

### FINANCING DEFICIT, INTEREST BURDEN AND CAPITAL FORMATION OF THE SECTOR GENERAL GOVERNMENT IN THE EUROPEAN COMMUNITY

The Accounts and Statistics of General Government<sup>1</sup> contain comprehensive details of revenue, expenditure and the financing situation of the public sector in the Member States of the European Community.

The statistics were drawn up according to the European System of Integrated Economic Accounts (ESA) and fundamentally provide a systematic and homogeneous source of data for comparisons between the various Member States - although more detailed examination would be useful in specific cases. A number of central aspects are discussed below.

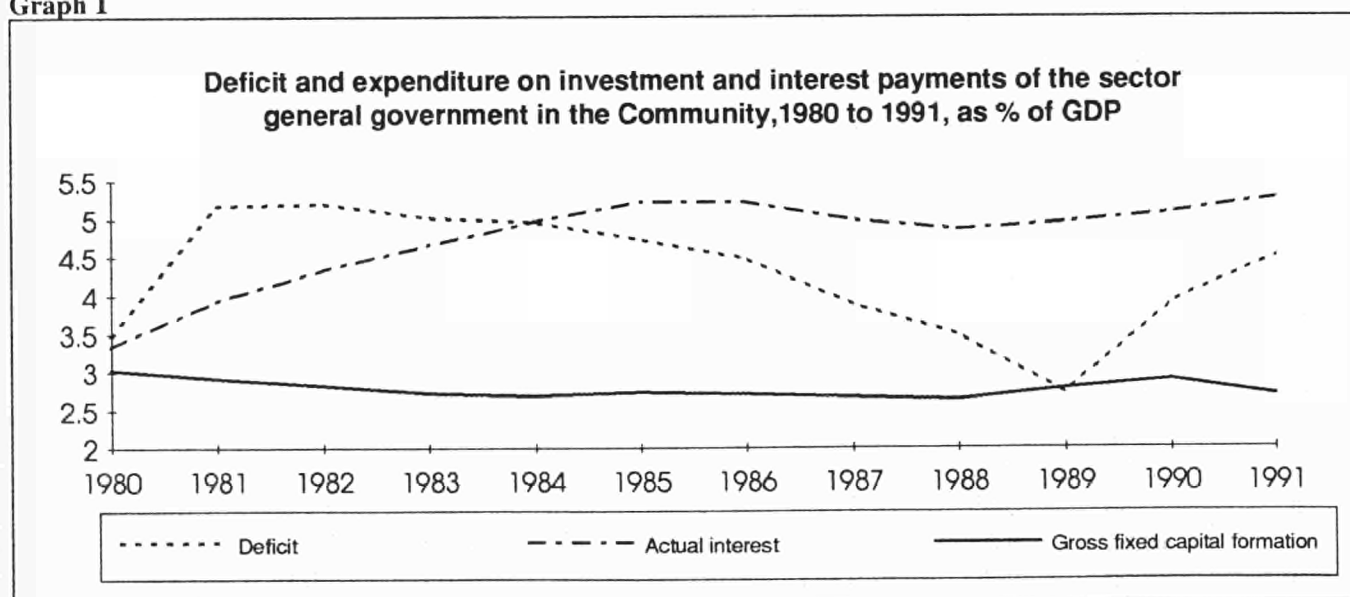
#### Key variables for the general government sector

Three key variables are of central interest for the general government sector.

In addition to the government deficit, public investment also merits particular attention since not only can it be offset against the deficit, but is also of considerable significance for future economic development.

Finally, the actual interest paid by the general government sector provides a derived indicator of the

Graph 1



<sup>1</sup> Statistical Office of the European Communities, Accounts and Statistics of General Government 1980-1991, Theme 2, Series C, Brussels /Luxembourg 1993

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level of public debt.

### Sharp increase in the government deficit in the Community after 1989

After a total of eight years of continuous consolidation from 1982 to 1989 (Figure 1, Table 1), there was a sharp increase in the budget deficits as a proportion of GDP in 1990 and 1991. The figure for 1990 roughly corresponds to the consolidation level for 1987, whereas the deficit for 1991 indicates a drop back to the 1986 level.

