Economy and finance

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General government expenditure in 2011 – Focus on the functions 'social protection' and 'health'

In 2011, EU-27 general government expenditure amounted to 49.1 % of GDP. Based on the latest available expenditure data by economic function for 2011, more than half was devoted to the functions 'social protection' and 'health', which accounted for 19.6 % and 7.3 % respectively of GDP (slightly down compared with 19.9 % and 7.5 % respectively in 2010). The other functions also comprising a large share of government expenditure are 'general public services' (6.6 % of GDP), 'education' (5.3 % of GDP) and 'economic affairs' (4.0 % of GDP).

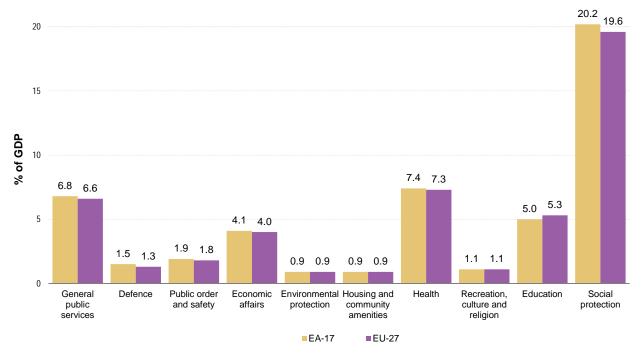
This publication analyses trends in the structure of general government expenditure by socio-economic function (according to the Classification of the Functions of Government - COFOG) and puts a special focus on health and social protection expenditure. General government expenditure at 49.1 % of EU GDP in 2011

General government expenditure amounted to around EUR 6 200 billion in 2011 in the EU-27, or 49.1 % of GDP.

As a ratio to GDP, the highest levels of government expenditure were found in Denmark, France, Finland and Belgium, all with proportions above 53 % of GDP.

In ten out of the twelve Member States that joined the EU in 2004 and 2007, total general government expenditure remained below or around 46 % of GDP. Among the 'old' EU Member States, Luxembourg had the lowest proportion at 42.0 % of its GDP. Of all the reporting countries, Switzerland had the lowest government expenditure relative to GDP (33.8 %).

Figure 1: EU-27 and EA-17 general government expenditure by main function as a percentage of GDP, 2011



Source: Eurostat (online data code: gov_a_exp)



General government expenditure by function

In the framework of the European System of National Accounts (ESA95), Eurostat collects data on general government expenditure by economic function according to the international Classification of the Functions of Government (COFOG) – see further details in the methodological note.

In the EU as a whole, as well as in all individual Member States, 'social protection' is the most important function of government expenditure. In 2011, governmental social protection expenditure in the EU-27 was equivalent to 19.6 % of GDP (see Figure 1), slightly less than in the preceding two years (19.9 % in 2010 and 20.1 % in 2009).

The next most important functions in terms of government expenditure were 'health' and 'general public services', amounting to 7.3 % and 6.6 % respectively of GDP in the EU-27 in 2011. 'Education' (5.3 % of GDP) and 'economic affairs' (4.0 % of GDP) followed. The remaining functions – composed of 'defence', 'public order and safety', 'environmental protection', 'housing and community amenities' and 'recreation, culture and religion'- represented altogether 6.0 % of EU-27 GDP in 2011.

From 2010 to 2011, in terms of GDP, general government total expenditure decreased for all functions except general public services, which increased largely due to increases in interest payable, which are recorded in COFOG group 01.7 'public debt transactions'. For instance, general public services represent nearly a quarter of total expenditure in Greece (versus 13.5 % for EU-27) – interest payments to service debt account alone for 13.9 % of total public spending in Greece. Larger relative year-on-year decreases than for 'health' and 'social protection' were observed for all other functions. The largest decrease was recorded for 'economic affairs', which is explained by an absolute decrease in capital transfers to banks and a decrease in gross capital formation (mainly investments).

The structure of public expenditure is relatively homogeneous across countries and particularly in the 'old' EU Member States. In the twelve Member States that joined the EU in 2004 and in 2007, more differences are noticeable (see Table 1).

