.1	– 0.8	– 1.2	– 1.2
17. Capital transfers received	:	:	:	:	:	:
18. Total resources	34.6	38.9	36.3	36.0	36.7	37.1
19. Gross fixed capital formation	5.4	3.7	1.7	2.0	2.1	2.0
20. Other capital expenditure	:	:	:	:	:	:
21. Total expenditure	46.3	49.2	38.0	38.1	39.0	39.5
22. Tax burden	31.2	34.9	33.9	33.6	34.1	34.5
23. Net lending (+) or net borrowing (–)	– 11.6	– 10.2	– 1.7	– 2.2	– 2.3	– 2.4

(1) The table is based on ESA95 definitions which do not necessarily correspond to the former definitions:
the totals are obtained in ESA95 as follows:
Line 6 = line 1 + line 2 + line 3 + line 5.
Line 7 = line 9 + line 10.
Line 15 = total of lines 9 to 14.
Line 16 = line 6 – line 15.
Line 18 = line 6 + line 17.
Line 21 = line 15 + line 19 + line 20.
Line 23 = line 18 – line 21.

Source: Commission services.

(% of GDP)

Former definitions			ESA95 definitions [1]						
1993	1994	1995	1995	1996	1997	1998	1999	2000	2001
14.5	15.3	14.8	13.5	13.7	13.5	13.4	13.8	13.9	13.6
14.9	15.2	13.6	13.7	14.2	14.3	13.8	13.9	13.3	13.2
5.3	5.2	4.8	6.8	6.3	6.0	5.8	6.2	5.7	5.6
:	:	:	5.1	4.7	4.4	4.3	4.6	4.2	4.1
2.4	2.1	1.8	2.9	2.9	2.9	3.1	2.6	2.5	2.4
37.1	37.8	35.0	36.9	37.1	36.7	36.1	36.5	35.4	34.7
15.4	15.3	14.3	16.5	15.8	15.1	14.6	14.0	13.7	13.3
10.8	10.5	9.7	10.3	9.8	9.3	9.0	8.2	7.9	7.7
:	:	:	6.1	5.9	5.6	5.5	5.2	5.1	5.0
:	:	:	10.3	9.9	9.5	9.1	8.7	8.6	8.3
14.5	14.5	13.8	11.5	11.2	10.7	10.4	10.1	10.0	9.8
6.3	5.6	5.0	5.6	4.7	4.3	3.5	2.6	2.2	1.9
5.0	4.5	4.1	1.1	1.2	1.3	1.1	1.1	1.0	1.0
:	:	:	2.7	3.1	2.6	2.2	2.3	2.2	3.0
38.1	37.2	35.2	37.3	35.9	34.0	31.8	30.1	29.2	29.0
– 1.0	0.6	– 0.2	– 0.4	1.2	2.8	4.3	6.4	6.2	5.7
:	:	:	1.8	1.7	1.7	1.6	1.8	1.8	1.7
37.1	37.8	35.0	38.8	38.8	38.4	37.7	38.4	37.1	36.4
2.2	2.3	2.4	2.3	2.3	2.5	2.7	3.1	3.1	3.2
:	:	:	1.6	1.2	1.1	1.1	3.2	3.2	1.4
39.4	39.4	37.1	41.2	39.5	37.6	35.5	36.4	35.4	33.6
34.6	35.6	33.1	35.2	35.2	34.6	33.8	34.5	33.4	32.9
– 2.3	– 1.6	– 2.1	– 2.5	– 0.6	0.8	2.1	2.0	1.7	2.7

Table A.1.8

Resources and expenditure of general government, Italy

(% of GDP)

		Former definitions					
		1980	1985	1989	1990	1991	1992
1.	Taxes on production and imports	9.3	9.5	11.1	11.3	11.8	11.8
2.	Current taxes on income and wealth	9.6	13.0	14.3	14.3	14.4	14.6
3.	Social contributions	12.9	13.5	14.0	14.3	14.6	14.9
4.	Of which actual social contributions	:	:	:	:	:	:
5.	Other current resourses	2.4	2.9	2.8	2.9	3.0	3.3
6.	Total current resources	34.2	38.9	42.1	42.8	43.8	44.5
7.	Government consumption expenditure	14.9	16.6	16.7	17.4	17.4	17.5
8.	Of which compensation of employees	11.1	11.8	11.9	12.6	12.6	12.5
9.	Collective consumption	:	:	:	:	:	:
10.	Social benefits in kind	:	:	:	:	:	:
11.	Social transfers other than in kind	14.4	17.3	17.8	18.3	18.4	19.5
12.	Interest payments	5.4	8.0	8.7	9.4	10.1	11.4
13.	Subsidies	3.5	3.4	2.9	2.5	2.6	2.3
14.	Other current expenditure	:	:	:	:	:	:
15.	Total current expenditure	38.7	45.9	47.2	48.5	49.5	51.6
16.	Gross savings	– 4.6	– 6.9	– 5.1	– 5.7	– 5.7	– 7.1
17.	Capital transfers received	:	:	:	:	:	:
18.	Total resources	34.2	38.9	42.1	42.8	43.8	44.5
19.	Gross fixed capital formation	3.2	3.7	3.3	3.3	3.2	3.0
20.	Other capital expenditure	:	:	:	:	:	:
21.	Total expenditure	42.8	51.5	51.9	53.8	53.8	54.0
22.	Tax burden	31.8	36.1	39.2	40.0	40.9	41.5
23.	Net lending (+) or net borrowing (–)	– 8.6	– 12.5	– 9.8	– 11.0	– 10.0	– 9.5

([1]) The table is based on ESA95 definitions which do not necessarily correspond to the former definitions:
the totals are obtained in ESA95 as follows:
Line 6 = line 1 + line 2 + line 3 + line 5.
Line 7 = line 9 + line 10.
Line 15 = total of lines 9 to 14.
Line 16 = line 6 – line 15.
Line 18 = line 6 + line 17.
Line 21 = line 15 + line 19 + line 20.
Line 23 = line 18 – line 21.

Source: Commission services.

ANNEX

(% of GDP)

Former definitions			ESA95 definitions (1)						
1993	1994	1995	1995	1996	1997	1998	1999	2000	2001
12.7	12.3	12.4	12.1	11.8	12.5	15.4	15.3	15.3	15.2
16.0	14.8	14.5	14.7	15.3	16.1	14.4	15.1	14.6	14.6
15.4	14.8	14.6	14.8	15.0	15.4	12.9	12.7	12.6	12.5
:	:	:	13.0	14.6	15.0	12.5	12.4	12.3	12.1
3.6	3.6	3.7	3.1	3.2	3.3	3.2	3.2	3.2	3.2
47.7	45.5	45.3	44.7	45.4	47.2	45.9	46.4	45.7	45.4
17.5	17.0	15.9	17.9	18.1	18.2	18.0	18.1	17.8	17.6
12.4	11.9	11.3	11.2	11.5	11.6	10.7	10.7	10.5	10.3
:	:	:	7.6	7.6	7.6	7.6	7.7	7.6	7.5
:	:	:	10.3	10.4	10.6	10.4	10.4	10.2	10.1
19.7	19.7	19.1	16.7	16.9	17.3	17.0	17.4	17.2	17.0
12.0	10.9	11.3	11.5	11.5	9.4	8.1	6.8	6.4	6.0
2.7	2.4	1.9	1.5	1.5	1.2	1.3	1.3	1.3	1.2
:	:	:	1.0	1.2	1.2	1.2	1.2	1.2	1.2
53.1	51.0	49.1	48.5	49.1	47.3	45.6	44.9	43.9	43.0
– 5.4	– 5.4	– 3.8	– 3.8	– 3.7	– 0.2	0.3	1.5	1.9	2.4
:	:	:	0.8	:	:	:	:	:	:
47.7	45.5	45.3	45.5	45.8	48.2	46.6	46.9	46.3	46.0
2.6	2.3	2.2	2.1	2.2	2.2	2.4	2.6	2.6	2.5
:	:	:	2.5	1.6	1.3	1.4	1.4	1.3	1.3
57.1	54.6	52.9	53.1	52.9	50.9	49.4	48.8	47.8	46.8
44.2	42.1	41.9	42.2	42.8	44.2	43.2	43.7	43.0	42.8
– 9.4	– 9.1	– 7.6	– 7.6	– 7.1	– 2.7	– 2.8	– 1.9	– 1.5	– 0.8

Table A.1.9

Resources and expenditure of general government, Luxembourg

(% of GDP)

		Former definitions					
		1980	**1985**	**1989**	**1990**	**1991**	**1992**
1.	Taxes on production and imports	12.3	14.7	14.7	15.1	15.3	15.5
2.	Current taxes on income and wealth	15.5	17.3	:	:	:	:
3.	Social contributions	13.2	12.2	:	:	:	:
4.	Of which actual social contributions	:	:	:	:	:	:
5.	Other current resourses	6.2	5.6	:	:	:	:
6.	Total current resources	47.2	49.9	:	:	:	:
7.	Government consumption expenditure	14.3	13.5	11.8	12.7	12.6	12.4
8.	Of which compensation of employees	10.0	9.6	:	:	:	:
9.	Collective consumption	:	:	:	:	:	:
10.	Social benefits in kind	:	:	:	:	:	:
11.	Social transfers other than in kind	21.4	20.5	:	:	:	:
12.	Interest payments	1.1	1.0	:	0.4	0.4	0.3
13.	Subsidies	2.9	3.0	2.7	3.0	3.1	2.9
14.	Other current expenditure	:	:	:	:	:	:
15.	Total current expenditure	40.2	38.9	:	:	:	:
16.	Gross savings	7.0	11.0	:	:	:	:
17.	Capital transfers received	:	:	:	:	:	:
18.	Total resources	47.2	49.9	:	:	:	:
19.	Gross fixed capital formation	6.4	3.9	:	4.5	4.7	5.1
20.	Other capital expenditure	:	:	:	:	:	:
21.	Total expenditure	47.7	43.7	:	:	:	:
22.	Tax burden	39.7	42.7	:	:	:	:
23.	Net lending (+) or net borrowing (–)	– 0.4	6.2	:	4.7	1.8	0.7

([1]) The table is based on ESA95 definitions which do not necessarily correspond to the former definitions:
the totals are obtained in ESA95 as follows:
Line 6 = line 1 + line 2 + line 3 + line 5.
Line 7 = line 9 + line 10.
Line 15 = total of lines 9 to 14.
Line 16 = line 6 – line 15.
Line 18 = line 6 + line 17.
Line 21 = line 15 + line 19 + line 20.
Line 23 = line 18 – line 21.

Source: Commission services.

(% of GDP)

Former definitions			ESA95 definitions ([1])						
1993	**1994**	**1995**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
16.1	16.1	16.0	12.5	12.8	13.2	13.4	13.3	13.3	13.2
:	:	:	17.5	18.4	17.4	17.1	16.7	16.4	16.0
:	:	:	12.4	12.3	11.8	11.6	11.5	11.5	11.3
:	:	:	11.2	11.1	10.7	10.6	10.5	10.5	10.3
:	:	:	5.4	5.2	5.0	5.0	4.9	4.9	4.8
:	:	:	47.9	48.8	47.4	47.0	46.4	46.0	45.3
12.3	11.8	12.5	18.1	18.8	17.8	17.2	17.1	16.9	16.6
:	:	:	9.5	9.6	9.2	9.1	:	:	:
:	:	:	8.6	8.8	8.3	8.0	7.8	7.7	7.5
:	:	:	9.5	10.0	9.4	9.3	9.3	9.2	9.1
:	:	:	16.5	16.4	15.7	15.5	15.5	15.2	14.8
0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.3	0.3
2.8	2.8	2.0	1.7	2.0	1.8	1.8	1.8	1.7	1.6
:	:	:	3.1	2.7	2.9	3.4	3.4	3.4	3.3
:	:	:	39.8	40.2	38.6	38.3	38.1	37.5	36.6
:	:	:	8.1	8.5	8.8	8.8	8.3	8.6	8.7
:	:	:	0.2	0.1	0.2	0.1	0.1	0.1	0.1
:	:	:	48.1	48.9	47.6	47.2	46.5	46.2	45.4
5.1	4.2	4.4	4.6	4.7	4.2	4.6	4.9	5.1	5.2
:	:	:	1.4	1.3	1.2	1.1	1.0	1.0	1.0
:	:	:	45.8	46.2	44.0	43.9	44.1	43.6	42.7
:	:	:	43.7	44.6	43.4	42.9	42.3	41.9	41.2
1.6	2.6	1.8	2.2	2.7	3.6	3.2	2.4	2.6	2.7

Table A.1.10

Resources and expenditure of general government, the Netherlands

(% of GDP)

		Former definitions					
		1980	**1985**	**1989**	**1990**	**1991**	**1992**
1.	Taxes on production and imports	11.6	11.6	12.0	11.8	11.9	12.2
2.	Current taxes on income and wealth	15.1	12.2	13.4	14.9	16.2	15.3
3.	Social contributions	17.4	19.6	18.1	16.3	17.3	17.8
4.	Of which actual social contributions	:	:	:	:	:	:
5.	Other current resourses	6.3	8.7	4.7	4.9	5.2	4.8
6.	Total current resources	50.4	52.2	48.1	47.9	50.6	50.1
7.	Government consumption expenditure	16.7	15.1	14.3	14.0	13.9	14.1
8.	Of which compensation of employees	12.3	10.6	9.5	9.3	9.2	9.4
9.	Collective consumption	:	:	:	:	:	:
10.	Social benefits in kind	:	:	:	:	:	:
11.	Social transfers other than in kind	25.3	26.3	25.1	26.1	26.3	26.7
12.	Interest payments	3.7	6.1	5.8	5.7	5.9	6.0
13.	Subsidies	2.9	3.4	3.3	2.9	3.1	3.1
14.	Other current expenditure	:	:	:	:	:	:
15.	Total current expenditure	49.1	51.4	49.1	49.5	50.3	51.0
16.	Gross savings	1.3	0.9	– 1.0	– 1.5	0.3	– 0.9
17.	Capital transfers received	:	:	:	:	:	:
18.	Total resources	50.4	52.2	48.1	47.9	50.6	50.1
19.	Gross fixed capital formation	3.2	2.2	1.9	1.9	2.1	2.0
20.	Other capital expenditure	:	:	:	:	:	:
21.	Total expenditure	54.4	55.7	52.7	52.8	53.4	53.8
22.	Tax burden	43.6	43.1	43.0	42.7	45.0	44.8
23.	Net lending (+) or net borrowing (–)	– 4.1	– 3.5	– 4.6	– 4.9	– 2.8	– 3.8

([1]) The table is based on ESA95 definitions which do not necessarily correspond to the former definitions:
the totals are obtained in ESA95 as follows:
Line 6 = line 1 + line 2 + line 3 + line 5.
Line 7 = line 9 + line 10.
Line 15 = total of lines 9 to 14.
Line 16 = line 6 – line 15.
Line 18 = line 6 + line 17.
Line 21 = line 15 + line 19 + line 20.
Line 23 = line 18 – line 21.

Source: Commission services.

(% of GDP)

Former definitions			ESA95 definitions (1)						
1993	**1994**	**1995**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
12.4	12.3	12.3	10.7	11.2	11.4	11.6	12.2	12.2	12.6
16.1	13.4	12.5	12.4	12.9	12.4	12.2	12.3	11.8	11.5
17.8	18.2	18.2	17.2	16.6	16.6	16.4	17.1	16.9	14.8
:	:	:	16.0	15.5	15.5	15.3	15.9	15.8	13.7
4.6	4.0	3.7	6.0	5.8	5.5	5.1	4.9	4.7	4.6
50.8	48.0	46.6	46.3	46.5	46.0	45.3	46.4	45.6	43.4
14.2	13.8	13.8	24.0	23.1	22.9	23.0	23.0	22.6	22.1
9.6	9.2	9.2	10.8	10.4	10.2	10.2	10.3	10.0	9.8
:	:	:	11.6	11.3	11.1	11.0	11.1	10.8	10.5
:	:	:	12.5	11.9	11.9	11.9	12.0	11.9	11.6
26.9	25.8	25.1	15.3	14.8	13.9	13.0	12.7	12.2	11.7
6.0	5.6	5.7	5.9	5.6	5.1	4.9	4.4	4.0	3.6
2.9	2.5	1.8	1.1	1.2	1.5	1.5	1.5	1.4	1.4
:	:	:	1.1	1.2	1.2	1.2	1.2	1.3	1.2
51.2	49.0	47.7	47.4	45.9	44.7	43.5	43.0	41.6	40.1
– 0.3	– 1.0	– 1.1	– 1.1	0.6	1.3	1.8	3.4	4.0	3.3
:	:	:	0.3	0.6	0.4	0.4	0.4	0.4	0.4
50.8	48.0	46.6	46.6	47.0	46.4	45.7	46.8	46.0	43.8
2.0	2.0	1.9	3.0	3.1	2.9	2.8	3.1	3.2	3.1
:	:	:	0.4	– 0.1	0.0	0.2	0.2	0.2	0.2
53.9	51.6	50.4	50.8	48.9	47.6	46.5	46.2	45.0	43.4
45.8	43.5	42.5	41.5	41.7	41.5	41.2	42.4	41.8	39.7
– 3.1	– 3.6	– 3.8	– 4.2	– 1.8	– 1.2	– 0.8	0.5	1.0	0.4

Table A.1.11

Resources and expenditure of general government, Austria

(% of GDP)

		Former definitions					
		1980	1985	1989	1990	1991	1992
1.	Taxes on production and imports	15.7	16.2	15.9	15.6	15.4	15.5
2.	Current taxes on income and wealth	12.4	13.9	12.5	11.5	12.1	12.6
3.	Social contributions	14.3	14.5	14.5	15.4	15.5	16.1
4.	Of which actual social contributions	:	:	:	:	:	:
5.	Other current resourses	2.8	2.9	2.9	4.4	4.4	4.8
6.	Total current resources	45.2	47.5	45.8	46.9	47.3	49.0
7.	Government consumption expenditure	17.2	18.3	17.7	18.3	18.5	19.0
8.	Of which compensation of employees	11.5	12.3	12.0	11.6	11.8	12.0
9.	Collective consumption	:	:	:	:	:	:
10.	Social benefits in kind	:	:	:	:	:	:
11.	Social transfers other than in kind	18.3	19.7	19.5	19.4	19.6	19.8
12.	Interest payments	2.4	3.4	3.9	4.0	4.1	4.2
13.	Subsidies	2.9	2.8	2.6	2.8	3.0	3.0
14.	Other current expenditure	:	:	:	:	:	:
15.	Total current expenditure	41.0	44.4	43.9	44.7	45.6	46.3
16.	Gross savings	4.2	3.1	1.9	2.2	1.8	2.7
17.	Capital transfers received	:	:	:	:	:	:
18.	Total resources	45.2	47.5	45.8	46.9	47.3	49.0
19.	Gross fixed capital formation	4.3	3.6	3.3	3.1	3.2	3.2
20.	Other capital expenditure	:	:	:	:	:	:
21.	Total expenditure	46.8	49.9	48.6	49.3	50.3	51.0
22.	Tax burden	42.4	44.6	42.9	42.4	42.9	44.2
23.	Net lending (+) or net borrowing (–)	– 1.6	– 2.4	– 2.7	– 2.4	– 3.0	– 1.9

([1]) The table is based on ESA95 definitions which do not necessarily correspond to the former definitions:
the totals are obtained in ESA95 as follows:
Line 6 = line 1 + line 2 + line 3 + line 5.
Line 7 = line 9 + line 10.
Line 15 = total of lines 9 to 14.
Line 16 = line 6 – line 15.
Line 18 = line 6 + line 17.
Line 21 = line 15 + line 19 + line 20.
Line 23 = line 18 – line 21.

Source: Commission services.

(% of GDP)

Former definitions			ESA95 definitions (1)						
1993	**1994**	**1995**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
15.7	15.6	15.5	14.2	14.5	14.9	15.0	15.1	15.4	15.5
12.8	11.3	11.9	12.0	13.1	13.5	13.7	13.5	12.7	12.3
16.7	17.1	17.3	17.4	17.4	17.3	17.2	17.1	16.9	16.7
:	:	:	15.2	15.3	15.2	15.1	15.1	15.0	14.7
4.5	4.4	4.5	6.2	5.5	3.9	3.3	3.2	3.4	3.1
49.7	48.5	49.1	49.8	50.5	49.6	49.2	49.0	48.5	47.6
19.8	19.9	19.8	20.4	20.2	19.8	19.8	19.9	19.6	19.1
12.4	12.4	12.3	12.6	12.3	11.4	11.3	11.3	11.1	10.7
:	:	:	7.7	7.7	7.5	7.5	7.5	7.4	7.1
:	:	:	12.7	12.6	12.3	12.3	12.4	12.2	12.0
21.4	21.6	21.6	19.5	19.4	18.8	18.4	18.3	18.4	18.4
4.2	4.0	4.3	4.4	4.2	3.9	3.8	3.6	3.5	3.4
3.1	2.5	2.9	2.9	2.6	2.6	2.7	2.6	2.6	2.5
:	:	:	2.8	3.0	2.8	2.9	2.8	2.7	2.7
48.9	48.4	49.5	50.0	49.5	47.9	47.6	47.3	46.7	46.1
0.8	0.0	– 0.4	– 0.2	0.9	1.7	1.6	1.7	1.7	1.5
:	:	:	0.1	0.1	0.2	0.1	0.1	0.1	0.1
49.7	48.5	49.1	49.9	50.6	49.8	49.3	49.0	48.5	47.6
3.2	3.3	2.8	2.9	2.8	1.9	1.9	1.8	1.6	1.6
:	:	:	2.1	2.0	1.9	2.3	2.0	1.9	1.9
53.9	53.3	54.1	54.9	54.4	51.7	51.8	51.1	50.3	49.6
45.2	44.0	44.6	44.8	45.8	46.8	46.9	46.6	46.0	45.4
– 4.2	– 4.9	– 5.0	– 5.1	– 3.8	– 1.9	– 2.5	– 2.0	– 1.7	– 2.0

Table A.1.12

Resources and expenditure of general government, Portugal

(% of GDP)

		Former definitions					
		1980	1985	1989	1990	1991	1992
1.	Taxes on production and imports	12.4	13.9	13.2	13.2	13.1	13.9
2.	Current taxes on income and wealth	5.7	7.9	8.0	8.0	8.9	10.0
3.	Social contributions	8.1	8.8	9.7	10.2	10.7	11.2
4.	Of which actual social contributions	:	:	:	:	:	:
5.	Other current resourses	2.1	2.7	2.7	2.9	3.1	3.6
6.	Total current resources	28.4	33.4	33.6	34.4	35.8	38.7
7.	Government consumption expenditure	13.6	14.3	14.8	15.3	16.9	17.0
8.	Of which compensation of employees	10.4	10.4	11.6	12.0	13.0	14.0
9.	Collective consumption	:	:	:	:	:	:
10.	Social benefits in kind	:	:	:	:	:	:
11.	Social transfers other than in kind	9.5	10.6	11.1	11.5	12.7	13.6
12.	Interest payments	2.7	7.6	6.1	7.9	7.7	7.1
13.	Subsidies	6.1	6.9	1.4	1.5	1.3	1.2
14.	Other current expenditure	:	:	:	:	:	:
15.	Total current expenditure	31.9	39.5	32.6	35.8	38.3	37.9
16.	Gross savings	– 3.6	– 6.1	1.0	– 1.4	– 2.5	0.8
17.	Capital transfers received	:	:	:	:	:	:
18.	Total resources	28.4	33.4	33.6	34.4	35.8	38.7
19.	Gross fixed capital formation	4.2	3.3	3.2	3.2	3.3	3.7
20.	Other capital expenditure	:	:	:	:	:	:
21.	Total expenditure	36.9	43.7	35.9	39.4	41.7	41.6
22.	Tax burden	25.6	29.3	31.8	32.4	33.7	36.1
23.	Net lending (+) or net borrowing (–)	– 8.6	– 10.3	– 2.3	– 5.0	– 5.9	– 2.9

([1]) The table is based on ESA95 definitions which do not necessarily correspond to the former definitions:
the totals are obtained in ESA95 as follows:
Line 6 = line 1 + line 2 + line 3 + line 5.
Line 7 = line 9 + line 10.
Line 15 = total of lines 9 to 14.
Line 16 = line 6 – line 15.
Line 18 = line 6 + line 17.
Line 21 = line 15 + line 19 + line 20.
Line 23 = line 18 – line 21.

Source: Commission services.

(% of GDP)

Former definitions			ESA95 definitions ([1])						
1993	1994	1995	1995	1996	1997	1998	1999	2000	2001
13.1	13.5	13.7	14.4	14.6	14.5	14.9	15.4	16.0	16.3
9.1	8.9	9.1	9.3	10.0	10.2	10.0	10.7	10.8	11.0
11.9	11.6	11.7	10.1	10.5	10.5	10.8	12.3	12.6	12.7
:	:	:	10.0	10.5	10.5	10.8	11.4	11.6	11.7
3.2	2.6	2.8	4.8	4.9	4.5	4.6	4.5	4.5	4.4
37.2	36.6	37.4	38.6	39.9	39.8	40.4	42.9	43.8	44.3
17.6	17.3	17.4	18.9	19.2	19.4	19.7	20.3	20.6	20.8
14.3	13.8	13.8	13.8	13.9	14.1	14.3	15.1	14.9	14.7
:	:	:	8.1	7.4	7.6	7.7	8.0	8.1	8.1
:	:	:	10.7	11.8	11.8	12.0	12.4	12.5	12.6
15.2	14.9	15.2	11.7	11.9	13.2	13.3	13.3	13.7	13.9
6.1	6.1	6.2	6.3	5.4	4.3	3.6	3.4	3.3	3.3
1.3	1.2	1.1	1.9	1.5	1.2	1.4	1.0	0.9	0.9
:	:	:	1.5	1.9	0.5	1.3	2.8	2.8	2.8
39.3	39.4	39.7	40.1	39.9	38.7	39.3	40.8	41.3	41.7
– 2.1	– 2.8	– 2.3	– 0.8	0.0	1.1	1.1	2.1	2.5	2.6
:	:	:	1.9	2.1	2.4	2.6	2.9	2.9	2.9
37.2	36.6	37.4	40.6	42.0	42.2	43.0	45.9	46.8	47.2
4.0	3.5	3.7	3.8	4.2	4.4	4.4	4.6	4.6	4.7
:	:	:	1.6	1.7	1.7	1.4	2.4	2.4	2.4
43.2	42.5	43.0	45.4	45.8	44.8	45.1	47.8	48.3	48.7
35.0	35.2	35.5	34.1	35.1	35.2	35.7	38.4	39.4	39.9
– 6.0	– 5.9	– 5.6	– 4.2	– 3.8	– 2.6	– 2.1	– 2.0	– 1.5	– 1.5

Table A.1.13

Resources and expenditure of general government, Finland

(% of GDP)

		Former definitions					
		1980	**1985**	**1989**	**1990**	**1991**	**1992**
1.	Taxes on production and imports	13.1	14.1	15.2	14.9	15.0	14.7
2.	Current taxes on income and wealth	14.2	16.5	16.5	17.7	17.6	16.9
3.	Social contributions	10.9	11.4	11.4	12.9	13.6	14.6
4.	Of which actual social contributions	:	:	:	:	:	:
5.	Other current resourses	3.8	5.1	5.5	5.9	6.8	7.6
6.	Total current resources	42.0	47.0	48.7	51.4	53.1	53.7
7.	Government consumption expenditure	17.6	19.8	19.4	20.8	23.8	24.3
8.	Of which compensation of employees	12.0	13.9	13.6	14.4	16.8	17.3
9.	Collective consumption	:	:	:	:	:	:
10.	Social benefits in kind	:	:	:	:	:	:
11.	Social transfers other than in kind	12.5	15.3	14.1	15.5	19.3	23.2
12.	Interest payments	1.0	1.8	1.5	1.4	1.9	2.6
13.	Subsidies	3.2	3.1	2.8	2.8	3.4	3.5
14.	Other current expenditure	:	:	:	:	:	:
15.	Total current expenditure	34.6	40.5	39.3	42.2	50.5	55.8
16.	Gross savings	7.4	6.5	9.4	9.1	2.6	– 2.1
17.	Capital transfers received	:	:	:	:	:	:
18.	Total resources	42.0	47.0	48.7	51.4	53.1	53.7
19.	Gross fixed capital formation	3.8	3.6	3.1	3.7	3.8	3.5
20.	Other capital expenditure	:	:	:	:	:	:
21.	Total expenditure	38.6	44.2	42.5	46.1	54.5	59.5
22.	Tax burden	38.3	42.3	43.9	45.8	46.6	46.5
23.	Net lending (+) or net borrowing (–)	3.3	2.8	6.2	5.3	– 1.5	– 5.7

([1]) The table is based on ESA95 definitions which do not necessarily correspond to the former definitions:
the totals are obtained in ESA95 as follows:
Line 6 = line 1 + line 2 + line 3 + line 5.
Line 7 = line 9 + line 10.
Line 15 = total of lines 9 to 14.
Line 16 = line 6 – line 15.
Line 18 = line 6 + line 17.
Line 21 = line 15 + line 19 + line 20.
Line 23 = line 18 – line 21.

Source: Commission services.

(% of GDP)

Former definitions			ESA95 definitions ([1])						
1993	1994	1995	1995	1996	1997	1998	1999	2000	2001
14.5	14.2	13.6	13.7	13.5	14.3	14.1	14.2	14.0	14.0
15.2	16.8	16.7	17.4	18.9	18.4	18.9	18.7	18.8	18.5
15.0	15.8	14.8	14.9	14.3	13.4	13.1	13.1	13.0	13.0
:	:	:	14.6	14.0	13.2	13.0	13.0	13.0	12.9
8.0	6.7	7.0	7.3	6.7	6.3	6.0	5.9	5.7	5.4
52.7	53.5	52.0	53.2	53.5	52.3	52.1	51.8	51.5	50.9
22.8	21.8	21.2	22.8	23.2	22.4	21.7	21.3	20.5	19.7
16.2	15.2	14.8	15.4	15.6	14.6	14.0	13.8	13.6	13.4
:	:	:	8.3	8.4	8.4	8.1	7.9	7.5	7.2
:	:	:	14.5	14.8	14.1	13.7	13.4	13.0	12.5
24.7	24.5	22.9	22.2	21.5	19.9	18.5	18.0	17.2	16.9
4.5	5.0	5.2	4.0	4.3	4.3	3.7	3.6	3.3	3.1
3.3	3.0	3.2	2.8	2.1	1.9	1.8	1.7	1.6	1.6
:	:	:	1.9	2.1	2.3	2.2	2.3	2.1	2.0
57.7	56.4	54.3	53.7	53.0	50.7	47.9	46.8	44.8	43.2
– 5.0	– 2.9	– 2.2	– 0.5	0.4	1.6	4.2	5.0	6.8	7.6
:	:	:	0.2	0.2	0.3	0.3	0.3	0.3	0.3
52.7	53.5	52.0	53.4	53.7	52.6	52.4	52.1	51.8	51.1
2.8	2.9	2.7	2.8	2.9	3.2	2.9	2.8	2.7	2.6
:	:	:	0.6	0.9	0.3	0.3	0.2	0.2	0.2
60.6	59.5	57.1	57.1	56.9	54.1	51.1	49.8	47.7	46.1
44.9	47.2	45.9	46.6	47.4	46.7	46.7	46.5	46.5	46.2
– 7.9	– 6.0	– 5.0	– 3.7	– 3.2	– 1.5	1.3	2.3	4.1	5.0

Table A.1.14

Resources and expenditure of general government, Sweden

(% of GDP)

		Former definitions					
		1980	1985	1989	1990	1991	1992
1.	Taxes on production and imports	13.0	15.9	15.7	16.6	17.1	15.7
2.	Current taxes on income and wealth	20.7	20.2	24.4	22.6	19.2	19.8
3.	Social contributions	14.7	13.5	14.6	15.0	14.9	14.3
4.	Of which actual social contributions	:	:	:	:	:	:
5.	Other current resourses	7.2	9.3	8.4	8.4	8.2	9.0
6.	Total current resources	55.6	59.0	63.1	62.7	59.5	58.8
7.	Government consumption expenditure	28.3	26.9	25.3	26.4	26.3	27.0
8.	Of which compensation of employees	20.0	18.2	17.3	18.1	18.3	18.7
9.	Collective consumption	:	:	:	:	:	:
10.	Social benefits in kind	:	:	:	:	:	:
11.	Social transfers other than in kind	17.4	18.1	19.2	19.2	20.6	22.7
12.	Interest payments	3.9	8.1	5.2	4.8	5.0	5.2
13.	Subsidies	4.2	4.9	4.4	4.6	4.9	5.3
14.	Other current expenditure	:	:	:	:	:	:
15.	Total current expenditure	54.9	59.0	55.3	56.3	58.1	62.0
16.	Gross savings	0.7	– 0.1	7.8	6.3	1.4	– 3.3
17.	Capital transfers received	:	:	:	:	:	:
18.	Total resources	55.6	59.0	63.1	62.7	59.5	58.8
19.	Gross fixed capital formation	4.1	3.0	2.4	2.3	2.2	2.6
20.	Other capital expenditure	:	:	:	:	:	:
21.	Total expenditure	59.5	62.7	57.9	58.6	60.6	66.3
22.	Tax burden	48.4	49.6	54.7	54.2	51.3	49.8
23.	Net lending (+) or net borrowing (–)	– 3.9	– 3.7	5.2	4.0	– 1.1	– 7.5

([1]) The table is based on ESA95 definitions which do not necessarily correspond to the former definitions:
the totals are obtained in ESA95 as follows:
Line 6 = line 1 + line 2 + line 3 + line 5.
Line 7 = line 9 + line 10.
Line 15 = total of lines 9 to 14.
Line 16 = line 6 – line 15.
Line 18 = line 6 + line 17.
Line 21 = line 15 + line 19 + line 20.
Line 23 = line 18 – line 21.

Source: Commission services.

