4. TACKLING THE CHALLENGES CREATED BY DEMOGRAPHIC CHANGE: UPDATE

The Commission Communication on "The demographic future of Europe – from challenge to opportunity" adopted in October 2006[*] presented five key policy directions through which the Member States can respond to the challenges of demographic change:

1. Promoting "demographic renewal" in Europe: creating conditions that support Europeans in achieving their ideal family size, in particular by facilitating the reconciliation of work, family and private life.

2. Promoting employment in Europe: ensuring that more jobs of better quality are created and that people can work longer, thus achieving a better balance between active and inactive people.

3. Promoting a more productive and dynamic Europe: boosting productivity growth by optimising skills at all ages, thus strengthening the economy's ability to meet the needs of an ageing population.

4. Receiving and integrating migrants in Europe: alleviating future labour shortages by attracting skilled and unskilled workers from abroad and fostering their integration.

5. Ensuring the sustainability of public finances: consolidating budgets and reforming social protection systems so as to guarantee adequate social protection and public services in the future.

The Communication also announced that once every two years the Commission would assess the Union's state of preparedness for demographic change. The present chapter aims to provide key data for such an assessment in each of the five policy domains above. The same data are also presented in the country sheets in the annex.

Each Member State faces different demographic challenges and, depending on the socio-economic and political context, has its own, very specific, set of opportunities for tackling these challenges. The purpose of this chapter, therefore, is to help policy makers in each Member State to understand where their own country is positioned in relation to the rest of the EU, to see where there is the greatest potential for action and possibly also to identify other Member States that may have developed policies from which lessons could be drawn.

The data presented here provide a snapshot of the current situation across the EU. The emphasis is not on long-term trends, but on the specific position of each individual Member State vis-à-vis the challenges of demographic change. It is up to policy makers, researchers and stakeholders in Member States to analyse the specificities of their country and to derive appropriate policy responses from their analysis.

Progress in the different policy areas which contribute to tackling demographic challenges is closely monitored at the European level in different frameworks: the Lisbon Strategy, the Open Method of Coordination for social protection and social inclusion, the Stability and Growth Pact, the Roadmap for equality between men and women and the European Alliance for Families. The principal added value of this chapter and the country sheets that follow is to bring together, in one place, indicators from this wide range of policy areas and to suggest how they are related to the EU's ability to respond to demographic challenges.

4.1. Improving the conditions for Europe's demographic renewal

Recent data on total fertility rates show a slight increase (see Chapter 1), but in a majority of Member States, the average number of children per women is estimated to be lower than 1.5. If fertility remains at this low level, the result is expected to be shrinking populations and much more pronounced ageing in the next few decades. For this reason, low fertility rates have become a concern for a number of governments.

[*] COM(2006)571

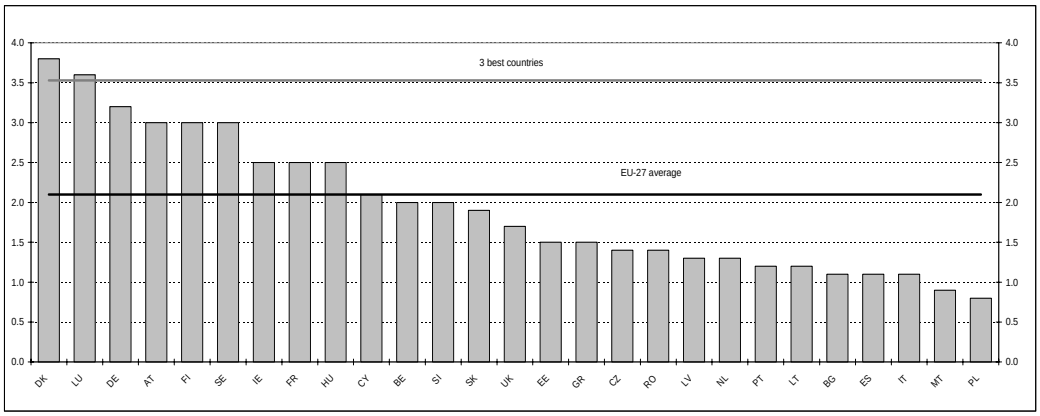
Governments have no direct influence on the decisions of people to have children, but they can try to achieve a return to somewhat higher fertility rates by creating a more supportive environment for families. This may comprise financial benefits, services (including affordable and good quality childcare and housing) and leave/working time arrangements that enable a better reconciliation of paid work and family life. This section focuses on financial benefits and services.

Family policies place considerable emphasis on financial support, through the payment of benefit or tax allowances. Such measures compensate families to some extent for the costs involved in raising children. Families also benefit from free or reduced-price services (notably childcare). Comprehensive sets of internationally comparable data on the value of these various forms of support to families do not exist. However, Eurostat collects data on how much Member States spend directly to provide

- financial support to households for bringing up children;
- financial assistance to people who support relatives other than children;
- and social services specifically designed to assist and protect families, particularly children.

Figure 4.1 shows the percentage of GDP devoted to such expenditure in each Member State in the year 2005. The highest levels of spending can be observed in Denmark and Luxemburg, followed by Germany, Austria, Finland and Sweden. Low levels of spending (in relation to GDP) can be found in Southern and Central and East European Member States. The three countries with the highest level of spending devote three to four times more of their GDP to families than the countries with the lowest level of spending.

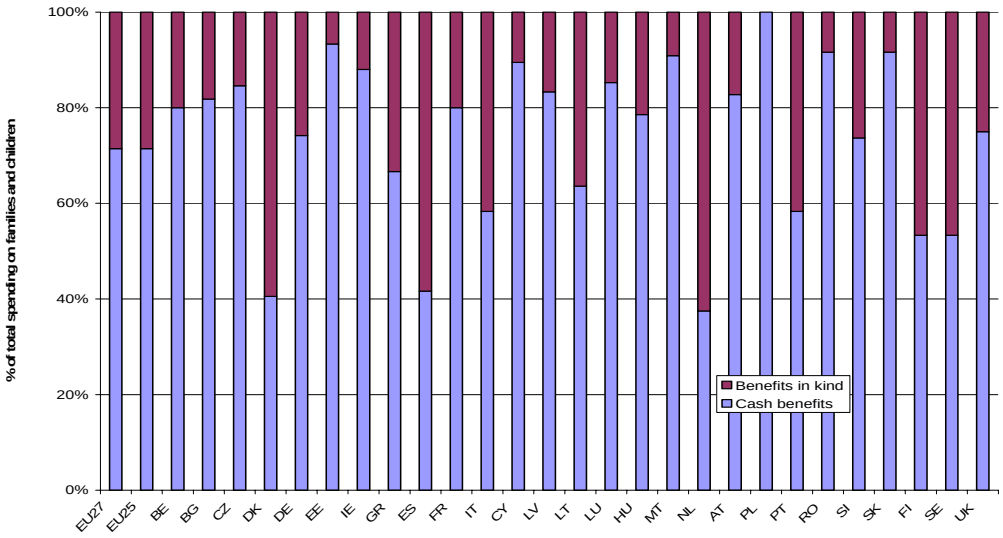
Figure 4.1: Family benefits in % of GDP, in 2005



Source: Eurostat, ESSPROS database.
Note: Many values are provisional. Data for PT are for 2004. EU-27 average is estimated.

The spending on family comprises benefits in both cash and in kind. Figure 4.2 shows the distribution of total spending across these two types of benefit. For the EU as a whole, about three-quarters of social protection spending for families and children is on cash benefits and one quarter on services (benefits in kind). The Nordic countries, Spain and the Netherlands are distinguished by a very large proportion of benefits in kind, albeit in relation to a low overall level of spending in the last two countries.

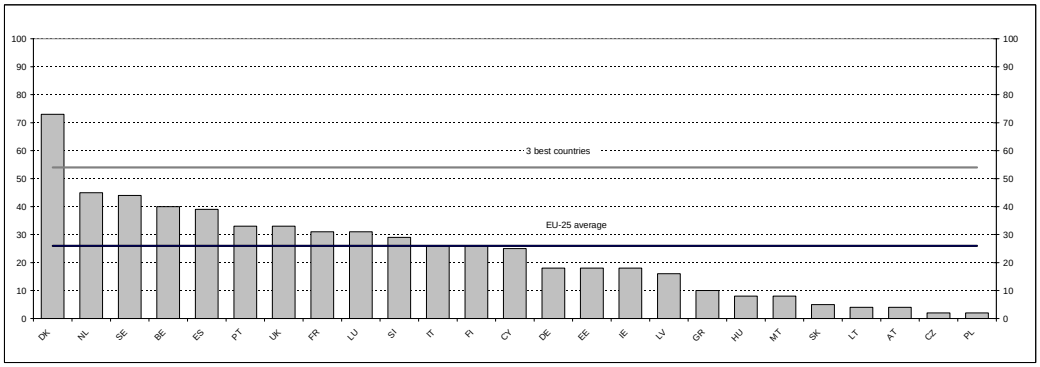
Figure 4.2: Family benefits in cash and in kind, 2005



Source: Eurostat - ESSPROS database.
Note: Many values are provisional. Data for PT are for 2004. No data on benefits in kind for PL, EU-27 average is estimated.

