Economy and finance

Author: Ismael AHAMDANECH ZARCO

eurostat
Statistics in focus
110/2008

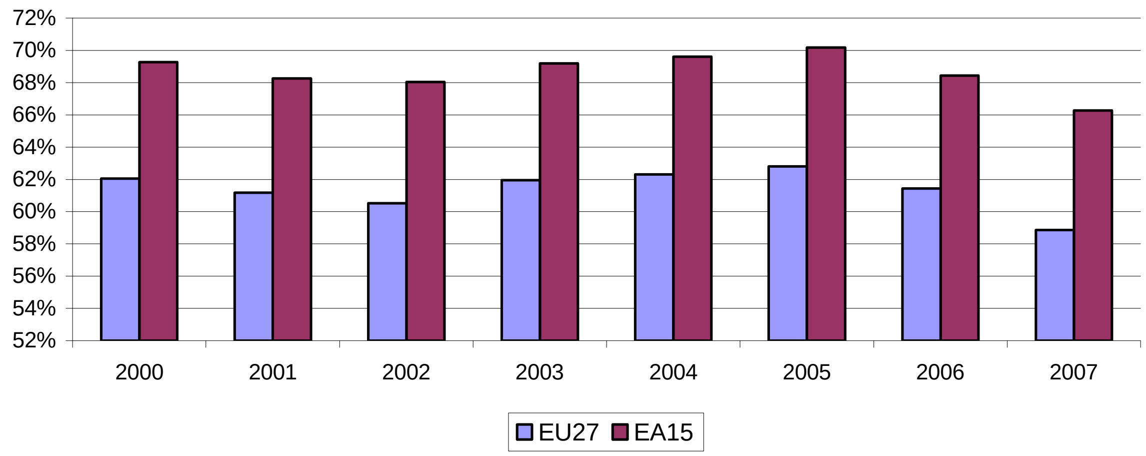
# Structure of Government Debt in Europe

**In the context of the Excessive Deficit Procedure (EDP) notification, Eurostat publishes government debt data biannually (in April and October). Eurostat also regularly publishes quarterly government debt data transmitted pursuant to [Council Regulation (EC) No 1222/2004](). In order to study the structure of debt in Europe in greater detail, Eurostat also launches a survey requesting additional information on debt maturity, currency of issuance and guarantees provided by the government. This publication summarizes the main results of the most recent questionnaire.**

## Government Debt

Before going into greater detail, it can be interesting to study the trend of government debt in recent years (see Figure 1 below).

**Figure 1: Maastricht Debt as a percentage of GDP, 2000-2007**




Source: *Eurostat, Economy and finance, government statistics, quarterly government debt*

Two main conclusions can be drawn from this chart. First, there is a very similar trend in the evolution of debt in both the EU27 and EA15 over the period under consideration (with the EU27 debt to GDP ratio some 7 points lower). Secondly, there is no clear pattern to be seen in this trend. While it might appear that debt has tended to decrease since 2005, data from more years are needed in order to draw conclusions. It is also interesting to note that Maastricht Debt over GDP was slightly over 65% for EA15 in the period under review, whereas for EU27 it was around 60%.

## Breakdown by Instrument

Maastricht debt consists of the liabilities of general government in the following categories: currency and deposits (AF.2); securities other than shares, excluding financial derivatives (AF.33) and loans (AF.4), as defined in ESA 95. Figure 2 presents the breakdown of debt by instrument.

**Figure 2: Debt by Instrument, 2007**


Source: *Eurostat, Economy and finance, government statistics, quarterly government debt*