(% of GDP)

Former definitions			ESA95 definitions (1)						
1993	1994	1995	1995	1996	1997	1998	1999	2000	2001
15.1	14.3	13.8	13.7	14.3	14.8	15.5	17.0	14.8	14.6
20.1	20.3	20.8	20.2	21.6	21.8	22.6	22.4	21.3	20.7
13.9	13.8	14.2	15.3	16.3	16.1	16.1	15.1	16.6	16.7
:	:	:	13.5	14.6	14.5	14.5	13.4	15.1	15.2
9.2	8.5	8.1	7.3	6.9	6.2	6.2	5.7	5.6	5.5
58.2	57.0	56.9	56.5	59.1	58.9	60.4	60.2	58.3	57.5
27.1	26.1	24.8	26.3	27.1	26.7	26.7	27.0	26.8	26.5
18.5	17.6	16.7	17.3	17.8	17.5	16.9	16.8	16.5	16.3
:	:	:	:	:	:	:	:	:	:
:	:	:	:	:	:	:	:	:	:
24.4	24.1	22.5	22.4	21.2	20.7	20.4	20.0	19.2	18.6
6.0	6.6	6.8	7.1	7.1	6.9	6.2	5.5	4.7	4.1
5.7	5.1	4.9	3.9	3.4	2.9	2.5	2.1	1.7	1.9
:	:	:	0.9	0.9	0.9	1.1	1.1	1.2	1.1
65.1	63.6	61.4	60.8	59.8	58.1	56.9	55.7	53.6	52.2
– 6.9	– 6.6	– 4.5	– 4.3	– 0.7	0.8	3.5	4.5	4.7	5.3
:	:	:	0.2	0.2	0.1	0.2	0.2	0.1	0.1
58.2	57.0	56.9	56.7	59.3	59.1	60.6	60.4	58.5	57.6
1.0	2.9	2.8	3.4	3.0	2.6	2.7	2.8	2.5	2.5
:	:	:	0.4	– 0.2	0.4	– 0.9	0.0	– 0.1	– 0.1
70.1	66.9	64.4	64.6	62.6	61.1	58.7	58.5	56.0	54.7
49.0	48.5	48.8	49.3	53.8	53.4	54.9	55.1	53.3	52.6
– 11.9	– 9.9	– 7.5	– 7.9	– 3.4	– 2.0	1.9	1.9	2.4	2.9

Table A.1.15

Resources and expenditure of general government, United Kingdom

(% of GDP)

		Former definitions					
		1980	1985	1989	1990	1991	1992
1.	Taxes on production and imports	15.9	16.0	15.7	15.7	16.0	15.7
2.	Current taxes on income and wealth	13.5	14.6	13.7	13.9	12.9	12.2
3.	Social contributions	6.1	6.8	6.5	6.2	6.2	6.1
4.	Of which actual social contributions	:	:	:	:	:	:
5.	Other current resourses	4.5	4.1	2.9	2.7	2.5	2.3
6.	Total current resources	39.9	41.5	38.9	38.5	37.6	36.3
7.	Government consumption expenditure	21.8	21.2	19.9	20.4	21.3	21.8
8.	Of which compensation of employees	12.8	12.2	11.5	11.5	11.8	11.9
9.	Collective consumption	:	:	:	:	:	:
10.	Social benefits in kind	:	:	:	:	:	:
11.	Social transfers other than in kind	10.7	12.8	10.6	10.6	11.9	13.2
12.	Interest payments	4.7	5.0	3.7	3.1	2.7	2.7
13.	Subsidies	2.5	2.0	1.1	1.1	1.0	1.1
14.	Other current expenditure	:	:	:	:	:	:
15.	Total current expenditure	40.4	42.0	36.1	36.0	37.1	39.6
16.	Gross savings	– 0.5	– 0.5	2.7	2.4	0.5	– 3.3
17.	Capital transfers received	:	:	:	:	:	:
18.	Total resources	39.9	41.5	38.9	38.5	37.6	36.3
19.	Gross fixed capital formation	2.5	2.1	1.8	2.3	2.1	2.0
20.	Other capital expenditure	:	:	:	:	:	:
21.	Total expenditure	43.4	44.4	37.9	39.4	39.9	42.4
22.	Tax burden	33.6	35.4	33.8	33.5	33.3	32.2
23.	Net lending (+) or net borrowing (–)	– 3.4	– 2.9	1.0	– 0.9	– 2.3	– 6.1

([1]) The table is based on ESA95 definitions which do not necessarily correspond to the former definitions:
the totals are obtained in ESA95 as follows:
Line 6 = line 1 + line 2 + line 3 + line 5.
Line 7 = line 9 + line 10.
Line 15 = total of lines 9 to 14.
Line 16 = line 6 – line 15.
Line 18 = line 6 + line 17.
Line 21 = line 15 + line 19 + line 20.
Line 23 = line 18 – line 21.

Source: Commission services.

ANNEX

(% of GDP)

Former definitions			ESA95 definitions [1]						
1993	1994	1995	1995	1996	1997	1998	1999	2000	2001
15.4	15.5	15.8	13.2	13.3	13.6	13.6	13.8	13.7	13.9
11.5	11.9	12.7	15.0	14.9	15.1	16.4	16.4	16.2	15.9
6.2	6.2	6.2	7.6	7.5	7.5	7.7	7.6	7.5	7.5
:	:	:	6.8	6.8	6.9	7.0	6.9	6.9	6.9
2.3	2.2	2.2	2.8	2.9	2.6	2.6	2.2	2.2	2.1
35.3	35.9	37.0	38.6	38.6	38.9	40.2	40.1	39.7	39.4
21.7	21.4	21.1	19.7	19.4	18.4	18.2	18.2	18.1	18.2
10.7	9.1	8.5	8.8	8.3	7.9	7.8	7.8	7.8	7.8
:	:	:	8.2	8.1	7.5	7.5	7.5	7.4	7.5
:	:	:	11.5	11.3	10.9	10.7	10.7	10.7	10.8
13.9	13.7	13.5	15.4	14.9	14.5	13.8	13.5	13.3	13.4
2.8	3.2	3.4	3.7	3.7	3.7	3.6	2.9	3.0	2.7
1.1	1.1	1.1	0.7	0.8	0.6	0.5	0.5	0.5	0.5
:	:	:	1.9	2.0	2.0	2.2	1.9	2.0	1.9
40.3	40.1	40.1	41.5	40.8	39.2	38.3	37.2	37.0	36.7
– 5.0	– 4.2	– 3.1	– 2.9	– 2.2	– 0.3	1.9	2.9	2.7	2.7
:	:	:	0.6	0.9	0.6	0.6	0.6	0.6	0.5
35.3	35.9	37.0	39.2	39.5	39.5	40.5	40.5	40.0	39.8
1.8	1.8	1.7	2.0	1.5	1.2	1.3	1.2	1.4	1.6
:	:	:	1.6	1.5	1.1	0.9	1.0	1.0	1.0
43.1	42.6	42.4	45.0	43.8	41.5	40.2	39.3	39.1	39.1
31.5	32.1	33.2	36.8	36.6	37.0	38.4	38.5	38.1	37.9
– 7.8	– 6.7	– 5.5	– 5.8	– 4.4	– 2.0	0.3	1.2	0.9	0.7

ANNEX

Table A.1.16

Resources and expenditure of general government, euro area (1)

(% of GDP)

		Former definitions					
		1980	1985	1989	1990	1991	1992
1.	Taxes on production and imports	12.3	12.6	12.8	12.7	12.6	12.7
2.	Current taxes on income and wealth	10.8	11.7	12.2	11.9	12.1	12.1
3.	Social contributions	15.9	16.8	16.5	16.4	16.8	17.2
4.	Of which actual social contributions	:	:	:	:	:	:
5.	Other current resourses	3.0	3.7	3.2	3.3	3.4	3.6
6.	Total current resources	42.0	44.8	44.6	44.4	44.8	45.6
7.	Government consumption expenditure	17.4	18.0	17.2	17.2	17.7	18.1
8.	Of which compensation of employees	11.7	12.0	11.4	11.4	11.6	11.8
9.	Collective consumption	:	:	:	:	:	:
10.	Social benefits in kind	:	:	:	:	:	:
11.	Social transfers other than in kind	17.2	18.7	18.1	18.2	18.7	19.4
12.	Interest payments	2.6	4.4	4.6	4.8	4.9	5.4
13.	Subsidies	2.7	3.0	2.5	2.4	2.5	2.3
14.	Other current expenditure	:	:	:	:	:	:
15.	Total current expenditure	40.8	45.3	43.7	44.4	45.3	46.7
16.	Gross savings	1.1	– 0.5	0.8	– 0.1	– 0.4	– 1.1
17.	Capital transfers received	:	:	:	:	:	:
18.	Total resources	42.0	44.8	44.6	44.4	44.8	45.6
19.	Gross fixed capital formation	3.3	3.0	3.0	3.0	3.1	3.0
20.	Other capital expenditure	:	:	:	:	:	:
21.	Total expenditure	45.4	49.6	47.7	48.5	49.4	50.2
22.	Tax burden	39.3	41.4	41.8	41.4	41.6	42.1
23.	Net lending (+) or net borrowing (–)	– 3.4	– 4.8	– 3.1	– 4.2	– 4.5	– 4.7

(1) Due to problems with availability of the data, Luxembourg data are not included.
From 1991 including former East Germany.

(2) The table is based on ESA95 definitions which do not necessarily correspond to the former definitions:
the totals are obtained in ESA95 as follows:
Line 6 = line 1 + line 2 + line 3 + line 5.
Line 7 = line 9 + line 10.
Line 15 = total of lines 9 to 14.
Line 16 = line 6 – line 15.
Line 18 = line 6 + line 17.
Line 21 = line 15 + line 19 + line 20.
Line 23 = line 18 – line 21.

Source: Commission services.

(% of GDP)

Former definitions			ESA95 definitions (2)						
1993	**1994**	**1995**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
12.9	13.2	13.0	12.5	12.7	12.9	13.5	13.8	13.7	13.8
12.2	11.7	11.7	11.5	12.0	12.2	12.4	12.9	12.6	12.2
17.8	17.8	17.8	17.5	17.7	17.6	16.5	16.6	16.3	15.9
:	:	:	16.1	16.5	16.4	15.4	15.4	15.1	14.7
3.7	3.5	3.3	3.8	3.9	3.7	3.6	3.5	3.4	3.3
46.6	46.1	45.9	45.3	46.2	46.3	46.1	46.7	46.1	45.2
18.4	18.1	17.9	20.6	20.7	20.4	20.0	20.0	19.7	19.3
12.0	11.7	11.6	11.1	11.2	11.0	10.8	10.7	10.5	10.3
:	:	:	8.6	8.6	8.5	8.3	8.2	8.1	8.0
:	:	:	12.0	12.1	11.9	11.8	11.8	11.6	11.3
20.3	20.3	20.2	17.3	17.7	17.6	17.2	17.2	17.0	16.6
5.5	5.3	5.5	5.5	5.6	5.1	4.7	4.3	4.1	3.9
2.5	2.3	2.3	1.7	1.7	1.5	1.6	1.5	1.5	1.4
:	:	:	1.4	1.4	1.4	1.5	1.6	1.6	1.6
48.3	47.5	47.2	46.5	47.1	46.1	45.0	44.7	43.8	42.9
– 1.7	– 1.4	– 1.4	– 1.2	– 1.0	0.2	1.0	2.0	2.2	2.3
:	:	:	0.6	:	:	:	:	:	:
46.6	46.1	45.9	45.9	46.7	47.1	46.6	47.2	46.6	45.7
2.9	2.7	2.6	2.7	2.6	2.4	2.4	2.5	2.5	2.4
:	:	:	4.0	1.2	1.1	1.2	1.3	1.2	1.1
52.1	51.1	50.7	50.9	51.0	49.6	48.6	48.4	47.5	46.5
43.0	42.8	42.7	42.2	42.9	43.3	43.1	43.9	43.3	42.6
– 5.5	– 5.0	– 4.8	– 5.0	– 4.3	– 2.6	– 2.0	– 1.2	– 0.9	– 0.8

Table A.1.17

Resources and expenditure of general government, EU-15 ([1])

(% of GDP)

		Former definitions					
		1980	1985	1989	1990	1991	1992
1.	Taxes on production and imports	12.9	13.4	13.4	13.4	13.4	13.3
2.	Current taxes on income and wealth	11.8	12.7	13.1	12.8	12.7	12.6
3.	Social contributions	14.0	14.7	14.5	14.5	14.8	15.2
4.	Of which actual social contributions	:	:	:	:	:	:
5.	Other current resourses	3.5	4.0	3.4	3.5	3.5	3.7
6.	Total current resources	42.2	44.8	44.4	44.2	44.3	44.8
7.	Government consumption expenditure	18.6	19.0	18.0	18.1	18.6	19.0
8.	Of which compensation of employees	12.3	12.4	11.7	11.8	12.0	12.1
9.	Collective consumption	:	:	:	:	:	:
10.	Social benefits in kind	:	:	:	:	:	:
11.	Social transfers other than in kind	16.1	17.6	16.9	17.1	17.7	18.6
12.	Interest payments	3.0	4.8	4.6	4.7	4.7	5.2
13.	Subsidies	2.7	2.9	2.4	2.3	2.4	2.3
14.	Other current expenditure	:	:	:	:	:	:
15.	Total current expenditure	41.3	45.3	43.2	43.8	44.7	46.4
16.	Gross savings	0.8	– 0.6	1.3	0.4	– 0.3	– 1.6
17.	Capital transfers received	:	:	:	:	:	:
18.	Total resources	42.2	44.8	44.4	44.2	44.3	44.8
19.	Gross fixed capital formation	3.2	2.9	2.7	2.9	2.9	2.9
20.	Other capital expenditure	:	:	:	:	:	:
21.	Total expenditure	45.5	49.3	46.7	47.7	48.5	49.8
22.	Tax burden	38.7	40.7	41.0	40.7	40.7	41.0
23.	Net lending (+) or net borrowing (–)	– 3.4	– 4.5	– 2.2	– 3.5	– 4.1	– 5.0

([1]) Due to problems with availability of the data, Luxembourg data are not included.
From 1991 including former East Germany.

([2]) The table is based on ESA95 definitions which do not necessarily correspond to the former definitions:
the totals are obtained in ESA95 as follows:
Line 6 = line 1 + line 2 + line 3 + line 5.
Line 7 = line 9 + line 10.
Line 15 = total of lines 9 to 14.
Line 16 = line 6 – line 15.
Line 18 = line 6 + line 17.
Line 21 = line 15 + line 19 + line 20.
Line 23 = line 18 – line 21.

Source: Commission services.

(% of GDP)

Former definitions			ESA95 definitions (2)						
1993	**1994**	**1995**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
13.4	13.6	13.5	12.7	12.9	13.2	13.7	14.0	13.9	13.9
12.6	12.3	12.4	12.5	13.0	13.2	13.7	14.0	13.8	13.4
15.7	15.7	15.8	15.8	15.9	15.6	14.7	14.7	14.4	14.1
:	:	:	14.4	14.8	14.5	13.6	13.6	13.3	13.1
3.7	3.5	3.4	3.9	3.9	3.6	3.5	3.4	3.3	3.2
45.4	45.1	45.1	44.9	45.7	45.6	45.6	46.1	45.4	44.7
19.2	18.9	18.7	20.7	20.7	20.3	20.0	20.0	19.7	19.4
12.1	11.6	11.4	11.1	11.1	10.9	10.6	10.5	10.4	10.2
:	:	:	:	:	:	:	:	:	:
:	:	:	:	:	:	:	:	:	:
19.5	19.4	19.3	17.3	17.4	17.2	16.7	16.7	16.4	16.1
5.3	5.2	5.4	5.4	5.5	5.0	4.6	4.1	3.9	3.7
2.4	2.3	2.2	1.6	1.6	1.4	1.4	1.4	1.3	1.3
:	:	:	1.4	1.5	1.5	1.6	1.7	1.7	1.7
47.8	47.1	46.9	46.4	46.8	45.4	44.4	43.8	43.0	42.2
– 2.4	– 2.0	– 1.7	– 1.6	– 1.1	0.2	1.3	2.3	2.4	2.5
:	:	:	0.6	:	:	:	:	:	:
45.4	45.1	45.1	45.5	46.2	46.3	46.1	46.6	45.9	45.1
2.7	2.6	2.5	2.6	2.4	2.2	2.2	2.3	2.3	2.3
:	:	:	3.5	1.2	1.1	1.0	1.1	1.1	1.0
51.5	50.5	50.2	50.6	50.4	48.7	47.6	47.2	46.3	45.5
41.6	41.5	41.7	41.7	42.4	42.6	42.8	43.4	42.7	42.1
– 6.0	– 5.4	– 5.0	– 5.2	– 4.2	– 2.4	– 1.5	– 0.6	– 0.4	– 0.3

Table A.2.1

Contributions to the change in the general government gross debt ratio

(% of GDP)

Belgium	Former definitions					
	1980	1985	1989	1990	1991	1992
1. Net borrowing ([1])	8.6	9.0	6.1	5.4	6.2	6.9
2. Interest payments	5.9	10.4	10.1	10.4	10.0	10.6
3. Implicit interest rate ([2])	9.4	9.7	8.6	8.8	8.4	8.8
4. Nominal GDP growth rate (%)	8.8	7.1	8.8	5.8	4.8	5.3
Budgetary constraint based on the deficit						
5. Deficit (net borrowing) ([1])	8.6	9.0	6.1	5.4	6.2	6.9
6. Contribution of nominal GDP growth	– 5.5	– 7.7	– 10.3	– 6.8	– 5.7	– 6.3
7. Stock-flow adjustment ([3])	4.0	1.3	– 0.9	0.4	0.2	– 0.2
Budgetary constraint based on the primary deficit						
8. Primary deficit ([4])	2.7	– 1.4	– 4.0	– 5.0	– 3.8	– 3.7
9. Snowball effect ([5])	1.1	3.6	1.0	4.7	5.3	4.6
10. Stock-flow adjustment ([3])	4.0	1.3	– 0.9	0.4	0.2	– 0.2
11. Change in gross debt ([6])	8.1	4.0	– 3.6	0.4	1.8	1.4
12. Level of gross debt (end of year)	76.6	119.3	124.4	124.7	126.5	127.9

Denmark	1980	1985	1989	1990	1991	1992
1. Net borrowing ([1])	3.2	2.0	– 0.3	1.0	2.4	2.2
2. Interest payments	3.8	9.4	7.2	7.3	7.3	6.6
3. Implicit interest rate ([2])	:	13.9	12.7	13.2	13.1	11.0
4. Nominal GDP growth rate (%)	7.8	8.8	5.4	4.7	3.9	3.5
Budgetary constraint based on the deficit						
5. Deficit (net borrowing) ([1])	3.2	2.0	– 0.3	1.0	2.4	2.2
6. Contribution of nominal GDP growth	– 2.2	– 5.9	– 3.1	– 2.6	– 2.2	– 2.1
7. Stock-flow adjustment ([3])	:	:	:	:	:	:
Budgetary constraint based on the primary deficit						
8. Primary deficit ([4])	– 0.7	– 7.7	– 7.5	– 6.3	– 4.9	– 4.4
9. Snowball effect ([5])	:	:	:	:	:	:
10. Stock-flow adjustment ([3])	:	:	:	:	:	:
11. Change in gross debt ([6])	7.3	– 3.0	– 2.2	– 0.1	4.6	4.0
12. Level of gross debt (end of year)	37.6	70.4	57.8	57.7	62.3	66.3

([1]) Line 1 = line 5, a minus sign means a surplus.
([2]) Actual interest payments as percentage of gross debt at end of t–1.
([3]) Line 7 = line 10; due to a change in definition there are no data for 1996.
([4]) Net borrowing excl. interest payments, line 8 = line 1 – line 2. A minus sign means a primary surplus.
([5]) Due to a change in definition there are no data for 1996.
([6]) Line 11 = total of lines 5, 6 and 7 or 8, 9 and 10.

Source: Commission services.

(% of GDP)

Former definitions			ESA95 definitions					
1993	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
7.2	4.8	3.9	3.7	2.0	1.0	0.9	0.5	0.2
10.7	10.0	8.8	8.7	7.9	7.7	7.2	6.9	6.6
8.5	7.8	7.0	6.9	6.5	6.5	6.3	6.3	6.3
2.2	4.9	4.3	2.2	4.9	4.3	3.4	4.7	4.8
7.2	4.8	3.9	3.7	2.0	1.0	0.9	0.5	0.2
– 2.7	– 6.2	– 5.5	– 2.7	– 6.0	– 5.1	– 3.8	– 5.1	– 5.1
2.2	– 0.5	– 1.6	:	– 1.3	– 1.6	0.0	0.2	0.0
– 3.5	– 5.2	– 4.9	– 5.0	– 5.9	– 6.6	– 6.3	– 6.4	– 6.4
8.2	3.2	3.6	:	1.9	2.6	3.4	1.7	1.6
2.2	– 0.5	– 1.6	:	– 1.3	– 1.6	0.0	0.2	0.0
6.7	– 1.8	– 2.9	– 2.9	– 5.3	– 5.6	– 3.0	– 4.4	– 4.8
134.6	132.7	129.8	128.3	123.0	117.4	114.4	110.0	105.2

1993	1994	1995	1996	1997	1998	1999	2000	2001
2.8	2.6	2.2	1.0	– 0.5	– 1.2	– 3.0	– 2.4	– 2.5
7.3	6.7	6.4	6.1	5.7	5.3	4.7	4.4	3.9
11.1	9.2	9.1	9.3	9.3	9.1	8.8	8.7	8.2
1.4	7.3	4.6	5.1	5.0	4.8	3.8	4.7	4.3
2.8	2.6	2.2	1.0	– 0.5	– 1.2	– 3.0	– 2.4	– 2.5
– 0.9	– 5.3	– 3.2	– 3.4	– 3.1	– 2.8	– 2.0	– 2.4	– 2.0
:	– 1.7	– 3.3	:	– 0.2	– 1.6	1.9	1.5	1.5
– 4.5	– 4.1	– 4.2	– 5.1	– 6.2	– 6.5	– 7.7	– 6.8	– 6.4
:	1.4	3.2	:	2.7	2.5	2.7	2.0	1.8
:	– 1.7	– 3.3	:	– 0.2	– 1.6	1.9	1.5	1.5
11.7	– 4.6	– 4.2	– 4.2	– 3.8	– 5.7	– 3.0	– 3.3	– 3.0
78.0	73.5	69.3	65.0	61.3	55.6	52.6	49.3	46.3

Table A.2.2

Contributions to the change in the general government gross debt ratio

(% of GDP)

Germany (1)	Former definitions 1980	1985	1989	1990	1991	1992
1. Net borrowing (2)	1.9	2.2	– 0.1	2.1	3.2	2.8
2. Interest payments	2.9	2.9	2.7	2.6	2.6	3.2
3. Implicit interest rate (3)	:	:	:	:	7.0	8.5
4. Nominal GDP growth rate (%)	3.4	5.3	6.1	9.1	9.1	7.4
Budgetary constraint based on the deficit						
5. Deficit (net borrowing) (2)	1.9	2.2	– 0.1	2.1	3.2	2.8
6. Contribution of nominal GDP growth	– 1.4	– 2.1	– 2.5	– 3.5	– 3.7	– 2.8
7. Stock-flow adjustment (4)	:	:	:	:	:	3.0
Budgetary constraint based on the primary deficit						
8. Primary deficit (5)	– 1.0	– 0.7	– 2.8	– 0.6	0.6	– 0.4
9. Snowball effect (6)	:	:	:	:	:	0.5
10. Stock-flow adjustment (4)	:	:	:	:	:	3.0
11. Change in gross debt (7)	1.0	0.4	– 1.3	2.0	1.0	2.7
12. Level of gross debt (end of year)	42.6	43.1	41.8	43.8	40.3	43.0

Greece	1980	1985	1989	1990	1991	1992
1. Net borrowing (2)	2.6	11.6	14.2	15.9	11.4	12.6
2. Interest payments	2.0	4.9	7.5	10.0	9.3	11.5
3. Implicit interest rate (3)	:	:	:	:	12.9	14.6
4. Nominal GDP growth rate (%)	19.8	22.0	18.8	20.6	23.5	15.6
Budgetary constraint based on the deficit						
5. Deficit (net borrowing) (2)	2.6	11.6	14.2	15.9	11.4	12.6
6. Contribution of nominal GDP growth	– 3.9	– 7.8	– 10.3	– 11.7	– 16.9	– 12.3
7. Stock-flow adjustment (4)	:	:	:	:	:	:
Budgetary constraint based on the primary deficit						
8. Primary deficit (5)	0.6	6.7	6.8	5.9	2.1	1.1
9. Snowball effect (6)	:	:	:	:	:	:
10. Stock-flow adjustment (4)	:	:	:	:	:	:
11. Change in gross debt (7)	– 0.1	7.4	3.4	20.6	2.2	6.4
12. Level of gross debt (end of year)	23.6	50.9	68.3	89.0	91.1	97.5

(1) From 1991 including former East Germany.
(2) Line 1 = line 5, a minus sign means a surplus.
(3) Actual interest payments as percentage of gross debt at end of t–1.
(4) Line 7 = line 10; due to a change in definition there are no data for 1996.
(5) Net borrowing excl. interest payments, line 8 = line 1 – line 2. A minus sign means a primary surplus.
(6) Due to a change in definition there are no data for 1996.
(7) Line 11 = total of lines 5, 6 and 7 or 8, 9 and 10.

Source: Commission services.

(% of GDP)

Former definitions			ESA95 definitions					
1993	1994	1995	1996	1997	1998	1999	2000	2001
3.5	2.6	3.4	3.4	2.6	1.7	1.1	1.0	1.4
3.2	3.3	3.7	3.7	3.7	3.6	3.5	3.5	3.4
7.7	7.4	7.8	6.6	6.3	6.1	5.9	5.9	5.8
2.5	4.9	3.8	1.8	2.2	3.2	2.5	3.6	4.6
3.5	2.6	3.4	3.4	2.6	1.7	1.1	1.0	1.4
– 1.1	– 2.2	– 1.8	– 1.0	– 1.3	– 1.9	– 1.4	– 2.1	– 2.7
1.8	2.0	6.2	:	– 0.2	0.0	0.7	0.7	0.2
0.2	– 0.7	– 0.3	– 0.3	– 1.0	– 1.9	– 2.5	– 2.5	– 2.0
2.3	1.2	1.9	:	2.3	1.7	2.1	1.3	0.7
1.8	2.0	6.2	:	– 0.2	0.0	0.7	0.7	0.2
3.9	2.3	7.7	2.7	1.1	– 0.2	0.3	– 0.4	– 1.1
46.9	49.3	57.0	59.8	60.9	60.7	61.0	60.7	59.5

1993	1994	1995	1996	1997	1998	1999	2000	2001
13.6	9.9	10.5	7.8	4.6	3.1	1.6	1.3	0.6
12.6	13.9	12.7	10.5	8.3	7.8	7.4	7.2	6.6
14.6	14.3	13.2	10.7	8.2	7.8	7.5	7.3	6.8
12.6	13.5	12.1	9.9	10.3	8.7	6.5	6.6	7.2
13.6	9.9	10.5	7.8	4.6	3.1	1.6	1.3	0.6
– 10.9	– 13.1	– 11.6	– 9.8	– 10.4	– 8.7	– 6.4	– 6.5	– 7.0
:	:	2.3	:	3.0	2.4	3.8	4.5	2.3
1.0	– 4.0	– 2.3	– 2.8	– 3.7	– 4.7	– 5.8	– 5.8	– 5.9
:	:	– 0.5	:	– 2.1	– 0.9	1.0	0.7	– 0.4
:	:	2.3	:	3.0	2.4	3.8	4.5	2.3
12.7	– 2.3	0.8	2.6	– 2.8	– 3.2	– 1.0	– 0.6	– 4.0
110.2	107.9	108.7	111.3	108.5	105.4	104.4	103.7	99.7

Table A.2.3

Contributions to the change in the general government gross debt ratio

(% of GDP)

	Former definitions					
Spain	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**
1. Net borrowing (1)	2.5	6.1	3.5	4.1	4.3	4.0
2. Interest payments	0.4	1.9	3.9	3.9	3.7	4.2
3. Implicit interest rate (2)	3.4	5.8	10.9	10.4	9.4	10.4
4. Nominal GDP growth rate (%)	14.9	10.5	12.2	11.3	9.5	7.6
Budgetary constraint based on the deficit						
5. Deficit (net borrowing) (1)	2.5	6.1	3.5	4.1	4.3	4.0
6. Contribution of nominal GDP growth	– 1.9	– 3.5	– 4.3	– 4.2	– 3.8	– 3.1
7. Stock-flow adjustment (3)	:	:	:	:	:	:
Budgetary constraint based on the primary deficit						
8. Primary deficit (4)	1.8	4.2	– 0.4	0.3	0.6	– 0.3
9. Snowball effect (5)	:	:	:	:	:	:
10. Stock-flow adjustment (3)	:	:	:	:	:	:
11. Change in gross debt (6)	1.8	5.3	1.4	1.8	0.7	2.4
12. Level of gross debt (end of year)	16.8	41.9	41.4	43.2	43.9	46.3

France	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**
1. Net borrowing (1)	0.0	2.8	1.2	1.5	2.0	3.9
2. Interest payments	1.4	2.8	2.7	2.9	2.9	3.2
3. Implicit interest rate (2)	7.7	10.5	8.7	9.0	8.6	9.4
4. Nominal GDP growth rate (%)	13.5	7.1	7.5	5.8	4.0	3.5
Budgetary constraint based on the deficit						
5. Deficit (net borrowing) (1)	0.0	2.8	1.2	1.5	2.0	3.9
6. Contribution of nominal GDP growth	– 2.5	– 1.9	– 2.3	– 1.9	– 1.3	– 1.2
7. Stock-flow adjustment (3)	:	:	:	:	:	0.8
Budgetary constraint based on the primary deficit						
8. Primary deficit (4)	– 1.4	0.0	– 1.5	– 1.4	– 0.9	0.7
9. Snowball effect (5)	:	:	:	:	:	2.0
10. Stock-flow adjustment (3)	:	:	:	:	:	0.8
11. Change in gross debt (6)	– 1.5	1.7	0.7	1.0	0.4	3.8
12. Level of gross debt (end of year)	19.3	30.3	33.9	34.8	35.2	39.0

(1) Line 1 = line 5, a minus sign means a surplus.
(2) Actual interest payments as percentage of gross debt at end of t–1.
(3) Line 7 = line 10; due to a change in definition there are no data for 1996.
(4) Net borrowing excl. interest payments, line 8 = line 1 – line 2. A minus sign means a primary surplus.
(5) Due to a change in definition there are no data for 1996.
(6) Line 11 = total of lines 5, 6 and 7 or 8, 9 and 10.

Source: Commission services.

(% of GDP)

Former definitions			ESA95 definitions					
1993	1994	1995	1996	1997	1998	1999	2000	2001
6.7	6.1	7.0	5.0	3.2	2.6	1.1	0.7	0.4
5.0	4.7	5.3	5.4	4.8	4.4	3.7	3.5	3.4
11.2	8.6	9.5	9.0	7.4	6.9	6.0	5.9	5.7
3.1	6.3	7.7	5.9	6.1	6.3	7.0	6.5	5.8
6.7	6.1	7.0	5.0	3.2	2.6	1.1	0.7	0.4
– 1.4	– 3.4	– 4.3	– 3.5	– 3.9	– 4.0	– 4.3	– 3.9	– 3.4
:	:	0.2	:	– 0.7	– 0.4	1.7	2.0	0.6
1.7	1.4	1.7	– 0.4	– 1.6	– 1.8	– 2.5	– 2.8	– 2.9
:	:	0.9	:	0.9	0.4	– 0.6	– 0.4	– 0.1
:	:	0.2	:	– 0.7	– 0.4	1.7	2.0	0.6
11.6	2.5	2.8	4.2	– 1.4	– 1.8	– 1.4	– 1.2	– 2.3
57.9	60.4	63.2	68.0	66.7	64.9	63.5	62.3	59.9

1993	1994	1995	1996	1997	1998	1999	2000	2001
5.6	5.6	4.8	4.2	3.0	2.7	1.8	1.5	1.2
3.3	3.5	3.7	3.9	3.7	3.6	3.3	3.1	3.2
8.6	8.2	8.0	7.8	6.7	6.3	5.8	5.6	5.7
1.4	3.8	3.4	2.6	3.4	4.1	3.2	4.7	4.6
5.6	5.6	4.8	4.2	3.0	2.7	1.8	1.5	1.2
– 0.5	– 1.6	– 1.6	– 1.3	– 1.9	– 2.3	– 1.8	– 2.6	– 2.6
– 0.2	– 0.5	0.2	:	0.8	– 0.1	– 0.6	0.6	0.3
2.3	2.2	1.1	0.2	– 0.7	– 0.9	– 1.6	– 1.6	– 2.0
3.0	1.9	2.2	:	1.8	1.3	1.5	0.5	0.6
– 0.2	– 0.5	0.2	:	0.8	– 0.1	– 0.6	0.6	0.3
5.2	3.4	4.2	3.0	2.0	0.3	– 0.7	– 0.4	– 1.1
44.3	47.6	51.9	57.1	59.0	59.3	58.6	58.2	57.1

Table A.2.4

Contributions to the change in the general government gross debt ratio

(% of GDP)

Ireland	Former definitions 1980	1985	1989	1990	1991	1992
1. Net borrowing (1)	11.6	10.2	1.7	2.2	2.3	2.4
2. Interest payments	6.0	9.4	7.4	7.5	7.3	6.7
3. Implicit interest rate (2)	:	:	7.6	8.1	8.1	7.7
4. Nominal GDP growth rate (%)	18.3	8.5	11.6	7.3	3.7	6.2
Budgetary constraint based on the deficit						
5. Deficit (net borrowing) (1)	11.6	10.2	1.7	2.2	2.3	2.4
6. Contribution of nominal GDP growth	– 10.2	– 7.5	– 11.3	– 6.7	– 3.3	– 5.4
7. Stock-flow adjustment (3)	:	:	:	– 2.2	0.3	0.0
Budgetary constraint based on the primary deficit						
8. Primary deficit (4)	5.6	0.9	– 5.7	– 5.3	– 5.0	– 4.3
9. Snowball effect (5)	:	:	:	1.2	4.4	1.8
10. Stock-flow adjustment (3)	:	:	:	– 2.2	0.3	0.0
11. Change in gross debt (6)	1.5	2.8	– 9.3	– 6.1	– 0.2	– 2.4
12. Level of gross debt (end of year)	67.6	98.6	98.7	92.6	92.4	90.0

Italy	1980	1985	1989	1990	1991	1992
1. Net borrowing (1)	8.6	12.5	9.8	11.0	10.0	9.5
2. Interest payments	5.4	8.0	8.7	9.4	10.1	11.4
3. Implicit interest rate (2)	11.3	11.9	10.3	10.9	11.3	11.9
4. Nominal GDP growth rate (%)	25.2	12.2	9.5	10.4	9.1	5.3
Budgetary constraint based on the deficit						
5. Deficit (net borrowing) (1)	8.6	12.5	9.8	11.0	10.0	9.5
6. Contribution of nominal GDP growth	– 12.2	– 8.2	– 8.0	– 9.0	– 8.1	– 5.1
7. Stock-flow adjustment (3)	:	:	:	:	:	:
Budgetary constraint based on the primary deficit						
8. Primary deficit (4)	3.2	4.5	1.1	1.6	– 0.1	– 1.9
9. Snowball effect (5)	:	:	:	:	:	:
10. Stock-flow adjustment (3)	:	:	:	:	:	:
11. Change in gross debt (6)	– 2.6	6.7	2.8	1.9	3.3	7.1
12. Level of gross debt (end of year)	57.9	81.9	95.4	97.3	100.6	107.7

(1) Line 1 = line 5, a minus sign means a surplus.
(2) Actual interest payments as percentage of gross debt at end of t–1.
(3) Line 7 = line 10; due to a change in definition there are no data for 1996.
(4) Net borrowing excl. interest payments, line 8 = line 1 – line 2. A minus sign means a primary surplus.
(5) Due to a change in definition there are no data for 1996.
(6) Line 11 = total of lines 5, 6 and 7 or 8, 9 and 10.

Source: Commission services.

