Upward trend in the EU government debt level continued in 2012

Structure of government debt - 2012 survey results

Statistics in focus 20/2013; Author: Iulia STANISLAV EMINESCU

This article presents recent statistics on the structure of government debt and its relationship to gross domestic product (GDP) in the European Union (EU). In the context of the SGP's Excessive deficit procedure notification process, Eurostat publishes government debt data twice a year, in April and October, as well as quarterly government debt data transmitted to it in line with Regulation 1222/2004.

In order to analyse the debt structure in European countries, Eurostat produces an annual survey collecting Member States' information on debt by holder, instrument, maturity, currency of issuance, as well as guarantees granted by the government to non-government units. This article examines the main results of the latest questionnaire, fully or partly completed by 25 countries.

Main statistical findings

Maastricht debt as a percentage of GDP

In general the Maastricht government debt has followed an upward trend over recent years. This trend continued for 21 EU Member States between 2011 and 2012. In contrast to this, the debt of Greece, Hungary, Latvia, Denmark, Poland and Sweden decreased in 2012.

14 out of 27 EU Member States reported debt to GDP ratios over the reference value of 60 %. Greece recorded the highest debt ratio at 156.9 %, followed by Italy at 127.0 %. The lowest debt to GDP ratio was registered by Estonia at 10.1 %. For both EU-27 and EA-17 the development of the Maastricht debt in terms of GDP followed a similar path, amounting to over 60 % in 2012.

The highest increase of debt to GDP ratios was observed in Portugal at 15.3 percentage points (pp), mainly due to sector reclassifications and capital injections. Spain recorded the second strongest increase at 14.9 pp, followed by Cyprus at 14.7 pp. The relative increase of the EA-17 debt (3.3 pp) was slightly higher than for the EU-27 (2.8 pp). On the other hand, six countries recorded decreases of between 13.4 pp and 0.2 pp. The decrease of gross debt in Greece was mainly due to the partial debt cancellation in the context of private sector involvement.

Breakdown by subsector

According to ESA95, the general government sector (S.13) is divided into four sub-sectors:
Central government (S.1311); State government (S.1312); Local government (S.1313); Social security funds (S.1314).

Figure 2 gives an overview of the subsector breakdown, as a percentage of total debt for all sub-sectors, i.e. not consolidated between different levels of government.

For 23 out of 25 EU Member States, the central government represented more than 75 % of general government debt (not consolidated between subsectors). By contrast, the debt share of state and local government exceeded 31 % in Germany and Estonia, followed by Spain (22.6 %), Sweden (19.0 %), Denmark (16.0 %), Finland (12.8 %) and Latvia (12.4 %). The impact of social security funds in the general government debt continues to be small: contributions of less than 5 % were recorded in 23 countries. In contrast, two countries had higher ratios of debt for social security funds: Lithuania (16.9 %) and France (11.3 %).

Impact of consolidation

General government debt has to be consolidated according to the Maastricht definition. This implies that the debt issued by one sub-sector and held by another one should be excluded from the general government debt. The result of the consolidation is usually a lower general government debt. Table 1 illustrates this effect in percentage of total non-consolidated debt.

The majority of countries show a limited consolidation impact. For 21 of the 25 survey respondents, the general government debt was reduced by less than 6 %. A significant consolidation effect was observed in countries with a high intrasector debt: Lithuania, Spain, Latvia and the Netherlands, with ratios of between 18.4 % and 8.7 %. On the other hand, six countries showed almost no consolidation effect: Malta, the Czech Republic, Hungary, Denmark, Germany and Slovenia, with ratios of less than 1 %.

Breakdown by financial instrument

The Maastricht debt is divided into the following categories according to the ESA95 classification:
currency and deposits (AF.2); securities other than shares, excluding financial derivatives (AF.33), and loans (AF.4).

The breakdown of debt by financial instrument is presented in Figure 3.