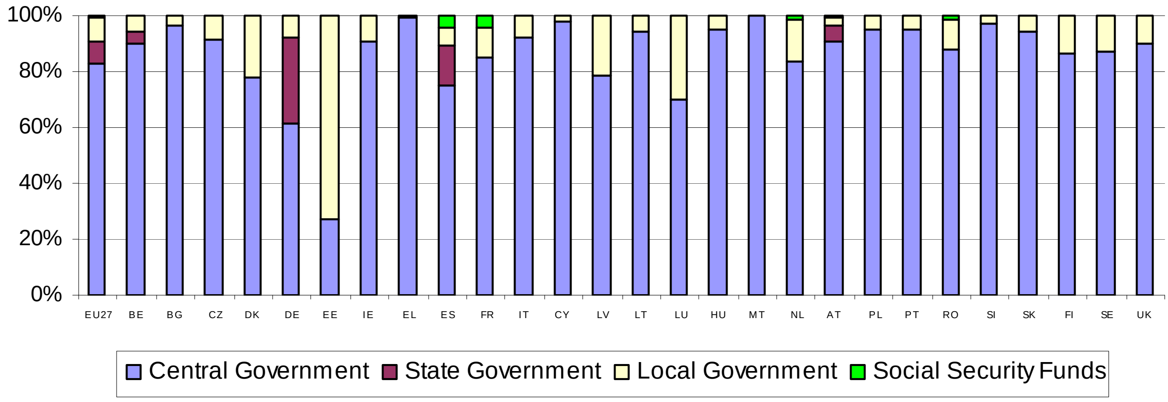
The figure shows that there are significant differences between countries in terms of debt instruments. The category "Currency and Deposits" is only relevant in Denmark, Ireland, Italy, Luxembourg, Portugal, Romania, Sweden and the United Kingdom. The preferred debt instrument in most countries is "Securities other than Shares, excluding Financial Derivatives", except in Estonia, Luxembourg and Romania where "Loans" are the predominant instrument.

## Breakdown by Subsector

According to ESA 95, the government sector is broken down into four sub-sectors: Central Government (S.1311), State Government (S.1312), Local Government (S.1313) and Social Security Funds (S.1314).

The breakdown of unconsolidated debt into these four sub-sectors is shown in Figure 3.

**Figure 3: Debt by Sub-sector, 2007**




Source: *Eurostat, Economy and finance, government statistics, quarterly government debt*

In most countries, the sub-sector holding the largest proportion of debt is Central Government. Germany and Spain show a relatively high proportion of debt for sub-sector S.1312 (State Government). It is worth noting the significant role played by Local Government (S.1313) in Estonia and Luxembourg. Lastly, debt in sub-sector S.1314 (Social Security Funds) is only seen in Spain, France, the Netherlands and Romania, and in all of these cases it is relatively limited.

## Breakdown by Debt Holder

The survey distinguishes four counterpart sectors as possible holders of government debt:

1. Non-Financial Corporations (S.11)

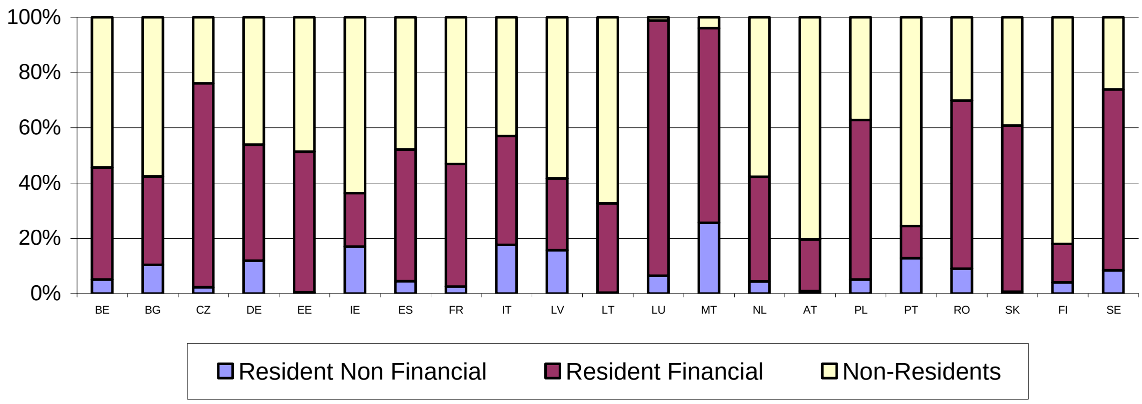
2. Financial Corporations (S.12)

3. Households and Non-profit Institutions serving Households (S.14+S.15)

4. Rest of the World (S.2)

For the sake of simplicity, it was decided to merge the sectors Non-Financial Corporations and Household and Non-profit Institutions serving Households into one larger sector entitled "Resident Non Financial" (i.e. S.11 + S.14 + S.15). Figure 4 shows the breakdown by debt holder.