Table 1: Total general government expenditure by main function and country, 2011 (as a percentage of total spending)

	General public services	Defence	Public order and safety	Economic affairs	Environmental protection	Housing and community amenities	Health	Recreation, culture and religion	Education	Social protection
EU-27	13.5	3.0	3.9	8.2	1.7	1.7	14.9	2.2	10.9	39.9
EA-17	13.8	2.7	3.7	8.4	1.8	1.8	14.9	2.2	10.1	40.7
BE	15.0	1.8	3.4	12.3	1.4	0.7	14.8	2.4	11.6	36.6
BG	10.8	3.5	7.1	11.8	2.1	3.4	12.9	2.1	10.2	36.2
cz	10.7	2.1	4.2	13.9	3.1	1.9	18.1	2.9	11.4	31.7
DK	13.7	2.4	2.0	6.1	0.7	0.6	14.5	2.8	13.5	43.8
DE	13.6	2.4	3.5	7.8	1.5	1.2	15.5	1.8	9.4	43.3
EE	8.3	4.1	5.6	12.0	-0.9	1.6	13.3	5.0	16.9	34.2
IE	11.4	0.9	3.7	16.4	2.1	1.3	15.6	1.8	10.9	35.9
EL	24.6	4.6	3.3	6.2	1.0	0.4	11.5	1.2	7.9	39.3
ES	12.5	2.3	4.8	11.6	2.1	1.3	14.1	3.3	10.5	37.4
FR	11.5	3.2	3.1	6.2	1.9	3.4	14.7	2.5	10.8	42.6
	17.3	3.0	4.0	7.1	1.8	1.4	14.7	1.1	8.5	41.0
	24.1	4.4	4.0	8.2	0.7	5.8	7.3	2.8	15.6	26.1
CY								-		
LV	11.7	2.6	4.8	14.5	1.9	3.3	10.7	4.2	14.9	31.5
	12.1	2.8	5.2	10.6	2.5	0.7	14.0	2.6	15.6	33.8
HU	11.4	1.0	2.5	9.9	2.8	1.8	11.4	4.0	12.1	43.2 34.5
	17.5 15.7	2.3	3.9 3.4	14.4	3.2	1.6 0.7	10.4 13.3	2.1	10.4	34.5
MT		2.0	4.2		3.2			3.5		34.5
NL AT	11.2	1.4	2.9	10.9	3.3	1.2	17.0	3.5	11.6 11.0	41.6
PL	13.1	2.7	4.2	13.0	1.0	2.0	10.9	2.9	12.8	36.6
PT	13.4	2.7	4.2	8.2	1.0	1.3	13.8	2.9	12.8	36.7
RO	17.1	2.7	5.6	16.9	2.4	3.1	8.6	2.2	12.9	35.9
SI	12.1	2.2	3.3	11.4	1.6	1.3	13.5	3.7	13.1	37.3
SK	15.4	2.3	6.4	9.8	2.7	2.6	15.5	3.0	10.6	31.3
FI	13.3	2.6	2.7	8.7	0.5	1.0	14.2	2.2	11.6	43.1
SE	14.4	2.9	2.7	8.2	0.7	1.4	13.7	2.2	13.3	40.5
UK	11.6	5.1	5.3	5.3	2.0	1.8	16.5	2.1	13.4	36.8
IS	17.8	0.1	3.0	12.1	1.4	0.6	16.1	7.4	16.6	24.8
NO	9.7	3.6	2.2	9.5	1.5	1.6	16.5	2.9	12.6	39.8
СН	9.9	2.9	5.0	13.7	2.3	0.6	6.1	2.6	17.9	38.9

Source: Eurostat (online data code: <u>gov_a_exp</u>)

In addition to differences observed in 'health' and 'social protection', described in more detail below, the highest inter-country differences are observed in the 'general public services' and in the 'economic affairs' functions and are often related to diversified social and economic public interventions in response to the crisis. Ireland is also a specific case as expenditure related to 'economic affairs' is double the EU average due to substantial capital injections into banks in 2011, which were partially treated as capital transfers. Romania also devotes relatively high levels of public expenditure to 'economic affairs', but this was also observed prior to the crisis. The importance of the 'economic affairs' division is also influenced by the amount of subsidies given to public or private transportation companies and even more by the amount of expenditure on transport companies classified within the general government sector. As the structure of public transportation differs widely across countries, this underlies the differing importance of the economic affairs function.

