THE EUROZONE DEBT CRISIS
PART 1:
COUNTRY DEBT PROFILES

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The Private Debt Project
January 2020
Almost all other industrialized economies have higher levels of private and public sector debt than the Eurozone.

Increased debt levels are therefore not the main economic problem facing the eurozone. The central problem is the unequal distribution of debt among Eurozone economies, which complicates monetary and fiscal policy.

The lack of appropriate adjustment mechanisms to distribute the burden of deleveraging and to support economic growth are also at the heart of the ongoing Eurozone crisis of slow growth.

**Comparing Eurozone Debt with Other Industrialized Economies**

Eurozone debt as a % of GDP is less than that of other industrialized economies.

In 2017, Eurozone private sector debt stood at approximately 152%, which was less than in the UK (171%), the US (201%), Australia (205%), China (207%), Japan (221%), and Canada (266%).

In the same year, Eurozone public debt was 87% of GDP compared to public debt in China (50%), Australia (66%), the UK (87%), the US (96%), Canada (108%), and Japan (224%).

**Source:** European Central Bank and Eurostat
9 Eurozone countries have low to medium levels of indebtedness:
Lithuania (Public: 39.41% Private: 56.10% Total: 95.50%)
Estonia (Public: 9.20% Private: 106.40%; Total: 115.60%)
Latvia (Public: 39.98% Private: 83.50% Total: 123.48%)
Slovakia (Public: 50.95% Private: 96.10% Total: 147.05%)
Slovenia (Public: 74.09% Private : 75.60% Total: 149.69%)
Germany (Public: 64.50% Private: 100.10% Total: 164.65%)
Malta (Public: 50.23% Private 118.50% Total: 168.73%)
Austria (Public: 78.20% Private: 122.50% Total 200.70%)
Finland (Public: 61.31% Private: 146.00% Total: 207.31%)

5 Eurozone countries have a high level of indebtedness:
Spain (Public: 98.12% Private: 139.10% Total: 237.22%)
Italy (Public: 131.35% Private: 110.30% Total: 241.66%)
France (Public: 98.58% Private: 148.00% Total: 246.56%)
Portugal (Public: 121.48% Private: 156.00% Total: 277.48%)
Belgium (Public: 102.01% Private: 188.70% Total: 290.71%)

5 Eurozone countries have a very high level of indebtedness:
Greece (Public: 176.17% Private: 116.40% Total: 292.57%)
Netherlands (Public: 56.95% Private: 252.10% Total: 309.05%)
Ireland (Public: 68.47% Private : 243.60% Total: 312.07%)
Luxembourg (Public: 22.96% Private: 316.40% Total: 339.36%)
Cyprus (Public: 95.75% Private: 315.10% Total: 410.85%)

The five crisis economies of 2010-12 – Portugal, Ireland, Italy, Greece and Spain (PIIGS) -- have been left with high or very high debt levels, although Spain is now on a borderline high debt economy. Cyprus experienced its own debt crisis in 2013 and is burdened by very high levels of private and public debt. The Netherlands and Luxembourg suffer from very high levels of debt but did not experience crises.

France along with Spain (which deleveraged after the crisis) have borderline high debt levels. Germany, Austria, Finland, and the Baltic States all have low or medium levels of indebtedness.

Source: European Central Bank and Eurostat
This debt matrix considers levels of private sector debt equal to or greater than 150% as ‘high,’ and levels above 200% to be ‘very high.’

Finland and France have borderline high levels of private debt.

Spain (139.10%)
Finland (146.00%)
France (148.00%)

Two Eurozone countries currently have a high level of private sector indebtedness:

Portugal (156.00%)
Belgium (188.70%)

Source: Authors’ calculations from European Central Bank and Eurostat Data
Four Eurozone countries currently have very high levels of private sector indebtedness:

Ireland (243.60%)
Netherlands (252.10%)
Cyprus (315.10%)
Luxembourg (316.40%)

Source: Authors’ calculations from European Central Bank and Eurostat Data
In 2017, Ireland’s private debt reached 243% of GDP, of which 190% was concentrated in the corporate sector, while households accounted for 47%. High levels of Irish private debt are due to both oversized real estate and banking sectors, and while Irish household debt is more sustainable than a decade ago, it is still the fourth highest in the European Union. A portion of Ireland’s private debt can be attributed to its role as a financial center for multinational trans-investment into other economies. However, even after accounting for the debt related to multinational investment activity, Irish private sector debt was estimated at 172% in 2017, thus placing it in the high debt matrix.

In 2017, Dutch private sector debt stood at 252% of GDP of which 128% was in corporate debt and 104% was in household debt. The Netherlands has a large mortgage real estate and housing market, which explains the high levels of household debt.

