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Review Article

An Analysis of General Government Debt & Financial Assets in Selected Economies: A Comparative Study

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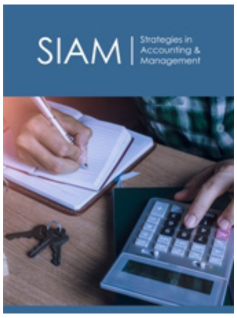

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Abstract

This academic article delves into the examination of General Government Gross Debt and Net Debt, as defined by the International Monetary Fund (IMF) in 2023 [1]. Utilizing data from the World Economic Outlook Database (October 2023 Edition), the study focuses on Germany, Italy, the European Union, and the G7 major advanced economies. The analysis involves a comparative assessment of both Gross Debt and Net Debt, highlighting the nuances in their computation methodologies. Thus, the article strives to derive an approximation of the financial assets of each respective entity by using data from the World Economic Outlook Database (October 2023 Edition) and by referencing the computational methods in the Monetary and Financial Statistics Manual and Compilation Guide [2] published by the IMF.

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Introduction

Early in the European crisis, the International Monetary Fund (IMF) initiated discussions on what its senior staff termed a “comprehensive solution” [3]. The article, extensively deliberated within the IMF and targeted particularly at the United States, advocated for decisive measures, including bank recapitalization. It emphasized the importance of a systemic solution to tackle both the immediate impact and the underlying causes of the crisis. This is crucial for restoring normalcy in the broader economy, particularly in Europe. It also highlighted the necessity of creating thorough contingency plans, given the complexities associated with handling the failure of institutions with extensive cross-border connections [3]. To further contextualize the study, recent research by Niwa [4] explores the challenges associated with exiting quantitative easing in an era of large government debt and considers the potential outcomes of inflation or default. Additionally, Zhuang et al. [5] investigate clustering effects and the evolution of the global major 10-year government bond market structure from a network perspective, providing insights into the broader economic landscape. These studies, along with the earlier work by James [3], contribute valuable perspectives that complement the analysis in this article, enriching the understanding of the complex economic dynamics and policy considerations in the global financial landscape. The current review article delves into the examination of General Government Gross Debt and Net Debt, as defined by the IMF in 2023, against the backdrop of the earlier European crisis and the IMF’s advocacy for comprehensive solutions. Focusing on Germany, Italy, the European Union, and the G7 major advanced economies, the analysis centers on a comparative assessment of Gross Debt and Net Debt, highlighting differences in their computation methodologies. The aim is to approximate the financial assets of each entity, drawing on data from the World Economic Outlook Database (October 2023 Edition) and referencing the computational methods outlined in the IMF’s Monetary and Financial Statistics Manual and Compilation Guide [2]. In doing so, the article seeks to contribute to a holistic understanding of the financial dynamics within the selected entities, aligning with the broader context of addressing root causes and developing comprehensive solutions in the face of economic challenges.

Debt Levels Analysis

The International Monetary Fund (IMF) defines General Government Gross Debt as encompassing all liabilities requiring future payments of interest and/or principal. This includes various debt instruments such as SDRs, currency and deposits, debt securities, loans, insurance, pensions, standardized guarantee schemes, and other accounts payable [1]. General Government Net Debt is then calculated as Gross Debt minus corresponding financial assets [1]. Biannually, the IMF publishes the World Economic Outlook, providing economic data at the country, group, and world levels. This study focuses on the debt levels of Germany, Italy, the European Union, and the G7 major advanced economies, with a specific emphasis on the difference between General Government Gross Debt and General Government Net Debt. In this review article, both General Government Gross Debt and Net are measured as a Percentage of GDP.

Gross debt levels

The analysis reveals Italy as having the highest percentage within the cohort. However, Italy's levels remain within 20 percentage points of the second-highest G7 major advanced economies. Germany consistently maintains the lowest level, hovering at around only 50% of Italy's levels. Notably, the European Union also maintains levels of less than 100% for the time period, much lower than Italy and G7 levels, but not quite as low as Germany's (Figure 1).