For 23 out of 25 countries the most used debt instrument was securities other than shares; between 46.4 % and 91.9 % of the general government debt was financed by securities issuance. Estonia and Latvia registered a different breakdown, with loans making up 85.7 % and 53.5 % respectively of the total debt. Significant loan to

total debt ratios were also recorded in Ireland (44.5 %), Luxembourg (43.3 %) and Portugal (41.3 %). Currency and deposits represented less than 5 % of total debt for 22 countries. In contrast, they accounted for between 8.0 % and 9.6 % for Italy, Ireland and the United Kingdom.

Breakdown by debt holder

Figure 4 presents the debt attribution to non-financial residents (non-financial corporations, households and non-profit institutions serving households), financial residents (financial corporations) and non-residents (rest of the world).

The debt share of non-residents was significant for most of the countries. It ranged between 26.7 % and 82.1 % of the general government debt in 21 EU Member States. Thirteen countries recorded percentages higher than 50 %: Finland, Latvia, Lithuania, Austria, Slovenia, Portugal, Estonia, Ireland, Hungary, France, Germany, the Netherlands and Poland. In contrast, this proportion was almost negligible in Luxembourg (less than 2 %) and Malta (less than 6 %). The resident financial sector accounted for between 60.8 % and 95.8 % in Luxembourg, Romania, the Czech Republic and Malta. The resident non-financial sector played a major role in Malta, at more than 33 %, followed by Italy with 11.0 % and the Czech Republic with 10.1 % of the debt.

Breakdown by maturity

The debt questionnaire aims to provide detailed information on the time structure of government debt based on its initial maturity. The maturity is subdivided into several maturity brackets: less than one year, one to five years, five to seven years, seven to ten years, ten to fifteen years, more than thirty years as well as the summary category of more than one year. For some countries, which did not provide the complete breakdown, only two categories are shown: less than one year (short-term) and more than one year (medium/long-term). For the other thirteen countries, a detailed debt maturity breakdown is available. The ratio of medium/long-term and short-term debt to total debt is illustrated in Figure 5.

The debt classified by maturity reveals a common pattern: between 72.0 % and 99.9 % of the outstanding debt was issued on a medium to long-term basis. Short-term debt levels of less than 5 % were recorded in Bulgaria, Estonia, Poland, Austria, Slovakia, Slovenia and Malta. Sweden had a significant short-term debt ratio (28.0 %), followed by Italy, Romania and the Netherlands, with short-term debt ratios higher than 14 %. The countries providing a detailed medium/long-term debt breakdown had very different structures: for debt issued with a one to five years maturity, Luxembourg recorded the highest percentage (92.9 %), followed by Romania, Spain and Poland with percentages ranging between 29.8 % and 27.1 %. Latvia and Lithuania registered the highest debt shares in the categories five to seven years, with 25.7% and 21.5% respectively. A similar structure is observed for debt issued with a maturity of seven to ten years: the highest ratios were recorded by Lithuania, Latvia and the Czech Republic with percentages of between 40.6 % and 34.4 %. Estonia and Slovenia issued most of their medium/long-term debt in instruments with a maturity of ten to fifteen years (61.5 % and 44.9 % respectively). In contrast, a high share of debt with maturity between fifteen and thirty years can be observed in Malta (38.5%) and Ireland (23.2%). Long-term debt having a maturity of more than thirty years represented less than 6 % in all the thirteen countries which provided a detailed medium/long-term debt profile.

Breakdown by currency

As shown by Figure 6, most Member States issue essentially in national currency. Only six EU Member States out of 25 survey respondents issued less than 80 % of their debt in national currency. In particular, the United Kingdom, Finland, Austria, Luxembourg, Estonia and Belgium issued 100% of their debt in national currency. Significant percentages (over 90 %) were also observed in Slovenia, the Netherlands, Slovakia, Germany, Spain, Italy, Malta and France. At the other end of the scale, Lithuania, Latvia and Bulgaria issued more than 75 % of their debt in foreign currencies.

