EXTERNAL DEBT AND PUBLIC DEBT OF EU COUNTRIES

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Abstract*:*

The appearance of the SARS cov 2 virus and its rapid worldwide spread triggered a medical crisis followed by an economic crisis in all the states of the world, including European countries. In order to be able to face the medical crisis, to be able to support the companies but also the disadvantaged social categories affected, the governments had to borrow money to face the growing expenses. The paper aims to study how public debt and external debt have evolved in the countries of the European Union in the years following the outbreak of the pandemic.

Keywords: *external debt; public debt*

JEL Classification: *H62, E62, E66*

The problem of state debts is one of acute topicality. States tend to borrow in order to be able to finance large investment projects, to subsidize certain branches of activity or to be able to deal with certain moments of economic crisis. All the states of the world are in debt and in economic history there is only one case in which a state managed to pay its foreign debt in full, namely Romania in 1989. Even though many states manage in certain periods to repay part of their loans and reduce the total debt, however, for long periods of time, the global trend is to increase the debts of the states. Exceeding a certain threshold, the loans whose initial purpose was to boost economic activity end up being a burden that weighs on the economy.

1. External debt in EU countries

At the level of the European Union countries, there have been three major periods of debt accumulation, both public debt and external debt. The first period after the years 2008-2009 following the financial crisis, after 2013 following the sovereign debt crisis (especially the crisis that arose in the PIIGS countries) and the third period the years 2020 and 2021 following the Covid 19 pandemic. To support the activities of the agents economic but also the support of some disadvantaged social categories affected by the 2020 lockdown that paralyzed economic activity around the world, but also by the logistical blockages that appeared later, the states of the world had to go into massive debt. At the level of the European Union, the external debt in relation to GDP increased only in 2020 from 123% to 130%. (fig. no.1)

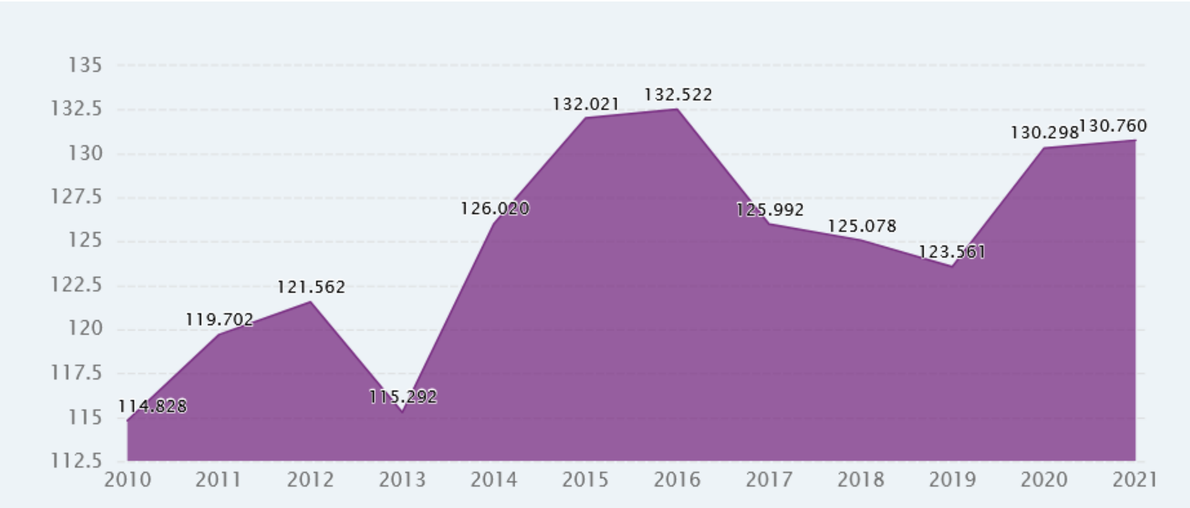

Figure 1. European Union's External Debt (% GDP), 2010-2021.
Source: CEIC Data

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The year 2020 is the year in which the pandemic caused by the SARS Cov 2 virus broke out worldwide, and the lockdown that lasted for 2 months seriously affected the functioning of the world's economies. The countries of the European Union were deeply affected both in terms of production, which was greatly reduced, as well as consumption of consumer goods and industrial goods. Investments were stopped or greatly reduced due to the uncertainty generated by the evolution of the virus, the uncertainty of the emergence of a vaccine that would block the spread of the virus and at the same time reduce the mortality and morbidity generated by the virus. The start of the economies after the lockdown was slow, cumbersome and as such the economic recovery of many states was partially made in 2021 in some countries and extended into 2022, which could have been a year of economic recovery if it had not appeared at worldwide, a series of disruptive factors: worldwide supply (logistics) problems, the energy crisis and the war in Ukraine.