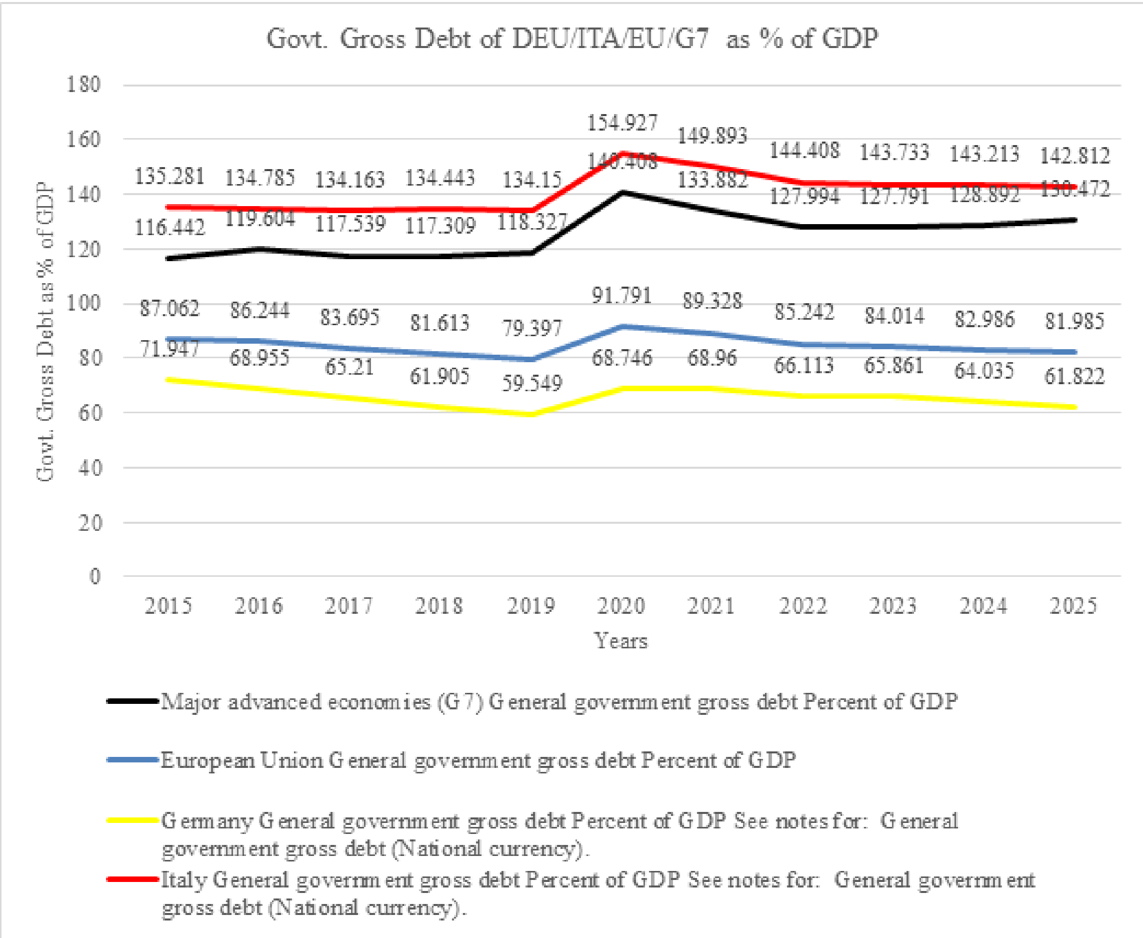

Figure 1: Govt. Gross Debt of DEU/ITA/EU/G7 as % of GDP.
Source: World Economic Outlook (October 2023).

Net debt levels

Examining General Government Net Debt, Germany distinguishes itself with remarkably low levels, while Italy maintains the highest levels. Germany's Net Debt, as a percentage of GDP, remains less than half of the G7 economies and approximately two-thirds of the European Union levels. Italy exhibits levels approximately three times that of Germany (Figure 2).