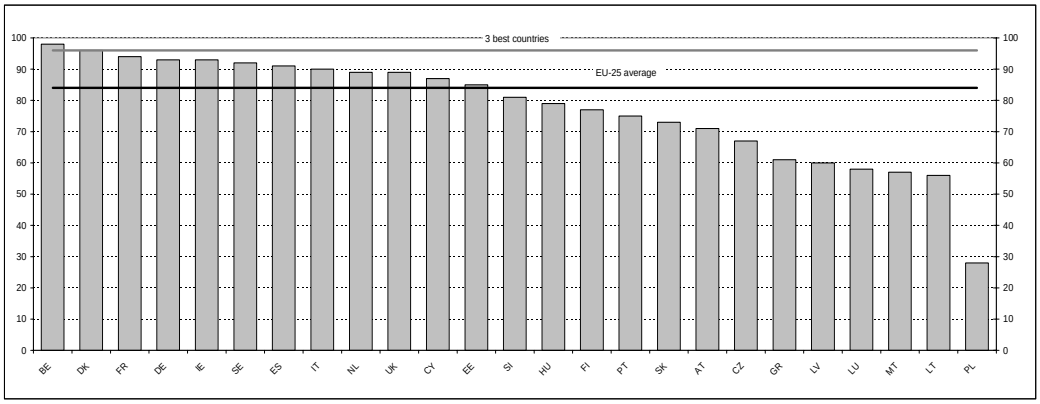
The most important service to families is the provision of high-quality and affordable childcare. In view of the importance of childcare for raising employment rates, the 2002 Barcelona European Council set common targets for the EU to be achieved by 2010: 33% of all children aged 0-2 and 90% of all children aged 3 to the compulsory schooling age should have access to formal childcare. Figures 4.3 and 4.4 present the most recent data on the progress made by EU Member States in achieving the Barcelona targets.

Figure 4.3: Formal childcare capacity for all children aged 0-2 in %, in 2006



Source: Eurostat, EU-SILC.
Notes: Data for BG and RO are not available. 2006 data are provisional for BE, DE, EL, FR, IE, LT, LU, LV, MT, NL, PL, PT, SE, SK and UK.
The age of children is calculated at the date of the interview, except for IE and FI where age is calculated at 31 December 2005. For CY, LV, PT and SK, no information was collected for children born between 31 December 2005 and the date of the interview.

Figure 4.4: Formal childcare capacity for all children aged 3 to compulsory school age in %, in 2006



Source: Eurostat, EU-SILC.
Notes: see above, Figure 4.3.

For both age groups, the EU is coming close to the target, but considerable differences can be observed across Member States. Most of the former communist Member States have very low levels of childcare provision, both for the youngest and older children. The country ranking differs between the two age groups. Denmark performs best with regard to childcare for children under the age of three. For the age group 3-6, a group of eight countries exceeds or reaches the Barcelona target: Belgium followed by Denmark, France, Germany, Ireland, Sweden, Spain and Italy. The figures do not take account of the hours of childcare offered[*].

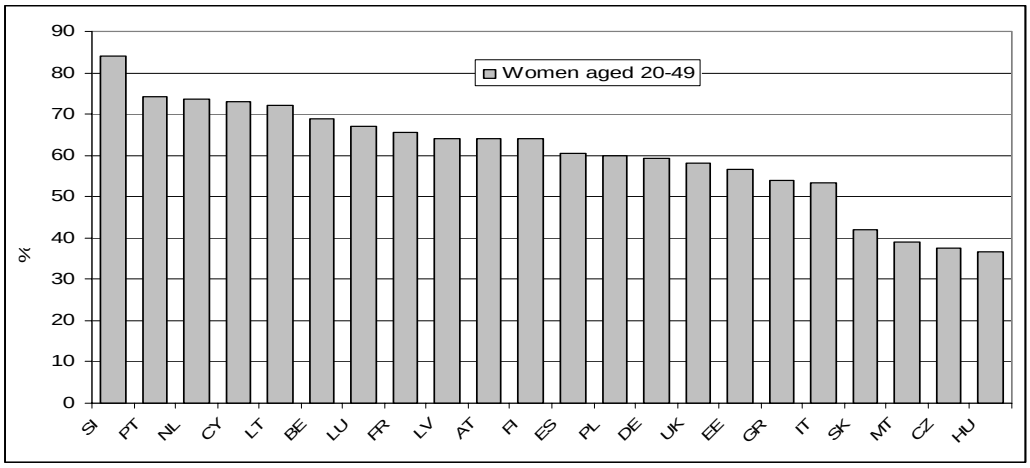
When formal childcare is only available for a limited number of hours, other arrangements are necessary for the rest of the day, unless that one parent is working part time. Some informal childcare arrangements, such as the *assistantes maternelles* are also not included in these figures which, therefore, only provide an incomplete picture of the situation.

The Commission believes that the development of childcare services is crucial for promoting the labour force participation of women. Figures 4.5 and 4.6 present the employment rates of women and men who are caring for at least one child below the age of six. Whereas close to 90% of men with at least one young child are in employment, the corresponding employment rate for women is less than 60%; in addition, a large proportion of women are working part-time (see Figure 4.7).

This clearly shows that it is still mainly women who adjust their employment situation to suit the needs of their families. The 'male breadwinner' model seems to be particularly resilient in countries like Malta, the Czech Republic, Hungary and Slovakia, where women with young children have employment rates below 40%. Differences across countries are also much greater as far as the employment of mothers of young children is concerned than in the case of fathers. The disparity between the country with the highest employment rate for women with young children and the country with the lowest rate is close to 50 percentage points, compared to around 20 for men.

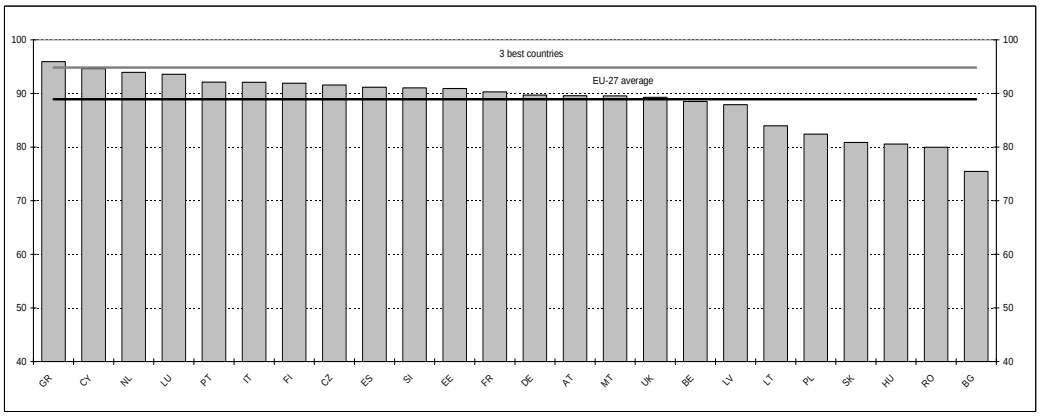
[*] See the Commission Working Document "Mise en œuvre des objectifs de Barcelone concernant les structures d'accueil pour les enfants en âge préscolaire" SEC(2008)2524.

Figure 4.5: Employment rate of women having at least one child below 6, in 2007, in %



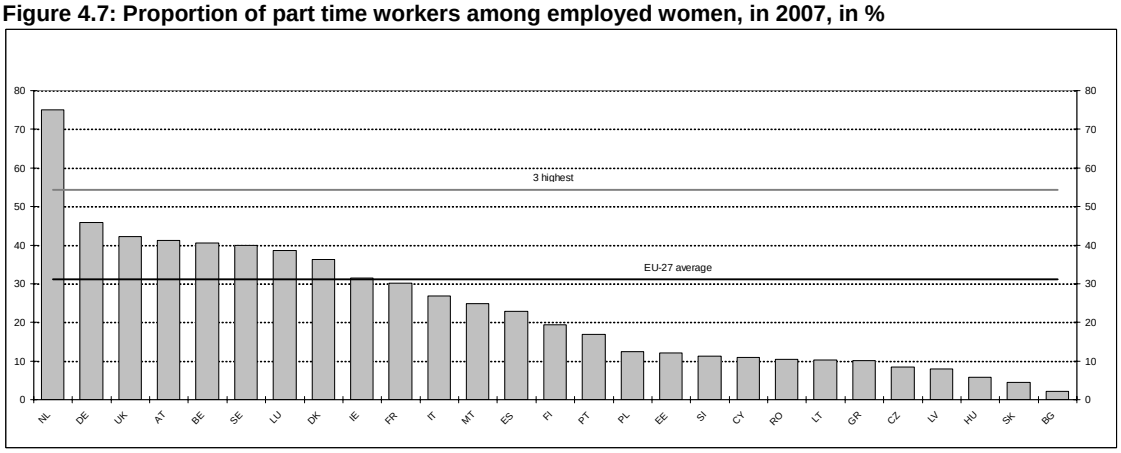
Source: Eurostat, Labour Force Survey.
Note: Data for DK, IE and SW are not available.