Figure 7 presents the share of outstanding central government debt issued in euro. The debt denominated in euro is equal to the debt issued in national currency for the euro area member countries. 100 % of the stock of government debt was denominated in euro for Finland, Austria, Luxembourg, Estonia and Belgium. Significant percentages (higher than 90 %) were recorded by the same eight EA Member States as above. In contrast, in the non-euro countries Denmark, the Czech Republic and Poland, less than 21.4 % of the debt was denominated in euro and the major issuing currency was the national currency. None of the total UK debt was issued in euro. For Latvia and Lithuania, a significant part of the debt was not in either euro or national currency. This can be explained by a previous pegging of the national currencies lats and litas to the SDR basket and the US dollar respectively.

Apparent average cost of government debt

The apparent average cost of central government debt (accrued interest payable over the period as a percentage of the average outstanding debt) shows the differences between countries in terms of their cumulated past conditions for accessing financial markets. Based on 22 replies from EU Member States, the analysis of apparent average cost of government debt is shown in Figure 8.

The apparent average cost of central government gross debt varied between 1.9 % in Latvia and 5.5 % in Hungary in 2012. Comparing the 2011 data with 2012, no significant changes were registered for 22 EU Member States. A slight decrease (less than 0.4 %) was observed in thirteen countries: France, the Netherlands, Portugal, Germany, Bulgaria, Finland, Romania, Slovenia, the Czech Republic, Austria, Lithuania, Malta and Poland. The

other eight survey respondents recorded increases of less than 0.3 %. As this measure of the cost of debt is an average of the stock of past debt, it is not very sensitive to the most recent market trends.

State guarantees as a percentage of GDP

Countries were additionally asked about the amount of state guarantees. These guarantees are not part of government debt, but are contingent liabilities. They should not be added to the Maastricht debt. Based on 20 replies from EU Member States, the ratio of state guarantees to the debt of non-government units, as a percentage of GDP, is shown in the following graph. In 2012, the amount of state guarantees as a percentage of GDP did not exceed 10 % for 11 countries. A share of less than 4 % was recorded in Slovakia, Lithuania, Estonia, Poland, Bulgaria, Latvia and Romania. State guarantees ranged between 12.3 % and 18.1 % in the Netherlands, Finland, Portugal, Spain, Slovenia, Malta and Belgium. The highest value was registered in Ireland (69.8 %), followed by Austria (26.2 %). Spain, Belgium and the Netherlands recorded the highest relative increase compared to the previous year with 7.2 pp, 4.0 pp and 3.3 pp respectively. A decrease of 19.6 pp was noted for Ireland, followed by Denmark and Austria with 5.7 pp and 3.5 pp respectively.

Data sources and availability

Market vs nominal value

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

In Council Regulation (EC) No 3605/1993, 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.

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).

Instruments

Maastricht debt comprises only the following 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.33: 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.

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. Usually the sum of sub-sectors should exceed the value of the general government sector. Sub-sector data should be consolidated within each sub-sector, but not between them. ESA 95 recommends compiling both consolidated and non-consolidated financial accounts. For macro-financial analysis, the focus is on consolidated figures. The Maastricht debt is also consolidated.

The Eurostat 2012 government debt structure survey

The survey launched by Eurostat on government debt structure contains nine tables: a set of four tables (central government debt, state and local government debt, social security funds' debt and general government debt) for 2011, and the same set of tables for 2012, plus a table with additional classifications of government debt.

The survey presents breakdowns for the general government and its sub-sectors for the two latest calendar years, categorizing the debt by holder, instrument, maturity, currency of issuance, as well as guarantees granted by the government to non-government units.