**Figure 4: Breakdown of Debt by Debt Holder, 2007**



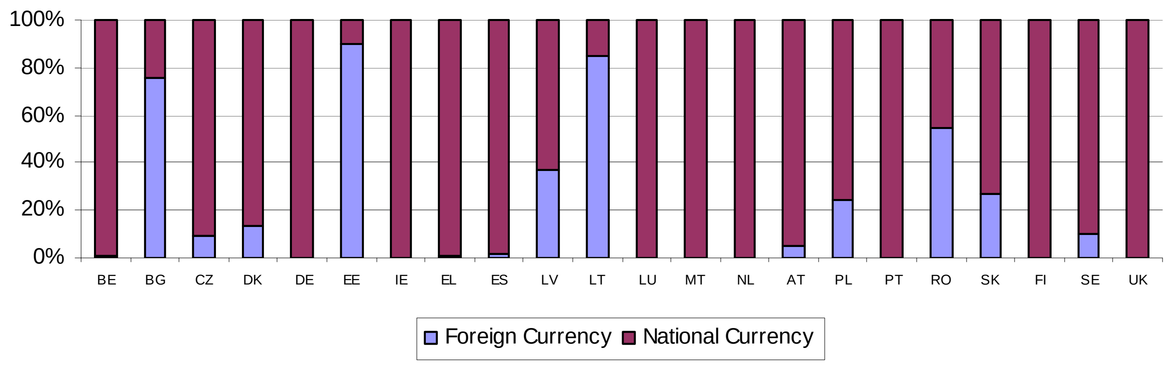

Source: *Eurostat, Debt Structure Questionnaire 2008.*

Figure 4 above shows that debt held by non-residents represents a significant percentage of total debt for most countries, accounting for over 50% for Belgium, Bulgaria, Ireland, France, Latvia, Lithuania, the Netherlands, Austria, Portugal and Finland. The percentage is also very high (over 40%) for Germany, Estonia, Spain and Italy. By contrast, debt held by non-residents is less than 5% of total debt in both Luxembourg and Malta.

The most important counterpart sector for the Czech Republic, Estonia, Luxembourg, Malta, Poland, Romania, Slovakia and Sweden is Resident Financial Corporations. This sector also plays a major role in Belgium, Germany, Spain, France, Italy and the Netherlands. The resident non-financial sector is very important in Malta (over 20% of total debt).

## Currency of Issue

**Figure 5: Debt by Issuing Currency, 2007**

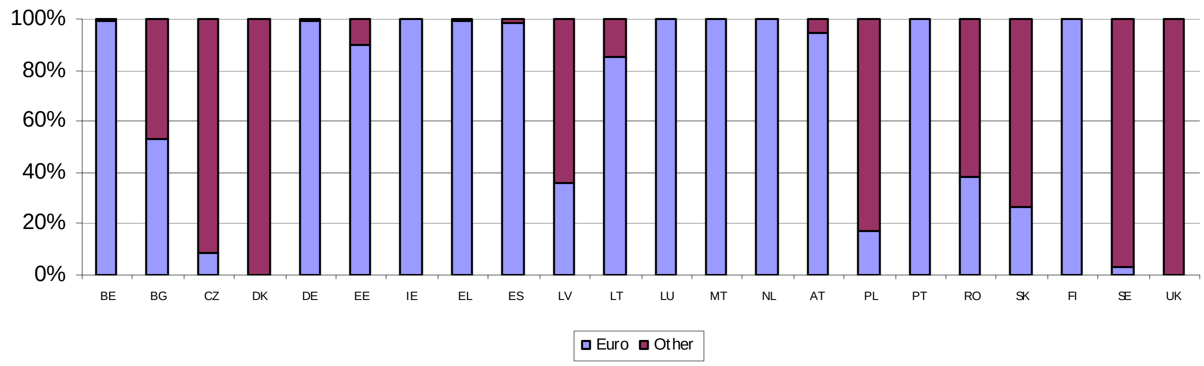



Source: *Eurostat, Debt Structure Questionnaire 2008.*

Figure 5 above shows that debt is issued mostly in national currency. The percentage is over 98% in Belgium, Germany, Ireland, Greece, Spain, Luxembourg, Malta, the Netherlands, Portugal, Finland and the United Kingdom. The equivalent proportion in the Czech Republic, Austria and Sweden is over 90%.