Figure 4.6: Employment rate of men having at least one child below 6, in 2006, in %



Source: Eurostat, Labour Force Survey.
Note: Data for DK, IE and SW are not available

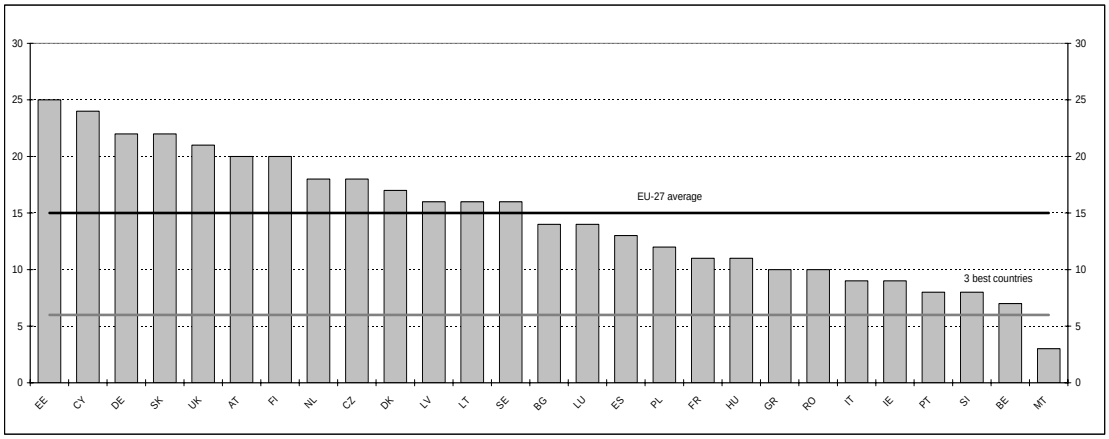
Figure 4.7: Proportion of part time workers among employed women, in 2007, in %



Source: Eurostat, Labour Force Survey.
Note: Data for IE are from 2004.

The fact that women tend to adapt their labour market involvement to the needs of their families is also likely to be a key factor in the large pay gap between women and men (see Figure 4.8). The gender pay gap is the difference between average gross hourly earnings of male and of female paid employees as a percentage of average gross hourly earnings of male paid employees. The population considered consists of all paid employees aged 16-64 who work at least 15 hours per week. Across the EU, women earn around 15% less than men. The pay gap is 20% or higher in Estonia, Cyprus, Germany, Slovakia, the UK, Austria and Finland. Eight countries have a pay gap of 10% or less, and the small numbers of women in employment in Malta enjoy the highest level of pay in relation to men.

Figure 4.8: The Gender Pay Gap in %, in 2006



Source: Eurostat, EU SILC and national sources.
Note: Data for DK, DE, EE, IT, LT, NL, PT and UK are from 2005.

The data presented above suggest that there is considerable room for improvement in many Member States and in different areas of family policy and gender equality (see also Chapter 2 on the policy implications of changing family structures). Choosing the right policy mix is crucial in responding to the challenge of very low birth rates, and the data presented here can provide only a few indications. More in-depth analysis is being carried out in the framework of the European Alliance for Families.

4.2. More employment

The main indicator used to describe the ageing of a society is the old-age dependency ratio, which divides the number of people aged 65+ by the working age population (aged 15-64). In 2008, the ratio stood at 1 older person for 4 people of working age. It is expected to rise to 1 for 2 over the next 40 years. However, the ability of a society to cope with an ageing population does not simply depend on the ratio between these two age groups. The key question is how many inactive people, and people with expensive health and long-term care needs, have to be supported by the active population.

The active population is in fact much smaller than the age group 15-64. A very large proportion of young people under the age of 25 are still in education or training, while most people retire well before they reach the age of 65. Among those in between, aged 25-59, many are not in employment: a significant proportion of women, for family reasons, and a large proportion of women and men with a low level of educational attainment. This leaves considerable scope for increased employment in most Member States and, consequently, an opportunity for achieving a much more favourable balance between the population in employment and retired older people. Indeed, the 2006 Demography Report[*] estimated that raising the EU employment rate to the level of the three best-performing Member States could compensate for about two-thirds of the decline in employment expected as a result of the shrinking of the

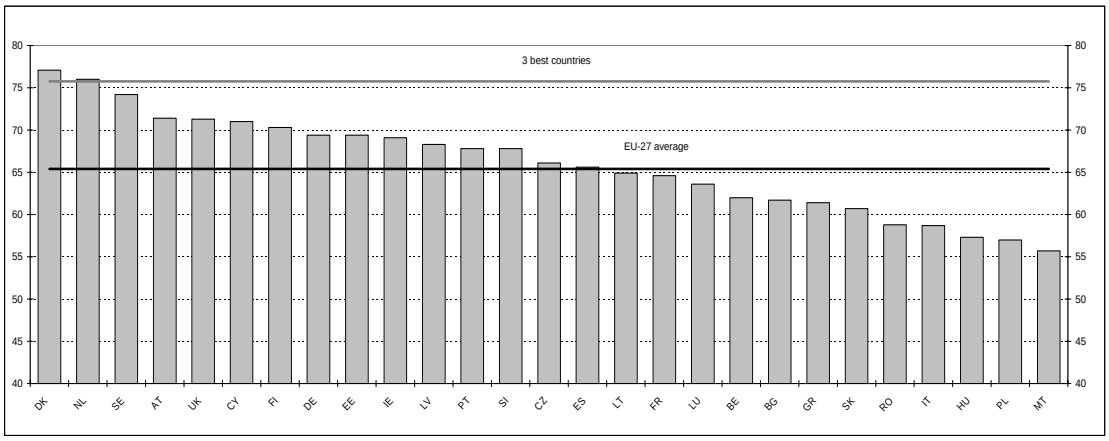
[*] European Commission, Directorate-General for Employment, Social Affairs and Equal Opportunities: *Europe's Demographic Future: Facts and Figures on challenges and opportunities.* SEC(2007)638

working-age population. This illustrates the importance of raising employment levels in the EU. It is arguably the most effective strategy with which countries can prepare for population ageing.

Achieving higher levels of employment is also at the core of the Lisbon Strategy, which set ambitious goals in this regard, namely to raise the total employment rate to 70% by 2010. By 2007, 7 Member States had reached this goal (see Figure 4.9): Denmark, the Netherlands, Sweden, Austria, the UK, Cyprus and Finland. Germany, Estonia and Ireland were very close to the target figure. The three best performing countries demonstrate that an employment rate of 75% is possible.

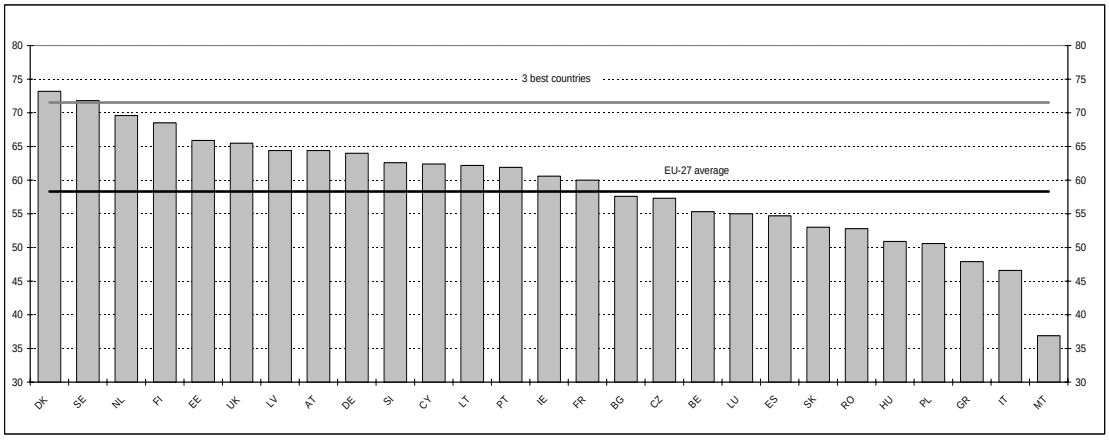
The EU average is still below the 70% target, at 65.4%, which represents a growth of almost 5 percentage points compared to the level of 60.7% in 1997, but significant differences exist across countries. The Northern and Western European countries all have rates above the EU average, whereas the Mediterranean (Malta, Italy, and Greece) and Central and East European countries (Poland, Hungary, Romania, Slovakia) tend to have the lowest employment rates.

Figure 4.9: Total employment rate of persons aged 15-64 in %, in 2007



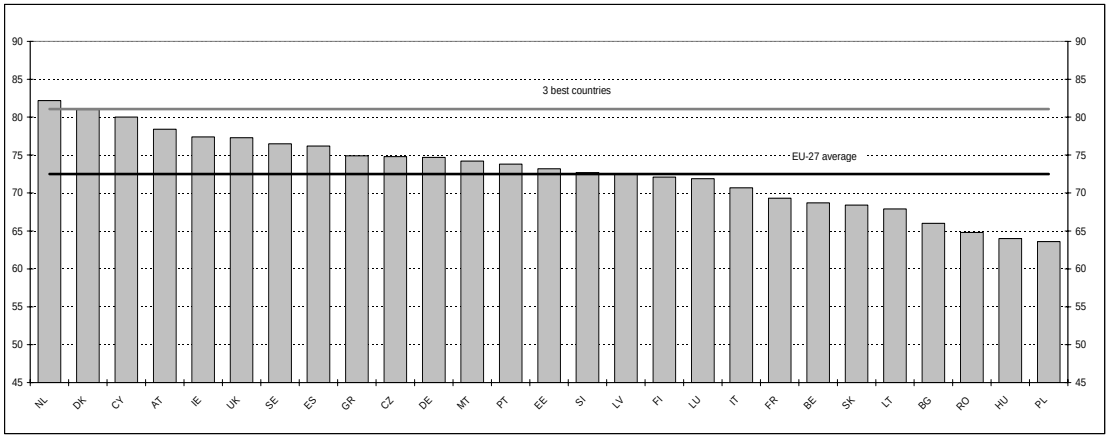
Source: Eurostat, Labour Force Survey.

