Statistics in focus

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Structure of government debt in Europe

2003 data

This article analyses the structure of government debt in Europe based on a survey carried out during spring and summer 2004.

Total government debt is supplied to Eurostat for the Excessive Deficit Procedure in accordance with the Maastricht Treaty in March and September every year. Where the total debt has undergone significant revisions during 2004, notably for Greece, it is reflected in this publication.

At the end of 2003, the overall level of government debt was 63.3% of GDP for the EU25, higher than the 61.6% reported at the end of 2002 and higher than the reference value of 60% for excessive debt (see figure 1).

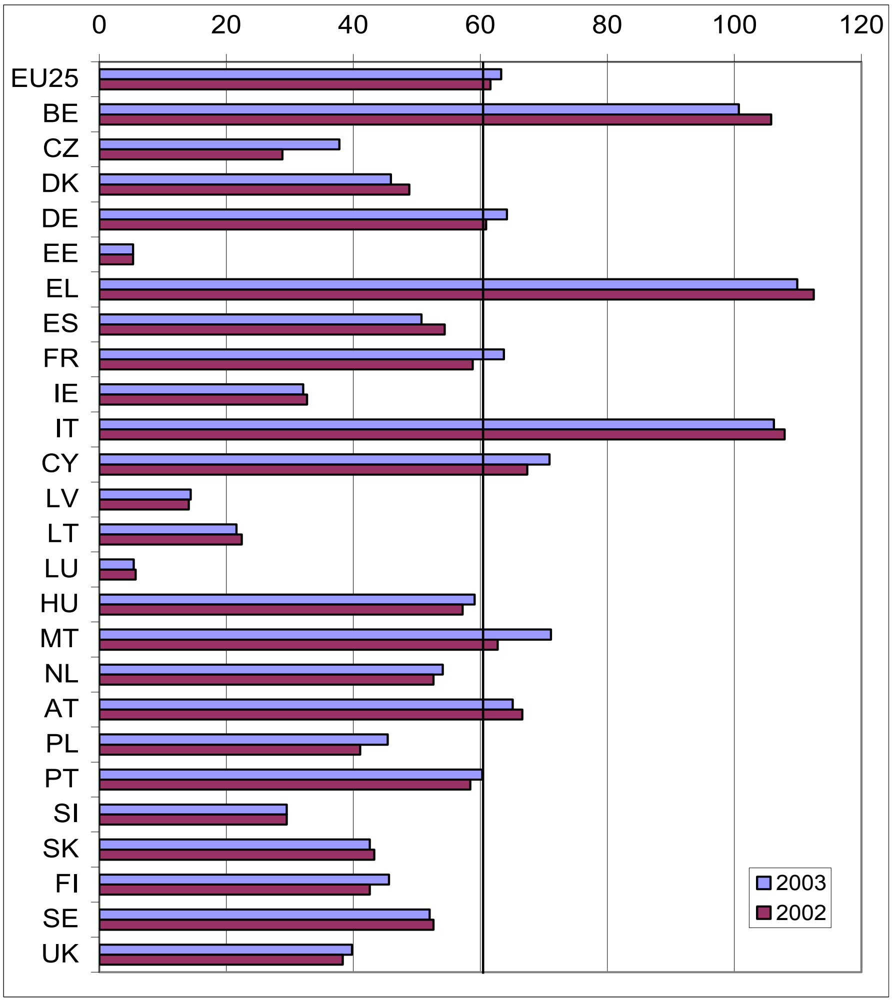

Figure 1: General government consolidated debt in percentage of GDP.
Source: EDP notifications (Council Regulation No 3605/93).

This year is the fourth time that Eurostat has sent out to EU Member States the survey on structure of government debt. The other surveys were conducted in 1996, 1999 and 2003. The first two surveys[1] were based on the ESA79 methodology; the following ones used the ESA95 methodology.

The aim of the study is to update the statistical information contained in the 'Structure of government debt in Europe' published in March 2004[2]. The study compares 2002 and 2003 data covering the EU25.

The survey contained 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 2002, and the same set of tables for 2003, plus a table with additional classifications of government debt.

As the data of the survey are not always complete enough to cover all EU Member States the data of the notification in the context of Council Regulation (EC) No 3605/93 is also used for this study.