This means that the considerable consolidation achieved in the national budgets of the Community countries since 1982, peaking with a deficit of 2.7% - below the figure for public gross fixed capital formation as a percentage of GDP - in 1989, had already fallen back by about half in 1990 and by around two-thirds in 1991. Nevertheless, the deficits for 1990 and 1991 were still in the region of 4.3%, which had been the average for many years, but still showed a similarly sharp upward trend as in 1980/1981.

### Moderate increase in interest burden on general government in the Community from 1989

Whereas from 1980 to 1986 there was still a steady, pronounced increase in interest as a proportion of GDP in the public sector (almost 2 percentage points - Figure 1, Table 1), the renewed increase in the share of GDP to be used for payment of interest after 1989 has, unlike the budget deficits, remained moderate.

However, expenditure on interest by the public sector in the Community dropped only slightly, compared with the deficit, in 1987 and 1988.

Thus, the interest ratios, which have been higher - and in some cases substantially higher - than the deficit ratios since 1984, have been remaining fairly stable at around 5% of GDP, i.e. always above 4.7%, which had been the average for many years.

**Table 1**

Budget deficit, interest payments and capital formation of general government in the European Community 1980-91*, as a % of GDP			
Year	Budget deficit	Actual interest	Gross fixed capital formation**
1980	3.48	3.35	3.03
1981	5.18	3.94	2.92
1982	5.20	4.34	2.83
1983	5.02	4.67	2.73
1984	4.96	4.97	2.69
1985	4.73	5.22	2.74
1986	4.48	5.22	2.71
1987	3.89	4.99	2.66
1988	3.48	4.86	2.63
1989	2.72	4.96	2.78
1990	3.91	5.08	2.90
1991	4.51	5.27	2.69
Average	4.30	4.74	2.78

\*) All proportions excl. Greece, Luxembourg and the new German Länder. Proportions for 1991 excluding Ireland, Portugal und Spain.  
 \*\*) Gross capital formation in the case of Ireland and Spain.

**Table 2**

Net lending/net borrowing, actual interest and gross fixed capital formation of sector general government in the Member States of the Community*, as % of GDP for 1981, 1986 and 1991									
	Net lending/net borrowing			Actual interest paid			Gross fixed capital formation**		
	1981	1986	1991	1981	1986	1991	1981	1986	1991
B	-13.48	-9.44	-6.63	8.12	11.56	10.64	3.55	2.01	1.64
DK	-6.90	3.40	-2.23	5.28	8.81	7.31	2.98	2.08	1.88
D+	-3.68	-1.32	-3.58	2.30	2.95	2.74	3.08	2.35	2.27
E++	-3.90	-5.97	-3.92	0.80	3.96	3.54	2.14	3.49	4.97
F	-1.92	-2.73	-2.07	1.98	2.88	3.07	3.12	3.01	3.41
IRL++	-12.16	-10.72	-2.43	8.64	11.03	8.53	4.45	3.67	2.16
I	-11.42	-11.63	-10.23	6.40	8.84	10.59	3.65	3.53	3.31
L	-3.47	3.39	-0.28	1.43	1.06	0.19	6.30	5.04	3.11
NL	-5.35	-5.85	-2.51	5.35	7.43	6.90	3.07	2.41	2.57
P++	-10.63	-6.37	-5.33	5.38	9.68	8.14	4.97	3.26	3.42
UK	-4.02	-2.79	-2.81	5.96	5.48	3.99	1.84	1.96	2.13
EUR12	-5.17	-4.47	-4.51	3.94	5.21	5.27	2.92	2.72	2.69

\*) No data available for Greece, \*\*) in the case of Ireland and Spain: gross capital formation.

+) Excluding new Länder, ++) third cross-section year: 1990.

### Comparatively steady development of public fixed capital formation in the Community

Overall, gross fixed capital formation as a proportion of GDP (Fig. 1, Table 1) has developed steadily compared with the other two variables, with fluctuations of no more than 0.4 percentage points. However, the drop from 3% in 1980 to 2.6% in 1988, which took place within this margin, nevertheless corresponds to a good 13%, which must also be viewed in the context of the downward trend which was virtually uninterrupted except in three of the years under consideration.

The substantial recovery in the investment as a proportion of GDP in the years 1989 and 1990 did not, however, continue in 1991. However, the drop to 2.7% of GDP as indicated for that year should become less drastic when the figures for Spain and Portugal are included, as these had been well above the Community average in the previous years.