(% of GDP)

Former definitions			ESA95 definitions					
1993	1994	1995	1996	1997	1998	1999	2000	2001
2.3	1.6	2.1	0.6	– 0.8	– 2.1	– 2.0	– 1.7	– 2.7
6.3	5.6	5.0	4.7	4.3	3.5	2.6	2.2	1.9
7.6	6.4	6.4	6.4	6.6	6.2	5.2	4.7	4.7
8.0	7.6	12.5	10.2	14.6	15.1	12.1	11.7	10.7
2.3	1.6	2.1	0.6	– 0.8	– 2.1	– 2.0	– 1.7	– 2.7
– 6.7	– 6.6	– 9.8	– 7.5	– 9.5	– 8.6	– 6.0	– 5.5	– 4.4
7.9	– 1.3	0.0	:	1.5	0.9	4.8	0.0	0.0
– 4.0	– 4.1	– 2.9	– 4.1	– 5.1	– 5.6	– 4.6	– 3.9	– 4.7
0.0	– 0.5	– 4.2	:	– 5.2	– 5.1	– 3.4	– 3.3	– 2.4
7.9	– 1.3	0.0	:	1.5	0.9	4.8	0.0	0.0
4.0	– 5.9	– 7.3	– 9.7	– 8.8	– 9.7	– 3.2	– 7.2	– 7.1
94.0	88.1	80.8	74.1	65.3	55.6	52.4	45.2	38.1

1993	1994	1995	1996	1997	1998	1999	2000	2001
9.4	9.1	7.6	7.1	2.7	2.8	1.9	1.5	0.8
12.0	10.9	11.3	11.5	9.4	8.1	6.8	6.4	6.0
11.5	9.7	9.8	9.9	8.0	7.0	6.1	5.8	5.7
3.0	5.8	8.1	6.4	4.3	4.2	2.9	4.7	4.9
9.4	9.1	7.6	7.1	2.7	2.8	1.9	1.5	0.8
– 3.1	– 6.4	– 9.3	– 7.4	– 5.0	– 4.9	– 3.3	– 5.1	– 5.2
:	:	1.1	:	0.0	– 1.5	0.0	– 0.4	0.2
– 2.6	– 1.8	– 3.6	– 4.4	– 6.7	– 5.3	– 4.9	– 4.9	– 5.3
:	:	2.3	:	4.4	3.2	3.5	1.2	0.9
:	:	1.1	:	0.0	– 1.5	0.0	– 0.4	0.2
10.5	5.7	– 0.6	– 1.1	– 2.3	– 3.5	– 1.4	– 4.1	– 4.2
118.1	123.8	123.2	122.1	119.8	116.3	114.9	110.8	106.6

Table A.2.5

Contributions to the change in the general government gross debt ratio

(% of GDP)

	Former definitions					
Luxembourg	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**
1. Net borrowing ([1])	0.4	– 6.2	:	– 4.7	– 1.8	– 0.7
2. Interest payments	1.1	1.0	:	0.4	0.4	0.3
3. Implicit interest rate ([2])	:	:	:	:	9.0	9.2
4. Nominal GDP growth rate (%)	8.8	6.0	13.7	5.7	7.7	8.9
Budgetary constraint based on the deficit						
5. Deficit (net borrowing) ([1])	0.4	– 6.2	:	– 4.7	– 1.8	– 0.7
6. Contribution of nominal GDP growth	– 1.0	– 0.7	– 1.0	– 0.4	– 0.3	– 0.3
7. Stock-flow adjustment ([3])	:	:	:	2.4	1.0	3.4
Budgetary constraint based on the primary deficit						
8. Primary deficit ([4])	– 0.7	– 7.1	:	– 5.2	– 2.2	– 1.1
9. Snowball effect ([5])	:	:	:	0.0	0.0	0.0
10. Stock-flow adjustment ([3])	:	:	:	2.4	1.0	3.4
11. Change in gross debt ([6])	– 0.3	– 0.6	– 1.5	– 2.3	– 0.5	0.8
12. Level of gross debt (end of year)	11.8	12.3	6.8	4.5	4.0	4.8

The Netherlands	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**
1. Net borrowing ([1])	4.1	3.5	4.6	4.9	2.8	3.8
2. Interest payments	3.7	6.1	5.8	5.7	5.9	6.0
3. Implicit interest rate ([2])	9.4	10.0	8.0	8.0	8.2	8.3
4. Nominal GDP growth rate (%)	6.8	4.9	6.0	6.5	5.0	4.3
Budgetary constraint based on the deficit						
5. Deficit (net borrowing) ([1])	4.1	3.5	4.6	4.9	2.8	3.8
6. Contribution of nominal GDP growth	– 2.7	– 3.0	– 4.3	– 4.6	– 3.6	– 3.1
7. Stock-flow adjustment ([3])	:	:	:	:	:	:
Budgetary constraint based on the primary deficit						
8. Primary deficit ([4])	0.3	– 2.6	– 1.2	– 0.8	– 3.1	– 2.3
9. Snowball effect ([5])	:	:	:	:	:	:
10. Stock-flow adjustment ([3])	:	:	:	:	:	:
11. Change in gross debt ([6])	2.7	4.5	0.0	– 0.3	0.1	0.7
12. Level of gross debt (end of year)	45.1	68.7	76.0	75.6	75.7	76.4

([1]) Line 1 = line 5, a minus sign means a surplus.
([2]) Actual interest payments as percentage of gross debt at end of t–1.
([3]) Line 7 = line 10; due to a change in definition there are no data for 1996.
([4]) Net borrowing excl. interest payments, line 8 = line 1 – line 2. A minus sign means a primary surplus.
([5]) Due to a change in definition there are no data for 1996.
([6]) Line 11 = total of lines 5, 6 and 7 or 8, 9 and 10.

Source: Commission services.

(% of GDP)

Former definitions			ESA95 definitions					
1993	1994	1995	1996	1997	1998	1999	2000	2001
– 1.6	– 2.6	– 1.8	– 2.7	– 3.6	– 3.2	– 2.4	– 2.6	– 2.7
0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.3	0.3
8.0	6.2	5.4	6.5	6.1	6.5	6.0	5.9	5.9
9.5	9.8	4.5	4.7	10.8	6.6	6.2	6.8	7.8
– 1.6	– 2.6	– 1.8	– 2.7	– 3.6	– 3.2	– 2.4	– 2.6	– 2.7
– 0.4	– 0.5	– 0.2	– 0.2	– 0.6	– 0.4	– 0.4	– 0.4	– 0.4
6.5	4.2	2.7	:	4.0	4.0	2.5	2.6	2.6
– 1.9	– 3.0	– 2.0	– 3.0	– 3.9	– 3.6	– 2.8	– 2.9	– 3.0
– 0.1	– 0.2	0.1	:	– 0.3	0.0	0.0	– 0.1	– 0.1
6.5	4.2	2.7	:	4.0	4.0	2.5	2.6	2.6
1.0	– 0.4	0.2	0.6	– 0.1	0.4	– 0.3	– 0.3	– 0.5
5.8	5.3	5.6	6.2	6.0	6.4	6.2	5.8	5.3

1993	1994	1995	1996	1997	1998	1999	2000	2001
3.1	3.6	3.8	1.8	1.2	0.8	– 0.5	– 1.0	– 0.4
6.0	5.6	5.7	5.6	5.1	4.9	4.4	4.0	3.6
8.0	7.6	8.0	7.7	7.2	7.3	7.0	6.8	6.7
2.7	5.6	4.1	4.2	5.8	5.6	5.1	6.9	7.3
3.1	3.6	3.8	1.8	1.2	0.8	– 0.5	– 1.0	– 0.4
– 2.0	– 4.1	– 2.9	– 3.1	– 4.2	– 3.7	– 3.1	– 4.1	– 4.0
:	:	0.3	:	– 2.1	– 0.3	0.4	0.2	0.2
– 2.9	– 2.0	– 1.9	– 3.8	– 3.9	– 4.1	– 5.0	– 5.1	– 4.1
:	:	2.9	:	1.0	1.1	1.4	– 0.1	– 0.3
:	:	0.3	:	– 2.1	– 0.3	0.4	0.2	0.2
1.1	– 3.6	1.5	– 1.8	– 5.1	– 3.3	– 3.3	– 5.0	– 4.2
77.6	74.0	75.5	75.3	70.3	67.0	63.6	58.7	54.4

ANNEX

Table A.2.6

Contributions to the change in the general government gross debt ratio

(% of GDP)

Austria	Former definitions 1980	1985	1989	1990	1991	1992
1. Net borrowing (1)	1.6	2.4	2.7	2.4	3.0	1.9
2. Interest payments	2.4	3.4	3.9	4.0	4.1	4.2
3. Implicit interest rate (2)	:	7.7	7.1	7.5	7.8	7.7
4. Nominal GDP growth rate (%)	7.4	5.4	7.1	8.2	7.3	5.7
Budgetary constraint based on the deficit						
5. Deficit (net borrowing) (1)	1.6	2.4	2.7	2.4	3.0	1.9
6. Contribution of nominal GDP growth	– 2.4	– 2.4	– 3.9	– 4.3	– 3.9	– 3.1
7. Stock-flow adjustment (3)	:	:	0.0	1.2	1.1	1.0
Budgetary constraint based on the primary deficit						
8. Primary deficit (4)	– 0.7	– 1.0	– 1.1	– 1.6	– 1.2	– 2.2
9. Snowball effect (5)	:	:	0.1	– 0.3	0.3	1.2
10. Stock-flow adjustment (3)	:	:	0.0	1.2	1.1	1.0
11. Change in gross debt (6)	1.6	2.0	– 0.8	– 0.8	0.2	– 0.1
12. Level of gross debt (end of year)	35.8	48.8	57.6	56.8	57.0	56.9

Portugal	1980	1985	1989	1990	1991	1992
1. Net borrowing (1)	8.6	10.3	2.3	5.0	5.9	2.9
2. Interest payments	2.7	7.6	6.1	7.9	7.7	7.1
3. Implicit interest rate (2)	:	:	11.3	15.0	13.8	12.1
4. Nominal GDP growth rate (%)	26.5	25.2	18.2	17.7	14.8	12.8
Budgetary constraint based on the deficit						
5. Deficit (net borrowing) (1)	8.6	10.3	2.3	5.0	5.9	2.9
6. Contribution of nominal GDP growth	– 7.4	– 10.8	– 9.8	– 9.4	– 8.3	– 7.5
7. Stock-flow adjustment (3)	:	:	:	:	:	:
Budgetary constraint based on the primary deficit						
8. Primary deficit (4)	5.9	2.7	– 3.8	– 2.9	– 1.8	– 4.2
9. Snowball effect (5)	:	:	:	:	:	:
10. Stock-flow adjustment (3)	:	:	:	:	:	:
11. Change in gross debt (6)	– 3.3	7.3	– 1.7	2.0	1.9	– 7.3
12. Level of gross debt (end of year)	31.9	60.8	62.2	64.2	66.1	58.8

(1) Line 1 = line 5, a minus sign means a surplus.
(2) Actual interest payments as percentage of gross debt at end of t–1
(3) Line 7 = line 10; due to a change in definition there are no data for 1996.
(4) Net borrowing excl. interest payments, line 8 = line 1 – line 2. A minus sign means a primary surplus.
(5) Due to a change in definition there are no data for 1996.
(6) Line 11 = total of lines 5, 6 and 7 or 8, 9 and 10.

Source: Commission services.

(% of GDP)

Former definitions			ESA95 definitions					
1993	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
4.2	4.9	5.0	3.8	1.9	2.5	2.0	1.7	2.0
4.2	4.0	4.3	4.2	3.9	3.8	3.6	3.5	3.4
7.7	6.8	7.0	6.4	5.8	6.1	5.9	5.7	5.6
3.3	5.3	4.1	3.3	2.8	3.5	3.4	3.8	3.8
4.2	4.9	5.0	3.8	1.9	2.5	2.0	1.7	2.0
– 1.8	– 3.1	– 2.5	– 2.2	– 1.9	– 2.2	– 1.8	– 2.4	– 2.3
2.1	0.9	1.3	:	– 4.5	– 0.7	1.2	0.1	0.0
– 0.1	0.9	0.7	– 0.4	– 2.0	– 1.3	– 1.6	– 1.8	– 1.5
2.5	1.0	1.9	:	2.0	1.6	1.8	1.1	1.1
2.1	0.9	1.3	:	– 4.5	– 0.7	1.2	0.1	0.0
4.6	2.7	3.9	0.7	– 4.4	– 0.4	1.1	– 0.6	– 0.4
61.4	64.1	68.0	68.3	63.9	63.5	64.5	64.0	63.6

1993	1994	1995	1996	1997	1998	1999	2000	2001
6.0	5.9	5.6	3.8	2.6	2.1	2.0	1.5	1.5
6.1	6.1	6.2	5.4	4.3	3.6	3.4	3.3	3.3
11.0	10.7	10.7	8.9	7.2	6.4	6.3	6.2	6.2
5.5	8.7	8.1	6.2	6.9	7.8	6.0	5.8	6.2
6.0	5.9	5.6	3.8	2.6	2.1	2.0	1.5	1.5
– 3.1	– 4.9	– 4.7	– 3.8	– 4.1	– 4.3	– 3.1	– 3.1	– 3.3
:	:	2.5	:	– 1.8	– 1.5	1.5	1.8	0.0
– 0.1	– 0.2	– 0.6	– 1.6	– 1.7	– 1.5	– 1.4	– 1.8	– 1.8
:	:	1.6	:	0.2	– 0.8	0.3	0.2	0.0
:	:	2.5	:	– 1.8	– 1.5	1.5	1.8	0.0
3.2	0.7	2.0	– 0.9	– 3.3	– 3.8	0.2	0.2	– 1.8
62.0	62.7	64.7	63.6	60.3	56.5	56.7	56.9	55.1

Table A.2.7

Contributions to the change in the general government gross debt ratio

(% of GDP)

	Former definitions					
Finland	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**
1. Net borrowing (1)	– 3.3	– 2.8	– 6.2	– 5.3	1.5	5.7
2. Interest payments	1.0	1.8	1.5	1.4	1.9	2.6
3. Implicit interest rate (2)	10.3	12.7	9.6	10.3	12.8	11.1
4. Nominal GDP growth rate (%)	15.4	8.8	11.6	5.5	– 4.5	– 2.5
Budgetary constraint based on the deficit						
5. Deficit (net borrowing) (1)	– 3.3	– 2.8	– 6.2	– 5.3	1.5	5.7
6. Contribution of nominal GDP growth	– 1.5	– 1.3	– 1.8	– 0.8	0.7	0.6
7. Stock-flow adjustment (3)	5.2	5.3	6.2	5.7	6.5	11.8
Budgetary constraint based on the primary deficit						
8. Primary deficit (4)	– 4.3	– 4.7	– 7.6	– 6.7	– 0.4	3.1
9. Snowball effect (5)	– 0.5	0.5	– 0.3	0.7	2.6	3.1
10. Stock-flow adjustment (3)	5.2	5.3	6.2	5.7	6.5	11.8
11. Change in gross debt (6)	0.1	0.7	– 2.3	– 0.4	8.3	18.0
12. Level of gross debt (end of year)	11.5	16.2	14.7	14.3	22.7	40.7

Sweden	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**
1. Net borrowing (1)	3.9	3.7	– 5.2	– 4.0	1.1	7.5
2. Interest payments	3.9	8.1	5.2	4.8	5.0	5.2
3. Implicit interest rate (2)	:	14.2	11.8	12.1	12.6	10.2
4. Nominal GDP growth rate (%)	13.6	8.7	10.6	10.3	6.4	– 0.4
Budgetary constraint based on the deficit						
5. Deficit (net borrowing) (1)	3.9	3.7	– 5.2	– 4.0	1.1	7.5
6. Contribution of nominal GDP growth	– 4.5	– 5.0	– 4.7	– 4.1	– 2.5	0.2
7. Stock-flow adjustment (3)	:	:	:	:	:	:
Budgetary constraint based on the primary deficit						
8. Primary deficit (4)	– 0.1	– 4.4	– 10.4	– 8.9	– 3.9	2.3
9. Snowball effect (5)	:	:	:	:	:	:
10. Stock-flow adjustment (3)	:	:	:	:	:	:
11. Change in gross debt (6)	1.8	– 0.4	– 4.9	– 1.8	9.1	13.6
12. Level of gross debt (end of year)	39.6	61.6	43.9	42.1	51.2	64.8

(1) Line 1 = line 5, a minus sign means a surplus.
(2) Actual interest payments as percentage of gross debt at end of t–1.
(3) Line 7 = line 10; due to a change in definition there are no data for 1996.
(4) Net borrowing excl. interest payments, line 8 = line 1 – line 2. A minus sign means a primary surplus.
(5) Due to a change in definition there are no data for 1996.
(6) Line 11 = total of lines 5, 6 and 7 or 8, 9 and 10.

Source: Commission services.

ANNEX

(% of GDP)

Former definitions			ESA95 definitions					
1993	1994	1995	1996	1997	1998	1999	2000	2001
7.9	6.0	5.0	3.2	1.5	– 1.3	– 2.3	– 4.1	– 5.0
4.5	5.0	5.2	4.3	4.3	3.7	3.6	3.3	3.1
11.3	9.3	9.6	7.8	8.1	7.4	7.6	7.5	7.6
1.2	6.0	8.1	3.8	8.5	8.1	4.5	6.1	5.9
7.9	6.0	5.0	3.2	1.5	– 1.3	– 2.3	– 4.1	– 5.0
– 0.5	– 3.2	– 4.4	– 2.1	– 4.5	– 4.0	– 2.1	– 2.7	– 2.4
9.3	– 1.0	– 1.1	:	– 0.1	0.2	2.5	2.4	2.8
3.3	1.0	– 0.1	– 1.1	– 2.7	– 5.0	– 5.8	– 7.5	– 8.1
4.0	0.9	– 0.3	:	– 0.2	– 0.3	1.4	0.6	0.7
9.3	– 1.0	– 1.1	:	– 0.1	0.2	2.5	2.4	2.8
16.2	1.4	– 1.7	0.1	– 3.0	– 5.1	– 1.9	– 4.5	– 4.6
56.8	58.3	56.6	57.1	54.1	49.0	47.1	42.6	38.0

1993	1994	1995	1996	1997	1998	1999	2000	2001
11.9	9.9	7.5	3.4	2.0	– 1.9	– 1.9	– 2.4	– 2.9
6.0	6.6	6.8	7.1	6.9	6.2	5.5	4.7	4.1
9.3	9.3	9.4	9.5	9.3	8.6	7.9	7.7	7.1
0.3	6.6	7.3	2.5	3.2	4.3	4.3	5.9	5.6
11.9	9.9	7.5	3.4	2.0	– 1.9	– 1.9	– 2.4	– 2.9
– 0.2	– 4.6	– 5.3	– 1.9	– 2.4	– 3.1	– 3.0	– 3.6	– 3.3
– 1.4	– 3.6	– 3.7	:	– 0.7	2.3	– 1.9	1.8	0.3
5.9	3.4	0.7	– 3.7	– 4.8	– 8.0	– 7.4	– 7.1	– 7.0
5.9	2.0	1.8	:	4.5	3.1	2.5	1.1	0.8
– 1.4	– 3.6	– 3.7	:	– 0.7	2.3	– 1.9	1.8	0.3
10.3	2.6	– 1.1	– 0.6	– 1.0	– 2.6	– 6.8	– 4.2	– 5.9
75.1	77.7	76.6	76.0	75.0	72.4	65.5	61.3	55.4

Table A.2.8

Contributions to the change in the general government gross debt ratio

(% of GDP)

	Former definitions					
United Kingdom	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**
1. Net borrowing (1)	3.4	2.9	– 1.0	0.9	2.3	6.1
2. Interest payments	4.7	5.0	3.7	3.1	2.7	2.7
3. Implicit interest rate (2)	:	:	:	:	:	8.0
4. Nominal GDP growth rate (%)	16.8	9.6	9.7	8.3	5.1	4.1
Budgetary constraint based on the deficit						
5. Deficit (net borrowing) (1)	3.4	2.9	– 1.0	0.9	2.3	6.1
6. Contribution of nominal GDP growth	– 7.9	– 4.9	– 3.8	– 2.9	– 1.7	– 1.4
7. Stock-flow adjustment (3)	4.1	0.1	– 0.9	– 1.3	– 1.0	0.9
Budgetary constraint based on the primary deficit						
8. Primary deficit (4)	– 1.3	– 2.1	– 4.7	– 2.2	– 0.4	3.4
9. Snowball effect (5)	– 2.2	1.1	0.3	0.9	1.5	1.7
10. Stock-flow adjustment (3)	4.1	0.1	– 0.9	– 1.3	– 1.0	0.9
11. Change in gross debt (6)	– 0.5	– 1.9	– 5.7	– 2.7	0.1	6.0
12. Level of gross debt (end of year)	54.7	54.1	37.7	35.0	35.1	41.1

(1) Line 1 = line 5, a minus sign means a surplus.
(2) Actual interest payments as percentage of gross debt at end of t–1
(3) Line 7 = line 10; due to a change in definition there are no data for 1996.
(4) Net borrowing excl. interest payments, line 8 = line 1 – line 2. A minus sign means a primary surplus.
(5) Due to a change in definition there are no data for 1996.
(6) Line 11 = total of lines 5, 6 and 7 or 8, 9 and 10.

Source: Commission services.

(% of GDP)

Former definitions			ESA95 definitions					
1993	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
7.8	6.7	5.5	4.4	2.0	– 0.3	– 1.2	– 0.9	– 0.7
2.8	3.2	3.4	3.7	3.7	3.6	2.9	3.0	2.7
7.3	7.0	7.3	7.5	7.5	7.6	6.4	6.8	6.8
5.1	6.0	5.4	5.9	6.5	5.4	4.8	6.1	5.7
7.8	6.7	5.5	4.4	2.0	– 0.3	– 1.2	– 0.9	– 0.7
– 2.0	– 2.7	– 2.5	– 2.9	– 3.2	– 2.6	– 2.2	– 2.7	– 2.3
0.7	– 2.1	– 1.0	:	– 0.6	0.4	1.1	0.0	0.0
4.9	3.6	2.0	0.7	– 1.7	– 3.9	– 4.1	– 3.9	– 3.5
1.1	0.7	1.1	:	0.5	1.0	0.7	0.3	0.5
0.7	– 2.1	– 1.0	:	– 0.6	0.4	1.1	0.0	0.0
6.7	2.0	2.3	0.6	– 1.8	– 2.5	– 2.4	– 3.6	– 3.0
47.8	49.8	52.0	52.6	50.8	48.4	46.0	42.4	39.4

Table A.2.9

Contributions to the change in the general government gross debt ratio

(% of GDP)

Euro area (1)	Former definitions 1980	1985	1989	1990	1991	1992
1. Net borrowing (2)	4.4	4.1	3.1	4.2	4.5	4.7
2. Interest payments	4.6	4.4	4.6	4.8	4.9	5.4
3. Implicit interest rate (3)	:	:	:	:	9.3	9.9
4. Nominal GDP growth rate (%)	5.5	7.0	9.3	9.1	6.9	5.4
Budgetary constraint based on the deficit						
5. Deficit (net borrowing) (2)	4.4	4.1	3.1	4.2	4.5	4.7
6. Contribution of nominal GDP growth	– 2.8	– 3.7	– 4.8	– 4.7	– 3.7	– 3.0
7. Stock-flow adjustment (4)	:	:	:	:	:	:
Budgetary constraint based on the primary deficit						
8. Primary deficit (5)	– 0.2	– 0.3	– 1.5	– 0.7	– 0.4	– 0.8
9. Snowball effect (6)	:	:	:	:	:	:
10. Stock-flow adjustment (4)	:	:	:	:	:	:
11. Change in gross debt (7)	2.3	0.4	0.3	1.4	1.7	3.3
12. Level of gross debt (end of year)	56.0	56.4	56.7	58.1	57.9	61.2

EU-15 (8)	1980	1985	1989	1990	1991	1992
1. Net borrowing (2)	3.6	3.0	2.2	3.5	4.1	5.0
2. Interest payments	4.7	4.5	4.6	4.7	4.7	5.2
3. Implicit interest rate (3)	:	:	:	:	:	9.8
4. Nominal GDP growth rate (%)	5.3	8.8	9.2	7.8	6.9	4.2
Budgetary constraint based on the deficit						
5. Deficit (net borrowing) (2)	3.6	3.0	2.2	3.5	4.1	5.0
6. Contribution of nominal GDP growth	– 2.7	– 4.4	– 4.6	– 3.9	– 3.5	– 2.2
7. Stock-flow adjustment (4)	:	:	:	:	:	:
Budgetary constraint based on the primary deficit						
8. Primary deficit (5)	– 1.1	– 1.4	– 2.4	– 1.2	– 0.6	– 0.1
9. Snowball effect (6)	:	:	:	:	:	:
10. Stock-flow adjustment (4)	:	:	:	:	:	:
11. Change in gross debt (7)	1.2	– 0.9	– 0.8	1.0	1.8	4.2
12. Level of gross debt (end of year)	55.2	54.3	53.5	54.5	54.9	59.1

(1) EU-15 excluding Denmark, Greece, Sweden and UK; from 1991 including former East Germany.
Due to problems with availability of the data, Luxembourg data are not included.
(2) Line 1 = line 5, a minus sign means a surplus.
(3) Actual interest payments as percentage of gross debt at end of t–1.
(4) Line 7 = line 10; due to a change in definition there are no data for 1996.
(5) Net borrowing excl. interest payments, line 8 = line 1 – line 2. A minus sign means a primary surplus.
(6) Due to a change in definition there are no data for 1996.
(7) Line 11 = total of lines 5, 6 and 7 or 8, 9 and 10.
(8) Excluding Luxembourg; from 1991 including former East Germany.

Source: Commission services.

(% of GDP)

Former definitions			ESA95 definitions					
1993	1994	1995	1996	1997	1998	1999	2000	2001
5.5	5.0	4.8	4.3	2.6	2.0	1.2	0.9	0.8
5.5	5.3	5.5	5.6	5.1	4.7	4.3	4.1	3.9
9.1	8.3	8.3	8.2	7.0	6.6	6.1	5.9	5.8
1.0	4.4	4.6	4.2	2.1	4.0	4.2	4.7	5.1
5.5	5.0	4.8	4.3	2.6	2.0	1.2	0.9	0.8
– 0.6	– 2.8	– 3.0	– 2.9	– 1.5	– 2.8	– 2.9	– 3.3	– 3.4
:	:	1.2	:	– 1.2	– 0.8	0.9	0.6	0.3
0.0	– 0.3	– 0.6	– 1.4	– 2.5	– 2.7	– 3.1	– 3.1	– 3.1
:	:	2.5	:	3.6	1.9	1.4	0.8	0.5
:	:	1.2	:	– 1.2	– 0.8	0.9	0.6	0.3
4.9	2.3	3.1	2.5	– 0.2	– 1.5	– 0.9	– 1.8	– 2.3
66.1	68.4	71.6	74.9	74.7	73.1	72.3	70.5	68.2

1993	1994	1995	1996	1997	1998	1999	2000	2001
6.0	5.4	5.0	4.2	2.4	1.5	0.6	0.4	0.3
5.3	5.2	5.4	5.5	5.0	4.6	4.1	3.9	3.7
9.0	8.4	8.3	8.3	7.3	6.8	6.3	6.2	6.0
0.2	4.8	3.9	5.0	5.3	4.5	4.8	6.2	5.0
6.0	5.4	5.0	4.2	2.4	1.5	0.6	0.4	0.3
– 0.1	– 3.0	– 2.5	– 3.3	– 3.6	– 3.0	– 3.1	– 3.9	– 3.1
:	:	0.2	:	0.1	– 0.4	1.1	1.1	0.2
0.8	0.2	– 0.3	– 1.3	– 2.5	– 3.1	– 3.5	– 3.5	– 3.4
:	:	2.9	:	1.4	1.6	1.0	0.0	0.6
:	:	0.2	:	0.1	– 0.4	1.1	1.1	0.2
5.6	2.1	2.9	2.0	– 1.1	– 2.0	– 1.4	– 2.4	– 2.6
64.7	66.7	69.6	72.2	71.1	69.1	67.7	65.3	62.7

Table A.3.1

Cyclical adjustment of general government receipts, expenditures and budget balances

(% of GDP)

	Former definitions					
Belgium	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**
Total resources						
1. Actual data	47.9	50.9	46.8	47.4	47.7	47.7
2. Cyclical component	1.4	– 1.1	0.9	1.2	1.1	0.9
3. Cyclically adjusted data	46.6	52.1	45.9	46.3	46.5	46.8
Total uses						
4. Actual data	56.6	60.0	52.8	52.8	53.9	54.6
5. Cyclical component	– 0.5	0.4	– 0.3	– 0.4	– 0.4	– 0.3
6. Cyclically adjusted data	57.0	59.6	53.2	53.3	54.3	54.9
Net lending (+) or net borrowing (–)						
7. Actual balance	– 8.6	– 9.0	– 6.1	– 5.4	– 6.2	– 6.9
8. Cyclical component	1.9	– 1.5	1.2	1.6	1.5	1.2
9. Cyclically adjusted balance	– 10.5	– 7.5	– 7.3	– 7.0	– 7.7	– 8.2
— as % of trend GDP	– 10.8	– 7.3	– 7.4	– 7.2	– 7.9	– 8.3
10. GDP at 1995 market prices (annual % change)	4.4	1.0	3.6	2.7	2.0	1.6
11. Trend GDP at 1995 market prices (annual % change)	1.9	1.8	2.1	2.1	2.1	2.1
12. Gap between actual and trend GDP (% of trend GDP)	2.9	– 2.1	1.9	2.5	2.4	1.9

Denmark	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**
Total resources						
1. Actual data	51.3	55.7	57.3	55.1	54.7	56.0
2. Cyclical component	1.2	2.8	1.6	1.0	0.6	– 0.2
3. Cyclically adjusted data	50.0	52.9	55.7	54.1	54.2	56.2
Total uses						
4. Actual data	53.7	56.8	57.0	56.1	57.1	58.2
5. Cyclical component	– 0.8	– 1.8	– 1.0	– 0.7	– 0.4	0.1
6. Cyclically adjusted data	54.5	58.7	58.0	56.8	57.5	58.1
Net lending (+) or net borrowing (–)						
7. Actual balance	– 3.2	– 2.0	0.3	– 1.0	– 2.4	– 2.2
8. Cyclical component	2.1	4.7	2.5	1.7	0.9	– 0.3
9. Cyclically adjusted balance	– 5.3	– 6.6	– 2.2	– 2.7	– 3.3	– 1.9
— as % of trend GDP	– 5.2	– 6.8	– 2.2	– 2.7	– 3.3	– 1.8
10. GDP at 1995 market prices (annual % change)	– 0.4	4.3	0.2	1.0	1.1	0.6
11. Trend GDP at 1995 market prices (annual % change)	1.9	2.1	1.9	1.9	2.0	2.1
12. Gap between actual and trend GDP (% of trend GDP)	2.6	5.7	3.0	2.0	1.1	– 0.4

Source: Commission services.

(% of GDP)

Former definitions			ESA95 definitions						
1993	1994	1995	1995	1996	1997	1998	1999	2000	2001
48.6	49.4	49.0	49.3	49.9	50.2	50.2	50.1	49.5	48.9
– 0.8	– 0.4	– 0.3	– 0.3	– 0.9	– 0.3	– 0.3	– 0.4	0.0	0.3
49.4	49.8	49.3	49.5	50.8	50.5	50.5	50.5	49.5	48.7
55.7	54.2	52.9	53.4	53.6	52.2	51.3	51.0	50.0	49.2
0.3	0.1	0.1	0.1	0.3	0.1	0.1	0.1	0.0	– 0.1
55.5	54.1	52.8	53.3	53.3	52.1	51.2	50.8	50.0	49.3
– 7.2	– 4.8	– 3.9	– 4.2	– 3.7	– 2.0	– 1.0	– 0.9	– 0.5	– 0.2
– 1.1	– 0.6	– 0.4	– 0.3	– 1.2	– 0.5	– 0.3	– 0.5	0.0	0.4
– 6.1	– 4.3	– 3.5	– 3.8	– 2.5	– 1.6	– 0.7	– 0.3	– 0.5	– 0.6
– 6.0	– 4.2	– 3.5	– 3.8	– 2.4	– 1.6	– 0.7	– 0.3	– 0.5	– 0.6
– 1.5	3.0	2.5	2.5	1.0	3.5	2.7	2.3	3.5	3.3
2.1	2.1	2.2	2.2	2.3	2.4	2.5	2.6	2.7	2.7
– 1.7	– 0.8	– 0.5	– 0.5	– 1.8	– 0.7	– 0.5	– 0.7	0.0	0.6

1993	1994	1995	1995	1996	1997	1998	1999	2000	2001
57.9	58.1	56.9	57.3	58.1	57.8	57.5	57.9	56.7	55.9
– 1.4	0.2	0.3	0.3	0.3	0.7	0.7	0.2	0.0	– 0.2
59.3	57.9	56.6	57.0	57.7	57.2	56.8	57.7	56.7	56.1
60.7	60.7	59.2	59.6	59.1	57.4	56.3	54.9	54.2	53.5
0.9	– 0.1	– 0.2	– 0.2	– 0.2	– 0.4	– 0.4	– 0.1	0.0	0.1
59.8	60.8	59.4	59.8	59.3	57.8	56.7	55.0	54.2	53.4
– 2.8	– 2.6	– 2.2	– 2.3	– 1.0	0.5	1.2	3.0	2.4	2.5
– 2.3	0.3	0.5	0.5	0.5	1.1	1.1	0.3	0.0	– 0.3
– 0.5	– 2.9	– 2.7	– 2.8	– 1.5	– 0.6	0.1	2.6	2.5	2.8
– 0.5	– 2.9	– 2.8	– 2.8	– 1.5	– 0.6	0.1	2.7	2.5	2.8
0.0	5.5	2.8	2.8	2.5	3.1	2.5	1.6	2.0	2.1
2.3	2.4	2.5	2.5	2.5	2.5	2.5	2.5	2.4	2.4
– 2.6	0.4	0.6	0.6	0.6	1.2	1.2	0.3	0.0	– 0.3

Table A.3.2

Cyclical adjustment of general government receipts, expenditures and budget balances

(% of GDP)

	Former definitions					
Germany ([1])	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**
Total resources						
1. Actual data	45.1	46.0	45.1	43.3	43.5	44.9
2. Cyclical component	0.9	– 0.8	– 0.2	1.0	1.8	1.7
3. Cyclically adjusted data	44.2	46.8	45.4	42.3	41.8	43.2
Total uses						
4. Actual data	48.0	47.2	45.0	45.3	46.8	47.6
5. Cyclical component	– 0.2	0.2	0.1	– 0.3	– 0.2	– 0.2
6. Cyclically adjusted data	48.2	47.0	45.0	45.6	46.9	47.8
Net lending (+) or net borrowing (–)						
7. Actual balance	– 2.9	– 1.2	0.1	– 2.1	– 3.4	– 2.8
8. Cyclical component	1.1	– 1.0	– 0.3	1.2	2.5	1.9
9. Cyclically adjusted balance	– 4.0	– 0.2	0.4	– 3.3	– 5.9	– 4.6
— as % of trend GDP	– 4.1	– 0.2	0.4	– 3.4	– 6.2	– 4.8
10. GDP at 1995 market prices (annual % change)	1.0	2.0	3.6	5.7	5.0	2.2
11. Trend GDP at 1995 market prices (annual % change)	1.9	2.1	2.6	2.6	2.5	2.5
12. Gap between actual and trend GDP (% of trend GDP)	2.1	– 1.8	– 0.6	2.5	5.1	4.1

Greece	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**
Total resources						
1. Actual data	26.2	30.3	29.6	32.5	33.4	34.2
2. Cyclical component	0.9	– 0.2	0.5	0.2	0.7	0.5
3. Cyclically adjusted data	25.2	30.5	29.1	32.3	32.6	33.7
Total uses						
4. Actual data	28.8	41.9	43.9	48.4	44.7	46.8
5. Cyclical component	0.0	0.0	0.0	0.0	0.0	0.0
6. Cyclically adjusted data	28.8	41.9	43.9	48.4	44.7	46.8
Net lending (+) or net borrowing (–)						
7. Actual balance	– 2.6	– 11.6	– 14.2	– 15.9	– 11.4	– 12.6
8. Cyclical component	0.9	– 0.2	0.5	0.2	0.7	0.5
9. Cyclically adjusted balance	– 3.6	– 11.4	– 14.8	– 16.1	– 12.1	– 13.1
— as % of trend GDP	– 3.7	– 11.3	– 15.0	– 16.1	– 12.4	– 13.2
10. GDP at 1995 market prices (annual % change)	0.7	2.5	3.8	0.0	3.1	0.7
11. Trend GDP at 1995 market prices (annual % change)	1.8	0.8	1.2	1.3	1.4	1.5
12. Gap between actual and trend GDP (% of trend GDP)	3.7	– 0.5	1.8	0.5	2.2	1.3

([1]) From 1991 including former East Germany.

Source: Commission services.