Methodology used

The definitions of sub-sectors, instruments and debt holders are based on the ESA95 methodology. For calculation of general government debt the definition of the Maastricht treaty used for the excessive deficit procedure (EDP) is followed. *Debt means total gross debt at nominal value outstanding at the end of the year and consolidated between and within the sectors of general government.* This definition is in accordance with Council Regulation (EC) No 3605/93, as amended by Council Regulation (EC) No 475/2000 and by Commission Regulation (EC) No 351/2002.

The debt of the sub-sectors is not consolidated but it follows the same methodology in the sense that the stock of debt is equal to the sum of liabilities of the sector in the following categories: currency and deposits (AF.2), securities other than shares (AF.33) and loans (AF.4). Valuation is always at nominal (face) value for all instruments.

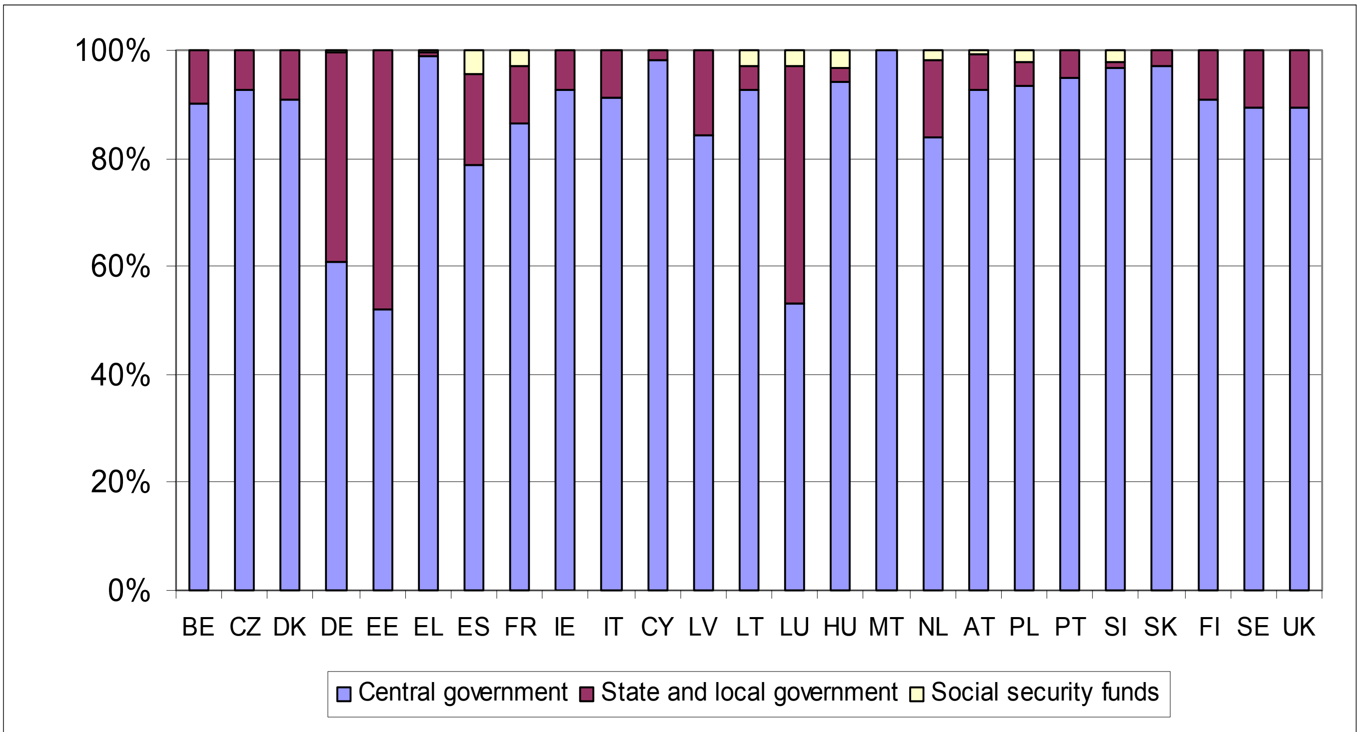

Figure 2: Breakdown of general government unconsolidated debt by sub-sector for 2003.
Source: debt survey. For CZ, CY and SI EDP notifications (Council Regulation No 3605/93).

1 See Statistics in Focus, Economy and Finance, 33/1997, Structure of government debt in the Member States of the European Union and 33/1999, Structure of government debt in the European Union.
2 See Statistics in Focus, Economy and Finance, 19/2004, Structure of government debt in Europe.