### Drop in government deficits in the vast majority of Member States

Two things are very apparent from the balances of the national budgets in the Member States of the Community for the years 1981, 1986 and 1991 (Fig. 2, Table 2): firstly, there is a clear trend towards convergence and secondly, with the exception of Italy, the consolidation has been particularly marked in the very Member States which had particularly large deficit ratios.

The spread in 1991 had fallen to practically half the 1986 range (8 as against 15 percentage points). If the figures for 1981 and 1991 are compared, only France and Spain

had larger deficits, and only slightly larger to boot. In the other Member States the deficits had decreased - substantially in some cases.

A comparison of the second and third reference years shows a similar picture, although the proportion was higher in four out of eleven Member States. Apart from the slight increase of the deficit in the United Kingdom, the balances deteriorated quite considerably in three cases (Denmark Germany and Luxembourg with -5.6, -2.3 and -3.7 percentage points respectively).

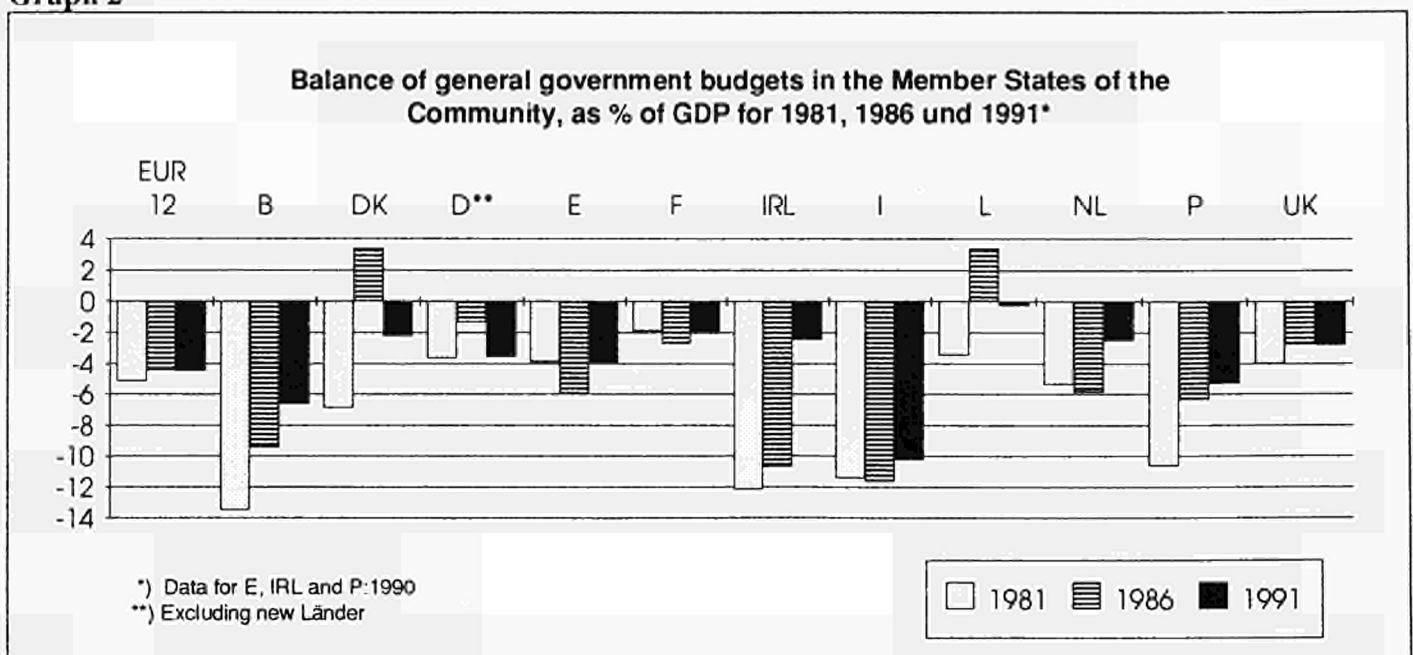
Of the four Member States which still had deficits of over 10% of GDP in 1981, only Italy was unable to consolidate substantially by 1991. In Belgium and Portugal the deficit fell by about a half over the same period and in Ireland it fell to as little as a fifth of the 1981 figure.

While six Member States still had a deficit ratio which was above the Community average in 1981 and 1986, there were only three in 1991 (90) Belgium, Italy and Portugal.