(% of GDP)

Former definitions			ESA95 definitions						
1993	1994	1995	1995	1996	1997	1998	1999	2000	2001
45.3	45.9	45.6	45.5	46.2	45.9	46.0	46.7	46.3	44.7
0.3	0.4	0.2	0.2	– 0.3	– 0.6	– 0.5	– 0.7	– 0.3	0.1
45.0	45.5	45.4	45.3	46.5	46.5	46.5	47.5	46.5	44.6
48.8	48.4	49.0	48.8	49.6	48.6	47.7	47.8	47.2	46.1
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0
48.8	48.5	49.0	48.8	49.5	48.5	47.7	47.7	47.2	46.1
– 3.5	– 2.6	– 3.4	– 3.3	– 3.4	– 2.6	– 1.7	– 1.1	– 1.0	– 1.4
0.3	0.4	0.2	0.2	– 0.4	– 0.6	– 0.5	– 0.8	– 0.3	0.1
– 3.8	– 3.0	– 3.6	– 3.5	– 3.0	– 2.0	– 1.2	– 0.3	– 0.7	– 1.5
– 3.8	– 3.0	– 3.6	– 3.5	– 3.0	– 2.0	– 1.2	– 0.3	– 0.7	– 1.5
– 1.1	2.3	1.7	1.7	0.8	1.5	2.2	1.5	2.9	2.9
2.3	2.2	2.1	2.1	2.0	2.0	2.0	2.0	2.0	2.0
0.7	0.8	0.5	0.5	– 0.7	– 1.2	– 1.0	– 1.5	– 0.6	0.2

1993	1994	1995	1995	1996	1997	1998	1999	2000	2001
35.4	36.9	38.0	36.4	36.9	38.9	40.1	41.6	41.4	41.1
– 0.7	– 0.7	– 0.7	– 0.7	– 0.7	– 0.5	– 0.2	0.0	0.3	0.6
36.1	37.6	38.7	37.1	37.6	39.3	40.3	41.6	41.1	40.5
49.0	46.8	48.5	46.6	44.7	43.5	43.2	43.2	42.8	41.8
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
49.0	46.8	48.5	46.6	44.7	43.5	43.2	43.2	42.8	41.8
– 13.6	– 9.9	– 10.5	– 10.2	– 7.8	– 4.6	– 3.1	– 1.6	– 1.3	– 0.6
– 0.7	– 0.7	– 0.7	– 0.7	– 0.7	– 0.5	– 0.2	0.0	0.3	0.6
– 12.9	– 9.2	– 9.8	– 9.4	– 7.0	– 4.1	– 3.0	– 1.6	– 1.7	– 1.3
– 12.6	– 9.0	– 9.6	– 9.3	– 6.9	– 4.1	– 3.0	– 1.6	– 1.7	– 1.3
– 1.6	2.0	2.1	2.1	2.4	3.4	3.7	3.5	3.9	4.0
1.7	1.9	2.1	2.1	2.4	2.6	2.8	3.0	3.1	3.2
– 1.9	– 1.8	– 1.9	– 1.9	– 1.9	– 1.2	– 0.4	0.0	0.7	1.5

Table A.3.3

Cyclical adjustment of general government receipts, expenditures and budget balances

(% of GDP)

	Former definitions					
Spain	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**
Total resources						
1. Actual data	29.7	34.0	37.8	38.2	38.9	40.7
2. Cyclical component	– 0.2	– 1.1	1.2	1.5	1.4	0.8
3. Cyclically adjusted data	29.9	35.1	36.6	36.6	37.5	39.9
Total uses						
4. Actual data	31.7	40.1	41.3	42.3	43.2	44.6
5. Cyclical component	0.0	0.1	– 0.1	– 0.1	– 0.1	– 0.1
6. Cyclically adjusted data	31.7	40.0	41.4	42.4	43.4	44.7
Net lending (+) or net borrowing (–)						
7. Actual balance	– 2.5	– 6.1	– 3.5	– 4.1	– 4.3	– 4.0
8. Cyclical component	– 0.2	– 1.2	1.3	1.7	1.5	0.9
9. Cyclically adjusted balance	– 2.3	– 4.9	– 4.9	– 5.8	– 5.8	– 4.8
— as % of trend GDP	– 2.3	– 4.7	– 5.0	– 6.1	– 6.1	– 4.9
10. GDP at 1995 market prices (annual % change)	1.3	2.6	4.7	3.7	2.3	0.7
11. Trend GDP at 1995 market prices (annual % change)	1.9	2.5	2.9	2.8	2.7	2.6
12. Gap between actual and trend GDP (% of trend GDP)	– 0.8	– 3.5	3.6	4.5	4.1	2.1

France	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**
Total resources						
1. Actual data	44.7	48.8	47.9	48.2	48.2	48.0
2. Cyclical component	0.2	– 0.7	0.7	1.0	0.7	0.6
3. Cyclically adjusted data	44.4	49.4	47.1	47.2	47.5	47.4
Total uses						
4. Actual data	44.7	51.6	49.1	49.7	50.1	51.8
5. Cyclical component	– 0.1	0.3	– 0.3	– 0.4	– 0.3	– 0.3
6. Cyclically adjusted data	44.8	51.3	49.4	50.1	50.4	52.1
Net lending (+) or net borrowing (–)						
7. Actual balance	0.0	– 2.8	– 1.2	– 1.5	– 2.0	– 3.9
8. Cyclical component	0.3	– 1.0	1.1	1.4	1.0	0.8
9. Cyclically adjusted balance	– 0.4	– 1.8	– 2.3	– 2.9	– 3.0	– 4.7
— as % of trend GDP	– 0.4	– 1.8	– 2.3	– 3.0	– 3.1	– 4.8
10. GDP at 1995 market prices (annual % change)	1.8	1.7	4.2	2.7	1.0	1.5
11. Trend GDP at 1995 market prices (annual % change)	2.3	2.0	2.1	2.0	1.9	1.9
12. Gap between actual and trend GDP (% of trend GDP)	0.8	– 2.0	2.4	3.1	2.2	1.8

Source: Commission services.

(% of GDP)

Former definitions			ESA95 definitions						
1993	1994	1995	1995	1996	1997	1998	1999	2000	2001
40.8	39.7	38.0	38.4	39.3	39.6	39.6	40.0	40.0	40.0
– 0.6	– 0.7	– 0.7	– 0.7	– 0.8	– 0.5	– 0.2	0.0	0.1	0.1
41.4	40.4	38.7	39.1	40.1	40.1	39.9	40.1	39.9	39.9
47.6	45.8	45.0	45.4	44.3	42.7	42.2	41.1	40.7	40.5
0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
47.5	45.7	45.0	45.3	44.2	42.7	42.2	41.1	40.8	40.5
– 6.7	– 6.1	– 7.0	– 6.9	– 5.0	– 3.2	– 2.6	– 1.1	– 0.7	– 0.4
– 0.6	– 0.8	– 0.7	– 0.7	– 0.9	– 0.6	– 0.2	– 0.1	0.1	0.1
– 6.1	– 5.4	– 6.3	– 6.2	– 4.1	– 2.6	– 2.3	– 1.1	– 0.8	– 0.6
– 6.0	– 5.3	– 6.2	– 6.1	– 4.0	– 2.6	– 2.3	– 1.1	– 0.8	– 0.6
– 1.2	2.3	2.7	2.7	2.3	3.8	4.0	3.7	3.8	3.4
2.6	2.6	2.7	2.7	2.8	3.0	3.1	3.2	3.3	3.4
– 1.6	– 1.9	– 1.9	– 1.9	– 2.3	– 1.5	– 0.6	– 0.1	0.3	0.3

1993	1994	1995	1995	1996	1997	1998	1999	2000	2001
48.4	48.3	49.0	48.4	50.1	50.4	49.7	50.6	49.5	49.0
– 0.3	– 0.2	– 0.3	– 0.3	– 0.6	– 0.7	– 0.4	– 0.3	0.0	0.2
48.7	48.5	49.3	48.7	50.7	51.1	50.2	50.9	49.5	48.8
54.1	54.0	53.8	54.0	54.2	53.4	52.4	52.3	51.1	50.2
0.1	0.1	0.1	0.1	0.3	0.3	0.2	0.1	0.0	– 0.1
53.9	53.9	53.7	53.8	54.0	53.2	52.2	52.2	51.1	50.2
– 5.6	– 5.6	– 4.8	– 5.5	– 4.2	– 3.0	– 2.7	– 1.8	– 1.5	– 1.2
– 0.4	– 0.3	– 0.4	– 0.4	– 0.9	– 1.0	– 0.6	– 0.5	0.0	0.2
– 5.2	– 5.3	– 4.4	– 5.1	– 3.3	– 2.1	– 2.1	– 1.3	– 1.6	– 1.4
– 5.2	– 5.3	– 4.3	– 5.1	– 3.2	– 2.0	– 2.1	– 1.3	– 1.6	– 1.4
– 0.9	2.1	1.7	1.7	1.1	2.0	3.2	2.8	3.7	3.2
1.8	1.9	1.9	1.9	2.0	2.2	2.4	2.5	2.6	2.7
– 0.9	– 0.7	– 0.9	– 0.9	– 1.8	– 2.1	– 1.3	– 1.0	0.0	0.5

Table A.3.4

Cyclical adjustment of general government receipts, expenditures and budget balances

(% of GDP)

	Former definitions					
Ireland	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**
Total resources						
1. Actual data	34.6	38.9	36.3	36.0	36.7	37.1
2. Cyclical component	0.6	– 0.1	0.0	0.8	0.1	– 0.5
3. Cyclically adjusted data	34.0	38.9	36.2	35.2	36.7	37.6
Total uses						
4. Actual data	46.3	49.2	38.0	38.1	39.0	39.5
5. Cyclical component	– 0.3	0.0	0.0	– 0.4	0.0	0.2
6. Cyclically adjusted data	46.6	49.1	38.0	38.5	39.0	39.3
Net lending (+) or net borrowing (–)						
7. Actual balance	– 11.6	– 10.2	– 1.7	– 2.2	– 2.3	– 2.4
8. Cyclical component	1.0	– 0.1	0.1	1.2	0.1	– 0.7
9. Cyclically adjusted balance	– 12.6	– 10.2	– 1.8	– 3.3	– 2.3	– 1.7
— as % of trend GDP	– 12.9	– 10.1	– 1.8	– 3.5	– 2.3	– 1.7
10. GDP at 1995 market prices (annual % change)	3.1	3.1	6.2	7.6	1.9	3.3
11. Trend GDP at 1995 market prices (annual % change)	3.6	3.1	4.2	4.5	4.9	5.3
12. Gap between actual and trend GDP (% of trend GDP)	2.7	– 0.2	0.2	3.2	0.2	– 1.7

Italy	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**
Total resources						
1. Actual data	34.2	38.9	42.1	42.8	43.8	44.5
2. Cyclical component	0.9	– 0.4	0.8	0.8	0.7	0.3
3. Cyclically adjusted data	33.3	39.4	41.4	42.0	43.2	44.2
Total uses						
4. Actual data	42.8	51.5	51.9	53.8	53.8	54.0
5. Cyclical component	– 0.1	0.1	– 0.1	– 0.1	– 0.1	0.0
6. Cyclically adjusted data	42.9	51.4	52.0	53.9	53.9	54.0
Net lending (+) or net borrowing (–)						
7. Actual balance	– 8.6	– 12.5	– 9.8	– 11.0	– 10.0	– 9.5
8. Cyclical component	1.0	– 0.5	0.9	0.9	0.7	0.3
9. Cyclically adjusted balance	– 9.6	– 12.0	– 10.7	– 11.9	– 10.7	– 9.8
— as % of trend GDP	– 9.9	– 11.9	– 10.9	– 12.2	– 10.9	– 9.9
10. GDP at 1995 market prices (annual % change)	3.5	3.0	2.9	2.0	1.4	0.8
11. Trend GDP at 1995 market prices (annual % change)	2.8	2.3	2.1	1.9	1.8	1.7
12. Gap between actual and trend GDP (% of trend GDP)	3.0	– 1.3	2.1	2.1	1.7	0.7

Source: Commission services.

(% of GDP)

Former definitions			ESA95 definitions						
1993	1994	1995	1995	1996	1997	1998	1999	2000	2001
37.1	37.8	35.0	38.8	38.8	38.4	37.7	38.4	37.1	36.4
– 1.3	– 1.4	– 0.6	– 0.7	– 0.5	0.3	0.7	0.8	0.8	0.5
38.3	39.2	35.6	39.4	39.3	38.1	37.0	37.5	36.3	35.8
39.4	39.4	37.1	41.2	39.5	37.6	35.5	36.4	35.4	33.6
0.6	0.6	0.3	0.3	0.2	– 0.1	– 0.3	– 0.4	– 0.4	– 0.2
38.8	38.7	36.8	40.9	39.2	37.8	35.8	36.8	35.8	33.9
– 2.3	– 1.6	– 2.1	– 2.5	– 0.6	0.8	2.1	2.0	1.7	2.7
– 1.8	– 2.1	– 0.9	– 1.0	– 0.7	0.5	1.0	1.2	1.2	0.8
– 0.5	0.5	– 1.2	– 1.5	0.1	0.3	1.2	0.8	0.5	2.0
– 0.4	0.5	– 1.1	– 1.5	0.1	0.3	1.2	0.8	0.5	2.0
2.6	5.8	9.5	9.5	7.7	10.7	8.9	8.3	7.5	6.2
5.7	6.2	6.7	6.7	7.0	7.3	7.5	7.5	7.5	7.4
– 4.6	– 5.0	– 2.4	– 2.4	– 1.8	1.3	2.6	3.3	3.3	2.1

1993	1994	1995	1995	1996	1997	1998	1999	2000	2001
47.7	45.5	45.3	45.5	45.8	48.2	46.6	46.9	46.3	46.0
– 0.8	– 0.5	0.0	0.0	– 0.2	– 0.2	– 0.3	– 0.5	– 0.2	0.1
48.5	46.0	45.3	45.5	46.0	48.4	46.9	47.4	46.5	45.9
57.1	54.6	52.9	53.1	52.9	50.9	49.4	48.8	47.8	46.8
0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
57.1	54.6	52.9	53.1	52.9	50.8	49.3	48.8	47.7	46.8
– 9.4	– 9.1	– 7.6	– 7.6	– 7.1	– 2.7	– 2.8	– 1.9	– 1.5	– 0.8
– 0.8	– 0.5	0.0	0.0	– 0.3	– 0.2	– 0.3	– 0.6	– 0.2	0.1
– 8.6	– 8.5	– 7.6	– 7.6	– 6.8	– 2.5	– 2.5	– 1.3	– 1.3	– 0.9
– 8.4	– 8.4	– 7.6	– 7.6	– 6.8	– 2.5	– 2.5	– 1.3	– 1.3	– 0.9
– 0.9	2.2	2.9	2.9	1.1	1.8	1.5	1.4	2.7	2.7
1.7	1.6	1.7	1.7	1.7	1.7	1.8	1.9	1.9	2.0
– 1.8	– 1.2	0.0	0.0	– 0.6	– 0.5	– 0.8	– 1.2	– 0.4	0.2

Table A.3.5

Cyclical adjustment of general government receipts, expenditures and budget balances

(% of GDP)

	Former definitions					
Luxembourg	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**
Total resources						
1. Actual data	47.2	49.9	:	:	:	:
2. Cyclical component	0.1	– 1.7	:	:	:	:
3. Cyclically adjusted data	47.2	51.5	:	:	:	:
Total uses						
4. Actual data	47.7	43.7	:	:	:	:
5. Cyclical component	0.0	0.7	– 0.8	– 0.2	– 0.3	– 0.1
6. Cyclically adjusted data	47.7	43.0	:	:	:	:
Net lending (+) or net borrowing (–)						
7. Actual balance	– 0.4	6.2	:	4.7	1.8	0.7
8. Cyclical component	0.1	– 2.4	:	:	:	:
9. Cyclically adjusted balance	– 0.6	8.5	:	:	:	:
— as % of trend GDP	– 0.6	8.2	:	:	:	:
10. GDP at 1995 market prices (annual % change)	0.8	2.9	9.8	2.2	6.1	4.5
11. Trend GDP at 1995 market prices (annual % change)	2.2	4.3	5.7	5.8	5.8	5.7
12. Gap between actual and trend GDP (% of trend GDP)	0.2	– 3.7	4.8	1.2	1.6	0.4

The Netherlands	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**
Total resources						
1. Actual data	50.4	52.2	48.1	47.9	50.6	50.1
2. Cyclical component	0.6	– 0.4	0.4	0.9	0.8	0.5
3. Cyclically adjusted data	49.8	52.6	47.8	47.0	49.8	49.6
Total uses						
4. Actual data	54.4	55.7	52.7	52.8	53.4	53.8
5. Cyclical component	– 0.6	0.4	– 0.4	– 0.9	– 0.7	– 0.5
6. Cyclically adjusted data	55.0	55.3	53.0	53.7	54.1	54.3
Net lending (+) or net borrowing (–)						
7. Actual balance	– 4.1	– 3.5	– 4.6	– 4.9	– 2.8	– 3.8
8. Cyclical component	1.2	– 0.8	0.7	1.8	1.5	1.0
9. Cyclically adjusted balance	– 5.2	– 2.7	– 5.3	– 6.7	– 4.3	– 4.7
— as % of trend GDP	– 5.3	– 2.7	– 5.3	– 6.9	– 4.4	– 4.8
10. GDP at 1995 market prices (annual % change)	1.2	3.1	4.7	4.1	2.3	2.0
11. Trend GDP at 1995 market prices (annual % change)	1.7	2.0	2.6	2.7	2.7	2.7
12. Gap between actual and trend GDP (% of trend GDP)	1.5	– 1.0	0.9	2.3	1.9	1.2

Source: Commission services.

(% of GDP)

Former definitions			ESA95 definitions						
1993	1994	1995	1995	1996	1997	1998	1999	2000	2001
:	:	:	48.1	48.9	47.6	47.2	46.5	46.2	45.4
:	:	:	0.2	– 0.9	0.0	– 0.1	– 0.2	0.1	0.3
:	:	:	47.9	49.7	47.6	47.2	46.6	46.1	45.1
:	:	:	45.8	46.2	44.0	43.9	44.1	43.6	42.7
– 0.6	– 0.4	– 0.1	– 0.1	0.3	0.0	0.0	0.1	0.0	– 0.1
:	:	:	45.9	45.9	44.0	43.9	44.0	43.6	42.8
1.6	2.6	1.8	2.2	2.7	3.6	3.2	2.4	2.6	2.7
:	:	:	0.3	– 1.2	0.0	– 0.1	– 0.2	0.1	0.4
:	:	:	2.0	3.9	3.6	3.4	2.6	2.5	2.3
:	:	:	2.0	3.8	3.6	3.4	2.6	2.5	2.3
8.7	4.2	3.8	3.8	2.9	7.3	5.0	5.0	5.6	5.7
5.6	5.5	5.4	5.4	5.3	5.3	5.2	5.1	5.1	5.0
3.3	2.0	0.4	0.4	– 1.9	0.0	– 0.2	– 0.4	0.1	0.8

1993	1994	1995	1995	1996	1997	1998	1999	2000	2001
50.8	48.0	46.6	46.6	47.0	46.4	45.7	46.8	46.0	43.8
– 0.4	– 0.2	– 0.5	– 0.5	– 0.5	– 0.3	– 0.1	– 0.1	0.2	0.3
51.2	48.2	47.1	47.1	47.5	46.6	45.8	46.8	45.8	43.5
53.9	51.6	50.4	50.8	48.9	47.6	46.5	46.2	45.0	43.4
0.3	0.2	0.5	0.5	0.5	0.3	0.1	0.1	– 0.2	– 0.3
53.6	51.4	50.0	50.3	48.4	47.3	46.4	46.2	45.2	43.7
– 3.1	– 3.6	– 3.8	– 4.2	– 1.8	– 1.2	– 0.8	0.5	1.0	0.4
– 0.7	– 0.4	– 1.0	– 0.9	– 1.0	– 0.5	– 0.2	– 0.1	0.4	0.6
– 2.4	– 3.2	– 2.9	– 3.2	– 0.8	– 0.7	– 0.5	0.7	0.6	– 0.2
– 2.4	– 3.2	– 2.8	– 3.2	– 0.8	– 0.7	– 0.5	0.7	0.6	– 0.2
0.8	3.2	2.3	2.3	3.0	3.8	3.7	3.5	4.1	3.7
2.8	2.9	3.0	3.0	3.1	3.2	3.3	3.4	3.4	3.4
– 0.8	– 0.5	– 1.2	– 1.2	– 1.2	– 0.6	– 0.3	– 0.2	0.5	0.8

Table A.3.6

Cyclical adjustment of general government receipts, expenditures and budget balances

(% of GDP)

	Former definitions					
Austria	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**
Total resources						
1. Actual data	45.2	47.5	45.8	46.9	47.3	49.0
2. Cyclical component	0.4	– 0.5	0.0	0.5	0.8	0.6
3. Cyclically adjusted data	44.8	48.0	45.8	46.3	46.5	48.5
Total uses						
4. Actual data	46.8	49.9	48.6	49.3	50.3	51.0
5. Cyclical component	0.0	0.0	0.0	0.0	0.0	0.0
6. Cyclically adjusted data	46.8	49.9	48.6	49.3	50.3	51.0
Net lending (+) or net borrowing (–)						
7. Actual balance	– 1.6	– 2.4	– 2.7	– 2.4	– 3.0	– 1.9
8. Cyclical component	0.4	– 0.5	0.0	0.5	0.8	0.6
9. Cyclically adjusted balance	– 2.1	– 1.9	– 2.8	– 2.9	– 3.8	– 2.5
— as% of trend GDP	– 2.1	– 1.8	– 2.8	– 3.0	– 3.9	– 2.5
10. GDP at 1995 market prices (annual % change)	2.3	2.2	4.2	4.6	3.4	1.3
11. Trend GDP at 1995 market prices (annual % change)	2.4	2.2	2.5	2.5	2.4	2.4
12. Gap between actual and trend GDP (% of trend GDP)	1.7	– 1.8	0.1	2.1	3.1	2.0

Portugal	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**
Total resources						
1. Actual data	28.4	33.4	33.6	34.4	35.8	38.7
2. Cyclical component	0.6	– 1.3	0.8	1.0	0.9	0.8
3. Cyclically adjusted data	27.7	34.7	32.8	33.4	34.9	37.9
Total uses						
4. Actual data	36.9	43.7	35.9	39.4	41.7	41.6
5. Cyclical component	– 0.2	0.4	– 0.2	– 0.3	– 0.2	– 0.2
6. Cyclically adjusted data	37.1	43.3	36.2	39.7	41.9	41.8
Net lending (+) or net borrowing (–)						
7. Actual balance	– 8.6	– 10.3	– 2.3	– 5.0	– 5.9	– 2.9
8. Cyclical component	0.8	– 1.8	1.0	1.3	1.1	1.0
9. Cyclically adjusted balance	– 9.4	– 8.6	– 3.3	– 6.3	– 7.0	– 3.9
— as % of trend GDP	– 9.7	– 8.1	– 3.4	– 6.6	– 7.3	– 4.0
10. GDP at 1995 market prices (annual % change)	4.6	2.8	5.1	4.4	2.3	2.5
11. Trend GDP at 1995 market prices (annual % change)	3.0	2.9	3.4	3.3	3.2	3.0
12. Gap between actual and trend GDP (% of trend GDP)	3.3	– 5.8	3.4	4.5	3.6	3.1

Source: Commission services.

(% of GDP)

Former definitions			ESA95 definitions						
1993	1994	1995	1995	1996	1997	1998	1999	2000	2001
49.7	48.5	49.1	49.9	50.6	49.8	49.3	49.0	48.5	47.6
0.1	0.1	0.0	0.0	– 0.1	– 0.4	– 0.3	– 0.3	– 0.1	0.0
49.7	48.4	49.2	49.9	50.7	50.3	49.6	49.4	48.6	47.6
53.9	53.3	54.1	54.9	54.4	51.7	51.8	51.1	50.3	49.6
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
53.9	53.3	54.1	54.9	54.4	51.7	51.8	51.1	50.3	49.6
– 4.2	– 4.9	– 5.0	– 5.1	– 3.8	– 1.9	– 2.5	– 2.0	– 1.7	– 2.0
0.1	0.1	0.0	0.0	– 0.1	– 0.4	– 0.3	– 0.3	– 0.1	0.0
– 4.2	– 5.0	– 4.9	– 5.0	– 3.7	– 1.5	– 2.2	– 1.7	– 1.7	– 2.0
– 4.2	– 5.0	– 4.9	– 5.0	– 3.7	– 1.4	– 2.2	– 1.7	– 1.6	– 2.0
0.5	2.4	1.7	1.7	2.0	1.2	2.9	2.3	3.2	3.0
2.3	2.3	2.2	2.2	2.2	2.3	2.3	2.4	2.5	2.5
0.2	0.4	– 0.2	– 0.2	– 0.4	– 1.5	– 1.0	– 1.1	– 0.3	0.1

1993	1994	1995	1995	1996	1997	1998	1999	2000	2001
37.2	36.6	37.4	40.6	42.0	42.2	43.0	45.9	46.8	47.2
– 0.2	– 0.4	– 0.4	– 0.4	– 0.3	– 0.2	– 0.1	– 0.2	0.0	0.1
37.4	37.0	37.8	41.0	42.3	42.4	43.1	46.0	46.8	47.1
43.2	42.5	43.0	45.4	45.8	44.8	45.1	47.8	48.3	48.7
0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
43.1	42.4	42.9	45.3	45.7	44.7	45.1	47.8	48.3	48.7
– 6.0	– 5.9	– 5.6	– 4.2	– 3.8	– 2.6	– 2.1	– 2.0	– 1.5	– 1.5
– 0.3	– 0.5	– 0.5	– 0.5	– 0.4	– 0.3	– 0.1	– 0.2	0.0	0.1
– 5.7	– 5.4	– 5.1	– 3.7	– 3.4	– 2.3	– 2.0	– 1.8	– 1.5	– 1.6
– 5.6	– 5.3	– 5.0	– 3.6	– 3.3	– 2.3	– 2.0	– 1.8	– 1.5	– 1.6
– 1.1	2.2	2.9	2.9	3.2	3.5	3.5	2.9	3.6	3.5
2.9	2.9	2.9	2.9	2.9	3.0	3.0	3.1	3.1	3.2
– 1.0	– 1.6	– 1.6	– 1.6	– 1.3	– 0.8	– 0.4	– 0.5	– 0.1	0.3

Table A.3.7

Cyclical adjustment of general government receipts, expenditures and budget balances

(% of GDP)

Finland	Former definitions 1980	1985	1989	1990	1991	1992
Total resources						
1. Actual data	42.0	47.0	48.7	51.4	53.1	53.7
2. Cyclical component	0.2	0.1	3.9	3.4	– 0.2	– 2.6
3. Cyclically adjusted data	41.8	46.9	44.8	48.0	53.3	56.4
Total uses						
4. Actual data	38.6	44.2	42.5	46.1	54.5	59.5
5. Cyclical component	– 0.1	– 0.1	– 1.5	– 1.3	0.1	1.0
6. Cyclically adjusted data	38.7	44.3	44.1	47.4	54.4	58.5
Net lending (+) or net borrowing (–)						
7. Actual balance	3.3	2.8	6.2	5.3	– 1.5	– 5.7
8. Cyclical component	0.3	0.2	5.4	4.7	– 0.3	– 3.6
9. Cyclically adjusted balance	3.0	2.6	0.8	0.5	– 1.1	– 2.1
— as % of trend GDP	3.1	2.7	0.8	0.6	– 1.1	– 2.0
10. GDP at 1995 market prices (annual % change)	5.1	3.1	5.1	0.0	– 6.3	– 3.3
11. Trend GDP at 1995 market prices (annual % change)	3.2	2.7	1.6	1.3	1.2	1.3
12. Gap between actual and trend GDP (% of trend GDP)	0.5	0.3	8.9	7.4	– 0.5	– 5.0

Sweden	1980	1985	1989	1990	1991	1992
Total resources						
1. Actual data	55.6	59.0	63.1	62.7	59.5	58.8
2. Cyclical component	0.0	0.0	2.0	2.0	0.7	– 0.7
3. Cyclically adjusted data	55.6	59.0	61.1	60.7	58.8	59.5
Total uses						
4. Actual data	59.5	62.7	57.9	58.6	60.6	66.3
5. Cyclical component	0.0	0.0	– 0.9	– 0.9	– 0.3	0.4
6. Cyclically adjusted data	59.5	62.6	58.8	59.5	60.9	65.9
Net lending (+) or net borrowing (–)						
7. Actual balance	– 3.9	– 3.7	5.2	4.0	– 1.1	– 7.5
8. Cyclical component	0.0	0.0	2.9	2.9	1.0	– 1.1
9. Cyclically adjusted balance	– 3.9	– 3.7	2.3	1.1	– 2.1	– 6.4
— as % of trend GDP	– 3.9	– 3.7	2.4	1.2	– 2.1	– 6.3
10. GDP at 1995 market prices (annual % change)	1.7	1.9	2.4	1.4	– 1.1	– 1.4
11. Trend GDP at 1995 market prices (annual % change)	1.7	1.8	1.4	1.3	1.2	1.2
12. Gap between actual and trend GDP (% of trend GDP)	0.0	0.0	3.6	3.7	1.3	– 1.4

Source: Commission services.

(% of GDP)

Former definitions			ESA95 definitions						
1993	1994	1995	1995	1996	1997	1998	1999	2000	2001
52.7	53.5	52.0	53.4	53.7	52.6	52.4	52.1	51.8	51.1
– 3.9	– 3.0	– 2.2	– 2.3	– 1.7	– 0.2	0.5	0.3	0.6	0.6
56.6	56.5	54.3	55.6	55.4	52.9	51.9	51.8	51.2	50.5
60.6	59.5	57.1	57.1	56.9	54.1	51.1	49.8	47.7	46.1
1.5	1.1	0.9	0.9	0.6	0.1	– 0.2	– 0.1	– 0.2	– 0.2
59.0	58.4	56.2	56.2	56.2	54.1	51.3	49.9	47.9	46.3
– 7.9	– 6.0	– 5.0	– 3.7	– 3.2	– 1.5	1.3	2.3	4.1	5.0
– 5.5	– 4.2	– 3.1	– 3.1	– 2.3	– 0.3	0.6	0.4	0.9	0.9
– 2.4	– 1.9	– 1.9	– 0.6	– 0.8	– 1.2	0.6	1.9	3.3	4.2
– 2.2	– 1.8	– 1.8	– 0.6	– 0.8	– 1.2	0.6	1.9	3.3	4.2
– 1.1	4.0	3.8	3.8	4.0	6.3	5.0	3.5	4.9	4.2
1.5	1.9	2.4	2.4	2.9	3.3	3.6	3.9	4.1	4.3
– 7.5	– 5.6	– 4.3	– 4.3	– 3.2	– 0.4	0.9	0.6	1.3	1.3

1993	1994	1995	1995	1996	1997	1998	1999	2000	2001
58.2	57.0	56.9	56.7	59.3	59.1	60.6	60.4	58.5	57.6
– 2.6	– 1.3	– 0.3	– 0.3	– 0.9	– 1.0	– 0.7	– 0.1	0.5	0.7
60.8	58.3	57.2	57.0	60.1	60.1	61.3	60.5	57.9	56.9
70.1	66.9	64.4	64.6	62.6	61.1	58.7	58.5	56.0	54.7
1.3	0.7	0.2	0.2	0.4	0.5	0.3	0.1	– 0.2	– 0.3
68.7	66.3	64.2	64.4	62.2	60.6	58.4	58.5	56.3	55.0
– 11.9	– 9.9	– 7.5	– 7.9	– 3.4	– 2.0	1.9	1.9	2.4	2.9
– 3.9	– 1.9	– 0.5	– 0.5	– 1.3	– 1.5	– 1.1	– 0.2	0.7	1.1
– 7.9	– 8.0	– 7.0	– 7.4	– 2.1	– 0.6	2.9	2.0	1.7	1.9
– 7.5	– 7.8	– 7.0	– 7.4	– 2.1	– 0.6	2.9	2.0	1.7	1.9
– 2.2	4.1	3.7	3.7	1.1	2.0	3.0	3.8	3.9	3.3
1.4	1.5	1.8	1.8	2.0	2.2	2.5	2.6	2.8	2.9
– 4.9	– 2.5	– 0.6	– 0.6	– 1.5	– 1.8	– 1.3	– 0.2	0.9	1.4

Table A.3.8

Cyclical adjustment of general government receipts, expenditures and budget balances

(% of GDP)

	Former definitions					
United Kingdom	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**
Total resources						
1. Actual data	39.9	41.5	38.9	38.5	37.6	36.3
2. Cyclical component	– 0.3	– 0.5	1.6	1.0	– 0.3	– 1.1
3. Cyclically adjusted data	40.3	42.0	37.2	37.4	38.0	37.4
Total uses						
4. Actual data	43.4	44.4	37.9	39.4	39.9	42.4
5. Cyclical component	0.1	0.1	– 0.3	– 0.2	0.1	0.2
6. Cyclically adjusted data	43.3	44.3	38.2	39.6	39.9	42.2
Net lending (+) or net borrowing (–)						
7. Actual balance	– 3.4	– 2.9	1.0	– 0.9	– 2.3	– 6.1
8. Cyclical component	– 0.4	– 0.6	1.9	1.2	– 0.4	– 1.3
9. Cyclically adjusted balance	– 3.0	– 2.3	– 0.9	– 2.1	– 1.9	– 4.8
— as % of trend GDP	– 3.0	– 2.3	– 1.0	– 2.2	– 1.9	– 4.7
10. GDP at 1995 market prices (annual % change)	– 2.2	3.8	2.1	0.6	– 1.5	0.1
11. Trend GDP at 1995 market prices (annual % change)	1.7	2.5	2.4	2.3	2.2	2.2
12. Gap between actual and trend GDP (% of trend GDP)	– 0.9	– 1.2	4.5	2.8	– 0.9	– 2.9

Source: Commission services.

ANNEX

(% of GDP)

Former definitions			ESA95 definitions						
1993	1994	1995	1995	1996	1997	1998	1999	2000	2001
35.3	35.9	37.0	39.2	39.5	39.5	40.5	40.5	40.0	39.8
– 1.0	– 0.3	– 0.2	– 0.2	– 0.2	0.2	0.1	– 0.1	0.2	0.3
36.3	36.2	37.2	39.4	39.6	39.3	40.5	40.6	39.9	39.4
43.1	42.6	42.4	45.0	43.8	41.5	40.2	39.3	39.1	39.1
0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	– 0.1
42.9	42.6	42.4	45.0	43.8	41.6	40.3	39.2	39.2	39.1
– 7.8	– 6.7	– 5.5	– 5.8	– 4.4	– 2.0	0.3	1.2	0.9	0.7
– 1.2	– 0.4	– 0.2	– 0.2	– 0.2	0.3	0.1	– 0.2	0.2	0.4
– 6.6	– 6.4	– 5.2	– 5.5	– 4.2	– 2.3	0.2	1.4	0.7	0.3
– 6.4	– 6.3	– 5.2	– 5.5	– 4.2	– 2.3	0.2	1.4	0.7	0.3
2.3	4.4	2.8	2.8	2.6	3.5	2.2	2.0	3.3	3.0
2.2	2.3	2.4	2.4	2.5	2.5	2.5	2.6	2.6	2.6
– 2.9	– 0.9	– 0.5	– 0.5	– 0.4	0.6	0.2	– 0.3	0.4	0.8

ANNEX

Table A.3.9

Cyclical adjustment of general government receipts, expenditures and budget balances

(% of GDP)

	Former definitions					
Euro area (1)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**
Total resources						
1. Actual data	42.0	44.8	44.6	44.4	44.8	45.6
2. Cyclical component	0.6	– 0.7	0.6	1.0	1.1	0.9
3. Cyclically adjusted data	41.4	45.4	44.0	43.3	43.7	44.7
Total uses						
4. Actual data	45.4	49.6	47.7	48.5	49.4	50.2
5. Cyclical component	– 0.2	0.2	– 0.2	– 0.3	– 0.2	– 0.1
6. Cyclically adjusted data	45.5	49.4	47.8	48.8	49.6	50.4
Net lending (+) or net borrowing (–)						
7. Actual balance	– 3.4	– 4.8	– 3.1	– 4.2	– 4.5	– 4.7
8. Cyclical component	0.8	– 0.9	0.7	1.4	1.3	1.0
9. Cyclically adjusted balance	– 4.2	– 3.9	– 3.8	– 5.5	– 5.8	– 5.7
— as % of trend GDP	– 4.2	– 3.9	– 3.9	– 5.7	– 6.0	– 5.8
10. GDP at 1995 market prices (annual % change)	2.0	2.2	3.9	3.8	2.5	1.5
11. Trend GDP at 1995 market prices (annual % change)	2.2	2.2	2.4	2.3	2.3	2.2
12. Gap between actual and trend GDP (% of trend GDP)	1.7	– 1.9	1.4	2.9	3.0	2.3

EU-15 (2)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**
Total resources						
1. Actual data	42.2	44.8	44.4	44.2	44.3	44.8
2. Cyclical component	0.4	– 0.5	0.8	1.1	0.9	0.5
3. Cyclically adjusted data	41.7	45.3	43.6	43.1	43.5	44.3
Total uses						
4. Actual data	45.5	49.3	46.7	47.7	48.5	49.8
5. Cyclical component	– 0.1	0.1	– 0.2	– 0.3	– 0.2	– 0.1
6. Cyclically adjusted data	45.7	49.1	46.9	48.0	48.6	49.9
Net lending (+) or net borrowing (–)						
7. Actual balance	– 3.4	– 4.5	– 2.2	– 3.5	– 4.1	– 5.0
8. Cyclical component	0.6	– 0.7	1.0	1.4	1.0	0.6
9. Cyclically adjusted balance	– 4.0	– 3.8	– 3.2	– 4.9	– 5.2	– 5.6
— as % of trend GDP	– 4.0	– 3.8	– 3.3	– 5.0	– 5.3	– 5.7
10. GDP at 1995 market prices (annual % change)	1.3	2.5	3.5	3.2	1.9	1.2
11. Trend GDP at 1995 market prices (annual % change)	2.1	2.2	2.3	2.3	2.3	2.2
12. Gap between actual and trend GDP (% of trend GDP)	1.3	– 1.6	2.0	2.8	2.4	1.5

(1) EU-15 excluding Denmark, Greece, Sweden and UK; from 1991 including former East Germany.
Due to problems with availability of the data, Luxembourg data are not included.
(2) Excluding Luxembourg; from 1991 including former East Germany.