Cross-checking with EDP notifications

For the general government consolidated debt a cross-check with table 1 of the notification of the excessive deficit procedure has been made. For some countries there were slight differences which may be explained by the fact that the notified data has been revised. For Greece, however, these differences were significant[3].

Since the notification in March 2004 the tables now include data on the stock of debt for each sub-sector. It is therefore now possible to check the results of the survey for the sub-sector totals.

Overall debt level

Comparing 2002 data with 2003 data some progress in debt reduction has been made in some of the countries showing the highest debt levels, especially in Belgium.

The debt levels of the 10 New Member States is in general relatively low. Only Cyprus and Malta have a debt that exceeds 60% and this increased in 2003. Estonia's debt is exceptionally low: its policy is to follow a permanent balanced budget.

Sub-sector breakdown

In the survey state and local government are not treated separately because only four countries (Belgium, Germany, Spain and Austria) identify the sub-sector state government.

Social security funds data are not always available separately. In five countries (Estonia, Cyprus, Latvia, Malta and the United Kingdom) social security is not a separate institutional sub-sector and possible liabilities are part of central government debt.

For most of the countries the share of central government debt is higher than 80% of the total debt (see figure 2). Only in three countries is the share of central government debt much lower because the state and local governments play a more important role. The share of state and local government debt is 48% in Estonia, 44% in Luxembourg and 39% in Germany.

In all countries the share of the sub-sector social security funds is very low (≤ 5%).

Impact of consolidation[4]

The government debt has to be consolidated according to the Maastricht definition. This means that debt issued by one sub-sector and held by another is not included. The impact of consolidation is different in each Member State and it changes over time (see table 1). In general the share of intra-governmental debt is between 5% and 10%. For some countries there is almost no impact at all, as in Germany, Estonia (2003), Ireland and Malta. In Denmark the share of intra-governmental debt reached 25.5% which was by far the highest level in the EU25. In Finland and Sweden, where the share of government debt held by the government sub-sectors themselves was substantial in 1998, it fell by 2003 to a much lower level. In Belgium, Greece, Spain, the Netherlands, Austria and Portugal the opposite trend can be observed: the share of intra-governmental debt is growing.

	1998	2002	2003
BE	3.2%	9.4%	9.5%
CZ	:	0.8%	1.4%
DK	21.7%	23.5%	25.5%
DE	0.1%	0.1%	0.1%
EE	10.2%	1.7%	0.9%
EL	10.1%	13.5%	14.7%
ES	5.0%	6.0%	7.1%
FR	9.6%	9.9%	7.3%
IE	0.7%	0.8%	0.7%
IT	:	5.5%	2.1%
CY	:	:	:
LV	0.0%	9.3%	9.7%
LT	3.3%	4.1%	4.9%
LU	11.1%	10.6%	10.2%
HU	4.8%	3.6%	5.3%
MT	0.0%	0.0%	0.0%
NL	3.1%	9.3%	8.8%
AT	5.9%	9.3%	9.9%
PL	:	9.5%	8.6%
PT	2.8%	10.1%	12.2%
SI	0.8%	0.1%	:
SK	5.7%	5.4%	2.5%
FI	39.0%	18.1%	11.2%
SE	17.7%	9.0%	9.8%
UK	11.0%	11.7%	9.7%

Table 1: Intra-General government sector's debt as percentage of general government consolidated debt. Source: debt survey.

Breakdown by instrument

The use of debt instruments is different in each Member State (see figure 3). In most of the countries more than 70% of the debt is financed by issuing securities.

Two countries use a relatively low amount of securities (Luxembourg 27% and Estonia 26%). As Luxembourg and Estonia have a very low debt the use of loans is easier to manage and less expensive.

In Germany the individual municipalities for the same reasons undertake borrowing in the form of loans. The state governments, however, had used favourable

3 see Commission press release IP/04/1431, 1 December 2004.

4 see Manual on Sources and Methods for compilation of ESA95 Financial Accounts, Part II Recommendations, Issue N° 4 Consolidation, and pages 38 to 42.