On the other hand, it should be noted that most EU countries indebted in foreign currency are non-euro zone countries, and that in most cases they use the euro as issuing currency, as shown in Figure 6.

**Figure 6: Debt with Euro as Issuing Currency, 2007**

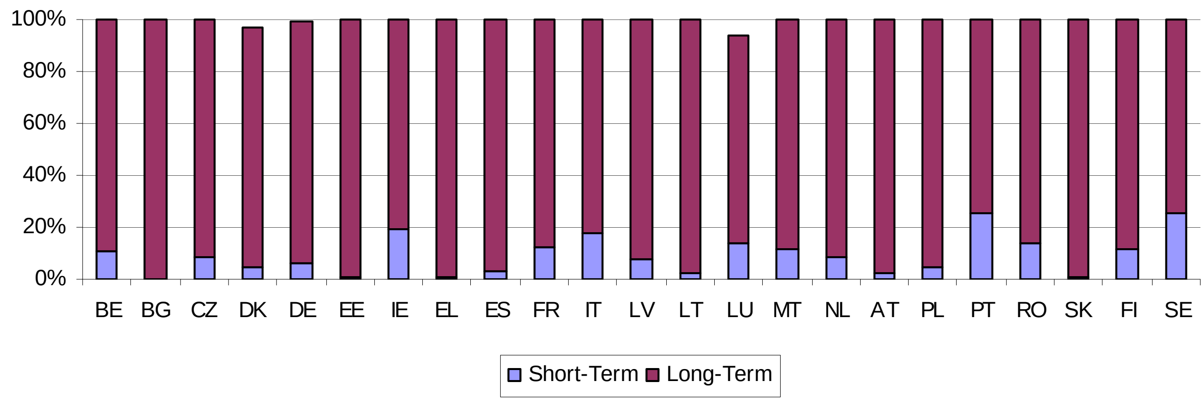



Source: *Eurostat, Debt Structure Questionnaire 2008.*

## Maturity Breakdown

Debt maturity is also a relevant aspect to be studied. Figure 7 shows the proportion of short-term (one year or less) and long-term (more than one year) debt issued by the government sector.

**Figure 7: Debt by Maturity, 2007**




Source: *Eurostat, Debt Structure Questionnaire 2008. DK and LU data do not add to 100% because the F.2 instrument has not been classified according to its maturity.*

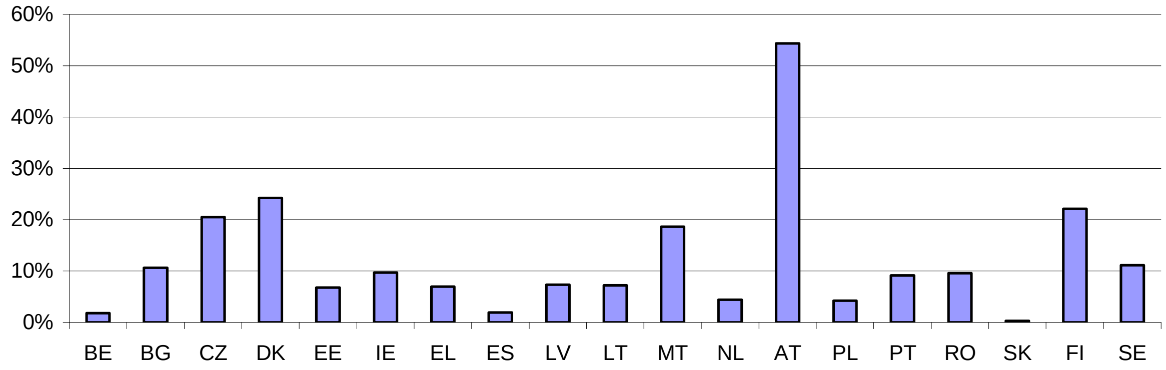
Most debt is issued on a long-term basis (more than one year). Only four of the countries which responded to the questionnaire showed a proportion of short-term debt close to or above 20% of total debt, namely: Ireland, Italy, Portugal and Sweden. In Bulgaria, Denmark, Estonia, Greece, Spain, Lithuania, Austria, Poland and Slovakia, the proportion did not exceed 5%.