Source: Commission services.

(% of GDP)

Former definitions			ESA95 definitions						
1993	1994	1995	1995	1996	1997	1998	1999	2000	2001
46.6	46.1	45.9	45.9	46.7	47.1	46.6	47.2	46.6	45.7
– 0.3	– 0.2	– 0.1	– 0.1	– 0.5	– 0.5	– 0.3	– 0.4	– 0.1	0.1
46.8	46.3	46.0	46.1	47.2	47.5	46.9	47.6	46.6	45.5
52.1	51.1	50.7	50.9	51.0	49.6	48.6	48.4	47.5	46.5
0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	– 0.1
52.0	51.0	50.6	50.8	50.8	49.5	48.6	48.3	47.5	46.5
– 5.5	– 5.0	– 4.8	– 5.0	– 4.3	– 2.6	– 2.0	– 1.2	– 0.9	– 0.8
– 0.4	– 0.2	– 0.2	– 0.2	– 0.6	– 0.6	– 0.4	– 0.5	– 0.1	0.2
– 5.1	– 4.8	– 4.6	– 4.7	– 3.6	– 2.0	– 1.6	– 0.7	– 0.9	– 1.0
– 5.1	– 4.7	– 4.6	– 4.7	– 3.6	– 2.0	– 1.6	– 0.7	– 0.9	– 1.0
– 0.8	2.4	2.2	2.2	1.4	2.3	2.7	2.3	3.4	3.1
2.2	2.1	2.1	2.1	2.2	2.3	2.3	2.4	2.5	2.6
– 0.7	– 0.4	– 0.4	– 0.4	– 1.2	– 1.2	– 0.8	– 1.0	– 0.2	0.4

1993	1994	1995	1995	1996	1997	1998	1999	2000	2001
45.4	45.1	45.1	45.5	46.2	46.3	46.1	46.6	45.9	45.1
– 0.5	– 0.2	– 0.1	– 0.1	– 0.4	– 0.3	– 0.3	– 0.3	0.0	0.2
45.9	45.3	45.3	45.6	46.6	46.6	46.4	46.9	45.9	44.9
51.5	50.5	50.2	50.6	50.4	48.7	47.6	47.2	46.3	45.5
0.2	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.0	– 0.1
51.3	50.4	50.1	50.6	50.3	48.7	47.6	47.1	46.3	45.5
– 6.0	– 5.4	– 5.0	– 5.2	– 4.2	– 2.4	– 1.5	– 0.6	– 0.4	– 0.3
– 0.6	– 0.3	– 0.2	– 0.2	– 0.5	– 0.4	– 0.3	– 0.4	0.0	0.3
– 5.4	– 5.1	– 4.8	– 4.9	– 3.7	– 2.0	– 1.2	– 0.2	– 0.4	– 0.6
– 5.4	– 5.1	– 4.8	– 4.9	– 3.6	– 2.0	– 1.2	– 0.2	– 0.4	– 0.6
– 0.5	2.7	2.3	2.3	1.6	2.5	2.7	2.3	3.4	3.1
2.1	2.1	2.2	2.2	2.2	2.3	2.4	2.5	2.5	2.6
– 1.2	– 0.6	– 0.4	– 0.4	– 1.1	– 0.9	– 0.7	– 0.8	0.0	0.5

Table A.4.1

Current tax burden; total economy

	Former definitions						
Current tax burden (% of GDP)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**	**1993**
B	46.5	49.8	46.1	46.8	46.8	47.0	47.9
D ([1])	42.8	42.8	42.4	40.6	40.5	41.1	41.7
E	26.2	30.4	35.1	35.1	35.5	37.3	36.4
F	42.6	46.1	45.4	45.3	45.3	45.0	45.6
IRL	31.2	35.0	33.9	33.6	34.1	34.5	34.6
I	31.8	36.1	39.2	40.0	40.9	41.5	44.2
L	39.7	42.7	:	:	:	:	:
NL	43.6	43.1	43.0	42.7	45.0	44.8	45.8
A	42.4	44.6	42.9	42.4	43.0	44.2	45.2
P	25.6	29.3	31.8	32.4	33.7	36.1	35.1
FIN	38.3	42.3	43.9	45.8	46.6	46.5	44.9
EUR-11 ([2])	39.3	41.4	41.8	41.4	41.6	42.1	43.0
DK	45.1	48.6	49.8	47.6	47.5	48.0	49.5
EL	24.4	28.8	28.2	31.0	31.4	31.9	32.6
S	48.4	49.7	54.7	54.2	51.3	49.8	49.1
UK	33.6	35.4	33.8	33.5	33.3	32.2	31.5
EU-15 ([3])	38.7	40.7	41.0	40.7	40.8	41.0	41.6

Total economy (change in % points of GDP)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**	**1993**
B	– 1.2	0.1	– 1.8	0.6	0.1	0.2	0.9
D ([1])	0.4	0.3	0.5	– 1.9	1.1	0.7	0.5
E	1.4	1.0	1.8	0.0	0.4	1.8	– 0.9
F	1.4	0.2	– 0.3	– 0.1	0.0	– 0.4	0.6
IRL	2.8	– 0.9	– 2.9	– 0.3	0.5	0.4	0.1
I	1.8	– 0.0	1.3	0.8	0.8	0.6	2.7
L	0.6	1.0	:	:	:	:	:
NL	0.1	– 0.4	– 2.8	– 0.3	2.3	– 0.2	0.9
A	0.6	1.0	– 1.1	– 0.4	0.5	1.3	0.9
P	1.9	– 0.6	0.5	0.6	1.3	2.5	– 1.1
FIN	0.3	1.7	– 0.2	1.9	0.8	– 0.1	– 1.6
EUR-11 ([2])	0.8	0.2	0.1	– 0.4	0.6	0.5	0.9
DK	0.9	1.3	– 1.3	– 2.2	– 0.1	0.5	1.6
EL	– 0.4	– 0.1	– 1.6	2.8	0.4	0.6	0.6
S	– 0.3	0.1	1.8	– 0.4	– 3.0	– 1.5	– 0.7
UK	1.5	– 0.3	– 0.1	– 0.3	– 0.2	– 1.1	– 0.7
EU-15 ([3])	0.7	0.2	0.1	– 0.3	0.4	0.3	0.6

([1]) From 1991 including former East Germany.
([2]) Excluding Luxembourg; from 1991 including former East Germany.
([3]) EU-15 excluding Luxembourg; from 1991 including former East Germany.

Source: Commission services.

Former definitions		ESA95 definitions						
1994	1995	1995	1996	1997	1998	1999	2000	2001
49.1	48.6	46.9	47.4	47.9	48.1	47.9	47.3	46.7
42.1	42.1	41.9	42.7	43.0	42.9	43.9	43.6	42.2
36.0	35.0	34.0	34.4	34.9	35.2	35.8	35.9	36.0
46.0	46.6	45.1	46.4	46.4	46.5	47.4	46.5	46.0
35.6	33.1	35.2	35.2	34.6	33.8	34.5	33.4	32.9
42.1	41.9	42.2	42.8	44.4	43.2	43.7	43.0	42.7
:	:	43.7	44.6	43.4	42.9	42.4	41.9	41.2
43.6	42.5	41.5	41.7	41.5	41.2	42.4	41.8	39.7
44.0	44.6	44.8	45.8	46.8	46.9	46.6	46.0	45.4
35.2	35.5	34.1	35.1	35.2	35.8	38.4	39.4	39.9
47.2	45.9	46.6	47.4	46.7	46.7	46.5	46.5	46.2
42.8	42.7	42.2	42.9	43.4	43.1	43.9	43.3	42.6
50.7	50.1	50.2	50.7	50.9	50.7	51.6	50.7	50.3
33.4	34.0	34.4	34.8	35.9	38.2	38.6	38.3	38.1
48.5	48.8	49.3	53.8	53.4	54.9	55.1	53.3	52.6
32.1	33.2	36.8	36.6	37.0	38.4	38.4	38.0	37.8
41.5	41.7	41.8	42.5	42.7	42.8	43.4	42.7	42.1

1994	1995	1995	1996	1997	1998	1999	2000	2001
1.1	– 0.4	:	0.5	0.5	0.2	– 0.2	– 0.6	– 0.6
0.5	– 0.0	:	0.8	0.3	– 0.0	1.0	– 0.4	– 1.4
– 0.4	– 1.1	:	0.4	0.4	0.4	0.6	0.1	0.1
0.4	0.6	:	1.3	0.0	0.1	0.9	– 1.0	– 0.5
1.0	– 2.5	:	– 0.0	– 0.5	– 0.8	0.7	– 1.1	– 0.6
– 2.1	– 0.2	:	0.5	1.6	– 1.2	0.5	– 0.7	– 0.3
:	:	:	0.8	– 1.2	– 0.5	– 0.5	– 0.4	– 0.7
– 2.2	– 1.0	:	0.2	– 0.2	– 0.3	1.2	– 0.7	– 2.1
– 1.2	0.6	:	1.0	1.0	0.1	– 0.2	– 0.7	– 0.6
0.2	0.3	:	1.0	0.1	0.5	2.7	1.0	0.5
2.3	– 1.3	:	0.8	– 0.7	– 0.1	– 0.2	0.1	– 0.4
– 0.2	– 0.1	:	0.8	0.4	– 0.2	0.7	– 0.6	– 0.8
1.2	– 0.6	:	0.6	0.2	– 0.2	1.0	– 0.9	– 0.4
0.8	0.6	:	0.4	1.1	2.3	0.3	– 0.2	– 0.2
– 0.5	0.3	:	4.4	– 0.4	1.6	0.2	– 1.8	– 0.8
0.6	1.1	:	– 0.3	0.4	1.4	0.0	– 0.4	– 0.2
– 0.1	0.1	:	0.7	0.2	0.1	0.6	– 0.6	– 0.6

Table A.4.2

Social contributions received; general government

Current tax burden (% of GDP)	Former definitions						
	1980	1985	1989	1990	1991	1992	1993
B	15.0	17.2	16.6	16.8	17.4	17.7	18.2
D (1)	16.9	17.6	17.2	16.9	17.5	17.8	18.4
E	12.8	12.6	12.5	12.8	13.1	14.0	14.3
F	18.8	20.7	20.6	20.6	20.7	20.9	21.1
IRL	4.5	5.2	4.9	5.0	5.2	5.3	5.3
I	12.9	13.5	14.0	14.3	14.6	14.9	15.4
L	13.2	12.2	:	:	:	:	:
NL	17.4	19.7	18.1	16.3	17.3	17.8	17.8
A	14.3	14.5	14.5	15.4	15.5	16.1	16.7
P	8.1	8.8	9.7	10.2	10.7	11.2	11.9
FIN	10.9	11.4	11.4	12.9	13.6	14.6	15.0
EUR-11 (2)	15.9	16.8	16.5	16.4	16.8	17.2	17.8
DK	1.7	2.6	2.2	2.3	2.3	2.4	2.5
EL	9.3	11.6	11.3	11.5	11.1	11.0	11.9
S	14.7	13.5	14.6	15.1	14.9	14.3	13.9
UK	6.1	6.8	6.5	6.2	6.2	6.1	6.2
EU-15 (3)	14.0	14.7	14.5	14.5	14.8	15.2	15.7

Total economy (change in % points of GDP)	1980	1985	1989	1990	1991	1992	1993
B	0.0	0.4	– 0.4	0.2	0.6	0.3	0.5
D (1)	0.3	0.2	– 0.3	– 0.3	0.0	0.4	0.6
E	0.1	0.1	0.3	0.3	0.3	0.9	0.3
F	0.8	0.2	0.1	0.1	0.1	0.2	0.2
IRL	0.4	– 0.1	– 0.2	0.1	0.2	0.1	0.0
I	0.2	– 0.0	0.3	0.3	0.2	0.3	0.5
L	0.4	– 0.2	:	:	:	:	:
NL	0.3	– 0.2	– 1.6	– 1.8	0.9	0.5	– 0.0
A	0.4	0.3	– 0.1	0.9	0.1	0.7	0.6
P	0.2	– 0.5	– 0.0	0.5	0.4	0.6	0.7
FIN	0.2	0.9	0.1	1.4	0.8	0.9	0.5
EUR-11 (2)	0.3	0.1	– 0.2	– 0.0	0.2	0.4	0.6
DK	0.2	– 0.0	– 0.0	0.1	0.0	0.1	0.1
EL	0.4	0.2	0.5	0.3	– 0.4	– 0.1	1.0
S	0.4	– 0.3	1.1	0.4	– 0.1	– 0.7	– 0.4
UK	0.2	– 0.1	– 0.1	– 0.3	0.0	– 0.1	0.1
EU-15 (3)	0.2	0.0	– 0.1	0.1	0.1	0.4	0.5

(1) From 1991 including former East Germany.
(2) Excluding Luxembourg; from 1991 including former East Germany.
(3) EU-15 excluding Luxembourg; from 1991 including former East Germany.

Source: Commission services.

Former definitions		ESA95 definitions						
1994	1995	1995	1996	1997	1998	1999	2000	2001
17.7	17.4	16.8	16.8	16.8	16.6	16.5	15.9	15.6
18.9	19.1	18.8	19.4	19.6	19.2	18.9	18.5	18.0
14.0	13.1	13.0	13.2	13.2	13.2	13.2	13.1	13.1
20.7	21.0	20.5	20.7	20.2	18.3	18.6	18.4	18.2
5.2	4.8	6.8	6.3	6.0	5.8	6.2	5.7	5.6
14.8	14.7	14.8	15.0	15.4	12.9	12.7	12.6	12.5
:	:	12.4	12.3	11.8	11.6	11.5	11.5	11.3
18.2	18.2	17.2	16.6	16.6	16.4	17.1	16.9	14.8
17.1	17.3	17.4	17.4	17.3	17.2	17.1	16.9	16.7
11.6	11.7	10.1	10.5	10.5	10.8	12.4	12.6	12.7
15.8	14.8	14.9	14.3	13.4	13.1	13.1	13.0	13.0
17.8	17.8	17.5	17.7	17.6	16.5	16.6	16.3	15.9
2.8	2.6	2.6	2.6	2.6	2.6	3.3	3.5	3.5
12.1	12.4	12.6	12.9	13.1	13.2	13.7	13.8	13.8
13.8	14.2	15.3	16.3	16.1	16.1	15.1	16.6	16.7
6.2	6.2	7.6	7.5	7.5	7.7	7.6	7.5	7.5
15.7	15.8	15.8	15.9	15.6	14.7	14.7	14.4	14.1

1994	1995	1995	1996	1997	1998	1999	2000	2001
– 0.5	– 0.3	:	– 0.0	– 0.1	– 0.2	– 0.0	– 0.6	– 0.3
0.5	0.2	:	0.6	0.2	– 0.4	– 0.3	– 0.5	– 0.5
– 0.3	– 0.9	:	0.2	– 0.0	– 0.0	0.0	– 0.1	– 0.0
– 0.3	0.2	:	0.3	– 0.5	– 1.9	0.4	– 0.2	– 0.2
– 0.1	– 0.4	:	– 0.5	– 0.3	– 0.3	0.4	– 0.5	– 0.1
– 0.6	– 0.1	:	0.3	0.3	– 2.5	– 0.2	– 0.1	– 0.1
:	:	:	– 0.2	– 0.5	– 0.1	– 0.2	– 0.0	– 0.2
0.4	– 0.0	:	– 0.6	– 0.0	– 0.2	0.7	– 0.1	– 2.1
0.4	0.1	:	0.0	– 0.1	– 0.1	– 0.1	– 0.2	– 0.3
– 0.3	0.2	:	0.3	– 0.0	0.4	1.5	0.2	0.1
0.8	– 1.1	:	– 0.6	– 0.8	– 0.4	0.0	– 0.0	– 0.0
0.0	0.0	:	0.2	– 0.1	– 1.1	0.0	– 0.3	– 0.4
0.3	– 0.2	:	0.0	0.0	– 0.0	0.7	0.2	0.0
0.2	0.3	:	0.3	0.2	0.1	0.4	0.1	– 0.0
– 0.0	0.3	:	1.0	– 0.2	0.0	– 1.1	1.6	0.1
0.1	0.0	:	– 0.1	0.1	0.1	– 0.1	– 0.1	– 0.0
– 0.0	0.1	:	0.1	– 0.3	– 0.9	– 0.1	– 0.3	– 0.3

Table A.4.3

Current taxes on income and wealth (direct taxes); general government

	Former definitions						
Current tax burden (% of GDP)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**	**1993**
B	18.1	19.3	16.4	16.7	16.3	16.2	16.3
D (1)	12.8	12.6	12.7	11.2	11.3	11.6	11.2
E	6.7	8.1	11.6	11.5	11.5	11.9	11.4
F	8.0	8.9	8.8	8.7	9.2	8.8	9.0
IRL	11.5	13.1	12.6	13.1	13.8	14.1	14.9
I	9.7	13.0	14.3	14.3	14.4	14.6	16.1
L	15.5	17.3	:	:	:	:	:
NL	15.1	12.2	13.4	14.9	16.2	15.3	16.1
A	12.4	13.9	12.5	11.5	12.1	12.6	12.8
P	5.7	7.9	8.0	8.0	8.9	10.0	9.1
FIN	14.2	16.5	16.6	17.7	17.6	16.9	15.2
EUR-11 (2)	10.8	11.7	12.2	11.9	12.1	12.1	12.2
DK	25.3	28.0	30.0	28.3	28.5	29.0	30.1
EL	4.5	4.6	4.5	5.4	5.5	5.4	5.7
S	20.7	20.2	24.4	22.6	19.2	19.8	20.1
UK	13.5	14.6	13.7	13.9	12.9	12.2	11.5
EU-15 (3)	11.8	12.7	13.1	12.8	12.7	12.6	12.6

Total economy (change in % points of GDP)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**	**1993**
B	– 0.8	– 0.1	– 1.3	0.3	– 0.4	– 0.1	0.1
D (1)	0.1	0.4	0.5	– 1.5	0.8	0.3	– 0.3
E	0.9	0.3	1.5	– 0.1	0.0	0.4	– 0.5
F	0.6	– 0.2	0.0	– 0.1	0.4	– 0.3	0.2
IRL	1.3	– 0.3	– 2.5	0.5	0.6	0.4	0.8
I	1.1	0.4	0.9	0.1	0.0	0.2	1.5
L	– 0.5	1.0	:	:	:	:	:
NL	0.1	– 0.2	– 0.5	1.5	1.4	– 1.0	0.8
A	0.2	0.8	– 0.9	– 1.0	0.6	0.5	0.1
P	– 0.1	0.1	1.3	0.1	0.9	1.1	– 0.9
FIN	0.1	0.6	– 0.2	1.2	– 0.1	– 0.8	– 1.7
EUR-11 (2)	0.4	0.2	0.4	– 0.3	0.4	0.0	0.1
DK	1.0	1.1	– 0.4	– 1.7	0.2	0.5	1.1
EL	0.6	– 0.3	– 0.8	0.9	0.1	– 0.1	0.3
S	– 0.8	– 0.3	0.9	– 1.7	– 3.4	0.5	0.4
UK	0.7	0.1	0.4	0.2	– 1.0	– 0.8	– 0.7
EU-15 (3)	0.4	0.2	0.4	– 0.3	0.0	– 0.1	– 0.0

(1) From 1991 including former East Germany.
(2) Excluding Luxembourg; from 1991 including former East Germany.
(3) EU-15 excluding Luxembourg; from 1991 including former East Germany.

Source: Commission services.

Former definitions		ESA95 definitions						
1994	1995	1995	1996	1997	1998	1999	2000	2001
17.5	17.9	16.7	16.7	17.2	17.6	17.5	17.5	17.3
10.8	11.1	11.2	11.5	11.2	11.5	12.0	12.0	10.9
11.0	11.0	10.1	10.3	10.5	10.3	10.3	10.3	10.4
9.2	9.4	8.5	8.9	9.5	11.5	12.3	11.9	11.8
15.2	13.6	13.7	14.2	14.3	13.8	14.0	13.3	13.2
14.8	14.5	14.7	15.3	16.1	14.4	15.1	14.6	14.6
:	:	17.5	18.4	17.4	17.1	16.7	16.4	16.0
13.4	12.5	12.4	12.9	12.4	12.2	12.3	11.8	11.5
11.3	11.9	12.0	13.1	13.5	13.7	13.5	12.7	12.3
8.9	9.1	9.3	10.0	10.2	10.0	10.7	10.8	11.0
16.8	16.7	17.4	19.0	18.4	18.9	18.7	18.8	18.5
11.7	11.7	11.5	12.0	12.2	12.4	12.9	12.6	12.2
30.6	30.3	30.4	30.6	30.5	29.7	30.3	29.7	29.4
6.8	7.2	7.4	7.1	7.9	9.6	9.2	8.7	8.5
20.3	20.8	20.2	21.6	21.8	22.7	22.4	21.3	20.7
11.9	12.7	15.0	14.9	15.1	16.4	16.4	16.2	15.9
12.3	12.4	12.5	13.0	13.2	13.7	14.0	13.8	13.5

1994	1995	1995	1996	1997	1998	1999	2000	2001
1.3	0.3	:	– 0.0	0.4	0.5	– 0.2	0.0	– 0.1
– 0.4	0.3	:	0.3	– 0.3	0.3	0.5	0.0	– 1.1
– 0.5	0.0	:	0.1	0.2	– 0.3	0.0	– 0.1	0.1
0.3	0.2	:	0.5	0.5	2.1	0.7	– 0.4	– 0.1
0.3	– 1.6	:	0.5	0.1	– 0.5	0.2	– 0.6	– 0.1
– 1.2	– 0.3	:	0.5	0.8	– 1.7	0.8	– 0.5	– 0.0
:	:	:	0.9	– 1.0	– 0.3	– 0.3	– 0.3	– 0.4
– 2.6	– 1.0	:	0.5	– 0.5	– 0.2	0.0	– 0.5	– 0.3
– 1.5	0.7	:	1.1	0.4	0.3	– 0.3	– 0.7	– 0.4
– 0.2	0.3	:	0.7	0.2	– 0.2	0.7	0.1	0.2
1.6	– 0.1	:	1.6	– 0.6	0.5	– 0.2	0.1	– 0.3
– 0.5	0.0	:	0.5	0.2	0.2	0.4	– 0.2	– 0.4
0.5	– 0.3	:	0.2	– 0.1	– 0.8	0.6	– 0.6	– 0.2
1.1	0.5	:	– 0.3	0.8	1.7	– 0.4	– 0.5	– 0.2
0.2	0.4	:	1.4	0.2	0.9	– 0.3	– 1.1	– 0.6
0.4	0.8	:	– 0.2	0.2	1.3	0.0	– 0.2	– 0.3
– 0.3	0.2	:	0.4	0.3	0.4	0.4	– 0.2	– 0.4

Table A.4.4

Taxes linked to imports and production (indirect taxes); general government

	Former definitions						
Current tax burden (% of GDP)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**	**1993**
B	12.3	12.1	12.0	12.2	12.1	12.1	12.4
D (1)	13.1	12.6	12.5	12.5	12.2	12.4	12.7
E	6.3	9.1	10.4	10.2	10.3	10.8	10.1
F	14.7	15.5	14.9	14.9	14.5	14.3	14.3
IRL	15.4	16.8	16.5	15.6	15.3	15.2	14.5
I	9.3	9.5	11.1	11.3	11.8	11.8	12.7
L	12.3	14.7	14.7	15.1	15.3	15.5	16.1
NL	11.6	11.7	12.0	11.9	11.9	12.2	12.4
A	15.7	16.2	15.9	15.6	15.4	15.5	15.7
P	12.4	13.9	13.2	13.2	13.1	13.9	13.1
FIN	13.1	14.1	15.2	14.9	15.0	14.7	14.5
EUR-11 (2)	12.3	12.6	12.8	12.7	12.6	12.7	12.9
DK	18.2	17.9	17.7	17.0	16.7	16.6	16.9
EL	10.4	12.5	12.2	13.9	14.6	15.3	14.7
S	13.0	15.9	15.7	16.6	17.1	15.7	15.1
UK	15.9	16.0	15.7	15.7	16.1	15.7	15.4
EU-15 (3)	12.9	13.4	13.4	13.4	13.4	13.3	13.4

Total economy (change in % points of GDP)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**	**1993**
B	– 0.4	– 0.2	0.0	0.1	– 0.1	0.0	0.3
D (1)	– 0.0	– 0.3	0.2	– 0.0	0.3	0.2	0.3
E	0.2	0.6	– 0.0	– 0.2	0.0	0.5	– 0.7
F	0.0	0.1	– 0.4	– 0.1	– 0.4	– 0.2	0.1
IRL	1.1	– 0.6	– 0.2	– 0.9	– 0.3	– 0.0	– 0.8
I	0.6	– 0.4	0.3	0.2	0.6	– 0.1	0.9
L	0.8	0.2	0.1	0.4	0.2	0.1	0.6
NL	– 0.4	– 0.0	– 0.8	– 0.1	0.1	0.3	0.2
A	0.0	– 0.1	– 0.1	– 0.3	– 0.2	0.1	0.2
P	1.9	0.2	– 0.9	– 0.1	– 0.1	0.8	– 0.8
FIN	– 0.1	0.1	0.2	– 0.3	0.1	– 0.3	– 0.2
EUR-11 (2)	0.1	– 0.1	– 0.0	– 0.1	0.1	0.1	0.3
DK	– 0.3	0.3	– 0.9	– 0.7	– 0.3	– 0.1	0.3
EL	– 1.4	0.1	– 1.3	1.7	0.7	0.8	– 0.6
S	0.2	0.7	– 0.2	0.9	0.6	– 1.4	– 0.7
UK	0.8	– 0.3	– 0.6	– 0.1	0.4	– 0.3	– 0.3
EU-15 (3)	0.2	– 0.1	– 0.2	– 0.0	0.1	– 0.1	0.1

(1) From 1991 including former East Germany.
(2) Excluding Luxembourg; from 1991 including former East Germany.
(3) EU-15 excluding Luxembourg; from 1991 including former East Germany.

Source: Commission services.

Former definitions		ESA95 definitions						
1994	1995	1995	1996	1997	1998	1999	2000	2001
12.7	12.2	12.2	12.8	12.9	12.9	12.9	13.0	12.9
13.1	12.7	11.4	11.4	11.4	11.6	12.2	12.3	12.6
10.6	10.3	10.2	10.2	10.5	11.1	11.7	11.9	12.0
14.7	14.9	15.4	16.1	16.1	16.0	15.9	15.5	15.3
15.3	14.8	13.5	13.7	13.5	13.4	13.8	13.9	13.6
12.4	12.4	12.1	11.8	12.5	15.4	15.3	15.3	15.2
16.1	16.0	12.5	12.8	13.2	13.4	13.3	13.3	13.2
12.3	12.3	10.7	11.2	11.4	11.6	12.2	12.2	12.6
15.6	15.5	14.2	14.5	14.9	15.0	15.1	15.4	15.5
13.5	13.7	14.4	14.6	14.5	14.9	15.4	16.0	16.3
14.2	13.6	13.7	13.5	14.3	14.1	14.2	14.0	14.0
13.2	13.0	12.5	12.7	12.9	13.5	13.8	13.8	13.8
17.3	17.2	16.9	17.3	17.6	18.1	17.8	17.3	17.1
14.3	14.2	13.6	14.0	14.2	14.3	14.6	14.8	14.8
14.3	13.8	13.7	14.3	14.8	15.5	17.0	14.8	14.6
15.5	15.8	13.2	13.3	13.6	13.6	13.7	13.7	13.8
13.6	13.5	12.7	12.9	13.2	13.7	14.0	13.9	13.9

1994	1995	1995	1996	1997	1998	1999	2000	2001
0.3	– 0.5	:	0.6	0.1	– 0.0	0.0	0.0	– 0.1
0.4	– 0.4	:	0.0	0.0	0.2	0.6	0.1	0.3
0.5	– 0.3	:	0.1	0.3	0.6	0.5	0.2	0.0
0.4	0.2	:	0.7	0.0	– 0.1	– 0.1	– 0.4	– 0.2
0.9	– 0.5	:	0.2	– 0.1	– 0.1	0.4	0.1	– 0.2
– 0.3	0.0	:	– 0.3	0.6	2.9	– 0.1	– 0.1	– 0.1
– 0.0	– 0.1	:	0.3	0.4	0.2	– 0.1	0.0	– 0.1
– 0.1	– 0.0	:	0.4	0.3	0.2	0.5	0.0	0.4
– 0.1	– 0.1	:	0.3	0.4	0.1	0.1	0.3	0.1
0.4	0.2	:	0.1	– 0.0	0.4	0.5	0.6	0.2
– 0.3	– 0.6	:	– 0.2	0.8	– 0.1	0.1	– 0.2	– 0.0
0.3	– 0.1	:	0.2	0.2	0.7	0.3	– 0.0	0.0
0.4	– 0.1	:	0.3	0.3	0.6	– 0.3	– 0.4	– 0.2
– 0.4	– 0.1	:	0.4	0.2	0.2	0.3	0.2	– 0.0
– 0.8	– 0.5	:	0.6	0.5	0.7	1.6	– 2.2	– 0.2
0.1	0.3	:	0.2	0.3	– 0.0	0.1	– 0.1	0.2
0.2	– 0.1	:	0.2	0.3	0.5	0.3	– 0.1	0.1

Table A.4.5

Other current resources; general government

	Former definitions						
Current tax burden (% of GDP)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**	**1993**
B	2.6	2.3	1.7	1.8	1.9	1.8	1.8
D (1)	2.3	3.2	2.7	2.7	2.6	3.1	3.0
E	3.9	4.1	3.3	3.6	4.1	4.0	5.0
F	3.2	3.8	3.6	4.0	3.9	4.1	4.1
IRL	3.3	3.9	2.3	2.3	2.6	2.5	2.4
I	2.4	2.9	2.8	2.9	3.0	3.3	3.6
L	6.2	5.6	:	:	:	:	:
NL	6.3	8.7	4.7	4.9	5.2	4.8	4.6
A	2.8	2.9	2.9	4.4	4.4	4.8	4.6
P	2.1	2.7	2.7	2.9	3.1	3.6	3.2
FIN	3.8	5.1	5.5	5.9	6.8	7.6	8.0
EUR-11 (2)	3.0	3.7	3.2	3.3	3.4	3.6	3.7
DK	6.1	7.2	7.5	7.5	7.2	8.0	8.4
EL	1.9	1.7	1.6	1.7	2.2	2.5	3.1
S	7.2	9.3	8.4	8.4	8.2	9.0	9.2
UK	4.5	4.1	2.9	2.7	2.5	2.3	2.3
EU-15 (3)	3.5	4.0	3.4	3.5	3.5	3.7	3.7

Total economy (change in % points of GDP)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**	**1993**
B	0.5	– 0.2	– 0.0	0.1	0.1	– 0.2	0.0
D (1)	0.1	0.1	0.5	– 0.0	– 0.1	0.5	– 0.1
E	0.6	0.4	– 0.3	0.3	0.4	– 0.0	1.0
F	0.3	0.2	– 0.3	0.3	– 0.1	0.2	0.0
IRL	0.1	0.2	– 0.6	– 0.0	0.3	– 0.0	– 0.1
I	– 0.1	0.5	0.1	0.1	0.2	0.2	0.4
L	0.8	0.5	:	:	:	:	:
NL	0.6	0.6	0.0	0.1	0.3	– 0.4	– 0.2
A	0.4	0.1	0.0	1.5	– 0.1	0.4	– 0.2
P	– 0.6	– 0.6	– 0.3	0.3	0.2	0.5	– 0.5
FIN	0.1	0.2	0.3	0.4	0.9	0.8	0.4
EUR-11 (2)	0.2	0.2	0.1	0.2	0.1	0.2	0.1
DK	1.0	– 0.1	0.4	0.0	– 0.3	0.8	0.4
EL	0.3	0.0	0.2	0.1	0.5	0.3	0.6
S	0.4	0.4	0.4	– 0.0	– 0.2	0.8	0.2
UK	0.3	0.2	– 0.0	– 0.2	– 0.2	– 0.2	– 0.1
EU-15 (3)	0.3	0.2	0.1	0.1	0.0	0.2	0.0

(1) From 1991 including former East Germany.
(2) Excluding Luxembourg; from 1991 including former East Germany.
(3) EU-15 excluding Luxembourg; from 1991 including former East Germany.

Source: Commission services.