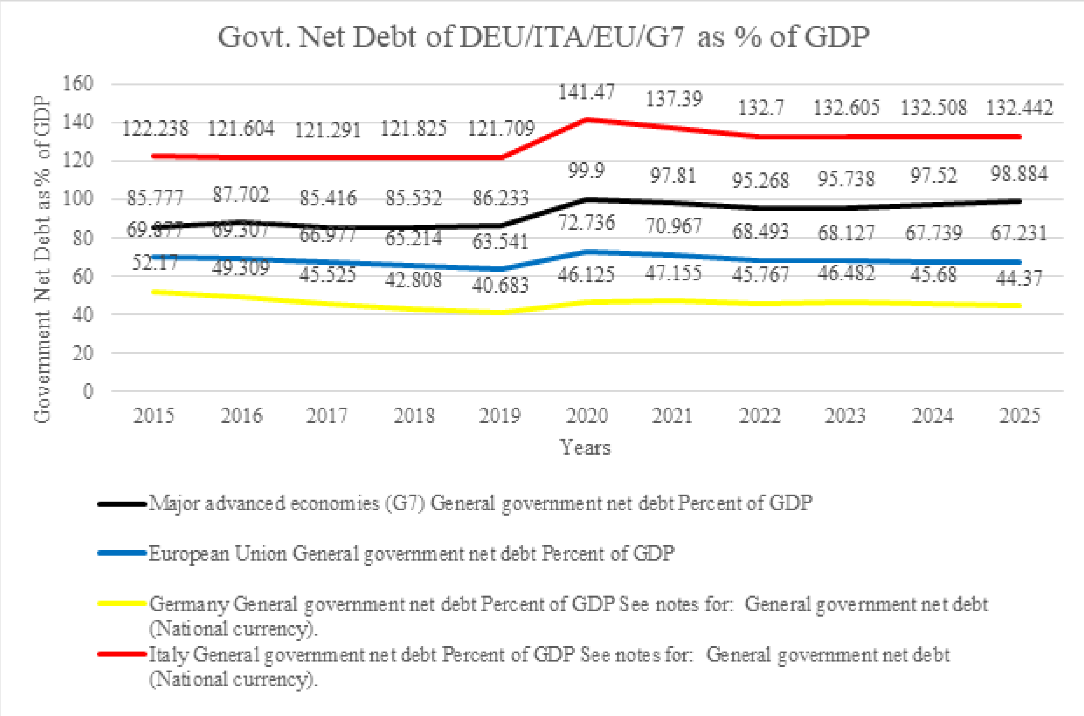

Figure 2: Govt. Net Debt of DEU/ITA/EU/G7 as % of GDP.
Source: World Economic Outlook (October 2023).

Gross debt vs. net debt

The differences in calculation approaches for Net Debt and Gross Debt are noteworthy. As outlined earlier, General Government Net Debt represents the remaining value obtained by subtracting specific financial assets from the overall General Government Gross Debt. More specifically, "Net debt is calculated as gross debt minus financial assets corresponding to debt instruments. These financial assets are monetary gold and SDRS, currency and deposits, debt securities, loans, insurance, pension, and standardized guarantee schemes, and other accounts receivable [1]."

Financial Assets Contributing to Net Debt

The specific definitions of financial assets that contribute to Net Debt encompass a range of elements, such as monetary gold, Special Drawing Rights (SDRs), currency, deposits, debt securities, loans, insurance, pensions, standardized guarantee schemes, and other accounts receivable (IMF, 2017). Further clarification on these financial assets can be found in the Monetary and Financial Statistics Manual and Compilation Guide (2017) published by the IMF.

A. **Monetary gold:** "gold to which the monetary authorities (or others who are subject to the effective control of the monetary authorities) have title and is held as a reserve asset." (IMF, 2017, p. 56)

B. **Special Drawing Rights (SDRS):** "international reserve assets created by the IMF and allocated to its members that are SDR Department5 participants (currently all IMF member countries) to supplement existing official reserves." (IMF, 2017, p. 57)

C. **Currency:** "consists of notes and coins that are of fixed nominal values and are issued or authorized by central banks or governments." (IMF, 2017, p. 58)

D. **Deposits:** "nonnegotiable contracts that represent the placement of funds available for later withdrawal." (IMF, 2017, p. 58)

E. **Debt Securities:** "negotiable financial instruments serving as evidence of a debt." (IMF, 2017, p. 62)

F. **Loans:** "financial assets that are (1) created when a creditor lends funds directly to a debtor, and (2) evidenced by documents that are not negotiable." (IMF, 2017, p. 65)

G. **Insurance, Pension, and Standardized Guarantee Schemes:** "IPSGS all function as a form of redistribution of income or wealth mediated by financial institutions." (IMF, 2017, p. 75)