In Estonia, the negative expenditure recorded in the 'environmental protection' division is due to the disposal of Assigned Amount Units (AAU) under the Kyoto protocol, which are treated as negative expenditure.

The functions health and social protection make up nearly 55 % of total general government expenditure

Taken together, government expenditure on 'social protection' and 'health' accounted for 54.8 % of total government spending of the EU-27 in 2011 (see Table 1).

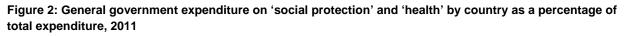
This means that government expenditure is not predominantly on the main state prerogatives which are traditionally represented by three COFOG functions: 'general public services', 'defence', and 'public order and safety'.

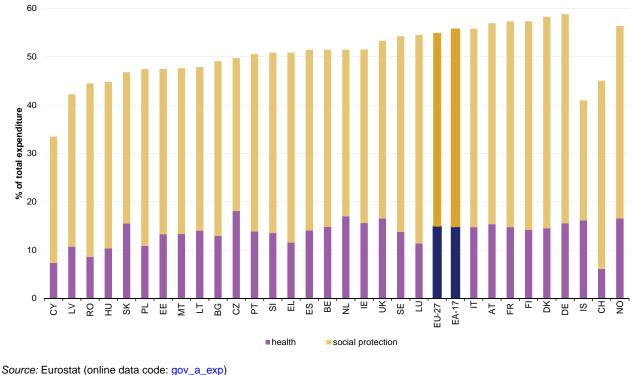
Expressed as a percentage of total general government expenditure, spending related to coverage

of the main social risks (social protection and health) was highest in Germany (58.8 %), Denmark (58.3 %), France and Finland (both 57.3 %).

The lowest percentages were found in Cyprus (33.5 %), Latvia (42.2 %), Romania (44.5 %) and Hungary (44.8 %).

In fact, the weight of health and social protection combined in total public expenditure is lowest in the twelve Member States, which most recently joined the EU as well as in Portugal, where it represents less than half of total government expenditure.





Social protection and health expenditure – visible effects of the economic crisis

Compared with 2002 (the first year for which data for all EU Member States are complete), spending by government on social protection and health has an increased weight relative to GDP.

After having remained relatively stable (less than 25 % of EU-27 GDP) until 2008, the share of these

two combined functions increased substantially to reach 27.6 % in 2009. This increase in terms of GDP between 2008 and 2009 is not due to a stronger growth in absolute figures, but to a drop in GDP at current prices. 'Social protection' and 'health' expenditure together amounted to 27.4 % in 2010 and 26.9 % in 2011. A slight slowdown in the growth of absolute figures in both divisions can be observed between 2010 and 2011. Overall, in comparison with 2002, spending in the 'health' and 'social protection' functions as a percentage of GDP increased by 4 percentage points (pp) or more in Estonia, Greece, Spain, Italy, the Netherlands, Portugal, Finland and the United Kingdom and by nearly 9 pp in Ireland. On the other hand, government expenditure on health and social protection decreased in terms of GDP in Bulgaria, Germany, Poland, Slovakia and Sweden as well as in Norway and Switzerland.

Table 2: General government expenditure on	'social protection'	and 'health'	' by country as a percentage of
GDP, 2002-2011			

	2002	2011	Difference
EU-27	24.6	26.9	2.3
EA-17	25.2	27.6	2.4
BE	24.2	27.4	3.2
BG	17.8	17.5	-0.3
CZ	21.2	21.4	0.2
DK	30.2	33.6	3.4
DE	28.1	26.6	-1.5
EE	14.1	18.2	4.1
IE	15.9	24.8	8.9
EL	21.9	26.4	4.5
ES	18.2	23.2	5.0
FR	28.3	32.2	3.9
IT	23.9	27.9	4.0
CY	11.8	15.4	3.6
LV	15.2	16.2	1.0
LT	15.0	17.9	2.9