Figure 4.10: Employment rate of women aged 15-64 in %, in 2007



Source: Eurostat, Labour Force Survey.

Figure 4.11: Employment rate of men aged 15-64 in %, in 2007



Source: Eurostat, Labour Force Survey.

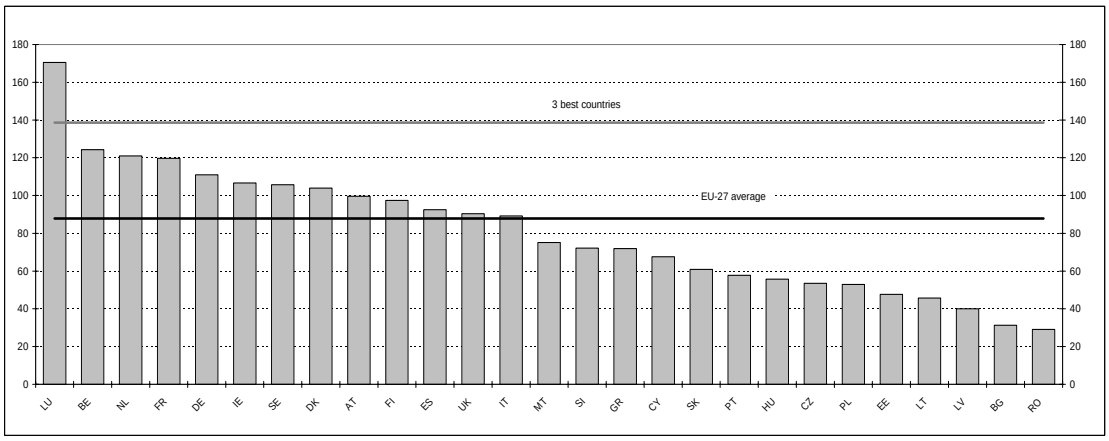
Differences in total employment rates reflect to a large extent differences in employment rates of women (see Figure 4.10). The Lisbon Strategy also sets a target of a 60% employment rate for women, a level that, in 2007, had almost been reached by the EU as a whole and by 15 Member States. The countries that have yet to reach this target are from Southern, Central and Eastern Europe, apart from Belgium and Luxembourg. The best-performing countries achieve a female employment rate of just over 70%, around 10 percentage points below the average of the three highest employment rates for men.

Eight Member States had male employment rates below 70%: France, Belgium and six new Member States (see Figure 4.11). Achieving the Lisbon employment target also requires determined efforts to raise the labour force participation of men, notably by helping older workers stay on the labour market (see Chapter 3).

4.3. Higher productivity

It is not only the number of jobs that determines a country's prosperity, but also the quality of jobs, for which labour productivity can be used as a proxy. Large differences are found in productivity levels across the EU. Figure 4.12 shows that the highest hourly productivity levels expressed in Purchasing Power Standards are in the Benelux countries and France, at around 120% of the EU-15 average. The best performing countries produce around four times as much output per hour worked as the poor performers, Bulgaria and Romania. All the Member States that joined the EU in 2004 are significantly below the EU average of around 90. If productivity is measured in Euros, the differences are even larger.

Figure 4.12: Labour productivity in GDP per hour worked in PPS, EU-15=100, in 2006

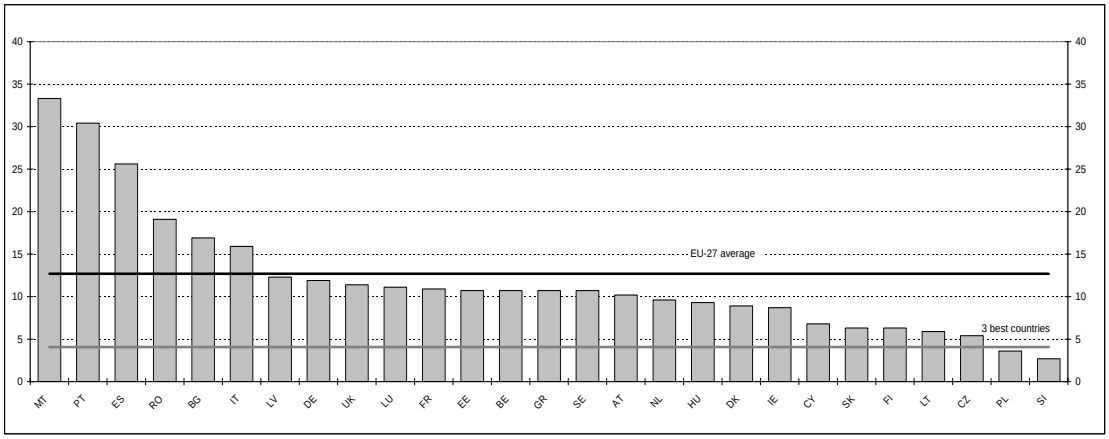


Source: Eurostat - National Accounts. Data for RO are from 2005.

The productivity level achieved in a country reflects the level of technology and past investments in physical and human capital (including the health of workers). Investment in human capital, notably through education and training, plays a crucial role in this process. This section focuses on investment in human capital and looks at differences in educational attainment of the working-age population across Member States. The need to increase investment in human capital through better education and skills is fully recognised in the Employment Guidelines 2008-2010. The EU has set itself ambitious quantitative targets in this area which are to be reached by 2010: not more than 10 % of young people should leave schools early (i.e. without achieving secondary school qualifications) and 85 % of the 22-year-olds should have completed upper secondary education. Moreover, the average level of participation in lifelong learning should reach at least 12.5 % of the population aged 25-64[*].

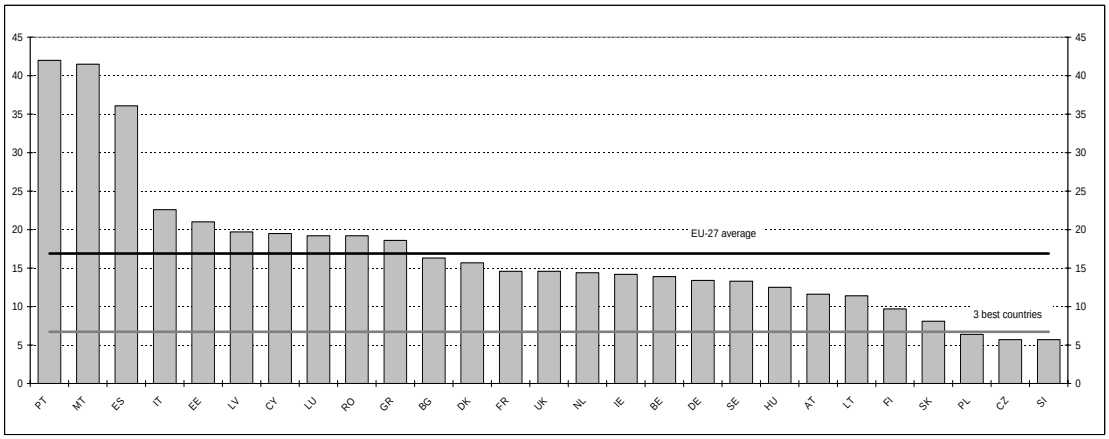
Figures 4.13 and 4.14 present the proportion of early school leavers for both sexes in 2007, defined as young people aged 18-24 with at most secondary education qualifications and not in further education or training. The EU-27 average for women was at 13% and for men 17% in 2007. The European Benchmark for early-school-leaving was set at no more than 10%. The gap between the EU-27 average and the three best performers for both genders amounts to about 10 percentage points. The largest proportions of early school leavers are found in Portugal, Spain and Malta with rates above 25% and 35% for women and men respectively.

Figure 4.13: Early school-leavers, % of the women aged 18-24, with at most lower secondary education and not in further education or training, in 2007



Source: Eurostat, Labour Force Survey. Figures for CZ, SE, UK are from 2006, figures for EE are from 2005. Figures for LT, LU, SL should be regarded as unreliable.

Figure 4.14: Early school-leavers, % of men aged 18-24, with at most lower secondary education and not in further education or training, in 2007

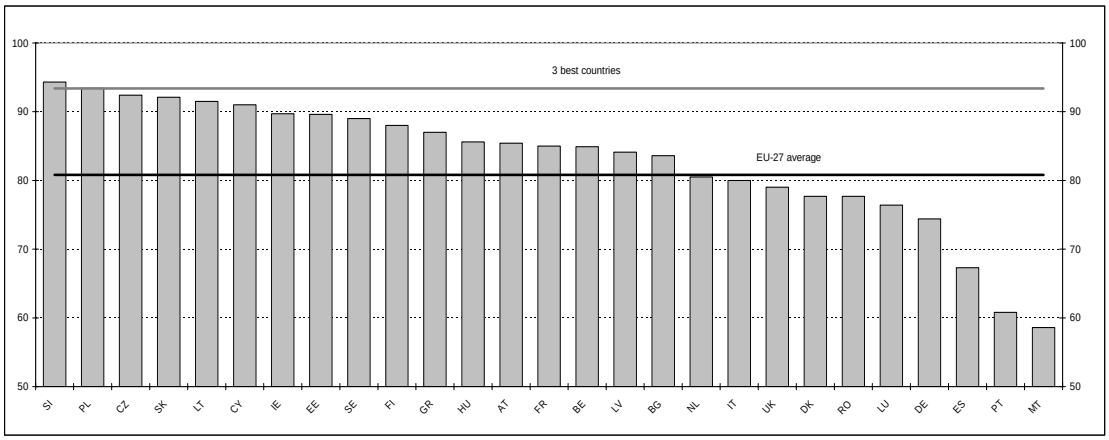


Source: Eurostat, Labour Force Survey.

