SÉRGIO BRITO

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A LOOK AT EUROPEAN AND GLOBAL INDEBTEDNESS

Motherland of Western culture and universal concepts, such as democracy, European countries, especially those that are member of the European community, are experiencing a monumental dilemma in "accepting" their new socio-economic reality, such as a drop in salaries, social benefits and high unemployment rates, which are natural consequences of every economic crisis.

The situation of most countries member of the European Union could be exemplified as follows: imagine a family that, in order to maintain its purchasing power and social status has been using since 2005 (in some countries even earlier than this) the limit of their overdraft account, their three credit cards and, if that weren't sufficient, also borrowed money from loan sharks. The result? The European Central Bank may be exposed to total of € 1 trillion in risky debts, as reported in a study by *Columbia Business School*.

In order to present a more detailed look at the indebtedness of nations, the above table structure was divided into four intervals of government debt as a % of Gross Domestic Product (GDP). It is important to point out that in some countries with a considerable indebtedness level in relation to GDP, we see a more "comfortable" situation due to their high level of international reserves.

In the first interval, we have countries with a debt ratio below 40%. We could say that these are economies with the least risk exposure and which macroeconomic stability offers some protection from the effects of the more affected regions. In the second interval, we have economies with an indebtedness level between 40% and 80%, which includes countries such as Brazil and another important BRIC (Brazil, Russia, India and China) member country, India.

However, a closer look at the table casts doubt regarding Spain's position, since with a 67.4% GDP indebtedness projection for 2011, what could be the reasons for so much speculation against Spain? Truth of the matter, the country's situation is a bit depressing, since the unemployment rate hovers around 20%, its civil construction industry (one of the main drivers of the economy) is stagnated and the other sectors of the economy suffer from the negative perspectives.

The main economies of the European Union – France and Germany –, plus the United States –, fall under the 80% to 100% indebtedness interval. The top bets for global recovery and resuming confidence in the markets are concentrated in this interval, which pragmatic role of "leader" for combating the crisis could be much better (as per the German and French incipient conduction in building a fiscal reconstruction plan for the European block).

In the interval above the 100% level of indebtedness, we have nations like Italy, Greece and Portugal, including Japan. In the specific case of Japan, according to the IMF, the high indebtedness level is counterbalanced by the US$ 1.22 trillion in international reserves, which could be used to amortize liabilities. In the opposite situation of Japan, these other countries do not possess the same liquidity in terms of payment capacity, and the worst case of all is the Greek.

There is no solution without losses for the bearers of debts securities, which in the Greek case are large banks from the European block. The main dilemma resides in the capacity of banks being able to cope with a default (partial or full nonpayment) on debt securities.

Countries in the European block cannot continue trying to maintain their lifestyle; reality has changed drastically. In the context of transferring the world's industrial production to China, the only alternative for these economies to become competitive again will be to lose some of the social and economic achievements today for the good of their future. In fact, it is important to remember that gains and losses in economic cycles is part of the nature of capitalism, and the time has come for the European block to accept the reality that they have lost part of their wealth. ■

Table: Gross Government Debt as a % of GDP [\1]

Country	2006	2007	2008	2009	2010	2011[\p]	2012[\p]	*% of GDP*
Arábia Saudita	27,3	18,5	13,2	15,9	9,9	7,1	6,1	
Chile	5,3	4,1	5,2	6,2	9,2	10,5	10,6	
Russia	9,0	8,5	7,9	11,0	11,7	11,7	12,1	*0% < 40%*
Nigeria	11,8	12,8	11,6	15,2	17,3	15,7	16,3	
China	16,2	19,6	17,0	17,7	33,8	26,9	22,2	
South Korea	31,1	30,7	30,1	33,8	33,4	32,0	30,0	
Mexico	38,4	37,8	43,1	44,7	42,9	42,9	43,6	
India	78,5	75,4	74,7	74,2	67,3	64,9	64,2	
Brazil	66,7	65,2	63,6	68,1	66,8	65,0	64,0	*>40% < 80%*
Spain	39,6	36,1	39,8	53,3	60,1	67,4	70,2	
Israel	85,0	78,1	77,1	80,7	77,4	71,1	68,9	
United Kingdom	43,1	43,9	52,0	68,3	75,5	80,8	84,8	
Germany	67,9	65,0	66,4	74,1	84,0	82,6	81,9	*>80% < 100%*
France	63,9	64,2	68,3	79,0	82,4	86,9	89,4	
USA	61,1	62,3	71,6	85,2	94,4	100,0	105,0	
Portugal	63,9	68,3	71,6	83,0	92,9	106,0	111,8	
Italy	106,6	103,6	106,3	116,1	119,0	121,1	121,4	*> 100%*
Greece	106,1	105,4	110,7	127,1	142,8	165,6	189,1	
Japan	191,3	187,7	195,0	216,3	220,0	233,1	238,4	

Source: International Monetary Fund (IMF) – Statistical Table 7. General Government Gross Debt <http://www.imf.org/external/pubs/ft/fm/2011/02/pdf/fm1102.pdf>. Prepared by author.

\1 divulged by the International Monetary Fund (IMF)

\p IMF forecast