As can be seen from table 1, in 2020 there were large decreases in GDP compared to the previous year in all the countries of the European Union (with one exception - Ireland), the most affected being the countries with a developed tourist sector with a contributor important in the construction of the GDP such as France, Spain, Italy, Greece, Portugal, Cyprus, Malta. If in 2020 all countries register decreases in GDP, in the following year they all turn positive, most managing to recover the decrease from the previous year. (table no.1)

Table 1. GDP and External Debt in EU countries 2020-2021

	GDP		ΔGDP		Ext. debt		Δ(Ext . Debt)
Country /Year	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2021**
Austria	379321	403104	-6.7	4.6	651206	646665	-0.70%
Belgium	456732	506205	-5.7	6.2	1305868	1336472	2.34%
Bulgaria	61331	67872	-4.4	4.2	41317	41496	0.43%
Croatia	50189	57200	-8.1	10.2	50873	51643	1.51%
Cyprus	21618	23437	-5.0	5.5	192715	189247	-1.80%
Czechia	215805	238238	-5.5	3.5	179866	191298	6.36%
Denmark	311760	336719	-2.0	4.9	17450	17448	-0.01%
Estonia	27465	31445	-0.6	8.0	27908	29780	6.71%
Euro area	11448069	12301065	-6.1	5.2	16025333	16415918	2.44%
Finland	238043	251367	-2.2	3.0	588467	603375	2.53%
France	2310469	2500870	-7.8	6.8	6516931	6402736	-1.75%
Germany	3405430	3601750	-3.7	2.6	5926223	6132897	3.49%
Greece	165326	182830	-9.0	8.3	556422	565233	1.58%
Hungary	137442	154124	-4.5	7.1	126850	134997	6.42%
Ireland	372836	426283	6.2	13.6	2912745	2954438	1.43%
Italy	1656961	1775436	-9.0	6.6	2443292	2477624	1.41%
Latvia	29457	32867	-3.8	4.5	37562	38290	1.94%
Lithuania	49507	55383	-0.1	5.0	42448	39560	-6.80%
Luxembourg	64781	72295	-0.8	5.1	3512716	3519702	0.20%
Malta	13074	14681	-8.3	10.3	93183	94046	0.93%
Netherlands	796530	856356	-3.9	4.9	3553401	3568437	0.42%
Poland	526445	574385	-2.2	5.9	362938	362327	-0.17%
Portugal	200088	211280	-8.4	4.9	407247	401999	-1.29%
Romania	218863	240154	-3.7	5.9	137262	140433	2.31%
Slovakia	92079	97123	-4.4	3.0	133	142	6.77%
Slovenia	47021	52208	-4.3	8.2	51086	52449	2.67%
Spain	1117989	1206842	-11	5.5	2328495	2341053	0.54%
Sweden	480556	537310	-2.2	5.1	99538	102785	3.26%

Source: Eurostat; Author's calculations;

The current account deficit was significant in the listed states, more strongly affected by the crisis (except for France and Spain), both in 2020 and in 2021. Along with these countries, although tourism does not have a significant contribution to GDP, Romania records very high values of the current account deficit in 2020 and 2021 as well.

In the year 2021, the increase in external debt of European countries continued, it is the second year of the pandemic and the worldwide problems generated by the pandemic continue, but the rate of debt growth has decreased. Given that countries' GDP is recovering quickly from the previous year's decline even as debts are rising, the faster rate of GDP growth means that in many countries the external debt to GDP ratio is falling from the previous year.

