
GOVERNMENT DEBT OF SELECTED EUROPEAN COUNTRIES

Wioletta Świeboda

University of Economics in Katowice, Poland, swieboda.w@onet.eu

Abstract The purpose of this paper is to present the main data about general government debt. It is a challenge to analyze selected group of countries because they are very heterogeneous. For instance Belgium is a well-developed “old-EU” country while Spain is one of the southern European countries with specific issues like unemployment and a huge national debt. Poland, on the contrary, had a centrally planned economy, went through the transition to market economy and only subsequently became an EU member. The key point of this research is to explain how they evolved in the years after the crisis. This paper includes an analysis of the evolution of the public budget of each government.

It was fundamental to implement urgent measures and policies, in order to recover the economy of these countries and return to sustainable growth after the 2008 Financial Crisis. A brief overview of these countries’ pensions systems is included, as it has a major share in their government spending and fiscal stability. It is one of the most concerning fiscal issues nowadays that is constantly being in question and probably modified in the short-term. As of 2008, the first symptoms of the international financial crisis began to manifest themselves in the European countries. As a consequence, European countries like Spain or Belgium suffered a drop in their economic activity and an increase of the unemployment rate. In the case of Poland, the impact of the crisis was not as dramatic as in other countries, however they also needed to react to the financial deficit. Between the period of 2010 and 2017, the countries needed to make several reforms especially concerning the national Value Added Tax, and restructuring the provision of certain public services such as health funding, infrastructure, education and employment. General government debt-to-GDP ratio is the amount of a country's total gross government debt as a percentage of its GDP. It is an indicator of an economy's health and a key factor for the sustainability of government finance. "Debt" is commonly defined as a specific subset of liabilities identified according to the types of financial instruments included or excluded. The evolution of public debt and the government surplus/deficit among the years, helps to picture how was the country economy situation before the Financial Crisis and therefore helps to understand why the consequences are in some cases more extreme and dramatic than other.

Keywords: public sector, public debt, GDP.

As defined debt is a duty or obligation to pay money, deliver goods, or render service under an express or implied agreement. One who owes, is a debtor or debitor; one to whom it is owed, is a debtee, creditor, or lender.

Use of debt in an organization's financial structure creates financial leverage that can multiply yield on investment provided returns generated by debt exceed its cost. Because the interest paid on debt can be written off as an expense, debt is normally the cheapest type of long-term financing²⁰².

Debt is thus obtained as the sum of the following liability categories (as applicable): currency and deposits; securities other than shares, except financial derivatives; loans; insurance technical reserves; and other accounts payable. Changes in government debt over time reflect the impact of government deficits. This indicator is measured as a percentage of GDP. All OECD countries compile their data according to the 2008 System of National Accounts (SNA).²⁰³

²⁰² <http://www.businessdictionary.com/definition/debt.html>,

²⁰³ OECD Data <https://data.oecd.org/gga/general-government-debt.html>.

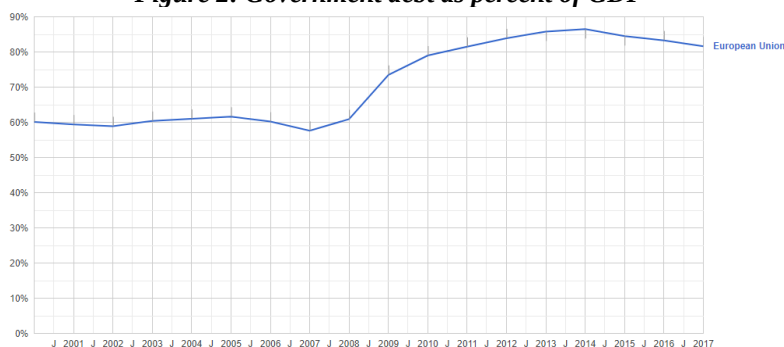
Figure 1: General government debt, Total, % of GDP, 2015



Source: OECD National Accounts Statistics: National Accounts at a Glance.

In Spain, between 2003 and 2007, there were little fiscal and taxation regulations controlling Foreign Funds, European banks, mainly German and French, increased their loans and the Spanish economy experienced important capital imports, an injection that allowed Spanish banks to offer many long-term loans at very low interest rates. Furthermore, in those years, securitization in Spain was more related to funding purposes rather than a mechanism to transfer risk. This was directly related to mortgage bonds, banks transformed this mortgage loans and sold in order to gain liquidity. With these sales, they were transferring the risk of those problematic bonds without warning the buyers. Before the crisis, the increase in construction activities, the so-called construction boom, influenced the public revenues¹. However, when the bubble collapsed this did not only lead to severe losses in the banking sector (financial crisis), but economic activity also decreased (economic crisis) and led to a sharp fall in government revenues. During the crisis, Spanish government debt increased, after investing huge amounts of public money in plans against the crisis. Furthermore, a big part of the public debt was absorbed by Spanish banks, which became even more dependent on the government solvency²⁰⁴.