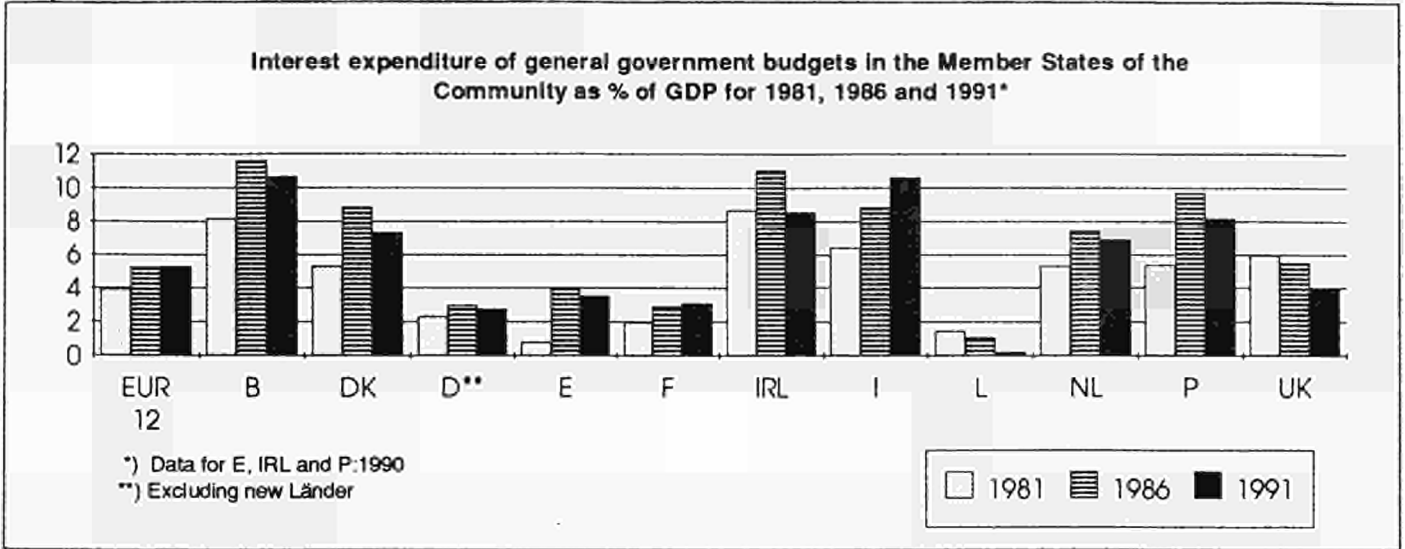
### Reduced interest burden ratios in the majority of Member States

In spite of the overall upward trend in the interest burden of the Community as a proportion of GDP, in seven of the Member States examined a specific opposite tendency appears to be emerging (Fig. 3, Table 2). The increase in the proportion in 1981 and 1986 was followed by a reduction - quite substantial in most cases - in the third year under examination. This pattern is also reflected in the spread, which increased from 7.3 in 1981 to 10.5 in 1986 and subsequently fell to 7.9 percentage points.

Graph 2



Graph 3



Apart from Luxembourg and the United Kingdom, where the ratios fell from one reference year to the next, only France and Italy broke the predominant pattern, with the proportion increasing from one reference year to the next. Only Ireland, Luxembourg and the United Kingdom had a lower figure in the third reference year than in 1981, which means that there was relative convergence over the period 1986 to 1991, compared with the divergence from 1981 to 1986, but the range covered in 1991 was nevertheless much wider than in 1981.

In 1981 and 1986, seven out of the Member States examined were above the Community average. This fell to six out of eleven in the third year under consideration.

**Downward trend in public investment as a proportion of GDP in the Member States**

The downward trend in public gross fixed capital formation in the Member States as a proportion of GDP

observed over the reference period (Fig. 4, Table 2) was steady in six cases. In the Netherlands and Portugal, however, the figures first fell and then rose again in the third reference year, but by no means reached the 1981 level.

Gross fixed capital formation had increased in the third reference year compared with 1981 and 1986 only in France, Spain and United Kingdom.

The number of Member States with a figure lower than the Community average rose from two to five and finally to six over the three reference years. The countries with a higher than average figure in 1991(90) were France, Italy, Luxembourg, Portugal and Spain.

Expenditure on investment exceeded the budget deficit in all three reference years in France and Luxembourg, in 1986 in Denmark and Germany, in 1990 in Spain and in 1991 in the Netherlands.

Graph 4