Former definitions		ESA95 definitions						
1994	1995	1995	1996	1997	1998	1999	2000	2001
1.5	1.5	3.0	3.1	2.7	2.7	2.7	2.7	2.7
3.0	2.7	3.6	3.5	3.3	3.3	3.2	3.1	2.9
4.2	3.6	3.8	4.2	4.0	3.8	3.6	3.5	3.4
3.7	3.8	3.7	4.0	3.9	3.8	3.6	3.7	3.6
2.1	1.8	2.9	2.9	2.9	3.1	2.7	2.5	2.4
3.6	3.7	3.1	3.2	3.3	3.2	3.2	3.2	3.2
:	:	5.4	5.2	5.0	5.0	4.9	4.9	4.8
4.0	3.7	6.0	5.8	5.5	5.1	4.9	4.7	4.6
4.4	4.5	6.2	5.5	3.9	3.3	3.3	3.4	3.1
2.6	2.8	4.8	4.9	4.5	4.7	4.5	4.5	4.4
6.7	7.0	7.3	6.7	6.3	6.0	5.9	5.7	5.4
3.5	3.3	3.8	3.9	3.7	3.6	3.5	3.4	3.3
7.5	6.8	6.8	7.1	6.7	6.6	6.0	5.8	5.4
3.8	4.2	2.9	2.9	3.6	2.9	4.1	4.1	4.1
8.5	8.1	7.3	6.9	6.3	6.2	5.7	5.6	5.5
2.2	2.2	2.8	2.9	2.6	2.6	2.2	2.2	2.1
3.5	3.4	3.9	3.9	3.6	3.6	3.4	3.3	3.2

1994	1995	1995	1996	1997	1998	1999	2000	2001
– 0.3	0.1	:	0.1	– 0.4	– 0.0	0.0	– 0.0	– 0.0
0.0	– 0.3	:	– 0.1	– 0.2	0.0	– 0.1	– 0.1	– 0.2
– 0.8	– 0.6	:	0.4	– 0.2	– 0.2	– 0.2	– 0.1	– 0.1
– 0.4	0.1	:	0.3	– 0.2	– 0.1	– 0.2	0.0	– 0.1
– 0.3	– 0.3	:	0.0	– 0.0	0.2	– 0.5	– 0.2	– 0.1
– 0.0	0.1	:	0.1	0.1	– 0.1	0.0	– 0.0	– 0.0
:	:	:	– 0.2	– 0.2	– 0.0	– 0.1	– 0.0	– 0.0
– 0.6	– 0.4	:	– 0.2	– 0.3	– 0.4	– 0.2	– 0.1	– 0.2
– 0.1	0.1	:	– 0.7	– 1.5	– 0.7	– 0.0	0.2	– 0.3
– 0.5	0.2	:	0.1	– 0.4	0.1	– 0.1	– 0.0	– 0.1
– 1.3	0.3	:	– 0.6	– 0.5	– 0.2	– 0.1	– 0.3	– 0.2
– 0.2	– 0.1	:	0.0	– 0.2	– 0.1	– 0.1	– 0.1	– 0.1
– 0.9	– 0.6	:	0.3	– 0.4	– 0.1	– 0.6	– 0.3	– 0.3
0.7	0.5	:	0.0	0.7	– 0.7	1.2	0.1	– 0.0
– 0.7	– 0.4	:	– 0.3	– 0.7	– 0.1	– 0.4	– 0.2	– 0.1
– 0.0	– 0.0	:	0.1	– 0.3	– 0.1	– 0.3	– 0.1	– 0.1
– 0.2	– 0.1	:	0.0	– 0.3	– 0.1	– 0.2	– 0.1	– 0.1

ANNEX

Table A.4.6

Total current resources; general government

Current tax burden (% of GDP)	Former definitions						
	1980	1985	1989	1990	1991	1992	1993
B	48.0	50.9	46.8	47.5	47.7	47.7	48.6
D ([1])	45.1	46.0	45.1	43.3	43.5	44.9	45.3
E	29.7	34.0	37.8	38.2	38.9	40.7	40.8
F	44.7	48.8	47.9	48.2	48.2	48.0	48.4
IRL	34.6	38.9	36.3	36.0	36.7	37.1	37.1
I	34.2	39.0	42.1	42.8	43.8	44.5	47.7
L	47.2	49.9	:	:	:	:	:
NL	50.4	52.2	48.1	47.9	50.6	50.1	50.8
A	45.2	47.5	45.8	46.9	47.3	49.0	49.7
P	28.4	33.4	33.6	34.4	35.8	38.7	37.2
FIN	42.0	47.0	48.7	51.4	53.1	53.7	52.7
EUR-11 ([2])	42.0	44.8	44.6	44.4	44.8	45.6	46.6
DK	51.3	55.7	57.3	55.1	54.7	56.0	57.9
EL	26.2	30.3	29.6	32.5	33.4	34.2	35.4
S	55.6	59.0	63.1	62.7	59.5	58.8	58.2
UK	40.0	41.5	38.9	38.5	37.6	36.3	35.3
EU-15 ([3])	42.2	44.8	44.4	44.2	44.3	44.8	45.4

Total economy (change in % points of GDP)	1980	1985	1989	1990	1991	1992	1993
B	– 0.7	– 0.1	– 1.8	0.7	0.2	0.0	0.9
D ([1])	0.5	0.4	0.9	– 1.9	1.1	1.3	0.4
E	1.7	1.4	1.5	0.3	0.8	1.7	0.2
F	1.6	0.4	– 0.5	0.3	0.0	– 0.2	0.4
IRL	2.9	– 0.7	– 3.5	– 0.3	0.8	0.4	– 0.0
I	1.7	0.4	1.6	0.7	1.0	0.7	3.2
L	1.5	1.5	:	:	:	:	:
NL	0.7	0.2	– 2.8	– 0.2	2.7	– 0.5	0.8
A	1.0	1.1	– 1.1	1.0	0.5	1.7	0.7
P	1.5	– 0.7	0.1	0.8	1.4	2.9	– 1.5
FIN	0.4	1.9	0.5	2.7	1.7	0.7	– 1.0
EUR-11 ([2])	0.9	0.4	0.2	– 0.2	0.7	0.8	1.0
DK	1.8	1.3	– 1.0	– 2.2	– 0.4	1.2	1.9
EL	– 0.2	– 0.0	– 1.4	2.9	0.9	0.8	1.2
S	0.2	0.5	2.2	– 0.4	– 3.2	– 0.7	– 0.6
UK	2.0	– 0.1	– 0.2	– 0.4	– 0.8	– 1.3	– 1.0
EU-15 ([3])	1.0	0.4	0.2	– 0.2	0.3	0.5	0.6

([1]) From 1991 including former East Germany.
([2]) Excluding Luxembourg; from 1991 including former East Germany.
([3]) EU-15 excluding Luxembourg; from 1991 including former East Germany.

Source: Commission services.

Former definitions		ESA95 definitions						
1994	1995	1995	1996	1997	1998	1999	2000	2001
49.4	49.0	48.8	49.5	49.6	49.8	49.6	49.0	48.5
45.9	45.6	45.0	45.7	45.5	45.6	46.3	45.8	44.3
39.7	38.0	37.1	37.9	38.2	38.3	38.8	38.8	38.8
48.3	49.0	48.0	49.7	49.6	49.6	50.4	49.5	48.9
37.8	35.0	36.9	37.1	36.7	36.1	36.6	35.4	34.7
45.5	45.3	44.7	45.4	47.2	45.9	46.4	45.7	45.4
:	:	47.9	48.8	47.4	47.0	46.4	46.0	45.3
48.0	46.6	46.3	46.5	46.0	45.3	46.4	45.6	43.4
48.5	49.1	49.8	50.5	49.6	49.2	49.0	48.5	47.6
36.6	37.4	38.7	39.9	39.8	40.4	42.9	43.9	44.3
53.5	52.1	53.2	53.5	52.3	52.1	51.8	51.5	50.9
46.1	45.9	45.3	46.2	46.3	46.1	46.7	46.1	45.2
58.1	57.0	56.8	57.7	57.4	57.0	57.4	56.2	55.5
36.9	38.1	36.4	36.9	38.9	40.1	41.6	41.4	41.1
57.0	56.9	56.5	59.1	58.9	60.4	60.2	58.3	57.5
35.9	37.0	38.6	38.6	38.9	40.2	40.0	39.6	39.4
45.1	45.1	44.9	45.7	45.6	45.6	46.1	45.4	44.6

1994	1995	1995	1996	1997	1998	1999	2000	2001
0.8	– 0.3	:	0.7	0.1	0.2	– 0.2	– 0.6	– 0.6
0.5	– 0.3	:	0.8	– 0.3	0.1	0.7	– 0.5	– 1.5
– 1.2	– 1.7	:	0.8	0.3	0.1	0.4	0.0	0.0
– 0.1	0.7	:	1.7	– 0.1	0.0	0.8	– 1.0	– 0.6
0.7	– 2.8	:	0.2	– 0.4	– 0.7	0.5	– 1.2	– 0.6
– 2.2	– 0.3	:	0.7	1.8	– 1.3	0.5	– 0.7	– 0.3
:	:	:	0.9	– 1.4	– 0.3	– 0.7	– 0.3	– 0.8
– 2.8	– 1.4	:	0.2	– 0.5	– 0.7	1.1	– 0.8	– 2.2
– 1.3	0.7	:	0.7	– 0.8	– 0.4	– 0.3	– 0.5	– 0.9
– 0.6	0.8	:	1.3	– 0.1	0.6	2.5	0.9	0.4
0.8	– 1.4	:	0.3	– 1.1	– 0.2	– 0.3	– 0.3	– 0.7
– 0.4	– 0.2	:	0.9	0.1	– 0.3	0.6	– 0.6	– 0.9
0.2	– 1.2	:	0.9	– 0.3	– 0.3	0.4	– 1.2	– 0.7
1.5	1.1	:	0.5	2.0	1.2	1.5	– 0.2	– 0.3
– 1.2	– 0.1	:	2.6	– 0.2	1.5	– 0.2	– 1.9	– 0.9
0.6	1.1	:	– 0.0	0.3	1.3	– 0.2	– 0.4	– 0.2
– 0.3	0.0	:	0.8	– 0.1	0.0	0.4	– 0.7	– 0.8

Table A.4.7

Interest payments

	Former definitions						
Current tax burden (% of GDP)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**	**1993**
B	6.0	10.4	10.1	10.4	10.0	10.6	10.7
D ([1])	1.9	3.0	2.7	2.6	2.6	3.2	3.2
E	0.5	1.9	3.9	3.9	3.7	4.2	5.0
F	1.4	2.8	2.7	2.9	2.9	3.2	3.3
IRL	6.0	9.4	7.4	7.5	7.3	6.7	6.3
I	5.5	8.0	8.7	9.4	10.1	11.4	12.0
L	1.2	1.0	:	0.4	0.4	0.3	0.4
NL	3.7	6.1	5.8	5.7	5.9	6.0	6.0
A	2.4	3.4	3.9	4.0	4.1	4.2	4.2
P	2.7	7.6	6.1	7.9	7.7	7.1	6.1
FIN	1.0	1.8	1.5	1.4	1.9	2.6	4.5
EUR-11 ([2])	2.6	4.4	4.6	4.8	4.9	5.4	5.5
DK	3.8	9.4	7.2	7.3	7.3	6.7	7.3
EL	2.0	4.9	7.5	10.0	9.3	11.5	12.6
S	3.9	8.1	5.2	4.8	5.0	5.2	6.0
UK	4.7	5.0	3.7	3.1	2.7	2.7	2.8
EU-15 ([3])	3.0	4.8	4.6	4.7	4.7	5.2	5.3

Total economy (change in % points of GDP)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**	**1993**
B	0.9	0.7	0.2	0.3	– 0.4	0.6	0.1
D ([1])	0.2	0.0	– 0.1	– 0.1	0.2	0.6	0.0
E	0.1	0.7	0.6	– 0.0	– 0.2	0.5	0.8
F	0.1	0.2	0.1	0.2	0.0	0.3	0.1
IRL	0.3	0.8	– 0.8	0.0	– 0.2	– 0.5	– 0.4
I	0.4	– 0.0	0.8	0.7	0.7	1.3	0.6
L	0.4	– 0.5	:	:	– 0.1	– 0.0	0.0
NL	0.4	0.2	– 0.3	– 0.0	0.2	0.1	– 0.0
A	0.2	0.2	0.0	0.1	0.2	0.0	0.1
P	0.2	0.8	– 0.7	1.8	– 0.2	– 0.6	– 1.0
FIN	0.1	0.2	– 0.2	– 0.0	0.5	0.7	1.9
EUR-11 ([2])	0.3	0.2	0.2	0.2	0.2	0.5	0.1
DK	0.4	0.3	– 0.4	0.1	– 0.0	– 0.6	0.6
EL	0.2	0.6	0.1	2.5	– 0.7	2.2	1.1
S	1.0	0.8	– 0.2	– 0.4	0.1	0.3	0.8
UK	0.3	0.1	– 0.2	– 0.6	– 0.4	– 0.0	0.1
EU-15 ([3])	0.3	0.2	0.1	0.1	0.1	0.5	0.1

([1]) From 1991 including former East Germany.
([2]) Excluding Luxembourg; from 1991 including former East Germany.
([3]) EU-15 excluding Luxembourg; from 1991 including former East Germany.

Source: Commission services.

Former definitions		ESA95 definitions						
1994	1995	1995	1996	1997	1998	1999	2000	2001
10.0	8.9	9.1	8.7	7.9	7.7	7.2	6.9	6.7
3.3	3.7	3.7	3.7	3.7	3.6	3.5	3.5	3.4
4.7	5.3	5.2	5.4	4.8	4.4	3.7	3.5	3.4
3.5	3.7	3.8	3.9	3.7	3.6	3.4	3.2	3.2
5.6	5.0	5.6	4.7	4.3	3.5	2.6	2.2	1.9
10.9	11.3	11.5	11.5	9.4	8.1	6.9	6.4	6.0
0.3	0.3	0.4	0.4	0.3	0.4	0.4	0.3	0.3
5.6	5.7	5.9	5.6	5.1	4.9	4.5	4.0	3.7
4.0	4.3	4.4	4.2	3.9	3.8	3.6	3.5	3.5
6.1	6.2	6.3	5.4	4.3	3.6	3.4	3.3	3.3
5.0	5.2	4.0	4.3	4.3	3.7	3.6	3.3	3.1
5.3	5.5	5.5	5.6	5.1	4.7	4.3	4.1	3.9
6.7	6.4	6.4	6.1	5.8	5.3	4.7	4.4	3.9
13.9	12.8	11.1	10.5	8.3	7.8	7.4	7.2	6.6
6.6	6.8	7.1	7.1	6.9	6.2	5.5	4.7	4.1
3.2	3.4	3.7	3.7	3.7	3.7	2.9	3.0	2.7
5.2	5.4	5.4	5.5	5.0	4.6	4.1	3.9	3.7

1994	1995	1995	1996	1997	1998	1999	2000	2001
– 0.7	– 1.1	:	– 0.4	– 0.8	– 0.3	– 0.5	– 0.3	– 0.2
0.1	0.4	:	0.0	– 0.0	– 0.1	– 0.0	– 0.1	– 0.1
– 0.3	0.6	:	0.1	– 0.6	– 0.4	– 0.7	– 0.1	– 0.2
0.2	0.2	:	0.2	– 0.3	– 0.1	– 0.2	– 0.2	0.0
– 0.7	– 0.6	:	– 0.8	– 0.4	– 0.8	– 0.9	– 0.4	– 0.3
– 1.1	0.4	:	– 0.0	– 2.1	– 1.3	– 1.3	– 0.5	– 0.3
– 0.0	– 0.0	:	0.0	– 0.0	0.0	0.0	– 0.0	– 0.0
– 0.4	0.1	:	– 0.3	– 0.4	– 0.3	– 0.4	– 0.4	– 0.4
– 0.3	0.3	:	– 0.2	– 0.4	– 0.1	– 0.2	– 0.1	– 0.1
0.0	0.1	:	– 0.9	– 1.1	– 0.7	– 0.2	– 0.1	0.0
0.5	0.2	:	0.3	– 0.0	– 0.5	– 0.2	– 0.3	– 0.3
– 0.2	0.2	:	0.1	– 0.5	– 0.4	– 0.4	– 0.2	– 0.1
– 0.6	– 0.3	:	– 0.3	– 0.4	– 0.4	– 0.6	– 0.3	– 0.5
1.3	– 1.2	:	– 0.6	– 2.3	– 0.5	– 0.4	– 0.3	– 0.6
0.6	0.3	:	– 0.0	– 0.2	– 0.7	– 0.7	– 0.8	– 0.6
0.3	0.3	:	0.0	0.0	– 0.1	– 0.7	0.0	– 0.2
– 0.1	0.2	:	0.1	– 0.5	– 0.4	– 0.5	– 0.2	– 0.2

Table A.4.8

Final consumption expenditure; general government

	Former definitions						
Current tax burden (% of GDP)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**	**1993**
B	17.5	16.9	14.2	13.9	14.3	14.1	14.7
D ([1])	20.3	20.1	18.8	18.3	19.0	19.5	19.6
E	13.0	14.1	14.5	14.9	15.5	16.4	16.8
F	17.4	18.9	17.7	17.7	17.9	18.5	19.4
IRL	18.2	17.0	13.9	14.3	15.1	15.4	15.4
I	14.9	16.6	16.7	17.4	17.4	17.5	17.5
L	14.3	13.5	11.8	12.7	12.6	12.4	12.3
NL	16.7	15.1	14.3	14.0	13.9	14.1	14.2
A	17.2	18.3	17.7	18.3	18.5	19.0	19.8
P	13.6	14.3	14.8	15.3	16.9	17.0	17.6
FIN	17.6	19.8	19.4	20.8	23.8	24.3	22.8
EUR-11 ([2])	17.4	18.0	17.2	17.2	17.7	18.1	18.4
DK	27.2	25.8	25.9	25.6	25.7	25.8	26.8
EL	13.4	16.1	15.0	15.1	14.2	13.8	14.3
S	28.3	26.9	25.3	26.4	26.3	27.0	27.1
UK	21.8	21.3	19.9	20.4	21.3	21.8	21.7
EU-15 ([3])	18.6	19.0	18.0	18.2	18.6	19.0	19.2

Total economy (change in % points of GDP)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**	**1993**
B	0.2	0.0	– 0.8	– 0.3	0.4	– 0.2	0.5
D ([1])	0.6	0.0	– 0.8	– 0.5	– 0.7	0.6	0.1
E	0.6	0.3	0.4	0.4	0.6	0.9	0.5
F	0.5	– 0.1	– 0.5	0.0	0.3	0.5	0.9
IRL	1.6	– 0.1	– 1.0	0.4	0.9	0.3	– 0.1
I	0.2	0.1	– 0.3	0.7	0.0	0.0	0.0
L	0.6	0.3	– 0.5	0.9	– 0.1	– 0.2	– 0.2
NL	– 0.2	– 0.4	– 0.5	– 0.3	– 0.1	0.2	0.2
A	0.0	0.3	– 0.3	0.6	0.3	0.4	0.8
P	0.7	0.2	0.5	0.5	1.7	0.1	0.6
FIN	0.2	0.9	– 0.3	1.4	3.0	0.6	– 1.6
EUR-11 ([2])	0.3	0.0	– 0.5	0.1	0.0	0.4	0.4
DK	1.7	– 0.6	– 0.3	– 0.4	0.2	0.1	1.0
EL	0.0	0.7	0.9	0.1	– 0.9	– 0.5	0.6
S	0.6	– 0.1	0.1	1.2	– 0.1	0.7	0.1
UK	1.6	– 0.8	– 0.2	0.5	0.9	0.5	– 0.1
EU-15 ([3])	0.6	– 0.1	– 0.4	0.1	0.2	0.4	0.2

([1]) From 1991 including former East Germany.
([2]) Excluding Luxembourg; from 1991 including former East Germany.
([3]) EU-15 excluding Luxembourg; from 1991 including former East Germany.

Source: Commission services.

Former definitions		ESA95 definitions						
1994	1995	1995	1996	1997	1998	1999	2000	2001
14.6	14.5	21.5	21.8	21.2	21.1	21.1	20.8	20.5
19.4	19.5	19.8	20.0	19.5	19.0	19.0	18.7	18.3
16.2	16.0	18.1	18.0	17.6	17.4	17.1	16.8	16.6
19.2	19.0	23.9	24.2	24.1	23.6	23.6	23.1	22.7
15.3	14.3	16.5	15.8	15.1	14.6	14.0	13.7	13.3
17.0	15.9	17.9	18.1	18.2	18.0	18.1	17.8	17.6
11.8	12.5	18.1	18.8	17.8	17.2	17.1	16.9	16.6
13.8	13.8	24.0	23.1	23.0	23.0	23.1	22.6	22.1
19.9	19.8	20.4	20.3	19.8	19.8	19.9	19.6	19.1
17.3	17.4	18.9	19.2	19.5	19.7	20.3	20.6	20.8
21.8	21.2	22.8	23.2	22.4	21.7	21.3	20.5	19.7
18.1	18.0	20.6	20.7	20.4	20.0	20.0	19.7	19.3
25.9	25.7	25.8	25.8	25.6	25.8	25.8	25.6	25.5
13.8	15.3	15.3	14.5	15.1	15.4	14.9	14.6	14.5
26.1	24.8	26.4	27.1	26.7	26.7	27.0	26.8	26.5
21.4	21.1	19.7	19.4	18.4	18.2	18.2	18.1	18.2
18.9	18.7	20.7	20.7	20.3	20.0	20.0	19.7	19.4

1994	1995	1995	1996	1997	1998	1999	2000	2001
– 0.0	– 0.1	:	0.3	– 0.5	– 0.1	– 0.0	– 0.3	– 0.3
– 0.2	0.1	:	0.2	– 0.5	– 0.5	– 0.0	– 0.3	– 0.4
– 0.6	– 0.2	:	– 0.1	– 0.4	– 0.3	– 0.2	– 0.3	– 0.3
– 0.2	– 0.1	:	0.3	– 0.1	– 0.5	0.0	– 0.4	– 0.4
– 0.1	– 1.0	:	– 0.7	– 0.6	– 0.5	– 0.7	– 0.3	– 0.4
– 0.5	– 1.0	:	0.2	0.1	– 0.2	0.1	– 0.3	– 0.2
– 0.4	0.6	:	0.6	– 1.0	– 0.6	– 0.1	– 0.2	– 0.3
– 0.5	0.0	:	– 0.9	– 0.2	0.0	0.1	– 0.4	– 0.5
0.1	– 0.2	:	– 0.1	– 0.5	– 0.0	0.1	– 0.4	– 0.5
– 0.3	0.1	:	0.4	0.2	0.3	0.6	0.3	0.2
– 0.9	– 0.6	:	0.3	– 0.7	– 0.7	– 0.4	– 0.8	– 0.8
– 0.3	– 0.2	:	0.1	– 0.3	– 0.3	– 0.0	– 0.3	– 0.4
– 0.8	– 0.2	:	0.0	– 0.2	0.2	– 0.0	– 0.1	– 0.1
– 0.5	1.6	:	– 0.8	0.6	0.3	– 0.5	– 0.3	– 0.2
– 1.0	– 1.2	:	0.8	– 0.4	– 0.0	0.3	– 0.3	– 0.3
– 0.3	– 0.3	:	– 0.3	– 1.0	– 0.2	0.0	– 0.1	0.1
– 0.3	– 0.2	:	0.0	– 0.4	– 0.3	– 0.0	– 0.3	– 0.3

Table A.4.9

Compensation of employees; general government

	Former definitions						
Current tax burden (% of GDP)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**	**1993**
B	13.5	13.1	11.3	11.2	11.5	11.6	12.0
D ([1])	11.0	10.6	10.0	9.7	10.1	10.4	10.6
E	9.4	10.1	10.2	10.6	11.0	11.7	11.8
F	13.2	14.3	13.1	13.0	13.1	13.4	14.0
IRL	11.8	11.5	9.8	9.9	10.5	10.7	10.8
I	11.1	11.8	11.9	12.7	12.6	12.5	12.4
L	10.0	9.6	:	:	:	:	:
NL	12.3	10.6	9.6	9.3	9.2	9.4	9.6
A	11.6	12.3	12.0	11.6	11.8	12.0	12.4
P	10.4	10.4	11.6	12.0	13.1	14.0	14.3
FIN	12.1	13.9	13.6	14.4	16.8	17.3	16.2
EUR-11 ([2])	11.7	12.0	11.4	11.4	11.6	11.8	12.0
DK	18.2	17.5	18.0	17.7	17.7	17.8	18.1
EL	9.3	11.4	12.1	12.5	11.5	10.9	10.9
S	20.0	18.2	17.3	18.1	18.3	18.7	18.5
UK	12.8	12.2	11.5	11.6	11.8	11.9	10.8
EU-15 ([3])	12.3	12.4	11.7	11.8	12.0	12.2	12.1

Total economy (change in % points of GDP)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**	**1993**
B	0.3	– 0.1	– 0.3	– 0.0	0.3	0.0	0.5
D ([1])	0.2	– 0.0	– 0.3	– 0.3	– 0.2	0.3	0.2
E	0.5	0.2	0.2	0.4	0.4	0.7	0.0
F	0.3	– 0.0	– 0.3	– 0.1	0.1	0.3	0.6
IRL	1.0	– 0.2	– 0.8	0.1	0.6	0.2	0.2
I	0.5	– 0.2	– 0.2	0.8	– 0.0	– 0.1	– 0.2
L	0.4	0.0	:	:	:	:	:
NL	– 0.2	– 0.4	– 0.5	– 0.3	– 0.1	0.2	0.2
A	– 0.0	0.2	– 0.3	– 0.4	0.2	0.2	0.4
P	0.6	0.0	0.6	0.4	1.0	1.0	0.3
FIN	– 0.1	0.6	– 0.1	0.8	2.4	0.5	– 1.1
EUR-11 ([2])	0.3	– 0.0	– 0.3	0.1	0.1	0.2	0.2
DK	0.8	– 0.6	– 0.2	– 0.3	0.0	0.0	0.3
EL	0.2	0.6	1.0	0.4	– 1.0	– 0.5	– 0.0
S	0.4	– 0.4	0.1	0.9	0.2	0.4	– 0.2
UK	1.0	– 0.5	– 0.3	0.1	0.2	0.1	– 1.1
EU-15 ([3])	0.4	– 0.1	– 0.2	0.1	0.1	0.2	– 0.1

([1]) From 1991 including former East Germany.
([2]) Excluding Luxembourg; from 1991 including former East Germany.
([3]) EU-15 excluding Luxembourg; from 1991 including former East Germany.

Source: Commission services.

Former definitions		ESA95 definitions						
1994	1995	1995	1996	1997	1998	1999	2000	2001
12.1	12.1	12.0	12.0	11.9	11.7	11.7	11.5	11.4
10.3	10.2	9.0	8.9	8.7	8.5	8.4	8.1	7.9
11.3	11.2	11.3	11.3	10.9	10.7	10.5	10.3	10.2
14.0	14.1	13.7	13.9	13.8	13.7	13.7	13.5	13.3
10.5	9.7	10.3	9.8	9.3	9.0	8.2	7.9	7.7
11.9	11.3	11.2	11.5	11.6	10.7	10.7	10.5	10.4
:	:	9.5	9.6	9.2	9.2	:	:	:
9.2	9.3	10.8	10.4	10.2	10.2	10.3	10.0	9.8
12.4	12.4	12.6	12.3	11.4	11.3	11.3	11.1	10.7
13.8	13.8	13.8	13.9	14.1	14.3	15.1	14.9	14.7
15.3	14.8	15.4	15.6	14.6	14.0	13.8	13.6	13.4
11.7	11.6	11.1	11.2	11.0	10.8	10.7	10.5	10.3
17.5	17.3	17.3	17.3	17.2	17.4	17.4	17.4	17.4
10.6	11.3	11.3	10.7	11.6	11.7	11.6	11.5	11.4
17.6	16.7	17.3	17.8	17.5	16.9	16.8	16.5	16.3
9.1	8.5	8.8	8.3	7.9	7.8	7.8	7.8	7.8
11.6	11.4	11.1	11.1	10.9	10.6	10.5	10.3	10.2

1994	1995	1995	1996	1997	1998	1999	2000	2001
0.1	0.0	:	– 0.0	– 0.2	– 0.1	– 0.0	– 0.2	– 0.2
– 0.3	– 0.1	:	– 0.1	– 0.2	– 0.2	– 0.1	– 0.2	– 0.3
– 0.5	– 0.1	:	– 0.0	– 0.3	– 0.2	– 0.3	– 0.2	– 0.1
– 0.0	0.1	:	0.2	– 0.1	– 0.1	0.0	– 0.2	– 0.2
– 0.4	– 0.8	:	– 0.5	– 0.5	– 0.3	– 0.8	– 0.3	– 0.2
– 0.4	– 0.7	:	0.3	0.1	– 0.9	– 0.0	– 0.2	– 0.2
:	:	:	0.1	– 0.4	– 0.0	:	:	:
– 0.3	0.0	:	– 0.4	– 0.2	– 0.0	0.1	– 0.2	– 0.3
– 0.0	– 0.0	:	– 0.3	– 0.9	– 0.1	0.1	– 0.2	– 0.4
– 0.6	0.1	:	0.1	0.2	0.2	0.8	– 0.1	– 0.2
– 0.9	– 0.5	:	0.2	– 0.9	– 0.6	– 0.2	– 0.2	– 0.2
– 0.3	– 0.1	:	0.1	– 0.2	– 0.3	– 0.0	– 0.2	– 0.2
– 0.6	– 0.2	:	0.0	– 0.1	0.2	0.0	0.0	0.1
– 0.3	0.7	:	– 0.6	0.9	0.1	– 0.1	– 0.1	– 0.1
– 0.9	– 0.9	:	0.5	– 0.3	– 0.6	– 0.1	– 0.3	– 0.2
– 1.6	– 0.7	:	– 0.5	– 0.5	– 0.0	0.0	– 0.0	0.0
– 0.5	– 0.2	:	0.0	– 0.3	– 0.3	– 0.1	– 0.2	– 0.2

Table A.4.10

Total current uses; general government

Current tax burden (% of GDP)	Former definitions 1980	1985	1989	1990	1991	1992	1993
B	51.7	56.8	51.0	51.1	52.1	52.7	53.7
D (1)	42.7	43.4	41.6	42.0	42.3	43.4	44.8
E	27.8	33.7	35.6	36.5	37.7	40.0	42.5
F	41.1	48.3	45.5	45.7	46.7	48.4	50.7
IRL	39.6	45.2	36.4	36.8	37.9	38.3	38.1
I	38.8	45.9	47.2	48.5	49.5	51.6	53.1
L	40.2	38.9	:	:	:	:	:
NL	49.1	51.4	49.1	49.5	50.3	51.0	51.2
A	41.0	44.4	43.9	44.7	45.6	46.3	49.0
P	31.9	39.5	32.6	35.8	38.3	37.9	39.3
FIN	34.6	40.5	39.3	42.2	50.5	55.8	57.7
EUR-11 (2)	40.8	45.3	43.7	44.4	45.3	46.7	48.3
DK	50.5	54.8	55.4	54.9	55.7	56.3	58.9
EL	26.3	37.7	39.8	41.9	39.8	41.2	43.4
S	54.9	59.0	55.3	56.4	58.1	62.1	65.1
UK	40.4	42.1	36.1	36.0	37.1	39.6	40.3
EU-15 (3)	41.3	45.4	43.2	43.8	44.7	46.4	47.8

Total economy (change in % points of GDP)	1980	1985	1989	1990	1991	1992	1993
B	0.8	– 0.3	– 1.7	0.0	1.0	0.6	1.0
D (1)	0.6	– 0.2	– 1.4	0.4	1.3	1.1	1.3
E	1.8	1.9	1.1	0.9	1.2	2.2	2.5
F	0.7	0.5	– 1.0	0.2	1.0	1.7	2.3
IRL	3.2	0.6	– 6.0	0.4	1.2	0.4	– 0.2
I	1.1	0.1	1.0	1.3	1.0	2.1	1.5
L	1.4	– 0.6	:	:	:	:	:
NL	0.8	– 1.2	– 2.2	0.4	0.8	0.7	0.2
A	0.2	1.0	– 1.0	0.7	0.9	0.8	2.6
P	3.9	– 1.0	– 0.9	3.2	2.5	– 0.4	1.4
FIN	– 0.3	1.8	– 0.4	3.0	8.2	5.3	1.9
EUR-11 (2)	0.8	0.2	– 0.7	0.7	1.2	1.4	1.6
DK	3.7	– 1.0	0.3	– 0.5	0.8	0.6	2.6
EL	0.6	3.1	1.1	2.2	– 2.2	1.4	2.2
S	1.7	1.4	0.1	1.1	1.7	4.0	3.0
UK	2.3	– 0.7	– 1.0	– 0.1	1.1	2.5	0.7
EU-15 (3)	1.1	0.1	– 0.7	0.6	1.2	1.7	1.4

(1) From 1991 including former East Germany.
(2) Excluding Luxembourg; from 1991 including former East Germany.
(3) EU-15 excluding Luxembourg; from 1991 including former East Germany.

Source: Commission services.

Former definitions		ESA95 definitions						
1994	1995	1995	1996	1997	1998	1999	2000	2001
52.4	51.0	50.7	51.0	49.1	48.4	48.0	47.0	46.3
44.9	45.6	44.9	46.2	45.5	44.6	44.7	44.3	43.3
41.2	40.3	39.2	39.1	37.8	37.1	35.8	35.4	35.0
50.4	50.4	49.2	50.0	49.7	48.8	48.6	47.4	46.6
37.2	35.2	37.3	35.9	34.0	31.8	30.1	29.2	29.0
51.0	49.1	48.5	49.1	47.3	45.6	44.9	43.9	43.0
:	:	39.8	40.2	38.6	38.3	38.1	37.5	36.6
49.0	47.7	47.4	45.9	44.7	43.5	43.0	41.6	40.1
48.4	49.5	50.0	49.5	47.9	47.6	47.3	46.7	46.1
39.4	39.7	40.1	39.9	38.7	39.3	40.8	41.3	41.7
56.4	54.3	53.7	53.1	50.7	47.9	46.8	44.8	43.2
47.5	47.2	46.5	47.1	46.1	45.0	44.7	43.8	42.9
58.8	57.4	57.3	56.8	55.1	54.2	53.0	52.2	51.5
44.0	45.1	43.3	42.2	40.2	40.1	39.5	39.1	38.2
63.6	61.4	60.8	59.8	58.1	56.9	55.7	53.6	52.2
40.1	40.1	41.5	40.8	39.2	38.3	37.1	36.9	36.7
47.1	46.9	46.5	46.8	45.4	44.4	43.8	42.9	42.1

1994	1995	1995	1996	1997	1998	1999	2000	2001
– 1.3	– 1.3	:	0.3	– 1.9	– 0.7	– 0.4	– 0.9	– 0.7
0.1	0.7	:	1.3	– 0.8	– 0.9	0.1	– 0.5	– 1.0
– 1.3	– 0.9	:	– 0.1	– 1.4	– 0.7	– 1.3	– 0.4	– 0.4
– 0.3	0.1	:	0.8	– 0.3	– 0.9	– 0.2	– 1.1	– 0.9
– 1.0	– 2.0	:	– 1.4	– 1.9	– 2.2	– 1.7	– 0.9	– 0.1
– 2.2	– 1.9	:	0.6	– 1.8	– 1.7	– 0.7	– 1.0	– 0.8
:	:	:	0.4	– 1.6	– 0.3	– 0.2	– 0.6	– 0.9
– 2.2	– 1.3	:	– 1.5	– 1.2	– 1.2	– 0.6	– 1.4	– 1.5
– 0.5	1.1	:	– 0.4	– 1.7	– 0.3	– 0.3	– 0.5	– 0.6
0.1	0.3	:	– 0.2	– 1.2	0.6	1.6	0.5	0.4
– 1.3	– 2.1	:	– 0.6	– 2.3	– 2.8	– 1.1	– 2.1	– 1.5
– 0.7	– 0.3	:	0.6	– 1.1	– 1.1	– 0.4	– 0.8	– 0.9
– 0.0	– 1.4	:	– 0.5	– 1.7	– 0.9	– 1.1	– 0.8	– 0.8
0.7	1.1	:	– 1.1	– 2.0	– 0.1	– 0.6	– 0.5	– 0.9
– 1.5	– 2.3	:	– 1.0	– 1.7	– 1.2	– 1.2	– 2.1	– 1.4
– 0.2	– 0.0	:	– 0.7	– 1.6	– 0.9	– 1.2	– 0.2	– 0.2
– 0.6	– 0.3	:	0.3	– 1.4	– 1.1	– 0.6	– 0.9	– 0.8

Table A.4.11

Gross saving; general government

	Former definitions						
Current tax burden (% of GDP)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**	**1993**
B	– 3.7	– 5.8	– 4.3	– 3.6	– 4.5	– 5.0	– 5.1
D (1)	2.4	2.6	3.6	1.3	1.2	1.4	0.5
E	0.6	0.3	2.2	1.7	1.2	0.7	– 1.7
F	3.6	0.5	2.4	2.4	1.4	– 0.4	– 2.2
IRL	– 5.0	– 6.3	– 0.1	– 0.8	– 1.2	– 1.2	– 1.1
I	– 4.6	– 6.9	– 5.1	– 5.7	– 5.7	– 7.1	– 5.4
L	7.1	11.0	:	:	:	:	:
NL	1.3	0.9	– 1.0	– 1.6	0.3	– 0.9	– 0.3
A	4.2	3.1	1.9	2.2	1.8	2.7	0.8
P	– 3.6	– 6.1	1.0	– 1.4	– 2.5	0.8	– 2.1
FIN	7.4	6.5	9.4	9.2	2.6	– 2.1	– 5.0
EUR-11 (2)	1.1	– 0.5	0.8	– 0.1	– 0.4	– 1.1	– 1.7
DK	0.7	0.9	1.9	0.2	– 1.0	– 0.4	– 1.0
EL	– 0.1	– 7.4	– 10.1	– 9.4	– 6.4	– 7.0	– 7.9
S	0.7	– 0.1	7.8	6.3	1.4	– 3.3	– 6.9
UK	– 0.5	– 0.5	2.7	2.4	0.5	– 3.3	– 5.0
EU-15 (3)	0.8	– 0.6	1.3	0.4	– 0.3	– 1.6	– 2.4

Total economy (change in % points of GDP)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**	**1993**
B	– 1.5	0.2	– 0.2	0.7	– 0.8	– 0.5	– 0.1
D (1)	– 0.2	0.6	2.3	– 2.3	– 0.2	0.2	– 0.9
E	– 0.5	1.0	0.4	– 0.5	– 0.5	– 0.5	– 2.4
F	0.9	– 0.1	0.5	0.1	– 1.0	– 1.9	– 1.8
IRL	– 0.3	– 1.3	2.5	– 0.7	– 0.4	– 0.0	0.2
I	0.6	0.2	0.7	– 0.7	0.1	– 1.4	1.7
L	0.1	2.1	:	:	:	:	:
NL	– 0.2	1.4	– 0.6	– 0.6	1.8	– 1.2	0.6
A	0.8	0.1	– 0.1	0.3	– 0.4	0.9	– 1.9
P	– 2.4	0.2	1.0	– 2.4	– 1.1	3.4	– 2.9
FIN	0.6	0.1	0.9	– 0.3	– 6.6	– 4.7	– 2.9
EUR-11 (2)	0.1	0.4	1.0	– 0.9	– 0.5	– 0.7	– 0.6
DK	– 1.9	2.2	– 1.3	– 1.7	– 1.2	0.6	– 0.6
EL	– 0.8	– 3.1	– 2.5	0.7	3.0	– 0.6	– 1.0
S	– 1.9	– 1.0	2.1	– 1.5	– 4.9	– 4.7	– 3.6
UK	– 0.3	0.6	0.9	– 0.3	– 1.9	– 3.8	– 1.7
EU-15 (3)	– 0.1	0.3	0.9	– 0.8	– 0.8	– 1.2	– 0.8

(1) From 1991 including former East Germany.
(2) Excluding Luxembourg; from 1991 including former East Germany.
(3) EU-15 excluding Luxembourg; from 1991 including former East Germany.