H. **Other accounts receivable:** "include: (1) trade credit and advances, and (2) other." (IMF, 2017, p. 84)

Comparative Analysis

The comparative analysis undertaken in this review aims to derive the approximate amount of financial assets corresponding to debt instruments of each entity. This approach aligns with recent research by Chatterjee [6], which explores the impact of uncertainty shocks and financial frictions on business cycle asymmetries across countries. The examination of Gross Debt and Net Debt, as defined by the IMF in 2023, against the backdrop of uncertainty shocks and financial frictions provides a valuable context for understanding the intricate relationship between debt dynamics and broader economic conditions [6]. Furthermore, the analysis incorporates insights from Priewe's [7] work on global monetary reform, particularly in the context of Dollar Hegemony. Priewe's examination of old and new proposals for global monetary reform sheds light on the evolving landscape of international financial systems and the potential implications for the calculation and interpretation of Gross Debt and Net Debt. The proposed chart depicting Gross Debt, Net Debt, and the spread between them serves as a visual representation, offering a comprehensive view of the financial assets associated with each entity. This presentation method allows for a nuanced understanding of the differences between Gross Debt and Net Debt for each country/group, contributing to the approximation of financial assets [7]. By incorporating insights from Chatterjee [7] and Priewe [6] into the analysis, this study not only aligns with the broader context of addressing root causes and developing comprehensive solutions, as emphasized by James [3], but also integrates recent research on uncertainty shocks, financial frictions, and global monetary reform. The resulting chart and comparative assessment provide a valuable contribution to understanding the complexities of debt dynamics within the selected entities, offering insights that go beyond conventional metrics and accounting methodologies (Figure 3). The chart above depicts Gross Debt and Net Debt of each respective entity, with whole lines representing Gross Debt levels and dashed lines representing Net Debt levels, both again as a percentage of GDP. As the chart shows, the average spread between Gross Debt and Net Debt varies by country/country group. For all, Net Debt is, fittingly, lower than Gross Debt. Figure 4 illustrates the gap, measured in percentage points, between Gross Debt and Net Debt for each entity. Consistent with the Gross Debt vs Net Debt graph, the G7 exhibits the widest spread, while Italy has the smallest. The spread size reflects the financial assets corresponding to debt instruments for each country or group. Therefore, in terms of measuring debt as a percentage of GDP, the amount of financial assets (also measured in percentage points of GDP) ranks, in descending order, as the G7, Germany, European Union, and Italy. It's essential to note that this ranking doesn't imply that Germany possesses a larger amount of financial assets than the EU. Instead, the spread indicates nuances in the makeup of each entity's respective financial structure.

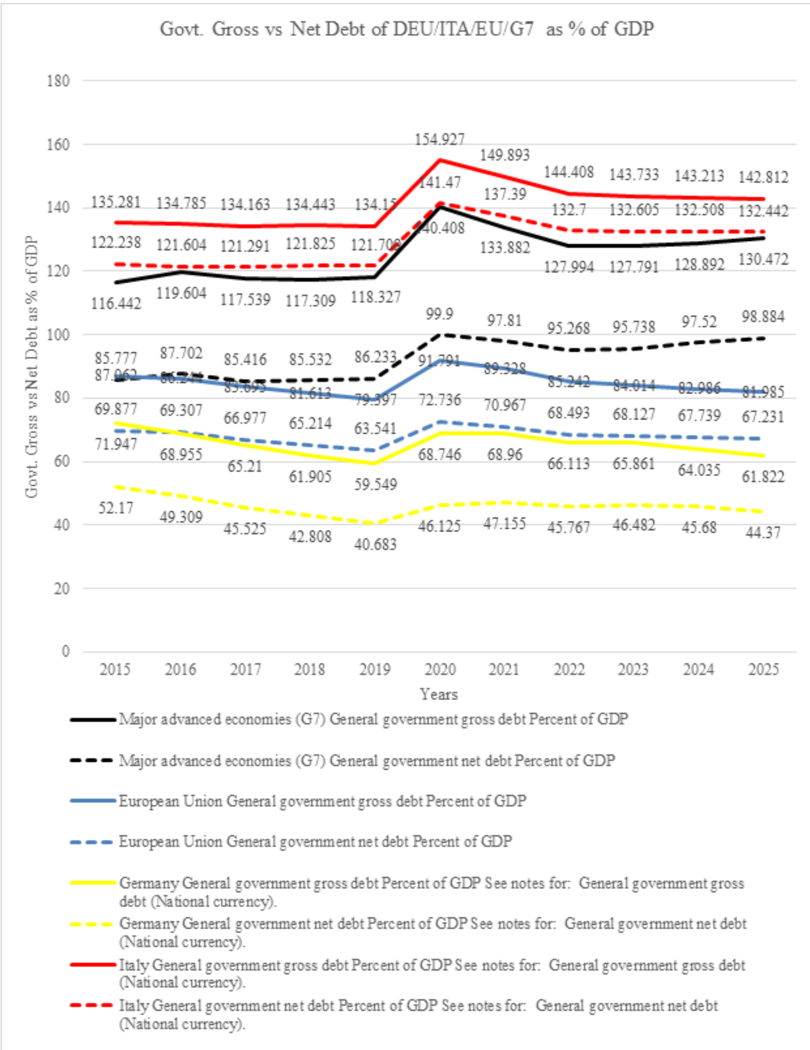

Figure 3: Govt. Gross vs Net Debt of DEU/ITA/EU/G7 as % of GDP.
Source: World Economic Outlook (October 2023).

