‘Well out of it: Eurozone debt dwarfs that of the UK’

We are grateful to management consultant Bob Lyddon for shedding light on the true scale of Eurozone debt in the following article which we are pleased to promote on behalf of our affiliate the Bruges Group.

Importantly there can be no massaging or finessing the data here. The published figures themselves come from Eurostat, the European Union’s very own statistical office!

Why anyone in their right mind, including Remainers, would want to ditch sterling for the euro as a price for rejoining the EU simply beggars belief.

The article can be read in full below, with a link to the original beneath it.

Britain’s debt pile is NOT higher than the EU’s

European Union Comment and Analysis
Euro and Economy EU financial risk and liabilities

Bob Lyddon

Contrary to the Daily Telegraph’s story today claiming that Britain’s debt pile does not outstrip the EU’s, Britain’s is far lower, because the EU’s is masked by creative accounting. The full extent of the EU’s debts and other financial liabilities is detailed in my book recent book 'The shadow liabilities of EU Member States, and the threat they pose to global financial stability', published through The Bruges Group.

UK vs EU debt-to-GDP ratios

While there can be no dispute that the UK's debt-to-GDP ratio is around 100%, the EU's is nearer to 134%, and rises to nearer 160% when the contingent liabilities of EU member states created through various creative financial schemes are captured as well. These schemes include InvestEU, managed by the EU's climate bank, and the European Central Bank's soft loans to the Eurozone banking system, called Targeted Longer-Term Refinancing Operation.

Eurostat, the EU's statistical arm, measures 'General government gross debt'. This is the measure that the figures quoted by the Telegraph are based on. Eurostat recorded the EU's 'General government gross debt' as €13.0 trillion at the end of 2021, which was 90% of EU GDP. The true figure for EU member state debt was nearer to €19.4 trillion, or 134% of EU GDP. Including EU member state contingent liabilities as well, the total of financial liabilities rose to nearly €23.2 trillion, or 160% of GDP.

EU's concealed debt

The reason for this difference is that Eurostat's 'General government gross debt' is limited to the direct debts of a specific range of public sector entities closely connected to member state governments. There has been ample scope for the EU and its member states to set up and indebt an archipelago of public sector entities above the level of the member states and below them. The ultimate responsibility for the debts nevertheless tracks back to the EU member states.

This strategy has enabled debts of around €6.4 trillion and contingent liabilities of around €3.8 trillion to be excluded from Eurostat's figures.

The missing debts include those of the EU itself, such as have been contracted to enable the Coronavirus Recovery Fund and the European Financial Stabilisation Mechanism, and those arising between Eurozone central banks within the TARGET2 payment system.

Contingent liabilities

The contingent liabilities include guarantees behind supranational entities like the European Investment Bank and the European Financial Stability Facility, which enable those institutions in turn to borrow hundreds of billions of Euros.

The contingent liabilities also include the risk that Eurozone member states will have to bear the losses from ECB programmes like their equivalent of Quantitative Easing by recapitalising their national central banks, in order that these central banks can recapitalise the European Central Bank, who can then reimburse the national central bank that incurred the loss.

Camouflaging debt

This layering of liabilities, where one institution can pass its losses back to another, and then another, and finally to the taxpayer demonstrates how convoluted the EU financial system is, and how difficult it is to quantify the risks within it.

That appears to suit the EU and its member states perfectly, as they can accumulate large borrowings that fall outside the scope of ‘General government gross debt’, and do not therefore impinge on the public credit ratings of the EU member states, and do not in turn impinge on the public credit ratings of EU creatures like the EU itself, the European Investment Bank and the European Stability Mechanism.

EU’s real debt-to-GDP liabilities

The true Debt-to-GDP Ratios of individual member states at the end of 2021 were 298.4% for Greece instead of Eurostat’s 193.3%, 222.6% for Italy rather than 150.8%, 147.5% for France instead of 112.9%, and 102.8% for Germany instead of 69.3% – higher than the UK’s.

It was even worse when the contingent liabilities were factored in: the ratios rose to 337.1% for Greece, 258.4% for Italy, 178.0% for France and 130.5% for Germany.

The public sector of both Eurozone and non-Eurozone member states in the EU has much higher liabilities than Eurostat reports. This is a situation that will not be getting better given the programmes that the EU has approved, and it represents an unrecognised fissure in the global financial system.

The EU’s status is far worse than Britain’s, but this fact is obscured by their accounting.

By Bob Lyddon, 02/08/23

Please support our work today if you can, to enable us to carry on:

About the author: Bob Lyddon is a management consultant for PwC and privately, specialising in cash and liquidity management.

The original article can be found here.

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