Source: Commission services.

Former definitions		ESA95 definitions						
1994	1995	1995	1996	1997	1998	1999	2000	2001
– 3.0	– 2.0	– 1.9	– 1.5	0.4	1.4	1.7	2.0	2.1
1.0	0.0	0.1	– 0.5	0.0	1.0	1.6	1.5	1.1
– 1.5	– 2.3	– 2.1	– 1.2	0.5	1.2	3.0	3.4	3.8
– 2.1	– 1.4	– 1.2	– 0.3	– 0.1	0.8	1.9	2.0	2.3
0.6	– 0.2	– 0.4	1.2	2.8	4.3	6.5	6.2	5.7
– 5.4	– 3.9	– 3.9	– 3.7	– 0.2	0.3	1.5	1.9	2.4
:	:	8.1	8.5	8.8	8.8	8.3	8.6	8.7
– 1.0	– 1.1	– 1.1	0.6	1.3	1.8	3.4	4.0	3.4
0.0	– 0.4	– 0.2	0.9	1.7	1.6	1.7	1.7	1.5
– 2.8	– 2.3	– 0.8	0.0	1.1	1.1	2.1	2.5	2.6
– 2.9	– 2.2	– 0.5	0.4	1.6	4.2	5.0	6.8	7.6
– 1.4	– 1.4	– 1.2	– 1.0	0.2	1.0	2.0	2.2	2.3
– 0.7	– 0.5	– 0.5	0.9	2.3	2.9	4.4	4.0	4.1
– 7.1	– 7.1	– 6.8	– 5.2	– 1.3	– 0.1	2.1	2.4	3.0
– 6.6	– 4.5	– 4.3	– 0.7	0.8	3.5	4.5	4.7	5.3
– 4.2	– 3.1	– 2.9	– 2.2	– 0.3	1.9	2.9	2.7	2.7
– 2.0	– 1.7	– 1.6	– 1.2	0.2	1.3	2.3	2.4	2.5

1994	1995	1995	1996	1997	1998	1999	2000	2001
2.1	1.0	:	0.4	1.9	0.9	0.3	0.3	0.1
0.4	– 1.0	:	– 0.5	0.5	1.0	0.6	– 0.0	– 0.5
0.2	– 0.8	:	0.9	1.7	0.8	1.7	0.4	0.4
0.2	0.6	:	0.9	0.2	0.9	1.0	0.2	0.3
1.7	– 0.8	:	1.6	1.6	1.5	2.2	– 0.3	– 0.5
– 0.1	1.6	:	0.1	3.6	0.4	1.3	0.3	0.5
:	:	:	0.5	0.3	– 0.0	– 0.5	0.3	0.2
– 0.6	– 0.1	:	1.7	0.7	0.5	1.6	0.6	– 0.7
– 0.8	– 0.4	:	1.1	0.8	– 0.1	0.1	0.0	– 0.3
– 0.7	0.5	:	0.8	1.1	0.0	1.0	0.4	0.1
2.1	0.7	:	0.9	1.2	2.6	0.8	1.8	0.9
0.3	0.1	:	0.3	1.2	0.8	1.0	0.2	0.0
0.3	0.3	:	1.4	1.4	0.6	1.5	– 0.4	0.0
0.9	0.0	:	1.6	3.9	1.3	2.1	0.3	0.6
0.2	2.1	:	3.7	1.5	2.7	1.0	0.2	0.5
0.8	1.1	:	0.6	1.9	2.2	1.0	– 0.2	0.0
0.3	0.3	:	0.4	1.3	1.1	1.0	0.2	0.0

Table A.4.12

Gross fixed capital formation; general government

Current tax burden (% of GDP)	Former definitions 1980	1985	1989	1990	1991	1992	1993
B	4.4	2.6	1.4	1.3	1.4	1.4	1.6
D [1]	3.6	2.4	2.4	2.3	2.6	2.8	2.7
E	1.8	3.6	4.3	4.8	4.7	4.0	4.1
F	3.2	3.2	3.4	3.5	3.5	3.5	3.2
IRL	5.4	3.7	1.7	2.0	2.1	2.0	2.2
I	3.2	3.7	3.3	3.3	3.2	3.0	2.6
L	6.4	3.9	:	4.5	4.7	5.1	5.1
NL	3.2	2.2	1.9	2.0	2.1	2.0	2.0
A	4.3	3.6	3.3	3.1	3.2	3.2	3.2
P	4.2	3.3	3.2	3.2	3.3	3.7	4.0
FIN	3.8	3.7	3.1	3.7	3.8	3.5	2.8
EUR-11 [2]	3.3	3.0	3.0	3.1	3.1	3.0	2.9
DK	3.4	2.2	1.7	1.6	1.5	1.9	1.8
EL	2.1	3.7	2.9	2.8	3.1	3.5	3.3
S	4.1	3.0	2.4	2.3	2.2	2.6	1.0
UK	2.5	2.1	1.8	2.3	2.1	2.0	1.9
EU-15 [3]	3.2	2.9	2.7	2.9	2.9	2.9	2.7

Total economy (change in % points of GDP)	1980	1985	1989	1990	1991	1992	1993
B	0.2	– 0.4	– 0.6	– 0.1	0.1	0.1	0.1
D (1)	0.1	– 0.1	0.0	– 0.1	– 0.0	0.2	– 0.1
E	0.1	0.7	0.6	0.6	– 0.1	– 0.8	0.1
F	0.1	0.2	0.1	0.2	– 0.1	0.0	– 0.3
IRL	0.6	– 0.0	0.0	0.3	0.1	– 0.1	0.2
I	0.5	0.1	– 0.0	– 0.0	– 0.0	– 0.2	– 0.4
L	0.9	– 0.3	:	:	0.2	0.4	– 0.0
NL	0.3	– 0.2	– 0.1	0.0	0.1	– 0.0	– 0.1
A	– 0.2	– 0.1	0.0	– 0.1	0.1	0.0	– 0.0
P	0.5	– 0.3	– 0.2	0.0	0.1	0.4	0.2
FIN	– 0.1	0.1	– 0.7	0.6	0.1	– 0.3	– 0.7
EUR-11 (2)	0.2	0.1	0.0	0.1	– 0.0	– 0.1	– 0.2
DK	– 0.3	0.2	– 0.2	– 0.1	– 0.1	0.4	– 0.1
EL	– 0.5	0.2	0.0	– 0.2	0.3	0.4	– 0.2
S	– 0.1	– 0.2	0.1	– 0.0	– 0.2	0.4	– 1.6
UK	– 0.2	– 0.1	0.5	0.5	– 0.2	– 0.0	– 0.2
EU-15 (3)	0.1	0.0	0.1	0.1	– 0.1	– 0.0	– 0.2

[1] From 1991 including former East Germany.
[2] Excluding Luxembourg; from 1991 including former East Germany.
[3] EU-15 excluding Luxembourg; from 1991 including former East Germany.

Source: Commission services.

Former definitions		ESA95 definitions						
1994	1995	1995	1996	1997	1998	1999	2000	2001
1.6	1.4	1.8	1.6	1.7	1.6	1.7	1.7	1.7
2.6	2.3	2.3	2.1	1.9	1.8	1.8	1.7	1.7
3.9	3.7	3.7	3.1	3.1	3.3	3.3	3.4	3.5
3.1	3.2	3.3	3.2	3.0	2.9	2.9	2.9	2.9
2.3	2.4	2.3	2.3	2.5	2.7	3.1	3.1	3.2
2.3	2.2	2.1	2.2	2.3	2.4	2.6	2.6	2.5
4.2	4.4	4.6	4.7	4.2	4.6	4.9	5.1	5.2
2.0	1.9	3.0	3.1	2.9	2.8	3.1	3.2	3.1
3.3	2.8	2.9	2.8	1.9	1.9	1.8	1.6	1.6
3.5	3.7	3.8	4.2	4.4	4.4	4.6	4.6	4.7
2.9	2.7	2.8	2.9	3.2	2.9	2.8	2.7	2.6
2.7	2.6	2.7	2.6	2.4	2.4	2.5	2.5	2.4
1.8	1.8	1.8	2.0	1.9	1.7	1.5	1.6	1.6
3.1	3.3	3.2	3.2	3.5	3.7	4.3	4.3	4.3
2.9	2.8	3.4	3.0	2.6	2.7	2.8	2.5	2.5
1.8	1.7	2.0	1.5	1.2	1.3	1.2	1.4	1.6
2.6	2.5	2.6	2.5	2.3	2.2	2.3	2.3	2.3

1994	1995	1995	1996	1997	1998	1999	2000	2001
0.1	– 0.3	:	– 0.2	0.0	– 0.0	0.1	0.0	– 0.1
– 0.1	– 0.2	:	– 0.2	– 0.2	– 0.2	0.0	– 0.1	– 0.1
– 0.2	– 0.2	:	– 0.6	– 0.0	0.2	0.0	0.1	0.1
– 0.1	0.1	:	– 0.0	– 0.3	– 0.1	– 0.0	0.0	– 0.0
0.2	0.0	:	0.0	0.2	0.1	0.5	– 0.1	0.2
– 0.3	– 0.1	:	0.1	0.0	0.2	0.1	0.0	– 0.1
– 0.9	0.3	:	0.1	– 0.5	0.3	0.4	0.1	0.1
– 0.0	– 0.1	:	0.2	– 0.3	– 0.1	0.3	0.1	– 0.1
0.1	– 0.5	:	– 0.1	– 0.9	– 0.1	– 0.1	– 0.2	– 0.0
– 0.4	0.2	:	0.5	0.2	– 0.0	0.2	0.0	0.1
0.1	– 0.2	:	0.1	0.3	– 0.3	– 0.2	– 0.1	– 0.0
– 0.1	– 0.1	:	– 0.1	– 0.2	– 0.0	0.1	– 0.0	– 0.0
– 0.1	0.0	:	0.2	– 0.1	– 0.2	– 0.2	0.1	– 0.0
– 0.2	0.2	:	0.0	0.3	0.2	0.5	0.0	0.0
1.8	– 0.1	:	– 0.4	– 0.4	0.1	0.0	– 0.3	– 0.0
– 0.1	– 0.0	:	– 0.5	– 0.3	0.0	– 0.0	0.1	0.2
– 0.1	– 0.1	:	– 0.1	– 0.2	– 0.0	0.1	– 0.0	0.0

Table A.4.13

Total uses; general government

	Former definitions						
Current tax burden (% of GDP)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**	**1993**
B	56.6	60.0	52.8	52.8	53.9	54.6	55.8
D (1)	48.0	47.2	45.0	45.3	46.8	47.6	48.8
E	31.7	40.1	41.3	42.3	43.2	44.6	47.6
F	44.7	51.6	49.1	49.7	50.2	51.8	54.1
IRL	46.3	49.2	38.0	38.1	39.0	39.5	39.4
I	42.8	51.5	51.9	53.8	53.8	54.0	57.1
L	47.7	43.7	:	:	:	:	:
NL	54.4	55.7	52.7	52.8	53.4	53.8	53.9
A	46.8	49.9	48.6	49.3	50.3	51.0	53.9
P	36.9	43.7	35.9	39.4	41.7	41.6	43.2
FIN	38.6	44.2	42.5	46.1	54.5	59.5	60.6
EUR-11 (2)	45.4	49.6	47.7	48.5	49.4	50.3	52.1
DK	53.7	56.8	57.0	56.1	57.1	58.2	60.7
EL	28.8	41.9	43.9	48.4	44.7	46.8	49.0
S	59.5	62.7	57.9	58.6	60.6	66.3	70.1
UK	43.4	44.4	37.9	39.4	39.9	42.4	43.1
EU-15 (3)	45.5	49.3	46.7	47.7	48.5	49.8	51.5

Total economy (change in % points of GDP)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**	**1993**
B	1.0	– 0.6	– 2.4	0.0	1.0	0.7	1.2
D (1)	0.8	– 0.4	– 1.4	0.3	2.4	0.9	1.1
E	2.2	2.8	1.7	1.0	0.9	1.4	2.9
F	0.8	0.5	– 0.9	0.6	0.4	1.7	2.3
IRL	4.0	0.6	– 6.1	0.2	0.9	0.5	– 0.1
I	1.3	1.3	0.7	1.9	– 0.0	0.2	3.1
L	2.5	– 1.5	:	:	:	:	:
NL	1.9	– 1.6	– 2.7	0.2	0.5	0.4	0.1
A	0.4	1.0	– 1.3	0.7	1.0	0.7	2.9
P	4.4	– 0.8	– 1.0	3.5	2.3	– 0.1	1.6
FIN	– 0.3	1.7	– 1.7	3.6	8.5	4.9	1.1
EUR-11 (2)	1.0	0.4	– 0.8	0.9	1.2	0.9	1.8
DK	3.3	– 0.8	0.2	– 0.8	1.0	1.1	2.5
EL	0.1	3.3	1.4	4.5	– 3.7	2.1	2.2
S	0.9	1.3	0.4	0.7	2.0	5.7	3.8
UK	2.1	– 1.2	– 0.5	1.5	0.6	2.5	0.7
EU-15 (3)	1.2	0.2	– 0.6	1.0	1.0	1.3	1.7

(1) From 1991 including former East Germany.
(2) Excluding Luxembourg; from 1991 including former East Germany.
(3) EU-15 excluding Luxembourg; from 1991 including former East Germany.

Source: Commission services.

Former definitions		ESA95 definitions						
1994	1995	1995	1996	1997	1998	1999	2000	2001
54.2	52.9	53.4	53.7	52.2	51.3	51.0	50.0	49.2
48.4	49.0	48.8	49.6	48.6	47.7	47.8	47.2	46.1
45.8	45.0	45.4	44.3	42.8	42.2	41.1	40.8	40.5
54.0	53.8	54.0	54.2	53.5	52.4	52.3	51.1	50.2
39.4	37.1	41.3	39.5	37.7	35.5	36.4	35.4	33.6
54.6	52.9	53.2	52.9	50.9	49.4	48.8	47.8	46.8
:	:	45.8	46.2	44.0	43.9	44.1	43.6	42.7
51.6	50.5	50.8	48.9	47.6	46.5	46.2	45.0	43.4
53.3	54.1	54.9	54.4	51.7	51.8	51.1	50.3	49.6
42.5	43.0	45.4	45.8	44.8	45.1	47.8	48.3	48.7
59.5	57.1	57.1	56.9	54.2	51.1	49.8	47.7	46.1
51.1	50.7	50.9	51.0	49.6	48.6	48.4	47.5	46.5
60.7	59.2	59.6	59.1	57.4	56.3	54.9	54.2	53.5
46.8	48.5	46.6	44.7	43.5	43.2	43.2	42.8	41.8
66.9	64.4	64.6	62.6	61.1	58.7	58.5	56.1	54.7
42.6	42.5	45.0	43.8	41.5	40.3	39.2	39.1	39.0
50.5	50.2	50.6	50.4	48.7	47.6	47.2	46.3	45.4

1994	1995	1995	1996	1997	1998	1999	2000	2001
– 1.6	– 1.3	:	0.2	– 1.4	– 0.9	– 0.3	– 1.0	– 0.8
– 0.3	0.5	:	0.8	– 1.0	– 0.8	0.1	– 0.6	– 1.2
– 1.8	– 0.8	:	– 1.1	– 1.5	– 0.5	– 1.1	– 0.4	– 0.3
– 0.1	– 0.2	:	0.3	– 0.8	– 1.0	– 0.1	– 1.3	– 0.9
– 0.0	– 2.3	:	– 1.8	– 1.8	– 2.1	0.9	– 1.0	– 1.8
– 2.5	– 1.7	:	– 0.3	– 2.0	– 1.5	– 0.6	– 1.1	– 1.0
:	:	:	0.4	– 2.2	– 0.1	0.2	– 0.5	– 0.9
– 2.3	– 1.2	:	– 1.9	– 1.3	– 1.1	– 0.2	– 1.3	– 1.6
– 0.6	0.8	:	– 0.6	– 2.6	0.0	– 0.7	– 0.8	– 0.7
– 0.7	0.5	:	0.4	– 1.1	0.3	2.7	0.5	0.4
– 1.0	– 2.5	:	– 0.2	– 2.7	– 3.0	– 1.3	– 2.2	– 1.6
– 1.0	– 0.4	:	0.1	– 1.3	– 1.0	– 0.2	– 0.9	– 1.0
– 0.0	– 1.5	:	– 0.5	– 1.7	– 1.1	– 1.4	– 0.7	– 0.8
– 2.2	1.7	:	– 1.9	– 1.2	– 0.2	– 0.1	– 0.4	– 1.0
– 3.1	– 2.5	:	– 2.0	– 1.6	– 2.4	– 0.2	– 2.5	– 1.4
– 0.5	– 0.2	:	– 1.2	– 2.3	– 1.3	– 1.1	– 0.1	– 0.1
– 1.0	– 0.4	:	– 0.2	– 1.7	– 1.1	– 0.4	– 0.9	– 0.8

Table A.4.14

Net lending (+) or net borrowing (–); general government

	Former definitions						
Current tax burden (% of GDP)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**	**1993**
B	– 8.6	– 9.0	– 6.1	– 5.4	– 6.2	– 6.9	– 7.2
D (1)	– 2.9	– 1.2	0.1	– 2.1	– 3.2	– 2.8	– 3.5
E	– 2.5	– 6.1	– 3.5	– 4.1	– 4.3	– 4.0	– 6.7
F	– 0.0	– 2.8	– 1.2	– 1.5	– 2.0	– 3.9	– 5.6
IRL	– 11.6	– 10.2	– 1.7	– 2.2	– 2.3	– 2.4	– 2.3
I	– 8.6	– 12.5	– 9.8	– 11.0	– 10.0	– 9.5	– 9.4
L	– 0.4	6.2	:	4.8	1.8	0.7	1.6
NL	– 4.1	– 3.5	– 4.6	– 4.9	– 2.8	– 3.8	– 3.1
A	– 1.6	– 2.4	– 2.7	– 2.4	– 3.0	– 1.9	– 4.2
P	– 8.6	– 10.3	– 2.3	– 5.0	– 5.9	– 2.9	– 6.0
FIN	3.3	2.9	6.2	5.3	– 1.5	– 5.7	– 7.9
EUR-11 (2)	– 3.4	– 4.8	– 3.1	– 4.2	– 4.5	– 4.7	– 5.5
DK	– 3.2	– 2.0	0.3	– 1.0	– 2.4	– 2.2	– 2.8
EL	– 2.6	– 11.6	– 14.2	– 15.9	– 11.4	– 12.6	– 13.6
S	– 3.9	– 3.7	5.2	4.1	– 1.1	– 7.5	– 11.9
UK	– 3.4	– 2.9	1.0	– 0.9	– 2.3	– 6.1	– 7.8
EU-15 (3)	– 3.4	– 4.5	– 2.2	– 3.5	– 4.1	– 5.0	– 6.0

Total economy (change in % points of GDP)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**	**1993**
B	– 1.7	0.5	0.6	0.7	– 0.8	– 0.7	– 0.3
D (1)	– 0.3	0.8	2.3	– 2.2	– 1.4	0.5	– 0.7
E	– 0.9	– 1.0	– 0.3	– 0.6	– 0.2	0.3	– 2.8
F	0.8	– 0.1	0.4	– 0.3	– 0.5	– 1.8	– 1.8
IRL	– 1.2	– 1.3	2.5	– 0.5	– 0.1	– 0.1	0.1
I	– 0.3	– 0.9	0.9	– 1.2	1.0	0.5	0.1
L	– 1.1	3.0	:	:	– 2.9	– 1.1	0.9
NL	– 1.2	1.8	– 0.1	– 0.4	2.1	– 1.0	0.7
A	0.6	0.1	0.3	0.4	– 0.6	1.0	– 2.2
P	– 2.9	0.1	1.1	– 2.7	– 0.9	3.0	– 3.1
FIN	0.7	0.2	2.2	– 0.9	– 6.8	– 4.3	– 2.1
EUR-11 (2)	– 0.3	0.1	1.0	– 1.1	– 0.5	– 0.1	– 0.8
DK	– 1.6	2.0	– 1.2	– 1.3	– 1.4	0.2	– 0.6
EL	– 0.2	– 3.3	– 2.8	– 1.7	4.5	– 1.2	– 1.0
S	– 1.1	– 0.9	1.8	– 1.2	– 5.1	– 6.4	– 4.4
UK	– 0.1	1.1	0.3	– 1.9	– 1.4	– 3.8	– 1.7
EU-15 (3)	– 0.3	0.2	0.8	– 1.3	– 0.7	– 0.9	– 1.0

(1) From 1991 including former East Germany.
(2) Excluding Luxembourg; from 1991 including former East Germany.
(3) EU-15 excluding Luxembourg; from 1991 including former East Germany.

Source: Commission services.

Former definitions		ESA95 definitions						
1994	1995	1995	1996	1997	1998	1999	2000	2001
– 4.8	– 3.9	– 4.2	– 3.7	– 2.0	– 1.0	– 0.9	– 0.5	– 0.2
– 2.6	– 3.4	– 3.3	– 3.4	– 2.6	– 1.7	– 1.1	– 1.0	– 1.4
– 6.1	– 7.0	– 7.0	– 5.0	– 3.2	– 2.6	– 1.1	– 0.7	– 0.4
– 5.7	– 4.8	– 5.6	– 4.2	– 3.0	– 2.7	– 1.8	– 1.6	– 1.2
– 1.6	– 2.1	– 2.5	– 0.6	0.8	2.1	2.0	1.7	2.7
– 9.1	– 7.6	– 7.6	– 7.1	– 2.7	– 2.8	– 1.9	– 1.5	– 0.8
2.6	1.8	2.2	2.7	3.6	3.3	2.4	2.6	2.7
– 3.6	– 3.8	– 4.2	– 1.8	– 1.2	– 0.8	0.5	1.0	0.4
– 4.9	– 5.0	– 5.1	– 3.8	– 1.9	– 2.5	– 2.0	– 1.8	– 2.0
– 5.9	– 5.6	– 4.2	– 3.8	– 2.6	– 2.1	– 2.0	– 1.5	– 1.5
– 6.1	– 5.0	– 3.7	– 3.2	– 1.5	1.3	2.3	4.1	5.1
– 5.0	– 4.8	– 5.0	– 4.3	– 2.6	– 2.1	– 1.2	– 0.9	– 0.8
– 2.6	– 2.2	– 2.3	– 1.0	0.5	1.2	3.0	2.5	2.5
– 9.9	– 10.5	– 10.2	– 7.8	– 4.6	– 3.1	– 1.6	– 1.3	– 0.6
– 9.9	– 7.5	– 7.9	– 3.4	– 2.0	1.9	1.9	2.4	2.9
– 6.7	– 5.5	– 5.8	– 4.4	– 2.0	0.3	1.2	0.9	0.7
– 5.4	– 5.0	– 5.2	– 4.2	– 2.5	– 1.5	– 0.6	– 0.4	– 0.3

1994	1995	1995	1996	1997	1998	1999	2000	2001
2.4	0.9	:	0.5	1.7	1.0	0.2	0.4	0.3
0.9	– 0.8	:	– 0.1	0.8	0.9	0.7	0.1	– 0.4
0.6	– 0.9	:	2.0	1.8	0.6	1.4	0.4	0.3
– 0.0	0.9	:	1.4	1.1	0.3	0.9	0.2	0.4
0.7	– 0.5	:	1.9	1.4	1.3	– 0.1	– 0.3	1.0
0.3	1.5	:	0.5	4.4	– 0.1	0.9	0.4	0.7
1.1	– 0.9	:	0.4	0.9	– 0.3	– 0.9	0.2	0.1
– 0.5	– 0.2	:	2.3	0.6	0.4	1.3	0.5	– 0.6
– 0.7	– 0.1	:	1.3	1.9	– 0.6	0.5	0.3	– 0.2
0.1	0.3	:	0.4	1.3	0.5	0.2	0.4	0.0
1.8	1.0	:	0.6	1.7	2.8	1.0	1.9	0.9
0.5	0.2	:	0.7	1.7	0.5	0.9	0.3	0.1
0.2	0.4	:	1.3	1.5	0.7	1.8	– 0.5	0.0
3.7	– 0.6	:	2.4	3.2	1.5	1.6	0.2	0.7
1.9	2.4	:	4.6	1.3	3.9	0.0	0.5	0.5
1.1	1.3	:	1.4	2.3	2.3	0.9	– 0.3	– 0.2
0.7	0.4	:	0.9	1.8	1.0	0.9	0.2	0.1

Table A.4.15

Net lending (+) or net borrowing (–) excluding interest; general government

	Former definitions						
Current tax burden (% of GDP)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**	**1993**
B	– 2.7	1.4	4.0	5.0	3.8	3.7	3.5
D (1)	– 1.0	1.9	2.8	0.6	– 0.6	0.4	– 0.2
E	– 1.8	– 4.2	0.4	– 0.3	– 0.6	0.3	– 1.7
F	1.4	0.0	1.5	1.4	0.9	– 0.7	– 2.3
IRL	– 5.6	– 0.9	5.7	5.3	5.0	4.3	4.0
I	– 3.2	– 4.5	– 1.1	– 1.6	0.1	1.9	2.6
L	0.7	7.1	:	5.2	2.2	1.1	1.9
NL	– 0.4	2.6	1.2	0.8	3.1	2.3	2.9
A	0.8	1.0	1.2	1.6	1.2	2.2	0.1
P	– 5.9	– 2.7	3.8	2.9	1.8	4.2	0.1
FIN	4.3	4.7	7.6	6.7	0.4	– 3.1	– 3.3
EUR-11 (2)	– 0.8	– 0.4	1.5	0.7	0.4	0.8	0.0
DK	0.7	7.7	7.5	6.3	4.9	4.4	4.5
EL	– 0.6	– 6.7	– 6.8	– 5.9	– 2.1	– 1.1	– 1.0
S	0.1	4.4	10.4	8.9	3.9	– 2.3	– 5.9
UK	1.3	2.1	4.7	2.2	0.4	– 3.4	– 5.0
EU-15 (3)	– 0.4	0.3	2.4	1.2	0.6	0.1	– 0.8

Total economy (change in % points of GDP)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**	**1993**
B	– 0.8	1.3	0.8	1.0	– 1.2	– 0.1	– 0.2
D (1)	– 0.1	0.8	2.1	– 2.3	– 1.2	1.0	– 0.7
E	– 0.8	– 1.0	0.4	– 0.7	– 0.3	0.9	– 2.0
F	0.8	0.1	0.5	– 0.1	– 0.5	– 1.5	– 1.6
IRL	– 0.8	– 0.5	1.7	– 0.4	– 0.3	– 0.7	– 0.3
I	0.1	– 0.9	1.7	– 0.6	1.7	1.9	0.7
L	– 0.6	2.5	:	:	– 3.0	– 1.2	0.9
NL	– 0.8	2.0	– 0.5	– 0.4	2.3	– 0.9	0.6
A	0.8	0.3	0.3	0.4	– 0.4	1.1	– 2.2
P	– 2.7	0.9	0.4	– 0.8	– 1.1	2.4	– 4.1
FIN	0.8	0.3	2.0	– 0.9	– 6.3	– 3.6	– 0.2
EUR-11 (2)	0.0	0.2	1.2	– 0.9	– 0.2	0.4	– 0.8
DK	– 1.1	2.3	– 1.5	– 1.3	– 1.4	– 0.4	0.0
EL	– 0.0	– 2.7	– 2.7	0.9	3.8	1.0	0.1
S	– 0.1	– 0.1	1.6	– 1.5	– 5.0	– 6.2	– 3.6
UK	0.2	1.2	0.1	– 2.5	– 1.8	– 3.8	– 1.5
EU-15 (3)	0.1	0.4	0.9	– 1.2	– 0.6	– 0.4	– 0.9

(1) From 1991 including former East Germany.
(2) Excluding Luxembourg; from 1991 including former East Germany.
(3) EU-15 excluding Luxembourg; from 1991 including former East Germany.

Source: Commission services.

Former definitions		ESA95 definitions						
1994	1995	1995	1996	1997	1998	1999	2000	2001
5.2	4.9	4.9	5.0	5.9	6.6	6.3	6.4	6.4
0.7	0.4	0.4	0.3	1.0	1.9	2.5	2.5	2.0
– 1.4	– 1.7	– 1.7	0.4	1.6	1.8	2.5	2.8	2.9
– 2.2	– 1.1	– 1.8	– 0.2	0.7	0.9	1.6	1.6	2.0
4.1	2.9	3.1	4.1	5.1	5.6	4.6	3.9	4.7
1.8	3.6	3.9	4.4	6.7	5.3	4.9	4.9	5.3
3.0	2.0	2.6	3.0	3.9	3.6	2.8	2.9	3.0
2.0	1.9	1.7	3.8	3.9	4.1	5.0	5.1	4.1
– 0.9	– 0.7	– 0.7	0.4	2.0	1.3	1.6	1.8	1.5
0.2	0.6	2.1	1.6	1.7	1.5	1.4	1.8	1.8
– 1.1	0.2	0.3	1.1	2.8	5.0	5.8	7.5	8.1
0.3	0.6	0.6	1.4	2.5	2.7	3.1	3.1	3.1
4.1	4.2	4.2	5.1	6.2	6.5	7.7	6.8	6.4
4.0	2.3	1.0	2.8	3.7	4.7	5.8	5.8	5.9
– 3.4	– 0.7	– 0.8	3.7	4.8	8.0	7.4	7.1	7.0
– 3.6	– 2.0	– 2.1	– 0.7	1.7	4.0	4.1	3.9	3.5
– 0.2	0.3	0.3	1.3	2.5	3.1	3.5	3.5	3.4

1994	1995	1995	1996	1997	1998	1999	2000	2001
1.7	– 0.2	:	0.1	0.8	0.8	– 0.3	0.0	0.1
1.0	– 0.4	:	– 0.1	0.7	0.8	0.6	0.0	– 0.5
0.3	– 0.3	:	2.1	1.2	0.2	0.7	0.3	0.1
0.2	1.0	:	1.6	0.9	0.2	0.7	0.0	0.4
0.0	– 1.1	:	1.0	1.0	0.6	– 1.0	– 0.7	0.8
– 0.8	1.8	:	0.5	2.3	– 1.4	– 0.3	– 0.0	0.4
1.0	– 0.9	:	0.4	0.9	– 0.3	– 0.9	0.2	0.1
– 0.9	– 0.1	:	2.0	0.2	0.2	0.9	0.1	– 1.0
– 1.0	0.2	:	1.1	1.5	– 0.7	0.3	0.2	– 0.3
0.1	0.4	:	– 0.5	0.1	– 0.3	– 0.0	0.4	0.0
2.3	1.2	:	0.8	1.6	2.3	0.8	1.6	0.7
0.3	0.4	:	0.8	1.1	0.2	0.4	0.1	– 0.0
– 0.4	0.1	:	1.0	1.1	0.3	1.1	– 0.8	– 0.5
5.0	– 1.8	:	1.8	0.9	1.0	1.2	– 0.0	0.1
2.5	2.7	:	4.5	1.1	3.2	– 0.6	– 0.2	– 0.1
1.4	1.6	:	1.4	2.4	2.3	0.2	– 0.3	– 0.4
0.5	0.6	:	1.0	1.3	0.6	0.4	– 0.0	– 0.1

Table A.4.16

General government consolidated gross debt

	Former definitions						
Current tax burden (% of GDP)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**	**1993**
B	76.6	119.3	124.4	124.7	126.5	127.9	134.6
D ([1])	31.8	41.7	41.8	43.8	40.3	43.0	47.0
E	16.8	41.9	41.4	43.2	43.9	46.3	57.9
F	19.3	30.3	33.9	34.9	35.2	39.0	44.3
IRL	67.7	98.6	98.7	92.6	92.4	90.0	94.0
I	57.9	81.9	95.4	97.3	100.6	107.7	118.1
L	11.8	12.3	6.8	4.5	4.0	4.8	5.8
NL	45.1	68.7	76.0	75.6	75.7	76.4	77.6
A	35.8	48.8	57.6	56.8	57.0	56.9	61.4
P	31.9	60.8	62.2	64.2	66.1	58.8	62.0
FIN	11.5	16.2	14.7	14.3	22.7	40.7	56.8
EUR-11 ([2])	34.7	51.9	56.7	58.1	57.9	61.2	66.1
DK	37.6	70.4	57.9	57.7	62.3	66.4	78.0
EL	23.6	50.9	68.4	89.0	91.2	97.5	110.2
S	39.6	61.6	43.9	42.1	51.2	64.8	75.1
UK	54.7	54.1	37.7	35.0	35.1	41.1	47.8
EU-15 ([3])	37.9	53.0	53.5	54.5	54.9	59.1	64.7

Total economy (change in % points of GDP)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**	**1993**
B	8.1	4.0	– 3.6	0.4	1.8	1.4	6.7
D ([1])	2.0	0.7	– 1.3	2.0	1.0	2.7	3.9
E	1.8	5.3	1.4	1.8	0.7	2.4	11.6
F	– 1.5	1.7	0.7	1.0	0.4	3.8	5.2
IRL	1.5	2.8	– 9.3	– 6.1	– 0.2	– 2.4	4.0
I	– 2.6	6.7	2.8	1.9	3.3	7.1	10.5
L	– 0.3	– 0.6	– 1.5	– 2.3	– 0.5	0.8	1.0
NL	2.7	4.5	– 0.0	– 0.3	0.1	0.7	1.1
A	1.6	2.0	– 0.8	– 0.8	0.2	– 0.1	4.6
P	– 3.3	7.3	– 1.7	2.0	1.9	– 7.3	3.2
FIN	0.1	0.7	– 2.3	– 0.4	8.3	18.0	16.2
EUR-11 ([2])	0.8	3.0	0.3	1.4	1.7	3.3	4.9
DK	7.3	– 3.0	– 2.2	– 0.1	4.6	4.0	11.7
EL	– 0.1	7.4	3.4	20.6	2.2	6.3	12.7
S	1.8	– 0.5	– 4.9	– 1.9	9.1	13.6	10.3
UK	– 0.5	– 1.9	– 5.7	– 2.7	0.1	6.0	6.7
EU-15 ([3])	1.2	2.1	– 0.8	1.0	1.8	4.3	5.6

([1]) From 1991 including former East Germany.
([2]) Excluding Luxembourg; from 1991 including former East Germany.
([3]) EU-15 excluding Luxembourg; from 1991 including former East Germany.

Source: Commission services.