Table 2. External debt (% GDP) and Current Account (% GDP) in EU countries

	Ext. debt/GDP		Curent acc./GDP		∆Ext. debt/GDP
Country /Year	**2020**	**2021**	**2020**	**2021**	
Austria	171.68%	160.42%	1.9	-0.5	-11.2pp
Belgium	285.92%	264.02%	0.8	-0.4	-21.90pp
Bulgaria	67.37%	61.14%	-0.1	-0.4	-6.23pp
Croatia	101.36%	90.29%	-0.1	3.1	-11.08pp
Cyprus	891.46%	807.48%	-10.1	-7.2	-83.98pp
Czechia	83.35%	80.30%	2	-0.8	-3.05pp
Denmark	5.60%	5.18%	8	8.8	-0.42pp
Estonia	101.61%	94.71%	-0.3	-1.6	-6.91pp
Euro area	139.98%	133.45%	1.9	2.5	-6.53pp
Finland	247.21%	240.04%	0.6	0.9	-7.17pp
France	282.06%	256.02%	-1.8	0.4	-26.04pp
Germany	174.02%	170.28%	7.1	7.4	-3.75pp
Greece	336.56%	309.16%	-6.6	-5.9	-27.40pp
Hungary	92.29%	87.59%	-1	-2.9	-4.70pp
Ireland	781.24%	693.07%	-2.7	13.9	-88.17pp
Italy	147.46%	139.55%	3.7	2.5	-7.91pp
Latvia	127.52%	116.50%	2.9	-2.9	-11.01pp
Lithuania	85.74%	71.43%	7.3	1.4	-14.31pp
Luxembourg	5422.45%	4868.53%	4.1	4.8	-553.92pp
Malta	712.74%	640.58%	-2.9	-4.9	-72.16pp
Netherlands	446.11%	416.70%	7.1	9	-29.41pp
Poland	68.94%	63.08%	2.9	-0.7	-5.86pp
Portugal	203.53%	190.27%	-1.1	-1.1	-13.27pp
Romania	62.72%	58.48%	-5	-7	-4.24pp
Slovakia	0.14%	0.15%	0.4	-2	0.00pp
Slovenia	108.65%	100.46%	7.4	3.3	-8.18pp
Spain	208.28%	193.98%	0.8	0.9	-14.29pp
Sweden	20.71%	19.13%	5.9	5.3	-1.58pp

Source: Eurostat; Author's calculations;

2. Public debt in EU countries

It is worth noting that in the years before the outbreak of the pandemic in the countries of the European Union, there was a downward trend of government debt in relation to GDP, so of the 27 countries of the Union in 2019 , a decrease in this indicator was recorded in 24 countries, with the exception of Romania, Estonia and Lithuania. Evidently, in the European Union as a whole, there is a decrease in the government debt in GDP in 2019 compared to 2018.

In 2020, government debt in GDP "explodes" at the level of the European Union, increasing by 12.5 percentage points in just one year, with all countries registering a massive increase in this indicator. Obviously, the highest values are registered by Greece, Italy, Portugal and Spain, whose historically high government debts raise the issue of their sustainability, but also the risk of their non-payment, which can generate a financial crisis at the European level, which could then spread worldwide similar to the financial crisis of 2008.

In 2021, out of the 27 countries of the European Union, due to the economic recovery and the rapid growth of GDP compared to the previous year, 20 countries succeeded in reducing the percentage of government debt in GDP, and this ratio decreased for the entire Union. It is important that the countries in the PIGS group managed to reduce this ratio, reducing the risk of non-payment of debts in their case.

In all four years, Romania records increases in government debt relative to GDP, and in 2020, thanks to loans of over 20 billion euros, this indicator is growing rapidly by 12 percentage points.

Government debt as a percentage of GDP had a downward trend in 2021 compared to 2020 in most European countries, with the exception of Germany, Slovakia, Malta, Romania, Latvia and the Czech Republic. We can see that in the countries that exceeded the threshold of 60% of government debt in GDP, they managed to reduce this percentage in 2021, on the other hand, many of the countries that have not yet reached this threshold had looser policies that allowed them to the percentage of government debt in GDP continues to increase. (table no. 3)