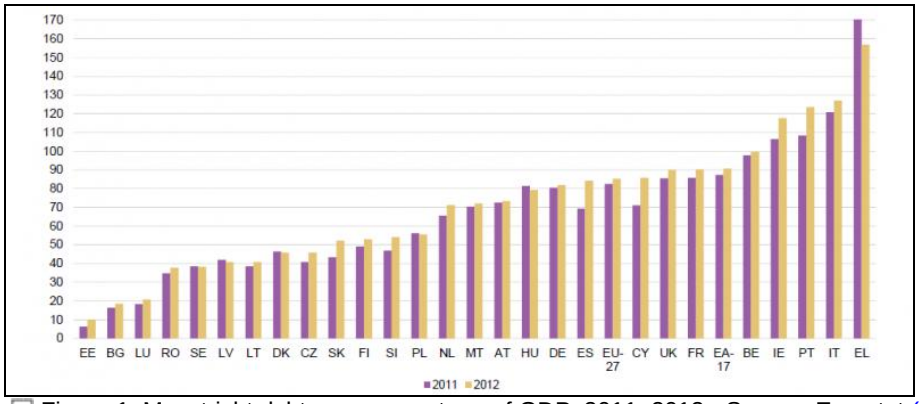

Figure 1: Maastricht debt as a percentage of GDP, 2011–2012 - Source: Eurostat (gov_dd_edpt1)

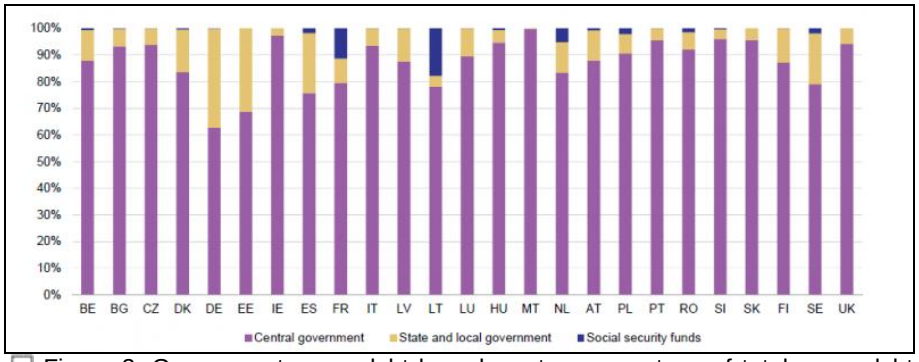

Figure 2: Government gross debt by sub-sector, percentage of total gross debt, non-consolidated between sub sector, 2012 - Source: Eurostat (gov_dd_cgd) (gov_dd_slgd) and (gov_dd_ssfd)

Country	BE	BG	CZ	DK	DE	EE	IE	ES	FR
Consolidation impact	3.64	4.41	0.21	0.76	0.86	4.78	2.48	13.58	4.03
Country	**IT**	**LV**	**LT**	**LU**	**HU**	**MT**	**NL**	**AT**	
Consolidation impact	1.25	11.96	18.39	2.84	0.74	0.00	8.66	4.44	
Country	**PL**	**PT**	**RO**	**SI**	**SK**	**FI**	**SE**	**UK**	
Consolidation impact	5.08	4.40	4.93	0.89	4.09	4.46	4.16	4.86	

Table 1: Impact of consolidation as a percentage of general government gross debt, 2012 - Source: Eurostat (gov_dd_ggd) (gov_dd_cgd) (gov_dd_slgd) and (gov_dd_ssfd)