## Other Aspects

### Guarantees

Figure 8 below shows the ratio of guarantees provided by Central Government for non-government borrowing. As can be seen, government guarantees rarely exceeded 20% of total debt in 2007 (this concerned only the Czech Republic, Denmark, Finland and Austria). The high percentage for Austria is mainly related to insuring export transaction risks and guarantees for related refinancing operations on financial markets within the official Austrian export credit system.

**Figure 8: Guarantees provided by Central Government (as % of total debt), 2007**




Source: *Eurostat, Debt Structure Questionnaire 2008.*

### Impact of Consolidation

Debt figures must be consolidated within subsectors, but not between subsectors. As an example, and according to these consolidation rules, if the State Government sector issues a bond which is purchased by Central Government, this bond does not increase the General Government Debt.

**Table 1: Impact of Consolidation**

| | | | |
|---|---|---|---|
| **BE** | 4.2% | **LT** | 0.6% |
| **BG** | 1.7% | **LU** | 11.2% |
| **CZ** | 1.7% | **MT** | 0.0% |
| **DK** | 1.0% | **NL** | 1.0% |
| **DE** | 0.9% | **AT** | 3.1% |
| **EE** | 0.5% | **PL** | 1.6% |
| **IE** | 8.1% | **PT** | 7.0% |
| **EL** | 12.0% | **RO** | 23.4% |
| **ES** | 11.3% | **SK** | 2.5% |
| **FR** | 4.8% | **FI** | 6.3% |
| **IT** | 1.0% | **SE** | 8.6% |
| **LV** | 74.7% | **UK** | 8.0% |

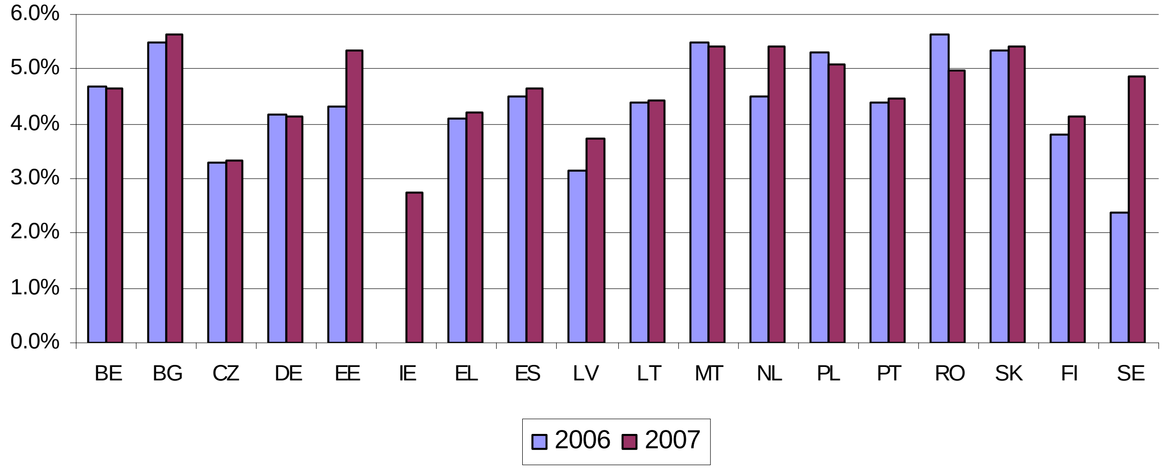
Source: *Eurostat, Debt Structure Questionnaire 2008*

Consolidation implies that the sum of debt by sub-sectors is larger than General Government debt, and Table 1 shows the difference between these two figures. The consolidation impact is quite significant in some countries, such as Latvia and Romania, and as a result intra-sector debt is high. On the other hand, other countries such as Germany, Estonia and Lithuania show hardly any consolidation impact. In Malta, the sum of debt by sub-sector equals General Government debt; in other words, all government debt is held by non-government units.