Luxembourg’s private debt totaled 316% of GDP. The corporate sector accounted for 200% of this total while household debt made up 65%. Like Ireland, Luxembourg is an international financial center, and its corporate debt reflects high levels of non-domestic loans.

In addition to a high level of public debt (96% of GDP), Cyprus’ private debt reached 315% of GDP in 2017--of which the corporate sector debt made up 208% and households accounted for 107%. Cyprus has an oversized real estate and banking sector, and most debt is held in bank loans and not in bonds. As a result of the 2013 financial crisis, non-performing loans increased significantly, leaving the Cyprus banking sector burdened with a high-level of non-performing loans. Cyprus’ weakened banking sector has hindered its economic growth, in spite a relatively quick exit from the EU bailout/bail-in program.
This matrix considers levels of public debt equal to or greater than 100% to be ‘high,’ and levels above 150% as ‘very high.’

Four Eurozone countries are ‘borderline’ cases of high public indebtedness:

- Cyprus (95.75%)
- Spain (98.12%)
- France (98.58%)
- Belgium (102.01%)

Source: Authors’ calculations from European Central Bank and Eurostat Data
COUNTRIES WITH HIGH AND VERY HIGH LEVELS OF PUBLIC SECTOR DEBT

Two Eurozone countries currently have high levels of public indebtedness:
Portugal (121.48%)
Italy (131.35%)

One Eurozone country currently has a very high level of public indebtedness:
Greece (176.17%)

Source: Authors’ calculations from European Central Bank and Eurostat Data
European economies with high levels of public debt can be divided into three groups: 1) those economies whose debt increased significantly as a result of the financial crisis of the past decade; 2) those with the slow build-up of public debt over many years resulting in chronically high levels of public debt; and 3) those economies that have high levels of public debt because of both crisis-accumulated debt and chronic debt accumulation. Cyprus and Spain fit the first category. Belgium, France, and Italy the second. Portugal and Greece the third.

**Cyprus**’ debt to GDP ratio was below or near the Eurozone average from 1999 until 2012-13, when it suffered a serious financial crisis. As a result of the deep recession that accompanied the crisis, Cyprus’ public debt increased from 66% in 2011 to a little more than 100% of GDP in 2013, reaching a peak of about 108% in 2014. It currently stands at around 96% of GDP. Cyprus thus represents a classic case of a financial crisis induced accumulation of public debt.

**Spain** is another case of a financial crisis causing a big increase in public debt. At the time of the beginning of the crisis in 2008, Spain’s public debt was 39% but by 2014 it had reached 100%. It currently stands at 98% of GDP. Since the crisis, Spain has been able to deleverage its private sector debt by allowing its public debt to increase, albeit by less than the decrease in private sector debt.

**France** avoided the worst of the eurozone crisis but still suffers from a borderline high level of public sector debt because of persistent debt accumulation. French public debt grew consistently from 2001 to 2016 and has only recently begun to stabilize at around 98.5% of GDP. Private sector debt in France has also increased consistently over this period. As a result, total French debt has increased from 58% in 2001 to 98% in 2018. France has taken on the characteristics of a chronic debt economy.

**Belgium** has a long history of high public debt levels, accumulated over several decades during the 1970s and 1980s. Following the signing of the Maastricht Treaty in 1992, Belgium was able to reduce its public debt levels from around 140% of GDP to 100% by 1999 and then to 87% by 2007. Since then, Belgian’s public debt has increased modestly and now stands at 102% of GDP. In comparison with Greece and Italy, which had comparable levels of public debt in 2001, Belgium represents a modest success story of controlling its chronic accumulation of public debt, and today remains a borderline case.
Italian public debt also accumulated during the 1970s and 1980s and peaked at 130% of GDP in the early 1990s. However, unlike Belgium, which controlled its public debt over the next decade, Italian public debt has increased from 100% in 2007 to 131.4% of GDP in 2018. Since joining the Eurozone, Italy has suffered from slow economic growth, which has contributed to the increase in its overall debt-to-GDP ratios. Italy’s chronic public debt problem is now considered one of the greatest threats to Eurozone financial stability.

Portugal’s public debt remained under 60% of GDP until 2004 but began to increase in a steady fashion to about 80% by 2009. With the financial crisis in 2010-12, the increase in public debt accelerated as economic growth slowed, the private sector deleveraged, and the public sector bore a greater burden of contributing to what economic growth there was. Portugal’s public debt now stands at 121.5% of GDP. Portugal thus represents a case of chronic debt accumulation combined with a crisis-induced increase in public debt.

