In Focus

Government Debt

The British government, elected in May 2010, set about cutting the country's budget deficit with an enthusiasm that shocked many commentators. Britain is not the only European Union member state with a government debt problem but the size of its deficit is much greater than in more equitable European nations.

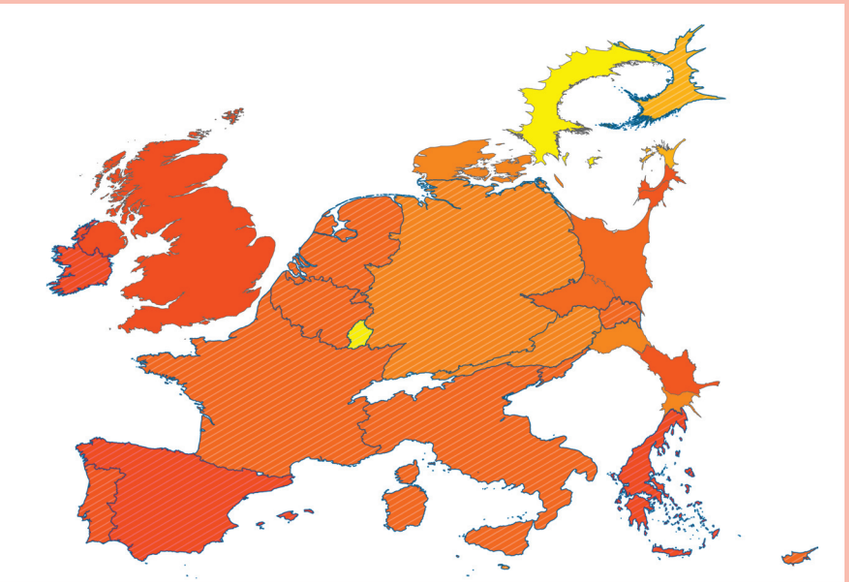
In the first map opposite, forecasts for gross domestic product figures for 2010 have been used to resize the countries of the European Union. The lower map uses exactly the same shading as the upper map, but this time the size of each country is proportional to the size of their budget deficit.

The deficit is the net difference between borrowing and lending in the consolidated general government sector. At first sight the lower map appears very similar to the upper map. That is because richer countries have been able to borrow more than poorer countries, while rich countries also have higher GDP. By 2009 all the countries of Europe were net debtors except for Norway. (Norway is not a member of the EU so is missing from the map but for comparison it had a 9.7 per cent net surplus in 2009, falling rapidly from 19.1 per cent in 2008.)

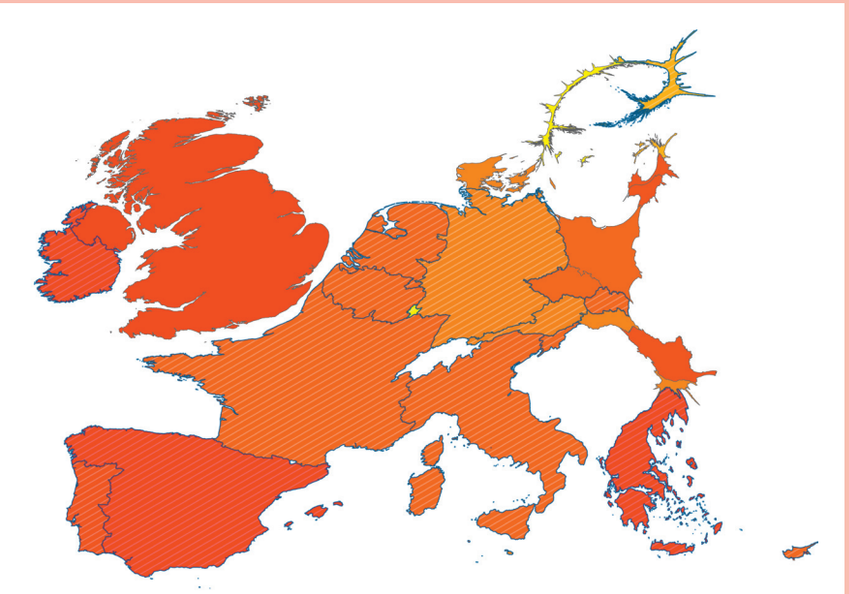
The map is colour coded by how large that general government deficit as recorded in 2009 was as a proportion of GDP at that time. The countries coloured the darkest shade of red on both maps already had deficits of over 10 per cent by 2009. These were Ireland (14.3 per cent), Greece (13.6 per cent), the United Kingdom (11.5 per cent) and Spain (11.2 per cent). Three of these stripped areas on both maps are members of the single European currency. This leaves the United Kingdom as the most heavily indebted non-eurozone nation.

The UK's exposed position caused extreme nervousness among political elites in early 2010, with an even higher proportionate debt than crisis-ridden non-euro European nations such as Iceland (9.1 per cent), Latvia (9.0 per cent), Lithuania (8.9 per cent) and Romania (8.3 per cent). When the Con–Lib coalition was formed this deficit was cited as a key reason why civil servants were rushing the political parties to form a new government and possibly pushing them away from one that would include Labour, in case 'the markets' reacted badly, there was a run on the pound or the 'credit rating' of the UK plummeted.

The budget deficit is far greater in the UK than in more equitable European nations such as Austria (3.4 per cent), Germany (3.3 per cent), Denmark (2.7 per cent), Finland (2.2 per cent) and Sweden (0.5 per cent). These countries were not as reliant on the banking sector or a handful of other industries; they also have less income inequality and hence much smaller levels of personal debt.



European Union members mapped by forecasts for gross domestic product



European Union members mapped by size of budget deficit

The UK does have one factor in its favour which is not shown by these maps. Its government debt tends to be in the form of long term loans and so does not need to be repaid quickly, unlike in many of the other troubled economies of Europe. However, the Coalition announced, on 20 October, that they intended to make cuts totalling £81billion to pay the debt back as quickly as possible. Cuts of this size have never been achieved before in the UK in such a short time.

General government deficit in % of GDP 2009

- <1%
- >1-2.5%
- >2.5-5%
- >5-7.5%
- >7.5-10%
- >10%

Member of the EURO zone

Data source: Eurostat.

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