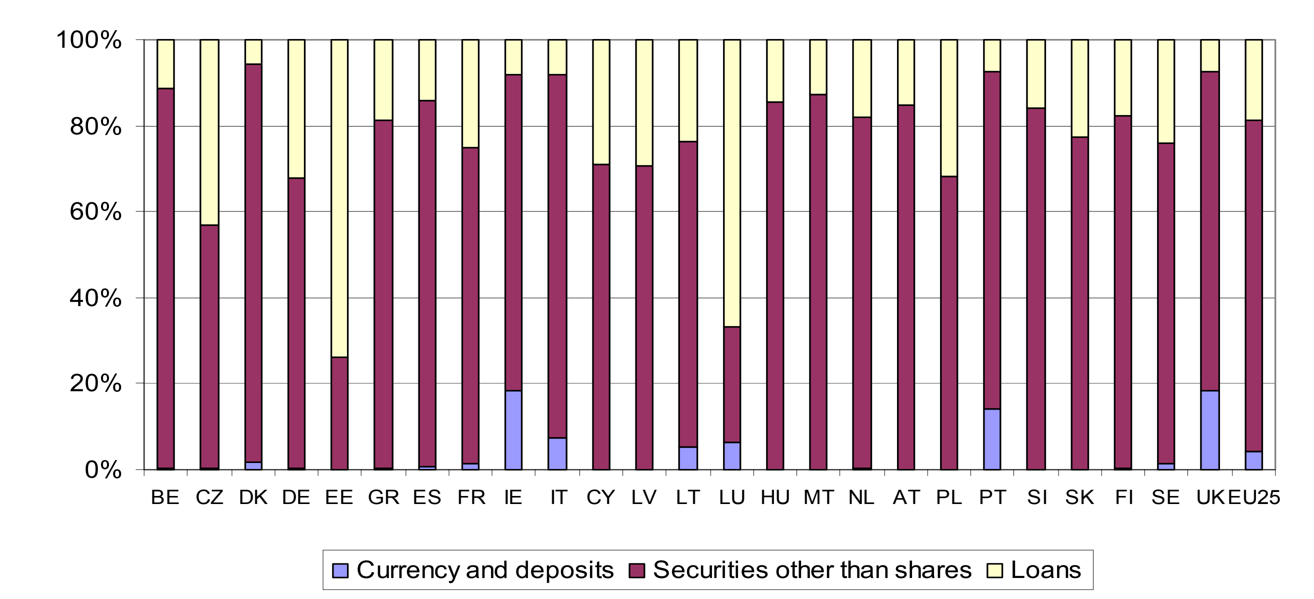

Figure 3: Breakdown of General government consolidated debt by instrument for 2003. Source: debt survey, data for CZ, CY and SI from EDP notification.

financing conditions offered especially by state banks in the past.

The use of currency and other deposits is in general very low, in many countries its share of debt is 0%. However in three countries the share of currency and other deposits is higher than 10%. This is the case for the United Kingdom (19%), Ireland (18%) and Portugal (14%). The reason is that the figures for the instrument (AF.29) other deposits of the sub-sectors households and non-profit institutions serving households (S. 14+15) are much higher because deposits in institutions like post offices and in the Treasury are counted as government liabilities.

Breakdown by debt holder

The survey distinguishes four categories of economic agents, according to ESA95 classification:

- Non-financial corporations (S.11)
- Financial corporations (S.12)
- Households and Non-profit institutions serving households (S.14+15)
- Rest of the world (S.2), of which residents of the EMU.

As the responses were not sufficiently complete for all categories, only three were kept for the analysis: non-residents, financial corporations and other residents (S.11 + S.14+15 combined).

The main reason why the counterpart information is not very complete is that some Member