Greece is an almost perfect case of the combined effects of chronic debt accumulation and crisis-induced debt expansion. The greatest part of the chronic debt accumulation actually occurred in the 1980s and 1990s before Greece became a member of the eurozone. Greece’s public debt-to-GDP ratio increased from 28% in 1981 to 107% in 2001, the year of Greece’s entry into the Eurozone, as successive governments expanded pensions and other social welfare spending. The growth of public debt stabilized from 2001 to 2008 as economic growth accelerated in part due to lower interest rates and a private debt expansion. Once the crisis hit, government debt ballooned as interest rates spiked and as economic growth collapsed. Even with successive bail-outs, Greece’s public debt increased and now stands at 176.17% of GDP, the highest in the Eurozone.
# Examples of Countries with Both High Public and High Private Debt

Eurozone countries with borderline high, high, or very high levels of both private and public debt include:

<table>
<thead>
<tr>
<th>Country</th>
<th>Public</th>
<th>Private</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>97%</td>
<td>133%</td>
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<td>Cyprus</td>
<td>95.75%</td>
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When countries experience high levels of both private and public sector debt, they are limited in their ability to use one sector to support economic growth while the other sector deleverages.

As we will discuss in greater detail in Part 2, many of the Eurozone economies have been able to deleverage the private sector by allowing their public debt to increase. This sector shifting strategy is more difficult, albeit no impossible, in economies with both high public and private debt.
Spain, France, Portugal, Belgium, Greece, and Cyprus all have debt profiles with borderline, high, or very high levels of both private and public sector debt.
9 Eurozone countries maintain low to medium levels of both public and private debt.

This includes: five post-Socialist Central and East European Economies, the Frugal Three of Austria, Germany, and Finland, plus Malta.

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Source: Authors’ calculations from European Central Bank and Eurostat Data
Certain post-socialist states (Estonia, Slovakia, Slovenia, Latvia, and Lithuania) have very low levels of public debt as well as of private debt.

The Baltic states’ public debt levels are all below 40%, while those of Slovakia and Slovenia are both below 96%.

The Baltic states experienced a housing bubble in the mid 2000s that was accompanied by rapid private debt growth. All three economies have subsequently deleveraged their private sector debt.

Estonia, Latvia, Lithuania, Slovakia and Slovenia all became members of the EU in 2004.

Slovenia joined the Eurozone in 2007, Slovakia in 2009, Estonia in 2011, Latvia in 2014, and Lithuania in 2015. All went through a period of debt consolidation prior to joining the euro in order to meet or to continue to meet euro debt convergence criteria.

Source: Authors’ calculations from European Central Bank and Eurostat Data
The Frugal Three: Austria, Germany & Finland

Germany along with Austria and Finland have the lowest levels of public and private debt among the larger economies of the Eurozone. Germany’s total debt is 164.65% of GDP with its private debt standing at 100% of GDP and its public debt at a little more than 64% of GDP. Austria and Finland have similar debt profiles, although Finland’s private debt levels are slightly higher.

Together these economies constitute a fiscally conservative contingent in the Eurozone that has consistently pressed for restrictive fiscal policy and for adhering to the Maastricht criteria. Germany has even adopted a constitutional provision, known as the "debt brake," that places strict limits on its fiscal deficit, except in times of crisis. In terms of public debt, the Netherlands is a fourth member of this group.

Germany also runs an exceptionally large current-account surplus, which totaled 7.4% of GDP in 2018, as a result of high levels of corporate savings, extensive industrial exports, and tight decreased government spending. This German savings glut is one the main causes of the macroeconomic imbalances within the Eurozone.

Source: IMF-Bundesbank conference: Germany’s current account surplus - a problem to be fixed? https://www.youtube.com/watch?v=BdpwyMxWx9Ow&t=3017s
The main problem facing the Eurozone is not the overall indebtedness of the member states. Rather it is the distribution of debt among the Eurozone members. The large variance of the countries’ debt profiles complicates fiscal and monetary policy and prevents policymakers from employing effective uniform approaches to deleveraging.

The Eurozone divides into three levels of indebtedness: nine members have low to medium levels of debt; five have a high level or a borderline high level of debt; and five have very high levels of indebtedness. But there are other important differences among the Eurozone members. The Netherlands, Ireland, and Luxembourg have low levels or public debt but very high levels of private debt. France, Spain, Portugal, Belgium, Greece, and Cyprus have high levels or borderline high levels of both public and private debt. This limits the ability of these economies to offset the deleveraging of one sector with the leveraging up of the other.

France is in its own category as the one large Eurozone economy whose debt, both public and private, has continued to increase since the crisis. Of the other major economies, Germany, Austria, and Finland all have low or moderate levels of both public and private debt and all have modestly deleveraged since the peak of the crisis in 2010. However, Finland has private debt levels that are borderline high.

The persistent current account surpluses of these three economies along with that of the Netherlands are one of the main causes of the macroeconomic imbalances within the Eurozone and one of the reasons deleveraging among the more highly indebted economies has been economically difficult. Eurozone deleveraging will be the focus of Part 2.