Table 3. General government debt (% of GDP), EU countries, 2018-2021

Year	**2018**	**2019**	**2020**	**2021**
Euro area	86.0	83.9	97.0	95.4
European Union	79.7	77.5	89.8	87.9
Belgium	99.9	97.6	112.0	109.2
Bulgaria	22.1	20.0	24.5	23.9
Czechia	32.1	30.0	37.7	42.0
Denmark	34.0	33.7	42.2	36.6
Germany	61.3	58.9	68.0	68.6
Estonia	8.2	8.5	18.5	17.6
Ireland	63.0	57.0	58.4	55.4
greece	186.4	180.6	206.3	194.5
Spain	100.4	98.2	120.4	118.3
French	97.8	97.4	115.0	112.8
Croatia	73.2	71.0	87.0	78.4
Italy	134.4	134.1	154.9	150.3
Cyprus	98.1	90.4	113.5	101.0
Latvia	37.0	36.5	42.0	43.6
Lithuania	33.7	35.8	46.3	43.7
Luxembourg	20.9	22.4	24.5	24.5
Hungary	69.1	65.3	79.3	76.8
Malta	43.7	40.7	53.3	56.3
Netherlands	52.4	48.5	54.7	52.4
Austria	74.1	70.6	82.9	82.3
Poland	48.7	45.7	57.2	53.8
Portugal	121.5	116.6	134.9	125.5
Romania	34.5	35.1	46.9	48.9
Slovenia	70.3	65.4	79.6	74.5
Slovakia	49.4	48.0	58.9	62.2
Finland	64.9	64.9	74.8	72.4
Sweden	39.2	35.2	39.5	36.3

Source: Eurostat

The public balance at the European level changed considerably in the years after the start of the pandemic compared to previous years as follows: In 2018, there are 14 countries that register a small budget deficit (up to 3% of GDP). In 2019, there are only 10 countries with a budget deficit. In 2020, all countries have budget deficits, some countries exceeding the threshold of 10% of GDP (Spain and Greece). In 2021, negative values are also recorded, but reduced compared to the previous year, with the exception of Luxembourg and Denmark, which register a budget surplus. On the whole of the European Union, the public balance deficit is 0.4% of GDP in 2018, 0.6% of GDP in 2019, 6.8% in 2020 and 4.7% in 2021. Unfortunately, Romania records a deficit of the public balance year after year, having some of the highest values at the European level. (table no. 4)

Table 4. Public balance (net borrowing/lending of government sector) in EU countries (% of GDP), 2018-2021

Year	2018	2019	2020	2021
European Union	-0.4	-0.5	-6.7	-4.6
Euro area	-0.4	-0.6	-7.0	-5.1
Belgium	-0.9	-1.9	-9.0	-5.6
Bulgaria	1.7	2.1	-3.8	-3.9
Czechia	0.9	0.3	-5.8	-5.1
Denmark	0.8	4.1	0.2	3.6
Germany	1.9	1.5	-4.3	-3.7
Estonia	-0.6	0.1	-5.5	-2.4
Ireland	0.1	0.5	-5.0	-1.7
greece	0.9	1.1	-9.9	-7.5
Spain	-2.6	-3.1	-10.1	-6.9
French	-2.3	-3.1	-9.0	-6.5
Croatia	-0.1	0.2	-7.3	-2.6
Italy	-2.2	-1.5	-9.5	-7.2
Cyprus	-3.6	1.3	-5.8	-1.7
Latvia	-0.8	-0.6	-4.3	-7.0
Lithuania	0.5	0.5	-7.0	-1.0
Luxembourg	3.0	2.2	-3.4	0.8
Hungary	-2.1	-2.0	-7.5	-7.1
Malta	2.1	0.6	-9.4	-7.8
Netherlands	1.5	1.8	-3.7	-2.6
Austria	0.2	0.6	-8.0	-5.9
Poland	-0.2	-0.7	-6.9	-1.8
Portugal	-0.3	0.1	-5.8	-2.9
Romania	-2.8	-4.3	-9.2	-7.1
Slovenia	0.7	0.6	-7.7	-4.7
Slovakia	-1.0	-1.2	-5.4	-5.5
Finland	-0.9	-0.9	-5.5	-2.7
Sweden	0.8	0.6	-2.8	-0.1

Source: Eurostat

At the level of the European Union, over the course of 10 years, expenses have increased permanently, having a relatively linear growth (similar for the Euro area). However, in 2020, there is a faster growth than in previous years. As far as incomes are concerned, they follow a similar evolution (the gap between expenses and incomes increases slightly from year to year), but in 2020 there is a large decrease in incomes due to the negative economic evolution, but also a return of them (incomes) in the natural trend. The incomes for the euro zone have a similar evolution.