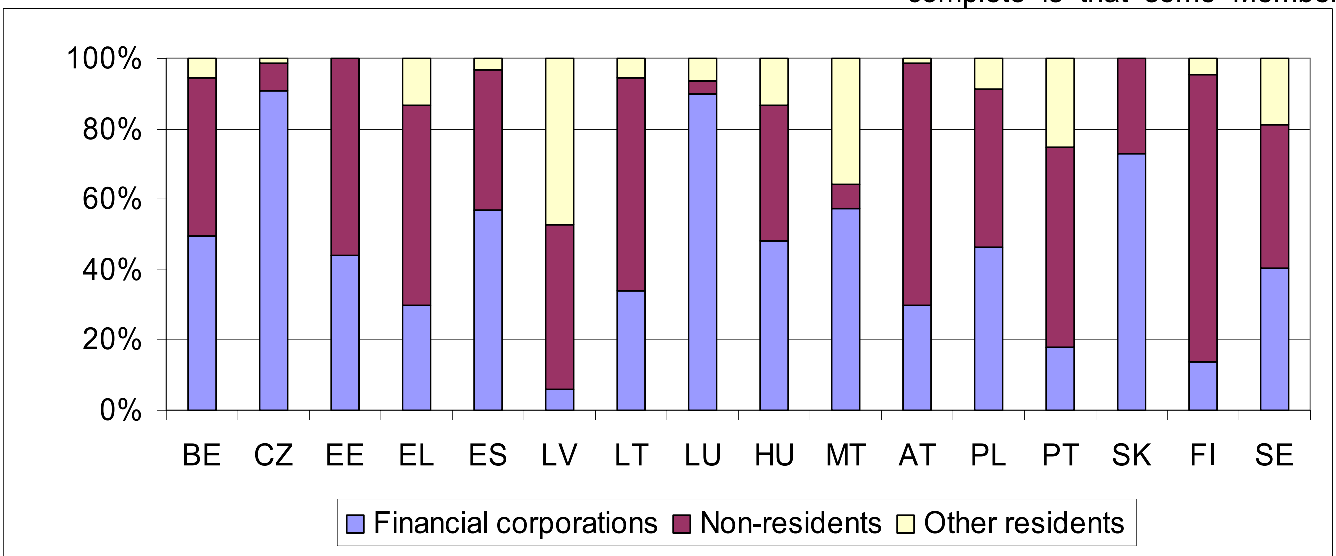

Figure 4: Breakdown of general government consolidated debt by debt holder for 2003. Missing data for DK, DE, FR, IE, IT, CY, NL, SI and UK. Source: debt survey.

	unspecified/ ≤ 1 year	1-5 years	5-7 years	7-10 years	10-15 years	15-30 years	> 30 years	> 1 year
BE	8.3	:	:	:	:	:	:	91.7
CZ	32.3	31.4	4.1	20.6	10.3	1.2	0.0	67.7
DK	100.0	:	:	:	:	:	:	:
DE	5.9	:	:	:	:	:	:	94.1
EE	1.3	38.9	0.0	29.2	22.9	7.7	0.0	98.7
EL	1.9	0.0	0.0	0.0	0.0	0.0	0.0	98.1
ES	2.0	35.0	3.8	36.7	13.9	2.5	6.2	98.0
FR	42.5	:	:	:	:	:	:	57.5
IE	10.4	20.4	25.1	1.6	22.4	17.1	3.0	89.6
IT	100.0	:	:	:	:	:	:	:
LV	18.6	51.1	15.0	0.2	6.7	8.4	0.0	81.4
LT	6.9	42.4	3.5	34.2	3.5	9.5	0.0	93.1
LU	31.5	68.5	0.0	0.0	0.0	0.0	0.0	68.5
HU	19.9	41.9	6.9	13.0	11.6	5.5	1.2	80.1
MT	22.2	18.3	11.4	13.8	28.4	2.6	3.3	77.8
NL	100.0	:	:	:	:	:	:	:
AT	3.2	7.0	7.9	29.5	39.2	3.1	4.4	96.8
PL	14.9	39.3	1.0	18.9	1.7	23.0	1.2	85.1
PT	6.4	8.5	22.7	14.9	40.6	6.2	0.7	93.6
SK	13.4	40.1	12.6	21.8	10.9	1.1	0.0	86.6
FI	13.5	:	:	:	:	:	:	86.5
SE	26.7	45.2	6.0	13.6	3.5	2.3	2.7	73.3
UK	31.1	:	:	:	:	:	:	68.9

Table 2: General government debt by maturities as percentage of total debt in 2003.
Missing data for CY and SI. For AT loans are only split in short- and long-term. Source: debt survey.

States have difficulties in identifying the sector of holders of some instruments.

Many Member States also applied for derogation in this respect (for some or all sectors and/or instruments) to the "Regulation (EC) No 501/2004 of the European Parliament and of the Council of 10th March 2004 on quarterly financial accounts for general government" until December (for some countries June) 2005.

The structure of the debt holders is very different in each Member State (see figure 4).

For the Czech Republic, Luxembourg and Slovakia the share of financial corporations acting as debt holders is significantly high.

Finland has the highest share of non-resident debt holders with nearly 80%. The investor base of the Finnish State Treasury benchmark bonds broadened considerably after the country joined the euro-zone and a high percentage of central government debt securities is sold internationally whereas the domestic market is rather narrow.