[*] For a more detailed analysis see "Future skill needs in Europe: Focus on 2020", European Centre for Development and Training (CEDEFOP), 2008, http://www.cedefop.europa.eu/index.asp?section=3&read=3650

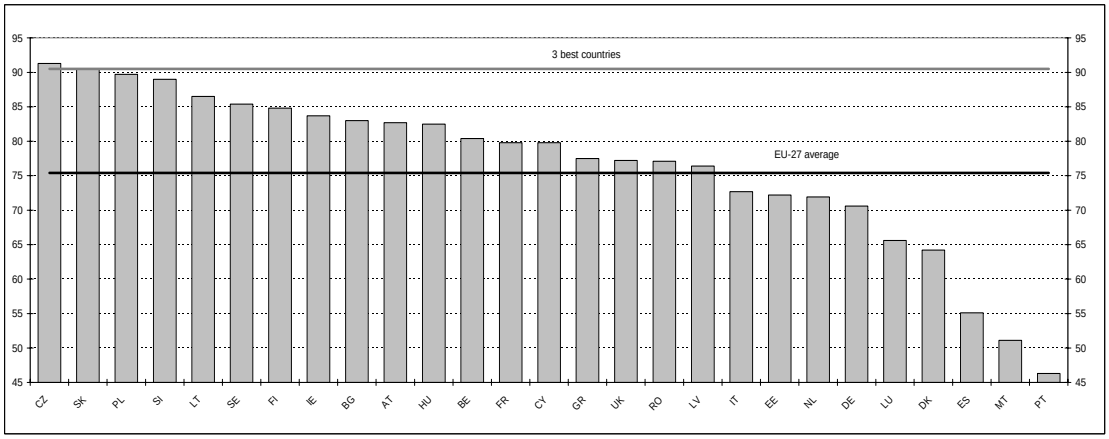
The same three best performing countries, followed by Germany, are also distinguished by a small proportion of young people who have completed at least upper secondary education (see Figures 4.15 and 4.16). The adopted European Benchmark says that at least 85% of young people should have completed upper secondary education. The best performing countries, with regard to both early school leaving and completion of at least upper secondary education, are the Central and East European Member States: Slovenia, the Czech Republic, Poland, Slovakia and Lithuania; Finland also displays a low rate for early school leaving.

Figure 4.15: Education attainment level: % of women aged 20-24 having completed at least upper secondary education, in 2007



Source: Eurostat, Labour Force Survey.

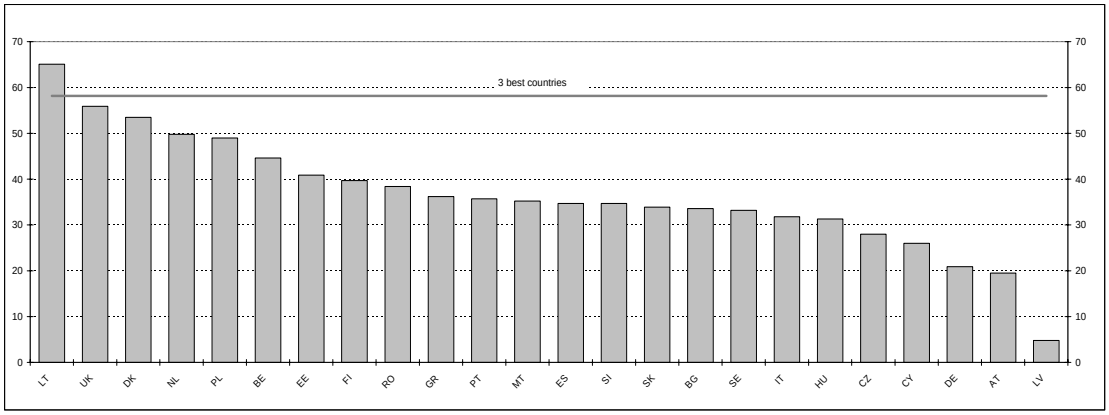
Figure 4.16: Education attainment level: % of men aged 20-24 having completed at least upper secondary education, in 2007



Source: Eurostat, Labour Force Survey.

Tertiary education is becoming increasingly important for competitive, knowledge-based economies. The number of university graduates in 2006 per 1000 people aged 20-29 is presented in Figure 4.17. Lithuania leads the ranking, followed by the UK, Denmark, the Netherlands and Poland. Germany, Austria and Latvia are found at the lower end of the scale.

Figure 4.17: University graduates aged 20-29 per 1000 persons of the corresponding age cohort –both sexes, in 2006

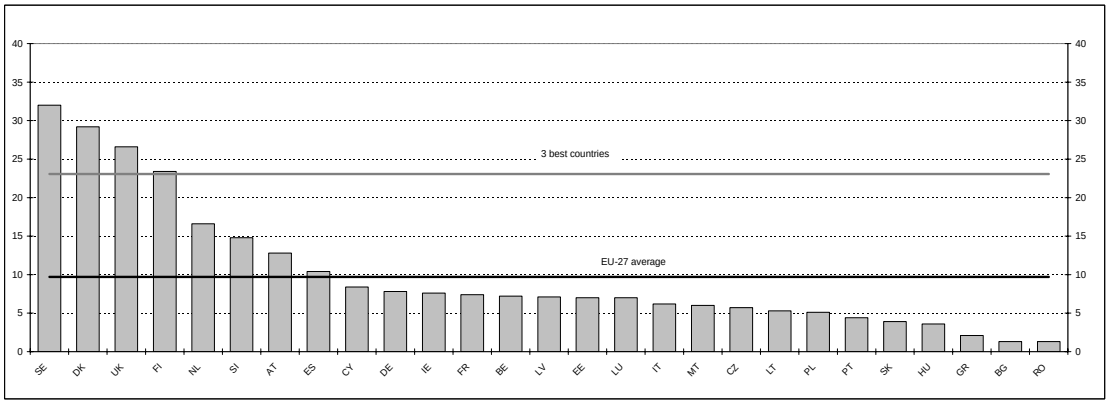


Source: Eurostat - joint UIS/OECD/Eurostat (UOE) data collection on education statistics using ISCED 5-6. Data for IE, FR and LX are not available.

A high level of education not only enables workers to be more productive, it also increases their likelihood of being in employment. About 84% of people with tertiary education were employed in 2007, 70% of people with no more than upper secondary education and only 49% with only primary education.

The chances of finding, and remaining in, high-quality employment not only depend on the level attained during initial education, but also on keeping knowledge and skills up to date throughout working life. Participation in life-long learning is, however, still relatively rare in most Member States. Figure 4.18 shows that about 1 in 10 workers had taken part in some form of education or training over the four weeks prior to being surveyed, while the European Benchmark states that it should be 1 in 8. The level was up to three times as high in the best performing countries, whereas in the worst performing countries, workers hardly received any education or training at all.

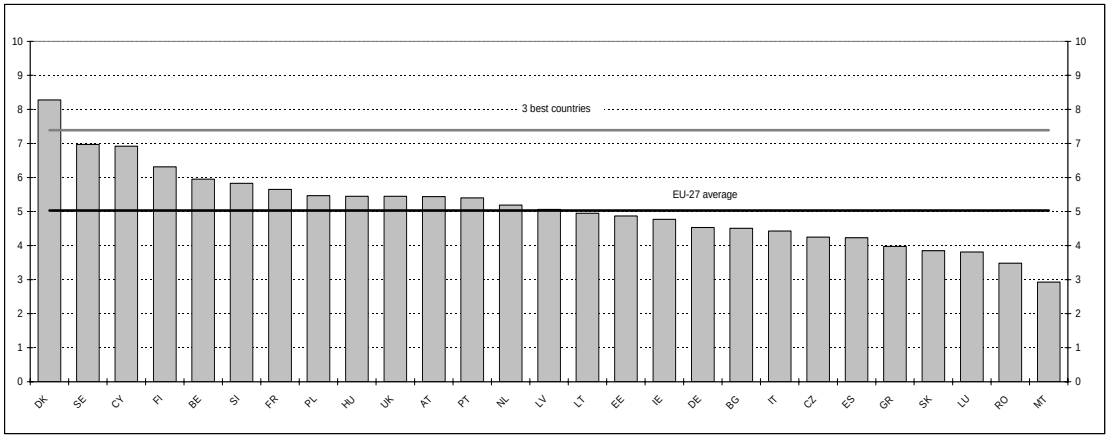
Figure 4.18: Life-long learning, % population aged 25-64 participating in education and training over the four weeks prior to the survey, both genders, in 2007



Source: Eurostat, Labour Force Survey. Data for Sweden and the United Kingdom are for 2006.

Public spending on education also differs widely across the Member States, with Denmark spending more than 8% of its GDP in 2005 and Sweden and Cyprus around 7% (see Figure 4.19). At the other end of the spectrum, Malta spends under 3% and Romania about 3.5%. Luxembourg also devotes a relatively low percentage of GDP to education, but this is a reflection of the high level of GDP per capita. No clear link appears between the proportion of GDP used for public spending on education and the outcome indicators (early school leavers, proportion of graduates) presented above. Thus, the quality of educational provision may be a more important factor than the amount spent.