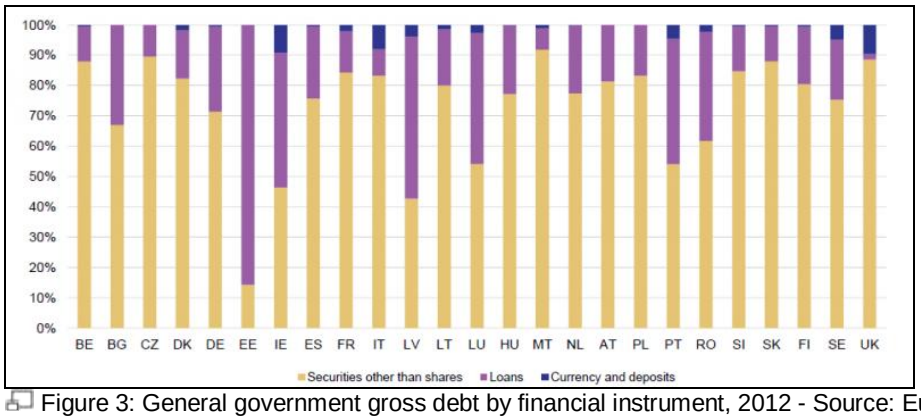

Figure 3: General government gross debt by financial instrument, 2012 - Source: Eurostat (gov_dd_ggd)

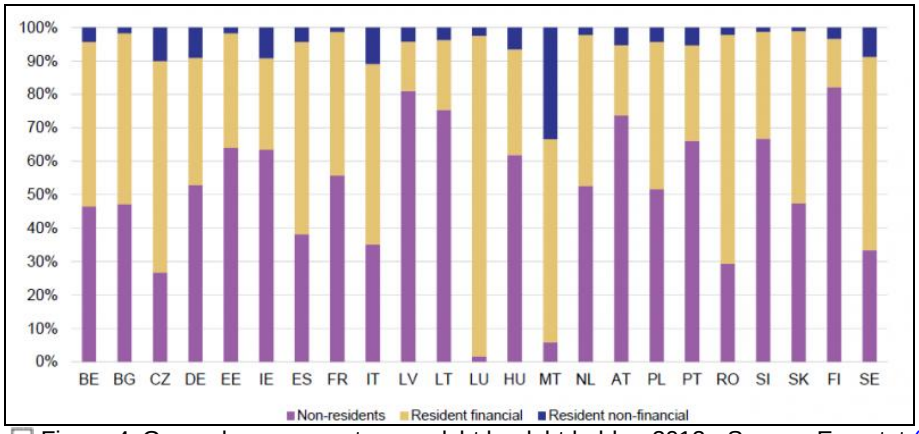

Figure 4: General government gross debt by debt holder, 2012 - Source: Eurostat (gov_dd_ggd)

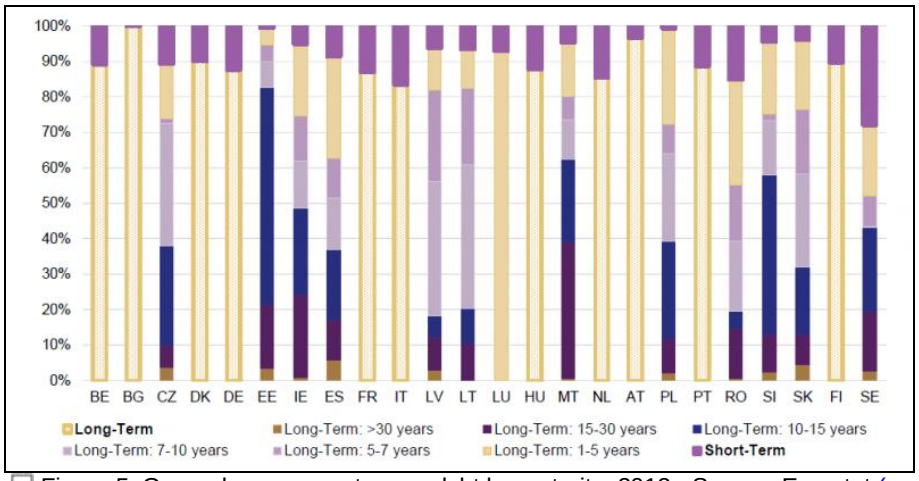

Figure 5: General government gross debt by maturity, 2012 - Source: Eurostat (gov_dd_ggd)