The economies and the debt markets of the 10 New Member States are relatively small. If a country issues a relatively high share of debt in currency other than the national one (for example in euro), it may attract a higher share of non-resident debt holders. This is the case for example in Estonia and Lithuania.

Maturity breakdown

In the survey the countries were asked to give detailed information on the time structure of the debt based on the initial maturity. This information was in many cases difficult to obtain. Having this information for several years would make it possible to see if the maturity structure is changing over time. For the moment 13 countries are able to give information at this detailed level. Most countries subdivide the maturity structure in “up to one year” and “over one year” (see table 2).

In general about 80% of the debt is classified as longer than 1 year. In some countries the share of short-term debt is lower than 5%: Estonia (1.3%), Greece (1.9%), Spain (2.0%) and Austria (3.2%). In others the share of short-term debt is higher than 20%: France (42.5%), Czech Republic (32.3%), Luxembourg (31.5%), UK (31.1%), Sweden (26.7%) and Malta (22.2%). (If the first column of table 2 is 100%, it means that the Member State could not give a maturity breakdown and more information maybe found in the following paragraph.)

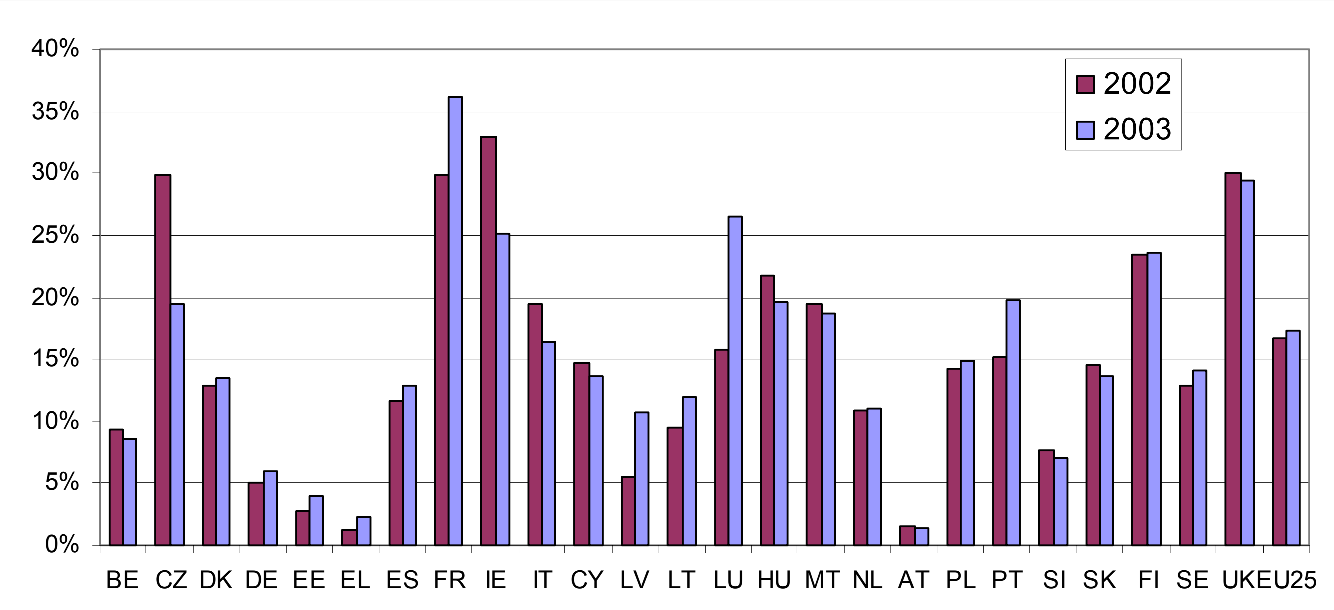

Figure 5: General government short-term debt as percentage of total debt.
Source: EDP notifications (Council Regulation No 3605/93).

Short-term data based on EDP notifications

As table 2 and figure 5 (short-term debt: sum of currency and deposits, short-term securities and short-term loans) show there is no common maturity pattern.

For Austria, Germany, Estonia and Greece the proportion of short-term debt is very low (around 5%). The Czech Republic, France, Ireland and the United Kingdom have the highest share of debt as short-term (more than 25%) but the figure for France includes longer-term bills (*Titres de créances négociables* which are considered as short-term but may have a maturity over 1 year).