### Apparent Cost of Debt

Another aspect related to debt is its cost, since the servicing of debt is a significant burden on government budgets. Moreover, it reflects the terms on which countries can access financial markets. Figure 9 shows the apparent cost of debt in 2006 and 2007 for those countries which provided relevant data.

**Figure 9: Apparent Cost of Debt (interest over total nominal debt), 2006 and 2007**




Source: *Eurostat, Debt Structure Questionnaire 2008.*

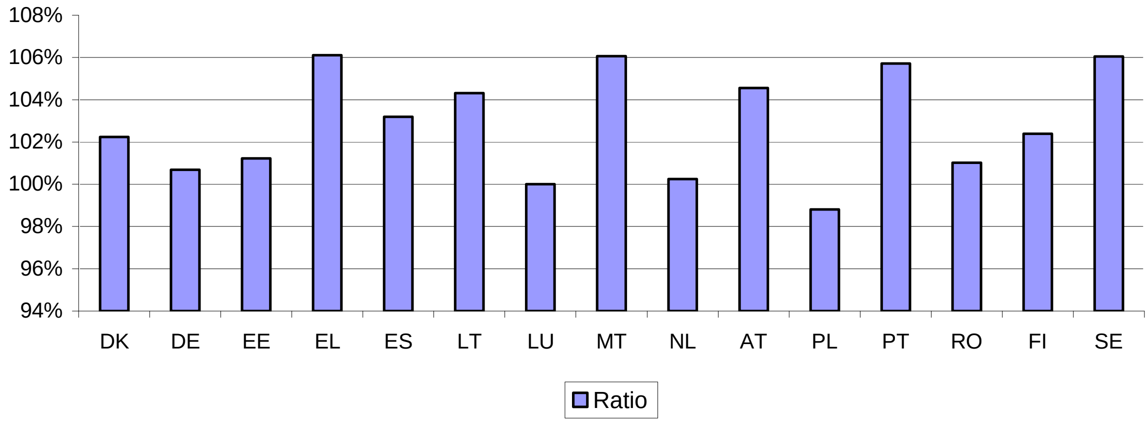
Figure 9 above shows that there are major differences between countries in terms of their conditions for accessing financial markets; this is reflected by the different apparent cost of debt.

This could be further investigated by taking factors such as maturity into account. It is also worth noting that the apparent cost of debt increased in almost all countries between 2006 and 2007 (the exceptions being Belgium, Germany, Malta, Poland and Romania).

### Market Value

While Maastricht debt is defined in nominal value, ESA 95 government liabilities are calculated at market value. Figure 10 below shows the ratio of market value to nominal value of Central Government debt. The differences between those two values are relatively small, and only in Greece, Malta and Sweden is this ratio above 105%.

**Figure 10: Ratio Market Value/ Nominal Value of Government debt, 2007**




Source: *Eurostat, Debt Structure Questionnaire 2008.*

## METHODOLOGICAL NOTES

This box gives some background explanation on general government debt. More exhaustive information and data can be found on Eurostat's homepage in the section dedicated to Government finance statistics.

MAASTRICHT DEBT

The application of the Protocol on the excessive deficit procedure (EDP) is made operational by Council Regulation (EC) No 3605/93, as amended by Council Regulation (EC) No 475/2000 and by Commission Regulation (EC) No 351/2002. The ratio of gross government debt to GDP must not exceed 60% at the end of the preceding fiscal year. It is important to note that there are some differences between ESA debt and Maastricht Debt (regarding the legislation of Maastricht debt, see Council Regulation (EC) No 1222/2004).

ESA95

Fiscal data are compiled in accordance with national accounts rules, as laid down in the European System of Accounts (ESA 1995) adopted in the form of a Council and Parliament Regulation (EC) of 25 June 1996, No 2223/96. The full text of ESA95 is available on the Eurostat internet site. The compilation of General government debt data complies with ESA95 rules, especially concerning the sector classification of institutional units, the consolidation rules, the classification of financial transactions and of financial assets and liabilities, and the time of recording but not valuation rules.

Market value:

The market value is the price of a security as determined dynamically by buyers and sellers in an open market.

Nominal value:

In Council Regulation 3605/93, as amended, the nominal value is considered equivalent to the face value of liabilities for securities. It is therefore equal to the amount (contractually agreed) that the government will have to refund to creditors at maturity.