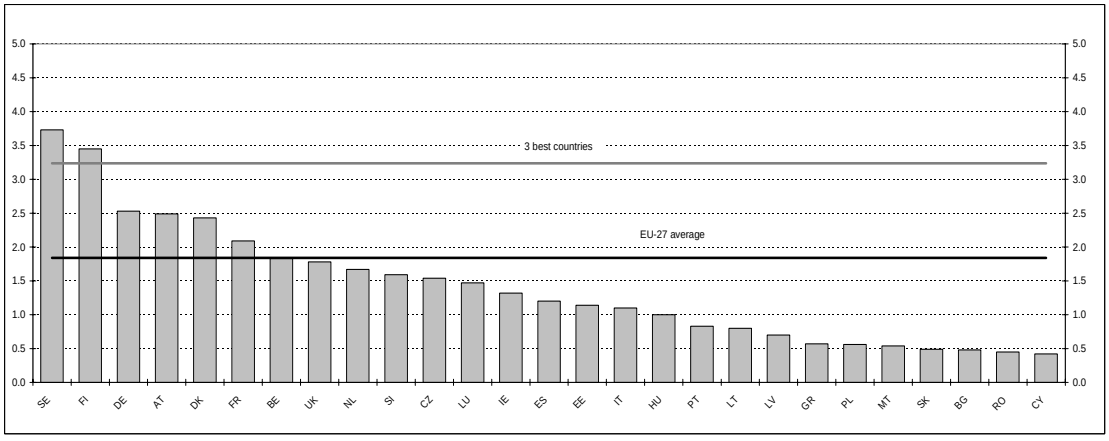
Figure 4.19: Public spending on education as % of GDP, in 2005



Source: Eurostat - joint UIS/OECD/Eurostat (UOE) data collection on education statistics.

Productivity growth is not only driven by increasing and improving fixed capital and human resources, but also by innovation. A combination of highly educated people and spending on research and development are prerequisites for adopting know-how developed elsewhere and for extending the technology frontier. Figure 4.20 presents expenditure on research and development in 2006 as a percentage of GDP. Sweden and Finland stand out with spending levels around 3.5% of GDP. They are followed by Germany, Austria and Denmark, but spending in these countries is about 1% of GDP lower than in the best performing countries. The EU's least developed countries also have the lowest levels of R&D spending at around one quarter of the EU average of 1.84% of GDP. This average is well below the target set for 2010 of 3% of GDP. Moreover, the level of R&D spending has not risen since the beginning of the decade.

Figure 4.20: Expenditure on R&D as% of GDP, in 2006



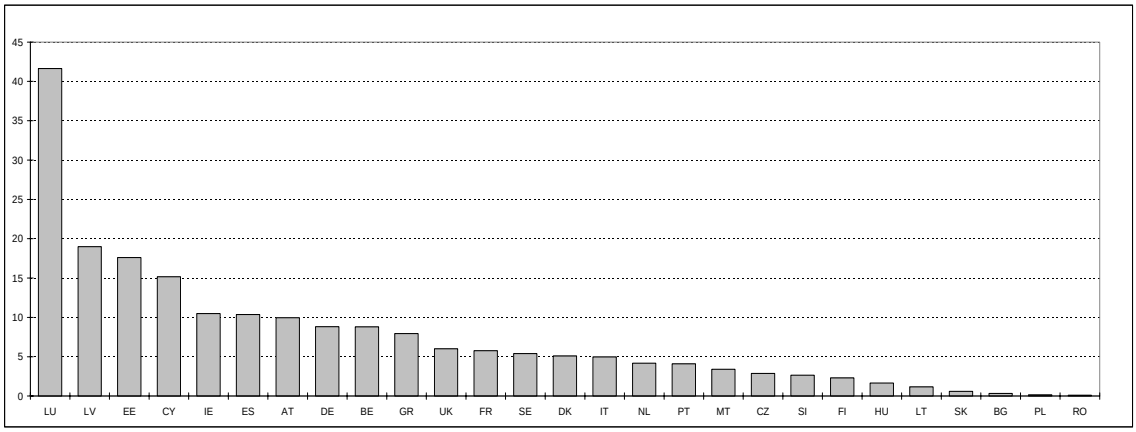
Source: Eurostat, Working Group on Statistics on Science, Technology and Innovation.
Note: Data for IT are for 2005.

4.4. Receiving and integrating migrants

The EU has been receiving an unprecedented number of migrants over recent years (see Chapter 1). In addition, many of the migrants who arrived over the past few decades have settled and raised their families in Europe. In many Member States, a significant proportion of children and young people have immigrant parents, and may have difficulty in integrating even if they are citizens of an EU Member State.

Figure 4.21 presents the proportion of non-nationals in each Member State. This only partly represents the scale of immigration since many immigrants may have received the citizenship of their host country. Apart from Latvia, Estonia and Cyprus, the countries with the highest proportion of non-nationals are EU-15 Member States, many of them counting between 5% and 10% of non-nationals among their populations. In the EU-12 Member States, the proportion of non-nationals tends to be significantly lower, with the exception of Latvia and Estonia, where so-called "recognised aliens", who have no citizenship of any existing country, Russian citizens, and citizens of other countries that became independent after the break-up of the Sovjet Union account for most of the non-nationals, and Cyprus where nearly 6 non-nationals out of 10 come from another EU Member State.

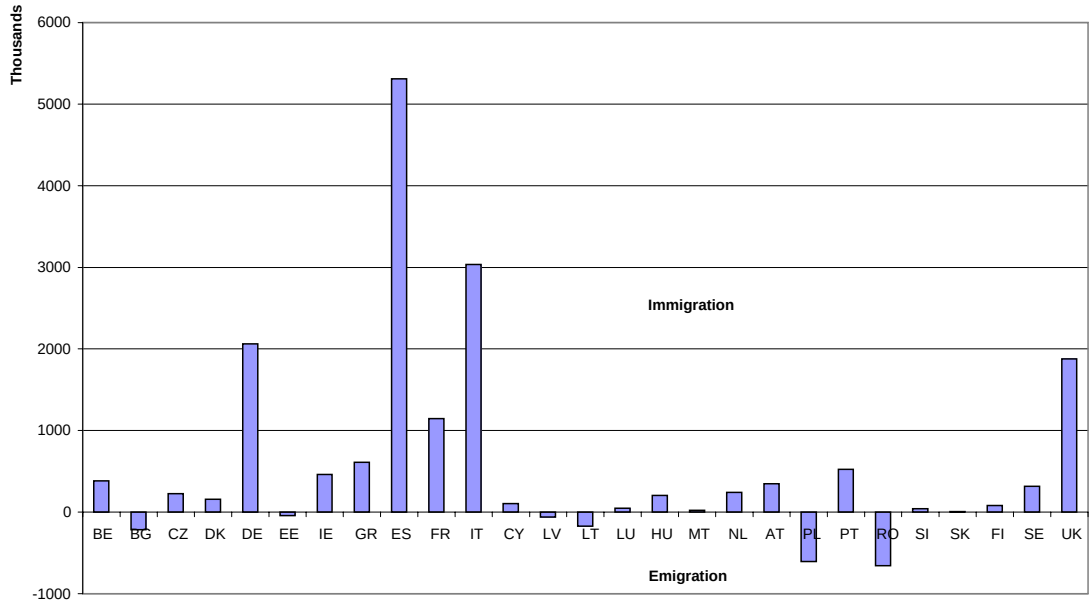
Figure 4.21: Proportion of non-nationals in the EU-27 population, in %, in 2007



Source: Eurostat demographic data.

It is estimated that, over the past 13 years (1995-2007), the population of EU-27 increased by nearly 15.5 million people due to immigration, 4.5 million during the first 7 years and 11 million during the last 6 years of this period. The countries that attracted the largest numbers of migrants were Spain, Italy, Germany and the UK (see Figure 4.22). Six Member States lost population (Bulgaria, the three Baltic countries, Poland and Romania). Luxembourg stands out as the Member State with the largest percentage of foreigners.

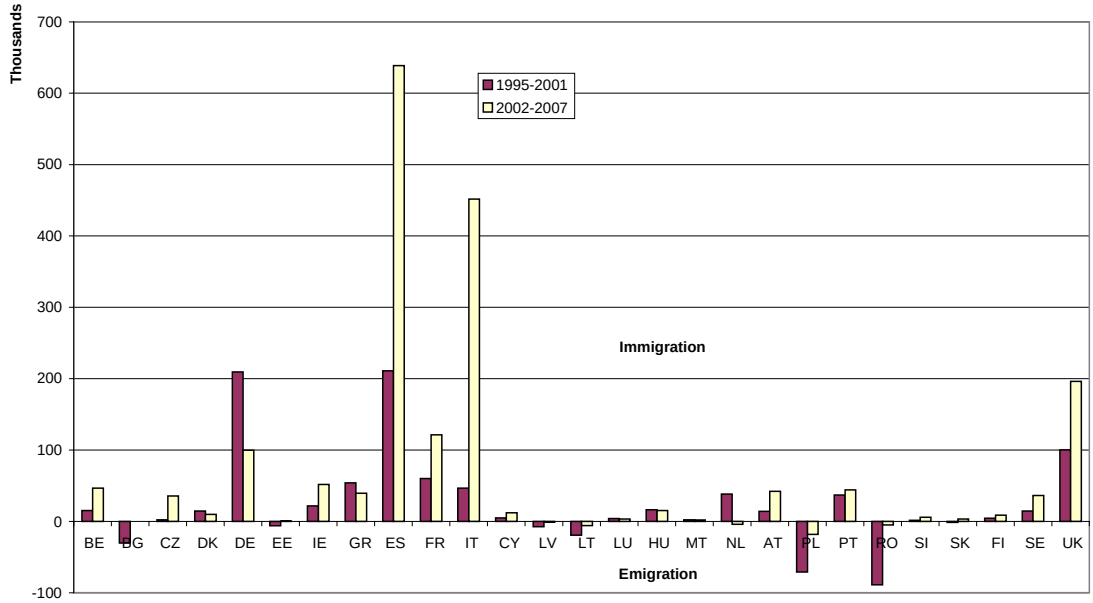
Figure 4.22: Cumulated net migration (including corrections), 1995-2007



Source: Eurostat demographic data.