Compared to GDP, the evolution of both expenses and income follows a downward curve until 2020. We must remember that following the debt crisis of 2012, which particularly affected Greece but also the other countries in the PIIGS group, namely Portugal, Italy, Ireland, and Spain at the level of European countries, a consensus was created regarding the need to reduce public debt, so that even if public expenditures in absolute terms increased, relative to GDP they decreased because they had a less rapid growth than GDP growth. (fig. no. 2)

A similar curve also registers the revenues reported to GDP, but with a smoother downward slope so that the difference between budget expenditures in GDP and budget revenues decreased constantly until 2020, when, due to the pandemic, expenditures recorded a rapid jump from 47% of GDP to almost 54% of GDP on the whole of the European Union. The year 2021 records a slight reduction in expenses at the level of the European Union (of approximately 2% of GDP) and a slight increase (approximately 1% of GDP) of revenues at the level of the European Union, the budget deficit being smaller than in 2020 but more higher than the previous 8 years. (fig. no. 3)

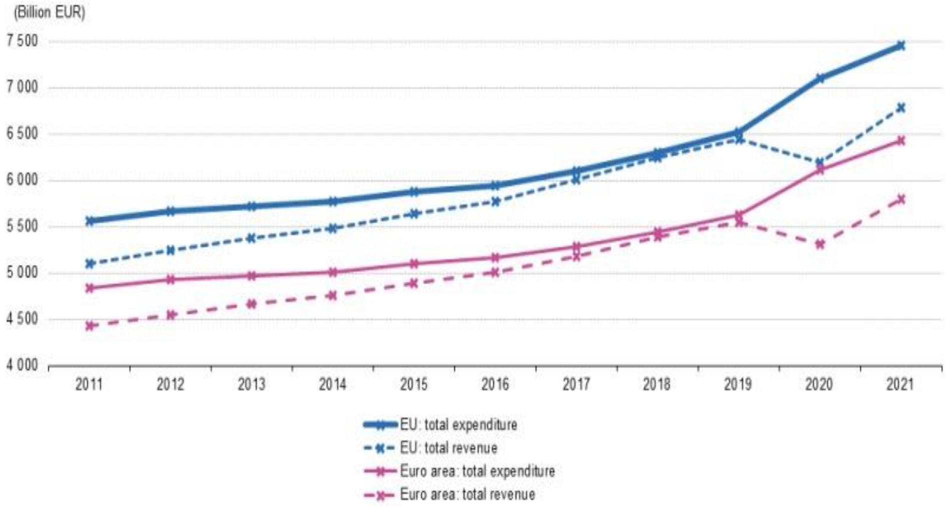

Figure 2. Development of total expenditure and total revenue, of EU and Euro area, 2011–2021

Source: Eurostat

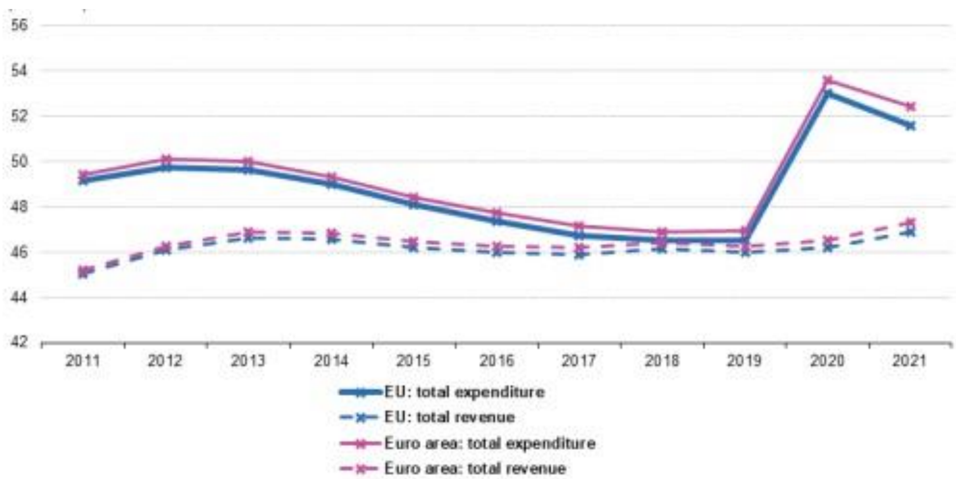

Figure 3. Development of total expenditure and total revenue (% GDP), of EU and Euro area, 2011–2021;