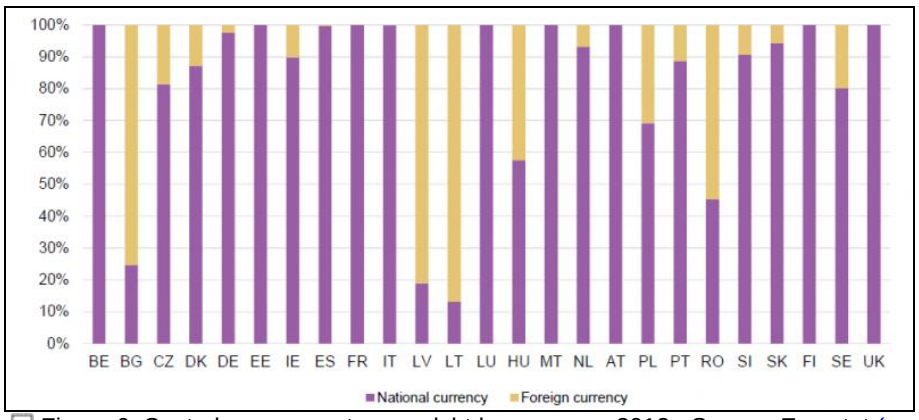

Figure 6: Central government gross debt by currency, 2012 - Source: Eurostat (gov_dd_cur)

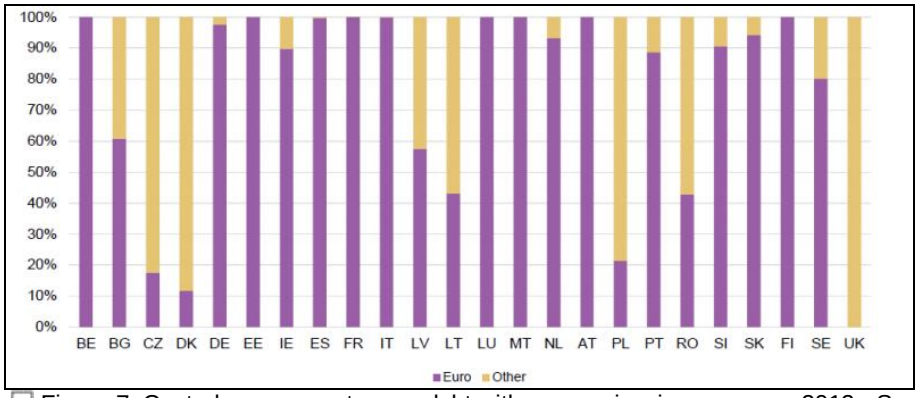

Figure 7: Central government gross debt with euro as issuing currency, 2012 - Source: Eurostat (gov_dd_cur)

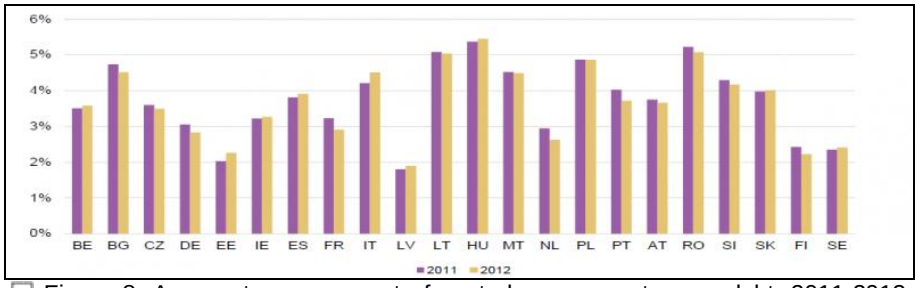

Figure 8: Apparent average cost of central government gross debt, 2011-2012 - Source: Eurostat. Missing data DK, LU and UK

