Financial Times – Ferdinando Giugliano
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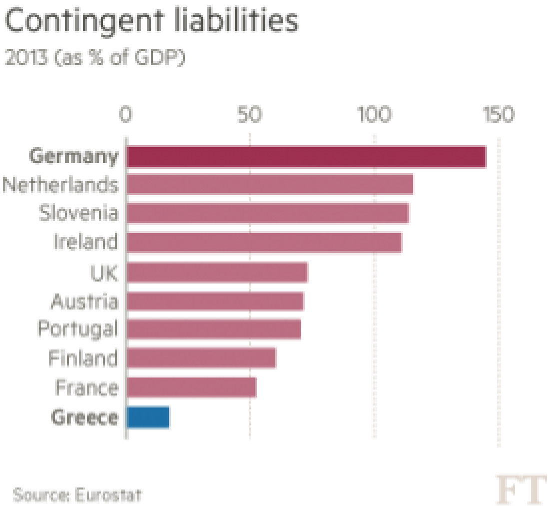
The eurozone is mired in a stand-off over Greece's government debt which, at roughly 175 per cent of gross domestic product, is the highest in the currency union. But new data released on Tuesday make one wonder whether member states should stop worrying about Athens' fiscal woes and start being concerned about… Berlin's. The figures, published by Eurostat – the EU's statistical office, relate to government contingent liabilities. These are debts which the public sector is not yet formally obliged to pay back, but may need to honour in the future. The list includes public guarantees to private sector entities – such as banks – as well as public-private partnerships (PPPs), contracts where the government commits to buying future services in exchange for companies building and running infrastructure. For the first time ever, Eurostat has collected these numbers from national statistical offices and published them on its website. At first sight, the result is striking: the largest contingent debt pile in the EU is Germany's, which stands at at a massive 145 per cent of gross domestic product. The Netherlands and Slovenia are distant second and third, with 115 and 111 per cent respectively. As for Greece, it is well below in the ranking, with a minuscule 17 per cent.



If you sum total contingent liabilities and the formal government debt, you still obtain a very counter-intuitive result. The largest debt pile is now Ireland's, with 234 per cent of national income. But Germany comes a close second, with 222 per cent – 24 percentage points above Portugal and 30 percentage points more than Greece.

"Surely this can't be right," you will be probably thinking. In fact, the truth is not quite what it seems. The majority of Germany's contingent liabilities belong to what Eurostat calls "government-controlled entities classified outside general government". The EU's statisticians do not provide a full explanation of what is behind the numbers. But Destatis, the German statistical office, has told the FT that Germany's whopping contingent debt pile is largely attributable to the liabilities of public banks. These include KfW, at the federal level, the state banks (Landesbanken) and the municipal savings banks (Sparkassen).

This means that the Eurostat contingent debt figures include the money which German depositors hold in much of the banking sector and which appear on the liability side of the balance sheets of publicly-owned lenders. But since the Eurostat numbers are gross figures, these ignore the corresponding assets which the banks hold, giving a dubious account of the weakness of Germany's public finances.

What the Eurostat numbers are telling, is that Berlin is heavily involved in the German banking sector: something which we knew already. Does this make the exercise useless? Not at all. As David Heald, a professor of accounting at the University of Aberdeen, points out, two other columns in the release stand out as potentially more interesting. These refer to the "government guarantees" and the "outstanding liabilities related to off-balance PPPs". Once you sum up these two figures, the numbers for most countries become significantly smaller. Austria and Ireland top the league with liabilities worth around 35 per cent of GDP. Germany's 18 per cent is still higher than Greece's 10 per cent, but looks tiny compared to the overall number.

Mr Heald thinks these figures matter as they offer an insight into the kind of financial wizardry which governments have become embroiled in as they try to massage their public accounts and respect official deficit and debt limits. “With governments increasingly squeezed financially, what you find is an increasing use of off-balance sheet items, including guarantees and PPPs,” he says.

He also says that while politicians have become more aware of the risks associated with PPPs, the dangers of national guarantees have been poorly understood. As he writes in a recent paper: The obligations could be increasing significantly as more of these [guarantee] schemes are launched and, to the extent that they are not considered to give rise to immediate expenditure, they may go unnoticed, so helping governments to point to ‘success’ in controlling public expenditure. The structure of financial reporting is such that risk … may be increasing while expenditure is not, because these obligations are largely or exclusively off-balance sheet. This warning applies to all eurozone governments – not just Germany or, for that matter, Greece.