Source: Eurostat

The average cost of the public debt is made up of the weighted average of the interest rates related to various previous loans. That is precisely why the interest rate of the government loans made in the last year does not greatly change the average cost of the loans.

The average cost of central government gross debt in 2021 ranged from lows of 0.3% in Estonia, 0.6% in Finland, and highs of 3.2% in Hungary and 3.3% in Romania, respectively.

Comparing data from 2021 to 2020, there were decreases in costs for 23 countries, no change for Hungary and Denmark, and increases for two countries, namely France and Italy.

It should be noted that the costs at which Romania borrows are the highest at the European level, higher than those of highly indebted countries (Greece, Italy, Spain, Portugal) which also have a high risk of non-payment, or higher than Bulgaria's country with a GDP per capita lower than that of Romania. The rapid growth of Romania's external debt correlated with high interest rates raises the issue of the degree of indebtedness up to which Romania's external debt is sustainable and the number of years in which there is a risk of reaching this dangerous debt threshold. (fig. no. 4)

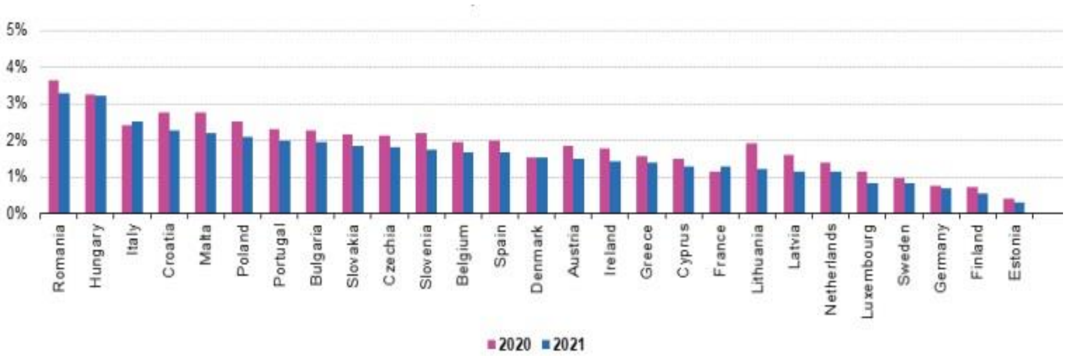

Figure 4. Average cost of central government gross debt, EU countries, 2020-2021;
Source: Eurostat

3. Conclusions.

The year 2020 will remain a reference year both through the outbreak of the SARS Cov 2 virus pandemic and the economic consequences and changes in society. If the years before the downgrading of the pandemic were characterized as a good economic period with economic growth and small budget deficits for the countries of the European Union, which managed to settle on a positive trend after the financial crisis of 2008 and the debt crisis of the countries of the PIIGS group of 2012 , for European countries the year 2020 brought increased budget deficits, current account deficits, a rapid increase in public debt and a significant increase in external debt. The year 2021 was a year of recoveries, so that only part of the EU countries managed to reach the economic level of 2019 at the end of the year, with all the financial efforts made by governments to support economic agents, different branches of the economy (especially tourism seriously affected in 2020).

Romania was not one of the countries seriously affected by the pandemic and in 2021 it managed to economically recover the decreases from the previous year, but the increasingly tight fiscal space must be taken into account, the increased budget deficit led to an increasingly public debt higher and the current account deficits of recent years have contributed to the increase of Romania's external debt. At the same time, the high interest rates at which Romania borrows can in time lead to reaching a threshold of the debt at which it becomes unsustainable, something that makes necessary a rethinking of lending policies, investment policies, salary policies, the pension system, the fiscal apparatus, a resettlement of the system of budget revenues and expenses.

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