	2002	2011	Difference
LU	21.9	22.9	1.0
HU	21.0	22.2	1.2
МТ	18.9	20.0	1.1
NL	21.4	25.7	4.3
AT	28.3	28.8	0.5
PL	22.7	20.6	-2.1
PT	19.6	24.9	5.3
RO	14.2	17.5	3.3
SI	23.5	25.8	2.3
SK	19.9	17.8	-2.1
FI	27.0	31.5	4.5
SE	29.9	27.8	-2.1
UK	21.6	25.9	4.3
IS	17.4	19.3	1.9
NO	25.7	24.8	-0.9
СН	15.9 [*]	15.3	-0.6

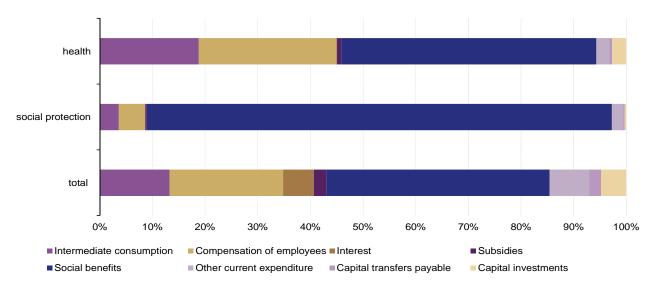
*: 2004

Source: Eurostat (online data code: gov_a_exp)

As regards the distribution of expenditure by transaction in 2011 (see Methodological Notes), more than 90 % of public expenditure in the 'social protection' division concerns social benefits and transfers, which are redistributed to households. This is a relatively common pattern across countries. In the 'health' division, while social benefits (48.5 % of the total) are important, compensation of employees (26.1 %) and intermediate consumption (18.8 %) also take a large share in the divisions' expenditure. However, in a group of countries composed of Belgium, the Czech Republic, Germany, Luxembourg, the Netherlands, Portugal, Slovakia and Switzerland, the share of redistributed transfers (essentially social transfers) exceeds 70 % of total public spending on health.

Capital investments, capital transfers and subsidies decreased from 2010 to 2011 in absolute terms, while compensation of employees increased only very slightly. In contrast with this, the growth of social benefits in absolute terms remained stable. This explains the relatively stable evolution of expenditure in the health and social protection divisions from 2010 to 2011.





Source: Eurostat (online data code: gov_a_exp)

Social protection: the most important function of government expenditure

The 'social protection' division includes spending on 'sickness and disability', 'old age', 'family and children', 'unemployment', 'housing' in the form of benefits in kind, and 'social exclusion'.

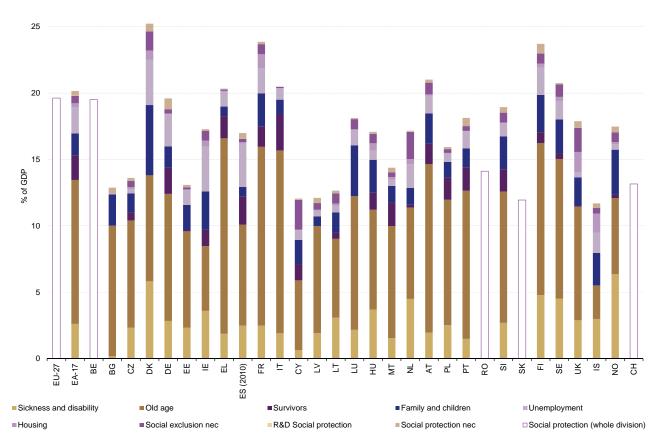
This function is by far the most important in public expenditure and accounted alone for 39.9 % of total expenditure or 19.6 % of EU-27 GDP in 2011.

The highest expenditure on 'social protection' as a percentage of GDP was found in Denmark (25.2 %),

France (23.9 %) and Finland (23.7 %). At the other end of the scale were Iceland (11.7 %), Slovakia (11.9 %), Cyprus (12.0 %) and Latvia (12.1 %). With the exception of Iceland, the Nordic countries all exhibit a relatively high level.