Figure 2: Government debt as percent of GDP

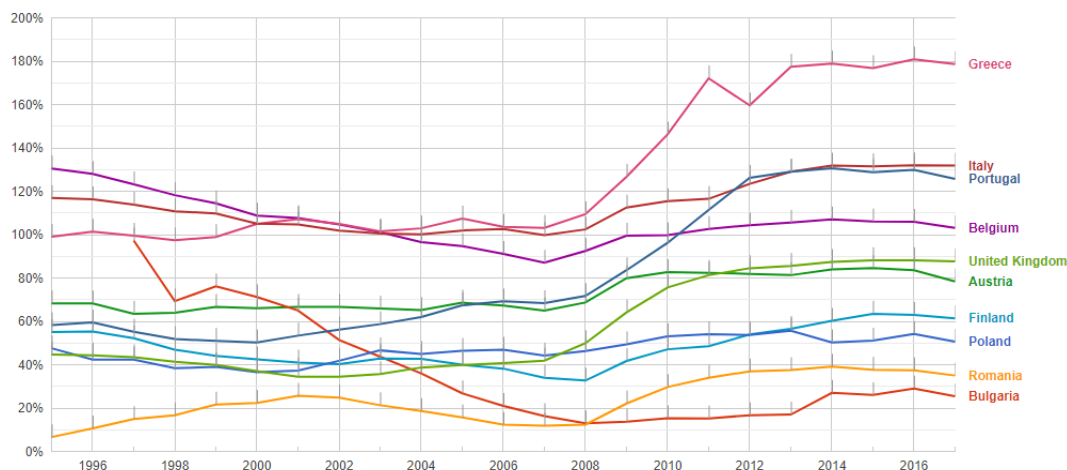


Source:

https://www.google.com/publicdata/explore?ds=ds22a34krhq5p_&ctype=l&strail=false&bcs=d&nselm=h&met_y=gd_pc_gdp&scale_y=lin&ind_y=false&rdim=country_group&idim=country_group:eu&ifdim=country_group&hl=en_US&dl=en_US&ind=false

²⁰⁴T. De Waele, W. Świeboda, M. Pérez Mancho IP Sustainable Financial Banking Programme Topic: Taxation and fiscal regulation, Prague 2018.

Figure 3: Government debt as percent of GDP of selected European countries



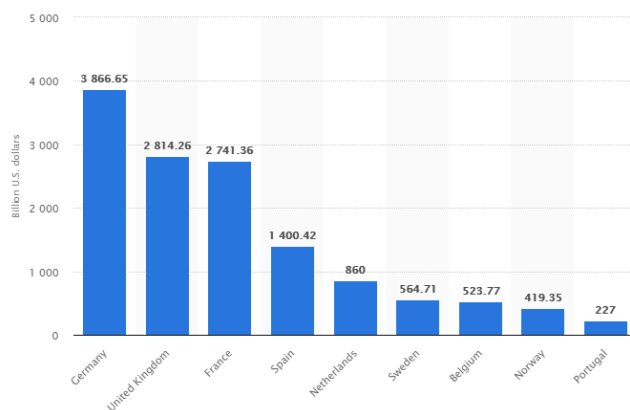
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This statistic shows the estimated gross domestic product (GDP) at current prices of selected European countries in 2019. In this year, it is expected that the GDP of Germany would be valued at approximately 3.87 trillion US dollars. The European Financial Stability Facility (EFSF), created in the summer of 2010 by the European Union, is a legal construction that tried to offer financial support to EU member states who got caught up in financial difficulties. It was a temporary rescue fund with its purpose to lend money to countries when investors did not inject money in it because of the higher risk. The EFSF assisted Ireland (2011), Portugal (2011) and Greece (2012) with use of EFSF bonds and other debt instruments.

In 2015 in Poland, public expenditures have significantly exceeded revenues for many years. This, in turn, led to higher public debt. At the same time, none of the parties in power has conducted a comprehensive reform of the public finance in the last 10 years. Meanwhile, the pre-election campaign is dominated by costly promises fiscal illusion instead of reforms necessary to lower the deficit and public debt²⁰⁵.