Apart from the steep increase in the immigration flow, there has also been a marked change in the main destinations countries of these flows. In particular, migration to Germany more than halved, while migration to Spain and Italy increased considerably as they have become the main receiving countries (see Figure 4.23).

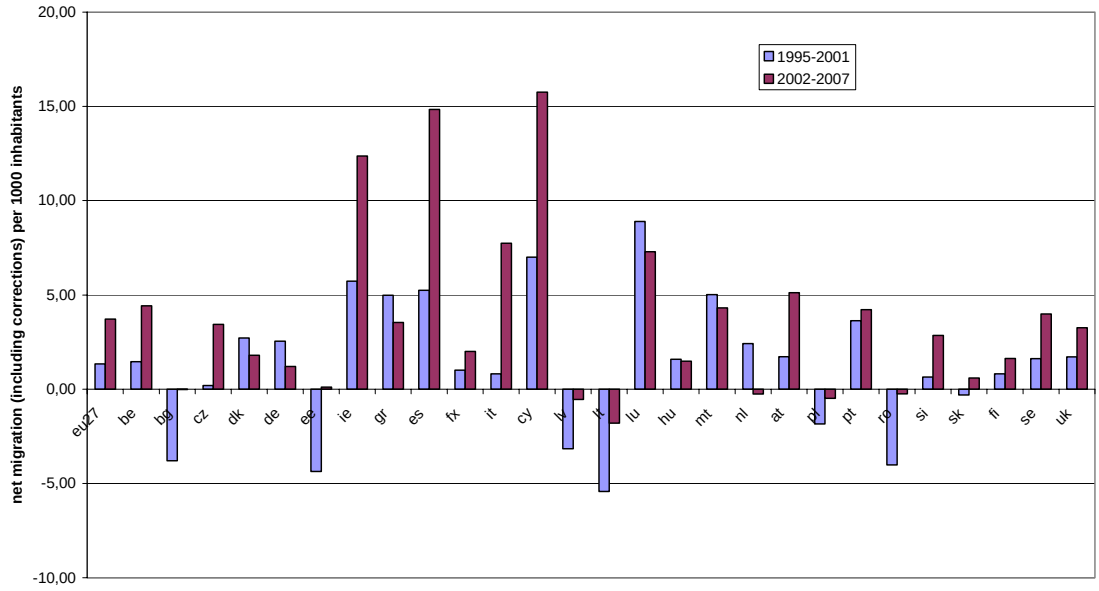
Figure 4.23: Net migration flows (including corrections), annual averages 1995-2001 and 2002-2007



Source: Eurostat demographic data.

In relation to other receiving countries, Spain remains one of the countries that has absorbed the largest immigration flows, although it has now been overtaken by Cyprus, and Italy has been overtaken by Ireland. Crude rates of net migration also show more clearly the extent of emigration from some of the new Member States. These population losses have become much smaller since 2002 than during the preceding period (see Figure 4.24).

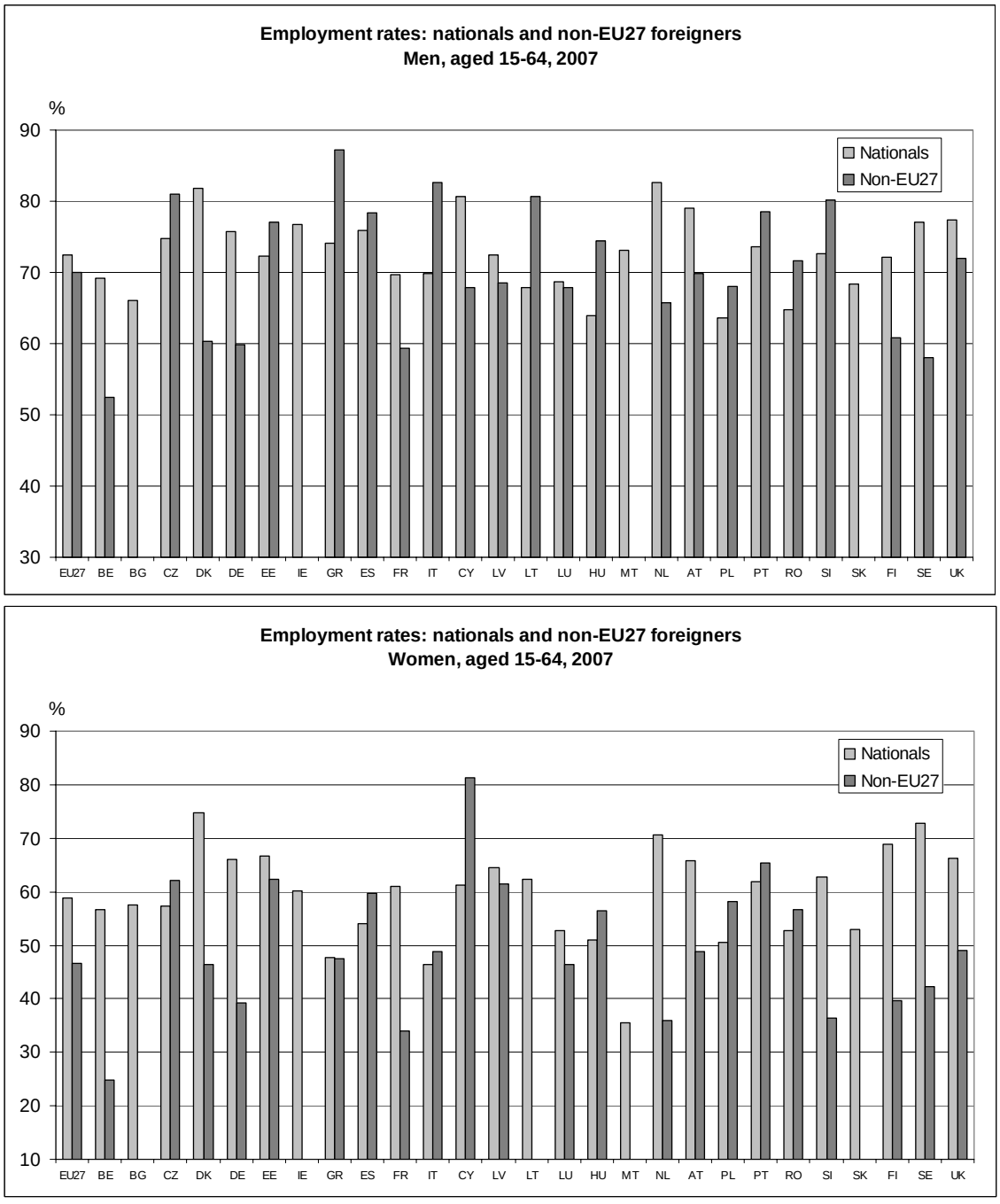
Figure 4.24: Crude rates of net migration (including corrections), annual averages 1995-2001 and 2002-2007



Source: Eurostat demographic data.

Attracting third country nationals is one way of preventing labour force shortages in a context of a declining working-age population. How successful such a strategy is depends, however, on the ability to integrate migrants into the labour market and allowing them to develop their full productive potential. Employment rates tend to be lower for men who are not nationals of an EU-27 Member State than for nationals of the country in which they live (see Figure 4.25). However, the situation differs considerably from one country to another. In the Czech Republic, Estonia, Greece, Spain, Italy, Lithuania, Hungary, Poland, Portugal, Romania, and Slovenia, third-country nationals are more likely to be in employment than nationals. Third-country women are also less likely to be in employment than native women, and the gaps between third-country nationals and nationals are often even more pronounced than for men.