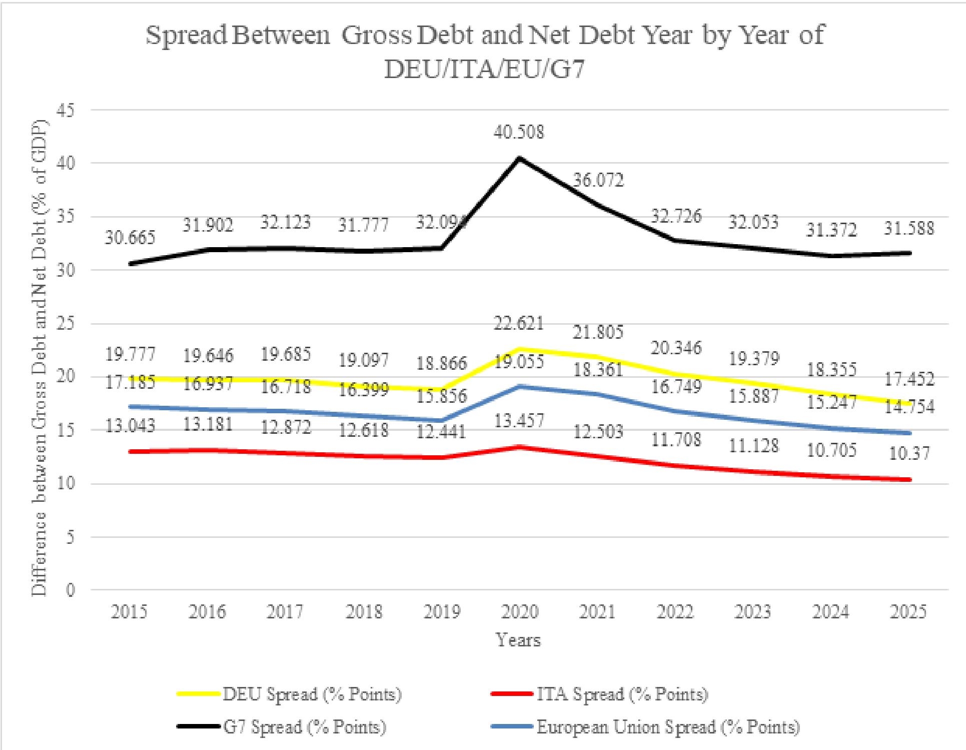

Figure 4: Spread Between Gross Debt and Net Debt Year by Year of DEU/ITA/EU/G7.
Source: World Economic Outlook (October 2023).

Conclusion

In conclusion, this comparative analysis depicting Gross Debt and Net Debt levels as a percentage of GDP provides valuable insights into the financial dynamics of each respective entity. The observed variations in the spread between Gross Debt and Net Debt underscore the nuanced makeup of their financial structures, highlighting the importance of considering financial assets when evaluating government debt. The comparative analysis reveals that, fittingly, Net Debt is consistently lower than Gross Debt for all countries and country groups. The G7 exhibits the largest spread, while Italy has the smallest, reflecting the varying financial assets corresponding to debt instruments for each entity. Consequently, when measured as a percentage of GDP, the amount of financial assets, in descending order, is the G7, Germany, European Union, and Italy. It is crucial to note that this ranking doesn't imply that Germany has a greater amount of financial assets than the EU; rather, it signifies the nuanced differences in the financial structure of each entity. In light of the earlier discussions on the European crisis and comprehensive solutions advocated by the IMF, this study concludes that Germany maintains lower levels of both Gross and Net Debt as a percentage of GDP compared to Italy, the G7 major advanced economies, and the European Union. This finding contributes to a comprehensive understanding of fiscal positions, emphasizing the intricacies of debt computation methodologies and the significance of financial assets in evaluating government debt. The study aligns with the broader context of addressing root causes and developing comprehensive solutions, as emphasized by James [3], and complements recent research by Niwa [4] and Zhuang et al. [5], enriching our understanding of complex economic dynamics and policy considerations in the global financial landscape. The detailed analysis, grounded in the IMF's definitions and methodologies, provides a nuanced perspective on debt levels, aiding in unraveling the structural differences among the selected economies.

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