Figure 4: Gross domestic product (GDP) at current market prices of selected European countries in 2019* (in billion U.S. dollars)



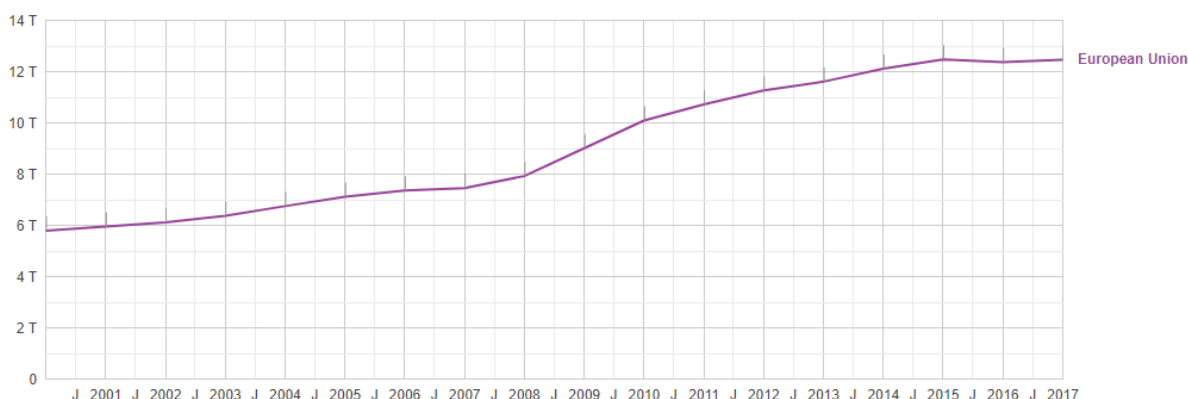
Region: Europe, Survey time period: October 2016, Supplementary notes: Estimated data.

²⁰⁵ International Taxpayer Leaders Forum Newsletter, N.37 - November 6, 2015.

Source: Statista – The statistics portal <https://www.statista.com/statistics/685925/gdp-of-european-countries>
Public debt is the total of all borrowing of a government, minus repayments denominated in a country's home currency. CIA's World Factbook lists only the percentages of GDP; the total debt and per capita amounts have been calculated in the table below using the GDP (PPP) and population figures of the same report.

A debt to GDP ratio is one of the most accepted ways of assessing the significance of a nation's debt. For example, one of the criteria of admission to the European Union's euro currency is that an applicant country's debt should not exceed 60% of that country's GDP²⁰⁶.

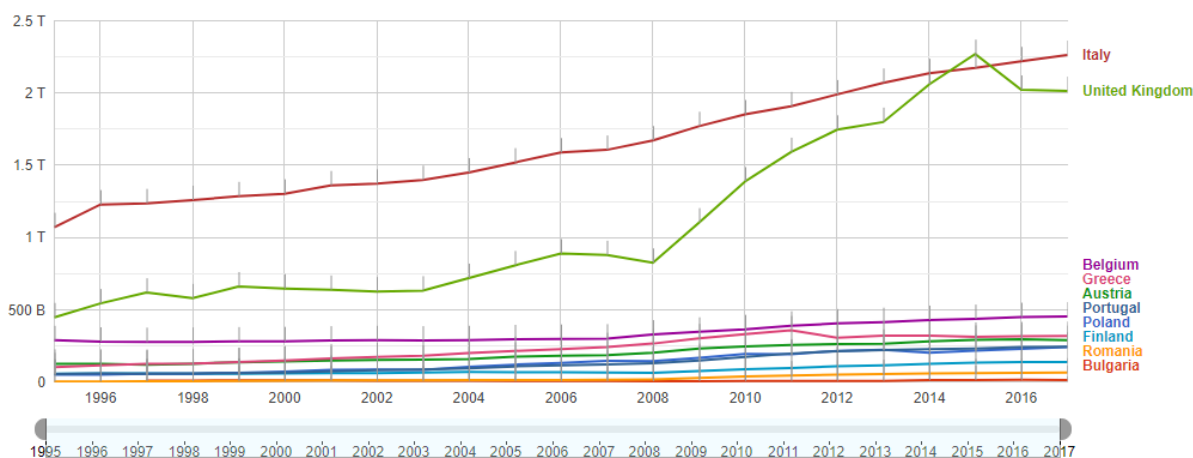
Figure 5: General government debt in Euros



Source:

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Figure 6: General government debt in Euros



Source:

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²⁰⁶ FAQs: National Debt". United States Department of the Treasury. Archived from the original on October 21, 2010. Retrieved October 12, 2010.

SUMMARY

National accounts are the source for a multitude of well-known economic indicators which are presented in this article. Gross domestic product (GDP) is the most frequently used measure for the overall size of an economy, while derived indicators such as GDP per capita — for example, in euro or adjusted for differences in price levels (as expressed in purchasing power standards, PPS) — are widely used for a comparison of living standards, or to monitor economic convergence or divergence within the European Union (EU). Moreover, the development of specific GDP components and related indicators, such as those for economic output, imports and exports, domestic (private and public) consumption or investments, as well as data on the distribution of income and savings, can give valuable insights into the main drivers of economic activity and thus be the basis for the design, monitoring and evaluation of specific EU policies²⁰⁷.

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²⁰⁷ https://ec.europa.eu/eurostat/statistics-explained/index.php/National_accounts_and_GDP.