Former definitions		ESA95 definitions						
1994	1995	1995	1996	1997	1998	1999	2000	2001
132.7	129.8	:	128.3	123.0	117.4	114.4	110.0	105.2
49.3	57.0	:	59.8	60.9	60.7	61.0	60.7	59.5
60.4	63.2	:	68.1	66.7	64.9	63.5	62.3	59.9
47.6	51.9	:	57.1	59.0	59.3	58.6	58.2	57.1
88.1	80.8	:	74.1	65.3	55.6	52.4	45.2	38.1
123.8	123.2	:	122.2	119.8	116.3	114.9	110.8	106.6
5.4	5.6	:	6.2	6.0	6.4	6.2	5.8	5.3
74.0	75.5	:	75.3	70.3	67.0	63.7	58.7	54.5
64.2	68.0	:	68.3	63.9	63.5	64.6	64.0	63.6
62.7	64.7	:	63.6	60.3	56.5	56.7	57.0	55.1
58.3	56.6	:	57.1	54.1	49.0	47.1	42.7	38.0
68.4	71.6	:	74.9	74.7	73.1	72.3	70.5	68.2
73.5	69.3	:	65.1	61.4	55.8	52.5	49.3	46.3
107.9	108.7	:	111.3	108.5	105.4	104.4	103.8	99.7
77.7	76.6	:	76.0	75.0	72.4	65.5	61.3	55.4
49.8	52.0	:	52.7	50.9	48.4	45.9	42.4	39.4
66.8	69.6	:	72.2	71.1	69.1	67.7	65.1	62.5

1994	1995	1995	1996	1997	1998	1999	2000	2001
– 1.8	– 2.9	:	:	– 5.3	– 5.6	– 3.0	– 4.4	– 4.8
2.3	7.7	:	:	1.1	– 0.2	0.3	– 0.4	– 1.1
2.5	2.8	:	:	– 1.4	– 1.8	– 1.4	– 1.2	– 2.4
3.4	4.2	:	:	2.0	0.3	– 0.7	– 0.4	– 1.1
– 6.0	– 7.3	:	:	– 8.8	– 9.7	– 3.2	– 7.2	– 7.1
5.7	– 0.6	:	:	– 2.4	– 3.5	– 1.4	– 4.1	– 4.2
– 0.4	0.2	:	:	– 0.1	0.4	– 0.3	– 0.3	– 0.5
– 3.6	1.5	:	:	– 5.1	– 3.3	– 3.3	– 5.0	– 4.2
2.7	3.8	:	:	– 4.4	– 0.4	1.1	– 0.6	– 0.4
0.7	2.0	:	:	– 3.3	– 3.8	0.3	0.2	– 1.8
1.4	– 1.7	:	:	– 3.0	– 5.1	– 1.9	– 4.5	– 4.6
2.3	3.1	:	:	– 0.2	– 1.5	– 0.9	– 1.8	– 2.3
– 4.6	– 4.2	:	:	– 3.7	– 5.6	– 3.3	– 3.3	– 3.0
– 2.3	0.8	:	:	– 2.8	– 3.2	– 1.0	– 0.6	– 4.0
2.6	– 1.1	:	:	– 1.0	– 2.6	– 6.8	– 4.2	– 5.9
2.0	2.3	:	:	– 1.8	– 2.5	– 2.5	– 3.6	– 3.0
2.1	2.9	:	:	– 1.1	– 2.0	– 1.4	– 2.6	– 2.6

Table A.4.17

Cyclically adjusted total resources; general government

	Former definitions						
Current tax burden (% of GDP)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**	**1993**
B	46.6	52.1	45.9	46.3	46.5	46.8	49.4
D (1)	44.2	46.8	45.4	42.3	41.8	43.2	45.0
E	29.9	35.1	36.6	36.6	37.5	39.9	41.4
F	44.4	49.5	47.1	47.2	47.5	47.4	48.7
IRL	34.0	39.0	36.2	35.2	36.7	37.6	38.4
I	33.3	39.4	41.4	42.0	43.2	44.3	48.5
L	47.2	51.5	:	:	:	:	:
NL	49.8	52.6	47.8	47.0	49.8	49.6	51.2
A	44.8	48.0	45.8	46.3	46.5	48.5	49.7
P	27.8	34.7	32.8	33.4	34.9	37.9	37.4
FIN	41.8	46.9	44.9	48.0	53.3	56.4	56.6
EUR-11 (2)	41.4	45.4	44.0	43.3	43.7	44.7	46.8
DK	50.0	52.9	55.7	54.1	54.2	56.2	59.3
EL	25.2	30.5	29.1	32.3	32.6	33.7	36.1
S	55.6	59.0	61.1	60.7	58.8	59.5	60.8
UK	40.3	42.0	37.2	37.4	38.0	37.4	36.3
EU-15 (3)	41.7	45.3	43.6	43.1	43.5	44.3	45.9

Total economy (change in % points of GDP)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**	**1993**
B	– 1.9	0.3	– 2.5	0.4	0.3	0.2	2.7
D (1)	0.8	0.4	0.5	– 3.1	0.0	1.4	1.9
E	1.9	1.4	0.8	0.0	0.9	2.3	1.6
F	1.8	0.5	– 1.2	0.1	0.3	– 0.1	1.3
IRL	2.9	– 0.7	– 4.1	– 1.1	1.5	0.9	0.8
I	1.5	0.2	1.3	0.6	1.2	1.1	4.3
L	2.0	2.1	:	:	:	:	:
NL	0.9	– 0.3	– 3.7	– 0.7	2.8	– 0.2	1.6
A	1.0	1.0	– 1.6	0.5	0.2	2.0	1.2
P	1.2	– 0.7	– 0.3	0.5	1.5	3.0	– 0.5
FIN	– 0.4	1.7	– 1.0	3.1	5.3	3.1	0.3
EUR-11 (2)	1.0	0.4	– 0.3	– 0.7	0.6	1.0	2.1
DK	2.8	0.2	0.0	– 1.6	0.0	2.0	3.2
EL	0.1	– 0.6	– 2.2	3.2	0.3	1.1	2.4
S	0.2	0.4	1.7	– 0.5	– 1.9	0.7	1.3
UK	3.3	– 0.6	– 0.1	0.2	0.5	– 0.6	– 1.1
EU-15 (3)	1.3	0.3	– 0.2	– 0.5	0.5	0.8	1.6

(1) From 1991 including former East Germany.
(2) Excluding Luxembourg; from 1991 including former East Germany.
(3) EU-15 excluding Luxembourg; from 1991 including former East Germany.

Source: Commission services.

Former definitions		ESA95 definitions						
1994	1995	1995	1996	1997	1998	1999	2000	2001
49.8	49.3	49.5	50.9	50.5	50.5	50.5	49.5	48.7
45.5	45.4	45.3	46.5	46.5	46.5	47.5	46.5	44.6
40.4	38.7	39.1	40.1	40.1	39.9	40.1	39.9	39.9
48.5	49.3	48.7	50.7	51.1	50.2	50.9	49.5	48.8
39.2	35.6	39.5	39.3	38.1	37.0	37.5	36.3	35.8
46.0	45.3	45.5	46.0	48.4	46.9	47.4	46.5	45.9
:	:	47.9	49.8	47.6	47.3	46.7	46.1	45.1
48.2	47.1	47.1	47.5	46.6	45.8	46.8	45.8	43.5
48.4	49.2	49.9	50.7	50.3	49.6	49.4	48.6	47.6
37.0	37.8	41.0	42.4	42.4	43.1	46.0	46.8	47.1
56.5	54.3	55.6	55.4	52.9	51.9	51.8	51.2	50.5
46.3	46.0	46.1	47.2	47.5	46.9	47.6	46.6	45.6
57.9	56.6	57.0	57.8	57.2	56.8	57.7	56.7	56.1
37.6	38.8	37.1	37.7	39.3	40.3	41.6	41.1	40.5
58.3	57.2	57.0	60.2	60.1	61.3	60.5	58.0	56.9
36.2	37.2	39.4	39.6	39.3	40.5	40.5	39.8	39.4
45.3	45.3	45.6	46.6	46.6	46.4	46.9	45.8	44.9

1994	1995	1995	1996	1997	1998	1999	2000	2001
0.4	– 0.5	:	1.3	– 0.3	– 0.0	0.0	– 1.0	– 0.8
0.5	– 0.1	:	1.2	– 0.0	0.0	1.0	– 0.9	– 1.9
– 1.0	– 1.7	:	1.0	– 0.1	– 0.2	0.2	– 0.1	0.0
– 0.2	0.8	:	2.0	0.4	– 1.0	0.8	– 1.4	– 0.7
0.9	– 3.6	:	– 0.1	– 1.2	– 1.1	0.5	– 1.3	– 0.4
– 2.5	– 0.8	:	0.5	2.3	– 1.5	0.6	– 1.0	– 0.5
:	:	:	1.9	– 2.2	– 0.3	– 0.6	– 0.5	– 1.0
– 3.0	– 1.1	:	0.4	– 0.9	– 0.8	1.0	– 1.1	– 2.3
– 1.3	0.8	:	0.8	– 0.4	– 0.7	– 0.2	– 0.7	– 1.0
– 0.4	0.8	:	1.4	0.1	0.7	2.9	0.8	0.4
– 0.1	– 2.3	:	– 0.2	– 2.6	– 0.9	– 0.1	– 0.7	– 0.6
– 0.6	– 0.2	:	1.1	0.3	– 0.6	0.7	– 1.0	– 1.1
– 1.4	– 1.3	:	0.8	– 0.6	– 0.4	0.9	– 1.0	– 0.6
1.5	1.1	:	0.5	1.7	0.9	1.3	– 0.5	– 0.6
– 2.5	– 1.1	:	3.1	– 0.1	1.3	– 0.8	– 2.5	– 1.1
– 0.1	1.0	:	0.2	– 0.3	1.2	0.0	– 0.7	– 0.4
– 0.6	– 0.0	:	1.0	0.0	– 0.3	0.5	– 1.0	– 1.0

Table A.4.18

Cyclically adjusted total uses; general government

	Former definitions						
Current tax burden (% of GDP)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**	**1993**
B	57.0	59.6	53.2	53.3	54.3	54.9	55.5
D (1)	48.2	47.0	45.0	45.6	46.9	47.8	48.8
E	31.7	40.0	41.5	42.4	43.4	44.7	47.5
F	44.8	51.3	49.4	50.1	50.5	52.1	53.9
IRL	46.6	49.1	38.0	38.5	39.0	39.3	38.8
I	42.9	51.4	52.0	53.9	53.9	54.0	57.1
L	47.7	43.0	:	:	:	:	:
NL	55.0	55.3	53.0	53.8	54.1	54.3	53.6
A	46.8	49.9	48.6	49.3	50.3	51.0	53.9
P	37.1	43.3	36.2	39.7	41.9	41.8	43.1
FIN	38.7	44.3	44.1	47.4	54.5	58.5	59.0
EUR-11 (2)	45.5	49.4	47.8	48.8	49.6	50.4	52.0
DK	54.5	58.7	58.0	56.8	57.5	58.1	59.8
EL	28.8	41.9	43.9	48.4	44.7	46.8	49.0
S	59.5	62.6	58.8	59.5	60.9	65.9	68.7
UK	43.3	44.3	38.2	39.6	39.9	42.2	42.9
EU-15 (3)	45.7	49.1	46.9	48.0	48.6	49.9	51.3

Total economy (change in % points of GDP)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**	**1993**
B	1.3	– 0.7	– 2.2	0.1	1.0	0.7	0.6
D (1)	0.7	– 0.4	– 1.3	0.6	2.7	0.9	1.0
E	2.2	2.8	1.8	1.0	0.9	1.3	2.8
F	0.8	0.5	– 0.7	0.7	0.3	1.6	1.9
IRL	4.0	0.6	– 5.9	0.5	0.5	0.3	– 0.5
I	1.3	1.3	0.8	1.9	– 0.0	0.2	3.0
L	2.3	– 1.7	:	:	:	:	:
NL	1.7	– 1.2	– 1.9	0.7	0.4	0.2	– 0.7
A	0.4	1.0	– 1.3	0.7	1.0	0.7	2.9
P	4.5	– 0.8	– 0.9	3.5	2.2	– 0.1	1.3
FIN	0.0	1.8	– 1.1	3.3	7.0	4.0	0.6
EUR-11 (2)	1.0	0.5	– 0.6	1.0	1.2	0.8	1.6
DK	2.5	– 0.1	– 0.4	– 1.2	0.7	0.6	1.7
EL	0.1	3.3	1.4	4.5	– 3.7	2.1	2.2
S	0.9	1.4	0.6	0.7	1.4	5.0	2.8
UK	1.8	– 1.1	– 0.5	1.4	0.3	2.3	0.7
EU-15 (3)	1.1	0.3	– 0.5	1.1	1.0	1.2	1.4

(1) From 1991 including former East Germany.
(2) Excluding Luxembourg; from 1991 including former East Germany.
(3) EU-15 excluding Luxembourg; from 1991 including former East Germany.

Source: Commission services.

Former definitions		ESA95 definitions						
1994	1995	1995	1996	1997	1998	1999	2000	2001
54.1	52.8	53.3	53.3	52.1	51.2	50.8	50.0	49.3
48.5	49.0	48.8	49.5	48.5	47.7	47.7	47.2	46.1
45.8	45.0	45.3	44.2	42.7	42.2	41.1	40.8	40.5
53.9	53.7	53.8	54.0	53.2	52.2	52.2	51.1	50.2
38.7	36.8	41.0	39.2	37.8	35.8	36.8	35.8	33.9
54.6	52.9	53.2	52.9	50.8	49.4	48.8	47.7	46.8
:	:	45.9	45.9	44.0	43.9	44.0	43.6	42.8
51.4	50.0	50.3	48.4	47.3	46.4	46.2	45.2	43.7
53.3	54.1	54.9	54.4	51.7	51.8	51.1	50.3	49.6
42.4	42.9	45.3	45.7	44.7	45.1	47.8	48.3	48.8
58.4	56.2	56.2	56.2	54.1	51.3	49.9	47.9	46.3
51.0	50.6	50.8	50.8	49.5	48.6	48.3	47.5	46.5
60.8	59.4	59.8	59.3	57.8	56.7	55.0	54.2	53.4
46.8	48.5	46.6	44.7	43.5	43.2	43.2	42.8	41.8
66.3	64.3	64.5	62.2	60.6	58.4	58.5	56.3	55.0
42.6	42.4	45.0	43.8	41.6	40.3	39.2	39.1	39.0
50.4	50.1	50.6	50.3	48.7	47.6	47.1	46.3	45.5

1994	1995	1995	1996	1997	1998	1999	2000	2001
– 1.4	– 1.2	:	0.0	– 1.3	– 0.9	– 0.4	– 0.8	– 0.7
– 0.3	0.5	:	0.7	– 1.0	– 0.8	0.1	– 0.5	– 1.1
– 1.8	– 0.8	:	– 1.2	– 1.5	– 0.5	– 1.1	– 0.4	– 0.3
– 0.1	– 0.2	:	0.1	– 0.8	– 0.9	– 0.0	– 1.1	– 0.9
– 0.1	– 1.9	:	– 1.7	– 1.4	– 2.0	1.0	– 1.0	– 1.9
– 2.5	– 1.7	:	– 0.3	– 2.0	– 1.5	– 0.6	– 1.0	– 1.0
:	:	:	– 0.0	– 1.9	– 0.1	0.1	– 0.4	– 0.8
– 2.2	– 1.5	:	– 1.9	– 1.0	– 1.0	– 0.2	– 1.0	– 1.5
– 0.6	0.8	:	– 0.6	– 2.6	0.0	– 0.7	– 0.8	– 0.7
– 0.7	0.5	:	0.4	– 1.0	0.4	2.7	0.5	0.5
– 0.6	– 2.2	:	– 0.0	– 2.2	– 2.8	– 1.4	– 2.0	– 1.6
– 0.9	– 0.4	:	0.0	– 1.3	– 1.0	– 0.2	– 0.8	– 1.0
1.0	– 1.5	:	– 0.5	– 1.5	– 1.1	– 1.7	– 0.8	– 0.9
– 2.2	1.7	:	– 1.9	– 1.2	– 0.2	– 0.1	– 0.4	– 1.0
– 2.5	– 2.0	:	– 2.2	– 1.6	– 2.2	0.1	– 2.2	– 1.3
– 0.3	– 0.2	:	– 1.2	– 2.2	– 1.3	– 1.1	– 0.1	– 0.0
– 0.9	– 0.3	:	– 0.3	– 1.7	– 1.1	– 0.4	– 0.8	– 0.8

Table A.4.19

Cyclically adjusted net lending (+) or net borrowing (–); general government

	Former definitions						
Current tax burden (% of GDP)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**	**1993**
B	– 10.5	– 7.5	– 7.3	– 7.0	– 7.7	– 8.2	– 6.1
D (1)	– 4.0	– 0.2	0.4	– 3.3	– 5.2	– 4.6	– 3.8
E	– 2.3	– 4.9	– 4.9	– 5.8	– 5.8	– 4.8	– 6.1
F	– 0.4	– 1.8	– 2.3	– 2.9	– 3.0	– 4.7	– 5.2
IRL	– 12.6	– 10.2	– 1.8	– 3.4	– 2.3	– 1.7	– 0.5
I	– 9.6	– 12.0	– 10.7	– 11.9	– 10.7	– 9.8	– 8.6
L	– 0.6	8.5	:	:	:	:	:
NL	– 5.2	– 2.7	– 5.3	– 6.7	– 4.3	– 4.7	– 2.4
A	– 2.1	– 1.9	– 2.8	– 2.9	– 3.8	– 2.5	– 4.2
P	– 9.4	– 8.6	– 3.3	– 6.3	– 7.0	– 3.9	– 5.7
FIN	3.1	2.7	0.8	0.6	– 1.2	– 2.1	– 2.4
EUR-11 (2)	– 4.2	– 4.0	– 3.8	– 5.5	– 5.8	– 5.7	– 5.1
DK	– 5.3	– 6.6	– 2.2	– 2.7	– 3.3	– 1.9	– 0.5
EL	– 3.6	– 11.4	– 14.8	– 16.1	– 12.1	– 13.1	– 12.9
S	– 3.9	– 3.7	2.3	1.1	– 2.1	– 6.4	– 7.9
UK	– 3.0	– 2.3	– 0.9	– 2.1	– 1.9	– 4.8	– 6.6
EU-15 (3)	– 4.0	– 3.8	– 3.2	– 4.9	– 5.2	– 5.6	– 5.4

Total economy (change in % points of GDP)	**1980**	**1985**	**1989**	**1990**	**1991**	**1992**	**1993**
B	– 3.2	1.1	– 0.3	0.3	– 0.7	– 0.4	2.1
D (1)	0.1	0.9	1.8	– 3.7	– 2.6	0.5	0.9
E	– 0.8	– 1.0	– 0.9	– 1.0	– 0.0	1.0	– 1.3
F	1.0	0.0	– 0.5	– 0.6	– 0.1	– 1.7	– 0.5
IRL	– 1.1	– 1.3	1.8	– 1.6	1.0	0.6	1.3
I	– 0.5	– 1.1	0.6	– 1.3	1.2	0.9	1.2
L	– 0.3	3.9	:	:	:	:	:
NL	– 0.8	1.0	– 1.8	– 1.5	2.4	– 0.4	2.3
A	0.7	0.1	– 0.2	– 0.2	– 0.8	1.3	– 1.7
P	– 3.3	0.1	0.6	– 3.0	– 0.7	3.1	– 1.8
FIN	– 0.4	– 0.1	0.1	– 0.2	– 1.7	– 1.0	– 0.3
EUR-11 (2)	– 0.1	0.0	0.3	– 1.7	– 0.5	0.2	0.5
DK	0.3	0.2	0.4	– 0.5	– 0.6	1.5	1.4
EL	0.1	– 3.8	– 3.6	– 1.3	4.0	– 1.0	0.2
S	– 1.1	– 1.0	1.0	– 1.2	– 3.2	– 4.3	– 1.5
UK	1.5	0.5	0.4	– 1.2	0.2	– 2.9	– 1.7
EU-15 (3)	0.1	0.0	0.3	– 1.6	– 0.5	– 0.4	0.2

(1) From 1991 including former East Germany.
(2) Excluding Luxembourg; from 1991 including former East Germany.
(3) EU-15 excluding Luxembourg; from 1991 including former East Germany.

Source: Commission services.

Former definitions		ESA95 definitions						
1994	1995	1995	1996	1997	1998	1999	2000	2001
– 4.3	– 3.6	– 3.8	– 2.5	– 1.6	– 0.7	– 0.3	– 0.5	– 0.6
– 3.0	– 3.6	– 3.5	– 3.0	– 2.0	– 1.2	– 0.3	– 0.7	– 1.5
– 5.4	– 6.3	– 6.2	– 4.1	– 2.6	– 2.3	– 1.1	– 0.8	– 0.6
– 5.3	– 4.4	– 5.1	– 3.3	– 2.1	– 2.1	– 1.3	– 1.6	– 1.4
0.5	– 1.2	– 1.5	0.1	0.3	1.2	0.8	0.5	2.0
– 8.5	– 7.6	– 7.6	– 6.8	– 2.5	– 2.5	– 1.4	– 1.3	– 0.9
:	:	2.0	3.9	3.6	3.4	2.6	2.5	2.3
– 3.2	– 2.9	– 3.2	– 0.9	– 0.7	– 0.6	0.7	0.6	– 0.2
– 5.0	– 5.0	– 5.0	– 3.7	– 1.5	– 2.2	– 1.7	– 1.7	– 2.0
– 5.4	– 5.1	– 3.7	– 3.4	– 2.3	– 2.0	– 1.8	– 1.5	– 1.6
– 1.9	– 1.9	– 0.6	– 0.8	– 1.2	0.6	1.9	3.3	4.2
– 4.8	– 4.6	– 4.7	– 3.7	– 2.0	– 1.7	– 0.7	– 0.9	– 1.0
– 2.9	– 2.8	– 2.8	– 1.5	– 0.6	0.1	2.7	2.5	2.8
– 9.2	– 9.8	– 9.5	– 7.0	– 4.1	– 3.0	– 1.6	– 1.7	– 1.3
– 8.0	– 7.0	– 7.4	– 2.1	– 0.6	2.9	2.0	1.7	1.9
– 6.4	– 5.2	– 5.6	– 4.2	– 2.3	0.2	1.4	0.7	0.3
– 5.1	– 4.8	– 4.9	– 3.7	– 2.0	– 1.2	– 0.2	– 0.4	– 0.6

1994	1995	1995	1996	1997	1998	1999	2000	2001
1.8	0.7	:	1.3	0.9	0.9	0.4	– 0.2	– 0.1
0.8	– 0.6	:	0.5	1.0	0.8	0.9	– 0.4	– 0.8
0.7	– 0.9	:	2.2	1.4	0.3	1.3	0.2	0.3
– 0.1	1.0	:	1.8	1.2	– 0.0	0.8	– 0.3	0.2
1.0	– 1.7	:	1.6	0.2	0.9	– 0.4	– 0.3	1.5
0.0	0.9	:	0.8	4.4	0.0	1.1	0.1	0.4
:	:	:	1.9	– 0.3	– 0.2	– 0.8	– 0.1	– 0.3
– 0.8	0.4	:	2.4	0.2	0.1	1.2	– 0.1	– 0.8
– 0.7	0.0	:	1.4	2.2	– 0.7	0.5	0.1	– 0.3
0.3	0.3	:	0.3	1.1	0.3	0.2	0.3	– 0.1
0.5	– 0.1	:	– 0.2	– 0.4	1.9	1.2	1.4	0.9
0.4	0.2	:	1.1	1.6	0.4	0.9	– 0.1	– 0.1
– 2.4	0.1	:	1.3	1.0	0.7	2.5	– 0.2	0.3
3.7	– 0.6	:	2.4	2.9	1.2	1.4	– 0.0	0.4
– 0.1	1.0	:	5.3	1.5	3.5	– 0.9	– 0.4	0.2
0.2	1.1	:	1.4	1.9	2.5	1.2	– 0.7	– 0.4
0.3	0.3	:	1.3	1.7	0.8	1.0	– 0.2	– 0.2

Table A.5.1

Gross domestic product at current market prices

(1 000 million EUR)

	1980	1985	1989	1990	1991	1992	1993
B	87.0	108.4	143.6	155.4	163.6	174.9	183.6
D (1)	583.2	818.9	1 074.5	1 182.2	1 432.6	1 561.7	1 670.8
E	158.8	228.0	360.6	404.5	446.3	465.6	426.7
F	498.6	707.3	891.0	957.6	987.2	1 040.5	1 089.4
IRL	15.1	27.2	34.2	37.2	38.5	41.3	42.4
I	325.0	562.1	792.3	867.8	939.6	951.2	849.0
L	3.8	5.3	8.0	8.6	9.3	10.3	11.6
NL	128.9	176.5	216.2	232.6	244.5	259.1	278.3
A	57.7	89.3	117.4	128.1	137.5	147.6	159.1
P	21.1	31.5	49.2	55.4	64.5	74.3	72.8
FIN	37.8	72.0	105.0	107.7	99.8	83.9	73.6
EUR-11 (2)	1 913.1	2 821.2	3 784.1	4 128.5	4 554.3	4 800.1	4 845.7
DK	48.8	78.4	98.0	105.1	108.5	113.7	118.5
EL	35.2	53.7	61.7	66.1	73.0	77.0	79.7
S	93.5	137.6	179.8	187.3	200.4	198.2	164.2
UK	383.6	601.4	760.3	776.8	831.6	822.3	817.7
EU-15 (3)	2 474.2	3 692.3	4 883.8	5 263.7	5 767.7	6 011.2	6 025.9

(1) From 1991 including former East Germany.
(2) Excluding Luxembourg; from 1991 including former East Germany.
(3) EU-15 excluding Luxembourg; from 1991 including former East Germany.

Source: Commission services.

Table A.5.2

Gross domestic product at constant market prices

(annual percentage change)

	1980	1985	1989	1990	1991	1992	1993
B	4.4	1.0	3.6	2.7	2.0	1.6	– 1.5
D (1)	1.0	2.0	3.6	5.7	5.1	2.2	– 1.1
E	1.3	2.6	4.7	3.7	2.3	0.7	– 1.2
F	1.8	1.7	4.2	2.7	1.0	1.5	– 0.9
IRL	3.1	3.1	6.2	7.6	1.9	3.3	2.6
I	3.5	3.0	2.9	2.0	1.4	0.8	– 0.9
L	0.8	2.9	9.9	2.2	6.2	4.5	8.7
NL	1.2	3.1	4.7	4.1	2.3	2.0	0.8
A	2.3	2.2	4.2	4.6	3.4	1.3	0.5
P	4.6	2.8	5.1	4.4	2.3	2.5	– 1.1
FIN	5.1	3.1	5.1	0.0	– 6.3	– 3.3	– 1.2
EUR-11 (2)	2.0	2.3	3.9	3.6	2.4	1.5	– 0.9
DK	– 0.4	4.3	0.2	1.0	1.1	0.6	0.0
EL	0.7	2.5	3.8	0.0	3.1	0.7	– 1.6
S	1.7	1.9	2.4	1.4	– 1.1	– 1.4	– 2.2
UK	– 2.2	3.8	2.1	0.6	– 1.5	0.1	2.3
EU-15 (3)	1.3	2.5	3.5	3.0	1.7	1.1	– 0.5

(1) From 1991 including former East Germany.
(2) Excluding Luxembourg; from 1991 including former East Germany.
(3) EU-15 excluding Luxembourg; from 1991 including former East Germany.

Source: Commission services.

(1 000 million EUR)

1994	1995	1996	1997	1998	1999	2000	2001
196.5	210.9	211.3	214.9	223.8	233.0	243.9	255.7
1 763.8	1 880.2	1 877.9	1 866.5	1 921.8	1 982.3	2 053.1	2 147.2
425.7	446.9	479.7	493.0	520.2	559.4	595.8	630.6
1 139.3	1 188.1	1 224.6	1 243.8	1 297.4	1 347.2	1 410.7	1 476.0
46.0	50.3	57.0	69.3	75.9	84.9	94.8	104.9
863.4	839.0	971.1	1 028.3	1 063.8	1 099.1	1 150.6	1 206.7
13.0	14.0	14.3	15.4	16.4	17.5	18.7	20.2
296.4	317.3	324.5	332.4	349.7	370.0	395.7	424.5
168.6	180.2	182.6	182.5	188.5	196.2	203.7	211.3
75.6	82.1	87.3	92.0	97.6	104.1	110.1	116.9
84.4	98.9	100.5	108.1	114.8	120.7	128.1	135.7
5 059.6	5 293.9	5 516.6	5 630.9	5 853.3	6 096.9	6 386.5	6 709.4
128.0	137.8	144.2	148.6	155.2	163.2	170.5	177.9
84.4	89.9	98.0	106.7	108.6	117.4	121.9	130.4
174.2	183.6	206.3	209.6	212.0	223.9	250.4	265.3
871.3	859.8	927.3	1 161.2	1 252.4	1 350.9	1 563.0	1 647.9
6 317.5	6 564.9	6 892.2	7 257.0	7 581.5	7 952.3	8 492.3	8 930.8

(annual percentage change)

1994	1995	1996	1997	1998	1999	2000	2001
3.0	2.5	1.0	3.5	2.7	2.4	3.5	3.3
2.4	1.7	0.8	1.5	2.2	1.5	2.9	2.9
2.3	2.7	2.3	3.8	4.0	3.8	3.8	3.4
2.1	1.7	1.1	2.0	3.2	2.8	3.7	3.3
5.8	9.5	7.7	10.7	8.9	8.3	7.5	6.2
2.2	2.9	1.1	1.8	1.5	1.4	2.7	2.7
4.2	3.8	2.9	7.3	5.0	5.0	5.6	5.7
3.2	2.3	3.0	3.8	3.7	3.5	4.1	3.7
2.4	1.7	2.0	1.2	2.9	2.3	3.2	3.0
2.2	2.9	3.2	3.5	3.5	2.9	3.6	3.5
4.0	3.8	4.0	6.3	5.0	3.5	4.9	4.2
2.4	2.2	1.4	2.3	2.7	2.3	3.4	3.1
5.5	2.8	2.5	3.1	2.5	1.6	2.0	2.1
2.0	2.1	2.4	3.4	3.7	3.5	3.9	4.0
4.1	3.7	1.1	2.0	3.0	3.8	3.9	3.3
4.4	2.8	2.6	3.5	2.2	2.1	3.3	3.1
2.8	2.3	1.6	2.5	2.6	2.3	3.4	3.1

Table A.5.3

Trend GDP at constant market prices

(annual percentage change)

	1980	1985	1989	1990	1991	1992	1993
B	2.0	1.8	2.1	2.1	2.1	2.1	2.1
D (1)	1.9	2.2	2.6	2.6	2.5	2.5	2.3
E	1.9	2.5	2.9	2.8	2.7	2.6	2.6
F	2.4	2.0	2.1	2.0	1.9	1.9	1.8
IRL	3.6	3.1	4.2	4.5	4.9	5.3	5.7
I	2.8	2.4	2.1	2.0	1.8	1.7	1.7
L	2.2	4.3	5.7	5.8	5.8	5.7	5.6
NL	1.7	2.0	2.6	2.7	2.7	2.7	2.8
A	2.4	2.2	2.5	2.5	2.4	2.4	2.3
P	3.0	2.9	3.4	3.3	3.2	3.0	2.9
FIN	3.2	2.7	1.6	1.3	1.2	1.3	1.5
EUR-11 (2)	2.2	2.2	2.4	2.3	2.3	2.2	2.2
DK	1.9	2.1	1.9	1.9	2.0	2.1	2.3
EL	1.8	0.8	1.2	1.3	1.4	1.5	1.7
S	1.7	1.8	1.4	1.3	1.2	1.2	1.4
UK	1.7	2.5	2.4	2.3	2.2	2.2	2.2
EU-15 (3)	2.1	2.2	2.3	2.3	2.2	2.2	2.1

(1) From 1991 including former East Germany.
(2) Excluding Luxembourg; from 1991 including former East Germany.
(3) EU-15 excluding Luxembourg; from 1991 including former East Germany.

Source: Commission services.

Table A.5.4

Gap between actual and trend GDP at constant market prices

(% of trend GDP)

	1980	1985	1989	1990	1991	1992	1993
B	2.9	– 2.1	1.9	2.5	2.4	1.9	– 1.7
D (1)	2.1	– 1.8	– 0.6	2.5	4.4	4.1	0.7
E	– 0.8	– 3.5	3.6	4.5	4.1	2.1	– 1.6
F	0.8	– 2.1	2.4	3.1	2.2	1.8	– 0.9
IRL	2.7	– 0.2	0.2	3.2	0.2	– 1.7	– 4.6
I	3.0	– 1.3	2.1	2.1	1.7	0.8	– 1.8
L	0.2	– 3.7	4.8	1.2	1.6	0.4	3.3
NL	1.5	– 1.0	0.9	2.3	1.9	1.2	– 0.8
A	1.7	– 1.8	0.1	2.1	3.1	2.0	0.3
P	3.4	– 5.8	3.4	4.5	3.6	3.1	– 1.0
FIN	0.5	0.3	8.9	7.5	– 0.5	– 5.0	– 7.5
EUR-11 (2)	1.7	– 1.9	1.4	2.9	3.0	2.3	– 0.7
DK	2.6	5.7	3.0	2.0	1.1	– 0.4	– 2.6
EL	3.7	– 0.5	1.8	0.5	2.2	1.4	– 1.9
S	0.1	– 0.0	3.6	3.7	1.3	– 1.4	– 4.9
UK	– 0.9	– 1.2	4.5	2.8	– 0.9	– 3.0	– 2.9
EU-15 (3)	1.3	– 1.6	2.0	2.8	2.4	1.5	– 1.2

(1) From 1991 including former East Germany.
(2) Excluding Luxembourg; from 1991 including former East Germany.
(3) EU-15 excluding Luxembourg; from 1991 including former East Germany.

Source: Commission services.

(annual percentage change)

1994	1995	1996	1997	1998	1999	2000	2001
2.1	2.2	2.3	2.4	2.5	2.6	2.7	2.8
2.2	2.1	2.0	2.0	2.0	2.0	2.0	2.0
2.6	2.7	2.8	3.0	3.1	3.2	3.3	3.4
1.9	1.9	2.0	2.2	2.4	2.5	2.6	2.7
6.2	6.7	7.1	7.3	7.5	7.6	7.5	7.4
1.6	1.7	1.7	1.7	1.8	1.9	1.9	2.0
5.5	5.4	5.3	5.3	5.2	5.1	5.1	5.0
2.9	3.0	3.1	3.2	3.3	3.4	3.4	3.4
2.3	2.2	2.2	2.3	2.4	2.4	2.5	2.6
2.9	2.9	2.9	3.0	3.0	3.1	3.1	3.2
1.9	2.4	2.9	3.3	3.6	3.9	4.1	4.3
2.1	2.2	2.2	2.3	2.4	2.4	2.5	2.6
2.4	2.5	2.5	2.5	2.5	2.5	2.4	2.4
1.9	2.1	2.4	2.6	2.9	3.0	3.1	3.2
1.5	1.8	2.0	2.2	2.5	2.6	2.8	2.9
2.3	2.4	2.5	2.5	2.5	2.6	2.6	2.6
2.1	2.2	2.2	2.3	2.4	2.5	2.5	2.6

(% of trend GDP)

1994	1995	1996	1997	1998	1999	2000	2001
– 0.8	– 0.5	– 1.8	– 0.7	– 0.5	– 0.8	0.0	0.6
0.8	0.5	– 0.7	– 1.2	– 1.0	– 1.5	– 0.6	0.2
– 1.9	– 1.9	– 2.3	– 1.5	– 0.6	– 0.1	0.3	0.3
– 0.7	– 0.9	– 1.9	– 2.1	– 1.3	– 1.0	0.0	0.5
– 5.0	– 2.4	– 1.8	1.3	2.6	3.3	3.3	2.1
– 1.2	0.0	– 0.6	– 0.5	– 0.8	– 1.2	– 0.4	0.2
2.0	0.4	– 1.9	– 0.0	– 0.2	– 0.4	0.1	0.8
– 0.5	– 1.2	– 1.2	– 0.7	– 0.3	– 0.2	0.5	0.8
0.4	– 0.2	– 0.4	– 1.5	– 1.0	– 1.1	– 0.3	0.1
– 1.6	– 1.6	– 1.3	– 0.8	– 0.4	– 0.5	– 0.1	0.3
– 5.6	– 4.3	– 3.2	– 0.4	0.9	0.6	1.3	1.3
– 0.5	– 0.4	– 1.2	– 1.2	– 0.9	– 1.0	– 0.2	0.4
0.4	0.6	0.6	1.2	1.2	0.4	– 0.0	– 0.3
– 1.8	– 1.9	– 1.9	– 1.2	– 0.4	0.0	0.7	1.5
– 2.5	– 0.6	– 1.5	– 1.8	– 1.3	– 0.2	0.9	1.4
– 0.9	– 0.5	– 0.4	0.6	0.2	– 0.3	0.4	0.9
– 0.6	– 0.4	– 1.1	– 1.0	– 0.7	– 0.8	– 0.0	0.5

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