Looking at expenditure per inhabitant, the ranking of countries is slightly different with Luxembourg, Norway and Denmark showing the highest values, indicating a strong correlation between national wealth and the absolute per capita level of social expenditures.

Figure 4: Total general government expenditure on social protection by COFOG groups, 2011, % of GDP



Source: Eurostat (online data code: gov a exp)

In the countries for which detailed data is available, the breakdown of social protection expenditure by detailed COFOG group reveals different national structures.

In all countries (except Norway due to some receipts of the Government Pension Fund not through general government), the category 'old age' which includes most pension schemes, is predominant and represents at least 40 % of total public spending on social protection. The most noticeable exceptions are Ireland, Denmark and Norway, where this share does not exceed one third of social protection expenditure. All benefits related to sickness and disability often come as the second group of social protection expenditure, representing 20 % or more in the Scandinavian countries, Ireland, Hungary, Lithuania and the Netherlands.

Other relatively important categories concern benefits to families for dependent children (21 % of total spending on social protection in Denmark and Luxembourg) and unemployment allowances (nearly 20 % of social protection expenditure in Ireland and Spain).

Table 3: Total general	government expenditure on socia	al protection by country, 2011
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	% GDP	millions of euro	euro per inhabitant
EU-27	19.6	2 480 614	4 932
EA-17	20.2	1 899 930	5 716
BE	19.5	72 205	6 577
BG	12.9	4 964	675
CZ	13.6	21 281	2 027
DK	25.2	60 657	10 892
DE	19.6	508 270	6 215
EE	13.1	2 088	1 558
IE	17.3	27 470	6 117
EL	20.4	42 468	3 761
ES	16.9	179 415	3 890
FR	23.9	476 200	7 306
п	20.5	323 328	5 322
СҮ	12.0	2 166	2 545
LV	12.1	2 447	1 189
LT	12.7	3 899	1 287

	% GDP	millions of euro	euro per inhabitant
LU	18.1	7 720	14 862
HU	17.1	17 061	1 711
МТ	14.4	944	2 253
NL	17.2	103 383	6 193
AT	21.0	63 234	7 509
PL	15.9	58 879	1 528
PT	18.1	30 998	2 910
RO	14.1	18 549	868
SI	18.9	6 851	3 338
SK	11.9	8 257	1 518
FI	23.7	44 934	8 341
SE	20.8	80 443	8 513
UK	17.9	312 505	4 981
IS	11.7	1 183	3 708
NO	17.5	61 702	12 458
СН	13.2	62 671	7 964

Source: Eurostat (online data code: gov_a_exp)

Health public expenditure – relatively wide differences between countries

'Health' is the second largest function of government spending, at 7.3 % of EU GDP in 2011 (14.9 % of total government expenditure). This includes expenditure on medical and pharmaceutical products or equipment intended for use outside a health institution, outpatient, hospital and other public health services and applied research and experimental development related to health.

Within the EU, government health expenditure ranges from less than 5 % of GDP in Cyprus and Romania (both at 3.4 %), Latvia (4.1 %), Bulgaria (4.6 %), Poland (4.7 %) and Luxembourg (4.8 %) to 8.0 % in the UK, 8.3 % in France, 8.4 % in Denmark and 8.5 % in the Netherlands.

Table 4: Total general government expenditure on health by country, 2011

	% GDP	millions of euro	euro per inhabitant
EU-27	7.3	926 728	1 843
EA-17	7.4	695 844	2 094
BE	7.9	29 148	2 655
BG	4.6	1 772	241
CZ	7.8	12 145	1 157
DK	8.4	20 088	3 607
DE	7.0	182 510	2 232
EE	5.1	813	606
IE	7.5	11 945	2 660
EL	6.0	12 472	1 105
ES	6.3	67 500	1 463
FR	8.3	164 882	2 530
IT	7.4	116 195	1 913
CY	3.4	609	716
LV	4.1	831	404
LT	5.2	1 616	533