Figure 4.25: Comparison of employment rates of nationals and third-country nationals

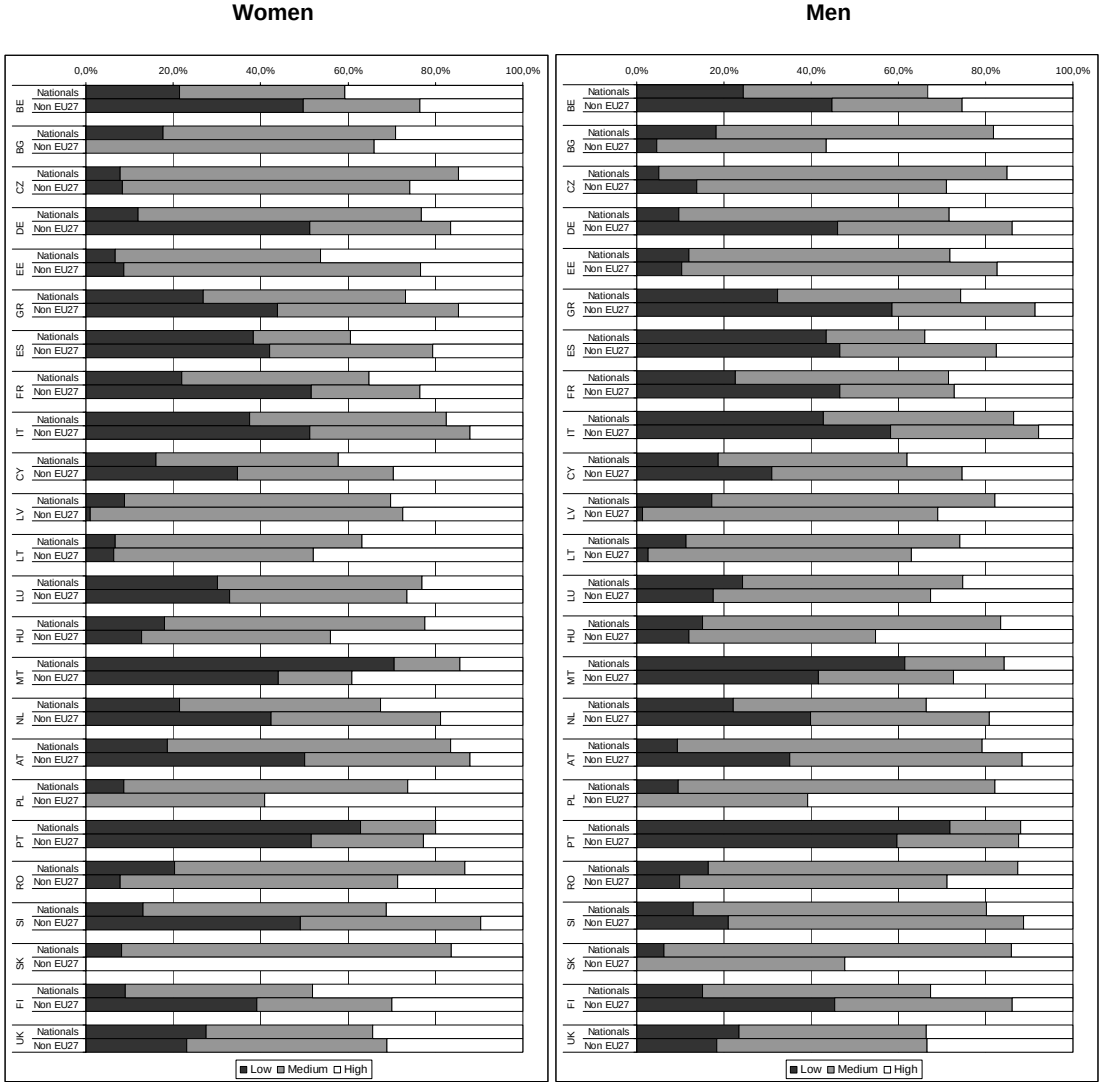


Source: Eurostat, Labour Force Survey.
Note: data are missing for third-country nationals in BG, IE, MT and SL.

A higher level of education facilitates integration into the labour market and society. It is therefore interesting to look at levels of educational attainment of immigrants compared to those of nationals, particularly for countries with relatively large proportions of non-nationals. Figure 4.26 shows that in several Member States with relatively large foreign populations, non-EU-27 nationals tend to have significantly lower levels of educational attainment than nationals. In Belgium, Germany, Greece, France and Italy, around half of these non-nationals have only received a low level of education. However, in

Spain and the UK, two countries that have been receiving large numbers of immigrants over recent years, the difference between nationals and third-country nationals is small.*

Figure 4.26: Comparison of educational attainment levels*, nationals vs. third-country nationals



Source: Eurostat, Labour Force Survey 2007.
***Low** corresponds to ISCED 1,2,3c short, **medium** to ISCED 3a, 3b, 3c long , 4 and **high** to ISCED 5 and 6.

A key issue with regard to the integration of migrants is to ensure that their children are offered equal opportunities to develop their full potential. This remains a major challenge, as was shown in the 2007 Social Situation Report, which highlighted the fact that much larger proportions of children of migrant families grow up in poverty than do children of nationals†. Moreover, the OECD's Programme for International Student Assessment (PISA) also highlights the difficulties children from a migration background are facing in EU education systems.

* See also the research presented in the forthcoming 2008 Employment in Europe Report and in the impact assessment accompanying the proposal for a council directive on the conditions of entry and residence of third country nationals for the purpose of highly qualified employment (SEC(2007)1403 of 23.10.2007).

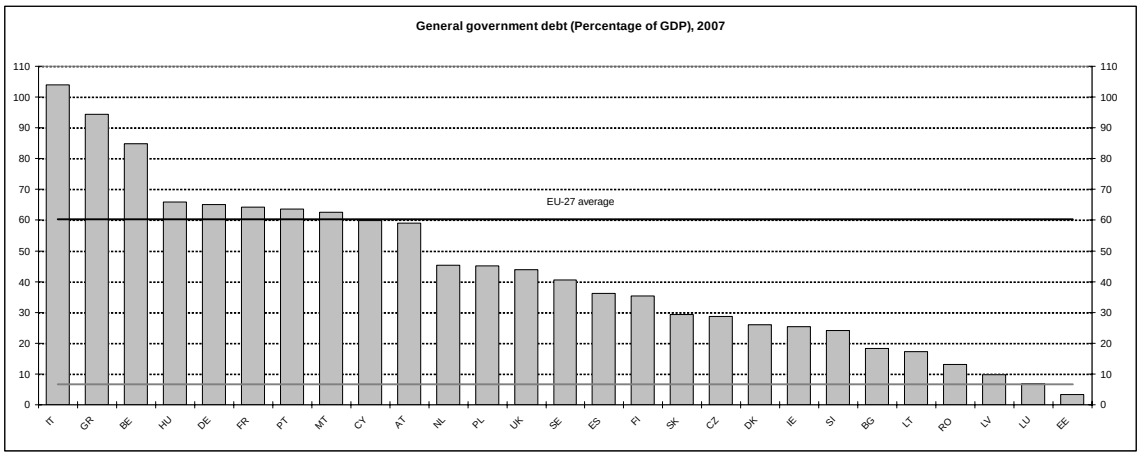
† European Commission, Directorate-General for Employment, Social Affairs and Equal Opportunities: *The Social Situation in the European Union 2007 - Social Cohesion through Equal Opportunities.*

4.5. Sound public finances

The increase in the number of older people over the coming decades will create additional public expenditure demands for pensions, health and long-term care. Reforms of social protection systems, making them more efficient and encouraging older workers to stay longer on the labour market, can curb the increase in expenditure to some extent. Governments can, however, also prepare for the needs of an ageing society by reducing their public debt and hence the amount of tax revenue they need to allocate for interest payments.

In 2007, government debt amounted to 60% of annual GDP in EU-27, the lowest level for the past 12 years. Three countries were distinguished by more than 80, 90 and 100% debt to GDP ratios respectively: Belgium, Greece and Italy. Most of the new Member States had low debt burdens, 7 of them below 30% of their annual GDP (see Figure 4.27).

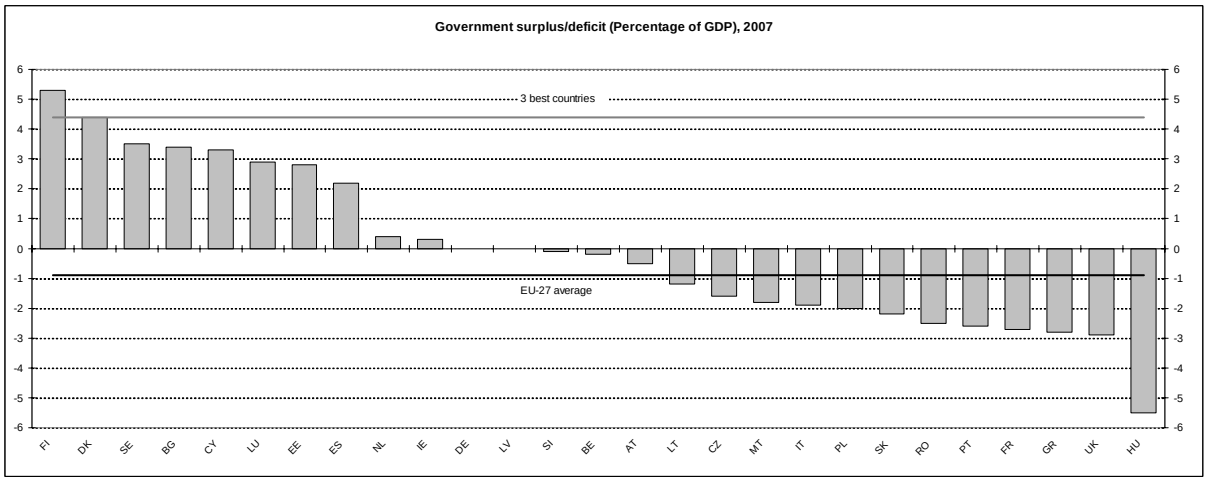
Figure 4.27: General government debt (% of GDP), 2007



Source: Eurostat.

The total amount of government debt is determined by annual budget deficits, which increase the debt ratio, and the rate of growth of nominal GDP, which decreases it. In 2007, the sum of budget deficits for EU Member States represented 1% of EU-27 GDP, down from 3% 5 years earlier. The situation varied, however, considerably across Member States and deficits ranged from a budget surplus of over 5% of GDP in Finland to a deficit of the same size in Hungary (see Figure 4.28).

Figure 4.28: Government surplus/deficit (Percentage of GDP), 2007



Source: Eurostat.