Comparing 2002 with 2003 data in some countries the proportion of short-term changed notably. In the Czech Republic and Ireland the share of short-term debt decreased remarkably whereas in France, Latvia and Luxembourg the share of short-term debt increased significantly.

Average remaining maturity

In addition to the breakdown by initial maturity, countries were asked about average remaining maturity of debt. Based on replies from 16 countries it was possible to obtain a rough picture for average remaining maturity of

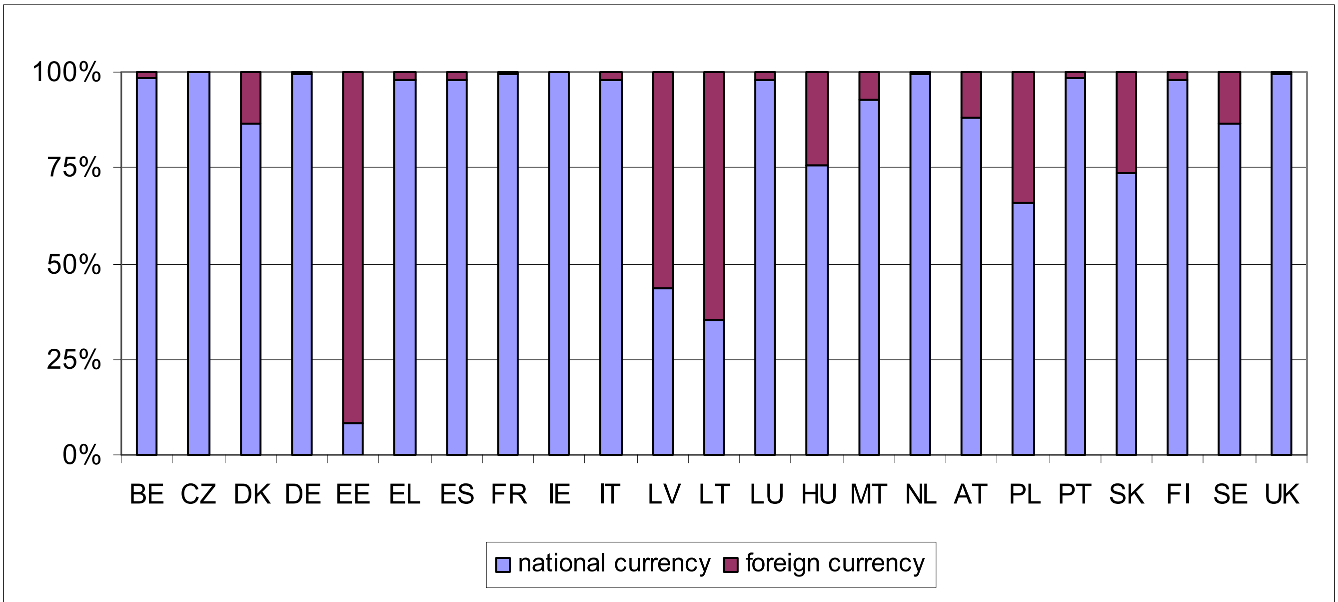

Figure 6: Breakdown of general government debt by currency of issue. Missing data for CY and SI.
Source: debt survey, for CZ, LV, AT, PL, FI and SE based on central government debt.