% GDP . inhabitant 4.8 2 0 3 1 3 910 LU нц 5.1 5 1 3 2 515 875 мт 5.6 366 50 966 3 053 NL 8.5 AT 7.8 23 322 2 770 455 PL 4.7 17 529 РΤ 6.8 11 680 1 0 9 7 3.4 4 4 4 4 208 RO 2 481 1 209 SI 6.9 sĸ 5.9 4 0 9 3 752 2 753 FL 7.8 14 829 7.0 27 271 2 886 SE υĸ 8.0 140 057 2 233 IS 7.6 769 2 412 NO 7.3 25 620 5 173 СН 2.1 9 802 1 246

millions of euro

euro per

Source: Eurostat (online data code: gov_a_exp)

Here again, this indicator is lower than the EU-27 average for almost all the most recent Member States with the exception of the Czech Republic (expressed in terms of percentage of total spending, the share of health is highest in this country – see Table 1). This share seems also particularly low in Switzerland where public outlays on health represented 2.1 % of GDP and is consistent with a generally low relative level of

government spending and a strong tradition of private coverage of health risks.

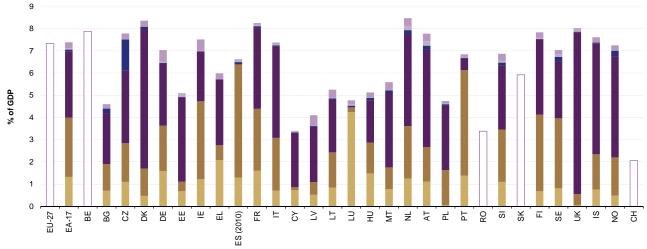
As for public health expenditure per inhabitant, figures show a lower dispersion than for social protection. However, the smaller amounts are again found in the most recent EU Member States.

Looking at the most detailed categories of the health COFOG division (see Figure 5), the situation also reveals rather different organisations and structures across countries with an even more widespread breakdown than between the social protection subcategories.

This said, the dominant group generally concerns public expenditure related to services of general and specialist hospitals. In 18 out of the 25 countries for which data is available, this group represents more than 40 % of total public spending on health.

It can also be assumed that this kind of expenditure is recorded under other groups by some other countries. For instance, 89 % of health related spending is concentrated in the 'medical products' group in Luxembourg whereas in Spain and Portugal, the 'outpatient services' category represents 77.0 % and 69.5 % of this expenditure respectively.





Medical products, appliances and equipment Outpatient services Hospital services Public health services R&D Health Health Chealth (whole division)

Source: Eurostat (online data code: gov a exp)

METHODOLOGICAL NOTES

This box gives some background information on the data sources as well as on the methodological concepts and technical terms and codes used. More exhaustive information and additional data can be found on <u>Eurostat's website</u> in the section dedicated to <u>government finance statistics</u> as well as on the Statistics Explained page dedicated to <u>government finance statistics</u>.

Reporting of data to Eurostat

Annual government finance statistics (GFS) data are collected by Eurostat on the basis of the European System of Accounts (ESA95) transmission programme. Member States are requested to transmit, among other tables, table 1100, 'Expenditure of general government by function' twelve months after the end of the reference period. Table 1100 provides information about expenditure of the general government sector divided into main COFOG functions and ESA95 categories. The transmission of the COFOG I level breakdown (divisions) is compulsory for the years 1995 onwards, whereas information on the COFOG II level (COFOG groups) is provided on a voluntary basis. The main reference years used in this publication are 2011 as the latest year available and 2002 as the first year for which complete data on expenditure by function are available at EU-27 level.

Provisional data

Data for BG, EL, HU, IS and SE (2011 only) is provisional.

Definition of general government and its subsectors

The data relate to the general government sector of the economy, as defined in ESA95, paragraph 2.68: 'All institutional units which are other non-market producers [institutional units whose sales do not cover more than the

50 % of the production costs, see ESA95 paragraph 3.26] whose output is intended for individual and collective consumption, and mainly financed by compulsory payments made by units belonging to other sectors, and/or all institutional units principally engaged in the redistribution of national income and wealth.