Interest accrued on liabilities is not accounted for in the nominal valuation, unless explicitly credited.

The Eurostat 2008 debt survey

The survey launched by Eurostat on Debt Structure contains nine tables: a set of four tables (central government unconsolidated debt, state and local government unconsolidated debt, social security funds' unconsolidated debt and general government consolidated debt) for 2006, and the same set of tables for 2007, plus a table with additional classifications of government debt.

The compilation of the general government debt is coherent with the provisions of ESA95 concerning the definition of government sub-sectors, instruments and debt holders. However, its valuation rules are different from the ones of ESA95. The general government debt is defined here as the total gross debt at nominal value (and not at market value as specified in ESA95) outstanding at the end of each year of the sector of general government (S.13), with the exception of those liabilities the corresponding assets of which are held by the sector of general government. Consequently, the data of general government debt are consolidated figures. However, at the sub-sector level, the data are consolidated within each government sub-sectors but not between sub-sectors.

GENERAL GOVERNMENT

Debt statistics cover data for general government as well as its sub-sectors: central government (S.1311), local government (S.1313), social security funds (S.1314), and when applicable state government (S.1312).

According to ESA95, paragraph 2.68 "the sector general government (S.13) includes 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".

INSTRUMENTS

AF.2: The category currency and deposits consists of currency in circulation and all types of deposits in national and in foreign currency.

AF.3: The category securities other than shares consists of financial assets that are bearer instruments, are usually negotiable and traded on secondary markets or can be offset on the market, and do not grant the holder any ownership rights in the institutional unit issuing them.

AF.4: The category loans consists of financial assets created when creditors lend funds to debtors, either directly or through brokers, which are either evidenced by non-negotiable documents or not evidenced by documents.

CONSOLIDATION

Debt figures on general government statistics and each of its sub-sectors are reported consolidated (plus a separate reporting for non-consolidated general government).

Consolidation is a method of presenting statistics for a grouping of units, such as institutional sectors or sub-sectors, as if it constituted a single unit. Consolidation thus involves a special kind of cancelling out of flows and stocks: eliminating those transactions or debtor/creditor relationships that occur between two transactors belonging to the same grouping. ESA 95 recommends compiling both consolidated and non-consolidated financial accounts. For macro-financial analysis, the focus is on consolidated figures.

ABBREVIATIONS

EA15 (Euro area 15): BE (Belgium), DE (Germany), EL (Greece), ES (Spain), FR (France), IE (Ireland), IT (Italy), LU (Luxembourg), CY (Cyprus), MT (Malta), NL (the Netherlands), AT (Austria), PT (Portugal), SI (Slovenia). and FI (Finland).

EU27 (European Union of 27 Member States): Euro Area 15 countries plus BG (Bulgaria), CZ (Czech Republic), DK (Denmark), EE (Estonia), LV (Latvia), LT (Lithuania), HU (Hungary), PL (Poland), RO (Romania), SK (Slovakia), SE (Sweden), and the UK (United Kingdom).

# Further information

Data: Eurostat Website: http://ec.europa.eu/eurostat

Select your theme on the left side of the homepage and then ‘Data’ from the menu.

**Data: Eurostat Web site/ Economy and Finance**

**Economy and finance**

- Government statistics
- Government deficit and debt

**Journalists can contact the media support service:**

Bech Building  Office A4/125  L - 2920 Luxembourg
Tel. (352) 4301 33408 Fax (352) 4301 35349
E-mail: eurostat-mediasupport@ec.europa.eu

**European Statistical Data Support:**

Eurostat set up with the members of the ‘European statistical system’ a network of support centres, which will exist in nearly all Member States as well as in some EFTA countries.

Their mission is to provide help and guidance to Internet users of European statistical data.

Contact details for this support network can be found on our Internet site:
http://ec.europa.eu/eurostat/

A list of worldwide sales outlets is available at the:

**Office for Official Publications of the European Communities.**

2, rue Mercier
L - 2985 Luxembourg

URL: http://publications.europa.eu
E-mail: info@publications.europa.eu

Manuscript completed on: 05.12.2008
Data extracted on: 18.08.2008
ISSN 1977-0316
Catalogue number: KS-SF-08-110-EN-N