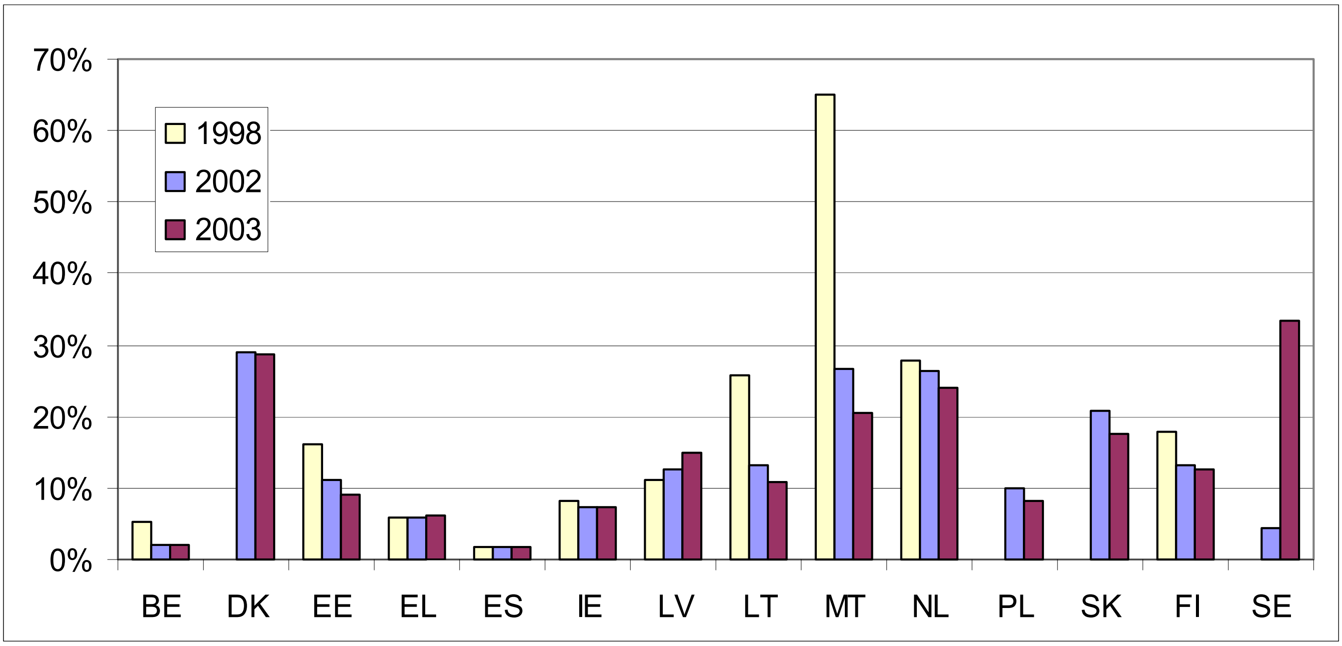

Figure 7: State guarantees as percentage of total debt. Missing data for CZ, DE, FR, IT, CY, LU, HU, AT, PT, SI and UK. Source: debt survey, for BE, ES, LV, NL, PL and SE guarantees given by central government.

securities issued by central government. Among the responding countries, the maturity ranged between 3 and 6.5 years.

The New Member States tended to have a lower average debt maturity, reflecting their less developed capital markets. In terms of the difference in average maturity of central government securities between the 2002 and 2003 data, in general a slight trend to increase in the maturity can be noticed. Only in Poland, Portugal and Sweden was the trend slightly downward.

Other aspects

Currency of issue

For the EU Member states six countries out of 23 respondents issue less that 80% of their debt in national currency (see figure 6). In many countries the share of national currency is close to 100%: Belgium, the Czech Republic, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Finland and the United Kingdom. Most of them are members of the euro-zone.

The share of debt issued in foreign currency (euro in these cases) is significantly high in Estonia, Lithuania and Latvia. It is lower in Hungary, Poland and Slovakia.

State guarantees

Based on 14 replies out of 25 EU Member states the analysis of state guarantees can give only an incomplete picture of the situation in the European Union. (See figure 7).

In most of the responding countries state guarantees as percentages of total debt are not higher than 20%, in many case they do not exceed 10%.

In Malta in 1998 the level of state guarantees was very high but since then it has decreased significantly. For nearly all responding countries a downward trend can be seen. The only exceptions are Latvia and Sweden.

In Latvia the percentage of state guarantees has grown steadily but in Sweden the growth is very significant (from 5% to over 30%).

Apparent cost

Based on 13 replies out of 25 EU Member states the apparent cost (interest rate) of government debt can give only a rough indication.

The level of the apparent cost varied in 2003 from 3% in Sweden to 6.3% in Slovakia.

Comparing 2002 with 2003 data in nearly all responding countries the apparent cost decreased (it increased only in Estonia).

BE	Belgium	**IT**	Italy	**PL**	Poland
CZ	Czech Republic	**CY**	Cyprus	**PT**	Portugal
DK	Denmark	**LV**	Latvia	**SI**	Slovenia
DE	Germany	**LT**	Lithuania	**SK**	Slovakia
EE	Estonia	**LU**	Luxembourg	**FI**	Finland
EL	Greece	**HU**	Hungary	**SE**	Sweden
ES	Spain	**MT**	Malta	**UK**	United Kingdom
FR	France	**NL**	Netherlands		
IE	Ireland	**AT**	Austria		

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