

FISCAL DEFICITS IN EU MEMBER STATES DURING THE FINANCIAL CRISIS

A broad consensus seemed to have been reached since the onset of the financial and economic crisis that governments need to undertake collective action to provide a fiscal stimulus to prevent a deep and long-lasting recession.

The Table shows the public sector balances of each EU member state since 2004; 2009 and 2010 are projections made by the European Commission. The deficits recorded in the Table were only partly due to discretionary responses to the economic and financial crisis. Deficits rose sharply in 2009. In 2007, the EU as a whole had a deficit of only 0.8 percent of GDP. That rose to 2.3 percent in 2008, and then jumped to 6 percent in 2009, and to 7.3 percent in 2010.

Most countries have seen a notable worsening of the fiscal position in 2009. Ireland jumped from a small

surplus in 2007 to a deficit of 12 percent of GDP in 2009. Likewise, Latvia went from a small deficit in 2007 to a deficit of 11 percent of GDP in 2009. The UK also underwent a similar development. A small number of countries have had substantial deficits for a number of years: notably Greece, Hungary, Italy, Malta, Poland, Portugal and to a lesser extent, the UK.

There are significant differences across countries in 2009, ranging from Bulgaria with a deficit of only 0.5 percent of GDP, to Ireland with a deficit of 12 percent of GDP. In almost all cases, these deficits are expected to rise in 2010.

The size of deficits in the EU is smaller than for the United States. Some EU member states were not in favour of fiscal expansion. Co-ordination problems may have played a role. As stimulus in one country increases demand in another, one country may want to free ride on the others' fiscal expansion. When coordination fails the level of fiscal stimulus may get too small. This failure may help to explain why the scale of fiscal expansion in Europe is smaller than in the United States.

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Table

Budget balances of EU member states, 2004–10 percent GDP

	2004	2005	2006	2007	2008	2009	2010
Austria	-4.5	-1.7	-1.7	-0.7	-0.5	-4.2	-5.3
Belgium	-0.4	-2.8	0.2	-0.3	-1.2	-4.5	-6.1
Bulgaria	1.6	1.9	3.0	0.1	1.5	-0.5	-0.3
Cyprus	-4.1	-2.4	-1.2	3.4	0.9	-1.9	-2.6
Czech Republic	-2.9	-3.6	-2.6	-0.6	-1.4	-4.3	-4.9
Denmark	1.9	5.0	5.0	4.5	3.6	-1.5	-3.9
Estonia	1.7	1.5	2.9	2.7	-3.0	-3.0	-3.9
Finland	2.2	2.6	3.9	5.2	4.1	-0.8	-2.9
France	-3.6	-3.0	-2.3	-2.7	-3.4	-6.6	-7.0
Germany	-3.8	-3.3	-1.5	-0.2	-0.1	-3.9	-5.9
Greece	-7.4	-5.2	-3.1	-3.9	-5.0	-5.1	-5.7
Hungary	-6.4	-7.8	-9.3	-4.9	-3.4	-3.4	-3.9
Ireland	1.4	1.7	3.0	0.2	-7.1	-12.0	-15.6
Italy	-3.6	-4.4	-3.3	-1.5	-2.7	-4.5	-4.8
Latvia	-1.0	-0.4	-0.5	-0.4	-4.0	-11.1	-13.6
Lithuania	-1.5	-0.5	-0.4	-1.0	-3.2	-5.4	-8.0
Luxembourg	-1.1	0.1	1.4	3.6	2.6	-1.5	-2.8
Malta	-4.7	-2.9	-2.6	-2.2	-4.7	-3.6	-3.2
Netherlands	-1.8	-0.3	0.6	0.3	1.0	-3.4	-6.1
Poland	-5.7	-4.3	-3.9	-1.9	-3.9	-6.6	-7.3
Portugal	-3.4	-6.1	-3.9	-2.6	-2.7	-6.5	-6.7
Romania	-1.2	-1.2	-2.2	-2.5	-5.4	-5.1	-5.6
Slovak Republic	-2.4	-2.8	-3.5	-1.9	-2.2	-4.7	-5.4
Slovenia	-2.2	-1.4	-1.3	0.5	-0.9	-5.5	-6.5
Spain	-0.4	1.0	2.0	2.2	-3.8	-8.6	-9.8
Sweden	0.6	2.0	2.4	3.8	2.5	-2.6	-3.9
UK	-3.3	-3.3	-2.6	-2.6	-5.4	-11.5	-13.8
EU 27	-2.9	-2.5	-1.4	-0.8	-2.3	-6.0	-7.3

Source: 2004–08, Eurostat; Forecasts 2009–10 European Commission (2009).

References

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European Commission (2009), *Public Finances in EMU*, European Commission Directorate-General for Economic and Financial Affairs, Brussels.