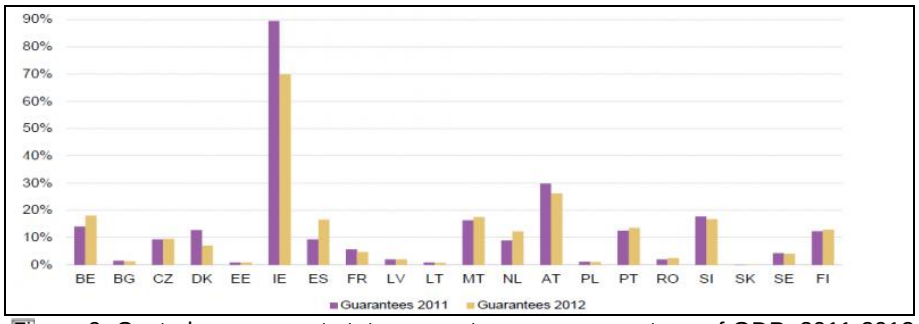

Figure 9: Central government state guarantees as a percentage of GDP, 2011-2012 - Source: Eurostat. Missing data DE, IT, LU, HU and UK

Notes The analysis on breakdown by currency, apparent cost of the debt and state guarantees is only based on central government data.
Context Monitoring and keeping government debt in check is a crucial part of maintaining budgetary discipline which is essential as Europe undergoes dramatic demographic changes. Its ageing population, in particular, is expected to pose major economic, budgetary and social challenges.
Maastricht debt The Protocol on the excessive deficit procedure (EDP) annexed to the Maastricht Treaty specifies that the ratio of gross government debt to GDP must not exceed 60 % at the end of the preceding fiscal year. The application of the Protocol is made operational by Council Regulation (EC) No 479/2009, as amended. 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 Regulation (EC) of 25 June 1996, No 2223/1996. The full text of compilation of General government debt data complies with ESA95 rules 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. The valuation is however different. Debt liabilities in ESA95 are valued at market value, whereas Maastricht debt is valued at nominal value. All data in the publications on the structure of government debt refer to debt expressed at nominal value.
See also

- Government expenditure by function – COFOG
- Government finance statistics
- Update of the SNA 1993 and revision of ESA95

Further Eurostat information
Publications

- Government finance statistics – Summary tables
- Structure of government debt in Europe in 2011 - Statistics in focus 34/2012
- Structure of government debt in Europe in 2010 - Statistics in focus 68/2011
- Structure of Government Debt in Europe in 2009 - Statistics in focus 3/2011
- Structure of Government Debt in Europe - Statistics in focus 110/2008

Main tables

- Government statistics (t_gov), see:
  Annual government finance statistics (t_gov_a)
  Government deficit and debt (t_gov_dd)
  Quarterly government finance statistics (t_gov_q)

Database

- Government statistics (gov), see:
  Annual government finance statistics (gov_a)
  Government deficit and debt (gov_dd)
  Quarterly government finance statistics (gov_q)

Dedicated section

- Government finance statistics

Methodology / Metadata

- Government deficit and debt (ESMS metadata file - gov_dd_esms)
- Quarterly financial accounts for general government (ESMS metadata file - gov_q_ggfa_esms)
- Quarterly government debt (ESMS metadata file - gov_q_ggdebt_esms)
- Quarterly non-financial accounts for general government (ESMS metadata file - gov_q_ggnfa_esms)

Other information

- Manual on compilation of taxes and social payments on a quarterly basis – first edition
- Manual on government deficit and debt - implementation of ESA2010 - 2013 edition
- Manual on government deficit and debt - implementation of ESA95 - 2013 edition
- Manual on quarterly non-financial accounts for general government - 2011 edition
- Manual on sources and methods for the compilation of COFOG statistics - Classifications of the Functions of Government - 2011 edition
- Manual on sources and methods for the compilation of ESA95 financial accounts - 2nd edition - 2011 update

External links

- European Commission: stability and growth
- European Commission: sustainability of public finances