Classification of functional expenditure of government

The Classification of the Functions of Government (COFOG classifies government expenditure into ten main categories (divisions known as the 'COFOG I level' breakdown): general public services; defence; public order and safety; economic affairs; environmental protection; housing and community affairs; health; recreation, culture and religion; education; social protection. These divisions are further broken down into 'groups' (COFOG II level). Further information is available in the Eurostat '<u>Manual on</u> <u>sources and methods for the compilation of COFOG</u> <u>Statistics</u>'

COFOG level II data

COFOG level II data is published only in agreement with the country concerned. The development of COFOG level II data is not completed in many Member States and data needs to be looked at with this in consideration.

For BE and SK, COFOG group data is available but not published. For ES, COFOG group data is available for 2011, but not published pending the availability of more final data.

Satellite accounts

Administrative expenditure data is additionally collected in so-called satellite accounts. For health and social protection, the collections are SHA (system of health accounts) and ESSPROS (European System of Integrated Social protection Statistics) respectively. In general, the amount of expenditure recorded in satellite accounts is expected to exceed the expenditure recorded under the respective COFOG division, as the COFOG classification focusses on recording expenditure by primary function. The comparability of SHA and ESPPROS with COFOG data are explored in the <u>COFOG manual</u>.

Definition of general government expenditure

Government expenditure is defined in Commission Regulation 1500/2000 and use as reference a list of ESA95 categories:

Government expenditure comprises the following categories:

P.2, 'intermediate consumption': the purchase of goods and services by government;

P.5, 'gross capital formation' consists of: (a) gross fixed capital formation (P.51); (b) changes in inventories (P.52); (c) acquisitions less disposals of valuables (P.53); where

P.51, 'gross fixed capital formation': consists of acquisitions, less disposals, of fixed assets during a given period plus certain additions to the value of non-produced assets realised by the productive activity of producer or institutional units. Fixed assets are tangible or intangible assets produced as outputs from processes of production that are themselves used repeatedly, or continuously, in processes of production for more than one year;

D.1, 'compensation of employees': the wages of government employees plus non-wage costs such as social contributions;

D.29, 'other taxes on production, payable',

D.3, 'subsidies, payable',

D.4, 'property income, payable', consists of : (a) 'interest, payable (D.41) and (b) 'other property income, payable (D.42+D.43+D.44+D.45), where

D.41, 'interest': excludes settlements under swaps and forward rate arrangements, as these are treated as financial transactions in the ESA 95;

D.5, 'current taxes on income, wealth, etc, payable'; **D.62, social** payments: cover social **benefits and** pensions paid in cash;

D.6311, D.63121, D.63131, 'Social transfers in kind related to expenditure on products supplied to households

via market producers';

D.7, 'other current transfers, payable';

D.8, 'adjustment for the change in net equity of households in pension fund reserves'

D.9, 'capital transfers payable'

K.2, 'acquisitions less disposals of non-financial nonproduced assets': public investment spending. Nonfinancial non-produced assets consist of land and other tangible non-produced assets that may be used in the production of goods and services, and intangible nonproduced assets.

Gross Domestic Product

Throughout this publication, nominal GDP, i.e. GDP at current prices is used.

Time of recording & symbol

In the ESA95 system, recording is in principle on an **accrual basis**, that is, when 'economic value is created, transformed or extinguished, or when claims and obligations arise, are transformed or are cancelled.'

More data and information

For country-specific notes, e.g. on missing data, please refer to the <u>metadata published on Eurobase</u>. The authors can be contacted at <u>ESTAT-ESA95-GOV@ec.europa.eu</u>.

Further information

Eurostat Website: <u>http://ec.europa.eu/eurostat</u> Data on 'Government finance statistics' <u>http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/data/database</u> Further information about 'Government finance statistics' <u>http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/introduction</u>

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European Statistical Data Support:

With the members of the 'European statistical system', Eurostat has set up a network of support centres in nearly every Member State and in some EFTA countries. Their role is to provide help and guidance to Internet users of European statistics. Contact details for this support network can be found on the Eurostat website at: http://ec.europa.eu/eurostat/.

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